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### Preliminary Investment Returns Calendar Year 2016

<b>Core Fund</b>	<b>8.5%</b>
Benchmark	8.0%
<b>Variable Fund</b>	<b>10.6%</b>
Benchmark	10.4%

## Helping Your Future Self

— Robert Conlin, ETF Secretary

When I started my service with the State of Wisconsin nearly 25 years ago, I was fortunate to have a grizzled, experienced colleague as a sort of mentor to show me the tricks of the trade. “Dan” shared advice and insights gleaned from years of doing the job that helped this newbie avoid many a painful or embarrassing mistake and made me a better and more valuable employee. Interestingly, I think, the best advice he gave me had nothing to do with the job and everything to do with my future wellbeing.

Shortly after I started my job, as I was sifting through the piles of “new employee” information trying to decide what benefits to enroll in, Dan popped his head in my door and said, “Save early. Save often.” Now, Dan had

a reputation of being the consummate deal hound and I thought this was an announcement of his latest “3-for-1” sale discovery or discount tech gadget find. Instead, he was encouraging me to think about my financial future.

He said, “A Wisconsin Retirement System pension is a good benefit, but don’t make the mistake of thinking it’s all you’ll need. Save something extra. You won’t miss it much now and you’ll really appreciate it in the future.”

That was, and still is, good advice. The WRS pension, when combined with Social Security, was designed to replace 60% to 85% of a full career employee’s pre-retirement gross earnings. And given that the WRS does not have a guaranteed cost-of-living adjustment

*Conlin, continued on page 2*

## Looking Back at 2016 and Forward to 2017

— Michael Williamson, SWIB Executive Director

The start of a new year is always exciting. The change of the calendar from December to January gives us the opportunity to look back at and celebrate our successes from the past year. It is also a time to identify opportunities that lie ahead. As investors, we are no different than many of you—we take a step back and look at the past year’s performance, while looking forward to identify opportunities, and potential challenges.

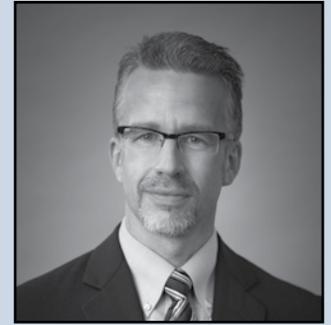
The preliminary returns for the Core Trust Fund and the Variable Trust Fund were solid, given the ups and downs the financial markets experienced in 2016. The Core Fund finished the year with a preliminary return of 8.5% and the Variable Fund had a preliminary return of 10.6%. I am proud of the fact that the Core Fund has beaten its one-, three-, five-, and ten-year benchmarks. Similarly, the Variable Fund has beaten

*Williamson, continued on page 7*

*Conlin, continued from page 1*

and that any post-retirement adjustments can be rescinded, having some additional resources on hand in retirement makes good sense.

Whether you choose to save during your career by investing in the tax-sheltered Wisconsin Deferred Compensation Program, by making additional contributions to your WRS account, or by saving in some other manner, having additional resources to draw on in retirement for life's contingencies may give you some peace of mind. And if you're already retired, finding a way to set aside some of the increases you've received since retirement may help cushion the blow when the next financial crisis strikes. Dan passed away not too long ago. While he is missed, his sage advice lives on.



Robert Conlin

## Watch for March Annuity Adjustment Announcement

The Department of Employee Trust Funds is projecting Core and Variable increases this spring. Watch for our annuity adjustment announcement in early March, after returns are finalized and the actuaries for the Wisconsin Retirement System have completed their calculations. In the meantime, you may find these projections, based on preliminary returns, helpful for financial planning purposes (see tables at right).

WRS members benefit from good investment returns and share the risk of poor returns. Changes in employee and employer contribution rates, for example, are linked to Core and Variable Trust Fund investment performance. Likewise, annuity adjustments for retirees are linked to investment performance. This “shared risk” design keeps the WRS well-funded and able to pay promised benefits long into the future.

### Plan Ahead

The WRS does not provide a guaranteed cost-of-living adjustment in retirement. Annual annuity adjustments are intended to help you keep up with inflation over the long term. In fact, WRS retirees routinely receive annuity increases above the cost-of-living adjustment for Social Security; for 2016 Social Security increased only 0.3%. While your Core annuity can never go below your original payment (“floor”) at retirement, annuity adjustments can increase or decrease each year based on trust fund investment performance and actuarial factors.

When there is a market downturn, annuities

Core Fund Projections	
Preliminary 2016 Investment Return	8.5%
Projected Effective Rate applied to employees' account balances	7.6% to 8.0%
Projected Annuity Adjustment applied to retirees' monthly payments beginning May 1, 2017	1.3% to 1.9%
<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 2016 Investment Return	10.6%
Projected Effective Rate applied to employees' account balances (if applicable)	9.0% to 13.0%
Projected Annuity Adjustment applied to retirees' monthly payments beginning May 1, 2017 (if applicable)	4.0% to 8.0%
<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>	

can be lowered by repealing previously-granted increases. Because prior annuity increases are not guaranteed, try to plan ahead and set extra funds aside in anticipation of future market downturns. Keep in mind that if you are in the Variable Fund, investment gains and losses are **immediate**; they are not smoothed over five years (as is done with Core Fund investment returns).

## Health Insurance Program Update

### Self-insurance and/or regionalization

Over the course of two meetings (November 30, December 13), the Group Insurance Board (GIB) reviewed initial results and analysis from vendor proposals for health insurance program structural changes in 2018 that could include:

- changing from a fully insured program to a self-insured program; and/or
- changing to a “regionalized” structure for health plan offerings for members

The analysis included evaluation of a broad range of options/scenarios for change, projected costs and savings, provider access, and possible member disruption. In addition, discussions also covered how potential changes could affect the Wisconsin Public Employers Group Health Insurance Program (local program), the Medicare coordinated program, the currently self-insured It’s Your Choice Access Plan (formerly known as the Standard Plan) and the Local Annuitant Health Program. January 2018 is the earliest any changes would take effect. Health insurance benefits and benefit plan design changes are not part of this evaluation.

At the December meeting the GIB directed ETF and its consulting actuary to collect more data in order to continue deliberations. The next GIB meeting is set for February 8, 2017. Meeting materials are posted on our website, as they become available, under the Governing Boards tab, [http://etf.wi.gov/gov\\_boards.htm](http://etf.wi.gov/gov_boards.htm).

## Improved Well Wisconsin Program for 2017

Retirees and their spouses/domestic partners who are enrolled in the group health insurance program now have access to an improved Well Wisconsin Program through StayWell. Use StayWell’s secure wellness portal to earn your 2017 Well Wisconsin \$150 incentive and access the tools and resources that will support you in achieving your health goals.

For more information on program requirements, visit <http://wellwisconsin.staywell.com> or call StayWell at 1-800-821-6591 during these CST hours: 8:00 a.m. to 8:00 p.m., Mon.-Thurs.; 8:00 a.m. to 6:00 p.m., Friday; Saturday, 8:00 a.m. to 1:00 p.m. Send an email to [wellwisconsin@staywell.com](mailto:wellwisconsin@staywell.com).

### Uniform Benefits changes regarding nondiscrimination on basis of gender identity

2017 Uniform Benefits coverage for procedures, services and supplies related to gender reassignment became effective January 1, in compliance with nondiscrimination requirements under the Affordable Care Act. However, the GIB held a special meeting December 30 and voted to exclude these benefits and services if all of the following were to occur:

- A court ruling or an administrative action that enjoins, rescinds or invalidates the rules set by the federal Department of Health and Human Services (DHHS). *This contingency was met when a federal judge issued a preliminary injunction on December 31, 2016.*
- Compliance with state law, Section 40.03 (6) (c);
- Renegotiation of contracts that maintain or reduce premium costs for the state; and
- A final opinion of the Wisconsin Department of Justice that the action taken does not constitute a breach of the Board’s fiduciary duties.

The State of Wisconsin is a litigant in a federal lawsuit filed in Texas, which claims the federal DHHS rules are unlawful and an improper interpretation of federal law.

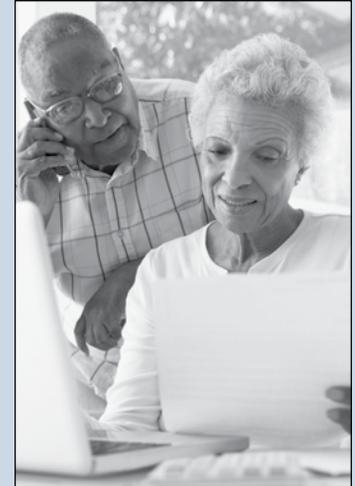
Monitor our website for health insurance program news between editions of this newsletter.



## Federal Tax Table Adjustment

The federal tax tables have changed for 2017. This means some Wisconsin Retirement System retirees may see an adjustment to their federal tax deductions beginning with the February 1 payment. Any member whose monthly payment has changed as a result of the new tax table will receive an annuity mailing statement from ETF reflecting the new withholding amount.

To adjust your federal or state tax withholding, submit an *Income Tax Withholding Election Change* (ET-4310) form. Before making any changes, you may want to use ETF's online tax withholding calculator to help you determine the impact of income tax withholding elections on your monthly payments. Find this handy calculator on our website at <http://etf.wi.gov/calculator.htm>.



## 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. These WRS members or their heirs have 10 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 complete name (published name, current and prior name), date of birth, So-

cial Security number and the year the name was published. Mail to: ETF, P.O. Box 7931, Madison, WI, 53701-7931 or send a secure email 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 the following ETF webpage: [http://etf.wi.gov/news/abandoned\\_wrs.htm](http://etf.wi.gov/news/abandoned_wrs.htm).

Alberts, Lynn L	Feeley, Francis M	Moen, Roger D	Sanderson, Kenneth J
Alt, Stephen T	Ferguson, Mildred A	Morelos, Judith L	Scherwitz, Larry W
Anderson, Ivie	Gahagan, Judith A	Mueller, Raymond E	Schneider, Kathleen M
Augustine, Jim O	Gold, Harold W	Nelson, Howard D	Schraeder, Barbara J
Baumgartner, Louise M	Gronke, David A	Neuenfeld, Barbara L	Schulz, James A
Bell, Paulette J	Gross, Irene	Ohalloran, Marybeth C	Shelton, Jean R
Benavides, Kristin L	Guardalabene, Yvonne L	Olsen, Arnold L	Shiveley, Janet M
Bridgman, Katharine A	Hennecke, Robert D	Olsen, Janet M	Smith, Paul
Brown, Annie B	Icho, Tateo	Ortiz, Sharon L	Smith, Willie B
Brunette, Patti M	Imler, Donald C	Owen, Gary L	Story, Ellen T
Cameron, Janine M	Ison, Jennie M	Parson, Cheryl J	Strickland, Donna M
Connors, Charles E	Kinney, Laverne A	Pesola, Donald A	Suttles, Felix J
Cortina, Lynn E	Knoener, Joan M	Peterson, Siglinde E	Tucker, William E
Courtnage, Robert E	Kompsi, Dorman W	Rey, Richard G	Wegner, Mary E
Dalzin, Wayne D	Krueger, David J	Richards, Carol A	Zacharias, Merlas B
Dewitt, Jane E	Lin, Cheng M	Richman, Janice G	
Dixon, Judith A	Losic, Novica	Ritter, Sherry L	
Dollar, Helanea M	Lull, Mary L	Russell, James L	
Driver, Dorothy J	Manuel, James	Sailer, Waldemar C	
Ellis, Richard L	Mcgeshick, Charles P	Sanders, Vivian M	

## Managing Risk More Important Than Ever

Most people think that the key focus at the State of Wisconsin Investment Board is to “make money”. However, equally important is managing risk—and that means focusing on the aspects of investing that can be controlled. A solid understanding of risk in its different forms allows SWIB to better understand opportunities, trade-offs and costs involved with different investment approaches, and increases the chances that we will make money.

Risk can often be thought of as something to be avoided. However, every investment involves some degree of risk. Successful investors make informed, intelligent decisions to ensure they are rewarded for the risk they take. Our challenge is to limit risk exposure to an acceptable level while still capturing solid returns.

### What Is Risk?

While SWIB considers many different types of risk, several are larger than others. In finance, risk can be defined as the probability that an investment return will be different than expected. Risk can be close to zero—as in the case of a U.S. Treasury security, which is backed by the U.S. government. Risk can be very high, such as owning real estate in a developing country. Generally, assets with higher risks are expected to generate higher returns.

SWIB monitors other types of risks associated with the Wisconsin Retirement System. Risk management takes into account how it all works together. The largest types of risk include the following:

- **Market risk** is the chance that investments can lose value because of a market decline. Diversification increases the chances of having a portion of your investments performing well at any given time. Market risk is one of the most difficult risks to manage.
- **Interest rate risk** is the possibility that interest rates rise, causing bond prices to fall. Long-term bond holdings in financial, utility and telecom stocks are most sensitive to interest rate risk.
- **Liquidity risk** is the chance that an investor would not be able to sell an investment in an



orderly fashion at the time the proceeds are needed to pay pension benefits, without the risk of loss.

- **Funding risk**, or the ability to meet pension liabilities, is the most fundamental risk for the WRS. Funding is the basic measure of the system’s ability to pay promised benefits to members. The WRS actuary and SWIB’s asset allocation consultant agree that the WRS is positioned to meet its current and future obligations.

### How Do We Manage Risk?

SWIB has focused on risk management throughout its existence. However, with increased market volatility, *monitoring* risk has become even more important. Volatility is the amount of uncertainty about changes in an investment’s value. Reducing volatility and minimizing annual fluctuations in Core Trust Fund returns helps to stabilize required contributions by employers and employees as well as adjustments paid to retirees.

The significant market drop in 2008 was a catalyst for implementing new ways to manage the risk associated with SWIB’s investment in public stock markets.

How does SWIB manage investment risks? The first step is to determine risk for a given level of expected return by carefully choosing the proportions of various assets, including stocks and bonds. This process is called asset allocation. SWIB’s Board of Trustees sets asset allocation targets, with the help of modeling developed by a board-appointed consultant. Once the potential return and risk for various asset mixes are calculated, trustees select the mix of assets that should provide the optimum balance of risk and return over the next several market cycles.

*Managing Risk, continued on page 6*

## New Technology Puts SWIB at Industry Forefront

The State of Wisconsin Investment Board is once again leading the way among public pension funds by implementing new technology that supports a move toward in-house investment management across multiple investment strategies.

BNY Mellon, a global leader in investment management and investment services, and its Eagle Investment Systems affiliate are supporting SWIB's investment and data management needs through the implementation of BNY Mellon's OnCore technology. The system, which is part of SWIB's larger implementation of a new portfolio management system, gives SWIB the support it needs to manage risk and performance across multiple asset classes by giving detailed analysis on how different risks interact with each other.

The investment information on risk and performance generated daily will help SWIB better manage investment strategies—particularly those managed internally. In an effort to generate solid returns and keep costs low, SWIB has moved from managing 21% of assets internally in 2007 to 65% of \$104 billion in total assets today. Implementing the new technology provides critical support to SWIB's internal management efforts.

Although some parts of SWIB's new technology system are being used by other public pension funds, it is the comprehensive program integrating data and technology that puts SWIB at the industry forefront. Only a few of the largest money managers in the country have implemented a program of this magnitude.

As a result of the new technology, SWIB is moving toward managing the complete set of investment information as a strategic asset. That will allow SWIB to implement more innovative strategies that ultimately will benefit WRS members.

"New technology is essential for managing the sophisticated investment strategies we are implementing and for managing risk at a more nuanced level than it has ever been before," SWIB Executive Director Michael Williamson said. "We are moving from siloed investment technology to an asset class and risk aggregated model. Because of the unique design of Wisconsin's public pension system, which shares risk and reward with its participants, managing risk is an essential part of our strategy."

Since 1991, BNY Mellon and Eagle have provided SWIB with a wide range of investment and integrated data management services and they continue to be a strategic partner.

### *Managing Risk, continued from page 5*

Modeling also measures risk during extreme market stress conditions.

Diversification is one tool used to manage risk. SWIB diversifies holdings not only by asset class but also within the asset classes, for example by investing in companies that differ in size, industry and location. A diversified portfolio reflects the proverb "don't put all your eggs in one basket".

SWIB also is incorporating new investment strategies that diversify risk away from stocks, including decreasing stock allocations and substituting alternative allocations that produce similar long-term returns, but with different risk characteristics than stocks. Because there is a tradeoff of less market risk (stock volatility)

### **WRS Quick Facts**

- Assets: \$96.4 billion combined (Core and Variable Trust Funds only, as of 12-31-16)
- 9th largest public pension fund in U.S.
- 25th largest public or private pension fund in world

for increased liquidity risk, new monitoring tools have been developed by SWIB to enable the assessment of all cash needs. As always, market conditions are considered as changes are contemplated.

At SWIB we work hard to do three things: make money, control costs and, yes, manage risk. Each is important in helping to keep the WRS one of the most well-funded public pension systems in the country.

*Williamson, continued from page 1*

its benchmarks in all four time periods.

I am also proud that over the last five years, SWIB has added \$1.1 billion to the Wisconsin Retirement System over what the market generated; and this is after deducting costs. The extra value added above the market returns was \$294.2 million for the past year alone. That is significant because in 2016, we saw a continuation of the ups and downs that have defined the financial markets since 2008 and the Great Recession. Stocks bounced between their lowest levels since 2014 to record highs in all three major U.S. indexes near the end of the year.

Because of this volatility in the financial markets, and our expectations that it will continue through 2017, we have changed the way we look at risk. Since you, our members, share in the investment risk, along with our employers, we have taken a conservative position that generates respectable returns but also adds protection.

We are investing the trust funds, first and foremost, to protect the pensions of retirees from another major reduction and increased contribution rates for active employees, then to generate reasonable returns. We are able to implement a strategy that is balanced across more diverse asset classes than many of our fellow pension plans, which are concentrated in fewer asset classes.

This strategy makes us more resilient to a greater number of market environments, like we saw in 2016. We are able to implement this strategy because the WRS, unlike many public pension systems



Michael Williamson

across the country, is highly funded—which means we do not have to take unnecessary risk with your pension money to keep the system financially strong.

As we look toward 2017, we continue to expect a “low return environment” will persist. But we are confident that the disciplined, prudent and innovative strategy we have put in place will continue to protect the trust funds from market declines while generating solid returns. We may sacrifice a little upside when the markets are high, but we have built in more down-side protection to insulate you from the volatility the financial markets might experience. You can rest assured that we will continue to work hard to remain the strong, steady economic pillar you have come to trust.

## Villa Recognized Among Top Investment Leaders

State of Wisconsin Investment Board Chief Investment Officer David Villa has been named to *Chief Investment Officer* magazine’s Power 100 list. Villa, who last year was No. 14 on the list, is No. 12 on this year’s list, which ranks investment leaders from around the world based on fund size, tenure, talent development, collaboration and innovation. His name has appeared on each Power 100 list since the magazine’s first list was released in 2012.

*Chief Investment Officer* provides the latest news, opinion and research focusing on the overarching investment issues affecting public and corporate pension plans, endowments, foundations, healthcare capital pools, and sovereign wealth funds.



David Villa

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**WRS NEWS**



**SWIB** STATE OF WISCONSIN  
INVESTMENT BOARD

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 retirees about WRS benefit programs and trust fund investment news.

**ETF**

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

<http://etf.wi.gov>

Find WRS-related benefits information, forms and publications, benefit calculators, educational offerings, email and other online resources.

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**SWIB**

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(608) 267-0957

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