



The University of Wisconsin System

Office of the President

1720 Van Hise Hall, 1220 Linden Drive
Madison, Wisconsin 53706-1559
Tel (608) 262-2321 Fax (608) 262-3985
E-mail: klyall@ccmail.uwsa.edu

January 6, 1998

Memorandum

To: Members of the Assembly Committee on Government Operations

From: Katharine Lyall, President *K. Lyall*

Re: **SB 32** - Elimination of 5-year annuity vesting period for Wisconsin Retirement System (WRS) participants employed on or after January 1, 1990.

POSITION: SUPPORT

I am writing to express the Board of Regents' support for this bill which eliminates the current 5-year vesting requirement for WRS participants.

Currently, an inequitable "two-tier" situation exists between employees hired after 1990 who are subject to the vesting requirement and those hired before 1990 who were vested immediately. Employees hired after January 1, 1990 can only receive contributions made for the employee (plus modest fixed interest of 5%), not the employer contributions, and are not eligible for an annuity. This bill provides all employees an annuity based on both employer and employee contributions.

The UW System will lose more than 25% of its faculty (an estimated 1,868) over the next decade due to retirements. Immediate vesting is needed to be competitive in attracting new personnel. As the attached table illustrates, the current vesting requirements of other Big Ten states afford immediate vesting to all faculty.

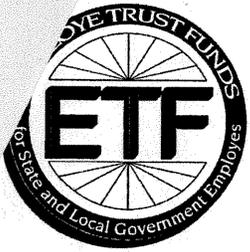
The actuary for the WRS assumes that nearly all participants terminating employment with less than five years of creditable service will apply for separation benefits which would forfeit any right to an annuity. He concluded that the repeal of the five-year vesting requirement will have no measurable effect upon the actuarially determined employer and employee contribution rates required to support the WRS.

Thank you for your consideration of support for this legislation. Our ability to provide students with high quality public education is increasingly dependent on our ability to effectively compete for the best faculty and staff. Please feel free to call either Margaret Lewis (262-4464) or David Miller (262-4463) if you have any questions or concerns regarding the UW System position on this legislation.

cc: Regents
Chancellors
Vice Presidents

VESTING PROVISIONS

Comparison with other Public Big-10 Institutions		
University	Retirement Plan	Vesting
Illinois	SURS	University: 5 years Faculty: Immediate
Indiana	TIAA-CREF	Immediate
Iowa	TIAA-CREF	Immediate
Michigan	TIAA-CREF	Immediate
Michigan State	TIAA-CREF	Immediate
Minnesota	University Plan	University: Immediate Faculty: Immediate
Ohio State	STRS	University: 5 years Faculty: Immediate
Pennsylvania State	State Plan TIAA	University: 10 years Faculty: Immediate
Purdue	TIAA-CREF	Immediate
Wisconsin	WRS	University: 5 years Faculty: Immediate (for those hired before 1990) 5 years (for those hired after 1990)



STATE OF WISCONSIN

Department of Employee Trust Funds

Eric O. Stanchfield
Secretary
801 West Badger Road
P.O. Box 7931
Madison, WI 53707-7931

January 7, 1998

The Honorable John Dobyms, Chair
Assembly Committee on Government Operations
Room 10 West, State Capitol
Madison WI 53702

Subject: Senate Bill 32

Dear Representative Dobyms:

We support SB 32, a bill to repeal the five-year vesting requirement that applies to participants who became covered under the Wisconsin Retirement System (WRS) on or after January 1, 1990. This provision was enacted as part of the 1989 early retirement bill. We base our recommendation on the following:

1. Unlike many private retirement plans, the WRS is an employee contributory plan. WRS employees are immediately vested for purposes of withdrawing their contributions if they separate prior to being eligible for an annuity. The five-year vesting requirement relates only to eligibility for an annuity.
2. Private pension plans are subject to the federal Employee Retirement Income Security Act of 1974 (ERISA) which, among other provisions, establishes minimum vesting requirements. Because of ERISA requirements and a more mobile workforce, the trend in the private sector is for shorter, not longer, vesting periods.
3. The WRS minimum vesting requirement is a deterrent in recruiting personnel for any positions for which national or private sector searches are conducted (e.g., executive, administrative or university system positions).
4. Repeal of the current vesting requirement will have no actuarial effect on the contribution rates and will actually ease administration for the Department as it will delete one complicated provision of a very complex retirement system.

Honorable John Dobyms
January 7, 1998
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We appreciate your time and hope that you will take favorable action on SB 32.

Sincerely,

A handwritten signature in cursive script that reads "Eric O. Stanchfield". The signature is written in black ink and is positioned above the typed name and contact information.

Eric Stanchfield, Secretary
(608) 266-0301
FAX (608) 267-0633
TTY (608) 267-0676

ES:sd

cc: Members of the Committee

**Testimony on Senate Bill 32
Assembly Committee on Government Operations
January 7, 1997**

**Susan Chamberlain, Director
Staff Benefits & Payroll Policy
University of Wisconsin System**

Good afternoon, I am Sue Chamberlain representing the UW Board of Regents in support of SB 32 to repeal the 5-year vesting requirement enacted in 1989.

The Board supports the elimination of the vesting requirement for four reasons:

1. **EQUITY**
The current vesting provision creates a two tier benefit level. Those hired before 1990 are vested immediately, those hired after 1990 are subject to a five year vesting requirement. Repeal of the 5-year vesting provision will treat all WRS participants in an equitable manner, regardless of date of hire.
2. **RECRUITMENT**
The UW System will experience an accelerated rate of retirements over the next five years. Attached is a comparison with other public "Big 10" institutions. You will note that the majority immediate vesting for employer contributions. The WRS 5-year vesting requirement puts the UW System at a disadvantage in recruiting for faculty positions.
3. **NATIONAL TREND**
The need for portability in retirement benefits is reflected in a national trend to shorten or eliminate the vesting period. Based on studies prepared by staff of the Retirement Research Committee, the vesting requirements for both public and private pension plans have shown a trend towards a reduction in vesting requirements.
4. **NO COST IMPACT**
The actuary for the WRS has determined there would be NO actuarial effect on the employer or employee contribution rates if the vesting provision were repealed.

Thank you for your consideration in keeping the UW System competitive with other states that offer Optional Retirement Programs which include immediate vesting. I'd be glad to answer any questions.

VESTING PROVISIONS

Comparison with other Public Big-10 Institutions		
University	Retirement Plan	Vesting
Illinois	SURS	University: 5 years Faculty: Immediate *
Indiana	TIAA-CREF	Immediate
Iowa	TIAA-CREF	Immediate
Michigan	TIAA-CREF	Immediate
Michigan State	TIAA-CREF	Immediate
Minnesota	University Plan	University: Immediate Faculty: Immediate
Ohio State	STRS	University: 5 years Faculty: Immediate *
Pennsylvania State	State Plan TIAA	University: 10 years Faculty: Immediate
Purdue	TIAA-CREF	Immediate
Wisconsin	WRS	University: 5 years for those hired after 1990 Faculty: Immediate

* New plans are being implemented with immediate vesting of both university and faculty contributions

JAMES BYRD
President
UW-Stout, Psychology
Menomonie, WI 54751
Telephone 715-232-2650
E-Mail: byrdj@uwstout.edu
Fax 608-277-7708

EDWARD J. MUZIK
TAUWP/WFT Representative
1334 Applegate Road
Madison, WI 53713-3184
Telephone 608-277-7700, x241
Toll free 800-362-7390
E-Mail: muziksr@aol.com
Fax 608-277-7708

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WFT, AFT, AFL-CIO

To: Members of the Assembly Government Operations Committee

From: Edward J. Muzik *EJM*

Date: January 7, 1998

Re: SB 32

We strongly support SB 32 which will ^{re} appeal the five-year vesting requirement.

We believe it merits your support for the following reasons:

- 1) The requirement makes recruiting more difficult for the UW System and probably in recruiting state and local administrators.
- 2) There is no effect on the actuarially determined contributions rates to the WRS.
- 3) The vesting requirements appear to new hires as unfair and inequitable and to some extent create a morale problem.
- 4) SB 32 passed the Joint Survey Committee on Retirement Systems with a unanimous vote. It passed the Senate Government Operations Committee unanimously. It passed the Senate 31-2.
- 5) The repeal was included in the draft of the proposed formula improvement package which was agreed to by the Executive branch negotiators. It appears that the Governor supports the concept embodied in this bill.

Thank you for your support.



THE ACADEMIC STAFF PUBLIC REPRESENTATION ORGANIZATION

Esther Olson, President • Chuck Evenson, Co-Vice President • Nick Schultz, Co-Vice President • Ann Gordon-Walker, Treasurer

TO: Members of the Assembly Committee on Government Operations

**FROM: Esther M. Olson, President
Academic Staff Public Representation Organization**

RE: Senate Bill 32

DATE: January 7, 1998

The Academic Staff Public Representation Organization (ASPRO) is a non-profit, professional organization that represents the legislative interests of UW-System academic staff.

ASPRO supports SB 32. Under current law, a participant in the WRS must have five years of service before gaining the right to receive a retirement annuity. This bill eliminates the five-year vesting period.

We support this bill because it will enhance the University's ability to recruit well-qualified academic staff and faculty. Currently, the University is at a disadvantage when recruiting faculty and staff who have other employment offers providing immediate or shorter vesting periods.

Furthermore, an academic staff or faculty member who finds it necessary or advantageous to leave the University before completing five years of service should not be penalized by the loss of his or her retirement annuity.

For these reasons, we urge the Committee's to support this legislation.

EMO/mlb

33 NOB HILL DRIVE
MADISON, WI 53713-2198

(608) 276-7711 • 1-800-362-8034
FAX: (608) 276-8203


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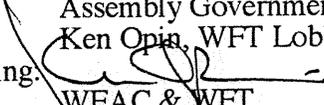


1334 APPLGATE ROAD
MADISON, WI 53713-3184

(608) 277-7700 • 1-800-362-7390
FAX: (608) 277-7708

January 8, 1998

Testimony

To: Assembly Government Operations Committee
From: Ken Opia, WFT Lobbyist
Representing: 
WEAC & WFT
RE: Support SB32, Eliminating five year vesting

SB32 eliminates the five year vesting requirement for eligibility to participate in the Wisconsin Retirement System. The current status makes recruiting more difficult, especially in the UW System, and saves no money. Because people who leave covered service with under five years are returned their contributions, it's a wash. So the status quo accomplishes no good for anyone, and SB32 improves the hiring climate for employers in the WRS.

WEAC and WFT urge you to vote for SB32.
