

DRAFT

MINUTES

March 24, 2016

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
John David, Vice Chair
Robert Niendorf, Secretary
William Ford
Michael Langyel
Paul Ostrowski

Leilani Paul
Roberta Rasmus
Victor Shier
Mary Von Ruden
David Wiltgen

TR BOARD MEMBERS PRESENT:

Brent Grochowski, Secretary
Gary Epping
Susan Harrison
Craig Hubbell
Jon Joslin

Dennis Murphy
Patrick Phair
David Schalow
David Wiltgen

WR BOARD MEMBERS PRESENT:

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

Ted Nickel
Julie Wathke
Steven Wilding

BOARD MEMBERS NOT PRESENT:

Sandra Claflin-Chalton, TR Board
Jon Litscher, ETF Board
Tom Pedersen, TR Board

Kim Schroeder, TR Board
Robin Starck, TR Board
Herb Stinski, WR Board

Board	Mtg Date	Item #
JM	6.23.16	1

PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:

Office of the Secretary:

John Voelker, Deputy Secretary
Cherylynn Wilkins, Board Liaison

Division of Retirement Services:

Matt Stohr, Administrator

Division of Trust Finance: Bob Willett,
Chief Trust Finance Officer

Office of Legal Services: David Nispel,
General Counsel

Office of Strategic Health Policy:

Jessica Rossner, Employee Benefit
Plan Policy Advisor

OTHERS PRESENT:

ETF Division of Management Services:

Ryan Perkins

ETF Division of Retirement Services:

Jim Guidry, Gene Janke, Ann
Suchomel

ETF Division of Trust Finance:

Michelle Mattox

ETF Office of Communications:

Mark Lamkins

ETF Office of Internal Audit: Yikchau Sze

ETF Office of Legal Services:

Diana Felsmann

ETF Office of Policy, Privacy &

Compliance: Steve Hurley

ETF Office of the Secretary:

Sara Brockman, Pam Henning

Department of Justice: Charlotte Gibson

Gabriel Roeder Smith & Company (GRS):

Jim Anderson, Brian Murphy

Legislative Audit Bureau (LAB):

Lisa Kasel, Carolyn Stittleburg

Segal Consulting: Kim Nicholl,

Matt Strom

State Engineering Association:

Bob Schaefer

State of Wisconsin Investment Board

(SWIB): Michael Williamson

Wells Fargo: Thomas Harrcess

General Public: Hickory Hurie

Wayne Koessler, Chair, ETF and WR Boards, called the Joint Meeting of the ETF Board, TR Board and WR Board to order at 9:02 a.m.

CONSIDERATION OF MINUTES OF PREVIOUS MEETING

MOTION: Mr. Wiltgen moved to approve the December 10, 2015, minutes of the Joint Meeting of the ETF, WR and TR Boards, as submitted by the Board Liaison. Ms. Rasmus seconded the motion, which passed unanimously on a voice vote.

ANNOUNCEMENTS

Mr. Stohr made the following announcements:

- Introduced new board members: Dave Schalow, a Business Professor from UW-Stevens Point, will replace Susan Harrison on the TR Board. Julie Wathke, the Dunn County Clerk, will replace Jamie Aulik on the WR Board. Stacey Rolston, the Deputy Administrator for the State Division of Personnel Management, will fill Jessica O'Donnell's seat on the ETF Board;

- The Election Certification Committee met this morning and certified the election results. There were three TR Board seats up for election with four candidates. Robin Starck was re-elected to his seat; Chris Heller and Allison Pratt were elected to the additional two seats; and
- There will not be a separate TR Board meeting today.

Mr. Nickel congratulated the Department of Employee Trust Funds on receiving the 2015 Financial Literacy Award for the EMPOWER campaign from the Governor's Council on Financial Literacy. The EMPOWER campaign created opportunities for state employees, particularly women, to save more for retirement.

EDUCATIONAL/DISCUSSION TOPICS

State of Wisconsin Investment Board (SWIB) Update

Mr. Williamson described the 2015 events that contributed to the low return environment and SWIB's strategy to deal with that environment. Even with last year's volatile year, the Core and Variable Funds remain above the long-term benchmarks.

SWIB diversifies its investments because through the years some asset classes do better than others. Real estate investments tend to reduce volatility, create more consistency in returns, provide inflation protection and improve the overall fund performance. Most importantly, real estate generates a consistent income.

Approximately 80% of the investment risk comes from the stock market. To manage risk, SWIB has reduced the public equities investment from 60% of the fund's assets down to 49%. The stocks are also diversified, with 50% being invested within the United States and 50% in global stocks. SWIB is a value stock investor and not a growth stock investor. While growth stocks can generate significant returns, many of them are very volatile. Value investing over time has proven to provide consistent returns.

The Wisconsin Retirement System (WRS) is well-funded and SWIB has put together a strategy that protects the WRS assets and stabilizes the impact on participants. SWIB focuses on risk because the WRS is unique and our members share the risk. There will be challenges as the markets remain extremely volatile. However, Mr. Williamson believes SWIB can realistically achieve a 6.5% to 6.7% return over the next few years and 7.2% return over the long-term.

SWIB is considered a low-cost pension fund manager and \$1.2 billion was not made exclusively by investments but instead by reducing costs, negotiating lower fees and investing in low-cost assets combined with the performance of investment strategies. SWIB has added value to the trust fund over the past five years, which benefits over 600,000 WRS participants.

Wisconsin Retirement System 33rd Annual Valuation of Retired Lives - December 31, 2015

Mr. Murphy referred board members to the WRS 33rd Annual Valuation of Retired Lives (Ref. JM | 3.24.16 | 3B). He explained the dividend calculation processes and the “smoothing mechanisms” utilized in both the Core and Variable Fund.

Mr. Anderson discussed the Summary of Results as of December 31, 2015, including the number of annuitants, the annual amount, the fund balance and the actuarial reserve. The following points were highlighted:

- There is approximately \$3 billion in unrecognized losses in the Core fund.
- The new Wisconsin mortality rate will be phased in over the next three years.
- The percentage adjustments to create the 0.5% dividend for the Core annuities and the -5% dividend for the Variable annuities are effective May 1, 2016.

Mr. Murphy expounded on the dividends and the potential of dividend depletion. He explained the inequitable inflation effect and the potential implication if a market event similar to 2008 were to occur.

Mr. Langyel emphasized the need for continual education to members and annuitants regarding the fact that dividends are not guaranteed and the necessity of investing beyond the WRS for long-term retirement planning. The EMPOWER campaign provided some of this education in addition to ETF’s ongoing efforts.

Effective Rate and Annuity Adjustment Projections

Mr. Willett presented the Core Fund annuity adjustment projections for the next year. Based on an individual’s retirement year, the table showed today’s value of an initial \$1,000 annuity. Mr. Willet shared assumptions and explained how the market recognition account was used in the projections. He provided projection scenarios based on a 0% return and a -3.8% investment return. These projections are useful for anticipating the magnitude of market effect, not the exact amount, on future effective rates and annuity adjustments.

Legislative Audit Bureau (LAB) Actuarial Audit of the Wisconsin Retirement System

By statute, every five years the LAB contracts for an auditor to audit the WRS auditors, GRS. The LAB contracted with Segal Consulting to provide the actuarial audit and Segal representatives, Mr. Strom and Ms. Nicholl presented the results. This audit was a limited scope audit that provided a peer review of the December 31, 2013, actuarial valuations and a peer review of the 2009-2011 experience study. Overall, the audit was favorable and no significant issues were found.

The audit validated that the data files provided appear to be complete, assumptions and methods are reasonable and comply with Actuarial Standards of Practice, and the test life replication match is within a reasonable range. They also believe the experience

investigation covering the period 2009-2011 provides a reasonable basis for setting the actuarial assumptions.

Ms. Nicholl discussed the information and assumptions reviewed in the audit, specifying the assumptions, differences and recommendations for a clearer report for stake holders. Mr. Strom continued to discuss the details, calculations and recommendations. In general, the recommendations appear reasonable and appropriate.

Board members inquired about the benefit of doing a full audit verses a limited scope and the mortality rate table. All the test lives and benefits of the WRS were represented in the limited scope audit and accurate. Segal has no reason to believe that a full audit would reveal additional information. The mortality table used for the study has been changed to a generational mortality table which satisfies the recommendation regarding mortality rate made in the audit.

Appeals Training

Mr. Nispel referred board members to the memo (Ref. JM | 3.24.16 | 3E). He discussed the codes and the statutes that reference the formal administrative appeal process and the informal review process conducted by ETF.

There are two types of appeals:

- 1) Determination Appeal – Where a determination is made by ETF.
- 2) Direct Appeals – The decision is made by the employer. ETF is not a direct participant in this appeal but does try to play a facilitation role.

Mr. Nispel explained ETF's internal process and what ETF does to resolve issues/complaints before the matter becomes a formal appeal. Ombuds services staff and the Special Consultant to the Deputy Secretary are very successful in working with employers and participants and resolve many of the disputes and disagreements. The Secretary of ETF also has settlement authority. Mr. Nispel briefly reviewed the process when a complaint goes to a formal hearing.

Ms. Gibson discussed the board's role in the appeals. Board members play a quasi-judicial role in the decision. All appeals are closed session deliberations, not subject to open meetings law. Parties are not allowed to provide argument to the meeting. Ms. Gibson discussed what board members should expect to receive. Board members need to read the record, think through the case on their own and ask questions. It is the attorney's job to help board members identify the applicable evidence. At the end of the closed session, the members vote. The vote does not need to be unanimous.

She reminded the Boards that all decisions must be based on the law and not on personal opinion.

OPERATIONAL UPDATES

Mr. Stohr referred the Board to the operational update items (Ref. JM | 3.24.16 | 4A, 4B, 4C, 4D, 4E, 4F, 4G, 4H, 4I).

RECOGNIZE OUTGOING BOARD MEMBERS

Mr. Voelker presented a plaque to Patrick Phair for his service on the Teachers Retirement Board from May 2006 through May 2016.

Plaques will be sent to Susan Harrison and Jamie Aulik for their service on the board.

ADJOURNMENT

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

The meeting adjourned at 11:22 a.m.

Date Approved: _____

Signed: _____

Robert Niendorf, Secretary
Employee Trust Funds Board