Wisconsin Coalition of Annuitants

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Minutes of Meeting October 24, 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 Chair Jim Palmer at 9:30am.

DIRECTORS & ALTERNATES PRESENT: O. Berge, WARSDA; J. Calkins, UWMRA; V. Cutler, UWMRFA; J. Elmer, WREA; B. Fendel, AFSCME; B. Frantz, DOT; C. Howard, WEAC-R; D. Kratz, CORR; J. Maydak, West Allis; B. Meyer, WREA; J. Miller, DNR; J. Munro, WARSDA; J. Palmer, WPPA; D. Rohweder, ESP; W. Rowe, ACE; B. Schaefer, SEA; T. Speranza, RPFFW; J. Stoddard, Corr; J. Vreeland, Wauwatosa.

GUESTS: A. Fendel, D. Lueck, B. Meyer, P. Peterson, J. Rybach, D. Schmidt, S. Smith, D. Stells, S. Sweet, K. Weisner.

EXCUSED: S. Drew, J. Egan, J. Grosklaus, M. Susman. A. Wallace

GUESTS were introduced and welcomed.

MINUTES of the September meeting were approved as mailed.

GUEST: Dave Stella, Secretary , ETF

Mr. Stella thanked the WCOA for supporting the ETF over the years, and the support shown to him as Secretary and before he was Secretary. WCOA has been a great advocacy group for the WRS.

Rehired annuitants are not a surprise considering retirements are 71% ahead of last year with over 14,000 retirements. In June, retirements exceeded the total of 2010. ETF expects additional retirements considering state and local employees tend to retire at the end of the year.

Three issues that contributed to the increased retirements are; the recession where employees held off on retirement, the general turmoil in employment with collective bargaining and teachers collective bargaining contracts where they would lose benefits if they did not retire.

We were reminded that every day since January 1, 2011 and for the next 19 years 7000+ baby boomers will be turning 65 years of age. The projection is that in 10 to 15 years there will be over 300,000+ Wisconsin retirees and the system will be approaching a one to one retiree/active ratio. The WRS with $79 billion is in a position to manage retirees' benefits now and in the future.

This year many employees, who had plans of working a couple more years, retired because they felt they had no choice. Now they are saying they want to come back and continue to work either part-time or full-time for the next few years.

The policy of the 30 day break in service before returning to work and keeping your annuity has been around a long time. With the recent media stories of retirees returning to work the public perceives it as double dipping. ETF is concerned with what is good public policy. There are a couple of bills being circulated in the Legislature which may not be good public policy. The 30 day break in service is what ETF several years ago was advised as the minimum break in service that the IRS requires for a bona fide termination. The IRS does not permit an "in-service distribution" which is retiring without leaving your position. As an enforcement agency the IRS has also stated that a six-month break in service is a bona fide termination. ETF is proposing a six-month break in service since that is what IRS requires. With the media activity and the large number of retirees returning to work there is a potential the IRS will begin investigating and it will be too late to revise the policy.

There is probably minimal impact on the WRS with rehired employees at less than half time or as "gap fillers". However, ETF is proposing that rehired part timers and new hires have the same standard for WRS participation which Act 32 raised from 600 to 1200 hours of employment. ETF had proposed 1040 hours as the standard.

Representative Strobel's bill is extreme and has some legal issues. The bill states that if a retiree works more than half time their annuity and benefits would be terminated and they also would be denied reentering the WRS.

The financial integrity of the WRS changed with the passage of Act. 32. One change is the increase from 600 to 1200 hours of employment in a calendar year to participate in the WRS. Presently there are over 18,000 employees employed between the 600 and 1200 hour requirement. Over time, those 18,000 would retire and be replaced by 18,000 new hires that would not be in the WRS and as a result the annualized loss would be $43 million. Employers will increasingly add part timers to save money without WRS participation. With the 1200 hour employment change and the substantial increase to five years for vesting there will be fewer WRS participants.

The WRS is much like risk insurance. There are employees of all ages and varying degrees of service. An average is established to fund everyone in the system. A zero service employee would have close to a zero cost for benefits. A 25 year employee may have a cost of benefit at 24 to 25% of payroll. The average cost is 11.6% and will increase to 11.8% next year and is paid equally by the employer and employee. With the elimination of the younger employees because of rehired annuitants and the higher standards, over time the contribution rates would continue to increase. Eventually employees will not want to participate in the system and employers who recently saw their cost cut in half, will be required to pay an increasing cost and much more than they had anticipated. Over time employees and employers seeing their contribution rates increasing will want out of the system. Presently there are employees who have been requesting to get out of the system, especially those in the lower pay ranges.

When contribution rates are increased the employee receives a benefit increase because of the hybrid pension plan. With the employees contribution matched by the employer more is in the money purchase minimum. There are long term issues to be addressed and the need for actuarial studies to look at the impact of all the changes. As Mr. Stella indicated in his retirement letter the study is needed now.

Addressing his retirement Mr. Stella quoted Mark Twain “the rumors of my death are greatly exaggerated”. A couple of newspaper articles indicated the reasons behind his retirement although no one contacted him or talked to him regarding his retirement. Mr. Stella reaffirmed that he is not retiring because of what has been going on the last year and the present situation, but that 40 years is long enough to be in public service. He has had his retirement date in mind for several years.

WRS continues to be 99.8% funded. Because we all share in gains and losses and employers are required to pay what they owe, the result is the system is well-funded. We have an excellent board and high quality investment staff, and they deserve their compensation especially when compared to what they could be earning on the east coast.

SWIB is moving toward a risk parity, which means a reduction in risk or volatility and at the same time maintaing good returns. The goal is to reduce the spikes in losses as well as returns. As more retirees are added consistency of returns is important. This concept will also stabilize contribution rates. Contribution rates next year will increase .002% when some states are going up as high as 8 and 10%.

The variable fund by statute is totally invested in stocks and restricts the investment options and flexibility, which is the basis for the recommendation that the variable fund be closed. There are about 110,000 active/retirees in the variable. The core fund has been reducing investments in stocks from 60% to the present 55% and in the next four years will be further reduced to around 50%.

Risk parity also will have investments in absolute return hedge funds and leverage in low volatility assets which reduces overall risk. The SWIB board spent two years on the concept and implementation of hedge funds and leverage. There has been no word on the SWIB Board members’ reappointments or replacements.

There was discussion on the Next Generation Jobs legislation. SWIB will initially invest $100,000 Trust Fund dollars to begin the investment management, but will not be a contributor to that particular venture capital. SWIB will provide expert management and will be reimbursed, including the $100,000, from the investment returns. This is similar to several of the other funds that SWIB manages. As long as SWIB is reimbursed it is better public policy than having SWIB ordered to invest in venture capital.

There was a question on savings to the UW through rehired annuitants. That type of data is not collected. It has been difficult for ETF to determine the exact number of rehires other than the UW Madison stating they have 447 rehires. A total would require contacting each employer for specific salary amounts and multiplying the salaries by the contribution rate. Some states have a one year break in service and in some cases the rehires and the employer pay contribution rates with the employee receiving their contribution back upon termination and the employers share remaining in the system.

There are two studies required by the Legislature in the budget bills. The study of health insurance is being conducted by ETF and the costs are being charged to the health plans. This study is due the end of this month (October). This study is looking at the feasibility of going to a high deductible plan with a HSA and offering a low cost plan. The second study is due June 30, 2012 and is to study the feasibility of allowing an optional defined contribution in place of the WRS. A second part is the feasibility of employees not paying into the WRS with only the employers contributing. The employee then would have an employer funded money purchase annuity at 50%, no employee contribution. This concept is presently part of the WRS hybrid system but includes employee contributions. Without employee contributions there would be a half funded employee, which in addition to being illegal would require a separate pension plan and have an impact on the current system. This study was legislatively ordered without any funding. There was a 1960s court case where the legislature mandated ETF to conduct a study using Trust Fund dollars. The court ruled that the Legislature cannot dictate the expenditure of trust funds to conduct its own study. However, because of the importance of this study ETF with a recent 13.10 request has $75,000 of Trust Fund money for the study and will focus on the issues that ETF identifies. DOA and OSER are also to be involved in the study and if they want to address different issues they are free to do so with their own dollars.

Questions:

Would one person working two part-time positions be in the WRS?

Yes, all employment for WRS employers is considered. When an employee exceeds half time, they begin participation in the WRS.

With the Legislature in special session will legislation be passed that will impact the WRS? That concerns all of us. Fortunately, DOA and OSER are busy enough with their work that they permitted ETF to take the lead in the studies and some other legislative issues.

Over 2/3 of the pension costs are paid by investments and isn't this similar to a 401(k)?

With the change in contribution rates it appears to approach the defined contribution benefit. Today 28 to 30% of the members retire under money purchase, defined contribution approach, and at one time when the markets were high the number of retirees in money purchase approached 50%. The more in contributions the closer to the money purchase option. Now that employees are paying half of the contributions to the retirement system, and more than two thirds of the income is from investments, the employer's share in the system is about 7% of the total financing. The public does not realize that the monies are almost totally employees’ contributions and investment returns.

The WCOA, with a standing ovation, thanked Mr. Stella for his years of service in protecting our benefits and his many contributions and “watchful eye” to the WRS. He has been a friend of the WCOA and will be missed.

LEGISLATIVE REPORT: Dan Schmidt, Senior Analyst, Legislative Council

The actuarial process begins with Mr. Schmidt speaking with ETF and if a study is required the Legislative Council recommends it in a report to the Legislature. Often legislation is agreed upon before there is an opportunity for an actuarial study.

SB239 and AB318 addresses the double dipping issue. If a retiree works more than half time they would not receive an annuity and would not be part of the WRS. This bill is in the insurance and housing committees and will probably not go to the JSCRS. There is another bill authored by Rep. Ziegelbauer pending introduction.

Mr. Schmidt is working on the two-year Comparative Study for 2010. One of the major trends is the lowering of the funding ratio with a number of systems under 50% funding. Another trend is the increase in the number of retirements and a change in ratio to active/retirees. This report will reflect the 2009 and 2010 investment returns. If a plan converts from a defined benefit to a defined contribution the data does not match and there is no way to have a comparison. Mr. Schmidt will identify those states that are moving from the defined benefit to the defined contribution plan and the reverse. The 2008 Comparison Study is online at the Legislative Council website.

Question: Is there a federal agency that monitors those plans that are less than 50% and at risk? The plans are not at risk since the taxpayers would be obligated to fund the plan.

Some states are changing their early retirement provisions and increasing contributions. However, statutory contributions and unfunded liability payments are two separate issues. Unfunded liabilities are a product of the 1980s and 90s when states provided added benefits without any actuarial or cost studies. Now states are looking at defined contribution programs to take the risk away from the taxpayers.

CORRESPONDENCE: None

OLD BUSINESS: None

NEW BUSINESS - Letter to ETF Board regarding the Secretary qualifications.

The ETF Board will be conducting a search for Mr. Stella's replacement. We previously wrote to the board prior to Mr. Stella's appointment. Several members will research the previous letter and forward to the Chair. Mr. Ford, who is on the Board will be invited to our November meeting.

There was discussion on the WCOA's position on annuitant rehiring. Many times the expertise required is not available with a new hire. Some times the employers take the easy way by rehiring the employee. ETF's identified need for an actuarial study will answer many questions.

MSC The WCOA supports ETF's request for an actuarial study.

There are situations where rehired expertise is not available elsewhere. An example is protective classification employees who are primary in training of new hires. There are other specialized positions that require experience and expertise

MSC The WCOA is concerned for the loss of expertise in state and local governments without some flexibility in rehiring annuitants.

It was suggested that we also begin thinking of globalization. Several members have read and encouraged all of us to read Thomas Friedman's book That Used to Be Us: How America Fell Behind in the World It Invented and How We Can Come Back.

It was suggested that WCOA send a letter to the leaders of both houses and possibly a press release showing that we support ETF in an actuarial study, that we have a concern for the loss of expertise with retirements, and that we are concerned for the impact recent legislation will have on the WRS.

TREASURER'S REPORT: No income and no expenditures since last report.

MSC the Treasures report accepted as presented

NEXT MEETING: Monday, November 16, 2011 9:30 am, WI. Professional Police Association Building.
Annual Conference Monday, May 14, 2012 American Family Headquarters Madison, WI
The meeting adjourned at 11:40am
Respectfully submitted – Dick Kratz