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Correspondence Memorandum

Date: November 16, 2020
To: Audit Committee
From: Amelia Slaney, CPA
Division of Trust Finance
Subject: 2019 Annual Financial Reports

This memo is for informational purposes only. No Committee action is required.

The Department of Employee Trust Funds (ETF) has issued the 2019 financial statements and related notes for the Wisconsin Retirement System (WRS) and State and Local Retiree Life Insurance funds. In addition, related Employer Schedules have been published. The reports were audited by the Legislative Audit Bureau (LAB). LAB issued unmodified opinions, which means the financial statements present fairly, in all material respects, the financial position of the programs as of December 31, 2019, and the respective changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

The WRS continues to be well funded. The funding ratio as of December 31, 2019, calculated in accordance with Governmental Accounting Standards Board (GASB) principles, is 103%, an increase from 96.5% reported as of December 31, 2018. The increase is primarily attributable to higher investment returns.

The strong funding position of the WRS can be in large part attributed to the risk-sharing features included in the plan design. The risk sharing features include the absence of a guaranteed cost-of-living adjustment and the ability to increase annuities (or decrease annuities up to an amount of previously granted increases), depending on investment performance. As a result, one of the inherent risks in this plan design is all previously granted post-retirement Core Fund adjustments (commonly referred to as dividends) can be revoked if investment losses are significant enough.

LAB's report discusses this risk and recommends further assessment. The ETF Board has been monitoring the health of the "dividend reserve" since 2012, which is now over \$7 billion. This is a topic for discussion at the December board meeting. We will

Reviewed and approved by Cindy Klimke-Armatoski, Chief Trust Financial Officer and Controller

Electronically Signed 11/24/20

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continue to monitor this matter and will provide an update to the Joint Legislative Audit Committee, as recommended by LAB, by February 26, 2021.

ETF's Comprehensive Annual Financial Report (CAFR), which includes information about ETF, the WRS, and other benefit programs administered by ETF, will be issued later. We encountered delays this year in implementing a new accounting standard related to fiduciary funds. The changes were most significant for the Accumulated Sick Leave Conversion Credit (ASLCC) and Supplemental Health Insurance Conversion Credit (SHICC) programs, which were previously reported as one fiduciary fund. In reviewing the new standard, we determined the funds should be reported separately, with ASLCC being reported as a proprietary fund and SHICC being reported as an Other Postemployment Benefit (OPEB). This change required significant research and discussions regarding the calculation of the programs' liabilities, data from participating employers, an actuarial valuation, and preparation of additional reports for employers use in preparing their financial statements. We continue to exercise due diligence and are working to finalize the changes and ensure reporting in compliance with accounting standards.

Staff will be at the committee meeting to answer any questions.