

DRAFT

MINUTES

June 20, 2024

Employee Trust Funds Board

State of Wisconsin

Location:

Hill Farms State Office Building – Room N108
4822 Madison Yards Way, Madison, WI 53705
1:02 p.m. – 4:09 p.m.



BOARD MEMBERS PRESENT:

Bill Ford, Chair
Steve Wilding, Vice Chair
Chris Heller, Secretary
Jen Fogel

Katy Lounsbury*
Angela Miller
David Schalow*
Michele Stanton

BOARD MEMBERS ABSENT:

Amy Mizialko

PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:

Office of the Secretary:

John Voelker, Secretary
Shirley Eckes, Deputy Secretary
Kimberly Schnurr, Board Liaison

Division of Benefits Administration:

Jim Guidry, Benefit Services Bureau
Director

Division of Trust Finance:

Marie Ruetten, Deputy Administrator

OTHERS PRESENT:

Office of the Secretary:

Pam Henning, Assistant Deputy
Secretary

ETF Staff:

Shellee Bauknecht, Laura Brauer, Erin
Casper, Taylor DeBroux, Omar
Dumdum*, Diana Felsmann, Gene
Janke, Cindy Klimke, Caroline Marsh*,
Matthew Martinelli*, Laura Patterson,
Peter Rank, Amelia Slaney,

ETF Staff (Cont.):

Barry Tucker, Amanda Williams,
Kathryn Young

Department of Financial Institutions:

Patricia (Patti) Epstein
**Gabriel, Roeder, Smith and Company
(GRS):**

Jim Anderson, Mark Buis, Rich Koch

Milliman:

Paul Correia

* Attended virtually.

Board	Mtg Date	Item #
ETF	09.19.24	2A

Teachers Retirement Board:

Karl Morrin

Wisconsin Retirement Board:

Becky Easland, Justin Nickels*

Wisconsin State Legislature:

Nathan Heimler*

Others (Unidentified):

1 individual connected via telephone.

Bill Ford, Chair, called the meeting of the Employee Trust Funds Board (Board) to order at 1:02 p.m. Because some of the members of the Board were attending virtually, Ms. Schnurr, the board liaison, took roll call and confirmed quorum was present.

Mr. Ford welcomed James Beau as an official member to the Board since his term started May 1, 2024. He also extended a welcome to new Board members appointed by the Teachers Retirement (TR) and Wisconsin Retirement (WR) Boards earlier that day. Mr. Ford shared that David Schalow was resigning from the Board effective July 1, 2024. He and Secretary Voelker would be signing a resolution to recognize Mr. Schalow's commitment and service on the Board.

ANNOUNCEMENTS

Ms. Eckes and Mr. Voelker provided the following announcements:

- The recruitment to hire a new Director for ETF's Office of Talent Management (OTM) had been posted, and ETF is actively working to fill the vacancy.
- The Chief Benefits Officer for the Division of Benefits Administration (DBA) has been filled by Patti Epstein.

CONSIDERATION OF OPEN AND CLOSED SESSION MINUTES OF MARCH 28, 2024, MEETING ([Ref. ETF | 06.20.24 | 2A](#))

MOTION: Ms. Stanton moved to approve the open and closed session minutes of the March 28, 2024, meeting as presented by the Board Liaison. Ms. Miller 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 19, 2024. The committee approved the "Open Minutes of March 27, 2024, Meeting" ([Ref. EXC | 06.19.24 | 2](#)) and went over the schedule for the next day, which involved the Joint Meeting of the Retirement Boards and individual meetings for the TR, WR, and ETF Boards. Mr. Voelker discussed that the TR Board and WR Board would be taking action to appoint members to the vacant seats on the Board. Ms. Eckes highlighted information from the "Executive Committee Accomplishments Report: March 2024–May 2024" ([Ref. EXC | 06.19.24 | 4A](#)). At the request of the Executive Committee during their March meeting, Ms. Felsmann presented on the "Non-WRS-eligible Employees of WRS

Employers and Participation in Other ETF-administered Benefits” memo ([Ref. EXC | 06.19.24 | 4B](#)). The information Ms. Felsmann shared with the Executive Committee focused on whether non-WRS employees of the City of Milwaukee could participate in non-WRS benefits offered by ETF. Ms. Henning provided the Executive Committee with the Quarterly Human Resource Report, which contained information regarding key staff vacancies and other workforce-related activities.

The Executive Committee voted to move into closed session to discuss the survey results for this year’s secretary’s evaluation. Due to the OTM Director position being vacant, Ms. Henning was invited to attend the closed session to answer questions from the Executive Committee related to the survey and secretary’s evaluation. Mr. Ford returned to open session to announce business deliberated in closed session and adjourned the meeting.

Audit Committee

Ms. Miller noted that the Audit Committee met that morning. The Audit Committee voted unanimously to approve the “Open Minutes of March 28, 2024, Meeting” ([Ref. AUD | 06.20.24 | 2A](#)). During his presentation on the “Duty Disability (DD) Program Audit” report, Mr. Petrie said the DD Program Audit identified opportunities for improvement. One of these was to change the state statute to make the DD Program less complex, less administratively burdensome to implement and maintain, and easier to maintain its integrity ([Ref. AUD | 06.20.24 | 3A](#)). Ms. Lounsbury expressed concerns about these statutory changes and asked that they be brought to the full Board for consideration. She said that she wanted to ensure the Audit Committee and Board were aligned on the vision for the DD Program. Mr. Voelker said that an overview of the DD Program was scheduled for the September Board meeting.

Ms. Miller said that Ms. Bauknecht presented on two audits for the Wisconsin Deferred Compensation (WDC) Program: the “WDC Program Contract Compliance Audit” ([Ref. AUD | 06.20.24 | 3B1](#)) and the “WDC Program Financial Statement Audit” ([Ref. AUD | 06.20.24 | 3B2](#)). Ms. Williams presented on the “Annuity Calculation Limited Review” report ([Ref. AUD | 06.20.24 | 3C](#)). Ms. Sze gave a presentation on the “FY24 – FY25 Biennial Audit Plan Update” memo ([Ref. AUD | 06.20.24 | 4A](#)). She provided a summary on the recommended changes to the FY25 planned engagements in the FY24 – FY25 Biennial Audit Plan. The Audit Committee unanimously voted to approve those changes.

Budget and Operations Committee

Ms. Flogel noted that the Budget and Operations Committee met earlier that morning and voted unanimously to approve the “Open Minutes of March 28, 2024, Meeting” ([Ref. BUD | 06.20.24 | 2](#)). Ms. Eckes provided an operations update to the Budget and Operations Committee, and Ms. Hunter presented briefly on the “Legislative Update” memo ([Ref. BUD | 06.20.24 | 4](#)).

Ms. Baxter shared information on both the Insurance Administration System (IAS) Implementation and Pension Administration System (PAS) Search and Selection projects for the period ending May 31, 2024, in her “ETF Modernization Projects Update” presentation ([Ref. BUD | 06.20.24 | 5](#)). Ms. Baxter reported that a go-live date of July 2025 has been set, which put the overall health of the IAS project on target. She said that the Office of Internal Audit (OIA) staff were conducting an independent review on IAS and would be providing a quarterly progress report to the Budget and Operations Committee starting in September. Meanwhile, the PAS Search and Selection project’s overall health is on target. Ms. Baxter reported that the current focus of the PAS project was to define system requirements, develop an RFP, review and evaluate proposals, and select a vendor by May 2025.

Ms. Baxter also provided the Budget and Operations Committee with a presentation on the “ETF Transformation Update” memo ([Ref. BUD | 06.20.24 | 6](#)). She shared an update on ETF’s long-term transformation journey to support customers as they prefer and illustrated these updates on ETF’s Transformation Roadmap.

Ms. Flogel noted that the Budget and Operations Committee concluded by hearing a presentation from Ms. Henning on the “ETF Organizational North Star Metrics Report” ([Ref. BUD | 06.20.24 | 7](#)) before voting to adjourn.

DISCUSSION AND CONSIDERATION

WRS 43rd Annual Valuation of Active Lives and Gain/Loss Analysis – December 31, 2023 ([Ref. ETF | 06.20.24 | 4A](#))

Mr. Ford referred Board members to Ms. Klimke’s cover memo along with the “WRS 43rd Annual Valuation of Active Lives and Gain/Loss Analysis – December 31, 2023” report from Gabriel, Roeder, Smith and Company (GRS). Mr. Buis and Mr. Koch from GRS presented a summary to the Board on the valuation results and responded to questions that were not covered at the Joint Meeting of the Retirement Boards earlier that morning.

Mr. Buis and Mr. Koch highlighted key points from the presentation they gave during the Joint Meeting of the Retirement Boards ([Ref. JM | 06.20.24 | 3B](#)). They summarized the results of the actuarial valuation of non-retirement members of the WRS study and recommended the contribution rates for 2025 across the following occupation groups:

- General Participants and Executive and Elected Officials
- Protectives with Social Security
- Protectives without Social Security.

Mr. Buis explained that under Wis. Stat. § 40.05, contribution rates were split evenly between the employer normal cost and the participant normal cost for General Participants and Executive and Elected Officials. The total normal contribution rate

recommended for 2025 for this occupation group is 13.9%, which means both employer normal and participant normal costs are 6.95%. Mr. Buis said that for protective occupations, the participant normal cost is set equal to the participant normal cost for General Participants. Therefore, the participant normal cost for Protectives with and without Social Security is 6.95%. The recommended employer normal cost for Protectives with Social Security is 14.95%, which, adding in the participant normal cost of 6.95%, results in a total normal cost of 21.9%. For Protectives without Social Security, the recommended employer normal cost was 18.95%, which comes to a total normal cost of 25.9% with the 6.95% participant normal cost factored in.

Mr. Buis reported that, based on the valuation, normal cost contribution rates for 2025 increased for all groups except for Protectives without Social Security when compared to total normal cost rates from 2024. He shared that the increase in contribution rates is due to higher-than-expected pay increases. Partially offsetting the increases due to pay increases was a favorable investment performance from prior years flowing through the Market Recognition Account (MRA). When compared to the previous year, the 2025 total normal cost rates across the occupation groups increased by 0.1% for General Participants and Executive and Elected Officials, increased by 0.7% for Protectives with Social Security, and decreased by 0.1% for Protective without Social Security occupation groups.

MOTION: Ms. Flogel made a motion to approve the WRS Annual Actuarial Valuation and Gain/Loss Analysis as of December 31, 2023. Ms. Stanton seconded the motion, which passed on the following roll call vote:

Ayes: Flogel, Ford, Heller, James, Lounsbury, Miller, Stanton, Wilding.

Nays: None.

Absents: Schalow, Mizialko.

Wisconsin Sick Leave Conversion Credit Programs Annual Actuarial Valuation – December 31, 2023 ([Ref. ETF | 06.20.24 | 4B](#))

Mr. Ford said that Ms. Klimke provided a cover memo along with the GRS report on the “Wisconsin Sick Leave Conversion Credit Programs Annual Valuation – December 31, 2023.”

Mr. Anderson and Mr. Koch reviewed the actuarial valuation of the Sick Leave Conversion Credit programs, which includes the Accumulated Sick Leave Conversion Credit (ASLCC) program and the Supplemental Health Insurance Conversion Credit program (SHICC). Mr. Anderson also provided background information regarding the Wisconsin Sick Leave Credit Conversion Program. He said that the ASLCC converts accumulated sick leave into a monetary amount upon retirement that can be used to pay for retiree health insurance premiums until sick leave credits are exhausted. The

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. Mr. Anderson said that to qualify for the SHICC, members need to terminate their employment with at least 15 years of continuous service with the State of Wisconsin. Mr. Koch and Mr. Anderson added that the assets are based on a five-year smoothing of investment earnings in connection with the MRA developed for WRS valuations.

Mr. Koch explained the differences between the ASLCC and SHICC programs. He reviewed the assets data, and the employer contribution rates. Mr. Anderson said that during 2023, pay and healthcare premium increases were higher than expected based on actuarial assumptions. Investment returns on a market value basis were also higher than the assumed level of 6.8% in 2023 partially offsetting the pay and premium increases. Mr. Anderson added that the MRA phases resulted in an 8.8% return on a smoothed basis. The net result was increased contribution rates for 2024. Mr. Anderson said that, if actuarial assumptions were realized, there would be continued upward contribution pressure in future years.

Ms. Miller requested that sick leave data be provided to the Board as part of a discussion on the future of paid family leave. Mr. Voelker said that ETF and GRS would work to obtain that information and follow up with the Board.

MOTION: Mr. Wilding made a motion to approve the Sick Leave Conversion Credit Programs Actuarial Valuation as of December 31, 2023. Ms. Fogel seconded the motion, which passed on the following roll call vote:

Ayes: Fogel, Ford, Heller, James, Lounsbury, Miller, Stanton, Wilding.

Nays: None.

Absents: Schalow, Mizialko.

Mr. Schalow joined the meeting at 1:53 p.m.

Duty Disability (DD) Insurance Program Incurred But Not Reported (IBNR) Claims Experience Studies ([Ref. ETF | 06.20.24 | 4C](#))

Mr. Ford said that ETF's Mr. Guidry provided a cover memo along with Milliman's "DD Insurance Program IBNR Claims Experience Studies" report. Mr. Guidry and Ms. Ruetten from ETF, as well as Mr. Correia from Milliman, presented on that report.

Mr. Guidry provided background on the actuarial valuation of the DD Insurance Program, which is conducted annually by Milliman, the disability program's consulting actuary. The valuation results and projections are based on program experience and

actuarial assumptions. Milliman performed an experience study on IBNR claims to update its IBNR assumptions that are used in the determination of claim liabilities for the DD Insurance Program. The new assumptions are also used in the “DD Insurance Program Actuarial Valuation – December 31, 2023” ([Ref. ETF | 06.20.24 | 4D](#)).

Mr. Correia said Milliman analyzed historical claim experience from January 1, 2013, through December 31, 2022. Milliman updated the IBNR factors used to estimate the proportion of claims incurred but unreported during the lookback period as of the valuation date. Milliman also increased the lookback period itself by two years based on historical claim reporting lags, which resulted in the lookback period going from a three-year period to a five-year period. With all else equal, the additional years of estimated unreported claims increased the IBNR claim liability.

Mr. Correia explained the cumulative effect of Milliman’s updates to the IBNR claim assumptions if the new IBNR assumptions had been used for the December 31, 2022, DD Insurance Program valuation. The results would have been a \$15.7 million increase to IBNR claim liabilities and a decrease from 135.4% to 131.6% to the surplus reserve fund ratio. (The targeted reserve ratio range for the DD Insurance Program is from 125% to 135%.)

Mr. Correia referred to what Mr. Guidry said previously and reiterated that the new assumptions were used in the DD Insurance Program actuarial valuation as of December 31, 2023.

[DD Insurance Program Actuarial Valuation – December 31, 2023 \(Ref. ETF | 06.20.24 | 4D\)](#)

Mr. Correia, Mr. Guidry, and Ms. Ruetten presented on Milliman’s report on the “DD Insurance Program Actuarial Valuation – December 31, 2023.” Ms. Ruetten gave a presentation on the 2025 DD Insurance Employer Contribution Rates.

Mr. Guidry said that the DD Insurance Program continues to be in a healthy financial position with the funded ratio staying within the Board-adopted 125% to 135% target range. The funded ratio as of December 31, 2023, was at 131%. Mr. Guidry said that the actuarial liability increased by approximately 7% from the prior year. As Mr. Correia explained in the last presentation, the lookback period for estimating IBNR claims was updated from a three-year to a five-year period. This change increased the liability for IBNR claims. Mr. Guidry said that the average monthly benefit amount also increased by approximately 12%, primarily due to the benefit increases that had gone into effect in January 2023. The reserve balance increased by approximately 3% in 2023 due to investment income offset by increased expenses.

Mr. Guidry said that DD contribution rates are based on an experience-rated tier schedule. While the base contribution rate tier structure remained constant, the actual contribution rates for each tier are adjusted to meet the plan’s current funding needs.

The actuarial valuation report included a baseline scenario and three other scenarios. Mr. Guidry explained that the scenarios incorporate updated actuarial assumptions from the most recent experience study, which were presented to the Board earlier ([Ref. ETF | 06.20.24 | 4C](#)). The baseline scenario assumes current contribution rates are held level in future years. Mr. Guidry noted that the result was a projection that the funds' surplus as a percentage of the actuarial liability would decrease slightly over time and be reduced to slightly below the low end of the target funded range by December 31, 2028. Mr. Guidry said that, with contributions and investment income remaining fairly steady, an expected increase in claims would result in the projection of the funded ratio reaching 116% at the end of 2032.

Mr. Correia went through the scenarios in the actuarial valuation report. Scenario 1 assumed a 3.2% investment income for 2024 and 6.8% in future years without changing contribution rates. This would result in the projected fund balance being below the target range by 2025 and continuing to decrease.

For Scenario 2, Mr. Correia explained that the assumption was an increase in the contribution rate to 0.549% of covered payroll in 2025 and then being held level. This would result in a return to the middle of the target range by 2026.

Mr. Correia said that Scenario 3 assumed an increase in contribution rates by 0.1% of payroll in 2025 through 2029. This would result in a relatively steadily funded ratio, continually staying above the low end of the target range and moving toward the midpoint.

Mr. Guidry said that, based on the actuarial valuation and projections from Milliman's valuation report, ETF's recommendation was to go with Scenario 3 and increase rates by 0.1% of payroll in 2025.

Ms. Ruetten provided more of a breakdown of Scenario 3 in her presentation on the 2025 Employer Contribution Rates for the DD Insurance program. She illustrated the recommended 2025 rates across eight tiers, which are based on an experience-rated tier schedule. Ms. Ruetten said that the DD Insurance program was supported by employer-paid contributions and investment income.

MOTION: Mr. Heller made a motion to approve the Duty Disability (DD) Insurance Program Actuarial Valuation as of December 31, 2023, and increase 2025 contribution rates by 0.1% of covered payroll. Ms. Miller seconded the motion, which passed on the following roll call vote:

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

Nays: None.

Absents: Mizialko.

OPERATIONAL UPDATES

Secretary's Report

Mr. Voelker spoke about information that went out to stakeholders regarding the new IAS Program implementation schedule. He also spoke about internal planning efforts within ETF, including updating the strategic plan, developing the biennial budget submission, and examining the compensation strategy. He concluded with a State of Wisconsin Investment Board (SWIB) performance update. As of April 30, the core fund had returned 1.18% and the variable fund had returned 4.89%. Total assets under management are \$132.6 billion.

Mr. Ford said 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.

FUTURE ITEMS FOR DISCUSSION

Tentative September 2024 Agenda ([Ref. ETF | 06.20.24 | 6A](#))

Ms. Eckes presented briefly on the anticipated agenda topics for the September meeting. Board members were invited to request additional items for discussion in September.

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: Mr. Wilding moved to approve moving to closed session pursuant to the exemption contained in Wis. Stats. § 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. If a closed session is held, the Board may vote to reconvene into open session following the closed session. Ms. Miller seconded the motion, which passed on the following roll call vote:

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

Nays: None.

Absents: Mizialko.

The Board convened in closed session at 2:42 p.m.

The Board returned to open session at 4:06 p.m.

ANNOUNCEMENT OF BUSINESS DELIBERATED DURING CLOSED SESSION

Mr. Ford announced that the Board met in closed session and discussed Secretary Voelker's performance evaluation with him. The Board commended the secretary's continued strong performance and leadership. Despite this track record of excellence, the limits of the state's compensation plan led the Board to indicate their support for prioritizing allocating the available merit-based compensation to other agency staff. The secretary concurred with this decision. As there was no change made to the existing secretary's compensation, no formal vote was needed.

ADJOURNMENT

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

The Board adjourned at 4:09 p.m.

Date Approved: _____

Signed: _____

Chris Heller, Secretary
ETF Board