

**THIRD QUARTERLY MEETING
ERIE COUNTY EMPLOYEES' RETIREMENT BOARD**

AUGUST 15, 2013

Members present: Fiore Leone, Chairman
Joseph Giles, Vice-Chairman
Mary E. Schaaf, Secretary
James Sparber, Member

Members Absent: Ronald "Whitey" Cleaver, Member

Also present: Tony Keim, PNC Bank
Deedra Pfeffer, Pleasant Ridge Manor
Sue Teudhope, Pleasant Ridge Manor
Tom Gardner, Pleasant Ridge Manor
David Immonen, Manning & Napier
Jeffrey Davidek, C. S. McKee
Marie Lewis, Controller's Office
Mark J. Orlop, Controller's Office
Frank Burnette, Morrison Associates

Chairman Leone called the Erie County Employees' Retirement Board to order at 12:10 PM in Room #114A, Erie County Courthouse.

Motion to approve the minutes for the Second Quarterly Meeting held May 16, 2013 and the Special Meeting held on May 23, 2013 made by Mr. Giles, seconded by Mr. Sparber and carried unanimously.

Frank Burnette of Morrison Fiduciary Advisors, Inc. gave the economic overview of the markets. The Pension portfolio has a current weighting of 59% equities with 10% international equities. Substantial restructuring occurred in June including the termination of two fixed managers and initiating a 5% weighting in Variable Rate loans. Year-to-date the Fund is up 7.05% exceeding the benchmark with a rank of 18. For five years, the Fund is in the 336th percentile.

Chairman Leone called for the report of C.S. McKee. Jeff Davidek gave the report. Previous underperformance resulted from a heavy underweight in the higher income and deep value sectors. For the past quarter the return was 3.99% with a year-to-date of 18.69% versus the S&P500 index at 20.60%.

Frank Burnette showed the letters that were sent to three large cap equity managers placed on watch status. The emerging market weakness is the reason for the underperformance by Wentworth. MEPT has a since inception return of 10.91% and trailed the benchmark due to underleverage.

Chairman Leone asked if there was any other business. Ms. Schaaf stated the Board recently been emailed a letter from Solicitor Talarico because she had requested his legal opinion regarding the current practice of including the vacation buyback program in the three highest years' salaries for County Pension calculations after reading an article about pension spiking She gave the example of one recent retirement where the vacation buyback practice had added an additional \$4100 per year to the lifetime pension

payments. Many employees anticipate their highest three years before retirement and take advantage of vacation buyback to increase their compensation in those years. This practice has cost and will add significant cost to the Pension perhaps millions. She has had several conversations with Don Boetger, Sue Ellen Pasquale and Payroll regarding this practice. The Payroll Department had thought it had been given a directive by the Board at some point in time to allow the 5% pension contribution to be deducted from vacation buyback and to count unused vacation buyback monies towards the three highest years' compensation. Chairman Leone stated he has no knowledge of the buyback program inclusion for pension calculations and as far as he knows there was never a vote by the Board to allow this. Attorney Talarico's legal opinion stated that pension contributions should not be withheld from employee's vacation buyback, vacation buyback should not be used in the pension calculation per Act 96 and the practice should be discontinued immediately. Chairman Leone voiced his agreement. Now that she has brought this issue to the attention of the Pension Board, Ms Schaaf asked the Board whether forwarding Solicitor Talarico's letter to the Finance, Personnel and Payroll Departments to discontinue deducting pension from vacation buyback and adding vacation buyback to pension calculations was sufficient. Mr Sparber, Finance Director, stated he had received Attorney Talarico's letter, notified Payroll and Personnel and would take corrective action.

Mark Orlop stated that he requested an opinion from attorney Talarico in regards to an employee buying back time after an involuntary termination. This employee filed suit, won and had been reinstated as a County employee. Attorney Talarico's opinion is that he is allowed to purchase his out-time with the Board's approval. Chairman Leone stated he would like to research this and vote at the next meeting.

Adjournment at 12:41 P.M.

Mary E. Schaaf, Secretary
Erie County Employees' Retirement Board
Pleasant Ridge Manor Employees' Retirement Committee

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