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February 25, 2016 DRAFT – subject to review and discussion

Marian Ninneman, CEBS, CRC®  
Director – Retirement Plan Services  
Milwaukee County  
901 N 9th Street  
Milwaukee, WI 53233

**Re: Pension Analysis for MyChoice**

Dear Marian:

You requested that Buck provide an analysis of the costs associated with MyChoice participants that are currently part of Employee's Retirement System of the County of Milwaukee (ERS). This letter presents the results of our analysis.

***Background Summary***

Currently, MyChoice is a department within Milwaukee County. The governor passed a budget with legislation which will require the MyChoice department to either become a separate non-profit organization or it will cease to exist. MyChoice participants would remain in ERS and continue to accrue further benefits after a conversion to a non-profit organization. Therefore, MyChoice would be required to reimburse ERS for their share of any Unfunded Actuarial Liability (UAL) as of the effective date of such conversion.

- The effective date of conversion to a non-profit organization is expected to be January 1, 2017.
- The amount of reimbursement of UAL will be based on the following:
  - Each MyChoice member's respective total accrued liability with ERS will be determined as of the effective date.
  - A percentage will be determined for each member that represents their time employed with MyChoice. This percentage will be determined as a ratio of elapsed time employed with MyChoice over the entire elapsed time employed with Milwaukee County.
  - This resulting percentage will be applied to the member's respective total accrued liability to determine the amount of liability that is attributable to their time employed with MyChoice. The sum of these amounts will be the accrued liability associated with the benefit that employees earned while employed with MyChoice.
  - A percentage will be determined that represents the portion of liability that is attributable to MyChoice. This percentage will be determined as a ratio of the accrued liability for benefits earned under MyChoice over the accrued liability of the entire plan.
  - This resulting percentage will be applied to the total UAL of ERS as of the effective date to determine the amount of UAL that MyChoice will be required to reimburse.
- A separate annual contribution rate will need to be developed for MyChoice effective for 2017 and later years to account for their share of costs to ERS. This rate will consist of the normal cost with interest attributable to MyChoice employees, along with a respective share of plan expenses. This calculated rate will be split evenly between the employee and the employer.
- All current benefit provisions are to remain the same for MyChoice employees.

The analysis provided in this letter reflects the plan population and resulting liability figures, along with ERS asset values as of January 1, 2015. The actual amount of UAL that MyChoice will need to reimburse ERS at the effective date of January 1, 2017 will be dependent on respective liability and asset values as of that date. Differences between the amounts at these dates could result from the following:

- Asset performance during 2015 and 2016. It is expected that 2015 asset returns were less than the expected 8.0%. This will result in an increase to the UAL.
- Additional benefit accrual from current active employees and any benefits earned for new active employees will increase the liability.
- Current active employees will have a larger percentage of their respective accrued liability allocated to MyChoice, as a larger share of their service will be attributable to MyChoice employment.

The contribution rate attributable to MyChoice for 2017 will be developed as part of the January 1, 2016 actuarial valuation.

### Actuarial Analysis

#### Summary of Participant Data and Liabilities as of January 1, 2015:

| My Choice Members           |              |            |              |            |
|-----------------------------|--------------|------------|--------------|------------|
|                             | Active       | In Payment | Deferred Pmt | Total      |
| 1) Participant Count        | 50           | 29         | 9            | 88         |
| 2) Average Age              | 47.9         | 64.7       | 49.8         | 53.6       |
| 3) Average Service          | 11.0         |            |              |            |
| 4) Average Salary           | 60,105       |            |              |            |
| 5) Total Salary             | 3,005,261    |            |              |            |
| 6) Liability                | 7,107,246    | 6,681,936  | 454,569      | 14,243,751 |
| <i>% of Total Liability</i> | <i>50%</i>   | <i>47%</i> | <i>3%</i>    |            |
| 7) Normal Cost Rate         | <b>9.08%</b> |            |              |            |
| 8) Normal Cost              | 272,791      |            |              |            |

| ERS - Total                 |              |               |              |               |
|-----------------------------|--------------|---------------|--------------|---------------|
|                             | Active       | In Payment    | Deferred Pmt | Total         |
| 1) Participant Count        | 3,680        | 7,979         | 1,370        | 13,029        |
| 2) Average Age              | 46.0         | 71.5          | 50.7         | 62.1          |
| 3) Average Service          | 11.7         |               |              |               |
| 4) Average Salary           | 52,020       |               |              |               |
| 5) Total Salary             | 191,432,915  |               |              |               |
| 6) Liability                | 502,252,422  | 1,649,471,985 | 70,895,992   | 2,222,620,399 |
| <i>% of Total Liability</i> | <i>23%</i>   | <i>74%</i>    | <i>3%</i>    |               |
| 7) Normal Cost Rate         | <b>8.22%</b> |               |              |               |
| 8) Normal Cost              | 15,740,283   |               |              |               |

Summary of UAL allocated to MyChoice as of January 1, 2015:

| My Choice UAL Allocation                         |             |               |              |                  |
|--|-------------|---------------|--------------|------------------|
|  | Active      | In Payment    | Deferred Pmt | Total            |
| 1) Participant Count                             | 50          | 29            | 9            | 88               |
| 2) Average Age                                   | 47.9        | 64.7          | 49.8         | 53.6             |
| 3) Average Service                               | 11.0        |               |              |                  |
| 4) Average Salary                                | 60,105      |               |              |                  |
| 5) Total Salary                                  | 3,005,261   |               |              |                  |
| 6) Liability Based on Total Service              | 7,107,246   | 6,681,936     | 454,569      | 14,243,751       |
| <i>% of Total Liability</i>                      | <i>50%</i>  | <i>47%</i>    | <i>3%</i>    |                  |
| 7) Liability Based on My Choice Service Only     | 3,362,181   | 2,050,510     | 177,546      | 5,590,237        |
| <i>% of Total Liability</i>                      | <i>60%</i>  | <i>37%</i>    | <i>3%</i>    |                  |
| 8) Total ERS Liability                           | 502,252,422 | 1,649,471,985 | 70,895,992   | 2,222,620,399    |
| 9) Actuarial Value of Assets                     |             |               |              | 1,773,638,120    |
| 10) Total ERS UAL                                |             |               |              | 448,982,279      |
| 11) UAL Percentage Allocated to MyChoice (7 / 8) |             |               |              | 0.2515%          |
| 12) UAL Amount Allocated to MyChoice (10 * 11)   | 679,138     | 414,189       | 35,863       | <b>1,129,190</b> |

MyChoice will need to reimburse ERS in the amount of \$1,129,190 for the share of UAL allocated to benefits earned with only MyChoice employment. This will be necessary to make ERS whole in terms of MyChoice employment and the liabilities associated with its employees. This is the amount of UAL allocated as of January 1, 2015. The final amount of UAL as of January 1, 2017 is expected to be different. This amount will not be determined until sometime in the spring of 2017.

The amount of reimbursement will cover the share of unfunded benefits attributable to MyChoice employment. After January 1, 2017, MyChoice will be required to contribute an amount to ERS to cover the accrual of benefits of its employees and its respective share of plan expenses. This rate will be developed annually as a percentage of payroll and will be split evenly between the employee and employer. The rate for 2017 will be developed as part of the January 1, 2016 actuarial valuation.

***Basis for the Analysis***

Unless otherwise noted in this analysis, we base this analysis on the data, assumptions and methods used for the results of the January 1, 2015 actuarial valuation. For purpose of this analysis, current provisions are those included or referenced in the January 1, 2015 actuarial valuation.

The MyChoice member data was provided by Milwaukee County. A total of 95 members were identified as MyChoice, with 7 of these members hired after January 1, 2015. Because this analysis uses results as of January 1, 2015, those 7 members were not included in the above calculations.

Future actuarial measurements may differ significantly from the current measurement presented in this report due to such factors as: plan experience different from that anticipated by the economic and demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements; and changes in plan provisions or applicable law. Due to the limited scope of this report, an analysis of the potential range of such future measurements has not been performed.

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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cc: Marian Ninneman  
Troy Jaros  
Valerie Long