

# Wisconsin Coalition of Annuitants

[www.wicoa.org](http://www.wicoa.org)

## Minutes of Meeting December 12, 2011

The meeting was held at the Wisconsin Professional Police Association Building, 660 John Nolen Drive, 2nd Floor Conference Room, Madison and was called to order by Vice Chair Ed Frank at 9:32am.

**DIRECTORS & ALTERNATES PRESENT:** R. Alesch, ACE; R. Beglinger, WFT-R, O. Berge, WARSDA; V. Cutler, UWMRFA; B. Davis, WFT-R; S. Drew, SWIB; J. Elmer, WREA; B. Fendel, AFSCME; W. Ford, ETF-B; E. Frank, DNR; J. Groszklaus, West Allis; C. Howard, WEAC-R; A. Knop, WEAC-R; D. Kratz, CORR; J. Maydak, West Allis; J. Miller, DNR; J. Munro, WARSDA; D. Rohweder, ESP; B. Schaefer, SEA; J. Skiles, UW-R; M. Susman, UWMRA; J. Vreeland, Wauwatosa.

**DIRECTOR CHANGES** - Buzz Davis, WFT-R Director and Robert Beglinger, WFT-R Alternate replace Mike Held and Carol Schiller.

**GUESTS:** K. Bozarth, L. DeBack, B. Feitlinger, A. Fendel, V. Hearing, D. Lueck, C. Preisler, S. Smith, S. Werner, R. Wojciak.

With a number of guests everyone self introduced.

**EXCUSED:** J. Egan, B. Meyer, J. Palmer, T. Speranza, J. Stoddard, A. Wallace.

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

**GUEST: Keith Bozarth, Executive Director, SWIB**

Mr. Bozarth had three items to share with us.

1) Performance year-to-date in the core fund is up 1.5% to a maximum of 2%. November and the first couple weeks of December have been very volatile with the markets reacting to political issues rather than non-fundamental issues. Whenever the European sovereign authorities issue a statement the markets go up and then when it's discovered that it will not solve the problem the markets drift down. Issues in the US find corporate earnings so far this year have been good. However, there is concern for next year, particularly in sales to Europe which appears to be entering a recession which will affect US and European corporations. There are a lot of unknowns, not necessarily economic fundamentals but political issues which make it difficult to predict the markets.

The variable performance is -2% to -3%. The US stock markets have been almost flat for the year and the international markets are -8% to -10%. The variable is a blend of the US and international stocks. On the bright side, the real estate portfolio has turned in strong returns on an absolute basis, which means the number is high and on a relative basis, which means beating the benchmark by a good margin. This is a turnaround that everyone has been waiting for. Private markets portfolio has also had a strong year. US and international bond markets were holding up until November and presently are in the positive single digit area.

Both the core and variable funds are ahead of their benchmarks.

2) Last week was the first of what will be an annual appearance before the Joint Finance Committee, JFC. When SWIB was given complete authority over its budget and staffing there was an agreement that SWIB would annually inform the JFC on the use of that authority. Because this authority was recently granted SWIB's report this year provided background on the business plan which for the last five years has focused on three areas. First was to have access to all investment market tools available and this was obtained with the investment modernization legislation passed several years ago. Second, SWIB wanted to add staff to improve quality. Third, along with quality of staff was to add capacity or quantity which has resulted in over \$20 billion moved from external management to internal management with a noticeable savings in cost. Internal management has been very successful managing stocks and bonds, real estate, private markets and the small hedge fund program. There will always be a significant external management and associated cost. JFC asked why more was not brought in to internal

management with the answer being that until recently the resources were not available. In addition it has been a very slow and deliberate process.

3) With Mr. Bozarth's retirement in 2012 the Board of Trustees is conducting a national search for his replacement. This month's Board meeting will be a first time review of resumes with the search firm. Mr. Bozarth's commitment to the board is that he will be here until a replacement is obtained and with what he referred to as a "little overlap but not a great deal of overlap".

In response to questions Mr. Bozarth stated the hedge fund exposure is going slowly. At this point there are four funds totaling \$400 million, \$100 million each. The goal is to have a diversified low volatility set of hedge fund managers with the return expectation between bonds and stocks and volatility less than stocks. Being particular in choosing funds and contract arrangements, several attractive funds were rejected because of not meeting SWIB requirements.

Treasury Inflation Protection Securities, TIPS, allocation has been increased by 1% and will be increased additionally next year. The TIPS concept is inflation protection and other items will be added to the allocation. Presently there is modest inflation but with the government spending and many countries debt issues it sets up the prospect for inflation, therefore the portfolio is being set up ahead of time. SWIB is in the process of contracting with a policy implementation manager which will increase TIPS exposure.

With increased management internally there has been no reaction or pressure from outside sources, other than the firms themselves. There is support for managing costs in the assets SWIB moved to internal management. The concept of sharing in the profits is mainly in the private markets and SWIB does have many such arrangements. The financial reforms of 2008 have significant limitations on political contributions by external management and/or other financial firms.

SWIB has the legislative authority to increase internal management but needs to build an infrastructure. Gradually public market assets will be managed internally. The private market assets require specific skill sets and relationships that are difficult to build internally along with much higher management fees than the public sector.

Deferred compensation and defined contribution programs in the aggregate do not do as well as defined benefit plans mainly because of cost issues. SWIB based on size is able to demand lower fees. Deferred compensation investment options are selected by a five-member ETF board two of whom are SWIB employees.

With the global issues there is a broad consensus that investment return prospects are going to be subdued for some period of time. With the developed countries of the world de-leveraging there will be depressed economic activity.

Lowering the SWIB expected return rate from 7.8% to 7.2% did not result in an employer increase mainly because the salary growth assumption was also lower dropping from 4% to 3.2%. With return assumptions exceeding wage assumption by 4% the system remains relatively stable. The past ten years there have been gains made when salary growth was below 3.2%.

With Mr. Bozarth approaching retirement he was asked to give his perspective on the WRS. Mr. Bozarth stated that having worked in several different structured systems the strength of the WRS both ETF and SWIB is that for years they have maintained a professional non-political approach to the overall operation. An example is last spring, when he approached the Legislature and received support from both sides of the aisle for the SWIB business plan. That type of relationship is not present around the country. With the national attention pension plans have received, with both imagined and real problems, it is important to emphasize that the WRS is not a typical system and is not a typical operation.

Mr. Bozarth stated the facts in the study will show that a defined contribution plan is not advantageous for anyone, employees, employers, taxpayers or retirees. A collective mechanism is economically more efficient and the WRS structure has safety valves that keep it from becoming a burden on employers.

A comment was made that with the changes in the budget bill and the qualifications to participate in the WRS there will be less money coming into the system. Mr. Bozarth reemphasized that Secretary Stella's request for an actuarial study was to look at all areas and make an informed decision on changes. We have no idea of the various impacts to the system or if the impacts will even change the system. The WRS is an exception to the rule in pension systems, no unfunded liabilities, no extra cost to employers and it is working.

The comment was made that retirees should not get all excited considering that upon retirement funds are transferred to a retirement reserve account covering each retiree's liabilities. The transfer is from the active reserve and employer reserve into the retirement reserve. The assumption is the retiree reserve will earn 5%, to maintain stability and there has been discussion that maybe the fund should be independently invested. The additional 2.2% assumed earnings is designed to keep up with inflation. There also is a slight adjustment to the 5% based on the demographic of longevity.

Ms. Drew who recently retired, having worked with Mr. Bozarth, stated that when he arrived at SWIB we were at the end of the Sudan divestment, focusing on the modernization legislation which required reaching both sides of the aisle and then the end of 2008 arrived with 150,000 annuitants receiving their first negative adjustment and he always maintained his composure, never ruffled, serving all of us in the system with integrity.

The SWIB Board of Trustees continues to function with several trustees terms expired. (12/29/11 Governor Scott Walker announced the appointments of Norman A. Cummings, Lon E. Roberts and John Petersen III to the State of Wisconsin Investment Board)

The WCOA thanked Mr. Bozarth, and he indicated he will be sharing with us again before his retirement.

**GUEST Vicki Hearing, Public Information Officer, SWIB**

Ms. Hearing announced that Chris Preisler, SWIB Communications Specialist, will be regularly attending the WCOA meetings.

The preliminary returns for November have been posted: Core 0.9% and Variable -3.3%.

**GUEST: Shawn Smith, Communications and Legislative Director, ETF**

Incoming Secretary Robert Conlin, has appointed Robert Marchant as ETF Deputy Secretary. Mr. Marchant is currently the Chief Clerk of the Wisconsin State Senate. Additional information is available on the ETF website.

Last week the Joint Legislative Audit Committee met and requested an audit by the Legislative Audit Bureau of rehired annuitants. Incoming Secretary Conlin testified. Ms. Smith provided a copy of the proposed audit that had been submitted by the state auditor. It is anticipated the audit will be completed in late summer. With the audit request it is possible that pending legislation on rehired annuitants will be delayed. (AB318 & AB 352).

Some of the areas suggested for the audit: determine the extent of annuitants being rehired and for what positions; assess ETF's monitoring, policies and education procedures for employers; determine employers adherence to legal and policy requirements; reasons employer's rehired annuitants; estimate whether it is more or less costly to rehire annuitants; and review other states policies on rehiring of annuitants. The LAB has two sides, fiscal and program evaluation. A comment was made that

the term double dipping has a negative connotation with the public and yet in some situations it is beneficial to everyone involved.

ETF impressed upon the committee that with 1470+ employers they do not monitor work force decisions. The reliance is on the employers and their governing bodies. There are some employers with very specific rehire guidelines and other with no guidelines, all appropriate for the employer

Ms. Smith provided a copy of the letter posted to the website addressing the WRS study requirement and when to expect the completion and availability. The following was emphasized “The WRS is a very healthy, fully-funded pension system. We believe the study will shed light on how the WRS works, its unique features that make it so healthy, and how the WRS supports retirement security for public employees across Wisconsin at a reasonable cost... The study will examine how such changes might affect the solvency, funding, mission, and structure of the WRS”.

Comment was made that the ETF health study was conducted and no one really paid any attention to it, what is expected from studies? ETF have the experts and have taken the lead in both studies and after the topics and issues have been fully discussed the conclusions are accepted.

Questions/Comments: Lisa Ellinger is the Division of Insurance Services Administrator. Legislators calling ETF usually are asking questions for constituents. The present study will be a joint effort with OSER and DOA, with ETF taking the lead at least for now. The study will not be available until it is given to the Governor and the Legislature. Once the study is available it will be disseminated. ETF has secured funds for the study. Some of our members think the study will be beneficial in educating legislators and the public on the structure and uniqueness of the WRS compared with other states where defined benefit systems have had problems resulting in consideration of defined contribution programs.

As members of the WRS have questions ETF will continue to address them in varied communications. It is anticipated that in January there will inquire on health insurance and as participants become aware of the study more contacts.

**LEGISLATIVE REPORT:** None

**CORRESPONDENCE:** None

**OLD BUSINESS:** WFT/AFT-R Proposal and AFSCME Special Committee.

WFT/AFT-R Proposal WFT/AFT-R provided the following substitute draft motion for discussion and modification: That the WCOA organize a public information effort to educate and inform members as to the present configuration of the WRS, i.e., that it is a hybrid defined benefit program, about the “charge” assigned to the Act32 study committee and the possible ramifications of the Act32 study committee. Furthermore: The WCOA produce a series of WCOA articles which all member organizations can then reprint and publish in their newsletters and electronic messages; and The WCOA will produce a PowerPoint presentation for use by member groups to educate their members.

The AFT-R have conducted and scheduled regional meetings for retirees and actives. Their request is that the WCOA take the lead and develop a public information program.

Mentioned points by AFT-R included: we are living in unusual political times; they have kept their request as an educational rather than a political request, we have an envious pension system with SWIB and ETF; we need to be proactive not reactive when considering worse case scenarios; what is the genesis of the required study; Act 10 has destroyed legislative relationships on one side of the aisle, the parameters of the study are pretty limited but open up Pandora’s box, if the intent is to shrink government then ETF and SWIB could be eliminated; will employer contribution rates be driven by wages, will there be a retirement plan for the future? We need to take action, not just stand and watch. These are some of the reasons we need to educate our membership.

General discussion mentioned the information available on our website ([www.wicoa.org](http://www.wicoa.org)), the Talking Points that were produced a couple years ago being updated for specific target groups, Legislative Fiscal Bureau Report #84 which is a history of the WRS, the required study something we can use to show people how good the system is and why others have talked about emulating it, WCOA does not have the staff to lead a public information effort, the WRS is a complicated system difficult to describe, since the 80s the private sector has moved from defined benefit to defined contribution plans, ALEC and others want public pensions administered by private investors, with private sector pension losses there is an element that wants to see public pension losses as well, when completed the proposed study could be a non-issue, SWIB and ETF for years have spoken to various groups of WRS participants but there has never been the interest that has been recently generated, upon retirement with a transfer into the reserve account annuitants are in a defined contribution plan with the benefits removed, the two year comparative study completed by the Legislative Council has extensive information, the defined benefit plan in Wisconsin is a risk sharing which many other plans do not have, we are all reasonable people and unfortunately we think we are dealing with reasonable people in the Governor and legislative offices, the private sector is suffering rather than pulling down the public sector they should be improving the private sector, IRS rules and regulations will also need to be identified, public employees provide a service with their salary and benefits paid by the taxpayers and their retirement paid from employer and employee contributions, which were earned in exchange for services, and investment earnings.

Grant to Provide Education about WRS The National Public Pension Coalition gave a grant to several unions covering Wisconsin public employees to develop educational tools for their membership and the public to understand the WRS. The committee has begun working on gathering information and reviewing studies that are available throughout the nation. One of the goals is to provide editorials to the media addressing the uniqueness of the WRS and economic impacts. There will be more information available within the next couple of months. Clarification of terms and factual information on the benefits is important for WRS participants and the taxpayers. There is a need to balance the information so we do not instill fear in the participants. AFSCME is spearheading the committee and Sandy Drew is working on the grant.

Comment: Is there some way that we can combine the need mentioned by WFT-R with the information the AFSCME grant will produce? With the media of the internet, we do not have to rely on newspaper editorials, and we can put together a non-political, factual, short presentation. If an organizations wants to use a WCOA presentation and then add their own political aspect, that is their choice

**MSC The WCOA will develop a non-political, factual, short presentation on the WRS that will be made available on the WCOA website. [www.wicoa.org](http://www.wicoa.org)**

**NEW BUSINESS:** Nominations and election of Officers

WCOA Officers - Nominated; Jim Palmer. Chair; Jerry Vreeland, Vice Chair; John Maydak Treasurer; Dick Kratz, Secretary. Nominations were closed and a unanimous ballot cast.

**TREASURER'S REPORT:** Annual dues notice of \$50 have been mailed to the organizations. Check book balance the same as last month. Treasurer's report approved as presented.

**MSC Treasurers Report accepted as presented**

**MSC The WCOA Secretary explore the possibility of purchasing a digital recorder.**

**NEXT MEETING: January 23, 2012 9:30 am, WI. Professional Police Association Building.**

Annual Conference Monday, May 14, 2012 American Family Headquarters Madison, WI

The meeting adjourned at 11:50am Respectfully submitted – Dick Kratz