
Wisconsin Retirement System

2005 Gain (Loss) Analysis

GRS

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A Gain (Loss) Analysis measures differences between actual and assumed experience in each Risk Area.

WRS Assumption Risk Areas

Demographic

Normal retirement

Early retirement

Death-in-service

Disability

Other separations

Economic

Salary increases

Investment return

There are other risk areas, but they are not germane to the Gain/Loss Analysis.

Why Have A Gain (Loss) Analysis?

- It is a year-by-year measure of the operation of assumptions
- To understand the nature of risk
- To determine when assumption changes are needed
- To gain an understanding of reasons for contribution rate changes

Components of Total Gain (Loss)

	Gain (Loss) in millions	
	2004	2005
Economic Risk	\$197.6	\$ 31.2
Decrement Risk	5.1	14.4
Other	(210.6)	(187.2)
Total Gain (Loss)	(7.9)	(141.6)

(see page 9)

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Investment Earnings in 2005 (Active Participants)

	<u>\$ Millions</u>
A. Average balance	\$34,232
B. Expected earnings: 7.8%	2,670
C. Earnings credited to PAR & EAR	2,207
D. Gain (loss) from earnings: C - B	\$ (463)

(see page 12)

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Investment Earnings in 2005 (Active Participants)

- \$464 million is total asset loss for the year
- However, part of the total loss is due to Variable Excess accounts
- Some of the gain flows through to members via the operation of Money Purchase minimum benefits
- Must net these out to determine remaining fixed fund gain or loss
- Remaining portion affects contribution rates

Investment Earnings in 2005 (Active Participants)

	<u>\$ Millions</u>
Gross Loss for the Year	\$(464)
Less Estimated Gain Due to Money Purchase and Variable Excess Effects	<u>(205)</u>
Net Fixed Fund Asset Loss	\$(259)

(see page 12)

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Salary Related Gain (Loss)

Pay increases varied among groups producing a gain in total.

	Avg. % Incr.*	Gain (Loss) \$ Millions
General	3.2-4.2%	\$232
Exec. & Elected	2.6%	4
Prot. w/Soc. Sec.	3.6%	48
Prot. w/o Soc. Sec.	4.5%	6
		<hr/> \$290

* *Excluding new entrants.*

(see page 11, 13, 14)

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Population Development During 2005

	<u>Actual</u>	<u>Expected</u>
Beginning Census	262,085	
(-) Normal Retirement	2,897	3,238
(-) Early Retirement	3,463	3,672
(-) Death	244	298
(-) Disability Retirement		
- Total Approved	239	351
- Less Pending	89	
- Net New	150	
(-) Other Separations	12,531	11,405
(-) Transfers Out	1,031	
(+) Transfers In	1,031	
(+) New Entrants	17,878	
Ending Census	260,678	

(see page 4)

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Population Development During 2005

Normal Retirements: Less than assumed in all groups, overall producing a small gain.

Early Retirements: Varied by group and gender, overall fewer early retirements than expected.

Death: Slightly less than expected, producing small loss.

Disabilities: Less than expected, producing a gain.

Other Separations: varied by group, gender and service. Other separations among short service participants produced a loss, among longer service participants produced a gain.

Comparative Schedule of Experience

Divisions Combined

	<u>2004</u>	<u>2005</u>
Normal Retirement	\$ 6.1	\$ 5.2
Early Retirement	(5.6)	(6.6)
Disability Retirement	15.2	17.0
Death	(0.9)	(1.8)
Other Separations	(9.7)	0.6
Total	<u>\$ 5.1</u>	<u>\$14.4</u>

(see page 9)

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Explanation of Gain or Loss Due to “Other” Risk Areas

- Primarily due to difference between actual and expected reserve transfers – difference between what we estimate a benefit to be versus what is actually calculated at time of retirement
- Actual reserve transfers include adjustments for previous estimated retirants which creates a loss
- Re-established liability is unexpected liability from new or rehired employees with prior service
- Remaining unexplained loss is very small in relative terms

How Does Gain (Loss) Affect the Total Contribution Rate?

- Normal cost contribution for each group increased by 0.2% of payroll
- Total net loss of \$141.6 million
- Losses due to unfavorable investment performance and actual reserve transfers being greater than expected were partially offset by gains associated with lower pay increases than expected

Concluding Remarks

- This Gain (Loss) Analysis is the third in a regular 3-year experience cycle
- This study together with the 2003 and 2004 studies will form the basis for the next experience study
- The next experience study will be reported in December 2006
- The results of that study will first be used in the December 31, 2006 valuations