

# Core Fund Annuity Adjustments and Effective Rate Projections

Item 5D – Employee Trust Funds Board

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Division of Trust Finance



# Informational Item Only

No Board action is required.

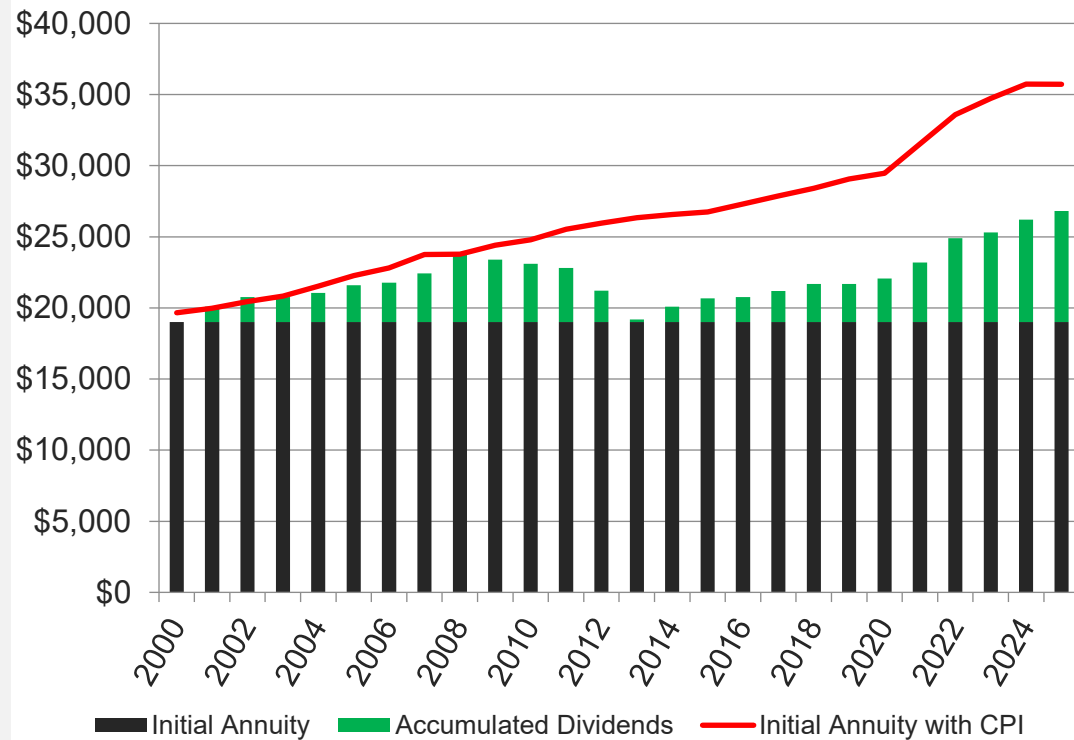
# Current Value of Annuities\*

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
2020	\$1,215	4.0%	\$1,358	6.3%	4.2%
2015	\$1,298	2.6%	\$1,709	5.5%	3.0%
2010	\$1,398	2.3%	\$2,452	6.2%	2.6%
2005	\$1,398	1.7%	\$1,966	3.4%	2.6%
2000	\$1,411	1.4%	\$1,469	1.6%	2.6%

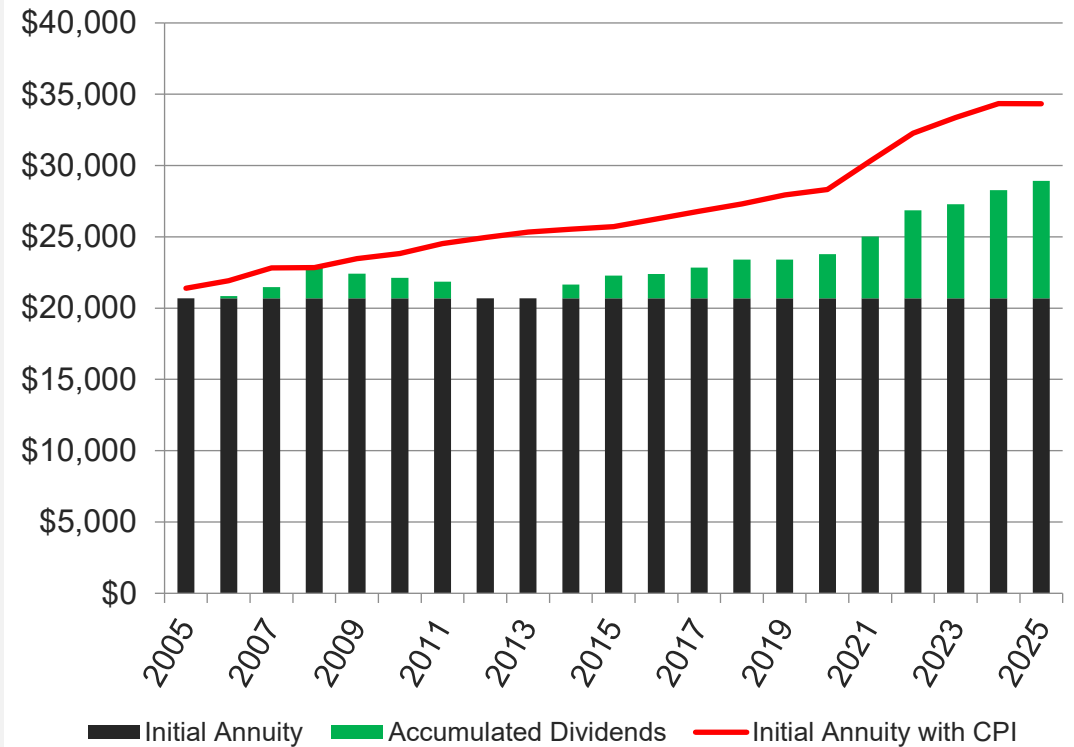
\*Including annuity adjustments to be made effective April 1, 2025

# Change in Value of 2000 and 2005 Annuity

**2000 Annuity**  
(5,316 annuitants)

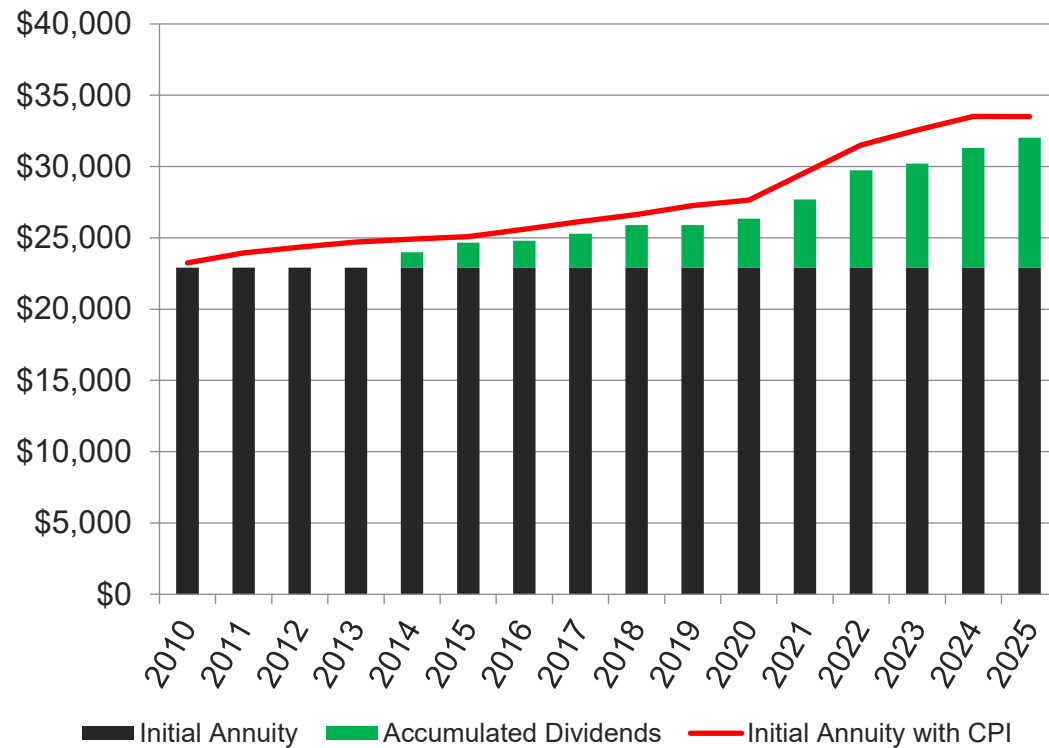


**2005 Annuity**  
(7,048 annuitants)

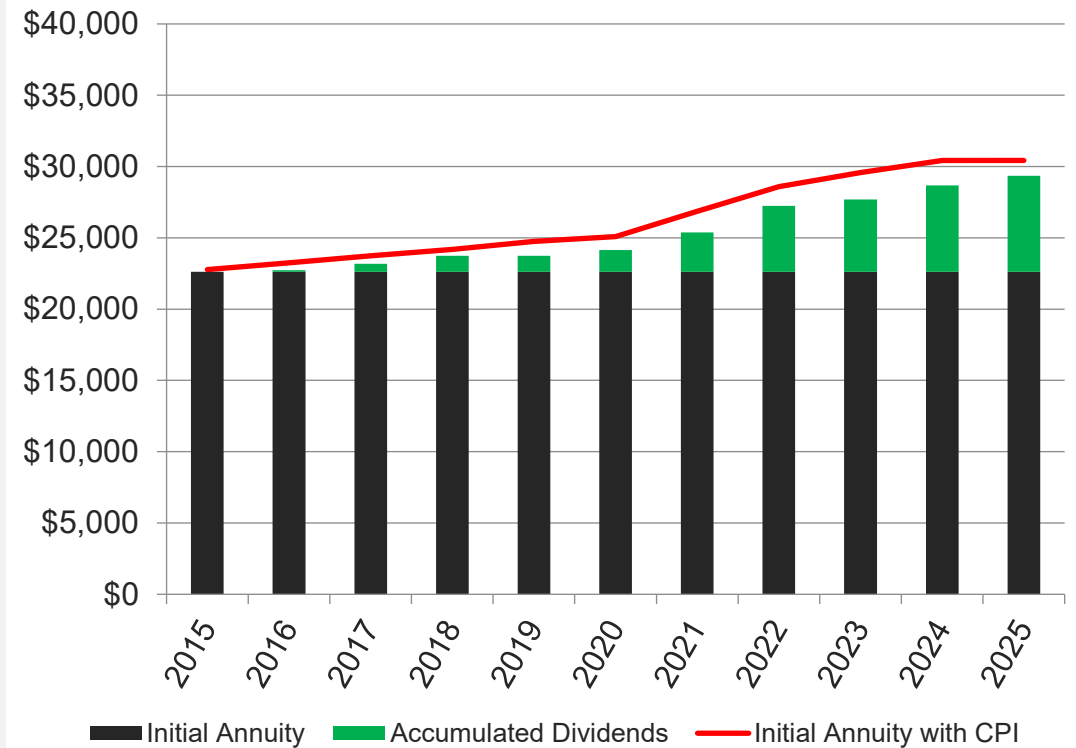


# Change in Value of 2010 and 2015 Annuity

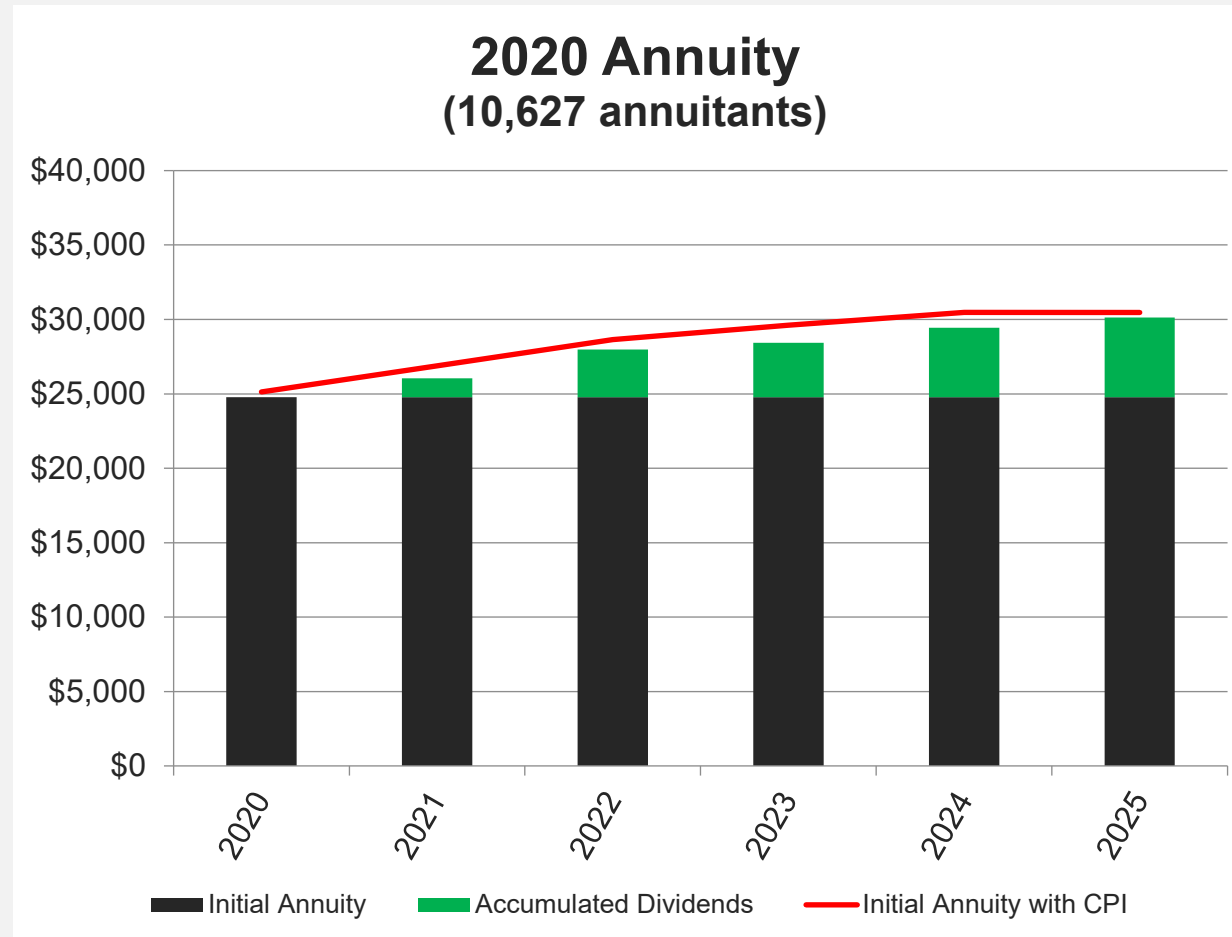
**2010 Annuity**  
(7,871 annuitants)



**2015 Annuity**  
(9,943 annuitants)



# Change in Value of 2020 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%).

# Assumptions

- Based on preliminary 2024 Core Trust Fund investment return, net of all fees and costs.
- Based on most recent WRS experience study (2021-2023 period), no longer reserving a percentage for mortality improvement.
- The projections include 2021 - 2024 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
	2024	2025	2026	2027	2028	
2025	?	?	?	?	?	?
2024	367	367	367	367	367	8.55%
2023	928	928	928	928		11.40%
2022	(5,068)	(5,068)	(5,068)			(12.92%)
2021	2,495	2,495				16.89%
2020	1,773					15.21%
Totals (may not add due to rounding)	495	(1,278)	(3,773)	1,295	367	

# Result of 6.8% Investment Return in 2025 - 2028

	2024	2025	2026	2027	2028
SWIB Net Investment Return	8.55%	6.8%	6.8%	6.8%	6.8%
Effective Rate	7.5%	5.8% to 6.2%	3.8% to 4.2%	7.9% to 8.3%	7.2% to 7.6%
Average Annuity Adjustment	2.3%	.7% to 1.1%	(1.2%) to (.8%)	2.3% to 2.7%	1.9% to 2.3%
Dividend Liability*	~\$17.2b	~\$16.8b	~\$14.9b	~\$16.1b	~\$16.9b

\* 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 0% Investment Return in 2025 and 6.8% in 2026 - 2028

	2024	2025	2026	2027	2028
SWIB Net Investment Return	8.55%	0%	6.8%	6.8%	6.8%
Effective Rate	7.5%	4.4% to 4.8%	2.3% to 2.7%	6.4% to 6.8%	5.7% to 6.1%
Average Annuity Adjustment	2.3%	0%	(3.0%) to (2.6%)	.9% to 1.3%	.5% to .9%
Dividend Liability*	~\$17.2b	~\$15.8b	~\$12.9b	~\$13.0b	~\$12.7b

\* 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 9.7% Investment Return in 2025 and 6.8% in 2026 - 2028

	2024	2025	2026	2027	2028
SWIB Net Investment Return	8.55%	9.7%	6.8%	6.8%	6.8%
Effective Rate	7.5%	6.4% to 6.8%	4.5% to 4.9%	8.5% to 8.9%	7.8% to 8.2%
Average Annuity Adjustment	2.3%	1.2% to 1.6%	0%	2.6% to 3.0%	2.4% to 2.8%
Dividend Liability*	~\$17.2b	~\$17.2b	~\$15.8b	~\$17.5b	~\$18.7b

\* 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.



A photograph of a family of four outdoors. A man with a mustache and a woman with short grey hair are smiling and hugging two children. The man is wearing a dark sweater over a blue and white checkered shirt. The woman is wearing a red jacket over a grey patterned top. The children are also smiling. The background is a blurred green landscape. The entire image has a blue overlay, and the word "Questions?" is written in large white letters at the bottom.

Questions?

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# Thank you

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