Milwaukee Public Schools Retiree Healthcare and Life Insurance Programs

Summary of July 1, 2019, Actuarial Valuation Results

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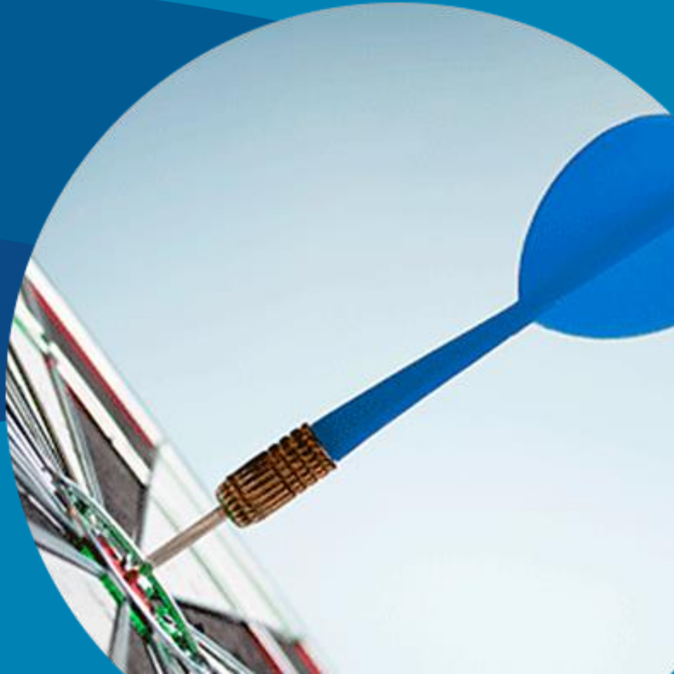

Agenda

- Background
- Early Retirement Window
- Historical Plan Changes
- Alternative C (55/20/70%)
- Change in Actuarial Valuation Assumptions
- July 1, 2019, Actuarial Valuation Results
- Exhibits
- Questions
- Disclosures

Background

- MPS provides retiree healthcare and life insurance benefits to members hired before July 1, 2013
- MPS primarily finances benefits on a PAYGO basis
- MPS pre-funds a portion of retiree healthcare benefits through an IRC section 115 trust

Historical Plan Changes

- Key changes made in 2011:
  - Closed plan to new hires and rehires as of July 1, 2013
  - Increased retirement eligibility to age 60 with 20 years of service
  - Reduced Board paid subsidy
- Key change made in 2014:
  - Introduced Medicare Advantage Plan effective January of 2015

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Early Retirement Window (ERW)

- ERW adopted March of 2017
- Applies to members retiring from July 1, 2017, through June 30, 2020
- Reduced OPEB retirement eligibility to age 55 with 20 years of service and 90% of accumulated sick leave balance
- ERW eligible members are expected to accelerate retirement and actuarial valuation assumptions were adjusted
- Cost estimates were provided in March of 2017 (Scenario 3)
  - If all eligible members (about 890) select ERW, actuarial liability for retiree healthcare/life benefits increases by approximately $70 million
- As of January of 2020, approximately 278 members retired under the ERW and 85 active members have applied for the ERW
- ERW requirements were modified to allow eligible members to elect ERW but delay retirement after June 30, 2020

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Alternative C (55/20/70%)

- Alternative C Plan benefits were adopted on May 28, 2020
- Permanently applies to all members eligible to participate in the OPEB Plan
- Reduced OPEB retirement eligibility to at least: age 55, 20 years of service, and 70% of accumulated sick leave balance
- Changed pre-funding policy to fully finance the projected costs of additional Alternative C benefits by plan year end 2037 on a level dollar basis
- Alternative C cost estimates were provided in June of 2020:
  - Actuarial liability as of January 1, 2020, is expected to increase by approximately $88.05 million
  - Additional level dollar contributions from 2021 to 2037 is approximately $7.18 million per year

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Changes from Prior Actuarial Valuation

Actuarial Assumptions and Methods

- OPEB-related assumptions reflect:
  - Reducing the expected return on assets to 2.75% for the short-term account and 7.00% for the long-term account
  - Updating the discount rate from 4.93% at June 30, 2019, to 5.33% at June 30, 2020, which recognizes Alternative C plan benefits and funding policy
  - Updating the healthcare-trend assumptions which include an ultimate rate of 4.25%
  - Updating per capita costs based on recent claims experience and premium information
  - Updating retirement rates to account for Alternative C plan benefits and recent experience studies
- Pension-related assumptions reflect:
  - The most recent experience study as of June 30, 2020
  - Updating the mortality assumption based on the RP-2014 table
  - Updating termination and disability rates
  - Reducing the general inflation and wage inflation to 2.50%
  - Updating the salary increase assumption

Key Actuarial Valuation Results

- Key actuarial valuation results include:
  - The actuarial liability decreased from $897.8 million at July 1, 2017, to $888.0 million at July 1, 2019
  - Alternative C benefits increased the actuarial liability by $101.8 million during plan year end June 30, 2020
  - The increase in Alternative C liabilities was partially offset by a change in the discount rate from 4.93% at July 1, 2019, to 5.33% at June 30, 2020
  - The additional pre-funding contribution for plan year end June 30, 2020, of approximately $24 million improved the funded status and ultimately produced a higher discount rate
  - The Alternative C level dollar contribution from 2021 to 2037 is approximately $ 6.74 million per year
  - The additional pre-funding contribution and favorable claims experience caused the level dollar contribution to decrease by approximately 6.1% when compared to the original estimate

Key Valuation Results

Retiree Healthcare and Life Insurance Programs Actuarial Valuation Results $ in Millions				
Valuation Date	**July 1, 2013**	**July 1, 2015**	**July 1, 2017**	**July 1, 2019**
Actuarial Liability	$1,153.0	$997.5	$897.8	$888.0
Assets	$60.5	$128.8	$124.1	$145.5
Unfunded Actuarial Liability	$1,092.5	$868.7	$773.7	$742.5
Normal Cost for FY	$6.2	$4.5	$3.4	$5.3
Expected ER PAYGO Contributions	$57.1	$49.4	$51.8	$49.9
Actual ER PAYGO and Prefund Contributions	$102.1	$53.1	$53.2	$77.2
Payroll	$431.2	$376.4	$345.5	$294.4
Number of Active Members	8,600	7,184	6,193	5,008
Number of Retirees and Surviving Spouses	7,222	6,978	6,718	6,768
Discount Rate	**4.55%**	**4.55%**	**4.89%**	**4.93%**
Ultimate Trend	**4.50%**	**4.50%**	**4.50%**	**4.25%**

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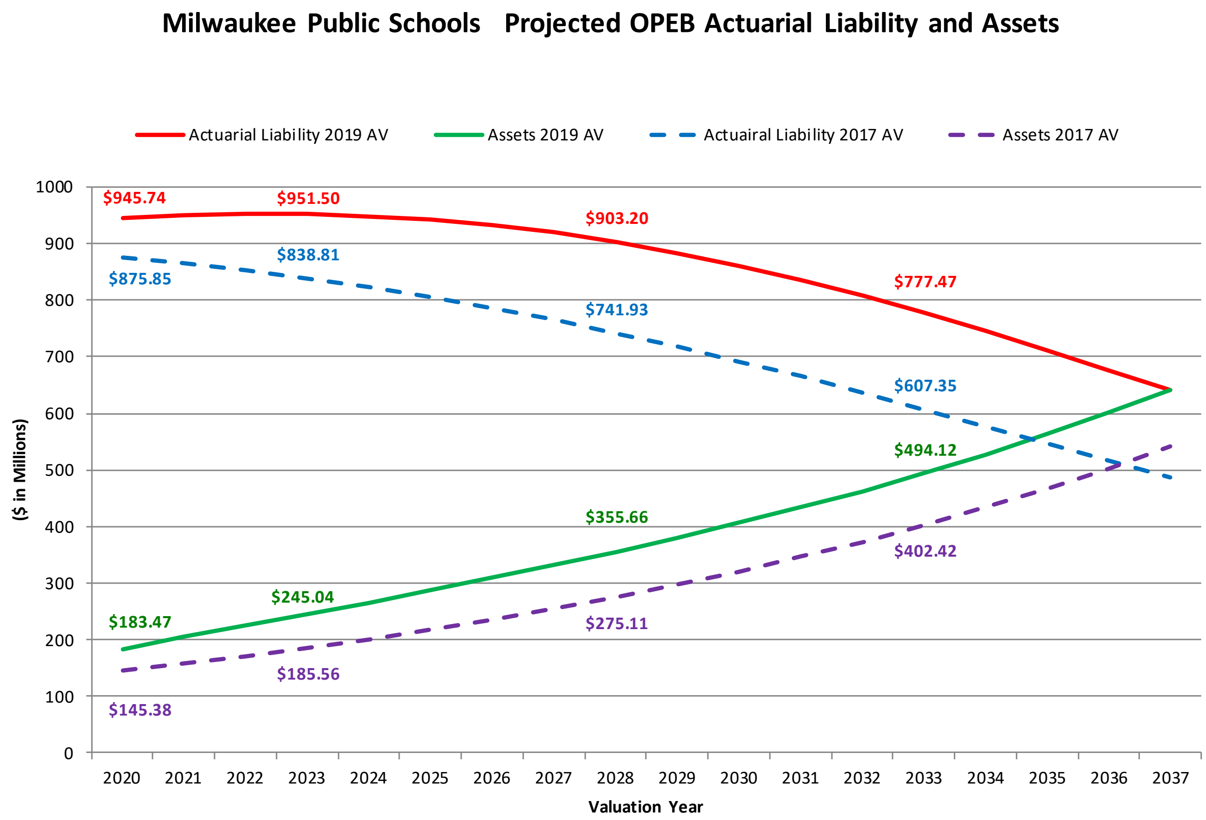
Key Valuation Results

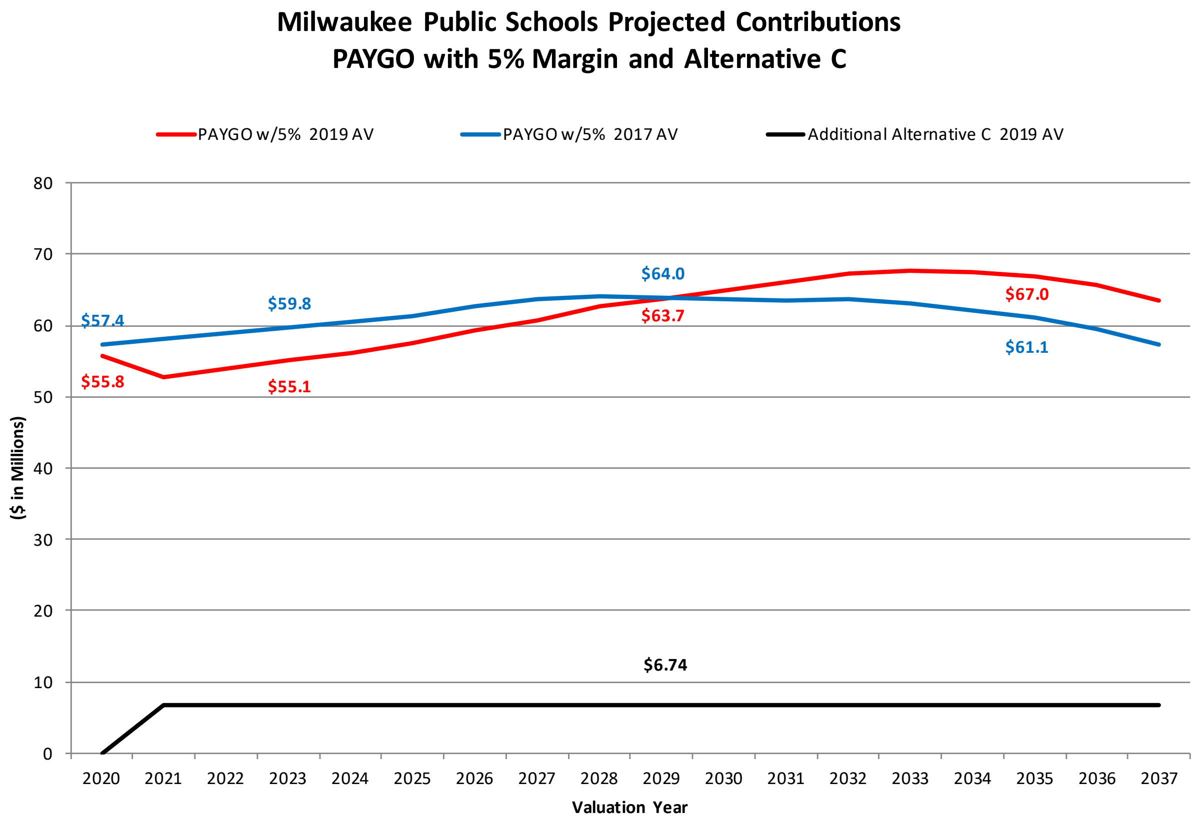
Retiree Healthcare and Life Insurance Programs Actuarial Liability Gain/Loss ($ in Millions)		
Plan Year Beginning	**July 1, 2017**	**July 1, 2019**
Discount Rate at Beginning of Plan Year	4.89%	4.93%
Discount Rate at End of Plan Year	4.93%	5.33%
Expected Actuarial Liability at Beginning of Plan Year	**$ 955.6**	**$ 881.4**
Increase/(Decrease) Due To:		
Demographic Experience	$34.9	$24.1
Changes in Healthcare-Related Assumption	($92.7)	($30.0)
Changes in Pension-Related Assumptions	$0.0	$12.5
Total	($57.8)	$6.6
Updated Actuarial Liability at Beginning of Plan Year	**$ 897.8**	**$ 888.0**
Increase/(Decrease) during Plan Year Due To:		
Normal Cost	$3.4	$5.3
Expected Benefits	($51.7)	($49.9)
Interest Costs	$42.6	$42.7
Plan Provisions	$0.0	$101.8
Change in Discount Rate	($4.0)	($42.2)
Total	($9.7)	$57.7
Expected Actuarial Liability at End of Plan Year	**$ 888.1**	**$ 945.7**

Exhibits



Differences in projected Actuarial Liability and Assets are primarily due to Alternative C benefits and funded policy.

Exhibits


Milwaukee Public Schools Projected Contributions
PAYGO with 5% Margin and Alternative C
PAYGO w/5% 2019 AV
PAYGO w/5% 2017 AV
Additional Alternative C 2019 AV
($ in Millions)
80
70
60
50
40
30
20
10
0
$57.4
$59.8
$64.0
$61.1
$55.8
$55.1
$63.7
$67.0
$6.74
2020
2021
2022
2023
2024
2025
2026
2027
2028
2029
2030
2031
2032
2033
2034
2035
2036
2037
Valuation Year

Questions?

Disclosures

- This presentation is intended to be used in conjunction with the actuarial valuation report issued on October 27, 2020. This presentation should not be relied on for any purpose other than the purpose described in the actuarial valuation reports.
- This presentation shall not be construed to provide tax advice, legal advice, or investment advice.
- The actuaries submitting this presentation (Alex Rivera and Abra Hill) are Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.
- The purpose of the actuarial valuation is to measure the financial position of the Milwaukee Public Schools Retiree Healthcare and Life Insurance Programs.

Disclosures

- Future actuarial measurements may differ significantly from the current and projected measurements presented in this presentation due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law.
- Additional information regarding actuarial assumptions and methods, and important additional disclosures are provided in the respective, formal Actuarial Valuation Report as of July 1, 2019.
- If you need additional information to make an informed decision about the contents of this presentation, or if anything appears to be missing or incomplete, please contact us before relying on this presentation.

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