

## STATE OF WISCONSIN

APPENDIX TO 2015 Assembly Bill 156 and Assembly Amendments 1, 2, and 3 to Assembly Bill 156; and 2015 Senate Bill 134 and Senate Amendments 1 and 2 to Senate Bill 134

## REPORT OF THE JOINT SURVEY COMMITTEE ON RETIREMENT SYSTEMS

(2015 Assembly Bill 156 introduced by Representatives THIESFELDT, EDMING, RIPP, MURSAU, BALLWEG, KULP, BERNIER and HEBL; cosponsored by Senators PETROWSKI, OLSEN and MILLER; and Senate Bill 134 introduced by Senators PETROWSKI, OLSEN, and MILLER; cosponsored by Representatives THIESFELDT, EDMING, RIPP, MURSAU, BALLWEG, KULP, BERNIER, AND HEBL.)

An Act relating to: coverage for new participating employers under the Wisconsin Retirement System.

**DESCRIPTION OF THE BILL AND AMENDMENTS**

Under current law, when an employer that does not participate in the Wisconsin Retirement System (WRS) elects to participate in the WRS, all eligible employees of the participating employer become participating employees under the WRS. Eligible employees generally include those employees who work more than two-thirds time or who are expected to work for the employer more than a year. Participating employees are entitled to receive retirement benefits as provided under the terms of the WRS.

Assembly Bill 156/Senate Bill 134 would permit an employer who does not participate in the WRS to elect to participate in the WRS, and only permit employees who are hired on or after the date that the employer elects to participate in the WRS, to become participating employees. In addition, the bill provides that a municipal employer that elects to participate under this provision of the bill, may also exclude any of its public utility employees from participation who already receive substantially similar retirement benefits to those provided under the WRS, as determined by the Department of Employee Trust Funds (ETF).

Assembly Amendment 1 to Assembly Bill 156 (same as Senate Amendment 1 to Senate Bill 134) deletes the requirement that public utility employees who are excluded from participating in the WRS by a municipal employer receive substantially similar retirement benefits to those provided under the WRS, as determined by ETF.

Assembly Amendment 2 to Assembly Bill 156 adds a provision to the bill that requires municipal employers electing to be included under the WRS to offer its current employees the option to participate in the WRS. An employee must elect to become a participating employee in writing before the effective date of employer participation if he or she wishes to become a participating employee under the WRS.

Assembly Amendment 3 to Assembly Bill 156 (same as Senate Amendment 2 to Senate Bill 134) adds a provision similar to that of Assembly Amendment 2 with the exception that a

municipal employer that elects to become a participating employer has the choice as to whether it offers current employees the option to participate in the WRS.

### **Actuarial Effect**

Assembly Bill 156/Senate Bill 134, as amended by Assembly Amendment 1, or Senate Amendment 1 to Senate Bill 134, are not expected to have a material actuarial effect on the WRS. Assembly Amendment 2 or 3 (as well as Senate Amendment 2 to Senate Bill 134) could result in some additional costs to the WRS that are explained below, however, these costs may not be material due to the limited number of individuals expected to elect to become participating employees. While a full actuarial analysis is generally recommended for provisions such as those espoused in Assembly Amendments 2 and 3 (or Senate Amendment 2 to Senate Bill 134), ETF indicates that because the number and type of employees who will elect to participate is unknown, the WRS actuarial firm stated that there is insufficient data available to accurately predict the costs associated with these provisions.

### **Probable Costs**

As stated above, Assembly Bill 156/Senate Bill 134, as amended by Assembly Amendment 1, or Senate Amendment 1, respectively, are not expected to significantly increase costs to the WRS. Because Assembly Amendments 2 and 3 or Senate Amendment 2 may result in existing municipal employees receiving the option to join the WRS, there is potential for increased costs to the WRS due to a negative selection bias. In this case, a negative selection bias would mean that allowing employees to elect participation would likely result in an increase in participating employees who will benefit the most from the WRS, rather than a random sample of all new employees added as they are employed. For instance, if the WRS benefits were more advantageous to older employees of a municipality than the municipality's current retirement system, it is likely that the older employees would elect to participate in the WRS, while younger employees may not. This may result in an imbalance in the WRS participant structure that could, in turn, result in added short-term costs to the fund. Due to the relative size of the current WRS participation and the number of municipal employees that are likely to elect to participate, however, the overall effect of Assembly Amendment 2 or 3 or Senate Amendment 2 is expected to be negligible.

### **POLICY RECOMMENDATION**

The Joint Survey Committee on Retirement Systems finds that 2015 Assembly Bill 156 and Assembly Amendments 1, 2, and 3 to Assembly Bill 156 and Senate Bill 134 and Senate Amendments 1 and 2 to Senate Bill 134, as they relate to the WRS, are good public policy.