



UNIVERSITY OF  
WISCONSIN-MADISON  
MEDICAL SCHOOL

**Testimony before the Joint Survey Committee on Retirement Systems  
Monday, February 21, 2000  
Assembly Bill 145**

Rep. Vrakas and Senator Wirch, members of the Joint Survey Committee on Retirement Systems:

My name is Don Harkness. I am a physician, an emeritus professor of medicine from the University of Wisconsin, and I served in the USPHS commissioned corps at NIH from 1960-63 training in biochemistry. In 1980 I was recruited from University of Miami to Madison as Chair of the Department of Medicine, the first external candidate to serve in that role. I served in that capacity for 13 years during which time I held a three year term on the University Committee and a term as President of Profs, Inc., the faculty organization which has registered in support of passage of Assembly Bill 145.

About a decade after the end of WW II the United States government embarked upon two initiatives of enormous importance to the health of our citizenry: 1.) to expand the numbers of physicians graduating from our medical schools, and 2.) to promote and enable a vast expansion of biomedical research. You will recall that shortly thereafter most medical schools doubled their class sizes and new schools were started. Large amounts of money were provided to expand faculties but, more importantly, to build new facilities. The military draft for physicians, started during the war, was continued to meet the continuing medical staffing needs of the military.

Continuing Medical Education

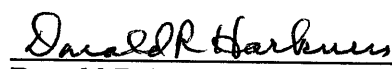
Though the first initiative provided the facilities for biomedical research, few persons had the necessary training to conduct such research. Although the NIH, as well as the CDC, had become premiere institutions for research and research training, the problem of recruiting trainees remained. A brilliant solution was formulated. This was to recruit, on a competitive basis, recent medical graduates who, as members of the USPHS commissioned corps would be trained to do research while at the same time fulfilling their required military service obligation.

Literally hundreds of physicians chose this option during the 60s and 70s. Dozens of these individuals now serve as faculty members at the most prestigious medical schools in the country conducting research, teaching and serving in leadership roles.

At University of Wisconsin Medical School there are currently about 20 members of the faculty who served in the USPHS prior to 1974. Many have distinguished themselves nationally and internationally for their research and have attracted millions of dollars in research funding to the Medical School. At least seven now serve, or have served, as departmental chairs, one as Vice Chancellor for Health Affairs, and one is the current Dean.

The Federal Government considers service in the USPHS the equivalent of service in one of the military, uniformed, or armed services. Those who have served in the USPHS, just as those having served in other branches of military service, are eligible to receive veterans' benefits, including use of VA medical services.

Enacting Assembly Bill 145 would correct an inequity, which actually may have been an oversight in drafting the original bill, by giving creditable time in the WRS for service in the USPHS prior to 1974. I urge you to recommend approval of this bill.

  
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Donald R. Harkness, MD  
Emeritus Professor of Medicine

# PRELIMINARY

1999-2000

LRB-0865/3

STATE OF WISCONSIN

APPENDIX TO 1999 ASSEMBLY BILL 145

REPORT OF JOINT SURVEY COMMITTEE ON RETIREMENT SYSTEMS

(Introduced by Representatives Black and Schneider; cosponsored by Senator Risser.)

An Act to amend 40.02 (15) (a) (intro.), 1. to 4. and 6., (b) and (c) (intro.) and 1. to 3., 40.02 (17) (intro.), 40.02 (40), 40.02 (48m) (f), 40.05 (2) (b), 40.25 (7) (a) (intro.), 40.25 (7) (b), 40.30 (3) and 40.71 (1) (c); and to create 40.05 (2) (bx) of the statutes; relating to: granting creditable service under the Wisconsin retirement system for service in the federal public health service.

## **EXTRACT OF COMMITTEE'S RECOMMENDATION ON THIS BILL**

The Joint Survey Committee on Retirement Systems finds that Assembly Bill 145 [represents good public policy, and the Committee recommends its passage] [does not represent good public policy, and the Committee does not recommend its passage].

## **PURPOSE OF THE BILL**

This bill relates to granting creditable service under the Wisconsin Retirement System (WRS) for any participant in the WRS for service in the federal public health service on the same basis as is currently granted for military service.

Currently, a participant in the WRS may receive creditable service under the WRS for military service. Under s. 40.02, Stats., military service is of two types:

1. A participant: (a) enlisted or was ordered or inducted into active service in the U.S. Armed Forces; (b) left the employment of a participating employer to enter the U.S. Armed Forces; (c) returned to the employment of the same employer within 180 days of release or discharge from the U.S. Armed Forces or released from hospitalization because of injury or sickness resulting from service in the U.S. Armed Forces; (d) served for not more than four years unless his or her service was involuntarily extended for a longer period; (e) was discharged from the U.S. Armed Forces under conditions other than dishonorable; and (f) upon return from service in the U.S. Armed Forces furnished evidence required to establish the participant's rights. If these conditions are met, the person may receive one year of military service credit for

each year of military service regardless of the amount of the participant's other creditable service in the WRS. [s. 40.02 (15) (a), Stats.]

2. A participant performed military service before 1974 and terminated covered employment under the WRS on or after March 9, 1984. The participant may receive one, two, three or four years of military service if the participant has at least 5, 10, 15 or 20 years respectively of creditable service. However, any other creditable military service granted under s. 40.02 (15) (a), Stats., is included in determining the maximum years of military service credit granted under this provision. [s. 40.02 (15) (c), Stats.]

This bill provides that a participant who has served in the federal public health service will receive the same treatment, as described above, as is provided for military service.

### **ACTUARIAL EFFECT**

This bill will affect the WRS by increasing the years of creditable service for employees who retire under formula benefits. It will require adjustment of the employe contribution rate for employees who are eligible for the credit. The rate must be sufficient to amortize the unfunded prior service liability for the new benefit over the remainder of the 40-year amortization period. As of December 31, 1999, 30 years remained on the amortization schedule.

### **PROBABLE COSTS**

It is estimated that 25 participants would gain benefits under this bill with an average of three years of creditable service added by their former service with the federal public health service. Assuming: (1) 80% of these 25 employees were in the general employe category and the other 20% in the executive and elected category; (2) the average salary is 1/3 more than the average salary of those active employees who are age 55 through 59 in the 1997 WRS valuation; and (3) there are equal numbers of males and females with a mean retirement age of 58, this bill would add \$750,000 to the unfunded liability of the affected employers or an average of \$30,000 per affected participant. The employers would pay for this cost over the next 30 years by an increase in their unfunded liability payments. The total annual contributions required from all of these employers would be about \$40,000 currently, to approximately \$150,000 in the last year of funding the bill's benefits (in 30 years). The cost would be born by the employers of the affected employes and the state's estimated share is 29%.

The Department of Employee Trust Funds estimates an additional 500 inquiries, telephone and written, would be made and that its Member Services Bureau would have one-time staff costs of \$5,100 to revise forms and brochures, change telephone system messages, revise internal operating procedures, provide staff training and handle increased work load associated with telephone and written inquiries, e-mails and walk-in appointments. The Benefits Services Bureau will have annual ongoing staff costs of \$110 to calculate the present value of the new benefit based on the 25 participants requesting credit each year. The Controller's office estimates an additional \$130 per year in staff costs to update the unfunded accrued actuarial liability balances for employers, calculate the new prior service contribution rates and update the contribution rates. The Division of Employer Services estimates \$100 in one-time staff costs for revision of

employer manuals and worker instructions and \$450 in ongoing staff costs to process, audit and key requests for federal public health service credit. The total annualized cost is \$690.

**PUBLIC POLICY**

The purpose of this legislation is to grant creditable service comparable to the credit for military service currently granted to participants in the WRS for service in the federal public health service.

The employer contribution rate for the WRS will be adjusted to reflect the cost of granting creditable public health service for participating employees. The rate must be sufficient to amortize the unfunded prior service liability of the employers over the remainder of the original 40-year amortization period, of which 30 years remain. It is estimated that only 25 participants would recognize the benefits of this bill and these persons would benefit only if the formula benefit increase provided by the bill would cause the use of that method of calculation of a participant's annuity rather than money purchase.

**RECOMMENDATION**

The Joint Survey Committee on Retirement Systems finds that 1999 Assembly Bill 145 [represents good public policy, and the Committee recommends its passage] [does not represent good public policy, and the Committee does not recommend its passage].

2/21/00

If we give military  
Service credit to persons  
who have already retired  
it must be funded by  
GPR and pass by a  
 $\frac{3}{4}$  vote, as required  
by the Wisconsin

Constitution.

**STATE OF WISCONSIN**  
**JOINT SURVEY COMMITTEE ON RETIREMENT SYSTEMS**  
**MONDAY, FEBRUARY 21, 2000**  
**11:00 A.M.**  
**ROOM 417 NORTH (GAR), STATE CAPITOL BLDG.**

**A G E N D A**

1. Call to Order and Roll Call.
2. Consideration of the Minutes of the January 24, 2000 Meeting.
3. **Assembly Bill 9** relating to granting creditable service under the Wisconsin retirement system for service in the federal peace corps or VISTA public service programs or in any national service program under the federal National and Community Service Act of 1990.
4. **Assembly Bill 124** relating to creditable military service under the Wisconsin retirement system.
5. **Senate Bill 88** relating to creditable military service under the Wisconsin retirement system.
6. **Assembly Bill 145** relating to granting creditable service under the Wisconsin retirement system for service in the federal public health service.
7. **Senate Bill 105** relating to classifying certain teachers employed by the state as protective occupation participants under the Wisconsin retirement system.
8. **Senate Bill 211** relating to classifying certain nurses employed by the state as protective occupation participants under the Wisconsin retirement system.
9. **Assembly Bill 388** relating to the normal retirement date under the Wisconsin retirement system for individuals employed by certain school districts.
10. **Assembly Bill 426** relating to death benefits provided under the Wisconsin retirement system and making an appropriation.
11. **Assembly Bill 455** relating to establishing a presumption for employment-connected disease for state and county fire fighters.
12. **Assembly Bill 656** relating to granting creditable service under the Wisconsin retirement system to certain assistant district attorneys formerly employed by Milwaukee County and making an appropriation.

*(An Executive Session may be held during or immediately following the public hearing on the above and/or any other items pending before the Committee)*

13. Other Matters.

14. Adjournment.

## BILLS OF IMMEDIATE INTEREST

### A.B. 9 – Pension Credit for Service in the Peace Corps, VISTA, etc.

Data has been requested from the Peace Corps to enable estimation of this bill's cost. A source for VISTA data is being sought. We will also need to identify other federal programs that might also be covered by this bill. The cost estimate will be easy to make once we have the data, and basic data in summarized form should be sufficient.

### A.B. 309 – Excluding Part-Time, Seasonal and Contractual Employees from Social Security

- Plate - Shibilsky

The general effect of this would be to save the State 7.65% of the payroll for employees currently covered by Social Security who elect the alternative money purchase plan to be provided for them in lieu of Social Security coverage.

There are two questions to be answered in order to estimate the cost savings to the State under this bill:

1. **The Data Question:** How many employees and how much payroll would be affected? We may also have to get some idea of their relative ages, as explained below.
2. **The Election Question:** What percentage of employees at different pay levels would be likely to decline Social Security in favor of the private retirement plan offered to them?

I would think that older low paid employees would be inclined to prefer Social Security over the 7.5% money purchase plan, if they realized that Social Security uses a front-loaded benefit formula that greatly favors the lower paid. Also, Social Security benefits are not (yet) fully taxable, while pension benefits are. Younger employees with more years to go until retirement would seem likelier to choose the money purchase plan. Also, younger people seem to have little faith in the survival of Social Security.

Ideally, we would like to get data on election rates from another state that has already implemented this. If we cannot get data this way, then we will have to try to get age information and make some educated guesses as to rates of election of the alternate plan.

We have "absolute coverage" agreement w/ feds

### S.B. 119 – Joint & Survivor Death Benefit Beneficiary No Longer Must Be a Dependent

Information needed to estimate the cost of this bill can probably all be obtained from ETF. I would need some information about the election of lump sums by those eligible for the J&S benefit, and also it might help to have the active life data that ETF gave the actuaries for the 1998 valuation. With this, it would require from 1 to 3 days of work (2 to 6 working days) for me to prepare the fiscal estimate -- depending on whether I could find a way to estimate it by hand, or had to adapt spreadsheets that I developed for the ORP study.



## A.B. 245 -- Physical Examinations Required for Duty Disability

There are three conditions for a protective participant to be eligible for duty disability:

1. Injured or sickened in the line of duty, and
2. The disability is likely to be permanent, and
3. It causes him/her to retire, to be given light duty, or to lose chance of advancement.

This bill would require periodic medical examinations to determine whether the disability has continued. If not, then the disability benefit would be terminated. It might be helpful to define more carefully to what degree the disability must have persisted -- e.g., if the doctor no longer thinks that it seems likely to be a permanent condition, then has the disablement ended?

Note that the final paragraph of the bill is not enforceable against the former employer. There is no way to assure that an employee who has recovered from disability will get his or her former job back -- or for that matter, that the individual will be able to secure a similar job anywhere. If the recovered employee cannot secure a similar job, then he or she might have to accept a new line of work in order to find employment.

For such employees, this legislation would, in effect, be imposing *after the fact* the same strict definition of disability as non-protective employees are subjected to by 40.63(1)(b) *before the fact* (i.e., before they are granted disability benefits) -- namely, that the ability to perform any substantial gainful activity is enough to disqualify them from disabled status.

From here it is only a small step of logic to ask why the law should not be changed to apply to protective participants the stricter 40.63(1)(b) definition of disability in the first place. If this seems too harsh a policy to apply to police, etc., then a smaller partial duty disability benefit could be defined to fill the gap. (Just a thought.)

Employer contribution rates for the Section 40.65 disability insurance program are now about 3.3% of protectives' \$710 million payroll. Therefore, the full cost for duty disability is running at about \$23.5 million annually. If, for example, one in four future disabilities would be terminated under this bill, then the ultimate savings (in current dollars) would be somewhat less than one-fourth of the full \$23.5 million now being spent -- that is, somewhat less than 0.8% of payroll or \$6 million annually.

It would not be a full one-fourth of the total disability cost because (1) ETF would bear some expense for the medical examinations, and (2) each person disqualified for benefits would have drawn some benefits before being disqualified. For this example we can roughly estimate that the actual cost savings to the employers from this bill would be about 75% of the potential savings, which is about 0.62% of payroll or \$4,400,000 annually (in current dollars).

This much savings would not be realized immediately, but would be the limit of a pattern of increased savings each year over a period of time. This is because much of the current 3.3% of payroll contribution is needed to pay for those currently disabled, who are less likely to lose their benefits under this bill than are those who will become disabled in the future.

The assumption that one in four disabilities might be terminated under this bill is for purposes of example only. Further research would have to be done to learn what level of recovery might indeed be expected. "One in four" is a subjective impression that I have based on my previous experience with the West Virginia State Police, and it may or may not be a good assumption to use for a WRS estimate.

## NOTES ON OTHER BILLS

### A.B. 48 & S.B. 142 – Protective Status for County Jailers

Fiscal note has been sent out.

### A.B. 124 / S.B. 88 – Allows Pre-1974 Military Service & "Double-Dipping"

I have the necessary data for costing out the addition of pre-1974 military service. The "double-dipping" part of the bill may prove to be more problematical. It will take a couple of working days to estimate the former. I should have a better idea of the latter once I've done the former.

S.B. 88 also allows "double-dipping", so it will be estimated along with A.B. 124.

### A.B. 145 – Pension Credit for Public Health Service Work

I should have the fiscal note done in a couple of days. Very minimal cost to WRS.

### A.B. 916 – Social Security/Part-Time Employees

This is similar to A.B. 309. *SS admin. won't want to do this (ETF has concerns also)*

### S.B. 105 – Corrections Teachers Getting Protective Status

We will send this fiscal note out today or tomorrow. Pension cost is about \$300,000. These teachers don't satisfy the physical part of the definition for protectives, according to someone over at Corrections.

### S.B. 127 – Retroactive Death Benefits to 1/1/97

Should not be too hard to estimate, but this is a bad idea. Why draw the line at 1/1/97?

Scott's calendar:

May 18: Coalition of Annuitants meeting  
May 19: DER class  
May 20: DER class  
May 26: DER class  
May 27: DER class  
June 17-July 5: Vacation  
Jul 8: Dental appointment  
Jul 26: Dental appointment

Debra Breggeman's bad days (when she can't stay late):

June 2, June 9, June 16.

Other considerations:

Norm should have the variable annuity study done around June 15 thru the end of June.

As soon as we get into the new fiscal year he can begin his study of benefit increase bill(s) [A.B. 260, A.B. 323, S.B. 131, maybe others?].