



STATE OF WISCONSIN
Department of Employee Trust Funds
 Robert J. Conlin
 SECRETARY

Wisconsin Department
 of Employee Trust Funds
 PO Box 7931
 Madison WI 53707-7931
 1-877-533-5020 (toll free)
 Fax 608-267-4549
 etf.wi.gov

Correspondence Memorandum

Date: February 11, 2021
To: Audit Committee
From: Amanda Williams
 Office of Internal Audit (OIA)
Subject: Annuity Calculations Limited Review

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

This memo provides an overview of the limited review performed by the OIA for the Annuity Benefit Calculations. This review is performed periodically as identified in the OIA FY20 - FY21 Biennial Audit Plan to ensure that annuity payments were calculated correctly and were distributed to the correct individuals in a timely manner.

This review was performed in accordance with the International Standards for the Professional Practice of Internal Auditing issued by the International Internal Audit Standards Board.

Annuity Calculations Background Information

The Benefit Initiation Section (BIS) within the Benefit Services Bureau of the Division of Retirement Services performs the final calculation of Retirement annuity benefits. There are three main types of retirement calculations performed:

- Automated Annuity: annuity calculations that are performed automatically based on employer supplied information.
- Manual Annuity: annuity calculations that are manually calculated by BIS staff due to special situations, such as rehired annuitants that are retiring again, part-time add-on service, or employer additional payments.
- Special Death Benefit: benefit calculations for the beneficiaries of a deceased employee or annuitant. These payments may be an annuity or lump-sum payment.

Reviewed and approved by Yikchau Sze, Director, Office of Internal Audit

Electronically Signed 3/9/21

Board	Mtg Date	Item #
AUD	3.24.21	5B

The Disability Programs Section within the Benefit Services Bureau of the Division of Retirement Services performs the final calculation of annuity disability benefits. These calculations are performed manually based on employer-supplied information.

Review Approach

We conducted our review by first performing a walk through with staff of their current procedures and controls to confirm our understanding of the annuity finalization process. We then created our own template based on our understanding of the benefit calculations to recalculate the annuities, which incorporated the formulas used in the annuity calculation process and referenced tables from the WEBS database. This template has helped the OIA to increase the automation and efficiency of our review process.

OIA performed sample testing of 129 annuity payment calculations finalized between November 2019 and October 2020. We tested both Retirement and Disability Retirement Annuities and selected our sample sizes using a risk-based approach. Our sample was distributed between the different benefit types as follows:

Benefit Type	Sample Size	% of Population
Automated Annuity	50	0.6%
Manual Annuity	32	8%
Special Death Benefit	20	6%
Disability Retirement Annuity	27	8%

For the randomly selected annuities in our samples, we recalculated the benefit payments using the template; vouched to supporting documentation in myETF; traced to the Annuity Rate Display (ARD) and the Benefit Payment System (BPS); ensured the calculations had a secondary review; and evaluated the timeliness of the annuity finalization process.

Review Results

During our review, we found one Special Death-Manual annuity that did not calculate and pay the beneficiary's retroactive payments in the amount of \$3,564.90. Staff agreed with this error and set up the payment to the beneficiary for the retroactive payments to be paid on 2/1/2021. This appears to be an isolated incident and no further action is suggested to management. However, OIA plans to perform the next review of the Annuity Benefit Calculations in May 2021 to increase the frequency of this review. We also plan to adjust the sample size of the higher risk annuity calculations based on the results of this review.

We were able to validate all other annuity calculations in our review without exception. We also found that all annuity calculations had a secondary review and were completed in a timely manner. See the table below for our timeliness analysis.

Annuity Type	Timeliness Requirement	Timeliness of Benefits Tested	Within Expected Timeframe
Retirement Benefit ¹	ET-4133 “WRS Guide to Retirement”: 6 to 12 months after retirement.	Average: 4 months and 27 days	Yes
Disability Benefit	ET-5107 “Disability Retirement Benefits”: 3 to 4 months after ETF receives both medical report forms and required paperwork from the participant’s employer.	Average: 2 months and 25 days	Yes

¹ Includes only Automated and Manual Retirement Annuity calculations.