

DRAFT

MINUTES

April 2, 2015

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 Koessler, Chair | Jon Litscher |
| John David, Vice Chair | Paul Ostrowski |
| Robert Niendorf, Secretary | Roberta Rasmus |
| William Ford | Victor Shier |
| Kimberly Hall | Mary Von Ruden |
| Michael Langyel | David Wiltgen |

TR BOARD MEMBERS PRESENT:

- | | |
|--------------------------|-----------------|
| Robin Starck, Chair | Michael Langyel |
| Tom Pedersen, Vice Chair | Jon Litscher |
| Sandra Claflin-Chalton | Dennis Murphy |
| Gary Epping | Patrick Phair |
| Susan Harrison | David Wiltgen |
| Craig Hubbell | Jeffrey Zore |
| Jon Joslin | |

WR BOARD MEMBERS PRESENT:

- | | |
|---------------------------|----------------|
| Wayne Koessler, Chair | Jamie Aulik |
| John David, Vice Chair | Ted Nickel |
| Mary Von Ruden, Secretary | Steven Wilding |

BOARD MEMBERS NOT PRESENT:

- Brent Grochowski, TR Board
Herb Stinski, WR Board

Board	Mtg Date	Item #
JM	6.25.15	1

PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:

Bob Conlin, Secretary	Sharon Walk, Executive Staff
John Voelker, Deputy Secretary	Assistant Supervisor
Division of Retirement Services:	Cherylynn Wilkins, Board Liaison
Matt Stohr, Administrator	Office of Trust Finance:
Anne Boudreau, Deputy Administrator	Bob Willett, Chief Trust Financial
Office of Communications:	Officer
Mark Lamkins, Director	Stefanie Pauls, Financial
Office of the Secretary:	Management Supervisor
Tarna Hunter, Legislative Liaison	

OTHERS PRESENT:

ETF Division of Insurance Services:	Legislative Audit Bureau: Kevin Cords
Gina Fischer, Jim Guidry, Deb	Milwaukee Teachers Education
Roemer, Ann Suchomel	Association: Kim Schroeder
ETF Legal Services: David Nispel	State of Wisconsin Investment Board
ETF Office of Communications: Nancy	(SWIB): Michael Williamson, Chris
Ketterhagen	Preisler
ETF Office of Internal Audit: Yikchau Sze	ETF Office of Policy, Privacy and
Gabriel Roeder Smith & Company	Compliance: Steve Hurley
(GRS): Jim Anderson, Mark Buis,	ETF Office of the Secretary: Sherry Etes,
Brian Murphy	Pam Henning

Wayne Koessler, Chair, WR and ETF Boards, 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 11, 2014, 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:

- Jessica O'Donnell from the Office of State Employment Relations, who served on the ETF Board and the Budget and Operations Committee, retired in December 2014. Danielle Carne will replace Ms. O'Donnell on the ETF Board. Mr. Ostrowski is filling in for Ms. Carne today. Ms. Rasmus will fill Ms. O'Donnell's seat on the Budget and Operations Committee.
- The Election Certification Committee met this morning and certified the election results. There were three board seats up for election. Kim Schroeder was

uncontested for the Milwaukee Public School Teacher Member seat. On the ETF Board, Leilani Paul was elected to the Educational Support Personnel Member seat and Bill Ford was re-elected to the WRS Annuitant Member seat.

- Separate WR and TR Board meetings will not be held today.

EDUCATIONAL TOPICS

State of Wisconsin Investment Board (SWIB) Update

Mr. Williamson discussed SWIB's investment strategies that both reduce risk and control costs. SWIB continues to maintain its course through these volatile times.

SWIB uses a benchmark for the Core Fund as a way to compare its performance against other investments in the market. Based on SWIB's asset allocation, the benchmark was 5.7% in 2014. SWIB achieved the benchmark. The goal is to exceed the benchmark more than 50% of the time. The benefit of diversification helps protect the Core Fund during downturns in U.S. stocks. The Variable Fund is an all stock fund account with 70% domestic and 30% in international as of February 28, 2015.

The WRS is consistently ranked as one of the best funded pension funds in the country. When compared to its peers, SWIB continues to be a low-cost pension fund manager that produces favorable results. SWIB controls cost by internal and passive management and by using less external management. SWIB uses fewer higher-cost assets. SWIB reduces the cost by negotiating a lower fee. Investing in low-cost assets, combined with the performance of investment strategies, SWIB has added more than \$1.4 billion over the past five years to the WRS. SWIB pays competitive salaries and are the median for the peer group.

Actuarial Basics

Mr. Murphy of Gabriel, Roeder & Smith (GRS) discussed the actuarial mathematics and components of the actuarial valuation. He also explained the differences between three types of retirement plans: defined benefit plans, defined contribution plans and hybrid plans. The WRS is a hybrid plan, and Mr. Murphy shared an overview of the hybrid aspects of the WRS. The basic retirement funding equation is: contribution income + investment return = benefits paid + expenses.

GRS conducts several actuarial valuations for the WRS, including the "retired lives" valuation and the "active lives" valuation. The objective to maintain level contribution rates has been successful, due to the risk and cost sharing design of the WRS. The Market Recognition Account helps the WRS stabilize the dividends and the dividend reserve.

Wisconsin Retirement System 32nd Annual Valuation of Retired Lives – December 31, 2014 – Annual Annuity Adjustments

Mr. Buis of GRS (Ref. JM | 4.2.15 | 3C) discussed the operation of the Wisconsin Retirement System (WRS) with the Boards. He also discussed the “smoothing mechanism” utilized in the Core Fund, while explaining the Core effective rate and annuity adjustment calculation processes -- from the SWIB published investment return to the annual annuity adjustment for the Core Fund. Mr. Buis also reviewed the liabilities attributable to dividends. Mr. Buis explained the projected future Core annuities.

Mr. Anderson explained the calculation processes for the Variable Fund effective rate and annuity adjustment. He presented tables showing the rising retirement age and the average age of death (for males it is 81; for females it is 84). Mr. Anderson also compared annuity adjustments to inflation.

Effective Rate and Annuity Adjustment Projections

Mr. Willett and Ms. Pauls presented the annuity adjustment projections for next year (Ref. JM | 4.2.15 | 3D). Ms. Pauls provided an example of what WRS annuitants are experiencing and how an annuity value would change from 1990, 1995, 2000, 2005 and 2010. For the WRS annuitants who retired after 2000, their accumulated dividends were not enough to protect themselves from the extreme market changes in 2002 and 2008, thus not meeting inflation. The smoothing of Core investment returns minimized the effects of a market decline, especially for the earliest retired annuitants who have the most accumulated dividends to lose.

Mr. Willett shared assumptions and explained how the market recognition account works. He stated there is a \$2.6 billion investment gain to be recognized in future years, of which \$574 million will be in 2015. He shared annuity adjustment projections (not predictions) based on a 7.2%, 0.0% and a -8.1% SWIB net investment return in 2015. This is useful for anticipating the magnitude of market effects, not the exact amount, on future effective rates and annuity adjustments.

OPERATIONAL UPDATES

Board Election Process Review

Ms. Walk discussed ETF's first electronic board elections. The electronic vote was successful. Online and phone voting were available 24/7 during the entire election, with no down-times. Everyone Counts, the vendor, and ETF responded promptly to all voter inquiries. ETF provided more communication to members than in past elections. The goal was to inform members about the election but not inundate them with email. Most of the project goals were met and members were introduced to doing business with ETF electronically. However, the low voter participation was the largest surprise. Ms. Walk discussed the next steps for the potential 2016 elections. Board members shared ideas to try to increase voter participation going forward. Staff will look into those ideas as it prepares for the next election.

Legislative / Budget Update

Ms. Hunter discussed the memo (Ref. JM | 4.2.15 | 4B) and the details of Governor Walker's proposed 2015-17 State Budget as it relates to ETF. ETF has identified several budget provisions that relate to the benefit programs that ETF administers. ETF will continue monitoring the budget bill as the Joint Committee on Finance makes modifications. The amended budget bill is expected to be effective July 1, 2015.

Ms. Hunter also reviewed other proposed legislation.

Retirement Services Update

Ms. Boudreau referred Board members to the Retirement Services Update memo (Ref. JM | 4.2.15 | 4C). The number of retirement estimates requested in 2014 rose slightly from 2013 (11.5% higher) and retirement applications were up 4.4%. For members contacting ETF, the increase during October was due to health insurance questions during It's Your Choice and benefits questions related to domestic partnerships and same sex marriage.

To illustrate how time is leveraged to the benefit of our members, Ms. Boudreau showed the number of members being served via small group retirement sessions, field presentations or individual retirement sessions. More group appointments were offered for the most efficient use of staff time resources. ETF has increased its number of webinar presentations, adding a variety of topics including purchasing service, updating beneficiary designations and interpreting the statement of benefits.

In general, members have some contact with ETF prior to retirement --whether via group or individual retirement session. However, with the implementation of the Benefit Administration System, members will be able to access more self-service tools. ETF does not know what self-service will look like and some of the younger generation may prefer that method of member and retirement service from ETF. ETF will continue to be available for members who do not want to use the technology.

Ms. Stohr discussed the University of Wisconsin early retirement incentive program. Currently, ETF is aware of four campuses that are rolling out this program – Eau Claire, Superior, Green Bay and Oshkosh. Even though ETF is involved with providing data and resources to the employers and employees, the individual campus can best answer questions regarding the incentives being offered for each particular campus. The campus chancellor will approve or deny the applications. The employee decides to apply and the campus chancellor makes the final decision based on workforce issues or budget issues.

Annual Disability Statistics

Ms. Roemer referred the Boards to the 2014 disability statistics report (Ref. JM | 4.2.15 | 4D). It is hoped that the new format of the report will be more useful by providing the details from multiple years and comparing the different disability programs. Ms. Roemer explained the four disability programs ETF administers: Disability Annuity program

(40.63), Duty Disability (40.65), long-term disability insurance (LTDI) and income continuation insurance (ICI).

40.63 and 40.65 are lifetime benefits and can include survivor benefits. The average benefit for 40.65 is \$2,700/month. This is a different fund than the WRS and a different design. There has been a decline in 40.63 benefits because fewer members are eligible for this benefit each year. Only employees with continuous service since 1992 qualify for the 40.63 benefit. Ms. Roemer reviewed statistics for disability claims by age for ICI and LTDI claims. Ms. Roemer also shared the trends of disability types being claimed.

Mr. Stohr referred the Board to the remaining operational update items (Ref. JM | 4.2.15 | 4E, 4F, 4G, 4H, 4I, 4J).

ADJOURNMENT

MOTION: Mr. David moved to adjourn the meeting. Mr. Langyel seconded the motion, which passed unanimously on a voice vote.

The meeting adjourned at 12:03 p.m.

Date Approved: _____

Signed: _____

Robert Niendorf, Secretary
Employee Trust Funds Board