



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:** May 20, 2019  
**To:** Employee Trust Funds Board  
**From:** Steve Hurley, Director, Office of Policy, Privacy & Compliance  
**Subject:** Re-cap of Dividend Reserve and Investment Volatility Policy Discussions

**This is for information only. No Board action is required.**

At the March 21, 2019, Board meeting the Employee Trust Funds (ETF) Board approved updates to the Wisconsin Retirement System (WRS) Funding Policy. Discussion of the Funding Policy and investment risk management raised the question of developing additional language in the Funding Policy to cover dividend reserve funding contingencies. As a starting point, this memorandum provides a guide to the timeline of discussions on investment risk and the dividend reserve that began after the WRS Funding Policy was initially adopted in December 2014.

- **April 2, 2015** - The Board briefly discussed annuity adjustments and dividends and how Wisconsin statutes control the Board's flexibility regarding the funding of the WRS.
- **June 25, 2015** – ETF presented a memo on [WRS Dividends and Annuity Reserve Options: Effect of Investment Performance](#). (Ref. ETF | 6.25.15 | 4D) The Board directed ETF to work with the State of Wisconsin Investment Board (SWIB) and the Board's actuary, GRS, to develop models to show the effects of various investment return simulations outside the normal expected range of returns.
- **September 24, 2015** – ETF provided a memo to the Board on [WRS Investment Risk and Market Volatility](#), (Ref. ETF | 9.24.15 | 4D) along with a presentation on projected effects of specific worst-case scenarios. The memo explained basic funding components of the WRS, existing volatility-controlling mechanisms, and described potential strategies for responding to volatility. The memo outlined several approaches related to dividend reserve depletion.

Reviewed and approved by Pamela Henning, Assistant Deputy Secretary

Electronically Signed 6/5/19

Board	Mtg Date	Item #
ETF	6.20.19	5E

- **December 10, 2015** – ETF provided a memo on [WRS Investment Risk Continued Discussion](#) (Ref. ETF | 12.10.15 | 4B), which signaled the intent to continue developing measures for mitigating volatility. The memo provided examples of approaches to potentially analyze.
- **December 15, 2016** – ETF provided a memo to the Board on [Dividend Reserve Options](#) (Ref. ETF | 12.15.16 | 4D) (with [Slides](#)). These materials provided analysis based on research by the Board’s actuary, Gabriel, Roeder & Smith, on the probability of dividend reserve depletion, comparing status quo to the “Cap and Reserve” approach (limit dividends to annual inflation but no more than 3%), and “Dividend Delay” (dividends for new retirees commence after five years). In addition, ETF presented information on an equity measure called “Dividend Lock,” which contemplated allowing annuitants that have reached 80 years to lock in their dividends. The Board commented on the need to continue educating members about the necessity of personal savings beyond the WRS pension. No further action was taken.

The stress testing and projection study being developed by GRS for the October 2019 SWIB Board Meeting at which SWIB’s future asset allocation is discussed is expected to cover scenarios for dividend reserve depletion, effects of depletion on contribution rates, as well as the role of dividends in providing inflation protection. Results of that GRS analysis will be shared with the Board in December.

Staff will be at the Board meeting to answer questions.