Wisconsin Coalition of Annuitants

www.wicoa.org

Minutes of Meeting January 19, 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 9:35am.

DIRECTORS & ALTERNATES PRESENT: O. Berge, WARSDA; J. Calkins, UWMRA; V. Cutler, UWMRFA; J. Elmer, WREA; E. Frank, DNR; B. Frantz, DOT; J. Grosklaus, West Allis; R. Hoessel, DOT; A. Hubbard, WSAA; A. Knop, WEAC-R, D. Kratz, CORR; A. Lee, WSAA; J. Maydak, West Allis; J. Miller, DNR; D. Rohweder, ESP, B. Schaefer, SEA; T. Speranza, RPFFW; J. Stoddard, CORR; J. Vreeland, Wauwatosa; A, Wallace, UWMRA; J. Zwadzich, SWIB.

GUESTS: V. Baker, K. Bozarth, S. Drew, B. Ford, S. King.

EXCUSED: J. Egan, B. Fendel, J. Palmer, B. Rowe

GUEST: Keith Bozarth, Executive Director, SWIB

Mr. Bozarth shared two topics with us. First the returns for 2010 and second a review of the economic assumptions that SWIB suggested ETF undertake. For retirees, the returns determine annual dividends. Economic assumptions affect the contribution rates for employees and employers.

December 31 preliminary returns are not expected to change. The core fund return is 12.3% thanks to a fourth-quarter stock market improvement. Also, the bond market did well returning around 8%. The five-year and ten-year returns continue to reflect the two major market downturns. Returns are slightly ahead of benchmarks on gross of fees with a final adjustment upon receipt of the private equity benchmark in February. Benchmarks do not change the return but are used for performance achievement and compensation. The variable fund of 15.6% also reflects the stock market rally in the fourth quarter. The five-year and ten-year returns again reflect the stock market downturns. The one year return found all portfolios ahead of benchmarks with the exception of real estate. However, the fourth quarter did show real estate ahead of benchmarks. Benchmarks in the domestic stock portfolio are basically determined by bettering the Russell 3000 index returns. In the private market classes various industry performance standards are used. The board establishes the benchmarks utilizing a consultant. Compensation is based on exceeding the portfolio benchmark in basis points, the more basis points the more compensation, up to a set maximum. There are no separate benchmarks or basis points for compensation in the variable fund since that fund is in the stock part of the core fund.

ETF through its actuary develops a funding plan with a variety of assumptions using demographics such as life expectancy, years of employment, earnings and others along with two major economic assumptions, 1) assumed rate of return and 2) assumed wage growth. Contribution rates of employers and employees are influenced by these economic assumptions. Economic assumptions do not affect the dividends to retirees. SWIB recommended to the ETF board last December that a review of economic assumptions he conducted focusing on the 7.8% targeted return assumption and also the wage assumption considering that the current trend is not likely to put pressure on wage increases. If both return and wage decline they could off set each other and contribution rates would have little change. However, a change in only the rate of return would have an effect on contributions.

Mr. Bozarth provided a comparison of SWIB asset allocation for the past 10 years keeping in mind that annual changes are minimal. The asset allocation consultant provides market expectations for various investment classes, and then SWIB models various combinations of asset classes evaluating returns and risk. In December 2001 the expected return was 8.46% and the expected risk was 11.54%. This is basically one standard deviation which means that about two thirds of the time returns would fall within one deviation of the 8.46%. When the risk number becomes larger the portfolio becomes volatile. Current allocation has an expected return of 7.56% and an expected risk of 12.64%. Modeling of current portfolios indicates that the return is not achievable unless there is an added risk, which is not in the interests of retirees or the system considering the five-year smoothing. Five years ago the December 2005 modeling showed an optional portfolio with an expected return of 7.9% with an expected risk of 10.59%. The above is the primary reason SWIB has requested ETF to review the funding plan. However, the current expected return and risks does not include the new strategies being initiated by SWIB which will provide about the same return with a slight reduction in risk.

Following a question on inflation Mr. Bozarth indicated inflation is important when talking about wages and when building returns on the following three components; cash returns which often track inflation, market returns by being exposed to the market or risk premium and alpha or the skills used by investors. Since 1982 the cash return has been about 4.5% with SWIB's return being 10.5%. This is another reason to review the funding plan since one of the components, cash, has gotten significantly smaller.

In response to a leveraging question SWIB will be using bonds which have a low volatility. By lowering stock volatility and increasing bond leveraging the overall risk will be lower. This means that in a bullish market SWIB's peers, with 60% equity, will out perform SWIB but in poorer markets SWIB will out perform its peers. For SWIB, it is a change in profile.

The wage component begins by looking at the last three decades of US population growth and job growth. In the 2000's, for the first time, there was a net loss of jobs. It is important to look at the factors affecting the wage component, including the assumption of the number of baby boomers retiring. There may not be that big anticipated reduction in the working population.

The recessions since 1960 indicate that the greatest loss of jobs is with the present recession. The 2001 recession took the longest, four years, to recover the lost jobs and it appears the present recovery will be at least equally as long. With population growing and a complete job recovery there will continue to be a higher unemployment rate. There is debate over the 2001 recession and whether some of the policies instituted softened the impact without solving the problem and resulted in the events of 2008. Mentioned was the time between full job recovery of after 2001 and the recession of 2008 which was less than three years. There is debate over the present policies and if they will address the problem or just delay the inevitable. The debate goes on, comparing the great depression policies and the recent recessions and policies. It is a hot topic.

A couple years ago Mr. Bozarth provided charts showing the combined national public and private debt at a very high-level. Today we still are at a high level, but the private sector debt has come down and the public sector has gone up with the government taking over the role of borrowing and investing in the economy. This also is a policy debate as to the government investing, withdrawing investments and yet maintaining the economic recovery.

Another way of looking at wage growth is through private industry. Since the mid 80s, the wage growth average has been below 4%. The ETF assumption is 4% with the last 10 years actual growth at 3%. For ETF this is an actuarial gain and it is important to determine whether these numbers are going to be higher or lower. Also the global markets uncertainty and competition will be an economic factor.

The actuary is to report to ETF in March, and if their recommendation is to make roughly equal adjustments to the return and wage assumptions there will be little change in the contribution rate. A reduction in both assumptions will match SWIB's experience.

There are a number of pension systems that have made adjustments to their assumptions. There also is an unrelated debate as to whether the assumptions should be risk free returns and GASB (Government Accounting Standards Board) is involved. The argument of the proponents is to avoid the risk of an unpleasant experience, disappointing dividends. Mr. Bozarth's presentation was on the reasonable economic expectations of the system, without regard to the rate used to discount liabilities.

GUEST: Laura Frost, Advocate Volunteer, AARP

Ms Frost provided a handout entitled "What the New Health Care Law Means for You". The health care reform consists of two laws, Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act both signed into law in March 2010 are available online at the Library of Congress.

The new laws will help Medicare use their funds wisely and maintain guaranteed Medicare benefits with some being increased. Those who reached the out-of-pocket drug "donut hole" will receive a check for $250. The 2011 initial benefit will be $2840 and when reaching the "donut hole" there will be a 50% discount on brand name drugs and 7% discount on generics. By 2020 the donut hole will have disappeared. The catastrophic will remain at 5%. The Wisconsin Senior Care drug program will remain in place through 2012.

Medicare part D income-based premiums increase for those single earning $85,000 and married earning $170,000. Wellness and preventive care coverage includes an annual physical and several added preventive illness screenings. Medicare advantage plans will continue to be offered with rewards to providers for high quality care, however, there will be limits on administrative costs and benefits shall not be reduced.

The law provides additional funding for oversight and enforcement. It is estimated that annual Medicare waste, fraud, and abuse costs $55 billion a year. Identity theft has targeted Medicare recipients. Be sure to review all documents you receive.

Long term care provision begins in 2012 and requires employment for three of the initial five years with benefits beginning in 2017. Premiums will be paid through payroll deduction and will be open to all working adults 18 or older. Information on nursing homes is presently available at www.Medicare.gov/NHcompare and includes comparison of facilities, staff turnover, inspections, complaints, violations and detailed information.

The law prevents discriminatory insurance practices in denying benefits based on pre-existing conditions, dropping coverage when ill, randomly increasing premiums and placing lifetime limits on coverage. Uninsured will have an opportunity to purchase coverage and may be eligible for Medicaid. The intent is to make health coverage affordable. For additional information go to: www.aarp.org/wi

GUEST: Vickie Baker, Ombudsperson, ETF

Ms. Baker presented information on health insurance coverage for WRS members who are retiring or retired. The federal law adds benefits each year until 2014, and targets the uninsured. Politically the Medicare benefits will remain about the same. The ETF insurance benefits and decisions are made by the Group Insurance Board (GIB).

Ms. Baker shared some of the issues and concerns that ETF receives from members. The most common concern is that pension annuities are being reduced and health insurance premiums are increasing.

The two subgroups within ETF group health insurance are the state employees, and the local public employees. Insurance carryover from an employer is not a Medicare supplement but a retiree group plan (RGP). The RGP is secondary to Medicare and fills the gaps such as deductibles and co-payments. Commercial Medicare supplements have different coverage and rules with oversight by the Office of the Commissioner of Insurance (OCI). With RGP there is no change in coverage when eligible for Medicare, coverage continues based on the contract.

WRS health insurance cost is more than most because of the coverage, which exceeds commercial plans, and the extensive drug coverage formulary. The premium combines health insurance and prescription drugs through Navitus without a “donut hole”. Be sure to keep the Certificate of Credible Coverage included in your “It’s Your Choice” book to reduce premiums if you enroll in Medicare part D.

Sick leave conversion at retirement has no cash value and is solely established as a credit account to pay WRS health insurance premiums.

Ms. Baker emphasized the importance of obtaining advice prior to any insurance changes. Everyones situation is different and many have made decisions that were not in their best interest. The ETF media site has presentations that will assist and each county has a benefit specialist for anyone over the age of 60. The ETF Ombudsperson Services are also available at 1-877-533-5020.

LEGISLATIVE REPORT: None

CORRESPONDENCE: None

OLD BUSINESS: Installation of Officers (Postponed to February)

NEW BUSINESS: None

TREASURER'S REPORT: Financial statements for 2010 expenses and the proposed 2011 budget were distributed for review prior to action next month.

A majority of the organizations have paid their annual dues

ANNOUNCEMENTS

Sari King, Constituent Relations Manager, ETF

Estimated May annuity adjustment: -1% to -1.5% core and 7% to 11% variable.

You maySign up for ETF e-mail updates as soon as they are released. Check the ETF website and sign up for your options of type of notice and frequency of notification.

Ms. King provided a list of 83 people over the age of 70 with WRS abandoned accounts.

Tax statement 1099Rs will be mailed this week.

The joint SWIB and ETF newsletter will be out soon.

ETF website lists the location of retirement presentations scheduled statewide.

Sandy Drew, Legislative and Beneficiary Liaison, SWIB

Announced that Gail Hanson, SWIB Deputy Executive Director, has resigned and accepted a position as CFO with Aurora Healthcare.

Jane Elmer, WREA

Jim Skiles is now the WREA Legislative Chair.

WREA has moved to new offices at 6405 Century Avenue, Middleton

NEXT MEETING: February 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 11:55am
Respectfully submitted – Dick Kratz