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### Calendar Year-to-Date Preliminary Returns as of 03/31/2016

<b>Core Fund</b>	<b>2.2%</b>
Benchmark	2.3%
<b>Variable Fund</b>	<b>0.8%</b>
Benchmark	0.6%

## Rates, Adjustments Set; Challenges Ahead

The Department of Employee Trust Funds has set the 2015 annuity adjustments for retired members of the Wisconsin Retirement System. The Core annuity adjustment is 0.5% and the Variable annuity adjustment is -5.0%.

The adjustments, recommended by ETF's consulting actuary and approved by ETF Board Chair Wayne Koessl and ETF Secretary Robert Conlin, first take effect on retirees' May 1, 2016 payments.

"Given the turmoil in the financial markets over the last couple of years and flat investment returns in 2015, it's good to be able to provide a positive Core adjustment," said Conlin, when

	Core	Variable
<b>2015 Calendar Year Investment Return</b>	-0.4%	-1.2%
<b>Effective Rate</b>	6.4%	0.0%
<b>Annuity Adjustment</b>	0.5%	-5.0%

announcing the rates in late March.

By design, the WRS does not provide an annual cost of living increase, also known as a COLA. Post-retirement annuity adjustments are based on trust fund investment performance and other actuarial factors. Core Fund investment returns are smoothed over five years to mitigate the effects of market volatility. Smoothing works to help prevent wide  
*Adjustments, continued on page 2*

## Does SWIB's Investment Strategy Work?

— Michael Williamson, SWIB Executive Director

After a rough end to 2015 for the financial markets, 2016 started off no better. Through the first quarter of the year, the markets continued to show extreme volatility. The roller-coaster ride early in 2016 reinforced the idea that we are indeed in a low-return environment in which there will be significant challenges to earning positive returns.

The first two months of 2016 also reinforced the importance of our investment strategy, which includes elements designed to help protect the trust funds from dramatic swings in the

markets. The strategy is also designed to help stabilize annuity adjustments for retirees, and for active employees and employers, the effective rates and contribution rates. But is it working?

At the end of January, the Core Fund had a return of -2.7% and at the end of February the return was -2.5%. During those same months, many of the major indexes struggled far more than the Core Fund. For example, the S&P 500 had a return of -5.0% at the end of January and -5.1% at the end of February. The Russell 3000, an index that repre-

*Williamson, continued on page 5*

*Adjustments, continued from page 1*

swings in retirees’ WRS pension income each year and helps stabilize employer and employee contribution rates. Variable Fund investment performance is not smoothed; investment returns are fully recognized each year. While the long-term investment outlook is more positive, there will be some near-term challenges.

**What does ETF anticipate in terms of Core annuity adjustments over the next few years?**

Secretary Conlin advises members “to prepare for continued volatility and low returns in the investment markets—which, for retirees, may mean relatively flat or even negative Core annuity adjustments.”

At its March meeting every year the ETF Board reviews a range of projected Core annuity adjustments, using several Core investment return scenarios. Some possibilities for next year’s Core annuity adjustment are shown in the accompanying table. Keep in mind these are pro-

jections. Actual rates will be available after final 2016 investment returns have been determined and an actuarial analysis is completed. Look for the *Annual Annuity Adjustments* presentation on our website (under Governing Boards-ETF Board-Meeting Agendas and Materials-Joint Meeting).

<b>Projected WRS Core Annuity Adjustments</b>		
	<b>2016 Core Fund Net Investment Return</b>	<b>Projected 2017 Core Annuity Adjustment</b>
<b>Scenario 1</b>	7.2%	1.2% to 1.6%
<b>Scenario 2</b>	0.0%	0.0%
<b>Scenario 3</b>	-3.8%	-0.5%

## FAQs About Annual Annuity Adjustments

**How are WRS annual annuity adjustments set?**  
Here are the steps in the rate-setting process:

1. The State of Wisconsin Investment Board announces **preliminary** calendar year investment returns for the Core Trust Fund and Variable Trust Fund.
2. The effective rates of interest are calculated by ETF, using **final** investment returns.
3. Using the effective rates as a starting point, the annuity adjustments are calculated and set. The annuity adjustments are always lower than the effective rates—usually 5% to 8% lower—because there is already a 5% earnings assumption built into the initial benefit amount paid to retirees. In other words, 5% is needed to pay benefits over the retiree’s lifetime. In addition, actuarial factors such as mortality are factored into the calculations.

**What is my minimum Core annuity amount?**

Your Core annuity is guaranteed for your lifetime and, by law, will never be reduced to an amount

below the original Core “floor” amount established at retirement (once a final calculation has been completed). Find your Core annuity floor on your most recent annuity mailer statement. Look in the “Required Contributions” section of the statement and find the phrase, “Regular Core” – that dollar figure is your Core floor; your minimum guaranteed amount.

If you participate in the Variable, that portion of your payment will be shown, too, but is not included in your minimum guaranteed amount.

### For More Information

*Core Fund and Variable Fund: Returns, Rates and Adjustments since 1986*

*FAQs: Annuity Adjustments*

*Webinar: Effective Rates, Annuity Adjustments*

*Webinar: Variable Fund (pre-recorded)*

Find these on our Core/Variable Info page at <http://etf.wi.gov>.

## Legislative Update

—Tarna Hunter, Legislative Liaison

The Wisconsin Legislature has adjourned its 2015-16 session. One significant piece of legislation affecting the Wisconsin Retirement System that was enacted is **2015 Wisconsin Act 174**. The law provides municipalities interested in participating in the WRS the option to join and only enroll newly-hired employees, while allowing current employees to finish their careers under their existing retirement plan.

### Specifically, the bill:

- Permits an employer to elect to participate in the WRS and choose to only bring in employees hired on or after the date that the employer elects to participate in the WRS. Employees hired before the date of election would not participate in the WRS.
- Permits the municipal employer the option to offer current employees a one-time choice of becoming participating employees in the WRS. Provides that the employee shall make the election before the effective date the employer becomes a participating employer.
- Permits any municipal employer that elects to be included under the above provision to exclude its public utility employees.

The legislature also enacted **2015 Wisconsin Act 187**, legislation proposed by the Department of Employee Trust Funds through the Law Revision Committee. The law made a number of remedial changes to the WRS and the operation of

ETF. The changes clarify current law or codify current practice. These technical changes may require minor modifications to procedures and forms for members and employers, but do not make substantive changes.



Tarna Hunter

Other WRS-related bills were introduced this session, but they were not passed by the full legislature. Unless the bills are considered in a special or extraordinary session, they will need to be reintroduced next session if the legislature intends to take action on them. We will continue to monitor developments and provide updates.

### For More Information

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

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

Follow ETF on Twitter  
<http://twitter.com/WI ETF>

Sign up for *ETF E-mail Updates*. Look for the red envelope icon on our website at <http://etf.wi.gov>.

## Procedural Change for Adjusting Tax Withholding

Beginning in June, retirees must complete and submit to ETF an *Income Tax Withholding Change for Monthly Annuities* form (ET-4310) if they want to make income tax withholding changes to their Wisconsin Retirement System payments. ETF will no longer offer the option to call and make these changes over the phone. We recognize this may be a big change for many retirees, but it is necessitated by Internal Revenue Service laws and regulations.

To obtain the tax withholding change form, go to the Forms and Publications page on our website at <http://etf.wi.gov/publications> or call ETF toll-free at 1-877-533-5020.

**Reminder:** Use our online Income Tax Withholding Calculator to determine how much you would like to withhold from your monthly payment for tax purposes. Find the calculator on our website at <http://etf.wi.gov/calculator.htm>.

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

## Special Event: Wellness Expo May 11 in Madison

If you are in the Madison area, be sure to attend the 2016 Well Wisconsin Expo on Wednesday, May 11 from 11:00 a.m. to 1:30 p.m. at the Monona Terrace Community and Convention Center. Hosted by the Department of Employee Trust Funds, this event features more than 20 organizations with information on health plan resources, financial wellness, nutrition and health awareness. Those eligible for the Well Wisconsin incentive can also complete a biometric screening. Pre-registration is required. For more information

about Well Wisconsin or to register for a biometric screening, visit <http://wellwisconsin.wi.gov>.



## E-Learning: What is Self Insurance?

In the wake of the Group Insurance Board's plans to consider self-insuring the State of Wisconsin Group Health Insurance Program, many members have asked us, *What is self-insurance and how does it work?*

Simply put, self-insurance is a way to finance an employer-sponsored health insurance program. Rather than paying health insurance companies a fixed premium, the Department of Employee Trust Funds would instead maintain funds in a trust to pay health care claims.

ETF has created an animated e-learning presentation about the concept of self-insurance as it would relate to the group insurance program. Find *Self-Insurance in 5 Minutes* on the Member Education page of our website, <http://etf.wi.gov>.

**Does self-insurance mean I will pay more for health insurance and will benefits change?** Self-insurance involves **how** your claims are paid; it is not related to premium amounts members pay, out-of-pocket costs, or which benefits would be provided.

**Will I be able to stay with my current health care providers?** While ETF cannot make any guarantees this early in the process, know that consistent provider access is a top priority for all involved. Throughout summer and fall 2016 the GIB will evaluate proposals from prospective third-party administrators. The GIB may make a decision whether to adopt the self-insurance model in November. The earliest such a change would take effect is January 2018.

## It's Your Choice Open Enrollment Period Set

The Group Insurance Board has established **October 17 through November 11, 2016** as the 2017 It's Your Choice open enrollment period. IYC is the annual opportunity to change from one health plan to another, switch from single to family coverage or add/delete certain dependents. It is also the only open enrollment opportunity of the year for eligible state employees, participating local government employees, and retirees.

**This year the open enrollment period is two weeks later than usual, due to a more efficient computer system for processing transactions (the state's new STAR system).** The shift will also provide more lead time for the Department of Employee Trust Funds to carry out communications plans and enhance training for participating employers statewide.



*Williamson, continued from page 1*

sents about 98% of the U.S. public stocks, was at -5.6% in January and -5.7% in February. The MCSI World ex U.S. Equities, a global stock index that excludes the U.S., finished January at -5.5% and February at -8.6%.

Trust fund returns will rarely match market returns. With the investment strategy we have in place, which focuses on risk and diversification, there will be a slight reduction in performance during strong stock markets. However, there is better protection for the funds when the markets are struggling. Sometimes our returns will trail when stocks are performing well and

at other times they will finish ahead of falling stocks. That is what we saw in the first part of 2016. Obviously, there is a long way to go yet in 2016.

**We expect the markets to remain extremely volatile. That is why we are constantly working to develop an asset allocation strategy that matches the changing investment environment.** This is not the first time we have had to deal with stresses in the markets. But, just as we did through the previous changes to the markets, we will continue to adapt and do our best for the trust funds and for you.

## Increased Internal Management Benefits WRS

**I**nternal management of the trust funds by State of Wisconsin Investment Board staff has reached an all-time high; the end result has been a significant financial benefit to the Wisconsin Retirement System. SWIB has been building a stronger internal management program over the past several years. Approximately 64% of WRS assets are managed internally today, up from 25% in 2007. SWIB actively manages assets not only to earn more than the passive market indexes, but also to better manage risk and control costs.

**The objective of our strategy for Core Fund investments:** Earn returns comparable to the actuarial objective of 7.2% over the long term, but with less risk than the typical 60% equities/40% fixed income portfolio. Diversification is the primary tool for managing risk. Not all investment strategies that are used when diversifying can be passively managed. By actively managing assets and putting in place those diversification strategies, SWIB is working to stabilize returns, contribution rates and annuity adjustments.

The net annual savings from SWIB's internal management initiative is \$57 million, based on what it would cost to hire outside managers to invest SWIB's public market portfolios. The savings exceeded SWIB's 2015 operating budget, including all staff compensation costs, of \$46.9 million.

**SWIB's internal management initiative saves \$57 million annually.**

"We have reduced our reliance on outside money managers, which has allowed for greater efficiency and effective cost control," Michael Williamson, SWIB executive director, said. "We have adopted a cost management strategy that emphasizes using SWIB staff to manage assets whenever it is cost effective to do so."

According to CEM Benchmarking, an independent provider of objective benchmarking for public pension plans, pension funds with more internal management typically perform better on a net return basis over the long term.

SWIB balances its use of internal active management with passive management. SWIB uses more passive management than other large public pension funds, according to CEM Benchmarking. In 2015, 47% of WRS funds were managed passively. Passive management is effective for earning market returns at a lower cost.

SWIB's combination of active internal management and passive management has helped contribute an additional \$1.2 billion to the trust fund above market returns over the past five years.

## Stein Appointed SWIB Board of Trustees Chair

David Stein has been appointed by Gov. Walker to serve as chairman of the Board of Trustees for the State of Wisconsin Investment Board. Stein, who had been serving as the board's vice chair, replaces former chair Lon Roberts. Roberts stepped down from the board in February after being appointed by Gov. Walker to serve as Secretary of the Department of Financial Institutions.

Stein, a trustee since February 2014, is executive vice president and head of retail banking for Green Bay-based Associated Banc Corp, the largest bank holding company headquartered in Wisconsin. His term expires in May 2017.

Trustee Norman Cummings has been appointed by Gov. Walker to serve as vice chairman of the board. Cummings is director of administration for Waukesha County. Cummings has been a trustee since December 2011 and his term expires in May 2017.

To fill the vacancy left by the Roberts resignation, Gov. Walker appointed Timothy Sheehy to the board. Sheehy's appointment was confirmed by the state Senate in March. Sheehy is president of the Metropolitan Milwaukee Association of Commerce. His term will expire in May 2017. The MMAC serves as an advocate for member businesses, which employ more

than 300,000 people in the greater Milwaukee area. Prior to being named president in 1993, Sheehy served in various capacities with the association in governmental affairs and economic development. He currently serves on the board of two of the association's subsidiaries, the Regional Center, LLC; the Milwaukee Development Corporation; as well as the MMAC board.

Sheehy worked as a legislative assistant to U.S. Representative F. James Sensenbrenner and is a past recipient of the Lyndon Baines Johnson Congressional Internship. He is a Ford Foundation Fellow on Regional Sustainable Development, a graduate of the Institute for Organizational Management, and a certified chamber of commerce executive. Sheehy is a graduate of the University of Wisconsin-Madison, with a bachelor's degree in political science.

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



David Stein

## Video Explains Risk Reduction, Market Volatility

The State of Wisconsin Investment Board has implemented an investment strategy designed to add protection to the Wisconsin Retirement System and stabilize—as much as possible—investment returns and, in turn, contribution rates for active employees and their employers and annuity adjustments for retirees. SWIB has produced a short video in which Michael Williamson, SWIB executive director, explains the challenges facing SWIB and the WRS. Williamson explains the impact investment volatility can have on WRS participants, SWIB's investment strategy, and



other initiatives SWIB is implementing to protect trust fund investments. Find the video at <http://www.swib.state.wi.us>.

## What are SWIB's Financial Benchmarks?

Financial benchmarks are important to the State of Wisconsin Investment Board. Benchmarks are the standard against which both returns and risks of a security, fund or investment manager can be measured. But how are benchmarks set, who reviews them and how often do they change? And what is SWIB's goal when measuring performance against the benchmarks?

Comparing investment returns to a benchmark is a way to measure an investor's performance. It answers the question, *What value was added by the manager's decisions?*

Our Board of Trustees, with the help of an independent consultant, set the financial benchmarks used by SWIB to measure the performance of the Core and Variable Trust Funds, each asset class and individual portfolios. SWIB's benchmarks are reviewed each year to ensure they are still the best measurement. Changes to the benchmark are applied to the next year. The most commonly used benchmarks are market indexes such as the Dow Jones Industrial Average, the S&P 500, or the Russell 2000. However, there are dozens of other market indexes that focus on specific industry sectors, security classes and other market segments. Because benchmarks and portfolios include similar investments, the performance for both will change with the market. As the year progresses, SWIB compares year-to-date performance with the performance of the benchmark year-to-date.

Unfortunately, using an index that does not

accurately reflect the types of investments is like comparing apples to oranges. The Core Fund includes a mixture of asset types, including domestic and international stocks, real estate and bonds. Because of its diversity, the Core Fund benchmark is mainly a composite of several market indexes, including the Russell 3000, a measure of the U.S. stock market as a whole, along with international indexes, bond indexes and measures for other asset classes. The all-stock Variable Fund includes the Russell 3000 and Morgan Stanley World Index ex-U.S., plus emerging markets, which reflects the mix of U.S. and international stocks.

SWIB's goal is to exceed benchmarks adopted by trustees over the long term. Exceeding benchmarks has helped SWIB add an additional \$1.2 billion to the trust funds. Exceeding the benchmark means portfolio managers' decisions made more money for the funds than investing in a passive market index. A common mistake is to take a short-term view when judging the performance of investments against the benchmark. Benchmarks should be difficult enough to beat so that the staff is rewarded for performance that compares favorably to the markets. The benchmarks should not be so difficult they encourage excessive risk taking.

Generally, a majority of SWIB's portfolios beat their benchmarks each year, although particular portfolios that beat their benchmarks tend to vary from year to year. This is an indication that benchmarks are appropriate.

## Private Debt Portfolio Expands Opportunities

To take advantage of more investment opportunities, the State of Wisconsin Investment Board private debt program has expanded. The Board of Trustees recently approved guideline changes to the Wisconsin Private Debt Portfolio that expanded the investment region from Wisconsin, Illinois, Iowa and Michigan to include Indiana, Ohio and Pennsylvania. The guideline changes removed the percentage restrictions on investments in companies outside Wisconsin and transfer loans not made in the state into a

new portfolio called the Non-Wisconsin Private Debt Portfolio. About 90% of the Wisconsin Private Debt Portfolio is invested in Badger State opportunities.

SWIB's private debt portfolio started in the late 1960s and at one time had a national and global focus, before switching its attention to investments in the state in 1983. Since the start of the dedicated Wisconsin strategy, there have been about 200 transactions totaling \$2 billion.

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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.

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

7-1-1 or  
1-800-947-3529 (English)  
1-800-833-7813 (Spanish)


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