Committee Name:

Joint Survey Committee – Retirement Systems (JSC–RS)

Appointments

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STATE OF WISCONSIN
Department of Employee Trust Funds

R.W.W.

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January 28, 2002

TO: Wisconsin State Senators

FROM: The Department of Employee Trust Funds

SUBJECT: 2001 Senate Bill 245 – Questions and Answers

Floor Distribution
Authorized by Senator
WIRCH

Q1: Why do we need the change?

A1: Repairs a design flaw that occurred in 1990 legislation that over time will dramatically reduce the value of certain benefits for police, fire fighters, and elected/executive employees under the Wisconsin Retirement System (WRS). Contribution rates have already dropped to below the level earned by teachers, state, city, county and other local government employees.

Prior to 1990, contribution rates posted to member accounts for police were at 6%, fire fighters at 8% and elected and executives at 5.5%. Death, separation and money purchase retirement benefits have experienced a significant drop in value as contribution rates for these categories of employees have declined due to increased investment earnings (currently at 4%, 3% and 3.1%, respectively).

Q2: How does the change affect your benefits?

A2: SB 245 creates a flat 5% rate for posting to member accounts for all categories of employees under the WRS (currently the 92% of WRS members who are "general" category employees already have 5% credited to their accounts). 5% will be credited to the accounts of police, fire fighters and elected/executive employees instead of the current 4%, 3% and 3.1%, respectively. The value of the separation, death and money purchase benefit will increase over time at the higher contribution rate and provide a more equitable benefit to you or your spouse and dependents.

Q3: Who recommended the change?

A3: Both the WRS actuary and the Legislative Audit Bureau's contracted actuary, Milliman USA, made recommendations to change required employee contribution rates and the Legislative Council's 2000 Comparative Study of Major Public Pension Retirement Systems noted that Wisconsin's benefit values are unusually low due to the declining employee rates.

LAB states in its letter to the Joint Legislative Audit Committee, "An effect of declines in contribution rates has been to provide reduced values for separation, death and money purchase retirement benefits for participants. Suggested alternatives for addressing these trends would require legislative action."

Q4: How does the bill affect employers?

A4: No employer will pay more as a result of the employee contribution rate increasing to 5% under this bill. The total amount being paid to the WRS does not change; rather, only the amount applied to employee accounts.*

Employers now pay 99.6% of total WRS contributions (both employee and employer) and that will continue under this bill. WRS actuaries estimate no increase in overall contribution rates as a result of the 5% rate.

(* Since the overall contribution rate remains constant, if the amount of the nominal employee portion goes up, the nominal employer contribution goes down by a like amount. An employer who pays both shares experiences no change. In the case of the few employers who don't pay the employee share, their contributions would go down slightly with this change.)

Q5: Why do the numbers in the chart below look so big?

A5: The following chart illustrates the difference in death and money purchase benefit accrual for an employee who receives a 3% employee contribution each year during their entire career contrasted with one who receives 5%. (Note: 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

Years of Work	*Salary* **(with 3% increase annually)**
1	$30,000
5	$33,765
10	$39,143
15	$45,378
20	$52,605
30	$70,697

5% Account Balance (Employee and Employer)	**3% Account Balance (Employee and Employer)**	**Loss in Value**
$3,000	$1,800	**$1,200**
$18,604	$11,162	**$7,442**
$48,900	$29,340	**$19,560**
$96,852	$58,112	**$38,740**
$171,290	$102,774	**$68,516**
$458,124	$274,874	**$183,250**

For example purposes, the salary has been **projected forward** 30 years, hence today's salary of $30,000 would become $70,697 after 30 years by applying a 3% inflation assumption each year.

Even with the change proposed in this bill, the annuity payment that is created by an account of $458,124 is $3,248 per month or $38,976 annually in 2032 dollars. In today's dollars, if the member was retiring after 30 years of service with a final average salary of $30,000, he or she would be entitled to a formula annuity of $1,460 per month or $17,520 annually. It is the time value of money that makes the account size in the chart seem so large.