WISCONSIN DEPARTMENT OF EMPLOYEE TRUST FUNDS

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: March 18, 2010

TO: Employee Trust Funds Board

FROM: David Stella, Secretary

SUBJECT: Secretary's Report

This memorandum is for informational purposes only. No action is required.

Challenges Remain

The economic picture appears to be slowly improving, but we still have a long way to go. Investment returns in the Core and Variable Funds rebounded substantially in 2009, but it will take time to dig out from the extraordinary investment losses we suffered in 2008. In the Core Fund, more than $9.5 billion in losses remain to be recognized in the next four years after factoring in the 2009 gains. This means that on May 1, 2010, retirees in the Core Fund will see an annuity reduction of 1.3%. Communication of another annuity reduction will be difficult because the SWIB 2009 Core Fund investment return was a positive 22.4%.

The Variable Fund increase for retirees will be 22%, but that increase will not bring Variable Fund participants back to anywhere near their previous annuity levels. In fact, they are still more than 41% below their pre-2008 level.

ETF Accomplishments

ETF has been very active and successful in our efforts to enhance services to our members and improve internal operations. The following is a list of some of our accomplishments to date:

- Successful development of the lump sums payment system (LSPS).
- Completed business requirements for the implementation of Phase 4 of the Electronic Enrollment and Validation Project (EVP) project. Phase 4 will focus on providing members with a web-based system for enrollment, eliminating the manual paper processes now required.

Board	Mtg Date	Item #
ETF	3.18.10	7A

- Completed myETF Benefits Inquiry applications within the EVP Project, creating processes for members to view personal demographic information and health insurance enrollment data.

- Assigned an ETF member identification number (ID) to all members who did not already have one. By ensuring that all members have an ID number, the Department takes another step toward reducing its reliance on sensitive personal information such as Social Security numbers and paves the way for more secure member transactions via the Web.

- Obtained additional hardware to support the deployment of secure online member access.

- Development of a Rapid Improvement Exercise process that reviews various Departmental processes and identifies opportunities for improvements.

- Continued use of a job shadowing initiative that allows staff to spend time working with a colleagues in other areas to learn how that area does its work and then identifies how processes in other areas can be adopted for improved efficiency.

- Secured the Legislature's Joint Committee on Finance approval of a supplemental funding request for critical customer service functions. As a result, the Department has been implementing the various projects that were highlighted in the request and approved by the Committee.

- Continued development of the ETF five-year strategic plan and resource planning associated with the projects, and staffing required to be in place by the end of this biennium.

- Implemented a new e-mail and messaging system to better position the Department for future growth and enable better security for external access.

- Created a new Accelerated Payments calculator to help participants understand the financial implications of choosing the Accelerated Payments annuity option.

The full, four page list of accomplishments was presented to the Executive Committee yesterday. I am very pleased with the accomplishments of ETF staff. These achievements were completed despite an average of 20 or more vacancies in the Department and the retirement of a number of talented and very experienced employees in 2009.

Looking Ahead

The possibility of yet another annuity reduction in 2011 is not out of the question unless investment returns are very strong this year. This may lead some to suggest that a longer smoothing period for investment gains and losses of perhaps six or seven years is needed. This approach might have some merit, but would need careful and significant analysis and modeling. Very recently, other public retirement plans have increased their smoothing period from five to as much as ten years and other plans have this approach under consideration. Sustainability is now the most important word being used in the public pension industry. The article that Keith Bozarth, Executive Director of the State of Wisconsin Investment Board (SWIB), and I authored about the Wisconsin Retirement System (WRS) features that enhance sustainability is getting wide circulation in the pension and benefits industry. In addition, SWIB's recent decision to explore the use of fixed income leverage to decrease investment return volatility reflects continuing attention to risk management along with broader diversification of fund assets. This has also created wide discussion in the public pension community.

I am very excited about ETF's new strategic plan because I believe it reflects ETF's need to modernize and adopt the best practices of our industry to better serve our members. In addition, the plan is focused on allowing WRS members to better plan their own retirement and at the same time give them the tools necessary to be better consumers. ETF will still be here to provide expertise on the benefit plans that we administer, but members need to be empowered to make informed decisions about their benefits taking into account their own financial and personal circumstances.

Wisconsin Policy Research Institute (WPRI) Report

The WPRI report entitled "The Imbalance Between Public and Private Pensions in Wisconsin" that was issued on February 24, 2010, has received substantial press attention and reaction from many groups and individuals. ETF carefully reviewed this study and found many instances of selective use of data and inconsistent conclusions. It appears that the primary thrust of the article is to push the idea that employees covered under the WRS should pay more, if not all, of the employee required contribution. Another theme was that the WRS benefit structure is too rich and should be reduced to be in line with private sector pension plans.

In good conscience, I felt that I could not let the assertions of the study stand unchallenged. I issued the attached release responding to the study on March 2, 2010. The release is intended to set straight some of the information contained in the WPRI report and provide a more accurate interpretation of the data contained in the study.

The key issues I focused on is that the WRS is a well designed, well run public pension plan that is a good value for members and taxpayers. More than two-thirds of the cost of the plan comes from investment income. The question of who pays the employee contribution is not a WRS issue, but a compensation matter for employers. Not only has the WRS received very positive reviews for its financial strength in the latest Pew Report on the States, but it has a long history of being a strong contributor to Wisconsin's economy as is evidenced in a recent study by the National Institute for Retirement Security (NIRS). Finally, and most importantly, the real issue that needs attention is retirement security for everyone rather than pitting one group against another in a "race to the bottom."

Attachment