

STATE OF WISCONSIN
APPENDIX TO 2001 ASSEMBLY BILL 498

REPORT OF JOINT SURVEY COMMITTEE ON RETIREMENT SYSTEMS

(Introduced by Representative Vrakas; cosponsored by Senator Wirch.)

An Act relating to: contribution rates under the Wisconsin retirement system.

EXTRACT OF COMMITTEE'S RECOMMENDATIONS ON THIS BILL

The Joint Survey Committee on Retirement Systems finds that Assembly Bill 498 is good public policy, and the Committee recommends its passage.

1. Employee Contribution Rate Established by Statute

This bill modifies the manner in which contributions to the WRS are apportioned between employer and employee contributions. The intended purpose of this provision is to halt the decline in employee death and separation benefits and employee money purchase retirement benefits caused by the decline in the amount of WRS contributions attributed to employee contributions.

Under current law, benefits under the WRS are funded by both employer and employee contributions, plus investment earnings on those contributions. In most cases, as a result of labor negotiations, employee contributions to the WRS are paid by employers. In 1999, 99.6% of employee contributions were paid by employers. The amount of the WRS contribution attributed to an employee contribution is important because the employee contribution determines the amount of a separation benefit paid to an employee who leaves the WRS before attaining retirement age. The amount of the WRS contribution attributed to an employee contribution is also important because, in certain cases, it determines the amount of a death benefit paid to an employee and the amount of an annuity for a person who receives an annuity based upon money purchase.

Under current law, increases and decreases in contribution rates to the WRS are established annually by the Employee Trust Funds Board and are divided equally between employer contributions and employee contributions. Beginning in 1995, because of favorable investment earnings, employee contributions to the WRS have significantly decreased for employees classified as protectives and may do so in the future for general employees once a special "benefit adjustment contribution has been reduced to zero."

This bill statutorily establishes a flat 5% employee contribution rate for all employment categories. (For 2001, the employee contribution rate is 5% for general employees, 3.9% for judges, elected officials and state executive positions, 3.8% for protectives with Social Security and 3.3% for protectives without Social Security.) Under the bill future increases or decreases in WRS contribution rates would be attributed to employer contributions.

2. Benefit Adjustment Contribution Eliminated

Under s. 40.05 (2m), Stats., a contribution rate called the Benefit Adjustment Contribution (BAC) began in 1984 to help fund significant increases in WRS retirement benefits enacted in 1983 Wisconsin Act 141. The BAC is statutorily designated as an employer contribution, but required to be paid by the employee unless the employer agrees to pay it under a compensation plan agreement. The initial BAC rate was 1% of gross earnings, but is subject to annual adjustments if the WRS actuary determines that adjustments are necessary to maintain the financial balance of the WRS. Under this adjustment procedure, the BAC rate has been eliminated for all categories of employees except general employees, with respect to whom it has been reduced from 1% to 0.2%.

This provision eliminates the BAC for all categories of employees and includes the current 0.2% BAC in the employer contribution rate.

a. Actuarial Effect

This bill will have no material actuarial effect on the WRS.

b. Probable Costs

This bill will have no significant effect on the costs of the WRS.

POLICY RECOMMENDATION

The Joint Survey Committee on Retirement Systems finds that Assembly Bill 498 is good public policy, and the Committee recommends its passage.

October 9, 2001