

DRAFT

MINUTES

September 21, 2023

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
9:15 a.m. – 11:14 a.m.

BOARD MEMBERS PRESENT:

Steve Wilding (ETF/WR Board), Chair
Chris Heller (ETF/TR Board), Secretary
Adam Balz (TR Board)
Jen Flogel (ETF Board)
Bill Ford (ETF Board)
Brent Grochowski* (TR Board)
Wayne Koessl* (ETF/WR Board)
Katy Lounsbury* (ETF Board)
Angela Miller (ETF/WR Board)

Amy Mizialko* (ETF/TR Board)
Allison Pratt (TR Board)
Tony Przybylski* (TR Board)
Roberta Rasmus (ETF Board)
David Schalow* (ETF/TR Board)
Michele Stanton (ETF Board)
Herbert Stinski (WR Board)
Mary Von Ruden* (WR Board)
Julie Wathke* (WR Board)

BOARD MEMBERS ABSENT:

Nathan Houdek (WR Board)
Ryan Kamien (TR Board)

Michael Langyel (TR Board)
Christy Schwan (WR Board)

PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:

Office of the Secretary:

John Voelker, Secretary
Shirley Eckes, Deputy Secretary
Kim Schnurr, Board Liaison

Division of Retirement Services:

Matt Stohr, Administrator
Anne Boudreau, Deputy Administrator

Office of Budget and Management:

Tarna Hunter, Government Relations
Director

Office of Legal Services:

Diana Felsmann, General Counsel
Dan Hayes, Attorney

* Attended virtually.

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OTHERS PRESENT:

Office of the Secretary:

Pam Henning

ETF Staff:

Kevin Acker*, Shellee Bauknecht, Laura Brauer, Julie Coleman*, Taylor DeBroux, Victor Dupuy, Roger Fletcher*, Michelle Hoehne, Steve Hurley, Gene Janke, Cindy Klimke*, Kyle Kundert*, Laura Patterson,

ETF Staff (Cont.):

Peter Rank, Amelia Slaney*, Barry Tucker, Amanda Williams, Kathryn Young

National Association of State

Retirement Administrators (NASRA):

Alex Brown

State of Wisconsin Investment Board (SWIB):

Harrison Freuck*

Mr. Wilding, Chair, called the Joint Meeting of the Retirement Boards to order at 9:15 a.m.

ANNOUNCEMENTS

Mr. Stohr announced that there is a Board Liaison vacancy as Ms. Wilkins has left ETF. Kim Schnurr has taken over the board duties in the interim. The recruitment is underway to fill the position.

CONSIDERATION OF OPEN MINUTES OF DECEMBER 8, 2022, MEETING [\(Ref. JM | 09.21.23 | 2\)](#)

MOTION: Ms. Miller moved to approve the open minutes of the December 8, 2022, meeting, as presented by the Board Liaison. Ms. Mizialko seconded the motion, which passed unanimously on a voice vote.

EDUCATIONAL TOPICS

NASRA-National Pension Trends [\(Ref. JM | 09.21.23 | 3A\)](#)

Mr. Brown's presentation, "NASRA-National Pension Trends," provided an update on public pension funding, as well as an overview on actuarial issues and contribution trends that were relevant to the Wisconsin Retirement System (WRS). He noted that funding levels for most public pension plans improved in Fiscal Year (FY) 2022, but some signs point to an upcoming decline in aggregate funding levels. Additionally, median growth in the actuarial value of liabilities continued to be lower. Mr. Brown identified the following challenges to public pension funding:

- Recent investment returns were below expectations.
- Inflation remained higher by recent historical standards, which placed increased pressure on wages and the demand for cost-of-living adjustments.

During his presentation, Mr. Brown explained how actuarial issues such as investment return assumptions, inflation, and payroll growth impacted public pension plans. Using data from August 2023, Mr. Brown illustrated the effect of inflation on public pension plans. Pension plan elements that were affected by actual or projected rates of inflation included participant salaries, retirement patterns, level of active membership, cost-of-living adjustments, investment returns, and plan sponsor revenue. Mr. Brown emphasized that there had been an unprecedented reduction in public pension plan investment return assumptions. As public pension plan inflation assumptions converged with expectations for actual inflation, most plans maintained their investment return assumption. Furthermore, accelerated growth in state and local employment and wages continued to drive higher growth in public pension plan payrolls, though payroll growth remained low compared to historical standards.

Mr. Brown closed out his presentation by highlighting contribution trends. Those were as follows:

- More employers contributed their full actuarially determined contributions (ADC).
- Some employers contributed above the ADC.
- Sufficient and excess contributions provided a strong tailwind for plans seeking to eliminate their unfunded liabilities more rapidly.
- Many plan sponsors faced tepid fiscal conditions.

Mr. Voelker provided some closing remarks to Mr. Brown's presentation. He began by stating that the WRS was a model for other state pension systems. 80% of the source of revenue for the WRS comes from the investment returns, which creates a downward pressure on contribution rates for active employees (employee, employer, etc.). Further, retirees have consistently received annuity adjustments due to investment returns exceeding the actuarial assumed rate of return.

Fiduciary Duties: Practical Recommendations for the Boards ([Ref. JM | 09.21.23 | 3B](#))

Ms. Felsmann, General Counsel of the Office of Legal Services, provided an overview of board member responsibilities, key fiduciary duties and examples, and practical steps for exercising fiduciary duties as part of her presentation, "Fiduciary Duties: Practical Recommendations for the Boards." She touched on the origin of fiduciary duties, how that history ties back to ETF purpose, and reminded the Board that they are named fiduciaries. Ms. Felsmann reviewed board member responsibilities as it pertained to the ETF, TR, and WR Boards and listed the four core fiduciary duties: Duty of Prudence, Duty of Loyalty, Duty of Impartiality, and Duty to Follow Plan Documents and Applicable Law. Board members received examples as part of Ms. Felsmann's discussion on the four fiduciary duties.

Ms. Felsmann also shared the five practical steps for exercising fiduciary duty, which were:

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 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.

After the presentation, Ms. Felsmann invited board members to ask questions.

OPERATIONAL UPDATES

Administrative Rule Review ([Ref. JM | 09.21.23 | 4A](#))

Mr. Hayes referred board members to the "Proposed Administrative Rule Changes: CR23-023" memo during his presentation. He explained that the proposed rule would make technical changes to Chapters ETF 10, 20, 50, 52, and 60. The objective of the rule was to make technical updates to existing ETF rules, delete obsolete language in ETF rules, and make other minor substantive changes. Mr. Hayes provided some examples of these changes.

The proposed rule would require the consideration and approval from the ETF, TR, and WR Boards at each of their meetings scheduled to occur later that day. If the proposed rule was approved by each of the three boards, it would be submitted to the Governor's Office and then to the State Legislature for consideration.

Board members were invited to ask questions, but none were posed.

Legislative Update ([Ref. JM | 09.21.23 | 4B](#))

Ms. Hunter referred board members to her "Legislative Update" memo for more details at the start of her presentation. She provided an overview of enacted and proposed legislation that were part of the 2023 Legislative Session. Items of enacted legislation Ms. Hunter discussed were 2023 Wisconsin Act 4 and 2023 Wisconsin Act 12. She noted that Act 12, which was effective as of June 22, 2023:

- Modified the state's approach to shared revenue for local governments.
- Repealed Wisconsin's personal property tax.

- Authorized the City of Milwaukee and Milwaukee County to impose sales and use taxes, primarily to address the city and county's unfunded pension system liabilities.
 - Imposing the sales tax would require the City of Milwaukee and Milwaukee County to join the WRS.
- Closed the City of Milwaukee and Milwaukee County retirement systems to new city and county employees.
- Prohibited the city or county from creating a new retirement system.
- Prohibited the city or county from changing the benefits of employees that remain enrolled in the two retirement systems.

Milwaukee City planned to join the WRS in 2024, and Milwaukee County planned to join in 2025.

Proposed legislation highlighted in Ms. Hunter's presentation were as follows:

- 2023 SB 9 and 2023 AB 18, which included changes to return-to-work requirements for teachers.
- 2023 AB 227 and 2023 SB 224, which would eliminate sick leave credits for state representatives and state senators.
- 2023 SB 273 and 2023 AB 278 that would allow an annuitant who was a law enforcement officer or fire fighter to return to work with an employer who participates in the WRS, work two thirds of full-time, and elect to not become a participating employee for purposes of the WRS and instead continue to receive their annuity.
- 2023 SB 432, which would modify various insurance statutes that are administered by the Office of the Commissioner of Insurance.

Mr. Stinski asked if a long-term actuarial analysis was available for 2023 Wisconsin Act 12. Mr. Voelker responded that Gabriel, Roeder, Smith Company (GRS) had already submitted an analysis to the State Legislature. He added that there was an administrative impact to ETF that could not be captured in reportable items such as GRS's actuarial analysis. This included additional resources needed to onboard employers into the WRS. Mr. Voelker pointed out that the enacted legislation protected the WRS resulting in Milwaukee City and Milwaukee County joining the WRS having nominal effect to the fund itself.

OPERATIONAL UPDATES ([Ref. JM | 09.21.23 | 4C](#))

Mr. Stohr highlighted some of the information from the written report on "Customer Service Improvements and Trends" memo written by Ms. Boudreau. Mr. Stohr noted

that the speed of answer increase for the second quarter of 2023 was due to members that continued to call with questions related to the W-4P tax changes, and that those calls were complicated with longer durations. During the second quarter of 2023, staff had added information on the website to simplify the language on complex topics of powers of attorney and guardianships and to describe the impact of 2023 Wisconsin Act 4 to members.

Mr. Stohr stated that both he and Ms. Boudreau were available for any questions but received none.

ADJOURNMENT

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

The meeting adjourned at 11:14 a.m.

Date Approved: _____

Signed: _____

Chris Heller, Secretary
Joint Meeting of the Retirement Boards