

**EMPLOYEES' RETIREMENT SYSTEM  
OF THE CITY OF MILWAUKEE**

**Basic Financial Statements and  
Supplementary Information as of and for the  
Year Ended December 31, 2013 and  
Independent Auditors' Report**

# Employees' Retirement System of the City of Milwaukee

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# INTRODUCTORY SECTION



City of Milwaukee  
Employees' Retirement System

**Bernard J. Allen**  
Executive Director

**David M. Silber, CFA, CAIA**  
Chief Investment Officer

**Beth Conradson Cleary**  
Deputy Director

## Executive Directors Letter of Transmittal

June 13, 2014

On behalf of the Annuity and Pension Board of the Employees' Retirement System (ERS) of the City of Milwaukee, I am pleased to present the Basic Financial Statements for the ERS for the year ending December 31, 2013. The ERS provides retirement and disability benefits, counseling and other services to approximately 27,000 members. The Employees' Retirement System was created under Chapter 396 of the Laws of Wisconsin of 1937 and the City of Milwaukee Charter, Chapter 36. This report fulfills the legal reporting requirements of those laws.

It is the responsibility of ERS management to fairly present all financial information in conformity with generally accepted accounting principles. The ERS has internal controls in place that provide reasonable assurance that the financial statements are free from errors. An independent audit of the ERS' books and records allows the independent auditor to reasonably confirm that the statements are free from material misstatement. The independent auditors' report is found within the Financial Section of this report.

As of January 1, 2013, the date of the latest actuarial valuation, the ERS actuarially funded ratio was 90.8%, a decrease from the January 1, 2012, funding level of 96.0%. This decrease is primarily due to the effects of the continued recognition of losses from the 2008 financial crisis. The funded status of the ERS is measured by comparing the actuarial value of plan assets with the actuarial accrued liability. The "Schedule of Funding Progress" included in this report shows historical trend information about the system's actuarial value of assets, actuarial accrued liability and actuarial funded status.

Lastly, I would like to acknowledge the staff of the ERS for rising to meet all challenges we have faced and for their continuing dedicated effort in providing superior customer service to all of our members.

Bernard J Allen  
Executive Director

## List of Principal Officials

### Annuity & Pension Board Members

**Martin Matson**

City Comptroller

*Ex-Officio Member*

**John Barmore, Board Chairman**

Milwaukee Fire Department

Elected Representative – Active

**William C. Carey**

Elected Representative - Retiree

**Larry Holland**

Retired

Appointed by the President of the Common Council

**Alderman Michael J. Murphy**

10th Aldermanic District

Appointed by the President of the Common Council

**Carmelo Patti**

Milwaukee Police Department

Elected Representative – Active

**Gust Petropoulos, Board Vice Chairman**

Milwaukee Police Department

Elected Representative – Active

**Ronald Walter**

Milwaukee Bucks, Inc.

Appointed by the President of the Common Council

### Employees' Retirement System Administrative Personnel

**Bernard J. Allen**

Executive Director  
and Secretary

**Beth Conradson Cleary**

Deputy Director

**David M. Silber, CFA, CAIA**

Chief Investment Officer

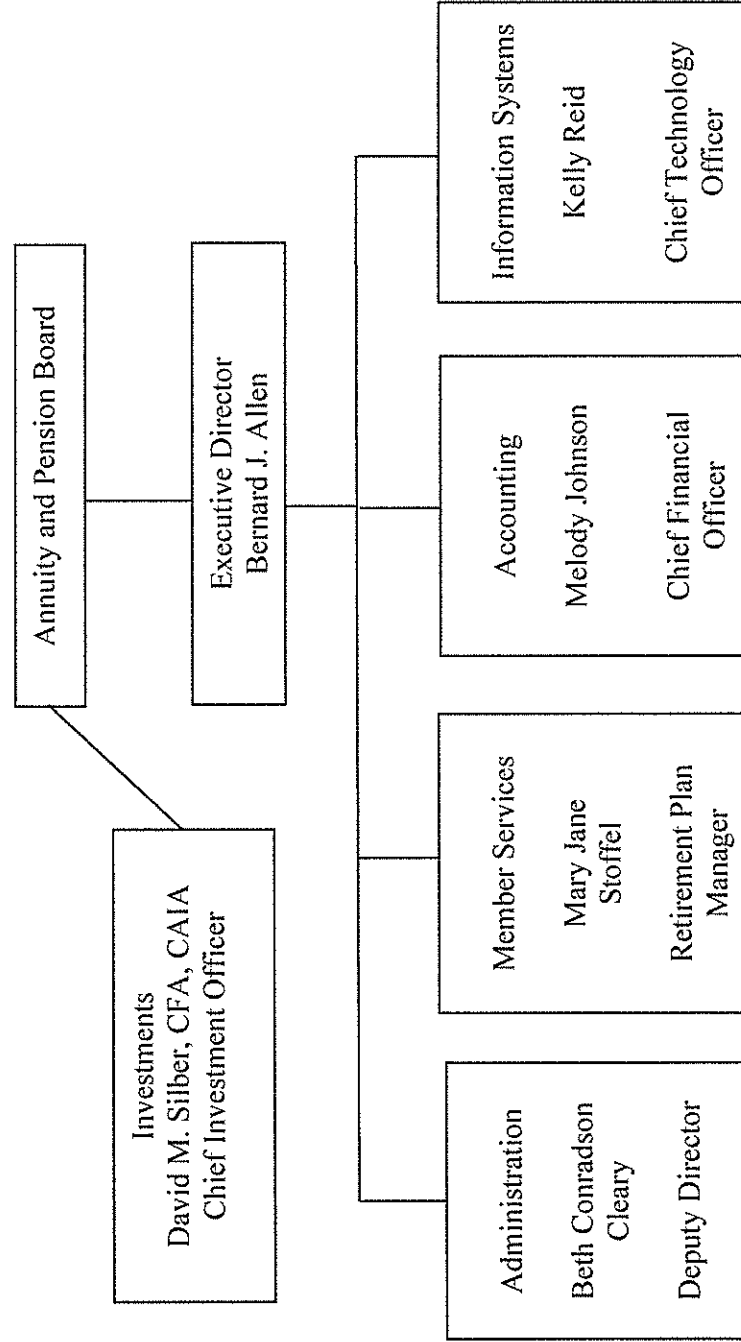
**G. Spencer Coggs**

City Treasurer  
Custodian of Funds

**Grant F. Langley**

City Attorney  
Legal Advisor

## Employees' Retirement System Organization Chart



# FINANCIAL SECTION

**INDEPENDENT AUDITORS' REPORT**

To the Annuity and Pension Board of the Employees'  
Retirement System of the City of Milwaukee  
Milwaukee, Wisconsin

**Report on the Financial Statements**

We have audited the accompanying statement of plan net position of the Employees' Retirement System of the City of Milwaukee (the "Retirement System"), as of December 31, 2013, the statement of changes in plan net position for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the changes in the plan net position of the Retirement System for the year 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 the Retirement System's basic financial statements. The Non-Consenter Statement of Plan Net Position and the Non-Consenter Statement of Changes in Plan Net Position are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Non-Consenter Statement of Plan Net Position and the Non-Consenter Statement of Changes in Plan Net Position are fairly stated in all material respects, in relation to the basic financial statements as a whole.

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 Executive Directors Letter of Transmittal, List of Principal Officers, and Organization Chart 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.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2014 on our consideration of the Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Retirement System's internal control over financial reporting and compliance.

BAKER TILLY WERTHEM HERRING LLP

Milwaukee, Wisconsin  
June 13, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS SECTION  
(UNAUDITED)

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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*To help facilitate a better understanding of the Employees' Retirement System of the City of Milwaukee (ERS) financial condition as of December 31, 2013, the results of operations for the year then ended and the fiscal policies that govern its significant business operations, management has prepared this narrative analysis. This narrative is intended to supplement the audited financial statements and, as such should be read in conjunction with these statements, which are presented later in this document.*

The ERS is primarily responsible for administering retirement and disability benefits for employees of the City of Milwaukee, Milwaukee Metropolitan Sewerage District, Wisconsin Center District, Veolia Water Milwaukee LLC, Milwaukee Housing and Redevelopment Authorities, non-certified staff of Milwaukee Public Schools and some employees of the Milwaukee Area Technical College. The ERS pension trust fund is a defined benefit pension plan that provides a monthly benefit to retirees after reaching a minimum retirement age depending upon employment history and provides a monthly benefit for those on disability.

The provisions of Chapter 396, laws of Wisconsin 1937, initially created the ERS. Funds have been established to comply with the legislation governing the ERS. In April of 2000, the Common Council of the City of Milwaukee adopted legislation (commonly referred to as the Global Pension Settlement or GPS) increasing benefits to current and future retirees in exchange for allowing for changes in the administration of the ERS including allowing for the use of ERS funds to pay for the cost of plan administration. Members enrolled prior to June 28, 2000, can elect whether to consent to GPS and accept its provisions, while members enrolled on or after that date are automatically subject to the provisions of GPS.

## **A Discussion of Funds within the Employees' Retirement System Plan**

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### **Global Combined Fund**

The Global Combined Fund is used to provide retirement and disability benefits to all members who consented to GPS and all members enrolled on or after June 28, 2000. Approximately 98.4% of the total membership is accounted for in the Global Combined Fund.

### **Employers' Reserve Fund**

Agencies participating in the ERS may voluntarily contribute to the Employers' Reserve Fund. Agencies with funds on deposit in the Employers' Reserve Fund may use these funds to offset contributions required of them by adopting a formal resolution directing such a transfer.

### **Securities Lending Fund**

Northern Trust, the custodian for ERS, administers the securities lending program. In this program, ERS lends out securities and receives collateral from the borrowers in the form of either cash or high quality securities and charge the borrowers a fee.

Revenues generated from securities lending are deposited in the Securities Lending Fund and are restricted to pay expenses in connection with the administration and operation of the ERS. Revenues not expended by the close of the calendar year next following the calendar year in which it is deposited are transferred to the Retirement Fund.

(See Independent Auditors' Report)

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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**Non-Consenter Funds**

The Non-Consenter Funds provide retirement and disability benefits for all members who have not consented to GPS. The benefits paid from these funds do not include enhanced benefits provided by GPS.

- **Retirement Fund:** The Retirement Fund provides for retirement and ordinary disability (non-work related disability) benefits for non-consenting members enrolled prior to February 1, 1996.
- **Combined Retirement Fund:** The Combined Retirement Fund provides for retirement and disability benefits (both ordinary and duty related) for non-consenting members enrolled on or after February 1, 1996.
- **General Employees' Duty Disability Fund:** The General Employees' Duty Disability Fund provides for duty disability benefits for non-consenting general (non-fire and police) members enrolled prior to February 1, 1996.

**Dormant Non-Consenter Funds**

A dormant fund has no members currently associated with it and as a result, no member balance amounts. Although these funds are not currently disclosed on the financial statements it is remotely possible that current non-consenting members could qualify for these funds in the future. As a result, the board has not officially closed the following 2 funds:

- **Firemen and Policemen's Duty Disability Fund:** The Firemen and Policemen's Duty Disability Fund provides for duty disability benefits for non-consenting fire and police members enrolled prior to February 1, 1996. As of December 31, 2004, all former members have consented to the global settlement and all remaining balances were transferred to the Global Combined Fund. This fund, although still active, is not likely to ever be used again.
- **Firemen's Heart and Lung Fund:** Accounts for fire heart and lung duty disability benefits of non-consenters. As of December 31, 2002, all former members have either consented to the global settlement or are deceased. This fund, although still active, is not likely to ever be used again.

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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**Fiduciary Funds**

Fiduciary Funds are used to report assets held in a trustee capacity for others and therefore cannot be used to support the primary governments own interests.

- **Policemen's Annuity and Benefit Fund:** As discussed in Note 11, on December 14, 2005, the Policemen's Annuity and Benefit Fund (PABF) board adopted a resolution to dissolve and to liquidate all assets of the fund and transfer the assets and full administrative control to the ERS. All assets of the PABF were transferred to the system's custodian, Northern Trust, in early 2006 and the ERS board assumed custodial authority and responsibility for the fund's assets as of January 3, 2006. These resources are disclosed in the financial records as a separate fiduciary fund and valuations are prepared by the ERS actuary. The only re-occurring revenues to the fund are in the form of an annual tax levy. The levy for 2013, to be collected in early 2014 amounts to \$227,796. The benefits paid during 2013 were to 53 annuitants and widows. Benefit payments amounted to \$589,196. Due to the materiality level of this fiduciary fund, it has not been included in the Analysis of Financial Position and Results of Operations section of this Management Discussion & Analysis.

**Financial Highlights**

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- Total assets of the ERS increased by \$807,336 or 17.1% during 2013. This was primarily due to positive investment returns during 2013.
- As members of the plan consent to the Global Pension Settlement, their member balances are transferred from the appropriate "Non-consenter" fund to the Global Combined Fund. Total member balances transferred for 2013 amounted to \$2,848,642.
- As of January 1, 2013, the date of the latest actuarial valuation, the ERS actuarially funded ratio was 90.8% a decrease from the January 1, 2012, funding level of 96.0%. This decrease is primarily due to the effects of the continued recognition of losses from the 2008 financial crisis. The funded ratio based on the market value of assets increased to 93.3% as of January 1, 2013, from 87.4% as of January 1, 2012.
- In 2013, Northern Trust, ERS's custodian, reported a positive return of 19.6% annual gross of fees total fund return while in 2012 the return was 14.2%. As of December 31, 2013, the fund's 5-year performance ranks in the top quartile of the Callan Associates database. This database consists of public employee pension funds including both Callan clients and surveyed non-client funds.

(See Independent Auditors' Report)

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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## **Overview of the Financial Statements**

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The Financial Statements of the ERS are comprised of the following components: 1) basic financial statements, 2) notes to basic financial statements, 3) required supplementary information, 4) supplementary information, and 5) other information. Collectively, this information presents the net position held in trust for pension benefits for all funds under ERS administration. It should be noted that currently, the ERS board is responsible for the administration of the plan assets of the Employees' Retirement System and the Policemen's Annuity and Benefit Fund. The latter is disclosed discreetly as a fiduciary fund on these statements.

- 1) Basic Financial Statements.** Basic Financial Statements consist of the Statement of Plan Net Position and the Statement of Changes in Plan Net Position.

Statement of Plan Net Position contains cash balances, investments itemized by category and accounts receivable and other assets with a total of all assets. Liabilities include benefits payable, reimbursements due to the City for costs to administer the plan and amounts for investment purchases that have been initiated but not settled at year-end to arrive at total liabilities. The total assets minus the total liabilities equals end of year net position held in trust for pension benefits equal to that found on the Statement of Changes in Plan Net Position.

Statement of Changes in Plan Net Position reflects all contributions and net investment performance in the additions section and all expenses and benefit payments in the deductions section. Fund balance transfers are also shown as increases or decreases in fund balance to arrive at the end of year net position held in trust for pension benefits. The Statement of Changes in Plan Net Position explains the reasons why the net position available for pension benefits changed from one year to the next.

- 2) Notes to Basic Financial Statements.** The financial statement notes provide additional information that is essential to understanding the data provided in the basic financial statements. Information in the notes is described below:

- Note 1: Provides a general description of the ERS as well as an overview of some of the common benefits available to various groups of members.
- Note 2: Summarizes significant ERS accounting policies.
- Note 3: Describes consent status changes in relation to the Global Pension Settlement.
- Note 4: Summarizes employer transactions in the Employers' Reserve Fund.
- Note 5: Summarizes the funding status of the ERS, actuarial assumptions, and employer contributions to the plan.
- Note 6: References ten-year historical trend information found within the Required Supplementary Information section.

(See Independent Auditors' Report)

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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**2) Notes to Basic Financial Statements (cont.)**

- Note 7: Discusses expenses paid as a part of administering the ERS including manager fees and administrative costs.
- Note 8: Discusses the ERS' income tax status per Internal Revenue Service determination letter.
- Note 9: Discusses ERS' investments and the associated types of risk that the system is exposed to. It also discusses securities lending requirements and amounts on loan.
- Note 10: Describes the contingencies involving the ERS.
- Note 11: Describes the transfer of fiduciary responsibility of the Policemen's Annuity and Benefit Fund to the ERS.
- Note 12: Describes the required actuarial contributions due from the member agencies.
- Note 13: Subsequent Events

**3) Required Supplementary Information.** The required supplementary information consists of the Management's Discussion and Analysis, the Schedule of Funding Progress, the Schedule of Employer Contributions, and the Notes to Required Supplementary Information for the ERS as well as the Schedule of Funding Progress and the Notes to Required Supplementary Information for PABF. The schedules give an indication of the actuarial performance of the fund and the health of the system.

**4) Supplementary Information.** Additional information includes the Statement of Plan Net Position and the Statement of Changes in Plan Net Position for all of the non-consenter retirement and disability funds individually.

**5) Other Information.** Includes the Executive Directors Letter of Transmittal, List of Principal Officers and the ERS Organizational Chart

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

**Analysis of Financial Position and Results of Operations**

<b>Changes in Assets</b> <i>(Dollars in Thousands)</i>	<u>2013</u>	<u>2012</u>	<u>Total Percentage Change</u>
<b>Assets:</b>			
Cash and cash equivalents	\$ 118,974	\$ 108,378	9.8%
Investments	4,855,053	4,193,769	15.8%
Receivables	102,847	106,028	-3.0%
Software development and equipment (net of depr)	1,285	3,261	-60.6%
Securities lending collateral	444,526	303,913	46.3%
<b>Total assets:</b>	<u>\$ 5,522,685</u>	<u>\$ 4,715,349</u>	<u>17.1%</u>
<b>Liabilities:</b>			
Benefits payable	\$ 113	\$ 38	197.4%
City of Milwaukee	20,374	1,327	1435.3%
Securities lending obligation	444,526	303,913	46.3%
Derivative liabilities	19,165	2,333	721.5%
Investments purchased	87,449	30,438	187.3%
<b>Total liabilities:</b>	<u>\$ 571,627</u>	<u>\$ 338,049</u>	<u>69.1%</u>
<b>Net position held in trust for pension benefits:</b>	<u>\$ 4,951,058</u>	<u>\$ 4,377,300</u>	

Presented here are the amounts of total assets for 2013 and 2012 respectively. Cash and investments increased by approximately \$671,880,000. This was primarily due to stronger performance in 2013 compared to 2012.

Receivable decreases are primarily traceable to the decrease in investment sales initiated at the end of 2013, but not settled until the beginning of 2014. The liabilities increase is primarily traceable to an increase in the securities lending obligation and investment purchases that were initiated at the end of 2013, but not settled until the beginning of 2014.

In 2003 the ERS began to capitalize its hardware and software development costs for the ERS's new pension payment system, "MERITS". In August of 2006, the system was placed in service. All development costs were capitalized and the applicable useful life of MERITS was determined to be 8 years. By 2014, all capitalized costs associated with the development and implementation of MERITS will be fully depreciated. The current year's computer equipment capitalization was \$98,323. All maintenance expenses will be expensed in the year they are incurred.

(See Independent Auditors' Report)



**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

**Analysis of Financial Position and Results of Operations**

<b>Analysis of Operations</b> <i>(Dollars in Thousands)</i>	<u>2013</u>	<u>2012</u>	<b>Total Percentage Change</b>
<b>Additions:</b>			
Employer Contributions	\$ 79,533	\$ 100,159	-20.6%
Member Contributions	42,624	38,809	9.8%
Investment income (loss)	729,629	467,722	56.0%
Interest, dividends and other investment income	84,661	87,499	-3.2%
Less: investment expense	(16,086)	(15,251)	5.5%
<b>Total additions:</b>	<u>\$ 920,361</u>	<u>\$ 678,938</u>	<u>35.6%</u>
<b>Deductions:</b>			
Administrative expenses	\$ (11,745)	\$ (9,739)	20.6%
Benefits paid	(310,696)	(299,479)	3.7%
Refund of contributions	(24,162)	(2,960)	716.3%
<b>Total deductions:</b>	<u>\$ (346,603)</u>	<u>\$ (312,178)</u>	<u>11.0%</u>
Net increase (decrease) after net position transfers:	\$ 573,758	\$ 366,760	
Net position held in trust for pension benefits:			
Beginning of year	<u>4,377,300</u>	<u>4,010,540</u>	
End of year	<u>\$ 4,951,058</u>	<u>\$ 4,377,300</u>	

Actuarially determined employer contributions were required of the City and other participating agencies in 2013 totaling \$79,533,239 compared to \$73,298,000 in 2012. Effective January 1, 2010, all new employees were required to pay their own 5.5% contributions to the system. Net investments returned a gain of \$798,204,000 in 2013 compared to a gain of \$539,970,000 in 2012. This increase is primarily due to the favorable conditions in the financial markets during 2013.

Administrative expenses increased by \$2,006,000 or 20.6% in 2013 when compared to 2012. This occurred due to increases in operating expenses of the plan. Benefits paid increased to \$310,696,000 in 2013 from \$299,479,000 in 2012 due in large part to pension escalators and a larger population of retirees.

The January 1, 2013, actuarial valuation also reallocated assets from the non-consenter funds to the Global Combined Fund as of January 1, 2013, for those individuals who were non-consenters as of January 1, 2013, and who then subsequently consented to GPS during 2013. The amount of \$2,848,642 was transferred to the Global Combined Fund for this reallocation of assets.

(See Independent Auditors' Report)

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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**Analysis of Investment Position and Strategies**

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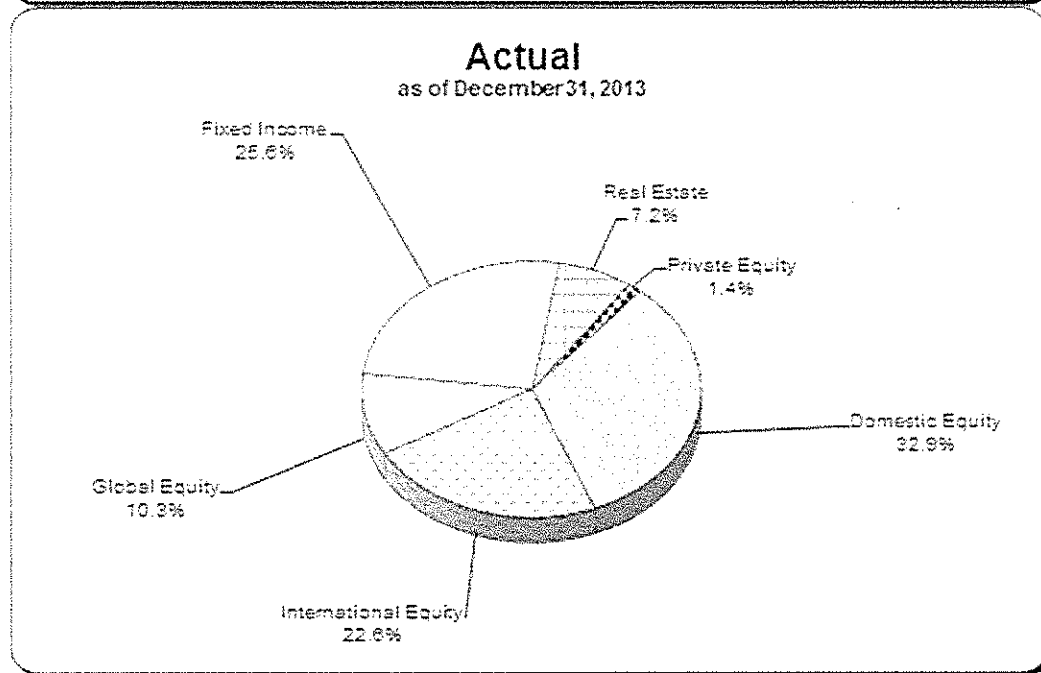
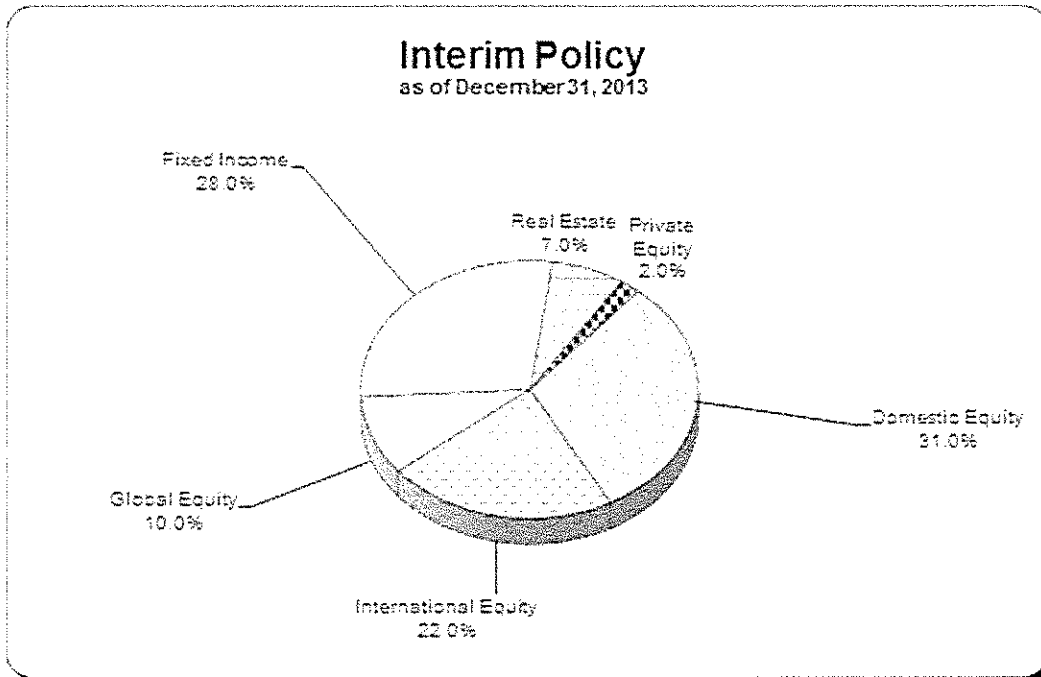
ERS has one strategic asset allocation for all of its funds. Resources of all the ERS funds are pooled together and invested consistent with this strategy. The employer reserve fund for the City of Milwaukee, however, follows investment guidelines approved by the City. The return from investments is allocated to the individual funds based on fund balances at the beginning of the year. The table below reports returns for 2013 and 2012 categorized by asset class with the corresponding benchmark results (real estate results are lagged by one quarter). Callan Associates, ERS' consultant in 2013, provided the real estate data and Northern Trust, ERS' custodian, reported the data for the other asset classes and benchmarks listed below. In 2013, the total fund produced a positive return and outperformed its reference benchmark. Within the Fund, all asset classes except for fixed income produced positive returns. Domestic Equity, International Equity, Real Estate, and Fixed Income outperformed their respective benchmarks. Global Equity and Private Equity underperformed their respective benchmarks.

<u>Asset Class</u>	<u>Benchmark</u>	<u>2013 Returns</u>		<u>2012 Returns</u>	
		<u>Gross</u>	<u>Benchmark</u>	<u>Gross</u>	<u>Benchmark</u>
Domestic Equity	Russell 3000 Index	33.9%	33.6%	16.7%	16.4%
International Equity	MSCI EAFE Index	26.6%	22.8%	19.0%	17.3%
Global Equity	MSCI World Index	26.3%	26.7%	15.0%	15.8%
Fixed Income	Barclays Capital Aggregate	-0.5%	-2.0%	8.8%	4.2%
Real Estate	NCREIF Property Index	13.6%	11.0%	9.2%	11.0%
Private Equity	Cambridge Private Equity Index	8.7%	21.1%	3.4%	9.0%
Total Fund	Reference Index	19.6%	18.1%	14.2%	12.9%

As of December 31, 2013, the Fund's actual asset allocation was within the interim allocation tolerance ranges established by the Board in the 3<sup>rd</sup> Quarter of 2010.

(See Independent Auditors' Report)

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

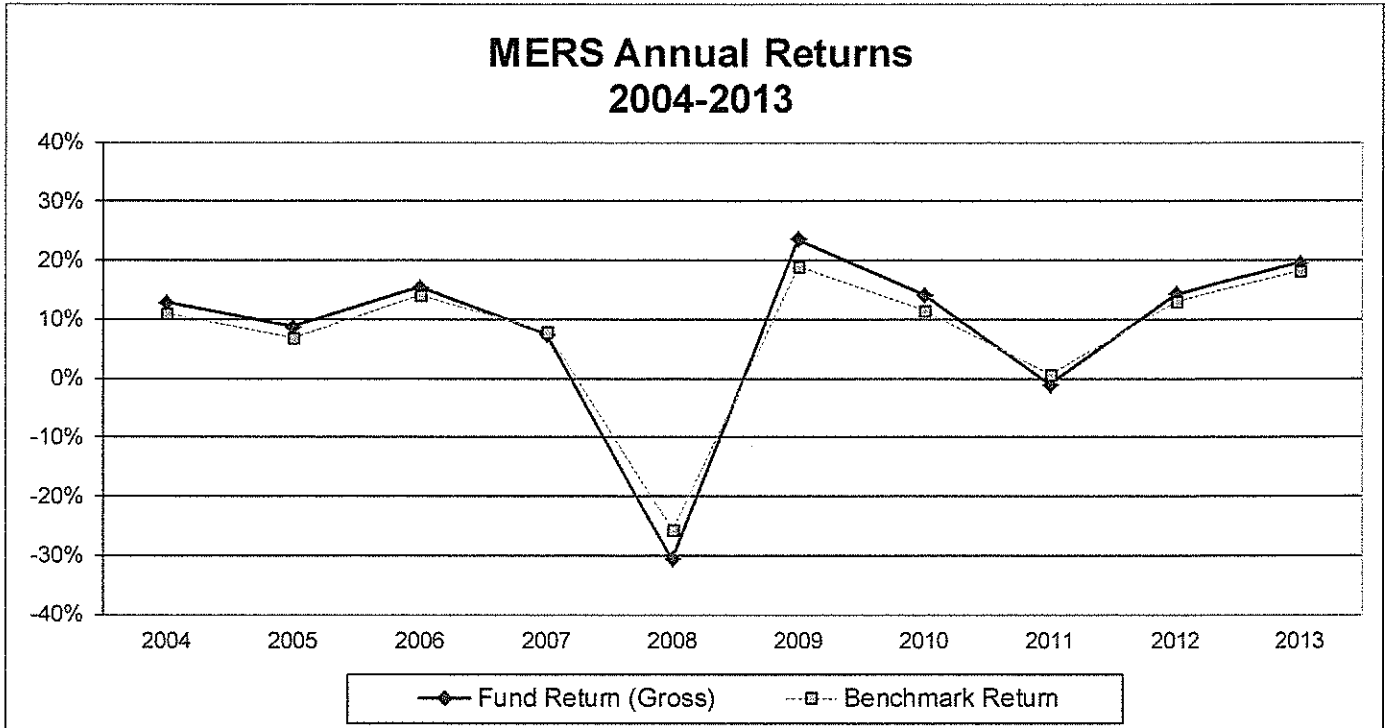


(See Independent Auditors' Report)

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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Over the ten-year period ending December 31, 2013, the Fund returned 7.2% annually gross of fees while the benchmark returned 6.8%.



### Requests for Information

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Members of the retirement board and the senior management of the ERS are fiduciaries of the pension fund and, as such, are charged with the responsibility of ensuring that the system's assets are used exclusively for the benefit of the plan participants and their beneficiaries. This financial report is designed to provide an overview of ERS finances and to demonstrate accountability for resources entrusted to the system for the benefit of the stakeholders. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Bernard J. Allen  
Executive Director  
Employees' Retirement System - City of Milwaukee  
789 North Water Street, Suite 300  
Milwaukee, WI 53202

(See Independent Auditors' Report)

# BASIC FINANCIAL STATEMENTS

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**

**STATEMENT OF PLAN NET POSITION  
AS OF DECEMBER 31, 2013**

(in thousands)

	Employees' Retirement System Funds				Fiduciary Fund	Total
	Global Combined Fund	Non-consenter Retirement Funds	Employers' Reserve Fund	Securities Lending Fund		
<b>ASSETS:</b>						
<b>CASH AND CASH EQUIVALENTS</b>	\$ 123,333	\$ 2,444	\$ (10,327)	\$ 1,524	\$ (496)	\$ 118,478
<b>INVESTMENTS (notes 2 and 9):</b>						
Bonds and collateralized mortgage obligations	995,651	3,900	48,905	-	137	958,393
Common and preferred stocks	1,792,679	7,720	-	-	272	1,800,471
Baird Bond Index Funds	265,639	1,144	-	-	40	266,783
BlackRock Index and Emerging Funds	242,190	1,044	-	-	37	243,271
Blair William Emerging	49,570	213	-	-	-	49,783
DFA US and International Small Cap Funds	385,487	651	-	-	23	386,161
Northern Trust Company Collective Equity Index Fund	498,358	2,146	-	-	76	500,580
Russell 1000 Alpha Fund	203,234	875	-	-	31	204,140
Derivative investments	15,237	-	-	-	2	15,239
Real estate investments	357,068	1,538	-	-	54	358,660
Private equity	71,894	310	-	-	11	72,215
<b>Total investments:</b>	<b>4,786,607</b>	<b>19,541</b>	<b>48,905</b>	<b>-</b>	<b>683</b>	<b>4,855,736</b>
<b>RECEIVABLES AND OTHER ASSETS:</b>						
Employer (note 2)	(150)	-	-	-	-	(150)
Member (note 2)	1,838	-	-	-	-	1,838
Actuarially determined contributions (note 12)	340	-	-	-	-	340
Interest, dividends and foreign tax recoverable (note 2)	14,254	61	101	-	-	14,416
Investments sold	86,012	371	-	-	-	86,383
Tax levy (note 11)	-	-	-	-	228	228
Software development and equipment, net of depreciation (note 2)	1,285	-	-	-	-	1,285
Securities lending collateral (note 9)	-	-	6,271	438,255	-	444,526
<b>Total receivables and other assets:</b>	<b>103,599</b>	<b>432</b>	<b>6,372</b>	<b>438,255</b>	<b>228</b>	<b>548,886</b>
<b>Total assets:</b>	<b>5,015,539</b>	<b>22,417</b>	<b>44,950</b>	<b>489,779</b>	<b>415</b>	<b>5,523,100</b>
<b>LIABILITIES:</b>						
Benefits payable	113	-	-	-	-	113
City of Milwaukee (notes 4 and 7)	20,374	-	-	-	-	20,374
Securities lending obligation (note 9)	-	-	6,271	438,255	-	444,526
Derivative liabilities	19,083	82	-	-	3	19,168
Investments purchased	87,074	375	-	-	-	87,449
<b>Total liabilities</b>	<b>126,644</b>	<b>457</b>	<b>6,271</b>	<b>438,255</b>	<b>3</b>	<b>571,630</b>
<b>NET POSITION HELD IN TRUST FOR PENSION BENEFITS</b>	<b>\$ 4,888,895</b>	<b>\$ 21,960</b>	<b>\$ 38,679</b>	<b>\$ 1,524</b>	<b>\$ 412</b>	<b>\$ 4,951,470</b>

See independent auditors' report.

A schedule of funding progress and a schedule of employer contributions are included in this report. The footnotes are an integral part of the basic financial statements.

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**

**STATEMENT OF CHANGES IN PLAN NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2013**  
(in thousands)

	Employees' Retirement System Funds				Fiduciary Fund	
	Global Combined Fund	Non-consultor Retirement Funds	Employers' Reserve Fund	Securities Lending Fund	Total Employees' Retirement System Fund	Total Police Officers' Annuity & Benefit Fund
<b>ADDITIONS:</b>						
Contributions:						
Employer (note 5)	\$ 79,387	\$ 146	\$ -	\$ -	\$ 79,533	\$ -
Member	42,476	148	-	-	42,624	-
Tax levy	-	-	-	-	-	250
Total contributions:	121,863	294	-	-	122,157	250
Investment income (loss):						
Net appreciation (devaluation) in fair value of investments	726,882	3,131	(384)	-	729,629	111
Interest, dividends and other investment income	81,324	350	932	2,085	84,661	12
Total investment income (loss):	808,206	3,481	518	2,085	814,290	123
Loss: investment expense (note 7)	(15,565)	-	-	(521)	(16,086)	(3)
Net investment income (loss):	792,641	3,481	518	1,564	798,204	120
Total additions:	914,504	3,775	518	1,564	920,361	370
<b>DEDUCTIONS:</b>						
Administrative expenses (note 7)	(9,602)	-	-	(2,143)	(11,745)	(19)
Benefits paid	(310,527)	(169)	-	-	(310,696)	(589)
Refunds of contributions	(5,997)	(166)	(18,399)	-	(24,162)	-
Total deductions:	(325,726)	(335)	(18,399)	(2,143)	(346,603)	(608)
<b>NET POSITION CHANGES:</b>						
Net increase (decrease) before net position transfers	588,778	3,440	(17,881)	(579)	573,758	(238)
Net position transfers (notes 3, 4 and 11)	2,869	(2,849)	-	-	-	-
Net increase (decrease) after net position transfers	591,627	591	(17,881)	(579)	573,758	(238)
Net position held in trust for pension benefits:						
Beginning of year	4,297,268	21,369	56,560	2,103	4,377,300	650
End of year	\$ 4,888,895	\$ 21,960	\$ 38,679	\$ 1,524	\$ 4,951,058	\$ 412

See independent auditors' report.

A schedule of funding progress and a schedule of employer contributions are included in this report. The footnotes are an integral part of the basic financial statements.

# NOTES TO BASIC FINANCIAL STATEMENTS



**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013**

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**1. DESCRIPTION OF RETIREMENT SYSTEM**

The following brief description of the more common provisions of the Employees' Retirement System of the City of Milwaukee (the "Retirement System" or "ERS") is provided for financial statement purposes only. The provisions described reflect changes to the Retirement System enacted in 2000 as part of what is known as the Global Pension Settlement ("GPS"). GPS increased benefits to all members who consented to the settlement in exchange for allowing the City to make certain changes in plan administration, including allowing the use of Retirement System assets to pay for all costs to administer the System. Over 98.4% of the existing members have consented to GPS and are accounted for in the Global Combined Fund. Members who have not consented are accounted for in one or more of the non-consenter funds. Participants should refer to (Chapter 36 of the City of Milwaukee Charter) for more complete information.

The GPS provides that members enrolled through June 28, 2000, must provide written consent to the ERS in order to be eligible for the benefit enhancements of GPS. Members enrolled after June 28, 2000, are automatically participants in the Combined Fund.

Since the January 1, 2013, actuarial valuation was completed, 16 individuals who were eligible for ERS benefits as of June 28, 2000, and who had not consented to GPS, have now consented. The January 1, 2014, valuation reflects the impact of this change.

The Retirement System was established pursuant to the Retirement Act (Chapter 396 of the Laws of Wisconsin of 1937) to provide the payment of retirement and other benefits to employees of the City of Milwaukee (the "City"). Chapter 441 of the Laws of Wisconsin of 1947 made the benefits contractual and vested. The Retirement System is a multi-employer plan, which also provides benefits to employees of the Milwaukee Metropolitan Sewerage District, Wisconsin Center District, Veolia Water Milwaukee LLC, Milwaukee Housing and Redevelopment Authorities, non-certified staff of Milwaukee Public Schools and some employees of the Milwaukee Area Technical College (the "Agencies"). City employees comprise approximately 57.8% of the active participants in the Retirement System.

Full-time employees, part-time employees who are eligible under adopted rules and regulations, and elected officials who have evidenced their intent to join are members of the Retirement System.

Plan members are required to contribute, or have contributed on their behalf, a percentage of pensionable earnings equal to 5.5% for general city employees, and 7% for police officers, fire fighters, and elected officials, respectively. Pensionable earnings are essentially comprised of amounts paid as the regular base salary and specifically excludes overtime. The City and other participating city agencies fund these member contributions on behalf of each participating employee hired prior to January 1, 2010. After January 1, 2010, some employee groups are required to make their own pension contributions. Commencing in 1990, contributions of one dollar of each police officer's longevity pay per year, excluding sergeant of police, detective lieutenant and ranks above same, are made by police officers on their own behalf.

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013**

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**1. DESCRIPTION OF RETIREMENT SYSTEM (cont.)**

In addition to the above percentage contributions, additional contributions are required of general city employees who are enrolled as active members after January 1, 2000. To participate in the Global Combined Fund, each new member is required to contribute 1.6% of his or her pensionable earnings for a period of eight years. These contributions are taken to fund the improved escalator benefits resulting from the GPS for these new members. Chapter 36 was amended to allow that any general city employees required to contribute 5.5% of their earnable compensation no longer are subjected to the 1.6% contribution requirement.

The 2011 Wisconsin Act 10, also known as the governor's Budget Repair Bill, created Wis. Stat. 62.623 (Payment of contributions in an employee retirement system of a first class city), which requires certain members to pay employee required contributions (5.5%) and prohibits their employer from making the contributions on their behalf. In particular, the employee required contributions applies to city agency members and not to city employees. (This discrepancy exists due to the fact that city members hired prior to January 1, 2012, have contractual vested rights enumerated within Chapter 36, whereas Chapter 36 merely grants city agency employers the discretion to either pay or not pay all or part of the members' contribution. The state law takes away this discretion.)

Chapter 36 was amended so that non-represented firefighters and police officers hired on or after October 3, 2011 shall be required to contribute 7% of their own pensionable earnings to the plan.

On an annual basis, the City and city agencies are required to contribute amounts determined actuarially pursuant to the Milwaukee City Charter (MCC) 36-08. Beginning for 2013, the full funding limit pursuant to the MCC 36-08-6-h, limiting employer contributions when the funded ratio of the fund exceeds 100% was repealed.

The normal retirement benefit is a monthly pension for the life of the member. A service retirement allowance is payable to any member who elects to retire after attaining the minimum service retirement age 60, for general employees and age 57 for police officers and firefighters. General City employees who have attained age 55 and completed 30 years of creditable service are eligible for service retirement. Police officers of any age with 25 years of creditable service and firefighters who have attained age 49 and completed 22 years of creditable service are eligible for service retirement.

For general employees, the amount of a member's service retirement allowance is equal to 2% of final average salary (the highest average of earnable compensation during any 3 years preceding retirement, death or termination) for each year of creditable service. The service retirement allowance for general employees who retire after January 1, 1989, cannot exceed 70% of final average salary. For police officers and firefighters, the retirement allowance is 2.5% of the final average salary (computed on the year of creditable service during which earnable compensation was highest) for each year of creditable service.

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013**

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**1. DESCRIPTION OF RETIREMENT SYSTEM (cont.)**

The retirement allowance for firefighters hired after March 1, 1989, and police officers hired after July 1, 1989, is limited to 90% of final average salary (excluding any imputed service credit provided under the GPS). For elected officials of the City of Milwaukee, the retirement allowance is 2.6% of final average salary for each year of creditable service prior to January 1, 1996. After January 1, 1996, the retirement allowance is 2.0% of final average salary for the mayor and 2.5% of final average salary for all other elected officials for each year of creditable service.

Chapter 36 of the Milwaukee City Charter provides for escalators to nearly all retirees. General City employees participating in the Global Combined Fund retiring on a service retirement allowance on or after January 1, 2000, are eligible for a pension escalator of 1.5% on the second, third and fourth anniversaries of their retirement and 2% on each anniversary thereafter. Police officers and firefighters participating in the Global Combined Fund retiring on a service retirement allowance on or after January 1, 2000, are eligible for a pension escalator based upon the percentage increase in the prior year's Consumer Price Index-All Urban Consumers (CPI-U) effective with their first anniversary and each anniversary thereafter. The percentage increase is determined annually by measuring the change in the Index from November of one year to November of the following year. This escalator is guaranteed to be at least two percent but is capped at three percent.

Rules governing escalators provided to retirees retiring prior to January 1, 2000 (before the Global Pension Settlement), differ from those described herein. In addition, a one-time "catch up" adjustment was provided in January of 1996 to employees who retired on a service retirement allowance on or before September 30, 1987, to partially offset the increase in inflation. For a complete description of the escalator rules, see Chapter 36 of the Milwaukee City Charter. The Retirement System also provides for ordinary and duty disability benefits as well as ordinary and duty death benefits.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- a. Basis of Accounting - The financial statements are prepared using the accrual basis of accounting. Retirement and other contributions are recorded when due. Investment income is recognized when earned and expenditures are recorded when incurred.
- b. Contributions - The Retirement System records employee contributions as earned. Contributions earned but not yet received from the City, participating city agencies and members are reflected as contributions receivable.

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

At January 1, 2013, the number of participants in the Retirement System was as follows:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	<u>16,015</u>
Active Members:	
Vested	8,799
Non-vested	<u>1,915</u>
Total Active Members	<u>10,714</u>
Total Participants	<u>26,729</u>

- c. *Investments* - Investments of the Retirement System are recorded at fair value as determined by quoted prices in active markets. Short-term investments are reported at cost, which approximates fair value. Receivables and payables relating to investment transactions entered into prior to year-end, but not completed until after year-end, are recorded as assets or liabilities.

Real estate consists of equity and debt participation in diversified real estate investments. The majority of properties in the portfolio are offices, industrial warehouses, multi-family and retail. The real estate investments are carried at market value, which approximates fair value, as of December 31, 2013. An annual review performed by independent professional appraisers is used to assess the market value.

Private equity consists of equity and debt participation in diversified private equity investments. The majority of investments in the portfolio consist of buyouts and venture capital. The private equity investments are carried at market value, which approximates fair value, as of December 31, 2013.

The Retirement System has investments in certain derivatives, including interest rate, credit, index and currency futures; bond futures; deliverable and non-deliverable forward contracts; bond forwards; currency forwards; currency options; options on bond futures and to-be-announced (TBA) securities. These investments are made in compliance with the Annuity and Pension Board Investment Policy and Guidelines. Additional information on the Retirement System's derivative use, including the Notional and Contractual Amounts, Market Value and Unrealized Gains and Losses of the holdings, can be found in Note 9.

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

All investments are made in accordance with the provisions of Section 36-09 of Chapter 36 of the Milwaukee City Charter. In accordance with these provisions, the several funds of the Retirement System are invested within the requirements of ss. 40.03(1)(n) and 62.63 (3) Wisconsin Statutes. The Retirement System did not invest more than 61.2% of the total assets, as measured by their cost, in stocks of corporations in 2013.

The Retirement System has investments in certain financial instruments such as U.S. Treasury Strips, collateralized mortgage obligations and asset backed securities. These investments are made in compliance with the Annuity and Pension Board Investment Policy and Guidelines. The Retirement System's investment managers may temporarily invest small amounts of available cash in short-term investments prior to purchasing securities consistent with their investment strategy.

The Retirement System's international equity managers may invest in warrants and foreign exchange forward contracts as a hedge to foreign currency fluctuations. The gain/(loss) on these positions on December 31, 2013, are detailed on page 39 of this report.

Investment securities, in general, are exposed to various risks, such as interest rate, 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 the amounts reported in the statement of plan net position.

- d. *Investment Income* - Dividends and interest are recorded as earned. All dividend and interest income, and all realized investment gains and losses, are allocated to the individual funds based on fund balances at the beginning of the year.
- e. *Estimates* - The preparation of financial statements in conformity with generally accepted accounting principles 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.
- f. *Capitalization* - The Retirement System capitalizes hardware and software development costs to better allocate these costs over their useful lives. Amounts spent for hardware (including, but not necessarily limited to servers, printers, monitors, disk drives, network infrastructure, switches) are capitalized in a yearly hardware pool and depreciated over a life of three years. One half a year's depreciation is expensed in the year of acquisition. Amounts spent toward the development of a new Pension Management Information System have been capitalized as Software Development costs. The system went live in 2006. The new system will be depreciated over its estimated useful life of eight years. As of December 31, 2013, the total cost of the Retirement System's hardware and software development costs totaled \$17,080,000. The total accumulated depreciation totaled \$15,795,000 with \$2,074,000 of depreciation being recognized during 2013, which is included in Administrative Expenses in the accompanying Statement of Changes in Plan Net Position.

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

- g. *Funded Status and Funding Progress- Employees' Retirement System* – As of January 1, 2013, the most recent actuarial valuation date for the Retirement System, the plan was 90.8% funded on an actuarial basis. The actuarial accrued liability for benefits was \$4,689,814,000, and the actuarial value of assets was \$4,259,889,000. The covered payroll (annual payroll of active employees covered by the plan) was \$523,738,000.

The Schedule of Funding Progress, presented as Required Supplementary Information following the notes to the basic financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Additional information as of the latest actuarial valuation is as follows:

Valuation Date	January 1, 2013
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Closed – Level Percent of Pay
Remaining Amortization Period	21 years as of January 1, 2013
Asset Valuation Method	5-year smoothed market, 20% corridor

Actuarial Assumptions:

Investment Rate of Return	8.25% for calendar years 2013 through 2017, and 8.50% beginning with calendar year 2018
Projected Salary Increases	General City 3.0% - 7.5% Police & Fire 3% - 14.4%
Inflation Assumption	3.00%
Cost of Living Adjustments	Vary by Employee Group as explained in summary of plan provisions
Mortality Table	For regular retirees and for survivors, the RP-2000 Combined Mortality Table with mortality improvements projected to the year 2009 for males and females, include full generational projection using mortality improvement Scale AA.

- h. *Funded Status and Funding Progress- Policemen's Annuity and Benefit Fund* - As of January 1, 2013, the most recent actuarial valuation date for the Policemen's Annuity and Benefit Fund, the fund was 30.2% funded on an actuarial basis. The actuarial accrued liability for benefits was \$2,152,402, and the actuarial value of assets was \$650,910.

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

The Schedule of Funding Progress, presented as Required Supplementary Information following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Additional information as of the latest actuarial valuation is as follows:

Valuation Date	January 1, 2013
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Open – Level Dollar
Remaining Amortization Period	10 Years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	8.25% for calendar years 2013 through 2017, and 8.50% beginning with calendar year 2018
Projected Salary Increases	None - The Plan is Closed
Inflation Assumption	3.00%
Mortality Table	For regular retirees and for survivors, the RP-2000 Combined Mortality Table with nine years of projected improvements for males and females, include full generational projection using mortality improvement Scale AA.

**3. CONSENT STATUS CHANGES**

Members who have not consented to the GPS are comprised of those who have objected to the settlement as well as those who never responded at all. The previous deadline to consent of April 24, 2004, has been extended indefinitely to those who have not responded. Often, non-responders are members with vested rights who separated from service years ago. These members often express an interest in consenting to GPS at the time they are applying for benefits.

As of the January 1, 2013, actuarial valuation, 430 Retirement System members were identified as being non-consenting. Of this number, 117 were active members, 294 were inactive members, and 19 were benefit recipients. During 2013, 16 of these members elected to consent to the GPS resulting in a transfer of \$2,848,642 to the Global Combined Fund from the non-consenter funds.

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013**

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**4. EMPLOYERS' RESERVE FUND**

The City of Milwaukee and other agencies participating in the Retirement System may voluntarily contribute to the Employers' Reserve Fund established in Section 36-08-8 of Chapter 36. This enables agencies to participate in the earnings of the investments of the Retirement System. Agencies having such funds on deposit may use them to offset required contributions by adopting a formal resolution directing such a transfer. As of December 31, 2013, the City of Milwaukee is the only agency choosing to participate in this fund and investing according to City of Milwaukee investment policies. During 2013, the City of Milwaukee decided to utilize \$18.4 million of their reserve balance to cover normal contributions. A payable has been established to return these monies to the City in early 2014. The City of Milwaukee will make periodic offsets over the next several years to meet regular contribution requirements.

**5. FUNDING STATUS AND PROGRESS**

The pension benefit obligation was determined as part of an actuarial valuation at January 1, 2013. Significant actuarial assumptions used in the January 1, 2013, valuation include (a) a rate of return on the investment of present and future assets of 8.25% for calendar years 2013 through 2017, and 8.50% beginning with calendar year 2018, per year compounded annually (b) projected salary increases of between 3.0% and 7.5% for General City and between 3.0% and 14.4% for Fire and Police employees per year compounded annually, (c) normal retirement ages ranging from ages 42 to 70, depending on the class of employee, and (d) for regular retirees and for survivors, the RP-2000 Combined Mortality Table with mortality improvements projected to the year 2009 for males and females, include full generational projection using mortality improvement Scale AA. The excess of net position available for projected benefits over the present value of the accrued pension benefit obligation as of January 1, 2013, was as follows (in thousands):

<b>Assets:</b>	
Actuarial value of assets	\$ 4,259,889
Present value of future anticipated contributions	429,925
Financial resources for actuarial accrued liability	<u>\$ 4,689,814</u>
 <b>Liabilities</b>	
Actuarial Accrued Liability	
Annuitants	\$ 3,121,007
Current Employees:	
Member Contributions	563,204
Employer financed portion	1,005,603
Total Liabilities	<u>\$ 4,689,814</u>

The Retirement System's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay benefits when due. Employer contribution rates are determined using the projected unit credit method. Employer contributions are funded based on an actuarial valuation report. The significant actuarial assumptions used to compute the contribution requirements are the same as those used to compute the pension benefit obligation.



**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013**

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**5. FUNDING STATUS AND PROGRESS (cont)**

The GPS, effective January 1, 2000, merged funding for duty disability and retirement benefits for consenting Retirement System members in the Global Combined Fund resulting in an employer contribution of \$146,000 being due for this group for 2013. This amount was determined in accordance with existing statutory requirements using the projected unit credit method as of January 1, 2013. All actuarial computations were made by an independent consulting actuary to satisfy the requirements of 36.08(2) of the Milwaukee Charter.

**6. TEN-YEAR HISTORICAL TREND INFORMATION**

Ten-year historical trend information is designed to provide information about progress made in accumulating sufficient assets to pay benefits when due. A schedule of funding progress and a schedule of employer contributions is included in this report. See the Required Supplementary Information section of these financial statements.

**7. EXPENSES**

Under the Milwaukee City Charter, as provided in the GPS, all administrative and investment expenses of the Retirement System are the direct obligation of the Global Combined Fund. Expenses are normally paid through the City of Milwaukee accounting system and reimbursed by the Retirement System to the City. Money manager fees of \$10,437,613, real estate manager fees of \$5,127,670 and administrative expenses of \$7,527,841 were charged to the Global Combined Fund in 2013.

In addition, the Annuity and Pension Board authorized the payment of \$2,144,000 of administrative costs from the Securities Lending Fund during 2013. This reduced the amounts needed from the Global Combined Fund to fund the costs to administer the Retirement System (see Note 9).

**8. INCOME TAX STATUS**

The Retirement System obtained its latest determination letter on July 13, 2006, in which the Internal Revenue Service ("IRS") stated that the Retirement System, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code. In January 2009, as part of the regular IRS 5 year cycle, the Retirement System filed for an IRS determination letter. The Retirement System's management believes that the plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, no provision for income taxes has been reflected in the accompanying basic financial statements.

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013**

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**9. INVESTMENTS**

**Deposits and Custodial Credit Risk**

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 held by the counterparty. As of December 31, 2013, no investments or securities were exposed to custodial credit risk. The Retirement System is exposed to custodial credit risk for uncollateralized cash and cash equivalents that are not covered by federal depository insurance. This amount was \$18,011,997 as of December 31, 2013.

**Investment Policies**

The Retirement System was established to provide for the present and future retirement, disability, and death and survivor benefit payments for all city and city agency employees. All of the funds of the Retirement System taken in the aggregate constitute a special trust subject to applicable local, state, and federal laws, including but not limited to sections 36-15, 36-09-1, and 36-09-6 of the Milwaukee City Charter. As of December 31, 2013, the fair market carrying value of the investments are as follows (in thousands):

<u>Investment Type</u>	<u>Carrying Value</u> <u>2013</u>
Common Stock	\$ 1,758,917
Preferred Stock	12,650
Convertible Equity	2,192
Corporate Convertible Bonds	26,643
Barclay Bond Index Fund	266,823
COLTV Stock Index Fund	500,580
Blackrock Index Canadian	16,735
Blackrock EAFE Index	175,247
Blackrock MSCI Emerging	51,289
Blair William Emerging	49,783
DFA Small Cap Fund	234,406
DFA Invt Dimensions	151,755
Russell 1000 Fund	204,140
Rights & Warrants	70
Government Bonds	398,457
Government Agencies	21,527
Municipal/Provincial Bonds	28,935
Corporate Bonds	413,860
Gov Mortgage Backed Sec	24,413
Gov-Iss Comm Mort	5,100
Comm Mortgage Backed Sec	20,887
Asset Backed Securities	16,059
Non-Gov Backed C.M.O.S.	419
Other Fixed Income	28,735
Real Estate Investments	358,660
Private Equities	72,215
Derivatives Investments	15,239
 Total Investments	 \$ <u><u>4,855,736</u></u>

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013**

**9. INVESTMENTS (cont.)**

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Retirement System's investment guidelines limit how much each fixed income manager may deviate duration from their respective benchmarks. Duration is the approximate percentage change in price for a 100-basis-point change in yield. Depending on the investment manager, the duration of the Retirement Systems active fixed income managers must either be between 80% and 250% of the duration of the Barclays Capital Aggregate Index, +/- 2 years of the Barclays Capital Aggregate Index, or +/- 2 years of the Citigroup World Government Bond Index. As of December 31, 2013, the segmented time distribution of the various investment types of debt securities for the Retirement System is as follows (in thousands):

<u>Investment</u>	<u>2013</u>				
	<u>Fair Market Value</u>	<u>Less than 1 Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>	<u>10+ Years</u>
Government Bonds	\$ 520,517	\$ 22,941	\$ 267,406	\$ 144,604	\$ 85,566
Government Agencies	21,527	1,317	20,210	-	-
Barclay Bond Index Fund	-	-	-	-	-
Municipal/Provincial Bonds	28,934	13,445	7,947	-	7,542
Corporate Bonds	487,838	18,879	241,949	69,638	157,372
Gov Mortgage Backed Sec	116,251	-	92,802	10,993	12,456
Gov-Iss Comm Mort	5,100	-	5,100	-	-
Comm Mortgage Backed Sec	26,230	-	6,203	-	20,027
Asset Backed Securities	17,397	-	13,849	2,677	871
Non-Gov Backed C.M.O.S.	419	-	22	-	397
Index Linked Government Bonds	-	-	-	-	-
Corporate Convertible Bonds	26,644	-	11,668	139	14,837
Other Fixed Income	1,002	1,002	-	-	-
Short-term Investment Funds	54,978	54,978	-	-	-
<b>Totals</b>	<b>\$ 1,306,837</b>	<b>\$ 112,562</b>	<b>\$ 667,156</b>	<b>\$ 228,051</b>	<b>\$ 299,068</b>

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**

**NOTES TO BASIC FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013**

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**9. INVESTMENTS (cont.)**

**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. ERS investment guidelines allow foreign currency contracts for defensive hedging purposes. One manager's guidelines also allow for active investment in currency futures, currency forwards, and currency options. In addition, the guidelines recommend adequate diversification by country and currency. As of December 31, 2013, the Retirement System's exposure to foreign currency risk, expressed in U.S. Dollars, is as follows (in thousands):

<u>Foreign Currency</u>	<u>2013 Fair Market Value</u>
Australian dollar	\$ 31,372
Brazilian real	16,835
British pound sterling	218,769
Canadian dollar	58,184
Chilean peso	(488)
Chinese yuan renminbi	135
Czech koruna	(13)
Danish krone	7,697
Euro	390,337
Hong Kong dollar	8,985
Hungarian forint	(57)
Indian rupee	78
Indonesian rupiah	5,638
Japanese yen	227,832
Malaysian ringgit	858
Mexican peso	15,256
New Israeli shekel	81
New Taiwan dollar	(130)
New Zealand dollar	28,220
Norwegian krone	8,264
Polish zloty	1,593
Russian ruble	68
Singapore dollar	2,123
South African rand	1,252
South Korean won	30,189
Swedish krona	12,586
Swiss franc	43,779
Thai baht	1,889
Turkish lira	(183)
 Total	 \$ <u><u>1,111,149</u></u>

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013**

**9. INVESTMENTS (cont.)**

**Credit Risk of Debt Securities**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Retirement System's investment guidelines require its fixed income managers to have an Investment Grade average portfolio. The Retirement System's active fixed income managers are allowed to hold a maximum of 20% of their respective portfolio's market value in issues rated B- or B3, and an additional 5% may be invested in non-rated issues. The quality ratings of investments in fixed income securities of the Retirement System as described by Standard & Pools (S&P) as of December 31, 2013, are as follows (in thousands):

Investment Type	AAA	AA	A	BBB	BB	B	CCC	US Government Guaranteed	Not Rated Quality Rating Not Available
Asset Backed Securities	\$ 8,882	\$ 2,376	\$ 1,173	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,967
Bank Loans	-	-	-	-	-	-	-	-	-
Comm Mortgage Backed Sec	1,539	5,343	516	7,497	-	-	-	-	11,335
Corporate Bonds	2,727	33,232	141,987	179,676	72,984	39,842	12,695	-	4,693
Corporate Convertible Bonds	-	-	8,777	2,672	9,707	5,488	-	-	-
Government Agencies	1,800	19,139	-	-	-	-	-	-	589
Government Bonds	155,085	5,032	12,254	15,221	-	-	-	211,179	121,746 **
Gov Mortgage Backed Sec	-	92,117	-	-	-	-	-	24,133	-
Gov-iss Comm Mort	-	-	-	-	-	-	-	5,101	-
Index Linked Government Bonds	-	-	-	-	-	-	-	-	-
Municipal/Provincial Bonds	7,947	12,935	510	-	-	7,543	-	-	-
Non-Gov Backed C.M.O.S.	397	-	-	-	22	-	-	-	-
Other Fixed Income	-	-	-	-	-	-	-	-	1,001
Short-Term Bills & Notes	-	-	-	-	-	-	-	-	-
Short-term Investment Funds	*	-	-	-	-	-	-	54,978	-
Total Value by Rating	\$ 178,377	\$ 170,174	\$ 165,217	\$ 205,066	\$ 82,713	\$ 52,873	\$ 12,695	\$ 295,391	\$ 144,331

Note: The Retirement System held no investments in the C or D quality rating at the end of 2013.

\* FDIC cash balances are invested in the Short-term Investment Fund by the Retirement System's custodian, The Northern Trust Company. This Fund is not rated by Standard & Pools.

\*\*\$121,746 of the amount listed on the table as Government Bonds Not Rated is Rated Investment Grade by Moody's.

# EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013

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### 9. INVESTMENTS (cont.)

#### Derivatives

The ERS' Statement of Investment Policy written objectives and guidelines governing the investment of Fund assets allows investment managers to use forward contracts and derivatives traded on a recognized derivatives exchange for hedging and efficient portfolio management purposes if the Board approves their use within the individual manager's written guidelines. No assets shall be committed to futures, options, options on futures, forwards and other derivatives unless approved by the Board.

Prohibited investments include mortgage interest only, principal only, inverse floaters or other CMO derivatives that have uncertain or volatile duration or price movement.

In 2013, the Fund's separate account investment managers utilized currency forwards, bond forwards, bond futures, currency options, interest rate futures and options on a bond futures contract. Currency forwards are necessary to purchase or sell non-U.S. securities. Bond forwards and futures are sometimes more liquid and easier to trade than the respective underlying security and can allow an investment manager to reduce the costs of constructing an efficient portfolio. A long position in an options contract can result in a more efficiently constructed portfolio because it can provide exposures, for example currency or duration exposure, with substantially reduced downside risk because the maximum loss possible is equal to the price of the option premium.

#### Currency Forwards

A foreign 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. The Retirement System's International Equity and Global Equity managers entered into foreign exchange positions, such as forward and spot contracts, to hedge foreign currency exposure or obtain a currency for a pending cash transaction. The Fund has two Fixed Income managers who are allowed to invest globally. One of them only enters into spot contracts to obtain a currency for a pending cash transaction. The other global fixed income manager enters into currency forward and spot contracts for the purposes of achieving a positive return in addition to the reasons stated above. The majority of the contracts are short-term in duration and mature within 90 days. However, as of December 31, 2013, some contract positions had longer durations that did not exceed 3 years

#### Bond Forwards

A bond forward is a non-standardized contractual agreement between two parties to buy or sell a pre-determined amount of a bond at a future date in exchange for a price agreed upon today. The Retirement System's Global Fixed Income manager entered into bond forward contracts for the purposes of hedging and achieving a positive return. The Fund's bond forward contracts held as of December 31, 2013, had maturities of up to 30 years.

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**

**NOTES TO BASIC FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013**

**9. INVESTMENTS (cont.)**

Bond and Interest Rate Futures

A futures contract is a standardized contractual agreement between two parties, made through an organized exchange, to buy or sell a pre-determined amount of a bond at a future date in exchange for a price agreed upon today. The counterparty credit risk for a futures contract is generally less than privately negotiated forward contracts because the organized exchange acts as a clearinghouse that typically settles net changes to futures contract values daily. The Fund's Global Fixed Income manager entered into bond and interest rate futures contracts for the purposes of hedging and achieving a positive return. All of the Fund's futures contracts held as of December 31, 2013, were short-term in duration with maturities less than 90 days.

Currency Options

An option contract provides one party the right, but not the obligation, to buy or sell a specific amount of a specific security or index at a fixed price within a predetermined time period for a nonrefundable fee. The Fund's Global Fixed Income manager uses currency options to employ currency hedging strategies. All of the Fund's currency options contracts held as of December 31, 2013 had expiration dates of less than one year.

Option on a Bond Futures

An option contract on a bond future provides one party the right, but not the obligation, to buy or sell a pre-determined amount of a bond futures contract (defined above) within a predetermined time period for a nonrefundable fee. The Fund's Global Fixed Income manager uses options on bond futures to adjust duration exposure. The Fund did not hold any options on bond futures as of December 31, 2013.

The following table summarizes the aggregate notional or contractual amounts for the ERS' separate account managers (in thousands):

	December 31, 2013		
	Notational/ Contractual amounts	Market Value	Gain/(Loss)
Futures contracts – long	\$ 75,738	\$ 75,447	\$ (291)
Futures contracts – short	(77,903)	(77,541)	362
Foreign exchange forward spot contracts receivable	7,925	7,922	(3)
Foreign exchange forward spot contracts payable	(7,925)	(7,927)	(2)
Currency options - long	87	18	(69)
Currency options - short	(21)	(1)	20
Foreign exchange forward long-term receivable	107,671	107,214	(457)
Foreign exchange forward long-term payable	(107,671)	(107,984)	(313)

The total exposure of all hedges is limited to 100% of the total portfolio value, at market. Shorting currency exposure in countries without any underlying security exposure is prohibited.

The ERS is also exposed to market risk, the risk that future changes in market conditions may make an instrument less valuable. Exposure to market risk is managed through the limits placed on an investment manager within the Statement of Investment Policy.

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**

**NOTES TO BASIC FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013**

**9. INVESTMENTS (cont.)**

The ERS is exposed to credit risk in the event of non-performance by counterparties to financial instruments. Typical counterparties for ERS are major financial institutions and broker-dealers. A counterparty's financial condition, cash on hand, and general credit worthiness is evaluated prior to entering into a transaction. In addition, ratings agencies' evaluations are reviewed.

The following table summarizes the counterparty credit risk amounts for the ERS' for derivatives as of December 31, 2013 (in thousands):

<u>Investment Type</u>	<u>A</u>	<u>Exchange Traded</u>	<u>Not Rated Quality Rating Not Available</u>
<b>Assets</b>			
<b>Options</b>			
Foreign Exchange Contracts	\$ 18	\$ -	\$ -
Interest Rate Contracts	-	-	-
<b>Forwards</b>			
Interest Rate Contracts	8,058	-	7,167
Foreign Exchange Contracts	-	-	365
<b>Warrants</b>			
Equity Contracts	-	-	70
<b>Liabilities</b>			
<b>Forwards</b>			
Interest Rate Contracts	-	-	(19,168)
Foreign Exchange Contracts	(1)	-	(1,134)
<b>Total Value by Rating</b>	<u>\$ 8,075</u>	<u>\$ -</u>	<u>\$ (12,700)</u>

**Securities Lending**

In November 1993, the Retirement System began generating revenue through securities lending. Eligible securities are loaned out through the Retirement System's custodian, The Northern Trust Company. The Retirement System earns a daily fee for all securities out on loan. The Retirement System incurs a reduction in earnings for an indemnification agreement with the custodian. Each security loan is initially collateralized by securities or cash for at least 102% of its market value (105% for international securities). All collateral is held by the custodian. Revenue earned from securities lending is to be used to offset expenses of the Retirement System. If the revenues are not expended within one calendar year following receipt, all remaining amounts are distributed to the Non-Consenter Retirement Fund. For the year ended December 31, 2013, the Retirement System earned revenue from securities lending of \$2,085,000, and paid custodian fees of \$521,000. The fund also disbursed \$2,144,000 to offset some of the retirement systems administrative costs. As of December 31, 2013, the fair value of securities on loan was \$434,360,816. The value of collateral held for securities on loan was \$444,526,053 as of December 31, 2013, which consisted of approximately 42.9% U.S. Equities, 41.1% U.S. Government Fixed obligations, 4.5% Global Equities, 11.0% U.S. Corporate Fixed securities and 0.5% other securities.



# EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013

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### 9. INVESTMENTS (cont.)

The two main risks in securities lending are counterparty risk and collateral investment risk. Counterparty risk is the risk that the borrower defaults on a loan and is unable to return a security. ERS' contracts with Northern Trust indemnify ERS of any losses it suffers from its securities lending program due to counterparty default. Collateral investment risk is the risk that an investment in a collateral option becomes impaired or decreases in value. ERS is responsible to refund any losses to the borrower as a result of losses in the collateral pool. As of December 31, 2013, the ERS' collateral pool was trading at or near fair market value with no impairments.

### 10. CONTINGENCIES

The Retirement System is involved in certain litigation and 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 basic financial statements.

### 11. FIDUCIARY RESPONSIBILITY OF THE POLICEMEN'S ANNUITY & BENEFIT FUND

On December 14, 2005, the Policemen's Annuity and Benefit Fund ("PABF") board adopted a resolution to dissolve and to liquidate all assets of the fund and transfer the assets and full administrative control to the ERS. Charter Ordinances ss. 35-01-3-b and 36-15-1-e, enacted under common council file #050744, and transferred the administrative and managerial responsibilities of the PABF to the ERS authorizing the ERS Annuity and Pension Board to invest the assets of the PABF and to manage its operations. All assets of the PABF were transferred to the systems custodian, Northern Trust, in early 2006 and the ERS board assumed custodial authority and responsibility for the fund's assets as of January 3, 2006. These resources are disclosed in the financial records as a separate fiduciary fund and valuations are prepared by the ERS actuary.

The plan's funding policy is specified in the Milwaukee City Charter, Chapter 35, as amended by Charter Ordinances, Numbers 356 and 357. The annual requirement consists of an amount sufficient to amortize the present value of benefits to all active and retired employees less the value of actuarial assets in the Fund by a series of level payments over the remainder of the funding period. File numbers 950930 and 970052 provide that the Board shall adopt the assumptions which the actuary uses in the annual valuation and tax levy certification. This contribution will comply with GASB, which requires that the annual required contributions (ARC) of the employer should be actuarially determined and have a provision for amortizing the unfunded liability. In general, GASB allows an amortization period of up to 40 years, but 10 years is appropriate for this Fund. The tax levy for 2013 (to be collected in early 2014) would amount to \$227,796 plus budgeted administrative expenses.

As of December 31, 2013, the composition of the fund consisted of 13 annuitants and 40 widows. Once all annuitants and widows are deceased the fund is to be closed and any remaining monies are to be remitted back to the City of Milwaukee.

# EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013

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### 12. ACTUARIALY REQUIRED CONTRIBUTIONS FROM MEMBER AGENCIES

The Retirement System requires regular payroll contributions from its agencies and members for all active employees covered by the plan on an ongoing biweekly basis. In order to provide for disciplined, predictable and stable funding of pension obligations as a percentage of covered compensation, the City amended its charter to revise the method used to determine employer contributions to the ERS Combined Fund (referred to as the "Stable Employer Contribution Policy"); additionally this amendment repealed the full-funding limit. The amendment achieves stable and predictable contribution levels and anticipates the implementation of Government Accounting Standards Board (GASB) Statement Number 68, which mandates financial disclosure standards for public pension funds that are independent from funding requirements adopted by the City of Milwaukee pursuant to actuarial standards of practice.

### 13. SUBSEQUENT EVENTS

The Retirement System has evaluated subsequent events occurring through June 13, 2014, the date the financial statements were issued. General city employees who enroll as members in the retirement system on or after January 1, 2014, shall contribute 4% of their earnable compensation. A member enrolled in the retirement system prior to January 1, 2014, who is initially employed as a general city employee on or after January 1, 2014, shall contribute 5.5% of their earnable compensation.

Effective January 1, 2014, a general city employee who enrolls as a member in the retirement system on or after January 1, 2014, who attains the age of 60 years and completes 30 years of creditable service in the retirement system shall be eligible for a service retirement allowance. A general city employee enrolled in the retirement system prior to January 1, 2014, who attains age 55 and completed 30 years of creditable service are eligible for service retirement.

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.

# REQUIRED SUPPLEMENTARY INFORMATION

(See Independent Auditors' Report on Page 8)

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**  
**Required Supplementary Information**  
**Schedule of Funding Progress**  
**(in thousands)**

Actuarial Valuation Date Beginning of Fiscal Year	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Assets less Actuarial Accrued Liability (VAAL) (1) - (2)	(4) Funded Ratios (1) / (2)	(5) Annual Covered Payroll	(6) EAAL as a Percentage of Covered Payroll (3) / (5)
2013	\$ 4,259,889	\$ 4,689,814	\$ (429,925)	90.8 %	\$ 523,738	(82.1)%
2012	4,404,635	4,587,915	(183,280)	96.0 %	525,181	(34.9)%
2011	4,641,425	4,447,548	193,877	104.4 %	538,218	36.0 %
2010	4,814,402	4,269,324	545,078	112.8 %	553,846	98.4 %
2009	4,076,297	4,113,089	(36,792)	99.1 %	536,558	(6.9)%
2008	5,192,000	3,958,061	1,233,939	131.2 %	532,412	231.8 %
2007	4,899,721	3,846,481	1,053,240	127.4 %	528,854	199.2 %
2006	4,556,371	3,706,198	850,173	122.9 %	515,934	164.8 %
2005	4,112,558	3,523,179	589,379	116.7 %	505,609	116.6 %
2004	3,909,085	3,370,923	538,162	116.0 %	486,384	110.6 %

Analysis of the dollar amounts of actuarial value of assets, actuarial accrued liability, and assets in excess of actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets 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 funded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the assets in excess of actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the Retirement System's progress made in accumulating sufficient actuarial value of assets to pay benefits when due. Generally, the larger this percentage, the stronger the Retirement System.

See independent auditors' report and notes to required supplementary information.

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**  
**Required Supplementary Information**  
**Schedule of Employer Contributions**  
**(in thousands)**

Year Ended December 31	Annual Required			Total Required	Percentage Contributed	Voluntary Contributions		Total All Contributions
	Member Contributions	Employer Contributions	Employer Contributions			Employers' Reserve Fund *	Contributions	
2013	\$ 42,624	\$ \$79,533	\$	122,157	100%	\$	\$0	\$ 122,157
2012	38,809	73,159		111,969	100%		27,000	138,969
2011	35,325	-		35,325	100%		17,350	52,675
2010	35,698	-		35,698	100%		-	35,698
2009	35,895	60,098		95,993	100%		-	95,993
2008	33,897	-		33,897	100%		-	33,897
2007	33,022	-		33,022	100%		-	33,022
2006	31,980	-		31,980	100%		-	31,980
2005	32,084	47		32,131	100%		-	32,131
2004	30,700	46		30,746	100%		5,450	36,196

\* Employer voluntary contributions have only been permitted since the Global Pension Settlement became effective.

See independent auditors' report and notes to required supplementary information.

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**  
**Notes to Required Supplementary Information**

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This information presented in the required supplementary schedules was based on the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation is as follows:

Valuation Date	January 1, 2013
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Closed – Level Percent of Pay
Remaining Amortization Period	21 years as of January 1, 2013
Asset Valuation Method	5-year smoothed market, 20% corridor
Actuarial Assumptions:	
Investment Rate of Return	8.25% for calendar years 2013 through 2017, and 8.50% beginning with calendar year 2018
Projected Salary Increases	General City 3.0% - 7.5% Police & Fire 3% - 14.4%
Inflation Assumption	3.00%
Cost of Living Adjustments	Vary by Employee Group as explained in summary of plan provisions
Mortality Table	For regular retirees and for survivors, the RP-2000 Combined Mortality Table with mortality improvements projected to the year 2009 for males and females, include full generational projection using mortality improvement Scale AA.

See independent auditors' report and notes to required supplementary information.

**POLICEMEN'S ANNUITY AND BENEFITS FUND – THE CITY OF MILWAUKEE**  
**Required Supplementary Information**  
**Schedule of Funding Progress**  
(in thousands)

Actuarial Valuation Date Beginning of Fiscal Year	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Assets less Actuarial Accrued Liability (EAAL) (1) - (2)	(4) Funded Ratios (1) / (2)	(5) Annual Covered Payroll	(6) EAAL as a Percentage of Covered Payroll (3) / (5)
2013	\$ 651	\$ 2,152	\$ (1,501)	30.2 %	\$ 715	(209.9)%
2012	1,008	2,451	(1,444)	41.1 %	765	(188.6)%
2011	1,584	2,946	(1,362)	53.8 %	894	(152.3)%
2010	1,936	3,687	(1,751)	52.5 %	1,050	(166.8)%
2009	2,147	4,296	(2,148)	50.0 %	1,277	(168.3)%
2008	4,779	5,049	(270)	94.7 %	1,354	(19.9)%
2007	5,586	5,957	(371)	93.8 %	1,515	(24.5)%
2006	5,978	8,241	(2,264)	72.5 %	2,006	(112.8)%

Analysis of the dollar amounts of actuarial value of assets, actuarial accrued liability, and assets in excess of actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability provides one indication of the Policemen's Annuity and Benefit Fund funding status on a going concern basis. Analysis of this percentage over time indicates whether the Fund is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the Fund. Trends in funded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the assets in excess of actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the Fund's progress made in accumulating sufficient actuarial value of assets to pay benefits when due. Generally, the larger this percentage, the stronger the Fund.

See independent auditors' report and notes to required supplementary information.

**POLICEMEN'S ANNUITY AND BENEFITS FUND – THE CITY OF MILWAUKEE**  
**Notes to Required Supplementary Information**

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This information presented in the required supplementary schedules was based on the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation is as follows:

Valuation Date	January 1, 2013
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Open – Level Dollar
Remaining Amortization Period	10 Years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	8.25% for calendar years 2013 through 2017, and 8.50% beginning with calendar year 2018
Projected Salary Increases	None - The Plan is Closed
Inflation Assumption	3.00%
Mortality Table	For regular retirees and for survivors, the RP-2000 Combined Mortality Table with nine years of projected improvements for males and females, include full generational projection using mortality improvement Scale AA.

See independent auditors' report and notes to required supplementary information.



# SUPPLEMENTARY INFORMATION

(See Independent Auditors' Report on Page 8)

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**

**Non-Consenter Statement of Plan Net Position  
As of December 31, 2013  
(in thousands)**

	NON-CONSENTER RETIREMENT FUNDS							
	Retirement Fund	Combined Retirement Fund	Employee's Disability Fund	General Police Officer's Disability Fund	Firemen's and Police Officer's Disability Fund	Firemen's Heart and Lung Fund	Firemen's and Police Officer's Survivorship Fund	Total 2013
<b>ASSETS:</b>								
<b>CASH AND CASH EQUIVALENTS</b>	\$ 1,861	\$ 566	\$ 17	\$ -	\$ -	\$ -	\$ -	\$ 2,444
<b>INVESTMENTS (notes 2 and 9):</b>								
Bonds and collateralized mortgage obligations	3,202	673	25	-	-	-	-	3,900
Common and preferred stocks	6,340	1,331	49	-	-	-	-	7,720
Bartley Bond Index Funds	939	198	7	-	-	-	-	1,144
Blackrock Index and Emerging Funds	856	181	7	-	-	-	-	1,044
Blair William Emerging	175	37	1	-	-	-	-	213
DFA US and International Small Cap Funds	534	113	4	-	-	-	-	651
Northern Trust Company Collective Equity Index Fund	1,763	370	13	-	-	-	-	2,146
Russell 1000 Alpha Fund	719	151	5	-	-	-	-	875
Derivative investments	-	-	-	-	-	-	-	-
Real estate investments	1,263	265	10	-	-	-	-	1,538
Private equity	254	54	2	-	-	-	-	310
<b>Total investments:</b>	<u>16,015</u>	<u>3,373</u>	<u>123</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,541</u>
<b>RECEIVABLES AND OTHER ASSETS:</b>								
Employer (note 2)	-	-	-	-	-	-	-	-
Member (note 2)	-	-	-	-	-	-	-	-
Interest, dividends and foreign tax recoverable (note 2)	51	10	-	-	-	-	-	61
Investments sold	305	64	2	-	-	-	-	371
<b>Total receivables and other assets:</b>	<u>356</u>	<u>74</u>	<u>2</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>432</u>
<b>Total assets:</b>	<u>18,262</u>	<u>4,013</u>	<u>142</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,417</u>
<b>LIABILITIES:</b>								
Benefits payable	-	-	-	-	-	-	-	-
City of Milwaukee (notes 4 and 7)	-	-	-	-	-	-	-	-
Securities lending obligation (note 9)	-	-	-	-	-	-	-	-
Derivative liabilities	67	14	1	-	-	-	-	82
Investments purchased	308	65	2	-	-	-	-	375
<b>Total liabilities</b>	<u>375</u>	<u>79</u>	<u>3</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>457</u>
<b>NET POSITION HELD IN TRUST FOR PENSION BENEFITS</b>	\$ <u>17,887</u>	\$ <u>3,934</u>	\$ <u>139</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>21,960</u>

See independent auditors' report.

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**

**Non-Consenter Statement of Changes in Plan Net Position  
As of December 31, 2013  
(in thousands)**

	Retirement Fund	Combined Retirement Fund	General Employees' Duty Disability Fund	Firemen's and Policemen's Duty Disability Fund	Firemen's Heart and Lung Fund	Firemen's and Policemen's Survivorship Fund	Total 2013
<b>ADDITIONS:</b>							
Contributions:							
Employer (note 5)	\$ -	\$ 146	\$ -	\$ -	\$ -	\$ -	\$ 146
Member	83	65	-	-	-	-	148
Total contributions:	83	211	-	-	-	-	294
Investment income (loss):							
Net appreciation (devaluation) in fair value of investments	2,571	540	20	-	-	-	3,131
Interest, dividends and other investment income	287	61	2	-	-	-	350
Total investment income (loss):	2,858	601	22	-	-	-	3,481
Less: investment expense (note 7)	-	-	-	-	-	-	-
Net investment income (loss):	2,858	601	22	-	-	-	3,481
Total additions:	2,941	812	22	-	-	-	3,775
<b>DEDUCTIONS:</b>							
Benefits paid	(147)	(22)	-	-	-	-	(169)
Refunds of contributions	(114)	(52)	-	-	-	-	(166)
Total deductions:	(261)	(74)	-	-	-	-	(335)
<b>NET POSITION CHANGES:</b>							
Net increase (decrease) before net position transfers	2,680	738	22	-	-	-	3,440
Net position transfers (notes 3, 4 and 1)	(2,997)	(13)	(39)	-	-	-	(2,849)
Net increase (decrease) after net position transfers	(117)	725	(17)	-	-	-	591
Net position held in trust for pensions benefits:							
Beginning of year	18,004	3,299	156	-	-	-	21,569
End of year	\$ 17,887	\$ 3,934	\$ 139	\$ -	\$ -	\$ -	\$ 21,960

See independent auditors' report.