



## 1997 ASSEMBLY BILL 421

June 10, 1997 - Introduced by Representatives DOBYNS, TURNER, MUSSER, STASKUNAS, SCHAFER, BOYLE, FREESE, PLOUFF, HANDRICK and SYKORA, cosponsored by Senators C. POTTER, WIRCH, SCHULTZ and RUDE. Referred to Joint survey committee on Retirement Systems.

1     **AN ACT to amend** 40.02 (7), 40.23 (2m) (e) 1., 40.23 (2m) (e) 2., 40.23 (2m) (e) 3.  
2             and 40.23 (2m) (e) 4. of the statutes; **relating to:** transferring funds in the fixed  
3             retirement investment trust of the Wisconsin retirement system and  
4             increasing the retirement formula multiplier for certain participating  
5             employees in the Wisconsin retirement system for creditable service earned  
6             before January 1, 1998.

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### *Analysis by the Legislative Reference Bureau*

This bill does all of the following:

1. Under current law, when a participant in the Wisconsin retirement system (WRS) terminates covered employment and becomes eligible for a retirement annuity, one of the ways in which the amount of his or her annuity is determined is by multiplying the participant's final average earnings by the participant's years of creditable service and by a percentage multiplier. For a protective occupation participant who is covered by social security, an elected official and an executive participating employe, the percentage multiplier is 2%. For a protective occupation participant who is not covered by social security, the percentage multiplier is 2.5%. For all other participants in the WRS, the percentage multiplier is 1.6%.

This bill increases the percentage multiplier for all classes of participants in the WRS for creditable service that is earned before January 1, 1998. For a protective occupation participant who is covered by social security, an elected official and an

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executive participating employe, the percentage multiplier is increased to 2.2%. For a protective occupation participant who is not covered by social security, the percentage multiplier is increased to 2.7%. For all other participants in the WRS, the percentage multiplier is increased to 1.8%. The increase in the percentage multiplier first applies to participating employes in the WRS who terminate covered employment on January 1, 1998, or on the effective date of the bill, whichever is later. However, for all creditable service that is earned on or after January 1, 1998, the bill provides that the current law percentage multipliers will apply.

2. Under current law, a fixed retirement investment trust (FRIT) and a variable retirement investment trust are maintained within the public employe trust fund under the management of the investment board. Within the FRIT, a transaction amortization account (TAA) is maintained that is used for the purpose of smoothing out fluctuations in unrecognized gains and losses in the value of FRIT assets. The balance of the TAA closely parallels the difference between market value and the adjusted book value of the assets. Annually, 20% of the balance of the TAA is distributed to the fixed annuity reserve, the fixed employer accumulation reserve and the fixed employe accumulation reserve.

This bill provides that on January 1, 1998, or on the effective date of this bill, whichever is later, \$2,100,000,000 is to be distributed from the TAA to the fixed annuity reserve, the fixed employer accumulation reserve and the fixed employe accumulation reserve in an amount equal to a percentage of the total distribution determined by dividing each reserve's balance on the prior January 1 by the total balance of the fixed retirement investment trust on the prior January 1. Under the bill, the increase in the fixed employer accumulation reserve that results from the distribution shall, on the recommendation of the actuary, be first applied to funding any liabilities created by the bill, and the balance shall be equitably allocated among employers that were participating employers under the WRS on December 31, 1997, based on each employer's share of total covered payroll in 1997.

3. Under current law, the "assumed rate" is the probable average effective rate that is expected to be earned for the FRIT on a long-term basis. Currently, the assumed rate is a rate of 8% and the actuarial assumption for across-the-board salary increases for the purpose of valuing the liabilities of the WRS is 1.9% less than the assumed rate unless due to changed economic circumstances the actuary recommends and the employe trust funds board approves a different rate. The assumed rate for a calendar year is used for all calculations of required contributions and reserves for WRS participants.

This bill increases the actuarial assumption for across-the-board salary increases for the purpose of valuing the liabilities of the WRS from 1.9% less than the assumed rate to 3% less than the assumed rate and requires the employe trust funds board to calculate contributions to the WRS for calendar year 1998 no later than March 1, 1998, or the first day of the 3rd month that begins after the effective date of the bill, whichever is later.

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.

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

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

1           **SECTION 1.** 40.02 (7) of the statutes is amended to read:

2           40.02 (7) "Assumed rate" means the probable average effective rate expected  
3           to be earned for the fixed annuity division on a long-term basis. The assumed rate  
4           shall be a rate of 7.5% and the actuarial assumption for across-the-board salary  
5           increases for the purpose of valuing the liabilities of the Wisconsin retirement system  
6           shall be ~~1.9%~~ 3% less than the assumed rate unless due to changed economic  
7           circumstances the actuary recommends and the board approves a different rate. The  
8           assumed rate for a calendar year shall be used for all calculations of required  
9           contributions and reserves for participants, except as provided in s. 40.04 (4) (a) 2.  
10          and 2m., and the amount of any lump sum benefit paid instead of an annuity, except  
11          it shall not be used for any purpose for which the assumed benefit rate is to be used  
12          under sub. (6).

13          **SECTION 2.** 40.23 (2m) (e) 1. of the statutes is amended to read:

14          40.23 (2m) (e) 1. For each participant for creditable service of a type not  
15          otherwise specified in this paragraph that is earned before January 1, 1998, 1.8%;  
16          for such creditable service that is earned on or after January 1, 1998, 1.6%.

17          **SECTION 3.** 40.23 (2m) (e) 2. of the statutes is amended to read:

18          40.23 (2m) (e) 2. For each participant for creditable service as an elected official  
19          or as an executive participating employe that is earned before January 1, 1998, 2.2%;  
20          for such creditable service that is earned on or after January 1, 1998, 2%.

21          **SECTION 4.** 40.23 (2m) (e) 3. of the statutes is amended to read:

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1           40.23 (2m) (e) 3. For each participant subject to titles II and XVIII of the federal  
2 social security act, for service as a protective occupation participant that is earned  
3 before January 1, 1998, 2.2%; for such creditable service that is earned on or after  
4 January 1, 1998, 2%.

5           **SECTION 5.** 40.23 (2m) (e) 4. of the statutes is amended to read:

6           40.23 (2m) (e) 4. For each participant not subject to titles II and XVIII of the  
7 federal social security act, for service as a protective occupation participant that is  
8 earned before January 1, 1998, 2.7%; for such creditable service that is earned on or  
9 after January 1, 1998, 2.5%.

10           **SECTION 6. Nonstatutory provisions.**

11           (1) TRANSFER OF FUNDS FROM THE TRANSACTION AMORTIZATION ACCOUNT OF THE  
12 FIXED RETIREMENT INVESTMENT TRUST.

13           (a) On January 1, 1998, or on the effective date of this paragraph, whichever  
14 is later, \$2,100,000,000 shall be distributed from the transaction amortization  
15 account of the fixed retirement investment trust to the employe accumulation,  
16 employer accumulation and annuity reserves of the fixed retirement investment  
17 trust in an amount equal to a percentage of the total distribution determined by  
18 dividing each reserve's balance on the prior January 1 by the total balance of the fixed  
19 retirement investment trust on the prior January 1.

20           (b) The increase in the employer accumulation reserve that results from the  
21 distribution under paragraph (a) shall, on the recommendation of the actuary, be  
22 first applied to funding any liabilities created by this act, and the balance shall be  
23 equitably allocated among employers that were participating employers under the  
24 Wisconsin retirement system on December 31, 1997, based on each employer's share  
25 of total covered payroll in 1997.

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1 (c) The total amount distributed to the employe accumulation reserve under  
2 paragraph (a) shall be equitably credited to participants' accounts based on their  
3 account balances as of January 1, 1998. Any participant whose account is credited  
4 under this paragraph and whose annuity effective date is before January 1, 1999, or  
5 one year after the effective date of this paragraph, whichever is later, may not be  
6 included in any post-retirement surplus distribution under section 40.27 (2) of the  
7 statutes that is attributable to the distribution that is made to the annuity reserve  
8 under paragraph (a).

9 (d) The total amount distributed to the annuity reserve under paragraph (a)  
10 shall be distributed as provided under section 40.27 (2) of the statutes.

11 (2) DETERMINATION OF EMPLOYER REQUIRED CONTRIBUTION RATE.

12 (a) The employe trust funds board shall determine all Wisconsin retirement  
13 system contributions for calendar year 1998 no later than March 1, 1998, or the first  
14 day of the 3rd month that begins after the effective date of this subsection, whichever  
15 is later.

16 **SECTION 7. Initial applicability.**

17 (1) The treatment of section 40.23 (2m) (e) 1. to 4. of the statutes first applies  
18 to participating employes under the Wisconsin retirement system who terminate  
19 covered employment on January 1, 1998, or on the effective date of this subsection,  
20 whichever is later.

21 (END)