

Konrath, Nadine

From: Willett, Bob
Sent: Thursday, August 01, 2013 7:58 AM
To: Konrath, Nadine
Subject: FW: MagVal Plus software

Nadine

This is an offer from GRS to share some of the risk on developing liability modeling software. We're leaning towards option 2.

Any thoughts?

Bob

Robert C. Willett, CPA
Chief Trust Financial Officer
Department of Employee Trust Funds
Telephone (608) 266-0904
Fax (608) 267-0633
bob.willett@etf.wi.gov

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From: Brian.Murphy@gabrielroeder.com [<mailto:Brian.Murphy@gabrielroeder.com>]
Sent: Monday, July 29, 2013 12:43 PM
To: Willett, Bob
Cc: Mark.Buis@gabrielroeder.com; jim.anderson@gabrielroeder.com; judy.kermans@gabrielroeder.com; C1203@gabrielroeder.com
Subject: MagVal Plus software

Hi Bob,

Here are the options we discussed today for sharing the risk on the projection utility development. For reference on the entire project, please see our 10/12/2012 letter to you and Steve Hurley on Pension Liability modeling software. The projected total initial cost of the project was \$100,000 to \$120,000:

Option 1: We will do about half the project for about half the price. This will mean carving out the more difficult pieces. Ideas of what we might carve out include, but are not necessarily limited to Money Purchase minimum, dividend structure, and projection scenarios. Also, we would do the general group only. You would receive a workable tool, but it would have limited functionality. If we are rehired, we can add the remaining functionalities if you desire. If we are not rehired, we will not do the remainder, nor will you have to pay for it. Maintenance on the tool as delivered would be 30% of the initial price if we are not rehired, with some protection for us for massive plan restructuring, as discussed below.

Option 2: We will do the entire project. We will bill 75% of the total. If we are rehired, we will bill for the remainder, and the annual renewal will be 10% of the purchase price. If we are not rehired, we will not bill for the 25% remainder, but the annual maintenance will be 30% of the total purchase price for a max of 3 years. So, for example, if the Gross purchase price turned out to be \$120,000, WRS would only have paid \$90,000, but the annual maintenance would be \$36,000. In this example, we might have to include some protection for us if there were some type of massive restructuring of WRS that greatly affected the maintenance cost. For example if it were converted to a cash balance plan.

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Brian B. Murphy

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State of Wisconsin Purchase Order

SEND INVOICE IN TRIPLICATE TO: ACCOUNTS PAYABLE - (608) 267-9223 ETFACCOUNTSPAYABLE@ETF.STATE.WI.US EMPLOYEE TRUST FUNDS P.O. BOX 7931 MADISON WI 53707-7931	PO Code & Type 1-REGULAR	Purchase Order Number QTC000155 (Show above number on all shipments, correspondence and invoices) DATE: 5/24/2013
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Line	Fund	Agency	Org.	Sub Org.	Appr.	Appr. Unit	Actv.	Obj.	Sub Obj.	Rptg. Cat.	Proj.	Fiscal Year	Amount
1	262	515	2800		176	4		3730		13		2014	\$150,000.00

Accounting Lines Total = \$150,000.00

Vendor: GABRIEL ROEDER SMITH & CO DEPT # 78009 P.O. BOX 78000 DETROIT MI 48278-0009	Ship to: EMPLOYEE TRUST FUNDS ACCOUNTS PAYABLE P.O. BOX 7931 MADISON WI 53707-7931
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FEIN/SSN 381691268 A	Requisition No. BTD000092	Shipping instructions:
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FOB DEST	Terms NET 30	Delivery 6/30/2013	Reference ETG0011	Bid No.	Statewide Contract No.
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Quantity	Unit	Item Description	Commodity Code	Unit Price	Total
1	EA	MAGVALPLUS PENSION LIABILITY MODELING SOFTWARE -CUSTOMIZED TO THE BENEFIT STRUCTURE OF THE WISCONSIN RETIREMENT SYSTEM -WILL ALLOW ETF STAFF TO RUN <input type="checkbox"/> WHAT-IF <input type="checkbox"/> SCENARIOS ON THEIR OWN COMPUTER BASED ON INPUT ITEMS THE USER SELECTS. -USEFUL FOR REAL-TIME VALUATIONS, SUCH AS: 1) RISK MODELING EXERCISES MEASURING BENEFIT CHANGES 2) HANDLING LEGISLATIVE REQUESTS 3) MEASURING THE IMPACT OF ASSUMPTION CHANGES 4) UNDERSTANDING THE VALUE OF CERTAIN BENEFIT FEATURES 5) PROJECTIONS AND TRENDS	20882000000	\$150,000.0000	\$150,000.00

TOTAL = \$150,000.00

Via E-mail

October 12, 2012

Mr. Steve Hurley and Mr. Robert Willett
Wisconsin Department of Employee Trust Funds
P.O. Box 7931
Madison, Wisconsin 53707-7931

Re: Pension Liability Modeling Software

Dear Steve and Bob:

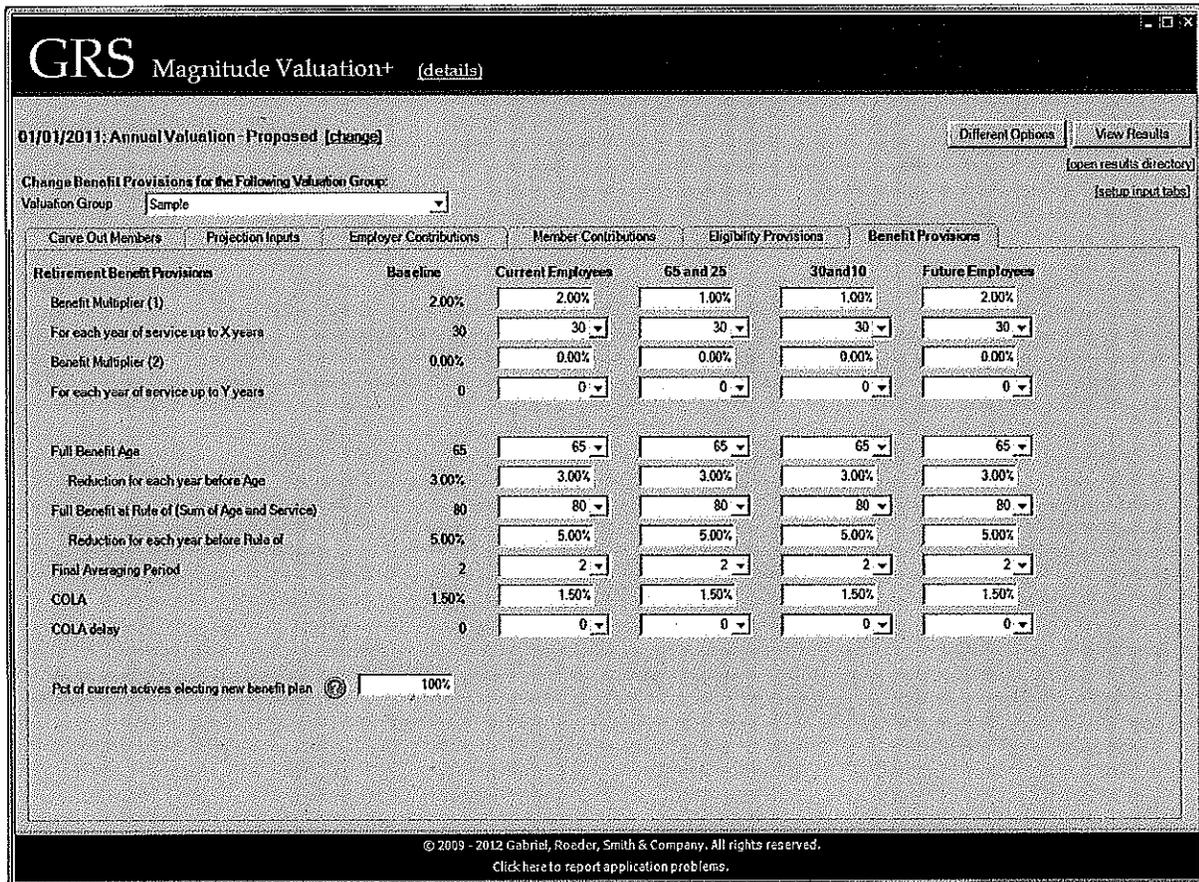
As discussed last month in Madison, this letter provides scope and fee information related to our pension liability modeling software, **MagValPlus**. We are very excited about the capabilities of this projection tool and have used MagValPlus in redesign engagements with the States of South Carolina and Rhode Island, and the Cities of Tulsa, OK and Seattle, WA. It has the capability to, in real-time, value the full spectrum of various benefit changes or assumption changes across the entire population. The ETF will see the financial effect of changes broken out by active members close to retirement, active members far from retirement, future new hires, etc. MagValPlus provides a projection of contribution rates into the future based upon those changes. It also can allow for grandfathering of benefits and eligibilities that the ETF wishes to explore; again, all in real-time. In a complicated plan such as the WRS MagValPlus can allow users to vary parameters just to gain an understanding of how the plan works. For example, how important is the Money Purchase Minimum Benefit? What is the effect of changing the interest crediting rate, or the member contribution rate?

Features

The MagValPlus software will be customized to the benefit structure of the Wisconsin Retirement System. The data that is used for the actuarial valuation will be "celled" to create a sample data set that simulates the actual data of the WRS. This data set is then used to run our proprietary actuarial software on the desktop of ETF staff members. This will allow ETF staff to run "what-if" scenarios on their own computer based on input items the user selects. We would work with ETF staff to develop the appropriate set of input items that meets their needs. Below is a sample list of input items that could be selected:

- Retirement eligibilities
- Benefit multipliers
- Final Average Compensation
- Early retirement provisions
- Money purchase minimum provisions
- Changes to dividend structure/cost of living increases
- Vesting provision
- Member contribution rates
- Investment return scenarios
- Payroll increase scenarios
- Projection scenarios

Below is a sample screen shot from the software:



GRS would develop initial output exhibits that will illustrate the impact on pension liabilities and costs that correspond to various types of changes in benefits or assumptions. The output exhibits could be further customized to suit the needs of ETF staff members. For example, data could also be exported and saved to excel files in order to reformat for a report a staff member may be working on.

This software is useful for real-time valuations:

- risk modeling exercises
- measuring benefit changes and handling legislative requests
- measuring the impact of assumption changes
- understanding the value of certain benefit features
- projections and trends

Client Example – City of Seattle Retirement Inter-Departmental Team

MagValPlus was recently used by the City of Seattle Retirement Inter-Departmental Team (“IDT”) to develop five alternative benefit designs for the Seattle City Employees’ Retirement System. These five alternative benefit designs increase the long-term sustainability of the System and continue to provide meaningful benefits to long-service employees.

The MagValPlus projection tool provided to the IDT included all main benefit parameters as user inputs (eligibility, benefit multipliers, early retirement factors, COLA, etc.). MagValPlus allowed members of the IDT team to determine the cost savings, both short and long-term, of these individual benefit changes in real-time. Members of the IDT were able to quickly identify the interaction between benefit provisions and which provision changes provided meaningful savings.

The IDT was able to develop a benefit design that accomplished the desired level of savings without changing the benefit multiplier. Instead, the desired savings were achieved entirely through delayed normal retirement and increased early retirement reduction factors. A long-service member retiring under this plan would have a benefit unchanged from the current plan design. The IDT was also able to examine the impact of a provision that provides the member with a minimum benefit of two times accumulated member contributions, annuitized. Keeping this provision would have reduced the effectiveness of many of the changes the IDT was considering. The MagValPlus projection tool included a user input to allow the user to turn this provision on or off. After turning this provision off, users saw much more meaningful savings from potential plan changes.

The coordinator and contact for this project is listed below:

City of Seattle Retirement Inter-Departmental Team

John McCoy
Retirement IDT Coordinator
Seattle City Council Central Staff
Legislative Department
600 Fourth Avenue, 2nd Floor
Seattle, WA 98104
(206) 615-0768
John.McCoy@seattle.gov

Project Cost

The cost to develop the liability modeling software incorporating WRS plan provisions, assumptions and methods is expected to be between \$100,000 and \$120,000. We will work with ETF to ensure the system meets your specific needs. Once the software is working properly, we can explore the possibility of adding additional features, such as the valuation of the Sick Leave Program. We estimate the additional cost for the Sick Leave Program to be between \$20,000 and \$30,000. The software should be updated each year to reflect the most current participant data and actuarial assumptions. The annual maintenance fee would be 10% of the initial set-up cost.

Mr. Steve Hurley/Mr. Robert Willet
October 12, 2012
Page 4

We understand that this would be a significant investment. However, in the long run, the software will:

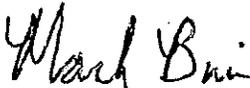
- Save time – you won't have to wait weeks for an actuarial study
- Save money – you won't have to pay for an actuarial study for every what-if scenario (we do recommend that an actuarial study be completed prior to adopting an actual benefit change)
- Provide a better understanding of key factors which may impact the WRS
- Help staff anticipate possible scenarios to be able to keep participants better informed

Timing

We will begin work on customized MagValPlus software for ETF upon approval to proceed. We anticipate development of MagValPlus to take 12 to 16 weeks.

Please do not hesitate to contact me if you have any questions or would like more information. I can be reached at 248-799-9000.

Sincerely,



Mark Buis

MB:sc

cc: Bob Conlin, DETF
Jim Anderson, GRS
Brian Murphy, GRS

39.435 (8) The board shall award grants under this section to University of Wisconsin System students from the ~~appropriation appropriations~~ under s. 20.235 (1) (fe) and (ke).

SECTION 695f. 39.435 (8) of the statutes, as affected by 2013 Wisconsin Act ... (this act), is amended to read:

39.435 (8) The board shall award grants under this section to University of Wisconsin System students from the ~~appropriations appropriation~~ under s. 20.235 (1) (fe) and (ke).

SECTION 694g. 39.437 (3) of the statutes is renumbered 39.437 (3) (b) and amended to read:

39.437 (3) (b) The amount of a grant ~~shall be determined by the board, and shall be paid from the appropriation account under s. 20.235 (1) (fm) and, except as provided in pars. (c) and (d), shall be determined by the board by rule.~~

SECTION 694h. 39.437 (3) (a) of the statutes is created to read:

39.437 (3) (a) In this subsection, "expected family contribution" means the amount that a student and the student's family are expected to contribute in an academic year to the cost of the student's postsecondary education, as determined by use of the most recent federal Free Application for Federal Student Aid, as described in 20 USC 1090 (a).

SECTION 694i. 39.437 (3) (c) of the statutes is created to read:

39.437 (3) (c) Subject to par. (e), for a student enrolled full time after the student's 2nd year of postsecondary education, the amount of a grant is as follows:

1. One thousand dollars per academic year, if the student's expected family contribution is \$0.
2. One thousand five hundred dollars per academic year, if the student's expected family contribution is greater than \$0, but less than \$3,500.
3. One thousand dollars per academic year, if the student's expected family contribution is \$3,500 or more, but less than \$12,000.
4. Two hundred fifty dollars per academic year, if the student's expected family contribution is \$12,000 or more.

SECTION 694j. 39.437 (3) (d) of the statutes is created to read:

39.437 (3) (d) Subject to par. (e), for a student enrolled half time after the student's 2nd year of postsecondary education, the amount of a grant is as follows:

1. Seven hundred fifty dollars per academic year, if the student's expected family contribution is less than \$3,500.
2. Five hundred dollars per academic year, if the student's expected family contribution is \$3,500 or more, but less than \$12,000.
3. One hundred twenty-five dollars per academic year, if the student's expected family contribution is \$12,000 or more.

SECTION 694k. 39.437 (3) (e) of the statutes is created to read:

39.437 (3) (e) If awarding the full amount of a grant under par. (c) 1., 2., 3., or 4. or (d) 1., 2., or 3. would result in an overaward of financial assistance in violation of federal law or regulation, the board may reduce the amount of the grant in order to comply with that law or regulation.

SECTION 696. 40.015 (1) of the statutes is amended to read:

40.015 (1) The Wisconsin retirement system is established as a governmental plan and as a qualified plan for federal income tax purposes under the ~~internal revenue code~~ Internal Revenue Code and shall be so maintained and administered.

SECTION 697. 40.015 (2) of the statutes is amended to read:

40.015 (2) No benefit plan authorized under this chapter may be administered in a manner which violates an ~~internal revenue code~~ Internal Revenue Code provision that authorizes or regulates that benefit plan or which would cause an otherwise tax exempt benefit to become taxable under the ~~internal revenue code~~ Internal Revenue Code.

SECTION 698. 40.015 (3) of the statutes is created to read:

40.015 (3) For the purposes of compliance with the Internal Revenue Code, the plan year is January 1 through December 31.

SECTION 699. 40.02 (13m) of the statutes is created to read:

40.02 (13m) "Craft employee" means a state employee who is a skilled journeyman craftsman, including the skilled journeyman craftsman's apprentices and helpers, but does not include employees who are not in direct line of progression in the craft. Craft employees may be either nonrepresented or in a collective bargaining unit for which a representative is recognized or certified under ch. 111.

SECTION 700. 40.02 (18g) of the statutes is amended to read:

40.02 (18g) "Deferred compensation plan" means a plan which is in accordance with section 457 of the ~~internal revenue code~~ Internal Revenue Code, under which an employer executes an agreement by which an employee voluntarily agrees to defer a part of gross compensation for payment at a later date. Deferred compensation plan does not include annuity plans specified under section 403 (b) of the ~~internal revenue code~~ Internal Revenue Code.

SECTION 701. 40.02 (31) of the statutes is created to read:

40.02 (31) "Federal annual compensation limits" means any annual compensation limit under section 401 (a) (17) of the Internal Revenue Code, as adjusted for any cost of living increases under section 401 (a) (17) (B) of

the Internal Revenue Code, but only with respect to plan years beginning after December 31, 1995, and only with respect to individuals who first became participating employees in plan years beginning after December 31, 1995. This subsection shall be applied in compliance with section 401 (a) (31) of the Internal Revenue Code pursuant to any applicable federal regulations or guidance adopted under the Internal Revenue Code.

SECTION 702. 40.02 (33) (a) 1. of the statutes is amended to read:

40.02 (33) (a) 1. The participant's total earnings received or considered to be received under sub. (22) (e), (ef), or (em) and for which contributions are made under s. 40.05 (1) and (2) during the 3 annual earnings periods (excluding any period more than 3 years prior to the effective date for any participating employer) in which the earnings were the highest, subject to the federal annual compensation limits under 26 USC 401 (a) (17) for a participating employee who first becomes a participating employee on or after January 1, 1996; by

SECTION 703. 40.02 (33) (b) 1. of the statutes is amended to read:

40.02 (33) (b) 1. For a state elected official who is prohibited by law from receiving an increase in compensation during the official's term of office and who so elects, one-twelfth of the annual salary, subject to the federal annual compensation limits under 26 USC 401 (a) (17) for a participating employee who first becomes a participating employee on or after January 1, 1996, which would have been payable to the participant during the last completed month in which the participant was a participating employee in such a position if the participant had not been prohibited by law from receiving an increase in salary during his or her term of office, but only with respect to service as a state elected official.

SECTION 704. 40.02 (33) (c) of the statutes is amended to read:

40.02 (33) (c) For a participant who makes an election under s. 40.30 (2), the monthly rate of earnings applicable under par. (a) or (b), increased as provided under s. 40.30 (4) (b) but subject to the federal annual compensation limits under 26 USC 401 (a) (17) for a participating employee who first becomes a participating employee on or after January 1, 1996.

SECTION 705. 40.02 (37m) of the statutes is created to read:

40.02 (37m) "Health savings account" means a health savings account described in 26 USC 223.

SECTION 706. 40.02 (37r) of the statutes is created to read:

40.02 (37r) "High-deductible health plan" has the meaning given in 26 USC 223 (c) (2).

SECTION 707. 40.02 (39m) of the statutes is amended to read:

40.02 (39m) "Internal revenue code Revenue Code" means the federal internal revenue code Internal Revenue

Code of 1986, under Title 26, USC, as amended, and applicable federal regulations adopted by the federal department of the treasury, including temporary regulations.

SECTION 708. 40.02 (48g) of the statutes is renumbered 40.02 (25g) and amended to read:

40.02 (25g) "Public Eligible retired public safety officer" has the meaning given in 26 USC section 402 (f) (1) (4) (C) (B) of the Internal Revenue Code.

SECTION 709. 40.02 (48m) (e) of the statutes is amended to read:

40.02 (48m) (e) The determination of the alternate payee share does not require that benefits be paid to the alternate payee if those benefits are also required to be paid to another alternate payee or to the internal revenue service under a lien placed on the participant's account under 26 USC section 64 of the Internal Revenue Code.

SECTION 709c. 40.02 (54) (L) of the statutes is repealed.

SECTION 710. 40.03 (1) (am) of the statutes is amended to read:

40.03 (1) (am) Shall ensure that the Wisconsin retirement system complies with the internal revenue code Internal Revenue Code as a qualified plan for income tax purposes and shall ensure that each benefit plan is administered in a manner consistent with all internal revenue code Internal Revenue Code provisions that authorize and regulate the benefit plan.

SECTION 711. 40.03 (2) (ig) of the statutes is amended to read:

40.03 (2) (ig) Shall promulgate, with the approval of the group insurance board, all rules required for the administration of the group health, long-term care, income continuation or life insurance plans established under subchs. IV to VI and health savings accounts under subch. IV.

SECTION 712. 40.03 (2) (t) of the statutes is amended to read:

40.03 (2) (t) Shall ensure that the Wisconsin retirement system complies with the internal revenue code Internal Revenue Code as a qualified plan for income tax purposes and shall ensure that each benefit plan is administered in a manner consistent with all internal revenue code Internal Revenue Code provisions that authorize and regulate the benefit plan.

SECTION 713. 40.03 (2) (vm) of the statutes is created to read:

40.03 (2) (vm) Annually, before July 1, shall submit a report to the secretary of administration and the joint committee on finance on the department's progress in modernizing its business processes and integrating its information technology systems.

SECTION 714. 40.03 (6) (c) of the statutes is repealed and recreated to read:

40.03 (6) (c) Shall not enter into any agreement to modify or expand benefits under any group insurance