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ETF Relocates to New Hill Farms State Office Building

The dust is beginning to settle! In late March the Department of Employee Trust Funds moved into the new Hill Farms State Office Building on Madison's west side. The new location enabled ETF to consolidate operations, services and staff into one modern facility. The building has convenient on-site parking, state-of-the-art technology, training rooms and private counseling rooms.



ETF's new headquarters is in the north tower of the Hill Farms State Office Building, located at 4822 Madison Yards Way, on the corner of University Ave. and Segoe Rd., in Madison.

Seven other state agencies will also call the building home: the Department of Administration—Division of Hearings and Appeals, Department of Financial Institutions, Department of Safety and Professional Services, Department of Transportation, Higher Education Aids Board, Office of the Commissioner of Railroads and the Public Service Commission.

ETF telephone numbers, website and customer service hours have not changed. You can receive assistance any time by calling 608-266-3285 or toll free

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Before You Arrive: 10 Things For Visitors To Know About the New Facility

1. ETF's new address is easy to find on Google Maps. In addition, look for maps and directions on our website or call us toll free at 1-877-533-5020.
2. The facility has an on-site parking garage with two entrances: One on the south end (use Sheboygan Ave.) and one on the west end (use Old Middleton Rd.).
3. ETF's reception area is on the 8th floor of the north tower, which requires security access.
4. Allow up to 15 minutes to make your way to the ETF reception area from the parking garage.
5. Use the main entrance of the building, stop at the first floor security desk to pick up a security badge.

10 Things, continued on page 2

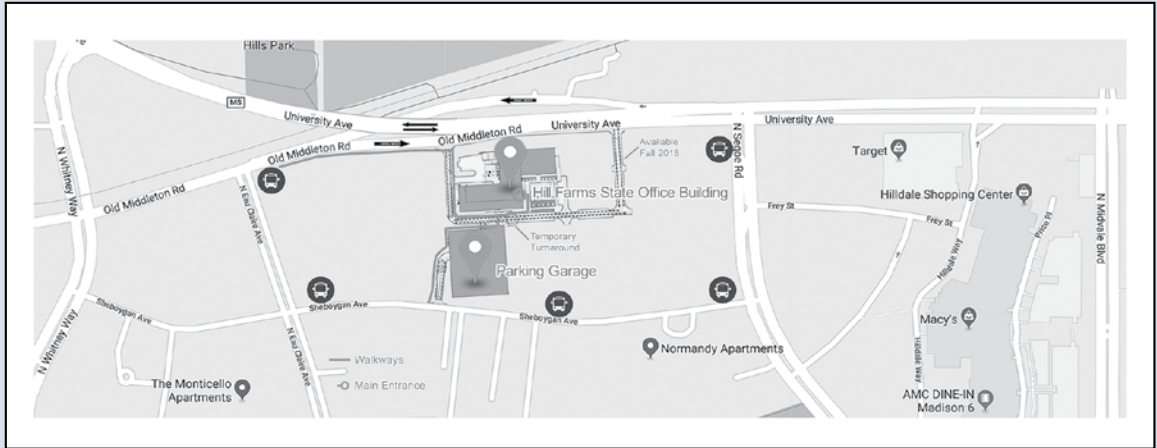
Calendar Year-to-Date Preliminary Returns as of 03/31/2018

Core Fund	-0.4%
Benchmark	-0.4%
Variable Fund	-0.7%
Benchmark	-0.8%

Hill Farms, continued from page 1

at 1-877-533-5020, 7:00 a.m. to 5:00 p.m. (CT), Monday-Friday. As always, please send forms and correspondence to ETF at P.O. Box 7931, Madison, WI 53707-7931.

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- 6. Parking is free for visitors who have scheduled appointments. Validate your parking ticket at ETF's reception desk.
- 7. Appointments are not needed to drop off or pick up forms.
- 8. Parking fee is free for the first 30 minutes, then \$2 per hour. Pay for parking with a credit card at exit or at a pay station.
- 9. Guest drop off and pick up is at the south entrance of the building. Currently, the only access to this point is via the Old Middleton Rd. entrance. The road dead ends at the building, so drivers must either enter the parking garage or turn around and exit to Old Middleton Rd.
- 10. Handicapped visitor parking is located on the ground floor of the parking garage. There is also limited, free handicapped visitor parking at the front of the building.

Farm Bureau Memorial Returned to Home Agency

Last fall a Wisconsin Air National Guard unit dismantled the memorial honoring Wisconsin farmers who served in the military and moved it to a new home at the Wisconsin Department of Agriculture, Trade and Consumer Protection. The memorial, dedicated 60 years ago, marked the opening of the building at 801 W. Badger Rd., new headquarters of the Wisconsin Farm Bureau Federation and the Department of Agriculture (and ETF's home from 1996 to 2018). More than 2,000 people attended the dedication of the building on June 9, 1957.

The ceremony featured a special "gifts of the soil" presentation, in which soil samples from each Wisconsin county and the 47 state farm bureaus were mixed into flower beds. The memorial was moved last fall to make way for construction of Madison College's new South Madison Campus.



The plaque honoring Wisconsin farmers serving in the military was re-installed at DATCP.

ETF to Provide Annuity Increases

The Department of Employee Trust Funds is pleased to provide retirees with annuity increases (dividends) this year, the result of strong trust fund investment performance. The Core annuity adjustment is 2.4%. The Variable annuity adjustment is 17.0%.

The adjustments will take effect on May 1 and were recommended by the Wisconsin Retirement System’s consulting actuary and approved by ETF Board Chair Wayne Koessl and ETF Secretary Robert Conlin.

The 2.4% Core adjustment will raise retirees’ Core annuities by an average of \$560 per year. The 17% Variable adjustment will increase this portion of participating retirees’ annuities by an average of \$1,500 per year.

Shared Risk & Reward

The WRS does not provide guaranteed cost of living adjustments, or COLAs. Rather, annual annuity adjustments are based on trust fund investment experience and the current and future funding needs of the WRS.

When there is an excess in the annuity reserve (from which WRS annuities are paid), increases can be provided to all. Conversely, when there is a shortfall in the annuity reserve, previous increases must be recouped from those who received them. Employer and employee contributions are also linked to trust fund investment performance. This “shared risk” design feature contributes to the strong financial position of the WRS, which is nearly 100% funded.

Core annuity adjustment calculations are affected by the five-year “smoothing” (recognition) of Core Fund investment performance. Smoothing helps provide stability in retirees’ pensions from year to year because the effects of the market are spread out over five years. This year’s Core annuity adjustment calculation incorporated the effect of gains and losses incurred from 2013-2017; a shortfall was incurred in 2014 and 2015, when the investment returns were less than the actuarial assumption of 7.2%.

Participants in the Variable Fund are exposed to a higher degree of risk in exchange for the possibility of greater returns. The effect of annual

	Core Trust Fund	Variable Trust Fund
Calendar Year 2017 Investment Return (gross of fees)	16.2%	23.2%
Effective Rate (applied to employees’ account balances)	8.5%	24.0%
Annuity Adjustment (applied to retirees’ monthly payments)	2.4%	17.0%

Variable Fund investment performance is not smoothed; returns are fully recognized in the year earned.

Further, annuity adjustments—both Core and Variable—take into account the fact that there is already a 5% earnings assumption built into retirees’ original benefit amounts. Because 5% is needed to pay retirees a lifetime benefit, only investment returns in excess of 5% are available to pay dividends. In addition, the effects of mortality and carryover play a role and are factored into the calculations.

Over the past five years, the Core annuity adjustment has averaged 2.5% per year—higher than the Consumer Price Index, which has risen, on average, 1.4% a year over the same time period.

To review the WRS actuary’s report to the ETF Board, in which the recommendations and rate calculations are discussed in detail, review the *35th Annual Actuarial Valuation of Retired Lives* report. Go to “Actuarial Reports” on our website at at <http://etf.wi.gov/publications.htm>.

Annual Annuity Adjustments

Annuity adjustment rate changes (annualized) as of December 31, 2017:

- Core 5-year avg: 2.5%
- Core 10-year avg: 0.1%
- Core 15-year avg: 1.0%
- Variable 5-year avg: 8.1%
- Variable 10-year avg: 1.6%
- Variable 15-year avg: 3.9%

Group Health Insurance Program Updates

Medicare Numbers Are Changing

The Centers for Medicare and Medicaid Services is transitioning to new Medicare Beneficiary numbers as a way to identify participants (instead of Medicare claim numbers). Medicare participants will receive a new Medicare card in the mail from CMS. If you participate in the state health insurance program and are on Medicare, you do not have to do anything—we will update our system to reflect this Medicare number change. For more information, including the state-by-state Medicare card replacement mailing schedule, see our FAQs at http://etf.wi.gov/faq/medicare_id.htm.

On-Site Health Screenings in Madison

Take the steps toward reaching your health and well-being goals while earning your \$150 Well Wisconsin incentive*. Well Wisconsin health screenings are available on May 17 at Madison's Monona Terrace and June 21 and August 21 at Clarion Suites at the Alliant Energy Center, 2110 Rimrock Rd, Madison. Learn more about the Well Wisconsin Program and schedule your health screening appointment today at wellwisconsin.staywell.com!

**The Well Wisconsin Program is available to employees, retirees, and spouses enrolled in the State of Wisconsin Group Health Insurance Program. All wellness incentives paid to participants are considered taxable income. Program deadline: October 19, 2018.*

New Medicare Advantage Plan in 2019

Pending successful contract negotiations, group health insurance members will have a new Medicare Advantage plan option beginning January 1, 2019, with UnitedHealthcare. Like the program's current Medicare supplement and wraparound plans, the new MA plan will follow uniform benefits for medical and drug coverage. The Group Insurance Board is set to review the 2019-2021 contract proposal with UnitedHealthcare and determine 2019 premium rates at its May 16 meeting.

Adding an MA plan option will add to members' health benefits choices, a priority for the GIB and the Department of Employee Trust Funds. The program previously offered an MA option through Humana, but it was discontinued for 2018 when Humana left the program.

The GIB's selection of UnitedHealthcare capped off a procurement process that began last fall to secure an MA vendor(s) with the intent to:

1. Provide options with lower monthly premiums
2. Provide high-quality, high-value services
3. Offer more benefit packages
4. Reflect member input

As part of the process, ETF last fall surveyed Medicare and non-Medicare eligible members and used the results to inform its MA plan recommendations. Members gave feedback on costs, coverage, provider networks, etc. The survey methodology, distribution and tabulation was completed by the University of Wisconsin Survey Center. The general themes of survey respondent answers were:

- Low costs are important
- Open to a Medicare Advantage option
- Provider network is critical
- Prefer familiar options

Watch for educational resources from ETF that will help you learn more about and evaluate your health benefit choices.

Tax Withholding Form, Online Calculator

Adjust your Wisconsin tax withholding by submitting an *Income Tax Withholding Election Change* (ET-4310) form with the Department of Employee Trust Funds. Before making any changes, use our monthly tax withholding calculator to determine the effect of withholding elections on your monthly annuity payments. Find both on our website at <https://etf.wi.gov>.

Retired Teachers Elect Ancel to Board

Retired Wisconsin Retirement System teacher members elected Esther Ancel to serve on the Teachers Retirement Board, in balloting that closed February 28. Ancel taught finance and financial management in the University of Wisconsin-Milwaukee Lubar School of Business for 25 years. The next opportunity to participate in a WRS gov-

erning board election process is 2019, when we will schedule an election to select the annuitant member of the ETF Board. Watch for nomination papers in September if you are interested in running for this position. To learn more about the WRS governing boards, including meeting dates, visit http://etf.wi.gov/gov_boards.htm.

The Great Recession: Ten Years Later

This is the second 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.

From December 2007 to June 2009, the United States suffered through the worst economic downturn since the 1930s. The Great Recession left the country desperately trying to recover from an economic tailspin. The Wisconsin Retirement System, like many public pension funds, felt the impact of the downturn. WRS retirees experienced negative annuity adjustments for the first time ever; active employees and employers also saw increases in contribution rates.

Despite the downturn, the WRS remained among the best-funded public pensions in the country, in part, because of SWIB's strong long-term performance. Since the Great Recession, the financial markets have had dramatic swings that have proven challenging for many investors. To help meet those challenges, SWIB implemented a relatively conservative investment strategy. This strategy is designed to weather a variety of economic environments and at the same time ensure the system continues to meet its obligations today and in the future.

"SWIB has been, and continues to be, a long-term investor," SWIB Chief Investment Officer David Villa said. "Historically, markets tend to be cyclical and decline after a few years of

strong performance. Because SWIB is a long-term investor, it can be more patient than many other investors. However, it must also be responsible and committed to a well-thought-out plan that provides the best value to all WRS participants in the long run."

SWIB's strategy is designed to mitigate the effects from another major market downturn, and still to earn reasonable returns. With the help of its investment consultant and approval from the Board of Trustees, SWIB has slowly reduced the trust funds' reliance on the stock markets to achieve consistent performance. The Core Fund is a broadly diversified portfolio of stocks, bonds, private equity, real estate, hedge funds, and other investments. The investment goal of the Core Fund is to

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SWIB Remains a Low-Cost Manager

Managing the trust funds of the Wisconsin Retirement System involves more than simply determining a good investment strategy. Developing a disciplined, prudent, and innovative investment strategy helps to mitigate against losses, keep contribution rates stable, and generate reasonable returns. In addition, SWIB's cost optimization efforts help ensure the WRS can meet its obligations today and in the future.

"Our cost optimization is one reason the WRS remains financially strong," SWIB Executive Director Rick Smirl said. "Our internal management of a majority of the trust funds, combined with other cost saving initiatives and our sophisticated investment strategy, helps fuel one of the best-funded public pension systems in the country."

SWIB is a low-cost public pension fund manager when compared to other large U.S. public pension funds, according to CEM Benchmarking, an independent consultant. SWIB's cost of 43 cents per \$100 is below the peer median of 56 cents per \$100 under management, as of December 31, 2016, the most recent peer comparison data available from CEM. SWIB is able to keep its costs low in part because of the use of more internal management, a lower allocation to higher-cost assets, and paying less for external management.

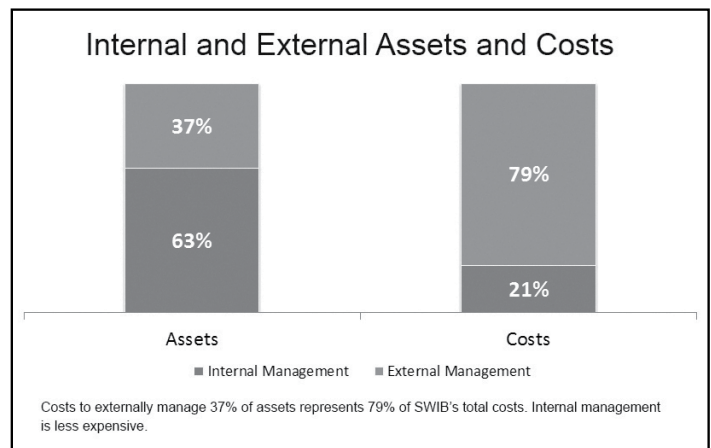
Using more of its own staff to manage assets, investing in fewer higher-cost assets, and negotiating lower external fees represented a total savings of approximately \$110 million in 2016. A

majority of that savings, approximately \$71.8 million, came from SWIB managing more assets internally—approximately 62% of the assets—and passively, approximately 38% of the assets, than its peers.

Maintaining a lower-cost internal management program requires the ability to attract, hire, and retain qualified staff. Over the past few years, SWIB's Board of Trustees have worked with a consultant to manage an incentive compensation program that motivates staff to seek high returns at reasonable costs and controlled levels of risk, which aligns with the interest of the WRS.

Reducing costs has contributed to the value added above market returns to the trust funds, which, after costs, has been significant: approximately \$759 million over the past five years, ending December 31, 2017.

"We will continue to protect and grow the assets that more than 622,000 participants and 1,500 employers of the WRS count on for a more secure financial future," Smirl said.



Current Reports, Board Materials Available Online

The State of Wisconsin Investment Board posts a number of publications and materials online in an effort to make information easily accessible to all. Open meeting materials for Board of Trustees meetings, including meeting minutes, are available on SWIB's website at <http://www.swib.state.wi.us> on the "Board Meetings" page. In addition to board

meeting materials, several SWIB publications can be found online. These include the *2016 Retirement Funds Annual Report*, the *Schedule of Investments*, and statutory reports like *Goals for Investing in Wisconsin* and *2018 Goals, Strategies and Performance*. Find current and archived reports on the "Publications" page of SWIB's website.

Nowak Joins Board of Trustees

In March Gov. Walker appointed Ellen Nowak to serve as the Department of Administration secretary; therefore, Nowak will replace former DOA Secretary Scott Neitzel on SWIB's Board of Trustees. Nowak was appointed to the Public Service Commission by Gov. Walker and was named PSC chairperson in 2015. Prior to her time at the PSC, Nowak served as chief of staff to Waukesha County Executive Dan Vrakas and as legal counsel and subsequent chief of staff to Wisconsin State Assembly Speaker John Gard. Nowak has a law degree from Marquette University and a Bachelor of Science degree from the University of Wisconsin-Milwaukee.



Ellen Nowak

Villa Recognized Among Top Investment Leaders

SWIB Chief Investment Officer David Villa has been named to *Chief Investment Officer* magazine's Power 100 list. Villa is No. 17 on this year's list, which ranks investment leaders from around the world based on fund size, tenure, talent development, collaboration and innovation. His name has appeared on each Power 100 list since the magazine's first list was released in 2012.

"SWIB is fortunate to have the experience that David brings to the investment world available to us," Rick Smirl, SWIB executive director, said. "He is just one of the many talented professionals that make SWIB a global leader in pension investing."

Chief Investment Officer provides the latest news, opinion and research focusing on the overarching investment issues affecting public and corporate pension plans, endowments, foundations, healthcare capital pools and sovereign wealth funds.



David Villa

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earn an optimum rate of return while taking an acceptable level of risk.

"We have slowly reduced the variability of Core Fund returns by investing a modest allocation of assets in volatility-reducing strategies," Villa said. "These strategies are designed to help limit the impact of significant market downturns and include multi-asset strategies, which are often designed to distribute volatility more evenly over asset classes."

Measured alone or over the short-term, these multi-asset strategies may underperform the market. Measured within the context of the entire trust fund over the long-term, however, these strategies provide diversification and allow the overall plan to mitigate the impact of

severe market downturns.

SWIB works to find the right asset allocation—one that doesn't take too much risk, or one that is too conservative and doesn't generate enough returns to fund the WRS. For the strategy to work, SWIB must adapt to the challenges of the market.

"For the WRS that means an allocation that strives to produce returns that keep contribution rates affordable, generate positive annuity adjustments, avoids annuity reductions, and maintains a fully-funded retiree reserve," Villa said.

In the next edition of *WRS News*, read about how SWIB chooses the right asset allocation to help protect the WRS from another market downturn.

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WRS NEWS



SWIB STATE OF WISCONSIN
INVESTMENT BOARD

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ETF

Contact ETF for information about WRS benefits.

Call toll free 1-877-533-5020 or (608) 266-3285. Specialists are available 7:00 a.m. to 5:00 p.m. (CT), M-F.

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SWIB

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