

January 23, 2012

Supervisor Paul M. Cesarz  
Chairman  
Pension Study Commission  
901 N. 9th St.  
Milwaukee, WI 53233

**RE: Actuary's Review of Proposed Ordinance Amendments to the OBRA 1990 Retirement System - County Board Resolution File No. 12-54**

Dear Supervisor Cesarz:

As part of the process for adopting amendments to County ordinances relating to the OBRA 1990 Retirement System ("OBRA"), we have reviewed the proposed changes and present this letter detailing our findings. In general, while these changes are necessary to comply with the Internal Revenue Code, these changes have no actuarial impact either due to the plan already operating in compliance with the code or because the change has no actuarial impact or both. A summary of the proposed amendments for OBRA follows, as well as our comments on the cost impact to the plan.

**OBRA Proposed Ordinance Amendments**

- **Section 1** of the OBRA Resolution amends section 203(2.4) to incorporate the updated Internal Revenue Code (Code) section 401(a)(17) annual compensation limit that a plan may consider when calculating an individual's benefit.

**Buck's comments:** The amendment merely updates outdated language. ERS staff have confirmed that the operation of the plan already reflects annual updates to Code section 401(a)(17). Therefore, this amendment will have no impact on the cost of the plan.

- **Section 2** of the OBRA Resolution amends section 203(2.12) to provide for 100% vesting in the benefit at all times.

**Buck's comments:** ERS staff has confirmed that the operation of the plan already reflects this provision. Therefore, this amendment will have no impact on the cost of the plan.

- **Section 3** of the OBRA Resolution amends section 203(2.12) to incorporate the Heroes Earnings Assistance and Relief Act of 2008 (the HEART Act) which provides additional benefits to OBRA members with qualifying military service.

**Buck's comments:** This amendment provides for additional death benefits and additional elements to be included in average compensation. While these are meaningful benefits to affected members, the amount of utilization of these benefits is likely low and also difficult to estimate. ERS staff has confirmed that very few members would have been affected by this provision in the past. Given the low likelihood of these benefits being triggered, this amendment will have little or no impact on the cost of the plan.

- **Section 4** of the OBRA Resolution amends section 203(4.4)(a) to comply with Code section 401(a)(31), to limit cashouts to members who terminate County employment with accrued benefits equal to an actuarial equivalent value of \$1,000 to \$5,000 to be paid directly into an IRA unless the member requests a cash payment. The escalation on the \$5,000 threshold has been eliminated as well.

**Buck's comments:** Payment directly into an IRA has no cost impact on the plan. Because the lump sum benefits of the plan are actuarially equivalent to the accrued benefits, the elimination of the escalation threshold has no impact on the plan.

- **Section 5** of the OBRA Resolution amends section 203(4.5)(a) to comply with Code section 401(a)(31), to limit mandatory cashouts to members who terminate County employment with accrued benefits equal to an actuarial equivalent value of \$1,000 to \$5,000 to be paid directly into an IRA unless the member requests a cash payment.

**Buck's comments:** Payment directly into an IRA has no cost impact on the plan.

- **Section 6** of the OBRA Resolution amends section 203(7.1)(a)(2) incorporates the updated Code section 415 maximum annual benefit amounts that a plan can pay from the trust.

**Buck's Comments:** There is no cost to this change for at least two reasons: the OBRA employees do not earn benefits large enough to be impacted by the Code section 415(b) limits and we understand that in operation the plan already complies with the provisions of the Code for determining Code section 415(b) limits.

- **Section 7** of the OBRA Resolution amends section 203(7.1)(f) to (a) provide for the mortality table to be used for Code section 415; (b) eliminate the \$75,000 "floor" on Code section 415 benefit limits at age 55; and (c) eliminate the pre-age 55 "floor" that was equal to the actuarial equivalent of the age 55 floor.

**Buck Comments:** Similar to Section 6 of the OBRA Resolution, there is no cost to this change for at least two reasons: the OBRA employees do not earn benefits large enough to be impacted by the Code section 415(b) limits and we understand that in operation the plan already complies with the provisions of the Code for determining Code section 415(b) limits.

- **Section 8** of the OBRA Resolution removes section 203(7.1)(f)(ii) and renumbers 203(7.1)(f)(i) to 203(7.1)(f) to improve readability and reflect OBRA operation.

**Buck Comments:** There is no cost to this cosmetic change.

- **Section 9** of the OBRA Resolution adds 203(7.1)(g) clarify the administration of benefit forms other than straight life.

**Buck Comments:** The amendment has been added to comply with the Code. ERS staff has confirmed that the operation of the plan already complies with this section of the Code, and OBRA does not allow for forms of benefit other than a straight life annuity. Therefore, this amendment will have no impact on the cost of the plan.

- **Section 10** of the OBRA Resolution adds 203(7.1)(h) to incorporate Code section 417(e)(3), which relates to determination of lump sum benefits.

**Buck Comments:** The amendment has been added to comply with the Code. ERS staff has confirmed that the operation of the plan already complies with this section of the Code. Therefore, this amendment will have no impact on the cost of the plan.

- **Section 11** of the OBRA Resolution adds 203(7.2)(a) to incorporate Code section 417(e)(3), which relates to determination of lump sum benefits.

**Buck Comments:** The amendment has been added to comply with the Code. ERS staff has confirmed that the operation of the plan already complies with this section of the Code. Therefore, this amendment will have no impact on the cost of the plan.

- **Section 12** of the OBRA Resolution adds 203(7.2)(c) to incorporate Code section 417(e)(3), which again relates to determination of lump sum benefits.

**Buck Comments:** The amendment has been added to comply with the Code. ERS staff has confirmed that the operation of the plan already complies with this section of the Code. Therefore, this amendment will have no impact on the cost of the plan.

- **Section 13** of the OBRA Resolution amends 203(9.3) to updates the minimum lump sum amount from \$3,500 to \$5,000.

**Buck Comments:** ERS staff has confirmed that the operation of the plan already complies with this section of the Code. Therefore, this amendment will have no impact on the cost of the plan.

- **Section 14** of the OBRA Resolution amends 203(10.7) to comply with updates to the minimum distribution requirements of Code section 401(a)(9).

**Buck Comments:** ERS staff has confirmed that the operation of the plan already complies with this section of the Code. Therefore, this amendment will have no impact on the cost of the plan.

- **Section 15** of the OBRA Resolution amends 203(11.3) to include updates to the plans eligible for rollover from the OBRA as contained in Code section 408(a).

**Buck Comments:** The addition of more plans that are available for rollover does not have an actuarial impact. Therefore, this amendment will have no impact on the cost of the plan.

- **Section 16** of the OBRA Resolution amends the end of 203(11.3) to include updates as contained in Code section 408(a).

**Buck Comments:** The addition of these rollover provisions does not have an actuarial impact. Therefore, this amendment will have no impact on the cost of the plan.

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- **Section 17** of the OBRA Resolution amends the end of 203(11.4) to expand the definition of distributee to effectuate nonspouse beneficiary rollover requirements.

**Buck Comments:** ERS staff has confirmed that the operation of the plan already complies with this section of the Code. Therefore, this amendment will have no impact on the cost of the plan.

We are available to discuss this letter.

Sincerely,



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

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