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November 19, 2009 VIA EMAIL

Mr. Troy Hamblin
Labor Negotiator
City of Milwaukee
200 E. Wells St, Rm 701-A
Milwaukee, WI 53202

Re: Cost of Proposed Early Retirement Incentive for City Represented Employees

Dear Troy:

As requested in your November 3, 2009 phone call, we have determined the fiscal impact of extending four combinations of the following two early retirement incentive (ERI) plan components (Numbered C1-C2), to City represented employees:

C1. Effective 1/1/2010 through 12/31/2011 employees who retire during the term of Agreement shall receive a 2% COLA increase after twelve months of retirement. This provision shall sunset 12/31/2011.

C2. Employees who retire from active service between 1/1/2010 and 12/31/2010 on a normal or early service retirement shall be eligible for a bonus year. That year may be, at the discretion of the employee, added to either age, for eligibility qualification, years of service, or some combination thereof. If the bonus year is used as an additional year of service credit the total years of service cannot exceed 35, and will not be used to break the 70% cap. This provision shall sunset 12/31/2010.

These two components are combined in various ways to form the four following ERI proposals (Numbered P1-P4), as listed below:

P1. C1 and C2.
P2. C1 modified to be effective from 1/1/2010 through 12/31/2010 only, and C2 unmodified.
P3. C1 modified to be effective from 1/1/2010 through 12/31/2010 only, and C2 eliminated.
P4. C2 only.

Along with City Staff, we have identified 199 active members that would be eligible for the four ERI proposals. If enacted, this proposal could increase the projected benefits to be paid to these 199 active members. Of these 199 members, based on their current situation they are projected to eligible for and benefit from only certain proposals. (For example, some members will not benefit from P4 because of having already reached the 35 year service cap.) We are not aware of any additional incentives outside the retirement system that could incent early retirement behavior. As such, when evaluating proposals two through four, we have assumed that these individuals will not change their behavior, and that there will be no cost impact for these individuals should these proposals be enacted. The number of members projected to be eligible for and benefit from the proposals is summarized in the table below:

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Group	Projected to be Eligible for and Benefit from Proposal			
	P1.	P2.	P3.	P4.
Eligible by 12/31/10 w/o use of bonus svc, svc ≥ 35	18	18	18	-
Eligible by 12/31/10 w/o use of bonus svc, svc ≤ 35	143	143	143	143
Eligible by 12/31/10 with use of bonus svc	38	38	-	38
Not eligible by 12/31/10*	-	-	-	-
Total	199	199	161	181

* Note that to be part of the "Not Eligible by 12/31/10" group, the member needs to both turn 55 and reach 30 years of service in 2011. There are no such members in the study group.

Unless otherwise noted, this analysis is based on the participant data, actuarial assumptions and methods used to prepare the January 1, 2009 actuarial valuation. We have calculated the fiscal impact of these proposals as of January 1, 2009 if all eligible members elect the ERI (except as described above), as summarized in the table below:

Potential Impact of ERI Assuming 100% Utilization by Eligible Benefiting Members
(dollars in thousands)

Item	Description	Liability			Amortization at 8.5%	
		Baseline	ERI	Increase	5 Years	24 Years
P1.	C1 and C2.	$ 38,485	$ 51,736	$ 13,251	$ 3,362	$ 1,310
P2.	C1 modified to be effective from 1/1/2010 through 12/31/2010 only, and C2 unmodified.	38,485	51,736	13,251	3,362	1,310
P3.	C1 modified to be effective from 1/1/2010 through 12/31/2010 only, and C2 eliminated.	38,485	47,512	9,027	2,291	892
P4.	C2 only.	38,485	49,170	10,685	2,710	1,057

We have included an appendix with tables that break out each of the four proposals (P1-P4) by union group. See Appendix A for these figures.

The Baseline Liability above is the liability for all 199 members based on the current assumptions of the Retirement System. The 100% Utilization Liability is based on all eligible members electing the ERI at the earliest opportunity, reflecting the bonus year and COLA if applicable. Note that the actual utilization of an ERI is unpredictable. If it is anticipated that 50% of the affected group is likely to elect the ERI, it is not unreasonable to use 50% of the costs above. It should be noted that the actual demographics of those that elect will greatly influence the final cost of the ERI.

There are two primary sources of ERI costs to the Retirement System. First, the benefit enhancements used to incent, the 2% cola and the bonus year, add costs to the Retirement System. Second, we anticipate that members will retire earlier than assumed in the annual valuation (except as noted above for unaffected members). For purposes of the annual valuation, we do not anticipate that all members will retire at the earliest retirement date, but rather member are anticipated to retire on average a few years after earliest retirement eligibility. When valuing the ERI we do assume that all members will retire at the earliest retirement date. Additional costs result from benefits being paid earlier than average. These additional costs from benefits being paid earlier than anticipated are a significant portion of the increase in liability.

If all 199 eligible members elect proposal 1 of the ERI, the annual contribution will decrease by the amount of employer normal cost which is estimated to be about $1.5 million in the upcoming year. (For other proposals the decrease is slightly less.) The employer normal cost represents the cost of the accrual of benefits during 2009 for all eligible members. It should be noted that the savings above will rapidly decline to zero over the next few years.

The current funding policy for CMERS includes a provision for amortizing unfunded liabilities over a twenty four year period as of January 1, 2010. Assuming no change in policy, unfunded liabilities generated by an ERI will be amortized over the current board policy. We have included a twenty four year amortization of the costs. The cost associated with an ERI should be amortized over a short period of time that matches the period over which savings generated by the ERI are realized. Best practices dictate that these costs be paid back over a period of three to five years. As requested, we have included a five year amortization of costs in the exhibit above.

For purposes of this analysis, we have only isolated the potential impact on the Retirement System. The impact on other benefit programs has not been included in this analysis and should be developed to determine the overall impact on the City of the ERI.

The GFOA has a Recommended Practice regarding Early Retirement Incentives that we encourage the appropriate staff to read. We have attached a copy of the recommended practice to the cover email.

Please call me if you have any questions or need further information.

Sincerely,

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

LL:pl
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APPENDIX A
Potential Impact of ERI Split By Union Code

Potential Impact of ERI Proposal 1 Assuming 100% Utilization by Eligible Members
(dollars in thousands)

Union Code	Count	Liability			Amortization at 8.5%	
		Baseline	ERI	Increase	5 Years	24 Years
19	2	$ 282	$ 373	$ 91	$ 23	$ 9
20	20	5,260	6,875	1,615	410	160
21	2	184	273	89	22	9
22	9	1,788	2,528	740	188	73
23	11	2,173	2,860	687	174	68
32	6	1,242	1,649	407	103	40
34	5	700	976	276	70	27
35	6	2,468	3,319	851	216	84
36	5	918	1,292	374	95	37
48	4	923	1,208	285	72	28
52	59	7,700	10,469	2,769	703	274
61	34	4,664	6,361	1,697	431	168
71	25	7,340	9,748	2,408	611	238
MBCTC	11	2,843	3,805	962	244	95
Total	199	38,485	51,736	13,251	3,362	1,310

Potential Impact of ERI Proposal 2 Assuming 100% Utilization by Eligible Members
(dollars in thousands)

Union Code	Count	Liability			Amortization at 8.5%	
		Baseline	ERI	Increase	5 Years	24 Years
19	2	$ 282	$ 373	$ 91	$ 23	$ 9
20	20	5,260	6,875	1,615	410	160
21	2	184	273	89	22	9
22	9	1,788	2,528	740	188	73
23	11	2,173	2,860	687	174	68
32	6	1,242	1,649	407	103	40
34	5	700	976	276	70	27
35	6	2,468	3,319	851	216	84
36	5	918	1,292	374	95	37
48	4	923	1,208	285	72	28
52	59	7,700	10,469	2,769	703	274
61	34	4,664	6,361	1,697	431	168
71	25	7,340	9,748	2,408	611	238
MBCTC	11	2,843	3,805	962	244	95
Total	199	38,485	51,736	13,251	3,362	1,310

APPENDIX A
Potential Impact of ERI Split By Union Code

Potential Impact of ERI Proposal 3 Assuming 100% Utilization by Eligible Members
(dollars in thousands)

Union Code	Count	Liability			Amortization at 8.5%	
		Baseline	ERI	Increase	5 Years	24 Years
19	2	$ 282	$ 353	$ 71	$ 18	$ 7
20	15	5,260	6,327	1,067	271	106
21	0	184	184	-	-	-
22	6	1,788	2,274	486	123	48
23	10	2,173	2,762	589	149	58
32	4	1,242	1,530	288	73	28
34	5	700	913	213	54	21
35	4	2,468	2,869	401	102	40
36	4	918	1,172	254	65	25
48	3	923	1,111	188	48	19
52	50	7,700	9,685	1,985	504	196
61	28	4,664	5,748	1,084	275	107
71	20	7,340	8,979	1,639	416	162
MBCTC	10	2,843	3,605	762	193	75
Total	161	38,485	47,512	9,027	2,291	892

Potential Impact of ERI Proposal 4 Assuming 100% Utilization by Eligible Members
(dollars in thousands)

Union Code	Count	Liability			Amortization at 8.5%	
		Baseline	ERI	Increase	5 Years	24 Years
19	2	$ 282	$ 366	$ 84	$ 21	$ 8
20	17	5,259	6,409	1,150	292	114
21	2	184	267	83	21	8
22	9	1,788	2,478	690	175	68
23	7	2,173	2,472	299	76	30
32	5	1,242	1,506	264	67	26
34	5	700	957	257	65	25
35	6	2,468	3,254	786	199	78
36	5	918	1,267	349	88	35
48	4	923	1,185	262	66	26
52	53	7,700	9,834	2,134	542	211
61	32	4,664	6,110	1,446	367	143
71	23	7,340	9,334	1,994	506	197
MBCTC	11	2,844	3,731	887	225	88
Total	181	38,485	49,170	10,685	2,710	1,057