

Department of Employee Trust Funds



Wisconsin Retirement System
(WRS)

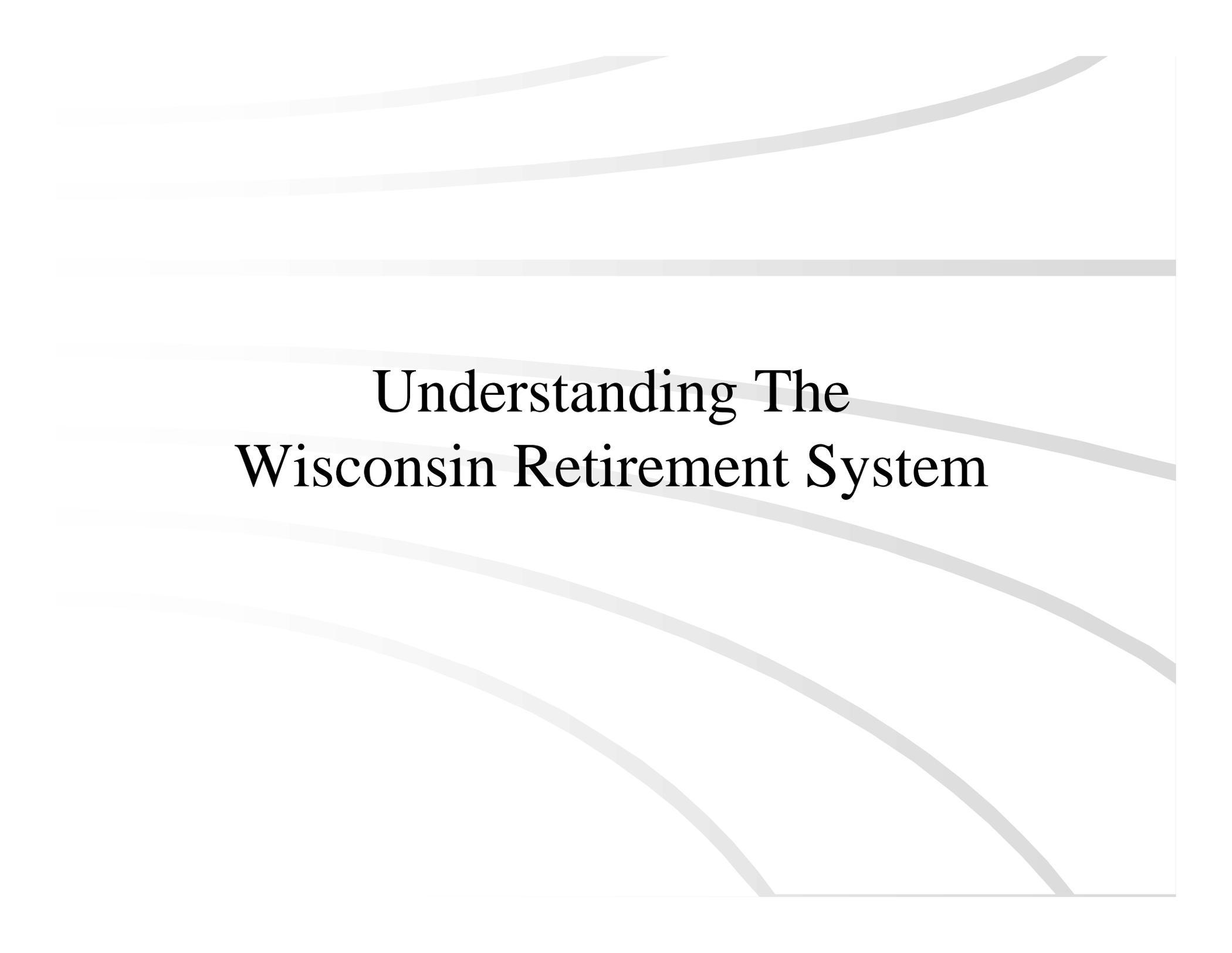
Annual Retirement Annuity Adjustments

Frequently Asked Questions

- ❖ Do I get an increase (dividend/adjustment) in my annuity every year?
- ❖ When do I get it? Do I get a separate check? How do I know it's coming?
- ❖ Is the adjustment paid cumulative or just a one-time payment every year?
- ❖ Is the increase paid on accelerated and additional benefits?
- ❖ Is there a minimum annuity threshold increase?
- ❖ Are there ever decreases in payments? Why?
- ❖ How much money is left in my account?

Frequently Asked Questions(*con't*)

- ✦ What's the difference between the Core and Variable funds?
- ✦ Is the variable a good choice for me after I retire?
- ✦ I'm in the Variable, so how much of my benefit is Core and how much is Variable?
- ✦ Why are *annuity adjustments* not as high as *interest*?
- ✦ What have the adjustments been in past years?
- ✦ What's my life expectancy?
- ✦ How are the core and variable adjustments calculated and who figures it out ? ? ?

The background of the slide features several thick, wavy, grey lines that create a sense of movement and depth. These lines are layered, with some appearing in front of others, and they curve across the page from top to bottom. The overall effect is modern and abstract.

Understanding The Wisconsin Retirement System

Wisconsin Retirement System (WRS)

- ✦ Individual accounts and benefits under the WRS are managed by ETF
- ✦ Investing of the assets is the responsibility of the State of Wisconsin Investment Board (SWIB)
 - ✦ Assets (contributions) are invested in two trust funds
 - ✦ Core (fully diversified) and Variable (all stocks)
- ✦ WRS participants include current and former employees of Wisconsin state agencies and local governments
- ✦ The funds (including interest) in the trust are used to pay retirement benefits
- ✦ Most employees receive a monthly pension (annuity) when they retire and the benefit is calculated by ETF

State of Wisconsin Investment Board (SWIB)

The state agency that invests all assets of the WRS

- ✦ Investment results based on calendar year returns
- ✦ SWIB is directed by a Board of Trustees and staffed with professional money managers and support personnel
- ✦ What types of investments do the trust funds hold?
 - ✦ The Core Fund: fully diversified fund (mixture of assets) such as stocks, bonds, and real estate
 - ✦ The Variable Fund: primarily a stock fund resulting in a greater degree of risk due to the volatility of the stock market
 - ✦ The particular stocks held by the Core and Variable funds are the same
- ✦ SWIB has received national attention for its excellent investment performance 😊
 - ✦ WRS continues to be one of the most well funded public retirement systems in the country
- ✦ **swib.state.wi.us**

First Things First

- ✦ Annual Adjustments are (by law) paid *solely depending on how the trust funds perform each year*
- ✦ There is no guarantee of an increase or decrease
- ✦ In the WRS, there is no such thing as a “*cost of living*” increase



When Are Adjustments Paid?

- ✦ May 1st (April benefit - paid on May 1st)
- ✦ The *first year* dividend/adjustment is prorated based on the number of months retired the previous year (Core only)
- ✦ Any adjustments are *included* in your regular monthly payment
 - ✦ Payment statements regarding the change in your benefit are mailed about one week prior to payment

Are Adjustments Paid Cumulatively?

- ✦ Yes. Increases are cumulative and intended to be permanent increases (not guaranteed)
- ✦ There can be *negative* adjustments !
- ✦ Core annuities cannot by law be reduced below the original values . . .
 - ✦ Based on *final* calculations not *estimates*
- ✦ Variable annuities have no minimum benefit guarantee



Are Adjustments Paid on All Benefits?

YES !

- Annual adjustments are credited to all monthly annuities currently being paid
- Includes benefits from regular required contributions and any additional contributions made

Annuities: Core vs Variable

- ✦ If you participate in the Core and Variable funds, you will receive a *Final Annuity Calculation Statement (ET-4820)*
 - ✦ It shows the dollar (\$) amount of your benefit in both the core and variable funds
- ✦ Subsequent payment statements are sent anytime there is a change to your payment amount



NOTICE OF FINAL RETIREMENT ANNUITY CALCULATION

03/20/2007

Birthdate: 12/02/1950

Name
 Address
 City State Zip

Annuity benefit amount in Core vs Variable

Your final Wisconsin Retirement System (WRS) annuity was calculated based on your employer's final report of your earnings, contributions and creditable service. This is your record of the data used to calculate your annuity. If your employer subsequently reports changes in your account within the seven year statutory limit which would result in a change in your annuity (such as amended earnings, creditable service, contributions, etc.), your annuity will be adjusted retroactive to the effective date with no action required on your part.

The amounts shown on this form will be reflected in your benefit beginning with your payment dated:

04/01/2007

Section 1 Your reported service and earnings are:

Fiscal / Calendar Year	Earnings	Service	Termination Date (reported by your employer)
2006 FY	\$40,648.91	1.00	06/09/2006
2005 FY	\$38,469.50	1.00	
2004 FY	\$37,516.50	1.00	Annuity Effective Date 06/10/2006
Final average earnings based on annual earnings above:		\$3,239.00	

SERVICE YEARS BY CATEGORY, INCLUDING MILITARY SERVICE

Employment Category	Before 2000	After 1999	Total Years for Category
TEACHER	23.52	6.48	30.00

MILITARY SERVICE ONLY

Before 2000	After 1999	Military Service Years for Category

Sample: Notice of Final Retirement Annuity Calculation

ET-4820

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If you believe that your employer reported this information incorrectly, contact your employer about any discrepancy. The effective date of your estimated annuity was based on the termination date you entered on your application.

Annuity benefit amount in Core vs Variable

Section 2

Your required retirement annuity was calculated under the **money purchase method** based on the balance of \$362,832.25 in your account multiplied by an actuarial factor (and option conversion factor if applicable).

You currently participate in the **variable trust** or have participated in the past. The variable excess/deficiency in your account resulted in a \$84.14 increase in your final benefit, compared to the amount you would be receiving if you had never participated in the variable program. **Note: This is included in your current payment amount.**

Your benefit was calculated under **1999 Wisconsin Act 11**, the benefit improvement legislation. If a formula calculation, the higher factor(s) for Act 11 was (were) applied to your service that was credited before 2000.

Section 3

	Gross Monthly Amount			Retroactive Amount	
	Estimate	Final	Final with Dividend		
Required	\$2,395.30	\$2,420.01	N/A	\$216.32	75% Continued to Named Survivor
Additional					

You selected the above option in the Accelerated Payment Option from your Required Account. The amount shown above is the amount of your annuity before age 62. Your "after age 62" benefit amount is \$1,560.01.

Your monthly annuity is \$ 1,168.36 in Core plus \$ 1,251.65 in variable.

Note: To be eligible to change your annuity option, the Department must receive your written option change request WITHIN 60 DAYS AFTER THE DATE OF YOUR FIRST ANNUITY PAYMENT.

NOTE: If you have any questions about this notice or wish to request any brochures, you may contact us by writing to the Department of Employee Trust Funds, or by phoning us toll-free 1-877-533-5020 or 266-3285 (local Madison), or visit our Internet site at: <http://badger.state.wi.us/agencies/etf>. The number for the TTY (Teletypewriter for the Hearing and Speech Impaired) is (608) 267-0676.

*After asking questions, if you still disagree with any of the information shown above and wish to appeal this determination of your benefit, the Department must receive your written appeal **no later than 90 days after the date of this notice**. Address any appeal to the Department of Employee Trust Funds, c/o Appeals Coordinator, P.O. Box 7931, Madison, WI 53707-7931.*

Sample:

Notice of Final Retirement Annuity Calculation

ET-4820

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Is There A Minimum Annuity Threshold ?

- ✦ A Core dividend (adjustment) will be paid only if the annuity reserve surplus provides at least a 0.5% increase
- ✦ A Core annuity will be reduced only if there's a shortfall requiring at least a -0.5% adjustment

- ✦ Variable increases or decreases occur only when there is enough funds to give **EVERYONE** with a variable annuity either (at least) a 2% increase or decrease
- ✦ If not enough funds, the surplus/deficit is carried over to the next year

What have the annuity adjustments been in past years?

What will the annuity adjustment be this year?



Annuitant Adjustment Rates

ETF Core Fund Percentages

Year	SWIB Investment Return	ETF Effective Rate	ETF Annuity Dividend
2006	15.8%	9.8%	3.0%
2005	8.6%	6.5%	0.8%
2004	12.8%	8.5%	2.6%
2003	24.1%	7.4%	1.4%
2002	-8.8%	5.0%	0.0%
2001	-2.3%	8.4%	3.3%
2000	-0.8%	10.9%	5.7%
1999	15.5%	24.1%	17.1%
1998	14.6%	13.1%	7.2%
1997	17.2%	12.8%	7.7%
1996	14.4%	12.5%	6.6%
1995	23.1%	11.3%	5.6%
1994	-0.6%	7.7%	2.8%
1993	15.0%	11.0%	4.9%
		10 yr ave: 10.5%	10 yr ave: 4.78%

Annuitant Adjustment Rates

ETF Variable Fund Percentages			
	SWIB Investment	ETF Effective	ETF Annuity
Year	Return	Rate	Adjustment
2006	17.6%	18.0%	10.0%
2005	8.3%	9.0%	3.0%
2004	12.7%	12.0%	7.0%
2003	32.7%	34.0%	25.0%
2002	-21.9%	-23.0%	-27.0%
2001	-8.3%	-9.0%	-14.0%
2000	-7.2%	-7.0%	-11.0%
1999	27.8%	28.0%	21.0%
1998	17.5%	18.0%	12.0%
1997	21.6%	23.0%	18.0%
1996	19.8%	20.0%	14.0%
1995	25.6%	27.0%	19.0%
1994	0.8%	0.0%	-4.0%
1993	16.5%	17.0%	11.0%
		10 yr ave: 8.9%	10 yr ave: 3.08%

Understanding Annuity Adjustments . . .

. . . requires an
explanation of how WRS
annuities are “funded”



When You Retire:

- ✦ Sufficient monies needed to pay an annuity for a *projected lifetime* are transferred *from* the participant's account, and the employer reserve account *to* the *Annuity Reserve Fund*
- ✦ Your account is “closed”
- ✦ The Annuity Reserve Fund is the account from which all annuities are paid
- ✦ There are separate Core and Variable funds in the Annuity Reserve
- ✦ Annual interest is credited to both funds in the Reserve

Core Smoothing Mechanism

- ✦ Smoothing is based on funding requirements contained in state law
- ✦ To keep annuity adjustments *more stable* the *Core* fund returns are *smoothed* over a five-year period (recognized *evenly* over five (5) year periods)
 - ✦ When there are losses, ETF may still grant increases - over time the losses are still *applied* (factored into the calculation process)
- ✦ *Variable* gains and losses are fully distributed each year - no smoothing

For Example . . .

Smoothing allowed ETF to give core annuity *increases* in 2001 and 2002 even though there were losses in 2000-2002. (Still distributing gains from previous years)

Losses from 2002 were included in the calculation of the Core annuity adjustment for 2006!

7-Year History of Core Fund Rates			
Year	SWIB's Actual Investment Returns	WRS Core Effective Rate	WRS Core Annuity Rate
2000	-.8% (loss)	10.9%	5.7%
2001	-2.3% (loss)	8.4%	3.3%
2002	- 8.8% (loss)	5.0%	0.0%
2003	24.2%	7.4%	1.4%
2004	12.8%	8.5%	2.6%
2005	8.5%	6.5%	0.8%
2006	15.8%	9.8%	3.0%

} 5 year smoothing period

Calculating Core Fund Effective Rate

(\$ Millions)

2006 Investment Income			\$ 9,872
Adjustments for Market Recognition Account			
2006 Gain Deferred to Future Years		(4,918)	
Gains and Losses Carried Over From:			
2002	(1,764)		
2003	1,341		
2004	518		
2005	86		
2006	<u>984</u>		
Total MRA Adjustment			<u>(3,753)</u>
Current Year Recognized Income			6,119
Less: Allocations and Adjustments (ICI, LTDI, ASLCC, Duty Dis)			<u>(258)</u>
Income Available for Core Effective Rate			5,860
Adjusted Beginning Reserve Balance			\$ 59,227
Effective Rate (\$5,860 / \$59,227)			9.8%

Calculating Variable Fund Effective Rate

(\$ Millions)

2006 Investment Income \$ 1,089

Adjusted Beginning Reserve Balance 5,829

Effective Rate ($\$1,089 / \$5,829$) 18.0%

Actual is 18.1868%, but it's truncated (by law) to a whole % so the .1868 is carried over to the next year - See next section on calculating dividends

After Interest Is Calculated and Credited To The Reserve . . .

- ✦ Next we calculate the core and variable annuity adjustments
- ✦ Calculation is based on . . .
 - ✦ The amount of money in the reserve
compared to
 - ✦ The amount needed to pay all benefits for the projected lifetimes of annuities in force!



Calculating Annuity Adjustments

- ✦ If *more* than enough money in reserve to pay future benefits for annuities in force . . .

An increase can be granted!!



- ✦ If *less* than enough money than the amount needed to pay future benefits, it's necessary to decrease the monthly annuity amounts

Calculating Annuity Adjustments

Many factors (established by law) are used to calculate annuity adjustments

- ✦ The three most significant factors are:
 - ✦ 5% assumed interest
 - ✦ Mortality rates
 - ✦ Carryover



Calculating Annuity Adjustments

5% Assumed Interest

- ✦ Amount of dollars (\$) transferred to the reserve assumes the funds will earn 5% interest each year
- ✦ The reserve must be credited with 5% just to break even!
- ✦ Investment earnings in *excess* of the assumed 5% are available to fund increases

Calculating Annuity Adjustments

5% Assumed Interest

If fund earns less than 5% - that shortfall must be “made up” by . . .

- ✦ Not granting an increase that year and/or
- ✦ Taking back previously granted increases
- ✦ Remember: *Core* annuities are guaranteed never to be less than the original monthly benefit

(can't take back more dividends than were granted)

Calculating Annuity Adjustments Mortality Rates

- ✦ WRS annuitant life expectancies continue to increase
- ✦ Good for annuitants, however . . .
- ✦ Fund will have to pay annuities for longer period of time than originally anticipated at retirement



Calculating Annuity Adjustments Mortality Rates

Life Expectancy For 70-year-old

	<u>Males</u>	<u>Females</u>
1996	13.4	17.3
2006	14.5	17.8

- ✦ For each month of added longevity, the dividend is decreased by about 0.25%. This translates into approximately \$5 per month for the average annuitant
- ✦ However, improved longevity means members are receiving benefits for a longer period of time

Calculating Annuity Adjustments Carryover

- ✦ By law, variable adjustment percentages are truncated to a “whole percentage”
- ✦ The fund rarely has the precise amount of dollars to fund exactly a whole percent
 - ✦ Remaining funds (or deficits) must be carried over to the next year

Example: If adjustment is 2.4%, and we can only use whole %'s, the .4% is held back and carried over to next year and used in that calculation

Calculating Annuity Adjustments

Summary of Results - 12/31/2006

The ratio of *what we have* divided by *what we need*
to pay = adjustment amount payable

\$ Millions

	Core	Variable
Number of Annuitants	137,117	32,683
Annual Amount	\$ 2,843.6	\$ 391.8
Fund Balance (what we have)	31,180.5	4,594.2
Actuarial Reserve (what we need)	30,273.9	4,145.2
Ratio	1.03	1.108

Total Adjustment payable = 3% = 10%

Is The Variable A Good Choice for Me?

- ✦ Selecting or remaining in the Variable is an *individual decision*
- ✦ Best to consider several factors . . .
 - ✦ Personal risk tolerance (before and after retirement)
 - ✦ Years until retirement
 - ✦ Other types of investments that provide retirement benefits
- ✦ Remember, the Variable fund is an aggressive and volatile fund so your WRS retirement benefit can go down!
- ✦ Do your homework!!



Is The Variable A Good Choice for Me?

- ✦ Notification to cancel or begin participation in the Variable must be sent to ETF
 - ✦ Elections *generally* become effective the 1st of the year following ETF's receipt of the form
- ✦ Participants considering this option need to be fully informed about risks and rewards before making a decision
- ✦ More information available on ETF's web site



Final Notes

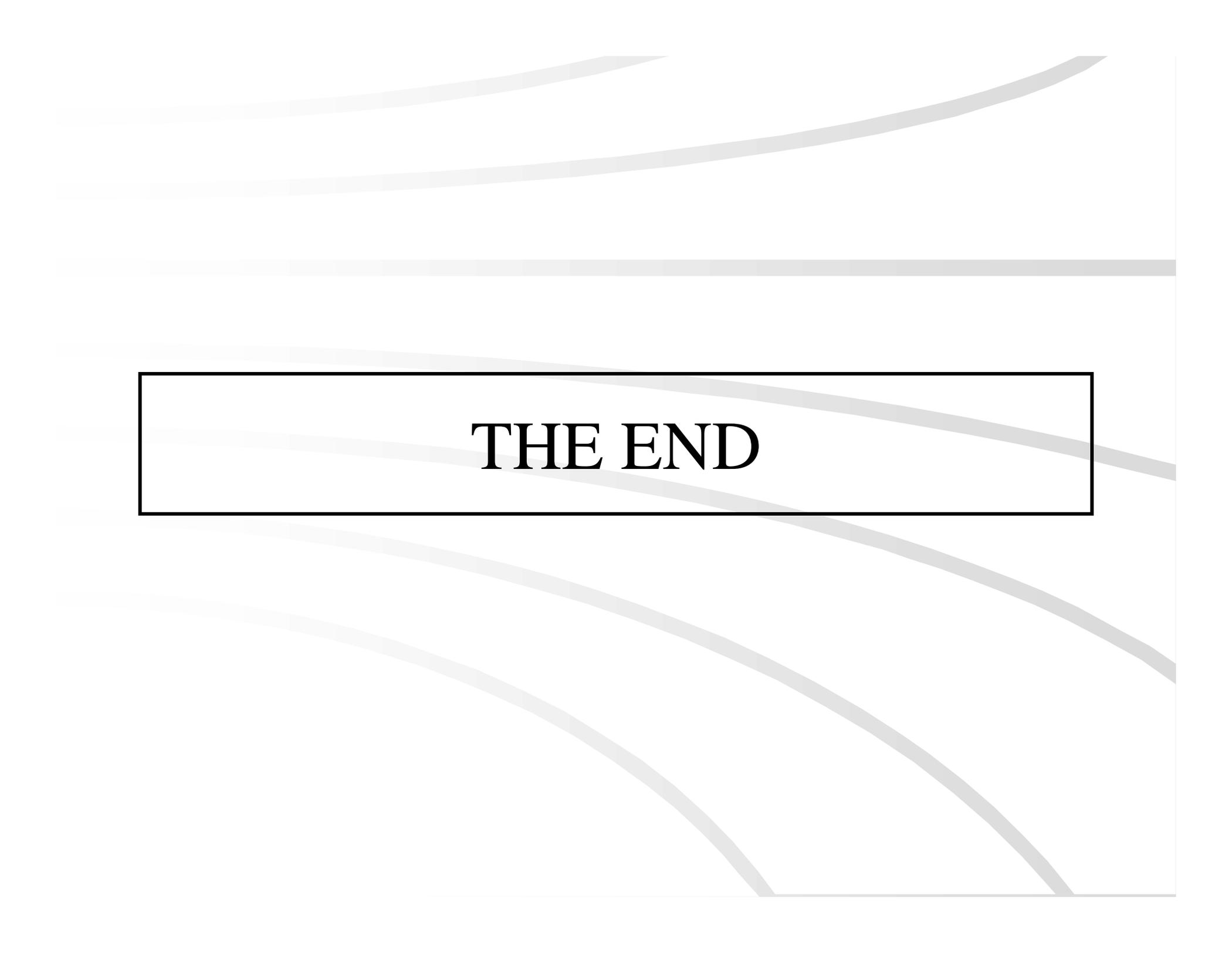
**Annuity adjustments
are based on how the
funds perform each
year**

**There's no
guarantee you'll get
an annual increase**



**The WRS pays you
(the annuitant) as
long as you live**

**SWIB has received national
attention for their excellent
investment performance . .
We're in good hands!**



THE END