EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

MINUTES OF THE JULY 2, 2015 SPECIAL PENSION BOARD MEETING

1. Call to Order

   The Chairman called the meeting to order at 1:35 p.m. at the Marcus Center for the Performing Arts, 929 North Water Street, Milwaukee, WI 53202.

2. Roll Call

Members Present	Members Excused
Laurie Braun (Vice Chair)	Aimee Funck
Dr. Brian Daugherty (Chairman)	D.A. Leonard
Norb Gedemer	
Gregory Smith	
Patricia Van Kampen	
Vera Westphal	

Others Present

Marian Ninneman, Director-Retirement Plan Services
Mark Grady, Deputy Corporation Counsel
James Carroll, Assistant Corporation Counsel
Paul Bargren, Corporation Counsel
Scott Manske, Comptroller
Jerry Heer, Director, Department of Audit
Steven Kreklow, Budget Director
Vivian Aikin, CRC, ERS Sr. Pension Analyst
Larry Langer, Buck Consultants
Paul R. Wilkinson, Buck Consultants
Steven Huff, Reinhart Boerner Van Deuren s.c.

3. Buck Consultants - Status Update on Annual Valuation Report

Larry Langer and Paul Wilkinson of Buck Consultants attended the meeting. Mr. Langer reviewed and discussed recent updates to ERS's January 1, 2015 preliminary valuation results as summarized in Buck's draft letter to the Pension Board dated July 1, 2015.

At the March and April 2015 Pension Board meetings, Buck reviewed current recommended industry best practices in public pension plan funding policies. Buck recommended various changes to make ERS's funding policy compliant with the recommended industry best practices. Buck also provided estimated total contribution amounts based on ERS's projected liabilities from the January 1, 2014 valuation, and the total Fund assets as provided by ERS staff for completion of the January 1, 2015 valuation report. After the April 2015 Pension Board meeting, Buck discovered that they had previously underestimated ERS's liabilities in both the 2013 and 2014 valuations. The 2013 and 2014 understated liabilities resulted from Buck excluding the cost of living adjustment ("COLA") for certain ERS members in 2013 and 2014. Buck subsequently reviewed and discussed the impact of the recently discovered COLA error on the January 1, 2015 valuation results with the Pension Board at its June 17, 2015 meeting. At the June 2015 Pension Board meeting, the Board requested additional information from Buck. The Board members asked Buck to illustrate the impact the re-inclusion of the COLA liabilities would have on the projected 2016 County contribution amount and member contribution rates, and any related impact on the funding policy changes previously adopted by the Board at its April 2015 meeting. Buck submitted a draft letter to the Pension Board addressing the requested information on June 26, 2015, with the intent of finalizing that letter for today's special Board meeting. On June 29th, Buck learned that the total asset figure Buck used to prepare the information in its June 26 letter was overstated. Buck subsequently revised its data using the corrected asset figure and the draft letter to the Pension Board dated July 1, 2015 contains updated projections.

Mr. Langer continued by reviewing the funding policy changes approved by the Board in April 2015. As a result of its discussions with Buck at the March and April 2015 Pension Board meetings, the Board approved a recommendation to the County Board to reduce the Fund's current amortization period from 30 to 20 years. The Pension Board concurrently approved changes in ERS's funding policy to reflect administrative expenses in the year immediately following the expense, to reduce future increases in payments from 3.5% to an expected revenue growth of 1.75%, and to update the entry age normal cost method from aggregate to individual. The funding policy changes approved at the April 2015 Pension Board meeting were recommended based on the data available to Buck at that time and did not include the re-inclusion of the 2013 and 2014 COLA liabilities or updated asset figure. As a result of the revised data, and the resulting higher than anticipated contribution amounts, Buck may now recommend transitioning some of the previously approved funding policy changes, as necessary, to make contributions more affordable.

Mr. Langer then discussed the reconciliation of ERS's liabilities and contributions based on the January 1, 2015 actuarial valuation, after the re-inclusion of the 2013 and 2014 COLA liabilities and reflecting the recent funding policy changes. The baseline amounts as of January 1, 2015 list the Fund's actuarial accrued liability at $2.056 billion and the Fund's actuarial value of assets at $1.773 billion. The revised amounts after reflecting the funding policy changes and the re-inclusion of the COLA liabilities have increased the Fund's actuarial accrued liability to $2.234 billion, but the actuarial value of assets remains unchanged at $1.773 billion. ERS's funded ratio will move from 86% to 79%. After reflecting the re-inclusion of the 2013 and 2014 COLA liabilities, the Fund's actuarial accrued liability will increase by $178 million. Consequently, the 2016 budget contribution is projected to increase from the prior estimate of $43.8 million, to $62.1 million. The prior contribution estimate of $43.8 million reflected all of the funding policy changes approved in April. Therefore, most of the $18 million contribution increase results from amortizing the re-inclusion of $178 million in COLA liabilities over the revised 20-year amortization period. Under the prior 30-year amortization policy, the COLA changes would have resulted in an increase of approximately $11 million.

Mr. Langer then discussed options for transitioning the contribution increases. With the increase in contributions resulting from the re-inclusion of COLA liabilities for certain members, the transitioning of higher costs is now a reasonable course of action for the Board to consider. However, some costs cannot be transitioned because of the recent funding policy changes. The first of these is the $1.3 million increase to the normal costs resulting from the change in the entry age normal cost method from aggregate to individual. Second, is the impact of immediately reflecting administrative expenses instead of amortizing those payments over ten years. The estimated administrative expenses for the 2016 budget year are around $1.5 million to $1.6 million. The impact of these two changes on member contributions is split 50-50 and will result in a 0.2% member contribution increase. The approximate 30% increase in total contributions resulting from the re-inclusion of the COLA liabilities will have a proportionately larger impact on the County's contribution. With the implementation of the state-mandated member contributions under Act 10, Buck reviewed the splitting of the Plan's costs and tried to mimic the methodology used in the State of Wisconsin's pension plan. Under the State of Wisconsin plan, impacts to retirees do not impact active members as much. Buck anticipates that reflecting the COLA liability increase will result in an additional 0.5% to 1% increase in member contributions.

In response to a question from Mr. Grady, Mr. Langer confirmed that before the COLA issue arose, Buck anticipated that general member contributions would increase up to the 6% range, based on the recent funding policy changes. However, because of the re-inclusion of the COLA liabilities, general member contributions could now be expected to increase to around 6.5%.

In response to a question from Ms. Van Kampen regarding the net increase that has resulted from Buck reflecting the re-inclusion of the $178 million in COLA liabilities, Mr. Langer stated that the total contribution amount would have been $10 million higher each in 2013 and 2014.

Ms. Van Kampen further clarified her question, stating that in addition to shifting the $10 million increase forward each subsequent year, there must be some additional cost related to the delayed re-inclusion of the COLA liabilities.

Mr. Wilkinson then stated that in terms of only isolating the impact of the COLA increase, annual contributions would increase from $10 million to approximately $11 million.

In response to a follow-up question from Mr. Smith regarding any shortfall due to the lost earnings specifically related to the late 2013 and 2014 COLA contributions, Messrs. Grady and Langer stated that the total contribution cost is now $1 million higher than it would have been. While it is likely that there is some time value of lost earnings on investments involved, the exact impact is not known at this time.

Mr. Manske then indicated that the County has historically delayed making its annual contribution to ERS by one year. The County made its 2013 contribution to the Fund in the spring of 2014 and its 2014 contribution in the spring of 2015. The actuarial plan reflects this delay by charging an 8% cost to the County. The County has historically delayed its contribution due to cash flow needs and the timing of receiving its tax payments from the municipalities. However, because of the 8% cost, it would be more prudent for the County to make its payment earlier and there have been discussions about changing the existing policy. Mr. Manske stated that because of the

County's current contribution payment policy, the error related to the COLA issue in essence only resulted in the delay of one $10 million amount.

In response to a question from Ms. Braun regarding the reason for the overstated asset figure Buck initially used in its June 26, 2015 draft letter to the Pension Board, Mr. Langer stated that it is not uncommon for figures to move around before reports are finalized. Buck submits its preliminary report to ERS to review and confirm the figures being used.

Mr. Manske then clarified by stating that the last financial report ERS presented to Buck in May 2015 listed ERS's assets at $1.879 billion. After ERS recently completed all of its financial reconciliation, the asset figure then changed to $1.822 billion. At the earlier $1.879 billion asset figure, the Fund would have achieved an annual return of 8.3%. However, the reports from Marquette were indicating an annual return closer to 5% or 6%, which is more in line with the $1.822 billion asset figure. When Buck prepared its June 26 preliminary report, they had not yet received the revised asset figure from ERS. This is not a one-time data error, but a communication error in terms of ERS's Fiscal Officer not relaying the updated asset information to Buck.

In response to a follow-up question from Ms. Braun, Mr. Manske confirmed that the revised asset figure is related to some of the additional contract work Baker Tilly recently completed for ERS. The $1.822 billion asset figure is a much more reasonable number based on the Fund's investment experience. Once Buck rolled the revised asset figure into its report, it did not change the COLA issue, but it did impact the overall picture and related funding options going forward.

In response to a follow-up question from Mr. Smith regarding the Fund's 2014 reduced annual return, Mr. Manske confirmed that the lower annual return of 5% to 6% is unrelated to the COLA error and funding policy changes. While ERS's 5% to 6% reduced annual return is similar to what many other pension plans earned in 2014, it does also have a separate negative impact on future contribution amounts.

Mr. Heer then commented that part of the problem with the change in the Fund's asset figure relates back to the issue of bad transition documents to the incumbent Fiscal Officer which was raised at the June 2015 Pension Board meeting. The document transition issue largely resulted in the delay of completing ERS's financial statements, but should now be resolved. It is hoped that next year, the financial statements and the actuary's report can be completed in time for contribution recommendations to be made on schedule in May.

In response to a question from Ms. Braun regarding the date the Pension Board is required by the Ordinances to provide a contribution recommendation to the County, Messrs. Manske and Heer confirmed that the Ordinance deadline is June 1. The County has other steps to complete based on that figure and tries to get the financial statements to the County Board by September.

Mr. Langer then continued his discussion of options for transitioning costs. With the actuarial accrued liability now at $2.234 billion, and the projected 2016 budget contribution around $62.1 million, transitioning some of the recent funding policy changes may now be a more favorable option. There are many potential options for transitioning higher costs. One option would be to phase in the $62 million projected contribution amount over a period of five years.

In response to a question from Mr. Grady regarding the five-year contribution variance option, Mr. Langer confirmed that it would result in an 8% interest factor on any contribution shortfall. Any unfunded liability will result in an 8% interest factor, whether it is fully unfunded amounts or delaying a portion of the annual contribution amount.

In response to a follow-up question from Mr. Grady, Mr. Langer confirmed from the current context of the Fund's 8% assumed rate of return, payroll and funding policy, contributions for 2017 should be at least $62 million. Mr. Grady then stated that in such context, the five-year contribution variance would only further increase subsequent annual contribution amounts. For example, the 2017 contribution would increase to $65 million, and the 2018 contribution to $68 million. Mr. Grady then suggested that a payment of $68 million in 2018 will not be any more affordable to the County than a $62 million payment would be in 2016.

Ms. Braun expressed her agreement with Mr. Grady's statement.

Mr. Grady then reminded the Pension Board that both he and Mr. Huff have advised the Board members that they primarily act as fiduciaries for the Plan and not as fiduciaries for the County. The Board can be mindful of any financial impact to the County and employees, but their primary responsibility is to ensure the Plan remains financially sound. The Board can still agree to some transitioning without violating its fiduciary principles, such as immediately reflecting the Fund's 2013 unrecognized gain.

Ms. Westphal then commented that Buck's July 1 letter to the Pension Board appears to imply that the Pension Board desires to maintain an annual contribution amount within a range of $43 to $45 million. Ms. Westphal stated that it is the role of the Pension Board to set the funding policy and for the actuary to determine the appropriate annual contribution amount. It is not the role of the Pension Board to determine the County's ability to fund the recommended contribution amounts. Ms. Westphal indicated that her primary concern is to recommend the contribution amounts necessary to keep the Fund solvent and she assumes that the other Board members would agree.

The Chairman expressed his agreement with Ms. Westphal's statement.

Mr. Langer commented that the statement regarding a desired contribution range was included in Buck's letter because of the estimated contribution amounts Buck presented at the March and April 2015 Board meetings. Mr. Langer indicated that Buck now understands the Board's primary concern is to sufficiently fund the Plan and not achieve a specified contribution amount.

Steve Kreklow then introduced himself as the Budget Director of Milwaukee County and provided comments to the Board. Mr. Kreklow stated that he recently reviewed Buck's preliminary numbers and funding policy transitioning options while constructing the County's budget and projecting future expenses. While a projected increase in contributions from $38 million to $62 million is a large amount for the County to absorb in a single year, there are certain things that the County can do from a budgetary perspective to accommodate the increase without changing the underlying assumptions. Mr. Kreklow indicated that he would be more concerned about changing the underlying assumptions, which could result in increased volatility to future contribution amounts. For example, immediately reflecting the Fund's 2013 unrecognized gain in a single year could create increased future contribution volatility if the Fund does not achieve the 8% assumed rate of return. Mr. Kreklow stated that after reviewing all of the data, he believes the Pension Board should continue to work towards fully funding the Plan while maintaining the current underlying assumptions that reflect industry best practices. The County can then manage the aspect of phasing in any resulting contribution increases using other available budgetary tools.

Mr. Smith also expressed concerns about recognizing the 2013 unrecognized gain in a single year. This type of transition policy could potentially expose the Fund to losses during future down markets.

Mr. Kreklow expressed agreement with Mr. Smith and stated that he would prefer to see a more stable contribution amount, even if future contributions remain consistently higher than prior years. If the Pension Board is considering the County's financial planning process, stable contributions would be the priority.

Mr. Grady then noted that he recently attended the National Association of Public Pension Attorneys ("NAPPA") conference. At the NAPPA conference, Mr. Grady attended a presentation by Paul Angelo, Senior Vice President and Actuary at Segal Consulting, on the challenges of funding governmental pension plans and the new Governmental Accounting Standards Board ("GASB") requirements. Mr. Angelo echoed Mr. Langer's statements by stating that it is more of an acceptable practice to transition assumption changes over longer periods versus short-term gains and losses. Mr. Angelo reviewed and discussed a paper which stated that a plan could be justified in using longer amortization periods, of up to 25 years, to bring into effect actuarial assumption changes.

In response to a question from Mr. Grady, Mr. Kreklow agreed that the longer amortization periods as presented by Messrs. Angelo and Langer could theoretically be employed by the County as a transition policy to absorb the contribution increase. Mr. Kreklow added that another alternative could be to transition funding over a five-year period if the annual contribution amount is too high for the County to absorb in one year. The County would not fully fund the recommended contribution amount and any shortfall would be transitioned and subject to the 8% interest factor.

Mr. Grady noted that he was not suggesting any changes should be made to the underlying assumptions and was only exploring options related to the length of the transition phase-in.

In response to a question from Mr. Bargren, Mr. Kreklow confirmed that it would be his preference that the Pension Board use industry best practices for the assumptions and the County will then determine how to best fund the resulting contribution recommendation.

Mr. Grady then referred to funding policy transition option 2 as outlined in Buck's July 1 letter to the Pension Board. Transition option 2 suggests reducing the current 30-year amortization period to 25 years for the unfunded actuarial accrued liability as of January 1, 2015, and to 20 years for any future unexpected unfunded actuarial accrued liability. Mr. Grady then asked Messrs. Kreklow and Langer if transition option 2 would increase or decrease contribution volatility.

Mr. Langer answered that transition option 2 would lower the contribution amount because any prior unfunded liability would be paid over a longer period of time. However, transition option 2 will have no impact on contribution volatility. The asset smoothing method is the primary tool against contribution volatility.

Ms. Van Kampen then asked if, from the County's perspective, the Pension Board should favor policies that would have an overall lower cost over time by making contributions sooner and avoiding the 8% interest factor.

Mr. Kreklow answered that he has no strong opinion on any of the funding policy transition options, but his primary concern is to decrease the volatility of contributions. It will be a challenge for the County to meet the higher contribution amount and interest costs will increase. However, if and when possible, the County could make additional voluntary future contributions towards ERS's unfunded liability.

In response to a question from Mr. Grady regarding the amount of the 2016 total budget contribution under transition option 2, Mr. Langer stated that utilizing transition option 2, without immediately recognizing the asset gain, would result in a 2016 projected contribution of $57.4 million. The general member contribution would increase to 6.3% and the contribution for public safety members would increase to 7.6%.

Ms. Braun thanked Mr. Kreklow for offering candid information as to how the Board can handle these funding issues while simultaneously complying with the Ordinances and their fiduciary duties. The Pension Board has been making very concerted efforts to improve communication and collaboration with regard to consideration of matters that may affect other stakeholders in the Fund. Ms. Braun then expressed her agreement with Mr. Smith, stating that it would not be prudent at this time to immediately reflect the 2013 unrecognized gain. Those funds should be retained to protect the Fund against potentially volatile future markets. Furthermore, with the collaboration of the County Budget Office and Comptroller, the funding policy changes have already been adopted by the Pension Board in April 2015. Ms. Braun then asked Mr. Heer for his thoughts on transitioning the already adopted funding policy changes.

Mr. Heer indicated that he believes Mr. Kreklow has identified the professional financial approach to the current funding issues. Mr. Heer then cautioned the Pension Board by stating that neither he nor Messrs. Kreklow and Manske can speak on behalf of the County Executive or County Board. Mr. Heer suggested that if the County Executive and County Board were present today, as the Plan sponsors, the general tone of their conversation may be very different. Mr. Heer stated that such a large increase to the contribution amount will likely reignite prior County-level discussions about the possibility of shifting control of ERS to the State of Wisconsin. However, the Pension Board members should continue to uphold their fiduciary duties and do what is best for the financial health of the Fund.

Mr. Manske then provided comments to the Board. The recent processes that the Pension Board followed to review and adopt best practices were very favorable. The most preferred funding option would be for the County to immediately fund all $444 million of ERS's unfunded liability. However, because the County cannot afford such an option, the Pension Board recommended that the County adopt a best practice option to amortize payment of ERS's unfunded liability over a 20-year period. The Pension Board also adopted changes to reduce the payroll growth assumption rate, pay administrative expenses immediately, and update the entry age normal cost method from aggregate to individual. As fiduciaries of the Plan, the Board has acted appropriately and adopted industry best practices that, in addition to the COLA error, will increase costs over the shorter-term. As Mr. Heer previously indicated, additional discussions will now be held at the County-level of government regarding the County's funding options.

Mr. Heer then expressed respect for Mr. Kreklow's opinions pertaining to financing, noting that before he accepted his current position at Milwaukee County, Mr. Kreklow was a consultant for the Government Finance Officers Association ("GFOA") and Mr. Kreklow collaborated in writing the GFOA industry best practices.

The Chairman thanked his fellow Board members and others present for providing their comments and input. The Chairman next stated that he believes it is the primary fiduciary responsibility of the Pension Board to ensure the financial well-being of the Fund and adopt industry best practices that are within an acceptable range. The Chairman added that he feels comfortable with the actions the Pension Board has taken during the year to ensure that ERS's funding policy falls within an acceptable range.

Mr. Grady reminded the Pension Board that according to the County Ordinances, the County Board has the legal authority to control the length of the period over which ERS's unfunded liability is amortized. The County Board also controls the amount of any five-year contribution payment variance. The Pension Board may recommend that the County Board adopt the 20-year amortization period, or the related 20/25-year transition option 2, but it is ultimately the County Board's decision to accept or deny the Pension Board's recommendation. As of April 2015, the Pension Board has recommended that the County adopt a 20-year amortization period with no transitioning. The Ordinances implicitly state that the Pension Board determines the actuarial assumptions which support the contribution request to the County Executive. If the County disagrees with those policies, they can underfund the recommended contribution amount and pay any shortfall amounts over a five-year period.

In response to a question from Ms. Braun regarding the mechanism used to relay the Pension Board's funding recommendations to the County, Mr. Grady stated that Buck Consultants will typically draft a letter that is reviewed by ERS and Corporation Counsel. Buck's letter will clearly state that the contribution recommendation is based on the three assumption changes adopted by the Pension Board in April, as well as the recommended change to reduce the Fund's amortization period. Buck's letter will provide a high-level summary of the funding policy changes and will illustrate how the figures were calculated, including the COLA issue. A copy of the January 1, 2015 actuarial valuation report which contains all of the details will also be included with the letter. Mr. Grady indicated that he would hope Mr. Kreklow would include the specifics of any recommended changes to ERS's amortization period in his budget narrative. The County Executive and County Board can then review the information and make a final determination to accept the Board's recommendation or choose another available option.

In response to a question from Ms. Van Kampen regarding the impact of the Pension Board missing its June 1 contribution recommendation deadline, Mr. Kreklow stated that County Executive's budget is due to the County Board on October 1, 2015. Therefore, the County will be making its budgetary decisions throughout the summer. The preliminary figures the County has received to date can be used for budgetary planning purposes for another month. However, Mr. Kreklow stated he would hope the Pension Board could finalize its recommendation relatively soon.

Mr. Manske added that he must meet a statutory deadline of July 31, 2015 for the County's final financial report. The County already knows the amount of ERS's pension liability and total assets and those amounts will not change. The Pension Board's ongoing discussion regarding the amortization period will also have no impact on the County's actuarial report. However, the preliminary 2016 recommended budget contribution amount is still uncertain. Buck has already baked-in the assumptions adopted by the Board in April, and the recommended 20-year amortization period. Buck cannot finalize its 2015 valuation report and provide a final 2016 budget contribution figure until the Board determines whether it will make any additional modifications to the existing funding policy. If the Pension Board makes no additional changes to the funding policy, Buck already has the information from the four changes previously adopted by the Board to calculate the 2016 budget contribution amount and finalize the valuation report. In essence, that would result in releasing a 2016 budget contribution figure of approximately $62 million to the County Executive and County Board.

In response to a question from Mr. Grady regarding the need for any further discussion of Buck's other recommended transition options, Mr. Langer stated that it appears the general consensus is that the existing funding policy remains prudent and the matter of affordability should be left for the Plan sponsor to determine.

Mr. Gedemer indicated that he supports maintaining the existing funding policy adopted by the Board in April because it is what is best for the financial well-being of the Fund. However, a member contribution rate increase of 2.6% for public safety members would amount to just under a 50% increase to the existing 5.4% public safety contribution rate. Such an increase will have a noticeable impact on an employee's bi-weekly paycheck. Mr. Gedemer expressed concern over the 2013 and 2014 COLA error and wondered what will happen to employee contribution amounts once the related shortfall is added back to the Fund. Mr. Gedemer further stated that when the public safety member contribution rate dropped from over 6% to 5.4% a few years ago, he thought it was unusual because there was no logical explanation for the decrease. Now those amounts must be reincorporated and will be in addition to any member contribution rate increases related to the recent funding policy changes. All of these issues will be very difficult to explain to members once they begin to question the amount of the member rate increase. Mr. Gedemer suggested that the recent funding policy changes adopted by the Pension Board in April constituted a compromise to reducing the Fund's assumed rate of return and, in a few years, the Fund's assumed rate of return may be reduced below 8%. Additional changes to the Fund's assumed rate of return would further increase member contribution amounts. Mr. Gedemer stated that he would like to have a clearer picture of what may occur in the future before deciding whether to maintain the current funding policies.

Mr. Gedemer continued by stating that because many County employees did not receive pay increases this year, the additional increases to member contributions will be especially hard to endure. Although the member contribution amounts remain as employee funds, they will be tied up in the Pension Fund and will not be available for daily household expenses. Furthermore, if the County decides to transition a portion of the recommended annual contribution, any shortfall will be borrowed at an additional 8%. Mr. Gedemer added that the County's historical practice of delaying the annual contribution until the following year, and effectively borrowing the Pension Fund contribution at 8%, is hard to comprehend. If the Fund has a $40 million annual contribution, the 8% factor would amount to an additional $3 million. Mr. Gedemer indicated that while he completely supports moving to compliance with industry best practices, he wants to have all the facts on the table now, so the Board is fully aware of the effects its decisions may have in the future.

In response to a question from Mr. Grady regarding any anticipated future increases to the public safety member contribution, Mr. Langer stated that he anticipates the 8% figure should remain relatively stable over time if the actuarial assumptions do not change. Under the prior funding policy, member contributions were expected to continue to rise at a higher and faster rate.

Ms. Westphal and Mr. Grady then reminded the Board members that Buck had indicated at the March and April Board meetings that the funding policy changes were expected to result in a short-term contribution increase, but the contribution amounts would then begin to level out and decline over the longer-term of ten to twenty years.

Mr. Langer added that over the next few years, the normal costs will not grow as fast as payroll and it may be beneficial for Buck to compile projections to illustrate that effect. The normal cost typically stays level as a percentage of payroll for the group. However, under the ERS system, member service after certain dates begins to accrue at lower amounts. As more members accrue benefits at the lower 1.6% level throughout their entire careers, the normal cost will begin to trend downward. This effect will help to decrease member contribution rates over the course of time. One factor that could introduce some contribution volatility is the liability of the active group. For example, a large number of retirements in a specific group could cause that group to shrink and have an impact. These types of events can be difficult to predict and it is difficult to state with any absolute certainty that the member contribution rates will remain completely stable.

In response to a question from Ms. Braun, Mr. Manske stated that the County currently has a $30 million surplus that could be used towards a one-time situation.

Mr. Heer stated that the County Board is aware of ERS's current funding issues and there are some who may have thoughts of connecting ERS's funding challenges to the County surplus. However, there also are many other ideas currently in play as to how to best use the County surplus funds.

Mr. Gedemer then stated that he represents the public safety members in ERS and, within that group, there are very different levels of pension benefits. Mr. Gedemer questioned why public safety members with reduced pension multipliers and extended retirement dates have the same rate as public safety members with enhanced benefits. Mr. Gedemer then suggested that it may be time to explore different variations to the public safety group to more appropriately allocate member contribution increases.

In response to Mr. Gedemer, Mr. Langer stated that member contribution rates can become increasingly granular. However, when the contribution rates become very precise and the groups become smaller, the contribution rates will tend to move around more each year because of the increased variability in the smaller groups.

The Chairman then summarized the funding policy transitioning options that appear to remain open for consideration by the Pension Board following discussions at the meeting. The Chairman suggested that based on today's feedback from the Board members, transition option 1, immediately reflecting the Fund's $49 million in unrecognized gain, appears to be rejected. The Chairman next suggested that transition option 2 appears to remain open for further consideration. Transition option 2 would reduce the 30 year amortization period to 25 years for unfunded accrued liability as of January 1, 2015, and to 20 years for any unexpected future unfunded accrued liability. Transition option 3, which combines transition options 1 and 2, would by definition also appear to be discounted. Additionally, the Board could decide to do nothing and maintain the current funding policy adopted by the Pension Board in April 2015, based on the best practices as presented by Buck Consultants. If the Board would decide to take no further action today, ERS's 2016 projected budget contribution request would be $62.1 million. If the Board would decide to adopt transition option 2, ERS's 2016 projected budget contribution request amount would be $57.4 million.

The Chairman invited the Board members to individually state their preferred position on any of the options presented for consideration.

Ms. Van Kampen stated that based on the encouraging comments from the County's Budget Administrator, she would vote to take no additional action today. While increases to employee contribution rates may be a concern and will affect some members more than others, as Plan fiduciaries, the Board does have a primary responsibility to adopt a funding policy that can most quickly restore the Fund to where it should be financially. If further modifications must be made to accommodate the increase in the recommended annual contribution, the County can facilitate those modifications through its budget process.

Ms. Braun expressed her agreement with Ms. Van Kampen, but added that although the Board primarily acts as fiduciaries to the Plan, she must also answer to the employees who elected her to the Board. These changes will result in member contribution increases that will be very difficult for employees to absorb into their family budgets. Ms. Braun also stated that to avoid any future problems, it is imperative that the lines of communication remain open and the Board must be advised immediately of any funding errors as they are discovered.

Ms. Westphal also expressed her agreement to take no additional action today. Ms. Westphal added that it would require a change to the existing funding policy for the Board to recommend transition option 2, and she does not want to recommend an additional policy change beyond what was already approved by the Board in April.

Mr. Gedemer stated that he believes the Board should take no additional action today and leave the final decision with the County Board as to whether or not they will adopt the Pension Board's recommendations. Mr. Gedemer added that the Board's obligation to follow best practices is to both the Fund and ERS members. The correction that must occur seems large and it should be completed to ensure the financial health of the Fund. However, Mr. Gedemer added that he would hope the Board will not be in a similar position a few years down the road, and such important issues are handled in a much better manner going forward.

The Chairman echoed Ms. Van Kampen's comments and stated that the Pension Board has a primary interest to carry out its fiduciary responsibility and do what is best for the active employees and retirees in the Plan.

Mr. Smith stated that the Pension Board has already adopted the funding policy best practices and it would set a bad precedent if changes were made to circumvent some of those policies so soon. Mr. Smith added that small changes to cut corners could turn into bad funding policies and expressed concern that ERS's funded ratio has already been reduced to 79%. These changes will affect employees and taxpayers, and it places the County in a difficult financial position. However, the financial health of the Plan must be maintained through facilitating industry best practice funding policies.

The Chairman concluded by stating that all present members have agreed to reaffirm the existing best practice funding policies, as previously presented by Buck Consultants at the March and April 2015 Pension Board meetings, and adopted by the Pension Board on April 15, 2015. The Chairman then asked counsel if a formal motion is necessary to approve today's action by the Pension Board.

Messrs. Grady and Huff stated there is no legal need for a formal motion today because the existing funding policies have already been adopted by the Pension Board. Alternatively, a formal motion could be made to summarize today's discussions for the record and to ensure Buck understands the existing funding policies.

Mr. Langer confirmed that Buck understands the existing funding policy and underlying assumptions as approved by the Pension Board. Buck will now finalize its January 1, 2015 actuarial valuation report for presentation at the July 15, 2015 Pension Board meeting.

After further discussion among the Board members, it was determined that a formal motion was unnecessary.

4. Adjournment

The meeting adjourned at 3:20 p.m.

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