

MINUTES OF MEETING
STATE OF WISCONSIN
JOINT INFORMATIONAL MEETING
TEACHERS RETIREMENT, WISCONSIN RETIREMENT,
AND EMPLOYEE TRUST FUNDS BOARDS

Thursday, March 13, 2008

Holiday Inn Hotel and Suites
1109 Fourier Drive
Madison, Wisconsin

BOARD PRESENT:

Marilyn Wigdahl, Chair, WR Board and Chair, ETF Board
Ted Bratanow, TR Board
John Brown, ETF Board
John David, WR Board
Jennifer Donnelly, ETF Board
Rosemary Finora, ETF Board
Theron Fisher, ETF Board
Rick Gale, Secretary, WR Board and ETF Board
Kathy Kreul, ETF Board
Mike Langyel, TR Board
Wayne McCaffery, ETF Board and Chair, TR Board
Lon Mishler, Vice-Chair, TR Board
Dan Nerad, TR Board
Robert Niendorf, Secretary, ETF Board
Dennis Panicucci, Secretary, TR Board
Patrick Phair, TR Board
Tom Pedersen, TR Board
Roberta Rasmus, TR Board
Gary Sherman, ETF Board
Robin Starck, TR Board
Herbert Stinski, WR Board
Nancy Thompson, ETF Board
Mary VonRuden, WR Board
David Wiltgen, TR Board

BOARD NOT PRESENT:

Sean Dilweg, WR Board
Wayne Koessl, Vice-Chair, WR Board and Vice-Chair, ETF Board
Irena Macek, ETF Board
Dennis McBride, WR Board
Steve Scheible, TR Board
Robert Shaw, TR Board

PARTICIPATING ETF STAFF:

Dave Stella, Secretary
Bob Conlin, Deputy Secretary
Anne Boudreau, Division of Retirement Services

Jerry Dietzel, Division of Trust Finance and Employer Services
Lisa Ellinger, Deputy Administrator, Division of Insurance Services
Kathryn Fields, Division of Retirement Services
Sari King, Administrator, Division of Retirement Services
Roy Raush, Division of Retirement Services
Matt Stohr, Director, Legislation, Communications, and Planning
John Vincent, Administrator, Division of Trust Finance and Employer Services
Ann McCarthy, Board Liaison

OTHERS PRESENT:

Brian Bellford, Legislative Audit Bureau
Keith Bozarth, State of Wisconsin Investment Board
Mark Buis, Gabriel, Roeder, Smith, and Company
Terry Casper, Legislative Audit Bureau
Sandy Drew, State of Wisconsin Investment Board
Rhonda Dunn, Office of the Secretary
Caitlin Frederick, Department of Administration
Jean Gilding, Division of Retirement Services
Gail Hanson, State of Wisconsin Investment Board
Dan Hayes, Wisconsin Law Enforcement Officers Association
Pam Henning, Division of Management Services
Nancy Ketterhagen, Office of the Secretary
Jon Kranz, Office of Internal Audit and Budget
Eileen Mallow, Office of the Commissioner of Insurance
Brian Murphy, Gabriel, Roeder, Smith, and Company
Linda Owen, Division of Retirement Services
Mel Sensenbrenner, State Engineering Association
Sharon Walk, Office of the Secretary
Rob Weber, Legal Services
Art Zimmerman, Legislative Fiscal Bureau

Marilyn Wigdahl, Chair, Wisconsin Retirement Board and Employee Trust Funds Board, called the meeting to order at 8:54 a.m.

CONSIDERATION OF MINUTES OF PREVIOUS MEETING

Motion: Ms. Donnelly moved approval of the minutes of the December 13, 2007, meeting as submitted by the Board Liaison. Ms. Thompson seconded the motion, which passed without objection on a voice vote.

ANNOUNCEMENTS

Introductions of New Staff Ms. King introduced and welcomed two new management staff to the Department of Employee Trust Funds. Matt Stohr was hired as Director of Legislation, Communications, and Planning. Lisa Ellinger was hired as the Deputy Administrator for the Division of Insurance Services.

Congratulations to Dan Nerad Ms. King congratulated Mr. Nerad on his appointment as the next Madison Metropolitan School District Superintendent.

Stepping-Stones to Retirement Update Ms. King updated the Board members on the *Stepping Stones to Retirement* workshop, which covers the topics of Social Security, the Wisconsin Retirement System (WRS), and the Deferred Compensation (DC) program. She noted that this workshop was presented last spring and is scheduled this spring to be presented in various cities in Wisconsin. Ms. King reported that this presentation is also available online and can be viewed from the Department video library website.

LEGISLATIVE UPDATE

Mr. Stohr referred the Board members to the legislative report. He stated that the last scheduled day of general business for the 2007-2008 legislative session was March 13, 2008, but noted that the Governor called the legislature to a special session for a budget repair bill.

Mr. Stohr briefed the Board members on Assembly Bill (AB) 893. He explained that this bill would help to streamline Department practices, conform state law to federal law, eliminate certain inequities in current law, and make other technical and minor substantive changes desired by the Department for the efficient operations of Department programs. The Joint Survey Committee on Retirement Systems, the Assembly, and the Senate have all approved AB 893. This bill will next go to the Governor for his signature.

Mr. Stohr also updated the Boards on AB 851 and Senate Bill (SB) 471. He explained that these bills have two components, a WRS component and a DC component and if passed, would authorize the Department to pay health and long term care insurance premiums for public safety officers from their annuity and/or DC account. These new services would require additional Department resources. Mr. Stohr reported that both AB 851/SB 471 were amended to provide those resources and approved by the respective committees in each house.

Mr. Stohr reported that the SB 351/AB 623, relating to the State of Wisconsin Investment Board (SWIB), passed both houses. It will now go to the Governor for his signature.

WISCONSIN RETIREMENT SYSTEM 25th ANNUAL ACTUARIAL VALUATION OF RETIRED LIVES – DECEMBER 31, 2007

Brian Murphy and Mark Buis of Gabriel, Roeder, Smith & Company, actuaries for the Department, presented their report, *Wisconsin Retirement System: 25th Annual Actuarial Valuation of Retired Lives, December 31, 2007*, to the Boards. Mr. Murphy discussed the Core and Variable annuity reserves and the methodology used to calculate increases and decreases. He pointed out that the

number of annuitants does not factor into the actual calculation of dividends. Mr. Murphy explained smoothing mechanisms that are used for the Core fund, spreading gains and losses over five year's time.

Mr. Buis discussed Core and Variable participant numbers, payment amounts, and fund balances. He explained the process of how the dividends for Core and adjustments for Variable funds are determined.

Mr. Buis and Mr. Murphy answered questions from the Board members.

WISCONSIN RETIREMENT SYSTEM FIFTY YEAR EXPERIENCE PROJECTION STUDY

Mr. Murphy and Mr. Buis discussed the *Wisconsin Retirement System Fifty Year Experience Projection Study* with the Boards. Mr. Murphy explained that this report was presented to the SWIB members in the fall of 2007. This study assesses asset allocation decisions so that SWIB can maximize return and minimize volatility in the portfolio, and meet the actuarial requirements for funding the system. He noted that this study is not a prediction but a projection using certain assumptions. The report examines the WRS over the next fifty years, looking at annual financial goals and a plan for how to reach those goals. Mr. Murphy discussed possible emerging patterns and economic factors that could potentially impact the fund.

Mr. Buis covered the demographic changes expected over the ensuing fifty-year period for both retiree members as well as active members in the WRS.

EFFECTIVE RATE AND DIVIDEND PROJECTIONS

John Vincent and Jerry Dietzel discussed the effective rate and dividend projections with the Board members. Mr. Vincent discussed the Core effective rate calculation and projections of dividends for the next several years. He explained the purpose of the Market Recognition Account (MRA), in which the gains and losses are spread out over five years, which creates a smoothing effect. He mentioned that 2007 was the last year in which losses from 2002 were recognized and figured into the calculation of dividends. This year, due to a positive dividend, we have five positive years of smoothing. Mr. Vincent provided numerous scenarios to the Boards depicting the dividends that would likely be paid depending upon the various possible investment returns.

EDUCATIONAL TOPIC

Fiduciary Responsibilities Rob Weber provided a presentation on fiduciary responsibilities of Board members. Mr. Weber explained how the Board members are appointed and/or elected to the Boards. Mr. Weber described the primary responsibilities of fiduciaries, which include prudence, loyalty, and management of conflict of interest. He also discussed liability issues and possible outcomes of those issues.

MISCELLANEOUS

Pending Appeals Report Ms. King directed the Boards to an updated report on pending appeals. She noted that there are currently 28 appeals pending.

Employer Program Participation Ms. King referred the Board to the memo from Michelle Baxter outlining employer coverage changes within the WRS, for December 2007-March 2008.

Post Retirement Employment A memo was provided to the Board members regarding the topic of retirees who return to work. Ms. King noted that the memo explains some of the related rules and regulations to consider with this topic.

Future Topics for Discussion Ms. King requested future topics for discussion. The Boards expressed interest in continuing discussions on the variable fund.

EDUCATIONAL TOPIC

Anne Boudreau introduced two Department staff from the Division of Retirement Services, Roy Raush and Kathryn Fields.

Department Information Sessions Roy Raush works as a Trust Funds Specialist-Advanced. He presented information to the Boards regarding informational one-on-one sessions that the Department offers to members planning for retirement. Retirement applications, benefit estimates, and general processes are discussed during these sessions. Mr. Raush answered questions from the Board members throughout his presentation.

Video Library Overview Kathryn Fields, a Trust Funds Specialist-Advanced, presented the Boards with an overview of the Department video library website. Ms. Fields explained that her handout provided information on how to locate the website along with a list of the current presentations available. She noted that outlines and slides were also available for each of the presentations on the site as well.

STATE OF WISCONSIN INVESTMENT BOARD UPDATE

Keith Bozarth, Executive Director, and David Villa, Chief Investment Officer, from the State of Wisconsin Investment Board (SWIB), presented an update to the Board members. Mr. Bozarth discussed the investment performance of the Core and Variable funds. He described the current conditions of the stock market. SWIB plans in a long-term manner in order to maintain stable performance. Historical returns for the last ten years show that SWIB was behind its benchmark only once. Mr. Bozarth discussed SWIB's strategic objectives for 2008.

Mr. Villa explained some of the major events that have affected the market in 2007. He described other occurrences that have temporarily impacted the markets in the past. Mr. Villa noted that diversity in the portfolio and the use of preventative measures allow SWIB to expect a return of 8.3% on average each year.

Mr. Bozarth updated the Board members on SB 351 regarding the prudent investor standard. He reported that this bill passed in the legislature and is awaiting the Governor's signature. He also noted that SWIB has begun hiring for the recently approved additional staff positions and that the process is going well.

ADJOURNMENT

Motion: Ms. Von Ruden moved adjournment. Ms. Rasmus seconded the motion, which passed without objection on a voice vote.

The Joint Informational Meeting adjourned at 12:18 p.m.

Date Approved: _____

Signed: _____

Rick Gale, Secretary
Wisconsin Retirement Board