

DRAFT

# MINUTES

June 25, 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  
Michael Langyel  
Jon Litscher

Paul Ostrowski  
Leilani Paul  
Roberta Rasmus  
Victor Shier  
Mary Von Ruden  
David Wiltgen

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### PARTICIPATING EMPLOYEE TRUST FUNDS STAFF:

Office of the Secretary:  
Bob Conlin, Secretary  
John Voelker, Deputy Secretary  
Pam Henning, Assistant Deputy Secretary  
Tarna Hunter, Legislative Liaison  
Cherylynn Wilkins, Board Liaison

Division of Retirement Services:  
Matt Stohr, Administrator  
Office of Policy, Privacy and Compliance: Steve Hurley

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### OTHERS PRESENT:

ETF Division of Management Services:  
Ryan Perkins  
ETF Division of Retirement Services:  
Jim Guidry, Deb Roemer  
ETF Legal Services: Dan Hayes  
ETF Office of Internal Audit: Yikchau Sze

ETF Office of the Secretary: Tarna Hunter  
ETF Office of Trust Finance: Bob Willett  
Gabriel Roeder Smith & Company:  
Jim Anderson, Mark Buis  
Milliman: Tim Herman, Dan Skwire

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Wayne Koessler, Chair, called the meeting of the Employee Trust Funds Board (Board) to order at 12:15 p.m.

Board	Mtg Date	Item #
ETF	9.24.15	1

## CONSIDERATION OF MEETING MINUTES

***MOTION: Ms. Von Ruden moved to approve the open and closed session minutes of the April 2, 2015 meeting of the Employee Trust Funds Board, as submitted by the Board Liaison. Mr. Ford seconded the motion, which passed unanimously on a voice vote.***

## ANNOUNCEMENTS

Mr. Stohr announced, when the Board goes into closed session, Board members will be escorted upstairs to conference room 244, and visitor passes need to be visible.

## COMMITTEE REPORTS

### Executive Committee

Mr. Koessler noted the Executive Committee met on June 24, 2015. The Committee approved the April 1, 2015, minutes. In addition, the Committee reviewed and discussed:

- today's ETF Board meeting agenda;
- some of ETF's objectives and accomplishments from the past quarter, highlighting training and testing efforts achieved and ongoing for rollout 1 of the Benefit Administration System (BAS) project;
- the current status of the state's enterprise STAR project, the decision to delay phase 1 to October, and the continued coordination between ETF and the STAR team on phase 2 relating to benefits;
- the quarterly Human Resources Report, including current ETF vacancies and recruitment efforts of the agency; and
- the ETF Secretary's evaluation, compensation and future changes in salary structure that will be reviewed by the Board today in closed session.

### Audit Committee

Mr. Ford indicated that the Audit Committee approved the April 2, 2015, minutes. In addition, the Committee:

- heard a presentation from LRWL, the technology and management consulting firm hired by ETF to assist with management oversight to ensure the success of the BAS; and
- approved the proposed 2016-2017 Audit Plan. It uses a systematic list to prioritize the audits.

### Budget and Operations Committee

Ms. Von Ruden reported the Budget and Operations Committee approved the April 2, 2015, minutes. The Committee reviewed and discussed:

- an operations update on the number of retirements and requests for retirement estimates in the first quarter of 2015;
- 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 34<sup>th</sup> Annual Valuation of Active Lives and Gain/Loss Analysis–December 31, 2014

Mr. Buis and Mr. Anderson summarized the core contribution rates (Ref. ETF | 6.25.15 | 4A). Most of the rates decreased due to investment performance. Based on the results of the December 31, 2014 annual valuation, it is the opinion of GRS that the Wisconsin Retirement System continues to operate in accordance with actuarial principles of level percent-of-payroll financing.

#### 2016 WRS Contribution Rates

***Motion: Mr. Wiltgen moved to accept the actuary's report on the Wisconsin Retirement System 34<sup>th</sup> Annual Valuation of Active Lives - December 31, 2014 and adopt their recommendation. Mr. Langyel seconded the motion, which passed unanimously on a voice vote.***

Mr. Buis summarized the WRS Supplemental Actuarial Valuation as of December 31, 2014, (Ref. ETF | 6.25.15 | 4A2).

#### Executive/Elected Official Employment Category

***Motion: Mr. Ostrowski moved to accept the supplemental report adding the WRS Executive/Elected Employment Category to the actuarial valuation of the General Category Employment Category pending enactment of the relevant provision of the Biennial Budget. Ms. Rasmus seconded the motion, which passed unanimously on a voice vote.***

### Accumulated Sick leave Conversion Credit Program Annual Review

Mr. Buis discussed the sick leave conversion program (Ref. ETF | 6.25.15 | 4B), which allows participants to use sick leave credits to pay for health care benefits. This is an employer pay-all benefit and is prefunded. GRS recommended no changes to the contribution rates for 2016.

***Motion: Mr. Litscher moved to accept the Accumulated Sick Leave Conversion Credit Programs Actuarial Valuation-December 31, 2014 and adopt their recommendation. Mr. David seconded the motion, which passed unanimously on a voice vote.***

### 40.65 Duty Disability Actuarial Review – Contribution Rates

Mr. Skwire and Mr. Herman, from Milliman, the Board's actuary for disability programs (Ref. ETF | 6.25.15 | 4C) summarized the detailed valuation report. The Duty Disability program is an income protection program that covers protective occupation employees and provides a lifetime income replacement benefit for permanent work-related

disabilities. The benefit is generally 80% of pre-disability earnings, off-set for income received from other sources including social security, workers compensation or the WRS. This plan also provides a death benefit of approximately 50% to survivors, if the member dies from the same condition that caused the disability.

The funding ratio increased from 110.6% to \$132.0%. The annual contribution is reduced due to valuation assumption changes, which included a substantial change in the survivor benefit assumption. Milliman also provided a liability runoff study which is a retrospective test of the reasonableness and accuracy of the liability estimates determined each year for the plan. The study reviews the historical liability estimates of a plan and compares the actual paid costs along with a best estimate of the remaining liabilities of the plan. The valuation and long-term Annual Required Contribution (ARC) trends are set to put the ARC on the glide path to 100% funding of the Duty Disability Plan.

***Motion: Mr. Wiltgen moved to accept the actuary's review on the Duty Disability Plan Valuation-January 1, 2015, adopt their recommendation and adopt the presented premium schedule. Ms. Rasmus seconded the motion, which passed unanimously on a voice vote.***

#### Wisconsin Retirement System Dividend and Annuity Reserve Options

Mr. Conlin provided context, summarizing the events leading up to the WRS Fund Policy and WRS dividend reserve discussion. The State of Wisconsin Investment Board (SWIB) is sensitive to this topic, especially after the events of 2008 and is having parallel conversations about the role of investment income in the WRS. Both SWIB and the ETF Board need to understand investment risks and the need for clarity on the roles of each board.

Mr. Hurley (Ref. ETF | 6.25.15 | 4D) discussed the importance of this topic as it relates to all parts of the WRS, such as investment return effects on contribution rates. He provided term explanations and basic concepts regarding dividends, annuities, dividend reserve and annuity reserve. The annuity reserve is approximately half of the trust fund with the dividend reserve being more vulnerable to investment risk. Some of the authority (i.e. board authority) is in statute, while other parts are policy. Part of the board's fiduciary responsibility is to consider all members, bearing in mind inter-generational equity.

***Motion: Ms. Von Ruden moved to direct the Department of Employee Trust Funds to further develop an analysis of the effect of investment performance on the WRS, including the annuity reserve and contribution rates for discussion at a future board meeting. Ms. Paul seconded the motion, which passed unanimously on a voice vote.***

Mr. Litscher left the meeting.

## OPERATIONAL UPDATES

### Secretary's Report

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

- The BAS Rollout 1 is scheduled to go-live on July 20. This is the imaging component, which is almost completely internal, not dependent on employers or employees. Staff have had a positive response regarding the content of the training as well as the application. Testing is ongoing and has been going well. The vendor, Vitech, has been very responsive to fix issues being found through testing, prioritizing the issues as critical, high, medium and low. ETF is holding strong to only accept a working system. However, the decision still needs to be made on whether to recommend additional weeks of testing or keep the July 20 go-live date.

### Biennial Budget Update

Ms. Hunter referred the Board to the memo (Ref. ETF | 6.25.15 | 4D) explaining the summarization of ETF's biennial budget request for basic operations, Governor Walker's changes and the changes made by the Joint Committee on Finance.

Mr. Stohr referred the Board to the remaining operational update items (Ref. ETF | 6.25.15 | 5C, 5D).

## FUTURE ITEMS FOR DISCUSSION

Ms. Rasmus requested the Department pursue a privacy policy for board members. This will be included as an agenda item at an upcoming meeting.

## APPEALS/PERSONNEL MATTERS

Mr. Koessler indicated the Board would convene in closed session to hear appeals and to discuss Secretary Conlin's performance evaluation and salary.

***MOTION: Mr. David moved to convene in closed session, pursuant to the exemptions contained in Wis. Stat. § 19.85 (1) (a) and (c) for the purpose of quasi-judicial deliberations on appeals and to discuss employment, promotion, compensation or performance evaluation data of any public employee over which the governmental body has jurisdiction or exercises responsibility. Mr. Shier seconded the motion, which passed on the following roll call vote:***

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

***Members Absent: Litscher***

The Board convened in closed session at 1:48 p.m. and reconvened in open session at 3:19 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 2014-148-ETF, 2014-149-ETF, 2014-150-ETF, and 2014-151-ETF

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

Personnel Matters

The discussed Secretary Conlin's performance evaluation and shared their comments with him.

**ADJOURNMENT**

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

The Board adjourned at 3:20 p.m.

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

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

Robert Niendorf, Secretary  
Employee Trust Funds Board