

DRAFT

MINUTES

September 20, 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:

Jamie Aulik, WR Board
Sandra Claffin-Chalton, TR Board
John David, ETF & WR Boards
William Ford, ETF Board
Kimberly Hall, ETF Board
Susan Harrison, TR Board
Jon Joslin, TR Board
Betsy Kippers, TR Board
Wayne Koessl, Chair, ETF & WR
Boards
Michael Langyel, ETF & TR Boards
Mary Jo Meier, TR Board

Lon Mishler, Chair, TR Board
J.P. Wieske for 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
Herb Stinski, WR Board
Mary Von Ruden, ETF & WR Boards
Steven Wilding, WR Board
David Wiltgen, ETF & TR Boards

BOARD MEMBERS NOT PRESENT:

Jon Litscher, ETF Board

Dan Nerad, ETF & TR 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
Anne Boudreau, Deputy Administrator

Office of Policy, Privacy and Compliance:
Steve Hurley, Director
Gene Janke, Policy Analyst
Office of Budget and Trust Finance:
Bob Willett, Chief Trust Financial Officer
Office of Communications and Legislation:
Mark Lamkins, Director

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OTHERS PRESENT:

ETF Division of Retirement Services:
Roger Fletcher

ETF Division of Management Services:
Bill Christianson, Jack Loman,
Sharon Walk

ETF Legal Services: Daniel Hayes,
David Nispel

ETF Office of Communications and
Legislation: Tarna Hunter,
Nancy Ketterhagen

ETF Office of Internal Audit: John Vincent

ETF Office of Policy, Privacy and
Compliance: Lucas Strelow

State of Wisconsin Investment Board:
Vicki Hearing, Chris Preisler, Michael
Williamson

Gabriel Roeder Smith & Company:
Jim Anderson, Mark Buis

Department of Administration:
Mickie Waterman

Legislative Audit Bureau: Brian Geib

Legislative Fiscal Bureau: Jere Bauer,
Art Zimmerman

Office of Commissioner of Insurance:
Roger Frings

Accenture: Sanjay Menon

State Engineering Association: Bob Schaefer
Nora David

Wayne Koessl, Chair, Employee Trust Funds (ETF) Board and Wisconsin Retirement (WR) Board, called the meeting to order at 9:00 a.m.

CONSIDERATION OF MINUTES OF PREVIOUS MEETING

MOTION: Mr. Pedersen moved approval of the June 21, 2012, minutes of the Joint Informational meeting, as submitted by the Board Liaison. Mr. Aulik seconded the motion, which passed without objection on a voice vote.

ANNOUNCEMENTS

Mr. Stohr made the following announcements:

- Jon Joslin was recently elected to the Teachers Retirement (TR) Board and will serve a 5-year term. He is a teacher in the Nekoosa School District.
- J.P. Wieske will be Mr. Nickel's designee for today's board meeting. Mr. Wieske is from the Office of the Commissioner of Insurance (OCI).
- Board members will be touring ETF's Rimrock Road and Badger Road facilities after the Joint Informational meeting.
- There are two seats on the TR Board that will be up for election in the spring, the retired teacher seat and the Wisconsin technical college district teacher seat. A call for nominations was placed in the September *WRS News*.

- There have been more staff moves between the Badger Road and Rimrock Road facilities. The Call Center and the Division of Insurance Services are now located at Rimrock Road. During the move, we continued to answer phone calls and conduct business. Our ability to maintain good customer service was due, in large part, to the planning by the ETF Facilities staff.
- This is Chris Fried's last Board meeting. Mr. Stohr wished her well in her new position at Baker Tilly and thanked her for her service to the Boards.
- Jon Kranz, Director of the Office of Budget and Trust Finance, has accepted a position with the Department of Transportation.
- Stacie Meyer has been hired as the new Human Resources Director. She comes to ETF from the Department of Military Affairs.
- Mark Lamkins has been hired as the new Communications Director.
- Tarna Hunter has been hired as the new Legislative Liaison.

EDUCATIONAL TOPICS

State of Wisconsin Investment Board (SWIB) Update

Mr. Williamson noted that the performance of the Core Fund through August is 8.9%. The five-year return is 2.8%, which includes the 2008 losses, and the 10-year return is 7.9%. He reminded the Boards that the assumed rate of return is 7.2%. The Core Fund has performed at or above its benchmarks for the current year, the five-year and the ten-year returns.

The Variable Fund return through August is 11.4%. The five-year return is .04% and the ten-year return is 7.0%. The Variable Fund beat its benchmark at the one-year and ten-year returns, but was slightly below for the five-year return.

Mr. Williamson shared that he is pleased with the staff that works at SWIB. He finds them to be talented, competent, motivated, professional and hard-working. Trustees have established strong investment guidelines and delegated the administration to the investment staff. Staff have designed and implemented an aggressive investment strategy and SWIB continues to refine its asset allocations.

Mr. Villa discussed the deleveraging process. He explained the effects of this process on the markets. Three things need to happen with perfect balance: monetary-easing, austerity (but not too much), and wealth transfers (debt forgiveness or taxes to transfer wealth from one group to another group). Mr. Villa also reviewed current employment figures and the challenges to be faced in returning people to work.

Wisconsin Retirement System (WRS) Annual Valuation of Active Lives – December 31, 2011

Mr. Buis introduced Jim Anderson. Mr. Anderson has been with Gabriel, Roeder & Smith (GRS) for 10 years and has 25 years experience with private and public retirement systems.

Mr. Buis reminded the Boards that the final report (Ref. JI | 9.20.12 | 3B) is usually presented at the June meeting. Instead, only estimated results were provided in June. Typically, contribution rates are released in May and approved at the June Board meeting. This report was delayed because ETF had to make numerous changes to its computer systems as a result of law changes.

He compared the estimated results that GRS presented to the Boards in June to the actual results. Actual results fell within range for all categories of employment. The contribution rates for 2013 are as follows:

General	13.3%
Executive & Elected	14.0%
Protective with Social Security	16.4%
Protective without Social Security	19.0%

The contribution rates have been fairly stable when compared with other systems. From 2007 to 2011, in the general category, the rates ranged from 10.6% to 13.4%, or 1-2% of payroll. Mr. Buis noted that this is remarkable when compared to other systems whose contributions rates have changed 2-3% per year. This is part of the cost-sharing aspect of the WRS.

Mr. Buis discussed the impact of benefit changes including the increase in the money purchase minimum benefit and the fact that 2013 is the last year for the recognition of the 2008 asset losses.

Mr. Stohr noted that in June, a communication was sent to all employers advising them of the potential range of changes for 2013. After the ETF Board meets this afternoon, ETF will contact employers to let them know about 2013 rates.

Mr. Anderson discussed the new Government Accountability Standards Board (GASB) changes which include the following:

- Pension funding and accounting will be totally separate;
- Pension obligations will need to be reflected on the balance sheet;
- There could be discount rate changes for certain plans; and
- Elimination of smoothing of assets for accounting purposes will result in more volatile results on the accounting statements.

The goal of these national changes is to provide accountability and transparency among public plans. He mentioned that the new accounting standards are a second set of numbers and that it is important to keep them totally separate. There is a funding percentage used when describing how the plan is funded. This is established through the actuarial valuation. There is a separate funding status used for accounting purposes. The difference is long-term funding versus short-term accounting reporting or market value versus smoothed value of assets.

Mr. Conlin stated that these changes could be a problem for some of the smaller employers. ETF will be working with all employers over the next year to educate them about the GASB changes.

Mr. Buis commented on the education that needs to be done with national entities that do the reporting. They don't understand all of the cost-sharing aspects of the WRS. They are making blanket adjustments from 7.2% to 5.5% not realizing there is a lot of cost-sharing with the WRS.

Discussion of 2013 Annuity Adjustments

Mr. Conlin noted that in March, when the Core Fund annuity adjustments were reviewed, some of the projections for 2013 looked grim, based on possible investment return scenarios. The Boards asked to be updated on a regular basis about the possible annuity adjustments and what action might be taken by the Boards.

Mr. Willett reviewed the annuity projections that were discussed last March. The gains and losses from 2008-2011 will be smoothed into the current year (2012). 2012 will be the last year in which the 2008 losses will be recognized. Many annuities have been reduced to their original guaranteed amounts (floor) and this has left a smaller pool of annuities from which reductions may be made in 2013.

Mr. Hurley referred the Board to his memo dated September 28, 2012 (Ref. JI | 9.20.12 | 3C). He explained the post-retirement annuity adjustment feature of the WRS and the Board's authority for making adjustments. The WRS post-retirement annuity adjustment feature is a risk-sharing mechanism. It provides an initial guaranteed annuity amount. Any positive or negative dividend must be based on investment performance. He noted that the ETF Board's decision, under Wis. Stat. § 40.27(2)(c), to revoke or not revoke previous dividends must be made as fiduciaries of the trust fund and with consideration of all those with an interest in the fund.

Options such as permitting a deficit in the annuity reserve, adding money to the system, paying out future positive dividends to those who have received the greatest reductions or removing the guaranteed floor of annuitants were discussed by the Boards.

Mr. Hurley noted that the WRS is working as designed. However, the market losses of 2008 have created valid reasons for reviewing the cost-sharing feature.

The Board members discussed the options available. They noted that, based on conversations with members, many assumed that the increases they received were permanent, when in fact, they were not. The Boards agreed that continuous education of our members is essential. Mr. Willett responded to the question of how much money would be required to provide a buffer against a future negative annuity adjustment. He stated that, if the Legislature were to consider a request to provide funding to offset the negative adjustments brought about by 2008 investment performance, it would need to approve \$1.6 billion in GPR funding. The Board members agreed that it was important to proceed with caution when considering changes to the WRS without understanding the effect of potential unintended consequences.

Board members took a break at 11:18 a.m. and reconvened at 11:27 a.m.

OPERATIONAL UPDATES

WRS Study

Mr. Hurley provided an update on the *WRS Study* (Ref. JI | 9.20.12 | 4A). He noted that staff learned a lot through the development of the document and he anticipates that the study will be used to educate the legislature and members of the public about the WRS.

Mr. Janke reviewed the requirements of the study and how those were addressed. He noted that GRS, the Office of Budget and Trust Finance and Ice Miller, LLP (ETF's tax counsel) contributed much of the information used in the study. He answered questions from Board members.

Mr. Koessler recognized Mr. Hurley, Ms. Janke, Ms. McGreevy, Mr. Strelow and Ms. Ketterhagen and thanked them for their contributions in preparing the *WRS Study*.

Retirement Services Update

Ms. Boudreau referred the Board members to the memo in their packets (Ref. JI | 9.20.12 | 4B). She noted that the number of new annuities started during the second quarter of 2012 is somewhat similar to those received during the same period in 2010. She also mentioned that members are being surveyed when they receive retirement packets.

2011 Wisconsin Acts 10 and 32

Mr. Stohr referred the Board members to the August 27, 2012, memo (Ref JI | 9.20.12 | 4C) and provided an overview of the implementation of 2011 Wisconsin Acts 10 and 32.

Legislative/Communications Update

Mr. Lamkins introduced himself to the Board as the new Director of the Office of Communications and Legislation. He also introduced ETF's new Legislative Liaison, Tarna Hunter. He discussed ETF's modernization effort and the focus on change management (Ref. JI | 9.20.12 | 4D).

Mr. Koessler referred the Board members to the remaining operational updates (Ref. JI | 9.20.12 | 4E, 4F, 4G).

ADJOURNMENT

MOTION: Ms. Clafin-Chalton moved to adjourn the meeting. Ms. Harrison seconded the motion, which passed without objection on a voice vote.

The meeting adjourned at 12:09 p.m.

Date Approved: _____

Signed: _____

Robert Niendorf, Secretary
Employee Trust Funds Board

Note: The Board members were given a tour of ETF's Badger Road and Rimrock Road facilities at the conclusion of the meeting.