

DRAFT

MINUTES

September 24, 2015

Employee Trust Funds Board
State of Wisconsin

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



ETF BOARD MEMBERS PRESENT:

Wayne Koessler, Chair
John David, Vice Chair
Robert Niendorf, Secretary
William Ford
Jon Litscher

Leilani Paul
Roberta Rasmus
Victor Shier
Mary Von Ruden
David Wiltgen

BOARD MEMBERS NOT PRESENT:

Danielle Carne

Michael Langyel

PARTICIPATING EMPLOYEE TRUST FUNDS STAFF:

Office of the Secretary:

Bob Conlin, Secretary
John Voelker, Deputy Secretary
Tarna Hunter, Legislative Liaison
Cheryllynn Wilkins, Board Liaison

Division of Management Services: Steve
Mueller, Chief Information Officer

Division of Retirement Services:

Matt Stohr, Administrator
Deb Roemer, Benefit Services
Bureau Director

Office of Policy, Privacy and Compliance:

Steve Hurley, Director
Lucas Strelow, Employee Benefit
Plan Policy Advisor

Office of Trust Finance:

Bob Willett, Administrator

OTHERS PRESENT:

ETF Division of Management Services:

Kadi Mbanefo, Dana Perry

ETF Division of Retirement Services:

Anne Boudreau, Jim Guidry, Gene
Janke

ETF Legal Services: David Nispel

ETF Office of Internal Audit: Yikchau Sze

ETF Office of the Secretary: Susan
Faust, Pam Henning

TR Board Member: Tom Pedersen

State Engineering Association:

Bob Schaefer

Board	Mtg Date	Item #
ETF	12.10.15	1

Wayne Koessler, Chair, called the meeting of the Employee Trust Funds Board (Board) to order at 12:30 p.m.

CONSIDERATION OF MEETING MINUTES

MOTION: Mr. Ford moved to approve the open and closed session minutes of the June 25, 2015 meeting of the Employee Trust Funds Board, as submitted by the Board Liaison. Ms. Von Ruden seconded the motion, which passed unanimously on a voice vote.

COMMITTEE REPORTS

Executive Committee

Mr. Koessler noted the Executive Committee met on September 23, 2015. The Committee approved the June 24, 2015, minutes. In addition, the Committee reviewed and discussed:

- today's ETF Board meeting agenda;
- the contribution rates recommended for the Long-Term Disability Insurance program;
- ETF's objectives and accomplishments from the past quarter, highlighting the decision to go live on November 9 for Rollout 1 of the Benefit Administration System (BAS) project;
- the current status of the state's enterprise STAR project, the decision to go live on October 1, for finance, budget and procurement;
- the successful migration to the state's enterprise email system;
- the receipt of the Innovation Award by *Pensions & Investments* for the EMPOWER campaign that raises financial awareness among female public employees;
- the agency's new strategic plan presented at the Joint Meeting; and
- the quarterly Human Resources Report, including current ETF vacancies and recruitment efforts of the agency.

Audit Committee

Mr. Ford indicated the Audit Committee approved the June 25, 2015, minutes. In addition, the Committee:

- welcomed Leilani Paul, the newest member of the Audit Committee;
- conducted the Committee's annual review of its charter which outlines the roles and responsibilities of the Committee;
- discussed the compliance audit of Navitus Health Solutions;
- reviewed an internal audit of the Income Continuation Insurance program; and
- reviewed both the final report on the 2013-2015 Audit Plan, which ended in June 2015 and the progress on the 2015-2017 Audit Plan.

Budget and Operations Committee

Ms. Von Ruden reported the Budget and Operations Committee approved the June 25, 2015, minutes. The Committee reviewed and discussed:

- an operations update on the outreach efforts including the number of retirements and requests for retirement estimates in the second quarter of 2015;
- ETF's 2015-2019 Strategic Plan; and
- an update on the status of the BAS project and the system name change to myETF.

DISCUSSION AND CONSIDERATION

Long Term Disability Insurance (LTDI) Report

Ms. Roemer and Mr. Guidry presented Milliman's actuarial valuation (Ref. ETF | 9.24.15 | 4A) for the LTDI program for 2014. They discussed the changes Milliman made to the valuation compared to previous years, the Group Insurance Board (GIB)'s approval of option 1 (of the two options offered) and the recommended contribution rate change effective 2016 and beyond.

Motion: Mr. Litscher moved to accept the rates developed by the actuary and approved by the Group Insurance Board for the Long-Term Disability Insurance Program. Mr. David seconded the motion, which passed unanimously on a voice vote.

Privacy Policy for Board Members

Mr. Strelow reminded Board members about his presentation at the Joint Meeting of the Boards this morning and the memo (Ref. ETF | 9.24.15 | 4B) regarding the Privacy of Personal Information Policy. Upon approval, this policy will be added to the governance manual.

MOTION: Mr. David moved to adopt the Privacy of Personal Information Policy as presented. Ms. Rasmus seconded the motion, which passed unanimously on a voice vote.

Procurement Appeals Policy Update

Mr. Hurley discussed the change made by the GIB to change the reference from "days" to "business days". (Ref. ETF | 9.24.15 | 4C) Mr. Hurley requested the Board's approval of the Procurement Appeals Policy. Upon approval, this policy will be added to the governance manual.

MOTION: Mr. Litscher moved to approve the revised Vendor Procurement Appeals Policy as presented. Mr. Niendorf seconded the motion, which passed unanimously on a voice vote.

Wisconsin Retirement System (WRS) Investment Risk

Mr. Conlin explained that GRS and the State of Wisconsin Investment Board (SWIB) have been exploring asset allocation and liabilities of the WRS as it applies to investment risk, in an effort to control risk and to reach the targeted 7.2% investment return.

Mr. Hurley (Ref. ETF | 9.24.15 | 4D) discussed the effect of market volatility on the WRS. More than \$4 billion in WRS benefits are paid to members annually and Core and Variable Trust Fund investment earnings fund the majority of those benefits.

The Core Fund is diversified but can be affected by market volatility. Core Fund investment returns are smoothed over 5 years as a way to reduce both the positive and negative extremes in dividends. This provides some stability for Core Fund annuity adjustments from year to year.

The Variable Fund is solely invested in stocks and therefore more volatile. Additionally, Variable Fund returns are not smoothed and therefore the fund experiences the full effect of gains/losses each year and volatility from year-to-year can be dramatic.

The dividend reserve is more vulnerable to investment risk and market volatility due to several years of deficits. Prior to 2008, the dividend reserve had approximately \$10 billion compared to today, \$5.9 billion. With a smaller dividend reserve, there is greater risk of dividend depletion even with normal market volatility.

Mr. Hurley presented possible options for the Board to consider with regard to mitigating market volatility and its effect on the WRS. Some of the options discussed include:

- Change asset allocation for the Core Fund. By reducing the funds' share in stocks and moving assets into something less volatile, the risk is reduced but the sustained returns would be lower, requiring a lower assumed rate and raised contribution rates.
- Increase the Asset Smoothing Period. This would lower both positive and negative dividends but could have intergenerational disparity.
- "Cap and Reserve" positive dividends. This would limit positive dividends to the rate of inflation with the remainder to eliminate the down side.
- Increase core annuity reserve surplus threshold and reserve.
- Invest annuity reserve separately with a lower-risk investment strategy.

Discussion occurred. The Board will continue this discussion at its December meeting. SWIB and GRS will be in attendance.

ETF Information Technology (IT) Update

Mr. Voelker explained the importance of this topic to the Board and the efforts ETF is going through to protect members' data. This includes IT initiatives that add additional benefits to ETF's infrastructure. He introduced Steve Mueller, ETF's Chief Information Officer.

Mr. Mueller discussed ETF's IT initiatives and strategic goals. The strategic plan for IT includes: focusing on self-service capabilities, empowering ETF customers to be self-sufficient in accessing services, utilizing lean tools and metrics to create more efficient processes and data driven decision making. With ETF's infrastructure rehosting (ETFIR) project, ETF is moving from being the **provider** of the technology to **supporting** the use of the technology by leveraging the Department of Administration (DOA) and the Division of Enterprise Technology (DET) to the full extent possible. This will allow ETF the opportunity to save money and the chance to provide more business-focused projects and service offerings. Mr. Mueller also discussed ETF's approach to cybersecurity utilizing the economies of scale gained from partnering with DET to maximize efficiencies at a lower cost. To the extent possible, the security improvement strategies center on adopting DET's best practices and becoming more proactive in monitoring and auditing.

OPERATIONAL UPDATES

Secretary's Report

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

- BAS Rollout 1 is scheduled to go live on November 9.
- Vacancies are currently at 26, which is a slight increase.
- The STAR (State Transforming Agency Resources) project is the State of Wisconsin's initiative to replace its legacy finance, procurement, human resources/payroll/benefits and budget system. The implementation will be in two phases: the financial piece will go live on October 1 and the human resources piece will go live on January 1, 2016. Because of this transition, a blackout period during November and December will occur and new staff cannot be added to payroll until after the first of the year.
- With the STAR financial system going live on October 1, ETF took precautions to ensure retirement payments reach members' bank accounts on October 1.

Biennial Budget Update

Ms. Hunter referred the Board to the memo (Ref. ETF | 9.24.15 | 5B) providing a final update on the 2015-17 biennial budget. She summarized ETF's request for basic operations, Governor Walker's changes, the changes made by the Joint Committee on Finance and ETF's final funding numbers for staff positions, audits and financial reporting. Ms. Hunter explained the law changes with regard to the Executive/Elected WRS category, the directing of the Group Insurance Board to realize \$81 million in health insurance savings over the biennium and other state health insurance program changes.

Governmental Accounting Standards Board (GASB) Update

Mr. Willett announced that ETF successfully implemented the new accounting standards. He reminded the Board that Statement No. 67 set the standard for pension funds like the WRS to do their own internal financial reporting and Statement No. 68 requires all participating pension employers to complete their own accounting and financial reporting. He reviewed the sequence of events, the communications provided to employers and the website ETF created as an employer resource. The website provides the employers' auditors with the specific information needed for their organization's accounting and financial reporting.

Mr. Willett shared the valuation result and the WRS plan totals as of December 31, 2014. Due to a GASB requirement, the calculation of the sensitivity of new pension liability to the single discount rate assumption by 1% increase and decrease was done and as a result shared with the Board.

Mr. Stohr referred the Board to the remaining operational update item (Ref. ETF | 9.24.15 | 5D).

ADJOURNMENT

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

The Board adjourned at 2:18 p.m.

Date Approved: _____

Signed: _____

Robert Niendorf, Secretary
Employee Trust Funds Board