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## ***Correspondence Memorandum***

**Date:** September 8, 2017  
**To:** Audit Committee Members  
**From:** Yikchau Sze, Director  
Office of Internal Audit  
**Subject:** Death Benefits Audit

**This report is for Audit Committee review and discussion. No action is required.**

Attached is the audit report of the Death Benefits audit. The results of this audit have been submitted and discussed with the Office of the Secretary, Department of Employee Trust Funds.

This audit was conducted in accordance with the biennial Audit Plan for 2015-2017.

Based on the audit work, we conclude that the calculations of death benefit amounts were accurate; the beneficiaries were effectively verified; and, once deaths are confirmed and the beneficiaries located, benefit payments were made in a timely manner.

Attachment: Audit Report of Death Benefits

Reviewed and approved by Robert J. Conlin, Secretary

Electronically Signed 9/12/17

Board	Mtg Date	Item #
AUD	9.21.17	6

***Office of Internal Audit***

*Death Benefits*



September 8, 2017

## Objective:

The audit objective was to assess whether Wisconsin Retirement System (WRS) death benefits are paid accurately, to the right individuals and in a timely manner.

## Scope:

The audit focused on distributed death benefits from September 2016 through December 2016. The scope also included the Department of Employee Trust Funds (ETF) process to locate the correct named survivor and beneficiary(ies) for payments.

## Background:

ETF administers death benefits for WRS members and their named survivors and/or beneficiary(ies). A member's named survivor and/or beneficiary(ies) may be eligible for other death benefits; however, the focus of this audit was on the death benefits provided by the WRS only.

Whether a WRS member's death happened before retirement or after retirement dictates the type and options of death benefits.

**Before Minimum Retirement Age - non-annuitant death:** This refers to WRS active or inactive members who died before reaching the minimum retirement age. The WRS provides survivor benefits to the beneficiaries of those members. This category is also referred to as non-annuitant's death benefits. Benefits payable to an inactive member's beneficiaries include all employee required contributions, any voluntary additional contributions and accumulated interest. Benefits payable to an active member's beneficiaries include twice the amount of the employee required contributions, any voluntary additional contributions and accumulated interest.

**After Minimum Retirement Age – non-annuitant death:** Benefits payable for active members who have reached the minimum retirement age are determined by the higher of the two calculations below:

1. Twice the amount of employee required contribution balance, plus any voluntary additional contributions and accumulated interest in the account; or
2. A "special death" benefit based on both employee and employer contributions. This benefit is calculated as though the member retired on the date of death and selected a Joint and Survivor annuity continued in full to the beneficiary(ies). This type of death benefit is normally available as a lump sum, unless the monthly annuity payment is more than \$196.

**After retirement – annuitant death:** If an annuitant dies, the WRS provides death benefits based on the annuity option that has been selected by the member upon retirement. An annuitant's life-only option ends upon the death of the WRS member, with no additional payment to any beneficiary -- unless the annuitant has selected an accelerated payment option; in which case, a death benefit would exist if the annuitant died prior to age 62.

All other annuity options, such as life annuities with a guaranteed number of payments or joint and survivor options, provide varying level of death benefits. They are:

1. Life Annuity with 60 or 180 payments guaranteed
2. Joint & Survivor Annuity – 75% Continued to Named Survivor
3. Joint & Survivor Annuity – 100% Continued to Named Survivor
4. Joint & Survivor Annuity – 25% Reduction on Death of Annuitant or Named Survivor
5. Joint & Survivor Annuity – 100% Continued to Named Survivor with 180 Payments Guaranteed.

The annuity option selected by a WRS member will determine the type and the amount of the death benefits to his/her named survivor or beneficiary(ies). There are other factors that will affect whether the benefits will be provided as a onetime lump sum payment or a continued monthly annuity payment. The three most popular annuity options are Joint & Survivor with 100% Continued to Named Survivor with 180 Payments Guaranteed; lump sum payment; and Life Annuity with 180 Payments Guaranteed.

The WRS member determines the beneficiary of their WRS retirement account by providing a valid *Beneficiary Designation* form (ET-2320) or *Beneficiary Designation-Alternate* form (ET-2321) to ETF. A designation of beneficiary does not change automatically when a member experiences significant life events, such as births, deaths, domestic partnerships, marriages or divorces. Regardless of legal changes in personal relationships or significant life events, death benefits are paid according to the most recent valid form ET-2320 or ET-2321 filed with ETF.

Joint and survivor annuities are the exception. With these annuity options, the named survivor cannot be changed (unless the change is made within the first 60 days after the first payment). The Named Survivor is designated by a WRS member when he/she completes the *Retirement Benefit Estimates and Application* form (ET-4301), at the time of retirement.

If there is no *Beneficiary Designation* form on file with ETF, then ETF will use the *Statement of Identity for Standard Sequence* (SOI) form (ET-6305) to determine who the closest relatives and potential beneficiaries are. The SOI process will enable ETF to provide the proper Death Benefits Applications to the identified beneficiaries, according to the statutory standard sequence used by ETF.

Payments of death benefits are handled by the Benefit Initiation Section (BIS). BIS is part of the Benefit Services Bureau (BSB), which is under the Division of Retirement Services (DRS) at ETF. BIS does the actual final payment verification before approving and making the death benefits payment, either through a lump sum payment or continuing with a monthly annuity payment to the named survivor or beneficiary(ies) of a deceased WRS member.

Other business areas of DRS are also involved in the processing of death benefits. Those areas are the Contact Management Section (CMS) and the Member Services Bureau (MSB), both of which enter death notices onto the ETF systems. MSB is responsible for finding the beneficiaries and sending the benefit application forms, and BIS is responsible for reviewing the eligibility and calculating the death benefits payments.

**Inactive Death Project (IDP):** The IDP was initiated to discover deaths of the inactive WRS members with whom ETF lost contact, and to distribute death benefits accordingly. The loss of contact could be the result of, for example, the member having relocated or forgetting to update their new names or addresses with ETF. In addition, a WRS account may have become inactive when a member is no longer working for a WRS employer. Many of these “lost contact or inactive” members may be owed a retirement benefit. If they are deceased, then the survivor or beneficiary may be entitled to a death benefit. ETF is required by Admin. Code ETF 10.79 to make “reasonable efforts to locate benefit payees.” In 2014, MSB originated the Inactive Death Project (IDP) to research these “lost contact and inactive” accounts. The lost contact and inactive queries are run through Berwyn<sup>1</sup> on an annual basis to identify deceased members. The identified death account from the Berwyn report is entered into the various ETF systems as jobs for follow up review, research and potential correspondence by the MSB. The goal is to locate the appropriate individual or beneficiary to distribute the benefits.

From 2014 through April 2017, total death benefits of \$7,088,477.93, associated with 1,293 lost contact or inactive WRS accounts, was paid as the result of the IDP. The amounts paid out per year are as follows:

- 2014: \$948,365.95, for 143 accounts.
- 2015: \$3,433,023.67, for 316 accounts.
- 2016: \$2,165,593.43, for 616 accounts.
- 2017 as of April: \$541,494.88, for 218 accounts.

**Required Minimum Distribution (RMD):** In compliance with federal laws, ETF must annually distribute death benefits to beneficiaries of deceased WRS members by “force”. Such forced distributions are paid without a valid application on file, after the deadline to submit an application has passed. The Internal Revenue Services (IRS) requires the beneficiary to begin receiving WRS payments by a certain date, depending on the age of the original participant. This is called “required minimum distribution”.

If the original WRS member has died and would have reached age 69½ in that particular year, there are options available to the beneficiary, depending on whether the beneficiary was the spouse. The IRS also requires that WRS annuitant death benefits be paid to beneficiaries at least as quickly as the original benefit was being paid. BIS has procedures on forcing distributions to ensure that ETF meets IRS requirements.

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<sup>1</sup> **Berwyn** refers to the Berwyn Group. Berwyn provides ETF software and access, via a paid subscription, to nationwide death information and data. This Berwyn death data is used by many different bureaus of ETF in different types of death related searches.

For the RMD for beneficiaries of annuitants, BIS relies on the annual report of “Annuitants Deceased More Than Six Months.” This report identifies annuitants who are deceased more than six months, with guaranteed payments owed to a beneficiary or beneficiaries, where no action has been taken. The inactivity could be the result of the beneficiary having received the application form, but never returned it to ETF; or, the beneficiary could not be located by ETF due to an incorrect address on file. This report identifies and provides information to BIS staff to do follow up review and investigate in order to make a death benefit payment timely, if possible.

For the RMD for beneficiaries of non-annuitants, BIS relies on the annual report of “Non-Annuitants Deceased 5+ Years.” This report identifies non-annuitants who are deceased longer than five years. If it is confirmed that a death benefit application was not sent, BIS will request that MSB work to locate the beneficiary, verify the address and send an application to the beneficiary. If the application was already sent and BIS has a verified address in which to send the payment, BIS will force the death benefit payment.

BIS is considering increasing the frequency of generating and reviewing both reports from annually to quarterly. BIS is also rewriting and updating the procedures and internal documentation for these reports.

## Testing:

We focused our audit testing on the four areas indicated below. Audit approach largely consisted of interviews with key employees and management, observations and walkthroughs of key processes, review of policies and procedures, inspection of supporting documentations and re-performing calculations when appropriate.

The four key areas under review are:

1. Death Benefits Lump Sum Payments – WRS Annuitants and Non-Annuitants  
We tested calculation accuracy, beneficiary verification, how death is discovered
2. Death Benefits Continued Monthly Payments  
Same as item 1 above.
3. Inactive Death Project (IDP)  
We verified the identification of the “inactive accounts” and ETF’s follow-up process
4. Required Minimum Distribution (RMD) – Annuitants Deceased More Than Six Months and Non-Annuitants Deceased 5+ Years  
We verified the review and follow up by BIS staff on accounts that are potentially subject to forced distribution of death benefit payments to be in compliance with the RMD.

## Results:

The results of the audit are presented by the key areas of review:

### 1. Death Benefits Lump Sum Payments – WRS Annuitants and Non-Annuitants

When the beneficiary or guaranteed beneficiary chooses to receive a lump sum payment, they complete the appropriate ETF death benefit form. Beneficiaries must also provide a certified copy of the death certificate, which lists the cause of death, the date of death and other vital information. ETF staff verifies the rights of a beneficiary on myETF (BAS) usually by checking the imaged ET-2320 or ET-2321 Beneficiary Designation form.

If no Beneficiary Designation form is on file, death benefits are paid according to the statutory standard sequence, which determines the priority of beneficiaries. *The Statement of Identity (SOI) Standard Sequence* form (ET-6305) is used by ETF to collect information to determine the beneficiary(ies) for benefit distribution. If using SOI, it could take additional time for ETF to identify and verify the beneficiary(ies).

During the review period from September 2016 through December 2016, BIS made 215 lump sum payments to beneficiaries of named survivors or beneficiaries of annuitants and 515 lump sum payments to beneficiaries of non-annuitants. We randomly selected approximately 5 payments per week for annuitants and 5 payments per week for non-annuitants from the weekly LSPS Voucher Payments report for a total of 65 payments each for our testing.

- **Beneficiary Verification**

For annuitants' deaths and for named survivors' deaths, of the 65 lump sum payments made, 10 were made to the beneficiaries of named survivors and 55 were to beneficiaries. The 10 named survivors were verified to be on the imaged ET-4301s when the annuity was set up by ETF. The 55 beneficiaries were verified by either on the imaged ET-2320 form or on the imaged documentation of the SOI for statutory standard sequence. There were no issues or errors noted in the beneficiary verification process for annuitants' deaths.

For non-annuitants' deaths, of the 65 lump sum payments made, 43 were to non-active WRS members' beneficiaries and 22 to active WRS members' beneficiaries. All 65 non-annuitants were verified by the imaged ET-2320 form or through the imaged documentation of the SOI. There were no issues or errors noted in the beneficiary verification for non-annuitants' Deaths.

- **Accuracy of Calculations**

We performed our testing by vouching information contained on the following systems and recalculating benefit payments based on the verified information:

BPS – The WRS deceased member accounts were reviewed for the following:

	Annuitant	Non-Annuitant
Social Security number	X	X
Retirement date	X	
Date of birth	X	X
Date of death	X	X
When they left WRS		X
Monthly annuity amount at death	X	
Annuity option selected	X	
The annuity start date	X	
Names of beneficiaries or named survivor	X	X
Lump sum payment amount	X	X
Voucher date (payment date)	X	X
Percentage paid to each beneficiary	X	X

We also reviewed years of service and member account balances in BPS, comparing them to the (benefit) Calculation Worksheet. The Change History was also reviewed to determine when transactions were entered, such as the date of death and who made the changes in the system.

myETF (BAS) – The following imaged documents were reviewed for each deceased WRS member to verify the information captured in BPS:

	Annuitant	Non-Annuitant
The ET-6313 Annuitant Death Benefit Estimate	X	
The ET-6309 Death Benefit Estimates & Application		X
The certified Death Certificate	X	X
The ET-2320 Beneficiary Designation form	X	X
The ET-6305 Statement of Identity (SOI) Standard Sequence	X	X
The ET-4301 Retirement Benefit Estimates & Application	X	
The Deceased Annuitant worksheet	X	
The ET-4555 Data Entry Worksheet for WEBS Estimates – WA11		X
The CLEAR <sup>2</sup> Report	X	X
Any letters of correspondence	X	X

It was also necessary to review other imaged documents in the WRS member file on myETF(BAS) to fully understand each death benefits scenario to test and calculate the

<sup>2</sup> **CLEAR** refers to Thomson Reuters CLEAR, an Online investigation software, which is licensed to ETF. CLEAR can generate report providing detailed information on a person being searched, such as the addresses, phone numbers, social security number, dates of birth, relatives, and other detailed information. Most of this information is in chronological order for review.



amount paid, who was being paid and the timeframe of payment. It was also important to review the date the documentation was received by ETF and any notes (annotations) on the imaged documents made by ETF staff, in order to determine the appropriateness of the finalization of a death benefit matter.

CallSS - CallSS is the system used by the Contact Management Section and the Member Services Bureau to capture primarily telephone communication received from WRS members, their families and beneficiaries. We reviewed the timely reporting of death by tracing the reporting date to CallSS.

WEBS (Wisconsin Employee Benefits System) – On some occasions it was necessary to review or verify WRS member or employer information on WEBS to determine the appropriateness of a death benefit payment. Information verified could include the years of service, annuity start date, and WRS member and employer account contribution balances.

All of the 130 lump sum payments of death benefits were made accurately and were properly documented and supported. We did not identify any issues, errors or concerns.

- **Discovering Deaths**

Annuitants' deaths - Of the 65 samples selected for testing, deaths were, on average, reported to ETF 14 days from the date the death occurred. The death was usually reported by the beneficiary of the named survivor or the beneficiary.

To ensure that deaths are discovered timely, BIS runs a monthly Berwyn Report and the Health and Family Services (HFS) Death Match<sup>3</sup> list from the Department of Health Services (DHS) database to identify if an unreported death of an annuitant or named survivor has occurred.

Non-annuitants' deaths - Of the 65 samples selected for testing, 40 deaths were reported to ETF by the family, a friend or by the employer of the non-annuitant. On average, the reporting took about 30 days. The remaining 25 deaths sampled were discovered by the IDP, and several of the deaths discovered were as far back as the 1980s and 1990s.

To ensure that deaths are discovered in timely manner, MSB started the IDP in 2014. The focus of the IDP is to locate members who have not stayed in contact with ETF. The process to locate potential beneficiaries can be very time consuming. It may involve reading CLEAR searches, obituaries, Google and other sources to locate acquaintances who are willing to talk with ETF and provide useful information that can be used to locate family members. It is not uncommon to spend two or more years to locate a beneficiary and work with them to send the necessary documents to ETF, such as a *Statement of Identity* or other

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<sup>3</sup> **HFS Death Match** refers to the monthly report entitled "HFS Death Match", which is provided by the State of Wisconsin Department of Health Services. This report contains data on deaths of Wisconsin residents that have occurred in Wisconsin during the prior month. They also provide some Wisconsin resident deaths data from other states and countries as well.

information. Often, locating a beneficiary leads to other family members and the process continues. Please see the more detailed IDP discussion below in section 3.

BIS also started using the HFS Death Match in recent months to enhance its efforts in the discovery of deaths of non-annuitants and locating their beneficiaries.

## **2. Death Benefits – Continued Monthly Payments**

The named survivor of a deceased annuitant will continue to receive a monthly benefit payment from ETF. An ET-6314 *Joint Survivor Death Benefit Notice* will be mailed to the named survivor to explain the amount and the details of the continued monthly benefit they will receive.

When the beneficiary, guaranteed beneficiary of an annuitant or non-annuitant beneficiary chooses to continue or start a monthly payment, as their death benefit, they must file the appropriate ETF form with their choice of a monthly benefit:

- Beneficiary or Guaranteed Beneficiary – ET-6313 *Annuitant Death Benefit Estimate*
- Non-Annuitant Beneficiary – ET-6309 *Death Benefit Estimates and Application*

They must also provide a certified copy of the death certificate, which lists the cause of death, the date of death and other vital information.

The named survivor of an annuitant does not have to provide a death certificate. They were input into the BPS by BIS, based on the information on the ET-4301 *Retirement Benefit Estimates and Application*. The WRS member files the ET-4301 at retirement. ETF's goal is to continue any monthly payments to the named survivor in a quick and expeditious manner.

During the review period of September 2016 through December 2016, BIS made payments to 472 different individuals for continued monthly or for new monthly payments due to the deaths of WRS members. We tested the verification of the beneficiaries and the accuracy of benefit payments. We again randomly selected 65 initial monthly payments over the review timeframe and tested beneficiary verification and calculation accuracy. The information and documentation inspected and the calculation re-performed would depend on each death benefits matter reviewed, but would be similar or the same nature as what was described in the Lump Sum Payments - area 1 (above). We did not identify any issues, errors or concerns. We also reviewed operation efficiency and noted the following: On average, ETF made the first payment to the named survivor 25 days after the notification of death. When an overpayment of an annuity to a deceased annuitant is involved, the average time for ETF to recapture the overpayment was 14 days. It took ETF on average 5 days to send an ET-6314 *Joint Survivor Death Benefit Notice* to the named survivor after the death of an annuitant is confirmed.

ETF was usually notified of the death of the annuitant on average within 13 days, whether it was involving a named survivor or a guaranteed beneficiary. Notice of death when a non-

annuitant beneficiary was involved was on average 5 days. Most deaths were reported to ETF via telephone and through contact with the CMS.

### **3. Inactive Death Project (IDP)**

MSB is responsible for the IDP, which involves review, investigation and research of “inactive and lost contact” WRS non-annuitant accounts. Those accounts were identified by a query report run on WEBS. A custom Berwyn Report was then used to filter and identify deaths. This project started in 2014, with an initial 862 confirmed deaths. The most recent 2016 WEBS query report identified 28,882 lost contacts and 131,675 inactive accounts. Of those accounts, 1,055 were identified with the confirmed date of death. MSB staff was assigned the task of researching the confirmed death accounts based on experience.

We selected limited random samples to confirm the identification of the inactive death accounts, verify that additional research was performed by MSB staff and that the research was conducted in accordance with MSB’s written policies and procedures. When applicable, we also recalculated the benefit payments and confirmed accuracy of the payments. We did not identify any exceptions.

MSB also provided OIA detailed IDP payment information. From 2014, the start of the project, to April 2017, the total payout from the 1,293 lost contact or inactive WRS accounts was \$7,088,477.93. It appeared that MSB has been making steady progress in resolving inactive death benefit payments. In the first year of the project, 143 accounts were resolved in payment; in 2015, 173 more accounts were resolved in payment; and in 2016, a total of 616 accounts were located and resolved in payment.

### **4. Required Minimum Distribution**

#### **Annuitants Deceased More Than Six Months**

To meet the RMD requirements, BIS is responsible for researching and investigating potential death benefits to guaranteed beneficiaries of a deceased annuitant who has been deceased more than six months. We used the report, Annuitant’s Deceased More Than Six Months, dated September 2016, for our testing. We selected limited random samples and verified that the appropriate research and follow-up were conducted by BIS, the calculations were accurate, and the distributions were made to the right individual. We also observed that all entries on the report were followed up by BIS, with many benefit payments being made.

#### **Non-Annuitant’s Deceased 5+ Years**

To meet the RMD requirement, BIS is also responsible for researching and investigating potential death benefit payments to beneficiaries of non-annuitants who are deceased more than 5 years (these WRS members died before beginning their retirement). BIS is researching these entries to determine whether a potential beneficiary has been sent a death benefits application. If it has been sent and BIS can confirm or verify an address of the beneficiary, then BIS can possibly make a forced payment, in the form of a lump sum, at that time. If it hasn’t been sent, BIS will inform MSB to send the application.

We used the report, Non-Annuitant's Deceased 5+ Years, with 2016 data from various ETF systems for our testing. We selected limited random samples and verified that the appropriate research and follow up were conducted by BIS, the calculations were accurate and the distributions were made to the right individual. BIS is expecting to complete the research and potential distributions of all the entries on the report by approximately the end of September 2017.

## **Conclusion:**

We evaluated the calculations and distributions of WRS death benefits for their accuracy, correctness and timeliness. We confirmed that ETF has a process in place to locate lost contact and inactive WRS members who passed away and has followed procedures in place to address the required minimum distributions. Overall, we conclude that:

- The calculations of death benefit amounts, either as a continued monthly annuity payment or a lump sum payment, were accurate
- The beneficiaries were effectively verified for proper benefit distributions
- Once death is confirmed and the beneficiary is located, benefit payments were made timely.