

**MINUTES OF MEETING**

**DRAFT**

**STATE OF WISCONSIN  
JOINT INFORMATIONAL MEETING  
TEACHERS RETIREMENT, WISCONSIN RETIREMENT,  
AND EMPLOYEE TRUST FUNDS BOARDS**

**Thursday, March 15, 2007**

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

**BOARD PRESENT:**

Ted Bratanow, TR Board  
John Brown, ETF Board  
John David, WR Board  
Rosemary Finora, ETF Board  
Rick Gale, Secretary, WR Board and ETF Board  
Len Herricks, TR Board  
Wayne Koessl, Vice Chair, WR Board and Vice Chair,  
ETF Board  
Kathy Kreul, ETF Board  
Mike Langyel, TR Board  
Irena Macek, ETF Board  
Dennis McBride, WR Board  
Wayne McCaffery, Chair, TR Board and ETF Board  
Lon Mishler, Vice-Chair, TR Board  
Dan Nerad, TR Board  
Robert Niendorf, Secretary, ETF Board  
Paul Ostrowski (for Karen Timberlake), ETF Board  
Dennis Panicucci, TR Board  
Patrick Phair, TR Board  
Roberta Rasmus, TR Board  
Robert Shaw, TR Board  
Gary Sherman, ETF Board  
Robin Starck, TR Board  
Herbert Stinski, WR Board  
Nancy Thompson, ETF Board  
Mary VonRuden, WR Board  
David Wiltgen, Secretary, TR Board

**BOARD NOT PRESENT:**

Sean Dilweg, WR Board  
Theron Fisher, ETF Board  
Nan Kottke, WR Board  
Tom Pedersen, TR Board  
Marilyn Wigdahl, Chair, WR Board and Chair, ETF Board

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**PARTICIPATING ETF STAFF:**

Eric Stanchfield, Secretary  
Dave Stella, Deputy Secretary  
Sari King, Administrator, Division of Retirement Services  
Bob Conlin, Director, Legislation, Communications and  
Planning  
Jon Kranz, Director, Office of Internal Audit and Budget  
Bob Willett, Controller, Division of Trust Finance and Employer  
Services  
Linda Esser, Board Liaison

**OTHERS PRESENT:**

Jackie Doeler, State of Wisconsin Investment Board  
Sandy Drew, State of Wisconsin Investment Board  
Rhonda Dunn, Office of the Secretary  
William Ford, Legislative Council  
Jean Gilding, Division of Retirement Services  
Jane Hamblen, State of Wisconsin Investment Board  
Gail Hanson, State of Wisconsin Investment Board  
Pam Henning, Division of Management Services  
Ken Johnson, State of Wisconsin Investment Board  
Norm Jones, Gabriel, Roeder, Smith and Company  
Ed Kehl, Wisconsin Coalition of Annuitants  
Nancy Ketterhagen, Office of the Secretary  
Audrey Koehn, Division of Retirement Services  
Dave Mills, State of Wisconsin Investment Board  
Brian Murphy, Gabriel, Roeder, Smith and Company  
Linda Owen, Division of Retirement Services  
Mel Sensenbrenner, State Engineering Association  
John Vincent, Division of Trust Finance and Employer Services  
Sharon Walk, Office of the Secretary

Wayne McCaffery, Chair, Teachers Retirement Board, called the meeting to order at 9:40 a.m.

**CONSIDERATION OF MINUTES OF PREVIOUS MEETING**

***Motion: Ms. Thompson moved approval of the minutes of the December 14, 2006, meeting as submitted by the Board Liaison. Mr. Koessel seconded the motion, which passed without objection on a voice vote.***

**ANNOUNCEMENTS**

**Update on Marilyn Wigdahl** Mr. Stanchfield mentioned that Marilyn Wigdahl, Chair of the Employee Trust Funds (ETF) Board and the Wisconsin Retirement (WR) Board, underwent emergency surgery this past week. She is doing well and extends her apologies for not attending the meeting. Mr. Stanchfield's recollection is that, in twenty years, she has never missed a

meeting. Mr. Koessel asked that a plant be sent to Marilyn on behalf of the Boards and Mr. Stanchfield indicated he would take care of this. Mr. Koessel also wished Mr. Stanchfield well in his upcoming surgery.

**Update on Hiring of State of Wisconsin Investment Board (SWIB) Executive Director**

Mr. Stanchfield mentioned that Dave Mills, Executive Director of SWIB, has announced his retirement. SWIB has hired a national search company to assist in the hiring of a new executive director.

**Changes to Board Membership** Mr. Stella advised the Boards of several membership changes. The new member on the WR Board, representing the Office of the Commissioner of Insurance, is Sean Dilweg. He replaces Jorge Gomez. Karen Timberlake will no longer be on the ETF Board. She has left the Office of State Employment Relations and joined the Department of Health and Family Services as the Executive Assistant.

Mr. Stanchfield presented outgoing Teachers Retirement (TR) Board member Ted Bratanow with a certificate of commendation. Mr. Stanchfield thanked Mr. Bratanow for his twenty years of service and loyalty to the Board and to the members of the Wisconsin Retirement System (WRS). Mr. Bratanow said that the appointment to the TR Board has enriched his life and provided an opportunity for him to give back to the state.

**LEGISLATIVE UPDATE**

Mr. Conlin reported that the legislature is back in session and the current focus is the 2007-2009 biennial budget. The Department of Employee Trust Funds (Department) has a number of budgetary needs related to resources. The Department's budget request was for a total of 63 positions but the governor's proposal reduced that number to 18.5 positions. While the Department appreciates the 18.5 positions, there will be a continuing effort to identify ways to increase this number to meet workload demands..

The Governor has included a number of policy issues in the budget proposal such as health insurance for domestic partners and employer pick-up of health insurance premiums for new employees after two months of service. Under current law, most employees received some employer contribution after they have been in service for six months. The purpose of the proposed change is to help with recruitment and retention.

There is also a proposal in the budget affecting Wisconsin Retirement System (WRS) benefit calculations for educational support personnel. The proposal would:

- lower the hour threshold for educational support personnel in order to receive one year of credit;
- lower the threshold for participation in the WRS; and
- provide an increase in the final average earnings by 25%.

The proposal is an attempt to correct a perceived inequity in the retirement calculation between teachers and educational support personnel.

Two other bills that have been introduced are Assembly Bill (AB) 31 and AB 43. AB 31 applies to the sick leave program for legislators and other elected state officials. The bill would prohibit elected officials from receiving sick leave during any term of office beginning generally after the

effective date of the bill. AB 43 would eliminate the January 1, 1974, cutoff date in current law for counting certain military service as creditable service for WRS purposes.

Mr. Conlin noted that, in early February, he and Mr. Stella met with several members of Wisconsin's Congressional delegation in Washington, D.C. The purpose of the meetings was to let them know about the WRS and to help counter the negative press reports that have been issued about public pension plans. These meetings were part of a joint effort between the National Association of State Retirement Administrators, the National Council on Teachers Retirement and the Council of Institutional Investors to educate legislators on the value of public pension plans.

### **WISCONSIN RETIREMENT SYSTEM 24<sup>th</sup> ANNUAL ACTUARIAL VALUATION OF RETIRED LIVES – DECEMBER 31, 2006**

Norm Jones and Brian Murphy of Gabriel, Roeder, Smith & Company, actuaries for the Department, presented their report, *Wisconsin Retirement System: 24<sup>th</sup> Annual Actuarial Valuation of Retired Lives, December 31, 2006*, to the Board. Mr. Murphy discussed the Core and Variable annuity options and the methodology used to calculate increases and decreases. He pointed out that, while the number of annuitants does not factor into the actual calculation of dividends, he included the number as a reminder of the 137,000 retired individuals who are affected. He also discussed the mortality table and the effect of the experience study when combined with the money currently held in reserve for future mortality improvement. Mr. Jones and Mr. Murphy answered questions from the Board members.

### **EFFECTIVE RATE AND DIVIDEND PROJECTIONS**

Bob Willett, Controller, Division of Trust Finance and Employer Services, discussed the Core effective rate calculation and projections of dividends for the next several years. He explained the purpose of the Market Recognition Account in which the gains and losses are spread out over five years, thus creating a smoothing effect. He mentioned that losses from 2002 were recognized this year and it is the last year in which these losses must be figured into the calculation of dividends. Mr. Willett provided numerous scenarios to the Boards depicting the dividends that would be paid depending upon the various investment returns. Mr. Willett responded to questions from the Board members.

The Board took a break from 11:15 a.m. to 11:21 a.m.

### **MISCELLANEOUS**

**Location of WRS Participants** Ms. King referred the Boards to several charts that were prepared by the Department of Administration showing the location of WRS members. The charts depicted the location of active participants as well as retirees. The information gathered on the active participants will be used to determine where the Department should hold retirement presentations. Ms. King noted that the Department is combining efforts with Social Security and Deferred Compensation to make joint presentations. A pilot of the program was presented in Madison with over 400 people in attendance.

**Benefit Payment System Update** Ms. King updated the Boards on the status of the Benefit Payment System. System development and testing continues. Implementation is expected this summer.

**Video Library Update** Ms. King described the new video webcasts available on the Department's website. The video library is promoted when presentations are done by staff. The information has also been referenced in the retirement application packets.

**Pending Appeals Report** Ms. King referred the Boards to an updated report on pending appeals.

**New Employers for 2007** Ms. King referred the Board to the memo from John Vincent outlining the number of new WRS employers for 2007.

## **STATE OF WISCONSIN INVESTMENT BOARD UPDATE**

Mr. McCaffery introduced Dave Mills, Executive Director of the State of Wisconsin Investment Board (SWIB). He mentioned that Mr. Mills has announced his retirement and, therefore, this may be the last meeting at which Mr. Mills will be present in his capacity as Executive Director. Mr. McCaffery and Mr. Stanchfield thanked him for his service to the participants of the WRS and for the high level of professionalism he has brought to SWIB.

Mr. Mills introduced Gail Hanson, Deputy Executive Director, Ron Mensink, Risk Analytics and Quantitative Analysis Director, Sandy Drew, Legislative and Constituency Group Liaison, Ken Johnson, Chief Operating Officer, Jackie Doeler, Managing Director for Public Equities, and Jane Hamblen, Chief Counsel.

Mr. Mills discussed the investment performance of the Core and Variable funds. SWIB currently has over \$90 billion in assets. Over \$11.6 billion was generated in investment earnings last year. The excess value that was returned last year was \$737.5 million. He also discussed the incentive pool that is used to compensate SWIB staff based on performance and SWIB's biennial budget request.

Ms. Doeler shared information about the reorganization that is taking place at SWIB. She discussed the goals of the reorganization and the process that is being undertaken to make it successful.

Mr. Mills discussed the situation in the Sudan and the concern that every person at SWIB has about the atrocities occurring in that region. Mr. Mills emphasized that SWIB has a fiduciary duty to fulfill. Mr. Johnson discussed SB 57 and AB 124. These two bills require targeted divestment from companies doing business in Sudan. Targeted divestment entails applying a very detailed set of criteria and determining if companies meet the criteria. This also entails analyzing information that is not normally available to SWIB. An outside firm would probably have to be hired to monitor these situations and that would result in increased costs. There would also be an impact on the workload of staff at SWIB.

Ms. Hamblen discussed the legal ramifications of the divestment legislation that has been introduced. Like the Special Investment Performance Dividend case, this legislation would require

the use of the trust fund for non-trust fund purposes and may constitute an unlawful taking of the property rights of the participants in the funds.

At the conclusion of SWIB's presentation, Mr. Mills answered questions from Board members.

**ADJOURNMENT**

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

The Joint Informational Meeting adjourned at 12:30 p.m.

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

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

Rick Gale, Secretary  
Wisconsin Retirement Board