

The WRS Trust Funds



Core



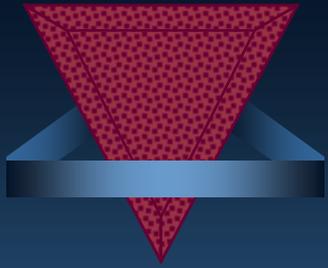
Variable



Wisconsin Retirement System

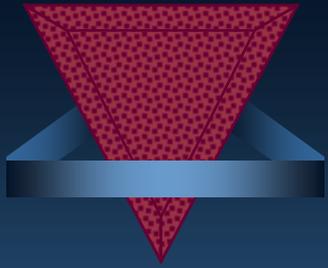
Department of
Employee Trust Funds

By Kathryn Fields - Trust Funds Specialist Advanced



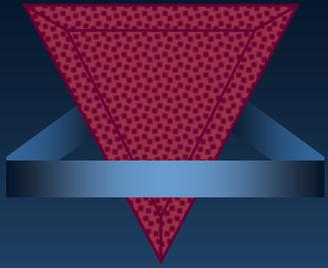
Frequently Asked Questions

- Where is my retirement money invested?
- What is the difference between the Core and Variable Funds?
- What types of investments do the Trust Funds hold?
- Who decides which investments to make?
- What are the criteria for making investment decisions?
- What investments are included in the Variable Fund?
- Is the Variable Fund a good choice for me?
- Why does the Investment Board stay invested in stocks when markets do poorly?
- How do the Investment Board's investment results affect me?



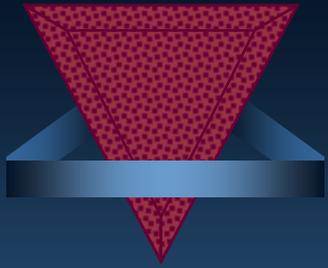
Wisconsin Retirement System (WRS)

- ✦ Individual accounts and benefits under the WRS are managed by the Department of Employee Trust Funds (ETF)
- ✦ Investing of WRS assets is the responsibility of the State of Wisconsin Investment Board (SWIB)
 - ✦ Contributions made to the WRS by employees and their employers are invested in two Trust Funds
 - ✦ Core (fully diversified fund)
 - ✦ Variable (all stock fund)



Wisconsin Retirement System

- ✦ WRS participants include current and former employees of Wisconsin state agencies and local governments (includes school districts)
- ✦ Those funds (including interest earnings) in the trusts are used to pay retirement benefits
- ✦ Most employees receive a monthly pension when they retire and the benefit amount is calculated by ETF

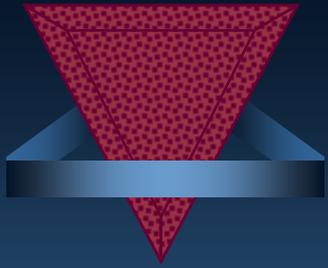


State of Wisconsin Investment Board



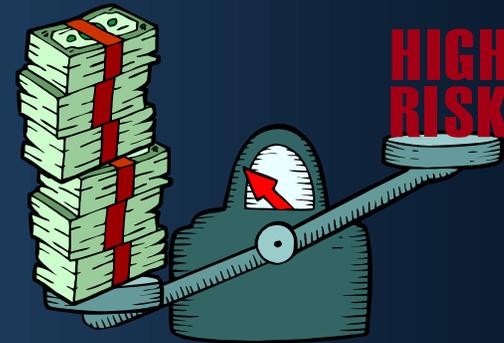
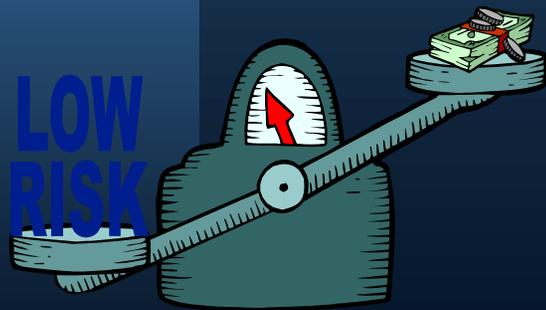
The goal of the Board is to produce *long-term* growth to meet pension obligations to current and future retirees

- ↘ SWIB was created by the Wisconsin Legislature for the purpose of providing professional investment management of the WRS Trusts
- ↘ SWIB is directed by a *Board of Trustees* and staffed with *Professional Money Managers* and *Support Personnel*
 - ↘ Trustees meet monthly to discuss investment policies, performance and other matters

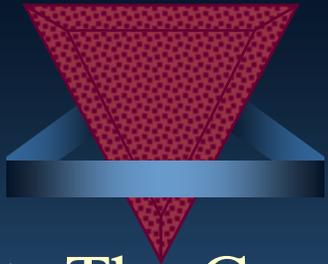


State of Wisconsin Investment Board

By law all transactions must be within the parameters determined by the Board and based on what is in the best interest of the WRS

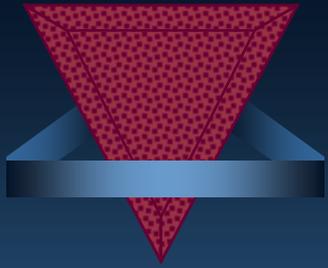


Trustees have established strict investment guidelines to provide appropriate risk and return standards for each fund



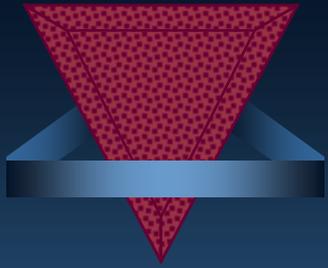
What Types Of Investments Do The Trust Funds Hold?

- ✦ The Core Trust Fund is a fully diversified, balanced fund (mixture of assets such as stocks, bonds, private equity and real estate)
 - ✦ Primary funding source for the WRS - largest of the two funds
 - ✦ Investment objective of the fund is to *earn the best net rate of return* while assuming an acceptable level of risk and *exceed* the benchmark established by the Board of Trustees
 - ✦ *Benchmark is a standard used to measure SWIB's performance against the markets*
 - ✦ SWIB strives to earn *at least* an average 7.8% annual return over the long term
 - ✦ Core Fund returns are smoothed (recognized evenly) over a 5-year period to keep interest and annuity adjustments *more stable*
 - ✦ All WRS participants have monies invested in the Core Fund



What Types Of Investments Do The Trust Funds Hold?

- ✦ The Variable Trust Fund is primarily invested in stocks (by state law) resulting in a greater degree of risk due to fluctuations of the stock market
 - ✦ Smaller of the two funds
 - ✦ The strategy of the Variable Fund is to *exceed* the investment return of similar portfolios over a full market cycle
 - ✦ Variable gains and losses are *fully distributed* each year
 - ✦ *No smoothing*
 - ✦ Participation is *elective* - active participants only
 - ✦ *If elected, 50% of all future contributions are deposited in the Variable Fund, and 50% in the Core Fund*
 - ✦ Refer to ETF's brochure: *How Participation In The Variable Fund Affects Your WRS Benefits* (ET-4930)



Did You Know?

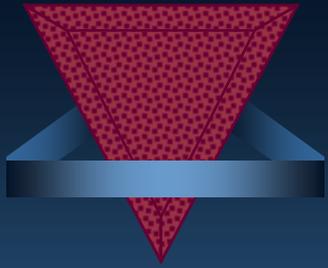


- ↘ SWIB has received national attention for its excellent investment performance
- ↘ The WRS continues to be one of the best funded public retirement systems in the country

Visit SWIB's web site for more detailed information:

www.swib.state.wi.us

SUMMARY: The Core Fund has now become the well-balanced, broadly diversified investment portfolio that the Variable Fund was initially intended to be and protects participant accounts better in volatile markets

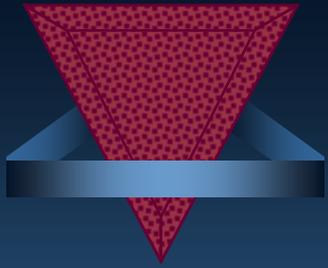


A Closer Look At Investment Earnings And Their Effect On Retirement Benefits



Benefit funding requirements and benefits payable to WRS participants depend on investment performance !

The variable program affects your retirement benefit *differently* for formula and money purchase benefits . . .



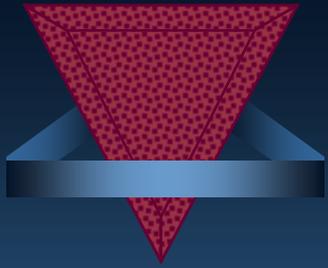
Retirement Benefit Calculations



Formula Benefit Calculations based on:

1. Final average earnings
2. Formula factors based on employment category
3. Years of creditable service
4. Actuarial reduction for early retirement
(if applicable)

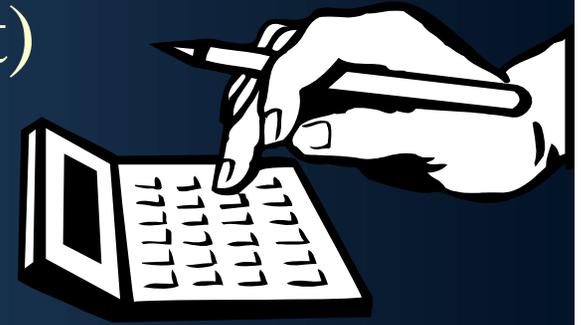
Formula Benefits are not affected by investment earnings *unless you participate in the Variable Trust Fund*



Retirement Benefit Calculations

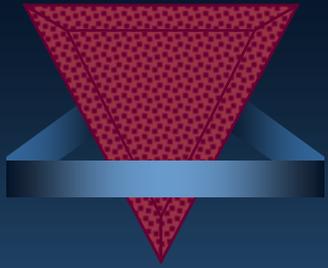
Money Purchase Benefit Calculations based on:

1. Your age (when you take a benefit)
2. The dollar amount in your account (when you take a benefit)



↘ Investment Earnings *do* affect the amount of:
Money Purchase Benefits, *Separation Benefits*,
Disability and *Death Benefits*

Participants are always entitled to the higher
of the two retirement calculations

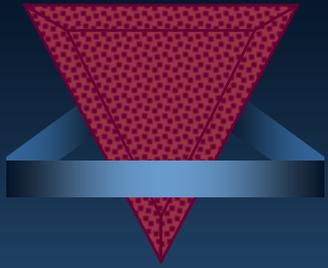


Interest Crediting

Annual interest is credited each December 31 on monies that have been in the system for a full calendar year

Core Fund Contributions: Interest credited may vary

- ✦ Active participants: Credited at *effective rate* (based on how the fund performs each year)
- ✦ All participants employed before 1982: *effective rate*
- ✦ Participants employed after 1981 and terminated before 1/1/1990: *5% interest*
 - ✦ If return to WRS employment, then effective rate
- ✦ Participants employed after 1981 and terminated before 12/31/99: *3% interest* (for separation benefits only)
 - ✦ If return to WRS employment, balance is retroactively adjusted to 5% (instead of 3%) - new contributions credited at *effective rate*

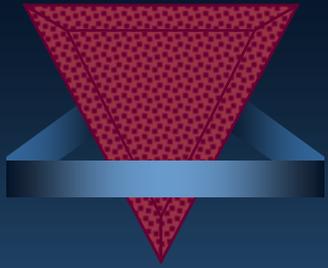


Interest Crediting

Variable Fund Contributions and all voluntary additional contributions are credited at the *effective rate*

If you have participated in the Variable Fund:

- ✦ Account has either a variable “excess” or a “deficiency”
 - ✦ Difference between the actual account value and what that amount would have been if you had never participated
- ✦ If you have a “variable excess” (amount you’re ahead)
 - ✦ This amount is used to increase your *formula annuity* when retirement or disability benefit begins
- ✦ If you have a “variable deficiency” (amount you’re behind)
 - ✦ The deficiency is used to decrease your *formula annuity* when retirement or disability benefit begins



Variable Excess Or Deficiency

Example

Formula Benefit Calculation at retirement with a variable excess

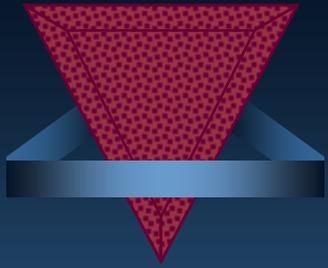
\$20,666	Total <u>Excess</u> /Deficiency
x <u>.00571</u>	Money Purchase Factor
\$ 118	Variable Adjustment

Effect on Monthly Annuity Payment

*If deficiency,
annuity would
decrease →*

\$ 1,350	Monthly Annuity
+ <u>118</u>	Variable Adjustment
\$ 1,468	Adjusted Monthly Annuity

NOTE: Money Purchase calculations already include the variable excess or deficiency



Interest Crediting vs. Annuity Adjustments

Once a participant begins receiving a monthly annuity, the amount may be *adjusted* each year based on the previous year's investment returns

See later section on
Annuitant Experience and
the Webcast on
*Annual Retirement
Annuity Adjustments*



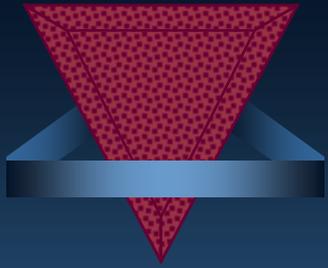
Department of Employee Trust Funds



Wisconsin Retirement System
(WRS)

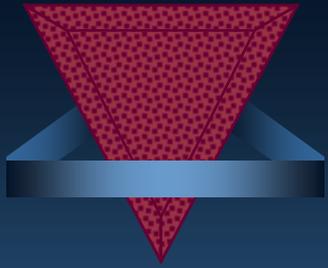
Annual Retirement Annuity Adjustments





Is The Variable A Good Choice For Me ?

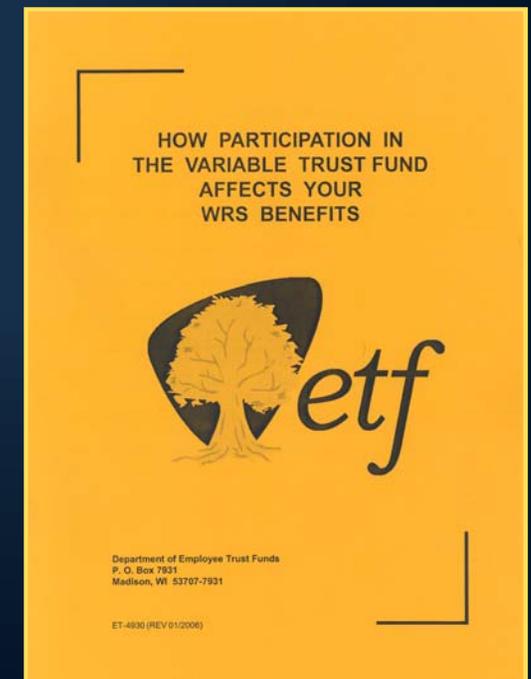
- ✦ Selecting or remaining in the Variable Fund is an individual decision
- ✦ As with any investment, it's best to consider several factors, including
 - ✦ Personal risk tolerance (before and after retirement)
 - ✦ Years until retirement
 - ✦ Other types of investments that will provide retirement funding

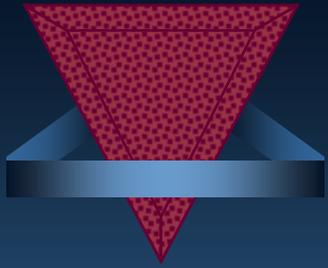


Is The Variable A Good Choice For Me ?

- Remember, the Variable Fund is a more volatile fund
 - Returns are not smoothed (you could lose interest, or your retirement benefit can go down)
- Reviewing the historic investment returns can help in your decision (no guarantee of future returns)
- Participants need to be fully informed about the potential risks (or possible gains) of variable participation

For more information, see ETF's web site and brochure *How Participation In The Variable Trust Fund Affects Your WRS Benefits* (available as link in this presentation)





Electing Or Canceling Variable Participation

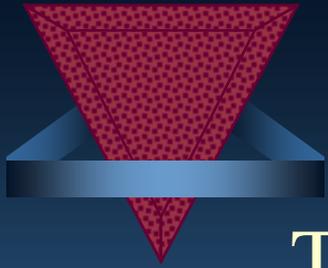
- ✦ Elections to participate or cancel participation must be sent to ETF
- ✦ Form ET-2356 (election to participate) or ET-2313 (election to cancel)
- ✦ Elections generally become effective the 1st of the year following the year ETF receives the form
 - ✦ New employees can elect immediate participation if ETF receives the form within 30 days of employment



Canceling Variable Participation

To cancel variable participation

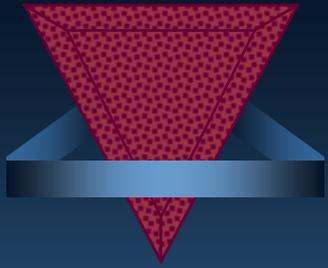
- ✦ Must file form *ET-2313*
- ✦ Cancellations are effective on 12/31 of the year received, and can be rescinded if ETF receives a written request by 12/31 of the year it would otherwise be effective
- ✦ Once variable participation is canceled, there is no opportunity to rejoin
- ✦ Any variable gain *or* loss is applied to your account for the year form is filed
 - ✦ Then Variable Funds are transferred to your Core account based on the option chosen . . .



Canceling Variable Participation

The Cancellation Options:

1. Cancel participation for all future contributions only. All past contributions (and annuities if applicable) remain in the Variable Trust Fund (no effect on variable annuity, all variable adjustments still apply)
2. Cancel conditionally: Cancels all future variable contributions and past contributions will be transferred, *or* future annuity payments will become core payments, only when the value of the variable portion equals or exceeds the amount if you never participated in the variable (variable account must be “even” or “ahead” before transferred to the Core Fund)
3. Cancel unconditionally: Cancels all future contributions and transfers past variable contributions (and/or annuity payments) to the Core Fund regardless of excess or deficiency *

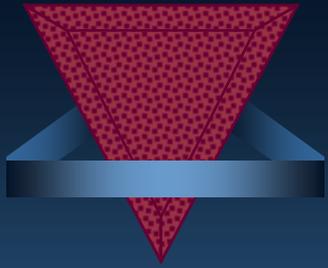


Canceling Variable Participation

- ↘ A record of the excess or deficiency is reviewed at the time of transfer
 - ↘ Also shown on your *Annual Statement of Benefits*
- ↘ ETF compares the variable account balance to
 - ↘ What the account balance *would have been* if you had not participated in the Variable Fund

* * * * *

If you transfer out of the Variable BEFORE taking a benefit, once your variable account balance has transferred to the Core Fund, you will have a residual excess or deficiency . . .

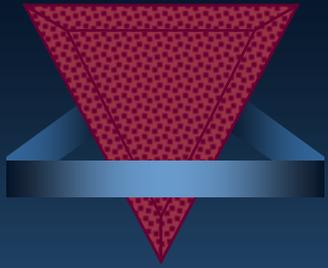


Canceling Variable Participation Residual Excess/Deficiency

- ✦ Your *residual* excess or deficiency will be credited with the core effective rate of interest each year

ATTENTION NON-ANNUITANTS !

- ✦ The amount of your excess or deficiency will grow each year after your Variable Funds are transferred to the Core Fund
- ✦ The net effect of interest credited to the excess *or* deficiency will be reflected in the calculation of the benefits paid from your account . . . here's how . . .



Residual Excess/Deficiency

Effects on variable transfers: Open Accounts

EXAMPLES



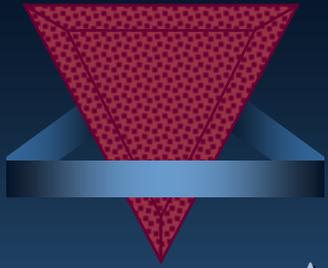
NOTE: If you file a *conditional cancellation*, you could NEVER have a residual variable *deficiency* because your Variable Funds would only be transferred if you're "even" or "ahead"

Transferred BEFORE retirement with an excess

\$ 20,666	Total Excess (Residual Excess)
+ 2,025	2006 Core Interest (9.8%)
= 22,691	Balance
x .00571	Money Purchase factor at retirement
\$ 129	Variable Adjustment (<u>Add to</u> annuity)

Transferred BEFORE retirement with a deficiency

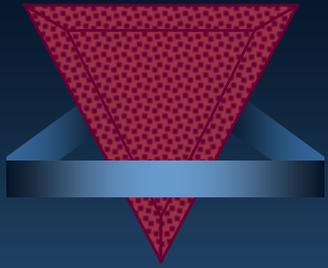
\$ - 20,666	Total deficiency (Residual Deficiency)
- 2,025	2006 Core Interest (9.8%)
= - 22,691	Balance
x .00571	Money Purchase factor at retirement
\$ - 129	Variable Adjustment (<u>Subtract from</u> annuity)



Asset Allocation

Asset Allocation is how the funds in the WRS are divided among *asset “classes”*

- ↘ Each year the Investment Board conducts a formal review and makes funding recommendations for the Core and Variable Funds
- ↘ The review considers a wide range of information *such as* economic and demographic trends and the amount of money needed to provide pension benefits for people in the WRS over the long term (50 years or more)



Asset Classes

The mix of investments basically includes six (6) groups



- 1. Stocks (Equities) - Domestic and International*
- 2. Fixed Income (Bonds)*
- 3. Real Estate*
- 4. Private Equity/Debt*
- 5. Multi-Asset*
- 6. Cash*

Each investment group specializes in a particular area of investment and can include several portfolios with different objectives

For detailed information, see SWIB's website



Summary Of Asset Mix

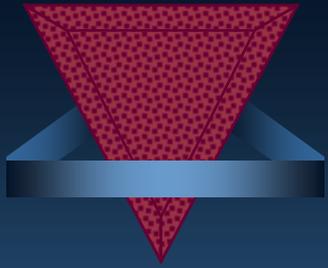
In 2008, SWIB established the following targets for the allocation of Core and Variable Fund assets

As of December 31, 2007, the market values were

Core Fund \$81 Billion

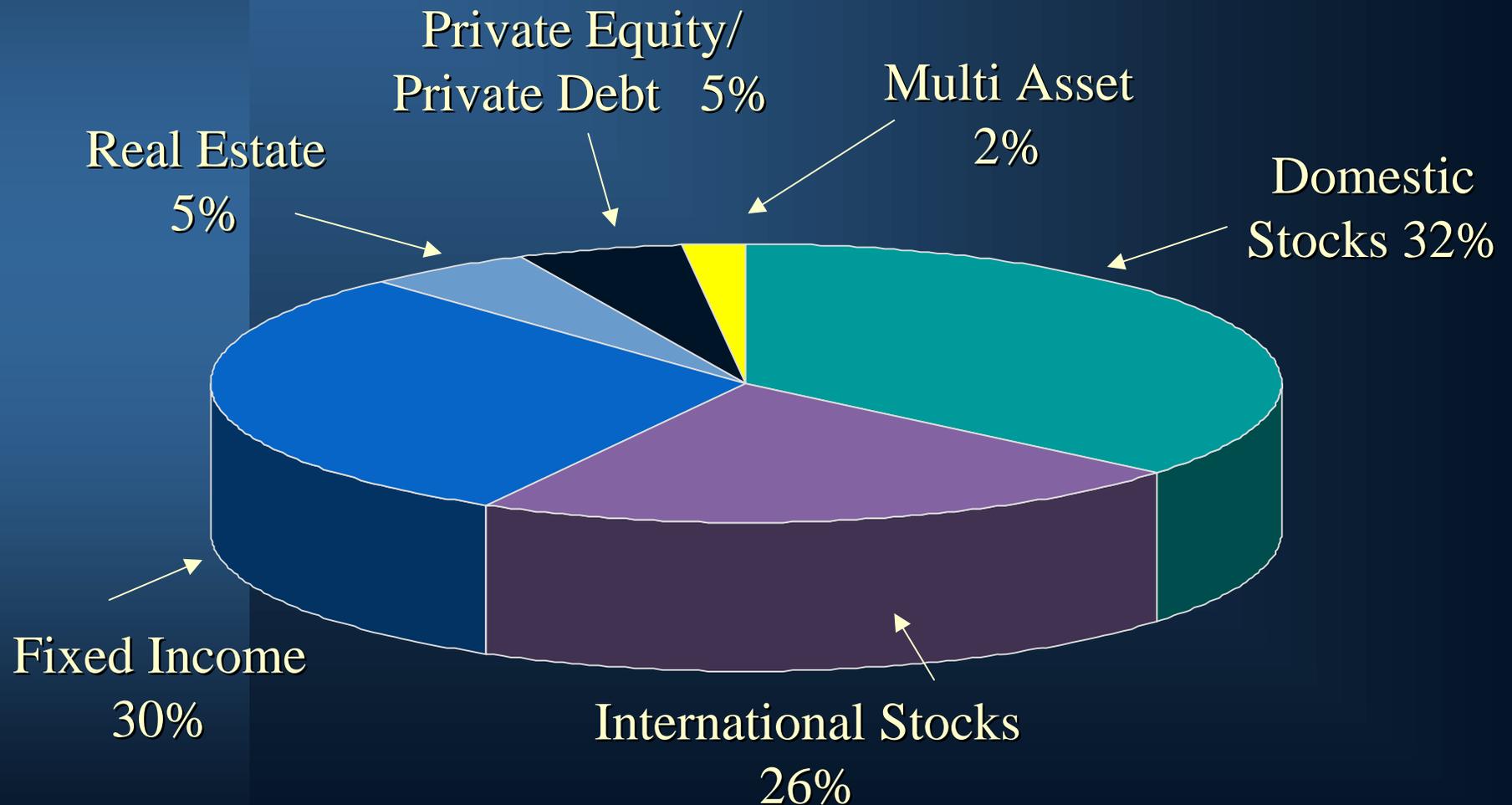
Variable Fund \$ 7 Billion

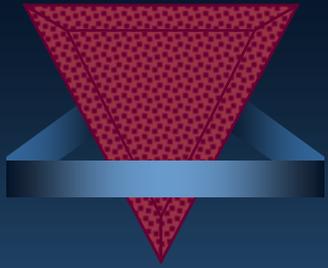
	Core Trust	Variable Trust
Equities (Domestic/International)	58%	99%
Fixed Income	30%	0%
Real Estate	5%	0%
Private Equity/Debt	5%	0%
Multi-Asset	2%	1%
Total	100%	100%



Core Fund - Diversified Assets

Asset Allocation Targets for 2008



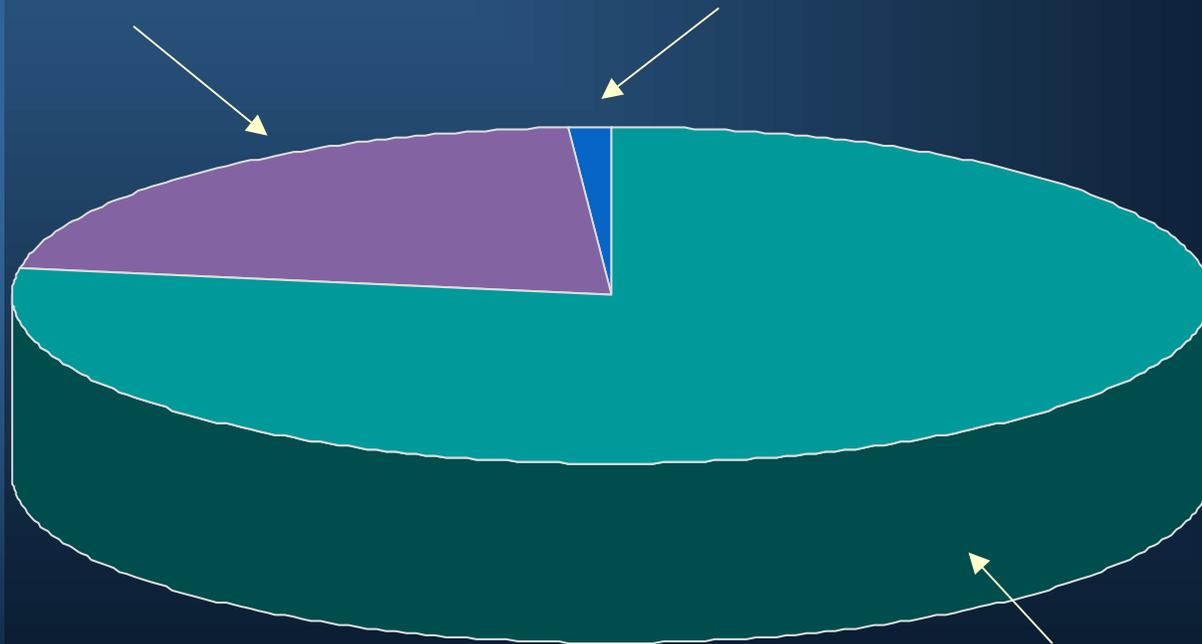


Variable Fund - Stocks

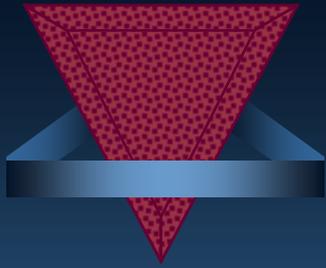
Asset Allocation Targets for 2008

International Stocks 30%

Multi Asset 1%



Domestic Stocks 69%



Investment Performance

Investment returns differ from *amounts credited to participant accounts* because of accounting and actuarial practices

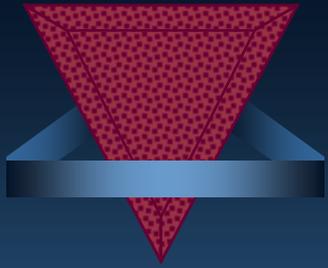
Effective Interest Rates

(credited to eligible open accounts)

<u>Year</u>	<u>Core Rate</u>	<u>Variable Rate</u>
2006	9.8%	18.0%
2005	6.5%	9.0%
2004	8.5%	12.0%
2003	7.4%	34.0%
2002	5.0%	(23.0%) Loss
2001	8.4%	(9.0%) Loss
2000	10.9%	(7.0%) Loss
1999	24.1%	28.0%
1998	13.1%	18.0%
1997	12.8%	23.0%

The process for determining the *effective rate of interest* on employee open accounts and the *adjustments in annuity benefits* for retirees differs between the Core and Variable Funds

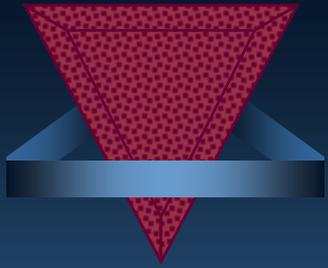
ETF computes the interest rates and annuity adjustments



Annuitant Experience

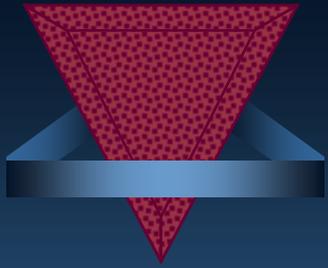
When You Retire . . .

- ✦ Sufficient monies needed to pay an annuity for the annuitant's *projected lifetime* are transferred from the participant's account and a matching amount from the Employer Reserve Account to the *Annuity Reserve Fund*
 - ✦ The *Annuity Reserve* is the account from which ALL annuities are paid
 - ✦ Amount transferred assumes future investment earnings will be 5% (set by law) and that assumption is designed to provide benefit increases after retirement
- ✦ ETF actuaries review investment results as of December 31 every year and the adjustment to monthly annuities is based on this review



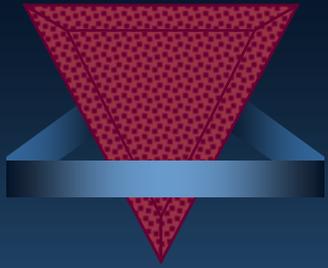
Annuitant Experience

- ✦ Core annuity increases are applied when:
 - ✦ Investment income (adjusted to reflect mortality experience) exceeds the assumed rate of 5%
 - and
 - ✦ Would result in a dividend of at least 0.5% for all annuities in force in that year
- ✦ Adjustments are intended (not guaranteed) to be permanent increases in the monthly annuity amounts paid
- ✦ A core annuity is *guaranteed* to never be less than the original final monthly amount



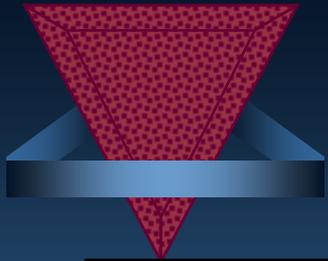
Annuitant Experience

- ↘ Variable portion of the annuity increases:
 - ↘ When the investment income (adjusted to reflect changes in the mortality experience) is *greater* than 5%
 - ↘ When the investment income is *less* than 5% an annuity will decrease
 - ↘ Variable increases or decreases occur only when there are enough funds to give everyone with a variable annuity either at least a 2% increase or decrease
- ↘ Unlike a Core Fund annuity, there is *no guarantee* that a variable annuity will not be decreased below the original final monthly amount



Annuitant Experience Core And Variable

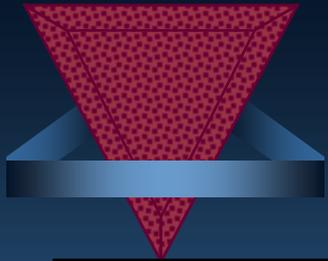
Annuitant Adjustment Rates		
Year	Core Dividend	Variable Adjustment
2006	3.0%	10.0%
2005	0.8%	3.0%
2004	2.6%	7.0%
2003	1.4%	25.0%
2002	0.0%	(27.0%) decrease
2001	3.3%	(14.0%) decrease
2000	5.7%	(11.0%) decrease
1999	7.5%	21.0%
1998	7.2%	12.0%
1997	7.7%	18.0%



Investment Performance

ETF Core Fund Percentages – 10 years

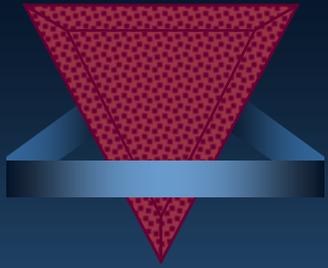
Year	SWIB Investment Return	ETF Effective Rate	ETF Annuity Dividend
2006	15.8%	9.8%	3.0%
2005	8.6%	6.5%	0.8%
2004	12.8%	8.5%	2.6%
2003	24.1%	7.4%	1.4%
2002	-8.8%	5.0%	0.0%
2001	-2.3%	8.4%	3.3%
2000	-0.8%	10.9%	5.7%
1999	15.5%	24.1%	17.1%
1998	14.6%	13.1%	7.2%
1997	17.2%	12.8%	7.7%
		10 yr ave: 10.5%	10 yr ave: 4.78%



Investment Performance

ETF Variable Fund Percentages – 10 years

Year	SWIB Investment Return	ETF Effective Rate	ETF Annuity Dividend
2006	17.6%	18.0%	10.0%
2005	8.3%	9.0%	3.0%
2004	12.7%	12.0%	7.0%
2003	32.7%	34.0%	25.0%
2002	-21.9%	-23.0%	-27.0%
2001	-8.3%	-9.0%	-14.0%
2000	-7.2%	-7.0%	-11.0%
1999	27.8%	28.0%	21.0%
1998	17.5%	18.0%	12.0%
1997	21.6%	23.0%	18.0%
		10 yr ave: 8.9%	10 yr ave: 3.08%



Summary

ETF's *Video Library* serves as an
information resource

Check out these other Webcasts

Your WRS Benefits

Annual Retirement Annuity Adjustments

Your Annual Statement of Benefits

Additional Contributions



THE END