Options for New Plan Design-
Using a Hybrid Design for ERS

Milwaukee County Retirement Sustainability Taskforce

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Public Sector Retirement Systems Project

The Pew Charitable Trusts

- More than 40 active, evidence-based research projects
- Projects include public safety, immigration, elections, transportation, pensions, and state tax incentives
- All follow a common approach: data-driven, inclusive, and transparent

Pew's Public Sector Retirement Systems Project

- Research since 2007 includes 50-state trends on public pensions and retiree benefits relating to funding, investments, governance, and employee preferences
- Technical assistance for states and cities since 2011

Presentation Overview

- Considerations for Hybrid Proposal
- Fiscal Metrics
- Retirement Security Metrics
- Summary of New Plan Design Results
- Issues to Consider
- Preview of May Discussion
- Conclusion

THE PEW CHARITABLE TRUSTS

Considerations for Hybrid Proposal

Key Decision: Close ERS vs. Modify ERS Benefits

- The proposals to transition new, and potentially current, employees to either WRS or to a DC plan would involve closing ERS to new entrants.

- Alternatively, a hybrid plan design reflects a way to change ERS benefits to make costs more predictable while continuing to operate ERS as the pension benefit provider in Milwaukee County.

- Tradeoffs beyond costs and benefits of new plan design choice.

- Even if ERS is closed to new entrants, it will operate for decades as current employees and retirees receive promised benefit checks.

Plan Design Decisions—Side-by-Side Hybrid

- A side-by-side hybrid design involves a final average salary defined benefit along with a defined contribution account.
  - The DB has a smaller multiplier in a hybrid than as the sole benefit—typically 1%.
  - The DC has automatic employer contributions, employee contributions, or both.

- A risk-managed hybrid is a side-by-side hybrid with additional design elements on the DB side to keep employer costs predictable.

- Key hybrid design questions.
  - What multiplier to use for the DB?
  - Should other DB provisions remain the same or be altered?
  - What employer contribution, if any, should go towards the DC account?
  - What should the employee contribution be and how should that be split between DB and DC?

Assumptions for Modeling

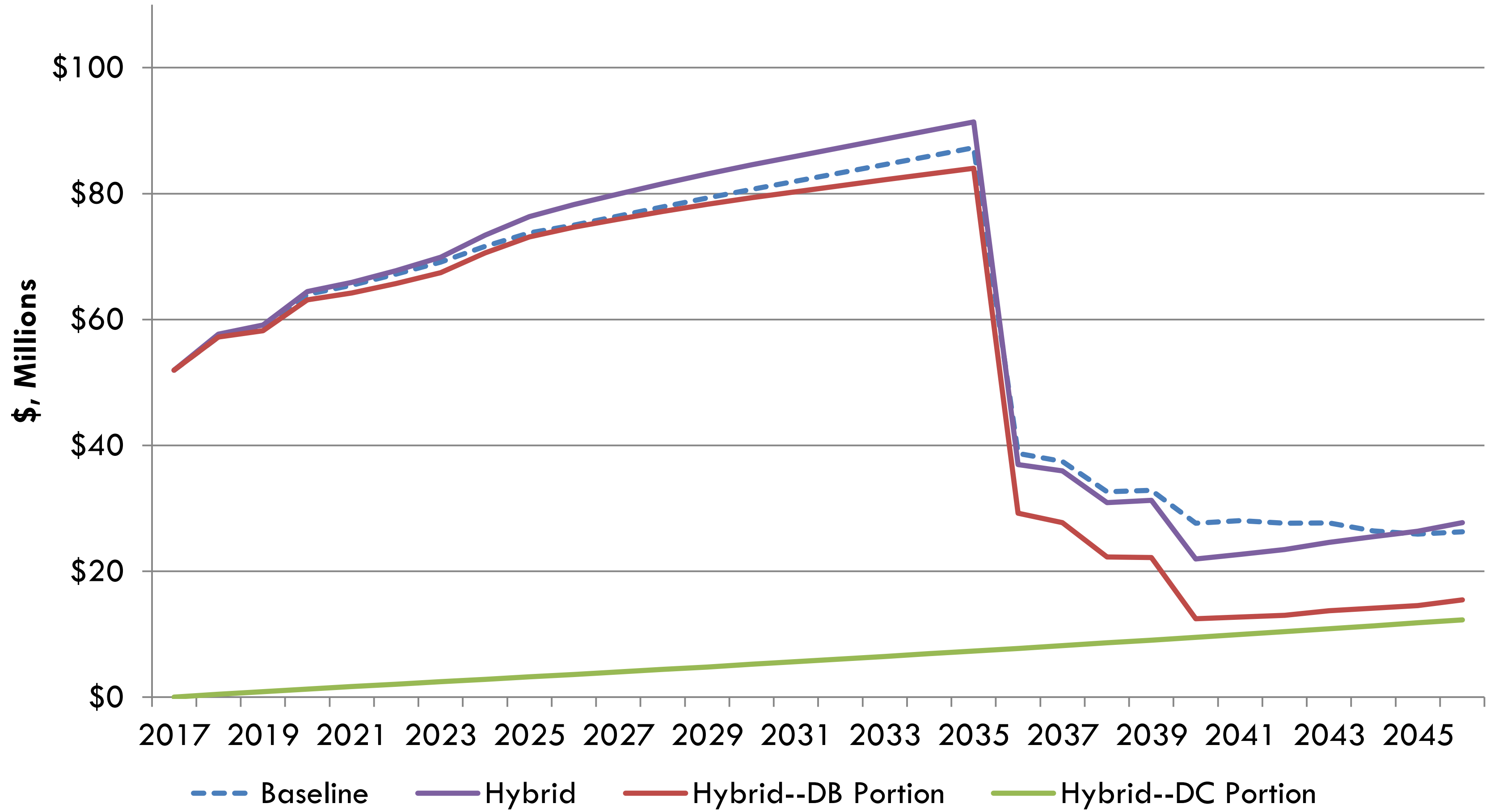
- Total employer contribution approximately matches current expected normal cost for DB benefits.
- Employee contribution to the DC set at half the 2019 contribution rate.
- DC accounts grow either at a long-term estimated return (7%) or at a lower rate (5%).
- To compare benefit levels, we assume workers annuitize using plan assumptions for longevity and a 4% return assumption.
- Employer is assumed to continue to offer death and disability benefits; contribution rate for those is taken from the 2016 valuation.
- Fiscal modeling assumes hybrid maintains employee contribution risk share provisions as they are currently structured. Benefit modeling also includes example of WRS-style COLA.

Hybrid Design to Model

	Current Plan: MilCo ERS After 8/1/2011	Risk Managed Hybrid Design
DB		
Multiplier	1.60%	0.8%
COLA	2%	2%
Employee Contribution to DB	Actuarially determined	Actuarially determined
Vesting Schedule	5 years	5 years
Normal Retirement	64	64
Early Retirement	55 w/ 15 YOS	55 w/ 15 YOS
Early Retirement discount factor	5% each year	5% each year
DC		
Employee Contribution to DC	n/a	3.6%
Employer Contribution to DC	n/a	2.25%
Vesting Schedule	n/a	5 year
Risk Management Tools		
	• Employee contribution cost sharing on active share of UAAL.	• Employee contribution cost sharing on active share of UAAL. • Can include WRS-style COLA provisions.

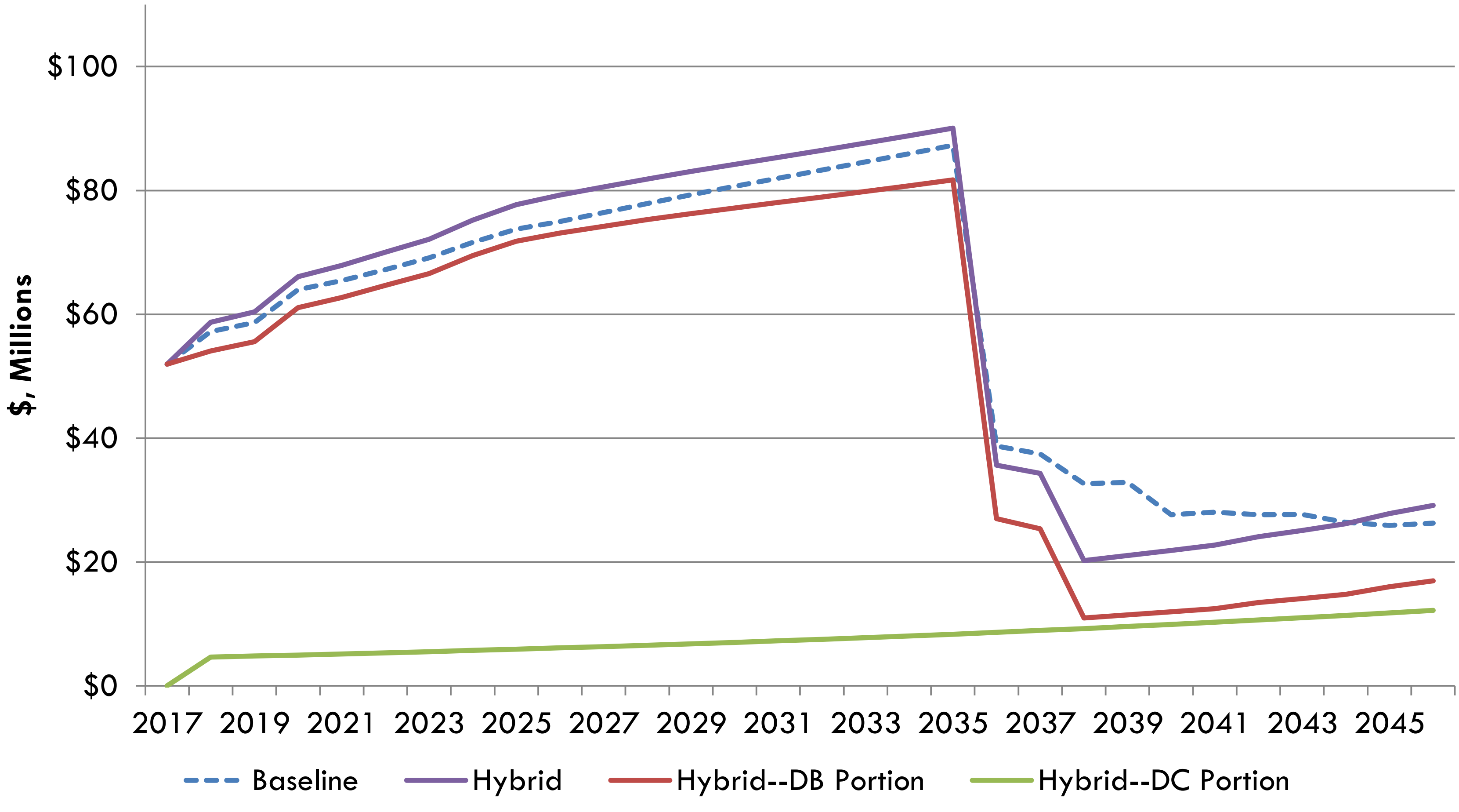
Fiscal Metrics

Expected Employer Costs, New Employees in Hybrid



Notes:
Actuarial projections done by The Terry Group based on Milwaukee County ERS plan assumptions. Updated using additional data from Segal.

Expected Employer Costs, All Employees in Hybrid



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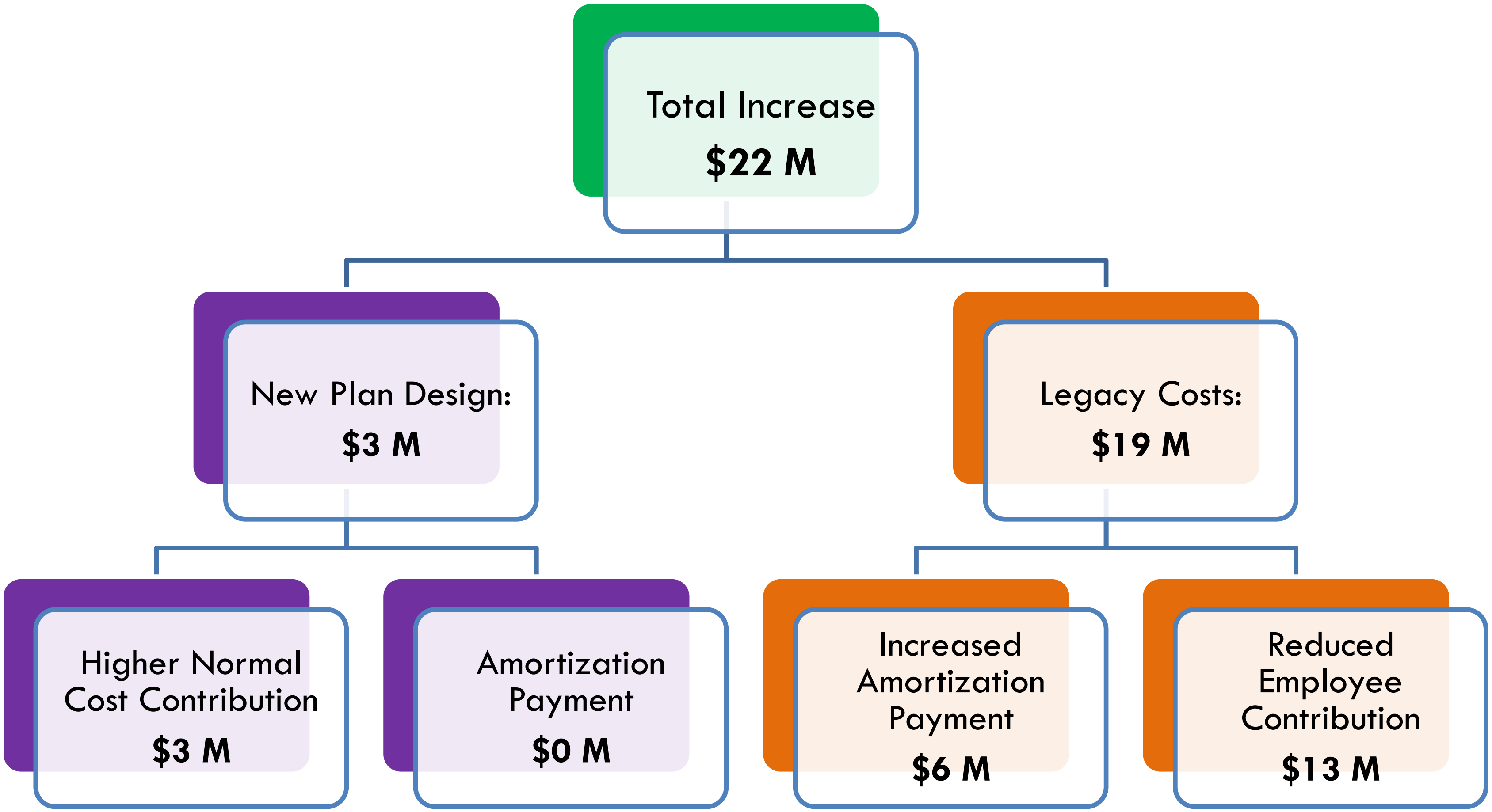
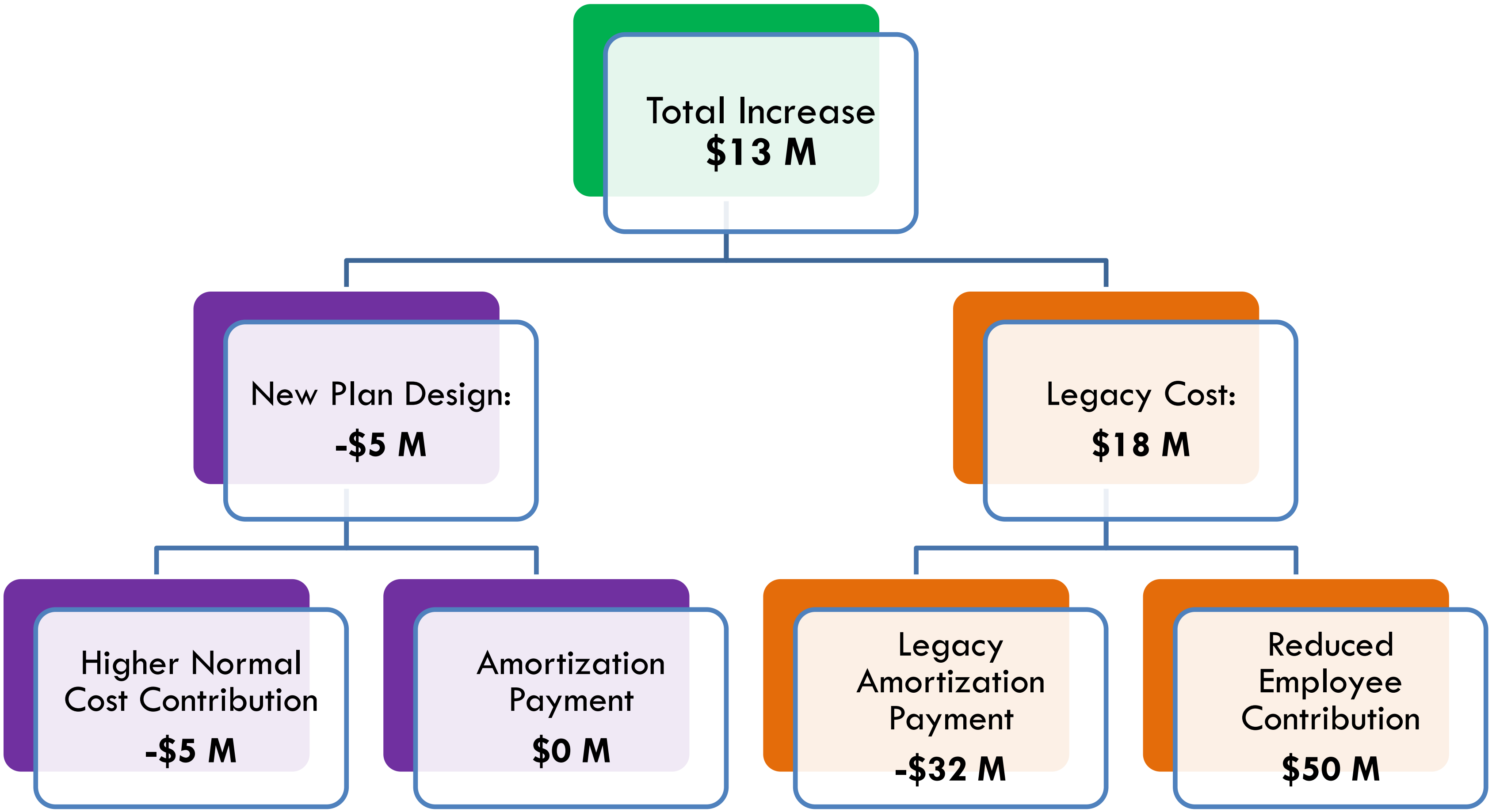
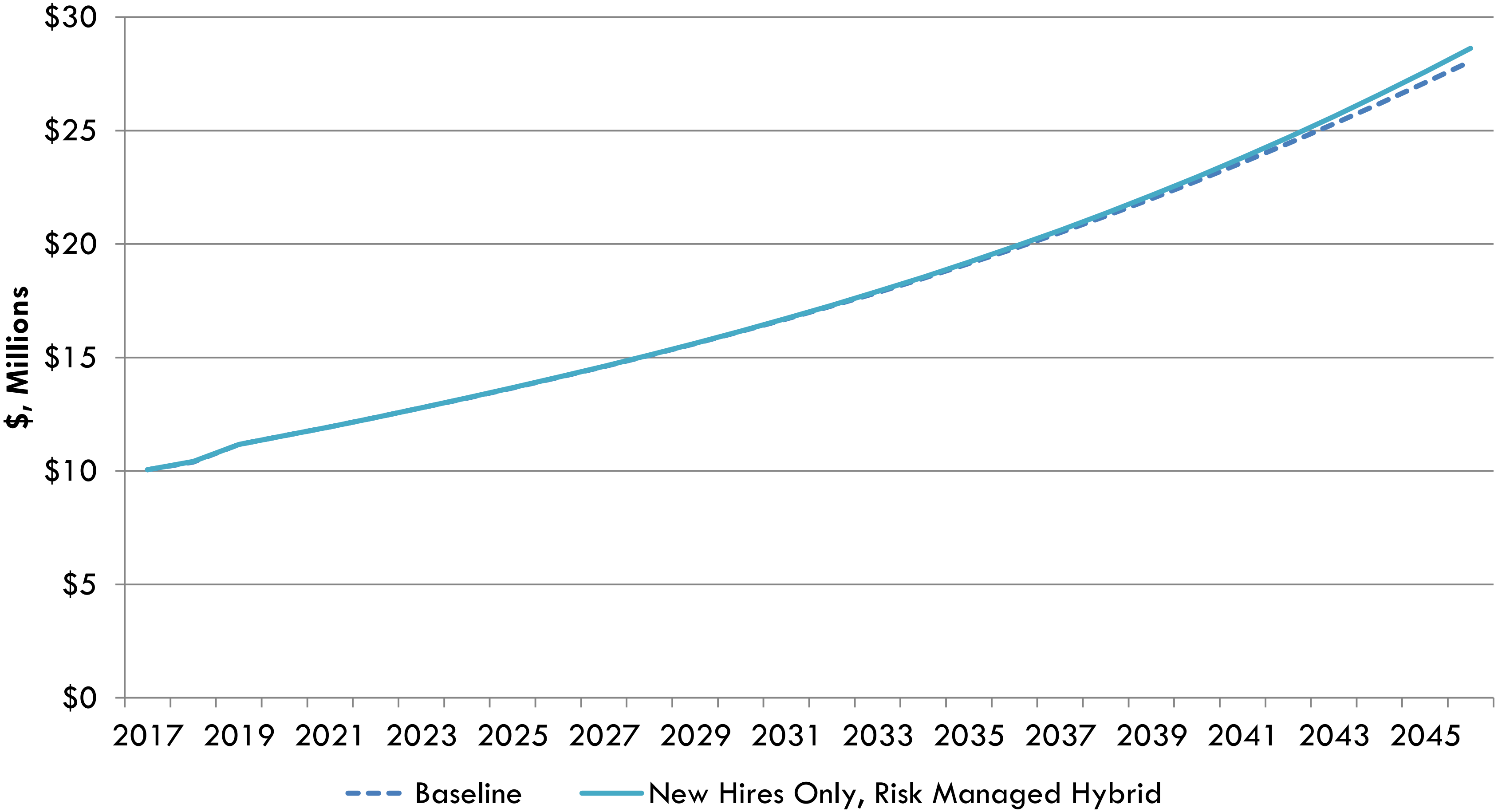
Breaking Down the Increased Employer Costs: New Employees in Hybrid (2017-2046)



Breaking Down the Increased Employer Costs: All Employees in Hybrid (2017-2046)



Expected Employer Normal Costs, New Employees in Hybrid



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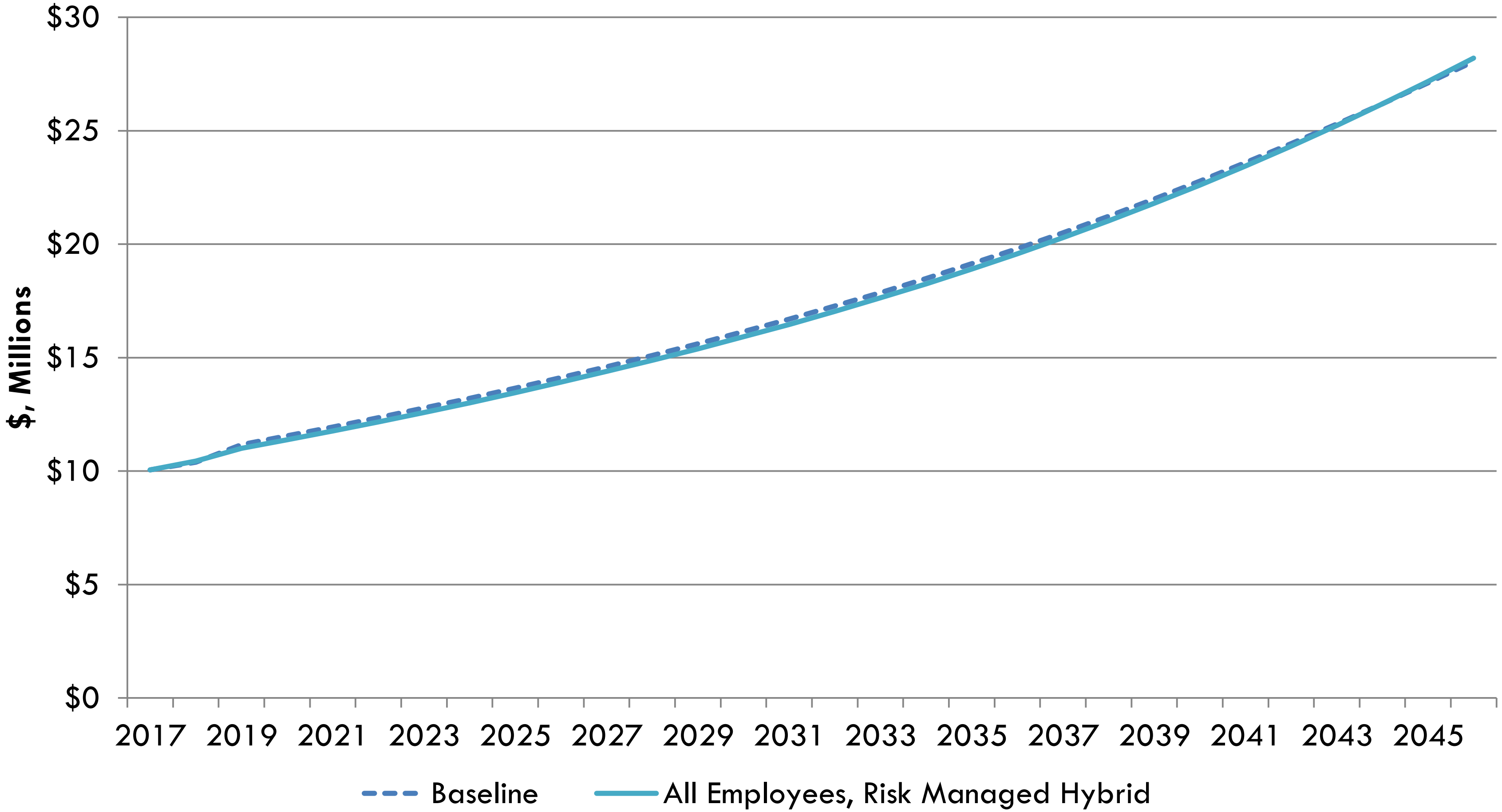
Expected Employer Normal Costs, All Employees in Hybrid



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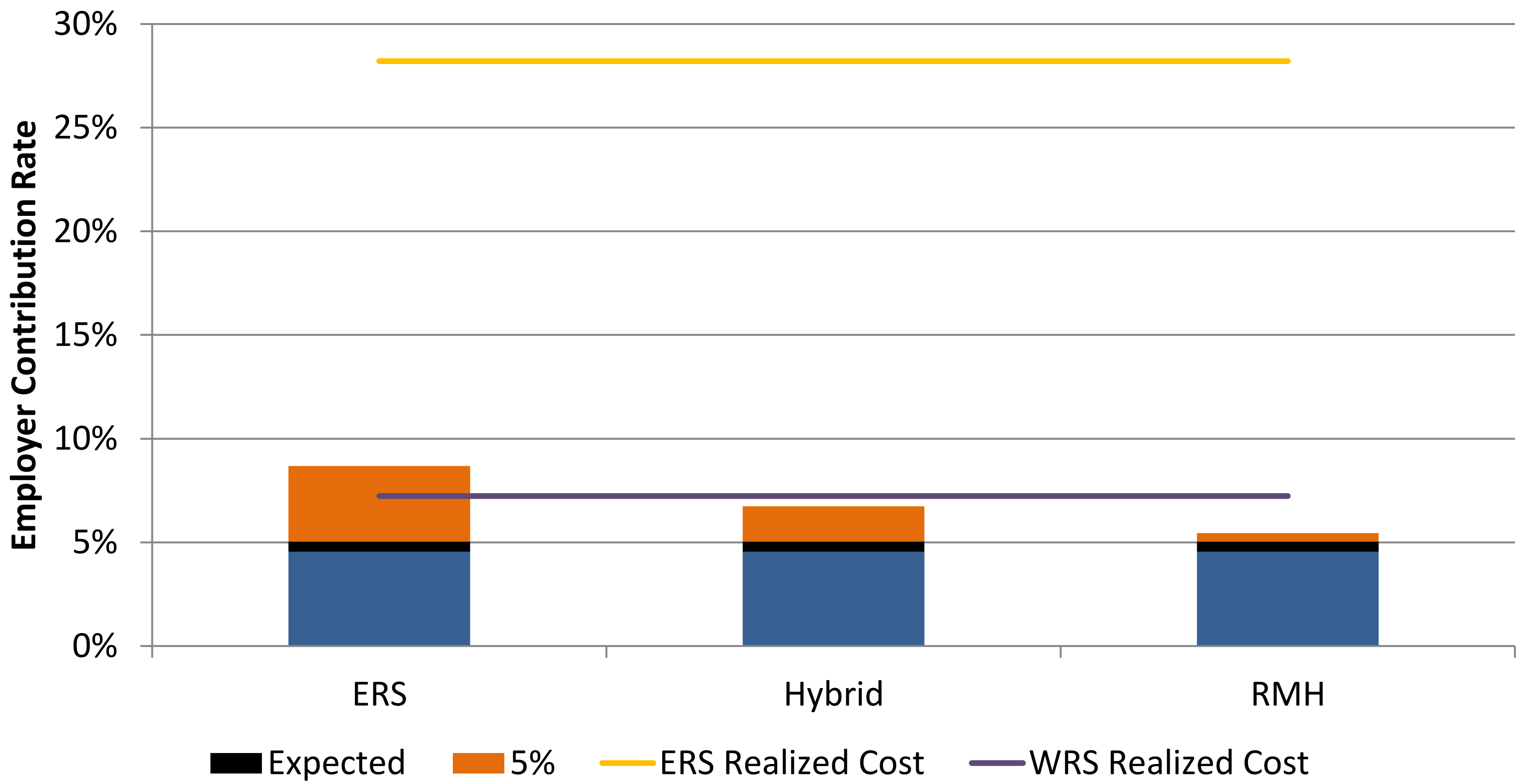
Long-term Expected Cost and Risk for New Employees

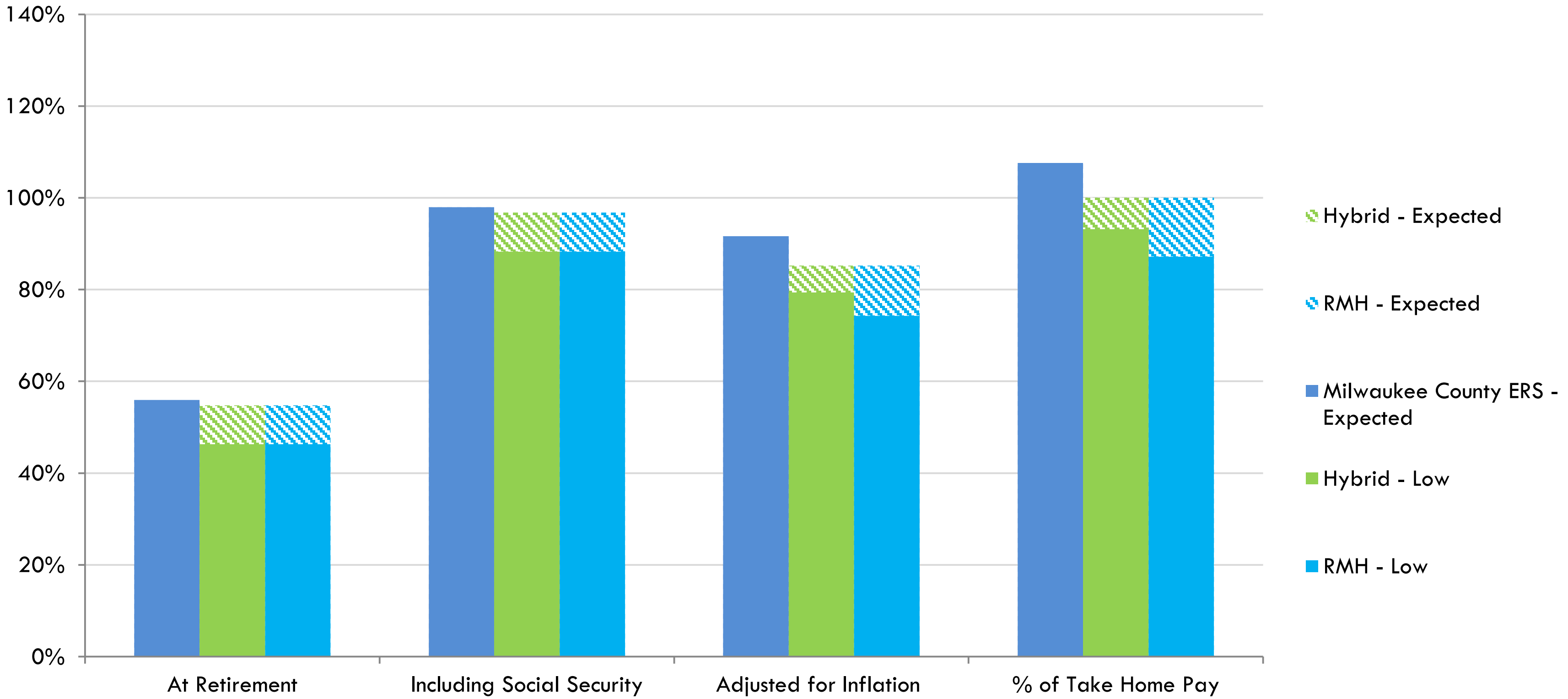
Normal Cost Sensitivity, Current Plan and Alternatives



Notes:
Sample DC is based on Option 2. Risk Managed Hybrid includes both employee contribution cost-sharing and WRS-style COLA provisions. Realized cost for ERS and WRS based on FY 2019 employer contribution rates.

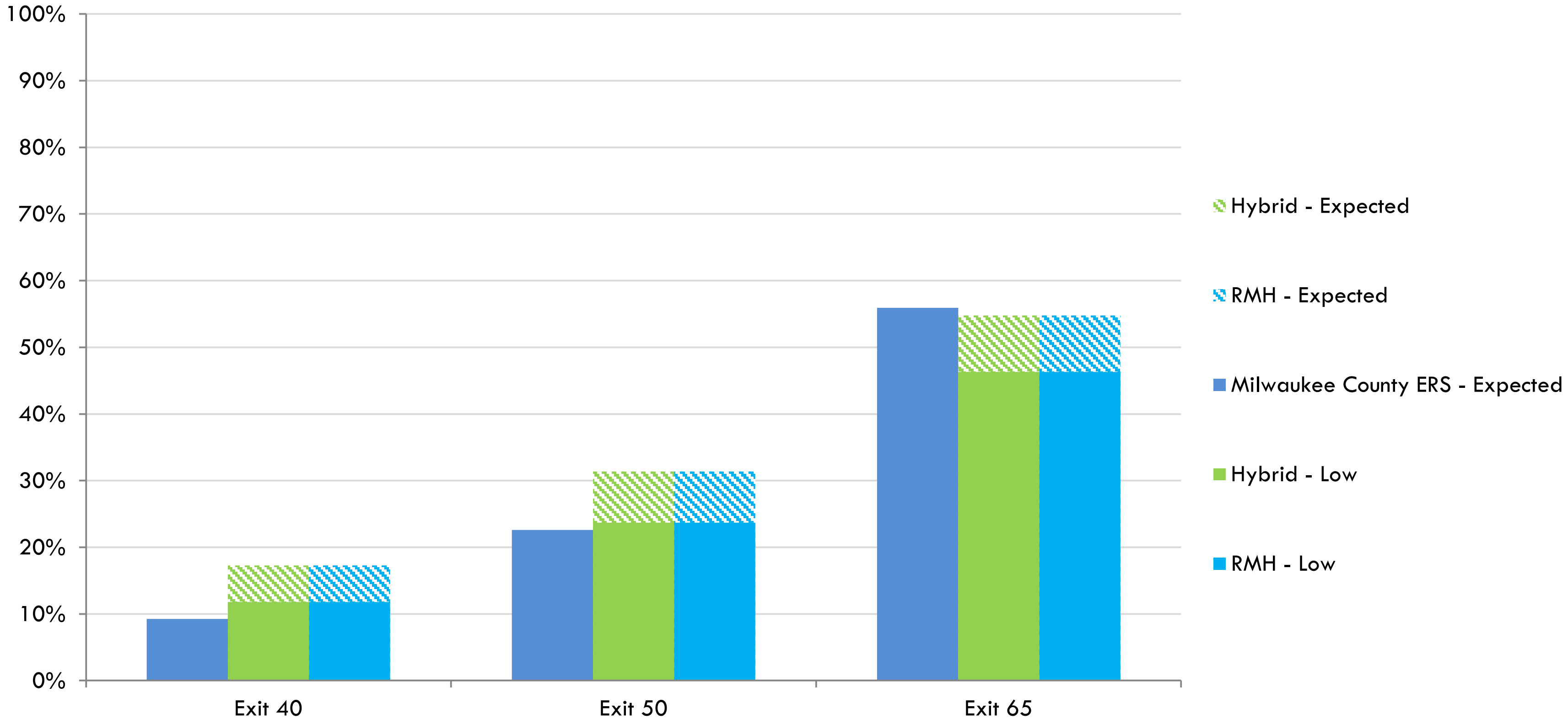
Retirement Security Metrics

Replacement Income—Career Worker



Notes:
Pew analysis using ERS actuarial assumptions for salary growth and inflation. Expected return for DC plans is 7%; low return scenario is 5%. Annuitization is calculated using plan mortality assumptions and a 4% return assumption. Risk Managed Hybrid does not include a COLA in the low return scenario. DC plan does not include a COLA.

Replacement Income—Mid-Career Worker



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Replacement Income—Career Worker

		ERS	Hybrid	Risk Managed Hybrid
At Retirement	Expected Returns	56%	55%	55%
	Low Returns	56%	46%	46%
Including Social Security	Expected Returns	98%	97%	97%
	Low Returns	98%	88%	88%
Adjusted for Inflation	Expected Returns	92%	85%	85%
	Low Returns	92%	79%	74%
% Take Home Pay	Expected Returns	108%	100%	100%
	Low Returns	108%	93%	87%

Notes:
Pew analysis using ERS actuarial assumptions for salary growth and inflation.

Replacement Income—Mid-Career Worker

		ERS	Hybrid	Risk Managed Hybrid
Exit 40	Expected Returns	9%	17%	17%
	Low Returns	9%	12%	12%
Exit 50	Expected Returns	23%	31%	31%
	Low Returns	23%	24%	24%
Exit 64	Expected Returns	56%	55%	55%
	Low Returns	56%	46%	46%

Notes:
Pew analysis using ERS actuarial assumptions for salary growth and inflation.

Summary of New Plan Design Results

DC Plans to Model

Varied Employer Contributions to the DC, Employee Contributions are Fixed at 2019 Rate

Option	Employer Contribution Rate	Employee Contribution Rate (General/Public Safety)	Description
1A	1.8%	7.2%/8.5%	Employer contribution calculated to match 2019 employer normal cost rate
1B	4.5%	7.2%/8.5%	Employer contribution calculated to match 2019 employer normal cost rate if there was no unfunded liability
2	5%	7.2%/8.5%	Employer contribution calculated as the amount expected to match the replacement income for a career worker.
3	7%	7.2%/8.5%	Employer contribution equal to the median employer contribution to public sector DC plans. Note that these are typically optional plans. Median employee contributions are 3%

Total Employer Contribution for Each Option, 2017-2046

	Employer Costs	Baseline	WRS	DC, 1A	DC, 1B	DC, 2	DC, 3	Risk-Managed Hybrid
Soft Freeze	**Total**	**$1,723**	**$1,924**	**$1,571**	**$1,773**	**$1,810**	**$1,960**	**$1,745**
	ERS Costs	*$1,723*	*$1,399*	*$1,399*	*$1,399*	*$1,399*	*$1,399*	*$1,565*
	New Plan Costs	*$0*	*$524*	*$172*	*$374*	*$411*	*$560*	*$179*
Partial Freeze, Salary Increase†	**Total**	**$1,723**	**$2,104**	**$1,629**	**$1,886**	**$1,933**	**$2,123**	**$1,736**
	ERS Costs	*$1,723*	*$1,411*	*$1,411*	*$1,411*	*$1,411*	*$1,411*	*$1,508*
	New Plan Costs	*$0*	*$693*	*$218*	*$474*	*$522*	*$712*	*$228*

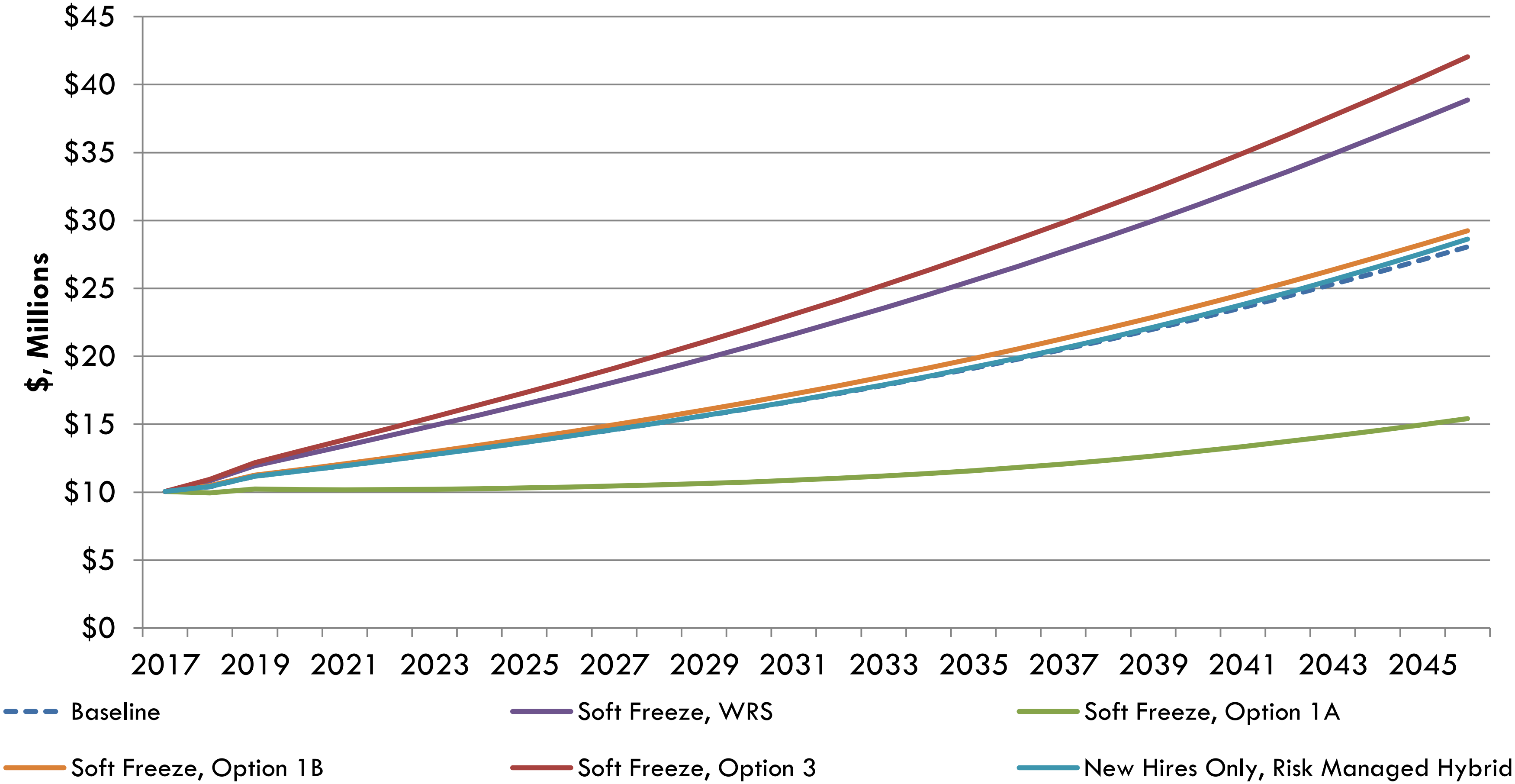
Notes

These DC figures assume an extra half percent in DC employer contributions to replace death and disability benefits.

Parts might not total due to rounding.

† The partial freeze assumes that salary growth, retirement eligibility, vesting, and inflation growth would be carried over from the defined benefit system to the defined contribution system for purposes of determining the ultimate defined benefit at retirement.

Expected Employer Normal Costs in Soft Freezes, Assumed Rate of Return



Notes:
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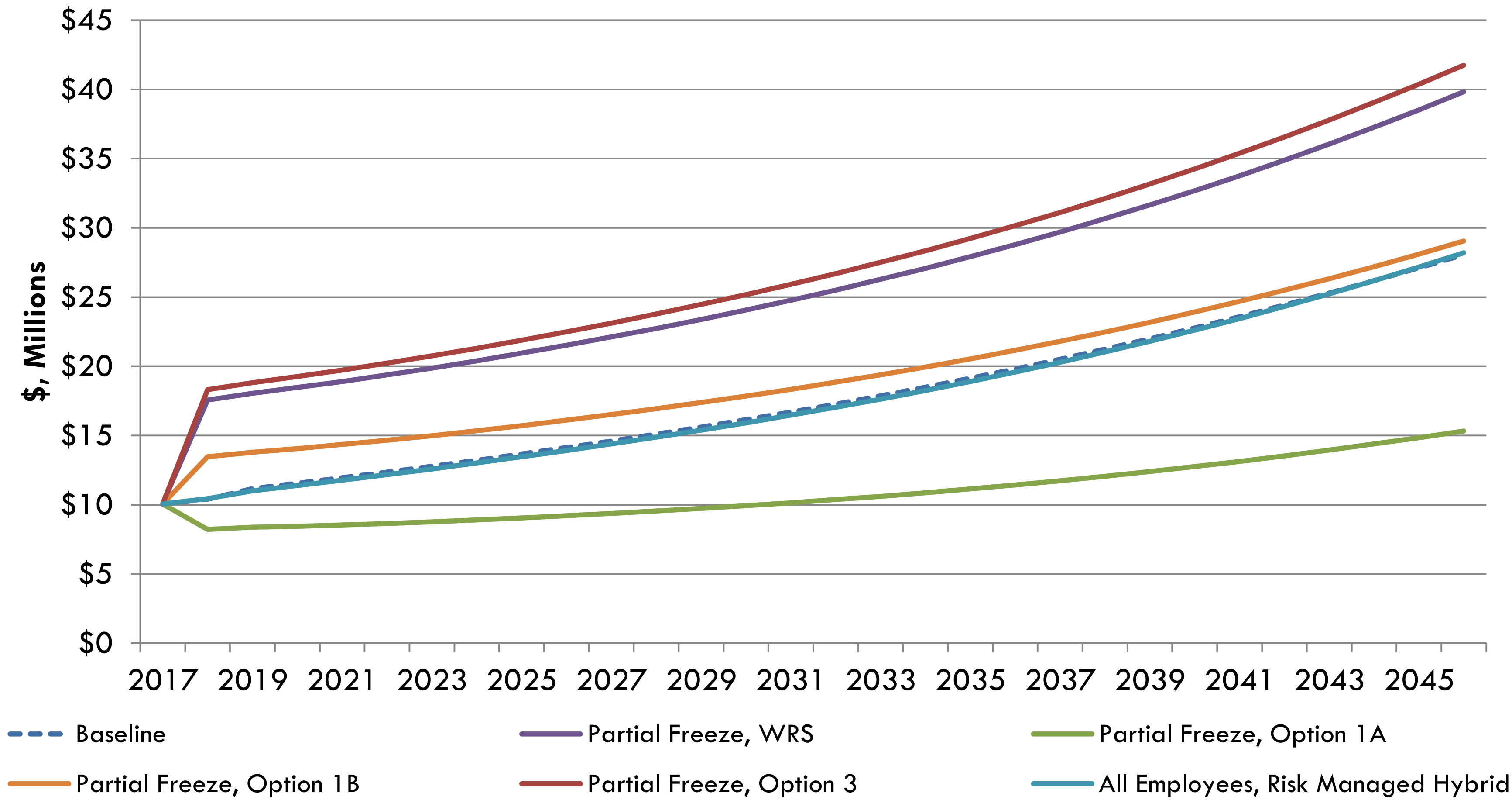
Expected Employer Normal Costs in Partial Freeze with Salary Increase, Assumed Rate of Return



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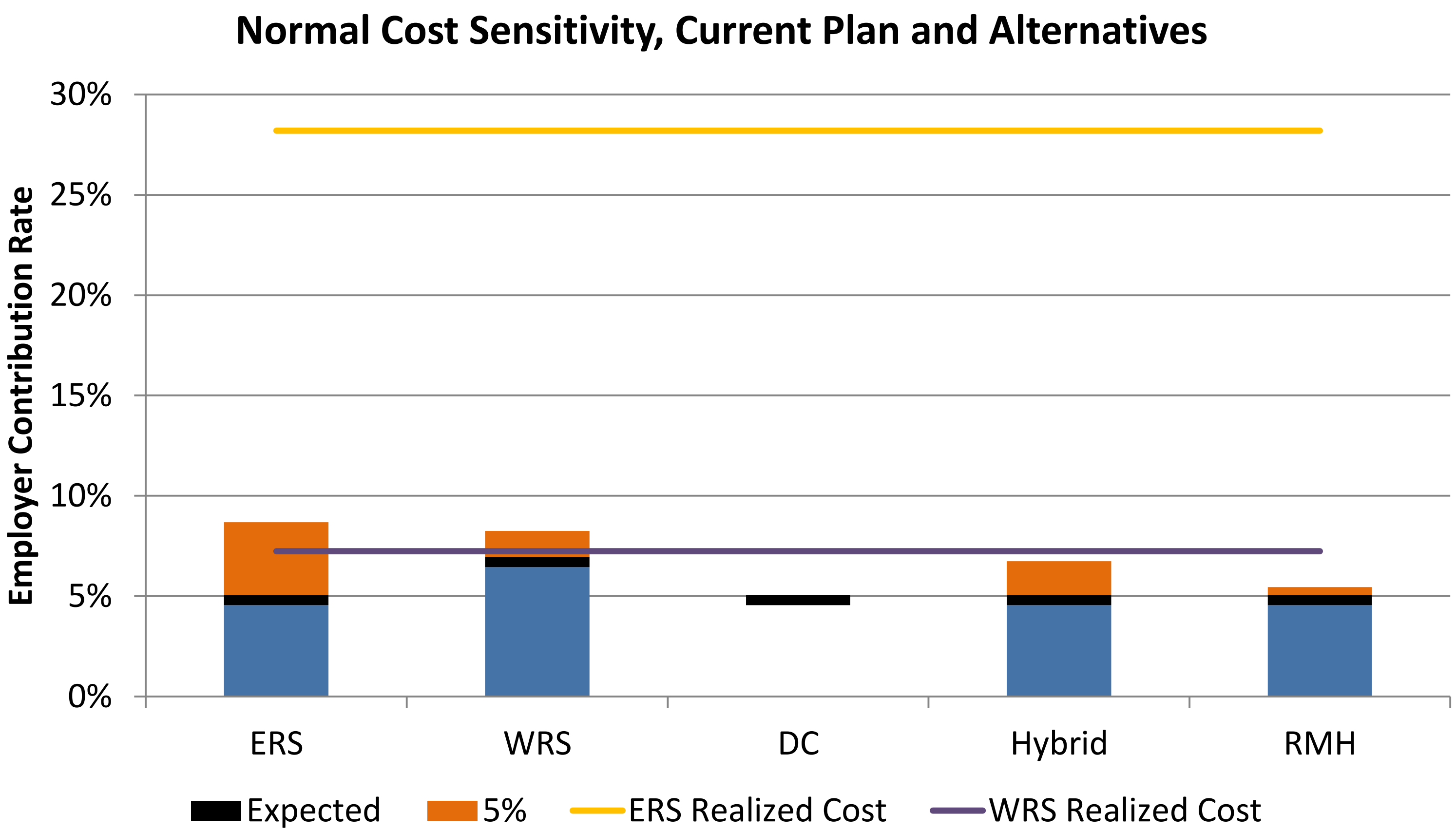
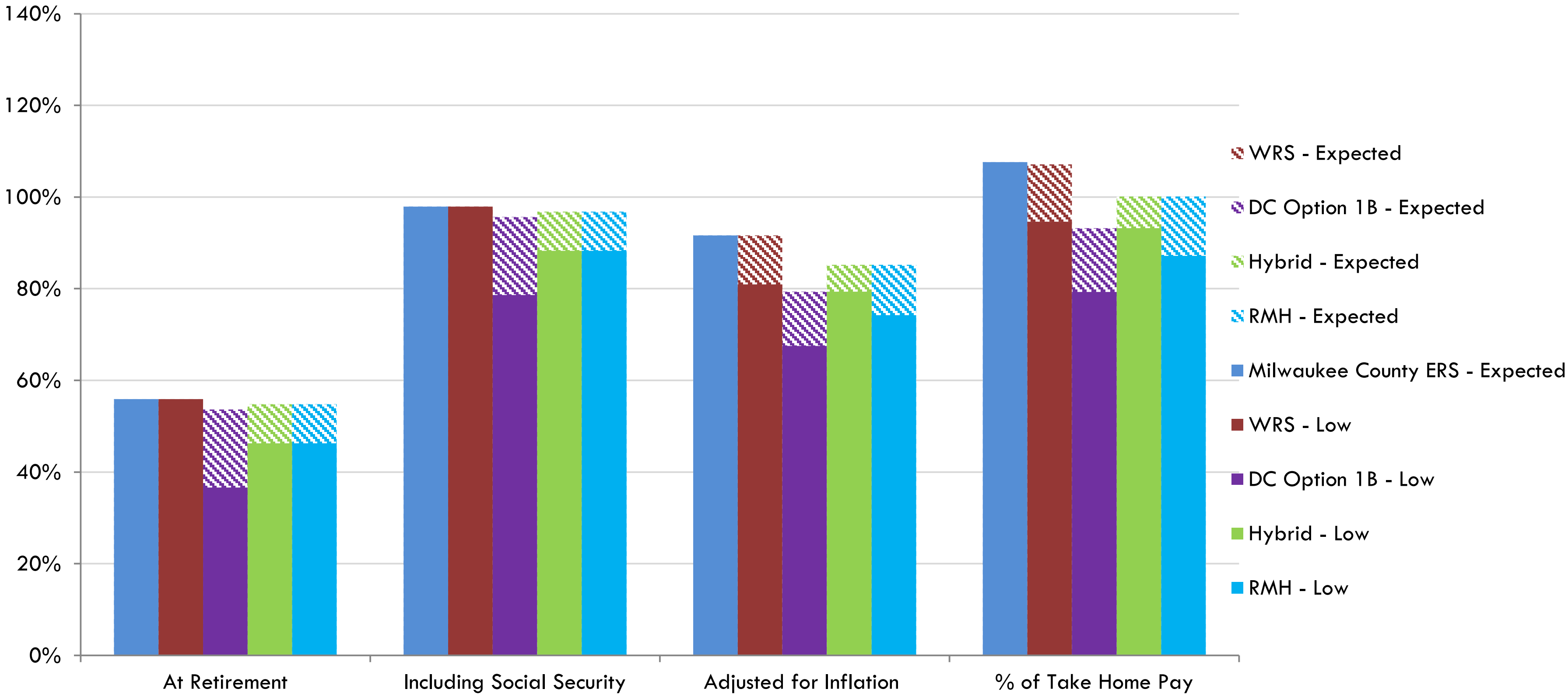
Long-term Expected Cost and Risk for New Employees



Notes:
Sample DC is based on Option 1B. Risk Managed Hybrid includes both employee contribution cost-sharing and WRS-style COLA provisions. Realized cost for ERS and WRS based on FY 2019 employer contribution rates.

Replacement Income—Career Worker



Notes:
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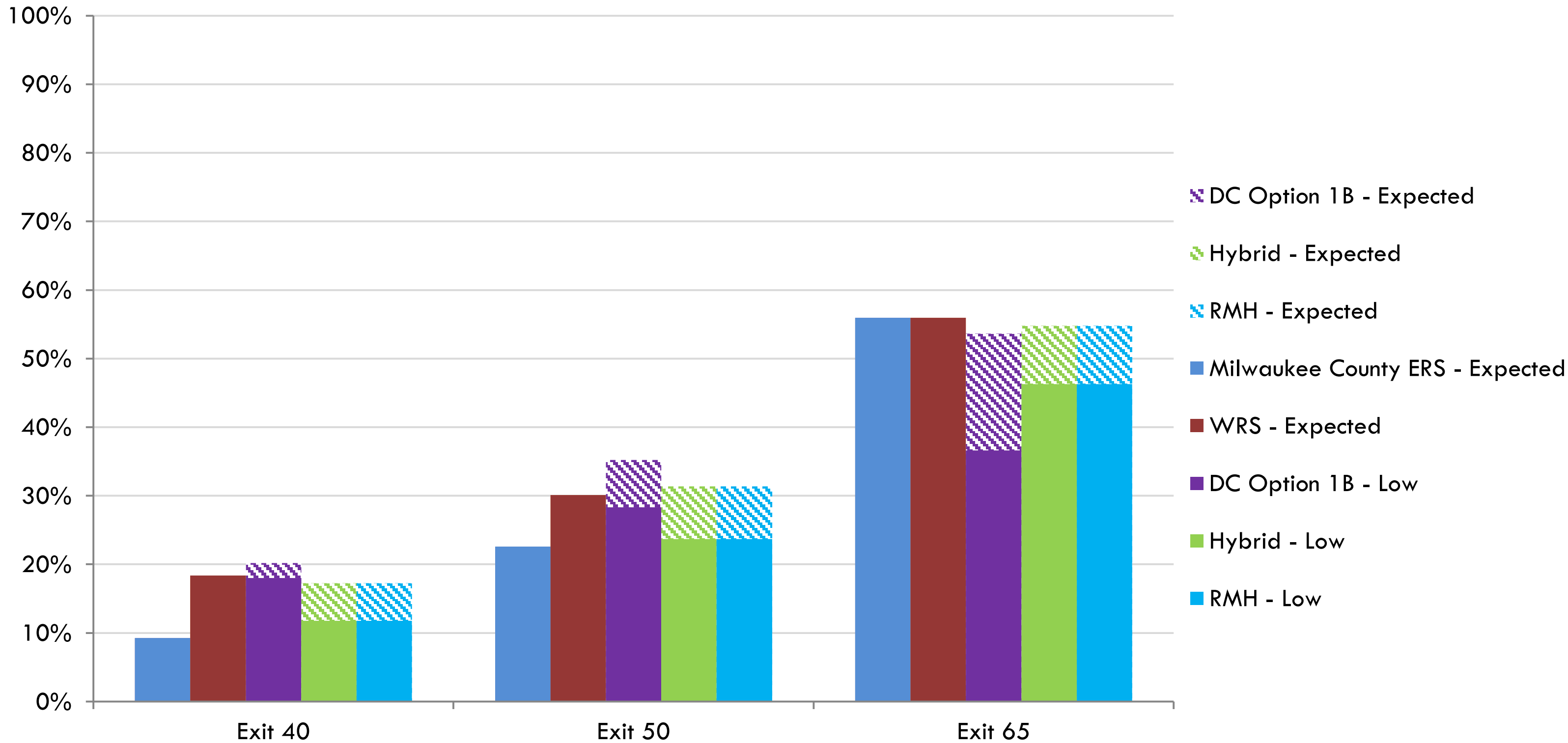
Replacement Income—Mid-Career Worker



Notes:
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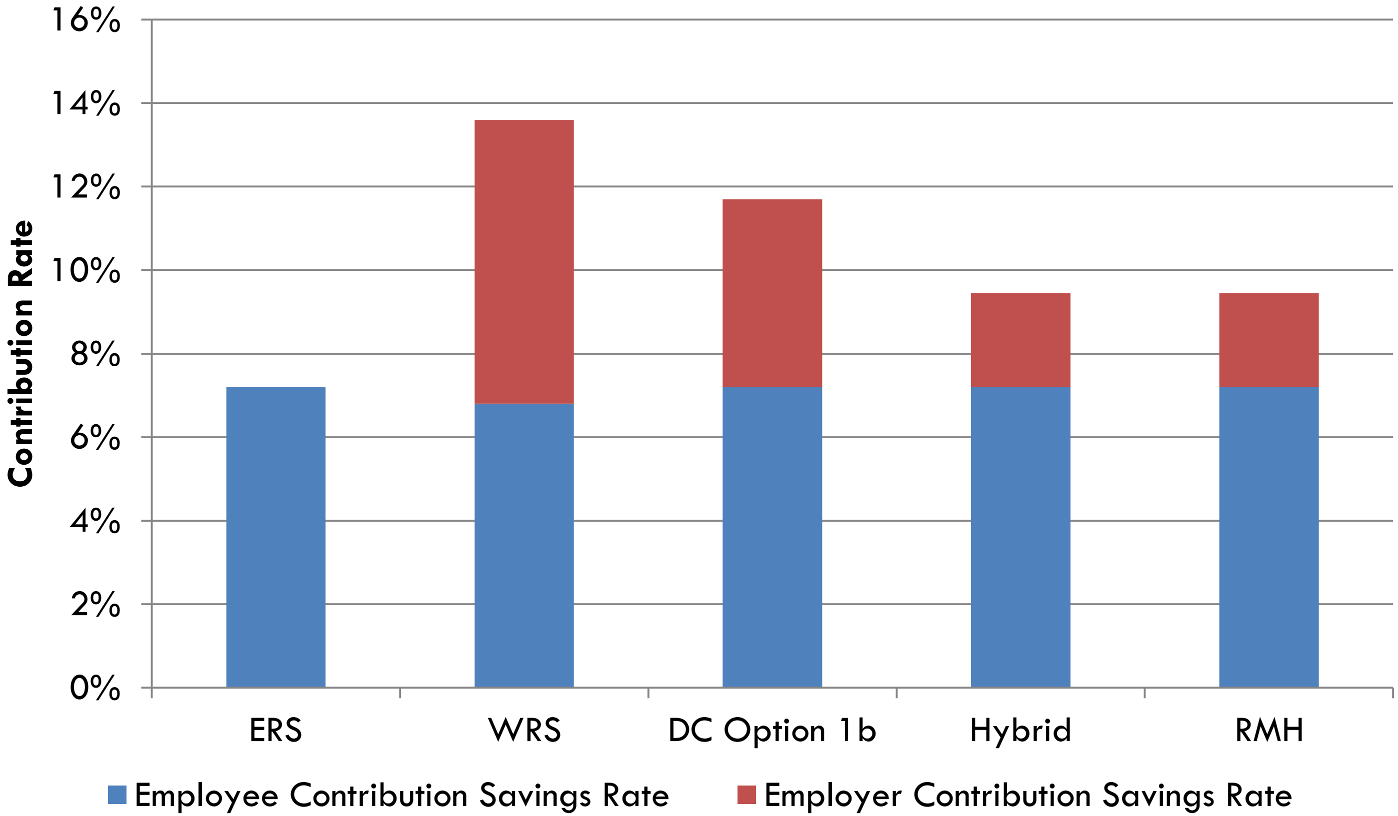
Retirement Savings Rate



Notes:
Based on 2019 employee contribution rates. Employee contribution rates for ERS vary based on actuarial projections..

Replacement Income—Career Worker

		ERS	WRS	DC Option 1b	Hybrid	Risk Managed Hybrid
At Retirement	Expected Returns	56%	56%	54%	55%	55%
	Low Returns	56%	56%	37%	46%	46%
Including Social Security	Expected Returns	98%	98%	96%	97%	97%
	Low Returns	98%	98%	79%	88%	88%
Adjusted for Inflation	Expected Returns	92%	92%	79%	85%	85%
	Low Returns	92%	81%	68%	79%	74%
% Take Home Pay	Expected Returns	108%	107%	93%	100%	100%
	Low Returns	108%	95%	79%	93%	87%

Notes:
Pew analysis using ERS actuarial assumptions for salary growth and inflation.

Replacement Income—Mid-Career Worker

		ERS	WRS	DC Option 1b	Hybrid	Risk Managed Hybrid
Exit 40	Expected Returns	9%	18%	20%	17%	17%
	Low Returns	9%	18%	18%	12%	12%
Exit 50	Expected Returns	23%	30%	35%	31%	31%
	Low Returns	23%	30%	28%	24%	24%
Exit 64	Expected Returns	56%	56%	54%	55%	55%
	Low Returns	56%	56%	37%	46%	46%

Notes:
Pew analysis using ERS actuarial assumptions for salary growth and inflation.

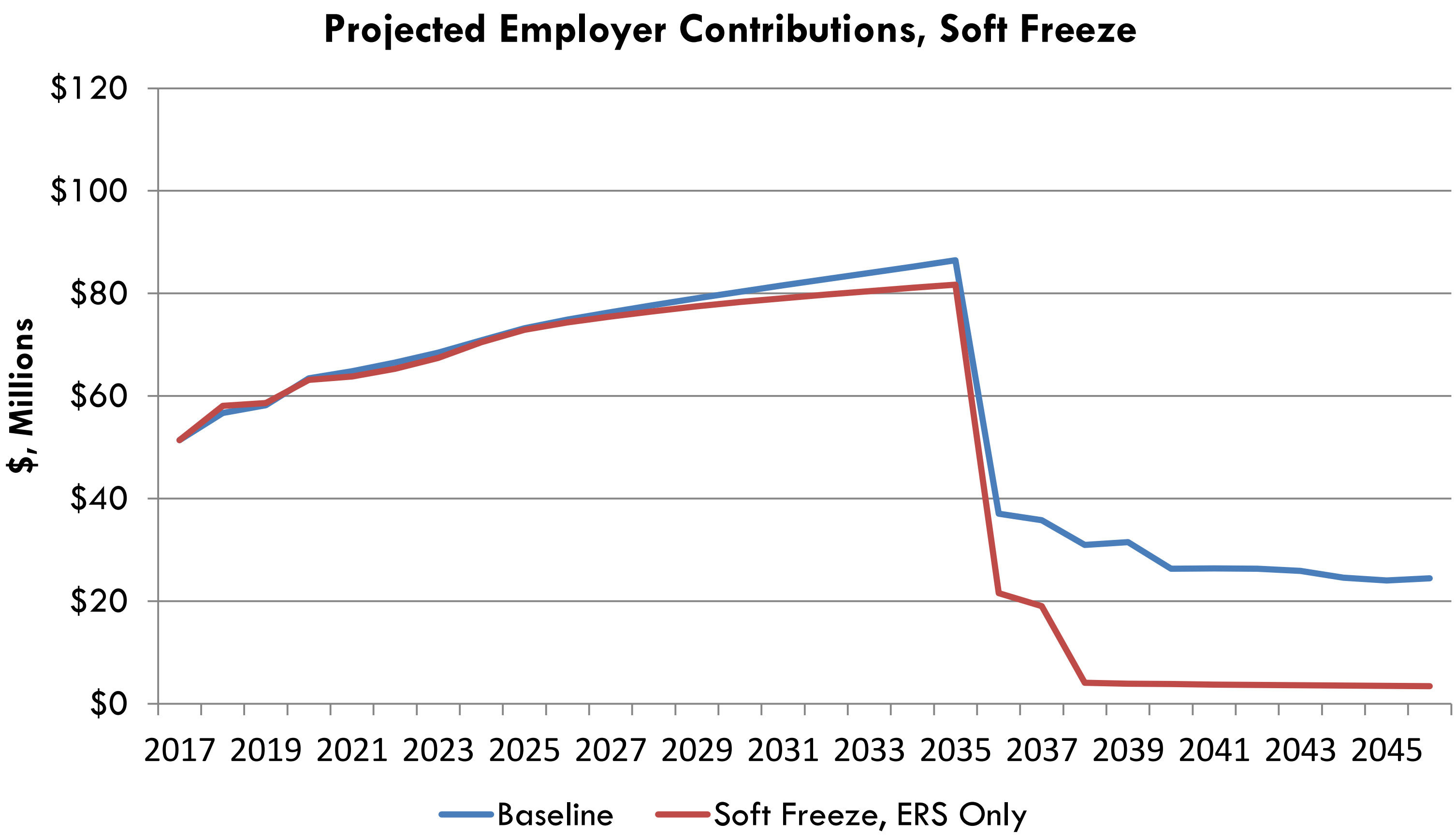
Issues to Consider

Key Questions

- Should ERS be kept open or closed to new hires?
- What is an affordable cost for new hires?
- How should future hires contribute to the existing unfunded liability?
- What plan design would best match Milwaukee County's recruitment and retention needs?
- How can Milwaukee County better manage risk and cost-uncertainty?
- Are there plan designs that would be excessively challenging to administer?
- Should current employees be included in the new plan design?

Preview of May Discussion

Already Promised Benefits will Make Up the Bulk of Milwaukee County Pension Costs through 2037



Notes:
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Considerations for Milwaukee County Regarding Existing Pension Liabilities

- Identify a contribution policy and set of assumptions that will ensure promised benefits are paid, costs are sustainable, and risks are manageable.

- Decide if there are changes to current employee and retiree benefit provisions that may be appropriate given legal requirements and the county's fiscal necessity and that would not result in a benefit that falls short of providing retirement security.

- Put in place tools to manage the existing and future liabilities including stress testing to monitor the long-term fiscal health of ERS under a range of investment scenarios.

Conclusion

Conclusion

- A hybrid option for ERS would allow Milwaukee County to offer a benefit with more predictable costs through the existing retirement system.
- A key decision for the county is whether closing ERS to new entrants is an explicit goal.
- Example hybrid modeled in this analysis is designed to keep costs approximately the same but make employer contributions more predictable.
- This design would lead to lower benefits for career workers and result in more volatility. Short- and medium-term workers can end up accruing more retirement savings.
- New plan design will not eliminate the need to have a credible plan to pay for existing promises.
- There are a range of options available to Milwaukee County to provide a benefit to new hires that puts workers on a path to a secure retirement while making costs more predictable.

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