

DRAFT

MINUTES

June 21, 2018

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



Location:
State Hill Farms Building – Room N108
4822 Madison Yards Way, Madison WI 53705

ETF BOARD MEMBERS PRESENT:

- | | |
|----------------------------|-----------------|
| Wayne Koessl, Chair | Roberta Rasmus |
| John David, Vice Chair | Victor Shier |
| Robert Niendorf, Secretary | Mary Von Ruden |
| William Ford | David Wiltgen |
| Michael Langyel | Bob Ziegelbauer |
| Leilani Paul | |

TR BOARD MEMBERS PRESENT:

- | | |
|-----------------------------|----------------------|
| Robin Starck, Chair | Craig Hubbell |
| David Wiltgen, Vice Chair | James Langkamp |
| Brent Grochowski, Secretary | Allison Pratt |
| Esther Ancel | Anton Przybylski Jr. |
| Sandra Claflin-Chalton | David Schalow |
| Chris Heller | |

WR BOARD MEMBERS PRESENT:

- | | |
|---------------------------|----------------|
| Wayne Koessl, Chair | Herb Stinski |
| John David, Vice Chair | Mary Von Ruden |
| Steven Wilding, Secretary | |

BOARD MEMBERS NOT PRESENT:

- | | |
|-----------------------|---------------------------|
| Gary Epping, TR Board | Stacey Rolston, ETF Board |
| Ted Nickel, WR Board | Julie Wathke, WR Board |

Board	Mtg Date	Item #
JM	9.20.18	1

PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:

Office of the Secretary:

Bob Conlin, Secretary
John Voelker, Deputy Secretary
Cheryllynn Wilkins, Board Liaison

Division of Retirement Services:

Matt Stohr, Administrator
Anne Boudreau, Deputy Administrator
Office of Policy, Privacy & Compliance
(OPPC): Lucas Strelow, Policy Analyst

OTHERS PRESENT:

ETF Division of Management Services:

Bonnie Cyganek, Cindy Gramann,
Patrick Hughes, Steve Mueller, Dana
Perry, Will Wallo

ETF Division of Retirement Services:

Jim Guidry, Julie Keal

ETF Division of Trust Finance: Dave

Ehlinger, Cindy Klimke-Armatoski,
Michelle Mattox, Matt Martinelli,
Amelia Slaney, Michelle Thode

ETF Office of Communications:

Nancy Ketterhagen

ETF Office of Internal Audit:

Yikchau Sze, Ramona Yee

ETF Office of Legal Services (OLS):

Monica Anderson, Diana Felsmann,
Dan Hayes, David Nispel

ETF Office of Policy, Privacy &

Compliance: Steve Hurley, Laura
Patterson

ETF Office of the Secretary: Lisa

Gurley, Pam Henning, Tarna Hunter

Department of Administration:

Derek Sherwin

Funston Advisory Services LLC /

Reinhart Boerner Van Deuren s.c.:

Keith Johnson, Nicholas Zuiker

Gabriel, Roeder, Smith & Company

(GRS): Jim Anderson, Mark Buis

Legislative Audit Bureau (LAB):

Emily Pape

State Engineering Association:

Bob Schaefer

Robin Starck, Chair, TR Board, called the Joint Meeting of the ETF Board, TR Board and WR Board to order at 9:01 a.m.

CONSIDERATION OF MINUTES OF PREVIOUS MEETING

MOTION: Ms. Von Ruden moved to approve the December 14, 2017, 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 provided meeting logistics for the day and welcomed two new board members to the Teachers Retirement Board. Esther Ancel was elected to the annuitant teacher WRS participant seat previously held by Dennis Murphy; Anton (Tony) Przybylski Jr. for the Wisconsin Technical College teacher participant seat previously held by R. Thomas Pedersen.

EDUCATIONAL TOPICS

Fiduciary Training

Mr. Johnson and Mr. Zuiker, of Funston Advisory Services/Reinhart Boerner Van Deuren s.c, presented a fiduciary training for the board members (Ref. JM | 6.21.18| 3A).

They explained in detail the different duties of being a fiduciary: duty of loyalty, duty of prudence, duty to manage costs, duty to comply with governing law and process compliance. Highlighted below are some key fiduciary responsibilities for ETF's Board members:

- act solely in the interest of the beneficiaries, for the exclusive purpose of providing promised benefits and sustainability;
- provide impartially between participant groups and acting in the interests of all fund beneficiaries;
- educate the Legislature regarding the WRS, balancing the interests of short-term demands and the sustainability of the long-term structure of the pension system;
- act with forward-looking care, skill and diligence;
- utilization of experts for advice and delegation;
- manage costs reasonably and appropriately (not necessarily at the lowest cost); and
- comply with and enforce governing law as it exists, keeping the integrity of the system and benefits.

There is also a co-fiduciary liability for knowingly participating in a breach or failure to exercise reasonable care but also through concealment of known breaches or issues. An effective response to this type of liability would be to seek a remedy.

Finally, a fiduciary is responsible to continually review and document processes and procedures to ensure alignment of duties. This can include an independent expert governance review which would identify leading practices and opportunities for improvement. Another leading practice is to have board self-evaluation run by a facilitator.

Wisconsin Retirement System 37th Annual Valuation of Active Lives and Gain/loss Analysis
– December 31, 2017

Mr. Anderson (Ref. JM | 6.21.18 | 3B) discussed the funding objectives of the Wisconsin Retirement System (WRS). The objectives are 1) intergenerational equity with respect to plan costs; 2) stable or increasing ratio of assets to liabilities; and 3) stable pattern of contribution rates.

Mr. Anderson discussed the importance of stable contribution rates and reviewed the contribution rates of active WRS members. He reviewed the benefit promises to both presently active and retired members. He also provided an explanation of how WRS funding sources (assets from investments, employer contributions and member contributions) pay the system's liabilities (approximately \$118.8 billion in benefit promises). The impact of asset gains and losses as related to contribution rates were also explained. Recommended contribution rates will decrease slightly for 2019, with the normal cost for general category employees going from 13.4% to 13.1%. The total rate of 13.1% contribution rate is equally divided between the employer and the employee.

There are \$3.3 billion of unrecognized gains in the Market Recognition Account (MRA). Due to the cost sharing nature of the WRS, asset losses have been traditionally shared by:

- Employees through reduced money purchases benefits
- Employers through increases in contributions
- Retirees through annuity adjustments

Mr. Buis reviewed the 2017 Gain/Loss analysis. This Gain/Loss analysis is the third in a regular 3-year experience cycle. This analysis, together with the 2015 and 2016 results, will form the basis for the next experience study to be performed later this year.

The Actuarial Stands Board develops actuarial standards of practice (ASOP) for work in various actuarial practice areas. GRS must follow these ASOPs. There are six ASOPs that affect pension systems. ASOP 51 is new and will affect the December 31, 2018, WRS valuation. GRS discussed each ASOP and its potential future effect on the WRS.

Board Policies Review and Update

Mr. Strelow (Ref. JM | 6.21.18 | 3C) explained that Office of Policy, Privacy, and Compliance (OPPC) regularly reviews Board governance policies identifying necessary changes or gaps in policies. The OPPC review ensures that board policies and governance manuals are up to date with current law. The expectation is that the OPPC review will improve consistency and standardization of documents across all governing boards.

Mr. Strelow discussed the non-substantive changes for two policies. He also reviewed the Communications Policy originally approved by the Boards in 2009. He explained the amendments and the details of the changes to the Communications Policy plus the additional sections added to the policy.

TR Board member Hubbell suggested an amendment to the proposed Communications Policy because the current language was ambiguous enough to potentially be interpreted to assume that the private communication would inherently violate Wisconsin's Open Meetings law. In fact, it could potentially but would depend on the facts and circumstances, including but not limited to the number of participants in the conversation and topic discussed. Under the section, Communication Between Board Members at Board Meetings, the wording, "to prevent a violation of Wisconsin's Open Meeting law," changed to "to the extent that such communication could violate Wisconsin's Open Meeting law," Mr. Hubbell's amendment will be considered at the separate TR Board, WR Board and ETF Board meetings this afternoon.

OPERATIONAL UPDATES

Retirement Services Update

Ms. Boudreau presented the retirement services update (Ref. JM | 6.21.18 | 4A) discussing statistics on the number of members served by ETF. She reviewed the scorecard, highlighting the various performance ratings.

Mr. Stohr referred the Board to the remaining operational update items (Ref. JM | 6.21.18 | 4B, 4C, 4D, 4E).

FUTURE ITEMS FOR DISCUSSION

ETF will plan on providing building tours at the September meetings.

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 11:30 a.m.

Date Approved: _____

Signed: _____

Robert Niendorf, Secretary
Employee Trust Funds Board