STATE OF WISCONSIN

Legislative Audit Bureau

NONPARTISAN • INDEPENDENT • ACCURATE

Report 22-13
September 2022

Wisconsin Retirement System

Calendar Year 2021

Joint Legislative Audit Committee Members

Wisconsin Retirement System

Calendar Year 2021

STATE OF WISCONSIN
Legislative Audit Bureau
NONPARTISAN • INDEPENDENT • ACCURATE

Report 22-13
September 2022

Report 22-13
September 2022

Legislative Audit Bureau

The Legislative Audit Bureau supports the Legislature in its oversight of Wisconsin government and its promotion of efficient and effective state operations by providing nonpartisan, independent, accurate, and timely audits and evaluations of public finances and the management of public programs. Bureau reports typically contain reviews of financial transactions, analyses of agency performance or public policy issues, conclusions regarding the causes of problems found, and recommendations for improvement.

Reports are submitted to the Joint Legislative Audit Committee and made available to other committees of the Legislature and to the public. The Audit Committee may arrange public hearings on the issues identified in a report and may introduce legislation in response to the audit recommendations. However, the findings, conclusions, and recommendations in the report are those of the Legislative Audit Bureau.

The Bureau accepts confidential tips about fraud, waste, and mismanagement in any Wisconsin state agency or program through its hotline at 1-877-FRAUD-17.

For more information, visit *www.legis.wisconsin.gov/lab.*

Contact the Bureau at 22 East Mifflin Street, Suite 500, Madison, Wisconsin 53703; *AskLAB@legis.wisconsin.gov;* or (608) 266-2818.

Contents

Opinion Published Separately

The financial statements and our opinion on them are included in the Department of Employee Trust Funds' *Wisconsin Retirement System Financial Report.*

STATE OF WISCONSIN
Legislative Audit Bureau

Joe Chrisman
State Auditor

22 East Mifflin Street, Suite 500
Madison, Wisconsin 53703

Main: (608) 266-2818
Hotline: 1-877-FRAUD-17

www.legis.wisconsin.gov/lab
AskLAB@legis.wisconsin.gov

September 28, 2022

Senator Robert Cowles, Co-chairperson
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Cowles:

As required by s. 13.94 (1) (dd), Wis. Stats., and as requested by the Department of Employee Trust Funds (ETF), we have completed an audit of ETF's financial statements of the Wisconsin Retirement System (WRS), as of and for the year ended December 31, 2021. ETF's *Wisconsin Retirement System Financial Report*, which can be found on its website, includes the financial statements and our unmodified opinion on them. ETF chose to separately issue the WRS financial statements and plans to issue its *2021 Annual Comprehensive Financial Report*, which will also include the WRS financial statements, at a later date.

The WRS is the largest program administered by ETF. The WRS fiduciary net position, which represents resources available to pay pension benefits, increased from $125.0 billion as of December 31, 2020, to $141.8 billion as of December 31, 2021, or by 13.5 percent. This increase is primarily attributable to an increase in the fair value of investments as of December 31, 2021.

The fiduciary net position of the WRS primarily consists of three statutorily required reserves: the employer accumulation reserve, the employee accumulation reserve, and the annuity reserve. These reserves help to ensure the WRS is accumulating sufficient assets to meet future benefit obligations.

ETF calculated a net pension asset of $8.1 billion as of December 31, 2021. This was $1.9 billion more than the $6.2 billion net pension asset calculated as of December 31, 2020. Under accounting standards, each of the more than 1,500 employers participating in the WRS will be required to report its proportionate share of the net pension asset on its financial statements if prepared on the basis of generally accepted accounting principles (GAAP). To assist employers with this reporting, ETF prepared employer schedules. We audited and provided unmodified opinions on these schedules in report 22-14.

The Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, which is required by *Government Auditing Standards,* begins on page 23.

We appreciate the courtesy and cooperation extended to us by ETF staff during the audit. A response from the Secretary of ETF follows the Appendix.

Respectfully submitted,

Joe Chrisman
State Auditor

JC/ES/ss

Introduction

The WRS is a cost-sharing, multiple-employer, defined-benefit pension plan.

Created in January 1982, the WRS is a cost-sharing, multiple-employer, defined-benefit pension plan that provides post-retirement financial benefits to participating employees, as well as disability and death benefits to participants and their beneficiaries. Further, the WRS is an irrevocable trust and all funds remain in the trust and can only be used to fund pension benefits.

As of December 31, 2021, 663,323 individuals participated in the WRS, including:

- 258,647 (39.0 percent) active participants who were making contributions;
- 226,605 (34.2 percent) retired participants or their beneficiaries who were receiving WRS benefits; and
- 178,071 (26.8 percent) inactive participants, such as former employees, who were not yet receiving benefits and who were not required to make contributions.

The WRS is among the 10 largest public pension plans in the United States. As of December 31, 2021, the WRS had a fiduciary net position of $141.8 billion, which represents resources available to pay pension benefits. ETF is responsible for managing the operations of the WRS that interact with employers and participants, including those operations that involve collecting contributions from and paying retirement benefits to WRS participants. ETF also uses an actuary to perform actuarial calculations such as projecting future benefit payments and establishing contribution rates.

ETF and SWIB work together to manage the WRS.

The State of Wisconsin Investment Board (SWIB) is responsible for managing the WRS investments. ETF and SWIB work closely together to ensure the solvency and long-term future of the WRS.

WRS Participating Employers

Under s. 40.21, Wis. Stats., any Wisconsin public employer may participate in the WRS, but certain entities are required to participate, including state agencies and all counties except Milwaukee County, which maintains its own retirement system. In addition:

- second-, third-, and fourth-class cities must allow police officers and paid firefighters to participate if those employees were allowed to participate in Wisconsin's retirement system before March 31, 1978;
- villages with a population of 5,000 or more must allow police officers to participate, and villages with a population of 5,500 or more must also allow paid firefighters to participate, if those employees were allowed to participate in Wisconsin's retirement system before March 31, 1978; and
- school districts must allow employees in teaching positions to participate.

As of December 31, 2021, 1,555 employers were participating in the WRS.

As shown in Table 1, most of the 1,555 employers that participated in the WRS as of December 31, 2021, were local governments and school districts.

Table 1

Types of Employers Participating in the WRS
As of December 31, 2021

Type	Number
School Districts	421
Villages	291
Towns	287
Special Districts[1]	212
Cities	189
Counties	71
State Agencies, University of Wisconsin System, and Public Authorities	56
Wisconsin Technical College System Districts	16
Cooperative Educational Service Agencies	12
Total Employers	**1,555**

[1] Includes employers such as the Madison Metropolitan Sewerage District, the Oshkosh City Housing Authority, and the South Central Library System.

Under current law, any employee of a participating WRS employer is eligible to participate in the WRS if the expected duration of employment is one year or more and the employee is expected to be employed for at least two-thirds of what is considered full-time. Current statutes require five years of creditable service before such an employee is considered vested.

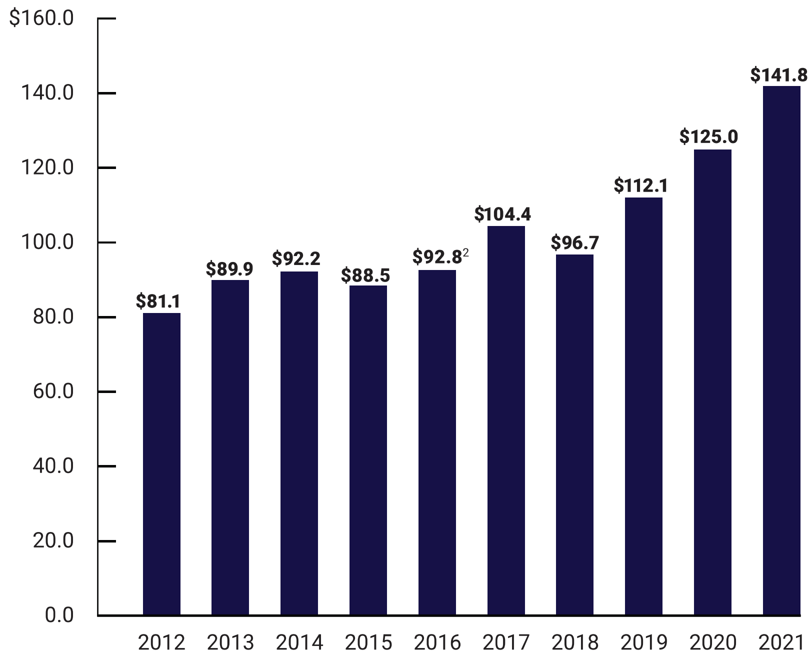
Financial Condition of the WRS

As of December 31, 2021, the fiduciary net position of the WRS was $141.8 billion.

The Net Position Restricted for Pensions (fiduciary net position) of the WRS represents the value of the plan's assets that are available to meet benefit obligations as they become due. As of December 31, 2021, the WRS had a fiduciary net position of $141.8 billion, which was a 13.5 percent increase from the prior year. This increase is primarily attributed to an increase in the fair value of investments as of December 31, 2021. From December 31, 2012, through December 31, 2021, the fiduciary net position of the WRS increased by $60.7 billion, or by 75.0 percent, as shown in Figure 1.

Figure 1

WRS Fiduciary Net Position[1]
As of December 31
(in billions)



[1] Shown as Net Position Restricted for Pensions on the financial statements.

[2] Due to changes in reporting during calendar year 2017, the fiduciary net position for calendar year 2016 was restated from $92.6 million to $92.8 million.

Accounting Changes

As noted, SWIB is responsible for managing the investments of the WRS. SWIB provides financial information in order for ETF to prepare the financial statements for the WRS. Beginning for 2021, SWIB changed how it accounts for certain external investment management fees charged by external managers. These fees are no longer included in investment expense, but are now included in the Net Increase (Decrease) in Fair Value of Investments. Based on information provided by SWIB to ETF, external management fees that were included in Net Increase (Decrease) in Fair Value of Investments for 2021 totaled $522.0 million.

Audit Results

As required by statutes, we have completed an audit of the financial statements and related notes of the WRS as of and for the year ended December 31, 2021. The WRS financial statements were prepared by ETF using generally accepted accounting principles (GAAP) prescribed by the Governmental Accounting Standards Board (GASB). To complete our audit of the financial statements of the WRS, we reviewed ETF's internal controls over financial reporting, tested financial transactions, and reviewed the financial statements, notes, and required supplementary information that were prepared by ETF management.

For 2021 reporting, ETF chose to separately issue the WRS financial statements and plans to issue its *2021 Annual Comprehensive Financial Report* (ACFR), which will also include the WRS financial statements, at a later date.

We provided an unmodified opinion on the financial statements of the WRS as of and for the year ended December 31, 2021.

In addition to providing an unmodified opinion on the financial statements and related notes of the WRS as of and for the year ended December 31, 2021, we have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, which is required by *Government Auditing Standards,* and begins on page 23.

■ ■ ■ ■

WRS Funding and Benefits

The WRS is funded through a combination of employer and employee contributions and investment income.

The WRS is funded through annual employer and employee contributions and investment income. The ETF Board has established a WRS funding policy with three primary goals:

- ensure funds are adequate to pay benefits;
- maintain stable and predictable contribution rates for employers and employees; and
- maintain intergenerational equity to ensure the cost of the benefits is paid for by the generation that receives the benefits.

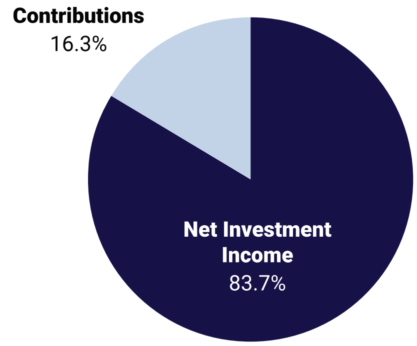
In 2021, net investment income for the WRS totaled $21.1 billion and contributions from WRS employers and employees totaled $2.3 billion.

Investment Income

From 2012 through 2021, net investment income represented 83.7 percent of total funding for the WRS. Employer and employee contributions represented 16.3 percent of total funding for the WRS, as shown in Figure 2.

Figure 2

WRS Funding Sources
2012 through 2021



Net investment income increased from $16.7 billion in 2020 to $21.1 billion in 2021.

Net investment income, which is the sum of realized and unrealized gains and losses less SWIB's investment expenses and amounts distributed to other benefit programs, increased by $4.4 billion, from a gain of $16.7 billion in 2020 to a gain of $21.1 billion in 2021. The increase in net investment income reflects the increase in investment returns of the Core Retirement Investment Trust Fund (Core Fund) and the Variable Retirement Investment Trust Fund (Variable Fund). The one-year investment return, net of all fees and costs, of the Core Fund increased from 15.2 percent in 2020 to 16.9 percent in 2021. The one-year investment return, net of all fees and costs, for the Variable Fund increased from 17.5 percent in 2020 to 20.0 percent in 2021.

The long-term expected rate-of-return assumption for the WRS is 6.8 percent.

As noted, WRS assets are invested by SWIB in the Core Fund and the Variable Fund. SWIB has a fiduciary responsibility to prudently invest the pension assets in a diversified manner to meet WRS funding needs while minimizing the risk of large losses. SWIB's investment strategy is to meet the long-term expected rate-of-return assumption. The ETF Board approves any changes to the long-term expected rate-of-return assumption, which is reviewed with the results of the triennial experience study, at least every three years. In December 2021, the ETF Board approved a decrease in the long-term expected rate-of-return assumption from 7.0 percent to 6.8 percent. As of December 31, 2021, SWIB's 20-year return for the Core Fund, net of external manager fees, was 7.9 percent. As noted in report 22-12, SWIB reported that one-year, five-year, and ten-year investments returns for the Core Fund, as of December 31, 2021, also exceeded the long-term expected rate-of-return assumption.

Contribution Rates

Contribution rates, which include both an employer and an employee share, are actuarially determined as a percentage of an employee's earnings and are approved annually by the ETF Board. Contributions to the WRS from employers and employees increased by $66.0 million, or 3.0 percent, to $2.3 billion in 2021. As shown in Table 2, total contribution rates for general employees, which include teachers and most other employees, have decreased from 14.0 percent of wages in 2014 to 13.6 percent in 2023.

Table 2

Total Contribution Rates for General Employees in the WRS

Calendar Year	Total Contribution Rate[1]
2014	14.0
2015	13.6
2016	13.2
2017	13.6
2018	13.4
2019	13.1
2020	13.5
2021	13.5
2022	13.0
2023	13.6

[1] Includes both the employer share and the employee share of contributions and benefit adjustment contributions, but does not include prior-service cost rates for specific employers.

Contribution rates are set to fund the benefits earned by employees during the year.

The basic objective of the WRS is to invest contributions paid by employers and employees so that the investment income and the contributions will be sufficient to pay projected future pension benefits. Contribution rates are set to fund the benefits earned by employees during the year. In setting these rates, one of the most significant factors considered is investment performance.

In order to maintain steady contribution rates and comply with s. 40.04 (3) (am), Wis. Stats., the consulting actuary for the WRS uses the market recognition account (MRA) to smooth investment income or loss for the Core Fund investment activity over a five-year period. The MRA accumulates the difference between actual investment income or loss and expected investment income calculated at the long-term expected rate-of-return assumption in place during the calendar year. During calendar year 2021, the long-term expected rate-of-return assumption was 7.0 percent. The difference is then distributed into the calculated plan net assets over a five-year period so that the expected investment income is affected by portions of the amounts included in the MRA in the prior four years. Use of the MRA results in less volatility in net assets and, thus, less volatility in the calculation of the contribution rates for employers and employees.

Use of the MRA affects the amount of investment income or loss recognized by the actuary when determining contribution rates.

Investment income or loss used for purposes of determining contribution rates differs from the investment income or loss recognized on the financial statements due to the use of the MRA. For example, the total investment income of the Core Fund for 2021 for financial reporting was $20.0 billion based upon the fair value of the investments. Through the use of the MRA, the actuary recognized investment income of $13.4 billion, which was the amount used in determining the actuarial value of the WRS assets as of December 31, 2021, and determining contribution rates for 2023.

WRS Benefits

Annuity payments are determined either by a formula based on the participant's service or the value of contributions and investment income.

The WRS is a defined-benefit plan that provides participants with lifelong monthly retirement annuity payments and, depending upon the annuity type selected, may also provide benefits to a beneficiary after the participant's death. Annuity payments are initially determined by either:

- a formula, which is based on the participant's years of service and final average monthly earnings; or
- a money purchase benefit, which is based on the participant's contributions, an employer's matching contributions, and investment income.

The method that yields the largest annuity payment is used to calculate a participant's initial annuity. A defined-benefit plan is in contrast to a defined-contribution plan, such as a 401(k) plan, in which benefits are based on the amounts contributed to a participant's account and investment gains or losses on those funds.

The average annual annuity payment increased from $26,369 in 2020 to $27,810 in 2021, or by 5.5 percent.

WRS benefits provided to retired participants or their beneficiaries as annuity payments increased from $5.9 billion in 2020 to $6.4 billion in 2021, or by 7.0 percent. The number of retired participants increased from 221,019 as of December 31, 2020, to 226,605 as of December 31, 2021, or by 2.5 percent. The average annual annuity payment increased from $26,369 in 2020 to $27,810 in 2021, or by 5.5 percent.

WRS Reserves and Accounts

The fiduciary net position of the WRS primarily consists of three statutorily required reserves: the employer accumulation reserve (employer reserve), the employee accumulation reserve (the employee reserve), and the annuity reserve. The employer reserve consists of all employer-required contributions, amounts to amortize the employer's share of the unfunded accrued liabilities, and investment earnings. Unlike the employee reserve, the employer reserve is pooled into one account. Contribution rates are set to fund the benefits earned by employees during the year based, in part, on the balances of the employee and the employer reserves.

The employee reserve consists of employee-required contributions, contributions paid by the employer on behalf of the employee, any voluntary additional contributions, and investment earnings. A separate account is maintained in this reserve for each WRS participant. If a participant leaves service with a WRS employer before being eligible to receive a retirement annuity, the participant can receive the balance of the contributions and earnings included in the account.

The annuity reserve was $75.5 billion as of December 31, 2021, and represented the largest share of the WRS fiduciary net position.

The annuity reserve consists of the amounts transferred from the employer and employee accumulation reserves, as well as investment earnings, and are used to provide annuity payments to retired participants. Annually, the actuary determines the amount to transfer to the annuity reserve based upon the participants and their beneficiaries that began to receive annuities in the past year. The total amount transferred into the annuity reserve will increase and decrease each year depending upon the number of participants that began receiving annuities during the year. The annuity reserve is separated into amounts for Core Fund and Variable Fund annuities. All retired participants receive a Core Fund annuity payment. However, those retired participants who had elected participation in the Variable Fund and who do not elect to terminate their Variable Fund participation also receive a separate Variable Fund annuity. As shown in Table 3, the $75.5 billion annuity reserve represented the largest share (53.2 percent) of the WRS fiduciary net position as of December 31, 2021.

Table 3

WRS Reserve and Account Balances
As of December 31, 2021
(in millions)

Reserve/Account	Balance	Percentage of Total
Annuity Reserve	$ 75,530.3	53.2%
Employer Accumulation Reserve	26,405.4	18.6
Employee Accumulation Reserve	22,737.4	16.0
Market Recognition Account[1]	17,038.8	12.0
Other[2]	135.8	<1.0
Total WRS Fiduciary Net Position	**$141,847.7**	

[1] The balance in this account will fluctuate based on investment performance. A positive balance represents investment gains that will be allocated in future years.

[2] Includes accounts that hold undistributed amounts for investments that have not yet been allocated and other administrative accounts.

The annuity reserve includes the dividend reserve, which are assets that are accumulated to fund the liability for the dividend adjustments that have been provided to participants in prior years. The dividend reserve increases when there are positive dividend adjustments and decreases when there are negative dividend adjustments. A dividend reserve of zero would reflect that all retired participants are receiving their original annuity amount. Since 2012, and at least annually thereafter, the WRS actuary has provided information on this component of the overall annuity reserve. The WRS funding policy indicates that the ETF Board and ETF will review dividend reserve levels and consult with the WRS actuary during its annual retired lives valuation discussion and as part of biennial stress testing.

■ ■ ■ ■

Pension Accounting Standards

Accounting standards for public pension plans establish accounting and financial reporting requirements for measuring the pension liability, as well as requirements for both the notes and required supplementary information to the WRS financial statements, and the GAAP-based financial statements of the employers that participate in the plan. The accounting standards require ETF to calculate the total pension liability and the net pension liability or asset for the WRS. Each of the participating employers in the WRS reports its proportionate share of this net pension liability or asset in its own financial statements if prepared under GAAP.

Calculating the Total Pension Liability

The total pension liability is the sum of the amounts needed to pay for the pension benefits earned by each participant.

The total pension liability for the WRS is the sum of the amounts needed to pay for the pension benefits earned by each participant based on service provided as of the date the actuarial valuation is performed. A total pension liability exists because the employers participating in the WRS have committed to provide benefits to their employees in the future when those employees retire. That commitment is part of employee compensation and constitutes a liability.

The calculation of the total pension liability is complex and includes various actuarial assumptions and calculations, such as:

- a projection of future benefit payments for current and former participants and their beneficiaries based upon the current terms of the WRS;

- a discount of those payments to their present value, or the amount of funds currently needed to provide the projected payments in the future; and
- an allocation of the present value of benefit payments over past, present, and future periods of employee service.

The total pension liability for the WRS was $133.8 billion as of December 31, 2021.

To determine the total pension liability for the WRS as of December 31, 2021, ETF's actuary performed an actuarial valuation as of December 31, 2020, and adjusted for changes in assumptions, interest earned, contributions paid, benefits paid, and dividend adjustments during 2021. The total pension liability for the WRS was $133.8 billion as of December 31, 2021.

The discount rate can have a significant effect on the amount of the total pension liability.

The discount rate is a critical factor in calculating a pension plan liability, and it can have a significant effect on the amount of the total pension liability. The discount rate, or interest rate, is used to calculate the present value of projected benefit payments and is specifically defined under the accounting standards. ETF used the long-term expected rate-of-return assumption as of December 31, 2021, for the WRS, which is 6.8 percent, as the discount rate because current and projected future plan assets are expected to cover the projected benefit payments for the WRS. Increasing or decreasing the discount rate can have a significant effect on the total pension liability. For instance, a one percentage point decrease in the discount rate (5.8 percent) would increase the total pension liability to $147.6 billion.

Calculating a Net Pension Liability or Asset

To determine the net pension liability or asset, accounting standards require the total pension liability to be subtracted from the pension plan's fiduciary net position. When the total pension liability is greater than the fiduciary net position, the pension plan will disclose a net pension liability in its notes. When the fiduciary net position is greater than the total pension liability, the pension plan will disclose a net pension asset in its notes.

ETF reported a net pension asset of $8.1 billion for the WRS as of December 31, 2021.

As of December 31, 2021, the WRS had a fiduciary net position of $141.8 billion and a total pension liability of $133.8 billion, which resulted in a net pension asset of $8.1 billion. A net pension asset indicates that, as of December 31, 2021, the assets of the WRS were sufficient to cover the projected liability for benefit payments to employees under the financial reporting standards. This represents an improvement from the net pension asset of $6.2 billion, reported as of December 31, 2020. An increase in the value of the investments of the Core Fund and the Variable Fund from December 31, 2020, to December 31, 2021, was the primary cause of a $16.9 billion increase in the fiduciary net position and resulted in the reporting of a net pension asset as of December 31, 2021. In report 22-12, we reported on the investment activity of the Core Fund and Variable Fund.

As shown in Table 4, the WRS has reported a net pension asset in four of the past five years. The fluctuation between a net pension liability and a net pension asset is largely associated with the change in fair value of the investments as of the end of each calendar year. Under the accounting standards, pension plan assets are valued at fair value as of the reporting period end date, which is December 31 for the WRS. The use of the fair value of the plan assets in the calculation will cause a large degree of volatility in the reported net pension liability or asset, depending upon investment performance and fluctuations in the investment market.

Table 4

WRS Net Pension Asset (Liability)
As of December 31
(in billions)

	2017	2018	2019	2020	2021
Fiduciary Net Position	$104.4	$ 96.7	$112.1	$125.0	$141.8
Total Pension Liability	(101.4)	(100.3)	(108.9)	(118.7)	(133.8)
Net Pension Asset (Liability)	**$ 3.0**	**$ (3.6)**	**$ 3.2**	**$ 6.2**	**$ 8.1**

Employer Reporting

Employers participating in the WRS have made a commitment to provide pension benefits and have an obligation to make contributions to fund those benefits.

As noted, the WRS is a cost-sharing, multiple-employer, defined-benefit pension plan with 1,555 participating employers. In this type of pension plan, the contributions are combined and the benefits are paid out of a common pool of assets. By participating in the WRS, employers have made a commitment to provide pension benefits to employees, and they are obligated to make contributions into the future to ensure that sufficient resources are available to make the benefit payments. Therefore, because the employers participating in the WRS have ultimate responsibility for the resulting pension obligations, each participating employer is required to report its proportionate share of the net pension liability or asset in its GAAP-based financial statements.

Each employer participating in the WRS must report its proportionate share of the net pension asset in its GAAP-based financial statements.

To assist employers participating in the WRS in determining the employer's proportionate share of these amounts, ETF has prepared a Schedule of Employer Allocations and a Schedule of Collective Pension Amounts as of and for the year ended December 31, 2021. We audited these schedules and provided unmodified opinions on them in report 22-14. Because the WRS has calculated a net pension asset for the year ended December 31, 2021, each employer participating in the WRS must report its proportionate share of the net pension asset in its GAAP-based financial statements.

The proportionate share of the net pension asset for State of Wisconsin agencies as of December 31, 2021, was $2.3 billion, of which $1.1 billion related to the University of Wisconsin System. The net pension asset for the state agencies will be included in the State's GAAP-based financial statements, which will be published in the State of Wisconsin's ACFR as of and for the year ended June 30, 2022.

Comparison to Other Pension Plans

Differences in the structure of pension plans and timing of pension plan reporting will affect the comparability across pension plans.

Comparability of the pension liability across public pension plans has increased with the use of accounting standards for pension plans that prescribe how the liability is calculated. However, because pension plans have different plan structures, planned asset allocations, and investment strategies, the comparability of pension plans is affected. In addition, because pension plans have varying fiscal-year ends, changes in the condition of investment markets at different points in time during a year will also affect comparability.

We collected information from other cost-sharing, multiple-employer, defined-benefit plans that were part of the WRS peer group defined by a study performed by a private firm in 2020. At 106.0 percent, the WRS had the highest-funded ratio in comparison to these plans, as shown in Table 5.

Table 5

Comparison of Selected Pension Plans Based on Financial Reporting Methodology [1, 2]
(in billions)

Pension Plan	Total Pension Liability	Fiduciary Net Position	Net Pension Asset	Net Pension Liability	Funded Ratio
Wisconsin Retirement System[3]	$133.8	$141.8	$8.1	n/a	106.0%
Iowa Public Employees Retirement System	42.5	42.9	0.4	n/a	100.8
Illinois Municipal Retirement Fund[3]	0.1	0.1	0.0	n/a	100.0
New York State and Local Employees’ Retirement System[4]	261.9	260.1	n/a	1.8	99.3
Ohio Public Employees Retirement System[3]	118.5	110.2	n/a	8.3	93.0
Indiana Public Retirement System—Public Employees Retirement Fund	17.6	16.2	n/a	1.3	92.5
Washington State Department of Retirement Systems	10.8	9.6	n/a	1.2	88.7
State Teachers’ Retirement System of Ohio	104.6	91.8	n/a	12.8	87.8
Oregon Public Employees Retirement System	96.3	84.3	n/a	12.0	87.6
California State Teachers’ Retirement System	355.8	310.3	n/a	45.5	87.2

[1] Based on information from other cost-sharing, multiple-employer, defined-benefit pension plans that were part of the WRS peer group as defined by a study performed by a private firm in 2020.

[2] Unless otherwise noted, for the plan year ended June 30, 2021.

[3] For the plan year ended December 31, 2021.

[4] For the plan year ended March 31, 2021.

■ ■ ■ ■

Auditor's Report

STATE OF WISCONSIN
Legislative Audit Bureau

Joe Chrisman
State Auditor

22 East Mifflin Street, Suite 500
Madison, Wisconsin 53703

Main: (608) 266-2818
Hotline: 1-877-FRAUD-17

www.legis.wisconsin.gov/lab
AskLAB@legis.wisconsin.gov

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

Senator Robert Cowles, Co-chairperson
Joint Legislative Audit Committee

Members of the Employee Trust Funds Board and
Mr. A. John Voelker, Secretary
Department of Employee Trust Funds

We have audited the financial statements and the related notes of the Wisconsin Retirement System, administered by the State of Wisconsin Department of Employee Trust Funds (ETF), as of and for the year ended December 31, 2021. We have issued our report thereon dated September 26, 2022. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* which is issued by the Comptroller General of the United States. The financial statements and related auditor's opinion have been included in ETF's *Wisconsin Retirement System Financial Report*.

Internal Control over Financial Reporting

Management of ETF is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered ETF's internal control as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ETF's internal control. Accordingly, we do not express an opinion on the effectiveness of ETF's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent misstatements, or to detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of ETF's financial statements will not be prevented, or that a material misstatement will not be detected and corrected on a timely basis. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Wisconsin Retirement System are free from material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be used when considering ETF's internal control and compliance. The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of ETF's internal control or on compliance. Accordingly, this report is not suitable for any other purpose.

LEGISLATIVE AUDIT BUREAU

Legislative Audit Bureau

September 26, 2022

Appendix

Appendix

Employee Trust Funds Board Membership

2022

Name	Affiliation	Board Member Since
William Ford, Chair	Elected by retired Wisconsin Retirement System (WRS) participants, and is a WRS annuitant	2011
John David, Vice Chair	Appointed by the Wisconsin Retirement Board	2008
Steven Wilding, Secretary	Appointed by the Wisconsin Retirement Board	2019
Stephen Arnold	Appointee of the Governor, with advice and consent of Senate, representing the public	2019
Jennifer Flogel	Administrator, Division of Personnel Management, Department of Administration	2022
Chris Heller	Appointed by Teachers Retirement Board	2019
Wayne Koessl	Appointed by the Wisconsin Retirement Board	1996
Katy Lounsbury	Designee of the Governor	2020
Amy Mizialko	Appointed by the Teachers Retirement Board	2021
Leilani Paul	Elected by participating employees of either technical college or school district educational support personnel, and is an active WRS participant	2015
Roberta Rasmus	Appointed by the Teachers Retirement Board	2012
David Schalow	Appointed by Teachers Retirement Board	2021
Vacant	Appointed by the Wisconsin Retirement Board	

Response

STATE OF WISCONSIN
Department of Employee Trust Funds
A. John Voelker
SECRETARY

Wisconsin Department
of Employee Trust Funds
PO Box 7931
Madison WI 53707-7931
1-877-533-5020 (toll free)
Fax 608-267-4549
etf.wi.gov

September 26, 2022

JOE CHRISMAN, STATE AUDITOR
LEGISLATIVE AUDIT BUREAU
22 E MIFFLIN ST SUITE 500
MADISON WI 53703

Dear Mr. Chrisman,

Thank you for the opportunity to review and comment on the audit of the Wisconsin Retirement System (WRS) for the year ended December 31, 2021. The WRS continues to be in a strong financial position and is a model governmental defined benefit plan. The continued due diligence of the governing boards and staff administering the program, oversight by policymakers, and sound funding principles are fundamental to the WRS' ability to pay promised benefits to members or their beneficiaries. We are pleased the audit did not identify deficiencies in internal control or any findings, which demonstrates the success of additional controls staff have implemented over the past few years. The strong financial position of the WRS is demonstrated by a funding ratio of 106%, calculated using the methodology prescribed by the Governmental Accounting Standards Board, and comparison to other pension plans. As noted in the audit report, the WRS had the highest-funded ratio in comparison to selected peers whose funding ratios ranged from 87.2% to 100.8%.

We appreciate the efforts of your staff in conducting the financial audit of the WRS.

Sincerely,

A. John Voelker
Secretary