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January 31, 2014

Michael Mayo Sr.
Chairman
Pension Study Commission
901 N. 9th St.
Milwaukee, WI 53233

RE: Actuary's Review of Proposed Ordinance Amendments to the Employees' Retirement System - County Board

Dear Chairman Mayo:

As part of the process for adopting amendments to County ordinances relating to the Employees' Retirement System ("ERS"), we have reviewed the proposed changes and present this letter detailing our findings. A summary of the proposed ERS amendments follows, as well as our comments on the cost impact to the plan. It is worthwhile to note that the ERS staff currently administers the ERS in compliance with these amendments, which means that these amendments will not change the ongoing cost of the ERS. Finally, many of these amendments apply to very few members. If these amendments had been analyzed before being put into operation, we likely would have found the cost impact to be immaterial.

ERS Proposed Ordinance Amendments

- **Section 1** of the ERS Resolution amends section 201.24(2.7) to incorporate the updated Internal Revenue Code (Code) section 401(a)(17) annual compensation limit that a plan may consider when calculating an individual's benefit.

  Buck's comments: The amendment merely deletes some outdated language. ERS staff has confirmed that the operation of the plan already reflects annual updates to Code section 401(a)(17). Therefore, this amendment will have no impact on the cost of the plan.

- **Section 2** of the ERS Resolution amends section 201.24(2.10) by adding provisions required by the Heroes Earnings Assistance and Relief Tax Act of 2008 (HEART Act) to the end.

  Buck's comments: It is our understanding that the ERS already operates in compliance with the HEART Act. These amendments to the ERS clarify that ERS operates in compliance with the revised Code and as a result have no cost effect on the plan.

- **Section 3** of the ERS Resolution amends section 201.24(4.6) by clarifying that distributions are made in accordance with Code section 401(a)(9).

  Buck's comments: It is our understanding that the ERS already operates in compliance with Code section 401(a)(9). These amendments to the ERS clarify that ERS operates in compliance with the revised Code and as a result have no cost effect on the plan.

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- **Section 4** of the ERS Resolution amends section 201.24(4.7) to comply with Code section 401(a)(9) requirements for minimum distributions when a member dies before the date distributions begin.

  Buck's comments: It is our understanding that the ERS already operates in compliance with these minimum distribution requirements. These amendments to the ERS clarify that ERS operates in compliance with the revised Code and as a result have no cost effect on the plan.

- **Section 5** of the ERS Resolution amends section 201.24(4.8)(4) to remove a reference to proposed regulations under Code section 401(a)(9).

  Buck Comments: The amendment merely deletes some outdated language. ERS staff have confirmed that the operation of the plan already reflects annual updates to Code section 401(a)(9). Therefore, this amendment will have no impact on the cost of the plan.

- **Section 6** of the ERS Resolution restates section 201.24(12.1)(3) to comply with Code section 415.

  Buck's Comments: It is our understanding that the ERS already operates in compliance with Code section 415. These amendments to the ERS clarify that ERS operates in compliance with the revised Code and as a result have no cost effect on the plan.

- **Section 7** of the ERS Resolution amends section 201.24(12.2)(1) to comply with Code section 415.

  Buck Comments: It is our understanding that the ERS already operates in compliance with Code section 415. These amendments to the ERS clarify that ERS operates in compliance with the revised Code and as a result have no cost effect on the plan.

- **Section 8** of the ERS Resolution amends section 201.24(12.3)(2) to comply with Code section 415.

  Buck Comments: It is our understanding that the ERS already operates in compliance with Code section 415. These amendments to the ERS clarify that ERS operates in compliance with the revised Code and as a result have no cost effect on the plan.

- **Section 9** of the ERS Resolution amends section 201.24(12.3)(2) to (a) eliminate the $75,000 "floor" on Code section 415 benefit limits at age 55; and (b) eliminate the pre-age 55 "floor" that was equal to the actuarial equivalent of the age 55 floor.

  Buck Comments: It is our understanding that the ERS already operates in compliance with these Code section 415 benefit limits. These amendments to the ERS clarify that ERS operates in compliance with the revised Code and as a result have no cost effect on the plan.

- **Section 10** of the ERS Resolution amends section 201.24(12.4)(1) to reflect the current provisions of Code section 415(c)(1)(a).

  Buck Comments: It is our understanding that the ERS already operates in compliance with Code section 415. These amendments to the ERS clarify that ERS operates in compliance with the revised Code and as a result have no cost effect on the plan.

- **Section 11** of the ERS Resolution amends section 201.24(12.6) to reference Code section 415.

  Buck Comments: It is our understanding that the ERS already operates in compliance with Code section 415. These amendments to the ERS clarify that ERS operates in compliance with the revised Code and as a result have no cost effect on the plan.

- **Section 12** of the ERS Resolution amends section 201.24(12.8) to reflect that member compensation is as defined under Code section 415(c)(3).

  Buck's comments: It is our understanding that the ERS already operates in compliance with these compensation requirements. This change is required to comply with the Code and will have no impact on the cost of the plan.

- **Section 13** of the ERS Resolution amends section 201.24(12.8) to clarify that compensation is compensation that is paid "prior to the member's severance from employment".

  Buck Comments: It is our understanding that the ERS already operates in compliance with these compensation requirements. These amendments to the ERS clarify that ERS operates in compliance with the revised Code and as a result have no cost effect on the plan.

- **Section 14** of the ERS Resolution amends section 201.24(13.3) to allow for eligible rollover distributions from 457(b) or 403(b) plans.

  Buck Comments: It is our understanding that the ERS already operates in compliance with these rollover requirements. These amendments to the ERS clarify that ERS operates in compliance with the revised Code and as a result have no cost effect on the plan.

- **Section 15** of the ERS Resolution adds language to the end of section 201.24(13.3) which allows for rollover distributions to Roth IRAs.

  Buck Comments: It is our understanding that the ERS already operates in compliance with these rollover requirements. These amendments to the ERS clarify that ERS operates in compliance with the revised Code and as a result have no cost effect on the plan.

- **Section 16** of the ERS Resolution amends section 201.24(13.4) to permit a member or former member's nonspouse beneficiary to be a distributee.

  Buck Comments: It is our understanding that the ERS already operates in compliance with these requirements. These amendments to the ERS clarify that ERS operates in compliance with the revised Code and as a result have no cost effect on the plan.

Basis for the Analysis

We have based this analysis on the data and methods used for the January 1, 2013 actuarial valuation with the actuarial assumptions adopted for 2013 by the ERS Pension Board as a result of the recommendations contained in Buck Consultants 5-year experience study. We have not updated the assumptions used for this analysis due to the low frequency of the benefits being triggered.

The calculations are based upon assumptions regarding future events, which may or may not materialize. They are also based upon present and proposed plan provisions that are outlined in the report. If you have reason to believe that the assumptions that were used are unreasonable, that the plan provisions are incorrectly described, that important plan provisions relevant to this proposal are not described, or that conditions have changed since the calculations were made, you should contact the authors of this report prior to relying on information in the report.

The undersigned is a Member of the American Academy of Actuaries and meets the Academy's Qualification Standards to issue this Statement of Actuarial Opinion.

Please call if you have any questions.

Sincerely,

Larry Langer, FCA, ASA, EA, MAAA
Principal, Consulting Actuary

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