

**EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE**  
**MINUTES OF THE MAY 15, 2013 PENSION BOARD MEETING**

1. Call to Order

Chairman Mickey Maier called the meeting to order at 8:30 a.m. in the Green Room of the Marcus Center, 127 East State Street, Milwaukee, Wisconsin 53202.

2. Roll Call

Members Present

Laurie Braun  
Dr. Brian Daugherty (Vice Chair)  
Aimee Funck  
Norb Gedemer  
D.A. Leonard  
Mickey Maier (Chairman)  
Dean Muller  
Dr. Sarah Peck  
Vera Westphal

Members Excused

Patricia Van Kampen

Others Present

Marian Ninneman, CEBS, CRC, ERS Manager  
Mark Grady, Deputy Corporation Counsel  
Daniel Gopalan, Fiscal Officer  
Larry Langer, Buck Consultants  
Brian Hurley, Buck Consultants  
William Tsotsos, Baring Asset Management  
Tim Scholefield, Baring Asset Management  
Brett Christenson, Marquette Associates, Inc.  
Ray Caprio, Marquette Associates, Inc.  
Steve Schultze, Reporter, *Milwaukee Journal Sentinel*  
Anissa Perkins, Former Milwaukee County Employee  
Cornelius Armstrong, Former Milwaukee County Employee  
Lesley Schwartz-Nason, Former Milwaukee County Employee  
Steven Huff, Reinhart Boerner Van Deuren s.c.

3. Chairman's Report

The Chairman expressed his sadness and offered his sympathies on the recent passing of Tom Rick. Tom served as Chief Investment Officer for the City of Milwaukee Employees' Retirement System for the past 12 years. Tom was a great asset to the City and helped to guide the City Pension Plan in becoming one of the best-funded public funds in the country. Tom was also very helpful and generous with his time to the Board, assisting on various search committees, including the search that led to Marquette Associates.

The Chairman then noted the full agenda scheduled for today's meeting. To save time, he asked the representatives in attendance from Baring Asset Management to focus their presentation on the competitive advantages of Barings, and why ERS should continue to retain Baring as an investment manager. However, Board members should take more time and ask any additional questions they deem necessary.

4. Minutes—April Pension Board Meetings

The Pension Board reviewed the minutes of the April 17, 2013 annual Pension Board meeting and the April 17, 2013 Pension Board meeting.

In response to a question from the Chairman regarding comments to the minutes, Ms. Braun noted she spoke to one active employee able to attend the annual meeting. The employee noted to Ms. Braun he found the meeting valuable and informative. The employee then suggested that the Board explore additional ways to reach out to active and deferred vested members to increase attendance at the annual meetings.

The Chairman advised this was good to know, as he was not aware that many active employees attended the annual meetings.

**The Pension Board voted 7-0 to approve the minutes of the April 17, 2013 annual Pension Board meeting. Motion by Mr. Leonard, seconded by Ms. Braun.**

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5. Actuarial Valuation Results - Buck Consultants

Larry Langer and Brian Hurley of Buck Consultants distributed a booklet containing the January 1, 2013 ERS actuarial valuation.

Mr. Langer first noted Buck is still analyzing and reviewing the data for OBRA. The results for OBRA are expected to be available for presentation at the upcoming June meeting. Second, Mr. Langer noted that based upon a recalculation of the numbers, the annual contribution amount of \$35 million that Buck originally estimated in November of 2012 has now been revised to around \$30 million.

Mr. Langer then discussed the actuarial valuation objectives. The primary objectives for the valuation are to determine the annual contributions for the current year, and budgeting contributions for the following year. Second, the valuation will help monitor the progress and security of promised benefits, with comparison of assets to accrued liability. Last, the valuation will compare the expectations from the prior valuation to what occurred over the past year to determine the net actuarial gain or loss.

Mr. Langer next discussed the 2012 events which impacted the 2013 actuarial valuation. The actuarial valuation is recast each year because actuarial assumptions are used to project what it is thought will happen based on the current data available. However, as the actual numbers come in, these assumptions from year to year will invariably not always be met. 2012 actual market returns were at 10.7%, compared to the assumed 8%. Second, payroll decreased in 2012 by almost 1% due to fewer active members in the Plan, compared to an assumed 3.5% increase. Third, a commitment to an emphasis on data integrity and data clean-up over time continued to have an effect. Last, changes in assumptions discussed with and implemented by the Board late in 2012, including the change in the asset method to ten-year smoothing, also had an impact.

The overall effect of these events resulted in an actual 2013 funded status of 86.8%, actually 2.1% higher than the number projected last year. Second, the actual 2013 recommended annual contribution is slightly lower than the budgeted contribution. Finally, the actuarial accrued liability target has decreased by 1.2%, which is a sign that the retirement system has matured, with more retirees collecting benefits and fewer active employees accruing benefits.

Mr. Langer then provided a broad overview of the actuarial valuation process. In basic terms, specific data, such as membership data, benefit provisions, asset data, actuarial assumptions and funding policy are put through an actuarial projection model. Once processed, the data results in assumptions of unfunded accrued liability, funded status, employer and member contributions, and actuarial gain or loss.

The actuarial valuation is then implemented based on the assumed outputs, followed by an experience review, where all of the assumptions are reviewed. Mr. Langer then noted one highlight regarding mortality; people are living longer, which means a higher cost to the Plan, with increased liabilities.

In response to a question from the Chairman, Mr. Langer affirmed that the resulting changes in the mortality table were incorporated into the current valuation, which did initially increase costs. However, changes previously discussed such as the market value returns, data clean-up, and implementing the ten-year smoothing asset method, helped to bring the cost back down.

Mr. Langer next discussed ERS's funding policy actuarial methods. There are three primary elements to the funding policy: actuarial methods, asset valuation methods and amortization methods. Of these three elements, asset valuation methods are of primary importance in determining the contributions to the Plan. Asset valuation methods smooth or average the market value returns. The changeover from a five-year to a ten-year asset smoothing period, beginning with the 2013 valuation, will help ERS alleviate contribution volatility that results from market returns. The funding policy is reviewed with each experience review.

Mr. Langer then discussed the ten-year history of ERS member demographics. A chart illustrating the number of active, retired and deferred vested participants from 2004-2013 was discussed. The chart illustrates a continuation of declining active employment, with a corresponding increase in the number of retirees. This trend has resulted in lower benefit accruals and lower payroll upon which to base contributions. The information represents actual data received from the Retirement Office. Mr. Langer noted that such data should be periodically reviewed and confirmed by Plan officials to ensure accurate data is utilized in the valuations.

Mr. Langer then briefly discussed the benefit provisions governed by County Ordinance. There were no new benefit provisions reflected in this year's valuation. The valuation reflects the 1.6% multiplier within the Fund, which was implemented over the past two valuations for 2011 and 2012.

Mr. Langer next discussed the market value reconciliation. The rate of return was at 10.7%, coming in above the assumed rate of 8%, resulting in lower contributions and a higher funded ratio. One other important point to note is the benefits paid by the Fund. Benefit payments were high over the

past year, coming in at just under \$180 million, which is about one-tenth of the assets in the Fund.

In response to a question from the Chairman, Mr. Langer noted that the market value of assets for 2012 had remained flat, beginning the year at around \$1.74 billion and ending at around \$1.76 billion.

Mr. Langer then discussed the actuarial value of assets. As of the beginning of 2013, Buck has reset the actuarial value of assets to market value. If there are any deviations from the 8% assumed rate of return, Buck will reflect those over a ten-year period, utilizing the change in asset method to the ten-year smoothing method. Buck has explored other options internally, but this option should cause the most stable contributions over the new few years.

In response to a question, Mr. Langer indicated that resetting the actuarial value of assets has not made a dramatic difference with this valuation, but will likely make a greater difference in increasing contributions going forward.

Mr. Langer then noted that Buck implemented an asset valuation corridor of 30% in its actuarial value of assets. The corridor restrains the actuarial value of assets to within a range of 30% of market. The American Academy of Actuaries has discussed the corridor concept, and the current general consensus appears to be that if a ten-year period is utilized to smooth assets, there should also be some type of corridor in place.

In response to a question from the Chairman, Mr. Langer indicated that many public plans do not have a corridor, however, most that do utilize one appear to have it set at about 20%. Mr. Langer noted the corridor policy is still evolving, but if ERS were still utilizing a five-year smoothing period, a corridor would likely not be necessary. With a 10- or 15-year smoothing period, things could stray over time; therefore, it is good to have the corridor in place to constrain it.

In response to a follow-up question, Mr. Langer stated many public funds utilize the 20% corridor mainly because that is what was put into ERISA years ago for corporate plans. The 30% corridor appears to be more in line with what the public plans committee will eventually issue a formal recommendation on.

In response to a statement from the Chairman, Mr. Langer affirmed that now is a beneficial time to reset the actuarial value of assets to actual market assets. There is not a big impact on the contribution and the change

will allow for seamless implementation of the ten-year smoothing, which will cause less volatile contributions going forward.

Mr. Langer then discussed the background for utilizing the actuarial value of assets, or smoothed value. On average, the actuarial rate of return over five years from 2008 to 2012 was at about 4.2%, with the lowest at 3.4% in 2008, and the highest at 5.5% in 2010. The market rate of return over that same period reflects a range of -22.5% in 2009 to 11.7% in 2010. The range of returns for market is over 20 times that for actuarial value and, therefore, using market would lead to increased contribution volatility. As an example, reflecting the -22.5% market return for 2008 would have increased the contribution amount by around \$30 million.

Mr. Langer next discussed actuarial accrued liability. This is the target, the amount the Fund should ideally have. The actuarial accrued liability for the Fund is just over \$2 billion. With assets on hand as of the beginning of 2013 at \$1.76 billion, that puts the funded ratio at 86.8%, which is higher than the 84.7% ratio expected last year. While a 100% funded status would be ideal, this puts the Fund in relatively good status. The average funded status of public funds across the county is closer to 70-75%. With the current funding policy in place however, the Fund could reach a 100% funded ratio with time.

Mr. Langer then briefly discussed actuarial gains and losses. Each year, the actuarial accrued liability and the actuarial value of assets is anticipated based on last year's valuation and is then replaced with what happened. The actuarial accrued liability came in lower than expected, generating a gain of \$119 million, while the actuarial value of assets also came in lower, generating a loss of \$73 million. The impact of the overall gain of \$46 million was lower contributions than anticipated based on the information in the experience review last fall.

Mr. Langer next discussed the gross ERS budget and actual contributions. The 2013 budget contribution amount of \$30.5 million is from last year's valuation and came in before reflecting the assumptions adopted. The actual 2013 contribution came in at \$29.4 million and was determined based on participant data as of January 1, 2013. The budget amount for 2014 came in at \$30.5 million.

The ERS reconciliation of contributions projects an increase of \$5,181,000, anticipated during the year due to the assumption changes. State-mandated member contributions results were broken out by noncontributors, public safety and general. The share of the liability for retired or nonparticipating members within the mandated member contributions has been allocated to

the County. The County picks up the contribution requirements for retirees, if their portion of the liabilities are underfunded. The 2013 projected mandated member contribution rate under public safety is 5.3%, compared to 5.4% last year. There is somewhat of an increase under general contributions, which are projected at 5.3% for 2013, compared to 4.4% last year. The changes between these contributions are largely driven by changes in assumptions, and changes in the demographics of the population and fewer members in the Plan.

Mr. Langer concluded by stating that the 2014 recommended budget contributions have been approved. The results are in for ERS but are not yet available for OBRA. Buck will be working on developing the letter for submission to the County Executive requesting the funds.

In response to a question from the Chairman, Mr. Langer stated that a decision will not be made today to ask the County for the contribution. That will be done with OBRA, once those results are final.

6. Investments

(a) Investment Manager Presentation - Barings

William Tsotsos and Tim Scholefield of Baring Asset Management distributed a booklet containing information on the investment management services provided by Barings for ERS. Mr. Tsotsos introduced Mr. Scholefield as the head of equity for Baring Asset Management under both the emerging and international markets.

Mr. Scholefield began his discussion by outlining three key points for today's discussion, focusing on the competitive advantages of Barings. First, Barings has a clear and long-established investment philosophy. A key tenant of this philosophy is growth at a reasonable price. Barings seeks to identify unrecognized growth and takes a broad market approach to identifying investment opportunities. Second is a large and excellent equity team devoted to the global emerging markets. Barings has a well-established team of 29 individuals, including specialists in markets such as China and Eastern Europe. These specialists provide research and support to the global emerging market product. Third is a very strong and proven investment process. The emerging market is a very important part of Baring's business, with about \$2 billion in that space. Barings employs a top-down outlook, with country macro analysis and ranking. Barings seeks cyclical or secular growth opportunities through country-specific theme identification. This top-down outlook is combined with strong bottom-up

research capabilities, including a platform of over 25 analysts, searching for unrecognized growth ideas.

The Chairman then noted that the portfolio manager changed shortly after ERS brought Barings on as an investment manager. Since that time, ERS has recognized some significant underperformance in the Barings portfolio. The Chairman asked Mr. Scholefield to address any recent team composition changes, and to discuss the lessons Barings has learned after analyzing and reviewing the recent underperformance.

Mr. Scholefield then stated that the recent underperformance seen under the global emerging markets has been very disappointing. Following a review, it was concluded stronger leadership was needed to get optimal results from the team and the process. The head of the investment team was replaced by Staffan Lindfeldt. Mr. Lindfeldt brings with him strong leadership and management skills. Mr. Lindfeldt has 13 years of investment experience and is a four-star rated manager by Morningstar. Mr. Lindfeldt's growth at a reasonable price investment philosophy follows Barings' philosophy. Barings is confident this change in team leadership is what was needed to get the best performance out the team.

Mr. Tsotsos then commented that Barings takes such leadership issues seriously. Client satisfaction is top priority, which is why the leadership change was made.

In response to a question from the Chairman, Mr. Scholefield stated that the breakdown over the last few years occurred mainly within the top-down investment process. One reason for the disappointing underperformance in the first quarter was the portfolio was positioned for improving economic activity across the emerging world, and was therefore negatively impacted by losing economic momentum. Overweight markets in areas such as China had a negative impact.

In response to a question from Ms. Funck, Mr. Scholefield stated that Staffan Lindfeldt has been managing global emerging markets for six years.

Mr. Tsotsos then concluded with a discussion of the international equity portfolio. A review of calendar year composite performance from 2007 to 2012 illustrates outperformance in both up and down markets, with 2012 being an exception. There were a few challenges in 2012 for getting certain sectors right and wrong. Overweight sectors included IT, materials (precious metals) and healthcare. Underweight sectors included consumer staples, industrial and financials. Despite the recent challenges, Barings

has identified the specific areas of weakness and, with a sound investment process in place, is confident that the numbers will improve.

The Chairman then noted to the Board that the performance numbers Barings has presented for composite performance are calendar year numbers. These numbers look very different when compared to the annualized investment manager performance numbers in the Marquette report.

Mr. Scholefield then stated that when viewed in the context of the last five years, the period of underperformance is short. One area Barings did not get right was exposure to precious metals. Signs of an improving U.S. outlook resulted in a reversal in the gold price and country-specific risk increased. In response, Barings has reduced the exposure to precious metals and lowered country-specific risk. Barings is confident that the proper changes have been made within the portfolio and continues to have confidence in its investment process.

In response to a question from Mr. Muller, Mr. Scholefield stated that the recent overweight to Japan is expected to provide some good opportunities.

In response to a question from Mr. Leonard, Mr. Scholefield stated that there is not a high level of concern regarding potential instability in the Korean markets.

The Chairman then asked the Board if there were any further questions for Barings. With no further questions, the Chairman noted the Board will later move into closed session to further discuss performance, based on a comparative basis and background capabilities of other candidates in this space.

(b) Marquette Associates Report

Brett Christenson of Marquette Associates distributed and discussed the April 2013 monthly report.

Mr. Christenson first discussed the high points of the flash report. A review of the manager status shows three managers on alert. As standard practice, because of a planned IPO, Artisan Partners was placed on alert in 2012 for organizational issues. With no performance issues, a strong track record and no turnover within the organization or team, Mr. Christenson recommends removing Artisan Partners from alert status. Under international equity, both Barings and Barings EM are on alert for performance issues. Barings large cap had a very difficult year-end in

2012, and a very difficult 2013. Barings EM has cycled through two portfolio managers since ERS established the relationship. Last, small cap value under U.S. equity is in iShares, which is the Russell 2000 Value Index. The Pension Board terminated AQR, and transferred those funds to iShares while a replacement search is underway.

The Chairman then requested a motion to remove Artisan Partners from alert.

**The Pension Board unanimously approved removing Artisan Partners from alert. Motion by Dr. Peck, seconded by Dr. Daugherty.**

Mr. Christenson next discussed market values. Based on the Board approved asset allocation policy guidelines, the portfolio is basically on target under most allocation percentages. Areas to note include bonds, which are slightly overweight, at 24% versus the policy target guideline of 22%. Real estate and infrastructure are both slightly underweight at 7.2% versus the policy target of 8.5%. Private equity is also underweight at 2.9% versus the target of 6%. However, the commitment to Siguler Guff has helped increase that allocation under private equity. Marquette recently attended the Siguler Guff annual meeting, and can report their portfolio is performing extremely well for the Fund. Marquette will compile some information presented during the Siguler Guff annual meeting and present it at the next Investment Committee meeting.

In response to a question from the Chairman, Mr. Christenson affirmed that Marquette will attend the upcoming Adams Street Partners 2013 Client Conference.

Mr. Christenson then discussed annualized performance. The year-to-date composite numbers indicate 2013 is off to a good start, with a year-to-date total fund composite at 5.5%. Fixed income slightly outperformed while, conversely, U.S. equity slightly underperformed. Despite some very difficult returns under international equity, there is only a slight underperformance of 7% versus the benchmark of 7.2%. GMO small cap under international equity has had a particularly good run lately, and is a good example of the benefits of diversification within the portfolio. Hedged equity is also doing well, with year-to-date performance of 6.2%, and real estate is relatively in line at 2.3%. The numbers for both infrastructure and private equity were not yet fully reported.

Mr. Christenson then discussed individual manager status. There was some general underperformance under U.S. equity. With the stock market skyrocketing as much as it did in the first part of 2013, active managers

have been a little bit more value oriented, while other managers are a little bit behind. One bright spot is that Fiduciary Management outperformed, with a strong year-to-date posting of 12.3%. Under international equity, Barings is underperforming with a year-to-date performance of 6.7% versus the benchmark of 10.6%, which is very disappointing, after showing significant underperformance throughout 2012. During the five years ERS has maintained the product, Barings has been down -2.3% on an annualized basis versus the benchmark of -0.9%. Barings EM is at a year-to-date of -4.7% versus only -0.9% for the benchmark. Once again, GMO small cap is a bright spot, with year-to-date returns of 15.5% versus the benchmark of 12.5%. This has helped to balance out the underperformance of the other two active managers.

In response to a question regarding the current replacement search underway for AQR, Mr. Christenson stated that ERS has an open search policy, and the search is publicly posted. Besides the public posting, Marquette has submitted individually to managers they work with and think highly of. Marquette has received a tremendous response from many quality managers.

The Chairman then noted that while conducting a search, it is very important to review calendar year performance and annualized performance, as one or two bad periods can greatly affect the annualized performance numbers.

Finishing up individual manager status, under real estate, UBS had a light quarter at 1.1% compared to 2.2% to 2.5% with the other two managers. Under infrastructure, J.P. Morgan has not yet reported the first quarter, and IFM is flat year-to-date.

Mr. Christenson concluded with a discussion of fees and gave an overview of the fee schedule report. The fee schedule report lists each of the individual managers with their respective fee schedule for ERS. J.P. Morgan has a fee schedule of 20 basis points on the first \$100 million, and 15 basis points on the balance. J.P. Morgan manages a little over \$300 million for ERS. Their estimated annual fee is based on the April 30th market value of what that fee schedule means, which translates to 16 basis points, or 0.16%. A dollar amount is then placed in terms of how much that fee would generate, how much they would charge annually. The fee for J.P. Morgan is around 16 basis points a year, or around \$560,000. Because these dollars add up on a fund the size of ERS, Marquette focuses attention on how each manager performs after they are paid net of fees. Marquette wants to see a manager meet or exceed a benchmark and, if not, will consider suggesting the Board consider initiating a replacement search.

Every three to four years, Marquette conducts an industry average study, utilizing a large database manager, which shows the industry standard for fees, given an allocation comparable to ERS's, in each of the asset classes. The current industry average numbers are about three years old and Marquette will be conducting the next industry average study sometime this year. The industry average number is also listed on the fee schedule report and this shows on average where ERS is overpaying or underpaying in fees.

In response to a comment from Mr. Leonard regarding the above industry average fee ERS is paying for Artisan Partners, Mr. Christenson pointed out the need to look at fees in calendar year returns and annualized performance. Artisan Partners has a very strong track record and it is also beating its benchmark after fees. For each manager, look at annualized returns, put in the context of calendar year returns, and determine if that manager is beating the benchmark after fees.

Last, the fee schedule report lists the total investment management fee, which for ERS adds up to 0.51% a year, or 51 basis points. This translates in dollars to a little over \$9 million per year. The industry average for a fund the size of ERS and similar asset allocation is 0.75% or 75 basis points.

7. Investment Committee Report

There was no Investment Committee report because the May 2, 2013 meeting was cancelled.

8. Marquette Associates Review of Responses to RFPs; Selection of Candidate Firms for Further Consideration

Dr. Daugherty moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(e), with regard to item 8 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 this matter.

**The Pension Board voted by roll call vote 9-0 to enter into closed session to discuss agenda item 8. Motion by Dr. Daugherty, seconded by Mr. Leonard.**

Upon returning to open session, the Pension Board took no further action on this item.

9. Disability Matters

(a) Donna Brown-Wells

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

**The Pension Board unanimously approved granting the accidental disability pension application based on the Medical Board's determination. Motion by Mr. Muller, seconded by Dr. Daugherty.**

(b) Wilma Crowder

In open session, the Chairman stated that Ms. Crowder's application was received and reviewed by the Medical Board. Ms. Crowder applied for both an accidental disability pension and an ordinary disability pension. The Medical Board recommended approving an ordinary disability pension, but determined Ms. Crowder did not qualify for an accidental disability pension. The Chairman stated he reviewed the application and had no questions. In response to a question from the Chairman, no other member had a question.

**The Pension Board unanimously denied granting the accidental disability pension application, and unanimously approved granting the ordinary disability pension application based on the Medical Board's determination. Motion by Mr. Muller, seconded by Dr. Daugherty.**

10. Appeals

(a) Lesley Schwartz-Nason

In open session, the Chairman summarized the appeal. In its last determination, the Pension Board denied the Option 7 benefit application for a 5% survivor annuity. The Pension Board later adopted an amended decision that included the finalized benefit calculations. Ms. Schwartz-Nason previously received an overpayment of benefits, and the Retirement Office is implementing an offset of 100% of her monthly benefit to recover the overpayment. Ms. Schwartz-Nason is now appealing the proposed offset to recover the overpayment.

In response, Ms. Schwartz-Nason clarified for the Board she is asking for a reconsideration of her responsibility for interest payments on the

recalculated amount. Ms. Schwartz-Nason then noted she was allowed to retire on August 1, 2011 with an improper pension amount, which has since been corrected. However, because it was initially calculated improperly through no fault of her own, she is requesting a reconsideration of the computed interest to a lower amount.

In response to a question from the Chairman, Ms. Schwartz-Nason advised she has nothing further for the Board to consider regarding her current appeal.

In response to a question from Mr. Huff and the Chairman, Ms. Schwartz-Nason confirmed she is asking the amount of the offset to her pension to recoup any overpayments be modified to eliminate only the calculated interest, and not to change the percentage of the offset itself.

Ms. Schwartz-Nason then stated she did not believe she had the option to request a redetermination of the offset amount.

The Chairman then advised Ms. Schwartz-Nason she can request a reduction to the monthly installment amount of the offset; however, she must still pay back over time the original offset amount.

Ms. Schwartz-Nason then noted to the Board she is not interested in requesting a modification to the offset amount.

The Chairman then acknowledged this has been a complicated issue brought before the Board over the past two years. The Board has Ms. Schwartz-Nason's financial information, and knows of her current situation and available resources, and will consider everything during their determination.

In response to a question from the Chairman, Ms. Schwartz-Nason stated she had nothing further to add for consideration of her appeal.

(b) Anissa Perkins

In open session, the Chairman provided an overview of the appeal. Ms. Perkins voluntarily terminated her employment with the County on September 6, 2012. Ms. Perkins was not aware that the mandatory contributions in her membership account were held separately from the funds Ms. Perkins had deposited into her 457(b) deferred compensation account administered by Great West.

Ms. Perkins affirmed the Chairman's summary and added she did not understand the mandatory contributions were placed into a general account,

and that she only had 60 days from her termination of employment to request a refund before forfeiture occurred. Ms. Perkins further noted that once she submitted her two weeks' notice, the procedure for requesting a distribution was never discussed or explained to her prior to leaving her job with the County.

Ms. Perkins then stated that once she had contacted Great West regarding the process to terminate her deferred compensation account, she assumed the mandatory contributions were also held in her account through Great West. It was not until after she left her employment with the County, and spoke with a financial advisor, that she realized the mandatory contributions were held separately from her deferred compensation account in a membership account through ERS. It was not until after she called the Retirement Office that she realized she had only 60-days from her date of termination of employment to request the funds before forfeiture occurred. Ms. Perkins stated it was only later, after reviewing her unopened mail, that she found the letter from the Retirement Office notifying her of the process to request distribution of the mandatory contributions.

Ms. Perkins then outlined her basis for requesting the appeal. First, she was not notified of the procedure to request a distribution of the mandatory contributions, either verbally or otherwise, when she entered her two-week notice of termination. Second, the letter she received containing the information, came addressed in a handwritten envelope from the Retirement Office. Because she knew she did not have sufficient service credit to be eligible for a vested pension benefit, she put the letter aside unopened, thinking it was unimportant. She was already busy with the transition to her new job, decided it was nothing urgent, and could be read at a later time.

Ms. Perkins then commented that a letter containing such important information should be formally addressed (not handwritten) and stamped "time sensitive," in order to gain the recipient's immediate attention. She left her employment with the County on September 10, 2012, and claims the letter was stamped as mailed as of October 1, 2012.

Ms. Perkins then summarized she does not believe she was adequately provided with sufficient information in a timely manner required to make the important decision to roll the funds over to her new employer or an IRA, which would be in her best interest.

In response to a question from the Chairman, Ms. Ninneman confirmed that a member's payroll stub indicates, as separate deductions, amounts withheld

for voluntary deferred compensation versus the required ERS member contribution amounts.

In response to a question from the Chairman, Ms. Perkins confirmed that, besides the information reflected on her paycheck stub, she also received regular deferred compensation account statements from Great West. However, she still did not understand these two accounts were managed by separate entities, and that she only had 60 days from her date of termination to request a rollover of the mandatory contributions before forfeiture occurred.

In response to a question from the Chairman, Ms. Perkins stated she did not notice the difference between the amounts deducted on her paycheck stubs and the amounts deposited into her deferred compensation account, as noted on her Great West statements. She only ensured that the correct amounts were withdrawn for the deferred compensation account and the mandatory contributions, respectively, on her paycheck stub.

In response to a question from the Chairman, Ms. Perkins stated she never received a statement for her Pension account.

In response to a follow-up question from the Chairman, Ms. Perkins stated she worked for the County from March 2009 to September 2012, adding that once the mandatory contributions went into effect, she never received a statement from ERS regarding those funds.

In response to a follow-up question from the Chairman regarding whether ERS sent out member account statements, Ms. Ninneman indicated that statements went out for 2009 and 2010, but did not go out for 2011. Statements for 2012 did not go out until March 2013.

After a lengthy discussion between Ms. Perkins and Board members, it was noted that prior to the Act 10 legislation, the pension statements ERS provided listed service credit and annual earning history. With the Act 10 legislation, a line was added to reflect the State-mandated member contributions. Since the 2011 statements did not go out, and the 2012 statements went out in March 2013, it was determined that Ms. Perkins would not have received a statement reflecting her mandatory contributions before expiration of the 60-day deadline.

In response to a question from Mr. Grady, Ms. Perkins confirmed she has never received a pension statement from ERS, even a statement reflecting only credited service.

In response to a question from Ms. Braun, Ms. Perkins confirmed her address was listed correctly in the ERS database.

Mr. Grady then stated that Ms. Perkins may not have received a statement reflecting her mandatory member contributions, although she knew she was accruing the monies.

Ms. Perkins stated she was aware she was making the payments, but added she did not know the funds were in a general account, and that she had only 60-days from her termination of employment to request the funds.

In response to a question from the Chairman, Ms. Perkins confirmed she did not open the letter from ERS mailed on September 27, 2012 containing the information regarding her membership account and her right to request a refund. Ms. Perkins then added that the letter she received from the Retirement Office was postmarked October 1, 2012.

In response to a question from Ms. Funck, Ms. Perkins stated she first learned of her right to request a distribution of the mandatory contributions in December of 2012. She contacted the Retirement Office to begin requesting the contributions. She then received a denial letter on January 31, 2013 from the Retirement Office, notifying her of the appeals process.

In response to a question from Ms. Braun, Ms. Perkins stated she did not meet with anyone to sign a resignation form, nor was she contacted by anyone in Human Resources for an exit interview.

In response to a question from Mr. Grady, Ms. Perkins stated she worked as a buyer in the purchasing department.

In response to a question from Ms. Braun, Ms. Perkins stated she did not know who her assigned Human Resources coordinator was.

In response to a question from the Chairman, Ms. Perkins stated she had nothing further to add for consideration of her appeal.

(c) Cornelius Armstrong

The Chairman first noted to Mr. Armstrong that the Board was still in open session. Once Mr. Armstrong has finished discussing his appeal, the Board will convene into closed session.

Mr. Armstrong provided the background for his appeal. He worked for Milwaukee County in disability services as an Office Assistant II. On Monday, August 20, 2012, he could not go to work, due to the fact that he

was incarcerated on charges of first degree reckless endangerment with a motor vehicle. Mr. Armstrong indicated he was working with an attorney to defend his case and help him keep his job. Mr. Armstrong noted his attorney was unable to release him from jail in time to keep his job. He was incarcerated beginning August 20, 2012 and was released on February 6, 2013. Mr. Armstrong's employment with the County was terminated on October 26, 2012.

During his incarceration, Mr. Armstrong stated he had accumulated a large amount of mail at his home residence. He began going through the accumulated mail upon his release date of February 6, 2013. A letter dated December 7, 2012 from Tracy Jackson at the Milwaukee County Retirement System was included among those letters. Mr. Armstrong opened the letter and noted he had 60 days from his termination of employment with the County to request distribution of his mandatory contributions. He immediately telephoned Ms. Jackson, left a voice message, and went down to the Retirement Office the next day to speak with Ms. Jackson in person. Ms. Jackson once again advised there was a 60-day deadline to request the distribution. Mr. Armstrong then noted to Ms. Jackson he was unaware of, and unable to meet the 60-day deadline due to his incarceration. Ms. Jackson then notified Mr. Armstrong of the appeals process.

Mr. Armstrong noted that while his parents assisted him with some financial matters, he is still behind in many bills, is receiving disconnection notices, and is behind on rent. He is in need of the funds to catch up on bills. He is enrolled in school and is actively searching for a job.

In response to a question from the Chairman, Mr. Armstrong confirmed he saw the corresponding deductions on his paycheck stubs and understood these funds were going into an account for retirement. Mr. Armstrong noted he just received an account statement from ERS about a week ago. This statement showed an amount slightly higher than the letter dated December 7, 2012.

Mr. Armstrong then noted to the Chairman he has since reapplied for his old job with the County.

In response to a follow-up question from the Chairman, Ms. Ninneman stated that if no withdrawal is requested, the membership account is left intact for five years, and would be reinstated if a member is re-employed within that five-year period. After the five-year period, if there is no return to employment, then the vesting period starts over again. If he cashed out

the account and would subsequently return to employment, he would start over with no pension credit.

In response to a question from Ms. Westphal, Mr. Armstrong confirmed he understood that if he could cash out his member account now, and were to subsequently regain his employment with the County, that he would lose any previously accumulated pension credit.

Mr. Leonard then reiterated to Mr. Armstrong that if he left the money in the account and then regained his employment with the County, he would have accrued pension credit he could continue to add to. However, if he takes a distribution now, that credit is lost and he must start over from zero if he regains employment with the County. Mr. Armstrong again affirmed he understood that fact.

In response to a question from the Chairman, Mr. Armstrong stated he had nothing further to add for consideration of his appeal.

In response to a question from Mr. Leonard, Mr. Armstrong stated he did not recall whether the 60-day notification letter he received was in a handwritten envelope.

In response to a question from Mr. Grady, Mr. Armstrong confirmed his phone call to Ms. Jackson was placed sometime between his February 6, 2013 release date and February 19, 2013. Mr. Armstrong then noted he realized he had already missed the 60-day deadline, which is why he immediately contacted the Retirement Office.

The Chairman stated to all appellants present that the Board will now convene into closed session for further consideration of these matters. The Board understands the various issues and the impact on each of the individuals; however, the Board is also bound by certain rules and regulations which will be further discussed and analyzed in closed session. The Board may or may not reach decisions on these matters today. However, once a decision is made either way, the Retirement Office will notify each of the respective appellants of the Board's decision.

Dr. Daugherty then moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(f), with regard to item 10 for considering the financial, medical, social or personal histories of the listed persons which, if discussed in public, would be likely to have a substantial adverse effect upon the reputation of those persons, and may adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(g), with regard to items 11 and 12 for the purpose

of the Board receiving oral or written advice from legal counsel concerning strategy to be adopted with respect to pending or possible litigation.

**The Pension Board voted by roll call vote 9-0 to enter into closed session to discuss agenda items 10, 11 and 12. Motion by Dr. Daugherty, seconded by Mr. Muller.**

**After returning to open session, the Pension Board unanimously voted to layover to a future meeting, the decision of appeals for Lesley Schwartz-Nason, Anissa Perkins and Cornelius Armstrong. Motion by Dr. Daugherty, seconded by Mr. Leonard.**

(d) Angela Imgrund

The Pension Board discussed the matter in closed session.

**After returning to open session, the Pension Board unanimously voted to deny Ms. Imgrund's appeal, consistent with the discretion assigned to the Pension Board by Ordinance section 201.24(8.17) to interpret the Ordinances and Rules of Employees' Retirement System of the County of Milwaukee ("ERS"), based on the following facts and rationale:**

1. Michael Imgrund was a member of ERS from May 25, 2004 until his death on October 17, 2006. At the time of Mr. Imgrund's death, he had been married to Angela Imgrund for over a year. The couple did not have any children at the time of his death.
2. After Mr. Imgrund's death, Ms. Imgrund became pregnant by artificial insemination and gave birth to a son, Zachary, on August 30, 2007. The child is the biological child of Mr. Imgrund.
3. Ms. Imgrund applied for survivor benefits pursuant to Ordinance section 201.24(6.4) on behalf of herself and Zachary. ERS accepted the application and began paying survivor benefits to Ms. Imgrund.
4. In September 2010, Ms. Imgrund gave birth to a second child, Joshua, again using Mr. Imgrund's cryopreserved semen. Ms. Imgrund applied for survivor benefits on behalf of Joshua as well. At the time of this request, ERS reviewed the issue to determine whether any benefits should be payable to Ms. Imgrund.
5. The Retirement Office determined that Ms. Imgrund was not entitled to benefits under Ordinance section 201.24(6.4). Accordingly, ERS denied Ms. Imgrund's request for additional benefits for her second son and terminated the benefits being paid for her first son. ERS sent Ms. Imgrund

a letter on February 10, 2011 advising of its decision and providing the rationale for the denial.

6. On April 30, 2013, Ms. Imgrund sent an email to the Retirement Office stating that she filed an appeal of the denial of benefits and that she had not received a response. The Retirement Office advised that it did not have a record of an appeal request. Ms. Imgrund stated she submitted her letter appealing ERS's determinations in April 2011. The Pension Board considered the appeal on May 15, 2013.

7. Ordinance section 201.24(6.4) provides:

In the event of the death of a member in active service prior to satisfying the applicable age and service eligibility conditions for a normal pension...and after completing at least one (1) year of service, his surviving dependent spouse or child shall receive a survivor pension...

A dependent spouse is a spouse of a member:

- (a) Who is over age sixty (60) or who is under age sixty (60) and has a child who is eligible for a pension hereunder.
- (b) Who was married to the member at least one (1) year prior to his death.

8. The Pension Board has not previously had cause to consider whether a posthumously conceived child is included in the definition of "child" as used in Ordinance section 201.24(6.4).

9. The Pension Board finds that based on the plain language of Ordinance section 201.24(6.4), a child is required to be a *surviving* child to receive a survivor benefit. When read alone, the first sentence of the Ordinance ("[i]n the event of the death of a member in active service...his surviving dependent spouse or child shall receive a survivor pension.") is unclear as to whether the term "surviving" is only meant to modify "spouse" or both "spouse" and "child." However, when read within the context of the remainder of the Ordinance, it appears that the term "surviving" was meant to modify both "child" and "dependent spouse" since the term "dependent spouse," not "surviving dependent spouse," is used continually throughout the paragraph. Had the drafters of the Ordinance meant the term "surviving" to modify the term spouse alone, as they did with the term "dependent," they would have likely used the phrase

"surviving dependent spouse" instead of "dependent spouse" throughout the remainder of the Ordinance.

10. The Pension Board further finds that a posthumously conceived child cannot be a surviving child of its deceased parent. The term "surviving" is commonly defined as "to remain alive or in existence" or "continue to function or prosper." Merriam-Webster Dictionary. Both definitions require that the child be in existence prior to the parent's death. Accordingly, the term "surviving child" cannot be construed to include the children at issue here because they were conceived after Mr. Imgrund's death.

11. The Pension Board's interpretation is further supported by the purpose of Ordinance section 201.24(6.4), which was likely enacted to assist families who experience an unexpected death of a provider parent. By defining dependent spouse as a spouse over sixty or a spouse with eligible children, it suggests that the drafters sought to provide benefits to assist a spouse with the financial costs of raising children. The Imgrund scenario does not fit the purpose of the Ordinance. At the time she decided to have children, Mr. Imgrund was deceased. Ms. Imgrund could not have envisioned Mr. Imgrund's ongoing income to help raise her children.

12. Finally, the Pension Board finds that its interpretation is in accordance with courts' decisions regarding similar questions of eligibility. While not binding, the Pension Board reviewed case law from Wisconsin and other jurisdictions. Courts generally review intestacy laws to determine whether or not a posthumously conceived child is eligible for a benefit. *See Astrue v. Capato*, 132 S.Ct. 2021 (2012) (looking to state intestacy law to determine whether children were entitled to Social Security benefits). Wisconsin statute section 854.21(5) provides that posthumous children are included in the definition of issue and child if the person is conceived at the time the membership in the class is determined and subsequently born alive. Because neither of Ms. Imgrund's children were conceived at the time of Mr. Imgrund's death, they are not included under the definition of issue or child pursuant to Wisconsin law.

**Motion by Dr. Daugherty, seconded by Dr. Peck.**

(e) Dale Kuehn

The Pension Board discussed the matter in closed session.

**After returning to open session, the Pension Board unanimously voted to deny Mr. Kuehn's appeal, consistent with the discretion assigned to the Pension Board by Ordinance section 201.24(8.17) to interpret the Ordinances and Rules of Employees' Retirement System of the County of Milwaukee ("ERS"), based on the following facts and rationale:**

1. Ms. Kuehn was employed by the County until her employment terminated on January 3, 1984. The total amount of her service credit is 10.21944.

2. Following Ms. Kuehn's final termination, ERS sent her a letter dated September 7, 2005, and requested that Ms. Kuehn complete a questionnaire to be used for her later application for deferred retirement, which she returned on September 13, 2005. The letter also informed Ms. Kuehn that "[a]n application to apply for your monthly benefits will be sent to you 30 to 90 days prior to your attainment of age 60 (04/12/2012). Keep in mind that the responsibility for filing the formal application for monthly benefits as you approach age 60 is strictly yours. If you do not hear from us, contact our office as we may not have your current address."

3. Ms. Kuehn attained age 60 on April 12, 2012. Ms. Kuehn applied for benefits on March 18, 2013, seeking a retroactive commencement date of April 1, 2012. ERS denied this request.

4. Ms. Kuehn sent the Pension Board an appeal letter dated April 30, 2013. In that letter, Ms. Kuehn asserted she never received a retirement application prior to her 60th birthday. She stated that she did not believe she needed to contact the Retirement Office because her address had not changed since she received the 2005 letter. Ms. Kuehn argued that if it was her responsibility to contact ERS to receive the application, the letter should have been worded differently. Ms. Kuehn further claims that her memory is getting worse and she did not think her pension started until age 62.

5. In her April 30, 2013 appeal letter, Ms. Kuehn asked ERS to pay benefits for the period of April 1, 2012 to May 1, 2013.

6. Ordinance section 201.24(4.5) Deferred Vested Retirement provides, in relevant part:

Payment of a deferred vested pension shall commence as of the member's normal retirement date, but in no event until timely application for the deferred vested pension is filed with the board.

7. Ordinance section 201.24(4.6) Distribution Requirements provides, in relevant part:

In order to receive a pension, a member shall file with the board a written application therefor on a form prescribed by the board.

8. Rule 1049 provides that "Retirement Effective Date" means the later of:

[T]he first day of the month following the member's normal retirement date...or the first day of the month following the day all required paperwork is received by the Retirement Office.

9. Neither the Ordinances nor Rules provide for a retroactive benefit commencement date.

10. The Ordinances and Rules require that the member apply for a pension. Neither the Ordinances nor the Rules require that ERS provide the member with application materials prior to the member's attainment of age 60. Additionally, Ms. Kuehn was notified in the 2005 letter, which was also not required under the Ordinances and Rules, of the date she would be eligible to begin receiving her deferred vested benefits and advised that if she did not receive an application, she should contact ERS.

11. The language in the September 7, 2005 letter stating that Ms. Kuehn would receive an application for monthly benefits prior to her turning 60 was not mandated by the Ordinances and Rules.

12. Regardless of whether Ms. Kuehn found the 2005 letter confusing, ERS is required to administer benefits based on the Ordinances and Rules.

13. Accordingly, the Pension Board finds that ERS has no basis on which to provide Ms. Kuehn retroactive benefits to April 1, 2012. Furthermore, Ms. Kuehn attained age 60 on April 12, 2012. Therefore, even if she had timely applied for benefits, her benefits would have commenced on May 1, 2012, not April 1, 2012.

14. Ordinance section 201.24(4.5) and Rule 1049 require the submission of an application and all required paperwork prior to the commencement of benefits and the ERS practice has always been so. Based on these sections, the Pension Board denies Ms. Kuehn's request for retroactive benefits because she failed to submit a complete application until April 2013. Upon

receipt of a complete application, ERS could consider a prospective benefit for Ms. Kuehn.

**Motion by Dr. Daugherty, seconded by Mr. Leonard.**

11. Pending Litigation

(a) *Stoker v. ERS*

The Pension Board took no action on this item.

(b) *AFSCME v. ERS*

The Pension Board took no action on this item.

(c) *Tietjen v. ERS*

The Pension Board took no action on this item.

(d) *Brillowski & Trades v. ERS*

The Pension Board took no action on this item.

(e) *AFSCME v. ERS*

The Pension Board took no action on this item.

12. Report on Compliance Review

The Pension Board took no action on this item.

13. Reports of ERS Manager and Fiscal Officer

(a) Retirements Granted, March 2013 and April 2013

Ms. Ninneman first presented the Retirements Granted Report for March 2013. Twenty-four retirements from ERS were approved, with a total monthly payment amount of \$33,329. Of those 24 ERS retirements, 14 were normal retirements, 9 were deferred, and 1 was an accidental disability retirement. Ten members retired under the Rule of 75. Fourteen retirees chose the maximum option, and 3 retirees chose Option 3. Nine of the retirees were District Council 48 members. Seven retirees elected backDROPs in amounts totaling \$779,959.

Ms. Ninneman then presented the Retirements Granted Report for April 2013. Sixteen retirements from ERS were approved, with a total monthly

payment amount of \$19,901. Of those 19 ERS retirements, 8 were normal retirements and 8 were deferred. Seven members retired under the Rule of 75. Ten retirees chose the maximum option, and 2 retirees chose Option 3. Twelve of the retirees were District Council 48 members. Four retirees elected backDROPs in amounts totaling \$413,472.

Ms. Ninneman noted that retirements have slowed dramatically in 2013. Based on schedules going out for the next three months, ERS is expecting fewer upcoming retirements than originally anticipated.

(b) ERS Monthly Activities Report, March 2013 and April 2013

Ms. Ninneman first presented the Monthly Activities Report for March 2013. ERS and OBRA combined had 8,007 retirees, with a monthly payout of \$12,952,494. For April 2013, ERS and OBRA combined had 7,994 retirees, with a monthly payout of \$12,575,172.

Ms. Ninneman noted that appeals have been high over the last few months and ERS has a few more in process. Other than that, the months of March and April have been fairly quiet for ERS. This has provided ERS the opportunity to continue cleaning up and streamlining its filing system, and catching up on other goals set over the next few years.

Ms. Ninneman next stated that ERS has tracked the number of required contribution withdrawal requests, and the related dollar amounts. ERS can track the number of refund requests based on the number of terminations. Ms. Ninneman suggested this may be a beneficial metric to add to the Monthly Activities Report which would provide a ratio for future reference.

Ms. Ninneman then stated that ERS customer service continues to have a large amount of phone calls and walk-ins. ERS is offering two preretirement sessions for employees considering retirement before the end of a calendar year. The sessions focus primarily on the overall retirement process and the options available, with presentations from Social Security and Deferred Compensation.

As an additional service to employees, ERS is also developing an educational program, with Great West, which is the administrator of the 457 Deferred Compensation Plan. This program will be directed at mid-career employees and will educate them on the actions they need to take now in order to adequately prepare for retirement.

Ms. Ninneman then discussed employee communications. ERS will send out a quarterly newsletter with communications already circulated by the

life and health benefits departments. ERS is also planning a redesign of its website. One of the intentions of the redesign utilizes the website more for posting critical information, *i.e.* information on how the backDROP modification works is already posted here.

Ms. Ninneman concluded with a discussion of staffing. ERS recently hired its fifth Administrative Specialist, Lamika Wilder. Ms. Wilder is a former County employee, previously employed in Human Resources with the Sherriff's Department. Ms. Wilder has acclimated to ERS quickly and will hold her first retirement session at the end of May. ERS recently made an offer to hire a new Fiscal Officer Assistant and the applicant has verbally accepted. The applicant has a very unique background, including much investment experience.

(c) Pension Board Retiree Election

Ms. Ninneman discussed the timeline for the upcoming retiree member election for the seat held by D.A. Leonard, whose term ends in October 2013. Communications for the retiree election must be facilitated through the mail, utilizing the monthly Communicator newsletter, as ERS does not have access to retirees via e-mail. The retiree election will be noticed in the Communicator newsletter going out at the end of May 2013. ERS will conduct a candidate information session to be held on June 6, 2013, to any retiree interested in running. The session will focus on the commitments involved in serving, and is primarily designed to help retirees decide if they would like to run for the position. The entire communication and election process will span approximately four months, with the new retiree member scheduled to be on the Board for the November 2013 meeting. The term is a three-year term, ending October 31, 2016.

(d) Fiscal Officer

Mr. Gopalan first discussed the March 2013 portfolio activity reports. Benefits for the month of March were funded through a withdrawal from the MCM Aggregate Bond Index Fund for \$15 million. Dividends were received from J.P. Morgan and Morgan Stanley infrastructure and Adams Street made a small capital call.

Mr. Gopalan then discussed the cash flow report for March 2013. ERS received a contribution from the County of \$3,080,000. Of that amount, \$3 million was for ERS and \$80,000 was for OBRA. Mr. Gopalan also noted that ERS paid the County for the reimbursement of administrative expenses for \$1,187,236, approved by the Board during the March 2013 meeting.

Mr. Gopalan concluded with a discussion of the check register for the period from January 1, 2013 to March 31, 2013. In January, a payment was made to the Wisconsin State Treasury for \$145,773.13. This was for OBRA refunds that have been outstanding for over six months and that money has been escheated back to the State. Other than that, there was really nothing unique on the check register report.

14. Audit Committee Report

Ms. Westphal reported on the May 1, 2013 Audit Committee meeting.

The Audit Committee first discussed the audit process of survivor benefits. Because of the audit, five cases have been identified with incorrect payouts. ERS staff has been instructed to correct the errors and begin recouping any overpaid benefits. Letters will be sent to the affected individuals notifying them that a monthly offset will begin in June 2013 under Rule 1050.

The Audit Committee next discussed deferred vested retirements. The Audit Committee reviewed suggested updates which should clarify language contained in deferred vested letters and forms. Updated letters will inform terminated members they may be eligible for a deferred vested pension upon attainment of normal retirement age. A follow-up reminder letter will be sent out approximately 90 days prior to attainment of normal retirement age, alerting members to apply for their benefits. Deferred vested forms were updated with vesting information, and clarification when a pension benefit would begin under Ordinance section 201.24 (4.5), Rule 1049.

The Audit Committee then discussed 1099-R forms. In 2012, the Pension office made a necessary coding change on 1099-R forms for members receiving a pension prior to attaining age 59-1/2, or for individuals receiving a survivor benefit. ERS must send amended 1099-R forms for 2010 and 2011 to anyone affected by the coding change.

In response to a question from Dr. Daugherty, Ms. Ninneman and Mr. Gopalan stated no additional tax liability is anticipated because of the coding change, however, affected individuals may have to file an amended tax return.

The Audit Committee concluded with a discussion of Rule 1014. As recently amended, the current Rule 1014 includes the use of the RP-2000 Disability Factor Table in the mortality tables. Through further discussion with the actuary, it was determined that use of the disability factor would not substantially impact a pension benefit. As further amended, Rule 1014

would eliminate the need to update and load disability factors to the Retirement Information System. Only the RP-2000 Healthy Life Factor Table will be utilized.

In response to a question from Mr. Grady, Ms. Westphal confirmed that the proposed amendment to Rule 1014 has been recommended by the actuary at Buck Consultants.

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

15. Administrative Matters

Dr. Daugherty noted a request for approval of attendance of any interested Board member at the Adams Street Partners 2013 Client Conference in Chicago, Illinois on June 4-5, 2013.

**The Pension Board unanimously approved the attendance of any interested Pension Board member to the Adams Street Partners 2013 Client Conference. Motion by Ms. Westphal, seconded by Mr. Gedemer.**

16. Adjournment

The meeting adjourned at 12:15 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 1014 currently provides three provisions for the use of mortality tables in calculating actuarial equivalence for lump sum benefits, conversion of benefit for Internal Revenue Code section 415 testing purposes, and for all other purposes.
4. At the direction of ERS's actuary, at its December 19, 2012 meeting, the Pension Board adopted an amendment to Rule 1014, which changes provided, among others, for the use of the RP-2000 Disabled Mortality Table.
5. ERS's actuary has advised that, upon further review and in consultation with the Retirement Office, the use of the RP-2000 Disabled Mortality Table is inappropriate for use by ERS and that Rule 1014(c) should be updated to remove the reference to the RP-2000 Disabled Mortality Table.
6. The Pension Board desires to amend Rule 1014 to remove the reference to the RP-2000 Disabled Mortality Table as recommended by the actuary retroactive to December 19, 2012.

#### RESOLUTION

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

#### **1014. Actuarial equivalent.**

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

- (a) *Lump Sum Payment Under Rule 1013(a)(4)*. For purposes of calculating a single lump sum distribution under Rule 1013(a)(4), the term "actuarial equivalent" shall mean an alternative form or time of payment having the same actuarial present value when computed on the basis of:
- (1) *Mortality Table*. The applicable Code section 417(e)(3) mortality table, and
  - (2) *Interest Rate*. An interest rate that is the greater of [a] 8-1/2 (8.5) percent or [b] the interest rate calculated by assuming the System's overall rate of return in the ten (10) calendar years preceding the calendar year in which a lump sum distribution is calculated and dividing by ten (10).
- (b) *Converting Maximum Annual Benefit Limitation - PreAge 62*. For purposes of calculating the reduced dollar limit on annual benefits payable for a member who begins benefits prior to age sixty-two (62), as required by section 201.24(12.3), the term "actuarial equivalent" shall mean an amount having the same actuarial present value when computed on the basis of:
- (1) *Mortality Table*. The mortality table specified by the Internal Revenue Service in Revenue Ruling 2007-67, or any successor revenue ruling thereto. Effective as of December 31, 2012, the mortality table is the 2013 Applicable Mortality Table, and
  - (2) *Interest Rate*. An interest rate of five (5) percent compounded annually.
- (c) *All Other Purposes*. For all purposes under section 20 1.24(2.13) of the Milwaukee County Code of General Ordinances other than those specifically noted elsewhere in this Rule 1014, the term "actuarial equivalent" shall mean an alternative form or time of payment having the same actuarial present value when computed on the basis of:
- (1) *Mortality Table*. RP-2000 Blue Collar Mortality Table (Male/Female 50/50) with generational mortality improvements for healthy participants and
  - (2) *Interest Rate*. An interest rate of eight (8) percent compounded annually.