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### Calendar Year-to-Date Preliminary Returns as of 07/31/2017

<b>Core Fund</b>	<b>9.6%</b>
Benchmark	9.4%
<b>Variable Fund</b>	<b>13.3%</b>
Benchmark	13.3%

## Legislative Update

—Tarna Hunter, Legislative Liaison

In June the Joint Committee on Finance took action on ETF's part of the 2017-2019 executive state budget, a proposal of how the state should manage expenses for the next two years. The budget bills, 2017 Assembly Bill 64 and 2017 Senate Bill 30, are currently before JCF and delayed past the July 1 start of the fiscal biennium.

When the JCF has finished making its recommended changes, the Assembly and Senate further review it and, ultimately, the budget is to be presented to the Governor for signature. The governor can also veto the bill in whole or in part.

As modified by the JCF, the budget currently contains a few changes that

affect the benefit programs administered by the Department of Employee Trust Funds. The budget modifies the Chapter 40 domestic partnership program, including discontinuing allowing employees to enter into new domestic partnerships after the effective date of the bill and eliminating health insurance coverage for domestic partners, effective January 1, 2018.

In addition to the above provisions, the budget assumed that the Group Insurance Board would transition the group health insurance program to a self-insured model. The projected savings from the move to self-insurance was expected to be \$60 million in general purpose revenue over the bi-

*Update, continued on page 2*

## SWIB Will Continue to Be Innovative, Agile and Work for WRS Members

— Michael Williamson, SWIB Executive Director

In 1976 I accepted a job with the town of Waynesville, N.C., obtaining rights-of-way from property owners so the town could build a sewer line. It was my first job after college and it began a 41-year career in public service. This December, that journey will draw to a close when I retire from the State of Wisconsin Investment Board. Over the course of four decades I have been blessed with opportunities to serve at numerous levels of state and local government as well as in higher

education. It has been quite a ride.

My time at SWIB started not long after our country experienced the worst financial downturn since the Great Depression. Like every other public pension system across the country, the Wisconsin Retirement System experienced significant losses. Because of the unique design of the system, all WRS members felt the impact of those losses through increased contribution rates and decreases in annuities.

*Williamson, continued on page 7*

Update, continued from page 1



Tarna Hunter

ennium. However, the JCF did not approve the proposed switch to a self-insured model when it met on June 15.

Instead, the JCF directed the Group Insurance Board to find \$63.9 million general purpose revenue savings in other ways. These include saving \$22.7 million via ETF negotiations with participating health plans, \$25.8 million from the group health insurance program's reserve fund, and \$15.4 million from the aggres-

sive usage of health plan tiers, additional reserve draw down and/or plan design changes. The JCF indicated that health insurance premiums could be increased by as much as 10% under this proposal. The JCF also included proposals to increase legislative input and adding additional oversight of the group health insurance program.

**For More Information**

ETF's Government Relations webpage  
<http://etf.wi.gov>.

Wisconsin State Legislature website  
<http://legis.wisconsin.gov>.

**Core Annuity Adjustment Projections For 2018**

The Department of Employee Trust Funds will announce Core and Variable annuity adjustments by March, after final investment returns for calendar year 2017 have been determined and an actuarial analysis conducted. What can you expect in terms of the Core annuity adjustment this spring?

As of July 31, preliminary returns for the Core Trust Fund were 9.6%. If this figure were the finalized net return for the year, it would, when combined with investment gains and losses already in the books (smoothing), likely produce a Core annuity adjustment of 0.9% to 1.3%.

However, the year is far from over and the solid market performance we've seen to-date could stall or reverse itself. Earlier this year ETF ran Core annuity adjustment projections using investment return scenarios of 7.2%, 5% and 0% and presented this information to the ETF Board. The results of these projections are shown in the table at right.

**Reminder:** Under state law, the calculated Core annuity adjustment must be at least 0.5% for ETF to provide an increase to all retirees. There is no such threshold for the Variable adjustment.

**What is my minimum Core annuity amount (Core "Floor")?** Your Core annuity is guaran-

<b>Projected WRS Core Annuity Adjustments</b>		
<b>March 2017</b>		
	<b>2017 Core Fund Net Investment Return</b>	<b>Projected 2018 Core Annuity Adjustment</b>
<b>Scenario 1</b>	7.2%	0.5% to 0.9%
<b>Scenario 2</b>	5.0%	0% (no increase)
<b>Scenario 3</b>	0%	0% to -.80%

teed for your lifetime and, by law, will never be reduced to an amount below the original Core "floor" amount established at retirement. If you do not know what your Core annuity floor is, look in the "Required Contributions" section of any recent annuity mailer statement and find the phrase, "Regular Core"—that dollar figure is your Core floor.

To find out about investment returns on a monthly basis, sign up for *ETF E-mail Updates*; follow ETF on Twitter; or monitor our website. We usually communicate this news by the tenth business day of each month.

## Health Insurance Update

The annual It's Your Choice open enrollment period is October 2-27. This is when you can make changes for next year, including switching health plans, coverage levels, or adding/deleting certain dependents, for an effective date of January 1, 2018. Carefully review your IYC materials. The Department of Employee Trust Funds will distribute IYC materials to members in a few weeks. Additional information will also be available online at <http://etf.wi.gov/IYC2018>. In the meantime, please note the following:

**The group health insurance program will remain a fully insured program in 2018.** (See *Legislative Update* on page 1). During contract negotiations with health plans, ETF focused on keeping premium costs down and avoiding passing additional costs to members. Consequently, some health plans chose not to participate next year. While most members will be able to keep their current doctors, ETF has encouraged plans to fill gaps in services.

**The following plans will not be offered in 2018:** Anthem Blue Preferred Northeast, Arise Health Plan, Health Tradition Health Plan, Humana Eastern and Western (including Medicare Advantage), and UnitedHealthcare. If you're in one of these plans, you will need to select a new plan during open enrollment.

**Pending Group Insurance Board approval, the following health plans are available in 2018:**

- Dean Health Insurance and Dean Health Insurance-Prevea360
- Group Health Cooperative-Eau Claire
- Group Health Cooperative-SC Wisconsin
- HealthPartners Health Plan
- Medical Associates Health Plans
- MercyCare Health Plans
- Network Health
- Security Health Plan – Central and Valley
- Quartz – Community and UW Health (formerly Gundersen, Physicians Plus and Unity)
- WEA Trust – East, Northwest Chippewa Valley and Mayo Clinic Health System (also IYC Access Plan, Medicare Plus and State Maintenance Plan)

**It's Your Choice  
Open Enrollment Period  
October 2-27, 2017  
[etf.wi.gov/IYC2018](http://etf.wi.gov/IYC2018)**

### Plan Changes

- Network Health will combine its currently separate offerings, Network Health Northeast and Network Health Southeast, into one plan and coverage area. Participants will be auto-enrolled in the new combined plan, Network Health, unless they select a different plan during open enrollment.
- Gundersen Health Plan, Physicians Plus and Unity Health Insurance will be offered under the name "Quartz". Participants of these plans will be auto-enrolled in either Quartz-Community or Quartz-UW Health and can select a different plan during open enrollment.
- WEA Trust will replace WPS as the new administrator of the IYC Access Plan, Medicare Plus and the State Maintenance Plan for 2018. Participants will be auto-enrolled in the same plan with WEA Trust, unless they select a different plan during open enrollment.

The Group Insurance Board was set to meet August 30 to approve the 2018 monthly premiums for health and life insurance, supplemental benefits, and other program changes. Watch for It's Your Choice materials and additional information on our website. You can also sign up for *ETF E-mail Updates* and follow us on Twitter for up-to-date information.

### Take in a Benefit Fair

Benefit fairs present a great opportunity to ask questions about all ETF-administered benefit programs, including retirement and health insurance. To find a fair near you this fall, consult our online map showing fairs by region and location (in the "Face to Face" tab on our Member Education page) or contact us toll free at 1-877-533-5020.

For State and Local Group Health Insurance Program Participants

## Watch for ETF Survey on Medicare Program

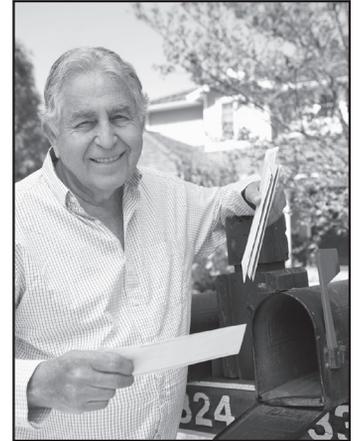
Watch your mailbox early this fall for a survey asking your opinion about the Medicare program offered through the group health insurance program. The Department of Employee Trust Funds will poll a random sampling of retirees who participate in the program. If you receive a survey, please respond as soon as possible!

Our goals include determining what health insurance features you value most and your preferences for an additional benefits package with lower monthly premiums. Collected feedback will help ETF and the Group Insurance Board make possible program changes that offer more choices to meet your health insurance needs.

In conjunction with the survey, ETF will re-

lease a request for proposal to evaluate and select an administrator(s) for Medicare Advantage plan options in 2019.

The RFP is set for release in September. Results and ETF's recommendations for contract(s) will be presented to the Group Insurance Board in February.



## ETF Move to Hill Farms Property Set for Spring 2018

You may have already heard that the Department of Employee Trust Funds, along with eight other state agencies, are slated to relocate to new office building space in the Hill Farms property on Madison's West Side. According to project managers, ETF is scheduled to move in early spring and occupy office space on floors 7-9 of the new Hill Farms State Office Building. We will share more details about the exact move date, the new location and services you can expect from ETF in the January edition of *WRS News*. In the meantime, visit our website or follow us on Twitter for updates.



### BOARD CORNER

## Nominations Sought for Seat on Board

Retired teachers: Here is your chance to serve an important role on the Teachers Retirement Board! The Department of Employee Trust Funds has issued a call for nomination papers—all retired teacher members of the Wisconsin Retirement System are eligible to run for this seat on the board. The five-year term begins in May. There are three convenient ways to obtain a TR Board-Retired Teacher Member nomination packet:

1. Download it from our website;
2. Write to: ETF, Retirement Board Liaison, P.O. Box 7931, Madison, WI 53707-7931;
3. Send an e-mail to [BoardElections@etf.wi.gov](mailto:BoardElections@etf.wi.gov).

**Note:** In your correspondence, please indicate you want the Retired Teacher Member nomination

packet. Completed nominations must be received by ETF by 4:30 p.m., November 1, 2017.

For information on the WRS governing boards, including current board rosters, board member responsibilities, meeting schedules and agendas, visit the Governing Board section of our website at [http://etf.wi.gov/gov\\_boards.htm](http://etf.wi.gov/gov_boards.htm).



## Why Active Management Matters

The State of Wisconsin Investment Board has long been considered a low-cost pension fund manager that provides solid returns for the Wisconsin Retirement System. One way SWIB manages its costs effectively, provides respectable returns, and helps protect the WRS from another market downturn is through a combination of active and passive management of the trust funds.



Active management refers to a portfolio management strategy where the manager makes specific investments using analytical research, forecasts, and his or her own judgement and experience with the goal of outperforming similar investments in the market. Passive management, also known as indexing, is a style of management that attempts to match the results of a basket of investments such as the S&P 500. Passive management strives to equal what the market delivers.

SWIB's use of both active and passive management varies by the type of investment and depends on market efficiencies and management options. SWIB employs an active management strategy that is intended to produce value added over and above passive investments. Over time, SWIB has shown an ability to produce active returns and generate value above what the market generates for the benefit of the trust funds and the beneficiaries.

Over the past five years, SWIB has generated valued added in excess of \$1.2 billion, which helps pay benefits and defray costs of administering the retirement system.

SWIB's multi-pronged approach to active management spans many different strategies to ensure there is a well-balanced approach to generate value added. One strategy that SWIB uses for active management is hedge funds. From our point of view, hedge funds are active managers with broader ability to produce value added over time.

**So, what is a hedge fund?** Hedge funds are investment partnerships between a fund manager and investors. Investors, like SWIB, contribute money to the fund, which the manager invests according to the fund's specific strategy. Hedge

funds can invest in anything including land, real estate, stocks and currencies. This is different than a mutual fund which typically holds only stocks or bonds.

SWIB's approach is different than that of many peers that have recently decreased or eliminated their hedge fund allocations. Many of them were using hedge funds to generate returns they could have achieved less expensively by passively managing the funds. SWIB seeks out hedge funds that generate active management returns. By using hedge funds as part of a broader strategy focused on producing active returns above passive stock and bond market performance, we are better able to generate extra returns.

SWIB began investing in hedge funds in 2011. Since those initial investments, we have been taking a thoughtful and prudent approach to increasing investments in hedge funds as part of a broader approach to active management.

SWIB closely monitors its hedge fund investments and requires a high level of transparency from the managers. The managers are required to provide audited financial statements, exposure reports, and performance and strategy updates. In addition, SWIB partners with an independent organization to perform risk analytics, modeling and reporting on hedge fund holdings.

### Stay Connected

For important news and updates about WRS benefits, services and investment news, sign up for *ETF E-mail Updates* and follow ETF on Twitter. To learn more go to ETF's website at <http://etf.wi.gov>.

## Senate Confirms Reappointment of Two Trustees

Board Chair David Stein and Vice Chair Norman Cummings have been reappointed to serve on the Board of Trustees for the State of Wisconsin Investment Board. The trustees are gubernatorial appointments. The Senate Committee on Revenue, Financial Institutions and Rural Issues recommended reappointing Stein and Cummings. The recommendations were approved by the Senate in June. Both trustees will serve six-year terms that expire in May 2023.

Stein, originally appointed to the Board in 2014, is executive vice president and head of consumer and business banking for Green Bay-based Associated Banc Corp, the largest bank holding company headquartered in Wisconsin. In this capacity, Stein leads the bank's efforts directed at consumers and small businesses across its Wisconsin, Illinois and Minnesota footprint. Stein's role encompasses oversight of the bank's 230 branches, mortgage company,



David Stein



Norman Cummings

brokerage company and card businesses. He is chairman of Associated Investment Services and is a director of Associated Financial Group and the Associated Banc-Corp Foundation.

Cummings, the director of administration for Waukesha County, was originally appointed to the Board in 2011. He previously served as finance director for Waukesha County and worked for the Wisconsin Legislative Audit Bureau.

## SWIB Analyst Honored as Industry "Rising Star"

Jason Rector, a State of Wisconsin Investment Board analyst, has no problem working behind the scenes for Wisconsin Retirement System members—but that doesn't mean the work he is doing goes unnoticed.

*Institutional Investor* magazine, along with its sister publication, *Alpha*, recognized Rector as a 2017 Hedge Fund Rising Star, one of 30 "up-and-comers" in the hedge fund industry. The individuals are nominated by their colleagues and industry peers.

The awards recognize the rising stars of investment consultants, endowments, foundations, family offices, corporate funds, as well as those of public pension funds, for their performance innovation, achievements and contributions to the industry in the past year. Past Rising Star award recipients on the

SWIB team include two-time award winner Dominic Garcia, portfolio manager, and Derek Drummond, managing analyst.

Rector was also honored by *Chief Investment Officer* by being named the magazine's Class of 2017 Forty Under Forty list. The list, compiled based on anonymous nominations, brings together 40 asset owners under the age of 40 from around the world who show a strong passion for their work and the ability to become potential game changers—if they aren't already.

Although he is honored by the recognitions, Rector says the award is about the work the entire SWIB organization is doing to benefit the WRS. "These awards reflect the strong team we have at SWIB," Rector said. "To me, this award demonstrates how the entire organization works together to deliver value for our members."

*Williamson, continued from page 1*

When measuring the success of the WRS, many will immediately point to investment returns. After all, making money is one of our top priorities. But what is sometimes overlooked is *how* we make the money and how we help *protect the funds* from another financial crash. Since my arrival at SWIB five years ago, many of you have read or heard me talk about our investment strategy and how we have built in increased protections to help keep annuity adjustments positive and contribution rates stable.

While our strategy is important, it alone is not what makes money. In today's highly sophisticated financial world, remaining at the forefront requires highly qualified people with access to the tools they need to make decisions and implement complex investment strategies that will benefit the WRS.

SWIB just put the finishing touches on a pioneering technology upgrade that is focused on ensuring staff continue to have the tools, processes and data needed to better manage the retirement assets. The implementation of the new technology is significant, not only for SWIB, but also for our industry. The new state-of-the-art technology improves our access to high quality and timely financial data. It will also help us implement more complex investment ideas in our overall investment strategy. Combining

the technology with highly qualified staff is critical to SWIB remaining competitive and making informed investment decisions as we manage increasing amounts of assets internally.

I am grateful for my time at SWIB and I am proud of the work we have accomplished. SWIB is more innovative, agile, and integrated as an organization and in a better position to optimize investment returns while navigating the choppy financial waters around us. You can rest assured that SWIB will continue to invest first to help protect you from another financial downturn and then to earn reasonable returns.

The new tools we have put in place will help keep SWIB in the forefront. I am going to miss being part of this great organization and working for you. I have greatly enjoyed traveling the state and getting to meet and talk with many public employees and retirees. But I am also looking forward to joining you as a beneficiary, while knowing that SWIB and the WRS are well positioned for future success.



Michael Williamson

## Search Under Way for New Executive Director

The State of Wisconsin Investment Board announced in June that Michael Williamson will retire as executive director at the end of 2017. The Board of Trustees has launched a nation-wide search for Williamson's replacement and plans to have the position filled prior to his retirement. Williamson was named executive director in 2012. Under Williamson's leadership, SWIB continued its tradition of being a valuable partner for the state of Wisconsin and its public employees. Under Williamson's leadership, SWIB added more than \$1 billion above market returns for the funds it manages while vastly improving the infrastructure of systems, controls and measurement used to run the organization.

Also during Williamson's tenure, SWIB's above-market returns contributed significant value to the Wisconsin Retirement System, which is one of the country's best funded public employee retirement systems.

"Michael's leadership has ensured the Investment Board stayed focused on its mission and delivered value to the state of Wisconsin," said David Stein, Board of Trustees chair. "Michael provided steady leadership for the organization as it navigated through difficult financial times and a major transformation of its operations. I am confident in the path Michael has put SWIB on and am looking forward to our next executive director continuing that progress."

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ET-7402

**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; specialists available 7:00 a.m. to 5:00 p.m. (CST), M-F.

<http://etf.wi.gov>

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

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<https://twitter.com>

### **SWIB**

Contact SWIB for information about WRS investments.

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