

Background

The Benefit Initiation Section (BIS) within the Benefit Services Bureau (BSB) of the Division of Retirement Services (DRS) 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 who 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.

The Disability Programs Section (DPS) within the BSB of the DRS performs the final calculation of annuity disability benefits. These calculations are performed manually based on employer-supplied information.

Both the retirement and disability benefit calculations are processed and finalized through the Wisconsin Employee Benefits System (WEBS). Once the final benefit is calculated, the benefit is entered into the Benefit Payment System (BPS), which pays the annuity benefits to each member or beneficiary. All benefit calculations performed by BIS and DPS have a secondary review before they are processed within the WEBS and BPS systems.

The table below shows the total number of benefits finalized during the last two years:

Benefit Type	2020	2021
Automated Annuity	9,555	10,799
Manual Annuity	810	903
Special Death Benefit	47	39
Disability Benefit	309	261
Total	10,721	12,002

Review Objective and Scope

This review is performed on a periodic basis in accordance with the FY22-FY23 Biennial Audit Plan to ensure that annuity payments were calculated correctly and were distributed to the correct individuals in a timely manner. We performed two reviews in 2021 for the following review periods:

- Review #1: November 2020 – April 2021
- Review #2: May 2021 – November 2021

Our reviews were performed in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the International Internal Audit Standards Board.

Review Approach

We conducted our reviews by first confirming our understanding of the annuity finalization process with staff and any changes made to the process or calculation since our last review. We then randomly sampled the annuity payment calculations finalized during our review periods. We tested both Retirement and Disability Retirement Annuities and selected our sample sizes using a risk-based approach. Our samples were distributed between the different benefit types as follows:

Benefit Type	November 2020 – April 2021		May 2021 – November 2021	
	Sample Size	% of Population	Sample Size	% of Population
Automated Annuity	50	0.8%	50	0.95%
Manual Annuity	22	12%	25	13%
Special Death Benefit	23	100%	18	100%
Disability Retirement Annuity	20	16%	20	13%

We recalculated the annuities using an OIA template that was created based on our understanding of the benefit calculations. This template incorporated the formulas used in the annuity calculation process and referenced tables from the WEBS database.

We also vouched the benefit calculations to supporting documentation in OnBase and myETF; traced the calculation factors to the Annuity Rate Display (ARD) and benefit paid to the BPS; ensured the calculations had a secondary review; and evaluated the timeliness of the annuity finalization process.

Review Results

During our first review, we found staff inadvertently included add-on service in the age reduction factor for one disability retirement benefit annuity. This caused the calculation

of the monthly disability benefit to be \$2.64 less than the benefit due to the member. Staff agreed with this error and corrected the benefit amount in June 2021 (see Attachment I).

During our second review, we found one retirement benefit annuity that used an incorrect age reduction factor due to staff mistyping the factor into the calculation. This caused the calculation of the monthly benefit to be \$77.23 less than the benefit due to the member. Staff agreed with this error and an annuity correction was processed at the end of January 2022 for this member.

We also found that staff miscalculated the Money Purchase balances for one of the Special Death annuities where the benefit effective date was later than the day after the death date. This was due to staff inadvertently using the interest field instead of the contribution field to calculate the prorated interest due on the account. However, the beneficiaries received the active death benefit, and the corrections of the Money Purchase balances had no effect on the beneficiary’s benefit.

We were able to validate the remaining 225 annuity calculations in our reviews 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
		November 2020 – April 2021	May 2021– November 2021	
Retirement Benefit ¹	ET-4133 “WRS Guide to Retirement”: 6 to 12 months after retirement.	Average: 5 months and 8 days	Average: 3 months and 26 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: 3 months and 1 days	Average: 3 months and 12 days	Yes

Process Improvement Suggestion

Due to the errors identified in our reviews for the years 2020 and 2021, OIA suggests that BSB reinforces the importance of the secondary reviews with its staff, ensure staff receive further training if needed, and/or explore options for recalculating the benefits as part of the secondary review.

Attachment I: Annuity Calculations Limited Review #1 – June 4, 2021



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Correspondence Memorandum

Date: June 4, 2021

To: Anne Boudreau, Deputy Administrator, DRS
Jim Guidry, Bureau Director, Benefit Services Bureau, DRS

From: Amanda Williams
Office of Internal Audit (OIA)

Subject: Annuity Calculations Limited Review

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 (BSB) of the Division of Retirement Services (DRS) 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.

The Disability Programs Section within the BSB of the DRS 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 confirming our understanding of the annuity finalization process with staff and any changes made to the process or calculation since

our last review. We then randomly sampled 115 annuity payment calculations finalized between November 2020 and April 2021 for our testing. 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	0.8%
Manual Annuity	22	12%
Special Death Benefit	23	100%
Disability Retirement Annuity	20	16%

We recalculated the annuities using an OIA template that was created based on our understanding of the benefit calculations. This template incorporated the formulas used in the annuity calculation process and referenced tables from the WEBS database. We also vouched the benefit calculations 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 disability retirement benefit annuity that used an incorrect age reduction factor due to staff inadvertently including add-on service in the factor calculator. This caused the calculation of the monthly disability benefit to be \$2.64 less than the benefit due to the member. Staff agreed with this error and corrected the benefit amount on June 3, 2021 and setup a one-time retroactive payment for the past six-monthly payments that were underpaid, which covered 11 months of eligibility. This appears to be an isolated incident and no further action is suggested to management.

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: 5 months and 8 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: 3 months and 1 days	Yes

¹ Includes only Automated and Manual Retirement Annuity calculations.