

Wisconsin Coalition of Annuitants

www.wicoa.org

Minutes of Meeting June 15, 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 9:37am.

DIRECTORS & ALTERNATES PRESENT: O. Berge, WARSDA; J. Calkins, UWMRA; V. Cutler, UWMRFA; J. Elmer, WREA; B. Fendel, AFSCME; W. Ford, ETF-B; E. Frank, DNR; B. Frantz, DOT; J. Grosklaus, West Allis; R. Hoessel, DOT; C. Howard, WEAC-R; D. Kratz, CORR; J. Maydak, West Allis; B. Meyer, WREA; D. Rohweder, ESP; B. Schaefer, SEA; J. Skiles, UW-R; M. Susman, UWMRA; J. Vreeland, Wauwatosa; A. Wallace, UWMRA.

GUESTS: S. Drew, A. Fendel, S. Smith, R. Wojciak.

EXCUSED: J. Egan, J. Miller, J. Palmer

DIRECTORS: Changes and introductions of directors. Alan Lee, SAA and John Zwadzick, SWIB have resigned. Millard Sussman, UWMRA has replaced Joan Calkins. Berland Meyer, WREA will be an alternate.

MINUTES of the April meeting were approved as mailed.

GUEST: Shawn Smith, Communications and Legislative Director, ETF

The WCOA welcomed Ms Smith to our meeting and organization. Ms. Smith, recently appointed to her present position joined ETF two years ago as Director of Member and Employer Services, having worked for the Department of Workforce Development, Department of Children and Families, Department of Health and Family Services, and as an independent evaluator for the workforce and welfare programs in Arkansas. She is a UW Madison political science graduate and has worked as a Legislative Assistant in the WI Assembly.

The ETF budget approved by the Joint Finance Committee includes 6.5 positions for customer service and critical needs, an increase in several base budget line items and \$6.5 million under a 1310 provision to request positions or service needs during the biennium. ETF strategic planning, various initiatives, online access and streamlining of delivery services will benefit retirees entering the system. ETF did well in the budget process.

WRS program changes in the budget: Vesting for new employees requires credible service in five calendar years, which based on the language does not require consecutive years, nor any amount of time in a given year.

(6/22/11 - "...An employee must have 5 years of creditable service to be vested...in other words, they must have worked 5 years in their entirety...Shawn Smith")

New hires would be required to work two thirds of full-time to be eligible to initially join the WRS. Several part-time classifications that are presently included in the WRS would not be eligible.

An assembly amendment on 6/14/11 incorporated many of the Act 10 provisions, including employee contributions at half of the pension requirements, employer prohibited from paying employees share, present employee's pension and health care contributions would be pretax, eliminating the BAC, and the formula multiplier for elected and executive reduced from 2.0 to 1.6. With the Supreme Court decision ACT 10 provisions need to be clarified for effective dates.

Secretary Stella wrote to the JSCRS requesting that an actuarial review of the changes proposed to the WRS be conducted prior to passage. Last evening the JSCRS committee, following a lively debate, voted to go forward with an actuarial study but it will be conducted after the laws are enacted.

Health changes have local employers paying no more than 88% of health insurance premiums and changes in adult dependents age, eligibility and coverage. Effective date is January 1, 2012 which does not give ETF much time considering the October open enrollment.

Studies to be completed - ETF, OSER and DOA will study the option of offering a defined contribution plan and permitting employees to not make contributions to the WRS by limiting those employees to a money purchase plan. ETF and OSER will also study health savings accounts, low cost plans, new tier systems for various classifications, online market prescription drugs, requiring

state employees to use a health benefit exchange and pooling state employees with Medicaid recipients.

Last Friday, June 10, all state agencies received a memo from DOA, indicating that the sickleave conversion program would not be changed. ETF website has the wording on its FAQs.

If the ETF pilot study for health plans dependent eligibility warrants a full audit the JFC has approved \$700,000 under a 14 day passive review.

Act 10 also had a \$28 million transfer from the GIB Trust fund. There has been no further communication regarding that issue. The transfer was designed to offset the state employer's cost of health insurance for state employees from July 1 through December 31, 2011. There are procedural questions that need to be answered before July 1.

There was a question regarding the JSCRS committee not receiving legislation that impacts the retirement system. It appears that over the years legislation has increasingly bypassed most standing committees. The Legislative Council report to JSCRS indicated a couple areas where the WRS could be impacted and also areas where there could be savings. An actuarial study is needed. Ms. Smith will provide an electronic copy of the preliminary report issued by the Legislative Council to the JSCRS committee.

There was discussion among members on the various proposed changes and impact on the WRS. Will there be a need for an increase in contribution rates when the system has more money going out than coming in? Will the investment strategies need to be revised? The positive is that SWIB as a large pension system has moved toward greater internal management at much less cost than external managers.

GUEST: Sandy Drew, Legislative and Beneficiary Liaison, SWIB

Ms Drew will be late. Her report will be at the end of the meeting

LEGISLATIVE REPORT - Legislative issues were covered by Ms Smith. Mr. Schmidt unable to be present.

CORRESPONDENCE: Received a letter from Keith Bozarth, SWIB, thanking the WCOA for writing in support of SWIB's budget requests. Copy of letter forwarded to WCOA members.

OLD BUSINESS: - GIB Reserve Fund \$28M status was addressed in Ms Smith's presentation.

- Annual Conference summary of the evaluation forms indicated satisfaction with the month, day of the week and location. Continental breakfast and lunch were again outstanding with the request for water available throughout the day. Water along with other beverages and food is not permitted in the auditorium.

American Family has been contacted and Monday, May 14, 2012 is available for our next conference. If we agree on the date it will be reserved by American Family.

MSC the WCOA 21st annual conference will be held Monday, May 14, 2012 at the American Family Headquarters.

There is an interest and consensus in having an economist as a speaker. Resources are the UW and Department of Workforce Development. There were several other suggestions which the committee will consider. There was a question on handouts, and the availability of some material provided by SWIB and ETF. The presenters power point programs could be put on our website and specific booklets from SWIB and ETF may be requested in bulk.

GUEST: Sandy Drew, Legislative and Beneficiary Liaison, SWIB

Ms. Drew is retiring at the end of this month and this is her last presentation to our organization. However, she will become a director representing SWIB.

Returns as of May 31 are Core 6.7 with a benchmark of 6.2 and Variable 7.7 with a benchmark of 7.5. All asset classes exceeded their benchmark with the exception of private equities. Real estate which has been down the past two years seems to show a recovery and is at 9.8 with a benchmark of 5.5.

Every October the Board reviews asset allocations. Following the losses of 2008 they reviewed ways of reducing risk considering that 57% of the assets were in equities representing 90% of the risk. To reduce risk and maintain returns the board began studying leveraging of fixed income assets and starting a hedge fund in the multi-assets. They have moved slowly and as of today they have not done any leveraging and have funded two hedge funds which were described at the annual conference. The board continues the asset allocation established in 2009.

The annual SWIB reception will be held September 13. Details and keynote speaker forthcoming.

With Ms. Drew's retirement we will not have a monthly representative from SWIB. The plan is to have a portfolio manager or someone from one of the sectors on a quarterly basis. Bill Ford will be assuming the legislative part of Ms. Drew's position with other duties dispersed among staff. Vicky Hearing, the Public Information Officer, will be our contact person until we hear differently. Ms. Hearing will be hiring a communications specialist to assist in the newsletter and other communications.

Bill Ford shared information on the SWIB budget requests which were discussed at the April WCOA meeting. The items that we supported were approved by the Joint Finance Committee on a 16-0 vote, included in AB 40, substitute amendments Bill 1 and will become law on June 30. The three areas that were addressed and that WCOA in April recommended approvals are: 1) Operating budget clarification into one budget rather than two. Last year it cost approximately \$247 million to manage the fund with 85% considered a direct charge budget against the assets for the external managed consultants and external portfolio managers. The operating budget is much smaller and is established by a formula of assets under management subject to a floor. With the increased assets being moved from external management to internal management the smaller operating budget did not adjust with funds from the direct charge budget. The basis point operating budget language will be removed and the direct charge budget will be included in the operating budget and controlled by the SWIB Board with quarterly reports to DOA, JFC and the Legislative Audit Committee. SWIB will report once a year to the JFC at their first quarterly meeting informing them of the operating budget authorizations, performance of assets under management and a general overview of the operation. 2) The SWIB Board will have the authority to create or abolish positions. Reporting requirements will be the same as for the operating budget. 3) SWIB also was given the authority to change two classified positions to unclassified once the positions become vacant. All SWIB staff will then be unclassified. 4) SWIB also was requesting an exemption to open records when dealing with venture capital. Venture capital managers avoid public exposure of their investments to their competition. Top tier managers avoid dealing with SWIB for fear of their investments being made public with patents pending. The JFC denied SWIB's request, and it was not pursued.

The WCOA wrote a letter to the JFC on April 29, 2011 in support of the above first three requests.

Ms Drew was thanked for her participation in the WCOA and we welcome her to retirement.

Member Comments:

There was a discussion on the cost savings of internal management as compared to the cost of external management. With global investing there will always be a need for external managers. However, the more funds that are internally managed the greater the savings to the system.

There are twin bills on Venture Capital Authority, AB129 & SB94, which would permit a board, appointed without any qualifications by the Governor and the legislative leaders to sell bonds up to \$200 million and give tax credit to the participating organizations. The funds would be state dollars and the bonds would be administered by the new Department of Commerce. The bills are being questioned because of the out-of-state influence of insurance companies and others who stand

to benefit. A similar program was created in the past and resulted in no return and loss of the total investment. No one is aware of SWIB being contacted for consultation or input.

The SWIB Board has three members with terms that have or will be expiring and the governor has the authority to appoint. With the DOA secretary as a board member and three new appointments, the governor would be coming close to a majority. The governor could reappoint present members.

NEW BUSINESS: The WPPA has sold the building we have been using for our meetings, and we are in need of a new location. The new facilities for WPPA have a conference room that would be available on Mondays or Fridays. The SWIB conference room would be temporarily available avoiding their board and conference meetings. Parking at the SWIB office might be an issue. Several members will be checking on other locations and will inform the secretary who will contact the membership.

Is there a need for a meeting in July or August? It is best not to skip two months but maybe one month in the summer would be appropriate. In past years we skipped either July or August.

MSC The WCOA will not be meeting in July 2011.

The August meeting will be held on Monday, August 15 at the WPPA office 2nd floor conference room 660 John Nolan Drive.

(Directions: Beltline exit John Nolen Drive (N), stay in right lane, right at stoplight toward Sheraton Hotel, left in front of Sheraton (N), at end by turnaround go right, parking behind building.)

TREASURER'S REPORT: - The treasurer distributed a detailed report covering 2011 through June 7, 2011. A total of 153 attended the Annual Conference with receipts of \$3680 and a net profit of \$1039.67. The food costs did not increase over last year, and there were no honorariums required.

MSC The treasures report was accepted as presented.

NEXT MEETING: August 14, 2011 (Monday) 9:30 am, WI. Professional Police Association 660 John Nolen Drive, 2nd floor Conference Room.

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

The meeting adjourned at 11:25am

Respectfully submitted – Dick Kratz