

Welcome to the Joint Meeting of the Retirement Boards

September 21, 2023

Meeting will begin at: 9:15 a.m.



WIFI

WI-GUEST

No Password is needed



Please Sign In

- Who? All meeting attendees
- Sheet available at the door



Meeting Materials

- Available at etf.wi.gov



**Please Silence your
Cell Phone and Mute
your Microphone**

Announcements

Item 1 – No Memo

Matt Stohr, Administrator

Division of Retirement Services



Consideration of Open Minutes of December 8, 2022, Meeting



Item 2 – Memo Only





Action Needed

- Motion needed to accept the Open Minutes of the December 8, 2022, meeting as presented by the Board Liaison.

NASRA – National Pension Trends

Item 3A – Joint Meeting

Alex Brown, Research Manager

NASRA



Informational item only

- No Board action is required.

Public Pension Trends

Alex Brown

Research Manager

**National Association
of State Retirement Administrators**

Wisconsin Retirement System

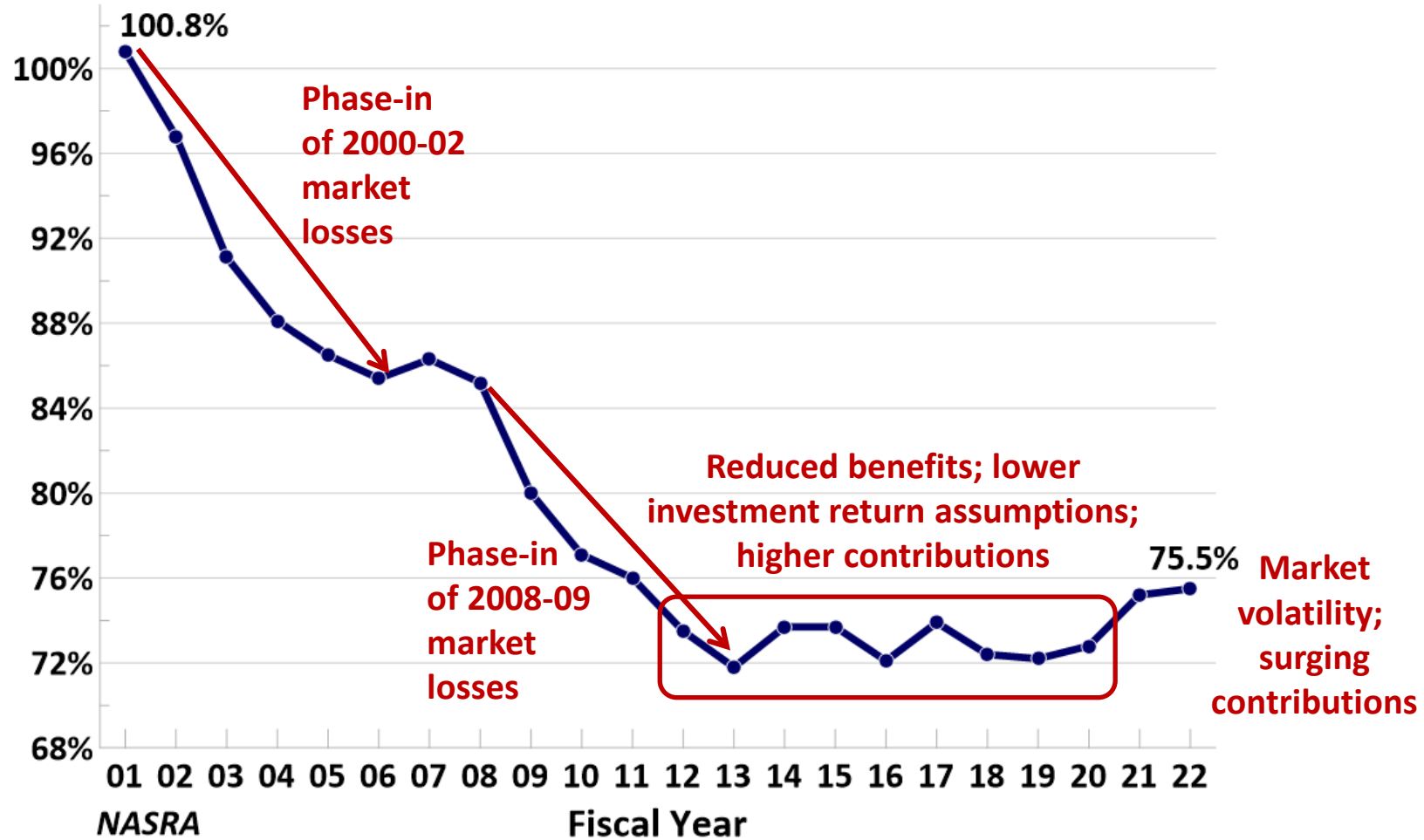
September 2023

Presentation Overview

- Funding update
- Actuarial issues
 - Investment return assumptions
 - Inflation
 - Payroll growth
- Contribution trends



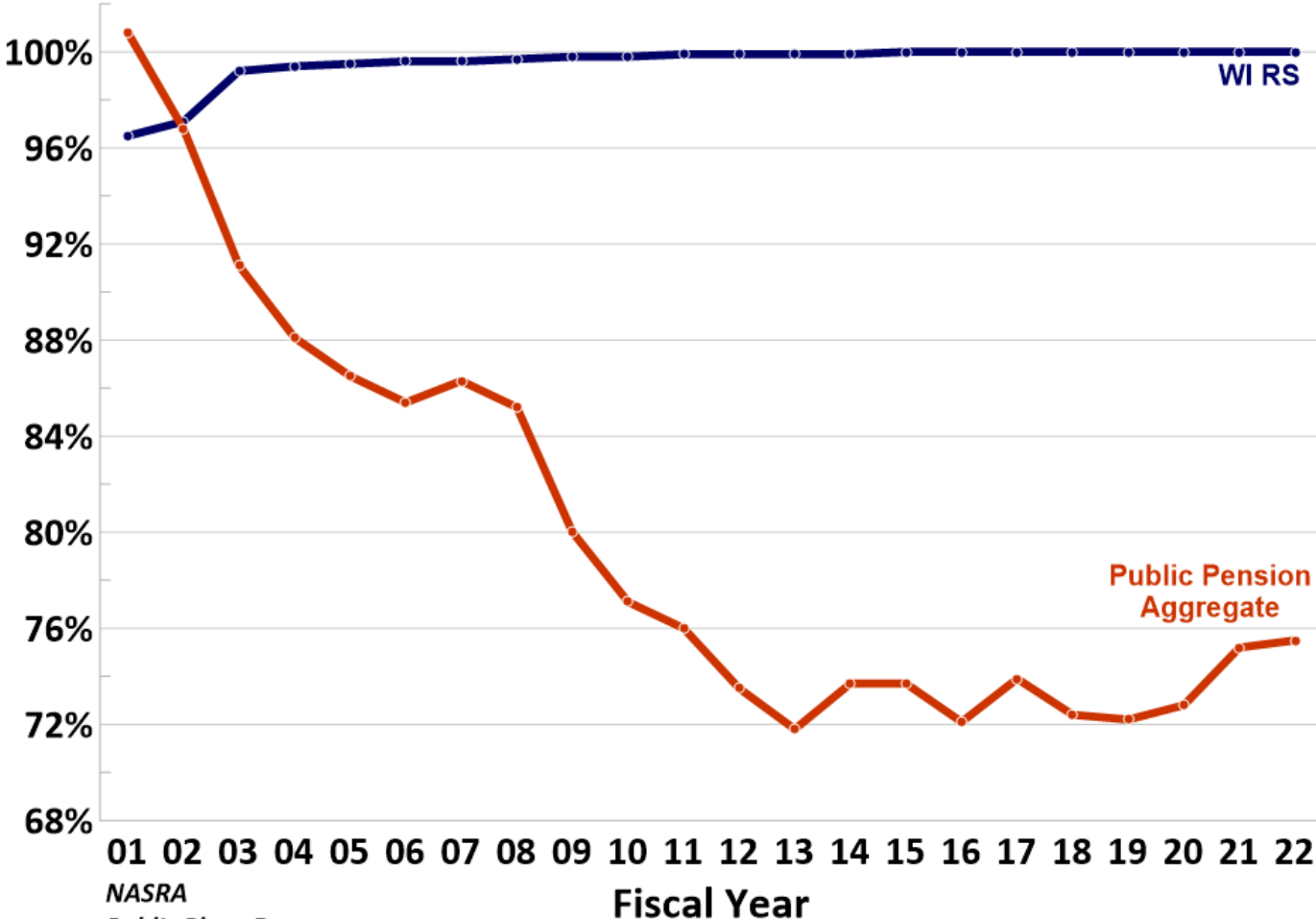
History of Aggregate Public Pension Funding Level FY 01 to FY 22



NASRA
Aug-23

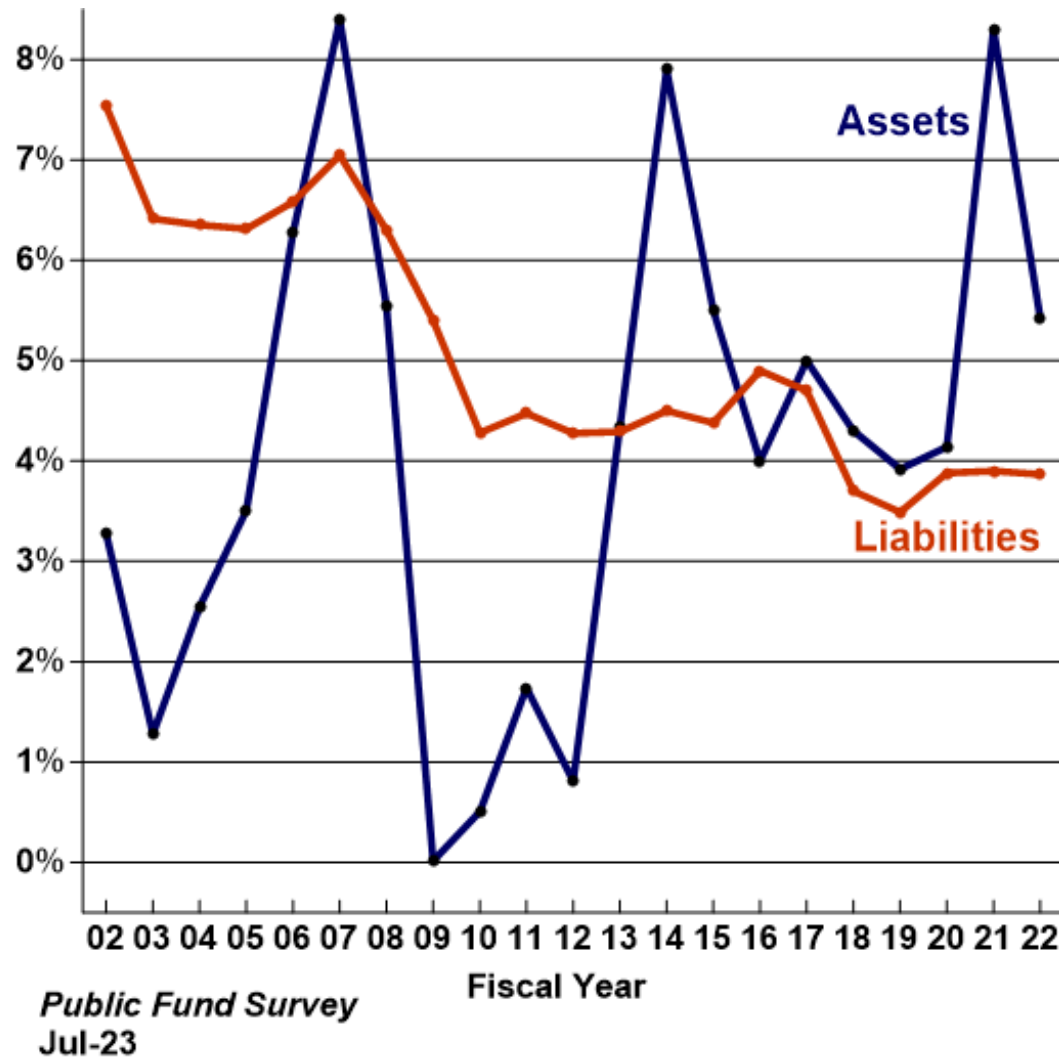


History of Aggregate Public Pension Funding Level FY 01 to FY 22



NASRA
Public Plans Data
Aug-23

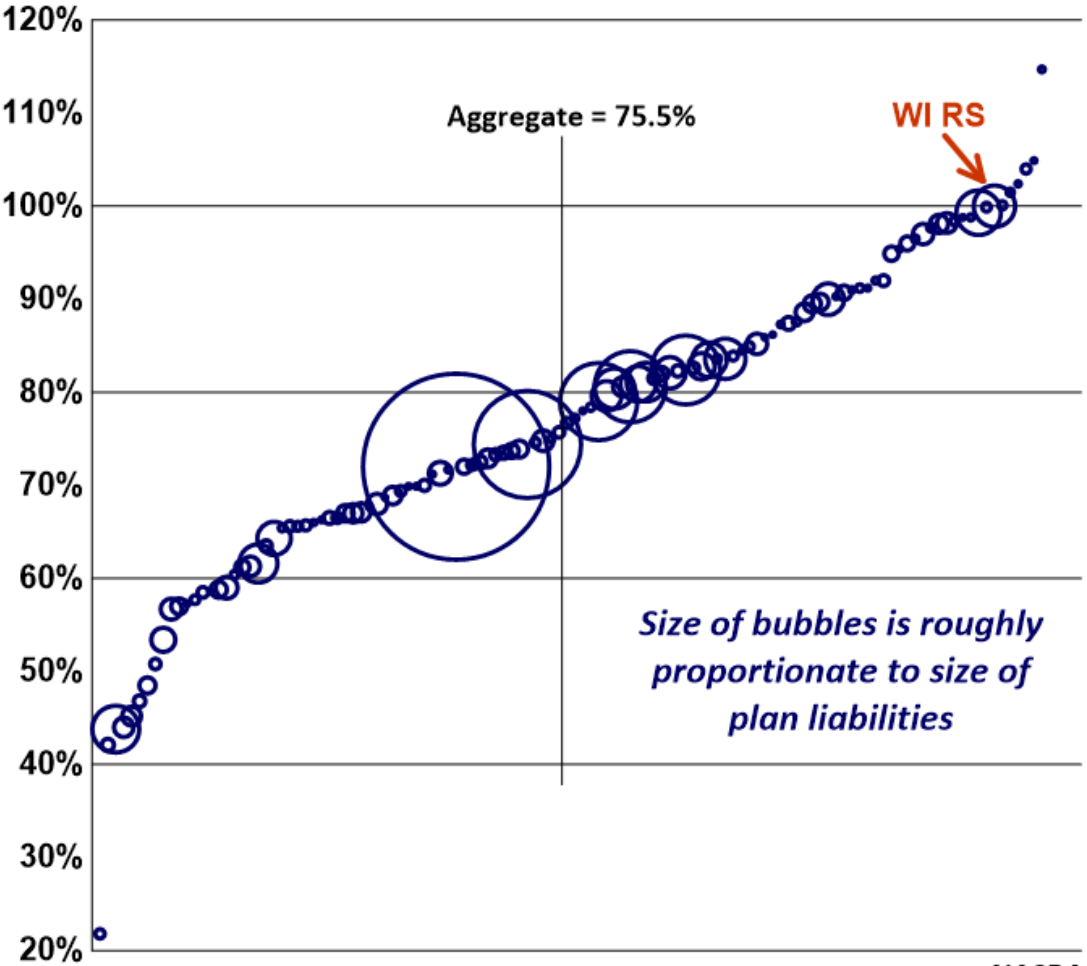




Median Change From Prior Year in Actuarial Value of Assets and Liabilities



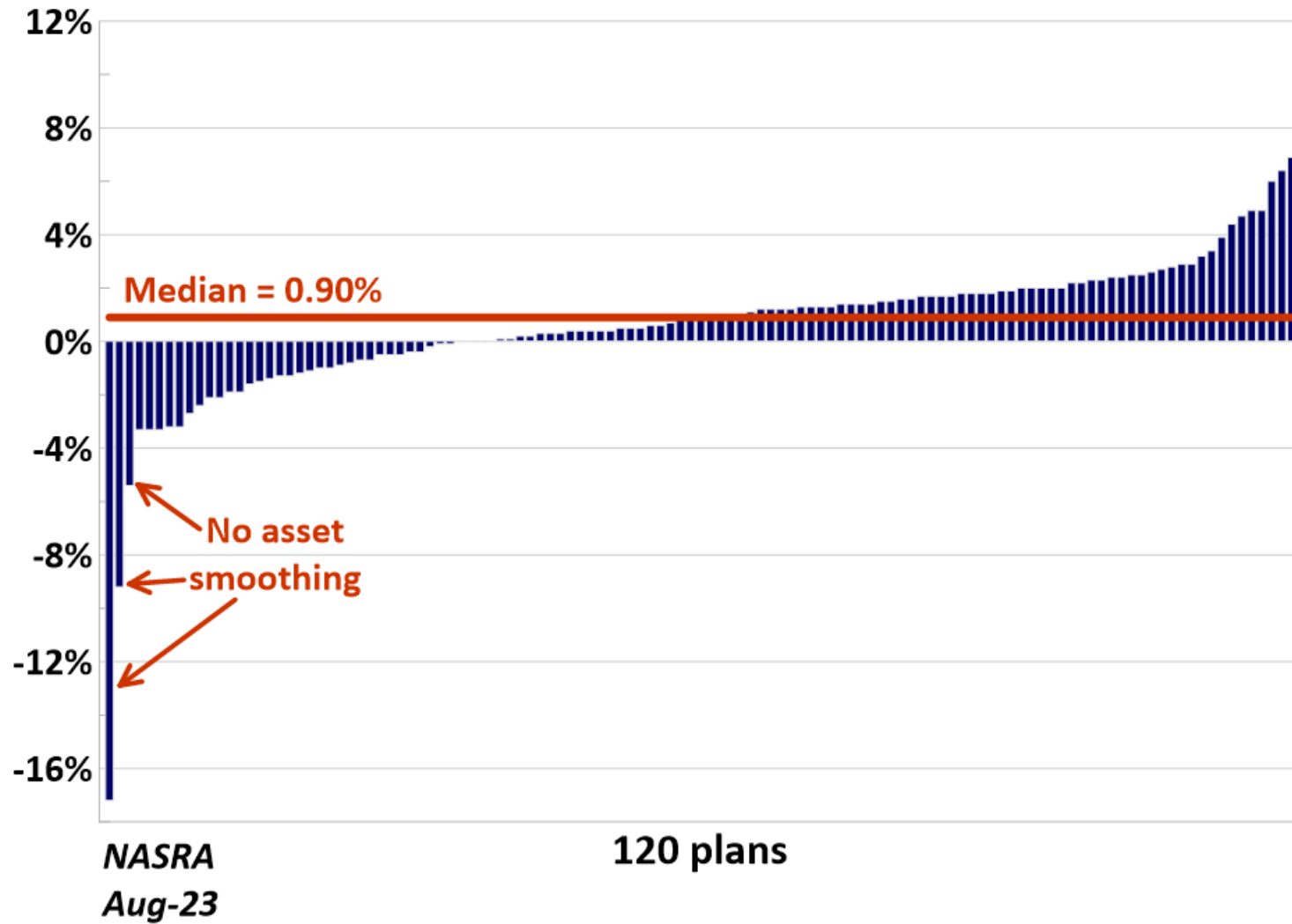
Distribution of Public Pension Funding Levels, FY 22



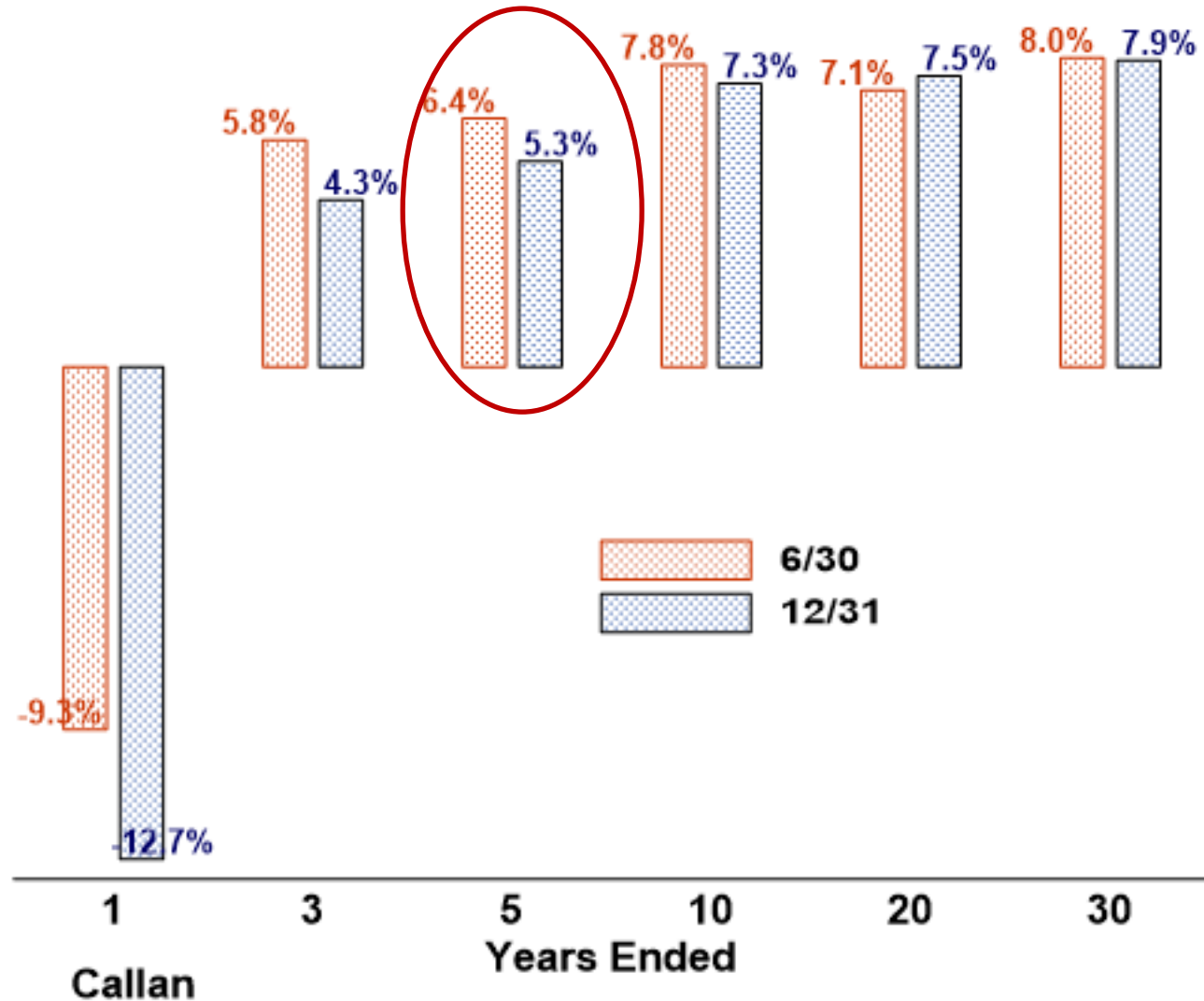
NASRA
Aug-23



Distribution of nominal change in funding level, FY 21 to FY 22



Annualized median public pension fund returns for periods ended in FY 2022

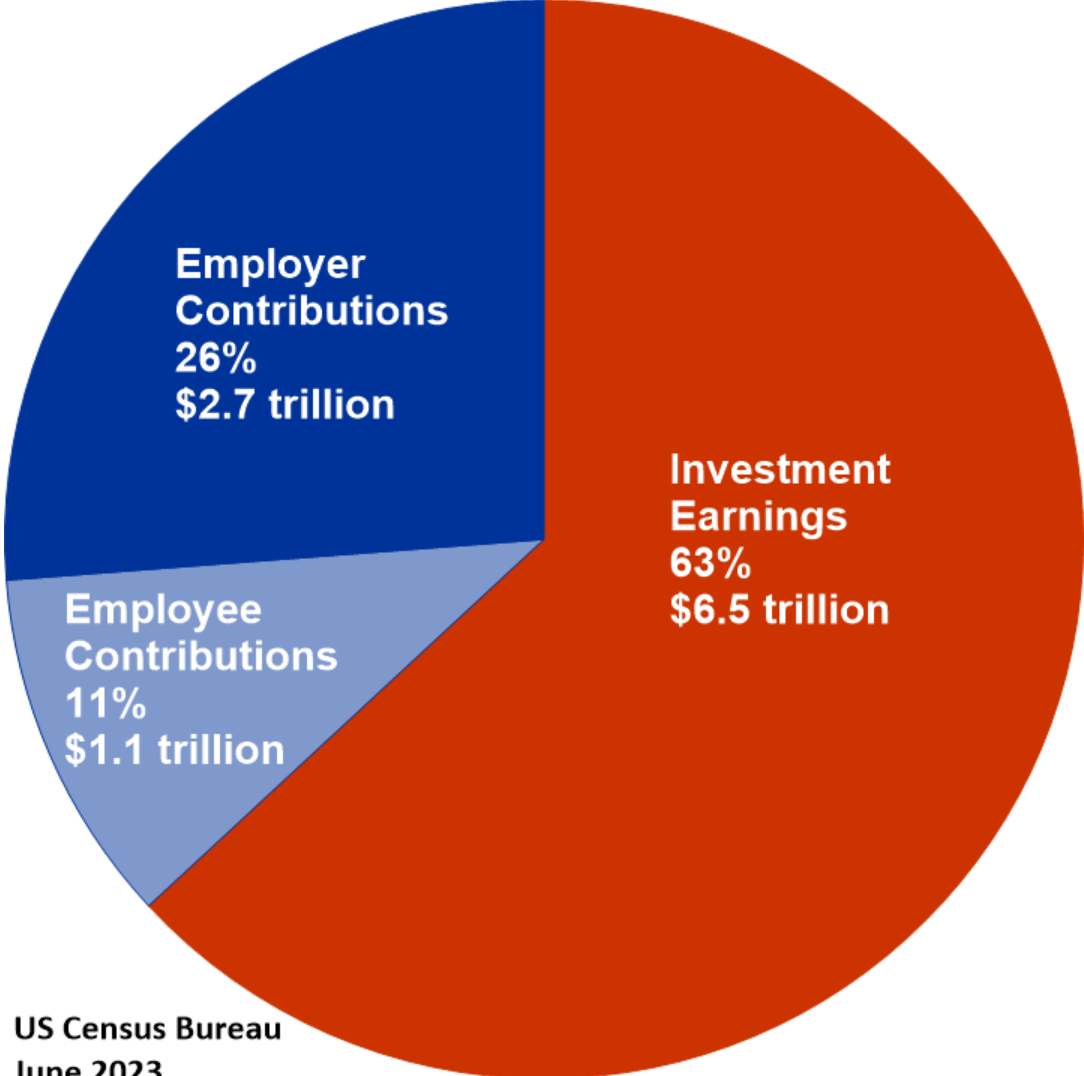


Key Takeaways: Public Pension Funding Conditions

- Funding levels for most public pension plans improved in FY 22, but some signs point to an upcoming decline in aggregate funding levels
- Median growth in the actuarial value of liabilities continues to be lower
- Key funding challenges include:
 - Recent investment returns are below expectations
 - Although trending lower, inflation remains higher by recent historical standards, placing increasing pressure on wages and demands for cost-of-living adjustments

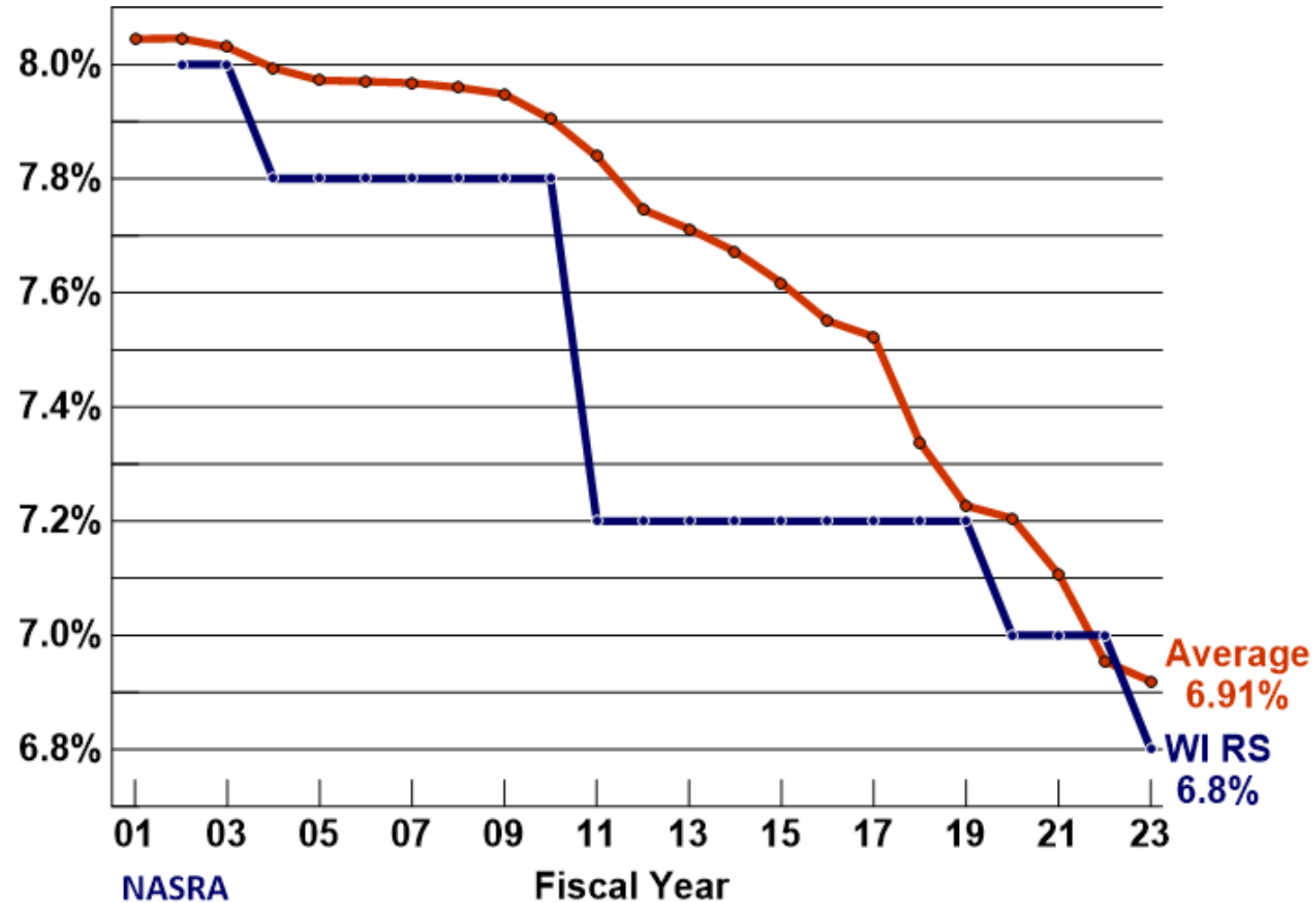


Public Pension Sources of Revenue, 1993 to 2022



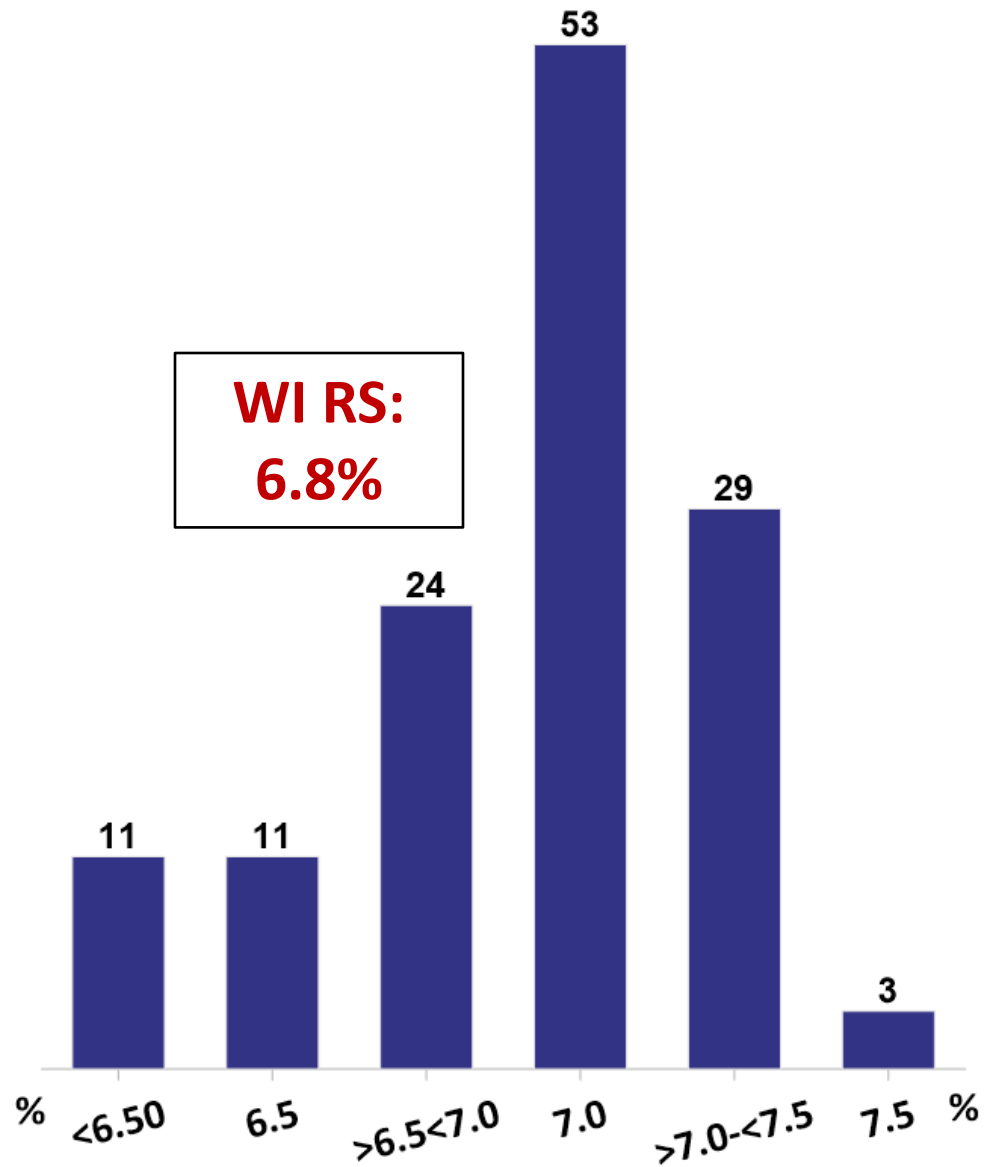
US Census Bureau
June 2023

Change in median and average investment return assumption, FY 01 to present



NASRA
Aug-23





NASRA
Aug-23

Distribution of latest investment return assumptions



What is the effect of inflation on public pensions?

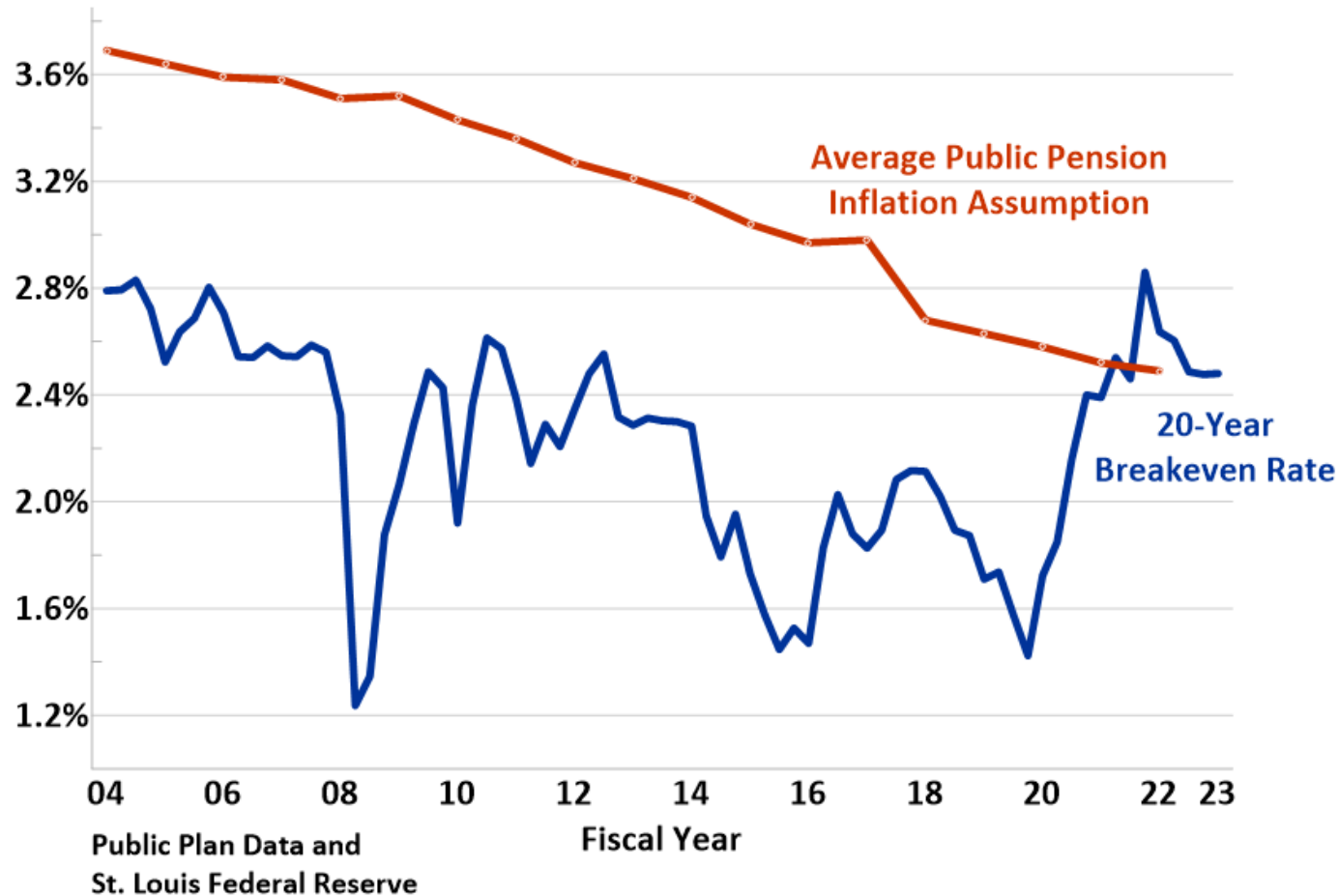
Answer: It depends on individual plan design, demographics, actuarial assumptions, asset allocation and other factors.

Pension plan elements affected by actual or projected rates of inflation

- Participant salaries
- Retirement patterns
- Level of active membership
- Cost-of-living adjustments
- Investment returns
- Plan sponsor revenue



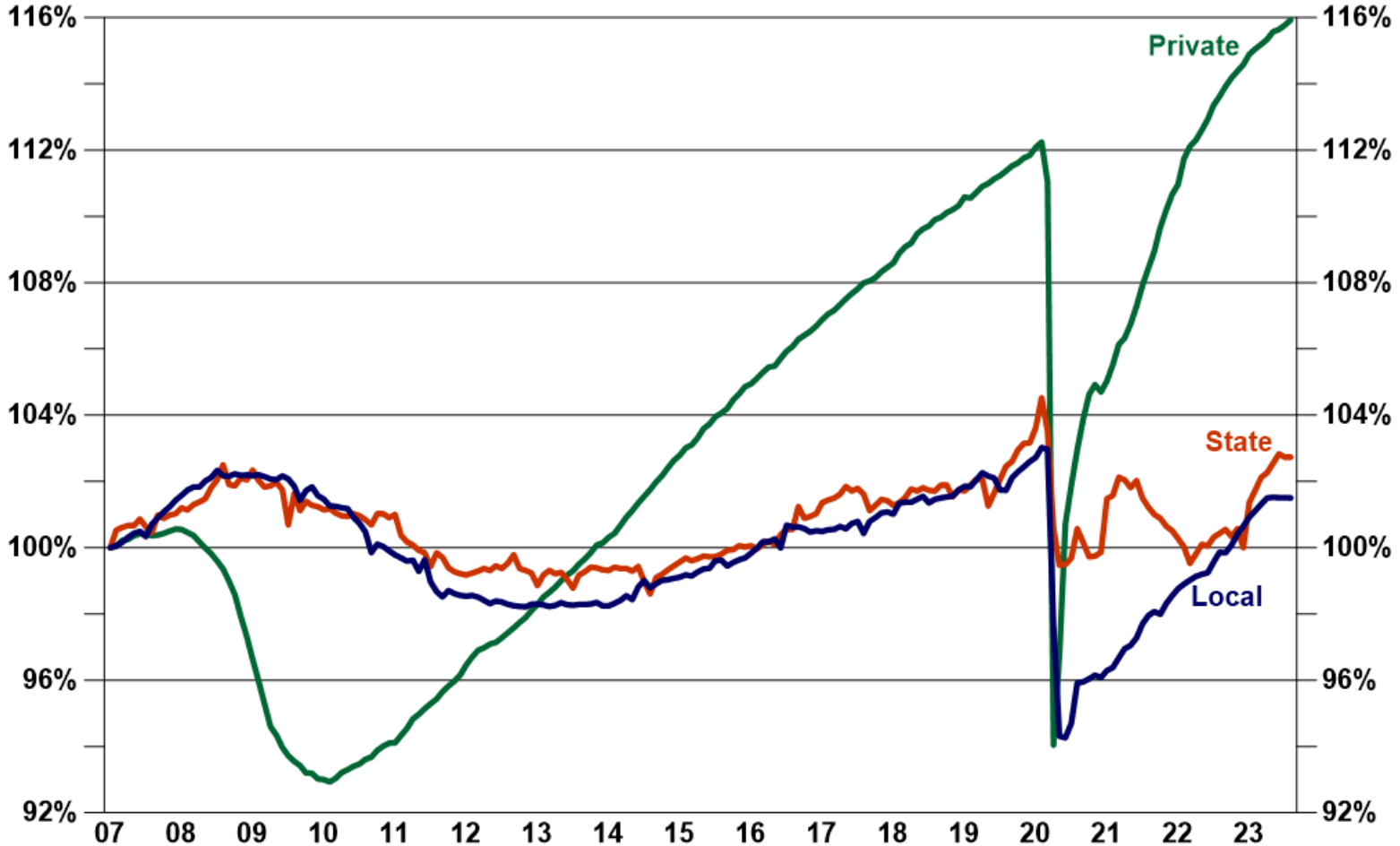
Average Public Pension Plan Inflation Assumption vs. 20-Year Breakeven Rate



The breakeven rate is a measure of expected inflation derived from 20-Year Treasury Constant Maturity Securities and 20-Year Treasury Inflation-Indexed Constant Maturity Securities. The latest value implies what market participants expect inflation to be in the next 20 years, on average.



Relative Change in State and Local and Private Employment since 2007

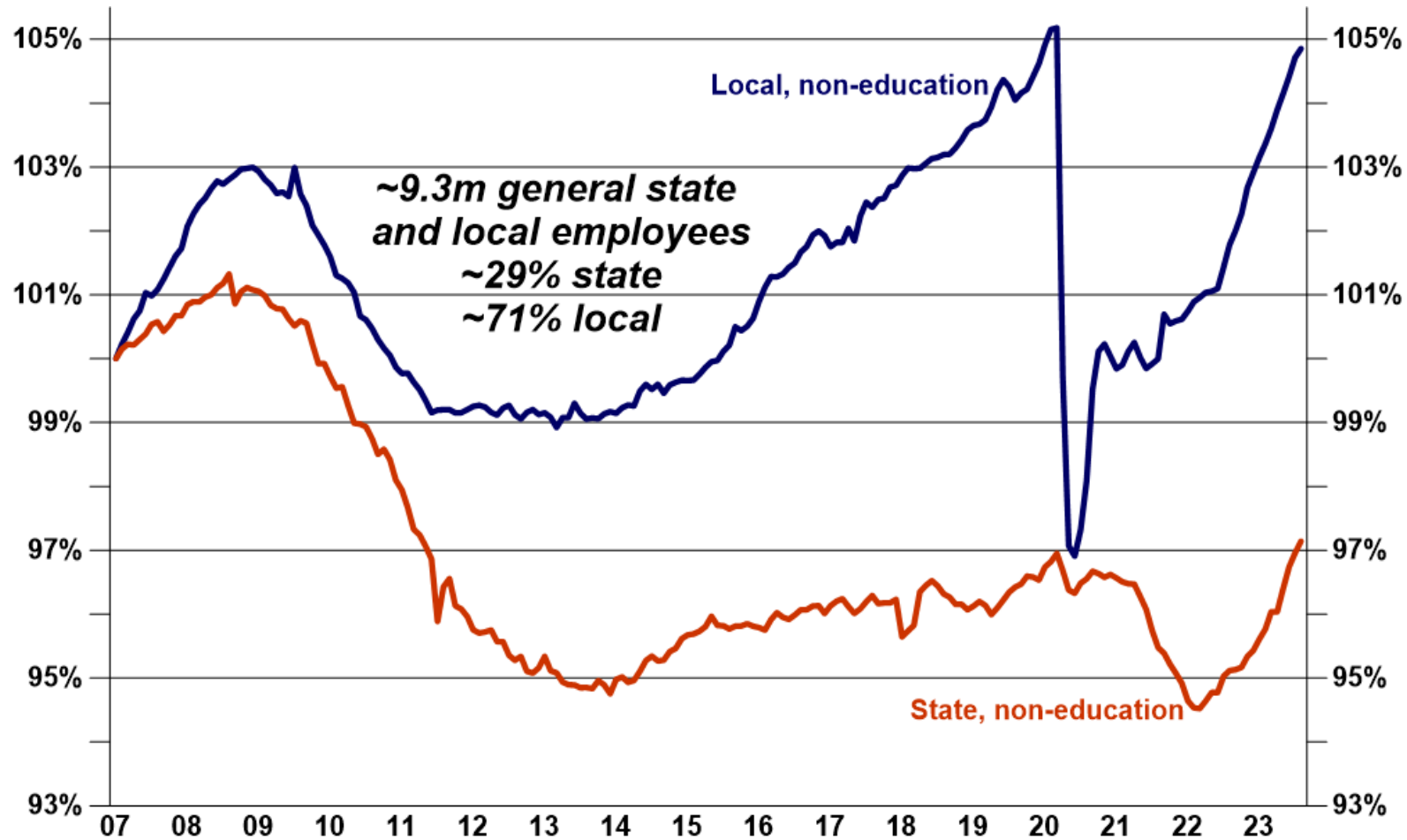


U.S. Bureau of Labor Statistics, compiled by NASRA

Data preliminary as of August 2023



Relative Change in General State and Local Employment since 2007

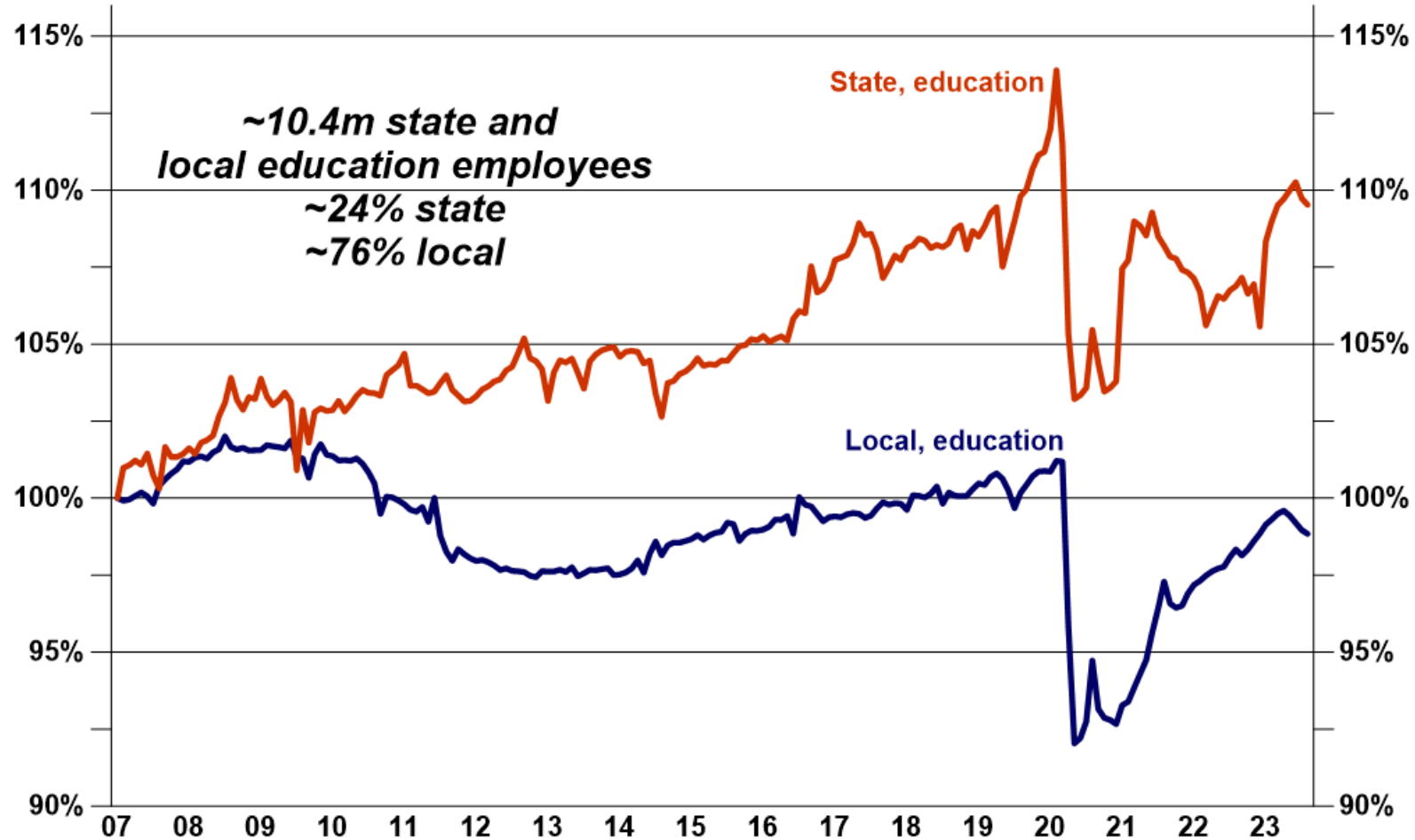


U.S. Bureau of
Labor Statistics,
compiled by NASRA

Data preliminary as of August 2023



Relative Change in State and Local Education Employment since 2007



~10.4m state and local education employees
~24% state
~76% local

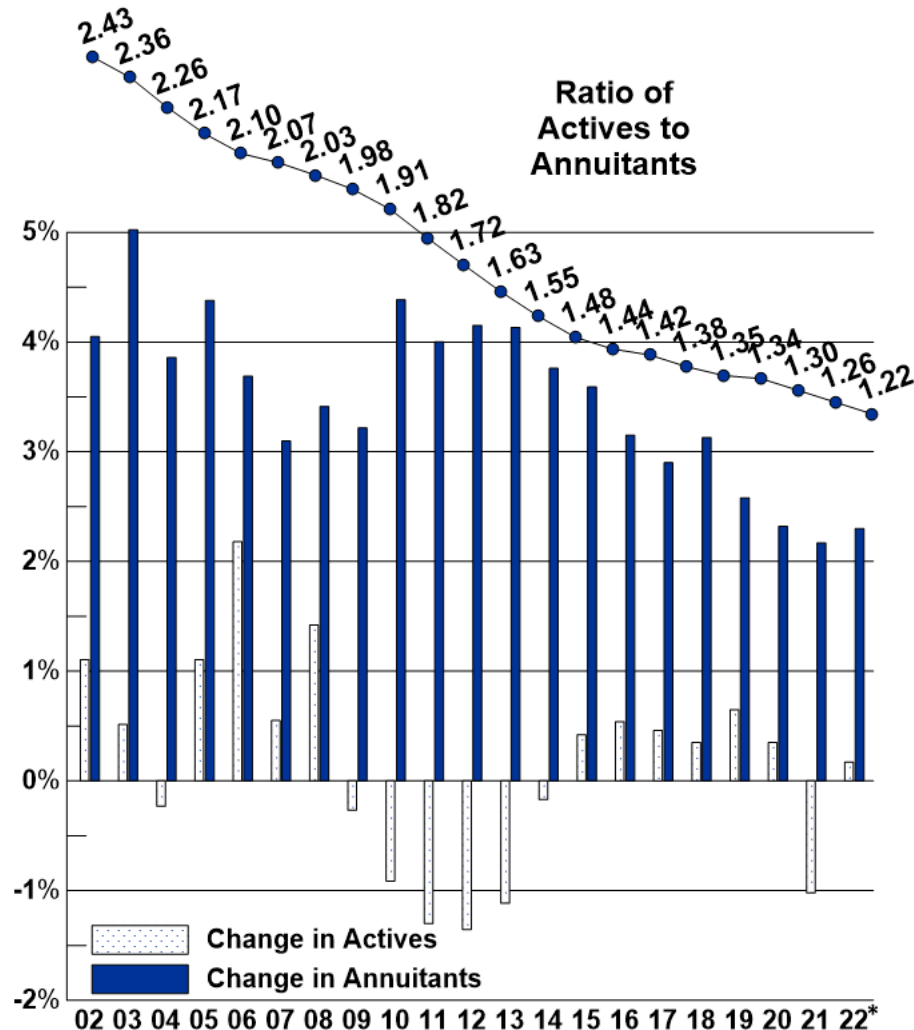
State, education

Local, education

U.S. Bureau of Labor Statistics, compiled by NASRA

Data preliminary as of August 2023



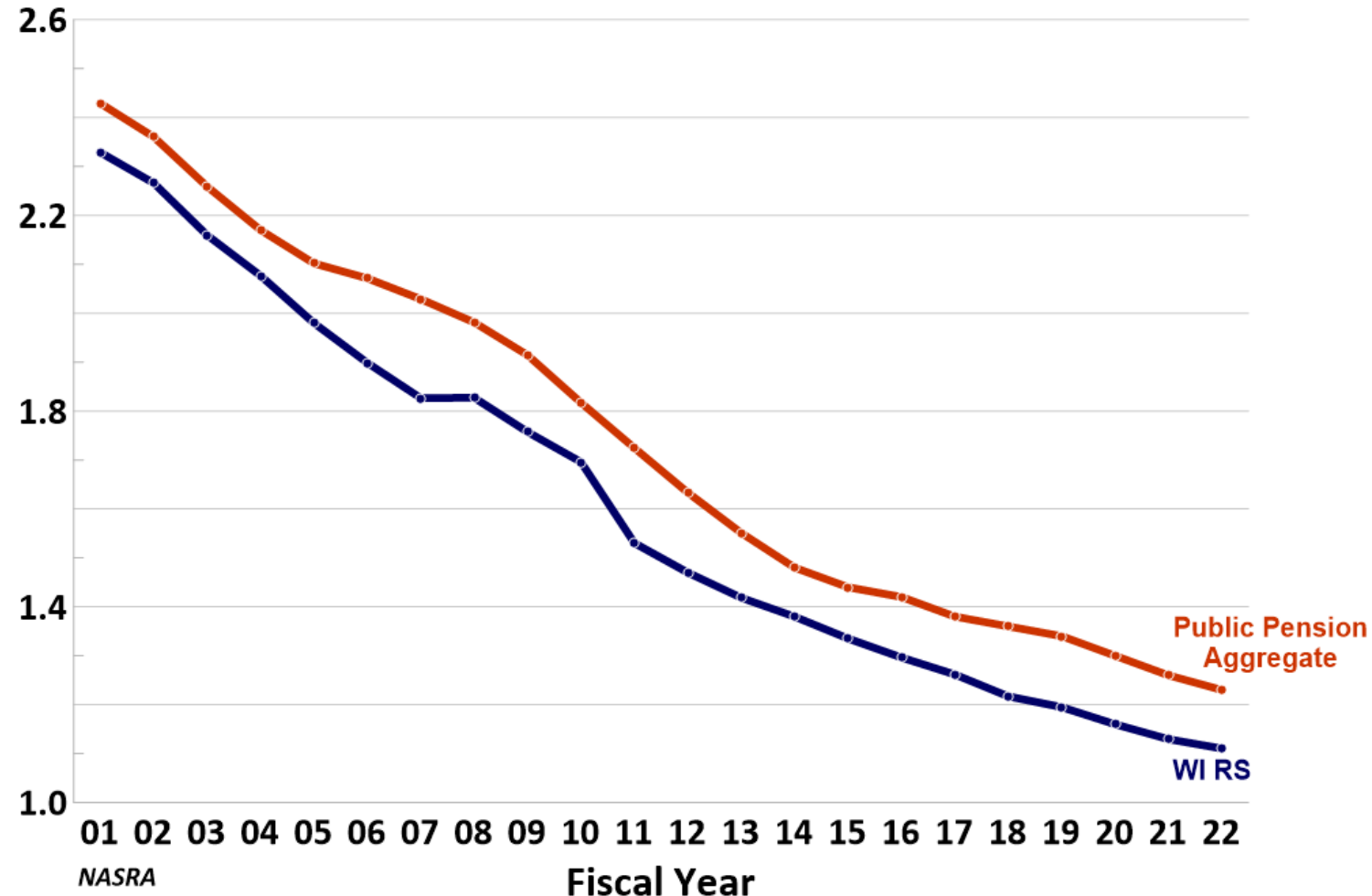


Median Annual Change in Actives and Annuitants

Public Fund Survey Fiscal Year
 July-23
 *preliminary



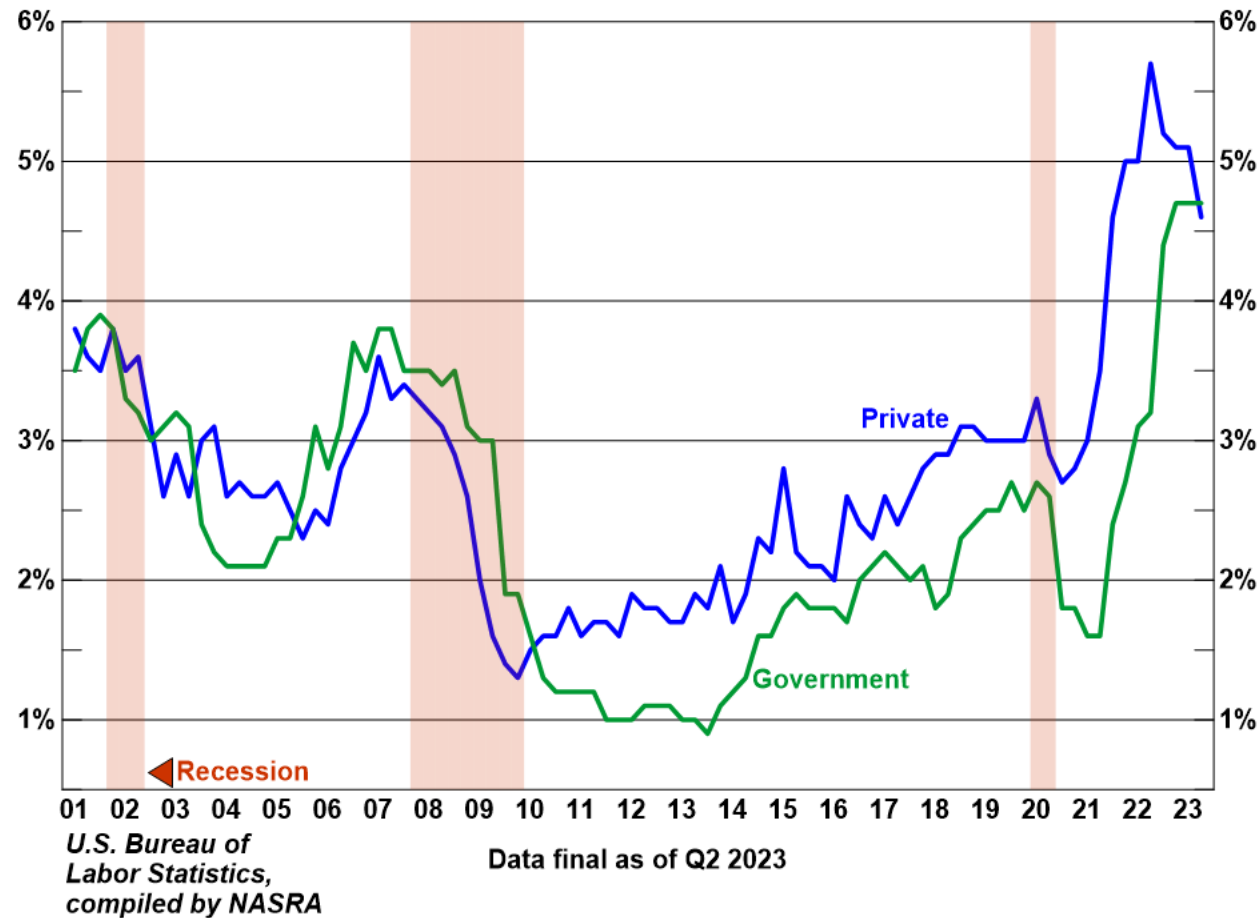
Number of Active Members per Annuitant, FY 01 to FY 22

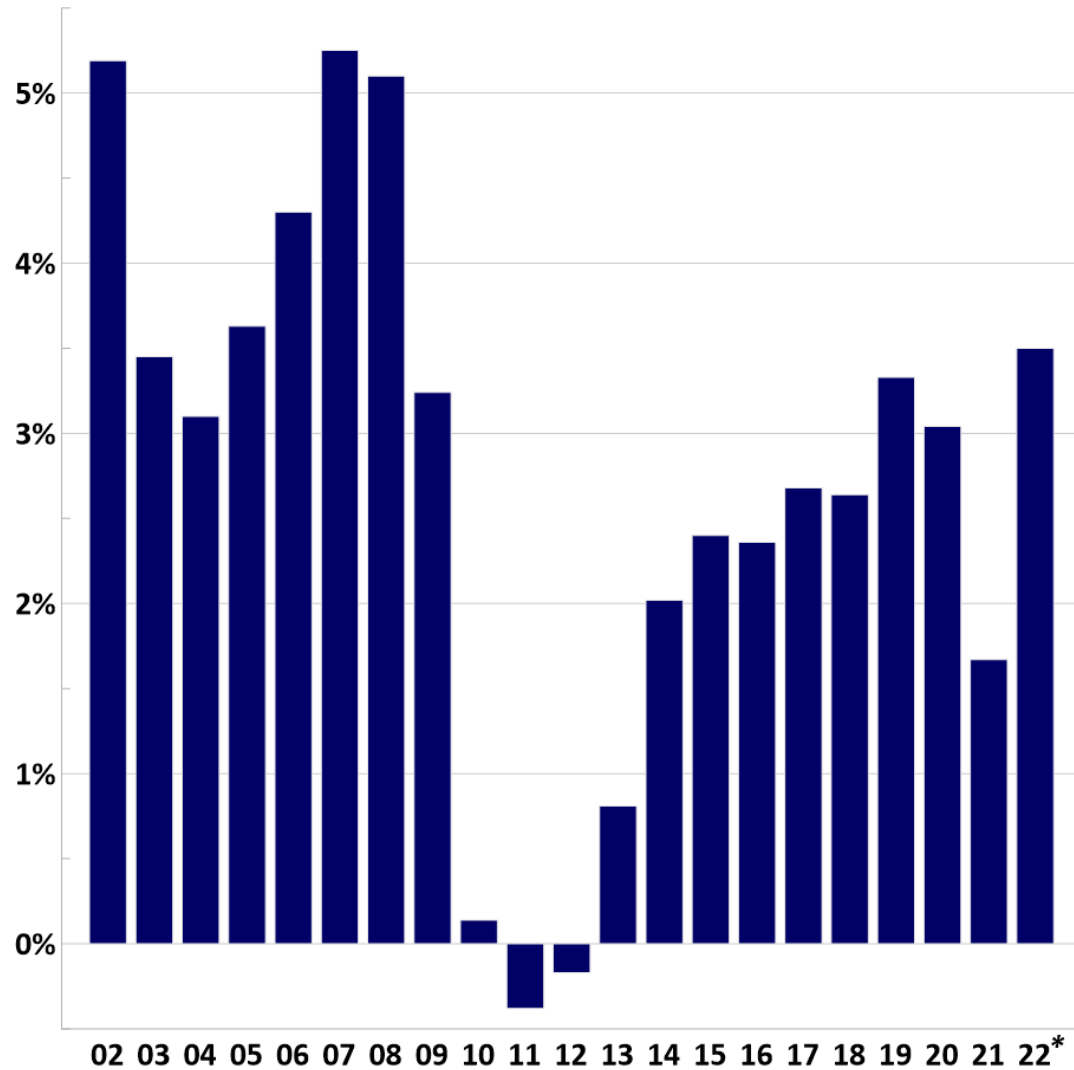


NASRA
Public Plans Data
Aug-23



Annualized Quarterly Change in Wage and Salary Costs for Private and State and Local Workers since 2001



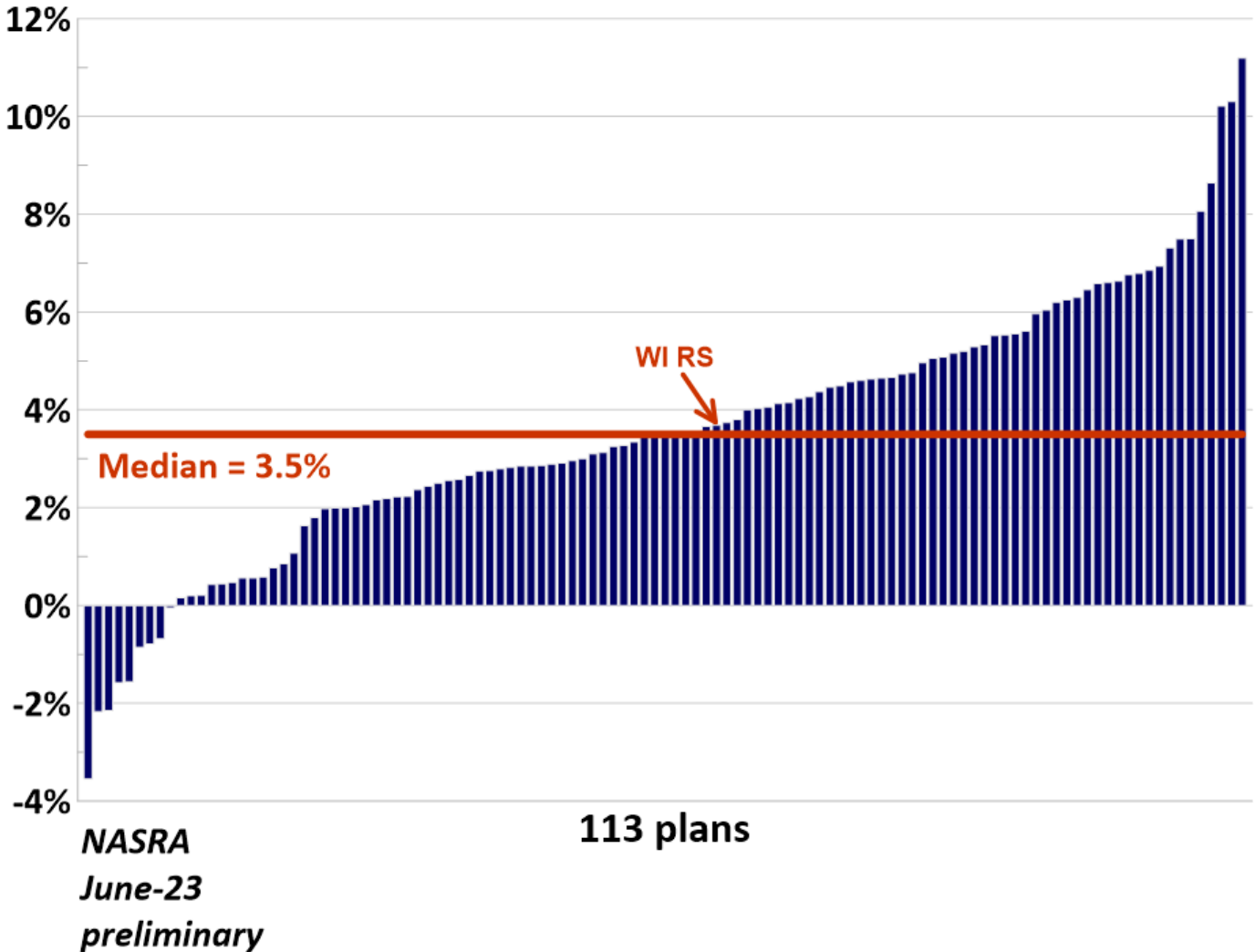


Median Annual Change in Payrolls FY 02 to FY 22

NASRA
June-23
*preliminary



Distribution of payroll growth, FY 22

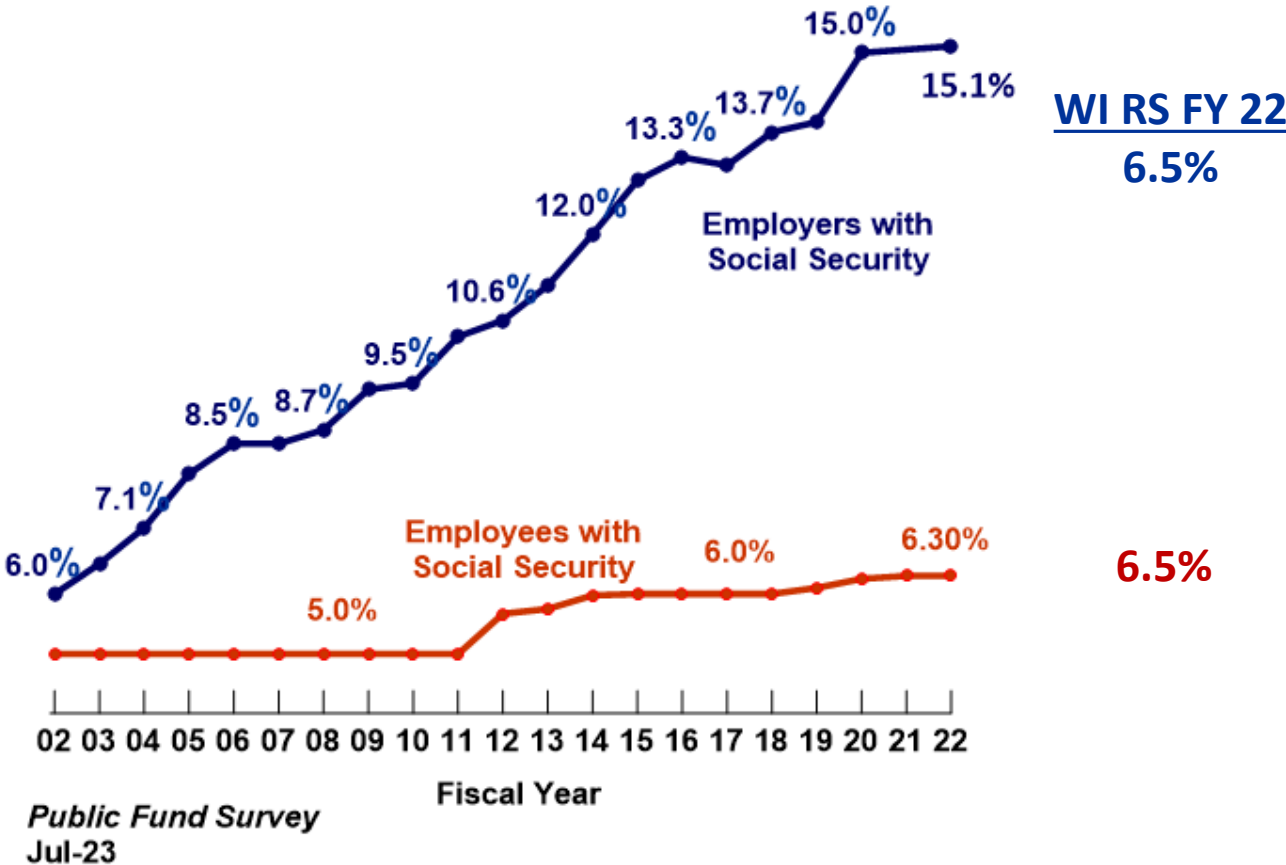


Key Takeaways: Actuarial Issues

- There has been an unprecedented reduction in public pension plan investment return assumptions
- As public pension plan inflation assumptions converge with expectations for actual inflation, most plans are maintaining their investment return assumption
- Accelerating growth in state and local employment and wages is driving higher growth in public pension plan payrolls, though payroll growth remains low compared to historical standards



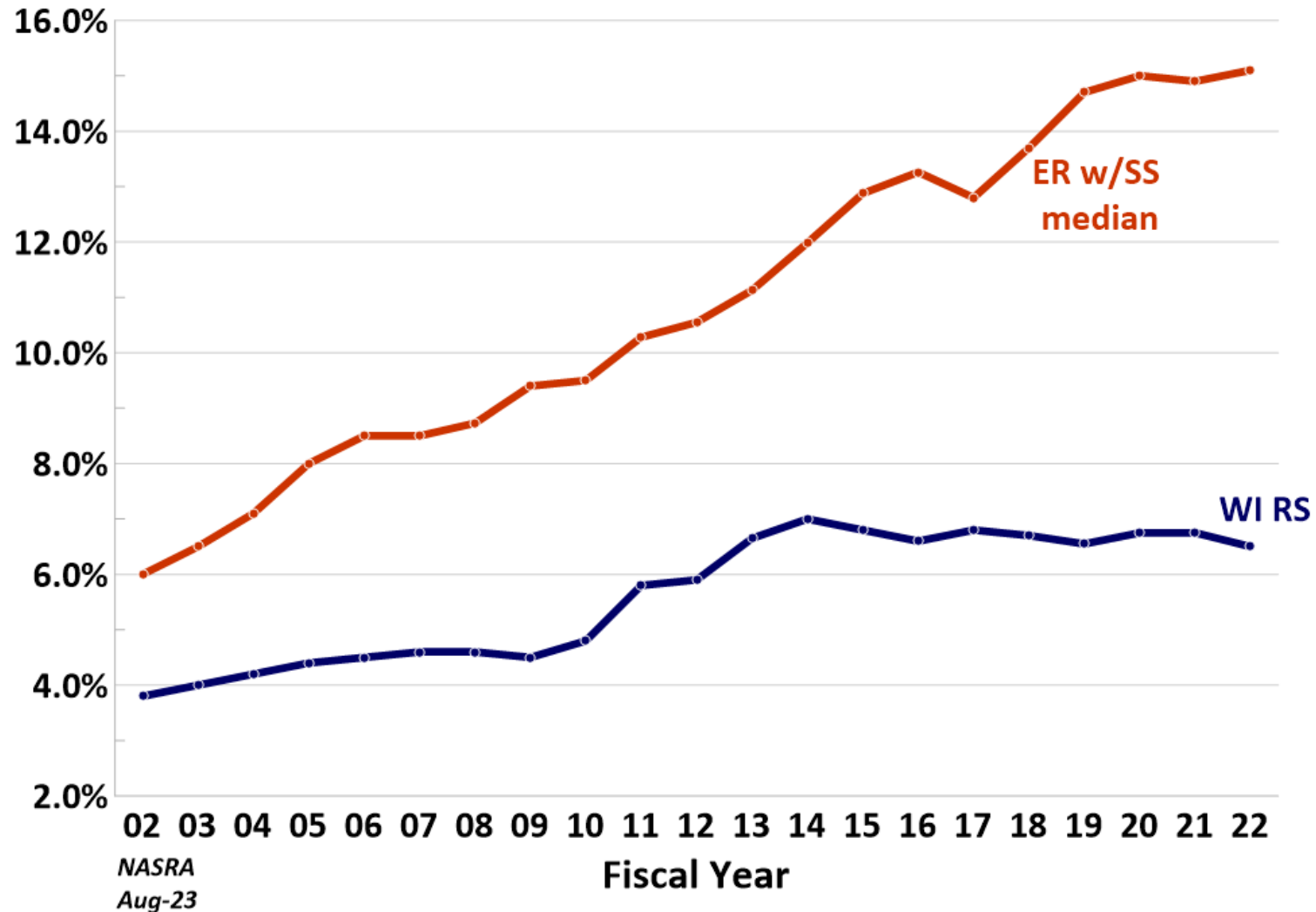
Median Contribution Rates Employee and Employer Social Security-Eligible Workers



Contribution rates reflected here are those for general employees and school teachers and predominantly exclude rates for public safety personnel

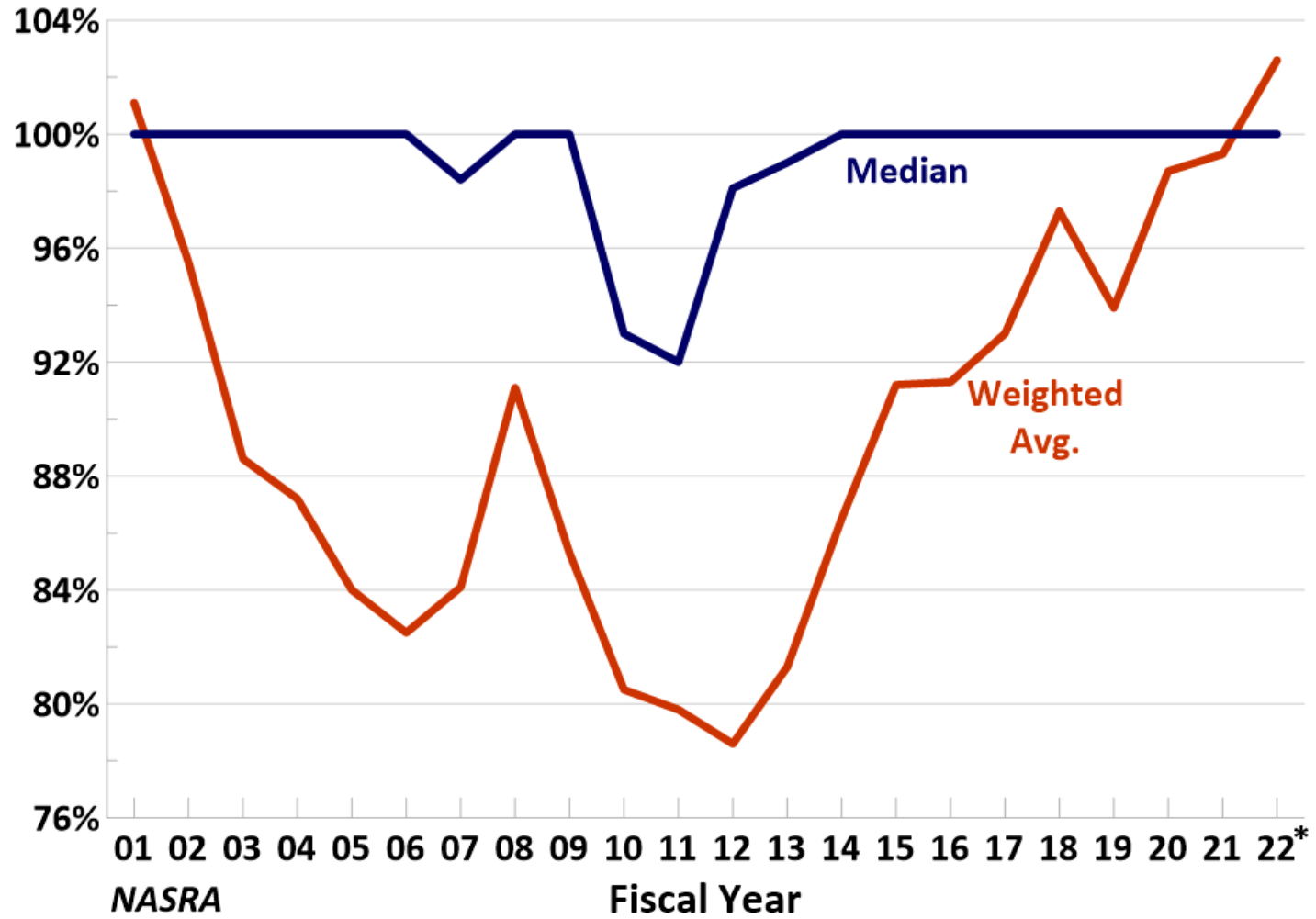


Median Contribution Rates Employee and Employer Social Security-Eligible Workers



ARC/ADC Experience, FY 01-FY 22

101 Plans



NASRA

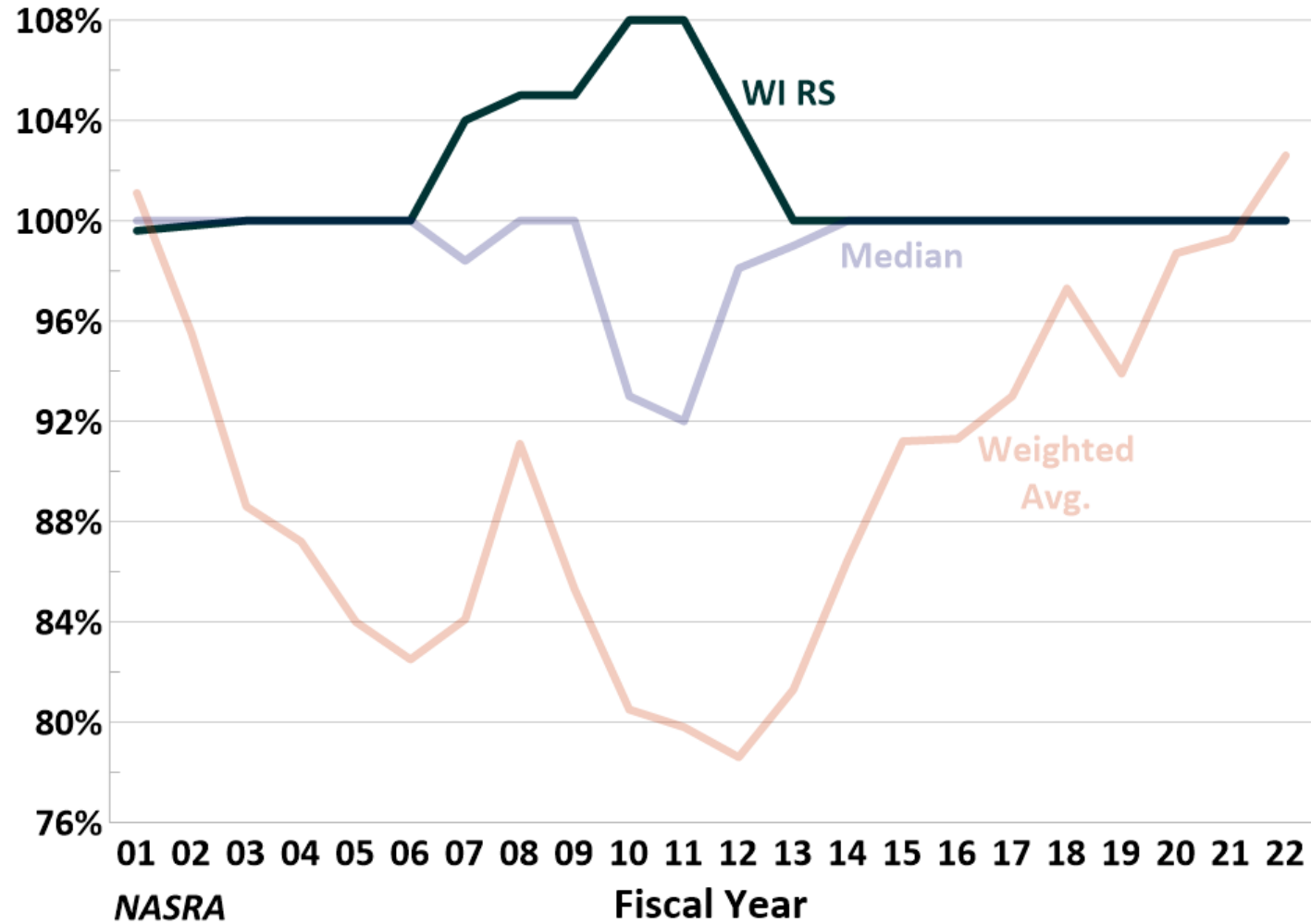
Aug-23

*preliminary



ARC/ADC Experience, FY 01-FY 22

101 Plans



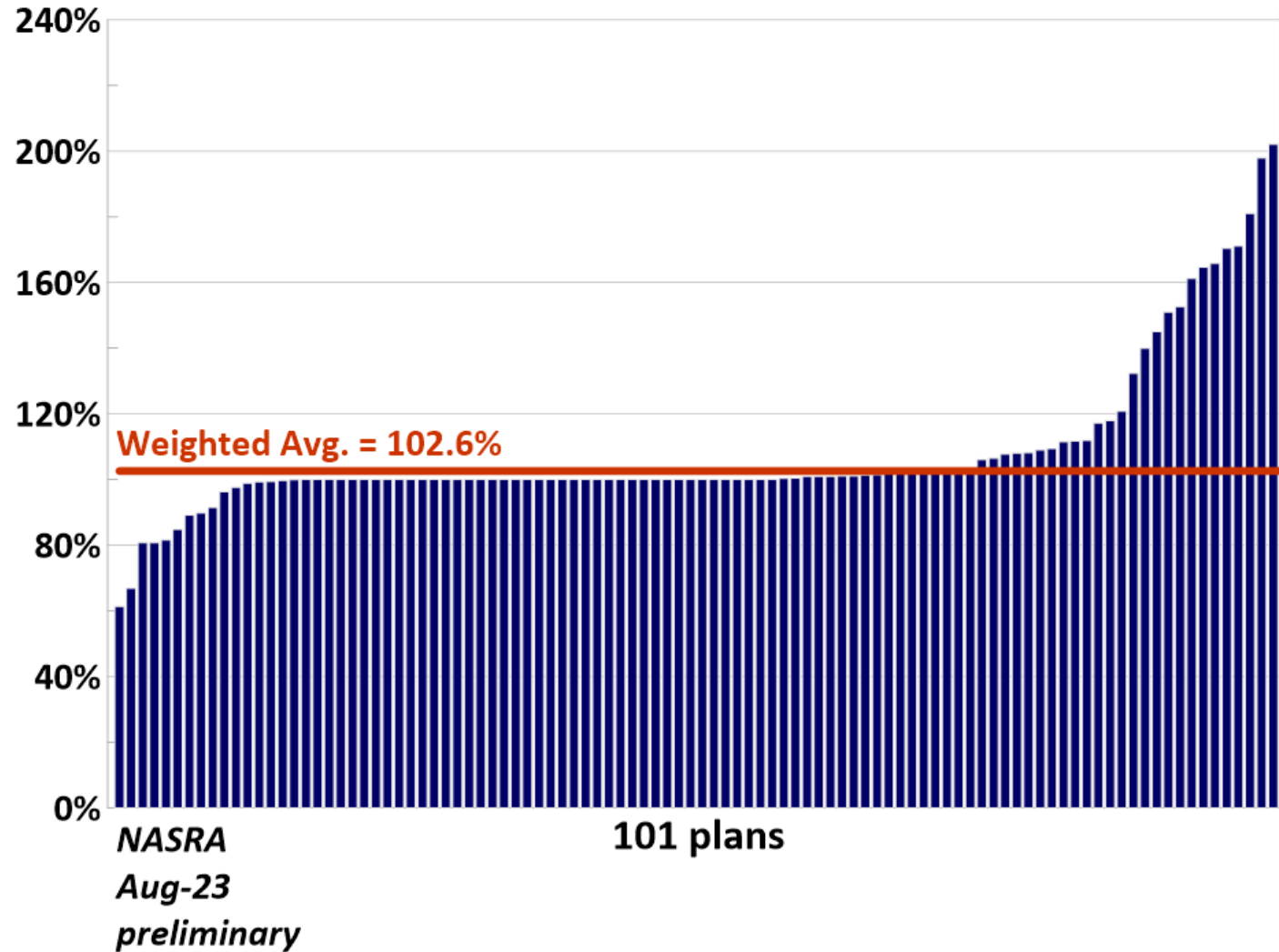
NASRA

Aug-23

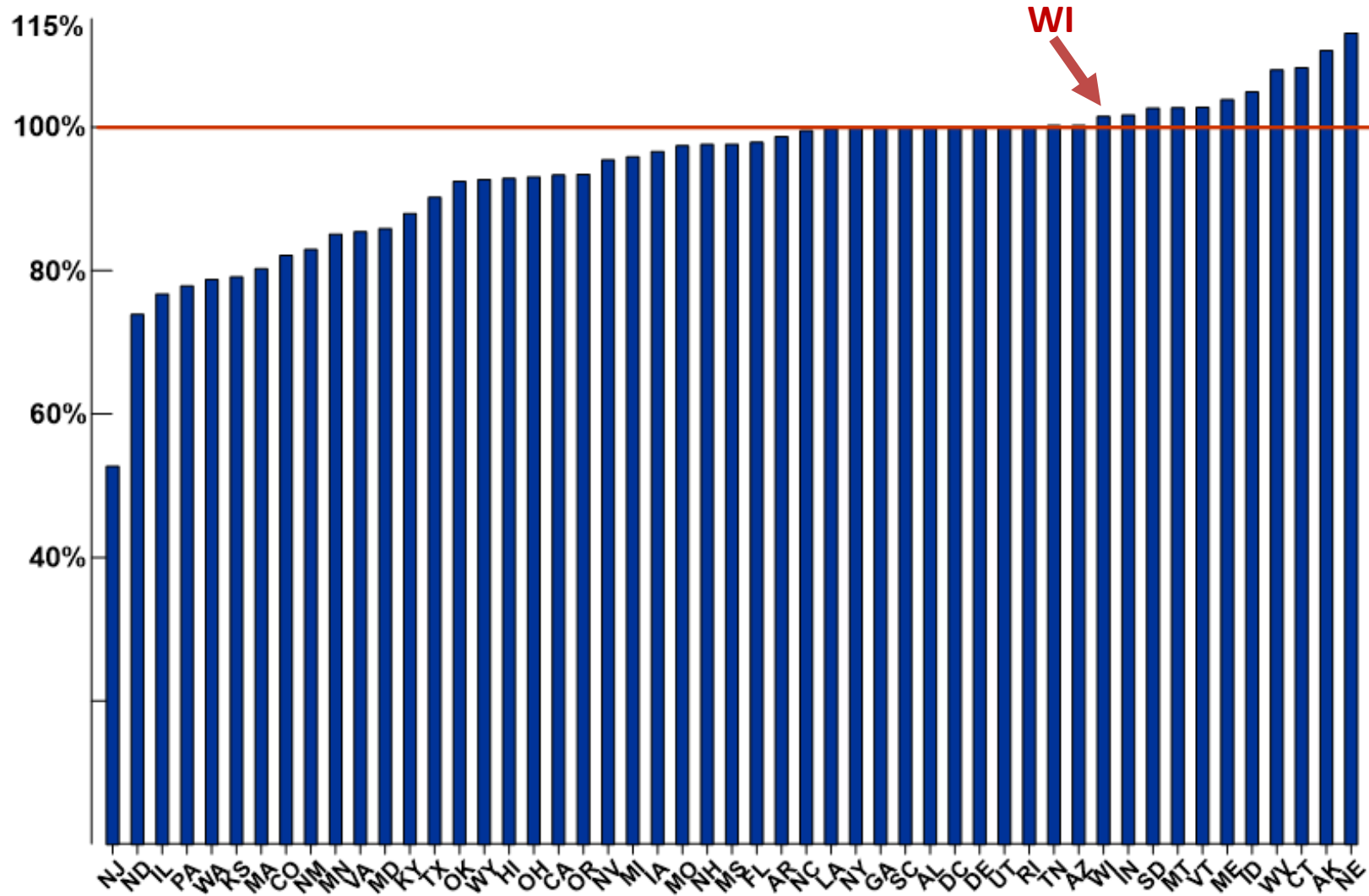
*preliminary



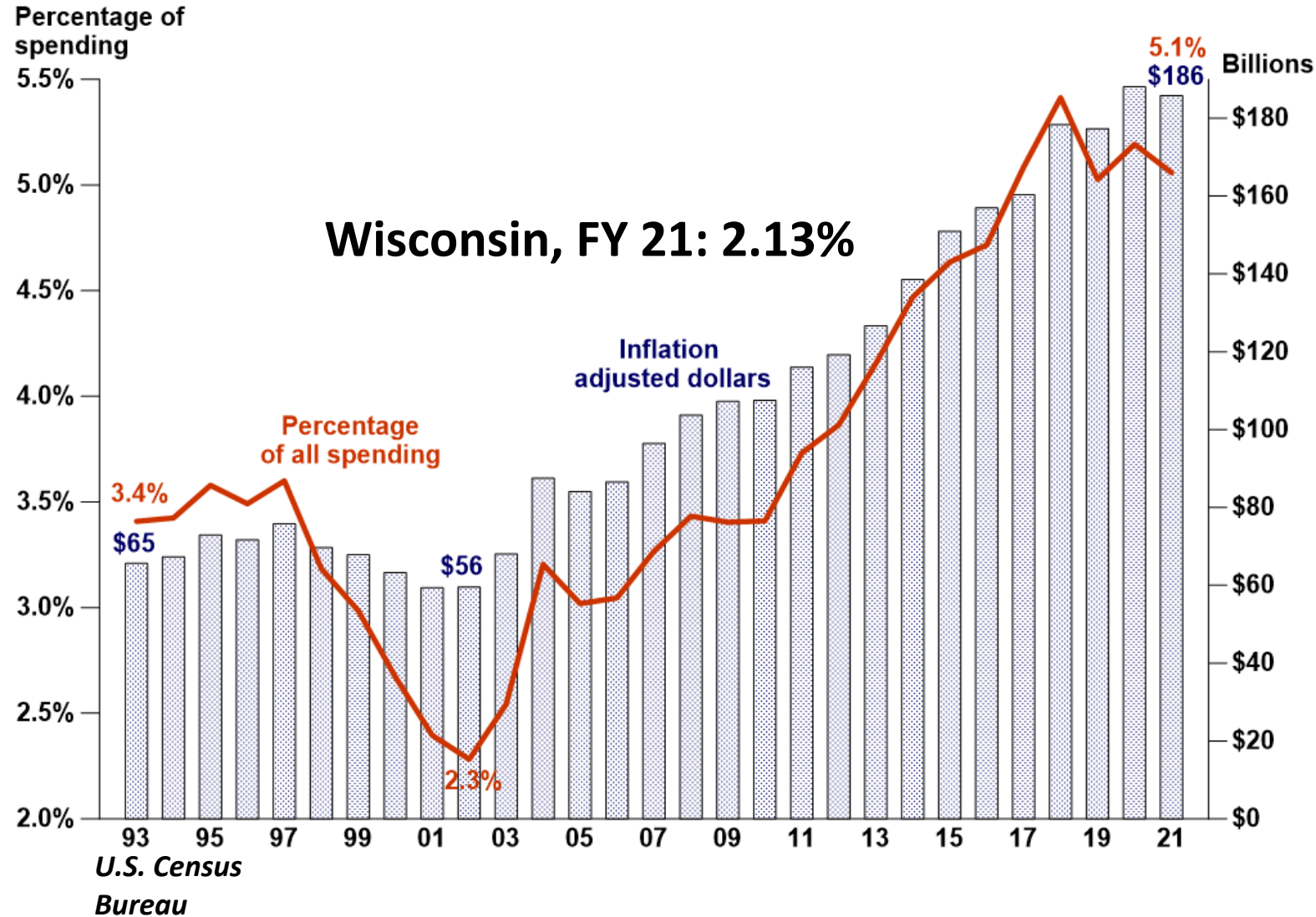
Distribution of ARC/ADC Effort FY 22



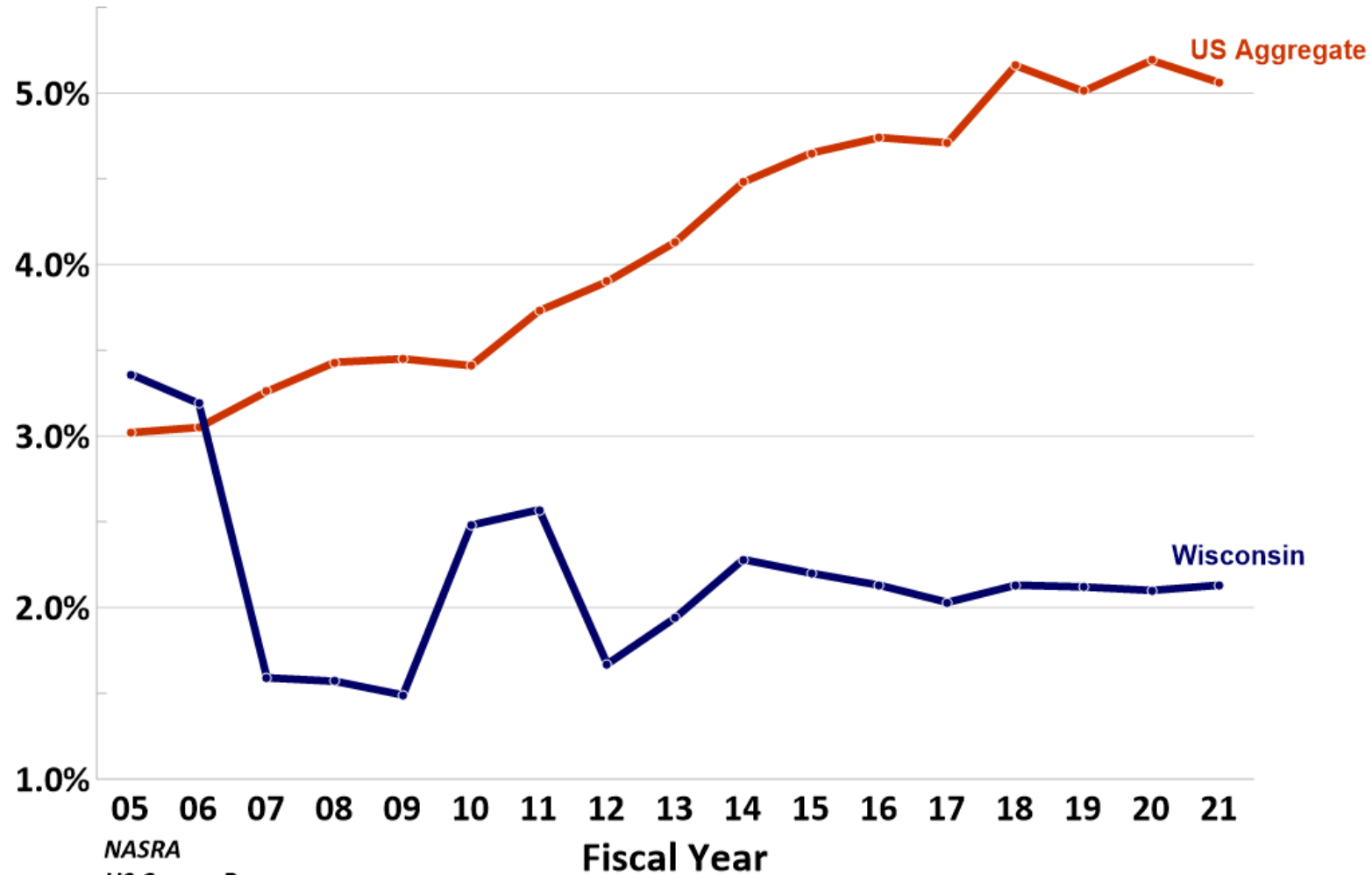
Distribution of Weighted Average ARC/ADC Received by State, FY 01 to FY 21



Inflation-adjusted spending on public pensions by states and local governments 1992-2021



Spending on Pensions in Wisconsin as a Percentage of Total Spending



NASRA
US Census Bureau
Aug-23



Key Takeaways: Contribution Trends

- More employers are contributing their full actuarially determined contributions
- Some employers are contributing above the ADC
- Sufficient and excess contributions provide a strong tailwind for plans seeking to eliminate their unfunded liabilities more rapidly
- Many plan sponsors face tepid fiscal conditions



Thank you

www.nasra.org

alex@nasra.org

202-624-8461

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Questions?

Fiduciary Duties: Practical Recommendations for the Boards

Item 3B – Joint Meeting of the ETF, TR, and WR Boards

Diana M. Felsmann, General Counsel

Office of Legal Services



Informational item only

No Board action is required.

Overview

- Board Member Responsibilities
- Key Fiduciary Duties and Examples
- Practical Steps for Exercising Fiduciary Duties

Board Member Responsibilities

Board Members as Fiduciaries

- Board members are named fiduciaries in Chapter 40 of the Wisconsin Statutes.
- A fiduciary is someone who exercises discretionary authority or control over the management or disposition of plan assets or has discretionary authority or responsibility for plan administration.
- Fiduciaries are held to the highest duty of care and loyalty.

Board Responsibilities

ETF Board

- Sets ETF policy.
- Appoints the ETF secretary.
- Approves tables used for computing benefits, contribution rates and actuarial assumptions.
- Authorizes all annuities except for disability.
- Approves or rejects ETF administrative rules.
- Oversees the benefit programs, except group insurance and deferred compensation.

WR Board

- Advises the ETF Board on retirement matters.
- Approves or rejects administrative rules.
- Authorizes or terminates disability benefits for non-teachers.
- Hears appeals of disability rulings.
- Appoints 4 members to the ETF Board and 1 member to the State of Wisconsin Investment Board.

TR Board

- Advises ETF Board on retirement and other benefit matters involving public school, vocational, state and university teachers.
- Approves or rejects administrative rules.
- Authorizes or terminates teacher disability benefits and hears disability benefit appeals.

Key Fiduciary Duties and Examples

Key Fiduciary Duties

1. Duty of Prudence;
2. Duty of Loyalty;
3. Duty of Impartiality; and
4. Duty to Follow Plan Documents and Applicable Law.

Duty of Prudence



- Requires acting with the care, skill, and diligence that a reasonable person would use in the same circumstances:
 - Making reasonable inquiries;
 - Weighing all relevant information reasonably available; and
 - Not closing one's eyes to red-flags.
- May rely on the advice and reports of experts.

Duty of Prudence— Example



Example: A board member saw a news article on a lawsuit brought against a private retirement plan for breach of fiduciary duty. The lawsuit was based on the private plan not having processes in place to ensure that individuals were properly enrolled in the plan. Based on the article, he wondered what ETF's WRS enrollment processes were like.

Answer: The board member would be properly exercising the fiduciary duty of prudence by asking ETF about our WRS enrollment processes. We welcome the opportunity to provide information to the board on how ETF's benefit programs are administered.

Duty of Loyalty



- The “exclusive benefit” rule—requires acting solely in the best interest of plan participants and beneficiaries. Wis. Stat. § 40.01 (2)
- Prohibits Board members from participating in negotiations or decisions when they have a financial interest. Wis. Stat. § 40.01 (3)

Duty of Loyalty— Example



Example: The WRS consulting actuary recommends a modest decrease in the WRS assumed rate based on a change in mortality assumptions. A board member who also works for a city knows the city’s budget is strained and worries about corresponding increases to WRS contributions if the assumed rate is lowered.

Answer: Board members bring their valuable experience to the board. As part of the board’s discussion, it would be helpful for the board member to share her concerns and ask the actuaries about potential increases to contribution rates. Having this type of dialogue enriches the board’s discussion and creates a record that the board’s ultimate decision was thoughtful. When it comes to voting, however, board members must make decisions solely based on the best interest of plan participants.

Duty of Impartiality



- Balance potentially conflicting interests among different groups of participants.
- Board members may convey the views of a sub-group of participants but may not favor that group in making decisions.

Duty of Impartiality— Example



Example: A TR Board member has concerns about a proposed administrative rule change and how it might affect public school teachers. The board member hesitates to ask at the TR Board meeting during the presentation by ETF's Office of Legal Services because he knows that fiduciaries have to act solely in the best interest of *all* plan participants.

Answer: It would be appropriate for the TR Board member to express his concern about the proposed change during the board's discussion to ensure that TR Board members weigh all relevant information when making a decision about whether to authorize proposed administrative rules. The key is balancing the interests, best as possible, of all plan participants.

Duty to Follow the Plan Document and Applicable Law

- Chapter 40 of the Wisconsin Statutes and Applicable Wisconsin Administrative Code.
- Federal laws such as the Internal Revenue Code.
- Policies adopted by the Board such as the WRS reserve policy.

Duty to Follow the Plan Document and Applicable Law— Example

- **Example:** A member filed an administrative appeal with the WR Board based on the denial of a 40.63 disability benefit. While it was clear from the medical reports that she met the definition of disability in Chapter 40, she did not meet the WRS service requirements to qualify for a 40.63 disability benefit. In her appeal, the member presented very sympathetic facts asking the Board to grant her the benefit anyway.
- **Answer:** During board deliberations, board members discuss the facts, plan document, and applicable law. In this case, the plan document and applicable law require denial of the appeal. Even under very sympathetic circumstances, the board does not have the authority to grant a benefit when the member does not meet the statutory eligibility requirements.

Practical Steps for Exercising Fiduciary Duties

Practical Steps for Exercising Fiduciary Duty

1. Understand the board's responsibilities, the programs the board oversees and ETF's policies and procedures by reviewing board materials.
2. Ask questions of ETF staff to ensure board decisions are being properly and effectively implemented.
3. Make suggestions or pose thoughts and ideas about how to improve benefit programs, or ETF's policies or procedures.
4. Receive regular updates from ETF on benefit programs and ETF practices.
5. Ensure the path to making decisions and the reasons for decisions are documented in board meeting minutes and board meeting materials.



Questions?

Administrative Rule Review

Item 4A – Memo Only

Dan Hayes, Attorney
Office of Legal Services



Informational items only

- No Board action is required.

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Questions?

Legislative Update

Item 4B – Memo Only

Tarna Hunter, Government Relations Director

Office of Budget and Management



Informational items only

- No Board action is required.

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Questions?

Customer Service Improvements and Trends

Item 4C – Memo Only

Anne Boudreau, Deputy Administrator

Division of Retirement Services



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Questions?

Adjournment



Item 5 – No Memo



Welcome to the Teachers Retirement Board

September 21, 2023

Meeting will begin at: 11:30 a.m.



WIFI

WI-GUEST

No Password is needed



Please Sign In

- Who? All meeting attendees
- Sheet available at the door



Meeting Materials

- Available at etf.wi.gov



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Announcements

Item 1 – No Memo

Matt Stohr, Administrator

Division of Retirement Services



Consideration of Open Minutes of February 28, 2023, Meeting



Item 2 – Memo Only





Action Needed

- Motion needed to accept the Open Session Minutes of the February 28, 2023, meeting as presented by the Board Liaison.

Administrative Rule Approval



Item 3 – Memo Only





Action Needed

- Motion needed to approve the final version of the proposed administrative rule changes, CR 23-023, as recommended by ETF.



Questions?

Future Items for Discussion

Item 4 – No Memo



Adjournment



Item 5 – No Memo



Welcome to the Wisconsin Retirement Board

September 21, 2023

Meeting will begin at: 11:45 a.m.



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Meeting Materials

- Available at etf.wi.gov



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Announcements

Item 1 – No Memo

Matt Stohr, Administrator

Division of Retirement Services



Consideration of Open and Closed Minutes of the February 28, 2023, Meeting



Item 2A-2B – Memo Only





Action Needed

- Motion needed to accept the Open and Closed Session Minutes of the June 22, 2023, meeting as presented by the Board Liaison.

WR Board Appointments to the ETF Board



Item 3 – Memo Only





Action Needed

- Motion needed to appoint WR Board members, Steve Wilding and Wayne Koessler, to the ETF Board.

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Questions?

Administrative Rule Approval



Item 4 – Memo Only





Action Needed

- Motion needed to approve the final version of the proposed administrative rule changes, CR 23-023, as recommended by ETF.



Questions?

Future Items for Discussion

Item 5 – No Memo



Adjournment



Item 6 – No Memo



BREAK

The Board is on a short break. Audio and visual feed will resume upon the Board's return.



Welcome to the Employee Trust Funds Board

September 21, 2023

Meeting will begin at: 12:30 p.m.



WIFI

WI-GUEST

No Password is needed



Please Sign In

- Who? All meeting attendees
- Sheet available at the door



Meeting Materials

- Available at etf.wi.gov



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your Microphone**

Announcements

Item 1 – No Memo

Matt Stohr, Administrator

Division of Retirement Services



Consideration of Open and Closed Minutes of June 22, 2023, Meeting



Item 2A-2B – Memo Only





Action Needed

- Motion needed to accept the Open and Closed Session Minutes of the June 22, 2023, meeting as presented by the Board Liaison.

Committee Reports

Item 3A-3C – No Memo



Administrative Rule Approval



Item 4A – Memo Only





Action Needed

- Motion needed to approve the final version of the proposed administrative rule changes, CR 23-023, as recommended by ETF.



Questions?

Insurance Administration System (IAS) Demonstration and Update

Item 5A – Employee Trust Funds Board

Alene Kleczek, Bureau Director, Employer Services Bureau

Brian Stamm, Deputy Director, Office of Strategic Health Policy

David Schram, Business Analyst, Office of Enterprise Initiatives



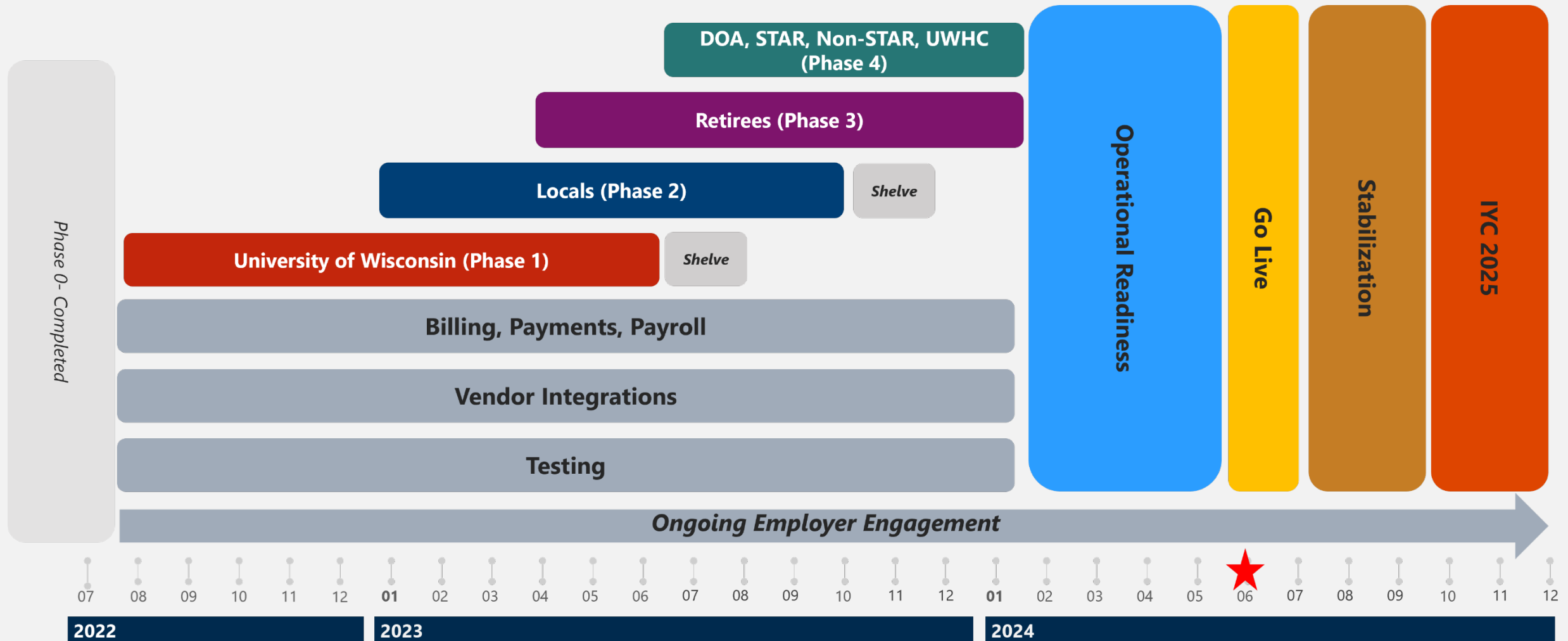
Informational item only

No Board action is required.

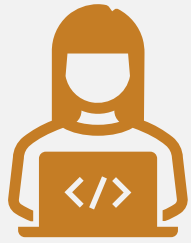
Agenda

- Project Review
- Project Updates
- Demonstration

Project Timeline and Review



Project Updates



Product Owner



Fee Visibility



Billing



Local Employers

Demonstration

David Schram



Questions?

ETF's Strategic Plan Annual Update

Item 5B – Employee Trust Funds Board

Pam Henning, Assistant Deputy Secretary

Kristin Gunther, Administrative Policy Advisor

Office of the Secretary



Informational item only

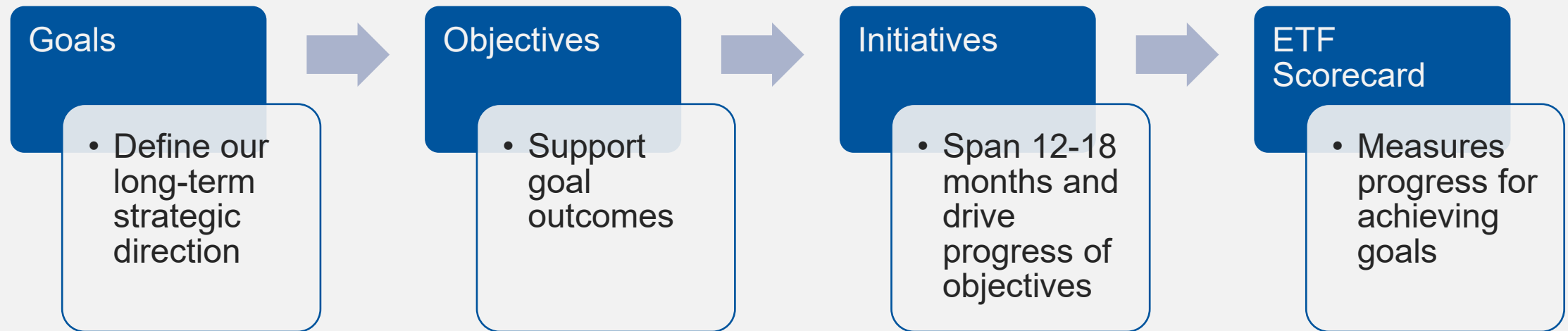
- No Board action is required.

Agenda



- Review FY23 Strategic Plan Accomplishments
- Introduce ETF's FY24 Strategic Plan
- Next Steps

ETF Strategic Plan Framework



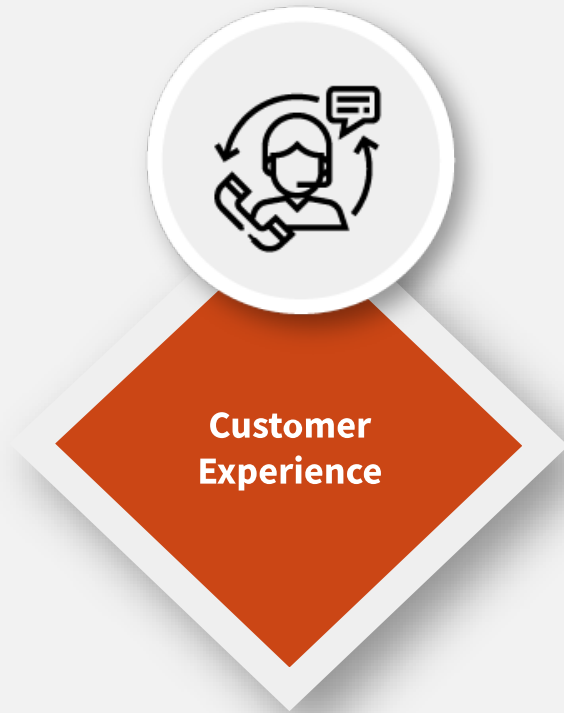


ETF Strategic Plan

FY23 Accomplishments

FY 23 Goal 1: Customer Experience

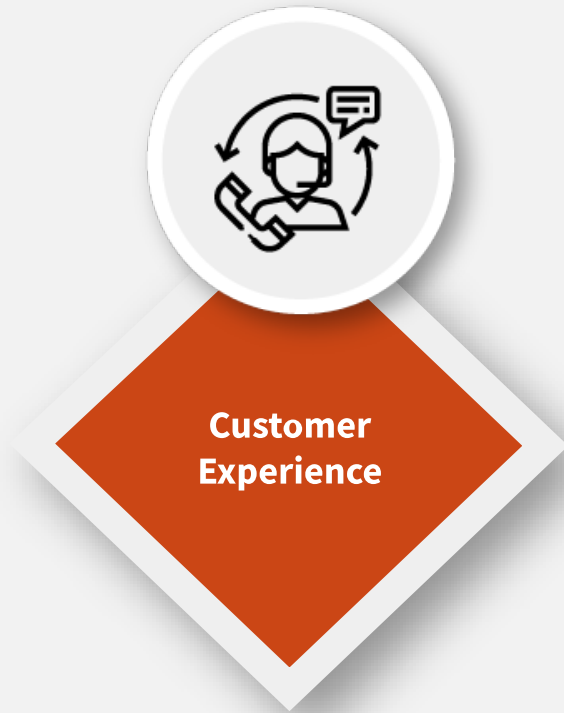
Objectives



- Configure and implement Cornerstone application to support capture and use of employer data and engagement strategies.
- Determine the strategy, programs, and organizational infrastructure needed to drive customer experience improvements
- Ensure insurance program sustainability

FY 23 Goal 1: Customer Experience

Accomplishments



- Completed the conversion of six WRS Employer training modules to a more user-friendly technology for employers
- Established the governance, transition management and communications components of the Customer Experience roadmap.
- Completed Specialty Pharmacy and Mental Health initiatives as approved by the Group Insurance Board

FY 23 Goal 2: Performance & Process Management

Objectives



Performance &
Process
Management

- Improve operational performance management through effective process management, performance metrics, controls, and improvement initiatives.
- Optimize processes to leverage capabilities of modernization initiatives.

FY 23 Goal 2: Performance & Process Management

Accomplishments



- Developed Enterprise Business Intelligence Roadmap.
- Ongoing progress documenting future state Insurance Administration System processes.

FY 23 Goal 3: Talented Workforce

Objectives



- Attract, integrate and advance top talent
- Advance employee development through meaningful and intentional performance management approaches
- Build the culture, recruitment and retention practices that will make ETF an equitable and inclusive organization

FY 23 Goal 3: Talented Workforce

Accomplishments



- Completed first year of the Employee Performance Management System
- Rolled out data science training education to staff
- ETF Equity and Inclusion Plan: Year 3

FY 23 Goal 4: Modern Technologies

Objectives

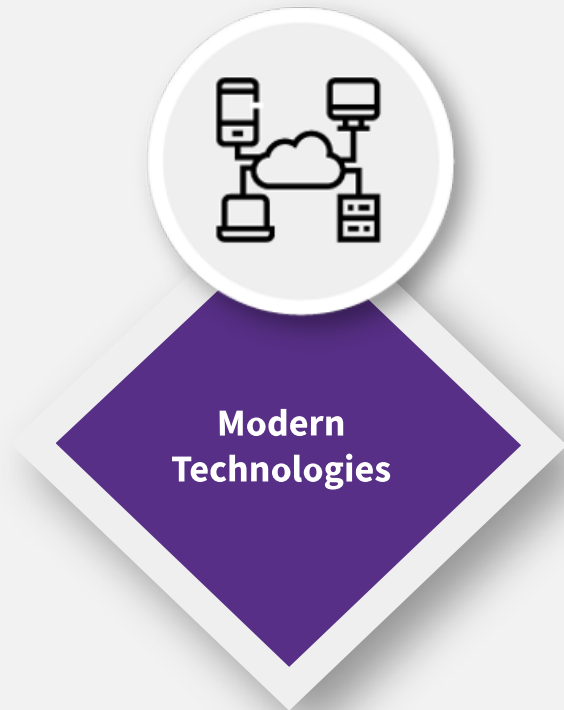


**Modern
Technologies**

- Develop and deploy solutions to support an effortless customer experience that enables accurate self-service and timely benefit administration services.
- Integrate systems and processes to support an effortless customer experience.
- Preserve the safety and security of all ETF systems and data through standard practices, appropriate security controls, risk management and information security technologies.

FY 23 Goal 4: Modern Technologies

Accomplishments



- Implemented Enterprise Content Management technology
- Insurance Administration System Progress
- Information Risk Management Program
- Data Program implementation
- Technology Program implementation

FY24 Strategic Plan

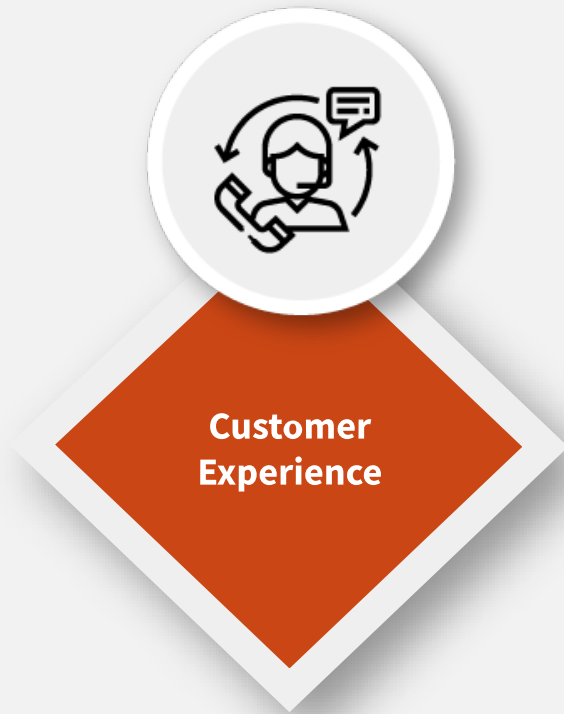
FY 24 Strategic Planning Process



Strategic Plan Pilot collaboration between Strategic Council, Agency Management Council and Board of Managers to:

- Broaden operational and strategic insights
- Empower and engage leadership
- Co-author ETF's strategy

FY 24 Goal 1: Customer Experience Objectives



- Increase employer competency for managing employee benefits.
- Determine the strategy, programs, and organizational infrastructure needed to drive customer experience improvements.
- Ensure insurance program sustainability.

FY 24 Goal 2: Performance & Process Management

Objectives



Performance &
Process
Management

- Optimize processes to leverage capabilities of modernization activities.

FY 24 Goal 3: Talented Workforce

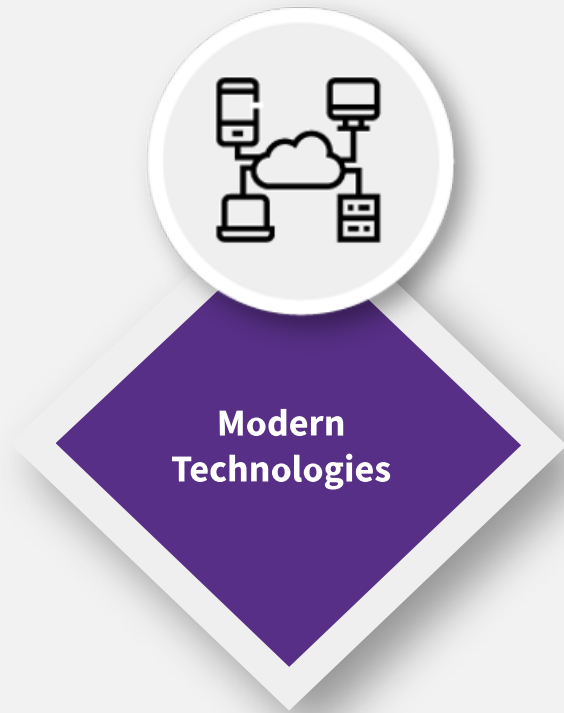
Objectives



- Attract, integrate, and advance top talent.
- Advance employee development through meaningful and intentional performance management approaches.
- Build the culture, recruitment and retention practices that will make ETF an equitable and inclusive organization.

FY 24 Goal 4: Modern Technologies

Objectives



- Develop and deploy solutions to support an effortless customer experience that enables accurate self-service and timely benefit administration services.
- Integrate systems and data to support an effortless customer experience.
- Preserve the safety and security of all ETF systems and data through standard practices, appropriate security controls, risk management, and information security technologies.

Next Steps: Resource Prioritization



Ensure alignment of resources to priorities



Continue refining data for reporting and decision-making

Next Steps: Governance

Focus: continuing to strengthen and mature governance processes

Strategic Council

- Setting the agency's strategic direction and defining priorities

Agency Management Council

- Enhancing alignment of business operations
- Collaborating to improve agency performance
- Approving agency policies

Data Governance Council

- Oversight of the agency's data lifecycle from creation, use, storing and confidentiality

Portfolio Committee

- Resource prioritization oversight
- Recommendations for project alignment



Questions?

2023–25 State Biennial Budget Recap

Item 5C – Memo Only

Tarna Hunter, Government Relations Director
Office of Budget and Management



Informational item only

- No Board action is required.



Questions?

Secretary's Report

Item 5D – No Memo

John Voelker, Secretary
Office of the Secretary





Questions?

Operational Updates

Items 5E-5J – Memos Only



Informational items only

- No Board action is required.



Questions?

December 2023 Meeting Agenda Topics

Item 6A – Memo Only

Matt Stohr, Administrator

Division of Retirement Services



Informational item only

- No Board action is required.



Questions?

CLOSED SESSION

The Board may meet in closed session pursuant to the exemption contained in Wis. Stat. § 19.85 (1) (e) to deliberate or negotiate the investing of public funds or to conduct other specified public business, whenever competitive or bargaining reasons require a closed session. If a closed session is held, the Board may vote to reconvene into open session following the closed session.



Item 7 – No Memo



Announcement of Business Deliberated During Closed Session Discussion

Item 10A – No Memo

Bill Ford, Chair

Employee Trust Funds Board



Vote on Strategic Partner for Pension Administration System (PAS)



Item 10B – No Memo



Adjournment



Item 12 – No Memo



Thank you



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