

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

Thursday, September 21, 2006

DRAFT

Sheraton Madison Hotel
706 John Nolen Drive
Madison, Wisconsin

BOARD PRESENT:

Ted Bratanow, TR Board
John Brown, ETF Board
John David, WR Board
Rosemary Finora, ETF Board
Theron Fisher, ETF Board
Rick Gale, Secretary, WR Board and ETF Board
Len Herricks, TR Board
Wayne Koessl, Vice Chair, WR Board and Vice Chair,
ETF Board
Kathy Kreul, ETF Board
Mike Langyel, TR Board
Irena Macek, ETF Board
Dennis McBride, WR Board
Wayne McCaffery, Chair, TR Board and ETF Board
Lon Mishler, Vice-Chair, 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
Herbert Stinski, WR Board
Nancy Thompson, ETF Board
Mary VonRuden, WR Board
Marilyn Wigdahl, Chair, WR Board and Chair, ETF Board
David Wiltgen, Secretary, TR Board

BOARD NOT PRESENT:

Jorge Gomez, WR Board
Nan Kottke, WR Board
Dan Nerad, TR Board
Karen Timberlake, ETF Board

PARTICIPATING ETF STAFF:

Eric Stanchfield, Secretary
Dave Stella, Deputy Secretary
Sari King, Administrator, Division of Retirement Services

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Bob Conlin, Director, Legislation, Communications and
Planning
Linda Esser, Board Liaison

OTHERS PRESENT:

Mark Buis, Gabriel, Roeder, Smith and Company
Jerry Dietzel, Division of Trust Finance and Employer Services
Sandy Drew, State of Wisconsin Investment Board
Rhonda Dunn, Office of the Secretary
William Ford, Legislative Council
Caitlin Frederick, State Budget Office
Jean Gilding, Division of Retirement Services
Gail Hanson, State of Wisconsin Investment Board
Dan Hayes, Wisconsin Law Enforcement Officers Association
Pam Henning, Division of Management Services
Ken Johnson, State of Wisconsin Investment Board
Nancy Ketterhagen, Office of the Secretary
Audrey Koehn, Division of Retirement Services
Tom Korpady, Division of Insurance Services
Steve Macek, Wisconsin Federation of Teachers
Dave Mills, State of Wisconsin Investment Board
Linda Owen, Division of Retirement Services
Diane Poole, Division of Insurance Services
Deb Roemer, Division of Insurance Services
Ken Stelzig, Wisconsin Education Association Council-Retired
John Vincent, Division of Trust Finance and Employer Services
Sharon Walk, Office of the Secretary
Gretchen Wegner, Legislative Audit Bureau
Bob Willett, Division of Trust Finance and Employer Services
Art Zimmerman, Legislative Fiscal Bureau

Wayne McCaffery, Chair, Teachers Retirement Board, called the meeting to order at 9:34 a.m.

CONSIDERATION OF MINUTES OF PREVIOUS MEETING

Motion: Mr. Langyel moved approval of the minutes of the June 22, 2006, meeting as submitted by the Board Liaison. Ms. Rasmus seconded the motion, which passed without objection on a voice vote.

ANNOUNCEMENTS

Introduction of New Employee Trust Funds Board Member Mr. Stella introduced the newly appointed Employee Trust Funds Board member, Rosemary Finora. Ms. Finora was appointed by Governor Doyle effective August 8, 2006. She fills the seat of a public member who is not a participant in, or a beneficiary of, the Wisconsin Retirement System (WRS), and has at least five years of experience in actuarial analysis, administration of an employee benefit plan or significant administrative responsibility in a major insurer. She is currently the vice president, assistant general counsel, and corporate compliance officer at APS Healthcare in Brookfield, Wisconsin. The group welcomed Ms. Finora to the Board.

FEDERAL PENSION-RELATED LEGISLATION

Mr. Conlin briefed the board members on the federal Pension Protection Act of 2006 (PPA). President Bush signed this act into law on August 17, 2006, as Public Law 109-280. The law makes a number of changes in federal laws governing pensions. Although the act primarily addresses private sector pensions, it also includes a number of provisions that will affect public plans. Mr. Conlin summarized those changes in his memo to the board. The more significant changes are described below.

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) contained a number of provisions that were geared towards enhancing retirement savings for Americans. It increased the limits on contributions, benefits and compensation under qualified retirement plans, tax-sheltered annuities and deferred compensation plans. These provisions were set to expire in 2010 due to a sunset provision required by federal budgeting rules. The PPA repealed the sunset provision effectively making these enhanced provisions of EGTRRA permanent.

Prior to the adoption of the PPA, qualified pension plans had to meet certain minimum distribution requirements. Proposed Treasury regulations interpreting these requirements would have jeopardized certain post-retirement adjustments made to pension payments. The PPA requires the Secretary of the Treasury to issue regulations, under which a governmental plan is treated as complying with the minimum distribution requirements, if the plan complies with a reasonable, good faith interpretation of the statutory requirements. The intent of the PPA was for these regulations to apply for periods before the date of enactment of the PPA. This provision will allow the WRS to maintain its post-retirement, investment-based adjustments.

Mr. Conlin indicated that a letter from two prominent U.S. Senators had been sent to the Government Accountability Office (GAO). The letter noted that public pension systems lack federal oversight, have no back-up source for guaranteed benefit payments and are underfunded. The letter requested that the GAO study the fiscal and other challenges facing state and local public pension plans.

In response to this request, a number of national groups sent letters to the Senators challenging many of the underlying assumptions cited in the GAO study request and encouraged the GAO to take a fair and unbiased look at public pension systems. The National Association of State Retirement Administrators (NASRA), the National Council on Teachers Retirement (NCTR), and the National Conference on Public Employee Retirement Systems (NCPERS) were among the groups sending letters. The Department of Employee Trust Funds also sent a letter to the Senators. Mr. Conlin referred to the letter that was sent to Senators Grassley and Baucus. A copy of that letter was distributed with meeting materials.

Mr. Conlin stated that Keith Brainard, Research Director of NASRA, gave testimony before the United States House Committee on Education and the Workforce Subcommittee on Employer-Employee Relations. A copy of that testimony had been distributed to board members. Mr. Brainard's testimony addresses many of the same issues that were raised in the letters sent to Senators Grassley and Baucus. Mr. Conlin indicated that he would keep the boards informed on the interest that the federal government has in public pension issues.

WISCONSIN RETIREMENT SYSTEM GAIN/LOSS ANALYSIS OF EXPERIENCE AMONG ACTIVE MEMBERS DURING CALENDAR YEAR 2005

Mark Buis of Gabriel, Roeder, Smith and Company (GRS), actuary for the Department, gave a presentation in conjunction with the report, *Wisconsin Retirement System Gain/Loss Analysis of Experience Among Active Members During Calendar Year 2005*. He explained that a gain/loss analysis measures the differences between actual and assumed experience in the decrement and economic risk areas monitored.

Mr. Buis noted that this gain/loss analysis is the third in a regular three-year experience cycle. He stated that this study together with the 2003 and 2004 studies form the basis for the next experience study. The experience study will be reported in December 2006. The results of that study will first be used in the December 31, 2006 valuations.

The gain/loss analysis is necessary to give a year-by-year measure of the operation of assumptions. It indicates the nature of risk and helps determine when assumption changes are needed. The analysis gives an understanding of reasons for contribution rate changes.

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

The Board took a break at 10:25 a.m. and reconvened at 10:35 a.m.

EDUCATIONAL TOPIC / STATE OF WISCONSIN INVESTMENT BOARD

Dave Mills, Executive Director of the State of Wisconsin Investment Board (SWIB), introduced David Villa, Chief Investment Officer (CIO); Ken Johnson, Chief Operating Officer; Gail Hanson, Deputy Executive Director; and Sandy Drew, Constituency Group and Legislative Liaison, of the SWIB staff.

Mr. Villa joined SWIB in mid-June of this year. Mr. Mills invited Mr. Villa to share his background with the Boards. Mr. Villa noted that he was originally from Texas and that he attended Princeton University. He worked as Chief Investment Officer at the Florida State Board of Administration. Prior to that, he spent a number of years working for UBS in Chicago. He brings experience from the private sector money management arena as well as the public sector.

Mr. Mills discussed the SWIB organization and the staff transition that has taken place. He noted that although there have been many changes, SWIB has managed those transitions well.

Mr. Mills distributed a summary of returns as of August 31, 2006, and an asset allocation summary and performance evaluation. At the end of August, SWIB had \$83.5 billion under management. Mr. Mills emphasized the value of diversification in asset allocation. He commented on the numbers of SWIB's internal and external portfolios with regard to performance. Twelve of nineteen internal portfolios met or exceeded their benchmarks while twenty-one of thirty-three of the external portfolios met or exceeded their benchmarks year-to-date.

Mr. Johnson provided an overview of SWIB's recently submitted biennial budget request. He mentioned that the operating budget is tied to the level of assets managed. For every hundred dollars managed, SWIB is authorized to expend 2.75 cents or basis points. There are no additional requests for staffing in the budget, but there is potential for adjusting the basis point authority.

In the 1990s, asset growth averaged 11.6% annually. Since SWIB went to a basis point budget in 2000, growth has averaged 3.2%. Net cash outflow from the WRS is increasing as the number of retirees grows. A 7.8% investment return assumed by the actuary now results in actual asset growth of less than 5%. If asset growth remains low, SWIB's 2.75 basis point budget may not be sufficient to allow SWIB to move asset management from external managers to less expensive internal managers.

In the current investment marketplace, collaboration among SWIB staff has become especially important. Investors have become much more sensitive to risk as measured by volatility. Mr. Mills felt SWIB needed a comprehensive agency-wide look at where the risk was being spent. A single CIO will allow SWIB investors to benefit from an overall view and to gain fresh new perspectives.

Mr. Villa shared his initial observations with the Boards. He advised the Boards that he has a sensitivity for the pace of change and feels it is a priority to get to know the people at SWIB. He provided an explanation of how important he feels it is to analyze risk before the fact rather than afterwards. Mr. Villa will explore ways of managing more funds in-house and plans to think globally. He stated that the cost benefit of doing so is immense. He will be examining different opportunities and will introduce symmetry into the investments made.

Mr. Mills announced the SWIB staff retreat would take place on October 18-19, 2006.

A short question and answer period followed the SWIB presentation.

MISCELLANEOUS

Pending Appeals Report Ms. King referred to the Pending Appeals Report distributed in the informational packet. The total number of appeals continues to drop.

Benefit Payment System (BPS) Update Ms. King reported that the Department of Employee Trust Funds (ETF) is continuing to make steady progress toward implementation. Testing continues.

Website Presentation Update Ms. King mentioned that, as numbers of retirees continue to grow, new ways to provide information to participants must be explored and implemented. Toward that goal, there are now three media presentations available on the ETF website: WRS Benefits; WRS Statement of Benefits; WRS: How to Complete a Retirement Application.

Dual-Choice Dates Ms. King announced that the Dual-Choice dates for 2006 are October 9 through October 27.

Waukesha Office Update Ms. King reminded the boards that the downtown Milwaukee office has moved to the Waukesha State Office Building effective July 10, 2006. Group counseling sessions are now being offered at the Waukesha site. These sessions are available one day per week. Attendance is better than expected and participants note they appreciate the free parking and easy access.

2004 Comprehensive Annual Financial Report Ms. King noted that the 2004 Comprehensive Annual Financial Report (CAFR) will soon be available. The document is now being printed.

Solie / Baxter Update Ms. King referred to Ms. Owen's memo sharing the final report on implementation of the Solie / Baxter court decision. Of the 431 individuals who inquired, 53 were eligible for service credits. Ms. King indicated that additional inquiries arrived as this memo was being written.

ADJOURNMENT

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

The Joint Informational Meeting adjourned at 11:48 a.m.

Date Approved: _____

Signed: _____

David Wiltgen, Secretary
Teachers Retirement Board