

DRAFT

MINUTES

June 23, 2022

Employee Trust Funds Board

State of Wisconsin



Location:

Hill Farms State Office Building – Room N134
4822 Madison Yards Way, Madison WI 53705

ETF BOARD MEMBERS PRESENT:

William Ford, Chair	Katy Lounsbury (Teleconference)
John David, Vice Chair	Leilani Paul
Jen Flogel	Roberta Rasmus
Chris Heller	David Schalow
Wayne Koesl (Teleconference)	

BOARD MEMBERS NOT PRESENT:

Stephen Arnold	Steve Wilding
Amy Mizialko	

PARTICIPATING EMPLOYEE TRUST FUNDS STAFF:

Office of the Secretary: John Voelker, Secretary Shirley Eckes, Deputy Secretary Pam Henning, Assistant Deputy Secretary Tarna Hunter, Strategic Engagement and Government Relations Director Cheryllynn Wilkins, Board Liaison	Division of Retirement Services: Matt Stohr, Administrator (Teleconference) Anne Boudreau, Deputy Administrator Nathan Mach, Outreach and Benefits Specialist
Office of Enterprise Initiatives: Maxwell Lacy, Project Manager	Division of Trust Finance: Cindy Klimke-Armatoski, Chief Trust Finance Officer
Office of Policy, Privacy & Compliance: Laura Patterson, Policy Analyst	

OTHERS PRESENT:

ETF Division of Management Services: Lisa Dally, Taylor DeBroux, Kadi Mbanefo	ETF Office of Communications: Nancy Ketterhagen
ETF Division of Retirement Services: Roger Fletcher	ETF Office of Internal Audit (OIA): Shellee Bauknecht, Michelle Hoehne, Kurt Petrie, Yikchau Sze, Amanda Williams
ETF Division of Trust Finance: Amelia Slaney	ETF Office of Legal Services (OLS): Diana Felsmann, Peter Rank

Board	Mtg Date	Item #
ETF	9.22.22	2

ETF Office of the Secretary: Kimberly Schnurr, Kathryn Young
Gabriel, Roeder, Smith & Company
(GRS): Jim Anderson, Mark Buis, Rich Koch, Brian Murphy
Legislative Audit Bureau (LAB):
Bridget Wieser

Milliman, Inc.: Paul Correia
State Engineering Association:
Bob Schaefer
Teachers Retirement (TR) Board:
Esther Ancel, Adam Balz
Wisconsin Retirement (WR) Board:
Angela Miller

Bill Ford, Chair, called the meeting of the Employee Trust Funds Board (Board) to order at 9:01 a.m.

ANNOUNCEMENT

Mr. Ford announced the two new WR Board appointments that fill long-time vacancies. He also introduced Peter Rank, a new attorney in ETF's OLS.

CONSIDERATION OF MEETING MINUTES

MOTION: Mr. David moved to approve the open and closed session minutes of the March 24, 2022, meeting of the Employee Trust Funds Board, as submitted by the Board Liaison. Ms. Paul seconded the motion, which passed unanimously on a voice vote.

COMMITTEE REPORTS

Executive Committee

Mr. Ford noted that the Executive Committee met via teleconference on June 22, 2022. Steve Wilding was absent due to a death in his family. The Board offers its condolences to Mr. Wilding. The committee approved minutes, reviewed the Board's agenda, and discussed the actions that need to be acted upon. Ms. Eckes provided the committee with some of the Department's objectives and accomplishments from the past quarter. Ms. Henning provided the quarterly Human Resource report including key staff vacancies, and other workforce related activities. In closed session, the committee discussed the survey results for this year's evaluation of the Secretary and received a pending litigation update on the Vitech situation.

Audit Committee

Ms. Paul noted that the Audit Committee met this morning. The meeting started without a quorum but obtained quorum before the end of the meeting. The committee discussed an internal audit of the Master Data Management Person Domain review and the Third-Party Administrator Audit of the Wisconsin Deferred Compensation (WDC) Program. They conducted its review of the FY2022-FY2023 Audit Plan update, including the Open Issue Report. The committee met in closed session to discuss Janus' assessment of state-owned equipment and sensitive data protection.

Budget and Operations Committee

Ms. Rasmus noted that the Budget and Operations Committee met this morning. Jen Flogel replaces Steve Wilding on the committee, who recently joined the Board's Executive Committee. The committee discussed the following matters:

- Ms. Flogel was made secretary of the committee;
- Mr. Stohr provided an operations update, the first quarter numbers of 2021 compared to 2022. The call volume to ETF grew by 11% in 2022 compared to 2021. In fact, the Wisconsin Retirement System (WRS) retiree population grew by roughly 40% in the last 10 years.
- Ms. Baxter provided an update on ETF's modernization journey, including the Insurance Administration System (IAS) project that kicked off in September 2021. The IAS is scheduled to be a two-year project. This project timeline will need to be adjusted due to the level of complexity and the number of employers and vendors. Once fully implemented, members will be able to view and change insurance information with ETF online.
- Ms. Hunter provided budget and legislative updates. ETF implemented a new process for developing the budget and working with all of ETF leadership to help them understand the full scope and together create an ETF-Centered budget proposals instead of focusing on their individual business area requests.
- Ms. Henning reported on ETF's Organizational North Star Metrics report.

Wisconsin Retirement System (WRS) 41st Annual Valuation of Active Lives and Gain/Loss Analysis—December 31, 2021

Mr. Murphy, Mr. Anderson, and Mr. Buis from Gabriel, Roeder, Smith Company (GRS) presented on the Active Lives Valuation (Ref. ETF | 6.23.22 | 4A). Mr. Anderson provided an overview of the funding objectives of the WRS, including intergenerational equity and stable contribution rates. The WRS uses the investment income to pay benefits. Actuarial theory works well in the WRS. The risk share component of the WRS has made contribution rates fairly stable, which is better than most pension systems. In a well-funded system like the WRS, things are working like they should. Of the 257,683 active participants, the average earnings are \$59,802, with an average age of 44.6 years old and 11.1 years of service. The benefits promised to active and retired members is \$145.8 billion.

Mr. Anderson provided an actuarial assumptions update: mortality update, investment return assumption change from 7.0% to 6.8%, and life expectancy improvement for both males and females, based on the mortality review at the December meeting. GRS is recommending a contribution rate increase in all categories, which is split according to Wisconsin statute by employer and employee. He discussed the funding sources that cover the benefit promises and the calculation to set the contribution rates. He explained why there is more volatility with the contribution rates of the protective classes compared to general employees and the reasons for the contribution rate changes.

Mr. Anderson reviewed the reconciliation of the market recognition account (MRA) that smooths assets over the current year and four future years, which helps with the stability in contribution rates. There are \$17.7 billion of unrecognized gains in the MRA. Due to the cost-sharing nature of the WRS, asset gains are shared by employees, employers, and retirees.

Mr. Buis shared the gain/loss analysis that measures differences between assumed and actual experience in each risk area. It measures the assumptions and determines if changes are necessary. The WRS shares the risk of investments, asset and liability mismatch, and contributions. Additional risks include salary and payroll risk, longevity of members, and other demographic risks.

Mr. Buis explained the components of the gain/loss results and compared the experience to previous years. He discussed investment earnings of active participants what affect the contribution rates and offset the effect of changes in the assumptions.

Mr. Murphy discussed current events including COVID implications for the WRS which included the CDC data as of June 1, 2022. He discussed the current economic market implications for the WRS including inflation compared to wages and investments impacts on WRS dividends. He discussed the State of Wisconsin Board (SWIB) study and impacts on annuitants, especially annuitants that retired 25+ years ago, in light of 8% inflation.

MOTION: Ms. Rasmus moved to accept the Actuary's report on the 41st Annual Actuarial Valuation of Active Lives and Gain/Loss Analysis as of December 31, 2021 and adopt the recommendations. Ms. Fogel seconded the motion, which passed on a voice vote.

Mr. Stohr updated the board on the next steps that ETF takes with the approved contribution rates including the communications to employers and members.

Accumulated Sick Leave Conversion Credit (ASLCC) Programs Valuation

Mr. Anderson and Mr. Koch from consulting actuary Gabriel, Roeder, Smith Company (GRS) (Ref. ETF | 6.23.22 | 4B) reviewed the actuarial valuation of the Sick Leave Conversion Credit programs, which include the Accumulated Sick Leave Conversion Credit (ASLCC) program and the Supplemental Health Insurance Conversion Credit program (SHICC). The ASLCC converts accumulated sick leave into a monetary amount upon retirement that can be used to pay for retiree health insurance premiums. This benefit is provided for state employees and eligible dependents. To qualify, members need to have more than 20 years or more of WRS creditable service or be eligible for an immediate annuity. To qualify for the SHICC, members need to terminate with at least 15 years of continuous service with the State of Wisconsin.

If eligible, sick leave conversion credits can only be used to pay for health insurance premiums for employees and dependents.

Mr. Koch explained the differences between the ASLCC and SHICC programs. He reviewed the assets data, and the employer contribution rates.

MOTION: Ms. Paul moved to accept the Actuary's report on the Accumulated Sick Leave Conversation Credit Programs Actuarial Valuation as of December 31, 2021 and adopt the recommendations. Mr. Heller seconded the motion, which passed on the following roll call vote:

Members Voting Aye: David, Flogel, Ford, Heller, Lounsbury, Paul, Rasmus, Schalow

Members Absent: Arnold, Koessler, Mizialko, Wilding

The Board took a break from 11:00 a.m. until 11:11 a.m.

40.65 Duty Disability Insurance Program Actuarial Valuation

Mr. Correia from Milliman (Ref. ETF | 6.23.22 | 4C) presented the 40.65 duty disability program actuarial review. The 40.65 program provides a benefit for protective occupation participants who are injured performing their duties or contract a disease due to their occupation. It is a lifetime benefit with survivor benefits. Liability represents the expected future benefit payments based on 963 disabled members and 58 survivors (i.e. spouses and domestic partners) who were receiving benefits as of December 31, 2021. Mr. Correia provided multiple assumption scenarios and the effect on the projected surplus. Investment income is the primary driver of contribution rates. Liabilities increased 12% from 2020 to 2021 and the waterfall analysis detailed the breakdown of the increase. The funding status of the program was reviewed with a surplus of 42% of estimated liability, which is above the target surplus level.

Ms. Klimke (Ref. ETF | 6.23.22 | 4C) presented the Duty Disability Insurance 2023 Employer Contribution Rate tiers, which are based on an experience-rated tier schedule. The program reserves continue to remain above the funding target. The duty disability insurance programs are supported by employer paid contributions and investment income.

MOTION: Mr. David moved to accept the Actuary's review of the Duty Disability Plan Valuations as of December 31, 2021 and reduce the 2023 contribution rates by 50% of the current rate. Mr. Schalow seconded the motion, which passed on the following roll call vote:

Members Voting Aye: David, Flogel, Ford, Heller, Lounsbury, Paul, Rasmus, Schalow

Members Absent: Arnold, Koessler, Mizialko, Wilding

Duty Disability Reserve Policy Review

Ms. Boudreau (Ref. ETF | 6.23.22 | 4D) presented the Duty Disability Reserve Policy review which is done every three years. After review of the fund liabilities and consulting with disability program actuaries, at this time, ETF is not recommending any changes to the reserve policy or the reserve targets.

MOTION: Mr. Schalow moved to approve the Duty Disability Program Reserve Policy and approve maintaining the current fund reserve target of 130% of the total actuarial liability of the Duty Disability Program. Ms. Paul seconded the motion, which passed on the following roll call vote:

Members Voting Aye: David, Flogel, Ford, Heller, Lounsbury, Paul, Rasmus, Schalow

Members Absent: Arnold, Koessl, Mizialko, Wilding

Delegation of Authority to Contract for Actuarial Services for Health Insurance Programs to the Group Insurance Board (GIB)

Ms. Patterson (Ref. ETF | 6.23.22 | 4E) reviewed the current delegation to procure contracts for health insurance programs.

MOTION: Ms. Rasmus moved to renew the delegation of authority from the ETF Board to the Group Insurance Board (GIB) to execute health insurance program actuarial services contracts, including contract amendments. Mr. Heller seconded the motion, which passed on the following roll call vote:

Members Voting Aye: David, Flogel, Ford, Heller, Lounsbury, Paul, Rasmus, Schalow

Members Absent: Arnold, Koessl, Mizialko, Wilding

The Board took a break from 11:42 a.m. until 12:23 p.m.

Secure Online Access and Demonstration

Ms. Boudreau provided an overview (Ref. ETF | 6.23.22 | 5A) of the MyWisconsin ID that will offer a single sign-in for member online account access for ETF and other Wisconsin agencies. This technology will provide strong security with multi-factor authentication and strong passwords. Additionally, MyWisconsin ID improves the customer experience for WRS members and employers.

Mr. Lacy discussed ETF web forms and its benefits for members and ETF. Mr. Mack provided a demonstration of the member's new capability to access ETF Web forms and submit a disability application online. This is live now and ETF has received five disability applications to date. This is the first of many self-serve applications ETF will make available for members.

Secretary's Report

Mr. Voelker touched on some of the challenges ETF has facing. Resource constraints and mandatory projects are taking away from ETF's modernization efforts. One of such mandatory projects is the W-4P change. The fixed federal tax withholding is no longer and option for annuitants. This project involved changing systems to comply with the new W-4P form, in addition to communications with annuitants on the process of changing their withholding option. We asked the Strategic Council and senior leaders throughout the organization to create a prioritization list to assist staff. We need to co-author ETF's goals and future.

Biennial budget submission is due just after the September Board meeting. We are using a different approach by asking department heads what resources they need to be successful and to get through modernization. The number of critical positions needed to keep up with demand and compliance it is significantly higher than previous budget requests. Traditionally, ETF requested two to four positions. This request will include more positions than ETF ever asked for before. We are trying to prepare for the future by involving staff throughout the agency. This is no different with the budget planning. Managers will help prioritize resource demands as a team. When the Board sees the budget request in September, know it was a team effort deciding what is in the budget. One issue to consider is the board consolidation that was previously proposed and removed from the last budget. The Board will need to decide how to proceed in September.

SWIB's is working with negative numbers. If we hit negative 18% market returns, we can have negative annuity dividends.

WEA Trust is getting out of the health care business. They provide multiple health programs throughout the state creating a gap in coverage. Health Plan rates are double digits.

Some good news is the Office of Legal Services and the Office of Internal Audit are fully staffed. Getting two good aspects of our organization filled is good.

Construction is done and ETF is consolidating floor space which will save ETF about \$500,000/year in rent.

An agency staff picnic is planned for in July. With hybrid schedules, the picnic will allow staff the opportunity to reconnect.

Milwaukee County issue is currently dead, but not going away. There was a bill drafted but never introduced. The ETF does not want any of Milwaukee's legacy debt in the fully funded WRS. We want to make sure that bringing Milwaukee County into the WRS will not affect its fully funded status. ETF will be asking for additional resources recognizing that adding this number of new members will require sufficient resources to fulfil ETF responsibilities.

ETF Organizational North Star Metrics

Ms. Henning (Ref. ETF | 6.23.22 | 5C) discussed the ETF Organizational North Star Metrics report ending May 2022 and highlighted the following:

- Of 11 targets - On target for the current nine measurements with three exceeding current fiscal year targets, and two being significantly off-track.
- The cumulative number of process improvements are not as expected due to resources constraints and other higher priority initiatives.
- Under Goal 1: the * identifies the first time that we can report out on these two measurements. Both are on target.
- Goal 1: Percent of Group Insurance Board (GIB) approved projects on schedule with the first reporting resulting of 100% of the scheduled tasks completed. The GIB approved a series of initiatives in 2019 intended to improve services while reducing costs to the Group Health Insurance Program.
- Goal 3: The competency program is 56% complete and going well. Ms. Dally will provide an update to the Board. As of July 1, managers will be working with staff for the evaluation process in the new program.
- Goal 3: Continuing to move forward on the Equity and Inclusion program.
- Goal 4: Information Security – all objectives are on target. ETF continues to do internal testing and continues to receive good reports. ETF's Executive Team and Chief Information Security Officer (CISO) are working to decide how often do we allow staff to fail a phishing exercise.

Mr. Voelker talked about ETF being more data driven. He would like to show the Board a demonstration of how ETF is utilizing internally data to manage decisions.

2023-2025 Biennial Budget Update

Ms. Hunter (Ref. ETF | 6.23.22 | 5D) discussed legislature turnover with 116 seats up for election with 23 Wisconsin State Assembly Representatives and 7 Wisconsin State Senators not seeking reelection. ETF will continue to provide WRS 101 training for new legislatures.

Ms. Hunter explained why the biennial budget is important to ETF and the timeline for ETF to submit its budget proposal. The biennial budget process is the only way we can secure the funding resources necessary to successfully modernize ETF and advance its mission and strategic plan. This process also provides the opportunity to communicate ETF's vision to legislatures.

She expanded on what Secretary Voelker is doing to empower ETF leadership in the prioritization and development of position requests that will be in ETF's full budget request.

Mr. Ford referred the Board to the additional operational update memos (Ref. ETF | 6.23.22 | 5E through 5I) included in the Board packets.

FUTURE ITEMS FOR DISCUSSION

Mr. Stohr referred the Board to the September 22, 2022 Agenda Topics memo (Ref. ETF | 6.23.22 | 6A).

SECRETARY'S ANNUAL EVALUATION AND COMPENSATION

Mr. Ford announced that the Board is going into closed session to provide a performance evaluation of ETF's Secretary.

MOTION: Mr. Heller moved to convene in closed session, pursuant to the exemptions contained in Wis. Stat. § 19.85 (1) (c) to discuss employment, promotion, compensation or performance evaluation data of any public employee over which the governmental body has jurisdiction or exercises responsibility. Ms. Flogel seconded the motion, which passed on the following roll call vote:

Members Voting Aye: David, Flogel, Ford, Heller, Lounsbury, Paul, Rasmus, Schalow

Members Absent: Arnold, Koessl, Mizialko, Wilding

Ms. Dally was invited to remain for closed session. The Board convened in closed session at 1:30 p.m. and reconvened in open session at 2:55 p.m.

ANNOUNCEMENT OF ACTION TAKEN ON BUSINESS DELIBERATED DURING CLOSED SESSION

Mr. Ford announced the Board took the following action during closed session:

Personnel Matters

The Board met in closed session and discussed Secretary Voelker's performance evaluation and shared their comments with him. In relation to Secretary Voelker's compensation, the Board approved a discretionary merit compensation award of two step and delegated to the Human Resource Director to submit the appropriate documentation to the Department of Administration, Division of Personnel Management.

ADJOURNMENT

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

The Board adjourned at 2:58 p.m.

Date Approved: _____

Signed: _____

Steve Wilding, Secretary
Employee Trust Funds Board