

DRAFT

MINUTES

March 23, 2017

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	Leilani Paul
John David, Vice Chair	Victor Shier
Robert Niendorf, Secretary	Mary Von Ruden
William Ford	David Wiltgen
Michael Langyel	Bob Ziegelbauer
Paul Ostrowski	

TR BOARD MEMBERS PRESENT:

Tom Pedersen, Vice Chair	Jon Joslin
Sandra Claflin-Chalton	Dennis Murphy
Brent Grochowski	Allison Pratt
Chris Heller	Dave Schalow
Craig Hubbell	Kim Schroeder

WR BOARD MEMBERS PRESENT:

Wayne Koessler, Chair	Julie Wathke
John David, Vice Chair	Steven Wilding
Mary Von Ruden, Secretary	David Wiltgen
Scott Nordstrand	

BOARD MEMBERS NOT PRESENT:

Gary Epping, TR Board	Roberta Rasmus, ETF Board
Ted Nickel, WR Board	Robin Starck, TR Board
	Herb Stinski, WR Board

Board	Mtg Date	Item #
JM	6.22.17	1

PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:

Office of the Secretary:

Bob Conlin, Secretary
John Voelker, Deputy Secretary
Pam Henning, Assistant Deputy
Secretary
Tarna Hunter, Director of Strategic
Engagement and Government
Relations
Cheryllynn Wilkins, Board Liaison

Division of Retirement Services:

Matt Stohr, Administrator
Anne Boudreau, Deputy Administrator
Shelly Schueller, Deferred
Compensation Director

Division of Trust Finance: Cindy Klimke-
Armatoski, Chief Trust Financial Officer

Office of Communications:

Mark Lamkins, Director

Office of Legal Services:

David Nispel, General Counsel

OTHERS PRESENT:

ETF Division of Management Services:

Ryan Perkins, Kadi Mbanefo

ETF Division of Retirement Services:

Gina Fischer, Jim Guidry,
Gene Janke, Julie Keal,

ETF Division of Trust Finance:

Michelle Mattox, Rick Onasch,
Nanette Strennen

ETF Office of Internal Audit: Michelle

Hoehne, Amelia Slaney, Yikchau Sze

ETF Office of Legal Services (OLS):

Diana Felsmann, Dan Hayes

ETF Office of Policy, Privacy &

Compliance: Steve Hurley, Laura
Patterson

ETF Office of Strategic Health Policy:

Sara Brockman

Department of Administration: Derek
Sherwin

Gabriel Roeder Smith & Company
(GRS): Jim Anderson, Mark Buis,
Brian Murphy

Legislative Audit Bureau (LAB): Lisa
Kasel

State of Wisconsin Investment Board

(SWIB): Chris Preisler, Annette
Wiemann, Michael Williamson

State Engineering Association:

Bob Schaefer

University of Wisconsin System:

Zova Vang

Wisconsin Coalition for Retirement

Security: Claiborne Hill

Wayne Koessler, Chair, ETF 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: Mr. David moved to approve the December 15, 2016 minutes of the Joint Meeting of the ETF, WR, and TR Boards, as submitted by the Board Liaison. Ms. Paul seconded the motion, which passed unanimously on a voice vote.

ANNOUNCEMENTS

Mr. Stohr made the following announcements:

- Introduced new board members: Scott Nordstrand, appointed by the Governor to fill the vacant, non-WRS participant seat on the WR Board;
- The Election Certification Committee met this morning and certified the election results. There were two TR Board seats up for election with three candidates. David Wiltgen was re-elected to his seat; James Langkamp was elected to Jon Joslin's seat; and
- There will not be a separate TR Board and WR Board meetings today.

EDUCATIONAL TOPICS

State of Wisconsin Investment Board (SWIB) Update

Mr. Williamson (Ref. JM | 3.23.17 | 3A) explained that SWIB manages more than \$96 billion in Wisconsin Retirement System (WRS) assets for more than 600,000 individuals and 1,400 employers. He shared the 2016 returns of the Core and Variable Funds and how SWIB remains above the long-term benchmarks.

Mr. Williamson discussed the Legislative Audit Bureau audit of SWIB as well as comparisons between SWIB and its peers with regard to pension funding ratio and assumed rate of return. He stated that because the WRS is a well-funded pension system, SWIB can apply a less risky approach to investing and use a lower assumed rate of return. He went on to say that SWIB invests first to protect the WRS from a major downturn in the markets and then earn reasonable returns. With a reduced exposure to the stock market SWIB may trail when the market is doing well but will not drop as low when the market takes a downturn. Mr. Williamson believes this to be the right strategy for the WRS. He said that SWIB does not need to take unnecessary risks to rebuild the WRS dividend reserve.

Mr. Williamson stated that, in addition to stock market earnings, SWIB has saved money for the WRS by moving assets from external management to internal management, by negotiating for lower fees when utilizing external managers, and keeping SWIB's total cost lower than its peer group. An average of 62% of the internally managed assets account for 22% of the management cost. This can only be accomplished by hiring and retaining highly qualified staff, he stated.

Overall, SWIB adds value to the trust fund to the benefit of more than 600,000 WRS participants, he concluded.

Wisconsin Retirement System 34th Annual Valuation of Retired Lives – December 31, 2016

Mr. Buis referred board members to the WRS 34th Annual Valuation of Retired Lives (Ref. JM | 3.23.17 | 3B). He provided an overview of the WRS and the “smoothing mechanisms” utilized in the Core Fund. Mr. Buis explained how the Core dividend is calculated. In addition, Mr. Buis discussed the liability attributable to dividends and noted that if a market event similar to 2008 were to occur, the complete depletion of annuity dividends could occur.

Mr. Anderson discussed the Variable Fund adjustments and provided comparative statements for both the Core and Variable funds. Mr. Anderson highlighted the following points:

- There is approximately \$3 billion in unrecognized losses in the Core Fund to be recognized over the next four years, about half of which will be applied to the annuitant reserve.
- A few more years of positive dividends for annuitants is needed to decrease the probability of leveraged negative dividends that occurred between 2008 and 2012.

Mr. Murphy explained that the “Divided Reserve” is not a cushion, but it is used to provide annuities and for inflation. He compared the investment return assumptions of the WRS to other public pension funds and stated that, with an investment return assumption of 7.2%, the WRS is well below the median of 7.5%. He discussed the evolution of investment risk and how today, it takes almost triple the risk it did in 1995 to earn the same return. Mr. Murphy shared the mortality table and changes.

Core Fund Annuity Adjustments and Effective Rate Projections

Ms. Klimke (Ref. JM | 3.23.17 | 3C) shared a table showing today’s value of an initial \$1,000 core annuity based on an individual’s retirement year, shared assumptions and explained how the market recognition account and smoothing was used in the projections. She also presented the Core Fund annuity adjustment projections for the next year and provided rate projections based on three scenarios: a continued 7.2% investment return for the next four years, a 5% return in 2017 and a 0% investment return in 2017. These projections can be used for anticipating the magnitude of market effect, not the exact amount, on future effective rates and annuity adjustments.

Wisconsin Public Records Training

Mr. Nispel referred board members to the PowerPoint (Ref. JM | 3.23.17 | 3D). He went through the Department of Administration’s training and discussed the public records laws. Mr. Nispel discussed how to recognize what is and what is not a public record, how to recognize a public records request and how to handle the request appropriately. Board members are advised to contact ETF’s Office of Legal Services if further

clarification is needed or if they receive a public records request. Mr. Nispel reviewed the five question assessment and answers at the end of the training.

OPERATIONAL UPDATES

Financial Fitness Challenge

Ms. Schueller and Ms. Hunter (Ref. JM | 3.23.17 | 4A) discussed one of ETF's financial education initiatives. In 2015, ETF began working with the Financial Fitness Group to provide a financial fitness checkup to State of Wisconsin employees; the effort was expanded to all public employees within Wisconsin. The checkup consisted of a free online survey that gave takers immediate feedback on their level of financial knowledge and education.

Because of ETF's success in 2015, the Financial Fitness Group approached ETF to participate in a second project that would expand state employees' education on financial literacy. Ms. Hunter discussed the three step 2016 challenge and results.

Launching in the spring, the 2017 Financial Fitness Challenge will run through December 31, 2017. The goals are to expand beyond the State of Wisconsin agencies, create partnerships to engage local governments and school districts and implement a follow-up to the Financial Fitness Checkup.

Legislative / Budget Update

Ms. Hunter discussed the memo (Ref. JM | 3.23.17 | 4B) and the details of Gov. Walker's proposed 2017-19 State Budget as it relates to ETF and its benefit programs. Ms. Hunter also discussed the positions ETF requested and changes to the domestic partnership program, in addition to future customer service efforts for affected members. The budget provides for self-insurance savings assuming the Group Insurance Board transitions to a self-insured model January 1, 2018. The Governor's budget also includes a human resources shared services program (SSP) within DOA. The SSP proposal would transfer five human resource/payroll positions from ETF to DOA. The budget provides for general wage adjustments of 2% on September 30, 2018, and May 26, 2019. 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, 2017.

Ms. Hunter also reviewed other proposed legislation.

Legislative Priorities and Strategy

Ms. Hunter discussed ETF's efforts to increase awareness and understanding about the effect of the WRS on Wisconsin and engage stakeholders. For example, ETF has been working to strengthen communications with legislators, WRS advocates and constituent

groups and the media. The ultimate goal is to convey to all the value of a WRS pension and, particularly for members, the importance of planning ahead for retirement.

Mr. Lamkins discussed how working to increase engagement builds trust. Being responsive, transparent and targeted with communications strengthens ETF's relationships with stakeholders and adds value.

Ms. Hunter explained the strategies that ETF uses for managing government relations, including the informative Government Relations webpage.

Board members received a new ETF brochure, *Our Wisconsin Retirement System: Strong for Wisconsin*. The document will be primarily used to communicate and educate legislative stakeholders and constituent groups about the impact of the WRS on our state.

Retirement Services Update

Ms. Boudreau referred Board members to the Retirement Services Update memo (Ref. JM | 3.23.17 | 4D). The 2016 update showed typical fourth quarter statistics. Offering one on one virtual appointments for members was a new service implemented starting in the fourth quarter of 2016.

Several webinar topics covered end of year type issues like Additional Contributions or Variable Fund participation, Steps to Retire, Choosing When to Retire and How to Use the Online Calculator.

Ms. Boudreau discussed the multi-month annual reconciliation project. The goal is to balance ETF's records with the WRS employers. Some of the challenges with reconciliation this year were the result of the new central payroll system utilized by all state agencies. Despite the challenges, ETF had a cleaner reconciliation, faster completion and used fewer staff than in previous years to do that.

Ms. Boudreau shared the trends for retirement benefit options, retirement estimate requests and retirement application. She also explained the Retirement Services Scorecard.

Annual Disability Statistics

Mr. Stohr provided a high-level overview of the memo (Ref. JM | 3.23.17 | 4E) in the board materials. ETF administers four different disability programs; the statistics in the board materials relate to those programs. The Group Insurance Board oversees the Income Continuation Insurance and Long Term Disability Insurance program. The ETF Board oversees the 40.63 Retirement Disability program and the Duty Disability program.

Mr. Stohr referred the Board to the remaining operational update items (Ref. JM | 3.23.17 | 4F, 4G, 4H, 4I, 4J, 4K, 4L, 4M, 4N).

RECOGNIZE OUTGOING BOARD MEMBERS

Mr. Pedersen presented a plaque to Jon Joslin for his service on the Teachers Retirement Board from September 2012 through May 2017. Mr. Joslin said a few words of appreciation.

ADJOURNMENT

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

The meeting adjourned at 11:44 a.m.

Date Approved: _____

Signed: _____

Robert Niendorf, Secretary
Employee Trust Funds Board