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Calendar Year-to-Date Preliminary Returns as of 03/31/2015

Core Fund	2.1%
Benchmark	2.1%
Variable Fund	2.2%
Benchmark	2.3%

WRS Annuities to Increase May 1

The Department of Employee Trust Funds announced the Wisconsin Retirement System effective rates and annuity adjustments in March. Annuity adjustments are applied to retirees' monthly payments, effective May 1. The rates are based on WRS Core and Variable Trust Funds investment performance and are shown in the accompanying table.

ETF Secretary Robert Conlin says the annuity increases are welcome news for the system's 186,000 retirees, who will experience a second consecutive year of increases. Last year retirees received a 4.7% Core annuity increase.

WRS annuity payments have a direct economic effect on state and local

	Core	Variable
2014 Calendar Year Investment Return	5.7%	7.3%
Effective Rate (applied to employees' account balances)	8.7%	7.0%
Annuity Adjustment (applied to retirees' monthly payments)	2.9%	2.0%

economies, as 90% of WRS retirees and beneficiaries reside in Wisconsin. The annuity increases — Core and Variable combined — will result in approximately \$127 million in additional payments to retirees this year. Last year the WRS paid \$4.4 billion in retirement benefits.

Annuity Adjustments, continued on page 2

SWIB Works Hard to Keep WRS Among the Best

— Michael Williamson, SWIB Executive Director

Across the country, headlines scream of looming public pension problems for many cities and states. From plans to reduce retiree benefits to significant increases in employee contributions, many public pension funds are struggling to meet their obligations, leaving lawmakers scrambling to find money in state budgets to fix the problem and money managers making risky investments in hopes of big returns.

In Wisconsin, things are a bit different. We can celebrate that the Wisconsin Retirement System is one of

the best-funded public pension plans in the U.S., thanks to the contributions made by employees and employers, and solid investment returns.

Did you know that over the last 20 years the Core Fund has a return of 8.6% and the Variable Fund has a return of 8.8%? Those are significant numbers — not only because they are well above the system's 7.2% assumed rate of return, but also because approximately 80% of the WRS's income comes from investment returns. Just as significant as the consistent long-term

Best, continued on page 5

Annuity Adjustments, continued from page 1

The average annual annuity received by all retirees as of December 31, 2014 is \$24,185.

Core Fund investment returns have been solid in recent years. Why isn't the Core annuity adjustment higher than 2.9%? The answer lies primarily in the following WRS funding requirements contained in state law:

1) By law, Core Fund investment returns — gains as well as losses — are spread (“smoothed”) over a five-year period. The smoothing process, for example, means that 20% of the 2014 investment return is recognized each year from 2014 to 2018. Smoothing works to help prevent wide swings in retirees’ WRS pension payments each year and helps stabilize employer and employee contribution rates. The Variable Fund is not smoothed.

2) There is 5% assumed interest built into the original annuity calculation. By law, when a member retires, the annuity is based on the assumption that the annuity reserve (where

all retiree funds reside) will earn 5% interest each year. Therefore, only investment returns exceeding this assumed 5% earnings are available to provide increases.

The design of the WRS shares investment risk among employers, employees and retirees. This means annuity increases are not guaranteed — they are dependent on investment results. For employers and employees, investment results effect contribution rates and the amount they pay into the system each year to fund benefits.

For More Information

ETF webinar

WRS Effective Rates and Annuity Adjustments
Look for dates, times and registration information on the Member Education menu of our website.

ETF Core/Variable Webpage

Information and resources about the Core and Variable Trust Funds. Find it in the “What’s New” section of our website.



Tarna Hunter

Legislative Update

—Tarna Hunter, Legislative Liaison

In February, Gov. Walker released the 2015-2017 executive state budget, a proposal of how the state should manage expenses for the next two years. The budget bills, called 2015 Assembly Bill 21 and 2015 Senate Bill 21, 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 the bill in whole or in part.

As proposed, the budget currently contains a small number of provisions that affect the benefit

programs administered by the Department of Employee Trust Funds. Some of these provisions include: paying a \$2,000 annual incentive to employees who opt out of the state health insurance program; and increasing the terms of appointed members of the Group Insurance Board from two years to four years.

In addition to the above provisions, the *Budget in Brief* directs the Group Insurance Board to work with ETF’s recently-contracted benefits consultant to make appropriate changes in order to realize \$25 million GPR (\$54 million all funds) in efficiencies and savings over the biennium. For more detail, see *Proposed Changes to Health Insurance Program* on page 4.

We will continue to monitor developments and provide updates as they occur. Monitor our website for the latest information.

Proposed Changes to Health Insurance Program

The Department of Employee Trust Funds and the Group Insurance Board have been working with a consultant to identify ways to improve health outcomes and increase the efficient delivery of quality health care for members and their families in the program. **Final recommendations for changes to the health insurance program for 2016 will be presented to the board for review and approval on May 19.**

Background

After the state legislature expanded the GIB's authority in 2013 to provide additional oversight and strategic direction for the health insurance program, the board hired a benefits consultant to conduct research and analysis. In addition, the 2015-2017 State Budget currently includes a provision requiring the board to work with the consultant to identify \$25 million in cost savings over the next two years.

The consultant's preliminary report, presented to the GIB in March, outlined possible benefit and program design changes for the next two years and offered initial observations for long-term program changes. Here is a brief list of some proposed changes for 2016 that will affect all

members:

- Change office visits from coinsurance to a copay
- Keep generic drugs affordable (\$5 copay) and shift to coinsurance for brand drugs:
 - Level 2—20% copay (\$50 maximum)
 - Level 3—40% copay (\$150 maximum)
 - Level 4 Preferred—\$50 copay
 - Level 4 Non-Preferred—40% copay (\$200 maximum)
- Introduce a deductible and increase the maximum out of pocket for Uniform Benefits
- Increase the deductible and maximum out of pocket for the Standard Plan
- Increase the health savings account contribution for the high deductible health plan
- Investigate premium-based incentives for participation in the Well Wisconsin Program
- Establish uniform metrics to measure health plan performance

The full report is available on our website. To stay current on program changes and other news, sign up for our free e-mail notification service, *ETF E-Mail Updates*. Look for the red envelope icon on our website at <http://etf.wi.gov>.

Participate in Well Wisconsin and Earn \$150 Incentive

Members covered under the state's group health insurance program: Have you participated in the Well Wisconsin Program? This is your opportunity to increase awareness of your current health status and future risk factors — and earn a \$150 incentive payment! Here are the steps to participate:

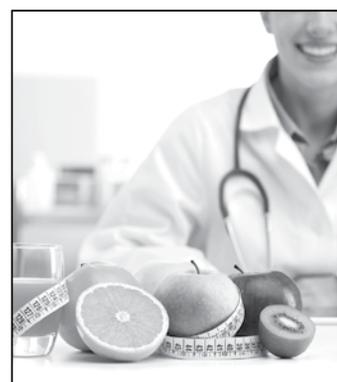
Step 1: Complete a biometric screening to measure your blood pressure, cholesterol level, glucose and body mass index. This can be completed by your doctor or at a biometric screening offered by the Well Wisconsin Program biometric screening vendor, Optum.

Step 2: Complete the Health Risk

Assessment provided by your health plan. This questionnaire asks about your current health habits and

helps you identify risk factors. Upon completion of the assessment, you'll receive a summary about your current health and tips for maintaining or improving your health.

Once both steps are completed and all information is received by your health plan, follow the



Wellness, continued on page 4

BOARD CORNER

Board Election Results: Ford Re-Elected



William Ford

Wisconsin Retirement System annuitants re-elected William Ford to serve on the ETF Board, as the annuitant member of the board. Ford, of Prairie du Sac, retired in 2009 as a senior attorney with the Wisconsin Legislative Council. The other candidates were Eugene F. Lillge, Madison; Robert Martin, West Bend; and Wayne B. Meyer, Oak Creek.

Voting took place February 2-27; retirees cast ballots online and via telephone.

In other governing board election news:

- Educational support personnel employees elected Leilani Paul to serve on the ETF Board, as the educational support personnel employee member. The other candidates were incumbent Kimberly Hall, D.C. Everest School District and Kay Hansen, Denmark School District.
- Kim Schroeder, a 20-year teacher in the Milwaukee Public School District, will serve on the Teachers Retirement Board as the district's teacher member. Schroeder replaces Michael Langyel, whose term expired.

ETF Recognized for Pension Plan Administration

The Department of Employee Trust Funds has received the Public Plans Standards Award for 2014. The award recognizes ETF for its funding and administration of the Wisconsin Retirement System. The Public Pension Coordinating Council, which grants the award, is a confeder-

ation of three major organizations composed of public employee retirement systems nationwide: the National Association of State Retirement Administrators, the National Conference on Public Employee Retirement Systems and the National Council on Teacher Retirement.

Wellness, continued from page 3

steps provided by your health plan to receive your incentive. Every eligible adult enrolled under your group health insurance coverage can participate each year in this program. Plans may limit the total dollar amount that can be issued for incentive programs. Check with your health plan if you are taking advantage of multiple incentive programs.

Please note:

- At this time, Humana Medicare Advantage members are not eligible to receive the \$150 Well Wisconsin incentive.
- Health plan incentives are considered taxable income. ETF will issue a W-2 for incentives paid to annuitants and their family members enrolled in the State of Wisconsin Group Health Insurance Program. Your health information is protected by federal law and will not be shared with ETF.

Special Event: Wellness Expo Set for May 13 in Madison

If you are in the Madison area, be sure to attend the 2015 Well Wisconsin Expo set for Wednesday, May 13, 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 will feature more than 20 organizations with information on health plan resources, financial wellness, nutrition, health awareness and more. Presentations by nutrition and financial wellness experts begin at noon. Optum, the Well Wisconsin biometric screening vendor, also will be available to conduct screenings (pre-registration is required). For more information, see Well Wisconsin's website at <http://wellwisconsin.wi.gov>.

Best, continued from page 1

performance is that we are able to generate those returns while reducing risk and protecting the system from market downturns.

Because only about 50% of the Core Fund is invested in stocks — with 25% of that amount in U.S. stocks — some might argue that we are missing an opportunity to generate even higher returns. While our returns did not mirror the U.S. stock markets in 2014, we were still able to generate a solid return because other assets performed well. We saw strong performance from our real estate, private equity and multi-asset investments. Real estate returned 14%, private equity returned 15.5% and our multi-asset portfolio returned 7%. All of those portfolios were well above their benchmarks.

The Core Fund is a fully-diversified fund, meaning it includes investments in more than just U.S. stocks. Because 85% of our investment risk comes from the stock market, over the past several years we have implemented an investment strategy designed to reduce the risk of investing in stocks and increase allocation to lower-risk assets. In other words, we have designed an investment strategy that allows us to achieve solid returns and help keep the WRS fully funded, while helping to reduce market downturns that could have a negative effect on you in terms of a reduction in annuity payments or higher contribution rates for employees and employers.

How does having a diversified fund help protect all members of the WRS? Many members compare SWIB’s Core Fund to market

indexes such as the S&P 500. Since 2000, there have been four years where the Core Fund has produced negative returns, due in large part to severe market downturns. However, during these times when stocks were struggling, the Core Fund’s diversification has helped it generate higher returns than the S&P 500. Although we will not see the “highest of the highs” when the markets are performing well, we can all appreciate the diversification and protection that comes with our investment strategy when the markets are struggling.



Michael Williamson

And — maybe most important — SWIB’s investment of WRS assets directly affects the bottom line of the WRS trust funds. Over the past five years, reducing costs, increasing internal money management, negotiating lower fees and investing in low-cost assets — combined with the performance of investment strategies — have resulted in more than \$1.4 billion in extra value added to the WRS above market returns, after costs.

Our work to keep the WRS among the best public pension systems in the country is never done. Our staff will continue to work to implement strategies that keep us agile, integrated and innovative in the way we effectively manage risk, control costs and achieve target returns over the long-term. And you can take that to the bank.

Year	Core Fund Return	S&P 500 Return
2000	-0.8%	-9.1%
2001	-2.3%	-11.9%
2002	-8.8%	-22.1%
2008	-26.2%	-37.0%

Diversification allows for solid investment returns and protection during downturns in the U.S. stocks. This chart shows how the Core Fund has performed better than the S&P 500 during the last four market downturns.

Neitzel Joins SWIB Board of Trustees

In March Scott Neitzel was appointed to serve as the Department of Administration Secretary. Therefore, Neitzel will replace former DOA secretary Mike Huebsch SWIB's Board of Trustees.



Scott Neitzel

Along with his recent 18 years of private sector experience, Neitzel brings extensive federal, state and local public sector experience to the board. Neitzel served as a commissioner of the Wisconsin Public Service Commission. Prior to his work at the PSC he was a special assistant at the U.S. Department of Energy and a special assistant at the Federal Energy Regulatory Commission in Washington, D.C.

Beyond these roles, he served as register of deeds for Sauk County and as the deputy secretary of the Wisconsin Department of Development, which preceded the Wisconsin Economic Development Corporation and the Wisconsin Department of Commerce. Neitzel was also a DOA division administrator in the mid-1980s.

Neitzel has held various roles at Madison Gas & Electric, including senior vice president, where he led customer service operations, gas operations, energy supply and energy planning.

He has a bachelor's degree from the University of Wisconsin-Oshkosh and an MBA from the University of Chicago's Executive Program.

About the Board of Trustees

The SWIB Board of Trustees consists of nine members meeting specific requirements. These include:

- The secretary of administration or a designee;
- One member appointed for a six-year term representing a local government that participates in the Local Government Investment Fund;
- Five public members appointed for staggered six-year terms and four having at least 10 years of investment experience;
- Two participants in the Wisconsin Retirement System selected for six-year terms, one a teacher participant appointed by the Teachers Retirement Board and one a participant other than a teacher appointed by the Wisconsin Retirement Board.

Trustees have a fiduciary responsibility to act solely in the interest of the WRS trust funds. They also appoint the executive director and internal auditor. Trustee responsibilities include establishing asset allocation, investment guidelines and performance benchmarks. Staff is responsible for making the day-to-day decisions about investments and operations following the policies set by the trustees.

SWIB Works Hard to Protect Investment Data

The Home Depot, JPMorgan Chase and Target are just a few companies that have been hit by cyber attacks in the past year. By infiltrating some of the largest companies in the world, cyber attackers have been able to take highly-confidential information such as passwords, Social Security numbers and individual account information.

Dealing with the fallout from a successful cyber attack can cost a company millions of dollars and individuals years of worry that their personal information may still be in the hands of criminals. Improved technology in the hands of cyber criminals and the increase of business

conducted online have forced many companies and organizations like the State of Wisconsin Investment Board to work hard to fend off possible attacks.

"We use industry-leading tactics to secure our networks and data, engage external security experts to test our defenses and regularly review our activities to ensure that we do not have any risks that haven't been dealt with," Erich Huemoeller, SWIB's information technology director, said.

The business of managing more than \$104 billion in assets creates sensitive data that is

Data, continued on page 7

SWIB Staff Nominated for National Honors

Institutional Investor-Investor Intelligence Network has announced nominations for the second annual Investor Intelligence Awards, recognizing the most outstanding and innovative public plan sponsors in North America. SWIB has three nominees:

- Todd Ludgate, head of fixed income: Investor Intelligence Award in Debt (fixed income/credit)
- Dominic Garcia, senior fund-of-funds manager: Investor Intelligence Award in Alpha Generation
- David Villa, chief investment officer: Investor Intelligence Award in Good Governance

The awards are based on leadership skills, including an innovative and forward-thinking approach to strategy execution. The goal is to rec-

ognize those individuals considered by peers and industry members to be true innovators, leaders and cutting-edge thinkers. Nearly 800 peers and industry members submitted nominations. Investor Intelligence Network is a part of *Institutional Investor* magazine, an international finance publisher.

In addition, SWIB's managing analyst Derek Drummond is a nominee for *Chief Investment Officer* magazine's "Forty Under Forty for 2015" feature. The magazine annually profiles 40 influential institutional investors under the age of 40. Drummond is part of Garcia's investment team. Garcia has appeared on the list twice, in 2012 at the age of 34, and again in 2013. Last year he was among the "Young + Established" – the first time the magazine moved persistent members into a separate category.

Data, continued from page 6

shared not only internally between SWIB staff, but also externally with portfolio managers and other financial institutions.

In addition, SWIB has personal data for its employees that must be protected. Huemoeller said building a strong line of defense against would be cyber attackers has always been a top concern for SWIB. He added that SWIB's information technology team not only needs to be on the lookout for possible cyber attacks today, but must also be flexible to adapt to changing technologies that could be used in future attacks.

"We regularly monitor industry and internet security bodies for threats and, if necessary, adjust our practices, security tools or other methods to meet emerging threats," he said.

SWIB also keeps close watch on how the companies it invests in are dealing with cyber security. SWIB's corporate governance team actively tracks potential regulations on cyber security to evaluate firms' security breach risk mitigation procedures — both current and future.

SWIB Corporate Governance Director TerriJo Saarela says SWIB is proactive in ensuring its investments are protected by working directly with companies. "SWIB's corporate governance team engages companies regarding their approach to managing oversight of cyber security," Saarela said. "We have also partnered with other funds to address cybersecurity concerns with companies that have breached rules put in place by the Securities and Exchange Commission and the federal government."

Because it anticipates an increased number of shareholder cyber security proposals in the coming years, SWIB's corporate governance team has developed a new proxy voting guideline that ensures WRS investments are protected. The guideline says SWIB may support cyber security proposals that request greater disclosure of a company's policies, potential risks and oversight.

"It is important to fully understand how these companies are dealing with the possible threats," Saarela said.

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WRS NEWS



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 (WRS) members about benefit programs and trust fund investment news and information.

ETF

Contact ETF to make an appointment and ask questions regarding WRS retirement, health and life insurance benefits.

Call us toll free at 1-877-533-5020 or (608) 266-3285

Benefit specialists are available 7:00 a.m. to 5:00 p.m. (CST), Monday through Friday.

ETF Self-Service:

Request forms and brochures, report address changes, tax withholding changes (retirees only).

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

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To register for this free e-mail notification service, look for the red envelope icon at <http://etf.wi.gov>.

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SWIB

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