

# **Office of Internal Audit**

## *Annuity Calculation Limited Review*



February 21, 2023

Prepared for Audit Committee Meeting of the Department of Employee Trust Funds, 3.23.2023;  
Prepared by Amanda Williams  
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Reviewed and approved by Yikchau Sze, Director, Office of Internal Audit  
Electronically Signed 2/27/23

Board	Mtg Date	Item #
AUD	3.23.23	7

## 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 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.

BIS also performs the final calculation of annuity disability benefits. These calculations are performed manually based on employer supplied information. Prior to July 2022, the Disability Programs Section (DPS) within the BSB of the DRS performed the final calculation of annuity disability benefits until the disability benefit calculations and DPS staff were transferred to the BIS.

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:

<b>Benefit Type</b>	<b>2021</b>	<b>2022</b>
Automated Annuity	10,799	8,486
Manual Annuity	857	775
Special Death Benefit	39	35
Disability Benefit	261	269
<b>Total</b>	<b>11,956</b>	<b>9,565</b>

## Audit 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 2022 for the following review periods:

- Review 1: November 2021 – April 2022
- Review 2: May 2022 – November 2022

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 2021 – April 2022		May- November 2022	
	Sample Size	% of Population	Sample Size	% of Population
Automated Annuity	50	1.10%	50	1.06%
Manual Annuity	55	28%	75	34%
Special Death Benefit	15	100%	23	100%
Disability Retirement Annuity	25	19%	32	20%

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; traced to the Annuity Rate Display (ARD) and 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 were able to validate all annuity calculations in our review with only two exceptions. We noted one error in the Manual Retirement Calculations and one error in the Special Death Annuity Calculations. Both errors did not require an annuity correction since these errors were below the \$2 threshold for annuity corrections (see Attachment I).

During our second review, we were able to validate all annuity calculations in our review with one exception. We noted one error in the Manual Retirement Calculations. Staff calculated the Maximum Annuity amount using an incorrect percentage of the Final Average Earnings amount. However, since the member’s formula benefit was less than the Maximum Annuity amount, there was no effect on the annuity and a correction was not needed.

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 2021 – April 2022	May – November 2022	
Retirement Benefit <sup>1</sup>	ET-4133 “WRS Guide to Retirement”: 6 to 12 months after retirement.	Average: 4 months and 25 days	Average: 5 months and 29 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 29 days	Average: 2 months and 17 days	Yes

<sup>1</sup> Includes only Automated and Manual Retirement Annuity calculations.

Attachment I: Annuity Calculations Limited Review #1 – July 28, 2022



**STATE OF WISCONSIN**  
**Department of Employee Trust Funds**  
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SECRETARY

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## ***Correspondence Memorandum***

**Date:** July 28, 2022

**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 FY22 - FY23 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.

During our review period, 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. Starting in July 2022, the disability benefit calculations were transferred to the BIS along with the staff that complete these calculations.

**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 145 annuity payment calculations finalized between November 2021 and May 2022 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:

<b>Benefit Type</b>	<b>Sample Size</b>	<b>% of Population</b>
Automated Annuity	50	1.10%
Manual Annuity	55	28%
Special Death Benefit	15	100%
Disability Retirement Annuity	25	19%

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; 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**

We were able to validate all annuity calculations in our review with only two exceptions. We noted one error in the Manual Retirement Calculations and one error in the Special Death Annuity Calculations. Both errors did not require an annuity correction. Although we found that all annuity calculations had a secondary review, we continue to suggest that BSB reinforce 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.

All calculations in our review were completed within the targeted timeframe. See the table below for our timeliness analysis.

<b>Annuity Type</b>	<b>Timeliness Requirement</b>	<b>Timeliness of Benefits Tested</b>	<b>Within Expected Timeframe</b>
Retirement Benefit <sup>1</sup>	ET-4133 "WRS Guide to Retirement": 6 to 12 months after retirement.	Average: 4 months and 25 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 29 days	Yes

<sup>1</sup> Includes only Automated and Manual Retirement Annuity calculations.