

Wisconsin Coalition of Annuitants

www.wicoa.org

Minutes of Meeting October 19, 2015

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; D. Bennett, WREA; B. Fendel, AFSCME; E. Frank, DNR; P. Haubrich, UWMRA; R. Hoessel, DOT; C. Howard, WEAC-R; J. Miller, DNR; D. Rohweder, ESP; W. Rowe, ACE; B. Schaefer, SEA; J. Skiles, UW-R; T. Speranza, RPFfw; S. Sweet, BARTA; J. Vreeland, Wauwatosa; A. Wallace, UWRA; C. Welch, BARTA.

GUESTS: R. Boehnen, B. Brooks, R. Conlin, A. Fendel, J. Forester, D. Lueck, C. Preisler, P. Sickel, L. Wilkins, R. Wojciak.

EXCUSED: B. Davis, S. Drew, J. Egan, J. Grosklaus, R. Kratz, J. Maydak, J. Palmer.

MINUTES of the September meeting were approved as mailed.

GUEST: Chris Preisler, Communications Specialist, SWIB.

Preliminary returns as of September 30, core fund -2.4% and variable fund -6.2%. Assets under management \$84.5 billion in the core fund and \$6.4 billion in the variable fund. Total assets under management \$98.4 billion. In the last week the market appears to be going in a positive direction.

Last week the Board of Trustees held its annual two-day off-site workshop and heard from several consultants and staff members. Topics were; international multi-asset strategy, global economic and market update, downside risks and the role of the SWIB Board, asset allocation, hedge funds, global political and regulatory risk, and a discussion on environmental social governance.

For the first time there were three new board members attending the workshop. The Senate approved the governor's appointment of: Mark Doll, retiree with a 40 year career with Northwestern Mutual Life Insurance Company, Barbara Nick, President and CEO of Dairyland Power Cooperative based in LaCrosse, and Paul Stewart, with over 30 years of private equity investment and a co-founder of PS Capital Partners a private equity holding firm also teaches at UW Milwaukee.

David Villa, SWIB CIO, was once again honored by being listed #33 in the top 100 public investors. Mr. Villa is recognized as a leader in the public investment area.

How much equity is in the core fund? The core fund is 46% equity, 24% domestic and 22% global.

GUEST: Bob Conlin, Secretary, ETF.

Mr. Conlin reaffirmed Chris Preisler's comments on the Board of Trustees workshop. As a trustee, Mr. Conlin stated this was one of the better sessions. There was an emphasis on risk in investments. Mr. Conlin indicated that we do not want to be too conservative nor too risky in WRS investments.

Sec. Conlin addressed three bills currently in the Legislature. The first bill related to the Group Insurance Board and the other two bill were related to the WRS.

The co-chairs of the Joint Committee on Finance introduced the group insurance legislation that would require any changes made by the Group Insurance Board to the state group health insurance plans would have to be approved by the Joint Committee on Finance through a 21 day passive review process. ETF is concerned that the bill requires any change to the group health insurance plans be reviewed; including technical changes, contract language and administrative changes which includes changes made in negotiations between ETF and health plan participants. ETF's tiering of health plans also changes frequently because plan participants want to be in tier one to maintain their client base. The bill does not provide any time frame other than the 21 day passive review. If the Joint Committee on Finance has an objection there is no limit on how long before a hearing is conducted and if the legislature is not in session, it is not clear how an objection would be handled.

As noted at the JCF hearing, self-insurance is the primary concern for the legislature. The self-insurance model would provide uniform coverage regionally and state wide. There have been objections to the self-insured model, with support for the legislation by the individual health insurance plans and the Wisconsin Association of Health Plans. The ETF consultant will be issuing a report at the November GIB meeting. One of the items the report will address is self-insurance. ETF has been thinking of ways to use self-insurance to create networks that are more efficient and with more providers and quality in areas of the state that do not have the options of the Madison area.

AB 397 (SB 329) would increase the minimum retirement age under the WRS by two years. For a majority, 90% of the WRS, the age would increase from 55 to 57. The protective services category would see an increase from 50 to 52. The bill would first apply to those who are under the age of 40 at the time of the bill becoming law.

AB 398 (SB 328) changes the final earnings calculation under the WRS from the three highest years to the five highest years and would go into effect five years after the effective date of the bill. This may result in an increase in retirements before the five year window ends. ETF's position is to review benefit changes and their effect on the retirement system, along with maintaining the funding stream. In addition, ETF is concerned with legislation if it infringes on WRS participants rights.

The two bills do not raise an issue with ETF. However, the bills have raised the issue of whether age and earnings are vested benefits for participants.

The bills have limited legislative sponsorship. Both bills have been referred to standing committees. Senator Stroebel has indicated he would like an actuarial study of the bills. The co-chairs of JSCRS would need to request the studies.

When engaging with legislators, ETF emphasizes the WRS continues to be a fully funded system. Within the next 10 years about 50% of the active WRS participants will be retiring. With turnover and benefit changes for new employees there will be an impact on the system. Benefit changes could create another group of retirements.

Questions/comments:

Q. Regarding AB 397, what is the significance of age 40?

A. No specific reason has been mentioned.

Q. Does the increase in age address the baby boomers retirements?

A. That has not been mentioned as a reason. Early retirement was considered a benefit to employers who would hire replacements (younger employees) at less cost. Early retirements are a cost to the system and any change would shift the cost to employers.

There was a brief discussion on the unfunded liability of the State of Wisconsin that was resolved in 2003 by issuing bonds. Bonds had a much lower interest than the 7.2% the WRS was charging. There is some erroneous thought that the state bonds are an unfunded liability and the WRS is not fully funded. Before the bond purchase the WRS was 97% funded and after the bonding was 99% funded. ETF will continue to inform the legislators of the facts.

Average age of retirement is 61 and trending up. Very few take advantage of early retirement.

The trends around the country with other retirement systems show other systems increasing their minimum retirement age and the calculation for final average earnings. Any changes should apply to new employees for cost savings and to minimize lawsuits. Administratively, it will be easier to make changes with new employees rather than having two workforces.

Q. Would age 57 and 30 years employment change to age 59?

A. No. At an early retirement of 55 there is an actuarial discount where at age 57 and 30 years the discount is offset. There are ways of changing the actuarial discount without impacting the system. Comment: Is it about the dollars involved or the perception of early retirement.

Q. Are the bills going to the Joint Survey Committee on Retirement Systems?

A. Both bills are in standing committees and there has been mention of referral to the JSCRS. However, the committees could pass them out without referral to JSCRS.

Q. Do we have any idea why people are taking early retirement?

A. There appears to be many reasons, ETF does not have specific information.

Q. When did the highest earning years change from 3 to 5 years?

A. In 1981 WRS merger systems had either three or five years and the decision was to go with three. We do not know why this decision was made. Spiking of wages has been a reason stated for increasing the years used in the retirement (Final Average Earnings) calculation, even though the numbers of participants is small.

Any increase in number of years will result in a smaller benefit. This could result in more retiring under money purchase rather than the formula.

Q. The Group Insurance Board changes for 2016 came about very quickly and were not a cost savings but a cost shifting. What is happening with the 2017 health insurance changes?

A. Information for 2016 was made public and available in May 2015. At the November 2015 Group Insurance Board meeting, the GIB will receive a report from Segal Consultants that will look at potential changes for 2017. In comparison with neighboring states, Wisconsin's health plans were generous. Even with the cost shifting in 2016, Wisconsin will still be at the top of neighboring state health plans. Upon receiving the report, GIB will begin looking at changes for 2017 and beyond. A work group will be reviewing the report recommendations including ways to share costs other than with the individual plan participants.

Q. Dental insurance op-out requires more than just a phone call to ETF.

A. A paper trail is needed. A 2 page form completes the op-out. This is mainly for those who have independent dental insurance coverage.

Q. When will we have access to the information that ETF is sharing with legislators, do we wait until there are public hearings?

A. ETF is having conversations with people in the Capitol. The bills do not have many sponsors. At this point, ETF is not taking a position on the bills. If any of the WCOA organizations need information from ETF, it will be made available. Benefit changes are up to the Legislature.

Q. Is now the time for the WCOA to take a position?

We need to individually contact our representatives and also remain the vigilant.

Q. Are all the seats filled on the Joint Survey Committee on Retirement Systems?

A. Yes. The co-chairs are Sen. Lasee and Rep. Murphy. Others members include Sen. Marklein and Sen. Erpenbach, along with Rep. Kuglitsch and Rep. Mason. The remaining members are the Governors appointment of Timothy Peterson, Charlotte Gibson of the Attorney General's office, Ted Nickel Commissioner of Insurance and Bob Conlin Secretary of ETF.

There is no indication of any scheduled committee action on the two bells.

Mr. Conlin provided an issue brief from the National Association of State Retirement Administrators. <http://www.nasra.org/files/Issue%20Briefs/NASRACostsBrief.pdf>

The brief title is "State and Local Government Spending on Public Employee Retirement Systems". Nationally governments spend about 3.9% of their revenue on public pensions. Wisconsin spends 1.67%..

CORRESPONDENCE - The change by American Family for reserving a space for our annual conference does not appear to be a problem. We will once again consider the third Monday in May; however, if there is a better day of the week that American Family could assure us use the facility we will reconsider.

OLD BUSINESS - Since the present officers of WCOA have agreed to serve another term the motion was made that an unanimous ballot be cast.

MSC That the WCOA officers be reelected for another term; unanimous ballot cast.

NEW BUSINESS - Each of the WCOA organizations should register their opposition to the two WRS related bills.

Following discussion the following motion was made.

MSC The WCOA will write a letter to Senator Nass, Chair of the Senate Committee on Labor and Government Reform, requesting his committee ask for an actuarial analysis by the Joint Survey Committee on Retirement Systems.

TREASURER'S REPORT - None

NEXT MEETING: November 16, 2015 Wisconsin Education Association Council, Media Room, 33 Nob Hill, Madison, WI.

The meeting adjourned by 11:15 a.m.

Respectfully submitted – Dick Kratz

A special thanks to Jim Miller for taking the minutes and assisting the Secretary.