

DRAFT

MINUTES

December 10, 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
Michael Langyel
Jon Litscher

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

PARTICIPATING EMPLOYEE TRUST FUNDS STAFF:

Office of the Secretary:
Bob Conlin, Secretary
John Voelker, Deputy Secretary
Cherylynn Wilkins, Board Liaison
Division of Retirement Services:
Matt Stohr, Administrator

Office of Policy, Privacy and
Compliance: Steve Hurley, Director
Office of Strategic Health Policy:
Jessica Rossner, Employee Benefit
Plan Policy Advisor

OTHERS PRESENT:

ETF Division of Management Services:
Ryan Perkins
ETF Division of Retirement Services:
Anne Boudreau, Gene Janke
ETF Office of Communications:
Mark Lamkins
ETF Office of Internal Audit (OIA):
Yikchau Sze

ETF Office of Legal Services:
David Nispel
ETF Office of the Secretary:
Sara Brockman, Pam Henning
ETF Office of Trust Finance: Bob Willett
Department of Administration:
Chelsea Daley
Gabriel Roeder Smith & Company (GRS):
Jim Anderson, Mark Buis, Brian Murphy

Board	Mtg Date	Item #
ETF	3.24.16	1

Wayne Koessler, Chair, called the meeting of the Employee Trust Funds Board (Board) to order at 12:27 p.m.

CONSIDERATION OF MEETING MINUTES

MOTION: Mr. Wiltgen moved to approve the open session minutes of the September 24, 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 December 9, 2015. The Committee approved the September 23, 2015, minutes. In addition, the Committee reviewed and discussed:

- today's ETF Board meeting agenda;
- ETF's objectives and accomplishments from the past quarter, which are now aligned with the Strategic Plan and the four focus areas. Highlights:
 - the state's enterprise STAR project goes live on December 14; employees use STAR to enter time and attendance;
 - the recent report by the Group Insurance Board's benefit consultant, Segal, on recommendations for efficiencies and plan structure changes in the state's group health insurance program;
 - ETF received the Diversity Award from the State Council on Affirmative Action for its efforts on the EMPOWER campaign, which aims to improve retirement financial security among women public employees;
- an update on the recent progress of the new building at Hill Farms; 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 September 24, 2015 minutes. In addition, the Committee:

- reviewed and approved a minor change to the Internal Audit Charter. This change aligns the mission statement of the OIA to the Institute of Internal Auditors' standards;
- reviewed an audit of the state's Group Health Insurance Program and the Wisconsin Public Employees Health Insurance Program;
- received affirmations from ETF's OIA auditors stating that in all matters relating to audit work, ETF's internal audit function is free -- both in fact and appearance -- from any personal, external or organizational impairments from their independence; and
- reviewed the progress on the 2015-2017 Audit Plan.

Motion: Mr. Litscher moved to approve the modifications to the Audit Committee Charter as recommended by the Audit Committee. Ms. Paul seconded the motion, which passed unanimously on a voice vote.

Budget and Operations Committee

Ms. Von Ruden reported the Budget and Operations Committee approved the September 24, 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 third quarter of 2015; and
- an update on the status of the BAS project with the successful implementation on November 9, 2015, and an overview of the next steps in the project.

DISCUSSION AND CONSIDERATION

Wisconsin Retirement System Three-Year Experience Study: January 1, 2012 – December 31, 2014

Mr. Murphy reviewed the summary of the Experience Study changes (Ref. ETF | 12.10.15 | 4A), including the increases and decreases in assumptions.

Mr. Anderson went through the hypothetical valuation results, which will first impact the contribution rates in 2017.

Motion: Mr. Litscher moved to accept the Three-Year Experience Study January 1, 2012 – December 31, 2014, including the updated actuarial assumptions contained in the report. Mr. Langyel seconded the motion, which passed unanimously on a voice vote.

Regarding the next topic, Mr. Conlin reviewed the purpose for today's discussion:

- to determine the investment risk tolerance of the Board and its comfort level with regard to SWIB's proposed way of managing risk; and
- the Board's comfort in pursuing changes, if the Board so decides.

Mr. Conlin explained that GRS and the State of Wisconsin Investment Board (SWIB) have been exploring asset allocation and liabilities of the WRS as these relate to investment risk, in an effort to control risk and to reach the targeted 7.2% investment return. The case that was made is that long-term, 7.2% is probably still a valid assumption, but it will be tough to reach that target over the next several years.

Wisconsin Retirement System Investment Risk Continued Discussion

Mr. Hurley reminded Board members about its investment risk discussions over the past year as well as at the Joint Meeting of the Boards this morning. The WRS Funding Policy lays out principles and addresses risk at a high level. He stated the discussion must now be more practical and the principles developed to support the policy. The Board needs to consider strategies in preparation for the possibility of a financial

downturn event and potential effects on the WRS, including contribution rates, dividends and the dividend reserve.

Possible considerations with regard to mitigating market volatility and its effect on the WRS include:

- “Cap and Reserve” positive dividends. This would limit positive dividends to the rate of inflation with the remainder to eliminate the down side.
- Increase the Smoothing Period. This would lower both positive and negative dividends but could have intergenerational disparity.

ETF will continue to investigate further various ideas, including any options the Board thinks are worthy of consideration or the Board would like to see changed. At the Board's request, ETF would be open to establishing a workgroup, comprising a subset of the Board, in which to further discuss policy, statutes and legal authority surrounding this issue.

Mr. Litscher proposed the concept of “cap and reserve” be investigated as part of developing a contingency and not directing SWIB on investment strategy. Mr. Litscher feels that members would prefer stability in their annuities rather than substantial increases and decreases. As a Board member, he stated he would not allow a deficit in the annuity reserve to limit a negative impact on annuitants.

Mr. Ford concurred with Mr. Litscher and thinks it would be prudent to know the legal (statutory/constitutional) authority of the Board to borrow money from the employer reserves or employee reserves, in the event of an annuity reserve deficit. Mr. Ford also suggested the possibility of a longer smoothing period or no dividend adjustment until after 2%.

Mr. Conlin provided history regarding this topic. Prior to 1999-2000, there was a 14-to 15-year smoothing process that built up a huge annuity reserve. At that time, there was dialogue by employers, employees and retirees centering on using the investment gains more quickly than current practice, noting that when a large reserve builds up it becomes a target to be spent -- until the market changes again and people wish the reserve was still available.

Mr. Langyel reminded the Board that volatility in market returns can create public opinion concerns that can undermine the WRS. In order to protect the WRS, it is also important to manage the public relations concerns.

Amendments to Employee Reimbursement Account (ERA) Plan Documents and Summary Plan Description

Ms. Rossner updated the Board (Ref. ETF | 12.10.15 | 4C) on key changes of the plan documents governing the ERA programs. Ms. Rossner discussed the new hire effective date for the health care flexible spending account (FSA) and the new Internal Revenue Service (IRS) rules regarding FSAs. Dependent day care FSA changes were

also discussed. The plan documents have been revised to reflect Total Administrative Services Corporation (TASC) as the new third party administrator of the ERA plan and align with the changes. Regarding commuter benefits or the transit and parking FSA, since the writing of the memo, TASC can now provide payments directly to parking or transit vendors in 2016.

OPERATIONAL UPDATES

Secretary's Report

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

- Vacancies are currently at 22-24. Human Resources is in good position to fill several of these openings in January.
- BAS Rollout 1 went live on November 9. ETF and Vitech have created a lessons learned list and is drafting a staff survey that will center on BAS training and testing. One of the things ETF has already gleaned is that the originally-proposed project schedule is very aggressive, not only for ETF, but also for Vitech. ETF would like to target a more realistic go live date for Rollout 2. Rollout 2 centers on employer reporting and consequently, a January 1 date would be best for many reasons. There will be more to come regarding the go live date for Rollout 2.
- ETF expects a number of appeals for the ETF Board and WR Board at the March retirement board meetings. Mr. Nispel and Ms. Gibson will provide a training on how the appeals process works to refresh board members on this process.
- At the March meeting, the Board can anticipate a report from the Legislative Audit Bureau with an actuarial audit. This audit is done every five-years and is an actuarial review of the work GRS, the Board's actuary, does for ETF and the Board.
- ETF Building at Hill Farms - ETF has been working with DOA on a floor plan. The project is moving forward and construction began in November. The projected occupancy date is spring/summer of 2018.
- Most of the issues from the previous FSA vendor have been resolved. Ms. Rossner has been working closely with TASC on corrective action to take care of the lingering administrative issues. There is a possibility as the contract period expires and ETF has an option to renew, ETF may choose a different option.

Mr. Koessl referred the Board to the remaining operational update items (Ref. ETF | 12.10.15 | 5B, 5C).

ADJOURNMENT

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

The Board adjourned at 1:33 p.m.

Date Approved: _____

Signed: _____

Robert Niendorf, Secretary
Employee Trust Funds Board