



Milwaukee County Retirement Plan Services

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Date: October 18, 2017

To: Theodore Lipscomb, Sr., Chairman, Milwaukee County Board of Supervisors

From: Amy Pechacek, Interim Director of RPS

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Subject: Informational Report on the Baker Tilly Agreed-Upon Procedures Review Audit Phase 2 & 3 Reports, Monthly RPS Update

Baker Tilly Agreed-Upon Procedures Review – Phase 2 & Phase 3

Background

The fully executed Baker Tilly contract was signed March 31, 2017, for the Agreed-Upon Procedures audit to determine what other Employee Retirement Services (“ERS”) issues may currently exist. Retirement Plan Services (“RPS”) and Baker Tilly mapped out the timeline for the audit, which commenced onsite on April 10, 2017. Phase 1 of the audit focused on the areas of greatest concern as identified by RPS staff, the Audit Division of the Comptroller’s Office, the Office of Corporation Counsel and outside counsel, and based on previously uncovered issues as identified through prior errors and the Voluntary Correction Plans (“VCP”). This phase also included random sampling to ensure there are no blind spots in identifying the potential universe of problems. Phase 1 concluded in June, with a report and presentation from Baker Tilly made to the Pension Board, the County Board’s Finance and Audit Committee, and the County Board’s Personnel Committee during the June and July cycles. Please see files #17-154, 17-166, 17-243, 17-321, 17-340, 17-405, 17-532, 17-567, and 17-659 for details.

Baker Tilly Audit Update

The two additional phases of the audit were outlined in the previously submitted scope documents (files #17-340 and 17-659). Phase 2 included expanded research into the factor table issue uncovered during Phase 1 via the random sampling. Specifically, this issue involved the use of an incorrect mortality factor table, which is an actuarial assumption component used in defined benefit plans to calculate retiree and survivor benefit valuations. Lastly, Phase 3 consists of the consulting aspects and document process improvement recommendations from Baker Tilly to assist RPS in more efficient and accurate operations moving forward. Baker Tilly’s Phase 2 and Phase 3 reports are attached as Exhibit A and Exhibit B to this report. Baker Tilly will present these findings to the Pension Board and County Board upon referral to the desired committees.

Phase 2 Cost Estimate

The only way to determine the exact fiscal impact of the factor table error outlined in Phase 2 that spans from 2009- 2012 is to correct each of the 376 files individually, as the factor component will vary file by file depending on the type of benefit chosen and the demographic information associated with the specific beneficiary. However, in the interest of information sharing and transparency, a very rough cost projection is estimated below by performing a sample calculation of a subset of the impacted population and projecting these average costs to the entire population. This methodology was shared with and reviewed by the Office of the Comptroller. The corrections will vary in cost depending on the interest rate accepted by the IRS, which is still unknown. The possible interest rate scenarios are displayed below along with the associated estimated projected impact. These numbers are **estimates only** prepared by the RPS team and the exact figures will be available upon recalculation of all 376 files at the determined interest rate.

<i>Clock</i>		<i>8% Compounded</i>		<i>5% Compounded</i>		<i>5% Simple</i>
102XXX	\$	1,413.98	\$	1,265.00	\$	1,242.13
126XXX	\$	2,061.35	\$	1,834.33	\$	1,726.79
117XXX	\$	636.72	\$	572.77	\$	563.44
132XXX	\$	6,846.65	\$	6,128.29	\$	6,019.59
126XXX	\$	9,963.72	\$	8,879.40	\$	8,446.01
115XXX	\$	3,465.61	\$	3,056.53	\$	2,990.63
133XXX	\$	3,114.42	\$	2,552.93	\$	2,457.80
104XXX	\$	3,067.57	\$	2,680.79	\$	2,615.30
107XXX	\$	53,388.02	\$	43,694.47	\$	42,275.75
104XXX	\$	7,507.76	\$	6,151.68	\$	2,924.97
<i>Average per member</i>	\$	9,146.58	\$	7,681.62	\$	7,126.24
<i>Estimated cost for total population correction</i>	\$	3,349,114.08	\$	2,888,288.74	\$	2,679,466.62

Other RPS Updates

A Request for Proposal (RFP) for pension actuary services was issued through the Purchasing Division of the Department of Administrative Services of Milwaukee County on June 7, 2017. The bid window closed on July 19, 2017. Seven bids were received. The review panel comprised of four voting members from the fiscal, technology, and management branches of Retirement Plan Services along with a member from the Comptroller’s Office. Upon conclusion of the formal RFP process, the panel recommended to the Pension Board that the contract be awarded to Segal Consulting. This was approved by the Pension Board at the September board meeting. On October 12, 2017, RPS entered into a professional services agreement for actuarial services related to pension operations with Segal Consulting.

The leading advantage of Segal above all other proposers is the firm's familiarity with the Milwaukee County Employees' Retirement System. Two of the four account representatives on the account team assigned to Milwaukee County formerly worked on the plan directly through Buck and are knowledgeable of the associated plan complexities. The other strengths of the firm include over 400 public sector clients including the Wisconsin Retirement System, 152 on-staff credentialed actuaries, a Chicago based office, innovative technology and modeling, no limit of liability provision on the contract, superior transition strategy, and experience working with the Vitech software system. Please see the attached report, labeled Exhibit C, outlining the recommendation that was presented to the Pension Board.

Next Steps

Once the IRS has the completed version of the 2014 Supplemental VCP, they will review the reported errors and proposed correction methodologies. If the IRS approves of the proposed corrections, the IRS will issue a compliance statement that reflects the errors and the steps the plan will take to correct the errors. If the IRS has questions or concerns with the proposed correction methods, we will work with the IRS to come to an agreement on the corrections and a compliance statement will then be issued. After the IRS issues the compliance statement, RPS will generally have 150 days to complete the corrections. At this point the VCP process will conclude and RPS can focus on implementing the administrative process control recommendations to reduce future error risk as identified in Phase 3. A timeline and implementation strategy for the Phase 3 process improvements will be developed and forwarded to all stakeholders with regular updates provided.

Thank you.

Cc: Supervisor Peggy A. West, Chairwoman, Finance and Audit Committee
Supervisor James Schmitt, Chairman, Personnel Committee
Chris Abele, County Executive
Finance and Audit Committee
Personnel Committee
Kelly Bablitch, Chief of Staff, County Board
Raisa Koltun, Chief of Staff, Office of the County Executive
Teig Whaley-Smith, Director, Department of Administrative Services
Scott Manske, Comptroller
Jerry Heer, Director of Audit, Office of the Comptroller
Kerry Mitchell, Chief Human Resources Officer
Steve Cady, Research & Policy Director, Research Services Division, Office of the Comptroller
Shanin Brown, Committee Coordinator, Office of the County Clerk
Janelle Jensen, Senior Committee Coordinator, Office of the County Clerk