

Core Fund Annuity Adjustments and Effective Rate Projections

Employee Trust Funds Board
March 23, 2023

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Current Value of Annuities*

If You Retired in	A \$1,000 Core Annuity is Receiving	The Annual Rate of Increase is	A \$1,000 Variable Annuity is Receiving	The Annual Rate of Increase is	The Annual Change in CPI is
2018	\$1,166	3.1%	\$1,118	2.3%	3.8%
2013	\$1,319	2.8%	\$1,648	5.1%	2.6%
2008	\$1,319	1.9%	\$1,312	1.8%	2.3%
2003	\$1,319	1.4%	\$1,988	3.5%	2.5%
1998	\$1,671	2.1%	\$1,505	1.6%	2.5%

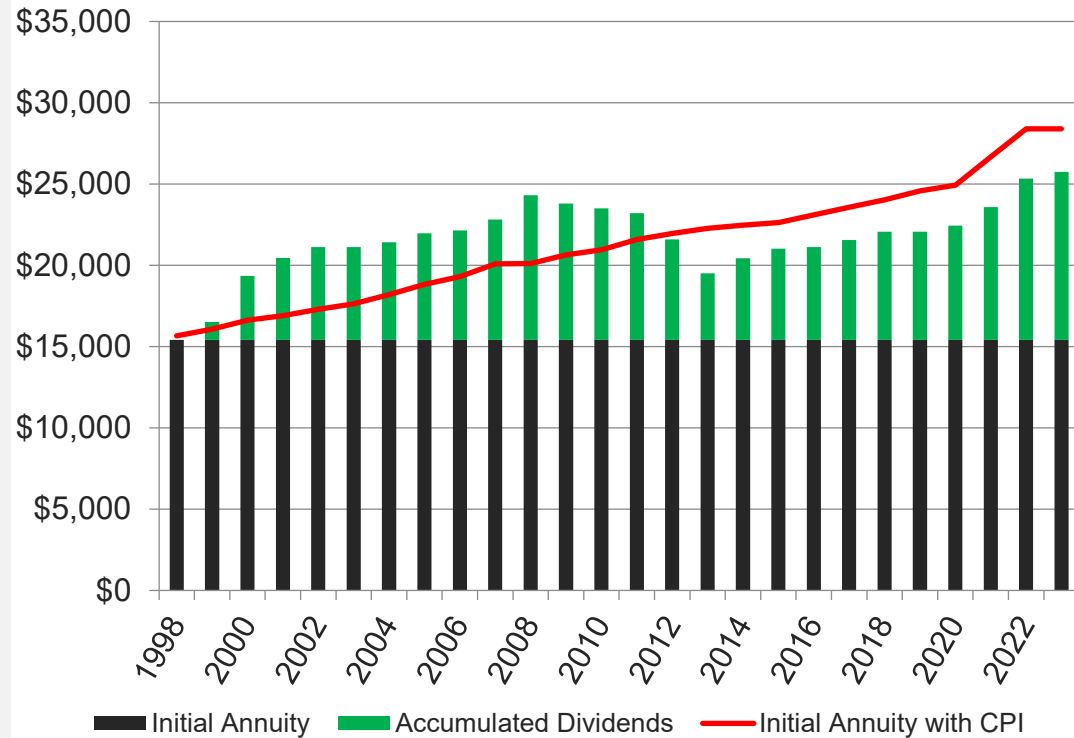
*Including annuity adjustments to be made effective April 1, 2023



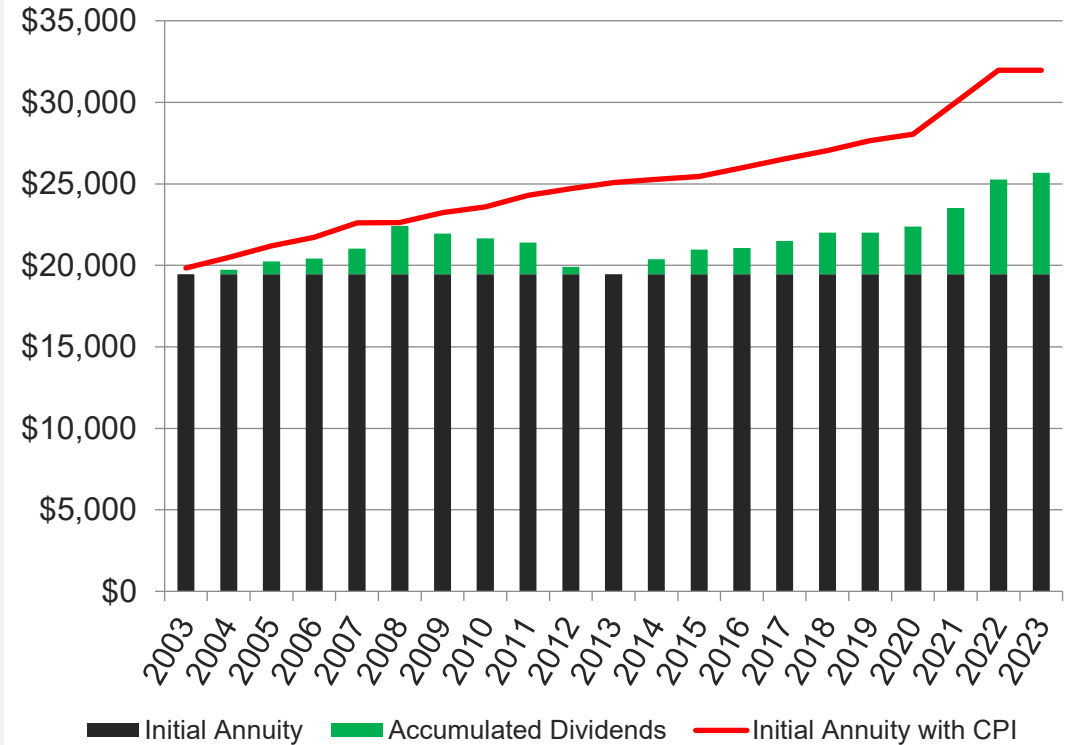
A Look at Core Annuity Increases versus Cost of Living

Change in Value of 1998 and 2003 Annuity

1998 Annuity
(4,412 annuitants)

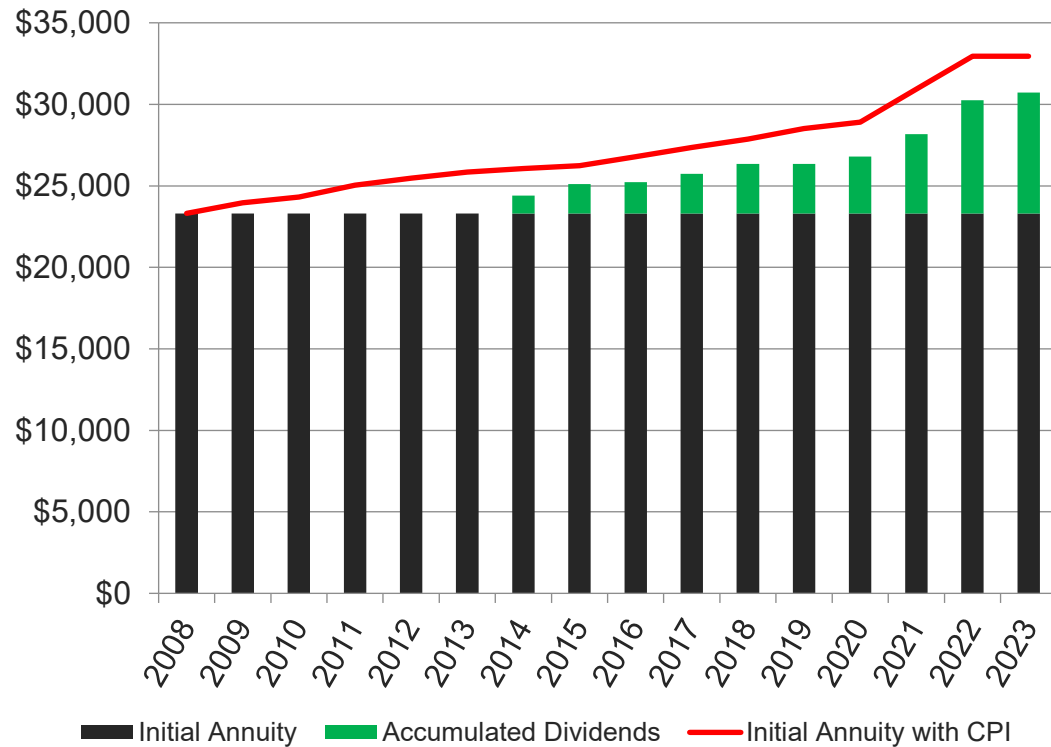


2003 Annuity
(6,409 annuitants)

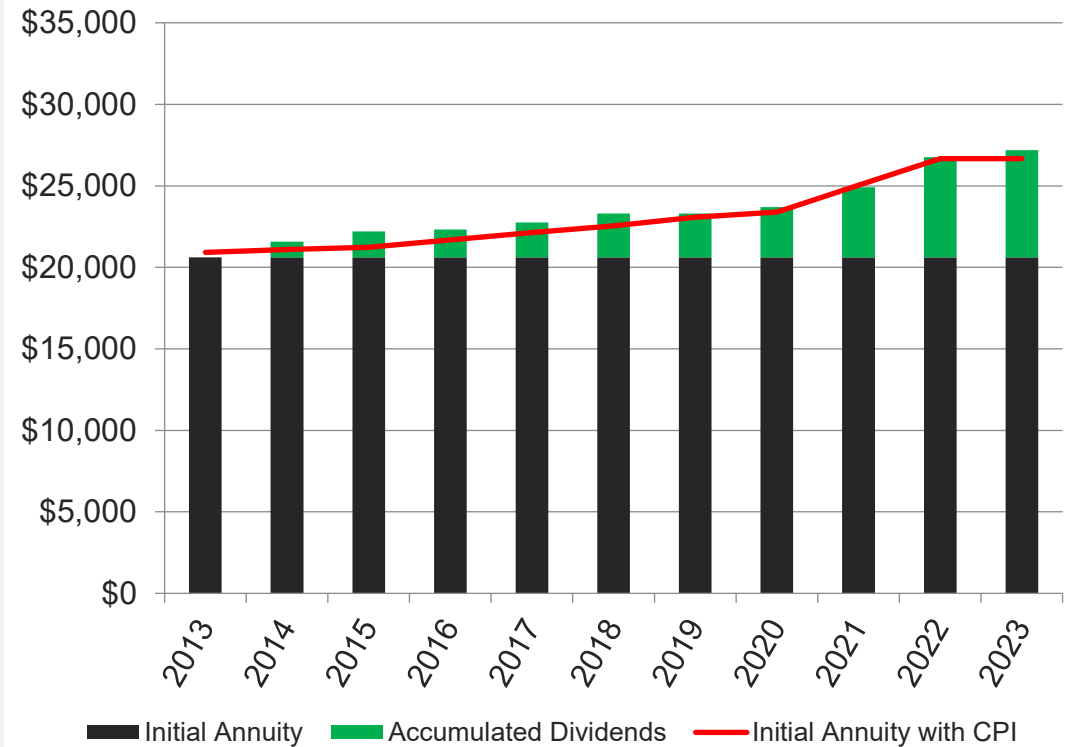


Change in Value of 2008 and 2013 Annuity

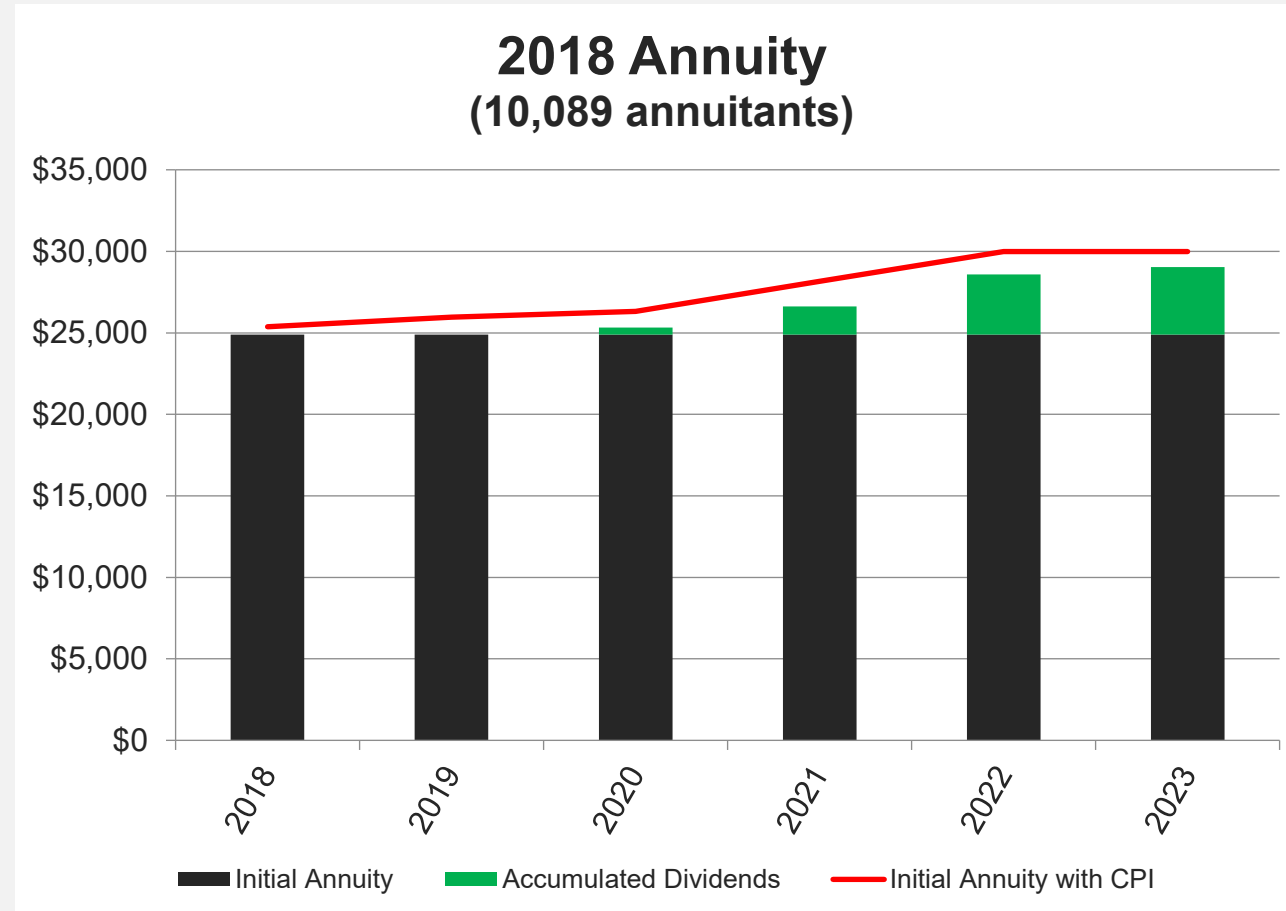
2008 Annuity
(8,138 annuitants)



2013 Annuity
(9,425 annuitants)



Change in Value of 2018 Annuity





Annuity Adjustment Projections

Disclaimers

- Projections only. Several assumptions and estimates used.
- Only an actuarial valuation can accurately calculate the annuity adjustments.
- Useful for anticipating the magnitude, not exact amount, of future adjustments.

The Basics

- Annuities will be increased if annuity reserve surplus provides at least a 0.5% increase. Annuities will be reduced if annuity reserve shortfall would require at least a -0.5% adjustment.
- Negative adjustments can only reduce increases granted in prior years. A core annuity cannot be reduced below the original value.
- In calculating annuity adjustments, a 5.0% assumed investment return is used to fund the original benefit. Thus, in a world where experience matched assumptions each year perfectly, annuitants would receive a 1.8% adjustment each year (6.8% less 5.0%). We don't live in that world.

Assumptions

- Based on preliminary 2022 Core Trust Fund net of fee investment return.
- Based on most recent WRS experience study (2018-2020 period), no longer reserving a percentage for mortality improvement.
- The projections include 2019 - 2022 investment gains and losses carried forward in the Market Recognition Account (MRA).

Market Recognition Account

- Investment gains / losses are “smoothed” through the Market Recognition Account (MRA):
 - The MRA is intended to give recognition to long-term changes in asset values while minimizing the impact of short-term fluctuations in the capital markets;
 - Investment gains equal to the assumed rate of 6.8%;
 - The difference between actual gains or losses and the assumed rate is spread equally over 5 years.

Investment Gain/Loss to be Recognized in Future Years

Year Earned	Year to Be Recognized (\$ millions)					Core Net of Fee Investment Return
	2022	2023	2024	2025	2026	
2023		?	?	?	?	?
2022	(5,068)	(5,068)	(5,068)	(5,068)	(5,068)	(12.92%)
2021	2,495	2,495	2,495	2,495		16.89%
2020	1,773	1,773	1,773			15.21%
2019	2,204	2,204				19.36%
2018	(2,048)					(3.68%)
Totals (may not add due to rounding)	(644)	1,404	(800)	(2,573)	(5,068)	

Result of 6.8% Investment Return in 2023 - 2026

	2022	2023	2024	2025	2026
SWIB Net Investment Return	(12.92%)	6.8%	6.8%	6.8%	6.8%
Effective Rate	6.5%	7.9% to 8.3%	5.9% to 6.3%	4.4% to 4.8%	2.3% to 2.7%
Average Annuity Adjustment	1.6%	2.6% to 3.0%	.7% to 1.1%	(.7%) to 0%	(2.7%) to (2.3%)
Dividend Liability*	~\$14.5b	~\$15.6b	~\$15.4b	~\$14.2b	~\$11.4b

* Dividend liability is the present value of previously granted post-retirement annuity adjustments. Some refer to this as the 'dividend reserve' although it is not a separate reserve. The funds are part of the annuity reserve.

Result of 0% Investment Return in 2023 and 6.8% in 2024 - 2026

	2022	2023	2024	2025	2026
SWIB Net Investment Return	(12.92%)	0%	6.8%	6.8%	6.8%
Effective Rate	6.5%	6.6% to 7.0%	4.6% to 5.0%	3.0% to 3.4%	.7% to 1.1%
Average Annuity Adjustment	1.6%	1.3% to 1.7%	0%	(2.4%) to (2.0%)	(4.3%) to (3.9%)
Dividend Liability*	~\$14.5b	~\$14.7b	~\$13.6b	~\$11.5b	~\$7.9b

* Dividend liability is the present value of previously granted post-retirement annuity adjustments. Some refer to this as the 'dividend reserve' although it is not a separate reserve. The funds are part of the annuity reserve.

Result of -11% Investment Return in 2023 and 6.8% in 2024 - 2026

	2022	2023	2024	2025	2026
SWIB Net Investment Return	(12.92%)	(11%)	6.8%	6.8%	6.8%
Effective Rate	6.5%	4.5% to 4.9%	2.3% to 2.7%	.4% to .8%	(2.3%) to (1.9%)
Average Annuity Adjustment	1.6%	0%	(3.1%) to (2.7%)	(4.6%) to (4.2%)	(7.1%) to (6.7%)
Dividend Liability*	~\$14.5b	~\$13.2b	~\$10.7b	~\$7.1b	~\$2.1b

* Dividend liability is the present value of previously granted post-retirement annuity adjustments. Some refer to this as the 'dividend reserve' although it is not a separate reserve. The funds are part of the annuity reserve.

Result of 17% Investment Return in 2023 and 6.8% in 2024 - 2026

	2022	2023	2024	2025	2026
SWIB Net Investment Return	(12.92%)	17%	6.8%	6.8%	6.8%
Effective Rate	6.5%	9.9% to 10.3%	7.9% to 8.3%	6.5% to 6.9%	4.6% to 5.0%
Average Annuity Adjustment	1.6%	4.4 to 4.8%	2.7% to 3.1%	1.2% to 1.6%	0
Dividend Liability*	~\$14.5b	~\$17.0b	~\$18.2b	~\$18.2b	~\$16.8b

* Dividend liability is the present value of previously granted post-retirement annuity adjustments. Some refer to this as the 'dividend reserve' although it is not a separate reserve. The funds are part of the annuity reserve.



Questions?

Thank you



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