



WISCONSIN LEGISLATIVE COUNCIL ACT MEMO

2003 Wisconsin Act 153 [2003 Senate Bill 344]	Thresholds For Adjustments in Wisconsin Retirement System Annuities
2003 Acts: www.legis.state.wi.us/2003/data/acts/	Act Memos: www.legis.state.wi.us/lc/act_memo/act_memo.htm

2003 Wisconsin Act 153 changes the law with respect to post retirement annuity adjustments under the Wisconsin Retirement System.

BACKGROUND INFORMATION

Under the WRS, amounts that are estimated as necessary to pay for the retirement benefits of employees are paid into the WRS as employer and employee contributions. The employer and employee contributions are paid as a percentage of payroll during the period of employment. The financing principal underlying the WRS is that employer contributions, employee contributions, and investment earnings on employer and employee contributions must be sufficient to pay both present retirement benefits and commitments to pay retirement benefits in the future. Under this principle, at any point in time the amount of assets currently available and estimated to be available in the future are to be equal to both current and expected future retirement obligations. Periodic actuarial valuations of the WRS are conducted to help fulfill this goal.

When an employee covered under the WRS retires, becomes disabled and eligible to receive a disability annuity, or dies and leaves a beneficiary eligible for benefits, an amount estimated as sufficient to pay the benefit obligations is transferred to an annuity reserve account established for the individual. The amount transferred to the annuity reserve account is less than the actual amount necessary to pay the benefit obligations because the WRS assumes that 5% annual interest will be earned on the annuity reserve account. [The process is somewhat different for employees who participated in the variable fund, which is not discussed in this memo because it is not relevant to the Act.]

Amounts in the annuity reserve account, together with other assets of the WRS, are managed and invested by the State of Wisconsin Investment Board (SWIB). These assets are invested in common and preferred stocks, bonds, real estate, and certain other investments. Annual investment results on assets

This memo provides a brief description of the Act. For more detailed information, consult the text of the law and related legislative documents.

in the fixed fund, after being averaged with the investment results for the previous four years, are distributed proportionately to each of the accounts in the fixed fund, including the annuity reserve account.

Surpluses or deficits in the fixed fund annuity reserve account increase or decrease the annuities of WRS retirees. The fixed annuities of WRS employees may be reduced due to deficits in the fixed fund annuity reserve, but may not be reduced to a level lower than that initially received by the employee on his or her retirement. Although investment results are the primary cause of surpluses or deficits, other factors include earnings or losses generated by carryover surpluses or deficits, gains or losses from mortality experience and changes in actuarial assumptions.

Because of the 5% annual interest assumption, only surpluses in the fixed fund annuity reserve that exceed the assumed 5% annual interest rate are distributed to retirees as annuity increases.

PRIOR LAW

Under prior s. 40.27 (2), Stats., surpluses (above the 5% annual interest assumption) in the fixed annuity reserve were distributed only if the amount of the surpluses are sufficient to generate an increase in annuities of at least 2%. This 2% threshold was enacted in Chapter 96, Laws of 1981, which merged the State Teachers Retirement System, the Milwaukee Teachers Retirement Fund, and the Wisconsin Retirement Fund.

ACT 153

Act 153 includes the following provisions:

1. Provides by statute that annuities paid from the fixed annuity reserve fund shall be increased in any year that a surplus in the fixed annuity reserve fund for the prior year will result in at least a 0.5% increase in fixed annuities in force, on recommendation of the actuary, unless the Department of Employee Trust Funds has promulgated an administrative rule that establishes a different percentage threshold for increases in fixed annuities.

2. Provides by statute that annuities paid from the fixed annuity reserve fund shall be decreased, to the extent authorized in s. 40.27 (2) (c), Stats., in any year that a deficit in the fixed annuity reserve fund for the prior year will result in at least a 0.5% decrease in fixed annuities in force, on recommendation of the actuary, unless the Department of Employee Trust Funds has promulgated an administrative rule that establishes a different percentage threshold for decreases in fixed annuities.

3. Authorizes the Department of Employee Trust Funds to promulgate administrative rules that establish threshold percentages for increases or decreases in annuities paid from the fixed annuity reserve fund that differ from those established by statute.

Effective Date: 2003 Wisconsin Act 153 takes effect on March 30, 2004.

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