

Committee Name:

**Joint Survey Committee – Retirement Systems
(JSC–RS)**

Appointments

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Clearinghouse Rules

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Committee Hearings

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Executive Sessions

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Hearing Records

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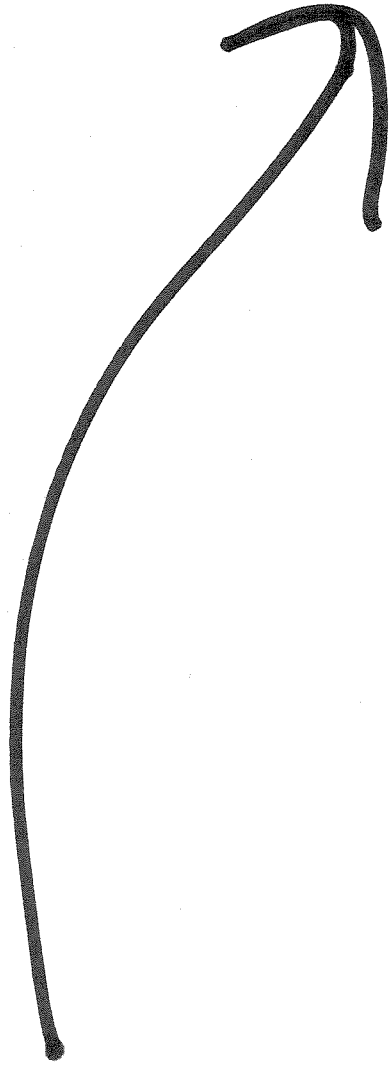
Misc.

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Record of Committee Proceedings

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Transitional Retirement





STATE OF WISCONSIN

Department of Employee Trust Funds

Eric O. Stanchfield
Secretary

801 West Badger Road

P.O. Box 7931

Madison, WI 53707-7931

August 30, 2001

The Honorable Daniel Vrakas
Co-Chair
Joint Survey Committee on Retirement Systems
119 West, State Capitol
Madison, Wisconsin

The Honorable Robert Wirch
Co-Chair
Joint Survey Committee on Retirement Systems
316 South, State Capitol
Madison, Wisconsin

Dear Representative Vrakas and Senator Wirch:

As you are aware, approximately one year ago I asked staff from my Department to analyze demographic trends and changing retirement patterns to determine whether future changes in the Wisconsin Retirement System were desirable. The attached report, "*Changing the Look of Retirement: Wisconsin Transitional Retirement Study*," is the product of that research. It is with pleasure that I formally provide you, as Co-Chair of the Joint Survey Committee on Retirement Systems (JSCRS), with a copy of the final report.

National studies demonstrate that large numbers of employees, particularly those in the baby boom generation, seek a more gradual, progressive approach to retirement instead of electing an immediate and abrupt work stoppage at a specific age. The Transitional Retirement Study examined the current WRS and ancillary benefit structure to determine how phasing or "transitioning" into retirement affects the value of benefits under current law. The study also considered modifications that could potentially protect the value of benefits of Wisconsin public employees who determine that a more gradual entry into retirement better meets their social and economic needs.

The study concludes that the current structure of the WRS imposes certain disincentives and/or barriers that limit one's flexibility in making decisions about retirement. For example:

- For employees who choose to alter their employment either through a less physically or mentally stressful position or shorter work schedule in the years immediately before retirement, the current WRS structure may actually reduce benefits that they would otherwise have been entitled to receive. This serves as a disincentive for these persons to remain in the workforce.

- For those who, for either for social or economic reasons, begin their annuity and then resume work, the WRS structure restricts their ability to return to a Wisconsin public employer. Not only can this negatively affect the retiree, it also results in public employers potentially losing skilled, experienced employees that they might otherwise want or need to have in the workforce.

Various potential enhancements to the structure of the WRS and ancillary benefit programs were identified to eliminate or reduce the barriers within the system and protect the value of benefits for employees who adopt a more gradual approach to retirement. Some can be accomplished at no cost to employers or the system through changes to administrative rules and/or internal procedures. The Department continues to review these possible changes internally and determine priorities in the context of other workload facing our staff.

Other possible enhancements raise the fundamental question of what constitutes the best retirement policy for Wisconsin and would benefit from further review by your Committee. Options in this group, each of which would require statutory change, include the following:

- Create a Deferred Retirement Option Plan (DROP). This is a form of a distribution option that could be established in the WRS to protect the value of an employee's retirement benefit during a transitional employment period. The DROP feature could potentially be structured as a cost neutral enhancement to the WRS. [Page 14 - *Wisconsin Transitional Retirement Study; Deferred Retirement Option Plan / DROP*]
- Modify the structure of the sick leave conversion program for state and University employees. Certain modifications could be made, at minimal or no cost to the program, that would safeguard the value of this benefit for those employees and provide more equity for all WRS participants who are eligible for this benefit. [Page 23 - *Transitional Retirement Study*]
- Establish a pre-distribution option to convert the defined benefit value of an employee's WRS account to a defined contribution amount - the participant would elect this option before beginning a transitional employment period. [Page 16 - *Wisconsin Transitional Retirement Study; DB/DC Conversion*]
- Provide a second WRS account to retirees who return to covered employment - the second account would be totally independent of the first benefit (on which the retirement annuity is based) and the rehired annuitant's eligibility for coverage would be solely based on the new employment. Upon termination from this position, the accumulated value of the second account would be paid as a separate benefit. [Page 24 - *Wisconsin Transitional Retirement Study; Continuing Retirement Coverage for Rehired Annuitants*]

A related issue that the Department hopes the Joint Survey Committee will consider is the creation of a 5% floor employee required contribution rate for all employment categories. As identified in the attached study, the money purchase (defined contribution) benefit calculation is least affected by a phased retirement approach. The calculation of the money purchase benefit, as well as death benefits and lump sum separations, is based on the value of the employee accounts resulting from employee required contributions. Unfortunately, the continuing reduction in contribution rates has caused erosion in the value of the money purchase benefit for many employees, something we believe was not contemplated when the pertinent laws were passed in 1990.

We would welcome the opportunity to discuss the Transitional Retirement Study findings and work with the Committee to develop appropriate changes to Wisconsin's laws and administrative rules. If you have questions regarding the report, please contact me or either of our study's co-authors, Mary Willett, (266-2798) or Jean Gilding (266-1210).

Sincerely,



Eric O. Stanchfield, Secretary
Department of Employee Trust Funds

cc: Bill Ford, Legislative Council
Dave Stella, Administrator, Division of Retirement Services
Mary Willett, Co-Leader, Transitional Retirement Study
Jean Gilding, Co-Leader, Transition Retirement Study
Dave Mills, Deputy Secretary
Pam Henning, Legislative Liaison



GABRIEL, ROEDER, SMITH & COMPANY

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February 5, 2002

Representative Daniel P. Vrakas
and
Senator Robert W. Wirch
Co-chairs, JSCRS
Wisconsin Legislature
P.O. Box 8952
Madison, Wisconsin 53708

Re: Wisconsin Retirement System and ASLCC
Actuarial Valuations of Changes Under Consideration

Dear Representative Vrakas and Senator Wirch:

You have requested an estimate of the cost of supplement actuarial valuations to measure the financial effect of adding a Deferred Retirement Option Plan to WRS and design changes in the Accumulated Sick Leave Conversion Credit Program as described below.

DROP Benefit Provisions

- ◆ Participants would be eligible to participate at their earliest retirement age (age 50 for protective occupations and age 55 for all other participants).
- ◆ A participant selecting a DROP benefit would:
 - select duration for the DROP, to a maximum of 5 years;
 - continue employment throughout the duration of the DROP;
 - have a monthly benefit calculated using their choice of the available annuity payment options; and
 - earn no service credits or other entitlement to a future benefit during the duration of the DROP.
- ◆ The monthly benefit paid during the DROP would:
 - not be paid to the participant but would be deposited into a DROP account; and
 - be eligible for fixed dividends or variable adjustments.
- ◆ The DROP account would be credited with interest at the assumed earnings rate.

- ◆ At the end of the DROP period, the participant would:
 - terminate employment;
 - begin receiving the monthly annuity, including all dividends and variable adjustments earned during the DROP period; and
 - receive the balance in the DROP account, including accumulated interest, as either a monthly annuity or a lump sum payment.
- ◆ A participant may terminate the DROP and begin receiving a monthly annuity at any time without penalty.
- ◆ If the participant does not terminate employment at the conclusion of the DROP period, the account would be reestablished as if there had never been a DROP.

The above benefit conditions would be evaluated. Alternatives would also be evaluated in which the DROP account interest credits and/or the dividend adjustment would be varied in a manner to achieve cost neutrality. We also suggest including an analysis of a Back DROP in the study. Under a Back DROP, no election is made until retirement, at which time a determination is made showing what the DROP benefits would have been if they had been elected at various prior dates. A Back DROP is considerably easier to administer and participants are not required to make irrevocable elections that may later prove not to be in their best interest.

Accumulated Sick Leave Conversion Credits

In the second phase of the study, the following changes to the ASLCC program will be evaluated separately, with any inter-dependencies identified and quantified, if possible.

- Convert sick leave accumulations at the participant's career highest rate of pay;
- Convert sick leave accumulations at the highest rate of pay in the five years prior to retirement;
- Convert sick leave accumulations at the participant's final average earnings rate of pay as used in the retirement benefit calculation at the employee's option;
- Allow conversion and escrow of sick leave accumulations for all participants at time of termination without regard for eligibility for an annuity;
- Allow conversion and escrow of sick leave accumulations for any participant with 15 years of state service without regard for eligibility for an annuity;

Representative Daniel P. Vrakas
and
Senator Robert W. Wirch
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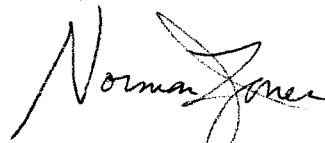
February 5, 2002

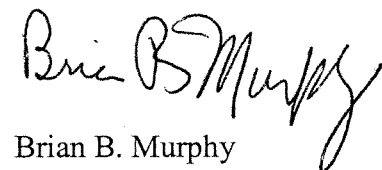
- Allow conversion and escrow of sick leave accumulations for any participant with 20 years of state service without regard for eligibility an annuity;
- Allow conversion and escrow of sick leave accumulations for any participant with 25 years of state service without regard for eligibility for an annuity;
- Allow the participant to elect to pay 25% of the premium and have the balance charged to the sick leave account, thereby extending the life of the sick leave account;
- Allow the participant to elect to pay 50% of the premium and have the balance charged to the sick leave account, thereby extending the life of the sick leave account;
- Annually, credit interest on the undistributed balance of the sick leave account at the fixed effective rate;
- Annually, credit interest on the undistributed balance of the sick leave account at the CPI rate.

The two studies will encompass 5 or 6 DROP valuations for each of the four WRS rate groups and 12 to 15 ASLCC valuations. The cost of the study will be based on actual time requirements which we estimate to be \$55,000 to \$75,000 including one trip to Madison to present study results to the JSCRS. The study will require 8 to 10 weeks to complete. If valuations are to be based on 12/31/01 participant data, the study will commence around June 1, after the regular annual actuarial valuations have been completed.

We look forward to working with you and the committee in the evaluation of these important and complex design issues.

Sincerely,


Norman L. Jones


Brian B. Murphy

NLJ:lr

CC: David Mills, DETF
Bill Ford, Legislative Council