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## Calendar Year-to-Date Preliminary Returns as of 12/31/2015

<b>Core Fund</b>	<b>-0.4%</b>
Benchmark	-0.1%
<b>Variable Fund</b>	<b>-1.2%</b>
Benchmark	-1.3%

## WRS: Meeting Founding Expectations

— Robert Conlin, ETF Secretary

When we hear about pensions in the press, the focus is often only on retirees. While this is certainly a defining feature of pensions, significantly less attention is paid to another critical aspect of pension plans, namely their significance in attracting a qualified workforce.

The founders of the Wisconsin Retirement System envisioned a state-wide structure that would facilitate the attraction and retention of employees to public service, offer equitable benefit standards throughout public employment, and ease the transfer of personnel between public employers. As 2016 begins, I think it's fair to say that the WRS is meeting those expectations, too.

At the end of 2015, nearly 1,500 state and local governmental units throughout Wisconsin were participating in the WRS and had enrolled more than 250,000 current public employees in the WRS. These include very large employers, like the University of Wisconsin System and campuses and state agencies, and very small employers, like municipal housing authorities and sewerage districts. More than a dozen additional units of government are poised to extend WRS coverage to their employees in 2016. As noted in this issue's Legislative Update, legislation is pending that would make it easier for public employers to join the WRS.

*Conlin, continued on page 2*

## Managing Risk to Protect the WRS

— Michael Williamson, SWIB Executive Director

When you think of risk what comes to mind? Maybe you think about the risk you take when you get behind the wheel of your car to drive in the first snow storm of the year. We don't know when that first storm will hit each year, but we know we have to prepare ourselves the best we can for when it does. We might put snow tires on our car and throw a blanket, shovel and salt in the car's trunk. Our winter driving strategy might involve choosing an alternate and safer route to get where we need to go. Ultimately, we are trying to reduce

the risk that we will end up hitting a rough spot, sliding off the road and not making it to our final destination.

Risk is something we all try to avoid even though we know that it is a factor in just about everything we do in life. Some of us have a little bit higher threshold than others when it comes to the amount of risk we are willing to take. It is no different in the investment world. Dealing with investment risk is something that can keep even the most veteran investors up at night. How much is too much and is the reward worth the risk? When it comes to the

*Williamson, continued on page 5*

*Conlin, continued from page 1*

Wisconsin's public employers understand the value of a well-funded public pension plan offering reasonable benefits in their efforts to attract and retain a qualified workforce. Not surprisingly, most Americans tend to agree.

According to a survey sponsored by the National Institute on Retirement Security (NIRS), 87% of Americans say pensions are a good tool to recruit public employees. Moreover, when our public employees retire and begin drawing a pension, much of that money will be spent in those same communities where the benefits were earned.

In 2015 the WRS paid approximately \$4.5 billion in benefits to retirees and beneficiaries, more than 80% of whom live in Wisconsin. The majority of the benefits paid come from investment earnings generated by the State of Wisconsin

Investment Board, not from taxes. Not only does the WRS provide vital economic support to retired public workers, it also helps ensure a vibrant public workforce is available to support communities across this great state.



Robert Conlin

**For More Information**

**National Institute on Retirement Security**  
*Retirement Security 2015: Roadmap for Policy Makers, March 2015*

Find this NIRS report online at <http://nirsonline.org>, under the Research menu.

**Investments Affect WRS Rates and Adjustments**

The State of Wisconsin Investment Board has announced preliminary 2015 investment returns of -0.4% for the Core Trust Fund and -1.2% for the Variable Trust Fund. How will this affect you? The Department of Employee Trust Funds anticipates there will not be an annuity decrease for the Core Fund. Core and Variable annuity adjustments will be made to retirees' May 1, 2016 payment.

Annuity adjustments are annual changes in the amount of a retiree's monthly pension payment for the coming 12 months. The shared risk/reward design of the WRS allows for retirement annuities and contributions of active employees and employers to be increased or decreased based on trust fund investment performance. By law, your Core annuity can never be reduced below

the finalized amount when it began. Only Core annuity dividends granted in previous years can be reduced. However, if you participate in the Variable Fund, there is no limit to how much your Variable annuity can be reduced.

The projections below are based on preliminary 2015 investment returns. ETF will announce the actual effective rates and annuity adjustments after final investment returns have been determined and an actuarial analysis is completed. Watch for announcements in February (effective rates for active employees) and March (annuity adjustments for retirees). To receive immediate notification, sign up for *ETF E-Mail Updates*—look for the red envelop icon on our website—or follow us on Twitter @WI ETF.

Core Fund Projections	
Preliminary 2015 Net Investment Return	-0.4%
Projected Effective Rate	6.3% to 6.7%
Projected Annuity Adjustment	0.0% to 0.8%
<i>By law, a Core annuity adjustment will be paid if the adjustment rate is at least 0.5%; if less than 0.5%, no adjustment is paid.</i>	

Variable Fund Projections	
Preliminary 2015 Net Investment Return	-1.2%
Projected Effective Rate	-3% to 1%
Projected Annuity Adjustment	-4% to -8%
<i>By law, a Variable annuity adjustment will be paid if the adjustment rate is at least 2%; if less than 2%, no adjustment is paid.</i>	

## Legislative Update

—Tarna Hunter, Legislative Liaison

As of *WRS News* printing deadlines, the following legislation affects the benefit programs of the Wisconsin Retirement System.

### Legislation Passed

#### Group Health Insurance: Self-Insurance

**2015 Act 119** provides that the Group Insurance Board, in consultation with the state's Division of Personnel Management, notify the Joint Committee on Finance if it intends to execute a contract to provide self-insured group health plans on a regional or statewide basis. Last November the board's consultant presented a number of high-level recommendations for the group health insurance program in 2017, one of which was to transition from the current fully-insured model to a self-insured one beginning in 2018. The recommendations will be the subject of further discussion by the board in early 2016. Stay informed by reviewing the board meeting schedules, materials and agendas at [http://etf.wi.gov/gov\\_boards.htm](http://etf.wi.gov/gov_boards.htm).

#### Delay of Affordable Care Act's "Cadillac Tax"

On December 18, 2015 President Obama signed the Consolidated Appropriations Act that, among other things, delays the onset of the Affordable Care Act's "Cadillac Tax" until 2020. In addition, the Act requires the controller general to study the suitable benchmarks for age and gender adjustments to the tax.

### Legislation Pending

**2015 Assembly Bill 156** and **2015 Senate Bill 134** provide municipalities interested in participating in the WRS the option to join and only enroll in the WRS their newly-hired employees, while allowing current employees to finish their careers under their existing retirement plan. Amendments that would allow employers the option to offer current employees the choice of becoming participating employees were proposed. In November the Joint Survey Committee on Retirement Systems concluded the bills and the amendments were good public policy.

**2015 SB 45** and **2015 AB 70** create the Wisconsin Private Retirement Security Board, which must establish a private retirement security plan

to provide retirement benefits for residents of the state who choose to participate in the plan. The board would be created within ETF by Chapter 15 of the Wisconsin Statutes. The bill provides that no monies from the public employee trust fund may be expended for activities required by this bill. The Senate Committee on Labor and Government Reform held a public hearing on the bills in December. Find the recording on Wisconsin Eye at <http://www.wiseye.org>.



Tarna Hunter

For legislative updates between editions of *WRS News*, sign up for *ETF E-mail Updates*. Look for the red envelope icon on our website.

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

## Health Insurance Update

**Well Wisconsin:** January is a common time to set new goals, so why not earn an incentive for the steps you already take to engage in your health? Learn more about eligibility for the annual \$150 Well Wisconsin incentive at <http://www.wellwisconsin.wi.gov> or by contacting your health plan. In addition, contact your health plan if you have questions about the incentive submission process or status of your incentive payment.

**Delta Dental:** Check to ensure your dentist is in-network before your first visit. Go to <http://www.deltadentalwi.com/state-of-wi>.

**Health Insurance:** Watch your mail—your new health insurance ID card will arrive soon from the health plan you chose during the It's Your Choice open enrollment period. Before seeing your health care provider in 2016, check your health plan's online provider directory to ensure your provider is in-network.

## ETF Seeks Persons with Abandoned WRS Accounts

The Department of Employee Trust Funds is looking for individuals age 70 and older who have “abandoned” Wisconsin Retirement System 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 the published notification to apply for the benefit. If you know the whereabouts of anyone on this list, please ask them or their heirs to contact ETF. Written inquiries to ETF must include the member’s com-

plete name (published name, current and prior name), date of birth, Social Security number and the year the name was published. Mail to: ETF, P.O. Box 7931, Madison, WI, 53701-7931 or send a secure e-mail via the “Contact ETF” section of our website, <http://etf.wi.gov>. Please note that we cannot accept telephone calls regarding these accounts. The names below were added to the list this month. Find the **complete list** at [http://etf.wi.gov/news/abandoned\\_wrs.htm](http://etf.wi.gov/news/abandoned_wrs.htm).

Alicea, Zoraida A	Dahlke, Albert R	Johnson, Timothy	Rollins, Norvel S
Arrasmith, Charles L	Deckert, Terry J	Kara, Ernest E	Rudish, Gershom
Beane, Joan K	Dossantos, Moacir	Kiehnau, Ann P	Savage, Kathleen A
Berlin, Inga-Lill	Eddy, Mark W	Kipp, Woodrow H	Sine, Roberta
Bolton, Richard D	Ferden, Gary A	Knuth, Donald M	Sturdy, Karla M
Brady, Darwin W	Flora, James A	Koh, Kyung S	Tilson, Edward P
Brinkman, Ronald E	Fredrickson, Betty K	Manthey, Judy A	Tucker, Doris G
Brown, Ethelyn	Gilsdorf, Mary M	Marcus, Norman M	Vandewalker, Thomas O
Burrow, Anita F	Hafner, Joel R	Mccarter, Mack A	Webster, Paul A
Carlson, Karin M	Hahn, Thomas A	Montgomery, James V	Willems, David M
Cole, Robert A	Hendricks, Elizabeth	Moustafa, Salah E	Yoon, Ho Y
Coleman, Gloria J	Hoffman, Gerald R	Noble, John P	Zaleski, Richard A
Cone, Gerald C	Holman, Eugene C	Oberle, Minda A	Zimdars, Vivian J
Cooper, Vaughn R	Huebner, Jeanne I	Parworth, Wayne L	
Costello, Joseph B	Hwang, Changshi	Post, Sandra M	
Cox, Thomas L	Johnson, David L	Rangel, Vivian J	

## ETF Webinars of Interest to Retirees

The Department of Employee Trust Funds offers live, interactive webinars designed to increase your understanding of Wisconsin Retirement System benefits. Each 30-minute webinar is conducted online by an ETF specialist and focuses on a single topic of interest. To review the entire list of webinars and register, see the Member Education menu on our website at <http://etf.wi.gov>.

Webinars that may be of interest to WRS retirees over the next several months cover the following topics: returning to work after retirement; beneficiary designations; how to read the Statement of Sick Leave Account; WRS effective rates and annuity adjustments; life insurance after retirement; and more.

## Online: WRS Retiree Tax Information & FAQs

The Department of Employee Trust Funds has published answers to frequently asked questions about annual tax documents. Topics include:

- IRS form 1099-R and its distribution codes;
- Why ETF would send you IRS form W-2 and where to get more information;
- What to do if and when you haven’t received your tax form(s);

- What to do if the form(s) contain incorrect information; and
- Where to find more information about the Affordable Care Act and Medicare.

Find *Retiree Tax Information* on our website at <http://etf.wi.gov> in the “What’s New” column or call ETF toll free at 1-877-533-5020.

*Williamson, continued from page 1*

Wisconsin Retirement System, risk takes on a very significant role in the investment strategy we implement. The WRS's unique shared risk/reward design means investment returns directly impact annuity adjustments for retirees and contribution rates for active employees and employers. The struggle is finding the right balance between taking enough risk to make sure the WRS is providing the benefits promised to its participants and taking too much risk that could cause volatile swings in annuity adjustments and contribution rates.

### **Entering a Low Return Environment**

Our 2015 returns, as well as the performance of the stock markets, indicate that we are in an environment where it will be possible to make money, but there will be significant investment challenges moving forward. Many economists believe this "low return environment" will result in investment returns over the next decade similar to those we have seen the past couple of years, rather than the higher ones we saw in the 1980s and late 1990s.

To overcome the challenges of a low return environment and meet their target returns, many public pension funds will increase the amount of risk they are willing to take with the money of their participants. Those funds will be forced to take increased risk because of underfunding and guaranteed annuity increases regardless of investment returns. But what about the WRS?

### **Lessons Learned Influence Strategy**

While 2008 was painful, it taught us that a risky investment strategy could hurt participants with a repeat of significant negative annuity adjustments and increased contribution rates. That is why we have implemented a strategy that, just like the alternative and safer route you might choose to get to your final destination when driving in the first snow storm, takes less risk but will get the WRS to its ultimate destination, a 7.2% return over the long-term.

Our strategy involves reducing the Core Fund's exposure to stocks and, because diversification is key to managing risk, increas-

ing our allocation to lower-risk assets such as bonds, real estate, hedge funds and private equity, which can perform well when stock returns are down. We have done this because 85% of our investment risk comes from the stock market.



Michael Williamson

Currently, about 49% of the Core Fund, compared to 59% prior to the 2008 market decline, is invested in global stocks. While the performance of both U.S. and international stock markets still influence investment returns, dramatic swings in returns should be reduced. Overall, WRS investments are mixed across a variety of markets and numerous, widely varied investments within each market. With this strategy, WRS returns will rarely match market returns. Sometimes they will trail when stocks are performing well and at others they will finish ahead of falling stocks. This should reduce volatility in annuity adjustments and contribution rates as well as keep the WRS among the only fully-funded public pension plans in the country.

### **Confident Moving Forward**

We are fortunate that the WRS is fully-funded and, despite the challenging road ahead, we are confident that our investment strategies can achieve our 7.2% assumed rate of return over the long-term. This means we will not have to reach for higher returns and take more risk with your retirement money. We are confident in our strategy. But—just like preparing to drive in the snow—there are no guarantees that getting to the final destination will be easy. We will need to be careful, monitor conditions and be ready for some rough spots.

But in the end, I am confident we can hold our ground, get through this challenging period and, over the long-term, be successful.

## SWIB Continues to be a Low-Cost Pension Manager

There is a saying, *a dollar saved is a dollar earned*. For the State of Wisconsin Investment Board, that proved to be the case millions of times over in 2014. By reducing costs through its asset allocation, managing more funds internally and passively, and negotiating lower fees for external managers it hired, SWIB's costs were \$207 million less than its peers—substantially below the peer median, according to an independent report from CEM Benchmarking, Inc., an independent provider of objective benchmarking for public pension plans.

“Every dollar we are able to save through our management choices benefits the trust funds just like every dollar we earn through investment returns,” SWIB Executive Director Michael Williamson said. “Controlling costs, along with making money and managing risk, is at the center of our mission to ensure the Wisconsin Retirement System remains among the best funded public pension systems in the country and is able to fulfill the promised retirement benefits to its members.”

### Fewer Higher-Cost Assets

SWIB has implemented an investment strategy designed to take less risk and generate favorable returns while helping to protect the Core Fund from the volatility that comes from the stock market. A key to this strategy, which also helps stabilize annuity adjustments and contribution rates, is the diversification of investments.

In addition to investments in stocks, the Core Fund also includes holdings in other asset classes such as real estate, hedge funds and private equity. These assets, while important to the

diversification of the Core Fund, can be expensive to manage. SWIB's decision to investment in fewer higher-cost assets saved \$144 million in 2014, according to CEM.

### Internal Management, Lower Fees Save Money

As important as the types of assets SWIB chooses to invest in is how those investments are managed. By using more of its own staff and negotiating lower external management fees, SWIB generated an additional \$63 million in savings in 2014.

A majority of that savings, \$56.5 million, came from SWIB managing more assets internally, approximately 62% of the retirement trust funds, and passively, approximately 40% of assets, than its peers. The value added above market returns to the trust funds, after costs, has been significant, generating \$1.5 billion over the past five years. Managing a significant portion of the assets internally helps keep SWIB's total costs lower than its peers, according to CEM.

“Over the past several years, we have been building a stronger internal management program that is providing a significant financial benefit to the retirement system,” Williamson said. “We have a very talented and skilled staff that is able to manage the assets of the WRS for a fraction of the cost of using external managers. And for investments that our staff is not able to manage internally, we work hard to negotiate the lowest fees possible with the external managers we hire.”

SWIB reports on cost of management to the Board of Trustees and the legislature annually.

## 2016 SWIB Board of Trustees Meetings Set

Meetings are held in the Board Room at the State of Wisconsin Investment Board, 121 E. Wilson St., Madison, unless otherwise stated. Agendas are posted the Monday before each meeting at <http://www.swib.state.wi.us>. Meeting dates for 2016 are as follows:

- January 13
- February 10
- March 8-9
- April 13
- May: No Meeting
- June 7-8
- July: No Meeting
- August 10
- September 14
- October 19-20
- November 16
- December 14

## Doll, Nick, Stewart Appointed to Board of Trustees

The state Senate last September confirmed the appointments of Mark Doll, Barbara Nick and Paul Stewart to the State of Wisconsin Investment Board by Gov. Walker. Their terms expire in May 2021.

Doll retired from a 40-year career with The Northwestern Mutual Life Insurance Company. In his recent role, he served as executive vice president and chief investment officer, where he was responsible for \$164 billion in general account assets and \$19 billion in separate account assets. Prior to this role, Doll was the senior vice president-public markets. He is a University of Wisconsin-Milwaukee graduate with a finance major; he also has an MBA from UW-Milwaukee.



Mark Doll

where she provides business and executive development services in the energy and manufacturing industries. Nick is a communications and business graduate from the University of Wisconsin-Green Bay. She also completed the Harvard Business School's Advanced Management Program.

Stewart was part of a team that established PS Capital Partners in 2001 as a private equity holding firm. Previously, he was a partner at Horizon Partners, a middle market buyout firm where he was involved in all aspects



Paul Stewart

of the operation including investment decisions and portfolio management. He also served as vice president in the venture capital subsidiary of Republic Bank (now Bank of America). Stewart is an adjunct professor, Bostrom Entrepreneur-in-Residence, at the University of Wisconsin-Milwaukee. He serves on the boards of PS Capital Partners' portfolio companies. He is a graduate of State University of New York at Buffalo and majored in mechanical engineering. He also earned an MBA with a finance concentration from Texas A&M University.

For more information on SWIB's Board of Trustees, visit <http://www.swib.state.wi.us>.

Nick is the president and CEO of Dairyland Power Cooperative, a utility company based in La Crosse. She has more than 30 years of experience in the electric and gas industry. Additionally, she has more than 25 years of board service in energy, health care and the community. Nick is also the founder and CEO of Catto Enterprises, LLC,



Barbara Nick

### SWIB CIO Recognized Among the Best

State of Wisconsin Investment Board Chief Investment Officer David Villa has been recognized by two global organizations for his work. Villa was chosen as part of Sovereign Wealth Fund Institute's third annual Public Investor 100 list, which includes the most significant and impactful public investor executives in 2015; Villa is number 33 on the list. Visit online <http://www.swfinstitute.org/public-investor-100-2015/>.

Villa was also named to *Chief Investment Officer* magazine's "2015 Power 100" list. The list puts Villa at number 14 among "the most powerful asset owners in the world" based on five categories: innovation, collaboration, talent development, fund size and asset-owner tenure. Visit online <http://www.ai-cio.com/lists/power-100-2015.aspx>.

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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.

**Wisconsin Relay Service (for speech and hearing impaired)**

7-1-1 or  
1-800-947-3529 (English)  
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**SWIB**

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