

**MINUTES OF DECEMBER 3, 2009, MEETING
STATE OF WISCONSIN
JOINT INFORMATIONAL MEETING
TEACHERS RETIREMENT, WISCONSIN RETIREMENT,
AND EMPLOYEE TRUST FUNDS BOARDS**

DRAFT

Holiday Inn Hotel and Suites, Conference Rooms A & B
1109 Fourier Drive, Madison, WI

BOARD MEMBERS PRESENT:

Lon Mishler, Chair, TR Board	Dan Nerad, TR and ETF Boards
Jamie Aulik, WR Board	Robert Niendorf, ETF Board
Sandra Claflin-Chalton, TR Board	Tom Pedersen, TR Board
John David, WR and ETF Boards	Patrick Phair, TR Board
Theron Fisher, ETF Board	Roberta Rasmus, TR Board
Susan Harrison, TR Board	Steve Scheible, TR Board
Betsy Kippers, TR Board	Gary Sherman, ETF Board
Wayne Koessl, WR and ETF Boards	Herbert Stinski, WR Board
Kathy Kreul, ETF Board	Mary Von Ruden, ETF and WR Boards
Mike Langyel, ETF and TR Boards	David Wiltgen, TR Board
Mary Jo Meier, TR Board	Michael Woodzicka, WR Board

BOARD MEMBERS NOT PRESENT:

Marilyn Wigdahl, Chair, WR and ETF Boards	Rosemary Finora, ETF Board
Sean Dilweg, WR Board	Wayne McCaffery, TR Board
Jennifer Donnelly, ETF Board	Robin Starck, TR Board

PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:

Dave Stella, Secretary	David Nispel, Office of the Secretary
Bob Conlin, Deputy Secretary	Steve Hurley, Office of Policy, Privacy and Compliance
Cindy Gilles, Board Liaison	Matt Stohr, Office of Legislative Affairs, Communications and Quality Assurance
Sari King, Office of Legislative Affairs, Communications and Quality Assurance	

Board	Mtg Date	Item #
Jl	3/18/10	1

OTHERS PRESENT:

ETF Office of the Secretary: Rhonda Dunn, Kim Trinh, Sharon Walk ETF Division of Retirement Services: Jean Gilding ETF Office of Budget and Trust Finance: Jon Kranz, Bob Willett ETF Office of Internal Audit: John Vincent ETF Office of Policy, Privacy and Compliance: Linda Owen Gabriel, Roeder, Smith (GRS) and Company: Mark Buis, Norm Jones	Legislative Audit Bureau: Brian Bellford State Engineering Association: Bob Schaefer State of Wisconsin Investment Board (SWIB): Keith Bozarth, Sandy Drew, David Villa UW Systems Administration: Sue Chamberlain Wisconsin Law Enforcement Officers Association: Dan Hayes Terry Rhodes
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Lon Mishler, Chair, Teachers Retirement (TR) Board, called the meeting to order at 8:32 a.m.

CONSIDERATION OF MINUTES OF PREVIOUS MEETING

***Motion: Ms. Rasmus moved approval of the minutes of the September 17, 2009, Joint Informational meeting as submitted by the Board Liaison.
Mr. Koessl seconded the motion, which passed without objection on a voice vote.***

ANNOUNCEMENTS

Sari King announced the Department received one nomination packet for the Milwaukee Public School District election.

EDUCATIONAL TOPIC

Wisconsin Retirement System (WRS Three-Year Experience Study: January 1, 2006 – December 31, 2008, and WRS 50-Year Actuarial Projection) Mr. Mishler introduced Norm Jones and Mark Buis of Gabriel, Roeder, Smith & Company, actuaries for the Department of Employee Trust Funds (Department). Mr. Jones and Mr. Buis provided a slide presentation in conjunction with the report, *Wisconsin Retirement System Three-Year Experience Study: January 1, 2006 – December 31, 2008*. The objective of a three-year experience study is to review the experience of the fund and update the actuarial assumptions used in valuating the actuarial liabilities of the Wisconsin Retirement System (WRS) in compliance with Section 40.03(5)(b) of the Wisconsin Statutes.

The analysis was based upon data, furnished by the Department, on liability weighting, and results/recommendations of disability, normal and early retirement, merit and longevity, mortality, and economic assumptions.

Specific recommendations included:

- Withdrawal Experience
 - Adjust initial forfeiture assumption from 50% to 25% (graded to 0).
 - Adjust assumed rates closer to liability weighted rates.
- Disability Experience
 - Decrease the rates of assumed disabilities.
- Mortality Experience
 - Adopt new mortality tables to bring expected rates closer to actual experience.
 - Change mortality reserve for retired life valuation.

On the economic assumption side of the report, the data showed that over the last 60 years bonds have averaged about 6%, T-bills about 4.8%, stocks about 10.8%, national average earnings about 4.9% and a spread of 4.4%. Spreads are very important because assets need to grow faster than liabilities.

Specific recommendations included:

- Wage Inflation: change to 4.0%.
- Real Investment Return: change to 3.8% due to reduction in wage inflation assumption.
- Nominal Investment Return: remain at 7.8%.
- Reserve Transfers:
 - Increase final average earnings adjustment from 1% to 2%.
 - Complete in-depth study to analyze source of losses.

Following the presentation, Mr. Jones and Mr. Buis answered questions from the Board members.

Mr. Jones briefly discussed the *WRS 50-Year Projection*. For the WRS, it will take approximately a 60% rate of return on assets for the Core Fund to return to expected levels (prior to the 2008 loss). Mr. Jones presented alternate simulations showing the 10-year average return and real return.

Mr. Nerad joined the Joint Informational meeting at 9:30 a.m.

State of Wisconsin Investment Board Update

Mr. Mishler introduced Keith Bozarth, Executive Director of the State of Wisconsin Investment Board (SWIB). Mr. Bozarth introduced David Villa, SWIB chief investment officer. The Board received a handout of SWIB data as of November 30, 2009.

- Index Returns
 - United States and International returns were reviewed.
- SWIB's Preliminary 2009 Performance
 - Core Fund was at 20.9%, 2% higher than benchmark.
 - Variable Fund was at 30.3%, 1.7% higher than benchmark.

- SWIB's Preliminary Asset Classes 2009
 - Public equities, public fixed income, real estate equity, private equity and multi-assets; all were above benchmark except private equity.

Mr. Bozarth noted that a recent benchmarking cost analysis conducted by CEM Benchmarking, Inc., suggested that SWIB's investment costs for the Trust Fund was about 4.6 basis points (bps), or about \$32 million, lower than the cost that peer systems would incur if they had SWIB's asset mix. This is a notable improvement from several years ago.

Mr. Bozarth and Mr. Villa answered questions from the Board members.

The Board members took a break from 10:00 am. – 10:10 a.m.

Technical Rule (Clearinghouse Rule 09-057)

David Nispel advised Board members the Department proposes revising existing ETF administrative rules to reflect enactment of 2007 Wisconsin Act 131, other changes made to ch. 40, Wis. Stats., and current practices of the Department. The proposed changes include substituting "surviving spouse" for the obsolete term "widow or widower," ensuring "beneficiary" is consistent in the rules, specifying reasonable actions in locating a potential beneficiary of a participant, identifying the new effective date for waivers, and defining the term "internal revenue code".

The Group Insurance Board approved the rule at its November 10, 2009 meeting; the Deferred Compensation Board approved the rule at its November 17, 2009 meeting. The Wisconsin Retirement (WR) Board, Teachers Retirement (TR) Board and ETF Board will consider this rule in upcoming meetings.

Emergency Rule Order

Steve Hurley informed the Board that the Department must create and amend administrative rules to comply with 2009 Wisconsin Act 28, regarding implementation of domestic partner benefits and the extension of health insurance coverage to adult dependents. These benefits are effective as of January 1, 2010. In order to have the necessary administrative rules in place, the Department has elected to use the "emergency rules" process. Emergency rules are effective for 150 days and can be extended for an additional 120 days. Staff plans to publish the emergency rule by late December with an effective date of January 1, 2010. A public hearing on the emergency rule will be held no later than February 15, 2010.

The Group Insurance Board and the Deferred Compensation Board recently approved the rules at their Board meetings, November 10, 2009, and November 17, 2009, respectively.

Mr. Hurley answered questions from the Board members.

Board Communication Policy

Bob Conlin, Deputy Secretary, reviewed the proposed Board communication policy. The policy was developed while researching policies and best practices of retirement boards around the country as well as the State of Wisconsin Investment Board. It provides guidance for Board members when they are both in and out of session, and is intended to ensure that communication by Board members is handled appropriately and in a manner that best serves the Wisconsin Retirement System. Each of the Boards will vote whether to adopt the policy in their respective meetings. If adopted, the policy will be provided to Board members for inclusion in their *Governance Manuals*.

Mr. Conlin answered questions from the Board members.

OPERATIONAL UPDATES

Board Member Orientation Matt Stohr provided a brief demonstration of the new orientation process for Board members, which is available on the ETF website: <http://etf.wi.gov/webcasts.htm>. The videos can be viewed by Board members at their convenience. The topics consist of:

- Wisconsin Retirement System (WRS) Disability Programs (Deb Roemer)
- ETF History and the WRS Legislative Oversight Committee (Matt Stohr)
- Ethics and Fiduciary Duties (David Nispel)
- WRS Funding and Benefits (Linda Owen)

Sari King will continue to meet with new Board members to offer a tour of the Department and introduce Board members to ETF staff.

Legislative and Communications Update Mr. Stohr reviewed the legislative and communications updates that have occurred since the September meeting.

Legislative

There are four floor periods remaining in this legislative session: January 19-28, February 16-26, March 1-4 and April 13-22.

- **2009 Senate Bill 320:** Senator Wirch and Representative Hubler introduced Senate Bill 320 which would close the WRS Variable Fund to new enrollees as of January 1, 2011. The bill was referred to the Joint Survey Committee on Retirement Systems, but has not been scheduled for a hearing.
- **2009 Senate Bill 390:** Senate Bill 390 permits a member of a retiree organization, affiliated with an employee organization, to request ETF deduct voluntary dues on a monthly basis from the retiree's WRS annuity. The bill also has a component that relates to the mailing of retiree organizational material to WRS members by the Department. ETF will be allowed to charge a fee for services. This bill has not been scheduled for a hearing. The ETF Board will be discussing this bill at its meeting.

Communications

- **Domestic Partner Provision (2009 Wisconsin Act 28):** A domestic partner “starter kit” is available on the ETF website. It includes an introduction to the program, a frequently asked questions document, affidavits, and a health insurance application.
- **WRS Annuity Adjustment and Effective Rate Projections:** In early October, ETF posted a table on the ETF website showing the projected range of Core Fund effective rates and annuity adjustments for 2010, depending upon SWIB’s year-end investment returns.
- **Newsletters:** *It’s Your Benefit* will be published once per year (in September) rather than three times per year. A shorter version of *Trust Fund News* will be sent to the inactive members along with their Annual Statement of Benefits in April of 2010.

Ms. King referred the Board members to the remaining informational reports in their binders.

ADJOURNMENT

Motion: Mr. Scheible moved to adjourn the meeting. Mr. Wiltgen seconded the motion which passed without objection on a voice vote.

The Joint Information meeting adjourned at 11:10 a.m.

Date Approved: _____

Signed: _____

Robert Niendorf, Secretary
Employee Trust Funds Board