



STATE OF WISCONSIN  
Department of Employee Trust Funds  
Robert J. Conlin  
SECRETARY

801 W Badger Road  
PO Box 7931  
Madison WI 53707-7931  
1-877-533-5020 (toll free)  
Fax (608) 267-4549  
<http://etf.wi.gov>

**CORRESPONDENCE MEMORANDUM**

**DATE:** September 5, 2014  
**TO:** Employee Trust Funds Board  
Teachers Retirement Board  
Wisconsin Retirement Board  
**FROM:** Mark Lamkins, Director, Office of Communications  
**SUBJECT:** Communications Update

**This memo is for informational purposes only. No Board action is required.**

**ETF Website Enhancements**  
**New Member Education Menu**

The new Member Education menu on our website brings together all educational offerings for members: face-to-face benefit presentations, webinars, videos and other media. Members will be able to find information more easily and quickly because the information is tailored to their individual interests and needs. For example, we created separate content areas for members who are new employees, mid-career, near retirement and retired. The page design underscores how we have been promoting educational offerings to members and the branding efforts to target different member types.

The Member Education menu creates convenient, one-stop shopping for members to:

- find relevant educational topics;
- view schedule of local benefits fairs and presentations by region;
- register online for webinars; and
- link to video presentation materials and other helpful resources.

To increase accessibility for members and employers we converted and moved our videos to a customized video library on YouTube. Here is the exact URL: <https://www.youtube.com/user/wisdetf/featured>. In June we decommissioned the Mediasite video technology used for producing and hosting ETF videos. This was part of a larger initiative to improve internal presentation development processes based on e-learning methodology, knowledge sharing and collaboration.

Our current videos for new board member orientation have also been moved to the Member Education menu.

Reviewed and approved by Pamela Henning, Assistant Deputy Secretary

Electronically Signed 9/11/14

Board	Mtg Date	Item #
JM	9.25.14	5C

### **It's Your Choice (health insurance benefits communications)**

In collaboration with the Division of Insurance Services, other ETF business areas and employers, we have developed interactive web pages for the State of Wisconsin Group Health Insurance Program and the upcoming It's Your Choice Open Enrollment period, October 6-31, 2014. We shifted more content to the web, reduced the number of pages of printed program materials and instituted print-on-demand features for web-only content. In addition, we added quick response (QR) codes to the covers of the It's Your Choice guides. By scanning a QR code with a mobile device, the member can immediately link to electronic files, reducing the need for printed guides.

Web page enhancements are numerous. Overall, pages are easier to navigate and include:

- frequently asked questions by topic;
- an interactive health plan map by geographic service area and links to plan descriptions;
- the ability to sort detailed health plan quality measures; and
- local benefit fair dates and locations with directions via Google Maps.

Members of the Employer Advisory Council (EAC) participated in usability testing of new web pages. The EAC was established by ETF last fall to assist with policy, process and IT system changes, such as this project and the new Benefits Administration System. Testing also included ensuring that web pages are compliant with Section 508 accessibility standards for visually impaired users and assistive technology.

### **Other Updates**

#### **WREA Interview with Secretary Conlin**

Secretary Conlin addressed topics of interest to Wisconsin Retired Educators' Association members in the summer edition of *WREA News*. State of Wisconsin Investment Board (SWIB) Executive Director Michael Williamson was also interviewed. To review the article, please see Attachment A.

#### **WRS News**

In the September 2014 edition of *WRS News*, members learned about:

- the decreased contribution rates for next year;
- an update on the recent federal court ruling on Wisconsin's prohibition of same-sex marriage and covered Wisconsin Retirement System (WRS) benefits for domestic partners under Chapter 40;
- new electronic voting for upcoming elections for the Employee Trust Funds Board and Teachers Retirement Board;
- educational offerings for fall; and
- SWIB's three-year strategic plan.

There is also an article reporting the annual financials for the WRS as of December 31, 2013. The 2013 Comprehensive Annual Financial Report is currently in production and planned to be available at the end of this year.

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This was also the last “paper” edition of *WRS News* for active employees. In January 2015, they will receive an interactive, web-based newsletter with four-color infographics, customized articles and links to online resources. Retirees will continue to receive the printed newsletter with content geared towards their interests and needs. A presentation of the new newsletter is planned for the board meeting in December.

Staff members will be at the Board meeting to answer any questions.

Attachment A: *WREA News* Article, Summer 2014

# An Interview with Bob Conlin, Michael Williamson



**Bob Conlin, Secretary Department of Employee Trust Funds**

## 1. What is the #1 Challenge ETF faces today?

ETF faces two primary challenges. As administrator of fringe benefit programs (retirement, health insurance, life insurance, disability insurance, etc.) for public employees and retirees across the state, we are constantly challenged to keep those benefits affordable. The challenge is heightened when, like now, state and municipal budgets are under stress and employee wage growth is low. To meet this challenge we focus on making sure the benefits are efficiently designed and administered. The second challenge is providing quality customer service to a growing customer base with our limited staff and outdated IT systems. We are

focusing great effort on updating those systems to meet current and future customer service demands.



**Michael Williamson, Executive Director State of Wisconsin Investment Board**

## 1. In six years since the market crash of 2008, SWIB has made a number of changes in its investment strategy. How would you characterize those changes?

Like most pension funds, the Core Fund depends mainly on a mix of stocks and bonds to earn sufficient funds for the retirement system. This decision is based on meeting the long-term objectives of the WRS rather than short-term fluctuations in the market and it has served us well while helping the WRS remain fully funded. Over the past several years, SWIB has reduced its exposure to stocks to about 50 percent since at least 85 percent of our risk comes from the stock market. While we cannot control the market, we can manage investment risk and that is central to our work. The primary tool for managing risk is diversification. To help manage the effects of market swings on the Core Fund, we also rely on other types of investments including real estate, private equity and hedge funds.

## 2. Many public school retirees fear that Wisconsin politicians will “raid” the pension fund. What is your view of this concern?

Wisconsin law and court decisions protect the money in the WRS Trust Fund from misappropriation. Accordingly, taking money out of the Trust Fund for inappropriate uses is not an attractive option, or one likely to succeed in the long run. But we remain vigilant, nonetheless. The biggest problem many pension systems face, though, is when politicians fail or refuse to fund the benefit promises being made. The Wisconsin Legislature has designed the WRS to avoid this problem by having independent actuaries and a Board of Trustees set the appropriate contribution rates and a legal requirement that those rates be paid.

## 2. WREA annuitants who have their money in the WRS, sometimes compare stock market returns to the more conservative return on investment (ROI) that SWIB money managers get for the Core Fund. How would you explain the difference?

When comparing returns of different funds or, in this case the Core Fund to the stock market, it is not like comparing apples to apples, it is like comparing apples to oranges. Asset allocations, or amounts in various investment types, vary depending on the individual retirement systems and investment objectives of the fund. In this case, Core Fund returns cannot be directly compared to stock market returns because the Core Fund is a fully diversified fund with investments spread among various asset classes. In addition to stocks, the Core Fund is invested in other areas such as bonds, real estate and private equity. The Core Fund is invested approximately 50 percent in stocks. Over the past several years, SWIB has reduced risk to the Core Fund through less exposure to stocks. This allows SWIB to continue to provide prudent and cost-effective management of the funds held in the trust as well as achieve the actuarial expected rate of return of 7.2 percent over the long term.

## 3. Across the United States, state legislatures have taken aggressive actions to either fix or alter the status of their defined-benefit public pension plans. How would you assess that potential in Wisconsin?

It seems the level and significance of the changes to public pension plans around the country were in direct proportion to the funding challenges those plans faced after the financial crisis of 2008. The WRS saw changes, too, but because the WRS was not facing a funding crisis like some other systems, the fundamental structure of the WRS was left intact. The most noticeable change prevents employers from paying the employee share of the contribution and splits the cost equally between the employer and employee. In addition, the pension benefit associated with the future service of elected officials and state executive officers was reduced by about 20%, the threshold for joining the WRS was increased, and more restrictions were placed on retirees returning to work. If the WRS remains solidly funded and affordable to both employers and employees, a good case can be made that major structural changes are not needed.

## 3. SWIB paid \$13.3 million in incentive compensation this year. Explain to WREA readers why SWIB’s incentive compensation program is necessary to keeping WRS performing well.

A key component in meeting our fiduciary responsibility to the WRS trust funds is to attract and retain qualified investment professionals. SWIB competes for staff with investment firms in the private sector throughout the country. The goal of SWIB’s compensation plan is to establish total compensation at the median pay of a defined group of investment professionals, excluding highly paid investment staff on the East and West coasts. Compensation at SWIB consists of two parts: salary and incentive compensation. Incentive compensation is paid to staff whose investment performance exceeds benchmarks established for the assets in which they invest.

Studies show that SWIB is a low-cost asset manager. One of the reasons for the lower cost is that SWIB manages a significant portion of the trust funds with internal staff. If SWIB instead hired external managers, the overall fees of the fund would increase by more than \$50 million per year. Having an incentive compensation program that can attract and retain talented SWIB staff is necessary in order to continue to realize these savings. SWIB’s internal costs are about one quarter of what external manager would charge for the same service.

Experience shows that incentive compensation has been a success at SWIB. Studies by independent consultants report that incentive compensation has improved SWIB’s ability to attract and retain highly qualified staff.

Incentive compensation must be earned. It is paid only when portfolio and fund performance surpasses thresholds set by the Board of Trustees working with independent consultants. So while SWIB paid \$33.4 million over the past five years, it has also added over \$2.65 billion in additional value to the WRS funds above its benchmarks during the same time. We believe this is a solid investment for our members.

