

**MINUTES OF SEPTEMBER 15, 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 Claffin-Chalton, TR Board John David, WR & ETF Boards William Ford, ETF Board Kimberly Hall, ETF Board Susan Harrison, TR Board Betsy Kippers, TR Board Wayne Koessler, Chair, WR & ETF Boards Michael Langyel, ETF & TR Boards Jon Litscher, ETF Board Mary Jo Meier, TR Board Lon Mishler, Chair, TR Board	Ted Nickel, WR Board Robert Niendorf, ETF Board Jessica O'Donnell, 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
--	--

BOARD MEMBERS NOT PRESENT:

Dan Nerad, TR & ETF Boards	Steven Wilding, WR Board
----------------------------	--------------------------

PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:

Dave Stella, Secretary Bob Conlin, Deputy Secretary Anne Boudreau, Division of Retirement Services Lisa Ellinger, Division of Insurance Services	Sari King, Shawn Smith, Office of Communications and Legislation David Nispel, Office of the Secretary Sharon Walk, Board Liaison
---	---

OTHERS PRESENT:

ETF Office of the Secretary: Rhonda Dunn, Robin Reinke ETF Division of Retirement Services: Matt Stohr ETF Office of Budget and Trust Finance: Jerry Dietzel, Jon Kranz, Bob Willett ETF Office of Internal Audit: John Vincent ETF Office of Communications and Legislation: Nancy Ketterhagen	ETF Office of Policy, Privacy and Compliance: Steve Hurley, Lucas Strelow Gabriel, Roeder, Smith (GRS) & Co.: Norm Jones, Brian Murphy Legislative Audit Bureau: Diann Allsen, Brian Belford, Brandon Brickner State Engineering Association: Bob Schaefer State of Wisconsin Investment Board: Keith Bozarth, Vicki Hearing UW System: Sue Chamberlain
---	--

Board	Mtg Date	Item #
Jl	12.1.11	1

Wayne Koessl, Chair of the Wisconsin Retirement (WR) and Employee Trust Funds (ETF) Boards called the meeting to order at 8:37 a.m.

CONSIDERATION OF MINUTES OF PREVIOUS MEETING

MOTION: Ms. Von Ruden moved approval of the minutes of the June 23, 2011, Joint Informational meeting as submitted by the Board Liaison. Mr. Aulik seconded the motion, which passed without objection on a voice vote.

ANNOUNCEMENTS

Sari King, Office of Communications and Legislation, announced the terms of Teachers Retirement (TR) Board members Steve Scheible and David Wiltgen will expire in May, 2012. The due date for filing nomination papers is November 4, 2011.

Ms. King welcomed new ETF Board member, Kimberly Hall. Ms. Hall is the Educational Support Personnel member of the Board.

EDUCATIONAL TOPICS

Ethics and Fiduciary Duty

David Nispel, General Counsel, reviewed the ethics and fiduciary duties of a Board member (Ref. JI | 9.15.11 | 3A). Mr. Nispel noted the Wisconsin Retirement System (WRS) is governed by Wisconsin Statutes Chapter 40. Section 40.03 describes the duties of each Board. He reminded Board members that, while they may be teachers, elected officials, state employees, etc., the fiduciary duty of a Board member is to the members and beneficiaries of the WRS, not to specific groups. Mr. Nispel referred the Boards to the selected statutory responsibilities on pages 10-14 of the memo for study and reference. Bob Conlin, Deputy Secretary, noted that many fiduciary answers can be found in the Governance Manual and that a video of Mr. Nispel's presentation is available online.

State of Wisconsin Investment Board (SWIB) Update

Keith Bozarth, Executive Director of the State of Wisconsin Investment Board (SWIB), provided an update on the year-to-date investment performance of the Core Fund. As of August 31, 2011, the Core Fund had a return of 1.9%. The Core benchmark is 1.5%. Mr. Bozarth discussed the year-to-date return for each asset class within the Core Fund.

Mr. Bozarth also discussed internal versus external asset management. In a recent legislative session, SWIB was given the ability to manage more assets internally. Internal management represents 14% of total costs while the cost of external management is 86% of total costs. He said that one reason for external management's large portion of total costs is that some asset classes are more expensive to manage (i.e., real estate, private equity).

Mr. Bozarth announced that he would be retiring within the next year. He will remain at SWIB during the transition period. He expressed his pleasure in working with the Retirement Boards. On behalf of all Board members and staff, Secretary Stella expressed his appreciation for the excellent work Mr. Bozarth has done and will continue to do until his departure.

Actuarial Audit

Ms. Allsen introduced Kim Nicholl, Senior Vice President and Actuary, of Segal Company. Ms. Nicholl referred the Board members to the document in their binders (Ref. JI | 9.15.11 | 3C). She explained the audit is a limited-scope audit, which provides validation that the liabilities and costs of the Fund are reasonable and being calculated as intended. There are three main components in the report: to be sure the report complies with actuarial standards, to determine if all required disclosures and information are included, and to comment on the report as an independent third party.

Segal found that programming and valuation of the liability is consistent with the WRS' administration of the benefits. The firm offered several recommendations to improve the consulting actuary's annual actuarial valuations, including working with ETF to improve the presentation of asset information, expanding the description of the actuarial cost method, and applying an assumption related to optional forms of payment elected by some members who retire after a certain age.

Mr. Conlin thanked Ms. Nicholl and her staff for the work on the audit. He reminded the Boards that the full report as well as the actuary's and ETF's responses were in their binders (ref. JI | 9.15.11 | 3C).

GAIN/LOSS ANALYSIS

Chair Koessl introduced Norm Jones and Brian Murphy, of Gabriel, Roeder, Smith & Co., the retirement boards' actuaries. Mr. Jones referred the Boards to the report and memo in their binders (ref. JI | 9.15.11 | 4A) and explained that the report looks closely at the change in the financial position of the Fund. Mr. Murphy summarized the primary assumption risk areas of the WRS as demographic and economic. Gains were produced by fewer than expected normal and early retirements and disability claims. Actuarial losses were due to fewer than expected separations in the "Other Separations" category.

Mr. Murphy noted that SWIB performed better than the actuaries expected, but there was still a loss of \$985 million in investment earnings, due to the Market Recognition Account and its smoothing of gains or losses over a period of five years. The effects of large losses from 2008 are still being incorporated.

The loss from risk areas in the "Other" category was \$99 million, 0.25% of accrued liabilities. This category includes the difference between actual and expected reserve

transfers, adjustments to prior estimated annuities, and re-established liability from new or rehired employees with prior service.

Mr. Murphy noted there was a total loss of \$352 million, made up of the following components: economic risk areas, \$102 million loss; decrement risk areas, \$16 million loss; other activity, \$98 million loss; and the effect of assumption changes, \$135 million loss.

The next experience study will be reported to the Boards in December, 2012.

CLEARINGHOUSE RULE #11-040

Chair Koessl introduced David Nispel, the Department's General Counsel. Mr. Nispel referred the Boards to the memo in their binders about the changes in Clearinghouse Rule (CR) #11-040 (ref. JI | 9.15.11 | 4B). The new text of the rule reflects that forms are available on ETF's website; that communication may be by email; and changes made by the Legislature, specifically those made by Wisconsin Acts 10 and 32, that affect health insurance. Mr. Nispel explained that the Group Insurance Board (GIB) approved the rule at its August 23, 2011, meeting. He will be seeking approval of this rule at the ETF, WR and TR Board meetings later today.

OPERATIONAL UPDATES

Ms. King noted that agenda item 5C, the *2010 Comprehensive Annual Financial Report*, is available online.

Legislative Update

Shawn Smith, Director of the Department's Office of Communications and Legislation, referred the Boards to the memos in their binders (ref. JI | 9.15.11 | 5A). She noted that on September 14, 2011, the Joint Committee on Finance voted unanimously in favor of granting ETF's 13.10 request.

Ms. Smith noted that Governor Walker vetoed language in the budget regarding the vesting requirement. The current law states that, for people who are new to the system (as of July 1, 2011), a member must have five full years of creditable service to become vested in the WRS. ETF is working on the finishing touches to a technical bill, the Internal Revenue Service Conformance Bill, and implementation of the Heroes Earnings Assistance and Relief Tax (HEART) Act.

Ms. Smith also mentioned the WRS study that was a provision of Act 32. ETF is required to study a defined contribution option for participating employees and permitting employees to "opt-out" of making their portion of the WRS contribution, making them eligible only for a money purchase annuity. Funding for the actuarial studies was included in the 13.10 mentioned above and granted by the Joint Committee on Finance. This study must be completed by June 30, 2012.

Communications Update

Ms. Smith noted the major focus of the Communications Office has been on the changes made by Acts 10 and 32. Staff has made a concerted effort to provide guidance and updates on the website, created the Department's first YouTube video, and taken advantage of press opportunities to disseminate information. Secretary Stella was recently interviewed in-depth on WisconsinEye about changes made by Acts 10 and 32.

Retirement Services Update

Ms. King introduced Anne Boudreau, Division of Retirement Services, who gave the Boards an update on WRS Benefit Information. Ms. Boudreau referred the Boards to the memo and slide show printout in their binders (ref. JI | 9.15.11 | 5B). Ms. Boudreau highlighted the comparison of the last seven years' retirement estimate requests. There was a spike in the number of retirement applications in Quarter 2 as a result of the spike in the number of retirement estimate requests in Quarter 1. The number of both retirement estimate requests and retirement applications for 2011 is significantly higher than any of the past seven years.

It's Your Choice Dates and Health Insurance Updates

Ms. King introduced Lisa Ellinger, Administrator of the Division of Insurance Services. Ms. Ellinger summarized the action taken at the August 23, 2011, Group Insurance Board (GIB) meeting. For 2012, State health insurance premiums will go down 3.3%. Local plans' premiums will increase minimally, 2.9%, a historic low.

Ms. Ellinger also discussed the decision by Group Health Cooperative (GHC) to pull out of six of the twelve counties in the west and northwest of Wisconsin in which it was offered. WEA Trust has expanded its coverage to this area. The members who currently have GHC will be required to change plans. Ms. Ellinger noted that WEA Trust has a broad network, and it is very likely members will be able to keep their current providers. She noted that nearly half of the affected members are part of the UW-Eau Claire and UW-Stout campuses. She thanked the campuses' staff for their help in communicating this change quickly and completely.

Finally, Ms. Ellinger mentioned that Act 10 required a 5% reduction in the State employee benefit package. The GIB decided to meet this requirement by establishing a system of coinsurances.

Operational Updates

Ms. King referred the Boards to the memos in their binders about other operational updates. She noted that new Board members (new since September 2010) have received a Governance Manual. Other Board members received a Governance Manual Supplement.

FUTURE ITEMS FOR DISCUSSION

Lon Mishler requested that the Boards begin talking about the impact a defined contribution plan would have on active participants' accrued benefits.

ADJOURNMENT

MOTION: Ms. Von Ruden moved to adjourn the meeting. Ms. Kippers 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