

Wisconsin Coalition of Annuitants

Minutes of Meeting September 22, 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: O. Berge, WARSDA; J. Calkins, UWMRA; V. Cutler, UWMRFA; Elmer, WREA; B. Fendel, AFSCME; E. Frank, DNR; B. Frantz, DOT; J. Groszklaus, West Allis; R. Hoessel, DOT; D. Kratz, CORR; J. Maydak, West Allis; J. Miller, DNR; J. Munro, WARSDA; J. Palmer, WPPA; D. Rohweder, ESP, W. Rowe, ACE; B. Schaefer, SEA; J. Skiles, UW-R; T. Speranza, RPPFW; J. Stoddard, CORR; J. Vreeland, Wauwatosa; A. Wallace, UWMRA; J. Zwadzich, SWIB.

GUESTS: S. Drew, A. Fendel, K. Johnson, M. Stohr, S. Sweet, C. Welch.

EXCUSED: J. Egan

MINUTES of the August meeting were approved as mailed with an attendance/excused correction.

NOMINATION PAPERS were circulated for Bill Ford whom WCOA has endorsed as the Annuitant Representative for the ETF Board.

SWIB PRESENTATION handout entitled "An Overview of Global Investing", presented to the UWMRA, was provided by Ann Wallace for consideration for a WCOA presentation.

GUEST: Ken Johnson, Chief Operating Officer, SWIB

As Mr. Johnson mentioned at our June meeting market volatility has picked up throughout the summer. A handout was provided. At the last board meeting Callan Associates presented a performance of SWIB's Core Fund as compared to 150 public funds. Callan also incorporates the amount of risk that funds have taken. The three major areas for the five year return ending 6/30/10 indicate that: 1) the core fund generated a greater return than 70% of the peers, which has been the norm with SWIB returns consistently being in the top third, 2) less tracking error or deviation of return from benchmarks than 78% of its peers, which means controlling volatility to prevent drastic changes in benefits and contributions, and 3) a higher level of excess return per unit of tracking error or volatility than 70% of its peers.

Preliminary returns the end of August have the core fund at 0.3% compared to a benchmark of 0.6% and the variable fund at -4.6% compared to a benchmark of -4.6%. August was a tough month on the markets with the US markets down between 3% and 4% and the international markets down as much as 7% mainly due to the international economics and strengthening of the dollar. The market volatility changes frequently and preliminary/preliminary returns from last week indicate the core fund is up to 7% and the variable is up to 4.5%. Also, the US and international markets were up over 7%. Possible reasons for the change are the federal efforts to keep rates low and the European situation is not as bad as it was feared and the corporate buildup in cash may reflect an undervalue of stocks. September so far has been a good month.

Global markets remain volatile even with the recent announcement that the US recession ended on 6/30/09. The GDP shows growth but not at the rate we would like to see, media reports have consumers wary with savings rates up considerably, nationally unemployment remains high, housing market has not recovered and the uncertainty with the upcoming election as to what will happen with the economic program; will something be done before the elections to help small companies and provide stimulus or will nothing be done until after the elections.

Mr. Johnson provided a chart developed by ETF, which shows the net return required to avoid future core fund negative dividends. An approximate 15% return this year and a 18% return next year and an 11% return in 2012 are needed to avoid a negative dividend. An annual 7.8% return is needed yearly and anything less is compounded to the future. A 0% return this year will result in the core adjustment between -3.0% and -3.5%.

Internal management has been successful with the US large-cap index funds. With the addition of a new position \$3.9 billion of international indexed funds will eventually be managed internally at a savings of \$800,000 a year and resulting in 50% of assets managed internally. This position request was shared at the August meeting and appears to be moving toward approval. In addition, with the 20 positions previously added the annual cost of management has been reduced by \$6.5 million.

With the increase in internal management and new strategies the board requested a consultant to review support resources in accounting, IT and the trading room to keep up with the new strategies. The report indicated a good job of managing the new initiatives even though under resourced compared to others. The report indicated adding staff where possible, taking advantage of vendors to outsource and support and improving internal processes. All three of the above are being done with five areas of emphasis. 1) In process efficiencies an outside vendor will assist in tracking and reporting private market investments where there are partnership funds and many companies invested. 2) Data management is a major area and considered the lifeblood of the organization. Recently installed is an electronic research management system which will permit the research of individual managers to be shared across the organization by laptop. Outsourcing of some data management functions will free up staff and provide 24/7 support. 3) By May 2011 disaster recovery facilities will be located outside Dane County for security and protection. The goal is to move toward "working from anywhere" because of the after hours and weekend requirements which have increased with international trading. 4) Two IT positions have been reallocated to business analyst roles utilizing their knowledge of IT as well as improved efficiency in business processes. 5) Two positions have been added to IT and operations.

Other topics: Public pension funding/sustainability emphasis is being stressed in distinguishing the WRS from the national situation and educating the media.

The October board meeting being held at Elkhart Lake will have various topics, one being if the 7.8% return is on target for the system liabilities.

Asset allocation changes to reduce volatility are moving along carefully and slowly with hedge funds at the lead, however, no managers have been identified. Additional risk measurement tools will be implemented before hedge funds and leveraging is initiated. Any changes will be decided by the end of the December Board meeting.

SWIB will have a report in October or November addressing venture capital in Wisconsin and the strategies SWIB has been using.

Fund to Fund investments with other states is not an option for SWIB, since it adds additional management and costs.

The Federal Financial Reform Act needs considerable rule-making by the SEC before any changes occur. SWIB is watching three areas, regulation of derivatives, ability for shareholders to nominate corporate board members and regulations on hedge funds.

SWIB will not be asking for any positions or budget authority in the next state budget and may not need any changes in the next two budgets.

Answer to questions: SWIB is a low-cost fund, is approaching the maximum of internal managed funds, and has the resources/staff to work toward the goals developed by consultants and SWIB staff.

SWIB is a member of the Council of Institutional Investors (CII), Gail Hanson is on the Board, which has been focusing on shareholders being given the ability to nominate directors to boards which is the first step in controlling corporate salaries, paying them on performance rather than position.

The SWIB compensation consultant has been asked to evaluate the benefits of internal management versus external management after fees returns. SWIB feels the assets moved internally have been beneficial to the returns; however, there are assets that are best managed externally especially overseas and some real estate.

The State Treasurer's Office does not have any investment authority, but administers and manages several programs and serves as intake for the State Investment Fund which SWIB invests.

GUEST: Sandy Drew, Legislative and Beneficiary Liaison, SWIB

Ms. Drew provided two recent publications, "Investing For Your Retirement" and the August SWIB report both available at the SWIB website. Three of the four SWIB reports will be combined with the ETF Trust Fund News. The December SWIB report will be independent and provide the end of November returns.

GUEST: Matt Stohr, Director Legislation, Communication, Planning, ETF

The health insurance booklet, "It's Your Choice" is on the website and will be mailed soon.

"Trust Fund News" and the SWIB Report will be combined in January and be titled "WRS News". SWIB and ETF articles will be clearly identified.

A handout was provided identifying changes in statewide retirement plans with employee contribution rate increases, a reduction in benefits or both. The document was produced by the National Conference of State Legislatures, and is titled "Pension Pinch". <http://www.ncsl.org/?TabId=20836>. The key states for retirees to watch are Minnesota, Colorado, and South Dakota. Minnesota has a court case pending where the state is considering removing retirees' cost-of-living increases. <http://watchdog.org/6322/states-eye-mn-pension-lawsuit> WRS is unique in that it is governed by statute and retirees share in the risk and return of investments.

ETF Waukesha office last day of operation will be October 6 with group sessions conducted through the calendar year. After the first of the year ETF will have nine districts with a service counselor for each district.

Government Accounting Standards Board (GASB) is proposing a change in how employers report unfunded liabilities. Employers and ETF presently use a five year smoothing. GASB is proposing no smoothing for employers and they would be required to use an annual market value which for most employers would show an unfunded liability. An example is the state of Wisconsin would have to show a \$3.5 billion unfunded liability and ETF with its smoothing would show the state with no unfunded liability. Blackhawk Tech College was also given as an example of being current with ETF payments but having a \$9 million liability under GASB. State Retirement Administrators have written a letter opposing the change.

The legislature will be back in session in January 2011 and then ETF will introduce a technical bill to follow recent legislative changes and will also reintroduce the Variable Fund participation closure to new employees.

The ETF board has indicated that they will discuss the rehiring of annuitant guidelines and discuss the number of years of highest earnings required for retirement calculations.

LEGISLATIVE REPORT: None

CORRESPONDENCE: None

OLD BUSINESS: Annual Conference is confirmed for Monday, May 16, 2011 at the American Family National Headquarters Madison.

Submitting questions to the Barrett/Walker debates resulted in discussion and different views on: why did only one candidate send a representative to our meeting, how should we advise our membership of the candidates various positions, are there different concerns for the active employee and retirees, how are questions submitted, what is the role of public employees, retirees vote and how do we get the actives to vote, no matter what the question the candidates have an answer, once in office they are a different changed person, and do they realize the revenue that retirees contribute. There was no conclusion. The first debate is in two days. If anyone finds the procedure to submit debate questions, advise the secretary.

SWIB Executive Director Keith Bozarth and Sandy Drew met with the policy directors of candidates Barrett and Walker and the discussion focused on investments. However, candidate Walker's staff expressed an interest in discussing the defined contribution plan versus defined benefit plan.

Website corrections will have Directors in place of members, all directors will be listed by organization, WREA will be added to organizations and other articles will be added. Everyone expressed a positive response to the site.

TREASURE'S REPORT: Same as last month, no activity.

NEW BUSINESS: Nominations for WCOA officers are due next meeting.

NEXT MEETING: October 20, 2010 9:30 am, WI. Professional Police Association Building.

The meeting adjourned at 11:45am

Respectfully submitted – Dick Kratz

Per the discussions at today's WCOA meeting, please find below the information that was requested.

1) The graphic from the National Conference of State Legislatures that shows public pension changes in certain states.

<http://www.wicoa.org/images/2010/092310graphic.pdf>

2) Today, we specifically talked about the pending court case in Minnesota, Swanson, et al v. State of Minnesota, et al. As we discussed, retirees in MN filed suit over a provision in an omnibus pension bill that reduced the annual cost of living adjustment (COLA) for retirees. For your information, please find below an article that summarizes the case and how the legislation lowered the COLA. Unlike many other states, the WRS does not have a guaranteed cost of living adjustment. By law, WRS retirees share in the risk of investment decreases and the rewards of investment increases. Therefore, as we discussed, this case does not have a direct relationship to the WRS. <http://watchdog.org/6322/states-eye-mn-pension-lawsuit/>

3) The letter that explains the Governmental Accounting Standards Board (GASB) proposal that would change pension accounting and financial reporting by employers. The letter, which expresses concern and opposition to the change, was prepared by the National Association of State Retirement Administrators and signed by various directors of state retirement systems. <http://www.wicoa.org/images/2010/PublicPlanResponseFinal.pdf>

4) A link to the article that was referenced and the "rehired annuitant" issue that was generally asked about at today's meeting. http://www.wiscnews.com/news/local/govt-and-politics/article_7534e146-c0fa-11df-89cb-001cc4c03286.html

Feel free to forward this information to WCOA members.

Thanks,

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