

**CITY OF MILWAUKEE
POLICEMEN'S ANNUITY AND BENEFIT FUND**

**ACTUARIAL VALUATION
AS OF JANUARY 1, 2007**

May 23, 2008

Annuity and Pension Board
Employees' Retirement System of
the City of Milwaukee
789 N. Water St., #300
Milwaukee, WI 53202

Members of the Board:

This report presents the results of the annual actuarial valuation of the assets and liabilities of the Policemen's Annuity and Benefit Fund of Milwaukee (PABF) as of January 1, 2007, prepared in accordance with Chapter 35 of the Milwaukee City Charter. The valuation takes into account all of the promised benefits to which members were entitled as of January 1, 2007.

Assumptions and Methods

The actuarial assumptions and methods used to prepare the valuation have changed since the prior valuation. The investment return assumption was increased from 6% to 8.5% per annum, and the mortality rates were revised from the unisex 1994 Group Annuity Reserving Table (which was applied to both males and females) to the RP-2000 Mortality Table with five years of projected improvements for males, and the Uninsured Pensioners 1994 Mortality Table with six years of projected improvements for females.

The new 8.5% investment return assumption is also the assumption used by the City of Milwaukee Employees' Retirement System (CMERS). We recommend that both the PABF and CMERS use the same assumption since for investment purposes the assets of the two funds are pooled and invested in the same manner.

The new mortality tables are the same mortality tables the Board adopted for the January 1, 2008 actuarial valuation for CMERS. They are based on a five-year review of CMERS experience, and we believe they are also appropriate for valuing the liabilities of the PABF. The new tables are more appropriate than the mortality table used for the prior valuation because they compare well to recent experience of Milwaukee retirees, and they are sex-distinct rather than unisex tables. In addition, the prior table was a conservative table that reflected the experience of individuals who purchase life annuity policies; and who are therefore assumed to be healthier than average and long-lived.

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Assets and Membership Data

The individual data for members of the PABF were reported to the actuary as of December 31, 2006, and as of December 12, 2007. As a result we were able to use data that had been updated for deaths reported through mid-December, and the actuarial liability as of January 1, 2007 was based on actual benefit payments for January through November 2007, and projected benefit payments thereafter. The amount of assets in the trust fund taken into account in the valuation was based on statements as of December 31, 2006, that were prepared by the ERS.

Financing Objective and Employer Contribution

The results of the January 1, 2007 valuation determine the employer contribution for the year ending December 31, 2007.

Based on the provisions of Chapter 35, the annual contribution consists of an amount sufficient to amortize the unfunded actuarial liability (the amount by which the actuarial liability exceeds the assets on the valuation date) over a ten-year period with a series of level dollar payments; plus budgeted administrative expenses for the year.

On this basis, the contribution for the 2007 plan year, to be paid by January 31, 2008, would amount to \$56,972 plus budgeted administrative expenses for the year.

This contribution would also comply with the disclosure requirements of Governmental Accounting Standards Board Statement No. 25.

Financial Results

Detailed summaries of the financial results of the valuation, including a 20-year projection of assets, liabilities, benefit payments and contribution requirements (excluding future administrative expense requirements), and of the membership data used in preparing the valuation are shown in the valuation report.

To the best of our knowledge, this letter is complete and accurate and has been prepared in accordance with generally accepted actuarial principles and practice.

Respectfully submitted,



S. Lynn Hill
Director, Retirement Consulting



Larry Langer, A.S.A., E.A., M.A.A.A.
Principal, Consulting Actuary

SLH:pl

Introduction

The law governing the Policemen's Annuity and Benefit Fund (PABF) requires the Actuary, as the technical advisor to the Annuity and Pension Board, to make an annual valuation of the funds and liabilities of the Fund, and to determine and certify the annual contribution to be derived from the tax levy. {Chapter 35, Part 1(12)}. Buck Consultants, as Actuary, has completed the annual actuarial valuation of the System as of January 1, 2007.

In this report we present the results of the January 1, 2007 valuation and the contribution to be derived from the tax levy for the year ending December 31, 2007. For purposes of disclosure, the report also includes the schedule of employer contributions and schedule of funding progress as required by GASB Statement No. 25. The benefit provisions recognized in this valuation are those in place as of the valuation date.

The valuation was completed based upon membership and financial data provided by the administrative staff of the System. The mortality and investment return assumptions used to prepare the valuation were adopted as of January 1, 2007, and are based on the experience study prepared by the Actuary for the City of Milwaukee Employees' Retirement System (CMERS) for the five-year period ended December 31, 2006. The actuarial asset valuation method was adopted as of January 1, 2005.

Changes Since Last Year

The actuarial assumptions and methods used to prepare the valuation have changed since the prior valuation. The investment return assumption was increased from 6% to 8.5% per annum, and the mortality rates were revised from the unisex 1994 Group Annuity Reserving Table (which was applied to both males and females) to the RP-2000 Mortality Table with five years of projected improvements for males, and the Uninsured Pensioners 1994 Mortality Table with six years of projected improvements for females.

The individual data for members of the Fund were reported to the prior actuary as of December 31, 2006, and to the current actuary as of December 12, 2007. As a result the current report reflects data that was updated for deaths reported through mid-December, and the actuarial liability as of January 1, 2007 was based on actual benefit payments for January through November 2007, and projected benefit payments thereafter.

Fiscal Impact of Changes

The actuarial liability at January 1, 2007 decreased from \$7,007,494 (as determined by the prior actuary, based on participant data at December 31, 2006) to \$5,956,976. \$544,119 of the decrease in liability is due to the change in investment return assumption, while the remaining decrease of \$506,399 is due to the revised mortality table and the December 12, 2007 updates to the participant data.

Summary of Principal Results

Summarized below are the principal financial results for the Policeman's Annuity and Benefit Fund of Milwaukee based upon the actuarial valuation as of January 1, 2007. Comparable results from the January 1, 2006 valuation are also shown.

Item	January 1, 2007	January 1, 2006
Number of Participants		
➤ Active Members	0	0
➤ Annuitants	50	57
➤ Widow Annuitants	102	113
➤ Total Number of Participants	152	170
Prior Year Annuity Payroll	\$ 1,514,653	\$ 2,006,273
Asset Values (includes contributions receivable)		
➤ Actuarial Value	\$ 5,585,697	\$ 5,977,606
➤ Market Value	\$ 5,585,697	\$ 5,977,606
Actuarially Determined Employer Contribution	Due 1/31/2008	Due 1/31/2007
➤ Annual Cost*	\$ 56,972	\$ 307,582
➤ As % of Covered Payroll	3.76%	15.33%
*Plus budgeted administrative expenses		
Funded Status		
➤ Accrued Liability	\$ 5,956,976	\$ 8,241,433
➤ Actuarial (and Market) Value of Assets	5,585,697	5,977,606
➤ Unfunded (Overfunded) Accrued Liability	\$ 371,279	\$ 2,263,827
➤ Funded Ratio Based on Actuarial Value of Assets	93.8%	72.5%

Reasons for Change in the Funded Ratio

The funded ratio increased from 72.5% as of January 1, 2006 to 93.8% as of January 1, 2007.

This change is due to (a) the change in actuarial assumptions, which had the effect of decreasing the actuarial liability; (b) the return on the actuarial value of assets which exceeded the expected return of 6% for the 2006 plan year; and (c) participant mortality, which was greater than expected for the 2006 plan year.

GASB No. 25 Disclosure

Statement Number 25 of the Governmental Accounting Standards Board established reporting standards for the annual financial reports of defined benefit pension plans. The standards applied to the PABF effective with the January 1, 1997 valuation. The statement requires disclosure of the “schedule of funding progress” and the “schedule of employer contributions” in the System’s financial statements.

The “schedule of funding progress” (Table 1) shows historical trend information about the Fund’s actuarial value of assets, the actuarial accrued liability and the unfunded actuarial accrued liability. The actuarial funded status is measured by comparing the actuarial value of assets (based on market value) with the accrued liability. The accrued liability is the present value of benefits accumulated to date under the PABF’s funding method. On this basis, the PABF’s funded ratio is 93.8% as of January 1, 2007. The funded ratio is based on an actuarial value of assets of \$5,585,697, including a \$307,582 receivable contribution for the 2006 plan year, and an accrued liability of \$5,956,976.

The “schedule of employer contributions” (Table 1) shows historical trend information about the annual required contributions (ARC) of the employer and the percentage of the ARC contributed to the System. The Fund’s ARC is equal to the amortization of the unfunded actuarial accrued liability. The maximum period for amortizing the unfunded actuarial accrued liability permitted by GASB No. 25 is 30 years, and the ten-year level dollar amortization required by Chapter 35 Part 1(12) meets this standard. The employer contributions to the System are equal to 100% of the ARC.

Table 1
GASB Statement No. 25 Disclosure
Schedule of Funding Progress

Valuation as of January 1	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (a-AAL)	Funded Ratio (a/AAL)	Annuity Payroll (b)	UAAL as a Percentage of Annuity Payroll (UAAL / b)
2007	\$5,585,697	\$5,956,976	\$371,279	93.8%	\$1,514,653	24.5%
2006	\$5,977,606	\$8,241,433	\$2,263,827	72.5%	\$2,006,273	112.8%

Schedule of Employer Contributions

Fiscal Year Ended December 31	Annual Required Contribution (ARC)	Percentage Contributed
2006	\$307,582	100%

The information presented in the Schedule of Employer Contributions was determined as part of the actuarial valuation as of one year prior to the dates indicated (i.e., the contribution determined by the valuation completed as of January 1, 2006 was contributed for the fiscal year ending December 31, 2006).

Additional information as of the latest actuarial valuation follows:

Valuation Date:	January 1, 2007
Actuarial Cost Method:	Projected Unit Credit
Amortization Method:	Open; Level dollar
Remaining Amortization Period:	10 years
Asset Valuation Method:	Market Value

Actuarial Assumptions:

- Investment Rate of Return 8.5%
- Projected Salary Increases N/A
- Inflation Assumption 3.0%

Table 2

**CITY OF MILWAUKEE
POLICEMEN'S ANNUITY AND BENEFIT FUND**

**PROJECTION OF ACTUARIAL LIABILITY AND ASSETS
FROM JANUARY 1, 2007 TO DECEMBER 31, 2026**

**BASED ON ROLLING 10-YEAR LEVEL DOLLAR AMORTIZATION OF UNFUNDED ACTUARIAL LIABILITY
AND 8.50% PER ANNUM INVESTMENT RETURNS**

Calendar Year	(A) Beg.-of-Year (BOY) Assets	(B) BOY Actuarial Liability	(C) Unfunded Actuarial Liability (B) - (A)	(D) Expected Benefit Payments	(E) Investment Earnings at 8.50%	(F) Contribution Receivable Jan 31 Next Year	(G) End-of-Year Assets (A) - (D) + (E) + (F)
2007	\$ 5,585,697	\$ 5,956,976	\$ 371,279	\$ 1,349,881	\$ 418,584	\$ 56,972	\$ 4,711,372
2008	4,711,372	5,057,238	345,866	1,195,717	350,266	53,072	3,918,993
2009	3,918,993	4,241,605	322,612	1,038,950	289,469	49,504	3,219,016
2010	3,219,016	3,519,936	300,920	893,091	236,070	46,175	2,608,170
2011	2,608,170	2,888,857	280,687	759,019	189,755	43,071	2,081,977
2012	2,081,977	2,343,790	261,813	637,433	150,113	40,175	1,634,831
2013	1,634,831	1,879,041	244,210	528,699	116,654	37,473	1,260,260
2014	1,260,260	1,488,049	227,789	432,886	88,824	34,954	951,151
2015	951,151	1,163,625	212,474	349,727	66,031	32,604	700,059
2016	700,059	898,246	198,187	278,698	47,662	30,411	499,435
2017	499,435	684,296	184,861	219,021	33,110	28,366	341,891
2018	341,891	514,322	172,431	169,685	21,788	26,459	220,453
2019	220,453	381,290	160,837	129,581	13,149	24,680	128,701
2020	128,701	278,724	150,023	97,511	6,699	23,021	60,910
2021	60,910	200,845	139,935	72,296	1,998	21,473	12,085
2022	12,085	142,611	130,526	52,821	(1,330)	20,029	(22,037)
2023	(22,037)	99,713	121,750	38,024	(3,603)	18,682	(44,981)
2024	(44,981)	68,582	113,563	26,833	(5,078)	17,426	(59,466)
2025	(59,466)	46,461	105,927	18,621	(5,958)	16,254	(67,791)
2026	(67,791)	31,014	98,805	12,778	(6,414)	15,161	(71,821)

DESCRIPTION OF ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Cost Method

The method of financing the System is prescribed in Chapter 35 Part 1(12) of the Milwaukee City Charter.

Method: Projected Unit Credit

Since the Fund is closed to new participants and all participants are retired, the Actuarial Accrued Liability (AAL) is equal to the Actuarial Present Value of benefits expected to be paid to and on behalf of current Annuitants and Widow Annuitants. The Unfunded Actuarial Accrued Liability (UAAL) is the difference between the AAL and the Actuarial Value of Assets. Based on the provisions of Chapter 35, the annual contribution consists of an amount sufficient to amortize the UAAL over a ten-year period with a series of level dollar payments, plus budgeted administrative expenses for the year. This funding method was adopted effective January 1, 2006.

Actuarial Value of Assets

The market value of assets is the value of investments if they were to be sold currently, plus the contribution receivable for the plan year just ended. The actuarial value of assets is equal to the market value of assets. This definition of the actuarial value of assets was adopted in 2005.

Actuarial Assumptions
Adopted Effective January 1, 2007

Interest Rate and Inflation

Interest: 8.5% per annum (adopted 1/1/2000)

Inflation: 3.0%

Post-Retirement Mortality

Male: RP-2000 Mortality Table with five years of projected improvements

Female: UP-1994 Mortality Table, with six years of projected improvements

Table 3

**CITY OF MILWAUKEE
POLICEMEN'S ANNUITY AND BENEFIT FUND**

**THE NUMBER AND ANNUAL BENEFITS PAYABLE TO
ANNUITANTS AND WIDOWS
AS OF DECEMBER 19, 2007 ***

Age	Annuitants		Widows		Totals	
	Number	Annuities	Number	Annuities	Number	Annuities
75			1	\$ 6,000	1	\$ 6,000
79			2	12,000	2	12,000
80			1	6,000	1	6,000
81			2	12,000	2	12,000
82			1	15,332	1	15,332
83			2	15,402	2	15,402
84			4	30,485	4	30,485
85	1	\$ 10,381	9	54,898	10	65,279
86	4	103,324	8	53,620	12	156,944
87	6	111,778	5	31,875	11	143,652
88	7	99,355	9	67,265	16	166,620
89	2	35,778	11	75,806	13	111,584
90	4	72,965	5	32,030	9	104,995
91	2	26,875	10	65,000	12	91,875
92	6	72,076	11	67,599	17	139,675
93	2	25,029	5	40,956	7	65,985
94	3	27,177	2	15,155	5	42,332
95	1	16,289	4	24,000	5	40,289
96			2	14,592	2	14,592
97	1	15,412			1	15,412
98			2	13,937	2	13,937
103			1	6,326	1	6,326
Total	39	\$ 616,439	97	\$ 660,277	136	\$ 1,276,716

* Actual benefit payments for January 1 through November 30, 2007 were provided by the administrative staff of the Fund. Benefit payments from December 1 through December 31, 2007 were projected using the data provided.