

Wisconsin Coalition of Annuitants

www.wicoa.org

Minutes of Meeting March 18, 2013

The meeting was held at the State of Wisconsin Investment Board, 121 E. Wilson Street, Madison, and was called to order by Chair Jim Palmer at 9:37 a.m.

DIRECTORS & ALTERNATES PRESENT: R. Beglinger, WFT-R, D. Bennett, WREA; O. Berge, WARSDA; J. Craig, UWRA; V. Cutler, UWMRA; J. Groszklaus, West Allis; R. Hoessel, DOT; A. Knop, WEAC-R; D. Kratz, CORR; J. Maydak, West Allis; J. Miller, DNR; J. Munro, WARSDA; J. Palmer, WPPA; D. Rohweder, ESP; SEA; J. Skiles, UW-R; J. Vreeland, Wauwatosa; A. Wallace, UWRA.

GUESTS: R. Brumm, R. Conlin, T. Hunter, F. Nepple, C. Preisler, R. Wojciak.

EXCUSED: B. Davis, S. Drew, J. Egan, B. Fendel, E. Frank, B. Schaefer.

David Villa, Chief Investment Officer, SWIB, welcomed us and shared a few words.

MINUTES of the February meeting were approved as mailed.

GUEST: Robert Conlin, Secretary, ETF.

Secretary Conlin provided a handout on annuity adjustments, which had been prepared by Bob Willits and presented to the ETF Board on March 7.

The first chart, Current Value of Annuities, covers 20 years and shows the changes in a \$1000 core annuity and \$1000 variable annuity. Retirement in 1988 would have a 2008 \$2206 core and a \$2196 variable. Retirement in 1998 would have a \$1267 core and the \$914 variable. Overall the WRS has exceeded inflation, however, depending on retirement date everyone's situation is different.

The 1988 annuity average was \$8684 and each year since the adjustment has exceeded CPI with the peak in 2007 of almost three times the floor. Today that annuity is more than twice the base amount. The 1993 average annuity was \$11,748 and with the 2013 adjustment has slightly exceeded inflation. The 1998 average annuity of \$14,220 has not, as of 2013, kept up with inflation but has dividends beyond the floor. The 2003 average annuity of \$18,849 has returned to the floor. The 2008 average annuity of \$25,507 has not changed and is slightly below inflation. With the May 2013 adjustment annuitants from 2002 to the present will be at their floor and below CPI.

The MRA smoothing for 2012 has a negative \$3.8 billion. The loss in 2008 was \$5.3 billion, and in 2011 was negative \$900,000. The gains the last five years were \$1.3 billion in 2009, \$400,000 in 2010 and just under \$800,000 in 2012. Starting 2013 there is a positive of over \$1.5 billion in the MRA.

The 2012 maximum annuity adjustment is -9.6% with an average -3%, when considering all annuitants. Last year the average was -4% to -4.5%. The additional earnings by SWIB substantially reduced the average for 2012. Assuming a 7.2% earnings in 2013, the average annuity adjustment will be between 3.3% and 3.7%. Future projections at a 7.2% investment return the next 4 years will result in adjustments at a low of 1.4% to a high of 2.8%. If we were to have a flat year and the investment return was 0%, the annuity adjustment would be 1.9% to 2.3%.

Retirees prior to 1998 have received overall positive adjustments matching inflation. Those retiring after 1998 have not received adjustments matching inflation. Those retired the longest have benefited the most but also are affected the most by the overall negative adjustments. Those recently retired are not keeping up with inflation.

Question: Is there a way to equalize pension amounts for those retired the longest?

The equities are mixed up and there is no easy way to make adjustments for one group without affecting another group. WRS benefits are based on salaries: the higher the salary, the higher the benefits. There is no way to adjust benefits for long-term retirees to the salaries of

today. Hopefully next year we will have a cushion that will sustain us through market fluctuations.

Employers, actives, inactive, and annuitants all share in WRS adjustments. Contribution rates, effective rates, and annuity adjustments are recognized by all. For a number of years retirements were about equal on formula and money purchase options. There is now a slight trend toward formula; however, with employees now paying more into their pension, over time there could be a swing back to money purchase.

There were some specific questions for SWIB. Is there a tendency to take more risk with limited partnerships? Is there a full disclosure issue? Is SWIB able to divest from limited partnerships at will?

As a long-term investor, the investment strategy has worked. There has been no mention of increasing risk. Venture capital investments is an area where confidentiality is required, and prior to the law change companies would not deal with SWIB because they did not want company specifics shared with everyone. Divestment depends upon initial investment agreements.

GUEST: Tarna Hunter, Legislative Liaison, ETF

The ETF budget request had three initiatives: funding and flexibility for strategic plan implementation, funding for statewide wellness initiative for health plan participants, and statutory updates per the internal revenue code.

The Governor's budget has several items affecting the WRS.

Rehired annuitants language increases separation time from 30 to 75 days. ETF feels this is a sufficient time for ETF to enforce the law. It is anticipated there will be further legislative action regarding rehired annuitants. In addition, the budget requires any annuitant who returns to work two-thirds time to reestablish their WRS account. There also is a provision for DOR to obtain information from ETF for tax-collection purposes and other information. The budget also included ETF's request for internal revenue compliance through statutory technical changes.

The budget has several changes for group health insurance. Wellness and personal choices are being emphasized.

The specifics of the ETF budget have funding for wellness, funding for the Transformation, Integration, and Modernization project (TIM), and two full-time employees for outreach and counseling for actives in preparation for retirement. ETF will also be required to report annually on the progress of the modernization efforts.

Capital Budget includes funding for an ETF building in the Hill Farms area to be shared with DOT and another state agency.

The modernization project increases ETF funding by \$4.3 million, which will not affect annuities or contributions. The costs will be absorbed within the trust funds. TIM mission statement is to become a leader among the large public employee benefits systems by offering best-practice customer services to our members and also to provide WRS members with secure online access to their account, including the ability to update information online securely.

The 2010 survey of WCOA and WREA found 70% of respondents would conduct financial transactions with ETF if allowed and 80% indicated they would view information about their specific account on line. By 2014, over 50% of adults will use some form of online bill pay service. Older adults, in particular, want tools that let them use current services more effectively or improve communication with their financial institution. With the increase in projected annuitant population, online services will assist ETF in timeliness application completion and benefit determination.

WRS members expect online services for banking, retail, etc. They want real-time access to their WRS accounts to conduct transactions online, quickly and securely. They also want more

choices on how and when they receive information. Currently ETF has 15 different systems that are not integrated to expedite inquiries. Staff must review several systems with every inquiry.

An integrated system will provide expanded secure online services for members and employers, faster processing time and better efficiency, improved service delivery and customer satisfaction, adaptability to a changing environment with new laws such as Act 10 and to future process improvements, and added capacity for increasing baby boomer retirees over the next 10 to 20 years.

Online member portal will provide secure access to individual WRS account information with the ability to calculate and apply for WRS benefits, opt-in for electronic notification of annuity adjustments IRS forms and others, enroll in group health insurance and other programs, make beneficiary designations, and change home mailing address.

To begin modernization, ETF is working with a strategic partner to assist in planning, development, and implementation. ETF is building on the experiences of other states that have successfully modernized pension benefits administration systems. Funding has been requested in the 2013-2015 Biennial Budget. ETF is very positive with the direction they are moving and expect that they will have funding for implementation over the next 5 to 7 years.

There is no specific model that ETF is following. This system is being built utilizing best practices, current program managers, surveys and a consultant.

Responding to a question, the Group Insurance Board is now permitted to make changes for cost containment with the ability to reduce costs by changing benefits. In the past GIB could only make cost-neutral changes. The GIB authority is broad and lacks details.

The two positions originally requested for wellness were denied, and the two approved outreach positions will be utilized throughout the state with an emphasis on active employees. ETF recent focus has been to meet participants in their district. Staff turnover in local governments requires ETF assistance in the employer area.

There was a question on SWIB investments that individual participants did not like.

Mr. Conlin stated that the WRS is a defined benefit plan with pooled investments and pooled longevity risk. Defined contribution plans permit individuals the ability to pick their investments. SWIB has a fiduciary emphasis on doing what is best for the membership and trust fund. We could all identify investments that we like or dislike. We need to trust the trustees and those with the fiduciary responsibility to make investments for us.

SWIB responds to all inquiries from participants.

The Joint Survey Committee on Retirement Services has several new members. The assembly co-chair has a special interest in rehired annuitants and is looking for sponsors to his bill increasing the retirement age. This bill is a result of Rep. Strobel's inquiry to ETF regarding early retirement. The present average retirement age is 60. There is a system supplement for early retirements, but the trade-off is employers benefit by having a lower cost with new hires. Rep. Strobel believes his bill will improve the solvency of the system. Hopefully, an actuarial study will be required.

GUEST: Chris Preisler, Communications, SWIB.

Preliminary returns the end of February - core fund 2.6% and the variable 5.7%. Total core and the variable assets under management \$86.5 billion. Total assets under management \$95 billion.

Private Equity International, publisher of multiple trade magazines, recently named SWIB its limited partner of the year in North America for private equities. SWIB was chosen for its management of and investment strategy in private equities and was selected by its peer groups.

SWIB board has two new trustees. Dr. Sandra Claflin-Chalton, appointed by the teachers retirement board and Robert Conlin appointed by the Wisconsin retirement board. Both appointments will take effect on July 1, 2013. Dr. Claflin-Chalton replaces Wayne McCaffery, who has served since 2001. Mr. Conlin replaces Dave Stella, who has been on the board since 2007. There is still one Governor appointment vacancy.

Institutional Investor magazine has an excellent article on the WRS and what makes it the best operating system. There is a link at www.wicoa.org, ETF, and SWIB websites.

Following today's meeting, all are welcome to tour the SWIB trading room and view the investment/trading action.

LEGISLATIVE REPORT: None

CORRESPONDENCE: None

OLD BUSINESS: Bylaws - tabled

Annual Conference update - Registrations will be snail mailed and emailed tomorrow. Guest speaker will be confirmed soon. Professor from UW Milwaukee will be contacted.

Fred has contacted a speaker for health care and ETF will be contacted to have a speaker on state health plans.

NEW BUSINESS: Blair Testin Award - Several names were suggested. Secretary will send out description used for the award and a list of the past recipients. A nominee will be made at the April meeting.

TREASURER'S REPORT: Present balance \$6,942.62. Accepted as presented. Following the April meeting the Annual Conference committee will decide on the menu.

NEXT MEETING: April 15, 2013 9:30 a.m., WEAC, 33 Nob Hill Rd., Madison.
Annual Conference Monday, May 13, 2012 American Family Headquarters Madison, WI.
The meeting adjourned at 11:45 a.m.
Respectfully submitted – Dick Kratz

BLAIR TESTIN - The following information was obtained from the internet.

Blair L. Testin was born on March 5, 1930 in Minneapolis, Minnesota and died at the age of 70 on November 1, 2000 in Middleton Wisconsin.

Mr. Testin graduated from Washburn High School in Minneapolis in 1948 and earned a degree in business administration from the University of Minnesota.

He served in the U.S. Army in Germany from 1952 until 1954. He then worked as a general manager of a food service operation for Walgreen's in Minneapolis and from 1969 to 1973 he was the Assistant Executive Secretary to the Minnesota Legislative Retirement Study Commission.

From September 1973 until his retirement in June 1995 he was the Director of the Retirement Research Committee for the State of Wisconsin. Following his retirement he was a

consultant from October 1995 to December 1997 for the two legislative retirement committees he had served for 22 years. He also was involved with the Wisconsin Coalition of Annuitants and the Wisconsin Retired Educators' Association.

Mr. Testin was the first person in the country to obtain the designation of Certified Employee Benefits Specialist through the Wharton School of the University of Pennsylvania and was one of the first members of the International Society of Certified Employee Benefit Specialists. He was a former member of the Board of Directors of the Government Finance Officers Association, a member of the International Foundation of Employee Benefit Plans, the National Association of Government Deferred Compensation Administrators, the National Association of State Retirement Administrators and the National Council of Teacher Retirement. From 1996 until the time of his death he served on the Pension Roundtable of the National Retired Teachers Association and the Capital City Task Force of Wisconsin AARP. In Madison he was a member of Bethel Lutheran Church, Elks Lodge 410, and past Chairman of Oakwood Lutheran Homes.

He married his school mate, Pamela, on May 14, 1954 in Germany and they had four children and seven grandchildren.

The following from Jack Stoddard (2/11) and Sandy Drew (3/13)

Until his retirement, Blair Testin was a legislative staff person who staffed the Joint Survey Committee on Retirement Systems (JSCRS) and the Director of the Retirement Research Committee (RRC). The JSCRS is composed of an equal number of legislators from each house of the Legislature and represents both political parties. The JSCRS is responsible for reviewing all bills and amendments that deal with retirement systems and making a recommendation to the Legislature as to whether the bill or amendment is good public policy before Legislature takes action on the proposal.

The RRC was composed of legislators and public members and was responsible for reviewing any policy issues regarding retirement for Wisconsin's public employees. It was abolished in the early 2000s, and its duties, together with those of the JSCRS, were folded into the Legislative Council.

Blair Testin was probably the most knowledgeable authority on public retirement systems in the nation. He gathered information on over 80 public pension systems across the country and compiled the data for comparative purposes. His report was considered the "gold standard" by pension officials and policymakers. As a result, other public pension systems sought out his expertise.

During the late 1980s and into 1991, when the Coalition was struggling to find common ground and put together an organization to represent retirees within the Wisconsin Retirement System, Blair Testin was always available and extraordinarily helpful with his expertise and inside knowledge. Having ready access to a real insider gave the Coalition a view not only of what really existed but what was on track and what was likely be going on in the legislature with respect to the WRS. Even after his retirement Blair Testin was our confidant and advisor.

Because Blair was so very helpful, it was decided to present an annual award to an individual or to persons deemed exceptionally significant in the maintenance, operation or enhancement of the Wisconsin Retirement System

Recipient information I have is :

1998 - Jane Elmer

1999 -

2000 -

2001 - Eugene Lehrman

2002 -
2003 -
2004 - Tom Rausch
2005 - Matt Pommer
2006 - Eric Stanchfield
2007 - Dave Mills
2008 - William Ford
2009 - Carol & Ed Kehl
2010 - James Gruentzel
2011 - James Senty
2012 - Keith Bozarth & Dave Stella

I believe that Blair Testin also received the award or was given recognition at an Annual Conference, I'm guessing either 1999 or 2000.

2/11