Notes to Financial Statements

1. Summary of Significant Accounting Policies

Presentation Basis

The financial statements of the Wisconsin Department of Employee Trust Funds (Department) have been prepared in conformity with generally accepted accounting principles (GAAP) for government units as prescribed by the Governmental Accounting Standards Board. The Department is not a general purpose government and does not present government-wide statements. The Department is included in the State of Wisconsin financial reporting entity.

The following funds have been used to account for the assets and operations of the Department:

Fiduciary Funds

Pension and Other Employee Benefit Trust Funds

Wisconsin Retirement System: This fund is used to account for the collection of employee and employer contributions, investment of assets, and payment of retirement, disability and death benefits to former employees of the state and participating local governments in Wisconsin and their beneficiaries.

Deferred Compensation: This fund is used to account for the collection of voluntary payroll deferrals, investment of assets, and distributions to the employees of the state and participating local governments in Wisconsin and their beneficiaries. The assets and income of the plan are held in trust for the exclusive benefit of the participants and their beneficiaries in compliance with the Internal Revenue Code Section 457(b).

Accumulated Sick Leave Conversion Credits (ASLCC): This fund is used to account for the collection of employer contributions, investment of assets, and purchase of post-retirement health insurance for retired employees of the state and their beneficiaries. The ASLCC benefit allows employees, at the time of their retirement, to convert the value of their unused sick leave accumulation into an account to be used to pay for post-retirement health insurance. The value of their account is increased by an employer match of part or all of their unused sick leave accumulation.

Life Insurance: This fund is used to account for the collection of employee and employer contributions and the purchase of life insurance coverage for current and retired employees of the state and participating local governments in Wisconsin.

Employee Reimbursement Accounts: This fund is used to account for the collection of voluntary payroll deferrals, investment of assets, and reimbursement of qualifying medical and dependent care expenses for employees of the state in compliance with Internal Revenue Code Section 125.

Commuter Benefits: This fund is used to account for the collection of voluntary payroll deferrals, investment of assets, and reimbursement of qualifying transportation expenses for employees of the state in compliance with Internal Revenue Code Section 132. This is a new benefit plan first included in the financial statements in 2002.

Special Death Benefit: This fund is used to account for the investment of assets and the purchase of life insurance coverage for participating employees of Milwaukee Public Schools.

Investment Trust Fund

Milwaukee Retirement System: This fund is used to account for the receipt, investment and disbursement of funds from other public pension funds in Wisconsin.

Proprietary Funds

Enterprise Funds

Duty Disability: This fund is used to account for the collection of employer contributions, investment of assets, and payment of disability benefits to protective occupation participants in the Wisconsin Retirement System.

Long-Term Disability Insurance: This fund is used to account for the collection of employer contributions, investment of assets, and payment of disability benefits to participants in the Wisconsin Retirement System.

Health Insurance: This fund is used to account for the collection of employee and employer contributions, the investment of assets, the purchase of health insurance coverage, and the payment of health insurance claims for current and retired employees of the state and participating local governments in Wisconsin.

Income Continuation Insurance: This fund is used to account for the collection of employee and employer contributions, the investment of assets, and the payment of disability benefits for employees of the state and participating local governments in Wisconsin.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal ongoing operations for these proprietary funds are collecting premiums, holding and investing those premiums, and using the accumulated premiums and investment income to pay benefits. Revenues and expenses not directly related to the principal ongoing operations are immaterial and have been classified as operating items.

Department-wide administrative expenses, capital assets and general fund activities are most closely associated with the Wisconsin Retirement System fund and have been blended with that fund for presentation.

All material intrafund transactions have been eliminated from fund financial statements. Interfund activity has not been eliminated.

Measurement Focus and Basis of Accounting

The financial statements of the Department have been prepared in accordance with generally accepted accounting principles (GAAP). WRS is accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

All other funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Financial Accounting Standards Board statements effective after November 30, 1989, are not applied in accounting and reporting for proprietary operations.

Investments

The assets of the Wisconsin Retirement System and Milwaukee Retirement System are invested in the Fixed Retirement Investment Trust (FRIT) and the Variable Retirement Investment Trust (VRIT). The assets of the Income Continuation Insurance, Duty Disability, Long-Term Disability

Insurance, Milwaukee Special Death Benefit, and Accumulated Sick Leave programs are invested in FRIT. Earnings are allocated between the Retirement System and other programs based on the average balance invested for each program. Earnings allocated to other programs are classified as "Current Income Distributed" on the Statement of Changes in Net Assets.

These programs' investment in the FRIT and VRIT is classified as "Investment in Fixed Fund" and "Investment in Variable Fund" on the Statement of Net Assets. Deferred Compensation assets are invested in participant selected privately managed equity and fixed income funds. All other benefit plan assets are invested in the State Investment Fund (SIF). Investments in the SIF are classified as "Cash and Cash Equivalents" on the Statement of Net Assets. See Note 3 for more information on investment valuation.

Actuarial Value of Assets

While investments are valued at fair value for financial statement presentation, an actuarial value of assets is used in evaluating the funded status of the benefit plans and in determining future contribution requirements. Actuarial value does not include any deferred market gains and losses which have not yet been distributed from the Transaction Amortization Account (TAA) or Market Recognition Account (MRA) to the program reserves. See Note 6 for more explanation of the TAA and MRA. As of December 31, 2002, the actuarial value of reserves (in millions $) were as follows:

Benefit Plan	Reserves at Fair Value	Deferred Market (Gains/Losses)	Reserves at Actuarial Value
Wisconsin Retirement System	$ 51,741.1	$ (7,668.8)	$ 59,409.9
Income Continuation Insurance[(1)]	14.8	(2.9)	17.7
Duty Disability[(1)]	(216.5)	(32.5)	(184.0)
Long-Term Disability Insurance[(1)]	161.5	(60.9)	222.4
Accumulated Sick Leave Conversion Credits[(1)]	(715.9)	(179.3)	(536.6)
Special Death Benefit	0.0	0.0	0.0

[(1)] The Total Reserves and Actuarial Value of Reserves for Income Continuation Insurance, Duty Disability, Long-erm Disability Insurance, and Accumulated Sick Leave Conversion Credits have been reduced by the Estimated Future Claims for the benefit plan.

Administrative Expenses

The administrative costs of all Department programs are financed by a separate appropriation and are allocated to the benefit plans in accordance with Wis. Stat. § 40.04. The sources of funds for this appropriation are investment earnings and third-party reimbursement received from the various programs administered by the Department. Total administrative expenses for the year were $22.7 million.

The State of Wisconsin Investment Board (SWIB) incurs expenses related to investing the trust funds. As authorized by Wis. Stats. § 25.187(2), these costs are charged directly to the investment income of each fund.

Capital Assets

Capital assets consist of office furniture and equipment. The Department capitalizes all furniture and equipment with a purchase price in excess of $5,000. Assets are depreciated on a composite basis over an estimated useful life of two years using the straight-line method of depreciation.

As of December 31, 2002, the total value of capital assets was $3,877,116, less accumulated depreciation of $3,777,752, for a net capital asset value of $99,364.

Long-Term Liabilities

Accumulated Sick Leave Conversion Credit

The Accumulated Sick Leave Conversion Credit fund reports an actuarially determined liability for future benefits. The liability is determined using the Entry Age Normal actuarial cost method and actuarial assumptions that include an 8% long-term rate of investment return, and a 4.5% annual base salary increase.

During 2002, the liability changed as follows (in millions $):

Beginning balance	$ 1,209
Plus: New Liabilities Recognized	160
Less: Benefits Paid	(59)
Ending Balance	$ 1,310

The portion estimated to be due within one year is $68.9 million.

Special Death Benefit

The Special Death Benefit fund reports all available net assets as a liability of the program. Liability increase and decrease amounts are not directly available.

Other Post-Employment Benefits

The Special Death Benefit program provides life insurance coverage for members of the Milwaukee Teachers Retirement Fund as of December 31, 1981, who elected to participate. Contributions are no longer required or made to the program; actuarially determined benefit amounts are provided from existing assets. The program has been administered in accordance with Chapter 40 of the Wisconsin statutes.

The Life Insurance program includes providing coverage to retirees 65 and up, and to those under 65 if eligible for a retirement annuity and having 20 years creditable service. Employees fund the post-retirement benefit until age 65. Benefits thereafter have been prefunded by employer premiums paid to the insurer during the employee's active career. The insurer determines premiums. The accrued liability and assets specifically related to these post-employment benefits could not be determined. The program is administered in accordance with Chapter 40 of the Wisconsin statutes.

2. Accounting Changes

Adoption of New Accounting Standards

Effective with calendar year 2002, the Department implemented the following standards issued by the Government Accounting Standards Board (GASB):

- GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments;*
- GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; and*
- GASB Statement No. 38, *Certain Financial Statement Note Disclosures.*

GASB Statement No. 34, as amended by GASB Statement No. 37, required new financial statement formats and reclassifications of the following funds from *Expendable Trust Funds* to *Pension and Other Employee Benefit Trust Funds*:

- Deferred Compensation,
- Accumulated Sick Leave Conversion,
- Life Insurance,
- Employee Reimbursement Accounts, and
- Special Death Benefit.

Statement No. 34 also required measurement focus and basis of accounting changes for certain benefit liabilities and expenses, causing the following funds' beginning net assets to vary from the prior year ending net assets previously reported: Accumulated Sick Leave Conversion net assets decreased $535,320,933.30. Special Death Benefit net assets decreased $1,129,813.99.

Various changes to note disclosures have been made in accordance with Statements No. 34 and No. 38.

Statement No. 34 also required that government-wide financial statements include a Management's Discussion and Analysis (MD&A) to provide an overview of the government's financial activities. This requirement does not extend to Department financial statements. It was management's determination that this type of information could be better presented in the Department's Comprehensive Annual Financial Report and has not included an MD&A in the basic financial statements.

Fixed assets which were previously reported as part of the General Fixed Asset Account Group are now being reported in the WRS. A prior period adjustment increased the beginning balance of WRS net assets by $45,452.

The General Fund and the Administrative Fund, which were previously reported as Governmental Funds, have been reclassified into the Wisconsin Retirement System. The effect of this blending is shown below (in thousands $):

	WRS	General Fund	Administrative Fund	Blended WRS
Assets	$ 55,327,248	$ 295	$ 6,808	$ 55,334,351
Liabilities	3,587,246	295	5,684	3,593,225
Net Assets	$ 51,740,002	$ 0	$ 1,124	$ 51,741,126
Begin Net Assets	$ 59,233,144	$ 0	$ 2,052	$ 59,235,196
Additions	(4,789,101)	3,873	25	(4,785,203)
Deductions	2,704,041	3,873	953	2,708,867
Ending Net Assets	$ 51,740,002	$ 0	$ 1,124	$ 1,741,126

3. Deposits, Investments and Securities Lending Transactions

Valuation of Securities

The investments of the Fixed Retirement Trust Fund and the Variable Retirement Trust Fund are valued at fair value, per Wis.Stat s. 25.17(14). Monthly, the investments are adjusted to fair value.

Fair value information represents actual bid prices or the quoted yield equivalent at the end of the fiscal year for securities of comparable maturity, quality and type as obtained from one or more major investment brokers. If quoted market prices are not available, a variety of third party pricing methods are used, including appraisals, certifications, pricing models and other methods deemed acceptable by industry standards.

Mortgages are priced via a matrix pricing system. The traditional discounted cash flow methodology is employed, where discounted rates, based on current yields in the base Treasury, consider factors such as coupon rates, term to maturity, Moody's and Standard & Poor ratings, and sector/industry information.

Private placements are priced using a multi-tiered approach.

Limited partnerships' fair value is estimated based on periodic reports from the limited partnerships' management. Annually, the reports are audited by independent auditors.

The basis for valuing real estate is appraisals, which are prepared once every three years. In years when appraisals are not performed, the asset managers are responsible for providing market valuations.

A limited number of securities are carried at cost. Certain non-public or closely held stock are not reported at fair value, but are carried at cost since no independent quotation is available to price these securities.

All derivative financial instruments are reported at fair value in the Statement of Net Assets. The instruments are marked to fair value monthly, with valuation changes recognized in income, regardless of whether the instruments are held for hedging or trading purposes. Gains and losses are recognized during the period the instruments are held and when the instrument is sold or expires.

For the Deferred Compensation Program, investments in fixed earnings accounts are valued at current book values, which approximates fair value, while variable earnings investments are presented at fair values based on published quotations at December 31. Annuity reserves are actuarially valued.

Private Placements Pricing Method Change

During the calendar year, SWIB completed review of valuation practices for the private placement portfolios. Since quoted market prices are not available for a substantial portion of these assets, fair values are typically estimated by investors or broker/dealers using financial models or evaluations based on security and market characteristics.

Prior to April 2002, SWIB utilized a financial model to calculate the fair value of assets held in the private placement portfolios. A matrix model from CMS BondEdge provided prices based on corporate yield spread over Treasury securities with comparable durations. The spread was based on a matrix of factors including credit rating, sector, average life or cashflow, and any call features.

Since that time, SWIB has moved to a multi-tiered method of pricing assets held in private placement portfolios. The method prices each holding based on the best available information using the following hierarchy of pricing sources:

1. Custodian supplied prices for assets that are in the Lehman Aggregate Bond Index.
2. Prices provided by a contracted third party with expertise in the bond market.
3. Modeled prices utilizing CMS BondEdge where spreads are supplied by the same contracted third party.

In a few instances securities cannot be priced by one of the above three sources. In these circumstances the investment is priced using an alternative bond index price or if no independent quotation exists, the investment is priced by SWIB management, usually at cost.

The change in methods of estimating fair values for the private placement portfolios resulted in a net decrease of $167.1 million. The new valuation method is more conservative in that it recognizes the investment return gradually over the life of the investment. The valuation process does not, however, alter the expected receipt of coupon and final principal, or alter the security's economic value or risk of default to SWIB. The adjustment in fair value is presented in the financial statements in the Statement of Net Assets as a reduction to "Private Placements," and in the Statement of Changes in Net Assets as a decrease to "Net Appreciation (Depreciation) in Fair Value of Investments."

Deposits, Investments, and Securities Lending Transactions

Deposits — GASB Statement 3 requires deposits with financial institutions to be categorized to indicate the level of risk assumed. Bank deposits as of December 31, 2002 included $2,464 deposited in two financial institutions. Federal depository insurance covers $1,543 of the deposits, while the remainder is uninsured. In addition, SWIB held a nonnegotiable short-term certificate of deposit. The fair value of this certificate of deposit was $3.5 million, all of which was uncollateralized.

Investments — The following tables present the investments held by SWIB as of December 31, 2002, categorized to give an indication of the level of risk assumed by SWIB at year-end. The categories are:

1. Insured or registered, or securities which are held by SWIB in SWIB's name or its agent in SWIB's name.
2. Uninsured and unregistered, with the securities held by the counterparty's trust department or agent in SWIB's name.
3. Uninsured and unregistered, with the securities held by the counterparty, or by its trust department or agent, but not in SWIB's name.

Fixed Fund

Category (in millions)

	"1"	**"2"**	**"3"**	**Fair Value**
Stocks	$ 11,778.6			$ 11,778.6
Bonds	6,490.9			6,490.9
Repurchase Agreements	323.2			323.2
Bankers Acceptances	47.8			47.8
Totals	**$ 18,640.5**	**$ 0.0**	**$ 0.0**	**$ 18,640.5**

Investments Not Subject to Categorization:	
Private Placements	3,397.1
Limited Partnerships	2,624.4
Pooled Equities	15,214.6
Pooled Bonds	3,926.9
Mortgages	696.3
Real Estate Owned	429.4
State Investment Fund	400.5
Pooled Cash and Cash Equivalents	404.5
Investments held by broker dealers under securities loans	
Bonds	1,489.1
Equities	559.8
Securities Lending Cash Collateral Pooled Investments	421.5
Total	**$ 48,204.6**

Variable Fund

	Category (in millions) "1"	"2"	"3"	Fair Value
Stocks	$2,223.7			$2,223.7
Bonds	61.6			61.6
Repurchase Agreements	14.8			14.8
Bankers Acceptances	2.2			2.2
Totals	$2,302.3	$0.0	$0.0	$2,302.3
Investments Not Subject to Categorization:				
Pooled Equities				2,275.1
State Investment Fund				64.6
Pooled Cash and Cash Equivalents				18.8
Investments Held by Broker Dealers under Securities Loans Equities				92.1
Securities Lending Cash Collateral Pooled Investments				19.2
Total				**$4,772.1**

All investments of the Deferred Compensation Program are in externally managed investment pools and have not been included in the schedules above. As of December 31, 2002, the investments included (in millions):

Variable Earnings (Mutual Fund) Investments	$ 793.8
Insured Fixed Earnings Investments	34.8
Fixed Earnings Investment	207.4
Allocated Insurance Contracts	6.2
Other	0.1
Total	$ 1,042.3

Securities Lending Transactions

State statutes and board policies permit SWIB to use investments of the two funds to enter into securities lending transactions. These transactions involve the lending of securities to broker-dealers and other entities for collateral, in the form of cash or securities, with the simultaneous agreement to return the collateral for the same securities in the future.

SWIB's securities custodian is an agent in lending the funds' domestic and international securities for collateral of 102 percent and 105 percent, respectively, of the loaned securities' fair value. The cash collateral is reinvested by the lending agent in accordance with contractual investment guidelines which are designed to insure the safety of principal and obtain a moderate rate of return. The investment guidelines include very high credit quality standards and also allow for a portion of the collateral investments to be invested with short-term securities. The earnings generated from the collateral investments, less the amount of rebates paid to the dealers, results in the gross earnings from lending activities, which is then split on a percentage basis with the lending agent.

Securities on loan at December 31, 2002 are presented as unclassified in the preceding schedule of custodial risk. At year-end, SWIB had no credit risk exposure to borrowers because the amounts SWIB owed the borrowers exceeded the amounts the borrowers owed SWIB. The contract with the lending agent requires them to indemnify SWIB if the borrowers fail to return the loaned securities and the collateral is inadequate to replace the securities lent.

The majority of securities loans can be terminated on demand by SWIB or the borrower, although the average term of the loans is approximately one week. The term to maturity of the securities loans is matched with the term to maturity of the investments of the cash collateral by investing in a variety of short-term investments with a weighted average maturity of 21 days.

The ability to pledge or sell collateral securities cannot be made without a borrower default. In addition, no restrictions on the amount of loans exist.

Derivative Financial Instruments

Foreign Currency Forwards and Options

SWIB's derivative activities primarily involve forward contracts and foreign currency options. Generally foreign currency forwards and options are held to hedge foreign exchange risk. Market risk is controlled by holding substantially offsetting purchase and sell positions. At December 31, 2002, the fair value of foreign currency forward contract assets totaled $1.221 billion, while the liabilities totaled $1.224 billion.

Futures Contracts

One outside investment manager has used futures contracts to manage its exposure to the stock market during the periods presented in this annual report. This manager is authorized to utilize futures up to 25% of the fair value of the portfolio. Upon entering into a futures contract, the outside manager is required to deposit with the broker, in SWIB's name, an amount of U.S. government obligations in accordance with the initial margin requirements of the broker. Futures contracts are marked to market daily with gains and losses being recognized. The variation margin is settled daily until the contracts expire or are closed. Futures contracts involve, to varying degrees, risk of loss in excess of the variation margin disclosed in the Statement of Net Assets. Losses may arise from the changes in the value of the underlying instrument, illiquidity in the secondary market for the contracts, or if the counterparties do not perform under the terms of the contract. Futures contracts are valued each day at the settlement price established by the board of trade or exchange on which they are traded. As of December 31, 2002, SWIB held no futures contracts.

Collateralized Mortgage Obligations

Collateralized mortgage obligations (CMOs) are bonds that are collateralized by whole loan mortgages, mortgage pass-through securities or stripped mortgage-backed securities. Income is derived from payments and prepayments of principal and interest generated from collateral mortgages. Cash flows are distributed to different investment classes or traunches in accordance with each CMOs established payment order.

Some CMO traunches have more stable cash flows relative to changes in interest rates while others are significantly more sensitive to interest rate fluctuations. In a declining interest rate environment, some CMOs may be subject to a reduction in interest payments as a result of prepayments of mortgages which make up the collateral pool. A reduction in interest payments causes a decline in cash flows and thus a decline in the fair value of the security.

Rising interest rates may cause an increase in interest payments, thus an increase in fair value of the security. CMOs are held to maximize yields and in part to hedge against a rise in interest rates. SWIB holds only high quality, senior traunches, resulting in minimal risks of default and prepayment.

Principal Only Strips

Principal only strips are securities that derive cash flow from the payment of principal on underlying debt securities. SWIB holds several principal only strips for yield enhancing purposes. The underlying securities are United States Treasury obligations, therefore the credit risk is low. On the other hand, principal only strips are more volatile in terms of pricing, and thus the market risk is higher than traditional United States Treasury obligations.

The following schedule provides summary information by investment classification for the Fixed and Variable Retirement Trust Funds at December 31, 2002.

Fixed Fund

Classification	Interest / Coupon Rate	Maturity Dates	Cost (millions$)	Fair Value (millions $)
Bonds	Variable and 0.0 to 41.51%	1/03 – 11/49	$ 9,631.3	$ 10,556.1
Common and Preferred Stock	N/A	N/A	33,116.5	27,553.1
Limited Partnerships	N/A	N/A	2,788.7	2,624.4
Mortgages	6.77% – 12.25%	8/04 – 6/22	634.2	696.3
Real Estate	N/A	N/A	348.8	429.4
Private Placements	Variable and 5.13% to 24.00%	1/03 – 5/30	3,355.9	3,397.1
Total Investments			$ 49,875.4	$ 45,256.4

Variable Fund

Classification	Interest / Coupon Rate	Maturity Dates	Cost (millions$)	Fair Value (millions $)
Bonds	0.0%	4/03	$ 0.0	$ 0.0
Common and Preferred Stock	N/A	N/A	5,734.4	4,591.0
Total Investments			5,734.4	4,591.0

Unfunded Capital Commitments

Partnership agreements generally set a limit on the total dollar amount that limited partners must commit to funding when entering the partnership. Over the life of the partnership, the general partner will request capital contributions totaling the agreed upon limit. As of December 31, 2002, unfunded capital commitments totaled $1.7 billion.

4. Description of Wisconsin Retirement System

The Wisconsin Retirement System (WRS) is a cost-sharing multiple employer public employee retirement system established and administered by the State of Wisconsin to provide pension benefits for state and local government public employees. The system is administered in accordance with Chapter 40 of the Wisconsin statutes.

WRS Employers

WRS is open to all public employers in Wisconsin. Participation is optional, except that participation is mandatory for school districts with respect to teachers, some municipalities with respect to police and firefighters, and all counties except Milwaukee County. As of December 31, 2002, the number of participating employers was:

State Agencies	61
Cities	153
Counties	71
4th Class Cities	34
Villages	219
Towns	192
School Districts	426
CESA's*	12
WTCS Districts**	16
Special Districts	175
Total Employers	**1,359**

* Cooperative Educational Service Agencies

** Wisconsin Technical College System

WRS Membership

Any employee of a participating employer who is expected to work at least 600 hours per year must be covered by WRS.

As of December 31, 2002, the WRS membership consisted of:

Current Employees	
General / Teachers	243,640
Elected / Executive / Judges	1,484
Protective with Social Security	18,515
Protective without Social Security	2,711
Total Current Employees	266,350
Terminated Participants	126,845
Retirees and Beneficiaries currently receiving benefits:	
Retirement Annuities	108,901
Disability Annuities	6,158
Death Beneficiary Annuities	1,230
Total Annuitants	116,289
Total Participants	509,484

WRS Benefits

WRS provides retirement benefits as well as death and disability benefits. Participants in the system prior to January 1, 1990, were fully vested at the time they met participation requirements. For participants entering the system between December 31, 1989, and April 23, 1998, creditable service in each of five years was required for vesting. 1997 Wisconsin Act 69 provided for all active participants in the system on or after April 24, 1998, to be fully vested.

Employees who retire at or after age 65, (55 for protective occupations and 62 for elected officials and executive service retirement plan participants), are entitled to a retirement benefit based on a formula factor, their final average earnings and creditable service. Formula factors are shown in the table below.

Employment Category	Service Before 1/1/2000	Service After 12/31/1999
General and Teachers	1.765%	1.6%
Executive and Elected	2.165	2.0
Protective with Social Security	2.165	2.0
Protective without Social Security	2.665	2.5

Final average earnings is the average of the participant's three highest annual earnings periods. Creditable service includes current service and prior service for which a participant received earnings and made contributions as required. Creditable service also includes creditable military service. The retirement benefit will instead be calculated as a money purchase benefit based on the employee's contributions plus matching employer's contributions with interest if that benefit is higher than the formula benefit.

Vested participants may retire at or after age 55 (50 for protective occupations) and receive an actuarially reduced benefit. Participants terminating covered employment prior to eligibility for an annuity may either receive employee-required contributions plus interest as a separation benefit, or leave contributions on deposit and defer application until eligible to receive a retirement benefit.

Post-Retirement Adjustments

The Employee Trust Funds Board may periodically increase annuity payments from the retirement system when investment income credited to the reserves, together with other actuarial experience factors, creates surplus reserves as determined by the actuary. Annuity increases are not based on cost of living or other similar factors. The fixed dividends and variable adjustments granted during recent years are as follows:

Year	Fixed Dividend	Variable Adjustment
1993	4.4 %	5.0%
1994	4.9	11.0
1995	2.8	(4.0)
1996	5.6	19.0
1997	6.6	14.0
1998	7.7	18.0
1999	7.2	12.0
2000	17.1	21.0
2001	5.7	(11.0)
2002	3.3	(14.0)

Actuarial Liabilities

WRS's unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of payroll over a 40-year period beginning January 1, 1990. As of December 31, 2002, 27 years remain on the amortization schedule. Interest is assessed on the outstanding liability at year end at the assumed earnings rate. The level percentage-of-payroll amortization method results in a relatively lower dollar contribution in earlier years than in later years when payrolls have increased. During the early years of the amortization period, payments made are less than annual interest assessments, resulting in an increase in the liability. As payrolls increase annually, prior service payments increase proportionally until they exceed annual interest and finally fully liquidate the liability at the end of 40 years. State law requires the accrued retirement cost be funded.

As of December 31, 2002, and 2001, the UAAL was $1.73 billion and $2.08 billion respectively. These liabilities, less amounts anticipated to be funded by the employer credit accounts created by 1999 Wisconsin Act 11, are presented as Prior Service Contributions Receivable on the Statement of Net Assets.

Variable Retirement Option

Prior to 1980, WRS participants had an option to have one-half of their required contributions and matching employer contributions invested in the Variable Retirement Investment Trust (VRIT). Retirement benefits were adjusted for the difference between the investment experience of the Fixed Retirement Investment Trust (FRIT) and VRIT. The VRIT was closed to new membership after April 30, 1980. Provisions for allowing members to withdraw from the VRIT were added with the passage of Ch. 221, Laws of 1979. 1999 Wisconsin Act 11 reopened the VRIT for existing and future participants effective January 1, 2001. As of December 31, 2002, 78,939 active and inactive participants and 28,662 annuitants participated in the VRIT.

Municipal Police and Firefighters Pension Group

As of March 31, 1978, administration of certain local funds for police officers and firefighters was assumed by the Wisconsin Retirement Fund. This included approximately 2,000 members. As of December 31, 2002, 593 participants remained in the system. These funds were previously closed to new members after January 1, 1948. The liability for retirement benefits for these annuitants is funded by the employers as benefit payments are made. Annuity reserves for these police and firefighter annuities are established by a transfer from the employer accumulation reserve at the time the annuity is approved. Earnings on these reserves are used to fund dividends on the same basis as for WRS annuitants. The unfunded liability for these annuitants as of December 31, 2002, and December 31, 2001, was $24.4 million and $27.4 million, respectively.

Annuity Supplement - General Fund

As authorized under 1985 Wis. Stat. § 40.27 (1), the General Fund provides certain supplemental annuity benefits to annuitants receiving a continuing annuity on or before September 1974. The benefit is subject to continuation of the appropriation by the legislature. The Department serves as a clearing agent for its payment. Total supplemental annuity benefits paid were $3.8 million in 2002 and $4.5 million in 2001.

5. Contributions Required and Made

Required Contributions

Employer contribution rates are determined by the "entry age normal with a frozen initial liability" actuarial method. This is a "level contribution" actuarial method intended to keep employer and employee contribution rates at a level percentage of payroll over the years. This method determines the amount of contributions necessary to fund: 1) the current service cost, which represents the estimated amount necessary to pay for benefits earned by the employees during the current service year plus actuarial gains or losses arising from the difference between actual and assumed experience; and 2) the prior service cost, which represents the estimated amount necessary to pay for unfunded benefits earned prior to the employer becoming a participating employer in WRS and the past service cost of benefit improvements.

Contribution requirements for 2002 were determined by the December 31, 2000 actuarial valuation. Significant actuarial assumptions used in the valuation include:

-- a rate of return on the investment of present and future assets of 8.0 percent per year compounded annually;

-- projected salary increases of 4.5 percent per year compounded annually, attributable to inflation;

-- additional projected salary increases ranging from 0.1 percent to 6.0 percent per year, depending on age and type of employment, attributable to seniority/merit; and

-- 2.86 percent annual post-retirement benefit increases.

Employee contributions are deducted from the employee's salary and remitted to the Department by the participating employer. Part or all of the employee contributions may be paid by the employer on behalf of the employee.

Employees also make an actuarially determined benefit adjustment contribution. The benefit adjustment contribution is treated as an employer contribution for benefit purposes and is not included in separation benefits, death benefits, or money purchase annuities. Part or all of the benefit adjustment contribution may be paid by the employer on behalf of the employee. Effective January 1, 1990, any changes in the contribution rate must be split equally between the employee and the employer.

Contribution rates in effect during 2002 by employment category were:

	Employer Current	Employer Prior*	Employee	Benefit Adjustment Contribution
Elected Officials, State Executive Retirement Plan	8.6%	1.0%	3.1%	0.0%
Protective Occupation with Social Security	7.1%	0.7%	4.0%	0.0%
Protective Occupation without Social Security	10.4%	1.5%	3.0%	0.0%
General and Teachers	3.8%	1.3%	5.0%	0.2%

** The employer prior service contribution rate is a weighted average of individual employer rates.*

Contributions required and made during 2002 were:

	Contributions Required		Contributions Made	
	Contributions (millions $)	Percentage of Payroll	Contributions (millions $)	Percentage of Payroll
Employer Current Service	426.9	4.22%	426.0	4.21%
Employer Prior Service*	114.1	1.13%	481.4	4.75%
Employee Required	494.8	4.89%	494.8	4.89%
Benefit Adjustment Contribution	18.3	0.18%	18.3	0.18%

** Employer prior service contributions are recorded as a reduction in the Prior Service Contribution Receivable.*

1999 Wisconsin Act 11 established $200 million in employer credit accounts to be used by employers in lieu of making employer prior service contributions, or if an employer did not have an unfunded liability, employer required contributions. As of year end, $199.7 million of employer credits had been used. Employers also contributed $3.8 million in reimbursement for benefits paid under the Wis. Stat. § 62.13 Police and Firefighters pension program.

Employee and Employer Additional Contributions

Contributions may be made to the retirement system in addition to the required contributions by employees and/or employers. These contributions are held in separate reserve accounts and are subject to certain restrictions as to amount, form of benefit payments, tax status, etc.

6. Reserves

The following reserves have been established to reflect legal restrictions on the use of pension trust funds.

Employee Accumulation Reserve

As authorized by Wis. Stat. § 40.04 (4), this reserve includes all required and voluntary employee contributions, including contributions made by the employer on behalf of the employee. This reserve may only be used to pay lump sum benefits or transfers to the Annuity Reserve to fund annuities. All legal restrictions on use of this reserve were met during the year. The Employee Accumulation Reserve is fully funded.

Employee Accumulation Reserve balances (in millions $) as of December 31, 2002 were:

	Fixed	Variable	Total
Employee Required	$13,007.6	$ 877.5	$13,885.1
Employee Additional	111.8	26.0	137.8
Total	$13,119.4	$ 903.5	$14,022.9

Employer Accumulation Reserve

As authorized by Wis. Stats. § 40.04 (5), this reserve includes all required employer contributions, including contributions for amortization of the unfunded accrued actuarial liability. This reserve may only be used to pay lump sum benefits, or be transferred to the Annuity Reserve to fund annuities. All legal restrictions on use of this reserve were met during the year. The Employer Accumulation Reserve is 91% funded. Employer Accumulation Reserve balances (in millions $) as of December 31, 2002 were:

	Fixed	Variable	Police & Firefighters	Total
Employer Accumulation	$ 18,453.2	$ 877.5	($ 4.9)	$ 19,325.8
Less: UAAL	0.0	0.0	24.4	24.4
Net Employer Accumulation	$ 18,453.2	$ 877.5	($ 29.3)	$ 19,301.4

Annuity Reserve

As authorized by Wis. Stats. § 40.04 (6), this reserve includes the present value of all annuities. The present value of new annuities are transferred from the Employee Accumulation Reserve and the Employer Accumulation Reserve to the Annuity Reserve. This reserve may only be used for the payment of annuities and death benefits to annuitants. All legal restrictions on use of this reserve were met during the year. The Annuity Reserve is fully funded.

Annuity Reserve balances (in millions $) as of December 31, 2002, were:

	Fixed	Variable	Police & Firefighters	Total
Annuity Reserve	$ 23,072.4	$ 2,886.9	$ 127.1	$ 26,086.4

Market Recognition Account

As authorized by Wis. Stat. § 40.04 (3), this reserve is used to smooth the flow of investment income into the Employee Accumulation, Employer Accumulation, and Annuity Reserves and other benefit plans invested in the FRIT. Under the Market Recognition Account (MRA), all investment income, including realized and unrealized market gains and losses, are deposited into the MRA. At year end, income equal to the assumed earnings rate is recognized. Any surplus or shortfall in earnings is recognized equally over five years.

Prior to 1999 Wisconsin Act 11, Wisconsin statutes required that a Transaction Amortization Account (TAA) be maintained to smooth the impact of market price volatility on the benefit plans invested in the FRIT. All realized and unrealized gains and losses in fair value of investments in the FRIT were recorded in the TAA as they were incurred. Twenty percent of the TAA balance was transferred to and recognized as current investment income in the various program reserves of the FRIT at the end of each year. 1999 Wisconsin Act 11 froze the balance of the TAA as of December 31, 1999. The balance of $9.9 billion is being recognized in five equal amounts of $1.98 billion beginning in 2000 and ending in 2004.

Year-end balances in the TAA and MRA (in millions $) for the last five years after annual distributions were as follows:

	MRA	TAA	Total
December 31, 1998		11,495	11,495
December 31, 1999		9,910	9,910
December 31, 2000	(3,299)	7,928	4,629
December 31, 2001	(6,742)	5,946	(796)
December 31, 2002	(11,908)	3,964	(7,944)

7. Contingencies And Subsequent Events

Special Death Benefit

Effective January 1, 2003, the Group Insurance Board insured the Special Death Benefit Program with a private insurer. All fund assets were transferred to the insurer in exchange for the insurer providing a lifetime benefit to all participants.

Pension Obligation Bonds

Based on authority included in 2003 Wisconsin Acts 33 and 84, the state has issued bonds to finance unfunded prior service liabilities for the Wisconsin Retirement System and the Accumulated Sick Leave Conversion program.

8. Public Entity Risk Pools

The Department operates four public entity risk pools: health insurance, income continuation insurance, protective occupation duty disability insurance (Duty Disability), and long-term disability insurance (LTDI). In accordance with GASB Statement 10, these funds are accounted for as enterprise funds.

Health Insurance

The Health Insurance fund offers group health insurance for current and retired employees of the state government and of participating local public employers. All public employers in the state are eligible to participate. The State, plus 297 local employers, participated during the year. The fund includes both a self-insured fee-for-service plan as well as various prepaid plans, primarily health maintenance organizations.

Following is a summary of the activity and changes in net assets for these individual risk pools within the Health Insurance Fund during 2002 (in thousands):

	State	Local	Local Annuitants	Total
Investment Income	$ 884	$ 110	$ 0	$ 994
Insurance Premiums	634,459	85,030	701	720,190
Total Revenues	**635,343**	**85,140**	**701**	**721,184**
Benefits Expense	617,169	84,113	694	701,976
Carrier Administration	2,319	133	0	2,452
ETF Administration	1,303	162	1	1,466
Total Expenses	**620,791**	**84,408**	**695**	**705,894**
Net Income	14,552	732	6	15,290
January 1, 2002 Net Assets	**4,774**	**1,814**	**17**	**6,605**
December 31, 2002 Net Assets	**19,326**	**2,546**	**23**	**21,895**

Income Continuation Insurance

The Income Continuation Insurance fund offers both long-term and short-term disability benefits (up to 75 percent of gross salary) for current employees of the state government and of participating local public employers. All public employers in the state are eligible to participate. One hundred and thirty-eight employers plus the state currently participate. The plan is self-insured.

Following is a summary of the activity and changes in net assets for these individual risk pools within the Income Continuation Insurance fund during 2002 (in thousands $):

	State	Local	Total
Investment Income	$ (5,467)	$ (1,086)	$ (6,553)
Contributions	9,164	1,113	10,277
Miscellaneous	54	1	55
Total Revenues	**3,751**	**28**	**3,779**
Benefit Expense	12,285	547	12,832
Carrier Administration	1,229	60	1,289
ETF Administration	324	43	367
Total Expenses	**13,838**	**650**	**14,488**
Net Income	(10,087)	(622)	(10,709)
January 1, 2002 Net Assets	**$ 17,449**	**$ 8,057**	**$ 25,506**
December 31, 2002 Net Assets	**$ 7,362**	**$ 7,435**	**$ 14,797**

Duty Disability

The Duty Disability fund offers special disability insurance for state and local Wisconsin Retirement System (WRS) participants in protective occupations. Participation in the program is mandatory for all WRS employers with protective occupation employees. The state and 466 local employers currently participate. The plan is self-insured, and risk is shared between the State and local portions of the plan.

The Duty Disability program is intended to compensate WRS protective category employees for duty-related disabilities. Benefits are payable for duty-related injuries or diseases that are likely to be permanent and that cause the employee to retire, accept reduced pay or a light-duty assignment, or that impair the employee's promotional opportunities.

All contributions are employer paid. Contributions are based on a graduated, experience-rated formula. During 2002, contribution rates ranged from 1.9 percent to 6.6 percent of salaries based on employer experience.

During the program's initial years, contributions did not keep pace with benefits, resulting in both an accounting and a cash deficit. The Employee Trust Funds Board has increased contribution rates and has implemented an experience-rated system to encourage employers to oppose frivolous claims against the program. After 1987 legislation (Wis. Act 363, Laws of 1987) broadened the Department's authority for experience-rated contribution collection and modified the benefit structure, a new rate structure was enacted that retired the cash deficit in 1993. The accounting deficit is being amortized over an 18-year period beginning in 2004.

In May 1997, the Wisconsin Supreme Court issued its decision in the *Coutts vs. Wisconsin Retirement Board* case. The Court affirmed the Court of Appeals decision that Wis. Stat. §40.65 does not authorize the reduction of duty disability benefits by worker's compensation awards paid prior to the duty disability benefits effective date, and that duty disability benefits are not retroactive. The Department's interpretation and application of this decision is being further litigated and recalculation of benefits has been deferred until a final decision is reached. Benefit corrections made pursuant to the *Coutts* decision are not expected to have any material impact on the funded status of the plan.

Long-Term Disability Insurance

Effective October 15, 1992, the Group Insurance Board established the long-term disability insurance (LTDI) program as an alternative to the long-term disability coverage provided through the WRS. The Employee Trust Funds Board purchases disability insurance coverage from the Group Insurance Board for WRS participants.

Participants who were covered by the WRS prior to October 15, 1992, have the option to select disability benefits from LTDI or WRS at the time of disability. New WRS participants on or after October 15, 1992, are eligible only for LTDI disability benefits.

A LTDI benefit replaces 40 percent of the disabled participant's final average earnings until normal retirement age or a minimum of five years. It also provides for additional annual contributions to the participant's WRS account equal to seven percent of the participant's final average earnings. At normal retirement age, or after a minimum of five years of LTDI benefits, the LTDI benefit terminates and the participant is eligible for a WRS retirement benefit.

The WRS pays actuarially determined premiums to the group insurance board for LTDI coverage. Beginning January 1, 1999 premiums have been suspended in recognition of the high funding level in the program.

Public Entity Risk Pool Accounting Policies

1. Basis of Accounting: All public entity risk pools are accounted for in enterprise funds using the full accrual basis of accounting and the flow of economic resources measurement focus.

2. Valuation of Investments: Assets of the Health Insurance fund are invested in the State Investment Fund and are valued at fair value. Assets of the Income Continuation Insurance, Duty Disability and LTDI funds are invested in the Fixed Retirement Investment Trust and are valued at fair value.

3. Unpaid Claims Liabilities: The fund establishes claims liabilities based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. The estimate includes the effects of inflation and other societal and economic factors. Adjustments to claims liabilities are charged or credited to expenses in the periods in which they are made. Unpaid claims liability is presented at face value and is not discounted for Health Insurance. These liabilities are discounted using an interest rate of eight percent for the Income Continuation Insurance and LTDI and five percent for the Duty Disability program. The liabilities for the Income Continuation Insurance, Duty Disability, Health Insurance and LTDI programs were determined by actuarial methods. Face value of the liability for these programs is not available.

4. Administrative Expenses: All maintenance expenses are expensed in the period in which they are incurred. Acquisition costs are immaterial and are treated as maintenance expenses. Claim adjustment expenses are also immaterial.

5. Reinsurance: Health insurance plans provided by health maintenance organizations and health insurance for local government annuitants are fully insured by outside insurers. All remaining risk is self-insured with no reinsurance coverage.

6. Risk Transfer: Participating employers are not subject to supplemental assessments in the event of deficiencies. If the assets of a fund were exhausted, participating employers would not be responsible for the fund's liabilities.

7. Premium Setting: Premiums are established by the Group Insurance Board (Health Insurance, Income Continuation Insurance and Long-Term Disability Insurance) and the Employee Trust Funds Board (Duty Disability) in consultation with actuaries.

8. Statutory Authority: All programs are operated under the authority of Chapter 40, Wisconsin statutes.

Unpaid Claims Liabilities

Each fund establishes a liability for both reported and unreported insured events, which is an estimate of future payments of losses. The following represents changes in those aggregate liabilities (in millions) for each fund during the past year. The amounts for Health Insurance include only the portion of the program which is self-insured.

	Health Insurance 2002	Health Insurance 2001	Income Continuation Insurance 2002	Income Continuation Insurance 2001	Duty Disability 2002	Duty Disability 2001	Long-Term Disability Insurance 2002	Long-Term Disability Insurance 2001
Unpaid claims at beginning of the calendar year	$ 12.8	$ 14.2	$ 57.0	$ 46.4	$ 318.3	$ 289.2	$ 34.3	$ 29.2
Incurred claims:								
Provision for insured events of the current calendar year	70.5	73.7	17.1	28.9	30.7	35.4	11.7	10.0
Changes in provision for insured events of prior calendar years	(5.4)	(5.3)	(2.8)	(6.2)	(6.6)	13.9	3.0	(1.2)
Total incurred claims	65.1	68.4	14.3	22.7	24.1	49.3	14.7	8.8
Payments:								
Claims attributable to insured events of the current calendar year	62.5	61.1	3.5	5.5	0.2	0.3	0.0	0.5
Claims attributable to insured events of prior calendar years	7.3	8.7	9.6	6.6	21.4	19.9	5.2	3.2
Total payments	69.8	69.8	13.1	12.1	21.6	20.2	5.2	3.7
Total unpaid claims at end of the calendar year	**$ 8.1**	**$ 12.8**	**58.2**	**$57.0**	**$ 320.8**	**$ 318.3**	**$ 43.8**	**$ 34.3**

9. Milwaukee Retirement System

The Milwaukee Retirement System (MRS), consisting of the City of Milwaukee Retirement System and the Milwaukee Public Schools Retirement System, is reported as an Investment Trust Fund. MRS provides assets to the Department for investing in the Fixed Retirement Investment Trust (FRIT) and the Variable Retirement Investment Trust (VRIT), described in Note 1

"Investments." The FRIT and VRIT are managed by SWIB with oversight by a Board of Trustees as authorized in Wisconsin statute § 25.17. SWIB is not registered with the Securities and Exchange Commission as an invest-ment company. Participation of the MRS in the FRIT and VRIT is described in the Department's administrative code, Chapter 10.12. Monthly, the Department distributes pro-rata shares of total FRIT and total VRIT earnings less administrative expenses to the MRS accounts. The MRS accounts are adjusted to fair value and gains and losses are recorded directly in the accounts per Wis. Admin. Code § 10.12 (2).

Neither state statute, a legal provision, nor a legally binding guarantee exists to support the value of shares. At December 31, 2002, the FRIT and VRIT held a non-negotiable short-term certificate of deposit. The fair value of this certificate of deposit was $3.5 million, all of which was uncollateralized. At December 31, 2002, the FRIT and VRIT held $50,792 million of investments of which $944.5 million are classified as cash equivalents. In addition, the FRIT and VRIT held $2,189.9 million of securities lending collateral.

Information on investments of the FRIT and VRIT at December 31, 2002, categorized in accordance with the level of risk requirements of GASB Statement No. 3 and summary information by investment classification in accordance with GASB Statement No. 31 for the FRIT and VRIT at December 31, 2002, is presented in Note 3.

Significant financial data for the FRIT and VRIT for the year ended December 31, 2002, is presented on the next page (in thousands $):

FIXED AND VARIABLE RETIREMENT INVESTMENT TRUSTS
CONDENSED STATEMENTS OF NET ASSETS
December 31, 2002

	Fixed	Variable	Combined
Assets:			
Cash & Cash Equivalents	861,024	83,449	944,473
Securities Lending Collateral	2,094,360	95,517	2,189,877
Prepaid Items	1,868	0	1,868
Due From Other Funds	1	0	1
Investment Receivables	244,335	11,578	255,913
Investments, at fair value	45,256,396	4,590,979	49,847,375
Total Assets	48,457,983	4,781,522	53,239,505
Liabilities:			
Securities Lending Collateral Liability	2,094,360	95,517	2,189,877
Due To Other Funds	0	1	1
Investment Payables	100,641	19,654	120,295
Total Liabilities	2,195,001	115,171	2,310,172
Net Assets Held in Trust for:			
Internal Investment Pool Participants	46,218,497	4,653,684	50,872,182
Milwaukee Retirement Systems	44,485	12,666	57,152
Total	46,262,982	4,666,351	50,929,333

FIXED AND VARIABLE RETIREMENT INVESTMENT TRUSTS
CONDENSED STATEMENTS OF CHANGES IN NET ASSETS
For the Year Ended December 31, 2002

	Fixed	Variable	Combined
Additions:			
Net Appreciation (Depreciation) in Fair Value of Investments	(5,562,850)	(1,386,876)	(6,949,725)
Interest	725,217	1,549	726,766
Dividends	209,882	34,003	243,884
Securities Lending Income	50,004	2,163	52,167
Other	117,879	0	117,879
Total Additions	(4,459,869)	(1,349,160)	(5,809,029)
Deductions:			
Investment Expense	136,771	7,382	144,153
Securities Lending Rebates and Fees	40,083	1,322	41,404
Net Withdrawals by Pool Participants	1,275,422	316,240	1,591,662
Total Deductions	1,452,276	324,944	1,777,220
Net Increase (Decrease)	(5,912,145)	(1,674,104)	(7,586,249)
Net Assets Held in Trust for Pool Participants			
Beginning of Year	52,175,127	6,340,455	58,515,582
End of Year	46,262,982	4,666,351	50,929,333

Required Supplementary Information

Public Entity Risk Pools

Claims Development Information

The accompanying tables illustrate how the Funds' earned revenues and investment income compare to related costs of loss and other expenses assumed by the fund as of the end of each of the last ten years. The rows of the tables are defined as follows:

1. Net Earned Required Contribution and Investment Revenues. Shows the total of each calendar year's earned contribution revenues and investment revenues.

2. Unallocated Expenses. Shows each calendar year's other operating costs of the Fund including overhead and claims expense not allocable to individual claims.

3. Estimated Incurred Claims as of the End of the Policy Year. Shows the funds' incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).

4. Paid Cumulative as of Year End. Shows the cumulative amounts paid as of the end of successive years for each policy year.

5. Reestimated Incurred Claims. Shows how each policy year's incurred claims increased or decreased as of the end of successive policy years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.

6. Increase/Decrease in Estimated Incurred Claims from End of Policy Year. Compares the latest reestimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought.

As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the tables show data for successive policy years.