The Effect of Current Market Conditions on Wisconsin Retirement System Participants who Participate in the Core Fund Only and have Never Participated in the Variable Fund

This document is designed to help employees who are covered by the Wisconsin Retirement System (WRS) understand the impact that WRS investment losses and current market conditions may have on future retirement benefits. It is important to note that it is impossible to predict future investment returns and an employee's optimal retirement date given the current market conditions.

Explanation of How Interest is Credited to the WRS Core Fund

Interest credited to the Core Fund is based on investment earnings as of December 31st and is credited to the account once per year. Investment gains and losses are recognized evenly over a five year period to keep interest crediting and contribution rates stable. There were large investment losses in 2008 and the impact of these losses will be spread over the next five years. The 2011 Core Fund interest rate is based on the investment returns from 2007 – 2011. The years 2007, 2009 and 2010 all had positive investment returns but 2008 had a -26.2% rate of return so the negative returns of 2008 will have a negative effect on the core effective interest rate for the years 2008 – 2012. As of October 31, 2011, the Core Fund investment return was 2.8% for the year.

In November 2011, ETF released the following projections regarding the Core Fund:

Core Effective Rate / Annuity Adjustment Projections			
If SWIB's net investment return on 12/31/11 is…	**5%**	**0%**	**-5%**
…the 2011 Core Effective Rate is projected to be approximately…	1.8% to 2.8%	0.8% to 1.8%	-0.2% to 0.8%
…the 2011 Core Annuity Adjustment is projected to be approximately…	-3.2% to -4.2%	-4.1% to -5.1%	-4.9% to -5.9%

Visit the State of Wisconsin Investment Board (SWIB) website to see historical investment returns and interest rates.

Impact of Low or Negative Core Effective Interest Rates on WRS Benefits

At retirement, your retirement annuity is calculated under two different methods, the formula and the money purchase calculation methods. The retirement annuity you receive is based on the HIGHER of the two calculations. You do not select your calculation method; you automatically receive the higher of the two calculations.

A **formula calculation** is based on years of WRS service, three highest years of earnings, formula factors based on employment category and age at retirement. Current market conditions have no effect on

formula based retirement benefits because the total value of your WRS account has no impact on the formula annuity calculation.

A **money purchase calculation** is based on the total value of your WRS account and a money purchase factor based on your age at the time of retirement. Low interest rates will cause the dollar value of your WRS account to grow more slowly and negative interest rates may shrink the overall dollar value of your account. The lower the value of your WRS account, the lower your eventual retirement benefit if your retirement annuity is higher under the money purchase calculation method.

Since lower interest rates create lower account balances, separation and death benefits will also decrease because these benefits are based on the dollar value of your WRS account.

Financial Health of the WRS

The WRS is solvent, well-funded, has a diversified investment portfolio and is focused on long-term investing. The WRS is also the most fully funded public pension system in the United States. The payment of all WRS related benefits is also guaranteed by state statute. Employees in the Core Fund can be confident that the current market turbulence does not jeopardize future retirement benefits. Formula retirement benefits are not affected by investment earnings and the WRS is designed to remain solvent during economic downturns.

For Additional Information

ETF's *When Should I Retire?*
ETF's Open Letter to Participants and Retirees – November 2011
ETF Video about Employee Contributions and Investments
State of Wisconsin Investment Board (SWIB) website