

July 1, 2019

Mr. Chris Abele
County Executive
Milwaukee County Employees' Retirement System
901 North Ninth Street, Room 306
Milwaukee, WI 53233

Re: County Contribution to the Employees' Retirement System and OBRA 1990 Retirement System (Revised)

Dear Mr. Abele:

This revised letter is being provided in accordance with the provisions of Section 201.24(3.1) of the County Ordinance ("CO") that governs the Employees' Retirement System and County Board File No. 97-155 that was adopted by the County Board in February 1997. This letter should be referred to the Committee on Finance and Audit.

Change from Prior Letter: This letter revises the information in the County Contribution letter dated May 31, 2019. The letter has been revised to reflect changes in the December 31, 2018 assets for the ERS and OBRA plans, as well as changes to the County contributions during 2018. These changes were confirmed with the County Comptroller. The prior version of the County Contribution letter will be referred to here as the "May 31 letter."

The actuary has completed the annual review of the Pension Fund as of December 31, 2018, and has determined that the actual County obligation for 2019 is \$70,485,157. It is anticipated that a County contribution of \$70,980,656 will be paid for 2019. A break-down of these amounts is as follows (assuming that no bi-weekly County contributions are anticipated to be made as of this time):

<u>Plan</u>	<u>Actual 2019 Obligation</u>	<u>Expected Contribution Credit</u>	<u>Type of Contribution Credit</u>	<u>Variance</u>
ERS		\$70,533,656	Lump Sum	
		0	Bi-weekly	
		0	Interest	
ERS Subtotal	\$69,999,642	\$70,533,656		(\$534,014)
OBRA	485,515	447,000	Lump Sum	38,515
Grand Total	\$70,485,157	\$70,980,656		(\$495,499)

In the May 31 letter, the Actual 2019 Obligation was \$70,917,901. The Expected Contribution Credit was \$70,980,656. The contribution variance was (\$62,755).

The actuary has estimated that the 2020 County Budget should include a total of \$77,437,000 for the County's 2020 gross Pension Fund obligation (including employee contributions). This amount includes:

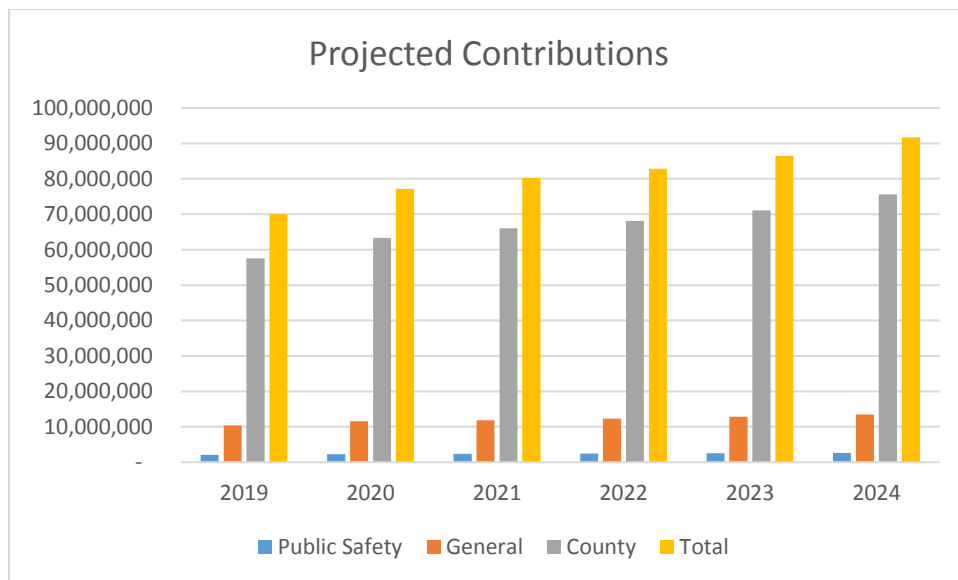
\$ 76,901,000	Employees' Retirement Plan
<u>536,000</u>	OBRA Pension Plan
\$ 77,437,000	Grand Total

In the May 31 letter, the ERS 2020 budget amount was \$77,318,000, the OBRA 2020 budget amount was \$550,000, and the grand total budget amount was \$77,868,000.

The plan provisions used for the 2019 actual calculation are the same as those used for the 2018 actual calculations. The actuarial assumptions used for the 2019 actual calculation are the same as those used for the 2018 actual calculations. For the 2020 budget calculation, a base for unexpected change in Unfunded Actuarial Accrued Liability during 2019 is added and amortized over 20 years. In addition, a contribution variance base is added and amortized over 5 years for the amount of the 2019 Actual Contribution determined that is not contributed during 2019.

NOTE: The Pension Board previously adopted the following change to the investment return assumption. Effective with the January 1, 2020 actuarial valuation, the rate of return on assets and valuation discount rate will change from 7.75% to 7.50%.

The following table shows the projected ERS contribution amounts through the 2024 Plan year. The contribution amounts shown are split between Public Safety Employees, General Employees, and the County.



A summary of the reconciliation of ERS contributions is shown on page 29 of the enclosed valuation report. As noted elsewhere, the contributions shown in this letter have been adjusted due to the REC.

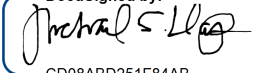
Attached is a summary of the funding plan for the ERS and OBRA plans, a summary of the actuarial assumptions used by the actuary for the ERS plan, and ten-year histories of the assets and liabilities for both the ERS and OBRA plans. Enclosed are the revised actuarial valuation reports for the Milwaukee County Employees' Retirement System as of January 1, 2019.

NOTE: The contribution amounts shown in this letter are gross amounts and do not account for any mandatory employee contributions. It is our understanding that County Staff will net out from this gross amount the amount of employee contributions that are collected to arrive at a net County contribution. The sum of County contributions and employee contributions should match the gross amount of contributions shown in this letter. The recommended employee contribution rates for 2020 are 6.2% for General Employees and 8.9% for Public Safety Employees. Prior to the REC, the employee contribution rates for 2020 were 6.3% for General Employees and 9.1% for Public Safety Employees. Last year's rates were 6.5% and 9.5%, respectively.

We urge the County to make every effort to budget for 2020 the amounts shown in this letter, and to consider any arrangements as it deems appropriate to transition to the increase in future contribution amounts.

Mr. Chris Abele
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Sincerely,

DocuSigned by:


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Mr. Michael S. Harper
Pension Board Chairman

Attachment and Enclosure

Employees' Retirement System of the County of Milwaukee
Funding Plan, Assumptions and Methods, History of Assets and Liabilities

I Funding Plan

- The funding policy in 2019 is to contribute each year the normal cost plus amortization payments plus expected administrative expenses.

2019 Obligation as Budgeted

	ERS	OBRA	Total
Normal cost	\$ 17,704,000	\$ 101,000	\$ 17,805,000
Amortization of unfunded	52,826,000	210,000	53,036,000
Administrative Expenses	<u>3,656</u>	<u>136,000</u>	<u>139,656</u>
Total	\$ 70,533,656	\$ 447,000	\$ 70,980,656

Actual 2019 Obligation, Expected Contribution, and Variance

	ERS	OBRA	Total
Actual Obligation	\$ 69,999,642	\$ 485,515	\$ 70,485,157
Expected Contribution*	<u>70,533,656</u>	<u>447,000</u>	<u>70,980,656</u>
Expected Variance	\$ (534,014)	\$ 38,515	\$ (495,499)
Expected Variance, May 31 Letter	\$ (114,540)	\$ 51,785	\$ (62,755)

*Without interest to year-end

2020 Obligation as Budgeted

	ERS	OBRA	Total
Normal cost	\$ 18,537,000	\$ 105,000	\$ 18,642,000
Amortization of unfunded	58,364,000	268,000	58,632,000
Administrative Expenses	<u>0</u>	<u>163,000</u>	<u>163,000</u>
Total	\$ 76,901,000	\$ 536,000	\$ 77,437,000
Total, May 31 Letter	\$ 77,318,000	\$ 550,000	\$ 77,868,000

- The normal cost is the charge for benefits earned in the current year.
- Expected administrative expenses are immediately reflected.
- The 2019 Obligation as Budgeted originally included \$1,707,000 in administrative expenses payable from ERS to the County and \$68,000 from OBRA to ERS. The total Budgeted amount is reduced by the actual expenses of \$1,703,344 (ERS) and \$68,000 (OBRA). The difference between the Budgeted Expenses and the actual expenses for ERS is \$3,656, which remains in the ERS 2019 Obligation as Budgeted information above.
- The amortization period is 20 years for liabilities due to plan changes, actuarial assumption changes and actuarial experience. Future bases are amortized over 20 years from the date of inception. These amortization payments are calculated assuming that future payments increase by 1.75%.
- The amortization period for the variance (the difference between the actual obligation and the contribution paid) will be 5 years. These amortization payments will be calculated in level dollar amounts.

**Employees' Retirement System of the County of Milwaukee
Funding Plan, Assumptions and Methods, History of Assets and Liabilities**

II Current Actuarial Assumptions and Methods for the ERS and OBRA Plans

- Investment return – 7.75% per annum for ERS and OBRA
- Payroll growth – 3.5% per annum for ERS / 3.0% for OBRA
- Revenue growth – 1.75% per annum for ERS and OBRA

- Pay increases – Average Annual Individual Increase:

<u>General</u>	<u>Deputy Sheriffs</u>	<u>Elected</u>
3.9%	4.7%	3.1%

- Retirement age – Average Retirement Age:

<u>General</u>	<u>Deputy Sheriffs</u>	<u>Elected</u>
61	57	66

- Mortality rates

a. Non-disabled pensioners: 102% of RP-2006 Healthy Annuitant male and 107% of RP-2006 Healthy Annuitant female projected generationally using scale MP-2016.

b. Disabled pensioners: 97% of RP-2006 Disabled male and 95% of RP-2006 Disabled female projected generationally using scale MP-2016.

c. Active members: RP-2006 Employee tables, sex distinct, projected generationally using scale MP-2016.

- Separation rates – Average Annual Turnover*:

<u>General</u>	<u>Deputy Sheriffs</u>	<u>Elected</u>
12.2%	7.3%	4.0%

* For employees not yet eligible to retire.

- Type of disability

- | | | |
|------------------------------|---|------------------------------|
| a. Represented employees | - | 50% Ordinary; 50% Accidental |
| b. Non-represented employees | - | 100% Ordinary; 0% Accidental |

- Backdrop rates – 75% of eligible retirees are assumed to elect a backdrop. Of those electing, 75% are assumed to take the maximum period available to them and 25% take half the maximum period available. The maximum period available is estimated by excluding time periods before the employee was eligible for an unreduced service retirement benefit.

Unless otherwise noted, the assumptions above are for the ERS plan. Refer to the valuation reports for a detailed exhibit of the assumptions for both plans.

Employees' Retirement System of the County of Milwaukee
Funding Plan, Assumptions and Methods, History of Assets and Liabilities

III History of Assets and Liabilities

Shown below are supplemental schedules required by government accounting standards. These results are strictly for comparison purposes for any relevant Statement No. 67 or Statement No. 68 results.

Schedule of Funding Progress – ERS
(in thousands of dollars)

Actuarial Valuation Date	Actuarial value of Assets (a)	Actuarial Accrued Liability (b)	Funded Ratio (a / b)	Unfunded Actuarial Accrued Liability (b - a)	Covered Payroll (c)	Unfunded as a percentage of covered Payroll { (b-a) / c }
12/31/2018	\$ 1,731,726	\$ 2,293,063	75.5%	\$ 561,337	\$ 191,044	293.8%
12/31/2017	1,739,808	2,307,849	75.4%	568,041	189,451	299.8%
12/31/2016	1,740,422	2,256,308	77.1%	515,886	186,214	277.0%
12/31/2015	1,767,420	2,262,851	78.1%	495,431	194,872	254.2%
12/31/2014	1,773,638	2,222,620	79.8%	448,982	191,433	234.5%
12/31/2013	1,772,750	2,069,547	85.7%	296,797	188,605	157.4%
12/31/2012	1,768,435	2,025,319	87.3%	256,884	189,132	135.8%
12/31/2011	1,836,543	2,059,554	89.2%	223,011	190,748	116.9%
12/31/2010	1,929,428	2,091,927	92.2%	162,499	221,647	73.3%
12/31/2009	1,956,444	2,097,332	93.3%	140,888	237,040	59.4%

Schedule of Funding Progress – OBRA
(in thousands of dollars)

Actuarial Valuation Date	Actuarial value of Assets (a)	Actuarial Accrued Liability (b)	Funded Ratio (a / b)	Unfunded Actuarial Accrued Liability (b - a)	Covered Payroll (c)	Unfunded as a percentage of covered Payroll { (b-a) / c }
12/31/2018	\$ 2,943	\$ 6,169	47.7%	\$ 3,226	\$ 3,388	95.2%
12/31/2017	2,205	5,396	40.9%	3,191	3,282	97.2%
12/31/2016	1,514	4,380	34.6%	2,866	3,640	78.7%
12/31/2015	1,311	3,805	34.4%	2,494	3,926	63.5%
12/31/2014	1,560	3,484	44.8%	1,924	3,925	49.0%
12/31/2013	1,603	3,411	47.0%	1,808	3,478	52.0%
12/31/2012	1,662	2,869	57.9%	1,207	7,736	15.6%
12/31/2011	1,236	2,444	50.5%	1,209	8,939	13.5%
12/31/2010	1,402	5,520	25.4%	4,117	8,936	46.1%
12/31/2009	1,039	5,069	20.5%	4,030	6,901	58.4%