The Wisconsin Retirement System: An Update

Presented by Bob Conlin, ETF Secretary to UW-Madison Retirement Association
April 19, 2016
ETF At a Glance

- **Non-Cabinet Agency**
  - 266 FTEs (all but 3 Classified)
  - $40 Million Budget

- **Five Boards (All Fiduciaries)**
  - ETF Board
  - Group Insurance Board
  - Teachers Retirement Board
  - Wisconsin Retirement Board
  - Deferred Compensation Board

- **Secretary Appointed by ETF Board**

- **Responsible for Administration of Fringe Benefit Programs Established by Legislature**
  - WRS ($4.5 Billion)
  - Group Health Insurance ($1.4 Billion)
  - Life Insurance
  - Deferred Compensation (457(b))
  - Employee Reimbursement Accounts
Agenda

• Annuity Adjustments/Projections
• The WRS and Public Employers
• WRS Challenges Ahead
• Questions
Annuity Adjustments/Projections
## Annuity Adjustments

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>Core Fund</th>
<th>Variable Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>SWIB Return</td>
<td>-0.4%</td>
<td>-1.2%</td>
<td></td>
</tr>
<tr>
<td>Adjustment (4/1/16)</td>
<td>+0.5%</td>
<td>-5.0%</td>
<td></td>
</tr>
</tbody>
</table>
Summary of Results – 12/31/15

$ Millions

<table>
<thead>
<tr>
<th></th>
<th>Core</th>
<th>Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Annuitants</td>
<td>191,795</td>
<td>40,152</td>
</tr>
<tr>
<td>Annual Amount</td>
<td>$ 4,364.9</td>
<td>$ 387.8</td>
</tr>
<tr>
<td>Fund Balance</td>
<td>49,147.0</td>
<td>3,704.8</td>
</tr>
<tr>
<td>Actuarial Reserve</td>
<td>48,897.5</td>
<td>3,910.1</td>
</tr>
<tr>
<td>Ratio</td>
<td>1.005</td>
<td>0.947</td>
</tr>
</tbody>
</table>

Source: GRS
### Current Value of Annuities*

<table>
<thead>
<tr>
<th>Year</th>
<th>Core Annuity Value</th>
<th>Core Rate of Increase</th>
<th>Variable Annuity Value</th>
<th>Variable Rate of Increase</th>
<th>Annual Change in CPI</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$1,083</td>
<td>1.6%</td>
<td>$1,228</td>
<td>4.2%</td>
<td>1.5%</td>
</tr>
<tr>
<td>2006</td>
<td>$1,083</td>
<td>0.8%</td>
<td>$1,061</td>
<td>0.6%</td>
<td>1.9%</td>
</tr>
<tr>
<td>2001</td>
<td>$1,083</td>
<td>0.5%</td>
<td>$917</td>
<td>(0.6%)</td>
<td>2.1%</td>
</tr>
<tr>
<td>1996</td>
<td>$1,575</td>
<td>2.3%</td>
<td>$1,489</td>
<td>2.0%</td>
<td>2.2%</td>
</tr>
<tr>
<td>1991</td>
<td>$1,990</td>
<td>2.8%</td>
<td>$2,339</td>
<td>3.5%</td>
<td>2.3%</td>
</tr>
</tbody>
</table>

* Including annuity adjustments to be made effective April 1, 2016
Core Annuity Adjustments
1983-2015

33-Year Ave: 4.0%
10-Year Ave: 0.6%

- Annual Core Annuity Adjustment
- Average over Period
Annuity Liability by Year of Inception

- Initial Annuity: $43,372
- Past Increases: 5,525
- 0.5% Increase: 201
- Total Annuity Liability: $49,098
- Increases as % of Liability: 11.7%

Includes annuity adjustments to be made effective April 1, 2016
Projection Assumptions

• Based on 2015 actual Core Trust Fund investment returns.
• Includes 2012 - 2015 investment gains and losses carried forward in the Market Recognition Account (MRA).
• 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.
• 0.4% per year is used for administrative expenses, primarily SWIB investment expenses
• 0.5% per year is reserved for mortality improvement and other actuarial adjustments and is not available for annuity adjustments.
• Negative adjustments can only reduce increases granted in prior years. A core annuity cannot be reduced below the original value.
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 (7.2%) are recognized;
  - The difference between actual gains or losses and the assumed rate is spread equally over 5 years.
Annuity Adjustment Projections

• Projections...not predictions
• Only an actuarial valuation can accurately calculate the annuity adjustments
• Useful for anticipating the magnitude, not exact amount, of future adjustments
We have $3.4 billion of investment losses to recognize in future years

<table>
<thead>
<tr>
<th>Year Earned</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>???</td>
<td>???</td>
<td>???</td>
<td>???</td>
<td>???</td>
</tr>
<tr>
<td>2015</td>
<td>(1,346)</td>
<td>(1,346)</td>
<td>(1,346)</td>
<td>(1,346)</td>
<td>(1,346)</td>
</tr>
<tr>
<td>2014</td>
<td>(243)</td>
<td>(243)</td>
<td>(243)</td>
<td>(243)</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>953</td>
<td>953</td>
<td>953</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>793</td>
<td>793</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>(936)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Totals</td>
<td>(779)</td>
<td>157</td>
<td>(636)</td>
<td>(1,589)</td>
<td>(1,346)</td>
</tr>
</tbody>
</table>

The deferred investment gains and losses will be allocated approximately 55% to the annuity reserve, 27% to the employer reserve and 18% to the member reserve.
A 7.2% investment return in 2016 will result in an annuity adjustment between 1.2% and 1.6%

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<tbody>
<tr>
<td><strong>SWIB Net Investment Return</strong></td>
<td>(0.4%)</td>
<td>7.2%</td>
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<td>7.2%</td>
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<tr>
<td><strong>Effective Rate</strong></td>
<td>6.4%</td>
<td>7.4% to 7.8%</td>
<td>6.4% to 6.8%</td>
<td>5.3% to 5.7%</td>
<td>5.6% to 6.0%</td>
</tr>
<tr>
<td><strong>Annuity Adjustment</strong></td>
<td>2.9%</td>
<td>1.2% to 1.6%</td>
<td>0% to 0.8%</td>
<td>0%</td>
<td>0% to 0.5%</td>
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A 0% investment return in 2016 will result in a 0% annuity adjustment

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<tr>
<td><strong>Effective Rate</strong></td>
<td>6.4%</td>
<td>6.0% to 6.4%</td>
<td>4.9% to 5.3%</td>
<td>3.7% to 4.1%</td>
<td>3.9% to 4.3%</td>
</tr>
<tr>
<td><strong>Annuity Adjustment</strong></td>
<td>0.5%</td>
<td>0%</td>
<td>(0.5%) to (0.9%)</td>
<td>(1.2%) to (1.6%)</td>
<td>(1.1%) to (1.5%)</td>
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A -3.8% investment return in 2016 will result in a negative annuity adjustment.

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<td>3.0% to 3.4%</td>
</tr>
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<td>Annuity Adjustment</td>
<td>0.5%</td>
<td>(0.5%)</td>
<td>(1.3%) to (1.7%)</td>
<td>(2.0%) to (2.4%)</td>
<td>(2.0%) to (2.4%)</td>
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The WRS & Public Employers
Chapter 40

The WRS is created to “aid public employees in protecting themselves...against the financial hardships of old age, disability, death, illness and accident, thereby promoting economy and efficiency in public service by facilitating the attraction and retention of competent employees, by enhancing employee morale, by providing for the orderly and humane departure from service of employees no longer able to perform their duties effectively, by establishing equitable benefit standards throughout public employment, by achieving administrative expense savings and by facilitating the transfer of personnel between public employers.”
WRS Employer Demographics

Employers: 1,475 Employers
Employing: 260,000 Employees
State Employees: 27%
Local Gov’t Employees: 73%
Gender:
• Males: 97,400
• Females: 159,800

Total Contributions (2014):
Employers: $1 Billion
Employees: $900 Million
Covered Payroll: $13.2 Billion
Current Contribution Rate (2016): 13.2%

10 Largest Employers (2014):
• State of Wisconsin (incl. UW): 73,800
• Milwaukee Public Schools: 6,000
• Madison Metro School District: 4,666
• Green Bay Area Schools: 2,990
• City of Madison: 2,880
• Kenosha Unified Schools: 2,700
• Racine Unified Schools: 2,600
• Dane County: 2,400
• Appleton Area Schools: 1,800
• Milwaukee Area Tech. College: 1,750
Figure 1: State and local spending on public pensions as percentage of total government direct general spending, 2013

Wisconsin: 1.94%

Source: National Association of State Retirement Administrators
Figure 4
Median Tenure Trends For Wage and Salary Workers Ages 20 or Older, by Sector, 1983–2014

Importance of Pensions

According to NIRS:

- Women are 80% more likely than men to be impoverished at age 65.
- Women between the ages of 75 to 79 are 3 times more likely than men to be living in poverty.
- Women in health care, education, and public administration fields, where DB pension plans are more prevalent, have higher incomes in retirement and lower rates of poverty than other industries.
- Americans, in general, have a highly favorable view of pensions and are more likely to choose an employer with a pension over a 401(k).
- Millennials have overwhelmingly favorable views of DB plans.
Recent Legislation

• 2015 Wisconsin Act 174
  – Allows an employer who elects to be included within the WRS to enroll only newly hired employees.
  – Authored in response to some employers who have in the past chosen not to participate in the WRS and are now having difficulty recruiting and retaining employees
Challenges Ahead
Magic Pension Formula

\[ C + I = B + E \]

- \( C \) = Contributions
- \( I \) = Investments
- \( B \) = Benefits
- \( E \) = Expenses
Low Return Environment

33-Year Ave: 4.0%
Longevity

Life Expectancy at Birth by Year (1900-2000)

Source: National Center for Health Statistics
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  (Hours 7:45 a.m. to 4:30 p.m.)