

July 19, 2011

Supervisor Paul M. Cesarz
Chairman
Pension Study Commission
901 N. 9th St.
Milwaukee, WI 53233

RE: Actuary's Review Proposed Ordinance Amendment to the Employees' Retirement System for Various Employee Groups

Dear Supervisor Cesarz,

As requested, we have analyzed the actuarial impact on the Milwaukee County Employees' Retirement System of the attached, proposed ordinance amendment. If adopted, this amendment would decrease the multiplier from 2.0% to 1.6% for current members' future service & future hires' total service, and it would increase the normal retirement age to 64 for future hires only. These changes either have been applied or are anticipated to be applied for all employee groups within the County. The non-represented employees, excluding elected officials and deputy sheriffs, were the subject of our December 4, 2009 analysis. These provisions were enacted for non-represented members as part of the January 1, 2010 valuation. These provisions were agreed to by the Association of Milwaukee County Attorneys (Attorneys), TEAMCO, and the Machinists in their most recent bargaining agreements. The impact was implemented effective with the January 1, 2011 valuation for these three groups. Our analysis of the impact on Federation of Nurses and Health Professionals (FNHP) was analyzed in our June 17, 2011 letter and will be implemented in the next valuation. This analysis covers AFSCME District County 48 (DC48) employees and Building Trades of Milwaukee County (Building Trades) employees in detail. In addition, we will discuss in broad terms the impact of these provisions on the Association of Milwaukee County Attorneys, TEAMCO, and the Machinists given these results have already been reflected in the actuarial valuation.

Actuarial Analysis

DC 48

The ordinance amendment affects current and future represented DC 48 employees, which included 2,870 employees as of January 1, 2011. We have estimated that a decrease in multiplier to this group's future service would decrease the total present value of benefits as of January 1, 2011 from \$2.220B to \$2.202B. This change would also decrease the present value of future normal cost as of January 1, 2011 from \$127.7M to \$114.6M. The overall effect would be a **decrease** in the annual contribution from \$26.8M to \$24.6M, or \$2.2M.

In order to calculate the financial effect related to future employees, we believe it is reasonable to assume that the financial effects of future employees will be similar to the effects of members under the most recent provisions. Therefore, in order to approximate the savings from this proposal for any future

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employees, we have examined the cost of the multiplier change and normal retirement age change by evaluating current DC 48 employees.

Assuming that future hires have similar characteristics as current employees under the most recent provisions, we have estimated that a decrease in multiplier to this group's future service and an increase in normal retirement age to 64 would decrease the total present value of benefits as of January 1, 2011 from \$2.220B to \$2.202B. This change would also decrease the present value of future normal cost as of January 1, 2011 from \$127.7M to \$110.0M. The overall effect would be a **decrease** in the annual contribution from \$26.8M to \$24.1M, or \$2.7M. The impact of the increase in normal retirement age is to decrease the contribution an additional \$0.5M over the decrease in multiplier provision.

Building Trades

The ordinance amendment affects current and future represented Building Trades employees, which included 86 employees as of January 1, 2011. We have estimated that a decrease in multiplier to this group's future service would decrease the total present value of benefits as of January 1, 2011 from \$2.220B to \$2.219B. This change would also decrease the present value of future normal cost as of January 1, 2011 from \$127.7M to \$127.1M. The overall effect would be a **decrease** in the annual contribution from \$26.8M to \$26.7M, or \$0.1M.

In order to calculate the financial effect related to future employees, we believe it is reasonable to assume that the financial effects of future employees will be similar to the effects of members under the most recent provisions. Therefore, in order to approximate the savings from this proposal for any future employees, we have examined the cost of the multiplier change and normal retirement age change by evaluating current Building Trades employees.

Assuming that future hires have similar characteristics as current employees under the most recent provisions, we have estimated that a decrease in multiplier to this group's future service and an increase in normal retirement age to 64 would decrease the total present value of benefits as of January 1, 2011 from \$2.220B to \$2.219B. This change would also decrease the present value of future normal cost as of January 1, 2011 from \$127.7M to \$126.8M. The overall effect would be a **decrease** in the annual contribution from \$26.8M to \$26.7M, or \$0.1M. The impact of the increase in normal retirement age is to decrease the contribution somewhat, but in this instance it gets lost in the rounding.

FNHP

These results were previously discussed in our June 16, 2011 analysis but are included here to provide a complete picture of the impact of this change if it is enacted on all groups. The ordinance amendment affects current and future represented FNHP employees, which included 275 employees as of January 1, 2011. We have estimated that a decrease in multiplier to this group's future service would decrease the total present value of benefits as of January 1, 2011 from \$2.220B to \$2.218B. This change would also decrease the present value of future normal cost as of January 1, 2011 from \$127.7M to \$126.9M. The overall effect would be a **decrease** in the annual contribution from \$26.8M to \$26.6M, or \$191,239.

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In order to calculate the financial effect related to future employees, we believe it is reasonable to assume that the financial effects of future employees will be similar to the effects of members under the most recent provisions. Therefore, in order to approximate the savings from this proposal for any future employees, we have examined the cost of the multiplier change and normal retirement age change by evaluating current represented FNHP employees.

Assuming that future hires have similar characteristics as current employees under the most recent provisions, We have estimated that a decrease in multiplier to this group's future service and an increase in normal retirement age to 64 would decrease the total present value of benefits as of January 1, 2011 from \$2.220B to \$2.218B. This change would also decrease the present value of future normal cost as of January 1, 2011 from \$127.7M to \$126.6M. The overall effect would be a **decrease** in the annual contribution from \$26.8M to \$26.6M, or \$215,784. The impact of the increase in normal retirement age is to decrease the contribution an additional \$25,545 over the decrease in multiplier provision.

Cumulative impact for DC 48, Building Trades and FNHP (groups not reflected in the January 1, 2011 Valuation)

As noted above, these provisions have been reflected in the January 1, 2011 actuarial valuation for non-represented employees, excluding elected officials and deputy sheriffs, the Association of Milwaukee County Attorneys, TEAMCO, and the Machinists. Exhibit IV shows the impact if the ordinance is adopted for DC 48, Building Trades and FNHP as well. These groups were not reflected in the January 1, 2011 Valuation. As of the valuation, there were 3,231 employees in DC 48, Building Trades and FNHP. We have estimated that a decrease in multiplier to this group's future service would decrease the total present value of benefits as of January 1, 2011 from \$2.220B to \$2.200B. This change would also decrease the present value of future normal cost as of January 1, 2011 from \$127.7M to \$113.2M. The overall effect would be a **decrease** in the annual contribution from \$26.8M to \$24.3M, or \$2.5M.

In order to calculate the financial effect related to future employees, we believe it is reasonable to assume that the financial effects of future employees will be similar to the effects of members under the most recent provisions. Therefore, in order to approximate the savings from this proposal for any future employees, we have examined the cost of the multiplier change and normal retirement age change by evaluating current represented affected employees.

Assuming that future hires have similar characteristics as current employees under the most recent provisions, We have estimated that a decrease in multiplier to this group's future service and an increase in normal retirement age to 64 would decrease the total present value of benefits as of January 1, 2011 from \$2.220B to \$2.200B. This change would also decrease the present value of future normal cost as of January 1, 2011 from \$127.7M to \$108.2M. The overall effect would be a **decrease** in the annual contribution from \$26.8M to \$23.8M, or \$3.0M. The impact of the increase in normal retirement age is to decrease the contribution an additional \$0.5M over the decrease in multiplier provision.

Attorneys, TEAMCO and Machinists

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As noted above, these provisions have already been reflected in the January 1, 2011 actuarial valuation report. The impact of these provisions on the Attorneys, TEAMCO and Machinists are similar in nature to that of DC 48 and Building Trades above. Rather than back these results out of the baseline January 1, 2011 actuarial valuation results, we will discuss them briefly here. There were 86 Attorney, TEAMCO and Machinists reported for the January 1, 2011 actuarial valuation. The **decrease** in annual contribution for both the multiplier provision and the increase in normal retirement age was approximately \$0.1 M; that is, the annual contribution reported in the January 1, 2011 annual actuarial valuation would have been \$26.9M instead of the \$26.8M reported had this provision not been reflected for Attorneys, TEaMCO and Machinists.

Basis for the Analysis

Unless otherwise noted below, we have based this analysis on the data, assumptions and methods used for the most recently completed valuation, which was as of January 1, 2011. We understand that the analysis provided here for this proposed amendment would only impact represented DC 48, Building Trades and FNHP employees. As of January 1, 2011, there were 3,231 of these employees, with average salary of \$43,303, average age of 45.97 and average service of 11.69 years.

It should be noted that the frequency of future hires will be one of the driving forces in the overall impact to the System should this proposed ordinance amendment be adopted. For this analysis we have assumed that these changes would go in effect January 1, 2011. Use of another effective date during 2011 would not materially affect the long term results.

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.

Sincerely,



Larry Langer, ASA, EA, MAAA
Principal, Consulting Actuary

LFL:pl

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cc: Mark Grady
Marco Ruffini
Valerie Long

Milwaukee County
January 1, 2011 Cost Study Results
Multiplier decrease from 2.0 to 1.6 for current members' future service &
Normal Retirement Age of 64 for new hires & multiplier decreased from 2.0 to 1.6 for new hires and current members' future service
Exhibit I

Item	Changes for DC 48		
	Current Valuation	1) Multiplier Change - Future Service	2) Retirement Age of 64
Valuation Results			
1. Present Value of Future Benefits			
a) Active Participants	\$ 770,715,962	\$ 753,617,816	\$ 753,617,816
b) Participants with Deferred Benefits	69,435,621	69,435,621	69,435,621
c) Participants Receiving Benefits	1,379,441,317	1,379,441,317	1,379,441,317
d) Total	<u>\$ 2,219,592,900</u>	<u>\$ 2,202,494,754</u>	<u>\$ 2,202,494,754</u>
2. Present Value of Future Normal Cost	\$ 127,666,249	\$ 114,594,306	\$ 110,019,126
3. Actuarial Accrued Liability: (1 - 2)	\$ 2,091,926,651	\$ 2,087,900,448	\$ 2,092,475,628
4. Actuarial Value of Assets	\$ 1,929,427,864	\$ 1,929,427,864	\$ 1,929,427,864
5. Funded Status: (4 / 3)	92.2 %	92.4 %	92.2 %
6. Unfunded Actuarial Accrued Liability: (3 - 4)	\$ 162,498,787	\$ 158,472,584	\$ 163,047,764
7. Normal Cost Rate	8.457 %	7.591 %	7.288 %
8. Normal Cost for the Plan Year	\$ 18,744,724	\$ 16,825,723	\$ 16,153,954
Employer Actual Funding Contribution and Annual Required Contribution for Fiscal Year			
9. Actual Funding Contribution Calculated by Actuary			
a) Normal Cost with Interest	\$ 19,480,089	\$ 17,485,804	\$ 16,787,681
b) Net Annual Amortization Payments	7,327,948	7,076,683	7,362,208
c) Total Contribution: ((a + b), not less than zero)	<u>\$ 26,808,037</u>	<u>\$ 24,562,487</u>	<u>\$ 24,149,889</u>

- 1) The adopted changes above affects DC48. This means that 2,870 out of the 4,448 Active members are affected by this change.
- 2) The Normal Cost for adopted changes reflects the change immediately.
- 3) The Present Value of Benefits for adopted changes only reflects the multiplier decrease for current members' future service.
- 4) The Retirement Rates used to develop the adopted changes are shown below:

Age	General (backdrop eligible)		General (not backdrop eligible)	
	Current	Proposed	Current	Proposed
45	19.8	19.8	0.0	0.0
46	19.8	19.8	0.0	0.0
47	19.8	19.8	0.0	0.0
48	19.8	19.8	0.0	0.0
49	19.8	19.8	0.0	0.0
50	19.8	19.8	7.0	7.0
51	19.8	19.8	7.0	7.0
52	19.8	19.8	7.0	7.0
53	19.8	19.8	7.0	7.0
54	19.8	19.8	7.0	7.0
55	19.8	19.8	15.0	15.0
56	19.8	19.8	15.0	15.0
57	23.0	23.0	15.0	15.0
58	20.4	20.4	15.0	15.0
59	24.8	24.8	15.0	15.0
60	19.4	19.4	20.0	20.0
61	22.5	22.5	20.0	20.0
62	28.4	28.4	20.0	20.0
63	26.6	26.6	20.0	20.0
64	24.3	40.0	25.0	40.0
65	30.4	30.0	30.0	30.0
66	22.5	30.0	30.0	30.0
67	25.7	30.0	30.0	30.0
68	34.2	30.0	30.0	30.0
69	26.0	30.0	30.0	30.0
70	100.0	100.0	100.0	100.0
	current: 55&30 or 60 new: 55&30 or 64		current: 55&30 or 60 new: 55&30 or 64	

Milwaukee County
January 1, 2011 Cost Study Results
Multiplier decrease from 2.0 to 1.6 for current members' future service &
Normal Retirement Age of 64 for new hires & multiplier decreased from 2.0 to 1.6 for new hires and current members' future service
Exhibit II

Item	Changes for Building Trades		
	Current Valuation	1) Multiplier Change - Future Service	2) Retirement Age of 64
Valuation Results			
1. Present Value of Future Benefits			
a) Active Participants	\$ 770,715,962	\$ 770,033,733	\$ 770,033,733
b) Participants with Deferred Benefits	69,435,621	69,435,621	69,435,621
c) Participants Receiving Benefits	1,379,441,317	1,379,441,317	1,379,441,317
d) Total	\$ 2,219,592,900	\$ 2,218,910,671	\$ 2,218,910,671
2. Present Value of Future Normal Cost	\$ 127,666,249	\$ 127,058,630	\$ 126,845,963
3. Actuarial Accrued Liability: (1 - 2)	\$ 2,091,926,651	\$ 2,091,852,041	\$ 2,092,064,708
4. Actuarial Value of Assets	\$ 1,929,427,864	\$ 1,929,427,864	\$ 1,929,427,864
5. Funded Status: (4 / 3)	92.2 %	92.2 %	92.2 %
6. Unfunded Actuarial Accrued Liability: (3 - 4)	\$ 162,498,787	\$ 162,424,177	\$ 162,636,844
7. Normal Cost Rate	8.457 %	8.417 %	8.403 %
8. Normal Cost for the Plan Year	\$ 18,744,724	\$ 18,655,844	\$ 18,624,614
Employer Actual Funding Contribution and Annual Required Contribution for Fiscal Year			
9. Actual Funding Contribution Calculated by Actuary			
a) Normal Cost with Interest	\$ 19,480,089	\$ 19,387,721	\$ 19,355,266
b) Net Annual Amortization Payments	7,327,948	7,323,292	7,336,564
c) Total Contribution: ((a + b), not less than zero)	\$ 26,808,037	\$ 26,711,013	\$ 26,691,830

- 1) The adopted changes above affects Building Trades. This means that 86 out of the 4,448 Active members are affected by this change.
- 2) The Normal Cost for adopted changes reflects the change immediately.
- 3) The Present Value of Benefits for adopted changes only reflects the multiplier decrease for current members' future service.
- 4) The Retirement Rates used to develop the adopted changes are shown below:

Age	General (backdrop eligible)		General (not backdrop eligible)	
	Current	Proposed	Current	Proposed
45	19.8	19.8	0.0	0.0
46	19.8	19.8	0.0	0.0
47	19.8	19.8	0.0	0.0
48	19.8	19.8	0.0	0.0
49	19.8	19.8	0.0	0.0
50	19.8	19.8	7.0	7.0
51	19.8	19.8	7.0	7.0
52	19.8	19.8	7.0	7.0
53	19.8	19.8	7.0	7.0
54	19.8	19.8	7.0	7.0
55	19.8	19.8	15.0	15.0
56	19.8	19.8	15.0	15.0
57	23.0	23.0	15.0	15.0
58	20.4	20.4	15.0	15.0
59	24.8	24.8	15.0	15.0
60	19.4	19.4	20.0	20.0
61	22.5	22.5	20.0	20.0
62	28.4	28.4	20.0	20.0
63	26.6	26.6	20.0	20.0
64	24.3	40.0	25.0	40.0
65	30.4	30.0	30.0	30.0
66	22.5	30.0	30.0	30.0
67	25.7	30.0	30.0	30.0
68	34.2	30.0	30.0	30.0
69	26.0	30.0	30.0	30.0
70	100.0	100.0	100.0	100.0
	current: 55&30 or 60 new: 55&30 or 64		current: 55&30 or 60 new: 55&30 or 64	

Milwaukee County
January 1, 2011 Cost Study Results
Multiplier decrease from 2.0 to 1.6 for current members' future service &
Normal Retirement Age of 64 for new hires & multiplier decreased from 2.0 to 1.6 for new hires and current members' future service
Exhibit III

Item	Changes for FNHP (Nurses).		
	Current Valuation	1) Multiplier Change - Future Service	2) Retirement Age of 64
Valuation Results			
1. Present Value of Future Benefits			
a) Active Participants	\$ 770,715,962	\$ 768,733,143	\$ 768,733,143
b) Participants with Deferred Benefits	69,435,621	69,435,621	69,435,621
c) Participants Receiving Benefits	1,379,441,317	1,379,441,317	1,379,441,317
d) Total	\$ 2,219,592,900	\$ 2,217,610,081	\$ 2,217,610,081
2. Present Value of Future Normal Cost	\$ 127,666,249	\$ 126,917,773	\$ 126,645,593
3. Actuarial Accrued Liability: (1 - 2)	\$ 2,091,926,651	\$ 2,090,692,308	\$ 2,090,964,488
4. Actuarial Value of Assets	\$ 1,929,427,864	\$ 1,929,427,864	\$ 1,929,427,864
5. Funded Status: (4 / 3)	92.2 %	92.3 %	92.3 %
6. Unfunded Actuarial Accrued Liability: (3 - 4)	\$ 162,498,787	\$ 161,264,444	\$ 161,536,624
7. Normal Cost Rate	8.457 %	8.407 %	8.389 %
8. Normal Cost for the Plan Year	\$ 18,744,724	\$ 18,634,828	\$ 18,594,865
Employer Actual Funding Contribution and Annual Required Contribution for Fiscal Year			
9. Actual Funding Contribution Calculated by Actuary			
a) Normal Cost with Interest	\$ 19,480,089	\$ 19,365,882	\$ 19,324,351
b) Net Annual Amortization Payments	7,327,948	7,250,916	7,267,902
c) Total Contribution: ((a + b), not less than zero)	\$ 26,808,037	\$ 26,616,798	\$ 26,592,253

- 1) The adopted changes above affects FNHP. This means that 275 out of the 4,448 Active members are affected by this change.
- 2) The Normal Cost for adopted changes reflects the change immediately.
- 3) The Present Value of Benefits for adopted changes only reflects the multiplier decrease for current members' future service.
- 4) The Retirement Rates used to develop the adopted changes are shown below:

Age	General (backdrop eligible)		General (not backdrop eligible)	
	Current	Proposed	Current	Proposed
45	19.8	19.8	0.0	0.0
46	19.8	19.8	0.0	0.0
47	19.8	19.8	0.0	0.0
48	19.8	19.8	0.0	0.0
49	19.8	19.8	0.0	0.0
50	19.8	19.8	7.0	7.0
51	19.8	19.8	7.0	7.0
52	19.8	19.8	7.0	7.0
53	19.8	19.8	7.0	7.0
54	19.8	19.8	7.0	7.0
55	19.8	19.8	15.0	15.0
56	19.8	19.8	15.0	15.0
57	23.0	23.0	15.0	15.0
58	20.4	20.4	15.0	15.0
59	24.8	24.8	15.0	15.0
60	19.4	19.4	20.0	20.0
61	22.5	22.5	20.0	20.0
62	28.4	28.4	20.0	20.0
63	26.6	26.6	20.0	20.0
64	24.3	40.0	25.0	40.0
65	30.4	30.0	30.0	30.0
66	22.5	30.0	30.0	30.0
67	25.7	30.0	30.0	30.0
68	34.2	30.0	30.0	30.0
69	26.0	30.0	30.0	30.0
70	100.0	100.0	100.0	100.0
	current: 55&30 or 60 new: 55&30 or 64		current: 55&30 or 60 new: 55&30 or 64	

Milwaukee County
January 1, 2011 Cost Study Results
Multiplier decrease from 2.0 to 1.6 for current members' future service &
Normal Retirement Age of 64 for new hires & multiplier decreased from 2.0 to 1.6 for new hires and current members' future service
Exhibit IV

Item	Changes for DC 48, Building Trades and FNHP		
	Current Valuation	1) Multiplier Change - Future Service	2) Retirement Age of 64
Valuation Results			
1. Present Value of Future Benefits			
a) Active Participants	\$ 770,715,962	\$ 750,952,768	\$ 750,952,768
b) Participants with Deferred Benefits	69,435,621	69,435,621	69,435,621
c) Participants Receiving Benefits	1,379,441,317	1,379,441,317	1,379,441,317
d) Total	<u>\$ 2,219,592,900</u>	<u>\$ 2,199,829,706</u>	<u>\$ 2,199,829,706</u>
2. Present Value of Future Normal Cost	\$ 127,666,249	\$ 113,238,210	\$ 108,178,184
3. Actuarial Accrued Liability: (1 - 2)	\$ 2,091,926,651	\$ 2,086,591,496	\$ 2,091,651,522
4. Actuarial Value of Assets	\$ 1,929,427,864	\$ 1,929,427,864	\$ 1,929,427,864
5. Funded Status: (4 / 3)	92.2 %	92.5 %	92.2 %
6. Unfunded Actuarial Accrued Liability: (3 - 4)	\$ 162,498,787	\$ 157,163,632	\$ 162,223,658
7. Normal Cost Rate	8.457 %	7.501 %	7.166 %
8. Normal Cost for the Plan Year	\$ 18,744,724	\$ 16,626,617	\$ 15,883,655
Employer Actual Funding Contribution and Annual Required Contribution for Fiscal Year			
9. Actual Funding Contribution Calculated by Actuary			
a) Normal Cost with Interest	\$ 19,480,089	\$ 17,278,887	\$ 16,506,778
b) Net Annual Amortization Payments	7,327,948	6,994,995	7,310,778
c) Total Contribution: ((a + b), not less than zero)	<u>\$ 26,808,037</u>	<u>\$ 24,273,882</u>	<u>\$ 23,817,556</u>

- 1) The adopted changes above affects DC 48, Building Trades and FNHP. This means that 3,231 out of the 4,448 Active members are affected by this change.
- 2) The Normal Cost for adopted changes reflects the change immediately.
- 3) The Present Value of Benefits for adopted changes only reflects the multiplier decrease for current members' future service.
- 4) The Retirement Rates used to develop the adopted changes are shown below:

Age	General (backdrop eligible)		General (not backdrop eligible)	
	Current	Proposed	Current	Proposed
45	19.8	19.8	0.0	0.0
46	19.8	19.8	0.0	0.0
47	19.8	19.8	0.0	0.0
48	19.8	19.8	0.0	0.0
49	19.8	19.8	0.0	0.0
50	19.8	19.8	7.0	7.0
51	19.8	19.8	7.0	7.0
52	19.8	19.8	7.0	7.0
53	19.8	19.8	7.0	7.0
54	19.8	19.8	7.0	7.0
55	19.8	19.8	15.0	15.0
56	19.8	19.8	15.0	15.0
57	23.0	23.0	15.0	15.0
58	20.4	20.4	15.0	15.0
59	24.8	24.8	15.0	15.0
60	19.4	19.4	20.0	20.0
61	22.5	22.5	20.0	20.0
62	28.4	28.4	20.0	20.0
63	26.6	26.6	20.0	20.0
64	24.3	40.0	25.0	40.0
65	30.4	30.0	30.0	30.0
66	22.5	30.0	30.0	30.0
67	25.7	30.0	30.0	30.0
68	34.2	30.0	30.0	30.0
69	26.0	30.0	30.0	30.0
70	100.0	100.0	100.0	100.0
	current: 55&30 or 60 new: 55&30 or 64		current: 55&30 or 60 new: 55&30 or 64	