



Partnering to Build Financial Security for Members and their Families

# WRS UPDATE

Fall/Winter 2015

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## Town Hall Meetings

Over the last several months, WRS Executive Director, Ruth Ryerson, has been the guest speaker at three town hall meetings sponsored by the Coalition for a Healthy Retirement.

In short, Director Ryerson's message is WRS' pension plans are in good shape, but need ongoing careful management. The Public Employee Pension plan, which covers most WRS members, is on pace to be fully funded within the next 30 years. However, it is unlikely the pension will be able to fund a cost of living adjustment (COLA) any time soon. This means any COLA would have to be legislatively funded, although WRS is not aware of any pending legislation on this.

The Coalition will be sponsoring more of these meetings and the public is invited to attend. Contact Bri Jones at [bjones@equalitystate.org](mailto:bjones@equalitystate.org) for more details about future meetings. The Coalition is comprised of WRS pension plan stakeholders, including the Wyoming Education Association, Wyoming Public Employees' Association, Federated Firefighters of Wyoming, AARP Wyoming and the Equality State Policy Center. 🐾

## National RETIREMENT SECURITY WEEK 2015

### CHECKPOINTS ALONG THE WAY

Governor Matt Mead declared the week of October 18-23 Wyoming's "Retirement Security Week," which ran in conjunction with the congressionally endorsed "National Retirement Security Week" co-sponsored by Senator Mike Enzi. The goal of this annual event, which started ten years ago, is to increase awareness and promote saving and planning for a secure retirement.

During the week, hundreds of WRS members used "checkpoints" designed to assist people in improving their retirement outcomes. Although the official event is past, the materials remain on the WRS website and everyone is encouraged to use the checkpoints that suit your circumstances.

The checkpoints range from:

1. **Intro to WRS** – An overview of your employer-provided retirement benefits for newer WRS members or those unfamiliar with their benefits
2. **Am I Saving Enough?** – Use WRS' online tool to quickly estimate how much you need to save each month in order to build the assets necessary to provide your desired future retirement income
3. **Beneficiary Review** – A refresher on key considerations for beneficiary designations. Make sure you have your beneficiary(ies) designated the way you want
4. **Separating Service** – If this is a possibility for you, take time to understand your choices
5. **All About Payout Options** – WRS offers eight different pension payout options. If you are five years or less to retirement, get the details so you can decide which is best for you

Because Wyoming residents have low access to Social Security information, WRS partnered with Social Security to have a Public Affairs Specialist deliver an informational seminar in Cheyenne. The event was full to capacity in Cheyenne, with an additional 250 people viewing it remotely through live-streaming.

WRS is dedicated to assisting its members with building retirement security. Take advantage of the educational offerings and benefit counseling available to you. 🐾

**IN MEMORIAM** The retired assistant director of WRS, Jim Allen, passed away on Oct. 8 in Cheyenne. Jim was an advocate for public pension plans and coined the phrase "Whenever there is a choice to make, go with what would most benefit the members." Jim enjoyed 15 years in retirement after finishing his career with WRS in 2000. He is survived by his wife, Sally Allen of Cheyenne and sons Tom (Amy) Allen of Rock Springs and Pat Allen of Casper.

# Considerations for Beneficiary Decisions

A beneficiary is the person or organization named by you to receive the benefits associated with your account(s) in the event of your death. Not having a beneficiary on file could be a disadvantage to your family and loved ones.

You must make separate beneficiary designations for your WRS pension account, 457 deferred compensation account, and also Prudential Life Insurance. For all accounts, you may designate one or more contingent beneficiaries in the event your primary beneficiary(ies) should not survive you.

**Pension Account:** Those who have not yet retired should consider an important distinction between designating a sole beneficiary and multiple beneficiaries for the WRS pension plans. If multiple beneficiaries are designated, payments will be made in a lump sum only. Further, the payment will be made to each of the beneficiaries in equal shares unless otherwise specified in writing.

Only a sole beneficiary of a vested member has the choice to receive a monthly retirement benefit based on the beneficiary's age and the deceased's length of service and salary. A sole spousal beneficiary may take distributions or wait until the deceased would have attained the age for required minimum distributions, which is 70 ½.

To elect a monthly benefit, a sole non-spousal beneficiary would be required to be retirement age and begin taking payments by the end of the year following the death.

If an election is not made in this time frame, a lump sum distribution is required within five years.

If you choose an estate, trust, charity, or other organization as your beneficiary, a monthly retirement benefit is not available for pre-retirement death benefits. A lump sum distribution is required within five years following the death.

Once you retire, the beneficiary designation is handled differently. The option you select when beginning to draw a monthly retirement benefit will determine how the account is paid out upon death.

## 457 Deferred Compensation Account:

Your beneficiary's distribution options in the WRS 457 Plan depend on two main criteria: whether you were taking distributions at the time of death and your relationship to the beneficiary.

If you died after starting distributions, the beneficiary must receive the same amount or more every year until the account is depleted or until the death of the beneficiary. However, if you had not taken any distributions at the time of death, the payout options vary according to how you are related to the beneficiary.

A spousal beneficiary will have the broadest set of options and may take distributions or leave the assets invested until the deceased would have attained age 70 ½. An individual designated as the non-spouse beneficiary will have fewer options. They are required to begin taking distributions by the end of the year following the death, but can extend payments over their life expectancy.

If the non-spouse beneficiary does not take distributions by the end of the year following death, the full account balance must

be withdrawn within five years. Options are most restrictive if the beneficiary is an organization, such as a trust or charity. The organization would be required to withdraw the full account balance by the end of the fifth calendar year following the death.

Your beneficiary designations are important! This article gives a general overview of the information. Be sure to contact WRS staff with any related questions. 📞

## WRS Board Changes Interest for Non-retiree Accounts

At its August meeting, the Board voted to change the interest rate applicable to non-retiree pension accounts from 5.5% to 3% compounded annually starting Jan. 1, 2016. Pension accounts are comprised of employee contributions and interest.

This interest rate change affects account refunds and pre-retirement death benefits, but is generally not a factor in determining pension benefits for the large majority of members. There is a small group of non-retired members hired prior to July 1, 1981 whose pension benefits may be impacted by this change. Contact WRS at [pension@wyo.gov](mailto:pension@wyo.gov) or 777-1977 for account specific information.

The Board carefully studied this change prior to approval. The Board wanted to establish a consistent rate for all plans and better align with the existing interest rate environment. With the exception of WRS' Volunteer Plan, which has a 3% rate established by state law, the rate applicable to all other plans had been 5.5% for many years.

In the case of retirement assets, it is hard to imagine a circumstance when it would be preferable NOT to make beneficiary designations. To make your beneficiary designations, log into your online pension account or your 457 plan account. Update your Prudential beneficiary by calling Health Smart at (800) 525-8056 or online at [mybensite.com/wy/](http://mybensite.com/wy/).

# Investment Update by Sam Masoudi, Chief Investment Officer

In order to provide pension benefits to its members on a long-term ongoing basis, WRS targets a 7.75% *average* annual return over a 30-year time horizon. The *average* part of this objective means the portfolio could achieve a result above this target in approximately half of the years and a result below the target in the other half. Because interest rates—which are the building block for all other assets’ returns—are extremely low, returns across all asset classes are likely to remain below average for the next five to seven years or until interest rates increase to more normal levels.

Of all major asset classes, stock in publicly traded companies (“equity”) is likely to have the highest potential for appreciation. So as a long-term investor, WRS allocates the majority of its portfolio to this asset class. Because of the portfolio’s tilt towards global equities, WRS is largely dependent on the returns those markets offer, and WRS’ returns will demonstrate similar volatility. One broad measure of equity markets is the S&P 500, an index comprised of 500 industry leading U.S. stocks. Over any 20 year rolling period from 1950 through 2014 the lowest annual return produced by the S&P 500 would have been 6% and the highest annual rate of return would have been 20%<sup>1</sup>. Thus, if an investor had picked the worst time in the last 65 years to invest for a 20 year period without making adjustments in the interim, the investor still would have made a 6% annual return. This is what we think of when we refer to being “long-term investors.”

So far in 2015, we have experienced three distinct equity market environments. To begin the year, posi-

tive market momentum, driven by continued accommodative Federal Reserve policy, saw global equity markets slowly and steadily rise as economic activity picked up and there were no external shocks to spook the market. About midway through the year, concerns about Greece, China, and the pace of recovery in the U.S. quickly overshadowed the positive momentum from early in the year. By the end of September, nearly all diversified stock markets had moved into negative territory as economic indicators around the globe, and specifically in emerging markets, were disappointing. Since then, the market has rallied and the U.S. equity market is currently up more than 2% after being down as much as 8%.

## Insights into WRS Behavior as Markets Turn Negative

When there is a significant market decline like the one experienced over the past quarter, it is important to understand what happened, why it happened and if portfolio exposures should be adjusted to address any changes in outlook that are not already reflected in current market prices. After experiencing a market decline, the instinctive reaction is to sell whatever has dropped in value and move to cash; however, this typically leads to poor outcomes because it locks in losses and reduces the ability to participate in future rallies. This tendency is typical of individual investors. The average individual investor has achieved a 2.5% annual rate of return over the last 20 years compared to a buy and hold stock portfolio of 9.9% and a bond portfolio of 6.2% (see chart). One of the primary reasons for this

divergence in performance is the behavioral inclination to sell at market bottoms and buy at market tops.

Because WRS is a long term investor, it is more likely to purchase riskier types of assets (e.g. equities) when prices have declined in order to take advantage of cheaper prices. While this can have the effect of amplifying losses if prices decline further, this approach is typically rewarded with higher long-term returns. This course of action is often easier said than done however, as fear and uncertainty dominate the narrative at market bottoms.

As fiduciaries, one of our jobs is to avoid the common behavioral pitfall of selling at market bottoms and instead accept the short term discomfort in order to ensure that we are achieving the best long-term returns for WRS members. After the recent correction, our reaction was to maintain our equity exposure; and we have been rewarded thus far in October by participating fully in the rebound. 🦋

<sup>1</sup> JP Morgan, \*Past returns are no indication of future results



Source: Dalbar Inc.

Indices: Bonds: Barclays U.S. Aggregate Index; Homes: median sale price of existing single-family homes; Average Investor: Dalbar analysis which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior; Inflation: CPI

**Note:** As a large institution with a very long investment horizon (30+ years), WRS has fewer investment constraints and a different investment mandate than most individuals. Any action WRS takes to manage the pension might not be advisable to individuals based on their given circumstances. WRS’ risk tolerance and investment objectives are set by a board of trustees and are designed to achieve adequate earnings to pay benefits into perpetuity.

## Public Comment Period for Volunteer Plan's Administrative Rules

The proposed administrative rules for the newly combined Volunteer Firefighter & EMT Pension Plan have been filed for adoption. The public can comment on the proposed rules through Dec. 4, 2015 by sending remarks to WRS general counsel, Ben Brandes, at [ben.brandes@wyo.gov](mailto:ben.brandes@wyo.gov) or 6101 Yellowstone Road, Suite 500, Cheyenne, WY 82002.



### WRS Staffer Elected to National Leadership Position

Polly Scott was recently elected president of the board of the National Association of Government Defined Contribution Administrators (NAGDCA). Ms. Scott is WRS' communications & 457 plan manager and was first elected to the NAGDCA board in 2012. NAGDCA

is the country's leading organization for defined contribution retirement plan administrators and financial service providers. It represents nearly every state deferred compensation 457 plan, as well as numerous other governmental and public sector defined contribution plans, and over 150 companies in the financial services industry. Its mission is to advance excellence for public sector 457, 403(b), 401(a) and 401(k) retirement plans.

## WRS Going Paperless for 2015 Annual Pension Statements

WRS plans to distribute pension statements to non-retired members electronically by having members log into their online pension accounts. This will be a richer experience for members and be a cost savings. For non-retired members, pension account statements are issued annually in the first quarter of the year. WRS will notify members when statements are available. Printed copies of statements will be sent upon request.

## Upcoming Board Meetings

The WRS Board meets in February, May, August and November with additional meetings as needed. The public is invited to attend. The next scheduled meetings are November 18-19 and February 24-26 both in Cheyenne. Future meetings are planned for May 24-26 in Casper and August 16-18 in Cody. Details on location and agendas are made available at [retirement.wyo.gov](http://retirement.wyo.gov) when the meeting dates draw near.

## Thank You to Outgoing Board Members

Thanks to outgoing Board members, Carl Jensen and Colleen Anderson. Mr. Jensen served for twelve years representing the community at-large. Ms. Anderson represented school district employers and employees and served for two years. Both Mr. Jensen and Ms. Anderson served primarily on the Deferred Compensation Committee and Audit Committee. Replacements have not yet been determined.