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Calendar Year-to-Date Preliminary Returns as of 07/31/2015

Core Fund Benchmark	2.8%
Variable Fund Benchmark	3.7%
	3.8%

[For State of Wisconsin Group Health Insurance Program Members](#)

Health Insurance Program Changes for 2016 in Place

The Group Insurance Board approved several changes to the State of Wisconsin Group Health Insurance Program, affecting all participating members (state and local employees, retirees and continuants). The changes affect medical, pharmacy, and dental benefits for 2016.

If you do not participate in the state group health insurance program, these changes do not affect you.

In general, the 2016 program changes center on increased cost sharing for members in the forms of:

- o Added deductibles
- o New office visit copayments
- o Increased out-of-pocket limits

**It's Your Choice
Open Enrollment Period
October 5-30, 2015**

- o Coinsurance for certain prescription drugs

How the changes will affect retirees enrolled in Medicare A and Medicare B:

1. There will be coinsurance requirements for certain prescription drugs and higher out-of-pocket limits for pharmacy benefits for all members.
2. The Uniform Dental Benefit will be available through Delta Dental and will no longer be offered through your health plan. Members of Medicare Plus will now have access
Insurance, continued on page 2

What Does the Future Hold for Investment Returns?

— Michael Williamson, SWIB Executive Director

One key to the success of a public pension system is, obviously, return on investments. Like many public pension funds, the Wisconsin Retirement System sees a majority of its income—about 76%—come from returns generated by the investments made by the State of Wisconsin Investment Board. Since 1983 the Core Fund has been fortunate to experience just five years with single-digit returns, and one of those years, 1992, was a 9.7% return.

Over the past 32 years, there have only been six years with negative returns, including two years with losses less than 1%; 1994 at a -0.6% loss; and 2000, with a 0.8% loss. Throughout the 1980s and late 1990s, double-digit returns—sometimes more than 20%—were the norm for the WRS. Some of you may be fortunate enough to remember 1985, when the Core Fund return was 27.5%, its highest since 1983.

More recently, however, an ever-
Future, continued on page 5

to the Uniform Dental Benefit. The dental benefits will be substantially similar to the 2015 Uniform Dental Benefit. However, options for in-network dental providers may change. Members will be able to view Delta Dental's provider network directory prior to open enrollment.

State retirees: If you do not want dental coverage through the group health insurance program, you must **opt out** of dental during the It's Your Choice open enrollment period. If you would like to keep the Uniform Dental Benefit, you do not have to make any changes.

Local retirees: Your employer will provide more information about your dental plan options before or during the open enrollment period.

3. The hospice benefit has been expanded to include coverage of advance care planning discussions. This benefit helps ensure that members facing a terminal illness are informed of care options and are able to make treatment decisions based on their individual values and goals of care.
4. Habilitative services will be covered. This benefit helps a member keep, learn or improve skills and functioning for daily living.

How the changes will affect retirees who are not enrolled in Medicare:

1. Most members will now pay a medical deductible of \$250 for single/\$500 for family.
2. Most members will pay office visit copayments of \$15 (primary care and therapy) and \$25 (specialty care and urgent care visits). The office visit copayments will not be subject to the deductible and will count toward meeting the out-of-pocket limit. In addition, the 10% coinsurance will still apply to additional services at the office visit. **Note:** There is no copayment or deductible for routine preventive health services, as mandated by the Affordable Care Act.
3. Out-of-pocket limits will increase for medical and prescription drugs.
4. There will be coinsurance for certain prescription drugs.

5. The Uniform Dental Benefit will be available through Delta Dental and will no longer be offered through your health plan. Members of the State Maintenance Plan and the Standard Plan will have access to the Uniform Dental Benefit. The dental benefits will be substantially similar to the 2015 Uniform Dental Benefit. However, options for in-network dental providers may change. Members will be able to view Delta Dental's provider network directory prior to open enrollment.

State retirees: If you do not want dental coverage through the group health insurance program, you must **opt out** of dental during the It's Your Choice open enrollment period. If you would like to keep the Uniform Dental Benefit, you do not have to make any changes.

Local retirees: Your employer will provide more information about your dental plan options before or during the open enrollment period.

6. The hospice benefit has been expanded to include coverage of advance care planning discussions. This benefit helps ensure that members facing a terminal illness are informed of care options and are able to make treatment decisions based on their individual values and goals of care.
7. Habilitative services will be covered. This benefit helps a member keep, learn or improve skills and functioning for daily living.

The projected cost savings of the program changes are \$85 million, slightly exceeding the \$81 million cost savings required by the 2015-2017 State Budget (2015 Act 55). The additional projected cost savings is a step toward avoiding a federal excise tax to take effect in 2018.

Much more detailed information about the changes for 2016 will be available soon, via the It's Your Choice open enrollment materials. In the meantime, review our document, *Frequently Asked Questions: Group Health Insurance Program Changes for 2016* on our website.

Legislative Update

—Tarna Hunter, Legislative Liaison

On July 12 the biennial budget bill (2015 Wisconsin Act 55) became law. The budget contains a number of provisions that relate to ETF and its administration of the Wisconsin Retirement System and other benefit programs. These include:

Health Insurance Program: The Group Insurance Board was required to make appropriate changes to the state group health insurance program in order to realize \$81 million in efficiencies and savings over the biennium. At its May meeting, the GIB approved benefit changes and increased member cost sharing in 2016—these changes will provide a projected cost savings of \$85 million over the next two years.

Changes to Executive/Elected Employee Category: Act 55 allows the ETF Board to move all current Elected Official/Executive/Judge Category members into the General Category for purposes of setting annual contribution rates. In addition, the law changed the normal retirement age for the Executive/Elected/Judge Category

from age 62 to age 65 for new employees entering the category after December 31, 2016. The retirement age will not change for existing employees. The ETF Board's actuary confirmed that bringing the Executive/Elected/Judge Category into the General Category will not have a material effect on General employees.

Employee Incentive to Opt Out of Health Insurance Program: This provision provides a \$2,000 annual incentive for active employees who opt out of the state group health insurance program.

We will continue to monitor legislative developments and provide updates as they occur. Watch our website for the latest information and resources. In addition, sign up for *ETF E-mail Updates* to receive e-mail notices from ETF about important news and information. Look for the red envelope icon on our website.



Tarna Hunter

Take the Member Online Services Survey

The Department of Employee Trust Funds is pleased to report the early stages of a multi-year project to modernize its information technology systems are proceeding as planned. One of the biggest projects under this initiative is a new benefits administration system, called myETF. Members and employers have been asking for the ability to interact with ETF-administered benefits online, similar to online services offered by financial institutions. The new system will take several years to complete, but when myETF goes “live,” Wisconsin Retirement System members and employers will be able to securely, easily and conveniently interact with ETF-administered benefits online.

Wanted: Your Feedback

We are carefully designing myETF with your needs in mind. That's why we want your feedback now. **Please complete our short Member Online Services Survey by September 30. It will take less than**

10 minutes to complete. We will use your input to help create new and improved online services that will meet your needs—both now and in the future. Look for the link on our website at <http://etf.wi.gov>.

What will I be able to do online using myETF? This is a multi-phase project. The first phase, set for completion in 2017, will replace the current myETF Benefits online application and allow members to enroll in and update health insurance, life insurance and income continuation benefits and related information. myETF will eventually provide online services for all ETF-administered benefits. For instance, active employees through myETF will view their retirement account balances, retirees will update their tax withholdings, and everyone will be able to update their beneficiary designations, addresses and much more.

Thanks in advance for taking the survey. Again, find it on our website at <http://etf.wi.gov>.

A Look at WRS 2014 Financials

The Wisconsin Retirement System paid out more than \$4.5 billion in benefits in 2014. Sound funding and plan design principles keep the WRS financially strong. It's the fiduciary responsibility of the Department of Employee Trust Funds to report to you, the legislature and Wisconsinites about how the WRS is doing. Complete WRS financial statements, with notes and supplementary information, will be published in ETF's 2014 *Comprehensive Annual Financial Report* and available on our website later this year.

WRS Assets and Reserves

As of the end of 2014, the WRS had net assets of over \$92 billion, an increase of \$2.2 billion over 2013. These assets are invested in a balanced portfolio of stock, bonds and other investments managed by the State of Wisconsin Investment Board.

\$51.1 billion of reserves are set aside to pay monthly benefits to our current 186,000 retirees. The average annual retirement benefit is \$24,185. The annuity reserve, increased by 5% annual interest, will be sufficient to pay lifetime benefits without any additional contributions.

The employer and employee reserves include contributions made by and on behalf of non-retired participants. While the employee reserve is made up of over 400,000 individual participant accounts, the employer reserve is a single commingled account with no separation of individual employer contributions. At the time a participant retires, the present value of their annuity is transferred to the annuity reserve from the employer and employee reserves. These reserves are also used to pay separation and death benefits.

The Market Recognition Account is used to smooth the effects of investment gains and losses on the WRS. The excess or deficiency of investment returns are spread over five years. As a result, the WRS has \$2.4 billion in past investment gains that will be used to supplement current income or offset investment losses over the next four years.

WRS Revenues and Expenses

Investment income is the largest source of revenue for the WRS. While 2014's 5.7% investment return was lower than the long-term average, it was still more than double the employee and employer contributions combined.

	2014	2013
Assets		
Stocks	\$50,725	\$48,961
Bonds	27,139	26,372
Other Investments	10,717	10,843
Other Assets	3,566	3,749
Total Assets	\$92,147	\$89,925
Reserves		
Annuity Reserve	\$51,133	\$48,461
Employer Reserve	22,030	21,279
Employee Reserve	16,403	15,559
Market Recognition Account	2,463	4,570
Other Reserves	118	56
Total Reserves	\$92,147	\$89,925

	2014	2013
Revenues		
Investment Income	\$4,889	\$11,343
Employer Contributions	1,023	915
Employee Contributions	906	871
Other Income	3	4
Total Revenues	\$6,821	\$13,133
Expenses		
Annuities	\$4,540	4,225
Separation Benefits	34	33
Administration	24	22
Total Expenses	\$4,598	\$4,280
Addition to Net Assets	\$2,223	\$8,853

Employer contributions are paid by WRS employers and are held in the employer reserve until needed for a transfer to the annuity reserve to fund new annuities. Employee contributions are primarily paid by WRS participants and are held in individual accounts for the participant until retirement or paid as a separation benefit if the employee leaves covered employment and chooses to withdraw contributions.

When you compare total WRS expenses of \$4.6 billion to combined employee and employer contributions of \$1.9 billion, the importance of a strong investment program to make up the difference is clear.

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changing global financial environment has meant more volatility in investment returns. Since the market downturn in 2008, which produced a 26% loss for the Core Fund, returns have bounced between a high of 22.4% in 2009 and a low of 1.4% in 2011. Last year, the Core Fund returned 5.7%.

Many economists believe we are entering a financial period that will result in long-term investment returns similar to those we saw in 2014, rather than those we saw in the 1980s and late 1990s. It will be a period marked by the economic turmoil we are seeing in Greece, the rollercoaster ride the Chinese stock market is on and the potential for rising interest rates here at home.

No matter what the economic environment has been over the past 32 years, the WRS has remained one of the few public pension systems in the country that is fully-funded, meaning it is able to meet its obligations to members. That is not the case in some states, where plans are severely underfunded. Those states are now forced to make drastic system design changes and make riskier investments in an attempt to improve the funding status of those plans.

Although no one can predict exactly what will happen in the years ahead, it does seem we may be facing significant investment challenges moving forward. Will we ever see the days

of double-digit returns again? Well, maybe. But it does mean that moving forward, we have to continue to implement an investment strategy that is designed to weather a variety of economic environments to ensure the WRS is able to meet its obligations not only today, but also in the future. We have already begun to put in place initiatives designed to protect against drastic falls in the market. These initiatives will work to protect against dramatic swings in annuity adjustments and contribution rates. Most importantly, they are designed to keep the WRS among the top public pension funds in the country.

When I am out speaking to members and they ask me what I think is going to happen with regard to investments, I tell them that if I could predict the future I wouldn't be working for the State of Wisconsin! While I can't predict the future, I can predict with certainty that we will continue to do everything we can to protect the WRS for the more than 590,000 members who are counting on us to generate respectable returns to help fund their retirements.



Michael Williamson

Continuing to Improve SWIB's Transparency

In order to make more information easily accessible to Wisconsin Retirement System members, the State of Wisconsin Investment Board is now posting open meeting materials for Board of Trustee meetings—including meeting minutes—online. Beginning with January 2015, materials for each meeting are listed on SWIB's website, www.swib.state.wi.us, on the "Board Meeting" page. This page also includes agendas posted prior to each meeting and the meeting schedule.

In addition to board meeting materials, members also have access to several SWIB publications online, including the *2014 Retirement Fund Annual Report*, the *Schedule of Investments* and statutory reports including the *Goals for Investing in Wisconsin Report* and *2015 Goals, Strategies and Performance Report*. Current reports, along with an archive of past reports, can be found on the "Publications" page.

Drummond Named Among the Best 40 Under 40

In the financial world, hundreds of thousands of money managers and analysts oversee billions of dollars in investments. Many of those people go unnoticed. For a select few—like the State of Wisconsin Investment Board’s Derek Drummond—their work and accomplishments make others sit up and take notice. Drummond was recently named one of Chief Investment Officer magazine’s “40 Under 40,” a list that recognizes 40 influential individuals in the investment world under the age of 40.

“Being selected is a huge honor,” the 35-year-old Drummond said. “The selection process is peer-driven, so I am very fortunate to even be mentioned in the process.”

Drummond, an analyst for SWIB’s private markets and funds alpha team, is responsible for going into the market and trying to find the best investment managers in the world to partner with SWIB in order to generate the best return possible for the Wisconsin Retirement System. Drummond, who is an avid tri-athlete and takes part in competitions across the country, knows that when he is competing he has to excel under different and sometimes difficult conditions. Succeeding in investing is no different. With the markets going up as much as they have over the last few years, Drummond says there are a lot of investment managers that are performing well right now. He says the key is finding partners that can excel no matter how different and sometimes difficult economic conditions may be affecting market performance.

“The hardest thing for our team is trying to find the partners we want to team up with that will do well not only in the ‘good’ times but

also in the ‘bad’ times,” he said. That strategy, like SWIB’s overall investment strategy, is designed to help protect the WRS from extreme market swings. Finding those partners is not easy, but Drummond says being part of the 40 Under 40 helps him tap into valuable resources to help him succeed.

“The other winners are the ‘best of the best’ in the business and it has been a pleasure to connect with them on how they do things,” Drummond said. “Our staff at SWIB is always questioning our process and learning from others.”

This is not the first time Drummond, who joined SWIB in 2010, has been recognized for his work. In 2012, he was presented with a Rising Star of Public Fund Management Award by the Investment Management Network, and in 2014 he was named a Rising Star by Institutional Investor magazine. Drummond, who earned a bachelor’s degree in economics from the University of Colorado at Boulder and a Master of Business Administration degree from the University of Wisconsin-Madison, says that while it is nice to be recognized for the work he is doing, he is focused on doing the best he can for WRS members.

“We take our responsibility for maintaining a well-funded WRS for more than 590,000 members seriously,” Drummond said. “Our goal is to be successful in ensuring the WRS is among the best public pension funds in the country.”



Derek Drummond

2016 Core and Variable Rates, Adjustments

At this time of year members often ask about upcoming effective rates and annuity adjustments. Keep in the mind the rate calculation process must include final investment returns for calendar year 2015 and the results of an actuarial analysis. However, with four months to go in 2015, Department of Employee Trust Funds projections indicate that if the Core Fund

achieves its actuarially-determined assumption of 7.2% for calendar year 2015, retirees can expect a modest Core annuity increase in the range of 2.3% to 2.7%. Actual rates will be announced in March 2016. Keep in mind that ETF’s estimates are projections, which are useful for anticipating the magnitude—but not exact amount—of future annuity adjustments.

Cost Management: SWIB Keeps Close Watch on Private Equity

One of the reasons the Wisconsin Retirement System is among the few fully-funded public pension plans in the country is the respectable returns generated by the State of Wisconsin Investment Board. Those returns, along with contributions from employees and employers and the unique shared risk and reward design of the WRS, make it a model system.

An area that may not immediately come to mind when thinking about why the WRS is fully-funded, but is equally as important, is cost management. Every dollar SWIB can save in cost for managing the assets of the WRS is just as good as a dollar earned through investment returns.

Managing more WRS funds in-house is the best way for SWIB to control costs. However, there are times when SWIB uses outside managers for certain investments.

“One of the reasons we are considered a low-cost pension fund manager is because we are able to internally manage almost 60% of the investments we are making,” SWIB Executive Director Michael Williamson said. “We are also a low-cost manager because when it is necessary to use outside managers, we negotiate lower fees when compared to our peers and scrutinize the agreements we make with those managers to know exactly what we are paying for and how much we are paying.”

The issue of fees and expenses charged by external managers has gained national attention recently because of accusations that some private equity managers are not being transparent in the information they are providing to investors. Private equity investments are made in companies that are not publicly traded on the stock markets. SWIB, like many public pension funds, makes private equity investments through a general partner or external manager and pays fees for those services.

The lack of transparency by some private equity managers prompted the Securities and Exchange Commission to investigate the fee and expense report-

ing practices of those firms.

SWIB, with the help of a consultant, has reviewed private equity general partners it works with and has found no fee or expense abuse.

“Since the SEC’s investigation, we have actually seen an increased level of transparency with respect to fees and expenses,” Scott Parrish, SWIB Private Markets Group portfolio manager, said.

In addition to monitoring the external managers it works with, SWIB has teamed with other organizations, such as the Institutional Limited Partners Association, which has more than 300 members and includes pension funds, sovereign wealth funds, endowments and foundations, to support standardized reporting in the industry. As an organization, SWIB works to identify best practices related to private equity accounting and reporting.

Parrish says how private equity fees and expenses are reported is an area that will remain under scrutiny since the investments, in addition to being an important part of SWIB’s diversification strategy for the Core Fund, have added value to the WRS, returning 15.5% in 2014 and 14.6% over the last 10 years.

“We have and will continue to monitor this to make sure firms we are working with are transparent in the information they are providing us,” Parrish said. “Knowing the true cost of the private equity investments is important information that will help us make better informed decisions in the future.”



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WRS NEWS



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ETF

Call toll free 1-877-533-5020 or (608) 266-3285. Benefit specialists available 7:00 a.m. to 5:00 p.m. (CST), Monday through Friday.

Make an appointment and ask questions regarding WRS retirement, health and life insurance benefits.

Request forms and brochures, report address changes, adjust annuity payment tax withholding.

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