

DRAFT

MINUTES

June 21, 2012

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



Location:

State Revenue Building – Events Room
2135 Rimrock Road, Madison, WI

BOARD MEMBERS PRESENT:

Sandra Claflin-Chalton, TR Board
John David, ETF & WR Boards
William Ford, ETF Board
Kimberly Hall, ETF Board
Betsy Kippers, TR Board
Wayne Koessl, Chair, ETF & WR
Boards
Michael Langyel, ETF & TR Boards
Jon Litscher, ETF Board
Mary Jo Meier, TR Board

Lon Mishler, Chair, TR Board
Daniel Schwartzer for Ted Nickel,
WR Board
Robert Niendorf, ETF Board
Jessica O'Donnell, ETF Board
Tom Pedersen, TR Board
Roberta Rasmus, TR Board
Steve Scheible, TR Board
Herb Stinski, WR Board
Steven Wilding, WR Board
David Wiltgen, ETF & TR Boards

BOARD MEMBERS NOT PRESENT:

Jamie Aulik, WR Board
Susan Harrison, TR Board
Dan Nerad, ETF & TR Boards

Patrick Phair, TR Board
Robin Starck, TR Board
Mary Von Ruden, ETF & WR Boards

PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:

Bob Conlin, Secretary
Rob Marchant, Deputy Secretary
Chris Fried, Board Liaison

Division of Retirement Services:
Matt Stohr, Administrator
Office of Policy, Privacy and Compliance:
Steve Hurley, Director

Board	Mtg Date	Item #
Jl	9.20.12	1

OTHERS PRESENT:

ETF Division of Retirement Services:

Anne Boudreau, Roger Fletcher,
Jaymee Meier

ETF Division of Management Services:

Bill Christianson, Pam Henning, Jack
Loman, Sharon Walk

ETF Legal Services:

Daniel Hayes, David Nispel

ETF Office of Budget and Trust Finance:

Jerry Dietzel, Jon Kranz

ETF Office of Communications and

Legislation:

Nancy Ketterhagen

ETF Office of Enterprise Initiatives:

Bob Martin

ETF Office of Internal Audit:

John Vincent

ETF Office of Policy, Privacy and Compliance:

Gene Janke, Lucas Strelow

State of Wisconsin Investment Board:

Vicki Hearing, Michael Williamson

CEM Benchmarking Inc.:

Bruce Hopkins

Gabriel Roeder Smith & Company:

Mark Buis, Brian Murphy

Department of Administration:

Mickie Waterman

Legislative Fiscal Bureau:

Art Zimmerman

State Engineering Association:

Bob Schaefer

UW System:

Beth Ritchie, Nicole Zimm

Nora David, Sandy Drew

Lon Mishler, Chair, Teachers Retirement (TR) Board, called the meeting to order at 9:00 a.m.

CONSIDERATION OF MINUTES OF PREVIOUS MEETING

***MOTION: Mr. Wiltgen moved approval of the March 8, 2012, 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 reviewed a number of housekeeping items related to the meeting and agenda. He confirmed the Wisconsin Retirement (WR) Board will not convene today and made the following Employee Trust Funds (ETF) staff announcements:

- Mr. Bill Kox has been promoted to Deputy Administrator for the Division of Insurance Services.
- Ms. Deb Roemer has been promoted to Director of the Disability Programs Bureau, Division of Insurance Services.
- Ms. Cindy Gilles, Board Liaison, retired from ETF.
- Ms. Leah Herzberg, ETF Human Resources Director, accepted a position with the Department of Justice.

- Recruitment continues for a Communications Director.

Mr. Mishler thanked Mr. Scheible for his service on the TR Board and presented him with a plaque of appreciation from the TR Board.

EDUCATIONAL TOPICS

Wisconsin Retirement System (WRS) Annual Valuation of Retired Lives-December 31, 2011

Mr. Conlin reminded the Board that contribution rates are normally established at the June ETF Board meeting. However, due to changes in the law and ongoing efforts to ensure 2011 year-end reporting is complete and accurate, data to allow the actuaries to set the contribution rates with any certainty is not yet available. It is anticipated the 2013 contributions will be set at the September ETF Board meeting. Mr. Conlin advised that, in order to give employers an opportunity to do some preliminary planning, the actuaries were asked to develop a set of scenarios based on the data currently available.

Mr. Murphy referred the Board to his presentation handouts (Ref. JI | 6.21.12 | 3A). He discussed the process for the development of data that was used to prepare estimated valuation results and how the contribution rates are determined.

Mr. Buis stated that, due to insufficient data, various projections and estimates of data were used to provide a likely range for 2013 contribution rates as follows:

	Low Cost	Medium Cost	High Cost
General	12.8%	13.2%	13.7%
Executive and Elected	13.8%	14.3%	14.8%
Protective			
• With Social Security	15.6%	16.0%	16.5%
• Without Social Security	17.9%	18.6%	19.3%

Mr. Buis said that while these are the likely ranges – given the available data – the final contribution rates may fall outside of the estimated ranges. He also shared the results of a public fund survey that shows when compared to other state public funds, the WRS remains one of the lowest cost and most stable systems.

Mr. Buis explained that, in WRS actuarial work, asset gains and losses above or below the assumed rate of return are smoothed in over the current year and for four additional years thereafter. He commented this process generally works well, but the 2008 asset

loss was very large. The total recognized loss in 2011 was \$4.38 billion. For 2012, \$4.591 billion in prior year losses will be recognized.

Mr. Buis discussed the impact of 2011 Wisconsin Act 10. In the WRS, a benefit is based on the greater of:

- Formula Benefit (1.6% x final average pay x service).
- Money Purchase Benefit (2 x value of contributions).

Act 10 removed the statutory limit on WRS employee required contributions and the amount provided to fund the member money purchase benefit. By increasing the employee contribution rate, the money purchase minimum benefit increases. Mr. Buis provided an illustration of how sharing the contribution rate equally between members and employers actually added 0.7% to the total rate. Act 10 will continue to put upward pressure on contribution rates, particularly for general members, because it increases money purchase benefits whenever there is an asset loss and the employee required contribution rate increases. Mr. Buis stated asset losses from 2008 and 2011 will also put upward pressure on contribution rates for all groups for calendar years 2013 and 2014.

State of Wisconsin Investment Board (SWIB) Update

Mr. Williamson introduced himself as the Executive Director of SWIB. He provided a brief history of his professional and educational background reflecting 35 years of experience working in the public sector including the oversight of public pension systems as well as investments. Mr. Williamson shared he has been very impressed with SWIB during his first few weeks and thanked his predecessor for his service.

Mr. Williamson provided a summary of the investment performance of the Core Fund and Variable Fund. As of May 31, 2012, the year-to-date preliminary return for the Core Fund was 3.1%, and the benchmark return was 2.8%. The Variable Fund had a 3.0% preliminary return and a 2.8% benchmark return.

Cost Effective Measurement (CEM) Study

Mr. Hopkins referred to his presentation and the benchmarking results included in the Board packet (Ref. JI | 6.21.12 | 3C). He provided the following highlights:

- ETF is very low cost, being well below national and global norms.
- The WRS is the most complex system in its peer group.
- Total pension administration cost was \$51 per active member and annuitant which was \$27 below the peer average.
- Total pension administration cost per active member and annuitant decreased by 3.0% per annum between 2008 and 2011.

- ETF's overall service level remains below peer median, but the service score has been rising at a faster rate than others. ETF's service score increased from 59 to 69 between 2008 and 2011.
- ETF has made significant improvements in many service areas with the most significant in the areas of calls, member presentations, and service credit purchases.
- ETF had higher transactions per FTE and lower third party/other costs in front office activities.

Mr. Conlin stated ETF remains committed to the measurement process as an invaluable tool to steer ETF to better and higher levels of service.

Board members took a break at 10:37 a.m. and reconvened at 10:47 a.m.

DISCUSSION

Clearing House Rule #12-020

Mr. Hurley referred the Board members to his memo (Ref. JI | 6.21.12 | 4A) and reminded them that previous drafts of this proposed rule were discussed at Board meetings on December 2, 2010, and June 23, 2011. The proposed rule changes fall into two categories:

- Clarification of statutory authority of the ETF Secretary to hold Board elections in any reasonable manner, including by electronic means.
- Simplification of Wis. Admin. Code § ETF 10.10.

Mr. Hurley confirmed ETF staff made minor changes to the rule in response to comments received in the Legislative Council Staff Clearinghouse Report. He stated there were no appearances at the March 26 public hearing held at ETF, and no written comments were received. If approved by the ETF and TR Boards, ETF staff will submit the proposed rule to the Governor's office for approval before sending to the State Legislature for consideration.

OPERATIONAL UPDATES

2011 WI Acts 10 and 32 Implementation Update

Mr. Stohr provided an overview of the changes to the WRS as a result of Act 10, which went into effect on June 29, 2011. Among the changes, Act 10:

- Prohibited WRS employers from paying the WRS employee-required contribution.
- Eliminated the Benefit Adjustment Contribution.
- Reduced the WRS formula benefit multiplier for the elected/executive WRS employment category.

- Changed the allocation of the WRS contribution rate between the employee and employer in mid-2011.

Mr. Stohr then reviewed the changes to the WRS as a result of Act 32, which went into effect on July 1, 2011. Among the changes, Act 32:

- Repealed and re-created many of the WRS contribution employee pick-up provisions in Act 10.
- Generally increased the WRS eligibility criteria for certain employees.
- Generally included a five-year investing requirement.
- Allowed employee-required contributions to be taken out on a pre-tax basis.

Due to resource limitations, Mr. Stohr stated ETF has been implementing the two Acts separately. Staff is currently working on the Act 10 requirements and will begin work on the Act 32 requirements once the Act 10 requirements are implemented. Substantial progress has been made with the implementation of Act 10; the largest phases of the system and process changes have been completed.

Mr. Stohr explained that in order to accomplish the implementation of Act 10 requirements, employers are reporting in two waves: (1) hours/earnings for pre-Act 10 or the first half of 2011 and (2) hours/earnings for post-Act 10 or the second half of 2011. As of June 15, 2012, all employers have submitted employee information for the first half of 2011. ETF has verified the submitted information for all but a few employers. Of 1,481 employers, approximately 1,100 employers have submitted information for the second half of 2011. Of these 1,100 employers, ETF has verified the information of approximately 750. It is ETF's goal to complete the reconciliation process for all employers by the end of July 2012. Typically, after all employer reporting has been reconciled, at least two months is needed before finalization of contribution rates for the following year.

Mr. Stohr stressed that the reconciliation process cannot be completed until all employer reporting has been received. ETF continues to communicate with members and employers through websites, email updates, newsletters and bulletins, public presentations, and through the Call Center.

Strategic Initiatives Update

Mr. Marchant reviewed ETF's vision statement and strategic priorities and goals. He stated one of the keys to attaining ETF's goals is to provide WRS members and employers with secure online access to their accounts. A 2010 survey found 70% of respondents would conduct online financial transactions with ETF if allowed. Approximately 80% indicated they would view information about their specific account online.

Another reason for providing better online access and tools is that, if ETF does not provide self-help opportunities, the demand for services is going to outstrip ETF's capacity to provide excellent service. ETF's challenge is to review systems and processes to provide self-help options to those members who want them and to help staff work more efficiently. In order to do this, ETF needs to map the business to determine what the software needs ultimately are and to identify and address any issues that might increase risk of a failed IT implementation. In addition, ETF also needs to examine processes to determine if they are as efficient as possible. The enterprise business modeling exercise is a key step in ensuring ETF is able to expand customer services online.

Legislative and Communications Update

Mr. Marchant reminded the Board of the funds set aside by the Legislature's Joint Committee on Finance that ETF can request during the biennium. He indicated ETF must formally request access to the sequestered funds to proceed with the next step of contracting with a strategic partner that has experience successfully assisting public pension systems through modernization efforts and providing members and employers with online access.

Mr. Marchant advised the Board that ETF has received numerous queries from the press and many recent news articles have focused on the WRS. He noted there has also been a steady stream of members contacting ETF about benefits, to make suggestions to change the system, and to share concerns for the future of the WRS. In the absence of a Communications Director, Mr. Marchant stated he has been involved in these queries. ETF continues to take the opportunity to educate members about benefits when possible.

Board Communications Policy Review

Mr. Hurley referred Board members to his memo (Ref. JI | 6.21.12 | 5D) and provided an overview of the Communications Policy. Highlights of the overview included:

- Board members should communicate in an open and constructive manner during meetings of the Board and committees.
- Board members must not engage in mass or sequential email exchanges with other Board members relating to WRS business.
- If a Board member is contacted by anyone with a future interest in doing business with the WRS, the Board member should refer the individual to the ETF Secretary.
- If a Board member is asked to make a presentation to external groups, the Board member must indicate that he or she is not speaking on behalf of the Board, unless the Board member is specifically authorized to do so by the Board.
- Board members are discouraged from counseling WRS members, retirees, or beneficiaries about their eligibility or benefits.

- The ETF Secretary and the Board Chair are the only two individuals authorized to speak on behalf of the WRS or the Board.
- The primary media contact for the WRS is the ETF Secretary or the Secretary's designee.

Act 32 WRS Study Update

Mr. Hurley reminded the Boards that Act 32 requires ETF, the Department of Administration (DOA), and the Office of State Employment Relations (OSER) to conduct a study of the structure and the benefits of the WRS. Specifically, the focus of the study centers on the creation of an optional defined contribution program and allowing employees to opt-out of employee required contributions. The findings of the study must be reported to the Governor and the Joint Committee on Finance no later than June 30, 2012. The work is proceeding according to schedule. Gabriel Roeder Smith & Company was hired to perform an actuarial analysis related to the above issues. This is a critical part of the study and will form the basis for many of the key findings of the study. SWIB has provided funding and investment impact information. ETF's outside tax counsel has provided information on potential tax issues. Great West Retirement Services, the administrator of the Deferred Compensation Program, has provided information on cost and efficiency data. ETF, DOA, and OSER are currently working on final edits of the study, and it is anticipated that the study will be submitted by the deadline.

Mr. Stohr referred the Board members to the other operational update memos in their binders (ref. JI | 6.21.12 | 5F, 5G, 5H) and provided a brief overview of the material.

ADJOURNMENT

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

The meeting adjourned at 12:00 p.m.

Date Approved: _____

Signed: _____

Robert Niendorf, Secretary
Employee Trust Funds Board