

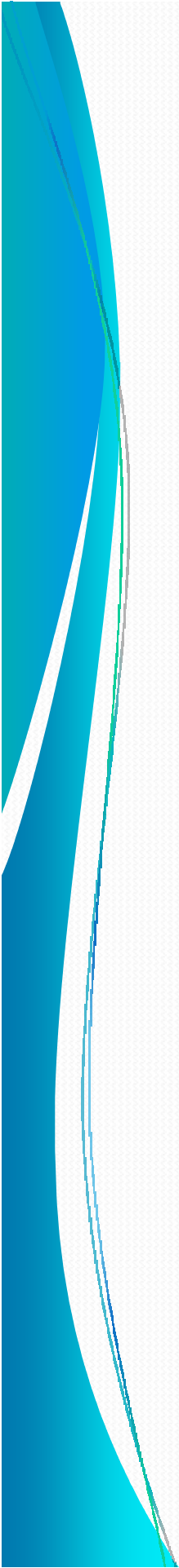
Wisconsin Department of Employee Trust Funds

An Update

WCOA Annual Conference
May 14, 2012



Presented by:
Bob Conlin, ETF Secretary



Agenda

- Introductions
- Customer Service Initiatives
- The 2011-12 Legislative Session & the WRS
- Annuity Adjustments & Projections

The Secretary's Office Team



Robert Conlin, Secretary of Employee Trust Funds, and Rob Marchant, Deputy ETF Secretary present an explanation of the Core Fund Annuity Adjustment projections at the March Coalition Meeting. See News page for presentation handout.

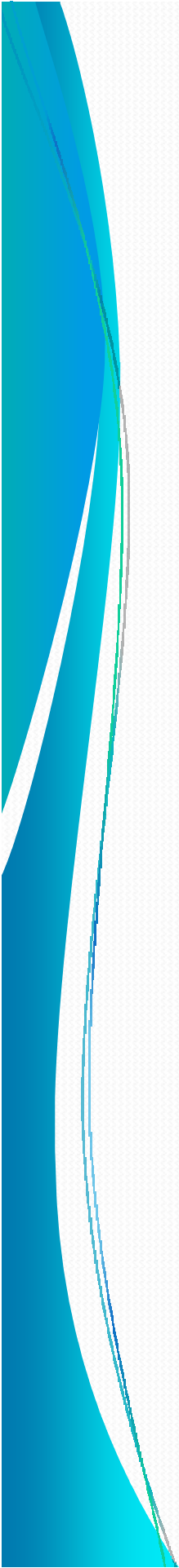
meeting minutes to follow . . .

Contacts

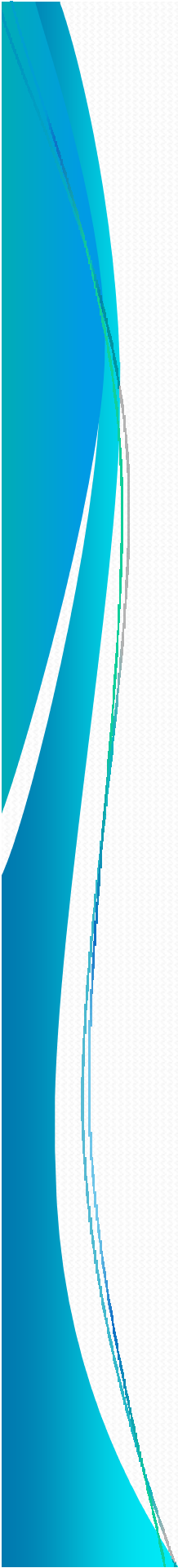
- Call Center – 1-877-533-5020
(Hours 7:00 a.m. to 5:00 p.m.)
- Internet – etf.wi.gov
- Office – 801 West Badger Road, Madison
Office Hours (7:45 a.m. - 4:30 p.m.)
- Sign up for e-mail updates on our website



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Customer Service Initiatives

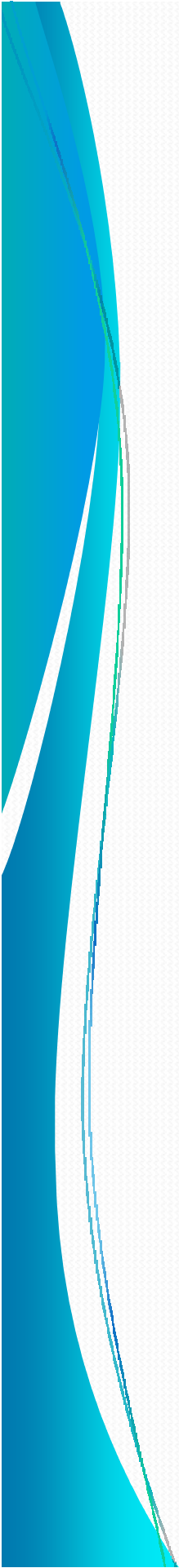


Primary Goal for the Future

Become a leader among large public employee benefit systems by offering best practice customer services to our members.

To achieve this goal, we will:

- Offer a suite of self-service tools;
- Be more available to more members in more parts of the state;
- Build our infrastructure (human resources, information technology, facility, etc.) to support our goal; and,
- Make the most of our resources by incorporating modern best practices into our activities.



How are we doing?

- For FY 2011, total pension administration cost was \$51 per active member and annuitant. This was \$27 below the peer average.
- For FY 2011, total service score was 69 out of 100. This was below the peer median of 77.
 - But, service score has increased by 10 points since 2008

(Source: CEM Benchmarking, Report for FY 2011, March 14, 2012)

What's Next

- How do we do better?
 - Online services
 - Greater emphasis on Active Employees
 - Customer Satisfaction Surveying



Survey

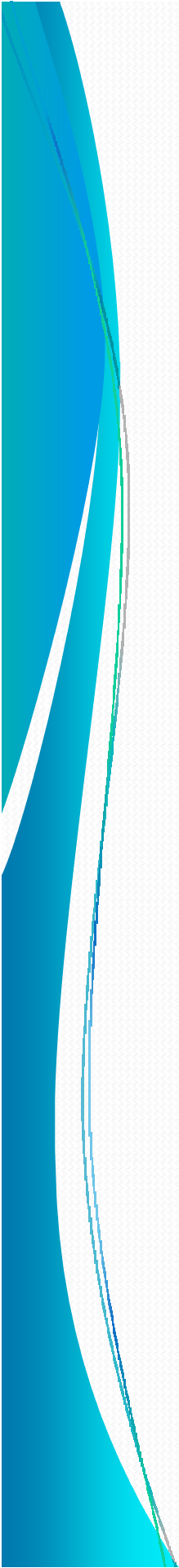
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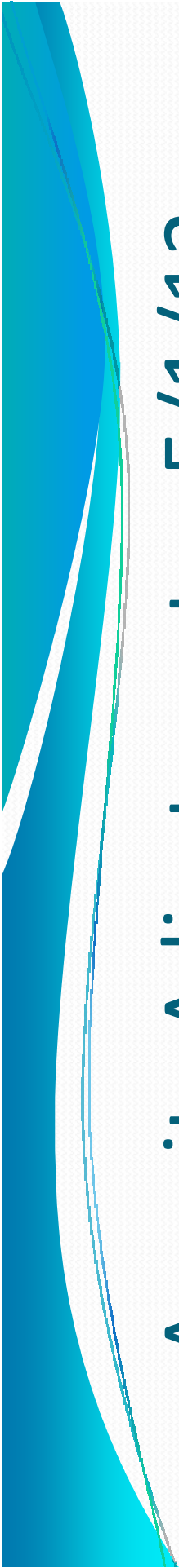
2011-12 Legislative Session

- 2011 Wisconsin Act 10 (Budget Repair)
- 2011 Wisconsin Act 32 (Biennial Budget)
- The WRS Study



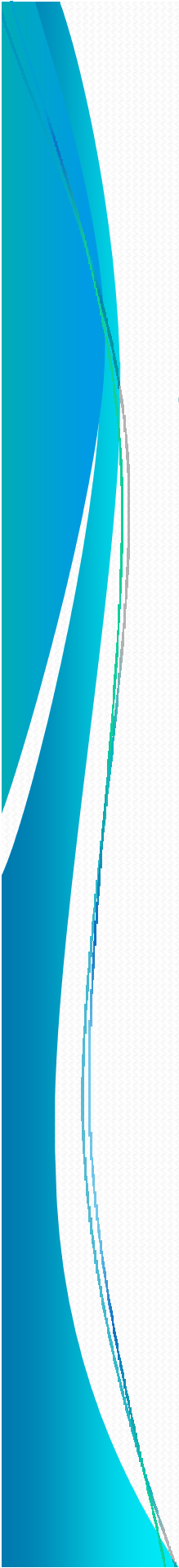


Annuity Adjustments



Annuity Adjustments: 5/1/12

	CORE	VARIABLE
Average	-4.0%	-7.0%
Maximum	-7.0%	



Annuity Reserve Snapshot

- At the end of 2011, liabilities of Annuity Reserve exceeded assets by about \$1.6 Billion

	Liabilities	2012 Dividend	Dividend as % of Liabilities
1) All members	\$42,000 M	\$(1,680) M	(4.0)%
2) Members at or near statutory floor	\$18,000 M	0	0
3) All others	\$24,000 M	\$(1,680) M	(7.0)%



ANNUITY PAYMENT STATEMENT Wisconsin Retirement System

801 W. Badger Road
PO Box 7931
Madison, WI 53707-7931

1-877-383-1888 (self service)
1-877-533-5020 (toll free)
1-608-267-4549 (fax)
WI Relay 711 or 1-800-947-6644
<http://etf.wi.gov>

Payment Date: May 1, 2012
Payroll Month: April 2012
Member ID:
Benefit Account ID:
Recipient Type: Participant

Annuity Payment	March 2012	April 2012
Required Contributions		
Regular Core	2,027.83	2,027.83
Dividend Gain/Loss	142.64	0.00
One-Time Adjustment	0.00	0.00
Accelerated Core	0.00	0.00
Dividend Gain/Loss	0.00	0.00
One-Time Adjustment	0.00	0.00
Gross Annuity Payment	2,170.47	2,027.83

Federal Income Tax Withholding:	
Tax Amount	360.00
Wisconsin Income Tax Withholding:	
Tax Amount	232.00

Deductions		
Federal Tax Withholding	360.00	360.00
One-Time Adjustment	0.00	0.00
WI State Tax Withholding	232.00	232.00
One-Time Adjustment	0.00	0.00
Life Insurance	59.16	59.16
One-Time Adjustment	0.00	0.00
Total Deductions	651.16	651.16

Net Annuity Payment	1,519.31	1,376.67
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Note: To change your address or tax withholding, or to order forms and brochures, call our self-service line at 1-877-383-1888. This service is available 24 hours per day.

You are receiving this statement because the following changes have occurred:

The core portion of your Required Fixed Lifetime fund Annuity has received a -7.00% adjustment of \$-151.93. However, the core portion can not be reduced below the original core amount.

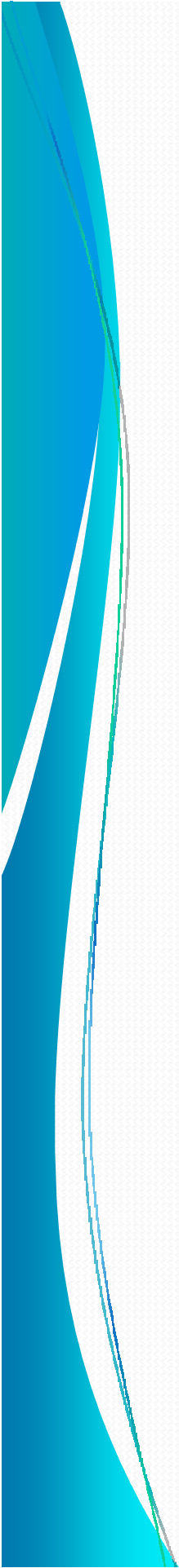
"Regular Core" is the base or "Floor." An annuity cannot be reduced below this amount.

"Dividend Gain/Loss" is the dividend being paid before adjustment.

This member's annuity is being reduced by \$142.64 instead of the full -7.0% (\$151.93). The annuity cannot be reduced to less than the "Regular Core" amount.

Annuities are adjusted on May 1 of each year. This year, the adjustment is -7.0%.

In this scenario, -7.0% amounts to \$151.93.



How Annuity Adjustments Have Affected Annuitants

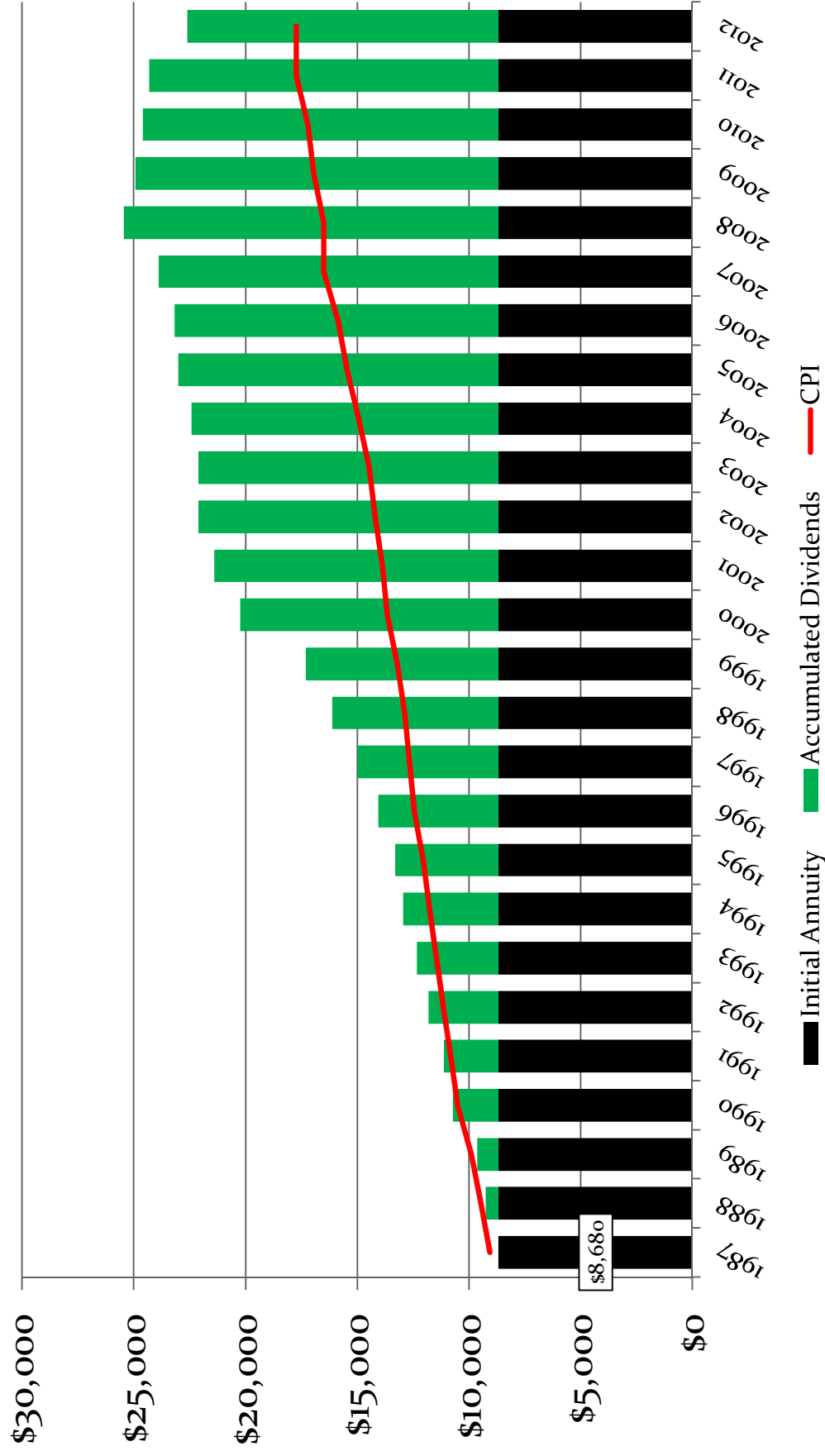
Current Value of Annuities

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
2007	\$946* / \$1,000	(1.1%)* / 0%	\$730	(6.1%)	2.3%
2002	\$1,022	0.2%	\$808	(2.1%)	2.5%
1997	\$1,509	2.8%	\$989	(0.1%)	2.4%
1992	\$1,913	3.3%	\$1,501	2.1%	2.5%
1987	\$2,604	3.9%	\$1,894	2.6%	2.9%

* Annuity value as if all negative adjustments had been applied. Actual core annuities cannot be reduced below their initial value.

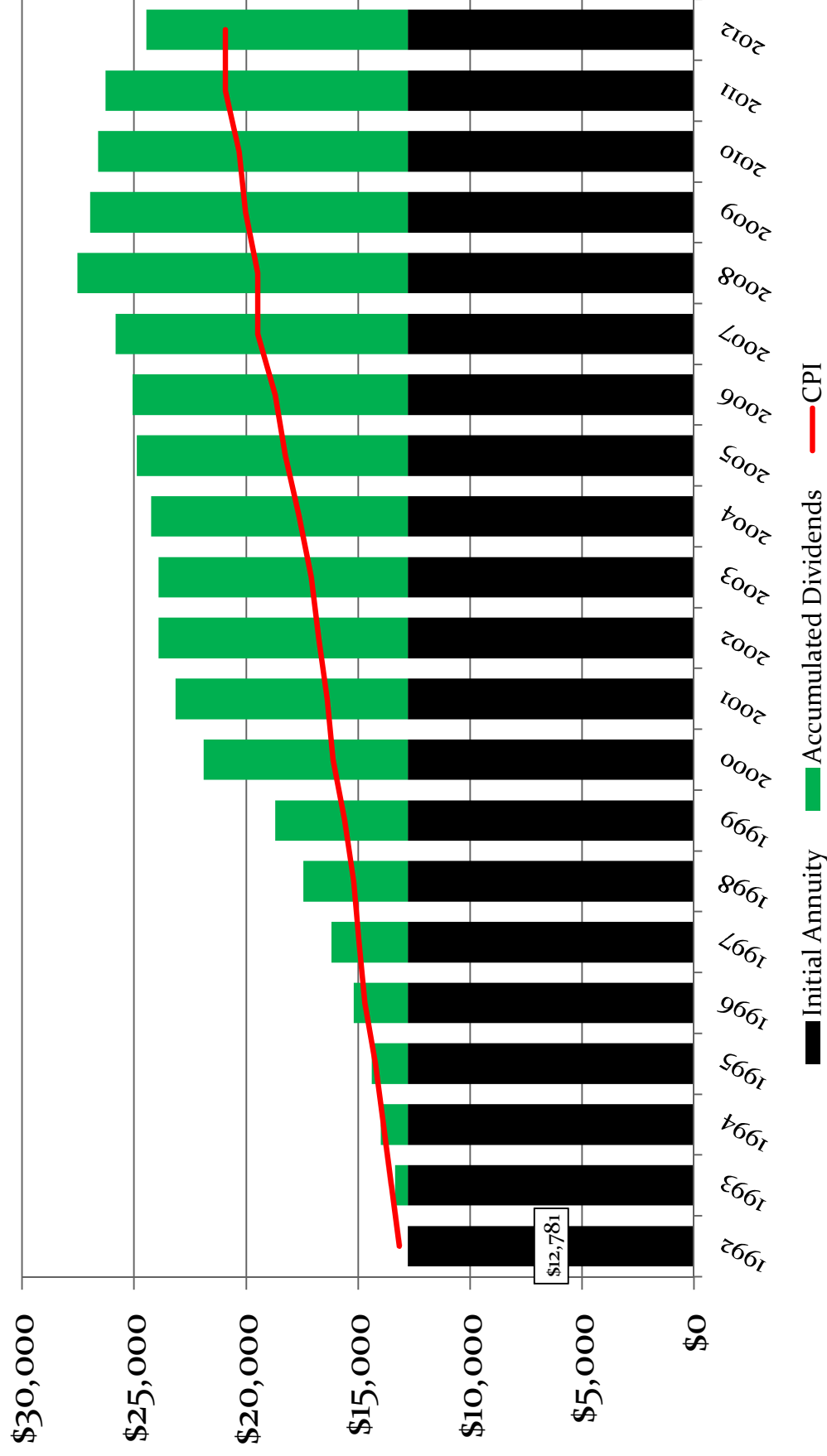
Change in Value of 1987 Annuity

(2,395 annuitants)



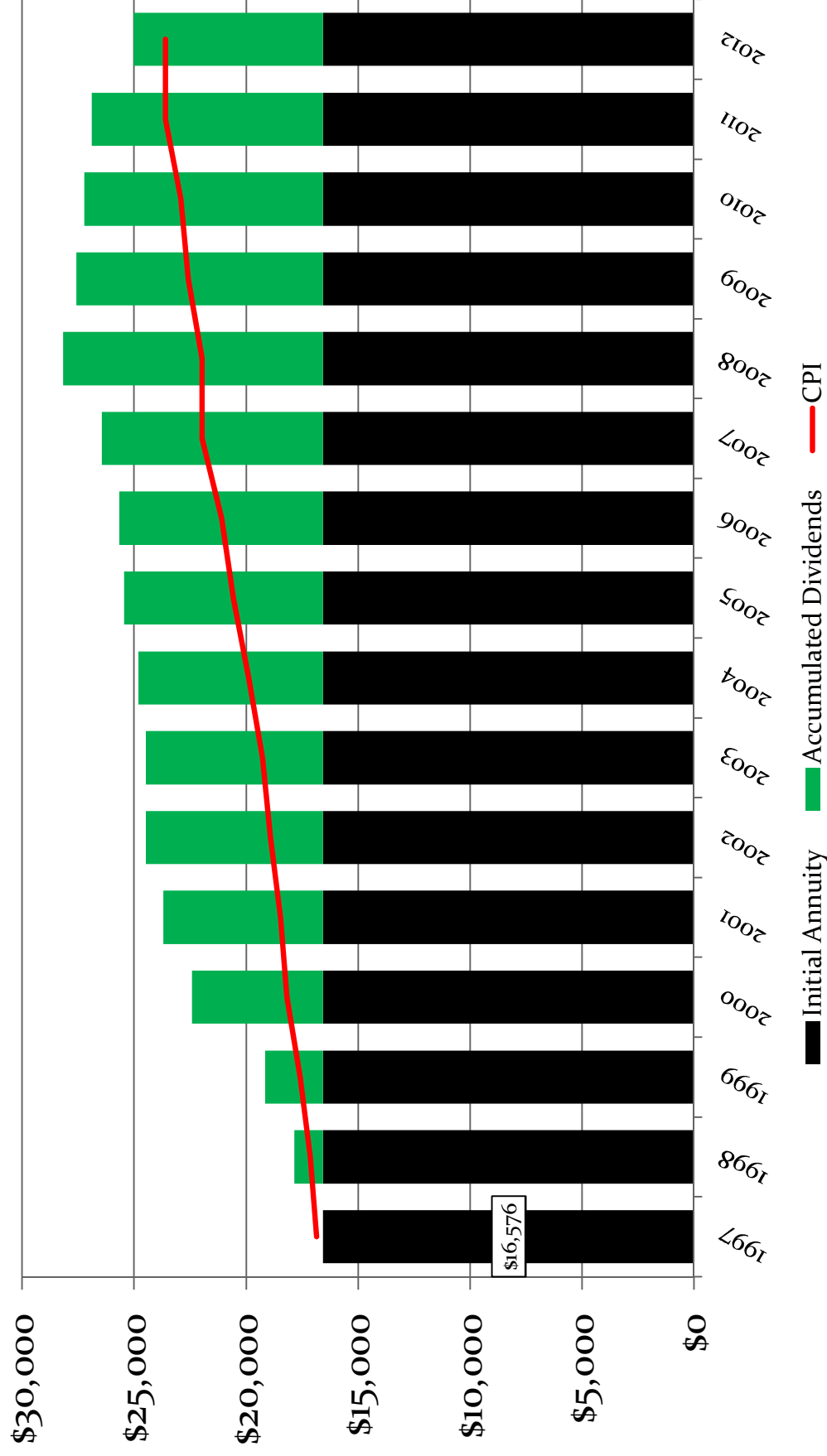
Change in Value of 1992 Annuity

(3,257 annuitants)



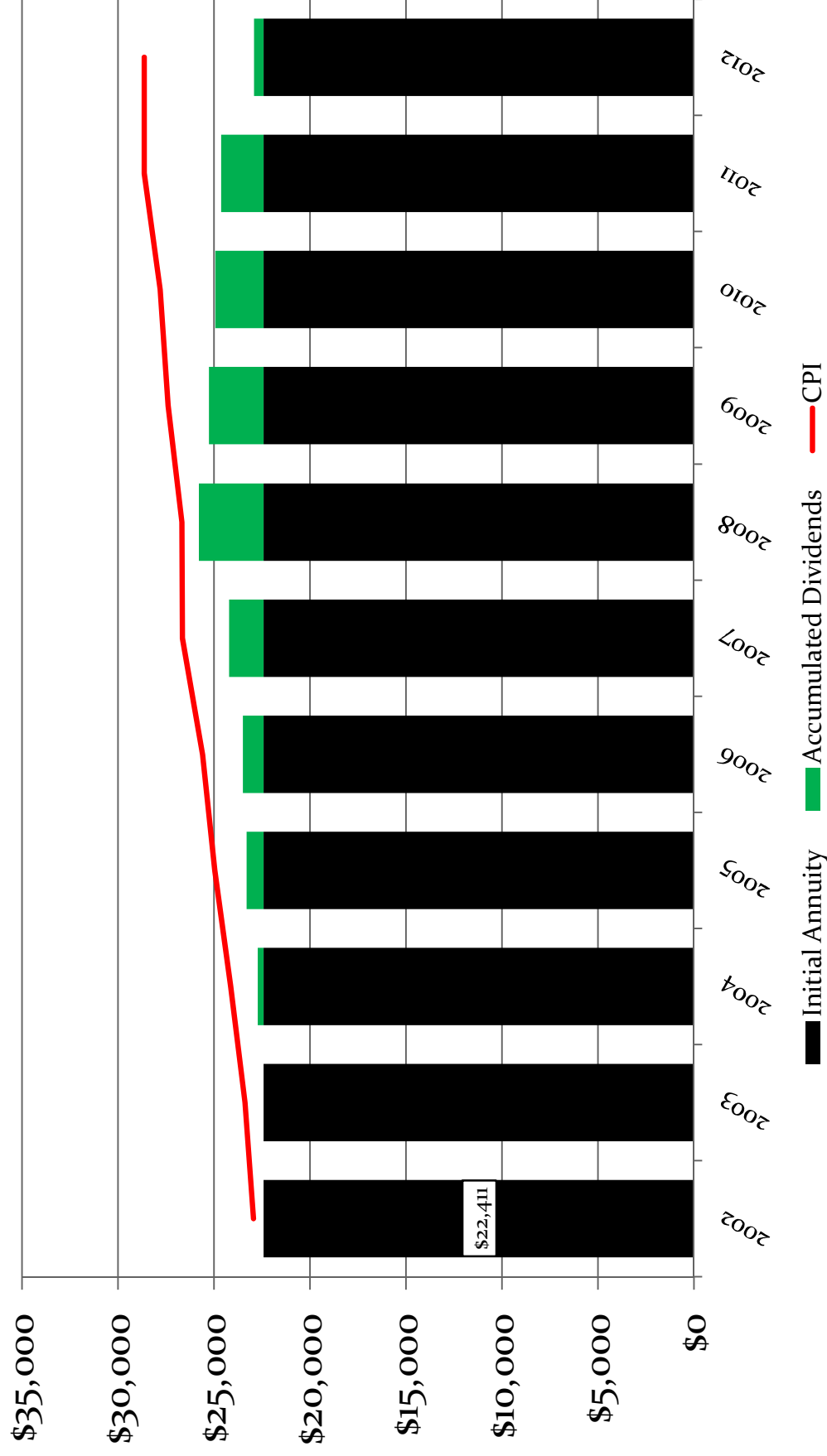
Change in Value of 1997 Annuity

(5,156 annuitants)



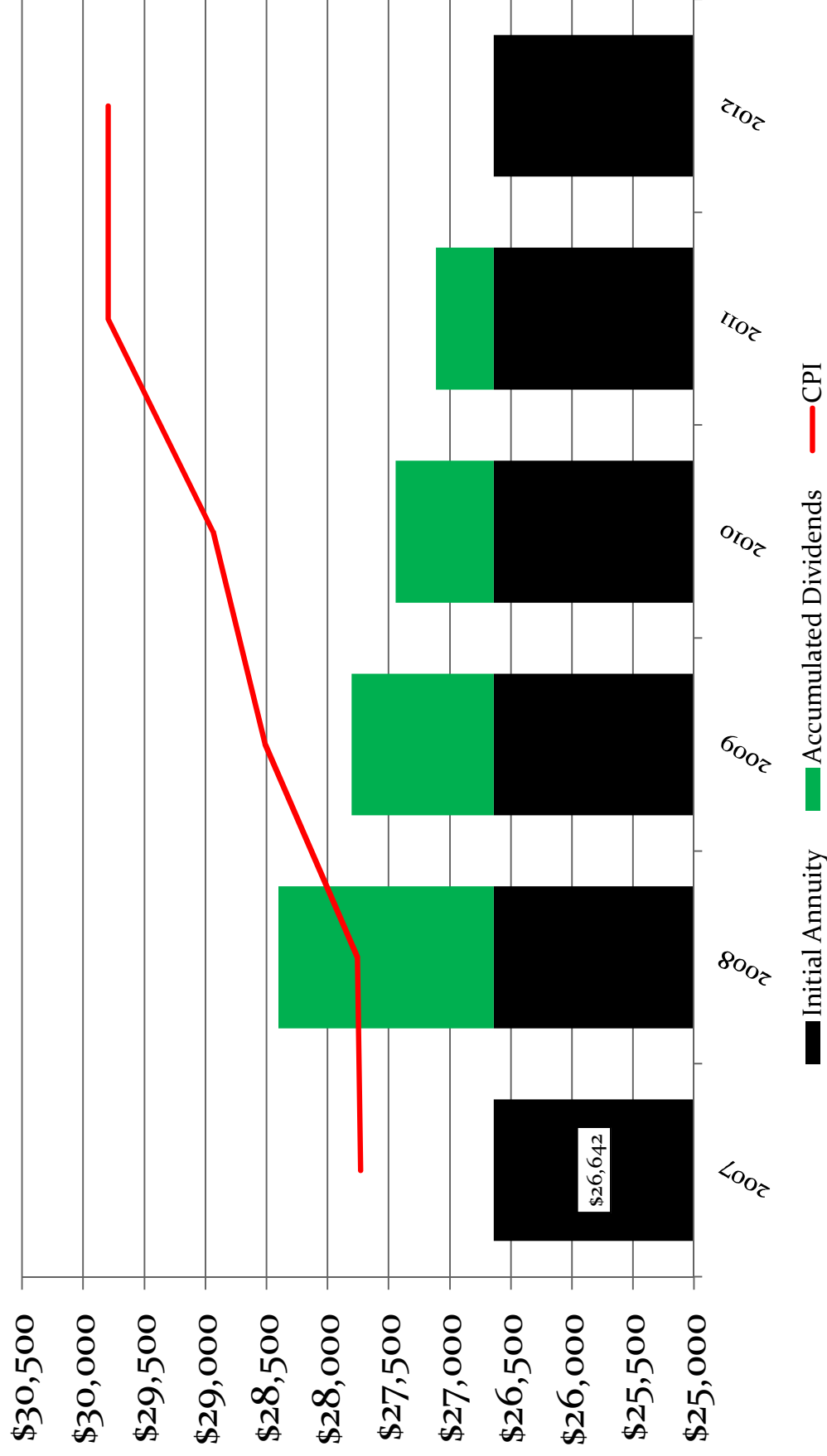
Change in Value of 2002 Annuity

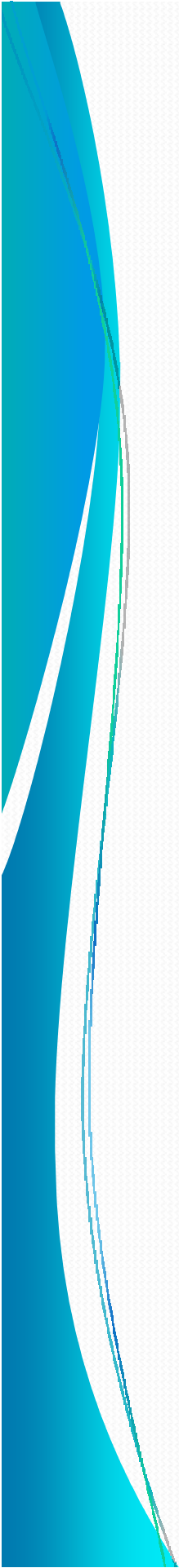
(7,145 annuitants)



Change in Value of 2007 Annuity

(8,549 annuitants)

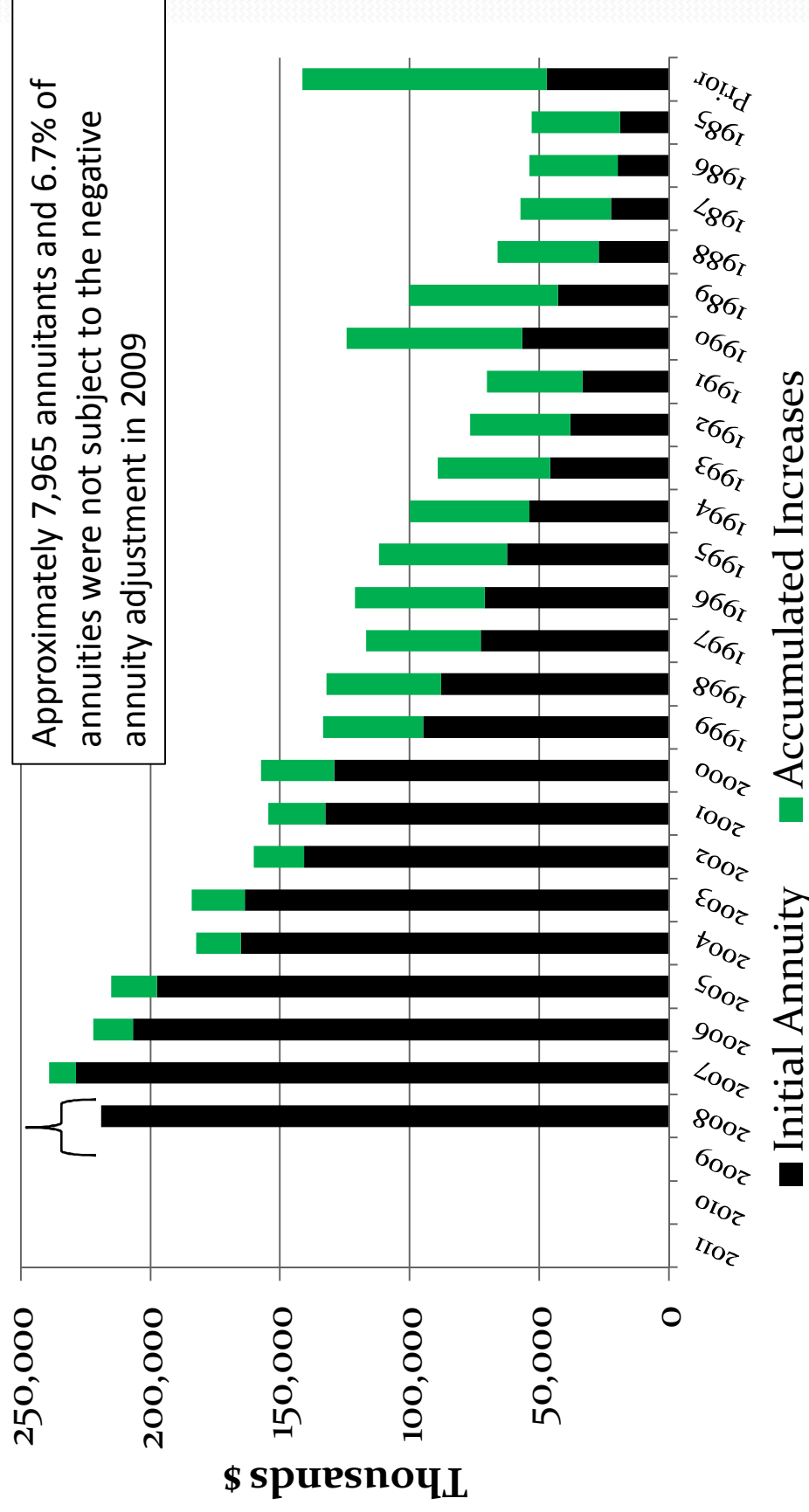




The Declining Population of Annuitants Affected by Negative Annuity Adjustments

Annual Annuities by Year of Inception Before (2.1%) adjustment

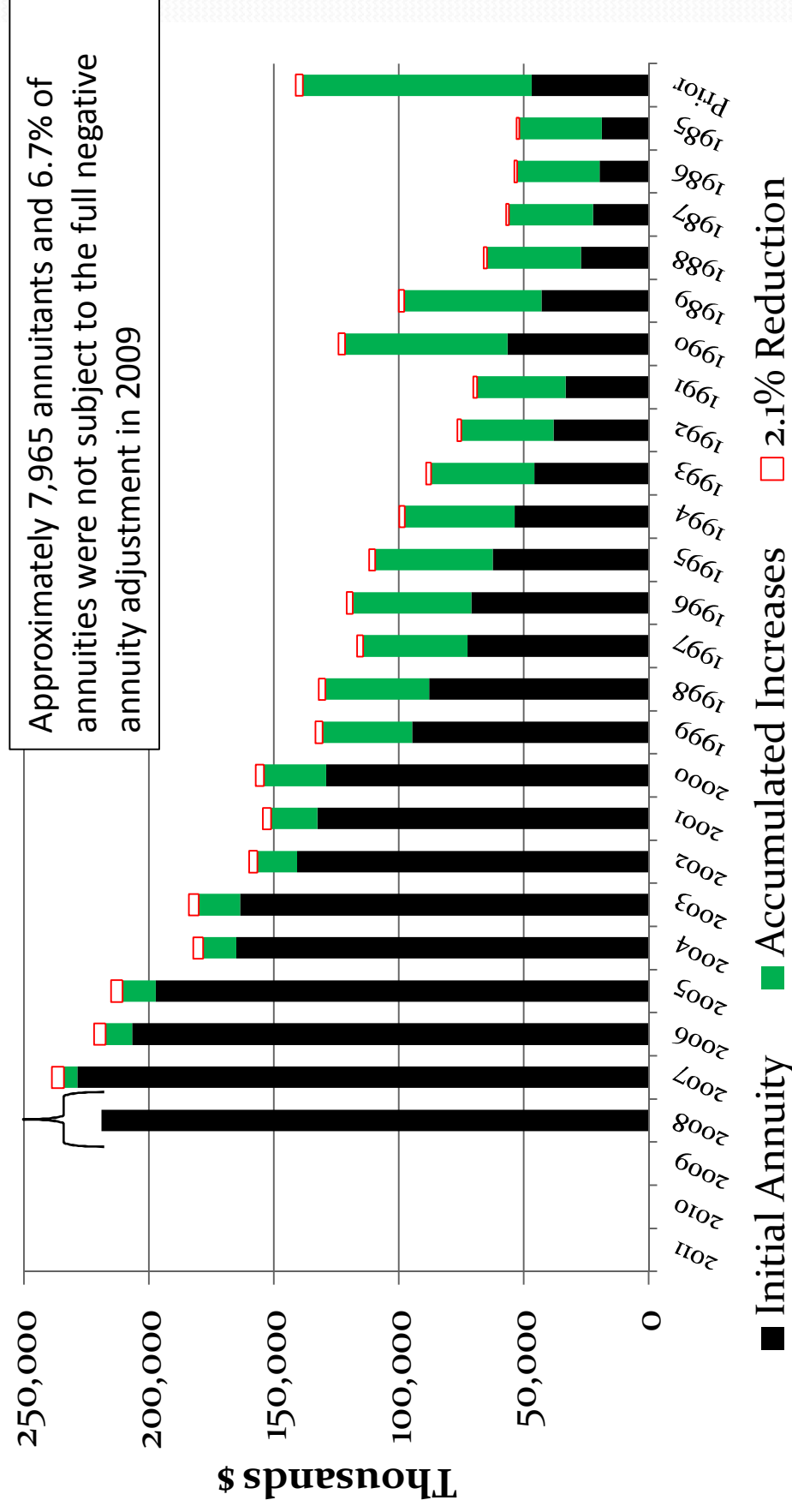
As of December 31, 2008



Annual Annuities by Year of Inception

After (2.1%) adjustment

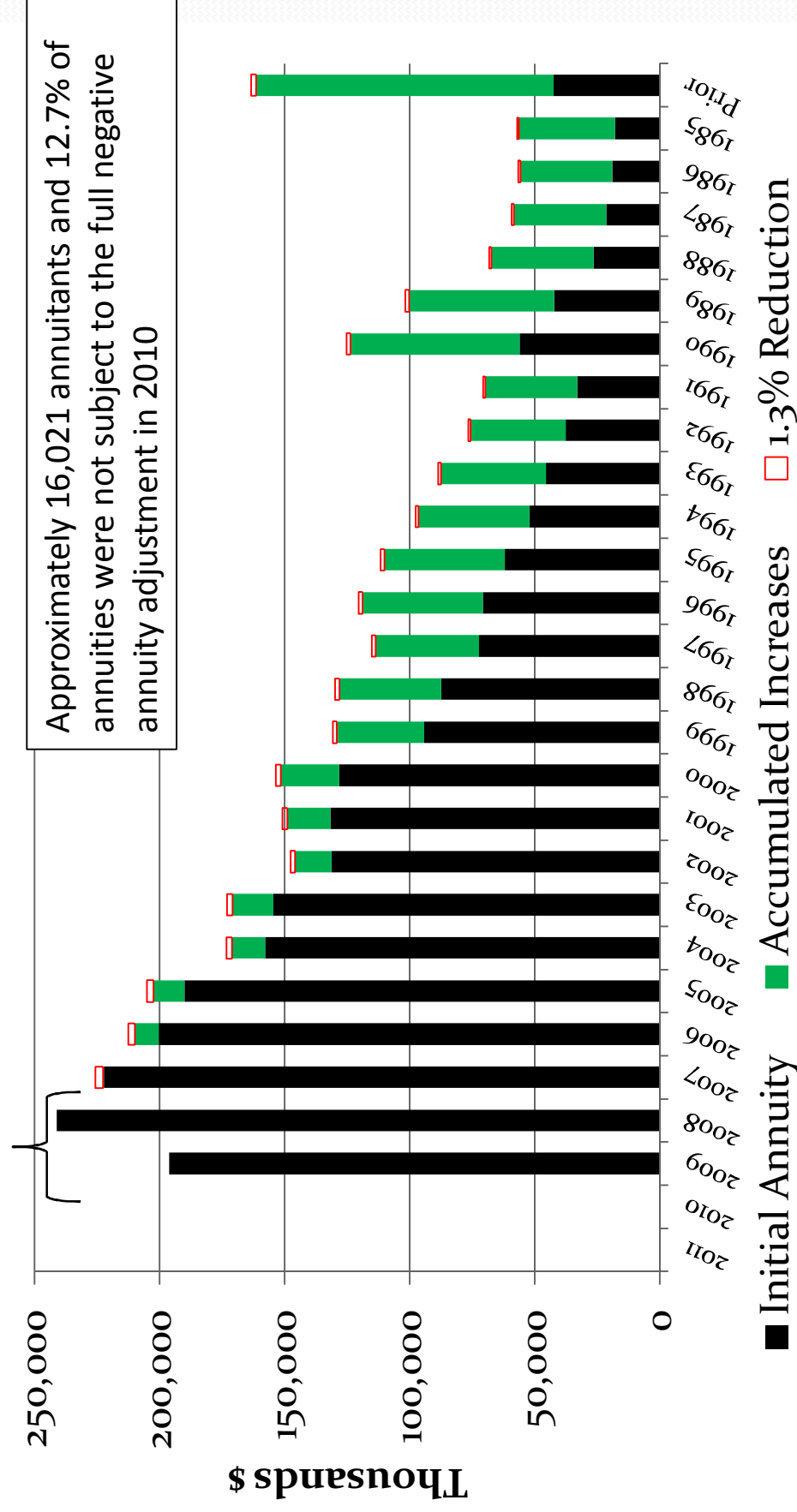
As of December 31, 2008



Annual Annuities by Year of Inception

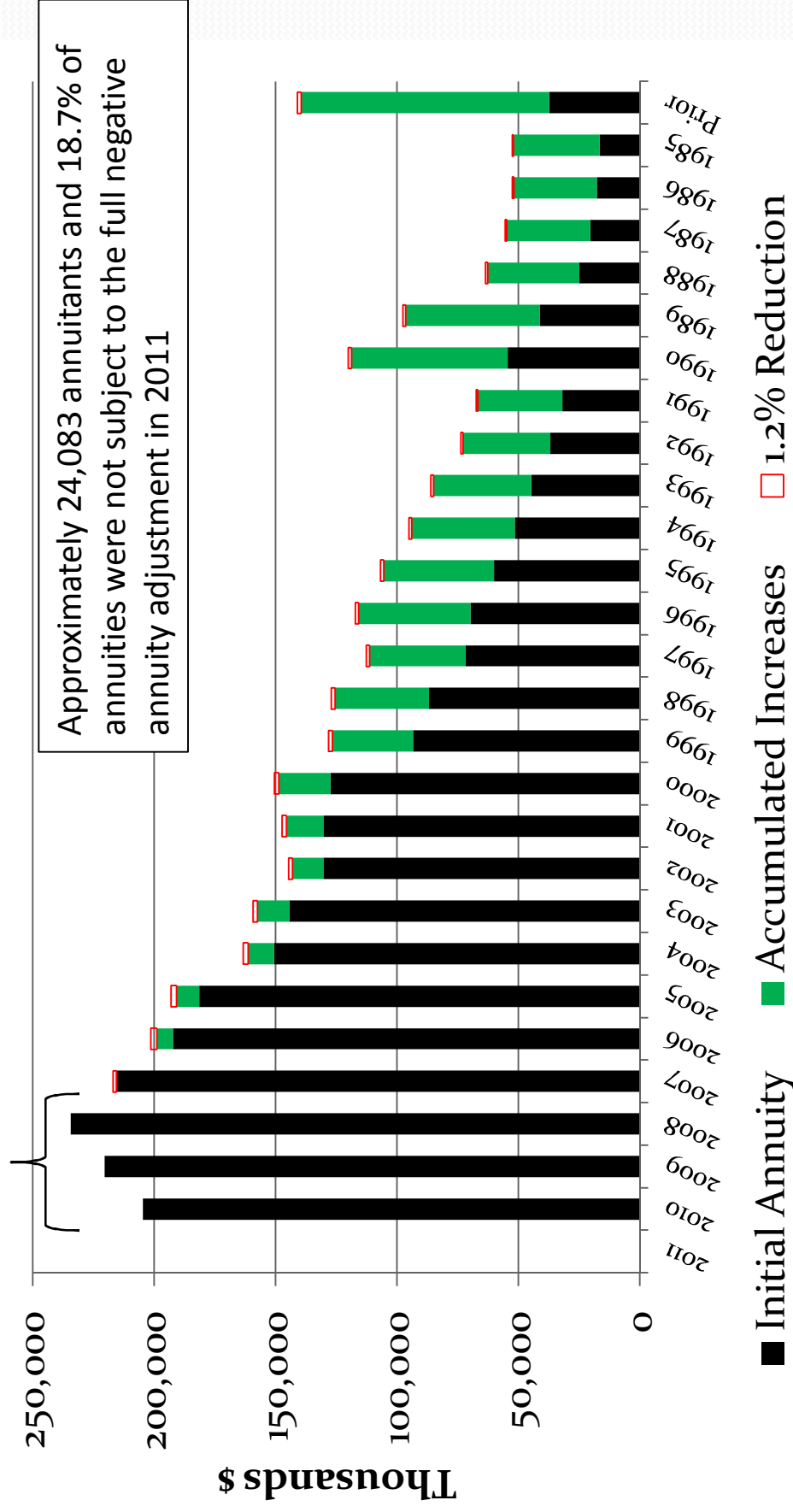
After (1.3%) adjustment

As of December 31, 2009



Annual Annuities by Year of Inception After (1.2%) adjustment

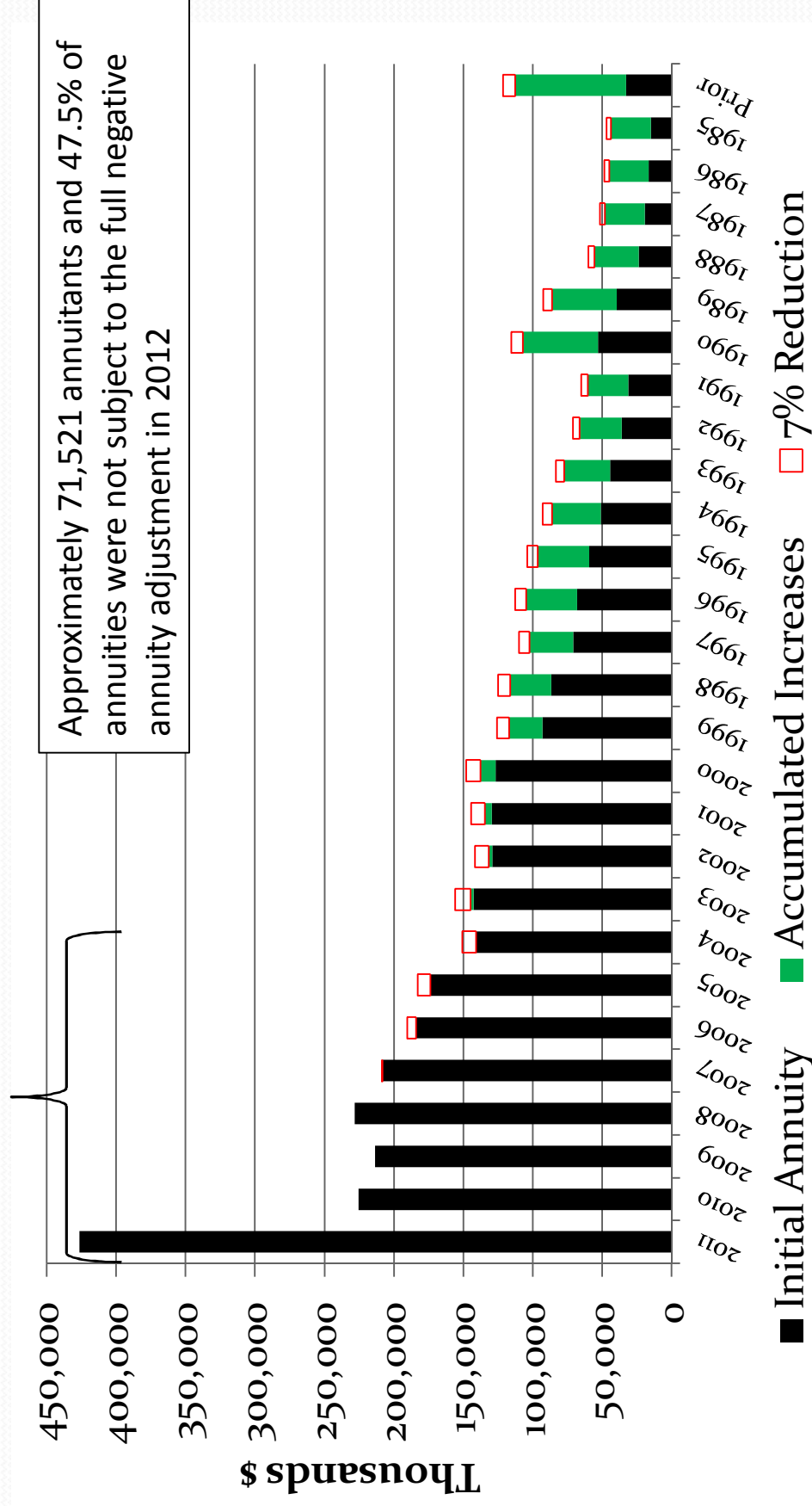
As of December 31, 2010



Annual Annuities by Year of Inception

After (7.0%) adjustment

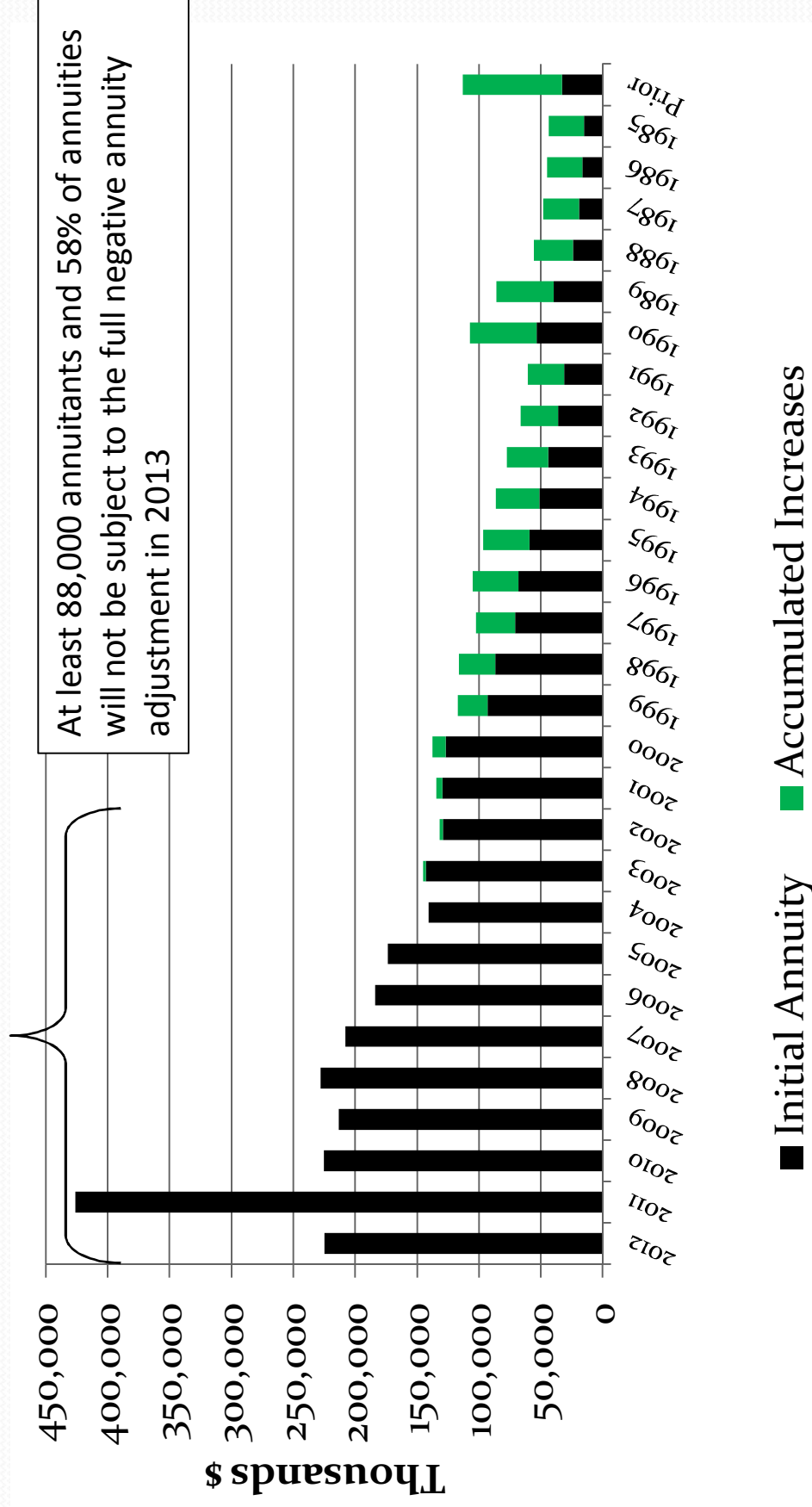
As of December 31, 2011

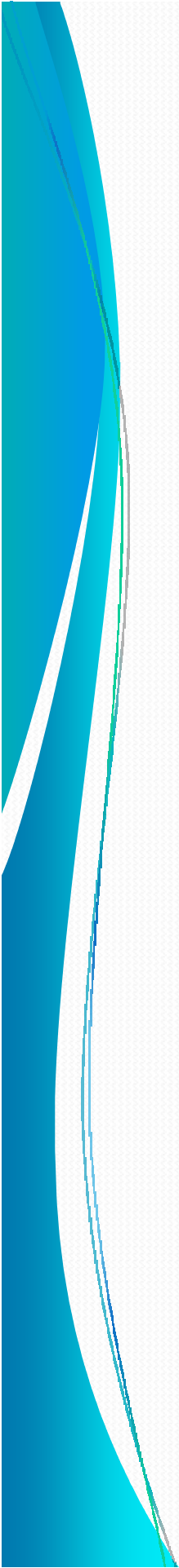


Annual Annuities by Year of Inception

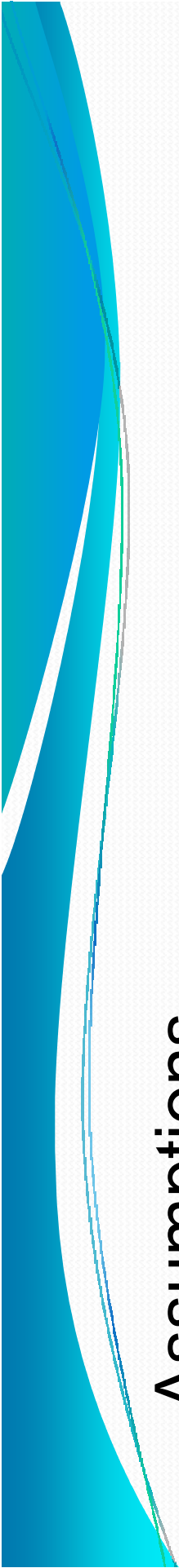
Before adjustment

As of December 31, 2012



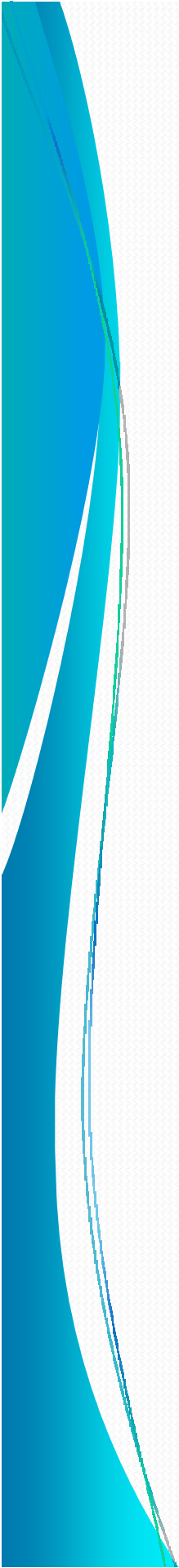


Annuity Projections



Assumptions

- Based on 2011 actual Core Trust Fund investment returns.
- Includes 2007 - 2010 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.



Assumptions (cont.)

- 0.4% 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.
- Investment gains / losses are “smoothed” through the Market Recognition Account (MRA).

Caveats

- Projections...not predictions
- Key missing metric: 2012 Investment Returns
- Only an actuarial valuation can accurately calculate the annuity adjustments
- Useful for anticipating the magnitude, not exact amount, of future adjustments
- Less than half of all annuities will be subject to a negative adjustment in 2013, if necessary



\$5.3 billion of losses to be recognized in future years, \$4.6 billion of it in 2012

Year to Be Recognized (millions \$)					
Year Earned	2011	2012	2013	2014	2015
2012		?	?	?	?
2011	(935)	(935)	(935)	(935)	(935)
2010	399	399	399	399	
2009	1,288	1,288	1,288		
2008	(5,370)	(5,370)			
2007	212				
Totals	(4,406)	(4,618)	752	(536)	(935)

The deferred investment losses will be allocated approximately 51% to the annuity reserve, 29% to the employer reserve and 20% to the member reserve.

A 7.2% investment return in 2012 will result
in a maximum annuity adjustment between
-12% and -16%

	2011	2012	2013	2014	2015	2016
SWIB Net Investment Return	1.4%	7.2%	7.2%	7.2%	7.2%	7.2%
Effective Rate	1.5%	0.9% to 1.3%	8.4% to 8.8%	6.6% to 7.0%	6.1% to 6.5%	7.3% to 7.7%
Average Annuity Adjustment	-4.0%	-4.2% to -4.6%	2.2% to 2.6%	0.7% to 1.1%	0.0% to 0.7%	1.3% to 1.7%
Maximum Annuity Adjustment	-7.0%	-12% to -16%	2.2% to 2.6%	0.7% to 1.1%	0.0% to 0.7%	1.3% to 1.7%

A 0% investment return in 2012 will result in a maximum annuity adjustment between -17% and -21%

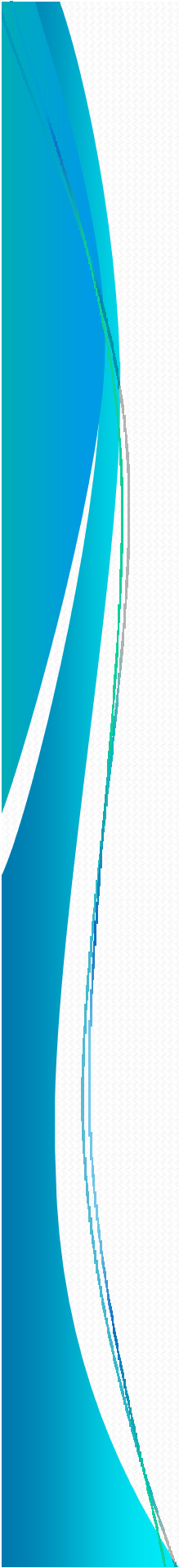
	2011	2012	2013	2014	2015	2016
SWIB Net Investment Return	1.4%	0%	7.2%	7.2%	7.2%	7.2%
Effective Rate	1.5%	-0.2% to -0.6%	6.9% to 7.3%	5.0% to 5.4%	4.5% to 4.9%	5.7% to 6.1%
Average Annuity Adjustment	-4.0%	-5.5% to -5.9%	0.8% to 1.2%	0% to -0.7%	-1.0% to -1.4%	0%
Maximum Annuity Adjustment	-7.0%	-17% to -21%	0.8% to 1.2%	0% to -0.7%	-1.0% to -1.4%	0%

An investment return between 27% and 31% in 2012 is needed to avoid a negative annuity adjustment

	2011	2012	2013	2014	2015	2016
SWIB Net Investment Return	1.4%	27 ⁰ % to 31 ⁰ %	7.2%	7.2%	7.2%	7.2%
Effective Rate	1.5%	5.2% to 5.6%	12.9% to 13.3%	11.0% to 11.4%	10.3% to 10.7%	11.2% to 11.6%
Average Annuity Adjustment	-4.0%	0%	5.8% to 6.2%	4.7 ⁰ % to 5.1%	4.1% to 4.5%	4.9% to 5.3%
Maximum Annuity Adjustment	-7.0%	0%	5.8% to 6.2%	4.7 ⁰ % to 5.1%	4.1% to 4.5%	4.9% to 5.3%

An investment return between 33% and 37%
in 2012 is needed to pay a positive annuity
adjustment

	2011	2012	2013	2014	2015	2016
SWIB Net Investment Return	1.4%	33% to 37%	7.2%	7.2%	7.2%	7.2%
Effective Rate	1.5%	6.3% to 6.7%	13.9% to 14.3%	11.9% to 13.3%	11.2% to 11.6%	11.9% to 12.3%
Average Annuity Adjustment	-4.0%	0.5%	7.3% to 7.7%	5.5% to 5.9%	4.9% to 5.3%	5.6% to 6.0%
Maximum Annuity Adjustment	-7.0%	0.5%	7.3% to 7.7%	5.5% to 5.9%	4.9% to 5.3%	5.6% to 6.0%



Questions?