

Good News About the Wyoming Retirement System *by Laura Ladd, WRS Board Chair*

Wyoming's pension plans are a treasure for our state. These pension plans help our school districts, state, cities, towns, counties and other employers recruit and retain the employees they need. Nearly 1 in 6 Wyomingites have a direct financial stake in the Wyoming Retirement System (WRS). The entire state benefits from the \$600 million WRS pays to retirees each year, most of which stays in Wyoming supporting local economies.

As the current chair of the WRS Board of Trustees, I couldn't be more pleased with this outcome. It is the result of the vision of past state policymakers, as well as the current partnership between WRS, policymakers, stakeholders and members. WRS was formed 65 years ago by the Legislature to administer retirement benefits for all government employers. They planted a seed that has grown into a mature tree.

There are a few big factors when managing a pension plan – investment earnings, contribution rates and benefit levels. Running a pension plan well means balancing these factors. We work closely with the Governor, legislators and stakeholder groups to make adjustments when necessary and share information broadly.

WRS is three years into its 5-year investment plan which encompasses building an eight person investment team. The stock market was incredibly strong in 2017. We surpassed our benchmark of 7 percent return annually with a 14.3 percent



WRS Board, from left to right: Tom Chapman, Vicci Colgan, Keith Hay, Mike Ceballos, Garth Shanklin, Laura Ladd, Eric Nelson, Tim Sullivan, Kay Watson, Mark Gordan, Brian Foster

return, meaning investment earnings added \$1.1 billion to the pension fund. Market trends are ever changing, but no matter. We have an investment team, a clear investment strategy and the discipline to stay the course for the long-term. This is key since roughly 70 percent of benefit payments are funded by investment earnings.

The Board has established a disciplined practice for review and oversight of the actuarial assumptions, funding status and contribution requirements for each of our eight pension plans. It is one of the Board's most important fiduciary duties. In 2010, we proactively recommended significant pension reforms by increasing contributions and establishing a reduced tier of benefits. This was done to make sure we could keep our pension promises for the long term.

The Board recently changed some of the assumptions used to quantify liabilities. We assumed future investment returns would be lower (7.00% instead of 7.75%). We recognized that payroll growth and contributions were apt to be more modest. Finally, we made further adjustments to our mortality estimates, recognizing that retirees

are living longer. We knew this would put upward pressure on contribution rates, and worked proactively with the executive branch and Joint Appropriations Committee to develop solutions. The retirement-related bills passed during the recent legislative session (see page 2) are very positive.

We hear a lot from retirees about the need for a Cost of Living Allowance (COLA). The last COLA awarded was in 2008

because projections showed the retirement fund could not afford the associated cost. A few years later, the Legislature put a limitation on COLAs. While WRS is still paying previously awarded COLAs, our long-term retirees have experienced significant erosion of purchasing power and need some relief. WRS has the ability to estimate the cost for a COLA for those most in need. If this is an issue of concern to you, please consider speaking with your local legislators. WRS also crafted a tool which allows you to purchase a 1, 2 or 3% COLA as part of your retirement plan. This investment typically yields a positive return after 10 years.

Wyoming's pensions are strong, well-managed and headed in the right di-

(continued on back)

2018 Legislative Changes Contribute to Stronger Pension Plans

As a result of the 2018 legislative session, two bills will become law that will contribute to better funded pension plans. Wyoming's lawmakers established a forward-looking full funding plan for the Public Employee Plan, with a gradual contribution increase. The other piece of successful legislation will keep more employer contributions in the pension plans by limiting the refund benefit for newly hired, non-vested members.

HB 109/HEA 65 - Contributions:

This legislation will increase contributions to the Public Employee Pension by a total of 2 percent, split equally between employees and employers in 0.25 percent increments over four years. The increase is gradual, making it easier for employees and employers to adjust.

The Board received an in-depth review of its assumptions as compared to actual experience last summer. In response, the WRS Board improved the assumptions used to quantify increased contributions for the Public Employee Pension, the plan for most employees, as soon as possible to minimize the amount of the necessary increase. WRS will be conducting a study of all its pension plans during the summer of 2018 to more closely determine the specific contribution increase needed for each, and to consider other changes that could contribute to stronger funding. WRS will bring results and any recommendations for change to the Joint Appropriations Committee (JAC) in the fall.

HB 110/HEA 10 - Account Refunds:

The WRS Board brought the idea of modifying refund benefits for newly hired, non-vested members to the JAC because it keeps more employer dollars in the plan, resulting in lower

	Current	9/1/2018	7/1/2019	7/1/2020	7/1/2021
Employee Contribution <i>as % of Salary</i>	8.25	8.50	8.75	9.00	9.25
Employer Contribution <i>as % of Salary</i>	8.37	8.62	8.87	9.12	9.37
Total	16.62	17.12	17.62	18.12	18.62

HB 109/HEA 65: contribution increases to the Public Employee Pension are split between employers and employees, gradually phased in over four years

contribution requirements. At present account refunds consist of the employee contributions, regardless of whether the employer picked it up, plus interest. A member who has separated from service may refund, and in doing so forfeits any future benefit from the pension.

Anyone who is vested and chooses to stay in the system will not be affected by this change. The recently passed legislation changes the account refund provision for non-vested members hired on or after July 1, 2018 so an individual will be refunded only the contributions paid out-of-pocket plus interest. When employers "pick-up" some or all of employee contributions, it is fitting those dollars remain in the plan to help keep the employer contribution rate as low as possible.

This legislation applies to all pension plans except Paid Firefighter A and the Volunteer Firefighter & EMT Pension.

WRS appreciates its partnerships with the JAC, executive branch, as well as the attention the Legislature and stakeholders devoted to retirement topics this session. Further details on the bills described in this article are available on the Legislature's website under the given bill number. You can also contact WRS at pension@wyo.gov or 307.777.7691 with questions.

What does "Full Funding" mean?

It means a pension plan has sufficient assets to provide for all accrued benefits.

To make this determination, accrued liabilities (also known as benefit obligations) and assets are quantified. The funded ratio is calculated as assets divided by liabilities.

A pension plan with a funded ratio of 100% is fully funded; one that is projected to reach 100% over a 30 year amortization period is considered actuarially sound.



WRS Posts Strong 2017 Performance



by Sam Masoudi,
Chief Investment
Officer

We are pleased to report that the Wyoming Retirement System's total portfolio net return was 14.3 percent in 2017, which is more than twice the actuarial rate of return of 7.0 percent and represents a gain of approximately \$1.1 billion. During 2017, the portfolio was positioned very conservatively but still benefited from strong equity markets. As a result, the portfolio return was below its benchmark by 0.5 percent. However, the return was on target for the three-, five-, and ten-year periods, which are more important. The portfolio has exceeded the actuarial return of 7.0 percent over the last five-year period but has trailed over the past ten-year period, primarily because the ten-year period includes the impact of the Global Financial Crisis in 2008 (see figure 1).

Markets in 2017

World equity prices increased sharply in 2017. The U.S. began the year with improving economic growth. Most other countries were experiencing weak economic recoveries, and many faced populist political movements. Both of these factors created substantial market uncertainty. Throughout the year, as most foreign countries' economies began to experience improving and sustainable growth, and

	2017	3-Year Annualized	5-Year Annualized	10-Year Annualized
WRS Total Net Return	14.3%	7.0%	7.7%	4.8%
Benchmark Net Return	14.8%	7.0%	7.8%	4.9%
Outperformance/ Underperformance	-0.5%	0.0%	-0.1%	-0.1%

Figure 1. WRS total portfolio net return as of 12/31/2017

as political risks subsided, market and consumer confidence improved. This combination of growth and stability caused the estimated 2018 global GDP to increase by 0.2 percent to 3.9 percent, according to the International Monetary Fund. Securities markets around the world reacted to the improvements and equity markets rose sharply. The fourth quarter U.S. tax bill, which will increase corporate and individual income in 2018, also pushed up U.S. equity prices. The combined result of all of these positive developments was robust global equity returns in 2017.

Portfolio Positioning

WRS believes it is important to maintain diversification in the portfolio by investing in assets other than equity because they are beneficial to the portfolio during times of duress and provide positive long-term returns. While equity exposure drives performance

long-term, we believe that equity prices are somewhat overpriced relative to earnings. As a result, we increased allocations to portfolio managers who focus on defensive companies with sustainable business models and reliable cash flows. Also as a result of heightened valuations, we increased our holdings of US Treasuries in 2017, which is an asset that should perform well during a recession or a crisis (see figure 2).

The team continues to manage the portfolio in a prudent, conservative manner for the benefit of its members. We are grateful for the support of our constituents and stakeholders, and will continue to make improvements to safeguard our members' retirement security.

Asset Class	WRS Portfolio Weight	WRS 1-Year Return (Net)
Equity	46.9%	23.3%
Fixed Income	24.8%	3.5%
Private Markets	11.8%	8.1%
Marketable Alternatives	16.4%	11.3%
Cash	0.1%	1.4%
Note – These returns do not reflect currency hedging. The overall portfolio return includes contributions from currency hedging.		

Figure 2. WRS portfolio positioning as of 12/31/17



Additional Legislation: Other retirement bills put forth by lawmakers included WRS' \$17 million biennial budget, which passed in its entirety. SF 116/SEA 62 passed and establishes a task force on retirement security in Wyoming and includes a WRS designee on the task force. Read our full Legislative Update at <http://retirement.wyo.gov/Latest>



Sixty-five years ago, specifically on April 1, 1953, WRS was established by legislation. Wyoming began offering a pension plan with the Paid Fireman's Fund in 1935. A Teacher's Retirement Fund was formed in 1943. In 1949 state lawmakers began a pension for public employees, and in 1953 created WRS as the entity to administer all public pension plans. Throughout these 65 years, WRS has been led by eight different executive directors – John Kugland, Nick Gill, Jeff Gardner, Terry Hanley, Jerry Fox, Tom Mann, Thom Williams and the incumbent, Ruth Ryerson. The vision past policymakers put into place has served Wyoming well. Read more about WRS History at our website: retirement.wyo.gov/About/WRS-History.

(continued from front page)

rection. Wyoming's willingness to take on the challenge of running a pension plan properly and ensure its long-term viability is something all of us who live in this great state can be proud of.

Wyoming embraces this hard work and the hard choices it involves at times, knowing it must be done with the highest integrity and excellence because the people who live and work here are depending on it.



WyomingPBS

WRS Featured on Wyoming PBS

Wyoming Retirement System Board Chair, Laura Ladd, was interviewed on Wyoming Chronicle. The feature piece discusses the history of the Wyoming Retirement System and the health of the plans. Ms. Ladd has an MBA from the Wharton School and was appointed to the WRS Board of Trustees by Governor Dave Freudenthal in the midst of the Great Recession of 2008. She is an at-large member of the Board representing all Wyoming residents. A link to the interview can be found on the WRS website and YouTube channel. The interview is expected to air on April 27, 28, and 29 so stay tuned!

