Wisconsin Coalition of Annuitants

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Minutes of Meeting April 21, 2014

The meeting was held at the Wisconsin Education Association Council, Media Room, 33 Nob Hill, Madison and was called to order by Vice Chair Jerold Vreeland at 9:30 a.m.

DIRECTORS & ALTERNATES PRESENT: R. Beglinger, WFT-R; B. Davis, WFT-R; S. Drew, SWIB; B. Fendel, AFSCME; 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; D. Rohweder, ESP; W. Rowe, ACE; B. Schaefer, SEA; M. Turner, WARSDA; J. Vreeland, Wauwatosa; A. Wallace, UWRA.

GUESTS: R. Conlin, A. Fendel, T. Hunter, F. Nepple, C. Preisler, S. Sweet, C. Welch, R. Wojciak.

EXCUSED: D. Bennett, J. Egan, B. Holahan, J. Miller, J. Palmer.

MINUTES of the March meeting were approved as mailed.

GUEST: Tarna Hunter, Legislative Liaison, ETF.

Ms. Hunter provided a legislative handout listing all of the bills that were introduced in the 2013-14 legislative session. All the bills had previously been shared and discussed in past meetings. The legislature is now adjourned.

One bill passed, Act 191, allowing WRS employees to purchase years of creditable US armed forces service. There are several requirements for individuals to purchase credit.

The remaining bills will receive no action. It is anticipated that several will be re-introduced in the next session.

There were no actuarial studies required or requested.

GUEST: Robert Conlin, Secretary, ETF.

Mr. Conlin reminded us that the past few years when he attended WCOA meetings he was bringing us news of negative annuity adjustments. He is delighted to bring us positive adjustment news this year. The trust fund continues to be fully funded and continues to be one of the best systems in the nation.

Many of the charts/slides Mr. Conlin is sharing with us have been seen in the past; however, they now have a positive annuity adjustment component.

ANNUITY ADJUSTMENT - SWIB’s return for 2013 is 13.6% in the core fund with the annuity adjustment of 4.7% and return in the variable fund is 29% with an annuity adjustment of 25%. The adjustments will take affect May 1.

FUNDING RATIO - Mr. Conlin shared a chart from the actuarial report showing the adjustment process or the ratio of assets to liabilities. When there is a surplus in assets there is a positive adjustment to annuities. The ratio for the core fund is 1.047, $44.2 billion assets and $42.3 billion liabilities, and for the variable 1.251, $4.2 billion assets and $3.3 billion liabilities. This determines the annual adjustment.

CURRENT ANNUITY VALUE - Several examples of various years of retirement show the current value of annuities. Using a $1000 base in both funds and retirement in 1989 the value of the core is $2219 and the variable $2408. Retirement in ’94, core $1653 and variable $1755. Retirement in ’99, core $1237 and variable $1020. Retirement in ’04, core $1047 and variable $1207. Retirement in ’09, core $1047 and variable $1716.

In 1989 there were 3,257 annuitants who retired with an average annuity of $11,093. In 2008 their average annuity was just under $30,000. For the next five years their annuity dropped and with this year’s adjustment the average annuity is back to just under $25,000. Their annuity since retirement exceeds the CPI.

In 1994 there were 3,908 annuitants who retired with an average annuity of $12,531. With this year’s adjustment the annuity is just over $20,000 and slightly above CPI.

In 1999 there were 6,032 annuitants who retired with an average annuity of $15,181. Beginning in 2011 these annuitants lost ground to CPI and are now at about $18,000 per year.

In 2004 there were 7,337 annuitants who retired with an average annuity of $18,984. These annuitants also lost ground to CPI and with this year's adjustment are under $20,000.

In 2009 there were 7,990 annuitants who retired with an average annuity of $25,091. This year is the first year of receiving an adjustment and they also have lost ground to CPI.

DIVIDENDS - A new chart shows the core fund dividends that remain. In December 2008 there were $9.2 billion in dividends and for the next five year's the annuity/dividend loss totaled $6.2 billion to a balance of $3 billion in December 2013. As of December 2014 the dividends remaining are estimated to be $4.8 billion; $1.8 billion from 2013 earnings.

What is the ideal amount of remaining dividends? The 2008 pool represented about 25% of the dividends and the estimated 2014 $4.8 billion represents about 12% of the dividends. What is the optimal level of remaining dividends to ease any future reductions? This is an area that we have to watch since building up dividends is an important cushion for the future. With a large cushion we do not want to experience anything similar to the 1999 TAA/MRA legislation.

PROJECTIONS - There is a $4.7 billion MRA investment gain to be recognized in future years, with $1.2 billion in 2014, about half in the retirement reserve. Recognized in 2013 is 2009 which was a good year as a bounce back from 2008 with a gain of $1.288 billion; however, 2013 was the last year of smoothing 2009 gains. 2010 was a positive year, $399 million, but 2011 was flat and did not make the 7.2% resulting in an actuarial loss of $936 million. That 2011 loss has two year's remaining for smoothing. Gains to be recognized after the $1.2 billion in 2014 are $812 million in 2015, $1.7 billion in 2016 and $955 million in 2017.

Some projections for next year's annuity adjustment. With the system 7.2% investment return the annuity adjustment will be between 3.1% and 3.5%. If a 0% investment return the annuity adjustment will be between 1.7% and 2.1%. If we have a -11.7% investment return the annuity adjustment will be around negative 0.5%.

QUESTIONS - In response to a question Mr. Conlin indicated that staffing is adequate to handle the present workload. Additional positions have been obtained the past two years with total staff of approximately 260. Average vacancies are 13 to 15 positions. Technology and staff cross training has resulted in improved service and the establishment of priorities. The email notices have been useful for retirees. Retirement applications have shown a reduction from 2011.

A new building and location at the Hill Farms office complex is planned for 2017. ETF will share a state-owned building with several other state agencies.

The Affordable Care Act is going smoothly with one concern being the Cadillac tax which could be an issue in 2018-2019.

ETF cost, unlike SWIB, is strictly a budget of $40 million for the 260 employees and related expense. CEM indicates that ETF is a low-cost agency about $20 per member below peer averages.

The WCOA commended ETF on a job well done.

GUEST: Chris Preisler, Communications, SWIB.

Mr. Preisler provided the monthly preliminary Asset Allocation Summary and Performance Evaluation as of March 31, 2014. The core fund is 2.0% slightly below its benchmark of 2.1%. The variable fund is 1.5% also slightly below its benchmark of 1.6%. Core fund is $87.7 billion and the variable fund is $7.1 billion. Total funds under management $103.7 billion.

Copy of the press release on incentive compensation awards was provided. With a strong performance $2.65 billion was added to the trust funds. Compensation awarded was $13.3 million. Internal management also saved approximately $50 million. Talking points on SWIB compensation were previously emailed. If any of your members have questions on compensation please feel free to contact Mr. Preisler.

High-frequency trading has been a current topic and Mr. Preisler provided an article from Michael Lewis who wrote a book indicating "the US stock market is rigged in favor of high-speed electronic trading firm". SWIB is not a high-volume trader but is a long-term trader. Trades are all done with strict guidelines and using brokers watching the routing exchange. SWIB is aware of the high-frequency trading issue and monitors trading with several overviews.

CORRESPONDENCE: Director Beglinger was contacted by an individual who is working with Sen. Dave Hanson on a Private Sector Retirement System bill. The request was to present the bill at our annual conference, however, the agenda had already been set. Sen. Hanson apparently is willing to present his bill at one of our meetings.

<u>MSC</u> The WCOA will invite Sen. Hanson to share his bill at our 9/15/14 meeting.

OLD BUSINESS: Annual Conference - As of right now we have 62 registrations. Only two are individuals who have never attended previously. With declining attendance the past few years there was discussion on a future conference. Following completion of this year's conference the committee will revisit the value and need for future conferences and/or options.

NEW BUSINESS: None

TREASURER'S REPORT: Check book balance $8162.22.

NEXT MEETING: June 16, 2014 9:30 a.m., Wisconsin Education Association Council, Media Room, 33 Nob Hill, Madison, WI.
WCOA Annual Conference, Monday, May 19, 2014,
The meeting adjourned at 10:40 a.m.
Respectfully submitted – Dick Kratz