

May 1, 2012

Mr. Mark Grady
Deputy Corporation Counsel
Milwaukee County Employees' Retirement System
901 N. 9th St., Room 303
Courthouse
Milwaukee, WI 53233

RE: Actuary's Review of Possible Backdrop Modification

Dear Mr. Grady:

We have reviewed a possible modification to the backdrop benefit. As summary of the modification is as follows:

- Under this proposal, if and when a member becomes eligible for, and elects, a backdrop at some future date, the monthly benefit that would be used for purposes of calculating the amount of the backdrop would be limited to the monthly pension benefit that the member would be eligible to receive as of September 1, 2012. This modification would have no impact on members who are eligible for a back-drop and have reached their eligible retirement date prior to September 1, 2012, as long as that member chooses a back drop date which is on or before September 1, 2012. Thus, for calculation of the backdrop benefit at any backdrop date in the future, the monthly benefit amount will be limited to the service credit, final average salary and multiplier for that member no later than 9/1/12. However, the actual monthly annuity that the member would be paid would be calculated as of the backdrop date selected by the member. Thus, the monthly annuity paid to the member would be based on the member's service credit, final average salary and multiplier in effect as of the actual backdrop date. This modification would result in a difference between the currently calculated formula of back-drop date annuity (after September 1, 2012) versus September 1, 2012 annuity.

Actuarial Analysis

To determine the actuarial impact of the proposed modification, we developed actuarial projections based on the proposed modification and compared them to the current actuarial position of Milwaukee County Employees' Retirement System. For calculation purposes, we utilized an effective date of 1/1/12 rather than the proposed date of 9/1/12. This difference does not result in a significant change in our conclusions. The figures labeled "Change in Present Value of Future Benefits" represents the present value of the anticipated contribution savings for the proposed modification. The anticipated present value of the *savings* is \$15.7 million dollars for the proposed modification. At the bottom of the exhibit is the "Change in Total contributions". This is the impact on the current year contributions under the proposed modification. The estimated *savings* in contributions is \$1.2 million under this proposed modification.

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The savings shown above are the total savings. The state has mandated that retirement system members and the County share in the contributions to the Milwaukee County Employees' Retirement System. (Refer to our letter dated July 11, 2011 for more information on this analysis). Because the members share in increases in contributions, they also share in contribution decreases. The percent of the total contributions that the County pays will vary from year to year. It is anticipated that the county will realize 60% to 70% of the savings shown above, with the members realizing the remainder of the savings.

Basis for the Analysis

Unless otherwise noted in this analysis, we have based this analysis on the data, assumptions and methods used for the preliminary results of the January 1, 2011 actuarial valuation. There are 4,448 active members in the January 1, 2011 actuarial valuation. Of these 3,041 are eligible for DROP benefits. Of those eligible for DROP 859 are eligible to retire as of January 1, 2012.

For purpose of this analysis, current provisions include the provisions included for the January 1, 2011 actuarial valuation, updated for the following:

- State-Mandated Employee Pension Contributions (refer to our letter dated July 11, 2011)
- The decrease in the multiplier from 2.0% to 1.6% for current members' future service & future hires' total service, and the increase the normal retirement age to 64 for future hires only for certain employee groups (refer to our letter dated July 19, 2011)

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

19150/C7317RET01-Poss-Backdrop-Mod.doc

Milwaukee County
January 1, 2011 Cost Study Results
Actuary's Review of Possible Backdrop Modification*

Exhibit

Item	1) January 1, 2011 Actuarial Valuation	2) January 1, 2011 Actuarial Valuation updated for Current Provisions	3) Proposed Modification - DROP lump sum based on benefit as of 1/1/2012
Valuation Results			
1. Present Value of Future Benefits			
a) Active Participants	\$ 770,715,962	\$ 750,952,768	\$ 735,262,508
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	\$ 2,199,829,706	\$ 2,184,139,446
Change in Present Value of Future Benefits			\$ (15,690,260) *
2. Present Value of Future Normal Cost	\$ 127,666,249	\$ 108,178,184	\$ 104,883,312
3. Actuarial Accrued Liability: (1 - 2)	\$ 2,091,926,651	\$ 2,091,651,522	\$ 2,079,256,134
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 %	92.8 %
6. Unfunded Actuarial Accrued Liability: (3 - 4)	\$ 162,498,787	\$ 162,223,658	\$ 149,828,270
7. Normal Cost Rate	8.457 %	7.166 %	6.948 %
8. Normal Cost for the Plan Year	\$ 18,744,724	\$ 15,883,655	\$ 15,477,176
Change in Normal Cost			\$ (406,479)
Total 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	\$ 16,506,778	\$ 16,084,353
b) Net Annual Amortization Payments	7,327,948	7,310,778	6,537,214
c) Total Contribution: ((a + b), not less than zero)	\$ 26,808,037	\$ 23,817,556	\$ 22,621,567
Change in Total Contributions			\$ (1,195,989) *

* The savings shown above are the total savings. The state has mandated that retirement system members and the County share in the contributions to the Milwaukee County Employees' Retirement System. (Refer to our letter dated July 11, 2011 for more information on this analysis). Because the members share in increases in contributions, they also share in contribution decreases. The percent of the total contributions that the County pays will vary from year to year. It is anticipated that the county will realize 60% to 70% of the savings shown above, with the members realizing the remainder of the savings.