City of Milwaukee

Office of the Comptroller

W. Martin Morics, C.P.A.
Comptroller

Michael J. Daun
Deputy Comptroller

John M. Egan, C.P.A.
Special Deputy Comptroller

Craig D. Kammholz
Special Deputy Comptroller

FOR IMMEDIATE RELEASE
October 12, 2010

Comptroller Morics
(414) 286-3321
Alderman Murphy
(414) 286-3763

Report on Milwaukee Pension System Misses the Mark

Comptroller and Alderman say report is badly flawed

A new study that lumps the City of Milwaukee's pension system among "underfunded" local government pensions in the U.S. is off the mark, Comptroller W. Martin "Wally" Morics and Alderman Michael J. Murphy said today.

The City of Milwaukee Employes' Retirement System (CMERS), is identified in the study titled, The Crisis in Local Government Pensions in the United States, as among public pension plans that are substantially underfunded as of June 2009, based on the study's argument that public pension liabilities should be measured using a different yardstick than that which conforms to Government Accounting Standards Board (GASB) requirements and the Actuarial Standards of Practice as promulgated by the American Academy of Actuaries -- organizations that are the professional governing bodies for their respective professions.

Comptroller Morics said the study, prepared by Novy-Marx, assistant professor of finance at the University of Rochester, and Joshua Rauh, assistant professor of finance at the Kellogg School of Management, Northwestern University, differs greatly from CMERS' latest actuarial valuation, dated January 1, 2010. That valuation, prepared by an independent actuarial firm in conformance with GASB standards and Actuarial Standards of Practice as promulgated by the American Academy of Actuaries, indicates that CMERS is currently 112.8% funded.

"Also, if one is to look at the 2010 R.V. Kuhns survey of public pension systems, it indicates that CMERS is the #2 best funded public pension plan among the pension systems participating in the survey," said Mr. Morics, noting that CMERS is the sole pension plan for employees of the City of Milwaukee and related agencies and has approximately 27,000 members.

-More-

Astoundingly, the study – issued in October 2010 – used June 2009 market values for the ERS, ignoring the fact that the fund has grown by almost three-quarters of a billion dollars, according to Mr. Morics, who is the chair of the city's ERS board. "Cherry picking the system's lowest asset values after the 2008-2009 market crash raises concerns as to whether this was done to prove a pre-determined result," he said.

"In addition, they also assumed away any investment return in excess of treasury bonds. This extreme artificial assumption inflated our liabilities by $2.3 billion or 50%, in their report. When you use extreme assumptions like that, you can pretty well get any answer you set out to prove," Mr. Morics said.

Alderman Murphy, chair of the city's ERS Investment Committee, and chair of the Common Council's Finance and Personnel Committee, said the city's retirement system has returned "in excess of 8.3% over any 20-year period, including the crash of 2008-2009."

"If one was to exclude the crash of 2008-2009, the 20-year rolling returns have been in excess of double-digits annually," Alderman Murphy said.

###