EMPLOYEES' RETIREMENT SYSTEM

of the
County of Milwaukee

2013
Annual Report
of the Pension Board

as of and for the Years Ended
December 31, 2013 and 2012

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Employees' Retirement System of the County of Milwaukee

2013 Annual Report of the Pension Board

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EMPLOYEES' RETIREMENT SYSTEM (ERS)

Milwaukee County

ERS Members:

We are pleased to present the 2013 Annual Report of your Pension Board. The Employees' Retirement System ("ERS") experienced a positive investment return for the year of 15.2%. Net plan position held in trust for pension benefits increased $110.8 million. This increase was mainly due to investments gains and a reduction in pension benefit payments. Total net position at the end of the year was $1.88 billion. The management discussion and analysis, the financial statements, and the footnotes provide detailed information regarding ERS performance.

The description of ERS included in this report highlights major plan provisions. County Ordinances, labor agreements, Pension Board Rules, and Governmental Accounting Standards Board pronouncements prevail over the contents of this report. If you have any questions, please call (414) 278-4145.

Members who retire or otherwise leave County service have several options available with respect to pension benefits. To make informed decisions before terminating employment, members should fully understand and carefully consider the various options available.

Members considering retirement within the next few years are reminded to watch for announcements from the County for retirement information programs. Please call the Retirement office at (414) 278-4207 for further information regarding these programs. If you would like to meet with a Retirement Specialist to discuss retirement, please schedule an appointment by calling (414) 278-4207.

Remember to keep your beneficiary designations current by informing the Retirement office of any changes. Retired members should notify the Retirement office in writing of any address changes to insure benefit payments and year-end Form 1099-R statements are properly mailed.

Respectfully,

The Pension Board

BAKER TILLY

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INDEPENDENT AUDITORS' REPORT

To the Members of the Pension
Board of the Employees' Retirement
System of the County of Milwaukee

Report on the Financial Statements

We have audited the accompanying statement of plan net position of the Employees' Retirement System of the County of Milwaukee (the "Retirement System"), as of December 31, 2013 and 2012, the statement of changes in plan net position for the years then ended, and the related notes to the financial statements, which collectively comprise the Retirement System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control over financial reporting relevant to the Retirement System's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Retirement System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net position of the Retirement System as of December 31, 2013 and 2012, and the changes in the plan net position of the Retirement System for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, and the Schedule of Funding Progress and Employer Contributions as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise of the Retirement System's basic financial statements. The Letter from the Pension Board, Ten-year Historical Trend, and related information on pages 23 through 26 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Baker Tilly Virchow Krause, LLP

Milwaukee, Wisconsin
July 7, 2014

Management's Discussion & Analysis
(Unaudited)
(In Thousands of Dollars)

Management is pleased to provide this overview and analysis of the financial activities of the Employees' Retirement System of the County of Milwaukee ("ERS", or the "Retirement System") for the year ended December 31, 2013. Readers are encouraged to consider the information presented in conjunction with the Financial Statements.

FINANCIAL HIGHLIGHTS

PLAN NET POSITION

- Plan net position for ERS increased $110,795 as of 12/31/13 vs. 12/31/12 following an increase of $26,328 as of 12/31/12 vs. 12/31/11. Domestic and International Equities, Long/Short, Real Estate, Infrastructure, and Private Equity experienced positive returns in 2013. Fixed Income securities experienced negative returns in 2013. For the year, the pension fund experienced a positive return of 15.2%.
- The rate of return on total assets of the pension fund, net of fees, was 15.2%, 11.0%, and 0.2% for the years ended December 31, 2013, 2012, and 2011, respectively.
- Receivables increased $20,041 as of 12/31/13 vs. 12/31/12 due primarily to an increase in receivables from sales of investments and a higher pension contribution from the County of Milwaukee. Receivables decreased ($18,510) as of 12/31/12 vs. 12/31/11, due primarily to a decrease in receivables from sales of investments and a lower pension contribution from the County of Milwaukee.
- Other assets increased $28,086 as of 12/31/13 vs. 12/31/12 and decreased ($41,416) as of 12/31/12 vs. 12/31/11 due largely to changes in securities lending – collateral of $28,658 and ($38,479), respectively.
- Liabilities increased $26,418 from 2013 to 2012. This increase was due to an increase in securities lending – collateral. Liabilities decreased ($37,379) from 2012 to 2011.
- ERS buys and sells financial futures contracts to improve the performance of the fund. ERS purchases contracts that approximate the amount of cash held by US equity managers and cash used to pay benefits and expenses.

ADDITIONS AND DEDUCTIONS TO PLAN NET POSITION

- Total additions increased $78,601 in 2013 vs. 2012 and also increased $170,722 in 2012 vs. 2011. The 2013 and 2012 increases were primarily the result of increases in investment income.
- Benefits payments decreased ($5,973) in 2013 and decreased ($8,903) in 2011. The decrease in 2013 was mostly due to a decrease in lump sum payments of $9.5 million and an increase in monthly benefits of $3.5 million. The increase in 2012 was due to an increase in monthly benefits of $8.2 million and an decrease of $17.1 million in lump sum payments.
- 2013 saw a 6.3% decrease in retirements from 2012. The slight decrease compared to 2012 was a result of the benefit changes made in 2012 and 2011.
- As of December 31, 2013, 2012, and 2011, the funding ratio (actuarial value of the assets divided by the actuarial accrued liability) for the plan was 85.7%, 87.3%, and 89.2%, respectively. The funding ratio gives an indication of how well the liabilities of the pension plan are funded. The higher the funding ratio, the better the plan is funded. The ratio increases due to investment gains and pension contributions, and declines due to investment losses, increases in the plan benefits, large pension payouts, and underpayment of pension annual required contributions.

The Board of Trustees of ERS ("The Board") has the responsibility for the overall performance of the Retirement System. The Board's principal means to achieve this goal is by (a) determining an asset allocation policy which is expected to provide the long-term rate of return sufficient to fund benefits while minimizing the risk of loss through diversification, (b) selecting an appropriate number of investment managers to manage the assets within an asset class and monitoring the performance of such investment managers relative to specified benchmarks, and (c) implementing cost containment measures intended to reduce the investment fees and costs associated with investing the Retirement System's assets. The Board is the fiduciary of the Retirement System and is responsible for carrying out the investment functions solely in the interest of the members and benefit recipients.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the Retirement System's financial statements. The financial section is comprised of four components: (1) financial statements, (2) notes to the financial statements, (3) required supplementary information, and (4) other supplementary schedules.

Financial Statements – There are two financial statements presented for the plan. The Statement of Plan Net Position as of December 31, 2013 and 2012 indicates the plan net position available to pay future benefits and gives a snapshot of the financial assets available for pension benefits at a particular point in time. The Statement of Changes in Plan Net Position for the years ended December 31, 2013 and 2012 provides a view of the additions and deductions to the plan for the years presented.

Notes to financial statements – The notes provide additional information that is essential for a full understanding of the data provided in the financial statements.

Required supplementary information – The required supplementary information consists of a Schedule of Funding Progress and a Schedule of Employer and Other Contributions and related notes concerning the funding status of the plan. These schedules provide historical trend information, that contribute to understanding the changes in the funded status of the plan over time.

(In Thousands of Dollars)

Other supplementary schedules – The additional schedules (Ten-Year Historical Trend Information, Plan Net Position at Fair Value, Actual County and Participant Contributions, Active Membership Statistics, Retirements and Survivors Statistics) are presented for the purpose of additional analysis.

COMPARATIVE FINANCIAL STATEMENTS

Retirement System's Plan Net Position	12/31/2013	12/31/2012	12/31/2011	Difference	% Change
Assets					
Cash and cash equivalents	$81,248	$56,934	$84,108	($2,860)	(3.4%)
Receivables	43,883	23,842	42,352	$1,531	3.6%
Investments, at fair value	1,756,467	1,691,695	1,618,148	$138,319	8.5%
Other assets	53,659	25,573	64,488	($10,829)	(16.8%)
Total Assets	1,935,257	1,798,044	1,809,096	126,161	7.0%
Liabilities					
Security lending obligations	48,678	20,020	58,499	(9,821)	(16.8%)
Other liabilities	7,349	9,589	8,490	(1,141)	(13.4%)
Total Liabilities	56,027	29,609	66,989	(10,962)	(16.4%)
Plan net position held in trust for pension benefits	$1,879,230	$1,768,435	$1,742,107	$137,123	7.9%

Retirement System's Changes in Plan Net Position	2013	2012	2011	Difference	% Change
Additions					
Employer contributions	$21,998	$18,411	$28,276	($6,278)	(22.2%)
Member contributions	8,955	9,041	3,314	5,641	170.2%
Investment income	257,341	182,241	7,381	249,960	3386.5%
Total Additions	288,294	209,693	38,971	249,323	639.8%
Deductions					
Benefit payments	(172,584)	(178,557)	(187,460)	14,876	(7.9%)
Administrative expenses	(4,470)	(4,596)	(4,501)	31	(0.7%)
Withdrawals	(445)	(212)	(70)	(375)	535.7%
Total Deductions	(177,499)	(183,365)	(192,031)	14,532	(7.6%)
Changes in plan net position available for benefits	110,795	26,328	(153,060)	263,855	(172.4%)
Plan net position held in trust for pension benefits:					
Beginning of year	1,768,435	1,742,107	1,895,167	(126,732)	(6.7%)
End of year	$1,879,230	$1,768,435	$1,742,107	$137,123	7.9%

Requests for financial information:

The financial report is designed to provide the Board, our membership, taxpayers, investment managers, and creditors with a general overview of ERS' finances and to demonstrate ERS' accountability for the funds under its stewardship. Please address any questions about this report or requests for additional financial information to:

Milwaukee County ERS
901 N. 9th Street Room 210C
Milwaukee, WI 53233

Email: ers@milwaukeecountywi.gov

EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE
STATEMENT OF PLAN NET POSITION
AS OF:

	December 31, 2013	December 31, 2012
ASSETS:		
CASH AND CASH EQUIVALENTS	$ 81,248,096	$ 56,933,710
RECEIVABLES		
Due from sale of investments	18,510,535	1,330,034
Accrued interest and dividends	2,062,966	2,284,805
County of Milwaukee	22,707,938	19,647,505
Miscellaneous receivables	601,970	579,386
TOTAL RECEIVABLES	43,883,409	23,841,729
INVESTMENTS AT FAIR VALUE		
Domestic common and preferred stocks	638,670,311	408,643,021
Long/Short hedge funds	193,376,665	181,417,205
Fixed income	368,539,958	445,499,443
International common and preferred stocks	206,675,087	348,646,991
Real estate and REIT's	166,037,664	127,429,416
Infrastructure	134,856,078	130,214,951
Private equity	48,311,010	49,843,970
TOTAL INVESTMENTS	1,756,466,773	1,691,694,997
OTHER ASSETS		
Software development costs, net (See Note 2)	4,980,643	5,552,525
Securities lending - collateral (See Note 5)	48,678,274	20,020,522
TOTAL OTHER ASSETS	53,658,918	25,573,047
TOTAL ASSETS	1,935,257,196	1,798,043,483
LIABILITIES		
Securities lending - collateral (see Note 5)	48,678,274	20,020,522
Miscellaneous payables	4,920,171	3,689,753
Payable for securities purchased	836,523	4,267,276
Payable to OBRA retirement plan	1,592,289	1,631,303
TOTAL LIABILITIES	56,027,258	29,608,855
PLAN NET POSITION HELD IN TRUST FOR PENSION BENEFITS	$ 1,879,229,938	$ 1,768,434,628

(A schedule of funding progress is presented on page 20)

The accompanying notes are an integral part of these financial statements

EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE
STATEMENT OF CHANGES IN PLAN NET POSITION
FOR THE YEARS ENDED:

	December 31, 2013	December 31, 2012
ADDITIONS:		
CONTRIBUTIONS		
County of Milwaukee	$ 21,998,256	$ 18,410,496
Plan participants	8,954,525	9,040,652
TOTAL CONTRIBUTIONS	30,952,781	27,451,148
INVESTMENT INCOME		
Net appreciation (depreciation) in fair value	230,755,950	155,309,701
Interest and dividends	20,841,409	22,147,022
Securities lending income	67,692	70,904
Other income	9,146,139	8,513,437
Total investment income	260,811,190	186,041,063
Securities lending rebates and fees, net	23,575	50,314
Less: Investment expense	(3,493,638)	(3,849,959)
Net investment income	257,341,127	182,241,418
TOTAL ADDITIONS	288,293,908	209,692,566
DEDUCTIONS:		
Benefits paid to retirees & beneficiaries	(172,583,835)	(178,557,030)
Administrative expenses	(4,469,915)	(4,595,550)
Withdrawal of membership accounts	(444,848)	(212,245)
TOTAL DEDUCTIONS	(177,498,598)	(183,364,825)
NET CHANGE IN PLAN POSITION	110,795,310	26,327,741
PLAN NET POSITION HELD IN TRUST FOR PENSION BENEFITS		
Beginning of year	1,768,434,628	1,742,106,887
End of year	$ 1,879,229,938	$ 1,768,434,628

The accompanying notes are an integral part of these financial statements

(1) Description of Retirement System –

The following brief description of the provisions of the Employees' Retirement System of the County of Milwaukee ("ERS" or the "Retirement System") is provided for financial statement purposes only. Members should refer to Section 201.24 of the General Ordinances of Milwaukee County and their respective bargaining agreements for more complete information.

The Retirement System is a single-employer defined benefit plan that was created to encourage qualified personnel to enter and remain in the service of the County of Milwaukee (the "County") by providing for a system of retirement, disability and death benefits to or on behalf of its employees. Under Chapter 201 of the Laws of Wisconsin for 1937, the County was mandated to create the Retirement System as a separate legal entity. The County did so by passing Section 201.24 of the General Ordinances of Milwaukee County. The authority to manage and control the Retirement System is vested in the Pension Board of ERS (the "Board"). The Board consists of ten members – three members appointed by the County Executive (subject to confirmation by the County Board of Supervisors), three employee members elected by active employee members, two members appointed by the County Board chairperson, one employee member appointed by the Milwaukee Deputy Sheriffs' Association, and one retiree member elected by retirees.

The Board created two (2) committees to assist in the administration of the Board's duties. The Investment Committee reviews the investment portfolio on a monthly basis, endorses strategies, and submits investment recommendations to the full Board. The Audit Committee reviews legal issues, Ordinance adherence, and submits recommendations to the full Board regarding the annual audit and the Annual Report of the Pension Board.

	As of December 31	
Members -	**2013**	**2012**
Retiree and beneficiaries currently receiving benefits	**7,940**	**7,867**
Vested and terminated employees not yet receiving benefits	**1,411**	**1,196**
Current employees	**3,911**	**3,934**
Total participants	**13,262**	**12,997**

Contributions –

The Retirement System had been substantially noncontributory. However, starting in 2011, certain members began making mandatory contributions. Most full-time, regularly-appointed employees were required to make contributions in 2012. The employee contributions varied from 4.4% of compensation to 6.59% for 2013. In 2014, the employee contribution percentages will range from 5.1% to 5.2% of compensation. These percentages may change from year to year based on an analysis performed by the Retirement System's actuary.

Employees who terminate County employment and are not eligible for an immediate pension payment may request a refund of all accumulated contributions made, with simple interest at 5% per annum. Effective December 19,2013, employees who terminate employment with the County, must be request a refund of accumulated contributions within one hundred eighty (180) days of terminating County employment. Prior to December 19, 2013, terminated employees had sixty (60) to request a refund of their contributions. The Retirement System will send an employee who terminates a written notice of the refund option. Any employee receiving this refund will forfeit his or her service credit and will no longer be a member of ERS.

Contributions due from the County to the Retirement System consist of amounts sufficient to fund the annual normal cost and interest on and amortization of the unfunded or overfunded actuarial accrued liability less the expected contributions from the participants. A substantial portion of the current year's contribution is paid to the Retirement System in the following year.

In 2012, the County of Milwaukee started receiving contributions from the State of Wisconsin for members who were transferred from Milwaukee County to the State of Wisconsin for future service. As a result of the agreement between the State and the County, non-vested members of the Retirement System were able to continue to accrue pension benefits with ERS, while they were employed with the State. Once the member is vested, they are transferred to the state retirement plan. The state employees were required to contribute 4.4% and 4.7% of their wages to ERS in 2013 and 2012, respectively, and the state contributed the same percentages to the County for 2013 and 2012, respectively.

The County makes contributions to the Retirement System based upon the Annual Required Contribution ("ARC") and legal requirements, at the discretion of the County Board. An actuary hired by the Pension Board establishes the ARC. Data used in the determination of the ARC is based upon the prior fiscal year's demographics. The actual contribution made to the pension plan is set during the County's budget process and may differ from the ARC as a result of changes in plan provisions implemented subsequent to establishment of the ARC and budgetary restraints. During the year, the Retirement System accrues those contributions that the County has included in its current year's budget. The County contribution recorded by the Retirement System was $2,682,736 and $2,575,955 more than the Funding Contribution Amount for 2013 and 2012, respectively.

The Actual Funding Contribution is calculated by the Retirement System's actuary using census data, following plan guidelines, and compared to current net assets. The object is to calculate a contribution that allows the Retirement System to fulfill its obligations to its members.

Benefits -

The normal retirement benefit is a monthly pension for the life of the member beginning at normal retirement age. The pension amount is determined by the following formula:

Multiplier x Creditable Service x Final Average Salary

For most members, the normal retirement age is either 60 or 64 depending on ERS enrollment date and collective bargaining agreement. A few labor agreements also require a minimum of 5 years creditable service in addition to the age requirement. For deputy sheriff members, the normal retirement age is 57 or age 55 with 15 years of creditable service. Depending on enrollment date and collective bargaining agreement, some active members are eligible to retire when their age added to their years of creditable service equals 75 (the "Rule of 75"). The multiplier is determined by Ordinance, collective bargaining agreements, and ERS enrollment date. At this time, the multiplier percentage can be 1.5%, 1.6%, 2% or 2.5%. A member's three or five consecutive years of highest earnings are used to calculate their final average salary as defined by the Ordinance and labor agreement. Annually after retirement, the monthly benefit is increased by 2% of the benefit paid for the first full month of retirement subject to IRS limits. By Ordinance, the maximum benefit (excluding post-retirement increases) payable to a member cannot exceed the sum of 80% of the member's final average monthly salary.

For some members, depending on enrollment date and collective bargaining agreement, the member may elect to receive a backdrop benefit. This benefit permits an employee to receive a lump-sum payment plus a monthly pension benefit upon retirement. The lump-sum payment is the total of the monthly pension amounts, adjusted for post retirement increases that a member would be entitled to from a prior date ("backdrop date") to the date that the member terminates employment plus compounded interest. The backdrop date must be at least one calendar year prior to the termination date and the member must have been eligible to retire as of that date. The member will be entitled to a post retirement increase based on the backdrop date once the member terminates employment.

In 2012, the County Board passed an ordinance limiting the amount of backdrop benefit for most eligible employees who choose a backdrop date after April 1, 2013. If the member chooses a backdrop date after April 1, 2013, then the monthly drop benefit is calculated using the member's final average salary, service credit, and applicable multipliers as of April 1, 2013. This plan change does not apply to Elected Officials, Skilled Trades, Machinists, Federated Nurses, and Firefighters.

A member who meets the requirements for an accidental or ordinary disability retirement benefit is entitled to an amount computed in the same manner as a normal pension but not less than 60% of the member's final average salary for accidental disability (75% for a represented deputy sheriff). The ordinary disability pension will not be less than 25% of the member's final average salary. A total of 15 years of creditable service is required to apply for ordinary disability.

Most members are immediately vested upon attaining age 60 or 64. A vested member is eligible for a deferred pension beginning as of the member's normal retirement date.

A member who is 55 years of age and has 15 years of credited service may elect to receive early reduced retirement benefits. The member would be entitled to a benefit equal to the normal retirement benefit with a lifetime reduction of 5% for each year prior to the normal retirement date.

Upon the death of a member (generally after 1 year of service and depending on collective bargaining agreements), a spouse with a dependent child as defined by Ordinance will receive 40% of the deceased member's salary, reduced by Social Security benefits payable to the spouse. An additional 10% of salary, reduced by Social Security benefits, is paid for each dependent child. Generally, the total benefit, including Social Security benefits, cannot exceed 90% of the prior salary level of the member. At age 60, the spouse will receive 50% of the normal retirement benefit based on the member's projected service to age 60. If there is no spouse or child, the death benefit payable to a designated beneficiary is equal to 50% of the deceased member's final average salary, but not to exceed $2,000.

A member who becomes eligible for normal retirement, but continues to work may elect a Protective Survivorship Option ("PSO") designating a person to receive a pension (100% or 50% option) in the event of their death while in active service. The PSO election must be filed in writing on an approved form. In the absence of an election, a surviving spouse will be paid a 100% survivorship pension.

Currently, members may choose among several benefit payment options when retiring. The available pension options are:

-Maximum Option

Benefit payable for the member's lifetime and ceases upon member's death.

-Option 1 – Membership Account Refund

This option is an actuarially reduced benefit that ceases upon member's death. This option guarantees that the member will receive the total Membership Account balance as of the retirement date. The Membership Account balance is reduced monthly by an actuarially determined amount. Any balance remaining upon the member's death will be paid to the member's beneficiary.

-Option 2 – 50%

This option is an actuarially reduced pension benefit that is payable over the life of the member. Upon the member's death, 50% of the pension benefit is payable over the life of a named beneficiary, if living;

-Option 3 – 100%

This option is an actuarially reduced pension benefit that is payable over the life of the member. Upon the member's death, 100% of the pension benefit is payable over the life of a named beneficiary, if living;

-Option 4 – 25%

This option is an actuarially reduced pension benefit that is payable over the life of the member. Upon the member's death, 25% of the pension benefit is payable over the life of a named beneficiary, if living;

-Option 5 - 75%

This option is an actuarially reduced pension benefit that is payable over the life of the member. Upon the member's death, 75% of the pension benefit is payable over the life of a named beneficiary, if living;

-Option 6 - 10 Year Certain

This option is an actuarially reduced pension benefit payable over the member's life but is guaranteed for a period of 10 years. In the event the member should die within 10 years after the retirement date, the benefit continues to the named beneficiary for the balance of the 10 years.

-Option 7 - Board Discretion

This option is at the Pension Board's discretion and is a payment of a benefit in a form other than those set forth above. The payment in other form must be the actuarial equivalent of the benefit otherwise payable. A member requesting this option is responsible for all expenses incurred in the application for and calculation of the benefit.

Benefits of $172.6 million and $178.6 million were paid in 2013 and 2012, respectively, including periodic pension payments of $160.9 million and $156.9 million, respectively, and backdrop lump sum pension payments of $11.7 million and $21.7 million in 2013 and 2012, respectively.

(2) Summary of Significant Accounting Policies

GASB Statement No. 50

The Retirement System follows the provisions of Governmental Accounting Standards Board ("GASB") 50. GASB 50 requires that information about the funded status of the pension plan as of the most recent actuarial valuation be disclosed in notes to the financial statements. Additionally, GASB 50 requires disclosure of information about actuarial methods and assumptions used in valuations on which reported information about the ARC and the funded status and progress are based. The required schedules of funding progress immediately following the notes to the financial statements present multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Basis of Accounting –

The accompanying financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed and expenses are recorded when the corresponding liabilities are incurred. Benefits payments to members are recognized in the period in which the payment was due to the member.

Investments –

Investments, primarily stocks, bonds, certain government loans and mortgage-backed certificates, are stated at quoted fair value. Temporary cash investments are valued at cost, which approximates fair value. Investments in venture capital partnerships, real estate, long/short hedge and infrastructure are valued at estimated fair value, as provided by the Retirement System's investment managers. Investment transactions are recorded on the trade date. Realized gains and losses are computed based on the average cost method. Unrealized gains and losses in the fair value of investments represent the net change in the fair value of the investments held during the period.

A summary of investments at cost is as follows:

	As of December 31, 2013	2012
Fixed income	$ 351,637,187	$ 402,014,596
Domestic common and preferred stocks	492,205,445	325,997,725
International common and preferred stocks	154,272,329	330,485,161
Long/Short hedge funds	163,733,085	168,928,375
Infrastructure	105,179,128	106,272,807
Real estate and REIT's	132,788,941	107,788,941
Private equity	47,188,112	50,130,065
Cash & cash equivalents	81,248,096	56,933,710
Total investments at cost	**$ 1,528,252,323**	**$ 1,548,551,381**

Valuation of International Securities –

Securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts on the date of valuation. Purchases and sales of securities and income items denominated in foreign currencies are translated into U.S. dollar amounts on the respective dates of such transactions.

Software Development Costs –

Capitalized software development costs represent direct costs related to the development and implementation of software programs utilized in the Retirement System. The amounts are being amortized over ten years using the straight-line method. Amortization expense is included in Administrative Expenses in the accompanying Statement of Changes in Plan Net Position.

	As of December 31, (in thousands of dollars) 2013	2012
Software development costs		
Beginning balance	$ 8,211	$ 7,853
Acquisitions	252	358
Ending Balance	$ 8,463	$ 8,211
Accumulated amortization		
Beginning balance	$ 2,659	$ 1,864
Amortization expense	823	795
Ending Balance	$ 3,482	$ 2,659
Software development costs, net	**$ 4,981**	**$ 5,552**

Expenses –

Administrative expenses incurred by the County related to the Retirement System are payable by the Retirement System to the County. Such expenses totaled $1,291,253 and $1,187,236 in 2013 and 2012, respectively.

Use of Estimates –

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Standards –

In June 2012, the GASB approved GASB Statement No. 67 ("GASB 67"), "Financial Reporting for Pension Plans", which revises existing guidance for the financial reports of most pension plans.

GASB 67 replaces the requirements of GASB Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans", and GASB Statement No. 50, "Pension Disclosures", as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. GASB 67 builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. GASB 67 enhances note disclosures and required supplementary information for both defined benefit and defined contribution pension plans. GASB 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year required supplementary information schedules. The provisions in GASB 67 are effective for financial reporting for periods beginning after June 15, 2013. The Board will implement the provisions of GASB 67 for the fiscal year ending December 31, 2014.

(3) Income Taxes –

Management has submitted to the Internal Revenue Service, as part of a Voluntary Compliance Program, any compliance issues that have been discovered through a self-administered review where the provisions contained in the Internal Revenue Code, the County Pension Ordinances or Pension Rules differ from actual practice. Management is waiting for a response from the Internal Revenue Service regarding what action will be required to bring the pension system into compliance in all of its practices in order to maintain its tax-qualified status.

(4) Contributions Required and Contributions Made –

The Retirement System's funding policy provides for periodic County contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Payroll contribution rates are determined using the Aggregate Entry Age Normal method of funding. The Retirement System also uses the level percentage of payroll method to amortize the unfunded liability over a 30 year period. The significant actuarial assumptions used to compute the contribution requirements are the same as those used to compute the pension benefit obligation.

County contributions totaling $21,998,256 and $18,410,496 were recorded in 2013 and 2012, respectively. The 2013 and 2012 contributions were $2,682,736 and $2,575,955 above the Funding Contribution Amount ("FCA"), respectively. The County contributions do not include contributions made by the members. Member contributions were $8,954,525 for the year ended December 31, 2013 and $9,040,652 for the year ended December 31, 2012. The small decrease was caused by the reduction of the employee contribution percentages from 4.7% of pensionable compensation in 2012 to 4.4% in 2013. See the Schedule of Employer and Other Contributions in the Required Supplementary Information.

The 2013 and 2012 contributions reflected in the accompanying statements were actuarially determined as of January 1, 2012 and 2011. These amounts were included in the County's 2013 and 2012 budgets. The Retirement System's financial statements as of December 31, 2013 and 2012 reflected the unpaid portion of the 2014 and 2013 contributions as a contribution receivable.

Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 8.0%, compounded annually in 2013 and 2012, (b) projected payroll growth increases averaging 3.5% per year compounded annually in 2013 and 2012, attributed to inflation, seniority and merit, and (c) post-retirement benefit increases of 2.0% per year for both 2013 and 2012.

(5) Deposit and Investment Risk Disclosure –

As provided by state legislative act and County Ordinance, the Board has exclusive control and management responsibility of the Retirement System's funds and full power to invest the funds. In exercising its fiduciary responsibility, the Board is governed by the "prudent person" rule in establishing investment policy. The "prudent person" rule, requires the exercise of that degree of judgment, skill and care under the circumstances then prevailing which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation, but in regard to permanent disposition of their funds, considering the probable income as well as the probable safety of the principal. The Board has adopted a Statement of Investment Policy to formally document investment objectives and responsibilities. This policy establishes guidelines for permissible investments of the Retirement System. The Retirement System's investments are subject to various risks. Among them are credit risk, concentration of credit risk, custodial credit risk, interest rate risk, and foreign currency risk. Each of these risks is discussed in more detail below.

Concentration of Credit Risk –

Concentration of credit risk is a risk of loss that may be attributed to the magnitude of the Retirement System's investment in a single issuer, generally investments in any one issuer that represents five (5) percent or more of total investments. Investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this definition. The Retirement System has no investments in one issuer other than U.S. Government securities and mutual funds that exceed five (5) percent of the total investments.

Credit Risk –

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by nationally recognized statistical rating agencies such as Moody's Investors Services ("Moody's"), Standard and Poor's ("S & P") and Fitch Ratings ("Fitch's"). With the exception of the Mellon Capital Management Aggregate Bond portfolio, bonds purchased and owned in each portfolio must have a minimum quality rating of "Baa3" (Moody's) or "BBB-"(S & P or Fitch's). The average quality of each portfolio must be "A" or better. The fixed income securities for the Mellon Capital Management Aggregate Bond portfolio should have a minimum quality rating of "A", with the exception of 15% of the portfolio which may have a minimum quality rating of "BBB". Of the $14.6 million not rated by Moody's as of December 31, 2013, $12.8 million is rated by S & P as investment grade ("BBB-" or higher). Moody's quality rating of "BAA3" or above is considered investment grade. As of December 31, 2013, $1.5 million was not rated by S & P or Moody's. Of the $17.0 million not rated by Moody's as of December 31, 2012, $14.1 million was rated by S & P as investment grade. $2.6 million was also not rated by S & P as of December 31, 2012. The credit quality ratings of investments in fixed income securities by Moody's as of December 31, 2013, and 2012, are as follows: (amounts are in thousands of dollars)

Moody's Quality Ratings	12/31/2013 Fair Value	12/31/2012 Fair Value
AAA	$130,668	$143,959
AA1	824	1,161
AA2	4,326	5,049
AA3	4,216	5,571
A1	7,886	9,390
A2	8,346	11,619
A3	10,086	12,335
BAA1	11,354	13,321
BAA2	13,533	13,841
BAA3	5,144	5,172
BA1	1,408	527
BA2	1,746	1,427
BA3	437	654
B1	1,020	1,212
B3	440	504
CAA1	83	128
CAA2	201	311
CAA3	168	193
CA	474	532
NR	14,634	17,022
Total Credit Risk Fixed Income Securities	**$216,994**	**$243,928**
U.S. Government and Agencies	77,442	86,928
Units of Participation (Not Rated)	74,104	114,643
Total Investment in Fixed Income	**$368,540**	**$445,499**

Custodial Credit Risk – Deposits and Investments –

Custodial credit risk is the risk that, in the event a financial institution or counterparty fails, the Retirement System will not be able to recover the value of its deposits, investments or securities. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the Retirement System's name and are held by the counterparty.

No formal policy exists on custodial risk. However, substantially all assets of the Retirement System are held in its name. The Retirement System did not own any repurchase agreements as of December 31, 2013 or December 31, 2012.

As of December 31, 2013 and 2012, all deposits with banks are fully insured by the Federal Depository Insurance Corporation or the State Deposit Guarantee Fund.

The following table presents the Retirement System's total cash, deposits and cash equivalents as of December 31, 2013 and December 31, 2012: (amounts are in thousands of dollars)

Schedule of Cash and Cash Equivalent Investments

	12/31/13		12/31/12	
	Carrying Value	Bank Balance	Carrying Value	Bank Balance
Cash held by various investment managers..	$79,642	$81,132	$55,239	$55,237
Deposits with banks..	1,606	2,549	1,695	2,433
Total Deposits..	**$81,248**	**$83,681**	**$56,934**	**$57,670**

The difference between the carrying value and bank balances are due to outstanding checks and deposits not yet processed by the bank.

Foreign Currency Risk –

Foreign currency risk is the risk that changes in currency exchange rates will adversely affect the fair value of an investment or deposit.

This footnote is a required disclosure when the Retirement System directly owns investments denominated in a foreign currency. As of December 31, 2013, and 2012, the Retirement System directly owned less than $500 and $2,000 in investments denominated in foreign currencies, respectively.

Interest Rate Risk –

Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. Duration is a measure of an investment's sensitivity to changes in interest rates. The higher the duration, the greater the changes in fair value when interest rates change. The Option-Adjusted Duration for a security is the percentage price sensitivity to interest rates changes of 100 basis points (or 1.0%), as of December 31, 2013 and 2012. For example, an Option-Adjusted Duration of 5.20 means that the price of the security should fall approximately 5.20% for a 1.0% rise in the level of interest rates. Conversely, the price of a security should rise approximately 5.20% for a 1.0% fall in the level of interest rates. Interest rate changes will affect securities with negative durations in the opposite direction. The Option-Adjusted Duration method of measuring duration takes into effect the embedded options on cash flows.

The Retirement System does not have a formal investment policy that limits investment maturities as a means of managing exposure to losses arising from increasing interest rates with the exception of the cash equivalent portfolio. The investment policy limits the duration of individual securities held in the cash equivalent portfolio to 2.5 years. In addition, the duration of the entire cash equivalent portfolio should be between 1 and 2 years.

As of December 31, 2013 and 2012, the Retirement System had the following Option-Adjusted Durations for the fixed income investments: (amounts are in thousands of dollars)

	12/31/13		12/31/12	
Fixed Income Sector	**Fair Value***	**Option Adjusted Duration**	**Fair Value***	**Option Adjusted Duration**
ABS-Car Loan	$ 6,266	0.79	$ 4,903	1.28
ABS-Equipment	286	0.09	553	0.46
ABS-Home Equity	953	(0.01)	2,016	0.12
Aerospace & Defense	234	5.89	187	5.18
Automobiles & Components	360	8.16	222	6.22
Banking & Finance	20,485	4.00	24,691	4.14
Canadian Government Bonds	240	3.62	597	3.21
Capital Goods	70	6.66	77	7.46
Chemicals	1,368	7.33	1,524	7.82
CMBS - Conduit	11,625	1.87	12,565	2.62
CMO-U.S. Agencies	10,483	3.87	10,041	3.66
Commercial Services & Supp.	118	7.27	0	0.00
FHLMC Multiclass	26,942	1.96	35,637	1.89
FHLMC Pools	10,654	3.07	9,448	2.20
FNMA Pools	34,996	4.10	27,038	3.08
FNMA REMIC	30,872	1.57	39,587	2.28
Food Beverage & Tobacco	1,041	5.01	1,114	5.86
Food Products	619	7.94	1,474	5.97
GNMA Multi Family Pools	1,238	2.52	1,888	2.03
GNMA Single Family Pools	613	1.21	856	1.30
Health Care	1,029	8.92	683	11.21
Household Products	98	3.51	109	4.00
Industrial	494	4.99	533	5.74
Insurance	1,259	5.90	1,760	5.28
MBS PO - Principal Only (US Agencies)	220	17.24	259	18.42
Materials	39	2.54	39	3.36
Mining	938	4.30	896	4.88
News/Media	2,681	6.34	2,912	6.83
Non-US Government Bonds	420	10.44	172	17.84
Oil & Gas	4,542	6.31	4,458	6.90
Other Corporate Bonds	192	5.51	363	3.71
Principal Only US Agencies	926	4.77	0	0.00
Private Placements - ABS	550	0.61	1,383	0.47
Private Placements - MBS	2,538	2.19	2,914	2.88
Pvt Placements-More than 1 yr	8,491	4.74	10,977	4.61
PVT Placements-Interest Only	246	3.13	0	0.00
Retail	982	9.70	1,127	10.48
Supranational Issues	193	1.94	196	2.84
Taxable Municipals	797	14.80	942	17.06
Technology	2,300	5.39	2,632	5.87
Transportation	1,559	6.82	2,071	7.35
U.S. Agencies	8,748	5.01	9,818	6.27
U.S. Governments	41,903	7.16	48,921	5.92
U.S. Governments Interest Only	26,791	5.87	27,929	6.91
Utility-Electric	4,472	6.94	5,614	6.77
Utility-Gas	751	6.63	801	6.89
Utility-Telephone	3,789	7.83	4,249	7.64
Whole Loan - CMO	11,695	0.11	16,544	0.70
Whole Loan - Re-securitization	463	0.02	863	0.04
Yankee Bonds	1,756	6.92	1,776	6.69
Other*	78,215		118,929	
Total	**$ 368,540**		**$ 498,917**	

* For 2013, this represents $74,104 units of participation, $2,541 in FHLMC Multiclass, $358 in Private Placements, $80 in Transportation, $405 in Utility - Electric, and $727 in Whole Loans. For 2012, this represents $114,643 units of participation, $1,763 in FNMA Pools, $1,602 in FHLMC Multiclass, $728 in Private Placements, and $193 in Whole Loans.

Securities Lending –

Section 201.24 (9.1) of the General Ordinances of Milwaukee County and Board policies permit ERS to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. ERS participates in such a securities lending program through its custodian, the Bank of New York Mellon, acting as ERS's securities lending agent. ERS requires collateral from the borrower in the form of cash or securities. Collateral for domestic issues is set at 102% of the fair value of the securities loaned at the time of the initial transaction. If the value falls to 100% of the fair value of the securities loaned, additional collateral is obtained to reestablish collateral at 102% of the fair value of securities loaned. Collateral for international securities is maintained at a level of 105% of the fair value of securities loaned at all times. The securities lending program guidelines attempt to preserve capital while earning a moderate rate of return. Earnings from securities lending, after all fees are paid, are split on a percentage basis with the custodian. For 2013 and 2012, the net investment income realized from security lending was $91,267 and $121,217 respectively.

ERS also invested in several commingled funds managed by Mellon Capital Management that participated in securities lending programs. The earnings and losses attributable to the commingled funds' securities lending programs are combined with the commingled funds' performance and are not reported separately in ERS's financial statements.

Securities loaned and the collateral held were as follows: (amounts are in thousands of dollars)

	As of December 31			
	2013		2012	
Securities Lent for Cash Collateral	Securities Lent	Collateral	Securities Lent	Collateral
Fixed income	$ 20,893	$ 21,350	$ 8,582	$ 8,783
Domestic stocks	26,727	27,328	11,127	11,238
Subtotal	47,620	48,678	19,709	20,021
Securities Lent for Securities Collateral				
Fixed income	7,366	7,516	32,233	32,938
Domestic stocks	1,011	1,031	2,646	2,652
Subtotal	8,377	8,547	34,879	35,590
Grand Total	$ 55,997	$ 57,225	$ 54,588	$ 55,611
Percent Collateral to Securities Loaned		102.19%		101.87%

The collateral received from securities lending transactions are recorded as assets at quoted fair value of the financial statement date. The Retirement System records an identical amount as a liability, representing the obligation of the Retirement System to return the collateral at the time the borrower of the Retirement System's securities return those securities.

The collateral received from securities lending transactions includes cash of $48,678 and $20,021 , and U.S. Treasury securities, Domestic stocks, and REIT's of $8,547 and $35,590 for the years ended December 31, 2013 and 2012, respectively. Under the terms of the securities lending agreement, the Retirement System has the right to sell or pledge the cash collateral. The non-cash collateral in the amounts of $8,547 and $35,590 for the years ended December 31, 2013 and 2012, respectively, is controlled by the custodian and, correspondingly, not reflected in the Statement of Plan Net Position.

At year-end, the Retirement System has no credit risk exposure to borrowers because the amounts the Retirement System owes the borrowers exceed the amounts the borrowers owe the Retirement System. The contract with the Retirement System's custodian requires it to indemnify the Retirement System if a borrower fails to return the securities (and if the collateral is inadequate to replace the securities lent) or fails to pay the Retirement System for income distributions by the securities' issuers while the securities are on loan.

(6) Financial Instruments with Off-Balance Sheet Risks –

A currency forward is a contractual agreement between two parties to pay or receive amounts of foreign currency at a future date in exchange for another currency at an agreed-upon exchange rate. Forward commitments are entered into with the foreign exchange department of a bank located in a major money market. These transactions are entered into in order to hedge risks from exposure to foreign currency rate fluctuations. Recognition of realized gain or loss depends on whether the currency exchange rate has moved favorably or unfavorably to the contract holder upon termination of the contract. Prior to termination of the contract, the Retirement System records the amount receivable or payable at fair value, with the unrealized gain or loss reported as a component of net appreciation in fair value. All contracts are short-term in duration and mature within 90 days.

The Retirement System did not hold any financial instruments with off-balance sheet risk as of December 31, 2013 and December 31, 2012.

ERS invests in financial futures contracts in order to improve the performance of the fund. The Retirement System purchases contracts that approximate the amount of cash held by US equity investment managers and cash used to pay benefits and expenses. Financial futures contracts are agreements to buy or sell a specified amount at a specified delivery or maturity date for an agreed upon price.

The market values of the futures contracts vary from the original contract price. A gain or loss is recognized and paid to or received from the clearinghouse. Financial futures represent an off balance sheet obligation, as there are no balance sheet assets or liabilities associated with those contracts. The cash or securities to meet these obligations are held in the investment portfolio. All contracts are short-term in duration and mature within 90 days.

ERS is subject to credit risk in the event of non-performance by counter parties to financial futures and forward contracts. ERS generally only enters into transactions with credit-worthy institutions. The Retirement System is exposed to market risk, the risk that future changes in market conditions may make an instrument less valuable. Exposure to market risk is managed in accordance with risk limits set by ERS management and by buying or selling futures or forward contracts. The cash or securities to meet these obligations are held in the investment portfolio.

The futures contracts held by the Retirement System are as follows: (amounts are in thousands of dollars)

	As of December 31			As of December 31	
	2013	**2012**		**2013**	**2012**
			Cash Used to Pay Benefits		
US Equity Managers			**and Expenses**		
Cash Held			Cash Held	$ 21,376	$ 17,750
US Equity Investment Managers	$ 22,528	$ 14,131			
			Futures Purchased		
			Barclays AGG (Fixed Income)	6,089	7,813
Futures Purchased			S&P 500 (US Equity)	5,523	6,745
S&P 500(US Equity)	19,332	14,343	MSCI EAFE (International Equity)	2,589	3,160
Futures Above\(Below) Cash	(3,196)	212	TotalFutures Purchased	14,201	17,718
			Futures Above\(Below) Cash	(7,175)	(32)
Market Value	$ 638	$ 68	Market Value	234	14
			Total Market Value	$ 872	$ 82

(7) Commitments and Contingencies –

The Retirement System is involved in litigation and certain other disputes arising during the normal course of operations. Management does not believe the settlement of such matters will have a material impact on the Retirement System's financial statements.

(8) OBRA 1990 Retirement System of the County of Milwaukee –

The County established the OBRA 1990 Retirement System of the County of Milwaukee ("OBRA") to cover seasonal and certain temporary employees who are not enrolled in the Retirement System. Assets of the OBRA system are commingled for investment purposes with the assets of the Retirement System. The assets of the Retirement System are legally available to pay benefits of either the ERS or OBRA and all assets have been commingled. The Retirement System and OBRA are considered a single plan for financial reporting purposes.

Net assets identified for OBRA benefits as of December 31, 2013 and 2012, were as follows:

Statement of Plan Net Position

	(Unaudited) 2013	2012
Assets		
Cash	$ 2,622	$ 682
Assets held by Retirement System	1,592,289	1,631,303
Other Assets	8,083	29,621
Total assets	**1,602,994**	**1,661,606**
Net position held in trust for pension benefits	**$ 1,602,994**	**$ 1,661,606**

Changes in plan net position available for benefits for OBRA for the years ended December 31, 2013 and 2012, were as follows:

Statement of Change in Plan Net Position

	(Unaudited) 2013	2012
Contributions from the County	$ 360,000	$ 880,000
Investment income (loss)	223,162	150,023
Investment and administrative expenses	(507,799)	(504,825)
Benefits paid	(133,976)	(395,170)
Net increase (decrease) in net position available for benefits	**$ (58,613)**	**$ 130,028**

As of December 31, 2013 and 2012, respectively, there were 4,799 and 3,280 participants with vested benefits in OBRA. The actuarial accrued liability of OBRA at December 31, 2013 and 2012, was $3,410,663 and $2,868,585, respectively, leaving net assets available less than the actuarial accrued liability of ($1,807,669) and ($1,206,978), respectively. These amounts are not reflected in the required supplementary information tables that follow the notes to the financial statements.

(9) Funded Status and Actuarial Information

The Retirement System engages an independent actuarial firm to perform an annual actuarial valuation. The funded status of the Retirement System as of January 1, 2014, the most recent actuarial valuation date, is as follows: (dollar amounts in thousands)

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
$1,772,750	$2,069,547	$296,797	85.7%	$188,605	157.4%

The schedule of funding progress, presented as required supplementary information (RSI) immediately following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of the plan assets are increasing or decreasing over time relative to the Actuarial Accrued Liability (AAL) for benefits.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates about the future. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations. These calculations reflect long-term perspectives and use techniques that are designed to reduce short-term volatility.

Following is a listing of the actuarial method and significant assumptions used to determine the Annual Required Contribution (ARC) for the current year:

Valuation date	1/1/2014
Actuarial cost method	Aggregate Entry Age Normal
Asset valuation method	10-year smoothed market
<u>Amortization methods:</u>	
Contribution variance	Level dollar, closed
Administrative expenses	Level dollar, closed
All other unfunded liability	Level percent of payroll, closed
<u>Remaining amortization periods:</u>	
Contribution variance	5 years
Administrative expenses	10 years
All other unfunded liability	30 years
<u>Actuarial Assumptions:</u>	
Investment rate of return	8.00%
Projected salary increases	3.50%
Post-retirement benefit increases	2%, simple

(10) Subsequent Events

The Retirement System has evaluated subsequent events occurring through July 7, 2014, the date the financial statements were available to be issued for events requiring recording or disclosure in the Retirement System's financial statements. Management feels that no material events occurred that would require disclosure.

Required Supplementary Information
Schedule of Funding Progress
(in thousands of dollars)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liabililty-AAL (b)	Funded Ratio (a/b)	(Overfunded) Unfunded AAL - (UAAL) (b-a)	Covered Payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
12/31/2013	$1,772,750	$2,069,547	85.7%	$ 296,797	$ 188,605	157.4%
12/31/2012	1,768,435	2,025,319	87.3%	256,884	189,132	135.8%
12/31/2011	1,836,543	2,059,554	89.2%	223,011	190,748	116.9%
12/31/2010	1,929,428	2,091,927	92.2%	162,499	221,647	73.3%
12/31/2009	1,956,444	2,097,332	93.3%	140,888	237,040	59.4%
12/31/2008 *	1,968,518	2,057,377	95.7%	88,859	233,820	38.0%

*Includes the anticipated impact from the $397.8 million in pension obligation bonds that was actually received by the plan during plan year 2009.

Analysis of the dollar amounts of plan net position, actuarial accrued liability, and unfunded (overfunded) actuarial accrued liability in isolation can be misleading. Expressing plan net position as a percentage of the actuarial accrued liability provides one indication of the Retirement System's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the Retirement System is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the Retirement System. Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids the analysis of the Retirement System's progress in accumulating sufficient assets to pay benefits when due. Generally speaking, the smaller this percentage, (or the larger the percentage if negative), the stronger the Retirement System.

Schedule of Employer and Other Contributions for the Year Ended December 31,

Fiscal Year	Employees Contribution	County Contribution	Annual Required Contribution (ARC)	Percentage Contributed
2013	$8,954,525	$21,998,256	$32,136,934	96.3%
2012	9,040,652	18,410,496	28,406,232	96.6%
2011	3,313,807	28,275,594	29,621,216	106.3%
2010	75,584	32,893,562	29,529,322	106.0%
2009	131,766	457,789,154	30,355,535	1,508.1%*
2008	140,209	34,840,886	53,063,610	65.7%

*Actual contribution includes $397.8 million in pension obligation bonds and $29.0 million from a lawsuit settlement.

(See independent auditors' report)

Notes to Required Supplementary Information

(1) Description –

The historical trend information is presented as required supplementary information. This information is intended to help users assess the Retirement System's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

(2) Actuarial Assumptions and Methods –

The information presented in the required supplementary schedules was determined as part of the actuarial valuations as of January 1, 2014, for the plan year ending December 31, 2013. The actuarial valuations consider the changes effective January 1, 2014. Additional information as of the latest actuarial valuation follows:

Valuation date	1/1/2014
Actuarial Cost Method	Aggregate Entry Age Normal
Amortization Method	Level percent of payroll, closed
Asset Valuation Method	10 year smoothing of difference between total expected return versus actual return
Actuarial Assumptions:	
Post retirement benefit increase (COLA)	2% of original pension benefits
Investment rate of return*	8.0%
Projected payroll growth*	3.5%
Mortality	Sex-distinct UP—1994 Mortality Table with projection scale AA to 2012 then fully generational thereafter using Scale AA (70% of the rates application to healthy pensioners)

*includes inflation at 3.0%

(3) Significant Factors Affecting Trends in Actuarial Information –

The changes regarding the increases in the Annual Compensation limit and the Annual benefit limit for years 2010-2014 are subject to the passage of the Ordinance Amendments by the County Board.

2014 Changes in Plan Provisions or Actuarial Assumptions since Prior Year –

- Non-active Members can request a refund of their accumulated pension contributions within 180 days of receiving notice from the Retirement System.

2013 Changes in Plan Provisions or Actuarial Assumptions since Prior Year –

- Effective with backdrop dates on or after April 1, 2013, the monthly drop benefit shall be based on the salary, service, and multipliers as of April 1, 2013, except for Elected Officials, Building and Trades, Machinists, Federated Nurses, and Firefighters.
- The asset method used by the actuary was changed from a five-year moving market average to a ten-year moving market, with the actuarial value set to market as of 1/1/13.
- The disability assumption used for represented employees was changed to 50% Ordinary and 50% Accidental. The disability assumption for non-represented employees was changed to 100% Ordinary and 0% Accidental.
- The individual salary increase for general employees was changed to an average of 3.3% per annum, for elected officials the individual salary increase was changed to 3.0% per annum and for deputy sheriffs the individual salary increase was changed to 4.3% per annum.
- Members have up to one hundred eighty (180) days after termination of county employment to request refunds of their pension contributions. Members had sixty (60) days to request refunds of pension contributions, previously.
- Sheriffs are eligible for a deferred vested pension after the employee's completion of five (5) years of service.

(See independent auditors' report)

2012 Changes in Plan Provisions or Actuarial Assumptions since Prior Year –

- During 2012, the retirement age for Building and Trades and Nurses members for new hires was increased from 60 to 64.
- During 2012, the multiplier was reduced from 2.0% to 1.6% for Building and Trades, and Nurses.
- During 2011, the retirement age for DC 48 members for new hires was increased from 60 to 64.
- During 2011, the multiplier was reduced from 2.0% to 1.6% for DC 48 members.
- Increased annual compensation limit to $250,000.
- Increased annual benefit limit to $200,000.

2011 Changes in Plan Provisions or Actuarial Assumptions since Prior Year -

- During 2010, the multiplier was reduced from 2.0% to 1.6% for Elected Officials, Attorneys, Machinists, and TEAMCO members.
- During 2010, the retirement age for attorneys, Machinists and TEAMCO members for new hires was increased from 60 to 64.

2010 Changes in Plan Provisions or Actuarial Assumptions since Prior Year -

- Multiplier was reduced from 2.0% to 1.6% for non-represented employees, except Elected Officials and Deputy Sheriffs.
- Retirement age for non-represented new hires was increased from 60 to 64.

TEN-YEAR HISTORICAL TREND INFORMATION

REVENUES BY SOURCE AND EXPENSES BY TYPE

(UNAUDITED)

Revenues by Source

Fiscal Year	Participant Contributions(1a)	County Contributions (1b)	Investment Income (Loss)(2)	Total
2013	$8,954,525	$21,998,256	$260,834,765	$291,787,546
2012	9,040,652	18,410,496	186,091,377	213,542,525
2011	3,313,807	28,275,594	11,186,780	42,776,181
2010	75,584	32,893,562	210,905,464	243,874,610
2009	131,766	457,789,154	319,997,171	777,918,091
2008	140,209	34,840,886	(352,108,625)	(317,127,530)
2007	344,782	49,291,072	106,442,068	156,077,922
2006	545,258	27,435,154	207,804,929	235,785,341
2005	360,283	35,415,185	128,528,748	164,304,216
2004	711,322	35,143,178	188,633,703	224,488,203

Expenses by Type

Fiscal Year	Benefits(3)	Investment and Administrative Expenses (4)	Withdrawals	Total
2013	$172,583,835	$7,963,552	$444,848	$180,992,235
2012	178,557,030	8,445,509	212,245	187,214,784
2011	187,460,030	8,305,984	70,123	195,836,137
2010	162,664,454	8,445,062	138,136	171,247,652
2009	145,306,937	7,846,655	38,583	153,192,175
2008	144,160,665	7,385,443	23,557	151,569,665
2007	139,990,962	7,715,976	56,626	147,763,564
2006	130,730,539	6,622,923	13,571	137,367,033
2005	148,307,335	6,294,816	36,963	154,639,114
2004	161,368,700	6,302,951	154,522	167,826,173

FOOTNOTES ARE IN THOUSANDS OF DOLLARS

(1a) Participant contributions are calculated by the actuary and are a percentage of the employees' pensionable compensation.

(1b) County contributions are set during the County's budget process and are made at the discretion of the County Board.

(2) Includes interest and dividends, net appreciation (depreciation) of fair value, net security lending income and other income.

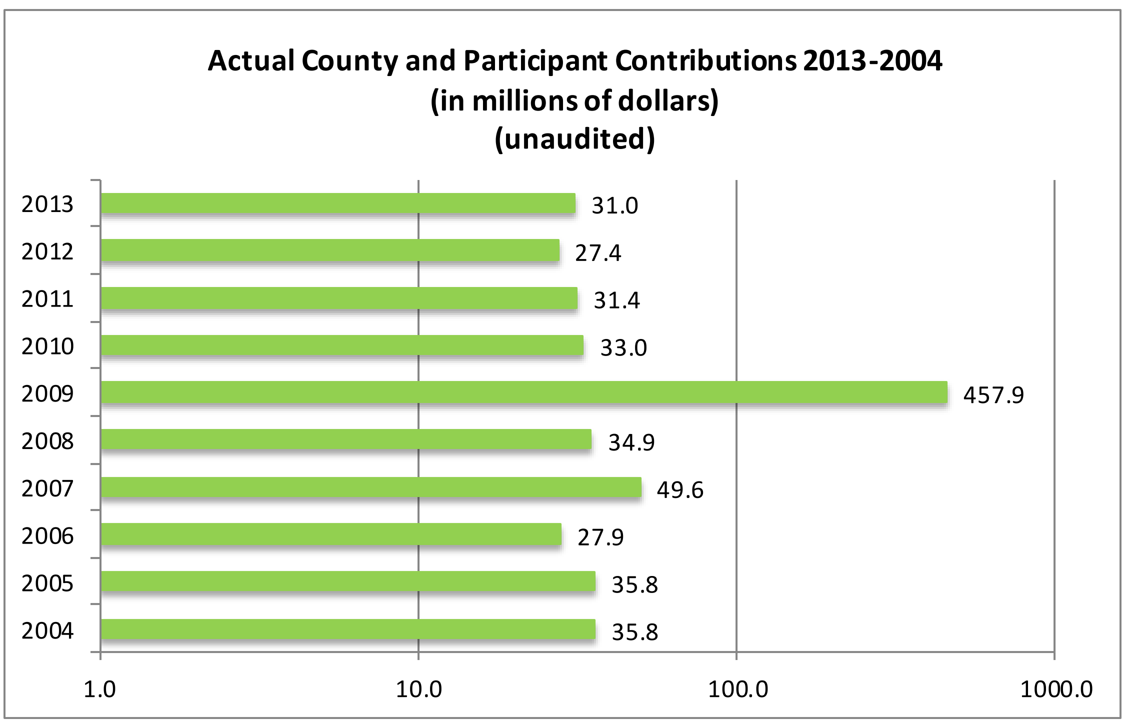
(3) Included in the benefits for 2013, 2012, 2011, 2010, 2009, 2008, 2007, 2006, 2005, and 2004 are back drop lump-sum payments of $11.7, $21.7, $38.8, $20.3, $8.7, $11.2, $10.5, $5.5, $25.7, and $55.1 million, respectively.

(4) The increase in investment and administrative expenses of $1,660 in the past ten years was due to increases in the following expenses:

- outside consultants of $657, with most of this increase occurring in 2008 and 2009;
- outside legal fees of $589, due to buyback/buyin issues, RFP preparation, tax issues, and various other legal matters;
- salaries and wages of $428 due primarily to the increase in benefits and staff;
- computer system expenses of $1,227. The plan started using its new computer system as of 1/1/09. Amortization of $823 and hosting expenses of $295, and maintence costs of $275 caused most of this increase.

(See independent auditors' report)


Plan Net Position at Fair Value 2013-2004
(in millions of dollars)
(unaudited)
2013
2012
2011
2010
2009
2008
2007
2006
2005
2004
1879.2
1768.4
1742.1
1895.2
1822.5
1197.8
1666.5
1658.2
1559.8
1550.1
0
200
400
600
800
1000
1200
1400
1600
1800
2000


Actual County and Participant Contributions 2013-2004
(in millions of dollars)
(unaudited)
2013
2012
2011
2010
2009
2008
2007
2006
2005
2004
31.0
27.4
31.4
33.0
457.9
34.9
49.6
27.9
35.8
35.8
1.0
10.0
100.0
1000.0

ACTIVE MEMBERSHIP STATISTICS
(unaudited)

	2013		2012
Members as of January 1	5,130	*	5,313
Changes During the Year:			
New enrollments	420		355
Rehires	0		0
Nonvested terminations	(262)		(287)
Retirements	(238)		(254)
Deaths in active service	(1)		(6)
New deferred beneficiaries	0		0
Data adjustments	273		9
Members as of December 31	5,322	*	5,130

* The total includes vested inactive members of 1,196 and 1,411 as of beginning of the year and end of the year, respectively.

RETIREMENTS AND SURVIVORS STATISTICS (unaudited)

	Retirements Granted								Survivors & Benefic-iaries	Total
		Option								
	Maximum Pension	Refund	100%	75%	50%	25%	10-yr.	Other		
January 1, 2013	3,211	398	1,383	241	1,077	443	197	49	868	7,867
Changes During the Year:										
Adjustments (actuary)*	10	-	-	-	-	2	-	-	-	12
Retirements	190	-	58	13	22	20	19	-	-	322
Pensioner deaths	(127)	(32)	(23)	(2)	(47)	-	(3)	-	(27)	(261)
December 31, 2013	3,284	366	1,418	252	1,052	465	213	49	841	7,940

*Adjustments as a result of reclassifications made to beginning balances by the actuary

CONSULTANTS
as of December 31, 2013

Legal Advisors
Milwaukee County
Corporation Counsel
Paul Bargren

Reinhart, Boerner, Van Deuren S.C.
Steven D. Huff, Secretary of the Pension Board
Milwaukee, Wisconsin

Actuary
Buck Consultants
Chicago, Illinois

Disbursing Agent
County Treasurer

Custodian/Securities Agent
BNY Mellon Asset Servicing
Pittsburgh, Pennsylvania

Medical Board
Columbia St. Mary's
Milwaukee, Wisconsin

Investment Consultant
Marquette Associates, Inc.
Chicago, Illinois

Cash Equitization Manager
BNY Mellon BETA Management
San Francisco, California

Private Equity Managers
Adams Street Partners
Chicago, Illinois

Progress Investment Management Company
San Francisco, California

Siguler Guff & Company, LLC
New York, New York

Long/Short Managers
ABS Investment Management
Greenwich, Connecticut

K2 Advisors
Stamford, Connecticut

Fixed-Income Investment Managers
JP Morgan Investment Management
Columbus, Ohio

Mellon Capital Management
Pittsburgh, Pennsylvania

U.S. Equity Investment Managers
Artisan Partners
Milwaukee, Wisconsin

Fiduciary Management Associates, LLC
Chicago, Illinois

Geneva Capital Management Ltd.
Milwaukee, Wisconsin

Robeco Investment Management
Boston, Massachusetts

Silvercrest Asset Management Group
New York, New York

Mellon Capital Management
Pittsburgh, Pennsylvania

International Investment Managers
Grantham, Mayo, Van Otterloo & Co.
Boston, Massachusetts

Northern Trust Investments
Chicago, Illinois

OFI Global Asset Management
New York, New York

Vontobel Asset Management
New York, New York

Real Estate Investment Managers
American Realty Advisors
Glendale, California

Morgan Stanley Real Estate
New York, New York

UBS Realty Investors, LLC
Hartford, Connecticut

Infrastructure Managers
IFM Investment Advisor
New York, New York

JP Morgan Investment Management
New York, New York

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