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: March 9, 2020

To: Employee Trust Funds Board
Teachers Retirement Board
Wisconsin Retirement Board

From: Cheryllynn Wilkins, Board Liaison
Office of the Secretary

Subject: Board Correspondence

This memo is for informational purposes only. No Board action is required.

The Department of Employee Trust Funds occasionally receives correspondence on behalf of the Employee Trust Funds (Board) regarding proposed or recent changes to the Wisconsin Retirement System and other benefits.

Since the December 12, 2019, Board meeting, the following communication has been submitted for the Board's consideration:

1. February 17, 2020 – Mail Correspondence – Helberg
2. March 8, 2020 – Email Correspondence - Bauer

Correspondence for Board consideration is welcome via email to BoardFeedback@etf.wi.gov or postal mail to Department of Employee Trust Funds, c/o ETF Board Liaison, P.O. Box 7931, Madison, WI 53707-7931.

Staff will be at the Board meeting to answer any questions.

Reviewed and approved by Pamela Henning, Assistant Deputy Secretary
Pamela L Henning Electronically Signed 3/24/20

Board	Mtg Date	Item #
ETF	3.26.20	6R

February 17, 2020

SWIB
PO Box 7842
Madison, WI 53707-7842

To Whom It May Concern:

It was both disappointing and with anger to learn about the forthcoming annuity adjustments.

When the Core Fund earned a 19.9% return on its investment in 2019, how can the projected increase be only 1.5-1.9%?

I've been retired for 21 years and falling behind with returns like this. Does the SWIB have the earn 40% for me to earn 5%?

My retired friends are angry and feel cheated.

Sincerely,

Kay K. Helberg

416 Pebble Creek Pass
Wales, WI 53183

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March 3, 2020

KAY HELBERG
416 PEBBLE CREEK PASS
WALES, WI 53183

Dear Ms. Helberg,

We received your letter dated February 17, 2020 regarding the Core Fund annuity adjustments (annuity adjustments). Thank you for taking the time to write to us. We understand your concerns about the annuity adjustments and that you feel they are lagging investment returns. I hope the information below helps clarify how the annuity adjustments are calculated and explains how investment earnings relate to the annuity adjustment made each year. If you would like any further clarification or would like additional assistance, please don’t hesitate to contact me.

Annual adjustments made to retiree accounts are based on investment performance, plan design, and actuarial factors. While the detailed calculations completed by the actuaries can be found in the annual Actuarial Valuation of Retired Lives report, basically there are three primary reasons why annual annuity changes are different than Core Fund investment performance.

First, investment earnings are smoothed over the course of five years. As a result, only a portion of the earnings are used in calculating the annuity adjustment. The remainder will be applied over the following four years. Smoothing helps prevent large volatility in annuity adjustments from year-to-year and reduces risk to the trust fund and retirees. Smoothing also helps cushion the effects of the ups and downs of the stock market. This tends to make annuity adjustments more stable so that you will see less of a change from year-to-year.

Second, 5% of the investment earnings are needed to fund your lifetime benefit. The contributions paid for you during your working career and the investments on those past contributions alone are not enough to fully pay you for your lifetime. Additional funding is necessary. The use of 5% of the earnings on annual basis is required by state law and ensures enough funding to pay your original core annuity.

Finally, the actuaries continually assess if the assumptions used in determining retirement contributions are being realized as anticipated. In the event there is some deviation, investment earnings are needed to fund any differences. For example, retirees, on average, are living longer than originally anticipated. Longer lifetimes increase the amount of funding needed to pay annuities. To ensure funding is available to pay retirees, investment earnings are needed to meet this increased liability.

Once these three steps have been completed, remaining earnings are distributed as annuity adjustments. In the event earnings are not high enough to fund these steps, annuities can be reduced. Unfortunately, this occurred after the 2008 stock market turmoil. However, due to the smoothing feature of the WRS described above, the impact was not as severe as it could have been.

I understand the process may seem complicated, but this approach is one reason the WRS maintains a strong funding level and is considered a national leader. As noted, actuaries complete this work on an annual basis and report the results to the ETF Board in March. The work of the actuaries is based on state law and independently audited every five years.

If you are interested in the details of how the 2019 adjustments were determined, the report will be available when the Retirement Board materials are posted on ETF's website, within a few weeks. Please watch for the 2019 report to be posted at https://etf.wi.gov/about-etf/governing-boards/retirement-boards-meeting-agendas-and-materials. Reports from previous years are also available on our website. The independent audit of the actuaries will also be reviewed by the board in March.

Thank you for the opportunity to share this information with you. Again, if you have any questions or would like further clarification or assistance, please feel free to give me a call.

Sincerely,

Matt Stohr

Matt Stohr, Administrator
Division of Retirement Services
Department of Employee Trust Funds
608-266-1210

From:	Dennis Bauer
To:	ETF SMB Board Feedback
Subject:	Annuatant core adjustment
Date:	Sunday, March 8, 2020 10:08:26 PM

Wow.
A 16 percent 2019 increase in the core investments and a 1.7 percent increase in the annuatant adjustment. No wonder I m falling behind the cost of living increase each year. Will I get a 1.7 percent decrease if the core experiences a 16 percent decrease?

Sent from my iPhone

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March 9, 2020

Dennis Bauer
dwbauerus@yahoo.com

Dear Mr. Bauer,

We received your email dated March 8, 2020 regarding the Core Fund annuity adjustments (annuity adjustments). Thank you for taking the time to write to us. We understand your concerns about the annuity adjustments and that you feel they are lagging investment returns. I hope the information below helps clarify how the annuity adjustments are calculated and help you understand how investment earnings relate to the annuity adjustment made each year. If you would like any further clarification or would like additional assistance, please don't hesitate to contact me.

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Thank you for the opportunity to share this information with you. Again, if you have any questions or would like further clarification or assistance, please feel free to give me a call.

Sincerely,

Kyle Kundert, Policy Advisor
Division of Retirement Services
Department of Employee Trust Funds
608-266-9317