



# Milwaukee County Retirement Plan Services

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June 30, 2017

Mr. Chris Abele  
County Executive  
Milwaukee County Employees' Retirement System  
901 North Ninth Street, Room 306  
Milwaukee, WI 53233

**Re: County Contribution to the Employees' Retirement System and OBRA 1990 Retirement System**

Dear Mr. Abele:

This letter is being provided in accordance with the provisions of Section 201.24(3.1) of the County Ordinance ("CO") that governs the Employees' Retirement System and County Board File No. 97-155 that was adopted by the County Board in February 1997. This letter should be referred to the Committee on Finance, Personnel and Audit.

The actuary has completed the annual review of the Pension Fund as of December 31, 2016, and has determined that the actual County obligation for 2017 is \$66,603,732. It is anticipated that a County contribution of \$66,824,000 will be paid for 2017. A break-down of these amounts is as follows (assuming that no Bi-weekly contributions are anticipated to be made as of this time):

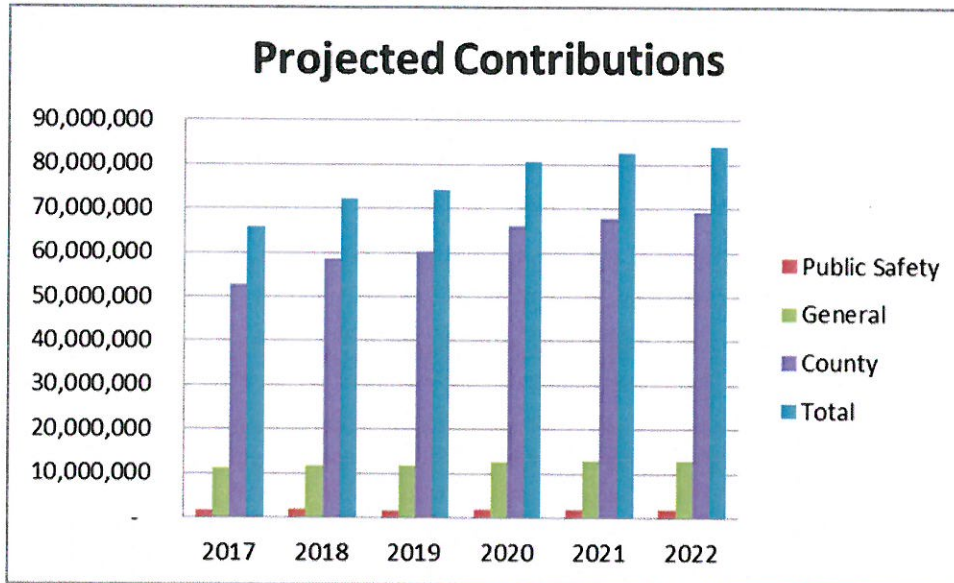
| <u>Plan</u>        | <u>Actual 2017<br/>Obligation</u> | <u>Expected<br/>Contribution<br/>Credit</u> | <u>Type of<br/>Contribution<br/>Credit</u> | <u>Variance</u>    |
|--------------------|-----------------------------------|---|--|--------------------|
| ERS                |                                   | \$65,991,000                                | Lump Sum                                   |                    |
|                    |                                   | 0   | Bi-weekly                                  |                    |
|                    |                                   | 0   | Interest                                   |                    |
| ERS Subtotal       | \$65,799,451                      | \$65,991,000                                |  | \$(191,549)        |
| OBRA               | 804,281                           | 833,000                                     | Lump Sum                                   | (28,719)           |
| <b>Grand Total</b> | <b>\$66,603,732</b>               | <b>\$66,824,000</b>                         |  | <b>\$(220,268)</b> |

The actuary has estimated that the 2018 County Budget should include a total of \$73,030,000 for the County's 2018 gross Pension Fund obligation (including employee contributions). This amount includes:

|                      |                            |
|----------------------|----------------------------|
| \$ 72,194,000        | Employees' Retirement Plan |
| <u>836,000</u>       | OBRA Pension Plan          |
| <b>\$ 73,030,000</b> | <b>Grand Total</b>         |

The actuarial assumptions and plan provisions used for the 2017 actual calculation are the same as those used for the 2016 actual calculations. For the 2018 budget calculation, a base for unexpected change in UAAL during 2017 is added amortized over 20 years. There is also a base added for changing the discount rate from 8.00% to 7.75% effective January 1, 2018 and is amortized over 20 years. In addition, a contribution variance base is added and amortized over 5 years for the amount of the 2017 Actual Contribution determined that is not contributed during 2017.

**NOTE:** The Pension Board adopted the following assumption changes. Effective with the January 1, 2018 actuarial valuation, the rate of return on assets and valuation discount rate will change from 8.00% to 7.75%. Effective with the January 1, 2020 actuarial valuation, the rate of return on assets and valuation discount rate will change from 7.75% to 7.50%. The following table shows the projected ERS contribution amounts through the 2022 Plan year based on these changes. The contribution amounts shown are split between Public Safety Employees, General Employees, and the County.



A summary of the reconciliation of ERS contributions is shown on page 14 of the enclosed presentation.

Attached is a summary of the funding plan for the ERS and OBRA plans, a summary of the actuarial assumptions used by the actuary for the ERS plan, and ten-year histories of the assets and liabilities for both the ERS and OBRA plans. Enclosed is a copy of the actuary's June 28, 2017 presentation of the 2017 actuarial valuation results to the pension board and the final actuarial valuation reports for the Milwaukee County Employees' Retirement System as of December 31, 2016.

**NOTE:** The contribution amounts shown in this letter are gross amounts and do not account for any mandatory employee contributions. It is our understanding that County Staff will net out from this gross amount the amount of employee contributions that are collected to arrive at a net County contribution. The sum of County contributions and employee contributions should match the gross amount of contributions shown in this letter. The recommended employee contribution rates for 2018 are 6.5% for General Employees and 8.3% for Public Safety Employees. Last year's rates were 6.5% and 8.1%, respectively.

We urge the County to make every effort to budget for 2018 the amounts shown in this letter, and to consider any arrangements as it deems appropriate to transition to the increase in future contribution amounts.

Sincerely,

Norbert Gedemer  
Pension Board Chairman

Attachment and Enclosure

**Employees' Retirement System of the County of Milwaukee**  
**Funding Plan, Assumptions and Methods, History of Assets and Liabilities**

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**I Funding Plan**

- The funding policy in 2017 is to contribute each year the normal cost plus amortization payments plus expected administrative expenses.

**2017 Obligation as Budgeted**

|                          | <b>ERS</b>       | <b>OBRA</b>    | <b>Total</b>     |
|--------------------------|------------------|----------------|------------------|
| Normal cost              | \$ 17,372,000    | \$ 88,000      | \$ 17,460,000    |
| Amortization of unfunded | 46,841,000       | 230,000        | 47,071,000       |
| Administrative Expenses  | <u>1,248,000</u> | <u>530,000</u> | <u>1,778,000</u> |
| Total                    | \$ 65,461,000    | \$ 848,000     | \$ 66,309,000    |

**Actual 2017 Obligation, Expected Contribution, and Variance**

|                        | <b>ERS</b>        | <b>OBRA</b>    | <b>Total</b>      |
|------------------------|-------------------|----------------|-------------------|
| Actual Obligation      | \$ 65,799,451     | \$ 804,281     | \$ 66,603,732     |
| Expected Contribution* | <u>65,991,000</u> | <u>833,000</u> | <u>66,824,000</u> |
| Expected Variance      | \$ (191,549)      | \$ (28,719)    | \$ (220,268)      |

\*With interest to 12/31/2017

**2018 Obligation as Budgeted**

|                          | <b>ERS</b>       | <b>OBRA</b>    | <b>Total</b>     |
|--------------------------|------------------|----------------|------------------|
| Normal cost              | \$ 17,377,000    | \$ 104,000     | \$ 17,481,000    |
| Amortization of unfunded | 53,237,000       | 265,000        | 53,502,000       |
| Administrative Expenses  | <u>1,580,000</u> | <u>467,000</u> | <u>2,047,000</u> |
| Total                    | \$ 72,194,000    | \$ 836,000     | \$ 73,030,000    |

- The normal cost is the charge for benefits earned in the current year.
- Expected administrative expenses are immediately reflected.
- The amortization period is 20 years for liabilities due to plan changes, actuarial assumption changes and actuarial experience. Future bases are amortized over 20 years from the date of inception. These amortization payments are calculated assuming that future payments increase by 1.75%.
- The amortization period for the variance (the difference between the actual obligation and the contribution paid) will be 5 years. These amortization payments will be calculated in level dollar amounts.

**Employees' Retirement System of the County of Milwaukee  
Funding Plan, Assumptions and Methods, History of Assets and Liabilities**

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**II Current Actuarial Assumptions and Methods for the ERS and OBRA Plans**

- Investment return – 8.0% per annum for ERS and OBRA
- Payroll growth – 3.5% per annum for ERS / 3.0% for OBRA
- Revenue growth – 1.75% per annum for ERS and OBRA

- Pay increases – Average Annual Individual Increase:

| <u>General</u> | <u>Deputy Sheriffs</u> | <u>Elected</u> |
|----------------|------------------------|----------------|
| 3.3%           | 4.3%                   | 3.0%           |

- Retirement age – Average Retirement Age:

| <u>General</u> | <u>Deputy Sheriffs</u> | <u>Elected</u> |
|----------------|------------------------|----------------|
| 56             | 50                     | 59             |

- Mortality rates

- |    |                         |   |  |
|----|-------------------------|---|--|
| a. | Non-disabled pensioners | - | The sex distinct UP-1994 Mortality Table with projection scale AA to 2012 and then fully generational thereafter using scale AA. |
| b. | Active Participants     | - | 70% of the mortality of non-disabled pensioners.   |
| c. | Disabled pensioners     | - | RP-2000 Disabled Retiree male and female tables.   |

- Separation rates – Average Annual Turnover\*:

| <u>General</u> | <u>Deputy Sheriffs</u> | <u>Elected</u> |
|----------------|------------------------|----------------|
| 3.4%           | 3.7%                   | 2.0%           |

\* For employees not yet eligible to retire.

- Type of disability

- |    |                           |   |                              |
|----|---------------------------|---|------------------------------|
| a. | Non-represented employees | - | 50% Ordinary; 50% Accidental |
| b. | Represented employees     | - | 100% Ordinary; 0% Accidental |

- Backdrop rates – 75% of eligible retirees are assumed to elect a backdrop. Of those electing, 75% are assumed to take the maximum period available to them and 25% take half the maximum period available. The maximum period available is estimated by excluding time periods before the employee was eligible for an unreduced service retirement benefit.

Unless otherwise noted, the assumptions above are for the ERS plan. Refer to the valuation reports for a detailed exhibit of the assumptions for both plans.



**Employees' Retirement System of the County of Milwaukee  
Funding Plan, Assumptions and Methods, History of Assets and Liabilities**

**III History of Assets and Liabilities**

Shown below are supplemental schedules required by government accounting standards. Please note that GASB Statement No. 25 and Statement No. 27 are no longer applicable and have been replaced by Statement No. 67 and Statement No. 68. These results are strictly for comparison purposes for any relevant Statement No. 67 or Statement No. 68 results.

**Schedule of Funding Progress – ERS  
(in thousands of dollars)**

| <b>Actuarial Valuation Date</b> | <b>Actuarial value of Assets (a)</b> | <b>Actuarial Accrued Liability (b)</b> | <b>Funded Ratio (a / b)</b> | <b>Unfunded Actuarial Accrued Liability (b - a)</b> | <b>Covered Payroll (c)</b> | <b>Unfunded as a percentage of covered Payroll { (b-a) / c }</b> |
|---------------------------------|--------------------------------------|--|-----------------------------|---|----------------------------|--|
| 12/31/2016                      | \$ 1,740,422                         | \$ 2,256,308                           | 77.1%                       | \$ 515,886  | \$ 186,214                 | 277.0%   |
| 12/31/2015                      | 1,767,420                            | 2,262,851                              | 78.1%                       | 495,431   | 194,872                    | 254.2%   |
| 12/31/2014                      | 1,773,638                            | 2,222,620                              | 79.8%                       | 448,982   | 191,433                    | 234.5%   |
| 12/31/2013                      | 1,772,750                            | 2,069,547                              | 85.7%                       | 296,797   | 188,605                    | 157.4%   |
| 12/31/2012                      | 1,768,435                            | 2,025,319                              | 87.3%                       | 256,884   | 189,132                    | 135.8%   |
| 12/31/2011                      | 1,836,543                            | 2,059,554                              | 89.2%                       | 223,011   | 190,748                    | 116.9%   |
| 12/31/2010                      | 1,929,428                            | 2,091,927                              | 92.2%                       | 162,499   | 221,647                    | 73.3%  |
| 12/31/2009                      | 1,956,444                            | 2,097,332                              | 93.3%                       | 140,888   | 237,040                    | 59.4%  |
| 12/31/2008                      | 1,968,518                            | 2,057,377                              | 95.7%                       | 88,859  | 233,820                    | 38.0%  |
| 12/31/2007                      | 1,627,288                            | 2,024,923                              | 80.4%                       | 397,635   | 227,364                    | 174.9%   |

**Schedule of Funding Progress – OBRA  
(in thousands of dollars)**

| <b>Actuarial Valuation Date</b> | <b>Actuarial value of Assets (a)</b> | <b>Actuarial Accrued Liability (b)</b> | <b>Funded Ratio (a / b)</b> | <b>Unfunded Actuarial Accrued Liability (b - a)</b> | <b>Covered Payroll (c)</b> | <b>Unfunded as a percentage of covered Payroll { (b-a) / c }</b> |
|---------------------------------|--------------------------------------|--|-----------------------------|---|----------------------------|--|
| 12/31/2016                      | \$ 1,514                             | \$ 4,380                               | 34.6%                       | \$ 2,866  | \$ 3,640                   | 78.7%  |
| 12/31/2015                      | 1,311                                | 3,805                                  | 34.4%                       | 2,494   | 3,926                      | 63.5%  |
| 12/31/2014                      | 1,560                                | 3,484                                  | 44.8%                       | 1,924   | 3,925                      | 49.0%  |
| 12/31/2013                      | 1,603                                | 3,411                                  | 47.0%                       | 1,808   | 3,478                      | 52.0%  |
| 12/31/2012                      | 1,662                                | 2,869                                  | 57.9%                       | 1,207   | 7,736                      | 15.6%  |
| 12/31/2011                      | 1,236                                | 2,444                                  | 50.5%                       | 1,209   | 8,939                      | 13.5%  |
| 12/31/2010                      | 1,402                                | 5,520                                  | 25.4%                       | 4,117   | 8,936                      | 46.1%  |
| 12/31/2009                      | 1,039                                | 5,069                                  | 20.5%                       | 4,030   | 6,901                      | 58.4%  |
| 12/31/2008                      | 860                                  | 4,452                                  | 19.3%                       | 3,592   | 8,498                      | 42.3%  |
| 12/31/2007                      | 1,355                                | 4,077                                  | 33.2%                       | 2,722   | 8,284                      | 32.9%  |