



Employees' Retirement System of the City of Milwaukee Calendar Year 2023

The Employees' Retirement System of the City of Milwaukee (Retirement System) was created in 1937 and is a cost-sharing, multiple-employer, defined-benefit pension plan with 30,111 members and a fiduciary net position of \$5.8 billion as of December 31, 2023. The Retirement System is administered by a staff of 51 full-time equivalent positions.

We provided an unmodified opinion on the Retirement System's financial statements as of and for the year ended December 31, 2023. Our unmodified opinion is included in the Retirement System's *Annual Comprehensive Financial Report*, which can be found on the Retirement System's website. These financial statements account for the financial position and activity of the Retirement System. We also issued *Employees' Retirement System of the City of Milwaukee* (report 24-19).

Employers, including the City of Milwaukee, Milwaukee Public Schools, the Milwaukee Metropolitan Sewerage District, and the Wisconsin Center District, that participate in the Retirement System must meet specific financial reporting requirements in preparing their own financial statements using generally accepted accounting principles. To assist employers, Retirement System staff prepared employer schedules and related notes on which we provided an unmodified opinion and issued *Employees' Retirement System of the City of Milwaukee Reporting for Participating Employers* (report 24-20).

We conducted this financial audit by auditing the Retirement System's financial statements and its employer schedules in accordance with applicable government auditing standards, issuing our auditor's opinions, reviewing internal controls, and issuing our auditor's reports on internal control and compliance. This is the first such audit we completed under the requirements of 2023 Wisconsin Act 12.

2023 Wisconsin Act 12 and subsequent City of Milwaukee actions required changes to the Retirement System

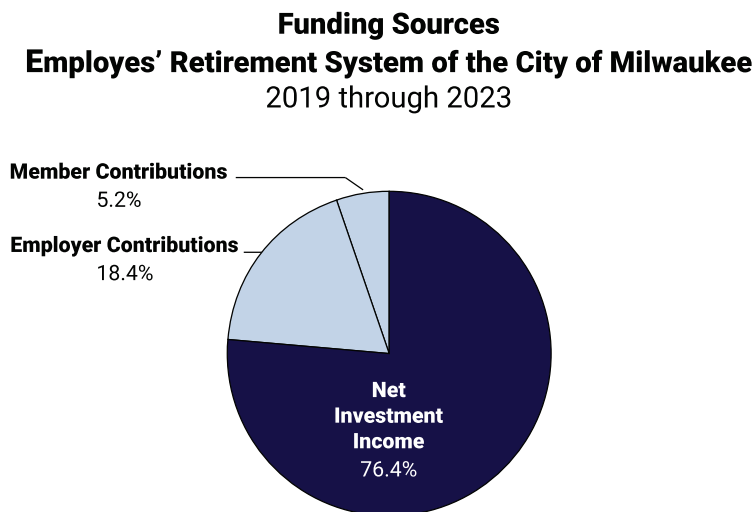
Under Act 12, the City of Milwaukee was permitted to impose a sales and use tax of 2.0 percent and use the revenue to address the Retirement System's unfunded actuarial liability. Act 12 had other requirements, including:

- the Retirement System long-term expected rate of return assumption decreased from 7.5 percent to 6.8 percent;

- employees hired after December 31, 2023, are required to join the Wisconsin Retirement System; and
- no increases or enhancements may be made to the Retirement System benefits for employees remaining in the Retirement System after December 31, 2023, except those required for compliance with federal law.

In 2023, the Retirement System reported \$545.9 million in net investment income and \$203.7 million in total contributions

The Retirement System is funded by investment income and contributions.



As of December 31, 2023, the Retirement System reported total investment assets of \$5.9 billion. Under the Retirement System’s investment policy, the Annuity and Pensions Board of the Retirement System is required to contract with investment managers to invest and manage the assets of the Retirement System. During 2023, the Retirement System contracted with 24 investment managers. In 2023, the Retirement System reported net investment income of \$545.9 million. From 2019 through 2023, net investment income represented 76.4 percent of total funding for the Retirement System.

Retirement System contributions are calculated using actuarial methods. In 2023, the Retirement System reported \$203.7 million in total contributions, including \$32.7 million from members. In 2023, employee contributions varied between 4.0 to 7.0 percent of employee pay. From 2019 through 2023, total contributions represented 23.6 percent of total funding for the Retirement System.

Pension benefit payments totaled \$466.6 million in 2023

The amount of pension benefits provided to retired members or their beneficiaries as annuity payments increased from \$452.4 million in 2022 to \$466.6 million in 2023, or by 3.1 percent.

Retirement System pension benefits are based on a member’s years of service, a percentage multiplier, and a final average salary. The effective date and amount of any applicable pension escalator, which is an annual increase in a retired member’s benefit payment to account for cost-of-living adjustments, vary by the member’s employee group and several other factors. The average annual benefit payment increased from \$32,560 in 2022 to \$33,601 in 2023, or by 3.2 percent.

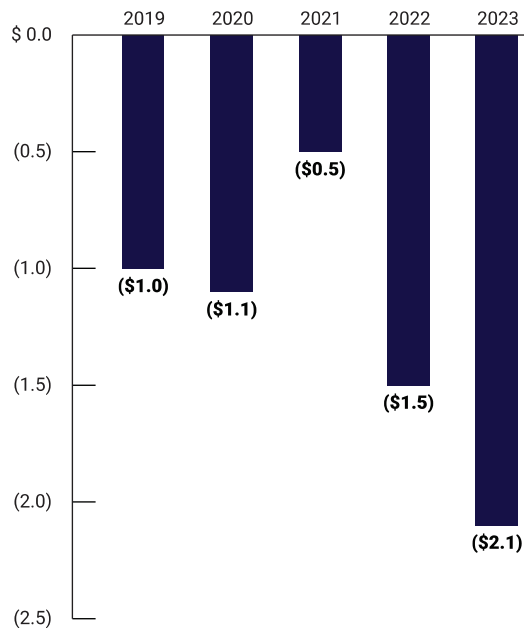
Administrative expenses of the Retirement System totaled \$8.0 million in 2023

Administrative expenses include salaries and fringe benefits, information technology and other professional services, and general office expenses. Administrative expenses, which are paid by the City of Milwaukee and then reimbursed by the Retirement System, 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 this period.

As of December 31, 2023, the net pension liability was \$2.1 billion

The Retirement System reported a net pension liability for each of the last five years. As of December 31, 2023, the net pension liability was \$2.1 billion, compared to \$1.5 billion as of December 31, 2022. The Retirement System was 73.5 percent funded as of December 31, 2023.

Net Pension Liability
Employees’ Retirement System of the City of Milwaukee
 As of December 31
 (in billions)

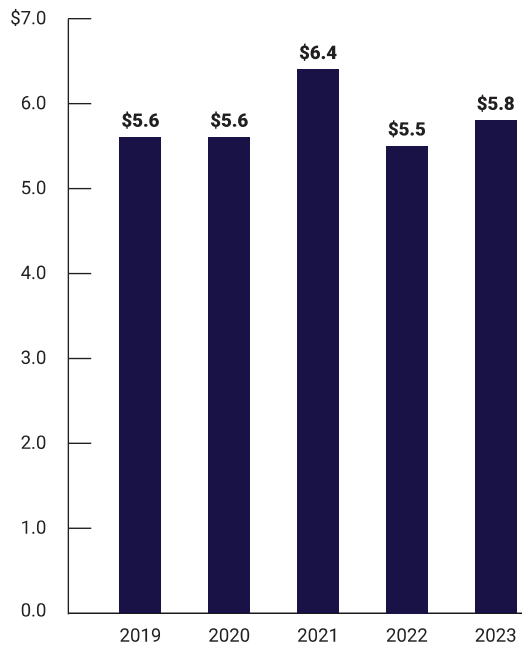


The primary cause of the increase in the net pension liability in 2023 was the decrease in the discount rate used to determine the total pension liability from December 31, 2022, to December 31, 2023, as required under Act 12.

The Retirement System had a fiduciary net position of \$5.8 billion as of December 31, 2023

Fiduciary net position, which represents the value of the Retirement System’s assets that are restricted either for pensions or for other governments, is a measure of overall financial condition. The fiduciary net position of the Retirement System on the basis of generally accepted accounting principles (GAAP) increased from \$5.5 billion as of December 31, 2022, to \$5.8 billion as of December 31, 2023, or by 4.9 percent.

Total Net Position¹
Employees’ Retirement System of the City of Milwaukee
As of December 31
(in billions)



¹Shown as Total Net Position on the Statement of Fiduciary Net Position.

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

We identified two material weaknesses in internal control over financial reporting, and we report a finding of statutory noncompliance

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 or the employer schedules will not be detected and corrected on a timely basis. As we indicate in report 24-19, we found that Retirement System staff did not properly classify certain investments in its note disclosures. For example, investments categorized as level three were overstated by \$549.6 million and uncategorized investments were understated by \$549.6 million. In addition, we found that in calculating the net pension liability, Retirement System staff erroneously included the fiduciary net position of the Employers' Reserve Fund. The net pension liability was understated by \$85.1 million. As a result of these errors, we reported a material weakness in internal control over financial reporting related to the preparation of the financial statements.

We also found that Retirement System staff erroneously included the fiduciary net position of the Employers' Reserve Fund in the calculation of the ending net pension liability in the employer schedules. Further, Retirement System staff erroneously presented both a deferred outflow and a deferred inflow of resources when reporting the differences between projected and actual investment earnings on a net basis. As we indicate in report 24-20, the ending net pension liability was understated by \$85.1 million and the total deferred outflows of resources and the total deferred inflows of resources were each overstated by \$395.2 million. As a result of these errors, we reported a material weakness in internal control over financial reporting related to the preparation of the employer schedules.

During our audit work, we found 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. Before 2022, an additional 11 Committee meeting notices issued between February 2013 and December 2021 included this statutory citation as the basis for closure. As we indicate in report 24-19, we considered this to be a finding of statutory noncompliance related to Wisconsin's open meetings laws.

We make 4 recommendations to Retirement System staff for improvements

Please see the complete list of our recommendations on our website.