



# WRS Stress Testing Policy Discussion

Office of Policy, Privacy and Compliance  
Steve Hurley, Director



# Summary

- Addressing Dividend Risk
  - Role of Dividends
  - Dividends v. Inflation
  - Dividend Thresholds & Caps
  - Reserving Positive Dividends
- WRS Funding Policy





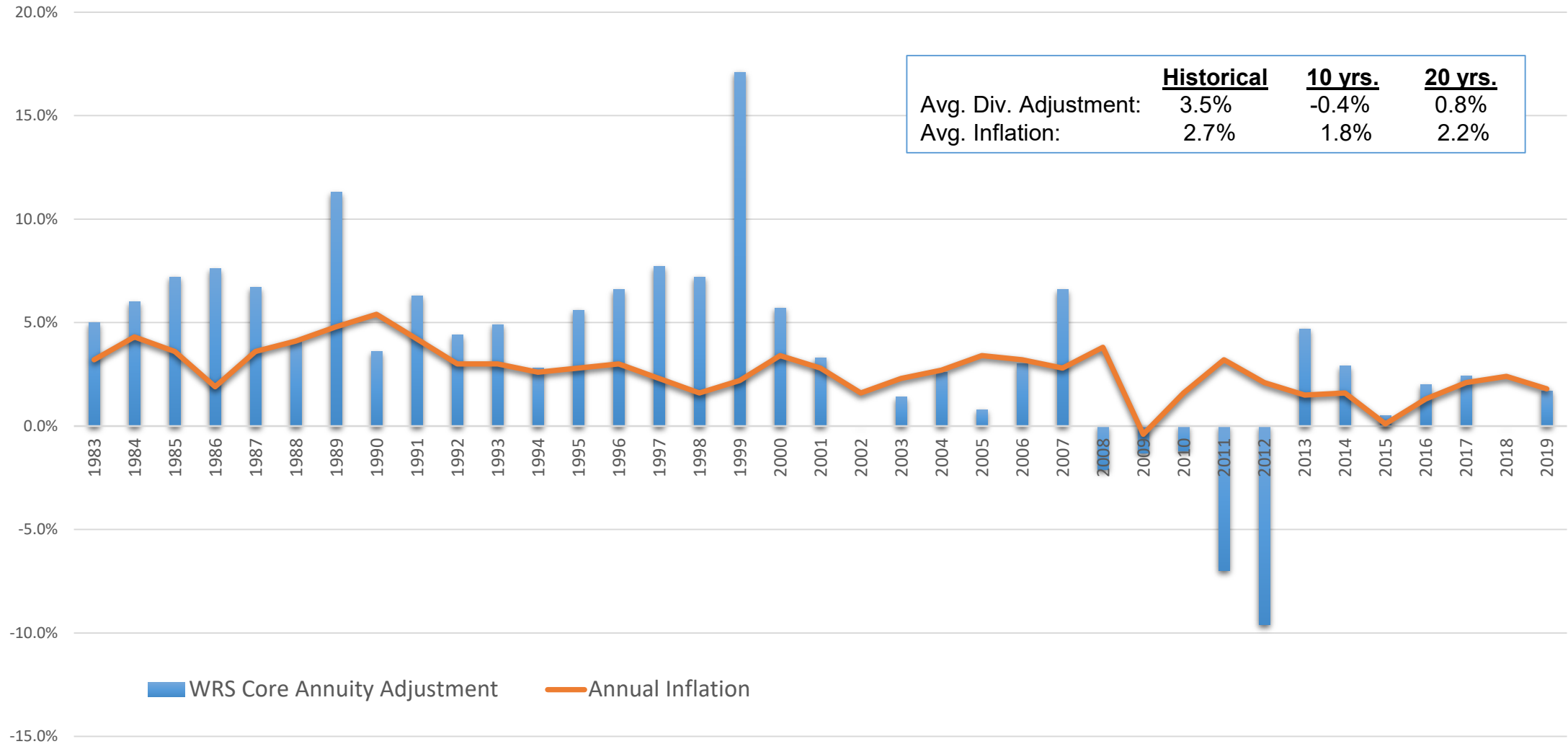
# Addressing Dividend Risk

# What Role do Dividends Play?

*Clarity on intended functionality of dividends can inform Board decisions on dividend risk.*

- Not a permanent Cost of Living Allowance.
- Anti-inflation function?
- Is volatility in dividends a risk to be managed, or a built-in part of a risk-sharing plan?

# Core Dividends v. Inflation, 1983-2019





# Dividend Thresholds & Caps

*Address Negative Dividends or Dividend Depletion*

- Limit negative dividends to a Board-approved amount on advice of actuary.
- Increase threshold at which negative dividends occur (currently 0.5%).
- Authority: Per statute, Board has some discretion.

# Thresholds & Caps Pros/Cons

*Increase Core Fund Dividend Threshold or Cap Negative Dividend*

- + Temporarily blunts impact of market downturn for some annuitants.
- + Helps older retirees who have the most dividends remaining.
- Deficit in Annuity Reserve until eliminated by investment return.
- Afterward could be many years without dividends.
- Would not help those already at their annuity floor.
- Possible generational effects.

# Reserving Positive Dividends

*Address Dividend Volatility or Offset Negative Dividend*

- Limit positive dividends to 3%.
- Surplus dividends above the “cap” are reserved.
- Offset a negative dividend back to zero, if possible.
- Authority: Requires administrative rule on advice of actuary. Additionally, requires use of ETF Secretary statutory authority to create reserves.



# Reserving Pros/Cons

## *Limit Positive Dividends and Retain Surplus*

- + Could reduce volatility in annual dividends.
- + Reduces probability of negative dividend over long term.
- + Slightly reduces risk of dividend liability depletion.
- Requires many years of substantially positive dividends.
- Can transfer dividends between cohorts of retirees.
- Potential for legal challenges over retaining surplus vs. distribution.



# WRS Funding Policy

# WRS Funding Policy

- Current Funding Policy addresses risk but does not specifically refer to the risks of negative dividends or dividend depletion.
- May be possible to develop “dividend liability health” measure.
- Possibly incorporate regular review of dividend risks.
- ETF could work with the actuary on ways to address dividend risk in the Risk Measures section of the Funding Policy.



**Questions?**



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# Thank you

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