



Employees' Retirement System of the County of Milwaukee

Calendar Year 2023

The Employees' Retirement System of the County of Milwaukee (ERS) is a single-employer, defined-benefit retirement system with 12,466 participants and a fiduciary net position of \$1.7 billion as of December 31, 2023. The ERS is administered by Retirement Plan Services (RPS), which is a unit within Milwaukee County's Department of Human Resources, with oversight by the Pension Board.

We provided an unmodified opinion on the ERS financial statements as of and for the year ended December 31, 2023. Our unmodified opinion is included in the *2023 Annual Report of the Pension Board*, which can be found on the RPS website. These financial statements account for the financial position and activity of the ERS. We conducted this financial audit by auditing the ERS financial statements in accordance with applicable government auditing standards, issuing our auditor's opinions, reviewing internal controls, and issuing our auditor's report 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 Milwaukee County actions required changes to the ERS

Under Act 12, Milwaukee County may use a portion of the additional 0.4 percent sales and use tax increase to address the ERS's unfunded actuarial liability and payments associated with \$199.0 million in outstanding Milwaukee County pension bond obligations as of January 1, 2024. In addition, under Act 12 requirements:

- the investment return assumption decreased from 7.5 percent to 6.8 percent;
- employees hired after December 31, 2024, will be required to participate in the Wisconsin Retirement System; and
- no increases or enhancements may be made to the ERS benefits of employees remaining in the ERS after January 1, 2024, except those required for compliance with federal law.

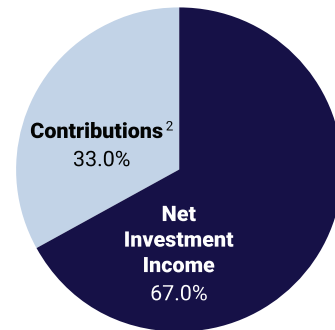
In 2023, the ERS reported \$73.3 million in total contributions and \$173.8 million in net investment income

The ERS is funded by contributions and investment income.

ERS contributions are calculated using actuarial methods, recommended by the Pension Board to Milwaukee County, and authorized by the Milwaukee County Board of Supervisors during the annual budget process. In 2023, RPS reported \$73.3 million in total contributions, including \$59.2 million from Milwaukee County and \$14.1 million from participants. In 2023, employee contributions varied between 6.1 to 9.8 percent of employee pay. From 2019 through 2023, contributions represented 33.0 percent of total funding for the ERS.

As of December 31, 2023, RPS reported total investment assets of \$1.6 billion, which were entirely managed externally. The Pension Board contracted with an investment consultant to assist in monitoring the investment policies and guidelines and select investment managers to manage the assets of the ERS. In 2023, RPS reported net investment income of \$173.8 million. From 2019 through 2023, net investment income represented 67.0 percent of total funding for the ERS.

ERS Funding¹
2019 through 2023



¹ Includes amounts related to the OBRA 1990 Retirement System.

² Excludes contributions reported from Milwaukee County to fund RPS administrative costs.

Pension benefit payments totaled \$199.4 million in 2023

The amount of pension benefits provided to retired participants or their beneficiaries as annuity payments increased from \$197.9 million in 2022 to \$199.4 million in 2023, or by 0.8 percent. ERS pension benefit amounts are determined by:

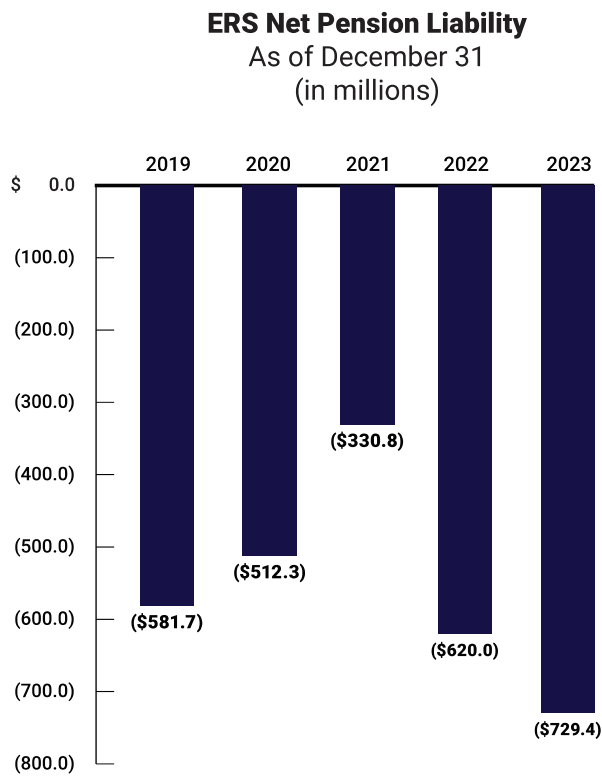
- the use of a multiplier, which is typically 1.6 percent;
- the number of creditable years of service the participant had completed; and
- the participant's final average salary.

Each year, participants receive a fixed 2.0 percent postretirement pension adjustment to their monthly pension benefit amount, as authorized by Milwaukee County Ordinances. The average annual annuity payment for ERS retirees increased from \$24,400 in 2022 to \$24,600 in 2023, or by 0.8 percent.

In 2001, Milwaukee County established “back drop” pension benefits to incentivize employees to work beyond their retirement date. These back drop benefits were subsequently limited effective April 1, 2013. In 2023, RPS authorized 50 back drop benefit payments totaling \$13.3 million.

As of December 31, 2023, the net pension liability was \$729.4 million

The ERS reported a net pension liability for each of the last five years. As of December 31, 2023, the net pension liability was \$729.4 million, compared to \$620.0 million as of December 31, 2022. The ERS was 70.1 percent funded as of December 31, 2023.

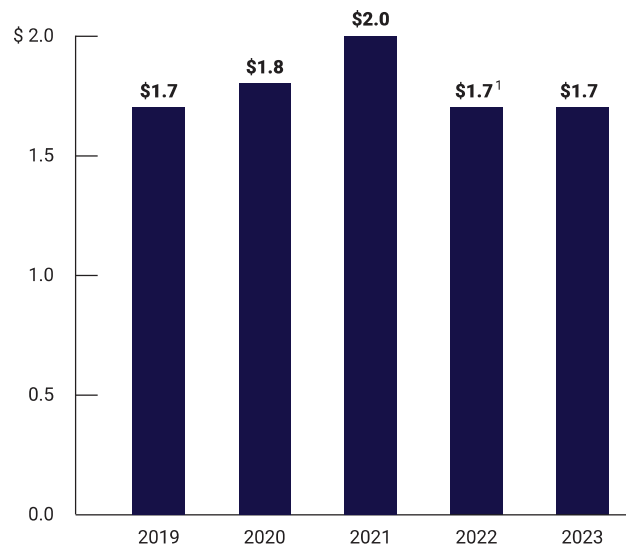


The increase in the net pension liability in 2023 was due to several factors, including the use of revised actuarial assumptions adopted by the Pension Board, a reduction in the investment return assumption from 7.5 percent to 6.8 percent as required under Act 12, and the implementation of a change in the amortization period as permitted under Act 12.

The ERS had a fiduciary net position of \$1.7 billion as of December 31, 2023

Fiduciary net position, which is the assets less liabilities, is a measure of overall financial condition. Although the fiduciary net position of the ERS on the basis of generally accepted accounting principles (GAAP) increased by 2.4 percent, it remained \$1.7 billion as of December 31, 2023.

ERS Fiduciary Net Position
As of December 31
(in billions)



¹ As restated for a new accounting standard RPS implemented for 2023.

The increase is primarily attributable to an increase in cash and in the value of investments due to favorable market conditions during 2023.

We identified four significant deficiencies in internal control at RPS

We reported four significant deficiencies in internal control at RPS. Specifically:

- We found RPS had not conducted a comprehensive review to ensure there was an adequate system of internal control related to its fiscal employee positions and its oversight of financial reporting.
- We found deficiencies in RPS controls over its pension benefit computer system.

- We found deficiencies in RPS's assessment of internal controls at the custodian bank, which RPS relied on for investment transaction processing, custody of investments, and reporting.
- We found that RPS's consulting actuary used inaccurate creditable years of service for 118 active participants who had prior years of creditable service with the City of Milwaukee.

We also identified three other matters of interest. Specifically:

- We found that RPS was in noncompliance by not collecting all employee contributions required by Milwaukee County Ordinances.
- We found that investment managers did not meet some of the reporting requirements noted in the *Statement of Investment Policy*.
- We found that the Milwaukee County Office of the Comptroller was in noncompliance with Wisconsin Statutes and Milwaukee County Ordinances for not ensuring that prior ERS financial audit opinions indicated the audits were conducted in accordance with *Government Auditing Standards*.

We make 17 recommendations to RPS and 3 recommendations to the Milwaukee County Office of the Comptroller for improvements.

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