

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
ANNUITY AND PENSION BOARD**

Minutes of the Regular Meeting held January 28, 2008

The meeting was called to order at 9:20 a.m.

Board Members Present: John Barmore
 William C. Carey
 Thomas Fischer
 W. Martin Morics, Chair
 Michael J. Murphy
 Sebastian C.J. Raclaw

Board Members Not Present: Larry Holland (arrived later in meeting)
 Ron Walter

Retirement System Staff Present: Martin Matson, Deputy/Acting Director
 Thomas Rick, Chief Investment Officer
 David Silber, Pension Investment Analyst
 Bruce Thomas, Pension Investment Analyst
 Suzanne Fortier, Board Stenographer

Others Present: Elizabeth Conradson Cleary and Rudolph Konrad, City Attorney's Office;
Jon Granger, Consultant; Lynn Hill, Tim Abramic and Marco Ruffini, Buck Consultants.

Officers for 2008.

Election of Chair. Mr. Morics asked for a motion for nominations for Chair. It was moved by Mr. Carey and seconded by Mr. Raclaw to nominate Mr. Morics for Chair. Mr. Morics asked three more times for any further nominations. It was moved by Mr. Carey, seconded by Mr. Barmore, and unanimously carried, to close nominations and that a unanimous vote be cast for Mr. Morics as Chair of the Annuity and Pension Board.

Election of Vice-Chair. Mr. Morics asked for a motion for nominations for Vice-Chair. Mr. Morics passed the gavel and moved to nominate Mr. Carey for Vice-Chair. Mr. Murphy seconded the nomination. Mr. Morics asked three more times for any further nominations. It was moved by Mr. Morics, seconded by Mr. Fischer, and unanimously carried, that nominations be closed and that a unanimous vote be cast for Mr. Carey as Vice-Chair of the Annuity and Pension Board.

Approval of Minutes. Mr. Matson presented the minutes of the Regular Meeting held December 20, 2007, and Special Meetings held January 10, 2008 and January 16, 2008. It was moved by Mr. Raclaw, seconded by Mr. Fischer, and unanimously carried, to approve the Minutes of the Regular Meeting held December 20, 2007, and Special Meetings held January 10, 2008 and January 16, 2008.

Chief Investment Officer Report. As a matter of information, Board members received a copy of the CIO Report, dated January 23, 2008. Mr. Rick handed out a copy of the Performance Update Charts. Mr. Silber stated that as of December 31, 2007 the Fund's value was \$5.22 billion; the Fund had a negative return of -0.7 percent in December slightly underperforming its benchmark return of -0.6 percent. He said that for the year the Fund had an estimated return, gross of fees, of 7.5 percent, underperforming its blended benchmark return of 7.8 percent. Over the three and five year time periods the Fund has outperformed its blended benchmark. Mr. Silber reported that the domestic equity composite had -0.7 percent return during the month and underperformed by 10 basis points; both Artisan and Barclays underperformed their benchmarks by 1.6 percent and 0.6 percent, respectively. On the positive side, both Earnest and Turner outperformed their benchmarks by 0.9 percent and 0.8 percent, respectively. He said that for the year the domestic equity composite had a 2.9 percent return, which underperformed its benchmark by 2.2 percent. Over three years this composite slightly underperformed, and over five years it has outperformed its benchmark. Brief discussion.

Mr. Silber said the international equity composite had a return of -2.5 percent during December, which underperformed its benchmark by 20 basis points; both Blair and Brandes underperformed their benchmarks by 0.8 percent and 0.4 percent, respectively; and DFA outperformed its benchmark by 0.7 percent. He said the ERS' international equity composite still had a nice 2007 with a return of 14.1 percent, outperforming its benchmark by nearly 3 percent. Mr. Silber said the fixed income composite had a positive return of 0.4 percent, outperforming its benchmark return of 0.3 percent; and both Loomis and Reams outperformed their benchmarks by 0.2 percent and 0.1 percent, respectively. Over the one year (2007) the composite had a return of 7.7 percent and nicely outperformed its benchmark in the other time periods.

He said that the estimate through January 25, 2008 is that the Fund is down a little over 6 percent; both the Fund's international and domestic equity composites are estimated to be down a little over 9 percent; the fixed income composite is up about 0.8 percent, and the Fund's value is projected to be \$4.9 billion. Mr. Silber said that the domestic equity managers are within their expected styles. The five-year chart shows the Fund has outperformed versus its benchmark. He said the risk/return chart shows the Fund has achieved above benchmark returns while taking on additional risk versus the benchmark. Mr. Silber indicated ERS will be withdrawing \$22 million in January to cover payroll and expenses: \$11 million from Loomis Sayles and \$11 million from Reams. As of January 25, 2008 the Fund has had: capital losses of \$314.4 million; paid out \$2 million in payroll and expenses; and received contributions of \$2.3 million. Mr. Rick stated that Dan Fuss from Loomis Sayles would be here at 10:00 a.m. on January 30, 2008. He also reported that ERS did receive a small settlement of about \$3,800 from WorldCom. Brief discussion.

Administration and Operations Committee Report.

Selection of Executive Director. Mr. Morics advised that the Annuity and Pension Board may vote to convene in closed session on this item, as provided in Section 19.85 (1) (c), Wisconsin State Statutes, for considering employment, promotion, compensation or

performance evaluation data for any public employe over which the governmental body has jurisdiction or exercises responsibility. The Board will then reconvene in open session following the closed session. It was moved by Mr. Barmore and seconded by Mr. Carey, that the Board convene in closed session. The motion prevailed by the following roll call vote: AYES: Messrs. Barmore, Carey, Fischer, Holland, Murphy, Raclaw and Morics. NOES: None.

The Board convened in closed session at 9:34 a.m. The Board reconvened in open session at 9:39 a.m.

Mr. Morics stated a motion would be in order to offer for the position of Executive Director to Jerry Allen at a salary of \$127,500, plus \$5,000 moving expenses. It was moved by Mr. Carey, seconded by Mr. Fischer, and unanimously carried, to approve an offer to Jerry Allen.

(Mr. Murphy left the meeting at 9:40 a.m.)

Approval of Agreement with Deloitte & Touche. Mr. Morics stated this agreement is essentially for maintenance on the Business Process Maps.

Approval of Agreement with Jefferson Wells, Inc. Mr. Morics stated this agreement is to provide internal audit services.

He indicated the Committee recommends approval of both of these agreements. It was moved by Mr. Barmore, seconded by Mr. Raclaw, and unanimously carried, to approve the agreements with Deloitte & Touche and Jefferson Wells, Inc.

New Business.

Authorization to Sign Vouchers. The Secretary presented the following resolution in accordance with Section 36.15 (11) of the Retirement Act:

RESOLVED, That the following persons are hereby designated and authorized to sign vouchers for payments from funds of the Employees' Retirement System or to authorize fund transfers with the custodian bank :

Any two of the following:

Chairman, W. Martin Morics
or

Vice Chairman, William C. Carey
or

City Comptroller, W. Martin Morics
or

Special Deputy Comptroller, John Egan _____
 or

Deputy Comptroller, Michael J. Daun _____
 or

Secretary & Executive Director, Jerry Allen _____
 or

Deputy Director, Martin Matson _____
 or

Chief Investment Officer, Thomas A. Rick _____
 And be it

FURTHER RESOLVED, That a duly-attested copy of this resolution, bearing on its face specimen signatures of the above-designated persons, shall be forwarded to the City Treasurer and the Custodian Bank.

It was moved by Mr. Raclaw, seconded by Mr. Fischer, and unanimously carried, to approve the resolution.

Retirements, Death Claims, and Refunds. Mr. Matson presented the following activity from the month of January 2008, as well as Service Credits for the month of January 2008.

Active Death Benefits reported January 2008	\$35,982.62
Retired Death Benefits reported January 2008	\$3,348.59
Refund of Member Contributions paid January 2008	\$49,691.01

It was moved by Mr. Fischer, seconded by Mr. Barmore, and unanimously carried, that the above-indicated retirements, death claims, and refunds be approved.

Conference Requests. Mr. Matson reported that requests to attend the following conferences had been submitted:

W. Martin Morics	2008 Educational Client Seminar
Sponsor:	RREEF
Dates:	February 12 – 13, 2008
Location:	Newport Beach, CA
Estimated Cost:	\$1,000

Martin Matson	Spring Meeting
Sponsor:	Council of Institutional Investors
Dates:	April 9 – 11, 2008
Location:	Washington, DC
Estimated Cost:	\$2,000

It was moved by Mr. Barmore, seconded by Mr. Holland, and unanimously carried, to approve the conference requests submitted by Mr. Morics and Mr. Matson.

2007 Securities Lending Budget. As a matter of information, Board members received a copy of the Annual Summary Securities Lending Income and Expenses: 2007. Mr. Matson said this is the schedule for closing out the Securities Lending income, which is almost \$1.8 million. He said that typically ERS closes out the final expenses with these dollars. Mr. Matson indicated this was informational only and required no action.

Buck Consultants Five-Year Experience Study. Mr. Matson indicated that Buck Consultants has not arrived yet and asked this be held until their arrival.

Medical Reports.

Fire and Police Duty Disability and Duty Disability Re-examinations. Mr. Matson presented certifications of the Fire and Police Medical Panel Physicians relative to Duty Disability Retirement Benefit as follows:

<u>Police – New Applications - Duty</u>	<u>Recommendation</u>
Shawn M. Joannes	Denial
Tracy L. Martinez	Denial
Scott Benton	Approval
Effective 11/14/07	
<u>Police – Re-examinations</u>	<u>Recommendation</u>
Norma J. Boyd	Approval
Gary G. Gelhaar	Approval
Michael W. Lutz	Approval
Dave A. Orłowski	Approval
Victor E. Rivera	Approval
<u>Fire – Re-examinations</u>	<u>Recommendation</u>
George F. Bonadurer	Approval
Teresa S. Clyse	Approval
Tim W. Franken	Approval
Thomas A. Haack	Approval
Chad T. Hendricks	Approval

Warren S. Hornik	Approval
Khari N. Merritt	Approval
Nathaniel Roberson	Approval
Glenn D. Thompson	Approval

Mr. Matson stated that Scott Benton was approved for duty disability by both doctors; however, the Police Department came back with an investigative report and submitted it to the Worker's Comp Office after the doctors had approved Mr. Benton. He said that the Police Department asked that that report be considered by the doctors. Mr. Matson said he did get a copy of the report and spoke to Maurita Houren about this, as well as the Worker's Comp Office. He said Ms. Houren and he decided that ERS really needed to approach the City's doctor to determine if this report would make a difference for approval or denial. Dr. Feinsilver did not want to review the report; however, Mr. Matson said he did speak to him and reviewed the report over the phone. Dr. Feinsilver gave Mr. Matson a verbal okay saying it was not necessary to review the report; he views it as a personnel matter and it would not affect the outcome of his decision on the duty disability. Mr. Matson asked the Board to approve Mr. Benton's disability on a contingent basis assuming that Dr. Feinsilver will put his recommendation in writing. After discussion, it was moved by Mr. Carey, seconded by Mr. Fischer, and unanimously carried, to accept the aforementioned recommendations of the Fire and Police Panel Physicians.

All Ordinary Disabilities and General City Duty Disability. Mr. Matson presented certifications of the Medical Council relative to Duty Disability Retirement as follows:

<u>New Applications – Duty</u>	<u>Recommendation</u>
Conrad Nisiewicz	Denial
Dawn Brown	Denial
Claudia Krolikowski	Denial
<u>New Applications – Ordinary</u>	<u>Recommendation</u>
James Mertel	Approval
Effective 1/1/08	
Madelyn Barnett	Approval
Effective 12/15/07	
Dawn Brown	Approval
Effective 8/3/07	
<u>Re-examinations – Ordinary</u>	<u>Recommendation</u>
Jacalyn Tuskiewicz	Approval
Raymond Mielke	Approval
Linda Huerta	Approval
Jerome Schillaci	Approval
<u>Re-examinations – Duty</u>	<u>Recommendation</u>

Daniel Ellis	Approval
Dwaine Allison	Approval
Genevieve Lynk-Burnett	Approval
Daniel Gonzales	Approval

It was moved by Mr. Fischer, seconded by Mr. Holland, and unanimously carried, to accept the aforementioned recommendations of the Medical Council.

Disability Findings – Vicky Ruege. Mr. Matson presented the findings submitted by Hearing Examiner Gerlach, whose decision states “The decision of the Annuity and Pension Board denying applicant duty disability retirement status is affirmed. The applicant is incapacitated from a non-work related degenerative disc disease”. Correspondence was also received from the City Attorney’s Office, dated November 13, 2007, indicating they did not intend to file a brief. It was moved by Mr. Holland, seconded by Mr. Fischer, and unanimously carried, to approve the recommendation of Hearing Examiner Gerlach.

Mr. Morics stated that Buck Consultants was now present and directed that item V. E. be taken up at this time.

Buck Consultants Five-Year Experience Study. As a matter of information, Board members received a presentation booklet, 5 Year Experience Review – January 28, 2008. Ms. Hill, Mr. Abramic and Mr. Ruffini were present and discussed the Model of Reserve Funding, the Objectives of the Actuarial Valuation, Projection of Member Benefits, Assumption Setting: Actuarial Assumptions and Setting Demographic Assumptions. Buck Consultants made the following recommendations:

General Employes - Service Retirement - Age 60 or Age 55 with 30 Years

Average Retirement Age: 60.4
Recommendation: Decrease rates of retirement for female general employes.

Firefighters - Service Retirement - Age 57 or Age 49 with 22 Years

Average Retirement Age: 53.7
Recommendation: Decrease rates of retirement.

Police - Service Retirement - Age 57 or Any Age with 25 Years

Average Retirement Age: 50.9
Recommendation: Adjust pattern of rates.

General Employes - Disability

Recommendation: Increase rates for female general employes.

Police - Disability

Recommendation: Decrease rates of disability.

General Employees – Termination with Five or More Years of Service

Recommendation: Decrease/adjust rates for both males and females.

General Employees – Termination with Less than Five Years of Service

Recommendation: Adjust pattern of rates to better reflect experience.

Fire and Police – Termination with Five of More Years Service

Recommendation: Decrease and adjust male rates. Increase and adjust female rates.

Fire and Police – Termination with Less than Five Years Service

Recommendation: Increase/Adjust pattern of rates for all.

All Employees - Death in Active Service

Recommendation: Retain the 70% assumption; apply it to the new mortality tables for healthy pensioners.

All Employees - Mortality Experience for Healthy Pensioners

Recommendation: For males only, change to the RP-2000 Mortality Table with mortality improvements projected 5 years.

All Employees - Mortality Experience for Ordinary Disability Retirements

Recommendation: Revise rates to better reflect experience.

All Employees - Mortality Experience for Duty Disability Retirements

Recommendation: Revise rates to better reflect experience.

General Employees - Salary Increase Rate

Recommendation: Increase at younger ages for active employees.

Fire and Police Combined - Salary Increase Rate

Recommendation: Increase rates at younger ages for active employees. Reduce rates by 0.5% per annum for duty disabled employees.

Actuarial Cost Method

Recommendation: Maintain Current Method.

Fiscal Effect of Changes to Assumptions

Economic Assumptions

- | | |
|---------------------|-----------------|
| • Investment Return | No Change |
| • Salary Scale | |
| ○ Active Members | Slight increase |
| ○ Duty Disabled | Decrease |

Demographic Assumptions

- | | |
|------------------------------------|------------------------------|
| • Mortality | Net increase for all changes |
| • Withdrawal | Mixed |
| • Disability | |
| ○ Police Rates | Decrease |
| ○ General & Fire Rates | Increase |
| ○ Police & Fire – Percent Ordinary | Decrease |
| • Retirement | |
| ○ Police | Increase |
| ○ General Employees & Fire | Decrease |

Net All Assumptions To be determined

Buck Consultants talked about economic assumptions; inflation; return on actuarial assets; investment return, inflation and real rate of return; current method; salary increase rate; ERS cost method; and the effect of change in mortality. Discussion ensued throughout the presentation. It was moved by Mr. Holland, seconded by Mr. Raclaw and unanimously carried, to approve the 5-Year Experience Study.

Unfinished Business.

Legal Opinion and Service Requests Pending. As a matter of information, Mr. Matson presented a list of pending requests for legal opinions and service requests made to the City Attorney.

Legal Opinions Obtained. Mr. Matson presented a legal opinion obtained from the City Attorney as follows:

Board Rule XV. G – Service Credit for Part-Time Employees. Requested June 28, 2007. Mr. Konrad briefly discussed the opinion.

Fire and Police Reselection of Protective Survivorship Option. Requested October 15, 2007, received January 2, 2008. Mr. Konrad briefly discussed the opinion.

Clarification of s. 36-05-5-c-1-d Duty Disability Retirement Allowance. Requested August 22, 2007, received January 17, 2008. Mr. Konrad discussed the opinion. It was moved by Mr. Barmore, seconded by Mr. Holland, and unanimously carried, to accept the opinion and directed the City Attorney to forward to the Common Council.

Iron Mountain Contract. Mr. Konrad discussed the opinion, which was addressed to Mr. Whittow, City Treasurer.

It was moved by Mr. Holland, seconded by Mr. Barmore, and unanimously carried, to accept and place on file the opinions dated January 10, 2008, December 13, 2007 and December 28, 2007.

Legislation Requests Pending and Proposed Legislation. As a matter of information, Mr. Matson presented a list of pending requests for legislation. Mr. Matson briefly talked about files 070846 and 071247. He reported that Assembly Bill 28 and Senate Bill 3 have both died in committee.

Mr. Morics clarified that the previous motion regarding the Executive Director did include participation in the Deferred Compensation program, and the salary offer includes the normal fringe benefits of a City employee, such as health care, pension, and vacation.

Acting Executive Director's Report – Inventory of ERS Projects. As a matter of information, Mr. Matson presented a report on the ERS projects and updated the Board on ERS activities and ERS goals for 2008.

Milwaukee Police Supervisors' Organization vs. ERS, et al. Case No. 05-CV-006697. Mr. Morics asked if there was any need to adjourn into closed session. Mr. Matson answered in the negative. He said he did attend court last week and the Judge did not rule. Mr. Konrad indicated the Judge was going to write a decision. He said there is a new lawsuit in which the ERS is a stakeholder. Mr. Konrad stated that a member, Walter Franklin, named his youngest daughter as his survivor; then executed a will instructing the daughter to divide the payment with the older daughter, totally cutting out the wife. He said Mrs. Franklin has hired an attorney claiming that she is entitled to a portion of the benefit under marital property law. ERS is named simply because we are paying out the benefit, so ERS' role is limited to making sure that the information that goes to the court about the System is accurate.

Informational

The following is a list of informational items:

- 1) Report on Claims and Litigation – Memorandum dated January 28, 2008, which gives the status of litigation involving the ERS, as prepared by staff of the ERS and City Attorney's office.
- 2) List of conferences from February 2008 through November 2008.
- 3) Class Action Lawsuit Report.

- 4) Adjusted Quarterly Cost Basis of Equity – December 30, 2007.
- 5) Minutes of the Investment Committee Meeting held November 15, 2007.
- 6) Minutes of the Legislative Committee Meeting held November 26, 2007.
- 7) Minutes of the Administration and Operations Committee Meeting held November 20, 2007.
- 8) Minutes of the Administration and Operations Committee Meeting held December 6, 2007.
- 9) Minutes of the Administration and Operations Committee Meeting held December 7, 2007.
- 10) Minutes of the Administration and Operations Committee Meeting held December 18, 2007.

The following is a list of activities since the last Board meeting, copies sent with meeting notice and attached to minutes:

- 11) Report on Bills.
- 12) Deployment of Assets.
- 13) Securities Lending Revenue and Budget Reports.
- 14) Preliminary Performance Report/Asset and Manager Allocation Pie Charts.
- 15) ERS Holdings Report.

It was moved by Mr. Carey, seconded by Mr. Barmore, and unanimously carried, to accept and place on file the aforementioned informational items.

There being no further business, it was moved by Mr. Carey, seconded by Mr. Holland, and unanimously carried, to adjourn the meeting at 11:16 a.m.

Martin Matson
Acting Secretary and Executive Director

(NOTE: All proceedings of the Annuity and Pension Board Meetings and related Committee Meetings are recorded. All recordings and material mentioned herein are on file in the office of the Employees' Retirement System, 789 N. Water Street, Suite 300.)