

MINUTES

March 26, 2020

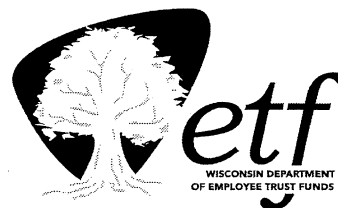
Employee Trust Funds Board

State of Wisconsin

Location:

Department of Employee Trust Funds

This meeting was held via teleconference.



ETF BOARD MEMBERS PRESENT:

John David, Vice Chair
Robert Niendorf, Secretary
Stephen Arnold
Malika Evanco
William Ford

Chris Heller
Michael Langyel
Leilani Paul
Roberta Rasmus
Steve Wilding

PARTICIPATING ETF STAFF:

Office of the Secretary:

Bob Conlin, Secretary
John Voelker, Deputy Secretary
Cheryllynn Wilkins, Board Liaison

Division of Management Services:

Lisa Dally, Human Resource Director

Division of Retirement Services:

Matt Stohr, Administrator

Division of Trust Finance (DTF): Cindy

Klimke-Armatoski, Chief Trust
Finance Officer

OTHERS PRESENT:

ETF Division of Management Services:

Patrick Hughes, Kadi Mbanefo

ETF Division of Retirement Services:

Anne Boudreau

ETF Office of Internal Audit (OIA):

Yikchau Sze

ETF Office of Legal Services (OLS):

Diana Felsmann, David Nispel

ETF Office of the Secretary: Kathryn

Young, Pam Henning, Tarna Hunter

Gabriel, Roeder, Smith & Company (GRS):

Jim Anderson, Brian Murphy

Legislative Audit Bureau (LAB): Lisa Kasel

Segal Consulting: Kim Nicholl, Matt Strom

State of Wisconsin Investment Board:

Edwin Denson, Brian Hellmer, David
Villa

BOARD MEMBERS NOT PRESENT:

Wayne Koessl

Mr. David, Vice Chair, called the meeting of the Employee Trust Funds Board (Board) to order at 9:00 a.m.

The Board Liaison took a roll call of Board members, presenters, and essential ETF staff to verify presence and connectivity.

ANNOUNCEMENTS

Mr. Stohr discussed today's schedule and the logistics of the meeting. Mr. Stohr also indicated that a survey about receiving the actuarial reports in an electronic format instead of paper will be sent to Board members after the meeting.

CONSIDERATION OF MEETING MINUTES

MOTION: Mr. David moved to approve the open session minutes of the December 12, 2019, meeting of the Employee Trust Funds Board, as submitted by the Board Liaison. Mr. Ford seconded the motion, which passed unanimously on a voice vote.

ELECTION OF OFFICERS

Mr. Stohr requested the Board defer its annual election of officers until the next meeting, due to the unique circumstances of a 100% virtual meeting. The Board agreed.

COMMITTEE REPORTS

Executive Committee

Mr. David noted the Executive Committee met via teleconference on March 25, 2020, and approved the minutes from the December 11, 2019 meeting. The committee reviewed and discussed the ETF Board agenda for today. Agenda presentations will include:

- the State of Wisconsin Investment Board (SWIB) review of the 2019 Wisconsin Retirement System (WRS) performance and 2020 outlook;
- the Gabriel, Roeder, Smith Company (GRS) actuaries on the retired lives valuation and annuity adjustments;
- ETF Core Fund projections; and
- the actuarial audit of the WRS by the Legislative Audit Bureau and Segal.

The committee reviewed ETF's objectives and accomplishments from the past quarter, as well as updates on key vacancies, recruitment, and training efforts.

Ms. Lisa Dally, Human Resource Manager, referenced the memo (Ref. ETF | 3.26.20 | 4A1) and recapped the Secretary's Evaluation and timeline.

EDUCATIONAL AND DISCUSSION

State of Wisconsin Investment Board (SWIB)-2019 Wisconsin Retirement System Investment Performance and 2020 Outlook

Mr. Villa, Executive Director/Chief Investment Officer, shared the qualifications of the SWIB staff presenting at today's meeting. He discussed the 5-year return and how smoothing works with the Core Fund. He discussed how the market has been affected with the substantial drop in oil prices, COVID-19, and social distancing. He explained how SWIB looks at returns--expectations versus distributions—and how the different asset classes have different expectations.

Mr. Denson, Asset and Risk Allocation Managing Director, shared the returns of different assets. Several assets have done poorly with the worldwide crisis and there are several with even greater downward pressure. SWIB continues to look for opportunistic positioning that can be taken during the COVID-19 outbreak.

Mr. Hellmer, Managing Director, spoke on the economic effects of COVID-19. The extended period of quarantine and business closures in China will have ramifications far outside its borders. SWIB is looking for immediate and long-term opportunities. Specific sectors may gain, even during the crisis.

Mr. Denson assured the Board there will be a normalization of the economy and markets. Fear has pushed equity and bond markets lower. SWIB will increase assets in these markets. He explained how global economy can function in the consumer, technology, and materials sectors. Looking farther out than 6-12 months, the Trust Funds can benefit from the markets now. SWIB has been effective in cost management. SWIB wants to lean more on internal management because of the cost and the quality of the internal managers. The December 31, 2019, performance of the Core Fund was 19.9%. He discussed how asset allocation and targets have remained unchanged from previous years. SWIB has consistently had a cost savings versus its peers. However, SWIB's cost savings advantage has declined in recent years as more of their peers have started adopting SWIB's lower cost approach, including more internal management.

Wisconsin Retirement System 37th Annual Valuation of Retired Lives - December 31, 2019

Mr. Murphy and Mr. Anderson from Gabriel, Roeder, Smith Company (GRS) presented on the Retired Lives Valuation (Ref. ETF | 3.26.20 | 5B).

They reviewed how the system operates, including the smoothing mechanisms. It is generally undesirable for retirees to experience wide swings in monthly benefits from year to year, and asset smoothing has worked well historically. However, asset smoothing still could not prevent negative dividends in 2009-2013 because of the investment climate in 2008.

Mr. Murphy and Mr. Anderson also presented demographic information about the WRS and an overview of WRS assets and liabilities, including a summary of the number of annuitants, annuities paid, and fund balances. They reviewed the detailed adjustments made both positive and negative to calculate the recommended core dividend. If a market event similar to 2008 were to occur, the complete depletion of the dividend account could happen. If this did happen, statutes do not clearly define what would happen in such a case.

Motion: Mr. David moved to accept the Actuary's report on the WRS 37th Annual Actuarial Valuation of Retired Lives – December 31, 2019 and adopt their recommendation. Mr. Niendorf seconded the motion, which passed unanimously on a voice vote.

Core Fund Annuity Adjustments and Effective Rate Projections

Ms. Klimke-Armatoski (Ref. ETF | 3.26.20 | 5C) explained the current value of annuities, comparing the annuity increases versus the cost of living. She presented information regarding projections for Core Fund annuity adjustments and effective rates, based on varying investment return possibilities. She detailed how the current and possible investment gains/losses would be recognized in the next five years, including how a 12 percent loss in 2020 would result in no annuity adjustment in 2021.

Actuarial Audit of the Wisconsin Retirement System

Ms. Kasel, Assistant Audit Director of LAB (Ref. ETF | 3.26.20 | 5D), introduced Segal Consulting, the firm that LAB hired to perform the audit.

Ms. Nicholl and Mr. Strom of Segal Consulting presented their findings of the audit. While recommendations were made, Segal made the following general comments:

- GRS's work was about as close to Segal's replication as they have seen in the public sector; and
- GRS's overall work was "solid."

Mr. Strom reviewed the current economic assumptions, including price and wage inflation GRS uses and SWIB investment returns. Segal believes these assumptions are reasonable. Segal looked at the mortality assumption and recommend that consideration be given to analyzing mortality experience separately for each category. Segal recommends that GRS provide a note explaining the rationale for the use of the 60% factor applied to the projection scale.

Segal's valuation is a very close replication audit, which is the best they have ever seen but does recommend adding detailed comments on how the plan actually works.

Ms. Nicholl summarized the audit:

- The audit validates the finding of the December 31, 2018 valuation;

- The three-year experience study provides a reasonable basis for setting the actuarial assumptions; and
- Segal provided some suggestions to improve usefulness of the reports and setting of actuarial assumptions.

Brian Murphy of GRS commented that the work Segal did is reasonable and will take the recommendations into the account.

OPERATIONAL UPDATES

Secretary's Report

Mr. Conlin informed the Board that ETF is under its Continuity of Operations Plan (COOP). Most of the staff is working remotely from home and projects keep moving right along. The efforts of many people—including IT staff, Pam Henning, and COOP staff—provided the ability to maintain our business in the likelihood that something like this would happen. There are fewer than 30 people working on site, but ETF is primarily operating remotely. ETF closed its eighth floor earlier this week to the public. Alternative ways to meet customer needs are being implemented and will result in fewer health risks to the customer and for ETF staff. ETF has placed COVID-19 benefit information on ETF's website. Please refer members with questions to the ETF website.

The state is taking actions that allow human resources personnel to focus on COVID-19 efforts. These include a hiring freeze and merit award suspension. Some flexibility in hiring remains for essential positions.

ETF has received multiple benefit questions including how to receive contributions and premiums from the municipalities

The current pandemic does not change ETF's strategic plan and shows the need to move forward. One example is our imaging system that is being replaced. ETF does not currently have the capabilities to upload files into the current state of record remotely, so other staff have access to the files in the system in real time.

The inability to provide service online is currently hampering members. ETF is servicing members via the phone and doing it remotely but having the ability for members to have access online themselves will make things better for our customers.

Mr. Arnold thanked ETF for handling things well during the pandemic.

Mr. David referred the Board to the additional operational update memos (Ref. ETF | 3.26.20| 6B through 6R) included in the Board packets and offered that staff were available to answer any questions. Mr. Stohr reminded the Board to read the public record training and send back confirmation of the review in the self-addressed envelope provided in their board packets.

FUTURE ITEMS FOR DISCUSSION

Mr. Stohr referred the Board to the June 18, 2020 Agenda Topics memo (Ref. ETF | 3.26.20 | 7A).

ADJOURNMENT

Motion: Mr. David moved to adjourn the meeting. Mr. Niendorf seconded the motion, which passed unanimously on a voice vote.

The Board adjourned at 11:09 a.m.

Date Approved: June 18, 2020

Signed: Robert M. Niendorf
Robert Niendorf, Secretary
Employee Trust Funds Board