

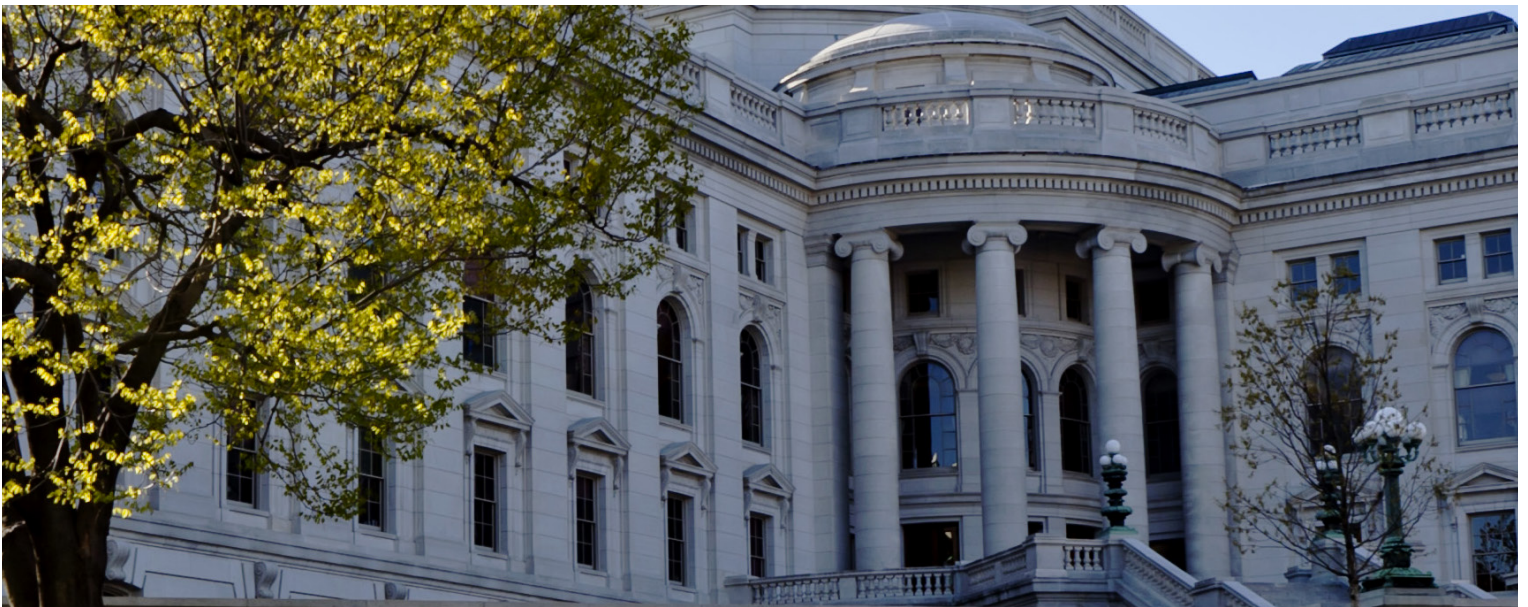


STATE OF WISCONSIN  
**Legislative Audit Bureau**  
NONPARTISAN • INDEPENDENT • ACCURATE

Report 24-19  
November 2024

# Employes' Retirement System of the City of Milwaukee

Calendar Year 2023



## **Joint Legislative Audit Committee Members**

### Senate Members:

Eric Wimberger, Co-chairperson  
Jesse James  
Howard Marklein  
Robert Wirch  
Tim Carpenter

### Assembly Members:

Robert Wittke, Co-chairperson  
John Macco  
Mark Born  
Francesca Hong  
Ryan Clancy

# **Employes' Retirement System of the City of Milwaukee**

Calendar Year 2023



STATE OF WISCONSIN

**Legislative Audit Bureau**

NONPARTISAN • INDEPENDENT • ACCURATE

Report 24-19  
November 2024

## **Legislative Audit Bureau**

---

**State Auditor**  
Joe Chrisman

**Deputy State Auditor  
for Financial Audit**  
Carolyn Stittleburg

**Financial Audit  
Director**  
Erin Scharlau

**Assistant Financial  
Audit Director**  
Lisa Kasel

**Team Leader**  
Elizabeth Spiker

**Auditors**  
Kasey Bernard  
Paul Hauser  
Zachary Johnson  
Julia Langer  
Malvina Nyanjo  
Elizabeth Voelz Temple

**Publications Designer  
and Editor**  
Susan Skowronski

The Legislative Audit Bureau supports the Legislature in its oversight of Wisconsin government and its promotion of efficient and effective state operations by providing nonpartisan, independent, accurate, and timely audits and evaluations of public finances and the management of public programs. Bureau reports typically contain reviews of financial transactions, analyses of agency performance or public policy issues, conclusions regarding the causes of problems found, and recommendations for improvement.

Reports are submitted to the Joint Legislative Audit Committee and made available to other committees of the Legislature and to the public. The Audit Committee may arrange public hearings on the issues identified in a report and may introduce legislation in response to the audit recommendations. However, the findings, conclusions, and recommendations in the report are those of the Legislative Audit Bureau.

---

The Bureau accepts confidential tips about fraud, waste, and mismanagement in any Wisconsin state agency or program through its hotline at 1-877-FRAUD-17.

For more information, visit [www.legis.wisconsin.gov/lab](http://www.legis.wisconsin.gov/lab).

# Contents

---

<b>Letter of Transmittal</b>	<b>1</b>
<b>Introduction</b>	<b>3</b>
2023 Wisconsin Act 12	4
Retirement System Participating Employers and Members	5
Financial Condition of the Retirement System	5
Audit Results	7
Finding of Statutory Noncompliance	7
<b>Retirement System Funding and Benefits</b>	<b>9</b>
Investment Income	9
Contributions	11
Retirement System Benefits	13
Administrative Expenses	14
<b>Pension Accounting Standards</b>	<b>17</b>
Calculating the Total Pension Liability	17
Calculating a Net Pension Liability or Asset	19
Actuarial Audit	20
Employer Reporting	20
<b>Auditor's Report</b>	<b>21</b>
Finding and Response Schedule	25
Finding 2023-001: Financial Reporting Errors	25
<b>Corrective Action Plan</b>	<b>29</b>
<b>Appendices</b>	
Appendix 1—Employees' Retirement System of the City of Milwaukee Board Membership	
Appendix 2—Finding of Statutory Noncompliance	

## Opinion Published Separately

---

The financial statements and our opinion on them are available in the Retirement System's *Annual Comprehensive Financial Report*.





STATE OF WISCONSIN

# Legislative Audit Bureau

Joe Chrisman  
State Auditor

22 East Mifflin Street, Suite 500  
Madison, Wisconsin 53703

Main: (608) 266-2818  
Hotline: 1-877-FRAUD-17

[www.legis.wisconsin.gov/lab](http://www.legis.wisconsin.gov/lab)  
[AskLAB@legis.wisconsin.gov](mailto:AskLAB@legis.wisconsin.gov)

November 13, 2024

Senator Eric Wimberger and  
Representative Robert Wittke, Co-chairpersons  
Joint Legislative Audit Committee  
State Capitol  
Madison, Wisconsin 53702

Dear Senator Wimberger and Representative Wittke:

As required by s. 13.94 (1) (x), Wis. Stats., we have completed an audit of the financial statements of the Employees' Retirement System of the City of Milwaukee (Retirement System), as of and for the year ended December 31, 2023, prepared by the management of the Retirement System. The Retirement System's *Annual Comprehensive Financial Report*, which can be found on the Retirement System's website, includes the financial statements and our unmodified opinion on them.

The Retirement System was created in 1937 and is a cost-sharing, multiple-employer, defined-benefit pension plan that provides postretirement financial benefits, as well as disability and death benefits, to members and their beneficiaries. Employers participating in the Retirement System include the City of Milwaukee and certain other entities associated with the City of Milwaukee, such as Milwaukee Public Schools, Milwaukee Metropolitan Sewerage District, and the Wisconsin Center District.


As of December 31, 2023, the Retirement System had 30,111 members. To comply with provisions in 2023 Wisconsin Act 12, the Retirement System is closed to new members as of December 31, 2023. New employees hired after that date are required to participate in the Wisconsin Retirement System.

The Retirement System's fiduciary net position increased from \$5.5 billion as of December 31, 2022, to \$5.8 billion as of December 31, 2023, or by 4.9 percent. This increase is primarily attributable to an increase in the value of investments and an increase in employer contributions.

The Retirement System reported a net pension liability of \$2.1 billion as of December 31, 2023. This is a \$536.6 million increase from the \$1.5 billion net pension liability calculated as of December 31, 2022. Under accounting standards, each of the employers participating in the Retirement System will be required to report its proportionate share of the net pension liability in its financial statements if prepared on the basis of generally accepted accounting principles (GAAP). To assist employers with this reporting, Retirement System staff prepared employer schedules. We audited and provided unmodified opinions on these schedules in report 24-20.

The Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, which is required by *Government Auditing Standards*, begins on page 23. We reported a material weakness in internal control related to the preparation of the Retirement System financial statements. We also identified a finding of statutory noncompliance related to Wisconsin's open meetings laws.

Respectfully submitted,

  
Joe Chrisman  
State Auditor

JC/ES/ag





## Introduction

---

***The Retirement System is a cost-sharing, multiple-employer, defined-benefit pension plan.***

The Employees' Retirement System of the City of Milwaukee (Retirement System) was created by Chapter 396 of the Laws of Wisconsin of 1937. The Retirement System is a cost-sharing, multiple-employer, defined-benefit pension plan that provides postretirement financial benefits, as well as disability and death benefits, to members and their beneficiaries. Employers participating in the Retirement System include the City of Milwaukee and certain other entities associated with the City of Milwaukee, such as Milwaukee Public Schools, the Milwaukee Metropolitan Sewerage District, and the Wisconsin Center District.

The Retirement System is governed by Chapter 36 of the Milwaukee City Charter. Under Chapter 36, the eight-member Annuity and Pension Board (Board) is responsible for administering the Retirement System. The 2023 Board members are shown in Appendix 1 and include:

- three representatives appointed by the President of the City of Milwaukee Common Council;
- three representatives elected by active members of the Retirement System;
- one member elected by retired members of the Retirement System; and
- the City of Milwaukee Comptroller, who serves as an ex-officio voting member.

The Board appoints an Executive Director who manages the day-to-day operations of the Retirement System and also serves as the secretary for the Board. The Board also appoints a chief investment officer, who administers the Retirement System investment functions. The Board retains an investment consultant to provide investment management advice, such as assisting in the development and periodic review of the investment policy. The Board also retains an actuary to perform actuarial calculations, such as projecting future benefit payments and establishing contribution rates. The Retirement System was authorized 51 full-time equivalent positions in the City of Milwaukee 2023 budget.

As of December 31, 2023, the Retirement System had a fiduciary net position of \$5.8 billion and was 73.5 percent funded.

## **2023 Wisconsin Act 12**

2023 Wisconsin Act 12 permitted the City of Milwaukee to impose a sales and use tax of 2.0 percent, the revenues from which may be used to address the Retirement System's unfunded actuarial liability. The City of Milwaukee adopted the increase of the sales and use tax in July 2023, and it became effective July 29, 2023. The tax will end after 30 years or the first year the Retirement System actuary determines the Retirement System is fully funded.

As a result of adopting the sales and use tax, the Retirement System is closed to new employees hired after December 31, 2023. Employees hired after December 31, 2023, are required to join the Wisconsin Retirement System (WRS). In addition:

- the Retirement System actuary was required to use no more than a 30-year amortization period for the unfunded actuarial accrued liability as of January 1, 2024;
- the Retirement System long-term rate of return assumption cannot be higher than that used by the WRS;
- the Retirement System's stable contribution policy is repealed and employer contributions will be determined by the annual actuarial valuation; and
- no changes can be made to Retirement System benefit provisions, such as increases or enhancements to benefits, for employees remaining in the Retirement System after December 31, 2023, except for those required for compliance with federal law.

Act 12 also included requirements for the Bureau to annually audit the financial statements of the Retirement System and contract every five years for an actuarial audit of the Retirement System. This report

included the results of our audit of the Retirement System's financial statements for calendar year 2023.

## **Retirement System Participating Employers and Members**

***Employers participating in the Retirement System include the City of Milwaukee, Milwaukee Public Schools, and certain city agencies.***

Chapter 36 of the City of Milwaukee Ordinances limits the employers that may participate in the Retirement System to the City of Milwaukee and city agencies as defined by Chapter 36-02-8. Employers participating in the Retirement System as of December 31, 2023, include the:

- City of Milwaukee, including the police and fire departments;
- Milwaukee Metropolitan Sewerage District;
- Wisconsin Center District;
- Veolia Water Milwaukee LLC;
- Milwaukee Housing Authority; and
- Milwaukee Public Schools (noncertified staff).

Under Chapter 36-03, full-time employees, part-time employees who are eligible under adopted rules and regulations, and elected officials who have indicated an intent to join are members of the Retirement System. Four years of creditable service are required before a member is considered vested. As of December 31, 2023, 30,111 individuals participated in the Retirement System, including:

- 10,108 (33.6 percent) active members who were making contributions;
- 13,867 (46.0 percent) retired plan members or their beneficiaries who were receiving benefits; and
- 6,136 (20.4 percent) inactive plan members, such as former employees, who were not yet receiving benefits and who were not required to make contributions.

## **Financial Condition of the Retirement System**

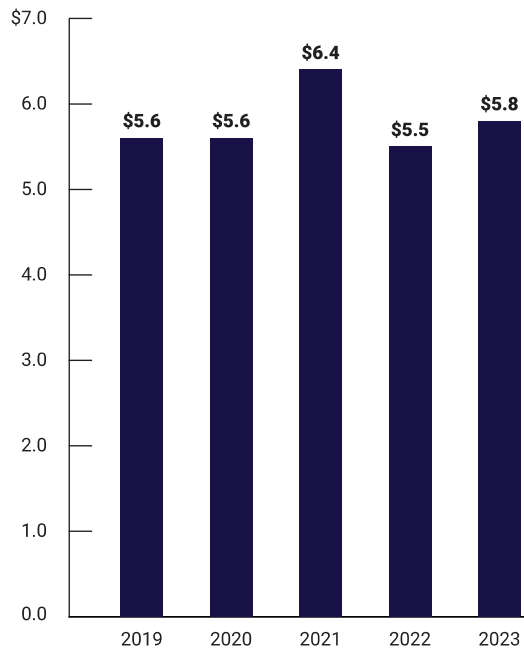
***As of December 31, 2023, the fiduciary net position of the Retirement System was \$5.8 billion.***

The Total Net Position (fiduciary net position) of the Retirement System represents the value of the plan's assets that are restricted either for pensions or other governments. The Retirement System's fiduciary net position increased from \$5.5 billion as of December 31, 2022, to \$5.8 billion as of December 31, 2023, or by 4.9 percent. This increase is

primarily attributable to the increase in the value of investments and an increase in employer contributions.

Figure 1

**Total Net Position<sup>1</sup>**  
**Employees' Retirement System of the City of Milwaukee**  
As of December 31  
(in billions)



<sup>1</sup> Shown as Total Net Position on the Statement of Fiduciary Net Position.

The Retirement System financial statements consist of three funds: the Global Combined Fund; the Non-consenter Retirement Funds; and the Employers' Reserve Fund. The Global Combined Fund accounts for the members who have joined the system since the Global Pension Settlement was enacted in 2000 or who were active members prior to this settlement and have since consented to the Global Pension Settlement. The Global Pension Settlement increased benefits and made certain changes to the administration of the Retirement System, including permitting the use of Retirement System funds to pay costs related to plan administration. As of December 31, 2023, 99.2 percent of members are accounted for in the Global Combined Fund. Most of the financial activity of the Retirement System is accounted for in this fund.

The Non-consenter Retirement Funds accounts for members who have not consented to the Global Pension Settlement. This fund is closed to

new members and 222 members were accounted for in the Non-consenter Retirement Funds as of December 31, 2023.

The Employers' Reserve Fund accounts for voluntary contributions made by participating employers and investment earnings on these contributions. The amounts deposited in the Employers' Reserve Fund may be used to fund employer contribution requirements if a formal resolution is made by the employer directing a transfer to the Global Combined Fund. The City of Milwaukee is currently the only employer that has made deposits into the Employers' Reserve Fund.

## Audit Results

As required by Wisconsin statutes, we have completed an audit of the financial statements and related notes of the Retirement System as of and for the year ended December 31, 2023. The Retirement System financial statements were prepared by the Retirement System staff using generally accepted accounting principles (GAAP) prescribed by the Governmental Accounting Standards Board (GASB). To complete our audit of the financial statements of the Retirement System, we reviewed the Retirement System's internal controls over financial reporting; tested financial transactions; and reviewed the financial statements, notes, and required supplementary information that were prepared by the Retirement System staff.

***We provided an unmodified opinion on the financial statements of the Retirement System as of and for the year ended December 31, 2023.***

In addition to providing an unmodified opinion on the financial statements and related notes of the Retirement System as of and for the year ended December 31, 2023, we have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, which is required by *Government Auditing Standards* and begins on page 23. In that report, we identified a material weakness in internal control over financial reporting related to the preparation of the financial statements.

## Finding of Statutory Noncompliance

***We identified a finding of statutory noncompliance related to Wisconsin's open meetings laws.***

During our audit work, we identified that the Administration and Operations Committee of the Board convened in closed session three times during 2022 and 2023 under s. 19.85(1) (i), Wis. Stats., which was repealed by 2011 Wisconsin Act 32. We considered this to be a finding of statutory noncompliance related to Wisconsin's open meetings laws. We recommend Retirement System staff update its procedures to ensure that the Board and Board committees convene in closed session only for purposes permitted in statute. Additional information, including the corrective action plan prepared by Retirement System's management, is found in Appendix 2.

■ ■ ■ ■



---

## Retirement System Funding and Benefits

---

***The Retirement System is funded through a combination of investment income and employer and member contributions.***

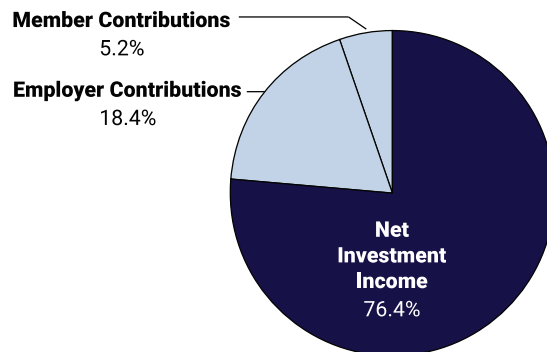
The Retirement System is funded through annual employer and member contributions and investment income. The overall investment goal of the Retirement System is to provide members with retirement, disability, and death and survivor benefits. As of December 31, 2023, investment assets totaled \$5.9 billion. In 2023, the Retirement System reported net investment income of \$545.9 million and contributions of \$203.7 million from employers and members.

### **Investment Income**

From 2019 through 2023, net investment income represented 76.4 percent of total funding for the Retirement System, as shown in Figure 2. Employer contributions and member contributions represented 18.4 percent and 5.2 percent, respectively, of total funding for the Retirement System during this time period.

Figure 2

**Funding Sources**  
**Employees' Retirement System of the City of Milwaukee**  
 2019 through 2023



***Net investment income increased from a loss of \$440.6 million in 2022 to a gain of \$545.9 million in 2023.***

Net investment income, which is the sum of realized and unrealized gains and losses less investment expenses, increased by \$986.5 million, from a loss of \$440.6 million in 2022 to a gain of \$545.9 million in 2023. The increase in net investment income reflects the increase in investment returns for the Retirement System. The one-year investment return, net of investment fees, increased from negative 6.5 percent in 2022 to 10.0 percent in 2023. Investment expenses and securities lending borrower rebates and fees totaled \$81.4 million in 2023 and primarily consisted of expenses related to investment managers.

Prior to 2023 Wisconsin Act 12, the Retirement System's long-term rate of return assumption was 7.5 percent, which was based on an experience study for the five-year period ended December 31, 2021, and approved by the Board in February 2023. Under Act 12, the Retirement System's long-term rate of return assumption is required to not be higher than the rate of return assumption of the WRS, which was 6.8 percent as of December 31, 2023. As of December 31, 2023, the three-year and five-year investment returns for the Retirement System were 6.9 percent and 9.1 percent, respectively.

The Board is responsible for establishing investment objectives and guidelines and hiring investment professionals. The Retirement System's investment policy, which was last updated in December 2023, defines the responsibilities of the Board, the Retirement System's investment staff, and the investment professionals with which the Board contracts. As noted, the Board contracts with an investment consultant to provide investment management advice. Under the Retirement System's investment policy, the Board is required to contract with investment managers to invest and manage the assets of the Retirement System. The Retirement System's Chief Investment Officer is responsible for monitoring investment managers, including performing due diligence reviews of investment managers. During 2023, the Retirement System contracted with 24 investment managers.



The Board-authorized asset allocation is shown in Table 1. As of December 31, 2023, the Retirement System’s actual asset allocation was within the minimum and maximum of the established ranges for each investment type.

Table 1  
**Asset Allocation**  
**Employees’ Retirement System of the City of Milwaukee**  
as of December 31, 2023

	Target	Minimum	Maximum	Actual <sup>1</sup>
Public Equity	39.0%	34.0%	44.0%	38.2%
Fixed Income	29.0	26.0	32.0	30.6
Real Estate <sup>2</sup>	13.0	10.0	16.0	10.8
Private Equity	12.0	9.0	17.0	12.9
Hedge Funds <sup>3</sup>	7.0	4.0	12.0	7.5

<sup>1</sup> Calculated based on investments as reported on the Statement of Fiduciary Net Position.

<sup>2</sup> Reported as Real Assets on the Statement of Fiduciary Net Position.

<sup>3</sup> Reported as Absolute Return on the Statement of Fiduciary Net Position.

## Contributions

***Member contributions are determined by the City of Milwaukee Charter, and employer contributions are determined by an actuary.***

The Retirement System receives contributions from members and employers. Member contributions are based on a member’s annual regular base salary and the applicable contribution rate as defined by Chapter 36-08-7. Member contributions, which are deducted from an employee’s pay, totaled \$32.7 million in 2023. Table 2 shows member contributions rates in effect during 2023, which varied depending upon the member’s employee class and the member’s enrollment date. Amendments to the City of Milwaukee charter for member contributions were made in 2014 to comply with the requirements of 2011 Wisconsin Act 10 and the Wisconsin Supreme Court decision in 2014 related to Act 10.

Table 2

**Member Contribution Rates  
Employees' Retirement System of the City of Milwaukee**

Employee Group	Tier	Enrollment Date	Contribution Rate
General Employee	1	Prior to January 1, 2014	5.5%
General Employee	2	After January 1, 2014	4.0
Fire and Police	n/a	n/a	7.0
Elected Officials	1	Prior to January 1, 2014	7.0 <sup>1,2</sup>
Elected Officials	2	After January 1, 2014	4.0

<sup>1</sup> If a member was enrolled prior to January 1, 2014, but was first elected to office on or after January 1, 2014, the member would pay the contribution rate paid prior to becoming an elected official.

<sup>2</sup> If a member was enrolled prior to January 1, 2014, but was first elected to office on or after January 1, 2014, and their employer was paying contributions on their behalf, the employer would continue to pay contributions on their behalf at a contribution rate of 7.0 percent.

Employer contributions are determined by the Retirement System’s actuary and were due to the Retirement System by January 31, 2024, for calendar year 2023. Actuarially required employer contributions to the Global Combined Fund and the Non-consenter Retirement Funds for 2023 totaled \$171.0 million, which was an increase of \$89.5 million (109.6 percent) from the \$81.6 million in actuarially required contributions received from employers in 2022. This increase was the result of the actuary updating contribution rates under the stable contribution policy, which required contribution rates to be calculated by the actuary for three separate employee groups (General/Elected, Fire, and Police). These rates were then used in calculating employer contributions for a five-year period to provide predictable contribution amounts for employers.

During 2022, the City of Milwaukee also made voluntary contributions of \$40.0 million to the Employers’ Reserve Fund. No such voluntary contributions were made to the Employers’ Reserve Fund during 2023.

Under the stable contribution policy, the actuary established rates that were applied to the payroll for each employee group for the period 2018 through 2022. In 2023, updated rates were calculated by the actuary and were used in setting employer contribution amounts for 2023. These rates would have also been used to determine employer contribution amounts for the next four years if the stable contribution policy had not been repealed. Beginning with the 2024 contribution rates, the actuary will no longer calculate the employer contribution amount based upon rates for the different employee groups. Instead, the employer contributions will be determined each year by the actuary and will be shown only as a total amount due for each employee group and allocated to each employer.

## Retirement System Benefits

The Retirement System is a defined-benefit plan that provides lifetime retirement benefits, survivor benefits, and disability benefits to eligible members and their beneficiaries. A defined-benefit plan is in contrast to a defined-contribution plan, such as a 401(k) plan, in which benefits are based on the amounts contributed to a member’s account and investment gains or losses on those funds.

Benefits are determined under Chapter 36-05 and are based on a member’s employee group. As shown in Table 3, certain age and years of service criteria must be met in order to be eligible for a benefit.

Table 3

### Retirement Benefit Eligibility Criteria Employees’ Retirement System of the City of Milwaukee

Employee Group	Enrollment Date	Eligibility for Retirement <sup>1</sup>
General	Prior to January 1, 2014	Age 60, or age 55 with 30 years of creditable service
General	On or after January 1, 2014	Age 65, or age 60 with 30 years of creditable service
Fire	Prior to June 30, 2016	Age 57, or age 49 with 22 years of creditable service
Fire	On or after June 30, 2016	Age 57, or age 52 with 25 years of creditable service
Police	Prior to December 20, 2015	Age 57, or any age with 25 years of creditable service
Police	On or after December 20, 2015	Age 57, or age 50 with 25 years of creditable service

<sup>1</sup> Assumes consent to the provisions of the Global Pension Settlement.

***Pension benefits are determined by a formula based on the member’s years of service, a percentage multiplier, and final average salary.***

In general, pension benefits are based on a member’s years of service, a percentage multiplier, and final average salary. Depending on a member’s employee class, there are limits on the maximum pension benefit. For example, the maximum pension benefit for general city employees cannot exceed 70.0 percent of the final average salary. In addition, if a member’s calculated monthly pension benefit is less than \$100, the total benefit will be paid in a lump sum.

Chapter 36-05 also provides for pension escalators, which are annual increases in a retired member’s benefit payment to account for cost-of-living adjustments. The effective date and amount of pension escalators vary by the member’s employee group, when the member enrolled in the Retirement System, the member’s retirement

date, and the member’s participation in the Global Combined Fund. Certain general employees are eligible for a pension escalator between 1.5 percent and 2.0 percent, depending on their enrollment and retirement dates. Members in the Police and Fire employee groups are typically eligible for a pension escalator based on the consumer price index, with certain members having a set minimum pension escalator of 2.0 percent and a maximum pension escalator of 3.0 percent.

*The average annual benefit payment increased from \$32,560 in 2022 to \$33,601 in 2023, or by 3.2 percent.*

Retirement System benefits provided to retired members or their beneficiaries increased from \$452.4 million in 2022 to \$466.6 million in 2023, or by 3.1 percent. The number of retired members increased from 13,853 as of December 31, 2022, to 13,867 as of December 31, 2023, or by 0.1 percent. The average annual annuity benefit payment increased from \$32,560 in 2022 to \$33,601 in 2023, or by 3.2 percent.

### Administrative Expenses

Administrative expenses of the Retirement System include salaries and fringe benefits, information technology and other professional services, and general office expenses. Administrative expenses of the Retirement System are paid by the City of Milwaukee and then reimbursed by the Retirement System. As shown in Table 4, administrative expenses increased from \$7.2 million in 2022 to \$8.0 million in 2023, or by 11.6 percent. This increase is largely due to the 31.5 percent increase in salaries for Retirement System staff during the period.

Table 4

#### Administrative Expenses, by Type Employees’ Retirement System of the City of Milwaukee

	2022	Percentage of Total	2023	Percentage of Total
Salaries	\$2,729,748	38.0%	\$3,591,408	44.8%
Fringe Benefits	1,152,795	16.1	1,451,440	18.1
Information Technology Services	803,390	11.2	266,570	3.4
Other Operating Services and Supplies	683,736	9.5	562,281	7.0
Professional Services	655,322	9.1	681,658	8.5
Facility Operations and Maintenance	301,017	4.2	385,881	4.8
General Office Expense	198,411	2.8	194,722	2.4
Other Expenses <sup>1</sup>	656,157	9.1	880,667	11.0
<b>Total</b>	<b>\$7,180,576</b>	<b>100.0%</b>	<b>\$8,014,627</b>	<b>100.0%</b>

<sup>1</sup> Includes expenses related to amortization, depreciation, interest on leased assets, and equipment usage fees.

The largest administrative expenses of the Retirement System are salaries and fringe benefits. Together, salaries and fringe benefits totaled \$5.0 million in 2023 and were 62.9 percent of total administrative expenses. As noted, the Retirement System was authorized 51 full-time equivalent positions in the 2023 City of Milwaukee Budget. The Retirement System noted no vacancies as of the October 22, 2024 Board meeting.

■ ■ ■ ■



## Pension Accounting Standards

---

Accounting standards for public pension plans establish accounting and financial reporting requirements for measuring the pension liability, as well as requirements for both the notes and required supplementary information to the Retirement System financial statements and the GAAP-based financial statements of the employers that participate in the plan. The accounting standards require the Retirement System to calculate the total pension liability and the net pension liability or asset. Each of the participating employers in the Retirement System reports its proportionate share of this net pension liability or asset in its own financial statements if prepared under GAAP.

### Calculating the Total Pension Liability

***The total pension liability is the sum of the amounts needed to pay for the pension benefits earned by each member.***

The total pension liability for the Retirement System is the sum of the amounts needed to pay for the pension benefits earned by each member based on service provided as of the date the actuarial valuation is performed. A total pension liability exists because the employers participating in the Retirement System have committed to provide benefits to their employees in the future when those employees retire. That commitment is part of employee compensation and constitutes a liability.

The calculation of the total pension liability is complex and includes various actuarial assumptions and calculations, such as:

- a projection of future benefit payments for current and former members and their beneficiaries based upon the current terms of the Retirement System;

- a discount of those payments to their present value, or the amount of funds currently needed to provide the projected payments in the future; and
- an allocation of the present value of benefit payments over past, present, and future periods of employee service.

***The total pension liability for the Retirement System was \$7.8 billion as of December 31, 2023.***

Assumptions used in the actuarial valuation are based on an experience study that is performed every five years. The most recent study was performed in 2022 and related to the five-year period that ended on December 31, 2021. To determine the total pension liability for the Retirement System, the Retirement System's actuary performed an actuarial valuation as of January 1, 2023, and adjusted for changes in assumptions, interest earned, contributions paid, and benefits paid during 2023. Due to the implementation of Act 12, the Retirement System actuary performed a second valuation as of January 1, 2023, to incorporate requirements of Act 12 and related Board actions. The total pension liability for the Retirement System was \$7.8 billion as of December 31, 2023.

***The discount rate can have a significant effect on the amount of the total pension liability.***

The discount rate is a critical factor in calculating a pension plan liability, and it can have a significant effect on the amount of the total pension liability. The discount rate, or interest rate, is used to calculate the present value of projected benefit payments and is specifically defined under the accounting standards. Act 12 required that the discount rate used by the Retirement System cannot be higher than the discount rate of the WRS. Therefore, the Retirement System used the long-term expected rate-of-return assumption used by the WRS as of December 31, 2023, which is 6.8 percent. If the current and projected future plan assets of the Retirement System had not been sufficient to cover the projected benefit payments, the pension accounting standards would have required the Retirement System to blend the index rate of 20-year municipal bonds (3.38 percent as of December 31, 2023) with its long-term expected rate of return assumption (6.8 percent as of December 31, 2023). In such circumstances, the blended discount rate would have been lower and would have resulted in a larger total pension liability.

Under the pension accounting standards, the Retirement System is required to calculate the sensitivity of the total pension liability to a one percentage point decrease or increase in the discount rate. A one percentage point decrease in the discount rate (5.8 percent) would increase the total pension liability to \$8.7 billion. A one percentage point increase in the discount rate (7.8 percent) would decrease the total pension liability to \$7.0 billion.



## Calculating a Net Pension Liability or Asset

To determine the net pension liability or asset, accounting standards require the total pension liability to be subtracted from the pension plan's fiduciary net position. When the total pension liability is greater than the fiduciary net position, the pension plan will disclose a net pension liability in its notes. When the fiduciary net position is greater than the total pension liability, the pension plan will disclose a net pension asset in its notes.

***The Retirement System reported a net pension liability of \$2.1 billion as of December 31, 2023.***

As of December 31, 2023, the Retirement System reported a net pension liability. The Retirement System had a fiduciary net position restricted for pensions of \$5.7 billion and a total pension liability of \$7.8 billion, which resulted in a net pension liability of \$2.1 billion. The fiduciary net position of the Employers' Reserve Fund is not included in the calculation of the net pension liability because those funds cannot be used for pension benefits until authorized by the employer. As shown in Table 5, this represents a \$536.6 million increase from the net pension liability reported as of December 31, 2022. A decrease in the discount rate used to determine the total pension liability from December 31, 2022, to December 31, 2023, was the primary cause of the increase in the net pension liability.

Table 5

**Net Pension Liability**  
**Employes' Retirement System of the City of Milwaukee**  
As of December 31  
(in billions)

	2019	2020	2021	2022	2023
Fiduciary Net Position <sup>1</sup>	\$ 5.6	\$ 5.6	\$ 6.4	\$ 5.5	\$ 5.7
Total Pension Liability	(6.6)	(6.7)	(6.9)	(7.0)	(7.8)
<b>Net Pension Asset (Liability)</b>	<b>\$(1.0)</b>	<b>\$(1.1)</b>	<b>\$(0.5)</b>	<b>\$(1.5)</b>	<b>\$(2.1)</b>

<sup>1</sup> The fiduciary net position of the Employers' Reserve Fund is excluded from the fiduciary net position used to calculate the net pension asset (liability), beginning for the calculation of the net pension liability as of December 31, 2023.

***The Retirement System was 73.5 percent funded as of December 31, 2023.***

A net pension liability indicates that, as of December 31, 2023, the assets of the Retirement System were not sufficient to cover the projected liability for benefit payments to employees under the financial reporting standards. Based upon the calculation of the total pension liability and the fiduciary net position, the Retirement System had a funded ratio of 73.5 percent as of December 31, 2023.

## Actuarial Audit

As part of our audit, we also retained an actuary to conduct an independent review of the actuarial calculations and actuarial valuation report for the Retirement System. In general, the actuarial audit concluded that the actuarial valuation report of the program was prepared in compliance with GASB standards and the valuation was performed in accordance with the Actuarial Standards of Practice promulgated by the Actuarial Standards Board.

***The actuarial audit made six recommendations related to certain rates and assumptions used in the actuarial report.***

The actuarial audit made six recommendations related to certain rates and assumptions used in the actuarial report. The consulting actuary for the Retirement System agreed with the results of the actuarial audit and stated that they would consider the recommendations in a future valuation or as part of the next experience study, which is anticipated to be completed in 2027.

## Employer Reporting

***Employers participating in the Retirement System have made a commitment to provide pension benefits and have an obligation to make contributions to fund those benefits.***

As noted, the Retirement System is a cost-sharing, multiple-employer, defined-benefit pension plan. In this type of pension plan, the contributions are combined and the benefits are paid out of a common pool of assets. By participating in the Retirement System, employers have made a commitment to provide pension benefits to employees, and the employers are obligated to make contributions into the future to ensure that sufficient resources are available to make the benefit payments. Therefore, because the employers participating in the Retirement System have ultimate responsibility for the resulting pension obligations, each participating employer is required to report its proportionate share of the net pension liability or asset in its GAAP-based financial statements.

***Each employer participating in the Retirement System must report its proportionate share of the net pension liability in its GAAP-based financial statements.***

To assist employers participating in the Retirement System in determining the employer's proportionate share of these amounts, management of the Retirement System has prepared a Schedule of Employer Allocations and a Schedule of Pension Amounts by Employer as of and for the year ended December 31, 2023. We audited these schedules and provided unmodified opinions on them in report 24-20. Because the Retirement System has calculated a net pension liability for the year ended December 31, 2023, each employer participating in the Retirement System must report its proportionate share of the net pension liability in its GAAP-based financial statements.

In addition to providing unmodified opinions on the Schedule of Employer Allocations and certain totals in the Schedule of Pension Amounts by Employer of the Retirement System as of and for the year ended December 31, 2023, we have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, which is required by *Government Auditing Standards* and begins on page 5 of report 24-20. In that report, we have identified a material weakness in internal control over financial reporting related to the preparation of the employer schedules.

---

# Auditor's Report

---





# Legislative Audit Bureau

Joe Chrisman  
State Auditor22 East Mifflin Street, Suite 500  
Madison, Wisconsin 53703Main: (608) 266-2818  
Hotline: 1-877-FRAUD-17[www.legis.wisconsin.gov/lab](http://www.legis.wisconsin.gov/lab)  
[AskLAB@legis.wisconsin.gov](mailto:AskLAB@legis.wisconsin.gov)

## Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

Senator Eric Wimberger and  
Representative Robert Wittke, Co-chairpersons  
Joint Legislative Audit Committee

Members of the Annuity and Pension Board and  
Mr. Bernard J. Allen, Executive Director  
Employees' Retirement System of the City of Milwaukee

We have audited the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position and the related notes for the Employees' Retirement System of the City of Milwaukee (Retirement System), as of and for the year ended December 31, 2023, which collectively comprise the Retirement System's basic financial statements, and we have issued our report thereon dated November 11, 2024.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, which is issued by the Comptroller General of the United States. The basic financial statements and related auditor's opinion have been included in the Retirement System's *Annual Comprehensive Financial Report*.

### Report on Internal Control over Financial Reporting

Management of the Retirement System is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered the Retirement System's internal control as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Retirement System's internal control. Accordingly, we do not express an opinion on the effectiveness of the Retirement System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent misstatements or to detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the Retirement System's financial statements will not be prevented or that a material misstatement will not be detected and corrected on a timely basis. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

## 24 › AUDITOR'S REPORT

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control that we consider to be a material weakness. We consider the deficiency included in the accompanying Finding and Response Schedule, as Finding 2023-001, to be a material weakness.

### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the basic financial statements of the Retirement System are free from material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **The Retirement System's Response to the Finding**

*Government Auditing Standards* requires the auditor to perform limited procedures on the Retirement System's written response to the findings identified in the audit and described in the accompanying Finding and Response Schedule. The Retirement System's response and the corrective action plan were not subjected to other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response or the corrective action plan.

### **Purpose of This Report**

This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be used when considering the Retirement System's internal control and compliance. The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Retirement System's internal control or on compliance. Accordingly, this report is not suitable for any other purpose.

LEGISLATIVE AUDIT BUREAU



November 11, 2024

## FINDING AND RESPONSE SCHEDULE

### Finding 2023-001: Financial Reporting Errors

**Background:**

The Employees' Retirement System of the City of Milwaukee (Retirement System) was created by Chapter 396 of the Laws of Wisconsin of 1937. The Retirement System is a cost-sharing, multiple-employer, defined-benefit pension plan that provides postretirement financial benefits, as well as disability and death benefits, to members and their beneficiaries. The Retirement System is funded through annual employer and member contributions and investment income.

The activity of the Retirement System is accounted for in three funds:

- the Global Combined Fund, which accounts for the members who have joined the system since the Global Pension Settlement was enacted in 2000 or who were active members prior to this settlement and have since consented to the Global Pension Settlement;
- the Non-consenter Retirement Funds, which accounts for members who have not consented to the Global Pension Settlement; and
- the Employers' Reserve Fund, which accounts for certain contributions made by participating employers and investment earnings on these contributions.

Because the accumulated assets are held in a trust that is dedicated to providing pensions under the plan, the Global Combined Fund and Non-consenter Retirement Funds are considered pension trust funds. The Employers' Reserve Fund is considered a custodial fund, which is a fund that accounts for assets held on behalf of other governments. The amounts deposited by employers in the Employers' Reserve Fund are being maintained to fund future employer contribution requirements to the Global Combined Fund upon passage of a formal resolution by the employer directing a transfer. However, the assets held in the Employers' Reserve Fund are not available for the payment of benefits. The City of Milwaukee is currently the only employer that has made deposits into the Employers' Reserve Fund.

**Criteria:**

Retirement System staff are responsible for preparing the financial statements and the related notes in accordance with standards issued by the Governmental Accounting Standards Board (GASB). These standards require calculation of a net pension liability for disclosure in the notes to the financial statements. The net pension liability is calculated as the difference between the total pension liability and the fiduciary net position. The total pension liability is the sum of the amounts needed to pay for the pension benefits earned by each member based on service provided as of the date the actuarial valuation is performed. The fiduciary net position represents the assets that have been accumulated and represents resources available to pay pension benefits.

GASB standards require specific disclosures related to investments be included in the notes to the financial statements. GASB standards require the disclosure of the categorization of the investments. For example, investments that have fair value measured using observable inputs such as quoted market prices are categorized as level one, and those with unobservable inputs are categorized as level three. GASB also requires that investments that have fair value measured using net asset value should not be so categorized, and instead separate disclosures are required to be made on the liquidation period and the redemption period for these investments.

**Condition:**

In calculating the net pension liability, Retirement System staff erroneously included the fiduciary net position of the Employers' Reserve Fund. This fund was classified as a custodial fund because the assets that have been accumulated are not available for the payment of benefits. Therefore, the fiduciary net position of the Employers' Reserve Fund should not have been used in the calculation of the net pension liability. The net pension liability disclosed in the notes was understated by \$85.1 million as a result of this error.

In preparing investment-related note disclosures, Retirement System staff did not properly classify certain investments that have fair value measured using net asset value. For example, investments categorized as level three were overstated by \$549.6 million and uncategorized investments were understated by \$549.6 million.

After we communicated our concerns, Retirement System staff corrected the calculation of the net pension liability, corrected the classification of certain investments, and updated the note disclosures for these errors.

**Context:**

We interviewed Retirement System staff related to the determination of financial statement amounts and the related note disclosures. We reviewed and considered the applicable accounting standards to assess if the net pension liability and the categorization of investments were being properly calculated and reported.

**Effect:**

The calculation of the net pension liability and the note disclosures for the Retirement System were materially misstated and not prepared in accordance with GASB standards. Misstatements in the note disclosures could have resulted in users drawing inappropriate conclusions on the Retirement System.

**Cause:**

Accounting standards requiring the calculation of the net pension liability have been in place for almost ten years. Retirement System staff did not follow these standards and instead continued to follow the accounting processes and decisions made during prior periods.

Procedures used by Retirement System staff in preparing the investment-related note disclosures were not detailed enough to ensure the categorization of the investments was completed accurately and all required disclosures were made.

**☑ Recommendation**

---

*We recommend staff of the Employees' Retirement System of the City of Milwaukee:*

- *review and update existing accounting processes to ensure financial statements and related note disclosures are prepared in accordance with accounting standards; and*
- *report to the Joint Legislative Audit Committee by February 14, 2025, on the status of its efforts to implement this recommendation.*

**Type of Finding:** Material Weakness



**Response from the Employees' Retirement System of the City of Milwaukee:** The Retirement System agrees with the finding and recommendations.

■ ■ ■ ■



---

## **Corrective Action Plan**

---





**City of Milwaukee**  
Employees' Retirement System

**Bernard J. Allen**  
Executive Director

**David M. Silber, CFA, CAIA**  
Chief Investment Officer

**Melody Johnson**  
Deputy Director

## **Corrective Action Plan**

### **Finding 2023-001**

#### **Planned Corrective Action:**

ERS staff has updated its financial reporting processes to ensure that data produced by third parties complies with GASB standards. Staff has already corrected the data on our 12/31/2023 Annual Comprehensive Report.

*Anticipated Completion Date:* Completed on October 25, 2024

Responsible Official:  
Dan Gopalan, ERS Chief Financial Officer  
daniel.gopalan@cmers.com

---

### **Finding 2023-002**

#### **Plan Corrective Action:**

ERS staff has updated its financial reporting processes to ensure that data produced by third parties complies with GASB standards. Staff has already corrected the data on our 12/31/2023 Schedule of Pension Amounts by Employer.

*Anticipated Completion Date:* Completed on August 29, 2024

Responsible Official:  
Dan Gopalan, ERS Chief Financial Officer  
daniel.gopalan@cmers.com



---

## Appendices

---





## Appendix 1

### **Board Membership Employees' Retirement System of the City of Milwaukee as of December 2023**

Name	Affiliation	Term Expires
Matthew Bell, Chair	Milwaukee Police Department, elected by active members of the Retirement System	December 31, 2025
Aycha Sawa <sup>1</sup>	City of Milwaukee Comptroller, ex-officio	
Molly King	City of Milwaukee Mayor's Office, elected by active members of the Retirement System	December 31, 2024
Deborah Ford	Retired Milwaukee Public School, appointed by the Milwaukee Common Council President	Appointment pending
Timothy Heling	Milwaukee Fire Departments, elected by active members of the Retirement System	December 31, 2026
Thomas Klusman	Retired Milwaukee Police Department, elected by retired members of the Retirement System	December 31, 2025
Rudolph Konrad	Retired City Attorney, appointed by the Milwaukee Common Council President	Appointment pending
Nik Kovac	City of Milwaukee Budget Director, appointed by the Milwaukee Common Council President	Appointment pending

<sup>1</sup> Aycha Sawa did not seek re-election and left office in April 2024.





STATE OF WISCONSIN

---

# Legislative Audit Bureau

Joe Chrisman  
State Auditor

22 East Mifflin Street, Suite 500  
Madison, Wisconsin 53703

Main: (608) 266-2818  
Hotline: 1-877-FRAUD-17

[www.legis.wisconsin.gov/lab](http://www.legis.wisconsin.gov/lab)  
[AskLAB@legis.wisconsin.gov](mailto:AskLAB@legis.wisconsin.gov)

October 22, 2024

Mr. Bernard J. Allen, Executive Director  
Employees' Retirement System of the City of Milwaukee  
789 North Water Street  
Milwaukee, Wisconsin 53202

While conducting our audit of the Employees' Retirement System of the City of Milwaukee (Retirement System), we found that the Administration and Operations Committee of the Annuity and Pension Board (Board) was in noncompliance with Wisconsin Statutes. We first discussed this matter with you in a meeting held in September 2023. Our finding of noncompliance is described in the following paragraphs.

The Board has oversight responsibility for the Retirement System. The Board has three committees: Administration and Operations, Investment, and Legislative. The Board, Administration and Operations Committee, and the Investment Committee meet regularly during the year. The Legislative Committee meets only as needed. The Board and its committees are considered governmental bodies under s. 19.82, Wis. Stats. Meetings of governmental bodies, such as the Board and its committees, are required to meet in open session under s. 19.83, Wis. Stats. However, s. 19.85 (1), Wis. Stats., provides the specific and only purposes for which a governmental body may convene in closed session.

Meeting notices published for March 2022, December 2022, March 2023, and September 2023 indicated the Administration and Operations Committee could convene in closed session under s. 19.85 (1) (i), Wis. Stats., which was repealed by 2011 Wisconsin Act 32. In our review of meeting minutes, the Administration and Operations Committee met in closed session under s. 19.85 (1) (i), Wis. Stats., on three of these dates. Before 2022, an additional 11 Administration and Operations Committee meeting notices issued between February 2013 and December 2021 cited s. 19.85 (1) (i), Wis. Stats., as the basis for closed session.

The Retirement System was noncompliant with Wisconsin open meetings law because the Administration and Operations Committee convened in closed session for a purpose not permitted under s. 19.85 (1), Wis. Stats. Under s. 19.96, Wis. Stats., any member of a governmental body who knowingly attends a meeting in violation of Wisconsin open meetings law or who otherwise violates Wisconsin open meetings law is subject to a penalty.

Meeting notices for Board and committee meetings are prepared by Retirement System staff, reviewed by the Milwaukee City Attorney's Office, and are published under the signature of the Executive Director. In preparing the notices over the ten-year period from 2013 through 2023, the procedures were not sufficient to identify that s. 19.85 (1) (i), Wis. Stats., was repealed and should not be referred to in the meeting notices.

Mr. Bernard J. Allen, Executive Director

Page 2

October 22, 2024

We recommend the staff of the Employees' Retirement System of the City of Milwaukee:

- update procedures for preparing meeting notices for the Annuity and Pension Board and its committees to ensure compliance with open meetings law; and
- report to the Joint Legislative Audit Committee by February 14, 2025, on the status of its efforts to implement this recommendation.

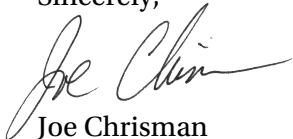
\*\*\*\*

Please prepare a written response to this finding and provide it to us by 4 p.m. on October 29, 2024. Your response, which should be emailed to [LABInfo@legis.wisconsin.gov](mailto:LABInfo@legis.wisconsin.gov), should be provided to the Bureau on your letterhead, be signed by you, and include the following items: a statement that you agree or disagree with the finding, any additional context you may wish to provide related to the finding, and your plans to address the finding and implement the recommendation. If you disagree with the finding, please state the specific reasons in your written response.

This finding and your response will be included in our report on the Retirement System's *Annual Comprehensive Financial Report* for 2023. Until such time we release our report, this letter and its contents are and must remain confidential under Wisconsin Statutes.

Please contact me at (608) 266-2818 if you have questions.

Sincerely,



Joe Chrisman  
State Auditor



City of Milwaukee  
Employees' Retirement System

**Bernard J. Allen**  
Executive Director

**David M. Silber, CFA, CAIA**  
Chief Investment Officer

**Melody Johnson**  
Deputy Director

October 29, 2024

Mr. Joe Chrisman  
State Auditor  
Wisconsin Legislative Audit Bureau  
22 East Mifflin Street, Suite 500  
Madison, Wisconsin 53703

Dear Mr. Chrisman:

ERS agrees with the finding referenced in your letter, dated October 22, 2024, that the Annuity & Pension Board Administration & Operations Committee erroneously convened in closed sessions for the meetings enumerated in the letter by citing § 19.85 (1) (i), Wis. Stats., which was repealed by 2011 Wisconsin Act 32. This was as a result of a scrivener's error in using an obsolete meeting agenda template. In all instances the closed sessions citing § 19.85 (1) (i), Wis. Stats. were conducted for discussions with external auditors for the purpose of fraud prevention and detection which would have been permissible under § 19.85 (1) (d), Wis. Stats.

ERS staff has reviewed all of its notice templates and updated its open meeting compliance processes to ensure that it complies with Wisconsin open meetings requirements under § 19.83, Wis. Stats.

One thing that requires clarification, is that in your letter, dated October 22, 2024 based on our discussion with the audit team, you indicate that the City Attorney's Office reviews all notices prior to their publication. Notices are sent to legal counsel as a courtesy and as a participant in the meeting, but the City Attorney's Office was not previously asked to review or approve all of our notices unless there was a specific question. Moving forward, we will be asking the open meetings expert on staff at the City Attorney's Office, its statutory legal counsel, to review all of our notices to ensure that they contain the correct closed session language, prior to publication.

Additionally, we have contacted both of our open meetings law oversight entities, the Wisconsin Attorney General's Office and Milwaukee County Corporation Counsel, to inform them of the error, and to request that they jointly provide open meetings law compliance refresher training for the trustees and staff. We are attempting to schedule that training on November 26, 2024.

Anticipated Completion Date: N/A, already completed.

Very Truly Yours,

A handwritten signature in black ink that reads "Bernard J. Allen". The signature is fluid and cursive, with the first name being particularly prominent.

Bernard J. Allen  
Executive Director

BJA:jmw