EMPLOYEES' RETIREMENT SYSTEM

of the County of Milwaukee

2008 Annual Report of the Pension Board

as of December 31, 2008

901 North 9th Street, Room 210-C
Milwaukee, Wisconsin 53233
Telephone: (414) 278-4207

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July 15, 2009

Retirement System Members:

We are pleased to present the 2008 Annual Report of your Pension Board. Due to the market volatility and challenging economic environment, the Employees' Retirement System ("ERS") experienced a negative investment return for the year. As a result, ERS experienced a decrease in net assets available for pension benefits of $468.7 million. Net investment losses, pension benefits and administrative expenses exceeded interest and dividends, contributions and other miscellaneous income. Total assets at the end of the year were $1.198 billion. Subsequent to the end of the year, however, proceeds from pension obligation bonds in the amount of $397.8 million were transferred into ERS. For further detailed information regarding ERS's performance, please see the management's discussion and analysis, financial statements and footnotes that follow.

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

Members considering retirement within the next few years are reminded to watch for announcements from the County for retirement information programs. Please call the ERS office at 414-278-4207 for further information regarding these programs. If you are interested in meeting with a retirement counselor to discuss retirement, please schedule an appointment by calling 414-278-4154.

Several options are available to members who retire or otherwise leave County service with respect to their pension benefits. Before terminating employment, you should become fully informed of the various opportunities available to you so you can make the best choice for your situation.

Each year, Milwaukee County distributes benefit statements reflecting balances as of the end of the previous year. Remember to keep your beneficiary designations current by informing the Retirement System Office of any changes. Retired members should also notify the ERS office in writing of any changes in residence or address so that your benefit payments and year-end 1099R statements are properly mailed.

The Pension Board is requiring all new retired members to sign up for direct deposit of their benefits. Please join with us in this effort to reduce costs and increase the efficiencies of the delivery of your retirement benefits.

Sincerely,

The Pension Board

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

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

We have audited the accompanying statements of plan net assets of the Employees' Retirement System of the County of Milwaukee (the "Retirement System") as of December 31, 2008 and 2007, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Retirement System as of December 31, 2008 and 2007, and the changes in its plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 and 4 and the schedules of funding progress, employer contributions, and notes to required supplementary information on pages 18 – 19 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures to the 2008 and 2007 information which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The ten-year historical trend and related information on pages 20 - 21 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

BAKER TILLY VIRCHOW KRAUSE, LLP

Milwaukee, Wisconsin
August 7, 2009

Management's Discussion and Analysis
(In Thousands of Dollars)

Management is pleased to provide this overview and analysis of the financial activities of the Employees' Retirement System of the County of Milwaukee ("ERS" or the "Retirement System") for the year ended December 31, 2008. Readers are encouraged to consider the information presented in conjunction with the financial statements. All numbers are in millions unless otherwise noted.

FINANCIAL HIGHLIGHTS

PLAN NET ASSETS

- Plan net assets for ERS decreased ($468,697) as of 12/31/08 vs. 12/31/07 following an increase of $8,315 as of 12/31/07 vs. 12/31/06. The financial markets have experienced a great deal of turbulence since late 2007. This turbulence was brought on by the deterioration in the sub-prime mortgage market. The resulting volatility in the investment markets and economic downturn presented extraordinary challenges for managing the ERS portfolio. For the year, the Retirement System experienced a negative return of 22.1%. That performance, nevertheless, compared favorably with its benchmark, which experienced a negative return of 24.5%. While ERS experienced a very challenging year, pension benefits are not at risk. The County is obligated to adequately fund the plan. In recognition of that obligation, the County obtained approval and issued $400 million of pension obligation bonds that were invested in the Retirement System in April, 2009 to help assure plan members that their pension benefits are secure. Furthermore, members do not experience a reduction in their pension benefits due to the negative performance of the Retirement System.
- Cash and short-term investments fluctuate considerably from year to year. The amounts for 2008, 2007 and 2006 are near the median.
- The rate of return on total assets of the Retirement System, net of investment expenses, was (22.1%), 6.3% and, 13.5% for the years ended December 31, 2008, 2007 and 2006, respectively.
- Investments, at fair value, decreased ($455,280) as of 12/31/08 vs. 12/31/07 and increased $18,229 as of 12/31/07 vs. 12/31/06 as explained above.
- Receivables decreased ($16,134) as of 12/31/08 vs. 12/31/07 due primarily to a decrease in receivables from the County of Milwaukee for pension contributions and ($10,150) as of 12/31/07 vs. 12/31/06 due primarily to a decrease in sales pending.
- Other assets decreased ($66,625) as of 12/31/08 vs. 12/31/07 and ($46,816) as of 12/31/07 vs. 12/31/06 due largely to a decrease of securities lending – collateral of ($68,095) and ($48,129), respectively. In addition there was an increase of $1,469 and $1,313 as of 12/31/08 and 12/31/07, respectively, for funds spent on the development and implementation of a new pension software system. The conversion to the new software system occurred in late 2008.
- Other liabilities consist primarily of securities sales pending, accounts payable and amount due to the OBRA retirement plan. No significant variations occurred for the years presented.

ADDITIONS AND DEDUCTIONS TO PLAN NET ASSETS

- Total additions decreased ($472,523) in 2008 vs. 2007 and ($79,887) in 2007 vs. 2006. The 2008 and 2007 decreases were due primarily to ($457,868) and ($101,543) decrease in investment income. Those decreases were offset by a net $7,001 increase in employer and employee contributions over the three-year period. The decrease in investment income was due almost entirely to reduction in the fair value of the investments.
- Benefit payments increased $4,170 and $9,261 in 2008 and 2007, respectively. The 2008 and 2007 increases were due to an increase of $3,515 and $4,298 in monthly pension benefits and $655 and $4,963 in lump-sum payments, respectively.
- As of December 31, 2008, 2007 and 2006, the funding ratio (actuarial value of the assets divided by the actuarial accrued liability) for the plan was 95.7%, 80.4% and 79.0%, respectively. The December 31, 2008 funding ratio, as calculated by the actuary, includes the proceeds of the pension obligation bonds that were issued in April 2009. See Note 10 of the financial statements. Without the pension obligation bond proceeds, the funding ratio was 76.3%. The funding ratio gives an indication of how well the liabilities of the pension plan are funded. The higher the funding ratio the better the plan is funded. The ratio increases due to investment gains and pension contributions and declines due to investment losses, increases in the plan benefits, large pension payouts and underpayment of pension annual required contributions.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

(See independent auditor's report)

(In Thousands of Dollars)

Financial Statements. There are two financial statements presented for the plan. The Statement of Plan Net Assets as of December 31, 2008 and 2007 indicates the net assets available to pay future benefits and gives a snapshot of the financial assets available for pension benefits at a particular point in time. The Statement of Changes in Net Plan Assets for the year ended December 31, 2008 and 2007 provides a view of the additions and deductions to the plan for the years presented.

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

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

Other supplementary schedules. The additional schedules (Ten-Year Historical Trend Information, Net Fund Assets, Actual County Contributions, Active Membership Statistics, Retirements and Survivors) are presented for the purpose of additional analysis.

COMPARATIVE FINANCIAL STATEMENTS

Retirement System's Net Assets	12/31/2008	12/31/2007	12/31/2006	Difference	% Change
Assets					
Cash and short-term investments	$17,886	$17,290	$17,664	$222	1.3%
Receivables	42,249	58,383	68,533	(26,284)	(38.4%)
Investments, at fair value	1,138,691	1,593,971	1,575,742	(437,051)	(27.7%)
Other assets	42,513	109,139	155,955	(113,442)	(72.7%)
Total Assets	1,241,339	1,778,783	1,817,894	(576,555)	(31.7%)
Liabilities					
Security lending obligations	37,445	105,540	153,669	(116,224)	(75.6%)
Other liabilities	6,080	6,732	6,029	51	0.8%)
Total Liabilities	43,525	112,272	159,698	(116,173)	(72.7%)
Net assets available for benefits	$1,197,814	$1,666,511	$1,658,196	($460,382)	(27.8%)

Retirement System's Changes in Net Assets	2008	2007	2006	Difference	% Change
Additions					
Employer contributions	$34,841	$49,291	$27,435	$7,406	27.0%
Member contributions	140	345	545	(405)	(74.3%)
Investment income (loss)	(355,906)	101,962	203,505	(559,411)	(274.9%)
Total Additions	(320,925)	151,598	231,485	(552,410)	(238.6%)
Deductions					
Benefit payments	(144,161)	(139,991)	(130,730)	(13,431)	10.3%
Administrative expenses	(3,588)	(3,235)	(2,322)	(1,266)	54.5%
Withdrawals	(23)	(57)	(14)	(9)	64.3%
Total Deductions	(147,772)	(143,283)	(133,066)	14,706	11.1%
Changes in net assets available for benefits	(468,697)	8,315	98,419	(567,116)	(576.2%)
Net assets held in trust for pension benefits:					
Beginning of year	1,666,511	1,658,196	1,559,777	106,734	6.8%
End of year	$1,197,814	$1,666,511	$1,658,196	$8,315	(27.8%)

Requests for financial information:

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

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

(See independent auditor's report)

STATEMENTS OF PLAN NET ASSETS

	December 31, 2008	December 31, 2007
ASSETS:		
CASH AND CASH EQUIVALENTS	$ 17,885,705	$ 17,290,290
RECEIVABLES		
County of Milwaukee	35,350,254	49,794,000
Accrued interest and dividends	5,562,445	6,516,205
Miscellaneous receivables	623,309	1,451,001
Due from sale of investments	615,238	617,575
Receivable for foreign exchange contracts	87,819	3,793
TOTAL RECEIVABLES	42,249,065	58,382,574
INVESTMENTS AT FAIR VALUE		
Domestic common and preferred stocks	310,135,553	491,564,635
Corporate bonds and convertible debentures	513,170,471	588,885,759
International common and preferred stocks	168,794,648	319,483,338
Real estate investment trusts	31,828,295	54,268,077
Federal agency and mortgage-backed certificates	53,468,718	52,943,515
U.S. Government and state obligations	19,440,788	32,931,111
International fixed income	23,777,543	29,056,417
Private Equity	18,074,438	24,838,163
TOTAL INVESTMENTS	1,138,690,454	1,593,971,015
OTHER ASSETS		
Software development costs	5,068,137	3,599,137
Securities lending - collateral (See Note 5)	37,445,041	105,539,536
	42,513,178	109,138,673
TOTAL ASSETS	1,241,338,402	1,778,784,552
LIABILITIES:		
Securities lending - collateral (See Note 5)	37,445,041	105,539,536
Miscellaneous payables	3,673,673	3,107,136
Payable for securities purchased	1,446,340	2,266,104
Payable to OBRA Retirement Plan	861,293	1,354,805
Payable for foreign exchange contracts	98,086	3,807
TOTAL LIABILITIES	43,524,433	112,271,388
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$1,197,813,969	$1,666,511,164

(A schedule of funding progress is presented on page 18)

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

STATEMENTS OF CHANGES IN PLAN NET ASSETS

	Year Ended December 31, 2008	Year Ended December 31, 2007
ADDITIONS:		
CONTRIBUTIONS		
County of Milwaukee	$ 34,840,886	$ 49,291,072
Plan participants	140,209	344,782
	34,981,095	49,635,854
INVESTMENT INCOME (LOSS)		
Net appreciation (depreciation) in fair value	(385,422,662)	71,245,245
Interest and dividends	31,851,976	33,474,501
Security lending income	2,390,509	7,353,616
Other income	920,606	1,310,088
Total investment income (loss)	(350,259,571)	113,383,450
Less: Securities lending rebates and fees	(1,849,054)	(6,940,375)
Investment expense	(3,797,663)	(4,481,151)
Net investment income (loss)	(355,906,288)	101,961,924
TOTAL ADDITIONS, NET OF LOSSES	(320,925,193)	151,597,778
DEDUCTIONS:		
Benefits paid to retirees and beneficiaries	(144,160,665)	(139,990,962)
Administrative expenses	(3,587,780)	(3,234,825)
Withdrawal of membership accounts	(23,557)	(56,626)
TOTAL DEDUCTIONS	(147,772,002)	(143,282,413)
NET CHANGE IN PLAN NET ASSETS:	(468,697,195)	8,315,365
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:		
Beginning of year	1,666,511,164	1,658,195,799
End of year	$1,197,813,969	$1,666,511,164

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

(1) Description of Retirement System –

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

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

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

	As of December 31	
Members –	2008	2007
Retiree and beneficiaries currently receiving benefits	7,308	7,321
Vested and terminated employees not yet receiving benefits	1,397	1,385
Current employees	4,837	4,814
Total participants	13,542	13,520

Contributions –

The Retirement System is substantially noncontributory. However, members meeting certain criteria have the option to contribute to membership accounts. In addition, the County contributes to membership accounts of most employee participants enrolled prior to 1971. Member account balances are as follows:

	As of December 31	
	2008	2007
Membership accounts –		
Participants and County contributed	$ 2,724,313	$ 3,090,757
Voluntary savings accounts	1,378,179	1,312,129

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

The County makes contributions to the Retirement System based upon the Annual Required Contribution ("ARC") and legal requirements, at the discretion of the County Board. An actuary hired by the Pension Board establishes the ARC. Data used in the determination of the ARC is based upon the prior fiscal year's demographics. The actual contribution made to the pension plans is set during the County's budget process and may differ from the ARC as a result of changes in plan provisions implemented subsequent to establishment of the ARC and budgetary restraints. During the year, the Retirement System accrues those contributions that the County has included in its current year's budget. For 2008 and 2007, the County contribution recorded by the Retirement System was $18,222,724 and $3,104,191 less than the ARC for 2008 and 2007, respectively.

Benefits –

The normal retirement benefit is a monthly pension for the life of the member beginning at normal retirement age. For deputy sheriff members with less than 15 years of creditable service, the normal retirement age is 57 or age 55 with 15 years of service. For all other members the normal retirement age is 60, although some labor agreements require a minimum of 5 years creditable service at age 60. Active members are also eligible to retire when their age added to their years of creditable service equals 75 (the "Rule of 75"). The County Ordinance and Labor Agreements require an employee to be a member prior to a stated date in order to qualify for the "Rule of 75." In general, the normal retirement benefit payable to a member whose membership began prior to January 1, 1982, is equal to 2.5% for deputy sheriffs and elected officials, and 2% for all other members, of the member's three-year final average monthly salary, as defined in the Ordinance and labor agreements as the three highest consecutive years, multiplied by the number of years of credited service. The amount of normal retirement benefits payable for a member whose membership began after January 1, 1982 is as follows: 2.5% for deputy sheriffs, deputy sheriff lieutenants, deputy sheriff ECPs and DA investigators hired before July 1, 1995; 2% for deputy sheriffs, deputy sheriff lieutenants, deputy sheriff ECPs and DA investigators hired after June 30, 1995; 2% for elected officials; 2% for firefighters and non-represented firefighters beginning January 1, 1999; and 1.5% for all other members, of the member's five-year final average monthly salary, as defined in the Ordinance and labor agreements, multiplied by the number of years of credited service. Each year after retirement, the amount of monthly benefit is increased by an amount equal to 2% of the benefit paid for the first full month of retirement subject to the maximum benefit limits provided for by the IRS. The maximum benefit, excluding any post-retirement increases, payable to a member cannot exceed the sum of 80% of the member's final average monthly salary.

As of January 1, 2001, certain plan changes became effective, except for represented deputy sheriffs. These changes are noted below:

- The County will pay the accrued sick allowance in full upon retirement for those members hired prior to January 1, 1994. Previously, a member received both a cash payment from the County and pension service credit for a portion of the accrued sick allowance. The full payout of the sick allowance has subsequently been amended to a partial payout with various effective dates and payout percentages for the non-represented employees and each of the unions but no service credit is granted.

- A bonus of 7.5% per year, up to a maximum of 25%, is added to the final average salary for those employees whose membership in the ERS began before January 1, 1982, or July 1, 1995 for a non-represented deputy sheriff.

- All service credit earned after January 1, 2001 is credited with an additional .5% multiplier for those employees whose membership in the Retirement System began after December 31, 1981, or June 30, 1995 for a non-represented deputy sheriff. Also, for each year of pension service earned after January 1, 2001, eight (8) years of service earned prior to January 1, 2001 shall be credited with an additional .5% multiplier.

- A "back drop" payment option was established that permits an employee to receive a lump-sum cash payment and a monthly pension benefit upon retirement. The lump-sum cash payment is the total of the monthly pension benefits, adjusted for COLA increases, that a member would be entitled to from a prior date ("back drop date") to the date that the member terminates employment plus compounded interest. The back drop date must be at least one calendar year prior to the termination date and the member must have been eligible to retire as of that date. The member will be entitled to a COLA adjusted monthly pension benefit based on the back drop date once the member terminates employment.

- A member is vested upon attaining 5 years of creditable pension service.

The following changes were made effective as of the stated dates:

- Non-represented employees and elected officials hired on or after March 15, 2002 are not eligible to receive the back drop pension benefit. Employees represented by a labor agreement must also be hired prior to the date specified in the labor agreement to be eligible to receive the the back drop benefit.

- Elected Officials are not eligible to receive the additional .5% pension benefit multiplier after March 15, 2002.

- Effective January 1, 2003, the pension benefit for employees who became members after December 31, 1981 shall be based upon a final average salary equal to the three highest consecutive years of earnings instead of the five highest consecutive years of earnings, except for represented deputy sheriffs.

A member who meets the requirements for an accidental or ordinary disability benefit is entitled to an amount equal to the normal retirement benefit, but not less than 60% of a member's final average salary for accidental disability. Fifteen years of credited service is required to apply for ordinary disability.

A represented deputy sheriff whose membership began prior to January 1, 1982 is vested upon attaining six years of creditable pension service. A represented deputy sheriff whose membership began after December 31, 1981 is vested upon attaining ten years of creditable pension service.

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

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

Upon the death of an employee member and usually after one year of service, which varies by labor agreement, a spouse with one dependent child, as defined in the Ordinance, will receive 40% of the deceased member's salary, reduced by an amount equal to Social Security benefits payable to the spouse. An additional 10% of salary, reduced by Social Security benefits, is paid for each dependent child. The total benefit, if there are more than five eligible children, generally cannot exceed 90% of the prior salary level. The total benefit includes Social Security benefits. Upon attaining age 60, the spouse will receive 50% of the normal retirement benefit based upon service projected to age 60 of the employee member. If there is no spouse or child, the death benefit payable to a designated beneficiary is equal to 50% of the deceased member's final average salary, but not to exceed $2,000. Deputy sheriffs are covered by special provisions if their death occurs as a result of an accident in actual performance of duty.

A member who attains eligibility for a normal retirement benefit may elect a protective survivorship option of 100% or 50% (discussed below). In the absence of an election, a surviving spouse will be paid a survivorship pension of 100%. For a survivorship pension to be paid to a designated beneficiary, other than a surviving spouse, election must be filed in writing on a form prescribed by the Board.

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

- Maximum This option is a pension benefit that is payable over the life of the member and ceases upon the member's death;
- Membership Account Refund This option is an actuarially reduced pension benefit that ceases upon the death of the member. This option, however, guarantees that the member will receive the total balance in his/her Membership Account as of the retirement date. The Membership Account balance is reduced each month by an actuarial determined amount. Any balance remaining upon the member's death will be paid to the member's beneficiary. Generally, only members hired prior to 1971 have a Membership Account and, therefore, are the only employees eligible for this option;
- 25% This option is an actuarially reduced pension benefit that is payable over the life of the member. Upon the member's death, 25% of the pension benefit is payable over the life of a named beneficiary, if living;
- 50% This option is an actuarially reduced pension benefit that is payable over the life of the member. Upon the member's death, 50% of the pension benefit is payable over the life of a named beneficiary, if living;
- 75% This option is an actuarially reduced pension benefit that is payable over the life of the member. Upon the member's death, 75% of the pension benefit is payable over the life of a named beneficiary, if living;
- 100% This option is an actuarially reduced pension benefit that is payable over the life of the member. Upon the member's death, 100% of the pension benefit is payable over the life of a named beneficiary, if living;
- 10-Year Certain This option is an actuarially reduced pension benefit payable over the life of the member but is guaranteed for a period of 10 years, in the event that the member should die within 10 years after the retirement date.
- Board Discretion This option is at the discretion of the Board and is the payment of a benefit in a form other than those set forth above provided that payments in such other form shall be the actuarial equivalent of the benefit otherwise payable. The Board assesses an administrative charge for each calculation performed under this option.

Benefits of $144.2 million and $140.0 million were paid in 2008 and 2007, respectively, including periodic pension benefit payments of $133.0 million and $129.5 million respectively and back drop lump-sum pension benefit payments of $11.2 million and $10.5 million in 2008 and 2007, respectively.

(2) Summary of Significant Accounting Policies:

GASB Statement No. 50

In fiscal year 2008, the Retirement System implemented provisions of GASB 50. GASB 50 requires that information about the funded status of the pension plan as of the most recent actuarial valuation be disclosed in notes to the financial statements. Additionally, GASB 50 requires disclosure of information about actuarial methods and assumptions used in valuations on which reported information about the Annual Required Contribution ("ARC") and the funded status and progress are based. The required schedules of funding progress immediately following the notes to the financial statements present multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Basis of Accounting –

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

Investments –

Investments, primarily stocks, bonds, certain government loans and mortgage-backed certificates, are stated at quoted fair value. Temporary cash investments are valued at cost, which approximates fair value. Investments in venture capital partnerships are valued at estimated fair value, as provided by the Retirement System's venture capital investment manager. Investment transactions are recorded on the trade date. Realized gains and losses are computed based on the average cost method.

A summary of investments at cost is as follows:

	As of December 31 2008	2007
Corporate bonds	$ 503,872,014	$ 541,390,270
Domestic common and preferred stocks	373,629,850	398,470,064
International common and preferred stocks	290,031,892	286,326,052
Fed agency and mortgage backed certificates	51,122,139	52,058,659
Real estate investment trusts	47,165,019	50,924,947
Private equity	25,119,623	24,018,122
International fixed income	23,911,871	24,490,775
Cash and cash equivalents	17,889,603	17,290,174
U.S. Government and state obligations	16,810,852	31,097,175
Total investments at cost	$1,349,552,863	$1,426,066,238

Valuation of International Securities –

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

Expenses –

Administrative expenses incurred by the County related to the Retirement System are payable by the Retirement System to the County. Such expenses totaled $1,031,291 and $915,868 in 2008 and 2007, respectively.

Reclassification of Prior Year Amounts –

Certain amounts in the prior year financial statements have been reclassified to conform with the current presentation.

Use of Estimates –

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

(3) Income taxes –

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

(4) Contributions Required and Contributions Made –

The Retirement System's funding policy provides for periodic County contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Payroll contribution rates are determined using the Aggregate Entry Age Normal method of funding. The Retirement System also uses the level percentage of payroll method to amortize the unfunded liability over a 30 year period in 2008. The significant actuarial assumptions used to compute the contribution requirements are the same as those used to compute the pension benefit obligation.

County contributions totaling $34,840,886 and $49,291,072 were recorded in 2008 and 2007, respectively. The 2008 and 2007 contributions were less than the total ARC using the Aggregate Entry Age Normal method of funding with normal cost computed as a level percentage of pay. See the Schedule of Employer Contributions in the Required Supplementary Information. The County's contributions to the Retirement System were 14.9% and 21.7% of annual covered payroll for 2008 and 2007, respectively.

The 2008 and 2007 contributions reflected in the accompanying statements were actuarially determined as of January 1, 2007 and 2006. These amounts were included in the County's 2008 and 2007 budgets. The Retirement System's financial statements as of December 31, 2008 and 2007 reflected the unpaid portion of the 2008 and 2007 contributions as a contribution receivable.

Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 8.0%, compounded annually in 2008 and 2007, (b) projected payroll growth increases averaging 3.5% per year compounded annually in 2008 and 2007, attributed to inflation, seniority and merit, and (c) post-retirement benefit increases of 2.0% per year for both 2008 and 2007.

(5) Deposit and Investment Risk Disclosure –

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

Concentration of Credit Risk –

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

Credit Risk –

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by nationally recognized statistical rating agencies such as Moody's Investors Services ("Moody's"), Standard and Poor ("S & P") and Fitch Ratings ("Fitch's"). With the exception of the Loomis Sayles - High Yield and the Mellon Capital Management Aggregate Bond portfolios, bonds purchased and owned in each portfolio must have a minimum quality rating of Baa3 (Moody's) or BBB- (S & P or Fitch's). The average quality of each portfolio must be A or better. For Loomis Sayles - High Yield, bonds must have a minimum quality rating of B3 (Moody's) or B- (S & P or Fitch's) at the time of purchase. The fixed income securities for the Mellon Capital Management Aggregate Bond portfolio should have a minimum quality rating of A, with the exception of 15% of the portfolio which may have a minimum quality rating of BBB. The credit quality ratings of investments in fixed income securities by Moody's, a nationally recognized statistical rating agency, as of December 31, 2008 and 2007 are as follows: (amounts are in thousands of dollars)

Moody's Quality Ratings	12/31/08 Fair Value	12/31/07 Fair Value
AAA	$19,958	$26,115
AA1	3,981	3,848
AA2	1,779	3,004
AA3	4,072	2,407
A1	7,574	8,849
A2	34,140	45,020
A3	9,342	7,898
BAA1	19,878	16,672
BAA2	21,971	19,980
BAA3	29,812	32,189
BA1	4,336	15,598
BA2	4,211	14,715
BA3	14,303	12,084
B1	12,969	19,731
B2	5,535	5,584
B3	1,378	4,266
CAA1	7,936	14,290
CAA2	397	-
CA	394	-
C	1,023	-
NR	19,417	20,382
Total Credit Risk Fixed Income Securities	**$224,406**	**$272,632**
U.S. Government and Agencies	72,910	85,875
Mutual Funds (Not Rated)	312,542	345,310
Total Investment in fixed income	**$609,858**	**$703,817**

The Loomis, Sayles High Yield portfolio holds all securities with a rating less than Baa3, except for the following securities:

The Loomis, Sayles & Co Investment Grade portfolio holds securities in the amount of $1,239,729 and $6,234,958 with a rating of BA1 in 2008 and 2007, respectively, and $3,377,602 and $3,065,987 that are non-rated in 2008 and 2007, respectively. Of those that are non-rated by Moody's none are rated below the comparable Moody's rating of A- by other rating agencies in 2008 and 2007 except $445,830 were non-rated by all rating agencies in 2007.

The JPMorgan Investment Management portfolio holds securities in the amount of $135,000 with a rating of BA2, $84,518 with a rating of CAA1, and $4,305,551 and $2,007,467 that are non-rated in 2008 and 2007, respectively. Of those that are non-rated by Moody's only $47,007 is non-rated by other rating agencies in 2008 and none in 2007. All of the other securities are rated at the comparable Moody's rating of AAA in 2008 and 2007 except $322,973 that had a comparable Moody's rating of BAA3 in 2007.

One security in the amount of $19,899 that has been segregated from the security lending collateral portfolio is non-rated in 2008. There were no segregated securities in 2007.

Custodial Credit Risk – Deposits and Investments

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

No formal policy exists on custodial risk. However, substantially all assets of the Retirement System are held in its name. Repurchase agreements held by the Retirement System are essentially collateralized overnight loans, with the securities held by Wells Fargo, the counterparty, as collateral. These securities are held by Wells Fargo but not in the name of the Retirement System. As of December 31, 2008, the underlying collateral for the Retirement System's repurchase agreements in the amount of $1,870,042 was exposed to custodial risk as it was held outside the name of the trust.

As of December 31, 2008 and 2007, all deposits with banks are fully insured by the Federal Depository Insurance Corporation or the State Deposit Guarantee Fund.

The following table presents the Retirement System's total cash, deposits and cash equivalents as of December 31, 2008 and 2007: (amounts are in thousands of dollars)

Schedule of Cash and Cash Equivalent Investments

	12/31/08		12/31/07	
	Carrying Value	Bank Balance	Carrying Value	Bank Balance
Cash held by various investment managers	$495	$495	$ 3,851	$ 3,851
Deposits with banks	440	459	452	459
Foreign currency	122	122	8	8
Repurchase agreement	–	1,870	–	3,667
Money market deposits	16,829	16,829	12,979	12,979
Total Deposits	**$17,886**	**$19,775**	**$17,290**	**$20,964**

The difference between the carrying value and bank balances are due to outstanding checks and deposits not yet processed by the bank. Deposits in excess of a predetermined amount are maintained in overnight repurchase agreements and transferred to a bank checking account as checks are presented for payment.

Foreign Currency Risk –

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

The Retirement Systems exposure to foreign currency risk derives from its positions in foreign currency denominated international equity and fixed income investments. Its exposure to foreign currency as of December 31, 2008 and 2007 is as follows: (amounts are in thousands of dollars)

	12/31/2008			
Currency Unit	Equity and Private Equity	Fixed Income and Convertible Debenture	Cash and Cash Equivalents	Total
Australian Dollar	$ 2,912	$ 1,604	$ -	$ 4,516
Brazilian Real	-	1,001	-	1,001
British Pound Sterling	1,392	-	-	1,392
Canadian Dollar	497	3.016	-	3,513
Euro Currency Unit	2,887	-	13	2,900
Hong Kong Dollar	4,112	-	-	4,112
Iceland Krona	-	979	-	979
Japanese Yen	5,971	-	-	5,971
Mexican New Peso	-	2,175	-	2,175
New Zealand Dollar	-	214	-	214
Singapore Dollar	787	178	-	965
South Korean Won	-	1,219	-	1,219
Swedish Krona	306	-	-	306
Swiss Franc	274	-	108	382
Thailand Baht	-	1,393	-	1,393
Totals	**$ 19,138**	**$ 11,779**	**$ 121**	**$ 31,038**

	12/31/2007			
Currency Unit	Equity and Private Equity	Fixed Income and Convertible Debenture	Cash and Cash Equivalents	Total
Australian Dollar	$ 1,682	$ -	$ -	$ 1,682
Brazilian Real	1,455	-	-	1,455
British Pound Sterling	-	-	4	4
Canadian Dollar	4,273	-	-	4,273
Danish Krone	-	-	-	-
Euro Currency Unit	-	-	4	4
Hong Kong Dollar	-	-	-	-
Iceland Krona	1,909	-	-	1,909
Japanese Yen	-	-	-	-
Mexican New Peso	2,747	-	-	2,747
New Zealand Dollar	-	-	-	-
Norwegian Krone	-	-	-	-
S. African Comm Rand	-	-	-	-
Singapore Dollar	2,378	-	-	2,378
South Korean Won	1,624	-	-	1,624
Swedish Krona	-	-	-	-
Swiss Franc	-	-	-	-
Thailand Baht	1,413	-	-	1,413
Totals	**$ 17,481**	**$ -**	**$ 8**	**$ 17,489**

Interest Rate Risk –

Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. Duration is a measure of an investment's sensitivity to changes in interest rates. The higher the duration, the greater the changes in fair value when interest rates change. The Option-Adjusted Duration for a security is the percentage price sensitivity to interest rate changes of 100 basis points (or 1.0%). For example, an Option-Adjusted Duration of 5.20 means that the price of the security should fall approximately 5.20% for a 1.0% rise in the level of interest rates. Conversely, the price of a security should rise approximately 5.20% for a 1.00% fall in the level of interest rates. Interest rate changes will affect securities with negative durations in the opposite direction. The Option-Adjusted Duration method of measuring duration takes into effect the embedded options on cash flows.

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

As of December 31, 2008 and 2007, the Retirement System had the following Option-Adjusted Durations for the fixed income investments: (amounts are in thousands of dollars)

12/31/08

Fixed Income Sector	Fair Value	Option Adjusted Duration	Fixed Income Sector	Option Adjusted Fair Value	Duration
ABS-Airplane Receivables	$ 3,511	0.45	House Related	5,243	4.66
ABS-Car Loan	1,098	0.87	Industrial	43,456	5.49
ABS-Credit Cards	1,564	1.80	Insurance	2,258	8.87
ABS-Equipment	220	1.58	International Corporate Bonds	4,874	1.13
ABS-Home Equity	327	0.01	International Government Bonds	3,285	3.90
Automobiles & Components	78	4.08	Mining	1,562	11.13
Banking & Finance	30,257	4.80	News/Media	6,414	12.02
BSDT Reserve Deposit Accts.	337	0.00	Oil & Gas	12,266	7.39
Capital Goods	177	3.65	Other Corporate Bonds	681	4.28
Chemicals	63	7.09	Paper & Forest Products	981	0.61
CMO-U.S. Agencies	1,116	5.49	Pvt Placements-More than 1 yr	8,037	5.59
CMO-Comm/Corp	15,686	1.42	Retail	2,065	9.12
Commingled Fds Cash Equivalents	38,637	0.08	Supranational issues	1,373	11.46
Convertible Bonds	5,640	1.20	Taxable Municipals	1,126	7.08
FHLMC Multiclass	17,011	3.51	Technology	1,144	4.98
FHLMC Pools	3,678	2.41	Transportation	5,323	3.93
FNMA Pools	14,218	2.67	U.S. Agencies	2,955	1.51
FNMA REMIC	13,680	3.58	U.S. Governments	19,441	7.49
Food Beverage & Tobacco	376	10.63	Utility-Electric	14,511	5.94
Food Products	93	6.74	Utility-Gas	2,526	6.21
Govt of Canada-Direct	2,622	1.87	Utility-Telephone	16,123	7.17
Health Care	6,632	5.49	Yankee Bonds	795	6.45
Household Products	91	5.80	Other*	313,600	
			Total of both columns	**$ 627,151**	

*Represent $312,542 invested in bond mutual fund, $819 GNMA Single Family Pools and $249 CMO Comm/Corp for which the duration was not available.

12/31/07

Fixed Income Sector	Fair Value	Option-Adjusted Duration (in years)
Asset Backed Securities	$ 8,480	2.65
CM Backed Securities	4,888	3.65
CMO Corporate	11,700	2.57
CMO Government Agencies	28,237	4.72
Corporate	175,715	6.49
Energy	1,744	0.61
Financials	500	(3.43)
Government	35,973	8.53
Health Care	2,535	1.51
Information Technology	3,493	2.02
Other	54,017	0.08
U.S. Convertibles	692	3.95
U.S. Gov't Mortgages	18,395	3.82
U.S. Private Placements	8,368	5.42
U.S. Taxable Muni Bonds	1,272	8.66
Non U.S.	17,481	2.89
Other *	347,617	N/A
Totals	**$721,107**	

* Includes $345,310 invested in bond mutual funds for which the duration was not available.

Security Lending –

Section 201.24 (9.1) of the General Ordinances of Milwaukee County and Board policies permit ERS to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. ERS participates in such a security lending program through its custodian, the Bank of New York Mellon, acting as ERS's securities lending agent. ERS requires collateral from the borrower in the form of cash or securities. Collateral for domestic issues is set at 102% of the fair value of the securities loaned at the time of the initial transaction. If the value falls to 100% of the fair value of the securities loaned, additional collateral is obtained to reestablish collateral at 102% of the fair value of securities loaned. Collateral for international securities is maintained at a level of 105% of the fair value of securities loaned at all times. The securities lending program guidelines attempt to preserve capital while earning a moderate rate of return. Earnings from securities lending, after all fees are paid, are split on a percentage basis with the custodian. For 2008 and 2007, the net investment income realized from security lending was $541,455 and $413,241, respectively.

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

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

	As of December 31			
	2008		2007	
Securities Lent for Cash Collateral	**Securities Lent**	**Collateral**	**Securities Lent**	**Collateral**
Fixed income	$ 15,063	$ 15,487	$ 34,992	$ 35,417
Domestic stocks	16,833	17,110	37,783	39,289
REITS	4,777	4,848	30,132	30,833
Subtotal	36,673	37,445	102,907	105,539
Securities Lent for Securities Collateral				
Fixed income	976	1,010	4,281	4,328
Domestic stocks	32	38	3,850	3,956
Subtotal	1,008	1,048	8,131	8,284
Grand Total	$ 37,681	$ 38,493	$111,038	$113,823
Percent Collateral to Securities Loaned		102.16%		102.51%

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

The collateral received from securities lending transactions includes cash of $37,445 and $105,539 and U.S. Treasury securities of $1,048 and $8,284 for the years ended December 31, 2008 and 2007, respectively. Under the terms of the securities lending agreement, the Retirement System has the right to sell or pledge the cash collateral. The non-cash collateral in the amount of $1,048 and $8,284 for the years ended December 31, 2008 and 2007, respectively, is controlled by the custodian and, correspondingly, is not reflected in the Statement of Net Assets Available for Plan Benefits.

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

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

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

There were no unrealized losses on forward foreign exchange contracts at year-end 2008 and 2007. At year-end 2008 and 2007, the Retirement System held only $98.1 thousand and $3.7 thousand in forward foreign exchange contracts.

(7) Commitments and Contingencies –

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

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

The County established the OBRA 1990 Retirement System of the County of Milwaukee (OBRA) to cover seasonal and certain temporary employees who are not enrolled in the Retirement System. Assets of the OBRA are commingled for investment purposes with the assets of the Retirement System. As the assets of the Retirement System are legally available to pay benefits of either the ERS or OBRA and all assets have been commingled. The Retirement System and OBRA are considered a single plan for financial reporting purposes. Net assets identified for OBRA benefits as of December 31, 2008 and 2007, were as follows:

		(Unaudited)
	2008	2007
Assets		
Cash	$ 1,928	$ 2,031
Contributions receivable from County	522,000	529,000
Assets held by Retirement System	337,365	823,774
Total assets	$ 861,293	$1,354,805
Liabilities		
Taxes payable	$ 1,370	$ -
Total liabilities	1,370	-
Net assets available for benefits	$ 859,923	$1,354,805

Changes in net assets available for benefits for OBRA for the years ended December 31, 2008 and 2007, were as follows:

		(Unaudited)
	2008	2007
Contributions from County	$522,000	$529,000
Investment income (loss)	(298,101)	68,780
Investment and administrative expenses	(589,308)	(449,781)
Benefits paid	(129,473)	(54,125)
Net increase (decrease) in assets available for benefits	($484,882)	$93,874

As of December 31, 2008 and 2007, respectively, there were 10,939 and 10,143 participants with vested benefits in OBRA. The actuarial accrued liability of OBRA at December 31, 2008 and 2007, was $4,451,626 and $4,076,739, respectively, leaving net assets available less than the actuarial accrued liability of ($3,591,703) and ($2,721,934), respectively. These amounts are not reflected in the required supplementary information tables that follow the notes to the financial statements.

(9) Funded Status and Actuarial Information

The Retirement System engages an independent actuarial firm to perform an annual actuarial valuation. The funded status of the Retirement System as of January 1, 2009, the most recent actuarial valuation date, is as follows (dollar amounts in thousands): The December 31, 2008 funding ratio, as calculated by the actuary, includes the proceeds of the pension obligation bonds that were issued in April 2009. See Note 10 of the financial statements.

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
$1,968,518	$2,057,377	$88,859	95.7%	$233,820	38.0%

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

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

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

Valuation date	1/1/2009
Actuarial cost method	Aggregate Entry Age Normal
Asset valuation method	5-year smoothed market
Amortization methods:	
Contribution variance	Level dollar, closed
Administrative expenses	Level dollar, closed
All other unfunded liability	Level percent of payroll, closed
Remaining amortization periods:	
Contribution variance	5 years
Administrative expenses	10 years
All other unfunded liability	30 years
Actuarial Assumptions:	
Investment rate of return	8.00%
Projected salary increases	3.50%
Post-retirement benefit increases	2%, simple

(10) Subsequent Event

On April 2, 2009, the County issued $400 million of pension obligation bonds. The bonds were issued to fund a portion of the unfunded prior service liabilities of the Retirement System. Net proceeds, after deducting the costs of the financing, of $397,797,000 were transferred directly into the Retirement System and will be invested at the direction of the Board. In order to facilitate long-term planning purposes, the Board requested the actuary to include these anticipated proceeds in its determination of the Retirement System's funded status as of January 1, 2009. The proceeds will be reflected in the financial statements of the plan when received during plan year ending December 31, 2009.

In May 2009, the County and ERS settled its lawsuit against its former actuary in the amount of $45 million. It is anticipated that after the payment of attorney fees and other legal costs approximately $30 million will be available to be transferred to the Retirement System.

Required Supplementary Information

Schedule of Funding Progress
(in thousands of dollars)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability– AAL (b)	Funded ratio (a/b)	(Overfunded) Unfunded AAL– (UAAL) (b-a)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
*12/31/08	$1,968,518	$2,057,377	95.7%	$88,859	$233,820	38.0%
12/31/07	1,627,288	2,024,923	80.4%	397,635	227,364	174.9%
12/31/06	1,525,532	1,931,220	79.0%	405,688	223,005	181.9%
12/31/05	1,454,302	1,909,321	76.2%	455,019	225,722	201.6%
12/31/04	1,424,918	1,782,884	79.9%	357,966	209,796	170.6%
12/31/03	1,446,726	1,707,999	84.7%	261,273	233,478	111.9%

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

Analysis of the dollar amounts of plan net assets, actuarial accrued liability, and unfunded (overfunded) actuarial accrued liability in isolation can be misleading. Expressing plan net 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. The December 31, 2008 funding ratio, as calculated by the actuary, includes the proceeds of the pension obligation bonds that were issued in April 2009. See Note 10 of the financial statements. Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids the analysis of the Retirement System's progress in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, or the larger the percentage, if negative, the stronger the Retirement System.

Schedule of Employer Contributions for the Year Ended December 31,

Fiscal Year	Annual Required Contribution	Percentage Contributed
2008	$53,063,610	65.7%
2007	52,395,263	94.1%
2006	52,638,196	52.1%
2005	37,607,940	94.2%
2004	33,248,204	105.7%
2003	25,242,325	134.6%

Notes to Required Supplementary Information

(1) Description –

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

(2) Actuarial Assumptions and Methods –

The information presented in the required supplementary schedules was determined as part of the actuarial valuations as of January 1, 2009, for the plan year ending December 31, 2008. The actuarial valuations consider the changes effective January 1, 2009. Additional information as of the latest actuarial valuation follows:

Valuation date	1/1/09
Actuarial Cost Method	Aggregate Entry Age Normal
Amortization Method	Level percent of payroll, closed
Equivalent Single Amortization Period	14 years
Asset valuation method	5-year smoothing of difference between total expected return versus actual return
Actuarial Assumptions:	
COLA	2% of original pension benefits
Investment rate of return*	8.0%
Projected payroll growth*	3.5%
Mortality	Sex-distinct up – 1994 Mortality Table (for healthy pensioners) RP 2000 Disabled Mortality Table (for disabled pensioners

*Includes inflation at 3.0%

(3) Significant Factors Affecting Trends in Actuarial Information –

The changes regarding the increases in the Annual Compensation limit and the Annual benefit limit for years 2005-2009 are subject to the passage of the Ordinance Amendments by the County Board.

2009 Changes in Plan Provisions or Actuarial Assumptions Since Prior Year -

- Increased annual compensation limit to $245,000.
- Increased annual benefit limit to $195,000.

2008 Changes in Plan Provisions or Actuarial Assumptions Since Prior Year –

- Changed maximum period for backdrop period to earliest unreduced benefit.
- Increased annual compensation limit to $230,000.
- Increased annual benefit limit to $185,000.

2007 Changes in Plan Provisions or Actuarial Assumptions Since Prior Year –

- Changed disability assumption from assuming 100% of disabilities are Ordinary to 10% Ordinary and 90% Accidental for represented employees and 95% Ordinary and 5% Accidental for non-represented employees.
- Changed the backdrop assumption from 70% of eligible employees elect a backdrop with an average backdrop period of four years to 75% of eligible employees elect a backdrop, where 75% are assumed to take the maximum period available to them and 25% take half the maximum period available.
- Increased annual compensation limit to $225,000.
- Increased annual benefit limit to $180,000.

2006 Changes in Plan Provisions or Actuarial Assumptions Since Prior Year –

- Increased annual compensation limit to $220,000.
- Increased annual benefit limit to $175,000.
- Decreased in the discount rate to 8.0%.
- Increased in backdrop utilization assumption from 50% to 70%.

2005 Changes in Plan Provisions or Actuarial Assumptions Since Prior Year –

- Increased annual compensation limit to $210,000.
- Increased annual benefit limit to $170,000.

(See independent auditor's report)

TEN-YEAR HISTORICAL TREND INFORMATION

REVENUES BY SOURCE AND EXPENSES BY TYPE

(Unaudited)

Revenues by Source

Fiscal Year	Participant Contributions	County Contributions(1)	Investment Income (Loss)(2)	Total
2008	$140,209	$34,840,886	($352,108,625)	($317,127,530)
2007	344,782	49,291,072	106,442,068	156,077,922
2006	545,258	27,435,154	207,804,929	235,785,341
2005	360,283	35,415,185	128,528,748	164,304,216
2004	711,322	35,143,178	188,633,703	224,488,203
2003	704,758	33,980,592	292,669,096	327,354,446
2002	436,682	2,579,984	(78,508,968)	(75,492,302)
2001	265,567	2,646,523	(28,309,035)	(25,396,945)
2000	180,729	629,279	(14,726,721)	(13,916,713)
1999	140,834	2,756,636	243,675,430	246,572,900

Expenses by Type

Fiscal Year	Benefits(3)	Investment and Administrative Expenses(4)	Withdrawals	Total
2008	$144,160,665	$7,385,443	$23,557	$151,569,665
2007	139,990,962	7,715,976	56,626	147,763,564
2006	130,730,539	6,622,923	13,571	137,367,033
2005	148,307,335	6,294,816	36,963	154,639,114
2004	161,368,700	6,302,951	154,522	167,826,173
2003	111,109,514	5,662,380	12,999	116,784,893
2002	118,078,160	5,301,678	30,230	123,410,068
2001	94,842,239	5,389,064	233,732	100,465,035
2000	85,664,789	5,320,195	257,600	91,242,584
1999	82,022,948	4,966,393	16,866	87,006,207

FOOTNOTES ARE IN THOUSANDS OF DOLLARS:

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

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

(3) Included in the benefits for 2008, 2007, 2006, 2005, 2004, 2003 and 2002 are back drop lump-sum payments of $11.2, $10.5 $5.5, $25.7, $55.1, $11.0 and $23.1 million, respectively.

(4) The increase in investment and administrative expenses of $2,419 during the past ten years were due to increases in the following expenses:

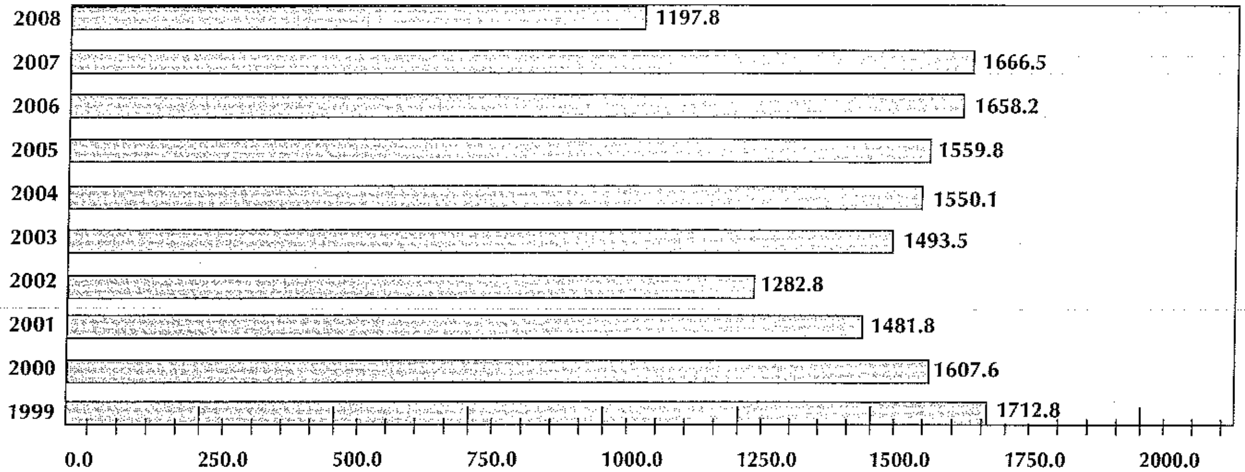
- outside consultants of $958 with most of the increase occurring in 2008 and 2007 as a result of work being done on the installation of a new pension mainframe software system, data and document cleansing in preparation to the conversion to the new software system and a new online document imaging system;
- legal and corporate counsel fees of $729 due to buyback/buyin issues, RFP preparation and analysis, tax issues and various other legal matters;
- cost of fiduciary insurance of $355. This cost has declined considerably after peeking in 2004;
- salaries and wages of $336 due primarily to the increase in the cost of benefits;
- temporary help of $276 due to unfilled positions within the department and the imaging project;
- hardware and software utilization and maintenance costs of $159 due to hosting charges for the new software system plus maintenance costs for the old software.

The following costs decreased:

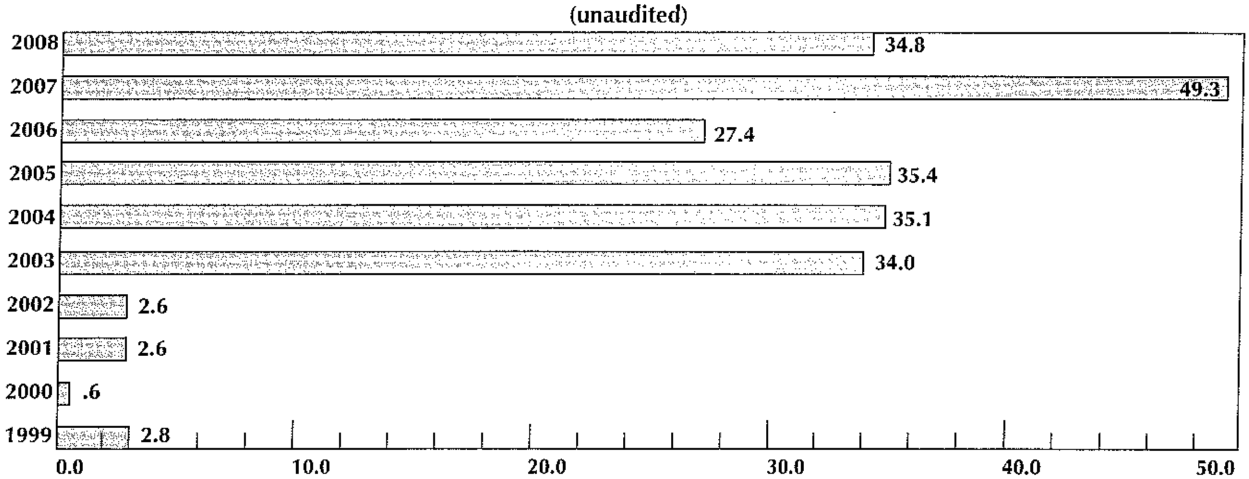
- investment manager, custodial and cash management fees declined ($163) due to the decrease in the size of the fund and a new pricing schedule for custodial services.

Most of the other expenses experienced small increases that were offset by an increase of administrative expenses assessed to the OBRA retirement system. Those administrative expenses are assessed in accordance with a predetermined formula that is based upon the number of participants and the asset size of the OBRA retirement system that has been uniformly applied since the inception of OBRA in addition to any direct legal and actuarial costs.

NET FUND ASSETS
FAIR VALUES 2008-1999
(in millions of dollars)
(unaudited)



ACTUAL COUNTY CONTRIBUTIONS
(in millions of dollars)
(unaudited)



ACTIVE MEMBERSHIP STATISTICS (Unaudited)

	2008
Members as of January 1	6,199*
Changes During the Year:	
New enrollments	400
Rehires	16
Nonvested terminations	(168)
Retirements	(218)
Deaths in active service	(18)
New deferred beneficiaries	1
Data adjustments	22
Members as of December 31	6,234*

**The total includes vested inactive members of 1,385 and 1,397 as of the beginning of the year and end of the year respectively.*

RETIREMENTS AND SURVIVORS (Unaudited)

	Retirements Granted								Survivors & Beneficiaries	Total
	Maximum Pension	Option								
		Refund	100%	75%	50%	25%	10-yr.	Other		
January 1, 2008	2,818	595	1,209	181	1,136	285	111	39	947	7,321
Changes During the Year:										
Adjustments (actuary)*	(51)	1	3	1	3	2	6	-	3	(32)
Retirements**	109	-	49	10	18	22	10	-	33	251
Pensioner deaths	(76)	(30)	(27)	(2)	(29)	(2)	-	-	(66)	(232)
December 31, 2008	2,800	566	1,234	190	1,128	307	127	(39)	917	7,308

*Adjustments as a result of reclassifications made to beginning balances by the actuary due to new information received.
** Includes 33 new survivors and beneficiaries due to retiree deaths.

CONSULTANTS

as of December 31, 2008

Legal Advisors:

Milwaukee County
Corporation Counsel
William Domina

Reinhart, Boerner, Van Deuren s.c.
Milwaukee, Wisconsin

Foley & Lardner
Milwaukee, Wisconsin

Actuary:

Buck Consultants
Chicago, Illinois

Disbursing Agent:

County Treasurer

Custodian/Securities Agent:

BNY/Mellon Trust
Boston, Massachusetts

Medical Board:

Aurora Occupational Health Services
Milwaukee, Wisconsin

Investment Consultant:

William M. Mercer
Investment Consulting, Inc.
Chicago, Illinois

Cash Management Manager:

Mellon Trust
Boston, Massachusetts

Standish Mellon Asset Management
Woburn, Massachusetts

Venture Capital Investment Managers:

Adams Street Partners
Chicago, Illinois

Progress Investment Management Company
San Francisco, California

Equity Investment Managers:

AQR Capital Management, LLC
Greenwich, Connecticut

Artisan Partners
Milwaukee, Wisconsin

Boston Partners Asset Management, Inc.
Boston, Massachusetts

EARNEST Partners, LLC
Atlanta, Georgia

Mellon Capital Management
Pittsburgh, Pennsylvania

Reinhart Partners, Inc.
Mequon, Wisconsin

Westfield Capital Management Co., Inc.
Boston, Massachusetts

Fixed-Income Investment Managers:

Loomis, Sayles & Company, Inc.
Boston, Massachusetts

JPMorgan Investment Management
New York, New York

Mellon Capital Management
Pittsburgh, Pennsylvania

International Investment Managers:

Baring Asset Management, Inc.
Boston, Massachusetts

Capital Guardian Trust Company
Brea, California

Grantham, Mayo, Van Otterloo & Co.
Boston, Massachusetts

Real Estate Investment Trusts

ING Clarion Real Estate Securities
Radnor, Pennsylvania

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