

# Core Fund Annuity Adjustments and Effective Rate Projections

Joint Meeting of the Employee Trust Funds,  
Teachers Retirement and Wisconsin Retirement Boards  
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# Current Value of Annuities\*

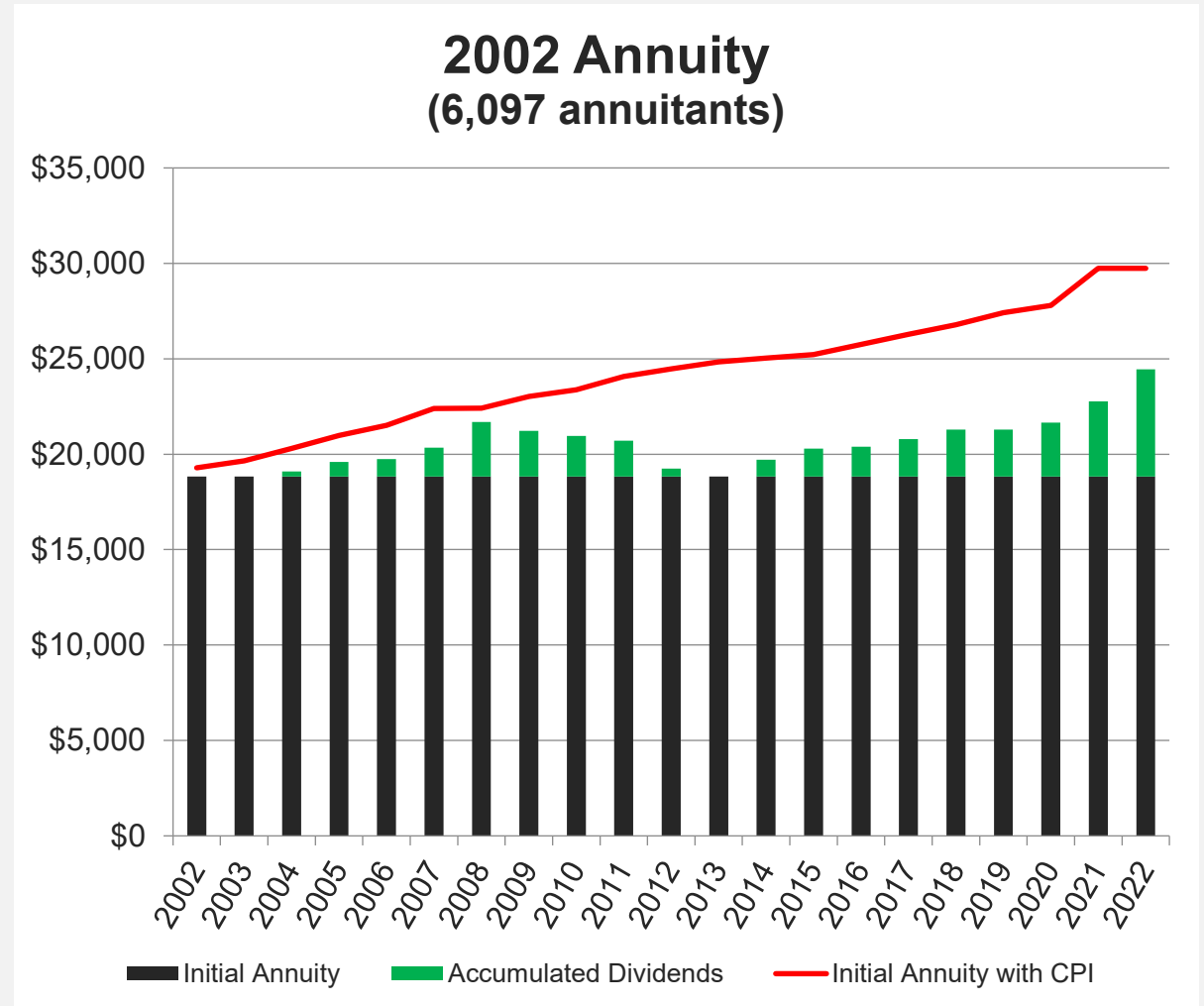
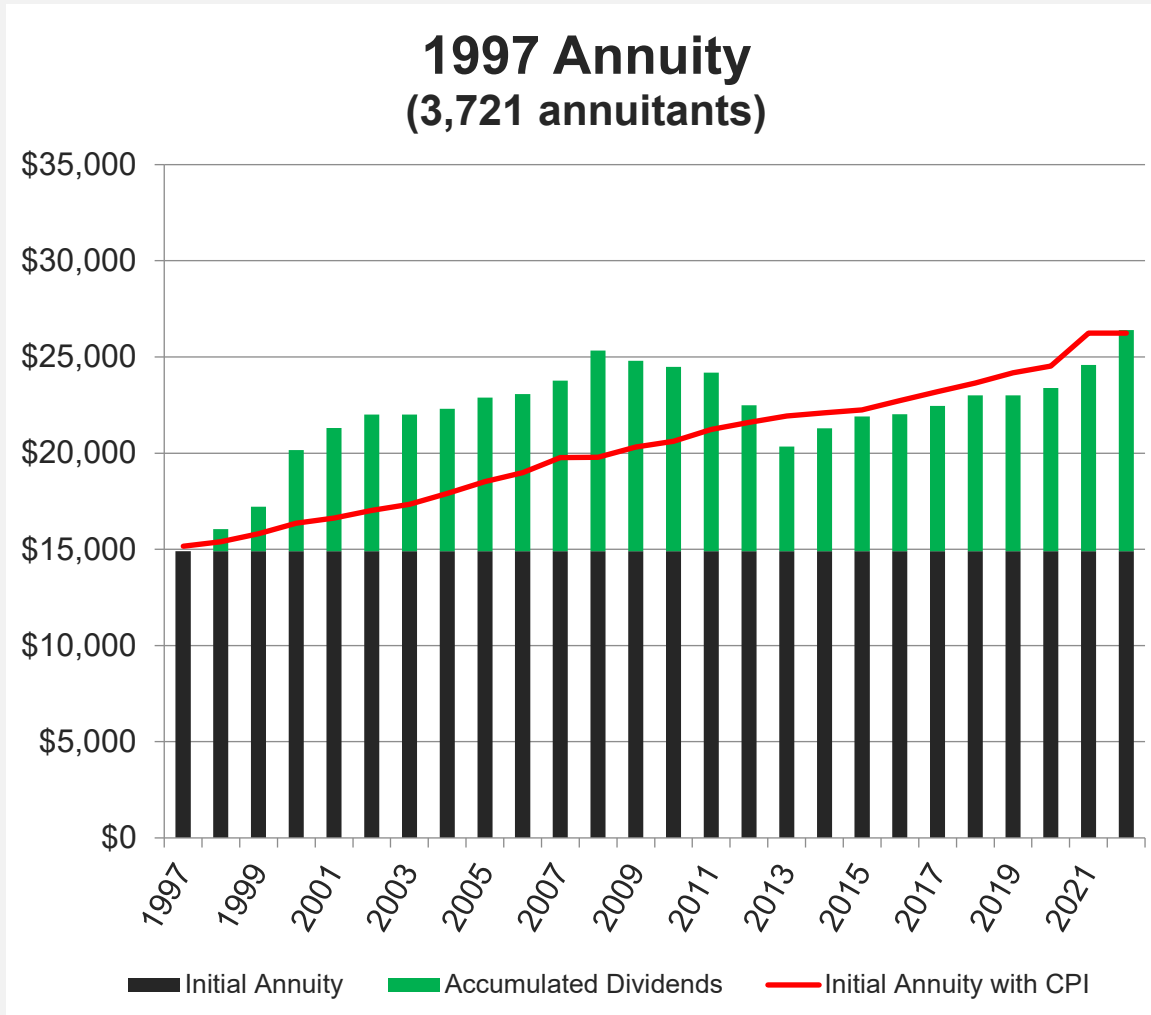
If You Retired in	A \$1,000 Core Annuity is Receiving	The Annual Rate of Increase is	A \$1,000 Variable Annuity is Receiving	The Annual Rate of Increase is	The Annual Change in CPI is
2017	\$1,176	3.3%	\$1,656	10.6%	2.9%
2012	\$1,298	2.6%	\$2,273	8.6%	2.1%
2007	\$1,298	1.8%	\$1,661	3.4%	2.2%
2002	\$1,298	1.3%	\$1,837	3.1%	2.3%
1997	\$1,771	2.3%	\$2,249	3.3%	2.3%

\*Including annuity adjustments to be made effective April 1, 2022



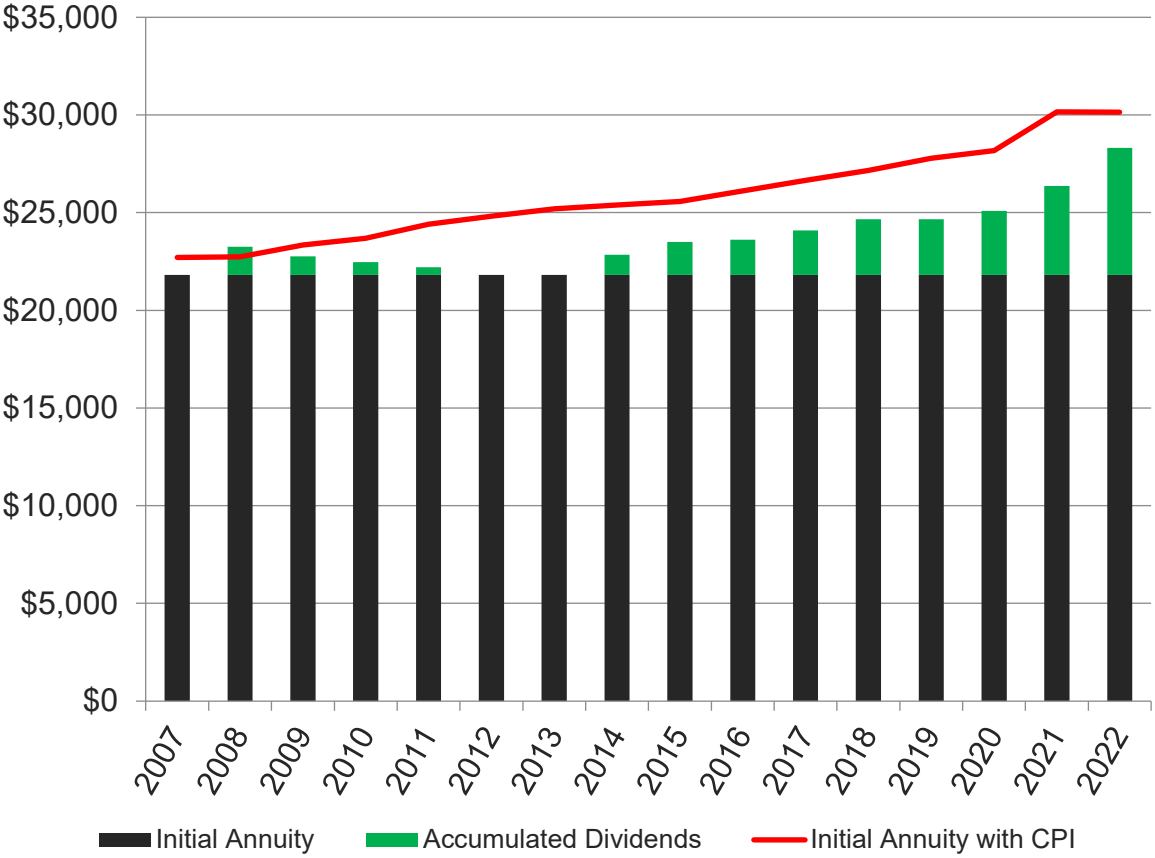
# A Look at Core Annuity Increases versus Cost of Living

# Change in Value of 1997 and 2002 Annuity

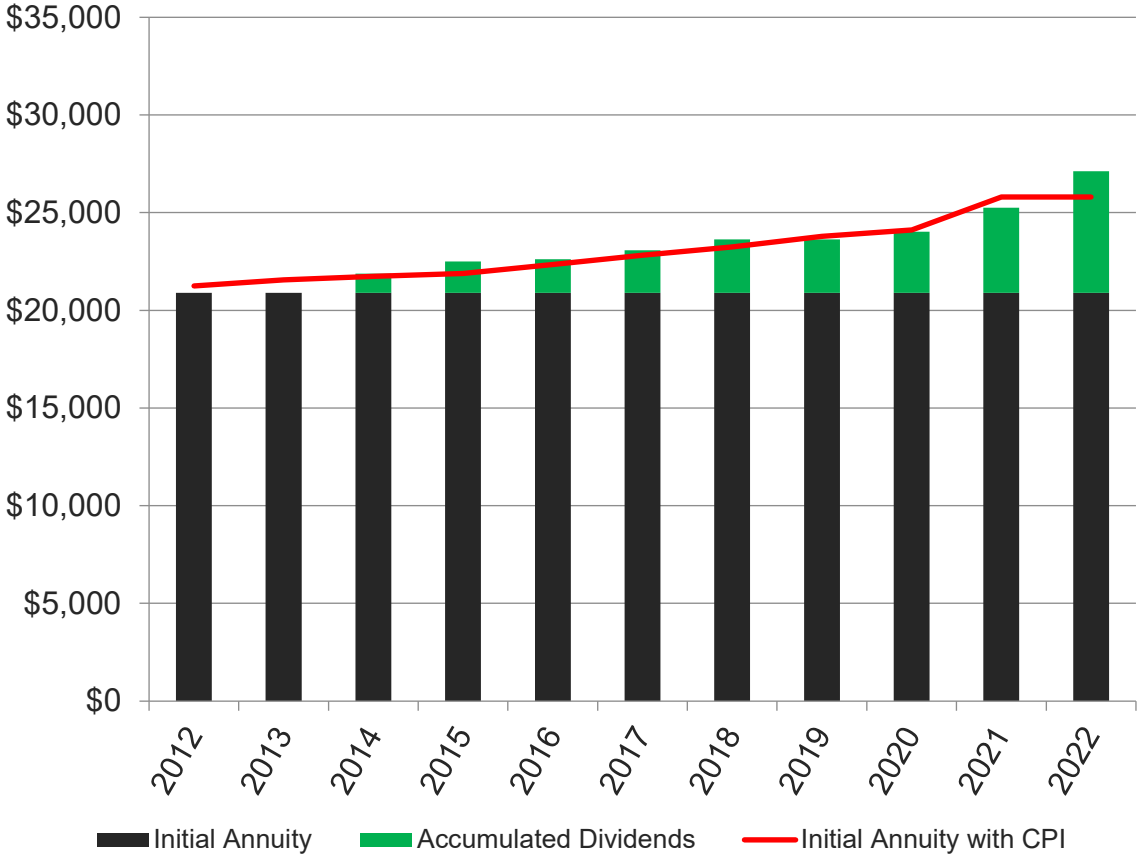


# Change in Value of 2007 and 2012 Annuity

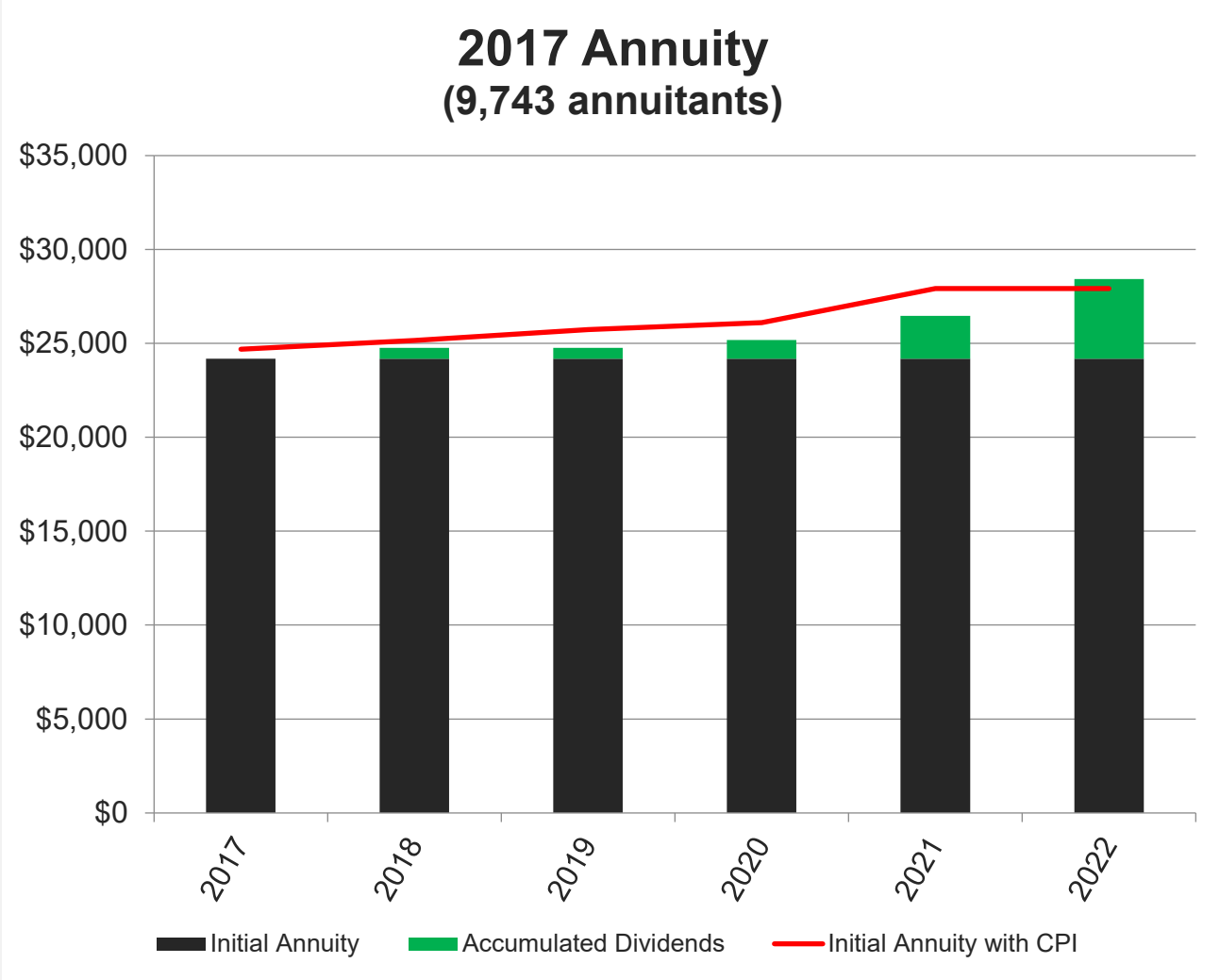
**2007 Annuity**  
(8,041 annuitants)



**2012 Annuity**  
(9,376 annuitants)



# Change in Value of 2017 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 2021 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 2018 - 2021 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% will be recognized beginning with 2022;
  - 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
	2021	2022	2023	2024	2025	
2022		?	?	?	?	?
2021	2,495	2,495	2,495	2,495	2,495	16.89%
2020	1,774	1,774	1,774	1,774		15.21%
2019	2,204	2,204	2,204			19.36%
2018	<b>(2,049)</b>	<b>(2,049)</b>				<b>(3.68%)</b>
2017	1,461					15.82%
Totals (may not add due to rounding)	5,885	4,424	6,472	4,268	2,495	

# Result of 6.8% Investment Return in 2022 - 2025

	2021	2022	2023	2024	2025
SWIB Net Investment Return	16.89%	6.8%	6.8%	6.8%	6.8%
Effective Rate	12.9%	11.0% to 11.4%	12.5% to 12.9%	10.4% to 10.8%	9.0% to 9.4%
Average Annuity Adjustment	7.4%	5.5% to 5.9%	6.9% to 7.3%	5.1% to 5.5%	3.6% to 4.0%
Dividend Liability*	~\$14.3b	~\$17.5b	~\$21.8b	~\$24.7b	~\$26.3b

\* 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 2022 and 6.8% in 2023 - 2025

	2021	2022	2023	2024	2025
SWIB Net Investment Return	16.89%	0%	6.8%	6.8%	6.8%
Effective Rate	12.9%	9.3% to 9.7%	11.0% to 11.4%	9.0% to 9.4%	7.6% to 8.0%
Average Annuity Adjustment	7.4%	4.1% to 4.5%	5.4% to 5.8%	3.6% to 4.0%	2.3% to 2.7%
Dividend Liability*	~\$14.3b	~\$16.4b	~\$19.6b	~\$21.5b	~\$22.2b

\* 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 -18% Investment Return in 2022 and 6.8% in 2023 - 2025

	2021	2022	2023	2024	2025
SWIB Net Investment Return	16.89%	<b>(18%)</b>	6.8%	6.8%	6.8%
Effective Rate	12.9%	5.0% to 5.4%	6.7% to 7.1%	4.7% to 5.1%	3.1% to 3.5%
Average Annuity Adjustment	7.4%	<b>(.5%)</b> to 0%	1.6% to 2.0%	<b>(.5%)</b> to 0%	<b>(2.2%)</b> to <b>(1.8%)</b>
Dividend Liability*	~\$14.3b	~\$13.6b	~\$13.9b	~\$13.1b	~\$11.1b

\* 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.



**Questions?**



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# Thank you

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