Milwaukee County
Retirement Sustainability Taskforce RST
Meeting Minutes
May 29, 2018, 2:30 PM
Milwaukee Area Technical College Room M616
700 W State Street Milwaukee WI 53233

Members Present:

Chris Abele, Bob Conlin (by phone), Margaret Daun, Rep. Evan Goyke, Ralph Hollmon, Scott Manske, Jodi (Mapp) Manuel, Kerry Mitchell, Tom Meaux, Ron Nelson, Julie Siegel, Greg Smith, Teig Whaley-Smith

Meeting called to order at 2:36 pm

Item 1 Presentation by David Draine: Pension Debt and New Plan Designs

Full presentation available at http://county.milwaukee.gov/RST

Questions/Discussion:
Q: Is the county settlement (~$40 million) with Mercer from the 2000 pension enhancements included in the calculations of the various causes for the unfunded liability?
A: Yes, in either contributions or non-investment gains/losses.

Q: To what extent is the growth in the unfunded liability linked to poor assumptions and poor investment performance versus deliberate underfunding of required contribution amounts?
A: The county consistently contributed what the actuary recommended each year. Unfortunately, certain assumptions about things like mortality and other demographic factors were off. Even more important, assumptions about use of the backdrop turned out to be far too conservative, and the expected rate of return – which exceeded 8% for much of the 2001-2016 period – was too optimistic.

Q: When were salaries and years of service frozen for backdrop?
A: Both are frozen as of 2013.

Q: Foley & Lardner conducted an analysis of the legality of further altering the backdrop benefit. Should we revisit that question?
A: Yes, we can look at that question if the task force wants to move in that direction

Q: Was it the generous nature of the backdrop that created the huge unfunded liability?
A: The thing that was misunderstood about the backdrop: most of these have some limits, but Milwaukee County allowed an early retirement age, unlimited ability to drop back (most limit to last 2 or 3 years), and interest rate that exceeded 8%. The 25% bonus given to certain long-time employees (retention tool to prevent a wave of retirements) was equally unique. Some people did receive benefits in ways that were unintended at the time of implementation.

Q: Have these been fixed (going forward)?
A: There were a host of reforms from 2011-2013. The multiplier was changed, the backdrop was frozen, retirement age, and employee contributions were changed. These tools have already been used.

Q: So what part of the growth in the unfunded liability is due to the backdrop?
A: The assumptions had to be revised because more people were taking the backdrop. That's shown in both non-investment and assumption benefit change. Florida and Texas capped it at 3 or 5 years, can't make more than 80% of salary/wages, and a certain percent. Milwaukee County didn't limit any of these. When

we look at the unfunded liability, maybe close to 50% is attributed to failure to achieve investment objectives and 50% in assumptions and benefits changes.

Q: What is the discount rate?
A: It is going down from 7.75% to 7.5% and consideration is being given to lowering it further to 7%

Q: Is the COLA linked to inflation?
A: No, the COLA is set at 2% each year. It is applied to the initial base amount and stays the same, doesn't compound.

Q: Could Milwaukee County model its COLA on how the state does it?
A: Potentially, yes, though there may be legal challenges. Other options would be to say no COLAs until we're fully funded in Milwaukee County, then back to 2%, or other variations. A reduction in COLA is a dollar to dollar reduction in costs (and benefits to retirees).

Q: Is part of our decision-making linked to whether we're most concerned about long-term vs. relatively short-term county employees?
A: That's a value judgement but clearly that's a consideration. Some data from HR is coming for next time, but we have found that only about 10% of workers are career workers. The mid-career numbers will be more realistic for most employees.

Q: Are those replacement lines including social security?
A: For career workers, yes. We can't calculate that for mid-career (too many unknown variables).

Q: How will we go about developing our recommendations?
A: For the next meeting, we will show a scorecard for each of the three options under consideration (WRS, Defined Contribution 1B, and Risk-Managed Hybrid). The project team of WPF, DAS, and Pew will get us started by using the nine criteria we discussed earlier this year and rating each on a scale of 1-5 for each of the nine criteria. Then, we will conduct this exercise as a group to see if we can reach a consensus. It's possible that as we proceed we may wish to tweak one or more of the options. We are also looking at unfunded liability options and how that and the plan designs may intersect. The process may take two or more sessions.

Q: Can we get the project team ratings in advance of the next meeting?
A: Yes, we will do our best to get that out to you.

Q: Are we making a simultaneous decision on the unfunded liability and plan options?
A: It's possible. For example, if the plan choice would increase costs, we may want to try to decrease costs on the unfunded liability. Factors to consider include affordability to the taxpayer and ability of the county to provide services. We can't necessarily say whether we have to do one first or both.
Another example would be changing the multiplier or going to the state system. We can't do both. So some options won't be available to us anymore if we choose other options.

Notes:

The next meeting will be **Tuesday, June 26** at the same time and location.
The project team will assess the three plan design options using the previously agreed upon criteria and send its scores in advance of the meeting.

Adjourned at 4:23pm.