

Wisconsin Coalition of Annuitants

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Minutes of Meeting September 17, 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 Vice Chair Jerold Vreeland at 9:35a.m.

DIRECTORS & ALTERNATES PRESENT: R. Beglinger, WFT-R, L. Bundy, ESP; J. Craig, UWRA; V. Cutler, UWMRA; B. Davis, WFT-R; W. Ford, ETF-B; E. Frank, DNR; J. Grosklous, West Allis; R. Hoessel, DOT; C. Howard, WEAC-R; D. Kratz, CORR; J. Maydak, West Allis; J. Miller, DNR; D. Rohweder, ESP; W. Rowe, ACE; B. Schaefer, SEA; J. Skiles, UW-R; J. Vreeland, Wauwatosa; A. Wallace, UWRA.

GUESTS: J. Gruentzel, D. Lueck, T. Miller, F. Nepple, C. Preisler, P. Sickel, D. Stella, M. Susman, S. Sweet, C. Welch, M. Williamson, R. Wojciak.

EXCUSED: O. Berge, J. Egan.

Guests attending for the first time were introduced.

MINUTES of the July meeting were approved as mailed.

GUEST: Chris Preisler, Communications, SWIB

Mr. Preisler gave a SWIB update. The preliminary returns for the end of August, core fund at 8.9% with a benchmark of 8.5% and variable fund at 11.4% with a benchmark of 11.2%. The Governor appointed Lon Roberts as the SWIB Board Chair. Mr. Roberts was appointed by the Governor last December and is an attorney from Wausau. Tom Boldt who was the, acting chair, was appointed Vice Chair. There continues to be one board vacancy.

There was a question of Mr. Preisler as to why it takes so long to get the monthly total return. When the preliminary returns are announced, the total returns are always one month behind. Mr. Preisler will get an answer for us. Also, could the preliminary returns be posted on the website? SWIB's position is to have final numbers posted when the preliminary numbers are audited.

GUEST: Michael Williamson, Executive Director, SWIB

Mr. Williamson is from North Carolina and was previously in Wisconsin from 1979 to 1994 having worked in the State Budget Office, several agencies including ETF and then Secretary Gary Gates. He also worked with the Legislative Retirement Research Commission and Blair Testin. Mr. Testin was a great mentor and assisted Mr. Williamson on his master's thesis on the merger of the several retirement systems into the Wisconsin Retirement System. He also worked in Gov. Dreyfus's office, five years at the City of Madison, and five years at the University. In 1997 he returned to North Carolina and took a faculty position in the Institute of Government at UNC. UNC is a special place to him having obtained two degrees from Chapel Hill and lived there three times. However, once a Tar Heel, he is now a Badger. In North Carolina, he initially worked in the Governor's office and the Department of Environment and Natural Resources. In 2001 he became the Deputy State Treasurer responsible for managing the pension plan for the 820,000 public employees and the largest 401(k) plan in the nation consisting of 220,000 public employee participants. Due to a vacancy he also served one year as the chief investment officer. For 18 months he was with the Washington DC Retirement Board before coming to SWIB.

Mr. Williamson commented that Mr. Mills and Mr. Bozarth had been excellent leaders and that SWIB is well organized and has excellent staff. The unaudited core fund last Friday was over 11%, but that is just a weekly figure. The variable to date is 17.4%. The first quarter was good, the second quarter was terrible, and the third quarter is the kind that we like. Benchmarks have been mainly exceeded using them as internal standards to compare to others and for incentive compensation of paying for performance.

Trustees have set solid guidelines for investments and delegated those to SWIB staff. The staff are aggressive and innovative with these strategies and very progressive in managing the assets. Asset allocations are continually refined with the result being 75% of the money in the trust funds coming from investment returns. Having added technology and additional staff, internal management has increased from 21% in 2007 to over 55% today and at one third the cost of external managers. CEM Benchmarking (Cost Effectiveness Measurement) indicates that SWIB compared to its peers is lower in both internal and external costs. To maintain low cost, it is important to attract and retain talented staff, and the incentive compensation plan assists. Competition with the East and West coast is difficult. SWIB is approaching its goal to be in the middle of its peer group in compensation, excluding, the big financial centers of the coasts. When the incentive compensation plan was first established the average experience in a new hire was 18 months. The average today is 6.6 years of experience.

SWIB has 50% of the assets in the stock market, and 84% of the risk comes from the stock market. In the last three years exposure to equities has been reduced by 5%. Fixed income has increased from 30% to 33%, and multi-strategy category with risk parity and hedge funds has increased from 4% to 5%. With interest rates falling fixed-income returns have been high and risk parity and hedge funds have been modest with the strategy working.

Mr. Williamson summarized his 100-day report to the Trustees along with looking to the future. He is delighted with the organization and staff who are talented, intelligent, competent, motivated, professional, hard-working, and they collaborate well. SWIB continues to look for ways to maintain the best public-funded pension plan in the country. One of Mr. Williamson's goals is to implement the Baldrige seven-category management system, and work on a comprehensive strategic plan. Several technology systems need replacement. Presently there is project management and data governance going on in house along with maintaining the partnership with ETF. Last week several former and present ETF and SWIB executives were able to discuss assets and liabilities looking to the future. There also will be some updates to the website to make it more user friendly.

The world markets continue to be volatile with uncertainty in Europe and China. The US and North America have become an attractive place to do business. Businesses are moving back, called on-shoring, because of the risk, cost and instability in foreign countries. SWIB returns look favorable heading into October, which historically is a volatile month, also being an election year the markets fluctuate.

This is the last year of the 2008 adjustment, and there will be another reduction in May 2013, which for about 50% of the members will be the most painful ever. The five-year smoothing and the design of the WRS make it a solid system. There is the shared risk but also the shared increase during good markets. Simply the losses have been spread approximately 20% over each of the last five years. Each year since 2008 there have been more members at their annuity floor with this year reaching 50% of the members. This means that 50% not at their floor will be absorbing the remaining 20% negative adjustment, with an 11% to 15% reduction. The returns for the last five years were -26.2% in 2008, 22.4% in 2009, 12.4% in 2010, and 1.4% in 2011, and hopefully a decent return in 2012.

Mr. Williamson thanked the WCOA and its organizations for their support. We are in challenging times, but are well positioned for what lies ahead.

LEGISLATIVE REPORT: None

CORRESPONDENCE: SWIB reception was held on September 11 with a presentation by Dr. James Dahlberg, the interim executive director of the Morgridge Institute for Research.

The ETF/SWIB newsletter has been distributed.

OLD BUSINESS: WFT-R Draft Motion #1: The WCOA supports the Wisconsin Legislature working to enact a state managed pension system for Wisconsin private sector workers.

Buzz Davis led a discussion on the development of the draft, which began a year ago, when several groups were educating public employees on the potential of privatizing the WRS. Reviewing private sector employees' retirement, it was discovered that half were without any retirement plans and would rely on Social Security and any personal IRA's. At our last meeting, Mr. Davis provided a statistical report and handout identifying the need for the private sector employees to have a retirement system similar to what the public sector employees have with the WRS. The draft motion is a result of several groups expressing the need for voluntary retirement planning for private sector employees. Sen. Hansen has shown an interest and has developed an outline of a voluntary private employee retirement program as well as creating a retirement security function within his standing committee. As taxpayers, we do not want private sector employees retiring with reliance on welfare programs as opposed to their own retirement funds.

Following discussion and suggestions with several modifications to the original motion the WCOA approved the following:

MSC The WCOA will forward the following motion to Sen. Hansen:

The WCOA supports the Wisconsin Legislatures investigating the feasibility of developing a state-managed, and/or, -regulated pension system for Wisconsin private sector workers.

WFT-R Draft Motion #2 - motion has been withdrawn since there is no statewide meeting scheduled.

NEW BUSINESS: Nominations for the WCOA officers may be submitted to the secretary prior to the October meeting.

WFT-R Motion: Should the WCOA advocate for the placement of a referendum question on county ballots for the April 2013 general election? Following a discussion the motion was tabled.

WFT-R Motion: The WCOA would encourage the state legislature to hold regional hearings on the private sector retirement security. Following a brief discussion the motion was tabled.

Paul Sickel, Wisconsin Coalition for Retirement Security, passed out a flyer announcing several meetings. The first meeting was held in Pardeeville, and tomorrow there will be one in Janesville and Thursday in Milwaukee. The coalition is made up of a number of labor groups and is expanding into the private sector supporting a retirement system for private sector employees using the WRS as a model.

TREASURER'S REPORT: Checkbook balance \$6,669.33.

NEXT MEETING: October 15, 2012 9:30 am, WI. Professional Police Association Building.

The meeting adjourned at 11:23 a.m. November meeting on the 12th.

Respectfully submitted – Dick Kratz