



**Milwaukee County Employees' Retirement System (ERS)  
March 30, 2022 Actuarial, Audit, and Risk Committee Meeting  
MINUTES**

**Call to Order**

Actuarial, Audit, and Risk Committee Chair Nicole Best called the Actuarial, Audit, and Risk Committee meeting to order at 10:05 a.m. on Wednesday, March 30, 2022. The meeting was held virtually due to Milwaukee County's and the City of Milwaukee's Stay Safe MKE initiative limiting gatherings in light of the COVID-19 pandemic.

**Committee Members Present:**

Nicole Best  
Jeremy Lucas  
David Robles  
Rob Worzalla

**Others Present:**

Erika Bronikowski, Retirement Plan Services  
Jacob Augustine, Retirement Plan Services  
Turkessa McCoy, Retirement Plan Services  
Abbey Moreno, Retirement Plan Services  
Jessica Culotti, Reinhart Boerner Van Deuren  
Judd Taback, Office of Corporation Counsel  
Stefanie Scasser, Office of Corporation Counsel  
Geoff Bridges, Segal Consulting

**Other Pension Board Members Present:**

Ron Nelson

**1. Topic: Chairperson's Report**

Committee Chairperson Best offered initial comments and welcomed everyone to the meeting.

**2. Topic: Meeting Minutes – February 2, 2022**

A motion by Trustee Robles, seconded by Trustee Lucas, was made to approve the February 2, 2022 Actuarial, Audit, and Risk Committee Meeting minutes. The motion passed unanimously.

**3. Topic: Assumed Rate of Return**

Mr. Bridges presented to the Committee a discussion of Investment Return Assumptions. The presentation was informational and an experience study regarding the assumed rate of return will occur later this year. The interest rate discussion was the focus of the meeting and how it is a driving factor in the valuation process. An actuarial valuation determines the current or "measured" cost, not the ultimate cost of a pension system. Having a larger investment income will require lower contributions to offset the cost of benefit payments and expenses. For valuation purposes, future returns need to be estimated to budget required contributions. The current assumed rate of investment return is 7.5% while the assumed inflation rate is 2.5%. The inflation rate does not directly play into the valuation but is used as a building block in determination of other economic assumptions.

Mr. Bridges explained that an experience study should be performed on a periodic basis, typically every five years. The last experience study that ERS conducted reviewed demographic and economic assumptions over the 5-year period ending December 31, 2016. Segal's role is to make appropriate recommendations to the Board and those recommendations will follow the guidance of the applicable Actuarial Standards of Practice. In particular, assumptions should be reasonable individually and in the aggregate. The Board can adopt all, none, or some of the recommendations made by the actuary. Assumptions are set by reviewing actual experience of the plan and compare that to assumptions. For determining economic assumptions, such as assumed rate of return and inflation, current economic conditions are weighted more than the actual plan experience. Since assumptions are long-term in nature, they should be internally consistent.

Mr. Bridges explained that the assumed rate of inflation is currently 2.5% and provided the data sources for this assumption. This economic assumption contributes to investment return, individual salary increases, and payroll growth. In response to a question from Committee Chairperson Best, Mr. Bridges confirmed that

pension systems have slowly brought their inflation assumptions down in recent years. ERS is in line with trends and other plans. The current assumed rate of investment return is 7.5%. When developing recommendations, Segal reviews the Horizon Survey of Capital Market Assumptions, reviews ERS' current target asset allocation, and runs scenarios to see what the portfolio will generate over 20 years. Additional adjustments may be made for expected benefit payout timing or for current market outlook, if needed. ERS is a very mature plan. There are more retirees compared to active members.

Mr. Bridges presented the 20-Year expected return using ERS' current target asset allocation, with the median return being 7.1%. The probability of attaining this target investment return over long-term is lower than 50% and this could drive consideration to reduce investment return assumptions. Higher investment return assumptions equate to lower Actuarial Accrued Liability and Normal Cost and the Plan is more likely to incur future investment losses. In response to a question from the Committee, Mr. Bridges confirmed that Normal Cost is more sensitive than Actuarial Liabilities.

Trustee Nelson asked Segal to weigh in on the equity impact on current and future contributors. Mr. Bridges explained that one of the goals with valuation is to not defer costs excessively or have excessive front-loaded costs.

Trustee Robles asked how large amounts of volatility is factored in the actuarial computation of actual rate of return. Mr. Bridges explained that assumptions in valuation are set by the Board and ERS currently uses a 10-year smoothing. When the Plan has a good year, in the following year only 10% of that amount above the assumption is recognized. There is a very long amortization of gains and losses in valuation assumptions. This deferral allows county contributions to smooth out and not jump around from year to year. For example, 2019 and 2020 were very good years in financial returns but they have not had much of an impact on current contributions.

The 5-Year and 10-Year historical investment return of ERS have been over 7.5%, but the 15-Year investment return was under 7.5% mainly due to 2008. The Survey of National Association of State Retirement Administrators shows that many governmental plans had an assumed rate of investment return of 8% or more. Nowadays 8% is a small sector. 7.5% in 2001 was considered conservative, but today that is considered more aggressive. Many plans are more commonly moving to 7%, with some plans under that percentage.

In response to a question from Trustee Nelson, Mr. Bridges explained that Segal is seeing that both in public and private sectors, many plans are adopting glide paths which means when a certain metric is met, then the amount of risk in their portfolio is reduced. Mr. Bridges suggested policy changes like this could be addressed in a future discussion.

Trustee Robles asked if the assumed rate of return is adjusted, could that have a negative impact on achieving the goal of being fully funded. Mr. Bridges confirmed that this assumption is not the guideline of how much risk ERS should take on, but rather is meant to reflect what the portfolio is doing. The Board will make the decision on how much risk they would want to take in the creation of the portfolio. When setting the assumed rate of return, Segal will meet with the Investment Consultant and determine what is reasonable for the long term based on current portfolio structure and what changes would be needed to become fully funded.

Trustee Nelson confirmed that expected returned based on a recent asset allocation study is around 7.15%.

Trustee Lucas asked if there is a linear connection between the assumed rate of return and the Board's expectations of the Investment Consultant. Mr. Bridges explained that the Board sets the investment expectation and the Investment Consultant looks for opportunities to outperform that expectation. While there is a relationship, it is reasonable for the Board to have its own expectations of what the Investment Consultant should achieve in the portfolio. In response to a follow-up question from Trustee Lucas, Mr. Bridges confirmed that most of the liabilities are based on population. Since the majority of the population of ERS are retirees, investment assumptions and mortality have a larger impact than salary growth or other factors that would affect active members.

In response to Trustee Robles' comment regarding the Board working with the Investment Consultant to change asset classes to try and boost rate of return, Trustee Nelson confirmed that the Board's role is to

monitor the Investment Consultant closely. While the Investment Consultant, Marquette Associates, will consult with the Board, they cannot make changes without the Board's approval.

In response to a question from Committee Chairperson Best, Ms. Bronikowski explained that other than providing the valuation data, RPS does not provide input to the actuary regarding this process.

*The Committee voted to enter closed session under Section 19.85(1)(g), Wis. Stats., with regard to item(s) 4 for the purpose of the Committee receiving oral or written advice from legal counsel concerning strategy to be adopted with respect to pending or possible litigation and under Section 19.85(1)(e), Wis. Stats., with regard to item(s) 5 and 6 for discussing the negotiation related to the expenditure of public moneys or involving public resources.*

#### **4. Topic: Overpayment Collections**

The Committee discussed Item 4 in closed session. Upon returning to open session, no action was taken.

#### **5. Topic: Review of Procurement Policy**

The Committee discussed Item 5 in closed session. Upon returning to open session, a motion was made by Trustee Robles to approve the updated Board's Procurement Policy that reflects a change in the number of members of a Procurement Evaluation Panel that must be Trustees. The motion was seconded by Trustee Lucas and it passed unanimously.

#### **6. Topic: Actuarial Services Request For Proposal ("RFP")**

The Committee discussed Item 6 in closed session. Upon returning to open session, a motion was made by Trustee Robles to recommend approval of the RFP pending additional comments and input submitted to the Committee Chairperson and Director of RPS. The motion was seconded by Trustee Lucas and it passed unanimously.

#### **7. Topic: Pension Administration System Upgrade**

Ms. Bronikowski explained that in February 2021, pension administration system upgrade contract was signed. The upgrade project is scheduled from March 2021 through October 2022. The RPS systems team has been working closely with the co-development team at Joxel and the Vitech team to progress through the project plan. An August 2022 go-live date is planned. As part of the upgrade, subject matter experts were identified and are currently testing the new system. The project is 65% complete.

Ms. Bronikowski explained that RPS plans to have blackout period and will place retirement appointments on hold for a few weeks while the new system is implemented. In response to a question from Trustee Robles, Ms. Bronikowski explained that the blackout period will only affect retirement appointments. Retirements will still be processed and RPS will continue to handle any emergency retirement appointments that are needed. There will be communications for this blackout period in April Pulse Newsletter, an email sent to all employees, and scripting for team asking for early or later appointments.

Ms. Bronikowski introduced Ms. McCoy and Ms. Moreno from RPS to the Committee to demonstrate the new Digital Self-Service site that will become available to members. Ms. McCoy walked through the registration process that members will need to complete along with two-factor authentication. The new site is more user friendly and will allow members to make updates online that could not be made on the current platform. Members will be able to view estimate letters once they are completed, submit documents in real time, and complete certain forms online without having to submit paper forms. The site will also contain new communication options for members to get into contact with RPS that will be rolled out after go-live.

Trustee Lucas asked how much time the new site will save RPS staff. Ms. Moreno explained that from initial projections for retirees alone, this new site will save five to ten minutes per change. This will not only reduce risk, but the site also allows for additional auditing functionality.

In response to a question from Trustee Robles, Ms. Moreno explained that 1099-R's will continue to be mailed to retirees, but retirees who create Digital Self-Service accounts can view the tax form on the site right away.

In response to a question from Trustee Robles, Ms. Moreno explained that rolling out open enrollment for retirees within Digital Self-Service site is a goal for 2023.

**8. Topic: Adjournment**

The meeting adjourned at 11:54 a.m.