

**MINUTES OF MARCH 10, 2011, MEETING  
STATE OF WISCONSIN  
JOINT INFORMATIONAL MEETING  
TEACHERS RETIREMENT, WISCONSIN RETIREMENT,  
AND EMPLOYEE TRUST FUNDS BOARDS**

<b>DRAFT</b>
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Holiday Inn Hotel and Suites, Conference Rooms A & B  
1109 Fourier Drive, Madison, WI

**BOARD MEMBERS PRESENT:**

Jamie Aulik, WR Board John David, WR & ETF Boards Susan Harrison, TR Board Wayne Koessl, Chair, WR & ETF Boards Michael Langyel, ETF & TR Boards Mary Jo Meier, TR Board Lon Mishler, Chair, TR Board Ted Nickel, WR Board Robert Niendorf, ETF Board	Tom Pedersen, TR Board Patrick Phair, TR Board Roberta Rasmus, TR Board Steve Scheible, TR Board Robin Starck, TR Board Herbert Stinski, WR Board Mary Von Ruden, ETF & WR Boards David Wiltgen, TR Board Michael Woodzicka, WR Board
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**BOARD MEMBERS NOT PRESENT:**

Sandra Claflin-Chalton, TR Board Rosemary Finora, ETF Board Theron Fisher, ETF Board Greg Gracz, ETF Board	Betsy Kippers, TR Board Kathy Kreul, ETF Board Wayne McCaffery, TR Board Dan Nerad, TR & ETF Boards
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**PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:**

Dave Stella, Secretary Bob Conlin, Deputy Secretary Anne Boudreau, Shawn Smith, Division of Retirement Services Cindy Gilles, Board Liaison	Jerry Dietzel, Office of Budget and Trust Finance Sari King, Matt Stohr, Office of Communications and Legislation Steve Hurley, Linda Owen, Office of Policy, Privacy and Compliance
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Board	Mtg Date	Item #
Jl	6.23.11	1

**OTHERS PRESENT:**

ETF Office of the Secretary: Rhonda Dunn, David Nispel, Sharon Walk ETF Division of Insurance Services: Lisa Ellinger ETF Division of Management Services: Pam Henning ETF Office of Budget and Trust Finance: Jon Kranz ETF Office of Internal Audit: John Vincent ETF Office of Communications and Legislation: Nancy Ketterhagen ETF Office of Policy, Privacy and Compliance: Lucas Strelow Department of Administration: Caitlin Frederick	Gabriel, Roeder, Smith (GRS) & Co.: Mark Buis, Norm Jones Legislative Audit Bureau: Brian Belford, Brian Geib State Engineering Association: Bob Schaefer State of Wisconsin Investment Board (SWIB): Keith Bozarth, Sandy Drew, Bill Ford UW System: Sue Chamberlain Wisconsin Law Enforcement Officers Association: Dan Hayes Wisconsin Retired Educators' Association: Jane Elmer, Jim Skiles Terry Rhodes
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Wayne Koessl, Vice-Chair, Employee Trust Funds (ETF) and Wisconsin Retirement (WR) Boards, called the meeting to order at 8:30 a.m.

**CONSIDERATION OF MINUTES OF PREVIOUS MEETING**

***MOTION: Ms. Rasmus moved approval of the minutes of the December 2, 2010, Joint Informational meeting as submitted by the Board Liaison. Ms. Von Ruden seconded the motion, which passed without objection on a voice vote.***

**ANNOUNCEMENTS**

Bob Conlin, Deputy Secretary, shared that there would likely be many questions regarding the Budget Adjustment Bill and the Biennial Budget Bill and how it affects the Wisconsin Retirement System (WRS). The preference would be to move through the agenda and get to the Legislative and Retirement Services updates, where these questions will be addressed.

Sari King, Office of Communications and Legislation, made the following announcements:

- Welcomed new WR Board member, Ted Nickel, head of the Office of the Commissioner of Insurance.
- Stated that Greg Gracz, Director of the Office of State Employment Relations, will join the ETF Board.
- Advised the Boards that Patrick Phair and Robin Starck were re-elected to the Teacher Retirement Board (TR) for another four years.

- Noted that Bill Ford was elected to the ETF Board and will attend his first meeting on June 23, 2011.
- Indicated there will be a spring election for the Educational Support Personnel seat on the ETF Board. An announcement of the winner will be made at the June meeting.

Susan Harrison, TR Board, commended the ETF staff for all of their hard work and dedication during these stressful times. Mr. Koessler added how much he appreciates the work being done by the ETF staff as well under such demanding times.

## **EDUCATIONAL TOPICS**

**Educational Topics Survey Results** Mr. Conlin shared with the Boards that the response from the September survey seeking potential educational topics for the Joint Informational (JI) meeting have been tabulated (ref. JI | 3.10.11 | 3A). The Department is developing a schedule of the topics to be presented at future JI meetings.

**Wisconsin Retirement System 28<sup>th</sup> Annual Valuation of Retired Lives – December 31, 2010** Mr. Koessler introduced Brian Murphy and Mark Buis of Gabriel, Roeder, Smith & Co. (GRS), who provided a slide presentation in conjunction with the report, *Wisconsin Retirement System 28<sup>th</sup> Annual Actuarial Valuation of Retired Lives December 31, 2010* (ref. JI | 3.10.11 | 3B). They discussed the Core and Variable annuity reserves, the methodology used to calculate increases and decreases, and Core and Variable participant numbers, payment amounts, and fund balances. In addition, they explained how Core and Variable Fund annuity adjustments are determined.

Annuity Comparison:	Core Fund	Variable Fund
28-Year:	4.7%	4.3%
10-Year:	1.3%	-2.9%

Looking ahead:

- Negative dividends will likely continue in the near term, due to prior investment losses.
- Even with 2008 market losses, the Core Fund achieved its long-term investment objective and dividends have averaged over 4.0% the last 28 years.

**Core Fund Annuity Adjustment Projection** Jerry Dietzel, Office of Budget and Trust Finance, presented the annuity projections (ref. JI | 3.10.11 | 3C) to the Board members.

### **Assumptions:**

- Projections are based on 2010 actual Core Trust Fund investment returns and includes 2006-2009 data from the 2010 Market Recognition Account.

- Dividends are paid if the annuity reserve surplus provides at least a 0.5% increase, and annuities will be reduced if the annuity reserve shortfall would require at least a -.5% adjustment.
- A Core Fund annuity cannot be reduced below the original value, which is roughly a 0.3% adjustment.
- 0.4% per year is reserved for improvement and other actuarial adjustments.

#### **Market Recognition Account (MRA):**

- The MRA recognizes long-term gains and losses and mitigates short-term fluctuations in capital markets.
- The assumed rate of investment gains is equal to 7.8%.
- Gains and losses are spread out over five years creating a smoothing effect.

#### **Annuity Projections for 2011:**

- A 7.8% investment return will result in an adjustment between -2.5% and -2.9%.
- A 0% investment return will result in an adjustment between -3.9% and -4.3%.
- A 17.2% to 19.2% investment return is needed to avoid a negative adjustment.
- Above average returns will be needed for the next two years to avoid negative annuity adjustments.
- A 23.0% to 24.8% investment return is needed to pay a positive annuity adjustment.

**State of Wisconsin Investment Board Update** Mr. Koessl introduced Keith Bozarth, Executive Director of the State of Wisconsin Investment Board (SWIB). Prior to beginning the SWIB update (ref. JI | 3.10.11 | 3D), Mr. Bozarth had the following announcements:

- Similar to most WRS members, SWIB employees will be affected by the additional retirement and health insurance contributions in the 2009-2011 Budget Repair Bill.
- Sandy Drew, SWIB Legislative Liaison, will be retiring in July 2011.
- Bill Ford will take over Sandy's work with the Legislature at SWIB.

#### **Core Fund Analysis 2010:**

- The Core Fund benchmark was 12.2% and the actual returns were 12.4%, exceeding the benchmark.
- The real estate portfolio began to turn around in the fourth quarter and hopefully will continue in 2011.
- The private equity portfolio had a good year with the actual return being 16.3%, ahead of the benchmark of 14.1%. Allocation effects came in with an allocation drift of -0.21% and a benchmark misfit of +0.10%.

### **Variable Fund Analysis 2010:**

- The Variable Fund returned 15.6%, outperforming the benchmark of 15.3%.
- Allocation effects came in with an allocation drift of -0.07% and a benchmark misfit of +0.11%.

### **Updates:**

- SWIB is slowly building a hedge fund portfolio. Two hedge funds have been funded to date and the goal is to have 15, but SWIB is being very selective and demanding in their contractual terms.
- Nothing has been done internally with respect to implementation of a risk parity portfolio. The entry point is not optimal, but SWIB has funded a couple of external managers.

**Reserve Transfer Loss Study** Mr. Conlin referred the Boards to the February 24, 2011, memo and the November 16, 2010, letter from GRS (ref. JI | 3.10.11 | 3E).

The Board took a break from 9:50 a.m. to 10:03 a.m.

**Rehired Annuitant Follow-up** Shawn Smith, Division of Retirement Services, presented a follow-up to her presentation on rehired annuitants (ref. JI | 3.10.11 | 3F) at the December 2010 JI meeting.

Administrative data came from 5,729 members who terminated employment between January 2005 and December 2010, and who submitted a *Rehired Annuitant Election Form*. A random survey was sent to 200 of the 5,729 rehired annuitants, with 115 responding (58% response rate).

#### Administrative Data

- Demographics: 55% are female and 45% are male with 94% being under the age of 70.
- Employers: 95% of rehired annuitants retired in the last 10 years and of the 5,729 annuitants, 524 employers hired them. Fifty percent of these were school districts.
- Wages: Fifty-six percent (3,225) of the annuitants had a final average earning (FAE) at termination of \$1,000-\$4,999 and 42% (2,390) had a FAE of \$5,000 - \$9,999.

#### Survey Data

- Reasons for Returning to Work: The single most important reason (39% of respondents) was they were needed by their employer based on their skills and experience. More than 60% indicated a non-monetary reason.

- Re-employment Indicators:
  - Eighty-four percent returned to work for the same employer they worked for prior to retirement or they had the same kind of job.
  - Approximately one-quarter of the respondents were substitute teachers.
  - About one-half work regularly scheduled hours with the other half more sporadically. Of those, 22% work full-time (35 hrs/week or more).
  - Returning to work may or may not be long term – 54% had stopped working by the time they were surveyed.
  
- Earnings: Most rehired annuitants earned less than \$3,000 per month.

Status Update:

- A statement of scope is being worked on for potential rule changes under Admin. Code 10.08.
- Employer training has increased and training specific to rehired annuitants has been developed.
- New investigations are initiated, when appropriate.

## **ADMINISTRATIVE RULE CHANGES**

Linda Owen, Office of Policy, Privacy and Compliance, shared with the Boards that she will ask each Board to approve the final versions of two proposed rules.

*Clearinghouse Rule #10-137 – Relating to Changes Made to ETF 20.055 Regarding Spousal and Domestic Partner Consent* (ref. JI | 3.10.11 | 4A). There are two reasons for this rule amendment: 1) to eliminate certain restrictions in waiving spousal/domestic partner requirement in order to bring it more in-line with statutory authority; and, 2) amend the rule to incorporate the statutory changes regarding domestic partners.

*Clearinghouse Rule #10-138 – Relating to Changes Made to Ch. 244, Stats. by 2009 Wisconsin Act 319 Regarding Power of Attorney* (ref. JI | 3.10.11 | 4B). This rule is necessary to bring the rule into harmony with the statutory changes regarding uniform power of attorney and to add provisions related to the domestic partner statutes.

Neither of these have substantial changes. They are basically to clarify the rules further.

## OPERATIONAL UPDATES

**Legislative and Communications Update** Matt Stohr, Office of Communications and Legislation, provided an update on legislative and communication issues. This legislative session began in January and will conclude in April or May of 2012. A Special Session has also been convened.

### Legislative Update

**2009-2011 Budget Repair Bill (Special Session Assembly Bill (SSAB) 11 and Special Session Senate Bill (SSSB) 11)** These bills were introduced on February 11, 2011, and slightly amended by the Joint Committee on Finance and passed by the State Assembly. The Budget Repair Bill is currently in the State Senate. On March 17, 2011, both houses of the Legislature created a Conference Committee to take up Conference Committee Substitute Amendment 1 to the Budget Repair Bill which includes all non-fiscal items. The State Senate passed the Substitute Amendment Bill 18-1 last night (March 9) and the Assembly is due to vote on it at 11:00 a.m. today (March 11).

The provisions that relate to ETF are included in that Substitute Amendment except the \$28 million health insurance and pharmacy benefit reserve reallocation by the ETF Secretary and the appropriation related to the Audit of Dependents in the group health insurance program.

Some of the Budget Repair Bill highlights include:

- One-half of the overall contributions to the WRS will be paid by general category employees. In 2011, the overall rate is 11.6% so half of this would be 5.8% of an employee's salary. For elected and executive categories, the contribution rate is 13.3% of their salary in 2011, so half of that would be 6.65%. Protective occupational employees (both with and without social security) will pay comparable amounts of general category which is 5.8% in 2011. Contribution rates can fluctuate on a yearly basis based on investment performance.
- Limited term employees were excluded from coverage in the WRS in the original bill, but this provision was removed by the Joint Committee on Finance.
- The multiplier for the executive and elected category for post 2000 service is 2%, but has been changed to 1.6% going forward.
- The Department of Administration, the Office of State Employment Relations and ETF were assigned to study the structure and benefits of the WRS. The Joint Finance version of the bill included a provision stating that this study needs to be reviewed by the Joint Finance Committee. The study needs to be concluded by June 30, 2012 and submitted to the Governor at that time as well. This study was not included in the Substitute Amendment but may be included in a future Budget Repair Bill that covers the items that were not included in Substitute Amendment.

Items not included in the Bill, but that were rumored to be in the Bill:

- There is no provision to privatize SWIB, privatize ETF or disband the Board.
- There is no provision that would prohibit any employer from picking up any of the health insurance premiums or retirement contributions for their employees.

What impact has the Budget Repair Bill had on ETF?

- Typically, ETF receives about 1,500 calls per day and in recent days the call center has received almost 6,000 calls per day.
- ETF's online videos normally have about 2,000 views per month – there were over 5,000 last week alone.
- There are many new media contacts on a daily basis, so a “Frequently Asked Question” document was developed (ref. JI | 3.10.11 | 5A) and placed on our website.
- Changes have been made to the ETF website to help members navigate and find the information they need (i.e., “How to Retire on Short Notice” document).
- An e-mail update service has been developed so that members can enter their e-mail address and sign-up to receive material according to subject matter any time it is updated. Currently, about 6,000 members have subscribed to this service.

**Special Session Senate Bill 8 and Special Session Assembly Bill 8** These pertain to Administrative Rules and require agencies to send the Scope Statement and the final version of the Administrative Rule to the Governor for review before sending it to the Reference Bureau for publication. It would also require agencies to prepare an Economic Impact Analysis rather than a report on the impact of the Administrative Rule.

**SS Senate Bill 6 and SS Assembly Bill 6** These bills changed the Wisconsin Department of Commerce from a state agency to a public authority (Wisconsin Economic Development Corporation) for purposes of Chapter 40.

**Senate Bill 22** This bill would create a Charter School Authorizing Board which would have the authority to contract for independent charter schools. Under the bill, each of the schools would participate in the WRS and would also be eligible for the public employer group health insurance program administered by ETF.

**Senate Bill 27 and Assembly Bill 40** These are the biennial budget bills for July 1, 2011 – June 30, 2013.



## Communication Updates

- Press releases were sent out for effective rates, which were announced in February. The effective rate for the Core Fund is 4.8% and the Variable Fund is 16%. The annuity adjustments for the Core Fund will be -1.2% and 11% for the Variable Fund.
- The *WRS News* was published in January. This is a joint effort between ETF and SWIB. Thus far, there have been very positive comments regarding the new format.

**Retirement Statistics** Anne Boudreau, Division of Retirement Services, highlighted some statistics (ref. JI | 3.10.11 | 5D - PowerPoint) from the last quarter (October – December, 2010) with Board members.

## Member Contacts

- There were over 35,000 calls received on the main member line.
- E-mail has increased significantly, from about 25-35 per day to about 200 per day.
- Group sessions in Madison increased from 4 per week (8-12 members plus guests) to 11 per week (25 members plus guests).
- Appointments are being booked about three times faster than normal with walk-in traffic up four times greater than normal. An average number of walk-ins per day are typically 14 and currently it is about 60-65 per day for several weeks without turning anyone away.
- Tax withholding changes are up about 40%, due to the changes in the tax table.

## Variable at Core Project Update

- The Variable at Core special project has been completed. With the Benefit Payment System, approximately 32,000 annuitants who participate in the Variable Fund can now monitor their “variable at core” balance each year.

## Retirement Estimates

- To date, comparing the first nine weeks to last year, the number of retirement estimate requests is up 96.6%.
- In week nine of 2010, the Department received 467 retirement estimate requests and in week nine of this year we received 1,860 – a significant increase.
- Over all of 2010, there were 385 retirements estimates produced per week. Currently, staff is producing over 900 estimates per week and yet they are still not keeping up.
- Retirement applications are also up 58.1% compared to the same timeframe as last year.

Mr. Conlin shared with the Boards that in order to deal with the workload, the Department is trying to reallocate resources to allow for some overtime and extra hours to be able to stay on top of the these needs and provide members their benefits on time. In addition, the Department will be filing a request for supplemental funding (13.10) with the Joint Finance Committee to take into account the additional expenditures.

Also, typically when work like this increases so do the number of appeals, so the Department will want to stay on top of those cases should that happen.

Ms. King referred the Board members to the remaining informational memos in their Board binders.

### **FUTURE ITEMS FOR DISCUSSION**

No future items for discussion were mentioned.

### **ADJOURNMENT**

***MOTION: Mr. Scheible moved to adjourn the meeting. Mr. David seconded the motion which passed without objection on a voice vote.***

The Joint Informational meeting adjourned at 11:30 a.m.

Date Approved: \_\_\_\_\_

Signed: \_\_\_\_\_

Mary Von Ruden, Secretary  
Wisconsin Retirement Board