

SWIB Information Paper:

Market Conditions and the WRS - Frequently Asked Questions

Q. Will the current market conditions affect the ability of the Wisconsin Retirement System (WRS) to provide for my pension?

A. In this uncertain time, we want to assure you that the WRS is, and will remain, solvent and able to provide retirement benefits long into the future. According to the actuary's 50-year financial projection in 2007, the WRS is well funded to meet obligations to current and future retirees. This projection took into account that there may be investment losses in some years. The retirement system is sound, in part, because SWIB's long-term investment focus helps the WRS withstand challenging economic times.

Q. How do SWIB's investment results affect me?

A. Contributions to the WRS by participating employees and employers are invested by SWIB. The accumulated funds and investment earnings are used to pay retirement, death and disability benefits. When employees retire, they receive a pension annuity from the Department of Employee Trust Funds (ETF). Adjustments are made annually to annuities based on investment results. The impact of investment results on the individual accounts of active and retired members depends on several factors established by law and is determined by ETF.

Q. Why does SWIB stay invested in stocks when markets do poorly?

A. Stocks represent the most significant portion of Core Fund assets. Over time, stocks have been a major contributor to the gains WRS members have received in their Core Fund accounts. The Core Fund also invests in other assets such as bonds, real estate and private equity to diversify risk. The Core Fund has experienced negative returns in only five of the past 30 years as a result of stock market declines, and its longer-term returns have remained positive.

By state law, investments in the Variable Fund must primarily be in equities. Participants choose the Variable Fund option with the understanding that it is a stock fund and is, therefore, subject to higher risk and more fluctuation for the potential of greater long-term returns.

Stock holdings in the Core and Variable Funds are widely diversified. However, market downturns are an expected part of investing in stocks. Given the large size of the WRS trust funds, it is not possible to effectively "time the markets." The evidence is strong that staying the course through up and down cycles is the best strategy for long-term investors like SWIB because it allows them to fully participate in the market's upward trend over time. Investors who are out of the stock market for its few best performing individual days may miss a substantial portion of market gains for longer periods.

Q. What is SWIB doing to help the WRS during these difficult markets?

A. Sticking to a disciplined approach is especially critical during volatile markets and has proven to be the best strategy for long-term investors, such as SWIB. SWIB employs a rebalancing process

as part of its discipline. For example, when stocks go below the asset target, SWIB sells other assets that have gone above asset targets (at higher prices) and buys stocks at lower prices. The asset targets are designed to reinforce a “buy low, sell high” approach. We carefully monitor individual investments and events that may affect the markets. Down markets can present opportunities for long-term investors to buy undervalued investments at attractive prices.

SWIB’s approach has helped the WRS to weather past periods of significant market stress, including the severe stock market downturn of 1987 and three consecutive years of stock market losses in 2000-02.

SWIB continually explores ways to strengthen its investment of WRS assets. Two years ago SWIB initiated changes in a number of its investment processes to further improve long-term performance and the management of risk. SWIB is increasing the assets invested by our own staff to reduce the costs of using outside money management firms. The changes that are underway are already showing promising results and should have SWIB better positioned to add value in all market conditions.

SWIB is also joining with other institutional investors to express our views to regulators about reforms that could help protect investors in the future from the events that contributed to the current financial crisis.

Q. How often does SWIB post investment returns?

A. SWIB updates final performance numbers each month for the Core and Variable Funds on its website. Stocks and other investments traded on public markets are priced daily. However, performance figures for privately traded investments—such as business loans, real estate and private equity—are typically not available until up to four weeks after the end of the month. To avoid confusion, SWIB generally waits until final calculations are made on all investments before updating the monthly performance. It is important to remember that investment returns as of December 31 are what affect employees’ retirement accounts and retirees’ benefit checks.

For More Information

The SWIB website offers additional information that we hope will be useful. Visit www.swib.state.wi.us for the following items:

- “Letter to Participants and Employers,” a statement from ETF and SWIB on market volatility and the effects on the WRS, 10/17/08
- Video message about the WRS, a joint statement by Keith Bozarth, SWIB executive director and Dave Stella, ETF secretary, 10/20/08.
- “Strategy Helps Retirement Funds In Market Downturns” is an information sheet that explains SWIB’s investment strategy.
- “SWIB newsletter looks at markets,” September SWIB Report, includes information about SWIB’s investment initiatives.

If you have additional questions about investing the Wisconsin Retirement System, contact SWIB at info@swib.state.wi.us or by calling toll-free (800) 424-7942 or (608) 267-0957.

