

April 13, 2011

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

RE: Actuary's Review of Proposed Ordinance Amendment to the Employees' Retirement System for Non-represented Correction Officers

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 limit the potential benefit increases available to represented correction officers who are promoted to non-represented positions by eliminating their eligibility for the Rule of 75. Specifically, the Rule of 75 as described in section 4.1 would be eliminated for any represented correction officer who was hired as a correction officer after December 31, 1993 and who was appointed to a non-represented position effective April 21, 2011.

Actuarial Analysis

The ordinance amendment affects individuals first appointed to non-represented corrections officers positions after April 21, 2011. It is difficult to calculate the financial effect related to these changes for future appointments without knowing, or making unfounded assumptions about, the number, frequency and actual date of any future appointments, as well as the past service and benefits accrued for any such individual. However, we believe it is reasonable to assume that the financial effects of future appointments can be estimated by applying Rule of 75 to the pool of current employees that could potentially move to non-represented corrections officers positions. Therefore, in order to approximate the savings from this proposal for any future appointments, we have compared the cost of the benefits that have been obtained by currently employed individuals who could move to non-represented corrections officers positions, to the cost of the benefits if the Rule of 75 is applied.

Based on corrections officers information from the valuation, eliminating the Rule of 75 provision for future appointments reduces the average liability from about \$102,000 to \$90,000, or about \$12,000 per person. Thus by eliminating the Rule of 75, it is our opinion that the savings from this proposal will be approximately, on average, about \$12,000 per future appointment.

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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, 2010. For purposes of this analysis, we understand that this proposed amendment would only impact future promotions.

The following should be considered when reviewing this analysis:

- As time passes, the average savings of \$12,000 will increase as pay levels increase and as the affected population ages and gets closer to retirement.
- Differences in the age, service, or pay for a specific individual from the averages above may cause a material difference in the savings for that individual. For example, for a member that is close to the Rule of 75 but still years from retirement otherwise, the savings may be well over \$100,000. Similarly, there may be some members that are promoted that do not benefit from the Rule of 75 or choose not to benefit from the provision, resulting in no savings from this amendment.
- The incidence and frequency of promotions will be one of the driving forces in the overall savings to the System should this proposed ordinance amendment be adopted. More frequent promotions may result in greater savings.

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, ASA, EA, MAAA
Principal, Consulting Actuary

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cc: Mark Grady
Paul Wilkinson

DESCRIPTION OF FISCAL EFFECT

In the space below, you must provide the following information. Attach additional pages if necessary.

- A. Briefly describe the nature of the action that is being requested or proposed, and the new or changed conditions that would occur if the request or proposal were adopted.
- B. State the direct costs, savings or anticipated revenues associated with the requested or proposed action in the current budget year and how those were calculated. ¹ If annualized or subsequent year fiscal impacts are substantially different from current year impacts, then those shall be stated as well. In addition, cite any one-time costs associated with the action, the source of any new or additional revenues (e.g. State, Federal, user fee or private donation), the use of contingent funds, and/or the use of budgeted appropriations due to surpluses or change in purpose required to fund the requested action.
- C. Discuss the budgetary impacts associated with the proposed action in the current year. A statement that sufficient funds are budgeted should be justified with information regarding the amount of budgeted appropriations in the relevant account and whether that amount is sufficient to offset the cost of the requested action. If relevant, discussion of budgetary impacts in subsequent years also shall be discussed. Subsequent year fiscal impacts shall be noted for the entire period in which the requested or proposed action would be implemented when it is reasonable to do so (i.e. a five-year lease agreement shall specify the costs/savings for each of the five years in question). Otherwise, impacts associated with the existing and subsequent budget years should be cited.
- D. Describe any assumptions or interpretations that were utilized to provide the information on this form.

Adoption of this resolution will not result in an increase in expenditures for 2011. An actuarial report regarding the proposed revision was prepared by Buck Consultants, the Pension Board's actuary, and is attached hereto and made a part of this record. The actuarial report does not quantify the amount of prospective county pension contribution savings with certainty because of the unknown factors identified in the report; however, the actuary reports that the changes will reduce pension fund costs from those that would be incurred without the adoption of this resolution and ordinance amendment.

Department/Prepared By Corporation Counsel /Mark A. Grady

Authorized Signature _____

Did DAS-Fiscal Staff Review? Yes No

¹ If it is assumed that there is no fiscal impact associated with the requested action, then an explanatory statement that justifies that conclusion shall be provided. If precise impacts cannot be calculated, then an estimate or range should be provided.