

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.

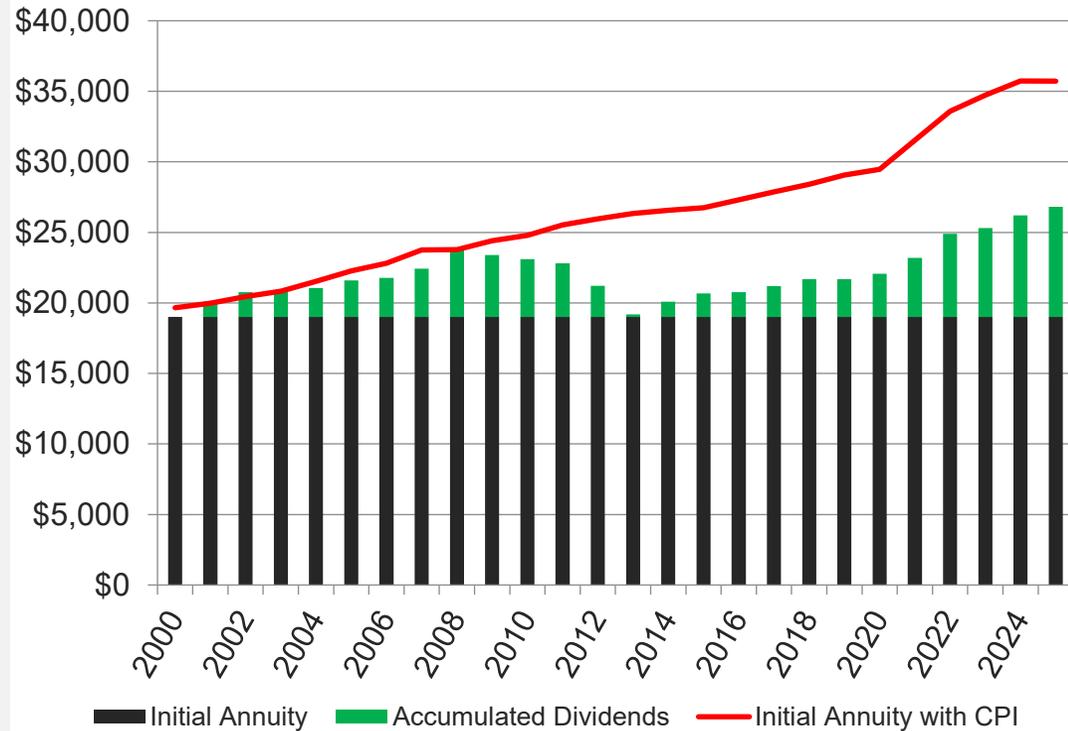
Current Value of Annuities*

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%

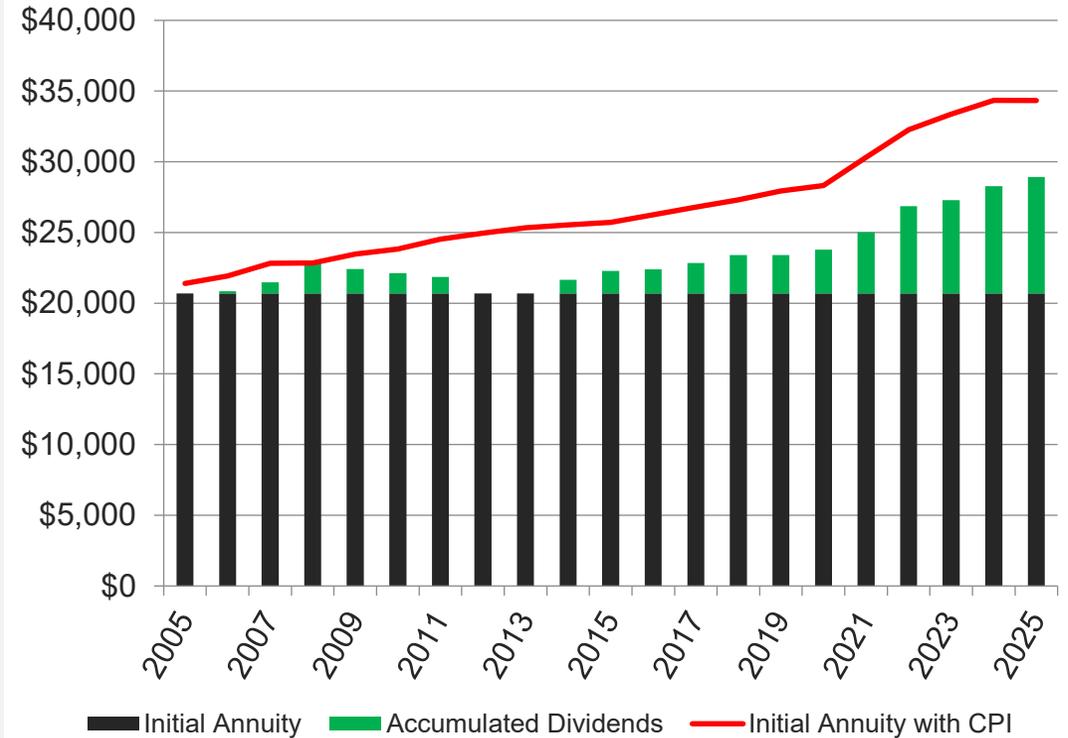
*Including annuity adjustments to be made effective April 1, 2025

Change in Value of 2000 and 2005 Annuity

2000 Annuity
(5,316 annuitants)

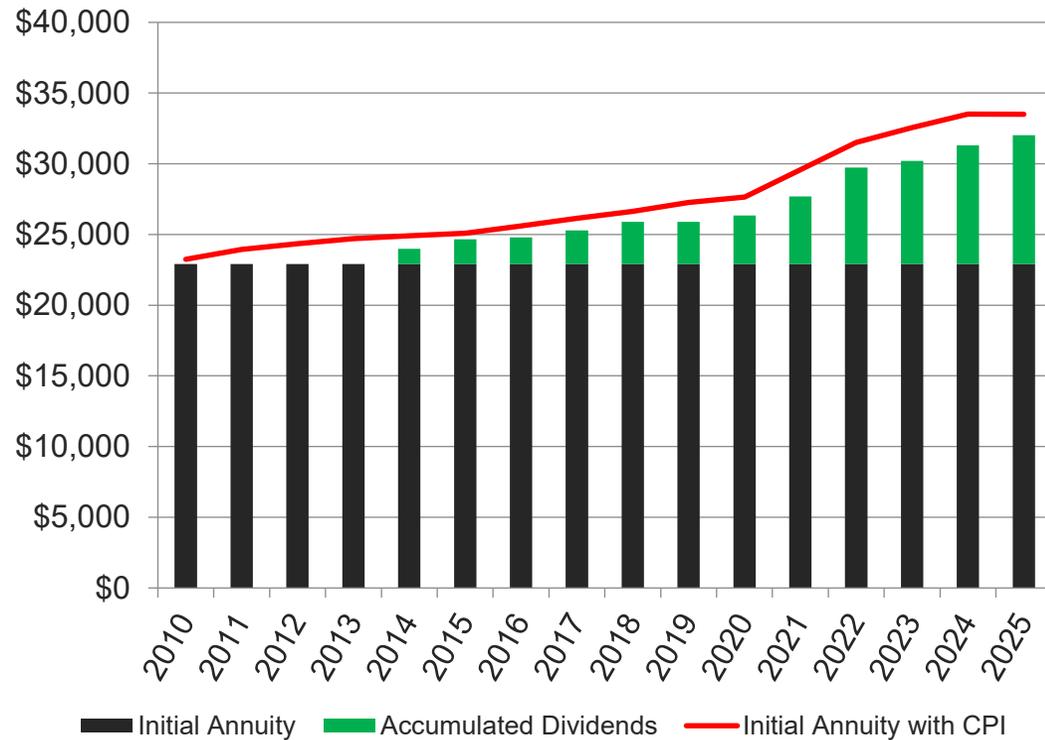


2005 Annuity
(7,048 annuitants)

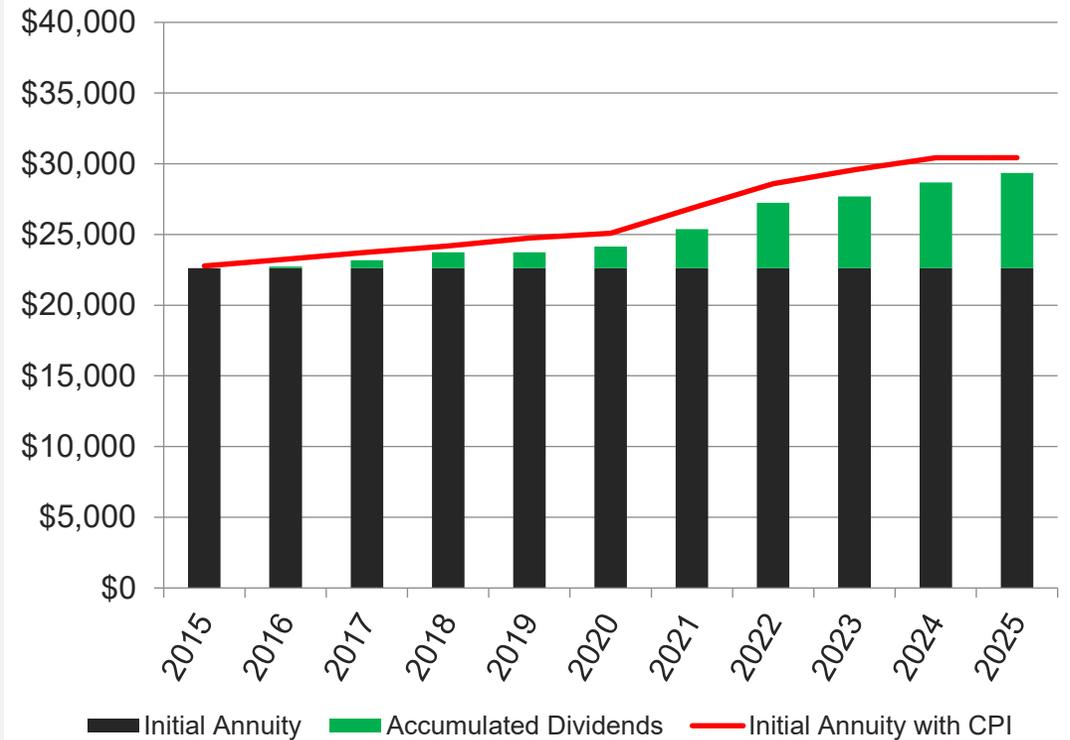


Change in Value of 2010 and 2015 Annuity

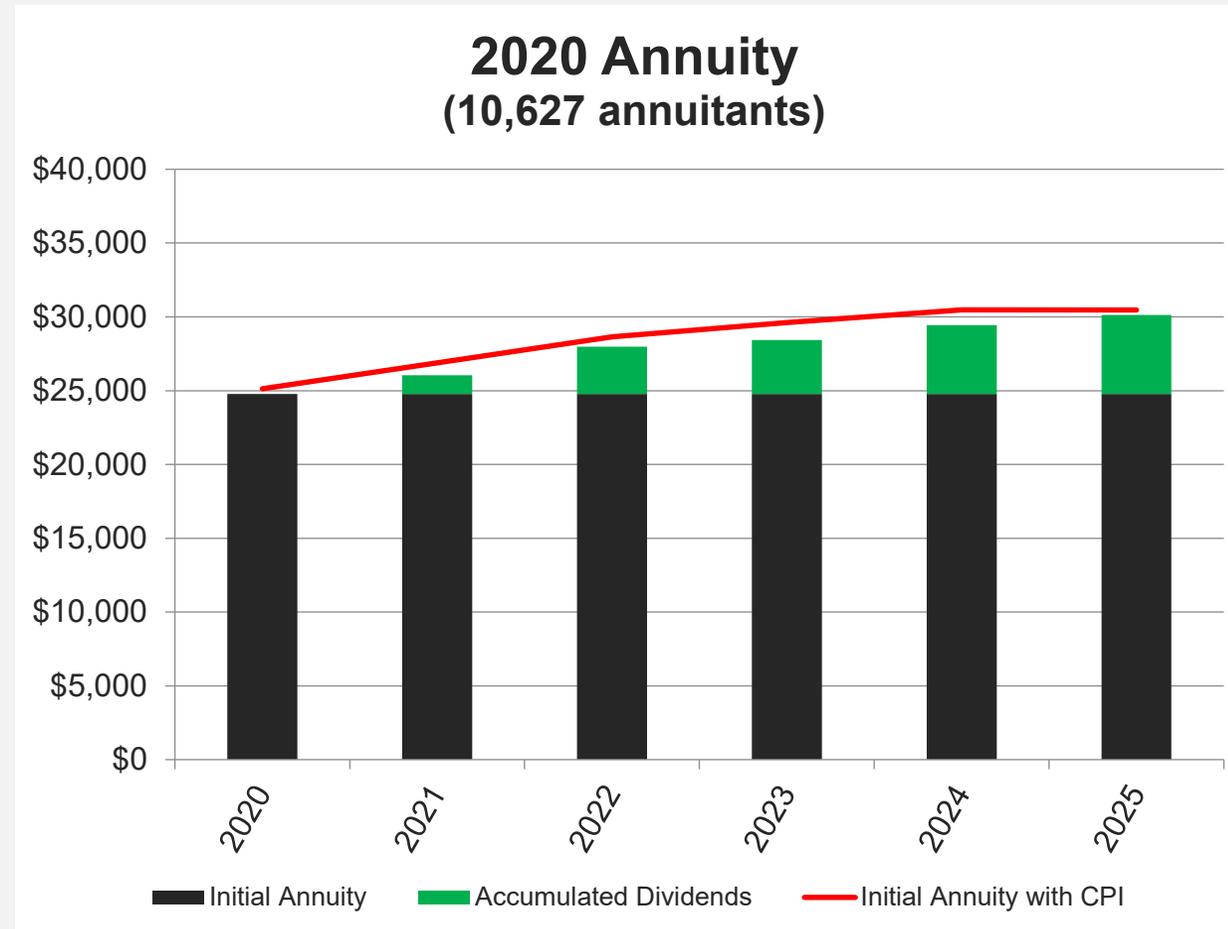
2010 Annuity
(7,871 annuitants)



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.



Questions?

Thank you



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