

Alternatives for the Variable Fund

Option A

Leave the Variable Fund open, but proactively expand participant education on concerns about the risk/return ratio of Variable Fund investments and the potential negative effects of Variable participation on Wisconsin Retirement System (WRS) benefits. This will better enable participants to make well-informed decisions about whether to elect or cancel Variable participation. *Note: This option does not phase out the Variable Fund, but is intended to provide comprehensive participant education on the risk/return of participation.*

Pros

- All current and future participants retain the choice of electing and canceling Variable participation.
- No statutory changes are required.
- No administrative or Information Technology (IT) changes are necessary.
- No exposure to legal challenges for eliminating existing participant rights.

Cons

- Participants can still elect Variable participation, and may assume that the Variable Fund option would not be offered if it contained a high level of risk.
- Participants whose benefits are decreased due to Variable participation may blame the Department and the ETF Board for continuing to provide an option that negatively affected their benefits.

Option B

Close the Variable Fund to new employees who begin WRS participation on or after the effective date of the change.

- Participants who began WRS coverage before the effective date of the closure would still be eligible to elect Variable participation at any time.
- Participants whose elections to participate in the Variable Fund were effective prior to the date the Fund is closed continue to make Variable contributions until such time as they may elect to cancel their Variable participation.
- Proactively expand participant education on concerns about the risk/return ratio of Variable Fund investments and the potential negative effects of Variable participation on WRS benefits.

Pros

- This closure option affects a minimal number of participants.
- Least exposure of the Variable closure options to a legal challenge because existing rights are not taken away.

Cons

- New participants who cannot elect Variable participation may feel discriminated against because they do not have the same choices available to other participants.
- Since existing participants would have an open-ended Variable enrollment period, the life of the Variable Fund could be extended considerably.
- Any closure of the Variable Fund would require a statutory change.
- Costly administrative and IT changes would be necessary.

Option C

Close the Variable Fund to new employees who begin WRS participation on or after the effective date of the change and close the Variable Fund to existing WRS covered employees not currently participating in the Variable Fund.

- Participants whose elections to participate in the Variable Fund were effective prior to the date the Fund is closed continue to make Variable Fund contributions until such time as they may elect to cancel participation.
- Proactively expand participant education on concerns about the risk/return ratio of Variable Fund investments and the potential negative effects of Variable participation on WRS benefits.

Pros

- Participants could still enroll in Variable before the effective date of the closure.
- Because this is how the Variable Fund was closed in 1980, there may be less exposure to legal challenges.

Cons

- After the Variable Fund closes, some participants may express concern that they cannot elect participation, particularly when the Variable Fund outperforms the Core Fund.
- Administrative and IT changes would be necessary.
- Since existing participants would have an open-ended Variable enrollment period, the life of the Variable Fund could be extended considerably which could have a negative impact of the viability of the Fund.
- Any closure of the Variable Fund would require a statutory change.

Option D

Close the Variable Fund to all new contributions.

- Proactively expand participant education on concerns about the risk/return ratio of Variable Fund investments and the potential negative effects of Variable participation on WRS benefits.

Pros

- This option would limit participants' exposure to inherent investment risks of the Variable Fund.
- Unless they choose to cancel Variable participation, existing participants could still retire with a Variable annuity based on their previous Variable Fund contributions and interest.

Cons

- Prohibiting existing Variable participants from making future contributions could be perceived as a take-away of their rights.
- May be significantly more vulnerable to a legal challenge.
- Costly administrative and IT changes would be necessary.
- Any closure of the Variable Fund would require a statutory change.

Options Relative to Existing Variable Fund Balances

The following presents options for the treatment of existing Variable Fund balances if the Variable Fund is closed to all new contributions.

Option 1:

Participants can leave their Variable contributions in the Fund until such time as they elect to cancel participation, and cannot make any new Variable contributions.

Pros

- This option would maintain the Variable Fund as an investment option.
- From an administrative standpoint, this option would not require as many administrative changes as other options.
- For example, it would not require as many policy related decisions or as much education of, or communication to, participants.

Cons

- Administrative changes would still be necessary.
- This option would prohibit new elections, which could be viewed as discriminatory by new participants.
- Similar to the options listed throughout, this would require statutory changes.

Option 2:

Transfer participants' Variable Fund balances/annuities to the Core Fund *conditionally only*, as though they had filed a conditional Variable cancellation form in the year before the Fund is closed. This means that each individual's Variable balance would only transfer to the Core Fund when the participant does not have a Variable deficiency.

Pros

- The Variable Fund would cease to exist as soon as no participant had a Variable deficiency, alleviating the State of Wisconsin Investment Board's (SWIB) concerns about achieving an optimal risk/return ratio in the Variable Fund.

Cons

- Participants' Variable accounts and annuities being involuntarily transferred to the Core Fund could be viewed as a take-away of their existing statutory rights.
- Significant administrative and IT changes would be necessary.

Option 3:

Transfer participants' Variable Fund balances and annuities to the Core Fund *immediately* when the Variable Fund is closed, regardless of whether they have an excess or deficiency. Annual Core Fund interest would be subsequently credited to residual Variable excess or deficiency balances as provided under current law.

Pros

- The Variable Fund would immediately cease to exist, and all WRS Funds would immediately be invested in the (Core) Fund with the most optimal risk/return ratio.
- Since the Variable Fund would immediately cease to exist, there could be no unfavorable comparisons with Core Fund investment returns and what the Variable Fund would have earned if it still existed.

Cons

- Participants with residual deficiencies would be significantly harmed because their deficiencies will grow annually, based on Core Fund effective interest rates.
- Increases the likelihood of legal challenges from participants.
- Significant administrative and IT changes would be necessary.

Option 4:

Transfer participants' Variable Fund balances and annuities to the Core Fund immediately when the Variable Fund is closed (January 1). Participants' Variable excess balances and annuities that are at least "breaking even" would transfer as-is, and residual Variable excess balances would be credited with annual Core Fund interest as under current law. Participants with a Variable deficiency or whose annuities are "behind" would be "made whole" by eliminating their Variable deficiencies or increasing their annuities to the amount they would be receiving if they had never participated in the Variable Fund.

Pros

- The Variable Fund would immediately cease to exist, and all WRS Funds would immediately be invested in the Core Fund, with the most optimal risk/return ratio.
- The mandatory immediate transfer of their Variable Funds to the Core Fund would not harm participants.

Cons

- This option would require transferring Funds from the employer reserve to make up the shortfall between participants' actual account balance or annuities and what it would be if they were not being made whole.
- This option would require statutory authority to transfer Funds from the employer reserve to make participants with a deficiency "whole," which in turn would place upward pressure on both employee and employer contribution rates.
- This option would be extremely vulnerable to a successful legal challenge from both participants and employers.
- Significant administrative and IT changes would be necessary.