

**MINUTES OF MARCH 18, 2010, 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 Jamie Aulik, WR Board Sandra Claflin-Chalton, TR Board Sheila Conroy, ETF Board Rosemary Finora, ETF Board Theron Fisher, ETF Board Susan Harrison, TR Board Betsy Kippers, TR Board Wayne Koessler, WR and ETF Boards Kathy Kreul, ETF Board Mike Langyel, ETF and TR Boards Eileen Mallow, WR Board (for Sean Dilweg)	Wayne McCaffery, TR Board Mary Jo Meier, TR Board Robert Niendorf, ETF Board Patrick Phair, TR Board Roberta Rasmus, TR Board Steve Scheible, TR Board Gary Sherman, ETF Board Robin Starck, TR Board Herbert Stinski, WR Board Mary Von Ruden, ETF and WR Boards David Wiltgen, TR Board
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BOARD MEMBERS NOT PRESENT:

Marilyn Wigdahl, Chair, WR and ETF Boards John David, WR and ETF Boards	Dan Nerad, TR and ETF Boards Tom Pedersen, TR Board Michael Woodzicka, WR Board
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PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:

Dave Stella, Secretary Bob Conlin, Deputy Secretary Anne Boudreau, Division of Retirement Services Cindy Gilles, Board Liaison Sari King, Office of Legislative Affairs, Communications and Quality Assurance	David Nispel, Office of the Secretary Steve Hurley, Office of Policy, Privacy and Compliance Matt Stohr, Office of Legislative Affairs, Communications and Quality Assurance Bob Willett, Office of Budget and Trust Finance
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Board	Mtg Date	Item #
JI	6.24.10	1

OTHERS PRESENT:

ETF Office of the Secretary: Rhonda Dunn, Sharon Walk	Department of Administration: Caitlin Frederick
ETF Division of Retirement Services: Jean Gilding	Gabriel, Roeder, Smith (GRS) and Co.: Mark Buis, Brian Murphy
ETF Office of Budget and Trust Finance: Jon Kranz	Legislative Fiscal Bureau: Art Zimmerman
ETF Office of Internal Audit: Claudius Lebi, John Vincent	State Engineering Association: Bob Schaefer
ETF Office of Legislative Affairs, Communications and Quality Assurance: Nancy Ketterhagen	State of Wisconsin Investment Board (SWIB): Keith Bozarth, Sandy Drew, Gail Hanson, Vicki Hearing, Ron Mensink
ETF Office of Policy, Privacy and Compliance: Linda Owen	Wisconsin Law Enforcement Officers Association: Dan Hayes

Lon Mishler, Chair, Teachers Retirement (TR) Board, called the meeting to order at 9:00 a.m.

CONSIDERATION OF MINUTES OF PREVIOUS MEETING

MOTION: Ms. Von Ruden moved approval of the minutes of the December 3, 2009, Joint Informational meeting as submitted by the Board Liaison. Mr. Scheible seconded the motion, which passed without objection on a voice vote.

ANNOUNCEMENTS

Sari King announced Michael Langyel has been re-elected to the Teachers Retirement (TR) Board as the Milwaukee Public School District representative; Rosemary Finora has been reappointed to the Employee Trust Funds (ETF) Board; and, Sheila Conroy is the new ETF representative from the Office of State Employment Relations. Congratulations to all.

EDUCATIONAL TOPIC

Wisconsin Retirement System 27th Annual Valuation of Retired Lives – December 31, 2009 Mr. Mishler introduced Brian Murphy and Mark Buis of Gabriel, Roeder, Smith & Co., actuaries for the Department of Employee Trust Funds (Department). Mr. Murphy and Mr. Buis provided a slide presentation in conjunction with the report, *Wisconsin Retirement System 27th Annual Actuarial Valuation of Retired Lives December 31, 2009*. They discussed the Core and Variable annuity reserves, methodology used to calculate increases and decreases, and Core and Variable participant numbers, payment amounts, and fund balances. In addition, they explained how Core and Variable Fund annuity adjustments are determined.

Annuity Comparison:	Core Fund	Variable Fund
27-Year:	4.9%	4.1%
10-Year:	2.0%	-5.0%

Looking ahead:

- Negative dividends will likely continue, due to prior investment losses.
- Variable adjustment will have some upward pressure due to timing of adjustment and carryover of truncated amounts.

Effective Rate and Future Dividend Projections

Bob Willett, Office of Budget and Trust Finance, presented the effective rate and annuity adjustment projections to the Board members.

Assumptions:

- Projections are based on actual 2009 Core Trust Fund investment returns
- Projections include 2006-2008 investment gains/losses
- Dividends are paid if the annuity reserve surplus provides at least a 0.5% dividend and annuities will be reduced if the annuity reserve shortfall would require at least a -.5% adjustment
- A core annuity cannot be reduced below the original value
- 0.04%/year is reserved for improvement and other actuarial adjustments

Market Recognition Account (MRA):

- Recognition to long-term changes in asset values while minimizing impact of short-term fluctuations in the capital markets
- Investment gains equal to assumed rate of 7.8%
- Gains and losses are spread out over five years creating a smoothing effect

Annuity Projections for 2010:

- 7.8% investment return will result in an adjustment between -1.8% and -2.2%
- 0% investment return will result in an adjustment between -3.1% and -3.5%
- 14.2% to 15.4% investment return is needed to avoid negative dividend
- 20.2% to 21.4% investment return is needed to pay a positive dividend
- Above average returns will be needed for the next three years to avoid negative dividends

Mr. Willett answered questions from the Board members.

State of Wisconsin Investment Board Update

Mr. Mishler introduced Keith Bozarth and Ronald Mensink of the State of Wisconsin Investment Board (SWIB). Mr. Bozarth and Mr. Mensink highlighted current SWIB data for the Board members.

Core Fund:

- Outperformed total benchmark by 2.45% – one of the best years in about 15 years.
- Stocks were above target much of the year.
- Majority of returns come from overall market returns. Out of a 22.4% return, approximately 20% came from market movements.

Variable Fund:

- Outperformance was about 1.71% -- underperformed slightly due to a slight deviation of domestic stock versus international stock.
- Active Management Factor and focus on International Small Cap were both beneficial to SWIB.

Investment Performance:

- Preliminary data as of February 28, 2010, shows the Core Fund (-0.9%) and Benchmark (-0.9%) are equal; and, the Variable Fund (-1.6%) is slightly ahead of the Benchmark (-1.7%).

Asset Allocation:

- The goal is to reduce some of the variability of the Core Fund and improve negative stock markets.
- To implement the allocation, equity allocation would be cut 2% and multi-asset would be increased by 2%.
- New strategies include inflation protection and more diversification.
- SWIB Board needs to approve implementation allocation.

Next Steps:

- Move slowly – using a “pilot” program approach.
- Using a 3-year window, increase leverage by 20% in the Core Fund and about a 10% reduction in public equity exposure to reach a more balanced risk portfolio.

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

Open Meetings Update – Attorney General Opinion on E-mail Communication

David Nispel, General Counsel, reviewed the guidelines for “open meetings” with respect to e-mail communication. It was prompted by the publicity surrounding an opinion Attorney General Van Hollen wrote to the *Journal Times* of Racine, Wisconsin, regarding his concerns with the City of Racine’s five-member governmental body casting votes, via e-mail, outside the course of regularly-scheduled meetings and without sufficient public notice.

Attorney General Van Hollen’s opinion is:

- A governmental body must give advance public notice of meetings and must conduct its business in open session unless a specific exemption applies.
- A governmental body violates the open meetings law if it takes binding collective action by aggregating the e-mail votes of its members using a method that allows no opportunity for public observation of the process.
- Identifying “Old Business” as a subject does not reasonably apprise the public that the governmental body would use that subject description to reaffirm an e-mail vote conducted previously without any prior public notice of the e-mail vote.

Mr. Nispel suggested that Board members transfer the memo and attachment they received for this in their Board binders (Item 3D) and place it in their Governance Manual under “Open Meetings and Public Records Law.”

Board Policies Steve Hurley, Office of Policy, Privacy and Compliance, referred the Board members to the policy drafts of *Conflict of Interest* and the *Rules of Conducting a Board Meeting*.

Conflict of Interest. A Board member shall not let his or her private interests interfere with the Board member’s fiduciary duty to the public employee trust fund. Board members are to refrain from participation in discussions or votes on issues where the member has a personal or financial interest. Continuing conflicts may require resignation from the Board or from the conflicting interest.

Conduct of Board Meetings Policy. The policy outlines how to conduct Board meetings, including selection of Board officers, frequency of meetings, voting, and how agendas are created and approved. *Robert’s Rules of Order* is used, as a reference, unless superseded by special rules adopted by the Boards.

Each of the Boards will vote whether to adopt the policies in their respective meetings. If adopted, the policies will be provided to Board members for inclusion in their *Governance Manuals*.

Mr. Hurley answered questions from the Board members.

ADMINISTRATIVE CODE REVISIONS

Mr. Hurley discussed the final draft report of Clearinghouse Rule #10-004: Relating to Changes Made to Ch. 40, Stats. by 2009 Wisconsin Act 28 Regarding Benefits for Domestic Partners and Health Insurance for Adult Children. Approval, by the Retirement Boards, of the final version of the proposed rule is the next step in the administrative rule promulgation process. The Group Insurance and Deferred Compensation Boards will also need to approve the final version of this rule. If approved by all boards, it will be submitted to the State Legislature for consideration.

OPERATIONAL UPDATES

Legislative and Communications Update Matt Stohr, Office of Legislative Affairs, Communications and Quality Assurance, provided an update on legislative and communication issues.

Legislative Update

The 2009-2010 Legislative Session will conclude the general business session in late April.

Senate Bill 320 would close the WRS Variable Fund to new enrollees as of January 1, 2011. The bill has been referred to the Joint Survey Committee on Retirement Systems. There is no hearing scheduled at this time.

Senate Bill 390 would allow retirees who participate in an employee organization to deduct monies from their monthly annuities for membership organization dues. This bill also has a component with regard to the mailing (by the Department) of material on behalf of a retiree organization to WRS retirees. On March 10, 2010, by a 3-to-2 vote, a Senate committee recommended adoption of the bill, as amended by a substitute amendment. The substitute amendment would allow the Department to charge fees for the dues deduction activity. While the amendment is a step in the right direction, the Department remains opposed to the bill as amended because it would still allow the mailing list to be used for solicitation purposes. The next step is for the bill to go to the Senate floor for a full vote.

Communication Updates

Mr. Stohr touched on the weekly communications that Board members have been receiving via e-mail from him. Some of the subject matter included: effective rates announced in February, the PEW Report highlighting Wisconsin (WRS in particular) as a well-funded state when it comes to unfunded pension and healthcare liabilities, the Wisconsin Policy Research Institute Report entitled "The Imbalance Between Public and Private Pensions in Wisconsin", and the annuity adjustments for retirees.

There has been a great deal of correspondence regarding the 11% difference between the effective rate and the Variable Fund annuity adjustment. Mr. Stohr referred the Board members to the ETF website (http://etf.wi.gov/news/ht_20100310.pdf) where there is a ETF document, *2010 Variable Fund Effective Rate and Variable Annuity Adjustment*, which explains the difference to members.

Retirement Statistics Anne Boudreau, Division of Retirement Services, shared some specific quarterly and annual retirement services statistics with Board members.

Calendar Year 2009

- Approximately 1,500 domestic partner affidavits were submitted during the health insurance open enrollment.
- The Employer Communication Center received 13,980 calls; 48% were WRS-related and 52% insurance-related.
- The Member Services Call Center responded to 178,949 telephone calls in 2009 compared to 177,006 in 2008.
- E-mail communication is becoming more prevalent with members, while the number of outgoing calls is decreasing.

October-December 2009

- About 3,900 retirement estimates requested, down 2.6% from the same period in 2008.
- There were nine retirement terminations; eight returned to work and elected to participate in the WRS and one cancelled their benefit application.

Ms. Boudreau also shared with the Board members that out of more than 426 members age 69½ and over with whom contact has been lost, staff were able to locate all but 66 members. The names of the 66 individuals with “abandoned accounts” were published for public notice in January 2010. The number of abandoned WRS accounts continues to decrease each year, due to ETF’s successful use of various search engines on the internet.

Ms. Boudreau answered questions from the Board members.

Mr. Mishler referred the Board members to the remaining informational memos in their Board binders.

ADJOURNMENT

MOTION: Ms. Rasmus moved to adjourn the meeting. Mr. McCaffery seconded the motion which passed without objection on a voice vote.

The Joint Information meeting adjourned at 11:35 a.m.

Date Approved: _____

Signed: _____

Robin Starck, Secretary
Teachers Retirement Board