

Retirement Fund Investments

The assets of the Wisconsin Retirement System (WRS) are invested by the State of Wisconsin Investment Board (SWIB). The assets are divided into a Core (previously referred to as fixed) Retirement Investment Trust Fund and a Variable Retirement Investment Trust Fund.

The Core Trust Fund is more of a "balanced" fund that is diversified among many types of investments and is designed to produce a relatively steady source of investment income.

The Variable Trust Fund is invested primarily in the stock market. It experiences widely fluctuating investment gains and losses that generally reflect the experience of the stock market. The Variable Trust Fund was closed to new members from April 30, 1980 to December 31, 2000. Since January 1, 2001, active WRS participants may elect to have one-half of their contributions deposited in the Variable Trust Fund. The Department's publication *How Participation in the Variable Trust Fund Affects Your WRS Benefits* (ET-4930) provides information about the effects of variable participation. You can request a copy from this Department or go to our internet site at etf.wi.gov.

Effect On Benefits

The end result of investment performance is the effect on benefit funding requirements and on the benefits payable to WRS participants and their beneficiaries.

For many participants, benefits at the time of retirement are determined by a formula based on salary and years of service. **The initial formula benefit amount is not affected by investment earnings unless you participate in the variable trust fund.** However, investment earnings while you are employed *do* help to fund retirement and disability benefits and also provide post-retirement increases.

Investment earnings may increase the amount of separation benefits, money purchase retirement and disability benefits, and death benefits. Formula benefits are based on final average earnings, formula factors based on your employment category(ies), years of service, and any actuarial reduction for early retirement. Money purchase retirement benefits are based on your age and the dollar amount in your account when you take a benefit. You are always entitled to the higher of the formula or money purchase retirement benefit.

Interest Crediting

Annual interest is credited each December 31 on monies which have been in the system for the full calendar year. Investment earnings affect your separation and money purchase retirement benefits and, in most cases, the death benefits payable if you die before taking a benefit.

All variable fund monies and all voluntary additional contributions have interest credited at the effective rates, based on the investment experience of the fund.

Depending on the years your employment was covered under the WRS, the amount of interest credited to your core fund contributions may vary.

- All active participants' interest on core fund monies is at the effective rate.
- All core funds of participants who were employed prior to 1982 have interest credited at the effective rate.
- As of January 1, 1985, participants who were first employed after 1981 and who terminated prior to January 1, 1990, receive 5% annual interest (all core funds). However, if these participants come back to covered employment, annual interest on their core funds will prospectively be credited at the effective rate each December 31.

- As of January 1, 1990, participants who were first employed after 1981 and who terminated prior to December 31, 1999, began receiving 3% annual interest on core employee-required contributions for separation benefit purposes only. However, if these participants come back to covered employment, two things happen. First, their separation benefit balance is adjusted as though it had received 5% interest each year instead of 3%. Next, their employee required contributions (including their separation benefit balance) receive effective rate interest beginning with the interest credited on December 31 of the year in which they return to covered employment.

If you have participated in the variable fund, your account has either a "variable excess" or a "variable deficiency." This is the difference between the amount that is actually in your WRS account and the amount that would be in your account if you had never participated in the variable fund. If you have a "variable excess" (the amount you are *ahead* as a result of your variable participation), this amount is used to increase your formula retirement or disability benefit. However, if you have a "variable deficiency" (the amount you are *behind* because of your variable participation), this deficiency will be used to decrease your formula annuity when your retirement or disability benefit begins.

Before participants take a benefit from their WRS accounts, investment earnings are credited to their accounts as explained above. Once a participant begins receiving a monthly annuity, the monthly amount may be adjusted each year based on the previous year's investment returns. See the two charts on the reverse side that show ten years of effective interest rates and annuitant adjustment rates.

Summary of Asset Mix

At the end of 2007, two-thirds of the retirement funds were invested in stocks and one-third in bonds, loans, and other investments. The following table shows the distribution of the total assets by type.

Asset Mix as of December 31, 2007 (Million Dollars)

	Core	Variable	Total
Equities	\$47,940	\$6,736	\$54,676
Fixed income	23,991		23,991
Real Estate	3,976		3,976
Private Equity/ Debt	3,410		3,410
Multi-Asset	1,155	164	1,319
Cash	<u>264</u>	<u>168</u>	<u>432</u>
Total	\$80,736	\$7,068	\$87,804

Bonds and stocks are valued at market on December 31, 2007; short-term reserves are carried at principal amount on December 31, 2007.

Investment Performance

There are many ways to evaluate how investments have performed over time. Regardless of the method used, our investments have done well. SWIB has received national attention for its excellent investment record.

The State of Wisconsin Investment Board's Annual Report deals with this topic in depth. If you want a copy of the most recent SWIB Annual Report, please write to:

State of Wisconsin Investment Board
P.O. Box 7842
Madison, WI 53707-7842



INVESTMENT EARNINGS DISTRIBUTION REPORT

**December 31, 2007
Wisconsin Retirement System**

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Effective Interest Rates

Year	Core Rate	Variable Rate
2007	13.1%	6.0%
2006	9.8%	18.0%
2005	6.5%	9.0%
2004	8.5%	12.0%
2003	7.4%	34.0%
2002	5.0%	(23.0%) Loss
2001	8.4%	(9.0%) Loss
2000	10.9%	(7.0%) Loss
1999	24.1%	28.0%
1998	13.1%	18.0%

of at least 0.5% for all core annuities in force in that year. If the increase (or decrease) results in less than this 0.5% change, then the core annuities remain the same.

Adjustments are intended (though not guaranteed) to be permanent increases in the monthly core annuity amounts paid. The core increase or decrease adjustment is applied to annuities from required and additional contributions. A core annuity is guaranteed to never be less than its original final monthly amount. However, this excludes the accelerated portion after age 62 for a person who retires prior to age 62 and chose the accelerated amount be paid until age 62.

The variable portion of the annuity is increased, decreased, or unchanged based on variable investment results as of December 31 each year. Unlike a core fund annuity, there is no guarantee that a variable annuity will not be decreased below the original final monthly amount.

Annuitant Adjustment Rates

Year	Core Adjustment	Variable Adjustment
2007	6.6%	0.0%
2006	3.0%	10.0%
2005	0.8%	3.0%
2004	2.6%	7.0%
2003	1.4%	25.0%
2002	0.0%	(27.0%) decrease
2001	3.3%	(14.0%) decrease
2000	5.7%	(11.0%) decrease
1999	7.5%	21.0%
1998	7.2%	12.00%

The rates shown above are the effective rates for the past ten years. They were credited to eligible open accounts, not annuities. See the next chart, Annuitant Adjustment Rates, for the annual increases/decreases applied to annuities.

Annuitant Experience

When you apply for your annuity (regular monthly payments throughout your lifetime) funds are transferred to the Core Trust and, if applicable, the Variable Trust Annuity Reserve to provide your annuity. The law provides that in determining the amount transferred to the annuity reserve for a new retiree, it shall be assumed that future investment earnings will be 5%. This relatively low assumption is designed to provide benefit increases after retirement to help maintain living standards during periods of rising prices.

Each year we review investment results as of December 31. In the following year, the amount of monthly benefits paid to annuitants may change based on this review.

Core annuity increases are applied when investment income earned, adjusted to reflect changes in mortality experience among annuitants, is higher than the assumed rate of 5% set by law, and would result in an increase

The variable portion of the annuity increases whenever the investment income, adjusted to reflect changes in the mortality experience among annuitants, is greater than the 5% assumed rate set by law. Similarly, the variable portion of the annuity will decrease whenever the adjusted investment is less than the 5% assumed rate set by law. The variable adjustment is applied to the variable portion of annuities from required and additional contributions. Increases or decreases will occur only when there is at least a 2% change for all variable annuities in force in that year.

Great effort has been made to ensure that the information in this circular is accurate. If the information in this circular should conflict with the law, the law must be followed.

The Department of Employee Trust Funds does not discriminate on the basis of disability in the provision of programs, services or employment. If you are speech, hearing or visually impaired and need assistance, call toll free 1-877-533-5020 or (608) 266-3285 (local Madison). We will try to find another way to get the information to you in a usable form.

Wisconsin Relay Service (for hearing & speech impaired)
7-1-1 or
1-800-947-3529 (English)
1-800-833-7813 (Spanish)