



STATE OF WISCONSIN  
Department of Employee Trust Funds  
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## CORRESPONDENCE MEMORANDUM

**DATE:** November 18, 2011

**TO:** Employee Trust Funds Board  
Teachers Retirement Board  
Wisconsin Retirement Board

**FROM:** Shawn Smith, Director  
Office of Communications and Legislation

**SUBJECT:** Legislation and Communications Update

**This memo is for informational purposes only. No Board action is required.**

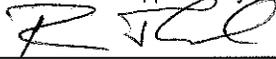
This memorandum touches on the legislative session and provides a brief update on the Department's communication efforts since the September Joint Informational meeting.

### LEGISLATION UPDATE

There have been no new laws enacted that materially impact the Wisconsin Retirement System (WRS) since the last update in September, though there has been a lot of legislative interest in the subject of rehired annuitants. Two bills have been proposed:

- AB 318/SB 239 – provides that rehired annuitants who work more than half time must have their annuity suspended until they retire again. Furthermore, those rehired annuitants would be ineligible to again return to the WRS as an active employee. Rehired annuitants employed by the state would be eligible for health care benefits. Rehired annuitants who work less than half time continue to be treated as they are under current law.
- AB 352 – also provides that rehired annuitants who work more than half time also must have their annuity suspended until they retire again. However, those rehired annuitants, rather than being barred from WRS participation, would be mandated to return to the WRS as an active employee. Furthermore, this bill also extends the now required 30-day break in service to 180 days. This bill also modifies the Act 32 eligibility criteria to specify in general terms that new employees hired after July 1, 2010 would join (or re-join if a rehired annuitant) the WRS if they are expected to work 1,000 hours in a year (as opposed to 1,200 hours as enacted in Act 32).

Reviewed and approved by Robert J. Conlin, Deputy Secretary.

  
Signature \_\_\_\_\_ Date 11/18/11

Board	Mtg Date	Item #
Jl	12.1.11	5A

Both of these proposals have been referred to the Assembly Insurance Committee and a public hearing was held on November 17, 2011. ETF testified for information only at the hearing.

#### Other Legislation

AB 51/SB 22 – this proposal makes a number of changes to the structure of charter schools in Wisconsin. It would establish a new Charter School Authorizing Board and, in general, create the conditions for an expansion of the number of such schools. As it relates to the WRS, any new charter school would be eligible to join the WRS as a public employer. This bill was passed out of the Joint Committee on Finance in October.

AB 52/SB 29 – seeks to expand the state tax exemption for retirement plan income received by an individual. It would eliminate the age (65 or older) and amount (\$5,000) caps on related income considered exempt for state tax purposes. For WRS purposes, this pertains to income from the Milwaukee Public School Teachers' Retirement Fund and the Wisconsin State Teachers' Retirement Fund for those who were members or annuitants as of December 31, 1963. There has been no new action on this bill.

SB 153 – this bill was introduced in July and permits governmental employers who are not participating employers in the WRS to be covered in the local government health insurance plan offered by the Group Insurance Board. This bill had a hearing in September and was reported out of committee on October 17, 2011.

#### ETF Initiated Legislation

The Department is actively seeking sponsors to implement conforming language to implement the federal HEART Act, the Technical Bill and the IRS Conformance bill this session, as discussed at the September meeting. The proposals have not yet been introduced.

#### **COMMUNICATIONS UPDATE**

Rehired annuitants have generated a lot of media interest in recent weeks. ETF alone has fielded more than 30 separate requests for information and comments since late summer. Coverage has been in print, radio and television and across all major media markets in the state.

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Another task was to communicate the probability of negative annuity adjustments to WRS members. As of October 2011, the Core Trust Fund was up 2.8% for the year based on preliminary returns. We developed targeted packages of information to tailor what specific information will be uniquely relevant by target audience (retirees, actives and actives close to retirement). We also created a new video to provide broader education to active employees on contribution rates and how they are impacted by the markets.

I will be at the Joint Informational meeting to answer any questions you may have.

Attachment: November 8<sup>th</sup> Letter to WRS Retirees



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November 8, 2011

Dear Wisconsin Retirement System (WRS) Retirees:

The financial health of the WRS remains in sound financial condition in spite of volatility in the markets throughout the year. With assets totaling \$79.1 billion, the WRS is the 9th largest public pension in the nation and the 30th largest in the world, and well positioned to pay all of its benefit promises – both now and in the future.

At this time of year many of you want to know what to expect in terms of the 2012 annuity adjustments. The Department will announce the Core and Variable annuity adjustments in March 2012, after final State of Wisconsin Investment Board (SWIB) returns for 2011 are determined.

However, no matter the final outcome for 2011, keep this in mind: **The Core annuity adjustment will once again incorporate the effect of 2008's Core Fund steep 26% investment decline.** That is because Core Fund gains and losses for any given year are "smoothed" (recognized) in equal increments over five years to cushion the effect of volatility. This year's rate calculations will incorporate investment experience from 2007 to 2011. The Core Fund recorded gains in 2007, 2009 and 2010, which will help mitigate the impact of 2008's approximately \$21 billion loss.

**As of October 31, 2011, the Core Trust Fund investment return was 2.8%, based on preliminary figures.** Although we do not know how this year will end, the following table shows the **projected** range of Core Fund effective rates and annuity adjustments for 2012. The figures are based on five different State of Wisconsin Investment Board (SWIB) return scenarios:

<b>Projected Core Fund Effective Rates and Annuity Adjustments</b>			
If SWIB's net investment return on 12/31/11 is...	5%	0%	-5%
...the Core Effective Rate is <u>projected</u> to be approximately...	1.8% to 2.8%	0.8% to 1.8%	-0.2% to 0.8%
...and the Core Annuity Adjustment is <u>projected</u> to be approximately...	-3.2% to -4.2%	-4.1% to -5.1%	-4.9% to -5.9%

The Core projections shown above are based on information available as of the date of this letter. **Actual net investment results for 2011 are announced in January.** In addition, to investment returns, mortality and other actuarial factors play a role in the rate setting process.

Again, we cannot predict how things will go the rest of this year. We do know that the **Core Fund must gain approximately 25-26% in order to avoid a negative adjustment.** Therefore, please be aware that the Department may have to reduce Core annuities once again, effective May 1, 2012.

Keep in mind that your Core annuity can never be decreased below the finalized amount you received at retirement. Over the years you may have experienced core annuity increases and these can later be repealed through negative Core annuity adjustments. However, there is a threshold; negative Core adjustments can never decrease your annuity below your finalized annuity amount.

**What about the Variable annuity adjustment?**

Members in this optional Fund experience the full effect of market gains or losses each year – returns are not smoothed. However, there is no limit to how much your Variable annuity can be decreased if there are multiple years with poor Variable Fund investment returns. The Variable annuity adjustment is closer to actual Variable Fund investment performance. As of October 31, 2011, the Variable Fund investment return was -1.8% (negative).

**When will retirees find out how much their monthly annuities may change?**

Core and Variable annuity adjustments will first be reflected on the May 1, 2012 payment. Several weeks prior, ETF will notify retirees regarding any monthly premium changes. In the meantime, monitor our website at <http://etf.wi.gov> for announcements regarding final investment returns and subsequent rates and adjustments.

**For more information, review the following ETF resources:**

Online videos

*WRS-Interest v. Annuity Adjustments*

*Canceling Variable Fund Participation*

Find these in our video library at <http://etf.wi.gov/webcasts.htm>

Brochures

*How Participation in the Variable Trust Affects WRS Benefits (ET-4930)*

*Canceling Variable Participation (ET-2313)*

Find these on our website at <http://etf.wi.gov/publications.htm> or contact us to request a paper copy.