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: June 4, 2020

To: Employee Trust Funds Board

From: Cheryllynn Wilkins, Board Liaison
Office of the Secretary

Subject: Employee Trust Funds 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 March 26, 2020, Board meeting, the following communication has been submitted for the Board's consideration:

1. April 6, 2020 - Mail Correspondence – Elmgren

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 6/5/20

Board	Mtg Date	Item #
ETF	6.18.20	6L

To: WRS, Dept. of Employee Trust Fund, and State of Wis. Invest. Board

Ten years(actually now 12)have passed and now my monthly retirement is 'less' by 177.72 dollars. Smoothing. I know a lot about 'smoothing'. The WRS NEWS reassures us that all is well and that our monthly retirement will never fall below the core(my core floor). Years ago it was decided to use the term 'core' instead of 'fixed'.

Anyway, in January of 2009 my net retirement per month was $2588. 77. In 2019 my monthly amount was $2411. 05....in ten years! DOWN!

The following is my work history: I began working for the Wisconsin Highway Commission in July of 1957. In the fall of the next year I was drafted into the U. S. Army and served until the fall of 1960. In November I resumed work. In 1992, and for personal reasons, I retired from the DOT as a tech 5 with 34.5 years of service.

Retiring, I chose a 100 percent survivorship formula based on my final average yearly salary of $38,000. My first check was something less than $1,700. All of my contributions went to my 'fixed' fund.

I honestly believe that the WRS is one of the world's best "funded" public pension funds BUT when it comes to a 'just' distribution of money to its retirees?...not so well. The retirement formula needs an urgent correction regarding inflation. And I'm sure you've heard that before! When I retired money was worth a lot more than today.

How the fund was invested, years ago, was not one of my big concerns or responsibility, but I do remember 'derivative' mistakes during Tommy Thompson's time; when 'risk success' was accepted. More recently the Dodd-Frank Fair Housing Bill which wasn't fair at all! 2008 comes along and the beginning of another of the fund's problems: the time when the fund began 'smoothing'.

I don't believe that all retires are treated equally and I don't have facts to prove my case. But you have information to prove me wrong. I do know that the accumulative inflation total for the U.S.A. since 1992(when I retired)to 2019, was 79.6 percent and that 'that' averages out to be 2.2 percent per year.

In order for the state to hire/train and keep workers they at least had to pay the current rate of inflation. (Do you agree?).

Considering inflation and my annual salary at the time I retired($38,000, January 1992), a retiring worker 'today', using my factors(years of service, early retirement, 100 percent survivorship) would have an annual work salary of about $68,300.

And 'this' is what 'that' retiree would now make per month:

(Me $38,000 at retirement/Me $1,700) equals ($68,300 at retirement today/X

X equals $3055.50. Am I right... or am I wrong? This amount is $644.44 per month more than my amount today.

As I wrote in the beginning of this letter my monthly amount today is $177.72 less then it was in 2008, before the beginning of that terrible recession.

In conclusion I believe that there must be enough knowledge and investment skill 'within' the WRS without employing "experts" outside. Question: Are there eligible people not yet covered by the System? Question: Is there any correlation between the 'vast' number of retirees and the drop in monthly benefits? Lastly. I'd settle for a COLA of 2.2 percent every year instead of this speculation every spring. And if things really looked good, add a Christmas Check!

Sincerely,

David B. Elmgren
1815 Ogden Ave.
Superior, Wis.
715 392 1391

I would like this Letter to get to the board rooms.

RECEIVED

TRUST FUNDS

APR -6 AM 9:20

STATE OF WISCONSIN
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Robert J. Conlin
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etf.wi.gov

April 14, 2020

DAVID B ELMGREN
1815 OGDEN AVE
SUPERIOR WI 54880-2625

Dear Mr. Elmgren:

Thank you for your letter to the Department of Employee Trust Funds (ETF) and the Wisconsin Retirement System's (WRS) governing boards regarding a cost of living increase for the WRS and smoothing. Your letter raised many points and I'll address each of them below.

In regard to your WRS Annuity payment history, when you retired in 1992 at the age of 55, you chose an accelerated payment option. The annuity you chose was essentially "front-loaded"; you received a higher payment up-front, until you reached age 62, and then a lower payment after that for the rest of your life. The purpose of the accelerated option is to provide more WRS funds to the retiree until he/she is eligible for Social Security payments. When you reached 62, your payment decreased to your Core Floor, which is $1,279.37. Your annuity can never go below your Core Floor, so all comparisons should be to that amount. It is listed each year on the Annuity mailer that you get in April and never changes.

Your letter addresses your concern that the benefits may not be distributed justly and that retirees are not treated equally. Every WRS Core annuity is guaranteed by law and is prefunded over an employee's working career. Each retiree's account is based on benefit levels determined by law at the time they were actively employed, the contributions the employee and employer made for that employee, and the investment performance of the WRS. Once the individual retires, the laws regarding annual adjustments to the accounts of retirees apply consistently to retirees and are primarily based on investment returns.

The guaranteed amount, or floor, is the amount a member receives at the time of retirement. The WRS does not provide guaranteed cost-of-living increases to retirees; however, over the years, it has had enough investment gains to provide increases. In case you find it helpful, I have enclosed a document that includes the annuity adjustments of the Core Fund over the years.

It is also worth noting that a person who retired in 1995 with a core floor of $1,000, as an example, would now be receiving a $1,788 annuity because of annual adjustments over that time period averaging 2.3% each year. The annual change in consumer price index for that time period was 2.2%, which is very comparable.

You questioned how an annuity adjustment is different from a cost-of-living increase. A cost-of-living increase is a benefit adjustment meant to offset inflation; it is not based on the money available to fund payments. Unlike some states, the WRS does not give guaranteed cost-of-living increases to retirees. WRS annuity adjustments are based on the investment returns of WRS trust funds and actuarial factors like death rates. This way an annuitant may have a payment increase or decrease, but the WRS continues to have the money needed to make all future payments.

The WRS is designed to be well-funded. The investment risks and costs of the WRS are shared between government employees, employers, and retirees. This cost sharing design is often cited as one reason the WRS is better funded as compared to systems the guarantee cost of living adjustments.

One reason that the WRS is so well-funded is that the annuity adjustments are based on market returns, and not on the cost of living. Another reason is that contributions are made all throughout an employee's working life and are based on that employee's actual salary; then, at retirement, that salary is used as the basis for the calculation of the employee's retirement benefit. If we used projected salary as part of the calculation, that benefit would not be funded, and employers and employees would need to pay more for that benefit.

Smoothing keeps your annuity predictable and stable. In accordance with state law, Core Fund investment performance is smoothed over five years to mitigate the effects of market volatility. This is a method for realizing investment gains or losses in a way that provides stability to WRS members. In some years – those with high investment returns – the Core annuity adjustments may be more than the State of Wisconsin Investment Board's (SWIB) actual investment returns. However, in years with poor returns, the adjustments may be lower than actual returns. The Core Fund has always had a smoothing mechanism.

This smoothing process provides stability in post-retirement income and creates more stable Core effective interest rates and contribution rates for active employees. Last year, the Core annuity adjustment for 2018 was 0.0%, even though the fund suffered a loss of 3.3%.

In summary, the WRS is designed to pay its members their annuities for life, however long they live. To do this, the WRS must ensure that it is well-funded and does not give increases that are not tied to its funding. I hope this answers your questions. As you requested, I have provided a copy of your letter and this letter to ETF's governing boards for consideration. If you find that you have additional questions or concerns, please feel free to contact me.

Sincerely,

Julie Keal

Julie Keal, Policy Advisor
Department of Employee Trust Funds
Julie.Keal@etf.wi.gov
(608) 261-7252

enclosure

WISCONSIN RETIREMENT SYSTEM RETURNS, RATES AND ADJUSTMENTS

	CORE TRUST FUND			VARIABLE TRUST FUND		
YEAR	**TOTAL RATE OF RETURN**	**EFFECTIVE RATE** *Active employees*	**ANNUITY ADJUSTMENT** *Retirees*	**TOTAL RATE OF RETURN**	**EFFECTIVE RATE** *Active employees*	**ANNUITY ADJUSTMENT** *Retirees*
2019	19.9%	7.7%	1.7%	28.6%	29.0%	21.0%
2018	-3.3% (loss)	5.0%	0.0%	-7.9% (loss)	-7.0% (loss)	-10.0% (loss)
2017	16.2%	8.5%	2.4%	23.2%	24.0%	17.0%
2016	8.6%	7.9%	2.0%	10.6%	10.0%	4.0%
2015	-0.4% (loss)	6.4%	0.5%	-1.2% (loss)	0%	-5.0% (loss)
2014	5.7%	8.7%	2.9%	7.3%	7.0%	2.0%
2013	13.6%	10.9%	4.7%	29.0%	31.0%	25.0%
2012	13.7%	2.2%	-9.6% (loss)	16.9%	17.0%	9.0%
2011	1.4%	1.5%	-7.0% (loss)	-3.0% (loss)	-3.0% (loss)	-7.0% (loss)
2010	12.4%	4.8%	-1.2% (loss)	15.6%	16.0%	11.0%
2009	22.4%	4.2%	-1.3% (loss)	33.7%	33.0%	22.0%
2008	-26.2% (loss)	3.3%	-2.1% (loss)	-39.0% (loss)	-40.0% (loss)	-42.0% (loss)
2007	8.7%	13.1%	6.6%	5.6%	6.0%	0.0%
2006	15.8%	9.8%	3.0%	17.6%	18.0%	10.0%
2005	8.6%	6.5%	0.8%	8.3%	9.0%	3.0%
2004	12.8%	8.5%	2.6%	12.7%	12.0%	7.0%
2003	24.2%	7.4%	1.4%	32.7%	34.0%	25.0%
2002	-8.8% (loss)	5.0%	0.0%	-21.9% (loss)	-23.0% (loss)	-27.0% (loss)
2001	-2.3% (loss)	8.4%	3.3%	-8.3% (loss)	-9.0% (loss)	-14.0% (loss)
2000	-0.8% (loss)	10.9%	5.7%	-7.2% (loss)	-7.0% (loss)	-11.0% (loss)
1999**	15.7%	24.1%	17.1%	27.8%	28.0%	21.0%
1998	14.6%	13.1%	7.2%	17.5%	18.0%	12.0%
1997	17.2%	12.8%	7.7%	21.6%	23.0%	18.0%
1996	14.4%	12.5%	6.6%	19.8%	20.0%	14.0%
1995	23.1%	11.3%	5.6%	25.6%	27.0%	19.0%
1994	-0.6% (loss)	7.7%	2.8%	0.8%	0.0%	-4.0% (loss)
1993	15.0%	11.0%	4.9%	16.5%	17.0%	11.0%
1992	9.7%	10.2%	4.4%	10.7%	11.0%	5.0%
1991	20.4%	12.1%	6.3%	27.1%	28.0%	18.0%
1990	-1.5% (loss)	8.6%	3.6%	-11.3% (loss)	-11.0% (loss)	-14.0% (loss)
1989*	19.2%	18.1%	11.3%	22.6%	24.0%	16.0%
1988	14.4%	10.2%	4.1%	21.7%	22.0%	14.0%
1987*	2.2%	14.0%	6.7%	-1.1% (loss)	-1.0% (loss)	-6.0% (loss)
1986	14.5%	12.7%	7.6%	11.5%	13.0%	8.0%
1985	27.5%	12.5%	7.2%	32.7%	33.0%	26.0%
1984	12.8%	11.4%	6.0%	5.8%	6.0%	0.0%
1983	12.5%	11.2%	5.0%	24.7%	26.0%	18.0%

Depending on the years you were covered under the WRS, the amount of interest credited to your **Core Fund** account may vary. Core Fund effective rates were capped by law at 5% for people who began employment between Jan. 1, 1982, and Dec. 31, 1999. A change in the law provided that Core Fund effective rates apply to all employees as of Dec. 31, 1999. Core Fund gains and losses are smoothed over 5 years. By law, no increases are applied to annuities unless the effective rate increases are in excess of at least 5%.

**Rates credited in 1987 & 1989 were distorted by one-time accounting changes.*

*** Results include a special one-time recognition of past earnings created by 1999 WI Act 11.*