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Preliminary Investment Returns WRS Trust Funds Calendar Year 2017

Core Fund	16.2%
Benchmark	15.7%
Variable Fund	23.2%
Benchmark	23.1%

WRS Continues to be Strong for Wisconsin

— Robert Conlin, ETF Secretary

As we kick off 2018, let me just say right out of the gate that your Wisconsin Retirement System continues to be in very good health. While the average funded status of public pension plans nationally hovers just north of 70%, the WRS funding ratio (a measure of whether a pension plan has sufficient assets to pay promised benefits) was 99.1% at the end of 2016, as measured under Government Accounting Standards Board requirements. The State of Wisconsin Investment Board's strong performance in 2017 will increase this funding ratio and provide for a Core annuity adjust-

ment of around 2% this spring, and exert downward pressure on contribution rates for 2019. The WRS is well positioned for the future.

Are there risks ahead? *Yes.* Stock prices—by many measures—are expensive. At some point, stock prices will likely correct. The period of economic recovery we've seen since the financial crisis of 2008 has been a long one and eventually the economy is bound to dip. Regardless of when these things happen, short-term economic projections—though not as dire as just a few years ago—indicate that it will still be

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SWIB Names New Executive Director

Rick Smirl has been appointed Executive Director of the State of Wisconsin Investment Board. Smirl comes to SWIB after serving as partner and chief operating officer at William Blair Investment Management. The firm provides investment solutions to individuals, pension funds, insurance companies, corporations, state and municipal government entities, sovereign wealth funds, and other leading institutional investors across the globe.

Smirl, who has more than 25 years of asset management industry experience with a demonstrated track record of success, begins his new duties January 22.

"I was attracted to SWIB because of its compelling mission and focus on being a trusted and skilled global investment organization contributing to strong financial futures for the beneficiaries of the funds. That coupled with my long-standing family ties to Wisconsin made this an exciting opportunity. I am looking forward to working on behalf of the public employees of the State of Wisconsin and building on SWIB's strong foundation as a pension fund leader," Smirl said.

As chief operating officer at Chicago-based William Blair Investment Management, Smirl oversaw all infrastruc-

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a challenge to make money in the investment markets without taking excessive risk.

This year WRS consulting actuaries will review the various demographic and economic assumptions used to properly fund the WRS. The review is part of their regularly-occurring, three-year experience study of the WRS. One of the most significant assumptions they will review is the investment return assumption, which is currently 7.2%. They will ask whether it is reasonable to continue to assume the WRS will be able to earn 7.2% per year over the medium and long term. In 2010 our actuaries recommended reducing the then-current assumption of 7.8% to today's rate. While 7.2% is somewhat conservative when compared to other public pension plans, we have nevertheless seen many plans across the country revise investment assumptions downward over the last couple of years—and many expect that trend to continue.

The actuaries will review multiple national economic investment forecasts, consult with SWIB's investment advisors, and calculate various investment outcomes based on SWIB's mix of assets—all to determine the reasonableness of continuing with today's 7.2% assumption. It's a rigorous process designed to keep the WRS well-funded in all kinds of investment climates.

Although lowering investment return as-

sumptions in other states has led to larger unfunded liabilities and increased costs, the unique design structure of the WRS, coupled with our healthy funding level, will dampen any negative affects if the actuaries recommend a reduction. The WRS will continue to be strong for Wisconsin.



Robert Conlin

Other Items of Note for 2018:

SWIB: 2018 will usher in a change of leadership, as Michael Williamson is taking a well-earned retirement (see page 1). Rick Smirl has extensive experience leading high-performing professional investment entities and he's well-positioned to lead SWIB into the future.

New Location: The Department of Employee Trust Funds is set to move to a new location at the end of March (see page 3). We will have up-to-date office space in the new Hill Farms State Office Building. It's been more than a decade since ETF staff have been in one building, and the move should improve our operational efficiency. We're also looking forward to introducing new individual and group counseling facilities to better serve members planning for retirement.

ETF Seeks Persons with Abandoned WRS Accounts

The Department of Employee Trust Funds is looking for individuals age 70 and older who have "abandoned" Wisconsin Retirement System accounts. WRS members or their heirs have 10 years after the published notification, which ran in the January 12, 2018, edition of *The Wisconsin State Journal* (and can be found on ETF's website), to apply for the benefit. If you know the whereabouts of anyone on the list, please ask them or their heirs to contact ETF.

Written inquiries to ETF must include the member's complete name (published name, current and prior name), date of birth, Social Security number and the year the name was published. Mail to: ETF, P.O. Box 7931, Madison, WI, 53701-7931 or send a secure email to ETF.

Note: ETF can not accept telephone calls regarding these accounts. Find the complete list at http://etf.wi.gov/news/abandoned_wrs.htm.

Annuity Increases Projected

The Department of Employee Trust Funds anticipates retirees will receive an annuity increase this spring. The accompanying tables show projections for the Core and Variable effective rates and annuity adjustments, based on preliminary calendar year 2017 investment returns. Watch for ETF's official announcement in early March. This year's Core annuity adjustment will be based on the following factors:

1. Final calendar year 2017 investment returns and the recognizing ("smoothing") of Core investment gains and losses over a five-year period. The calculation this year incorporates the effects of a shortfall incurred in 2014 and 2015, when returns were lower than the actuarial assumption of 7.2%.
2. The 5% earnings assumption built into all retirees' original Core annuities. This means that investment earnings in excess of 5% are considered when determining the annuity adjustments.
3. The effects of mortality and other actuarial factors on the annuity reserve, the fund from which annuities are paid.

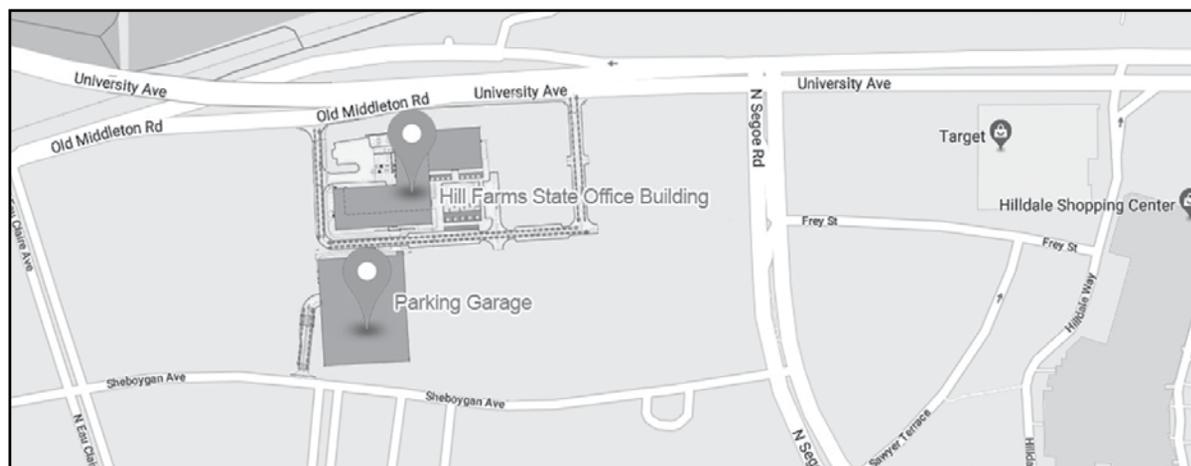
Core Fund Projections	
Preliminary 2017 Investment Return	16.2%
Projected Effective Rate applied to employees' account balances	8.3% to 8.7%
Projected Annuity Adjustment applied to retirees' monthly payments beginning May 1, 2018	2.2% to 2.6%
<i>By law, a Core annuity adjustment will be paid if the adjustment rate is at least 0.5%; if less than 0.5%, no adjustment is paid.</i>	

Variable Fund Projections	
Preliminary 2017 Investment Return	23.2%
Projected Effective Rate applied to employees' account balances (if applicable)	22% to 26%
Projected Annuity Adjustment applied to retirees' monthly payments beginning May 1, 2018 (if applicable)	16% to 20%
<i>By law, a Variable annuity adjustment will be paid if the adjustment rate is at least 2%; if less than 2%, no adjustment is paid.</i>	

ETF Move to Hill Farms State Office Building Set

The Department of Employee Trust Funds is moving to the new Hill Farms State Office Building during the last week of March. After April 1, ETF's new street address for appointments and deliveries will be 4822 Madison Yards Way, Madison, WI 53705-9100. Please continue using ETF's current telephone numbers and P.O.

Box address for returning forms and correspondence, as these will not change with the move. Watch for more information on services, driving directions and free, on-site parking for visitors. Visit <http://etf.wi.gov>, sign up for *ETF E-Mail Updates*, or follow ETF on Twitter.



Legislative Update

—Tarna Hunter, Government Relations Director

The Wisconsin Legislature is expected to wrap up the 2017-2018 session in late February or early March. As of *WRS News* printing deadlines, the following are the latest legislation or legislative actions affecting the benefit programs administered by the Department of Employee Trust Funds.

Assembly Bill 676

On January 9 the Assembly Committee on Corrections held a hearing on AB 676, which classifies county jailers as Protective category participants under the Wisconsin Retirement System without a requirement that their principal duties involve active law enforcement. Currently, approximately 20 counties classify their jailers as Protective, while the remaining counties classify their jailers as General category employees. Historically, the state has recognized that Protective employees are exposed to a high degree of danger and have protected them by providing them an earlier retirement age, a higher retirement benefit, and duty disability insurance benefits.

The bill would essentially require county jailers who are currently employed by a county that does not classify county jailers as Protective participants and who become Protective participants under this bill to pay the employer share on the higher WRS contribution, as well as the duty disability premium, which is currently an employer cost. If the employee does not wish to pay the additional cost of being a Protective, the bill al-

lows them at the time of hire to make the irrevocable choice to be classified as a General category employee. The proposed legislation also provides that county employers who currently classify their jailers as Protectives can continue to pay the employer cost for current and future employees.

ETF's remarks in testimony before the Committee focused on the bill's departure from current policy regarding Protective participants, and potential consequences. Providing Protective employees increased benefits is a recognition that these jobs are dangerous and critical to maintaining public safety, and that those who perform these jobs may not be able to perform them for as long as non-Protective employees. This bill changes that policy—it recognizes that jailers should be classified as Protective, but require the employee, and not society in general, to pay for these extra protections. The testimony can be found on ETF's Government Relations web page, under action items. Go to https://etf.wi.gov/gov_relation.

Audit of Group Insurance Program

On December 20 the Joint Legislative Audit Committee approved an audit of the Group Insurance Board, ETF and the State Group Health Insurance Program, which the Legislative Audit Bureau aims to complete before the Legislature starts work on the next biennial budget. The Legislature included a similar provision in the 2017-19 budget, but the language was vetoed.

Teachers Retirement Board Election Under Way

Voting is taking place now to select the retired teacher member to the Teachers Retirement Board. The Department of Employee Trust Funds distributed paper ballots and candidate information to all retired Wisconsin Retirement System teachers. Seven candidates are vying for the position:

- Esther Ancel, Milwaukee
- Patrick E. Delmore, Madison*
- Jesse L. Harness, Luxemburg
- Mary Jo Meier, Waukesha
- Dennis J. Murphy, Beloit
- R. Thomas Pedersen, St. Paul, Minnesota
- Patrick Phair, Waupaca

Ballots must be cast by February 28. Election results will be certified at the March 29 Teachers Retirement Board meeting, and posted online and in the May edition of *WRS News*. For information about the governing boards of the WRS, visit at http://etf.wi.gov/gov_boards.htm.

*Correction: The candidate biography for Patrick E. Delmore incorrectly listed Waupaca, Wis. as his place of residence. The correct residence is Madison, Wis. The Department of Employee Trust Funds regrets this error.

Federal Tax Tables Adjusted

The Internal Revenue Service has updated the income tax withholding tables for 2018. Some retirees may see an adjustment to their federal tax deductions, beginning with the March 1 payment. Any member whose monthly payment has changed as a result of the new tax tables will receive a notice from ETF reflecting the new withholding amount. To adjust your withhold-

ing, submit an *Income Tax Withholding Election Change* (ET-4310) form. Before making any changes, you may want to use ETF's online tax withholding calculator to determine the impact on your monthly payments. Find both of these resources on our website at <http://etf.wi.gov> or call us at 1-877-533-5020.

Senate Confirms Reappointment of Trustee Sheehy

Trustee Tim Sheehy has been reappointed to serve on the State of Wisconsin Investment Board's Board of Trustees. Sheehy is a gubernatorial appointment. The Senate Committee on Revenue, Financial Institutions and Rural Issues recommended Sheehy's reappointment; he will serve a six-year term that expires in May 2023.

Sheehy, who was originally appointed to the Board in 2016, is president of the Metropolitan Milwaukee Association of Commerce. Prior to being named president in 1993, he served in various capacities with the MMAC in governmental affairs and economic development. Sheehy is a Ford Foundation Fellow on Regional Sustain-

able Development, a graduate of the Institute for Organizational Management and a certified chamber of commerce executive. He is a graduate of the University of Wisconsin-Madison.



Tim Sheehy

Trustees have a fiduciary responsibility to act solely in the interest of the WRS.

In addition, trustees appoint the executive director and internal auditor; their responsibilities include establishing asset allocation, investment guidelines and performance benchmarks.

SWIB Wins Pair of Allocators' Choice Awards

The State of Wisconsin Investment Board has received two *Institutional Investor* Allocators' Choice Awards. In a recent ceremony SWIB took home top honors in the Technology User of the Year and Team of the Year categories. SWIB was among three finalists for Technology User of the Year and one of seven finalists for Team of the Year.

The recognition for Technology User of the Year is based on SWIB delivering on time and on budget its three-and-a-half-year, \$48-million technology overhaul. The technology upgrade is part of SWIB's efforts to implement its investment strategy, manage risk and optimize costs. Managing more assets internally allows SWIB to better manage risk and to optimize costs by reducing reliance on external money managers. Since 2007, SWIB moved from investing just 21% of assets in-house to approximately 64% today. Greater reliance on

internal management saves \$72 million per year, comparable to what similar funds would pay to manage the same assets.

The nomination for Team of the Year recognized that SWIB is home to top talent in American public fund investing. To manage more funds internally, SWIB has assembled a team of highly qualified professionals throughout the organization that work to help fuel one of the best-funded public pension funds in the U.S.

The Allocators' Choice Awards are new financial awards given by *Institutional Investor*, a leading international financial publication, to recognize industry leaders. The awards were created as a way to choose peers deserving recognition for their work in different categories. Finalists were selected based on nominations submitted over the summer and were vetted by the publication's editorial team.

The Great Recession: 10 Years Later

This is the first in a three-part series that looks back at the Great Recession, its effect on the Wisconsin Retirement System and how the State of Wisconsin Investment Board invests first to help protect the pension system from another major downturn and then to earn reasonable returns.

It has been a little more than 10 years since the biggest financial crisis the country has experienced since World War II. Yet, the impact of that single event remains a central part of SWIB's investment strategy today.

The Great Recession lasted from December 2007 until June 2009. Across the country home prices fell and foreclosures rose, household income dropped and unemployment shot up, and Americans watched their savings shrink. Economists point to the housing crisis and weak monetary policy as the key causes of the financial crisis that left the country desperately trying to recover from a dizzying economic tailspin.

In July 2006 U.S. home prices reached a peak, after decades of financial deregulation and government promotion of home ownership. The housing bubble would soon burst, causing investors in subprime mortgages to be left with worthless assets as foreclosures rose. By 2009, home prices, on average, dropped 30% from their peak in mid-2006.

As the crisis deepened, the number of Americans looking for work spiked between 2008 and 2010 from 5% to 10%, as roughly 8.7 million jobs were lost, according to the Department of Labor. No paychecks meant a loss of income for Americans. The net worth of U.S. households and nonprofit organizations fell from a peak of approximately \$68 trillion in 2007 to a low of \$55 trillion in 2009. Real median household income fell from \$58,149 to \$55,683 during that same time.

Wall Street was also reeling. The S&P 500 stock index fell 57% from October 2007 to March 2009. Lehman Brothers, the fourth-largest investment bank in the country, filed for bankruptcy protection. Lehman's bankruptcy filing is the largest in U.S. history.

Like the rest of the country, the pains of the Great Recession were felt by Wisconsin Retirement System members. In 2008, the Core Fund returned -26.2% and the Variable Fund returned -39.0%. The Core Fund loss set off five years of annuity decreases for retirees who were above their base retirement amount ("Core floor"). It was the first time in the history of the WRS that retirees experienced Core annuity decreases.

The federal government passed a number of policy reforms to end the crisis. Fiscal stimulus programs like the Economic Stimulus Act of 2008 and the American Recovery and Reinvestment Act of 2009 were enacted in hopes of jump-starting the economy. The Federal Reserve also took a number of steps, including reducing the federal funds rate from 5.25% in September 2007 to a range of 0% to -0.25% in December 2008.

WRS member Bob Schaefer retired in December 2008, after 33 years as an engineer with the Department of Natural Resources. As the financial crisis deepened, he worried for his mother and sister, who also received WRS annuities.

"My dividend the next year was zero, since I was at my Core floor," Schaefer said. "However, my bigger concern was for my mother and sister, who felt the full effect of the annuity reductions."

Outgoing SWIB Executive Director Michael

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ture activities across the firm's institutional asset management, mutual funds, and private wealth management businesses totaling more than \$73.9 billion in assets under management. He also served as a member of the board of trustees of the firm's U.S. mutual funds and is a director of the European funds. The firm has more than 1,300 employees. Before joining William Blair in 2004, he served as the chief legal counsel of the former Milwaukee-based Strong Capital Management, an asset management firm that managed more than \$50 billion in assets. He also was a partner at the law firm of Los Angeles-based Keesal, Young & Logan, where he counseled financial services firms.

The SWIB Board of Trustees conducted a nationwide search, which generated a large field of skilled and experienced applicants. "We were impressed with the number and quality of applicants who were interested in leading

SWIB," said David Stein, SWIB Board chairman. "We are excited to have chosen Rick, who possesses the management and leadership experience to lead an innovative, agile, and integrated investment organization like SWIB into the future."



Rick Smirl

Smirl replaces Michael Williamson, who became Executive Director in 2012 and recently retired. Smirl holds a bachelor's degree in economics from the University of California at Irvine, and a Juris Doctorate from Loyola Law School in Los Angeles. He has also completed an executive education program at the University of Virginia's Darden Graduate School of Business Administration.

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Williamson notes that the WRS is unique because of its shared risk and reward structure.

"Unlike many public pension funds, WRS employees and retirees share the investment risk with public employers," Williamson said. "That is why, after watching the impact the Great Recession had on the trust funds and WRS participants, we have focused on implementing a strategy that is designed to first help protect the trust funds and members from another market downturn, and then to earn reasonable returns."

Williamson said the struggle is finding the right balance between taking enough risk to

make sure the WRS is providing the benefits promised to its participants and taking too much risk that could cause volatile swings in annuity adjustments and contribution rates in a severe market downturn.

Eventually, the country's economy began its rebound following the Great Recession. But what are the lessons learned and what can be done to help protect the WRS from another major market downturn? In the next edition of *WRS News*, read about the strategies SWIB has implemented to help make money, manage risk and optimize costs.

SWIB Board of Trustee Meetings Set

The Board of Trustees is scheduled to meet six times in 2018. Meetings are held at SWIB, 121 E. Wilson St., Madison, unless otherwise stated. Agendas and board materials are posted online at www.swib.state.wi.us. Meeting dates for 2018 are as follows:

- February 13-14
- April 10-11
- June 12-13
- July 31-August 1
- October 8-9-10
- December 11-12

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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 are available 7:00 a.m. to 5:00 p.m. (CST), M-F. <http://etf.wi.gov>

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SWIB

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