Segal

Geoff Bridges, FSA MAAA EA
Vice President & Consulting Actuary
M 312.597.4175
gbridges@segalco.com

101 North Wacker Drive
Suite 500
Chicago, IL 60606-1724
segalco.com

Via Email

November 15, 2024

Cynthia (CJ) Pahl
Financial Services Manager
Milwaukee County Office of the Comptroller

Re: **Pension Cost Impact – Amendments to Ordinance 201.24**

Dear CJ:

As requested, we estimated the actuarial impact on the Employees' Retirement System of the County of Milwaukee (ERS) of the amendments to ordinance 201.24, as it relates to sections (2.4), (2.7), (2.9), (2.18), (3.11), (4.1), (4.2), (4.3), (4.4), (4.5), (5.16), (8.7) and the creation of new Chapter 201.24(8.25). This letter summarizes the potential actuarial impact of these amendments.

Actuarial Impact

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

Amendments to Ordinance sections 201.24(2.4), (2.7), (2.9), (2.18), (3.11), (4.1), (4.2), (4.3), (4.4), (5.16), (8.7) and creation of new Chapter 201.24(8.25)

Our analysis of the proposed changes in the amendments is that they fall under clarifications and procedural modifications. As we are not familiar with the possible effects these administrative changes would have on participant behavior, we estimate that any effect would be immaterial. However, if the County feels that these changes would result in a material difference in experience if these changes were not implemented, we may discuss with you any possible adjustment to our assumptions and analyze the effect on plan liabilities.

Subject to the caveat in the "Actuarial Impact" section above, we believe there is no actuarial impact from the proposed revisions of these sections of the ordinance.

Amendments to Ordinance section 201.24(4.5)

We estimated the actuarial impact on ERS of the amendments to ordinance 201.24 (4.5), as it relates to vesting all current members, as well as certain former ERS members. The population impacted by the analysis are members who terminated within the last five years and active members who are not vested as of January 1, 2025. The Actuarial Accrued Liability (AAL) for non-vested active members in ERS was $21.8 million prior to vesting. Vesting these members does not materially change the AAL (for many of these members, the deferred benefit is less valuable than the member's accumulated contributions). The Normal Cost (NC) for these members increases from $8.2 million to $8.4 million (an increase of $0.2 million, or 2.4%).

For the non-vested terminated members, the impact on AAL is an increase of $0.1 million. For the terminated members, there is no Normal Cost, and thus no change to NC.

The impact of vesting all these members on ERS' total AAL and NC as of January 1, 2024, are $0.3 million and $0.2 million, respectively.

If the AAL and NC increases had been included in the January 1, 2024, actuarial valuation, the Actual Funding Contribution (AFC) for fiscal year 2024 of $84.3 million and the unfunded actual accrued liability would have immaterially changed.

Methods

The AAL and NC amounts are calculated using the actuarial assumptions and plan provisions described in the Actuarial Valuation and Review as of January 1, 2024, for ERS, dated May 31, 2024. For the non-vested terminated members, Erika Bronikowski provided a listing of 838 members who terminated in the last 5 years and have not received a refund of their contributions. This data was provided on October 22, 2024. Of the 838 members, 135 were active as of the January 1, 2024, valuation, and are already accounted for in the non-vested actives portion of this analysis. The liability impact of the remaining non-vested terminated members is assumed to be proportional to the impact on the non-vested active members that were included in the January 1, 2024, actuarial valuation (measured on a termination basis). Any proposed amendments adopted would not change the January 1, 2024, actuarial valuation results, and these are used as a proxy for the effect on plan costs.

Risk Disclosure

Actuarial valuation results depend on a single set of assumptions, however, there is risk that emerging results may differ as actual experience may unfold differently than assumed. Our analysis assumes that the expected retirement pattern (i.e., the inactive vested retirement assumption) remains unchanged after the amendment. To the extent that these amendments alter the timing and rate at which inactive vested members retire, the impact on the AAL, funded percentage, AFC, etc., may be different that that shown in this analysis. As detailed in our valuation report, this would be defined as a "demographic risk."

Legal Considerations

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.

Certification

The information in this letter is subject to the caveats and limitations of use described in the 2024 actuarial valuation report. This letter has been prepared for the Milwaukee County Office of the Comptroller.

I am a member of the American Academy of Actuaries and I meet the Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States of the American Academy of Actuaries to render the actuarial opinion contained herein.

Please let me know if you have any questions. My cell phone number is 312-597-4175, or I can be contacted at gbridges@segalco.com.

Sincerely,

Geoff Bridges

Geoff Bridges

cc: Matt Strom