Milwaukee County Retirement Plan Services

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Date: November 13, 2019

To: Theodore Lipscomb, Sr., Chairman, Milwaukee County Board of Supervisors

From: Erika Bronikowski, Interim Director, Retirement Plan Services

Subject: Informational Report Regarding the Decision in DC 48 v. Milwaukee County (Case No. 2016AP1525) issued by the Wisconsin Supreme Court

At its April 11, 2019 meeting, the Milwaukee County Board of Supervisors Personnel Committee requested an informational report from the Office of Corporation Counsel, the Department of Human Resources, and the Office of the Comptroller, regarding the decision in DC 48 v. Milwaukee County (Case No. 2016AP1525) issued by the Wisconsin Supreme Court. In this case, the Wisconsin Supreme Court ruled in favor of the plaintiffs and as a result, a number of members of AFSCME District Council 48 ("DC 48") are eligible to retire prior to reaching retirement age under the Rule of 75 provisions outlined in Milwaukee County Ordinance Chapter 201.24 (4.1). The Rule of 75 provision allows certain eligible employees to receive their pension benefit when their age plus their pension service reaches 75. The impact of the ruling is that additional DC 48 employees (current and retired) are eligible to receive their pension benefit earlier.

Please find attached a report regarding the fiscal impact of the ruling that was prepared by the ERS actuary.

For reference, this report is associated with File number 19-334.

Cc:
Supervisor James Schmitt, Chairman, Finance and Audit Committee
Supervisor Eddie Cullen, Chairman, Personnel Committee
Chris Abele, County Executive
Julie Landry, Chief Human Resources Officer
Finance and Audit Committee
Personnel Committee
Raisa Koltun, Chief of Staff, Office of the County Executive
Teig Whaley-Smith, Director, Department of Administrative Services
Scott Manske, Comptroller
Jennifer Folliard Director of Audit, Office of the Comptroller
Steve Cady, Research and Policy Director, Office of the Comptroller
Margaret Daun, Corporation Counsel

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September 30, 2019

Via E-Mail

Mr. Tim Coyne
Director, Retirement Plan Services
Milwaukee County Department of Human Resources
901 N. 9th Street, Suite 210
Milwaukee, WI 53233

Re: **Cost Study – District Council 48, Rule of 75 Impact**

Dear Tim:

As requested, we have estimated the cost impact of providing Rule of 75 unreduced early retirement benefits to certain District Council 48 (DC48) participants in the Milwaukee County Employes' Retirement System (Plan). Our calculations are discussed in this letter and the results are summarized in the attached Exhibit 1.

Results

The Actuarial Accrued Liability (AAL) for the affected participants was \$71.5M as calculated in the January 1, 2019 actuarial valuation (dated June 10, 2019). As a result of adding Rule of 75 eligibility to these participants, the AAL as of January 1, 2019 is \$77.2M, an increase of \$5.7M or 8.0%. The normal cost for this group increased from \$1.47M to \$1.55M (5.4%). If these liabilities had been included in the January 1, 2019 actuarial valuation, the Actual Funding Contribution would have increased from \$70.0M to \$70.6M (an increase of 0.9%).

When the funded ratio is measured using the Actuarial Value of Assets, the addition of the Rule of 75 benefits for the DC48 group decreases the funded ratio from 75.5% to 75.3% as of January 1, 2019.

The Journal-Sentinel indicated that a study in 2016 noted that the cost of providing this benefit to the affected participants was estimated to be \$6.8 million, based on a study completed in 2016. Segal has not received a copy of that study and as a result we have not reconciled our results with the 2016 study.

Background

On March 19, 2019, the Supreme Court of Wisconsin issued a ruling in Milwaukee County District Council 48 v. Milwaukee County. As a result of this decision, DC48 employees who were hired after 1993 and before 2006 are now eligible for unreduced retirement from the Plan if they meet the Rule of 75. The Rule of 75 is satisfied for an employee if the sum of the employee's age and service is greater than or equal to 75. The actuarial valuation performed by Segal as of January 1, 2019 was based in part on the assumption that these employees were not eligible for unreduced retirement under the Rule of 75.

Participant Population Affected

Milwaukee County Retirement Plan Services (RPS) provided data on the DC48 employees and retirees affected by the court decision.

The data includes the following:

- 412 active participants
  - Three of the active participants were not included in the valuation data. We did not include them in this study.
- 131 retired participants
  - 14 of these participants retired under the early retirement provisions of the plan, so their benefits were reduced for early commencement. Of the early retirements, one of the participants elected a back drop benefit. The other 13 employees did not elect a back drop benefit.
  - 117 of these participants retired under the normal retirement provisions of the plan (generally age 60). Of the 117 Normal Retirements, 61 elected a back drop and 56 did not elect a back drop benefit.

Liability Impact – Active Participants

The AAL for the DC48 participants as of January 1, 2019 was \$55.1M. When the AAL for these participants is revalued with Rule of 75, the AAL increases to \$60.7M. The normal cost for these participants increased from \$1.47M to \$1.55M.

We have estimated that as of January 1, 2019, there were 55 employees who were previously not eligible for unreduced retirement who are now eligible. We have not modified the assumed retirement rates to reflect assumed increased retirement from this group. Currently the actuarial valuation does not have separate retirement rates for participants who are eligible for unreduced benefits and participants who are not eligible. If the Plan experiences unusually high retirements from this group it may affect the liability increase shown in this letter and in the attached Exhibit 1.

Liability Impact – Participants with Early Retirement Benefits

As noted, we received a list of 14 participants who retired with an early retirement benefit. Of those participants, one retired after January 1, 2019. For purposes of this study, this participant was treated as active and included in the liability impact for active members.

Of the remaining early retirement participants, 7 were determined not to be eligible for Rule of 75 at their retirement dates. We assumed these participants' benefits would not change, and therefore there is no liability impact.

There was one participant who retired with an early retirement benefit and a back drop. This participant was not eligible for Rule of 75 at the participant's back drop date. Based on this, we assumed this member's benefit would not change, and therefore there is no liability impact.

The remaining five participants in this group were eligible for Rule of 75 at their retirement dates. We have estimated that the monthly benefits for these participants will increase approximately 14%. Adjusting their benefits back to their retirement dates results in a total underpayment of approximately $26,000, assuming the benefits are updated effective October 1, 2019. When the benefits are increased with 5% simple interest to an assumed payment date of October 1, 2019, the back payments plus interest is approximately $26,600.

Liability Impact – Participants with Normal Retirement Benefits (No Back Drop)

Segal received data on 56 participants who retired with an unreduced benefit and did not elect a back drop. There is no expectation of a change in liabilities for these participants, except for the possibility that some may change their election to include a back drop.

There are 46 participants who did not attain eligibility for Rule of 75 until after they were eligible for an unreduced benefit due to attaining Normal Retirement Age. We assumed that these participants' benefits would not change, and therefore there is no liability impact.

The remaining eight participants in this group attained eligibility for Rule of 75 prior to attaining Normal Retirement Age. For five of these participants, the Rule of 75 was attained within one year of their actual retirement date. Given this small time difference, we assumed that these participants' benefits would have minimal changes, and therefore there is negligible liability impact.

We examined the remaining three participants, who could have elected back drop dates that were up to four years earlier than their actual dates of retirement. If those participants elect a back drop, they will be entitled to a back drop lump sum, with interest. However, their monthly benefits will decrease, and the back drop lump sum would be offset by the accumulated value of the reduction in their monthly benefits. We estimate that if these participants were to elect a back drop, the liability impact would not be significant.

Liability Impact – Participants with Normal Retirements (Back Drop Elected)

Segal received data on 61 participants who were identified as electing a back drop who were identified as normal retirements.

Of those participants, one retired after January 1, 2019. For purposes of this study, this participant was treated as active and included in the liability impact for active members.

There were 12 participants who were eligible for Rule of 75 prior to their actual retirement dates. Of those, the difference was less than one year for all but one participant. We assumed that those participants' benefits would not change, and therefore there is no liability impact. For the 12th participant, the back drop date could move back approximately 2.7 years. We estimated the liability increase for this participant to be approximately $50,000, reflecting an increased back drop lump sum (with interest), offset by reduced monthly payments since retirement and going forward.

Impact on the 2019 Actual Funding Contribution

As shown in Exhibit 1, the 2019 Actual Funding Contribution as of January 1, 2019 was $70.0M. When the AAL for these participants is revalued with Rule of 75, the Actual Funding Contribution increases to $70.6M.

Certification

This report is based on the data, plan provisions, methods and assumptions described in the 2019 actuarial valuation for the plan (dated June 10, 2019) except were otherwise noted. Use of this information is subject to the caveats and limitations of use described in that report.

This report has been prepared for the Milwaukee County Pension Board and Milwaukee County Retirement Plan Services.

Segal is not a law firm and we cannot offer legal advice. Our comments are based on our many years of consulting to employee benefit plans. To the extent that any user requires a legal opinion, that user should consult with appropriate legal counsel.

I, Geoff Bridges, am an Actuary for Segal Consulting. I am a member of the American Academy of Actuaries and I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

I, Matthew A. Strom, am a Senior Vice President and Consulting Actuary for Segal Consulting. I am a member of the American Academy of Actuaries and I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Please contact us if you have any questions or comments.

Sincerely yours,

Geoff Bridges

Geoff Bridges, FSA, EA, MAAA
Actuary

Matthew A. Strom

Matthew A. Strom, FSA, EA, MAAA
Senior Vice President & Consulting Actuary

cc: Ms. Kim Nicholl, Segal Consulting

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Exhibit 1

Milwaukee County Employes' Retirement Plan
Impact of Providing Certain District Council 48 Participants with Rule of 75 Benefits

Plan year beginning January 1, 2019		Final Valuation	DC48 Impact
Actuarially determined contributions:	• Actual Funding Contribution for fiscal 2018	$ 70,000,000	$ 70,600,000
Actuarial accrued liability:	• Retired participants and beneficiaries	$ 1,824,500,000	$ 1,824,600,000
	• Inactive vested participants	85,900,000	85,900,000
	• Active participants	382,700,000	388,400,000
	• Total	$ 2,293,100,000	$ 2,298,900,000
	• Employer normal cost	$ 15,800,000	$ 15,870,000
Assets:	• Market value of assets (MVA)	$1,618,310,314	$1,618,310,314
	• Actuarial value of assets (AVA)	1,731,726,301	1,731,726,301
	• Actuarial value of assets as a percentage of market value of assets	107.01%	107.01%
Funded status:	• Unfunded actuarial accrued liability based on MVA	$674,753,040	$680,589,686
	• Funded percentage on MVA basis	70.6%	70.4%
	• Unfunded actuarial accrued liability based on AVA	$561,337,053	$567,173,699
	• Funded percentage on AVA basis	75.5%	75.3%

This exhibit is an attachment to a letter to Mr. Tim Coyne dated September 30, 2019.