



State Representative
John Lehman

School District Relief--Early Normal Retirement
Testimony on Assembly Bill 388 before
The Joint Survey Committee on Retirement Systems
Rep. John Lehman
February 21, 2000

Thank you co-chairmen Wirch and Vrakas and members of the Joint Survey Committee on Retirement Systems for this opportunity to testify today on behalf of an ambitious, bi-partisan plan. Assembly Bill 388 is written to assist school districts under stress by allowing them to offer retirement at age 55 under the Wisconsin Retirement System. Average retirement age in 1998 was 60. Average reduced age retirement was 57.4 after 24 years of service in 1998.

AB 388 is not a bill designed to help a group of government employees, although it incidentally does that. AB388 differs considerably from the other bills you are hearing today in that it, obviously, attempts to use the retirement system contributions to ease and spread the pain of those school districts that have been caught under revenue caps; many districts suffer failed referenda and are often trapped by declining enrollment or by their own frugality when the caps went into place.

Besides cutting programs, adding fees for service, crowding their buildings or deferring needed maintenance, AB 388 offers Wisconsin school districts one more tool to meet their obligation to provide top notch education under the pinching of revenue limits. This bill provides teachers, who have dedicated a large part of their life to educating our youth, the option to retire early. Early retirement provides the school districts the opportunity to hire new teachers at half the salary and benefits. (Average beginning teacher salary is about \$24,000 in Wisconsin. Average salary at retirement is about twice that.)

How would a school district qualify for the earlier normal retirement option under AB388? They would have to give some indication that they are stressed under our current financing system and that they have exhausted the one remedy the legislature has offered-the referendum.

1. School districts could prove their distress in any number of ways-and I am open to suggestions you may have to tighten or broaden these criteria.
 - closed a school building
 - suffering increases in class size
 - recently reduced the size and extent of their program offerings
 - deferred building maintenance
2. Local property tax payers must have turned down the school district in an attempt to exceed revenue limits.

Then and only then could a school district turn, as a last resort, to its teachers, offering this early normal retirement option...quite frankly, spreading their financial difficulty throughout the entire Wisconsin Retirement System, 29% of which is financed by the state.

What would this bill save school districts statewide? The Division of Employee Trust Funds fiscal estimate predicts 3700 retirements under this plan. If their districts (conservatively) save \$20,000 each on salary and benefits that amounts to \$74,000,000 statewide. Quite a savings to distressed school districts.

(Continued)

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That's the savings benefit. What about costs? To quote from the fiscal note, costs "would be shared by all WRS employers, due to a pooling of the retirement system. 29% of it would be the state share. Costs...are not determinable within a meaning range without extensive study."

So, which do we choose, 2/3 state funding with certain school districts in distress or that 29% state share and some additional local costs statewide? In this case, the extreme financial pressure on our school districts by a rigidly inadequate system of capped school funding justifies looking at the Wisconsin Retirement System as the needed safety valve. It's time we give those hard-pressed districts, like Racine Unified in my district, the help they desperately need.

PRELIMINARY

1999-2000

LRB-2979/2

STATE OF WISCONSIN

APPENDIX TO 1999 ASSEMBLY BILL 388

REPORT OF JOINT SURVEY COMMITTEE ON RETIREMENT SYSTEMS

(Introduced by Representatives J. Lehman, Pocan, Ryba, Gronemus, Plouff, Handrick, Miller and Sykora; cosponsored by Senator Darling.)

An Act to amend 40.02 (42) (d); and to create 40.02 (42) (am) of the statutes; relating to: the normal retirement date under the Wisconsin retirement system for individuals employed by certain school districts.

EXTRACT OF COMMITTEE'S RECOMMENDATION ON THIS BILL

The Joint Survey Committee on Retirement Systems finds that Assembly Bill 388 [represents good public policy, and the Committee recommends its passage] [does not represent good public policy, and the Committee does not recommend its passage].

PURPOSE OF THE BILL

Under the current Wisconsin Retirement System (WRS), the normal retirement date for a participant who is not a protective occupation participant, elected official or executive participating employe, is the date on which he or she attains the age of 65 years. If a person retires before his or her normal retirement date, the participant's annuity from the WRS is reduced if the person retires using formula benefits. A person who is age 57 or older and has at least 30 years of creditable service may retire without any reduction in his or her annuity.

Under this bill, the normal retirement date for an individual who is employed by a school district is 55, if a referendum held in the *current or previous year* for the purpose of exceeding the school district's *revenue limit* failed to pass and the school board determines that at *least one* of the following four conditions has occurred as a result of *fiscal constraints* within the current year or previous two years:

1. The school board closed a school.
2. The average size of classes in the school district has increased.

3. The school board reduced the size or extent of school programs.
4. The school board deferred scheduled building maintenance.

The bill first applies to the determination of normal retirement for an individual who is employed by a school district and who is a participating employe in the WRS on the effective date of the bill.

ACTUARIAL EFFECT

For an average school employe retiring at age 55, the cost of providing a WRS pension would increase by about 60%. According to the Department of Public Instruction (DPI), approximately 429 referenda have been held in recent years, of which 231 (53.8%) failed. Although there is no data available on how frequently any one of the four conditions specified in the bill have occurred, in the event that these occurrences were common, the actuarial effect on the WRS could be substantial since contributions to the WRS are pooled. Twenty-nine percent of the costs would be paid for by the state.

Because of the substantial potential costs of this proposal, an actuarial evaluation may be necessary.

PROBABLE COSTS

The Department of Employee Trust Funds estimates that the cost to the Division of Employer Services is for one position with \$35,200 in salary, fringe benefits and supplies, \$8,500 one-time costs for a computer and furniture and \$300 in one-time costs for employer manual revisions, employer reporting forms, work and revisions. The Member Services Bureau estimates one-time costs of \$2,700 associated with forms and brochure costs, change in telephone message systems, revising operating procedures and staff training. The ongoing costs for increased work load demands based on assumptions that demand will require four trust fund specialist 2 positions with total salary, fringe benefits, supplies and costs at \$149,000 and one-time costs for computers and furniture of \$38,000. The Benefit Services Bureau incurs one-time costs of \$1,000 to develop and test revisions to the automatic retirement processes for calculating retirement benefits.

One-time estimated costs for system changes to estimate processing and benefit calculation programs for contract development time, user testing and central process unit time are \$180,600. Ongoing costs associated with processing mail for estimates and inquiries, preparing and mailing retirement packages will require 1/2 time clerical assistant position costing \$13,700 for salary, fringe benefits and supplies. Ongoing postage costs at \$33,700 and one-time costs for designing and printing forms, manuals and brochures are \$29,900. Total estimated annual costs are \$231,600 including 5.5 full-time equivalent positions.

PUBLIC POLICY

Data provided by the DPI indicates that, frequently, referenda to exceed revenue limits may be held as three or four separate questions. If any one of those questions fails or has failed within

the previous current year or previous two years, a school employe would, potentially, be eligible to retire. A determination by a school board of whether it has closed a school, increased the average size of classes in the school district, reduced the size or extent of school programs or deferred scheduled building maintenance, as a result of "financial constraints," may have nothing to do with a failure of a referendum. This may result in unequal treatment of similarly situated employes in the 426 school districts in the state, since each district will make its own determination.

RECOMMENDATION

The Joint Survey Committee on Retirement Systems finds that 1999 Assembly Bill 388 [represents good public policy, and the Committee recommends its passage] [does not represent good public policy, and the Committee does not recommend its passage].

2/21/00

STATE OF WISCONSIN
JOINT SURVEY COMMITTEE ON RETIREMENT SYSTEMS
MONDAY, FEBRUARY 21, 2000
11:00 A.M.
ROOM 417 NORTH (GAR), STATE CAPITOL BLDG.

A G E N D A

1. Call to Order and Roll Call.
2. Consideration of the Minutes of the January 24, 2000 Meeting.
3. **Assembly Bill 9** relating to granting creditable service under the Wisconsin retirement system for service in the federal peace corps or VISTA public service programs or in any national service program under the federal National and Community Service Act of 1990.
4. **Assembly Bill 124** relating to creditable military service under the Wisconsin retirement system.
5. **Senate Bill 88** relating to creditable military service under the Wisconsin retirement system.
6. **Assembly Bill 145** relating to granting creditable service under the Wisconsin retirement system for service in the federal public health service.
7. **Senate Bill 105** relating to classifying certain teachers employed by the state as protective occupation participants under the Wisconsin retirement system.
8. **Senate Bill 211** relating to classifying certain nurses employed by the state as protective occupation participants under the Wisconsin retirement system.
9. **Assembly Bill 388** relating to the normal retirement date under the Wisconsin retirement system for individuals employed by certain school districts.
10. **Assembly Bill 426** relating to death benefits provided under the Wisconsin retirement system and making an appropriation.
11. **Assembly Bill 455** relating to establishing a presumption for employment-connected disease for state and county fire fighters.
12. **Assembly Bill 656** relating to granting creditable service under the Wisconsin retirement system to certain assistant district attorneys formerly employed by Milwaukee County and making an appropriation.

(An Executive Session may be held during or immediately following the public hearing on the above and/or any other items pending before the Committee)

13. Other Matters.
14. Adjournment.