

EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE
MINUTES OF THE JUNE 10, 2005
SPECIAL PENSION BOARD MEETING

Chairman Walter Lanier called the meeting to order at 1:30 p.m. in Room 203-R of the Milwaukee County Courthouse.

1. Roll Call

Members Present:

Walter Lanier
John Martin
Marilyn Mayr
Michael Ostermeyer
Dean Roepke

Members Excused:

Linda Bedford
Donald Cohen
John Parish
Thomas Weber

Others Present:

Jack Hohrein, ERS Manager
Mark Grady, Principal Assistant Corporation Counsel
Steven Huff, Reinhart Boerner Van Deuren s.c.
Ken Loeffel, Retiree
Dennis Skelly, Mercer Human Resource Consulting
Matt Stuart, Mercer Human Resource Consulting

2. Actuarial Assumptions and Guidelines

Mr. Skelly and Mr. Stuart presented a report regarding the actuarial assumptions review for ERS. They addressed the baseline assumptions for 2006, which assume that there will be no liability gains or losses, that assets will earn the expected return during 2005 and that contributions equal to the 2005 budget will be made. They indicated that the current funding interest rate is set at 8.5% and the back DROP assumptions are 50% utilization and an average period of four years. They also noted that Mercer had presented an evaluation of all assumptions in 2003. The Chairman asked that Mercer provide copies of that evaluation to the current Board members.

Mr. Skelly and Mr. Stuart also presented a summary of ERS's current actuarial assumptions, which are based on 25 years of data. They indicated that a computer program projects the data out for each person. Dr. Roepke asked whether the County Board changes vesting provisions or if those changes are governed by collective-bargaining agreements. Mr. Grady responded that it is a bargaining issue for represented employees and the County Board decides on any changes for non-represented employees. Dr.

Roepke requested a more detailed report on current assumptions from Mercer.

The Mercer report also addressed the investment return assumption. It indicated that the assumed rate is based on several factors, including capital market expectations, asset allocation of the fund, historical performance and current economic conditions. Mr. Skelly noted that the Board's guideline is to use the 10-year actual historical return of the fund, but with a 7.5% lower limit and a 9.0% upper limit. Dr. Roepke inquired about the purpose of the guideline. Mr. Skelly responded that, at the time, the Board had wanted to temper ERS's extremely positive performance. Mr. Stuart pointed out that it is usually best to avoid drastic changes in rates. Mr. Skelly explained that the approach was designed to achieve a long term rate for discounting future payments.

The Board discussed changing the investment return assumption. Ms. Mayr raised the idea that ERS should remain conservative in its assumptions because of its status as a public fund. Mr. Ostermeyer contended that the Board's duties as fiduciaries of a public fund were comparable to the fiduciary duties of corporate plan trustees. Mr. Martin stated that the 8.5% rate was too high in light of the projections of Mercer Investment Consulting, the ERS rate of return for the previous five years, the current economic climate and the assumptions of ERS's peer group.

The Board reviewed Mercer's report regarding the 2006 budget calculations with respect to various funding rates and alternate back DROP assumptions. The report noted that assumption changes are assumed to be effective January 1, 2006 and applicable for the 2006 budget contribution and that 2005 costs or contributions are not affected by the changes. Mr. Skelly indicated that Mercer felt comfortable with an 8.0% funding rate, an expected back DROP utilization rate of 70% and an average back DROP period of 4 years.

Mr. Skelly also addressed his June 6, 2005 letter to the Board regarding the following questions that Mr. Ostermeyer had posed on behalf of the Board.

A. Ten-Year Average.

The Board had asked whether a ten-year retrospective look at earnings is a valid way of determining the anticipated earnings of ERS. Mr. Skelly responded that investment performance of the fund in recent years is one factor to be considered, although there are a number of other factors that should be considered as well, including the asset allocation of

the fund, current economic conditions and the outlook for the capital markets.

B. Rate Limits.

The Board had inquired whether it is appropriate to establish 7.5% and 9.0% as the lower and upper ends of the range. Mr. Skelly responded that this range was contained in a guideline used to set the funding rate. He also indicated that it may be appropriate to have a range in the guideline but it is not generally the practice to place absolute limits on the rate.

C. Capital Market Projections.

The Board had asked whether the Board policy and Mercer's actuarial calculation methodology captures the capital markets projections prepared by Mercer Investment Consulting for ERS. Mr. Skelly indicated that the capital market projections on expected return for the portfolio were included on page 11 of the May 18, 2005 presentation and that these projections have been used in discussions on setting the appropriate investment return assumption.

D. Comparison to Other Plans.

The Board had asked how ERS's recent funding interest rate assumptions compare to the assumptions used by other similarly-situated plans. Mr. Skelly reported that the most recent survey by the Public Pension Coordinating Council, published in 2002, showed an average rate of 7.91% for the 263 public plans responding to the survey.

The Board unanimously agreed to accept Mercer's recommendation to change the funding interest rate to 8.0% and the expected back DROP utilization rate to 70% and to retain the expected average back DROP period of 4 years, effective January 1, 2006 for the 2006 budget contribution. Motion by Dr. Roepke, seconded by Mr. Ostermeyer.

Mr. Skelly offered to prepare a letter to be sent from the Chairman to the County Board regarding the Pension Board's decision.

3. NAPPA Conference – Mark Grady

The Chairman reported on the annual conference sponsored by the National Association of Public Pension Attorneys ("NAPPA"). He indicated that attendance at this conference, which is to be held June 28-July 1 in Lake Tahoe, would be approved in lieu of attendance at the International Foundation conference in November. Mr. Grady noted that the cost of the conferences was comparable. Ms. Mayr stated that Corporation Counsel's budget should cover a portion of the cost. Mr. Grady responded that the Corporation Counsel's budget does not anticipate additional conferences. Dr. Roepke asked whether it would be possible for Corporation Counsel to pay for part of the cost. The Chairman indicated that Mr. Hohrein should find out by the June 15 Pension Board meeting whether Corporation Counsel could pay the annual membership fee for NAPPA.

The Board unanimously agreed that the Board should focus on long-range issues affecting ERS and therefore should send Mr. Grady to the NAPPA conference. Motion by Dr. Roepke, seconded by Ms. Mayr.

4. Adjournment

The meeting adjourned at 3:30 p.m. Motion by Ms. Mayr, seconded by Dr. Roepke.

Submitted by Steven D. Huff,
Assistant Secretary to the Pension Board