EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

MINUTES OF THE DECEMBER 19, 2012 PENSION BOARD MEETING

1. Call to Order

   Chairman Mickey Maier called the meeting to order at 8:35 a.m. in the Green Room of the Marcus Center, 127 East State Street, Milwaukee, Wisconsin 53202.

2. Roll Call

   Members Present
   Laurie Braun
   Norb Gedemer
   D.A. Leonard
   Mickey Maier (Chairman)
   Dave Sikorski (Vice Chair)
   Patricia Van Kampen
   Vera Westphal

   Members Excused
   Dr. Brian Daugherty
   Dean Muller
   Dr. Sarah Peck

   Others Present
   Marian Ninneman, CEBS, CRC, ERS Manager
   Mark Grady, Deputy Corporation Counsel
   Daniel Gopalan, Fiscal Officer
   Timothy Holihen, J.P. Morgan
   Ray Caprio, Marquette Associates, Inc.
   Steven Huff, Reinhart Boerner Van Deuren s.c.

3. Minutes—November Pension Board Meeting

The Pension Board reviewed the minutes of the November 21, 2012 Pension Board meeting.

The Pension Board unanimously approved the minutes of the November 21, 2012 Pension Board meeting. Motion by Ms. Van Kampen, seconded by Ms. Braun.

4. Actuarial

The Chairman discussed the proposed amendment to Pension Board Rule 1014. The amendment changes a mortality table used for actuarial calculations from the 1983 Group Annuity Mortality Table (Male/Female 50/50) to a mortality table recommended by Buck Consultants.

After general Board discussion and in response to questions, the Chairman stated that the mortality table in general determines how much the Plan is funded based on individual life expectancy. The proposed mortality table includes various factors that automatically update changes in mortality. The table does not take into account or affect the best date to retire, or gaps in ages and birthdays between spouses.

Mr. Huff added that the benefits members accrue under the Ordinances stay the same.

Mr. Grady stated that, simply put, individual monthly benefit payments could be less, but more benefit payments would be received because of longer life expectancies. All other things being equal, the total amount is designed to be the same.

Ms. Ninneman then added that the Plan must be funded for anticipated longer lives of the members and the survivors, which will increase the funding request from Milwaukee County

The Pension Board unanimously approved amending Rule 1014 to codify the use of the mortality table recommended by the actuary, attached to these minutes as Exhibit A. Motion by Mr. Leonard, seconded by Ms. Van Kampen.

5. Investments

(a) J.P. Morgan Fixed Income

Tim Holihen of J.P. Morgan distributed a booklet containing information on the investment management services provided by J.P. Morgan for ERS.

Mr. Holihen first provided an organizational overview of J.P. Morgan Columbus, or what used to be the Bank One investment advisors, which was built and run by Marine Bank when it was acquired and then relocated to Columbus, Ohio in 1992. Most of the initial investment advisors have now retired, but 13 new advisors have been added during the last 12 months. Assets continue to grow and J.P. Morgan will continue to add new staff.

Mr. Holihen then discussed investment process. J.P. Morgan is a relative value manager focused on securities and sector. Because the firm does not make big macro bets on things like interest rates or activity of the Fed, duration tends to stay very close to the benchmark. J.P. Morgan portfolio managers are in the market every day, all day, trading securities.

In response to a question from the Chairman, Mr. Holihen stated that average duration is 4.31 years, or roughly 92% of the index, and J.P. Morgan tends to be in the 92% to 95% range.

Mr. Holihen continued by stating that while it may be tempting in a macro environment to shorten duration, it is more prudent to be cautious when trying to discern where interest rates will go. The Fed and the major central banks around the world are determined to keep the short rates low, and that is what J.P. Morgan expects. The Fed can control the front end of the curve, but it is harder to control longer maturities. However, the Fed recently introduced a plan to buy $45 million per month of longer Treasuries, which helps give the economy every chance to bounce back and make housing more attractive. While the effects most likely will not be seen in 2013, there should be some result apparent in 2014. Performance year-to-date is up 83 basis points, so it has been a good year. Worth noting, too, is the yield in maturity, or what would be earned if interest rates did not change. The numbers still reflect lowering interest rates and tightening spreads to deliver returns of over 5% year-to-date and over 6% over the last year. J.P. Morgan expects continued good returns, but it is difficult to anticipate interest rates.

In response to a question, Mr. Holihen clarified that the performance numbers are gross of fees.

Mr. Holihen then provided a fixed income portfolio analysis. In terms of portfolio statistics, duration is key, but OAS is also important, currently almost twice the market and with a built-in income advantage. As a result, J.P. Morgan expects to outperform the index over the next year. In terms of sector distribution, Treasuries are low. J.P. Morgan is finding more opportunities in the mortgage market. With the government buying $40 billion a month in newly-issued mortgages at 3.5% to keep mortgage rates low, and then reinvesting proceeds from other holdings in mortgages, they are essentially buying $60 to $70 billion per month of mortgages. J.P. Morgan prefers to buy more seasoned and more structured paper. The challenge for those kinds of mortgages, if rates continue to go down, is that they will pay off very quickly. If rates increase, those mortgages will lengthen out instead. In terms of quality distribution, overall quality of the portfolio continues to be AA+. If the government is downgraded again, it most likely will not impact the fund. Finally, in terms of average weighted life, the average life is overweighted in the 5- to 10-year part of the curve and underweighted to the longer term, which is the better value in the curve.

In response to a question from the Chairman, Mr. Holihen stated that the weighting to Treasuries and mortgages has slightly decreased in the last year or so, but opportunities can still be found. Credit has gone up, but just as more opportunities appeared on the credit side, the spreads also tightened. Interestingly, spreads in the coming year may continue to come in everywhere and Treasuries may be the best spot to be in. J.P. Morgan would not be opposed to going back to Treasuries, however lower returns would be realized for a period of time. When not being paid for the risk, it makes sense to go to Treasuries.

Mr. Holihen then provided a summary on mortgage exposure. Roughly 6% of mortgage exposure is in agencies, with about 12% in pass-throughs and 32% in CMOs. CMOs provide a structure and are less volatile as interest rates change, and J.P. Morgan has been buying CMOs for 25 years. Again, J.P. Morgan prefers the more seasoned mortgages over the newly issued mortgages to better predict performance. For non-agency mortgages, J.P. Morgan owns Alt-A and Prime mortgages, with the Prime at a higher credit quality. In terms of seasoning, the most recent Alt-A mortgage is from 2005 and the most recent mortgage from Prime is from 2008.

Mr. Holihen then stated that European net exposure, currently at 3.37%, is well-diversified and concentrated primarily in Great Britain. Other concentration includes a materials company in Ireland with the majority of its operation in the United States, and a telephone company in Spain that does a significant amount of work outside of Spain.

Mr. Holihen then concluded by providing J.P. Morgan's investment expectations as of fourth quarter 2012. The major central banks have put a lot of money out there and as a result, downside risk is reduced, which is a good thing. Whether that also results in growth will depend on the fiscal cliff decisions and how those decisions affect a struggling economy. The circumstances are very challenging and there is tremendous pressure both domestically and internationally. Plans are in place to keep interest rates down, with the goal of reducing unemployment to 6.5% while keeping inflation below 2.5%. At some point, interest rates and inflation will rise, but it most likely will not be soon. The portfolio is well-positioned to handle it.

(b) Marquette Associates Report

Ray Caprio of Marquette Associates distributed and discussed the November 2012 monthly report.

Mr. Caprio first discussed the total fund composite. The Pension Fund is just over $1.7 billion as of the end of November. The underweight in fixed income versus the target, currently 26.9% versus 29%, has helped performance. The portfolio experienced a good year and is currently well-positioned. There is also a small underweight to private equity, but an overweight in everything else. Initiatives for 2013 will include revisiting the asset allocation and possibly reducing the fixed income target to 25% or even 20% of the portfolio because it is difficult to reach an 8% rate of return with 30% of the portfolio only at 1.5%. Marquette is also very conscious of risk, so it would be prudent to review investments with a higher yield but also a lower risk component to them. This initiative will be discussed in the January Investment Committee meeting.

Mr. Caprio then discussed annualized performance. At the end of November, the Fund posted a return of 0.6% for the month and 9.5% year-to-date. The Fund will most likely end at above 8% for 2012, as it has for two out of the last three years. Marquette is proud of that, believing that the changes to the Fund over the last three years have added a lot of value. There is very little growth in fixed income, up 0.2% for the month of November. Bonds are up 5% year-to-date. While returns are low at 4.9%, they are better than expected, performing strongly overall. The U.S. markets are up 14.4% and the combined international portfolio is up 12.4%. The hedge fund returns are slightly disappointing on an absolute basis, but the managers are performing well relative to the index, up 5.5%. Real estate and infrastructure are also both up for the year. The policy benchmark was exceeded every year in the last ten years, except for one year. On a 10-year basis, the Fund has actually returned about 8%, or 7.5% gross of fees. Overall, this is an excellent example of why actuarial information and the decision-making process is all for the long term.

Mr. Caprio next discussed the investment managers. In the U.S. equity bucket, Boston Partners and Mellon Capital matched their benchmarks. Artisan Partners exceeded its benchmark by 1.5% for the month of November and has a strong long-term track record. There are issues in small-cap, however, in that FMA and AQR have underperformed. Active managers, specifically in small-cap this year, have been very conservative because the market is rewarding more aggressive, lower-quality portfolios. Hedge fund managers are basically meeting the benchmark. The real estate portfolio total return is not yet available, but it is an attractive asset class right now. Yields are around 6% with a lot less volatility than in both the stock and the bond market.

In response to a question from the Chairman, Mr. Caprio stated that performance for the last 2 years has hurt FMA's long-term track record. FMA is very conservative and will protect in a down market. They performed well in 2008 but are not performing well in today's market. AQR is the exact opposite in that it is geared more toward performing well in markets like the current market. However, they have not performed well. In addition to ensuring prudent asset allocation, Marquette also makes sure the managers at the lower level are meeting their objectives. A second initiative in 2013 is reviewing whether managers who are not performing well need to be replaced with another manager, or with an index. One example that supports allowing a manager time to improve performance is with GMO small-cap. Last year, GMO was placed on alert, but later taken off alert because performance turned around. Overall, with the exception of the alert time period, GMO beat the benchmark.

Mr. Caprio then recommended that AQR be placed on notice. The investment committee met with AQR to review AQR's performance and set expectations. AQR indicated that performance would improve and that the benchmark would be met. However, if this does not happen, Marquette would like to be ready to make a move to another manager or an index.

The Pension Board unanimously approved placing AQR on notice. Motion by Mr. Sikorski, seconded by Ms. Westphal.

In response to a question from Mr. Leonard, Mr. Caprio stated that AQR is at approximately $42.8 million, or about 2.5% of the fund. Policy guidelines dictate that Marquette recommends evaluating performance over a 3- to 5-year basis to include a market cycle. AQR is at the 5-year period now.

In response to a question from the Chairman, Mr. Caprio stated that Marquette did not have a request to rebalance at this time.

In response to a question from the Chairman, Ms. Ninneman confirmed that the Investment Committee will still meet on a Thursday in January. Beginning in February, however, the meeting day is changed to Mondays.

6. Investment Committee Report

Ms. Van Kampen reported on the December 6, 2012 Investment Committee meeting.

The Investment Committee heard AQR's presentation on strategy and performance. Despite underperformance, AQR has no plans to alter its methodology, believing that performance will improve. The Investment Committee then discussed watching AQR's performance carefully and decided to recommend that AQR be placed on notice at the next Pension Board meeting.

The Investment Committee next discussed active versus passive portfolio management and which should be used going forward as the markets become more efficient.

The Investment Committee then determined that it would review asset allocation over the upcoming months.

7. Disability Matters

Mr. Sikorski moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(f), with regard to item 7 for considering the financial, medical, social, or personal histories of specific persons which, if discussed in public, would be likely to have a substantial adverse effect upon the reputation of any person referred to in such histories, and that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(g), with regard to items 7, 11, and 12 for the purpose of the Board receiving oral or written advice from legal counsel concerning strategy to be adopted with respect to pending or possible litigation. At the conclusion of the closed session, the

Board may reconvene in open session to take whatever actions it may deem necessary concerning these matters.

The Pension Board voted by roll call vote 7-0 to enter into closed session to discuss agenda items 7, 11, and 12. Motion by Mr. Sikorski, seconded by Mr. Leonard.

(a) Sara Bell

In open session, the Chairman stated that Ms. Bell's application will be held over because Ms. Bell's attorney requested that he be able to present to the Board on the appeal.

(b) Jacqueline Kleckley

In open session, the Chairman stated that Ms. Kleckley's application was received by the Medical Board and recommended for approval. The Chairman stated that he reviewed the application and did not have any questions. In response to a question from the Chairman, no other member had a question.

The Pension Board unanimously approved granting the ordinary disability pension application based on the Medical Board's determination. Motion by Mr. Sikorski, seconded by Mr. Leonard.

(c) Diana Vaden

In open session, the Chairman stated that Ms. Vaden's application was received by the Medical Board and recommended for approval. The Chairman stated that he reviewed the application and did not have any questions. In response to a question from the Chairman, no other member had a question.

The Pension Board unanimously approved granting the ordinary disability pension application based on the Medical Board's determination. Motion by Mr. Sikorski, seconded by Mr. Leonard.

(d) Lenora Coulter

In open session, the Chairman stated that Ms. Coulter's application was received by the Medical Board and recommended for approval. The Chairman stated that he reviewed the application and did not have any questions. In response to a question from the Chairman, no other member had a question.

The Pension Board unanimously approved granting the ordinary disability pension application based on the Medical Board's determination. Motion by Mr. Sikorski, seconded by Mr. Leonard.

(e) Ilir Sino

In open session, the Chairman stated that Mr. Sino's application was received by the Medical Board and recommended for approval. The Chairman stated that he reviewed the application and did not have any questions. In response to a question from the Chairman, no other member had a question.

The Pension Board unanimously approved granting the accidental disability pension application based on the Medical Board's determination. Motion by Mr. Sikorski, seconded by Mr. Leonard.

(f) Marcus Brown

In open session, the Chairman stated that Mr. Brown's application was received by the Medical Board and recommended for approval. The Chairman stated that he reviewed the application and did not have any questions. In response to a question from the Chairman, no other member had a question.

The Pension Board unanimously approved granting the ordinary disability pension application based on the Medical Board's determination. Motion by Mr. Sikorski, seconded by Mr. Leonard.

8. Reports of ERS Manager and Fiscal Officer

(a) Retirements Granted, November 2012

Ms. Ninneman presented the Retirements Granted Report for November 2012. Twenty-four retirements from ERS were approved, with a total monthly payment amount of $34,481. Of those 24 ERS retirements, 17 were normal retirements, 6 were deferred, and 1 was an ordinary disability retirement. Nine members retired under the Rule of 75. Additionally, 14 retirees chose the maximum option, and 1 retiree chose Option 3. Thirteen of the retirees were District Council 48 members. Eight retirees elected backDROPs in amounts totaling $2,144,000.

Ms. Ninneman then noted that December processing is almost complete, and the month looks to have roughly the same number of retirements as November.

In response to a question, Ms. Ninneman stated that an asterisk next to the name on the Retirements Granted report denotes which member retired under the Rule 75. Members retiring under this Rule are sometimes as young as mid-to-late 40s.

In response to a question from Ms. Braun, Ms. Ninneman stated that any uptick in the number of retirements usually depends on whether changes were made that could potentially affect retirement dollars. Recently, the County made a change that requires retiring employees, except deputy sheriffs and nurses, to take a lump-sum payment on any accrued time so the employee cannot run out that accrual into the next calendar year, thereby restoring their full vacation and requiring ERS to pay out on that vacation. Some employees retired prior to the effective date of the change so they could continue to run out their time. Additionally, the current Medicare Part B litigation is driving up retirement numbers because employees are retiring now in order to ensure they will receive that premium reimbursement, which is similar to the retirement spike in 2011 when DC48 was losing the premium reimbursement.

In response to a question from Ms. Braun, Ms. Ninneman stated that anyone eligible to retire and currently in the backDROP period would not be impacted by the County Board action. The County Board may be asked to move the effective date of the change to April or May 2013 to allow for pension System changes.

Mr. Grady then explained that the modification being proposed should not affect the decision to retire. The current resolution has an effective date of September 1, 2012, and that date will have to be changed to a later date if the modification is adopted to provide ERS and the County a chance to communicate and explain the change to employees so employees do not feel compelled to retire immediately. Basically, regardless of the effective date, the change is only really effective one year later because an employee is required to backDROP for at least one year. The change merely caps the backDROP. The employee would not lose the backDROP if the employee chooses to retire after the effective date.

Ms. Braun then requested information on the change to help educate both herself and the employees who call with questions.

In response to questions from Mr. Leonard, Mr. Grady stated that the proposed modification of the backDROP benefit will not impact eligibility for retirement under the Rule of 75. Like other benefits, that benefit was created and then eventually taken away, and an employee hired today does not have the Rule of 75 benefit option. Eligibility for the Rule of 75 varies by union and union status. It is pre-1994 for AFSCME, though litigation is pending on that. For non-represented employees, it is 2006, and for deputy sheriffs it is 1995.

(b) ERS Monthly Activities Report, November 2012

Ms. Ninneman presented the Monthly Activities Report for November 2012. ERS and OBRA combined had 7,956 retirees, with a monthly payout of $14,138,897.

Ms. Ninneman then noted the retirement spike in 2011. The number of retirements year-to-date for 2012 is 335, and ERS expects an additional 25 by the end of the year. OBRA payments are complete. Funds have been escheated to the State for anyone ERS could not find and the system is ready to begin making payments on a timely basis in 2013. The number of legal and compliance issues was higher in 2012 because ERS committed to a review of how benefits were paid and of how the Ordinances worked with the System. ERS expects that number to drop significantly in 2013, unless current litigation causes it to stay elevated. Calls, walk-ins, and e-mail inquiries were down for December, most likely due to the holidays.

Ms. Ninneman then stated that ERS is still recruiting for the fiscal officer assistant position, which ERS will interview for in January. There is an opening for a clerical specialist and also for a research analyst, which is a newly-created position. This position has to go before the committee and then to the full Board, so funding for the position will not be approved until April 1. Finally, ERS staff is currently rotating to cover vacations, so there will be limited staff through the holidays.

(c) Pension Board Employee Election

Ms. Ninneman discussed the upcoming employee election, stating that Mr. Sikorski's term ends in February.

In response to a question from the Chairman, Mr. Sikorski confirmed that he will again run for election but has not yet taken out his nomination papers.

Ms. Ninneman stated that the employee election will be run the way it was last time. Beginning in January, ERS staff will perform site visits to promote the election and then re-visit the sites during the voting period. Three people have taken nomination papers out, two of whom ran in the last election.

In response to questions, Ms. Ninneman stated that employees County-wide can vote, but no one from Corporation Counsel or Human Resources can be nominated or sign nomination papers. The deadline for the nomination papers is January 2 at 4:30 p.m. For the remote sites without computers, iPads will be available for employees to vote. Overall, increasing awareness of the Pension Board will result in increased awareness of benefits, prompting employees to begin thinking about their retirement and what they need to do to join the Plan.

(d) Fiscal Officer

Mr. Gopalan first discussed the November portfolio activity reports, noting that November was relatively quiet. Adams Street made capital and distribution calls for a net amount of approximately $550,000. In November, the Board approved $2 million in funding, but ERS was unable to actually sell the assets until December due to the holidays, so the sale does not appear on the November report.

Mr. Gopalan then discussed the cash flow report, noting the projected December bond sales of $15 million from Mellon Capital. Siguler Guff also made a capital call for $6.8 million, but because it was not planned, the funding was taken from cash and the payment reserves dropped by approximately $9 million. ERS now needs to request an additional $26 million for January. Cash flow needs for February and March remain at the typical $15 million.

The Pension Board unanimously approved the liquidation of assets to fund cash flow of $26 million for January 2013, $15 million for February 2013, and $15 million for March 2013. The amount should be withdrawn from investments designated by Marquette. Motion by Ms. Van Kampen, seconded by Ms. Braun.

The Chairman then commented on the positive growth of Siguler Guff, also noting that Adams Street is slow to call money in light of the amount ERS has committed to them. While it is good that Adams Street is careful in its investments and that some capital calls are being made, the Chairman would like to see the money get invested because it is an underweight to the portfolio.

9. Audit Committee Report

Mr. Sikorski reported on the December 5, 2012 Audit Committee meeting.

The Audit Committee first reviewed Rule 202, which creates an option for certain employees who initially had no pension benefit to join ERS. Since the adoption of OBRA, the rationale for the continued existence of the option in Rule 202 has not been extensively considered by the Pension Board. The Committee discussed various considerations regarding ERS optional membership. ERS staff has found it administratively difficult to manage opt-ins to the plan indicating that the OBRA plan is in place for those employees not eligible for the ERS plan. The Retirement Office will look at the categories of individuals listed in Rule 202 and determine whether any employees not eligible for OBRA should be given the option of electing membership in the ERS plan. The Pension Board will also look at repealing Rule 202(d) for seasonal employees as they are members of OBRA. Also discussed was allowing employees a one-time opt-in to ERS to be exercised only at the start of employment in a non-ERS position. Further discussion at the Pension Board level is recommended once the Committee has explored these issues further.

The Audit Committee next discussed the interpretation and application of County Ordinance 201.24(4.5) covering fault and delinquency.

Mr. Grady explained that the Wisconsin Supreme Court determined that the County's standard for what is defined as fault or delinquency for loss of a pension was too broad. In the absence of County Board action, Rule 805 and Rule 807 were adopted to govern the issue. If questions remain, the County Board controls the Ordinance and could make any desired changes in policy. If policy in County Ordinance needs to be changed, Human Resources as opposed to the Pension Board should work with the County Board.

The Audit Committee then discussed emergency retirements.

Mr. Grady explained that Pension Board Rule 1047 was created to recognize the retirement effective date of emergency retirements. However, some members who completed the emergency retirement application did not complete the application process and start their pension benefit. The committee discussed an amendment to the Rule involving a 6-month deadline for members to complete the paperwork, with a 30-day advance letter from ERS notifying them to do so.

Mr. Huff then stated that the Audit Committee discussed an option for handling an emergency retirement if the member did not complete the paperwork within 6 months. The member would not be able to go back and declare their original retirement date as their actual retirement date and would lose those payments. However, it was later learned that this option conflicts with various existing rules, so Ms. Ninneman, Mr. Grady, and Mr. Huff discussed another option where the member would receive the default benefit, or the highest benefit, which is a 100% joint and survivor annuity and covered by current Rule 1047 that dictates what happens if an emergency retiree dies before completing the retirement process. Conflicts with both options, overall, could be handled in part by notifying members who go into emergency retirement of what will happen if they do not complete the appropriate paperwork.

Mr. Huff then provided a summary of the second option. When a member applies for an emergency retirement and designates a beneficiary, the member will be notified of the time constraints for completing the paperwork. If the member then fails after 6 months to complete the paperwork, even after a 30-day final notice reminder, the member will default into the highest joint and survivor annuity, which is essentially a 100% annuity to the next of kin. If the member also fails to select a beneficiary, the member's spouse or, if none, whoever is considered next of kin under the Wisconsin intestate statute, will become the default beneficiary and the benefit would default to a monthly 100% survivor annuity.

In response to a question, Mr. Huff stated that there are several ways to implement the second option in terms of deadlines and final notices, and that 6 months and 30 days, respectively, are just numbers to consider at this point.

In response to a question from the Chairman, Ms. Ninneman and Mr. Grady indicated that while important, this issue could wait another month for a decision. Ms. Ninneman noted, however, that guidelines and rules around the processing of the emergency retirement paperwork are necessary because members are currently securing benefits and then opting not to take the payment right away.

In response to a suggestion from the Chairman, the Board agreed to review the existing proposed amendment to Rule 1047 and then discuss a final proposed amendment at the next meeting of the Board.

In response to a question, Ms. Ninneman stated that the rule changes are for both new retirees and those who have applied for emergency retirement, 5 to 10 of whom are currently beyond the 6-month mark. Others are deliberately refusing payment in order to receive the payment in 2013.

After general Board discussion, the Board agreed that the second option would be a better solution after the Board had a chance to review and make appropriate changes to the proposed amendment.

The Audit Committee concluded with a discussion of the format of the 2013 annual Pension Board meeting as well as potential presenters. The meeting is scheduled for April 17, 2013 at the Italian Community Center. The Chairman then stated that the Board will likely hold a short official meeting afterward to discuss business that cannot be deferred. Ms. Ninneman added that Buck Consultants will attend the annual meeting to present the preliminary actuarial valuation.

10. Administrative Matters

The Pension Board discussed additions and deletions to the Pension Board, Audit Committee, and Investment Committee topic lists. The Chairman then stated that anyone with future topic suggestions should voice them.

The Pension Board then discussed the appointment of Hearing Examiners under §201.24(4.9)(11). Mr. Grady stated that the Ordinance requires the Pension Board to appoint hearing examiners, and the current examiner, Justice Ceci, has decided he no longer wants to handle this work. The Pension Board needs to appoint a new examiner.

Mr. Grady distributed a biography of retired Judge Gary Gerlach, Mr. Grady's recommendation for appointment as a hearing examiner. Judge Gerlach was one of the names on the list of possible replacement judges supplied by the City Retirement System at Mr. Grady's request. Judge Gerlach retired fairly young from the bench and has since been doing a lot of alternative dispute resolution and mediation type of work for law firms and corporations. While Mr. Grady does not personally know Judge Gerlach, he has a good reputation among lawyers and he performs the same kind of disability appeal work for the City Retirement System so he is familiar with appeals and the appeal process. Judge Gerlach has indicated that he is willing to serve in that capacity for the Pension Board and will charge $200 per hour.

Mr. Grady then suggested that a second person, Attorney Michael Hogan, be appointed backup to Judge Gerlach. Mr. Hogan was unable to provide a CV in time for the Board meeting, but the appointment can be postponed until one is available. Mr. Hogan has 35 years of practice primarily as an insurance defense lawyer. He essentially retired from active practice and has been working with Marquette University in various areas, such as tutoring students. While prior Pension Board members such as Marilyn

Mayr expressed a preference for retired judges, Mr. Grady thinks highly of Mr. Hogan and recommends him for the backup role.

In response to a question, Mr. Grady stated that he could not say for sure but that Ms. Mayr possibly preferred a retired judge in the examiner capacity because of the prestige and experience normally associated with judges. The Chairman then stated that many attorneys run arbitration and mediation processes, and while judges are nice to have, his mind is open to all options.

Mr. Grady stated that one advantage for Mr. Hogan is that he is not a member of the Retirement System, where Judge Gerlach is, as are most of the retired County judges. However, this should not be construed as a conflict of interest because whatever decisions the judges make do not affect their pensions and have nothing to do with them personally. Having a backup examiner is just a good idea in case someone does feel there is a conflict.

The Pension Board unanimously approved the appointment of Judge Gary Gerlach as Hearing Examiner and Attorney Mike Hogan as backup Hearing Examiner. Motion by Mr. Sikorski, seconded by Ms. Van Kampen.

11. Pending Litigation

(a) *Stoker v. ERS*

The Pension Board took no action on this item.

(b) *AFSCME v. ERS*

The Pension Board took no action on this item.

(c) *Tietjen v. ERS*

The Pension Board took no action on this item.

12. Report on Compliance Review

The Pension Board took no action on this item.

13. Adjournment

The meeting adjourned at 10:35 a.m.

Submitted by Steven D. Huff,
Secretary of the Pension Board

EXHIBIT A

AMENDMENT TO THE RULES OF
THE PENSION BOARD OF THE EMPLOYEES'
RETIREMENT SYSTEM OF THE
COUNTY OF MILWAUKEE

RECITALS

1. Section 201.24(8.1) of the General Ordinances of Milwaukee County (the "Ordinances") provides that the Pension Board of the Employees' Retirement System of the County of Milwaukee (the "Pension Board") is responsible for the general administration and operation of the Employees' Retirement System of the County of Milwaukee ("ERS").

2. Ordinance section 201.24(8.6) allows the Pension Board to establish rules for the administration of ERS.

3. ERS Rule 1014 currently provides three provisions for the use of mortality tables in calculating actuarial equivalence for lump sum benefits, conversion of benefit for Internal Revenue Code section 415 testing purposes, and for all other purposes.

4. ERS's actuary has advised that the mortality tables used for 1014(a) and 1014(b) need to be updated to reflect the current law and 1014(c) needs to be updated to reflect current plan experience as seen in the 5-year experience review presented on November 21, 2012.

5. The Pension Board desires to amend Rule 1014 to codify the mortality table use as recommended by the actuary for this purpose.

RESOLUTION

Effective December 19, 2012, pursuant to Ordinance section 201.24(8.6), the Pension Board hereby amends Rule 1014 to read as follows:

1014. Actuarial equivalent.

"Actuarial Equivalent," as used in section 201.24(2.13) of the Milwaukee County Code of General Ordinances shall have the following meaning:

(a) *Lump Sum Payment Under Rule 1013(a)(4).* For purposes of calculating a single lump sum distribution under Rule 1013(a)(4), the term "actuarial equivalent" shall mean an alternative form or time of payment having the same actuarial present value when computed on the basis of:

(1) *Mortality Table.* The applicable Code section 417(e)(3) mortality table, and

(2) *Interest Rate.* An interest rate that is the greater of [a] 8-1/2 (8.5) percent or [b] the interest rate calculated by assuming the System's overall rate of return in the ten (10) calendar years preceding the calendar year in which a lump sum distribution is calculated and dividing by ten (10).

(b) *Converting Maximum Annual Benefit Limitation - PreAge 62.* For purposes of calculating the reduced dollar limit on annual benefits payable for a member who begins benefits prior to age sixty-two (62), as required by section 201.24(12.3), the term "actuarial equivalent" shall mean an amount having the same actuarial present value when computed on the basis of:

(1) *Mortality Table.* The mortality table specified by the Internal Revenue Service in Revenue Ruling 2007-67, or any successor revenue ruling thereto. Effective as of December 31, 2012, the mortality table is the 2013 Applicable Mortality Table, and

(2) *Interest Rate.* An interest rate of five (5) percent compounded annually.

(c) *All Other Purposes.* For all purposes under section 20 1.24(2.13) of the Milwaukee County Code of General Ordinances other than those specifically noted elsewhere in this Rule 1014, the term "actuarial equivalent" shall mean an alternative form or time of payment having the same actuarial present value when computed on the basis of:

(1) *Mortality Table.* RP-2000 Blue Collar Mortality Table (Male/Female 50/50) with generational mortality improvements for healthy participants and RP-2000 Disabled Mortality Table with generational mortality improvements for participants determined to be disabled under the Ordinances and Rules, and

(2) *Interest Rate.* An interest rate of eight (8) percent compounded annually.