



The WRS: Sustainability Through Resilient Design

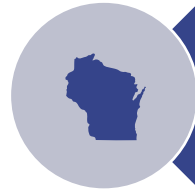
John Voelker, Secretary

April 11, 2024

UW-Madison Retirement Association

Agenda Today

Examine how a resilient design supports the sustainability of the WRS



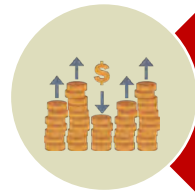
Sustainability and Resilience



Difference in Contributions



Difference in Investment Income



Difference in Benefits



Resilience and the Customer Experience

Sustainability

Society of Actuaries (2014)

- Pension obligations should be pre-funded in a rational and sustainable manner by funding benefits for employees over their public service career

Pew (2021)

- Long-term fiscal sustainability is defined as government revenues matching expenditures without a corresponding increase in public debt

International Monetary Fund (2022)

- A public pension system (or scheme) may be defined as sustainable if, under current policies, known demographic developments, and conservative macroeconomic assumptions, it will not run into prolonged or permanent financing constraints over a suitably long horizon

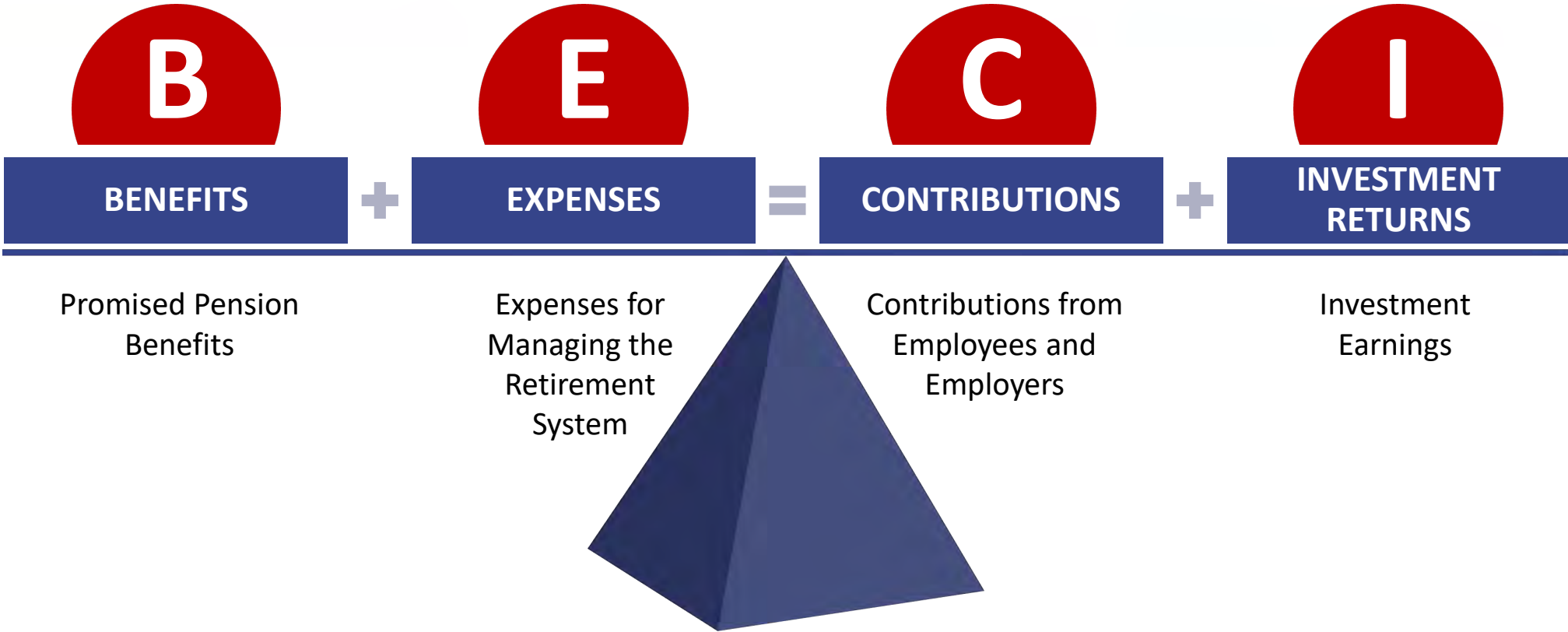
Resilience

“Resilience is the capacity of a system, enterprise or person to maintain its core purpose and integrity in the face of dramatically changed circumstances.”

Andrew Zolli



Pension Pre-funding Formula

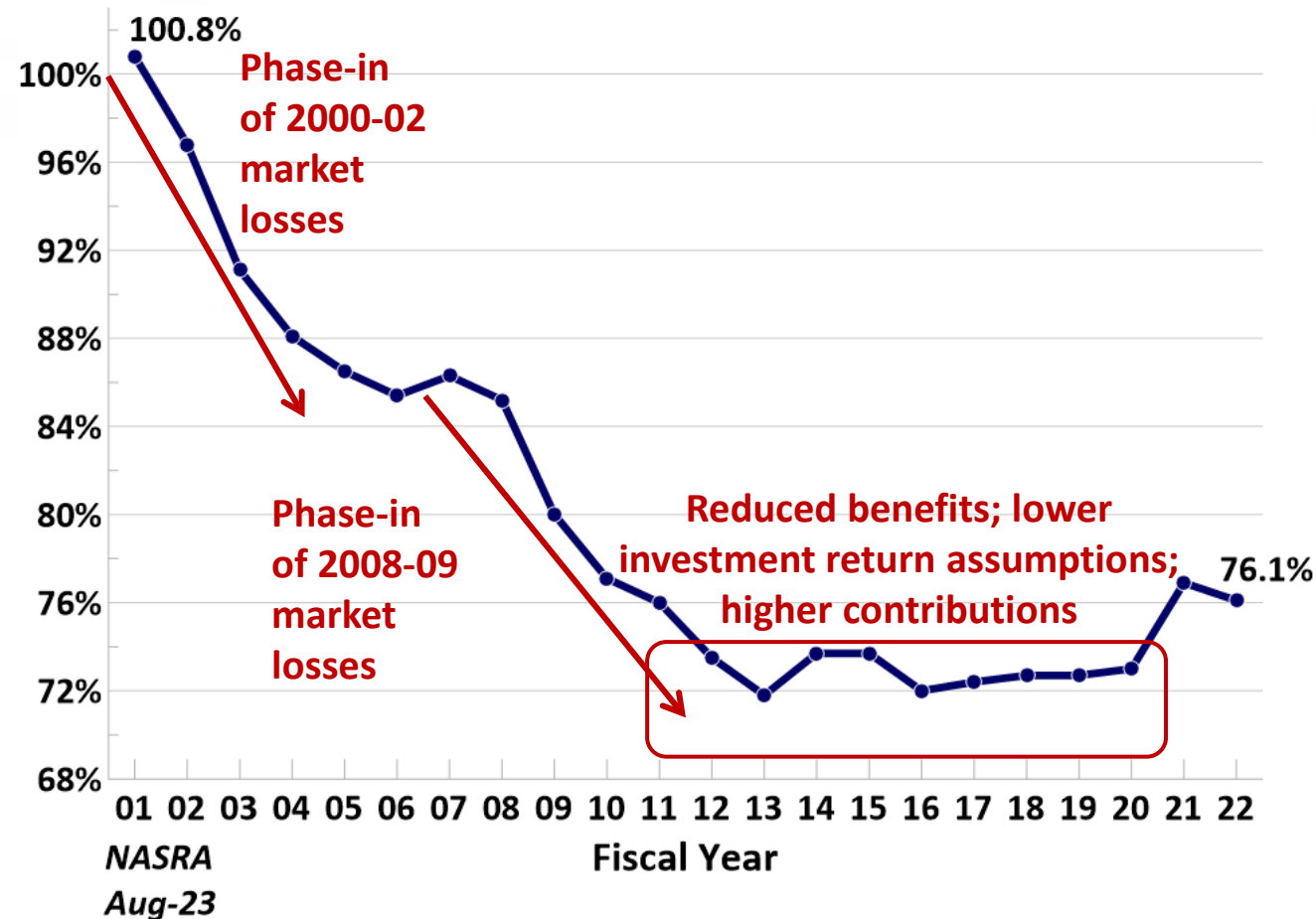


Source: Equable



Why So Much Interest in Public Pension Sustainability?

Change in aggregate public pension funding level, FY 01 to FY 22



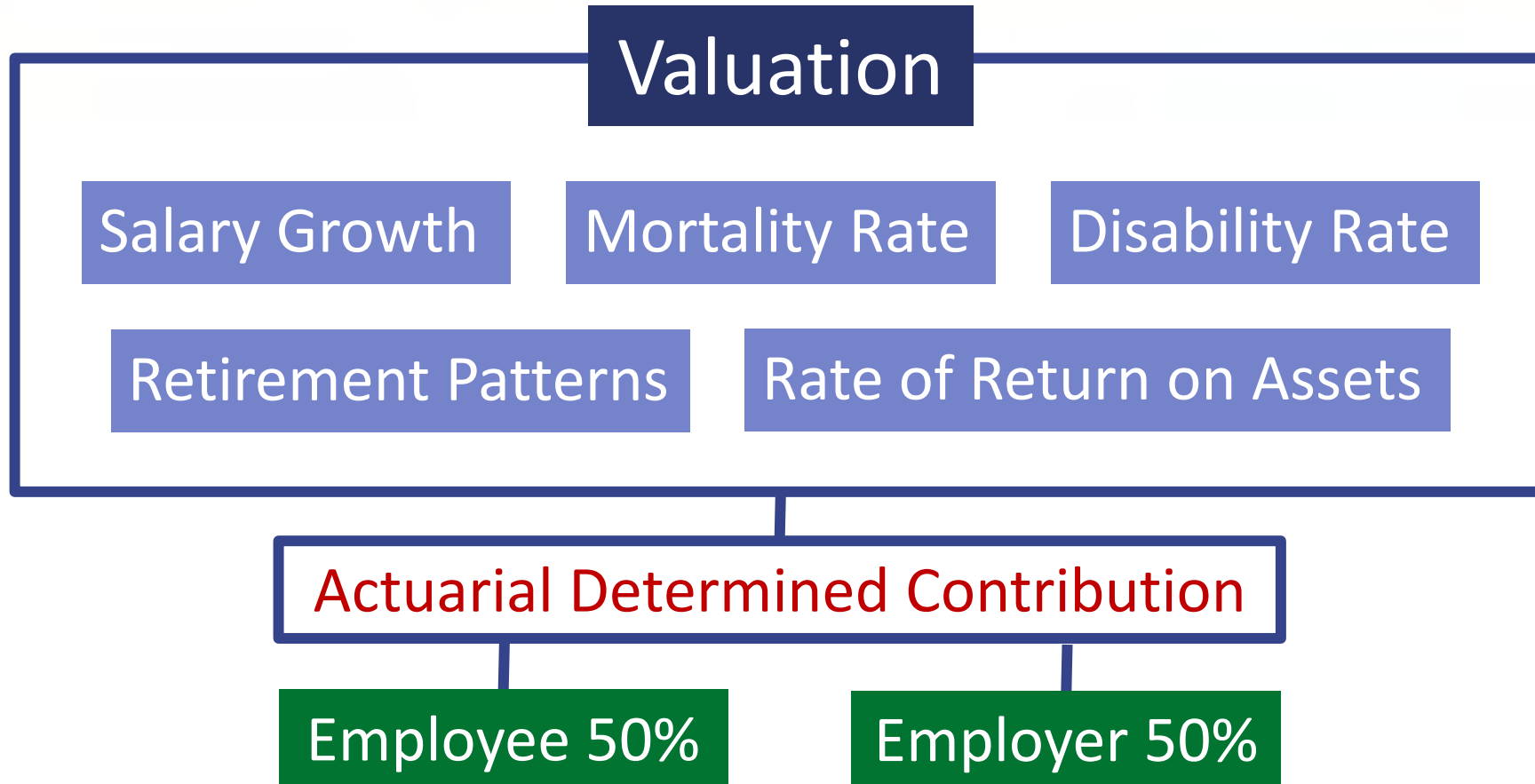


CONTRIBUTIONS

What Does the WRS Do Differently in Determining Contributions?

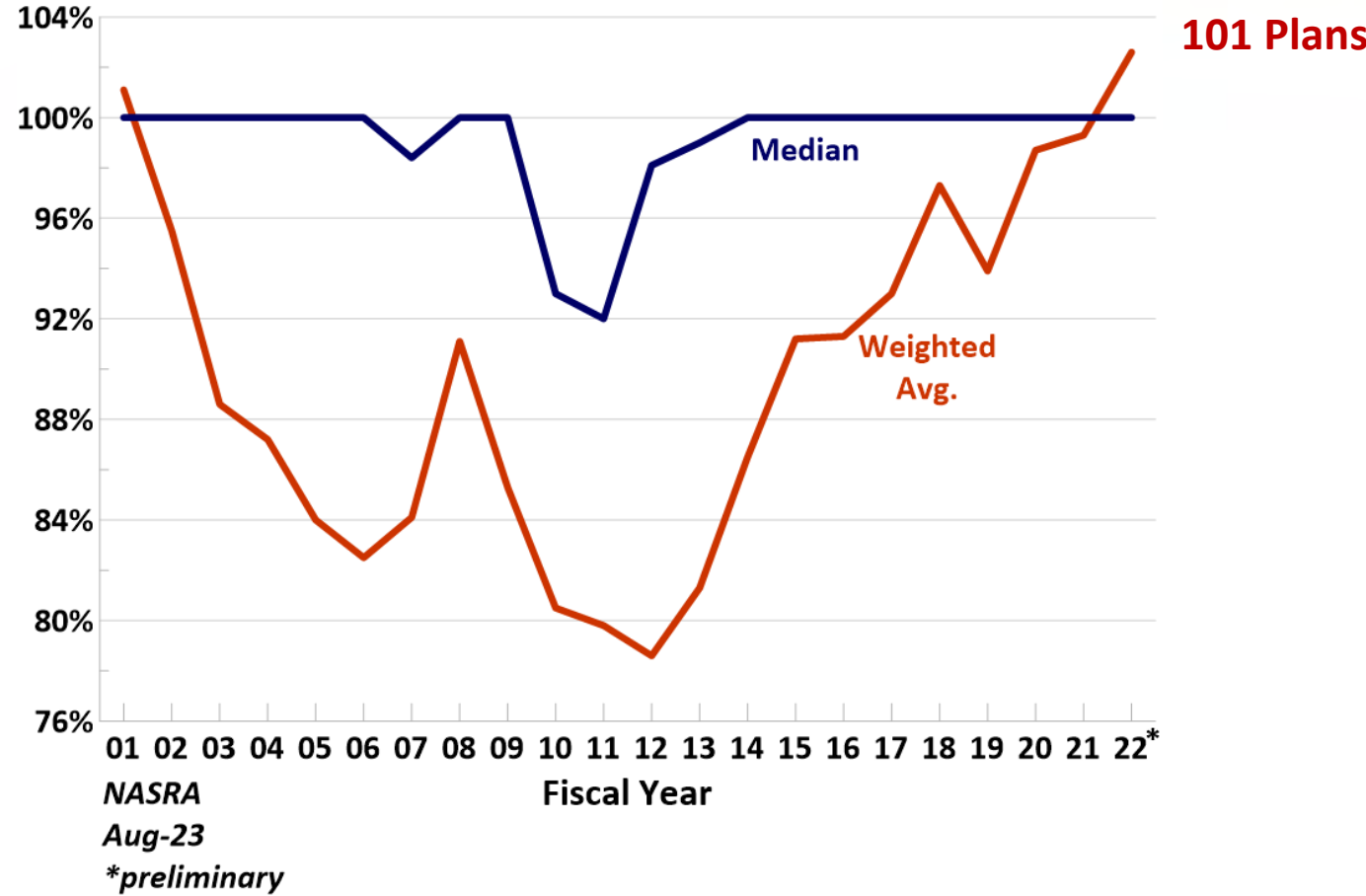
Wisconsin Retirement System Plan Design

Contributions -Need to Pay the Cost

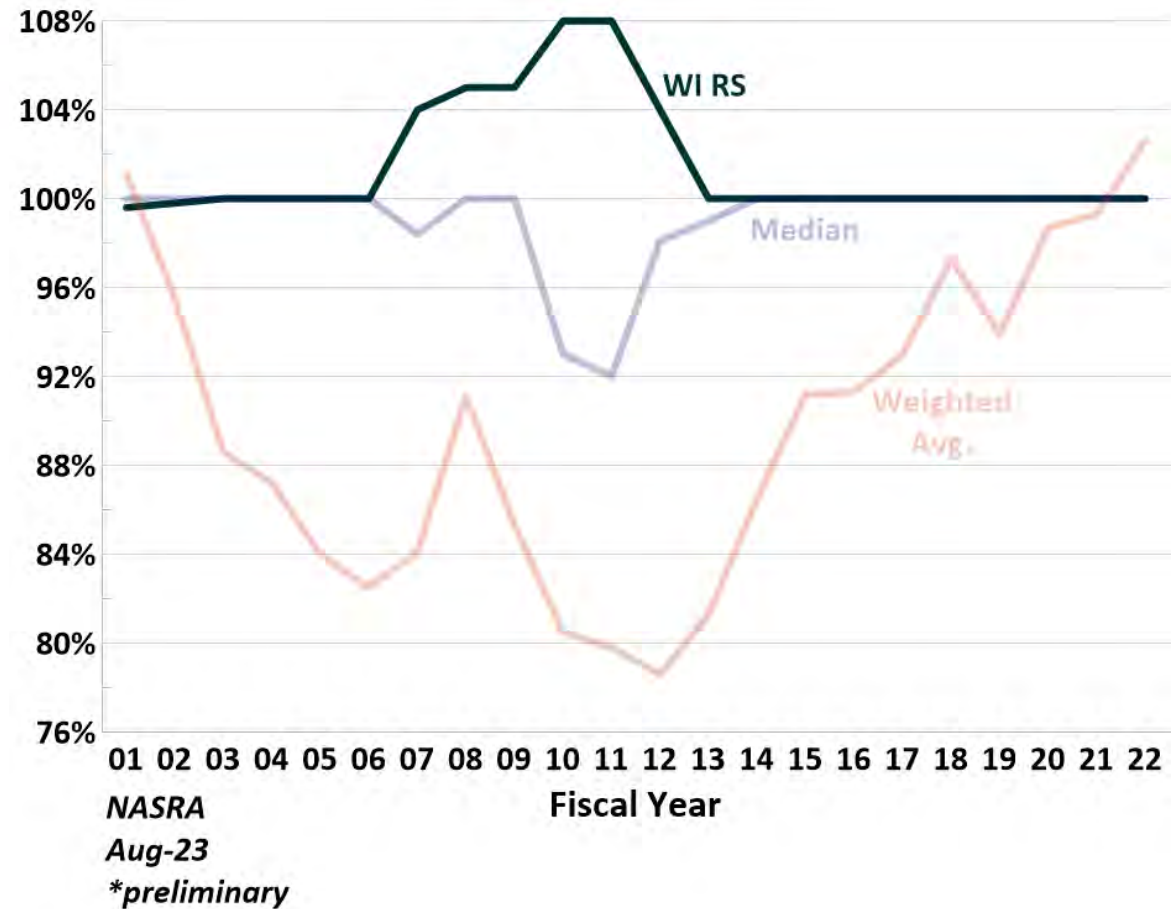


Pension System Contributions

Average and median employer contribution paid as a percentage of actuarially determined contribution

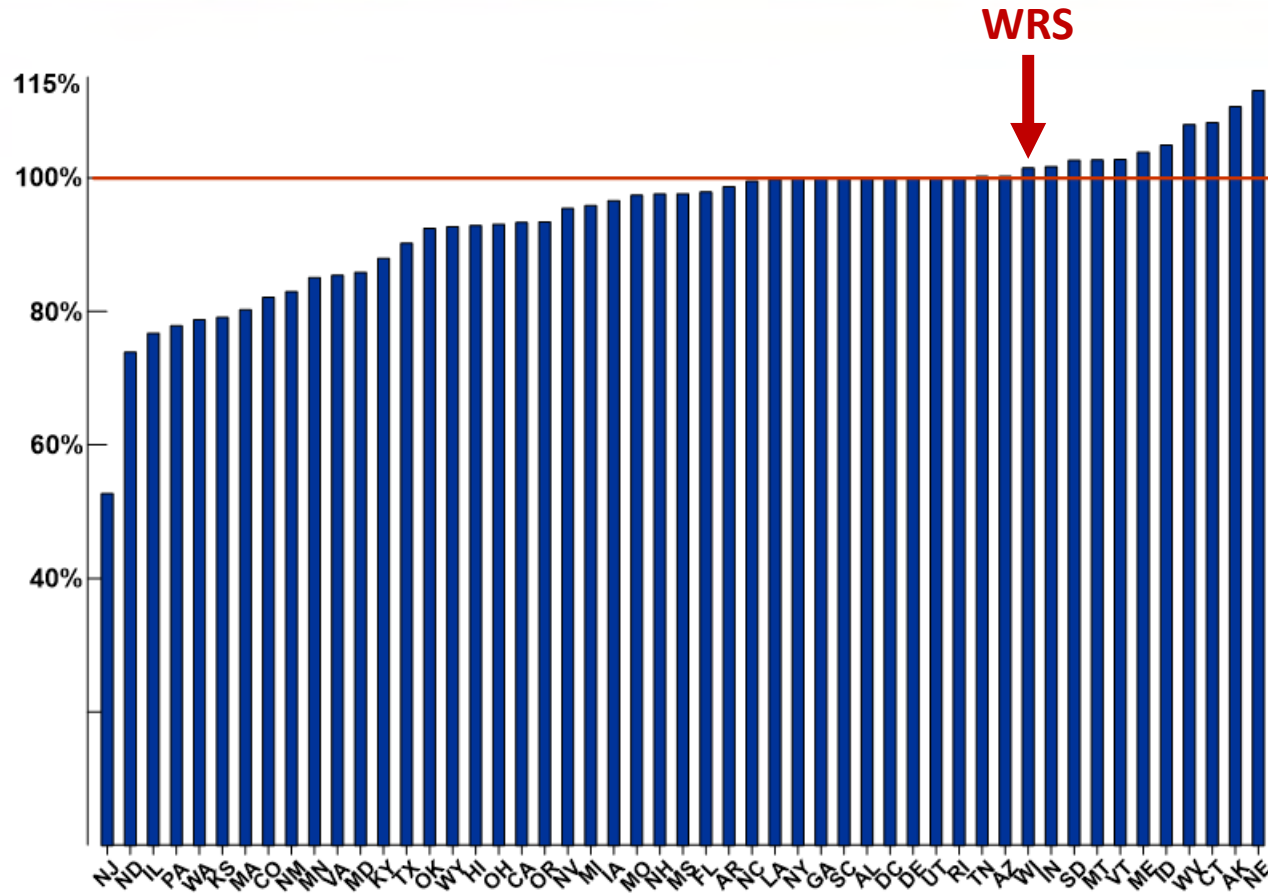


WRS Contributions



WRS Contributions Compared to Other States

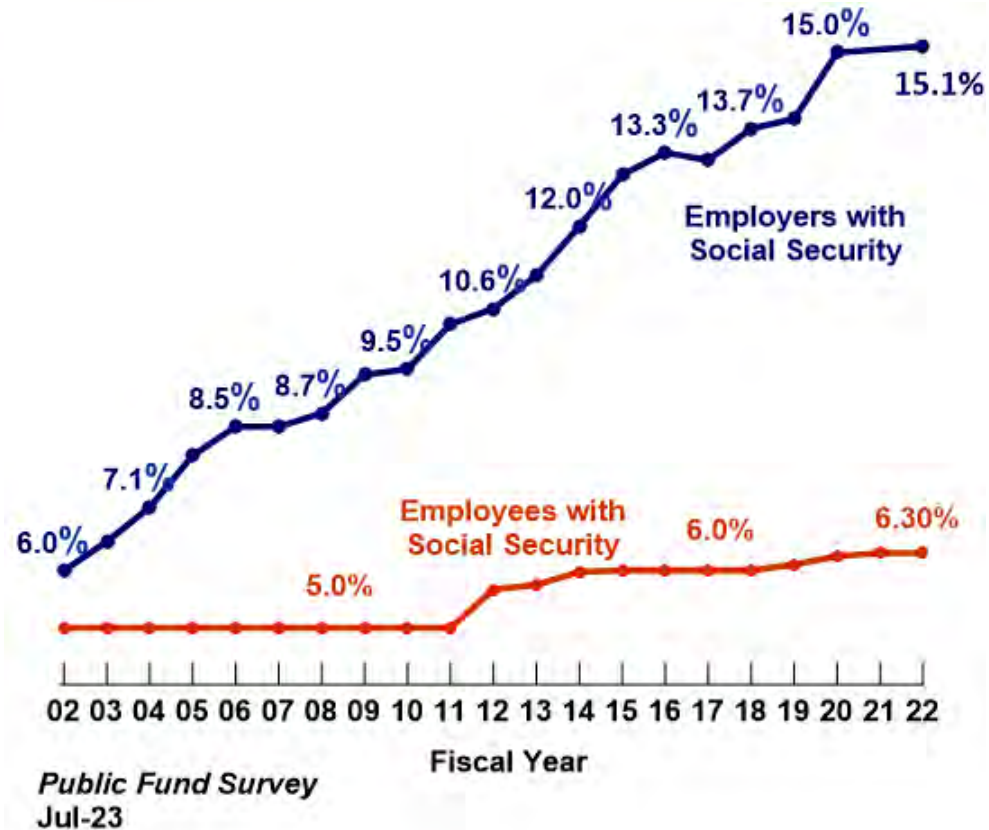
Average and median employer contribution paid as a percentage of actuarially determined contribution, FY 01 to FY 21



Source: NASRA (November 2023).

WRS Median Contribution Rates for Social Security Eligible Workers

Contribution rates reflected here are those for general employees and teachers and predominantly exclude rates for public safety personnel



WRS FY 22
6.5%

WRS FY 22
6.5%



INVESTMENT
RETURNS

How is the WRS Different in Obtaining Investment Income?

Wisconsin Retirement System Plan Design



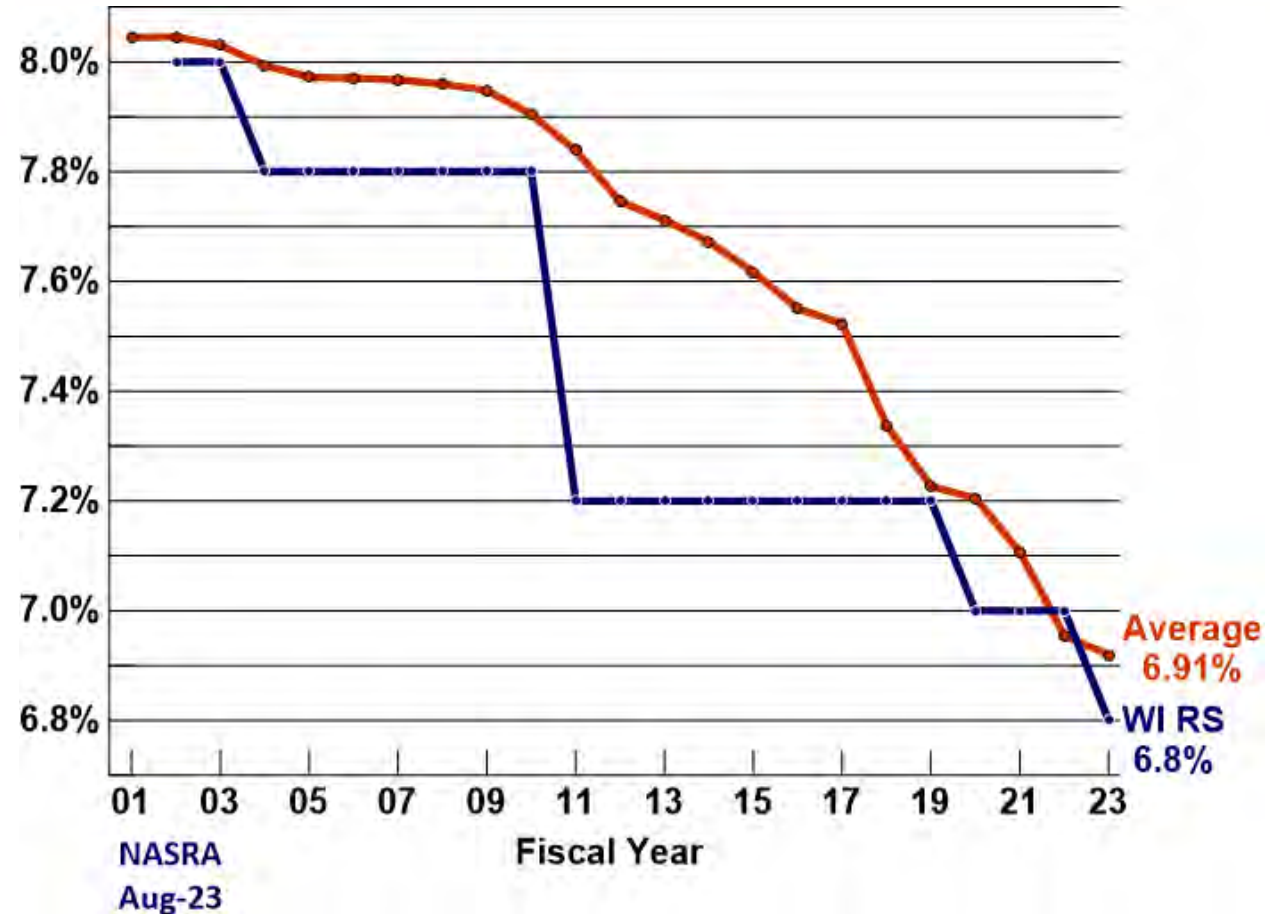
INVESTMENT
RETURNS

WRS Investment Returns

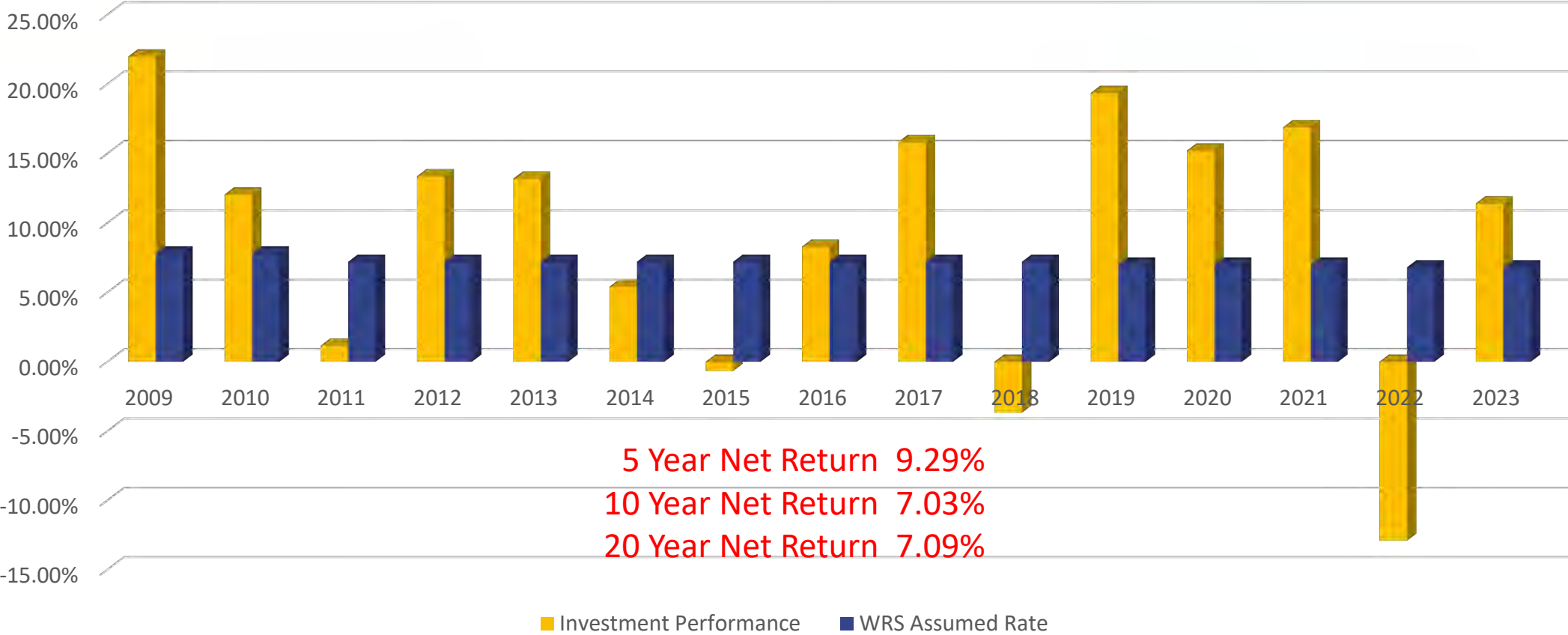
- WRS assumed rate of return for active employees has generally been lower than peers (currently 6.8%)
- Separate assumed rate of return for annuitants (currently 5.0%)
- WRS investment income is higher than other public pension plans
- Fully funded status maximizes investment earnings

WRS vs Other Assumed Rates

Change in average investment return assumption, FY 01 to present

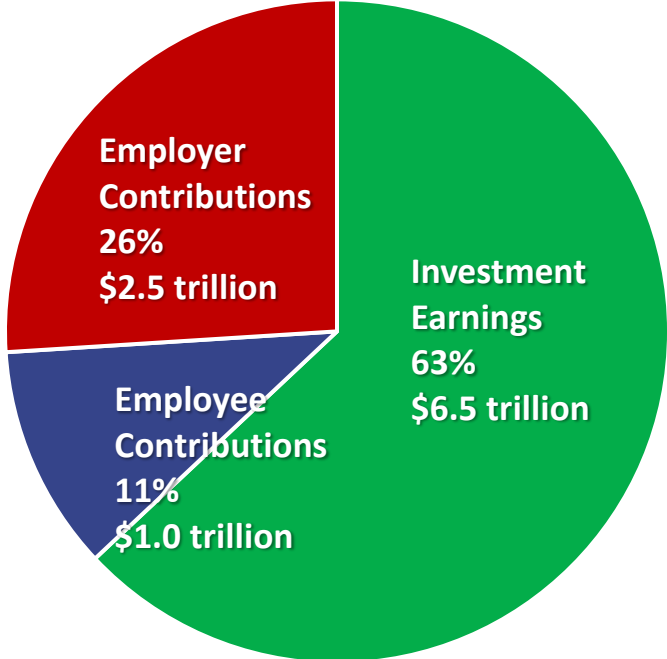


Investment Performance vs Assumed Rate



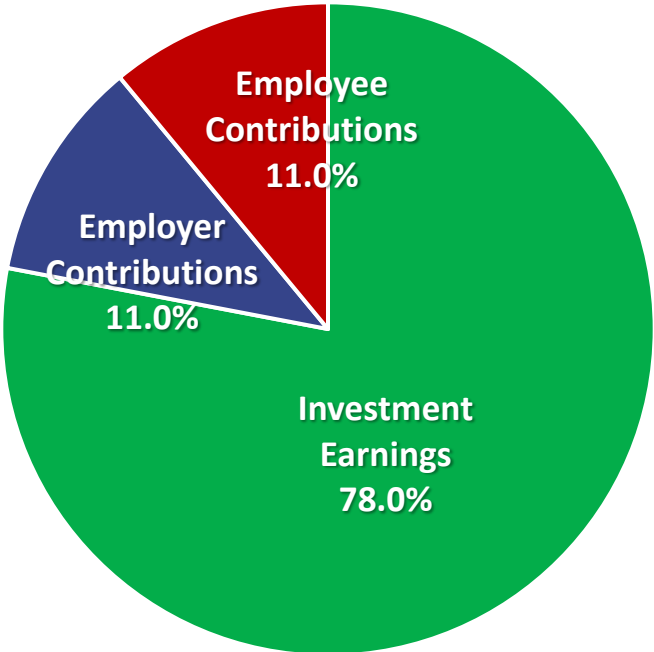
Percentage of Income from Investments

U.S. Public Pension Fund Revenue 1993-2022



Source: NASRA (November 2023). *NASRA Issue Brief: State and Local Government Contributions to Statewide Pension Plans: FY 22*

WRS Funding Sources 1993-2022



Source: Compilation of data from *ETF Annual Comprehensive Financial Reports*.





BENEFITS

How is the WRS Different in Providing Benefits?

Wisconsin Retirement System Plan Design

B

BENEFITS

WRS Benefits

Wisconsin Retirement System Plan Design

Modest Benefits –Average Monthly Annuity (gross)*

- \$2,408

Shared Risk Design

- WRS has shared risk design in providing annuity adjustments/COLAs to keep income and benefit levels aligned.

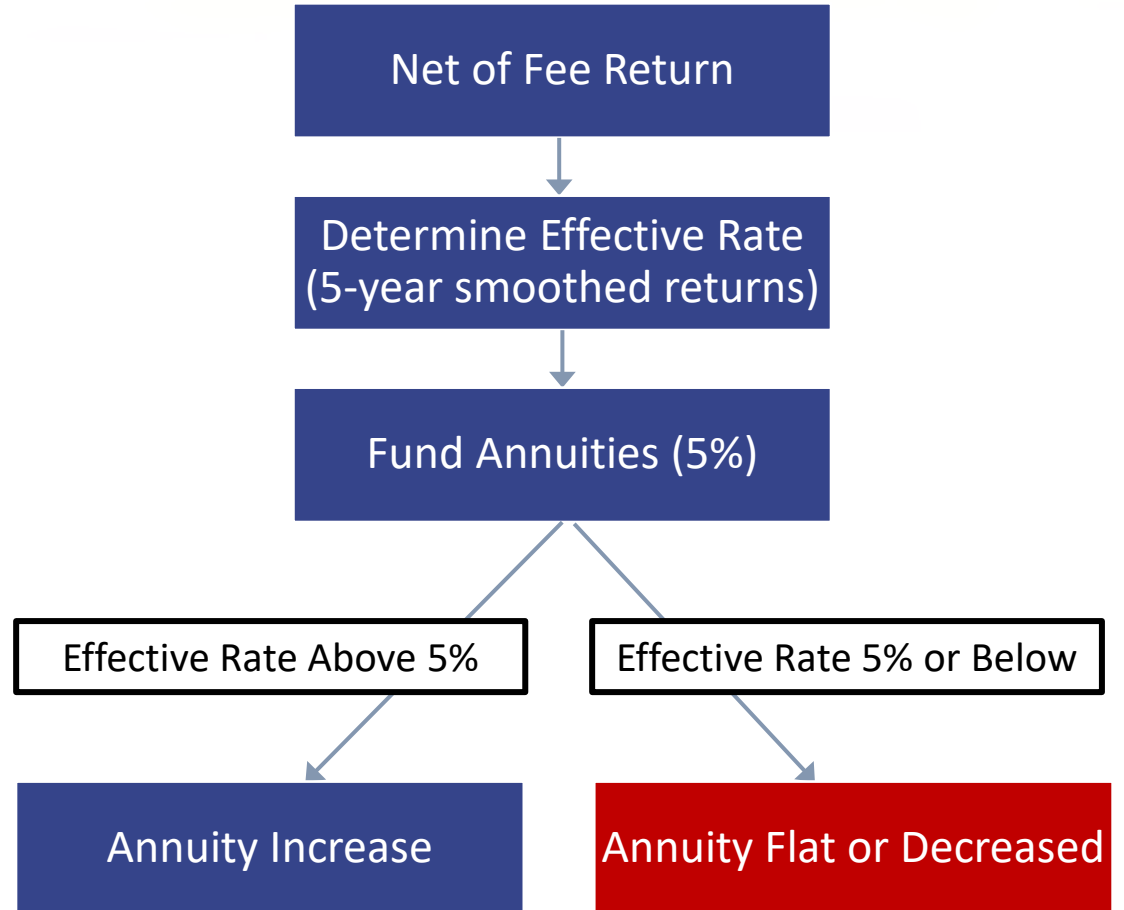
Experience Study Required By Law Every 3 Years

- to ensure up-to-date demographic and economic assumptions

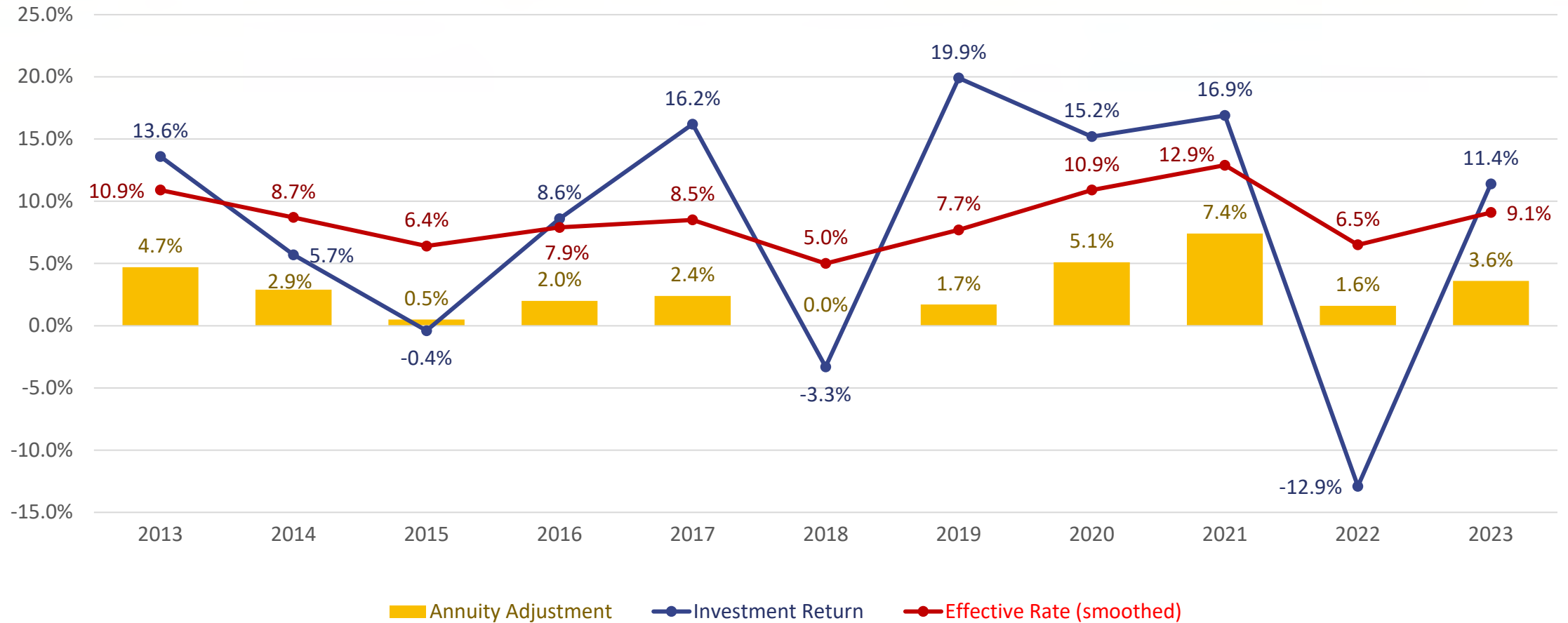
*as of February 2024

WRS Retirees Benefits Based on Investment Income

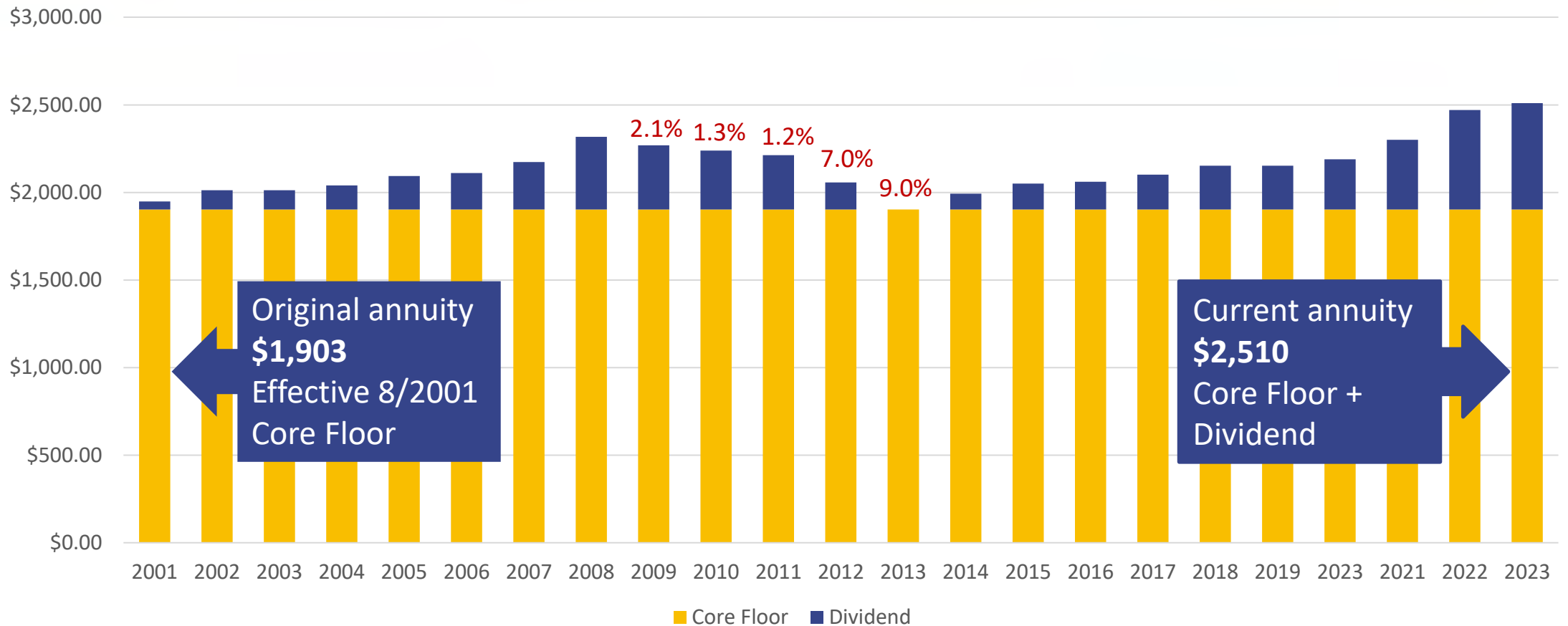
- WRS retirees' base annuity is calculated based on years of service and salary level
- Plan design includes 5% investment income assumption to fund benefits
- Annuities are adjusted annually based on investment performance (increase or decrease)



Annuity Adjustment Trends



How Annuity Adjustment Can Affect A Retiree (Actual Teacher Experience)



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
2019	\$1,208	3.9%	\$1,429	7.4%	4.1%
2014	\$1,305	2.7%	\$1,516	4.2%	2.8%
2009	\$1,367	2.1%	\$2,601	6.6%	2.6%
2004	\$1,367	1.6%	\$1,829	3.1%	2.6%
1999	\$1,615	1.9%	\$1,546	1.8%	2.5%

*Including annuity adjustments to be made effective April 1, 2024



Result of 6.8% Investment Return in 2024 - 2027

Investment Performance	2023	2024	2025	2026	2027
SWIB Net Investment Return	11.40%	6.8%	6.8%	6.8%	6.8%
Effective Rate	9.1%	6.9% to 7.3%	5.4% to 5.8%	3.4% to 3.8%	7.4% to 7.8%
Average Annuity Adjustment	3.6%	1.7% to 2.1%	0%	(1.4%) to (1.0%)	2.0% to 2.4%
Dividend Liability*	~\$16.4b	~\$16.6b	~\$15.8b	~\$13.5b	~\$14.3b

* Dividend liability is the present value of previously granted post-retirement annuity adjustments. Some refer to this as the 'dividend reserve' although it is not a separate reserve. The funds are part of the annuity reserve.



Result of 0% Investment Return in 2024 and 6.8% in 2025 - 2027

Investment Performance	2023	2024	2025	2026	2027
SWIB Net Investment Return	11.40%	0%	6.8%	6.8%	6.8%
Effective Rate	9.1%	5.5% to 5.9%	3.9% to 4.3%	1.8% to 2.2%	5.9% to 6.3%
Average Annuity Adjustment	3.6%	0% to .8%	(1.1%) to (.7%)	(3.2%) to (2.8%)	.4% to .8%
Dividend Liability*	~\$16.4b	~\$15.7b	~\$13.8b	~\$10.4b	~\$10.2b

* Dividend liability is the present value of previously granted post-retirement annuity adjustments. Some refer to this as the 'dividend reserve' although it is not a separate reserve. The funds are part of the annuity reserve.

Result of -6% Investment Return in 2024 and 6.8% in 2025 - 2027

Investment Performance	2023	2024	2025	2026	2027
SWIB Net Investment Return	11.40%	(6.0%)	6.8%	6.8%	6.8%
Effective Rate	9.1%	4.3% to 4.7%	2.7% to 3.1%	.4% to .8%	4.5% to 4.9%
Average Annuity Adjustment	3.6%	(.7%) to 0%	(2.4%) to (2.0%)	(4.5%) to (4.1%)	(.9%) to (.5%)
Dividend Liability*	~\$16.4b	~\$14.8b	~\$12.1b	~\$7.7b	~\$6.6b

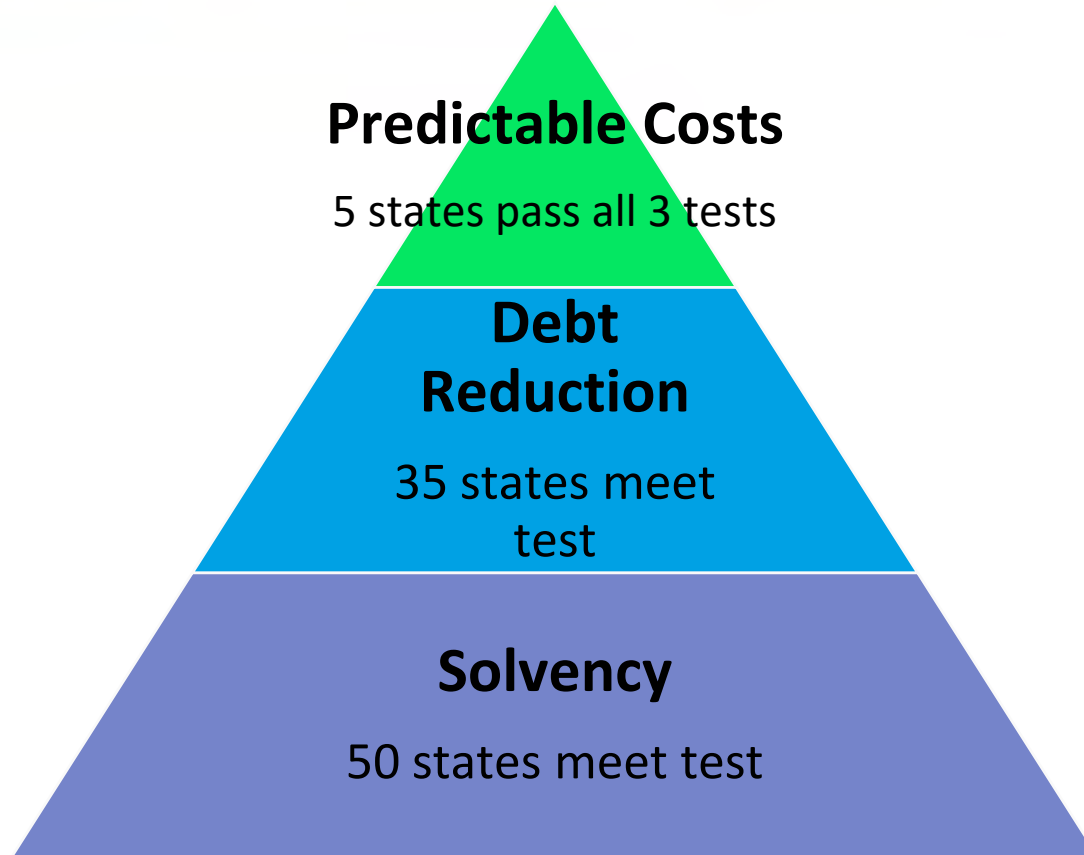
* Dividend liability is the present value of previously granted post-retirement annuity adjustments. Some refer to this as the 'dividend reserve' although it is not a separate reserve. The funds are part of the annuity reserve.

Result of 12% Investment Return in 2024 and 6.8% in 2025 - 2027

Investment Performance	2023	2024	2025	2026	2027
SWIB Net Investment Return	11.40%	12.0%	6.8%	6.8%	6.8%
Effective Rate	9.1%	7.9% to 8.3%	6.4% to 6.8%	4.5% to 4.9%	8.5% to 8.9%
Average Annuity Adjustment	3.6%	2.6 to 3.0%	1.2% to 1.6%	0%	2.6% to 3.0%
Dividend Liability*	~\$16.4b	~\$17.4b	~\$17.4b	~\$15.8b	~\$17.4b

* Dividend liability is the present value of previously granted post-retirement annuity adjustments. Some refer to this as the 'dividend reserve' although it is not a separate reserve. The funds are part of the annuity reserve.

Outcome of Plan Design - Sustainability



Source: Pew Charitable Trusts

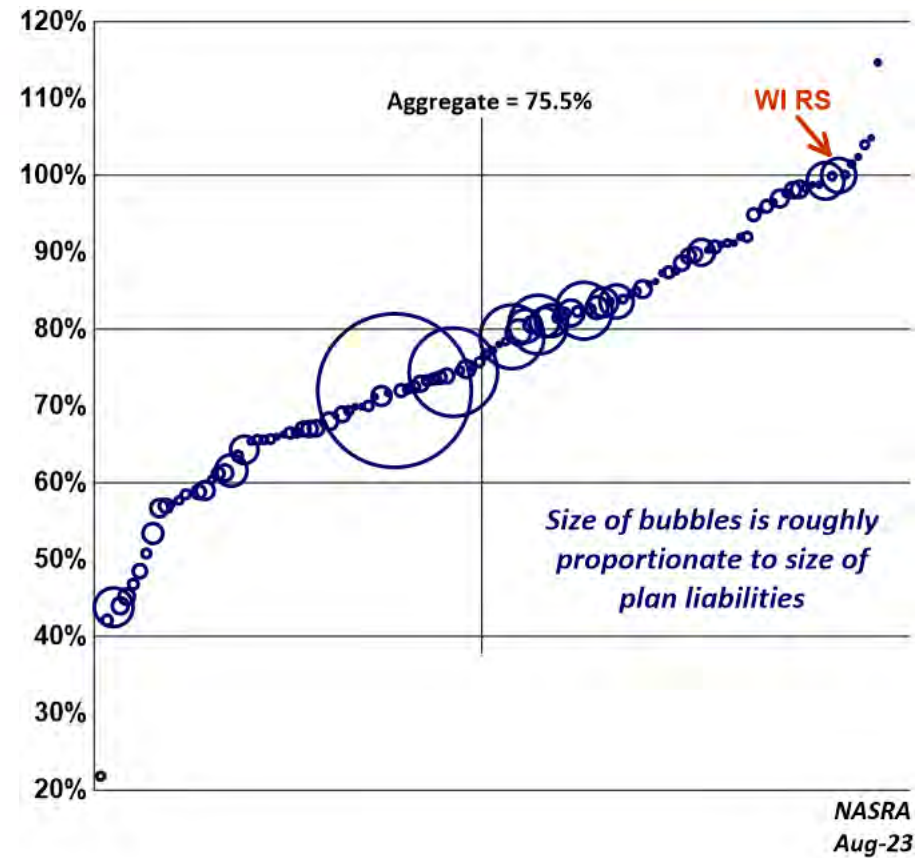
Predictable Costs: Fiscally sustainable pension plans maintain pension benefits that are sufficient to recruit and retain a public workforce without compromising other state budget priorities.

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

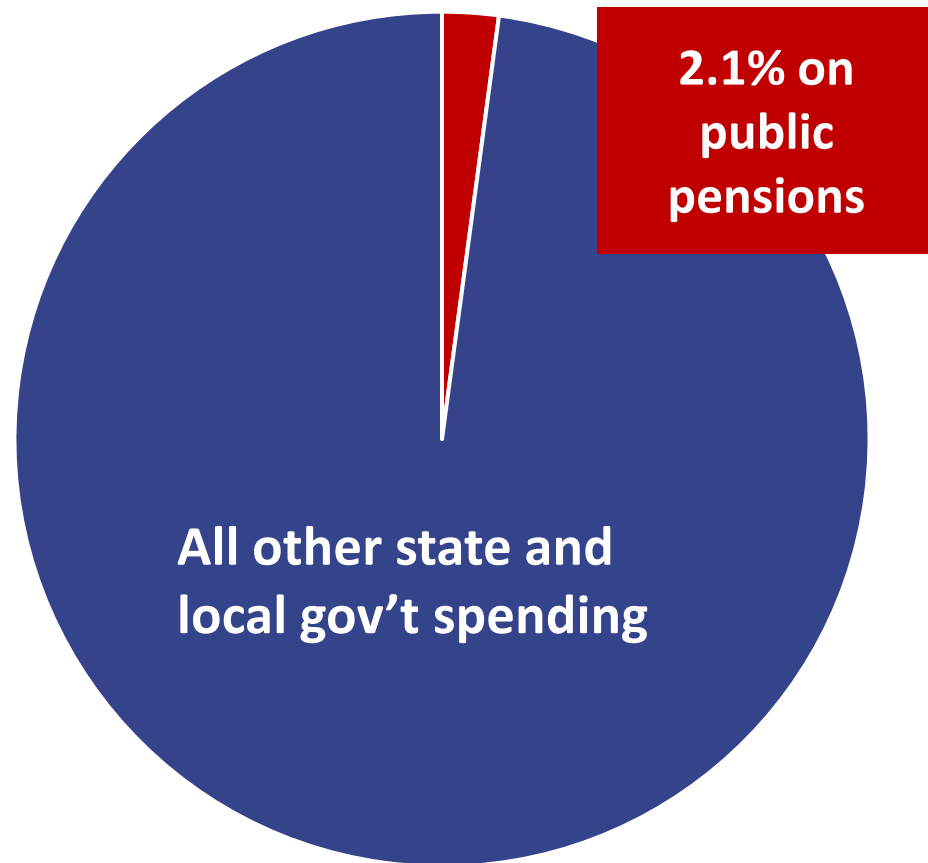
Solvency: Cash inflows from contributions plus investment returns will be sufficient to fund benefit payments without depleting plan assets and requiring additional expenditures from annual budgets.

Solvency - Fully Funded

Distribution of Public Pension Funding Levels, FY 22



Predictable Costs



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

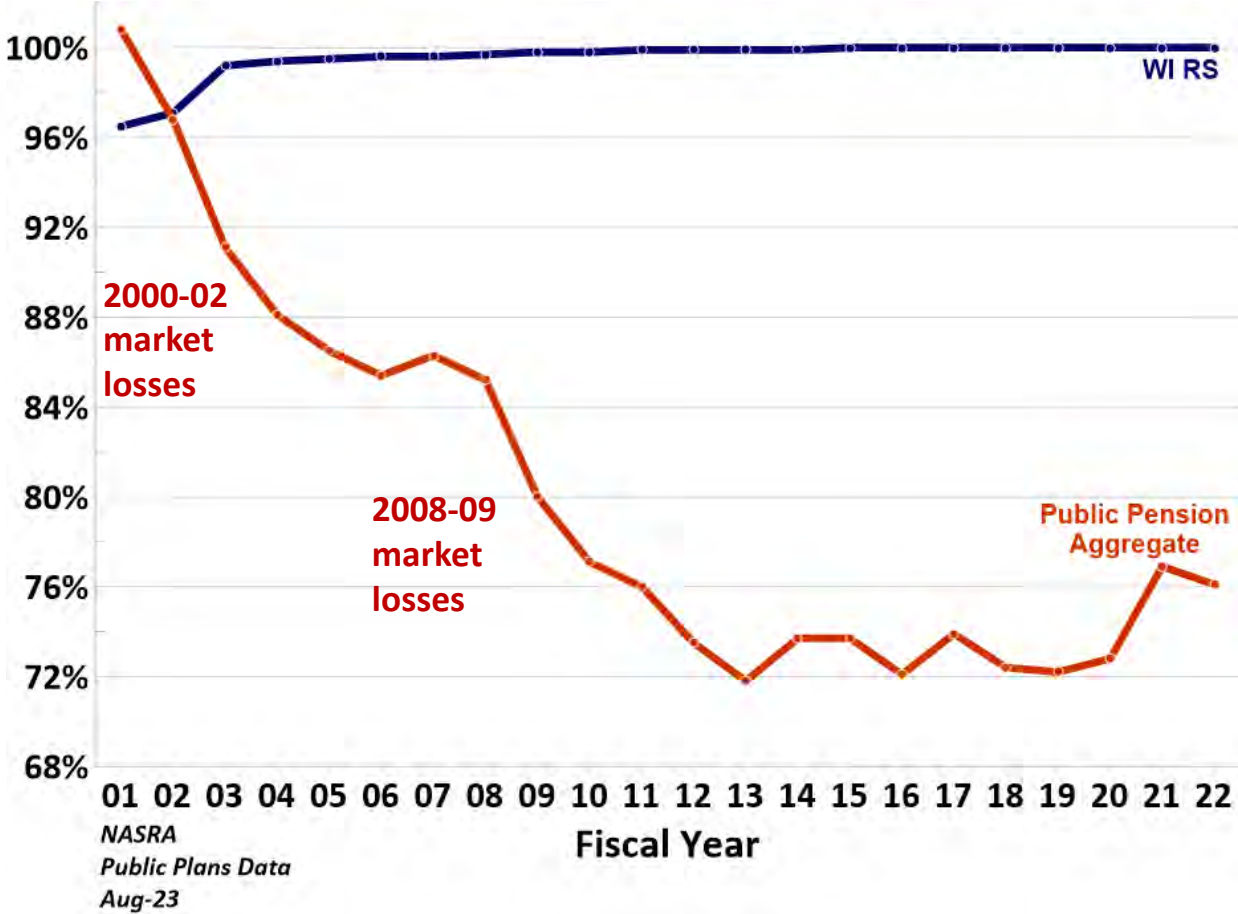
National average: 5.1%

Fiscal Year 2021

Source: National Association of State Retirement Administrators (February 2024)

Resiliency

History of Aggregate Public Pension Funding Level, FY 01 to FY 22

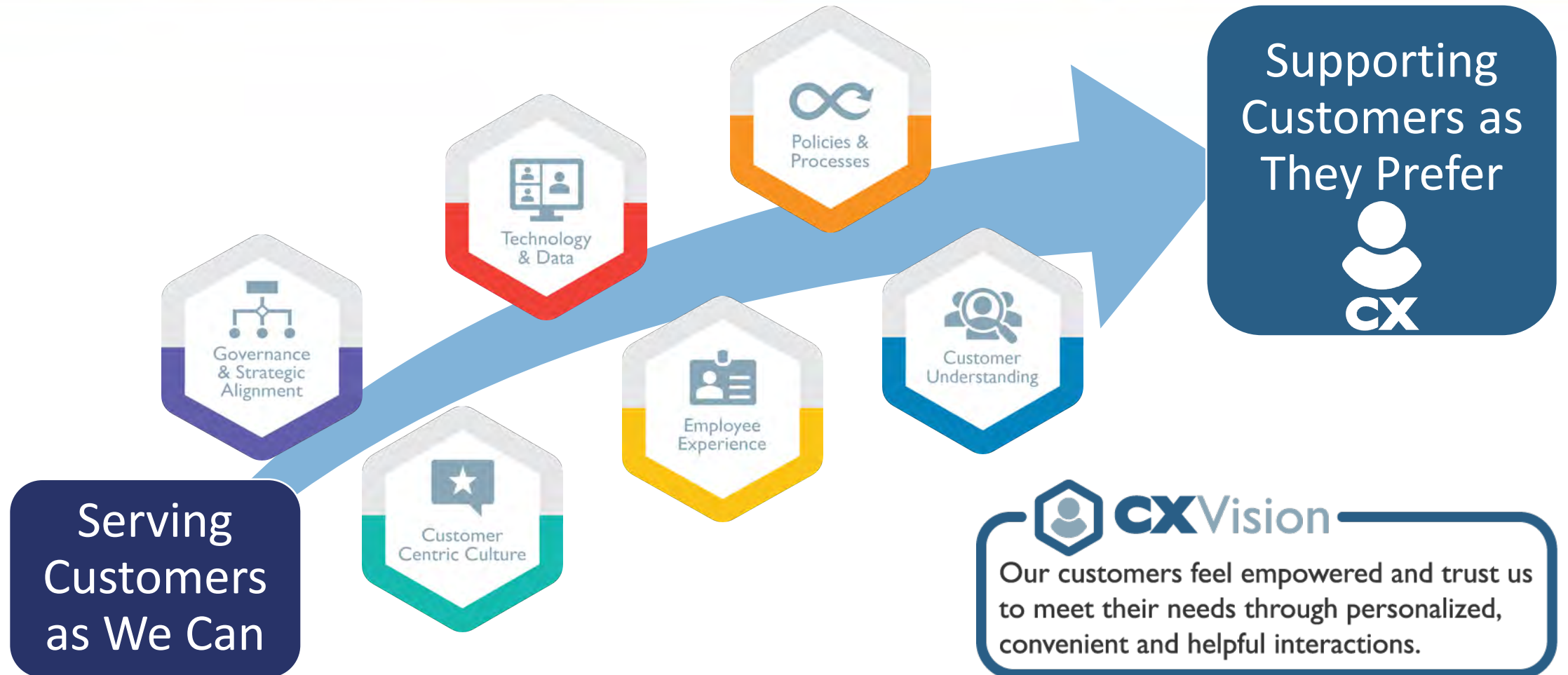




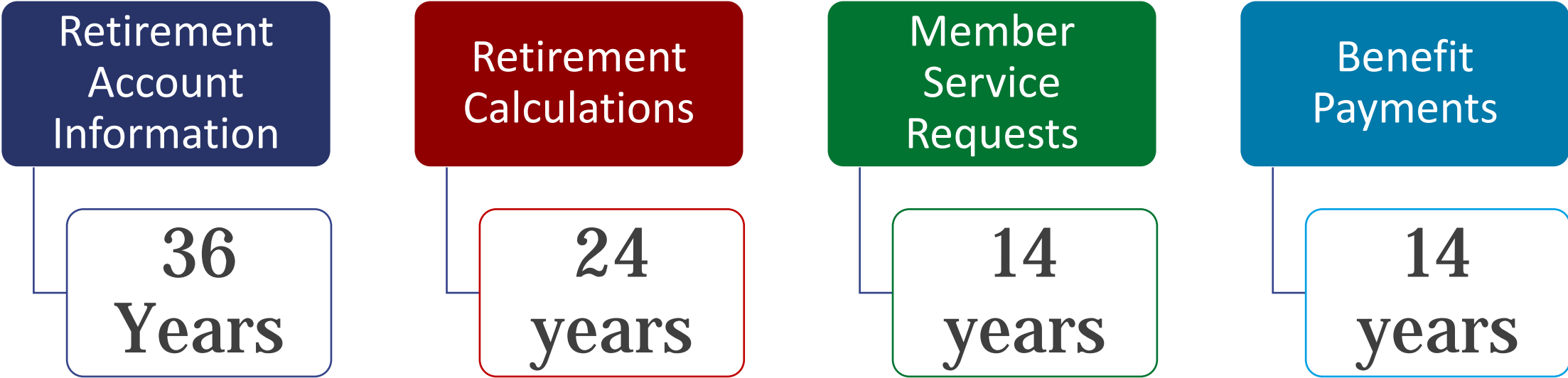
Resilience and the Customer Experience

Creating Resilience Through Innovation and Modernization

Innovating With the Customer Experience in Mind



Resilience in Service Requires Modernization



Member Benefits: IAS and PAS

Insurance Administration System (IAS)

- Enroll in and manage insurance benefits online in one location (Health, Dental, Life, Income Continuation, Vision, Accident Plan, Pre-tax Savings)

Pension Administration System (PAS)

- See pension account information online
- Update beneficiaries online

Both Systems

- Improve productivity
- Streamline processes
- Improved benefit calculators
- Enhanced service (dashboards, reports, etc.)
- Self-service portals
- Lower operating costs
- ETF can respond quickly to changes

Thank You



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