

MINUTES OF MEETING
STATE OF WISCONSIN
EMPLOYEE TRUST FUNDS BOARD

Friday, September 22, 2006

Sheraton Madison Hotel
706 John Nolen Drive
Madison, Wisconsin

DRAFT

BOARD PRESENT:

Marilyn Wigdahl, Chair
John Brown
Rosemary Finora
Theron Fisher
Rick Gale
Wayne Koessler, Vice-Chair
Kathleen Kreul
Irena Macek
Wayne McCaffery
Robert Niendorf, Secretary
Gary Sherman
Nancy Thompson
Karen Timberlake

BOARD NOT PRESENT:

None

PARTICIPATING ETF STAFF:

Eric Stanchfield, Secretary
Dave Stella, Deputy Secretary
Sari King, Administrator, Division of Retirement Services
Tom Korpady, Administrator, Division of Insurance Services
Jon Kranz, Director, Office of Internal Audit and Budget
Linda Esser, Board Liaison

OTHERS PRESENT:

Mark Buis, Gabriel, Roeder, Smith and Company
Bob Conlin, Office of the Secretary
Rhonda Dunn, Office of the Secretary
Charlotte Gibson, Department of Justice
Jean Gilding, Division of Retirement Services
Pam Henning, Division of Management Services
Nancy Ketterhagen, Legislation, Communications and Planning
Audrey Koehn, Division of Retirement Services
Helen Malzacher, Office of Internal Audit and Budget
Paul Ostrowski, Office of State Employment Relations
Linda Owen, Division of Retirement Services
Diane Poole, Division of Retirement Services
Debra Roemer, Division of Insurance Services
Mel Sensenbrenner, State Engineering Association
Jill Thomas, Office of State Employment Relations

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John Vincent, Division of Trust Finance and
Employer Services
Sharon Walk, Office of the Secretary
Robert Weber, Legal Services
David Wiltgen, Teachers Retirement Board

Marilyn Wigdahl, Chair, called the meeting of the Employee Trust Funds Board (Board) to order at 8:32 a.m.

CONSIDERATION OF MINUTES OF PREVIOUS MEETING

Motion: Ms. Thompson moved approval of the open and closed session minutes of the June 23, 2006, meeting as submitted by the Board Liaison. Mr. Brown seconded the motion, which passed without objection on a voice vote.

ANNOUNCEMENT

Introduction of New Employee Trust Funds Board Member Mr. Stella introduced the newly appointed Employee Trust Funds Board member, Rosemary Finora. Ms. Finora was appointed by Governor Doyle effective August 8, 2006. She fills the seat of a public member who is not a participant in or a beneficiary of the Wisconsin Retirement System (WRS), and has at least five years of experience in actuarial analysis, administration of an employee benefit plan or significant administrative responsibility in a major insurer. She is currently the vice president, assistant general counsel, and corporate compliance officer at APS Healthcare in Brookfield, Wisconsin. The Board welcomed Ms. Finora.

LONG-TERM DISABILITY INSURANCE (LTDI) ANNUAL VALUATION

Mr. Korpady noted that no Board action on this item is required. It is the Group Insurance Board's (GIB) responsibility to approve the recommendation in this valuation and it did so at the last meeting (August 29, 2006).

Mr. Korpady summarized the report, Long-Term Disability Insurance Plan 2007 Premium Development as of December 31, 2005. He mentioned that the LTDI program was made necessary by a change in federal law that ruled the 40.63 disability program was discriminatory based on age. The LTDI program was developed and takes age out of the formula.

The LTDI program is well funded and, based on the actuary's calculations, the premium holiday will be maintained for the foreseeable future. The GIB approved the continuation of the premium holiday.

Mr. Korpady noted that, during the August 29, 2006 GIB meeting, the actuary discussed the LTDI open election option that currently exists for employees hired before October 16, 1992. Employees hired prior to this date have the option to elect coverage under LTDI or the WRS disability benefit. The actuary recommends that those individuals eligible for the extended election

be identified and that the potential impact of their future elections be calculated. This information will allow the GIB to determine when the election period may need to be closed and when a premium may need to be reinstated. The GIB approved the recommended study.

GROUP INSURANCE BOARD UPDATE

Mr. Korpady further updated the Board on the Group Insurance Board's August 29, 2006, meeting. He advised the Board that health insurance premium increases were held to single digits, with no decrease in benefits, for a third year in succession. The new Security Health Plan covers the central area of the state where previously only State Maintenance Plan (SMP) and the standard plan were offered. The prescription drug benefit program continues to perform well.

Mr. Korpady reported the following. There will be no rate increase for the local government health insurance program. The Standard Plan rate will increase by 5.5%. The State Maintenance Plan (SMP) rate will increase by 3.2%. The Medicare + \$1,000,000 Plan rate will decrease by 5%. This is the third consecutive year that the Medicare + \$1,000,000 Plan has had a premium rate decrease.

Mr. Korpady noted that the GIB approved the actuarial recommendation for the local government group life insurance plan and there will be no premium rate change for the employee life portion for the 2007 policy year. For the spouse and dependent portion of the local plan, GIB approved the recommended rate reduction from \$2.00 to \$1.75 for each unit of insurance. Other premiums will remain the same.

Mr. Korpady mentioned the optional long-term care insurance. The current policy is being removed from the market and will no longer be sold. He stated that new applicants will have a slightly different policy. Those already insured will continue to have the current policy.

The GIB approved a change in the Income Continuation Insurance Program. The change will base the calculation of benefits on the previous year's income. This reflects a change in the way the benefits and the premium are calculated.

Ms. Timberlake, on behalf of the GIB, commended the good work that Tom Korpady, Eric Stanchfield, Dave Stella, and their team have done, particularly over the difficult last few years, with changes to the state budget and the healthcare economy. The program is not just surviving but is thriving and making progress under their direction.

GAIN/LOSS ANALYSIS OF EXPERIENCE AMONG ACTIVE MEMBERS DURING CALENDAR YEAR 2005

Mark Buis of Gabriel, Roeder, Smith and Company (GRS), reviewed the report, *Gain/Loss Analysis of Experience Among Active Members During Calendar Year 2005*. He stated that the objective of a gain and loss analysis is to determine the portion of the change in contribution rates that is attributable to each risk area. One year's gain and loss analysis may or may not be indicative of long-term trends. In the WRS, longer term trends are reviewed in connection with the regular three-year investigation of experience. It is the results of the three-year investigation that

lead to recommendations for changes in actuarial assumptions. The three-year experience study will be presented to the Board in December 2006.

Mr. Buis clarified that this analysis compares the actuarial assumption with actual gains and losses during calendar year 2005. He stated that, in individual years there may be moderate fluctuations in actual experience, but that, over the long-term, gains and losses should balance out.

Mr. Buis noted that investment returns have been good each of the last three years. However, losses sustained in 2001 and 2002 are still affecting overall investment earnings. This is due to the five-year smoothing mechanism that is in place.

In total, the plan experienced a net loss of \$141.6 million. Losses due to unfavorable investment performance and actual reserve transfers being greater than expected were partially offset by gains associated with lower than expected pay increases. Based on this analysis, the actuaries recommend a 0.2% increase in the contribution rate.

Motion: Mr. Brown moved to accept the actuary's report. Ms. Kreul seconded the motion, which passed without objection on a voice vote.

BUDGET UPDATE

Mr. Stanchfield noted that the Board has had previous discussions regarding the inadequacy of the budget and the lack of administrative flexibility in meeting our resource needs. As a result of those discussions, he felt it was the sense of the Board that we approach this concern in a two-fold manner. First, to establish the number of additional staff members necessary to provide a basic level of service to participants and request them in the 2007-2009 budget. Second, to also try to get flexibility in position authority, expenditure authority, contracting and compensation in order to meet future needs. He stated that the administration of the trust funds are at a critical juncture. The anticipated workload growth due to the retirement of the "baby boom" generation is upon us. The actuary has indicated this surge of activity is expected to continue for twenty years.

Mr. Kranz summarized the Fiscal Year 2007-2009 biennial budget request. He referred to his memo to the Board dated September 21, 2006. He described the budget initiatives: continuation of critical customer service functions; governing board operational flexibility; continuation of core processes reengineering; request for a manager of Medicare Part D; value-based health care purchasing initiatives; and, ombudsperson services. This budget request includes 59.5 additional full-time equivalent positions, a total of \$32,923,300 for FY 2008; and, \$28,211,900 for FY 2009.

Mr. Conlin added that we have been working closely with budget analysts at the Department of Administration to let them know about our programs and our resource needs. He emphasized that this will be an educational endeavor that will include active members, annuitant groups and legislators to make them aware of these critical needs.

Motion: Mr. Gale moved to prepare a letter from the Board to the legislature in support of the needed resources in the budget of the Department of Employee Trust Funds. Mr. Koessl seconded the motion which passed without objection on a voice vote.

NOTE: Mr. Sherman abstained from the vote.

MISCELLANEOUS

Call for Nominations Ms. King announced that there are two seats open on the Board beginning May 1, 2007. The Department will conduct two separate elections, one for a WRS annuitant and one for an educational support personnel employee. Nomination packets will be available on October 1, 2006.

Retirement Statistics Summary Report Ms. King referred to the June - August 2006 quarterly report on recent retirement benefit annuity applications approved and terminated by the Boards. The Department is processing record high numbers of requests for estimates. The Department is also seeing its employees retire and are hiring and training new staff. Priorities have been placed on preparation of retirement estimates and death notification processing. She noted that some annuitants begin their retirement receiving an estimated annuity amount that is finalized at a later date.

Ms. King mentioned the MediaSite presentation, *How to Complete a Retirement Application*, is now available on the Department's website. Compact discs of the presentation are also available upon request.

Ms. King provided some statistical information on separations. Some of the items of interest are: the youngest person to receive a separation benefit was 18 years old; the lowest years of service was .01 years; the lowest payment made was \$10.28; and, the highest payment made was over \$201,000.00. Ms. King noted that the oldest WRS annuitant is now 111 years old.

The top option selected continues to be "100% continued to named survivor with 180 payments guaranteed." The calculation type that yielded the higher annuity has changed this quarter. The formula option yielded the higher annuity during this three month period.

Correspondence from State and County Highway Department Employees' Association

Ms. King referred members to the letter from a member of the State and County Highway Department Employees' Association (SCHDEA). The SCHDEA is seeking to have state and county highway workers classified as protective occupation participants under the WRS. Ms. King noted that this would require a legislative change.

Internal Audit Report / Member Account Analysis 2001-2002 Ms. King indicated that the Office of Internal Audit and Budget has completed a review of 2001-2002 Statement of Benefits data for all accounts. This audit period includes the 1999 Wisconsin Act 11 computations for reopening the Variable Trust Fund to new enrollments as of January 1, 2001. Sampled data appears accurate and is the result of authorized transaction processing.

PERSONNEL MATTERS

Mr. Stanchfield stated that there were no personnel matters to be discussed. This item was removed from the agenda.

The Board took a break from 9:45 to 9:58 a.m.

CONSULTATION WITH LEGAL COUNSEL

Attorney Gibson provided a report on the status of Case No. 06-CV-2834 and Case No. 05-CV-2889. The appellants sought judicial review of the decision the Board made in June 2006. The briefing schedule has not been set at this time. Attorney Gibson will continue to update the Board on the status of this case.

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) for quasi-judicial deliberations. Attorney Charlotte Gibson, Ms. Esser and Ms. Walk were invited to remain during the closed session.

Motion: Ms. Thompson moved to convene in closed session, pursuant to the exemptions contained in Wis. Stat. § 19.85 (1) (a) for quasi-judicial deliberations. Mr. Brown seconded the motion, which passed on a roll call vote.

Members voting aye: J. Brown, R. Finora, T. Fisher, R. Gale, W. Koessl, K. Kreul, I. Macek, W. McCaffery, R. Niendorf, G. Sherman, N. Thompson, K. Timberlake, M. Wigdahl

Members voting nay: none

The Employee Trust Funds Board convened in closed session at 10:02 a.m. and reconvened in open session at 10:22 a.m.

ANNOUNCEMENT OF ACTION TAKEN ON BUSINESS DELIBERATED DURING CLOSED SESSION

Ms. Wigdahl announced that the Board took the following actions during the closed session:

APPEALS

- **Appeal 2005-044-ETF**, the Board adopted the hearing examiner's proposed decision, with modifications as discussed.
- **Appeal 2005-060-ETF**, the Board adopted the hearing examiner's proposed decision, with modifications as discussed.

ADJOURNMENT

Motion: Mr. Fisher moved adjournment. Ms. Thompson seconded the motion, which passed without objection on a voice vote.

The meeting of the Employee Trust Funds Board adjourned at 10:23 a.m.

Date Approved: _____

Signed: _____

Robert Niendorf, Secretary
Employee Trust Funds Board