



November 7, 2009

SEA RETIREMENT AND HEALTH INSURANCE ANNUAL REPORT

There were several changes and adjustments this past year. The first major change was the retirement of Mel and his replacement, Dan Joyce, as the SEA Retirement and Health Insurance representatives. Mel and most recently Dan kept SEA members informed of the changes and impacts proposed by the governor, legislature, State of Wisconsin Investment Board (SWIB), Employee Trust Funds (ETF) and the Group Insurance Board (GIB). I wish to personally thank these two outstanding retired members of SEA for their dedication to SEA's members and to those who have retired from SEA over the years. Through their efforts and others, SEA has been actively involved in the Wisconsin Coalition of Annuitants (WCOA) that represents the diverse members of the Wisconsin Retirement System.

Most of our actions are behind the scenes like supporting efforts to maintain staff at ETF to better serve the members, at SWIB to keep experienced staff here, and maintaining staffing levels to the benefit of the Wisconsin Retirement System (WRS).

However, not that long ago, SEA challenged an unlawful taking of retirement funds and won a large settlement from the state. We also challenged another unlawful taking of funds from our investment pool but we were not successful in getting that decision overturned. Later that led to problems for municipalities that took the dues holiday a bit too liberally.

Most recently, we were successful in preventing the distribution of personal information to groups outside of ETF by having language in the budget removed before it reached the governor for signature. Way too close for comfort. That effort is still continuing as a new bill with similar language is looking for sponsors. You may be called upon to contact your legislators to prevent this bill from advancing through the legislature.

The major news this last year was the first-ever reduction in the annuity dividend paid to Core (previously called Fixed) Fund WRS retirees. One of the benefits and disadvantages of the WRS is the potential for annuitants to receive a "dividend." That has been the case for almost all of the years of the Core Fund's investments. That is not the case with the Variable Fund, a matter which will be discussed further along in the report. A reduction in the Core Fund dividend will occur when liabilities in the annuity reserve exceed the value of assets¹.

According to a recent article, Pension Sustainability - The Wisconsin Example, by David Stella, Secretary ETF and Keith Bozarth, Secretary SWIB, WRS participants who retired in 1984 have had an annuity value increase at an average annual rate of 5.1% while the contribution rates paid by most employers have fallen from 12.5% to 10.6%.

The financial market meltdown of 2008 and into 2009 has changed that remarkable return on investment. The investment return of 2008 was -26.2% for the Core Fund. The negative value will be smoothed over the next five years. As result, all Core Fund retirees that have received dividends in the past will see about a -1.6% to -2.7% reduction in their monthly annuity. These values are based upon the current performance of the investment fund of 15% to 20% for the 2009 calendar year. These numbers are not final and will not be until the final accounting on December 31, 2009. Employers will also see a contribution rate increase of 0.6% beginning in 2010.

The following table gives you an idea of the anticipated impact on the Core Fund.

If SWIB's net investment return on 12/31/09 is...	25%	20%	15%	10%	5%
...the Core Effective Rate will be...	4.5% to 4.9%	3.7% to 4.1%	3.0% to 3.4%	2.2% to 2.6%	1.4% to 1.8%
...the Core Annuity Adjustment will be...	-0.9% to -1.3%	-1.6% to -2.0%	-2.3% to -2.7%	-3.1% to -3.5%	-3.8% to -4.2%

The following information was obtained from SWIB regarding the status of the fund as of September, 2009.

Table B	July Percent Gain or Loss by Fund	Aug. Percent Gain or Loss by Fund	Sept. Percent Gain or Loss by Fund
Core Fund	10.8%	14.2%	18.0%
Core Fund Benchmark	9.4%	12.5%	16.0%
Variable Fund	17.2%	21.5%	21.5%
Variable Fund Benchmark	15.9%	20.1%	20.1%

	July, 2009 (millions of dollars)	Aug., 2009 (millions of dollars)	Sept., 2009* (millions of dollars)
Core Fund	\$62507	\$64212	\$66105
Variable Fund	\$4463	\$4618	\$4820
Total	\$66970	\$68830	\$70925

*Preliminary Results - All values are year to date.

The Variable Fund is much different in how it is managed by ETF on behalf of the annuitants. Unlike the Core Fund, the Variable Fund investment returns (increases and decreases) are not smoothed¹. Therefore, WRS members who participate in the Variable Fund experience effective rates and annuity adjustments on the Variable Fund portion of their accounts that is closer to actual Variable Fund investment returns¹. Again, these final adjustments are made on December 31, 2009. The Variable Fund had a net return of -42.0% in 2008. A bill has been introduced to once again prevent new employees from participating in the Variable Fund.

Variable Fund participants will see an adjustment that includes the Variable Fund portion and the Core Fund portion. The Core Fund can be estimated from Table A above. The Variable Fund portion will be determined on December 31, 2009.

Another impact that will be felt by both current SEA members and retired members of SEA involves the changes to tax tables at both the Federal and State level. The State of Wisconsin Department of Revenue has updated the state tax table for the first time in over nine years. You may find additional details at the following web site, http://etf.wi.gov/news/ht_20090924.htm There have been three tax table changes this year. So check your withholdings to make sure that you are within the ball park with respect to paying your annual state and federal taxes. You should be able to estimate your taxes to some extent and avoid potential penalties for under payment during the year.

Respectfully Submitted

Bob Schaefer - Retirement and Insurance Representative

¹ October 19, 2009 ETF Report on the Core Fund and Variable Fund Impacts of last years negative investment return.



STATE OF WISCONSIN
Department of Employee Trust Funds
 David A. Stella
 SECRETARY

801 W Badger Road
 PO Box 7931
 Madison WI 53707-7931

1-877-533-5020 (toll free)
 Fax (608) 267-4549
<http://etf.wi.gov>

October 19, 2009

Dear Wisconsin Retirement System (WRS) Members:

As of September 30, 2009, the Core Trust Fund was up 18% for the year and the Variable Fund was up 26.9%, based on preliminary returns. Although we don't know how the year will end, the following table shows the approximate projected range of Core Fund effective rates and annuity adjustments for next year, depending on the State of Wisconsin Investment Board (SWIB) investment returns.

Possible Core Fund Returns and Range of Projected Effective Rate and Annuity Adjustment					
If SWIB's net investment return on 12/31/09 is...	25%	20%	15%	10%	5%
...the Core Effective Rate will be...	4.5% to 4.9%	3.7% to 4.1%	3.0% to 3.4%	2.2% to 2.6%	1.4% to 1.8%
...the Core Annuity Adjustment will be...	-0.9% to -1.3%	-1.6% to -2.0%	-2.3% to -2.7%	-3.1% to -3.5%	-3.8% to -4.2%

Important notes regarding the table above:

- The projections shown are based solely on investment return and are for illustration purposes only. Actual 2009 SWIB investment returns will not be available until January 2010. For the most recent SWIB investment performance information, visit SWIB's website at <http://www.swib.state.wi.us>.
- Actual 2009 effective rates, which are applied to active and some inactive employee accounts, and annuity adjustments, which are applied to retiree accounts, will not be available until February or March of 2010. We use the effective rates, which take into account factors such as investment returns and reserves, as a starting point to calculate the annual annuity adjustments (increases or decreases) paid to WRS retirees.
- Annuity adjustments for WRS retirees will be reflected in the May 1, 2010, annuity payment. Assumed interest, mortality rates and other actuarial factors may also affect the final annual annuity adjustments.
- **An investment return of approximately 27.9% to 30.7% is needed for a 0% annuity adjustment.**
- Core Fund investment returns are smoothed over a five-year period to reduce volatility.

Variable Trust Fund

Some WRS members have elected to participate in the optional and more volatile all-equity Variable Trust Fund. Unlike the Core Fund, the Variable Fund investment returns (increases/decreases) 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 accounts that are closer to actual Variable Fund investment returns.



State of Wisconsin Investment Board Staff Compensation Plan

Objective of Incentive Compensation Plan for SWIB Staff

Main objective is to recruit and retain the most capable investment professionals possible to manage and invest the trust funds.

- SWIB competes for staff with investment firms throughout the country.
- If SWIB does not have qualified staff to manage the assets, it must contract with external managers to manage the funds.
- Public market assets managed by external managers costs considerably more than SWIB's internal management costs -- \$0.08 per \$100 in 2008 for assets actively managed by SWIB staff vs. \$0.26 for outside active management.
- External managers pay much larger bonuses to their staff. SWIB and other clients do not have control over how much of the fees external managers receive are awarded as bonuses to their staff.

Plan Improved in 2000 Benefits Trust Funds

- Qualifications, experience and tenure of staff greatly improved compared to what SWIB could attract before 2000.
- Analysts hired from 1998 - 2000 averaged six months experience compared to nearly seven years experience for those hired from 2001 through October 2009.
- All hires in 2008 had advanced degrees.
- Due to having qualified staff, internal management of WRS assets in FY 2009 increased from 26.5% to 39.8%, which reduced costs charged to the funds.

Plan Structure Rewards Extraordinary Performance

- Driven by employee performance over the long term (defined as five years).
- Based on beating benchmarks recommended by independent benchmark consultant.
- Annually compared to peer group of banks, insurance companies and in-house pension funds, excluding financial centers on east and west coasts.
- SWIB incentive compensation was only half of the median compared to peer group for 2007 and one-third for 2008.

Plan revised in 2009

- In a year with negative returns (including 2008), funds are set aside for investment staff who exceed targets, but no payment is made until SWIB achieves a year of positive returns.
- Except for retirement, staff who leave prior to distribution date forfeit payment.
- Incentive structure remains below industry medians.

2008 incentive compensation greatly reduced

- Total amount set aside for 2008 investment staff incentive compensation is significantly reduced from normal calculation.
- Number of people eligible for 2008 significantly fewer than previous years.
- Top officials (eligible for incentive compensation) declined individual awards.
- Amount set aside based primarily on outperformance of five-year benchmarks that measure the performance against market returns.
- Plan includes only objective factors for investment professionals who worked in good faith under the incentive guidelines.

Contributions from Top Performing Portfolios Compared to the Markets

- Although its return was negative, \$900 million Small Company Diversified Equities portfolio exceeded benchmark by 4.3% in 2008, saving \$63 million for the trust funds.
- \$3.9 billion Government Credit Fixed Income portfolio earned positive 6.2% -- 0.5% more than the benchmark in 2008 -- and 0.2% over five years.
- State Investment Fund (SIF), a \$6.6 billion portfolio, exceeded its benchmark by 0.7% in 2008 and has exceeded the benchmark for at least the last ten years. The vast majority of those earnings go to the state and local governments. Unlike similar funds in other states, the SIF did not invest in asset backed mortgages or other exotic investments that created havoc for other state funds.
- Staff who are eligible for awards collectively contributed \$340.6 million value added to the Wisconsin Retirement System (WRS) for 2008.