

# SWIB REPORT

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## Patience Is Key When Investing In Challenging Times

By Keith Bozarth, SWIB Executive Director

In 2008, we witnessed one of the most challenging stock market environments in recent history.



It began in the first half of the year in the mortgage markets and spread to the broader credit and financial markets. It continued into the early fall with historic stock market declines followed by extreme volatility throughout October and November. October had four of the ten largest point loss days in the history of the Dow Jones and three of the largest point gain days.

At mid November, the volatility of the stock market was nearly four times its historical average. In terms of ongoing volatility only the 1930s were worse than current markets. At the end of November, the S&P 500 Index recorded its largest five-day percentage gain since March 1933. However, markets were still down for the month.

The overall movement of the US and the international stock

markets – much more so than any particular investments – has had the most impact on the Wisconsin Retirement System (WRS) and any investor in the stock market.

As with most other large public pension funds, stocks represent the largest type of investment held by the WRS. A significant allocation to equities remains a part of our strategy even after last year's market performance. Over time, stocks have been a major contributor to the gains WRS members have experienced in their retirement accounts. The investment strategy determined for the trust funds takes into account that in some years there will be investment gains while in other years there will be losses.

Financial markets do recover after major downturns, and much of the recovery tends to occur over short periods of time. An average of 1/3 of the total price recovery in

### Calendar Year-to-Date Preliminary Returns

As of 11/30/08

**Core Fund ..... -28.3%**  
**Variable Fund ..... -40.9%**

the last 11 bear markets was earned in just the best week of recovery (five consecutive trading days). Other evidence also indicates that investors who miss the market's best performing individual days can miss a significant portion of the market's long-term gains. For example, investors who were out of the market for the best ten days missed 38% of the total gain in the S&P 500 for the 20-year period from 1988 through 2007.

Like other pension funds, our long-term focus means we are not forced to change basic investment strategy when there is market volatility because the evidence is strong that staying in the market

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## How Will Challenging Times Affect WRS and Your WRS Benefit?

Guest Column by David A. Stella, Secretary  
Wisconsin Department of Employee Trust Funds

As mentioned in other articles in this newsletter, the stock market has seen unprecedented volatility and downward movement in recent months. As a result, many Wisconsin Retirement System (WRS) members and employers are naturally asking how the market declines will affect the WRS and, more specifically, their WRS account. Active WRS employees and retirees should keep in mind that the Department of Employee Trust Funds (ETF) will not have definitive information about their account until late February or early March 2009, after SWIB announces finalized 2008 Core and Variable Trust Fund investment returns. Once finalized investment returns are



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available, ETF will calculate effective rates and the WRS consulting actuary will calculate subsequent annuity adjustments. Although we don't know how the year will end, the following table shows the approximate projected range of effective rates and annuity adjustments for next year, depending on SWIB investment returns.

<b>Potential Core Fund Returns and Range of Projected Annuity Adjustments</b>		
Investment returns	Approximate Core Fund Effective Rates	Approximate Core Fund Annuity Adjustments
-16 to -20%	5.5% to 4.5%	-0.5% to -1.5%
-21 to -25%	4.5% to 3.5%	-1.5% to -2.5%
-26 to -30%	3.5% to 2.5%	-2.5% to -3.5%
-31 to -35%	2.5% to 1.5%	-3.5% to -4.5%

Important notes regarding the table above:

- Year-end investment returns could end up higher or lower than the possible investment returns in the first column of the table.
- Final 2008 effective rates, which are applied to active and some inactive employee accounts, will not be available until spring of 2009. ETF uses effective rates, which take into account factors such as investment returns and reserves, as a starting point to calculate the annual increases or decreases paid to WRS retirees.
- Annuity adjustments for WRS retirees are reflected in the May 1, 2009, annuity payment. Assumed interest, mortality rates and other actuarial factors may also affect the final annual increases or decreases. The projections above are based solely on investment returns.
- Core Fund investment returns are smoothed over a five-year period to reduce volatility.

### **Variable Fund**

Some WRS members have elected to participate (by putting 50% of their contributions) in the optional and more volatile all-stock Variable Fund. Unlike the Core Fund, the Variable Fund investment returns (gains/losses) are not smoothed. Therefore, WRS members who participate in the Variable Fund experience effective rates and annuity adjustments on the Variable Fund portion of their account that are closer to actual Variable Fund investment returns. To help answer your questions about the Variable Fund, go to [http://etf.wi.gov/news/variable\\_fund.htm](http://etf.wi.gov/news/variable_fund.htm). There you will find resources such as a "things to consider before canceling Variable Fund participation" document that explains the financial impact of opting out of the Fund with a deficiency.

I understand this has been a difficult year for WRS members and employers. We will do what we can to keep you apprised of the how these challenging economic times will affect the WRS. I encourage you to visit the ETF website for accurate and up-to-date information.

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allows investors to fully participate in the market's eventual upward trend.

Part of SWIB's strategic discipline is our rebalancing process. SWIB sets a percentage target range for each asset class. When stocks go below the asset target, SWIB sells other assets that have gone above asset targets

(at higher prices) and buys stocks at lower prices. Asset targets are designed to reinforce a "buy low, sell high" approach. Down markets can present opportunities for investors to buy undervalued investments at attractive prices.

We are pursuing ways to reduce the effect of wide swings in the stock market on WRS investments. We

have already taken steps to further diversify Core Trust Fund assets and reduce risk.

SWIB has taken a conservative, long-term approach to investing. SWIB will remain disciplined and continue to follow its investment strategy during these extraordinary times, and be prepared for the eventual recovery.