

DRAFT

MINUTES

March 21, 2019

**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 | Michael Langyel |
| John David, Vice Chair | Leilani Paul |
| Robert Niendorf, Secretary | Roberta Rasmus |
| Stephen Arnold | Mary Von Ruden |
| William Ford | |

TR BOARD MEMBERS PRESENT:

- | | |
|-----------------------------|----------------------|
| Brent Grochowski, Secretary | Amy Mizialko |
| Esther Ancel | Allison Pratt |
| Gary Epping | Anton Przybylski Jr. |
| Chris Heller | David Schalow |
| James Langkamp | |

WR BOARD MEMBERS PRESENT:

- | | |
|---------------------------|----------------|
| Wayne Koessler, Chair | Mary Von Ruden |
| John David, Vice Chair | Julie Wathke |
| Steven Wilding, Secretary | |

BOARD MEMBERS NOT PRESENT:

- | | |
|----------------------------------|---------------------------------|
| Mark Afable, WR Board | Herb Stinski, WR Board |
| Sandra Claflin-Chalton, TR Board | David Wiltgen, TR and ETF Board |
| Stacey Rolston, WR Board | Bob Ziegelbauer, ETF Board |

Board	Mtg Date	Item #
JM	6.20.19	2

PARTICIPATING EMPLOYEE TRUST FUNDS STAFF:

Office of the Secretary:

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

Division of Trust Finance: Cindy Klimke-
Armatoski, Administrator

Division of Retirement Services:

Matt Stohr, Administrator
Anne Boudreau, Deputy Administrator
Jim Guidry, Director, Benefit Services
Bureau

OTHERS PRESENT:

ETF Division of Management Services:

Bonnie Cyganek, Patrick Hughes,
David Lemke

ETF Division of Retirement Services:

Gina Fischer, Roger Fletcher, Megan
Jeffers, Julie Keal

ETF Division of Trust Finance: Dave

Ehlinger, Gamze Ligler

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

ETF Office of Policy, Privacy &

Compliance: Steve Hurley

ETF Office of the Secretary: Lisa

Gurley, Pam Henning, Tarna Hunter

Gabriel, Roeder, Smith & Company

(GRS): Jim Anderson, Mark Buis,

Rich Koch, Brian Murphy

Legislative Audit Bureau (LAB):

Emily Pape

State of Wisconsin Investment Board

(SWIB): Edwin Denson, Rochelle
Klaskin

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

ANNOUNCEMENTS

Mr. Stohr provided the following announcements:

- The ETF Board Election Certification Committee met this morning. There were eight nominations for the Annuitant Member Seat. Incumbent Bill Ford won the election. His term will be extended another four years. ETF received multiple letters regarding the lack of candidate diversity on the ballot. This will be discussed further at the ETF Board meeting this afternoon. The Certification Committee also confirmed to extend Leilani Paul for the Educational Support seat on the ETF Board for another four years.
- Stephen Arnold is a new governor appointment to the ETF Board.

- TR Board Election Certification Committee also met this morning. Allison Pratt's and Brent Grochowski's terms will be extended on the TR Board. Amy Mizialko will replace Kim Schroeder for the Milwaukee Public School Teacher Seat.
- Craig Hubbell recently resigned from the TR Board along with Sandra Claflin-Chalton who also resigned.
- Steve Wilding was reappointed to the WR Board. Mark Afable will be taking the ex officio seat.

CONSIDERATION OF MINUTES OF PREVIOUS MEETING

MOTION: Ms. Von Ruden moved to approve the December 12, 2018, 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.

EDUCATIONAL TOPICS

State of Wisconsin Investment Board (SWIB)-2018 Wisconsin Retirement System Investment Performance and 2019 Outlook

Rochelle Klaskin, Deputy Executive Director and Chief Administrative Officer of SWIB, reviewed SWIB's organizational structure. Last year, with the unexpected departure of the Executive Director, several new positions were created. These include the Deputy Executive Director position; other positions were combined.

Mr. Edwin Denson, Managing Director – Asset and Risk Allocation, mentioned that the preliminary YTD return as of February 28, 2019, is at 6.5%. He explained the Core Fund Asset Allocation targets and the changes SWIB made from 2018 to 2019, moving from public equity to private equity, and discussed active returns compared to risk. SWIB has made several changes to bring in multi-millions of returns to the Core Fund.

Ms. Klaskin talked about CEM Benchmarking and costs of investment management. She said that on average, SWIB management costs are \$90 million less than peers. SWIB's total costs have increased since 2013 but have remained materially lower than peers due to increased utilization of internal asset management. SWIB's cost from internal active management is substantially lower than the cost for external management. By bringing the investment management in-house, SWIB saves the Wisconsin Retirement System (WRS) a substantial amount of money. SWIB saved \$1.3 billion more than peers from 2008 to 2017. All information is on SWIB's website for comparison.

Mr. Ford expressed a concern regarding the topic of depletion of funds to pay dividends to retirees. Ms. Klaskin explained that Gabriel, Roeder, Smith Company (GRS) works with SWIB to model different rate of return scenarios and its impact on WRS.

Wisconsin Retirement System 36th Annual Valuation of Retired Lives - December 31, 2018

Mr. Murphy, Mr. Anderson and Mr. Buis from Gabriel, Roeder, Smith Company (GRS) presented on the Retired Lives Valuation (Ref. JM | 3.21.19 | 3B). Actuaries look at the system to estimate what is needed to pay future benefits. Mr. Murphy presented demographic information about the WRS and an overview of WRS assets and liabilities.

Mr. Anderson explained the review process, stating that, due to smoothing via Market Recognition Accounts, as of December 31, 2018, there are approximately \$4.9 billion in unrecognized losses in the Core Trust Fund. Last year there were \$3.3 billion in unrecognized gains, which will be recognized over the next four years. Mr. Anderson explained how the rate of return is calculated in the valuation. Annuity adjustments are effective May 1, 2019.

Mr. Buis discussed the liabilities attributed to dividends and reviewed the dividends remaining, based on annuitants' retirement dates. For example, for annuitants who retired between 2000 – 2012, their dividends are equal because they lost their accumulated dividends due to the 2008 market crash. He also showed the projection of cash flows, highlighting the importance of investment returns for future Core annuities. The average retirement age, average age of death, historical comparative reserve and dividends were also reviewed.

Mr. Murphy shared current events. GRS will be going through an actuarial audit. The last one was in 2013. Mr. Murphy also discussed the risk of mortality and providing retirement security.

Core Fund Annuity Adjustments and Effective Rate Projections

Ms. Klimke-Armatoski presented information regarding projections for Core Fund annuity adjustments and effective rates, based on varying rates of returns and noted assumptions. (Ref. ETF | 3.21.19 | 3C) She also explained the current value of annuities, which included annuity adjustments to be made effective this year. She reminded the Board that the WRS is only one leg of the three-legged-stool with the other two being social security and other outside investments. The annuity adjustment projections are only useful for projecting the potential of positive or negative adjustments. Projections are based on the 2018 Core Trust Fund net of fee investment return and smoothing mechanisms. It was noted that negative adjustments can only reduce increases granted in prior years, and that a Core annuity cannot be reduced below its original value.

Policy Review and Update

Mr. Hurley explained the non-substantive policies and how they were reviewed (Ref. ETF | 3.21.19 | 3D). He also referred the Board to the governance manual in which these policies are kept. Mr. Hurley then focused on the WRS Funding Policy, explaining that a pension funding policy is a set of parameters used in the determination of annual contributions. The

funding policy summarizes the objectives of the pension plan and the actuarial methods used to achieve those objectives. The financial objective is to fully fund the long-term cost of benefits provided by statute, through disciplined and timely accumulation of enough assets to deliver earned benefits on a continuing basis.

The Board should follow these funding guidelines:

- Contribution Adequacy
- Contribution Stability and Predictability
- Inter-generational Equity

Mr. Hurley discussed the funding methods highlighting that the WRS has a funding target of 100%. He also explained the different risks to a funding policy (i.e. demographic, investment, benefit changes, governance and risk metrics).

Mr. Langyel commented on the need to educate members on the importance of the three-legged-stool.

OPERATIONAL UPDATES

Retirement and Customer Service Trends

Ms. Boudreau provided an overview of the trends seen within retirement and customer service areas. (Ref. ETF | 3.21.19 | 4A) She highlighted fourth quarter comparisons with the retirement estimates and call center numbers. Despite fewer calls, members had longer wait times, primarily because of *It's Your Choice* open enrollment inquiries. Members had many questions about health insurance, particularly about the new Medicare Advantage plan and dental coverage making calls longer.

Members consistently express a high level of satisfaction with the service they received from ETF, with a satisfaction rating of 98% or higher. The response rate from member surveys is very high. In addition, surveys taken after telephone calls, the response rate is 42%; for webinars, 63%; and after in-person appointments, 73%. Ms. Boudreau provided some examples of the comments ETF received from customers.

Ms. Boudreau also provided an overview of a process improvement affecting employer reporting. All employers report their data to ETF electronically. In order to reduce errors in employer reporting, ETF provided more employer training. This gave the employers more control, cleaner data and less manual intervention by ETF staff.

Member Engagement Survey Results

Mr. Lamkins provided an overview of ETF's member engagement survey. ETF participated in a CEM Consortium, which allowed ETF to benchmark its performance against peer systems and build on the successes and best practices. Positive customer experiences will

lead to higher engagement and influence behaviors. ETF has a higher average engagement level compared to its peers. A member's confidence level on if they will have enough to live comfortably through retirement is lower in the younger ages and lower than peers. However, for members 50 years and older, members are more confident in both their ability to live comfortably and higher than ETF peers. The survey provided a good baseline for measuring engagement going forward.

Annual Disability Statistics

Mr. Guidry provided an overview of the four disability programs ETF oversees. (Ref. ETF | 3.21.19 | 4C) The Long-Term Disability Insurance (LTDI) participation will continue to go down as existing claims are depleted and the program stopped accepting new claims in 2018. However, 40.63 claims rose due to it being reopened to all employees. This was anticipated. The LTDI will take approximately 37 years to runout, with most claims terminating in 15 years or less. He compared the different disability programs and types of claims. The types of claims with LTDI and Income Continuation Insurance (ICI) show a broader age distribution than 40.63 and over time, 40.63 is expected to resemble LTDI distribution. Mr. Guidry provided an overview of the timeline of the disability program redesign.

The state ICI program has been running in a program deficit, with declining enrollment and increasing premiums. As part of ETF's disability programs redesign, ETF proposed modifications to the ICI program which include decoupling sick leave, eliminating long-term coverage and reducing the benefit to 70%. The goals of the ICI changes are to address the actuarial deficit in the ICI program, reverse enrollment decline and simplify the program by reducing duplication. ETF continues to seek legislative support for the necessary statute changes to address the issues with the state ICI program.

Mr. Koessler referred the Board to the remaining operational update items (Ref. JM | 3.21.19 | 4D, 4E, 4F, 4G, 4H, 4I, 4J) and offered that staff were available to answer any questions.

ADJOURNMENT

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

The meeting adjourned at 11:28 a.m.

Date Approved: _____

Signed: _____

Robert Niendorf, Secretary
Employee Trust Funds Board