

# Wisconsin Coalition of Annuitants

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## Minutes of Meeting October 15, 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 9:32 a.m.

**DIRECTORS & ALTERNATES PRESENT:** O. Berge, WARSDA; J. Craig, UWRA; V. Cutler, UWMRA; B. Davis, WFT-R; S. Drew, SWIB; B. Fendel, AFSCME; E. Frank, DNR; J. Grosklaus, West Allis; R. Hoessel, DOT; C. Howard, 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, RPFFW; J. Vreeland, Wauwatosa; A. Wallace, UWRA.

**GUESTS:** A. Fendel, T. Gahan-Hunter, F. Nepple, C. Preisler, M. Stohr, S. Sweet.

**EXCUSED:** J. Egan, D. Bennett.

**MINUTES** of the September meeting were approved as mailed.

### **GUEST: Chris Preisler, Communications Specialist, SWIB**

Mr. Preisler reported the preliminary YTD returns at the end of September. The core trust fund is at 11.1%, ahead of its benchmark of 10.5%, and the variable trust fund is at 14.6%, also ahead of its benchmark of 14.5%.

A handout was provided listing total assets under management as of the end of August (\$87.7B) and the preliminary returns for the major divisions as of the end of September.

At the last meeting, there was a question on reporting final and preliminary returns. SWIB is working on coordinating the major investment divisions to uniformly report their monthly returns. At present the divisions have different reporting dates which results in preliminary reporting until all returns are reported and reviewed by the Board.

Computing funding percentage of assets under management has changed with leveraging and will be the topic at the November meeting.

Mr. Preisler reaffirmed that SWIB is a long-term investor. For 10 years ending September 30 the core fund has returned 8.7% and the variable fund has returned 8.5%.

A question on GASB (Government Accounting Standards Board) is an ETF issue and goes into effect in July 2013. GASB requires a fair market value measurement where presently ETF uses an actuarial method. GASB is aimed at private pension systems but will impact state and local governments. This will be the topic for our December meeting.

The SWIB board will be meeting off site this week for their annual two-day retreat. Presentations will be made by SWIB managers, consultants and invited experts.

Mr. Preisler was once again thanked for his time and presentation.

### **GUEST: Matt Stohr, Administrator, Division of Retirement Services, ETF**

Mr. Stohr introduced Tarna Gahan-Hunter who is the recently hired ETF Legislative Liaison. She came to ETF from the WI Economic Development Corporation which was previously known as the Department of Commerce. ETF has also hired a new Communications Director, Mark Lamkins.

For the year 2012 retirement estimates, which have all the annuity options, and applications, which make a retirement date official, are similar to the year 2010. In 2011 there were almost 19,000 applications, or double a normal year. The first two quarters of 2012 had 10,000 estimates and over 5000 annuitant applications. Retirements are continuing to gradually increase in numbers based on demographics and will continue for the next 10 to 15 years. There are a large number of WRS participants, active and inactive, who are eligible for retirements who have not requested estimates.

In response to a question, several states have changed their retirement age for new hires. We should anticipate legislation addressing retirement age, similar to other states. The WRS normal retirement age for 95% of participants is 65 along with the 87 rule of having 30 years service at age

57. With the 19,000 retirees in 2011 there are now around 165,000 annuitants. Retirees may be replaced with new hires, but there are fewer actives coming into the system because of part time employment hours being doubled by 2011 WI Act 32. Overall retiree numbers are going up and active employees' numbers are going down. In response to a question, the five-year vesting does not appear to have a large financial impact on the WRS.

For some time we have been discussing the expected annuity negative adjustment for 2012 to be reflected in the May 2013 payment. The good news is this will be the fifth and last year of smoothing the 2008 negative returns. As projected an assumed rate of return at 7.2% for 2012 will result in a -12% to -16% negative adjustment and several billion dollars in "take back" from annuity gains. About 88,000 annuitants will not be subject to the negative adjustment since they are or will be at their floor. The number of additional annuitants reaching their floor will depend on the amount of negative adjustment.

The September ETF Board meeting has a chart (<http://etf.wi.gov/boards/agenda-items-2012/etf09202012/joint/item-3c.pdf> pg 8) by Bob Willett that assumes and projects a -11% adjustment and indicates the following: "Annuitants from 2008 through 2012 have never received an increase. Annuitants from 2005 through 2007 previously lost all increases. Annuitants from 2000 through 2004 will lose their remaining increases. In addition 71,000 annuitants and 54% of annuities would not be adjusted, 36,000 annuitants and 22% of annuities would have a partial adjustment and 61,000 annuitants and 24% of annuities would receive the full adjustment."

ETF staff and Board have been researching options to mitigate the negative adjustment without success. Any adjustment has an impact somewhere within the system and creates an inequity to a select group. With the Board's fiduciary responsibility there are no immediate options that don't require law changes. Our group provided many and varied suggestions, most of which have already been considered by the Board. The WRS is working as designed and is tied to investment performance. In response to a question, if the floor were eliminated we would no longer be a defined benefit system.

ETF continues to make service improvements and now has an online retirement estimate program which improves response time. Outreach to participants continues to be expanded with benefit fairs jointly conducted with ETF and SWIB across the state, drawing more members than expected. A database for employees who are eligible for a sick leave conversion at retirement will also have better access to the actual amount available for health insurance payment. Employers will also have an online submission for sick leave, as opposed to the present hardcopy submission. There also are several calculators at the ETF website for determining taxes, withholding, annual annuity and other individual benefit programs.

ETF submitted a budget request in the amount of \$8.5 million to integrate and update the IT systems. This amount will not have any effect on annuity adjustments or employer/employee contributions. It is expected that some retirees will wonder why ETF is seeking additional funds when their annuity is going down. ETF will continue to communicate with members about its goal to provide more online services to keep up with demand and the growing retiree population.

GASB contains many actuarial and accounting procedures with some very specific items relating to ETF membership and employers. ETF continues to review the program and will be reporting out to employers after the first of the year. A representative from ETF will address GASB at the December WCOA meeting.

With the implementation of law changes, the final books have been delayed, but will be closed within the next few days. Interest adjustments to individual active employee accounts will be completed and they will receive their benefits statement through their employer. The comment was made that this is another area of costs that was not considered with legislative acts.

There was a question on employees making an additional contribution toward retirement and if it would increase their floor. This is a complicated issue. There are several ways of distribution of

additional funds at retirement along with different dates for withdrawal and when annuitized. The questions that surfaced will be addressed at our December meeting.

Potential legislative bills that may be introduced in the next session may relate to reviewing the retirement age, rehiring annuitants, annuity adjustments and others related to the WRS.

The Legislative Audit Bureau was required by the Legislature to review rehired annuitants, and a report should be out in November. LAB has contacted almost all WRS employers. ETF by statute may not use trust fund dollars for actuarial studies, but spent considerable time answering questions for the LAB report. If need be ETF will respond to the report. An observation is that around 90% of retirees who are rehired continue to draw their annuity. It is a savings to the employer but can eventually become a liability to the WRS. IRS has in some cases recommended a three-to six-month break in service and ETF is required to follow IRS regulations to get qualified status as a 401(a) plan. The two issues are financial and compliance. There are positions that require an expertise that many times is not available with a new hire and it is necessary to hire a retiree.

Mr. Stohr was thanked for his time and presentation.

**LEGISLATIVE REPORT:** None

**CORRESPONDENCE:** None

**OLD BUSINESS:** Officer Nominations - Only nomination has been Ed Frank for Vice Chair.

- There were two motions from the WFT-R that were tabled last month. Since that time, the Secretary has received information from several WCOA members that their organizations could not support the motions. Based on our bylaws, 100% support is required to pass a motion. The chair offered an alternative to the WFT-R of sharing the information on the motions, and if members and their organizations were interested to contact Mr. Davis direct.

Mr. Davis described the time frame of the referendum and resolution proposals. Legislative action will not occur until after the elections, and regional meetings have been and will continually be held throughout the state.

Following discussion which included benefits to a private pension system, the various obstacles, and the legal restrictions Mr. Davis was thanked for his time and efforts.

**NEW BUSINESS:** UW Madison Retirement Association shared their recently designed brochure.

**TREASURER'S REPORT:** Accepted as presented, balance the same as last month, no activity.

**NEXT MEETING:** November 12, 2012 9:30 am, WI. Professional Police Association Building.  
The meeting adjourned at 11:20 am.

Respectfully submitted – Dick Kratz