Wisconsin Coalition of Annuitants

Minutes of Meeting April 21, 2010

The meeting was held at the Wisconsin Professional Police Association Building, 304 Coyier Lane Madison and was called to order by Vice Chair Ed Frank at 9:34am.

MEMBERS & ALTERNATES PRESENT: O. Berge, WARSDA; V. Cutler, UWMRFA; J. Elmer, WREA; B. Fendel, AFSCME; E. Frank, DNR; B. Frantz, DOT; J. Grosklaus, West Allis; R. Hoessel, DOT; C. Howard, WEAC-R; A. Hubbard, WSAA; D. Klimpel, UWMRA; D. Kratz, CORR; A. Lee, WSAA; J. Maydak, West Allis; J. Miller, DNR; J.Munro, WARSDA; D. Rohweder, ESP, B. Schaefer, SEA; J. Skiles, UW-R; T. Speranza, RPFFW; J. Stoddard, CORR; J. Vreeland, Wauwatosa; A, Wallace, UWMRA; J. Zwadzich, SWIB.
GUESTS: S, Drew, D Stella.
EXCUSED: J. Egan, J. Palmer.

MINUTES of the March meeting were approved as mailed.

GUEST: Dave Stella, Secretary, Department of Employees Trust Funds

Mr. Stella provided a handout entitled “2009 WRS Year in Review, What Lies Ahead”. He first shared the Core and Variable annuity adjustment scheduled for May 1, 2010. The Core adjustment is minus (1.3)% and the Variable a positive 22%.Mr. Stella indicated there was annuitant concern as to why the Variable adjustment was 22% when the SWIB return was 33.7%.

Mr. Stella began with the December 31 summary. In the Core Fund there are 150,866 annuitants who in 2009 received $3.5B with a fund balance of $36.7B and an actuarial reserve or liabilities to be paid to the annuitants of $37B with a ratio of 0.989. A ratio of 1 is needed to fund benefits and the Core is .011% short. The Variable Fund has 34,836 annuitants, who received $240M with a fund balance of $3.1B and actuarial reserve of $2.5B with a ratio of 1.225. This is the simple math of looking at the annual adjustments. Mr. Stella described the actuarial reserve as the base determined upon each individual retirement and its many projections such as longevity, number of participants in and out of the fund, interest rates expected and the fact that all dollars are pooled with a guaranteed floor in the Core and no floor in the Variable.

Mr. Stella provided a chart listing the 15 steps in determining the Core fund adjustment starting with: 1) SWIB return of 22.4%, 2) MRA five year adjustment smoothing a negative (18.2)% which leaves an 3) Effective earnings rate of 4.2% which is applied to active and inactive accounts. 4) Adjustment to relate earnings to average fixed annuity balance is a negative (0.20)% over 12 months and is subtracted resulting in 5) Earnings rate based on average balance of 4.00%. The following assumptions are then factored in. 6) Expected dividend before adjustment of 5% = 1.04/1.05 minus 1 results in a loss of (0.95)%. 7) Adjustment to relate average asset to ending liability is a negative (0.02)%. 8) Carryover from last year due to timing of dividend accounting adjustments and rounding is negative (0.12)%. 9) Adjustments to contingency reserve and data reserve is a result of the mortality three year experience study having a surplus of 1.15%. 10) Experience study reserves forecasting of mortality is negative (0.96)%. 11) Experience study and other effects a negative (0.22)% and 12) Statutory adjustment to round to nearest one-tenth percent 0.02%. 13) Trail computed dividend rate is adding 6 through12 which totals a negative (1.1)% which is the same as the simple math spelled out above. However, factored in is 14) Adjustment for members not subject to negative dividend (0.2)% and then the 15) Final computed dividend rate adding 13 and 14 equaling the negative (1.3)% adjustment.
Item 14 adjustment: Liabilities for all members is $37B with 2009 adjustment a negative $(400M) or a (1.1)% liability. As members retire there are more at their base annuity who have never received an adjustment with a payout this year of $6B subtracted from the $37B results in$31B minus the $(400M) or a (1.3)% liability. The difference in liabilities, (1.1)% and (1.3)%, is (0.2)%.

A question on employer liability. The average annuity is around $1900 a month. About $1300 is guaranteed with $600 in gains. Employer guarantees the $1300 and if adjustments were to go below $1300 the employer would have to make up the difference. The five year smoothing seems to be adequate considering both bad and good years although some systems are looking at extending the smoothing time. As annuitants the risk is with us not the employer. The employer is responsible for the active employee contribution rates which have also been part of wage negotiations.

Variable adjustment also has several steps. 1) SWIB published return of 33.7%, 2) Adjustment to published effective rate (0.7)%, 3) Published effective earnings rate is 33.0%. 4) Adjustment to relate earnings to average variable annuity fund balance is negative (1.2)% over 12 months resulting in 5) Earnings rate based on average balance of 31.8%. The following assumptions are then factored in. 6) Expected change before adjustment of 5% = 1.318/1.05 minus 1 results in 25.5%. 7) Adjustment to relate average asset to ending liability is (0.01)%. 8) A major negative was carryover from last year, (0.7)% truncated, and timing of dividend accounting adjustments, made on May 1, and rounding resulted in a negative (3.9)%. 9) Adjustments to mortality contingency reserve 2.3%. 10) Experience study reserves forecasting of mortality (1.2)%. 11) Experience and other effects (0.1)% and 12) Statutory adjustment truncate to whole percent (0.05)%. 13) Variable annuity change by adding 6 through 12 equals 22.0% adjustment.

Mr. Stella provided several years of SWIB percent earnings and Variable adjustment percentage comparisons. 2009 was an 11.7% difference (33.7% to 22%), 2008 was 3% with a 39% loss, 1990 was 2.7% with an 11.3% loss and 1991 was 9.1% with a gain of 27.1%.

Projecting adjustments, not predictions, only estimates using assumptions. Investments are smoothed through the MRA (Market Recognition Account) between gains/losses and the assumed rate of 7.8%. At the end of 2009 there is a $9.5B loss in the MRA. A 7.8% gain in 2010 will result in an annuity adjustment of between negative (1.8)% and (2.2)%. If a 0% return in 2010 the adjustment would be negative (3.1)% to (3.5)%. A 2010 return of 14.2% to 15.4% is needed to receive a 0% adjustment. Annual 7.8% SWIB earning will result in a positive adjustment in 2013 (May 2014). The Core 27 year average is 4.9% with CPI 3.0%. The 10 year average is 2.0% with the CPI 2.5%. The Variable 27 year average is 4.1% and the 10 year average is negative (5.0)%.

Mr. Stella showed a line chart of the CPI, Variable and Core which shows the volatility of the Variable fund. ETF update: Information and details on individual Variable conditional and unconditional options will be available probably by the end of the year. All WRS members now have an ID number having switched from Social Security numbers. In the next 20 years WRS membership will double and if only the present 260,000 actives are replaced the membership will be at 700,000. It will require individual information online and less one to one service.

The WRS funding status is expected to be in the 90-100% range in June which places the system in the top five. The WRS Consulting Actuary using an actuarial valuation frozen initial liability gives the WRS a 99.7% funding ratio. Using a market value measure with entry age normal the WRS has an 88% funding ratio. The PEW Center on States has a 99.67% funding ratio and the Boston College Center has a 97.1% funding ratio. The Manhattan Institute has a 78% funding ratio using a 4% discount rather than the 7.8% used by the WRS. Manhattan states a realistic return is 4% using a market value when the last 25 years public funds have averaged 9.25% return.

Employer contribution rates will most likely increase 0.6 to 0.8% which will create concern and emphasis on cost shifting to the employees. There is a trend for employers focusing on employees paying more of the retirement contributions. Expect WRS members and us annuitants to be a "lighting rod" for criticism. When half of the private employees have no retirement or pension plan, when those with 401k plans have an average of $60,000 at age 60, the focus will be on systems like the WRS.

The Federal health insurance plan may have a few minor changes to the ETF offered plans but at this time nothing major. The $2M maximum is eliminated. The tax on "cadillac" plans in 2018 may be a concern but will probably change by then.

GUEST: Sandy Drew, Legislative and Beneficiary Liaison, SWIB

SWIB returns as of March 31, Core 2.7% and Variable 4.6%. DOA has released all SWIB positions that were obtained two years ago and subsequently frozen. With in-house management of assets increasing the last two years from 20% to over 40% a study was conducted looking at the operations, accounting and IT needs. The board approved staff compensations for 2009 returns. Some received six figure compensation and there may be some media mention. Sixty-seven percent of the benchmarks were beaten and excess return came mainly from internal portfolios. Internal cost 6 cents per hundred and external 26 cents per hundred. The $4.2M compensation was given to 115 staff. The 115 staff members each generated an average of $10.4M in excess returns.

Federal legislation is scheduled and the corporate governance issues SWIB addressed is in the Bill , however, there is lobbing by the Chamber of Commerce and bank and business lobbyists.

Legislation: AB 916 passed the assembly with an amendment to remove the mailing list from the Bill. ETF opposed the Bill. SB 390 status is unknown. Similar legislation is expected to be introduced next session.

A question on Milwaukee County joining the WRS or joining as a separate plan is not realistic unless they solve their financial problems. There has not been any inquiry to ETF from Milwaukee.

CORRESPONDENCE: None

OLD BUSINESS: - Annual Conference May 10, 2010 - The first registration was a result of the notice in the ETF Trust Fund News. The committee will meet following today's meeting.

- Website Proposal has been requested.

TREASURERS REPORT: Balance $7947.00 Conference name tags will be necklace style rather than pins. Any organization that could use the pin types, contact Treasurer John Maydak.

NEW BUSINESS: None

COMMENT: A coalition member stated that an annuitant had not received a check for three months and she discovered that she was declared dead by Social Security. The coalition member contacted ETF and the same day an ETF representative contacted the annuitant and within a week the records were corrected and she received her money.

NEXT MEETING: May 10, 2010 Annual Conference - American Family Headquarters
June 16, 2010 9:30 am, WI. Professional Police Association Building.

The meeting adjourned at 11:45am
Respectfully submitted – Dick Kratz