

**DRAFT**

# MINUTES

April 2, 2015

Employee Trust Funds Board  
State of Wisconsin

Location:  
State Revenue Building – Events Room  
2135 Rimrock Road, Madison, WI



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## ETF BOARD MEMBERS PRESENT:

Wayne Koessler, Chair  
John David, Vice Chair  
Robert Niendorf, Secretary  
William Ford  
Kimberly Hall  
Michael Langyel

Jon Litscher  
Paul Ostrowski  
Roberta Rasmus  
Victor Shier  
Mary Von Ruden  
David Wiltgen

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## PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:

Office of the Secretary:  
Bob Conlin, Secretary  
John Voelker, Deputy Secretary  
Pam Henning, Assistant Deputy  
Secretary

Cherylynn Wilkins, Board Liaison  
Division of Retirement Services:  
Matt Stohr, Administrator

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## OTHERS PRESENT:

ETF Division of Insurance Services:  
Deb Roemer  
ETF Division of Retirement Services:  
Anne Boudreau  
ETF Legal Services: David Nispel  
ETF Office of Internal Audit: Yikchau  
Sze

ETF Office of the Secretary: Tarna  
Hunter  
ETF Office of Trust Finance: Bob Willett  
Department of Justice: Charlotte Gibson  
Gabriel Roeder Smith & Company:  
Jim Anderson, Mark Buis, Brian  
Murphy

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Wayne Koessler, Chair, called the meeting of the Employee Trust Funds (ETF) Board (Board) to order at 12:48 p.m.

Board	Mtg Date	Item #
ETF	6.25.15	1

## CONSIDERATION OF MEETING MINUTES

***MOTION: Ms. Von Ruden moved to approve the open and closed session minutes of the December 11, 2014 meeting of the Employee Trust Funds Board, as submitted by the Board Liaison. Mr. Wiltgen seconded the motion, which passed unanimously on a voice vote.***

## ANNOUNCEMENTS

- Mr. Stohr shared the Election Committee results from the Joint Meeting. There were three board seats up for election. Kim Schroeder was uncontested for the Milwaukee Public School Teacher Member seat. On the ETF Board, Leilani Paul was elected to the Educational Support Personnel Member seat and Bill Ford was re-elected to the WRS Annuitant Member seat.

## ELECTION OF OFFICERS

***Motion: Mr. Langyel moved to elect the current slate of officers. Current Chair is Wayne Koessl, Vice-Chair is John David and Secretary is Robert Niendorf. Ms. Von Ruden seconded the motion, which passed unanimously on a voice vote.***

## COMMITTEE REPORTS

### Executive Committee

Mr. Koessl noted the Executive Committee met on April 1, 2015. The Committee approved the December 9, 2014, minutes. In addition, the Committee reviewed and discussed:

- today's ETF Board meeting agenda;
- the change to the Executive Committee Charter;
- some of ETF's objectives and accomplishments from the past year, highlighting several milestones achieved during the first phase of the Benefit Administration System (BAS) project as well as providing outreach to more than 20,000 members within 46 cities in 2014;
- the quarterly Human Resources Report, including current ETF vacancies and recruitment efforts of the agency; and
- the ETF Secretary's evaluation and timeline that will be reviewed with the Board today.

The Committee recommends the Charter be revised (Ref. ETF | 4.1.15 | 4A1) to reflect the Vice Chair and Secretary of the Board serve in the same capacity on the Committee, thus eliminating the need for an annual election.

***Motion: Mr. Ford moved to accept the Executive Committee's recommendation to approve the amendment to the Executive***

***Committee Charter. Mr. Wiltgen seconded the motion, which passed unanimously on a voice vote.***

Ms. Henning referred the Board to the memo (Ref. ETF | 4.1.15 | 4A2) and reviewed the process for Secretary Conlin's annual evaluation. The recommendation to eliminate the superior rating was implemented. The four categories will match most state agencies. The Department encourages 100% participation of supervisors in the evaluation survey. However, because the survey is anonymous, we cannot directly request a response from nonresponsive individuals.

Audit Committee

Mr. Ford indicated that the Audit Committee approved the December 10, 2014, minutes. In addition, the Committee:

- reviewed the status of the 2013-2015 Audit Plan;
- elected officers for the Committee;
- discussed the Legislative Audit Bureau (LAB) report, which covers the 14 benefit programs of ETF and funding of the programs;
- discussed the two confidential mobile devices audits that protect both the physical security of the equipment and the data on computers; and
- welcomed two new internal auditors to ETF's staff, Mary Statz and Rick Onasch.

Budget and Operations Committee

Ms. Von Ruden reported the Budget and Operations Committee approved the December 10, 2014, minutes and elected Committee officers for 2015, Ms. Von Ruden as Chair, Mr. Wiltgen as Vice Chair and Ms. Rasmus as Secretary. The Committee reviewed and discussed:

- an operations update on the number of retirements and requests for retirement estimates in 2014;
- an update on the status of the BAS project and an overview of the next steps in the project; and
- a legislative update and an update on the 2015-2017 state budget items that affect ETF.

**DISCUSSION AND CONSIDERATION**

Wisconsin Retirement System 32<sup>nd</sup> Annual Valuation of Retired Lives–December 31, 2014

Mr. Buis summarized the results of the Core and Variable valuation (Ref. ETF | 4.2.15 | 5A). He reviewed the cover letter summary for the 2014 valuation and, based on the results, the increase in the Core annuities is 2.9% and the Variable annuities will be increased by 2.0%.

***Motion: Ms. Rasmus moved to accept the actuary's report on the Wisconsin Retirement System (WRS) 32<sup>nd</sup> Annual Valuation of Retired Lives - December 31, 2014 and adopt their recommendation. Ms. Von Ruden seconded the motion, which passed unanimously on a voice vote.***

## **OPERATIONAL UPDATES**

### ETF Building Update

Ms. Henning provided a building update. For the past six years, ETF has been working with the Department of Administration (DOA) to develop program statements and capital budget requests, with the goal of obtaining a new facility. The 2013-15 Capital Budget Request enumerated the Hill Farms project to include ETF.

Ms. Henning reviewed the project schedule, the estimated time line and shared ETF's preparation activities to date. At this time, ETF is waiting while DOA negotiates with the vendor, Gilbane, Inc. Ms. Henning shared some of this firm's past building projects.

The confirmed details are as follows:

- the building will be located at the Hill Farms site
- facility size is an estimated 600,000 gross square feet
- the \$196 million project will include parking structure, a wellness center, conference rooms, cafeteria and a central lobby.

### 2014 Tax Reporting

Mr. Stohr provided background on tax issues in which ETF has been involved. ETF is a financial institution and paid \$4.4 billion in annuities in 2014. Part of ETF's responsibility is to send 200,000 tax form 1099Rs and W2s. Each month ETF pays approximately \$35 million to the IRS for retiree tax withholdings. Consequently, ETF is recruiting for a tax specialist focused strictly on tax laws and ETF's compliance.

As part of the state's health plan wellness incentive, each health plan that participates in the State of Wisconsin Group Health Insurance Program or the Wisconsin Public Employers Group Health Insurance Program must send a file annually to ETF for reporting purposes. That is because the wellness incentive payment is considered taxable income by the IRS. Most health plans submit their information on time. However, one plan submitted in late January 2015, long after the deadline. As a result, ETF mailed hundreds of late W-2 forms to members. In addition, beginning in 2014, Ice Miller, ETF's tax consultant, suggested a change to 1099-R forms for people who turn 59½ during the tax year. These individuals would receive two 1099-Rs: one for pre-59½ and one for post-59½. The process went well for the most part. However, a system programming change was implemented mid-process, which affected 12,000 people. ETF immediately corrected the error and communicated with the affected members. In addition, ETF put together a team charged with making future tax reporting years smoother for ETF and members.

### Secretary's Settlement Authority

In the statutes, the ETF Secretary has authority to resolve cases that arise due to ETF errors. It requires a report to the ETF Board for all cases settled in this manner. This

authority decision has not been utilized in many years, however the Board should be aware of this case resolution option.

#### Secretary's Report

Mr. Conlin provided the Board with his monthly Secretary's Report. Highlights are as follows:

- The Group Insurance Board (GIB) has authority over the state's health program. The GIB has retained a health care benefits consultant, Segal Consulting, to make observations and recommendations to provide efficiencies in the state health program. One of the considerations is self-insurance. The state pays \$1.4 billion in health insurance premiums annually. In 2018, a federal excise tax (commonly called a "Cadillac Tax") will be initiated for health programs providing benefits above a certain level, which could equate to approximately \$7 and \$13 million in 2018 and could grow to as much as \$193 million in 2028. The governor is asking for \$25-50 million in health insurance savings for the 2015-17 state budget. The different ways in which health plans manage chronic health issues are in great disparity.
- SWIB Update: The stress test regarding the WRS running out of dividends will be discussed next week at the SWIB Board meeting. SWIB recently performed a stress test on the fund calculating scenarios, such as what the Board would do if there was a 26% investment loss and how will this would affect dividends and contributions. SWIB needs to determine what is too much risk and too little risk.
- The BAS Rollout 1 has been moved back two months.

Mr. Stohr referred the Board to the remaining operational update items (Ref. ETF | 4.2.15 | 6E).

#### **RECOGNIZED OUTGOING BOARD MEMBERS**

On behalf of ETF and the ETF Board, Mr. Stohr recognized Ms. Hall for her service on the ETF Board. He thanked her for her helpful perspective and presented a plaque acknowledging her four years of service on the Board.

#### **FUTURE ITEMS FOR DISCUSSION**

The Board discussed annuity adjustments and dividends and how Wisconsin statutes control the Board's flexibility with regard the WRS funding.

## APPEALS

Mr. Koessler indicated the Board would convene in closed session to hear appeal.

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

***Members Voting Aye: David, Ford, Hall, Koessler, Langyel, Niendorf, Ostrowski, Rasmus, Shier, Von Ruden, and Wiltgen***

***Members Absent: Litscher***

The Board convened in closed session at 2:13 p.m. and reconvened in open session at 2:22 p.m.

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

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

### Appeal 2013-104-ETF

The Board voted to adopt the Hearing Examiner's proposed decision.

## ADJOURNMENT

***Motion: Ms. Von Ruden moved to adjourn the meeting. Mr. Ostrowski seconded the motion, which passed unanimously on a voice vote.***

The Board adjourned at 2:24 p.m.

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

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

Robert Niendorf, Secretary  
Employee Trust Funds Board