

DRAFT

MINUTES

December 13, 2018

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



Location:

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

ETF BOARD MEMBERS PRESENT:

| | |
|----------------------------|---|
| Wayne Koessler, Chair | Leilani Paul |
| John David, Vice Chair | Roberta Rasmus |
| Robert Niendorf, Secretary | Jim Underhill (designee for Stacey Rolston) |
| William Ford | Mary Von Ruden |
| Michael Langyel | Bob Ziegelbauer |

TR BOARD MEMBERS PRESENT:

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

WR BOARD MEMBERS PRESENT:

| | |
|---|----------------|
| Wayne Koessler, Chair | Herb Stinski |
| John David, Vice Chair | Mary Von Ruden |
| Steven Wilding, Secretary | Julie Wathke |
| Elizabeth Hizmi (designee for Ted Nickel) | |

BOARD MEMBERS NOT PRESENT:

David Wiltgen, TR and ETF Board

| Board | Mtg Date | Item # |
|-------|----------|--------|
| JM | 3.21.19 | 2 |

PARTICIPATING EMPLOYEE TRUST FUNDS STAFF:

Office of the Secretary:

Bob Conlin, Secretary
John Voelker, Deputy Secretary
Tarna Hunter, Director of Strategic
Engagement and Government Relations
Cherylynn Wilkins, Board Liaison

Division of Retirement Services:

Matt Stohr, Administrator
Anne Boudreau, Deputy Administrator

OTHERS PRESENT:

ETF Division of Management Services:

Bonnie Cyganek, Anthony Lindsey,
David Lemke

ETF Division of Retirement Services:

Roger Fletcher, Jim Guidry

ETF Division of Trust Finance: Dave

Ehlinger, Cindy Klimke-Armatoski,
Michelle Mattox

ETF Office of Communications:

Nancy Ketterhagen, Mark Lamkins

ETF Office of Internal Audit:

Michelle Hoehne, Rick Onasch,
Yikchau Sze, Ramona Yee

ETF Office of Legal Services (OLS):

Diana Felsmann, Dan Hayes, David
Nispel, Mary Richardson

ETF Office of Policy, Privacy &

Compliance: Steve Hurley, Laura
Patterson

ETF Office of the Secretary: Lisa Gurley

Gabriel, Roeder, Smith & Company

(GRS): Jim Anderson, Mark Buis,
Brian Murphy

Legislative Audit Bureau (LAB):

Emily Pape, Stephanie Yost

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 9:03 a.m.

CONSIDERATION OF MINUTES OF PREVIOUS MEETING

MOTION: Mr. Grochowski moved to approve the September 20, 2018, minutes of the Joint Meeting of the ETF, WR, and TR Boards, as submitted by the Board Liaison. Mr. David seconded the motion, which passed unanimously on a voice vote.

ANNOUNCEMENTS

Mr. Stohr provided meeting logistics for the day and made the following announcements:

- Dana Perry, Division of Management Services administrator, is retiring and Steve Mueller, ETF's Chief Information Officer, has been promoted.
- Regarding the ETF Board Elections, there were eight nominations for the Annuitant Member Seat, currently held by Bill Ford; therefore, there will be an election. The election to fill the Educational Support seat, currently held by Leilani Paul, received one qualified nomination; therefore, no election will be held.

- Two volunteers are needed from the ETF Board for the Election Certification Committee. Ms. Von Ruden and Mr. Niendorf volunteered to serve on the committee.
- TR Board Elections: there were originally two Public School Teacher seats available, held by Allison Pratt and Brent Grochowski, and ETF received three qualified nominations. Shortly after the deadline date, Robin Starck informed ETF of his resignation, making a third Public School Teacher seat available. ETF extended the nomination deadline date three weeks and no additional nominations were received; therefore, no election will be held. A drawing of lots will be done to determine which of the three nominations will receive the remainder of Robin Stark's term. A second call for nominations has been made for the Milwaukee Public School Teacher seat, the deadline is December 21, 2018.
- Two volunteers are needed from the TR Board for the Election Certification Committee. Mr. Epping and Mr. Langkamp volunteered to serve on the committee.

A board member requested that ballots be presented in random order for fairness of all candidates. While it is too late for the 2019 election as materials are already at the printers, Mr. Stohr stated that could ETF will investigate the possibility for future elections.

EDUCATIONAL TOPICS

Wisconsin Retirement System Three-Year Experience Study: January 1, 2015 – December 31, 2017

Mr. Murphy from GRS referred the Board to the WRS Three-Year Experience Study (Ref. JM | 12.13.18 | 3A) and explained the study process, which included:

- making professional judgements based on analysis of actual experience during 2015-2017;
- comparing and weighing trends while considering the risks of continued use of outdated assumptions; and
- recommending a reasonable range of assumptions that the ETF Board can choose to adopt.

Mr. Murphy presented demographic information about the WRS and an overview of WRS assets and liabilities. Mr. Buis discussed the mortality experience part of the study. Mr. Buis stated the Society of Actuaries (SOA) released a draft of new public retirement plan mortality tables. The SOA developed the new tables to better reflect trends in mortality among public pension plans. He stated that statistics show mortality differs between the different types of public employee job categories. For example, a key finding was that teachers and higher income retirees live longer. GRS proposed changing to a benefit-weighted analysis for mortality rate projections and proposed changes to the beneficiary option factors used for benefit calculations.

Mr. Anderson reviewed how GRS makes its economic assumptions as well as considering historical information on price inflation, wage inflation and WRS trust fund investment returns.

GRS will propose changes to WRS assumptions to the ETF Board for discussion and approval this afternoon. New assumptions would be first used in the December 31, 2018, valuation and would impact contribution rates starting in 2020.

The recommendations are as follows:

- price inflation rate range of 2.3% and 2.5%
- wage inflation rate range of 2.8% and 3.0%
- investment return range of 6.8% and 7.0%

State of Wisconsin Investment Board (SWIB) Appointee Annual Update

Teachers Retirement Board

Ms. Clafin-Chalton provided an update, as the TR Board appointee and as a SWIB trustee. She shared observations and her experiences of the last five years, these include the extensive reading preparation necessary for board meetings and other requirements for serving the board and WRS members well. She shared that David Villa has helped create SWIB's reputation of being known as a strong asset management firm.

Wisconsin Retirement Board

Mr. Conlin, the WR Board appointee to SWIB, affirmed Ms. Clafin-Chalton's opinions about SWIB, adding that all trustees have passion to ensure the trust fund is available for current and future retirees.

Mr. Conlin, who came to ETF in 2006, has seen many changes at SWIB over the years, but he said one thing is constant: setting and achieving goals. He also referenced the financial crisis of 2008-2009 and how this crisis underscored the importance of SWIB investment strategy to WRS funding goals. Mr. Villa, who arrived at SWIB in 2006, instituted a stress test to control risk and ensure Wisconsin's Trust Fund remains fully funded. The focus has been on avoiding significant downward trends. SWIB's strategy has been a willingness to give up some return dollars when investments are on the upward trend to protect the fund during downward trends. The philosophy is that it is better to be more concerned about risk than to have significant losses in the down times. Mr. Conlin added that, as trustees, he and Ms. Clafin-Chalton do not make investment decisions. Their responsibility is strictly oversight – making sure SWIB is following the established governances, appoint the executive director and to act solely in the best interest of the funds under management.

OPERATIONAL UPDATES

Retirement and Customer Service Trends

Ms. Boudreau provided an overview of the trends seen within retirement and customer service areas. She stated that there is a noticeable increase in both the third quarter and year-to-date totals for member contacts to ETF from 2017 to 2018. There was a 7.5% increase in third quarter totals and year-to-date totals increased by 3.8%. Ms. Boudreau also noted during the highest volume week of It's Your Choice, average call center wait

times increased by 43.6% and call volumes increased 35.4%. Retirement estimate requests and retirement applications have both increased slightly from 2017 to 2018.

Ms. Boudreau also provided an overview of customer service improvements that have been implemented by ETF, stating that the agency is serving an increased number of members and through online appointments.

Legislative Update

Ms. Hunter discussed the statewide election races and results. She noted the breakout of Democrat versus Republican seats in the Wisconsin Legislature, and the U.S House of Representatives. Ms. Hunter also discussed the extraordinary session that was called by the Legislature. She provided an overview of potential legislative topics for the 2019 session as well as federal issues such as the Public Employee Pension Transparency Act (PEPTA) and the Unrelated Business Income Tax (UBIT).

Mr. Starck referred the Board to the remaining operational update items (Ref. JM | 12.13.18 | 4C, 4D, 4E, 4F) and offered that staff were available to answer any questions.

Recognize Outgoing Board Member

Mr. Conlin thanked Robin Starck for his service on the TR Board and presented him a plaque. Mr. Starck made comments regarding his tenure on the board.

FUTURE ITEMS FOR DISCUSSION

Regarding Mr. Langyel's comment about random order for election ballots, ETF's legal staff informed Mr. Stohr that the administrative code requires paper ballots list candidates' names in alphabetical order. Mr. Stohr shared the information with the Board.

ADJOURNMENT

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

The meeting adjourned at 11:10 a.m.

Date Approved: _____

Signed: _____

Robert Niendorf, Secretary
Employee Trust Funds Board