

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

Thursday, March 30, 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
Suzanne Doemel, Vice-Chair, TR Board
Theron Fisher, ETF Board
Rick Gale, Secretary, WR Board and ETF Board
Wayne Koessl, Vice-Chair, WR Board and Vice-Chair, ETF Board
Nan Kottke, WR Board
Kathleen Kreul, ETF Board
Mike Langyel, TR Board
Irena Macek, ETF Board
Eileen Mallow (*Jorge Gomez, WR Board*)
Dennis McBride, WR Board
Wayne McCaffery, Chair, TR Board and ETF Board
Lon Mishler, Secretary, TR Board
Dan Nerad, TR Board
Robert Niendorf, Secretary, ETF Board
Dennis Panicucci, TR Board
Tom Pedersen, TR Board
Roberta Rasmus, TR Board
Gary Sherman, ETF Board
Herbert Stinski, WR Board
Nancy Thompson, ETF Board
James Tripp, TR Board
Mary VonRuden, WR Board
Marilyn Wigdahl, Chair, WR Board and Chair, ETF Board
David Wiltgen, TR Board

BOARD NOT PRESENT:

Robert Shaw, TR Board
Karen Timberlake, ETF 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
Jon Kranz, Director, Office of Internal Audit and Budget
Robert Weber, Chief Legal Counsel

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Linda Esser, Board Liaison

OTHERS PRESENT:

Mark Buis, Gabriel, Roeder, Smith and Company
Sue Chamberlain, University of Wisconsin System
Jackie Doeler, State of Wisconsin Investment Board
Sandy Drew, State of Wisconsin Investment Board
Rhonda Dunn, Executive Assistant
Kendra Eppler, Legislative Audit Bureau
William Ford, Legislative Council
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
Steve Hurley, Division of Management Services
Norm Jones, Gabriel Roeder, Smith and Company
Ed Kehl, Wisconsin Coalition of Annuitants
Nancy Ketterhagen, Office of the Secretary
Audrey Koehn, Division of Retirement Services
Peg Narloch, Division of Insurance Services
Chad Neumann, State of Wisconsin Investment Board
Linda Owen, Division of Retirement Services
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, Board Liaison
Steve Werner, Wisconsin Professional Police Association
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 9:30 a.m.

CONSIDERATION OF MINUTES

Motion: Ms. Wigdahl moved approval of the minutes of the December 15, 2005, meeting. Ms. Kreul seconded the motion, which passed without objection on a voice vote.

ANNOUNCEMENTS

Board Member Resignation Mr. Stella announced that Cynthia Van Bogaert has resigned from the Employee Trust Funds (ETF) Board for personal reasons effective March 29, 2006. This is a position appointed by the Governor. The Governor's office is actively seeking a person to fill this seat on the ETF Board.

Introduction of Staff Mr. Stella introduced Bob Conlin, Director of Legislation, Communications and Planning. Mr. Conlin came to the Department of Employee Trust Funds (DETF) after thirteen years at the Legislative Council.

Mr. Stella indicated that Jon Kranz, whose previous position was Budget Director of DETF, has accepted additional responsibilities in his position and now holds the combined position of Director of the Office of Internal Audit and Budget (OIAB). An internal auditor will be added to the staff in the OIAB using the position left vacant by creating Mr. Kranz' combined position.

LEGISLATIVE UPDATE

Mr. Conlin provided a legislative update to the boards. On March 9, the Legislature concluded its winter legislative activity. The Legislature is next scheduled to convene from April 25 to May 4, 2006, for the last general business floorperiod of the 2005-2006 legislative session. This will be the last opportunity for most bills to gain legislative approval before the session ends. To date, over 1,140 Assembly Bills (AB) and over 670 Senate Bills (SB) have been introduced. The Governor has signed more than 180 of these bills into law so far, and many others are ready for his signature.

DETF has been successful in having several pieces of its legislation signed into law. Very late in 2005, six remedial bills requested by DETF were introduced by the Legislature's Law Revision Committee. In general, these bills make changes to current law and assist DETF in administering its many programs. Five of these bills were recently approved by both houses of the Legislature and were signed by the Governor on March 21.

Of these bills, the one that will likely have the most immediate public impact is **SB 490**. Signed into law as **2005 Wisconsin Act 153** and effective April 5, 2006, the bill changes the name of the Fixed Trust Fund to the Core Trust Fund. The name change will reduce confusion among participants because it better reflects the nature of the Fund in the Wisconsin Retirement System (WRS) investment mix. At its inception, the Fixed Fund was invested primarily in fixed income and bond investments. In order to maximize returns, however, the Fund's assets have, over time, been invested in other types of investments. Today, over 60 percent of the Fund's assets are held in equities. Since the Fund makes up over 90 percent of the WRS assets and serves as the "core" of most participants' pensions, "Core Fund" more accurately describes the Fund's purpose and its diversified nature.

One remedial bill that DETF requested, **SB 486**, has not yet received approval from both houses of the Legislature. This bill makes a change to the Income Continuation Insurance program to allow an otherwise eligible participant to be covered by income continuation insurance despite an employer error in enrolling the employee. The bill has passed the Senate and is ready to be voted on by the full Assembly. DETF hopes to have that bill approved in April.

WISCONSIN RETIREMENT 23rd ANNUAL VALUATION OF RETIRED LIVES – DECEMBER 31, 2005

Mr. McCaffery introduced Norm Jones and Mark Buis of Gabriel, Roeder, Smith and Company, actuaries for the Department. Mr. Buis gave a PowerPoint presentation in conjunction with the report, *Wisconsin Retirement System 23rd Annual Actuarial Valuation of Retired Lives – December 31, 2005*. The report represents a comparison of reserve balances of the fixed and variable reserves with the present value of annuities being paid within each fund, as well as the methodology used to calculate the annual dividend. Mr. Jones noted that Mr. Buis would present the key results to the ETF Board on Friday, March 31, 2006.

EFFECTIVE RATE AND DIVIDEND EXPECTATIONS

Mr. McCaffery introduced Mr. Stella. Mr. Stella explained the calculation of the fixed effective rate and provided dividend projections for the coming year based on assumptions. He noted that these numbers are projections, not predictions, and that they are based on the 2005 investment returns and dividends. These numbers include the investment gains and losses carried forward in the Market Recognition Account (MRA), the smoothing mechanism currently in use.

Mr. Stella clarified that DETF has announced the dividend adjustments. He explained the dividend process wherein he contacted the Chair of the ETF Board, Marilyn Wigdahl, and recommended the rates. The Chair approved the rates and DETF began preparations to make the payments.

The ETF Board will hear the formal report and act on that report on March 31.

MISCELLANEOUS

Benefit Payment System Mr. Stella reported that ETF has completed the design and construction of the Benefit Payment System (BPS) project. The functional testing of the system is currently in process and 95 percent complete. DETF will soon begin to run the acceptance testing phase, where the payment system will be tested from beginning to end prior to the conversion. The BPS should be in place before the end of the summer.

State of Wisconsin Investment Board (SWIB) Annual Report Ms. King noted that the SWIB Annual Report was distributed in the packet of meeting materials.

Pending Appeals Report Ms. King referred the boards to an updated report on pending appeals. She noted that the ETF Board has an increase of 15 individual appeals all from one participating employer.

Solie/Baxter Update Ms. King noted that DETF has received over 375 inquiries from participants asking whether they are eligible for service credit under the *Solie and Baxter* court decision. DETF has reviewed 276 participant accounts, 18 with related appeals. Sixteen of the 18 accounts with pending appeals were eligible for service credit. Twenty-four of the remaining 258 inquiries were eligible. Ms. King indicated that staff would continue to provide updates on this issue.

New Employers for 2006 Ms. King advised the boards that 13 new employers became members of the WRS effective January 1, 2006. This brings the total employer count to 1,440.

Milwaukee Office Relocation Announcement Ms. King noted that the downtown Milwaukee Office has provided some challenges for participants, particularly due to accessibility. The current

Milwaukee Office has only one handicap entrance and parking is difficult to find as well as expensive. There is also construction in the area.

The State Office Building in Waukesha has been selected as the new location. This building has easy access to parking and handicapped entrances. It also has conference room availability for small group retirement counseling sessions.

The office move is anticipated to take place in July 2006.

Dennis McBride, public member of the Wisconsin Retirement Board, expressed concern with the relocation of the Milwaukee Office. Mr. McBride noted that this move would have an impact on the financial and social well-being of the community. He did not dispute the need for the relocation or DETF's motives but wanted to indicate that the lack of development in the inner city leads to poverty, crime, and higher costs for all. Mr. Bratanow indicated that decisions about expenditure of trust funds should not be based on social policy, but solely on trust fund needs.

Secretary Stanchfield explained the information that was taken into consideration before making this important decision.

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

COMPARATIVE STUDY OF MAJOR RETIREMENT SYSTEMS

Bill Ford thanked Secretary Stanchfield and Mr. Stella for inviting him to speak. Mr. Ford is a Senior Staff Attorney with the State Legislative Council, a non-partisan legislative service agency.

Mr. Ford gave an overview of a study entitled *2004 Comparative Study of Major Public Employee Retirement Systems*. This study has been prepared every two years since 1982. It includes at least one major public employee retirement system for each of the 50 states. The report is useful in spotting trends because it has used the same 85 systems since 1982.

Information contained in the report includes the number of active employees and retirees. Mr. Ford pointed out that for 2004 the growth in retirees is approximately four times the growth in active employees. The study describes whether a plan is coordinated with the social security system. It describes in some detail the formula used by each of the 85 plans to determine a retirement annuity and enumerates the age at which each of the systems allows a person to retire both for normal retirement and early retirement. Information about whether each system has a mechanism in place to adjust a retiree's benefit (post retirement annuity increases) can also be found. The study also describes the percentage level at which each of the systems is funded and compares the employee and employer contribution rates.

STATE OF WISCONSIN INVESTMENT BOARD UPDATE

Mr. McCaffery introduced Gail Hanson, Deputy Executive Director of the State of Wisconsin Investment Board (SWIB). Jackie Doeler, Healthcare Portfolio Manager, and Chad Neumann, Small Cap Diversified Portfolio Manager, of SWIB accompanied her.

Ms. Doeler reviewed the 2005 market returns, sector returns, and index returns. Value stocks outperformed growth stocks in 2005. She explained that it was a very low volatility environment

last year. Ms. Doeler indicated that the best performing sectors were energy and utilities. In summary, some of the things that reduced growth potential in the market were slowing corporate earnings, a record number of hurricanes, rising oil prices and increases in the federal funds rate.

Mr. Neumann provided an outlook for 2006. He described a moderate acceleration in real gross domestic product and said that the consumer price index can remain contained for the year. He explained that Wall Street analysts are projecting that an environment of low returns will persist. Wall Street expects positive returns and low volatility to continue. Mr. Neumann predicted that in 2006 there may be an economic slowdown, the housing market will slow and consumer spending will decrease.

Ms. Hanson praised the staff at SWIB and brought greetings from Dave Mills, SWIB's Executive Director. She provided SWIB highlights for 2005. She referred to a summary of returns and indicated that SWIB either met or beat the benchmark for both the fixed and the variable fund. Through February 2006, SWIB's assets under management have reached an all time high at \$82.8 billion.

Ms. Hanson described SWIB's Incentive Compensation Plan. In January of 2001, SWIB gained compensation flexibility to pay incentive compensation to internal portfolio managers able to meet and exceed the benchmarks established for their portfolio. This compensation plan has allowed SWIB to hire and retain more experienced staff, a necessity in the investment management business.

Ms. Hanson noted that SWIB continues to refine its business continuity plan. In the event of a catastrophe, employees will continue to work from home. SWIB has been one of the models the State of Wisconsin is looking at in developing a continuity plan for the rest of state government.

SWIB is currently recruiting a Chief Investment Officer (CIO) to be responsible for SWIB's overall investment strategy. Ms. Hanson advised they should have the new CIO in place before the end of April.

Mr. McCaffery thanked Ms. Hanson for her presentation.

ADJOURNMENT

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

The Joint Informational Meeting adjourned at 12:30 p.m.

Date Approved: _____

Signed: _____

David Wiltgen, Secretary
Teachers Retirement Board