

DRAFT

MINUTES

December 1, 2011

Joint Informational Meeting
(Teachers Retirement, Wisconsin Retirement
and Employee Trust Funds Boards)
State of Wisconsin



Location:

Holiday Inn Hotel and Suites
1109 Fourier Drive, Madison, WI

BOARD MEMBERS PRESENT:

Sandra Claflin-Chalton, TR Board
John David, ETF & WR Boards
William Ford, ETF Board
Kimberly Hall, ETF Board
Susan Harrison, TR Board
Betsy Kippers, TR Board
Wayne Koessler, Chair, ETF & WR
Boards
Michael Langyel, ETF & TR Boards
Jon Litscher, ETF
Mary Jo Meier, TR Board
Lon Mishler, Chair, TR Board
Ted Nickel, WR Board

Robert Niendorf, ETF Board
Tom Peterson, TR Board
Paul Ostrowski for Jessica O'Donnell,
ETF
Patrick Phair, TR Board
Roberta Rasmus, TR Board
Steve Scheible TR Board
Robin Starck, TR Board
Herb Stinski, WR Board
Mary Von Ruden, ETF & WR Boards
Steven Wilding, WR Board
David Wiltgen, ETF & TR Boards

BOARD MEMBERS NOT PRESENT:

Jamie Aulik, WR Board

Dan Nerad, ETF & TR Boards

PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:

Dave Stella, Secretary
Bob Conlin, Deputy Secretary
Cindy Gilles, Board Liaison
Steve Hurley, Gene Janke, Lucas Strelow,
Office of Policy, Privacy and Compliance

David Nispel, General Counsel
Shawn Smith, Office of
Communications and Legislation
Matt Stohr, Division of Retirement
Services
John Vincent, Office of Internal Audit

Board	Mtg Date	Item #
Jl	3.8.12	1

OTHERS PRESENT:

ETF Office of the Secretary: Rhonda
Dunn, Chris Fried, Sharon Walk
ETF Division of Insurance Services: Lisa
Ellinger
ETF Division of Management Services:
Pam Henning
ETF Office of Internal Audit: Claudius
Lebi, Helen Malzacher
State Engineering Association: Bob
Schaefer

ETF Division of Retirement Services:
Anne Boudreau
ETF Office of Communications and
Legislation: Nancy Ketterhagen
ETF Office of Budget and Trust Finance:
Jon Kranz
State of Wisconsin Investment Board
(SWIB): Keith Bozarth, David Villa
UW System: Sue Chamberlain
Annuitant: Sandy Drew

Lon Mishler, Chair, Wisconsin Retirement (WR) Board, called the meeting to order at 8:30 a.m.

CONSIDERATION OF MINUTES OF PREVIOUS MEETING

MOTION: Ms. Von Ruden moved approval of the September 15, 2011, minutes of the Joint Informational meeting as submitted by the Board Liaison. Ms. Rasmus seconded the motion, which passed without objection on a voice vote.

ANNOUNCEMENTS

Mr. Stohr shared the following announcements:

- Two seats on the Teachers Retirement (TR) Board are set to expire in May 2012. Notification of the open seats and a call for nomination papers was included in the September *WRS News* sent to all active and retired members. An additional notice will be included in the January *WRS News* with the election, if needed, to be held in the spring.
- An informal ceremony will be held after the Joint Informational meeting to celebrate Secretary Stella's upcoming retirement.
- Deputy Secretary Conlin has been appointed Secretary by the ETF Board, effective January 3, 2012.
- Sari King retired from ETF on November 7, 2011.
- Chris Fried was introduced as the new Group Insurance Board Liaison working with Cindy Gilles and Sharon Walk.
- The September 12, 2012, Board meetings have been changed to September 20, 2012, due to a lack of available hotel rooms in the Madison area.

EDUCATIONAL TOPICS

Cost Effective Measurement

Mr. Mishler introduced Bruce Hopkins, of CEM Benchmarking, Inc. (CEM). Mr. Conlin reminded the Boards that over the past few years, ETF has contracted with CEM, a premier organization involved in benchmarking pension administration, pension investment cost, and service provision.

Mr. Hopkins presented the Pension Administration Benchmarking Results to the Board members (Ref. JI | 12.1.11 | 3C). The peer group included in the current results represents 15 American-based large public funds ranging in size from just under 300,000 to 900,000 active members. Within this peer group, the Wisconsin Retirement System (WRS) is at the median level.

Mr. Hopkins summarized the data as follows:

- WRS' pension administration cost was \$54 per active member and annuitant, which is \$26 below the peer average of \$80.
- Total pension administration cost per member increased by 0.9% per annum between 2007 and 2010, while the average cost of the peer group increased by 2.0% per annum over the same period. ETF costs have been consistently below the norm.
- Weighted transactions were 7% below the peer average, decreasing the total cost per member by an estimated \$1.48, relative to the peer average.
- Weighted transactions per front-office full-time employee (FTE) were 20% above the peer weighted average, which decreased total cost per member by \$4.44, relative to the peer average.
- ETF had lower costs per FTE for salaries and benefits, information technology desktop, networks and telecom, building and utilities, and human resources.
- Third party and other miscellaneous costs in the front-office activities were \$0.32 per member, which was 97% below the adjusted peer weighted average of \$9.26 which, in turn, decreased the total cost per member by \$9.41, relative to the peer average.
- ETF's adjusted cost per active member and annuitant of \$33.03 for back-office activities was below the peer average of \$46.97.
- The total service score was 67 out of 100, which was below the peer median of 80, which is the weighted average of the activity level services scores. This score reflects an improvement of 7 points, when compared to 2009 statistics.
- Back-office costs and productivity are impacted by system complexity. ETF's total relative complexity score of 64 was above the peer median of 53.

State of Wisconsin Investment Board Update

Mr. Bozarth and Mr. Villa provided an update on the year-to-date investment performance of the Core Fund and the current economic situation. Mr. Bozarth indicated that, based on preliminary numbers, the Core Fund is flat for the year at 0.08%. The Core Fund benchmark is estimated to be -0.47%.

Mr. Villa provided an overview of SWIB's economic data (Ref. JI | 12.1.11 | 3B).

- Wisconsin's credit default swap rate is 1.2%, compared to 1.36% for Florida; 2.24% for California; 2.6% for Illinois; and 5.95% for Italy. Comparably, Wisconsin is in good financial condition.
- Economic data was compared over a course of time from 1973 to present. Looking at a select group:

Economic Data	The Great Inflation 1973-1983	Transition 1984-1985	Tech & Credit Bubbles 1996-6/2009	Recovery? 7/2009-Current	Full Period 1973-Current
Real GDP Growth	2.63%	3.16%	2.39%	2.37%	2.70%
Unemployment Rate	7.28%	6.41%	5.19%	9.44%	6.41%
Real Corporate Profit Growth	0.91%	5.36%	1.73%	20.10%	3.60%
Stock Market (Return Premium)*	-0.61%	8.73%	1.36%	11.79%	3.60%
Bond Market (Return Premium)*	-1.2%	4.56%	2.33%	7.95%	2.33%

*90-day T-bill used to calculate return premium.

Overview of ETF's Internal Audit Function

Mr. Vincent presented an overview of ETF's internal audit function (Ref. JI | 12.1.11 | 3C).

- Internal controls were designed by the ETF Board, management and staff. These include: effectiveness and efficiency of operations, reliability and integrity of information, compliance with applicable laws and regulation, and safeguarding of assets.
- Comprehensive audit coverage is provided by ETF's internal audit function, state controller, Legislative Audit Bureau and other independent auditors.
- A goal for a biennial audit plan is to address the highest-risk areas.

- Methods used in measuring value include: acceptance and implementation of recommendations, assessment by audited customer surveys, reliance by external auditors on internal results, and management requests for assurance/consulting projects.
- Internal audits are governed by the *Internal Audit Standards and Ethics of the Institute of Internal Auditors*.

DISCUSSION

2011 Wisconsin Act 32 Wisconsin Retirement System (WRS) Study

Mr. Hurley introduced Mr. Janke. Mr. Janke provided a brief presentation to the Boards on a provision of Act 32 that directed the Secretary of the Department of Administration (DOA), the Director of the Office of State Employment Relations (OSER), and the Secretary of ETF to conduct a study of the structure and benefits of the WRS (Ref. JI | 12.1.11 | 4A). The results and findings of the study are due to the Governor and Joint Committee on Finance by June 30, 2012.

Act 32 requires that the study addresses: 1) creating an optional defined contribution plan, and, 2) allowing employees the option to withhold required contributions and limit those employees to a money purchase annuity.

ETF is conducting research and gathering information from other retirement systems (i.e., Nebraska, Utah, Minnesota, and West Virginia). The Board's actuary, Gabriel, Roeder, Smith, and Co., will be asked to conduct an analysis of the specific options required to be outlined in the study.

Clearinghouse Rule #11-044

David Nispel, General Counsel, referred the Board to changes in Clearinghouse Rule (CR) #11-044 (Ref. JI | 12.1.11 | 4B) regarding appeals.

Mr. Nispel summarized the changes to the rule, which include: the actual process for an expedited appeal, bypassing a formal appeal when all parties agree, specifying neither the Board nor an Administrative Law Judge have equity authority to determine an appeal, and confirming the power of an Administrative Law Judge.

The Group Insurance Board approved this rule on November 8, 2011, and the Deferred Compensation Board approved it on November 15, 2011. The Employee Trust Funds, Teachers Retirement, and Wisconsin Retirement Boards will review the rule at meetings today. If the Boards approve the rule it will be sent to the Governor's Office and to the Legislature for consideration.

Clearinghouse Rule #11-041

Mr. Strelow referred the Board to changes in CR #11-041 (Ref. JI | 12.1.11 | 4C). He stated the Department proposes to revise the existing rules relating to Qualified Domestic Relations Orders (QDRO) under ETF 20.35. The changes include additional language for domestic partner QDROs in compliance with 2009 Wisconsin Act 28 and the addition of language addressing tax compliance requirements under IRC 415(b) that provide distribution limits on the participant and alternate payee's aggregate benefits. The Employee Trust Funds (ETF), Teachers Retirement (TR), and Wisconsin Retirement (WR) Boards will review the rule at meetings today. If the Boards approve the rule, it will be sent to the Governor's Office and then to the Legislature for their consideration.

Clearinghouse Rule #11-042

Mr. Strelow referred the Board to changes in CR #11-042 (Ref. JI | 12.1.11 | 4D) regarding rehired annuitants and separation from employment. The changes include:

- An amendment to the definition of rehired annuitant.
- A requirement that all employers report all rehired employees regardless of whether they are WRS-eligible.
- An amendment to clarify that employer contributions to 403(b) accounts are considered compensation for Internal Revenue Service purposes and, therefore, not permitted under school "emeritus" programs.

The ETF, TR, and WR Boards will review the rule at their meetings today. If the Boards approve the rule, it will be sent to the Governor's Office and then to the Legislature for their consideration.

OPERATIONAL UPDATES

Legislation and Communications Update

Ms. Smith referred the Boards to the Legislation and Communications memo (Ref. JI | 12.1.11 | 5A).

Legislative Update: Ms. Smith said no new laws that materially impact the WRS have been enacted since September. Two new bills that have been proposed are as follows:

AB 318/SB 239: Rehired annuitants who work more than half-time must have their annuity suspended until they retire again, would be ineligible to return to the WRS as an active employee, and would be eligible for health care benefits. Rehired annuitants who work less than half-time would be treated as they are under the current law.

AB 352: Also provides that rehired annuitants who work more than half-time must have their annuity suspended until they retire again. However, rather than being barred from WRS participation, they would be mandated to return to the WRS as an active employee. This bill extends the 30-day break in service to 180 days. This bill also modifies Act 32 eligibility criteria to specify that new employees hired after July 1, 2010 would join (or rejoin if a rehired annuitant) the WRS if they are expect to work 1,000 hours per year (as opposed to 1,200 hours as enacted in Act 32).

Communications Update: ETF has received many media inquires about rehired annuitants. ETF has fielded more than 30 separate requests for information and comments since late summer.

Mr. Stohr referred the Board to the remaining memos in their binders.

The meeting adjourned at 11:40 a.m.

Date Approved: _____

Signed: _____

Robert Niendorf, Secretary
Employee Trust Funds Board