Blank, Mark

From: Blank, Mark
Sent: Monday, March 26, 2012 3:56 PM
To: Blank, Mark
Subject: ETG0011 GRS Actuarial Services: 2011 Alternative Acturarial Valuations

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P.O. ETBC0000065 RFP ETG0011 Contract Services Above Retainer

From: Kranz, Jon - ETF
Sent: Monday, March 26, 2012 3:21 PM
To: 'Mark.Buis@gabrielroeder.com'; Brian.Murphy@gabrielroeder.com; Willett, Bob
Cc: Norm.Jones@gabrielroeder.com; C1203@gabrielroeder.com
Subject: RE: Timing of 2011 active Val and dividend issues

ETF is approving an amount not to exceed $50,000 without prior authorization to conduct the alternative active lives valuation described below. We will issue a purchase order this week but you can consider this approved as we are anxious for GRS to begin work. We request that you provide periodic updates on the progress and provide advance notice when possible if more than $50,000 will be needed to complete the valuation.

We also will be very interested in having you attribute any recommended contribution rate change to areas such as Act 10, investment earnings, and other major categories. Finally, it will be a good idea to have the report prepared earlier than normal. I anticipate that we may need additional time to review and comment. As such, if possible, it would be a nice to have a draft a week or two earlier than normal.

Please contact me should you desire any additional information.

Jon Kranz, Director

Office of Budget and Trust Finance

Employee Trust Funds

(608) 267-0908

From: Mark.Buis@gabrielroeder.com [mailto:Mark.Buis@gabrielroeder.com]
Sent: Thursday, March 15, 2012 9:56 AM
To: Kranz, Jon - ETF; Brian.Murphy@gabrielroeder.com; Willett, Bob
Cc: Norm.Jones@gabrielroeder.com; C1203@gabrielroeder.com
Subject: RE: Timing of 2011 active Val and dividend issues

Jon,
We have discussed the issue internally regarding the cost estimate to complete the Active lives valuation based on a roll forward of the 2010 active data. It is difficult to estimate due to the uniqueness and complexity of the system. The extra work involves constructing a new data set based on known retirements, estimating terminations due to other causes (turnover, death, disability), construction of new hire data and roll forwards of all the various data fields for continuing active members (pay, service accruals, contribution balances, etc.) for all the various employment categories. Based on this, we estimate the additional cost to be between $40,000 and $60,000. In order to complete this analysis by the currently scheduled June Board meeting, we would need approval no later than April 15. Please note that we would still need the actual 2011 data set in order to complete the gain/loss and experience study analysis later in the year.

Please let us know if you have any questions.
Thanks,
Mark

From: Kranz, Jon - ETF [mailto:Jon.Kranz@etf.state.wi.us]
Sent: Friday, March 09, 2012 2:07 PM
To: Murphy, Brian (CSSM); Willett, Bob
Cc: Buis, Mark (SOP2); Jones, Norm (CSSM); C1203 - Wisconsin Ret
Subject: RE: Timing of 2011 active Val and dividend issues

Thanks and good notes!

I look forward to our future discussions.

Jon Kranz

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From: Brian.Murphy@gabrielroeder.com [mailto:Brian.Murphy@gabrielroeder.com]
Sent: Friday, March 09, 2012 1:04 PM
To: Kranz, Jon - ETF; Willett, Bob
Cc: Mark.Buis@gabrielroeder.com; Norm.Jones@gabrielroeder.com; C1203@gabrielroeder.com
Subject: Timing of 2011 active Val and dividend issues

This email summarizes my notes from today's call.

1. Discussion of 12/31/2011 Active Val

   a) There are significant issues providing reconciled service and earnings for CY 2011. This could very likely delay delivery of 12/31/2011 active data to GRS to mid June or beyond. That would mean that rates cannot be certified at the June meeting. This delay is caused by the change in member contribution rates in the middle of the year.
   b) Might be possible to deliver data in time to get rates certified in an August meeting.
   c) Is there a fallback position for the doomsday scenario, wherein the data cannot even be delivered in time for an August certification?
   d) In that case, GRS could do some type of a roll forward valuation. For example, we already have retiree data, so we know who retired from either active or term vested status. We could make use of the information, along with a set of statistics on payroll and counts by valuation group (General, Elected, protective, etc) to create an approximate active data set and run a valuation on it. Alternative, we might use some type of mathematical process to approximate the valuation results given the facts that we do know (Act 10 provisions, number of new retirees, etc). .
   e) It is possible that we would do one or the other of the calcs mentioned above, and then decide we are not comfortable enough with the result to certify it. After all, the $ amounts involved are very large. In any case, we would not know this until we tried it.
   f) GRs will prepare a cost estimate for that work.
   g) Bob should be able to provide pretty good asset figures in may.
   h) Gain Loss and experience studies will be a problem. For one thing, the retirement experience in 2011 was extraordinary. Maybe we have to delay the study. But we should try to do at least the mortality table in time for the 12/31/2012 retiree val.

2. Dividend Discussion
    a. Probably can't be any statutory fix between now and next year. We should still do some long term planning so that when a fix can be instituted, we have something to run with.
    b. Statutes describe that the original amount is guaranteed – dividends are not. Statutes do not describe who bears the cost of the guarantee. Right now, the earlier retirees are providing the guarantee to the later retirees.
    c. There could be a situation where in all the dividends are gone, there is a loss, and there is no one to bear it.
    d. Statutory fix should define who bears the cost of the guarantee. Should also deal with treatment of a loss if there is no one to bear the cost.
    e. Perhaps going forward, upper and lower limits could be placed on dividends in any year. Maybe positive dividend cannot exceed 5% or inflation plus 1%, negative dividend can't be more than -5%, or something. In good times, a reserve could be built up that would provide part of the solution to b and c.
    f. Ultimate guarantor probably has to be the employer, if the guarantee is to be preserved.
    g. Negative dividends various cohorts differently. Positive dividends affect everyone equally. Could some method be developed to restore dividends in the order they were taken off. Maybe new retirees done get dividends until previous retirees get all their dividends back.
    h. Although we did not discuss this, I was wondering if the original amount guarantee could be an optional choice that people would pay for at the time of retirement. For example, there might be a 5% cost for the guarantee, something like an optional form of benefit. The 5%'s that people pay would go into a reserve, that would be used to preserve their original amount. Of course, ultimately, the employer would have to back it. But the employee would have skin in the game. Does not deal with communication with 90 year olds who long ago forgot that they did not pay for the guarantee, but maybe there is some value in the idea. Of course does not deal with present situation.

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