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Marian Ninneman
Director, Retirement Plan Services
Employees' Retirement System of the
County of Milwaukee
901 N. 9th St.
Milwaukee, WI 53233

Re: Pension Analysis for the Ordinance Amendment of Rule of 75 and District Council 48 Members

Dear Marian:

You requested that Buck provide an analysis on the actuarial impact to the ERS of the ordinance amendment to the Rule of 75 retirement eligibility for District Council 48 as a result of a recent Circuit Court decision. This letter presents the results of our analysis.

Background Summary

You have requested from Buck the estimated cost impact of the ordinance amendment to Section 201.24(4.1) of the Milwaukee County Code of General Ordinances as it pertains to the Rule of 75 and District Council 48 (DC 48). A Decision on Renewed Motions for Summary Judgement was filed with the Milwaukee County Circuit Court on May 27, 2016 that changes the interpretation of the ordinance amendment for DC 48.

Previously, the County interpreted Ordinance 11-15 adopted on September 29, 2011 to give DC 48 members Rule of 75 retirement eligibility if their initial membership date is prior to January 1, 1994.With the decision filed by the Circuit Court, the interpretation is changed to give DC 48 members Rule of 75 retirement eligibility if their initial membership date is prior to January 1, 2006.

Actuarial Analysis

The change to the interpretation of the Rule of 75 retirement eligibility is expected to increase the amount of benefits paid from the ERS and would be expected to result in both increased liabilities to the ERS along with increased contribution amounts. The following table shows these results.

Table 1 – Impact to the System of the retirement eligibility change:

Amounts as of January 1, 2016	Actuarial Accrued Liability	Normal Cost	Amortization Amount	Expense	Total Contribution Amount
1) Valuation Results*	2,262,851,177	17,381,870	44,459,669	1,225,857	63,067,396
2) Rule of 75 Update	2,269,689,040	17,575,720	45,073,294	1,225,857	63,874,871
3) Increase (2 - 1)	6,837,863	193,850	613,625	0	807,475
4) Percent Increase	0.30%	1.12%	1.38%	0.00%	1.28%

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The current policy for the amortization is for any increase in the Actuarial Accrued Liability to be amortized over 20 years as a level percent of pay. The payment of $613,625 to amortize this is expected to increase by 1.75% per year over the 20 year payment period until the entire increase in liability of $6,837,863 has been fully amortized. The normal cost amount of $193,850 is a permanent increase in costs and is anticipated to fluctuate with payroll in the future (e.g. increase as payroll increases due to higher wages, more employees covered, etc. and decline should the covered payroll decline.

Note that the contribution amount above is a gross contribution amount. The County and members currently share in the contribution requirements. The split will start as a 50/50 split between the county and the members, but as members retire, the split will shift more of the contributions to the County. It might also be noted that all members share in the cost increase, not just those affected by the change in benefits.

Our analysis uses benefit provisions for DC 48 as interpreted from the Milwaukee County ERS Benefits Chart updated June 27, 2013 provided by ERS. The only benefit provision that has changed for the analysis is Rule of 75 retirement eligibility. The eligibility was changed to include any member whose initial membership date is prior to January 1, 2006 instead of prior to January 1, 1994. The members impacted by this change will be those whose membership date is between January 1, 1994 and December 31, 2005.

Basis for the Analysis

Unless otherwise noted in this analysis, we have based 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. The rates of retirement are unchanged from the actuarial valuation, but for purposes of modelling the proposed change we reflected that the affected members would be eligible to retire under the earlier eligibility as well. It is possible that due to benefit increases and/or liberalization in the benefit adjustments at retirement that the rates of retirement might change. Only after the changes have been implemented and experience unfolds might the magnitude of any effect be determined.

We used the census data that was used for the January 1, 2016 actuarial valuation. The January 1, 2016 actuarial valuation results included 2,095 DC 48 active members with average age of 44.9 years and average service of 11.0 years. Of this, 686 of these members are impacted by the amendment to Rule of 75, with average age of 49.0 years and average service of 14.7 years. The results of the analysis include only the impact of these 686 active employees. Any DC 48 employees who have become deferred or retired since 2011 are not included in the analysis. Note that some members who terminated or retired may have received a benefit determined as an early retirement benefit, whereas under the new interpretation the benefit might be larger. Also, individuals who have terminated, in the event of subsequent re-employment, may be eligible for future benefits that are larger than previously determined. Only a review of individual calculations can develop an estimate of any possible impact. It may or may not be material depending upon how many individuals are affected,

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 primary purpose of this report is to present an estimate of the actuarial impact of the change to the interpretation of the Rule of 75 retirement eligibility for DC 48 with respect to the Employee's Retirement System of the County of Milwaukee. Use of this report for any other purpose may not be appropriate and may result in mistaken conclusions due to failure to understand applicable assumptions, methodologies, or inapplicability of the report for that purpose. Because of the risk of misinterpretation of actuarial results, you should ask Buck to review any statement you wish to make on the results contained in this report. Buck will accept no liability for any such statement made without prior review by Buck.

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:pl

cc: Jim Carroll
Colleen Foley
Troy Jaros