

**DRAFT**

# MINUTES

March 29, 2018

Employee Trust Funds Board  
State of Wisconsin

**Location:**

State Revenue Building – Events Room  
2135 Rimrock Road, Madison, WI 53718



**ETF BOARD MEMBERS PRESENT:**

Wayne Koessl, Chair  
John David, Vice Chair  
Robert Niendorf, Secretary  
William Ford  
Michael Langyel

Leilani Paul  
Roberta Rasmus  
Victor Shier  
Mary Von Ruden  
Bob Ziegelbauer

**BOARD MEMBERS NOT PRESENT:**

Stacey Rolston

David Wiltgen

**PARTICIPATING EMPLOYEE TRUST FUNDS STAFF:**

**Office of the Secretary:**

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

**Bureau of Budget, Contract Administration & Procurement:** Bonnie Cyganek, Director  
Joanne Klaas, Contract Specialist

**Division of Retirement Services:**

Matt Stohr, Administrator

**Division of Trust Finance:**

Cindy Klimke-Armatoski, Chief Trust Financial Officer

**OTHERS PRESENT:**

**ETF Division of Management Services:**

Wes Gudenkauf, Stacie Meyer, Dana Perry, Lori Pierick

**ETF Division of Retirement Services:**

Anne Boudreau, Jim Guidry

**ETF Division of Trust Finance:** Matt

Martinelle, Amelia Stanley, Michelle Thode

**ETF Office of Communications:**

Nancy Ketterhagen, Mark Lamkins

**ETF Office of Internal Audit:** Yikchau Sze

**ETF Office of Legal Services (OLS):** Monica Anderson, Diana Felsmann, David Nispel

**ETF Office of the Secretary:** Lisa Gurley

**Gabriel, Roeder, Smith & Company (GRS):**

Jim Anderson, Mark Buis, Brian Murphy

**Legislative Audit Bureau (LAB):** Emily Pape

**Teachers Retirement Board:** Sandra Claflin-Chalton

**Wisconsin Retirement Board:** Steve Wilding

Board	Mtg Date	Item #
ETF	6.21.18	2

Wayne Koessler, Chair, called the meeting of the Employee Trust Funds Board (Board) to order at 9:31 a.m.

## CONSIDERATION OF MEETING MINUTES

***MOTION: Ms. Paul moved to approve the open and closed session minutes of the December 14, 2017, 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.***

## ANNOUNCEMENTS

Mr. Stohr made the following announcements:

- the Teachers Retirement (TR) Board and the Wisconsin Retirement Board will not meet today;
- the TR Board Election Certification Committee met this morning and certified the election results. The annuitant teacher seat had seven candidates vying for one seat; Esther Ancel was elected to this position, which is currently held by Dennis Murphy. The technical college teacher member seat had only one nomination. The Committee certified Anton (Tony) Przybylski Jr. to this position, which is currently held by R. Tomas Pedersen; and
- please return the affirmation of the Wisconsin Public Records Training to the board liaison.

## ELECTION OF OFFICERS

***MOTION: Mr. Langyel moved to nominate Wayne Koessler as Chair, John David as Vice Chair, and Robert Niendorf as Secretary of the Employee Trust Funds Board. Mr. Ford seconded the motion, which passed unanimously on a voice vote.***

## COMMITTEE REPORTS

### Executive Committee

Mr. Koessler noted the Executive Committee met this morning. The Committee approved the December 13, 2017, minutes. In addition, the Committee reviewed and discussed:

- today's ETF Board meeting agenda covering the various educational topics including presentations from GRS on the positive annuity adjustments; new Department of Employee Trust Funds (ETF) operational metrics; Request for Proposal (RFP) approval for contract compliance audits; an update on the disability program redesign and the new building at Hill Farms;
- the Secretary's evaluation materials and timeline presented by Stacie Meyer included in the Board packet;
- some of ETF's objectives and accomplishments from the past quarter; and

- ETF's quarterly Human Resources Report, including current key vacancies and recruitment efforts of the agency.

#### Audit Committee

Mr. Ford indicated the Audit Committee approved the December 14, 2017, minutes and elected the same slate of officers. In addition, the Committee discussed:

- the third-party administrator contract compliance audit of Wisconsin Physicians Service Insurance Corporation (WPS), which administers the self-insured health plans for the State of Wisconsin employees, annuitants and eligible dependents. The contract ended on December 31, 2017;
- reviewed the consolidated RFP for contract compliance audits;
- an internal audit that reviewed the national standards for confidentiality and HIPPA regulations. ETF has an Office of Policy, Privacy and Compliance and the audit revealed findings to help ETF improve; and
- reviewed the FY2018-FY2019 Audit Plan status and open issues report.

#### Budget and Operations Committee

Ms. Von Ruden noted the Budget and Operations Committee elected the same slate of officers. In addition, the committee reviewed and discussed the following:

- Ms. Henning's update about ETF's move to the new building;
- Mr. Stohr's operations update about the wait times for services and the quality scores;
- Ms. Hunter's update on the legislative session which wrapped up recently; and
- ETF's Benefit Administration System (BAS) project and the next steps in the project.

### **DISCUSSION AND CONSIDERATION**

#### Wisconsin Retirement System 35<sup>th</sup> Annual Valuation of Retired Lives—December 31, 2017

Mr. Murphy, Mr. Buis and Mr. Anderson from Gabriel, Roeder, Smith Company (GRS) (Ref. ETF | 3.29.18 | 5A) presented on the annuity adjustments and the annual valuation of the system, explaining how net market returns of 15.82% equate to a 2.4% Core annuity adjustment. The presentation highlighted the dividends for the current year, explained how the system operates, and reviewed the Core Fund smoothing mechanism that helps protect against undesirable swings in monthly benefits from year to year. The Variable Fund does not have the same smoothing mechanism. In addition, the presentation touched on operation of the Market Recognition Account. Explanations were given about the difference between the liability of the projected future Core annuities and the current WRS assets, and the stable financial condition of the WRS. They also touched on the system's average retirement age and the average age of death. This led into a discussion about mortality assumptions and the impact on WRS dividends. Most demographers expect future mortality rates to continue to decrease. However, in the WRS, it is important not to let anticipated future mortality improvements have an undue effect on dividends payable to current retirees. Historical experience

studies used a static mortality projection, but GRS proposed a phased-in generational mortality table. With this change, retirees can expect smaller adjustments in the future.

Mr. Stohr shared the types of questions ETF has received from members and the necessity to explain the market return in relation to the Core annuity adjustment.

***MOTION: Mr. Langyel moved to accept the Actuaries report, 35<sup>th</sup> Annual Actuarial Valuation of Retired Lives as of December 31, 2017, and adopt the recommendations. Ms. Paul seconded the motion, which passed on a voice vote.***

#### Core Fund Annuity Adjustments and Effective Rate Projections

Ms. Klimke-Armatoski presented on projections for Core Fund annuity adjustments and effective rates, based on varying rates of returns and noted assumptions. (Ref. ETF | 3.29.18 | 5B) She also explained the current value of annuities, which included annuity adjustments to be made effective this year. Highlights included Core annuity increases versus the cost of living as well as annuity liability by year of inception. It was noted that negative adjustments can only reduce increases granted in prior years, and that a Core annuity cannot be reduced below its original value. She also noted Core Fund gains and losses are smoothed over five years.

#### Issue RFP for Procurement of Contract Compliance Audit

Ms. Cyganek and Ms. Klaus referred the Board to (Ref. ETF | 3.29.18 | 5C), which discussed compliance audits and the benefits to ETF, highlighting adherence to contract terms and conditions, compliance with applicable statutes, best practices and rules and regulations. They also mentioned that compliance audits provide assurance that benefit programs are being administered effectively and efficiently. Ms. Cyganek presented a table outlining which audit firms were currently being utilized by ETF. The consolidated proposal is the best use of resources. The plan is to issue a RFP by late summer or early fall.

***MOTION: Ms. Rasmus moved to delegate ETF's authority to solicit proposals for and contact with qualified firms to perform contract compliance audits of third-party administrators and service providers under contract with the Department of Employee Trust Funds to the ETF Secretary. Mr. Shier seconded the motion, which passed on a voice vote.***

#### ETF Operational Metrics

Mr. Voelker directed the Board to memo (Ref. ETF | 3.29.18 | 5D), which discusses the first *ETF Operational Metrics* report. As part of a continuous improvement process, this report is the result of progress ETF has made in the use of operational metrics.

Mr. Voelker explained that the goal of the agency's operations is to run efficiently, provide consistent, high-quality services and continually improve the customer experience.

The ETF Operational Metrics report provides four different perspectives of organizational performance: financial stewardship, customer service, workforce sustainability and evolving processes. Included in the presentation were instructions on how to read the reports, a breakdown of operational costs per member, website usage trends, call center responsiveness, undesirable call outcomes, a workforce makeup, departmental internal movement, ETF's time to fill vacant positions, retirement estimates and member appointment scheduling wait times.

The Board responded positively to the presentation and asked questions regarding the differences between individual and group appointments and discussed the advantages of each type of appointment.

Mr. Voelker assured the Board that metrics will improve as ETF moves forward.

#### Disability Program Redesign Update

Mr. Stohr updated the Board (Ref. ETF | 3.29.18 | 5E) on activities related to the redesign of the disability benefits plan offered to eligible WRS employees. He stated that the goal of the redesign effort is to streamline the administration of disability benefits, reduce duplication and reduce complexity and confusion for employers and employees.

Mr. Stohr highlighted the following:

- the administrative code change has passed
- the Long-Term Disability Insurance (LTDI) program is closed to new applicants effective January 1, 2018;
- the 40.63 Disability Annuity program was reopened to all eligible WRS members; and
- ETF took over the administration of the payment process February 1, 2018, and 2,400 people were paid without issues.

Mr. Stohr explained that the state Income Continuation Insurance (ICI) program's funding level is low, premiums will likely need to increase, and law changes may be necessary to get the program in the black. A proposal was developed and ETF sought legislative sponsorship to redesign the program, but ultimately was unable to secure co-authors for the bill.

## **OPERATIONAL UPDATES**

#### Legislative Update Memo

Ms. Hunter referred the Board to the memo (Ref. ETF | 3.29.18 | 6A). The 2017 regular session ended on March 20, 2018. Three bills were passed that affect ETF and the benefit programs it administers, which include minor changes to clarify current law or codify current practice and changes to the uniform benefits. ETF is working on its next budget request and is looking at ways to get statutory changes introduced for the ICI program for the 2019 session.

Secretary's Report

Mr. Conlin presented the Secretary's Report, updated the Board on ETF's move, and shared pictures of the Hill Farms State Office Building. Mr. Conlin also outlined SWIB's approach to investing in light of concerns raised regarding gun manufacturers. SWIB has the authority statutorily to invest for the WRS. SWIB does not have many investment restrictions but must be prudent. SWIB uses three criteria in its investing philosophy 1) do the investments make money, 2) do the investments provide diversification and 3) do they reduce cost. Most gun manufactures are in index funds which are not individually managed by SWIB. SWIB does operate a actively maintained corporate governance practice.

Mr. Conlin noted that recent developments with ETF's Benefit Administration System Vendor, Vitech, may result in some difficult negotiations moving forward. He will keep the Board updated as the situation evolves.

As the Board agreed at a previous meeting, an outside third-party trainer will provide a fiduciary training at the June Board meeting.

Mr. Koessl referred the Board to the other Operational Updates in the Board packets (Ref. ETF | 3.29.18 | 6C, 6D, 6E, 6F, 6G, 6H, 6I, 6J, 6L) and offered that staff were available if the Board had questions.

Mr. Nispel discussed the appeals update memo. (Ref. ETF | 3.29.18 | 6K) At the June 2018 meeting, the Board will be hearing two appeals related to the denial of LTDI benefits. Separately, Mr. Nispel explained that the reason why ETF has not been able to resolve the county jailers appeals is because (Ref. ETF | 3.29.18 | 6A) the majority of the 224 open appeals are appellants not represented by attorneys and these appellants were waiting to see whether 2017 SB 577 and 2017 AB 676 would pass. They did not pass.

**ADJOURNMENT**

***Motion: Ms. Von Ruden moved to adjourn the meeting.***

***Mr. Ziegelbauer seconded the motion, which passed unanimously on a voice vote.***

The Board adjourned at 12:15 p.m.

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

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

Robert Niendorf, Secretary  
Employee Trust Funds Board