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### Calendar Year-to-Date Preliminary Returns as of 03/31/2017

<b>Core Fund</b>	<b>4.4%</b>
Benchmark	4.4%
<b>Variable Fund</b>	<b>6.5%</b>
Benchmark	6.4%

## WRS Retirees Receive Annuity Increases

The Department of Employee Trust Funds is pleased to provide Wisconsin Retirement System retirees with annuity increases this year. The Core annuity adjustment is 2.0% and the Variable annuity adjustment is 4.0%. These adjustments to retirees' monthly payments will take effect on May 1, and were recommended by the WRS consulting actuary and approved by ETF Board Chair Wayne Koessler and ETF Secretary Robert Conlin. This is the fourth consecutive year of positive Core annuity adjustments. The State of Wisconsin Investment Board, which manages the assets of the WRS, reported 2016 final investment returns of 8.6% for the Core Fund and 10.6% for the Variable Fund.

By design, the WRS is a risk-shar-

	Core	Variable
<b>Final 2016 Investment Return</b>	8.6%	10.6%
<b>Effective Rate</b>	7.9%	10.0%
<b>Annuity Adjustment</b>	2.0%	4.0%

ing system—investment risks and costs are shared between retirees, employees, and employers. Retirees share the risk in this way: The WRS does not provide guaranteed cost of living adjustments, or COLAs. Instead, annual annuity adjustments (dividends) are based solely on trust fund investment performance and actuarial valuations. When there are gains in the system, annuities may increase with dividends; when there

*Adjustments, continued on page 2*

## Paying for Performance Works

— Michael Williamson, SWIB Executive Director

This is the time of year when I get questions about incentive compensation payments. SWIB's Board of Trustees recently approved staff incentive compensation awards in recognition of investment performance that added \$42 billion to the WRS trust funds over the past 10 years. I want to take this opportunity to talk with you about those payments and why they are important.

When we at SWIB determine how to invest the \$100 billion in WRS assets, we analyze whether it makes more sense

to use external managers to invest the assets or whether we can manage them with our internal staff. We have steadily moved in the direction of increasing the assets we manage internally, and are currently managing \$65 billion with our SWIB staff. The reason for this shift is that external investment managers cost the WRS multiples more than what it costs for SWIB's own staff to manage those assets. In addition, using internal staff gives us more control over the investments. To make our strategy successful, SWIB needs to hire talented

*Williamson, continued on page 5*

*Adjustments, continued from page 1*

are losses, previously-granted dividends can be taken back (in the form of negative annuity adjustments). See **FAQs About Annual Annuity Adjustments** for more about your “Core floor”.

In order to limit wide swings in retiree pensions from year to year, gains and losses in the Core Trust Fund are spread (“smoothed”) over a five-year period. Smoothing also helps stabilize changes in WRS employer and employee contribution rates. This year’s Core annuity adjustment reflects investment results from 2012-2016. The Core Fund experienced investment gains in four of those five years (see *Rates, Returns and Adjustments* on our website, under the Retirees tab).

What does ETF anticipate in terms of Core annuity adjustments over the next few years? While no one can predict future investment performance, we continue to advise retirees to anticipate

relatively flat adjustments, due to continued volatility and low returns in the investment markets.

### WRS Pension Statistics

The WRS paid nearly \$4.9 billion in retirement benefits in 2016.

The median annual WRS pension is \$19,671.

Annualized annuity adjustments for the Core and Variable Trust Funds, as of 12/31/16:

- Core, 5-year: 1.4%
- Core, 10-year: 0.5%
- Core, 20-year: 2.6%
- Variable, 5-year: 6.5%
- Variable, 10-year: 0%
- Variable, 20-year: 1.5%

## Questions About Annual Annuity Adjustments

**W**hat 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). Only Core annuity dividends granted in previous years can be reduced. Find your minimum Core annuity amount on your annuity mailer statement, in the “Required Contributions” section. The term, “Regular Core” indicates your minimum guaranteed amount. If you participate in the Variable, the Variable portion of your annuity payment will be shown on the mailer; however, your Variable annuity is not included in your minimum guaranteed amount. A prolonged period of poor stock market performance or a significant one-year loss (such as the market crash of 2008) could result in the Variable portion of your annuity being reduced below the original finalized amount.

Why are the annuity adjustments lower than the effective rate? The purpose of the WRS is to provide a lifetime benefit to its retirees. In order to fulfill that promise in a manner that is actuarially sound, a 5% return on investments is

needed. When you retired, the amount of money transferred into the annuity reserve to fund your benefit included an assumption that the reserve would earn 5%. Therefore, returns above and beyond the 5% that would also result in at least a 0.5% Core annuity increase are available to provide increases. Here are the three steps in the rate-setting process:

- 1: The State of Wisconsin Investment Board announces calendar year investment returns for the Core and Variable Trust Funds.
- 2: ETF calculates the Core and Variable effective rates of interest. These rates are applied to the retirement account balances of active and most inactive employees.
- 3: The Core and Variable annuity adjustments are calculated, using the effective rates as a starting point. Besides the 5% earnings assumption built into the initial benefit amount paid to retirees, several actuarial factors (which vary from year to year, such as mortality) are factored into the adjustment calculation process.

For more information about annuity adjustments, see our complete FAQ document online at <http://etf.wi.gov/faq.htm>.

## Legislative Update

—Tarna Hunter, Legislative Liaison

In February Gov. Walker released 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 the Joint Committee on Finance. The JCF has spent the last few months reviewing the proposed budget and will continue to review and make changes over the next few weeks. After JCF makes its recommended changes, the budget goes to the assembly and the senate for further review and, ultimately, back to the governor for signature. The governor can also veto bills in whole or in part.

As proposed, 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 anticipates the Group Insurance Board will transition to a self-insured health benefit model. The projected savings from the move to self-insurance are \$60 million (in General Purpose Revenue) over the biennium. For more detail, see *Health Insurance Program Update* on page 4.

Other legislation includes a proposal under development to increase the minimum retirement age by two years for protective occupation members and by five years for all other members.

Currently, general employees, teachers, elected officials and executive employees are eligible to retire at age 55; the bill would change that to age 60. Protective employees, such as police and firefighters, are currently eligible to retire at age 50; the bill would change that to age 52.



Tarna Hunter

The proposal would also change the formula method for calculating a WRS retirement benefit, basing it on the average of the five highest years of earnings instead of the three highest years. These changes would only apply to members hired after the effective date of the bill.

Our Government Relations webpage is a great way to stay informed about state and federal legislation that may affect WRS pension, insurance and other benefit programs. In addition to laws passed by legislative session, we also list legislative proposals, laws and proposals from previous sessions, recent ETF action items and benefit news.

### For More Information

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

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

## Important Phone Number Change

The Department of Employee Trust Funds has discontinued a little-used toll-free number, 1-877-383-1888. However, this number is still active and in fact is maintained by an organization that has no association with ETF. **Do not call 1-877-383-1888 for information about your Wisconsin Retirement System benefits.** Always be cautious when sharing your personal information over the phone or on the web. For

information about your WRS benefits, contact ETF's Member Communications Center toll-free at 1-877-533-5020, 7:00 a.m. to 5:00 p.m., Monday through Friday. If you suspect fraudulent behavior, file a complaint with the Department of Agriculture, Trade and Consumer Protection at 1-800-422-7128 or send an email to DATCP: [datcphonenumber@wisconsin.gov](mailto:datcphonenumber@wisconsin.gov).

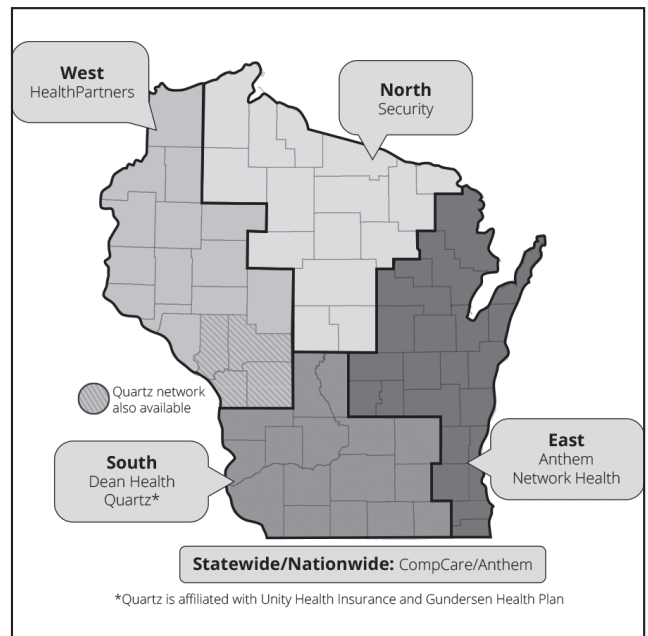
## Health Insurance Program Update

In February the Group Insurance Board (GIB) approved moving to a self-insured/regionalized program structure for the group health insurance program, starting in 2018. The decision to change from the current fully-insured program structure capped off an intense year of discussion, review, and analysis of options and bids from third party administrators competing to provide administrative services for the program on behalf of our approximately 250,000 participants.

At the time *WRS News* went to press, contract negotiations were underway with the third party administrators whose winning bids were selected at that February meeting. Wisconsin regions and participating health plans under the proposed plan to regionalize the structure of the health insurance program are shown in the accompanying map.

Ninety-eight percent of the current health care providers will be available under the new model, including those of Group Health Cooperative of South Central Wisconsin. GHC providers have contracted with Quartz to offer services starting in 2018. ETF estimates the broad networks of the vendors will provide access to more Wisconsin providers than under the current program and that participants will be able to choose from two to three vendors in each region. ETF will provide online tools to easily find covered health care providers. Watch for information in early summer.

In the meantime, review our information and FAQs on this topic—you will find it online at



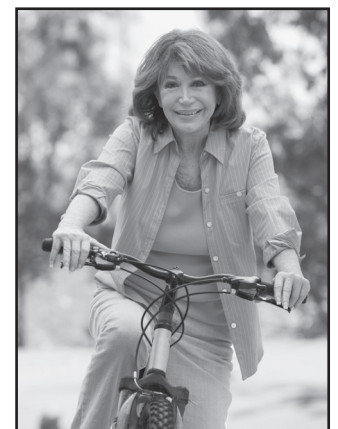
[http://etf.wi.gov/faq/gib\\_self\\_ins.htm](http://etf.wi.gov/faq/gib_self_ins.htm).

**Note:** The 2017-2019 executive state budget anticipates the GIB will transition to a self-insured health model (See *Legislative Update* on page 3). The contracts with the third party administrators must be sent to the Joint Committee on Finance (JCF) for review, as required by 2015 Act 119. The JCF has the authority to reject the contract(s).

The GIB's February decision, combined with wellness and improved data analytics efforts already underway, center on improving health outcomes and quality of care, maintaining current benefit levels, ensuring quality provider access, and containing program costs.

## Special Wellness Event May 10

If you are in the Madison area, be sure to attend the 2017 Well Wisconsin Expo on Wednesday, May 10 from 10:00 a.m. to 2:00 p.m. at the Monona Terrace Community and Convention Center. Hosted by the Department of Employee Trust Funds, this event features more than 30 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. To register for a screening, log in to [wellwisconsin.staywell.com](http://wellwisconsin.staywell.com) and click on the screening button. For more information about the expo, visit our website at <http://etf.wi.gov>.



## ETF Discontinues Walk-In Appointments

ETF recently discontinued its walk-in appointment service due to low demand. However, members can still drop off and pick up forms at our Madison office. The change means members must schedule an appointment in order to meet with a Wisconsin Retirement System benefits specialist in-person or via a virtual appointment. To

schedule an appointment or get assistance over the phone, call ETF at 1-877-533-5020 or 608-266-3285. Last year benefits specialists handled more than 172,000 inquiries from members. You may also want to take advantage of ETF's interactive webinars, eLearning and helpful online resources at <http://etf.wi.gov>.

*Williamson, continued from page 1*

and skilled staff who could otherwise work for an asset management firm that is willing to pay high salaries and performance-based incentives. Luckily, this is Wisconsin, which means we do not have to pay the same level of salaries as money managers on the East and West coasts. Our Board understands this and has targeted compensation payments to align with the median of a conservative peer group that includes banks and insurance companies in the Midwest. These are the organizations that we compete with for talent; they know how difficult it is to find and keep good staff and use competitive compensation levels to help them do so. Our compensation plans exist to allow us to hire and keep the highly skilled staff we need to prudently and effectively manage our investment strategy.

So, while we do not have to pay Wall Street salaries, there is an area where we are similar. Both of our compensation plans are based on performance. When performance is good, incentive compensation payments increase and conversely, when performance targets are not hit, compensation payments decline. We have found that paying for performance works. We compensate employees based on contributions to organizational performance and risk adjusted investment returns above market returns over the same five-year period that is used for determining retiree dividends. And that five-year performance above our benchmarks has been good.

As of the end of 2016, the five-year return for the Core Trust Fund was 8.6%, which was ahead of its benchmark of 7.7%. The return for the Variable Trust Fund was 10.6%, also ahead of its benchmark. That translates into \$1.2 billion more than the market generated during

the same period. And that is what we are paid to do—generate better returns for the WRS and our members than the market provides to most investors.

While SWIB's incentive compensation payments may seem high, even unnecessary to some, hiring skilled investment professionals saves money and generates better returns for the WRS and for you, our members. Our focus is not just cost. We are focused on value, and this system is generating value. Our incentive compensation plan is designed to attract and retain highly qualified professionals to manage the WRS trust funds. By almost any measure, the plan is achieving its desired results. Our performance in 2016 ranked in the top 25 percent of pension plans with more than \$1 billion in assets. We have been able to attract and retain skilled professionals, which was not possible prior to the implementation of the plan. Even accounting for our incentive compensation payments, we have lower costs relative to those of our peers. In just 2015 alone, we cut almost \$75 million off what it cost our peer pension systems to manage similar investments. And here is the kicker: Our entire internal budget in 2015 was just \$53.5 million. Using our talented internal staff has helped us lower costs and generate strong returns.

I hope that you will think of our incentive compensation as an investment in value that pays off for the WRS now, and in the future.



Michael Williamson

## SWIB Makes Investments in Wisconsin Businesses

Starting and growing a successful business is not easy. It may start with an idea, but between that idea and the goal is a great deal of planning and hard work to develop a blueprint for success.

Wisconsin has a long history of entrepreneurs who have taken their ideas and plans and grown them into thriving businesses. Some businesses are small and employ just a handful of people, while others have grown into multi-billion dollar corporations that do business in all four corners of the globe. The State of Wisconsin Investment Board is proud to have been part of the blueprints for success for many of those businesses.

Through targeted and strategic investments, SWIB has been able to help several businesses across the state write success stories that have benefitted Wisconsin's economy. At the same time, those investments have generated solid returns with acceptable levels of risk for the trust funds SWIB manages, including those of the Wisconsin Retirement System.

SWIB has made significant investments in Wisconsin-based companies. As of June 30, 2016, SWIB had total investments of almost

\$17 billion in companies with some level of employment and operations in the state. In the last five years, new investments in Wisconsin companies totaled over \$997 million, with projections for new investments over the next five years to reach as much as \$1.6 billion.

But it is more than just Wisconsin businesses that have benefitted from the significant commitment SWIB has made to the state. The solid investment returns SWIB has realized have helped fuel one of the only nearly 100% funded public pension plans in the country. One reason the WRS is well funded is investment earnings: these account for approximately 75% of the total income of the WRS over the last 10 years.

SWIB's impact goes beyond investments. SWIB's professional investment staff is active in Wisconsin's venture capital and small business development. In addition to actively marketing its debt financing portfolio to Wisconsin companies, SWIB is a sponsor of several venture capital events and programs such as the Wisconsin Early Stage Symposium, BioForward's Annual Meeting, and the Greater Madison Area Chamber of Commerce Pressure Chamber event. SWIB partners with early-stage entrepreneurial business incubators such as gener8tor. SWIB staff also works to connect small businesses with financing options and available business support services.

SWIB is a unique asset and a valuable partner that provides a strong, steady economic pillar for the people and the state of Wisconsin. SWIB will continue to search for opportunities that provide positive investment returns for the trust funds it manages while improving the state's economy at the same time. By building on a long history of identifying and investing in promising state companies, SWIB looks to continue to be part of the blueprints for success for many Wisconsin businesses.

For more information about SWIB's investments in Wisconsin, read the *Goals for Investing in Wisconsin* report. Find it on our website at [www.swib.state.wi.us/publications](http://www.swib.state.wi.us/publications).



## LAB Completes SWIB Management Audit

The following is taken from an open letter to WRS participants from SWIB Executive Director Michael Williamson, following the release of the Legislative Audit Bureau's management audit of SWIB. For more information about the audit, visit [www.swib.state.wi.us](http://www.swib.state.wi.us).

When you say "Wisconsin," what comes to mind? It could be the strong work ethic of the people who live here. Maybe it's the numerous summer festivals that take place across the state. Or maybe it's the pride so many of us share each and every weekend cheering on the Badgers or the Green and Gold. For those of us who have spent our careers serving the people of this state, it might just be that Wisconsin has one of the best-funded public pension systems in the country.

In a time when many public pension funds are struggling with issues related to underfunding, the Wisconsin Retirement System remains among the few that are financially strong. One reason the WRS is so well-funded is the investment management provided by the State of Wisconsin Investment Board. SWIB has developed an investment strategy designed to protect the members of the WRS from another major reduction, keep contributions stable and generate reasonable returns.

A recently released audit report by the Legislative Audit Bureau took an in-depth look at the work SWIB has done in managing the trust funds. Topics discussed in the audit report include SWIB's performance and overall management approach, and steps taken by SWIB to properly diversify the WRS and help keep it well funded. Below are just a few of the key points related to the audit.

- SWIB has generated positive returns in 8 of the last 10 years.
- SWIB's 2016 returns were strong and one comparison ranks SWIB in the top quarter of 55 public pension funds for the year.
- Compared with LAB's peer group, the WRS is the best funded plan and has the second lowest assumed return rate at 7.2%. The average funding ratio of LAB's peer group is 74%. The WRS is nearly 100% funded.
- SWIB has built a very robust asset allocation. This ensures that returns are still strong when the markets are hot but that the impact of a future downturn is lessened for our retirees.
- Over the last five years, after accounting for costs, SWIB staff added to the trust funds an additional \$1.2 billion above what the markets earned.
- SWIB staff invests two-thirds of the assets of the WRS for one-fifth of what it would cost to pay external managers for the same work.
- Internal management of the trust funds has been a financial benefit. A 2015 report from an independent consultant shows that SWIB's total costs were second lowest in its peer group of 15 large pension funds.
- Because of internal management, SWIB is saving \$75 million per year compared to what similar funds would pay to manage the same assets.
- While SWIB does invest in some investments that can be considered more risky, like hedge funds and derivatives, a consultant's report analyzed the risk/return ratio for 65 pension plans over a 10-year period and ranked the WRS near the top third of a group on a risk-adjusted basis.
- SWIB's incentive compensation plan is a true pay-for-performance plan that focuses on long-term results primarily by being heavily weighted toward the five-year returns. Bonuses were awarded in 2015, despite a slightly negative year-end return, because SWIB's five-year return was a solid 6.7 %.

The WRS is looked at as a model system by many other pension funds. SWIB is proud of the work it has done to help make the WRS a success and we wanted you to know the facts, not just the opinions that might be floating around.

## Receive Benefit, Investment Return News by E-Mail

When you sign up for *ETF E-mail Updates*, not only do you receive e-mail notification of important Wisconsin Retirement System benefit-related news as it happens, you also receive notifications about investment returns of the WRS trust funds. Registration for *ETF E-mail Updates*, a free service, is quick and easy; all you need is an e-mail address. To sign up, look for the red envelope icon on ETF's website, <http://etf.wi.gov>.

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**WRS NEWS**



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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)**  
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### **SWIB**

Contact SWIB for information about WRS investments.

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