

**2001 DRAFTING REQUEST**

**Bill**

Received: 06/11/2001

Received By: **champra**

Wanted: **Soon**

Identical to LRB:

For: **Daniel Vrakas (608) 266-3007**

By/Representing: **Brian Pleva**

This file may be shown to any legislator: **NO**

Drafter: **champra**

May Contact:

Addl. Drafters:

Subject: **Employ Pub - retirement**

Extra Copies:

Submit via email: **NO**

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**Pre Topic:**

No specific pre topic given

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**Topic:**

Contribution rates under the Wisconsin retirement system

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**Instructions:**

See Attached.

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**Drafting History:**

<u>Vers.</u>	<u>Drafted</u>	<u>Reviewed</u>	<u>Typed</u>	<u>Proofed</u>	<u>Submitted</u>	<u>Jacketed</u>	<u>Required</u>
/1	champra 06/12/2001		kfollet 06/12/2001	_____	lrb_docadmin 06/12/2001	lrb_docadminS&L 09/17/2001	Retire

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FE Sent For:

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

**CORRESPONDENCE MEMORANDUM**

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**DATE:** June 11, 2001

**TO:** Senator Robert Wirch, Co-Chair, Joint Survey Committee on Retirement Systems  
Representative Daniel Vrakas, Co-Chair, Joint Survey Committee on Retirement Systems

**FROM:** Dave Stella, Administrator  
Division of Retirement Services

**SUBJECT:** **Proposed Legislative Change to Address the Benefit Loss Due to WRS Contribution Rate Reductions Being Split Between the Employee and Employer Rate**

Under current Wisconsin Retirement System (WRS) law any increase or decrease in contribution rates is applied equally to the employer and employee required contribution rate. The significant contribution rate declines over the past 5 years this has resulted in a benefit loss to police, firefighters and executive and elected officials. This is because the death benefit, separation benefit and money purchase retirement benefit are based on the contributions and interest applied to the employee contribution account. If contribution rates continue to fall general employees will also begin to experience a loss in these benefits.

The Department of Employee Trust Funds is proposing elimination of the contribution rate provision that splits increases and decreases in the contribution rates between the employee and employer contribution rate. Instead, a flat 5% employee required contribution rate would be established for all employment categories. The employer required contribution rate would receive the full rate decrease or increase. Under this proposal the employee contribution rate would remain constant thereby protecting the value of the employee account and the associated benefits derived from the account value. This change would not result in a contribution rate increase to the total WRS contribution, rather it would simply reallocate different percentages to the employer and employee contribution.

The following tables illustrate the difference in separation, death and money purchase benefit accrual for an employee who receives a 3% employee contribution vs. a 5% contribution or a 2% differential. In the WRS protective employee contribution rates have actually declined from 8% for firefighters and 6% for police to 3% and 4% respectively. Elected and executive employee contribution rates have fallen from 5.5% to 3.1%.

**Employee Contribution Account with 3% and 5% Contribution Rate**

Year	Salary w/ 3% increase annually	Contribution at 3%	Interest at 8%	Account Balance	Contribution at 5%	Interest at 8%	Account Balance	Loss in Value
1	\$30,000	\$900	0	\$900	\$1,500	0	\$1,500	\$600
5	\$33,765	\$1,013	\$338	\$5,581	\$1,688	\$564	\$9,302	\$3,721
10	\$39,143	\$1,174	\$1,000	\$14,670	\$1,957	\$1,666	\$24,450	\$9,780
15	\$45,378	\$1,361	\$2,051	\$29,056	\$2,269	\$3,419	\$48,426	\$19,370
20	\$52,605	\$1,578	\$3,690	\$51,387	\$2,630	\$6,149	\$85,645	\$34,258
30	\$70,697	\$2,121	\$10,023	\$137,437	\$3,535	\$16,706	\$229,062	\$91,625

The loss in value illustrated in the last column clearly shows that when the employee contribution rate declines dramatically employee benefits are harmed. It should also be noted that the actual difference in the death and money purchase benefit is twice the amount shown in that column since these two benefits are matched by employer contributions. The fiscal impact on the WRS is expected to be minimal since this proposal only marginally increases the employee contribution rates for protective and elected and executive participants and does not change the employee contribution for general participants who make up 92% of the covered population.

The second proposed legislative change concerns a special contribution rate that was created in 1984 called the Benefit Adjustment Contribution (BAC). This contribution is an employer contribution, but is paid by the employee unless the employer agrees to pay it under a compensation plan agreement. Almost all WRS participating employers now pay this contribution. Because employer contributions are not credited to the employee account, if the employee pays this contribution out of their payroll check it is not credited to their retirement account and they receive no future interest on this contribution. This also adversely impacts the employee account value and creates significant confusion for employees and employers.

As previously noted, over the past 5 years contribution rates have fallen dramatically and the BAC has gone to -0- for all categories of employees except general employees. The general employee BAC rate is just 0.2% at this point. At this point elimination of the Benefit Adjustment Contribution (BAC) for all categories of employees and placement of the 0.2% BAC

in the employer contribution rate for general employees should occur to simplify and streamline the contribution rate structure of the WRS.

Given that further contribution rate reductions for some categories of employees are due to take effect on January 1, 2002, the Department recommends that the statutory changes to establish a five percent fixed employee contribution rate and eliminate the Benefit Adjustment Contribution take effect on January 1, 2002.

cc: William Ford, Director of the Retirement Research Committee  
Eric Stanchfield, Secretary, Department of Employee Trust Funds  
Dave Mills, Deputy Secretary, Department of Employee Trust Funds



State of Wisconsin  
2001 - 2002 LEGISLATURE

LRB-3420/1

RAC:.....

JLD

Today

2001 BILL

ges

1 AN ACT ...; relating to: contribution rates under the Wisconsin retirement  
2 system.

*Analysis by the Legislative Reference Bureau*

Under current law, required employer and employee contributions under the Wisconsin retirement system (WRS), and the earnings on these contributions, fund the cost of providing retirement annuities to public employees who are covered under the WRS. While required employee contribution rates are set by statute, these rates do not necessarily reflect the actual required employee contribution rates. The reason is that current law also provides that any increase or decrease in contribution rates must be reflected equally in reductions or increases in the required employer and employee contribution rates. This bill establishes a 5% required employee contribution rate under the WRS for all participating employees and eliminates the requirement that any increase or decrease in contribution rates must be reflected equally in reductions or increases in the required employer and employee contribution rates.

Under current law, certain WRS benefit improvements are funded by a benefit adjustment contribution. This contribution is treated as if it were an employer contribution regardless of whether the employee or employer pays the contribution. This bill eliminates the benefit adjustment contribution. As a result of this change, any increase or decrease in the cost of WRS retirement benefits that is not otherwise covered under the 5% required employee contribution rate must be paid as part of the required employer contribution rate.

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.

**BILL**

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

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

1 SECTION 1. 40.05 (1) (a) (intro.)<sup>✓</sup> of the statutes is amended to read:

2 40.05 (1) (a) (intro.) Except as provided in par. (b) and sub.<sup>✓</sup>(2n):

History: 1981 c. 96, 274, 278, 386; 1983 a. 9 s. 6; 1983 a. 27, 30; 1983 a. 46 ss. 2 to 4, 7; 1983 a. 140; 1983 a. 141 ss. 7 to 12, 20; 1983 a. 290, 504, 538; 1985 a. 29, 119, 135, 225; 1987 a. 27, 83, 107, 309, 356, 363; 1987 a. 403 s. 256; 1989 a. 13, 14, 31, 119, 122, 166, 182, 189, 230, 336, 355, 359; 1991 a. 32, 39, 107, 113, 141, 152, 189, 269; 1995 a. 27, 81, 88, 89, 240, 302; 1997 a. 35, 58, 149; 1999 a. 9, 11, 13, 104.

3 SECTION 2. 40.05 (1) (a) 2.<sup>✓</sup> of the statutes is amended to read:

4 40.05 (1) (a) 2. For each participating employee whose formula rate is  
5 determined under s. 40.23 (2m) (e) 2., ~~5.5%~~ 5%<sup>✓</sup> of each payment of earnings.

History: 1981 c. 96, 274, 278, 386; 1983 a. 9 s. 6; 1983 a. 27, 30; 1983 a. 46 ss. 2 to 4, 7; 1983 a. 140; 1983 a. 141 ss. 7 to 12, 20; 1983 a. 290, 504, 538; 1985 a. 29, 119, 135, 225; 1987 a. 27, 83, 107, 309, 356, 363; 1987 a. 403 s. 256; 1989 a. 13, 14, 31, 119, 122, 166, 182, 189, 230, 336, 355, 359; 1991 a. 32, 39, 107, 113, 141, 152, 189, 269; 1995 a. 27, 81, 88, 89, 240, 302; 1997 a. 35, 58, 149; 1999 a. 9, 11, 13, 104.

6 SECTION 3. 40.05 (1) (a) 3. of the statutes is amended to read:

7 40.05 (1) (a) 3. For each participating employee whose formula rate is  
8 determined under s. 40.23 (2m) (e) 3., ~~6%~~ 5%<sup>✓</sup> of each payment of earnings.

History: 1981 c. 96, 274, 278, 386; 1983 a. 9 s. 6; 1983 a. 27, 30; 1983 a. 46 ss. 2 to 4, 7; 1983 a. 140; 1983 a. 141 ss. 7 to 12, 20; 1983 a. 290, 504, 538; 1985 a. 29, 119, 135, 225; 1987 a. 27, 83, 107, 309, 356, 363; 1987 a. 403 s. 256; 1989 a. 13, 14, 31, 119, 122, 166, 182, 189, 230, 336, 355, 359; 1991 a. 32, 39, 107, 113, 141, 152, 189, 269; 1995 a. 27, 81, 88, 89, 240, 302; 1997 a. 35, 58, 149; 1999 a. 9, 11, 13, 104.

9 SECTION 4. 40.05 (1) (a) 4. of the statutes is amended to read:

10 40.05 (1) (a) 4. For each participating employee whose formula rate is  
11 determined under s. 40.23 (2m) (e) 4., ~~8%~~ 5%<sup>✓</sup> of each payment of earnings.

History: 1981 c. 96, 274, 278, 386; 1983 a. 9 s. 6; 1983 a. 27, 30; 1983 a. 46 ss. 2 to 4, 7; 1983 a. 140; 1983 a. 141 ss. 7 to 12, 20; 1983 a. 290, 504, 538; 1985 a. 29, 119, 135, 225; 1987 a. 27, 83, 107, 309, 356, 363; 1987 a. 403 s. 256; 1989 a. 13, 14, 31, 119, 122, 166, 182, 189, 230, 336, 355, 359; 1991 a. 32, 39, 107, 113, 141, 152, 189, 269; 1995 a. 27, 81, 88, 89, 240, 302; 1997 a. 35, 58, 149; 1999 a. 9, 11, 13, 104.

12 SECTION 5. 40.05 (2m) of the statutes is repealed.

13 SECTION 6. 40.05 (2n)<sup>✓</sup> of the statutes is repealed.

14 SECTION 7. 40.32 (1)<sup>✓</sup> of the statutes is amended to read:

15 40.32 (1) The sum of all contributions allocated to a participant's account under  
16 each defined contribution plan sponsored by the employer, including all employer  
17 contributions and picked-up contributions credited with interest at the effective rate  
18 under ss. 40.04 (4) (a) and (5) (b) and 40.05 (2) (g) and all employee contributions

**BILL**

1 made under ss. 40.02 (17) and 40.05 (1) and ~~(2m)~~<sup>✓</sup>, may not in any calendar year  
2 exceed the maximum contribution limitation established under section 415 (c) of the

3 Internal Revenue Code.

→ **INSERT 3-3**  
History: 1995 a. 302; 1997 a. 237.

4 **SECTION 8.** 111.91 (2) (g)<sup>✓</sup> of the statutes is repealed.

5 **SECTION 9. Effective date.**

6 (1) This act takes effect on January 1, 2002.<sup>✓</sup>

7 (END)

SECTION# → AM;  
111.91(1)(cm)

(cm) Except as provided in sub. (2) ~~(g) and~~ (h) and ss. 40.02 (22) (e) and 40.23 (1) (f) 4., all laws governing the Wisconsin retirement system under ch. 40 and all actions of the employer that are authorized under any such law which apply to nonrepresented individuals employed by the state shall apply to similarly situated employees, unless otherwise specifically provided in a collective bargaining agreement that applies to those employees.

→ 111.91 (1) (3)

(end ins)



STEPHEN R. MILLER  
CHIEF

# State of Wisconsin

## LEGISLATIVE REFERENCE BUREAU

100 NORTH HAMILTON STREET  
5TH FLOOR  
MADISON, WI 53701-2037

LEGAL SECTION: (608) 266-3561  
LEGAL FAX: (608) 264-6948

June 12, 2001

### MEMORANDUM

To: Representative Vrakas

From: Rick A. Champagne, Senior Attorney

Re: LRB-3420/1 Contribution rates under the Wisconsin retirement system

The attached draft was prepared at your request. Please review it carefully to ensure that it is accurate and satisfies your intent. If it does and you would like it jacketed for introduction, please indicate below for which house you would like the draft jacketed and return this memorandum to our office. If you have any questions about jacketing, please call our program assistants at 266-3561. Please allow one day for jacketing.

JACKET FOR ASSEMBLY

JACKET FOR SENATE

If you have any questions concerning the attached draft, or would like to have it redrafted, please contact me at (608) 266-9930 or at the address indicated at the top of this memorandum.

If the last paragraph of the analysis states that a fiscal estimate will be prepared, the LRB will request that it be prepared after the draft is introduced. You may obtain a fiscal estimate on the attached draft before it is introduced by calling our program assistants at 266-3561. Please note that if you have previously requested that a fiscal estimate be prepared on an earlier version of this draft, you will need to call our program assistants in order to obtain a fiscal estimate on this version before it is introduced.

Please call our program assistants at 266-3561 if you have any questions regarding this memorandum.