

MINUTES OF JUNE 18, 2009, MEETING

STATE OF WISCONSIN EMPLOYEE TRUST FUNDS BOARD

Holiday Inn Hotel and Suites
1109 Fourier Drive, Madison, WI

DRAFT

BOARD PRESENT:

Marilyn Wigdahl, Chair Wayne Koessl, Vice-Chair Robert Niendorf, Secretary John David Jennifer Donnelly Rosemary Finora	Theron Fisher Kathleen Kreul Michael Langyel Wayne McCaffery Nancy Thompson
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BOARD NOT PRESENT:

Gary Sherman	
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PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:

Dave Stella, Secretary Bob Conlin, Deputy Secretary Cindy Gilles, Board Liaison Jon Kranz, Office of Budget and Trust Finance	David Nispel, Office of the Secretary Matt Stohr, Office of Legislative Affairs, Communications and Quality Assurance
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OTHERS PRESENT:

ETF Office of the Secretary: Rhonda Dunn, Sharon Walk ETF Office of Budget and Trust Finance: Bob Willett ETF Office of Internal Audit: John Vincent ETF Office of Legislative Affairs, Communications and Quality Assurance: Sari King ETF Office of Policy, Privacy and Compliance: Steve Hurley, Mary Alice McGreevy, Linda Owen ETF Division of Management Services: Pam Henning	ETF Division of Retirement Services: Jean Gilding ETF Division of Insurance Services: Marcia Blumer, Tom Korpady Fringe Benefits Management Company: Susan James, April Scheffield Gabriel, Roeder, Smith, and Company: Mark Buis, Norm Jones Legislative Audit Bureau: Brian Bellford State of Wisconsin Investment Board: Sandy Drew Teachers Retirement Board Members: Susan Harrison, Steven Scheible
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Marilyn Wigdahl, Chair, called the meeting of the Employee Trust Funds (ETF) Board to order at 12:45 p.m.

Board	Mtg Date	Item #
ETF	9/17/09	1

CONSIDERATION OF PREVIOUS MEETING MINUTES

Motion: Ms. Thompson moved to approve the minutes of the March 19, 2009, Employee Trust Funds Board meeting as submitted by the Board Liaison. Mr. David seconded the motion, which passed without objection on a voice vote.

ANNOUNCEMENTS

Bob Conlin, Deputy Secretary, announced the following:

- Betsy Kippers and Mary Jo Meier have been elected to the Teachers Retirement Board. They will replace Dennis Panicucci and Wayne McCaffery. Ms. Kippers's and Ms. Meier's appointments are effective at the September 17, 2009, Board meeting.
- The Teachers Retirement Board appointed Dan Nerad to the ETF Board to replace Nancy Thompson. Mr. Nerad's appointment will take effect at the September 17, 2009, Board meeting.
- The Wisconsin Retirement Board appointed Mary Von Ruden to the ETF Board to fill the seat formally held by Rick Gale. Ms. Von Ruden's appointment will take effect at the September 17, 2009, Board meeting.

COMMITTEE REPORTS

Executive Committee – Ms. Wigdahl, Chair of Executive Committee, reported that the Committee reviewed and discussed the Department's April-June 2009 quarterly progress report, was advised of progress on strategic planning activities, and discussed two human resources reports covering the past quarter and fiscal year 2008-2009. The Committee also began the Secretary's annual evaluation discussion that will be continued with the full ETF Board.

Audit Committee – Rosemary Finora, Chair of the Audit Committee, reported that the Committee elected the following officers: Ms. Finora as Chair, Wayne McCaffery as Vice Chair, and Kathleen Kreul as Secretary. The Committee discussed organizational matters, reviewed the Charters for the Audit Committee and the Office of Internal Audit, was advised of progress on the development of the 2009-2011 Audit Plan, and received a report on audits in progress.

Budget and Operations Committee – John David, Chair of the Budget and Operations Committee, reported that the Committee elected the following officers: Mr. David as Chair, Theron Fisher as Vice Chair, and Nancy Thompson as Secretary. The Committee reviewed and discussed the biennial budget update and Fiscal 2008 CEM Benchmarking, Inc., reports.

BOARD DISCUSSION AND CONSIDERATION

Wisconsin Retirement System 28th Annual Actuarial Valuation – December 31, 2008 Mark Buis of Gabriel, Roeder, Smith and Company (GRS), provided an overview of the report, *Wisconsin Retirement System 28th Annual Actuarial Valuation – December 31, 2008*. The report reflects the actuarial experience, trends and projections for non-retired participants covered under the Wisconsin Retirement System (WRS). The report establishes recommended contribution rates for the 2010 calendar year in conformance with Chapter 40 of the Wisconsin Statutes. Mr. Buis reminded the Board that the WRS utilizes a 5-year smoothing method. In 2008, investment returns were well below the assumed level of 7.8%. Because gains and losses are spread over a 5-year period, the result was a 3.1% return on the value of the assets in the Core Fund. The investment return results will continue to be recognized over the next four years and will likely result in a strong upward pressure on contribution rates.

Motion: Ms. Kreul moved to accept the actuary's report and adopt its recommendations. Mr. Niendorf seconded the motion, which passed without objection on a voice vote.

Asset Corridor Discussion Norm Jones of Gabriel, Roeder, Smith and Company (GRS) discussed asset corridors. He reviewed the current funding value to market value (about 132%), discussed the effects a corridor could have (in mature systems, 1% additional return on assets adds approximately \$570 million in assets; 1% of additional payroll contributions adds approximately \$120 million to assets), reviewed the actuarial standards, and reviewed what other systems do. GRS will work closely with the Department in monitoring the likely effects of a rapidly changing economic environment and explore potential changes if the funding values and market values do not converge over the next few years.

Mr. Jones answered questions from Board members.

Accumulated Sick Leave Conversion Credit (ASLCC) Program Annual Review

Mark Buis of Gabriel, Roeder, Smith & Company, provided a summary of the report entitled *Accumulated Sick Leave Conversion Credit Program Annual Actuarial Valuation – December 31, 2008*. Mr. Buis explained the development of costs for the base ASLCC Program. This year, there was a contingency adjustment to liabilities from 5% to 3% which offset the contribution rates. It is anticipated that contribution rates will rise in the next few years. The report recommends a 0.8% contribution rate increase for the 2010 calendar year.

Motion: Mr. McCaffery moved to accept the actuary's report and adopt the recommended rates. Ms. Koessl seconded the motion, which passed without objection on a voice vote.

40.65 Duty Disability Actuarial Review Tom Korpady, Division of Insurance Services, presented a summary of Deloitte's *Section 40.65 Duty Disability Plan Actuarial Review as of December 31, 2008*. The plan has assets of \$355.4 million and \$382.3 million in liabilities with a deficit of \$26.8 million. The assets did not include \$74.5 million deferred market losses which will be smoothed in over the next four years. Contributions in 2008 were \$50.6 million, interest credit was \$10.7 million, and a total revenue of \$61.3 million. The incurred but not reported liability was \$36 million. The total estimated liability for 2008 is \$382.2 million.

The contribution rate schedule in effect will generate approximately 3.94% of covered payroll. This rate appears to be sufficient to achieve a fully reserved status by the end of 2009. The actuary is recommending no premium rate change at this time.

Motion: Ms. Thompson moved to accept the actuary's report and adopt the recommendation to maintain the current rates. Ms. Kreul seconded the motion, which passed without objection on a voice vote.

OPERATIONAL UPDATES

Secretary's Report Dave Stella, Secretary, shared with the Board that he would defer his Secretary's Report because he would be meeting with the Board for his evaluation later in the meeting.

Member Correspondence Deputy Secretary Conlin summarized the *Member Correspondence* memorandum. Two areas of concern continue to be Variable annuity adjustments and the decision to discontinue paper annuity checks.

Budget Update Jon Kranz, Office of Budget and Trust Finance, briefly summarized the 2009-2011 biennial budget request to date.

- Continuation of Critical Customer Service Functions: the Department requested flexibility items which included additional positions, adjusting our funding base, and additional clarification regarding procurement authority. The Joint Finance Committee deemed this as non-budget policy and may reintroduce it as separate legislation.
- Full-time positions within the Department will be increasing by 3.9.
- Administrative costs will be very tight for both years of the biennium.
- Governor's Initiatives: all agencies took a 1% across-the-board cut.
- Legislative Initiatives: the Assembly has pulled the provision relating to annuity deduction for dues for retiree organizations and the sharing of annuitant mailing lists with retiree and employee organizations, but the Senate has not. Both the Board and the Department have concerns with the provision. The consensus of the Board is to draft a letter to the Legislature and/or Governor regarding these concerns.
- Furloughs and Roll-back of Salary Increases: There is a 2% general wage reduction for June 2009, which reduces the ETF operating budget by \$677,200 annually. In

addition, there will be an additional \$409,800 annual wage reduction for the eight furlough days per year required of all employees. Secretary Stella shared that the furloughed days will cost the ETF approximately 27,133 hours of staff time.

Tax Counsel Update Deputy Secretary Conlin shared that, based on authority delegated by the Board in September 2008, the Department has completed contract negotiations with IceMiller, LLP, of Indianapolis, Indiana, as the federal tax counsel. IceMiller has a one-year contract with renewable options. The firm anticipates three primary phases of research and compliance work. The anticipated cost of phases one and two will be approximately \$120,000. Mary Alice McGreevy, the Department's Compliance Officer, will be the Department's primary contact with IceMiller.

Project to Establish Variable Annuity Comparison Values Deputy Secretary Conlin reviewed the process by which an annuitant can elect to cancel or participate in the Variable Fund. Due to the recent losses by annuitants in the Variable Fund, there is an increase in the number of requests from annuitants to determine whether their annuities are higher or lower than if they had never participated in the Variable Fund.

The Department is considering a project that would provide annuitants who participate in the Variable Fund a comparison between their annuity amounts now versus what it would be had they never participated in the Variable Fund. The Benefit Payment System (BPS) has the ability to automatically update an annuitant's comparison of his or her Variable Fund at the Core Fund rate. Currently, the data for this calculation needs to be calculated manually on an individual basis and then loaded into BPS. In order to complete this project, it would take approximately 4,800 staff hours for the 32,000 annuitants currently in the Variable Fund. With two full-time project positions working on this project alone, it would take approximately one year to complete or two years to complete if only one full-time project position worked were assigned. There are several options available to get this project started in the next fiscal year which begins July 1, 2009. Those include:

- Seek additional expenditure/position authority from the Joint Finance Committee.
- Assign one or more of the new positions included in the Governor's budget to work on the project.
- Hire contract employees which would not shift position resources away from other critical work in the Department.
- Reallocate current funding resources and use existing staff to complete the project.

All options are contingent upon the final outcome of the biennial budget. The Department will keep the Board informed as events unfold.

Deputy Secretary Conlin referred the Board to remaining informational memos in their Board binders.

Ms. Donnelly left the Board meeting after the break.

APPROVALS

Wisconsin Administrative Code Chapter 10 and Chapter 50 Revisions David Nispel, General Counsel, provided a brief summary of the revisions to Wisconsin Administrative Code Chapters 10 and 50. The Department proposes to amend s. ETF 10.08 (2) (b) 4. and create s. ETF 50.30 (4), relating to termination of employment and administrative leave of absence. The proposed rule will conform the eligibility criteria regarding termination of employment for s. 40.63, Stats. disability annuities with the criteria regarding long-term disability insurance benefits under s. ETF 50.54 (2) (b).

The Department is recommending the Board approve the administrative rule. If the Board approves the rule, the next step would be to take the rule to the Legislature for its consideration.

Motion: Mr. McCaffery moved to approve the proposed rule. Mr. Niendorf seconded the motion, which passed without objection on a voice vote.

Delegation of Authority to Solicit Proposals for, and Contract with, Qualified Firms to Perform Contract Compliance Audits of Third Party Administrators

Mr. Kranz shared with the Board that the Department contracts with various third party administrators to administer portions of various benefit programs. Compliance audits should be performed every two to three years. The request for proposal (RFP) will be used to solicit and award contract(s) to the vendor that provides the best value to the Trust for each benefit program. Results of the audits will be presented to the ETF Board and/or Group Insurance Board, as appropriate.

The Department is requesting the Board's approval for delegation of authority to solicit proposals and to allow for the audit services.

Motion: Mr. Koessl made a motion to approve authority to solicit proposals for, and contract with, qualified firms to perform contract compliance audits of third party administrators under contract with the Department. Ms. Thompson seconded the motion, which passed without objection on a voice vote.

MOTION TO CONVENE IN CLOSED SESSION

Ms. Wigdahl announced that the Board would convene in closed session, pursuant to the exemptions contained in Wis. Stat. § 19.85 (1) (a) (c) and (e) for quasi-judicial deliberations on appeal matters, to discuss personnel matters related to the annual performance evaluation of the Department Secretary, and to discuss the use of public employee trust funds. Secretary Stella, Deputy Secretary Conlin, Rhonda Dunn, Cindy Gilles, Sharon Walk, Pam Henning and members of the ETF Division of Insurance Services were invited to remain during the discussion of the use of public employee

trust funds. Charlotte Gibson, Ms. Gilles and Ms. Walk were invited to remain during the discussion of the appeal. Secretary Stella and Ms. Henning were invited to remain during portions of the personnel discussion.

Motion: Mr. Koessler moved to convene in closed session, pursuant to the exemptions contained in Wis. Stat. § 19.85 (1) (a) (c) and (e) to discuss quasi-judicial matters, personnel matters, and the use of public employee trust funds. Mr. Langyel seconded the motion, which passed on the following roll call vote.

Members voting aye: David, Finora, Fisher, Koessler, Kreul, Langyel, McCaffery, Niendorf, Thompson and Wigdahl

Members voting nay: none

The Board convened in closed session at 2:20 p.m. and reconvened in open session at 3:58 p.m.

ANNOUNCEMENT OF ACTION TAKEN ON BUSINESS DELIBERATED DURING CLOSED SESSION

Ms. Wigdahl announced that the Board took the following action during the closed session:

- Appeals 2007-013-ETF and 2008-038-ETF. The Board adopted the hearing examiner's proposed decision with modifications.
- Secretary Stella and Ms. Henning discussed personnel matters with the Board regarding the performance evaluation of the Department Secretary.
- The Board approved awarding the contract for administration of the Employee Reimbursement Accounts and Commuter Benefits programs to Fringe Benefits Management Company, effective January 1, 2010.

ADJOURNMENT

Motion: Mr. Koessler moved to adjourn the meeting. Ms. Thompson seconded the motion, which passed without objection on a voice vote.

The meeting of the Employee Trust Funds Board adjourned at 4:00 p.m.

Date Approved: _____

Signed: _____

Robert Niendorf, Secretary
Employee Trust Funds Board