



# Wisconsin Retirement System

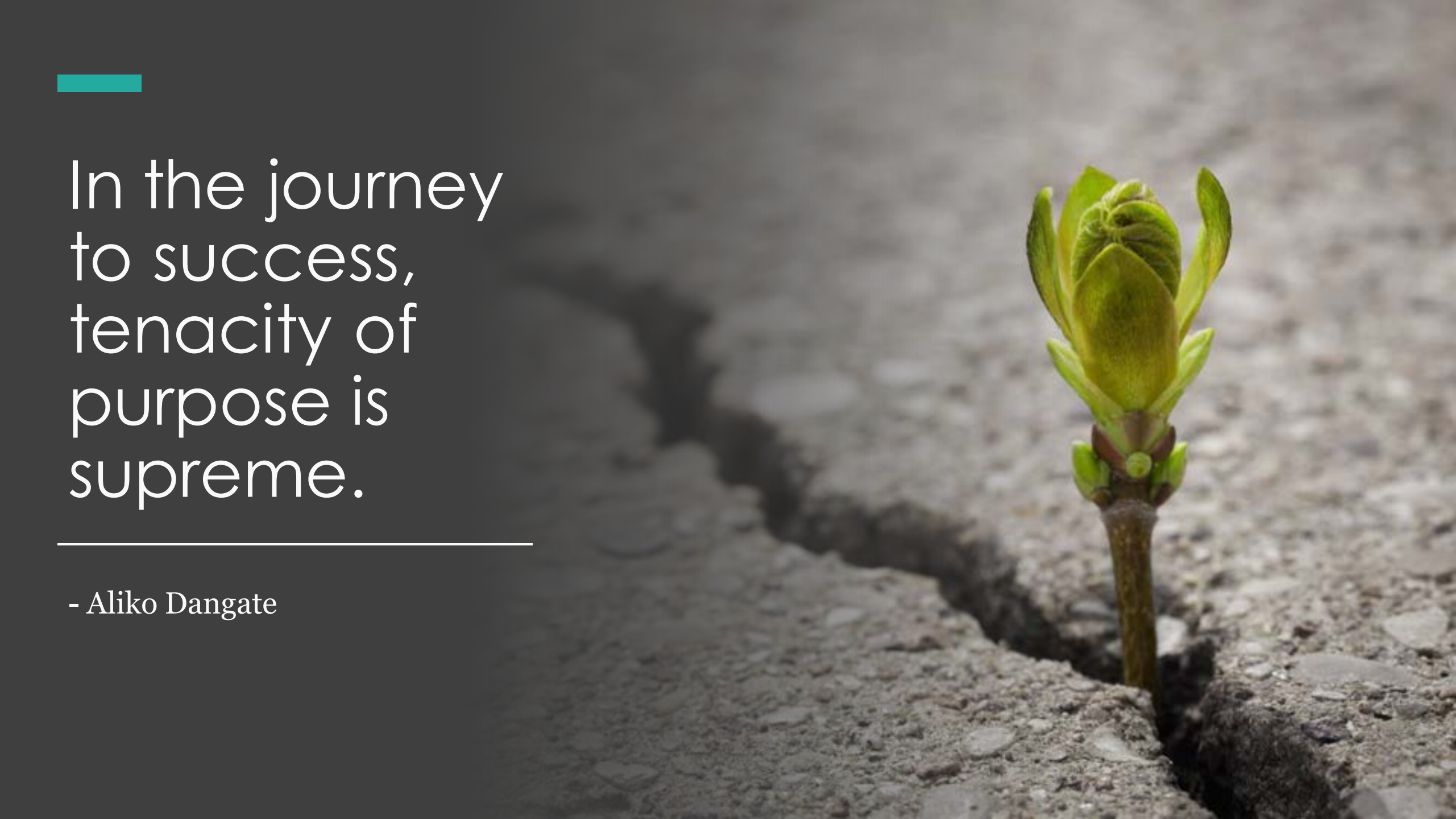
## Spring 2022 Update

John Voelker, ETF Secretary

UW-Madison Retirement Association

April 12, 2022



A close-up photograph of a small, vibrant green plant sprout with several buds and leaves, growing out of a deep crack in a dark, textured asphalt surface. The background is a blurred expanse of the same asphalt, creating a sense of depth and focus on the tiny plant.

In the journey  
to success,  
tenacity of  
purpose is  
supreme.

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- Aliko Dangate

# What We'll Discuss

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1



**WRS Journey**

2



**Tenacity of Purpose**

3



**Annuities and Investments**

4



**Customer Empowerment**



# Our Journey to Success Begins in 1943

# A State Employee Changes a Governor's Mind

## Ingeborg Sidwell

- 80-year-old state employee who scrubbed capitol floors
- Compelled Gov. Walter Goodland in 1943 to request the legislature override his veto of a state employee retirement system bill
- This was the first building block of Wisconsin Retirement System



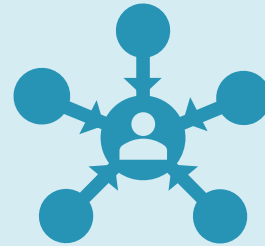
# Up to 1948: The Build Up and Consolidation

## The Build Up



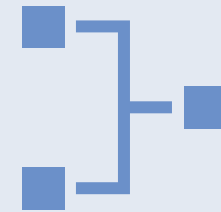
General trend in Wisconsin was a proliferation of separate state & municipal pension funds.

## Consolidation & Merger Prep



Legislature sets the state on a course of consolidation and merger of existing public employee pension funds.

## WRF & SERF Merge



Jan. 1, 1948 - laws merging WI Municipal Retirement Fund & State Employees Retirement Fund into WI Retirement Fund.

# The Birth of ETF and the WRS



## A State Agency is Born

- Chapter 75, Laws of 1967 creates the Department of Employee Trust Funds as a result of the Kellet Commission: Reorganization of State Government.

## The System is Born

- On January 1, 1982, legislation merged the Wisconsin Retirement Fund (WRF), the State Teachers Retirement System (STRS), and the Milwaukee Teachers Retirement System (MTRS) into one Wisconsin Retirement System (WRS).



# Act 27 and Act 10

## 1987 Act 27

### 1987

- Directed a one-time transfer of \$230 million from the Transaction Amortization Account.
- The annuity reserve received a total of \$84.7 million from the transfer and from certain carry-over balances remaining from the prior year. Lawsuit ensues.

### 1997

- Court rules Act 27 an unconstitutional taking of the funds.
- State ordered to repay the trust funds and equitably distribute settlement to WRS retirees.

## 2011 Act 10

- Made changes impacting ETF and WRS benefits, including:
  - eliminating the benefit adjustment contribution
  - prohibiting employer pick up of employee contributions for certain employee categories
  - formula multiplier change
  - setting parameters on employer paid health insurance contributions
  - requires a 5% cut to health insurance program cost
  - and much more.





# Tenacity of Purpose

# Our Purpose

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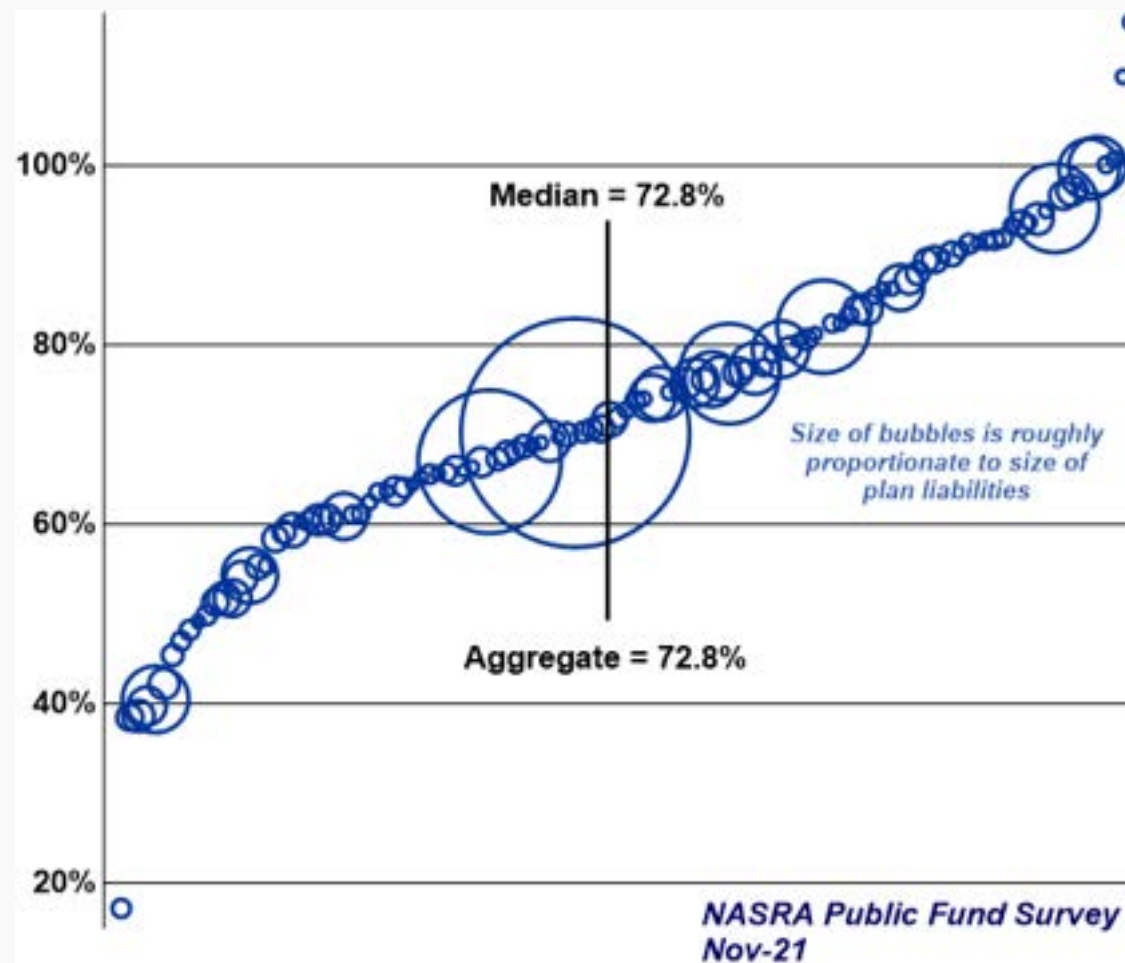
## To ensure:

- We keep our promise to provide sustainable pension benefits to our members.
- Our customers feel empowered and trust us to meet their needs through personalized, convenient and helpful interactions.

# Funding Levels



# Funding Levels of Public Pension Plans



WRS

# Pension Sustainability

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Revenues  
matching  
expenditures  
without a  
corresponding  
increase in debt

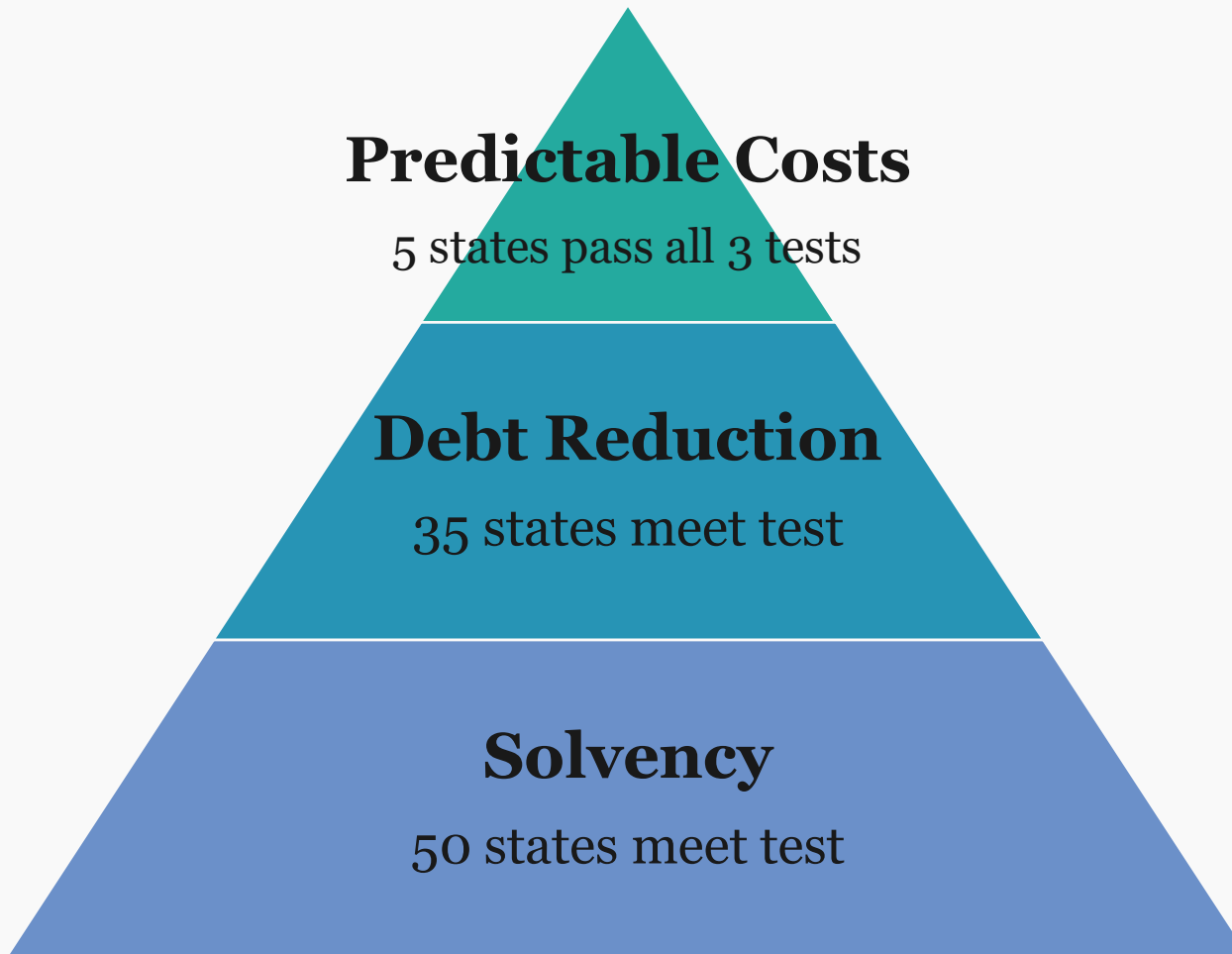


Sufficient  
contributions to  
maintain solvency  
even with lower-  
than-expected  
investment  
returns



The plan can  
reasonably be  
expected to  
provide  
retirement  
benefits  
indefinitely

# Measuring Sustainability



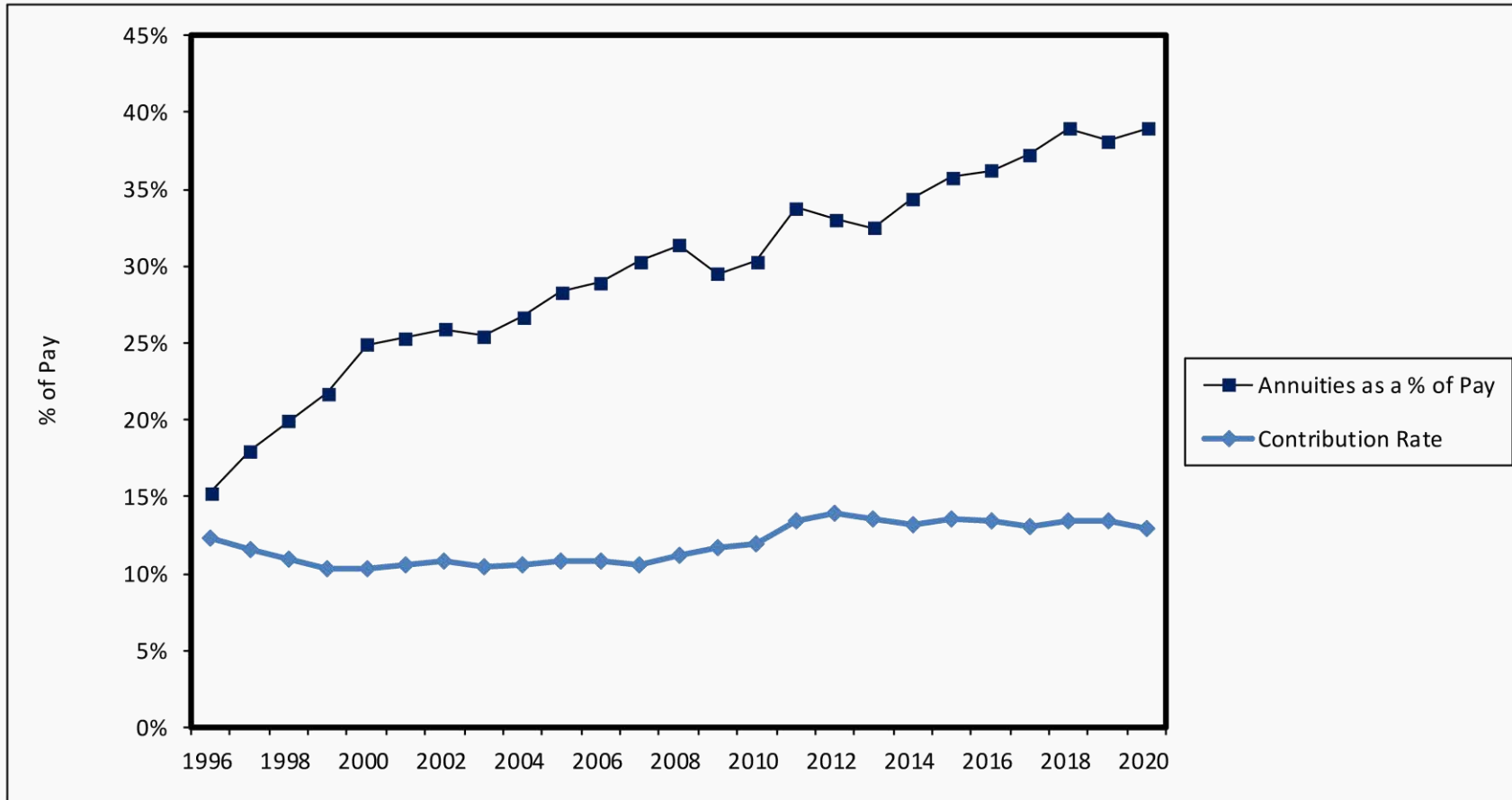
**Predictable Costs:** Fiscally sustainable pension plans maintain pension benefits that are sufficient to recruit and retain a public workforce without compromising other state budget priorities.

**Debt Reduction:** Sustainable funding practices will maintain or reduce the size of pension debt over time.

**Solvency:** Cash inflows from contributions plus investment returns will be sufficient to fund benefit payments without depleting plan assets and requiring additional expenditures from annual budgets.

Source: Pew's Fiscal Sustainability Matrix Helps States Assess Pension Health  
December 10, 2021

# Stable and Sufficient Contribution Rates

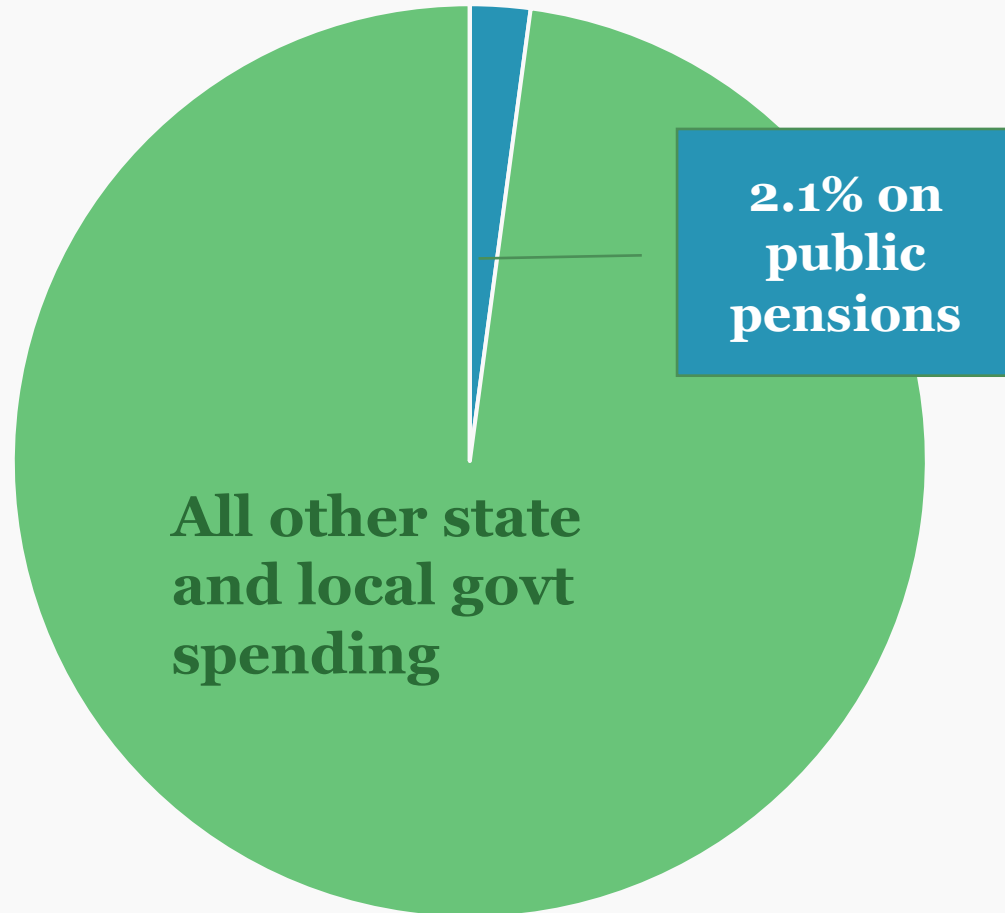


Annuities are expected to continue to increase as a percent of payroll for several more decades.

*Average total rate shown is for General Participants.*

# Cost to Taxpayers

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- State and local governments in Wisconsin spend 2.1% of their budgets on public pensions (WRS is largest)
- National average: 5%

Fiscal Year 2019

Source: National Association of State Retirement Administrators (February 2022)





# Annuity Adjustments and Investment Returns – Sharing the Risk

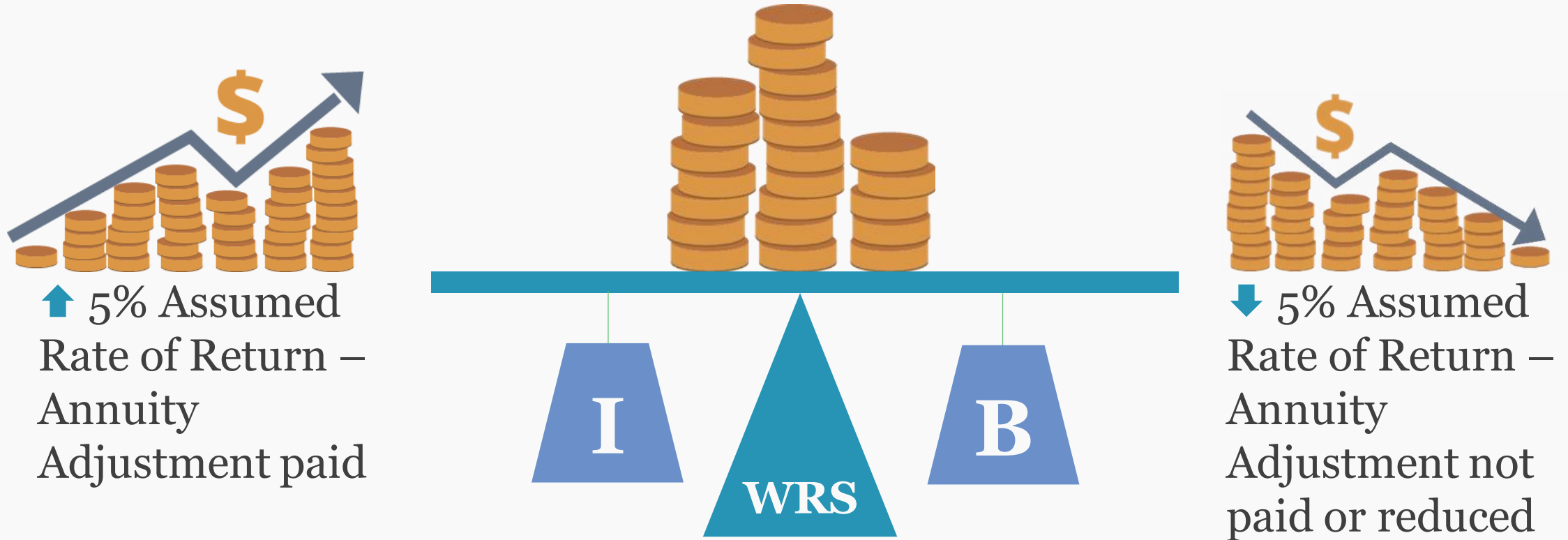
# Revenues Matching Expenditures

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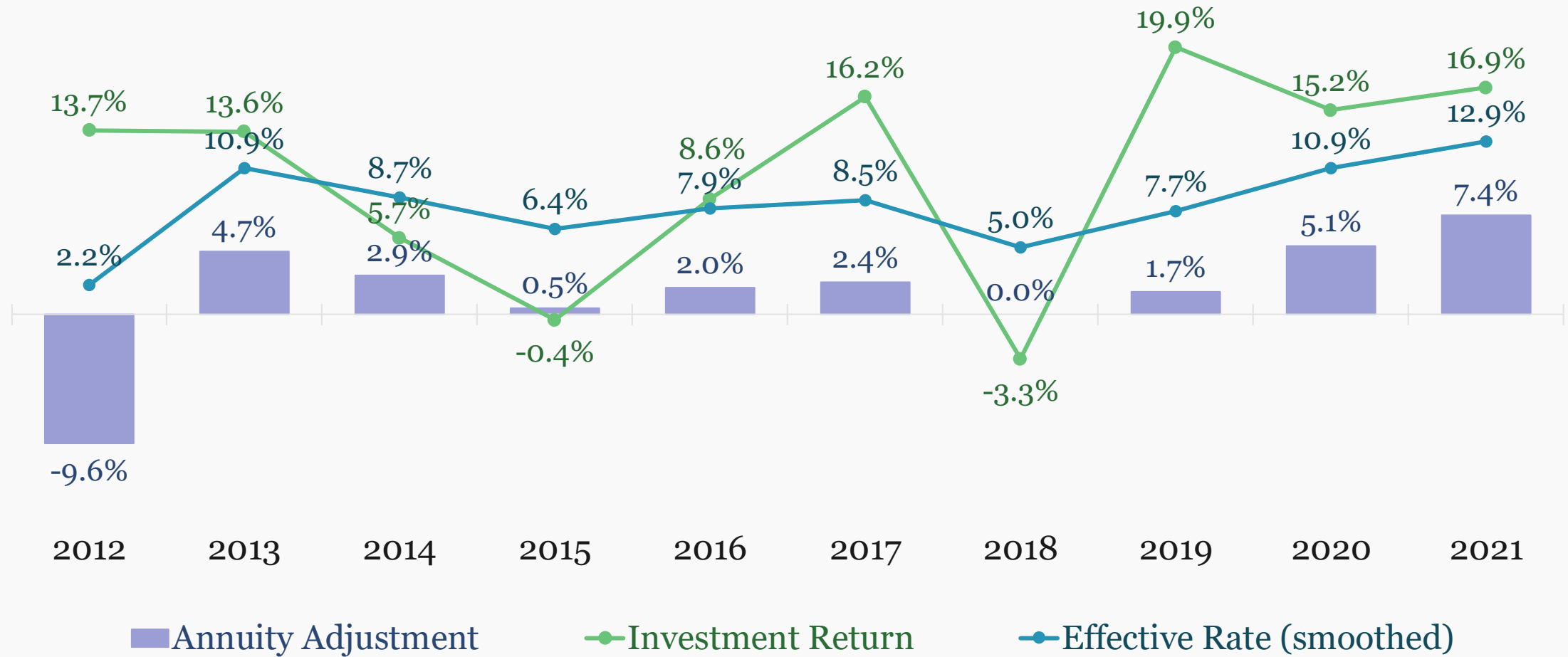


# Investment Performance Determines Adjustments

Surpluses over 5% can be used to pay annuity adjustments



# Impact of Shared Risk on the Core Fund



# 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%



# 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%



# 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>



# Average WRS Annuity Adjustments

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	5-Year	10-Year	20-Year
<b>Core</b>	3.3%	2.3%	1.5%
<b>Variable</b>	10.6%	8.6%	3.1%
<b>Change in CPI*</b>	2.9%	2.1%	2.3%

\* Consumer Price Index

(Annualized, as of December 31, 2021)



# Experience Study

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- An experience study looks back at the actual experience of the plan compared to demographic and economic assumptions and looks forward using demographic, economic, and capital market projections
- These studies involve an in-depth actuarial review of all assumptions, which is vital to the financial integrity and funding condition of the plan

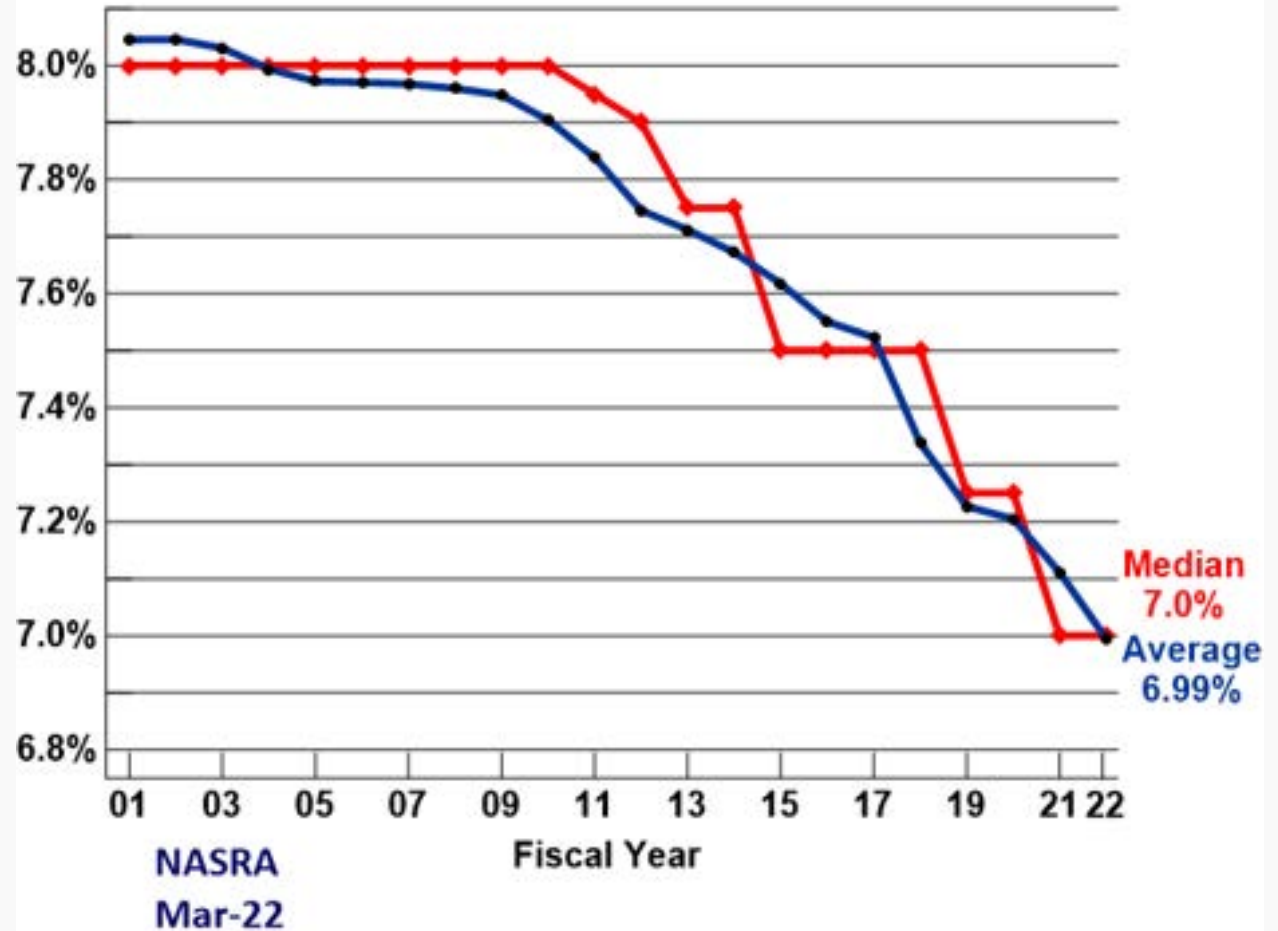
# Key Economic Assumptions in WRS

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# Change in Public Pension Investment Return Assumptions

Change to Average and Median Investment Return Assumption, FY 01 to present





# Customer Empowerment

# We Want to Ensure...

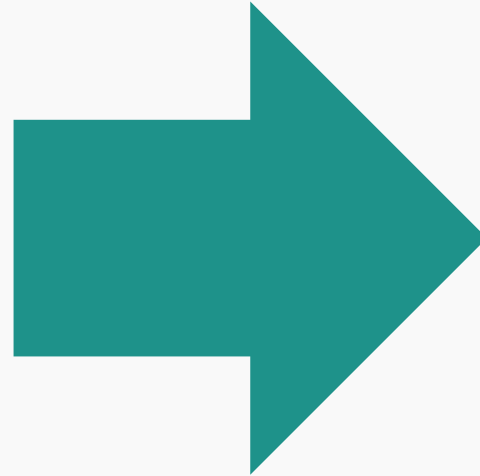
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Our customers feel empowered and trust us to meet their needs through personalized, convenient and helpful interactions.

# ETF Transformation

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Serving  
customers  
as we can



Supporting  
customers  
as they  
prefer

# Transformation Requires Modernization

## Exceptional Customer Experience is Not...

- Interactions primarily based on phone service
- Service limited to business hours
- No ability to access account online
- Employers invoiced by and data files transferred to multiple parties supporting ETF's business

## Dependable Administration is Not...

- 30+ Disparate IT Systems, Processes and Teams
  - Difficult to technically maintain
  - Most with limited business value
  - Dated and fragile (40 years old)
- Limited cross system, vendor and data integration
  - No single “Master Data” of member and employer demographics

# Modernization Approach

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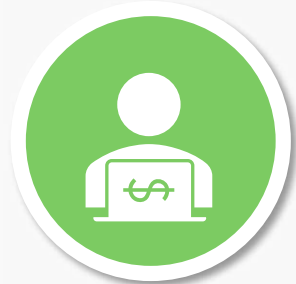
**Enterprise  
Content  
Management**

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**Data  
Management**

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**Technology Program**

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**Insurance  
Administration  
System**

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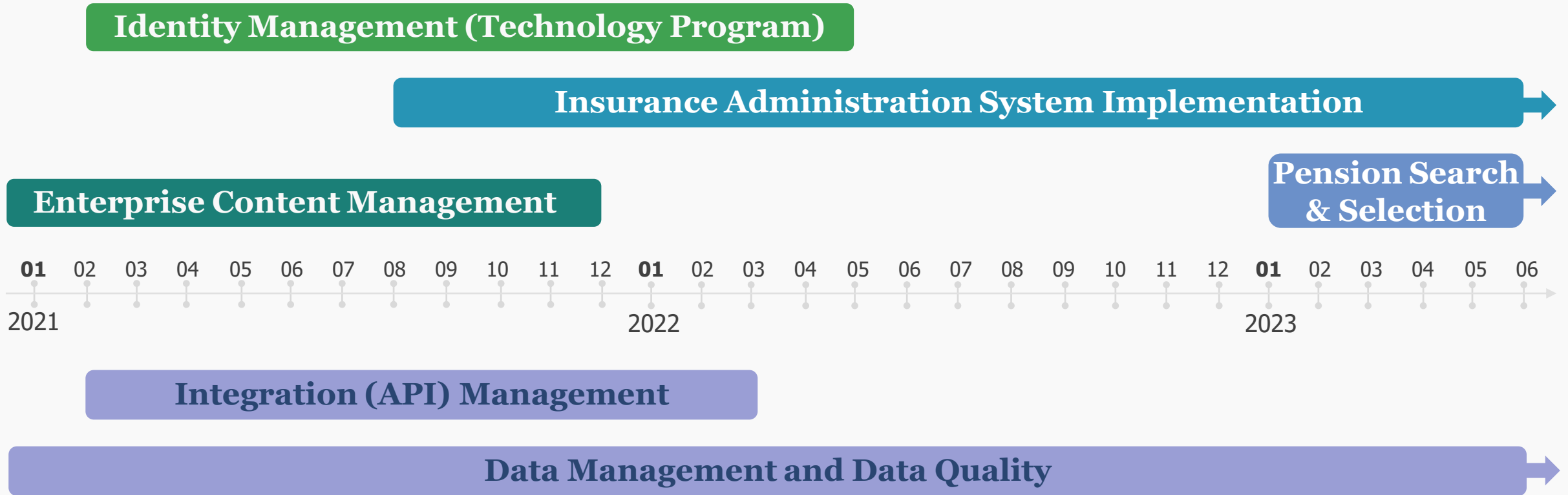


**Pension  
Administration  
System**

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# Modernization Estimated Timeline



# Benefits of ECM Implementation

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A photograph of a tree-lined path, likely the Avenue of the Giants in California. The trees are tall and have thick, gnarled trunks that lean over the path, creating a natural canopy. The lighting is soft and golden, suggesting late afternoon or early morning. The path is paved and leads into the distance. The quote is overlaid on the left side of the image.

All excellence  
involves  
discipline and  
tenacity of  
purpose.

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- John W. Gardner

# Thank You



ETF E-mail Updates



1-877-533-5020

