

## MINUTES OF DECEMBER 2, 2010, MEETING

### STATE OF WISCONSIN EMPLOYEE TRUST FUNDS BOARD

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

**DRAFT**

#### BOARD PRESENT:

Wayne Koessl, Vice-Chair Robert Niendorf, Secretary John David Theron Fisher	Kathleen Kreul Michael Langyel Mary Von Ruden
---	---

#### BOARD NOT PRESENT:

Sheila Conroy Rosemary Finora	Wayne McCaffery Dan Nerad
----------------------------------	------------------------------

#### PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:

Dave Stella, Secretary Bob Conlin, Deputy Secretary Cindy Gilles, Board Liaison Steve Hurley, Office of Policy, Privacy and Compliance	Jon Kranz, Office of Budget and Trust Finance Matt Stohr, Office of Communications and Legislation
---	---

#### OTHERS PRESENT:

ETF Office of the Secretary: Rhonda Dunn, David Nispel, Sharon Walk ETF Division of Insurance Services: Lisa Ellinger ETF Division of Retirement Services: Anne Boudreau, Jean Gilding ETF Office of Budget and Trust Finance: Jerry Dietzel, Bob Willett ETF Office of Communications and Legislation: Sari King ETF Office of Policy, Privacy and Compliance: Linda Owen	Department of Justice: Charlotte Gibson Gabriel, Roeder, Smith, and Company: Norm Jones, Brian Murphy Office of State Employee Relations: Lynn Maulbetsch State Engineers Association: Bob Schaefer State of Wisconsin Investment Board: Keith Bozarth, David Villa TR Board Member: Susan Harrison William Ford
---	--

Wayne Koessl, Vice Chair, called the meeting of the Employee Trust Funds (ETF) Board (Board) to order at 1:00 p.m.

Board	Mtg Date	Item #
ETF	3.10.11	1

## CONSIDERATION OF PREVIOUS MEETING MINUTES

***MOTION: Ms. Von Ruden moved to approve the open and closed session minutes of the September 16, 2010, ETF Board meeting as submitted by the Board Liaison. Mr. David seconded the motion, which passed without objection on a voice vote.***

## ANNOUNCEMENTS

Bob Conlin, Deputy Secretary, noted there is one annuitant seat on the Board up for election. There are four candidates for this seat, so there will be a spring election. Mary Von Ruden and Wayne Koessl volunteered to serve on the Election Committee.

There is also one educational support seat up for election, but there were no candidates. The vacancy will be reannounced in January in the *WRS News*.

Rosemary Finora resigned from her ETF seat as a “non participant or beneficiary of the WRS” [§ 15.16 (1)(c)] and has been appointed as the Governor’s designee [§ 15.16 (1)] on both the ETF and Group Insurance Boards.

## COMMITTEE REPORTS

**Budget and Operations Committee** John David reported the Budget and Operations Committee met and approved the minutes of the September 16, 2010, meeting. The Committee also reviewed and discussed the Division of Retirement Services operations update; the Department’s 2011-2013 biennial budget request; and the Department’s strategic planning update.

## DISCUSSION AND CONSIDERATION

**Proposed Administrative Rule for ETF and TR Board Elections** Steve Hurley, Director, Office of Privacy and Compliance, referred the Board members to his memo dated November 2, 2010 (*Early Draft of Proposed Administrative Rule for ETF and TR Board Elections*) (ref. ETF | 12.2.10 | 3A). Mr. Hurley said the primary reason for amending the rule is to permit elections to be conducted electronically as well as utilizing paper ballots. It is expected electronic voting will increase voter participation while decreasing costs. The new voting system would be designed to prevent voting by more than one means, i.e., someone could not send in a paper ballot as well as vote electronically.

Mr. Hurley shared with the Board the concerns the Teachers Retirement Board had with the draft rule. The proposed rule will be presented to the Board for approval and final comments at a future meeting. ETF Board members did not express any major concerns with the draft rule.

**Economic Assumptions** Mr. Conlin prefaced the presentations of the State of Wisconsin Investment Board (SWIB) and the Board's actuary, Gabriel Roeder Smith and Co. (GRS), by referring to a handout Board members had received, "An Evaluation: State of Wisconsin Investment Board," from the Legislative Audit Bureau (LAB). One of the recommendations of the LAB is that ETF update the Legislature on its findings regarding economic assumptions.

Dave Stella, Secretary, referred the Board to a letter dated October 19, 2010, from Keith Bozarth, Executive Director of SWIB, in which Mr. Bozarth discussed economic assumptions.

**Investment Return Assumption** Mr. Bozarth and David Villa presented SWIB's portfolio on investment returns (ref. ETF | 12.2.10 | 4B - SWIB). The portfolio consists of returns based on cash rate, beta (what the market gives you by being there) and alpha (skilled manager buying/selling stock) as well as capital market expectations that are developed by an asset allocation consultant.

An example of current allocation comparison is:

	Expected Return	Expected Risk
December 2001	8.5%	11.5%
October 2010	7.9%	12.6%
Current	7.6%	12.6%

Wage Expectation Factors:

- Inflation expectation: ETF Assumption: 3.0% – 3.5%; SWIB Expectation: 2.2%.
- In the first decade of this century, we gained almost 28 million in population and lost over 1 million in jobs.
- It appears that it will be a long time before we return to the same number of jobs prior to the start of the recession. In addition, the population will have grown.
- Since 1988, it appears private sector wage growth has been <4% and unlikely to increase.

**Alternative Economic Scenarios and Their Effect on the Retirement System** Norm Jones and Brian Murphy of GRS continued the discussion on investment assumptions (ref. ETF | 12.2.10 | 4B - GRS).

Historical Patterns of Investment Return, Pay Increases and Inflation

- Stocks over the last 60 years went from 11% down to -0.9% over the last 10 years.
- Over the last 60 years, national average earnings went from just under 5% and price inflation just under 4%.

- Average dividend increases over the last 27 years have been 4.9%, with the last 10 years being at 2.0%.

Mr. Jones shared with the Board that the trend with other retirement systems is to lower their assumptions as well.

Wage Inflation:

The average wage increase over the last 5 and 10 years has increased about 3% which is close to the national averages since inception.

Mr. Jones provided an example of the current assumption as well as three alternatives. Using the current assumption of 7.80% for interest rate, 4.00% for wage inflation, and 2.17% for expected dividend, the contribution rate implication would be 11.7%.

Observations:

- Lower investment returns with lower wage increases may not significantly affect contribution rates.
- Lower investment returns with lower wage increases will reduce retirement benefits paid to members.
- Lower investments returns will reduce expected dividends.

If the Board would like to choose to move forward with a more in-depth review of the economic assumptions, GRS would work with SWIB and ETF and come back to the Board in March. Any changes made in 2011 would not go into effect until 2012.

***MOTION: Mr. Niendorf moved to support the Department's efforts in investigating the continuing appropriateness of the economic assumptions used in the WRS. 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 (ref. ETF | 12.2.10 | 5A).

**Move to Department of Revenue (DOR)** Mr. Stella said the move of approximately 92 ETF staff to DOR was completed in mid-October. The move went well, especially for staff that moved from the Ann St. offices. The Badger Road office currently accommodates 153 staff. Efforts have begun to reconfigure work areas at the Badger Road facility that were vacated.

Staffing and Workloads Workloads continue to rise steadily; retirements and requests for retirement estimates have gone up as well. Jean Gilding, Administrator of the Division of Retirement Services, is retiring in January and Tom Korpody, Administrator of the Division of Insurance, retired in October, which leaves two of three Division Administrator positions vacant. ETF currently has 26 vacancies to fill. Every effort is being made to fill these positions as soon as possible.

2010's Major Accomplishments The Benefit Payment System, Lump Sum Payment System, and myETF Benefits continue to be fine-tuned. myETF Benefits successfully handled *It's Your Choice* health insurance enrollments and related changes with minimal problems.

ETF staff, working with Deloitte Consulting, completed a major 12-week business risk assessment for implementation of additional online services.

There is a recommended business transformation initiative which includes governance, business enablement processes and information technology projects. This may take up to two or three years in the planning and development stages. ETF needs to be in the forefront of online systems with the number of retirees anticipated in the coming years.

The Future The Department met with Governor Walker's campaign team prior to the election. On December 1, 2010, Secretary Stella received a letter from Governor Walker's transition team asking the Department to create a briefing paper for the transition staff. There are about 25 new legislators, a new administration and tremendous budget challenges.

Member Correspondence Matt Stohr, Director of Office of Communications and Legislation, referred the Board to the Wisconsin Retirement System member letters attached to his cover memo (ref. ETF | 12.2.10 | 5B). Mr. Stohr noted that ETF tends to receive fewer letters and e-mails from members toward the end of the year.

Mr. Conlin added that many of the ETF field presentations are very well attended. Most of the attention has been on state and university employees, but at some point there will probably be interest from local employees.

Mr. Conlin referred the Board to the informational budget memo in their binder.

### **FUTURE ITEMS FOR DISCUSSION**

No future items were mentioned.

Mr. Koessler announced that the Board would be meeting in closed session pursuant to the exemptions contained in Wis. Stat. § 19.85 (1) (a) for quasi-judicial deliberations. Specifically, the Board will be considering an appeal. Upon conclusion of the discussion, the Board would reconvene in open session.

***MOTION: Ms. Von Ruden moved to convene in closed session, pursuant to the exemptions contained in Wis. Stat. § 19.85 (1) (a) for quasi-judicial deliberations. Mr. David seconded the motion, which passed on the following roll call vote:***

***Members Voting Aye: David, Fisher, Koessler, Kreul, Langyel, Niendorf, and Von Ruden***

***Members Voting Nay: None***

***Members Absent: Conroy, Finora, McCaffery and Nerad***

#### **ANNOUNCEMENT OF ACTION TAKEN ON BUSINESS DELIBERATED DURING CLOSED SESSION**

Mr. Koessler announced that the Board took the following action during closed session:

**Appeal No. 2006-077-ETF** The Board adopted the hearing examiner's proposed decision with modifications.

#### **ADJOURNMENT**

***MOTION: Ms. Kreul moved to adjourn the meeting. Mr. Niendorf seconded the motion, which passed without objection on a voice vote.***

The meeting of the Employee Trust Funds Board adjourned at 2:40 p.m.

Date Approved: \_\_\_\_\_

Signed: \_\_\_\_\_

Robert Niendorf, Secretary  
Employee Trust Funds Board