WRS NEWS

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

September 2012

Highlights — ETF

Highlights — SWIB

Secretary's Message: Staying Vigilant and Responsible

— Robert Conlin, ETF Secretary

Two major reports about the Wisconsin Retirement System (WRS) made headlines this summer. In June, the Pew Center on the States issued its annual report on the financial health of state pension plans. While the report rates the WRS a "strong performer," it sheds light and attention on the problem of underfunded public pensions nationally. Read more about the report on page 10.

In July, a long-awaited study on the WRS was issued that explored, and recommended against, allowing employees to opt out of paying contributions and creating an optional defined contribution plan. One of the key reasons the report recommended against the changes was the current financial health of the WRS. Read more about the study and its findings on page 3.

Although both of these reports shed positive light on the WRS and its responsible design and management, there is no denying that public pension plans in general are facing difficult challenges. The underfunding experienced in so many plans has been exacerbated by the financialmeltdown of 2008, followed by a slow recovery.

The good news is that policymakers are doing something about it. State legislatures around the country have made significant changes to public pension plans in order to reduce costs, shore up

Secretary's Message, continued on page 2

New Executive Director Looks at Past Achievements and Future Investment Goals

— Michael Williamson, SWIB Executive Director

I would like to use my first column to comment on the challenges that face public pension systems in this country today, to discuss what the State of Wisconsin Investment Board (SWIB) has done to address them in the past and what I commit to doing in the future to keep this system solid. The Wisconsin Retirement System (WRS) is a strong retirement system. In fact, it is the only fully-funded public pension plan in the country. Those are statements that we can all be very proud of, given the financial challenges facing many public pension plans today. It was encouraging to read the national report released

Calendar Year-to-Date Preliminary Returns
as of 7/31/2012

Core Fund	**7.2%**
Benchmark	7.0%
Variable Fund	**8.6%**
Benchmark	8.6%

Goals, continued on page 8

BENEFITS

Secretary's Message, continued from page 1

funding issues, and contain future liabilities. All over, public employees are being asked to pay for more of the cost of their retirement benefits, investment return assumptions are under scrutiny, retirement ages are increasing, pension formula "multipliers" are changing, and, in some cases, guaranteed cost-of-living adjustments are being scaled back. Many of these changes model key design features of the WRS. The problems facing public pension plans across the country were created over many years and will not be fixed overnight, but the general trend seems to be in the right direction.

But challenges remain. Concerns about underfunded pension plans led the Government Accounting Standards Board to institute new accounting rules requiring public pension plans, including the WRS, to do additional financial reporting. And Moody's, a bond rating agency that evaluates the creditworthiness of states and municipalities seeking to borrow money, is considering requiring states and municipalities to report their pension liabilities in a different way. These initiatives will result in further scrutiny of the fiscal condition of public pension plans.

In addition, there are many economic challenges. The U.S. economic recovery has been slow. Major headwinds from a combination of the European debt crisis, the looming U.S. "fiscal cliff," and slowing growth in China and other parts of the developing world will continue to present investment challenges for pension plans and other investors. And cash-strapped state and local governments will continue to struggle when balancing the cost of public employee benefits with providing critical services.

The WRS is not insulated from these challenges. The continued potential reduction of annuities due to the 2008 financial crisis will continue to stretch the budgets, and patience, of WRS retirees. In addition, the financial reporting changes described earlier could lead some to argue the WRS is less well funded than it actually is. That could also lead to calls for large (and largely unnecessary) increases in required contributions from employees and taxpayers to "make up" for the supposed shortfall. We will be monitoring these developments to protect the WRS and ensure that the facts are front and center.

The WRS has served as a strong source of retirement income for generations of Wisconsin's public employees. The reports released this summer suggest that, if we remain vigilant and responsible, the WRS is well-positioned to be there for future generations, too.

Secretary Conlin Featured Guest on *Newsmakers*

Department of Employee Trust Funds (ETF) Secretary Robert Conlin was the featured guest on an episode of *Newsmakers*, a production of WisconsinEye. Conlin was interviewed on a variety of key topics relevant to the Wisconsin Retirement System (WRS), including:

- An overview of the structure of the WRS, including retirement boards, members, employers, and retirement benefits paid.
- How the system's funding discipline and fairly unique risk-sharing/reward-sharing design features have helped keep funding relatively stable and capable of paying benefit promises.
- WRS Core annuity adjustments compared to traditional cost of living increases.
- The WRS study and a discussion of defined benefit plans and defined contribution plans.
- How 2011 law changes could potentially affect WRS employer and employee contributions and contribution rates.

To view the program, see the News Archive page on our site, http://etf.wi.gov/news/Whats_New.htm.

BENEFITS

Information on Effective Rates, Annuity Adjustments

At this point in the year, Wisconsin Retirement System (WRS) members often want to know what to expect in terms of rates and adjustments for next year. Keep in mind that only an actuarial analysis that incorporates finalized 2012 investment returns and other actuarial factors can accurately calculate the rates. Therefore, watch for three announcements early next year:

- Final 2012 investment results for the Core and Variable Trust Funds (mid-late January)
- Effective rates for active employees (February)
- Annuity adjustments for retirees (March)

Although the year has not ended, we have some important preliminary information regarding the variables that feed into the rate calculations:

- **It will take a Core Trust Fund investment return of approximately 27% to avoid further Core annuity reductions.** See page 1 for preliminary Core and Variable Trust Fund investment results as of July 31, 2012 or monitor the State of Wisconsin Investment Board's website, which is updated monthly, at www.swib.state.wi.us.
- **Many Core annuities are at their original, guaranteed amounts (the "floor") because many retirees have never received increases in their annuities or previously-distributed increases have been repealed.** This has left a smaller pool of annuities subject to further reduction. At least 88,000 annuitants likely will not be subject to the maximum negative Core annuity adjustment in 2013.
- **Currently, most WRS retirees' Core annuities have been cut back to either their initial levels or the approximate amount they were paid in 2004.** A Core Fund investment return of 7.2% in 2012 would result in further reductions, moving Core annuities to either their initial levels or approximately the amount paid in 2000.
- **Under the system's five-year smoothing process, this is the last year in which the rates will reflect the investment decline caused by 2008's investment market decline.** Core Fund gains and losses are recognized ("smoothed") in equal increments over five years.
- Typically, this smoothing process prevents large swings in retirees' Core annuities from year to year. This is why the Core annuity reduction was only 2.1% in the year following 2008's massive losses. This year's rate calculation will incorporate the effects of investment experience for the five-year period from 2008 to 2012.

Of course, we would prefer to increase Core annuities so that all retirees can keep pace with inflation. But these reductions are one risk-sharing feature (the other two are employer and employee contribution rate adjustments) that work to keep the WRS in balance and one of the best-funded public employee pension systems in the nation.

WRS Study Published

The results of the Wisconsin Retirement System (WRS) study, directed by 2011 Wisconsin Act 32, can be viewed on the Department of Employee Trust Funds (ETF) website. The Department of Administration, the Office of State Employment Relations and ETF were directed to examine the structure and benefits of the WRS and specifically examine the affect two changes would have on the WRS: establishing a defined contribution (DC) plan as an option for participating employees; and permitting employees to not make employee required contributions and limiting retirement benefits for those employees to a money purchase annuity.

Among the study's key findings:

- The WRS is stable and highly funded. The WRS funding ratio has consistently remained above 90% during the last 20 years and has been nearly 100% since 2004.
- Variations in employer and employee contribution rates over the past 20 years have been low.
- The WRS has one of the lowest pension system costs for taxpayers in the United States.

Study, continued on page 5

B E N E F I T S

2013 Contribution Rates Set in September

The Employee Trust Funds (ETF) Board plans to finalize Wisconsin Retirement System (WRS) employer and employee contribution rates for 2013 at its September meeting. Earlier this year, the Board set a *range* of possible contribution rates so that local government employers could start next year's operating budget preparations. We anticipate the actuaries will recommend raising rates for 2013, for all employers and employees.

Why the delay? In a typical year the rates are set in June, based on the recommendation of ETF's independent consulting actuaries. This year, however, the rate-setting process is delayed until ETF and employers complete the process of reconciling active employee earnings and contributions (reported by employers). In addition, employee records must also reflect the provisions of 2011 Wisconsin Acts 10 and 32, which made changes to benefits, contribution rates, and the allocation of these contributions to member accounts.

Why are 2013 contribution rates increasing? Many factors affect the WRS contribution rate-setting process. These include investment performance, demographics, and benefit changes as required by law. It is important to remember that WRS assets are smoothed over the course of five years. This smoothing has historically prevented large swings in contribution rate changes. The effect of 2008's global economic crisis on investment performance was unprecedented and will affect contribution rates through 2014. In addition, now that employees are paying one-half of the total required contribution, their money purchase account balances will increase, which in turn:

- increases the amount payable as a separation benefit;
- increases the amount used to calculate a money purchase retirement benefit; and
- increases any death benefits payable when the employee dies before taking a retirement benefit.

For More Information

ETF documents
How are Contribution Rates Determined? WRS News, January 2012.

Recent Changes to Your WRS/Group Health Insurance Benefits, September 2011. Find it under the Act 10/32 menu on ETF's website, http://etf.wi.gov.

ETF video
Employee Contributions and WRS Investments. Find it in the video library on ETF's website at http://etf.wi.gov/webcasts.htm.

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

WRS Annuity Adjustments are not COLAs

Public employee retirement systems in other states are altering retirees' cost of living adjustments (COLAs) in order to deal with budget problems. Is my Core WRS annuity safe? Yes. Under state law, you have earned your retirement benefit; it is a contractual right protected by the Wisconsin Constitution and it cannot be changed by any subsequent legislation. Some retirement systems automatically grant COLAs or guaranteed increases in annuities. These can be costly to maintain. The WRS does not provide COLAs; there is no guaranteed benefit increase once you retire. Instead, you may receive a dividend over and above your original Core annuity. Such increases are solely dependent on trust fund investment experience. They are provided only when the growth in fund's investments, adjusted to reflect actuarial factors, is enough to pay at least a 0.5% increase for all retirees. Conversely, when investments do not performed adequately, previously granted dividends are decreased to help ensure the WRS remains adequately funded.

The "risk-sharing" nature of the WRS, which is fairly unique among public employee pension systems, has helped keep WRS funding relatively stable and capable of paying all promised retirement benefits.

Remember, though, that by law your WRS Core annuity can never be reduced below its original amount.

Retirees Provide Important Feedback

The Department of Employee Trust Funds (ETF) conducted a brief survey last spring among small groups of retired Wisconsin Retirement System (WRS) members. Although the survey was informal and unscientific, we received about 240 responses and a lot of helpful feedback about ETF communications. We also learned some things about our retirees.

<u>Website</u>

Part of the survey was designed to gather retirees' opinions about the use and usefulness of our website. We found that less than half of all respondents had visited our website in the last six months. Of those who had, all of them said it was either "very useful" or "fairly useful".

ETF's website, http://etf.wi.gov, is a consistent source of current information about WRS benefits and programs. While print materials like newsletters and brochures are still important ways to convey information to members, they take more time and resources to plan and deliver. Our website is easy to access and updated frequently.

<u>*ETF E-mail Updates*/Facebook/Twitter</u>

We asked retirees if they use our notification service, *ETF E-mail Updates* and if they use Facebook or Twitter. Only one-fourth of respondents have signed up for *ETF E-mail Updates*, but of those who did, 100% of them said it was "very useful". About one-third of respondents said they use Facebook; none use Twitter.

More than 20,000 WRS members receive important benefits-related news and information between regularly-scheduled editions of *WRS News* because they signed up for *ETF E-mail Updates*. We send emails when we post important updates on our website. For example, within minutes of placing the WRS Study on our site, users of this free service were able to read it online.

Survey Results by the Numbers:

- Percentage of respondents who visited ETF's website in the last 6 months: 44%. Of these:
  - 62% visited once in awhile
  - 20% visited monthly
  - 14% visited weekly
  - 4% visited daily
  - 99% deemed the website either "very useful" or "useful".
- Percentage of respondents signed up for our free service, *ETF E-mail Updates*: 25%. Of these, 100% said it's "very useful".
- Percentage of respondents who read *WRS News:* 98%. Of these:
  - 100% said the newsletter is either "very useful" or "useful".

<u>*WRS News*</u>

We are pleased the survey also showed that nearly 100% of all respondents are regular readers of this newsletter and that all find it either "very useful" or "fairly useful". In addition, many took the time to offer suggestions for improvement. If you have suggestions for improvement, please email them to WRSNews@etf.wi.gov. We will use your feedback to continue improving our efforts to communicate WRS benefit news and information.

Study, continued from page 3

- The system uses many pension policy best practices, including a disciplined funding model and risk-sharing mechanisms that have minimized risk for taxpayers.

The study recommended that an optional DC plan and employee opt-out of required contributions should not be implemented at this time, given our system's current financial health and risk-sharing features.

We highly recommend you take the time to review the study and its findings. It includes an overview of trends in other states, actuarial analyses on the effect of the proposed changes to the WRS, Internal Revenue Code implications, and State of Wisconsin Investment Board analysis on possible effects on WRS investments.

Active Employees: Watch for your *2012 Annual Statement of Benefits* in October.

Board Corner

Teachers Retirement (TR) Board: Nominations Sought for Two Seats

The Department of Employee Trust Funds (ETF) has issued a call for nomination papers for individuals seeking election to the following seats on the TR Board:

TR Board Seat	Current Member	Term Expires
Technical college district teacher (active)	R. Thomas Pedersen	May 2013
Retired teacher	Lon Mishler	May 2013

Contact us for a nomination packet if you are interested in running for one of these seats. Please specify the nomination packet wanted—either technical college district teacher or retired teacher member. Write to: Board Liaison, P.O. Box 7931, Madison, WI 53707-7931. You may also send an e-mail to: BoardElections@etf.state.wi.us. Completed nomination papers must be received by ETF by 4:30 p.m., Tuesday, November 13, 2012.

Teachers Retirement (TR) Board: Joslin Elected to Board

WRS active teachers have elected Jon P. Joslin to serve on the TR Board. Joslin is a teacher in the Nekoosa School District. ETF distributed ballots to active teachers (excluding Milwaukee Public School District, which has its own seat) in late April and balloting was completed in May. The other candidates were Christopher J. Perillo, Kenosha Tremper High School; and Michael W. Williamson, Arrowhead Union High School. Joslin will serve a five-year term.

Retirees' Corner

The WRS News periodically runs brief announcements submitted by and about retiree organizations, subject to space availability and made on a first-come, first-served basis.

Wisconsin Retired Educators' Association (WREA)

WREA's signature goal is to protect the long term stability of the public pension fund and represent the interests of the retired educational community. WREA organized in 1951 and today has more than 65 local units and 16,000 members from the K-12, UW and Wisconsin technical college systems. A non-partisan, non-union organization, WREA does not endorse candidates or make campaign contributions. The organization has a strong legislative presence through its committee structure and a statewide legislative alert network that matches constituents to legislators. WREA provides a broad range of member benefits. Membership is open to all educational staff—teachers, professors, academic staff, school personnel, and administrators. Although most members are retired and pay the $40 Regular Member fee, those still working can join as Associate Members for $20 per year. Contact: WREA, 6405 Century Avenue, Middleton, WI 53562; (608) 831-5115 or go to http://www.wrea.net.

Note: In partnership with the Wisconsin Coalition of Annuitants, WREA is pleased to offer its dental plans to all WRS participants. Go to http://www.gisconline.com/wcoa or call Greater Insurance Service at 1-877-817-4805.

ETF Sets Fall Public WRS Presentation Schedule

The Department of Employee Trust Funds (ETF) has scheduled free, public presentations for Wisconsin Retirement System (WRS) members, especially those considering or planning retirement in the near future. ETF specialists will discuss WRS retirement, death and separation benefits, and health and life insurance benefits. Reservations are not needed. All locations are handicap accessible.

Presentation Schedule

(Presentations run from 6:30 p.m. to 8:30 p.m., unless otherwise indicated. In the event of severe weather, listen to local radio stations for possible cancellations.)

Fond du Lac	Thurs., Oct. 4	Moraine Park Technical College, Cafeteria A109, 235 N. National Ave., Fond du Lac
Green Bay	Mon., Sept. 10	Northeast Wisconsin Technical College, Lecture Hall SC132, 2740 W. Mason St., Green Bay
Kenosha	Mon., Nov. 5	Gateway Technical College, Madrigrano Aud., 3520 30th Ave., Kenosha
Stoughton	Mon., Nov. 5	Stoughton High School, Cafetorium, 600 Lincoln Ave., Stoughton
Milwaukee	Wed., Nov. 14	UW-Milwaukee, UW-M Union Ballroom, 2200 E. Kenwood Blvd., Milwaukee
Platteville	Wed., Sept. 26	Platteville High School, Auditorium, 710 E. Madison St., Platteville
Rhinelander	Wed., Sept. 12	Nicolet Area Technical College, The Nicolet Theatre, 5364 College Dr. & Hwy G., Rhinelander
River Falls	Thurs., Oct. 18	Meyer Middle School, Auditorium, 230 N. Ninth St., River Falls
Superior	Tues., Sept. 18	Wisconsin Indianhead Technical College, Conference Center, 600 N. 21st St., Superior
Wisconsin Rapids	Tues., Sept. 25	Mid State Technical College, Auditorium, 500 32nd St. N., Wisconsin Rapids

Tentative Spring 2013 WRS presentations set for: Appleton, Eau Claire, Hayward, Janesville, La Crosse, Madison, Marinette, Pewaukee, Racine and Wausau.

Get Important, Timely WRS-Related News and Announcements with Free Email Service

Find out about important Wisconsin Retirement System WRS benefits-related news and information between regularly-scheduled editions of *WRS News*. Sign up for *ETF E-Mail Updates*, a free e-mail notification service of the Department of Employee Trust Funds. You will hear from us when we post online content, important announcements, benefit presentation schedules, new services and website features, and much more. Registration for *ETF E-Mail Updates* is easy, free and fast. Look for the red envelope icon on our website at http://etf.wi.gov.

Goals, continued from page 1

by the Pew Center for the States that referred to the WRS as a "solid performer" because of the system's ability to meet its benefit obligations for current and future retired Wisconsin public employees. Equally as encouraging were the results of a recent state study conducted by the Department of Employee Trust Funds, Department of Administration and Office of State Employment Relations, which found that the WRS is an efficient and sustainable retirement system. Along with its unique shared risk and reward structure, consistent contributions and strong investment returns, the study showed why the WRS has been able to weather much of the recent financial storm.

Many public pension systems across the country have not been able to navigate the financial turbulence of the past several years. Like you, I have seen and read the stories of unfunded public pension debt and of the significant changes being made to the structure of many pension plans. These stories have become more common as systems struggle to meet their obligations.

You and I, as WRS participants, have seen firsthand how SWIB's staff and Board of Trustees have worked hard to assure the WRS is able to continue to meet its obligations today and in the future. We have seen SWIB add staff and technology tools to better manage the investments, improve the selection and oversight of external money managers, transition to managing more money internally at less cost, and use new ways to manage risk while generating added returns. The result has been that today, more than 75% of the WRS is funded through investment returns.

Michael Williamson

These studies and improvements completed in recent years underscore the fact that WRS investments are being managed by a highly-competent and professional staff. Since arriving back in Wisconsin and starting my role as executive director at SWIB, it has become clear to me why SWIB has developed a reputation of being in the forefront of investing in these challenging times. I am excited to lead an organization that has laid the foundation for success.

Looking to the future, it has also become clear to me that we must continue to be diligent in our efforts to keep the WRS stable and highly funded. We will continue to implement diverse investment strategies that are designed to help the system withstand the volatility of the world's financial markets. Additionally, we will continue to seek out cost-saving strategies for managing the WRS trust funds. I pledge to you that we at SWIB will do our part to generate returns that will keep the WRS among this country's public pension leaders.

Investment Performance Information Posted Online

The affect of investment returns on the benefits of Wisconsin Retirement System (WRS) participants is determined by the Department of Employee Trust Funds (ETF) and is based on the rate of return as of December 31.

The State of Wisconsin Investment Board (SWIB) posts calendar year-to-date returns monthly on its website once performance numbers are final. This usually takes about four weeks for returns because privately traded investments such as business loans, real estate and private equity are not available until four weeks after the close of the month. To view year-to-date investment returns as well as other WRS performance information, visit SWIB's website at www.swib.state.wi.us.

INVESTMENTS

Garcia Named "American Public All-Star"

A State of Wisconsin Investment Board (SWIB) investment manager has been recognized for his work and leadership in the oversight of Wisconsin Retirement System (WRS) investments.

Dominic Garcia was featured in the March/April issue of *aiCIO Magazine* as an "American Public Plan All-Star." The magazine featured its first-ever list of managers, primarily under the age of 40, who are recognized as some of the most innovative, dynamic and respected professionals across the investment landscape. Garcia was among the individuals in the spotlight who oversee the assets of some of the world's foremost pension plans, sovereign wealth funds, insurance companies, endowments and other nonprofit institutions. The magazine is published by Asset International for chief investment officers.

Hamblen Elected to Council Board of Directors

The Council of Institutional Investors (CII) general members recently elected a new board of directors. Jane Hamblen, the State of Wisconsin Investment Board's chief legal counsel, was elected to a second one-year term at the council's spring conference in Washington, D.C. CII is a nonprofit, nonpartisan association of pension funds and other employee benefit funds, foundations and endowments with combined assets that exceed $3 trillion. It is a leading voice for having strong procedures—rules and laws by which businesses are operated, regulated or controlled in place—and strong rights for shareholders.

Bozarth, Stella Named Blair Testin Award Recipients

Keith Bozarth (left) and David Stella

Keith Bozarth, former State of Wisconsin Investment Board (SWIB) executive director, and David Stella, SWIB Board of Trustees member and former Department of Employee Trust Funds (ETF) secretary, both received the 2012 Blair Testin Award, in recognition of their many years of exceptional service and dedication on behalf of the public employees and their retirement benefits. Bozarth and Stella received their awards in May, at the annual conference of the Wisconsin Coalition of Annuitants, an organization representing more than 20 retired public employees' associations.

Bozarth spent five years as executive director of SWIB before retiring last June. Stella retired last January, after 23 years of service at ETF. The award is named in honor of Blair Testin, former state director of retirement research, who made invaluable contributions to the design and oversight of the WRS during his 24-year career in public service in Wisconsin.

INVESTMENTS

Pew Center Report Rates WRS as "Solid Performer"

When it comes to paying its benefit obligations for current and future retired employees, the Wisconsin Retirement System (WRS) stands alone as the only fully-funded public pension system in the country.

In its report, *The Widening Gap Update*, the Pew Center on the States calls the WRS a "solid performer" at a time when other public pension plans are seeking ways to bridge a combined $757 billion gap in the underfunding of their pension promises.

"States continue to feel the impact of the Great Recession, and have lost more ground in their efforts to cover the long-term costs of their employees' pensions and retiree health care," said David Draine, a senior researcher for the Pew Center on the States. "While the economy and state revenues are improving, states are still struggling to manage the bill coming due for promised benefits."

Fortunately for WRS participants, Wisconsin is not one of those struggling states. Wisconsin was one of 11 states Pew rated as "solid performers" in managing its pension obligations in fiscal year 2010 and was one of only four states that were funded at 95% or better (and, in fact, is the only one at 100%). According to the Pew Center, most experts agree that a fiscally-sustainable system should be at least 80% funded.

Wisconsin, like every other public pension plan in the country, has had to deal with extreme market volatility since 2008. Market volatility has significant consequences for the WRS and its participants and employers. The risk and rewards are shared. Therefore, managing that volatility takes on additional significance in the investment plan assets and in the sustainability of the plan's benefit design.

To maintain the system, the State of Wisconsin Investment Board (SWIB) works to invest funds in a way that will continue to ensure the WRS can meet its financial obligations. This is a key role since 75% of the money presently in the WRS came from investment returns.

How Do the States Fare?

STATE	PERCENT FUNDED
Alabama	70%
Alaska	60
Arizona	75
Arkansas	75
California	78
Colorado	66
Connecticut	53
Delaware	92
Florida	82
Georgia	85
Hawaii	61
Idaho	79
Illinois	45
Indiana	65
Iowa	81
Kansas	62
Kentucky	54
Louisiana	56
Maine	70
Maryland	64
Massachussetts	71
Michigan	72
Minnesota	80
Mississippi	64
Missouri	77
Montana	70
Nebraska	84
New Hampshire	59
New Jersey	71
New Mexico	72
New York	94
N. Carolina	96
N. Dakota	72
Ohio	67
Oklahoma	56
Oregon	87
Pennsylvania	75
Rhode Island	49
S. Carolina	66
S. Dakota	96
Tennessee	90
Texas	83
Utah	82
Vermont	75
Virginia	72
Washington	95
West Virginia	58
WISCONSIN	100
Wyoming	86

Source: Pew Center on the States 2012
Note: Based on Fiscal Year 2010 data

INVESTMENTS

CIO Looks at Investment Strategy and Economy

David Villa joined the State of Wisconsin Investment Board (SWIB) as chief investment officer (CIO) in 2006. Since then, SWIB has increased the amount of money that is managed internally by SWIB employees while reducing the cost of investing those funds. In addition, SWIB has navigated through a very difficult time in the world economy. Villa answered questions about SWIB's investment strategy and the economy for the *WRS News*.

Q: Over the last couple of years, you have reduced the percentage of stocks in the Core Trust Fund. What new investments have you moved towards and what is the premise for this gradual shift?

Villa: Over the past three years, SWIB has reduced the Core Fund's allocation in stocks by 4%. Further reduction will be done gradually and implemented over a number of years. Traditionally, pension systems are stock-heavy and perform best when those returns are high. However, the real return of stocks has been close to zero about 50% of the time over the past 130 years. In the Wisconsin Retirement System (WRS) risk-sharing structure, that means an employee's wealth in retirement depends disproportionately on stock returns, which are not reliable. We want to smooth the randomness and achieve stable outcomes across generations. The dependence on stocks can be reduced in part by moving assets to classes like real estate, U.S. treasury and inflation-protected securities. Since the performance of these types of assets is not tied to the performance of the stock market, they can help counter periods of poor market performance with positive returns. SWIB has also made a small allocation to hedge funds and other strategies that are not tied to stocks.

Q: In 2007, SWIB managed about 21% of total assets in-house. Today, that number is more than 55%. As the CIO, how has your job evolved as more investment management is brought in-house?


David Villa

Villa: One of the keys to successful investing is minimizing costs. By increasing the percentage of money (assets) managed in-house, SWIB saves about $30 million per year. These savings stay in Wisconsin instead of being paid to Wall Street in the form of management fees. Given the emphasis on internally managed assets, the challenge facing the SWIB CIO can be compared to a coach. The CIO must be able to attract and retain investment talent. SWIB's investment talent needs to be balanced and integrated so that the team can work together and play above the sum of the individual's talent. A team with a wide variety of experts and good communication across areas enhances performance. When things do not go well, the players need to be dusted off and sent back into the game. Standards of performance and consequences for outcomes need to be clearly articulated. Winning is important. Improving is also important.

Q. What is the biggest foreseeable challenge for SWIB in the near future?

Villa: The challenge is to resist stretching for returns in order to achieve investment return targets when the environment presents too much risk. Our investment strategy seeks to earn solid returns over time while reducing risk as much as we can, rather than reaching for returns during shorter-term difficult environments.

Did You Know?

According to an independent study by CEM Benchmarking, Inc., the State of Wisconsin Investment Board provides top-quartile performance relative to peers and is a low-cost manager.

Department of Employee Trust Funds
PO Box 7931
Madison, WI 53707-7931

PRSRT STD
U.S.POSTAGE
PAID
MILWAUKEE, WI
PERMIT NO. 5309

ET-7402

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

Wisconsin Relay Service (for speech and hearing impaired)
7-1-1 or
800-947-3529 (English)
800-833-7813 (Spanish)

E-mail ETF via the "contact ETF" page on our website, http://etf.wi.gov.

Editors
ETF — Nancy Ketterhagen
SWIB — Vicki Hearing

ETF Self-Service Line
877-383-1888
(608) 266-2323
Request forms and brochures, report home address changes, make tax withholding changes (retirees only).

ETF E-Mail Updates
Sign up for ETF's free e-mail notification service. Look for the red envelope on our website, http://etf.wi.gov.

ETF Message Center
800-991-5540
(608) 264-6633
Listen to pre-recorded telephone messages on a variety of WRS topics.

SWIB
Contact SWIB for information about WRS investments.
P.O. Box 7842, Madison, WI 53707-7842
www.swib.state.wi.us
e-mail: info@swib.state.wi.us
Phone: 800-424-7942
(608) 267-0957