

SWIB REPORT

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WRS features add to sustainability

By Keith Bozarth, SWIB Executive Director

“Sustainability” is a word used a lot these days by public pension systems. Following the financial market collapse of 2008, U.S. public pension plans around the country are carefully considering how promised benefits can be supported without significant changes to the benefit, investment or funding structures.

A recent report by the actuary confirmed that the Wisconsin Retirement System (WRS) is in sound financial condition and in much better shape than many other pension systems. The WRS incorporates some uncommon features that contribute to its sustainability through periods of severe market stress.

By law, any change in contribution rates must be divided evenly between the employee and employer rates. This means that employees and employers are at equal risk for higher costs during periods of investment market declines. In addition, annual

post-retirement adjustments to the monthly annuity benefit are based solely on investment returns.

These features act as a “braking mechanism” on liability increases during periods when asset values fall. They also distribute risk and reward among plan participants and employers. Because of its structure, market volatility has different consequences for the WRS than for other pension systems. The degree of reliance on stock market gains must be carefully considered. For the same reason, the value of investment diversification in lowering risk is increased.

Even in one of the most challenging investment environments in recent history, it is evident that the WRS contains built-in features that will help maintain a viable pension plan with fewer dislocations and inequities than other plans are likely to experience.

Calendar Year-to-Date Preliminary Returns

As of 11/30/09

Core Fund 21.1%
Variable Fund 30.4%

Volatility continues, returns positive through November

After losing ground in October, the Core Fund gained 3.4% in November while the Variable Fund was up 4.8% for the month. Preliminary returns for both funds for the first eleven months of 2009 were strong. In addition, both were well ahead of their benchmarks for the same period.

U.S. stocks were up 24.5% through November, while non-U.S stocks gained 31.6%. Both were below their 2007 peaks. Market volatility increased in October and continued into December.

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Neither snow, nor ice ...

Emergency plan helps staff stay on the job

The storm that dumped 14 inches of snow forced Madison to take a snow day on December 8, but many SWIB staff continued to work as the financial markets remained open.

Governor Jim Doyle declared a state of emergency, closing state offices, including SWIB. As a result, the December Board meeting was postponed until January. However, SWIB staff were able to complete critical investment duties on site or from home with the

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Investment returns and possible affect on WRS

The unprecedented market losses of 2008 will remain part of the smoothing process that will affect Core Fund benefits over the next four years. To help explain the impact, the Department of Employee Trust Funds (ETF) has provided an estimate of how investment returns as of December 31, 2009, could affect WRS benefits in 2010, as shown in the following table. Once final 2009 investment returns are determined, ETF will calculate effective rates and the WRS actuary will calculate annuity adjustments.

Potential Core Fund Returns and Range of Projected Annuity Adjustments		
If SWIB's net Investment return on 12/31/09 is:	Approximate Core Fund Effective Rates	Approximate Core Fund Annuity Adjustments
25%	4.5% to 4.9%	-0.9% to -1.3%
20%	3.7 to 4.1%	-1.6% to -2.0%
15%	3.0 to 3.4%	-2.3% to -2.7%
10%	2.2 to 2.6%	-3.8% to -4.2%

Important notes regarding the table above:

- Year-end investment returns could be higher or lower than the investment returns in the first column of the table.
- Final 2009 effective rates, which are applied to active and some inactive employee accounts, will not be available until spring of 2010. 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, 2010, 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. For more information, visit http://etf.wi.gov/news/ht_20091021.htm.

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help of a comprehensive disaster recovery plan.

“The most critical function is completing investment transactions for the State Investment Fund,” said Keith Bozarth, executive director. The Fund invests cash balances of various state and local governmental units and requires that participants have daily access to their funds. Working with the Office of the State Treasurer and Department of Administration, SWIB staff executed the investment transactions that were required to serve participants.

SWIB staff who manage investment portfolios in other markets were also on the job.

“The challenge we face is that when markets are open in the U.S. or other parts of the world our staff need to be connected because we could miss excellent opportunities,” Bozarth said.

Staff who worked from home are able to do so because they can access market information, execute transactions and direct funds using secure off-site technology. SWIB's business resumption plan is continually reviewed, tested annually and enhanced as technology improves.

Bozarth said that the snow emergency provided a good test of SWIB's disaster plan and that SWIB staff and technology performed well.

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Markets were buoyed by news that the U.S. economy grew by 3.5% in the third quarter after the longest contraction since World War II.

As December began, returns were helped by strong retail sales, a jump in U.S. consumer sentiment and an encouraging employment report for the month.

However, concerns about a still high unemployment level, weakness in consumer spending and uncertainty about the future impact of the unprecedented amount of U.S. government fiscal and monetary stimulus remain. Credit risks continue to impact global markets as well.