# EMPLOYEES' RETIREMENT SYSTEM

## of the County of Milwaukee

# 2015 Annual Report of the Pension Board

**as of and for the Years Ended**
**December 31, 2015 and 2014**




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## Employees' Retirement System of the County of Milwaukee

## 2015 Annual Report of the Pension Board

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EMPLOYEES' RETIREMENT SYSTEM (ERS)

# Milwaukee County



ERS Members:

We are pleased to present the 2015 Annual Report of your Pension Board. The Employees' Retirement System ("ERS") experienced a positive investment return for the year of 2.4%. Net plan position held in trust for pension benefits decreased $106,428 million. This decrease was mainly due to unrealized investment losses and an increase in pension benefit payments. Total net position at the end of the year was $1.72 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) 278-4207.

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

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INDEPENDENT AUDITORS' REPORT

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

**Report on the Financial Statements**

We have audited the accompanying statements of fiduciary net position of the Employees' Retirement System of the County of Milwaukee (the "Retirement System"), as of December 31, 2015 and 2014, the statements of changes in fiduciary 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 fiduciary net position of the Retirement System as of December 31, 2015 and 2014, and the changes in fiduciary net position of the Retirement System for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### *Emphasis of Matter*

As discussed in Note 9 to the financial statements, in 2015 the net pension liability was recalculated to include the December 31, 2014 actual results. Prior year disclosures have been revised to reflect the recalculation. Our opinion is not modified with respect to this matter.

### *Other Matters*

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedules of Changes in Net Pension Liability and Related Ratios, Contributions, and Investment Returns, and the notes to the required supplementary information 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 the Retirement System's basic financial statements. The Letter from the Pension Board, Ten-year Historical Trend and related information on pages 27 through 30 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 19, 2016

# 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, 2015. Readers are encouraged to consider the information presented in conjunction with the Financial Statements.

## FINANCIAL HIGHLIGHTS

### FIDUCIARY NET POSITION

- Fiduciary net position for ERS decreased ($106,428) as of 12/31/15 vs. 12/31/14 following an decrease of ($56,650) as of 12/31/14 vs. 12/31/13. Real Estate and Private Equity have experienced positive returns in 2015. Fixed Income, Domestic Equity, Long-Short, and International Equity experienced a negative return in 2015. For the year, the pension fund experienced an overall positive return of 2.4%.
- The rate of return on total assets of the pension fund, net of fees, was 2.4%, 5.5%, and 15.2%, for the years ended December 31, 2015, 2014, and 2013, respectively.
- Receivables decreased by ($24,172) as of 12/31/15 vs. 12/31/14 due primarily to the County of Milwaukee paying 2015 contributions in 2015 instead of 2016, as well as lower pending investment sales. Receivables decreased by ($11,345) as of 12/31/14 vs. 12/31/13 due primarily to a decrease in receivables from sales of investments, as well as lower pension contributions from the County of Milwaukee due to higher employee contributions.
- Other assets decreased ($11,963) as of 12/31/15 vs. 12/31/14 and increased $505 as of 12/31/14 vs. 12/31/13 due largely to changes in securities lending – collateral of ($11,142) and $1,322, respectively.
- Liabilities decreased ($10,605) from 2015 to 2014, due to an decrease in securities lending—collateral. Liabilities decreased ($171) from 2014 to 2013. This decrease was due to a slight decrease in payables.
- 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 FIDUCIARY NET POSITION

- Total additions decreased ($37,926) in 2015 vs. 2014 and also decreased ($162,511) in 2014 vs. 2013. The 2015 decrease was primarily the result of decreases in investment income, which was partially offset by an increase in contributions from the County of Milwaukee. The 2014 decrease is primarily the result of decreases in investment income.
- Benefits payments increased $11,248 in 2015 and increased $3,680 in 2014. The increase in 2015 was mostly due to an increase in lump sum payments of $7,216 and an increase in monthly benefits of $4,032. The increase in 2014 was due to an increase in monthly benefits of $2,745 and an increase of $935 in lump sum payments.
- 2015 saw a 10.4% increase in retirements from 2014. 2014 saw a 7.3% decrease in retirements from 2013. There were no significant changes to benefits in 2015 that would explain this increase.
- Pursuant to Governmental Accounting Standards Board Statement No. 67, as of December 31, 2015, and December 31, 2014, the ERS funded ratio was 75.84% and 82.00% 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 plan benefits, large pension payouts, and underpayment by the County 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 Statements of Fiduciary Net Position as of December 31, 2015 and 2014 indicates the fiduciary 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 Statements of Changes in Fiduciary Net Position for the years ended December 31, 2015 and 2014 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 Changes in the Net Pension Liability and Related Ratios, Schedule of Employer Contributions, Schedule of Investment Returns, 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.

(See independent auditors' report)

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

**Other supplementary schedules –** The additional schedules (Ten-Year Historical Trend Information, Fiduciary 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 Fiduciary Net Position | 12/31/2015 | 12/31/2014 | 12/31/2013 | 2015 vs. 2013 Difference | 2015 vs. 2013 % Change |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | $75,932 | $76,430 | $81,248 | ($5,316) | (6.5%) |
| Receivables | 8,366 | 32,538 | 43,883 | (35,517) | (80.9%) |
| Investments, at fair value | 1,634,905 | 1,715,304 | 1,756,467 | (121,562) | (6.9%) |
| Other assets | 42,201 | 54,164 | 53,659 | (11,458) | (21.4%) |
| **Total Assets** | 1,761,404 | 1,878,436 | 1,935,257 | (173,853) | (9.0%) |
| **Liabilities** | | | | | |
| Security lending obligations | 38,859 | 50,000 | 48,678 | (9,819) | (20.2%) |
| Other liabilities | 6,393 | 5,856 | 7,349 | (956) | (13.0%) |
| **Total Liabilities** | 45,252 | 55,856 | 56,027 | (10,775) | (19.2%) |
| **Net position restricted for Pensions** | $1,716,152 | $1,822,580 | $1,879,230 | ($163,078) | (8.7%) |

| Retirement System's Changes in Fiduciary Net Position | 2015 | 2014 | 2013 | 2015 vs. 2013 Difference | 2015 vs. 2013 % Change |
|---|---|---|---|---|---|
| **Additions** | | | | | |
| Employer contributions | $39,081 | $19,005 | $21,998 | $17,083 | 77.7% |
| Member contributions | 9,325 | 10,052 | 8,955 | 370 | 4.1% |
| Investment income | 39,451 | 96,726 | 257,341 | (217,890) | (84.7%) |
| **Total Additions** | 87,857 | 125,783 | 288,294 | (200,437) | (69.5%) |
| **Deductions** | | | | | |
| Benefit payments | (187,512) | (176,264) | (172,584) | (14,928) | 8.6% |
| Administrative expenses | (5,465) | (5,067) | (4,470) | (995) | 22.3% |
| Withdrawals | (1,308) | (1,102) | (445) | (863) | 193.9% |
| **Total Deductions** | (194,285) | (182,433) | (177,499) | (16,786) | 9.5% |
| **Net increase (decrease) in net pension** | (106,428) | (56,650) | 110,795 | (217,223) | (196.1%) |
| **Net position restricted for pensions:** | | | | | |
| Beginning of year | 1,822,580 | 1,879,230 | 1,768,435 | 54,145 | 3.1% |
| End of year | $1,716,152 | $1,822,580 | $1,879,230 | ($163,078) | (8.7%) |

**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

(See Independent auditors' report)

**EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE**
**STATEMENTS OF FIDUCIARY NET POSITION**
**AS OF:**

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| **ASSETS** | | |
| **CASH AND CASH EQUIVALENTS** | **$ 75,932,273** | **$ 76,430,193** |
| **RECEIVABLES** | | |
| Due from sale of investments | 5,205,067 | 9,763,459 |
| Accrued interest and dividends | 1,681,293 | 1,774,308 |
| County of Milwaukee | - | 20,209,996 |
| Miscellaneous receivables | 1,479,736 | 790,721 |
| **TOTAL RECEIVABLES** | **8,366,096** | **32,538,484** |
| **INVESTMENTS AT FAIR VALUE** | | |
| Domestic common and preferred stocks | 578,216,218 | 635,015,427 |
| Long/Short hedge funds | 177,426,363 | 186,478,839 |
| Fixed income | 291,782,236 | 331,429,377 |
| International common and preferred stocks | 146,364,857 | 156,474,024 |
| Real estate and REIT's | 198,099,895 | 180,379,035 |
| Infrastructure | 151,437,209 | 151,805,271 |
| Private equity | 91,577,424 | 73,703,610 |
| **TOTAL INVESTMENTS** | **1,634,904,202** | **1,715,303,583** |
| **OTHER ASSETS** | | |
| Software development costs, net (See Note 2) | 3,342,468 | 4,163,589 |
| Securities lending - collateral (See Note 5) | 38,858,835 | 50,000,490 |
| **TOTAL OTHER ASSETS** | **42,201,303** | **54,164,079** |
| **TOTAL ASSETS** | **$ 1,761,403,874** | **$ 1,878,436,339** |
| **LIABILITIES** | | |
| Securities lending - collateral (See Note 5) | 38,858,835 | 50,000,490 |
| Miscellaneous payables | 3,835,490 | 4,002,944 |
| Payable for securities purchased | 1,265,582 | 291,752 |
| Payable to OBRA retirement plan | 1,292,204 | 1,561,458 |
| **TOTAL LIABILITIES** | **45,252,111** | **55,856,644** |
| **NET POSITION RESTRICTED FOR PENSIONS** | **$ 1,716,151,763** | **$ 1,822,579,695** |

*The accompanying notes are an integral part of these financial statements*

**EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE**
**STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION**
**FOR THE YEARS ENDED:**

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| **ADDITIONS:** | | |
| **CONTRIBUTIONS** | | |
| County of Milwaukee | $ 39,080,593 | $ 19,005,395 |
| Plan participants | 9,324,866 | 10,051,605 |
| **TOTAL CONTRIBUTIONS** | **48,405,459** | **29,057,000** |
| **INVESTMENT INCOME** | | |
| Net appreciation in fair value | 13,024,958 | 69,266,948 |
| Interest and dividends | 15,170,444 | 18,768,372 |
| Securities lending income | 118,464 | 99,956 |
| Other income | 14,626,993 | 11,542,209 |
| **TOTAL INVESTMENT INCOME** | 42,940,859 | 99,677,485 |
| Less: Securities lending rebates and fees, net | (50,029) | (21,530) |
| Investment expense | (3,439,534) | (2,930,118) |
| Net investment income | 39,451,296 | 96,725,837 |
| **TOTAL ADDITIONS** | **87,856,755** | **125,782,837** |
| **DEDUCTIONS:** | | |
| Benefits paid to retirees & beneficiaries | (187,512,204) | (176,263,605) |
| Administrative expenses | (5,465,123) | (5,066,955) |
| Withdrawal of membership accounts | (1,307,360) | (1,102,520) |
| **TOTAL DEDUCTIONS** | **(194,284,687)** | **(182,433,080)** |
| **NET DECREASE IN NET POSITION** | **(106,427,932)** | **(56,650,243)** |
| **NET POSITION RESTRICTED FOR PENSIONS** | | |
| Beginning of year | **1,822,579,695** | **1,879,229,938** |
| End of year | **$ 1,716,151,763** | **$ 1,822,579,695** |

*The accompanying notes are an integral part of these financial statements*

## Notes to the Financial Statements
## For the Years Ended December 31, 2015 and 2014

### (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 a maximum 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 periodic 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. The Pension Board, with the assistance of its actuarial professionals, determines and recommends how much the County should contribute to ERS based on what the Pension Board believes is necessary to properly fund the current and future payment of benefits. The Pension Board oversees the tax qualification of ERS and oversees the administration of ERS in accordance with adopted County Ordinances (the "Ordinances"), any amendments to the Ordinances, and ERS Rules. The Pension Board oversees the benefit payment process from ERS to determine whether these payments are made in accordance with the Ordinances and ERS Rules.

Pension Plan membership, which is open to new members, consisted of the following:

| | As of December 31 | |
|---|---|---|
| **Members** | **2015** | **2014** |
| Inactive plan members currently receiving benefits ............................... | **7,979** | **7,940** |
| Inactive plan members entitled to but not yet receiving benefits .......... | **1,370** | **1,411** |
| Current employees ........................................................................... | **3,680** | **3,911** |
| **Total participants** ........................................................................... | **13,029** | **13,262** |

Membership data above is as of January 1, 2015, the date of the actuary report used to determine the total pension liability for each year, and reasonably approximates membership data through December 31, 2015.

### 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 starting in 2012. The employee contributions varied from 5.0% of compensation to 5.3% for 2015. In 2016, the employee contribution percentages will range from 6.5% to 7.4% 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 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) days 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 actuarially determined amounts sufficient to fund the annual service cost and interest on and amortization of the net pension liability less the expected contributions from the participants.

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 5.1% of their wages to ERS in 2015 and 2014, and the state contributed the same percentages to the County for 2015 and 2014.

The County makes contributions to the Retirement System based upon Actuarially Determined Contributions and legal requirements, at the discretion of the County Board. Data used in the determination of the contribution 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 Actuarially Determined Contribution as a result of changes in plan provisions implemented subsequent to establishment of the Actuarially Determined Contribution 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 $9,448,365 less than, and $507,925 less than, the Actuarially Determined Contribution for 2015 and 2014, respectively.

The Actuarially Determined Contribution is calculated by the Retirement System's actuary, hired by the Pension Board, using census data, following plan guidelines, and compared to current net assets. The objective 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 agreements. 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 backdrop 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 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% option) in the event of their death while in active service. Previously there had been a 50% option for PSOs; however, on December 17, 2015 the County Board of Supervisors amended Ordinance section 201.24(7.1) and removed that option. 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% (50% Joint & Survivor)

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% (100% Joint & Survivor)

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% (25% Joint & Survivor)

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% (75% Joint & Survivor)

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 (10 Year Certain and Life)

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.

* The County Executive signed amendments to Ordinance sections 201.24(7.1) and (7.2) on December 23, 2015 after being adopted by the County Board of Supervisors on December 17, 2015. In 2016, the Pension Board adopted Rule amendments to change the Rules to conform with the Ordinance changes. These amendments eliminate Option 1 and Option 7, rename Options 2-5 as Joint & Survivor, and rename Option 6 as 10 Year Certain and Life.

Benefits of $187.5 million and $176.3 million were paid in 2015 and 2014, respectively, including periodic pension payments of $167.7 million and $163.7 million, respectively, and backdrop lump sum pension payments of $19.8 million and $12.6 million in 2015 and 2014, respectively.

## (2) Summary of Significant Accounting Policies

### 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.

### Reporting Entity –

As defined by accounting standards generally accepted in the United States of America ("U.S. GAAP"), the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Based upon required criteria, the Retirement System has no component units and is not a component unit of any other government. These basic financial statements cover all of the defined benefits and operations administered by the Board for the ERS and the OBRA 1990 Retirement System of the County of Milwaukee.

**Contributions –**

The Retirement System records employee contributions as earned. Contributions earned but not yet received from the County are reflected as contributions receivable.

**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. Dividends and interest are recorded as earned. 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.

Investment securities, in general, are exposed to various risks, such as interest, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect amounts reported in the Statements of Fiduciary Net Position.

A summary of cash and investments at cost is as follows:

| | As of December 31, 2015 | As of December 31, 2014 |
|---|---|---|
| Fixed income | $ 274,055,616 | $ 306,552,949 |
| Domestic common and preferred stocks | 484,163,339 | 490,347,318 |
| International common and preferred stocks | 137,307,675 | 141,242,429 |
| Long/Short hedge funds | 149,382,663 | 144,258,558 |
| Infrastructure | 127,978,997 | 129,487,638 |
| Real estate and REIT's | 132,788,941 | 132,788,941 |
| Private equity | 88,515,515 | 69,891,637 |
| Cash & cash equivalents | 72,788,470 | 76,430,193 |
| **Total investments at cost** | **$ 1,466,981,217** | **$ 1,490,999,663** |

**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 Statements of Changes in Fiduciary Net Position.

| | As of December 31, (in thousands of dollars) 2015 | As of December 31, (in thousands of dollars) 2014 |
|---|---|---|
| **Software development costs** | | |
| Beginning balance | $ 8,470 | $ 8,463 |
| Acquisitions | 3 | 7 |
| Ending Balance | **$ 8,473** | **$ 8,470** |
| **Accumulated amortization** | | |
| Beginning balance | $ 4,306 | $ 3,482 |
| Amortization expense | 825 | 824 |
| Ending Balance | **$ 5,131** | **$ 4,306** |
| **Software development costs, net** | **$ 3,342** | **$ 4,164** |

**Expenses –**

Administrative expenses incurred by the County related to the Retirement System are payable by the Retirement System to the County. Such expenses totaled $1,204,226 and $1,329,904 in 2015 and 2014, respectively.

**Rate of Return –**

For the year ended December 31, 2015, and December 31, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 2.2 percent and 5.3 percent, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Use of Estimates –**

The preparation of financial statements in conformity with U.S. GAAP 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.

**Contingencies –**

Claims and judgments are recorded as liabilities if all conditions of Governmental Accounting Standards Board ("GASB") pronouncements are met. Claims and judgments are recorded as expenses when the related liabilities are incurred.

**New Accounting Standards –**

In June 2012, GASB issued 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. This standard was implemented effective January 1, 2014.

GASB has approved GASB Statement No. 72, *Fair Value Measure and Application*, Statement No. 79, *Certain External Investment Pools and Pool Participants*, and Statement No. 82, *Pension Issues*. When they become effective, application of these standards may restate portion of these financial statements.

**(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 $39,080,593 and $19,005,395 were recorded in 2015 and 2014, respectively. The 2015 and 2014 contributions were $9,448,365 below and $507,925 below the Funding Contribution Amount ("FCA"), respectively. The County contributions do not include contributions made by the members. Member contributions were $9,324,866 for the year ended December 31, 2015 and $10,051,605 for the year ended December 31, 2014. The small decrease was caused by the decrease of pay periods—2014 was a 27 pay period year instead of the usual 26 pay periods. The decrease was offset slightly by the increase in the employee contribution percentages from 5.1% of pensionable compensation in 2014 to 5.3% in 2015. See the Schedule of Contributions in the Required Supplementary Information.

The 2015 and 2014 contributions reflected in the accompanying statements were actuarially determined as of January 1, 2014 and 2013. These amounts were included in the County's 2015 and 2014 budgets. The Retirement System's financial statements as of December 31, 2014 reflects the unpaid portion of the 2014 contributions as a contribution receivable. The 2015 contributions were paid in 2015, thus a contribution receivable is not recorded.

## (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 $7.2 million not rated by Moody's as of December 31, 2015, $72.0 was cash or cash equivalent, and $5.9 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, 2015, $1.1 million was not rated by S & P or Moody's. Of the $9.1 million not rated by Moody's as of December 31, 2014, $6.7 million was rated by S & P as investment grade. $1.9 million was also not rated by S & P as of December 31, 2014. The credit quality ratings of investments in fixed income securities by Moody's as of December 31, 2015, and 2014, are as follows: (amounts are in thousands of dollars)

| Moody's Quality Ratings | 12/31/2015 Fair Value | 12/31/2014 Fair Value |
|---|---|---|
| AAA | $108,043 | $122,040 |
| AA1 | 1,265 | 1,273 |
| AA2 | 3,592 | 3,680 |
| AA3 | 2,429 | 3,903 |
| A1 | 5,798 | 6,576 |
| A2 | 7,562 | 6,978 |
| A3 | 9,535 | 9,078 |
| BAA1 | 11,287 | 11,000 |
| BAA2 | 7,994 | 11,186 |
| BAA3 | 4,260 | 4,456 |
| BA1 | 509 | 1,339 |
| BA2 | 845 | 1,192 |
| BA3 | 359 | 819 |
| B1 | 786 | 869 |
| B2 | 686 | 60 |
| B3 | 170 | 278 |
| CAA1 | 49 | 65 |
| CAA2 | 150 | 181 |
| CAA3 | 135 | 160 |
| CA | 322 | 424 |
| NR | 7,195 | 9,061 |
| **Total Credit Risk Fixed Income Securities** | **$172,971** | **$194,618** |
| U.S. Government and Agencies | 66,882 | 68,223 |
| Units of Participation (Not Rated) | 51,929 | 68,588 |
| **Total Investment in Fixed Income** | **$291,782** | **$331,429** |

**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, 2015 or December 31, 2014.

As of December 31, 2015 and 2014, 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, 2015 and December 31, 2014: (amounts are in thousands of dollars)

**Schedule of Cash and Cash Equivalent Investments**

| | 12/31/15 | | 12/31/14 | |
|---|---|---|---|---|
| | Carrying Value | Bank Balance | Carrying Value | Bank Balance |
| Cash held by various investment managers......................... | $72,934 | $72,934 | $63,677 | $63,677 |
| Deposits with banks.............................................................. | 2,998 | 3,609 | 12,753 | 13,629 |
| **Total Deposits**........................................................ | **$75,932** | **$76,543** | **$76,430** | **$77,306** |

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, 2015, and 2014, the Retirement System directly owned less than $350 dollars and $400 dollars 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, 2015 and 2014. 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, 2015 and 2014, the Retirement System had the following Option-Adjusted Durations for the fixed income investments: (amounts are in thousands of dollars)

| | 12/31/15 | | 12/31/14 | |
|---|---|---|---|---|
| Fixed Income Sector | Fair Value* | Option Adjusted Duration | Fair Value* | Option Adjusted Duration |
| ABS-Car Loan | $ 1,611 | 0.90 | $ 2,465 | 0.73 |
| ABS-Credit Cards | 1,535 | 2.23 | 576 | 3.18 |
| ABS-Home Equity | 235 | 0.02 | 380 | 0.04 |
| Aerospace & Defense | 59 | 9.66 | 63 | 10.26 |
| Agency for Int'l. Devel. Backed Debt | 339 | 8.90 | 335 | 9.95 |
| Automobiles & Components | 356 | 6.96 | 371 | 7.68 |
| Banking & Finance | 14,211 | 4.34 | 15,804 | 4.44 |
| Canadian Government Bonds | 630 | 4.00 | - | - |
| Capital Goods | 892 | 8.22 | 90 | 8.17 |
| Chemicals | 1,156 | 7.46 | 1,322 | 7.83 |
| CMBS - Conduit | 4,061 | 0.89 | 6,985 | 1.42 |
| Commercial Services & Supp. | 121 | 5.66 | 115 | 6.38 |
| Communications | 2,497 | 7.31 | 2,472 | 7.78 |
| FHLMC Multiclass | 17,501 | 2.28 | 20,132 | 2.37 |
| FHLMC Pools | 7,424 | 2.22 | 8,927 | 2.16 |
| FNMA Pools | 38,941 | 3.64 | 40,791 | 3.82 |
| FNMA REMIC | 25,181 | 1.31 | 28,663 | 1.67 |
| Food Beverage & Tobacco | 418 | 4.63 | 551 | 4.59 |
| Food Products | 633 | 7.18 | 655 | 7.71 |
| GNMA Multi Family Pools | 756 | 2.39 | 949 | 1.55 |
| GNMA REMIC | 7,529 | 2.07 | 8,556 | 1.98 |
| GNMA Single Family Pools | 1,642 | 3.07 | 2,027 | 2.35 |
| Health Care | 1,683 | 9.11 | 1,096 | 9.82 |
| Household Products | 76 | 2.46 | 87 | 2.99 |
| Industrial | 454 | 3.47 | 493 | 4.24 |
| Insurance | 1,069 | 7.28 | 1,125 | 6.33 |
| Interest Only US Agencies | - | - | 319 | 6.91 |
| Materials | - | - | 38 | 1.66 |
| Mining | 511 | 4.41 | 684 | 5.54 |
| Non-US Corporate Bonds | 799 | 7.59 | - | - |
| Non-US Government Bonds | - | - | 819 | 8.66 |
| Oil & Gas | 5,241 | 6.22 | 4,850 | 7.08 |
| Principal Only US Agencies | 5,283 | 5.00 | 4,984 | 6.05 |
| Private Placements - ABS | - | - | 299 | 0.24 |
| Private Placements - Banking & Finance - Covered | - | - | 392 | 0.79 |
| Private Placements - MBS | 1,454 | 3.25 | 2,045 | 1.89 |
| Pvt Placements-More than 1 yr | 5,466 | 5.82 | 5,827 | 6.21 |
| PVT Placements-Interest Only | 386 | 2.35 | 189 | 1.78 |
| REITS | 1,023 | 4.72 | 805 | 4.82 |
| Retail | 901 | 9.33 | 975 | 10.00 |
| Supranational Issues | 186 | 0.04 | 191 | 1.01 |
| Taxable Municipals | 881 | 15.31 | 948 | 16.55 |
| Technology | 1,483 | 4.94 | 1,886 | 5.08 |
| Transportation | 1,697 | 7.46 | 1,702 | 8.14 |
| U.S. Agencies | 917 | 14.00 | 983 | 14.75 |
| U.S. Governments Interest Only | 32,737 | 5.83 | 31,694 | 6.78 |
| U.S. Governments | 32,877 | 6.56 | 35,183 | 6.50 |
| Utility-Electric | 4,660 | 6.23 | 4,924 | 6.91 |
| Utility-Gas | 633 | 3.80 | 660 | 4.61 |
| Utility-Telephone | 3,241 | 9.81 | 2,866 | 9.75 |
| Whole Loan - CMO | 6,850 | 2.70 | 8,395 | 0.09 |
| Whole Loan - Re-securitization | 359 | 0.01 | 416 | 0.01 |
| Yankee Bonds | 1,258 | 7.81 | 2,024 | 7.47 |
| Other* | 51,929 | | 72,300 | |
| **Total** | **$ 291,782** | | **$ 331,429** | |

* For 2015, this represents $50,340 units of participation, $207 in FHLMC Multiclass, $289 in Private Placements, $258 in Transportation, and $835 in Utility - Electric. For 2014, this represents $68,588 in units of participation, $2,340 in FHLMC Multiclass, $162 in FNMA REMIC, $316 in Private Placements, $74 in REITS, and $820 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 2015 and 2014, the net investment income realized from security lending was $68,435 and $78,427 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 | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| **Securities Lent for Cash Collateral** | Securities Lent | Collateral | Securities Lent | Collateral |
| Fixed income | $ 12,556 | $ 12,833 | $ 16,516 | $ 16,863 |
| Domestic stocks | 25,441 | 26,026 | 32,395 | 33,137 |
| Subtotal | **37,997** | **38,859** | **48,911** | **50,000** |
| **Securities Lent for Securities Collateral** | | | | |
| Fixed income | 5,965 | 6,091 | 4,751 | 4,848 |
| Domestic stocks | 828 | 845 | 2,049 | 2,090 |
| Subtotal | **6,793** | **6,936** | **6,800** | **6,938** |
| Grand Total | **$ 44,790** | **$ 45,795** | **$ 55,711** | **$ 56,938** |
| **Percent Collateral to Securities Loaned** | | **102.24%** | | **102.20%** |

The collateral received from securities lending transactions are recorded as assets at quoted fair value as 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 (in thousands) of approximately $38,859 and $50,000 and U.S. Treasury securities, Domestic stocks, and REIT's of approximately $6,936 and $6,938 for the years ended December 31, 2015 and 2014, 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 approximately $6,936 and $6,938 for the years ended December 31, 2015 and 2014, respectively, is controlled by the custodian and, correspondingly, not reflected in the Statements of Fiduciary 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, 2015 and December 31, 2014.

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 | |
|---|---|---|---|---|---|
| | **2015** | **2014** | | **2015** | **2014** |
| | | | **Cash Used to Pay Benefits** | | |
| **US Equity Managers** | | | **and Expenses** | | |
| Cash Held | | | Cash Held | $ 52,419 | $ 35,535 |
| US Equity Investment Managers | $ 19,797 | $ 28,119 | | | |
| | | | Futures Purchased | | |
| | | | Barclays AGG (Fixed Income) | 20,309 | 19,984 |
| Futures Purchased | | | S&P 500 (US Equity) | 12,619 | 14,162 |
| S&P 500 (US Equity) | 21,168 | 23,808 | MSCI EAFE (International Equity) | 10,274 | 8,350 |
| Futures Above\(Below) Cash | 1,371 | (4,311) | Total Futures Purchased | 43,202 | 42,496 |
| | | | Futures Above\(Below) Cash | (9,217) | 6,961 |
| Market Value | $ 159 | $ 1,518 | Market Value | - | - |
| | | | **Total Market Value** | $ 159 | $ 1,518 |

### (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, 2015 and 2014, were as follows:

**Statement of Fiduciary Net Position**

| | (Unaudited) 2015 | 2014 |
|---|---|---|
| **Assets** | | |
| Cash | $ 15,072 | $ (9,149) |
| Assets held by Retirement System | 1,292,204 | 1,561,458 |
| Other Assets | 8,083 | 8,083 |
| **Total assets** | 1,315,360 | 1,560,392 |
| **Liabilities** | | |
| Taxes Payable | (4,815) | - |
| **Net position held in trust for pension benefits** | $ 1,310,545 | $ 1,560,392 |

Changes in plan net position available for benefits for OBRA for the years ended December 31, 2015 and 2014, were as follows:

**Statements of Change in Fiduciary Net Position**

| | (Unaudited) 2015 | 2014 |
|---|---|---|
| Contributions from the County | $ 440,000 | $ 440,000 |
| Investment income | 34,314 | 101,921 |
| Investment and administrative expenses | (520,844) | (454,751) |
| Benefits paid | (206,452) | (126,636) |
| **Net decrease in net position restricted for pensions** | $ (252,983) | $ (39,466) |

As of December 31, 2015 and 2014, respectively, there were 5,507 and 5,224 participants with vested benefits in OBRA. The total pension liability of OBRA at December 31, 2015 and 2014, was $4,028,407 and $3,721,299, respectively, leaving net assets available less than the total pension liability of ($2,717,862) and ($2,160,907), respectively. These amounts are not

## (9) Net Pension Liability

The components of the net pension liability of the Retirement System and OBRA at December 31, 2015 and December 31, 2014 were as follows:

| **ERS** | 2015 | 2014 |
|---|---|---|
| Total pension liability | $ 2,262,851,177 | $ 2,222,620,399 |
| Plan fiduciary net position | (1,716,151,763) | (1,822,579,695) |
| Net pension liability | $ 546,699,414 | $ 400,040,704 |
| Plan fiduciary net pension as a percentage of the total pension liability | 75.84% | 82.00% |

| **OBRA** | 2015 | 2014 |
|---|---|---|
| Total pension liability | $ 4,028,407 | $ 3,721,299 |
| Plan fiduciary net position | (1,310,545) | (1,560,392) |
| Net pension liability | $ 2,717,862 | $ 2,160,907 |
| Plan fiduciary net pension as a percentage of the total pension liability | 32.53% | 41.93% |

The 2014 net pension liability has changed based on the pension liability calculation for 2015, which has been recalculated to include the December 31, 2014 actual results.

*Actuarial assumptions*—The last actuarial valuation was performed as of December 31, 2015, and was determined using the following actuarial assumptions, applied to all prior periods included in the measurement:

| | |
|---|---|
| **Valuation date** | 12/31/2015 |
| **Actuarial cost method** | Entry Age Normal—Level Percentage of Pay |
| **Asset valuation method** | 10-year smoothed market |
| **Amortization methods** | For pension expense; the difference between expected and actual liability experience and changes of assumptions are amortized over the average of the expected remaining service lives of all members. The difference between projected and actual earnings is amortized over a closed period of five years. |
| **Inflation Assumption** | 3.00% |
| **Mortality Table** | Healthy pensioners: The sex-distinct UP-1994 Mortality Table with Projection scale AA to 2012 and then fully generational thereafter using scale AA.<br>Active members: 70% of the rates applicable to healthy pensioners. |
| **Experience study** | The actuarial assumptions used for ERS were based on the results of an actuarial experience study for the period January 1, 2007 through December 31, 2011. The actuarial assumptions used for OBRA were based on the results of an actuarial experience study for the period January 1, 2006 through December 31, 2011. |

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of position plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as

| Asset Class | Policy | Long-term Expected Real Rate of Return * |
|---|---|---|
| Fixed income | **22.0%** | **1.84%** |
| Domestic common and preferred stocks | **25.0%** | **9.48%** |
| International common and preferred stocks | **20.0%** | **8.22%** |
| Long/Short hedge funds | **10.0%** | **4.72%** |
| Infrastructure | **8.5%** | **6.63%** |
| Real estate and REIT's | **8.5%** | **6.89%** |
| Private equity | **6.0%** | **12.45%** |
| Cash & cash equivalents | **0.0%** | **0.00%** |
| | **100.0%** | |

* Provided by the actuary, Buck Consultants, and used in their calculations.

Discount rate — The discount rate used to measure the total pension liability was 8.0 percent. The projection of cash flows used to determine the discount rate assumed that the Retirement System's contributions will continue to follow the current funding policy. Based on those assumptions, the Retirement System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Sensitivity of the net pension liability to changes in the discount rate — The following presents the net pension liability of the Retirement System, calculated using the discount rate of 8.0 percent, as well as what the Retirement System and OBRA's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.0 percent) or 1-percentage-point higher (9.0 percent) than the current rate:

| | 1% Decrease (7.0%) | Current Discount (8.0%) | 1% Increase (9.0%) |
|---|---|---|---|
| ERS' net pension liability…………………………………………… | $ 770,471,173 | $ 546,699,414 | $ 356,602,059 |
| OBRA's net pension liability......................................... | $ 3,572,548 | $ 2,717,862 | $ 2,077,418 |

**10) Subsequent Events**

The Retirement System has evaluated subsequent events occurring through July 19, 2016, 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, except for the following.

In February 2016, the Pension Board adopted the following changes:

- The County Executive signed the amendments to Ordinance sections 201.24(7.1) and (7.2) on December 23, 2015 after being adopted by the County Board of Supervisors on December 17, 2015. The Pension Board adopted amended ERS Rules 1013, 1014, 1054 and 1056, and repealed ERS Rules 1021 and 1035, effective February 17, 2016.

In March 2016, the Pension Board adopted the following changes:

- Provide Vontobel 15-days' notice to terminate and liquidate ERS's investment in its international product and place the liquidated assets into ERS's index fund.
- To reduce the actuarial assumed rate of return to 7.5%, with implementation for the 2017 actuarial contribution calculations.

In May 2016, the Pension Board adopted the following changes:

- Under the request of the County Executive, the Pension Board revised the implementation of the reduction of actuarial assumed rate of return to gradually phase it in reducing the rate to 7.75% by 1/1/2018 and to 7.5% by 1/1/2020.

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS**

Last 2 Fiscal Years

| ERS | 2015 | 2014 |
|---|---|---|
| **Total pension liability** | | |
| Service cost | $ 15,740,283 | $ 15,299,451 |
| Interest | 171,661,372 | 172,040,282 |
| Changes in benefit terms | - | - |
| Differences between expected and actual experience | 41,648,688 | (17,331,161) |
| Changes in assumptions | - | - |
| Benefit payments including refunds of member contributions | (188,819,565) | (177,366,124) |
| **Net change in total pension liability** | 40,230,778 | (7,357,552) |
| **Total pension liability—beginning** | 2,222,620,399 | 2,229,977,951 |
| **Total pension liability—ending** | $ 2,262,851,177 | $ 2,222,620,399 |
| **Plan fiduciary net position** | | |
| Contributions—employer | $ 39,080,593 | $ 19,005,395 |
| Contributions—member | 9,324,866 | 10,051,605 |
| Net investment income | 39,451,296 | 96,725,837 |
| Benefit payments, including refunds of member contributions | (188,819,564) | (177,366,124) |
| Administrative expenses | (5,465,123) | (5,066,956) |
| Other | - | - |
| **Net change in plan fiduciary net pension** | (106,427,932) | (56,650,243) |
| **Total plan fiduciary net position—beginning** | 1,822,579,695 | 1,879,229,938 |
| **Total plan fiduciary net position—ending** | $ 1,716,151,763 | $ 1,822,579,695 |
| **Net pension liability—ending** | $ 546,699,414 | $ 400,040,704 |
| **Plan fiduciary net position as a percentage of total pension liability** | 75.84% | 82.00% |
| **Covered-employee payroll** | $ 191,432,915 | $188,605,492 |
| **Net pension liability as a percentage of covered-employee payroll** | 285.58% | 212.10% |

The plan implemented GASB Statement No. 67 in the fiscal year 2014. Information calculated utilizing GASB 67 prior to fiscal year 2014 is not available.

(See independent auditor's report and notes to required supplemental information)

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS**

Last 2 Fiscal Years

| OBRA | 2015 | 2014 |
|---|---|---|
| **Total pension liability** | | |
| Service cost | $111,283 | $ 97,190 |
| Interest | 298,507 | 297,724 |
| Changes in benefit terms | - | - |
| Differences between expected and actual experience | 103,770 | (233,437) |
| Changes in assumptions | - | - |
| Benefit payments including refunds of member contributions | (206,452) | (126,636) |
| **Net change in total pension liability** | 307,108 | 34,841 |
| **Total pension liability—beginning** | 3,721,299 | 3,686,458 |
| **Total pension liability—ending** | $4,028,407 | $ 3,721,299 |
| **Plan fiduciary net position** | | |
| Contributions—employer | $ 440,000 | $ 440,000 |
| Contributions—member | - | - |
| Net investment income | 37,449 | 98,786 |
| Benefit payments, including refunds of member contributions | (206,452) | (126,636) |
| Administrative expenses | (520,844) | (454,752) |
| Other | - | - |
| **Net change in plan fiduciary net pension** | (249,847) | (42,602) |
| **Total plan fiduciary net position—beginning** | 1,560,392 | 1,602,994 |
| **Total plan fiduciary net position—ending** | $ 1,310,545 | $ 1,560,392 |
| **Net pension liability—ending** | $ 2,717,862 | $ 2,160,907 |
| **Plan fiduciary net position as a percentage of total pension liability** | 32.53% | 41.93% |
| **Covered-employee payroll** | $ 3,925,214 | $ 3,477,968 |
| **Net pension liability as a percentage of covered-employee payroll** | 69.24% | 62.13% |

The plan implemented GASB Statement No. 67 in the fiscal year 2014. Information calculated utilizing GASB 67 prior to fiscal year 2014 is not available.

(See independent auditor’s report and notes to required supplemental information)

SCHEDULE OF COUNTY CONTRIBUTIONS
Last 10 Fiscal Years

## ERS

| FYE December 31 | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Actuarially Determined Contribution (ADC) | $57,853,824 | $ 29,564,925 | $ 32,136,934 | $ 28,406,232 | $ 29,621,216 |
| Contributions related to ADC | 48,405,459 | 29,057,000 | 30,952,781 | 27,407,519 | 31,494,090 |
| Contribution deficiency/(excess) | 9,448,365 | 507,925 | 1,184,153 | 998,713 | (1,872,874) |
| Covered Employee Payroll | 191,432,915 | 188,605,492 | 189,131,711 | 190,747,973 | 221,647,443 |
| Contributions as a percentage of Covered Employee Payroll | 25.29% | 15.41% | 16.37% | 14.37% | 14.21% |

| FYE December 31 | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Actuarially Determined Contribution (ADC) | $ 29,529,322 | $ 30,355,535 | $ 53,063,610 | $ 52,395,263 | $ 52,638,196 |
| Contributions related to ADC | 31,290,863 | 457,789,154 | 34,840,886 | 49,291,072 | 27,435,154 |
| Contribution deficiency/(excess) | (1,761,541) | (427,433,619) | 18,222,724 | 3,104,191 | 25,203,042 |
| Covered Employee Payroll | 237,040,117 | 233,820,179 | 227,364,398 | 223,005,093 | 225,721,691 |
| Contributions as a percentage of Covered Employee Payroll | 13.20% | 195.79% | 15.32% | 22.10% | 12.15% |

## OBRA

| FYE December 31 | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Actuarially Determined Contribution (ADC) | $770,384 | $ 373,500 | $ 388,625 | $ 446,452 | $ 807,028 |
| Contributions related to ADC | 440,000 | 440,000 | 360,000 | 880,000 | 2,022,000 |
| Contribution deficiency/(excess) | 330,384 | (66,500) | 28,625 | (433,548) | (1,214,972) |
| Covered Employee Payroll | 3,925,214 | 3,477,968 | 7,735,644 | 8,939,076 | 8,936,146 |
| Contributions as a percentage of Covered Employee Payroll | 11.21% | 12.65% | 4.65% | 9.84% | 22.63% |

| FYE December 31 | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Actuarially Determined Contribution (ADC) | $ 716,439 | $ 660,925 | $ 557,813 | $ 485,553 | $ 499,137 |
| Contributions related to ADC | 786,000 | 660,925 | 522,000 | 529,000 | 462,000 |
| Contribution deficiency/(excess) | (69,561) | - | 35,815 | (43,447) | 37,137 |
| Covered Employee Payroll | 6,901,021 | 8,498,484 | 8,284,312 | 7,057,342 | 8,352,834 |
| Contributions as a percentage of Covered Employee Payroll | 11.39% | 7.78% | 6.30% | 7.50% | 5.53% |

**Notes to Schedules**

Valuation date: Actuarially Determined Contributions (ADC) are calculated as of the January 1 of the fiscal year in which the contribution is made. That is, the contribution calculated for fiscal year ending December 31, 2015 is from the January 1, 2015 actuarial valuation. The contributions related to the ADC are a combination of employee contributions made during the fiscal year and the lump sum employer contribution made for the year.

The methods and assumptions used to calculate the Actuarially Determined Contributions are in the respective January 1 actuarial valuation reports. Prior to fiscal year ending December 31, 2014 the ADC shown is calculated based upon GASB No 25.

(See independent auditor's report and notes to required supplemental information)

**REQUIRED SUPPLEMENTARY INFORMATION**
**SCHEDULE OF INVESTMENT RETURNS**
Last 2 Fiscal Years

| Fiscal Year | Total Investment Plan Assets | Annual Money-Weighted Net of Investment Expense |
| --- | --- | --- |
| 2015 | $ 1,634,904,202 | 2.2% * |
| 2014 | $ 1,715,303,583 | 5.3% * |

* Calculated by Marquette Associates, Inc.
The plan implemented GASB Statement No. 67 in the fiscal year 2014. Information calculated utilizing GASB 67 prior to fiscal year 2014 is not available.

1. This information presented is the required supplementary schedules, for pension funding purposes, was based on the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation is as follows:

| | |
|---|---|
| **Valuation date** | 1/1/2015 |
| **Actuarial cost method** | Aggregate Entry Age Normal |
| **Asset valuation method** | 10-year smoothed market |
| **Amortization methods:** | |
| Contribution variance | Level dollar, closed |
| Administrative expenses | Level dollar, closed |
| All other unfunded liability | Level percent of payroll, closed |
| **Remaining amortization periods:** | |
| Contribution variance | 5 years |
| Administrative expenses | 10 years |
| All other unfunded liability | 30 years |
| **Actuarial Assumptions:** | |
| Investment rate of return | 8.00% |
| Projected salary increases | 3.50% |
| Post-retirement benefit increases | 2%, simple |

2. The total pension liability contained in the Schedule of Net Pension Liability and Related Ratios was provided by the Retirement System and OBRA's actuary, Buck Consultants. The net pension liability is measured as the total pension liability less the amount of the fiduciary net position of the Retirement System and OBRA.

3. The required employer contributions and percent of those contributions actually made are presented in the Schedule of Contributions.

## 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 |
|---|---|---|---|---|
| 2015 | $ 9,324,866 | $ 39,080,593 | $ 42,890,830 | $ 91,296,289 |
| 2014 | 10,051,605 | 19,005,395 | 99,655,955 | 128,712,955 |
| 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 |

### Expenses by Type

| Fiscal Year | Benefits(3) | Investment and Administrative Expenses (4) | Withdrawals | Total |
|---|---|---|---|---|
| 2015 | $ 187,512,204 | $ 8,904,657 | $ 1,307,360 | $ 197,724,221 |
| 2014 | 176,263,605 | 7,997,073 | 1,102,520 | 185,363,198 |
| 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 |

**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.

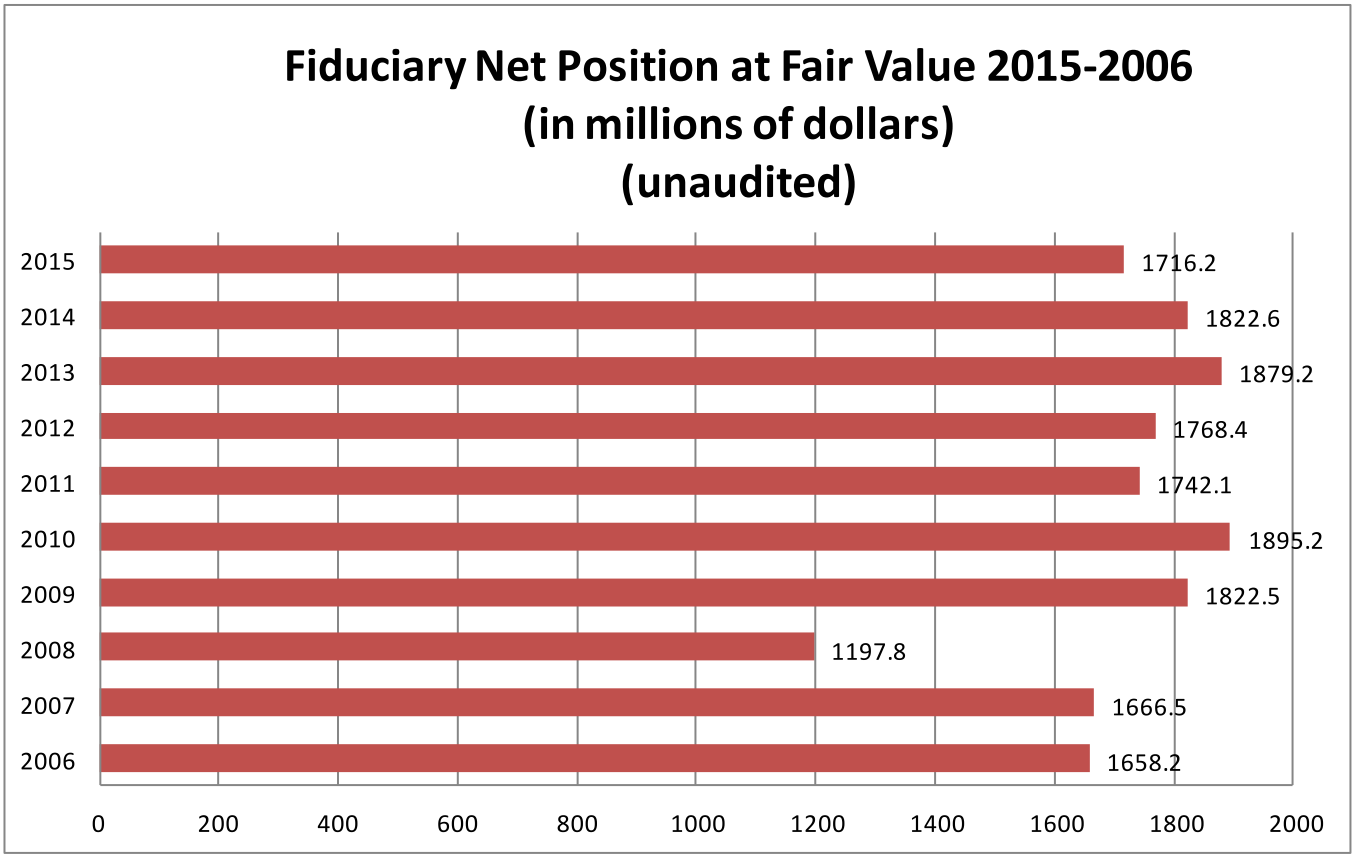
(2) Includes interest and dividends, net appreciation (depreciation) of fair value, net security lending income and other income.

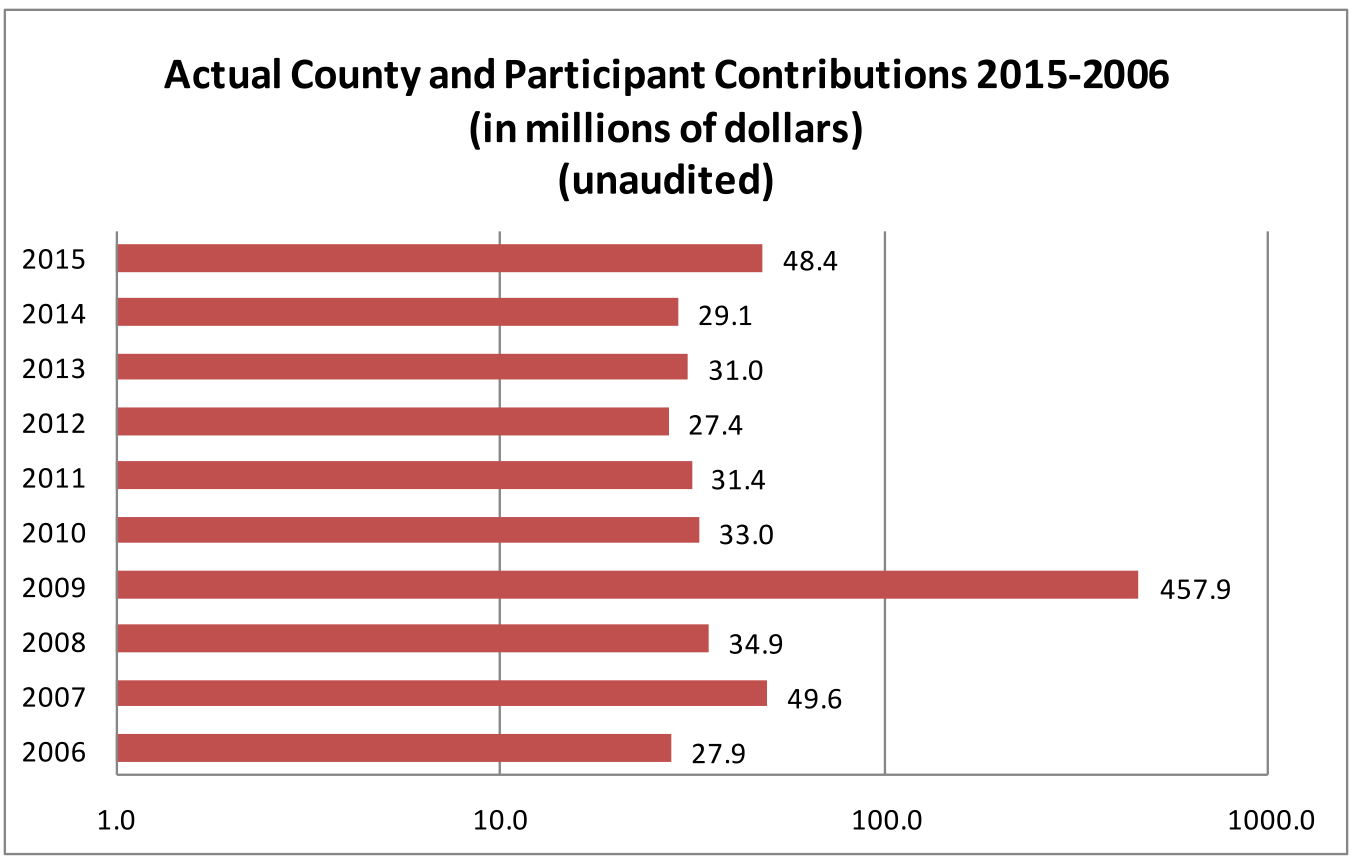
(3) Included in the benefits for 2015, 2014, 2013, 2012, 2011, 2010, 2009, 2008, 2007, and 2006 are back drop lump-sum payments of $19.8, $12.6, $11.7, $21.7, $38.8, $20.3, $8.7, $11.2, $10.5, and $5.5 million, respectively.

(4) The increase in investment and administrative expenses of $2,282 in the past ten years was due to increases in the following expenses:

- outside consultants of $815, with most of this increase occurring in 2008, 2009, and 2015 to support retirement systems;
- outside legal fees of $646, due to buy-in/buy-back issues, RFP preparation, tax issues, and various other legal matters;
- salaries and wages of $143 due primarily to the increase in benefits and staff;
- computer system expenses of $1,428. The plan started using its new computer system as of 1/1/09. Amortization of $825 and hosting expenses of $295, and maintenance costs of $295 caused most of this increase.

(See independent auditors' report)




(See independent auditors' report)

## ACTIVE MEMBERSHIP STATISTICS

(unaudited)

| | 2015 | 2014 |
|---|---|---|
| Members as of January 1............................ | 5,050 * | 5,322 * |
| Changes During the Year: | | |
| New enrollments................................ | 477 | 350 |
| Rehires................................................ | 0 | 0 |
| Nonvested terminations...................... | (291) | (365) |
| Retirements......................................... | (235) | (235) |
| Deaths in active service....................... | (13) | (4) |
| New deferred beneficiaries.................. | 0 | 0 |
| Data adjustments................................ | 18 | (18) |
| Members as of December 31...................... | 5,006 * | 5,050 * |

* The total includes vested inactive members of 1,387 and 1,411 as of beginning of the year and end of the year, respectively.

## RETIREMENTS AND SURVIVORS STATISTICS (unaudited)

| | Retirements Granted | | | | | | | | Survivors & Benefi-ciaries | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Option | | | | | | | | |
| | Maximum Pension | Refund | 100% | 75% | 50% | 25% | 10-yr. | Other | | |
| January 1, 2015 | 3,303 | 333 | 1,436 | 258 | 1,012 | 478 | 227 | 45 | 887 | 7,979 |
| Changes During the Year: | | | | | | | | | | |
| Adjustments (actuary)* | - | - | - | - | - | - | - | - | - | - |
| Retirements | 149 | 4 | 49 | 9 | 23 | 27 | 14 | 2 | 85 | 362 |
| Pensioner deaths | (164) | (33) | (40) | (6) | (45) | (2) | (1) | (1) | (58) | (350) |
| December 31, 2015 | **3,288** | **304** | **1,445** | **261** | **990** | **503** | **240** | **46** | **914** | **7,991** |

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

(See independent auditors' report)

## CONSULTANTS
as of December 31, 2015

**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**
Managed Medical Review Organization, Inc.
*Novi, Michigan*

**Investment Consultant**
Marquette Associates, Inc.
*Chicago, Illinois*

**Cash Equitization Manager**
BNY Mellon BETA Management
*San Francisco, California*

**Infrastructure Managers**
IFM Investment Advisor
*New York, New York*

JP Morgan Investment Management
*New York, New York*

**Long/Short Managers**
ABS Investment Management
*Greenwich, Connecticut*

Parametric
*Minneapolis, Minnesota*

**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*

Northern Trust Investments
*Chicago, Illinois*

**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*

**Private Equity Managers**
Adams Street Partners
*Chicago, Illinois*

Progress Investment Management Company
*San Francisco, California*

Siguler Guff & Company, LLC
*New York, New York*

(See independent auditors' report)

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