

MINUTES OF SEPTEMBER 16, 2010, MEETING

STATE OF WISCONSIN EMPLOYEE TRUST FUNDS BOARD

DRAFT

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

BOARD PRESENT:

Marilyn Wigdahl, Chair Wayne Koessl, Vice-Chair Robert Niendorf, Secretary Sheila Conroy	Theron Fisher Kathleen Kreul Wayne McCaffery Mary Von Ruden
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BOARD NOT PRESENT:

John David Rosemary Finora	Michael Langyel Dan Nerad
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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 Matt Stohr, Office of Communications and Legislation
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OTHERS PRESENT:

ETF Office of the Secretary: Rhonda Dunn, David Nispel, Sharon Walk ETF Division of Insurance Services: Lisa Ellinger ETF Division of Management Services: Pam Henning ETF Division of Retirement Services: Anne Boudreau, Jean Gilding ETF Office of Budget and Trust Finance: Jerry Dietzel, Bob Willett ETF Office of Internal Audit: John Vincent	ETF Office of Communications and Legislation: Sari King ETF Office of Policy, Privacy and Compliance: Mary Alice McGreevy, Linda Owen CEM Benchmarking, Inc.: Matthijs Reinders Gabriel, Roeder, Smith, and Company: Mark Buis, Norm Jones Office of State Employment Relations: Paul Ostrowski Ice Miller, LLP: Terry Mumford, Mary Beth Braitman, Eric Dawes
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Marilyn Wigdahl, Chair, called the meeting of the Employee Trust Funds (ETF) Board (Board) to order at 1:02 p.m.

Board	Mtg Date	Item #
ETF	12.2.10	1

CONSIDERATION OF PREVIOUS MEETING MINUTES

MOTION: Ms. Von Ruden moved to approve the open and closed session minutes of the June 24, 2010, ETF Board meeting as submitted by the Board Liaison. Ms. Kreul seconded the motion, which passed without objection on a voice vote.

ANNOUNCEMENTS

Bob Conlin, Deputy Secretary, noted that this would be Marilyn Wigdahl's last meeting as she has decided to retire from the Boards. Dave Stella, Secretary, stated that Wayne Koessl, Vice-Chair, would conduct the December meeting and the election of new officers would be held in March 2011.

Mr. Conlin mentioned that elections could be conducted for two seats on the Board: the educational support seat currently held by Kathleen Kreul and the annuitant seat held by Theron Fisher. Application materials are available and notices have been published in the *Trust Fund News*. These elections, pending the return of candidates' nomination packets, are scheduled to take place in January.

COMMITTEE REPORTS

Executive Committee Ms. Wigdahl provided a summary of the September 15, 2010, Executive Committee meeting. The Committee discussed the Department's July through September 2010 Quarterly Progress Report, received an update on human resources activities for the past quarter, considered a draft Board policy on administrative rule promulgation and passed a motion recommending the ETF Board adopt the policy, reviewed the agenda for the September 16, 2010, ETF Board meeting, and received a report on facilities activity.

Audit Committee Wayne McCaffery reported the Audit Committee approved the minutes of the March 18, 2010, meeting, received and discussed the report of the audit conducted on the accuracy and reliability of data provided to the Board's consulting actuary on the retired lives valuation, received an update on the drop-file document audit, discussed the status of open audit observations, received a report on the progress of the 2009-2011 audit plan, and received an update on the 2009 Comprehensive Annual Financial Report.

Budget and Operations Committee Theron Fisher reported the Budget and Operations Committee approved the minutes of the June 24, 2010, meeting, reviewed and discussed the Department's proposed biennial budget for the period July 1, 2011, to June 30, 2013, reviewed the Department's summary of the operating budget and expenses for the current year, reviewed the Wisconsin Retirement System (WRS) operations update and received a facilities update.

DISCUSSION AND CONSIDERATION

Gain/Loss Analysis of Experience Among Active Members During Calendar Year

2009 Mr. Stella noted that Gabriel, Roeder, Smith and Company (GRS), the Board's actuary, presented the *Gain/Loss Analysis of Experience Among Active Members During Calendar Year 2009* report at the Joint Informational meeting earlier in the day. He reminded the Board that it needs to take action to accept the actuary's report. Norm Jones and Mark Buis from GRS summarized the report for the Board. There was a net loss to the system of \$900 million to \$1 billion in assets. The smoothing of the assets was offset in part by salary increases. The net effect on the contribution rates was a two-tenths of one percent (.2%) increase in the contribution rates due to the gain/loss in the system and another .2% due to the change in the assumptions adopted last December.

MOTION: Mr. Koessl moved to accept the report of the actuary. Ms. Kreul seconded the motion, which passed without objection on a voice vote.

Administrative Rule Promulgation Mr. Conlin reviewed the proposed policy on administrative rule promulgation. He noted the Wisconsin Retirement (WR) Board and the Teachers Retirement (TR) Board amended the policy to require staff to notify the Boards when technical changes are made and when extensions to emergency rules are requested.

MOTION: Ms. Kreul moved to approve the rule with the amendments as noted. Mr. Niendorf seconded the motion, which passed without objection on a voice vote.

Cost Effective Measurement (CEM) Study Jon Kranz, Director, Office of Budget and Trust Finance, introduced Matthijs Reinders of CEM Benchmarking, Inc. CEM provides pension administration benchmarking services to pension systems throughout the world. The information provided by CEM is used to develop the Department's budget requests and make decisions on resource allocation.

Mr. Reinders reviewed the results of the WRS pension administration study for fiscal year 2008-2009. The study is a management tool that compares the WRS to peer systems in terms of cost and service. CEM compared the WRS to 16 other U.S. public sector funds, all comparable in size. Mr. Reinders discussed the criteria used to obtain the results contained in the report. For the WRS, the cost per member is \$60 which is below the peer median of \$69 per member. The WRS has higher costs for disability transactions compared to its peers. Some of the additional costs related to disability transactions can be attributed to the use of a third-party administrator. In addition to per member costs, Mr. Reinders discussed the Department's website. The WRS offers fewer on-line transaction capabilities. Eighty percent of WRS' peers have secure environments which allow on-line transactions using member data. Finally, he noted that CEM is not recommending that the WRS make any changes. Rather, the report is

made available to illustrate what other systems are doing. The Department and the Board must determine which changes, if any, should be implemented.

Biennial Budget Mr. Kranz provided an update on the Department's proposed biennial budget request for the period from July 1, 2011 through June 30, 2013. The budget request will be submitted to the Department of Administration next week.

The Department is requesting three statutory changes intended to enhance operational flexibility. The three statutory changes involve:

- expenditure authority flexibility;
- position authority flexibility; and,
- ETF Board appropriation authority.

The Department is also proposing statutory changes to provide additional efficiencies for the administration of the Group Insurance Board (GIB) programs including:

- wellness incentives;
- expansion of GIB authority to contract for data collection and analysis services;
- elimination of the requirement for GIB approval of payroll deduction of optional insurance plans; and,
- additional flexibility to determine long-term care insurance options.

Other budget initiatives include a new headquarters facility and a dependent eligibility audit for the Department's group health insurance programs. Mr. Kranz referred the Board members to the memo at their places which detailed the Department's requests.

Mr. Conlin described how the CEM presentation and the budget proposal are connected. The CEM study provides the Department with information that can be used to plan future improvements. In 2010, timelines for estimates and service purchases have been shortened; four positions have been added to the Call Center; and outreach initiatives are being implemented which will put more specialists in the field. The Department's strategic business plan calls for more on-line access and other self-service tools for members. The budget initiative described by Mr. Kranz is the next phase of the process. Finally, Mr. Conlin stated the Department would appreciate the Board's support of its biennial budget proposal.

MOTION: Mr. Koessl moved to support the Department's biennial budget proposal. Ms. Kreul seconded the motion, which passed without objection on a voice vote.

OPERATIONAL UPDATES

Secretary's Report Mr. Stella presented his *Secretary's Report* to the Board.

Facility Mr. Stella reviewed the history of the Department's efforts to procure a new facility. It appears that the process has stalled and it is unlikely that a proposal will be submitted to the Building Commission this year. Any work on a new facility will wait until the new administration takes office in January. He expressed his disappointment in not being able to move forward with this project but remains committed to pursuing it because of the Department's continued problems with space limitations in the current arrangement.

Online Access Mr. Stella reported the Enrollment, Validation and Payment (EVP) project was completed in August. This project allows members enrolled in the health insurance plans to view their insurance coverage information online and allows members to enroll or change health insurance coverage during the *It's Your Choice* period.

Biennial Budget Request Mr. Stella noted his meetings to discuss the Department's request with the Joint Committee on Finance members and other legislators were cordial. There appears to be a better understanding of the need for the request for the essential resources and the passive review process.

Member Correspondence Mr. Conlin noted the September *Trust Fund News* contained information intended to prepare retirees for the possibility of another reduction in annuities due to the severe investment declines brought about by the 2008 global economic crisis. The strategy is to ensure that members have plenty of lead time to plan for possible reductions.

Facilities Update Mr. Conlin referred the Board to Pam Henning's memo regarding the Department's move to the Department of Revenue site. In her memo, Ms. Henning outlined which staff would be moving and how the move would take place. This move will have an effect on how the Department operates, but will not have any real effect on the members. All of the customer-service interactions will continue to occur at the Badger Road facility.

Mr. Conlin pointed out the remaining informational memos in the Board binders.

FUTURE ITEMS FOR DISCUSSION

No future items were mentioned.

Ms. Wigdahl announced the Board would be meeting in closed session pursuant to the exemptions contained in Wis. Stat. § 19.85 (1) (g) to confer with tax counsel concerning legal strategy relating to pending or possible legal action.

MOTION: Ms. Von Ruden moved to convene in closed session, pursuant to the exemptions contained in Wis. Stat. § 19.85 (1) (g) to confer with tax counsel concerning legal strategy relating to pending or possible legal action. Mr. McCaffery seconded the motion, which passed on the following roll call vote:

Members Voting Aye: Conroy, Fisher, Koessler, Kreul, McCaffery, Niendorf, Von Ruden, and Wigdahl.

Members Voting Nay: None

The Board took a break from 2:30-2:40 p.m.

ANNOUNCEMENT OF ACTION TAKEN ON BUSINESS DELIBERATED DURING CLOSED SESSION

Ms. Wigdahl announced that during closed session the Board moved to support the efforts of Department staff and Tax Counsel regarding the Voluntary Correction Program and Determination Letter filings with the Internal Revenue Service.

ADJOURNMENT

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

The meeting of the Employee Trust Funds Board adjourned at 3:20 p.m.

Date Approved: _____

Signed: _____

Robert Niendorf, Secretary
Employee Trust Funds Board