

Wisconsin Coalition of Annuitants

www.wicoa.org

Minutes of Meeting November 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 at 9:32 a.m.

DIRECTORS & ALTERNATES PRESENT: R. Beglinger, WFT-R; D. Chickering, WREA; 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. Miller, DNR; J. Munro, WARSDA; D. Rohweder, ESP; W. Rowe, ACE; B. Schaefer, SEA; J. Vreeland, Wauwatosa.

GUESTS: A. Fendel, T. Hunter, C. Preisler, B. Willett, R. Wojciak.

EXCUSED: D. Bennett, B. Davis, J. Egan, B. Holahan, J. Palmer, J. Skiles, A Wallace.

MINUTES of the October meeting were approved as mailed.

GUEST: Tarna Hunter, Legislative Liaison, ETF.

The State elections are over and the Republicans have picked up a couple additional seats. Senator Fitzgerald will continue as majority leader and Senator Lazich will become Senate President replacing retiring Senator Ellis. Rep. Vos will continue as the Assembly speaker. With the co-chairs of the Joint Survey Committee on Retirement Systems (JSCRS) retiring, there will be several new members on the committee.

The ETF modernization project is on track and has been meeting its goals successfully. The data integrity project has experienced great success with data cleansing and migration. Vitech has noted that ETF has been proactive in ensuring that its data is clean before it goes in the new system, which will fare better for the implementation long term.

The It's Your Choice insurance window has concluded. We do not have numbers yet on how many members chose to participate in the high-deductible plan.

The Request for Proposal (RFP) for the new 600,000-square-foot state office building has been released, and proposals were due earlier this month. ETF will be one of the tenants.

GUEST: Bob Willett, Director, Office of Trust Finance and Data Analysis, ETF.

Mr. Willett provided a handout on the update of the ETF pension accounting standards implementation known as the Governmental Accounting Standards Board (GASB). (Note: a similar handout presented at the annual conference may be found at www.wicoa.org, tab minutes, tab May, tab 4th page/presentation by Bob Willett, GASB slides begin on page 23).

As a review the GASB is the non-governmental organization responsible for setting the generally accepted accounting principles used by state and local governments.

In 2012 GASB published two statements: statement number 67 Financial Reporting for Pension Plans to be effective for the WRS in 2014 (two years for implementation) and statement number 68 Accounting and Financial Reporting for Pensions effective for WRS employers in 2015 (an additional year for employers). Statement 67 will encompass all of the reporting that WRS conducts. This report will be made in the spring of 2015. Statement 68 provides the accounting standards for participants/employers in the WRS. This report is effective in 2015, and the report is due one year later in 2016.

The statements establish standards for public pension plan reporting and governmental employers to measure and report on expenses and liabilities. They do not establish standards for funding pension expenses or change how pension expenses are funded. They are not changing anything other than pension plan reporting. However, the presentation of pension reporting will be important for bond rating agencies.

The big change is accounting and funding have been decoupled. For many years accounting and funding was a combined report relying primarily on the accounting report. If you had a good accounting report, within broad guidelines, it was assumed the funding policy was appropriate. Employers must now present the Net Pension Liability on their balance sheets. The volatility and change in accounting reporting will have no effect on funding policy. Therefore, many plans are now establishing funding policies.

The calculating of the pension liability has changed and will be very volatile. Actuarial Cost Method or how liabilities are spread between time periods previously had five acceptable methods and now will have only one -- the entry age normal. For the WRS this will result in a fluctuation in the funding ratio. Asset valuation will no longer be smoothing of five years but will be the annual fair market value, again showing volatility. Amortization periods are also reduced from 13 - 14 years to 6 - 7 years resulting in gains or losses into the system quicker. Discount rate or how future liabilities are considered in present value will not affect WRS since we have assets to cover the long-term rate of return, however, if assets are not available then the plans must use the lower bond rate.

WRS has been using the new standards for the last three years. The assets have been growing and the liabilities have shown slower growth. Using the new standard in 2011 the WRS funding was 92.7 percent, in 2012 it was 100% and in 2013 it was 108.8%. In those three years we went from a \$5.8 billion deficit to a \$7.3 billion surplus. This is an example of the volatility that we can expect using annual market value and unsmoothed assets. Employer expense also fluctuated from \$1.6 billion to be paid in 2011 to a surplus or credit of \$500 million in 2013. These numbers are good for accounting but bad for funding.

There are several challenges in the implementation of the GASB requirements.

1) Allocation to Employers.

The WRS pension expense and net liability will be allocated to the 1500 employers participating in the WRS for inclusion in their financial reports. The WRS will use a three-year average of contributions paid in by the employers for allocation of the expense and net liabilities. We are a cost-sharing plan, and the employers have no ownership or responsibility other than paying their contribution.

Timing in providing the employers with the report from WRS is also a challenge since it takes about five months into the new year for WRS to finalize its reports. School districts operating on the fiscal school year will not have time to incorporate the WRS report. Therefore, the WRS will do a 'roll-forward' report. In early 2015 they will roll forward the 2013 report into the final of 2014, using some known adjustments. With completion of the modernization project it is anticipated the roll forward will not be needed.

Auditors for each of the 1500 employers will want to verify the information from the WRS. The WRS has hired the Legislative Audit Bureau (LAB) to audit the allocation for each of the employers prior to distribution, eliminating the need for each employer's auditor contacting the WRS. The LAB will hire an actuary to review the WRS process.

2) American Institute of Certified Public Accountants (AICPA) Audit Requirements.

The AICPA sets standards for auditors. With the GASB changes the AICPA has stated that the census data reported to the WRS by employers needs to be verified. It has been the WRS position that the 1500 employers' data provided is accurate and there was no need for follow up unless there was a problem. ETF is implementing a new employer compliance function to assure adequate information is reported. It will be a limited function and used also as a training tool. The LAB will also conduct on-site sampling of employer reports as part of their state auditing function. The top 15 WRS employers account for 99.4% of the WRS participants.

3) Communications.

The two different measurements of funding and accounting for pension liabilities are going to show volatility and result in misinterpretation by the public. Individuals and organizations will use

various numbers to suit their purposes. Accounting pension liability will be much more volatile than the funding liability. Also employers' fund balance will be directly affected by the pension liability and will be immediately visible to the public. Communications explaining the standards will be needed to educate the WRS employers and the public. In the next two weeks there will be information sent out to employers beginning to educate them on GASB. The implementation plan will be detailed along with initial data to begin the process. The communication challenge is being addressed by ETF and will be an ongoing challenge.

An example is that the state employees are about one third of the WRS. In June the state will issue its accounting report and will show an over funding of approximately \$2-\$3 billion (one third of the \$7.3 billion 2013 net) with the state annual contribution to the WRS around \$300 million. This negative pension expense shows the volatility of accounting as opposed to funding. The danger is that many will see this as a chance to withhold contributions or to look at the pension system as being overfunded. This scenario will be repeated not only with the WRS employers but throughout the nation. This is the volatility that will be realized on an annual basis before financial reporting and accounting reporting are balanced.

The LAB audit will fulfill the statutory five-year WRS audit and as an add-on there will be an audit to fulfill the GASB Statement 67. The audit will also provide data for WRS employers.

GUEST: Chris Preisler, Communications, SWIB.

A copy of the Asset Allocation Summary and Performance Evaluation was distributed. As of 10/31/14 the Core Trust Fund was up 5.7% with a benchmark of 5.6% and the Variable Trust Fund was up 6.3% with a benchmark of 6.6%. Assets under management are the Core \$89.2 billion and the Variable \$7.3 billion for a total of \$96.5 billion. Total assets managed are \$104 billion.

Staff - Jane Hamblen, Chief Legal Officer, will be retiring. Dev Desai has been hired as the Enterprise Risk Manager.

Last week was the Board Meeting and also a 1310 meeting with the Joint Finance Committee. SWIB did not make a presentation at the 1310 meeting; the committee simply accepted SWIB's reports. SWIB did have a presentation at the LAB meeting. LAB had two interest areas: one is investments in Wisconsin, and at the end of the year SWIB will be doing a report on Wisconsin Investments along with the explained process to invest locally. The second area of concern was that compensation was above the median level of peers. The reason compensation was above the average is that the audit compared 2012 peer compensation with 2013 actual compensation. LAB also questioned if the board was aware of the compensation plan. Chairperson Roberts informed the committee that the board was knowledgeable about the compensation plan and reviews all factors before decisions are made. In addition the board hires a consultant to review the final plan.

CORRESPONDENCE: None.

OLD BUSINESS: Annual Conference.

Sandy Drew has agreed to chair the annual conference committee. Committee members are Dwayne Rohweder, Ed Frank, Jerold Vreeland, Jean Grosklaus and John Maydak. Others are welcome to join the committee.

Mr. Preisler indicated that SWIB is willing to help us out in identifying and coordinating a presenter. There were a number of different ideas shared. The National Institute on Retirement Securities has potential speakers as well as numerous research articles on retirement (www.nirsonline.org).

The date for the Annual Conference will be Monday, May 18, 2015.

There was discussion on how to attract new organizations as well as present organizations increasing participation. It seems that recent retirees lack interest in retirement groups and are receiving their information from other sources.

NEW BUSINESS: None

TREASURER'S REPORT: Checkbook balance \$7417.16. The annual dues invoices will be mailed shortly. The dues will remain at \$50 annually.

Next Meeting: With the legislature not in session there was discussion on the value of conducting a December 15, 2014 meeting.

MSC The WCOA will not conduct a December 2014 meeting.

The third Monday in January is Martin Luther King Day and a state holiday. Following discussion the WCOA will conduct the January meeting on the second Monday, January 12, 2015.

NEXT MEETING: January 12, 2015, 9:30 a.m., Wisconsin Education Association Council, Media Room, 33 Nob Hill, Madison, WI.

WCOA Annual Conference, Monday, May 18, 2015

The meeting adjourned at 11:12 a.m.

Respectfully submitted – Dick Kratz.