Wisconsin Coalition of Annuitants

Minutes of Meeting October 20, 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 9:34am.

MEMBERS & ALTERNATES PRESENT: O. Berge, WARSDA; J. Calkins, UWMRA; V. Cutler, UWMRFA; J. Elmer, WREA; B. Fendel, AFSCME; E. Frank, DNR; J. Grosklaus, West Allis; R. Hoessel, DOT; C. Howard, WEAC-R; A. Hubbard, WSAA; A. Knop, WEAC-R, D. Kratz, CORR; A. Lee, WSAA; J. Maydak, West Allis; J.Munro, WARSDA; J. Palmer, WPPA; D. Rohweder, ESP, W. Rowe, ACE; B. Schaefer, SEA; J. Skiles, UW-R; T. Speranza, RPFFW; J. Stoddard, CORR; J. Vreeland, Wauwatosa; J. Zwadzich, SWIB.

GUESTS: S. Drew, A. Fendal, B. Ford, D. Stella, E. Stoddard, R. Wojciak.

EXCUSED: J. Egan, B. Frantz, J. Miller, A. Wallace

MINUTES of the September meeting were approved as mailed.

Special Guests: Bill Ford is running for the annuitant position on the ETF Board. Mr. Ford retired from the Legislative Council where he was the WCOA contact and regularly attended our meetings.

Ellen Stoddard Keys of Colorado was a guest of Jack Stoddard. She heads up the I Love You Guys Foundation on school safety and spoke to several members following the meeting.

GUEST: Dave Stella, Secretary, ETF

Mr. Stella provided a handout, which is available at www.WICOA.org, titled A Long Way To Go-The Slow Recovery of the WRS. Mr. Stella stated that given the nature of the times he will be realistic and cautious. In projecting future, end of the year, Core fund earnings and the subsequent May adjustments or dividends, it is important to remember that these are predictions or very rough estimates.

There is a $9.5 billion loss in the market recognition account (MRA), which results in negative return numbers until 2013. It is to be hoped that the losses will be offset by future positive earnings, but we have a long way to go and it is an uphill climb.

Based on the 2010 earnings assumption of 7.8% the adjustment next May would be between -1.8% and -2.2% and continued annual 7.8% earnings still would not show a positive adjustment until 2013. The markets have been up-and-down and the economy is too fragile to accurately predict any direction.

If the earnings for 2010 are 0%, the annuity adjustment would be between -3.1% and -3.5% and again with future years earnings of 7.8% the adjustment would be negative until the year 2013.

To avoid a negative adjustment in May 2011 an investment return of between 14.2% and 15.4% would result in a 0% adjustment and with the assumed earnings of 7.8% the following two years would still be negative adjustments. Economic indicators do not indicate a large growth even though many indicate that the market is undervalued.

To avoid negative adjustments in the future, we need the above mentioned 14.2% to 15.4% for 2010, 17% to 18% in 2011, and 10.5% to 11% in 2012 to receive a 0% adjustment the next three years. Investment returns are a major factor of the annuity dividend but there are other factors, such as mortality experience, that affect the dividends/adjustments.

To receive a positive 0.5% adjustment in May 2011 a return of 20.2% to 21.4% is needed. However, the following two years would continue to be negative adjustments assuming 7.8% earnings in each year.

In perspective we have all heard how the WRS is different, how we are better, and how we handle down turns. In the WRS we “share the pain as well as share the gain”. The above adjustment scenarios reflect the pain and the following is the gain.

The Current Value of Annuities chart provides a value based on the year of retirement and reflecting back. As an example, if you retired in 2005 a $1000 core annuity today would be worth $1069, which is an annual increase of 1.4% or 1.2% below the CPI. If you retired in 2000 the $1000 annuity would be worth $1215 with an annual increase of 2% compared to the CPI of 2.5%. If you retired in 1995 a $1000 core annuity is worth $1849 with an annual rate of increase at 4.2% compared to the CPI of 2.5%. Reflecting back to 1985 a $1000 annuity is now worth $3269 with an annual rate of increase at 4.9% or 2% higher than the CPI.

The Variable fund is very volatile and the ETF board recommended to the Legislature that it be closed. The last legislative session there was no action taken, and a bill to close Variable is expected to be introduced in the next session. To have a positive Variable adjustment, you would have had to retire in 1995. A retirement in 2005 would find a $1000 variable annuity valued today at $802 or annual adjustment is -4.3%. Retirement in 2000 the annual adjustment is -5.0% with the $1000 now valued at $599. Retirement in 1995 the annual increase has been 1.8% a little less than one-half the core fund. Retirement in 1990 the annual increase is 2.0% compared to the core at 4.2%. From 1985 to present the Variable fund has not performed as well as the core fund. The variable takes longer to recover losses because of the compounding of negative numbers annually where the core fund has the smoothing of five years. To have the core and variable equal today you would have to go back at least to 1980. In the 1970s participants had no option but to remain in the Variable fund and in 1980 the Variable was closed to new participants. ETF is in the process of completing an online tool to compare variable and core fund accounts for retired members.

QUESTION: Are there market funds that reflect the core and the variable? Mr. Stella stated because the investments in the Core fund are diversified the best is to check the SWIB website for the end of the month returns which are usually listed by the middle of the following month. The Core fund is a balanced fund and customized with no clear comparisons in the US markets. The Variable fund is an “all stock” fund, but it is a customized fund that does not have a specific market index.

In the Comparative Statement chart the core has a 27 year average of 4.9% and a 10 year average of 2%. Included is the 17.1% in 1999 when Act 11 was passed and without that adjustment the average would be lower.

Most economists do not anticipate a fast recovery. The next 7 to 10 years will have lower investment returns. Some analysts mention a bond bubble, considering heavy movement toward bond investments, interest rates being very low and the rate of inflation unknown.

What is happening in other states? We have heard of public pension funds being under funded by $500-$600 billion but we have not heard the private companies shortfall of $6.6 trillion on their 401(k) funds. A number of large companies have dropped their 401(k) match. The emphasis is on the public plans being underfunded and a Prof. Rauh from Northwestern has been emphasizing public plans are underfunded with no mention of private plan inadequacy.

Twenty states have passed legislation reducing benefits to new employees which is a way to reduce pension obligations. This tiering of benefits has been going on in the private sector. Four states (Colorado, South Dakota, Minnesota, New Jersey) have passed legislation reducing benefits based on Cost of Living Adjustments (COLA). Class action lawsuits have been filed in the four states and depending on the outcome other states may follow. Both gubernatorial candidates in Wisconsin have proposed reductions in retirement benefits and shifting costs to employees. With contractual agreements, the focus will be on new hires, and we can expect that if the governor does not introduce legislation that legislators will introduce some type of change in contributions for public employees. The WRS basic structure is granted in law under Chapter 40, specifically s. 40.19. However, the statute also indicates the legislature may adjust future benefits, without a statute definition of future benefits. Does the statute mean new annuitants or future benefits for present annuitants? Taking of property without compensation was addressed in the special investment performance dividend lawsuit (SIPD) and is well defined.

A number of private employer groups are comparing private and public sector employee benefits and indicating that since private employees do not have the same benefits why should public employees get them? At the same time compensation for corporate executives has increased dramatically.

QUESTION: How do we get the word out when organizations like WPRI have releases comparing public and private employees? Mr. Stella stated we should correct erroneous information, but it is difficult to change perspective.

COMMENT: We need to educate our organizations members on what could be potential changes in the WRS. There are media articles that legislators might grasp onto to change the system. Mr. Stella indicated that there are a number of national public pension organizations that have the message “every American deserves an adequate retirement”. When two thirds of the WRS pensions are paid by investment return the question still arises, who should pay. The common statement is public employees should share in the cost. The general public does not understand how pension systems operate and specifically the WRS. Today, approximately 1/3 of the annuities funded by the core fund are made up of past dividends. The average benefit is $1900 per month with about $1300 being the base annuity benefit. The remainder is from dividends.

The Governmental Accounting Standards Board (GASB) is a nonprofit nongovernmental accounting board that sets standards for annual financial reporting by state and local governments using the Comprehensive Annual Financial Reports (CAFR). For years, they focused on the annual required contributions by watching how pension plans were funded. GASB has now issued a preliminary views (PV) that will require major financial reporting changes. The Financial Accounting Standards Board (FASB) which monitors private sector financial statements, the academic community and private businesses appear to have pressured GASB to revise reporting requirements toward one standard, which is used by businesses. Without changes, the present PV will have a major separation between reporting by pension funds such as the WRS and what employers report on their financial statements. Presently employers use the same smoothing as the WRS, however, employers would be required to use a market value of assets on an annual basis. In addition any liability not covered by current assets would have to be discounted at the bond rate rather than expected return rate of the pension fund which drastically increases the liability if assets levels decline. In a good return year liabilities could drop significantly, potentially resulting in an overfunding and pressure for employers to withholding contribution. Mr. Stella provided several examples, one being that the State of Wisconsin could have a net pension unfunded liability of about $3 billion even though there would not technically be an unfunded liability with the WRS by current standards. Numerous pension funds, including ETF, have gone on record opposing the change, but it really only involves employers. Not using the pension fund CAFR is the problem.

QUESTION: With actuary changes based on mortality, the 7.8%, the 5%, and annual 4% salary increase assumptions; is there any move to change these numbers? Mr. Stella indicated that all those numbers are always under review by ETF and SWIB. Every year the actuary does a gain-loss analysis. By law, at least every three years, the actuary does a complete analysis. The 5% is more difficult since that is used when an annuity is established and assumes a 5% return to establish the funding for a monthly annuity payment over the annuitant's lifetime.

The WRS will be paying out about $3.7 billion this year in annuities. Once contributions from employer or employee go into the trust fund they become an asset of the trust fund and in theory lose their origin of identity, however, they are referred to as employer, employee and annuity reserves. If the Core annuity had no floor and was not guaranteed, which is a basic characteristic of a defined benefit plan it would create IRS and other legal problems.

There was a brief discussion regarding the Injured Patient's and Families Compensation Fund decision by the Supreme Court considering it as a trust fund rather than insurance fund. This decision could be in the WRS's favor in the future.

Nationally, pension leaders state this is the most difficult time in the history of pension plans. The 70's were difficult but pension plans were young and did not have the liabilities that more mature systems have today. Also, in the 70's there was not the anti-public employee sentiment being experienced today.

The normal retirement age (NRA) for protective occupations has not changed but the deadline for requiring plans to change it has been moved back.

Once again, the WCOA thanked Mr. Stella for his time and presentation..

GUEST: Sandy Drew, Legislative and Beneficiary Liaison, SWIB

Ms Drew reported the latest returns are the Core 6.3% and the Variable 4.7%.

CORRESPONDENCE: None

OLD BUSINESS:

Executive Committee nominations of present officers were made and closed.

MSC The WCOA reelect Jim Palmer, Chair; Ed Frank, Vice Chair; Dick Kratz, Secretary; John Maydak, Treasurer.

Website is online with current information www.wicoa.org Webmaster, Ranger Rick, will profile a director each month on the Director page. Volunteers would be appreciated.

NEW BUSINESS: John Zwadzich recently attended the National Association of Business Economics. The recession was officially over in June but the economy has not been doing well and the organization prediction for gross domestic product (GDP) is now expected to advance 2.6 percent down from the May prediction of 3.2 percent. A double dip in the economy is not a concern. The consumer is now the big saver and corporations now have $2 trillion in cash and are not spending. Following the elections we could see corporations starting to spend and beginning new hiring programs which could lead to a continuing improvement in the stock market. The Federal Reserve is concerned about deflation more than inflation. Economy will "muddle" along.

Jane Elmer reported that Anthem Blue dropped another group from the dental plan and those dropped are being referred to the Coalition Plan.

TREASURER'S REPORT: Website has been paid and balance is $5,339.01 **(approved MSC)**

NEXT MEETING: November 17, 2010, 9:30 am, WI. Professional Police Association Building.
The meeting adjourned at 11:45am
Respectfully submitted – Dick Kratz