

AGENDA AND NOTICE OF MEETING

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

Thursday, December 13, 2007

9:30 a.m.

Sheraton Madison Hotel

706 John Nolen Drive

Madison, Wisconsin

Documents for this meeting are available on-line at:

http://etf.wi.gov/boards/board_ji.htm

To request a printed copy of any of the agenda items, please contact
Ann McCarthy, at (608) 261-0736.

**Wayne McCaffery chairs meeting*

 *Denotes action item*

- | | | |
|------------|---|---|
| 9:30 a.m. | | 1. Announcements |
| | | <ul style="list-style-type: none">• New Management Team – Dave Stella (Secretary), Bob Conlin (Deputy Secretary), and Rhonda Dunn (Executive Assistant)• New Meeting Location• 2009 Proposed Meeting Dates• Recent Department Awards |
| 9:35 a.m. |  | 2. Consideration of Minutes of Previous Meeting |
| 9:40 a.m. | | 3. Employer Program Participation |
| 9:50 a.m. | | 4. Beneficiary Designations |
| 10:05 a.m. | | 5. Legislative Update |
| 10:15 a.m. | | 6. Educational Topic |
| | | <ul style="list-style-type: none">• Call Center Overview |

The meeting location is handicap accessible. If you need other special accommodations due to a disability, please contact Ann McCarthy, Department of Employee Trust Funds, P.O. Box 7931, Madison, WI 53707-7931. Telephone: (608) 261-0736. TTY: (608) 267-0676. E-mail: ann.mccarthy@etf.state.wi.us

- 10:40 a.m. 7. **Miscellaneous**
- **Department Contact Information**
 - **Backlog/Wait Time Report**
 - **Pending Appeals Report**
 - **Video Library**
 - **Comprehensive Annual Financial Report (CAFR) Update**
 - **Future Items for Discussion**
- 10:50 a.m. 8. **Educational Topic**
- **State of Wisconsin Investment Board - Variable Fund Asset Allocation**
- 11:35 a.m. 9. **Adjournment**

Times shown are estimates only.

**LUNCH WILL BE SERVED FOR BOARD MEMBERS & MEETING PARTICIPANTS AT 11:45 A.M.
IN THE OLIN ROOM**

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STATE OF WISCONSIN
Department of Employee Trust Funds
David A Stella
Secretary

801 W Badger Road
PO Box 7931
Madison WI 53707-7931

1-877-533-5020 (toll free)
Fax (608) 267-4549
<http://etf.wi.gov>

CORRESPONDENCE MEMORANDUM

DATE: December 1, 2007

TO: Employee Trust Funds Board
Teachers Retirement Board
Wisconsin Retirement Board

FROM: Ann McCarthy
Board Liaison

SUBJECT: 2008 Meeting Location

At the September 2007 Retirement Board meetings, we informed you that the new location of 2008 Board meetings would be the Holiday Inn, 1109 Fourier Drive, Madison, WI. Attached you will find a map and directions to the hotel. As in the past, hotel reservations will be made for you if you have requested a room.

As a reminder, the 2008 Board meeting dates are:

Thursday and Friday, March 13 and 14, 2008
Thursday and Friday, June 26 and 27, 2008
Thursday and Friday, September 18 and 19, 2008
Thursday and Friday, December 11 and 12, 2008

Please feel free to contact me if you have any questions or concerns.

Reviewed and approved by Robert J. Conlin, Deputy Secretary

Signature _____

Date _____

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CORRESPONDENCE MEMORANDUM

DATE: December 3, 2007

TO: Employee Trust Funds Board
Teachers Retirement Board
Wisconsin Retirement Board

FROM: Ann McCarthy, Board Liaison

SUBJECT: Proposed 2009 Meeting Dates

Listed below are the proposed meeting dates for 2009:

Thursday and Friday, March 19 and 20, 2009
Thursday and Friday, June 18 and 19, 2009
Thursday and Friday, September 17 and 18, 2009
Thursday and Friday, December 3 and 4, 2009

The listed dates were selected to avoid conflicts with holidays, State of Wisconsin Investment Board meetings, and professional organization conferences. If you have questions or if these dates are problematic, please feel free to contact me at (608) 261-0736. Early confirmation of these dates will allow staff to enter into agreements with conference facilities.

Reviewed and approved by Robert J. Conlin, Deputy Secretary

Signature

Date

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CORRESPONDENCE MEMORANDUM

DATE: December 3, 2007

TO: Employee Trust Funds Board
 Teachers Retirement Board
 Wisconsin Retirement Board

FROM: John Vincent, Administrator
 Division of Trust Finance and Employer Services

SUBJECT: Employer Program Participation: January 1, 2007 – November 1, 2007

This memo is for the Board's information only. No action is required.

The following is an update on the employers that have been approved by their respective boards to join the Wisconsin Retirement System (WRS). This report also details employers that have joined additional benefit programs administered by the Department, January through November, of this year. An asterisk (*) highlights those employers new to this update. Please note that an employer must join the WRS before it is eligible to participate in the other programs.

New Employer	Number of Employees	WRS	Wisconsin Public Employees Group Health	Life	Income Continuation Insurance
Baraboo District Ambulance Service	23				Eff. 1/01/07
Bayside, Village of	37		Eff. 2/01/07		
Bristol, Town of	14			Eff. 1/01/07	
Brothertown, Town of	1		Eff. 3/01/07	Eff. 2/01/07	Eff. 5/01/07
* Brigham, Town of	3		Eff. 9/01/07		
*Bruce, Village of	4	Eff. 1/01/08			
*Buchanan, Town of	5	Eff. 1/01/08			
Cambridge, Village of	14			Eff. 3/01/07	
Camp Douglas, Village of	6			Eff. 1/01/07	Eff. 1/01/07
*Capital Area Regional Planning Commission	9	Eff. 1/01/08			
*Colby, City of	10	Eff. 1/01/08			
*Country Estates Sanitary District	1	Eff. 1/01/08			
*Deerfield, Village of	10		Eff. 10/01/07		
Delafield, City of	62				Eff. 4/01/07
*Eagle River Union Airport	3	Eff. 1/01/08			
Fennimore, City of	25		Eff. 2/01/07	Eff. 2/01/07	

Reviewed and approved by Robert J. Conlin, Deputy Secretary.

 Signature Date

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New Employer	Number of Employees	WRS	Wisconsin Public Employees Group Health	Life	Income Continuation Insurance
*Grant, Town of	1	Eff. 1/01/08			
Hazel Green, Village of	8		Eff. 2/01/07		
*Hollandale, Village of	2	Eff. 1/01/08			
Iron Ridge, Village of	11		Eff. 3/01/07	Eff. 3/01/07	
*Manawa Rural Fire Board	1	Eff. 1/01/08			
*Mattoon, Village of	2		Eff. 10/01/07		
Montfort, Village of	4		Eff. 3/01/07		
*North Cape School District	10	Eff. 1/01/08			
Oregon, Village of	45				Eff. 1/01/07
Oshkosh Housing Authority	34		Eff. 3/01/07		
Racine Unified School District	2,400			Eff. 3/01/07	
*River Falls, Housing Authority	8			Eff. 11/01/07	Eff. 11/01/07
*Rockland, Village of	3	Eff. 1/01/08			
Sauk Prairie, Ambulance Commission	1		Eff. 2/01/07	Eff. 2/01/07	Eff. 2/01/07
*Sauk Prairie, Joint Sewerage Commission	1				Eff. 7/01/07
Sauk Prairie, Recreation Commission	1		Eff. 2/01/07	Eff. 2/01/07	Eff. 2/01/07
*Schofield, City of	7	Eff. 1/01/08			
Silver Lake Sanitary District	6		Eff. 2/01/07		
*Spring Valley, Village of	7	Eff. 1/01/08			
*Sullivan, Town of	2	Eff. 1/01/08			
Sullivan, Village of	62		Eff. 4/01/07		
*Superior, City Housing Authority of	24	Eff. 1/01/08			
*Tainter, Town of	3	Eff. 1/01/08			
Vilas County	203				Eff. 1/01/07
*Warrens, Village of	4	Eff. 1/01/08			
Waterford, Town of	14		Eff. 3/01/07		
Western Racine County Sewage District	1		Eff. 2/01/07		
Whitehall, City of	16			Eff. 4/01/07	



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CORRESPONDENCE MEMORANDUM

DATE: November 30, 2007

TO: Employee Trust Funds Board
 Teachers Retirement Board
 Wisconsin Retirement Board

FROM: John Vincent, Administrator
 Division of Trust Finance and Employer Services

SUBJECT: Beneficiary Designations

This memo is for the Board's information only. No action is required.

Some questions were raised at the September 14, 2007, meeting about the Department's policy on receiving and handling beneficiary designations. More specifically, some members asked whether the postmark date could be the basis for proving when a beneficiary designation form is officially received by the Department as opposed to the current policy of using the date the document was received by the Department.

The Department receives approximately 26,000 beneficiary designation forms from members each year. They are mailed to the Department of Employee Trust Funds (ETF), hand-delivered to ETF, or sent via fax. The effective date of the change is the date received, and not the date processed, as long as the information meets the requirements for an acceptable beneficiary(s). The current standard of accepting the forms via one of these methods has been very effective for the Department. However, if mitigating circumstances do arise the Department can be called and will expedite the review of a faxed or hand-delivered beneficiary designation form.

ETF is very careful in the processing of beneficiary designations because we want to ensure that the last written designation of beneficiary on file at the time of death clearly reflects the individual's intent. The designation is reviewed for omissions of critical data, incorrect completion of the form, and other errors that may cause delays in benefit payment. Processing beneficiary designation forms is a critical task and the standard turn-around time is typically five working days.

To recognize the postal cancellation date as the official date of receipt would be administratively burdensome and costly. For example, the postmark date is oftentimes illegible, thus unreliable. In addition, it's not uncommon for documents to be received from another state agency not accompanied with an envelope. Logistically, and as would be the case with other ETF program areas, the envelopes would need to be scanned and retained at the Department for a minimum of 90 days, after which they are maintained at the Records Center for the balance of two years.

Reviewed and approved by Robert J. Conlin, Deputy Secretary.	
_____ Signature	_____ Date

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Thus, the on-site storage space would need to be doubled. Finally, backlogs would increase as the change would require labor-intensive additional sorting by date and the system date would need to be regularly changed in recognition of the different dates on the envelopes, versus batch processing for the date received.

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Revised: 12/9/07 - Last Complete Update:12/9/07

BILL NO. AUTHOR	ACT NO.	STATUS (COMMITTEE/ HEARING DATE/ETC)	SUBJECT	LINK
<u>ASSEMBLY BILLS AND RESOLUTIONS</u>				
AB 18 Lothian/Kedzie		Introduced 1/12/07; referred to JSCTE	TAX: Exempts from tax certain distributions received each year by an individual from a qualified retirement plan, if not already exempt. First applies to tax year 2007, and the maximum allowable exemption is \$2,500. The exemption amount increases each year from \$2,500 to \$5,000 in 2008, \$10,000 in 2009, \$15,000 in 2010, and \$20,000 in 2011 and thereafter.	http://www.legis.state.wi.us/2007/data/AB18hst.html
AB 23 Wasserman/Ellis		Introduced 1/24/07; referred to Labor	SICK LEAVE: Provides that no legislator may accumulate sick leave from year to year in his or her sick leave account for work performed as a member of the legislature in any legislative session beginning on or after January 5, 2009.	http://www.legis.state.wi.us/2007/data/AB23hst.html
AB 28 Lothian/Kedzie		Introduced 1/24/07; referred to Ways & Means; passage as amended recommended 3/21; referred to Jt. Finance 3/27	TAX: Creates a nonrefundable individual income tax credit for pension income received each year from a qualified retirement plan, except for pension income that is already exempt. First applies to taxable year 2008. The maximum amount of pension income allowable each year is \$2,500 in 2008; \$5,000 in 2009; \$10,000 in 2010; \$15,000 in 2011; and \$20,000 in 2012 and thereafter.	http://www.legis.state.wi.us/2007/data/AB28hst.html
AB 31 Strachota/Kanavas		Introduced 1/24/07; referred to Labor; passage recommended (5 – 2) 2/7/07; passed as amended by Assembly (66-29) 3/1/07; referred to Gov't Operations	SICK LEAVE: Provides that no legislator, no justice or judge, and no other state elected official, including a district attorney, may accumulate unused sick leave from year to year in his or her sick leave account for work performed in that capacity after the effective date.	http://www.legis.state.wi.us/2007/data/AB31hst.html
AB 43 Musser/Jauch		Introduced 1/30/07; referred to Veterans & Mil Affairs; passage recommended (8-0) 3/7/07; referred to JSCRS	WRS: Provides: 1) that a participant in the WRS who terminates covered service on or after the effective date may receive creditable military service for active military service served at any time, not just before 1974; 2) that the participant may receive military service credits for military service that is also used for the purpose of establishing entitlement to a retirement benefit paid by the federal government; and 3) that, for purposes of the break in continuous employment military service credit provision, the participant may return to employment with any WRS employer.	http://www.legis.state.wi.us/2007/data/AB43hst.html

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AB 60 Travis/Piale		Introduced 2/13/07; referred to JSCTE	RETIREMENT/TAX: Exempts from tax amounts received each year by an individual who is at least 62, from an IRA, a Roth IRA or a qualified retirement plan, if such payments are not already exempt. First applies to tax year 2008, and the maximum allowable exemption is \$2,500. The exemption amount increases \$2,500 each year for eight years so that, in 2015 and thereafter, the maximum exemption is \$20,000.	http://www.legis.state.wi.us/2007/data/AB60hst.html
AB 72 Jt. Finance		Introduced 2/14/07; referred to Jt. Finance; passage as amended recommended 3/7/07; tabled 3/13/07 (See SB 39)	BUDGET ADJUSTMENT: Among other things, requires DOA during the 2005–07 fiscal biennium to lapse or transfer to the general fund from each state agency moneys that would otherwise have been expended by the agency to pay the WRS unfunded liabilities had pension obligation bonds not been issued. Requires DOA in each future fiscal biennium to lapse or transfer these moneys to the general fund based on each state agency’s proportionate share of all state retirement contributions that are required to be paid in that fiscal biennium.	http://www.legis.state.wi.us/2007/data/AB72hst.html
AB 124 Kessler/Harsdorf		Introduced 3/1/07; referred to Financial Institutions	SWIB: Generally prohibits SWIB from making certain future investments, and requires SWIB to divest itself of prior investments, related to Sudan.	http://www.legis.state.wi.us/2007/data/AB124hst.html
AB 175 Travis/Hansen		Introduced 3/12/07; referred to JSCRS	WRS: Authorizes ETF, at the request of an annuitant, to deduct from WRS retirement annuities membership dues to a labor organization, professional organization, or a retiree organization affiliated with a labor organization or professional organization.	http://www.legis.state.wi.us/2007/data/AB175hst.html
AB 184 Gottlieb/Lassa		Introduced 3/19/07; referred to Urban & Local Affairs; passage as amended recommended 9/11/07; passed as amended by Assembly (91-5) 10/24/07; referred to Labor; concurrence recommended 12/4/07	OPEB: Requires that funds invested by local units of government to provide post-employment benefits be held in segregated accounts solely in the manner provided under the Uniform Prudent Investor Act.	http://www.legis.state.wi.us/2007/data/AB184hst.html
AB 354 Musser/Erpenbach		Introduced 5/24/07; referred to Corrections & Courts; passage as amended recommended 12/4/07	WRS: Classifies members of the Parole Commission and state employees employed at state correctional institutions, juvenile correctional facilities, mental health institutes, the Wisconsin Resource Center, or any secure mental health unit or facility for sexually violent	http://www.legis.state.wi.us/2007/data/AB354hst.html

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			persons as protective occupation participants under WRS.	
AB 449 Gottlieb/Lazich		Introduced 7/10/07; referred to Urban & Local Affairs	WRS: Prohibits a participating employer in the WRS covered by the Municipal Employment Relations Act from paying, on behalf of any employee, the first 3 % of earnings that the employee is required to pay as employee required contributions if that employee first becomes a participating employee in the WRS on or after the bill's effective date.	http://www.legis.state.wi.us/2007/data/AB449hst.html
AB 485 Van Roy		Introduced 8/14/07; referred to JSCRS	WRS: Provides that, for purposes of distributing additional contributions under the WRS, the number of months over which an annuity certain is paid may not exceed the participant's life expectancy, instead of the current 180 month limit. For the purpose of calculating life expectancy, requires ETF to use the same tables that the IRS uses for determining minimum required distributions from an individual retirement account.	http://www.legis.state.wi.us/2007/data/AB485hst.html
AB 605 Law Revision		Introduced 11/29/07; referred to Financial Institutions	SWIB: Remedial legislation that adds certain direct obligations of the US, commercial paper and CDs to the list of investment vehicles that SWIB may invest in.	http://www.legis.state.wi.us/2007/data/AB605hst.html
AB 606 Law Revision		Introduced 11/29/07; referred to Financial Institutions	SWIB: Remedial legislation that modifies due date of certain reports required of SWIB.	http://www.legis.state.wi.us/2007/data/AB606hst.html
AJR 34 Hines/Breske		Introduced 3/19/07; referred to Ways & Means; adoption recommended (9-4) 7/11/07	GENERAL: Constitutional amendment permits the creation of a state fund, other than a fund or account related solely to the issuance or payment of public debt or other obligation, only if two-thirds of all the members elected to each house concur. Any fund created before, on, or after the date of ratification of the amendment remains in effect until abolished by law, and the purpose for which it was created may not be changed. Also, a state fund created before, on, or after the date of ratification of the amendment may not be lapsed, transferred, or expended in any manner that would conflict with the fund's purpose.	http://www.legis.state.wi.us/2007/data/AJR34hst.html

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AJR 57 Huebsch/Robson		Introduced 6/21/07; referred to Rules	DAVE MILLS: Honors and congratulates Dave Mills.	http://www.legis.state.wi.us/2007/data/AJR57hst.html
<u>SENATE BILLS AND RESOLUTIONS</u>				
SB 3 Kedzie/Owens		Introduced 1/8/07, referred to JSCTE	TAXATION: Exempts from taxation certain amounts of payments received by an individual from a qualified retirement plan, if not already exempt. First applies to tax year 2007, and the maximum allowable exemption is \$2,500. The exemption amount increases each year from \$2,500 to \$5,000 in 2008, \$10,000 in 2009, \$15,000 in 2010, and \$20,000 in 2011 and thereafter.	http://www.legis.state.wi.us/2007/data/SB3hst.html
SB 4 Kedzie/Lothian		Introduced 1/8/07, referred to JSCTE	TAXATION: Increases the additional exemption for taxpayers who reach the age of 70 or 75 before the close of the tax year. An additional exemption of \$300 may be claimed by a taxpayer who has reached the age of 70 before the close of the tax year and an additional exemption of \$350 may be claimed by a taxpayer who has reached the age of 75 before the close of the tax year.	http://www.legis.state.wi.us/2007/data/SB4hst.html
SB 5 Kanavas/Strachota		Introduced 1/9/07, referred to Ethics Reform & Gov't Ops	SICK LEAVE CONVERSION: Provides that no legislator, no justice or judge, no other state elected official, and no person appointed by the governor to a position in the executive branch requiring senate confirmation, may accumulate unused sick leave from year to year in his or her sick leave account for work performed in that position after the bill's effective date.	http://www.legis.state.wi.us/2007/data/SB5hst.html
SB 19 Jauch/Musser		Introduced 1/30/07; referred to JSCRS; withdrawn and referred to Veterans & Military Affairs 4/25/07; passage recommended (5-0) 5/23/07; referred to JSCRS	WRS: Provides: 1) that a participant in the WRS who terminates covered service on or after the effective date may receive creditable military service for active military service served at any time, not just before 1974; 2) that the participant may receive military service credits for military service that is also used for the purpose of establishing entitlement to a retirement benefit paid by the federal government; and 3) that, for purposes of the break in continuous employment military service credit provision, the participant may return to employment with any WRS employer.	http://www.legis.state.wi.us/2007/data/SB19hst.html

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SB 39 Jt. Finance	5	Introduced 2/14/07; referred to Jt. Finance; recommend passage as amended 3/2; passed Senate as amended 3/13/07; passed Assembly 3/13/07; signed by Governor with partial veto 3/16/07; published 3/30/07	BUDGET ADJUSTMENT: Among other things, requires DOA during the 2005–07 fiscal biennium to lapse or transfer to the general fund from each state agency moneys that would otherwise have been expended by the agency to pay the WRS unfunded liabilities had pension obligation bonds not been issued. In addition, requires DOA in each future fiscal biennium to lapse or transfer these moneys to the general fund based on each agency's proportionate share of all state retirement contributions that are required to be paid in that fiscal biennium.	http://www.legis.state.wi.us/2007/data/SB39hst.html
SB 40 Jt. Finance	20	Introduced 2/14/07; referred to Jt. Finance; reported, as amended, without recommendation (8-8) 6/8/07; passed Senate as amended (18-15) 6/26/07; passed Assembly as amended (51-44) 7/10/07; conference committee created 7/17/07; approved by Gov with partial veto & published 10/26/07	BUDGET: Various changes in state appropriations, agency budgets and policy constituting the Biennial Budget Bill.	http://www.legis.state.wi.us/2007/data/SB40hst.html
SB 57 Harsdorf/Kessler		Introduced 2/21/07; referred to Veterans & Mil. Affairs & Fin. Insts.; public hearing 3/28/07	SWIB: Generally prohibits SWIB from making certain future investments, and requires SWIB to divest itself of prior investments, related to Sudan.	http://www.legis.state.wi.us/2007/data/SB57hst.html
SB 93 Lassa/Gottlieb		Introduced 3/13/07; referred to Urban Affairs	OPEB: Requires that funds invested by local units of government to provide post-employment benefits be held in segregated accounts solely in the manner provided under the Uniform Prudent Investor Act.	http://www.legis.state.wi.us/2007/data/SB93hst.html
SB 145 Leibham/Musser		Introduced 4/13/07; referred to JSCRS	MILITARY SERVICE CREDIT: Allows participating employees in the WRS to purchase years of creditable service for all years of active military service if they meet certain conditions, including the following: 1. the employee pays the general employee required contribution for each year of creditable service to be purchased based on the employee's final average earnings; 2. the employee may not purchase more than 4 years of creditable service; 3. the employee's discharge was under	http://www.legis.state.wi.us/2007/data/SB145hst.html

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			conditions other than dishonorable; 4. the employee may not receive creditable service under the program for any active military service used to qualify for the existing creditable military service program.	
SB 213 Lehman/Strachota		Introduced 6/13/07; referred to Ethics Reform & Gov't Ops.; public hearing 6/18/07	SICK LEAVE CONVERSION: Ends the accumulation of unused sick leave from year to year for legislators starting, generally, January 2009.	http://www.legis.state.wi.us/2007/data/SB213hst.html
SB 222 Risser/Sherman		Introduced 6/29/07; referred to JSCTE	WRS: Increases WRS benefits provided to an "educational support personnel employee." Makes the following changes to the WRS: (1) requires that educational support personnel employees and teachers, librarians, and administrators be treated the same in terms of qualifying for coverage under the WRS, with full-time employment for educational support personnel employees set at 1,320 hours per year; (2) provides that, for early retirement purposes, a participant's amount of creditable service in any annual earnings period shall be treated as the amount of creditable service that a teacher, librarian, or administrator would earn for that annual earnings period, currently 1,320 hours per year.	http://www.legis.state.wi.us/2007/data/SB222hst.html
SB 248 Darling/J.Ott		Introduced 7/31/07; referred to Environment & Natural Resources	WRS: Authorizes the creation of park districts and, among other things, provides that a district is considered an employer for WRS purposes.	http://www.legis.state.wi.us/2007/data/SB248hst.html
SB 282 Hanson/Travis		Introduced 10/4/07; referred to JSCRS	WRS: Authorizes ETF to deduct from WRS annuities membership dues to a labor or professional organization, or a retiree organization affiliated with one of those organizations, upon the request of an annuitant.	http://www.legis.state.wi.us/2007/data/SB282hst.html
SJR 24 Breske/Hines		Introduced 3/12/07; referred to Jt. Finance	GENERAL: Permits the creation of a state fund, other than a fund related solely to the issuance or payment of public debt or other obligation, only if two-thirds of all the members elected to each house concur. Any state fund created by law before, on, or after the date of ratification of the amendment remains in effect until abolished by law, and the purpose may not be changed. Provides that a state fund created before, on, or after the date of ratification of the amendment may not be lapsed, transferred, or expended in a manner that would	http://www.legis.state.wi.us/2007/data/SJR24hst.html

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			conflict with the purpose of the fund.	
SJR 52 Robson/Huebsch		Introduced 6/6/07; adopted by Senate 6/26/07; concurred in by Assembly 7/31/07	DAVE MILLS: Honors and congratulates Dave Mills.	http://www.legis.state.wi.us/2007/data/SJR52hst.html

Floor session schedule for 2007-08 Legislature:

2007	2008
Jan. 3, 2007: Inauguration	Jan. 10, 2008: Bills sent to Governor
Jan. 9, 2007: Floorperiod	Jan. 15 – 31, 2008: Floorperiod
Jan. 30 – Feb. 1 2007: Floorperiod	Feb. 19 – March 13, 2008: Floorperiod (Last general business)
Feb. 13, 2007: Floorperiod	April 3, 2008: Bills sent to Governor
Feb. 20 – March 1, 2007: Floorperiod	May 6 – 8, 2008: Floorperiod (Limited Business)
March 13 – 15, 2007: Floorperiod	May 15, 2008: Bills sent to Governor
April 17 – 26, 2007: Floorperiod	May 27 & 28, 2008: Veto review period
May 3, 2007: Bills sent to Governor	May 29 – Jan. 5, 2009: Interim
May 8 – 17, 2007: Floorperiod	June 11, 2008: Bills sent to Governor
May 29 – June 29: Floorperiod (Budget)	January 5, 2009: 2009 Inauguration
Aug. 9, 2007: Nonbudget bills to Governor	
Aug. 9 (or later), 2007: Budget to Governor	
Sept. 18 – 20, 2007: Floorperiod	
Oct. 23 – Nov. 8, 2007: Floorperiod	
Dec. 11 – 13, 2007: Floorperiod	



STATE OF WISCONSIN
Department of Employee Trust Funds
David A. Stella
SECRETARY

801 W Badger Road
PO Box 7931
Madison WI 53707-7931

1-877-533-5020 (toll free)
Fax (608) 267-4549
<http://etf.wi.gov>

CORRESPONDENCE MEMORANDUM

DATE: December 10, 2007

TO: Employee Trust Funds Board
Teachers Retirement Board
Wisconsin Retirement Board

FROM: Bob Conlin, Deputy Secretary
Phone: (608) 261-7940; e-mail: bob.conlin@etf.state.wi.us

SUBJECT: Legislative Report

Search for Legislative Liaison In Progress

The Department is in the midst of a search to fill the position of Legislative Liaison (Director of Legislation, Communications and Planning). Interest in this position was substantial, as the Department received about 40 applications for the position. Interviews are underway. The Department hopes to have the interviews completed by Christmas and the position filled very early in 2008. An announcement will be made when the position is filled.

Update on Substantive Provisions of the Budget Affecting the Department and Its Programs

Since the September Legislative Report, the Legislature passed a budget for the 2007-2009 Biennium and the Governor signed the measure into law as 2007 Wisconsin Act 20. Proposed changes in the way Wisconsin Retirement System (WRS) and health insurance contributions are determined and paid were not included in Act 20. The most notable proposed substantive change affecting Department programs that survived was the provision authorizing the state to pay a portion of health insurance premiums on behalf of employees after two months of employment rather than after six months of employment as currently provided. The change is effective July 1, 2008. It is believed that this change will make it easier to recruit employees to state service.

New Legislation

Recently, 2007 Senate Bill (SB) 336 was introduced. The bill expands and changes the membership of the Group Insurance Board (GIB). In short, the bill adds two new members to the GIB and requires that each of the state's congressional districts have "representation" on the GIB. The bill has its origins in the perceived lack of desirable health insurance providers for state and University employees in the area of the state that borders the Minneapolis/St. Paul metropolitan region. By requiring GIB members to be from the various congressional districts, it

Reviewed and approved by David A. Stella, Secretary.

Signature

Date

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appears that supporters of the bill believe employees in all parts of the state will have their interests better represented on GIB. No hearings or other legislative activities have been scheduled on the bill.

Department of Corrections Employees and Protective Occupation Status Under the WRS

The Department is closely monitoring the progress of 2007 Assembly Bill (AB) 354. The bill extends "protective occupation" status to a number of Department of Corrections and the Department of Health and Family Services employees who work in correctional institutions, mental health facilities and other workplaces in which they are exposed to dangerous persons. Under current law, to be classified as a protective occupation participant, an employee must be engaged in active law enforcement or fire suppression (at least 51% of the time), provided the duties require frequent exposure to a high degree of danger or peril and also require a high degree of physical conditioning. The bill would effectively reclassify approximately 5,000 additional state employees as protective occupation participants, regardless of whether they meet these tests.

An Assembly Committee approved the bill recently. Because the bill amends retirement policy, the Department believes that it should be referred to the Joint Survey Committee on Retirement Systems (JSCRS) to determine whether the bill is desirable public policy in the context of the WRS. Early indications are that the bill will be referred to the JSCRS in the coming days.

2007 Legislative Session Update

The attached table identifies other relevant bills introduced during the 2007 legislative session and the status of those bills.

Employee Trust Funds Call Center Frequently Asked Questions

Q: Who is my beneficiary?

A: *We do not share beneficiary information over the phone because often there are multiple forms on file. It can take a considerable amount of time to determine which form is the most current. We can send a copy of the beneficiary designations(s) to you. However, what we recommend is simply file a new beneficiary designation. It is often the fastest way of ensuring that you have named the beneficiaries you want on your account. The beneficiary form is available on our Web site, or we can mail one to you.*

Q: Where is my check?

A: *Your check was mailed on the last business day of the month to the address we have on file. We are required to allow the Post Office until the 12th of the month to get the check delivered to you. If you have not received it by the 12th, please call and we will send you a replacement check. You may want to consider setting up electronic deposit, which is a more timely and reliable method of receiving your payment.*

Q: Why did I receive a paper check?

A: *Even though you have provided information for the electronic deposit of your monthly payment, the first payment is always issued as a paper check. When we mail it, we simultaneously do a “behind the scenes” test of the banking information that you provided. This ensures that all will go smoothly when we begin the electronic deposit of your benefit, which will begin with your second payment.*

Also, whenever you change to a new financial institution, we do another “behind the scenes” test. You will receive a paper check for the first month following a bank change.

Q: Why did I receive two mailers before my first check?

A: *When you applied for retirement benefits, you selected an accelerated payment option. Even though you only get one payment each month, you have two records: one for the lifetime benefit, and one for the accelerated, or temporary, portion of the benefit that you will only receive until age 62. If you add the net amounts on both mailers together, you have the amount of your upcoming payment. (Note: there are other instances where a participant can have multiple records. For example, participants receiving their own benefit and a beneficiary payment will also have two records.)*

Until age 62, when your accelerated payment ends, any changes made to your account (i.e. tax withholding change, dividend adjustment, etc.) will generate two mailers.

Q: What option did I select?

A: *Since there are up to 14 different options available, the answer to this question would be specific to your account, and which option you selected at the time of retirement. Please give us a call and we will be happy to discuss the option you chose.*

Q: When does the accelerated payment end?

A: *Your final accelerated payment will be dated the first of the month following your 62nd birthday. Your accelerated benefit ends at that time, whether or not you apply for your Social Security benefits.*

Example: You turn 62 on February 2. Your last annuity check to include the accelerated portion will be the one issued on March 1 (representing payment for the month of February). About a week prior to your April 1 payment, you will receive an annuity mailer that will show the amount of your lifetime benefit.

Q: Is there a rule of 87 (combination of age and years of service)?

A: *No such rule exists now, nor has such a rule ever been a part of the WRS. It is, however, a persistent myth. Under the WRS, participants are eligible for retirement benefits when they reach **minimum** retirement age, regardless of the number of years of service. There is an age reduction factor applied to the formula benefit calculation if a participant retires before **normal** retirement age. There is no age reduction factor if a participant has a certain combination of years and service. Example: for general employees, with at least 30 years of service and are age 57 or more, the age reduction factor does not apply to their formula benefit calculations. The combination of age and years of service is different for other employment categories. The age reduction factor does not apply to money purchase calculations. The money purchase calculation is identical for all employment categories and there is no reduction for early retirement.*

Q: Why can't I receive a lump sum payment?

A: *The WRS allows for a lump sum retirement benefit only in limited situations. Each year, we establish two monthly payment amount thresholds. For 2007, the amounts are \$154 and \$313. If your monthly benefit is under \$154, you have **only** a lump sum payment option. If the monthly amount is between \$154 and \$313, you are given the **choice** of a lump sum payment, or a monthly annuity benefit. If your monthly benefit is over \$313, then you have a variety of monthly annuity benefit options. Since your monthly benefit is over the upper threshold, you do not have a lump sum payment option.*

Q: How much is my life insurance worth?

A: *The answer is specific to an individual participant. In general, the amount of life insurance in effect at the time of retirement is automatically continued (except for spouse/dependant coverage) and we deduct the premiums from your monthly benefit. At age 65, the policy is considered fully paid up, and we stop deducting premiums. Any coverage beyond basic coverage ends at age 65, and basic coverage reduces by 25% at age 65. The policy value reduces by another 25% at age 66. Some local (village, town, city, county) employer retirees will also have another 25% reduction at age 67. Upon retirement, a participant is sent a Life Insurance Certificate of Coverage, which outlines the current and future values of the policy.*

Q: Can I speak with you the next time I call?

A: *In the Call Center, specialists receive an average of 60 to 70 calls each day. Therefore individual extensions are not a timely way for you to reach us. All of our specialists are fully knowledgeable and will be happy to assist you.*

Call Management Section



Presented by:

Anne Boudreau, Director

Jaymee Meier, Supervisor

Member Services Bureau

ETF Call Management



- History
- Transition to Formal Call Center
- Initial Challenges
- Improvements Realized
 - Customer Access
 - Call Routing
 - Call Tracking
 - Workload Efficiencies

Our Role



- Primary point of contact for annuitants and inactive participants
 - Most active participants are directed to employers
- Provide information on WRS benefit programs and insurance
- Produce service requests for issues requiring additional information or follow up
 - Estimates
 - Correspondence
- Resolve issues during call
 - Goal is 75% of calls handled in call center
- Process requests
 - Forms, brochures, annuitant tax withholding, address changes

Staffing



- 10 Trust Funds Specialists
 - Eleven months to 10 years
- 4 Blended Specialists
 - Work 35% of scheduled hours in call center
- 1 Trust Funds Specialist Advanced
- 1 Section Chief
- Recruiting to fill 3 openings

A Group Photo



L to R Seated: Jaymee, Barry

Standing: Donna, Noland, Rob, Gene, Ade, Carmen

Mike and Jose



Blended Specialists & Toni



L to R Peggy, Sandy, Debbie, Toni Not Pictured: Lavonne

Fiscal Year 2007 Results



- Answered 122,418 calls
- Produced 42,281 service requests
 - 35% of calls result in a service request
- Placed orders for 11,345 forms/brochures
- Processed 4,222 tax withholding changes
- Processed 4,120 address changes
- Responded to 7,400 emails
- 75% of calls handled in the call center (67% in FY 06)
 - Reduced calls to other areas by 24.2%

Dual Choice 2007

Description	2007	2006	% +/-
<i># of Calls</i>	7290	6991	4%
<i>% of Calls Answered</i>	99	86	13%
<i>Avg. Wait Time (in seconds)</i>	26	169	-85%
<i>Max. Wait Time (in seconds)</i>	579	1693	-66%
<i>Avg. Wrap Up Time (in seconds)</i>	64	107	-40%
<i># Abandoned Calls</i>	107	1138	-91%
<i># Extension Out Calls</i>	1534	2082	-26%

So Far in Fiscal Year 2008....



- Answered 37,622 calls
 - 7% decrease
- Produced 12,384 service requests
 - 33% of calls result in service request
- 16% increase in e-mail contacts
- 76% of calls handled in the call center
 - Reduced calls to other areas by 11%

Busy Times



- Mondays busiest, Fridays least busy
- Peak call hours 9-3 daily
- 1st and 4th weeks of the month
- Other Times
 - December - April
 - | Tax Season
 - February - May
 - | Effective rates, dividend results
 - | Annual Statement of Benefit (SOB) mailing in April
 - October
 - | Annual Dual-Choice Enrollment

Service through Technology



- Build awareness of Online Video Library
 - Promote as appropriate during calls
 - Standard e-mail message
- Queue Messaging
 - Effective Rates
 - Dual-Choice Dates
 - High call volume times
- Customer Relationship Management (CRM)
 - Contact Routing
 - Information Management
 - Knowledge Management

Call Center Top 10 Questions



- Who is my beneficiary?
- Where is my check?
- Why did I receive a paper check?
- Why did I receive two mailers before my first check?
- When will the accelerated payment end?
- Is there a rule of 87?
- Why can't I receive a lump sum payment?
- What option did I select?
- How much is my life insurance worth?
- Can I speak with you the next time I call?

Out of the Mouths of Participants



- Caller: “Are you a psychiatrist?” No, sir, I am not. “Then you’ll have trouble helping me.”
- Participant called to ask if her required work shoes would be covered by Uniform Benefits.
- “I have a bunch of changes to make, since I no longer have my wife.” I’m sorry to hear that sir. We will need to get her passing reported. “She didn’t die, she just left me. I mean, she’s dead to me, but she’s alive to the rest of the world.”
- A caller frustrated after having to wait so long to get through: “I just wanted you to know that I said three rosaries during my time on hold.”

Future Challenges



- Fine Tuning Customer Service
- Maintaining Technology
- Adapting to Changes
 - Law
 - Customer Base
 - Technology



QUESTIONS???



STATE OF WISCONSIN
Department of Employee Trust Funds
 David A. Stella
 SECRETARY

801 W Badger Road
 PO Box 7931
 Madison WI 53707-7931

1-877-533-5020 (toll free)
 Fax (608) 267-4549

<http://etf.wi.gov>

CORRESPONDENCE MEMORANDUM

DATE: November 30, 2007

TO: Employee Trust Funds Board
 Teachers Retirement Board
 Wisconsin Retirement Board

FROM: Linda Owen, Policy Analyst
 Division of Retirement Services

Audrey Koehn, Policy Analyst
 Division of Retirement Services

SUBJECT: Backlog and Wait Time Statistics

The following table provides backlog and processing wait times as of November 9, 2007, for some of the Department's critical customer service functions. While the Department performs many other customer functions, these are some of the more critical tasks. The accompanying glossary provides a description of each of these functions.

Business Process	Number Backlogged	Wait Time
Retirement Estimate Requests	1710	8 Weeks
Annuitant Death Benefit Estimates	160	4 Weeks
Non-Annuitant Death Benefit Estimates	96	2 Weeks
Disability Estimate Requests	12	4 Days
Service Purchase Estimates	107	6 Weeks
Individual Appointments with a Benefit Specialist	N/A	4 Weeks
Group Retirement Appointments	N/A	5 Days
Separation Benefit Applications	122	8 Weeks
Retirement Benefit Applications	923	Benefit effective month
Disability Annuity Applications	88	Current
Finalize Estimated Retirement Annuity Benefits	4872	5 Months
Beneficiary Designations	128	1 Week
Military Service Inquiries	183	2 Weeks
Pension Verifications	33	3 Weeks
General Correspondence	89	2 Weeks
Annuitant Health Insurance Changes	681	5 Weeks
Non-Annuitant Qualified Domestic Relations Orders	67	4 Weeks
Duty Disability Tax Return Reviews	175	Up to 3 Years

Reviewed and approved by Sari King, Administrator, Division of Retirement Services.

Signature _____

Date _____

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GLOSSARY

Retirement Estimate Requests – Participants request a formal Wisconsin Retirement System (WRS) retirement benefit estimate/application form when they decide on a retirement date or contemplate retirement. Retirement estimates are sent with a complete packet of retirement materials. We can only accept estimate requests up to a year before the participant's anticipated retirement date; if it will be more than a year before they plan to retire, we encourage them to use the online calculator available on the ETF Internet site.

Annuitant Death Benefit Estimates – When the Department is notified that a WRS annuitant has died, we review the decedent's records to determine whether any death benefits are payable. If a death benefit is payable we send death benefit estimates and application forms to the beneficiary(ies); if no death benefits are payable we so notify the beneficiary(ies). This process also includes reviewing the records to determine if the decedent had life insurance coverage, and, if so, we direct the life insurance carrier (Minnesota Life Insurance Company) to pay the beneficiary(ies) directly. Except for disability benefit estimate requests, processing and paying death benefits are the Department's highest priorities.

Note: Over the past year, the Department has focused on processing reports of participant deaths as quickly as possible. It is important to provide a smooth transition of annuity payments to the survivor in those situations that involve a named survivor payment option, and to reduce overpayments that may result when an annuitant death is reported.

Non-Annuitant Death Benefit Estimates – When the Department is notified that an active or inactive WRS participant has died, we send death benefit estimate/application forms to the beneficiary(ies). We also review the decedent's records to determine if the decedent had life insurance coverage, and if so we direct the life insurance carrier (Minnesota Life Insurance Company) to pay the beneficiary(ies) directly. Again, except for disability benefit estimate requests, processing and paying death benefits are the Department's highest priorities.

Disability Estimate Requests – The Department receives requests for WRS disability and/or Long-Term Disability Insurance (LTDI) benefit estimates from participants who have terminated (or will be terminating) WRS employment due to a permanent and total disability. We review the participant's account to determine whether the minimum service requirements are met. If so, we determine whether the participant is potentially eligible for LTDI benefits only, or can choose between LTDI and WRS disability benefits. We send the appropriate estimate and application forms with a complete packet of informational materials. Disability benefit estimates are the Department's highest priority.

Service Purchase Estimates – The Department receives requests from "actively" employed participants to estimate the cost and to buy creditable service. There are several types of service that can be purchased, but the three primary types included in these statistics are:

- *Forfeited Service*: If the participant previously forfeited service by taking a separation benefit and meets certain service requirements, the participant can buy back the years of service forfeited.
- *Qualifying Service*: Non-teaching employees who began working for a participating employer before 1973 were required to serve a 6-month qualifying period. These employees were not covered under the retirement fund and did not earn any creditable service during the 6-month period. These participants can buy back this 6-month period.
- *Other Governmental Service (OGS)*: Participants who worked for a federal, state or local governmental entity may be eligible to purchase WRS creditable service for that employment if they meet all of the eligibility requirements. Unlike other service purchases, the participant must pay the full actuarial value of the service; the benefits based on this service are not subsidized by employer contributions. OGS cannot be purchased for military service or for employment with a WRS employer that did not meet WRS participation standards.

Individual Appointments with a Benefit Specialist – Participants may request an appointment to meet one-on-one with a benefit specialist to discuss their retirement benefits and/or any questions they may have. If the participant is preparing to retire, the specialist will also cover the application process, annuity options, taxes, direct deposit, any applicable post-retirement health and life insurance, beneficiary designations, etc. If this is a pre-retirement session, we normally require participants to have their retirement estimates before the session. Appointments last an average of about one hour, depending on the complexity of the issues discussed.

Group Retirement Counseling Appointments – In lieu of one-on-one appointments, “group counseling” sessions are offered. These sessions may include up to eight participants and their spouses or representatives (normally about 16 people total) and are held three times a week in Madison and once a week in the Waukesha office. Since these are pre-retirement sessions, participants must have their retirement estimates. While these sessions are not as personalized as the one-on-one appointments, attendees have the benefit of hearing questions posed by other attendees.

Retirement Benefit Applications – Once a participant has decided to retire and has received a retirement estimate, the participant must file an application with the Department. The volume shown for this category reflects the number of retirement applications that are pending, rather than a true “backlog.” We can accept a retirement application up to 90 days before the participant terminates employment, but cannot issue any payments until after the participant’s termination date. Consequently, there are always applications pending that we must hold until the month in which the annuity will become effective.

If the Department has not yet received the final termination data (final service, earnings, contributions and the termination date), the monthly annuity amount will be based on the estimated benefit amount for the option selected.

Separation Benefit Applications – The Department receives benefit applications for a lump sum payment of the employee contributions from participants who have terminated all WRS employment but have not yet reached minimum retirement age (55, or 50 for protective category participants). The participant forfeits the years of service earned prior to the separation benefit and all rights to the employer contributions. Payment cannot be issued until the Department has received the final termination data from the employer.

Disability Annuity Applications – Participants who have received disability annuity estimates submit their completed applications to the Department. Before the disability application can be processed, the Department must also receive two medical reports certifying that the participant is permanently and totally disabled and the employer’s certification that it is not contesting that the participant’s termination is due to the disability. Disability payments are not based on estimates; the employer reports the final service, earnings and contributions before the first disability payments are issued, so disability payments are based on a finalized benefit calculation.

Finalize Estimated Retirement Annuity Benefits – All retirement benefits that are initially paid as estimated amounts must later be “finalized.” While estimated payment amounts are normally very close to the finalized amounts, we cannot calculate the exact amount of an annuity until the Department receives the final termination data from the employer (service, earnings, contributions and termination date). Once the benefit amount is finalized, the annuity is corrected retroactive to the effective date, and we notify the annuitant of the final benefit amount and the service, earnings and contributions on which it was calculated.

Beneficiary Designations – To designate who is to receive any death benefits payable upon their death, participants must complete the Department’s beneficiary designation form and submit it to the Department. The Department reviews the designations to verify that they meet the acceptance criteria (e.g., the document is signed, the intent is clear, etc.) and acknowledges the designation has been accepted. An acceptable designation becomes effective on the date it is received by the Department.

Note: If the designation is submitted by an annuitant who has selected a joint and survivor annuity option, the named survivor of the annuity cannot be changed by submitting a beneficiary designation form.

Military Service Inquiries – Under certain circumstances participants may be eligible for WRS creditable service for periods of active military service. To receive this credit participants must submit a copy of their discharge papers, which the Department reviews for potential eligibility. We then notify participants that either their military service credit has been granted, they are not eligible for military service credit, or their eligibility will be determined at retirement.

Pension Verifications – The Department receives requests from participants, financial institutions, federally subsidized housing organizations, etc., to verify the amount of WRS annuitants' monthly benefits.

General Correspondence – The Department receives letters and requests for information from WRS participants, their representatives, and other interested parties. Examples include requests for old account balances, verification of past Wisconsin teaching service from out-of-state teachers, and cost estimates for employer pick-up of actuarial reduction.

Annuitant Health Insurance Changes – The Department receives written requests from WRS annuitants to add, change, cancel, or delete health insurance coverage, including Medicare coverage. These requests may require staff time to change deductions on the annuity system, initiate refunds, and communicate with the health insurance plans, etc.

Account Divisions per Qualified Domestic Relations Orders – When a marriage is legally terminated, the courts can award up to 50% of a participant's WRS account or annuity to the former spouse. A separate account is created for the "alternate payee" (the former spouse) and a percentage of the participant's service and contribution balances are transferred to the alternate payee's account.

Duty Disability Tax Return Reviews – State statutes require the Department to review federal and state income tax returns for WRS participants who are receiving duty disability benefits in order to identify potential unreported income. Duty disability recipients are required to submit their tax returns annually to the Department.



STATE OF WISCONSIN
Department of Employee Trust Funds

801 W Badger Road
 PO Box 7931
 Madison WI 53707-7931
 1-877-533-5020 (toll free)
 Fax (608) 267-4549
<http://etf.wi.gov>

CORRESPONDENCE MEMORANDUM

DATE: November 1, 2007

TO: Employee Trust Funds Board, Wisconsin Retirement Board,
 Teachers Retirement Board

FROM: Sharon Walk
 Appeals Coordinator

SUBJECT: Pending Appeals

<i>PENDING APPEALS BY BOARD</i>						
As of:	ETF	GIB	WR	TR	DC	TOTAL
10/01/07	9	10	5	1	0	25
New Appeals (+)	0	+2	0	0	0	+2
Final Decisions (-)	0	0	0	0	0	0
Appeals Withdrawn (-)	-3	-1	0	0	0	-4
11/01/07	6	11	5	1	0	23
+/-	-3	+1	0	0	0	-2

Reviewed and approved by Pamela Henning, Administrator, Division of Management Services.	
_____ Signature	_____ Date

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STATE OF WISCONSIN
Department of Employee Trust Funds
David A. Stella
SECRETARY

801 W Badger Road
PO Box 7931
Madison WI 53707-7931
1-877-533-5020 (toll free)
Fax (608) 267-4549
<http://etf.wi.gov>

CORRESPONDENCE MEMORANDUM

DATE: November 30, 2007

TO: Employee Trust Funds Board
Teachers Retirement Board
Wisconsin Retirement Board

FROM: Dave Stella, Secretary
Department of Employee Trust Funds (ETF)

Keith Bozarth, Executive Director
State of Wisconsin Investment Board (SWIB)

SUBJECT: Variable Trust Fund Asset Allocation

A recent Legislative Audit Bureau audit recommended that SWIB examine the variable trust fund's underperformance as compared to the core fund equity investment returns when averaged over a number of years. SWIB is in the process of establishing the core and variable fund asset allocations for 2008. The Department and SWIB are seeking the retirement boards' thoughts on the variable fund prior to finalizing an asset allocation strategy.

Background

The Wisconsin legislature first established the variable trust fund's effective in 1958 for the three (formerly) separate retirement funds, the Wisconsin Retirement Fund, the State Teachers Retirement System and the Milwaukee Teachers Retirement Fund.* The stated purpose of creating the variable fund was to establish a well-balanced, broadly diversified investment program that would provide retirement benefits that would fluctuate in proportion to changes in the general economy, thereby providing some measure of financial protection for participants' retirement benefits during periods of high inflation. Participation in the variable fund has always been voluntary, because while it offers the potential for increasing retirement benefits, there is also the risk of benefit decreases in periods of poor stock market performance.

When the variable fund was first created, an election to participate was irrevocable. After a prolonged period of poor stock market performance there was pressure from variable participants to allow them to cancel their participation, and in 1980 at the bottom of the market the Wisconsin legislature closed the variable fund to new enrollments. After a long period of excellent returns there was pressure to reopen the variable fund, and when the market was at its peak in 1999 the legislature reopened the variable fund to new enrollments effective January 1, 2001, through one of the provisions of 1999 Wisconsin Act 11. Over 108,000 Wisconsin Retirement System (WRS) members now participate in the variable fund.

* These separate retirement plans merged into the Wisconsin Retirement System as of January 1, 1982.

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Variable and Core Fund Asset Allocation

The core fund (formerly called the “fixed fund”) is the primary funding source for WRS benefits, and investments are intended to produce returns over the long run that equal or exceed the investment earnings assumptions used for actuarial purposes. Core fund monies were initially invested primarily in fixed income investments such as bonds, real estate, etc., while the variable fund has always been invested exclusively in equities.

Over time the relationship between the variable and core fund has changed; the core fund asset allocation has evolved to include greater exposure to equities, and the current policy range allows up to 65% of the core fund to be invested in the stock market. The core fund has essentially become a well-balanced, broadly diversified investment portfolio that provides retirement benefits that adjust in proportion to changes in the general economy. It has the advantage of a smoothing mechanism that protects participants from the more extreme fluctuations of a volatile stock market. Consequently, the policy reasons for the variable fund have become outdated, especially since the core fund now provides substantial equity exposure and corresponding returns, with less volatility than the variable fund.

In recent years the asset allocation for the variable fund has included a lower proportion of international stocks than the core fund equity investments. For example, the variable fund allocation is currently 80% U.S. stock and 20% international stock, while the core fund equity allocation is 36% U.S. and 22% international (a 62%/38% split, remembering that the core fund is also invested in real estate, bonds and other assets). The LAB audit noted that the lower portion of international stock in the variable fund has contributed in recent years to lower performance than the equity portion of the core fund because international stocks have outperformed U.S. stocks. As a result, the LAB has suggested reviewing the asset allocation decision for the future.

The relatively lower portion of international stock in the variable fund was motivated by a desire to balance return and volatility potential for those participating in the variable fund. Consideration was given to the fact that a member with half of his/her funds in the variable fund and half in the core fund would have over 80% total stock exposure, well ahead of the asset mix maintained by the most aggressive of the large public pension funds.

Areas For Discussion

Notwithstanding the policy issue of whether there is still a clear need for the variable fund, at this point we are requesting the boards share their thoughts on whether the variable fund’s risk and volatility should be reduced or increased. The variable fund returns have lagged the core fund returns while the volatility has been very high (see chart on page 3). As SWIB considers asset allocation in the variable fund it would be helpful for the retirement boards to comment on whether WRS members in the variable fund would want to have the increased risks that are associated with strategies that seek higher returns. SWIB can then consider the retirement boards’ comments in determining an asset allocation strategy.

Core and Variable Fund Returns for the period ending 12-31-06:

	1 YR	3 YR	5 YR	10 YR
Core	15.8%	12.3%	9.9%	9.2%
Variable	17.6%	12.8%	8.3%	8.7%

Conclusion

Over the longer term, it may be prudent to discuss revision to the variable fund, focusing on such policy issues as: the need for the variable fund; whether the variable fund would better serve its purpose if it can be more broadly diversified; and whether any adjustment should be made for those in or nearing retirement.