

**EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE**  
**MINUTES OF THE MAY 20, 2015 PENSION BOARD MEETING**

1. Call to Order

The Acting Chair 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

Laurie Braun (Acting Chair)  
Aimee Funck  
Norb Gedemer  
D.A. Leonard  
Patricia Van Kampen  
Vera Westphal

Members Excused

Dr. Brian Daugherty (Chairman)  
Gregory Smith

Others Present

Marian Ninneman, Director-Retirement Plan Services  
Mark Grady, Deputy Corporation Counsel  
James Carroll, Principal Assistant Corporation Counsel  
Vivian Aikin, CRC, ERS Sr. Pension Analyst  
Tina Lausier, Fiscal Officer  
Josh Lieberman, J.P. Morgan Asset Management  
Jim Cavanaugh, J.P. Morgan Asset Management  
Caitlin Johnson, J.P. Morgan Asset Management  
Brett Christenson, Marquette Associates, Inc.  
Ray Caprio, Marquette Associates, Inc.  
Steven Huff, Reinhart Boerner Van Deuren s.c.

3. Minutes—April 15, 2015 Pension Board Meetings

The Pension Board reviewed the minutes of the April 15, 2015 Pension Board meeting and the April 15, 2015 annual Pension Board meeting.

**The Pension Board unanimously approved the minutes of the April 15, 2015 Pension Board meeting. Motion by Ms. Van Kampen, seconded by Mr. Leonard.**

**The Pension Board voted 5-1, with Ms. Westphal abstaining, to approve the minutes of the April 15, 2015 annual Pension Board meeting. Motion by Ms. Van Kampen, seconded by Mr. Leonard.**

4. Buck Consultants - Preliminary Valuation Results

Ms. Ninneman reported that Larry Langer from Buck Consultants was unable to attend today's meeting to discuss the preliminary valuation results.

5. Investments

(a) J.P. Morgan

Josh Lieberman, Jim Cavanaugh and Caitlin Johnson of J.P. Morgan Asset Management distributed a booklet containing information on the fixed income investment management services provided by J.P. Morgan for ERS. Mr. Lieberman introduced Mr. Cavanaugh as a client portfolio manager on J.P. Morgan's fixed income team and introduced Ms. Johnson as a member of Mr. Cavanaugh's team.

Mr. Lieberman first discussed J.P. Morgan's Global Fixed Income, Currency and Commodities ("GFICC") strategy. As of December 31, 2014, total assets under management in the GFICC strategy were slightly over \$400 billion. The head of the GFICC strategy is J.P. Morgan's Chief Investment Officer, Bob Michele. J.P. Morgan's U.S. value-driven fixed income strategy team is based in Columbus, Ohio. With the exception of some additions related to the growth of business, there have been no substantive changes to the composition of the U.S. fixed income team. Jeffrey Whipple recently joined the team's institutional portfolio management group as a portfolio manager. Mr. Whipple had previously been working for a number of years in J.P. Morgan's policy and governance area. Vincent Kumaradjaja also joined the team's risk management group in April 2013. Mr. Kumaradjaja has recently taken over leadership of the risk management group due to the retirement of his predecessor. The change was to leadership only and Mr. Kumaradjaja continues to employ the same risk management process and philosophy.

Mr. Lieberman then discussed J.P. Morgan's investment process and philosophy. J.P. Morgan's investment philosophy is a time-tested process that has been consistently and successfully applied through a number of different market events. J.P. Morgan believes in a disciplined value-driven approach based on bottom-up fundamental analysis. Longer-term investing, versus trading mentality, is a core tenant of J.P. Morgan's investment philosophy. J.P. Morgan's investment style emphasizes research and individual security analysis over large macro bets. Portfolios are well-diversified, with AA+/AA average credit quality, which helps reduce individual security risk. There are over 900 high-quality securities embedded in ERS's fixed income portfolio. J.P. Morgan's longer-term investment strategy leads to lower turnover of strategies, resulting in minimized trading costs. Risk management is also embedded throughout J.P. Morgan's entire investment process to limit downside risk relative to the benchmark.

Ms. Johnson next discussed performance. There was a shift in global core economic momentum during the first quarter of 2015, as activity in the euro zone began to pick up, and the U.S. was weaker than expected. The primary focus continues to be on central bank action, as the European Central Bank began an asset purchase program and the Federal Open Market Committee ("FOMC") took a dovish turn in its communication. The FOMC communication was very significant because the Federal Reserve lowered its stop-loss, which is a prediction of where the Fed's funds rate will be in the next several years. The projections have now been lowered by approximately 50-60 basis points and are more comparable to what the market is expecting, based on Fed fund futures. This will help to diminish any negative reaction in the marketplace when the Fed eventually raises interest rates.

The portfolio outperformed the Barclays Aggregate Index during the first quarter of 2015 by approximately 30 basis points, and outperformed for the one-year period by 16 basis points, gross-of-fees. As interest rates fell, a main detractor to performance during the 2015 first quarter and one-year period was the portfolio's shorter duration posture, at 4.9 years versus the index of 5.3 years. In addition, the portfolio's underweight to yield positioning in the very long end of the curve was a performance detractor in the first quarter and one-year period. Sector allocation and security selection were both positive factors to the portfolio's performance during those same periods. Most of the current overweight in the portfolio's sector allocation is in the mortgages space. The overweight to mortgages, especially one specific securities selection with an agency collateralized mortgage obligation, was very positive to the portfolio's performance

during the first quarter and one-year period. The portfolio is constructed with a large number of very high-quality and well-diversified securities. The 25.8% sector distribution in Treasuries will help provide liquidity if a market event should occur. J.P. Morgan believes that the conservatively-positioned portfolio is currently well-positioned for the eventual rise in interest rates.

Mr. Cavanaugh then added that there has been a shift in the market since the end of the first quarter of 2015, and the underweight in duration and the portfolio's yield curve positioning, have both been positive to the portfolio's recent performance. The portfolio's underweight to the very long end of the yield curve is built upon the belief that interest rates will eventually normalize. There have been signs that interest rates will begin to normalize relatively soon. The Federal Reserve Chair, Janet Yellen, together with some of the other Board of Governors, have been briefly introducing risk premium to the marketplace, specifically noting that there is not sufficient term premium built into the term structure of interest rates. The Federal Reserve is trying to slowly reintroduce risk to the marketplace, to prepare for the eventual normalization of interest rates and avoid a "jump risk" similar to the May 2013 market occurrence. The Federal Reserve has been very clear that the interest rate normalization process is very dependent on employment numbers and inflationary data. These are the two main components that will lead the Federal Reserve to its decision on interest rates. Unless the market changes radically, J.P. Morgan will not make any major adjustments to the portfolio's current positioning. J.P. Morgan believes that having a dedicated position to Treasuries adds diversification and liquidity to the portfolio.

Mr. Cavanaugh concluded with a discussion of yield. As a value manager, J.P. Morgan seeks underpriced individual securities by searching the entire investment grade universe. Universally, spreads are currently fairly tight and are hovering at the low end of their ten-year range. The quantitative easing process has pushed investors out of low-risk Treasuries into the spread sectors. At this point in the market cycle, spreads are very tight and it has become increasingly difficult to find value. While J.P. Morgan has continued to find value in certain areas of the market, it has been increasingly difficult in the current environment. However, J.P. Morgan does believe that spreads will eventually begin to widen and the portfolio is well-positioned for such an event.

In response to a question from Mr. Leonard regarding the perceived risk of the portfolio's 2.4% quality distribution in BB and below/NR rate bonds, Ms. Johnson stated that all purchases are investment-grade. J.P. Morgan's

research analysts continually monitor these positions closely and would recommend selling off these positions at the first sign of perceived risk.

In response to a question from Ms. Van Kampen regarding the possibility of adjusting the portfolio to overweight the Treasuries sector, given the tight spreads, Mr. Cavanaugh stated that the market is currently in a very unique cycle and J.P. Morgan believes there is currently more value in owning shorter duration cash flows. In order to overweight the Treasuries sector, at some point, it would be necessary to own short-term Treasuries. The difficulty with short-term Treasuries is that they are a large component of the Index which is around five years in duration. At some point, short-term Treasuries would be a return for risk, which essentially means that there is not enough yield cushion to offset the price decline. J.P. Morgan is currently looking to higher quality pockets of the marketplace, such as the mortgage sector, which offers a little more yield. The emphasis is on the higher-quality end of the spectrum. However, at 25.8%, J.P. Morgan does already maintain a fairly high level of Treasuries relative to its peer group.

The Acting Chair expressed her appreciation to Mr. Cavanaugh and his colleagues, noting that since its inception of working with Milwaukee County, J.P. Morgan has always outperformed the benchmark.

(b) Marquette Associates Report

Brett Christenson and Ray Caprio of Marquette Associates distributed and discussed the April 2015 monthly report.

Mr. Christenson first discussed the high points of the April 2015 flash report. Both Geneva Capital and ABS remain on alert for performance issues. While previously on alert for organizational issues, the Board has officially terminated K2 effective as of June 30, 2015. As of April 30, 2015, total Fund assets were at \$1.787 billion. There are some policy differentials with the current positioning of some of the Fund's assets classes. The U.S. equity composite is currently overweight by 1.3% or \$23 million. The real estate composite is overweight by 1.8% or \$32 million. The fixed income composite is currently underweight by 3.3% or approximately \$58 million. A few of the other asset classes are slightly outside of the exact policy targets by just one or two percentage points. Over the last several months, Marquette has been completing ERS's asset allocation study, as well as addressing additional topics such as real estate allocation and Geneva Capital's performance issues. Marquette will review the findings of its asset allocation study with the Investment Committee at a future meeting. Marquette remains comfortable with the current overweight in real estate and may recommend additional increases to this

asset class as a result of the asset allocation study results. Marquette is also comfortable maintaining the slight underweight in fixed income. ERS's peer groups, consisting of public pension funds with total assets over \$1 billion, have dramatically reduced their fixed income allocations from 30% to 22%-20%. Because the difficult performance environment continues to drag on in the market, Marquette will be addressing the current underweight in fixed income, as well as other potential considerations, during its future discussions of the asset allocation study results. The private equity composite is underweight by approximately \$30 million. The Fund's private equity allocation has slowly risen to 4.3% over the last two years. Siguler Guff will be coming to market soon with another private equity offering. In the past, Siguler Guff has put money to work very quickly in the private equity sector and Marquette will be addressing additional commitments to Siguler Guff with the Investment Committee at future meetings. Private equity is a very complicated asset class that takes a very long time to buildup. However, Marquette believes that additional commitments with Siguler Guff will help to achieve the Fund's 6% private equity policy target within the next few years.

In response to a question from Mr. Grady regarding the current overweight in hedged equity, Mr. Christenson stated that hedged equity has recently been performing favorably. However, once the assets from K2 are liquidated, Marquette may allocate slightly less to Clifton to more closely align hedged equity to the policy target.

Mr. Christenson continued with a discussion of performance. For the month of April 2015, the total Fund composite was up 0.8%. However, the Fund's one-month return does not include some of the alternative asset classes that are valued quarterly or have a significant lag. Because the market continues to be relatively strong, Marquette believes that positive performance should continue in private equity and infrastructure throughout the second quarter of 2015. As of April 30, 2015, the Fund's year-to-date performance is at 2.9% net of fees. Despite its very conservative positioning, the fixed income composite is performing relatively well and the overall portfolio is in very good condition. The U.S. equity composite was at 2.1% year-to-date versus the index at 2.2%. Performance is also beginning to pick up with some of the U.S. equity small cap active managers as they begin to build some excess return over their benchmarks. Geneva Capital is also beginning to exhibit a turnaround in its performance. Geneva is up at 5% year-to-date, net-of-fees versus the benchmark at 4.6%. These new figures for Geneva are fairly significant as they remain on alert for performance issues. Artisan Partners, the Fund's other mid-cap growth U.S. equity manager is underperforming, but did experience some gains in

the month of April. International equity is another strong asset class in the portfolio and is up at 4.4% for the month of April, There have been some very strong returns in emerging markets, but OFI did underperform during April, at 4.1% versus the benchmark of 7.7%. However, these types of returns are not that unusual for active managers that invest in high-quality conservative stocks, which typically underperform in a very short-term strong market. The portfolio does have a significant overweight to international, which has been a drag on performance over the last two years. However, this trend is beginning to turn around and Marquette expects that strong international returns will continue for May 2015.

In response to a question from the Vice Chair regarding Vontobel's continuing underperformance, Mr. Christenson stated that despite their shorter-term underperformance, Vontobel's one-year return remains very strong. Marquette will continue to monitor Vontobel and further analyze their performance at a future Investment Committee meeting.

Mr. Christenson concluded the discussion of performance. The hedged equity composite is up at 3.8% year-to-date versus the benchmark of 3.4%. Hedged equity has very favorable double digit returns for both the one and two-year periods. Performance in real estate continues to remain strong. Year-to-date performance under the infrastructure composite is relatively flat but is mainly due to currency. However, because U.S. currencies have weakened slightly, Marquette does expect to see a turnaround in infrastructure returns during the second quarter. Although Marquette has no recommendations for rebalancing today, they will further discuss asset allocation at the next Investment Committee meeting.

Ms. Van Kampen commented that the Investment Committee briefly discussed the possibility of placing Artisan Partners on alert at its last meeting, as well as having Artisan Partners present at the June Pension Board meeting to discuss performance.

Mr. Caprio answered that Marquette could have both Geneva and Artisan present at the June Pension Board meeting to discuss performance. Artisan has underperformed from the three-month period through the three-year period, but continues to have positive five, seven and ten-year returns. While Marquette does have a great deal of conviction in Artisan, it would be in line with the Fund's investment policy to recommend placing them on alert at this time for performance issues.

In response to a question from the Acting Chair, Mr. Christenson stated that Marquette would recommend placing Artisan Partners on alert at this time.

**The Pension Board unanimously approved placing Artisan Partners on alert for performance issues. Motion by Ms. Van Kampen, seconded by Ms. Westphal.**

In response to a follow-up question from the Acting Chair, Mr. Christenson confirmed that Marquette will invite Artisan to present at the June 2015 Pension Board meeting.

6. Geneva Capital

Mr. Caprio discussed the status of Geneva Capital. During recent Investment Committee meeting discussions, Marquette noted that Geneva's performance is beginning to rebound. Geneva has stated that their performance should begin to improve once the high quality portion of the market begins to recover. Evidence suggests that we are in the early stages of a higher quality trend in the market and Geneva's three-month and year-to-date returns have in fact improved. Because Geneva's returns are continuing to improve, Marquette recommends keeping them on alert and having Geneva in to present an update on their performance at the June 2015 Board meeting. Geneva's May 2015 returns will also be reported by the June Board meeting and Marquette can make additional recommendations at that time.

Mr. Christenson added that Geneva's current status is very short-term and the Board does not need to downgrade Geneva to an "on-notice" situation to terminate them. Additionally, because of Geneva's improving returns, it would be difficult to further downgrade their status at this time.

Ms. Van Kampen noted that the current timing for making a decision to terminate Geneva is very difficult because the Board does have a longer-term goal of diversifying U.S. equity investments into the Northern Trust Index. However, because Geneva's performance is beginning to rebound in the short-term, it is preferable to wait and see how their investment philosophy plays out in the strengthening market.

Mr. Grady commented that Geneva Capital is currently performing better in the short-term than Artisan Partners. Both Geneva and Artisan are measured against the same benchmark, but the Board has not put Artisan on alert. Therefore, it would make sense at this time to keep Geneva on alert and see if their performance continues to rebound.

The Acting Chair agreed that Geneva Capital should remain on alert.

Mr. Christenson commented that it is interesting to note the performance variances between Geneva and Artisan. Geneva and Artisan appear to each have slightly different market cycles. Geneva began underperforming before Artisan and Geneva is now beginning to rebound. Artisan began to underperform later than Geneva and has not yet exhibited signs of a rebound. This illustrates that the Fund does have a small amount of diversification between its two U.S. equity mid-cap growth managers. However, with both of these managers underperforming over the longer-term, Marquette recommends continued discussions to explore the possibility of adding some indexing to this portion of the portfolio over the next two years.

In response to a question from Mr. Grady, Mr. Christenson stated that Marquette will also address the possibility of adding some indexing to the Fund's international equity portfolio at future Investment Committee meetings, as part of its larger analysis of all international managers and year-to-date attribution.

In response to a question from the Acting Chair, the Board collectively agreed to leave Geneva Capital on alert and closely monitor their performance.

In response to a question from Mr. Christenson regarding the June Pension Board meeting investment manager presentations, the Acting Chair and Mr. Grady stated that if time allows, it would be beneficial to have both Geneva and Artisan present at the June 2015 Board meeting to discuss performance.

Mr. Gedemer then moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(e) with regard to item 7 for the purpose of deliberating or negotiating the investing of public funds, or conducting other specified public business, whenever competitive or bargaining reasons require a closed session. At the conclusion of the closed session, the Board may reconvene in open session to take whatever actions it may deem necessary concerning these matters.

**The Pension Board unanimously agreed by roll call vote 6-0 to enter into closed session to discuss agenda item 7. Motion by Mr. Gedemer, seconded by Ms. Funck.**

7. Investment Committee Report

The Pension Board discussed the Fund's real estate allocation in closed session.

In open session, Mr. Grady asked Ms. Van Kampen to summarize the current recommendations for reallocating the Fund's real estate assets.

Ms. Van Kampen reported that at the May 4, 2015 Investment Committee meeting, the Committee discussed restructuring the Fund's real estate portfolio. Mr. Caprio distributed a paper from Marquette on real estate and reported that real estate has performed favorably in the Fund over the last five years. Mr. Caprio suggested that it may be time to restructure the Fund's real estate portfolio and provided several options. First, ERS could reduce the Fund's current real estate allocation to the policy target. Second, ERS could reduce the number of real estate managers from three to two. Finally, ERS could retain all three real estate managers and reallocate the assets between the current managers.

Ms. Van Kampen continued by stating that after additional closed session discussions during today's Board meeting, the current recommendation is to reallocate \$12 million from Morgan Stanley to UBS. However, because of the current queue for UBS, it could take six to nine months to complete the transfer of assets. Therefore, the Board recognizes that the Fund's real estate allocation may temporarily decrease during the transition period.

Mr. Caprio added that withdrawing the funds from Morgan Stanley should not be a challenge. As long as ERS provides Morgan Stanley with sufficient notice, the funds should be available within three months. However, because the queue for UBS is currently at 9 to 12 months, there may be a short period of time when the Fund is not fully allocated to real estate.

Mr. Christenson added that because the Fund's real estate composite is currently overweight, this is a beneficial time to reallocate the funds.

In response to a question from Mr. Grady regarding the reasons for reallocating \$12 million versus some other dollar amount, Mr. Caprio stated that the main goal was to balance out the assets between American Reality and UBS, while recognizing that Morgan Stanley remains the premier manager in that space.

Ms. Van Kampen then noted that if the goal is to equalize assets between American Reality and UBS, the amount reallocated to UBS should be greater than \$12 million.

Mr. Grady also questioned whether the recommended \$12 million is a sufficient amount. Because UBS is a more conservative fund, it would offer some downside protection if the real estate market should suddenly begin to underperform.

Mr. Caprio then stated that a revised amount of \$19 million or \$20 million would bring UBS fairly close to the amount of assets currently allocated to American Realty.

In response to a question from the Acting Chair regarding the current characteristics of the real estate market, Mr. Caprio answered that as the price/earnings ratio is a solid gauge for valuation in the stock market, the capitalization rate ("cap rate") is a sound valuation for the real estate market. The cap rate is defined as the net operating income divided by market value. With increased income and a lower market value, a stock becomes undervalued. A high cap rate is indicative of a very strong market and cap rates have reduced significantly. Marquette has published a short paper on real estate which states that cap rates have declined significantly and there are signs this decline could continue for some time. However, because the economy is in the midst of a recovery phase with rising interest rates, as leases come due, the real estate managers may be able to reprice their leases and maintain a higher cap rate. Although cap rates have reduced significantly, they have not yet reached alarming levels but Marquette will continue to closely monitor the issue.

In response to a follow-up question from the Acting Chair, Mr. Caprio stated that declining cap rates are only part of the reason Marquette is recommending reallocating funds to UBS. Other primary reasons include portfolio construction and timing issues. Because UBS currently has a relatively small asset allocation, it is not efficient to maintain three real estate managers. Therefore, a decision should now be made to either reallocate additional funds to UBS or terminate one real estate manager.

In response to a question from Mr. Grady regarding the reason for the disproportionately large allocation to Morgan Stanley real estate, Mr. Christenson stated that Marquette believes Morgan Stanley is an extremely strong manager in the real estate space. When Marquette interviewed Morgan Stanley, Marquette asked Morgan Stanley to point to specific elements of their investment process that they believe are responsible for their success. Morgan Stanley answered that they believe they have a greater ability to achieve higher income on their properties. Morgan Stanley exhibited strong repricing of their leases and provided Marquette with a certain comfort level that they are a premier manager. Morgan Stanley has also been reducing some of their more aggressive positioning, bringing them more in line with American Realty and UBS. This has also helped Marquette ease any concerns about having a more aggressive manager hold the majority of the Fund's real estate assets. The real estate managers can continue to be further rebalanced over the course of

time. However, because the real estate manager queues are currently so large, rebalancing should be carefully managed in steps.

Mr. Caprio added that manager fees were also discussed at the May 2015 Investment Committee meeting. Mr. Smith noted at the May Investment Committee meeting that fees for UBS are tier-based on the amount of assets. Therefore, increasing the amount of assets in UBS will result in a slight reduction of overall fees.

In response to a question from Mr. Grady, Mr. Christenson stated that he is very comfortable with recommending reallocating a revised amount of \$20 million from Morgan Stanley to UBS.

**The Pension Board unanimously approved reallocating \$20 million from Morgan Stanley real estate to UBS, to improve downside protection and reduce fees. Motion by Mr. Leonard, seconded by Ms. Van Kampen.**

8. Audit Committee Report

In open session, Ms. Westphal reported on the May 7, 2015 Audit Committee meeting. The Audit Committee first discussed a review of ERS Rules 201, 202, 203, 204, 205, 206 and 207. Mr. Grady distributed copies of the Rules being discussed which also included some proposed changes. Mr. Grady explained that because the Ordinance changes adopted by the County Board on February 17, 2015 eliminated optional membership in ERS, certain changes to ERS's Rules were now applicable. Additionally, certain Rules are outdated and can now be repealed. All proposed changes to the Rules discussed at the May 2015 Audit Committee meeting will be presented to the full Pension Board for review and discussion at its May 2015 meeting.

The Audit Committee next discussed implementation of the new SharePoint Pension Board site. Ms. Ninneman provided a demonstration of the SharePoint site and discussed its advantages. Messrs. Smith and Huff described positive experiences with similar sites for other boards they are affiliated with and the group was enthusiastic about moving forward with implementing the site.

The Audit Committee continued with a discussion of the member change confirmation letters. Ms. Ninneman distributed and discussed a new letter that the Retirement Office will be issuing once a member requests changes to their personal information. Personal information would include a member's name, address, marital status, withholding and direct deposit

information. Once a change is requested, ERS staff will send a change confirmation letter to the affected member. The letter will request that the member review and confirm the change, and ask that the member notify the Retirement Office if any of the information is incorrect or if they did not request the change. For address changes, ERS will send the member change letter to the member's old and new address. It is hoped that the member change letters will decrease the opportunities for identity theft, as well as providing overall enhanced customer service.

The Audit Committee concluded with a discussion of calculating backDROP lump sums for years with partial service credits. Ms. Ninneman raised a concern involving members who do not earn full service credits during one or more of the years that are included in their backDROP lump sum. Ms. Ninneman provided a recent example of a specific instance to the Audit Committee for review. The Audit Committee members requested additional information to further evaluate whether any changes to the backDROP calculation should be warranted when a member has less than full service credits in the backDROP period.

Mr. Grady then summarized for the Pension Board the proposed changes to ERS Rules 201, 202, 203, 204, 205, 206 and 207. The proposed changes to the Rules are a consequence of the Ordinance amendments regarding purchase of service credit that the Pension Board recommended the County Board adopt. The County Board did adopt the amendments and, as a result, the County Board took away the ability of the Pension Board to determine optional membership in ERS. Consequently, Rules 201 through 207, which relate to membership in ERS, must now be updated to reflect the Ordinance change.

Rule 201 specifically addresses individuals who could become members of ERS in 1948 and is essentially outdated because it no longer has any affect. Because Rule 201 is outdated and no longer applies to ERS members, counsel is recommending the repeal of Rule 201. Rule 202 addresses which individuals have the right to become an optional member. Because optional membership no longer exists per the Ordinances, counsel is also recommending the repeal of Rule 202. Rule 203 defines who is denied membership in ERS and is interrelated to Rule 204. Rule 204 provides that mandatory members in ERS shall include all other employees that are not denied membership under the provisions of Rule 203. Proposed amendments have now been made to Rules 203 and 204. The various classes of individuals who were denied membership in ERS under the provisions of Rule 203 remains unchanged in the amended version of Rule 203. Individuals previously classified as optional members under Rule 202

have now been added to individuals denied membership in amended Rule 203 and, by definition, will now fall under the OBRA pension plan. The amended Rule 203 also contains new language regarding employees with appointments to hourly positions under 203(7). While there never was a previous Rule addressing hourly appointed employees, the Pension Board did already address this issue through an appeal several years ago. In that appeal, the Pension Board denied membership to an hourly appointed employee who was seeking optional or mandatory membership in ERS. Rule 203(7) simply codifies the Pension Board's prior ruling on the issue raised in that appeal. Rule 203(8) is a list of employees who are now denied membership and is essentially the same list from Rule 202. Seasonal employees continue to be denied membership in ERS as the result of a previous change made by the Pension Board in 2013 to completely eliminate that option. The general context of Rule 204, which states that any individual who is not denied membership is a mandatory member, essentially remains unchanged. However, the proposed changes to Rule 204 do include some minor adjustments to the language that simply reflect the lack of optional members. Rule 205 states that any employee who withdraws more than 50% of their membership account upon termination of active service shall terminate their membership in ERS. Rule 205 will remain unchanged. Rule 206 relates to individuals who were denied membership in 1949. As a practical matter, Rule 206 is also outdated and counsel is therefore recommending the repeal of Rule 206. Rule 207 addresses buy-ins for optional members. Rule 207 is no longer applicable because the Pension Board ceased buy-ins as of January 2007 and, because the Pension Board can no longer make membership in ERS optional, counsel is recommending the repeal of Rule 207.

To historically document these changes to Rules 201 through 207, copies of repealed Rules 201, 202, 206 and 207 will be attached, along with a copy of unchanged Rule 205, to the resolution amending Rules 203 and 204. The resolution and all related attachments will then be historically reflected in the Pension Board meeting minutes. This will ensure that copies of the Rules, with the language as they existed at the time of repeal, are historically preserved in the meeting minutes for future reference.

In response to a question from Mr. Leonard regarding the rationale for not renumbering the Rules, Mr. Grady stated that renumbering the Rules could potentially cause more confusion. For example, there would be one version of Rule 202 as it existed before 2015, and a completely different version of Rule 202 after 2015. Mr. Grady also noted that it is a general practice of law that once a statute is repealed, it does not remain in the statute book and he does not want to be publishing repealed Rules.

Mr. Huff added that if the Rules were renumbered, it would also be difficult to check the remaining Rules for any necessary changes to cross-references.

Ms. Ninneman commented that she believes that Mr. Grady's proposed method would leave a better audit trail, because it would highlight the fact that certain Rules are missing and were in fact repealed.

In response to a question from Ms. Lausier regarding a small group of individuals who were eligible for a one-time opt-in to ERS, Mr. Grady stated that none of these Rules are retroactive, and such individuals would be allowed membership in ERS under the Rules as they existed at the relevant time.

Ms. Ninneman added that the Rule in question provided that those individuals would get a one-time opt-in, resulting in permanent membership in ERS. Therefore, those individuals would be true ERS members, not optional members.

Mr. Grady continued by reiterating that under the Ordinances, the Pension Board no longer has any jurisdiction over the ability to make anyone an optional member in ERS. Every class of employee now has to either be denied membership in ERS or made a mandatory member in ERS. Because of the existence of the OBRA plan, which was specifically created for seasonal employees, seasonal employees will now be denied membership in ERS. The language in Rule 202(4)(c), which the Pension Board adopted in February 2013, gave seasonal members the right to make a final election opportunity to permanently enroll in ERS. Going forward, any individual that did not make a final election will not be able to opt-in.

Ms. Funck expressed concerns about repealing the various recommended Rules. Ms. Funck suggested that it is important to preserve the information for individuals who, for example, have already made the election to become a member in ERS under the provisions of Rule 202. Repealing the Rules will simply create gaps in the record for future reference. For example, someone going through an appeal ten years from now may not be able to easily defend the fact that they were legitimately allowed membership in ERS under the provisions of Rule 202.

In response to Ms. Funck, Ms. Westphal and Mr. Grady stated that the repealed Rules will be attached to the Pension Board meeting minutes as part of the official record. Mr. Grady also noted that the resolution to the proposed amendment also specifically states that "all members who were previously considered optional members and who opted into ERS shall remain ERS members until the member withdraws from the retirement

system." The proposed changes to the Rules merely recognize the fact that optional membership has been eliminated and do not change how ERS is currently administering the system.

In response to a question from the Acting Chair, Mr. Grady confirmed that the proposed amendments discussed today are making the Rules consistent with the current Ordinances.

Mr. Huff noted his agreement with Mr. Grady's comments and stated that the proposed action is a way to match the Rules to the current Ordinances, while preserving the status of individuals who are already members in ERS and officially recording the changes.

**The Pension Board voted 5-1, with Ms. Funck dissenting, to adopt the resolutions amending Rules 203 and 204, and repealing Rules 201, 202, 206 and 207, effective as of May 20, 2015 or as otherwise specified therein, attached to these minutes as Exhibit A. Motion by Mr. Gedemer, seconded by Ms. Westphal.**

9. Disability - Patricia Hundley

In open session, Mr. Grady stated that Ms. Hundley's disability application was reviewed by the Medical Board and recommended for approval. Mr. Grady noted that Ms. Hundley sustained a work-related injury and has certain work restrictions that prevent her from returning to her job. Because the County has been unable to find Ms. Hundley another job, she does meet all of the criteria to receive a disability pension.

The Acting Chair stated that she reviewed Ms. Hundley's application and the information is consistent, thorough and well-documented.

In response to a question from the Acting Chair, no other member had any comments or questions.

**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.**

Mr. Gedemer then moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(g) with regard to items 10 and 11 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 6-0 to enter into closed session to discuss agenda items 10 and 11. Motion by Mr. Gedemer, seconded by Ms. Funck.**

10. Pending Litigation

(a) Tietjen v. ERS

The Pension Board took no action on this item.

(b) Angeles v. ERS

The Pension Board took no action on this item.

(c) Trapp, et al v. ERS

The Pension Board took no action on this item.

(d) Baldwin v. ERS

The Pension Board took no action on this item.

11. Report on Compliance Review

The Pension Board took no action on this item.

12. Reports of ERS Manager & Fiscal Officer

(a) Retirements Granted, March 2015 and April 2015

Ms. Ninneman presented the Retirements Granted Report for March 2015. Twenty-seven retirements from ERS were approved, with a total monthly payment amount of \$50,651. Of those 27 ERS retirements, 21 were normal retirements, 5 were deferred and 1 was an ordinary disability retirement. Seventeen members retired under the Rule of 75. Thirteen retirees chose the maximum option, and 6 retirees chose Option 3. Fifteen of the retirees were District Council 48 members. Sixteen retirees elected backDROPs in amounts totaling \$2,088,506.

Ms. Ninneman then presented the Retirements Granted Report for April 2015. Twenty-two retirements from ERS were approved, with a total monthly payment amount of \$38,054. Of those 22 ERS retirements, 17 were normal retirements, 4 were deferred and 1 was an early retirement. Thirteen members retired under the Rule of 75. Fourteen retirees chose the maximum option, and 3 retirees chose Option 3. Eleven of the retirees were District

Council 48 members. Nine retirees elected backDROPs in amounts totaling \$765,777.

Ms. Ninneman noted that the Retirement Office has recently experienced a slowdown in the number of members scheduling appointments to sign retirement papers. The Retirement Office has recently added some additional appointment times for members who would like to discuss any questions they may have about their different retirement options in-person. In the past, the Retirement Office only scheduled in-person appointments for members that were actually signing final retirement paperwork. ERS staff believes that it is sometimes easier to walk members through their retirement options and answer any questions in person rather than over the telephone.

The Acting Chair commented that she has received positive feedback from members regarding ERS's efforts to improve communications.

(b) ERS Monthly Activities Report, March 2015 and April 2015

Ms. Ninneman presented the Monthly Activities Report for March 2015. ERS and OBRA combined had 8,081 retirees, with a monthly payout of \$15,075,400.

Ms. Ninneman next presented the Monthly Activities Report for April 2015. ERS and OBRA combined had 8,187 retirees, with a monthly payout of \$13,458,395. Ms. Ninneman noted that recent activity has been normal and there are no unusual metrics to report.

Ms. Ninneman concluded with a discussion of ERS's new SharePoint site. ERS utilized the new SharePoint site for the first time last month to post upcoming Pension Board and Committee meeting information. ERS will now be posting meeting materials, such as agendas and draft meeting minutes on the SharePoint site for members to view and access. Board members will now also have the capability to review and make direct edits to draft Pension Board meeting minutes via the SharePoint site. The SharePoint site will help the Retirement Office streamline the distribution of meeting materials and reduce printing costs. While there were some early challenges with granting external members access to the SharePoint site, ERS has been working to resolve those issues.

The Acting Chair stated that she can access the SharePoint site, but is not comfortable with navigating or utilizing the site. Ms. Ninneman then stated that ERS will prepare a SharePoint users guide for distribution to Pension Board members.

Ms. Ninneman continued by stating that as the SharePoint site administrator, she can add any user with a County e-mail address to the site. However, ERS must grant SharePoint site access to all other external users by submitting a special request to Microsoft IMSC. All external Board members should be set up for access to the SharePoint site before June 2015. In addition to the SharePoint site, ERS hopes to be able to issue electronic tablets to all Board members by September 2015. The Pension Board approved the tablets for all Board members in ERS's budget approximately two years ago. ERS is now at a point where they can effectively transition implementation of the tablets. Tablets are another convenient method to facilitate the sharing of information, while also providing members the ability to highlight and take notes on specific documents via certain software applications. ERS is currently drafting a user policy for the tablets, which includes a disposal policy for the time that a members' term on the Board ends.

Mr. Grady next stated that the Corporation Counsel's office has recently issued a general recommendation regarding County e-mail communications. As a result of the 2014 creation of Milwaukee County's Mental Health Board, Corporation Counsel recommended that that all Mental Health Board members be assigned a County e-mail address for use with all Mental Health Board business-related communications. This will ensure preservation of all County business-related e-mail communications for the public record.

Mr. Grady continued by stating that currently, any County-appointed or retiree-elected Pension Board member with a non-County e-mail address would have to have their personal e-mail accounts searched in order to comply with a public records request. This could be problematic for many reasons, including the fact that the County does not know how long Board members are preserving any County business-related communication in their personal e-mails. Discussions on this topic are ongoing and there will likely be some changes to e-mail addresses in the near future. Once established, Pension Board members should use their County e-mail addresses for all Pension Board business-related matters. Mr. Grady noted that the expense should be relatively minor, as he was informed that it would cost approximately \$300 per account to create the new County e-mail addresses for the Mental Health Board members.

In response to a question from Ms. Ninneman, Mr. Grady stated that he believes the \$300 is a one-time cost but he cannot be sure at this time.

In response to a question from Mr. Leonard regarding his personal e-mail account, Mr. Grady stated that currently only the e-mail correspondence Mr. Leonard exchanges with someone at a County e-mail address is being

preserved at the County level. Therefore, potential gaps are being created in the public record. Although there has not yet been a public records request that has raised any such issues, there is always the possibility and it is better that all County business-related information is centrally accessible. Because the County has now moved to internet-based Microsoft Outlook, the changes to e-mail addresses should be relatively easy to implement.

(c) Fiscal Officer

Ms. Lausier first discussed the March 2015 and April 2015 portfolio activity reports. Benefits and expenses for March were funded by liquidating \$15 million from international equity, \$8 million from fixed income, \$1.2 million from real estate and just under \$1 million from infrastructure. Benefits and expenses for April were funded by liquidating \$5 million from long-short equity, and \$0.6 million each from private equity and real estate. There was also a \$1.4 million capital call from Siguler Guff in early May. Ms. Lausier added that she is continuing to work with Marquette Associates to streamline the capital call process and is investigating additional methods to achieve advanced notification beyond the written requests.

Ms. Lausier noted that the total backDROP amount for March 2015 was slightly over \$2 million, which is roughly half of the total backDROP amount from February 2015. The backDROP amounts continue to trend lower, totaling \$765,000 for April 2015, which has helped to ease certain issues with cash management. ERS has also now constructed its reports to show estimated numbers of eligible retirees and each potential backDROP amount. The new report metrics should also help with cash management and requesting sufficient quarterly funding amounts.

Ms. Lausier continued with a discussion of the March 2015 and April 2015 cash flow reports. An additional metric has now been included on the cash flow report that reflects the amount of funding requests approved by the Pension Board and should help to track the amount of monthly disbursements. The Pension Board approved \$50 million for the second quarter funding request. Total disbursements for April 2015 were \$16 million and \$17 million is projected for May 2015. Therefore, there should be sufficient amounts remaining to cover second quarter funding. Ms. Lausier stated that she would like to request an additional \$51 million today for third quarter funding, based on projected cash outflows of \$17 million per month for July, August and September 2015.

**The Pension Board unanimously approved the liquidation of assets to fund cash flow of \$17 million for July 2015, \$17 million for August 2015 and \$17 million for September 2015. The amounts should be withdrawn from investments designated by Marquette. Motion by Ms. Van Kampen, seconded by Mr. Gedemer.**

Ms. Lausier next presented the first quarter check register and called for any questions.

In response to a question from the Acting Chair regarding a \$295,000 payment to Vitech, Ms. Lausier and Ninneman stated that the payment represents reimbursement to Vitech for standard annual hosting and maintenance fees.

In response to a question from the Acting Chair regarding a payment to Janine Geske for \$1,100, Ms. Ninneman stated that this represents payment for Supreme Court coaching related to *Stoker v. ERS*.

Mses. Lausier and Ninneman also noted that first quarter fees for Buck Consultants were higher than normal because of the additional work Buck is completing for the buy-in/buy-back recalculations.

In response to a question from the Acting Chair regarding the reason that Buck was unable to present ERS's preliminary valuation results today, Ms. Ninneman stated that she is not aware of any specific issues with the valuation and it is likely simply due to a timing issue.

Ms. Lausier then discussed ERS's reimbursement for 2014 County-paid expenses. For 2014, the County paid \$1,329,903.91 in expenses on ERS's behalf. Ms. Lausier requested approval for ERS to reimburse the County an amount of \$1,329,903.91.

**The Pension Board unanimously approved reimbursing the County \$1,329,903.91 for 2014 County-paid administrative expenses in accordance with Ordinance section 201.24(8.8). Motion by Mr. Leonard, seconded by Mr. Gedemer.**

Mses. Lausier and Ninneman concluded with an update on the annual audit. Ms. Ninneman noted that Baker Tilly's external audit is currently going slower than expected. As Ms. Lausier began her Fiscal Officer position in January 2015, she noted some discrepancies with some of the financial bookkeeping and this is delaying certain areas of the audit. While there is no issue with unaccounted funds, some funds were not entered in the correct places.

In response to a question from the Acting Chair regarding the specific nature of the bookkeeping discrepancies, Ms. Ninneman stated that it is unclear at this point as to whether the discrepancies were entered in the incorrect years, incorrect periods, or the wrong accounts. Baker Tilly has indicated that they are willing to assist ERS with filtering through ERS's financial data to help identify any bookkeeping discrepancies. Baker Tilly has also offered to assist with drafting the footnotes to ERS's financial statements. Ms. Lausier noted that the Governmental Accounting Standards Board ("GASB") Rule 67 changed the way that the footnotes must be reported on ERS's annual report.

Ms. Ninneman stated that the extra work would require a separate contract with Baker Tilly and a standard draft contract has been prepared. The draft contract is specific to ERS Retirement Services and is conditioned to not exceed \$30,000. As a result of the request for Baker Tilly's assistance, ERS will have to take a negative comment on its annual audit this year. However, it is best to clean up any negative issues this year, to allow for the resumption of clean audits in future years. Ms. Ninneman then requested Board approval of the Baker Tilly contract.

In response to a question from Ms. Braun regarding the specific reason for requesting Baker Tilly's assistance, Ms. Ninneman stated that ERS needs help in identifying the bookkeeping discrepancies and in preparing the footnotes to its annual report.

In response to a follow-up question from Mr. Grady, Ms. Ninneman confirmed that Baker Tilly is comfortable providing the additional help at the same time they are completing the audit.

In response to a question from the Acting Chair regarding an estimated timeframe for completion of the audit, Ms. Ninneman stated that she cannot provide any estimate at this time. However, if the Board approves the contract today, Baker Tilly can begin the related work on May 26. ERS does have a firm deadline to meet because the County needs ERS's annual report to complete its Comprehensive Annual Financial Report ("CAFR").

In response to a follow-up question from the Acting Chair, Ms. Ninneman and Lausier stated that it is hoped that the current issues with ERS's audit will not delay the County's CAFR but that is one of the reasons they are requesting Baker Tilly's assistance.

In response to a question from Mr. Grady regarding the proposed timeline for Baker Tilly's presentation to the Board or Audit Committee,

Ms. Ninneman stated that the standard timeline has not changed and it is hoped that Baker Tilly will still be able to present its findings in June.

**The Pension Board unanimously approved the contract with Baker Tilly, which is not to exceed \$30,000, to assist ERS with its financial reporting. Motion by Ms. Westphal, seconded by Ms. Van Kampen.**

13. Administrative Matters

The Pension Board discussed additions and deletions to the Pension Board, Audit Committee and Investment Committee future topic lists and no changes were requested.

14. Adjournment

The meeting adjourned at 11:00 a.m.

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

## EXHIBIT A

### AMENDMENT TO THE RULES OF THE PENSION BOARD OF THE EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

#### RECITALS

1. Section 201.24(8.1) of the general Ordinances of Milwaukee County (the "Ordinances") provides that the Pension Board of the Employees' Retirement System of the County of Milwaukee (the "Pension Board") is responsible for the general administration and operation of the Employees' Retirement System of the County of Milwaukee ("ERS").

2. Section 201.24(8.17) of the Ordinances provides that the Pension Board has the power to construe and interpret the system, decide all questions of eligibility and determine the amount, manner and time of payment of any benefits.

3. Ordinance section 201.24(8.6) allows the Pension Board to establish rules for the administration of ERS.

4. The County Board of Supervisors adopted ordinance amendments to Chapter 201.24 on February 17, 2015. Among other things, the County Board amended section 8.17 to delete the Pension Board's authority to make membership in ERS optional for classes of employees.

5. Pension Board rules 201-207 address membership in ERS. As a result of the adoption of the amendment to section 8.17, the Pension Board is required to amend its rules to make ERS membership mandatory except for those classes to which the Pension Board desires to deny membership and the Pension Board is required to delete references to optional membership in its rules.

6. Therefore, the Pension Board hereby repeals and amends rules 201-207 as follows:

#### RESOLUTION

1. The Pension Board finds that Rule 201 addresses optional membership for certain classes of employees and is now prohibited by the amendment to section 201.24(8.17) and, furthermore, is outdated and no longer applicable to any employee. Pursuant to Ordinance section 201.24(8.6), the Pension Board hereby repeals rule 201. A copy of the repealed Rule 201 is attached hereto.

2. The Pension Board finds that Rule 202 addresses optional membership for certain classes of employees which is now prohibited by section 201.24(8.17) for members who are not already considered optional members. Pursuant to Ordinance section 201.24(8.6), the Pension Board hereby repeals rule 202. A copy of the repealed Rule 202 is attached hereto. All members who were previously considered optional members and who opted into ERS shall remain ERS members until the member withdraws from the retirement system.

3. The Pension Board finds that classes of employees previously given the option for membership in ERS by Rule 202 should be denied membership in ERS. Pursuant to Ordinance section 201.24(8.6), the Pension Board hereby amends rule 203, as follows:

**203. Denial of membership.**

The following classes of employees shall not be eligible for membership in the retirement system:

- (1) Members of boards and commissions, except members of the county board of supervisors.
- (2) Physicians paid on the payroll on a per call or fee basis unless said persons previously held a position which permitted membership in the retirement system. In the event such a position was held by said persons, they shall be given service credit as follows:
  - (a) On a per call basis, each call shall be considered one-half hour and the total number of annual calls divided by two (2) will give the total number of hours on which the service credit will be figured as "X" hours over two thousand eighty (2,080) hours.
  - (b) On a clinical hour basis, the number of clinical hours over two thousand eighty (2,080) hours shall determine the annual service credit.
- (3) Part-time employees whose part-time monthly salary is less than fifty (50) percent of the full-time rate.
- (4) Noncivil service persons on county relief or work program.
- (5) Any employee in a teaching position eligible to membership in the state retirement system established by ss. 42.20-42.54, Wis. Stats., unless he became a member of the employees' retirement system of the County of Milwaukee prior to August 1, 1951.

- (6) Seasonal employees, ~~unless considered optional members pursuant to Rule 202(4).~~
- (7) Employees with appointments to an hourly position, identified as those positions with a guaranteed work week of less than twenty (20) hours.
- (8) Effective February 17, 2015:
  - (a) Employees whose salaries are paid in part by the State of Wisconsin;
  - (b) All interns, students and trainees in non-civil service positions;
  - (c) All resident physicians employed in a non-civil service position;
  - (d) Part-time employees whose part-time monthly salary is at least equal to fifty (50) percent of the full time rate, with the exception of part-time "regular appointees" hired at least on a half time basis who shall become mandatory members;
  - (e) Persons holding emergency appointments, except retired members of the county retirement system, upon their return to county employment.

4. The Pension Board finds that all employees not denied membership under amended Rule 203 should be mandatory members of ERS. Pursuant to Ordinance section 201.24(8.6), the Pension Board hereby amends rule 204, as follows:

**204. - Mandatory membership.**

All employees not ~~specifically covered~~ denied membership by rules ~~201, 202,~~ 203 shall become members of the system as a condition of their employment.

5. The Pension Board finds that Rule 205 continues to be relevant and leaves it in effect. A copy of Rule 205 is attached for reference.

6. The Pension Board finds that Rule 206 addresses optional membership for certain classes of employees and is now prohibited by the amendment to section 201.24(8.17) and, furthermore, is outdated and no longer applicable to any employee. Pursuant to Ordinance section 201.24(8.6), the Pension Board hereby repeals rule 206. A copy of the repealed Rule 206 is attached hereto.

7. The Pension Board finds that Rule 207 addresses optional membership for certain classes of employees and is now prohibited by the amendment to section 201.24(8.17). Pursuant to Ordinance section 201.24(8.6), the Pension Board hereby repeals rule 207. A copy of the repealed Rule 207 is attached hereto.

201. - Effect of rules and regulations on employees who were on the county payroll on April 29, 1948.

The membership of any employe who became a member of the system under the standing resolutions in effect at the time he became a member shall not be affected by any change in the rules affecting his eligibility to membership. Similarly any employe who had previously been denied membership under the standing resolutions in effect through April 29, 1948 shall have the option to become a member rather than be required to do so.

## 202. - Optional membership.

- (1) Employees whose salaries are paid in part by the State of Wisconsin.
- (2) All interns, students and trainees employed on non-civil service positions.
- (3) All resident physicians employed on non-civil service positions.
- (4) Seasonal employees.
  - (a) Seasonal employees initially employed by the county on or after January 1, 2014, or seasonal employees whose service credit was terminated and return to county employment on or after January 1, 2014, are excluded from optional membership and shall be denied membership in ERS under Rule 203.
  - (b) Optional membership includes seasonal employees who are members of ERS or OBRA on January 1, 2013, or are hired by the county as seasonal employees for the first time, or rehired after terminations of service credit, during the 2013 calendar year.
  - (c) Any seasonal employee who is a member of ERS or OBRA as of January 1, 2013, or is hired by the county as a seasonal employee during the 2013 calendar year, will be provided a final election opportunity. A member shall make a final election within sixty (60) days after the later of March 15, 2013 or the first day of the member's employment after January 1, 2013. If the individual is not employed by the county as a seasonal employee during 2013, but was a member of ERS or OBRA as of January 1, 2013, the individual shall have a final election opportunity at the time the individual returns to county employment as a seasonal employee, unless the individual's service credit was terminated prior to his or her return to county employment due to absence from county employment for five (5) years pursuant to Ordinance section 203(4.5) or Ordinance section 201.24(2.11). In this final election, a seasonal employee shall have the opportunity to permanently elect into ERS. If elected, the seasonal employee shall remain an ERS member until the member withdraws from the system. If a seasonal employee does not affirmatively elect into ERS during the employee's election period, the employee shall be permanently enrolled in OBRA for the duration of the employee's county employment unless and until the employee commences employment covered by ERS.
    - (i) No service credit transfer. Regardless of a seasonal employee's final election, all service credit previously earned by a seasonal employee shall remain in the system in which it was earned.
    - (ii) Minors. Any minor who makes a final election pursuant to this rule shall have a parent or guardian consent to the final election.
- (5) Part-time employees whose part-time monthly salary is at least equal to fifty (50) percent of the full-time monthly rate, with the exception of part-time "regular appointees" hired at least on a half-time basis who shall become mandatory members.
- (6) Persons who previously have exercised their option not to become members and who pursuant to section 3(3) of the Retirement Act request to become members, and pass any medical examination required thereunder.
- (7) Persons holding emergency appointments, except retired members of the county retirement system, upon their return to county employment.

The option to become a member may be exercised at any time but may not be thereafter revoked except by withdrawal from service and the retirement system. The employe who exercises an option set forth above shall be considered a member from the first of the month next following his or her date of application for membership. An employe who purchased prior service credit pursuant to Rule 207 shall be considered a member as specified in Rule 207. A seasonal employee who is eligible for, and provided, a final election right under Rule 202(4)(c) shall no longer have an option to become a member under this paragraph after the seasonal employee's final election period.

205. - Withdrawal of fifty (50) percent of annuity savings terminates membership.

In case an employe upon termination of active service shall withdraw more than fifty (50) percent of his annuity savings fund, he shall cease to be a member of the system and shall be asked to withdraw his entire balance. No interest shall be credited to his account on any such balance left on deposit.

206. - Employes becoming eligible for membership under the provisions of chapter 575, Laws of 1949.

Any employe who was denied membership by reason of the fact that he had been contributory to, a participant in or a beneficiary of a pension fund in operation in the state or any municipal subdivision thereof and who by reason of the enactment of chapter 575, Laws of 1949 is now eligible to become a member, shall have the option to become such member. Such membership shall commence after application therefor by the employe and annuity deductions from his pay.

## 207. - Buy in for optional employees.

Effective for buy in applications filed on or after October 1, 1998 and before January 1, 2007, any current employe of the county (as defined in section 2.4 of the Retirement Act) who was eligible to elect to participate in the system for a prior period of employment with the county in a capacity for which participation in the system was optional (as defined in Rule 202), but who failed to elect to participate in the system for such prior period of employment, may elect to participate in the system for such period of employment pursuant to the following rules:

- (a) *Can only buy credit for periods prior to enrollment form.* Employees can only buy credit for periods prior to completing a system enrollment form. If an employe has multiple periods of employment with the county or opts in and out of the system, then he or she can only buy credit under Rule 207 for periods of employment prior to completing his or her first enrollment form.
- (b) *Buy in amount.* Employees can elect one (1) of the following options:
  - (i) *Purchase only pre-1992 credit.* Under this option, the employe can purchase credit under the system for periods of optional employment prior to 1992 (or the date the employe completed an enrollment form, if earlier). The employe must pay to the system an amount equal to: (1) six (6) percent of his wages earned with the county during his entire period of optional employment prior to 1992 (or the date the employe completed an enrollment form, if earlier), plus (2) interest, calculated through the date of the election, that would have been earned on this amount if the employe had contributed to the system six (6) percent of his wages earned with the county at the time he was employed in such optional capacity. The employe shall continue to participate in the OBRA 1990 Retirement System of the County of Milwaukee (the "OBRA System") for post 1-1991 employment, to the extent eligible.
  - (ii) *Purchase all optional credit.* Under this option, the employe can purchase credit under the system for all periods of optional employment (prior to the date the employe completed an enrollment form). The employe must pay to the system an amount equal to: (1) six (6) percent of his wages earned with the county during this entire period of optional employment prior to completing an enrollment form, plus (2) interest, calculated through the date of the election, that would have been earned on this amount if the employe had contributed to the system six (6) percent of his wages earned with the county at the time he was employed in such optional capacity, minus (3) the present value of the employe's pension benefit under the OBRA System as of the date of the buy in election (based on the actuarial factors used to calculate lump sum payment under the OBRA System). In order to elect this option, the employe must affirmatively elect to waive all rights to his or her pension benefits in the OBRA System earned through the date of the election. The OBRA System will transfer to the system the present value of the employe's pension benefit under the OBRA System. This option shall be effective as of October 1, 1998 or the date the Internal Revenue Service approves this provision, whichever is later.

Interest for purposes of this subsection (b) shall equal the aggregate rate of return earned by the system's assets during each applicable year, as determined by the board.

(c) *Form of payment allowed.* If an employe elects to participate in the system pursuant to this rule 207, the employe shall contribute the required amount (as described in subsection (b)) to the system in one (1) of the following forms:

(i) *Lump sum.* A single lump sum within ninety (90) days.

(ii) *Equal installments.* Alternatively, an employe may elect to pay the buy in amount to the system in up to four (4) equal, annual installments if the total buy in amount equals or exceeds two thousand five hundred dollars (\$2,500.00). The following rules and conditions shall apply to installment payments:

- No interest on installment schedule. Additional interest shall not be charged on the installment schedule.

- Payments credited to suspense account. An employe's installment payments will be credited to a suspense account in the system until all scheduled payments are made.

- Contingent service credit. Credit purchased through an installment schedule is contingent on the employe making all scheduled installment payments, and no credit is awarded until an employe makes all required payments. If an employe does not make all required installment payments to the system by the date his or her pension is to commence, then the board will refund the employe's prior buy in contributions to the employe (and to the OBRA System to the extent it transferred assets pursuant to subsection (b)(ii)), and the employe will not receive any service credit under the system pursuant to the buy in arrangement. Notwithstanding the foregoing, if an employe ceases making scheduled installment payments due to his or her death or total disability (pursuant to the ordinary disability standard applicable to the employe under section 4.4), then the employe shall receive partial service credit under the system to the extent of the amount he or she (and the OBRA System) has paid to the system (with credit based on earliest service first). If an employe waives his or her OBRA System credit under subsection (b)(ii) above, and then fails to make all scheduled installment payments by the time his or her pension commences, the waived credit under the OBRA System shall be reinstated to the extent that the buy in contribution is refunded to the OBRA System under this subsection (c)(ii).

- Options if payments outstanding as of pension commencement date. If an employe desires to begin receiving his or her pension at a time when he or she still owes payments under an installment schedule (and the employe is not totally disabled), then the employe must either (1) pay the outstanding installments in a single lump sum (and begin receiving the pension with full buy in credit), (2) not pay the outstanding installment payments and begin receiving his or her pension (without any buy in credit, but with a refund of prior buy in contributions), or (3) defer his or her pension until all installment payments are made.

(d) *Compliance with section 415.* An employe's benefit purchased pursuant to this rule 207 cannot, together with any other pension benefit to which the employe is entitled under the system, exceed the limit described in section 415(b) of the Internal Revenue Code (as described in section XII of the Retirement Act).

(e)

*No partial purchases.* If an employe elects to participate in the system for prior periods of employment pursuant to this rule 207, then the employe must contribute for either (i) all optional employment (prior to the enrollment form) or (ii) all pre-1992 optional employment (prior to the enrollment form), but only to the extent the contribution does not cause the employe to exceed the Code section 415(b) limit.

- (f) *Cannot buy forfeited credit under Rule 207.* Employes cannot utilize the buy in arrangement under Rule 207 to buy credit that has been forfeited under section 2.11.
- (g) *Active employe status.* In order to be eligible to commence a buy in, a person must be actively employed with the county. However, if an active employe begins buying in under an installment schedule and then terminates employment, the former employe can continue making installment payments.
- (h) *Applicable benefit rate.* The benefit rate under the system is based on the date "continuous membership" began in the system. For those employes who buy in under Rule 207, continuous membership will be deemed to begin as of the first date of optional employment for which an employe buys credit under Rule 207 (the "retroactive buy in date"). However, if an employe was initially nonoptional and participating in the system prior to transferring to optional employment, then continuous membership will be deemed to commence as of the date he or she commenced nonoptional employment. Notwithstanding the foregoing, collectively bargained employes who buy in under Rule 207 shall receive the greater of: (i) the benefit rate specified in the Retirement Act for employes hired on the retroactive buy in date in the same category of employment, or (ii) the rate specified in the collective bargaining agreement for employes hired on the retroactive buy in date in the same category of employment.
- (i) *No buy in permitted after January 1, 2007.* Effective January 1, 2007, no employe shall be permitted to file an application to participate in the system pursuant to this rule 207. However, an employe who has filed a buy in application prior to January 1, 2007 shall be permitted to complete his or her buy in pursuant to the requirements of this rule 207.