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A Mellon Consulting Company

One North Dearborn, Suite 1400
Chicago, Illinois 60602-4336

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Ms. Anne M. Bahr
Executive Director
Milwaukee Employees' Retirement System
City of Milwaukee
200 E. Wells St.
Milwaukee, Wisconsin 53202-3515

Re: Military Service Credit – Common Council File 020236

Dear Ms. Bahr:

As requested, we have determined the fiscal impact of Common Council File No. 020236, a charter ordinance that amends s. 36-04-1-c by removing the December 31, 2002 sunset date for imputed military service credit for members who participate in the Combined Fund.

S. 36-04-1-c allows one year of imputed creditable service in the determination of the service retirement allowance for every three years of eligible active military service that precedes enrollment in the ERS – to a maximum of three years of imputed service credit – provided that the member was honorably discharged from the armed forces of the United States, participates in the Combined Fund and retires or dies during the period specified in s. 36-04-1-c. The imputed service credit is used in determining the amount of the service retirement allowance, but is not used in determining eligibility for any benefit. Imputed military service credit cannot be used to increase the service retirement allowance beyond the limits imposed by either s. 36-05-1-e-1 for firemen and policemen, or s. 36-06-10-f for general employees. The amount of the service retirement allowance may be impacted by imputed military service in the following situations:

- (a) Retirement on service retirement from active service
- (b) Determination of proportionate PSO survivor benefits upon active death
- (c) Conversion to service retirement after duty disability retirement
- (d) Election of extended life duty disability retirement after duty disability retirement
- (e) Deemed conversion to service retirement at age 63 while retired on disability for police and fire ineligible to convert to service retirement

For members who meet the GPS lump sum eligibility provisions, this imputed service credit is used in the service retirement allowance that is the base for the 5% GPS lump sum bonus, as well as the 8.6% Fire & Police Survivorship Fund dissolution bonus. In situations (c), (d) and (e), the conversion (or deemed conversion) date must fall within the period specified by s. 36-04-1-c. (The original disability retirement date does not matter except in the determination of eligibility for GPS lump sums.)

The fiscal impact of this change as of January 1, 2001 is summarized in the table below.

(\$ in thousands)

Combined Fund Item	General Employees	Police	Fire	Total
Increase in Accrued Liability				
Current Disabled	\$ 12	\$ 116	\$ 104	\$ 232
Current Actives	<u>1,176</u>	<u>885</u>	<u>697</u>	<u>2,758</u>
Total	\$ 1,188	\$ 1,001	\$ 801	\$ 2,990
Percent Funded				
Prior to Change				139.6%
After Change				139.4%
Increase in Normal Cost	\$ 88	\$ 83	\$ 45	\$ 216
Increase in Annual Contribution	Nil	Nil	Nil	Nil

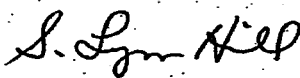
The increase in the Annual Contribution due to this change is "Nil" due to the 100% funded status limitation of s. 36-08-6-h.

The participant data and actuarial assumptions used are the same as those used for the January 1, 2001 actuarial valuation, except for the percentage of members assumed to have eligible military service.

For the actuarial valuation, we assumed that 15% of general employees and 20% of fire and police retiring prior to January 1, 2003 have three years of eligible military service. It is likely that these members served in the military at some time during the Vietnam War (1964-1973). For this cost estimate we assumed that eligible members retiring after December 31, 2002 would have served in the military during the post-Vietnam era. Based on information available on the website of the U.S. Department of Defense, the average annual active military strength during 1974-2000 was approximately 65% of the average annual active military strength during the Vietnam years. In estimating the cost of this benefit change, we therefore assumed that the percentage of members retiring after 2002 with three years of eligible military service would be 10% for general employees and 13% for fire and police (65% of the assumption used for pre-2003 retirees).

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

Sincerely,



S. Lynn Hill
 Associate Principal, Consulting Actuary

SLH:pl