

**MINUTES OF SEPTEMBER 16, 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 Marilyn Wigdahl, Chair, WR and ETF Boards Jamie Aulik, WR Board Sandra Claflin-Chalton, TR Board Sheila Conroy, ETF Board Theron Fisher, ETF Board Susan Harrison, TR Board Betsy Kippers, TR Board Wayne Koessl, WR and ETF Boards Kathy Kreul, ETF Board Wayne McCaffery, TR Board	Mary Jo Meier, TR Board Robert Niendorf, ETF Board Tom Pedersen, TR Board Patrick Phair, TR Board Roberta Rasmus, TR Board Steve Scheible, TR Board Robin Starck, TR Board Herbert Stinski, WR Board Mary Von Ruden, ETF and WR Boards David Wiltgen, TR Board Michael Woodzicka, WR Board
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BOARD MEMBERS NOT PRESENT:

John David, WR and ETF Boards Sean Dilweg, WR Board Rosemary Finora, ETF Board	Michael Langyel, ETF and TR Boards Dan Nerad, TR and ETF Boards
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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 Communications and Legislation David Nispel, Office of the Secretary Matt Stohr, Office of Communications and Legislation
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Board	Mtg Date	Item #
JI	12.2.10	1

OTHERS PRESENT:

ETF Office of the Secretary: Rhonda Dunn, Sharon Walk	Department of Administration: Caitlin Frederick
ETF Office of Budget and Trust Finance: Jerry Dietzel, Jon Kranz, Bob Willett	Department of Justice: Charlotte Gibson Gabriel, Roeder, Smith and Co.: Mark Buis, Norm Jones
ETF Office of Internal Audit: John Vincent	State Engineering Association: Bob Schaefer
ETF Office of Communications and Legislation: Nancy Ketterhagen	State of Wisconsin Investment Board: Sandy Drew
ETF Office of Policy, Privacy and Compliance: Linda Owen	Family of Marilyn Wigdahl: Nancy Sedbrook, Eric Wigdahl, Jeff Wigdahl
ETF Division of Insurance Service: Lisa Ellinger	William Ford
ETF Division of Retirement Services: Jean Gilding	

Lon Mishler, Chair, Teachers Retirement (TR) Board, called the meeting to order at 8:35 a.m.

CONSIDERATION OF MINUTES OF PREVIOUS MEETING

***MOTION: Ms. Rasmus moved approval of the minutes of the June 24, 2010, Joint Informational meeting as submitted by the Board Liaison.
Ms. Kippers seconded the motion, which passed without objection on a voice vote.***

ANNOUNCEMENTS

Mr. Mishler indicated Secretary Dave Stella had an important announcement. Mr. Stella shared with the Board that Marilyn Wigdahl would be resigning from both the Employee Trust Funds (ETF) Board and the Wisconsin Retirement (WR) Board on September 17, 2010. She has been on the WR Board since 1984 and served as Chair for 23 years. In addition, Ms. Wigdahl has been on the ETF Board for 23 years and served as Chair for 19 years. She has been instrumental in many decisions throughout her tenure and extremely dedicated in her positions.

Mr. Stella presented Ms. Wigdahl with a certificate from the Department and the ETF Board. He also recognized her family members who were present, her son, Jeff Wigdahl, her daughter, Nancy Sedbrook, and her grandson, Eric Wigdahl.

Ms. Wigdahl said the Wisconsin Retirement System (WRS) is one of the top five retirement systems in the United States and stressed to the Board members the importance of remembering their fiduciary duties.

Sari King had the following announcements:

- Board members received revised 2010 Governance and Reference manuals.
- There may be three elections conducted in spring 2011 for four seats: two on the TR Board and two on the ETF Board (one annuitant and one educational support personnel member). Nomination packets are due by Friday, November 12.

EDUCATIONAL TOPIC

Appeals Training

Prior to the start of the training on appeals, Deputy Secretary Bob Conlin stated there are a number of Board members who have never participated in an appeal. Ten years ago, however, ETF had routinely had more than 300 appeals when the Boards met; a good portion of their time was spent adjudicating the appeals. The Department has taken a number of actions over the last few years to reduce the number of appeals.

Because many of the Board members have not experienced the appeal process, David Nispel, General Counsel for the Department, and Charlotte Gibson, Assistant Attorney General for the Department of Justice, who represents the boards on appeal matters, provided the appeal process presentation. There is also a training video on the Department's website (<http://etf.wi.gov/webcasts.htm>) for Board members to view as well.

Appeals Process Prior to the Boards Receiving an Appeal – David Nispel, General Counsel, ETF

1. Introduction: "Appeal" is the review of a determination made by the Department conducted by the Board under Wis. Stat. § 40.03 (1) (j), (6) (i), (7) (f), or (8). Rarely are there "direct appeals" which relate to employer determinations. The "nature of the appeal" determines which Board hears the case.
2. Review Conducted by Department: Formal appeal is filed by a letter with the Appeals Coordinator. Appeals are often resolved without a formal appeal through discussion between the appellant and the Department. If informal resolution is not possible, the appeal is forwarded to the Division of Hearings and Appeals within the Department of Administration.
3. Hearing Examiner: The Hearing Examiner (Examiner) will determine what the issue is and who the parties to the appeal are. They will usually include the Department, the appellant, and then it depends on who is involved – employer, health or life insurer, etc.

4. Prehearing Conference: The Examiner conducts a teleconference about 30-45 days after the appeal is sent to Hearings and Appeals. The witnesses, expert witness, stipulation of facts and exhibits are also determined at this time.
5. Hearing: The hearing is held about 90-120 days after the initial appeal is sent to Hearings and Appeals. It is held at the Office of the Division of Hearings and Appeals in Madison. The appellant presents his/her case – first calling any witnesses he/she has and then ETF cross-examines and calls any of its witnesses. A record of the hearing is developed which consists of stipulation of facts, exhibits, and transcripts.
6. Briefs: Following the hearing, parties have the opportunity to file briefs or letters referencing the evidenced offered and laws supporting arguments. No new evidence or documents can be submitted that were not previously submitted at the hearing.
7. Proposed Decision: The Administrative Law Judge issues the proposed decision which consists of Findings of Fact, Conclusions of Law and the Order. After the proposed decision is filed, parties have 20 days to file an objection.
8. Closing: Appeals Coordinator provides appeal record to each Board member and the Board meets to consider the appeal.

Board's Role in Deciding Administrative Appeal – Charlotte Gibson, Assistant Attorney General, Department of Justice

1. Board Function in an Appeal: In an appeal, the Board functions as a quasi-judicial body – applying the law. Board members review the record (either in hard copy or on a CD) and provide oversight of the initial decision-making process. The appeal is then heard in closed session, along with the Board's Counsel (Counsel), without parties present.
2. Parties: Parties in the case have been determined and usually include the Department, the person with substantial interest (appellant), and then it depends on who is involved – employer, health or life insurer, etc.
3. Proposed Decision: The Hearing Examiner issues a Proposed Decision, but the Board does not need to adopt it in part or in full.
4. Decision-making Process: Prior to the Board meeting, the Board reads the record, identifies specific issues to be resolved and any factual and legal disputes. At the meeting, Counsel will provide a summary and recommendation of the case and then it is opened up for discussion.

“Hearsay” is important to understand. It is someone testifying that someone else said something. Hearsay evidence tends to be a type of evidence that courts consider less reliable than other evidence.

Once all the Board members have had the opportunity to discuss the case, there is a vote, which is not always unanimous. Options for the final vote are whether the decision of the Department or employer is affirmed, reversed, or remanded for

further proceedings. Options include remanding the appeal back to the Hearing Examiner for additional evidence or to consider a point of law that the parties did not address.

5. Final Decision: After the Board meetings, Counsel prepares the Final Decision which includes the proposed decision and it is delivered to the parties.
6. Losing Party's Options After the Final Decision: If the appellant is unhappy with the decision and they believe it was wrong, they have 30 days to file for certiorari review in Dane County Circuit Court. The case is assigned to a trial judge in Dane County. The judge doesn't call any of the witnesses and he or she reviews the same record that the Board reviewed. In these types of appeals, the "Board" is the defendant. It can take up to 6 months for this process.

On a side note, Ms. Gibson congratulated the Board members on how diligently, conscientiously, and compassionately Board members take their work with an appeal.

Survey of Educational Topics

Mr. Conlin said the Joint Informational meeting provides an opportunity for the Department to present educational topics that assist Board members in fulfilling their Board and fiduciary duties. Board members were provided a survey listing some possible topics they may like to receive additional education on as well as space to write additional topics in. They were asked to return the surveys to Cindy Gilles on or before the December 2, 2010, Board meetings.

DISCUSSION

Gain/Loss Analysis of Experience Among Active Members During Calendar Year 2009

Mr. Mishler introduced Norm Jones and Mark Buis of Gabriel, Roeder, Smith, and Company (GRS). Mr. Buis presented the report, *Wisconsin Retirement System Gain/Loss Analysis of Experience Among Active Members During Calendar Year 2009*.

Mr. Buis explained that a gain/loss analysis measures the difference between what actually happens during the year and what is assumed to happen in each risk area. The primary risk areas include the demographic assumptions (normal retirement, early retirement, death-in-service, disability, and other separations) and the economic assumptions (salary increases, investment return).

A gain/loss analysis is completed to:

- Gain an understanding of contribution rate changes;
- Provide a year-by-year measure of the operation of assumptions;
- Determine when assumption changes are needed; and,
- Understand the nature of risk.

In 2009, the net core loss was \$912 million with a total asset loss of \$1,007 million. Mr. Buis concluded his remarks by noting that:

- Recognition of remaining prior asset losses are expected over the next few years – upward pressure on contribution rates.
- The Gain/Loss Analysis is the first in a regular three-year experience cycle. This study, along with 2010 and 2011, will form the next experience study.
- The next experience study will be reported to the Board in December 2012 and implemented in the December 31, 2012, valuations.

Mr. Jones said the Governmental Accounting Standards Board (GASB) determined two years ago that it will be reviewing Statement 25 (Financial Reporting of Public Pension Fund) and Statement 27 (Reporting by Sponsors of Public Pension Funds). To date, GASB is focused on the accounting and disclosure requirements for employers who sponsor the funding benefit plans.

GASB's Timeline:

- Comment period until September 17, 2010
- Public hearings October 2010
- Exposure draft of new standard in spring 2011
- Final standard spring 2012
- Implementation/Transition – not yet known

Board Policy for Promulgation of Administrative Rules

Mr. Conlin shared the changes to the *Board Policy for Promulgation of Administrative Rules*. He highlighted the three areas the policy is proposing to change and reminded the Board members they would be voting on the policy in their respective Board meetings.

1. In 2004, the Boards approved the rule-making process that states a proposed rule does not need to come formally before the Boards for action until the Department is ready to submit the final draft report of the rule to the Legislature, subject to regular rule status reports. The Department is proposing that this now gets incorporated into the Governance Manual so it is reflected for future reference.

2. With notice to the Boards, the proposal authorizes the Secretary to make technical corrections after the rule has been approved by all the Boards and before it goes to the Legislature.
3. The proposal would authorize the Secretary to issue emergency rules without going through the full Board approval process.

It was suggested by one of the Board members that the words "*with a duty to report all such changes or extensions to the Board as soon as practicable*" be inserted to the latter two proposals. Mr. Conlin stated that this proposed change is reasonable and that the Board members should discuss (and possibly act on) the policy and possible amendments to it at their meetings.

OPERATIONAL UPDATES

Retirement Services Update

Anne Boudreau, Division of Retirement Services, shared April - June quarterly statistics with Board members. Ms. Boudreau pointed out some of the new slides added to her update.

January – March 2010

- Customer Service
 - There were 60 sessions involving 440 members during a small group retirement session. These are two-hour sessions held in the evenings for members who are thinking about retiring.
 - 2,400 members attended either an individual or group retirement session during regular business hours.
 - There were 1,960 individual retirement sessions.
- WRS File Updates at Request of Retiree
 - More than 200,000 changes were made to annuitant addresses, tax withholding and health insurance. A large volume of staff time could be saved if annuitants were able to go in and change this on their own.
- Variable at Core Project
 - There are over 32,000 annuitants who participate in the Variable Fund. Unless an annuitant completes and submits a Variable cancellation form, the Department does not keep track of whether an annuitant's participation in the Variable Fund has resulted in an annuity that is higher or lower than if the annuitant had not participated in the Variable Fund.
 - The project began January 11, 2010, with 32,553 files in need of review. At the end of the second quarter of 2010, the project team reviewed 15,921 files (49%) of the total number of files requiring review. After the first week of September, the team is up to about 23,000 files (68%).

- WRS Employer Transactions and Communications
 - In the near future, the employer line will be brought into the mainline call routing to allow the Department to collect data and disperse calls more efficiently and appropriately.
- Trends
 - The retirement estimate requests are up 3.8% (in addition to last year's increase of 11.6%) and the application requests are up 10.2%.

Remaining Operational Updates in Board Binders Ms. King referred the Board members to informational memos in their Board binders.

Future Items for Discussion A Board member requested training and education on rehired annuitants.

ADJOURNMENT

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

The Joint Information meeting adjourned at 10:55 a.m.

Date Approved: _____

Signed: _____

Mary Von Ruden, Secretary
Wisconsin Retirement Board