

October 19, 2016

Marian Ninneman
Director, Retirement Plan Services
Employees' Retirement System of the
County of Milwaukee
901 N. 9th St.
Milwaukee, WI 53233

Larry Langer
Principal and
Consulting Actuary

Buck Consultants, LLC.
123 North Wacker Drive
Suite 1000
Chicago, IL 60606

larry.langer@xerox.com
tel 312.846.3669
fax 312.846.3502

Re: Pension Analysis of the Corrected Benefit Amounts under the VCP

Dear Marian:

You requested that Buck provide an analysis on the actuarial impact to the ERS of the corrected benefit amounts of members under the IRS Voluntary Correction Program (VCP). This letter presents the results of our analysis.

Background Summary

You have requested from Buck the estimated cost impact due to the corrected benefit amounts of members who retired between 2001 and 2008 and elected an optional form of benefit. The previous calculations had used factors determined from an incorrect mortality table. Previous calculations used the UP-84 Mortality Table with 3-year setback for healthy members and the 1965 RRB Ultimate Disabled Mortality Table for disabled members. Corrected calculations use 1983 Group Annuity Mortality table. These pension calculations are being corrected for 1,232 members.

The corrected benefit amounts for these members will result in two additional costs, as specified below:

- The increase in the benefit amounts for these members will need to be paid for all past payments already received with interest in a one-time lump sum retro payment. The one-time lump sum, provided by Milwaukee County, is estimated to be \$11,000,000. This amount will increase the unfunded actuarial accrued liability and flow directly to an increased contribution amount.
- The increase in the benefit amounts for these members will increase the expected benefit payments to be paid in the future. As a result, the actuarial accrued liability as of the valuation date will increase to reflect this.

Actuarial Analysis

The change in mortality tables used for optional form factors results in an increase in the amount of benefits paid from the ERS and will result in both increased liabilities to the ERS along with increased contribution amounts. In addition, the payment of the \$11 million to recognize the past underpayments will result in reduced assets so the Unfunded Actuarial Accrued Liability is also increased by that amount. The following table shows these results.

Table 1 – Impact to the System of the corrected benefit amounts:

Amounts as of January 1, 2016	Actuarial Accrued Liability	Normal Cost	Unfunded AAL	Amortization Amount	Expense	Total Contribution Amount
1) Valuation Results	2,262,851,177	17,381,870	495,431,425	44,459,669	1,225,857	63,067,396
2) VCP Updated Liability	2,268,874,012	17,381,870	501,454,260	45,000,154	1,225,857	63,607,881
3) VCP Lump Sum Payment	2,268,874,012	17,381,870	512,454,260	45,987,286	1,225,857	64,595,013
4) Increase (3 - 1)	6,022,835	0	17,022,835	1,527,617	0	1,527,617
5) Percent Increase	0.3%	0.0%	3.4%	3.4%	0.0%	2.4%

The current policy for the amortization is for any increase in the Unfunded Actuarial Accrued Liability to be amortized over 20 years as a level percent of pay. The payment of \$1,527,617 to amortize this is expected to increase by 1.75% per year over the 20 year payment period until the entire increase in unfunded liability of \$17,022,835 has been fully amortized.

Note that the contribution amount above is a gross contribution amount. The County and members currently share in the contribution requirements. Because all of the members affected are currently retired, the split will have most of the increased contributions allocated to the County.

Our analysis uses the recalculated benefit amounts as of January 1, 2016 for 973 members provided by ERS. There are 259 members as of the date of this analysis whose benefit amounts have not been recalculated. For these members, ERS indicated to assume a 2.2% benefit increase for each of the respective benefit amounts.

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.

We used the census data that was used for the January 1, 2016 actuarial valuation. The January 1, 2016 actuarial valuation results included the 1,232 members whose benefits are being corrected. One of these members was deceased as of January 1, 2016 so will not impact these results. The remaining 1,231 members have an average age of 67.8 years. Their average monthly benefit of these members before the correction was \$2,222 and after the correction was \$2,262.

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.

Marian Ninneman
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The primary purpose of this report is to present an estimate of the actuarial impact of the corrected benefit amounts under the IRS Voluntary Correction Program 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 is a Member of the American Academy of Actuaries and meets the Academy's Qualification Standards to issue this Statement of Actuarial Opinion.

Please call if you have any questions.

Sincerely,

A handwritten signature in blue ink, appearing to read "LL", written in a cursive style.

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

LL:pl

cc: Troy Jaros