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May 7, 2018

Ms. C.J. Pahl
Financial Services Manager
Milwaukee County Office of the Comptroller
Via email

Re: **Actuary's Review of Proposed Ordinance Amendments to the Milwaukee County Employees' Retirement System**

Dear Ms. Pahl:

As requested, we have reviewed the proposed changes and present this letter detailing our findings. A summary of the proposed amendments to the Milwaukee County Employees' Retirement System (ERS) follows, as well as our comments on the cost impact to the system.

Actuarial Impact

If a change to the ordinance would affect Segal's calculation of the actuarial assets or actuarial liabilities, then there is an actuarial impact from the proposed change.

Section 2.19

Section 2.19 is amended such that retirement benefits are paid monthly, with no partial payments being applicable if a retiree terminates employment or authorized leave of absence in the middle of a month. Further, when a retiree or beneficiary dies, the benefits are paid for the entire month, so there is no refund to the plan.

Segal Comments on Section 2.19

This language simplifies the way the system is administered. However, for actuarial valuation purposes, payments are assumed to be paid for complete months with no refunds for partial months. Accordingly, there is no actuarial cost associated with this change.

Section 2.22 and Section 2.23

Section 2.22 is moved to Section 2.23. A new Section 2.22 is added that defines the term RPS to mean retirement plan services and defines the functions of RPS.

Segal Comments on Sections 2.22 and 2.23

There is no actuarial cost associated with adding Section 2.22 to the ordinance or in moving the former Section 2.22 to Section 2.23.

Section 3.1

This section of the ordinance provides that the pension board will provide the following information to the county executive prior to June 1 of each year:

- a) An estimated budget pension contribution.
- b) A summary of the actuarial assumptions supporting the budgeted pension contribution.

The proposed amendment to the ordinance makes the following changes:

Subsection (a) – eliminate an outdated example referencing a base year of 1984.

Subsection (b) – eliminate an outdated example referencing a base year of 1984.

Subsection (c) is added, providing that the pension board will also provide a summary of the contribution resulting from the county's assumption of liability for overpayments.

Segal Comments on Section 3.1

This section is about disclosure of information. There is no actuarial cost associated with this disclosure. The cost of the county's assumption of liability for overpayments will be discussed later in this letter.

Section 8.21

This section provides that the pension board may delegate certain responsibilities to RPS.

Segal Comments on Section 8.21

There is no actuarial cost associated with adding this language to the ordinance.

Section 8.24

This new section addresses the correction of overpayments and underpayments. Segal's comments are listed under the following subsections.

Section 8.24(a)

This section provides for RPS to correct any errors and maintain the plan's federal tax-qualified status.

Segal Comments on 8.24(a)

There is no actuarial cost to adding this section to the ordinance.

Section 8.24(b)

RPS shall pay any corrective payment with applicable interest.

Segal Comments on Section 8.24(b)

It is our understanding that this section of the ordinance clarifies existing practice. Accordingly, there is no actuarial impact.

Section 8.24(c)

This section provides that if a member or beneficiary receives an overpayment, RPS shall seek to recoup such overpayment with interest.

Segal Comments on Section 8.24(c)

It is our understanding that this section of the ordinance clarifies existing practice. Accordingly, there is no actuarial impact from the revised provisions of the ordinance.

Section 8.24(d)

This section provides that underpayments and overpayments shall include simple interest at a rate of 5% per annum. If a different interest rate is mandated by the IRS, that rate shall apply instead.

Segal Comments on Section 8.24(d)

It is our understanding that this section of the ordinance effectively clarifies existing practice. Accordingly, there is no actuarial impact from the revised provisions of the ordinance.

Section 8.24(e)

This section provides that RPS shall seek to recoup any overpayment in the following order:

1. Through a lump sum payment by the member or beneficiary.
2. Through equal monthly payments or a lump sum.
3. Through equal monthly offsets of future benefits for the member or beneficiary.

Payments are applied first to interest, then to the overpayments.

Segal Comments on Section 8.24(e)

There is no actuarial impact from the revised provisions of the ordinance.

Section 8.24(f)

This section provides that the monthly repayment amount shall be determined in accordance with guidelines established by the Wisconsin Department of Employee Trust Funds. If certain conditions apply, the repayment amount shall not exceed 5% of the member or beneficiary's monthly pension benefit.

Segal Comments on Section 8.24(f)

It is our understanding that this section of the ordinance clarifies existing practice. Accordingly, there is no actuarial impact from the revised provisions of the ordinance.

Section 8.24(g)

This section provides that RPS shall reduce or waive the overpayment repayment if one of the following conditions applies:

1. The overpayment amount is below the de minimum threshold in section 8.24(i).
2. There is a written settlement between the county and the member or beneficiary per section 8.24(j).
3. An agreement between the County and the IRS provides for the waiver.
4. A determination by RPS that the repayment obligation should be mitigated per section 8.24(h).

Segal Comments on Section 8.24(g)

The actuarial impact to RPS for these various types of waivers will be discussed in the following subsections.

Section 8.24(h)

Section 8.24(h) describes factors that may be considered in determining whether to reduce or eliminate repayment obligations.

Segal Comments on Section 8.24(h)

There is no actuarial cost associated with adding this language to the ordinance.

Section 8.24(i)

This section provides that RPS shall waive a member or beneficiary's repayment obligation if the total of all overpayments with interest is less than \$165.

Segal Comments on Section 8.24(i)

If the total of all overpayments for a member is less than \$165, then the waiver of that repayment obligation is negligible for the system, and does not have an actuarial impact.

If there are a significant number of members with overpayments that are waived under this section, it could have an actuarial impact. Because the overpayment generally results from a monthly benefit being revised to a lower amount, the process of revising the benefit and waiving the overpayment will result in a gain on an actuarial basis, since prior to the revision the valuation was performed using the higher (incorrect) benefit amount.

Section 8.24(j)

This section provides that RPS may settle overpayment issues for members and beneficiaries who commenced payments prior to February 1, 2018. Such a settlement will forgive the overpayment if the member or beneficiary agrees to the benefit recalculation and also agrees to release any and all claims against the county, the county board, the pension board, and the retirement system.

Segal Comments on Section 8.24(j)

If there are a significant number of members with overpayments that are forgiven under this section, it could have an actuarial impact. Because the overpayment generally results from a monthly benefit being revised to a lower amount, the process of revising the benefit and waiving the overpayment will result in a gain on an actuarial basis, since prior to the revision the valuation was performed using the higher (incorrect) benefit amount.

Section 8.24(k)

This section provides that any claim relating to an overpayment or underpayment must be initiated within six years of the date on which the payment was made.

Segal Comments on Section 8.24(k)

There is no actuarial cost associated with adding this language to the ordinance.

Section 8.24(l)

This section provides that section 8.24 shall apply to any overpayment or underpayment that is not subject to an agreement or commitment of correction as of February 1, 2018.

Segal Comments on Section 8.24(l)

There is no actuarial cost associated with adding this language to the ordinance.

Section 11.7

This section of the ordinance concerns the exemption of funds and benefits from taxation, execution and assignment.

The section is amended to allow forfeiture or garnishment of benefits and pensions in the following situations:

- Forfeiture of benefits following certain criminal convictions, as per section 14.8 of the ordinance.
- The member is subject to a lien or levy imposed by either the Internal Revenue Service or the Wisconsin Department of Revenue.

Segal Comments on Section 11.7

In valuing the plan, there is no assumption as to any future criminal convictions that might result in a forfeiture of benefits. Therefore, there is no actuarial cost associated with this provision.

The garnishment of a pension changes the recipient of one or more payments, but it does not change the obligation of the system to make the payment. There is no actuarial cost associated with this provision.

Section 11.8

This section has been expanded to provide that ERS may make reasonable estimates to calculate member benefits when complete information is not available.

Segal Comments on Section 11.8

There is no reason to believe that the reasonable estimates would be biased either in favor of or against members. This is no actuarial cost associated with this provision.

Caveats

Segal is not a law firm and we cannot offer legal advice. The comments in this letter are based on our many years of consulting to employee benefit plans. Readers of this letter should consider retaining appropriate legal counsel if legal advice is needed.

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 let me know if you have any questions. My direct dial is 312 984 8527, or I can be contacted at knicholl@segalco.com.

Sincerely yours,



Kim Nicholl, FSA, MAAA, EA
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