

Wisconsin Coalition of Annuitants

www.wicoa.org

Minutes of Meeting March 16, 2011

The meeting was held at the Wisconsin Professional Police Association Building, 304 Coyier Lane Madison and was called to order by Jim Miller at 9:44am.

MEMBERS & ALTERNATES PRESENT: D. Bosanko, RPFFW; J. Calkins, UWMRA; V. Cutler, UWMRFA; W. Ford, ETF-B; B. Frantz, DOT; J. Groszklaus, West Allis; R. Hoessel, DOT; C. Howard, WEAC-R; A. Knop, WEAC-R, D. Kratz, CORR; A. Lee, WSAA; J. Maydak, West Allis; J. Miller, DNR; B. Schaefer, SEA; J. Skiles, UW-R; J. Stoddard, CORR; J. Vreeland, Wauwatosa.

GUESTS: S. Drew, J. Gruentzel, M. Stohr, R. Wojciak.

EXCUSED: J. Egan, J. Elmer, B. Fendel, E. Frank, J. Palmer, D. Rohweder, W. Rowe, T. Speranza, A. Wallace, J. Zwadzich.

MINUTES of the February meeting were approved as mailed.

GUEST: Sandy Drew, Legislative and Beneficiary Liaison, SWIB

SWIB returns the end of February: Core 3.2% with a benchmark of 3.1% and Variable 5.2% with a benchmark of 5.2%. The total fund is \$81.283 billion, with \$75.517 billion in the core and \$5.768 billion in the variable.

The SWIB Board is meeting today, 3/16/11, and will address incentive compensation for 2010. Coalition members have all been informed and indicated they understand the compensation plan. Ms Drew provided a fact sheet with several highlights. External managers cost \$.28 per hundred dollars under management as compared to the internal management costs of \$.06 per hundred dollars. About 70% of the SWIB staff have advanced degrees and over one third hold multiple degrees or certifications. As a result, internal managed assets increased from 20.7% in 2007 to 47.3% in 2010, resulting in an estimated savings of \$13 million annually. In addition, an independent study found SWIB is a low cost manager because of the internal managed assets and the lower negotiated external management fees. If the media picks up on the compensation plan and you receive inquiries from your members feel free to contact Ms Drew for additional information. The annual compensation review is always held at the March meeting.

There have been numerous newspaper articles on pension systems, a recent State Journal article mentioned SWIB's investment in several companies that are primarily owned by the Koch brothers. A follow-up on Facebook encouraged members of the WRS to contact SWIB requesting they divest of the investments. SWIB's policy is to make investments for financial reasons and not based on social, personal or political reasons. This is not the first time that SWIB has been asked to divest in a particular company. SWIB has a fiduciary responsibility to prudently invest for all participants of the WRS.

Ms. Drew announced that at the end of June she would be joining our group as a retiree. William Ford has been hired for the legislative part of her position, her other duties will be assigned to present staff. Ms Drew was thanked for all she does for the coalition and its members.

GUEST: Matt Stohr, Director Legislation, Communication, Planning, ETF

The budget repair bill, which was signed into law on 3/11/11 is now Act 10 and contains the non-fiscal items of an earlier Bill. The Bill was introduced on February 11, amended by the Joint Committee on Finance, sent to the Assembly where it passed, then to the Senate where without the 14 Democrats the fiscal bill could not be passed. A conference committee was created, removing the fiscal items and the Bill then pass the Senate and the Assembly being signed by the Governor on March 11, 2011.

A major change for the WRS is the contribution rate. General category active employees make up 93% of the participants, will pay one half of the required contribution. This rate changes

annually based on investment earnings and other actuary facts and for 2011 the rate is 11.6% resulting in employees paying 5.8%. It is anticipated that the contribution rates will increase the next few years. Judges, executive and other elected officials, approximately 1500 individuals, have a contribution rate of 13.3% and now by law each will pay 6.65%. The category of Protective with and without social security will also pay 5.8% with their higher contribution rate difference being paid by their employer. The Act also provides some protective classifications with the ability to negotiate on the employer pickup of the employee share of the WRS contribution, since some are exempted from the collective bargaining changes in the Act. The Act states that the changes go into effect the first pay period following March 13, 2011. For the State this means March 26, however for local municipalities that have different pay periods it could be a date before the bill is published and becomes effective. ETF is in a unique situation where they are being asked to advise employers and yet the answers about the effective date of some of the provisions of the Act are not entirely clear. Secretary Stella previously requested clarification in a letter to the JFC.

The retirement multiplier for Judges, executive and other elected officials has been reduced from 2.0% to 1.6% or the same as general employees. The effective date varies for elected officials.

Not included in Act 10, but was in the original Bill, is the requirement to have ETF, OSER and DOA study modifications to the WRS. The modifications included converting to a defined contribution plan from a defined benefit plan, increasing vesting requirements, sick leave conversion credit for state employees and several other studies. It is thought that this was not included because of a possible fiscal need. The initial bill required a report submitted to the Governor no later than 6/30/12. Several states have studied converting from a defined benefit to a defined contribution system. Also, several states have even experienced running both systems.

The Act also eliminates the Benefit Adjustment Contribution (BAC), which was created by an Act in the 1980s to fund a benefit improvement. It was not credited to the employees account but was used to fund the overall system benefit liabilities.

Health insurance changes limit employer payment at no more than 88% of the premium. State employees' premiums also increased from \$88 to as high \$204 per month.

The original Bill had a provision to reallocate \$28 million from the pharmacy benefits reserve account to reduce State costs for health insurance from July 1 to December 31, 2011. The reserve is the responsibility of the Group Insurance Board and if passed there will be a need for a legal opinion.

ETF will be doing a 1000 member sample audit of health insurance participants to review dependent eligibility. States that have done an audit have found between 5% and 15% of the dependents were ineligible. ETF had requested in the original Bill \$700,000 to conduct a full scale audit.

Act 10 requires ETF to reduce the 2012 health premiums by 5% plus the annual medical inflation amount. This could amount to approximately a 12% reduction. This will be a challenge for GIB and could result in changes in deductibles, co-pays and a review of benefits.

There are lots of rumors regarding ETF and SWIB and Act 10. The budget repair bill does not address the structure of either agency. SWIB will have three board positions expiring this year and two of the members have contacted the Governor indicating a willingness to continue serving. There was discussion on legislation introduced to give the Governor authority over all administrative rules.

ETF has requested approximately \$500,000 for the next few months to handle overtime and hiring of LTE's to process retirements and retirement estimates. Several days last week ETF received around 5000 telephone calls. The videos have also been receiving increased volume. Retirement estimates are up 115% over last year, and retirements are up 65% over last year. The retirement peak season is usually April through June. For additional information refer to ETF's website.

In addition to the administrative rule legislation there is a Bill regarding charter schools and their employees being part of the WRS. The biennium budget Bills are AB 40 and SB 27.

ETF announced the annual adjustment which will be effective on May 1. The Core is a -1.2% and the Variable 11%. It is projected that next year will also be a negative for the Core with continued adjusting from 2008 loss. For actives the effective rate for the Core was 4.8% and the Variable 16%.

Last week at the ETF board meeting, the consulting actuary recommended that beginning in 2012 the assumed rate be reduced from 7.8% to 7.2% and the assumed wage increase be reduced from 4.2% to 4%. This does not directly affect the retirees, but does affect contribution rates; however it is thought to be cost neutral. The budget repair bill changes could also affect the contribution rate, especially for elected and executive officials. For retirees the dividends are based on actual returns and not on the assumed earnings rate.

ETF is being selective in responding to news articles, emphasis is on national releases. The WCOA again thanked Mr. Stohr for timely and accurate information.

CORRESPONDENCE: The WCOA sent a letter to JFC, thanks to Bob Schaffer for drafting.

OLD BUSINESS: ETF Board Member -William Ford, who is present today, was elected as the ETF annuitant board member. The WCOA in recognition of Mr. Ford and his position invites him to join us as a non voting member representing the ETF board.

Blair Testin Award - Nominations for the award were presented and following a discussion the recipient for 2011 will be James Senty. Mr. Senty has been on the SWIB Board of Trustees since January 2001, and presently serves as the board chair.

MSC The WCOA will recognize James Senty as the recipient of the 2011 Blair Testin Award. The award will be presented at the 2011 Annual Conference.

NEW BUSINESS: Question - When trust funds are stated as having a specific percentage funded how is that percentage determined? Ms. Drew indicated there are several different values utilized. The market value of SWIB is around 89% to 90% which is the value if everything were sold today. The other is the actuarial value which uses the smoothing over several years and results in the 99%. The remaining 1% difference is employers that continue to have an unfunded liability to WRS.

Question - Are any of our organizations affiliated with the AFL-CIO. Along with those having a direct relationship there are several organizations that have indirect relationships. Retiree organizations are able to affiliate with AFL-CIO for \$25 per year. Organizations may also join the Alliance for Retired Americans at a nominal fee. There is strength in numbers.

TREASURER'S REPORT: Check book balance \$5,493.39

NEXT MEETING: April 20, 2011 9:30 am, WI. Professional Police Association Building.

Annual Conference May 16, 2011 American Family Headquarters Madison, WI

The meeting adjourned at 11:40am
Respectfully submitted – Dick Kratz