

# Wisconsin Coalition of Annuitants

Minutes of Meeting June 16, 2010

The meeting was held at the Wisconsin Professional Police Association Building, 304 Coyier Lane Madison and was called to order by Chair Jim Palmer at 9:35am.

**MEMBERS & ALTERNATES PRESENT:** J. Calkins, UWMRA; V. Cutler, UWMRFA; B. Fendel, AFSCME; B. Frantz, DOT; R. Hoessel, DOT; C. Howard, WEAC-R; D. Kratz, CORR; A. Lee, WSAA; J. Miller, DNR; J. Munro, WARSDA; J. Palmer, WPPA; D. Rohweder, ESP, W. Rowe, ACE; B. Schaefer, SEA; J. Skiles, UW-R; J. Stoddard, CORR; J. Vreeland, Wauwatosa; A. Wallace, UWMRA; J. Zwadzich, SWIB.

**GUESTS:** S. Drew, A Fendel, K. Johnson, S. King.

**EXCUSED:** J. Egan, J. Elmer, E. Frank, J. Gruentzel, J. Grosklaus, J. Maydak,

**MINUTES** of the April meeting were approved as mailed.

## **GUESTS: Ken Johnson, Chief Operating Officer, SWIB**

Mr. Johnson provided a handout and began with a report on returns for the end of May. The Core fund was -1.8% and the Variable was -3.2%. As of June 11 the Core was -1.1% and the Variable -2.7% both tracking benchmarks. May was not a good month with the S&P falling 8.2%, the European debt crisis being a concern and unemployment at 9.9% with more employed but more entering the work force. Retail sales also slowed in April after a strong March.

Mr. Johnson provided a chart showing the market volatility, "VIX Index", which after steady and somewhat stable returns since March '09 finds May '10 with many fluctuations that were seen in 2008. The goal of SWIB is to reduce volatility in the market which will reduce returns but have better protection against the down times. The Board has approved the policy and conditions to enter into Hedge funds as part of the strategy to reduce volatility and yet have decent returns similar to a blended stock and bonds portfolio. The initial goal is to invest 2% of Core fund assets into 12 to 15 diversified hedge funds over the next few years. Leverage implementation will be done after a review by recently hired New England Pension Consultants (NEPC) and their meeting with the board in as soon as August.

The strategy for public equities is: Move actively managed risk from efficient US large cap to less efficient markets, more indexing and less active management in U.S. large cap, initiate global equities strategy by combining analyst teams such as US and global markets and increase exposure to emerging markets. Comparing May 2006 to May 2010, US equity was 63% and today it is 43%, the international exposure was 33% and today is 24%. The major change being global or foreign markets which was nonexistent in 2006 and today is 23%. Also emerging markets increased from 4% to 10% and is managed externally. US Large cap equities in 2006 were indexed at 39% and today are at 68% mainly due to increased internal management. International markets are those headquartered outside the US where global markets are those with operations in the US and in foreign countries.

Internally managed assets have gone from 20.8% on 12/31/07 to 44% on 5/31/10. Cost of management internally is \$25 million and external management cost is about \$200 million. External cost has leveled off with the increase in staffing internally.

Cutter Associates has been hired for an IT and Operations review. Following a survey of private and public pension systems the following stood out: SWIB has fewer staff, less outsourcing and lower costs than its peers. The last two years IT and Operations have successfully supported a wide range of new investment initiatives and a substantial increase in assets managed internally. IT and Operations now is at capacity and SWIB is taking steps to ensure sufficient supportive resources internally as well as out sourcing low level data.

The Legislative Audit Bureau (LAB) will be completing the management audit which is required every two years, financial audit required annually, and takes several months to complete.

The emphasis this review will be on the State Investment Fund for local governments. The audit should be completed in the fall.

The biennium budget will be submitted in September. SWIB will operate under its present authority. With a new governor and a large percentage of legislators not returning there will be a need for orientation to SWIB's funding process. In addition the emphasis on public employees will generate concern among newly elected officials. Expect discussion on defined-benefit versus defined-contribution plans.

CalPERS and several other states are considering lowering their assumed rates mainly due to under funding and spreading the loss over as much as 30 years. SWIB actuary sees no reason to change the 7.8% assumed earnings rate. The WRS with the shared risk/reward is not in the position of many states that find them facing major fund deficits.

Mr. Johnson announced that he will be retiring from SWIB in November. The WCOA thanked him for his cooperation and relationship with the WCOA and wished him well.

### **Sandy Drew, Legislative and Beneficiary Liaison, SWIB**

Ms. Drew provided a status report on the Federal Financial Stability Act of 2010. The bill passed the House in December and is now in conference committee in the Senate under HR 4173 with senate amendments. There are three major areas: 1) Corporate governance provisions are in the final bill as desired by SWIB which includes the ability for shareholders to have access to their companies' proxies and directors to be elected by a majority vote as opposed to the present one vote and the director is on the board. 2) Swap dealers as fiduciaries who enter into a swap with a pension plan cannot be a fiduciary to the plan and on the opposite side of the contract at the same time. A senate amendment to the bill will permit SWIB to continue investing in swaps when necessary to protect the funds. For example SWIB will continue to enter currency swaps to hedge against the currencies of international investments. An example of a swap is a bond with a fixed rate and swapping for a bond with a floating rate. 3) Similarly situated creditors in bankruptcy could be treated differently by the FDIC. Too big to fail banks creditors could be treated differently to protect other banks. SWIB objects to this proposed exemption since it could create uncertainty about creditors' rights and increase market volatility. There have been several delays because the bill deals with commodities and it had to be referred to the agricultural committee. Also legislative races and lobbying has had a slowing effect.

### **Sari King, Administrator, Division of Retirement Services, ETF**

Ms King provided a summary of the survey completed at the May conference. Approximately 100 completed the form and 85% stated they have access to the Internet but less than one third open the ETF website. Forty- five percent conduct financial transactions on the Internet and 60% indicated they would conduct financial and related transactions with ETF providing it has security. The three main reasons for using ETF online would be to update addresses, view account details and request duplicate forms. With over 155,000 annuitants mailing options are being considered. Customer ages range from three years of age to 108 years of age. Communication is the key and different method need to be explored to address the actives and retirees. Both Sari King and Sandy Drew are willing to provide information for organization newsletters; they may be contacted to obtain bullet points and summaries of current information.

ETF has requested a 1310 funding of \$2.4M and 14.5 positions. This request will have no impact on the WRS annuity adjustments or contribution rates. Staffing and funding of 10.5 positions would be used in customer service and outreach outside the Madison area, personal data changes of eliminating social security numbers, and in the various insurance programs. Four positions will be infrastructure and data security within the various operating systems.

There continues to be misunderstanding on the various annuity options specifically with the accelerated payment. There also are life insurance and long term care related questions. ETF continues to add web casts based on participant needs. Again, be sure to update your beneficiary. There are a number of reports being published on the federal health-care plan and ETF will provide information as it becomes available.

**COALITION DIRECTOR:** Joan Calkins was introduced as a Director for the UWMRA.

**LEGISLATIVE REPORT:** None

**CORRESPONDENCE:** None

**OLD BUSINESS:** - Annual Conference summary - it was appreciated that speakers were available after their presentations and willingly answered questions. The ETF representatives were again helpful in answering participant questions. The committee was thanked for their efforts. American Family is in the process of changing requirements for their auditorium usage and it may require that we obtain nonprofit status or have the conference sponsored by one of our nonprofit organizations. The committee will contact American Family and request Monday, May 9, 2011 for our next conference.

Our conference speaker Prof. Duddleston from Edgewood College paid for all of the handouts at his expense. He indicated his department budget was depleted and the handouts were black-and-white rather than color to cut costs. The committee recommends an honorarium to cover his costs.

**MSC The WCOA award a \$200 honorarium to Prof. William Duddleston.**

We also received a CD of photos taken at the conference, thanks to John Hanrahan.

- WCOA website - Proposal by Ranger Rick will be scheduled for the July meeting.

**TREASURES REPORT:** Our treasurer is presently hospitalized and undergoing by-pass heart surgery.

As of this morning the check book balance is \$6119.01.

**NEW BUSINESS:** -ETF Board -The present annuitant representative on the ETF board has not been a representative of retirees. Former board member, Jim Gruentzel, indicated a willingness to once again serve however it has been brought to our attention that Bill Ford previously with the Legislative Council and an active participant with the WCOA has indicated a desire to serve as the annuitant representative.

- Certificate of Appreciation - Executive Committee will follow on the recommendation.

- Gubernatorial candidates have in one form or another mentioned pension and retirement issues. The Chair will draft a letter to the three major candidates which will then be reviewed by the membership. The candidates will be invited to our August 18, 2010 meeting.

**NEXT MEETING: July 21, 2010** 9:30 am, WI. Professional Police Association Building.

The meeting adjourned at 11:45am

Respectfully submitted – Dick Kratz