

Office of Internal Audit

Annuity Calculation Limited Review



April 2, 2024

Background

The Benefit Initiation Section (BIS) within the Benefit Services Bureau (BSB) of the Division of Benefits Administration (DBA)¹ 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 perform 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 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	2022	2023
Automated Annuity	8,486	10,297
Manual Annuity	775	505
Special Death Benefit	35	31
Disability Benefit	269	237
Total	9,565	11,070

Audit Objective and Scope

This review is performed on a periodic basis in accordance with the FY24-FY25 Biennial Audit Plan to ensure that annuity payments were calculated correctly and were distributed to the correct individuals in a timely manner. We reviewed the annuity benefits calculated between December 2022 – December 2023.

¹ As of March 2024, the division was renamed the Division of Benefit Administration (DBA).

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

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 the annuity payment calculations finalized during our review period. 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	Sample Size	% of Population
Automated Annuity	100	0.97%
Manual Annuity	150	29.7%
Special Death Benefit	31	100%
Disability Retirement Annuity	50	21.1%

We recalculated the annuities using an Office of Internal Audit 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; 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

We were able to validate all annuity calculations in our review with only two exceptions. In the Automated Retirement Calculations, one of the annuities had an error in the calculation of the age reduction factor. In the Special Death Calculations, we found the money purchase annuity amount for one calculation was off by \$10. However, both of these exceptions did not need an annuity correction since the member received another benefit calculation that was higher.

We also found that all annuity calculations had a secondary review, and the majority of the calculations were completed in a timely manner, with the exception of a few retirement benefits. See the table below for our timeliness analysis.

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Annuity Type	Timeliness Requirement	Within Expected Timeframe
Retirement Benefit ²	ET-4133 “WRS Guide to Retirement” – 6 to 12 months after retirement.	98%
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.	100%

² Includes only Automated and Manual Retirement Annuity calculations.