

THIS ITEM IS AN ACTION
ITEM FOR THE TR, WR AND
ETF MEETINGS.

Board	Mtg Date	Item #
JI	3/13/03	3
TR	3/13/03	4
WR	3/13/03	3
ETF	3/13/03	4

**STATE OF WISCONSIN
DEPARTMENT OF EMPLOYEE TRUST FUNDS
801 West Badger Road
Madison, WI 53702**

CORRESPONDENCE MEMORANDUM

DATE: February 25, 2003

TO: Employee Trust Funds Board
Teachers Retirement Board
Wisconsin Retirement Board

FROM: Linda Owen

SUBJECT: Proposed Rule Amendment Regarding Annuitant Dividends

The Department requests the Boards' approval of the scope statement for amending the rule governing annuitant dividends. In 2002 the rule was amended to change the annuitant dividend distribution date from April 1 (reflected on the May 1 annuity payments) to March 1 (reflected on the April 1 payments). Annuitant groups had long requested that the dividends be distributed as early as possible in the year, and the purpose of the amendment was to get annual dividend increases into the annuitants' hands one month sooner.

The amended rule became effective on October 1, 2002, and this year the dividend would have been distributed one month earlier for the first time. However, the timing of the rule change turned out to be unfortunate. Due to the cumulative effect of three consecutive years of losses in the fixed fund, there will be no fixed annuity increase this year. There will also be a substantial decrease in variable annuities (-27%), with no fixed annuity increase to even partially offset the variable annuity decrease.

Under the revised administrative rule, variable annuitants would have received the decrease in their payments one month earlier than in the past. Due to the near-term harm that these annuitants would have suffered because of the rule change, on February 24, 2003, the Employee Trust Funds Board, Teachers Retirement Board and Wisconsin Retirement Board each approved an emergency rule that would change the date on which this year's annuitant dividends are distributed from March 1 back to April 1. This means that the decrease will not go into effect until the May 1 payment. However, the emergency rule can only remain in effect for 150 days, and it does not change the permanent rule. Unless the permanent rule is amended, in 2004 the dividend distribution date will revert to the April 1 payment, as specified in the current permanent rule.

The Department plans to evaluate several alternatives and make a recommendation to the Boards on the permanent rule, with respect to whether the rule requiring the dividend to become effective on the April 1 payment should be permanent, adjusted back to May 1 as had previously been the case, or effective at a future date when certain conditions are met (i.e. both fixed and variable dividends are at 0% or higher). It can take nearly a year to amend a permanent rule. Therefore, to assure that any necessary amendments to the current permanent rule can be made in time for the 2004 annuitant dividends, it is prudent to begin the rule promulgation process immediately, beginning with this scope statement.

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