

DRAFT

MINUTES

March 25, 2021

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



Location:

Department of Employee Trust Funds
This meeting was held via teleconference.

ETF BOARD MEMBERS PRESENT:

Wayne Koessl, Chair	Michael Langyel
John David, Vice Chair	Katy Lounsbury
Robert Niendorf, Secretary	Leilani Paul
Malika Evanco	Roberta Rasmus
William Ford	Steve Wilding
Chris Heller	

TR BOARD MEMBERS PRESENT:

Chris Heller, Vice Chair	Allison Pratt
Esther Ancel, Secretary	Anton Przybylski Jr.
James Langkamp	David Schalow

WR BOARD MEMBERS PRESENT:

John David, Chair	Herb Stinski
Steven Wilding, Vice Chair	Mary Von Ruden
Julie Wathke, Secretary	
Wayne Koessl	

BOARD MEMBERS NOT PRESENT:

Mark Afable, WR Board	Brent Grochowski, TR Board
Stephen Arnold, ETF Board	Amy Mizialko, TR Board
Adam Balz, TR Board	

Board	Mtg Date	Item #
JM	6.17.21	2

PARTICIPATING EMPLOYEE TRUST FUNDS STAFF:

Office of the Secretary:

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

Division of Retirement Services:

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

Division of Trust Finance (DTF): Cindy

Klimke-Armatoski, Chief Trust Finance
Officer

Office of Communications:

Mark Lamkins, Director

OTHERS PRESENT:

ETF Division of Management Services:

Patrick Hughes, Kadi Mbanefo

ETF Division of Trust Finance (DTF):

Ramona Yee

ETF Division of Retirement Services:

Tim Harris

ETF Office of Communications:

Nancy Ketterhagen

ETF Office of Internal Audit:

Michelle Hoehne, Kimberly
Richmond, Yikchau Sze, Amanda
Williams

ETF Office of Legal Services (OLS):

Monica Anderson, Diana Felsmann, Dan
Hayes, David Nispel

ETF Office of Policy, Privacy &
Compliance: Steve Hurley

ETF Office of the Secretary:

Lisa Gurley, Pam Henning, Tarna
Hunter, Kathryn Young

Legislative Audit Bureau (LAB): Bridget
Wieser

Gabriel, Roeder, Smith & Company (GRS):

Jim Anderson, Mark Buis, Brian Murphy
State of Wisconsin Investment Board
(SWIB): Anne-Marie Fink; Rochelle
Klaskin

State Engineering Association:

Bob Schaefer

Others: 1 person connected via MS Teams

Wayne Koessl, Chair, ETF Board, called the Joint Meeting of the ETF Board, TR Board and WR Board to order at 9:04 a.m.

ANNOUNCEMENTS

Mr. Stohr provided the following announcements:

- Congratulations to Teachers Retirement Board members Allison Pratt and Chris Heller who will both serve another five-year term on the Teachers Retirement Board, beginning in May.
- In January, the Department of Employee Trust Funds issued a [call for nominations](#) for three available teacher member seats, and Pratt and Heller submitted their papers to extend their terms on the TR Board. ETF did not receive any other nominations, so an election will not be conducted. The one remaining vacant teacher member seat on the TR Board will be added to the call for nominations in the fall, depending on the outcome of the [proposed governing board consolidation](#).

- Governor Evers included the board redesign in his 2021-2023 State Budget proposal. The next step in the process is for the Legislature to review the budget proposal.
- Item 4J in the Board packet is the Wisconsin Public Records training. After you review the training, please return the acknowledgement form to the board liaison.

Mr. Koessl read the resolution presented to Bob Conlin from the three retirement boards. He then opened the floor to board members to provide accolades and thanked Mr. Conlin for his service.

Mr. Conlin responded, thanking the governing boards for pushing ETF to do better. He said that it is not dependent on one person to provide comfort in the transition, but instead, it is everyone pulling in the same direction for the good of the members and the WRS.

CONSIDERATION OF MINUTES OF PREVIOUS MEETING

MOTION: Ms. Von Ruden moved to approve the September 17, 2020, 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.

EDUCATIONAL TOPICS

SWIB – 2020 Wisconsin Retirement System (WRS) Investment Performance and 2021 Outlook

Ms. Klaskin, Interim Executive Director, reassured the boards that David Villa's vision and legacy continues. With Mr. Villa's passing, SWIB invoked its interim leadership that included staff who worked side by side with Mr. Villa. SWIB's Management Council has 152 Years of Collective leadership and investment industry experience.

2020 was a volatile time in the market, but SWIB investment management outperformed adding more than \$1.9 billion above benchmark returns over the last five years to the WRS. A strong system and a strong performance strategy are what is keeping the WRS going strong.

Ms. Klaskin explained why it is important to have SWIB and the difference between passive management versus active management. The benefit of having 65% of the assets actively managed by SWIB inhouse provided the WRS \$13.5 billion after all cost, over and above simple passive management and diversification.

Ms. Fink reviewed the Core Trust Fund's asset allocation targets. She showed how SWIB's investments compare to peers and how recent market volatility benefited SWIB's risk-balance approach vs. peers. SWIB's risk control and consistency led to relatively smooth dividends over the last 10 years. SWIB can provide positive excess returns without taking as much active risk as peers. One of SWIB's strength is managing assets in-house. However, there is still some positive benefits to investing part of its assets with external

active managers. All assets are net of fees. SWIB increased the accesses to private markets because higher returns can be accessed through private markets.

Every two years, GRS does a deep stress test of the system looking at risk versus return. SWIB does not take risk they believe they are not compensated for. SWIB thinks about risk every day, at multiple layers. A combination of being able to take action quickly allows SWIB to rebound from declines quickly.

Mr. Conlin commented about some negative media regarding private equities. SWIB has a very different experience than its peers. There are a lot of different views, but Ms. Fink provided an explanation. Yes, the fees are high, but the net of fees are worth it. It is more effort but SWIB works with smaller managers because they can negotiate better fees. Smaller managers are more focused on getting the WRS better returns with better economic terms.

Wisconsin Retirement System 38th Annual Valuation of Retired Lives - December 31, 2020
Mr. Murphy, Mr. Anderson, and Mr. Buis from Gabriel, Roeder, Smith Company (GRS) presented on the Retired Lives Valuation (Ref. ETF | 3.25.21 | 5B).

They reviewed how the system operates, including the smoothing mechanisms. It is generally undesirable for retirees to experience wide swings in monthly benefits from year to year, and asset smoothing has worked well historically. Demographic information about the WRS and an overview of WRS assets and liabilities, including a summary of the number of annuitants, annuities paid, and fund balances for both the Core and Variable Funds were also presented. Due to smoothing via market recognition accounts, as of December 31, 2020, there are approximately \$11.1 billion in deferred asset gains shared by annuitants, active members, and employers between 2021-2024.

GRS reviewed the detailed adjustments made, both positive and negative, to calculate the recommended Core dividend.

GRS discussed the adjustments pattern graph for projected future core annuities, average retirement age, average age at death, and the summary of mortality. The mortality in 2020 due to COVID went from a death rate from 2.5% to 2.73% in 2020, which was approximately 12% extra deaths. However, the overall impact on the Core Dividend was relatively small.

As of the Dec 31, 2020 valuation, there are about \$11.1 billion in unrecognized asset gains in the Core Fund. About half of this will be applied to annuitant reserve, will be recognized over the next four years, and may increase probability of future positive annuity adjustments. GRS reviewed the WRS potential dividend liability risk metric for both the MRA (i.e., smoothing) and the MVA (i.e., market value) and the depletion of the dividend reserve. If total core retiree assets would decrease to the point of depleting the existing dividend reserve until it was completely gone, it could affect contribution rates.

Mr. Stohr stated that the annuity adjustment will go into effect May 1, 2021. When members question the investment return percentage versus the annuity adjustment, ETF provides three points:

1. smoothing
2. 5% threshold with lifetime benefits
3. Mortality and other actuarial adjustments.

Core Fund Annuity Adjustments and Effective Rate Projections

Ms. Klimke-Armatoski (Ref. ETF | 3.25.21 | 5C) explained the current value of annuities, comparing the annuity increases versus the cost of living. She compared the change in value of annuities based on different retirement dates. Ms. Klimke presented information regarding projections for Core Fund annuity adjustments and effective rates, based on varying investment return possibilities. The projections detailed how the current and possible investment gains/losses would be recognized in the next five years and the effect on the dividend liability.

OPERATIONAL UPDATES

Retirement and Customer Service Trends

Ms. Boudreau provided an overview of the trends within retirement and customer service areas, highlighting (Ref. JM |3.25.21 | 4A) fourth quarter statistics on retirement estimates and applications. The spike in retirement estimates and applications was due in part to efforts by ETF to locate members who have not kept their contact information current with ETF.

Ms. Boudreau also showed the call center trend for fourth quarter member calls and emails, with calls being down by 7.5% and emails on the rise by 12.3%.

Ms. Boudreau explained a couple of process improvements being made within ETF. Members who worked at non-WRS governmental jobs may purchase that service to enhance their WRS pension. This is an expensive benefit for members because it requires the member to pay both the employee and employer contribution amounts, so many do not use the benefit. Instead of ETF utilizing its resources generating purchase estimates, they now use the resources to educate and speak with the member upfront to make them aware of the cost. ETF explains the benefit, cost, and potential return on investment.

Another process improvement ETF has implemented is in how it trains new staff. New trust fund specialists receive the same training for common tasks, such as basics about the agency or how to use computer systems. Then staff are trained on tasks specific to their position and work unit. This approach to training better prepares new staff for cross training. An additional benefit is that existing staff can utilize the same modules for their own refresher on individual topics.

Annual Disability Statistics

Mr. Guidry (Ref. JM |3.25.21 | 4B) briefly introduced Tim Harris, a new Disability Benefits supervisor to the boards. He then provided an overview of the four disability programs, which pay \$241.5 million in annual benefits to 11,085 members. The average monthly Disability Retirement program (40.63) benefit is \$1,960/month with the average duty disability (40.65) benefit at \$2,978/month. The Long-Term Disability Insurance (LTDI) program is on the decline with most claims being terminated in 15 years or less. The 40.63 program is expected to plateau at 350 new claims per year. The Income Continuation Insurance (ICI) claims show a broader age distribution than 40.63 due to ICI including short-term disabilities. Over time, the 40.63 program is expected to grow to resemble the ICI distribution. However, in 2020 the distribution shrank because approximately 73% of new 40.63 claims came from members in the 51 – 65 age range.

ETF proposed changes to the Income Continuation Insurance (ICI) program including decoupling sick leave from the state ICI program and moving the governing board authority from the Group Insurance Board to the ETF Board in its budget request. However, only the governing board changes made it into the Governor's budget bill.

Wisconsin Strong Initiative

Mr. Lamkins (Ref. ETF |3.25.21 | 4C) presented about the WI Strong initiative. ETF in partnership with the WI Department of Financial Institutions (DFI), received a \$100,000, one-year grant to improve the state and local governmental employees' financial wellness. WI Strong takes a holistic and innovative method to engage employees to take an actionable and sustainable approach to improving their own financial security and wellness.

ETF's Tarna Hunter and Shelly Schueller are holding a webinar to encourage WRS employers to become WI Strong champions and support their employees' overall financial wellness. So far, 14 employers have signed on to be champions. ETF has developed a WI Strong employer toolkit to assist with their financial wellness communications and education for employees.

The WI Strong Financial Fitness Challenge began earlier this month. This highly interactive and rewarding, online learning experience includes:

- A self-assessment checkup to measure an individual's financial confidence, behavior, and aptitude.
- Checkup results, a personalized playlist of courses, videos, and articles presented.
- Quizzes and course completion certificates.

ETF will be using a multi-pronged communications plan to build engagement. Members will find targeted education, tools, and resources on the ETF website to support financial wellness at any age and career stage including, new hire, mid-career, nearing retirement, and retired. There is also targeted education for women, military personnel, and people with disabilities.

Ms. Pratt and Ms. Paul work for two of the current employer champions. They spoke positively about their experience with the initiative and offered some suggestions based on their experience, such as varying webinar times to accommodate different work schedules.

The Financial Fitness Checkup will remain available through February 1, 2022.

Mr. Koessl referred the Board to the remaining operational update items (Ref. JM | 3.25.21| 4D and 4L) and offered that staff were available to answer questions.

FUTURE ITEMS FOR DISCUSSION

Mr. Stohr acknowledged the fact that we have come a long way from our first virtual meeting and thanked board members and presenters for their efforts and patience through the evolution and where we are today.

ADJOURNMENT

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

The meeting adjourned at 11:40 a.m.

Date Approved: _____

Signed: _____

Robert Niendorf, Secretary
Employee Trust Funds Board