EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

MINUTES OF THE MAY 21, 2014 PENSION BOARD MEETING

1. Call to Order

   Norb Gedemer, serving as Acting Chairman, called the meeting to order at 8:30 a.m. in the third floor room of the Marcus Center, 929 North Water Street, Milwaukee, Wisconsin 53202.

2. Roll Call

Members Present	Members Excused
Laurie Braun	
Dr. Brian Daugherty (Vice Chair) - (joined via telephone during section 6)	
Aimee Funck	
Norb Gedemer	
Marilyn Mayr	
Patricia Van Kampen	
Vera Westphal	
Gregory Smith	

Others Present
Marian Ninneman, CEBS, CRC, ERS Manager
Mark Grady, Deputy Corporation Counsel
Jerry Heer, Director, Department of Audit
James Carroll, Principal Assistant Corporation Counsel
Vivian Aikin, CRC, ERS Sr. Pension Analyst
Daniel Gopalan, Fiscal Officer
Theresa Diaz, Assistant Fiscal Officer
Larry Langer, Buck Consultants
Troy Jaros, Buck Consultants
Brett Christenson, Marquette Associates, Inc.
Kay Hamelin, Milwaukee County Employee
Yvonne Mahoney, Retiree
Steven Huff, Reinhart Boerner Van Deuren s.c.

3. Selection of Meeting Chairperson

The Pension Board discussed selection of the meeting Chairperson.

The Pension Board unanimously approved the selection of Mr. Gedemer to serve as Acting Chairman for the May 21, 2014 Pension Board meeting. Motion by Ms. Mayr, seconded by Ms. Braun.

4. Minutes—March and April Pension Board Meetings

The Pension Board reviewed the minutes of the March 19, 2014 Pension Board meeting, the April 16, 2014 Pension Board business meeting and the April 16, 2014 annual Pension Board meeting.

The Pension Board unanimously approved the minutes of the March 19, 2014 Pension Board meeting, the April 16, 2014 Pension Board business meeting and the April 16, 2014 annual Pension Board meeting. Motion by Mr. Smith, seconded by Ms. Braun.

5. Audit Committee Report

Ms. Westphal reported on the May 7, 2014 Audit Committee meeting.

The Audit Committee discussed erroneous benefit payments in closed session for the duration of the meeting.

6. Possible Ordinance Amendments Related to Purchase of Service

In open session, Mr. Grady provided an introductory summary regarding ERS's errors in administration of purchases of service and the proposed correction methods.

ERS members have historically been allowed to purchase service credit in ERS. Certain errors in administration occurred regarding the purchase of service credit in ERS for periods of employment during which an employee had the option to but did not enroll in ERS ("buy-ins"). Certain errors in administration also occurred regarding the repayment of previously refunded contributions, with interest, to restore service credit for members who previously terminated service with ERS, but were now reemployed as active ERS employees ("buy-backs"). During ERS's administration of buy-ins and buy-backs, certain members were allowed to purchase service credit outside of the Rules and Ordinances.

To maintain its tax-qualified status and request guidance for correction of the errors, ERS voluntarily reported the errors to the Internal Revenue

Service ("IRS") in June 2007 under the IRS's Voluntary Correction Program ("VCP"). In its VCP submission, ERS proposed two alternative correction methods to the IRS. The first correction method involves a recalculation of each affected member's benefits, without the purchase of service, and attempt to collect any overpayments resulting from the erroneous purchase of service. The second proposed correction method involves a request to the County Board to adopt proposed discretionary Ordinance amendments to eliminate the administrative errors that occurred. The IRS has not yet provided ERS with complete correction guidance. At this time, the Pension Board could recommend to the County Board for approval one of the proposed correction methods.

The errors associated with the buy-ins and buy-backs fall largely into three distinct categories. The first category involves members who were allowed to purchase buy-backs more than two years after their return to employment. Currently, the Ordinance states that buy-backs must be purchased within two years of a member's return to employment. The proposed Ordinance amendment would extend that two-year time period to 30 years, which is outside the timeframe any member actually purchased buy-back credit. Because there is no IRS Code provision that would limit ERS's buy-back Ordinance, it is a County-controlled issue and within the County Board's discretion to adopt the proposed amendment. However, the IRS would have to provide final approval of the Ordinance amendment as part of the VCP approval. The second category of error involves the use of 457 plan deferred compensation funds for the purchases of buy-in or buy-back service credit. The IRS does allow the use of 457 plan money to make purchases, as long as both the 457 plan and the pension plan specifically allow it. The County Board could adopt a proposed Ordinance amendment that would allow the Fund to receive 457 plan funds for purchases of service, and therefore, eliminate the administration error. The third category of error involves members who paid more than 25% of their annual compensation in any given year to purchase service credit. The third proposed amendment would be retroactive to 1982 and would amend the Ordinances to redefine what constitutes an annual addition to a member's membership account, and eliminate purchase of service from the definition of an annual addition. As a result, the 25% compensation limit would not apply. While the Ordinance amendment would ultimately require IRS approval, Mr. Huff has proposed the amendment to the IRS as part of the VCP filing and has not been told it would not be approved. By effectuating these three proposed discretionary Ordinance amendments, the administrative errors associated with almost all of the buy-ins and buy-backs would be eliminated. Payment of benefits to affected members would continue as they have, without the need for collection of overpayments, with the exception of approximately 13 members for whom their purchase of service cannot be cured. Those 13 members did not fall into any of the three main categories of errors and were arguably allowed to purchase service when they should not have been.

Mr. Grady then noted that the County Board has authority over passage of the proposed Ordinance amendments. The question before the Pension Board today is whether or not it is in the best interest of the Fund and its members to recommend that the County adopt the proposed amendments. As trustees and fiduciaries of the Fund, the Pension Board has a different type of responsibility to the Fund and its members than does the County.

Mr. Grady then stated that unless there were further questions from the Board, any further discussion regarding the pros and cons for each of the proposed correction methods should be held in closed session, as there is a current threat of litigation.

In response to questions from Mses. Braun and Mayr regarding the recent report issued to the County Board Finance Committee, Mr. Grady stated that the Finance Committee requested a briefing, detailing the chronology of the development and discovery of ERS's erroneous purchase of service credit. A great deal of time was spent describing the errors, how they occurred and the events occurring after the discovery of the errors, including the VCP submission to the IRS. The Finance Committee received a detailed written report with the briefing, along with a list of the approximately 200 members affected by the errors and the corresponding type of error. At the meeting, the Finance Committee did not yet have copies of the proposed discretionary Ordinance amendments to be discussed at today's Pension Board meeting. The Finance Committee did have copies of the proposed mandatory Ordinance amendments that the Pension Board recommended for adoption by the County Board at the January 2014 Board meeting. The mandatory Ordinance amendments are required for the Fund to remain in compliance with the Internal Revenue Code.

In response to a question from Ms. Mayr, Mr. Grady stated that during the Finance Committee meeting, the Committee was presented with the actuarial report from Buck, stating that adoption of the proposed mandatory Ordinance amendments would have no actuarial effect, because the buy-ins and buy-backs are already built into the actuarial calculation. The actuarial report also stated that the mandatory Ordinance amendments will not increase the amount of required County contributions. The fiscal report stated that there was no fiscal effect and referred to the actuarial report for details. Mr. Grady noted that there is not yet an actuarial report on the proposed discretionary Ordinance amendments to be discussed today. Buck has already orally advised ERS that the discretionary Ordinance amendments will not increase the required County contributions, because the purchases of service credit have already been assumed within the actuarial calculations. If the Pension Board does recommend that the County Board adopt the discretionary Ordinance amendments, Buck will produce another actuarial report for presentation to the County Board stating what the actuarial effect would be if the discretionary Ordinance amendments were not adopted.

In response to a question from Ms. Van Kampen regarding potential difficulties with collection efforts if the proposed Ordinance amendments are not passed, Messrs. Grady and Huff stated that there may be potential legal obstacles imposed by a court on collections. There are many potential legal defenses that could be discussed in closed session, but a court could conceivably prevent collection of all or part of the overpayments. After a certain period of time, which could vary from case to case, collection efforts would be exhausted, and the County would have to eventually pay any uncollected balance of overpayments.

In response to a question from Ms. Braun regarding specific plans for collection efforts, if such action is approved by the Board, Mr. Grady stated that first steps will include calculations of overpayments for each affected member. ERS is currently in discussions with Buck Consultants to perform the necessary overpayment calculations because Buck will require that data for its actuarial report. If the time should come where collections of overpayments are necessary, each affected member's monthly pension would immediately be reduced, going forward, to offset the amount of the overpayment. For example, if an affected member is currently receiving an annual pension of $25,000 and, of that, $5,000 is an improper payment, the annual pension would be reduced to $20,000. ERS would then determine how many years the overpayments occurred to arrive at a total overpayment amount, with interest. Future payments would be offset by amounts calculated to "pay back" the total overpayment, plus an interest factor. To continue the same example, if that member improperly received an additional $5,000 over a period of ten years, the total overpayment would equal $50,000. If that member paid in $10,000 to purchase the service, the $50,000 overpayment would be offset by that $10,000, leaving a net overpayment of $40,000. Therefore, in addition to immediately reducing the current annual payment by $5,000, a past due amount of $40,000 would be offset from future benefit payments. For some members, the correction could be dramatic, while for others, it could be relatively minor. Overpayment corrections would also be influenced by a member's life expectancy. Theoretically, if ERS had 25 years to collect overpayments, pensions could be reduced by a smaller amount, versus a member who would only have five years of projected pension payments.

Mr. Grady added that it would initially be a discretionary decision by the ERS Manager or ERS staff as to whether the offset amount applied would be 100%, 50%, or such other amount as deemed appropriate. Each member with an offset could then appeal to the Pension Board for a hearing regarding the offset. If collection efforts are approved, it is expected that there could be 200 offset appeals before the Pension Board.

Ms. Ninneman then stated that ERS is at the initial phase of the process. Each affected member will have to be manually calculated on an individual basis to determine the overpayment amount and buy-in amount to arrive at a final overpayment balance.

In response to a question from Ms. Braun regarding a timeframe for completion of the overpayment calculations, Ms. Ninneman stated that Buck Consultants has a dedicated team in place and will be performing the calculations. ERS does not have the staffing capacity to timely complete the calculations. It is hoped that Buck will complete the initial calculations and ERS staff will verify the results within several months.

Mr. Grady reiterated to the Board that Buck is performing the overpayment calculations because they need to be completed for Buck's actuarial report, if the Pension Board suggests adoption of the discretionary Ordinance amendments by the County Board. If the proposed Ordinance amendments are in fact adopted by the County Board, then the overpayments would be cured and no collection efforts would be necessary, with the exception of the approximately 13 individuals already deemed ineligible.

In response to questions from Mses. Funck and Van Kampen, Messrs. Huff and Grady stated that there is no current estimate of the potential costs to ERS for possible litigation defenses if the overpayments are corrected via collections, versus the cost of correcting via the proposed Ordinance amendments. It is fairly certain that if collections are pursued, ERS will not collect 100% of the overpayments and some of that uncollected amount will fall to the County for repayment. At this point however, it is impossible to determine what percentage of that uncollectable amount would fall to the responsibility of the County. It is also certain that if collection efforts are pursued, there will be legal action against ERS, resulting in additional defense costs. At a minimum, ERS would have to absorb the $150,000 self-insured retention under its insurance policy. If there is no coverage, the costs could be substantially higher. Any litigation would likely go to an appellate court and would not be resolved quickly. Mr. Grady noted that fees, whether covered by insurance or not, could easily reach into the high six figures or even seven figures. Litigation resulting from pension enhancements ERS adopted in 2001 led to the *Bilda, et al. v. Milwaukee County et al.* ("Bilda") class action lawsuit and resulted in legal defense fees totaling over $1 million.

Messrs. Smith and Grady then stated that while it would be nice to have concrete numbers to compare the two alternative correction methods, if the proposed Ordinance amendments are recommended to the County Board and adopted, there would be no increase in the costs to the County because the overpayments are already baked into the actuarial assumptions. In addition, there would be no increase to ERS's administrative costs due to legal defense fees or insurance costs.

Mr. Smith suggested that on a qualitative basis, a decision not to recommend adoption of the discretionary Ordinance amendments would create additional administrative costs to ERS. If for example, collections were recommended instead, there would likely be greater costs incurred administratively to the Fund, through appeals, additional legal fees and insurance costs.

Mr. Grady agreed with Mr. Smith, adding that the Fund will always be made whole for benefit costs through actuarial contributions or a one-time contribution by the County of uncollected amounts from pensioners. By choosing to recommend that the County Board adopt the proposed Ordinance amendments, ERS would be avoiding a great deal of administrative costs.

Mr. Grady then stated that although it may be a minor factor, the last insurance carrier cancelled the Pension Board's insurance policy after the Bilda litigation. It is not inconceivable to believe that the current company would also cancel if there is additional extensive litigation.

In response to a question from Mr. Smith, Mr. Grady confirmed that fewer insurance companies are offering this type of insurance and ERS is running out of options for insurance companies.

In response to a question from Ms. Mayr regarding the need for prior knowledge of fiscal responsibility before making any recommendations, Mr. Grady stated that adoption of the discretionary Ordinance amendments would require a fiscal note at the County Board level, not at the Pension Board level. With either proposed correction method, the Fund will eventually be made whole for the benefit costs and the County will either continue to fund benefits as is, or the County will make up any shortfall.

Primarily as Pension Board members, there are additional administrative costs to consider if the discretionary Ordinance amendments are not recommended for adoption, versus no administrative cost increase if the amendments are recommended for adoption.

Mr. Gedemer expressed his concern over the Pension Board's timeliness, noting that it takes time for the Board to meet, review and vote on items. Mr. Gedemer stated that he would like to see the Board vote on some type of action today and recommended entering into closed session for further discussion, if necessary.

Ms. Braun then moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(g), with regard to item 6 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 voted by roll call vote 7-0 to enter into closed session to discuss agenda item 6. Motion by Ms. Braun, seconded by Ms. Van Kampen.

Ms. Westphal recused herself from the discussion and voting, and left the meeting.

The Board then convened to the Green Room of the Marcus Center and discussed the matter in closed session.

Dr. Daugherty joined the meeting telephonically during closed session. Upon returning to open session, Ms. Westphal rejoined the meeting, but abstained from voting on the matter.

In open session, the Pension Board voted 7-0-1, with Ms. Westphal abstaining, to request that the County Board adopt the proposed amendments to sections 201.24(11.1), (11.1), and (12.4) of the Milwaukee County Code of General Ordinances amending the Employees' Retirement System of the County of Milwaukee ("ERS") to correct errors occurring in connection with the purchases of prior service credit. The ERS Manager estimates that adoption of the proposed Ordinance amendments would not result in additional administrative or programming costs to the System.

The Pension Board directs the Retirement Office, as soon as administratively possible, to commence correcting those members' completed purchases of prior service credit that cannot be corrected through the Ordinance amendments. The Pension Board delegates to the ERS Manager, in consultation with Corporation Counsel, the authority to take any necessary actions to correct the errors and recover any related overpayments. Motion by Ms. Van Kampen, seconded by Mr. Smith.

7. <u>Disability Matters</u>

(a) <u>Kay Hamelin</u>

In open session, the Acting Chairman stated that Ms. Hamelin's application was received by the Medical Board and recommended for approval. The Acting Chairman stated that he reviewed the application and did not have any further questions. In response to a question from the Acting Chairman, no other member had any further questions that would require entering into closed session.

The Pension Board unanimously approved granting the accidental disability pension application based on the Medical Board's determination. Motion by Mr. Smith, seconded by Ms. Van Kampen.

8. <u>Appeals</u>

(a) <u>Theodore Evenson</u>

Ms. Westphal moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(f), with regard to item 8 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 item 8 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 voted by roll call vote 8-0 to enter into closed session to discuss agenda item 8. Motion by Ms. Westphal, seconded by Ms. Braun.

The Board discussed the matter in closed session.

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

1. On February 15, 2014, and prior to applying for a benefit, Theodore Evenson sent a letter to the Retirement Office requesting a pension benefit retroactive to May 29, 2013, the date on which he turned 60 and became eligible for a deferred vested pension benefit.

2. Mr. Evenson separated from County service on March 5, 2009. Upon separating from County service, Mr. Evenson claims that "someone in employee benefits" told him that he would not be eligible for a deferred vested benefit until he turned 62. Mr. Evenson claims that based on this information, he did not contact the Retirement Office when he turned 60.

3. In the same letter, Mr. Evenson claims that sometime between turning 60 on May 29, 2013, and February 11, 2014, he was informed by a third party that he was eligible for a benefit at age 60.

4. Consequently, Mr. Evenson states he contacted the Retirement Office on February 11, 2014.

5. During this February 11, 2014 conversation, Mr. Evenson was told by the Retirement Office that he was eligible for a deferred vested benefit upon turning 60, but that he was not eligible for a retroactive benefit. Mr. Evenson was also told that his retirement benefit would begin on the first day of the month following the date the Retirement Office received his completed retirement paperwork.

6. Mr. Evenson then sent his February 15, 2014 letter to ERS, but did not apply for a benefit at that time.

7. On February 27, 2014, Mr. Evenson submitted an Application for Retirement. In the application, Mr. Evenson requested retirement effective March 1, 2014.

8. In an email dated April 11, 2014, the Retirement Office indicated that Mr. Evenson has been granted retirement effective March 1, 2014 with payments beginning April 30, 2014 (for both March and April).

9. On March 15, 2014, the Retirement Office responded to Mr. Evenson's February 15, 2014 letter and denied his request for retroactive benefits.

10. The March 15, 2014 denial letter indicated that on January 28, 2012, ERS sent a letter to Mr. Evenson advising him that he would become eligible to apply for a pension benefit at age 60 and requesting that Mr. Evenson complete the included "acknowledgement form."

11. The acknowledgement form provided that Mr. Evenson would be eligible for a deferred vested benefit at age 60 and included relevant language from Ordinance section 201.24(4.5).

12. The acknowledgement form also instructed Mr. Evenson to sign the form to indicate that he understood his right to a deferred vested benefit.

13. The March 15, 2014 letter also informed Mr. Evenson that Ordinance section 201.24(4.5) and Rule 1049 provide that benefits may not commence until an application and all necessary paperwork is received by the Retirement Office.

14. Finally, the March 15, 2014 letter explained that Rule 1016 allows Mr. Evenson to appeal the denial of his request for retroactive benefits.

15. Mr. Evenson did not respond to the January 28, 2012 letter from ERS and that letter was not returned to ERS as undeliverable.

16. On March 19, 2014, Mr. Evenson sent ERS a letter formally appealing the denial of his request for retroactive benefits.

17. The letter was received by ERS before the expiration of Mr. Evenson's Rule 1016 appeal right.

18. In the letter, Mr. Evenson claims he never received the January 28, 2012 letter and acknowledgement form.

19. An eligible ERS member seeking to receive a retirement benefit may be eligible for a pension pursuant to either Ordinance section 201.24(4.1) (a normal pension) or 201.24(4.5) (a deferred vested pension). The same formula is used to calculate a member's normal or deferred vested benefit under Ordinance sections 201.24(4.1) and (4.5), respectively.

20. A member who is no longer in active service with the County at the time of benefit application is not eligible to receive a normal benefit under Ordinance section 201.24(4.1), but may be eligible to receive a deferred vested pension at normal retirement age, provided the member has earned the required number of service credits and has not withdrawn any part of his or her membership account. A member's benefit must also be at least $10 per month to receive a deferred vested benefit.

21. The Pension Board finds that Mr. Evenson terminated County employment in 2008 and applied for a pension benefit in 2014. Accordingly, Mr. Evenson was not in active service at the time he applied for a benefit.

22. As such, the Pension Board finds that Mr. Evenson was not eligible for a normal retirement benefit and could only be eligible for a deferred vested pension under Ordinance section 201.24(4.5).

23. The Pension Board finds that Mr. Evenson turned 60 (normal retirement age, in this case) and became eligible to apply for an ERS benefit on May 29, 2013.

24. Ordinance section 201.24(4.5)(4) requires that a deferred vested pension cannot begin until a "timely application" is filed with the Board.

25. The Pension Board finds that Mr. Evenson applied for a pension benefit on February 27, 2014.

26. The Pension Board recognizes Mr. Evenson's claim that he was told he could not receive a deferred vested pension benefit until age 62.

27. The Pension Board also recognizes Mr. Evenson's claim that he never received the January 2012 letter and acknowledgement form sent by ERS that would have informed him that he could apply for a benefit at age 60.

28. However, the Pension Board finds that it must administer ERS according to Section 201.24 of the Milwaukee County Ordinances and the Rules promulgated thereunder. The Pension Board finds that the Ordinances and Rules do not allow for retroactive deferred vested benefits.

29. Additionally, the Pension Board finds that neither the Ordinances nor the Rules provide that a mistaken belief, such as that alleged by Mr. Evenson, allows the Pension Board to retroactively grant a retirement on an earlier date.

30. Rather, Ordinance section 201.24(4.5)(4) clearly provides that "in no event" will a deferred vested pension begin prior to the filing of a timely application for retirement.

31. After considering all the facts and circumstances, the Pension Board finds that it cannot grant Mr. Evenson's request for retroactive payment of pension benefits.

Motion by Ms. Van Kampen, seconded by Ms. Funck.

9. Marquette Associates Report

Brett Christenson of Marquette Associates, Inc. distributed and discussed the 2014 first quarter report.

Mr. Christenson first discussed annualized performance. As of March 31, 2014, the Fund was up 1.8% year-to-date, net of fees. This ranks the Fund in the 30th percentile versus the public fund universe. Over the last four-year period, the Fund has ranked above the 50th percentile median versus its peers. These are very favorable results, despite the fact that the U.S. markets have been very strong, and the Fund's asset allocation is more conservatively positioned compared to its peers.

Mr. Christenson next discussed the April flash report. April was a difficult month for some of the managers. As of April 30, 2014, the Fund had a one month return of -0.4%, net of fees, bringing the total fund composite down to 1.4% year-to-date, net of fees. Bonds performed well. The fixed income composite was up in April 0.7%, net of fees, and the year-to-date return was up 2.4%, net of fees. The U.S. equity composite is struggling and was down -0.1% year-to-date, net of fees, compared to the Wilshire 5000 Index which was up 2.2% year-to-date. April was an especially difficult month for Artisan Partners and Boston Partners. Both Boston Partners and Artisan Partners are long-standing managers that have exhibited consistent, positive performance over a number of years. However, for the month of April, Artisan Partners was down -6.6%, net of fees, and Boston Partners down -1.2%, net of fees. Geneva Capital, who has struggled virtually since inception, was down -3.2%, net of fees, in April. Fiduciary Management and Silvercrest Asset Management were also down in April, -3.1% and -3.0%, respectively, but still fairly close to the Russell 2000 Value Index at -2.6%.

One of the main reasons behind the underperformance in U.S. equity has been recent widespread underperformance of once strong technology stocks. Both biotech and internet stocks were down dramatically in April, and Artisan Partners specifically has a large overweight in Information Technology ("IT") stocks of approximately 10%. Many historically strong-performing IT stocks struggled during the month of April. While the underperformance appears to have settled recently, the markets have been essentially flat since the beginning of May. It now appears that IT stocks have essentially been reset by approximately 10%, which has negatively impacted many active managers.

The international portfolio exhibited more favorable performance and was up 3.1% year-to-date, net of fees, versus the broad benchmark at 1.8%. The NTGI ACWI Ex-US core index fund is a good anchor in the international composite and the new manager, Vontobel, is off to a favorable start, up 4.7% year-to-date. GMO international small-cap also outperformed, up 5.5% year-to-date, versus the benchmark at 2.7%. While the emerging markets continued to struggle in April, the overall portfolio has performed well year-to-date. Hedged equity also struggled due to the technology stock underperformance, and the composite was down in April, -2.1% net of fees. Both infrastructure and real estate continue to exhibit strong performance. Infrastructure has returned 6.7%, net of fees, over the three-year period, and Marquette does expect to see consistently higher returns of around 8% to 9% in the near future.

Mr. Christenson concluded with a discussion of market values. As of April 30, 2014, the total Fund composite was slightly over $1.8 billion. A review of the policy differentials shows an underweight in bonds of approximately $15 million, or slightly less than 1%. International equity is overweight by approximately $17 million, while private equity is dramatically underweight by approximately $57 million. Marquette is currently working to increase the Fund's private equity allocation. Marquette received approximately 22 responses to the recent private equity manager request for proposal ("RFP") and is now reviewing and condensing those responses for presentation at the June Investment Committee meeting. The hedged equity composite is currently overweight by approximately $7.8 million. Because withdrawals can only be made from hedged equity on a quarterly basis, Marquette would like to recommend that the Board approve withdrawals today from ABS of $4.7 million, and $3 million from K2. If the withdrawals are approved today, ERS would likely receive the funds in October.

In response to a question from Ms. Mayr, Mr. Christenson stated that once received, the funds would either be placed in bonds or, if needed, used to pay October benefits.

In response to a question from Mr. Smith, Mr. Christenson affirmed that with a 45-day withdrawal notice period requirement in place for both ABS and K2, Board approval of the withdrawals could wait until June or July for receipt of the funds in October.

After continued discussion among the Board members, Mr. Gedemer requested a motion to approve the withdrawals from ABS and K2.

The Pension Board unanimously approved the liquidation of assets to rebalance the hedged equity portfolio in the amounts of $4.7 million from ABS hedged equity and $3 million from K2 hedged equity. The amounts withdrawn are to be reallocated as determined by Marquette Associates. Motion by Ms. Braun, seconded by Ms. Westphal.

10. Buck Consultants - Draft Actuarial Results

Larry Langer and Troy Jaros of Buck Consultants distributed a booklet containing the January 1, 2014 draft ERS actuarial valuation results. Mr. Langer noted that Buck is still analyzing the data for OBRA and will present the final OBRA results at the June 2014 Board meeting.

Mr. Langer first discussed the actuarial valuation objectives. The first objective for the valuation is to determine the actual contribution amount for 2014, as well as preview budget contributions for 2015. Second, the valuation will monitor the progress and security of promised benefits, with a comparison of assets to accrued liability. Last, the valuation will compare the expectations from the prior valuation to what actually occurred during 2013 to determine ERS's net actuarial gain or loss.

Mr. Langer next discussed 2013 events that impacted the 2014 actuarial valuation. The actuarial valuation is recast each year because actuarial assumptions are used to predict what may happen, based on the current data available. However, as the actual numbers come in, those prior assumptions sometimes differ from what occurred in reality. Part of the actuarial valuation process is to monitor those differences. One main difference was that ERS's 2013 market returns were at 15%, compared to the assumed rate of return of 8%. Another factor that continued to have a large impact was the continued emphasis on data integrity by ERS staff. The overall payroll also decreased slightly by what was anticipated, which resulted in lower than expected liabilities. Finally, plan experience played a small role, where terminations, mortality and survival rates differed from previous assumptions. The overall net effect of these events resulted in a 2014 funded status of 85.7%, which is 1.3% lower than the 87% projected last year based on the 2013 valuation. Additionally, the actual 2014 contribution came in higher than the 2014 budgeted contribution.

Mr. Langer continued with a high-level overview of the actuarial valuation process. Buck collects specific input data from ERS staff, which includes ERS membership data, benefit provisions, asset data, actuarial assumptions and funding policy. These inputs provide a snapshot of the Fund as of December 31, 2013, which is then put through an actuarial projection model to bridge the gap between now and the future. The resulting projections then assume what type of return the Fund will achieve, and how many members will retire or die, among other factors. Once processed, the data results in assumptions of unfunded accrued liability, funded status, employer and member contributions and actuarial gain or loss.

Mr. Langer then discussed actuarial assumptions. The actuarial assumptions are based on an experience review that is performed every five years. The experience review compares the assumptions with current data. As a result of the review of current data and, more importantly, future assumptions, adjustments are made to the actuarial assumptions. Buck performed the last experience review during the fall of 2012 and the resulting actuarial assumptions were adopted by the Board for use with the January 1, 2013 actuarial valuation. The next experience review is scheduled for completion in time for use in the January 1, 2018 actuarial valuation.

The funding policy, which is how the benefits of the Fund are paid over time, is reviewed in conjunction with the experience review. ERS's funding policy is in line with current public pension plan funding standards. There are three main actuarial components to the funding policy. The most important of those components is that ERS makes contributions towards benefits accrued during the year, as well as contributing additional amounts towards any current shortfall. Contributions are made within current standards, along with the use of sound fiscal policy, which is a primary reason the funded ratio is currently 85%, versus some other public pension plans that are only 30% to 40% funded.

A review of ERS's ten-year member demographics shows developing trends of an increase in the number of retirees and a decrease in active membership. The trend of decreasing active members means that there are less benefits accruing within the Fund and lower payroll upon which to base contributions. This is not necessarily a negative trend, as long as it is anticipated, which it has been to date. Lastly, there were no changes in ERS's benefit provisions for the January 1, 2014 actuarial valuation.

Mr. Langer next discussed ERS's market value reconciliation. At approximately 15%, returns during 2013 were significantly higher than the Fund's 8% assumed rate of return, which resulted in lower contributions and a higher funded ratio. Total Fund disbursements for 2013 were over $173 million. Such large disbursement amounts are much easier to pay when benefits are prefunded, coupled with good sound investment returns to bridge the gap between the County and member contributions.

Mr. Langer continued with a discussion of the actuarial value of assets. At $118 million, the Fund's investment income for 2013 exceeded expectations by approximately $100 million. However, the entire 2013 return excess will not be reflected all at once in the actuarial valuation, and future adjustments will be smoothed-in over a longer period of time. The purpose of the actuarial value of assets is to control contribution volatility by reflecting one-tenth of the gain or loss in yearly returns from the Fund's 8% assumed rate of return. This will serve to smooth the average value of assets and maintain stability in contributions from year to year. The smoothing process will be beneficial during potential future periods of flat performance or underperformance in the Fund. The actuarial value of assets is a much steadier progression of assets when compared to the market value of assets, which fluctuates greatly from year to year. Future contributions will be less volatile by utilizing the steadier actuarial value of assets.

Mr. Langer then discussed ERS's unfunded actuarial accrued liability. The actuarial accrued liability is the target amount of money that should ideally be in the Fund. As of December 31, 2013, the actuarial accrued liability was at $2,069,547,000 while the actual assets in the Fund as of December 31, 2013 were at $1,879,234,000. This leaves an unfunded actuarial accrued liability of approximately $190 million. However, ERS's funding policy is designed to pay off this shortfall amount, and the County has been making those contributions over the course of time.

In response to question from Ms. Mayr regarding the 2013 actuarial value of assets funded ratio of 85% versus the market value of assets funded ratio at 90%, Mr. Langer stated that although the Fund's assets increased by $110 million in 2013, that excess will not be reflected in the actuarial value of assets all at once. Instead, as part of the smoothing process discussed earlier, the 2013 excess will be recognized over a longer period of time, which is a common practice designed to stabilize future contribution amounts.

In response to a question from Ms. Van Kampen regarding any potential concern directed towards the steady decrease in ERS's funded ratio, Mr. Langer stated that while the decrease does appear to be a trend, it could be related to the market volatility over the last five years. There was a tremendous rebound in ERS's funded ratio after the $400 million in Pension Obligation Bond ("POB") proceeds were received. Prior to receipt of the POB funds, ERS's funded ratio was only at 57%. After the initial POB increase, ERS's funded ratio rose to over 90% and has fluctuated fairly steadily since 2009 in relation to market fluctuations.

In response to a follow-up question from Ms. Van Kampen regarding an explanation for the -$44 million liability loss amount, Mr. Langer stated that the liability did come in higher than anticipated. A main contributing factor towards that liability loss was the discovery of certain data integrity issues, following a review of census data with ERS staff during the course of the valuation. Certain employees mistakenly removed from last year's actuarial valuation have now been properly reincorporated into the valuation.

Ms. Ninneman elaborated and explained that employees from Milwaukee Enrollment Services ("MilES") and Milwaukee Early Care Administration ("MECA"), who were transferred out of the ERS plan and into the State of Wisconsin plan, were supposed to remain in the ERS plan until fully vested. However, the MilES-MECA employees were mistakenly coded as terminated in the ERS plan when, in fact, they should have been coded as active members.

In response to questions from Mr. Smith and Ms. Braun, Mr. Langer confirmed that ERS's data integrity issues have historically accounted for the majority of ERS's liability loss. ERS has been working diligently over the past several years to delve into its data and update its records and, therefore, issues such as the MilES-MECA employee miscoding are being discovered. However, as ERS's records are continually reviewed and updated, the data integrity is steadily improving.

Mr. Langer continued with a discussion of the actuarial asset gain. As previously discussed, market returns for 2013 were significantly higher than anticipated, and 10% of that amount, or approximately $11 million, will be reflected as the January 1, 2014 actuarial asset gain. The remaining 90% of

ERS's 2013 positive experience will be deferred and reflected over the course of time to help provide stability for future contributions.

Mr. Langer then discussed ERS's gross budget and actual contributions. The gross contribution amounts include two separate components. The normal cost with interest is the amount of the cost to fund benefits occurring during the year. These are strictly normal contribution amounts, as if the plan were fully funded, and range from $15 million to $16 million. The net annual amortizations are the payments towards ERS's unfunded liability discussed earlier. The 2015 budgeted net annual amortization amount of approximately $22 million is a substantial increase from the actual amount of $14 million in 2014. Both County staff and the Comptroller's Office are aware of the pending increase, which is due to the end of a five-year credit variance ERS received in 2009 resulting from a litigation settlement with Mercer Human Resource Consulting, Inc. With interest factored in, that credit variance amounted to a reduction of otherwise required contribution amounts of approximately $7 million per year. In 2015, the credit variance will come to an end and is the main reason behind the increase in the net annual amortizations amount. Adding the two contribution components, the total actual contribution amount for 2014 is approximately $29 million, and the 2015 budgeted total contribution amount is approximately $38 million.

Mr. Langer next discussed ERS's reconciliation of contributions. There is a projected increase of $503,000 from the 2014 budgeted contribution amount of $29,062,000, due to a combination of ERS's unfavorable liability experience offset by its favorable asset experience. The impact of the liability loss, including reincorporating the erroneously excluded MilES-MECA employees into the valuation, increased contributions by approximately $1.3 million, with favorable asset experience offsetting that amount by approximately $738,000. With the increase factored in, ERS's actual 2014 contribution amount is $29,565,000. The projected 2015 budget contribution amount is $38,305,000. The increase in the 2015 budget contribution is again primarily the result of the end of the five-year credit, which will have the effect of increasing contributions by approximately $7.5 million.

The State-mandated member contributions which were implemented in 2011 as the result of the passage of Act 10 stayed relatively stable. However, with the projected 20% increase in the overall 2015 budgeted contributions, member contributions will likely have a marked increase in 2016.

In response to a question from Ms. Braun regarding a projected figure for the member contribution rate increase, Mr. Langer stated that, currently, it is roughly estimated that the member contribution rate will increase to around 6.5% for 2016.

Mr. Langer concluded with a summary of key points. Several key events occurred which resulted in higher than anticipated employer contributions and a lower than anticipated funded status from the January 1, 2013 actuarial valuation. Data integrity issues discovered during the 2014 actuarial valuation increased contributions. A decrease in ERS's funded status was offset somewhat by market value returns of approximately 15%, compared to the Fund's 8% assumed rate of return. The overall payroll decreased slightly compared to the 3.5% assumed increase. Along with a projected increase in the overall budgeted contributions, members will also likely experience an increase in their required contribution rates for 2016. Over the next several years, contributions will trend upwards in the absence of asset returns in excess of 8%, or other positive ERS experience. However, the projected contribution increase will be buffered somewhat over the course of time by the smoothing of the $100 million in excess returns realized in 2013. The Fund has matured to the point that expected investment returns are not sufficient to pay for benefit disbursements, despite ERS being well-funded. Cash flow will be at a premium, as 10% of the Fund's assets are paid out in benefit payments over the course of the next several years. The actuarial valuation reflects this mature plan phenomenon, and the Board should continue to monitor its policies to address this.

Buck will finalize the OBRA results and Messrs. Langer and Jaros will return in June to present the final OBRA report the Board. Once the OBRA results are finalized and the 2015 recommended budget contributions are approved, Buck will prepare the letter for submission to the County Executive requesting the funds.

In response to a question from Mr. Gopalan regarding the new pension accounting standards recently issued by the Governmental Accounting Standards Board ("GASB") and the possible effects on ERS, Mr. Langer stated that the new GASB pronouncements do represent a marked shift in how accountants will view state and local governmental pension plans. One major change resulting from the new GASB pronouncements is the funding amount that will be reported on ERS's accounting statements. In the past, the funding amount reported was any shortfall amount or overpayment amount contributed to the Fund, based on the actuarial recommendations. Because ERS received an additional $400 million in 2009 from the POB proceeds, the accounting statements reflected a net pension asset of $400 million. The amount reported on the accounting statements is now changing to the market-value basis of unfunded liability. As discussed earlier, ERS's unfunded liability is $190 million as of December 31, 2013. Therefore, instead of reflecting a $400 million asset, the accounting statements will now reflect a liability of $190 million; despite the fact that ERS is 85% funded and has a policy in place to reach 100% funded status over the course of time. Buck will work with ERS staff in the upcoming months to obtain preliminary numbers required for ERS's GASB disclosures.

In response to a question from Ms. Braun, Mr. Langer stated that ERS's funding policy will not need to change as a result of the new GASB pronouncements. Because the pension cost will now be reported on a market-value basis, it will change yearly with fluctuations in the market. It would simply not be feasible to base contributions on a market-value basis, as contributions could conceivably quadruple in some years, while in other years pension costs could be negative.

In response to a question from Ms. Westphal regarding any potential changes to the reporting of the funded ratio, Mr. Langer stated that based on the new GASB rules, there will now be a "net pension liability" amount based on market value. This essentially means that there will be two different funded ratios, one ratio based on the actuarial value of assets and the other ratio based on market value of assets. ERS's actuarial funded ratio has been fairly stable over time, moving within a range of 1% to 3% yearly, while the market-value funded ratio moves up and down, 4% to 6% per year, as the market fluctuates.

In response to a question from Ms. Braun regarding any recommendations to shorten the current 30-year time period to pay off ERS's unfunded liability; Mr. Langer stated that the current 30-year time period was implemented as a reasonable policy in the 1990s, based on prior GASB statements. The actuarial community is currently discussing shorter time periods, but there are many different variables involved and Buck does not currently recommend shortening that 30-year time period. There is no problem with the current 30-year period under the recent GASB pronouncements and most pension funds are continuing to hold at 30 years. Buck will continue to monitor discussions in the actuarial community and address any proposed changes with the Board in the future, if needed.

Ms. Van Kampen, Mr. Smith and Dr. Daugherty left the meeting.

11. Investment Committee Report

There was no Investment Committee Report because the May 5, 2014 meeting was cancelled.

12. Reports of ERS Manager and Fiscal Officer

(a) Retirements Granted, March 2014 and April 2014

Ms. Ninneman first presented the Retirements Granted Report for March 2014. Twenty-nine retirements from ERS were approved, with a total monthly payment amount of $43,104. Of those 29 ERS retirements, 24 were normal retirements and 5 were deferred. Fifteen members retired under the Rule of 75. Fourteen retirees chose the maximum option, and 4 retirees chose Option 3. Nineteen of the retirees were District Council 48 members. Sixteen retirees elected backDROPs in amounts totaling $1,919,270.

Ms. Ninneman then presented the Retirements Granted Report for April 2014. Thirty-one retirements from ERS were approved, with a total monthly payment amount of $40,677. Of those 31 ERS retirements, 13 were normal retirements, 15 were deferred, 2 were ordinary disability and 1 was an accidental disability retirement. Ten members retired under the Rule of 75. Nineteen retirees chose the maximum option, and 6 retirees chose Option 3. Twelve of the retirees were District Council 48 members. Five retirees elected backDROPs in amounts totaling $1,512,965.

In response to a question from Ms. Funck, Ms. Ninneman stated that individuals listed on the Retirements Granted report with a pension type of "deferred" are vested terminated members currently collecting benefits.

(b) ERS Monthly Activities Report, March 2014 and April 2014

Ms. Ninneman presented the Monthly Activities Report for March 2014. ERS and OBRA combined had 8,044 retirees, with a monthly payout of $14,313,559.

Ms. Ninneman next presented the Monthly Activities Report for April 2014. ERS and OBRA combined had 8,087 retirees, with a monthly payout of $14,042,109. Ms. Ninneman noted that as of April 2014, roughly half of ERS members who terminated employment in 2014 requested withdrawal of their mandatory membership contributions. Once a terminated vested member chooses to receive a refund of his or her employee contributions, that member also forfeits their years of credited service in ERS and, therefore, any right to a future pension benefit from ERS.

Ms. Ninneman then discussed the upcoming retiree member election. Currently, four individuals have requested nomination papers, which will be due by 4:30 p.m. on April 30, 2014. There will then be a primary election, followed by a final election, and it is anticipated that the new retiree member will be seated on the Board by October 2014.

In response to a question from Ms. Braun regarding the status of the two outstanding appointments to the Board, Ms. Ninneman stated that ERS is still waiting for the County Board Chairperson to make her appointments.

Ms. Ninneman concluded with a discussion of the V3 upgrade. The Retirement Office is currently in the process of reviewing and cleaning up all background data. This process will ensure data integrity with the system upgrade. Project plans are currently in place to begin the first implementation phase of the V3 system upgrade on July 1, 2014.

(c) Fiscal Officer

Mr. Gopalan first discussed the March 2014 portfolio activity report. The portfolio was rebalanced in March and a total of $8 million was transferred from Robeco and Artisan Partners, which was used to fund March benefits. In addition, $15 million was transferred from GMO. Of that $15 million, $1.3 million was invested in OFI, $9.7 million was invested in Northern Trust and the remaining $4 million was used to fund March benefits. An additional $2.5 million was transferred from J.P. Morgan fixed income, which was also used to also fund March benefits. A total of approximately $3 million was invested in private equity, with capitals calls from Siguler Guff for $2.4 million and Adams Street for $581,000.

Mr. Gopalan then discussed the April 2014 portfolio activity report. Rebalancing continued in April, as both domestic and international equity were slightly overweight. Benefits for April were funded from equity, with $3 million from FMA, $3 million from Silvercrest and $8 million from Northern Trust. Quarterly dividends were received from American Reality, UBS Trumbull, Adams Street and Siguler Guff.

Mr. Gopalan continued with a discussion of the March 2014 and April 2014 cash flow reports. There was increased activity on the March and April cash flow reports related to the rebalancing of the portfolio already discussed. In addition, the County began making its annual contributions to the Fund, with $3.3 million in March and $6 million in April. The County will continue making its 2014 contributions until the total $22 million is received.

Mr. Gopalan next discussed the status of the cash overlay manager transition. ERS did complete the transition from BNY to State Street as the Fund's temporary cash overlay manager. Marquette will next prepare an

RFP for a permanent cash overlay manager, once the private equity RFP is complete.

Mr. Gopalan concluded with a discussion of the first quarter check register. In March, ERS made a payment to the Milwaukee County Treasurer in the amount of $1,289,343.77. This payment represents reimbursement to the County for certain 2013 administrative expenses the County initially paid on ERS's behalf.

In response to a question from Ms. Braun, Mr. Gopalan stated that checks issued to Columbia St. Mary's represent payments to the Medical Board for review of ERS's disability matters.

13. Administrative Matters

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

The Acting Chairman then stated that anyone with future topic suggestions should voice them now, or notify Ms. Ninneman at a later date if they wish to have any agenda items added or changed.

The Acting Chairman 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 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. 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 5-0 to enter into closed session to discuss agenda items 14 and 15. Motion by Ms. Braun, seconded by Ms. Funck.

14. Pending Litigation

(a) Stoker v. ERS

The Pension Board took no action on this item.

(b) AFSCME v. ERS

The Pension Board took no action on this item.

(c) Tietjen v. ERS

The Pension Board took no action on this item.

(d) Brillowski & Trades v. ERS

The Pension Board took no action on this item.

(e) AFSCME v. ERS

The Pension Board took no action on this item.

(f) Weber v. ERS

The Pension Board took no action on this item.

15. Report on Compliance Review

The Pension Board took no action on this item.

16. Adjournment

The meeting adjourned at 12:50 p.m.

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