buckconsultants A Xerox Company

June 29, 2016

Marian Ninneman, CEBS, CRC®
Director – Retirement Plan Services
Milwaukee County
901 N 9th Street
Milwaukee, WI 53233

RE: Actuary's Review of Proposed Ordinance Amendments to the Employees' Retirement System

Dear Marian:

As part of the process for adopting amendments to County ordinances relating to the Employees' Retirement System ("ERS"), we have reviewed the proposed changes and present this letter detailing our findings. A summary of the proposed ERS amendments follows, as well as our comments on the cost impact to the plan. It is worthwhile to note that the ERS staff currently administers the ERS in compliance with these amendments, which means that these amendments will not change the ongoing cost of the ERS. Finally, these amendments apply to very few members. If these amendments had been analyzed before being put into operation, we likely would have found the cost impact to be immaterial.

ERS Proposed Ordinance Amendments

- **Section 1 and Section 2** of the ERS Resolution amends section 201.24(11.1). The amendments to Section 11.1 are limited to the effective dates in subsection (1). These changes were made at the request of the IRS to match the years that the errors occurred. Because the prior amendments first amended Ordinance 11.1 and then repealed a large amount of the Ordinance, the amendments are drafted to adopt the new effective dates with the language from the initial amendment and then remove all of the language in the Ordinance except one paragraph.

  Buck's comments: The amendment merely changes the effective dates. Therefore, this amendment will have no impact on the cost of the plan.

- **Section 3** of the ERS Resolution amends section 201.24(12.4). The amendments to Section 12.4 reflect the requirements of Internal Revenue Code ("Code") section 415. The IRS preferred that subsection (1) reference the Code section 415(c) limit instead of explaining the limits in the Ordinance. The changes to subsection (2) reflect the Code's exclusion of repayment contributions from the Code section 415(c) limits. This Code section effectively excludes buy backs from consideration as part of the 415(c) limits and may correct some of the buy back errors related to Code section 415. The changes to subsection (3) apply to years prior to January 1, 2007 and were added to reflect the language in the Code. The Code provides that the amount by which an annual addition exceeds the limits in Code section 415 may be reallocated only for limitation years before July 1, 2007 and only in certain circumstances. This language is required by the Code.

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Buck's comments: Any additional costs resulting from the correction of errors have already been reflected into ERS's costs based on our BIBB analysis performed in the summer of 2014. It is our understanding that the ERS already operates in compliance with Code Section 415. These amendments to the ERS clarify that ERS operates in compliance with the revised Code and as a result have no cost effect on the plan.

- **Section 4** of the ERS Resolution amends section 201.24(12.8). The amendments to Section 12.8 were added to incorporate by reference the definition of "participant's compensation" in the Code as suggested by the IRS agent handling the VCP. Section 12.8 was also revised to incorporate a provision in the Code that provides that "compensation" includes compensation paid by the later of 2-1/2 months after a member leaves employment or the end of the limitation year that includes the date of the member's severance from employment if the payment meets certain requirements. The IRS agent handling the determination letter application asked that we add this language.

  Buck's comments: It is our understanding that the ERS already operates in compliance with these changes. These amendments to the ERS clarify that ERS operates in compliance with the revised Section 12.8 and as a result have no cost effect on the plan.

Basis for the Analysis

Unless otherwise noted in this analysis, we base this analysis on the data, assumptions and methods used for the results of the January 1, 2016 actuarial valuation. For purpose of this analysis, current provisions are those included or referenced in the January 1, 2016 actuarial valuation.

Future actuarial measurements may differ significantly from the current measurement presented in this report due to such factors as: plan experience different from that anticipated by the economic and demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements; and changes in plan provisions or applicable law. Due to the limited scope of this report, an analysis of the potential range of such future measurements has not been performed.

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, FCA, ASA, EA, MAAA
Principal, Consulting Actuary

LL:tj