

November 8, 2016

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Re: Pension Analysis for the Ordinance Amendment of Rule of 75

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 certain employee groups. This letter presents the results of our analysis.

Background Summary

You have requested from Buck the estimated cost impact of proposed amendments to Section 201.24(4.1) of the Milwaukee County Code of General Ordinances regarding the Rule of 75 and certain employee groups. In the interest of clarifying the intent of the Rule of 75 "status quo" provisions in this ordinance section, the proposed amendments would do two things. First, the amendments would reflect that the proper Rule of 75 "status quo" date is June 29, 2011, not September 29, 2011. Second, the amendments would alter the language of the ordinances to reflect that the 2011 "status quo" changes were never intended to provide the Rule of 75 benefit to employees who were not eligible for that benefit under a collective bargaining agreement ("CBA") as of the "status quo" date.

The actuarial impact of the proposed amendments, therefore, is best thought of as the cost to the Milwaukee County ERS if the proposed amendments were not adopted and the Rule of 75 benefit were deemed to be available to those employee groups that fall in the "window" between the Rule of 75 cutoff date set by their relevant CBA and the January 1, 2006 Rule of 75 cutoff date established by Section 201.24(4.1)(2)(a) for non-represented employees. The employee groups potentially affected by the proposed amendments are, therefore:

- The Technicians, Engineers and Architects of Milwaukee County (TEAMCO) employees with initial membership date between January 1, 1994 and December 31, 2005.
- The International Association of Machinists and Aerospace Workers (IAMAW) employees with initial membership date between January 1, 1994 and December 31, 2005.

Other employee groups would not be affected by the proposed ordinance amendments because either: (a) the employee group's CBA provides for a Rule of 75 cutoff date on or after the Rule of 75 cutoff date established by Section 201.24(4.1)(2)(a) for non-represented employees; or (b) the employee group is not subject to Act 10. These groups are specified below.

- The Federation of Nurses and Health Professionals (FNHP), since their contractual Rule of 75 cutoff dates fall on or after the Rule of 75 cutoff date for non-represented employees pursuant to Section 201.24(4.1)(2)(a). That is, none of these employees could receive the Rule of 75 under the status quo ordinances if they were not entitled to it under their CBA.
- The Association of Milwaukee County Attorneys (AMCA), since their contractual Rule of 75 cutoff dates fall on or after the Rule of 75 cutoff date for non-represented employees pursuant to Section 201.24(4.1)(2)(a). That is, none of these employees could receive the Rule of 75 under the status quo ordinances if they were not entitled to it under their CBA.
- The Milwaukee Building and Construction Trades Council (MBCTC), since their contractual Rule of 75 cutoff dates fall on or after the Rule of 75 cutoff date for non-represented employees pursuant to Section 201.24(4.1)(2)(a). That is, none of these employees could receive the Rule of 75 under the status quo ordinances if they were not entitled to it under their CBA.
- The Deputy Sheriff, since they were not subject to Act 10 and thus not included in the “status quo” ordinances.
- The Firefighters, since they were not subject to Act 10 and thus not included in the “status quo” ordinances.

Actuarial Analysis

If the proposed amendments were not adopted and the Rule of 75 benefit were deemed to be available to those employee groups that fall in the “window” between the Rule of 75 cutoff date set by their relevant CBA and the January 1, 2006 Rule of 75 cutoff date established by Section 201.24(4.1)(2)(a) for non-represented employees, it would 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 tables show these results. We show results both in total and by each respective employee group.

Table 1 – Impact to the System of the retirement eligibility change **(Total)**:

Amounts as of January 1, 2016 Total for All Groups	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	2,262,995,615	17,386,210	44,472,631	1,225,857	63,084,698
3) Increase (2 - 1)	144,438	4,340	12,962	0	17,302
4) Percent Increase	0.01%	0.02%	0.03%	0.00%	0.03%
Statistical Data:	Total of Groups	Impacted			
5) Member Count	40	13			
6) Average Age	51.92	52.54			
7) Average Service	11.82	14.33			

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 \$12,962 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 \$144,438 has been fully amortized. The normal cost amount of \$4,340 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. These are results in total for all employee groups impacted. In the tables below, we will show results for each respective group individually. The same concept for amortizations and normal cost would apply to the results for each individual group.

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 the employee groups 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 as listed above in the Background Summary. The members impacted by this change will be those whose membership date falls in those dates as listed in the Background Summary.

Table 2 – Impact to the System of the retirement eligibility change (TEAMCO):

Amounts as of January 1, 2016 TEAMCO	Actuarial Accrued Liability	Normal Cost	Amortization Increase	Contribution Increase
1) Valuation Results	6,659,639	242,298		
2) Rule of 75 Update	6,800,479	246,514		
3) Increase (2 - 1)	140,840	4,216	12,639	16,855
4) Percent Increase	2.11%	1.74%		
<u>Statistical Data:</u>	<u>Total of Group</u>	<u>Impacted</u>		
5) Member Count	36	12		
6) Average Age	51.66	52.24		
7) Average Service	12.47	14.25		

Table 3 – Impact to the System of the retirement eligibility change (**Machinist**):

Amounts as of January 1, 2016 Machinist	Actuarial Accrued Liability	Normal Cost	Amortization Increase	Contribution Increase
1) Valuation Results	257,103	29,997		
2) Rule of 75 Update	260,701	30,121		
3) Increase (2 - 1)	3,598	124	323	447
4) Percent Increase	1.40%	0.41%		
Statistical Data:	Total of Group	Impacted		
5) Member Count	4	1		
6) Average Age	54.25	56.12		
7) Average Service	5.94	15.25		

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 40 active members in all of the employee groups analyzed with average age of 51.92 years and average service of 11.82 years. Of this, 13 of these members are impacted by the amendment to Rule of 75, with average age of 52.54 years and average service of 14.33 years. Statistical data for each individual employee group is displayed in the respective tables in the Actuarial Analysis section. The results of the analysis include only the impact of these 13 active employees. Any employees from any of the employee groups that are impacted by this change who have become deferred or retired 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 certain employee groups 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.

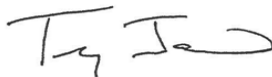
The undersigned are Members of the American Academy of Actuaries and meet the Academy's Qualification Standards to issue this Statement of Actuarial Opinion.

Please call if you have any questions.

Sincerely,



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



Troy Jaros, FSA, EA, MAAA, FCA
Senior Consultant, Retirement Actuary

LL:pl

cc: Jim Carroll
Colleen Foley