

DRAFT

MINUTES

June 22, 2023

Employee Trust Funds Board

State of Wisconsin

Location:

Hill Farms State Office Building – Room N133/N134
4822 Madison Yards Way, Madison, WI 53705
9:01 a.m. – 3:33 p.m.



BOARD MEMBERS PRESENT:

- | | |
|---------------------------|-----------------|
| Bill Ford, Chair | Angela Miller |
| Steve Wilding, Vice Chair | Amy Mizialko* |
| Chris Heller, Secretary | Roberta Rasmus |
| Jen Flogel | David Schalow* |
| Katy Lounsbury* | Michele Stanton |

BOARD MEMBERS ABSENT:

Wayne Koessler

PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:

Office of the Secretary:

- John Voelker, Secretary
- Shirley Eckes, Deputy Secretary
- Pam Henning, Assistant Deputy Secretary
- Kimberly Schnurr, Board Liaison
- Tarna Hunter, Government Relations Director

Division of Retirement Services:

- Matt Stohr, Administrator
- Anne Boudreau, Deputy Administrator
- Bonnie Cyganek, Customer Experience and Business Initiatives Manager

Division of Retirement Services (Cont.):

- Jim Guidry, Benefit Services Bureau Director
- Heidi Murphy, Benefit Initiation Section Lead Worker

Division of Trust Finance:

- Cindy Klimke-Armatoski, Chief Trust Finance Officer
- Marie Ruetten, Deputy Administrator

Office of Communications:

- Brittney Kruchten, Communications Project Manager

OTHERS PRESENT:

ETF Staff:

- Shellee Bauknecht, Laura Brauer, Annamarie Cummings*, Victor Dupuy, Diana Felsmann, Roger Fletcher*,

ETF Staff (Cont.):

- Lauren Gingell*, Dan Hayes, Gabriel Heinemann*, Patrick Hughes*, Michelle Hoehne, Gene Janke, Nancy Ketterhagen*,

* Attended via teleconference.

| Board | Mtg Date | Item # |
|-------|----------|--------|
| ETF | 09.21.23 | 2A |

ETF Staff (Cont.):

Kyle Kundert*, Mark Lamkins, Caroline Marsh*, Kadi Mbanefo*, Robin Nowakowski, Laura Patterson, Peter Rank, Racheal Rolli*, Shelly Schueller*, Cheri Seeger*, Amelia Slaney, Tim Steiner*, Barry Tucker, Renee Walk*, Amanda Williams, Kathryn Young

Department of Justice:

Clayton Kawski

Gabriel, Roeder, Smith Company (GRS):

Mark Buis, Rich Koch, Brian Murphy

Legislative Audit Bureau:

Erin Scharlau*

Milliman:

Paul Correia

Wisconsin Technical College System:

Katie Roberts*

Public:

Stephen Arnold*,

Teacher Retirement Board Members:

Adam Balz*, Michael Langyel

Bill Ford, Chair, called the meeting of the Employee Trust Funds Board (Board) to order at 9:01 a.m. Because some of the members of the Board are attending virtually, Ms. Schnurr, the board liaison, took roll call and confirmed quorum was present.

ANNOUNCEMENTS

Mr. Ford acknowledged that several Teachers Retirement (TR) Board members were in attendance both virtually and in-person at the ETF Board meeting. The Chair invited these board members to raise their hands to ask questions if they had them.

Mr. Ford also welcomed the newest Board member, Michele Stanton, onto the ETF Board.

Mr. Ford also announced that former Board member, John David, had passed away. The Board expressed its condolences to John David's family.

Recognition of Outgoing Board Member

Mr. Stohr announced that a resolution for former Board member, Stephen Arnold, had been created to recognize his years of service on the ETF Board. Mr. Voelker, ETF Secretary, and Mr. Ford would sign the resolution at the end of the meeting.

CONSIDERATION OF MARCH 23, 2023, OPEN SESSION MEETING MINUTES

MOTION: Mr. Heller moved to approve the open session minutes of the March 23, 2023, meeting as presented by the Board Liaison. Ms. Fogel seconded the motion, which passed unanimously on a voice vote.

COMMITTEE REPORTS

Executive Committee

Mr. Ford noted that the Executive Committee met virtually on June 21, 2023. 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.

Audit Committee

Ms. Miller noted that the Audit Committee met that morning. The committee elected the following slate of officers: herself as Chair, Ms. Lounsbury as Vice Chair, and Ms. Mizialko as Secretary. The Committee conducted its review of the FY2024-FY2025 Audit Plan update, including the Open Issue Report, and discussed the Wisconsin Deferred Compensation (WDC) Program Financial Statements Audit. The committee met in closed session to discuss Janus's Breach Response Readiness assessment.

Budget and Operations Committee

Ms. Flogel noted that the Budget and Operations Committee met earlier that morning. The Committee elected the following officers: herself as Chair, Mr. Heller as Vice Chair, and Ms. Rasmus as Secretary. The Committee then heard an operations update from Mr. Stohr, Ms. Baxter provided an update on ETF's modernization journey, Ms. Hunter provided a budget and legislative update, and Ms. Henning had shared information on ETF's Organizational North Star Metrics report.

DISCUSSION / CONSIDERATION

Wisconsin Retirement System (WRS) 42nd Annual Valuation of Active Lives and Gain/Loss Analysis – December 31, 2022

Mr. Ford announced that a cover memo from Ms. Klimke with ETF was provided along with the report from Gabriel, Roeder, Smith Company (GRS) on the Wisconsin Retirement System (WRS) 42nd Annual Valuation of Active Lives and Gain/Loss Analysis – December 31, 2022 (Ref. ETF | 06.22.23 | 4A). Mr. Buis, Mr. Koch, and Mr. Murphy from GRS would present on that report.

Mr. Buis 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. Active participants included in the valuations totaled 259,592 with an

annual payroll totaling \$16,025.9 million. The active lives valuation, includes actives as well as 181,758 of inactive participants.

Mr. Murphy 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. In total, during 2022, investment return was below the assumed 2022 level of 6.80% on a market value basis. Under the asset valuation method (using the MRA), gains and losses are phased-in over a five-year period, resulting in a 6.2% return on an Actuarial Value of Assets basis in the Core Fund. The Actuarial Value of Assets exceeds the Market Value of Assets by approximately 5.8% as of the valuation date. The statutory asset valuation method will recognize all of the differences between actuarial value and market value of -\$7.0 billion over four future years putting upward pressure on future contribution rates, given that all assumptions are realized.

Mr. Murphy stated that based upon the results of the December 31, 2022 regular annual actuarial valuation, it was GRS's opinion that the WRS continue to operate in accordance with actuarial principles of level percent-of-payroll financing.

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 and the affect on active participants and contribution rates by employment category.

Mr. Murphy discussed the current economic market implications for the WRS including inflation compared to wages and investments impacts on WRS dividends. He also provided an update on an analysis of Milwaukee joining the WRS. The analysis compared status quo with bringing Milwaukee new hires into WRS, based on 6.8% assumed rates of return and investigated projected contribution rates, normal cost rates, and Unfunded Actuarial Accrued Liability (UAAL) rates.

Mr. Buis reported the analysis concluded that adding Milwaukee groups was unlikely to have any material impact on normal cost rates. Mr. Wilding asked about the Milwaukee census data on slide 42. Mr. Buis and Mr. Stohr indicated that GRS would follow up and get back to Board members[†].

[†] Per email dated June 30, 2023: "The slide 42 information was incorrect; the city employee totals were listed under the county and vice versa. We worked with GRS to correct the slide and the ETF website has been updated for future reference. Despite this oversight at the Board meeting, the census data GRS used in the Milwaukee study they prepared for the Legislature was correct."

MOTION: Ms. Miller moved to approve the WRS Annual Actuarial Valuation and Gain/Loss Analysis as of December 31, 2022. Ms. Fogel seconded the motion, which passed unanimously on the following roll call vote:

Ayes: Fogel, Ford, Heller, Lounsbury, Miller, Mizialko, Rasmus, Schalow, Stanton, Wilding.

Nays: None.

Absents: Koessl.

Wisconsin Sick Leave Conversion Credit Programs Annual Valuation – December 31, 2022

Mr. Ford announced that a cover memo from Ms. Klimke with ETF was provided along with the report from GRS on the Wisconsin Sick Leave Conversion Credit Programs Annual Valuation – December 31, 2022 (Ref. ETF | 06.22.23 | 4B). Mr. Koch and Mr. Murphy from GRS would present on that report.

Mr. Koch and Mr. Murphy 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. Fogel moved to approve the Sick Leave Conversion Credit Programs Actuarial Valuation as of December 31, 2022. Mr. Wilding seconded the motion, which passed unanimously on the following roll call vote:

Ayes: Fogel, Ford, Heller, Lounsbury, Miller, Mizialko, Rasmus, Schalow, Stanton, Wilding.

Nays: None.

Absents: Koessl.

Duty Disability Insurance Program Experience Studies

Mr. Ford announced that a cover memo from Mr. Guidry with ETF was provided along with the report from Milliman on the Duty Disability (DD) Insurance Experience Studies (Ref. ETF | 06.22.23 | 4C). Mr. Correia from Milliman would present on that report.

Mr. Correia started by explaining that the actuarial valuation of the DD Insurance program is conducted annually by the disability program's consulting actuary, Milliman. Valuation results and projections are based on program experience and actuarial assumptions. Every three years, an experience study is performed to review the current actuarial assumptions and methods and compare them to actual experience of the DD program. The DD Insurance program experience study uses experience data from the years 2016–2022. Even though the study is conducted every three years, Milliman uses six or more years of experience data to help analyze trends.

Milliman analyzed and updated claim termination rate assumptions, updated estimated offset assumptions by analyzing each potential benefit offset and amounts, updated assumptions for spouse death benefits, developed new assumptions for dependent children death benefits, and studied overpayment recoveries. Milliman also performed a retrospective runout study to validate the new assumptions by evaluating the historical margins using the new assumptions. Applying the updated assumptions to December 31, 2021, open claim liabilities would have yielded a net 0.2% decrease in liabilities, similar to the liabilities produced using the previous assumptions. The new assumptions have been used to perform the 2022 DD Insurance annual valuation (Ref. ETF | 06.22.23 | 4D).

DD Insurance Actuarial Valuation – December 31, 2022

Mr. Ford announced that a cover memo from Ms. Ruetten with ETF was provided along with the report from Milliman on the DD Insurance Annual Valuation – December 31, 2022 (Ref. ETF | 06.22.23 | 4D). Mr. Correia with Milliman would continue to present on that report. Afterwards, Ms. Ruetten would provide a presentation on the 2024 DD Insurance Employer Contribution Rates.

Mr. Correia shared that the program continues to be in a healthy financial position with the funding level at the top of the 125% to 135% target range, per the Board's policy. The actuarial liability increased 6% from the prior year, primarily due to Duty Disability benefit increases that were applied in January 2023. The reserve balance increased by approximately 1%, due to investment income. Duty Disability contribution rates are based on an experience-rated tier schedule. While the base contribution rate tier structure remains constant, the actual contribution rates for each tier are adjusted to meet the plan's current funding needs. The actuarial valuation report includes a baseline scenario and three other scenarios. The scenarios incorporate updated

actuarial assumptions from the most recent experience study he had presented on earlier (Ref. ETF | 06.22.23 | 4C). The baseline scenario assumes current contribution rates are held level in future years, and as a result, projects the funds' surplus as a percentage of the actuarial liability to modestly grow to slightly above the Board's target.

Scenario 1 assumes a 0.96% investment loss for 2023, a 1.7% increase in covered payroll due to 2023 Wisconsin Act 4 allowing jailers to reclassify to protective occupation status, and no change in contribution rates throughout the projection period. This results in the projected fund balance being below the target range by 2024 and continuing.

Scenario 2 assumes no change in contribution rates with a 6.9% (rather than 1.7% in the baseline) increase in covered payroll and incurred claims beginning in 2024 due to Wisconsin Act 4, which becomes effective January 1, 2024. Under these assumptions the fund balance is projected to stay relatively unchanged and within the target range.

Scenario 3 assumes contributions are waived in 2024 and resume in 2025 and beyond based on 2023 contribution rates. The fund's surplus as a percentage of the actuarial liability is also expected to grow in this scenario. These projections show contributions have a small impact on the funding of the program. Investment income is the biggest driver of changes in fund balance.

Ms. Ruetten presented the Duty Disability Insurance 2024 Employer Contribution Rate tiers, which are based on an experience-rated tier schedule. The duty disability insurance programs are supported by employer paid contributions and investment income.

MOTION: Mr. Heller moved to approve the Duty Disability Insurance Program Actuarial Valuation as of December 31, 2022 and set 2024 contribution rates the same as 2023 rates. Ms. Rasmus seconded the motion, which passed unanimously on the following roll call vote:

Ayes: Flogel, Ford, Heller, Lounsbury, Miller, Mizialko, Rasmus, Schalow, Stanton, Wilding.

Nays: None.

Absents: Koessl.

2022 Member Engagement Survey Results

Mr. Ford announced that Ms. Kruchten would present on the 2022 Member Engagement Survey Results (Ref. ETF | 06.22.23 | 4E). Ms. Kruchten shared that

17,128 responses were received and the breakdown of the response rate by group. She discussed the total engagement score and compared changes from 2021 to 2022.

Top response categories included:

- Online Access
- Health Insurance
- Retirement Planning
- Communication
- Website/User Experience
- Expectations of ETF's Role.

Similarities to 2021 responses from members included more online account access, more frequent communications, and more transparency on investments.

Differences from 2021 responses from members were lack of awareness of what ETF does and how ETF can help, website navigation and search improvement, and more tools to manage their account and benefits.

The Board took a break from 11:52 a.m.–12:20 p.m.

ETF Customer Experience (CX) Story

Mr. Ford announced that Ms. Cyganek and Ms. Murphy would present on the ETF Customer Experience Story (Ref. ETF | 06.22.23 | 5A). Ms. Cyganek shared ETF's mission which is to develop and deliver quality benefits and services to our customers while safeguarding the integrity of the trust. And that the vision is to enhance the well-being of our members by delivering expert guidance, strong sustainable benefit programs, and an exceptional customer experience. She discussed average wait times, and performance measurements and standards.

Ms. Murphy then went over the variety of customer interactions and the role of CX on building a continuous incremental improvement in these interactions to strategically build for the future as One ETF Voice. Ms. Murphy shared a comparison of ETF's current state versus future state. Ms. Cyganek and Ms. Murphy both shared information regarding features of the CX Roadmap. They shared some of the milestones met in Phase 1, including publishing Power of Attorney information for members and their agents as part of improvements on policies and processes. Phase 2 was currently underway but would continue work on all components. Furthermore, Phase 2 would continue supporting work on the technology modernization roadmap and other transformation efforts.

Customer Service Improvements and Trends

Mr. Ford announced that Ms. Boudreau would present on the Customer Service Improvements and Trends (Ref. ETF | 06.22.23 | 5B). Ms. Boudreau shared an

illustration of the North Star Dashboards. She then provided a review of the retirement data and customer service communications during Quarter 1 of 2023. Ms. Boudreau went on to highlight customer service improvements, one of which was a better interface for member meetings. Other process improvements included successful annual reconciliation and more accurate death information.

Government Relations Updates

Mr. Ford announced that Ms. Hunter would present on Government Relations Updates, including a Legislative Update and the 2023-25 Biennial Budget Update (Ref. ETF | 06.22.23 | 5C1-5C2). Ms. Hunter provided an update regarding the legislative session and the 2023-2025 state budget (Ref. BUD | 06.22.23 | 6). She walked through the jailers legislation, Wisconsin Act 4, that was enacted in April 2023. Discussion occurred about the Act and the impact on members and ETF. Ms. Hunter talked about the shared revenue and Milwaukee legislation and the parts that affect ETF programs and systems. She also discussed potential return to work legislation.

Secretary's Report

Mr. Ford announced that Secretary Voelker would present his Secretary's Report. Mr. Voelker provided an update on the pension conferences that had taken place earlier that month, the Jailer Law Implementation, current vacancies, and a performance of the State of Wisconsin Investment Board (SWIB). As of April 30, the core fund had returned 4.83% and the variable fund had returned 8.39%. Total assets under management are \$127.4 billion.

ETF North Star Metrics Report

Mr. Ford announced that Ms. Henning would present the ETF North Star Metrics Report (Ref. ETF | 06.22.23 | 5E). Ms. Henning reviewed the North Star Metrics Report. Ms. Henning covered the initiatives and talked about the adjustments made to the performance management process and system. She also provided an Equity and Inclusion Plan update.

OPERATIONAL UPDATES

Mr. Ford announced that the remaining operational updates were provided in the ETF Board meeting materials, and ETF staff were available to answer questions from Board members at that time. No questions were posed.

FUTURE ITEMS FOR DISCUSSION

September 2023 Meeting Agenda Topics

Mr. Stohr referred the Board to the September 2023 Meeting Agenda Topics memo (Ref. ETF | 06.22.23 | 6A). He asked if there were any items that the Board wanted to include during the September 21, 2023, meeting, but no additions were offered.

MOVE TO CLOSED SESSION

Mr. Ford announced the Board would be meeting in closed session to provide a performance evaluation of ETF's Secretary. The Board would vote to reconvene in open session following the closed session.

MOTION: Ms. Flogel moved to go into closed session pursuant to the exemption 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. Mr. Wilding seconded the motion, which passed on the following roll call vote:

Ayes: Flogel, Ford, Heller, Lounsbury, Miller, Mizialko, Rasmus, Schalow, Stanton, Wilding.

Nays: None.

Absents: Koessl.

The Board moved to closed session at 1:23 p.m.

The Board returned to open session at 3:31 p.m.

ANNOUNCEMENT OF BUSINESS DELIBERATED AND ACTION TAKEN DURING CLOSED SESSION

Mr. Ford announced that the Board had met in closed session and discussed Secretary Voelker's performance evaluation with him. In relation to Secretary Voelker's compensation, the Board took no action.

ADJOURNMENT

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

The Board adjourned at 3:33 p.m.

Date Approved: _____

Signed: _____

Chris Heller, Secretary
ETF Board