

**STATE OF WISCONSIN  
DEPARTMENT OF EMPLOYEE TRUST FUNDS – OFFICE OF THE SECRETARY  
and  
EMPLOYEE TRUST FUNDS BOARD, TEACHERS RETIREMENT BOARD, and  
WISCONSIN RETIREMENT BOARD**

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**FINAL DRAFT REPORT ON CLEARINGHOUSE RULE #02-049**

A RULE      Amending ss. ETF 20.25 (1) (a) and (2), Wisconsin Administrative Code, relating to the annuity dividend effective date and the proration of annuity dividends.

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### **Agency Person to be Contacted for Questions**

For information about this rule, please contact: Linda Owen, Policy Analyst, Department of Employee Trust Funds, P.O. Box 7931, Madison, WI 53707-7931. Telephone: (608) 261-8164. FAX: (608) 267-0633.

### **Statement Explaining Need for Rule**

The Department of Employee Trust Funds is required by Wis. Stats. § 227.10 (1) to promulgate as a rule each interpretation of a statute which it specifically adopts to govern its enforcement or administration of that statute. The proposed rule changes would result in the investment returns for the funds in the annuity reserve to be distributed more quickly and equitably to Wisconsin Retirement System annuitants.

### **Analysis Prepared by the Wisconsin Department of Employee Trust Funds**

*Authority for Rule:* Wis. Stats. § 40.03 (1) (m), (2) (i), (7) (d) and (8) (d)

*Statutes Interpreted:* Wis. Stats. §§ 40.27 (2) (b) and 40.28 (2).

Current administrative rule under s. ETF 20.25 specifies that the Wisconsin Retirement System (WRS) fixed annuity dividends and variable annuity adjustments based on surpluses and/or deficiencies in the annuity reserve shall be effective on April 1 of each year. The proposed rulemaking would change the effective date of these annuity changes to March 1 of each year. The April 1 effective date for annuitant dividends was established as a date that was administratively feasible at that time. However, due to improved automation of both calculating and distributing the fixed and variable dividends, it is now administratively feasible to make the annuitant dividend adjustments a month earlier.

The proposed rulemaking also would change how dividends are prorated by reducing the minimum percentage by which a prorated annuity can be paid. Under current law, annuitants that retire in 2001 will receive a prorated dividend based upon the number of full months they were retired in 2001. If their dividend based upon the investment results would be less than 1%, no dividend is granted. The rule change would permit a dividend as low as .1% to be paid. Automation has provided the mechanism to calculate and distribute dividends in smaller increments.

## **Fiscal Estimate**

The Department estimates that there will be no direct fiscal impact from this proposed rule upon the state and anticipates no effect upon the fiscal liabilities or revenues of any county, city, village, town, school district, technical college or sewerage district.

## **Final Regulatory Flexibility Analysis**

The Department anticipates that the provisions of this proposed rule will have no direct adverse effect on small businesses.

(BEGINNING OF RULE TEXT)

SECTION 1. ETF 20.25 (1) (a) is amended to read:

**ETF 20.25 (1) (a)** Except as otherwise provided in par. (b), a fixed annuity dividend, as recommended by the actuary and approved by the chair of the employee trust funds board and the department's secretary, shall be distributed based on each December 31 valuation as specified in s. 40.27 (2), Stats. The dividend shall be effective on the ~~April~~ March 1 following the valuation date and shall apply to fixed annuities effective on or prior to the date of the valuation. As authorized under s. 40.27 (2) (b), Stats., different percentages shall be determined for annuities effective for less than a full year on the valuation date. The percentages shall be determined by multiplying the number of full months the annuity was in force times the percentage change applicable to annuities effective for the full year, dividing the result by 12 and rounding the answer to the nearest tenth of a percent. No increase shall be applied to any annuity for which the resulting increase would be less than ~~one~~ one-tenth of a percent.

SECTION 2. ETF 20.25 (2) is amended to read:

**ETF 20.25 (2)** Variable annuity changes, as recommended by the actuary and approved by the secretary, shall be made based on each December 31 valuation as specified in s. 40.28 (2), Stats. The changes shall be effective on the ~~April~~ March 1 following the valuation and shall apply to variable annuities effective on or prior to the date of the valuation, regardless of whether the annuity becomes a fixed annuity in the following year.

(END OF RULE TEXT)

### **Effective Date**

This rule shall take effect on the first day of the month following publication in the Wisconsin Administrative Register as provided in Wis. Stat. § 227.22 (2).

### **Explanation of Modifications as Result of Testimony at Public Hearing**

No testimony was offered at the public hearing. The only modifications made to the proposed rule were in response to the recommendation of the Legislative Council Staff on the form, style and placement in Administrative Code of the citation of statutes interpreted by the rule.

### **List of Persons Appearing or Registering For or Against the Rule**

No persons appeared or registered either for or against the rule at the public hearing on May, 16, 2002. The record was held open for written comments until May 17, 2002, but no comments were received.

### **Legislative Council Staff Clearinghouse Report on CR #02-049**

See page 5 – 7 for complete report.







**Response to Legislative Council Staff Recommendations**

The Legislative Council Staff recommendation concerning form, style and placement in Administrative Code was adopted. The statutes interpreted by the rule were cited separately in the final rule.

**Board Authorization for Promulgation**

This final draft report on Clearinghouse Rule #02-049 has been duly approved for submission to the Legislature and for promulgation by the Employee Trust Funds Board at its meeting on June 21, 2002, by both the Teachers Retirement and Wisconsin Retirement Boards at their respective meetings on June 20, 2002.

Respectfully submitted,

DEPARTMENT OF EMPLOYEE TRUST FUNDS

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Eric O. Stanchfield, Secretary  
Wisconsin Department of Employee Trust Funds