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Via Email

September 11, 2020

Cynthia (CJ) Pahl
Financial Services Manager
Milwaukee County Office of the Comptroller

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

Dear CJ:

As requested, we have reviewed the proposed ordinance changes and this letter details 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.

Outline of the Proposed Ordinance Changes

Section 8.7 of the ordinance provides that members cannot earn service for more than one month during a year for a period of time that the member was absent without pay. The proposed amendment provides the following exceptions to that rule:

1. The member is on furlough due to COVID-19.
2. The member is receiving workers compensation.
3. The member is granted military service credit.

The ERS rules would be amended to implement these changes.

Actuarial Assessment

Service While Furloughed Due to COVID-19 - Summary

If the ERS ordinance and rules were not amended to allow members to earn more than one month of service while on furlough due to COVID-19, we would expect ERS to have a have an actuarial gain of between **\$50,000 and \$150,000** as of January 1, 2021 due to members earning less service than expected. The details of this calculation are discussed below.

By amending the ordinance, the active members will earn the service that they otherwise would have lost due to the furloughs, and the ERS plan will not incur the actuarial gain that is estimated above.

Details of Analysis

For the biweekly pay period ending August 14, there were approximately 8,800 furlough hours. The Comptroller's office has indicated that the number of furlough hours is expected to remain stable or possibly decrease through the end of the year.

There were approximately 163,000 furlough hours through August 14. Projecting forward to the end of the year and assuming 8,800 furlough hours per biweekly pay period, results in approximately 251,000 furlough hours for the year.

The 2020 actuarial valuation report reflected 3,561 active members. If each of those members works 40 hours for 52 weeks the total hours would be:

$$40 \text{ hours per week} * 52 \text{ weeks} * 3,561 \text{ members} = 7.4 \text{ million hours}$$

The projected furlough hours represent about 3.4% of the total hours. Under current rules, each member can have up to one month of furlough per year and still receive a full year of service. If the furlough hours were spread evenly over all active members, then the 3.4% of hours would represent less than one month of service each and the proposed change in the ordinance (to count more than one month of furlough towards the annual service credit) would have no effect.

However, the furlough hours are not spread evenly among the ERS active population.

As an alternative approach, we assumed that each member in the data we received had the same furlough hours in each biweekly pay period for the rest of 2020 as the member had in the biweekly period ending 8/14. We projected the furlough hours for each member and subtracted 173 hours for the one month that the current plan rules allow service to continue to accrue.

This calculation results in active members not earning in aggregate about 17 years of service. For the total population of 3,561 employees we expected roughly 3,561 years of service. So the 30 years of service reflects about 0.5% of the total service expected to be earned during the year.

The 2020 normal cost from the 2020 valuation report (dated June 23, 2020) was approximately \$18.6M as of end of year. Assuming a 0.50% reduction in service would result in an actuarial gain of approximately \$100,000. Due to the uncertainties inherent in projecting employment hours as COVID-19 continues to unsettle labor markets, we believe that a range of \$50,000 to \$150,000 of potential actuarial gain is reasonable. The result would be a reduction in the employer contribution in a range of approximately \$3,700 to \$11,100.

These are rough estimates, which we believe is appropriate given the uncertainties in projecting furlough hours on a member by member basis.

Workers Compensation and Military Service

We did not receive data on members received workers compensation or being granted military service. Our understanding is that the ordinance changes on workers compensation and military service are codifying existing practice.

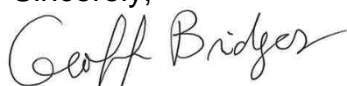
Caveats

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: Erika Bronikowski
Matt Strom
Kim Nicholl