Wisconsin Coalition of Annuitants

www.wicoa.org

Minutes of Meeting March 19, 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 9:34am.

DIRECTORS & ALTERNATES PRESENT: R. Beglinger, WFT-R, O. Berge, WARSDA; V. Cutler, UWMRFA; B. Davis, WFT-R; W. Ford, ETF-B; E. Frank, DNR; J. Grosklaus, West Allis; R. Hoessel, DOT; C. Howard, WEAC-R; A. Knop, WEAC-R; D. Kratz, CORR; J. Maydak, West Allis; B. Meyer, WREA; J. Miller, DNR; J. Munro, WARSDA; J. Palmer, WPPA; D. Rohweder, ESP; B. Schaefer, SEA; J. Skiles, UW-R; M. Susman, UWMRA; J. Vreeland, Wauwatosa; A, Wallace, UWMRA.
GUESTS: R. Conlin, D. Lueck, R. Marchant, C. Preisler, J. Strohl, R. Wojciak.
EXCUSED: S. Drew, J. Egan, B. Fendel, T. Speranza.

MINUTES of the February meeting were approved as mailed.

GUEST: Robert Conlin, Secretary ETF

Mr. Conlin began by introducing Rob Marchant, recently appointed Deputy Secretary of ETF. Mr. Marchant indicated he grew up in DePere, Wisconsin, where his father was a public school teacher for 36 years and is a WRS annuitant, and he has a brother who teaches in the Green Bay school system. Mr. Marchant spent 12 years working in the legislature as a drafting attorney and then as the non-partisan Chief Clerk of the Senate which primarily is running the business operations. His role at ETF is quite similar and is a good fit for him and he is pleased to be with ETF.

Mr. Conlin provided a handout (available at: www.wicoa.org) on annuity projections, which has added information this year. The first two pages are the assumptions that are used annually: Core Trust Fund returns 2007 to 2010, gains or losses carried forward to the Market Recognition Account (MRA), annuity increases or reductions based on 0.5%, mortality adjustment which is reviewed every three years and will be reviewed in December 2012, negative adjustments may only be reduced based on increases from prior years and adjustments cannot be reduced below the original annuity or floor. If a negative adjustment is required in 2013, less than half of all annuities will be subject to the adjustment. If investments experience another flat year a potential -20% annuity adjustment would be required. This would remove all gains for those who retired since approximately 1999. The 1999 Act 11 increased adjustments around 17%. Adjustments are made based on surplus or deficit in the annuity reserve with the main contributor being investment returns. If all the annuity adjustments were removed, the system is still required to maintain a balance sufficient to fund annuities. In response to questions, Mr. Conlin said that while the elimination of all previously granted dividends is not imminent, the law is not entirely clear on how deficits in the annuity reserve are to be handled should that happen. ETF is exploring many options, working with the actuaries and legal counsel and reviewing the 30-year history of the system. The ETF is taking a two-pronged approach: looking at whether options exist in the short-term to blunt a significant annuity reduction next year, if necessary; and looking more long-term or several years down the road, to determine whether any permanent system changes might be desirable to avoid significant annuity reductions. However, he noted with two major market downturns in the last 12 years, the system has remained stable and is operating as designed.

The next chart states there is a $5.3 billion investment loss to be recognized in future years with $4.6 billion in 2012. This chart shows the flow through and five-year smoothing of the losses in 2008. However, it does not show the gains of 2006 of roughly $1 billion each year which flowed through 2011 and that $1 billion is not available in 2012. Mr. Conlin pointed out that while SWIB had positive investment returns in 2011, it did not meet the assumed rate and is therefore actuarially considered a loss. This results in recognition of nearly a $1 billion loss. This loss, when combined with the end of the recognition of gains from 2006, resulted in a $2 billion negative swing in the Market Recognition Account for 2011.

The next chart titled Current Value of Annuities looks at a $1000 annuity with five different retirement years. The 2007 annuitants are at their annuity floor of $1000, and without that provision the annuity would be valued at $946. A $1000 annuity received in 1987 is valued at $2604. The variable $1000 annuity in 2007 is valued at $730, and the $1000 variable annuity in 1987 is valued at $1894. There was discussion on long-time annuitants who retired at lower salaries than those retiring today and that they would be paying all the losses and then sharing the gains with more recent retirees. Other comments were those in the variable would benefit next year with a 7.2% assumed earnings rate. There continues to be discussion on the variable fund and its design being included within a defined benefit program. Some expressed concern that the older retirees are suffering the most. Are there structural changes that could be made to protect the older annuitants? Others noted that the system is operating as designed. The system is designed that any time there is a shift of equities or benefits the area of risk is moved from one group of retirees to another group of retirees or from one group of participants to another group of participants.

The next five charts show the value of annuities and the number of retirees in five-year increments. Retirees in 1987, 1992 and 1997 have seen their base annuity with annual adjustments resulting in an average annual $24-$25,000 annuity. In addition, they have exceeded CPI. The 2002 annuitants have not seen any large gains with a current base of $24-$26,000 average. The 2007 annuitants with a base of $26,642 have not seen any gains and have lost ground to the CPI.

The next six charts show the negative adjustments by year, and the number of annuitants affected. In December 2008 there were 7965 retirees and they were not subject to any negative adjustment, since their base annuity is their floor. Each year since, as individuals retired, they have remained at their base or floor annuity. As negative adjustments continue the gains in the immediate years before 2008 were lost and as of December 31, 2011, around 71,521 annuitants representing 47.5% of all annuities were not subject to the full negative annuity adjustment, extending to the annuitants who retired in 2007. The projection for December 31, 2012, is that at least 88,000 annuitants or 58% of all annuities will not be subject to any negative annuity adjustment, they will be at their floor. Therefore, only about 42% of annuitants will be subject to any required negative adjustment in 2013, primarily those who retired in 2002 and earlier. This year retirement numbers appear to be back to pre-2011 levels.

Another factor affecting adjustments is that when you retire during the year your active employee account is credited with prorated interest at 5.0%, rather than the actual effective rate for that year. The 2011 effective rate was 1.5%, (3.5% less than the 5%), which resulted in a loss to the annuity reserve. This is an area that will be reviewed. It appears that this may have contributed about -0.5% to this year's annuity reductions.

Projections (not predictions) for the coming year were reviewed. In 2012, if the WRS earns the assumed rate of 7.2% the average annuity adjustment would be -12% to -16% in 2013. A 7.2% return in 2013 and beyond will result in positive adjustments. A 0% investment return in 2012, in addition to a creating a negative effective rate, will result in a -17% to -21% adjustment. An investment return of 27% to 31% is needed in 2012 to avoid a negative adjustment and a 33% to 37% investment return is needed to realize a 0.5% positive adjustment.

There have been many ideas for modifying components of the system to reduce the impact of negative adjustments. Mr. Conlin indicated that ETF staff, legal counsel, actuaries and others have been in discussion; however, whenever one part of the system is modified it has an impact on other areas. For example a longer smoothing period would also result in delayed increases. Prior to the 1999 Act 11, the WRS had a much longer smoothing period and participants wanted their gains more immediately. Another comment was as negative adjustments continue the older annuitants will be paying losses and there will be more annuitants at their floor. When adjustments are positive all annuitants will realize a positive adjustment including those who have been at their floor since their recent retirements. There were many other ideas shared, and again whenever one component of the system was changed it would have an impact on another area legally, fiscally or statutorily.

How is full funding of the system maintained? Mr. Conlin noted that generally there are two components involved: The annuity reserve and the employer/employee reserves. When an employee retires, funds from the active/employer reserve are transferred to the annuity reserve. The annuity reserve is reviewed annually in light of investment returns, deaths, annuities paid and other actuarial factors. If assets exceed liabilities, the excess is paid out as dividends. If the reverse, "negative dividends" are distributed by "clawing back" previously granted dividends. This process results in the reserve being in balance. The employer/employee reserves are made up of employer and employee contributions calculated to pay for benefits being earned by active employees. Contribution rates are determined by the actuaries each year. As a pooled system, there are many assumptions that go into the setting of contribution rates and those assumptions are checked each year against past experience and adjusted when necessary. This helps make sure that the amount being paid in is sufficient to fund the benefits being earned. In Wisconsin, employers and employees are required to pay their share annually or it is taken from state aids or other funding. Under-funding occurs when the required amount isn't paid . This has led some other retirement systems to have chronic under-funding issues. Employer/employee contributions are important, but investment returns play a larger role in the health of a retirement system.

We need to remember that the WRS is one of the best funded and operated pension systems, and caution is needed when considering any changes.

How do we know our annuity floor? The ETF mailer, which you should receive the end of April, will have a regular core and a regular variable listed with added gains or losses. The regular core is the annuity floor.

ETF is considering splitting Shawn Smith's vacancy into a Communications position and a Legislative position. Communications filled first and Legislative this summer.

The WCOA thanked Mr. Marchant for his presence and Mr. Conlin for his presentation.

GUEST: Chris Preisler, Communications, SWIB

The preliminary returns as of February 29 were Core funds 6.8% with a benchmark of 6.5% and the Variable 10.7% with a benchmark of 10.5%.

The SWIB core fund return for the past three years compared to peer plans is ranked at 23.5%, or the top quartile. For a 10-year period we also are in the top quartile when compared to 387 public pension plans.

Mr. Preisler provided a return rate summary sheet listing the core and variable returns, effective rates and dividends from 1983 to the present.

Mr. Michael Williamson will officially begin as SWIB Executive Director on June 4, 2012. He will be involved and participating in meetings and discussions prior to that date.

The Board of Trustees still has a vacancy, awaiting the governor's appointment. Dave Stella will continue on the Board, having been appointed a trustee by the Wisconsin Retirement Board.

The National Institute on Retirement Security released a report indicating that in 2009 164, 469 residents of Wisconsin received a total of $4.2 billion in pension benefits from state and local pension plans. The average pension benefit was $2131 per month or $25,577 per year. Between 1993 and 2009 23.9% of Wisconsin's pension fund receipts came from employer contributions, 5.21% from employee contributions and 70.89% from investment earnings. Earnings on investments and employee contributions--not taxpayer contributions--have historically made up the bulk of pension fund receipts.

Retiree expenditures of $2 billion supported 50,317 jobs in Wisconsin or 1.6% of the state's labor force. The pension payments supported a total of $856.7 million in revenue to federal state and local governments.

The complete report is available at www.nirsonline.org Pensionomics 2012.

LEGISLATIVE REPORT: With the close of the Legislative session, several bills relating to the WRS have died in committee.

CORRESPONDENCE: None

OLD BUSINESS: COA/WRS PowerPoint - the committee is actively working on a presentation and will be sharing it with us in the near future.

Annual Conference - The guest presenter will be Michael Knetter, PhD, President and CEO, University of Wisconsin Foundation. Presenters from SWIB and ETF have been contacted. The agenda will be available soon.

NEW BUSINESS: With the recent changes in SWIB and ETF leadership and the agency's responsibilities and responses to changing economic times, all employees should be thanked for a job well done. WCOA members have received word from constituents that when contacting the agencies they have received timely and accurate information addressing their concerns. We have received nothing but praise for all the employees. The Chair will draft a letter to the two agencies thanking all staff for their ongoing cooperation and assistance and willingness to respond to WRS participant concerns.

Several unions have jointly held around 20 regional meetings explaining and answering questions on the WRS. The sessions include education, discussion on various legislative bills, as well as the budget bill requirements.

TREASURER'S REPORT: Registrations for the annual conference have been coming in. American Family will be providing the same menu as last year.

As of March 14 our balance is $7259.12. The financial report was accepted as presented.

NEXT MEETING: April 16, 2012 9:30 am, WI Professional Police Association Building. Annual Conference Monday, May 14, 2012, American Family Insurance Center, Madison, WI. Conference registration information available at www.wicoa.org, lower right corner.

The meeting adjourned at 11:35am
Respectfully submitted – Dick Kratz