

Core Fund Annuity Adjustments and Effective Rate Projections

Joint Meeting of the Employee Trust Funds,
Teachers Retirement and Wisconsin Retirement Boards

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Current Value of Annuities*

If You Retired in	A \$1,000 Core Annuity is Receiving	The Annual Rate of Increase is	A \$1,000 Variable Annuity is Receiving	The Annual Rate of Increase is	The Annual Change in CPI is
2012	\$1,104	2.0%	\$1,373	6.5%	1.4%
2007	\$1,104	1.0%	\$1,003	0%	1.8%
2002	\$1,104	0.7%	\$1,110	0.7%	2.1%
1997	\$1,507	2.1%	\$1,358	1.5%	2.1%
1992	\$1,909	2.6%	\$2,061	2.9%	2.3%

*Including annuity adjustments to be made effective April 1, 2017



Annuity Adjustment Projections

Assumptions

- Based on 2016 actual Core Trust Fund investment returns.
- Includes 2013 - 2016 investment gains and losses carried forward in the Market Recognition Account (MRA).
- Annuities will be increased if annuity reserve surplus provides at least a 0.5% increase.
- Annuities will be reduced if annuity reserve shortfall would require at least a -0.5% adjustment .

Assumptions (cont.)

- 0.5% per year is reserved for mortality improvement and other actuarial adjustments and is not available for annuity adjustments.
- Negative adjustments can only reduce increases granted in prior years. A core annuity cannot be reduced below the original value.
- In calculating annuity adjustments, a 5.0% assumed investment return is used to fund the original benefit. Thus, in a world where experience matched assumptions each year perfectly, annuitants would receive a 2.2% adjustment each year (7.2% less 5.0%). We don't live in that world.

Market Recognition Account

- Investment gains / losses are “smoothed” through the Market Recognition Account (MRA):
 - The MRA is intended to give recognition to long-term changes in asset values while minimizing the impact of short-term fluctuations in the capital markets;
 - Investment gains equal to the assumed rate (7.2%) are recognized;
 - The difference between actual gains or losses and the assumed rate is spread equally over 5 years.

Investment Gain/Loss to be Recognized In Future Years

Year Earned	Year to Be Recognized (millions \$)					Core Net of Fee Investment Return
	2016	2017	2018	2019	2020	
2017		?	?	?	?	?
2016	121	121	121	121	121	8.29%
2015	(1,344)	(1,344)	(1,344)	(1,344)		(.67%)
2014	(243)	(243)	(243)			5.40%
2013	953	953				13.18%
2012	793					13.36%
Totals	280	(513)	(1,466)	(1,223)	121	

Annuity Adjustment Projections

- Projections...not predictions.
- Only an actuarial valuation can accurately calculate the annuity adjustments.
- Useful for anticipating the magnitude, not exact amount, of future adjustments.

Result of 7.2% Investment Return in 2017 - 2020

	2016	2017	2018	2019	2020
SWIB Net Investment Return	8.29%	7.2%	7.2%	7.2%	7.2%
Effective Rate	7.9%	6.6% to 7.0%	5.5% to 5.9%	5.8% to 6.2%	7.3% to 7.7%
Average Annuity Adjustment	2.0%	.5% to .9%	0%	0.6% to 1.0%	1.6% to 2.0%

Result of 5% Investment Return in 2017 and 7.2% in 2018 - 2020

	2016	2017	2018	2019	2020
SWIB Net Investment Return	8.29%	5%	7.2%	7.2%	7.2%
Effective Rate	7.9%	6.2% to 6.6%	5.1% to 5.5%	5.3% to 5.7%	6.8% to 7.2%
Average Annuity Adjustment	2.0%	0%	0%	0%	1.4% to 1.8%

Result of 0% Investment Return in 2017 and 7.2% in 2018 - 2020

	2016	2017	2018	2019	2020
SWIB Net Investment Return	8.29%	0%	7.2%	7.2%	7.2%
Effective Rate	7.9%	5.2% to 5.6%	4.0% to 4.4%	4.2% to 4.6%	5.7% to 6.1%
Average Annuity Adjustment	2.0%	0% to (.80%)	(1.0%) to (1.4%)	(.8%) to (1.2%)	0%



Questions?

Thank you



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