WRS NEWS

News and information for active and retired members of the Wisconsin Retirement System

May 2012

Highlights — ETF

Highlights — SWIB

Secretary's Message: Understanding and Appreciation

— Bob Conlin, ETF Secretary

Announcing a sizable decrease in annuities is not how I had hoped to begin my term as Secretary. I suspect many of you feel the same way!

None of us at the Department of Employee Trust Funds enjoys delivering bad news. We like to help people. Reducing annuities is one of the hardest things we have to do. That's why we all had a sick feeling in our stomachs when the actuaries told us what the maximum adjustment was going to be this year.

Then the response from retirees started rolling in. By and large, it was different than what we expected. Sure, retirees are not happy. However, for the most part, the reaction has been one of **understanding** and a**ppreciation**:

- Understanding how the system works and why it works that way;
- Appreciation of the value of the system and the level of financial support it has provided over time.

While we have certainly heard from those urging that we "do something," we have also heard from many who have urged caution because they understand that "fixes" can have unintended—and often undesirable—consequences. With that in mind, we are working with our boards and actuaries to see whether any viable options exist that would further strengthen the WRS.

In the end, we can see that our efforts over the last several years to educate retirees about annuity adjustments have

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Parting Thoughts:
WRS Remains Among the Best in Country

— Keith Bozarth, SWIB Executive Director

Calendar Year-to-Date Preliminary Returns
as of 3/31/2012

Core Fund	**7.4%**
Benchmark	7.1%
Variable Fund	**12.7%**
Benchmark	12.4%

When I was hired at the State of Wisconsin Investment Board (SWIB), my conclusion was the Wisconsin Retirement System was one of the most intelligently-designed pension systems in the country. I still believe that. The system is undergoing a stress test, however, as a result of the historic global financial catastrophe of 2008. That catastrophe is requiring the reclamation of previous investment gains, through negative annuity adjustments.

The system is not broken. It is functioning as it was designed and, left alone, it will pass the stress test. The fact is, the Core Fund provides a smoothing period

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Bob Conlin

worked. And it gives us extra motivation to improve the information and services we provide to all members so they can better understand their benefits from the day they begin employment. This newsletter is one of the ways we'll do that. But we need your help.

Let us know what Wisconsin Retirement System news and information you want to see in these pages. Send an email to WRSNews@etf.state.wi.us or write to WRS News, P.O. Box 7931, Madison, Wis., 53717-7931.

About Secretary Conlin

Previous occupation: ETF Deputy Secretary **ETF Service:** 6+ years
WRS service: 21 years **Hometown:** Durand, Wis.
College: St. John's University, Minn. **Law School:** UW-Madison
Hobbies: biking, swimming, reading, Packers watching
Last book read: *The Untold Story of the Engineers, Visionaries, and Trailblazers Who Created the American Superhighways*, by Earl Swift

Quote of note: "Courage is what it takes to stand up and speak; courage is also what it takes to sit down and listen." — Winston Churchill

ETF Announces Effective Rates, Annuity Adjustments

The Department of Employee Trust Funds (ETF) has established the 2011 Wisconsin Retirement System (WRS) effective rates and annuity adjustments, as shown in the accompanying table. Effective rates are credited to employees' retirement accounts. The annuity adjustments affect retirees' monthly payments, beginning May 1.

	Core	Variable
2011 Investment Return	1.4%	-3%
Effective Rate	1.5%	-3%
Annuity Adjustment	-7%	-7%

Unfortunately, but as expected, annuities will be reduced for the fourth year in a row. Although WRS assets have experienced three consecutive years of positive returns since 2008, those returns have not been enough to offset losses suffered in 2008's stock market collapse. In 2008 the Core Fund experienced an actuarial loss of approximately 34%. Rather than being passed on to annuitants all at once, this loss is being spread over five years. This year's reduction represents the fourth year of that five- year smoothing process.

Although not nearly as severe as the 2008 decline, another factor now at work is the relatively flat investment performance in 2011. Because investments did not meet or exceed the 7.2% assumed earnings rate in 2011, an actuarial loss for 2011 must now be recognized over the next five years. These are two primary reasons there is a $1.68 billion shortfall in the Core annuity reserve this year.

As provided by law, when a shortfall occurs in the Core annuity reserve, the reserve is brought back into balance by repealing past Core annuity increases. Because of the Core annuity guarantee, 71,000 of the system's 167,000 retirees will not be subject to the full negative annuity adjustment in 2012. That is because either their annuities are at their guaranteed Core annuity "floor" established at retirement, or the full -7% adjustment would reduce their annuities to an amount below their floor. The Core annuity adjustment for these individuals will be between 0% and -7%, based on

ETF Announces, continued on page 3

Thinking About Returning to Work After Retirement?

State and federal laws limit the ability of retirees to return to work for their previous public employer after retirement. However, these laws **do** allow such retirees to return to work under certain conditions.

Going back to work for a non-WRS employer will not affect non-disability benefits administered by the Department of Employee Trust Funds (ETF). However, if you are thinking about going back to work for a WRS employer, you must meet two very important requirements—otherwise, your retirement benefit will be adversely affected. These two requirements are:

1. Your termination from employment must have been made in "good-faith".
2. You must meet the required break-in-service.

A "good faith" termination (also known as a "valid" termination) means you intended to fully retire from employment, and break in service refers to the period of time required before you return to WRS eligible employment. The break in service requirement is one factor used to demonstrate intent to fully retire. For specific information on meeting the break in service and valid termination requirements, review the important educational resources listed below or contact ETF.

For More Information

ETF brochures
Information for Retirees (ET-4116)
Calculating Your Retirement Benefits (ET-4107)

ETF videos
Returning to Work After Retirement
Calculating Your Retirement Benefits Online
Find them in our Video Library at
http://etf.wi.gov/webcasts.htm

ETF calculator
WRS Retirement Benefits Calculator

ETF Customer Service
1-877-533-5020 or (608) 266-3285

Find all ETF forms and brochures and the calculator on on our Internet site at http://etf.wi.gov. Or call 1-877-533-5020 or (608) 266-3285.

B E N E F I T S

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how much an individual's Core annuity can be reduced before it, too, reaches its floor. If every WRS retiree would have been eligible for a Core annuity reduction this year, the adjustment would have been about -4.0%. If you are retired, it is very important to know that:

- Again, your Core annuity amount cannot be reduced below its floor.
- It would likely take significantly negative investment performance this year to return all Core annuities to their floor. However, it is likely that, even with positive investment performance this year, another year of significant reductions is ahead, as the 2008 losses are recognized for the final time.
- Many recent retirees have never received Core annuity increases, since none were provided in 2008, 2009 and 2010.
- The single greatest contributor to whether annuities are increased or decreased is investment performance.

Why is the reduction so much larger than the Department anticipated? Earlier this year we projected a Core annuity adjustment of approximately -4% to -4.5%, based on preliminary 2011 investment returns. We based our numbers on a model that focused primarily on the **effect of investment losses** on the Core Fund, but did not fully account for an **increasing number of Core annuities at and returning to their floor**. Only a complete actuarial valuation can accurately calculate the annuity adjustments. We know that our projections are useful for anticipating the approximate magnitude of future adjustments and we are working to improve our model.

BENEFITS

Delays for *Statement of Benefits* and Some Services

The Department of Employee Trust Funds (ETF) is experiencing delays for some services typically provided to members and employers, due to technology/information system changes and other process revisions that are necessary to implement changes in the law.

Some of the delays may be lengthy. We appreciate your patience as we work to make the system changes necessary to ensure that critical information is accurate, thorough and complete. The following ETF customer services and/or processes are experiencing delays:

- Employees' annual *Statement of Benefits*
- Separation lump sum benefit payments
- Lump sum annuity payments (monthly annuity payments are not affected)
- Lump sum death benefit payments
- Requests to cancel Variable participation
- Requests to purchase forfeited service

Again, thank you for your patience. Keep checking our website for updates on wait times for these services.

Important Things to Know: Beneficiary Designations

Here is a true story that underscores the importance of keeping your beneficiary designation current: We recently worked with a widow whose husband previously said she would, in the event of his death, receive death benefits from his Wisconsin Retirement System (WRS) annuity and life insurance coverage. However, at that time, the husband did not realize his **ex-wife** was still listed as his primary beneficiary—he had never updated his beneficiary designation. The Department of Employee Trust Funds (ETF) is required to pay benefits according to the most recent beneficiary designation on file. In this case, we paid the benefits to the deceased's ex-wife, instead of to the current spouse.

Take steps to ensure your WRS death benefits are paid according to your intentions. The following will help you accomplish this goal:

- To update your beneficiary designation, you must use our *Beneficiary Designation* form. Sending a letter or a copy of your will is not acceptable. Your will does not control how your WRS death benefits are distributed.
- If you never file a beneficiary designation, ETF will pay any death benefits from your account using "standard sequence".
- Retirees: If you have a "joint and survivor" annuity, make sure you know who you designated as your named survivor. In addition, if you selected an annuity with a guaranteed number of payments, be sure to know when the guarantee expires and who you named as beneficiaries.
- If you have changes in your life, such as marriage or divorce, review your beneficiary designations. Divorce, for example, does not invalidate old beneficiary designations.
- You may choose different beneficiaries for different accounts and programs. For example: You could name one beneficiary to receive your WRS account and a different one to receive your WRS life insurance benefits. If you have a Wisconsin Deferred Compensation account, you must file a separate beneficiary designation form.
- Old beneficiary designations cause many problems. These often do not reflect the current wishes of the member and are the cause of many administrative appeals, which lead to significant delays in benefit distribution.

For More Information

ETF brochure
Death Benefits (ET-6101)

ETF video
Planning for the Inevitable: Death Benefits and Beneficiaries. Find it in our Video Library at http://etf.wi.gov/webcasts.htm.

ETF Forms
Beneficiary Designation (ET-2320, ET-2321)

Saving for Retirement: Does Your Gender Matter?

BENEFITS

What is your Wisconsin Deferred Compensation (WDC) account balance? Your answer depends on a number of factors, including how much you contribute each pay period, how long you have been saving and investment performance.

However, did you also know that your gender may play a role? Although women and men participate in the WDC at roughly the same rates, the average account balances of women are about 70% of their male counterparts. Women also tend to contribute less than men, even when they earn the same amount. Women are 20% less likely than men to contribute the maximum allowable amount.

A recent study takes a closer look at this phenomenon. The study was funded by the U.S. Social Security Administration Financial Literacy Research Consortium via a grant awarded to the Department of Employee Trust Funds and the UW-Madison Center for Financial Security. It examines gender disparities in account balances among participants in the WDC. While results of the study are still being compiled, the authors have identified some potential causes, including:

- Historically lower salaries for female employees;
- Fewer years of WDC eligibility for women;
- More years during which women didn't make any contributions; and
- A higher likelihood of pre-retirement emergency withdrawals by women.

The authors theorize that the combination of such factors as longer life spans for women and lower career earnings may increase the likelihood many women could outlive their assets, which makes saving for retirement during working years critically important for women.

What is the WDC?

A deferred compensation plan under S. 457 of the Internal Revenue Code, the WDC is a **supplemental retirement savings program** available to state and university employees. Local government and school district employees may also be eligible if their employers elect to offer this optional benefit program. For more information on the WDC, visit www.wdc457.org.

For women and men, personal sources of income, such as a WDC account, will play a significant role in attaining retirement income goals. **The fundamentals of smart planning are gender neutral:**

- Pay yourself first, through tax-deferred contributions to your WDC account.
- Increase contributions over time.
- Choose a well-diversified mix of investment options that matches your investment goals and changing risk tolerance, and make adjustments as needed.

Find out more about these fundamental steps and other ways the WDC can help you plan and save for the retirement income you want—visit the WDC website at www.wdc457.org.

Sign up for *ETF E-Mail Updates*

Keep current on important Wisconsin Retirement System benefits-related news and information by signing up for this free service. You will hear from us when we post online newsletters, make important announcements, schedule benefits presentations in your area, and much more. Registration for *ETF E-Mail Updates* is easy, free and fast. Look for the red envelope icon on at http://etf.wi.gov.

Retirees: Some Payment Dates Affected by Calendar

The timing of when retirees will receive their payments for July, September and December may be affected because the first day of those months falls on a weekend. When that happens, financial institutions may not make payments available until the "settlement date". The settlement date is the date a financial institution actually receives the money from the Federal Reserve.

If your payment is an automated deposit (ACH): Ask your financial institution how it handles deposits for ACH payments that are dated on non-business days. **If your payment is a paper check:** The Department of Administration delivers the checks to the Post Office on the last mailing day of the month. Your actual receipt date will depend on the speed of the mail delivery. For more information, see "*When are Annuity Payments Deposited?*", an ETF online document. Find it in the What's New Archive at http://etf.wi.gov.

2012	
Payment Date	**Settlement Date**
July 1	Monday, July 2
September 1	Tuesday, September 4
December 1	Monday, December 3

Update: IRS Rule on Normal Retirement Age

The Department of Employee Trust Funds (ETF) continues to track an Internal Revenue Service (IRS) regulation regarding the definition of normal retirement age—the age at which one can retire with an unreduced benefit—for governmental plans.

There are concerns the regulation, which is effective January 1, 2013, would raise the normal retirement age for Wisconsin Retirement System (WRS) protective category employees. Currently, the normal retirement age requirement for these employees is 54 years with less than 25 years of service, or 53 with 25 years or more of service.

ETF believes the IRS regulation **does not** affect the normal retirement age levels for any WRS participants—that it only applies to governmental plans that make in-service pension distributions (payment of pension amounts while the person is still employed). Wisconsin does not make such distributions.

We hope IRS clarification is forthcoming and plan to provide more information when it becomes available. In the meantime, monitor our website or sign up for ETF E-Mail Updates, a free service. Look for the red envelope icon on our website at http://etf.wi.gov.

Board Corner

Teachers Retirement Board: Wiltgen to Serve Third Term

David Wiltgen, a teacher at Eau Claire Memorial High School, will serve a third term on the Teachers Retirement (TR) Board. His first term on the board began in 2002. Wiltgen was the only candidate to file the necessary petitions to run for the seat when the Department called for nominations last fall. The TR Board certified his appointment at its meeting in March.

Teachers Retirement Board: Elections 2013

Watch the September edition of *WRS News* for information regarding the following Teachers Retirement Board elections next year:

Elected By	Term Length	Current Seat Holder
Wisconsin Technical College District teachers (non-retired)	5 years; begins May 1, 2013	R. Thomas Pedersen
WRS retired teachers	5 years; begins May 1, 2013	Lon Mishler

ETF Seeks Persons with Abandoned WRS Accounts

The Department of Employee Trust Funds (ETF) is looking for individuals age 70 and older who have "abandoned" Wisconsin Retirement System (WRS) accounts. The list of members known to have abandoned accounts has been updated with the names shown below. These WRS members or their heirs have ten years after publication to apply for the benefit.

If you know the whereabouts of anyone on this list, please ask them or their heirs to contact ETF. Inquiries must include the member's complete name (published name, current and prior name), date of birth, Social Security number and the year the name was published.

Find the complete list on our site at http://etf.wi.gov/news/abandoned_wrs.htm. Sorry, we cannot accept telephone calls regarding these accounts.

2011 Success Noted

Department of Employee Trust Funds staff successfully located the owners of 178 "abandoned" accounts in 2011. The combined value of these accounts was approximately $2.2 million!

BENEFITS

Adams, Marilyn A
Alex, Robert A
Anderson, Donald W
Arnone, Joyce A
Barton, Janice C
Bartz, Dorothy J
Boggess, Samuel F
Bolton, D Edward
Braun, Yvonne R
Bredesen, Barb A
Buchanan, Robert
Bukowiec, Frank A
Burgett, Jeanean A
Burza, Michael J
Cannon, Hazel L
Carter, Susan N
Cates, Iris D
Clemins, Kathleen M
Collings, Virginia L
Cook, William H
Cunningham, James M
Daltabuit, Sharon E
Daniel, Rosemary
Davie, Lynn E
Deegan, Jr., Daniel D
Durand, Paul F
Elmer, Lois A
Esposito, Tamzin A
Feeney, Carol
Ferguson, Phyllis
Fox, Geoffrey E
Free, Mary A
Gaulke, Corinne H
Grau, Jerold L
Griffiths, Marilyn J
Haas, Ronald G
Heath, Maxine L
Holy, Norman L
Hunger, Sharon K
Hutchins,Judith A
Hutchins, Sharon K
Johns, Carolyn A
Johnson, Bertha L
Johnson, Mary D
Jones, Frances L
Kelsey, David L
Koh, Cecilia S
Korris, Ernie
Kuritz, Patricia
Leveringston, Mary G
Marks, Patricia R
Moe, Richard C
Moffat, Peter G
Murdock, Patricia A
Nelson, Robert F
Nicoly, Joan M
Nugent, Donald R
Obrien, Edward O
Olguin, Carlos A
Paul, Dennis W
Pease, Mary J
Peterson, Ronald J
Peterson, Virginia G
Rao, Kolli P
Rattner, Rachel E
Ready, Judith
Rettig, Edward W
Rogers, Robert L
Schlosser, Nancy L
Sherman, Judith M
Sparks, William J
Spychalla, Jerome D
Stevens, Margaret
St John, Patricia A
St Lawrence, Patricia A
Subiron, Juan
Swanda, Sharon K
Tratz, Antone
Vivian, Joyce M
Wochele, Mark D
Wohld, Lavern M
Wolske, John F
Woodburn, Ferrell C
Wysokinski, Daniel
Young, Jill
Zerrenner, Roger H

Group Appointments Available

The Department of Employee Trust Funds (ETF) offers group retirement appointments throughout the state. In a group appointment, which is designed for members nearing retirement, an ETF benefits specialist provides an explanation of the retirement estimate, annuity options, the application process and answers questions.

Reservations are required; attendees must be within a year of minimum retirement age and have a WRS retirement estimate. To review a map showing presentations and group appointments in your area, go to Benefit Presentations under the "Members" menu of our website site at http://etf.wi.gov. To make an appointment, call ETF 1-877-533-5020 or (608) 266-3285.

INVESTMENTS

Appointments to SWIB Board of Trustees Approved

Lon Roberts

Norman Cummings

The state Senate in January confirmed the appointments of Norman Cummings and Lon Roberts as trustees to the State of Wisconsin Investment Board (SWIB). Cummings, Waukesha County Director of Administration, replaces David Geertsen as the local government member of the board. Roberts is an attorney with Ruder Ware, in in Wausau, and replaces David Kruger as a public member of the board. Their terms will expire May 1, 2017. The Governor has one more appointment to make to the Board.

David Stella, former Department of Employee Trust Funds Secretary, will continue as a trustee in the position appointed by the Wisconsin Retirement Board. The SWIB Board of Trustees consists of nine members meeting specific requirements. These include:

- the Secretary of the Department of Administration or a designee;
- one member appointed for a six-year term representing a local government that participates in the Local Government Investment Fund;
- five public members appointed for staggered six-year terms and four having at least 10 years of investment experience; and
- two participants in the Wisconsin Retirement System (WRS) appointed for six-year terms, one is a teacher participant appointed by the Teacher Retirement Board and one is a participant other than a teacher appointed by the Wisconsin Retirement Board.

Trustees have a fiduciary responsibility to act solely in the interest of the WRS trust funds. They also appoint the executive director and internal auditor. Trustee responsibilities include establishing asset allocation, investment guidelines and performance benchmarks. Staff is responsible for making the day-to-day decisions about investments and operations following the policies. Other Board members include Thomas Boldt; Bruce Colburn; William H. Levit, Jr.; Wayne McCaffery; and Mike Huebsch.

SWIB Analyst Presented with Rising Star Honor

Derek Drummond, a State of Wisconsin Investment Board (SWIB) analyst, has been named as one of 15 Rising Stars in Public Funds nationwide by *Institutional Investor*.

Drummond is one of three responsible for manager selection and monitoring for the $35 billion Wisconsin allocates to external public markets managers. These also include assets for hedge funds and risk parity portfolios.

SWIB began investing in hedge funds last January and currently holds $500 million with five managers. It expects to slowly increase the amount allocated to hedge fund strategies and the number of firms employed.

In addition, Drummond helps develop proprietary allocation and risk analytic methodologies for the overall fund, a top-quartile performer among similarly sized defined benefit plans.

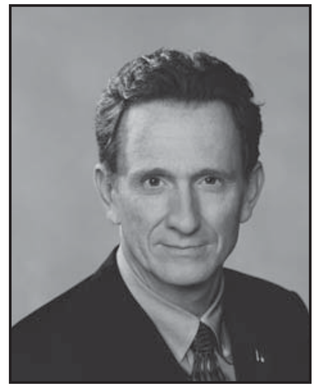
Before joining the plan in 2010, Drummond was director of operations and lead alternative investment analyst at Sovereign Wealth Management in San Francisco, a wealth management firm. Rising Star honorees are nominated by their managers, mentors and peers, and selected by the editors of *Institutional Investor*.

Williamson Named New SWIB Executive Director

Michael Williamson has been appointed executive director of the State of Wisconsin Investment Board (SWIB).

A former University of Wisconsin-Madison administrator, Williamson is currently deputy director of the District of Columbia Retirement Board in Washington, D.C. His 35 years of experience working in the public sector includes pension administration and investments, serving nine years as the director of North Carolina Retirement Systems, the 10th largest U.S. public pension system.

Williamson worked in Madison for 15 years prior to returning to North Carolina in 1994. During his time in Madison he was assistant to the UW-Madison chancellor, policy advisor for the Office of the Governor and chief of staff in the Madison mayor's office. He currently serves as chair of the Board for the National Institute on Retirement Security and is past-president of the National Association of State Retirement Administrators.



Michael Williamson

"I am very excited to be working for the public employees and employers of the State of Wisconsin and to be associated with an organization with an outstanding national and international reputation in the world of pension fund investments," said Williamson.

Williamson holds a bachelor's degree and master's degree in public administration from the University of North Carolina at Chapel Hill. He replaces Keith Bozarth, who became executive director in 2007. Bozarth expects to continue his duties and assist through the transition that will take place in June.

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for gains and losses applied to dividends, unlike the Variable Fund. It is also a fact, however, that humans periodically produce massive global financial bubbles and meltdowns. We hope to see only one in our lifetimes, but no regulation of the financial world will eliminate them.

Years ago the WRS implicitly recognized there would be periodic massive financial follies and it had smoothing mechanisms intended to weather those with minimal pain. The world assumed, however, that the run-up in financial asset prices in the 1980s and 90s was permanent and there would never be a catastrophic financial event. The smoothing mechanisms were changed.

Unfortunately, truly bad news, like 2008, now flows through the system to retirees relatively quickly. Good news also flows through more quickly, meaning that when bad news hits, there is not as much saved for the rainy day. *The system still balances good and bad times, but does so in a more feast-or-famine manner.*

Fortunately, the fundamental structure of the system, which shares gains and losses broadly, is still in place. In addition, the requirement that investment gains are subject to offset by future losses is still in place. Dividends and contributions can rise and fall. These two critical features still put the system on much more solid ground than nearly every other public pension.

Investment performance for the WRS compares quite favorably to other pension plans. Returns are consistently above peer medians, and risk and cost are generally lower. Nonetheless, dramatic market events occur. Can a revised smoothing process help process those events better?

My point is twofold: First, it may be possible to refine an already good system. But more important, before any changes are made to the system, let's learn from history and avoid unpleasant and unanticipated consequences.

INVESTMENTS

Long-term Trust Fund Returns Remain Positive

From the market downturn of 2008 to the economic instability in Europe, which caused many international indexes to see double digit declines in 2011, the hurdles facing investors across the globe have sometimes been very high. Despite these obstacles, the State of Wisconsin Investment Board (SWIB) continued to make long-term investment decisions aimed at managing and mitigating risks to the Wisconsin Retirement System (WRS) and lessen the impact on annuities.

Over the past five years, the Core Fund has had a return of 3.5%, while the all-stock Variable Fund has had a return of 1.3%. The ten-year return for the Core Fund is 7.0% and 5.2% for the Variable Fund. That compares favorably to the Russell 3000 Index (a broad U.S. stock index), which has a five year return of .06% and a ten-year return of 4.2%. While the Core Fund is a fully diversified, balanced fund, stocks comprise more than half of the investment. The Variable Fund is a global stock fund.

For the past three years, the Core Fund investments have been positive and when compared to public pension fund peers, SWIB's performance is consistently strong. The Core Fund performance ranking was in the top quartile of the ten-year period ending Dec. 31, 2011, according to the Wilshire Trust Universe Comparison Service Ranking, which includes 387 public pension funds.

While some public pension funds have similar asset allocations, there can be significant differences depending on the needs of the individual retirement systems and the investment objectives of the fund. Likewise, the returns may also reflect different investment strategies. SWIB has been focused on reducing the amount of equities and seeking other investment tools over the past few years to help manage the effects of market volatility on the Core Fund. When the stock market performs well, funds with higher allocations to stocks may see better overall performance. However, when stock markets decrease significantly, such as in the downturn in 2008, the Core Fund returns will not decline as sharply, helping to stabilize the effect on WRS annuities. SWIB continues to work to choose a mix for the Core Fund that is expected to provide the optimal risk and return through a full seven to ten-year market cycle.

The design of public pension systems can vary drastically. The differences can include the amount of the contribution rates employees and employers pay, the base annuity amount and the basis for any annual annuity adjustments. In the case of the WRS, the system design, with its risk and reward sharing, means annuitants can see increases well beyond the consumer price index but also some dividends from the past taken away up to their initial annuity.

The basic objective of the Core Fund is to earn an optimum long-term return while taking acceptable risk. The investment objective for the Variable Fund is to achieve returns equal to or above that of similar stock portfolios over a market cycle. Those objectives remain the same through extremely difficult market periods, like the past five years, and extremely favorable ones, like the 1990s.

Wisconsin Retirement System
Core & Variable Fund Performance*

	YTD	Five Years	Ten Years
Core Fund	7.4%	3.5%	7.0%
Benchmark	7.1%	3.4%	6.7%
Variable Fund	12.7%	1.3%	5.2%
Benchmark	12.4%	1.1%	5.3%
Russell 3000	12.9%	1.8%	4.8%

**as of March 30, 2012*

Understanding How SWIB Uses Benchmarks & Indexes

Benchmarks and indexes are two words that stick out when reading about investments and the Wisconsin Retirement System (WRS). But understanding what they mean and how the State of Wisconsin Investment Board (SWIB) uses them can be confusing. Can you compare the Dow Jones or the S&P 500 Index directly to SWIB's benchmarks? The answer is no.

The Core Fund includes a mixture of asset types, including domestic and international stocks, real estate and bonds. Because of its diversity, the Core Fund benchmark is mainly a composite of several market indexes, including the Russell 3000, considered a measure of the U.S. stock market as a whole, along with several international indexes, bond indexes and measures for other asset classes.

The Variable Fund includes the Russell 3000 and Morgan Stanley World Index ex-U.S., plus emerging markets, which reflects the mix of U.S. and international stocks.

SWIB uses these indexes as part of the decision-making process when setting investment benchmarks. For 2011, SWIB exceeded its benchmarks for both the Core and Variable Trust Funds. SWIB's trustees and a consultant review and set the total fund, each asset class and individual portfolio benchmarks. To the best extent possible, a portfolio benchmark represents the class, or range, of investments that the manager is allowed to use for investment. The investment objective is then to perform better than the applicable benchmark.

Specific SWIB Benchmarks and Stock Indexes

Here are the two stock indexes used by SWIB to establish benchmarks:

MSCI ACWI EX-U.S.
This benchmark, a market-capitalization-weighted index maintained by Morgan Stanley Capital International (MSCI) is designed to provide a broad measure of stock performance throughout the world, excluding U.S.-based companies. The MSCI All Country World Index Ex-U.S. (MSCI ACWI Ex-U.S.) includes both developed and emerging markets.

RUSSELL 3000
The Russell 3000 Index is one of 21 U.S. equity indexes produced by the Frank Russell Company that are market cap-weighted. It includes only common stocks incorporated in the U.S. and its territories and represents 98% of the investable U.S. equity market. The Russell 3000 is considered a measure of the market as a whole.

Here are two other well-known indexes that reflect general investment market performance, but are not used by SWIB when setting benchmarks:

DOW JONES INDUSTRIAL AVERAGE
The Dow Jones is the most widely used indicator of the overall condition of the U.S. stock market. It is a price-weighted average of 30 actively traded blue chip stocks.

STANDARD & POOR's 500 INDEX
The S&P 500 is widely regarded as the standard for measuring large-cap U.S. stock market performance. This index includes a representative sample of 500 leading industries.

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WRS NEWS

Published in January, May and September by the Department of Employee Trust Funds and the State of Wisconsin Investment Board to inform Wisconsin Retirement System (WRS) members about benefit programs and trust fund investment news and information. **Contact ETF if you have questions regarding your WRS retirement, health and life insurance benefits.**

Contact ETF
Phone: 877-533-5020
(608) 266-3285

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