Joint Survey Committee on Retirement Systems Presentation By Aetna Retirement Services

On behalf of Aetna Retirement Services I would like to thank you for the opportunity to be with you today and testify on the proposed Optional Retirement System legislation. My name is Bill Abramowicz Vice President responsible for the development of new business in Wisconsin. Joining me today from our Corporate offices in Hartford Con. are Tom Strohmenger Vice President of Government Affairs, and Carl Steinhilber National Product Manager of our Higher Education Market. Aetna Retirement Services is part of Aetna, Inc. which was founded in 1853. Today Aetna Retirement Services provides retirement and investment services to more than 2.2 million customers and over 30,000 plan sponsors nationwide. In Wisconsin we employ over 150 people who work with over 300 employers throughout the state. Two of our larger clients include the Milwaukee Public Schools and Dane County. Aetna Currently participates in 15 state Optional Retirement Systems and 13 State Deferred Compensation programs.

Today over 40 states currently have a higher education Optional Retirement System in place. California and Hawaii have plans pending and Missouri, South Dakota and the University of Wisconsin do not have plans. Aetna supports legislation that provides employees with the ability to choose their retirement plan for the following reasons: Individual savings rates are at an all time low. We believe that employees who take a more active role with their retirement also help educate themselves about other financial life goals. Although employee turnover is not as high with the University as in the private sector most employees will work 3-4 different jobs in their life span. This is why Defined contribution plans and portability are becoming so critical in today's more mobile workforce. We believe it is important to define portability and choice, because there can be confusion around this statement – for a defined contribution plan, this means that if an employee happens to leave a employer of a university system, that employee now has choices he or she can make concerning their savings:

- They can leave it in the existing defined contribution Plan
- They can roll it over to an IRA for continued tax deferral
- They can roll it over to another similar defined contribution plan at their new employer.

The terms pension simplification, social security reform, Roth IRA's, 401(k), 403(b), 457(b), are all terms new and old that focus on the continued debate over how can employers provide a better way or an additional method to help employees attain their retirement goals. A 401(a) Optional Retirement System is one of these methods. Aetna Retirement Services realizes that as benefits go no matter who's side you might be on there is always a way to enhance one's benefit package whether that is through insurance, pay increases or pension. We do believe that an ORS plan will address that one part of your benefit package by providing additional choice. The fact that new employees may opt for this benefit is evidence that these programs are well received and thought of as a different approach to retirement. The Illinois higher education ORS plan currently says that 43% of new hires have chosen their self-management plan. Based on these numbers it would suggest that this benefit is a great addition to their benefit package.

Finally, the education of the employee is key when providing any sort of retirement benefit, whether ORS or traditional defined benefit plan. It is critical to not only provide enough information, but to also deliver that information in way that that will help the employees make an informed choice. The decision of how to save for retirement is one of the most important decisions that an employee is going to make, and a decision that Aetna, the university system and the other providers do not take lightly. In addition to information about the products being offered, the providers need to help the employee first decide: Is the right choice defined benefit or defined contribution for their personal situation? To do this, all personal risk factors must be looked at. Next, if defined contribution is chosen, the employee must look for the provider of the defined contribution plan that best meet the personal needs of the employee. Then comes the decision of which investments must be made. Aetna and the other respected providers of Optional Retirement Systems are experienced in providing this type of information and education.

Educating the employees on this new plan will be critical to the initial enrollment and the on-going success. In addition we believe that asset diversification is critical to the long term success of this program. We will provide proactive workshops which address the volatility of the stock market as well as educate employees on the Fixed or stable value option. Employees who opt for this new program will have the ability to receive a fixed or guaranteed return in addition to equity investments and Life style funds.

We applaud the success of the Wisconsin Retirement System over the years and the Committee for taking on this challenging new retirement option. Choice is what has driven this country for the last two hundred years and we would hope that the committee would consider this plan for its system employees as another method to achieve and help your employees secure a comfortable retirement.

Wisconsin
Retirement
Consortium

March 22, 1999

Senator Robert Wirch, Co-Chair of the Joint Survey Committee on Retirement Systems
Representative Daniel Vrakas, Co-Chair of the Joint Survey Committee on Retirement Systems
110 E. Main St., Room 722
Madison, WI 53703

RE: Optional Retirement Plan

Dear Co-Chairs:

The Wisconsin Retirement Consortium (WRC), representing the 18 organizations listed below, unanimously opposes the proposed ORP for new hires at the UW. This position was relayed to you in previous correspondence.

In addition, the WRC has taken the position that any changes to the Wisconsin Retirement System (WRS) must be separated from the ORP. Each proposal should stand on its own merits of cost, good public policy, and equity to all participants and should maintain the integrity of the WRS. All proposals should follow the legislative process of approval by the JSCRS before being submitted to the Legislature and the Governor. Pension issues should not be included in the Budget or Budget Adjustment Bill where public input is circumvented.

Thank you for your consideration. If I can provide additional information, please contact me.

Sincerely,

Melvin B. Sensenbrenner

Mel Sensenbrenner

WISCONSIN RETIREMENT CONSORTIUM MEMBERS
SUPPORTING THIS STATEMENT

Association of Career Employees
AFSCME Council 24
AFSCME Council 40
Association of Supervisors and Counselors (MPS)
Milwaukee Teachers Education Association
Professional Fire Fighters of Wisconsin
Professional Fire Fighters of Wisconsin-Retired
School Administrators Alliance
State Engineers Association
The Association of UW Professionals
Wisconsin Association of School District Administrators
Wisconsin Association of School District Administrators-Retired
Wisconsin Council of Carpenters
Wisconsin Education Association Council
WEAC-Retired
Wisconsin Federation of Teachers
Wisconsin Retired Educators' Association
Wisconsin Professional Police Association

4701 Goldfinch Drive, Madison, WI 53714-3329 ◆ (608) 222-9255
Mel Sensenbrenner - President

ASPRO THE ACADEMIC STAFF PUBLIC REPRESENTATION ORGANIZATION
Esther Olson, President • Chuck Evenson, Co-Vice President • Nick Schultz, Co-Vice President • Ann Gordon-Walker, Treasurer

Testimony to the Joint Committee on Retirement Systems
by Esther Olson, ASPRO President
March 22, 1999

Thank you for the opportunity to appear before your committee. I speak today on behalf of ASPRO, the Academic Staff Public Representation Organization. ASPRO is a not-for-profit, professional organization that represents the legislative interests of the UW-System academic staff. Our members are the professional employees who fill many instructional, student affairs, research, outreach and administrative positions at the University.

I am here to speak for informational purposes only. Our organization understands that an optional retirement system (ORS) would likely benefit employees who remain with the University for a relatively short period of time. As such, it could be a useful tool in recruiting new academic staff and faculty. However, we have not been able to document any instances in which a prospective academic staff decided not to accept a position because of the absence of an ORS. Furthermore, we are concerned that the establishment of an ORS could erode the future stability of the Wisconsin Retirement System, particularly if additional categories of University and State employees are allowed to participate in the ORS.

We would like to suggest that the Joint Committee on Retirement Systems consider whether changes in the WRS could be made which would increase the benefits available to employees who do not make a career at the University. One such change has already been made. 1997 Wisconsin Act 69 repealed the 5-year vesting requirement. As a result of this law, all WRS-covered employees are immediately vested in their employee-required contributions.

Other changes that should be considered include: (1) restoring effective rate interest crediting for retirement and death benefit purposes and (2) reopening the variable trust.

- ***Restoring Effective Rate Interest Crediting for Retirement and Death Benefit Purposes.*** Employees enrolled in the WRS prior to 1982 earn the effective WRS earning rate on their employee-required contributions. This rate has historically been around 10% or more. Employees hired since that time are limited to 5% interest on retirement, disability and death benefits (3% on separation).

- ***Reopening the Variable Trust.*** Prior to 1980, employees could invest up to 50% of the employees' contributions in the Variable Trust that is invested entirely in equities. Since that time, all employee investments go into the Fixed Trust that is invested in a combination of equities and bonds/other fixed investments.

Changes of this type would benefit short-term University employees. However, they would also be advantageous for many other categories of University and State employees. As such, we hope that you will consider the feasibility of these or other changes as an alternative to the establishment of an ORS.

271 Bascom Hall • 500 Lincoln Drive • University of Wisconsin-Madison • Madison, WI 53706 • (608) 265-6709

WISCONSIN EDUCATION ASSOCIATION COUNCIL

Affiliated with the National Education Association

MEMO

TO: Joint Survey Committee on Retirement Systems DATE: March 22, 1999

FROM: Don Krahn, WEAC Lobbyist

RE: Opposition to the UW Optional Retirement System

We have several objections to the current plan to provide the UW with an optional retirement system:

1) We think more study is required to deal with the proposal to make the optional plan a defined contribution plan. Such shift of market risk from one that is now shared between employers and employees to one borne entirely by employees deserves an actuarial analysis of how the contribution rates should be changed to account for the market risk shift.

2) The proposal raises the issue of fragmentation and whether we should reverse years of movement toward a single unified system.

3) Our major concern is the appearance of providing benefits to one class of employees which will not be available to all employees namely "full interest crediting" and portability; and primarily, the fact that the rest of the system will pay a cost premium of about 0.2% for a benefit they don't receive.

We think it would be better to restore full interest crediting to post-1982 hires and to allow participants (aged 55 or at retirement) to roll over their funds to an IRA of the participants choice.

Such changes may eliminate the need or desirability for a separate optional system.

Terry Craney, President
Donald E. Krahn, Executive Director

33 Nob Hill Drive PO BOX 8003 Madison, WI 53708-8003 • (608)276-7711 (800)362-8034

WISCONSIN COALITION OF ANNUITANTS
318 Karen Court • Madison, WI 53705

State and Local
GOVERNMENT
RETIREES

Presentation on Proposed Optional Retirement Plan
By: Ed Kehl, Chair, Wisconsin Coalition of Annuitants
To: Wisconsin Legislature's Joint Survey Committee on Retirement Systems
Monday, March 22, 1999
State Capitol, Room 417 North

The organization I represent is a coalition of 18 retiree organizations who's members participate in the Wisconsin Retirement System. During the past 18 months we have shared our concerns about the proposed ORP and have unanimously opposed it. We have endorsed the positions of our member organizations presented to you here today. Understanding the need for brevity, I will limit my remarks to some of the administrative issues.

The complex nature of the Wisconsin Retirement System and the problems associated with estimating participation rates by age group in an ORP are just two of the many variables complicating actuarial analysis. Estimates of the negative impact on WRS Trust Funds by qualified actuaries have ranged from zero to $35 million per year once the program matures. The potential impact of further growth of ORP in other educational venues has not yet been considered although it needs to be.

Administrative cost comparisons are somewhat more reliable. These costs in the private investment sector average between 10 and 11 times the administrative costs regularly incurred by the Wisconsin Investment Board. TIAA-Cref administrative costs may be lower than the private sector investment industry but it is safe to assume they cannot compare with SWIB results.

There is considerable discontent among the category of WRS participants hired since 1982 who can only expect a 5% interest crediting to their retirement accounts. An ORP will create another category which is likely to cause another inequity between currently employed UW faculty and academic staff and future hires. Administrative problems in dealing with these inequities should be obvious.

The WCOA has monitored the effectiveness, timeliness and accuracy of the Employe Trust Fund administrative accomplishments in spite of severe budget restrictions. They have performed remarkably under the pressures of increases in employer and employe participation.The University of Wisconsin is not the only public entity with recruitment and retention problems. The WRS has difficulty competing with the private sector for entry level investment specialists and has little success in attracting experienced personnel.

In closing I am compelled to ask - - Ten years from now will the unintended consequences of an ORP create sufficient inequities and costs for the WRS that could raise serious legal questions? I would probably not be around to witness that. I still feel the need to try to prevent it from happening.

Wisconsin Federation of Teachers

AFT/AFL-CIO

CAROL WEIDEL, President

1334 APPLEGATE RD. • MADISON, WI 53713-3184 • (608) 277-7700 • (800) 362-7390 • FAX (608) 277-7708

http://www.wft.org

WFT COUNCILS:
• Graduate Assistants
• Higher Ed
• K-12
• PSRP
• State Employees
• WTCS

Legislative Testimony

To: Joint Survey Committee on Retirement Systems

From: Ken Opin, Lobbyist, Wisconsin Federation of Teachers

RE: Opposition to the Optional Retirement System for UW employees

Date: March 22, 1999

The Wisconsin Federation of Teachers remains unalterably opposed to the proposed Optional Retirement System for UW employees being discussed today. Our opposition is to the entire concept of dividing the Wisconsin Retirement System and privatizing a portion of it. The Gabriel, Roeder, Smith & Company's actuarial report and the Supplemental Actuarial Study carried out by the Director of Retirement Research provide more reasons for opposition.

Core issues

1. Part of the success of the WRS has been due to the synergy of size. We have the tenth largest public retirement system in the country, while we are the 25th largest state.
2. Prior to 1947, there were so many public retirement plans in Wisconsin that the Legislature started us on the path to consolidation, oversight, and actuarial review that participants and annuitants enjoy today.
3. Even in 1947, legislators were aware of the dangers of small plans that provide different benefits to similar public employees.
4. The defined benefit plan of the WRS has insured hundreds of thousand of workers and retirees a predictable, guaranteed pension. This system has worked well for 50 years, and we see no reason to break it up.

UW recruiting problems

Proponents of the ORP claim it solves a major recruiting problem for the UW System. WFT represents thousands of UW professional employees, and has not heard one call for an ORP. Here is what our UW members tell us would help recruiting:

1. End the six-month waiting period for paid health insurance coverage.
2. Improve the formula multiplier. Our 1.6% multiplier lags way behind the national major plan average, which is well over 1.8%.
3. Eliminate the 5% interest earnings cap on new hires for the money purchase aspect of the WRS.

Other problems with the ORP

1. The ORP cost shifts against all other WRS participants. According to the Gabriel, Roeder actuarial report, the cost shift in the first ten years of the program would amount to $14.6 million dollars. The Director of Retirement Research pointed out in his cover letter that it would be more appropriate to look at 30 years of costs
2. The WRS is a public plan, administered by the Employee Trust Funds Boards, with investments managed by the State of Wisconsin Investment Board and with periodic outside audits. Who would supervise and administer the ORP? How much would it cost? How would it meet the State of Wisconsin's fiduciary responsibilities?

In summary, certain reforms to the Wisconsin Retirement System are desirable and would help the UW with recruiting, without harming other participants. WFT believes that the proposed ORP would be harmful to current and future WRS participants and that other reforms more directly solve inequities for future faculty and staff of the UW, and are fair to all participants and annuitants of the WRS.

✖✖✖✖✖

State of Wisconsin SWIB
Investment Board

For more information contact:

Vicki Hearing (608) 261-2415
Patricia Lipton (608) 266-9451

FOR IMMEDIATE RELEASE:

$7.2 Billion Investment Gain for State Retirement Fund

Madison, Wis. - *(January 27, 1999)* The State of Wisconsin Investment Board (SWIB) today reported a gain of $7.2 billion for the state's public pension funds in 1998. During a year that marked one of the most volatile stock market performances on record, the return for the Fixed (balanced) Fund was 14.6%.

With a $6.2 billion investment gain for the year, the market value of the Fixed Fund was $48.8 billion at year end. The Fixed Fund is the larger of the two retirement trust funds. It has diversified holdings in domestic and international stocks, bonds, loans, real estate and private equity.

Investments for the Variable Trust Fund returned 17.5%, resulting in a gain of $1.0 billion. The $6.8 billion assets of this Fund are primarily invested in domestic and international stocks.

Investment gains include growth in market value and interest and dividend income.

"This was not an easy year considering the tremendous fluctuation in the market, so we're pleased to have double digit returns for the fourth consecutive year," said Executive Director Patricia Lipton. She noted that over the last four years, the Fixed Fund has gained a cumulative 89% and the Variable Fund 115%.

Together, the Fixed and Variable Funds comprise the Wisconsin Retirement System (WRS) trust funds. The WRS provides benefits to over 98,000 retirees and 342,000 current or former employees of state and local government. All WRS participants have at least half of their pension account in the Fixed Fund. Approximately 10% of WRS members participate in the Variable Fund. The WRS is the 10th largest US public pension fund and the 18th largest pension fund in the world.

Investment returns differ from the effective rates credited to public employee retirement accounts and adjustments to monthly annuities for retirees. The Department of Employe Trust Funds will calculate and announce those percentages by late February.

The 14.6% return for the Fixed Fund surpassed the 8% long-term actuarial target return. SWIB's performance also surpassed the 13.5% average return for balanced mutual funds, as reported by Lipper, Inc. The Fixed Fund return trailed the 15.5% return for the investment benchmark used by SWIB to measure the Fund's performance. The benchmark includes market indices for the various types of assets managed by SWIB as well as the performance of other privately managed funds with similar investment objectives.

SWIB's domestic equity portfolios returned 18.7% for the year. The S&P 500, a widely followed market indicator for large company stocks, gained 28.6%. The Russell 2000, a leading indicator for small company stocks returned –2.6%. SWIB invests in a broadly diversified mix of small to large companies.

Lipton noted that the disparity in returns from different sectors of the stock market was unusually large in 1998. "It's stunning that just 15 stocks accounted for half the return for the S&P 500. Small company stocks were generally out of favor in the market. However, valuation spreads relative to larger company stocks should make small and mid-size stocks more attractive, especially to long-term investors such as ourselves."

International equities investments returned 19.2%, exceeding the 19.1% return for the benchmark. SWIB maintained a major focus on the European stocks and less concentration in Japan and Asia.

SWIB's fixed income portfolios were well positioned for the continuing decline in interest rates in 1998 and showed a strong performance relative to the benchmarks. The public bond portfolios gained 9.9%. The Lehman Aggregate Index, a broad market indicator for US fixed income, returned 8.7%. The Private Placements portfolio returned 9.5% compared to 8.6% for the benchmark. The 11.9% return for the international/global fixed income portfolios beat the 11.5% return for the benchmark.

Real estate investments gained 15.3%, as returns from this market continued to improve. SWIB's portfolio trailed the one-year benchmark due to an implementation of long-term strategies, but remained well ahead of five-year and ten-year benchmarks.

The return for retirement fund cash assets and other state and local government cash deposits managed in the State Investment Fund (SIF) was 5.3% compared to 5.1% for the benchmark. SWIB portfolio managers anticipated the downturn in interest rates and lengthened the maturity of Fund investments to lock-in a better rate of return for a longer period of time.

Lipton noted that market volatility was unusually great in 1998. The Dow Jones industrial average had 10 swings of more than 5%, including two of more than 15%.

"The last year has demonstrated the value of a long-term disciplined and diversified investment strategy in markets that can swing widely over short periods of time," she said.

-- end --

PROFS INC

PUBLIC REPRESENTATION ORGANIZATION OF THE FACULTY SENATE
UNIVERSITY OF WISCONSIN-MADISON

258 Bascom Hall
500 Lincoln Drive
Madison, WI 53706
608/263-9273

Testimony
by Professor Ronald D. Schultz
UW-Madison Department of Pathobiological Sciences
School of Veterinary Medicine
To the Joint Committee on Retirement Systems

On The Proposal to Offer an Optional Retirement System (ORS)
for University of Wisconsin Faculty and Academic Staff
March 22, 1999

PROFS, Inc., representing the UW-Madison faculty, appreciates the legislators' concern for the need to recruit and retain the highest caliber of faculty at UW-Madison. As the university plans for the changing needs of the next century, we are hiring additional faculty in special targeted fields such as biotechnology and also replacing 25% or more of the faculty that will be retiring from UW-Madison during the next five to seven years. The competition for the new faculty is fierce.

Many factors go into the successful recruitment of new faculty. Compensation, the reputation of the department, and area of expertise of the other faculty in the department are paramount. Fringe benefits such as health insurance and retirement programs also play a significant role.

PROFS believes that an ORS would provide some benefit in the recruitment of faculty, particularly experienced faculty from other universities that have a similar Optional Retirement System. It would allow faculty to remain in their current retirement system as they move to UW-Madison.

On the other hand, it is also vital that an ORS not have a negative impact on our current retirement system, the Wisconsin Retirement System. WRS is an excellent system, almost unique in its post-retirement dividends.

An ORS, if established, should be set up in a cost-neutral manner, so there is no adverse financial effect on WRS of losing university people to the new plan.

PROFS also believes an ORS should have a built-in disability plan similar to that of the WRS, since an employee is more likely to need disability insurance than term life insurance during his or her career.

(over)

Consideration should also be given to making the WRS more "portable" and therefore more attractive for new faculty. We urge the legislature to lift the 5% cap on WRS accounts that applies discriminately to employees hired after 1981. This 5% cap has the effect of almost eliminating the WRS money purchase option, thus pushing newer employees toward selecting an ORS.

We believe the legislature should also provide immediate coverage of health insurance for UW faculty and academic staff. All other Big Ten schools pick up the cost of the first six months of health insurance. We are the only major research university that requires faculty/staff to pay for the first 6 months of health insurance benefits.

Once again, thank you for considering PROFS' views on faculty recruitment and retention. We look forward to working with you to ensure that UW-Madison hires the best and brighest to retain its stature as a world-class institution of the 21st Century.

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STATE ENGINEERING ASSOCIATION
4510 REGENT STREET MADISON, WISCONSIN 53705 (608) 233-4696

March 22, 1999

TO: Committee Co-chairs Senator Robert Wirch and Representative Daniel Vrakas

I am president of the DNR Section of the State Engineering Association (SEA). Our section represents nearly 200 individuals located across the state whose jobs involve environmental protection. By profession, we are stewards of our state's natural resources. We feel a special obligation to express our concern about the stewardship of other resources, namely the Wisconsin Retirement System (WRS).

We are opposed to the provisions of the Optional Retirement Plan (ORP) because they threaten the continued operation of a system that has served Wisconsin's state and municipal employees very well. The ORP will create inequity within a system that was intended to pool resources for the benefit of all enrolled employees. Allowing individuals with high salaries to withdraw their contributions from the system reduces the pool for all those who remain. It is poor public policy to encourage a few well-paid individuals to benefit at the expense of many.

One of the basic tenets of our work involves the simple principle: if it ain't broke, don't fix it. Our organization maintains that the Wisconsin Retirement System is functioning fine as it is. We recommend that your committee members consider this information and reject ORP. Thank you for providing an opportunity for public comment on this issue.

Sincerely,

Robert W Schaefer

Robert Schaefer, President
DNR Section - State Engineering Association

EXHIBIT 1

University of Wisconsin

Retirement Benefits as a Percentage of Final Three Year Average Salary
ORS versus the University of Wisconsin Retirement System (WRS)
Current Wisconsin Employees Hired After 1981

		Earnings Replacement Percentage at Age 65 if Employment:			
		Terminates at the End of:			Continues
Entry Age	Plan	10 Years	15 Years	20 Years	to Age 65
30	ORS	13.1%	18.7%	23.8%	36.5%
	WRS DB	7.6%	13.3%	20.5%	56.0%
	WRS DC	15.2%	21.8%	27.8%	42.6%
35	ORS	11.9%	17.0%	21.6%	29.7%
	WRS DB	8.9%	15.4%	23.8%	48.0%
	WRS DC	13.8%	19.8%	25.2%	34.6%
40	ORS	10.8%	15.4%	19.7%	23.5%
	WRS DB	10.3%	17.9%	27.6%	40.0%
	WRS DC	12.5%	18.0%	22.9%	27.4%
45	ORS	9.8%	14.0%	—	17.9%
	WRS DB	11.9%	20.7%	—	32.0%
	WRS DC	11.4%	16.3%	—	20.8%

Assumptions:

1. Benefits under ORS and WRS are based on annual salary increases of 3% until termination of employment.
2. ORS benefits, payable on a Single Life Annuity basis, are based on a contribution rate of 10% of salary. ORS benefits are based on an assumed rate of return of 5% before retirement and 4% afterwards. The mortality table used is 1983a-MGM (3.0). The rate of return and mortality basis are not guaranteed for the future.
3. WRS DB is the defined benefit plan. It is based on the formula of 1.6% of final 3-year average salary times years of service.
4. WRS DC is the money purchase plan and is based on a contribution rate of 10% of salary. WRS DC benefits reflect an assumed interest rate of 5.0% before and 5.6% after retirement. The assumed mortality table is 1983a-MGM (3.0).

EXHIBIT 2

University of Wisconsin

Retirement Benefits as a Percentage of Final Three Year Average Salary
ORS versus the University of Wisconsin Retirement System (WRS)
Current Wisconsin Employees Hired After 1981

Entry Age	Plan	Earnings Replacement Percentage at Age 65 if Employment: Terminates at the End of: 10 Years	15 Years	20 Years	Continues to Age 65
30	ORS	30.7%	41.3%	49.8%	65.8%
	WRS DB	7.6%	13.3%	20.5%	56.0%
	WRS DC	15.2%	21.8%	27.8%	42.6%
35	ORS	24.2%	32.6%	39.3%	48.6%
	WRS DB	8.9%	15.4%	23.8%	48.0%
	WRS DC	13.8%	19.8%	25.2%	34.6%
40	ORS	19.1%	25.7%	31.0%	35.1%
	WRS DB	10.3%	17.9%	27.6%	40.0%
	WRS DC	12.5%	18.0%	22.9%	27.4%
45	ORS	15.1%	20.3%	—	24.4%
	WRS DB	11.9%	20.7%	—	32.0%
	WRS DC	11.4%	16.3%	—	20.8%

Assumptions:

1. Benefits under ORS and WRS are based on annual salary increases of 3% until termination of employment.
2. ORS benefits, payable on a Single Life Annuity basis, are based on a contribution rate of 10% of salary. ORS benefits are based on an assumed rate of return of 8% before retirement and 4% afterwards. The mortality table used is 1983a-MGM (3.0). The rate of return and mortality basis are not guaranteed for the future.
3. WRS DB is the defined benefit plan. It is based on the formula of 1.6% of final 3-year average salary times years of service.
4. WRS DC is the money purchase plan and is based on a contribution rate of 10% of salary. WRS DC benefits reflect an assumed interest rate of 5.0% before and 5.6% after retirement. The assumed mortality table is 1983a-MGM (3.0).

EXHIBIT 3

University of Wisconsin

Retirement Benefits as a Percentage of Final Three Year Average Salary
ORS versus the University of Wisconsin Retirement System (WRS)
Current Wisconsin Employees Hired After 1981

Entry Age	Plan	Earnings Replacement Percentage at Age 65 if Employment: Terminates at the End of: 10 Years	15 Years	20 Years	Continues to Age 65
30	ORS	53.7%	69.8%	81.5%	100.2%
	WRS DB	7.6%	13.3%	20.5%	56.0%
	WRS DC	15.2%	21.8%	27.8%	42.6%
35	ORS	38.6%	50.3%	58.7%	69.0%
	WRS DB	8.9%	15.4%	23.8%	48.0%
	WRS DC	13.8%	19.8%	25.2%	34.6%
40	ORS	27.8%	36.2%	42.2%	46.6%
	WRS DB	10.3%	17.9%	27.6%	40.0%
	WRS DC	12.5%	18.0%	22.9%	27.4%
45	ORS	20.0%	26.1%	—	30.4%
	WRS DB	11.9%	20.7%	—	32.0%
	WRS DC	11.4%	16.3%	—	20.8%

Assumptions:

1. Benefits under ORS and WRS are based on annual salary increases of 3% until termination of employment.
2. ORS benefits, payable on a Single Life Annuity basis, are based on a contribution rate of 10% of salary. ORS benefits are based on an assumed rate of return of 10% before retirement and 4% afterwards. The mortality table used is 1983a-MGM (3.0). The rate of return and mortality basis are not guaranteed for the future.
3. WRS DB is the defined benefit plan. It is based on the formula of 1.6% of final 3-year average salary times years of service.
4. WRS DC is the money purchase plan and is based on a contribution rate of 10% of salary. WRS DC benefits reflect an assumed interest rate of 5.0% before and 5.6% after retirement. The assumed mortality table is 1983a-MGM (3.0).

University of Wisconsin

Lump Sums at Retirement plus Yearly Income Expressed as a Dollar Amount and as a Percentage of Final 3-Year Average Salary

Table 1a -- $50,000 Final Yearly Salary with ORS Contributions Allocated 100% to TIAA

Entry Age	Level 10% ORS Rate Lump Sum	Level 10% ORS Rate Income	Level 10% ORS Rate pct	WRS Defined Benefit Plan Lump Sum	WRS Defined Benefit Plan Income	WRS Defined Benefit Plan pct
25	$565,410	$40,032	82%	$360,223	$31,080	64%
30	464,406	32,880	68%	$315,160	27,192	56%
35	367,404	26,016	54%	$270,097	23,304	48%
40	271,210	19,200	40%	$225,174	19,428	40%
45	188,062	13,320	27%	$180,111	15,540	32%
50	117,164	8,280	17%	$135,049	11,652	24%

Assumptions:

1) Retirement is at exact age 65 on July 1, 1997.

2) There was a salary increase of 3% on the first of every July.

3) The ORS contribution rate is 10% of each month's salary.

4) Allocation of contributions is either to TIAA and/or to CREF Stock.

5) We used actual TIAA/CREF pre-retirement experience to accumulate.

6) We used actual TIAA/CREF settlement factors to determine income.

7) The retirement option is Single Life Annuity.

8) The defined benefit plan iormula.is 1.6% of Final 3-Year Average Salary times Years of Service.

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Lump Sums at Retirement plus Yearly Income Expressed as a Dollar Amount and as a Percentage of Final 3-Year Average Salary

Table 1b -- $75,000 Final Yearly Salary with ORS Contributions Allocated 100% to TIAA						
	Level 10% ORS Rate			WRS Defined Benefit Plan		
Entry Age	Lump Sum	Income	pct	Lump Sum	Income	pct
25	$848,116	$60,072	82%	$540334	$46,620	64%
30	696,612	49,320	68%	$472,740	40,788	56%
35	551,110	39,024	54%	$405,146	34,956	48%
40	406,816	28,800	40%	$337,761	29,142	40%
45	282,094	19,968	27%	$270,167	23,310	32%
50	175,748	12,432	17%	$202,573	17,478	24%

Assumptions:

1) Retirement is at exact age 65 on July 1, 1997.

2) There was a salary increase of 3% on the first of every July.

3) The ORS contribution rate is 10% of each month's salary.

4) Allocation of contributions is either to TIAA and/or to CREF Stock.

5) We used actual TIAA/CREF pre-retirement experience to accumulate.

6) We used actual TIAA/CREF settlement factors to determine income.

7) The retirement option is Single Life Annuity.

8) The defined benefit plan iormula.is 1.6% of Final 3-Year Average Salary times Years of Service.

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Lump Sums at Retirement plus Yearly Income Expressed as a Dollar Amount and as a Percentage of Final 3-Year Average Salary

Table 2a -- $50,000 Final Yearly Salary with ORS Contributions Allocated 100% to CREF						
	Level 10% ORS Rate			WRS Defined Benefit Plan		
Entry Age	Lump Sum	Income	pct	Lump Sum	Income	pct
25	$1,500,552	$107,856	222%	$360,223	$31,080	64%
30	1,149,796	82,656	170%	$315,160	27,192	56%
35	877,446	63,072	130%	$270,097	23,304	48%
40	657,240	47,232	97%	$225,174	19,428	40%
45	415,692	29,880	62%	$180,111	15,540	32%
50	211,504	15,216	31%	$135,049	11,652	24%

Assumptions:

1) Retirement is at exact age 65 on July 1, 1997.

2) There was a salary increase of 3% on the first of every July.

3) The ORS contribution rate is 10% of each month's salary.

4) Allocation of contributions is either to TIAA and/or to CREF Stock.

5) We used actual TIAA/CREF pre-retirement experience to accumulate.

6) We used actual TIAA/CREF settlement factors to determine income.

7) The retirement option is Single Life Annuity.

8) The defined benefit plan iormula.is 1.6% of Final 3-Year Average Salary times Years of Service.

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Lump Sums at Retirement plus Yearly Income Expressed as a Dollar Amount and as a Percentage of Final 3-Year Average Salary

Table 2b -- $75,000 Final Yearly Salary with ORS Contributions Allocated 100% to CREF

	Level 10% ORS Rate			WRS Defined Benefit Plan		
Entry Age	Lump Sum	Income	pct	Lump Sum	Income	pct
25	$2,250,822	$161,784	222%	$540,334	$46,620	64%
30	1,724,678	123,960	170%	$472,740	40,788	56%
35	1,316,150	94,608	130%	$405,146	34,956	48%
40	985,846	70,872	97%	$337,761	29,142	40%
45	623,532	44,832	62%	$270,167	23,310	32%
50	317,250	22,800	31%	$202,573	17,478	24%

Assumptions:

1) Retirement is at exact age 65 on July 1, 1997.

2) There was a salary increase of 3% on the first of every July.

3) The ORS contribution rate is 10% of each month's salary.

4) Allocation of contributions is either to TIAA and/or to CREF Stock.

5) We used actual TIAA/CREF pre-retirement experience to accumulate.

6) We used actual TIAA/CREF settlement factors to determine income.

7) The retirement option is Single Life Annuity.

8) The defined benefit plan iormula.is 1.6% of Final 3-Year Average Salary times Years of Service.

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Lump Sums at Retirement plus Yearly Income Expressed as a Dollar Amount and as a Percentage of Final 3-Year Average Salary

Table 3a -- $50,000 Final Salary with ORS Contributions Allocated 50% to each of TIAA and CREF						
	Level 10% ORS Rate			WRS Defined Benefit Plan		
Entry Age	Lump Sum	Income	pct	Lump Sum	Income	pct
25	$1,032,981	$73,944	152%	$360,223	$31,080	64%
30	807,101	57,768	119%	$315,160	27,192	56%
35	622,425	44,544	92%	$270,097	23,304	48%
40	464,225	33,216	68%	$225,174	19,428	40%
45	301,877	21,600	44%	$180,111	15,540	32%
50	164,334	11,748	24%	$135,049	11,652	24%

Assumptions:

1) Retirement is at exact age 65 on July 1, 1997.

2) There was a salary increase of 3% on the first of every July.

3) The ORS contribution rate is 10% of each month's salary.

4) Allocation of contributions is either to TIAA and/or to CREF Stock.

5) We used actual TIAA/CREF pre-retirement experience to accumulate.

6) We used actual TIAA/CREF settlement factors to determine income.

7) The retirement option is Single Life Annuity.

8) The defined benefit plan iormula.is 1.6% of Final 3-Year Average Salary times Years of Service.

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Lump Sums at Retirement plus Yearly Income Expressed as a Dollar Amount and as a Percentage of Final 3-Year Average Salary

Table 3b -- $75,000 Final Salary with ORS Contributions Allocated 50% to each of TIAA and CREF						
	Level 10% ORS Rate			WRS Defined Benefit Plan		
Entry Age	Lump Sum	Income	pct	Lump Sum	Income	pct
25	$1,549,469	$110,928	152%	$540,334	$46,620	64%
30	1,210,645	86,640	119%	$472,740	40,788	56%
35	933,630	66,816	92%	$405,146	34,956	48%
40	696,331	49,836	68%	$337,761	29,142	40%
45	452,813	32,400	44%	$270,167	23,310	32%
50	246,499	17,616	24%	$202,573	17,478	24%

Assumptions:

1) Retirement is at exact age 65 on July 1, 1997.

2) There was a salary increase of 3% on the first of every July.

3) The ORS contribution rate is 10% of each month's salary.

4) Allocation of contributions is either to TIAA and/or to CREF Stock.

5) We used actual TIAA/CREF pre-retirement experience to accumulate.

6) We used actual TIAA/CREF settlement factors to determine income.

7) The retirement option is Single Life Annuity.

8) The defined benefit plan iormula.is 1.6% of Final 3-Year Average Salary times Years of Service.

9/19/1997

Testimony to the Wisconsin Joint Survey Committee on Retirement Systems
By Russ Stanton, Director of Governmental Relations
(Minnesota) Inter Faculty Organization
March 22, 1999

Members of the Committee:

My name is Russ Stanton. I am the Director of Government Relations (i.e., lobbyist) for the faculty unions at Minnesota's seven state universities and twenty community colleges. I have been asked by TIAA-CREF to present testimony to you regarding our experience with a defined contribution optional retirement plan in Minnesota. I am giving this testimony voluntarily, and without compensation of any kind. I'm sorry I can't be present to give this testimony. Our legislature is approaching the deadlines for bills to be heard and, as I am sure the legislative members of the committee can understand, it simply is not safe for me to be away from the Capitol this time of year.

In the late 1980's, members of the faculty unions for whom I work approached me about the possibility of getting legislation passed that would give them access to a defined contribution pension plan. Our higher education institutions recruit nationally for faculty, and a large percentage of our faculty move to Minnesota from other states. Since defined contribution plans are the norm for higher education institutions across the county, most of these faculty members came from institutions where they had a defined contribution plan -- most often with TIAA-CREF. These faculty members placed a high value on the portability and flexibility of defined contribution plans, and wanted Minnesota to offer such an option.

In 1988, at the urging of the faculty unions and with the support of the state university and community college administrations, the legislature passed the Individual Retirement Account Plan (IRAP), which became operational on July 1, 1989. In the early 1990's the plan was combined with a defined contribution supplemental retirement plan and was extended to the faculty at our technical colleges. As of June 30, 1997, the plan had grown to over 10,000 active and inactive members, and plan assets amounted to over $359 million. These membership numbers and assets totals have grown substantially over the past year, but I don't have the precise amounts as of today.

Surveys have shown that the IRAP plan has been very popular with our faculty, and it is a very effective tool for both recruiting and retaining faculty. The best evidence of its popularity, however, is the number of faculty that voluntarily select the plan. All faculty, upon being hired, are given an opportunity to choose between IRAP and the Teachers Retirement Association (TRA) plan, the defined benefit plan that covers K-12 teachers in Minnesota. Among the community college and state university faculty I represent, about 75% end up in the IRAP plan. Many of the faculty participants that choose TRA already had a TRA account from some prior service. In the last ten years, I have only been approached by only one faculty member who wanted to transfer out of IRAP and into TRA.

For faculty, the main attraction of the defined contribution plan is portability. As a group, the faculty tends to be quite mobile between states, at least in the early part of their careers. The structure of defined benefit plans severely penalizes people who change jobs during their careers, whereas defined contribution plans do not. A 1993 study on employee turnover by the Minnesota Legislative Commission on Pensions and Retirement showed that 60% of the teachers who started at age 25 had left the pension plan prior to the average age of retirement. A recent article in the Minneapolis Star Tribune stated 73% of teachers leaving the field are leaving for reasons other than retirement. I don't know the turnover rate of faculty specifically, but it appears to be large. For instance, in April of 1997 the Minnesota State College and University System reported that of the 10,276 members of the defined contribution plan, 3,594 were inactive, meaning they were no longer employed and making contributions. The report did not give the number who completely withdrew from the system. Our faculty members know there is a high probability they will change jobs prior to retirement -- therefore they want portable pension benefits.

Finally, defined contribution plans provide flexible retirement options. There are no actuarial reductions for early retirement. There is no need for a member to maximize earnings in the final years of employment to improve his or her "high-five." Members can phase into retirement with no adverse effects on their retirement benefits. They can take their benefit as an annuity, as periodic payments, as "interests only," as a lump sum, or a combination of these options -- whatever fits their individual circumstances.

Much is made of investment risk in defined contribution plans. I believe it is important to point out that our faculty members do not buy individual stocks or "play the market." The faculty invest in professionally managed funds. I can assure you that in Minnesota, IRAP members have invested wisely. As a group, their collective earnings rate has exceeded the earnings rate of the big defined benefit plans. Of the money invested in IRAP accounts at the beginning of last year, about 81% was in balanced funds, growth and income funds, or growth funds; much smaller amounts were invested among money market, fixed interest, bond, aggressive growth, and international funds. A recent risk/return comparison study conducted by Norwest Employee Benefits showed that within each funding category, most employees picked the investment options with the best returns.

The flip side of risk is reward. While faculty participants bear some risk of the markets going down, they also reap the rewards when the markets go up. The faculty participants have been delighted by the returns they have received on their pension investments. Over the last five years, annual returns on balanced funds have averaged 13.25%; on the growth funds the average was 17.44%; and on the income and growth funds the average was 21.99% per year. Even in the long term, over the last two decades faculty participants in our defined contribution supplemental retirement plan have averaged double-digit returns.

I don't want to give a lop-sided view of defined contribution versus defined benefit plans. Some of our faculty members prefer defined benefit plans like TRA. Because of turnover gains, these plans do have an extra source of revenue to fund benefits, and given equal assumptions on earnings rates, should out perform defined contribution plans for employees who stay in the plan throughout their careers.

Our strategy was simply to give all faculty members the choice of a defined contribution plan and a defined benefit plan. They can then select the plan that best fits with their career expectations.

I am not trying to say that Minnesota has the ideal solution. I am unfamiliar with the retirement plans in Wisconsin, and what we did in Minnesota may not be appropriate for Wisconsin. Nor am I saying that defined contribution plans are appropriate for all employees. I am simply saying that the faculty union members for whom I work have been very happy with the option of a defined contribution plan, and it has proven to be a very attractive benefit for attracting and retaining faculty for our institutions.

Thank you.

UNIVERSITY OF WISCONSIN MILWAUKEE

School of Education
Department of Curriculum and Instruction

UWM

March 16, 1999

Representative Dan Vrakas
State Capitol
Room 119 West
P.O. Box 8953
Madison, WI 53708-8953

Dear Representative Vrakas:

I wish to submit written testimony to the Joint Survey Committee on Retirement Systems public hearing on the proposed University of Wisconsin Optional Retirement System. I am currently the chair of the UW-System Fringe Benefits Advisory Committee (FBAC) and I am also the chair of the University of Wisconsin-Milwaukee University Committee which is the executive body of the faculty. As chair of the FBAC I have been actively involved in the issue of an optional retirement program since its beginning stages in the legislature. And as chair of the UWM University Committee I have engaged in numerous conversations with faculty who both support and oppose this proposed legislation. In what follows I would like to address the advantages and disadvantages of an ORS, and I would like to conclude by raising some additional considerations for the committee's consideration.

The advantages of an ORS are as follows:

1. It would allow short term faculty and academic staff a retirement plan that is portable. Given the shortages we are experiencing in the labor market in higher education and the accompanying difficulty in obtaining qualified faculty, an ORS may be attractive to prospective applicants who anticipate short term employment in the UW-System.
2. An ORS provides employees with greater flexibility in managing their retirement portfolio. Some faculty and academic staff have expressed an interest in self-directing the investments made in their retirement account similar to the flexibility afforded by our 403-B program. An ORS would have the advantage of providing financial flexability for employees while at the same time reducing future liabilities for the employer.

The disadvantages of an ORS are as follows:

1. Prospective faculty have not voiced concern regarding the absence of a defined contribution program in the UW-System and current faculty see no

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reason to create an optional plan. Recent experience suggests that applicants for faculty positions turn down job offers in the UW-System primarily as a result of the absence of high paying jobs job for their spouse. This is followed by the requirement to pay the first six months of the health care insurance premiums, lack of competitive salaries, and finally the lack of a define contribution program.

2. An ORS may have a significant adverse effect of the WRS. This issue has been addressed in the actuarial report. The fear among faculty and academic staff, however, is that the ORS will not be limited to new hires. If this program were to be made available to all employees, the financial impact on the WRS would likely exceed that assumed in the actuarial report as younger employees would elect the program creating a greater adverse effect on the WRS.
3. An ORS administered by the Board of Regents would have considerable administrative costs. These costs would likely have to be absorbed by the UW-System further eroding a system of higher education that has been significantly under funded over the past six years. The experience of the ORS recently instituted by the State of Illinois, for example, suggests considerable costs would be assumed by the UW-System for the administration of the plan. Additionally there would likely be costs associated with counseling and administrative support from benefit personnel on the individual campuses.
4. While an ORS is attractive when equities markets are performing well, periods of negartive returns could witness an outcry for legislation that would allow the option to switch back to a defined benefit program. This was the case in the State of Minnesota and resulted in costs to the state in excess of $100 million.

The proposed ORS legislation could be advantageous for a select number of employees in the UW-System. Some employees want to direct how their retirement money is invested. And, in general, having options in the area of benefits and retirement are generally welcomed by employees. The ORS legislation, however, does generate a number of concerns as to the intent of the legislation, the costs associated with its implementation and administration, and its ultimate costs on employees in the WRS. Accordingly, I would hope the Joint Survey Committee on Retirement Systems could consider two additional issues. One would be the removal of the interest cap for employees hired after 1981. The removal of this cap would be viewed as a considerable improvement in the retirement program and would likely attract new employees to the same degree as an ORS. Second, if an ORS is deemed to be in the best interest of the citizens of Wisconsin, then consideration should be directed to having this program offered by the WRS. Under the administration of WRS, retirement monies would remain under the direction of one of the nations most efficient and respected retirement programs. It would also allow retirement funds to remain in the State of Wisconsin.

I thank you and the committee for allowing me the opportunity to express my opinions and for allowing the public have their voice by scheduling a hearing on this important issue.

Sincerely,

Randall J. Ryder
Professor