Wisconsin Coalition of Annuitants

www.wicoa.org

Minutes of Meeting February 16, 2011

The meeting was held at the Wisconsin Professional Police Association Building, 304 Coyier Lane Madison and was called to order by Vice Chair Ed Frank at 9:34am.

MEMBERS & ALTERNATES PRESENT: J. Calkins, UWMRA; V. Cutler, UWMRFA; E. Frank, DNR; B. Frantz, DOT; R. Hoessel, DOT; C. Howard, WEAC-R; A. Knop, WEAC-R, D. Kratz, CORR; A. Lee, WSAA; J. Maydak, West Allis; J. Miller, DNR; D. Rohweder, ESP, B. Schaefer, SEA; J. Stoddard, CORR; J. Vreeland, Wauwatosa; A, Wallace, UWMRA; J. Zwadzich, SWIB.

GUESTS: S.Drew, R. Eggert, J. Karls-Ruplinger, S. King, D. Schmidt.

EXCUSED: J. Egan, J. Elmer, B. Fendel, J. Grosklaus, J. Palmer, B. Rowe, J. Skiles, T. Speranza

MINUTES of the December and January meeting were approved as mailed.

LEGISLATIVE REPORT: Dan Schmidt, Senior Analyst, Legislative Council

The agenda was changed to permit Mr. Schmidt to speak before returning to the Capital. He shared the JSCRS report, of February 15, responding to the special session SB11 and AB11. Three provisions of the Bills are addressed.

1) Modification of contributions to the WRS eliminates the benefit adjustment contribution (BAC) for general employees incorporating it into the actuarial cost. The contribution rate for general employees, executives and elected officials becomes one-half of the actuarial cost or an estimated cost of 5.8%. Protective occupation employees’ percentage will be equal to that paid by general employees, 5.8%. The Bills prohibit an employer from paying any of the employees’ share of the required contributions to the WRS or to a retirement system of a first-class city or county having a population of over 500,000, which is further identified as the city and county of Milwaukee. The Bills indicate the effective date for non-represented as the first pay period following March 13 and for represented any change in collective bargaining agreement. The actuarial effect is unknown but is likely limited. DOA has estimated the state cost savings of $206.8 million for the biennium.

2) Reduction in the retirement formula multiplier for elected officials and executive employee participants will be reduced from 2% to 1.6% which is the same as general employees. The protective occupation multiplier will not change. Effective date for executives is the same as general employees and elected officials have varying effective dates based on when a new member takes office. The actuarial effect could create a surplus for the WRS because of decreased benefits. This provision will decrease employer contribution cost to the WRS.

3) LTE's would be eliminated from participating in the WRS and receiving certain health insurance benefits. There are 1537 state LTE's and 1133 LTE's at the UW. The actuarial effect could also create a surplus for the WRS. This provision would also decrease employer contribution costs to the WRS.

Included in the bill is a study by ETF and OSER to examine the feasibility of state employees receiving health care coverage through a health benefits exchange and creating a health insurance purchasing pool. Also to be studied is establishing a defined contribution retirement option, establishing a vesting of one, five or 10 years for employer contributions, a change in eligibility for retirement and utilizing a money purchase annuity. The study is to be completed by June 2012.

ETF raised several issues before the JSCRS and asked that a letter from Sec. Stella be attached to the report from JSCRS to the JFC. The chairs of the committee did not want to attach the letter. The letter is being mailed to the JSCRS co chairs, copied to the members of the JFC, secretary and budget director of DOA and the Legislative Fiscal Bureau. The letter points out the needed clarifications to administer the changes. The effective date on contribution rates and the change in the multiplier are key issues.

GUEST: Jessica Karls-Ruplinger, Staff Attorney, WI Legislative Council
Collective bargaining presently includes wages, hours and conditions of employment. The Bills limit bargaining to base wages only and not to exceed the CPI without a referendum. Excluded are some public safety employees collective bargaining agreements. Union recertification would be annually with at least 51% of members approving, not a majority of those voting. Employer deduction of union dues would be prohibited and employees would not be required to pay union dues. Collective bargaining agreements would be limited to one year without an extension. Arbitration under the Municipal Employment Relations Act, MERA, is removed. Also removed is collective bargaining for UW faculty and academic staff and healthcare and home care providers.

GUEST: Randy Eggert, Analyst Real Estate Division, SWIB
Mr. Eggert was born in Kenosha, is a graduate of UW Madison and returned to Wisconsin from the East Coast and joined SWIB seven years ago.

Mr. Eggert is one of six professionals in the real estate asset group which manages $3.3B in net asset value as of 12/31/10. The investments are in four areas; 1) $2.4B in 85 commingled or limited partnership funds and venture investments with 37 advisers and investment managers. 2) $412M in the private market portfolio with twelve 100% directly owned properties in the US. 3) $435M in global public real estate securities (REITs) with two external managers. 4) $43M in commercial mortgages which was a joint venture with Northwestern Mutual Life Insurance Company and presently has three loans remaining which will be fully repaid within three years.

The investments are broadly diversified in offices, retail, apartments, warehousing, hotels and other commercial buildings. Investments are 75% in the US and 25% outside the US with limited exposure to emerging markets.

SWIB staff manage and monitor external managers, inspect properties, serve on advisory boards and evaluate potential investments.

A recent example which Mr. Eggert worked on was in the media and is a 1M sq.ft. office campus in Menlo Park. Silicon Valley, California that was built between 1993 and 1995. The $100M investment is 100% leased to Facebook which has an option to purchase in five years. This is the first direct property investment in nearly 4 years for SWIB. Another example is a $100M investment with Bristol Industrial II in a first-time limited partnership although Bristol has been an advisor to SWIB since 1987. This is a long-term investment with low fees and an expected return of 8% to 9% plus the capital return. The investments are in industrial warehouse property in high barrier markets such as Southern California, Northern New Jersey, Chicago and South Florida.

The asset allocation for real estate in the Core fund is 6% and was almost met two years ago. At the end of 2009 it was 4% and on 12/31/10 it was 4.5%. With the committed but uncalled capital, which are investments that have a funding obligation, the total exposure is 6.3% with an asset allocation between 3% and 9%.

In 2007 capital calls for investment was $1.4B, in 2008 it was $438M, in 2009 it was $300M and in 2010 it rebounded to $690M. Capital distribution or money coming into the system based on investments has a similar pattern. Income distributions or rent shares received in 2007 were $67M, in 2008 $56M, in 2009 $42.5M and at the end of 2010 $48M.

Real estate transaction activity from 2005 to 2007 showed a steady increase and then a dramatic drop bottoming out in early 2009. The last two years has shown a slow increase with recent transactions reaching the 2005 level.

US maturing debt of $800B remains a problem for private real estate owners and in some ways it is an opportunity for SWIB. If interest rates increase there will be additional defaults on commercial loans and an opportunity for SWIB to purchase at or below value.

Investment returns are rebounding again following a low year in 2009. Since 1978 there have been two negative return periods in 1991-92 and 2008-09. But the maturing debt will continue to be a problem.

A chart comparing SWIB's returns to benchmarks and the Open End Diversified Core Equity index (ODCE) indicates SWIB's history is closer to the ODCE than the benchmarks presently used since both SWIB and ODCE have leverage included. Because of the leverage component SWIB will gradually move to an ODCE index.

In 2006 the real-estate return of 30% exceeded all benchmarks and in 2007 the return of 15% matched the benchmarks. However, 2008 saw a loss of 10% which was below the slightly positive benchmarks. In 2009 a loss of 30% was less than the ODCE index, but a greater loss than the benchmark. At the end of 2010 SWIB was at 0% return with benchmarks around 5%. SWIB returns the last four quarters show improvement each quarter. The third quarter of 2010 had a 5.7% return outperforming the benchmark. Preliminary returns for the fourth quarter appear to be around 9%. With SWIB's leverage the equity value is expected to rise faster than the property value. The REIT returns are also showing a slight improvement.

Real estate market expectations in 2011 will find real estate fundamentals of occupancy beginning to stabilize, loan delinquencies will continue to grow, lending will be insufficient to refinance existing debt, and there will be significant competition for institutional investors in so-called trophy assets of major US and foreign countries. This includes competition from foreign funds. However, positive returns will continue to be bumpy depending on the foreclosure debt issues.

A question was asked regarding investment in medical buildings. Medical offices are commonly built near hospitals and have a direct tie to the hospital. The problem is that issues that might arise with the hospital that impact their financial health also impacts the medical office across the street. SWIB has not pursued medical office buildings.

The gradual disappearance of the Freddie Mac and Fannie Mae loans will change the loan environment because of their low interest. Private investors will demand a greater return and there will be a wholesale repricing of rentals.

The WCOA thanked Mr. Eggert for his time and presentation.

GUEST: Sandy Drew, Legislative and Beneficiary Liaison, SWIB

The returns for the end of January: Core fund at 1.1% with a benchmark of 1% and the Variable was 2.0% with a benchmark of 1.8%. The WRS fund assets are $79.84B. The high point for the fund was in October 2007 when the value was $91.96B and the low point was February 2009 when the fund was at $54.537B. Ms Drew has been attending the JSCRS meeting and indicated that they would not accept Sec. Stella’s letter as a friendly amendment to their report which now goes to the Joint Finance Committee (JFC).

GUEST: Sari King, Constituent Relations Manager, ETF

Telephone activity at ETF has been rapidly increasing with a number of March 11 retirement requests. The effective rates for active employees has been posted: 4.8% for the Core and 16% for the Variable. The annuity adjustment will be announced no later than March 11. The ETF board will be meeting on March 10 and the annuitant member election results will be announced. A new ETF video on Core and Variable is available. Encourage inquiries that you receive to view the ETF website and to sign up for the e-mail updates. There has been increasing use of the ETF videos and the email alerts. The SWIB and ETF joint newsletter has been receiving positive responses.

The $28M in the budget bill being taken from an ETF fund has lots of questions and concerns.

CORRESPONDENCE: None

OLD BUSINESS: WCOA Officers were installed for the year with minimal fanfare

NEW BUSINESS: Annual Conference speaker suggestions: Prof Duddleston will only speak every three years, Don Nichols was suggested, the annuitant ETF Board member should be invited and maybe the federal health care act and medicare/medicaid through Lisa Lampkins from AARP. Dave Stella, Keith Bozarth and Matt Stohr will be reaffirmed. At present the emphasis is on ETF. Suggested topics were: ETF good features, comparison of defined contributions and defined benefits, health plans.

Blair Testin nominations: several names were mentioned and nomination will be made at March meeting.

Should the WCOA take a position on the budget bills? Following discussion and considering the letter written by Dave Stella the WCOA passed the following motion.

MSC The WCOA will write a letter to the Joint Finance Committee supporting ETF Secretary Stella's letter addressing issues and concerns affecting ETF.

Bob Schaefer will compose a draft letter for Chair Palmer's signature which will be reviewed by the directors for approval.

TREASURER'S REPORT: Current balance $5784.01

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