

DRAFT

MINUTES

December 12, 2019

Employee Trust Funds Board

State of Wisconsin

Location:

Hill Farms State Office Building – Room N133/134
4822 Madison Yards Way, Madison WI 53705



ETF BOARD MEMBERS PRESENT:

Wayne Koessl, Chair
John David, Vice Chair
Robert Niendorf, Secretary
Stephen Arnold
Malika Evanco
William Ford

Michael Langyel
Katy Lounsbury
Leilani Paul
Roberta Rasmus
Steve Wilding

PARTICIPATING ETF STAFF:

Office of the Secretary:
Bob Conlin, Secretary
John Voelker, Deputy Secretary
Pam Henning, Assistant Deputy
Secretary
Cherylynn Wilkins, Board Liaison
Bureau of Information Security
Management: Greg Beach, Chief
Information Security Officer (CISO)

Division of Retirement Services:
Matt Stohr, Administrator
Division of Trust Finance (DTF): Cindy
Klimke-Armatoski, Chief Trust
Finance Officer
Office of Legal Services (OLS): Dan
Hayes, Attorney
Office of Policy, Privacy & Compliance:
Laura Patterson, Policy Analyst

OTHERS PRESENT:

ETF Division of Management Services:
Bonnie Cyganek, Patrick Hughes
ETF Division of Retirement Services:
Anne Boudreau, Jim Guidry
ETF Division of Trust Finance (DTF):
Jim Gnorski, Amelia Slaney, Michelle
Thode, Mona Yee
ETF Office of Communications:
Nancy Ketterhagen, Mark Lamkins

ETF Office of Internal Audit (OIA): Michelle
Hoehne, Yikchau Sze, Amanda Williams
ETF Office of Legal Services (OLS):
Monica Anderson, Dan Hayes, David Nispel
ETF Office of Policy, Privacy & Compliance:
Steve Hurley
ETF Office of the Secretary: Lisa Gurley,
Tarna Hunter
Pew Charitable Trusts: Ben Henken
Others: Jeff Koessl

Board	Mtg Date	Item #
ETF	3.26.20	2

BOARD MEMBERS NOT PRESENT:

Chris Heller

Wayne Koessler, Chair, called the meeting of the Employee Trust Funds Board (Board) to order at 1:20 p.m.

ANNOUNCEMENTS

Mr. Stohr thanked the Board for completing the survey regarding the Board's experience with the actuaries, Gabriel, Roeder, Smith & Company (GRS) and Milliman.

CONSIDERATION OF MEETING MINUTES

MOTION: Ms. Paul moved to approve the open session minutes of the September 19, 2019, meeting of the Employee Trust Funds Board, as submitted by the Board Liaison. Mr. David seconded the motion, which passed unanimously on a voice vote.

COMMITTEE REPORTS

Executive Committee

Mr. Koessler noted the Executive Committee met on December 11, 2019, and approved the minutes from the September 18, 2019 meeting. The Committee reviewed and discussed both the Joint Meeting and Board agendas. Agendas presentations included:

- a review of the retirement board structure;
- administrative rule training;
- Comprehensive Annual Financial Report (CAFR) highlights;
- operational updates on customer service, legislation, new website usage feedback, operational metrics; and
- an overview by ETF's Chief Information Security Office on ETF's security management program.

Discussion of ETF's objectives and accomplishments from the past quarter:

- successful management of call volume during the open enrollment period;
- increased efficiencies with automated money transfers and retirement estimate processes; and
- initial efforts on the first phases of modernization.

The Committee was also provided an update on key vacancies, recruitment, and training efforts.

Audit Committee

Mr. Ford indicated the Audit Committee approved the September 19, 2019, minutes. The Committee reviewed and discussed:

- the 2018 annual financial reports and the employer reporting for certain benefit programs;
- how OIA oversees third-party administrators;
- the administrative compliance audit, which included the IBM Watson Health audit and the Delta Dental audit;
- an internal audit of the health insurance billing;
- the annual review of the Internal Audit Charter, which doesn't have any recommended changes;
- the annual independence affirmation of the Office of Internal Audit (OIA) and the quality assurance and improvement program disclosures;
- an appeal to be considered by the ETF Board about an incident reported to the fraud, waste and abuse hotline by a non-WRS member; and
- the 2020-2021 Audit Plan.

Budget and Operations Committee

Ms. Rasmus announced that the Budget and Operations Committee approved the September 19, 2019, minutes. The Committee reviewed and discussed:

- an operations update about the wait times for certain member services;
- recent operational accomplishments, such as the new call routing system;
- an update on current ETF projects, including upcoming a Request for Proposal (RFP) for an insurance administration system; and
- a legislative update.

DISCUSSION AND CONSIDERATION

Comprehensive Annual Financial Report (CAFR) Highlights

Ms. Klimke provided key highlights of ETF's 2018 CAFR. (Ref. ETF |12.12.19 | 4A)

She stated the 2018 CAFR received a clean opinion from the Legislative Audit Bureau during its annual audit; LAB found no deficiency in internal controls. In addition, she said the CAFR was completed in a more timely way than in recent years. This audit is a testament to the hard work of staff.

Ms. Klimke discussed a reporting change in the 2018 CAFR: Life insurance for active employees will no longer be reported in the active fund because it has minimal activity, the life insurance is guaranteed, and payments are made directly to the insurance carrier.

The Wisconsin Retirement System (WRS) continues to be financially strong. Mr. Klimke discussed the Governmental Accounting Standards Board standards and the reason for the drop from 102.9% - 96.5% in funding ratio in 2018.

Mr. Voelker complimented Ms. Klimke and her team in Division of Trust Finance on the continued improvement in the financial reporting area.

Clearinghouse Rules

Mr. Hayes reminded the Board of the presentation (Ref. JM | 12.12.19 | 3C) at the Joint Meeting of the Retirement Boards.

CR 19-097: Changes to Reflect Closure of the Long-Term Disability Insurance Program and Technical Changes to the Duty Disability Program

MOTION: Mr. David moved to approve the Clearinghouse Rule #19-097 that reflects the closure of the Long-Term Disability Insurance Program and the technical changes to the Duty Disability Program as proposed. Ms. Rasmus seconded the motion, which passed on a voice vote.

CR 19-126: Technical Changes in Existing ETF Administrative Rules

MOTION: Mr. Niendorf moved to approve the final revision of the Clearinghouse Rule #19-126 as proposed. Mr. Arnold seconded the motion, which passed on a voice vote.

Structure of the Retirement Boards

Ms. Patterson reminded the Board of the presentation (Ref. JM | 12.12.19 | 3A) at the Joint Meeting of the Retirement Boards.

Board members discussed the potential for governing board structure changes. Topics included length of board member terms; utilizing staggered appointments/elections; vacancies; ensuring relevant experience; board member availability issues; recruitment of candidates; statutory requirements for change; challenges of a three-board governance structure; and the benefits of a smaller board with multiple committees.

The Board made several comments about maintaining the strengths of the WRS despite the challenges inherent with a three-board governing structure. Additional discussions centered on challenges that may come with a structural change, including overall risks to the WRS, administrative challenges and issues, and political/legislative effects.

The Board requested more information, including a potential board governance model with options to be presented in March or June.

Board Governance Consultant Services Options

Ms. Henning (Ref. ETF | 12.12.19 | 4D) reminded the Board that a governance consultant is a recognized board/corporate governance best practice.

Ms. Henning gave a general overview of services external consultants could potentially offer ETF's governing boards. Potential services could include fiduciary training, review of policies and practices of the Board, and a WRS governing board structure. Any cost for consultants would come from ETF's operating budget.

The Board requested more information regarding potential board structures before evaluating the necessity of hiring outside consultant(s) to assist in this process.

OPERATIONAL UPDATES

Secretary's Report

Mr. Conlin stated, people are key to ETF's success and value. Human Resource Manager, Lisa Dally, will be at the March Board meeting to talk about strategic recruitment and retention efforts.

ETF's final letter to the Joint Legislative Audit Committee regarding the audit of the Group Insurance Board, was due November 22. (Ref. ETF | 12.12.19 | 5C) The letter was submitted timely after providing a preliminary draft to the co-chairs of the Joint Legislative Audit Committee

Mr. Conlin shared calendar-year-to-date investment returns: Core Fund 17% and the Variable Fund is 24% which is good but will create a communication challenge since some retirees will assume the annuity adjustment should be higher. Mr. Conlin reviewed the returns from 2015 – 2019. The assumed rate of return was 5%. Members may not take into consideration the past returns along with the 5-year smoothing. Mr. Conlin states that this is a good opportunity for us to review the smoothing process with members. The Variable Fund does not have the same difficulties.

Mr. Conlin said he would be happy to answer questions about the state of the City of Milwaukee pension plan.

ETF Metrics Report

Mr. Voelker commented on the ETF Metrics Report (Ref. ETF | 12.12.19 | 5B), stating that overall it is a positive report, but a couple of areas still need attention.

The wait time for individual appointments is almost double the performance target. This is a capacity issue. ETF is increasing its capacity (62 additional appointments) and is looking at a software implementation to help with our ability to schedule appointments. A board member questioned the 15-day appointment target and why it is important to members? Mr. Stohr responded that they generally do not hear many complaints about the one-on-one appointment wait times.

Mr. Voelker discussed how ETF has been using this same metrics report format for over a year and are currently working on improvements that will align metrics with ETF's strategic plan.

Mr. Koessler referred the Board to the additional operational update memos (Ref. ETF | 12.12.19 | 5C, 5D, 5E and 5F) included in the Board packets and offered that staff were available to answer any questions.

FUTURE ITEMS FOR DISCUSSION

Mr. Stohr referred the Board to the March 26, 2020 Agenda Topics memo (Ref. ETF | 12.12.19 | 6A).

ETF INFORMATION TECHNOLOGY AND SECURITY MANAGEMENT PROGRAM

Mr. Koessler noted that the Board would try to avoid going into closed session but would do so if necessary.

ETF CISO Greg Beach discussed the current cyber security threat landscape with particular attention paid to ransomware attacks against public institutions. He also discussed efforts to protect ETF information against those threats, starting with an overview of the Information Risk Management Program. An update was provided on current and completed projects to install specific technical controls in the ETF environment. The presentation concluded with a mention of how ETF can evaluate its progress through internal and external audits.

ADJOURNMENT

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

The Board adjourned at 3:12 p.m.

Date Approved: _____

Signed: _____

Robert Niendorf, Secretary
Employee Trust Funds Board