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November 26, 2018

***VIA E-MAIL***

Ms. C.J. Pahl  
Financial Services Manager  
Milwaukee County Office of the Comptroller  
901 N. 9<sup>th</sup> Street, Room 301  
Milwaukee, WI 53233

**Re: Actuary's Review of Proposed Ordinance Amendments to the Milwaukee County Employees' Retirement System**

Dear Ms. Pahl:

As requested, we have reviewed the proposed ordinance changes included in your email dated November 9, 2018. A summary of the proposed amendments to the Milwaukee County Employees' Retirement System (ERS) follows, as well as our comments and the actuarial cost impact to the System.

### **Actuarial Cost Impact**

If a change to the ordinance would affect Segal's calculation of the actuarial assets or actuarial liabilities, then there is an actuarial cost impact from the proposed change.

### **Section 2.19**

Section 2.19 is amended such that retirement benefits are paid monthly, with no partial payments being applicable if a retiree terminates employment or begins an authorized leave of absence in the middle of a month. Further, when a retiree or beneficiary dies, the benefits are paid for the entire month, so there is no refund to the System.

### **Segal Comments on Section 2.19**

This language simplifies the way ERS is administered. However, for actuarial valuation purposes, payments are assumed to be paid for complete months with no refunds for partial months. Accordingly, there is no actuarial cost associated with this change.

### **Section 2.22 and Section 2.23**

Section 2.22 is moved to Section 2.23. A new Section 2.22 is added that defines the term RPS to mean retirement plan services and defines the functions of RPS.

#### Segal Comments on Sections 2.22 and 2.23

There is no actuarial cost associated with adding Section 2.22 to the ordinance or in moving the former Section 2.22 to Section 2.23.

### **Section 3.1**

This section of the ordinance provides that the pension board will provide the following information to the County Executive prior to June 1 of each year:

- a) An estimated budget pension contribution.
- b) A summary of the actuarial assumptions supporting the budgeted pension contribution.

The proposed amendment to the ordinance makes the following changes:

Subsection (a) – eliminate an outdated example referencing a base year of 1984.

Subsection (b) – eliminate an outdated example referencing a base year of 1984.

Subsection (c) is added, providing that the Pension Board will also provide quarterly summaries of the aggregate contribution resulting from the County's assumption of liability for overpayments. The aggregate contribution will be paid by the County to ERS within 20 business days following the end of the quarter.

Subsection (d) is added, providing that RPS shall maintain an accounting of all overpayment amounts owed and paid by the County, as well as members and beneficiaries. Amounts that are collected by RPS from members and beneficiaries under Option 1 shall offset the County's annual contribution requirement in the subsequent year (see discussion of Section 8.24 for information on Option 1 and Option 2). In the subsequent year, the accumulated payments for Option 1 will be transferred to the Pension Obligation Bond Fund.

#### Segal Comments on Section 3.1

Subsections (a) and (b) are about disclosure of information. There is no actuarial cost associated with this disclosure. The cost of the County's assumption of liability for overpayments is discussed below.

### **Section 8.21**

This section is amended to provide that the Pension Board may delegate certain responsibilities to RPS, and that RPS may implement plan changes due to collective bargaining agreements. RPS is required to act in accordance with the ordinances and Pension Board rules.

#### Segal Comments on Section 8.21

There is no actuarial cost associated with changing this language in the ordinance.

### **Section 8.24**

This new section addresses the correction of overpayments and underpayments. Segal's comments are included in the following subsections.

#### **Section 8.24(1)**

This section provides for RPS to correct any errors and to maintain the System's federal tax-qualified status.

#### Segal Comments on 8.24(1)

There is no actuarial cost to adding this section to the ordinance.

#### **Section 8.24(2)**

RPS shall pay any corrective payment with applicable interest.

#### Segal Comments on Section 8.24(2)

It is our understanding that this section of the ordinance clarifies existing practice. Accordingly, there is no actuarial impact.

#### **Section 8.24(3)(a) and (b)**

Section (a) provides that if a member or beneficiary receives an overpayment, RPS shall seek to recoup such overpayment with interest. This section also provides rules for the notification to members of overpayments and interest. The notification to participants will also provide process-related information, including members' repayment options.

Section (b) provides rules for the overpayment collection option form to be provided to members.

#### Segal Comments on Section 8.24(3)(a) and (b)

It is our understanding that these sections of the ordinance clarify existing practice. Accordingly, there is no actuarial cost impact.

### **Section 8.24(3)(c)**

This section provides two main options for repayment.

- Option 1 – the member agrees to the benefit correction and waives the right to challenge the benefit correction and recoupment. The interest on the repayment amount will begin to accrue after one year has elapsed.
- Option 2 – if the member elects Option 2 or fails to make an affirmative election for Option 1, the member is responsible for the entire repayment, including interest. There is no grace period on the interest under Option 2.

#### Segal Comments on Section 8.24(3)(c)

It is our understanding that this section of the ordinance clarifies existing practice. Accordingly, there is no actuarial cost impact.

### **Section 8.24(3)(d)**

This section provides that RPS may waive collection of repayments if the amount is below the de minimus threshold of section 8.24(5).

#### Segal Comments on Section 8.24(3)(d)

Repayment waivers will be discussed under section 8.24(5) below.

### **Section 8.24(3)(e)**

This section describes the determination of the starting month for recoupment of overpayments.

#### Segal Comments on Section 8.24(3)(e)

It is our understanding that this section of the ordinance clarifies existing practice. Accordingly, there is no actuarial cost impact.

### **Section 8.24(3)(f)**

This section provides that the monthly repayment amount shall be determined in accordance with guidelines established by the Wisconsin Department of Employee Trust Funds.

#### Segal Comments on Section 8.24(3)(f)

It is our understanding that this section of the ordinance clarifies existing practice. Accordingly, there is no actuarial cost impact.

**Section 8.24(3)(g)**

If certain conditions apply, the repayment amount shall not exceed 5% of the member or beneficiary's monthly pension benefit. The section also provides that an equitable adjustment may be applied by RPS based on certain considerations.

Segal Comments on Section 8.24(3)(g)

It is our understanding that this section of the ordinance clarifies existing practice. Accordingly, there is no actuarial cost impact from the revised provisions of the ordinance.

**Section 8.24(3)(h)**

Repayment may be in the form of a lump sum, monthly repayment plan, or monthly offset plan. Payments are applied first to interest, then to the repayment principal.

Segal Comments on Section 8.24(3)(h)

There is no actuarial cost impact from the revised provisions of the ordinance.

**Section 8.24(3)(i)**

This section describes collection procedures for situations where a member fails to make a payment toward the obligation arising from overpayments. In certain situations, where repayment amounts are deemed uncollectible, ERS will be reimbursed by the County.

Segal Comments on Section 8.24(3)(i)

It is our understanding that this section of the ordinance clarifies existing practice. Accordingly, there is no actuarial cost impact from the revised provisions of the ordinance.

**Section 8.24(3)(j)**

This section clarifies that the ordinance does not limit the authority of the County or the Pension Board to settle litigation.

Segal Comments on Section 8.24(3)(j)

It is our understanding that this section of the ordinance clarifies existing practice. Accordingly, there is no actuarial cost impact from the revised provisions of the ordinance.

#### **Section 8.24(4)**

This section provides that underpayments and overpayments shall include simple interest at a rate of 5% per annum. If a different interest rate is mandated by the IRS, pursuant to the terms of a submission under the Voluntary Correction Program, that rate shall apply instead.

#### Segal Comments on Section 8.24(4)

It is our understanding that this section of the ordinance clarifies existing practice. Accordingly, there is no actuarial cost impact from the revised provisions of the ordinance.

#### **Section 8.24(5)**

This section provides that RPS shall waive a member or beneficiary's repayment obligation if the total of all overpayments with interest is less than \$165. Further, if a member is owed underpayments that total \$75 or less (including interest), RPS shall not pay those amounts.

#### Segal Comments on Section 8.24(5)

If the total of all overpayments for a member is less than \$165, then the waiver of that repayment obligation is negligible, and does not have an actuarial cost impact.

However, if there are a significant number of members with overpayments that are waived under this section, there could be an actuarial cost impact. Overpayments generally result from a member's monthly benefit being revised to a lower amount, which results in a small actuarial gain. This is because prior to the revision, the actuarial liability was determined using the higher (incorrect) benefit amount. Because the waiver threshold is \$165, we would not expect any actuarial gains as a result of this change to be significant.

If the total of all underpayments for a member is less than \$75, then the waiver of the participant payment is negligible, and does not have an actuarial impact.

However, if there are a significant number of members with underpayments that are waived under this section, there could be an actuarial cost impact. Underpayments generally result from a member's monthly benefit being revised to a higher amount, which results in a small actuarial loss. This is because prior to the revision, the actuarial liability was determined using the lower (incorrect) benefit amount. Because the waiver threshold is \$75, we would not expect any actuarial losses as a result of this change to be significant.

#### **Section 8.24(6)**

This section provides that any claim relating to an overpayment or underpayment must be initiated within six years of the date on which the payment was made. This section only applies to benefit payments made on or after January 1, 2019.

#### Segal Comments on Section 8.24(6)

If there are a significant number of members with overpayments that are forgiven under this section, there could be an actuarial cost impact. Overpayments generally result from a member's monthly benefit being revised to a lower amount, which results in a small actuarial gain. This is because prior to the revision, the actuarial liability was determined using the higher (incorrect) benefit amount.

### **Section 8.24(7)**

This subsection sets forth the effective date of the section: January 1, 2019.

#### Segal Comments on Section 8.24(7)

There is no actuarial cost impact associated with adding this language to the ordinance.

### **Section 11.7**

This section of the ordinance is related to the exemption of funds and benefits from taxation, execution and assignment.

The section is amended to allow forfeiture or garnishment of benefits and pensions in the following situation:

- The member is subject to a lien or levy imposed by either the Internal Revenue Service or the Wisconsin Department of Revenue.

#### Segal Comments on Section 11.7

The garnishment of a pension changes the recipient of the benefit payments, but it does not change the obligation of the system to make the payment. There is no actuarial cost associated with this provision.

### **Section 11.8**

This section has been expanded to provide that ERS may make reasonable estimates to calculate member benefits when complete information is not available.

#### Segal Comments on Section 11.8

There is no reason to believe that the reasonable estimates would be biased either in favor of or against members. This is no actuarial cost associated with this provision.

## Section 8.6

The section provides that if a rule conflicts with an ordinance, the ordinance shall apply.

### Segal Comments on Section 8.6

There is no actuarial cost associated with this provision.

### Caveats

Segal is not a law firm and we cannot offer legal advice. The comments in this letter are based on our many years of consulting to employee benefit plans. Readers of this letter should consider retaining appropriate legal counsel if legal advice is needed.

The undersigned are Members of the American Academy of Actuaries and meet the Academy's Qualification Standards to issue this Statement of Actuarial Opinion.

Please let us know if you have any questions.

Sincerely yours,



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Senior Vice President and Actuary



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