

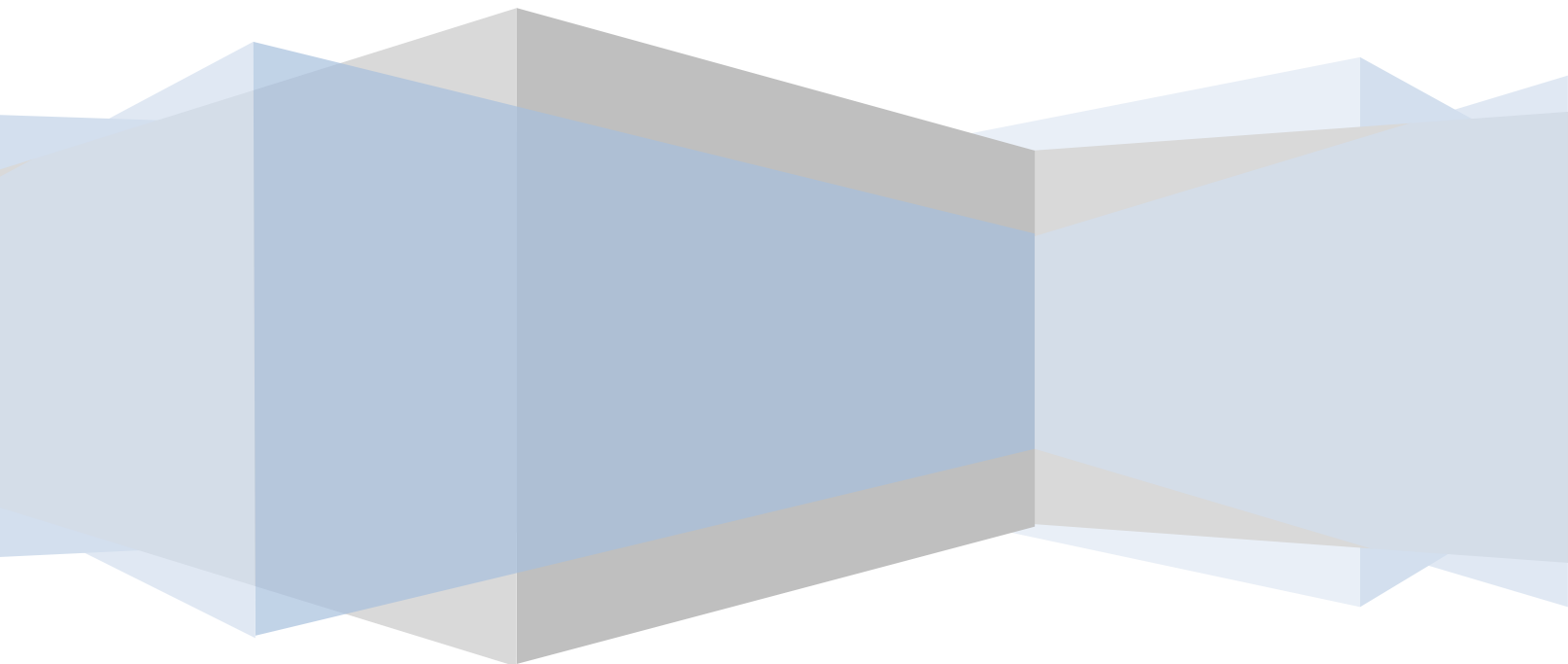
State of Wyoming



Report to the JAC

Wyoming Retirement System

December 18, 2013





Wyoming Retirement System

Partnering to Build Financial Security for Members and their Families

MATT MEAD
Governor

RUTH RYERSON
Executive Director

HARRY L. WALES
Deputy Director

December 16, 2013

Senator Eli Bebout, Co-Chairman JAC

Representative Steve Harshman, Co-Chairman JAC

VIA EMAIL

c/o Legislative Service Office

213 Capitol Building

Cheyenne, WY 82002

Dear Senator Bebout and Representative Harshman:

I am pleased to present the following report in advance of WRS' budget hearing. The first part of the report provides data and background in support of our budget requests for the 2015-2016 biennium.

Additionally, in response to questions asked about the Paid Firefighter A Plan at the November 19th JAC meeting, WRS has prepared the available information, and obtained a fee quote from our actuaries should the Committee require additional analysis.

I will be present at both the budget and bill hearings on Wednesday, December 18th, along with the WRS Board Chair, Laura Ladd, and WRS Board Vice Chair, Steve Sommers. We will be happy to review this information with you and answer any questions you may have.

Sincerely,

A handwritten signature in blue ink that reads 'Ruth Ryerson'.

Ruth Ryerson
Executive Director

Cc: Joint Appropriations Committee Members and Staff

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Appendix A: Detail of 900 Series Expenditures

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Purpose of Report

This report is intended to provide background and justification for WRS' budgetary needs and follow-up with the Joint Appropriations Committee (JAC) members regarding questions about the Paid Fire A Plan raised at the November 19th, 2013 meeting.

History of WRS Administrative Expenditures: WRS is self-funded through administrative fees deducted from retirement trust assets. It has been well established by several independent sources that WRS has a history of being under-resourced. WRS is mindful of the need to control administrative expenses and only makes prudent investments to strengthen the organization. The resources being requested for the next biennium reflect this goal.

The history of administrative expenditures for the defined benefit plans is detailed in the following table, as well as depicted in pie charts.

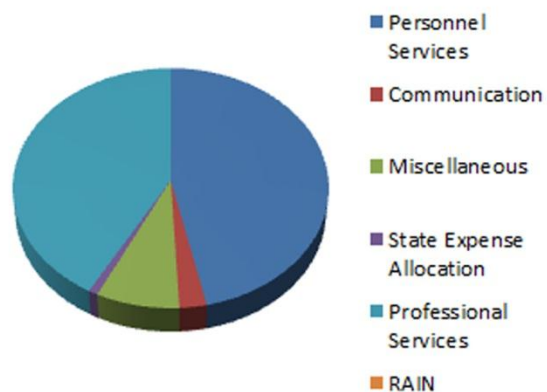
Administrative Expenditures for Defined Benefit Plans (all plans combined)

Calendar Year Ending 12/31	2008	2009	2010	2011	2012	2013 (est)
Personnel Services	\$1,484,610	\$1,881,637	\$2,351,591	\$2,608,236	\$2,788,728	\$2,896,260
Communication	\$83,776	\$433,632	\$455,967	\$489,007	\$302,137	\$339,398
Miscellaneous	\$256,370	\$311,872	\$271,033	\$411,345	\$408,677	\$476,473
State Expense Allocation	\$28,919	\$62,067	\$360,007	\$540,422	\$775,832	\$1,131,106
Professional Services	\$1,334,995	\$829,373	\$663,191	\$975,925	\$1,476,657	\$1,254,764
RAIN	\$0	\$0	\$0	\$1,286,331	\$1,641,622	\$1,437,569
Total Administrative Expenses	\$3,188,670	\$3,518,581	\$4,101,789	\$6,311,266	\$7,393,653	\$7,535,570
Fees as % of Assets						
Administrative	0.0568%	0.0683%	0.0685%	0.0810%	0.0892%	0.0863%
RAIN				0.0208%	0.0255%	0.0204%
WRS Total				0.102%	0.115%	0.107%
NASRA Comparison All Plans	n/a	0.098%	0.089%	0.084%	0.090%	n/a
NASRA Comparison Plans Our Size	n/a	0.121%	0.109%	0.087%	0.108%	n/a

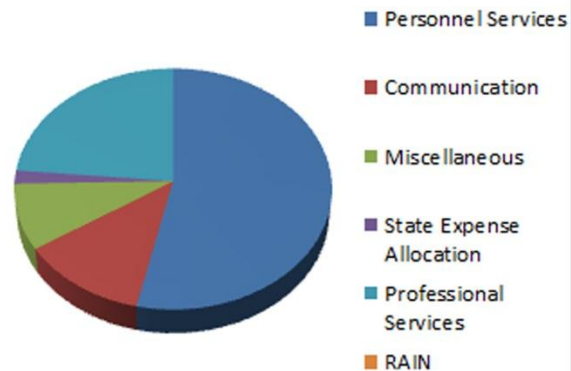
Source: WRS Annual Reports (2008-2012) and WRS accounting records (2013). Comparison information is from the National Association of State Retirement Administrators.

Note: Fees as a percent of assets were calculated using the average market value of assets for the calendar year.

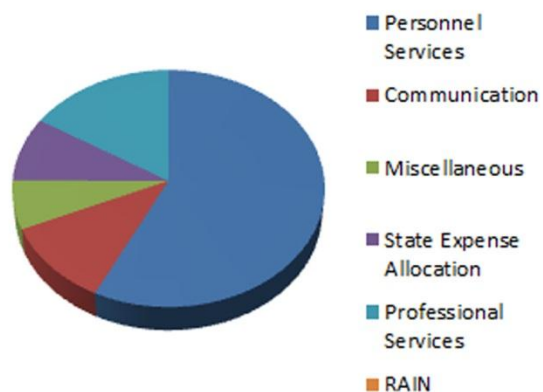
2008



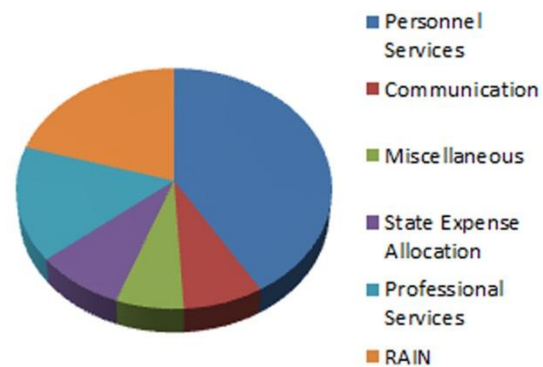
2009



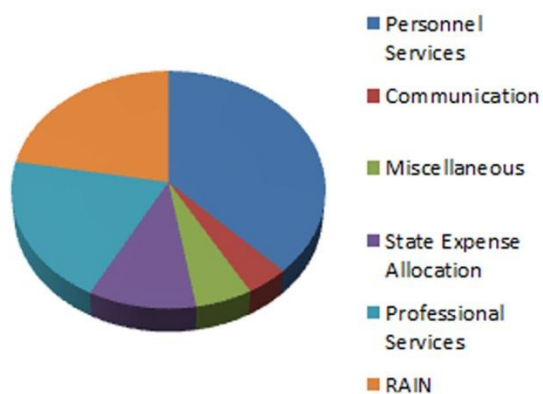
2010



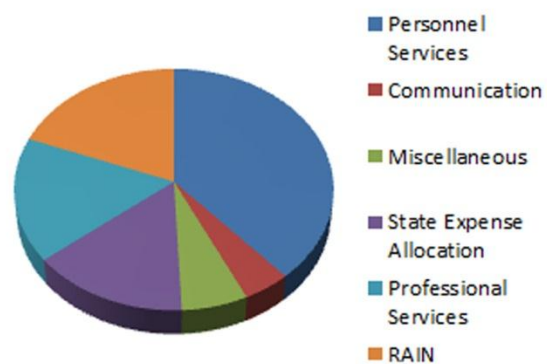
2011



2012



2013 (est)



Detail of 900 Series Expenditures: As requested, the detail of WRS' expenditures in these areas is provided in Appendix A. Please note, WRS has no expenditures in the 600 series.

Justification for Professional Staff for WRS Investment Department: The success of the investment program is of paramount importance to the Board and the members of the retirement system, since investment earnings are as critical as employer and employee contributions in maintaining an actuarially sound fund.

In 2012 WRS contracted with an independent consulting firm, Hewitt EnnisKnupp (HEK), to perform a review of the structure in place to manage the assets in the investment portfolio, and to make recommendations for improvement. The consultant compared WRS to 11 other public pension funds of similar size, and four additional funds in neighboring states. The information obtained included the number of investment professionals on staff and the amount of time the Executive Director spent on investments. The results of this study were presented to the JAC in January of 2012. With the help of the Governor and Legislature, WRS has created an investment organization of the recommended size. Our focus in the coming years is on competitive compensation so we can retain our team, and if turnover does occur replace them quickly with equally qualified individuals.

One of the observations made by HEK was that WRS investment staff was smaller than any of its similarly-sized peers. They recommended that the investment staff needed, at a minimum, to include a CIO, two senior-level investment officers, and an experienced investment analyst/researcher. They also noted that "competitive compensation should enable WRS to attract the type of individuals it needs as 'prudent experts' to meet the high fiduciary standards under the law. It would also lead to lower turnover and less disruptions and delays in implementing the new asset allocation which is intended to produce higher returns."

As of the most recent quarter (9/30/13), the WRS investment portfolio has been able to beat both its strategic asset allocation benchmark and its long-term actuarial target. The current Investment Committee structure has been in place for five years. During that time period professional investment staff has also been hired, although we experienced significant turnover due to salary issues and staff being recruited away by private firms. The Board recently hired its third CIO, and with the current investment team of four highly qualified individuals in place, the Board feels that keeping their salaries competitive is one of the keys to keeping them together and making the Fund's investment strategy work over the long term.

Despite the turnover, with the guidance provided by a very capable executive director, the investment staff has been able to add significant value over the strategic benchmark developed by the Board. Excess annualized returns have produced additional income that far exceeds the costs of keeping a professional staff. For the most recent trailing one year period ended 9/30/13, excess returns of 2.1% over the benchmark have added \$145.7 million in extra value to the retirement fund assets, with an average \$44.5 million added over each of the past five years.

WRS Investment Returns 9/30/2013 (all years are 9/30)

	YTD (9 mo)	1 Year	3 Years *	5 Years *
Total Fund Net Returns	9.1%	11.9%	9.3%	7.4%
Strategic Benchmark	8.0%	9.8%	7.9%	6.7%
Excess Performance	1.1%	2.1%	1.4%	0.7%
Average Fund Assets (mil)	\$7,233.0	\$6,938.5	\$6,560.5	\$6,360.0
Avg. Excess Performance (mil)	\$79.6	\$145.7	\$91.8	\$44.5

Source: NEPC

*Numbers greater than 1 year are annualized

Comparison with Other State Investments: The investment objectives of the Wyoming Retirement System and the investment pools managed by the Treasurer's Office are completely different. WRS is total-

return focused, and can therefore invest in more long-term, illiquid assets. The Treasurer's office can only spend realized gains and income, so is more focused on protecting principal and remaining liquid. The strategic benchmarks set by the governing boards of the two entities are substantially different, with WRS setting a higher target in order to fund long-term actuarial liabilities. Any comparisons (staffing, performance or fees) between the two systems must take the differing objectives and subsequent asset allocations into account. WRS is also in a negative cash flow position, and must cover benefit payments in excess of contributions before adding to the corpus of the fund. The Treasurer's Office enjoys a large positive cash inflow every year which consistently adds to the funds under management, despite all of the current income being distributed.

The returns shown below for the Treasurer's Office are combined for all funds under management (as summarized on the Treasurer's website) – titled "Wyoming State Total Fund."

Comparison of Investment Returns Wyoming State Treasurer's Office & Wyoming Retirement System

	Qtr Ending	Calendar	1 Year	3 Year
	6/30/2013	2013 YTD	Return	Return
Wyoming State Total Fund (1)	-1.6%	N/A	5.1%	6.8%
<i>Wy State Allocation Index</i>	<i>-1.1%</i>	N/A	<i>4.7%</i>	<i>6.2%</i>
Wyoming Retirement System (2)	-1.1%	3.5%	11.6%	10.8%
<i>WRS Strategic Benchmark*</i>	<i>-0.9%</i>	<i>2.1%</i>	<i>9.1%</i>	<i>9.0%</i>

*Based on Board's approved asset allocation targets; excludes investment team performance contribution

	Year Ending	Year Ending	Year Ending	Year Ending
	6/30/2013	6/30/2012	6/30/2011	6/30/2010
Wyoming State Total Fund (1)	8.2%	2.0%	16.5%	11.3%
Wyoming Retirement System (2)	11.6%	-0.4%	22.2%	13.2%

Source: Treasurer's website and WRS Quarterly Investment Performance Reports

(1) WY State Total Fund returns are gross of fees with the exception of convertible bonds and absolute return, which are net.

(2) WRS returns are all shown net of fees

McLagan Salary Survey Data: WRS is requesting additional funding for the executive director and investment team salaries to ensure the Board has the ability to keep this salary competitive to its peers. In the last biennial budget, the WRS Board was given the discretion to award compensation up to the averages in a national survey, specifically, the McLagan Survey. The Board has increased these salaries, but has not awarded the full amounts available. WRS' budget request is to maintain the funding to keep pace with these national averages to ensure WRS can attract and retain qualified professionals in these positions. The cost for recruiting for our two most senior positions has been more than \$157,000 just in the current calendar year. The McLagan Survey data for 2012 is in Appendix B.

Response to JAC Questions on Paid Firefighter A

1. Projections for 2.1% simple COLA: The JAC requested an additional study providing the estimated contributions required to fund the Paid Fire A Plan with a 2.1% simple COLA. A one-page study by GRS is provided. In comparison to the 2.1% compound COLA scenario already provided (study 2, which was provided in the November 19th materials to the JAC) the unfunded actuarial accrued liability is reduced to \$43.7 million with a 2.1% simple COLA versus \$49.1 million.

Wyoming Paid Firemen's Retirement Fund Plan A ("Fire A")

Projection Results Based on January 1, 2013 Actuarial Valuation with Assumptions Adopted February 2013
Retirees COLA reduces from compound 3.0% to simple 2.1%; State and employers split the total remaining cost

Study 7

2.1% simple COLA funded 1/2 by the original Fire A employers and 1/2 by the State; 50/50 split for remaining "No-COLA Base" UAL

Valuation as of January 1,	Market Return for FY Beginning on Valuation Date	Contribution Amount (in Thousands) for Fiscal Year Following Valuation Date							Actuarial Accrued Liability (AAL, in Thousands)		Actuarial Value of Assets (AVA, in Thousands)	Unfunded Actuarial Accrued Liability (UAAL, in Thousands)	Funded Ratio
		Employee	Employer		State		Total		No COLA Base	2.1% Simple COLA			
			COLA	Base	COLA	Base	COLA	Base					
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
2013	7.75%	\$ -	\$ 2,072	\$ 1,135	\$ 2,072	\$ 1,135	\$ 4,144	\$ 2,270	\$ 153,501	\$ 29,349	\$ 139,181	\$ 43,669	76.1%
2014	7.75%	-	2,037	802	2,037	802	4,074	1,604	151,241	30,963	146,031	36,173	80.1%
2015	7.75%	-	1,999	802	1,999	802	3,998	1,604	148,722	32,404	148,131	32,995	81.8%
2016	7.75%	-	1,958	927	1,958	927	3,916	1,854	146,004	33,663	148,670	30,996	82.7%
2017	7.75%	-	1,909	794	1,909	794	3,818	1,588	143,103	34,732	151,949	25,886	85.4%
2018	7.75%	-	1,855	834	1,855	834	3,710	1,668	140,024	35,606	153,232	22,397	87.2%
2019	7.75%	-	1,855	833	1,855	833	3,710	1,666	136,330	36,761	154,532	18,560	89.3%
2020	7.75%	-	1,856	828	1,856	828	3,712	1,656	132,530	37,747	155,853	14,424	91.5%
2021	7.75%	-	1,856	828	1,856	828	3,712	1,656	128,636	38,563	157,229	9,970	94.0%
2022	7.75%	-	1,856	828	1,856	828	3,712	1,656	124,669	39,208	158,706	5,171	96.8%
2023	7.75%	-	-	-	-	-	-	-	120,639	39,683	160,322	(0)	100.0%
Total			\$ 19,253	\$ 8,611	\$ 19,253	\$ 8,611	\$ 38,506	\$ 17,222					

Column 8 - 10-year closed amortization payment amount for the 2.1% COLA UAL (column 11).

Column 9 - 10-year closed amortization payment amount for the Base UAL (column 13 minus column 11).

The employee share of the cost of the 3.0% COLA is covered in the change from 3.0% to 2.1% COLA, which decreased costs \$34.7 million, from \$73.2 million to \$38.5 million.

The employer and state totals are each equal to \$19.3 million for their share of the COLA cost.

If the state were to pay off the amounts listed in (6) and (7) above in one lump sum on July 1, 2014, the estimated lump sum would be \$23.0 million.

If the state were to pay off the amounts listed in (6) and (7) above in two equal payments on July 1, 2014 and July 1, 2015, the estimated payments would need to be \$11.9 million apiece.

These payment amounts assume no contributions made to the plan before July 1, 2014.

Original Fire A Employer Allocation

Employer	Annual Benefit Payments in 2012	Estimated Annual Allocation of 2013 (in Thousands)"
City of Casper	\$ 4,371,925	\$ 967
City of Cheyenne	4,444,350	983
Campbell County	100,861	22
City of Laramie	2,590,766	573
Natrona Co. Fire Protection District	340,361	75
City of Rawlins	183,964	41
City of Rock Springs	1,257,916	278
City of Sheridan	1,180,261	261
Natrona Co. Airport	33,497	7
Total	\$ 14,503,901	\$ 3,207

2. What would employer and employee contributions into the Paid Fire A Plan have been from April 1997 through present if they had not been stopped? Based on estimates developed by WRS, the grand total of contributions (from all sources) that would have been paid into the Plan totaled \$35.1 million. This is assuming contributions had not been stopped from April 1997 through the present and they remained at the same rates. To arrive at this, WRS used the active employee payroll from past actuarial reports reflecting 1997 through 2013. The amount of the fire insurance premium tax is the actual amount that was paid into the Volunteer Firefighter Plan during this timeframe, with 2013 being an estimate.

Hypothetical Contributions to Paid Firefighter A Plan 1997-2013

Employee Contribution: 8.00% of salary up to the First Class Salary	\$2,172,948
Employer Contribution: 21.00% of First Class Salary	\$5,703,987
State Contribution: 22.50% of First Class Salary	\$6,111,415
SUBTOTAL	\$13,988,350
Fire Insurance Premium Taxes: 50% of the taxes	\$21,116,162
GRAND TOTAL	\$35,104,512

Source: WRS Internal Audit Department

Year	Fire Insurance Premium Tax Paid to Volunteer Fire Plan
1997	\$819,155
1998	\$663,280
1999	\$943,275
2000	\$959,729
2001	\$955,498
2002	\$1,136,722
2003	\$1,279,882
2004	\$1,433,546
2005	\$1,474,793
2006	\$1,426,211
2007	\$1,660,450
2008	\$1,523,133
2009	\$1,393,235
2010	\$1,541,329
2011	\$1,513,929
2012	\$1,195,998
2013	\$1,195,998
Total	\$21,116,162

Source: Valuation Reports for Volunteer Firefighter Plan

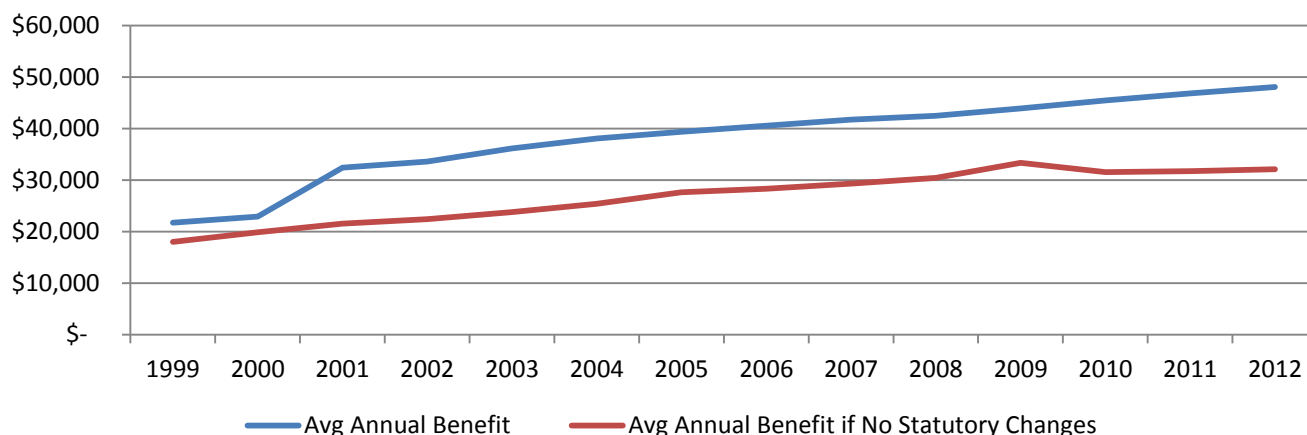
Note: Payment for 1997 is ¾ of a year. The amount for 2013 is an estimate.

3. What would the benefits for an average retiree be if no changes had been made to plan benefits? WRS created an analysis of the average annual pension if the statutory benefit formula had not been changed from 1997, i.e., benefits remained at 50 percent of the employer reported fireman first class salary. This analysis was done for 1997 through 2012 and the average additional benefit received is provided. A timeline of plan benefit changes is also provided. Please note, this analysis is a hypothetical representation and may not be reflective of individual circumstances.

**Estimated Difference in Benefits Received by Paid Fire A Retirees
Due to Statutory Benefit Increases**

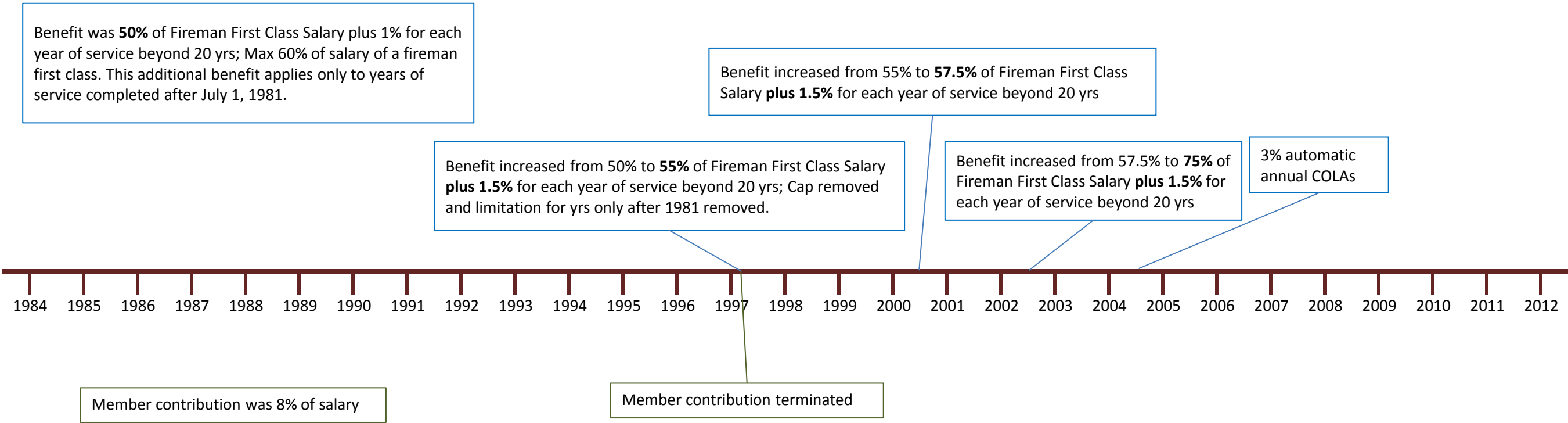
Year	Average 1st Class Salary	# of Actives (as of Dec of each year)	# of Pensioners (as of Dec of each year)	Calculated Avg Annual Pension Benefit if Statutes Remained the Same	Actual Avg Annual Pension Benefit	Avg Add'l Benefit Received
1997	\$35,348	120	187	\$17,674	\$20,604	\$2,930
1998	no data	no data	no data		no data	
1999	\$36,066	91	216	\$18,033	\$21,720	\$3,687
2000	\$39,719	73	231	\$19,860	\$22,908	\$3,049
2001	\$43,128	57	246	\$21,564	\$32,412	\$10,848
2002	\$44,842	43	299	\$22,421	\$33,588	\$11,167
2003	\$47,524	32	310	\$23,762	\$36,144	\$12,382
2004	\$50,750	29	309	\$25,375	\$38,064	\$12,689
2005	\$55,268	23	311	\$27,634	\$39,336	\$11,702
2006	\$56,654	19	306	\$28,327	\$40,572	\$12,245
2007	\$58,620	16	307	\$29,310	\$41,712	\$12,402
2008	\$60,816	15	308	\$30,408	\$42,473	\$12,065
2009	\$66,632	12	307	\$33,316	\$43,886	\$10,570
2010	\$63,082	8	304	\$31,541	\$45,441	\$13,900
2011	\$63,450	7	299	\$31,725	\$46,831	\$15,106
2012	\$64,253	7	295	\$32,127	\$48,055	\$15,929
2013	no data	no data	no data		no data	

Source: WRS Internal Audit Department



Timeline of Plan Changes to Paid Fire A

Paid Fire Plan A



4. What would the funding status of the Paid Fire A Plan be now if none of the changes since 1997 had occurred? This is a sophisticated question to answer particularly because it would require looking at a changing retiree population and changing benefits for a period of about 15 years. WRS does not have the membership data preserved for these points in time. Hence, WRS' actuarial firm would need to "reverse engineer" current data to arrive at such a conclusion. The result would be an estimation, as actual information is not available. The cost for such a study would start at \$5,000 to \$7,000 and could be more depending on the complexity of the project. WRS will obtain this analysis if the JAC requests it.