

Wisconsin Coalition of Annuitants

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Minutes of Meeting June 18, 2012

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 9:35am.

DIRECTORS & ALTERNATES PRESENT: O. Berge, WARSDA; L. Bundy, ESP; J. Craig, UWRA; V. Cutler, UWMRFA; S. Drew, SWIB; J. Egan, UWEC; B. Fendel, AFSCME; E. Frank, DNR; J. Grosklous, West Allis; R. Hoessel, DOT; C. Howard, WEAC-R; A. Knop, WEAC-R; D. Kratz, CORR; J. Maydak, West Allis; J. Palmer, WPPA; D. Rohweder, ESP; W. Rowe, ACE; B. Schaefer, SEA; J. Skiles, UW-R; T. Speranza, RPPFFW; J. Vreeland, Wauwatosa; A. Wallace, UWRA.

GUESTS: J. Calkins, A. Fendel, D. Lueck, C. Preisler, J. Strohl, S. Sweet.

EXCUSED: R. Beglinger, D. Bennett, B. Davis, B. Meyer, J. Miller.

MINUTES of the April meeting were approved as mailed.

Introductions: Jim Egan, Director for UW Eau Claire Emeriti Faculty, Joan Calkins, former UWRA Alternate Director, and Judy Craig, “newly elected president of the UWRA” and Alternate Director for the UWRA.

GUEST: Chris Preisler, Communications, SWIB.

Mr. Preisler provided a May 31, 2012, preliminary report on SWIB returns for the major funds. The core fund was 3.1% with the benchmark of 2.8% and the variable fund was 3.0% with a benchmark also of 2.8%. May 2012 returns were down from April's core of 7.6% and the variable of 11.7%. Assets under management the end of April were the core fund \$76.5 billion and the variable fund \$5.6 billion or approximately \$82.2 billion total.

The Board met last week and \$125 million was committed to a low-volatility global equity hedge fund. The board hired AQR Capital Management to manage a \$50 million hedge funds of funds portfolio. This brings the total in hedge funds to just under 1%; the ultimate goal is 15 to 20 managers and 2% of assets. At this time approximately \$775 million has been committed to hedge funds.

Michael Williamson has started as the Executive Director and is meeting with staff. Mr. Bozarth has left for his home in Houston.

Mr. Preisler passed out a copy of an article in J. P. Morgan's “Public Eye” newsletter of an interview with David Villa, CIO for SWIB. The article has Mr. Villas' response to several questions on the value of defined benefit plans and his insights on public fund investing and governance.

The SWIB Wisconsin Private Equity portfolio, managed by Chris Prestigiaco, co-invested \$6.2 million with Baird Venture Partners in Zurex Pharma of Middleton. This company specializes in technology in preventing infections during and following surgeries. Organic Valley of LaFarge, the nation's largest cooperative of organic farmers, also is being considered for venture capital investment. SWIB continues to look at Wisconsin investment opportunities.

The question was asked regarding recent media articles and letters to the editor with misinformation about the WRS and if SWIB or ETF plans on responding. SWIB has been discussing options and action upon release of the June 30 report. Examples of misinformation were the Heritage Foundation using the benchmark as an annuitant guarantee and the belief that a negative dividend for an annuitant is a zero dividend for the year rather than a loss of actual dollars. The 7.2% is an assumed rate of return that actuaries use for determining contributions by employers and employees and not a return rate goal; no one knows the investment return for December 31, 2012. There also are several organizations involved in developing talking points

and explaining the benefits of the WRS including the impact to the state and local economies. Everyone will await the release of the June 30 report and then take appropriate action.

The WCOA is not designed to communicate to legislators, but to serve a monitoring function for our representative organizations and disseminate information to our membership. As organizations and individuals we are free to contact legislators and submit articles to the media. We need to be careful that letters to the editor will not be viewed as self serving. It is important that we individually contact our respective legislators to let them know that we are in their district. It is also important that our membership understand the facts of the WRS. There are benefits by not responding to every piece of misinformation and trying to change an individual's fixed perception.

The media stated that the WRS benefits are modest and flexible compared to other states. Other states where the benefits or multiplier are greater often did not fully fund the system. In other words, legislators granted increased benefits but failed to make adequate contributions to pay for the benefits. There also was brief discussion on the annuitant floor or base benefit. Under the WRS, if the annuitant reserve fund (one of three funds within the WRS) drops below the amount needed to pay guaranteed benefits, all annuitants would receive their floor amount with any additional needed funds coming from the state. With the five-year smoothing we would need to experience several years of severe loss, such as in 2008, for everyone to be at their floor. A misconception is that when an annuitant receives a negative adjustment that SWIB is losing money. Since 1981 there have been six negative earning years with the last being 2008. The losses from 2008 are still being smoothed with the gains made every year since then. A comparison of a core fund annuity and a 401(k) investment over the past few years would be interesting, especially when including investment costs. (www.wicoa.org news "Take a Look at a Study in Retirement Reality").

Presently the system sustains itself. However, changes such as the five-year vesting and part-time employees not eligible to participate along with publicly mentioned options such as portability will affect the system. SWIB is a long-term investment, and the fewer involved the greater the stress on the system. A new employee, young teacher or WRS-eligible participant does not think of retirement and given the opportunity would likely opt out. A reason for starting pension plans is so employees have retirement income and do not have to be on welfare. There was a question on part-time employees, working less than 2/3 time, and if their removal from participation was retroactive. Also what is the fiscal impact to the WRS? Did the JSCRS consider the impact of the vesting change?

LEGISLATIVE REPORT: None

CORRESPONDENCE: Letter of thanks from Keith Bozarth has been e-mailed to the Directors.

OLD BUSINESS: AFT-W resolution Understanding and Protecting the Wisconsin Retirement System. There was no one present from AFT-W to introduce or lead the resolution. The chair read the three operative clauses of the resolution presented in May and the one additional clause added today. The motion was made and without a second the resolution was tabled. However, the floor was opened for discussion.

It was agreed that lobbying and issuing press releases is beyond the scope of the WCOA. Press releases should be handled by our organizations or our individual members and utilize added resources from ETF, SWIB, and talking points. Federal Law currently prohibits opening of the WRS to private-sector employees. The resolution basis is understood by all but should have a couple words changed to be more diplomatic and educational/informational without being too aggressive. Everyone should have a retirement system like the WRS and many did until the

change to 401(k)s. We don't want the WRS system changed. Our organization membership needs to become actively involved at the local level. It is important that our organization's members contact their specific area representatives and encourage them to have the report referred from the Joint Committee on Finance to the Joint Survey Committee on Retirement Systems (JSCRS).

Following discussion it was decided to reaffirm the motion made in January 2012.

MSC The WCOA encourage the Co-Chairs of the Joint Committee on Finance to refer the June 30 WRS report to the JSCRS.

1/23/12 MSC The Wisconsin Coalition of Annuitants go on record opposing any changes to the Wisconsin Retirement System (WRS):

(1) without a complete actuarial study of what the effect of any change might be on present and future members of the WRS and taxpayers;

(2) before the completion of the WRS study due to be submitted by June 30, 2012, to the Governor and Joint Committee on Finance; and

(3) without a complete review by the Joint Survey Committee on Retirement Systems.

Move that the Secretary be instructed to send notice of this motion to all members of the Legislature and the Governor. The 1/23/12 motion was emailed to all legislators January 30, 2012.

NEW BUSINESS: The recall election had a 58% voter turnout compared to 50% two years ago, and Gov. Walker's margin of victory increased from 52.3% to 53%. A majority of the voter increase was in the Madison and Milwaukee areas, which shows a need for education of our membership in the other areas of the state. The vote appeared to be for lower taxes and less government including workers. There was considerable discussion as to what worked and what didn't work along with the public's perception of both candidates. The recall election and events leading up to it were unpopular with many. The new legislative districts will be challenging in the future elections.

The Chair was thanked for his response to the media the past few months; it is appreciated.

TREASURER'S REPORT: Mr. Maydak provided a detailed financial report covering June 1, 2011 to the present. After conference expenses we added \$409 to our account.

MSC WCOA accepts the treasurers report as presented.

The annual conference had 139 registrants and 10 guests. John and Jean were thanked for all their efforts and behind-the scene activities, Ed was thanked for arranging Dr. Knetter as our keynote speaker, and our chair was thanked for serving as our MC. Our webmaster Rick also went the extra mile in assisting us with the PowerPoint presentations and having them on our website. Once again the ETF staff were valuable and answered many questions for the attendees.

NEXT MEETING: July 16, 2012 9:30 am, WI, Professional Police Association Building.

NO August Meeting The meeting adjourned at 11:15 am.

Respectfully submitted – Dick Kratz