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Preliminary Returns Calendar Year to Date as of 07/31/2016

Core Fund	7.0%
Benchmark	7.2%
Variable Fund	6.7%
Benchmark	6.7%

Effect of Investment Performance on WRS Annuities

How will recent investment performance affect your Wisconsin Retirement System annuity next spring? The annual annuity adjustments will be available in March, once final investment returns for calendar year 2016 and the results of an actuarial analysis are determined.

In the meantime, the Department of Employee Trust Funds continues to advise all members to prepare for a period of investment market volatility and low returns. For retirees this may mean relatively flat—or perhaps negative—Core annuity adjustments.

The May edition of *WRS News* included ETF's projections for next

year's Core rates using three different scenarios: 2016 net investment returns of 7.2%, 0% and -3.8%. As per these scenarios, ETF is projecting the Core annuity adjustment to be either a very slight increase, about 1.6%; a 0.0% adjustment; or a very slight decrease, about -0.5%.

Keep in mind these are projections only, we still have four more months to go in the calendar year, and no one has a crystal ball. As of July 31, preliminary investment returns for the trust funds were 7.0% for the Core and 6.7% for the Variable.

Despite an extended volatile market, *Adjustments, continued on page 2*

What Does it Mean to be a Long-Term Investor?

— Michael Williamson, SWIB Executive Director

In June a majority of voters in the United Kingdom chose to leave the European Union. The outcome of the vote was shocking to many. In the days immediately following the vote, world stock markets were reeling from the news as investors and analysts tried to determine what the EU will look like without the U.K. But by July, major U.S. stock indexes had set record intraday highs, with the Nasdaq wiping out its losses for the year.

The "Brexit" vote is just one of many issues that has added volatility

to what is already being described as a "low-return environment" for investors. Events like Brexit add to the constant market reminders that it will be difficult to consistently reach the Wisconsin Retirement System's assumed rate of return of 7.2% over the short-term. This has led many to ask if we should consider changing our investment strategy.

For years I have talked about SWIB being a long-term investor. Staying the course and believing in the well-

Williamson, continued on page 7

Adjustments, continued from page 1

ket, SWIB's 20-year return for the Core Fund is 7.4%, which is higher than the expected rate of return of 7.2%.

The median investment return assumption among U.S. public employee pension plans is 7.7%. Some industry experts, however, believe the next few years will bring returns averaging approximately 6% a year.

Please remember that your original Core annuity amount cannot be reduced (via negative annuity adjustments) to an amount below that "floor". The WRS does not provide automatic cost of living adjustments. Your annuity can be increased with dividends, but these adjustments are based solely on investment performance and can be reduced when returns decline. If you participate in the optional Variable Fund, there is no limit to how much the Variable portion of your annuity can be reduced.

Stay informed: Find out about preliminary investment returns for the trust funds on a

For More Information

Frequently Asked Questions: Annual Annuity Adjustments

<http://etf.wi.gov/faq>

ETF's Core/Variable Information page

<http://etf.wi.gov/retirees>

- *What is my Minimum Core Annuity Amount?*
- *Core and Variable Fund Rates Since 1986*
- *How Participation in the Variable Trust Affects Your WRS Benefits*
- *Canceling Variable Participation*

monthly basis by monitoring our website, signing up for our free e-mail notification service, *ETF E-mail Updates*, or following ETF on Twitter. We usually communicate this news by the 10th business day of each month.

FAQs About Beneficiary Designations

We can't stress enough the importance of keeping your Wisconsin Retirement System beneficiary designation up to date. It is easy to forget to review designations when, for example, events such as divorce or marriage change one's circumstances. Our online set of frequently asked questions about beneficiary designations contains scenarios that may be of use to you. Here are some examples:

- *I have a will and estate planning documents. Do these documents supersede a beneficiary designation? Will ETF recognize my will?*
- *May I divide my benefit among more than one beneficiary?*
- *Should I hire someone such as an attorney or an estate planner to complete my beneficiary designation form?*
- *What happens if I don't file a beneficiary designation form with ETF?*

Remember: The only way to name beneficiaries for your WRS account or your Wisconsin Public

Employers Life Insurance is by completing ETF's beneficiary designation forms. There are two beneficiary designation forms:

1. The basic *Beneficiary Designation* form (ET-2320) allows you to name primary, secondary, and tertiary beneficiaries.
2. The *Beneficiary Designation – Alternate* form (ET-2321) allows you to name primary and secondary beneficiaries as well as specific successors to those beneficiaries.

For More Information

FAQ webpage on beneficiary designations

<http://etf.wi.gov/faq>

WRS beneficiary designation forms

<http://etf.wi.gov/publications>

Webinar: *Beneficiary Designations: What Happens to My Account When I Die?*

http://etf.wi.gov/member_education

Legislative Update

—Tarna Hunter, Legislative Liaison

The Department of Employee Trust Funds monitors state and federal legislation that may affect Wisconsin Retirement System pension, insurance and other benefit programs. Did you know that now you can quickly and easily learn about what we are tracking? Visit our new Government Relations webpage, where you will find:

- Proposed Wisconsin legislation and laws affecting the WRS and ETF
- Federal issues and legislation
- Nonpartisan research on national trends in public employee benefits
- Current and archived state budgets and legislative sessions

- State legislative agencies and resources
- IRS fact sheets, studies and reports
- WRS partners and other organizations, such as retiree advocacy groups and public retirement system associations
- A convenient view of ETF's Twitter feed



Tarna Hunter

Visit our site at http://etf.wi.gov/gov_relation. In addition, sign up to receive notices of new information we've posted on this page via *ETF E-mail Updates* (select the topic, "Government Relations"). Look for the red envelope icon on our website at <http://etf.wi.gov>.

Connect with ETF via *ETF E-mail Updates*, Twitter

Stay informed about important news and information related to WRS benefits between editions of this newsletter—there are several ways to do so.

One of our most popular is *ETF E-Mail Updates*. Look for the red envelope icon on our website, enter your e-mail address and select specific topics that you want to follow. The Department of Employee Trust Funds will notify you each time we have news to share that relates to the topics you select—it's that easy. Examples include: investment return performance year-to-date; health insurance and wellness; meeting agendas of the WRS governing boards; and annual annuity adjustments.

Another way to connect to ETF is via Twitter. Instead of receiving an e-mail from ETF, you view our "tweets" (messages) on our Twitter webpage at <https://twitter.com/WI ETF>, using any computer or mobile device.

What does ETF communicate on Twitter? We inform you about the same topics covered via *ETF E-mail Updates*—and then some. These extra topics include national trends in public employee pension benefits; reports and analysis; retirement financial security; reminders about upcoming we-

binars; Wisconsin Deferred Compensation program information, and more. You do not need a Twitter account to view ETF's tweets. Simply go to https://twitter.com/wi_etf. However, we encourage you to set up a free Twitter account if you want to:

- receive real-time notification each time we communicate via Twitter;
- have the opportunity to directly interact with ETF; and
- keep up with news from other entities that interest you (e.g., individual journalists, media outlets, national trade associations).

For More Information

ETF website
<http://etf.wi.gov>

Follow ETF on Twitter
https://twitter.com/wi_etf

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

Health Insurance Program Update

The It's Your Choice open enrollment period for all group health insurance participants is October 17-November 11. This is your opportunity to change from one health plan to another, switch from single to family coverage, or add/delete certain dependents. Changes become effective January 1, 2017. Watch for It's Your Choice materials in October. In the meantime, here are a few things to know about your health insurance benefits:

1. Out-of-pocket costs for insulin decreased significantly August 1, due to a formulary change. This change was a result of ETF researching the impact of the \$35 increase in cost-sharing from 2015 to 2016 and overall concerns about insulin adherence. The following insulin products moved to cost-share Level 1 (\$5 copay) from Level 2 (20% coinsurance with a \$50 maximum) on the Navitus commercial and MedicareRx formularies: Lantus, Levemir, Novolin, Novolog, and Tresiba.
2. Pending successful contract negotiations, a new vendor will provide wellness and disease management services in 2017. The services will be uniform, comprehensive and include such things as health risk assessments, biometric screenings, education, incentives, on-line tools and more.
3. Regarding the Group Insurance Board's evaluation of self-insuring the group health insurance program and setting regional and statewide service areas: In July, ETF invited prospective vendors to submit proposals to administer the program; their bids are due in September. Bid results and evaluations will be presented to the GIB in November, for possible adoption January 1, 2018.
4. Uniform Benefits changes for 2017 relate to nondiscrimination on the basis of gender identity and other requirements for accessibility and limited English proficiency under new federal regulations of the Affordable Care Act.
5. Information about 2017 monthly premiums was not available as of *WRS News* printing deadlines. The GIB was scheduled to discuss the rates at its August 16 meeting. Monitor our website for frequent information updates, including rates, optional plan enrollment opportunities, answers to frequently asked questions and much more.

Attend a Benefit/Health Fair This Fall

The Department of Employee Trust Funds has scheduled benefit/health fairs throughout the state during the It's Your Choice open enrollment period, October 17-November 11.

The fairs present a great opportunity to ask questions about all ETF-administered benefit programs, including retirement and health insurance. To date, 29 benefit/health fairs have been scheduled throughout the state this fall. To find one near you:

1. Use ETF's interactive map showing benefit/health fairs by region, date, location. Find the map on our Member Education page at http://etf.wi.gov/member_education.htm, and go to the "Face to Face" tab.
2. Contact ETF: Call 1-877-533-5020 or send an e-mail via the "Contact ETF" page on our website at <http://etf.wi.gov>.



Pension Funds Plan to Increase Internal Management

Over the next three years, a growing number of public pension funds across the country reportedly plan to reduce their dependence on outside money management firms by overseeing more investments in-house—a practice the State of Wisconsin Investment Board has been following for more than a decade.

A recent global survey from State Street, a worldwide financial services holding company, found that 45% of public pension funds—including even the largest funds such as the California Public Employees’ Retirement System (CalPERS) and the California State Teachers’ Retirement System (CalSTRS)—plan to increase the amount of funds they manage internally. CalPERS announced earlier this year it had reduced the number of outside managers used by 25%. CalSTRS is currently managing approximately 49% of its portfolios in-house and plans to raise that number to 58%.

Pension funds are looking more to internal management for a variety of reasons, including better oversight of the investments, but most of all to decrease costs. However, the process to increase internal management of funds is not always an easy one for public pensions. Many public pension funds face governance issues that

keep them from moving quickly to bring more funds in-house.

SWIB, with the support of the governor and the state legislature, has the flexibility to build a strong internal management program. Over the years, this flexibility has provided a significant financial benefit to the retirement system. Since 2007, SWIB has increased the share of the state’s retirement funds managed internally from 21% to almost 67% today.

“We recognize that having highly-qualified money managers on staff benefits Wisconsin, our members and the state’s public employers,” SWIB Executive Director Michael Williamson said. “Over time, we have put in place an internal management strategy that allows us to better oversee the investment funds and lowers the cost of management for those funds. Internal management is part of the reason the Wisconsin Retirement System is one of the best-funded pension funds in the country.”

The net savings from SWIB’s internal management initiative is \$57 million per year. This amounts to about one-fifth of the cost to hire outside money managers to invest in the same assets externally.

New Website Creates Better Access to SWIB Info

Members surfing the internet will find a new look when they land at the State of Wisconsin Investment Board’s website, www.swib.state.wi.us.

In September SWIB is set to roll out a new website, featuring a modern look and design that will make it easy for members, whether on a computer or a mobile device, to get information on the investments and strategies being used to manage the WRS trust funds.

“The new website is designed to create more awareness of and access to information about SWIB,” Vicki Hearing, SWIB communications manager, said. “That is important because the site is used by cur-

rent and former Wisconsin public employees to learn about SWIB’s role as the asset manager for the WRS trust funds. In addition, it helps provide transparency into our operations.”



Asset Management: Passive vs. Active

Active versus passive. No, it's not a debate to stir the passions of the public, but in the world of investing and deciding how to generate investment returns, it is a rivalry up there with the Hatfields versus the McCoys, the North versus the South, the Packers and the Bears.

The State of Wisconsin Investment Board has long been considered a low-cost public pension fund manager that provides solid returns for the Wisconsin Retirement System. SWIB is able to manage its costs effectively and provide respectable returns by doing both, combining active and passive management of the trust funds.

Proponents of active investing tout the ability of astute fund managers to beat the market and add "alpha," that amount of outperformance attributable to the skill of the manager. On the flip side, advocates of passive investing point to the long-term inability of most active managers to beat the market; the high fees charged for sub-par performance; and tax inefficiencies. And so the debate goes.

In truth, while the polarized positions speak to different groups of managers battling for fund flows and for the upper hand in a market debate, most investors are best served by a dual approach. Selectively investing with certain active managers can and likely should be combined with positions in targeted passive funds.

"SWIB uses a combination of active and passive management not only to earn above market returns, but also to protect the trust funds from market volatility," David Villa, SWIB chief investment officer said. "The combination has been very important to our investment strategy, especially with the market ups and downs we have experienced recently."

SWIB has always used a mix of both active and passive management. The mix of active and passive management varies by asset class and depends on market efficiencies and management options. Some markets SWIB invests in to help diversify the Core Fund, such as private equity and real estate, do not have passive indexes. By actively managing assets and putting in place those diversification strategies, SWIB is working to stabilize returns,

Active management

A portfolio management strategy where the manager makes specific investments using analytical research, forecasts and their own judgment and experience with the goal of outperforming similar investments in the market.

Passive management

Also known as "indexing," 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 at a lower cost while active management works to beat the market returns.

contribution rates and annuity adjustments.

"SWIB actively manages assets not only to earn more than the passive market indexes, but also to do so with the ability to better manage risk," Villa said.

Of the 47% of total assets that SWIB manages passively, approximately 37% are managed internally. The combination of passive and internal management helps keep costs low while earning market returns. CEM Benchmarking found that SWIB is one of the lowest-cost public institutional investors in its peer group.

SWIB's mix of active and passive asset management helps keep the WRS among the best-funded public pension funds in the country.

WRS Asset Management Breakdown as of December 31, 2015		
	(\$ millions)	%
Total Internal	59,900	65%
Active	25,872	28%
Passive	34,028	37%
Total External	32,106	35%
Active	23,226	25%
Passive	8,880	10%
Total WRS	92,006	100%

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thought-out investment strategy we have put in place over the long-term has served the system well. The WRS remains fully funded and able to meet the annuity promises made to current retirees. We believe this strategy will also help us meet our goal of generating returns over the long-term to ensure the same holds true for future WRS participants.

I recently read comments from Tom Lee, executive director of the New York State Teachers' Retirement System, that I think sums up what it means to be a long-term investor. Tom said during turbulent times, he hears from participants that urge him to consider changing the system's investment strategy to protect the pension in the short term. In response, he asks them if they would sell their house if the roof leaked or their car if it got a flat tire. The answer is "of course not". The same is true for investing. Missing the assumed rate of return for a few years does not mean the strategy that has been put in place is no longer working.

Having a strong long-term investment strategy does not, however, mean keeping that strategy in a vacuum. Over the long term, there have been and will continue to be modifications that address current market trends. Over the past 30 years, the WRS has weath-

ered a number of shocks to the world's financial systems. From the bursting of the tech bubble, to military conflicts overseas, to the Great Recession, these events have put our long-term investment strategy to the test. And SWIB has responded. We have reduced our exposure to stocks, increased our allocation to low-risk assets such as bonds, real estate holdings, hedge funds and private equity, and we have steadily moved to managing more assets internally. In the end, the WRS remains a strong public pension system, something from which the entire state benefits.

No one can predict when the next "Brexit" that will increase market uncertainty will hit. But, as history has shown, the WRS is well positioned to take on whatever may come with its carefully designed and expertly implemented long-term investment strategy.



Michael Williamson

WRS Performance Information Posted Online

The effect of investment returns on the benefits of Wisconsin Retirement System members is determined by the Department of Employee Trust Funds and is based on the rate of return as of December 31.

The State of Wisconsin Investment Board posts preliminary calendar year-to-date returns monthly on its website. Final investment performance is also posted online, once these figures are final. The process takes approximately four weeks because privately-traded investments such as business loans, real estate and private equity,

are not available until four weeks after the close of the month.

To view year-to-date investment returns as well as other WRS performance information, visit SWIB's website at www.swib.state.wi.us.

Subscribers of ETF E-mail Updates can receive, on a monthly basis, notification of preliminary, calendar year-to-date investment returns for the WRS trust funds, along with other important information from SWIB. Registration is quick and free. Look for the red envelope icon at <http://etf.wi.gov> or at www.swib.state.wi.us.

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WRS NEWS



SWIB STATE OF WISCONSIN
INVESTMENT BOARD

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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.

Wisconsin Relay Service (for speech and hearing impaired)

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

E-mail ETF

Send ETF a secure e-mail via the “Contact ETF” page on our website, <http://etf.wi.gov>.

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SWIB

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