

**MINUTES OF MEETING**  
**STATE OF WISCONSIN**  
**EMPLOYEE TRUST FUNDS BOARD**

**Friday, December 16, 2005**

**Sheraton Madison Hotel**  
**706 John Nolen Drive**  
**Madison, Wisconsin**

**BOARD PRESENT:**

Marilyn Wigdahl, Chair  
John Brown  
Theron Fisher  
Rick Gale  
Kathleen Kreul  
Wayne McCaffery  
Robert Niendorf, Secretary  
Paul Ostrowski (*representing Karen Timberlake*)  
Gary Sherman  
Nancy Thompson  
Cynthia Van Bogaert

**BOARD NOT PRESENT:**

Wayne Koessl, Vice-Chair  
Irena Macek

**PARTICIPATING ETF STAFF:**

Eric Stanchfield, Secretary  
Dave Stella, Deputy Secretary  
Sari King, Administrator, Division of Retirement Services  
Jon Kranz, Director, Office of Budget and Deferred Compensation  
Robert Weber, Chief Legal Counsel  
Bob Willett, Controller, Division of Trust Finance and Employer Services  
Linda Esser, Board Liaison

**OTHERS PRESENT:**

Rhonda Dunn, Executive Assistant  
Charlotte Gibson, Department of Justice  
Jean Gilding, Deputy Administrator, Division of Retirement Services  
Gail Hanson, State of Wisconsin Investment Board  
Pam Henning, Administrator, Division of Management Services  
Audrey Koehn, Division of Retirement Services  
Tom Korpady, Administrator, Division of Insurance Services  
Helen Malzacher, Internal Audit  
Linda Owen, Policy Analyst, Division of Retirement Services  
Vicki Poole, Director, Legislative, Communications and Planning  
Jill Thomas, Office of State Employment Relations  
John Vincent, Administrator, Division of Trust Finance and Employer Services  
Sharon Walk, Board Liaison

Marilyn Wigdahl, Chair, Employee Trust Funds Board (Board), called the meeting to order at 8:35 a.m.

## CONSIDERATION OF PREVIOUS MEETING MINUTES

***Motion: Mr. Gale moved approval of the open and closed session minutes of the September 23, 2005, meeting. Ms. Thompson seconded the motion, which passed without objection on a voice vote.***

## MISCELLANEOUS

**Actuarial Audit/Market Recognition Account** Mr. Stella advised the Board that the Legislative Audit Bureau has retained Milliman as the firm that will conduct the five-year actuarial audit. The audit will begin in January 2006, with an anticipated completion date of June 2006. He noted that an assessment of the structure and use of the Market Recognition Account (MRA) will be included in the audit and the findings will be communicated to the Board. Mr. Stella and Mr. Willett also shared some history as it relates to the transition from the previous smoothing device (Transaction Amortization Account) to the MRA, which is a common smoothing device used by retirement systems across the country. They explained the modeling that was done prior to and after implementation of the MRA to assess the potential implications for the Wisconsin Retirement System and also responded to various questions. Staff also responded to issues raised in memos authored by the prior internal auditor regarding this item.

**Coutts/DesJarlais Supreme Court Decision** Mr. Stella updated the Board on the status of the implementation of the Coutts/DesJarlais Supreme Court decision. He noted that several more recent court cases have been decided consistent with the Department's interpretation of the decision and that there are still six pending cases. He also explained that once the pending cases are decided, the Department would assess its implementation of the court's decision and address the remaining accounts. Staff also responded to issues raised in memos authored by the prior internal auditor regarding this item.

**Experience Amortization Reserve** Mr. Stella covered the history of the Experience Amortization Reserve (EAR) which has been in place since the mid-1980's. He noted that it is a smoothing device designed to stabilize contribution rates and is a separate methodology from the MRA. Mr. Stella indicated that the actuary may make recommendations to the Department for consideration in order to enhance the overall operation of the EAR. He discussed the EAR policy that was recently developed by the actuary and shared with the Board for informational purposes. Discussion about the EAR commenced and Mr. Stella responded to questions from the Board.

**Annuity System File Maintenance Audit** Ms. King referred to the annuity system file maintenance audit report included in the Board packet. She pointed out that the majority of file maintenance processing follows the internal control standards with a high level of accuracy (98 to 99%). She noted that any errors found were immaterial. She also indicated that the new benefit payment system would be audited, after the Department transitions from the current annuity system.

**Wisconsin Deferred Compensation Program Contract Update** Mr. Stella provided an overview of the transition from the previous vendor (Nationwide Retirement Solutions) to Great-West Retirement

Services, effective December 1, 2005. He indicated the initial contract term is three years with the possibility of two one-year extensions. The new contract provides significant savings for the program.

**Workforce Planning Objectives** Mr. Stella advised the Board that the Office of State Employment Relations has directed all state agencies to submit workforce plans by April 1, 2006. He indicated that every agency has received information regarding the status of each individual employee (age, length of service, retirement eligibility). From that information, the agency will develop its own workforce plan.

**Biennial Objectives Report** Mr. Stella referred to the 2005-2007 Biennial Objectives Report attached to a memo dated November 29, 2005 from Secretary Stanchfield. He indicated that the first bullet under the *Benefits* heading will be revised to clarify that one of the Department's goals is to seek statutory changes to maximize service levels and the cost effectiveness of current benefits.

## **REQUEST FOR PROPOSAL (RFP) PROCESS**

Mr. Kranz briefly described the purchasing processes that the Department uses to recommend contractors to the Board for administering certain programs. He described the two major paths used for procurement: Request for Bids (RFB) and Request for Proposals (RFP). When the RFB process is used, the Department enters into contract negotiations with the qualified vendor bidding the lowest cost. The RFP process allows the Department to select a vendor based on various factors, including cost. These factors include, but are not limited to, vendor experience, enhanced services, transition-related expenses, and service levels. A short discussion followed.

*The Board took a break at 9:50 a.m. and reconvened at 10:00 a.m. Ms. Thompson departed from the meeting after the break.*

## **SECRETARY'S CORRECTION OF ERROR REPORT**

Mr. Stella advised the Board that the Department had exercised correction of error authority in a case referred to in Shelly Schueller's memo to the Board dated December 1, 2005. The Department's error was a delay in stopping payments to the participant after having received a Qualified Domestic Relations Order.

## **CONSULTATION WITH LEGAL COUNSEL**

Mr. Weber briefed the Board of the status of the *Buss, et al. v. DETF, et al.*, Case No. 04-CV-0127 (Dane County), a class action case regarding interest on lump sum benefits. He also advised the Board on the *Helgeland, et al. v. DETF, et al.*, Case No. 2005-CV-1265 (Dane County) brought by state employees and their same-sex partners who are seeking "dependent" or "spouse" status under the group health insurance, sick leave conversion credit and family leave benefit programs.

## **OPERATIONAL FLEXIBILITY**

Secretary Stanchfield referred to his December 16, 2005 memo to the Board related to operational flexibility. He highlighted the various options to enhance the Board's ability to carry out its fiduciary duty and the Department's ability to better serve participants, employers, and other customers. He suggested that the Department initially seek appropriate resources and changes through the existing biennial budget process (2007-2009 request is due in the State Budget Office in September 2006.) Secretary Stanchfield also noted that it would be important for the Department and the Board to seek "champions" in the legislature, State Budget Office, legislative service agencies and the Governor's Office to promote needed changes in order to be successful. The Board discussed the issue and asked the Department to provide additional information at the March meeting. Information requested included the types of flexibility and authority that exist in other state retirement systems, a comparison of the Uniform Code to Wisconsin law, and budget themes that will focus on the desired changes, included estimated staffing needs/costs.

### **MOTION TO CONVENE IN CLOSED SESSION**

Ms. Wigdahl announced that the Board would convene in closed session, pursuant to the exemptions contained in Wis. Stat. 19.85 (1) (a), (e), and (g) for the purposes of quasi-judicial deliberations, to discuss use of public funds, and to confer with legal counsel. Attorney Charlotte Gibson, Ms. Esser, Ms. Walk, and Jill Thomas, Office of State Employment Relations, were invited to remain during the closed session.

***Motion: Mr. McCaffery moved to convene in closed session. Mr. Brown seconded the motion, which passed on a roll call vote.***

***Members voting aye: Brown, Fisher, Gale, Kreul, McCaffery, Niendorf, Ostrowski (Timberlake), Sherman, Van Bogaert, Wigdahl***

***Members voting nay: none***

The Board convened in closed session at 10:45 a.m. and reconvened in open session at 12:05 p.m. Ms. Van Bogaert recused herself from deliberations on Appeals 2004-053-ETF and 2004-009-ETF and left the meeting at 11:06 a.m.

### **ANNOUNCEMENT OF ACTION TAKEN ON BUSINESS DELIBERATED DURING CLOSED SESSION**

- ***Appeals 2004-054-ETF The Board held over this appeal to be reconsidered at the March 2006 meeting.***
- ***Appeal 2004-053-ETF The Board remanded this appeal to ETF to explain the policy for interest and grace period and its interpretation of voluntary repayment.***
- ***Appeal 2004-009-ETF The Board adopted the hearing examiner's proposed decision with modifications as discussed.***

**ADJOURNMENT**

***Motion: Mr. Niendorf moved adjournment. Mr. Brown seconded the motion, which passed without objection on a voice vote.***

The meeting of the Board adjourned at 12:08 p.m.

Date Approved: \_\_\_\_\_

Signed: \_\_\_\_\_

Robert Niendorf, Secretary  
Employee Trust Funds Board