

Finance
Personnel 1
Pension Study Comm'n
Pension Board

1 By Supervisor Lipscomb

File No.

2 FILE NO. 12-395

3 Referred
(Journal,) MAY 8 2012

4 A RESOLUTION/ORDINANCE

12-395
County Board
Chairman

5 to amend Section 201.24(5.16) of the Milwaukee County Code of General
6 Ordinances as it pertains to the "backdrop benefit."

7
8 WHEREAS, the backdrop pension benefit has cost Milwaukee County
9 significant amounts in increased contributions to the Employees Retirement
10 System; and

11 WHEREAS, Milwaukee County eliminated the backdrop pension benefit
12 for all employees whose membership in the retirement system began after
13 various dates, depending on the employee's union status at retirement; and

14 WHEREAS, Milwaukee County sued the actuarial firm that provided
15 advice at the time of the adoption of the backdrop benefit and obtained a
16 settlement amount of \$45 million; and

17 WHEREAS, 2011 Wis. Act 10 prohibits Milwaukee County from
18 collective bargaining concerning pension benefits, except with collective
19 bargaining units representing public safety workers, and therefore allows
20 Milwaukee County to modify pension benefits for non-public safety worker
21 employees; and

22 WHEREAS, Milwaukee County must collectively bargain any changes in
23 the backdrop pension benefit with members represented by the Milwaukee
24 County Firefighters Association and therefore the changes set forth herein do not
25 apply to such members; and

26 WHEREAS, because of the past, current and future costs to Milwaukee
27 County and its pension fund related to the backdrop, it is appropriate and
28 desirable to modify the backdrop benefit to reduce those costs, to the extent
29 legally permissible; and

30 WHEREAS, the proposed modification of the backdrop benefit does not
31 affect the benefit of any employee currently eligible to retire and receive a
32 backdrop benefit and, further, it does not reduce the benefit that has been
33 accrued by any other employee as of September 1, 2012; and

34 WHEREAS, the Pension Study Commission reviewed the actuary's report
35 on _____, _____, 2012 and has recommended the County Board adopt the
36 proposed changes (Vote X-X); and

37
38 WHEREAS, the Pension Board was provided an opportunity to comment
39 on the proposed change and its response has been received; now, therefore,

40
41 BE IT RESOLVED, that the Milwaukee County Board of Supervisors
42 hereby amends Section 201.24(5.16) of the Milwaukee County Code of
43 General Ordinances by adopting the following:

44 **AN ORDINANCE**

45 The County Board of Supervisors of the County of Milwaukee does ordain
46 as follows:

47 **SECTION 1.** Section 201.24(4.1) of the General Ordinances of Milwaukee
48 County is amended as follows:

49
50 **5.16 Back drop pension benefit.**

51
52 (1) The provisions of this section shall apply to any member whose
53 application to retire is filed and effective after January 1, 2001, but shall not apply
54 to any member of the retirement system who

55
56 (a) is an elected official, or who was in a position that was not in a
57 certified collective bargaining unit on June 29, 2011, and who began
58 membership in said system on or after March 15, 2002,

59 (b) was in a position in a certified collective bargaining unit represented
60 by the American Federation of State, County and Municipal Workers on
61 June 29, 2011 and who began membership on or after February 1, 2007,

62 (c) was in a position in a certified collective bargaining unit represented
63 by the Milwaukee Building and Construction Trades Council on June 29,
64 2011 and who began membership on or after February 21, 2006,

65 (d) was in a position in a certified collective bargaining unit represented
66 by the Association of Milwaukee County Attorneys on June 29, 2011 and
67 who began membership on or after January 1, 2006,

68 (e) was in a position in a certified collective bargaining unit represented
69 by the International Association of Machinists or by the Technicians,
70 Engineers and Architects of Milwaukee County on June 29, 2011 and who
71 began membership on or after November 4, 2005,

72 (f) was in a position in a certified collective bargaining unit represented
73 by the Federation of Nurses and Health Professionals on June 29, 2011
74 and who began membership on or after December 16, 2005,

75 (g) was in a position in a certified collective bargaining unit represented
76 by the Milwaukee County Firefighters Association on June 29, 2011 and
77 who began membership on or after June 19, 2007,

78 (h) ~~or to a member who~~ was formerly a represented deputy sheriff and
79 who was appointed to a non-represented position effective after June 30,
80 2009,

81 (i) ~~or who~~ is eligible for a deferred pension benefit under section
82 201.24(4.5) or a disability pension benefit under sections 201.24(5.3)
83 (5.31) or (5.4)-~~or~~

RECEIVED
MAY 21 2012
MILWAUKEE COUNTY BOARD

84 (i) ~~The "back drop" pension benefit under this section 5.16 shall not~~
85 ~~apply to any~~ is an elected official whose membership began prior to March
86 15, 2002, if such elected official consents irrevocably in writing filed with
87 the system to waive the right to elect to receive a "back drop" pension
88 benefit.

89
90 (2) Upon retirement, the provisions as hereafter described shall be the sole
91 method for calculating retirement benefits under this section. A member eligible
92 under paragraph (1) may opt for a "back drop" pension benefit as follows:
93

94 (a)(1) A member may request a "monthly pension benefit" based on
95 accrued pension service credit and final average salary calculation as of a
96 specific date in the past which shall be referred to as the "back drop date." The
97 "back drop date" may not be prior to the earliest date that the member was
98 eligible to retire, and shall not be less than one (1) year prior to the date the
99 member leaves active county service. The monthly pension benefit the member
100 was eligible to receive as of the "back drop date" shall be referred to as the
101 "monthly pension drop benefit."
102

103 (b)(2) In addition to the monthly pension benefit set forth in paragraph (a),
104 a member will receive a "total drop benefit" equal to the total amount of the
105 "monthly drop benefit" payments, as defined in paragraph (c), the member would
106 have received (including the annual two (2) percent pension increase) between
107 the "back drop date" and the date the member is removed from the county
108 payroll due to actual retirement (after exhausting all accrued time balances as
109 documented by an ETCR form), plus interest earnings (compounded monthly)
110 equal to the pension fund rate of return used by the ERS actuary, shall be
111 referred to as the "total drop benefit."
112

113 (c)(1) If the backdrop date requested by the member is on or after
114 September 1, 2012, then the "monthly drop benefit" utilized for calculating the
115 "total drop benefit" in paragraph (b) shall be the monthly amount calculated
116 based on the member's final average salary, service credit and applicable
117 multiplier(s) as of September 1, 2012. If such a member was not employed on
118 September 1, 2012, but returns to county employment thereafter, then the
119 "monthly drop benefit" shall be the monthly amount calculated based on the
120 member's final average salary, service credit and applicable multiplier(s) as of his
121 or her last day of employment prior to September 1, 2012.
122

123 (2) If the backdrop date requested by the member is prior to September 1,
124 2012, then the "monthly drop benefit utilized for calculating the "total drop
125 benefit" in paragraph (b) shall be the "monthly pension benefit" in paragraph (a)
126 on the "back drop date" requested by the member.

127 (3) Notwithstanding subparagraphs (c)(1) and (2), if the member is
128 represented at the time of retirement by the Milwaukee County Firefighters
Association, then the "monthly drop benefit utilized for calculating the "total drop

129 benefit" in paragraph (b) shall be the "monthly pension benefit" in paragraph (a)
130 on the "back drop date" requested by the member.
131

132 (3) If the member opts for a "back drop" pension benefit:
133 a. ~~The~~ "total drop benefit" shall be paid to the member with appropriate
134 deductions for state and federal taxes; or if permitted by IRS regulations, the
135 member may "roll over" all or a portion of the "total drop benefit" to an IRA.
136 b. ~~The "monthly drop benefit" shall be paid to the member.~~
137

138 (4) The standard pension options shall be available to a member who opts for a
139 "back drop benefit", and the retention incentives incorporated into the pension
140 benefit effective January 1, 2001, shall be included when calculating the "monthly
141 pension benefit" or the "monthly drop benefit." Therefore, a member who opts for
142 a "back drop benefit" with a "back drop date" prior to January 1, 2001, shall be
143 eligible for the retention incentives which became effective as of January 1, 2001,
144 based on continued service after January 1, 2001.
145

146 (5) A member who opted for a "back drop benefit" upon retirement and later
147 returns to active service and is eligible to earn additional pension service credit,
148 shall cease receiving the monthly pension~~drop~~ benefit until the member once
149 again terminates active service. Upon once again retiring, the member shall have
150 any new service credit added to the service credit used to calculate the "monthly
151 pension~~drop~~ benefit", and the member's final average salary shall be
152 recalculated to incorporate the most recent earnings.

MILWAUKEE COUNTY FISCAL NOTE FORM

DATE: May 1, 2012

Original Fiscal Note

Substitute Fiscal Note

SUBJECT: A resolution/ordinance to modify the backdrop benefit related to the Employees' Retirement System.

FISCAL EFFECT:

- | | |
|---|--|
| <input type="checkbox"/> No Direct County Fiscal Impact
<input type="checkbox"/> Existing Staff Time Required
<input type="checkbox"/> Increase Operating Expenditures
(If checked, check one of two boxes below)
<input type="checkbox"/> Absorbed Within Agency's Budget
<input type="checkbox"/> Not Absorbed Within Agency's Budget
<input checked="" type="checkbox"/> Decrease Operating Expenditures
<input type="checkbox"/> Increase Operating Revenues
<input type="checkbox"/> Decrease Operating Revenues | <input type="checkbox"/> Increase Capital Expenditures
<input type="checkbox"/> Decrease Capital Expenditures
<input type="checkbox"/> Increase Capital Revenues
<input type="checkbox"/> Decrease Capital Revenues
<input type="checkbox"/> Use of contingent funds |
|---|--|

Indicate below the dollar change from budget for any submission that is projected to result in increased/decreased expenditures or revenues in the current year.

	Expenditure or Revenue Category	Current Year	Subsequent Year
Operating Budget	Expenditure		
	Revenue		
	Net Cost	See	Attached
Capital Improvement Budget	Expenditure		
	Revenue		
	Net Cost		

DESCRIPTION OF FISCAL EFFECT

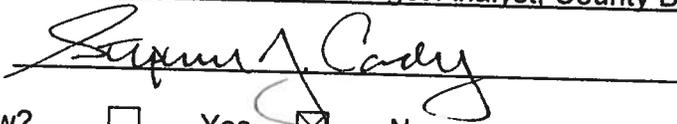
In the space below, you must provide the following information. Attach additional pages if necessary.

- A. Briefly describe the nature of the action that is being requested or proposed, and the new or changed conditions that would occur if the request or proposal were adopted.
- B. State the direct costs, savings or anticipated revenues associated with the requested or proposed action in the current budget year and how those were calculated.¹ If annualized or subsequent year fiscal impacts are substantially different from current year impacts, then those shall be stated as well. In addition, cite any one-time costs associated with the action, the source of any new or additional revenues (e.g. State, Federal, user fee or private donation), the use of contingent funds, and/or the use of budgeted appropriations due to surpluses or change in purpose required to fund the requested action.
- C. Discuss the budgetary impacts associated with the proposed action in the current year. A statement that sufficient funds are budgeted should be justified with information regarding the amount of budgeted appropriations in the relevant account and whether that amount is sufficient to offset the cost of the requested action. If relevant, discussion of budgetary impacts in subsequent years also shall be discussed. Subsequent year fiscal impacts shall be noted for the entire period in which the requested or proposed action would be implemented when it is reasonable to do so (i.e. a five-year lease agreement shall specify the costs/savings for each of the five years in question). Otherwise, impacts associated with the existing and subsequent budget years should be cited.
- D. Describe any assumptions or interpretations that were utilized to provide the information on this form.

Approval of this resolution/ordinance will result in a decrease in County and employee contributions to the Employees' Retirement System. Please see the attached fiscal analysis from Buck Consultants outlining the changes to the backdrop benefit and the anticipated savings expected if adopted.

Department/Prepared By Steve Cady, Fiscal and Budget Analyst, County Board

Authorized Signature



Did DAS-Fiscal Staff Review? Yes No

¹ If it is assumed that there is no fiscal impact associated with the requested action, then an explanatory statement that justifies that conclusion shall be provided. If precise impacts cannot be calculated, then an estimate or range should be provided.

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SEP 27 2012

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(ITEM 25) A resolution by Supervisors Lipscomb, Alexander and Schmitt, to amend Section 201.24(5.16) of the Milwaukee County Code of General Ordinances as it pertains to the "backdrop benefit", by recommending adoption of the following:

AN AMENDED RESOLUTION/ORDINANCE

WHEREAS, the backdrop pension benefit has cost Milwaukee County significant amounts in increased contributions to the Employees Retirement System; and

WHEREAS, Milwaukee County eliminated the backdrop pension benefit for all employees whose membership in the retirement system began after various dates, depending on the employee's union status at retirement; and

WHEREAS, Milwaukee County sued the actuarial firm that provided advice at the time of the adoption of the backdrop benefit and obtained a settlement amount of \$45 million; and

WHEREAS, 2011 Wis. Act 10 prohibits Milwaukee County from collective bargaining concerning pension benefits, except with collective bargaining units representing public safety workers, and therefore allows Milwaukee County to modify pension benefits for non-public safety worker employees; and

WHEREAS, Milwaukee County must collectively bargain any changes in the backdrop pension benefit with members represented by the Milwaukee County Firefighters Association and therefore the changes set forth herein do not apply to such members; and

WHEREAS, because of the past, current and future costs to Milwaukee County and its pension fund related to the backdrop, it is appropriate and desirable to modify the backdrop benefit to reduce those costs, to the extent legally permissible; and

WHEREAS, the proposed modification of the backdrop benefit does not affect the benefit of any employee currently eligible to retire and receive a backdrop benefit and, further, it does not reduce the benefit that has been accrued by any other employee as of January 1, 2013; and

WHEREAS, the Pension Study Commission has not issue a report; and

WHEREAS, the Pension Board was provided an opportunity to comment on the proposed change and its response has been received; now, therefore,

BE IT RESOLVED, that the Milwaukee County Board of Supervisors hereby amends Section 201.24(5.16) of the Milwaukee County Code of General Ordinances by adopting the following:

APPROVED AS TO FORM
Kathryn
CORPORATE COUNSEL

Chairman
Sinitreger
RULED this
Item was
not properly
before the
Board

38

AN AMENDED ORDINANCE

39 The County Board of Supervisors of the County of Milwaukee does ordain as
40 follows:

41 **SECTION 1.** Section 201.24(4.1) of the General Ordinances of Milwaukee County is
42 amended as follows:

43

44 **5.16 Back drop pension benefit.**

45

46 (1) The provisions of this section shall apply to any member whose application to retire
47 is filed and effective after January 1, 2001, but shall not apply to any member of the
48 retirement system who

49

50 (a) is an elected official, or who was in a position that was not in a certified
51 collective bargaining unit on June 29, 2011, and who began membership in said
52 system on or after March 15, 2002,

53 (b) was in a position in a certified collective bargaining unit represented by the
54 American Federation of State, County and Municipal Workers on June 29, 2011 and
55 who began membership on or after February 1, 2007,

56 (c) was in a position in a certified collective bargaining unit represented by the
57 Milwaukee Building and Construction Trades Council on June 29, 2011 and who
58 began membership on or after February 21, 2006,

59 (d) was in a position in a certified collective bargaining unit represented by the
60 Association of Milwaukee County Attorneys on June 29, 2011 and who began
61 membership on or after January 1, 2006,

62 (e) was in a position in a certified collective bargaining unit represented by the
63 International Association of Machinists or by the Technicians, Engineers and
64 Architects of Milwaukee County on June 29, 2011 and who began membership on
65 or after November 4, 2005,

66 (f) was in a position in a certified collective bargaining unit represented by the
67 Federation of Nurses and Health Professionals on June 29, 2011 and who began
68 membership on or after December 16, 2005,

69 (g) was in a position in a certified collective bargaining unit represented by the
70 Milwaukee County Firefighters Association on June 29, 2011 and who began
71 membership on or after June 19, 2007,

72 (h) ~~or to a member who~~ was formerly a represented deputy sheriff and who was
73 appointed to a non-represented position effective after June 30, 2009,

74 (i) ~~or who~~ is eligible for a deferred pension benefit under section 201.24(4.5) or
75 a disability pension benefit under sections 201.24(5.3), (5.31) or (5.4)-or

76 (j) ~~The "back drop" pension benefit under this section 5.16 shall not apply to~~
77 ~~any~~ is an elected official whose membership began prior to March 15, 2002, if such
78 elected official consents irrevocably in writing filed with the system to waive the
79 right to elect to receive a "back drop" pension benefit.
80

81 (2) Upon retirement, the provisions as hereafter described shall be the sole method for
82 calculating retirement benefits under this section. A member eligible under paragraph (1)
83 may opt for a "back drop" pension benefit as follows:
84

85 (a)(1) A member may request a "monthly pension benefit" based on accrued
86 pension service credit and final average salary calculation as of a specific date in the past
87 which shall be referred to as the "back drop date." The "back drop date" may not be prior
88 to the earliest date that the member was eligible to retire, and shall not be less than one (1)
89 year prior to the date the member leaves active county service. The monthly pension
90 benefit the member was eligible to receive as of the "back drop date" shall be referred to as
91 the "monthly pension drop benefit."
92

93 (b)(2) In addition to the monthly pension benefit set forth in paragraph (a), a
94 member will receive a "total drop benefit" equal to the total amount of the "monthly drop
95 benefit" payments, as defined in paragraph (c), the member would have received
96 (including the annual two (2) percent pension increase) between the "back drop date" and
97 the date the member is removed from the county payroll due to actual retirement (after
98 exhausting all accrued time balances as documented by an ETCR form), plus interest
99 earnings (compounded monthly) equal to the pension fund rate of return used by the ERS
100 actuary, shall be referred to as the "total drop benefit."
101

102 (c)(1) If the backdrop date requested by the member is on or after January 1, 2013,
103 then the "monthly drop benefit" utilized for calculating the "total drop benefit" in
104 paragraph (b) shall be the monthly amount calculated based on the member's final average
105 salary, service credit and applicable multiplier(s) as of January 1, 2013. If such a member
106 was not employed on January 1, 2013, but returns to county employment thereafter, then
107 the "monthly drop benefit" shall be the monthly amount calculated based on the member's
108 final average salary, service credit and applicable multiplier(s) as of his or her last day of
109 employment prior to January 1, 2013.

110 (2) If the backdrop date requested by the member is prior to January 1, 2013, then
111 the "monthly drop benefit utilized for calculating the "total drop benefit" in paragraph (b)
112 shall be the "monthly pension benefit" in paragraph (a) on the "back drop date" requested
113 by the member.

114 (3) Notwithstanding subparagraphs (c)(1) and (2), if the member is represented at
115 the time of retirement by the Milwaukee County Firefighters Association, then the "monthly
116 drop benefit utilized for calculating the "total drop benefit" in paragraph (b) shall be the
117 "monthly pension benefit" in paragraph (a) on the "back drop date" requested by the
118 member.
119

120 (3) If the member opts for a "back drop" pension benefit:

121 a. The "total drop benefit" shall be paid to the member with appropriate deductions for
122 state and federal taxes; or if permitted by IRS regulations, the member may "roll over" all or
123 a portion of the "total drop benefit" to an IRA.

124 b. The "monthly drop benefit" shall be paid to the member.

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(4) The standard pension options shall be available to a member who opts for a "back drop benefit", and the retention incentives incorporated into the pension benefit effective January 1, 2001, shall be included when calculating the "monthly pension benefit" or the "monthly drop benefit." Therefore, a member who opts for a "back drop benefit" with a "back drop date" prior to January 1, 2001, shall be eligible for the retention incentives which became effective as of January 1, 2001, based on continued service after January 1, 2001.

(5) A member who opted for a "back drop benefit" upon retirement and later returns to active service and is eligible to earn additional pension service credit, shall cease receiving the monthly pension~~drop~~ benefit until the member once again terminates active service. Upon once again retiring, the member shall have any new service credit added to the service credit used to calculate the "monthly pension~~drop~~ benefit", and the member's final average salary shall be recalculated to incorporate the most recent earnings.

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MILWAUKEE COUNTY FISCAL NOTE FORM

DATE: May 1, 2012

Original Fiscal Note

Substitute Fiscal Note

SUBJECT: A resolution/ordinance to modify the backdrop benefit related to the Employees' Retirement System.

FISCAL EFFECT:

- | | |
|--|--|
| <input type="checkbox"/> No Direct County Fiscal Impact | <input type="checkbox"/> Increase Capital Expenditures |
| <input type="checkbox"/> Existing Staff Time Required | <input type="checkbox"/> Decrease Capital Expenditures |
| <input type="checkbox"/> Increase Operating Expenditures
(If checked, check one of two boxes below) | <input type="checkbox"/> Increase Capital Revenues |
| <input type="checkbox"/> Absorbed Within Agency's Budget | <input type="checkbox"/> Decrease Capital Revenues |
| <input type="checkbox"/> Not Absorbed Within Agency's Budget | |
| <input checked="" type="checkbox"/> Decrease Operating Expenditures | <input type="checkbox"/> Use of contingent funds |
| <input type="checkbox"/> Increase Operating Revenues | |
| <input type="checkbox"/> Decrease Operating Revenues | |

Indicate below the dollar change from budget for any submission that is projected to result in increased/decreased expenditures or revenues in the current year.

	Expenditure or Revenue Category	Current Year	Subsequent Year
Operating Budget	Expenditure		
	Revenue		
	Net Cost	See	Attached
Capital Improvement Budget	Expenditure		
	Revenue		
	Net Cost		

DESCRIPTION OF FISCAL EFFECT

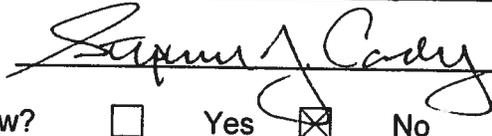
In the space below, you must provide the following information. Attach additional pages if necessary.

- A. Briefly describe the nature of the action that is being requested or proposed, and the new or changed conditions that would occur if the request or proposal were adopted.
- B. State the direct costs, savings or anticipated revenues associated with the requested or proposed action in the current budget year and how those were calculated.¹ If annualized or subsequent year fiscal impacts are substantially different from current year impacts, then those shall be stated as well. In addition, cite any one-time costs associated with the action, the source of any new or additional revenues (e.g. State, Federal, user fee or private donation), the use of contingent funds, and/or the use of budgeted appropriations due to surpluses or change in purpose required to fund the requested action.
- C. Discuss the budgetary impacts associated with the proposed action in the current year. A statement that sufficient funds are budgeted should be justified with information regarding the amount of budgeted appropriations in the relevant account and whether that amount is sufficient to offset the cost of the requested action. If relevant, discussion of budgetary impacts in subsequent years also shall be discussed. Subsequent year fiscal impacts shall be noted for the entire period in which the requested or proposed action would be implemented when it is reasonable to do so (i.e. a five-year lease agreement shall specify the costs/savings for each of the five years in question). Otherwise, impacts associated with the existing and subsequent budget years should be cited.
- D. Describe any assumptions or interpretations that were utilized to provide the information on this form.

Approval of this resolution/ordinance will result in a decrease in County and employee contributions to the Employees' Retirement System. Please see the attached fiscal analysis from Buck Consultants outlining the changes to the backdrop benefit and the anticipated savings expected if adopted.

Department/Prepared By Steve Cady, Fiscal and Budget Analyst, County Board

Authorized Signature



Did DAS-Fiscal Staff Review? Yes No

¹ If it is assumed that there is no fiscal impact associated with the requested action, then an explanatory statement that justifies that conclusion shall be provided. If precise impacts cannot be calculated, then an estimate or range should be provided.

MILWAUKEE COUNTY BOARD OF SUPERVISORS

AMENDMENT NO. –FPA #1

DATE: 09/20/12

TO: Item 25, File No. 12-395

COMMITTEE: Finance, Personnel and Audit

OFFERED BY SUPERVISOR(S): Alexander

AMEND the entire document to strike the reference to the effective date September 1, 2012, and replace it with January 1, 2013.

**Employees' Retirement System of the County of Milwaukee
Exhibit on DROP Current Lump Sum vs. Proposed Lump Sum**

DROP Estimate for General Employee			
<u>Hire Date</u>	<u>Current Annuity</u>	<u>Current Lump sum</u>	<u>Proposed Lump sum</u>
1988	\$21,198	\$145,730	\$116,585
1998	\$21,198	\$145,730	\$68,007
2003	\$21,198	\$145,730	\$43,719
2008	\$21,198	\$145,730	\$19,431

This illustration is intended to demonstrate the impact of the proposed backdrop modification outlined in Buck's May 1, 2012 letter RE: Actuary's Review of Possible Backdrop Modification. The illustration removes all variables except for the retirement date in order to show how the backdrop benefit is affected by the proposed change. This illustration makes a number of simplifying assumptions, including the following:

- The employee is hired at age 30, retires at age 65 and backdrops to age 60. Thus, the illustration ignores the possibility of rule of 75 retirements before age 60 and the new requirement for some employees of retirements only at age 64.
- The employee's salary is \$40,000 at hire, regardless of the date of hire, and does not increase during employment. Thus, the illustration ignores wage variables and inflation in order to isolate the effect of the proposed change.
- The benefit multiplier is 1.6% for all years of service. Thus, the illustration ignores differing multipliers that may apply to different employees, again in order to isolate the effect of the proposed change.
- The illustration ignores the fact that employees already eligible to retire will be able to elect a backdrop date prior to the effective date of this proposal and will not be affected by the proposal.
- The illustration does not show the amount of the annuity for an employee who does not select a backdrop benefit.

The intent of the illustration is to show the impact of the freezing of the benefit eligible for DROP as of September 1, 2012 while keeping all other variables the same. Therefore, as noted, the actual, specific plan provisions that would govern the illustrative employees above, such as the 2.0% multiplier or retirement ages of 57 or 64, are not illustrated. Explicitly modeling these other provisions would impact the direct comparability of the possible backdrop modification. The examples merely illustrate the fact that the annual pension annuity under current provisions is not affected by this proposal, but that the amount of the backdrop is affected, especially as retirements occur into the future.



EMPLOYEES' RETIREMENT SYSTEM (ERS)

Milwaukee County

Pension Board

John M. Maier, J.D.
Chairman

Dean Muller
Dr. Sarah W. Peck
David Sikorski
Patricia Van Kampen

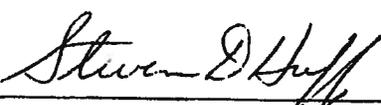
Marian Ninneman
ERS Manager

SECRETARY'S CERTIFICATE

The Pension Board of the Employees' Retirement System of the County of Milwaukee ("Pension Board") adopted the following resolution at its regular monthly meeting held on July 18, 2012:

The Pension Board offers no formal comment regarding the proposed Ordinance amendments to section 201.24(5.16) of the Milwaukee County Code of General Ordinances codifying backdrop eligibility provisions for employees and modifying the timing for calculating the backdrop lump sum payment, and waives the balance of its 30 day comment period provided for under section 201.24(8.17) of the Milwaukee County Code of General Ordinances. The Employees' Retirement System ("ERS") Manager estimates that implementation of the proposed Ordinance amendments would result in an additional one-time cost to the System of \$250,000-\$500,000. The Pension Board believes that it is in the best interests of ERS for the County Board to adopt Ordinance amendments which clarify the intended operation of the Ordinances.

Dated: July 18, 2012.

Certified by: 
Steven D. Huff, Secretary

Pension Board of the Employees'
Retirement System of the County
of Milwaukee

May 1, 2012

Mr. Mark Grady
Deputy Corporation Counsel
Milwaukee County Employees' Retirement System
901 N. 9th St., Room 303
Courthouse
Milwaukee, WI 53233

RE: Actuary's Review of Possible Backdrop Modification

Dear Mr. Grady:

We have reviewed a possible modification to the backdrop benefit. As summary of the modification is as follows:

- Under this proposal, if and when a member becomes eligible for, and elects, a backdrop at some future date, the monthly benefit that would be used for purposes of calculating the amount of the backdrop would be limited to the monthly pension benefit that the member would be eligible to receive as of September 1, 2012. This modification would have no impact on members who are eligible for a back-drop and have reached their eligible retirement date prior to September 1, 2012, as long as that member chooses a back drop date which is on or before September 1, 2012. Thus, for calculation of the backdrop benefit at any backdrop date in the future, the monthly benefit amount will be limited to the service credit, final average salary and multiplier for that member no later than 9/1/12. However, the actual monthly annuity that the member would be paid would be calculated as of the backdrop date selected by the member. Thus, the monthly annuity paid to the member would be based on the member's service credit, final average salary and multiplier in effect as of the actual backdrop date. This modification would result in a difference between the currently calculated formula of back-drop date annuity (after September 1, 2012) versus September 1, 2012 annuity.

Actuarial Analysis

To determine the actuarial impact of the proposed modification, we developed actuarial projections based on the proposed modification and compared them to the current actuarial position of Milwaukee County Employees' Retirement System. For calculation purposes, we utilized an effective date of 1/1/12 rather than the proposed date of 9/1/12. This difference does not result in a significant change in our conclusions. The figures labeled "Change in Present Value of Future Benefits" represents the present value of the anticipated contribution savings for the proposed modification. The anticipated present value of the *savings* is \$15.7 million dollars for the proposed modification. At the bottom of the exhibit is the "Change in Total contributions". This is the impact on the current year contributions under the proposed modification. The estimated *savings* in contributions is \$1.2 million under this proposed modification.

The savings shown above are the total savings. The state has mandated that retirement system members and the County share in the contributions to the Milwaukee County Employees' Retirement System. (Refer to our letter dated July 11, 2011 for more information on this analysis). Because the members share in increases in contributions, they also share in contribution decreases. The percent of the total contributions that the County pays will vary from year to year. It is anticipated that the county will realize 60% to 70% of the savings shown above, with the members realizing the remainder of the savings.

Basis for the Analysis

Unless otherwise noted in this analysis, we have based this analysis on the data, assumptions and methods used for the preliminary results of the January 1, 2011 actuarial valuation. There are 4,448 active members in the January 1, 2011 actuarial valuation. Of these 3,041 are eligible for DROP benefits. Of those eligible for DROP 859 are eligible to retire as of January 1, 2012.

For purpose of this analysis, current provisions include the provisions included for the January 1, 2011 actuarial valuation, updated for the following:

- State-Mandated Employee Pension Contributions (refer to our letter dated July 11, 2011)
- The decrease in the multiplier from 2.0% to 1.6% for current members' future service & future hires' total service, and the increase the normal retirement age to 64 for future hires only for certain employee groups (refer to our letter dated July 19, 2011)

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.

Sincerely,



Larry Langer, ASA, EA, MAAA
Principal, Consulting Actuary

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19150/C7317RET01-Poss-Backdrop-Mod.doc

Milwaukee County
January 1, 2011 Cost Study Results
Actuary's Review of Possible Backdrop Modification*

Exhibit

Item	1) January 1, 2011 Actuarial Valuation	2) January 1, 2011 Actuarial Valuation updated for Current Provisions	3) Proposed Modification - DROP lump sum based on benefit as of 1/1/2012
Valuation Results			
1. Present Value of Future Benefits			
a) Active Participants	\$ 770,715,962	\$ 750,952,768	\$ 735,262,508
b) Participants with Deferred Benefits	69,435,621	69,435,621	69,435,621
c) Participants Receiving Benefits	1,379,441,317	1,379,441,317	1,379,441,317
d) Total	<u>\$ 2,219,592,900</u>	<u>\$ 2,199,829,706</u>	<u>\$ 2,184,139,446</u>
Change in Present Value of Future Benefits			\$ (15,690,260) *
2. Present Value of Future Normal Cost	\$ 127,666,249	\$ 108,178,184	\$ 104,883,312
3. Actuarial Accrued Liability: (1 - 2)	\$ 2,091,926,651	\$ 2,091,651,522	\$ 2,079,256,134
4. Actuarial Value of Assets	\$ 1,929,427,864	\$ 1,929,427,864	\$ 1,929,427,864
5. Funded Status: (4 / 3)	92.2 %	92.2 %	92.8 %
6. Unfunded Actuarial Accrued Liability: (3 - 4)	\$ 162,498,787	\$ 162,223,658	\$ 149,828,270
7. Normal Cost Rate	8.457 %	7.166 %	6.948 %
8. Normal Cost for the Plan Year	\$ 18,744,724	\$ 15,883,655	\$ 15,477,176
Change in Normal Cost			\$ (406,479)
Total Actual Funding Contribution and Annual Required Contribution for Fiscal Year			
9. Actual Funding Contribution Calculated by Actuary			
a) Normal Cost with Interest	\$ 19,480,089	\$ 16,506,778	\$ 16,084,353
b) Net Annual Amortization Payments	7,327,948	7,310,778	6,537,214
c) Total Contribution: ((a + b), not less than zero)	<u>\$ 26,808,037</u>	<u>\$ 23,817,556</u>	<u>\$ 22,621,567</u>
Change in Total Contributions			\$ (1,195,989) *

* The savings shown above are the total savings. The state has mandated that retirement system members and the County share in the contributions to the Milwaukee County Employees' Retirement System. (Refer to our letter dated July 11, 2011 for more information on this analysis). Because the members share in increases in contributions, they also share in contribution decreases. The percent of the total contributions that the County pays will vary from year to year. It is anticipated that the county will realize 60% to 70% of the savings shown above, with the members realizing the remainder of the savings.