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Via Email

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Cynthia (CJ) Pahl
Financial Services Director
Milwaukee County Office of the Comptroller

Re: Legislative Analysis and Projected Costs Impact for Milwaukee County ERS

Dear CJ:

As requested, we recalculated the Fiscal Year 2024 budget amount and projected costs reflecting new assumptions that would become effective if the County enacts a new 0.4% sales tax. The scenarios project the actuarially determined contributions, specifically Normal Cost (NC) and Unfunded Actuarial Accrued Liability (UAAL) payments, for the Employees' Retirement System of the County of Milwaukee (ERS).

It is our understanding that if the County enacts a new 0.4% sales tax, the following changes would occur:

- The valuation investment return assumption is reduced to 6.80% effective January 1, 2024.
- The amortization of the UAAL is reset as of January 1, 2024.
- Going forward, amortization payments are updated to a flat dollar amortization.
- New employees who would have become ERS members hired on or after January 1, 2025, become members of the Wisconsin Retirement System (WRS) and do not join ERS.

As part of the updates described above, the Actuarial Value of Assets (AVA) was reset to equal the Market Value of Assets (MVA) as of January 1, 2024.

Summary of Impact on 2024 Budget

Below is a summary of the change to the Fiscal Year 2024 budget amounts reflecting the changes mentioned above. The scenarios considered in this analysis are:

- Scenario 1 (Baseline) – This scenario is based on the results of the January 1, 2023 actuarial valuation. The valuation investment return assumption is 7.50%, the AVA and existing amortization bases are unchanged, and amortization payments increase by 1.75% each year.
- Scenario 2 – This scenario assumes the valuation investment return assumption is reduced to 6.80% effective January 1, 2024, the AVA is reset to MVA, the UAAL is re-established as

of January 1, 2024 with an amortization period of 30 years, and new amortization payments are flat dollar amounts (i.e. payments are not increased by 1.75% each year).

- Scenario 3 – This scenario is the same as Scenario 2, except the re-established UAAL amortization base uses a 20-year amortization period.
- Scenario 4 – This scenario is the same as Scenario 2, except the re-established UAAL amortization base uses a 15-year amortization period.

Aside from the changes above, these calculations are based on assumptions used for the 2024 budget in the January 1, 2023 actuarial valuation, dated May 31, 2023.

Impact on 2024 Budget (\$ in Millions)								
Scenario	Amortization Period of Re-established UAAL	1/1/2024 Actuarial Accrued Liability	1/1/2024 Actuarial Value of Assets	1/1/2024 UAAL	UAAL Amortization Payment	Employer Normal Cost	Employee Normal Cost	Total Contribution
Scenario 1	N/A	\$2,268.435	\$1,748.682	\$519.753	\$57.220	\$10.242	\$10.242	\$77.705
Scenario 2	30-Years	2,424.793	1,656.961	767.832	60.638	11.432	11.432	83.502
Scenario 3	20-Years	2,424.793	1,656.961	767.832	71.355	11.432	11.432	94.219
Scenario 4	15-Years	2,424.793	1,656.961	767.832	83.242	11.432	11.432	106.106

All values above are projected amounts assuming all assumptions are met, including a 7.50% market return for 2023.

Normal Cost and UAAL Amortization Payments include interest to the end of the year.

The contributions above do not reflect any offset for anticipated member contributions. Per the recent plan changes, the contribution rate for active members is now ½ of the Normal Cost. The active member contribution rates do not include any amortization of the UAAL. These results replace any previously communicated amounts regarding these scenarios and incorporate refinements to the projections.

Summary of Projection

Below is a summary of the projected employer and member contribution rates for the next 5 years reflecting the changes mentioned above, using a 30-year amortization period for the re-established UAAL base effective January 1, 2024, and new ERS employees hired on or after January 1, 2025, becoming members of WRS.

Projection of Costs and Contribution Amounts (\$ in Millions)					
Year	Total Normal Cost	UAAL Amortization Payment	Total Contribution	ERS Member Contribution Rates for the Following Year	
				Public Safety	General Employees
2024	\$22.864	\$60.638	\$83.502	7.8%	4.9%
2025	23.101	60.638	83.739	7.7%	4.8%
2026	20.993	60.638	81.631	7.5%	4.7%
2027	19.348	60.638	79.986	7.4%	4.7%
2028	17.996	60.638	78.634	7.3%	4.6%

All values above are projected amounts assuming all assumptions are met, including a 7.50% market return for 2023.

Normal Cost and UAAL Payments include interest to the end of the year. Member contribution rates only reflect $\frac{1}{2}$ of Normal Cost and are adjusted for a half year of interest.

These calculations are based on assumptions used for the 2024 budget in the January 1, 2023, actuarial valuation, except that salaries and future normal costs are projected based on a forecast. Details of the forecast assumptions are in the next section.

Discussion of Risk

These projections are based on experience emerging consistent with the assumptions, including the investment return assumption. As experience varies from the assumptions, actual results will vary from the projections. Aside from the potential change to the ERS valuation investment return assumption, no future assumption changes are reflected in the projections. We are available to demonstrate the impact of additional scenarios if requested.

The following risks could affect the actual results of the projections:

- Investment Risk
 - The risk that returns will be different than expected
 - If investment performance results in a market value less than expected, the unfunded liability would increase and therefore increase the County's total contribution
- Demographic Risk
 - The risk that participant experience will be different than expected
 - If retirements and turnovers are more than expected, members will enter WRS at an accelerated rate and the County's total contribution would increase
 - If salary increases are less than expected, member contributions would decrease and result in an increase in the County's total contribution
- Contribution Risk
 - The risk that employer contributions are different than expected

Deviations from the inputs and assumptions of the models could substantially affect the results of the projections.

Comments about Projections

The projections use data, plan provisions, methods, and actuarial assumptions from the ERS actuarial valuation as of January 1, 2023, dated May 31, 2023, unless otherwise stated. Salaries and future Normal Costs are projected based on a forecast with the number of active participants assumed to remain level, unless stated otherwise. New entrants subsequent to January 1, 2023 are assumed to have a similar demographic mix as actual new hires over the last five years.

Caveats and Certification

This report is based on the data, plan provisions, methods and assumptions described in the 2023 actuarial valuation for ERS dated May 31, 2023, except where otherwise noted. The impact of the changes to the demographic assumptions (other than the 6.80% investment return assumption) approved by the Board to take effect January 1, 2024 are not included in this analysis. Use of this information is subject to the caveats and limitations of use described in that report. This report has been prepared for the Milwaukee County Office of the Comptroller.

Segal valuation results are based on proprietary actuarial modeling software. The actuarial valuation models generate a comprehensive set of liability and cost calculations that are presented to meet regulatory, legislative and client requirements. Deterministic cost projections are based on a proprietary forecasting model. Our Actuarial Technology and Systems unit, comprised of both actuaries and programmers, is responsible for the initial development and maintenance of these models. The models have a modular structure that allows for a high degree of accuracy, flexibility and user control. The client team programs the assumptions and the plan provisions, validates the models, and reviews test lives and results, under the supervision of the responsible actuary.

Projections, by their nature, are not a guarantee of future results. The modeled projections are intended to serve as estimates of future financial outcomes that are based on the information available to us at the time the modeling is undertaken and completed, and the agreed-upon assumptions and methodologies described herein. Emerging results may differ significantly if the actual experience proves to be different from these assumptions or if alternative methodologies are used. Actual experience may differ due to such variables as demographic experience, the economy, stock market performance and the regulatory environment. The longer the projection period, the less reliable the projections become, as there is more variability in results for the later years.

Segal is not a law firm, and we cannot offer legal advice. Our comments are based on our many years of consulting to employee benefit plans. To the extent that any user requires a legal opinion, that user should consult with appropriate legal counsel.

I am a member of the American Academy of Actuaries and I meet the *Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States* of the American Academy of Actuaries to render the actuarial opinion contained herein.

Please let me know if you have any questions. My cell phone number is (312) 597-4175, or I can be contacted at gbridges@segalco.com.

Sincerely,



Geoff Bridges

cc: Scott Manske, Milwaukee County
Matt Strom, Segal
Daniel Siblik, Segal