Wisconsin Coalition of Annuitants

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Minutes of Meeting March 17, 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 9:30 a.m.

DIRECTORS & ALTERNATES PRESENT:R. Beglinger, WFT-R, D. Chickering, WREA; S. Drew, SWIB; B. Fendel, AFSCME; W. Ford, ETF-B; E. Frank, DNR; J. Grosklaus, West Allis; R. Hoessel, DOT; B. Holahan, UWMRA; C. Howard, WEAC-R; A. Knop, WEAC-R; D. Kratz, CORR; J. Maydak, West Allis; J. Munro, WARSDA; D. Rohweder, ESP; B. Schaefer, SEA; J. Skiles, UW-R; M. Turner, WARSDA; J. Vreeland, Wauwatosa; A. Wallace, UWRA.

GUESTS: T. Hunter, F. Nepple, C. Preisler, J. Schmeiser, D. Schmidt, S. Sweet, M. Williamson, R. Wojciak .

EXCUSED: D. Bennett, B. Davis, J. Egan, B. Fendel, J. Miller, J. Palmer.

Due to human error the March meeting was not recorded.
Thanks to the presenters for their review.

MINUTES of the January meeting were approved as mailed. The February meeting was canceled due to a snow storm.

GUEST: Dan Schmidt, Senior Analyst, Legislative Council.

Since 1982, every two years the Wisconsin Legislative Council produces a Comparative Study of 87 major public employee retirement systems. This publication was prepared by Mr. Schmidt and is available at http://legis.wisconsin.gov/lc/publications/crs/2012_retirement.pdf.

There are six parts to the report describing comparisons of the 87 systems between 2010 and 2012. Each part also describes any two-year changes to the WRS, the emphasis for today's presentation.

Part I - Description of Retirement Systems in Report.

WRS had a total of 424,707 participants or an increase of 2,303 from 2010. In the two-year period active employees decreased 9,375, beneficiaries and annuitants increased 11,678. The ratio of active employees to retired employees is 1.54 and a reduction in two years from 1.74. The average for all the plans studied is 1.70.

Part II - Normal and Early Retirement Provisions.

Normal and early retirement provisions for the WRS have not changed.

Part III - Contribution Rates and Vesting Requirements.

WRS employees who began work on or after July 1, 2011 must have five years of accrued creditable service to be vested in the WRS. Beginning in 2012 employees were required to pay one half of the contribution rate which was 6.65%, with employers also paying 6.65%.

Part IV - Retirement Benefit Calculations.

The WRS is primarily a defined benefit plan. Retirement benefit calculations for the WRS have not changed. The multiplier for general employees is 1.6% which is lower than the 1.73% average multiplier for the plans in the report. Average salary continues to be based on the three highest years of income with annuities capped at 70% of the average.

Part V - Post-Retirement Annuity Increases and Taxes.

The WRS has two funds. The core fund is adjusted over a five-year smoothing period and the variable find is an annual adjustment. A positive or negative adjustment is based on investment returns. However, the core fund can never be adjusted below the retiree's initial benefit.

Social security is exempt from Wisconsin income taxes and $5,000 of retirement annuity is exempt with adjusted gross income of $15,000 or less ($30,000 for married joint filers) who are over 65.

Part VI - Actuarial and Accounting Information.

An actuarial method is a procedure for determining the present value of pension benefits that will be paid in the future and allocating that value in the cost of the benefits to specific time periods.

The actuarial method used by WRS is entry age. The interest assumption for 2012 was lowered to 7.2% from 7.8% and the economic spread is 3.2%. For 2012, the funding ratio for the WRS was 99.9%, which was significantly higher than the average funding ratio of 71.95% for all plans studied.

For additional and specific information on 87 public employee retirement systems, go to the report which contains a number of charts and graphs.

GUEST: Michael Williamson, Executive Director, SWIB.

Mr. Williamson introduced recently hired Jennifer Schmeiser as the Chief Human Resources Officer replacing Ledell Zellers who has retired.

Utilizing the handout that Mr. Williamson provided, the following information was shared.

2013 investment performance for year to date as well as five-year and 10 year returns all exceeded their benchmarks. The Core Fund for 2013 was 13.6%, five-year return 12.5%, and ten-year return 7.4%. The Variable Fund for 2013 was 29%, five-year return 17.7%, and ten-year return 7.6%. In addition to the Core Fund exceeding its benchmark of 12.9%, Public Equities, Public Fixed Income, Inflation Protection, Real Estate, and Private Equity all exceeded their benchmarks. Multi-Asset Strategies is the only asset class that did not beat its benchmark.

CEM Benchmarking is an independent provider of objective benchmarking information for public pension plans, and Callan Associates is a firm that provides research, education, decision support and advice to institutional investors. Both report SWIB as a low-cost pension fund manager that produces favorable returns when compared to peers. Performance exceeds long-term targets with a minimized investment risk and lower costs. SWIB’s lower investments in equities and higher investments in fixed income have performed well against peers in the last five years showing a favorable risk when compared to the rewards gained.

What does this mean for annuitants? Strong returns mean positive annuity adjustments. This year is the first positive adjustment in five years, and the smoothing of losses from 2008 is completed. We have had positive returns the past five years in the Core Fund and four of the last five years in the Variable Fund.

SWIB deals with the market with diversification. The Core Fund is designed to be less volatile. The differences in returns of the Core Fund and the Variable Fund can be explained by asset allocation. Market volatility can make single-year comparisons misleading. Funding status plays a key role, and assets needed for retirees are considered.

Managing risk has also changed in the last five years. Assets in stocks have been reduced from 56% in 2008 to 49% in 2013. Stocks make up 85% of the risk. Also, since 2008 inflation protection has been added with a reduction in fixed income, multi-asset, and private markets.

SWIB’s management costs continue to be lower than its peers. SWIB manages more assets internally and passively at a cost advantage and pays lower fees for external managers. Annual Core Fund costs are $36.6 million less than peers, and the five-year earnings are above market indexes by $2.6 billion of which $1.8 billion was due to internal management.

Staffing and compensation is a key ingredient for SWIB. Today is a very competitive financial environment, and the SWIB staff compensation is built on a pay-for-performance element. This week the board will be meeting and will utilize a compensation consultant comparing peer groups of banks, insurance companies, and in-house managed pension funds. Excluded will be east and west coast financial centers. The primary focus is on five-year results which have generated the $2.6 billion about market indexes.

Retirees will see an increase in their annuity May 1. This also is the end of the last year of smoothing the 2008 losses. SWIB will continue to implement strategies to stabilize the Core Fund returns, contribution rates, and pension adjustments. Beginning in 2009 the last five-year returns were 22.4%, 12.4%, 1.4%, 13.7%, and 2013 year 13.6%.

Mr. Williamson shared the following; The SWIB mission statement is “To be a trusted and skilled global investment firm contributing to strong financial futures for the beneficiaries of the funds entrusted to us.” The vision statement is “SWIB will be an innovative, agile, integrated organization that optimizes investment returns while managing risk and cost over the long-term.”

Strategic planning update. Direction and priorities have been set with priority areas identified with one-year objectives. Secondary strategic priorities are also identified . The 2014 strategic objectives are 1) Investment Strategy, 2) Operations and technology, 3) People and culture, and 4) Authority, decision-making and accountability.

Forecast for the future: overall economic outlook is positive, global growth will continue, inflation is expected to remain under control, housing sector will continue to improve, Euro area risks continue to be a concern, and China financials/credit concerns become critical.

Mr. Williamson closed by answering questions from the membership.

GUEST: Chris Preisler, Communications, SWIB

Mr. Preisler provided the asset allocation summary for February 28, 2014. Total assets under management are $104 billion with the Core Fund $87.5 billion. The Feb 28 return for the Core Fund is 1.5% meeting the benchmark and the Variable Fund is 1.0% with a benchmark of 1.1%.

Mr. Preisler provided a handout of an article about SWIB written by Keith Brainard of the National Association of State Retirement Administrators. The article emphasized a couple of areas. In performance look at the return received based on the amount of risk taken. The SWIB Core Fund is designed to be less volatile than others because participants share in the risk and rewards of the investment returns. Since 2008 SWIB has been reviewing and adjusting to stabilize risk and return. Domestic stocks have been decreased with an increase in fixed income. As a result the 2013 returns trail others; however, when the market turns SWIB funds will have less risk than others. It is important to look at five-year returns when comparing plans. For example CalPERS was higher than SWIB in 2013 returns, however, over the five-year returns SWIB was 12.1% and CalPERS was 9.9%.

The Governor has appointed David Stein to the SWIB. Mr. Stein is the Executive Vice President and Head of Retail Banking at Associated Bank-Core headquartered in Green Bay.

SWIB and the Wisconsin Alumni Research Foundation jointly established “4490 Ventures, LP” for early-stage investments in Wisconsin information technology companies. Greg Robinson began March 3 as the general partner. He has over 20 years of venture-capital experience and comes to Wisconsin from Redwood City, California. He co-founded Cogent Technologies which was acquired by BrightStar. It was stated that his background in investing, entrepreneurship, and understanding of technology make him the ideal candidate for this venture.
http://www.xconomy.com/wisconsin/2014/03/14/4490-ventures-head-brings-silicon-valley-experience-midwest-mindset/

GUEST: Tarna Hunter, Legislative Liaison, ETF

Ms. Hunter reviewed WRS-related legislation that has been proposed this session. She noted that one bill, 2013 SB 330, has passed the Senate and ETF is monitoring it as the session wraps up. 2013 SB 330 allows participating employees in the WRS to purchase years of creditable service for active service in the U.S. armed forces. Ms. Hunter also discussed 2013 SB 657 and 2013 AB 854, which make changes to the duty disability program under the WRS. The Wisconsin Legislature will soon be adjourning the 2013-14 floor period for regular business and will not return for regular business until January 2015, following the November elections. With only a couple days left until the close of the legislative session, it is unlikely that the other legislation impacting the WRS will be considered by the full legislature. Ms. Hunter will keep us posted.

LEGISLATIVE REPORT: Included in the above.

CORRESPONDENCE: None.

OLD BUSINESS: Annual Conference - Waiting for a response from a guest speaker for scheduling.

Blair Testin Award - Following suggested nominees the WCOA took the following action.
MSC The WCOA will recognize and honor Mel Sensenbrenner and Steve Werner as recipients of the 2014 Blair Testin award.

NEW BUSINESS: None.

TREASURER'S REPORT: Check book balance $7187.22.

NEXT MEETING: April 21, 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 11:20 a.m.
Respectfully submitted – Dick Kratz