



STATE OF WISCONSIN
Department of Employee Trust Funds

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ETF Announces WRS Annuity Adjustments for 2013

Core Annuity Adjustment -9.6%

Variable Annuity Adjustment +9.0%

MADISON, (Wis.) – The Department of Employee Trust Funds (ETF) announces the annual annuity adjustments for the Wisconsin Retirement System (WRS): -9.6% for the Core Fund and +9.0% for the Variable Fund. New rates are effective May 1.

ETF's independent consulting actuary determined the annuity adjustments based upon WRS data, actuarial calculations and factors, and investment returns. In January, the [State of Wisconsin Investment Board](#) (SWIB) reported strong returns in the WRS Core Fund and Variable Fund; 13.7% and 16.9%, respectively. The [actuary's report](#) and recommended rates were approved by the ETF Board chair and Secretary Robert Conlin this week.

Although Core Fund assets have experienced four consecutive years of positive investment returns, those returns have not fully offset the final share of losses from the global economic downturn in 2008. Core Fund gains and losses are recognized, or smoothed, over a five-year period. This is the last year in which the Core annuity adjustment will incorporate the 2008 investment experience.

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“Another annuity cut is hard for our retirees,” Conlin said. “We know it’s not easy, but with 2008 finally behind us, better days should lie ahead.”

After this year’s Core annuity decrease, retirees will have seen their annuities reduced by more than \$4 billion since 2008. Conlin points out that the repealing of past dividends in the form of negative annuity adjustments is a part of the risk-sharing nature of the WRS.

The actual amount of the Core annuity decrease for an individual retiree will depend on the extent to which the annuity has grown over time with previously-granted increases. By law, an individual’s Core annuity cannot be reduced below the original amount set at retirement (the “Core floor”). ETF anticipates that more than half of all retirees will receive at least some negative adjustment to their Core annuities. In general, only those who retired prior to 2000 will have dividends remaining.

“SWIB’s performance over the last four years sets us up for positive adjustments next spring if things go well in 2013,” said Conlin.

All retirees participate in the Core Fund. About 40,000 retirees also participate in the high-risk, optional Variable Fund, which will bring a 9% increase to the Variable portion of the annuity. There is no guaranteed floor amount for the Variable annuity, and investment gains and losses are fully recognized each year.

In calculating the dividend for the Core and Variable annuities a 5% assumed investment return is used to fund the original benefit. Only investment returns in excess of the assumed rate can produce an increase in a retiree’s monthly annuity. Alternately returns below 5% may result in a decrease.

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Effective Rates for Core Fund and Variable Fund

Prior to the calculation of the annuity adjustments, ETF uses the SWIB year-end investment returns to set the Core and Variable effective rates. The Core effective rate is 2.2% and the Variable effective rate is 17%. The rates are applied to the retirement accounts of more than 400,000 current public employees and non-retired former employees. Employees will see the new rates reflected in their annual statement of benefits to be sent out in April.

WRS Facts and Stats

- WRS investment portfolios managed by SWIB have produced positive returns every year since 2008, with 10-year returns at 8.4% for the Core Fund.
- Investment earnings represent 76% of pension benefit funding, with the remainder coming from employee and employer contributions.
- Average WRS pension benefit paid in 2011: \$24,916 per year.
- Number of WRS members: 570,808
 - Active employees: 256,232
 - Annuitants (retirees, disability recipients, beneficiaries): 167,649
 - Inactive employees: 146,927
- Number of WRS employers: 1,501
- Employees by employer type: 27% state, 73% local
- Unlike some public retirement systems, the WRS does not provide cost-of-living adjustments, or COLAs. Annuity adjustments are based primarily on investment returns and actuarial calculations and factors.
- Core Fund assets experienced a \$21 billion investment decline in 2008. Without the five-year smoothing of losses, Core annuities would have been reduced by up to 35% in 2009. Instead, annuities that were not at the original retirement amounts had a 2.1% decrease in 2009, 1.3% decrease in 2010, 1.2% decrease in 2011, and 7% decrease in 2012.

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- By law, positive Core dividends can be granted if the annuity reserve is fully funded and is at a positive 0.5% of Core annuity liabilities. If the annuity reserve is not fully funded and is at a negative 0.5% of Core annuity liabilities, a negative dividend is issued to make up the shortfall.

The [Department of Employee Trust Funds](#) is the state agency that administers Wisconsin Retirement System (WRS) benefits. The WRS has approximately \$85 billion in assets as of December 31, 2012. It is the 9th largest U.S. public pension fund and the 30th largest public or private pension fund in the world. WRS assets are professionally managed by the State of Wisconsin Investment Board. To learn more about the WRS, go to www.etf.wi.gov.

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