EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

MINUTES OF THE NOVEMBER 16, 2011 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	Member Excused
Linda Bedford (Vice Chair)	Rex Queen
Keith Garland	
Mickey Maier (Chairman)	
Dean Muller	
Dr. Sarah Peck	
David Sikorski	
Guy Stuller	

Others Present
Matthew Hanchek, Interim Director of Employee Benefits
Dale Yerkes, ERS Fiscal Officer
Vivian Aikin, ERS Administrative Specialist
Ray Caprio, Marquette Associates, Inc.
Brett Christenson, Marquette Associates, Inc.
Timothy Holihen, JPMorgan Asset Management
Jacqueline Kleckly, Former Milwaukee County Employee
Diana Vaden, Former Milwaukee County Employee
Steven Huff, Reinhart Boerner Van Deuren s.c.

3. Minutes — October 19, 2011 Pension Board Meeting

The Pension Board reviewed the minutes of the October 19, 2011 Pension Board meeting.

The Pension Board unanimously approved the minutes of the October 19, 2011 Pension Board meeting. Motion by Mr. Stuller, seconded by Mr. Garland.

4. Reports of ERS Manager and Fiscal Officer

(a) Retirements Granted, October 2011

Mr. Hanchek presented the Retirements Granted Report for October 2011. Twenty retirements were approved in October, with a total monthly payment amount of $13,345. Of those 20 retirements, 7 were normal retirements, 10 were deferred, 2 were deferred early, and 1 was an accidental disability pension. Additionally, 11 retirees chose the maximum option, and 9 were District Council 48 members. Three retirees elected backDROPs in amounts totaling $271,873. Of these 3 backDROPs, 2 were over $100,000.

Mr. Hanchek stated that the number of members seeking to retire is down from previous months, but that the pace will pick up for November and steadily increase into a busy December.

In response to a question from the Chairman, Mr. Hanchek stated that ERS is fully staffed at this time to handle the increased volume.

(b) ERS Monthly Activities Report, October 2011

Mr. Hanchek presented the Monthly Activities Report for October 2011. ERS had 7,806 retirees at the end of October, with a monthly payout of $12,941,430.

(c) OBRA Update

Mr. Hanchek stated that the OBRA audit is on schedule and all required distributions will be made in 2011.

At Mr. Stuller's request for sample communications sent to those receiving distributions, Mr. Hanchek stated that he will provide them to the Board. Mr. Huff then suggested that the election available to some employees, depending on their start date, also be included.

In response to a question from Mr. Garland, Mr. Hanchek stated that while there is a list of employees who are currently eligible to retire and eligible to retire within the next year under the Rule of 75, it is not possible to predict who will actually retire.

In response to a question from Mr. Stuller, Mr. Hanchek stated that the expected increase in retirements is partially due to changes in Medicare Part B reimbursement and other benefit changes for active employees heading into 2012. ERS is booked to capacity for meetings through the end of the year for people who are potentially interested in retiring.

Mr. Garland then stated that he would like to see a report containing no names that shows the number of eligible retirements broken out by retirements under the Rule of 75 and normal retirements, and an indication of the members eligible for backDROP. Mr. Hanchek stated that there is such a report, but that it may not contain the backDROP information.

In response to Mr. Stuller's statement, Mr. Hanchek agreed that part of the problem relates to who is correct about eligibility for the Rule of 75, the union or the County. If the union prevails, there will be many more people who qualify for the Rule of 75. However, the County's position is that the Ordinance was changed, that the eligibility for the Rule of 75 is held in status quo. If an employee had it before, the employee will still have it. If not, the employee does not become eligible for it by making changes to his or her union status. While this may be a source of contention, there is no reason to believe that the County is in error in its position. When reporting who is eligible under the Rule of 75, the AFSCME group is excluded on Mr. Hanchek's list because he believes they are not eligible.

In response to questions from Mr. Stuller, Mr. Hanchek agreed that the AFSCME group's contention is that the day the union was decertified, the employees became non-represented employees and therefore the post 1994 hires became entitled to the Rule of 75. Mr. Hanchek stated that a grievance has not yet been filed.

(d) Fiscal Officer/Cash Flow Report

Mr. Yerkes first discussed the ERS cash flow report, stating that it is similar to last month's report. Funds for November and December cash flow are at $15 million each. Cash flow does not include any increase in backDROP payments due to the higher retirement volume forecasted for early next year.

In response to a question from the Chairman, Mr. Yerkes confirmed that ERS is on track in terms of cash flow unless there are a lot of retirements with high backDROP amounts, which most likely would not be paid out until early 2012.

Mr. Yerkes continued that ERS used $2 million from an American Realty capital call, $15 million in cash, and the sale of the aggregate bond fund to fund benefits and expenses.

In response to a question from Dr. Peck, Mr. Yerkes stated that ERS took out $750,000 from infrastructure at Marquette's direction to do so every quarter because IFM did not have automatic cash distribution. However, this has since been implemented. Starting January 1, 2012, the payment related to that cash will be automatic.

Mr. Yerkes next discussed the portfolio activity report, stating that it was a normal month.

In response to a question from Dr. Peck, Mr. Yerkes stated that realized and unrealized gains need to be combined in order to see how the Fund performed that month. Mr. Yerkes confirmed that October was a good month compared to the previous quarter.

Mr. Yerkes then stated that BNY Mellon had another class action settlement related to the short-term investment fund of which ERS was the last member. Because of this, ERS received another $350,000.

In response to a question from the Chairman regarding ERS's obligation on securities lending, Mr. Yerkes stated that there is $68 million in securities lending exposure. There is no liability with MF Global; ERS did lend them assets, but those assets are being returned.

Mr. Yerkes next discussed the 2012 budget, noting that the Vitech hosting fees increased $45,000 after a contract review with Vitech. In 2012, ERS should pay Vitech approximately $290,000. There were no other changes to the budget since it was last reviewed by the Board. Specifically, there were no changes to personnel because the County Board has not yet approved the budget.

In response to a question from Mr. Stuller, Mr. Hanchek provided a brief update on personnel changes. The Executive's proposed budget eliminated the funding for and abolished four positions in ERS. ERS has been working with the Executive and legislative sides of the County Board to provide some flexibility in determining which positions are affected rather than making it position-specific. In other words, to change one position to an unfunded status rather than an abolished position. Mr. Hanchek stated that he has secured funding but not position authority for filling at least one of the four positions and will go before the County Board in December for position authority to be able to hire for that position.

In response to a question from Mr. Stuller, Mr. Hanchek stated that there were two lower-level clerical positions in the ERS records room, the duplicated position with the ERS systems coordinator, and the pension information systems specialist. The pension information systems specialist was retained, but the systems coordinator was not. The fourth position is the pension counselor, which is Ms. Akins' position, and the top priority in terms of retention.

In response to a question from Mr. Garland, Mr. Hanchek stated that he has enough funding secured in his levy budget, not the Pension Board-funded non-levy budget, to be able to pay for that position without issue. However, he needs to secure position authority to be able to hire someone. If the position cannot be paid for, contracted staff will be brought in.

Mr. Yerkes then asked the Pension Board to approve the 2012 Pension Fund Budget.

The Pension Board voted 4-2, with Dr. Peck, Ms. Bedford, and Messrs. Sikorski and Maier approving, and Messrs. Garland and Stuller dissenting, to approve the 2012 Pension Fund Budget. Motion by Dr. Peck, seconded by Ms. Bedford. The motion failed to pass because it lacked the necessary five votes as required by Ordinance section 201.24 (8.5).

Mr. Stuller stated that his dissenting vote is because there is too much contracting and subcontracting versus County employees performing the work.

Mr. Garland then stated that his dissenting vote is due to the County cutting staff when ERS needs more staff. As a separate body, ERS should fund these positions.

The Chairman then stated that ERS could fund the positions, but if the County will not authorize the positions, ERS cannot hire for them. The Department of Administrative Services or Human Resources hires, ultimately.

After general discussion and in response to questions from Messrs. Stuller and Garland, Mr. Hanchek reiterated that the Executive budget abolished the four positions, and that he is working to create one or more positions and fund one or more positions through a levy support. There are no additional funds with which to work. Mr. Hanchek stated that he would have to refer to Corporation Counsel to create and fund positions through salary budgets or fund transfers.

Dr. Peck then stated that a larger concern of fiduciary duty is not to take money when the money is not in the fund to hire people. Mr. Garland stated that fiduciary duty is to do what is in the best interest of the people being served. Dr. Peck agreed, adding that that is subject to making sure there is adequate staffing.

In response to a general discussion about staffing, Mr. Hanchek stated that he is more concerned about the four specific positions than the actual number of them. ERS can manage the office to the number allocated for salaries without a decline in operations. However, ERS needs the flexibility to determine which positions are critical. It is more difficult to manage operations if that is dictated to ERS.

The Chairman then clarified that Mr. Stuller's budget concern is that there is a large line item for outside consultants when that work could be better performed by employees.

In response to a question from the Chairman, Mr. Yerkes clarified that the outside consultants belong to the new co-development team created this year. Instead of paying Vitech $1 million for certain work, the co-development team should be able to perform that same work for $600,000.

In response to questions from Mr. Stuller, Mr. Yerkes stated that a pension information specialist position was created and filled. Effective May 1, 2011, that person was placed on the co-development team as a contractor; all four members of the co-development team are under a four-year contract through the Joxel Group at a cost in the high $500,000s. The logic behind this decision was that it is better to have the necessary experience with a consulting firm because in the event someone leaves, a contractor can more quickly bring someone in to start working.

Mr. Hanchek then clarified that there is a very significant difference between the system specialist in-house and a Vitech programmer. The co-development team is effectively reprogramming the system at a lower rate than Vitech programmers. The comparison is not staff versus contractors, it is contractors versus contractors.

The Chairman stated there was no way for ERS to complete this work in-house within the County IT infrastructure because it is very specialized programming.

In response to a question from Mr. Garland, Mr. Hanchek stated that ERS is not leaning one way or the other regarding overtime versus hiring temporary staff to handle any workload increase over the first few months of next year. Overtime can be offered or required, but there is a limit to how much time someone can spend working in any given week. ERS's first choice may be to handle additional workload with existing staff by offering overtime. If that is not adequate for the workload, then ERS would have to supplement with contractors.

The Chairman then laid over the adoption of the budget for discussion at the December Pension Board meeting.

5. Investments

(a) J.P. Morgan

Tim Holihen of J.P. Morgan distributed a booklet containing information on the Columbus Fixed Income portfolio.

Mr. Holihen first provided an update on the organization in Columbus, stating that there have not been any significant changes. A credit analyst was added, but the portfolio management staff remains stable.

Mr. Holihen then discussed investment processes. J.P. Morgan is a bottom-up portfolio manager that looks for cheap securities, adds them to the portfolio, and allows them to build over time. J.P. Morgan spent a lot of time on the sovereign downgrade, which was followed by the crisis in Europe, and then the dollar once again become a safe haven that attracted worldwide support. On the duration side, J.P. Morgan does not make big sector bets. Other managers this year have made significant bets, and have since decided against holding any U.S. Treasuries for extended periods of time. J.P. Morgan prefers to remain steady. Its portfolio managers execute the trades in Columbus on the trading floor.

In response to a question from the Chairman, Mr. Holihen stated that the portfolio's current duration is somewhat short. J.P. Morgan is at approximately 90% of its index and that has hurt as rates have come down. While performance has been good, it has not been as good because rates were not expected to drop much lower, yet they did. There were dramatic moves in rates, partly due to what is happening in Europe, and partly due to a perceived slowdown in at least parts of the U.S.

In response to a question from the Chairman, Mr. Holihen stated that J.P. Morgan would reduce duration gradually up to another 10% if rates started to trend up, but would not go much below 80% of the index. Trying to predict the movement of interest rates is challenging. J.P. Morgan will try to find certain mortgages and buy at a floating rate. Much of the ERS portfolio amortizes monthly, and with mortgage principal and interest, J.P. Morgan can reinvest at higher rates. However, J.P. Morgan is not going to make a big bet and go to half the duration of the index or all cash waiting for that to happen. Rates may stay fairly level for a period of time; the Federal Reserve has stated that it is going to hold short-term rates steady through the middle of 2013 in an attempt to get the economy up and running again. There has been an increase in housing refinancing brought about by lower rates, and companies are not holding back because rates are too high. There is a lot of excess cash right now, and companies are waiting for more certainty in the direction of the country before committing to paying out a dividend or reinvesting in the business.

In response to questions from the Chairman, Mr. Holihen discussed J.P. Morgan's European debt exposure, which is minimal at 3.23% but well-diversified. The countries under the highest level of scrutiny are Portugal, Italy, Ireland, Greece, and Spain. In the ERS portfolio, Ireland has 1 basis point exposure, Italy has 27, and Spain has 10 basis points, and J.P. Morgan is comfortable with the companies within each country. The key point is a lot of well-diversified, international exposure. The trend in European exposure is decreasing, however. With the wild swings occurring in Europe, the Euro will change, but it is an unknown as to how. The countries in the Euro may not be in the Euro going forward, and it will be a challenge because there are different concerns and different debt levels. Ultimately, J.P. Morgan is optimistic that things will improve.

Mr. Holihen then discussed investment performance. Year-to-date returns are at 6.28%, which is below the benchmark because duration is below average. It is a very challenging market, both domestically and internationally, but J.P. Morgan is trying to be very cognizant of portfolio structure so that it will perform in any number of scenarios.

Mr. Holihen next discussed portfolio statistics. Even including the option-adjusted spread, considering some of the mortgages held in the portfolio, there is a substantial margin over the aggregate index, which is the benchmark. J.P. Morgan will be able to earn that over time and is well-positioned on a longer term basis to outperform the index. Average credit quality is AA, and the number of holdings is 876, so the portfolio is very well-diversified.

In response to a question from Dr. Peck, Mr. Holihen stated that the mortgages that J.P. Morgan chooses are primarily seasoned mortgages because the underwriting standards are improved and there is a better performance history. Agency mortgages represent nearly 39% of the mortgage-backed securities, with non-agencies at about 8%. One of J.P. Morgan's strengths is buying the right kind of mortgages, and while there are improvements, J.P. Morgan is still working through the last big downturn in 2008. The U.S. housing market has very real challenges and the reaction to it and whether mortgages will be paid off must be monitored. Currently, there are a lot of homes for sale, many of which are or will be in the process of repossession. The problems this market faces are not going to go away anytime soon.

Mr. Holihen next provided a fixed income market update. There are some surprisingly strong numbers this year. The year-to-date return on the long index is just under 19% due to lower interest rates. This is very helpful to companies pursuing long-duration strategies, which many corporate pension plans are at this time. The questions now are whether rates will go back up and whether inflation will occur and, if so, when. The mortgages in which J.P. Morgan has invested have performed better than those under the mortgage index year-to-date.

Mr. Holihen concluded by noting that J.P. Morgan will continue to find attractive mortgages. J.P. Morgan portfolio managers do not travel; they are at a desk all day, every day, trading their own portfolios, looking at a number of different mortgages, and finding opportunity.

(b) Marquette Associates Report

Ray Caprio and Brett Christenson of Marquette Associates, Inc. distributed and discussed the monthly report.

Mr. Christenson first provided an overview of Fund structure versus its peer group. There are many critical factors that affect Fund performance, such as the number of managers, who is leaving what firm, and underperformance. Ultimately, however, over 90% of returns are driven by asset allocation, so it is important to discuss this on a regular basis. In the equity portfolio, the Fund is underweight to the median and average fund. In fixed income, year-to-date 2011 has paid off fairly well with an equal weight. Fixed income is the anchor of the portfolio, and it is needed in a year like 2011. The plan also benefitted this year in real estate and special investment. The main area in special investment is infrastructure, so infrastructure and real estate are the best-performing asset classes. Additionally, Marquette was just notified that J.P. Morgan infrastructure updated its cash yield to 6.11%, and IFM is at 5½%. Both are expected to continue to grow, so these are good areas to be invested in right now. There is a bit of an overweight in international versus the peer group, and that has hurt this year.

Mr. Christenson then discussed annual performance. It was a very difficult third quarter for the stock market and the portfolio lost 7.8%. However, it ranked in the 28th percentile compared to peers. Year-to-date, the plan is in the 27th percentile. Despite underperformance, the ERS portfolio ranks in the top 31st percentile on a three-year basis. The rankings are primarily driven by asset allocation. Going forward, small tweaks and rebalancing will hopefully keep the Fund in the right place at the right time.

Mr. Christenson next discussed risk profile, stating that the Fund has a lower risk profile than its peer group. The Fund is outperforming on risk as well as return on a three-year basis. Historically, however, fiscal year-end gross of fee returns have been volatile. The stock market is really what drives the volatility of the portfolio, which is what occurred in 2008 and then again in 2011. Despite diversification in the plan, overall returns will be affected when the equity markets are down. The good news is that through October 2011, the Fund is back in the black for the fiscal year.

Mr. Christenson then highlighted the real estate sector and the difference in returns between ING, public real estate, and Morgan Stanley, private real estate. Both products have relatively the same investments, but they are going to differ in value. With ING, value has more to do with people coming in and out of that product from a retail perspective. With Morgan Stanley, the product is based on appraised value. Overall, it is better for a pension fund to be in private real estate because of the diversification. When the rest of the portfolio, especially equity assets, is down like it is this year, real estate assets will most likely correlate in an opposite way. Year-to-date, Morgan Stanley real estate is up 14%, American Realty real estate is up 11.9%, IFM infrastructure is up 6.3%, and J.P. Morgan infrastructure is up 7.7%, all of which has helped the Fund weather the market storm.

In response to a question from Dr. Peck, Mr. Christenson stated that all the assets have strong cash returns, but infrastructure has heavy income assets, whether they are a pipeline or a utility or a wind farm. Like the real estate portfolio, most of the return is based on the income from the lease itself.

In response to a statement from the Chairman, Mr. Christenson agreed that ERS elected to take the cash return as a distribution in order to supplement cash flow for paying benefits rather than reinvest it. The cash return also helps for rebalancing purposes, such as with IFM and J.P. Morgan in infrastructure. They have quarterly liquidity, so it is easier just to take the cash. Assuming decent appreciation over the years, despite holding out the cash yield, the allocation targets in the Fund should be maintained. If not, the cash yield can be turned off in order to let these investments catch up to the allocation targets.

Mr. Caprio then discussed the flash report. The Fund is much closer to its targets than in past months. In fixed income relative to the target through the end of October, there has been a lot of volatility in the stock market and fluctuation in the bond market. The natural drawdown for benefit payments helps prevent the need to continually rebalance as adjustments can be made to where the Fund is overweight or underweight. The combination of J.P. Morgan, actively managed, and Mellon Capital, passively managed, provides a core satellite approach to managing fixed income with the goal to preserve capital and enhance liquidity rather than seek yield by increasing credit and interest rate risk.

Mr. Caprio continued that the U.S. equity portfolio is well-diversified, both by asset class and style. The objective there is to beat the raw benchmark, or the Wilshire 5000, over long periods of time. This can be accomplished by overweighting small-cap stocks relative to large-cap stocks and having a blend of value and growth. Overall, though, it is important, according to Marquette's research, to have more value in the long term. History has proven that having value stocks in the equity portfolio drastically outperforms the stock market. In the international equity portfolio there is, again, very good diversification, more by geography than style and market cap. Ultimately, Marquette is trying to obtain more exposure globally by adding dedicated allocations to emerging markets and international small cap stocks. The long-short hedged equity portfolio is a nice complement to the other equity portfolios in that it reduces overall volatility with long and short stocks. In aggregate, there is over 50% in total equity investments. While there are relative underweights and overweights to the peer group, the allocations are healthy. There is a different philosophy with the real estate portfolio, however, in commercial versus publicly traded listings. The allocation is smaller than the other portfolios, but combined it is about 15%. Lastly, next month at the Investment Committee, Marquette will provide a small-mid buyout search to pinpoint a complement to Adams St in order to get closer to target on private equity allocation.

Mr. Caprio then discussed total Fund performance. At the end of October, the Fund was just over $1.7 billion with a return rate of 5.1% for the month. The year-to-date rate of return is 1.4%. The market is up fairly significantly in November, so the Fund most likely will finish higher for the month. In all likelihood, though, the Fund will not reach its 8% rate of return target this year as it has for the last two calendar years.

In response to a question from the Chairman, Mr. Caprio stated that the policy benchmark includes a 36% target to the BarCap Aggregate, 39% Wilshire 5000, 18% MSCI ACWI ex. U.S. and 7% NCREIF ODCE. Included in the fixed income policy BarCap Aggregate (36%) is traditional fixed income and infrastructure. Private infrastructure does not have an industry-wide benchmark, and while it is an alternative asset class, the characteristics of consistent yield have fixed income-like characteristics. For this reason Marquette aggregate's fixed income and infrastructure together in the policy benchmark. Included in the U.S. equity policy Wilshire 5000 (39%) are U.S. Stocks, Hedged Equity, and Private Equity; the high-level goal for these three asset classes is to outperform the broad stock market with less risk. Included in the non-U.S. Equity MSCI ACWI ex U.S. (18%) are developed markets, non-U.S. small cap, and emerging markets. Again, the object for all three allocations is to exceed the broad non-U.S. equity benchmark with less risk. Finally, private commercial real estate is benchmarked against the NFI ODCE, which is an index of fund-level investment returns reporting on both a historical and current basis the results of 28 open-end commingled funds pursuing a core investment strategy, some of which have performance histories dating back to the 1970s.

Mr. Caprio then discussed Fund managers, stating that about 70% of ERS Fund managers outperformed or performed in line with the index for the month. One item of note is that American Realty, a real estate manager, lost a member of its research staff. This person had only been at the firm a few years and Marquette does not think the change is critical, but recommends placing the manager on alert as a precaution.

The Pension Board unanimously approved placing American Realty on alert. Motion by Dr. Peck, seconded by Ms. Bedford.

6. Investment Committee Report

Dr. Peck reported on the November 7, 2011 Investment Committee meeting.

The Investment Committee discussed the Marquette flash report, as well as whether to place American Realty on alert status due to a personnel change. The bulk of the meeting, however, was spent talking to Reinhart Partners about its long-term performance.

Ms. Bedford moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(e), with regard to item 7 for considering the investing of public funds, or conducting other specified public business, whenever competitive or bargaining reasons require a closed session. 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.

7. Mid-Cap Growth Equity Managers

In open session, the Board discussed a potential search on mid-cap growth equity managers.

In response to a question from Mr. Muller, Mr. Christenson stated that Marquette would accept for consideration a proposal in response to an RFP from any manager. All managers are evaluated on the same terms. A public notice is placed in the paper in order to reach out to the investment community, and notification is also sent to a number of managers.

After general discussion, Mr. Muller stated that he does not agree with Marquette's white paper excluding mid-cap value managers from the search.

The Chairman then stated that the Board has undergone an asset allocation evaluation twice and made the decision to exclude core and mid-cap value managers, but an agenda item could be added to reconsider the asset allocation study to add mid-cap value while still carrying out the search for now.

Mr. Christenson then stated that performing a search that includes both mid-cap value and mid-cap growth managers is difficult because they are two different asset classes. Search parameters have to be better defined to search for one or the other type of manager.

The Chairman and Mr. Christenson then commented that only the mid-cap space would be reviewed, but that the entire portfolio would need to be looked at to determine the impact on the risk and return profile. There are many factors to consider, such as volatility and deviation.

In response to a comment from Dr. Peck stating that it would make more sense to perform the asset allocation study first before performing any search, Mr. Christenson suggested that mid-cap asset allocation be reviewed at the Investment Committee meeting in December. Marquette will hold off on initiating the search for mid-cap growth in case there is a majority vote to conduct a mid-cap value search instead.

In response to a question from Mr. Stuller, the Chairman confirmed that any decision at the Investment Committee must be brought back to the Board for consideration.

The Pension Board unanimously approved placing Reinhart Partners on the watch list. Motion by Dr. Peck, seconded by Ms. Bedford.

The Pension Board unanimously approved an authorization to Marquette to conduct an asset allocation study of the mid-cap space and a review of the impact to the total portfolio of including mid-cap value, and to report at the December Investment Committee meeting. Motion by Mr. Muller, seconded by Mr. Garland.

The Pension Board voted 6-1 to approve an authorization to Marquette to conduct a search for mid-cap growth managers, or mid-cap value managers if the Pension Board decides to revise the asset allocation to include mid-cap value. Motion by Dr. Peck, seconded by Ms. Bedford, with Mr. Muller opposed.

8. <u>Audit Committee Report</u>

Mr. Garland reported on the November 2, 2011 Audit Committee meeting.

The Audit Committee first discussed the 2012 ERS budget. Ms. Ninneman noted that there will likely be a need for overtime in January and February of 2012 to handle the expected increase in retirements, but existing staff should be able to handle the workload. If necessary, the option to use temporary staff can be considered.

The Audit Committee next discussed the security workers settlement. Mr. Yerkes is reviewing the individual reimbursement calculations received from the County Department of Administration.

Mr. Huff stated that the payment back was to reimburse for pension payments that had been made to employees who were eligible to, and did, retire. These payments are being accepted back under a process that the IRS would have required ERS to follow had there been a mistake made. Though no mistake was made, ERS is still going to follow that process.

The Audit Committee then discussed the ERS members not on the County payroll. Mr. Huff will draft an amendment for review by Mr. Grady to Ordinance 201.24(2.4) to allow for contributions to come from an entity other than Milwaukee County. Mr. Yerkes will verify the contribution arrangement groups with members who are State employees but who have opted to remain members of ERS.

The Audit Committee next discussed membership accounts.

The Audit Committee then discussed a draft amendment to ERS Rule 1040.

The Audit Committee concluded with an update on the ERS project to convert paper legal documentation to electronic format. The project should be completed by the end of 2011.

The Pension Board then discussed Ordinance amendment 201.24(2.4) in more detail.

Mr. Huff stated that the Ordinance amendment concerns employees who have been required to move to the State or offered a position with the State. It also concerns employees who have either been transferred to the State because they have been required to transfer to the State, and required to transfer everything, including membership in the State pension system. Finally, the amendment concerns employees who have been allowed to stay in the County system or been offered an option to stay in the County system until they have enough vesting to move to the State system. The ERS Ordinances do not presently allow the State to make contributions to the Plan or even make contributions back to the County.

Mr. Huff then commented that, per Mr. Grady, if the Pension Board would consider a proposed amendment to the Ordinances, Mr. Grady would take the amendment to the County Board. There would be no actuarial cost to the County for making this change. The amendment simply contains a requirement to maintain tax qualification to allow the State to reimburse the County for the withholding that is being made from the members for their portion, and the State to make the County's portion of the contribution to ERS. Additionally, because the Pension Board is allowed to review Ordinance amendments within 30 days, the Board could waive its review since it is the Board that proposed the amendment.

In response to a question from the Chairman, Mr. Huff confirmed that the Board would want to review the amendment if the County made any changes to it. A standard proposed resolution would be used that states the proposed amendment would not result in any additional programming cost to the system and that the Pension Board believes it is in the best interest of ERS for the County Board to adopt Ordinance amendments which clarify the intended operation of the Ordinances. A statement could also be included that if the County Board makes any changes to the amendment, the Pension Board will need to review those changes.

In response to a question from the Chairman, Mr. Huff stated that the language used in the proposed change to the definition of employee has not been provided to the IRS. It is a new change coming out of the November Audit Committee meeting. This will be submitted as one of the amendments under consideration by the IRS, and it is expected that the IRS will approve the change. The only question is whether the IRS would consider ERS to be a multiple employer plan. This will most likely not be the case because the contributions come back from the State to reimburse the County. The County makes them, as opposed to the contributions coming directly from the State to ERS.

In response to a question from Mr. Stuller, Mr. Huff stated his understanding that the actuary for ERS calculates a bill that is sent to the State for the State to reimburse ERS for the cost of the pensions. The employees also make the same contribution as if they stayed on the County payroll.

In response to a question from Mr. Stuller, Mr. Yerkes stated that County employees contribute 4.7%, which is the same percentage for the employees who transferred to the State payroll. The normal cost is 9.4%, so 4.7% is roughly half of the actuarially required contribution adjusted to match the groups that are included in the contribution Ordinance, excluding some of the public safety groups and others.

In response to additional questions, Mr. Huff stated that the only change that necessitates an amendment is a provision that allowed someone to be a member if the contribution was coming from the State, as opposed to the County. Everything else is the same.

In response to general discussion, the Chairman stated that the County has always had the responsibility to set policy as to who gets covered under what benefit levels and who gets what rights and features. The Pension Board's obligation is to make sure that these decisions can be implemented and that the Plan remains tax qualified. The Pension Board does not set policy. This change is consistent with that philosophy and approach.

In response to additional general discussion, Mr. Hanchek stated that the policy decision dictated by the State is already made. The employees were already presented with a choice to stay in the County plan or move to the State plan. The employees have already made those elections. The Ordinance amendment simply cleans up the legal language in order to maintain compliance with the Internal Revenue Code.

In response to a question from Mr. Stuller and a suggestion from Dr. Peck, Mr. Huff stated that a retroactive effective date could be explored, but that generally an amendment adopted by the County Board in 2011 will be effective for the 2011 Plan year of ERS.

The Pension Board unanimously approved the adoption of the following resolution:

The Pension Board recommends enactment of the proposed Ordinance amendments to sections 201.24(2.4) of the Milwaukee County Code of General Ordinances modifying the definition of employee to clarify the status of individuals transferred to state employment, and waives the balance of its 30 day comment period provided for under section 201.24(8.17) of the Milwaukee County Code of General Ordinances. The Employees' Retirement System ("ERS") Manager estimates that implementation of the proposed Ordinance amendments would not result in additional cost to the System. The Pension Board believes that it is in the best interests of ERS for the County Board to adopt Ordinance amendments which clarify the intended operation of the Ordinances.

Motion by Dr. Peck, seconded by Ms. Bedford.

The Board then discussed the change to ERS Rule 1040. Concerns were raised by various members about listing date of birth on the Retirements Granted Report because the information can be used for identity theft. However, the date of birth can help the Board spot issues in eligibility for the Rule of 75. Therefore, the change to ERS Rule 1040 prepared by Mr. Grady removes the date of birth from the Retirements Granted Report, but adds whether that person is eligible for the Rule of 75.

The Pension Board unanimously approved revised ERS Rule 1040 attached to these minutes as Exhibit A. Motion by Dr. Peck, seconded by Mr. Garland.

9. <u>Proposed Pension Benefit Changes for Deputy Sheriffs Association</u>

The Pension Board discussed the benefit changes proposed for the Deputy Sheriffs Association.

The Chairman stated that a contract has been bargained and the sheriffs union membership has ratified the contract. Elements of it are going through the Pension Study Commission and the Personnel Committee of the County Board on the same day as this meeting. Assuming approval by both, the proposal will go to the full Board.

In response to a question from the Chairman, Mr. Huff stated the Pension Board's responsibility under the Ordinances is to comment on the proposal. There is no specific language on the Ordinance amendment currently available; however, one excerpt currently in circulation discusses the type of window benefit included in the contract that the County Board would be asked to put into an Ordinance. The window would, through the end of this year, allow any deputy to add up to five years to his or her age in order to qualify for retirement at age 57 or for the Rule of 75, but no more than is necessary to reach either age 57 or to qualify for the Rule of 75. The window would be paid for by additional contributions by the County, and the actuary is currently determining that cost. Additionally, the Deputy Sheriffs Association wants to name a member to the Pension Board.

The Chairman then stated that the Board would not comment on policy benefit changes for the deputy sheriffs. However, the Board should discuss any recommendation to increase the number of Board members to ten and that the tenth person be a designee by the Deputy Sheriffs Association. The Chairman ask for opinions from the Board, stating that his concerns include that the Pension Board acts as fiduciary for the Fund as a whole and that it is not representative of any particular group or groups. Additionally, a ten-person Board is harder to work with in terms of decisions and majority votes.

In response to a question from Dr. Peck, Mr. Huff stated that the Pension Board currently has three representatives from active employees and one from retirees. Deputy sheriffs are considered active employees.

In response to a question from Dr. Peck, Mr. Sikorski stated that the benefits for deputy sheriffs are different, that they include a higher percentage of earlier retirement and a higher multiplier.

After general discussion, Mr. Huff stated that if the County Board changes the Ordinance to allow appointment of a Pension Board member by the Deputy Sheriffs Association, the Pension Board cannot stop it. The Chairman added that the County Board sets the policy, and within that policy is how the Pension Board is structured, and whether they even have a Pension Board. It is a legislative prerogative.

Mr. Stuller then stated his concern about asking the County Board to create an Ordinance that excludes certain people from running for a Pension Board position when the Pension Board is now trying to prevent another category of people from being appointed to a position.

The Chairman responded that the issue concerning the exclusion of an ERS employee from running for a Pension Board position came up as a result of a recent election. An ERS employee, as a Pension Board member, would be able to rule on issues that affect that very position, which is a direct conflict of interest. The circumstances were different in that situation.

The Chairman stated that the Ordinances require that the Board provide comment; the Board's usual practice is to offer no comment and waive the notice period.

The Chairman then polled the Board on whether the Board should follow the usual practice. Mr. Stuller and Mr. Sikorski stated that the Board should follow its usual practice. Dr. Peck stated that she was not yet sure. Mr. Garland stated that he would accept a statement about adding a non-specific member. Mr. Muller stated that the proposal detracts from the holistic charge to the Pension Board, which is to look at the big picture, the whole Fund, and not just representatives of a specific group. Ms. Bedford indicated she thought the policy was bad.

After general discussion and in response to questions as to whether there are retirees who are part of the Deputy Sheriffs Association and the classification of those employees, Mr. Hanchek stated that the dues-paying members are technically the active employees, but they might have their own retiree associations, as AFSCME does. They could be included in the contract. Union memberships are dictated by position; they are set positions included in the bargaining unit.

The Pension Board voted 6-1, with Mr. Muller dissenting, to approve the adoption of the following resolution:

The Pension Board offers no formal comment regarding the proposed provisions related to the Deputy Sheriff Association and ERS to allow for employee pension contributions, a period during which an age adjustment for retirement qualification can occur, and the addition of a Pension Board member, and waives the balance of its 30 day comment period provided for under section 201.24(8.17) of the Milwaukee County Code of General Ordinances. The Employees' Retirement System ("ERS") Manager estimates that implementation of the proposal may result in additional administrative cost to the System of approximately $25,000. The Pension Board oversees the benefit payment process and administration of ERS in accordance with the County Ordinances, Pension Board Rules and the Internal Revenue Code. Decisions regarding the benefit plan structure, such as the proposed provisions, are outside of the Pension Board's role. The Pension Board understands that the County Board has an actuarial report on the projected cost of the benefits and the County will pay to fund such cost, and that these proposals are negotiated pursuant to collective bargaining.

Motion by Ms. Bedford, seconded by Mr. Stuller.

Mr. Muller stated that he opposed because the Pension Board is going to have to deal with the situation of another Board member at some point in some way.

The Chairman stated that there will be a number of questions if this proposal is adopted and the Board expanded to ten. For example, how a quorum would be defined. With ten people, there could theoretically be a tie vote of the Board on motions. Regardless, the County Board will make its decision and the Pension Board will have to operate accordingly.

10. Administrative Matters

The Pension Board discussed additions and deletions to the Pension Board, Audit Committee, and Investment Committee agendas. The Chairman asked that anyone with future topic suggestions should voice them. Those topics will be discussed at the next agenda planning meeting.

The Chairman then suggested taking action on a few upcoming educational opportunities for the Pension Board members. The Board discussed the educational value of the conferences.

The Pension Board unanimously approved the attendance of any interested Pension Board member at:

1. **International Foundation Annual Conference, November 11-14, 2012, San Diego**

2. **International Foundation, Certificate Series, Investment Basics and Retirement Plan Basics (various dates and locations in 2012)**

Motion by Dr. Peck, seconded by Mr. Sikorski.

Ms. Bedford moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(f), with regard to item 11 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 11, 12, 13, and 14 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 11, 12, 13, and 14. Motion by Ms. Bedford, seconded by Mr. Garland.

11. Disability Pension Matters

(a) Petitions for Review of Hearing Examiner Decision

(i) Jacqueline Kleckly, ODR

The Pension Board took no action on this item.

(ii) Diana Vaden, ODR

The Pension Board took no action on this item.

12. Claim Appeal—Sandra Welscher

The Pension Board took no action on this item.

13. Pending Litigation

(a) *Mark Ryan, et al. v. Pension Board*

The Pension Board took no action on this item.

(b) *ERS v. Lynne Marks*

The Pension Board took no action on this item.

(c) *Christine Mielcarek v. ERS*

The Pension Board took no action on this item.

(d) *Lucky Crowley v. ERS*

The Pension Board took no action on this item.

(e) *Renee Booker v. ERS*

The Pension Board took no action on this item.

14. Report on Compliance Review

The Pension Board took no action on this item.

15. Adjournment

The meeting adjourned at 12:55 p.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 1040 delegates to the Manager of the Employees Retirement System the authority to approve the retirement pensions of members in accordance with the applicable laws, provided the Manager provides to the Pension Board a retirements granted report at each meeting, and details the information to be included in the retirements granted report.

4. Some ERS members have expressed concern regarding the inclusion of their birth date in the retirements granted report, which is a public document.

5. The Pension Board believes that it is appropriate to revise Rule 1040 to delete the requirement that members' birth dates be included in the report, and add the requirement that the report indicate those retirements granted based on the "Rule of 75."

RESOLUTION

Effective October 19, 2011, pursuant to Ordinance section 201.24(8.6), the Pension Board hereby amends Rule 1040 to read as follows:

1040. Approval of Retirements

The Pension Board hereby delegates to the Manager of the Employees Retirement System the authority to approve the retirement pensions of members in accordance with the applicable laws, ordinances and collective bargaining agreements incorporated therein. At the Pension Board's regularly scheduled meetings and at such other times as the Pension Board or its Chairman requests, the Manager shall provide a tabular report to the Pension Board of the retirements granted since the Manager's prior report. The report shall include details concerning the member's retirement date, type of retirement, monthly annuity, backdrop (if any), option selected, employment position~~,~~ and years of service~~ and date of birth~~. The report shall indicate those retirements that are based on the "Rule of 75." In the event the Manager has any question, or is aware of any dispute, concerning a member's retirement pension, the Manager shall request Pension Board action prior to payment of that member's retirement pension. Notwithstanding the preceding, the Pension Board may, at its discretion, review, amend or overturn approvals of retirements, either on a retroactive or prospective basis.