

**MINUTES OF JUNE 23, 2011, MEETING
STATE OF WISCONSIN
JOINT INFORMATIONAL MEETING
TEACHERS RETIREMENT, WISCONSIN RETIREMENT,
AND EMPLOYEE TRUST FUNDS BOARDS**

DRAFT

Holiday Inn Hotel and Suites, Conference Rooms A & B
1109 Fourier Drive, Madison, WI

BOARD MEMBERS PRESENT:

Jamie Aulik, WR Board Sandra Claflin-Chalton, TR Board John David, WR & ETF Boards William Ford, ETF Board Betsy Kippers, TR Board Wayne Koessl, Chair, WR & ETF Boards Kathy Kreul, ETF Board Michael Langyel, ETF & TR Boards Jon Litscher, ETF Board Lon Mishler, Chair, TR Board Dan Nerad, TR & ETF Boards	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 Steven Wilding, WR Board David Wiltgen, TR Board
---	--

BOARD MEMBERS NOT PRESENT:

Susan Harrison, TR Board Mary Jo Meier, TR Board	Ted Nickel, WR Board Jessica O'Donnell, ETF Board
---	--

PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:

Dave Stella, Secretary Bob Conlin, Deputy Secretary Anne Boudreau, Shelly Schueller, Matt Stohr, Division of Retirement Services Cindy Gilles, Board Liaison	Jerry Dietzel, Office of Budget and Trust Finance Sari King, Shawn Smith, Office of Communications and Legislation Steve Hurley, Linda Owen, Office of Policy, Privacy and Compliance
---	--

OTHERS PRESENT:

ETF Office of the Secretary: Rhonda Dunn, Sharon Walk ETF Office of Budget and Trust Finance: Jon Kranz, Bob Willett ETF Office of Internal Audit: John Vincent ETF Office of Communications and	Gabriel, Roeder, Smith (GRS) & Co.: Mark Buis, Brian Murphy Great-West Retirement Services: Sue Oelke Legislative Audit Bureau: Brian Belford, Brian Geib
---	--

Legislation: Nancy Ketterhagen ETF Office of Policy, Privacy and Compliance: Lucas Strelow ETF Division of Retirement Services: Diana Felsmann	Legislative Fiscal Bureau: Art Zimmerman State of Wisconsin Investment Board (SWIB): Sandy Drew UW System: Sue Chamberlain
--	---

Lon Mishler, Chair of the Teachers Retirement (TR) Board, called the meeting to order at 8:32 a.m.

CONSIDERATION OF MINUTES OF PREVIOUS MEETING

MOTION: Ms. Von Ruden moved approval of the minutes of the March 10, 2011, Joint Informational meeting as submitted by the Board Liaison. Mr. Scheible seconded the motion, which passed without objection on a voice vote.

ANNOUNCEMENTS

Ms. King welcomed and introduced the following new board members:

- Bill Ford has been elected to fill the Wisconsin Retirement System (WRS) annuitant seat on the ETF Board;
- Jon Litscher has been appointed by the governor as the Group Insurance Board designee on the ETF Board;
- David Wiltgen has been selected by the TR Board as the representative on the ETF Board; and
- Steven Wilding has been appointed by the governor to the WR Board.

Mr. Stella recognized Kathy Kreul, who is stepping down after serving eight years on the ETF Board. He presented her with a plaque in recognition of her service to the WRS and public employees of the state of Wisconsin. Ms. Kreul thanked the Board members for the privilege of working with them and acknowledged the hard work and expertise of ETF staff.

Mr. Stella also recognized Wayne McCaffery, who was not able to attend today's meeting. He noted that Mr. McCaffery served on the TR Board from May 1989 until May 2009. He also served on the ETF Board between May 1999 and May 2011. Mr. McCaffery was chair of the TR Board for twenty years. A plaque signed by TR Board Chair Lon Mishler will be presented to Mr. McCaffery at a later date.

EDUCATIONAL TOPICS

Actuarial Basics

Brian Murphy and Mark Buis, actuaries with Gabriel, Roeder, Smith & Co. (GRS), provided the Boards with an overview of different types of retirement plans, actuarial mathematics, cost methods, measurements of assets and a summary of the WRS active valuation (ref. JI | 6.23.11 | 4).

Mr. Murphy explained that a pure defined benefit plan is a benefit determined by a formula, whereas a pure defined contribution plan is a plan where a stated percent of earnings is put into an account each year. He noted the WRS is a hybrid plan in which employers and employees share the risks.

The four components of an actuarial valuation include: present value of future benefits; accrued actuarial liability; normal cost; and present value of future normal costs. The actuarial cost method determines the allocation of cost between the past and the future.

Mr. Buis reviewed the measurement of assets. He noted the WRS uses a smoothing method known as the Market Recognition Account (MRA). Gains and losses are smoothed out over five years to control volatility.

Mr. Buis directed the Board to the chart in their binders (ref. JI | 6.23.11 | 4 | p 37), noting that the total normal cost for general participants increased from 11.6% in 2011 to 11.8% in 2012. For executives and elected officials, the rate increased from 13.3% to 14.1%. Mr. Buis explained the increase was due partly to continuing to phase in asset losses from 2008. The total normal cost is comprised of the employer normal cost, the participant normal cost, and the benefit adjustment contribution.

Mr. Buis summed up the valuation, highlighting the following information:

- The normal cost rate increased for all groups, due to phase-in of the losses from 2008. There are two more years to phase in this loss.
- The change in economic assumptions (the interest rate change from 7.8% to 7.2% and the wage inflation rate from 4% to 3.2%) were essentially cost-neutral.
- There will be upward pressure on contribution rates in the next two years, until the 2008 losses are fully phased in.
- It is important to note that results are based on benefit provisions in effect on December 31, 2010, and do not include the Budget Repair Bill provisions (Act 10) or the biennial budget bill provisions (Act 32).

WISCONSIN DEFERRED COMPENSATION PROGRAM OVERVIEW

Shelly Schueller, Director of the Wisconsin Deferred Compensation (WDC) program, highlighted several aspects of the section 457 deferred compensation plan administered by the Department.

The WDC was established in 1982 and, initially, the Employee Trust Funds (ETF) Board had oversight of the program. There were five initial participant enrollments; the program has since grown to 50,000 members. No state funds are used for the administration of the program.

In 1989, the Deferred Compensation (DC) Board was created. The DC Board has oversight responsibilities for the program. There are five members on the DC Board, all appointed by the Governor and confirmed by the Senate. The Board selects and monitors investment fund options and creates a written investment policy statement, which outlines the minimum criteria for inclusion of a fund, the mutual fund and fixed fund selection process, how funds are monitored, an annual evaluation, and the removal process for a fund.

Ms. Schueller noted the steady growth in the number of employers and participants. As of December 2010, there were 850 employers; the program's 50,974 participants deferred a total of \$157.98 million during 2010. The fund's assets are \$2.637 billion.

Ms. Schueller directed the Board to the pie charts in their binders (ref. JI | 6.23.11 | 4C), which show the usage of the program by local vs. state employees. She noted that 10% of local employees in Wisconsin and 42% of state employees are enrolled.

The participant fees for deferred compensation are used for various investment fund operating expenses.

Ms. Schueller highlighted some of the features of the WDC:

- No minimum deferral amount.
- Participants can change their deferral amount and/or which investment option they use at any time.
- Easy-to-use online account rebalance.
- Dollar cost average.
- Managed account service or "Reality Investing".

Approximately 15,000 members use the target retirement date (lifecycle) funds. These are designed to be "set it and forget it" type funds, and are very popular with new members.

WDC participant services include eleven local field staff, quarterly statements in the mail or online, a WDC website with online account access (www.wdc457.org), and a toll-free call center based in Glendale, Wisconsin (877-457-WDCP (9327)).

OPERATIONS UPDATE

LEGISLATION AND COMMUNICATIONS UPDATE

Sari King introduced Shawn Smith, the new Director of the Office of Communications and Legislation.

Legislation Update

Ms. Smith explained that Wisconsin Act (Act) 10, often referred to as the “collective bargaining bill”, will become effective on June 29, 2011. Ms. Smith highlighted some of the provisions in the law. Act 10:

- With a few exceptions, prohibits any employer from paying the employee’s share of the WRS contribution;
- Specifies the employee’s share of the contribution will be equal to one half of the contributions actuarially required;
- Eliminates the benefit adjustment contribution; and,
- Reduces the formula factor multiplier to 1.6% for the elected/executive employment category.

Ms. Smith also discussed the biennial budget bill (AB 40/SB 27). The budget bill implements a five-year vesting requirement to receive full WRS benefits. Ms. Smith noted Secretary Stella submitted a letter to the Joint Survey Committee on Retirement Systems asking for an actuarial study of vesting, and the committee agreed to such a study. However, the study will not be completed prior to the implementation of the budget bill.

The budget bill also changes the eligibility requirement for joining the WRS from one-third of full time to two-thirds of full time. Finally, Ms. Smith noted that, under this budget, all employee contributions to the WRS will be on a pre-tax basis.

Ms. Smith said the Department intends to seek legislation during the fall session calling for technical modifications to the statutes that would ease program administration and add conforming language to implement the HEART (Heroes Earnings Assistance and Relief Tax) Act. The Board will be apprised of progress on these proposals as they develop.

Communications Update

Ms. Smith referred the Board to the memorandum in their binders (ref. JI | 6.23.11 | 5A) regarding the development and use of a comprehensive Frequently Asked Questions (FAQ) document and Mediasite videos that help explain the provisions in Acts 10 and 32.

WISCONSIN RETIREMENT SYSTEM BENEFIT INFORMATION

Anne Boudreau, Deputy Administrator of the Division of Retirement Services, referred the Board to the memorandum and charts in their binders (ref. JI | 6.23.11 | 5B).

Ms. Boudreau highlighted the following for the Boards:

- There was a 54% increase in the number of telephone calls made to the main call center phone line in the first quarter of 2011;
- Attendance at retirement sessions has increased, up 256% from the same quarter last year;
- During the first quarter of 2011, there were more than 5,000 member requests for updates to their account information;
- As of June 23, 2011, 12,229 retirements applications have been filed, compared to 11,750 for all of 2010.

To address service demands, call center hours have been expanded and will be permanent. The call center will take calls from 7:00 a.m. to 5:00 p.m., Monday through Friday. Building hours will remain unchanged at 7:45 a.m. to 4:30 p.m., however.

Mr. Mishler, on behalf of all the Board members, thanked the staff for their hard work.

Ms. King directed the Boards' attention to two informational memorandums in their binders, one on administrative rules and one on legal cases (ref. JI | 6.23.11 | 5D).

FUTURE ITEMS FOR DISCUSSION

Mr. Wiltgen stated that he had been contacted by several WRS participants who were concerned about the risky nature of some of the State of Wisconsin Investment Board holdings.

Mr. Phair asked for an update on whether the Variable Fund would remain as an option for members.

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