EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

MINUTES OF THE OCTOBER 17, 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	Member Excused
Dr. Brian Daugherty	Dr. Sarah Peck
Norb Gedemer	
D.A. Leonard	
Mickey Maier (Chairman)	
Dean Muller	
Dave Sikorski (Vice Chair)	
Patricia Van Kampen	

   Others Present
   Marian Ninneman, CEBS, CRC, ERS Manager
   Mark Grady, Deputy Corporation Counsel
   Matthew Hanchek, Employee Benefits Administrator
   Daniel Gopalan, Fiscal Officer
   Vivian Aikin, ERS
   Dale Yerkes, Consultant
   Larry Langer, Buck Consultants
   John W. Gray, Adams Street Partners
   Ray Caprio, Marquette Associates, Inc.
   Brian Wrubel, Marquette Associates, Inc.
   Marilyn Mayr, Prior Pension Board Member and Retiree
   Diane Haubner, Appellant
   Lesley Schwartz-Nason, Former Milwaukee County Employee
   Steven Huff, Reinhart Boerner Van Deuren s.c.

3. Chairman's Report

The Chairman first welcomed Brian Daugherty as the new member appointed to the Pension Board by the County Executive.

Dr. Daugherty stated he earned an undergraduate degree in accounting at Texas A&M University, and then a Ph.D. in accounting at the University of Texas in San Antonio. Previous experience includes serving as a senior assurance manager for Arthur Andersen in San Antonio, as well as an Academic Fellow with the PCAOB's Office of Research and Analysis in Washington, D.C. Currently, Dr. Daugherty is an assistant professor at the UW-Milwaukee Lubar School of Business, teaching primarily graduate auditing and forensic accounting courses.

The Chairman then stated that while decisions take place at the Pension Board level, the Investment Committee and the Audit Committee review items on an interim basis and make recommendations to the Board. The Chairman invited Dr. Daugherty to participate in the Audit Committee meetings, currently chaired by Mr. Sikorski.

4. Minutes—September Pension Board Meetings

The Pension Board reviewed the minutes of the September 19, 2012 Pension Board meeting.

The Pension Board unanimously approved the minutes of the September 19, 2012 Pension Board meeting. Motion by Mr. Sikorski, seconded by Ms. Van Kampen.

5. Reports of ERS Manager and Fiscal Officer Assistant

(a) Retirements Granted, September 2012

Ms. Ninneman presented the Retirements Granted Report for September 2012. Twenty-six retirements from ERS were approved, with a total monthly payment amount of $54,382. Of those 26 ERS retirements, 17 were normal retirements, 1 was normal early, 7 were deferred, and 1 was deferred early. Sixteen members retired under the Rule of 75. Additionally, 10 retirees chose the maximum option, and 11 retirees chose Option 3. Seven of the retirees were District Council 48 members. Fourteen retirees elected backDROPs in amounts totaling $2,936,547.

Ms. Ninneman then discussed changes to ERS staff. Mr. Yerkes left County employment and is now working as a temporary employee with Mr. Gopalan, who was promoted to the position of Fiscal Officer.

Ms. Ninneman thanked Mr. Yerkes for his service and wished him luck in the future.

Ms. Ninneman stated that ERS has a new clerical specialist as of October, and another clerical specialist who had been on loan to another department has returned. ERS plans to fill the remaining 2 open positions by the end of the year.

(b) ERS Monthly Activities Report, September 2012

Ms. Ninneman presented the Monthly Activities Report for September 2012. ERS and OBRA combined had 7,942 retirees, with a monthly payout of $14,797,086.

Ms. Ninneman stated that the number of retirement appointments has started to increase, and November and December are filling up quickly. Part of this increase stems from the new County requirement that retiring employees must 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.

Ms. Ninneman then stated that ERS is processing OBRA payments monthly, and the 2012 payments will be made by the end of December. The backlog for estimates was fairly high, but progress has been made. The number of deaths continues to run higher than in the previous years, most likely due to ERS's maturing population.

Ms. Ninneman then noted that legal issues are still higher than normal, but that can be attributed to the cleanup from the internal and external audits earlier this year, as well as various quality control initiatives.

(c) Retirement Trends, Third Quarter

Ms. Ninneman discussed retirement trends in the third quarter. Year-to-date, approximately 56% of the employees eligible for backDROPs are actually electing them. One item of note is that the average age for retirement is 59, with almost 20 years of service credit history, which is an indication that people are retiring later. A review over a 30-year period could indicate that 2012 is just a unique year with more deaths and more people retiring closer to the normal retirement age. However, ERS is just beginning to look at this information.

(d) Third Quarter Retiree Meeting Satisfaction Survey Results

Ms. Ninneman provided the results of the retiree satisfaction survey for the third quarter. The survey was changed in the second quarter to capture more valid information relating to employee interest. ERS staff is performing well when meeting with transitioning employees, but there is always room for improvement. ERS plans to begin the information process with employees mid-career to better help employees prepare for a sounder financial retirement. Some of the survey comments received indicated that ERS does not provide enough information to the non-represented employees, and ERS has a plan in place to provide material outside of the defined benefit plan.

(e) Third Quarter Co-Development Report

Ms. Ninneman discussed the third quarter co-development report, which shows on a quarterly basis the V3 projects that the co-development team has completed and the cost of the projects compared to what it would have been had the vendor been responsible for the enhancement. For the third quarter, ERS realized savings in the amount of $109,000. Year-to-date, the savings is approximately $475,000. The co-development team received some additional training from V3, and a rational functional testing tool was purchased from IBM. The tool allows ERS to perform more in-depth regression testing on system enhancements. The team completed 15 projects in the third quarter and is on target with predictions for 2012.

(f) Pension Board Employee Member Election

Ms. Ninneman discussed the member election. As a result of last year's employee election, ERS stepped up its effort to promote employee elections by staging information sessions for the candidates interested in running, by going before the Executive Cabinet to promote the importance of the election to the department heads, and by meeting with employees at different locations around the County. Mr. Sikorski was instrumental in providing feedback on what ERS did well and where work was still needed. There were still employees who were unaware of the election, and with another election coming up in February, additional direct campaigning will be required to inform employees in case the supervisors and managers do not post or forward this information. Overall, voter turnout increased from roughly 170 to over 700 people, which exceeded the expected 5% voter turnout. There were 5 well-qualified candidates; 2 were elected and will join the Board next month after being sworn and attending an orientation.

Mr. Sikorski then acknowledged Ms. Ninneman's hard work on the election, which was reflected in the voter turnout. The Chairman agreed.

(g) Fiscal Officer Assistant

Mr. Gopalan first discussed the September portfolio activity report, noting that September funding of $10 million came from the Mellon Capital Bond Fund. Additionally, approximately $97 million of the GMO fund was sold, $90 million of which was used to fund the Northern Trust International Index Fund. Finally, about $16 million from Morgan Stanley and about $1 million from JPMorgan Infrastructure were used to fund benefit and expenses for September.

Mr. Gopalan then noted that Adams Street made a small capital call for $420,000.

Mr. Gopalan then discussed the September cash flow report. The $5 million originally requested for October is no longer needed as a result of the additional funding requested for September at the last Board meeting. Cash needs for November and December should remain the same as predicted.

In response to questions from the Chairman, Mr. Gopalan confirmed that there are no additional cash flow needs, and that ERS is experiencing better-than-average cash flow from investments, so there is no need to draw on the money approved by the Board. Additionally, the date of the cash flow report will be changed next month to more accurately reflect that the data within is as of the month under discussion.

Mr. Gopalan next noted the third quarter check register, but the Board did not have questions.

Mr. Gopalan then discussed the 2013 budget. The first page contains the direct budget, or the funds that the Pension Board controls. The second page reflects the funds controlled by the County Board, and the last page shows the combined budget.

Ms. Ninneman then stated that while next month the budget may include additional costs for proposed ERS projects, there are no changes to the budget since the last Board meeting. The County budget is currently in review by the County Board.

In response to a question from Mr. Sikorski, Ms. Ninneman stated that ERS falls under the Department of Human Resources.

In response to a question from Ms. Ninneman, Mr. Hanchek stated that the budget was discussed last week and no changes were voiced on the ERS portion. Mr. Hanchek does not expect any controversies to occur over the 2013 budget.

6. Actuarial

Larry Langer of Buck Consultants distributed and discussed the Preliminary Quinquennial Experience Review for Calendar Years 2007 through 2011.

In response to a question from the Chairman about the Xerox logo on the review, Mr. Langer stated that in February of 2010, Xerox purchased Affiliated Computer Services, or ACS, which was Buck's parent company.

Mr. Langer first stated that an experience review is essentially a review of the past 5 years to gauge the accuracy of the assumptions and methods used in the previous valuation, and then make recommendations for tweaking those assumptions and methods if needed. The focus today is on mortality and investment return, and Buck Consultants will follow up with the remaining assumption recommendations at the next Board meeting, including an impact on cost.

Mr. Langer then stated that an actuary determines the amount of contributions to a pension plan over the course of a member's career so when that member retires, there are sufficient funds to pay benefits. Known inputs in the actuarial valuation process include membership data, benefit provisions, asset data, actuarial assumptions, and funding policy. Actuarial assumptions include demographic assumptions, such as member death, retirement, or termination. Retirement factors, as well as disability and withdrawal, vary from plan to plan. Additionally, while mortality is adjusted for ERS-specific circumstances, it involves other, broader societal provisions. Actuarial assumptions also include economic assumptions, such as investment return, which is the largest driver in terms of where ERS contribution amounts fall out. Salary increase is another economic assumption in that member pay increases over the long term affect benefits because benefits are funded as a percentage of that pay. Overall, a set of assumptions will not last indefinitely. In addition to a prudent funding policy, a policy of periodically reviewing the assumptions is important to achieve a status of 100% funded over time. ERS has both policies.

Mr. Langer then discussed the process of setting demographic assumptions, which is more specific to ERS. These assumptions are based on a 5-year review of past, or actual, experience compared to future, or expected, experience. Buck Consultants looks at how many people are anticipated to die, terminate, retire, or become disabled and compares that to the number of people that are expected to do the same. Invariably, there will be a variance, so recommendations are then made as to how to reconcile the assumptions. The more time that passes between reviews, the greater that variance, so every 5 years is prudent for a plan of ERS's size. Additionally, because a primary component of the contributions is the assumptions, costs will either go up or down when those assumptions are reconciled. To minimize this impact, assumptions must be reviewed periodically to ensure that projections are in line with the current times.

Mr. Langer continued by stating that the funding policy has 3 main components: an actuarial cost method, an asset valuation method, and an amortization method. The actuarial cost method determines the allocation of costs for accrued benefits and benefits projected to accrue on behalf of members currently in ERS. For Milwaukee County, the amount to be allocated is roughly $2.3 billion. Costs are allocated to the actuarial accrued liability for past service and normal cost for current service and systematically paid off. There are different ways of allocating benefits: however, the cost method currently used, entry age normal, is the most prudent and widely-used funding policy for public sector plans because it allocates normal costs so they remain level as a percentage of pay over the course of time. When determining a contribution, the amount of money in the Fund is important in terms of the amount that will eventually be needed. Market value of assets is volatile from year to year. To help alleviate this volatility, the asset valuation method is used, which is the smoothing or averaging of asset values over a period of time. The smoothing period for ERS is 5 years, but an item for future discussion is the possibility of extending that period in order to help moderate the level of contribution increases from year to year, reducing the burden on the employer as a result of large increases and decreases in contributions. Finally, the amortization method determines the payment schedule for unfunded actuarial accrued liability. At any point, the amount of assets in the Fund may not cover the liabilities. Currently, the funding policy dictates that unfunded liabilities are amortized over a 30-year period. The longer the amortization period, the longer it takes to pay off the unfunded liability. However, the longer the amortization period, the lower the impact when contributions are adjusted as part of the annual actuarial evaluation. Contributions that are more stable from year to year are less of a burden on the employer.

In response to a question from Mr. Langer, Mr. Grady stated that only one variance regarding contributions paid by the County appears in the Ordinances.

Mr. Langer then reviewed the summary of recommendations as a result of assumptions made on employees covered in the Fund. These employees were separated into groups based on the rate at which they tend to retire, terminate, and become disabled. In terms of assumptions made about service retirement, employees are delaying retirement more often than what was assumed in the 2008 valuation. While the general thought is that delayed retirement leads to higher costs, the opposite is actually true. Benefits are slightly higher, but fewer benefits are paid because there is less time to enjoy that retirement. Additionally, if an employee retires later, the employer has more time to fund for those benefits. Therefore, the delayed retirement assumption means that costs will decrease.

In response to a question from the Chairman, Mr. Langer stated that Act 10 prompting a spike in retirements was a one-time event and retirement rates over the past 5 years indicate employees are delaying retirement more than what was anticipated.

Mr. Langer continued by stating that in terms of assumptions made about disability retirements, there were fewer than expected over the past 5 years. Some employee groups might have disability benefits more valuable than the normal benefit, which could cause contributions to increase slightly. With non-vested termination assumptions, more employees are terminating than was expected. Contributions to the Fund are made on behalf of all the membership. When members leave before they reach retirement, the leftover goes to those members still in the Fund, which means that contributions to the Fund are lower. With the active and inactive mortality assumptions, people are living longer comparatively, which means that more money is required in the Fund for a longer period of time. For economic assumptions like salary increases and investment return, broader societal impacts than what has occurred in the past 5 years have an effect on the Fund. For the backDROP rate assumption, there was a small decrease in elections, but it will not have a significant impact on the Fund. Overall, mortality, salary increase, and investment return have the most impact. The others, while meaningful, are close to what was anticipated or do not have as much impact.

Mr. Langer then discussed mortality in more detail. In general, the mortality rate in the United States has declined over time and each generation is living longer than the preceding generation. Because of this, an actuarial valuation must anticipate future rates of mortality. A new actuarial standard of practice recommends projecting these mortality improvements beyond the upcoming 5-year experience period currently in use for valuations and into the life of the membership currently in the Fund.

A 25-year old coming into the Fund in 2015 is going to live longer than a 25-year-old who entered the Fund in 1980. This generational mortality assumption will automatically keep ERS's mortality table updated. As a result, at the next review, there should be little change in the liability. The actual number of deaths in the ERS population is approximately 1,700. In the valuation, only 1541 deaths are expected, which is about 16% fewer. This provides a cushion for future mortality improvement over what was realized in the past 5-year period. Buck Consultants recommends continued use of the current UP94 Mortality Table, but also that generational mortality be applied to account for the fact that people are living longer.

Mr. Langer then discussed investment return, stating that it is important to allocate assets in such a way that members can receive the benefits due them, to do so in a cost-effective manner, and then to determine the investment return assumption based on the current portfolio. In other words, it is better to lead the actuary than chase the actuary. The assumption should not be set to match the return of the past 5 years or match what other funds are using. The assumption must be based on ERS's population and how portfolio assets are invested. There is no one right investment return assumption, but rather a range of them. In an estimate of nominal and real returns over a 1-, 5-, 10-, 20-, and 30-year period based on the ERS portfolio, any return that falls within the 25th and 75th percentile of projected returns over a period appropriate for the plan being reviewed can be used. Because Milwaukee County is an older plan and would need to accommodate people for years to come, a longer investment period should be considered. Thirty years is in line with current practice for plans like Milwaukee County. The projection from Buck Consultants includes 999 simulations based on the ERS portfolio and the anticipation of returns on different asset classes, as well as the variations in those returns. The range of net investment returns over the next 30 years is 7.13% to 10.06%, so the current 8% assumption is within range. While standards of practice allow for a return that falls within the 25^{th} to 75^{th} percentile, selecting a return above the median, or 50^{th} percentile, provides less than a 50% chance of achieving the assumed rate of return. Over 30 years, Buck projects a median return of 8.67% net of expenses, which is above the current 8.00% return assumption. At the median, the Fund is just as likely as not to achieve the assumed rate of return. As such, Buck recommends an assumed rate of return below the median. While the projection shows that over a longer period, the 8% rate of return can be realized, the next 5 to 10 years will most likely be a struggle. Returns over this shorter term are projected to be below the 50th percentile. The inclination may be to lower the 8% return, but any change will have some adverse impact on the contributions and be inconsistent with the long term nature of the plan. The recommendation, then, is to stay focused on the longer investment period, which accommodates the 8% rate of return.

In response to a question from Mr. Grady, Mr. Langer stated that Buck's recommendation correlates to the recommendation to extend the smoothing period. Extending the smoothing period will slow down how quickly gains and losses are realized and will help minimize contribution volatility. The reality is that the target rate of return will not be achieved every year and actuarial losses will occur. Since the rate of return will fall into a broader range, a longer investment period will help mitigate that loss.

In response to a question from Mr. Grady, Mr. Langer confirmed that the funded status could decline over the next 10 years if the 8% rate of return is not realized. However, changes in the investment return assumption provides for a lot of volatility, and the 8% rate of return over a longer investment period is a good return with which to stick.

In response to questions from the Chairman, Mr. Langer stated that Buck Consultants did take into account the changes in ERS's asset allocation policy. Additionally, considering the 999 simulations, not all input was historical in terms of asset classes. Also included were projections as to different economic conditions that could occur in the future, such as inflation, GDP expectations, and global growth. Historical data is constantly evolving, so some proxies were used, but the level of detail was sufficient to set the investment return.

In response to a question from Ms. Van Kampen, Mr. Langer stated that patience is definitely required when using a longer investment period and returns are not being realized. The key is not to focus on the short term or respond with a knee-jerk reaction.

In response to a question from Mr. Muller, Mr. Langer stated that projections from Marquette and from Buck Consultants should be reasonably close around the 10-year mark, but Marquette projections do not extend beyond that. The rate of return could be raised, but the higher the assumed rate of return the more likely it will not be reached. The rate of return could also be lowered, but the risk then is that contributions will increase and there may not be sufficient funds to pay benefits. It is important to remember, though, that contributions are constantly updated with the annual valuation to reflect what is actually happening.

In response to a question from the Chairman, Mr. Langer confirmed that there is a 65% chance of reaching an 8% rate of return over a long period of time. If that 8% was reduced to 7.75%, the probability of reaching that return only increases by about 2% to 3%.

Mr. Langer then stated that over the next 20 to 30 years, the current 8% rate of return assumption is below the median. Over the next 1-, 5-, and 10-year periods, it is above the median. The return assumption could be lowered for the first 5 to 10 years, and then increased, but the recommendation is to maintain the 8% rate of return while keeping in mind that asset losses are expected to persist over the next decade. There are many offsetting factors that could be considered, such as peers and perception, but they are not primary considerations.

Mr. Langer then summarized the key points of his presentation. The current investment return is acceptable, but the mortality assumption needs to be updated, which will impact the valuation and cost to benefit options. The remaining assumptions have mixed results but to no significant effect. Finally, the funding policy is good practice, but the Board may want to consider a longer smoothing period to reduce contribution volatility.

Mr. Grady then noted that changing the investment return assumption will also change the backDROP rate. Beginning January 1, backDROPs will be calculated using any new investment return assumption. When this assumption was decreased in the past, the number of retirements increased because people wanted to reserve the higher return. The increase in retirements was not large, but it was a factor with which ERS staff had to work.

In response to a question from Mr. Muller, Mr. Langer then stated that if the assumption is lowered for the purposes of these optional forms of payment, lower monthly benefits until death will result. At the next Board meeting, Buck Consultants could provide examples on the effects of changing the smoothing period from 5 to 10 years.

In response to a question from Dr. Daugherty, Mr. Langer stated that in terms of the factors used to test the 8% rate of return in the 999 simulations, Buck Consultants concentrated on the asset side. What floats, or varies, is the inflation assumption and the different economic scenarios that can happen over the course of time. The real returns will fluctuate based on the expected return of an asset class and then vary from year to year.

In response to a question from Dr. Daugherty, the Chairman stated that the expense is a flat 40 basis points. Mr. Langer added that expense does make a difference, but with the broad range of opportunities available, not a lot of emphasis was placed on it.

In response to questions from the Chairman, Mr. Langer stated that if the Board approves the changes to the mortality assumptions and agrees to maintain the 8% rate of return, the changes would be effective for the valuation presented by Buck Consultants next May.

The Pension Board unanimously approved the recommendation from Buck Consultants to update the mortality assumption in the experience review. Motion by Ms. Van Kampen, seconded by Mr. Leonard.

Mr. Grady then stated that the existing rule that incorporates mortality tables will have to be amended at an upcoming Board meeting to reflect these changes.

In response to a question from the Chairman, there was no motion to change the current 8% rate of return assumption.

7. Investments

(a) Adams Street Partners

John Gray of Adams Street Partners distributed a booklet containing information on the investment management services provided by Adams Street for ERS.

Mr. Gray first invited the Board to attend the annual conference in Chicago next June, noting that it is a good opportunity to meet the other Adams Street partners and receive an update on the private equity market. Seasoned professionals within the industry discuss trends in venture capital and buy-outs.

Mr. Gray then provided an overview of the firm. Adams Street has a 25-year relationship with the County of Milwaukee. The firm was previously owned by UBS, who bought the predecessor organization, but now is 100% employee-owned. Adams Street has been fully independent for 11 years. With $22 billion in assets under management, the firm is also financially sound. The turnover rate is low and generally stems from an associate program where investment bankers are brought in with a planned 2-year exit to attend graduate school.

Mr. Gray then discussed performance as of March 2012. On a 5-year basis, the internal rate of return is 7.4%, which is below Adams Street expectations in absolute terms but more than 500 basis points better than the public markets. Adams Street terms are correlated with the public market because that is its exit. Adams Street invests in startup companies, like Facebook and Groupon, but also in groups like Bain Capital, who retools companies and takes them public. That type of liquid, solid public market is needed to exit investments so returns can be realized. Over 10 years, which includes a tech bubble, rates like 32% and 21% were achieved. However, unless another meaningful event occurs, 20% returns will not be a realistic expectation going forward.

Mr. Gray stated that ERS is on a cycle of investing in even years. In terms of administrative fees, Adams Street is currently raising its 2013 program. Though ERS will not participate because it came into the fund in 2012, Mr. Gray noted a small change to the global mix. Adams Street will still place 60% of funds in the U.S. markets and 40% outside the U.S. markets, but the 10% historically placed in emerging markets will now be increased to 15%. Emerging markets are a good place in which to invest because of the growth potential.

Mr. Gray then provided an overview of the portfolio since inception through June 2012. In 1985, ERS was relatively unsuccessful in building a fund of funds portfolio, so Adams Street was brought in to monitor that portfolio. From 1985 to 1990, a 5% return was realized. From 1991 to 1994, ERS had a separate account with Adams Street and realized a 25% return. ERS committed money in 1998 and 2000, right at the height of the tech bubble, and about $10 million of that $24 million is left. Investments at this point are basically liquidating investments, and little capital will be drawn on them, though distributions will continue. In 2005, 2009, and 2012, there were new investments. The $40 million that ERS provided in June is about a third committed. By the end of year, about 10% of it will be drawn down, and Adams Street is very actively investing that new investment. Returns have been driven by secondaries, and Adams Street is a very active secondary player, buying funds from other groups that are somewhat mature and buying them at discount. This allows a more tactical investment approach. Normally, it is difficult to invest in 2-year investments, and longer-term investments on a balanced portfolio are more prudent when trying to take advantage of different imbalances in the marketplace.

Mr. Gray then stated that investments since inception earned a 9.6% annualized rate of return relative to a public market equivalent. ERS can provide money, and Adams Street will either draw capital now or invest in the S&P 500 index or the MSCI ACWI, essentially buying private versus public. Private is illiquid, and money is tied up for long periods of time. At least 400 to 600 basis points over the life of the investment can be expected. With public, a 4% rate of return would have been realized, so the

9.6% return indicates that ERS was rewarded for illiquidity versus the public markets.

Mr. Gray next discussed the importance of diversification. Adams Street constantly reviews the ERS portfolio in terms of ensuring not all money is invested in one place or one sub-class. Currently, approximately 10% is invested in secondaries. Going forward, that will increase to 20% to 25% and include more geographic dispersion. In mid-2000, the majority of the money raised in the markets was in buyout funds. Adams Street stayed consistent with 45% to 55% in buyout investing, and that has benefited ERS as well as avoided various pitfalls. Adams Street will commit 2012 ERS money over multiple years because over cycles, vintage year returns can be very different. Smoothing out investments over a 4-year period as opposed to picking one year is the most prudent way to invest. Additionally, industry diversification is also important to make sure the portfolio is not concentrated in a given area, increasing risk. Riskier investments with the potential for high return are only a portion of the portfolio.

Mr. Gray concluded by stating that 2005, 2006, and 2007 were the most challenged vintage years in private equity. Highly-leveraged buyout deals occurred due to easy credit. When the credit markets crashed, many of these funds performed poorly. However, because of a recovered high-yield market, the funds themselves are starting to recover by restructuring debt, and returns are improving. While they will not meet the 12% or 13% expectation, a 9% or 10% return will be realized. Venture has been providing strong returns over the last few years, and technology companies have a lot of cash to buy start-up companies. The exit environment for many of these new growth industries is yielding good returns for ERS. Adams Street invests side-by-side with ERS in these funds. With the uncertainty in GDP growth and the looming potential for inflation, markets are still inefficient. There are still opportunities to earn 500 to 600 basis points over the public markets, and Adams Streets expects double-digit returns over the coming years.

In response to a question, Mr. Gray stated that the upcoming election does not impact Adams Street projections. Any impact would most likely be felt from a capital gains perspective on the individual investment level as opposed to company level. The election, however, is something that Adams Street will monitor closely.

In response to a question from Dr. Daugherty on the effects of increasing the emerging markets allocation in terms of accessing the capital markets for reverse mergers in light of the SEC crackdown on requirements, Mr. Gray stated that is an unknown. Many of the emerging markets in which Adams Street is investing are in China, and most of the activity involves IPOs or sales within the Chinese markets. While this may have an effect, it should not be substantial. Adams Street recognizes that there is potential risk and will monitor the situation, but the groups in which Adams Street is investing are established groups with proven track records.

The Chairman then noted that ERS has a 6% allocation in private equity and it will take time to reach that target because ERS commits capital on these funds and the funds are drawn over multiple years.

Mr. Gray then stated that Adams Street advises new clients in the private equity asset class that investments should be made on a consistent basis because early investments pay for new investments, plus kick out cash. ERS is getting close to that and doing the right thing in terms of building the program and creating an annuity with private equity.

(b) Marquette Associates Report

Ray Caprio and Brian Wrubel of Marquette Associates distributed and discussed the September 2012 monthly report.

Mr. Wrubel first discussed the fixed income market, noting a year-to-date return of 4% for the BarCap Aggregate. Strong bond market performance was not expected in this low interest rate environment and earnings are low. In terms of the corporate credit ladder, anything below BBB bonds is considered junk bonds and low investment grade. On a year-to-date basis, BBB, BB, B, and CCC bonds are providing the highest return. At the beginning of the year, high-yield bonds were returning about 9%. Today, that yield is approximately 6%, so there is a rally in high-yield bonds. Investors seek yield advantage over treasury type securities when investing.

Mr. Wrubel then stated that the equity market gave a fairly strong performance across the board through September. Whether in large-cap, small-cap, value, or growth, all sectors of the market participated in this rally. The S&P 500 is up 16.4% through September, which is a strong performance. The only poor performance month was May when the markets were off from 5% to 10% depending on the sector, but overall there has been a tremendous rally in the stock market this year. Given events in Europe, the slow economic growth in the U.S., and the potential fiscal cliff, this was not expected. For ERS, current 10-year returns are well above the actual rate of return. The 10-year returns 18 months ago would have been well below the actual rate of return. Overall, as years start to drop off, the 10-year rolling averages are beginning to look significantly better relative to rates of return.

Mr. Wrubel then discussed the global economy, stating that inflation in the U.S. for the most part is somewhat muted. The unemployment rate is about 8% in the U.S., 10% in France, 10% in Italy, and close to 25% in Spain. Typically, consumers spend when they have jobs and wage increases. With unemployment remaining consistently high, it is difficult to pass along pricing increases because people do not spend significantly. Though the U.S. GDP is approximately 1.3%, which is better than a negative GDP, it will most likely continue to move at a slow pace.

Mr. Wrubel continued by stating that from an expectation standpoint, the U.S. market has definitely been more of a higher-quality place to be as compared to international markets. With the flow of capital, or that flight to quality trade, a lot of money is moving from the international markets to the U.S. markets, whether it is international stocks, U.S. stocks, or international markets in U.S. treasuries. Despite that, year-to-date returns for international markets are fairly strong, working off lows from last year when the market sold off fairly significantly in August and September. The broad international markets are up about 11% this year, lagging the U.S. market. U.S. stocks are up about 16%, with international stocks up about 11%. Small-cap international is performing well, and emerging markets have also rebounded. Over the last 10-year period, some of the best performing areas are international small-cap stocks and emerging markets. If all Fund money was placed in emerging over that 10-year period, ERS would have earned 17%. However, on two occasions in that period, emerging markets sold off 50% to 75%, so there is also a tremendous amount of volatility in that sector. It is important to tread carefully and use that volatility to take advantage of any opportunities.

Mr. Wrubel stated that the commercial real estate portfolio continues to perform well. From second quarter 2008 through first quarter 2010, there was negative price appreciation in commercial real estate in things like office buildings, retail strip malls, and multi-family apartment type complexes, and a strong reversal was realized. Although an income is coming in from real estate, there is also significant price appreciation.

Mr. Caprio then reviewed the ERS investment portfolio. Regarding fixed income, yields are low. As a result, Marquette will continue to take benefit payments from fixed income and remain slightly underweight to its target. This should also help shelter the overall portfolio somewhat if interest rates do begin to rise, although Marquette does not anticipate a significant rise in interest rates in the coming months. The U.S. equity portfolio has also performed well, led by a combination of large-, mid-, and small-cap allocations that constituted 24.5% of the total portfolio at the end of the quarter. The U.S. Equity portfolio is employed by Boston Partners (large-cap value), Geneva and Artisan (mid-cap growth), and Fiduciary and AQR (small-cap value). Like most active U.S. equity managers in 2012, AQR and Fiduciary have underperformed, while Boston Partners and Artisan have performed very well and are outperforming their indices to date in 2012. Internationally, the report reflects the recent addition of the Northern Trust ACWI ex U.S. IMI Index, in which $90 million was invested during the third quarter. The international equity markets have underperformed the U.S. markets to date in 2012, although that spread has narrowed in both September and October as international equity has outperformed on a relative basis.

Mr. Caprio continued by stating that the overall portfolio was approximately $1.75 billion overall at the end of the third quarter, and posted a return of 8.9%, gross of investment manager fees, to date in 2012, including 4.2% in the third quarter. The combined fixed income portfolio earned 1.7% in the third quarter, while the U.S. equity portfolio earned 6.0%, and the international equity portfolio combined to earn 7.6%. Additionally, hedge funds earned 3.4%, with real estate at 2.6%, and infrastructure at 2.9%. Mr. Caprio indicated that the portfolio fell slightly in the month of October, due primarily to a modest decline in the U.S. equity markets during the month. Overall, the portfolio should not have declined by more than 40-80 basis points from its year-to-date September return. Relative to the portfolio's asset allocation targets, the portfolio is overweight in U.S. equity (24.5% vs. 23.0%) and infrastructure (7.7% vs. 7.0%), while underweight to fixed income and private equity.

Mr. Caprio next discussed the underlying investment managers. When managers are underperforming, Marquette and the Investment Committee talk to those managers to discuss both why and what will be done about it, and to set expectations. AQR is on alert for poor performance. Barings emerging markets, while ERS has not invested with them for very long, is also on alert for poor performance. Barings attended an Investment Committee meeting and Marquette set a 12- to 18-month timeframe for Barings to turn their performance around. The underlying managers should not impact the top-down asset allocation. Marquette spends a lot of time on 3 components: risk, quality, and cost. The quality component involves making sure that the performance of the underlying managers is where it needs to be.

In response to questions from the Board, Mr. Caprio stated that Marquette prefers to see a 3-year cycle with its managers before assessing performance. Fiduciary Management outperformed the first 2 calendar years, but not the most recent period, which is the third year. Mr. Wrubel added that the underperformance is affecting the annualized performance. AQR has been up and down, one year underperforming and another year outperforming. Many active managers, good or bad, had difficulty on the U.S. side of outperforming this year, especially in small-cap. The large-cap managers are performing acceptably, as many have holdings that drive performance, such as Apple.

Mr. Caprio then noted that when Marquette originally reviewed the search in 2009, many of the managers that screened well were high-quality managers. At that time, annualized performance looked fantastic. However, these same managers tend to lag a little bit when the markets are rough.

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

Ms. Ninneman noted that at the October 4, 2012 Investment Committee meeting, Barings Emerging Markets indicated that portfolio returns should improve in the next 12 to 18 months. The Investment Committee will review Barings at that time.

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

Mr. Huff provided an overview of the two rule proposals discussed at the October 3, 2012 Audit Committee meeting.

Mr. Huff first stated that proposed Rule 1047 clarifies and documents the type of pension benefit and to whom the benefit should be paid if a member dies after the effective date of the member's emergency retirement and before the completion of the member's retirement paperwork. If a member chooses an emergency retirement but does not live long enough to sign the paperwork making the benefit election, proposed Rule 1047 assumes the member would have chosen the highest benefit for his or her family, which is the 100% joint and survivor annuity. In terms of who is paid that benefit, the benefit first goes to the spouse, then to the oldest person in whatever category is deemed the survivor. This follows the current State rule for what happens when a person dies without a will, per Mr. Grady's suggestion.

The Pension Board unanimously approved proposed Rule 1047 to codify the effects of death following emergency retirement, attached to these minutes as Exhibit A. Motion by Mr. Sikorski, seconded by Dr. Daugherty.

Mr. Huff then discussed proposed Rule 1049, which defines the retirement effective date for active members, emergency retirees, and deferred vested members. For active members, the retirement effective date is the day after the employment terminates. For emergency retirees, it is the date when the final election is made. For deferred vested members, it is the first of the month following the date the retirement paperwork is completed. Additionally, the proposed rule defines the beneficiary.

In response to a question from the Chairman, Mr. Huff stated that these proposed rules are designed to fill in the gaps between Ordinances.

The Pension Board unanimously approved proposed Rule 1049 to codify the retirement effect date, attached to these minutes as Exhibit B. Motion by Mr. Leonard, seconded by Mr. Sikorski.

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.

No action was taken on educational opportunities for the Pension Board members because all proposed opportunities had been previously approved.

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 items 11 and 14, 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 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 and 14. Motion by Mr. Sikorski, seconded by Ms. Van Kampen.

11. Disability Matters

(a) Alex Beamon - ODR

In open session, the Chairman stated that Mr. Beamon'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. Leonard, seconded by Dr. Daugherty.

(b) Alicia Spitz - ADR

In open session, the Chairman stated that Ms. Spitz's application was received by the Medical Board. The Medical Board determined that Ms. Spitz did not qualify for an accidental disability benefit with an "any job" criteria. 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 accepting the Medical Board's recommendation to deny the accidental disability pension application. Motion by Ms. Van Kampen, seconded by Mr. Gedemer.

12. 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

13. Report on Compliance Review

The Pension Board took no action on this item.

14. Appeals

(a) John Rapant

The Pension Board took no action on this item.

(b) Lesley Schwartz-Nason

Before adjourning into closed session, Ms. Schwartz-Nason offered to answer questions or clarify any information. The Board did not have questions or require clarification.

The Chairman then stated that Ms. Schwartz-Nason's case would be reviewed in closed session. When the Board reconvened in open session, Ms. Schwartz-Nason would be invited back to hear the decision.

After returning to open session, the Pension Board unanimously voted to deny Ms. Schwartz-Nason's Option 7 benefit application, consistent with the discretion assigned to the Pension Board by Ordinance section 8.17 to interpret the Ordinances and Rules of Employees' Retirement System of the County of Milwaukee ("County ERS"), based on the following facts and rationale:

1. Ordinance section 201.24(5.1) provides that the normal form of benefit for an ERS member is an annuity paid to the member over his or her lifetime. The Ordinances and Rules allow members to receive benefits in one of six optional forms. Pursuant to Rule 1013(1)(d), a member may also apply to the Pension Board to receive a benefit in any other form permitted by Ordinance Section 201.24(7.2) ("Option 7").

2. In September 2004, Lesley Schwartz-Nason sent a letter to the Pension Board stating that she planned to retire in the 2004 calendar year and requested approval from the Pension Board to elect an Option 7 form of pension benefit with a 5% survivor benefit.

3. The Pension Board approved Ms. Schwartz-Nason's request at its meeting on September 15, 2004, according to the Ordinances and Rules in effect in 2004.

4. Ms. Schwartz-Nason did not retire in 2004.

5. In December 2004, the Pension Board adopted Rule 1035 clarifying the requirements for a member to apply for an Option 7 form of benefit. Rule 1035(g) states that the Pension Board will generally deny Option 7 benefit requests that provide for a survivorship benefit of less than 25%, but

the Pension Board reserves the right to exercise discretion in reviewing any Option 7 request.

6. In 2006, ERS Rule 1013(1)(d), which provides for Option 7, was amended to provide that the Pension Board "will generally deny any such request on the grounds that the standard six (6) optional forms of benefit...provide sufficient options to members and that any other form of benefit subjects the system to unnecessary administrative expense and burden."

7. In 2011, Ms. Schwartz-Nason applied to retire and requested that the 2004 Option 7 form of benefit apply to her compensation and service earned through 2011. In accordance with Rule 1040, permitting the Pension Board to delegate the authority to approve members' retirements to the ERS Manager, subject to the Pension Board's right to review, amend or overturn approvals, Ms. Schwartz-Nason's application was approved by the ERS Manager and her benefit commenced.

8. At its October 19, 2011 meeting, pursuant to ERS Rule 1040, the Pension Board reviewed the Retirements Granted report, which included Ms. Schwartz-Nason's retirement and noted Ms. Schwartz-Nason had selected an Option 7 benefit. The Pension Board reviewed and discussed Ms. Schwartz-Nason's retirement. After that discussion, the Pension Board voted "to approve the modification of Lesley Schwartz-Nason's pension benefit to comply with current ERS Ordinances and Rules, and to offer an opportunity for Ms. Schwartz-Nason to accept the modification, appeal the decision, or apply for a 5% survivor benefit under the current ERS Rules."

9. The Pension Board directed that Ms. Schwartz-Nason's benefit be modified to a 25% survivor annuity, one of the optional forms of benefit available under Ordinance section 201.24(7.1) and Rule 1013(1)(a)-(c). Members may elect a 25% survivor benefit under Rule 1013(1)(a), which is the optional benefit form that most closely resembles a 5% survivor benefit. The adjustment to a 25% survivor benefit reduces Ms. Schwartz-Nason's monthly pension benefit and alters the amount of the backDROP payment she received. The Pension Board took this action to ensure that Ms. Schwartz-Nason continued to receive a pension benefit without interruption while awaiting further direction from Ms. Schwartz-Nason.

10. Ms. Schwartz-Nason appealed the Pension Board's decision. The Pension Board denied Ms. Schwartz-Nason's appeal after considering the appeal at its meetings on December 21, 2011 and February 15, 2012. In its denial, the Pension Board determined that Ms. Schwartz-Nason had not satisfied the requirements of Rule 1035 in effect in 2011 and that awarding

an Option 7 benefit would subject ERS to unnecessary administrative expenses and burden. The Pension Board granted Ms. Schwartz-Nason the opportunity to apply for an Option 7 benefit under the Ordinances and Rules in effect in 2011.

11. A 5% survivor annuity provides Ms. Schwartz-Nason a backDROP payment of $531,172.47, a monthly benefit of $2,660.31, and a survivor annuity of $133.02. In contrast, a 25% annuity provides Ms. Schwartz-Nason with a backDROP payment of $518,900.25, a monthly benefit of $2,598.83, and a survivor annuity of $649.71.

12. Rule 1035 requires a member who desires an Option 7 benefit to submit evidence that a) a bona fide retirement purpose for the application exists; b) the retiree is in good health; c) the retiree is fiscally responsible enough to manage an Option 7 benefit; and d) the retiree is not under any undue influence in applying for an Option 7 benefit. The Rule further states that applications for a survivorship benefit of less than 25% will generally be denied.

13. Rule 1035(i)(3) requires the member to provide an application and supporting materials such that the Pension Board can find "that a preponderance of the evidence supports each requirement in order to justify granting an Option 7 benefit request or fails to support any requirement in order to justify denying an Option 7 benefit request." Preponderance of the evidence generally means "more likely than not." State v. Rodriguez, 2007 WI App 252, ¶ 18.

14. As evidence of a bona fide retirement purpose, Ms. Schwartz-Nason asserts that an Option 7 benefit is necessary because it would "maximize [her] investments to assure that [they] have sufficient funds to cover medical and associated expenses related to [her spouse's] condition." Further, she claims that if her beneficiary outlives her "he would be able to maintain the lifestyle he was accustomed to at a 5% annuity level." The Pension Board notes that the 5% annuity would provide Ms. Schwartz-Nason approximately $61 more per month than a 25% annuity. The backDROP payment for a 5% annuity is approximately $12,300 greater than that for a 25% annuity. Ms. Schwartz-Nason provided no evidence demonstrating why the extra $61 per month or $12,300 backDROP payment provided by a 5% annuity would be necessary to meet her retirement needs.

15. Ms. Schwartz-Nason did not explain how, in the event she predeceases her husband, her spouse is better served with the $133.02 monthly benefit under the 5% benefit form compared to the $649.71

monthly survivor benefit under the 25% survivor option. Ms. Schwartz-Nason did not provide an explanation of why the additional $1,596 of annual income he would receive with a 5% survivor annuity would be sufficient to maintain his lifestyle after her death. The Pension Board finds that Ms. Schwartz-Nason has not shown by a preponderance of the evidence that there is a bona fide retirement purpose for requesting a 5% survivor annuity benefit.

16. In her amended application, Ms. Schwartz-Nason claims that an Option 7 benefit is necessary because "[e]ach of the other options is not sufficient to meet [her] retirement needs." Ms. Schwartz-Nason provided no evidence demonstrating ERS' other options are not sufficient to meet her retirement needs. The Pension Board finds that Ms. Schwartz-Nason has not demonstrated, by a preponderance of the evidence, that ERS' existing options are insufficient to meet her retirement needs.

17. Rule 1035(h)(2) requires an Option 7 applicant to submit evidence that he or she is in good health. "Good health" for the purposes of the Rule means that the applicant is in a state of physical and mental well-being, which includes the capacity to make rational decisions. Ms. Schwartz-Nason submitted a report from a preoperative physical performed by her physician stating that she is in good health. The Pension Board finds Ms. Schwartz-Nason to be in good health, based on the information provided.

18. Rule 1035(h)(3) states that, depending on the form of benefit requested, the Pension Board may require the applicant to submit evidence that he or she is fiscally responsible enough to manage an Option 7 form of benefit. The Rule requires the applicant to execute a declaration stating a) whether he or she has ever filed for bankruptcy or financial reorganization, b) that he or she is currently financially solvent, c) that he or she has no plans to file for bankruptcy or financial reorganization, d) that he or she has an investment plan ready upon receipt of an Option 7 benefit, and e) that he or she understands the consequences of electing to receive benefits in the form requested. Ms. Schwartz-Nason submitted a statement indicating that she is financially solvent and has no plans to file for bankruptcy protection, that she has an investment plan prepared should she receive an Option 7 benefit, and that she understands the consequences of electing the form of benefit for which she applies. The Pension Board finds that Ms. Schwartz-Nason is fiscally responsible enough to manage an Option 7 form of benefit, based on the information provided.

19. Under Rule 1035(h)(4) the Pension Board may require an applicant for an Option 7 to prove to the satisfaction of the Pension board that the applicant is not under undue influence in making the application to receive

an Option 7 benefit. Ms. Schwartz-Nason submitted a notarized statement, signed by her and her spouse, indicating that she is not under any undue influence in applying for an Option 7 benefit. The Pension Board finds that Ms. Schwartz-Nason is not under any undue influence in applying to receive an Option 7 benefit, based on the information provided.

20. Based on the facts of the application, the findings made by the Pension Board, and the Ordinances and Rules, Ms. Schwartz-Nason's application for an Option 7 benefit is denied.

Motion by Ms. Van Kampen, seconded by Mr. Gedemer.

In response to a question from Ms. Schwartz-Nason, the Chairman stated that a recalculation of the benefit amounts for an Option 7 pension benefit was performed and that the monthly benefit would be $2,660.31, with a potential 5% survivor benefit to Ms. Schwartz-Nason's spouse of $133.02 per month. A full copy of the findings will be provided to Ms. Schwartz-Nason.

In response to a question from Ms. Schwartz-Nason, Ms. Ninneman stated that any personal information submitted by Ms. Schwartz-Nason is kept in a locked records room. Only authorized personnel have access to this room. The Chairman added that the draft of the findings does disclose the potential 5% survivor annuity backDROP payment and the joint 25% calculation, and includes a general statement that Ms. Schwartz-Nason submitted evidence stating she was in good health. This information is a matter of public record and will appear on the retirement review reports. However, medical records are not disclosed, unless necessary as part of court review.

(c) Diane Haubner

The Pension Board took no action on this item.

(d) James Tietjen

The Pension Board discussed the matter in closed session.

After returning to open session, the Pension Board voted 6-0-1, with Messrs. Gedemer, Leonard, Maier, Muller, Sikorski, and Ms. Van Kampen approving, and Dr. Daugherty abstaining, to deny Mr. Tietjen's appeal, consistent with the discretion assigned to the Pension Board by Ordinance section 8.17 to interpret the Ordinances and Rules of Employees' Retirement System of the County of Milwaukee ("County ERS"), based on the following facts and rationale:

1. James Tietjen is a member of ERS. Mr. Tietjen was an employee of Milwaukee County (the "County") until June 8, 2012 when his employment was terminated. The reasons for terminating Mr. Tietjen's employment under Civil Service Rule VII, Section 4 are described in a memorandum from Hector Colon. The County has determined that Mr. Tietjen's employment was terminated at approximately 4 p.m. on June 8, 2012.

2. At 5:02 p.m. on June 8, 2012, Marian Ninneman received an e-mail from Mr. Tietjen indicating that he was seeking to retire. After his termination, it was reported that Mr. Tietjen also told Hector Colon that he wished to retire. Mr. Elliott also reports that Mr. Tietjen contacted the Retirement Office on June 11, 2012.

3. While Mr. Tietjen reportedly contacted the Retirement Office on June 11, 2012, Mr. Tietjen, through Mr. Elliott, submitted his retirement application along with a letter on June 22, 2012. The retirement application requested retirement effective June 8, 2012, electing an Option 3 form of benefit with a backDROP. The retirement application was not signed by a witness. Mr. Elliott stated that while he disagrees that the County properly terminated Mr. Tietjen on June 8, 2012, he believes that Mr. Tietjen effectively terminated his employment on or about June 11, 2012 in order to qualify to receive retirement benefits.

4. The Retirement Office sent a letter to Mr. Elliott on July 13, 2012 explaining the reasons for its denial of Mr. Tietjen's backDROP benefit. This letter replaced a letter sent by the Retirement Office on July 2, 2012.

5. Mr. Tietjen, through Mr. Elliott, appealed the Retirement Office's decision on July 9, 2012, specifically with regard to his ability to retire from active service and receive a backDROP benefit. Mr. Elliott sent a supplemental letter with an attachment on July 11, 2012.

6. On July 16, 2012, Mr. Tietjen, through Mr. Elliott, requested that his appeal be moved to the September 19, 2012 Pension Board meeting so that Mr. Elliott may have additional time to consider the issues raised in Ms. Ninneman's July 13, 2012 letter.

7. On July 23, 2012, Mr. Elliott sent the Retirement Office a letter and an alternative Application for Retirement. The letter notes that the application was filed under protest and reserves Mr. Tietjen's claims against ERS, the Pension Board and other Milwaukee County departments. The alternative application requests an Option 3 form of benefit without a backDROP. However, necessary items were left blank on the application (e.g., retirement effective date, date of birth).

8. Ms. Ninneman sent a letter to Mr. Elliott dated August 3, 2012 explaining that the Retirement Office will commence Mr. Tietjen's deferred vested pension as soon as his application is complete.

9. On September 6, 2012, Mr. Elliott sent a Notice of Claim for Damages to Marina Dimitrijevic, Chairperson of the County Board, and Ms. Ninneman, alleging, in part, that Ms. Ninneman improperly denied Mr. Tietjen's application for a normal pension and backDROP and refused to respond to Mr. Elliott's inquiries regarding Mr. Tietjen's benefit.

10. On September 18, 2012, Mr. Elliott sent a letter to ERS requesting that the Pension Board make the July 2, 2012 correspondence part of the record and consider his additional arguments.

11. In a letter to the Chairman of the Pension Board, dated September 12, 2012, but received by ERS on September 19, 2012, Mr. Elliott again argues that Mr. Tietjen is eligible for a normal pension benefit and a backDROP. In the letter, Mr. Elliott stated that "the ERS must concede that on June 8, 2012…Mr. Tietjen's employment with Milwaukee County was terminated by his superior, Hector Colon, albeit improperly."

12. The Pension Board finds that neither an e mail to the Retirement Office requesting retirement nor an oral request is a retirement application and, accordingly, that Mr. Tietjen did not submit a retirement application through his e mail to Ms. Ninneman on June 8, 2012, an oral statement to Mr. Colon or his contact with the Retirement Office on June 11, 2012.

13. To retire, a member must complete and sign a retirement application, which among other things selects a form of benefit and names a beneficiary (if there is one for the form of benefit selected). If selecting a backDROP, this application also must be completed while in active service. A

retirement application is necessary to provide the Retirement Office with the information required to pay a benefit. Without a complete application, a member's benefit cannot be paid. The Pension Board finds that Mr. Tietjen did not complete and sign a retirement application until an unwitnessed application was submitted with the correspondence from Mr. Elliott on June 22, 2012.

14. Ordinance section 201.24(5.16) provides that a backDROP benefit "shall not apply to any member…who is eligible for a deferred pension benefit under section 201.24(4.5)." Rule 711 further provides that a "member whose application to retire is filed…and who elects a pension pursuant to section 4.1 or an early pension pursuant to section 4.2 shall be eligible to elect to receive the…back drop." Rule 711 also measures the backDROP period based on the "date the member leaves active County service." Accordingly, to receive a backDROP, a member must be eligible to receive a normal or early pension and cannot be a deferred vested member eligible to receive a pension under Ordinance section 201.24(4.5).

15. An ERS member seeking to receive a retirement benefit is eligible for a pension pursuant to either Ordinance section 201.24(4.1) or 201.24(4.5), not both. The same formula is used for calculating a benefit received under Ordinance sections 201.24(4.1) and (4.5). A member who is actively employed with the County when filing a retirement application is eligible to receive a normal pension within the requirements of Ordinance section 201.24(4.1). A gap between termination of active service and retirement causes a member to become ineligible for a normal pension under Ordinance section 201.24(4.1). A member who is no longer in active service at the time of application is not eligible to receive a normal benefit under Ordinance section 201.24(4.1) but may receive a deferred vested pension within the provisions of Ordinance section 201.24(4.5).

16. In his letter dated September 12, 2012, Mr. Elliott reiterates his argument that Mr. Tietjen satisfies all of the requirements to receive a normal pension under Ordinance section 201.24(4.1) because Ordinance section 201.24(4.1) does not explicitly require a member to be in active service to receive a normal pension. However, the Pension Board interprets the Ordinances and Rules as a whole. If Mr. Elliott's interpretation of Ordinance section 201.24(4.1) were to stand, Ordinance section 201.24(4.5) would be rendered meaningless because all members, regardless of the gap between active service and retirement, would receive a normal pension under Ordinance section 201.24(4.1), or other active service benefit, instead of a deferred vested pension under Ordinance section 201.24(4.5).

17. Determinations regarding when and how Mr. Tietjen was terminated fall within the authority of the County as his employer. Based upon the information currently before the Pension Board, the County's determination is that Mr. Tietjen was properly terminated on June 8, 2012. The Pension Board has determined that it shall accept the County's determination regarding the validity of Mr. Tietjen's termination.

18. Based on the foregoing, the Pension Board finds that, because Mr. Tietjen's employment was terminated before he applied for normal retirement, and his termination does not meet the ERS fault or delinquency standard, he is eligible for a deferred vested pension under Ordinance section 201.24(4.5). The Pension Board also finds that Mr. Tietjen is not eligible to receive a backDROP benefit under Ordinance section 201.24(5.16) and Rule 711 because he is only eligible to receive a deferred vested pension. Accordingly, the Pension Board finds that the Retirement Office's decision to commence Mr. Tietjen's deferred vested pension and deny his request for a backDROP is proper and no adjustment is necessary.

19. Mr. Elliott also argues that Mr. Tietjen cannot be eligible for a deferred vested pension because he was terminated for fault, and Ordinance section 201.24(4.5) provides that a member cannot be a deferred vested member if he or she is terminated for fault or delinquency. The Pension Board finds that Mr. Tietjen was not terminated for "fault or delinquency" as defined under Rule 807 because he has not been charged with, nor convicted of, a felony substantially relating to the circumstances of his employment with the County. In addition, the Pension Board finds that, if Mr. Tietjen did meet the "fault or delinquency" standard for disqualification for a deferred vested pension, he would be ineligible to receive a retirement benefit from ERS.

20. Ordinance section 201.24(4.5) provides that a member is eligible "for a deferred vested pension if his employment is terminated for any cause…provided that he elects not to withdraw any part of his membership account." In his letter dated September 12, 2012, Mr. Elliott argues that Mr. Tietjen cannot be eligible for a deferred vested pension because he "has not 'elected to not withdraw any part of his membership account.'" Upon termination of employment, the Ordinances and Rules provide a member the option, with certain exceptions, to elect to receive a refund of the member's Membership Account instead of another benefit payable by ERS. However, members must request to withdraw a portion of their Membership Account; ERS does not provide members with an actual election to accept or decline the option to withdraw a portion of their Membership Account. Accordingly, the Pension Board finds that Mr. Tietjen is not disqualified

from receiving a deferred vested pension because he did not elect to decline to withdraw a portion of his Membership Account.

21. In his September 6, 2012 submission, Mr. Elliott claims that Ms. Ninneman improperly denied Mr. Tietjen's application for a normal pension and backDROP and failed to respond to Mr. Elliott's inquiries regarding Mr. Tietjen's benefit. As stated above, the Pension Board finds that the Retirement Office's denial of Mr. Tietjen's initial retirement application and backDROP was proper. The Pension Board further finds that based on the evidence before it, Ms. Ninneman properly responded to Mr. Elliott's inquiries regarding Mr. Tietjen's benefit.

22. ERS's July 2, 2012 correspondence states that Mr. Tietjen does not qualify for a backDROP because a member must retire while in active service to elect a backDROP. Mr. Elliott claims in his September 18, 2012 correspondence that Rule 501 requires active service to be eligible for "any retirement benefit - normal, deferred, disability or otherwise." Therefore, Mr. Elliott concludes that if Mr. Tietjen is eligible for a deferred vested pension, he is considered in active service under Rule 501 and eligible for a normal retirement benefit.

23. The Pension Board reviewed Mr. Elliott's September 18, 2012 correspondence and considered the arguments therein. The Pension Board finds that the July 13, 2012 correspondence supersedes the July 2, 2012 correspondence and rejects Mr. Elliott's arguments. Rule 501 provides that "[i]n determining eligibility for retirement benefits…a member is required to be in active service..." and does not explicitly carve out an exception for deferred vested members. However, deferred vested members are, by definition, no longer in active County service. Accordingly, Rule 501 is clearly not describing deferred vested benefits because a member cannot be in active service and be considered a deferred vested member.

24. In his letter dated September 12, 2012, Mr. Elliott questioned whether the appeal by the Pension Board was impartial and fair because the Pension Board was not copied on the correspondence from ERS to Mr. Elliott dated July 13, 2012. ERS sends thousands of pieces of correspondence annually and the Pension Board is not copied on all ERS correspondence. The Pension Board cannot read all correspondence produced by ERS, and it is not "unfair" to follow normal ERS correspondence practices. However, all correspondence sent or received by ERS by the meeting date with regard to Mr. Tietjen's benefit was included in the packet for the September 19, 2012 Pension Board meeting and the October 17, 2012 Pension Board meeting and was considered as part of Mr. Tietjen's appeal.

Motion by Mr. Leonard, seconded by Mr. Sikorski.

15. Adjournment

The meeting adjourned at 12:25 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. Section 201.24(7.1) of the Ordinances provides that by filing an application with the Pension Board, a member may select an optional form of pension benefit. Rule 1013 provides additional forms of pension benefit pursuant to Ordinance section 201.24(7.2).

4. Generally, a member completes all retirement paperwork, including electing a form of benefit, prior to his or her retirement date. The Retirement Office then processes the retirement, with benefits commencing as of the member's retirement effective date.

5. A member may use an emergency retirement process that preserves his or her retirement date even though all retirement paperwork and processing will not be completed prior to the member's retirement effective date.

6. The Pension Board believes it is appropriate to adopt the following rule to clarify and to document the type of pension benefit and to whom the benefit is to be paid should a member's death occur following the effective date of the member's emergency retirement and prior to the completion of the member's retirement paperwork.

RESOLUTION

1. Effective October 17, 2012, pursuant to Ordinance section 201.24(8.6), the Pension Board hereby creates and adopts Rule 1047 to read as follows:

1047. Death following emergency retirement.

(1) *Designation of Beneficiary/Form of Benefit Payable*. A member who files an application for emergency retirement shall, upon filing such application, designate a temporary beneficiary to receive the applicable pension benefit upon the member's death prior to the election of a permanent form of benefit. In the event of the member's death following the effective date of the member's emergency retirement and prior to the completion of the member's retirement paperwork, the beneficiary named on the emergency retirement application shall become irrevocable and such beneficiary shall receive a 100% survivor annuity as described in Ordinance section 201.24(7.1).

(a) If a member does not select a beneficiary on the emergency retirement application, then upon the member's death, the 100% survivor annuity shall be paid to the member's spouse or, if none, in accordance with Wisconsin statute section 852.01 governing intestate succession. However, if under section 852.01 multiple beneficiaries would receive the member's benefit, only the oldest member of such group shall receive the benefit. The determination of the member's beneficiary under the intestate statute shall be in the sole discretion of the Retirement Office and the Pension Board.

(b) Benefit payments shall be calculated as if the member retired as an emergency retiree, elected a 100% survivor annuity on the emergency retirement application and immediately died. The survivor benefit will continue to the designated or default survivor.

(2) *Ineligible for BackDROP*. Any beneficiary, named or unnamed, of a member who files an application for emergency retirement shall not be eligible to receive a backdrop payment the member would have otherwise received under Ordinance section 201.24(5.16) if such member dies prior to submitting the retirement paperwork to the Retirement Office. .

(3) *Emergency Retirement Application Superseded*. Upon submission of an emergency retirement applicant's properly completed retirement paperwork to the Retirement Office for processing, the form of benefit and beneficiary selected in the applicant's retirement paperwork shall supersede that designated in the application for emergency retirement or the default election. Following submission of the applicant's properly completed retirement paperwork to the Retirement Office, the form of benefit paid to the member or beneficiary shall be that designated on the applicant's retirement paperwork. It shall be in the sole discretion of the Retirement Office and the Pension Board to determine whether and when the applicant's retirement paperwork was properly completed.

EXHIBIT B

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. In determining when a member can change his or her form of benefit or beneficiary designation, the ERS Rules rely, in part, on a member's Retirement Effective Date. While the Retirement Office has implemented a procedure for determining a Retirement Effective Date for members, this term is not codified in the Ordinances and Rules.

4. The Pension Board desires to adopt Rule 1049 to codify the Retirement Office's procedures for determining a Retirement Effective Date and provide a clear definition of the term in the Ordinances and Rules.

RESOLUTION

Effective October 17, 2012, pursuant to Ordinance section 201.24(8.6), the Pension Board hereby creates and adopts Rule 1049 to read as follows:

1049. Retirement Effective Date

(1) *Active Members*. For a member who retires directly from active service, Retirement Effective Date means the day after the day the member terminates County employment. An active member will elect a proposed Retirement Effective Date when the member completes a retirement application. This will be the member's Retirement Effective Date unless the member continues in County employment past the proposed Retirement Effective Date. If this occurs, the member's initial retirement application is void and the member must complete a new retirement application with a new proposed Retirement Effective Date.

(2) *Emergency Retirement*. For members who retire pursuant to the emergency retirement procedures, the member's Retirement Effective Date will be the day after the day the

member terminates County employment. An emergency retiree elects a proposed Retirement Effective Date as part of the emergency retirement procedures. This will be the member's Retirement Effective Date unless the member continues in County employment past the proposed Retirement Effective Date. If this occurs, the member's emergency retirement request is void and the member must complete a new retirement application with a new proposed Retirement Effective Date.

(3) *Deferred Vested Members*. For deferred vested members, Retirement Effective Date means the later of:

(a) the first day of the month following the member's normal retirement date or, if authorized by the Pension Board, a date after the member has attained age 55; or

(b) the first day of the month following the day all required paperwork is received by the Retirement Office.

A deferred vested member may elect a proposed Retirement Effective Date on the member's retirement application based on the above criteria. However, if the Retirement Office has not received all required paperwork by the proposed Retirement Effective Date, the member's Retirement Effective Date will be changed to the first day of the month following the month that the Retirement Office receives all required paperwork.