

Wisconsin Coalition of Annuitants

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Minutes of Meeting February 15, 2016

The meeting was held at the Wisconsin Education Association Council, Media Room, 33 Nob Hill, Madison, and was called to order by Chair Jim Palmer at 9:35 a.m.

DIRECTORS & ALTERNATES PRESENT: R. Beglinger, WFT-R; D. Bennett, WREA; B. Brooks, CWCR; S. Drew, SWIB; E. Frank, DNR; J. Groszklaus, West Allis; P. Haubrich, UWMRA; R. Hoessel, DOT; B. Holmes, ESP; A. Knop, WEAC-R; R. Kratz, DOC; J. Maydak, West Allis; J. Miller, DNR; G. Mitchell, UWRA; J. Munro, WARSDA; J. Palmer, WPPA; J. Pavlou, DOT; D. Rohweder, ESP/WREA; S. Sweet, BAREA; J. Vreeland, Wauwatosa; A. Wallace.

GUESTS: T. Hunter, C. Preisler, M. Williamson, L. Wilkens.

EXCUSED: B. Davis, J. Egan, B. Fendel, B. Schaefer.

MINUTES of the January meeting were approved as mailed.

GUEST: Michael Williamson, Executive Director, SWIB.

Mr. Williamson addressed the “troubling waters” that we are facing financially and the strategies that SWIB has been putting in place the past few years.

This year, 2016, started out to be a rough year, and it is predicted that it will continue to be a rough year. David Villa, CIO, at the end of 2012 and early 2013 indicated to Mr. Williamson that he was watching the issue of increasing use of triple CCC credit, which is the lowest that you can get and still borrow. Companies with poor credit need to borrow at triple CCC and pay high interest rates. Usually about three years after a spike in CCC interest there is a setback in the market. Gasoline is an example; years ago, a number of companies were established thinking that they were going to be able to generate a large profit. With the economy failing to grow, those businesses are now cutting back or defaulting. Three years from 2013 puts us to the present, 2016. SWIB expects and has been planning for volatile times.

Mr. Williamson provided a handout “Keeping the WRS on the Road to Success”. In 2008-2009 the core fund lost 26% and the stock market lost 40%. Retirees shared in that loss with dividend “take backs”, which is unique to the WRS. The number of defined benefit plans has been declining nationally with employers increasing contribution rates, reducing benefits or changing to a defined contribution plan, 401K’s. Our system is strong for three reasons: the design has employers and employees with a shared interest, employers have been fulfilling their contribution requirements, and we have had a good investment strategy resulting in good returns- - -. Good returns not only the last five years but the last 30 years. The WRS pension money is 75% from earnings with the remaining 25% from employer and employee contributions.

To reduce fund volatility, the goal is to stabilize the effects of returns on the WRS. With a slight reduction in performance during strong stock markets and better protection against weak markets, the impact on the system will be less in both. When the market is up, SWIB is up but not as high, and when the market is down, SWIB is down but not as much.

Reviewing the Core Fund and Asset Performance for 30 years from October 1985 through September 2015, a return of 5% is necessary to break even. The investment goal has been 7.8% most of those years with a recent reduction to 7.2%. For 30 years the core trust fund has been better than 9%, the Russell 3000 has been slightly over 10%, international stocks have been over 8%, treasury has paid 5.5%, and cash has paid below 4%.

During the 10 year period from October 1985 through September 1995, the core fund was at 12%, Russell 3000 was at 15%, international stocks were at 14%, and treasury was at 10% with cash at 6%.

The next 10 years from October 1995 through September 2005, the core was at 9%, the Russell 3000 just under 10%, international stocks just over 7.5%, treasury slightly above 6% and cash below 4%.

During the next 10 years from October 2005 through September 2015, the core fund was at 6%, the Russell 3000 was 7.2%, international stocks were below 5% and treasury was just above 4% with cash at 1%.

For the next five years SWIB projects to generate a return of 6% to 6.2%. In addition active management will generate additional return approaching a total of 7%.

With the most risk in stocks, the present stock investment is 49%. The stocks are equally split between US and world stocks. It is expected that international stocks will rebound.

The last slide is a policy benchmark- versus- reference portfolio. The policy benchmark is that established by the Trustees for each specific asset investment. A 60/40 portfolio over the last 20 years would have generated 5.8%. SWIB has generated 7.5%. The strategy is to diversify.

There are two types of return that SWIB looks for in investments. The Beta return is that earned through indexing or what the market returns. Alpha return is the return by active investment. None of the hedge funds is designed for Beta return, they all are designed for Alpha returns.

The variable fund is made up of 70% US stocks and 30% world stocks. Over a 20 year period the variable has returned 8% compared to the core 7.8%, and in a 30 year period the variable has returned 9.3% to the core 9.1%. However, the variable has considerable risk being all stocks.

In the last five years internal management has generated \$1.2 billion above market return, Alpha.

The investment strategy is in place and the system is sound.

Question/answer on compensation. During the five-year period of earning \$1.2 billion, the compensation was \$33 million. Compensation is based on performance of 15% for one year and 85% for five years.

GUEST: Chris Preisler, Communications Specialist, SWIB.

Mr. Preisler provided the monthly Asset Allocation Summary and Performance Evaluation report. As of January 31 the core trust fund was -2.7% with a benchmark of -2.8% and the variable and was -5.9% with a benchmark of -6%. To compare, the S&P was down -5% and the Russell 3000 was down at -5.6%. The core fund is \$82.9 billion and the variable \$6.2 billion for a total in the retirement funds of \$89.2 billion.

Total assets under management \$97.549 billion.

GUEST: Tarna Hunter, Legislative Liaison, ETF.

Ms Hunter provided a summary of legislation. There are only three bills that are expected to move forward and be signed.

SB134 / AB156 allows municipalities to participate in the WRS. Newly hired employees would be able to join and current employees would have a choice of participation.

AB678 / SB553 is remedial legislation proposed by ETF. It has been approved and should be signed by the Governor soon.

SB322 / AB460 makes changes to the claims against the state for wrongful imprisonment of innocent person's. One of the amendments is to provide five years of health insurance to those individuals through the group insurance board, GIB.

There was a question on how to contact GIB members. Letters may be addressed to the board members and sent to ETF. GIB will be making several recommendations this week. It is anticipated that GIB will recommend ETF to release four Request for Proposals, RFPs, to evaluate self-insurance, build a data warehouse/business Intelligence, wellness program, and a pharmacy benefit manager. No benefit changes in 2017 except for a wellness benefit carve out.

Legislative audits - December 2015 Wisconsin Retirement System Actuarial audit by Segal Consulting. Segal found that the assumption rate of 7.2% was correct and reasonable.

In January the LAB conducted an audit of ETF's financial reports and found nothing major but several areas related to GASB that ETF will be reviewing. LAB report indicates ETF is 100% funded and 102% funded under the new GASB procedure.

CORRESPONDENCE - None

OLD BUSINESS - None

NEW BUSINESS - Friday, May 13, is the date for our Annual Conference at American Family. Sandy has been lining up presenters and has three of the four confirmed.

TREASURER'S REPORT - Check book balance \$8,205.47. Treasurers report approved as presented

American Family will not be increasing their catering cost to us. The registration fee will remain the same as last year \$25.

We have all 22 member organizations paid.

NEXT MEETING: 9:30 a.m., March 21, 2016 Wisconsin Education Association Council, Media Room, 33 Nob Hill, Madison, WI.

Annual Conference Friday, May 13, 2016.

The meeting adjourned by 10:50 a.m.

Respectfully submitted – Dick Kratz