

DRAFT

# MINUTES

March 7, 2013

JOINT MEETING OF THE  
Employee Trust Funds (ETF),  
Teachers Retirement (TR),  
and Wisconsin Retirement (WR) Boards  
State of Wisconsin



Location:

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

**ETF BOARD MEMBERS PRESENT:**

Wayne Koesl, Chair  
John David, Vice-Chair  
Robert Niendorf, Secretary  
William Ford  
Kimberly Hall  
Michael Langyel

Jon Litscher  
Jessica O'Donnell  
Roberta Rasmus  
Victor Shier  
Mary Von Ruden  
David Wiltgen

**TR BOARD MEMBERS PRESENT**

Michael Langyel, Vice Chair  
Robin Starck, Secretary  
Sandra Claflin-Chalton  
Susan Harrison  
Betsy Kippers

Mary Jo Meier  
Tom Pedersen  
Patrick Phair  
Roberta Rasmus  
David Wiltgen

**WR BOARD MEMBERS PRESENT:**

Wayne Koesl, Chair  
John David, Vice Chair  
Mary Von Ruden, Secretary

Jamie Aulik  
Ted Nickel  
Herb Stinski  
Steven Wilding

**BOARD MEMBERS NOT PRESENT:**

Jon Joslin, TR Board  
Lon Mishler, TR Board

Board	Mtg Date	Item #
JM	6.20.13	1

**PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:**

Bob Conlin, Secretary	Legal Services: David Nispel
Rob Marchant, Deputy Secretary	Office of Budget and Trust Finance:
Cherylynn Mullins, Board Liaison	Bob Willett, Chief Trust Financial Officer
Division of Retirement Services:	Office of Communications and Legislation:
Matt Stohr, Administrator	Mark Lamkins, Director
Anne Boudreau, Deputy Administrator	Tarna Hunter, Legislative Liaison

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**OTHERS PRESENT:**

ETF Division of Management Services: Bill Christianson, Jack Loman, Sharon Walk, Liz Jones-Queensland, Pam Henning	Department of Administration: Mickie Waterman
Division of Insurance Services: Arlene Larson	Gabriel Roeder Smith & Company: Jim Anderson, Mark Buis, Brian Murphy
ETF Division of Retirement Services: Roger Fletcher	Legislative Audit Bureau: Brian Geib
ETF Legal Services: Daniel Hayes, Cristiane Borgogni	State of Wisconsin Investment Board: Michael Williamson, Wayne McCaffery, Vicki Hearing, Chris Preisler, Dave Stella
ETF Office of Communications and Legislation: Nancy Ketterhagen	Nora David
ETF Office of Internal Audit: John Vincent	

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Wayne Koessl, Chair, ETF Board and WR Board, called the Joint Meeting of the ETF Board, TR Board, and WR Board to order at 9:00 a.m.

**CONSIDERATION OF MINUTES OF PREVIOUS MEETING**

***MOTION: Ms. Von Ruden moved to approve the December 6, 2012, minutes of the Joint Meeting of the ETF, WR and TR Boards, as submitted by the Board Liaison. Mr. Litscher seconded the motion, which passed unanimously on a voice vote.***

**ANNOUNCEMENTS**

Mr. Stohr made the following announcements:

- He introduced Vic Shier, who has been appointed by the Governor and confirmed by the Senate for the non-WRS participant position on the ETF Board.
- Tom Pederson was uncontested in the TR Board election for the technical college seat and will retain his position for another five years on the TR Board.
- Lon Mishler decided not to run again for the retired teacher seat on the TR Board. He thanked Mr. Mishler for his service on the Board.

- Three candidates submitted nomination papers for the retired teacher seat on the TR Board. This morning the Teachers Retirement Board Election Certification Committee met and certified the election of Dennis Murphy. Mr. Murphy is from the Beloit area and taught at Gateway Technical College for 26 years.
- ETF Staff updates: The Division of Retirement Services hired nine new employees, five in the Customer Service Call Center and four in the Division of Employer Services. We are pleased with the skills, experience and talent these individuals bring to ETF.
- A memo containing proposed 2014 Meeting Dates is in the meeting materials. Please contact Cheryllynn Mullins with questions. (Ref. JI | 3.7.13 | 2)
- Mr. Conlin referred Board members to a handout regarding Retirement Plans and Investments training that ETF is sponsoring for staff. A few seats have been made available for interested Board members. This is an intensive training that will run for six days over three months. Those who attend the training will be asked to commit to the full six days and complete the entire training. Board members may contact Mr. Conlin or Mr. Stohr if interested in attending this training.

## **EDUCATIONAL TOPICS**

### State of Wisconsin Investment Board (SWIB) Update

Mr. Williamson (Ref. JI | 3.7.13 | 3A) provided the Boards with information on SWIB's investment management style and methodology. He noted that SWIB is a low-cost fund compared to other large U.S. public pension funds. SWIB uses greater internal management to lower costs and pays less for external management services. This combination results in a low-cost pension fund with greater net returns.

### Wisconsin Retirement System 30<sup>th</sup> Annual Valuation of Retired Lives

Mr. Murphy of Gabriel, Roeder & Smith (GRS) (Ref. JI | 3.7.13 | 3B) discussed the operation of the Wisconsin Retirement System (WRS) with the Boards. Mr. Murphy explained the smoothing process for the Core Fund. He said that asset smoothing has worked well historically, but a fifth negative dividend could not be avoided this year. Due to gains since 2008, there is the possibility of positive dividend in 2014 for the Core Fund.

Mr. Buis of GRS continued the presentation by discussing dividends. Mr. Buis detailed the calculations that ultimately resulted in the -9.6% Core and 9.0% Variable annuity adjustments.

### Governmental Accounting Standards Board (GASB) Statements # 67 and 68 and Changes for Employers

Mr. Anderson of GRS provided a GASB update (Ref. JI | 3.7.13 | 3D). Mr. Anderson reminded the Boards about the reporting standards adopted by GASB to separate pension accounting from pension funding. Key changes are as follows:

- For funding purposes, the new standards offer long-term rate of return, smoothing of assets, considerable flexibility of amortization of unfunded accounts and actuarial cost methods.
- The new accounting measures offer long-term rate of return and potentially a municipal bond index, require a fair market value of assets (without smoothing), strict requirements on amortization, and require the use of one actual cost method.

Mr. Conlin noted that ETF will undertake an extensive communication effort with employers so they are aware of the changes.

### Effective Rate and Annuity Adjustment Projections

Mr. Willett presented on annuity adjustment projections for next year (Ref. JI | 3.7.13 | 3C). He included information on how various annuitants' payments have changed over time and made comparisons between the growth of WRS annuities and the Consumer Price Index.

The projections for next year are as follows:

- If SWIB obtains a Core Fund investment return of 7.2%, annuitants may possibly receive a Core annuity dividend in the range of 3.5%, with active members receiving a Core effective rate in the 10% range.
- With a less optimistic projection and a Core Fund return of 0%, the effective rate for active members would be in the low 8% range and, for retirees, the annuity adjustment would be about 2% in 2014.

### Patient Protection and Affordable Care Act

Mr. Stohr directed the Board members to the memo in their materials that provided information on the Federal Patient Protection and Affordable Care Act and how the provisions will affect health insurance program administered by ETF. (Ref. JI | 3.7.13 | 3E).

## **DISCUSSION/CONSIDERATION**

### Structure of the Joint Informational Meeting

Mr. Nispel discussed the structure of the Joint Informational (JI) meeting and whether it is considered an official meeting of the individual Boards. (Ref. JI | 3.7.13 | 4A) He recommended the Boards change very little with respect to the structure of the JI meeting. Instead, he suggested that several clerical modifications be made. The meeting notice, agenda, and the minutes should more explicitly reflect that this is a meeting of all three Boards. Implementing the recommended changes will clearly spell-out the structure and intent of the meeting.

### Clearinghouse Rule # CR 12-054: Technical and Minor Substantive Changes in Existing ETF Administrative Rules

Mr. Nispel noted that he will be requesting approval of this administrative rule at the three individual Board meetings this afternoon. The changes to this rule will ensure that ETF conforms with 2011 Wisconsin Acts 10, 32, and 133 and reflects the current practices of ETF. (Ref. JI | 3.7.13 | 4B)

## **OPERATIONAL UPDATES**

### Legislative Update

Ms. Hunter provided a summary of the Legislative Audit Bureau's audit of rehired annuitants, which was released in December. She briefed the Board on Mr. Conlin's testimony before the legislature and anticipates the Legislature will be addressing the issue this session. She provided an overview of the Governor's budget. The Boards discussed and asked questions about the change from a 30-day separation period to a proposed 75-day separation period. Ms. Hunter also provided an overview of other items in the budget, including changes to some of the Group Insurance Board's programs and the funding ETF received for its modernization efforts. Ms. Hunter reminded the Board that there was a link to the budget summary on ETF's website.

### Communication Update

Mr. Lamkins referred the Board members to his memo (Ref. JI | 3.7.13 | 5B). He also shared a copy of the letter that will be sent to all annuitants in the next two weeks with additional information and resources to help them understand how the negative annuity adjustment will affect them. This letter was developed at the Board's suggestion last December and is one of the many efforts ETF is undertaking to ensure our members are aware of the negative annuity adjustment.

Last week, ETF announced Core and Variable effective rates and annuity adjustments. In addition, the ETF website was updated with current information including frequently asked questions (FAQ) for members and the general public, and talking points for the customer service center to help with communication. There has been significant statewide media coverage (print and online) about annuity payment reductions for retirees. In the fall, ETF will be working with SWIB to provide projected annuity adjustments based on preliminary investment returns to help active WRS members who are considering when they should retire.

ETF is currently reaching out to constituent groups by working with the Wisconsin Retired Educators Association (WREA), Wisconsin Counties Association (WCA), League of Wisconsin Municipalities (LWM), Wisconsin Towns Association (WTA), and the Wisconsin Association of School Boards (WASB) to educate these groups regarding the WRS and its financial impact on the state.

#### Status Update of 2011 Comprehensive Annual Financial Report (CAFR)

Mr. Conlin noted that, due to the difficulties with the 2011 annual reconciliation, ETF has been delayed in the production of the 2011 CAFR. It is expected to be available sometime this summer. After that, staff will start the production of the 2012 CAFR which should be available this fall. Upon completion of the 2012 CAFR, ETF will be back on schedule.

#### Retirement Services Update

Board members were provided a copy of *Retirement Services Update* memo in their packets (Ref. JI | 3.7.13 | 5D). Ms. Boudreau mentioned that in 2012 ETF received significantly fewer retirement applications than 2011 but that applications were in line with expected growth when compared to 2010.

Offering an update on ETF's customer service surveys, Ms. Boudreau reminded Board members of the disappointing response rate for the surveys enclosed with retirement estimate packets. At the last meeting, she discussed the possibility of a telephone survey, as this is the primary method by which members contact ETF. Staff receives approximately 165,000 calls per year. We recently implemented a telephone survey on ETF's main member phone line. It is five short questions geared toward the quality of service.

Mr. Koessl referred the Board members to the remaining operational updates (Ref. JI | 3.7.13 | 5E, 5F, 5G).

## **FUTURE ITEMS FOR DISCUSSION**

Mr. Koessler requested suggestions for future items for discussion.

Mr. Stohr proposed two educational topics.

1. An overview of the Division of Retirement Services retirement counseling sessions offered to individuals, including the packet of information a WRS member received after requesting a retirement estimate. This was a request from the Budget and Operations Committee.
2. The cost to members of taking separation benefits (i.e. forfeiting the employer share) prior to their eligibility to collect a retirement annuity. This was a request from a previous board meeting.

## **ADJOURNMENT**

***MOTION: Ms. Von Ruden moved to adjourn the meeting. Ms. Kippers seconded the motion, which passed unanimously on a voice vote.***

The meeting adjourned at 11:30 a.m.

Date Approved: \_\_\_\_\_

Signed: \_\_\_\_\_

Robert Niendorf, Secretary  
Employee Trust Funds Board