

The Impact of the 2008 Market Downturn on the Wisconsin Retirement System

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Employee Trust Funds

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WRS Participant Statistics as of 01/01/2009

- Active Participants – 269,838
- In-active Participants – 145,653
- Annuitants – 146,585
- Total Participants – 562,076
- 73.1 % of active participants are local government employees
- 26.9% of active participants are state and University of Wisconsin employees
- Total WRS Participating Employers – 1,483

At the end of 2008 there was an
 \$18.6 billion investment loss to be
 recognized over 5 years

<u>Year Earned</u>	<u>Year to be Recognized (millions \$)</u>				
	2008	2009	2010	2011	2012
2008	(5,368)	(5,368)	(5,368)	(5,368)	(5,368)
2007	212	212	212	212	
2006	1,065	1,065	1,065		
2005	86	86			
2004	518				
Total	(3,487)	(4,005)	(4,091)	(5,156)	(5,368)

Retirement Benefit Payments

- In 2007 more than \$3.4 billion in annuity payments were made to WRS retirees
- Approximately 85% of WRS retirees continue to reside in Wisconsin
- All but a very small amount of benefit payments made to retirees are subject to state and federal taxes
- One recent study indicated that WRS pension payments support over 33,300 jobs in Wisconsin and add \$4.5 billion to the state's economy.

Shared Risk in WRS Contribution Rates

- There are three basic types of contributions made to the WRS:
 - Employer Contributions
 - Employee Contributions
 - Benefit Adjustment Contributions (BAC)- To be paid by the employee unless the employer agrees to pay this contribution.
 - Over 99% of WRS employers have agreed to pick-up most or all of the BAC and employee contributions because of the tax advantage (employers don't pay FICA on WRS contributions).

Impact on Employee/Employer Contribution Rates

- In 2009 contribution rates for most categories of employees have declined slightly (down 0.2%) due to gains in prior years.
- In 2010 contribution rate increases of 0.8% are projected as a result of 2008 investment losses (this is the general employee rate increase, protective and elected employee rates may be larger).

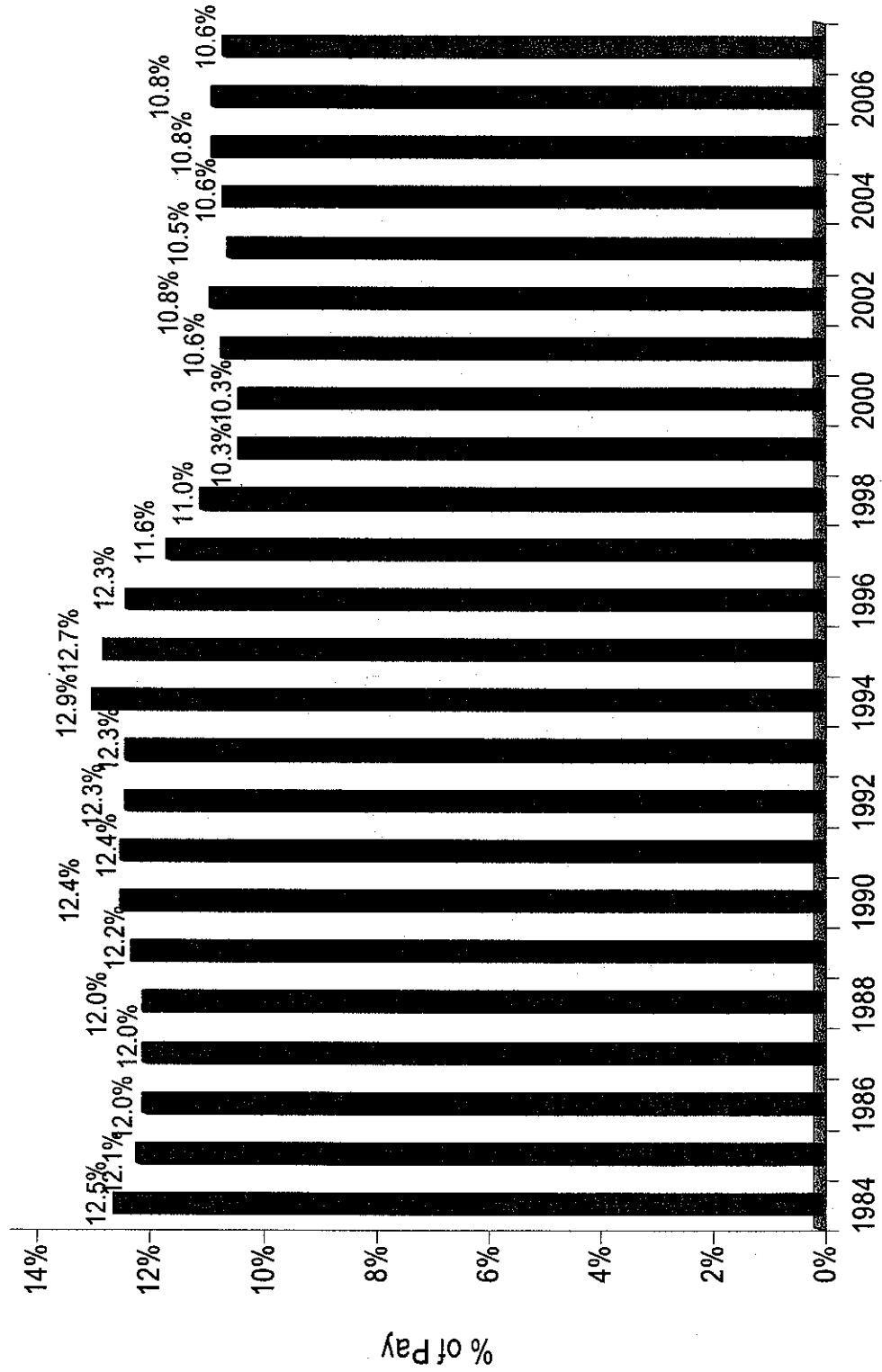
Estimated General Employee Contribution Rate Increases 2010-2014

Based on -26.2% return in 2008 and 7.8% return each year thereafter

Year	Expected Rate Increase	Employee Paid Contributions / May be Paid by Employer			Employer Must Pay	Total Contribution Rate*
		Employee Required Contributions	Benefit Adjustment Contributions	Total Employee Contributions		
2009		5.00%	0.90%	5.90%	4.50%	10.40%
2010	0.80%	5.00%	1.30%	6.30%	4.90%	11.20%
2011	0.80%	5.00%	1.70%	6.70%	5.30%	12.00%
2012	0.80%	5.00%	2.10%	7.10%	5.70%	12.80%
2013	1.00%	5.00%	2.60%	7.60%	6.20%	13.80%
2014	1.00%	5.00%	3.10%	8.10%	6.70%	14.80%
Total Rate Increase	4.40%		2.20%	2.20%	2.20%	4.40%

* Excluding contributions for the unfunded actuarial accrued liability (UAAL)

Contribution Rate History (General)



Impact of 2008 Market Downturn on Active/Inactive Employee Retirement Accounts

- Active and inactive employee accounts in the Core Fund will receive a 3.3% increase.
- Active and inactive employee accounts in the Variable Fund will be reduced by 40%.

Interest Crediting Risk to Employee

WRS Accounts

- Employee retirement benefits are at risk when WRS investment returns decline because employee accounts receive reduced or potentially negative adjustments.
- More than 50% of those retiring in 2008 had their retirement benefit based on the “money purchase” calculation method which uses the employee account balance to calculate the retirement annuity.

Post-Retirement Dividend Feature

- **Reward** - Positive investment returns fund dividends that help retain the purchasing power of annuities, but these dividends are not guaranteed.
- **Risk** - The Core Fund original annuity amount is guaranteed, but retirees share in the investment risk because previously granted benefit increases are subject to reduction if investment losses occur.
- There is no guaranteed annuity benefit in the Variable Fund.

Impacts in 2009 and 2010

- Retiree Core Fund monthly annuities will be reduced by 2.5% - 3.0% on May 1, 2009. (Example: A \$2,000 monthly benefit will be reduced by \$50-\$60 per month.)
- Retirees in the Variable Fund will see a reduction of 44%-45% in their monthly benefit. Between 2000-2002 reductions totaled 52%.

A 7.8% investment return in 2009 will result in an annuity adjustment between -3.4% and -3.8%

Core Effective Rate / Annuity Adjustment Projections						
	2008	2009	2010	2011	2012	2013
SWIB Net Investment Return	-26.2%	7.8%	7.8%	7.8%	7.8%	7.8%
Core Trust Fund Effective Rate	3.3%	1.9% to 2.3%	1.3% to 1.7%	-0.3% to -0.7%	-1.2% to -1.6%	6.4% to 6.8%
Core Trust Fund Annuity Adjustment	-2.5%	-3.4% to -3.8%	-3.9% to -4.3%	-5.7% to -6.1%	-6.6% to -7.0%	0.4% to 0.8%

Comparative Statement - Core

Valuation Date	Number	Annual		Fund		Actuarial		Change in	
		Number	Annual Annuities	Balance	Reserve	Ratio	Annualities	CPI	
1998	99,112	1,349.5	14,951.8	13,943.0	1.072	7.2 %	1.6 %		
1999	102,817	1,513.8	16,857.8	15,687.2	1.075	17.1 %	2.7 %		
2000	107,425	1,867.0	20,517.8	19,405.3	1.057	5.7 %	3.4 %		
2001	112,142	2,048.6	21,979.7	21,283.6	1.033	3.3 %	1.6 %		
2002	116,289	2,226.6	23,142.4	23,202.9	0.997	0.0 %	2.4 %		
2003	121,582	2,364.7	25,071.9	24,724.0	1.014	1.4 %	1.9 %		
2004	126,211	2,500.3	26,920.0	26,232.2	1.026	2.6 %	3.3 %		
2005	131,674	2,691.4	28,575.3	28,359.7	1.008	0.8 %	3.4 %		
2006	137,117	2,843.6	31,180.5	30,273.9	1.030	3.0 %	2.6 %		
2007	142,906	3,075.3	35,050.1	32,877.5	1.066	6.6 %	4.1 %		
2008	144,034	3,399.3	35,804.7	34,909.6	0.975	(2.5)%	3.8 %		
25-Year Average						5.1 %	3.1 %		
10-Year Average						3.7 %	2.9 %		

Comparative Statement - Variable

Valuation Date	Number	Annual		Actuarial Reserve	Ratio	Change in	
		Number	Balance			Annuities	Annuities
1998	25,424	289.5	3,400.5	3,035.5	1.120	12.0 %	1.6 %
1999	26,257	345.8	4,432.9	3,659.1	1.212	21.0 %	2.7 %
2000	27,321	445.3	4,211.4	4,749.3	0.887	(11.0)%	3.4 %
2001	28,314	424.4	3,901.8	4,547.4	0.858	(14.0)%	1.6 %
2002	28,662	374.0	2,899.3	3,999.1	0.726	(27.0)%	2.4 %
2003	29,496	273.3	3,635.9	2,892.2	1.257	25.0 %	1.9 %
2004	30,270	346.0	3,909.9	3,654.5	1.070	7.0 %	3.3 %
2005	31,499	376.5	4,092.7	3,970.7	1.031	3.0 %	3.4 %
2006	32,683	391.8	4,594.2	4,145.2	1.108	10.0 %	2.6 %
2007	33,880	432.6	4,625.0	4,563.7	1.013	0.0 %	4.1 %
2008	33,441	427.0	2,575.3	4,598.8	0.560	(44.0)%	3.8 %
25-Year Average						2.8 %	3.1 %
10-Year Average						(5.4)%	2.9 %

WRS Population Changes

- Current retirees - 146,585 (actual)
- Retirees in 2017 - 232,189 (estimate)
- Retirees in 2027 - 292,659 (estimate)
- Retirees in 2035 - 303,483 (estimate)

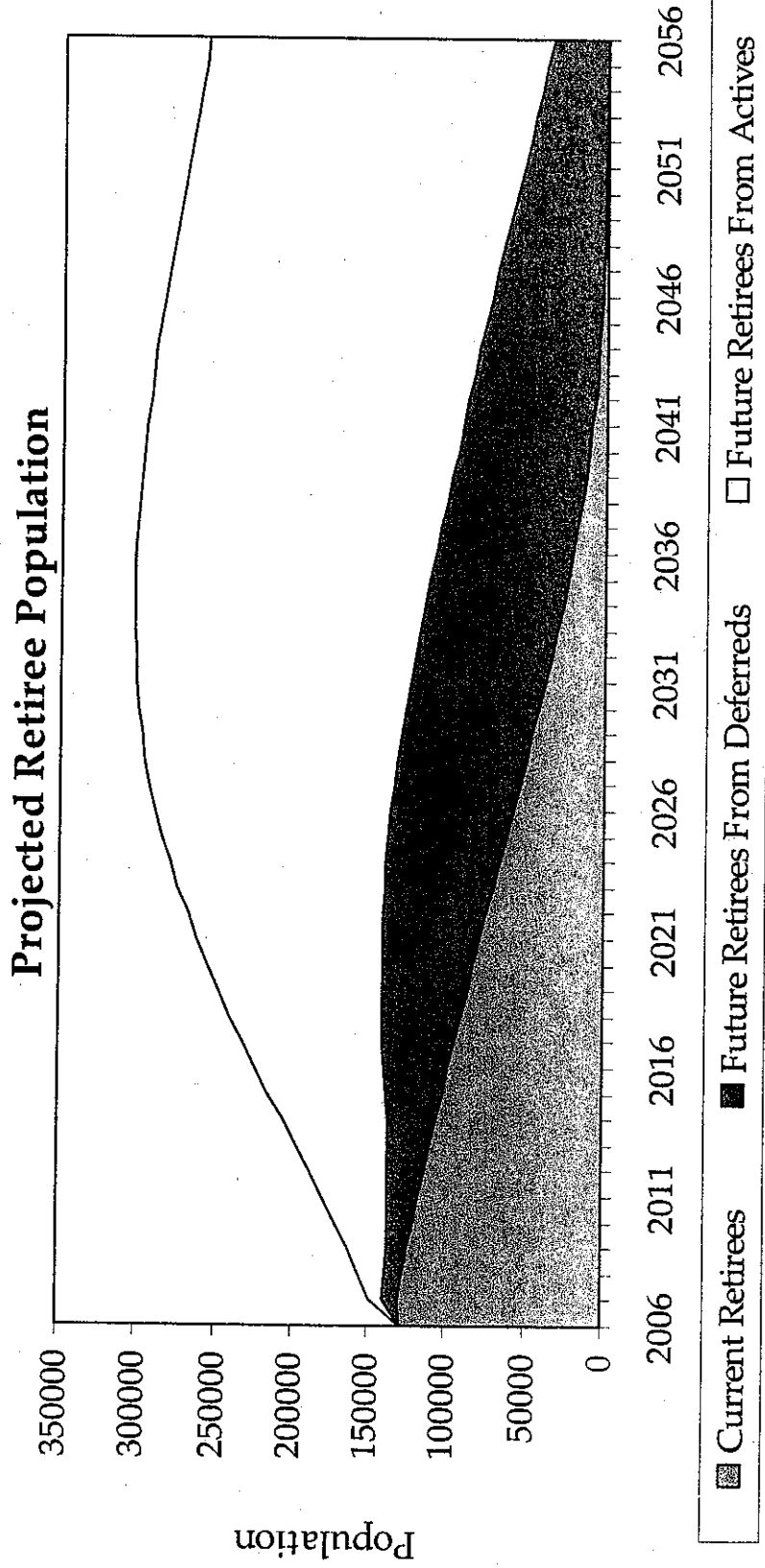
Variable Fund Issues

- SWIB analyzed the Variable Fund structure and concluded asset allocation changes were needed, the review also revealed structural questions about the fundamental design of the Variable Fund.
- SWIB recommended that the ETF Board review the appropriateness of the Variable Fund for the WRS.
- After considerable deliberation the ETF Board passed a motion to recommend to the State Legislature the closure and phase-out of the Variable Fund on the grounds that it was inappropriate for the design of the WRS.

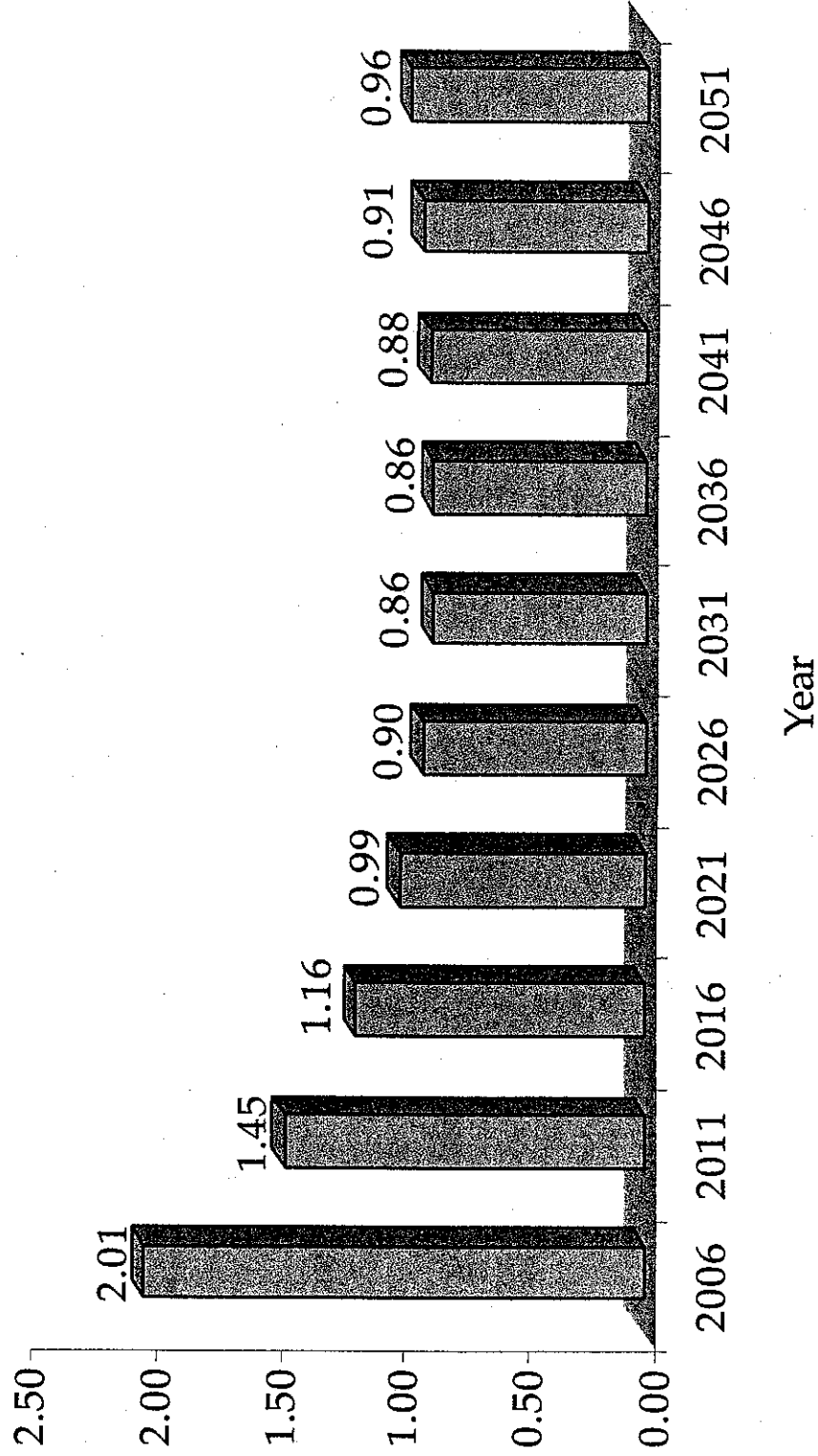
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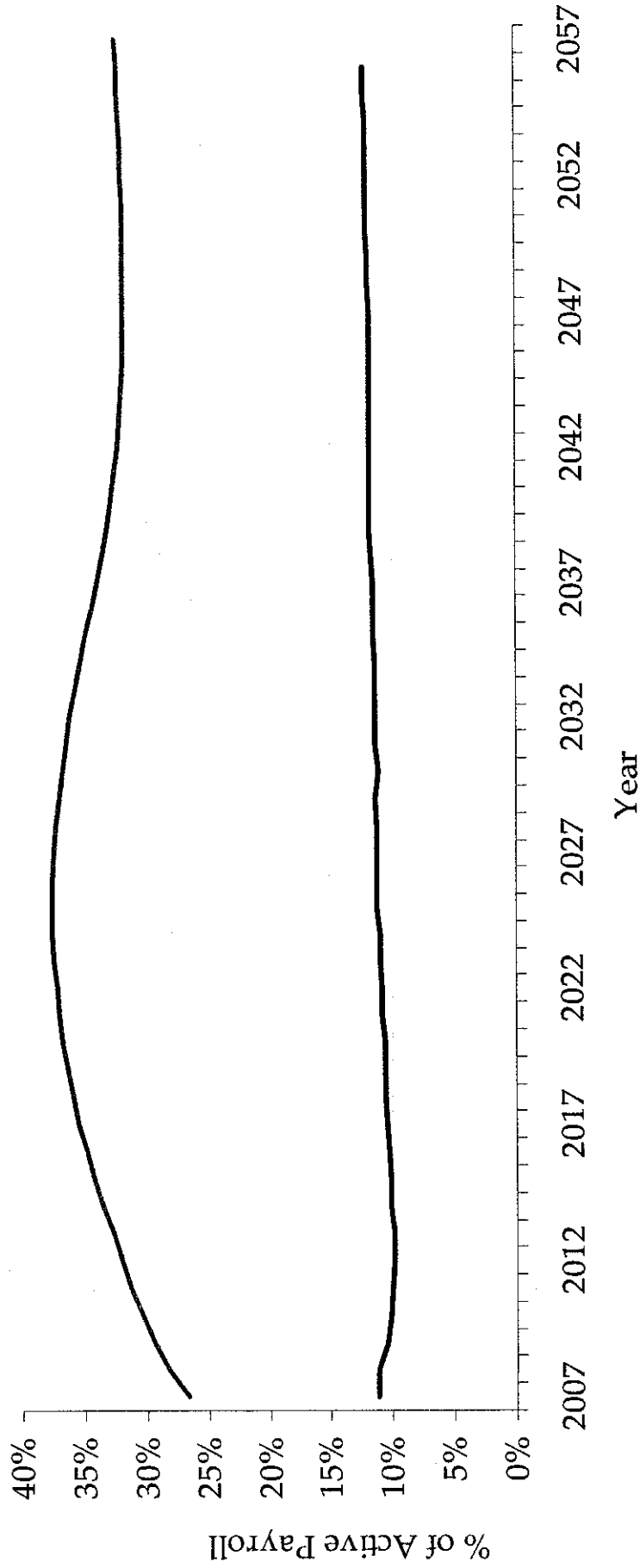
Retiree Population Present and Future



Ratio of Active Members to Retirees



Projected Contributions and Benefits as a % of Active Payroll



— Benefit % — Contribution Rates

How the WRS Compares to Other Public Retirement Systems

- In asset size the WRS is the 9th largest public retirement system in the U.S. and the 24th largest public or private retirement system in the world.
- Compared to peer systems the WRS has more complexity and has far lower administrative costs than its peers.
- Benefit levels tend to be average to slightly below average compared to peer systems.

2008 Market Decline-Impact on Public Pension Plans Nationally

- Funding levels for plans with a fiscal year-end date of 12/31 are projected to decline, chiefly as a result of the decline in market values during the fourth quarter of calendar 2008. Due to actuarial smoothing, it will take time to fully measure the effect of the market decline on funding levels.
- This decline will increase contribution rates by approximately two to four percent for most public pension plans. Public pension fund contributions currently account for 2.6% percent of all state and local government spending (in Wisconsin it is less than 2%), and contributions as a percentage of employee payroll remain at or below historical levels.