January 12, 2012

Dear Wisconsin Retirement System (WRS) Retirees:

At this time of year many of you want to know what to expect in terms of the 2012 annuity adjustments. The Department will announce the final Core and Variable annuity adjustments in March 2012, after final State of Wisconsin Investment Board (SWIB) returns for 2011 are determined. However, because SWIB has now announced preliminary 2011 Core and Variable Trust Fund investment results, we are able at this time to provide an approximate effective rate of interest for the Core and Variable Funds, as well as approximate 2012 annuity adjustments.

No matter the final outcome for 2011, the Core annuity adjustment will once again incorporate the effect of 2008’s 26% investment decline in the Core Fund. That is because Core Fund gains and losses for any given year are “smoothed” (recognized) in equal increments over five years to cushion the effect of volatility. This year’s rate calculations will incorporate investment experience from 2007 to 2011. The Core Fund recorded gains in four of the last five years (2007, 2009, 2010 and 2011), which will help mitigate the impact of 2008’s approximately $21 billion loss.

The preliminary 2011 Core and Variable Trust Fund investment results, as announced today by SWIB, are:

- Core: +1.4%
- Variable: -3.0%

Based on these preliminary returns, the approximate Core Fund investment return, effective rate of interest, and annuity adjustment are:

<table>
<thead>
<tr>
<th>Preliminary 2011 Core Fund Investment Return</th>
<th>Approximate Core Fund Effective Rate of Interest</th>
<th>Approximate Core Fund Annuity Adjustment</th>
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</thead>
<tbody>
<tr>
<td>+1.4%</td>
<td>+1.4% to 1.8%</td>
<td>-4% to -4.5%</td>
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</tbody>
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The projections shown above are based on preliminary investment returns. Finalized investment returns, mortality and other actuarial factors also play a role in the final rate setting process.

As these projections show, the Department will most likely have to reduce Core annuities beginning with the May 1 payment. However, please keep in mind that your Core annuity can never be decreased below the finalized amount you received at retirement. Over the years you may have experienced Core annuity increases and these can later be decreased through negative Core annuity adjustments. However, there is a threshold; negative Core adjustments can never decrease your annuity below your finalized annuity amount.

Also, please know that the WRS remains in sound financial condition in spite of volatility in the markets throughout the year. With assets of more than $79 billion, the WRS is the 9th largest public pension fund in the nation and the 30th largest in the world. It remains well positioned to pay all of its benefit promises – both now and in the future. While negative annuity adjustments are never the hoped-for outcome, they reflect the shared risk structure of the WRS that ultimately positions the Trust to be among the most stable and secure pension systems in the country.
What about the Variable annuity adjustment?

Members in this optional Fund experience the full effect of market gains or losses each year – returns are not smoothed. Furthermore, there is no limit to how much your Variable annuity can be decreased if there are multiple years with poor Variable Fund investment returns. The Variable annuity adjustment is closer to actual Variable Fund investment performance, less 5% (built into the calculation at retirement). Given the preliminary 2011 Variable Fund investment return of -3.0%, we anticipate the Variable annuity adjustment will be between -6% and -10% this year.

When will retirees find out how much their monthly annuities may change?

Core and Variable annuity adjustments will first be reflected on the May 1, 2012 payment. Several weeks prior, ETF will notify retirees regarding any monthly benefit amount changes. In the meantime, you may monitor our website at http://etf.wi.gov for announcements regarding final investment returns and subsequent rates and adjustments.

For more information, please review the following ETF resources:

Online videos
WRS-Interest v. Annuity Adjustments

Variable Participation: Is it Right for You?
Find these in our video library at http://etf.wi.gov/webcasts.htm

Brochures
How Participation in the Variable Trust Affects WRS Benefits (ET-4930)

Canceling Variable Participation (ET-2313)

Find these on our website at http://etf.wi.gov/publications.htm or contact us to request a paper copy.