EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

MINUTES OF THE MARCH 17, 2010 PENSION BOARD MEETING

1. Call to Order

Vice Chairperson Linda Bedford called the meeting to order at 8:30 a.m. in the Green Room of the Marcus Center, 127 East State Street, Milwaukee, Wisconsin 53202.

2. Roll Call

Members Present:	Members Excused:
Linda Bedford (Vice Chair)	Keith Garland
Donald Cohen	
Mickey Maier	
Jeffrey Mawicke	
Marilyn Mayr	
Dr. Sarah Peck	
David Sikorski	
Guy Stuller	

Others Present:
David Arena, Director of Employee Benefits, Department of Administrative Services
Mark Grady, Principal Assistant Corporation Counsel
Gerald Schroeder, ERS Manager
Dale Yerkes, Assistant Fiscal Officer
Monique Taylor, ERS Clerical Specialist
Steven Huff, Reinhart Boerner Van Deuren s.c.
Brett Christenson, Marquette Associates, Inc.
Ray Caprio, Marquette Associates, Inc.
Dr. Dean Roepke, Former Chairman, Milwaukee County Pension Board
Ken Loeffel, Retiree
Yvonne Mahoney, Retiree
Steve Schultze, Reporter, *Milwaukee Journal Sentinel*

3. Vice Chairperson's Report

Ms. Bedford welcomed David Sikorski as the newly elected employee member of the Pension Board. Mr. Sikorski noted that he has been a zookeeper at the Milwaukee County Zoo for 15 years.

4. Election of Chair and Vice Chair Per Rule 1041

Ms. Bedford noted that the Pension Board must elect a new Chair and Vice Chair pursuant to Rule 1041 because the term of Dr. Roepke, the former Chair, as a Pension Board member ended. She opened the floor for nominations.
Ms. Bedford nominated Mr. Maier to serve as Chairman. In response to a question from Ms. Mayr, Mr. Maier indicated that his term expires in April 2011.

The Pension Board unanimously elected Mr. Maier Chairman of the Pension Board. Motion by Ms. Bedford.

Mr. Maier assumed Chairmanship of the meeting. The new Chairman stated that he looks forward to serving in the role of Chairman. The Chairman nominated Ms. Bedford to continue to serve as Vice Chair. In response to a question from Ms. Mayr, Ms. Bedford indicated that her term expires in April 2011. Ms. Mayr noted that Ms. Bedford's previous experience as Vice Chair will benefit the Pension Board.

The Pension Board unanimously elected Ms. Bedford to serve as Vice Chair. Motion by Mr. Maier, seconded by Ms. Mayr.

5. Minutes - February 10, 2010 Annual Meeting and February 17, 2010 Pension Board Meeting

The Pension Board reviewed the minutes of the February 10, 2010 annual meeting and February 17, 2010 Pension Board meeting.

The Pension Board unanimously approved the minutes of the February 10, 2010 annual meeting and February 17, 2010 Pension Board meeting. Motion by Mr. Cohen, seconded by Ms. Mayr.

6. Reports of ERS Manager and Assistant Fiscal Officer

(a) Retirements Granted, February

Mr. Schroeder presented the Retirements Granted Report for February 2010. He reported that 14 retirements were approved in February with a total monthly payment amount of $15,580. He noted that seven retirees elected backDROPs, in amounts totaling $623,162.

(b) ERS Monthly Activities Report, February

Mr. Schroeder presented the Monthly Activities Report for February 2010. He indicated that ERS had 7,276 retirees at the end of February 2010. He stated that ERS paid out just over $12 million in benefits for February 2010.

Mr. Schroeder noted that, at the recommendation of the auditor, the Retirement Office is formatting all files for easier retrieval of documents.

Mr. Schroeder presented an update on Board membership including upcoming elections and appointments. Because Mr. Cohen's term will expire in October 2010, ERS sent a notice to the County Board Chairman to inform him that he will need to make another appointment. Mr. Cohen has served the maximum number of terms. A retiree election will occur in November 2010 to fill Ms. Mayr's seat. Ms. Mayr has also served the maximum number of terms. Next, in early 2011, an employee election will fill Mr. Garland's seat; Mr. Garland is eligible for reelection. Finally, the County Executive will need to make a new appointment when Ms. Bedford's term is completed in April 2011. Ms. Bedford has also served the maximum number of terms.

Mr. Schroeder then updated the Pension Board on the recovery of the approximately $10 million in previously made erroneous direct deposits. In February 2010, Wells Fargo reversed direct deposits to recover approximately $9,800,000 almost immediately. Also, in February 2010, ERS withheld $110,000 from checks to offset amounts owed by members. In March 2010, ERS withheld additional payments of $9,000 and received checks from members' banks in the amount of $4,000. Of the remaining $2,000 estimated balance not recovered as of March 17, 2010, Wells Fargo expects to retrieve $1,000. ERS may have to consider legal action to recover the other $1,000.

Mr. Schroeder commented on the potential impact of the County's layoffs on ERS. In February, ERS reviewed all 76 layoffs to determine whether the Retirement Office could expedite retirement of the member, if eligible. Approximately 20% could be eligible for retirement benefits.
Mr. Schroeder noted that ERS had started the accidental disability retirement income review mailings. To date, ERS has sent 145 letters and

received 25 letters back. ERS reviews each case to determine if income earned would require a pension reduction under the Ordinances.

Mr. Schroeder then discussed the impact on the Retirement Office of the change in the pension multiplier to 1.6. ERS is negotiating a reprogramming of the V-3 system to address the 1.6 retirement factor. He may present to the Board the cost of reprogramming next month, which he estimates at $100,000 or more.

(c) Waivers – (4) Veronica Robinson – Executive Secretary – Ethics Board and Personnel Review Board

Mr. Schroeder reported that ERS received four waivers from Veronica Robinson, Executive Secretary – Ethics Board and Personnel Review Board.

The Pension Board voted 7-1, with Mr. Stuller dissenting, to accept the waivers. Motion by Ms. Mayr, seconded by Ms. Bedford.

(d) Annual Meeting Review and Planning

Mr. Schroeder reviewed the February 2010 annual meeting. He noted that the meeting included breakfast this year, instead of lunch, which seemed to work more efficiently.

Mr. Schroeder raised the possibility of combining the annual meeting and the regular Pension Board meeting held during that month. Dr. Peck noted the idea had merit and discussed the possibility of shortening the annual meeting. Mr. Grady commented that combining the meetings probably will result in a longer meeting. Ms. Mayr discussed the need for time for the question and answer session at the annual meeting. In response to a question from Ms. Bedford, Mr. Grady noted that the Ordinances and Rules do not require the Pension Board to hold an annual meeting or dictate when the meeting must be held. Mr. Grady stated that the Board could move the annual meeting to August when the Pension Board customarily does not have its regular meeting, if possible. Mr. Loeffel commented that combining the meetings would make clearing the room for closed session discussions more cumbersome.

(e) Cash Flow Report

Mr. Yerkes presented ERS's cash flow report. He reminded the Board that ERS no longer sweeps cash dividends and interest into the general account. Instead, those amounts remain with the managers. The amounts previously totaled about $2 to $3 million per month, but now project to be only about $35,000 each month. Therefore, the cash requested on a monthly basis will be higher than in the past.

Mr. Yerkes stated ERS needs cash flow of $15 million in April, $10 million in May and nothing in June because the County contributes an extra $4 million that month. Marquette will recommend the investment source from which to draw cash.

The Pension Board unanimously approved the liquidation of assets to fund cash flow of $15 million in April and $10 million in May from a source to be identified by Marquette. Motion by Ms. Mayr, seconded by Dr. Peck.

(f) <u>2009 Reimbursement of County Paid Administrative Expenses</u>

Mr. Yerkes discussed the annual reimbursement from ERS to the County for cross-charged expenses such as salaries and fringe benefits. The 2009 total was $1,312,156.

In response to a question from Ms. Mayr regarding the increase in employee health care costs from $200,000 to $300,000 for 2009, Mr. Arena stated that the cost increase reflected the increased number of employees in the department. He added that the County negotiated more favorable discounts when the County moved its medical plans to United HealthCare.

The Pension Board voted 7-1, with Mr. Stuller dissenting, to reimburse the County $1,312,156 for County-paid administrative expenses in accordance with Ordinance section 201.24(8.8). Motion by Ms. Bedford, seconded by Dr. Peck.

7. <u>Investments</u>

(a) <u>Marquette Associates, Inc. Report</u>

Brett Christenson and Ray Caprio from Marquette Associates, Inc. distributed ERS's fourth quarter and monthly reports.

Mr. Christenson distributed and discussed two handouts regarding infrastructure transactions by firms hired by ERS. In the first transaction, Elia and IFM will acquire the German transmission system operator 50Hertz for approximately $250 million. IFM currently has a queue of about $190 million, of which ERS is a part. IFM will likely initiate a capital call in May or early summer 2010. Mr. Christenson characterized this transaction as a good opportunity and believes ERS should invest in the project. The second transaction involves the acquisition of SouthWest Water Company by an investor group which includes JPMorgan for approximately $150 million. Mr. Christenson indicated that capital calls will likely not occur for three or four months, but Marquette will monitor the actual dates closely.

Mr. Christenson discussed ERS's fourth quarter report echoing the report from the prior month. For 2009, ERS earned a total return of 18.7% gross of fees. ERS ranked in the 56th percentile when compared to all public funds and in the 48th percentile versus funds over $1 billion. He reminded the Board that ERS maintains a more conservative asset allocation than its peers. As a side note, he indicated that ERS has a lower exposure to U.S. equities and slightly higher exposure to international equities. Because of this conservative allocation, ERS will be closer to the median in strong years for the stock market.

In response to a question from the Chairman, Mr. Christenson stated that Marquette will provide reports to show how peer groups rank according to risk. Mr. Christenson noted that on a three-year basis ending calendar year 2009, ERS had a lower risk than the median public fund. In response to a follow-up question from the Chairman, Mr. Christenson indicated that ERS's risk will decrease in comparison to the median public fund over the next three years based on the change in asset allocation.

Mr. Christenson then reviewed a style chart for ERS's U.S. managers. He indicated ERS should seek managers that maintain long-term consistency for the style for which the manager was hired.

Mr. Christenson reviewed ERS's monthly report. He noted that ERS is currently overweighted to the fixed income group by approximately 1.1%, and currently underweighted to the equity group by about 3%. He indicated that Marquette considers real estate and infrastructure in fixed income, and private equity and long/short in equity. Marquette recommended that the $15 million that ERS needs in April for cash flow come from fixed income. Therefore, Mr. Christenson indicated that ERS did not need to rebalance asset allocation at the present time.
Mr. Christenson also recommended that ERS source dollars for the future capital calls by its infrastructure managers from its fixed income portfolio. He noted that ERS can access funds from both the index fund with Mellon and JPMorgan very quickly.

The Pension Board unanimously agreed to accept Marquette's recommendation to source up to $120 million for future capital calls made by its infrastructure managers from its fixed income portfolio. Motion by Dr. Peck, seconded by Ms. Bedford.

Mr. Christenson then stated that total ERS assets as of February 28, 2010 were approximately $1.76 billion. The fund's total return for February 2010 was 1.2%. ERS experienced strong U.S. equity returns for February 2010, with the total domestic equity composite up 4.1% versus the benchmark of 3.4%.

Mr. Christenson highlighted the performance of certain managers in February 2010. Artisan earned 7.1% versus the benchmark of 5%. Also, Fiduciary, the recently hired small cap value manager, earned 5% versus the benchmark of 4.6%. Finally, AQR has returned 82.9% in the past year versus the 65.9% benchmark.

The Chairman stated that he wants to ensure that the Board receives adequate education regarding real estate investments because real estate represents an unusual asset class. He noted that the Board did not invite an outside manager to present to the Board, as would be the usual process. Instead, Marquette would provide a real estate education presentation to the Board.

Mr. Christenson began the presentation by noting that the overall real estate investable universe is very large. However, ideally, ERS should avoid investing in illiquid assets. Only 14% of the U.S. investable universe is considered liquid real estate.

Mr. Christenson then stated that ERS could invest in four sections of real estate: (1) private real estate debt; (2) public real estate debt; (3) private equity real estate; and (4) public equity real estate. Private and public real estate debt are both forms of fixed income. Marquette does not recommend that ERS increase its real estate fixed income investments. Mr. Christenson noted that the core real estate 7% allocation target is intended to represent real estate equity. Public equity investments occur in the form of REITS, which tend to correlate to small cap equities. Marquette believes public REITS do not add the diversification found in private real estate. Therefore, Marquette recommends investing in private equity real estate.

Mr. Christenson noted some beneficial characteristics of real estate investments. Real estate earns a healthy current gross income while experiencing a superior risk-adjusted performance. Real estate also adds the benefit of diversification and serves as a potential hedge against inflation.

Mr. Christenson stated that core real estate investments include office buildings, industrial parks, retail, and apartments. All four of these sectors usually involve long-term leases and generate significant income from them. He noted that the goal for real estate returns is 8%. In response to a question from the Chairman, Mr. Christenson indicated that the income from real estate typically can be reinvested or paid out quarterly.

Mr. Christenson described the historical performance of real estate investments. The long-term return of the public real estate benchmark is strong at 12.4%; however, the volatility or standard deviation since 1978 is similar to the stock market at 20.4%. The private real estate benchmark has had a long-term return of 8.8% since 1978 with a standard deviation or volatility of 4.9%. Mr. Christenson indicated that more stability and diversification exists in private real estate investments.

Mr. Christenson noted that a repricing of real estate occurred throughout the market in 2009. Marquette believes the repricing of real estate allows ERS to invest while prices are depressed. In response to a question from the Chairman, Mr. Christenson indicated that the repricing resulted partly from new real estate appraisals, a few market transactions under distressed conditions and an increase in vacancies. He noted that for the core real estate managers ERS would consider, the average lease rate on their properties was close to 95% entering the recession. Currently, these same managers have an average lease rate of 88% to 90%. As unemployment decreases, Mr. Christenson hopes to see lease rates gradually increase. Marquette believes the repricing is close to complete, if not already done.

Mr. Christenson also discussed the various stages involved in property development and investment. He indicated the operating/stabilized stage includes the types of properties ERS will primarily consider for its investment search.

Mr. Christenson described three main substyles of real estate investment management: core, value added and opportunistic. Core represents the most conservative investment style; Marquette recommends ERS consider this option. He indicated that Marquette will send the RFP to the entire universe of core real estate managers satisfying the Pension Board's requirements. The Chairman noted the importance of advertising the RFP broadly.

Mr. Christenson discussed risk components involved in real estate investments. First, private equity commercial real estate is less liquid than most financial assets. Generally, the core real estate open-end funds offer quarterly opportunities for investors to withdraw money. However, these funds reserve the right to establish a queue at any time. Most of the open-end core managers never had a queue until 2008-09, when queues rose as high as 30% of the total assets in some cases. Some withdrawals were triggered by funds being overweighted in real estate due to the drop in other parts of their portfolios. Additionally, some endowments needed cash because other parts of their portfolio were also illiquid. Another risk component to real estate is that the valuation or appraisal methodology is highly subjective.

Mr. Christenson stated that most open-end core funds will be close to $2-3 billion in size, typically holding over 50 properties spread throughout the four major core real estate asset classes.

In response to a question from Ms. Bedford regarding how a property is managed once an investment manger acquires it, Mr. Christenson noted that core real estate funds will hire a third party management company, manage the property themselves, or a combination of the two.

(b) Investment Committee Report

Dr. Peck reported on the March 1, 2010 Investment Committee meeting. The Investment Committee discussed revision and adoption of a new Statement of Investment Policy. Dr. Peck noted that Mr. Grady had reviewed a first draft of the revised Statement of Investment Policy to ensure consistency with ERS Ordinances and Rules. She indicated that Mr. Schroeder had distributed a draft copy of the revised policy to the Board. Dr. Peck noted the Investment Committee will further discuss the policy prior to presenting it to the Board for approval.

8. Audit Committee Report

Because the Audit Committee Chairman needed to leave the Pension Board meeting, Ms. Mayr reported on the March 4, 2010 Audit Committee meeting. The Audit Committee first discussed the RFP process for all service providers who are due for review. The Audit Committee endorsed the review of banking, actuarial and legal services.

Next, the Audit Committee reviewed the current practice of requiring annual earned income reviews. While Ordinance section 10.2 applies to all disability pensions for the lifetime of the retiree, ERS past practice has been to apply this ordinance only to accidental disability retirements and not to ordinary disability retirements. Ms. Mayr indicated that the Audit Committee would like to align the ordinance with current practice.

Ms. Mayr noted that the Audit Committee also discussed the "any job" standard for receipt of an accidental disability retirement. The ordinance does not clearly define the standard to be used. Mr. Grady stated that he will research a possible rule change regarding the application of the "any job" standard. He noted that he has previously discussed past practices with the Pension Board in closed session.

Ms. Mayr stated that the Audit Committee also discussed the correct interpretation of Rule 711 regarding the backDROP date. Mr. Grady described a proposed amendment to Rule 711 to clarify the exact day that serves as the backDROP date. He explained that ambiguity exists as to whether the backDROP date is the day that would have been the member's last day on the payroll had the member actually retired at that time, as the V-3 system is programmed, or what would have been the member's first day of retirement (*i.e.*, the day after what would have been the last day on the payroll). The ERS staff has consistently applied the Ordinance to treat what would have been the member's first day of retirement as the backDROP date. Although he believes the current Rule 711 is not clear, Mr. Grady indicated he thought the Retirement Office's interpretation was correct.

Mr. Grady recommended that the Board adopt the proposed amendment to subsection (d) of Rule 711 to clarify that the backDROP date is the date that would have been the member's first day of retirement, *i.e.*, the day after what would have been a member's last day on the County payroll.

The Pension Board unanimously adopted the proposed amendment to subsection (d) of Rule 711 attached to these minutes as Exhibit A, clarifying that the backDROP date is the date immediately following the date selected by the member as the last date to be included in the calculation of the member's final average salary and pension service credit. Motion by Mr. Cohen, seconded by Dr. Peck.

Mr. Grady then discussed a proposed amendment to Rule 1010, relating to earnings reports submitted by disability pensioners to the Retirement Office. He reiterated Ms. Mayr's prior statement that currently only accidental disability pensioners, but not ordinary disability pensioners, are asked to provide earnings statements to the Retirement Office.

Mr. Grady noted particular reasons to ask accidental disability pensioners, but not ordinary disability pensioners, to provide earnings statements. Primarily, the amount of accidental disability pensions is significantly higher than ordinary disability pensions, involving more ERS assets. Mr. Grady also indicated that the likelihood of finding excess earnings is greater with an accidental disability pension than with an ordinary disability pension.

Mr. Grady noted that the Audit Committee proposes two amendments to Rule 1010 to the Pension Board. The first proposed amendment provides that the Pension Board will only ask accidental disability pensioners for excess earnings. The second proposed amendment states that the Pension Board will only ask for an earnings report from accidental disability pensioners until age 70, as opposed to no limit.

Mr. Grady stated that most retirees who are receiving accidental disability retirement pensions would convert their disability pension to a normal retirement pension at normal retirement age, receiving service credit for all time they had received a disability pension. In that event, outside earnings do not need to be reported. He added that the ERS staff has never found excess earnings for disability pensioners who had reached age 70.

The Pension Board unanimously adopted amendments to Rule 1010, relating to earnings reports by disability pensioners, attached to these minutes as Exhibit B. Motion by Dr. Peck, seconded by Mr. Cohen.

9. <u>Proposed Ordinance Amendments – Referral for Pension Board Comment under Section 201.24(8.17)</u>

The Pension Board discussed the request from the County Board for comment on a proposed Ordinance amendment. The proposed amendment would extend the 1.6 multiplier factor for non-represented members to include elected officials.

The Pension Board unanimously adopted the following resolution:

> **The Pension Board offers no formal comment regarding the proposed Ordinance amendments to sections 201.24(5.1) and 201.24(5.15) of the Milwaukee County Code of General Ordinances and waives the balance of its 30 day comment period provided for under section 201.24(8.17) of the Milwaukee County Code of General Ordinances. The Pension Board believes that it is in the best interest of ERS for the County Board to adopt Ordinance amendments which preserve assets of ERS and clarify the intended operation of the Ordinances.**

Motion by Ms. Bedford, seconded by Dr. Peck.

10. Administrative Matters

The Pension Board discussed additions and deletions to the Pension Board, Audit Committee and Investment Committee agendas.

The Chairman discussed an opportunity to attend the upcoming Institutional Investors Institute-Public Funds Roundtable on April 21 through April 23, 2010 in Austin, Texas. Mr. Sikorski expressed interest in attending the Capital Matters: Managing Labor's Capital conference at the Harvard Law School on April 21 through April 23, 2010. Ms. Mayr commented that Board members are limited to a maximum of three educational conferences annually. Mr. Grady stated that the travel policy should be reviewed to ensure it captures this restriction.

The Pension Board unanimously approved the attendance of any interested member at the Capital Matters: Managing Labor's Capital conference at Harvard Law School on April 21-23, 2010 in Cambridge, Massachusetts. Motion by Dr. Peck, seconded by Mr. Cohen.

11. Disability Matters

Ms. Bedford moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(f), with regard to item 11 for considering the financial, medical, social or personal histories of specific persons which, if discussed in public, would be likely to have a substantial adverse effect upon the reputation of any person referred to in such histories and that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(g), with regard to items 11, 13, 14 and 15 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.

Ms. Bedford also moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(e), with regard to item 12 for considering the investing of public funds, or conducting other specified public business, whenever competitive or bargaining reasons require a closed session. At the conclusion of the closed session, the Board may reconvene in open session to take whatever actions it may deem necessary concerning these matters.

The Pension Board voted by roll call vote 7-0, to enter into closed session to discuss agenda items 11, 12, 13, 14 and 15. Motion by Ms. Bedford, seconded by Mr. Cohen.

(a) Applications – Susan Freckman, ODR

Upon returning to open session, the Pension Board discussed Susan Freckman's ordinary disability pension. The Medical Board recommended that the Pension Board grant an ordinary disability pension.

In open session, the Pension Board unanimously approved accepting the Medical Board's recommendation to grant an ordinary disability pension. Motion by Mr. Cohen, seconded by Mr. Mawicke.

(b) Richard Schmitt, Excess Earnings

The Pension Board considered the settlement agreement requiring Mr. Schmitt to repay ERS $1,700 per month over 20 years starting in 2008.

In open session, the Pension Board unanimously approved the settlement agreement for repayment of an overpayment of a disability pension benefit, requiring Mr. Schmitt to repay ERS $1,700 per month over 20 years starting in 2008. Motion by Mr. Cohen, seconded by Mr. Mawicke.

(c) Barbara Adamski, Age 62 Conversion of ADR

The Pension Board also considered the settlement agreement requiring Ms. Adamski to repay ERS $240 per month over 20 years starting in 2008.

In open session, the Pension Board unanimously approved the settlement agreement for repayment of an overpayment of a disability pension benefit, requiring Ms. Adamski to repay ERS $240 per month over 20 years starting in 2008. Motion by Mr. Cohen, seconded by Mr. Mawicke.

12. Selection of Passive Core Fixed Income and Passive U.S. Large Cap Equity (S&P 500) Fund Manager(s)

The Pension Board considered whether to transfer the passive core fixed income and passive U.S. large cap equity index funds from BNYM to Northern Trust.

In open session, the Pension Board voted 4-3, with Ms. Bedford, Dr. Peck and Messrs. Cohen and Sikorski approving, and Messrs. Maier and Mawicke and Ms. Mayr dissenting, to transfer the passive core fixed income and passive U.S. large cap equity index funds from BNYM to Northern Trust. Motion by Ms. Bedford, seconded by Dr. Peck. The motion failed to pass because it lacked the necessary five votes as required by Ordinance section 201.24 (8.5).

Mr. Grady stated that a vote of five is required for the Pension Board to take formal action. Therefore, he suggested reconsideration of this matter at the next meeting.

13. Pending Litigation

(a) *Mark Ryan, et al. v. Pension Bd.*

The Pension Board took no action on this item.

(b) *Travelers Casualty v. ERS & Mercer*

The Pension Board took no action on this item.

14. Report on Special Investigation

The Pension Board took no action on this item.

15. Report on Compliance Review

The Pension Board took no action on this item.

16. Dean Roepke-Plaque Presentation.

The Chairman presented the former Chairman, Dr. Roepke, with a resolution from the Milwaukee County Board of Supervisors and a Pension Board plaque to express its gratitude for Dr. Roepke's years of service, his leadership and his teaching in his years of service as Chairman. Dr. Roepke has served as a member of the Pension Board since 2004 and as Chairman since 2006 with professionalism, enthusiasm, and integrity. During that time, he has guided the Pension Board through many challenges. Dr. Roepke retired March 2, 2010 from Milwaukee County.

17. Adjournment

The meeting adjourned at 12:00 p.m.

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

EXHIBIT A

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

RECITALS

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

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

3. Section 201.24(5.16) provides for utilization of a back DROP date that, among other things, cannot be earlier than the earliest date that a member is eligible to retire. In some situations, that provision requires that the back DROP date must be the next day after what would have been the member's last day on the payroll had the member retired at that time and therefore ERS staff has interpreted the back DROP date to be that date.

4. The Pension Board believes that it is appropriate to adopt the following rule to clarify the definition of the back DROP date, consistent with the past practice and interpretation of the ERS staff.

RESOLUTION

1. Pursuant to Ordinance section 201.24(8.6), the Pension Board hereby amends Rule 711 to read as follows:

Rule 711. Back DROP pension benefit.

(a) *Eligibility*. Any member whose application to retire is filed and effective on or after January 1, 2001, and who elects a normal pension pursuant to section 4.1 or an early pension pursuant to section 4.2 shall be eligible to elect to receive the retroactive deferred retirement option program, or "back DROP," pension benefit described in section 5.16.

(b) *Form of benefit*. A member who elects to receive a back DROP pension benefit shall, upon completing an application for a retirement benefit:

(1) Receive a lump sum DROP benefit, which, at the member's election, shall be paid to the member in a single lump sum, or, if permitted by the Internal Revenue Code and corresponding regulations, shall be "rolled over" to an individual retirement account ("IRA"), or, when allowable, to another tax qualified retirement plan; and

(2) Receive the member's early or normal monthly pension (referred to in section 5.16(3)(b) as the "monthly DROP benefit"). The member's monthly pension benefit shall be calculated in accordance with sections 5.1, 5.2 and 5.15, except that years of pension service credit and earnable compensation on and after the "back DROP date" will not be taken into account. The monthly pension benefit received by the member will reflect the annual increases required by section 5.7, with such increases beginning on the one-year anniversary of the member's back DROP date and continuing on each subsequent anniversary

(c) *Lump sum DROP benefit*. The "lump sum DROP benefit," or "total DROP benefit" as it is described in section 5.16, equals the sum of the monthly pension payments (calculated pursuant to section (b)(2) above) that the member would have received had the member's pension commenced on the "back DROP date" and been paid through the date the member is removed from the county payroll due to actual retirement (after exhausting all accrued time balances as documented by an ETCR form), including annual increases in accordance with section 5.7. The "lump sum DROP benefit" shall also include interest, compounded monthly at a rate equal to the actuarial funding rate of the Employes' Retirement System of the County of Milwaukee, that would have accrued to an account had the member's monthly pension commenced on his back DROP date and been allocated to that account.

(d) *Back DROP date.* The "back DROP date" is a date selected by the member that is not earlier than the earliest date that the member was eligible to retire and receive a benefit pursuant to section 4.1 or section 4.2 and that is not later than one year prior to the date the member elects to leave active county service. For purposes of this rule and section 5.16, the requirement that the back drop date be at least one year prior to the date the member leaves active county service shall be interpreted as one calendar year. The back DROP date shall be the date immediately following the date selected by the member as the last date to be included in the calculation of the member's final average salary and pension service credit.

(e) *Application of benefit enhancement provisions.* When calculating a member's normal or early monthly pension payment, the provisions of section 5.15 shall apply even if a member elects to receive a back DROP benefit with a "back DROP date" prior to January 1, 2001.

As amended effective March 17, 2010.

EXHIBIT B

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

RECITALS

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

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

3. Section 201.24(10.2) requires the Pension Board, among other things, to adjust disability pensions based on earnings. The Pension Board and ERS have historically applied the requirements of this ordinance only to members receiving accidental disability pensions. The Pension Board determines that due to the size of ordinary disability pensions it is unlikely that such pensioners will have excess earnings and the potential for discovering excess earnings is outweighed by the administrative time and expense to ERS and to the pensioners.

4. Further, the Pension Board has applied section 201.24(10.2) to all members receiving accidental disability pensions. However, the experience of ERS has demonstrated that members over the age at which social security benefits become mandatory have not had excess earnings. Based on this past experience, the Pension Board determines that the potential for discovering excess earnings by accidental disability pensioners after the year in which the member reaches age 70 is outweighed by the administrative time and expense to ERS and the pensioner of continuing to require annual earnings statements. Further, the Pension Board finds that because accidental disability pensioners receive service credit for the years while receiving such a pension and that such pensioners could apply for and receive a normal retirement pension after age 60 makes requiring annual earnings statements counterproductive for ERS and intrusive upon the member after the member reaches age 70.

5. Consistent with the foregoing, the Pension Board believes that it is appropriate to adopt the following amendments to Rule 1010.

RESOLUTION

1. Pursuant to Ordinance section 201.24(8.6), the Pension Board hereby amends Rule 1010 to read as follows:

Rule 1010. Reports by ~~accidental~~ disability pensioners.

(a) Members receiving an ordinary disability pension are not required to file an annual statement of earned income.

(b~~a~~) Each member receiving an accidental disability pension shall, on or before June 1 of each year, file with the secretary a statement of earned income and shall provide to ERS a signed authorization allowing ERS to obtain copies of state and federal tax returns from the respective governments. The secretary may also request that the member provide complete copies of the member's federal and state income tax returns for the same year. The secretary, for reasonable cause shown, may extend the filing date.

(c~~b~~) In the event a member fails to provide the requested statement or authorization as required, the secretary shall forward the member's name and the facts of the member's noncompliance to the Pension Board. Upon referral, the Board may, in its discretion, suspend the member's pension or take whatever other action it deems appropriate in order to obtain the documentation. Upon receipt of the required documents, the Secretary shall pay to the member, without interest, all prior suspended pension payments, subject to the adjustment, if any, required by Ordinance section 201.24(10.2).

(d) Members receiving an accidental disability pension are not required to file an annual statement of earned income for years after the year in which the member reaches age seventy (70).

As amended effective March 17, 2010.