EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

MINUTES OF THE MAY 28, 2008 SPECIAL PENSION BOARD MEETING

1. Call to Order

Ms. Linda Bedford, acting as Chairman, called the meeting to order at 9:00 a.m. in the Green Room of the Marcus Center, 127 East State Street, Milwaukee, Wisconsin 53202.

2. Roll Call

Members Present:
Linda Bedford
Mickey Maier
Jeffrey Mawicke
John Parish
Dr. Sarah Peck

Members Excused:
Donald Cohen
Roy Felber
Marilyn Mayr
Dr. Dean Roepke (Chairman)

Others Present:
David Arena, Director of Employee Benefits, Department of Administrative Services
William Domina, Corporation Counsel
Mark Grady, Principal Assistant Corporation Counsel
Gerald J. Schroeder, Interim ERS Manager
Gordon Mueller, Fiscal Officer
Jon Kotilnek, Corporation Counsel Intern
Christopher Martin, Corporation Counsel Intern
Steven Huff, Reinhart Boerner Van Deuren s.c.
Chris Trebatoski, Weiss Berzowski Brady LLP
Lynn Hill, Buck Consultants
Marco Ruffini, Buck Consultants
Larry Langer, Buck Consultants
Ken Loeffel, Retiree
Virginia Schumann, Retiree
Steve Schultze, *Milwaukee Journal Sentinel* Reporter

3. 2007 Actuarial Valuation Report

Ms. Bedford introduced and welcomed Mickey Maier as the newest member of the Pension Board. She stated that Mr. Maier has been sworn in and is able to vote at this meeting.

Ms. Hill distributed Buck Consultants' ("Buck") Board Presentation on ERS's Actuarial Valuation as of January 1, 2008 and presented it to the Pension Board on behalf of Buck.

She stated that she will be retiring this year but will be available to Buck in a consulting capacity and will continue to assist with ERS work during the transition. She indicated that Mr. Langer will become the supervising actuary for ERS upon her retirement.

Ms. Hill provided a summary of ERS's 2007 performance. She stated that ERS's market rate of return on assets was 6.3% and ERS's actuarial rate of return on assets was 13.2%. She indicated that OBRA's market and actuarial rate of return on assets was 5.6%. Ms. Hill indicated that the only methodology change Buck made in 2007 was to limit the maximum back DROP period available to a member based on eligibility for an unreduced retirement benefit. She noted that Buck also made demographic and data refinements. She also discussed the effects of the change made to the DC 48 and Firefighters collective bargaining agreements to close the back DROP to new hires.

Ms. Hill reviewed the objectives of the actuarial valuation. She stated that the purpose of the valuation is to determine the actual contribution for the 2008 plan year and budget for the 2009 contribution. She indicated that the actuarial valuation also provides ERS's funded ratio, which is a comparison of ERS's assets to its accrued liabilities.

Ms. Hill described the actuarial valuation process. She indicated that inputs are entered into the actuarial projection model. She stated that the inputs include membership data, benefit provisions, asset data, actuarial assumptions and funding methodology. She stated that the actuarial projection model performs calculations and produces the actuarial outputs, which are the amount of the unfunded accrued liability, ERS's funded status and the estimate of the County's contribution.

Ms. Hill provided a summary of ERS's active and inactive members' statistics as of January 1, 2008. She reported that there was a slight decrease in the headcount compared to January 1, 2007. She reviewed the ERS member demographics over the past ten years, pointing out the trends among the active, retired and deferred vested segments. She noted that these three segments have remained relatively stable for the past three years.

Mr. Ruffini described the process of reconciling the market value of ERS's and OBRA's assets to obtain the actual rate of return. He stated that ERS's and OBRA's estimated market rates of return were 6.3% and 5.6% in 2007, respectively. He discussed the actuarial value of ERS's assets, which provides a "market related" or "actuarial" rate of return. He explained that the actuarial method smoothes gains and losses over a five-year period. He noted that the actuarial method reduces volatility because the gains and losses are deferred over a period of five years. In response to a question from Dr. Peck, Mr. Ruffini stated that the $39 million figure on page 9 of the presentation represents the total of the deferred gain and losses over the past 5 years multiplied by the appropriate deferral percentage. He reviewed the ten-year history of the market and actuarial values of ERS's assets, noting that the market value has been greater than the actuarial value since 2004, while the opposite was true between 2000 and 2004.

Mr. Langer stated that the overarching goal of the actuarial report is to develop a contribution level to ensure adequate benefit amounts at retirement. He reviewed the demographic and economic assumptions taken into account during the actuarial valuation process. He noted that the demographic factors included normal retirement, disability retirement, death in active service, early retirement, withdrawal (termination) and death after retirement. He indicated that the economic actuarial assumptions included an 8% rate of return, a 3% rate of inflation, 3.5% payroll growth for ERS and 3% for OBRA and average annual salary increases of 3.9% in general, with 6.1% for deputy sheriffs and 3.5% for elected officials. He stated that Buck compares the historical experience against the actuarial assumptions at least once every five years. He noted that this comparison was last performed in 2007 and is next scheduled for review in 2012, unless the need to perform another comparison occurs prior to 2012.

Mr. Langer explained the actuarial cost method, which involves allocating a reserve over the members' working lifetime. He noted that the payment of the reserve goes towards improving the unfunded accrued liability. He indicated that the assumed long-term investment rate of return is 8%. Ms. Bedford asked whether 8% is still a reasonable assumption. Mr. Langer stated that an 8% rate of return is still valid because it is a long term rate and is consistent with the rate of return assumption of most other public pension plans.

Mr. Langer explained how the unfunded accrued liability is amortized. He noted that the unfunded accrued liability is amortized over 30 years as a level percentage of payroll, which means that the amortization increases with payroll over time. He indicated that the January 1, 2008 funding target was $2.028 billion, which is an increase over the January 1, 2007 funding target of $1.935 billion. He stated that reimbursable expenses and contribution variances are amortized as a level dollar amount over ten and five year periods, respectively. He pointed out that the actuarial value of the assets increased from $1.527 billion on January 1, 2007 to $1.629 billion on January 1, 2008. He commented that ERS has shown steady progress in increasing its funded percentage, which increased from 78.9% on January 1, 2007 to 80.3% on January 1, 2008.

Mr. Langer reviewed the budget and actual contribution numbers for 2008. He stated that the difference between the actual 2008 contribution figure of $53,622,000 and the budgeted contribution of $50,229,000 was partly due to the actual rate of return on ERS assets of 6.3% versus the 8% assumed rate of return and incorporating methodology refinements. He pointed out that the difference between the actual and budgeted 2008 contributions will be amortized over five years. In response to a question from Ms. Bedford, Mr. Langer explained that "asset loss" is a relative term describing the assets not achieving their assumed rate of return and that assets are not actually lost.

Mr. Langer stated that the recommended 2009 budget contribution from the County is $57,128,000. He noted that much of the increase from the $53,6222,000 figure was due to the contribution variance. In response to a question from Mr. Loeffel, Mr. Mueller stated that the County Board approved approximately a $39 million cash contribution in 2008. Mr. Mueller stated that the $13 million variance between the actual 2008 contribution figure and the $39 million the County Board actually contributed will be amortized over five years.

The Pension Board unanimously agreed to approve the recommended request of a contribution of $57,128,000 by the County and authorized the Chairman to send a letter to the County Executive stating the requested County contribution. Motion by Dr. Peck, seconded by Mr. Parish.

4. Adjournment

The meeting adjourned at 9:55 a.m.

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