

MINUTES OF MEETING
STATE OF WISCONSIN
JOINT INFORMATIONAL MEETING
TEACHERS RETIREMENT, WISCONSIN RETIREMENT,
AND EMPLOYEE TRUST FUNDS BOARDS

Thursday, June 22, 2006

DRAFT

Sheraton Madison Hotel
706 John Nolen Drive
Madison, Wisconsin

BOARD PRESENT:

Ted Bratanow, TR Board
John Brown, ETF Board
Theron Fisher, ETF Board
Rick Gale, Secretary, WR Board and ETF Board
Len Herricks, TR Board
Irena Macek, ETF Board
Dennis McBride, WR Board
Lon Mishler, Vice-Chair, TR Board
Dan Nerad, TR Board
Robert Niendorf, Secretary, ETF Board
Dennis Panicucci, TR Board
Patrick Phair, TR Board
Tom Pedersen, TR Board
Roberta Rasmus, TR Board
Robert Shaw, TR Board
Gary Sherman, ETF Board
Robin Starck, TR Board
Nancy Thompson, ETF Board
Mary VonRuden, WR Board
Marilyn Wigdahl, Chair, WR Board and Chair, ETF Board

BOARD NOT PRESENT:

John David, WR Board
Jorge Gomez, WR Board
Wayne Koessl, Vice Chair, WR Board and Vice Chair, ETF Board
Nan Kottke, WR Board
Kathy Kreul, ETF Board
Mike Langyel, TR Board
Wayne McCaffery, Chair, TR Board and ETF Board
Herbert Stinski, WR Board
Karen Timberlake, ETF Board
David Wiltgen, Secretary, TR Board

PARTICIPATING ETF STAFF:

Eric Stanchfield, Secretary
Dave Stella, Deputy Secretary
Sari King, Administrator, Division of Retirement Services
Bob Conlin, Director, Legislation, Communications and Planning

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Jon Kranz, Director, Office of Internal Audit and Budget
Bob Willett, Controller, Division of Trust Finance and Employer
Services
Linda Esser, Board Liaison

OTHERS PRESENT:

Diann Allsen, Legislative Audit Bureau
Jere Bauer, Legislative Fiscal Bureau
Mark Buis, Gabriel, Roeder, Smith and Company
Sue Chamberlain, University of Wisconsin System
Sandy Drew, State of Wisconsin Investment Board
Rhonda Dunn, Executive Assistant
Kendra Eppler, Legislative Audit Bureau
Heather Ferron, Milliman Consulting
William Ford, Legislative Council
Caitlin Frederick, State Budget Office
Jean Gilding, Division of Retirement Services
Dan Hayes, Wisconsin Law Enforcement Officers Association
Pam Henning, Division of Management Services
Tim Herman, Milliman Consulting
Bill Hogan, Milliman Consulting
Nancy Ketterhagen, Office of the Secretary
Tom Korpady, Division of Insurance Services
Steve Macek, Wisconsin Federation of Teachers
Tony Mason, Legislative Fiscal Bureau
Diane Poole, Division of Insurance Services
Deb Roemer, Division of Insurance Services
Mel Sensenbrenner, State Engineering Association
Ken Stelzig, Wisconsin Education Association Council-Retired
John Vincent, Division of Trust Finance and Employer Services
Sharon Walk, Office of the Secretary
Steve Werner, Wisconsin Professional Police Association
Art Zimmerman, Legislative Fiscal Bureau

Marilyn Wigdahl, Chair, Wisconsin Retirement Board, called the meeting to order at 9:45 a.m.

CONSIDERATION OF MINUTES

Motion: Ms. Thompson moved approval of the minutes of the March 30, 2006, meeting as submitted by the Board Liaison. Mr. Nerad seconded the motion, which passed without objection on a voice vote.

ANNOUNCEMENTS

Introduction of New Teachers Retirement Board Members Ms. King introduced the three newly elected Teachers Retirement Board members: Len Herricks, Patrick Phair and Robin Starck. Mr. Herricks has been teaching for 32 years at the Oshkosh High School. Mr. Phair, from the Waupaca area, has over 25 years of teaching experience; and Mr. Starck has 21 years of teaching. He is from the Sheboygan area. The group welcomed the new members.

Announcement of New Chief Investment Officer of the State of Wisconsin Investment Board (SWIB) Mr. Stella announced that David Villa, the new Chief Investment Officer of SWIB, began employment on June 5, 2006. Mr. Villa came to SWIB from the Florida Retirement System. Prior to that, he worked for UBS, an investment firm in Chicago. Mr. Villa is a graduate of the Kellogg School and is a chartered financial adviser (CFA). He plans to attend the September 2006 Joint Informational Meeting where board members will have the opportunity to meet him.

Certificate of Achievement in Public Plan Policy (CAPPP) Mr. Stella congratulated Rhonda Dunn, Sari King, Nancy Thompson and John Vincent. All have been certified by the International Foundation of Employee Benefit Plans in the Pension CAPPP.

WISCONSIN RETIREMENT SYSTEM TWENTY-FIFTH ANNUAL ACTUARIAL VALUATION AS OF DECEMBER 31, 2005

Ms. Wigdahl introduced Brian Murphy and Mark Buis of Gabriel, Roeder, Smith and Company (GRS), actuaries for the Department. Mr. Buis gave a PowerPoint presentation in conjunction with the report, *Wisconsin Retirement System Twenty-Fifth Annual Actuarial Valuation as of December 31, 2005*. The valuations reflect the actuarial experience, trends and projections for non-retired participants covered by the Wisconsin Retirement Systems (WRS). The valuation establishes contribution rates for the 2007 calendar year in conformance with Chapter 40 of the Wisconsin Statutes. Mr. Murphy stated that the WRS continues to be in excellent financial condition in accordance with actuarial principles of level percent-of-payroll financing.

Ms. Wigdahl advised the group that the Employee Trust Funds Board would take action on the GRS recommended rate increase of 0.2% for all employment categories at the June 23, 2006 board meeting.

WISCONSIN RETIREMENT SYSTEM ACTUARIAL AUDIT

Mr. Stella explained that the Legislative Audit Bureau is required by statute to contract for the performance of an actuarial audit of the WRS once every five years. The contract was awarded to Milliman Consultants and Actuaries (Milliman). They have performed an actuarial audit of the Department of Employee Trust Funds and the consulting actuary.

Bill Hogan and Tim Herman of Milliman gave a presentation to the Boards on their findings. Milliman found that the December 31, 2004, actuarial valuation of WRS was prepared using reasonable actuarial assumptions and a reasonable funding method, and was done by fully qualified actuaries. The valuation presents a fair and reasonable representation of the actuarial accrued liabilities and determines appropriate contribution rates to satisfy WRS funding obligations. Milliman offered suggested improvements, ranging from projecting improvements in future mortality rates in the actuarial valuation for current employees, to more fully describing benefit plan provisions in the actuarial reports.

The Board took a break at 10:55 a.m. and reconvened at 11:10 a.m.

LEGISLATIVE UPDATE

Mr. Conlin provided a legislative update to the Boards. He noted that the Legislature concluded the majority of its activity for the 2005-2006 legislative session in May. The Legislature may return in mid-July for a session to approve any remaining state employee collective bargaining agreements and any pending technical bills introduced by the Revisor of Statutes. There were approximately 1,955 bills introduced during the session. Over 480 of those bills became law. The rest of the bills are considered to be dead.

No significant changes to the WRS were enacted during the past legislative session. However, all six pieces of remedial legislation sponsored by the Department of Employee Trust Funds (ETF) were signed into law.

Mr. Conlin stated that the media has recently taken interest in the issue of the forfeiture of WRS pension benefits upon conviction of a crime. Current laws governing the WRS do not require participants convicted of crimes during service to give up rights to pension accounts.

Mr. Conlin noted that at the March meeting, the ETF Board authorized ETF to submit Clearinghouse Rule 05-114 to the Legislature for its review prior to promulgation. The rule makes changes to the way investment accounts of separate retirement systems are valued and limits the separate retirement systems that may invest in the Public Employee Trust Fund. Unlike bills, if no action is taken, the rule may go into effect. Mr. Conlin indicated he would keep the Boards advised as to the status of this rule.

Mr. Conlin indicated that Rob Weber, ETF Chief Counsel, has distributed a memo on proposed administrative rules pending within the agency. No others have been officially submitted to the Legislature for review. Mr. Conlin referred the Boards to Mr. Weber's memo for information on the current status of these administrative rules.

EDUCATIONAL TOPIC / GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) 45 SUMMARY

Mr. Willett provided an overview of other post employment benefits (OPEB). He clarified that an OPEB is a benefit (other than a pension) that is received after employment ends. In June 2004, GASB issued two new statements. Statement Number 43 sets the standard for the plans that offer post employment benefits, and Statement Number 45 is the standard for employers that offer plans to their employees. OPEBs, like pensions, are earned during an employee's working career but not paid out until after employment ends. The full cost of post employment benefits are not being recognized in financial statements during employment.

Mr. Willett indicated that GASB requires that governments account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in the same manner as they do for pensions. An actuarial valuation is required to determine the long-term costs of OPEB. The unfunded OPEB liability (long-term costs less accumulated assets) must be amortized over a period up to 30 years. The Annual Required Contribution is the actuarially determined cost of OPEB earned in the current year plus the amortization of the unfunded OPEB liability.

Following his presentation, Mr. Willett answered questions from the Boards.

MISCELLANEOUS

Tour of Employee Trust Fund Badger Road Office Ms. King circulated a sign-up sheet for Board members to tour the Badger Road facility after the June 22, 2006 meetings.

Benefit Payment System (BPS) and Lump Sum Payment Project Update Ms. King reported that ETF is now in the acceptance testing phase of the BPS, where the payment system will be tested from beginning to end prior to the conversion. This phase will continue throughout the summer.

Ms. King announced the beginning of another automation project, the Lump Sum Payment Project. There are two primary types of lump sum payments administered by ETF: separations and non-annuitant deaths. ETF handles approximately 5,000 to 7,000 of these distributions each year. The Department is currently researching the scope of this project and savings that could be realized by automating these transactions.

2007 Retirement Board Meeting Dates Ms. King asked that Board members note the dates of the 2007 Retirement Board meetings. They are:

March 15-16, 2007
June 21-22, 2007
September 13-14, 2007
December 13-14, 2007

Pending Appeals Report Ms. King referred the Boards to an updated report on pending appeals. She noted that there are 87 total pending appeals at this time.

Administrative Rules Status Update Ms. King indicated that Mr. Weber's report was included in the Board materials and is available for review.

ADJOURNMENT

Motion: Ms. VonRuden moved adjournment. Mr. Panicucci seconded the motion, which passed without objection on a voice vote.

The Joint Informational Meeting adjourned at 11:52 p.m.

Date Approved: _____

Signed: _____

Rick Gale, Secretary
Wisconsin Retirement Board