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## CORRESPONDENCE MEMORANDUM

**DATE:** February 15, 2013

**TO:** Employee Trust Funds Board  
Teachers Retirement Board  
Wisconsin Retirement Board

**FROM:** Mark Lamkins, Director, Office of Communications and Legislation

**SUBJECT:** Communications Update

**This memo is for informational purposes only. No Board action is required.**

### Introduction: The Importance of Communicating Strategically

At the end of December 2012, the Department of Employee Trust Funds (ETF) announced on its website projected ranges for Core and Variable effective rates and annuity adjustments based on the preliminary investment returns through the end of November from the State of Wisconsin Investment Board (SWIB). The projections were in line with the significant negative Core annuity adjustments presented earlier at the March and September ETF Board meetings, and reported in the September issue of the *WRS News* newsletter for active and retired members.

Of course, this sparked a flurry of statewide media coverage (print and online) about annuity payment cuts for retirees and the fifth and final time that the 2008 global market meltdown will affect annuity adjustments. Online blogs also debated the economic impact of the Wisconsin Retirement System (WRS), as well as public versus private sector retirement benefits. While this helped us get the word out to retirees, it also emphasizes the necessity to closely evaluate how and when we make information available, or push out information, to members and the general public.

We are currently working with SWIB to set up an option for members, and others who are interested, to subscribe to monthly online updates about investments via the ETF E-mail Updates service. This will make it more convenient and easy for members to stay abreast of preliminary investment returns year-round. Then, beginning in the fall, we will provide projected annuity adjustments based on preliminary investment returns for the months of October, November and December, which is the timeframe many active members are considering whether they should retire before December 31 or wait until the next year.

Reviewed and approved by Robert J. Marchant, Deputy Secretary

Electronically Signed 2/26/13

Board	Mtg Date	Item #
JI	3.7.13	5B

### **Annuity Adjustment Communications for 1<sup>st</sup> Quarter 2013**

**WRS News**—ETF and SWIB sent the year’s first edition of the *WRS News* newsletter to all active and retired members in January. As always, this issue included important information on calendar year-end preliminary investment returns from SWIB and ETF’s projections for Core and Variable effective rates and annuity adjustments (see below table), among other topics of interest. In addition, messages of support and an optimistic view of the future were provided by both Bob Conlin and Michael Williamson.

	Core Fund (as of December 31,2012)	Variable Fund (as of December 31,2012)
Preliminary 2012 SWIB Investment Return	13.6%	16.9%
Projected Effective Rate (for active employees)	2.1% to 2.5%	15% to 17%
Projected Annuity Adjustment (for retirees)	0% to -13%	9% to 11%

**ETF Website**—In January, ETF announced on its website the same projections for Core and Variable effective rates and annuity adjustments published in the newsletter. More clarification was provided for those retirees who will likely see no negative adjustment: “In general, members who retired before 2004 will receive up to a 13% reduction, if they have any past increases to repeal, and members who retired after 2004 will not receive a reduction because they are already at their Core floor.”

A list of frequently asked questions was also added to the web to provide information on a variety of topics such as:

- How does an annuity adjustment differ from a cost-of-living increase (COLA)?
- How does the 5-year smoothing in the Core Fund affect my annuity?
- Isn’t a WRS retirement benefit guaranteed never to decrease by state law?
- Is there a way for ETF to offset this year’s projected negative Core annuity adjustment?\*

(\*Note: The response to this question is derived from the discussion at the September 20, 2012 ETF Board meeting that any “fix” would need to balance the interests of all WRS participants and would require law changes. The only viable option for the system as a whole is to continue to administer the WRS as it is designed and get the losses from 2008 behind us.)

**Online Video on Investment Returns and Rate Projections**—This annually updated presentation announces the preliminary 2012 investment results for the Core Fund and Variable Fund and subsequent projections for the 2012 effective rates and 2013 annuity adjustments. It also briefly explains the Core Fund investment return smoothing process and the effect of 2008’s decline on the rate calculations.

From mid-January to mid-February, there were 1,942 views of the video. We have started adding viewer surveys to all updated or new online videos. Of the over 270 respondents to the survey, here are some general findings:

- 78% said their level of understanding about how investment performance and smoothing affect their annuity adjustment *after* watching the video as high.
- 92% said they were overall “very satisfied” or “somewhat satisfied” with the content of the video.
- 45% said they were retired 5 or less years; 25%—6 to 10 years; and 30%—11 or more years.

**Press Release**—At the end of February and prior to the Board meeting in March, ETF will issue its official press release with actual amounts for the Core and Variable 2012 effective rates and 2013 annuity adjustments. The annuity adjustment amounts are based on actuarial calculations and recommendations, and approved by the ETF Board chair and secretary. The press release will be e-mailed to Board members prior to being sent to the media and posted on the ETF website.

**Letter to Annuitants**—As shared at the Joint Informational meeting in December 2012, ETF will be mailing a letter to all annuitants in early March that provides the actual Core and Variable annuity adjustment amounts, effective May 1. This is to ensure retirees are aware of how the negative annuity adjustment may affect them; to acknowledge the difficulty retirees are experiencing; to build on earlier messages about the risk-sharing nature of the WRS and this being the last year of smoothing 2008 losses; and to promote helpful online resources and our Customer Service Call Center. (Please see Attachment – Annuity Adjustment Letter (Template) to Annuitants, March 2013.)

The letter will arrive about 6 weeks before retirees receive their *Annuity Payment Statement* in late April. We are considering making this an annual communication about Core and Variable annuity adjustments—negative or positive—and other value-added information for retirees.

Ideally, ETF would create individualized letters that reflect whether the specific retiree will receive an annuity payment reduction or if the retiree’s payment is already at the Core floor. Account-specific fields would be automatically populated. Unfortunately, our current technology systems do not offer the level of integration required to provide individualized messages, combine multiple accounts, and safeguard against errors. These limitations should be addressed with the new, integrated benefits administration system that ETF is pursuing.

### **Outreach to Constituent Groups**

Beginning this spring, ETF will be publishing informational articles about the WRS in various constituent group newsletters and magazines. We are currently working with the Wisconsin Retired Educators Association (WREA), Wisconsin Counties Association (WCA), League of Wisconsin Municipalities (LWM), Wisconsin Towns Association (WTA), and the

Wisconsin Association of School Boards (WASB). The purpose is to strengthen relationships with WRS members and advocates, to increase awareness about WRS benefits and its financial stability, and to promote the impact of the WRS on the state's economy.

The first article to publish in the March member publications of WCA and LWM is titled, "On Solid Ground: The Wisconsin Retirement System and its Effect on Our State". Key findings from industry reports—by the National Institute on Retirement Security (NIRS), Pew Center for the States, and Morningstar—about the WRS and how it compares to other peer state pension systems are presented.

For example, an NIRS study found that in 2011 the WRS paid more than \$4.1 billion in payments to retirees and beneficiaries; 86% of whom are Wisconsin residents. Their spending creates a multiplier effect. Each dollar paid in WRS benefits supports \$1.49 in total economic activity in the state.

### **Other Communication Activities**

**Recent Media Coverage**—Since December 2012, ETF has been in the news for a variety of topics including the potential 13% cut in Core annuity payments for some retirees; issues surrounding the rehiring of annuitants and findings in the Legislative Audit Bureau report released in December; overpayments made by the UW System for WRS and health insurance contributions; the state's venture capital plan and recent request to SWIB for a \$200 million loan to the Wisconsin Economic Development Corporation; and health risk assessments (HRAs) and incentives offered by the Group Health Insurance Plan to help reduce health care costs.

**ETF E-mail Updates**—ETF typically experiences an increase in subscribers to this online service after the *WRS News* goes out. Within one month after the January issue, we added 725 subscribers. There are 25,708 subscribers as of February 8, 2013. In 2012, 175 e-mail updates were sent to subscribers, including WRS members, employers and others.

**WRS News, May Issue**—In this newsletter, we will provide an overview of how to find useful information in the *Annuity Payment Statement* and the *Statement of Benefits*, both of these annual member documents will be sent to members in April; a profile of the Customer Service Call Center; and an update on key legislation affecting the WRS, among other topics.

Staff members will be at the Board meeting to answer any questions.

Attachment: Annuity Adjustment Letter (Template) to Annuitants, March 2013



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Dear Wisconsin Retirement System (WRS) Retiree:

**The Department of Employee Trust Funds (ETF) has announced the Core and Variable annuity adjustments for 2013:** The Core annuity adjustment is -9.6% and the Variable annuity adjustment is +9%. These rates were recommended by ETF's independent consulting actuary and approved earlier this month. They will first be reflected on your May 1, 2013 payment.

As you know, ETF had been advising retirees to prepare for a negative Core annuity adjustment up to -13%. This is primarily due to the lingering effects of 2008 investment declines on the Core Fund. However, the actual adjustment is better than projected, in part due to the State of Wisconsin Investment Board's strong investment returns for 2012: 13.7% and 16.9% for the Core and Variable Trust Funds, respectively.

In April you will receive from ETF a personalized annuity payment statement showing exactly what your new payment will be. Please be aware that not everyone will receive the "full" -9.6% Core annuity adjustment. The amount of the adjustment will vary, based upon how close you are to your original, guaranteed annuity amount ("Core floor"). In general, if you retired in approximately 2004 or later, you will likely receive no Core annuity adjustment because you are already at your Core floor and have no previously-granted increases to repeal.

If you want to know what your Core floor is, locate the most recent annuity payment statement you have received from ETF. Look in the "Required Contributions" section of the statement and find the phrase, "Regular Core" – that dollar figure is your Core floor, your minimum guaranteed amount. If you participate in the Variable Fund, that portion of your payment will be shown as well, but it is not included in your minimum guaranteed amount.

**Why another negative Core annuity adjustment?** Core Fund gains and losses are recognized, or smoothed, over a five-year period. Although the Core Fund has experienced investment gains since 2008, those smoothed gains haven't fully offset

2008 losses of \$21 billion, which are still being smoothed. Therefore, there is still a shortfall in the system and that shortfall is made up by repealing past annuity increases, in accordance with state law. **The good news is that this is the final year of smoothing 2008 losses into the Core Fund.**

**Why does the system smooth investment returns?** Simply put, smoothing typically prevents wide fluctuations in your Core annuity from one year to the next. The “highs” may not be so high, but the “lows” usually aren’t so low. For example, without smoothing, Core annuities would have been reduced up to approximately 35% in 2009; instead, the adjustment was -1.2%. Retirees in the optional Variable Fund experience the full effect of market gains or losses—returns are not smoothed.

We understand consecutive years of Core annuity reductions have been very difficult for retirees. At the same time, it is the unique “risk-sharing” nature of the WRS that helps to keep balance sheets strong so we can provide all promised benefits now and in the future. The risk sharing and other safeguards help keep the WRS one of the best funded public pension systems in the country.

The WRS is well positioned for what lies ahead. Investment returns have been positive every year since 2008 and, if returns meet expectations in 2013, the system should be in a position to issue a positive Core annuity adjustment in 2014.

**For more information about annuity adjustments,** review these ETF resources:

- *Information for Retirees Regarding 2013 Annuity Adjustments* – this document contains answers to frequently asked questions about the Core and Variable annuity adjustments that you may find helpful. Find it in the “Core/Variable Information” menu of our website, <http://etf.wi.gov>.
- *Annuity Payment Statements*—this online video reviews why WRS monthly annuity amounts change, how those changes are calculated, and how annuity payment statements reflect those changes. Find it in our Video Library, also on our website.

You may also call us at toll-free 1-877-533-5020, Monday-Friday, 7:00 a.m. to 5:00 p.m., CST.