



**STATE OF WISCONSIN**  
**Department of Employee Trust Funds**

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Dear WRS Retirees in the Variable Fund:

In 2008 there were major decreases in the Variable Trust Fund. The decreases have raised concerns among Wisconsin Retirement System (WRS) retirees who have elected to participate in this optional, all-stock fund.

The State of Wisconsin Investment Board (SWIB), the agency that invests the assets of the WRS, reported a finalized Variable Fund investment return of -39% for 2008. The Core Fund, a balanced fund in which all WRS members participate, experienced a finalized decrease of 26.2%. While Core Fund investment returns are smoothed over a five-year period, by law the Variable Fund investment returns (increases and decreases) must be fully recognized each year. Therefore, WRS members who participate in the Variable Fund experience effective rates and annuity adjustments on the Variable Fund portion of their account that are closer to actual Variable Fund investment returns.

The Department of Employee Trust Funds (ETF) understands that WRS retirees in the Variable Fund are worried about the precipitous drop in the Fund and how it will affect their benefits in the coming year. About 25% of WRS retirees have elected to participate in the Variable Fund. These retirees' payments are paid from both the Core Fund and Variable Funds. Due to the smoothing of the Core Fund returns, Core Fund annuities will only be reduced by about 2.5% to 3%. However, retirees who still participate in the Variable Fund will experience a decrease of approximately 40-45% in the variable portion of their annuities, effective with the May 1 payment.

We are not unmindful of the affect large Variable benefit reductions have on retirees who participate in the Fund. However, state law requires the Variable Fund to be an all-stock fund. As such, the Variable Fund is a true reflection of domestic and international stock markets. To put this year's investment performance in perspective, the S&P 500, an index of 500 commonly-traded domestic stocks, ended 2008 with a 37% reduction and developed international stocks were down over 43%.

Some members have suggested ways to reduce the impact of the 2008 Variable Fund investment declines on WRS members in the Variable Fund, such as by pursuing a law change to hold members harmless from the investment declines. Those policy changes would create numerous inequities for members, legal challenges for the Department, and would ultimately jeopardize the integrity of the funding system for the entire WRS. We believe there is simply no viable alternative to distributing 2008's Variable Fund decreases.

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Volatility in the Variable Fund is not new. Depending on when you elected to participate in the Variable Fund, you may have also experienced many years of significant increases, such as the 32.7% investment gain in 2003 and the consecutive years of double-digit increases in the 1990s. Conversely, the Variable Fund has experienced a number of years with significant decreases, including more recently the three consecutive years of decreases in 2000, 2001 and 2002 that totaled a -52.7% annuity adjustment during that three-year span.

ETF has worked hard to educate and inform WRS members about the risks associated with participation in this volatile fund. Whether noted in newsletters, public presentations, or our Internet site, the primary message has always centered on the fact that participation in the Variable Fund is a personal decision and should be based on one's tolerance for financial risk. Likewise, deciding to cancel Variable participation should be carefully thought out.

We encourage you to visit our Internet site, <http://etf.wi.gov>, for more information about the Variable Fund, including the Variable Fund cancellation options and the effects of each option. You may also want to monitor SWIB's Internet site, <http://www.swib.state.wi.us>, to stay abreast of Variable Fund year-to-date investment returns.