# EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE
# MINUTES OF THE JANUARY 20, 2016 PENSION BOARD MEETING

1. Call to Order

   The Chairman called the meeting to order at 8:30 a.m. at the Marcus Center for the Performing Arts, 929 North Water Street, Milwaukee, WI 53202.

2. Roll Call

| Members Present | Members Excused |
|---|---|
| Linda Bedford | |
| Laurie Braun (Vice Chair) | |
| Aimee Funck | |
| Norb Gedemer | |
| Michael Harper | |
| D.A. Leonard | |
| Patricia Van Kampen | |
| Vera Westphal | |
| Dr. Brian Daugherty (Chairman) | |

   Others Present
   Marian Ninneman, Director-Retirement Plan Services
   Mark Grady, Deputy Corporation Counsel
   James Carroll, Assistant Corporation Counsel
   CJ Pahl, Budget and Management Coordinator, Office of the Comptroller
   Vivian Aikin, Sr. Pension Analyst
   Tessa Fitzpatrick, IFM Investors
   James Sakelaris, J.P. Morgan Asset Management
   Robert Pease, J.P. Morgan Asset Management
   Brett Christenson, Marquette Associates, Inc.
   Christopher Caparelli, Marquette Associates, Inc.
   Steven Huff, Reinhart Boerner Van Deuren s.c.
   Scott Griffin, Milwaukee County Employee
   Peter A. Stanford, Stanford Law Offices, S.C.
   Sarah Kochanski, Former Milwaukee County Employee
   Ray Kress, Retiree

3. Minutes—December 16, 2015 Pension Board Meetings

The Pension Board reviewed the minutes of the December 16, 2015 Pension Board meeting.

**The Pension Board unanimously approved the minutes of the December 16, 2015 Pension Board meeting. Motion by Ms. Van Kampen, seconded by Mr. Leonard.**

4. Investments

(a) IFM Investors

Tessa Fitzpatrick of IFM Investors distributed a booklet containing information on the infrastructure investment management services provided by IFM for ERS. Ms. Fitzpatrick introduced herself as the Vice President of Global Investor Relations for the firm.

Ms. Fitzpatrick first discussed recent updates to the firm's global infrastructure investment team. In 2015, Julio Garcia transferred from IFM's Melbourne office to become Head of Infrastructure-North America at the firm's New York office. Mr. Garcia was at the firm's Melbourne office for eight years where he managed teams involved with the acquisition and post-acquisition management of several seaports and airports in IFM's Australian infrastructure portfolio. Alec Montgomery was made Head of Capital Markets at IFM which is a new role created to serve as a dedicated resource to develop banking relationships. Mr. Montgomery was formerly the head of IFM's New York office and previously served as the head of infrastructure finance business at the Royal Bank of Scotland. Michael Kulper was also added as Executive Director to IFM's North America team. Mr. Kulper was the founding president of the Transurban's North American toll roads concessions business. Transurban is based in Australia but also has operations in the U.S. With his prior experience, Mr. Kulper was added to the global team to assist with acquiring toll road assets in the portfolio.

Ms. Fitzpatrick then provided an overview of the firm. IFM manages a total of $49 billion in assets across four asset classes. Approximately $22 billion of those assets are in infrastructure. IFM manages infrastructure investments for a variety of long-term global institutional investors. IFM is owned by 30 Australian pension funds and views itself as an extension of the plan investors for whom they work. From a geographic perspective, 44% of IFM's investors are in the U.S., 22% in Canada, 15% in Australia, 16% in the U.K. and Europe and 3% in Asia. IFM manages 30 current investments across its global infrastructure and Australian infrastructure open-ended funds. ERS is invested in IFM's global infrastructure fund which focuses on Organization for Economic Cooperation and Development ("OECD") countries outside of Australia.

Ms. Fitzpatrick next discussed the portfolio's performance as of December 31, 2015. ERS's original capital investment was $60 million in May 2010. The current capital balance is slightly over $72 million and there have been $4.6 million in distributions since inception. ERS's net return on committed capital since inception is at 8.4% net-of-fees, and 5.4% for the 12-month period, net-of-fees. It has been a strong year for the fund and 11 of the 13 portfolio's investments recorded positive total yields. IFM has added several diversified high-quality assets to lend future stability to the portfolio. The portfolio's 12-month total net return was approximately 5%.

Manchester Airports Group was the top-performing asset in the portfolio in 2015. Manchester Airport Group is located in the United Kingdom, and comprises 17% of the portfolio. Manchester Airports Group recently announced a transformation plan which is a 10-year 1 billion £ capital expenditure program, focused on enhancing terminals and taxi ways and improving passenger experience. The project will increase capacity and efficiency by consolidating its terminals from three to two. Duquesne, a regulated transmission and distribution network in Pittsburgh, comprises 3.5% of the portfolio and was the second best-performing asset in the portfolio. Essential Power comprises 3.5% of the portfolio and was the weakest performer in 2015. IFM purchased Essential Power in 2008 and the investment price was largely based on contracted revenues. Following the global financial crisis, there was a change in the market dynamics and a demand for power which subsequently altered the investment profile. Essential Power no longer meets IFM's criteria for core infrastructure and IFM is in the midst of a negotiating the sale of that asset.

Ms. Fitzpatrick continued with a discussion of IFM's recent acquisitions. In May 2015, IFM acquired a 100% equity interest in Indiana Toll Road Concession Company LLC ("ITR"). ITR is a 157 mile divided highway in Indiana and serves as a key corridor in the U.S. transportation network. The asset has very favorable monopolistic characteristics and connects primarily freight-related traffic between economic hubs in the Midwest and Eastern U.S. coast. ITR has an attractive toll escalation regime which allows IFM to increase tolls annually by the greater of GDP inflation or 2%. ITR's lease agreement to collect toll revenues has a remaining life of 66 years. Acquiring ITR has provided additional diversification to the portfolio by introducing toll road exposure and increasing exposure to the U.S. dollar.

Conmex is the second toll road acquired by IFM in April 2016. Conmex is a 111 kilometer toll road operating in the greater Metropolitan area of Mexico City and is IFM's first Mexican investment. IFM spent a great deal of time researching Mexico before investing in Conmex. IFM was comfortable with the fact that Mexico has been an OECD country for over 20 years and that its inflation has been under control for over 10 years. Conmex operates under a concession agreement with the State of Mexico with 36 years remaining on the life of the agreement. Conmex operates in one of the most congested cities in the world and with a population in excess of 20 million, carries over 93 million vehicles annually. Unlike ITR, Conmex links primarily commuter-related traffic in densely populated domestic areas. Conmex has been in operation for over a decade and investment performance continues to improve.

In response to a question from Ms. Van Kampen regarding the portfolio's overall economic activity and anticipated future returns, Ms. Fitzpatrick stated that IFM is not looking to reduce the portfolio's benchmark at this time. The weighted average return for the portfolio's assets is approximately 11% gross or 10% on the net basis.

In response to a question from Mr. Leonard regarding concerns surrounding currencies, Ms. Fitzpatrick stated that currency has been a big detractor from performance over last year and is closely monitoring the currency effect on the portfolio. IFM is also maintaining open dialog with its investors in relation to hedging currency.

In response to a question from Mr. Harper regarding growth areas in infrastructure outside of Europe and North America not in the portfolio, Ms. Fitzpatrick stated that the basis of the portfolio is in OECD member countries. IFM is not currently looking to invest in developing countries unless there are particular opportunities.

(b) <u>J.P. Morgan Asset Management</u>

James Sakelaris and Robert Pease of J.P. Morgan Asset Management distributed a booklet containing information on the infrastructure investment management services provided by J.P. Morgan for ERS. Mr. Sakelaris introduced himself as the Client Advisor for J.P. Morgan Asset Management and introduced Mr. Pease as the Portfolio Manager for the firm's Infrastructure Investments Fund ("IIF") strategy.

Mr. Pease continued the discussion with an overview of the IIF strategy. The IIF fund is an open-ended, global OECD strategy with approximately $5 billion in net asset value. The IIF fund is a perpetual life fund with a platform investment focus offering long-term diversified core/core-plus infrastructure exposure. There are over 90 assets in the portfolio across 9 subsectors, with diverse geographic exposure in OECD countries. J.P. Morgan invests in core/core-plus infrastructure assets providing essential services. These assets have visibility to cash flow through contracts, contractual obligations or regulatory frameworks.

As of September 30, 2015, ERS's total commitment to the IIF fund is $85 million. Total distributions paid are at $19.5 million and accrued distributions, which will be paid next quarter, are at $1.6 million. Foreign currency was a significant detractor from the U.S. dollar performance reported over the last year. The assets are performing but the foreign exchange ("FX") was approximately a 7% detractor from the portfolio's total return over the last year. J.P. Morgan has researched currency and does not hedge currency exposure because it believes that currencies are mean-reverting. Although currency was a performance detractor in 2015, J.P. Morgan does not believe currencies will have a major impact on long-term performance.

In response to a question from Ms. Braun, Mr. Pease confirmed that the 6% cash yield represents the fund's cash yield as of the third quarter of 2015.

In response to a follow-up question from Mr. Christenson regarding expectations for cash yield in the fourth quarter of 2015, Mr. Pease confirmed that cash yield projections for the fourth quarter should be somewhat in line with IFM's numbers, but the FX impact will remain negative. The fund's trailing one-year cash yield is 6%. The target yield rate is 5% to 7% and the portfolio annual cash yield has been within that range for the last five years. J.P. Morgan believes that the portfolio has good visibility to continue to deliver yield in the 5% to 7% range.

Mr. Pease then discussed the investment team. The IIF investment team is supported by approximately 60 personnel with diverse backgrounds and specialized areas of expertise. The team's composition has remained relatively stable, with no major changes in the last year. Andrew Truscott was added as head of the firm's London office. Mr. Truscott has over 20 years of experience in regulated utilities and transportation. Kathleen Lawler was also added as an investment principal in the firm's New York office. Ms. Lawler has 6 years of experience in power, utilities and energy. J.P. Morgan will likely add some additional personnel over the coming year.

Mr. Pease next discussed the firm's acquisition strategy. There has been some concern expressed from market participants that prices are becoming extended in certain areas of the market. There has been a great deal of capital focused on the core space, particularly from large public pension plans, sovereign wealth funds, and insurance companies that have built direct investment teams. These teams have large amounts of capital to invest and are seeking larger deals in the range of $1 billion to 1.5 billion. J.P. Morgan focuses on smaller middle market transactions. J.P. Morgan believes there is less competition in the middle market and, therefore, a greater opportunity to negotiate off-market transactions and deal exclusively with the seller outside of the competitive auction process. J.P. Morgan has raised and deployed approximately $1 billion dollars over the last two years and hopes to raise an additional $1 billion to $1.5 billion over the coming year to further diversify the portfolio.

In response to a question from Mr. Christenson, Mr. Pease stated the current queue is zero. With new investments completed, J.P. Morgan has called in all capital committed to the fund. J.P. Morgan continues its fundraising efforts but can continue to pursue new investments with no capital in queue through direct co-investors. Most recently, J.P. Morgan partnered with Ontario Teachers' Pension Plan ("Ontario Teachers'") as a direct investor to a terminal deal in the Netherlands.

In response to a follow-up question from Mr. Christenson, Mr. Pease confirmed that J.P. Morgan is discovering attractive middle market investment opportunities. However, small market investment opportunities in power, energy and utilities are mixed and can be relatively expensive. The middle market is ideal for platform investments which can be made via J.P. Morgan's existing portfolio companies.

In response to a question from Mr. Harper regarding the additional value a fund such as Ontario Teachers' realizes by being a direct investor, Mr. Pease first noted only the largest pension plans in the world are directly investing in infrastructure. Ontario Teachers' is a large pension plan that has constructed its own investment team to invest directly in infrastructure. If sufficient resources exist for a fund to create its own investment team it can avoid paying fees.

Mr. Pease continued with a discussion of recent acquisitions. Terra Nova is a $650 million equity commitment to partner with SunEdison, a global renewable energy company headquartered in the U.S. J.P. Morgan has deployed approximately $400 million through its partnership with SunEdison to purchase primarily wind and solar assets. These power assets have long-term contracts in place with an average length of 15 years and the majority of returns come from cash flow yield via the contracts. Ontario Teachers' recently participated in acquiring Koole Terminals, a European liquid bulk storage company. Koole Terminals provides large chemical storage tanks that hold primarily agricultural-related liquid products and some petroleum-based products. Long-term contracts are in place with major chemical and agricultural companies. J.P. Morgan's acquisition activity has been very robust since 2014 and a strong investment pipeline is in place for 2016. J.P. Morgan believes that it can continue to grow its renewable platform with assets that are consistent with the fund's total target returns and total yields. With the recent acquisitions, the portfolio's composition is now at 41% in regulated utilities, 34% in transportation and 25% in contracted power. The portfolio is well-diversified geographically with a strong contract profile. J.P. Morgan is pursuing several opportunities in the U.S. that would increase the portfolio's overall U.S. exposure to 40%, J.P. Morgan has completed several major regulatory cases in the last year and there are no major looming regulatory risks.

In response to a question from Mr. Christenson regarding the nature of the investment profile for the portfolio's wind and solar assets, Mr. Pease stated the contract profile is important in terms of underwriting power generation assets. A good long-term contract will reduce risk. Without a contract, power is sold at market prices and will enhance risk. J.P. Morgan has subcontracted power generation with long-term contracts expected to provide yield in the range of 7% to 9%. The majority of these contracts will have an escalation clause to increase the price of power over time to produce capital appreciation. The underwriting is quite conservative because J.P. Morgan assumes these assets will depreciate to zero over their useful life. J.P. Morgan partners with wind developers who take on the true development risk. Once wind assets are at the construction phase and the true development risk is mitigated, J.P. Morgan becomes the long-term owner of a stabilized asset with a low-risk return profile.

In response to a question from Ms. Van Kampen regarding J.P. Morgan's exit strategy, Mr. Pease stated that J.P. Morgan initially purchases its assets with long-term goals in mind. However, J.P. Morgan continually reviews its assets for the opportunity to exit at an attractive price due to market dynamics or supply/demand. To date, J.P. Morgan has sold two power generation plants from Southwest Generation located in Nevada. J.P. Morgan approached the sale of these assets from an opportunistic risk-reduction perspective because it was having difficulty recontracting these assets. As the portfolio grows and becomes more diversified, J.P. Morgan may sell more assets to shape the overall allocations within the portfolio by subsector or region.

In response to a question from Mr. Leonard regarding the effect of government regulations on investments in renewable resources, Mr. Pease stated that global public policy is generally very supportive of renewable resources. One risk involved with renewables is that the subsidy regime may change following the initial investment. Therefore, it is important to evaluate subsidy risks in advance by reviewing historical action local policy makers have taken with subsidies. J.P. Morgan focuses on regions where solar power is cost-competitive with other traditional sources of power and are not heavily reliant on subsidies. The U.S. is attractive for renewable investments, because it will generally grandfather in any prior renewable incentives and subsidies for market participants at the time of a change.

In response to a question from Mr. Christenson, Mr. Pease stated that approximately 40% of the portfolio's renewable resource investments are in the U.S.

(c) Marquette Associates Report

Brett Christenson and Christopher Caparelli of Marquette Associates distributed the December 2015 monthly report.

Mr. Caparelli began with an overview of the market environment. The three major events that drove market volatility and returns in 2015 were the economic slowdown in China, a fall in commodity prices and the Federal Reserve raising interest rates for the first time in nearly a decade. Returns in general were fairly muted in 2015 with some favorable returns in private market investments such as real estate and infrastructure. Early into 2016, the S&P 500 has experienced one of its worst starts in history and is down 11% year-to-date. However, the current volatility is not deeply rooted in fundamentals and the general economic statistics do remain favorable. With a current price of $28 per barrel, the continued decline in oil prices is currently driving reduced returns. It is hoped that as oil prices bottom out in the next few weeks or months, the equity markets will stabilize.

In response to a question from Mr. Leonard regarding predictions of $20 per barrel oil prices, Mr. Caparelli reported that Iran recently announced they are going back online with their oil production. While it is hard to predict where oil prices will eventually stop, $20 per barrel oil is not inconceivable.

Mr. Caparelli continued his discussion by reporting that under fixed income, higher quality bonds continued outperforming lower quality bonds in the fourth quarter of 2015. The BarCap Aggregate benchmark was up 60 basis points year-to-date as of December 31, 2015. While the riskier portion of the fixed income arena struggled with performance in 2015, the Fund does not maintain any of those positions in the portfolio. There was an increase in the very short end of the yield curve resulting from the recent rate hike implemented by the Federal Reserve. The Federal Reserve has suggested there may be up to four additional rate increases in 2016. However, given the current market conditions, the Fed's telegraphed action may be somewhat optimistic.

In response to a question from Mr. Harper regarding deleveraging and current equity pricing, Mr. Caparelli confirmed the deleveraging cycle continues and many managers are currently purchasing quality investment opportunities in a deeply discounted market.

In response to a follow-up question from Mr. Harper regarding the impact of increased corporate default rates in the current market, Mr. Caparelli stated high yield bonds were down -4.5% in 2015. That may suggest that the markets are pricing in the fact that some companies, particularly in the energy sector, are borrowing at below normal rates. Approximately 15% of the high yield benchmark is comprised of energy-related companies and there will likely be some spikes in default within the energy sector which would further reduce high yield bonds.

Mr. Caparelli concluded with a discussion of equity performance. The S&P 500 closed out 2015 with a slightly positive year-to-date return of 1.4%, far below the double digit returns achieved over the last two years. U.S. Equity returns were weaker under the Russell small and mid-cap indices. A small number of very large U.S. companies such as Facebook, Apple, Netflix and Google largely contributed to the positive returns, while the small to mid-cap U.S. companies struggled a bit more in 2015. International equity struggled with performance in 2015. While international equity returns were fairly decent in terms of local currency, the strengthening U.S. dollar had a negative impact on final returns.

Mr. Christenson then discussed the monthly flash report. Artisan Partners, Geneva Capital and ABS remain on alert status for performance issues. Marquette recommends maintaining Artisan and Geneva on alert and monitoring performance through the end of first quarter of 2016. Although performance for Artisan and Geneva rebounded nicely in 2015, each manager continues to underperform their benchmark in the two- and three-year periods. Performance for ABS has been positive and Marquette will discuss removing ABS from alert status at next month's Board meeting.

As of December 31, 2015, the Fund's year-to-date return is at 2.4%, net-of-fees, versus the benchmark at 0.9%. Although the 2015 return is well below the Fund's actuarial rate of return, performance was strong relative to the difficult market environment throughout 2015. Marquette believes ERS's 2.4% return will be very strong relative to its peer group.

Mr. Christenson noted that ERS's investment strategy of maintaining a high quality fixed income portfolio helped contribute to the Fund's relatively strong performance in 2015. The Fund's fixed income composite was up at 1.1% year-to-date, net-of-fees, versus the benchmark at 0.5%. Marquette anticipates that many of ERS's peers will have a negative annual return in their fixed income portfolios, largely resulting from riskier high yield investments. ERS has maintained its high quality fixed income investments as an anchor to the portfolio, while searching for yield in alternative asset classes such as hedged equity, real estate, infrastructure and private equity. The Fund's real estate composite is up at 14.2% year-to-date, net-of-fees. The preliminary year-to-date infrastructure return is up at 5.3% net-of-fees and private equity has not yet reported for the fourth quarter. Once fully reported, Marquette projects that slightly positive private equity returns could enhance the Funds current 2.4% year-to-date return.

Mr. Christenson continued with a discussion of net-of-fees manager performance. J.P. Morgan is one of the highest quality active bond managers in the U.S. As of December 31, 2015, J.P. Morgan's year-to-date return is up at 1.2%, versus the Barclays Aggregate index at 0.5%. Mellon Capital, the Fund's fixed income index manager, is down slightly year-to-date at 0.4%. Under the U.S. equity composite, Boston Partners was slightly under their benchmark at -4.1% year-to-date, versus the Russell 1000 Value at -3.8%. Both Artisan Partners and Geneva Capital were up year-to-date at 2.5% and 3.9% respectively versus their shared benchmark at -0.2%. Both Fiduciary and Silvercrest preserved capital well with year-to-date returns of -0.4% and -2.4% respectively versus their -7.5% shared benchmark.

In response to a question from Ms. Van Kampen, Mr. Christenson confirmed the U.S. equity portfolio's overweighting to small cap relative to the Wilshire 5000 benchmark has negatively affected the overall U.S. equity composite year-to-date return. The Fund's U.S. equity composite is down year-to-date at -0.7%, net-of-fees, versus the Wilshire 5000 benchmark at 0.7%. The Fund's U.S. equity exposure to small cap is approximately 30%, while small cap exposure in the benchmark is approximately 9%. The underperformance in small cap has negatively affected the overall U.S. equity year-to-date return.

Mr. Harper then observed that approximately 83% of the Funds 2.4% year-to-date return was realized from illiquid alternative asset classes in real estate, private equity and infrastructure. Mr. Harper questioned whether the Fund should continue to seek performance in these illiquid asset classes or seek real market performance in other areas of the portfolio.

Mr. Christenson responded to Mr. Harper by first noting that the Fund is currently overweight in real estate by approximately $50 million and underweight to equities by approximately $40 million.  Mr. Christenson explained that Marquette is considering recommending rebalancing towards equities and will address this topic with the Investment Committee at an upcoming Committee meeting.  Marquette's research team has recently provided updates on market valuations which suggest that valuations are very high in real estate and have extended beyond the comfort zone in terms of cash yield.  International equity continues to remain undervalued and Marquette believes this may be an opportunistic time to take advantage of the dislocation in the markets by rebalancing towards equities.
Mr. Christenson noted that while private equity is a very illiquid asset class, it is one asset class that will likely provide the most consistent premium.

Mr. Christenson reported that GMO continues to struggle with performance while the other international equity managers are either in line with or outperforming their benchmarks.  GMO's five-year return is down at 5.7% net-of-fees versus their benchmark at 6.3% and, therefore, Marquette recommends placing GMO on alert for performance issues.  Marquette will discuss GMO's performance and address the possibility of a search with the Investment Committee at a future meeting.

**The Pension Board unanimously approved placing GMO small cap on alert.  Motion by Ms. Van Kampen, seconded by Ms. Braun.**

Mr. Christenson continued his remarks by stating that the Fund maintained a favorable asset allocation for 2015.  However, one of the top-performing asset classes in 2015 was international small cap and the MSCI EAFE Small Cap Index is up at 9.6% year-to-date.  Had GMO exhibited performance that was more consistent with the benchmark, it would have enhanced the Fund's 2015 total performance.  Mr. Christenson noted that GMO is a very value-biased portfolio and growth did largely contribute to the strong small cap index return in 2015.  However, there may be other small cap managers for the Fund to explore with returns more consistent to the benchmark.

Mr. Christenson then discussed market values.  As of December 31, 2015, the Fund stood at just over $1.7 billion in total assets.  Relative to the newly established asset allocation policy, the Fund is now essentially on target with fixed income at 17.5%.  The target allocation for private equity was recently increased to 10% and the portfolio's current allocation stands at 6%.  The U.S. and international equity composites are currently underweight to the policy targets by approximately $17 million and $22 million respectively. Hedged equity and real estate are currently overweight to the policy targets by approximately $10 million and $53 million respectively.  Infrastructure is also overweight by approximately $7 million. Marquette will likely recommend to the Board that it begin strategically drawing down some of the current overweights in the alternative asset classes in the second quarter of 2016. There is a current redemption of $35 million with Morgan Stanley in real estate and $20 million of that was designated for a commitment to UBS earlier this month. Following the redemption from Morgan Stanley, real estate remains overweight by approximately $38 million. With sufficient cash available, Marquette would like to address rebalancing equities at future meetings.

Ms. Braun commented that even though Morgan Stanley is overweight, it remains the Fund's top-performing manager.

In response to a question from Ms. Van Kampen, Mr. Christenson confirmed that he was able to contact the actuary regarding future Investment Committee discussions to address the Fund's actuarial rate of return.

Mr. Christenson concluded by noting that updates were made to the investment policy to reflect the revised asset allocation percentages and related updates were also made to the cash overlay guidelines. Marquette will comment on these updates in greater detail with the Investment Committee at its upcoming February meeting.

5. Investment Committee Report

There was no Investment Committee report because the January 4, 2016 meeting was cancelled.

6. Audit Committee Report

Ms. Westphal reported on the January 7, 2016 Audit Committee meeting. The Audit Committee first discussed voter participation in relation to the upcoming Pension Board employee-member election. Ms. Ninneman reported that 90% of ERS members typically do not vote in Pension Board elections. The Retirement Office is exploring various methods to promote election awareness and increase voter participation. ERS has included information on the upcoming employee election in a recent County-wide newsletter and will post candidate video statements to its website in the near future. Ms. Ninneman also reported that ERS is investigating options to resurrect its mobile voting unit, previously known as the "voting bus."

The Audit Committee next discussed ERS benefit administration errors. Ms. Ninneman explained that the Retirement Office continues to analyze member benefit payments and discover prior payment errors. The Audit Committee requested that the Retirement Office report the number of known errors to the Audit Committee monthly and specify whether those errors are overpayments or underpayments. The Audit Committee will then determine if the errors should be reported to the full Pension Board. Ms. Funck expressed a concern with regard to retirees who are assessed interest penalties on overpayments related to administrative errors. Counsel explained to the Committee that per the IRS, if an individual was held harmless for benefit payment errors, the County would be required to reimburse ERS for any costs related to such payment errors. Mr. Huff discussed the potential impact of implementing any changes to ERS policies related to the recoupment of payment errors while ERS's Voluntary Correction Program ("VCP") application is pending with the IRS. Mr. Huff also reviewed a potential option for ERS to correct certain overpayment errors under the IRS's Employee Plans Compliance Resolution System. Mr. Huff explained that ERS could self-correct certain smaller overpayment errors without an IRS VCP filing by complying with the IRS's Self-Correction Program.

The Audit Committee continued with a discussion of operational audits. Ms. Ninneman reported that ERS's last internal audit was performed during 2011-2012. Ms. Ninneman suggested the Pension Board consider requesting a new internal audit following the V3 system upgrade which is scheduled for completion at the end of 2017. Ms. Ninneman also suggested that the next audit should be performed by an impartial third party. Mr. Grady recommended that the Pension Board consult with the County Audit Department before requesting any external audit assistance.

The Audit Committee concluded with a discussion of normal retirement age. The County raised the normal retirement age from 60 to 64 for most ERS members in 2010 but maintained the early retirement age at 55. Corporation Counsel suggested the Audit Committee consider supporting a proposed Ordinance change to increase ERS's early retirement age from 55 to 59 for members with a normal retirement age of 64. The Audit Committee expressed support for the proposed change and asked counsel to prepare a proposed amendment for presentation at a future meeting.

7. <u>Proposed Ordinance Amendments to Section 2.18 & 4.1 DA Investigators — Normal Retirement Age and Rule of 75; Firefighters — Rule of 75 — Referred to Pension Board under Section 8.17 for Possible Comment</u>

Mr. Grady began the discussion by explaining that any proposed changes to the Ordinances must be referred to the Pension Board by the County Board for possible comment. Mr. Grady noted that item 7 was placed on today's meeting agenda in anticipation that the proposed Ordinance amendments would have already been referred to the Pension Board for possible comment. However, while the proposed Ordinance amendments have been submitted to the County Board, the matter has not yet been formally referred to the Pension Board for possible comment. Mr. Grady indicated that after discussing the matter with Chairman Daugherty, they believe the Pension Board can review the proposed changes and engage in discussions on the matter. However, until the proposed Ordinance amendments are officially referred by the County Board, the Pension Board should withhold any formal action on the matter.

Ms. Braun then asked Mr. Grady to provide informational background on the proposed Ordinance amendments.

Mr. Grady explained that the proposed Ordinance amendments primarily relate to the 19 district attorney investigators ("DA investigators") employed by the district attorney's office. Certain DA investigators transferred from the deputy sheriff's office where they were previously employed as deputy sheriffs and represented by the Milwaukee Deputy Sheriffs' Association ("MDSA"). Certain other DA investigators were previously employed by the Milwaukee Police Department, while remaining DA investigators came from other various places. The district attorney's office recently expressed concerns to Corporation Counsel related to the nonrepresented DA investigator position. The primary concern relates to the DA investigator's normal retirement age. The deputy sheriffs represented by the MDSA have a normal retirement age of 57 or, age 55 with 15 years of service. However, the nonrepresented DA investigators, who are also sworn law enforcement officers, have a normal retirement age of 60 or 64, depending on their date of hire, or age 55 with 30 years of service. The district attorney's office believes that the DA investigators, as sworn law enforcement officers, should have the same normal retirement age as the deputy sheriffs.
Mr. Grady observed that it is common public policy for law enforcement officers to have an earlier retirement age. This provides law enforcement officers the opportunity to serve while they are younger and more capable of performing the physically demanding job duties. Therefore, one of the proposed changes in the Ordinance amendment would provide DA investigators the same normal retirement age as deputy sheriffs (age 57 or, age 55 with 15 years of service). There would be a cost related to the proposed reduction in normal retirement age for the DA investigators and Buck Consultants is currently preparing the actuarial cost analysis.

Mr. Grady then discussed the second concern which relates to the Rule of 75. Following the implementation of Act 10, the County Board, in 2011, changed its pension Ordinances related to the Rule of 75 and froze eligibility for the Rule of 75. As a result, a deputy sheriff is eligible to retire under the Rule of 75 only if they became a deputy sheriff prior to January 1, 1994. Consequently, two DA investigators, who were hired as deputy sheriffs before January 1, 1994 but became DA investigators after 2011, have lost the Rule of 75. This was an unforeseen and unintended consequence to the 2011 Ordinance amendments. The 2011 change was originally intended to prevent employees not otherwise eligible for the Rule of 75 from gaining that benefit upon a change in their represented status. However, the complexities involving public safety workers possibly moving into nonrepresented categories were not fully realized in 2011. The proposed Ordinance amendment would reestablish the Rule of 75 for the DA investigators adversely affected by the 2011 Ordinance amendment. There are only two DA investigators currently known to be affected by the Rule of 75 issue and, therefore, the costs related to the proposed change should not be extensive. The proposed Ordinance amendment also includes a similar provision related to firefighters and the Rule of 75. For example, a firefighter hired before January 1, 1994 that may later accept a promotion outside of their bargained position would presently lose eligibility for the Rule of 75. Currently, there are no known issues related to firefighters and the Rule of 75, but the proposed change would allow any firefighter potentially affected in the future to retain the Rule of 75.

Mr. Grady concluded his comments by stating that the main purpose of the proposed Ordinance amendment is to provide nonrepresented DA investigators parity in retirement eligibility with other County law enforcement positons.

In response to a question from Ms. Braun regarding what contribution category DA investigators are under, Mr. Grady indicated that he believes DA investigators may fall under the public safety category but noted he is currently researching that information with the Comptroller's office.

Ms. Braun reported that information was relayed to her which suggests the two DA investigators who have presently lost the Rule of 75 were incorrectly informed that they were eligible to retire under the Rule of 75.

Mr. Grady acknowledged Ms. Braun's remarks but noted he has not verified those alleged facts as yet and, therefore, cannot be certain the allegations are true. Mr. Grady further explained that it is the Ordinances that ultimately dictate whether or not a member is entitled to a pension benefit.

In response to a question from Ms. Van Kampen regarding the Pension Board's possible actions on the matter, Mr. Grady stated that once the proposals are formally referred to the Pension Board for possible comment, the Board may respond however it deems appropriate. Typically, the Pension Board has chosen not to comment on proposed benefit changes and has issued a letter to that effect. The Pension Board may also decide as a group to provide comments to the County Board that either support or oppose the proposed benefit change. However, it is the County Board that will make the final determination to approve or deny the proposed Ordinance amendment.

In response to questions from the Chairman and Ms. Westphal, Mr. Grady confirmed this issue will be added to a future Pension Board meeting agenda and will likely reappear in February or March of this year. Because the proposed change is related to public policy and is not a litigation related matter, the Pension Board likely cannot hold closed session discussions on the matter.

Ms. Ninneman noted that system programming costs associated with the proposed benefit changes would be an additional cost to consider.

In response to questions from Messers Leonard and Gedemer, Mr. Grady confirmed that the proposed Ordinance changes would correct any presently undiscovered issue affecting a firefighter or law enforcement officer who may have unknowingly lost the Rule of 75 after accepting a promotion to a nonrepresented position.

In response to a question from Mr. Harper, Mr. Grady stated that public safety employees have typically had a higher pension multiplier with an earlier retirement age. This distinction is not unique to ERS and is common policy in governmental plans designed to incentivize public safety employees to retire at an earlier age.

In response to a question from Ms. Westphal regarding the fiscal impact of an earlier retirement age, Mr. Grady stated that the costs related to the earlier payment of a pension benefit typically outweigh the reduced pension benefit.

8. Proposed Ordinance Amendments to Section 8.17 of Section 201.24 — Pension Board Fiscal Review — Referred to Pension Board under Section 8.17 for Possible Comment

In response to a question from the Chairman, Mr. Grady confirmed that the Pension Board fiscal review proposed Ordinance amendment has been formally referred to the Pension Board by the County Board for possible comment.

Mr. Grady summarized the proposed Ordinance change. Mr. Grady first reported that Buck Consultants has performed the fiscal analysis of the proposed Ordinance amendment and has determined that it would have no actuarial cost impact. The proposed amendment was issued by the County Executive to the County Board and would require the Pension Board to obtain a fiscal analysis prior to making any decision that would potentially affect the benefit of two or more current or future members. The Comptroller would be requested to prepare the fiscal analysis, the Director of Performance, Strategy and Budget ("Budget Director") would be asked to approve the analysis, and the actuary would be asked to assist with and verify the analysis. The Pension Board would receive the completed fiscal analysis for review prior to taking any action that would potentially affect the benefit of two or more current or future members. The proposed change will provide more information to the Pension Board prior to making a decision but may also prolong Pension Board decisions.

The Chairman then called for comments or questions from the Board members.

Ms. Van Kampen questioned the reason for the County Executive's proposed change and asked whether it was intended as a criticism to any specific decision previously made by the Pension Board.

Mr. Grady responded by indicating that he did not wish to speak on behalf of the County Executive. Mr. Grady noted the County Executive stated publicly in his January 8, 2016 memorandum to Chairman Lipscomb that the proposal is intended to "strengthen safeguards within the Milwaukee County's pension system by ensuring that decisions related to pensions are made in a data-driven manner by requiring a comprehensive review of fiscal impacts."

In response to a question from Ms. Funck regarding the cost impact of the proposed policy change, Ms. Ninneman clarified that the proposed action to require a fiscal review by the three entities would have no cost impact. However, an evaluation cost would occur once a fiscal analysis is deemed necessary per the requirements as stated in the proposed Ordinance.

Mr. Grady added that because the County ultimately covers all costs related to the Pension system not otherwise covered by investments or member contributions, any additional costs incurred by the Pension Fund related to the fiscal analysis request would be indirectly paid by the County through its fringe benefit budget.

Mr. Leonard expressed agreement with the proposed change, noting he believes it is appropriate for the Pension Board to review a fiscal analysis prior to taking any action that may affect the Fund because the County Board is already following similar procedures.

Mr. Grady expressed agreement with Mr. Leonard but cautioned there will likely be future interpretation issues regarding which Pension Board decisions may apply to this proposed policy.  The Pension Board adopts some Rules that are purely administrative in nature and such decisions would likely not be affected by this proposal.  However, some Rules may go beyond purely administrative decisions and could potentially impact two or more current or future members.  These types of determinations will require further analysis on a case-by-case basis to determine whether an issue may require a fiscal analysis prior to a Pension Board decision.

In response to questions from Ms. Van Kampen and Mr. Gedemer, Mr. Grady stated the Pension Board would need to make the determination as to whether or not its decision would potentially affect the benefit of two or more current or future members and a fiscal analysis is required.  Some situations will be obvious and other situations will likely require further review.

In response to questions from the Chairman and Mr. Leonard regarding the proposed Ordinance as it may apply to any future Pension Board decision to modify the Fund's actuarial rate of return, Mr. Grady stated that he believes such decision would likely not be affected by this proposal.  However, the answer to that question will require additional analysis before a final determination can be made.  Mr. Grady suggested that a change to the Fund's assumed rate of return would affect the funding of ERS but would not affect the benefits of two or more members, because a member's defined benefit pension is formula-driven.

Ms. Westphal stated for the record that as a standard and reasonable decision-making practice, the Pension Board has always informally requested a fiscal analysis before making its decisions in the past.

Mr. Grady responded to Ms. Westphal by noting that the County Executive is aware the Pension Board has made prior informal requests for a fiscal analysis before making its decisions.  The proposed Ordinance amendment is intended to formally state the circumstances and procedures for obtaining a fiscal analysis in the Ordinances.

In response to a question from Ms. Braun regarding the County Board's fiscal analysis procedures, Mr. Grady stated the County Board must receive an actuarial report when the County Board has a pension benefit Ordinance change. The Comptroller's office and the Budget Director may comment on the actuarial report but are not required to comment. The Pension Board fiscal review proposed Ordinance is somewhat different because it requires all three entities to engage in the fiscal review analysis.

Mr. Gedemer remarked that the fiscal analysis proposal is probably a good idea, but also noted he fears it may limit the Pension Board's ability to correct an erroneous past practice until a fiscal analysis can be completed.

Mr. Grady agreed that the fiscal analysis may delay the process, but noted that the Pension Board would still be able to make any decision it deems appropriate despite the information in the fiscal analysis.

Mr. Leonard suggested there is redundancy in the current proposal by requiring the involvement of the actuary and the Budget Director in addition to the Comptroller. Mr. Leonard then recommended the proposed amendment should only require a singular fiscal note from the Comptroller.

In response to a question from Ms. Ninneman, Mr. Leonard stated that he believes the Comptroller should first perform his own fiscal analysis. If the Comptroller feels it is necessary to involve the actuary, the Comptroller should then request further analysis from the actuary.

Mr. Gedemer disagreed with Mr. Leonard's recommendation and stated that he believes the actuary's opinion is of primary importance for making any benefit-related decisions affecting the Pension Fund. Mr. Gedemer explained that because the actuary ultimately performs the final mathematical analysis to develop the County's annual required contribution, the actuary's opinion is crucial.

In response to a question from Mr. Grady, Mr. Gedemer confirmed that he would recommend the actuary be the only party involved in the fiscal analysis. Unlike the Comptroller and the Budget Director, the actuary is a neutral party that is responsible solely to the Fund. Mr. Gedemer noted, however, he likes the idea of involving the Budget Director because he believes the Pension Board should be kept apprised of any County budgetary concerns that may affect employees. Mr. Gedemer added that he is also concerned about the additional time the fiscal analysis process will add to the Pension Board's decision-making process.

Mr. Harper questioned if the proposed change is intended to create increased data transparency and whether or not the appropriate infrastructure exists to support these types of data requests.

Mr. Grady responded to Mr. Harper by citing, as an example, the recent request that the Pension Board interpret the MDSA agreement regarding the Rule of 75 for deputy sheriffs. The Pension Board discussed the matter over three meetings in the latter half of 2015 before making its final decision in November 2015. If the proposed fiscal review policy had been in effect at that time, the Pension Board would have been required to initiate a request for the Comptroller to begin the fiscal review process. Mr. Grady noted it is currently unclear whether the initial request would be issued by the Chairman of the Pension Board, the Director of Retirement Plan Services or Corporation Counsel. Once the request for a fiscal analysis is made, the Comptroller would perform his review and then ask the Budget Director to review his analysis and issue comments. The completed fiscal analysis would then be presented to the Pension Board and the Pension Board would issue its decision based on the fiscal analysis and all other relevant factors. Mr. Grady added that the time to complete the entire process would likely depend upon the complexity of the issue under consideration.

Mr. Gedemer observed the MDSA Rule of 75 issue first became known to all parties involved in June 2015 and took approximately six months until the question was resolved. Mr. Gedemer reiterated his concerns regarding timeliness. Mr. Gedemer remarked that he believes the fiscal review process is beneficial but reasonable care should be taken to ensure it does not interfere with a member's desired retirement date.

Messes Braun and Van Kampen observed that while the Pension Board would initiate the request for the fiscal analysis, it could not control the timeframe required to complete the entire process.

Ms. Funck suggested that future Pension Board decisions could take up to one year to complete under the proposed fiscal analysis policy.

In response to a question from Ms. Braun, Mr. Grady indicated he was currently uncertain, but suggested the Comptroller and Budget Director may have to issue two separate reports if they would have conflicting opinions on the results of the fiscal analysis.

After a lengthy discussion among the Board members regarding a potential scenario involving conflicting opinions from the Comptroller and the Budget Director, Ms. Westphal observed that the third sentence of section 2(c) of the proposed Ordinance reads "the director of performance strategy and budget shall be requested to approve the analysis." Ms. Funck suggested this language does not require the Budget Director to approve the Comptroller's analysis.

Ms. Ninneman also observed the final sentence of section 2(c) of the proposed Ordinance reads "The analysis shall be requested to include a) the effect of the proposal on the county budget for the next five (5) years and b) the effect of the proposal on the liabilities and assets of the funds of the system and required contributions to the funds of the system for the relevant future period." Ms. Ninneman suggested this language is intended to ask the three entities to review a proposal and provide hypothetical information based on the impact to the County budget and ERS over the next five years.

In response to a question from Mr. Leonard regarding the Pension Board's role if the Comptroller and Budget Director issue conflicting opinions, Mr. Grady stated a fiscal analysis is being requested because the Pension Board will ultimately have to make some type of determination regarding member benefits. The cost analysis by the Comptroller and Budget Director are only supporting factors which the Pension Board must consider when ultimately deciding. Cost is not the final determination. The Pension Board simply must know what the cost input will be prior to making its determination.

The Chairman stated the proposed fiscal analysis policy is designed to provide additional information to the Pension Board for consideration in its deliberations.

Mr. Gedemer expressed agreement with the Chairman but questioned the proposed order in which the analysis by three entities should occur. Mr. Gedemer noted that under the description of the fiscal effect, the penultimate paragraph reads "the Office of the Comptroller is requested to provide the analysis. The Office of Performance, Strategy, and Budget is requested to approve the analysis. The actuary is requested to assist in or verify the analysis." Mr. Gedemer suggested the actuary should provide the initial analysis, followed by the Comptroller and then the Budget Director. Mr. Gedemer reiterated that he believes the actuary's analysis is key because the actuary ultimately develops ERS's annual contribution recommendation.

Mr. Grady suggested the Comptroller would not have the demographic data needed to determine the effect a proposal would have on the assets and liabilities of the Pension system. Mr. Grady further suggested the intent of the proposal is that the Comptroller will immediately initiate discussions with the actuary upon receiving a request for a fiscal review.

In response to a question from Mr. Gedemer, Mr. Grady explained the Pension Board is not required to take any action today. The County Board is simply required to provide the Pension Board with the opportunity to comment on the proposed Ordinance amendment.

The Chairman noted that the Pension Board's detailed discussion on the matter will be reflected in the minutes and asked whether the Board members wished to declare a formal motion on the matter.

Mr. Gedemer indicated he believes the proposed change will provide more information to the Pension Board and will serve to protect members and their pension benefits. Mr. Gedemer suggested, however, that the Pension Board provide comments to the County Board that request further clarification of the actuary's role in the fiscal analysis process. Mr. Gedemer further suggested that the Pension Board's comments include a request to impose a time constraint for completion of the fiscal review. A time constraint is important to prevent prolonged delays in Pension Board decisions, especially when payment of a member's pension benefit is on hold pending a decision by the Pension Board.

In response to a question from Ms. Ninneman, Mr. Grady confirmed that a Rule could be developed to describe the process the Pension Board would follow to comply with the Ordinance change. The Rule must be consistent with the Ordinance.

In response to questions from Ms. Westphal regarding the construction of a future Rule, Mr. Grady confirmed that the Pension Board could not adopt a Rule that would be contrary to the Ordinance. The Pension Board may adopt a Rule which, in part, states the Pension Board may take action without a fiscal analysis if the Pension Board does not receive a fiscal analysis within a specified time period.

Ms. Braun expressed her support for the proposed Ordinance, noting that it is beneficial for Pension Board to obtain fiscal information prior to making a decision.

In response to a question from Ms. Braun, Mr. Grady clarified that the proposed fiscal analysis policy would not apply to matters referred by the County Board to the Pension Board for possible comment.

Ms. Funck then requested two motions to separate the Pension Board's endorsement of the fiscal review policy from its request to impose a time limit for completion of the fiscal analysis.

In response to a question from Mr. Grady, Mr. Gedemer suggested that 120 days would be an appropriate timeframe to require completion of a fiscal analysis.

Ms. Ninneman expressed her concern with the proposed 120 day timeframe, noting it could take longer than 120 days to gather and analyze the data required to analyze complex issues.

Mr. Grady reminded the Pension Board that the proposed time constraint is not a time limit for the Pension Board to make a decision. The proposed time constraint is a time limit for the Pension Board to receive a fiscal analysis. Based on prior experiences with the actuary, Mr. Grady suggested that six months may be a more appropriate timeframe. Mr. Grady also suggested the Pension Board may wish to state in its comments that the Pension Board believes it should be free to make its decision if it does not receive the fiscal analysis within six months.

Mr. Gedemer and Ms. Funck expressed their agreement with Mr. Grady's suggestion.

**The Pension Board of the Employees' Retirement System of the County of Milwaukee ("Pension Board") voted 8-0-1, with Ms. Funck abstaining, motion by Mr. Leonard, seconded by Ms. Van Kampen, to adopt the following motion at its regular monthly meeting on January 20, 2016, to provide the comment summarized below regarding proposed Ordinance amendments to section 201.24(8.17) of the Milwaukee County Code of General Ordinances to require a fiscal analysis and report before the Pension Board takes any action under sections 8.6 and 8.17 that could potentially affect the rights of two or more members:**

**The Pension Board endorses a policy of receiving a fiscal analysis prior to taking actions covered by the proposal. However, the Pension Board believes that the fiscal analysis should be initiated and directed by the actuary, with review and assistance by the Comptroller and the Director of Performance, Strategy and Budget.**

**The Pension Board voted 7-2, with Messers Leonard and Harper opposed, motion by Ms. Funck, seconded by Mr. Gedemer, to adopt a motion at its regular monthly meeting on January 20, 2016, to provide the comments summarized below regarding proposed Ordinance amendments to section 201.24(8.17) of the Milwaukee County Code of General Ordinances to require a fiscal analysis and report before the Pension Board takes any action under sections 8.6 and 8.17 that could potentially affect the rights of two or more members:**

**The Pension Board believes that it should receive the fiscal analysis in a timely manner and believes that it should be authorized to proceed to take any relevant action if it has not received the fiscal analysis within six (6) months of requesting the analysis.**

Ms. Braun then moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(f) with regard to items 9 and 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 9 through 13 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 unanimously agreed by roll call vote 9-0 to enter into closed session to discuss agenda items 9 through 13. Motion by Ms. Braun, seconded by Ms. Bedford.**

9. Disability Retirement Application - Scott Griffin

In open session, the Chairman stated that ERS's new Medical Review Board has completed its review of Mr. Griffin's accidental disability retirement application and the Medical Review Board's determination has been conveyed to Mr. Griffin.

In response to a question from the Chairman, Mr. Griffin stated that he would prefer to discuss his application in open session. Mr. Grady advised Mr. Griffin that he can address the Board in closed session to protect his medical privacy. Mr. Griffin acknowledged Mr. Grady's advice and stated that his attorney would speak on his behalf in open session.

Mr. Stanford introduced himself as the attorney representing Mr. Griffin regarding his disability retirement application.

In response to a question from Mr. Stanford, the Board members acknowledged they have reviewed the Medical Review Board's determination which recommends that Mr. Griffin be granted an accidental disability pension.

In response to a question from Mr. Stanford regarding the Pension Board's decision-making process, Mr. Grady stated the Pension Board can decide to discuss the matter in closed session but will issue its decision in open session.

Mr. Stanford then suggested that Mr. Griffin's pension effective date should be retroactive to his date of injury, provided the Ordinances and Rules would not prohibit such effective date. Mr. Stanford noted Mr. Griffin's date of injury was October 29, 2013. Mr. Stanford further suggested the October 29, 2013 date is appropriate because that is the date the Medical Review Board has indicated is Mr. Griffin's date of disability.

Mr. Grady explained that per the Ordinances, Mr. Griffin's date of injury would have no bearing on his pension effective date. Mr. Griffin's pension effective date would be retroactive to the later of the date of his pension application, or the last day Mr. Griffin was on the County payroll. Mr. Grady noted to Mr. Stanford that he did not have the relevant Ordinance provisions with him today, but would provide that information to Mr. Stanford at a later date.

In response to a question from Mr. Grady, Mr. Stanford stated that Mr. Griffin's pension application date is June 2014.

Mr. Grady further explained that per the Ordinances, ERS would not theoretically issue "double pay" by paying a pension to a member still on the County payroll. If a member stopped working, was no longer on the County payroll and then applied for a pension three months following their final day of work, the pension effective date would be the member's date of application. ERS cannot pay a pension prior to a member's request. Mr. Grady noted that he did not have sufficient facts to know today which effective date may apply to Mr. Griffin.

Mr. Stanford suggested that the last day Mr. Griffin was paid was the date of his accident.

In response to a question from Mr. Grady, Mr. Stanford acknowledged that Mr. Griffin received workers' compensation following the date of his accident.

Mr. Grady then explained that Mr. Griffin would have received injury pay for some time following the date of injury, which would be part of the County payroll.

In response to a question from Mr. Grady, Mr. Griffin stated that he received workers' compensation for less than one year following his date of injury. Mr. Griffin further stated that once his workers' compensation payments ceased, he had to use his accrued County time, which totaled approximately 770 hours.

In response to a follow-up question from Mr. Grady, Mr. Griffin stated that his accrued County time ceased in April 2015 and he has not received a paycheck from the County since April 2015.

Mr. Grady then suggested that based on the information Mr. Griffin provided today, he believes Mr. Griffin's pension effective date may be retroactive to April 2015, the date he apparently last received a paycheck from the County for accrued time.

Mr. Griffin argued that his original pension application date was June 2014 because that is when he received his permanent partial disability. Mr. Griffin further argued that his accrued time was received while he was absent from work without pay.

Mr. Grady again explained that Mr. Griffin would not receive a pension from the County at the same time he was receiving payments from the County for his accrued time.

Mr. Grady concluded by clarifying that the only question before the Pension Board today is whether Mr. Griffin should be granted an accidental disability pension. If approved, Mr. Griffin's pension will then be administered consistent with past practices. Mr. Griffin may then appeal the effective date of his pension at a later date.

In response to a question from Mr. Stanford regarding the effect of a subsequent appeal on the continuity of Mr. Griffin's pension payments, Mr. Grady answered that, if approved by the Board, Mr. Griffin would begin to receive pension benefits based on ERS's past practices and interpretation of the Ordinances.

The Chairman called for additional questions and there were none.

The Chairman thanked Messers Griffin and Stanford for appearing today and explained that the Board will notify Mr. Griffin in a timely manner of its determination in writing if he did not wish to wait for the Board to return from closed session.

Mr. Griffin indicated that he would wait for the Board to return from closed session and receive a verbal decision today.

The Pension Board discussed the matter in closed session.

**After returning to open session, the Pension Board unanimously approved granting the accidental disability pension application based on the Medical Board's determination. Motion by Mr. Leonard, seconded by Ms. Funck.**

In response to a question from Mr. Griffin regarding next steps, Mr. Grady and Ms. Ninneman explained that Mr. Griffin should schedule an appointment with the Retirement Office and complete the necessary paperwork to receive his pension.

10. Appeal - Sarah Kochanski

In open session, Ms. Kochanski stated that she is appearing before the Pension Board to appeal her right to apply for a disability pension.

In response to a question from Ms. Kochanski regarding general procedures, the Chairman explained that the Board has received the information regarding Ms. Kochanski's appeal. The Chairman asked if Ms. Kochanski had any new information to add since her December 13, 2015 appeal application deadline.

Ms. Kochanski stated that she wanted the Board to know that she was never made aware of the fact that she had until March 2014 to apply for a disability pension. Ms. Kochanski further stated that she is still receiving workers' compensation and is currently under a doctor's care for her work-related injury. Ms. Kochanski explained that she would not apply for a disability pension until her doctor has medically determined that she can no longer perform her job duties. Ms. Kochanski stated that her doctor had just recently made the determination she could not perform her job duties. Ms. Kochanski added her doctor has also indicated that she may not be able to physically perform the job for which she is currently attending school.

Ms. Kochanski explained that she contacted the Retirement Office after receiving a letter in the mail from OBRA, because she was uncertain if OBRA was related to the firefighter pension. Ms. Kochanski stated that it was not until after contacting the Retirement Office she learned she would not be receiving a pension. Ms. Kochanski admitted that her lawyer negotiated no pension benefits when she left County employment. However, Ms. Kochanski explained that she understood her lawyer would engage in such negotiations. Ms. Kochanski stated that she believes she is being unfairly penalized. Ms. Kochanski further stated that she is now disabled at age 43 and may not be able to find suitable work to support herself. Ms. Kochanski reiterated that she is requesting to be allowed the opportunity to apply for disability benefits.

In response to a question from Ms. Braun, Ms. Kochanski stated that she is attending nursing school.

The Chairman called for additional questions and there were none.

The Chairman thanked Ms. Kochanski for appearing before the Board and explained that the Board will notify Ms. Kochanski in a timely manner of its decision in writing if she did not wish to wait for the Board to return from closed session.

In response to a question from Ms. Kochanski, Mr. Grady stated the Pension Board's decision will be final. Mr. Grady explained to Ms. Kochanski that if denied, she may appeal the Pension Board's decision to the circuit court. Mr. Grady also advised Ms. Kochanski that she may wish to retain counsel if the matter is appealed to the circuit court.

The Pension Board discussed the matter in closed session.

**After returning to open session, The Pension Board unanimously voted to lay over its decision on Ms. Kochanski's appeal to the February 2016 Pension Board meeting. Motion by Mr. Harper, seconded by Ms. Bedford.**

11. Pending Litigation

(a) *Tietjen v. ERS*

The Pension Board took no action on this item.

(b) *Trapp, et al v. Pension Board*

The Pension Board took no action on this item.

(c) *Mecouch v. ERS*

The Pension Board took no action on this item.

(d) *Walker v. ERS*

The Pension Board took no action on this item.

(e) *Baldwin v. ERS*

The Pension Board took no action on this item.

12. Actuarial Valuation Error

The Pension Board took no action on this item.

13. Report on Compliance Review

The Pension Board took no action on this item.

14. Reports of ERS Manager & Fiscal Officer

(a) Retirements Granted, December 2015

Ms. Ninneman presented the Retirements Granted Report for December 2015. Thirteen retirements from ERS were approved, with a total monthly payment amount of $12,258.91. Of those 13 ERS retirements, 5 were normal retirements and 8 were deferred. Four members retired under the Rule of 75. Nine retirees chose the maximum option and two retirees chose Option 3. Five of the retirees were District Council 48 members. Three retirees elected backDROPs in amounts totaling $476,588.03.

(b) Retirement Plan Services Update

Ms. Ninneman reported that the newly hired clerical specialist has completed employee orientation and began on-site training this week. The Retirement Office is now fully staffed in terms of clerical specialists. Two vacancies remain for retirement specialists and it is hoped those positions will be posted by the end of the month. Once hired, it will take approximately six weeks of training before the new hires can facilitate retirement meetings and perform final benefit calculations. ERS has experienced high turnover within the retirement specialist positions and all current retirement specialists have been employed for two years or less.

In response to a question from Ms. Braun regarding the timing of the retirement specialist job postings, Ms. Ninneman stated that she is currently working with the compensation director to have the position reclassified. The two positions will be posted as soon as a determination is made regarding the job reclassification.

In response to a follow-up question from Ms. Braun, Ms. Ninneman answered that if reclassified, the job title would be revised from retirement specialist to retirement analyst. The primary intent is to standardize the benefit analyst positions across the Retirement Office and benefits departments.

Ms. Ninneman next reported that the Retirement Office is anticipating very heavy call volume over the next four to six weeks. Approximately 20 members have already appeared on the weekly termination report and ERS staff has been advised that February and March will be very heavy processing months. Ms. Ninneman observed that the staff is extremely dedicated and noted many worked over the paid Martin Luther King Jr. Day holiday. To provide stress relief for staff during this busy time, the Retirement Office is planning various fun activities in the following few weeks.

In response to a question from Mr. Grady regarding the possibility for temporary help in the Retirement Office in the following two months, Ms. Ninneman stated that she is scheduled to hold a second meeting today with Beth Cleary from the City of Milwaukee to collaborate and explore additional ideas.

(c) backDROP Eligibility

Ms. Ninneman noted that a request was made at last month's Pension Board meeting to provide a report detailing the number of employees eligible to receive backDROP payments. The total number of current County employees is 4,350, with 1,600 of those eligible for a backDROP. Of the 1,600 backDROP eligible employees, 393 are eligible prior to April 1, 2013 and 1,207 are eligible after April 1, 2013.

Ms. Westphal and Mr. Grady each observed that the number of employees currently eligible for a backDROP prior to April 1, 2013 is lower than anticipated.

In response to a question from Ms. Bedford, Ms. Ninneman stated that the current number of retirees is approximately 8,300.

In response to a question from Mr. Gedemer regarding the significance of April 1, 2013 in relation to the backDROP benefit, Mr. Grady replied that the County Board modified ERS's backDROP benefit formula effective as of April 1, 2013. ERS members eligible for a backDROP benefit on or after April 1, 2013 will likely receive smaller backDROP amounts.

In response to a question from Ms. Ninneman, the Pension Board members requested that the backDROP eligibility report be presented to them annually in January.

(d) Employee Election

Ms. Ninneman provided an update regarding the upcoming election for the employee-elected member seat on the Pension Board. A total of five members have currently taken out nomination papers and three members attended the trustee and election informational session held last month. To date, three members have submitted the required 100 nomination signatures. ERS has been rebranding its website to make it more user-friendly and will post candidate video statements via ERS's intranet to promote election awareness and increase voter participation. ERS is attempting to maintain a neutral role in the process and not act as a campaigning force for the individual candidates while promoting election awareness.

Mr. Grady observed that compared to the 10% to 15% statewide voter turnout in primary elections, the fact that only 10% of ERS members participate in Pension Board elections is not all that unusual. Mr. Grady agreed that ERS should do all it can to promote the Pension Board member election but noted that voter apathy is a larger systemic issue that can be difficult to overcome.

In response to a question from Ms. Braun, Ms. Ninneman confirmed that the Retirement Office will distribute e-mails to employees with "meet the candidate statements" later this week.

(e) ERS/OBRA Determination Letter Filings

Ms. Ninneman reported that Mr. Huff and his firm are completing the ERS and OBRA plan determination letter applications for submission to the IRS on January 29, 2016.

In response to a question from Ms. Ninneman, Mr. Huff confirmed this may likely be the final opportunity to file the ERS and OBRA plans with the IRS for a favorable determination. The IRS has long maintained a five-year cycle program for determination letter applications under which an employer may receive a favorable ruling from the IRS on the tax-qualified status of its sponsored plan. A plan must be qualified both in form and operation. The ongoing VCP application with the IRS relates to the operational issues of the ERS plan, while the determination letter process relates to the form of the ERS and OBRA plan documents. The IRS has announced to every plan sponsor in the U.S. it will be ending its five-year cycle determination letter application program. Therefore, unless the IRS or Congress decides to alter that decision, this will be the final opportunity to receive a favorable determination from the IRS on the terms of the ERS and OBRA plan documents. Mr. Huff thanked Ms. Ninneman and her staff for the assistance they have provided in gathering the information required for the determination letter applications.

In response to a question from Ms. Funck, Mr. Huff explained that unless the IRS changes its current proposal, the IRS would perform audits in the future to determine a plan's qualified status.

(f) Fiscal Officer

Ms. Ninneman explained that the necessary data was not available in time to prepare the December 2015 portfolio activity report for today's Pension Board meeting. Ms. Ninneman noted the Fiscal Office is experiencing timing issues with generating its financial reports each month. Ms. Ninneman explained that the Fiscal Office reports cannot be completed until data is received from the Fund's investment managers via BNY and is loaded into ERS's accounting software. Certain reports such as the check register were completed in time. However, the Fiscal Office is generally rushing at the last minute and working late the evenings before Pension Board meetings to gather the necessary data to generate the reports. Ms. Ninneman noted that the Fiscal Officer does not have sufficient time to thoroughly review the reports before they are issued to the Pension Board for review. Furthermore, the last minute distribution of reports does not provide the Board members sufficient time to review the information and formulate questions. To solve the timing issue, Ms. Ninneman suggested that the Fiscal Office reports could be issued retroactive by one month. Alternatively, the Pension Board could adjust its meeting schedule to the fourth week of the month which would allow one additional week for the Fiscal Office to assemble and review the financial data.

After continued discussion among the Board members regarding a possible Pension Board meeting date change, the Chairman suggested that Ms. Ninneman contact the Board members individually to determine what day of the week may work best for each member.

In response to a question from the Chairman, Ms. Ninneman confirmed there are sufficient funds available for the remainder of the 2016 first quarter.

Ms. Ninneman concluded with a discussion of ERS's top ten annual vendors. Ms. Ninneman noted that the top ten vendor report was compiled at the request of former Board member Gregory Smith. The Pension Board asked Ms. Ninneman to continue tracking the top ten vendor data and distribute the report to the Pension Board annually.

15. Administrative Matters

The Pension Board concluded with a discussion of additions and deletions to the Pension Board, Audit Committee and Investment Committee future topic lists and no changes were requested.

16. Adjournment

The meeting adjourned at 12:40 p.m.

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