

**Employees' Retirement System of the County of Milwaukee
Exhibit on DROP Current Lump Sum vs. Proposed Lump Sum**

DROP Estimate for General Employee			
<u>Hire Date</u>	<u>Current Annuity</u>	<u>Current Lump sum</u>	<u>Proposed Lump sum</u>
1988	\$21,198	\$145,730	\$116,585
1998	\$21,198	\$145,730	\$68,007
2003	\$21,198	\$145,730	\$43,719
2008	\$21,198	\$145,730	\$19,431

This illustration is intended to demonstrate the impact of the proposed backdrop modification outlined in Buck's May 1, 2012 letter RE: Actuary's Review of Possible Backdrop Modification. The illustration removes all variables except for the retirement date in order to show how the backdrop benefit is affected by the proposed change. This illustration makes a number of simplifying assumptions, including the following:

- The employee is hired at age 30, retires at age 65 and backdrops to age 60. Thus, the illustration ignores the possibility of rule of 75 retirements before age 60 and the new requirement for some employees of retirements only at age 64.
- The employee's salary is \$40,000 at hire, regardless of the date of hire, and does not increase during employment. Thus, the illustration ignores wage variables and inflation in order to isolate the effect of the proposed change.
- The benefit multiplier is 1.6% for all years of service. Thus, the illustration ignores differing multipliers that may apply to different employees, again in order to isolate the effect of the proposed change.
- The illustration ignores the fact that employees already eligible to retire will be able to elect a backdrop date prior to the effective date of this proposal and will not be affected by the proposal.
- The illustration does not show the amount of the annuity for an employee who does not select a backdrop benefit.

The intent of the illustration is to show the impact of the freezing of the benefit eligible for DROP as of September 1, 2012 while keeping all other variables the same. Therefore, as noted, the actual, specific plan provisions that would govern the illustrative employees above, such as the 2.0% multiplier or retirement ages of 57 or 64, are not illustrated. Explicitly modeling these other provisions would impact the direct comparability of the possible backdrop modification. The examples merely illustrate the fact that the annual pension annuity under current provisions is not affected by this proposal, but that the amount of the backdrop is affected, especially as retirements occur into the future.