

Wyoming Annual Report

Wyoming Retirement System

Agency name: Wyoming Retirement System

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Statutory References:

W.S. 9-3-401 to 9-3-452	(Wyoming Retirement System)
W.S. 9-3-431	(Air Guard Firefighter Pension Plan)
W.S. 9-3-432	(Law Enforcement Pension Plan)
W.S. 9-3-601 to 9-3-620	(State Highway Patrol, Game and Fish Warden and Criminal Investigation Retirement Act)
W.S. 9-3-501 to 9-3-509	(Wyoming Deferred Compensation Plan)
W.S. 9-3-701 to 9-3-713	(Wyoming Judicial Retirement Plan)
W.S. 15-5-201 to 15-5-209	(Paid Firemen's Pension Plan A)
W.S. 15-5-401 to 15-5-422	(Paid Firemen's Pension Plan B)
W.S. 35-9-616 to 35-9-628	(Volunteer Firefighter and EMT Pension Plan)
W.S. 9-3-301 to 9-3-306	(Social Security, Section 218 Administration)

Clients Served: Public employees of the state government, school districts, higher education, cities, towns, counties and special districts, along with volunteer firefighters and emergency medical technicians, employers of these employees & volunteers, retirees from these entities, beneficiaries of retirees and former employees who have left funds on deposit with the system, along with members and employers who participate in the 457 deferred compensation savings program.

As of January 1, 2019:

Active Members	40,640
Pensioners (Retirees & Beneficiaries)	31,341
Vested Deferred Members	7,650
Non Vested Deferred Members	26,798
Total Defined Benefit Plan Members	106,429
Number of Employers / Reporting Agencies	700
Number of 457 Plan Accounts	23,210
Number of 457 Plan Employers Enrolled	287

Budget Information

Administrative Expenses: 1 July 2018 thru 30 June 2019:

Unit: 101 Defined Benefit Administration

Mission: Administer 8 defined benefit pension plans and provide for overall system oversight.

of Employees: 29 FT, 2 direct bill technology personnel, 1 temporary contract employee

Accounting Series	Description	Amount (1 July 2018 thru 30 June 2019)
100	Personnel	\$2,540,314
200	Support Services	\$222,471
300	State Cost Allocation	\$193,561
400	Central Services / Data Services	\$33,892
500	Space Rental	\$133,732
900	Contracted Services	\$895,708
	Unit Total	\$4,019,678

Unit: 103 Investments

Mission: Invest the \$8.0 billion defined benefit portfolio on behalf of the 8 plans.

of Employees: 8 FT, 2 AWEC PT (summer interns)

Accounting Series	Description	Amount (1 July 2018 thru 30 June 2019)
100	Personnel	\$1,157,581
200	Support Services	\$198,418
900	Contracted Services	\$233,703
	Unit Total	\$1,589,702

Unit: 6501 Deferred Compensation (457 plan)

Mission: Administer the 457 Deferred Compensation savings program.

of Employees: 5 FT, 1 embedded record keeper contractor, 1 temporary contract employee

Accounting Series	Description	Amount (1 July 2018 thru 30 June 2019)
100	Personnel	\$426,112
200	Support Services	\$50,469
300	State Cost Allocation	\$0
400	Central Services / Data Services	\$0
500	Space Rental	\$0
900	Contracted Services	\$41,536
	Unit Total	\$518,117

Strategic Plan:

The Wyoming Retirement System (WRS) is overseen by an 11 person board which includes the elected State Treasurer and 10 members appointed by the Governor. The Board has adopted a strategic plan with the following mission, vision, values and goals:

Mission: Providing expert administration and responsible investment of Wyoming's public retirement and supplemental savings programs.

Vision: Partnering to build financial security for members and their families

Values: Integrity, Accountability, Commitment, Excellence

Overall Goals:

- Retain quality staff, board, and leadership
- Develop best in class institutional investment program
- Enhance further credibility and influence with the executive branch, legislature, and Wyoming constituents
- Ensure consistent and accurate benefits administration and recordkeeping
- Manage WRS operations and outreach with a customer-centric focus and culture
- Periodically evaluate comprehensive plan design to ensure long-term actuarial soundness

Service Efforts and Accomplishments:

Selected service efforts and accomplishments for WRS for the period 1 July 2018 thru 30 June 2019 are noted below, organized by goals of the strategic plan.

Retain Quality Staff, Board, and Leadership

Former Treasurer Mark Gordon was elected as Wyoming's 33rd Governor. He was succeeded by newly elected State Treasurer Curtis Meier. No other board members turned over during the past year. In late February, Executive Director Ruth Ryerson announced her retirement and the board embarked on an executive search for a successor. In June, the Board announced that Deputy Director David Swindell would be WRS's tenth executive director effective August 1, 2019. In addition to the new Deputy vacancy, several board and staff positions are nearing transition and succession planning is a high priority for the Board.

House Bill 0222 passed during the 2019 session. The bill introduces performance-related compensation for the investment professionals of both the Wyoming Retirement System and the state's team if the team can produce exceptional investment results above their benchmark. The bill provides for the possibility of paying additional compensation to the WRS investment limited to no more than 2% of the excess returns and no more than a percentage of base pay. Payouts are vested over three years to promote longevity and discourage excessive short-term risk-taking. This structure is becoming more common in the industry and will allow WRS to attract and retain quality investment professionals and provide alignment of interests. 2019 also session converted 3 AWEC analysts to full-time regular state employees, which improves their benefits and should enhance retention.

Develop Best in Class Institutional Investment Program

As of December 31, 2018 (end of WRS's fiscal year), WRS held \$7,914,035,291 in trust for pension benefits, a decrease of \$597,698,425 compared to the prior year. Investment activity produced a net loss of \$292,501,894. The one year rate of return (net of fees) was -3.5% compared to an industry benchmark of -4.1%.

The asset allocation was:

Actual Asset Class Exposure	As of 31 December 2018
Tactical Cash	1.25%
Fixed Income	18.6%
Equity	45.4%
Marketable Alternatives	30.3%
Real Estate	4.5%

Alternative allocation of 30.3% includes an allocation of 18.5% to marketable alternatives, which consists primarily of hedge-fund-like accounts. Of the remaining 11.8%, 5.2% is in real assets (including infrastructure and natural resources), 2.7% is in private debt and 3.9% is in private equity.

100% of assets are managed externally, with managers selected by the WRS investment team. The investment team may engage in short term tactical trades that are managed internally.

73.6% of assets are managed actively and 26.4% are managed passively. Passive assets included 50.3% of marketable equities and 18.0% of marketable fixed income.

WRS portfolio performance has been in line with its strategic benchmark over long-term periods, per table below:

Portfolio Returns as of 12/31/2018 (Net of Fees)	1-Year	3-Year	5-Year
WRS	-3.5%	5.8%	4.3%
Strategic Benchmark	-4.1%	5.7%	4.4%
+ Or -	+0.6%	+0.1%	-0.1%

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Actuarial Rate Assumption (%)	8.00	8.00	8.00	8.00	7.75	7.75	7.75	7.75	7.00	7.00
1 Year Return (%)	23.10	13.43	-1.17	13.73	13.30	4.74	-0.44	7.53	14.20	-3.52
3 Year Return (%)	-2.83	-0.90	11.33	8.43	8.39	10.51	5.72	3.89	6.93	5.81
5 Year Return (%)	2.07	3.13	.057	1.81	12.20	8.63	5.84	7.64	7.73	4.32

Year to year investment results have been highly variable over the past 10 years, as illustrated by the chart above. While market returns vary, the Board has a 30-year time horizon and employs actuarial smoothing to mitigate market volatility in the actuarial results. The Board has reduced the actuarial assumed rate of return twice in the past 10 years, reflecting the board's view that future returns are likely to be more modest than in the past. Markets in 2018 were particularly volatile. After 3 quarters of strength, the 4th quarter had a large sell-off, resulting in a loss of -3.52% as of WRS' measurement date of December 31, 2018. Since then, markets have recovered, demonstrating that any return period is just a snapshot in time. Preliminary unaudited results as of June 30, 2019 show a year to date return of +10.99%.

WRS has largely completed a 5 year plan to strengthen the investment team. Target staffing levels of eight investment and accounting professionals was achieved on July 1, 2017, although there has been turnover since then. The Board will continue to review the performance compensation plan discussed previously and explore other ways to attract and maintain investment talent. The investment operation was strengthened by the recruitment of accounting expertise for the investment office position when that position became vacant. The resulting skill set on the team has more accounting and back office capability.

Enhance Further Credibility and Influence with the Executive Branch, Legislature and Wyoming Constituents

During the past year, WRS staff conducted town hall meetings in Sheridan, Laramie and Cheyenne, inviting members and the public to learn about WRS and meet with senior staff. Legislative luncheons were also held in Sheridan and Cheyenne, inviting legislators from the area to learn more about the System. Senior staff also met with retirees from the Game & Fish Department and presented information to the Wyoming Association of Municipalities at their annual meetings. WRS hosted a legislative breakfast during the 2019 legislative session including legislators, board members and senior staff.

WRS made presentations to various stakeholder groups, including the Association of Wyoming County Commissioners, Wyoming Retired Education Personnel and Wyoming Association of School Business Officials. Staff met with members of the Wyoming Coalition for a Healthy Retirement six times during the past year.

WRS produced a Spring and Fall newsletter, emailed or mailed to retired and active members and continued to promote visits to the our website. WRS educators traveled the state, conducting 699 employee meetings, with recorded attendance of 10,117 members. Educators divided the state into 10 regions, visiting 6 regions 4 times during the year and visiting the other 4 regions 5 times during the year.

WRS staff met with the Joint Appropriations Committee (JAC) of the legislature twice outside of the legislative session to discuss system status and potential legislation. During the session, board members and staff testified on nine separate bills to the JAC and other committees. The session resulted in several bills being adopted:

Senate File 0088 increased employee contributions in the Paid Fire B Plan by 2.00% over the next 4 years in ½% per year increments. The Retirement Board had previously adopted increases in the employer contribution (4.00% over 4 years in 1% per year increments). Increases in the employee contribution required legislation. The present total contribution of 21.245% will rise to 27.245% by 2022, subject to actuarial recommendations and Board modification on the employer side. Fire B members are not generally participants in the Social Security System; the Fire B plan is their sole retirement plan.

Senate File 0089 reduced death benefits for members who were both inactive and not vested, impacting those newly hired after July 1, 2019. The normal death benefit is twice the account balance. For those affected by the legislation, their death benefit is simply the account balance (not double that amount).

Senate Fire 0090 eliminated interest accrual on the member account balance for members who were both inactive and not vested.

The intent on both SF0089 and SF0090 was to enact modest benefit reductions while preserving the core retirement benefit. The Legislature had challenged the Retirement Board to examine benefits as well as contribution rates as the Board works to keep the plans on the sound actuarial footing. Both acts produce modest improvements in the 30-year projected funding ratios while emphasizing the advantages of working long enough to become vested (48 months in our Public Employee plan).

House Bill 0246 allows members of county search and rescue organizations to join the Volunteer Firefighter and EMT plan. Search and rescue organizations perform essential public safety missions, finding and extracting people that have become injured or stranded in Wyoming's vast spaces. Like volunteer firefighters and emergency medical technicians, keeping trained volunteers on staff is an increasing problem. The provision of a modest retirement benefit has helped for firefighters and EMTs; now search & rescue volunteers can be included. We expect about 300 new members to join the plan over the coming year.

House Bill 0222 introduced performance-related compensation for WRS investment professionals as discussed in more detail above under the Retaining Quality Staff topic. This was a significant effort that reflected careful thought on the part of the Board, staff and the Legislature.

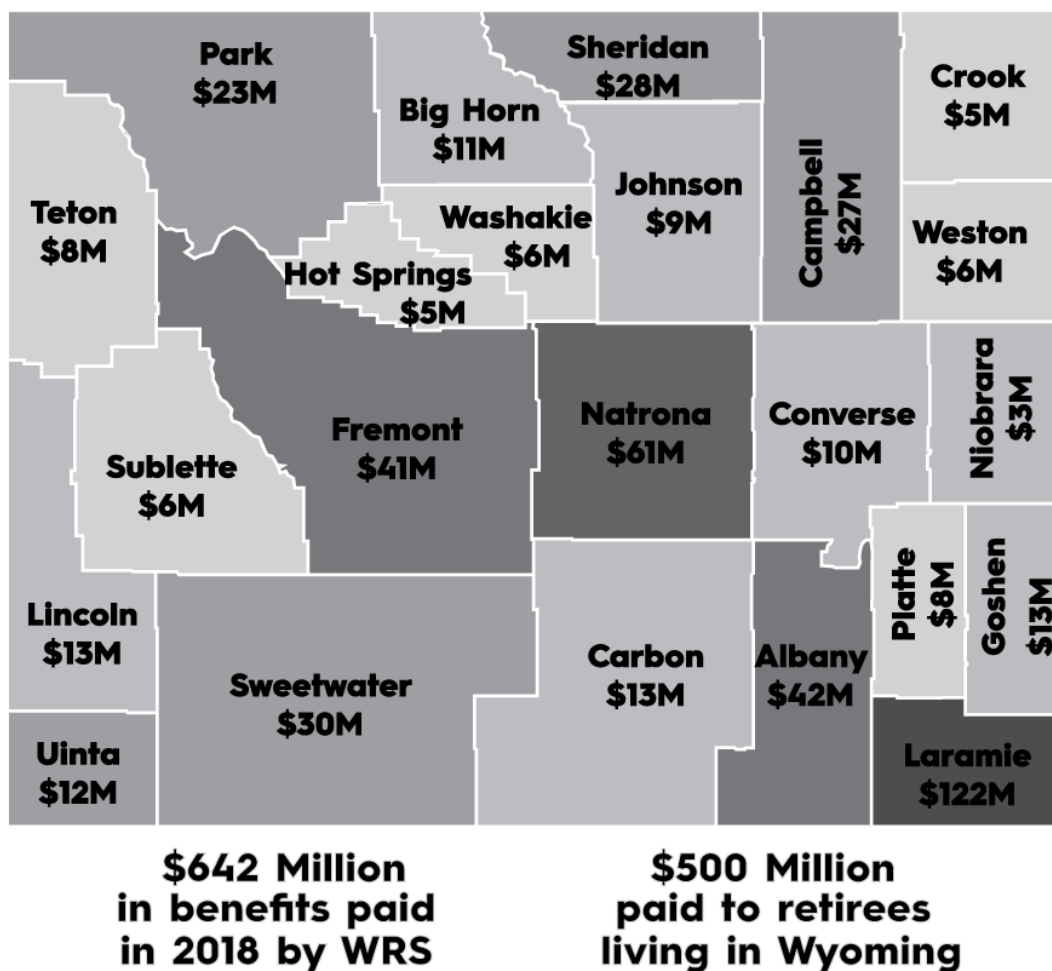
During the past year, the Board engaged the services of an outside consulting firm to conduct overall governance and operational review of the system. Funston Advisory Services delivered their final report to the Board in May 2019. The report contains numerous recommendations for the Board to consider in the coming years. While WRS is considered to be well-managed, the Board believed that such an introspective review would be helpful for continued success and would add credibility to initiatives that were contained in the study.

WRS received several national recognition awards over the past year including the Leadership Recognition Award from the National Association of Government Defined Contribution Administrators (NAGDCA) for our 457 deferred compensation program, the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting for our 2017 Comprehensive Annual Financial Report (CAFR) and the Public Pension Coordination Council Standards Award for Funding and Administration.

Ensure Consistent and Accurate Benefit Administration and Recordkeeping

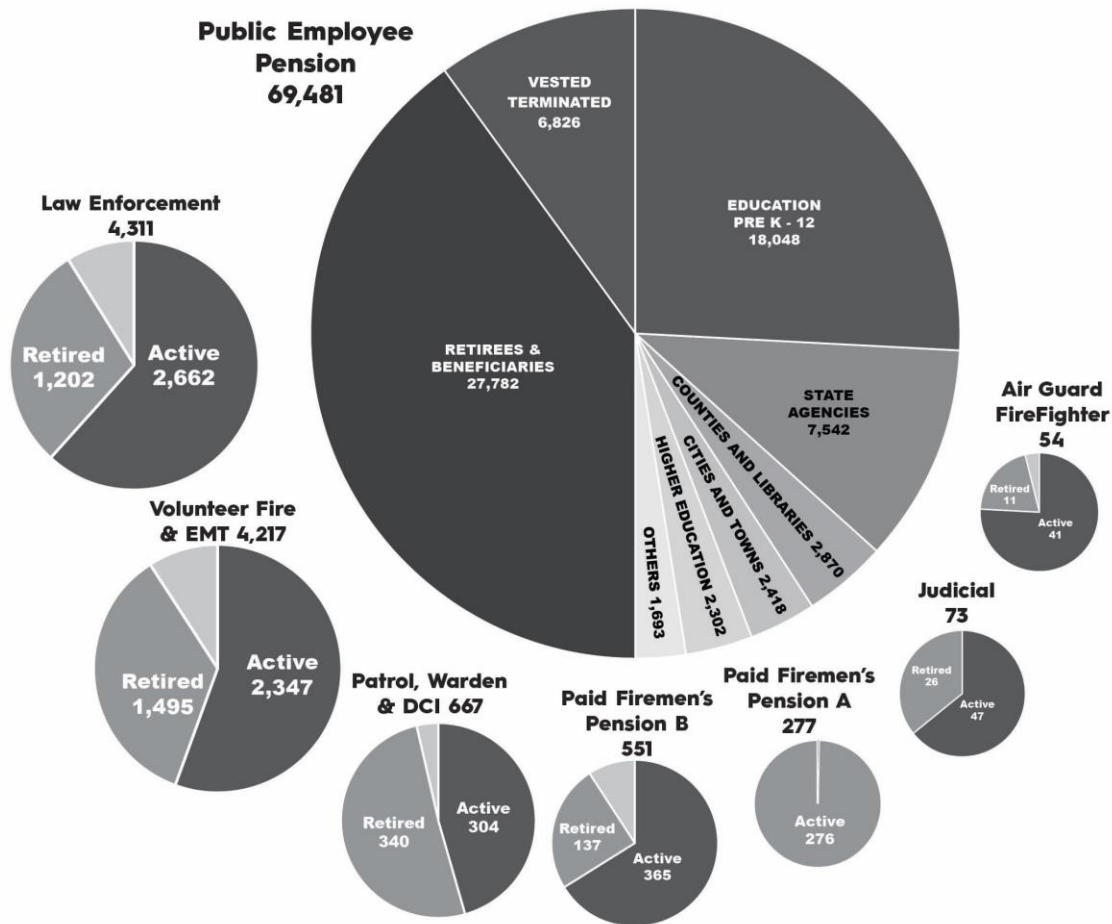
WRS continues to refine and enhance the pension administration system that went live in May 2014. Known as the Retirement Administration and Investment Network (RAIN), the system provides electronic document and workflow management, automated calculations, reporting features and secure on-line portals for both members and employers. The RAIN system was enhanced with a significant “Request Tracker” package in 2018. The changes enable better workflow, improved reporting and better management of certain member “requests” that go through an approval process (refunds, retirements, estimates, beneficiary changes that require spousal approval, etc.).

WRS paid \$642,150,005 in pension benefits and refunds during the calendar year 2018. 78% of that remained in Wyoming, representing approximately 1.5% of total state personal income. The distribution of benefits by county is illustrated in the following display:



Manage WRS Operations and Outreach with a Customer-Centric Focus and Culture

WRS operations extend to a wide variety of members and employers as illustrated below:



Selected WRS service information compiled from Board reports for the 4 quarters ending 30 April 2019:

Retirements Processed:	1,785
Refunds issued:	1,917
Estimates provided:	2,464
Retiree account changes:	3,928
Deceased pensioner situations:	785
Contributions received & posted:	\$345,465,313
New employers added:	2
457 new enrollments:	2,337
457 contribution changes processed:	1,448
Phone calls and walk-ins:	41,703
Educational meetings held:	699
Educational meeting attendance:	10,117

WRS conducts an annual customer service survey with various questions regarding member views of the system. Some of the results and comparisons to past years are summarized below:

Amongst Active Employees:

Customer Service – The customer service rating has improved over the years surveyed. The lower ratings coincided with the development and launch of RAIN.

	2018	2017	2016	2015	2014
Excellent/Good	69%	71%	68%	59%	54%
Neutral/No Response	25%	25%	28%	38%	41%
Fair/Poor	6%	4%	4%	3%	5%

Amongst Retirees:

Customer Service - The response regarding customer service is positive.

	2018	2017	2016	2015	2014
Excellent/Good	90%	88%	86%	81%	82%
Neutral/No Response	9%	10%	11%	17%	16%
Fair/Poor	1%	2%	3%	2%	2%

Periodically evaluate Comprehensive Plan Design to Ensure Long-term Actuarial Soundness

The Board updated the assumptions used to quantify the liabilities of each pension plan after an experience study in 2017. The changes took effect on January 1, 2018, and there have been no changes since.

The following table is a summary of the information in the annual valuation reports on the funded status of each pension plan, along with 30-year projections, from its actuary each year.

Summary Table: Funding status and 30 Year Projections as of 1 Jan 2019

	Funding Ratio (%)			30 Year Funding Projection (%)		
Plan Name	2019	2018	Change	2019	2018	Change
Public Employee Plan	74.15	76.28	-2.13	71.50	106.10	-34.60
Warden, Patrol, & DCI	76.52	77.91	-1.39	78.10	102.80	-24.70
Law Enforcement	85.57	88.24	-2.67	75.30	100.20	-24.90
Judicial	97.66	99.52	-1.86	99.90	118.00	-18.10
Guard Fire	85.50	85.00	.57	162.10	177.30	-15.20
Paid Fire A	46.09	51.03	-4.94	N/A	N/A	N/A
Paid Fire B	92.94	95.92	-2.98	92.30	79.96	12.34
Volunteer Firefighter & EMT	72.85	74.40	-1.55	127.50	138.40	-10.90

Long-term projections of the funding ratio for each plan were impacted by calendar year 2018 investment return being below the assumed 7.00 percent. Specifically the return was -3.52%. Markets turned sharply in the last quarter

of 2018 with nowhere to hide – all asset classes but cash were negative. In general, current funding status declines modestly, but most plans don't achieve 100% funding within 30 years. This is in contrast to last year's projections that indicated all open plans would achieve funding of above 100% over a 30 year period.

30 year projections move substantially with just one year of off-target results. A one year loss produces compound effects. Not only is the fund balance smaller this year, but now it is projected to be smaller next year as well, since the principal amount invested is smaller — even if one subsequently achieves perfect 7.00% returns for the next 29 years. Although the actuaries have to model consistent returns and it is useful to see what that looks like, the real world is different. At some point, lesser returns are apt to be balanced by outsized gains. Already, halfway into our new fiscal year, WRS is up 11%. If that were to hold, the next 30 year projection will suddenly look much better.

Timing is important in projections which have a cutoff measurement date. Our measurement date is 31 December. But if our fiscal year ended earlier on 30 September (as some plans do), then we would have looked much better. Similarly, a later measurement of just one month more as of 31 January would have shown positive returns, because markets recovered quite quickly right after our 31 December measurement. There will be years when 31 December is a favorable year-end; such things tend to balance out over time.

It will take time to determine the impact of the changes already made to contribution rates and benefit provisions. WRS believes a monitoring period is best suited for the present circumstances, and will be evaluating the need for additional changes.

In 2019, the Board and the Legislature adopted rate increases in Fire B to sustain the funding status of this plan. While the funding ratio in 2018 was a strong 95.52%, the long term projections in the plan showed a slow decline. To prevent this, the contribution rate for this plan will increase by a total of 6.00% between 1 July 2019 and 1 July 2022.

Fire A continues to be a source of concern. The assets for this closed plan are projected to be depleted within 7 years unless a source of funding is found. Closed to new members in 1981, the plan has 1 active member, 211 retirees, and 65 beneficiaries.

Several small benefit adjustments were made in 2019 as described under legislation to modestly reduce certain ancillary benefits so as to better preserve the core pension benefit. These included reducing death benefits and interest accrual for non-vested, inactive members.

Organization Chart

