

COUNTY OF MILWAUKEE
Department of Human Resources
INTER-OFFICE COMMUNICATION

DATE : November 11, 2016

To : Theodore Lipscomb, Chairman, Board of Supervisors
James "Luigi" Schmitt, Chairman, Personnel Committee

FROM : Kerry Mitchell, Chief Human Resources Officer *KJM*
Marian Ninneman, Director of Retirement Plan Services *MN*

SUBJECT : Informational Report: IRS Voluntary Correction Plan Update

Background

The Employees' Retirement System (ERS) is a qualified plan under the Internal Revenue Code ("Code") and must comply with Code requirements applicable to government plans, including being administered in accordance with the Ordinances and Rules.

In 2007, Retirement Plan Services (RPS) reported a number of errors to the IRS through the IRS's Voluntary Correction Program ("VCP") to avoid tax-disqualification of ERS. The IRS issued their compliance statement in June, 2016, allowing us to move forward with the correction methodology proposed by RPS. The corrections must be made by the extended deadline of December 31, 2016, to maintain the tax qualified status of the plan. This VCP has been said to be the longest-running VCP in the history of the IRS. Earlier reports regarding the VCP provided information on error associated with the buy in / buy back program which were corrected through Ordinance amendments.

Update

As you may know from prior Committee meetings, our RPS team has been working diligently to meet the deadline imposed by the IRS. As part of that process, our team has been working hard to address another issue we discovered with respect to staff errors that occurred in the early 2000's. All of these particular errors resulted in underpayment to approximately 1,283 retirees; as such, they will be receiving checks to correct the issue.

Between 2001 through 2008, pension calculation errors occurred when the wrong mortality table was used to determine optional forms of benefits (joint and survivor benefits) that were actuarially equivalent to the normal form of benefit (straight life annuity). This resulted in benefit underpayments to those individuals and, in cases where the members have died, their beneficiaries, who had elected a joint and survivor benefit. These errors occurred when an amendment to the pension plan authorizing the use of a new mortality table was adopted, but staff continued to use the old mortality table. Since 2009, the correct mortality tables have been used in the calculation of all retirements processed.

In addition to calculating each affected participant's benefit using the correct mortality table and updating the monthly benefit payment, RPS has calculated the amount the participant should have received. An 8% interest rate will be applied to those underpayments. Those affected will receive a lump sum payment making them whole, as well as a newly adjusted monthly payment moving forward.

Timeline

- November 14: Members are sent letters outlining the adjustment
- November 16: Members receive lump sums
- November 30: Members receive first updated monthly check

Fiscal Analysis

We have been working with the Comptroller, the Budget Director, and our actuaries to develop an analysis of the costs associated with this correction. **We have confirmed that there is no financial impact to the 2017 budget.** However, we anticipate that both the County contribution and the employee contribution will be affected in 2018.

A summary of what we do know about the costs:

- Lump Sums: Approximately \$11 Million
- Future Additional Payments: \$6,022,835

Once a thorough fiscal analysis is complete, we will report this information to the Pension Board, the County Board, and the County Executive.

Conclusion

Please contact Marian Ninneman or me if you have any questions, or would like additional information regarding the VCP and the corrections being made. Also, please join me in thanking the entire RPS staff for working days, evenings and weekends for several months to ensure the County completed all VCP requirements by the IRS deadline.

Cc: County Executive Chris Abele
Raisa Koltun, Chief of Staff, County Executive's Office
Teig Whaley-Smith, Director of Administrative Services
Steven Kreklow, Director – Performance, Strategy, & Budget
Scott Manske, Comptroller
Jerry Heer, Director of Audit, Comptroller's Office
Colleen Foley, Corporation Counsel
Kerry Mitchell, Chief Human Resources Officer
Kelly Bablitch, Chief of Staff, County Board
Steve Cady, Director of Research, Comptroller's Office
Shanin Brown, Committee Coordinator