Wisconsin Coalition of Annuitants

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Minutes of Meeting April 20, 2011

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 9:36am.

MEMBERS & ALTERNATES PRESENT: O. Berge, WARSDA; J. Calkins, UWMRA; V. Cutler, UWMRFA; B. Fendel, AFSCME; W. Ford, ETF-B; E. Frank, DNR; J. Grosklaus, West Allis; R. Hoessel, DOT; C. Howard, WEAC-R; A. Knop, WEAC-R, D. Kratz, CORR; A. Lee, WSAA; J. Maydak, West Allis; J. Palmer, WPPA; 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, A. Fendal, M. Stohr, R Wojciak.

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

MINUTES of the March meeting were approved as mailed.

GUEST: Matt Stohr, Administrator, Division of Retirement Services, ETF

Matt Stohr was introduced and congratulated on his recent promotion.

Mr. Stohr will discuss Act10 and Act13 and other issues that will impact the retirement system. In addition he will share what is happening at ETF with the increase in retirement requests, retirement applications and general inquiries.

The Budget Repair Bill was introduced by the Governor on February 11, followed by a substitute amendment removing fiscal items. The amendment was passed and became Act10 and included everything that was in the original Budget Repair Bill minus items with a specific fiscal reference. Act 10 impacts ETF the most including, pension contribution changes and health contribution changes for participating employers and employees.

Act 13 contains the fiscal items removed from the Budget Repair Bill. There is one fiscal impact for ETF, requiring the Secretary to allocate or transfer $28 million from the state group insurance reserve fund to pay the state share of state employee health premiums from July 1 through December 31, 2011. The GIB reserve fund fluctuates between $80 and $100 million and is invested by SWIB. The fund is designed to stabilize health care premiums over calendar years, State Statute 40.03, and applies only to state employers/employees. Legal and logistic issues and concerns need to be clarified for ETF as the administrator of the funds.

WCOA is concerned that the state is taking funds from a segregated account to help balance the budget. The $28 million seems to be an arbitrary number; however, this is a dangerous precedent.

Mr. Stohr described the trust fund as a whole having many different “buckets” for specific and statutory programs. The $28 million is not coming out of the core or variable buckets but from a specific segregated program fund identified by ETF. This is not to be confused with the various funds that SWIB manages. The retirement reserve accounts are determined by the independent consulting actuary Gabriel, Roeder and Smith and the independent consulting actuary for the health insurance program is Deloitte. The GIB approves recommendations regarding the health reserve fund. Is there a minimum amount for the fund, how was the $28 million determined, and could the state take the entire fund are questions unknown at this time.

There was group discussion among WCOA members on comparisons of Act 11 (1999) and the $28 million raid, for lack of a better term. In Act 11 Justice Prosser ruled that the distribution to the three parties (employer, employee and annuitant) was “close enough”. The present taking is strictly for the employer and will it affect premium costs in the future? Anytime monies are eliminated, it will have an effect on someone somewhere. ETF Secretary Stella’s letter to the JFC requested clarification regarding the intent of the reserve fund distribution. In addition Secretary

Stella mentioned the need for legal counsel and clarification of the Secretary's fiduciary responsibility to persons who contributed but would not benefit from the distribution. Additionally, the letter requested clarification on the effective date of the multiplier used in determining formula retirement benefits, and the effective dates in contribution rate changes for the over 1400 governmental units with different pay periods and employee classifications. For many employers it will require almost an individual employee reporting process.

The Budget Repair Bill had the requirement that ETF, DOA and OSER report, by June 30, 2012, on the conversion of the state pension plan from a defined benefit plan to a defined contribution plan, vesting requirements and modifying the state employee sick leave conversion program. That provision was removed from Act 10 and was not included in Act 13. When and how and if it will resurface is unknown.

ETF and the ETF actuaries recognized the baby boomer and the impact that would have on the WRS and ETF services, but couldn’t predict the number of retirements that would result due to recent law changes. Regardless, the system will be able to provide all the benefits and will not have a cash flow problem, however, wait times for services have increased.

ETF has extended its call hours from 7 AM to 5 PM Monday through Friday through July 8. This may become a permanent feature depending on staffing. There has been an increase in retirement applications, up 90% over last year. June retirements are exceeding all expectations and resources are being reallocated to assist the transition into retirement. The interview wait time is six weeks. Last week 1233 retirement estimates were processed with a past weekly average of 285. Retirement estimates with the various options are up 130% this year and will probably increase. As a result other services are being stretched thin specifically separation benefits, death benefit and other service areas. On the positive side the call center has had a slight reduction in average calls from 3200 to 2900 last week. The court order on Act10 and the information provided on the ETF website hopefully will reduce the call-center volume.

The ETF special project for the 35,000 variable participants has been completed and the April mailer will compare the variable fund to the core fund for each individual.

Some active employees Statement of Benefits will be mailed directly to them rather than through their employer, reducing employer cost and providing timely distribution.

To reaffirm the May annuity adjustment will be a Core reduction of -1.2% and a Variable increase of 11%.

ETF staffs have been spending a considerable amount of time responding to media inquiries and answering and responding to legislative inquiries and the many and various ideas individual legislators have for changes in the WRS.

GUEST: Sandy Drew, Legislative and Beneficiary Liaison, SWIB

Returns as of March 31, are Core at 4.2% against a benchmark of 3.8% and the Variable at 5.6% against a benchmark of 5.5%. Global and US equities were strong; with the international and emerging markets equities a little weaker. Fixed income 0.8% continued to beat its 0.6% benchmark. Real estate in excess of 7% and private equity at 6.5% are strong and it appears real estate may have turned the corner. Multi-asset is also ahead of its benchmark at just under 4%. Total WRS holdings are $81.7 billion with the core at $75.9 billion and the variable at $5.8 billion.

SWIB will be proposing legislative changes to give the Board additional authority in managing the funds rather than always requesting legislative action.The following four requests are being considered.

1) The Board would like the ability to create or abolish the FTE positions. Presently, positions are obtained through either the budget bill or the legislature. With the budget process position requests need to be given to DOA in September of the even numbered years and the earliest the budget is finalized is the following June. With the legislature process the request is a passive

review to the Joint Finance Committee. If a member of the JFC objects a hearing is held, with no objection the request is approved in 14 days. However, in both cases DOA must approve the positions and there is no time limit on DOA's review. Recruitment for positions in both cases is delayed.

2) The Board would have the authority to establish the SWIB total operating budget. Presently there are two budgets with 85% of the budget for consultants and external management not being part of the governor's budget. Staffing, hardware, building, utilities, and general operations make up the 15% and are on a basis point of 3.25 cents per hundred dollars managed and is in the governor's budget. Both budgets are charged to the trust fund. The 85% is reported to the legislature on a quarterly basis and the Board would like to include the 15% expenditures within the same report. Over the years, the expenditure for added external resources was simply billed to the 85% budget and not part of the Governors state budget. The 15% budget increases or decreases based on money under management. Presently with resource constraints there is a “key person risk" factor and what is called restricted research coverage. Additional flexibility would reduce risk to the funds and give the Board the ability to respond to staffing and management urgencies.

3) SWIB also will be seeking an exemption to the open records on venture capital. SWIB does not make individual top tier venture capital investments, but uses external funds. The premier funds do not deal with public investors because of the open records law. The release of proprietary information of startup companies results in being publicly exposed and they could be harmed with their pending patents by competition. SWIB is trying to get access to the top tier investors, however, fund managers cautiously watch their investments to prevent public exposure.

4) Of the 124 employees at SWIB only two are classified positions. A change of the two positions to unclassified would make it more equitable for incentive compensation.

A motion was made to support all four requests of SWIB however the motion failed. The concern is number three and the exemption of open records on venture capital investments. Following additional discussion it was decided to support the other three items, and revisit the open records issue.

<u>MSC</u> The WCOA supports SWIB's legislative request to: create or abolish FTE positions, to be given the flexibility to establish an operating budget and to convert two classified FTE positions to unclassified.

A letter of support will be provided to the Joint Committee on Finance.(Letter mailed April 29, 2011)

CORRESPONDENCE: None

OLD BUSINESS: None

NEW BUSINESS: Should the WCOA file a lawsuit based on the taking of $28 million? The funds are commingled with funds from state employers, employees, and annuitants. It does not involve school districts or municipalities. The precedent would open other avenues of taking funds from the WRS. The last lawsuit was financially paid by several of our organizations with the WCOA voicing its support. The collective bargaining will impact our organizations and funds for a lawsuit will be limited. This issue will be a topic at the annual conference. After the attorney general's office, ETF's legal counsel and court action respond the WCOA will revisit the issue.

TREASURER'S REPORT:

The treasurer reported all organizations have paid their annual dues. Annual conference registrations are at 125. Mention of an honorarium for the secretary

<u>MSC</u> The WCOA secretary be given a $150 honorarium.

Mention of an honorarium for the treasurer.

<u>MSC</u> **The WCOA treasurer be given a $100 honorary.**

The treasurer's report was approved as presented.

ANNOUNCEMENT: John, Zwadzich, SWIB Director, announced that after nine years that today would be his last meeting. The WCOA thanked John for his contributions over the years. As a member and attendee of the National Association of Business Economics, John is willing to continue providing us with the associations forecasting. John's replacement will be Sandy Drew who will be retiring.

NEXT MEETING: June 15, 2010 9:30 am, WI. Professional Police Association Building.
Annual Conference May 16, 2011 American Family Headquarters Madison, WI
The meeting adjourned at 11:45am
Respectfully submitted – Dick Kratz