



## 1995 ASSEMBLY BILL 627

October 18, 1995 - Introduced by Representative KLUSMAN, cosponsored by Senator PETAK, by request of Governor Tommy G. Thompson. Referred to Joint survey committee on Retirement Systems.

1     **AN ACT to repeal** 40.04 (3) (e) and 40.27 (1) and (1m); **to amend** 20.515 (1) (a),  
2           40.05 (2n) (a) 1., 40.05 (2n) (a) 2., 40.19 (4) (f), 40.23 (2m) (e) 1., 40.23 (2m) (e)  
3           2., 40.23 (2m) (e) 3. and 40.23 (2m) (e) 4.; and **to create** 40.05 (2n) (a) 4. of the  
4           statutes; **relating to:** transferring funds in the fixed retirement investment  
5           trust of the Wisconsin retirement system and increasing the formula multiplier  
6           for the amount of an annuity under the Wisconsin retirement system.

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### *Analysis by the Legislative Reference Bureau*

This bill does all of the following:

1. Under current law, when a participant in the Wisconsin retirement system (WRS) terminates covered employment and becomes eligible for a retirement annuity, the amount of his or her annuity is generally determined by multiplying the participant's final average earnings by the participant's years of creditable service and by a percentage multiplier. For a protective occupation participant who is covered by social security, an elected official and an executive participating employe, the percentage multiplier is 2%. For a protective occupation participant who is not covered by social security, the percentage multiplier is 2.5%. For all other participants in the WRS, the percentage multiplier is 1.6%.

This bill increases the percentage multiplier for all classes of participants in the WRS. For a protective occupation participant who is covered by social security, an elected official and an executive participating employe, the percentage multiplier is increased to 2.1%. For a protective occupation participant who is not covered by social security, the percentage multiplier is increased to 2.6%. For all other participants in the WRS, the percentage multiplier is increased to 1.7%. The increase in the percentage multiplier first applies to participating employes in the WRS who terminate covered employment on January 1, 1996, or the effective date of the bill, whichever is later.

2. On July 20, 1995, the Wisconsin state court of appeals, in *Wisconsin Retired Teachers Assoc., et al v. Employee Trust Funds Board* (No. 94-0712), ruled unconstitutional those parts of 1987 Wisconsin Act 27 that created a special investment performance dividend (SIPD) to be distributed to WRS annuitants who had retired before 1974 and who were receiving WRS annuity supplements funded from general purpose revenues. The 1987 act provided for a transfer of funds from the transaction amortization account of the fixed retirement investment trust to the fixed annuity reserve and directed that this transfer of funds be used to fund and increase the annuity supplements received by the pre-1974 annuitants. The act also repealed the program that required the funding of the annuity supplements for the pre-1974 annuitants entirely from general purpose revenues. In finding unconstitutional the use of the funds transferred from the transaction amortization account to the fixed annuity reserve solely for the benefit of the pre-1974 annuitants, the court of appeals ordered the state to pay from the state treasury to the fixed annuity reserve account the portion of the SIPD that was distributed to the pre-1974 annuitants, plus interest, and enjoined the repeal of the supplemental annuity benefits program for pre-1974 annuitants that was funded from general purpose revenues.

This bill repeals the supplemental annuity benefits program for pre-1974 annuitants that was funded from general purpose revenues. As a result, there is no additional annuity supplement for pre-1974 WRS annuitants.

3. The bill provides that on December 1, 1995, \$2,800,000,000 is distributed from the transaction amortization account of the fixed retirement investment trust to the appropriate reserves of the fixed retirement investment trust in an amount equal to a percentage of the total distribution determined by dividing each reserve's balance on the prior January 1 by the total balance of the fixed retirement investment trust on the prior January 1.

In addition, the bill requires the employe trust funds board to determine each participating employer's share of the increase in the employer accumulation reserve that results from the distribution and to establish for each employer a credit balance in the employer accumulation reserve that equals the employer's share of the increase in the employer accumulation reserve that results from the distribution. In lieu of requiring that an employer make required employer contributions, the board, beginning no later than March 1, 1996, is required to deduct from the employer's credit balance an amount that the employer would otherwise have been required to contribute had there been no establishment of the credit balance. The board must make such deductions until the credit balance is exhausted, at which time the employer must resume making required employer contributions. In addition, during the period in which the employer is not required to make required employer contributions, if the employer is a state agency other than the department of employe trust funds, the bill requires the employer to deposit in the general fund an amount that equals the amount that the employer would otherwise have been required to contribute had there been no establishment of the credit balance. During the period in which the employer is not required to make required employer contributions, if the employer is not a state agency, the bill requires the employer to

increase the contributions that the employer is required to pay for its unfunded prior service liability by an amount that equals the amount that the employer would otherwise have been required to contribute as a required employer contribution had there been no establishment of the credit balance from the distribution.

Finally, the bill provides that the amount transferred from the transaction amortization account to the employe accumulation reserve must first be applied to funding any unfunded prior service liability that results from benefit improvements under the bill and requires that current and future employes must pay for any increase in the benefit adjustment contribution that results from benefit improvements under the bill.

This bill will be referred to the joint survey committee on retirement systems for a detailed analysis, which will be printed as an appendix to this bill.

For further information see the *state and local* fiscal estimate, which will be printed as an appendix to this bill.

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***The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:***

1           **SECTION 1.** 20.515 (1) (a) of the statutes is amended to read:

2           20.515 (1) (a) *Annuity supplements and payments.* A sum sufficient to pay the  
3           benefits authorized under s. 40.27 (1) and (1m), 1985 stats., and s. 40.02 (17) (d) 2.  
4           in excess of the amounts payable under other provisions of ch. 40 and any  
5           distributions made under s. 40.04 (3) (e) after August 1, 1987, notwithstanding s.  
6           40.27 (2) and to reimburse any amounts expended under par. (w) for the costs of  
7           administering the benefits provided under s. 40.27 (1) and (1m), 1985 stats., and s.  
8           40.02 (17) (d) 2.

9           **SECTION 2.** 40.04 (3) (e) of the statutes is repealed.

10          **SECTION 3.** 40.05 (2n) (a) 1. of the statutes is amended to read:

11          40.05 (2n) (a) 1. One-half of the increase or decrease in contribution rates shall  
12          be provided for by an increase or decrease in employer contributions under sub. (2)  
13          (a) and (am), except as provided in subd. subds. 3. and 4.

14          **SECTION 4.** 40.05 (2n) (a) 2. of the statutes is amended to read:

1           40.05 (2n) (a) 2. One-half of the increase or decrease in contribution rates shall  
2 be provided for by an increase or decrease in benefit adjustment contributions under  
3 sub. (2m), except as provided in ~~subd.~~ subds. 3. and 4. or par. (b).

4           **SECTION 5.** 40.05 (2n) (a) 4. of the statutes is created to read:

5           40.05 (2n) (a) 4. Any increase in contribution rates required after 1995 that  
6 results from benefit improvements under 1995 Wisconsin Act ... (this act), which  
7 would otherwise increase employer contribution rates over the 1995 rate shall be  
8 provided for by an increase in benefit adjustment contributions under sub. (2m).  
9 Notwithstanding sub. (2m), an employer may not pay for all or part of any increase  
10 in benefit adjustment contributions that is required under this subdivision.

11           **SECTION 6.** 40.19 (4) (f) of the statutes is amended to read:

12           40.19 (4) (f) Each benefit being paid under s. 61.65, 1975 stats., or s. 62.13 (9),  
13 (9a) or (10), 1975 stats., on March 30, 1978, shall be continued in full force and effect,  
14 on the terms and conditions under which the benefit was originally granted,  
15 regardless of whether the granting was in accordance with the law then in effect, but  
16 after January 1, 1982 each benefit shall be paid by the Wisconsin retirement system  
17 and if all or a portion of the benefit was in accord with the law then in effect, that  
18 ~~portion of the benefit shall be subject to s. 40.27 (1), 1985 stats. No supplemental~~  
19 ~~benefit shall be paid under s. 40.27 (1), 1985 stats., with respect to any portion of a~~  
20 ~~benefit which was not granted in accordance with the law then in effect.~~

21           **SECTION 7.** 40.23 (2m) (e) 1. of the statutes is amended to read:

22           40.23 (2m) (e) 1. For each participant for creditable service of a type not  
23 otherwise specified in this paragraph, ~~1.6%~~ 1.7%.

24           **SECTION 8.** 40.23 (2m) (e) 2. of the statutes is amended to read:

1           40.23 (2m) (e) 2. For each participant for creditable service as an elected official  
2 or as an executive participating employe, ~~2%~~ 2.1%.

3           **SECTION 9.** 40.23 (2m) (e) 3. of the statutes is amended to read:

4           40.23 (2m) (e) 3. For each participant subject to titles II and XVIII of the federal  
5 social security act, for service as a protective occupation participant, ~~2%~~ 2.1%.

6           **SECTION 10.** 40.23 (2m) (e) 4. of the statutes is amended to read:

7           40.23 (2m) (e) 4. For each participant not subject to titles II and XVIII of the  
8 federal social security act, for service as a protective occupation participant, ~~2.5%~~  
9 2.6%.

10          **SECTION 11.** 40.27 (1) and (1m) of the statutes, as last printed in the 1987-88  
11 statutes, are repealed.

12          **SECTION 12. Nonstatutory provisions.**

13          (1) TRANSFER OF FUNDS. On December 1, 1995, \$2,800,000,000 shall be  
14 distributed from the transaction amortization account of the fixed retirement  
15 investment trust to the appropriate reserves of the fixed retirement investment trust  
16 in an amount equal to a percentage of the total distribution determined by dividing  
17 each reserve's balance on the prior January 1 by the total balance of the fixed  
18 retirement investment trust on the prior January 1.

19          (2) EMPLOYER ACCUMULATION RESERVE; MORATORIUM ON EMPLOYER-REQUIRED  
20 CONTRIBUTIONS. The employe trust funds board shall determine each participating  
21 employer's share of the increase in the employer accumulation reserve that results  
22 from the distribution under subsection (1) and shall establish for each employer a  
23 credit balance in the employer accumulation reserve that equals the employer's  
24 share of the increase in the employer accumulation reserve that results from the  
25 distribution under subsection (1). In lieu of requiring that an employer make

1 required employer contributions under section 40.05 (2) (a) of the statutes, the  
2 employe trust funds board, beginning no later than March 1, 1996, shall deduct from  
3 the employer's credit balance in the employer accumulation reserve, on a monthly  
4 basis, an amount that the employer would otherwise have been required to  
5 contribute under section 40.05 (2) (a) of the statutes had there been no establishment  
6 of the credit balance from the distribution under subsection (1). The employe trust  
7 funds board shall make such deductions until the credit balance is exhausted, at  
8 which time the employer shall resume making required employer contributions  
9 under section 40.05 (2) (a) of the statutes. During the period in which the employer  
10 is not required to make required employer contributions under section 40.05 (2) (a)  
11 of the statutes, if the employer is a state agency, as defined in section 20.001 (1) of  
12 the statutes, but not including the department of employe trust funds, the employer  
13 shall deposit in the general fund, on a monthly basis, according to procedures  
14 established by the secretary of administration, an amount that equals the amount  
15 that the employer would otherwise have been required to contribute under section  
16 40.05 (2) (a) of the statutes had there been no establishment of the credit balance  
17 from the distribution under subsection (1). During the period in which the employer  
18 is not required to make required employer contributions under section 40.05 (2) (a)  
19 of the statutes, if the employer is not a state agency, as defined in section 20.001 (1)  
20 of the statutes, and if the employer is required to make contributions under section  
21 40.05 (2) (b) of the statutes, the employer shall increase the contributions that the  
22 employer is required to pay under section 40.05 (2) (b) of the statutes by an amount  
23 that equals the amount that the employer would otherwise have been required to  
24 contribute under section 40.05 (2) (a) of the statutes had there been no establishment

1 of the credit balance from the distribution under subsection (1). The increase in the  
2 contributions may be paid annually as a lump sum payment.

3 (3) EMPLOYE ACCUMULATION RESERVE. The increase in the employe accumulation  
4 reserve that results from the distribution under subsection (1) shall first be applied  
5 to funding any unfunded prior service liability that results from benefit  
6 improvements under this act.

7 **SECTION 13. Initial applicability.**

8 (1) The treatment of section 40.23 (2m) (e) 1., 2., 3. and 4. of the statutes first  
9 applies to participating employes under the Wisconsin retirement system who  
10 terminate covered employment on January 1, 1996, or the effective date of this  
11 subsection, whichever is later.

12

(END)