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Via Email

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Erika Bronikowski, RPA
Interim Director, Retirement Plan Services
Milwaukee County Department of Human Resources
901 N. 9th Street, Suite 210
Milwaukee, WI 53233

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

Dear Erika:

As requested, we have reviewed the proposed ordinance changes and present this letter detailing our findings. A summary of the proposed amendments to the Milwaukee County Employees' Retirement System (ERS) follows, as well as our comments on the cost impact to the system.

Actuarial Impact

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

Section 1 of the Resolution, Ordinance Section 201.24(4.5)

- Background.
 - ERS members are eligible for monthly retirement benefits if they retire directly from County service (a "normal" retirement under Ordinance section 201.24 (4.1)) or, if vested, after termination of County employment (a "deferred vested" retirement under Ordinance section 201.24(4.5)).
 - A member becomes a deferred vested member if they do not retire directly from County service and there is gap between termination of employment and retirement.
 - In order to be vested and eligible for a deferred vested benefit, Ordinance section 201.24(4.5) requires members to have earned sufficient service credit in ERS during their employment with the County. While some members may have to earn additional service credit, currently most ERS members have to earn 5 years of service to vest in their ERS pension benefit.

- However, pursuant to Ordinance section 201.24(4.1), members who attain normal retirement age (usually age 60 or 64) while in active service are eligible for a normal pension benefit regardless of their years of service.
- ERS has historically considered members who attain normal retirement age in active service to be eligible for benefits even if they have earned less than the required years of service. In other words, the members are automatically vested in their ERS benefits at the time they attain normal retirement age while in active service ("Autovested Members").
- For example, if a member commences ERS employment at age 63 and terminates ERS employment at age 65. ERS would consider this member to be Autovested upon the attainment of age 64, which is the member's normal retirement age.
 - Errors were created when RPS paid deferred vested benefits to these Autovested Members because Ordinance section 201.24(4.5) requires members to have attained a certain number of years of service credit to receive a deferred vested pension without an exception for the Autovested Members.
 - Additionally, if the Autovested Members are eligible for deferred vested benefits, then these members are eligible for the present receipt of a benefit. Under Ordinance section 201.24(3.5) if a member is eligible for the present receipt of a benefit, the member cannot receive a refund of contributions in the member's Membership Account. However, some of these Autovested Members were allowed to receive refunds of contributions if their pension benefits were under \$100 per month.
- Proposed Amendments.
 - Ordinance section 201.24(4.5). The proposed amendments to Ordinance section 201.24(4.5) add subsection (c) to allow members who "autovest" by attaining normal retirement age while in active service to be eligible for a deferred vested benefit.
 - The proposed amendments allow members who previously commenced deferred vested benefits to retain those benefits.
 - The proposed amendments also allow RPS to commence deferred vested benefits for the Autovested Members who, but for the vesting requirements in this section, would have been eligible for a benefit. However, this benefit will be prospective only to avoid creating errors under the Code's required start date rules (*i.e.*, benefits must commence by the April 1 after a member attains age 70-1/2).

- Ordinance section 201.24(3.5). The proposed amendments to Ordinance section 201.24(3.5) clarify the prior treatment of Autovested Members by allowing a member whose pension benefit amount is below \$100 per month to elect to receive a refund of his or her contributions instead of receiving a monthly pension benefit. Autovested members who retire after June 1, 2020 may also make this election if the election is made in accordance with Ordinance section 201.24(3.11).

Effective Date. January 1, 2011.

Segal Comments on Section 1 of the Resolution

Discussions with RPS indicated that the changes to the ordinance are to conform the ordinance with the current plan operation, including how these members are reported for the actuarial valuation. Based on that, these changes would not have an actuarial impact.

The change allowing future retirees to elect a refund rather than an annuity would not have an actuarial impact unless it resulted in a change to the actuarial assumptions used in the valuation (which currently assume that participants elect an annuity). We do not anticipate a change to the relevant assumptions and therefore there is no actuarial impact for this change.

Section 2 of the Resolution, Ordinance 201.24(3.5)

- Background. Beginning in 2011, ERS members started making employee contributions to ERS. These contributions are held in a member's Membership Account. Ordinance section 201.24(3.5) currently provides that upon the death of an active member or a deferred vested member who is not receiving a benefit, the member's beneficiary will be paid, in a lump sum, the balance of the member's Membership Account upon the date of death.
 - Additionally, under Ordinance section 201.24(3.5), if the beneficiary is eligible for an annuity benefit due to the member's death, the beneficiary will receive that benefit. The Ordinance further provides that if the amount of the Membership Account at the date of a member's death exceeds the total of the amount of the annuity payments made to the beneficiary after all payments have been made, such excess shall be paid in a lump sum to the member's beneficiaries.
 - RPS has made payments to beneficiaries using interest payable through the date of distribution instead of the date of death, which resulted in overpayments.
- Amendment. The proposed amendments to Ordinance section 201.24(3.5) have two parts:

- First, the proposed amendments revise the Ordinance to provide for interest to be paid on contributions in a member's Membership Account through the date of disbursement, not the date of the member's death or termination.
- Second, the proposed amendments delete the last sentence of the third paragraph of the Ordinance to eliminate the requirement that RPS track annuity payments paid to beneficiaries in order to pay any excess of the Membership Account after the annuity payments are completed.

Effective Date. January 1, 2011.

Segal Comments on Section 2 of the Resolution

The change to include interest through date of disbursement rather than death is procedural and would not affect the actuarial valuation. For valuation purposes, we assume that the refund is paid at the time of death, with no delay.

The change to eliminate the refund feature for joint and survivor annuity beneficiaries has no actuarial impact.

Section 3 of the Resolution, Ordinance Section 201.24(5.16)

- Background.
 - A member who remains in County employment past his or her retirement date may elect to receive a back drop form of benefit when the member actually retires from County employment. Pursuant to Rule 711, only active members may elect to receive a back drop.
 - Additionally, members who remain in County employment past their retirement dates may elect a Protective Survivorship Option ("PSO") under Ordinance section 201.24(7.1). In this election, the member may designate a single beneficiary to receive a survivor benefit if the member dies while in active service and before the member retires. This PSO is automatically paid to a married member's spouse who dies in active service after the member's retirement date even if no PSO election is made.
 - Errors occurred when some members' spouses who were entitled to PSOs were allowed to elect back drops after the members' deaths.
- Proposed Amendments.
 - The proposed amendments to Ordinance section 201.24(5.16) correct the errors described above by retroactively allowing a surviving spouse who was eligible for and receiving a PSO to elect a back drop if the back drop was elected by the surviving spouse between January 1, 2002 and December 31, 2004.

- The proposed amendments will only correct errors for surviving spouses that were eligible for and receiving the PSO benefit. If an individual received a PSO benefit in error, this amendment will not correct that election of a back drop. Further, this amendment only corrects past errors, it does not allow future surviving spouses to elect a back drop at the time they receive a PSO.

Effective Date. January 1, 2002.

Segal Comments on Section 3 of the Resolution

This section updates the ordinances to continue present practice for a limited group of in pay participants. There is no actuarial impact associated with this ordinance change.

Section 4 of the Resolution, Ordinance Section 201.24(7.1)

- Background.
 - Under the Code and corresponding Regulations, distribution options that are in the form of a joint and survivor annuity for the joint lives of a member and a non-spouse beneficiary must meet the minimum distribution incidental benefit ("MDIB") requirement.
 - For ERS purposes, this requirement is applicable to retirements with optional forms of benefit under Ordinance section 201.24(7.1)(1) and the PSO under Ordinance section 201.24(7.1)(3).
 - Errors occurred where a non-spouse beneficiary received an unreduced 100% joint and survivor benefit, which does not satisfy the MDIB requirements. Additional errors occurred when RPS only reduced two survivor annuities to the minimum amounts necessary to satisfy the MDIB requirements (e.g., 73%), but these annuities are not provided for under the Plan.
- Proposed Amendments.
 - The proposed amendments to Ordinance section 201.24(7.1) add to subsection (3) that an eligible member may elect a PSO in the form of a 50% joint and survivor annuity, which may be required if a member elects a non-spouse PSO beneficiary that would violate the MDIB rules if the benefit was paid in a 100% joint and survivor annuity.
 - The proposed amendments also add a new subsection (5) that expressly prohibits a member from electing a joint and survivor annuity that will exceed the Code's minimum distribution incidental benefit. The proposed amendments further provide that if a member elects a form that does not comply with the Code's requirements, RPS will reduce the elected benefit to the next survivor benefit option the member was eligible to elect.

- As an example, the Ordinance allows a member at retirement to elect a joint and survivor annuity in the amounts of 100%, 75%, 50% and 25%. If a member elects a 75% joint and survivor annuity with a non-spouse beneficiary and this form of benefit would violate the Code's requirements, RPS may reject the member's election and only allow that member to elect a 50% or 25% survivor annuity, which does not violate the Code.

Effective Date. January 1, 2007

Segal Comments on Section 4 of the Resolution

Discussions with RPS indicate that the proposed changes would not affect the benefits for any members in pay status. The changes for future retirements do not have an actuarial impact.

Section 5 of the Resolution, Ordinance Section 201.24(11.11)

- Background.

- In 2007, ERS filed a VCP with the IRS. The primary errors reported on this VCP were with regard to the administration of the buy-ins and buy-backs. ERS no longer allows buy-ins or buy-backs.
- Through a buy-back, a member who previously terminated County employment and took a distribution of his or her Membership Account was allowed to repurchase past service credit in ERS upon reemployment with the County. However, the Ordinances and Rules did not allow a member to purchase past service credit using a rollover from a member's prior employer's retirement plan. Despite this, in 1994, RPS allowed a member to repurchase past service credit using a rollover from the member's prior employer's 401(k) plan.
- This error was reported as part of the 2007 VCP. Other errors on that VCP included the use of Milwaukee County 457 Plan funds to purchase or repurchase service credit. The 457 Plan errors were corrected by the County Board through Ordinance amendment in 2015.
- The Compliance Statement for that VCP reported the correction method for the error caused by the 401(k) rollover was to rescind the member's repurchase of service credit and refund the money to the member. The member's benefit would then be calculated without regard to the repurchase of service credit.
- This member has since asked the Pension Board and ERS to allow his repurchase of service credit because it is similar to the members who used 457 Plan funds to purchase or repurchase service credit. Because Ordinance section 201.24(11.11) provides for the sources from which a member could have purchased or re-purchased service credit, the Ordinances need to be amended to allow ERS to recognize this member's purchase of service credit.

- Proposed Amendments.

- The proposed amendments create Ordinance section 201.24(11.11) effective August 1, 1994 to allow a member to complete a buy-back using amounts rolled over from a 401(k) plan if the buy-back was completed between August 1, 1994 and November 1, 1994. This will correct the error that occurred when RPS allowed a member to use his former employer's 401(k) plan assets to repurchase service credit.
- The second part of the proposed amendments has no practical effect on ERS. These amendments were adopted by the County Board on February 17, 2015. These amendments corrected the balance of the errors resulting from the purchases of service credit using funds from members' 457 Plan accounts and other sources outside of a rollover from a prior employer's 401(k) plan. These amendments should be included because they are effective January 1, 2002. Accordingly, Ordinance section 201.24(11.11) is created August 1, 1994 to provide for the 401(k) rollover purchase, and then it is amended effective January 1, 2002 to provide for the additional options to purchase service credit.

Effective Date. August 1, 1994.

Segal Comments on Section 5 of the Resolution

This appears to conform the ordinances to the benefits that are being paid. No changes to benefits are anticipated, and therefore there is no actuarial impact.

Erika Bronikowski, RPA
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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 is a Member of the American Academy of Actuaries and meets the Academy's Qualification Standards to issue this Statement of Actuarial Opinion

Please let me know if you have any questions. My cell phone number is 312 597 4175, or I can be contacted at gbridges@segalco.com.

Sincerely,



Geoff Bridges, FSA, MAAA, EA
Consulting Actuary

cc: C. J. Pahl
Matt Strom
Kim Nicholl