

**2001 Jr2 DRAFTING REQUEST**

**Senate Amendment (SA-SSA1-AB1)**

Received: **03/22/2002**

Received By: **champra**

Wanted: **Soon**

Identical to LRB:

For: **Charles Chvala (608) 266-9170**

By/Representing: **Doug Burnett**

This file may be shown to any legislator: **NO**

Drafter: **champra**

May Contact:

Addl. Drafters:

Subject: **Employ Pub - employee benefits  
Employ Pub - retirement**

Extra Copies:

Submit via email: **YES**

Requester's email: **Sen.Chvala@legis.state.wi.us**

Carbon copy (CC:) to: **amber.meyer@legis.state.wi.us  
bryan.brooks@legis.state.wi.us**

---

**Pre Topic:**

No specific pre topic given

---

**Topic:**

Early retirement option under the Wisconsin retirement system

---

**Instructions:**

See Attached.

---

**Drafting History:**

<u>Vers.</u>	<u>Drafted</u>	<u>Reviewed</u>	<u>Typed</u>	<u>Proofed</u>	<u>Submitted</u>	<u>Jacketed</u>	<u>Required</u>
/P1	champra 03/23/2002 rmarchan 03/28/2002	jdyer 03/25/2002 csicilia 03/28/2002	jfrantze 03/25/2002	_____	lrb_docadmin 03/25/2002		
/1			chanaman	_____	lrb_docadmin	lrb_docadmin	

<u>Vers.</u>	<u>Drafted</u>	<u>Reviewed</u>	<u>Typed</u>	<u>Proofed</u>	<u>Submitted</u>	<u>Jacketed</u>	<u>Required</u>
			03/28/2002 _____		03/28/2002	03/28/2002	

FE Sent For:

<END>

**2001 Jr2 DRAFTING REQUEST**

**Senate Amendment (SA-SSA1-AB1)**

Received: 03/22/2002

Received By: **champra**

Wanted: **Soon**

Identical to LRB:

For: **Charles Chvala (608) 266-9170**

By/Representing: **Doug Burnett**

This file may be shown to any legislator: **NO**

Drafter: **champra**

May Contact:

Addl. Drafters:

Subject: **Employ Pub - employee benefits  
Employ Pub - retirement**

Extra Copies:

Submit via email: **YES**

Requester's email: **Sen.Chvala@legis.state.wi.us**

Carbon copy (CC:) to: **amber.meyer@legis.state.wi.us  
bryan.brooks@legis.state.wi.us**

---

**Pre Topic:**

No specific pre topic given

---

**Topic:**

Early retirement option under the Wisconsin retirement system

---

**Instructions:**

See Attached.

---

**Drafting History:**

<u>Vers.</u>	<u>Drafted</u>	<u>Reviewed</u>	<u>Typed</u>	<u>Proofed</u>	<u>Submitted</u>	<u>Jacketed</u>	<u>Required</u>
/P1	champra 03/23/2002	jdyer 03/25/2002	jfrantze 03/25/2002		lrb_docadmin 03/25/2002		

FE Sent For:

*1 cjs*  
*3/28*  
*02*

<END>

**2001 Jr2 DRAFTING REQUEST**

**Senate Amendment (SA-SSA1-AB1)**

Received: 03/22/2002

Received By: **champra**

Wanted: **Soon**

Identical to LRB:

For: **Charles Chvala (608) 266-9170**

By/Representing: **Doug Burnett**

This file may be shown to any legislator: **NO**

Drafter: **champra**

May Contact:

Addl. Drafters:

Subject: **Employ Pub - employee benefits  
Employ Pub - retirement**

Extra Copies:

Submit via email: **YES**

Requester's email: **Sen.Chvala@legis.state.wi.us**

Carbon copy (CC:) to: **amber.meyer@legis.state.wi.us  
bryan.brooks@legis.state.wi.us**

---

**Pre Topic:**

No specific pre topic given

---

**Topic:**

Early retirement option under the Wisconsin retirement system

---

**Instructions:**

See Attached.

---

**Drafting History:**

<u>Vers.</u>	<u>Drafted</u>	<u>Reviewed</u>	<u>Typed</u>	<u>Proofed</u>	<u>Submitted</u>	<u>Jacketed</u>	<u>Required</u>
/P1	champra 03/23/2002	jdye 03/25/2002	jfrantze 03/25/2002	_____	lrb_docadmin 03/25/2002		

FE Sent For:

<END>

**2001 Jr2 DRAFTING REQUEST**

**Senate Amendment (SA-SSA1-AB1)**

Received: 03/22/2002

Received By: **champra**

Wanted: **Soon**

Identical to LRB:

For: **Charles Chvala (608) 266-9170**

By/Representing: **Doug Burnett**

This file may be shown to any legislator: **NO**

Drafter: **champra**

May Contact:

Addl. Drafters:

Subject: **Employ Pub - employee benefits  
Employ Pub - retirement**

Extra Copies:

Submit via email: **YES**

Requester's email: **Sen.Chvala@legis.state.wi.us**

Carbon copy (CC:) to: **amber.meyer@legis.state.wi.us  
bryan.brooks@legis.state.wi.us**

**Pre Topic:**

No specific pre topic given

**Topic:**

Early retirement option under the Wisconsin retirement system

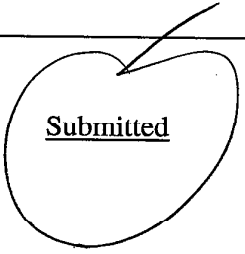
**Instructions:**

See Attached.

**Drafting History:**

<u>Vers.</u>	<u>Drafted</u>	<u>Reviewed</u>	<u>Typed</u>	<u>Proofed</u>	<u>Submitted</u>	<u>Jacketed</u>	<u>Required</u>
/P1	champra	1/1 3/25 js	3/25 js	3/25 js	3/25 js		

*Please Submit!*



FE Sent For:

<END>

3/21/02

Mtg

- MUST have been employed on  
2/1/02

- hiring freeze on positions  
VACATED

- lapse or transfer \$ to  
general fund (NOT FED)

- Window Option 3

**Champagne, Rick**

---

**From:** Burnett, Douglas  
**Sent:** Friday, March 22, 2002 1:18 PM  
**To:** Champagne, Rick  
**Cc:** Meyer, Amber; Brooks, Bryan; Browne, Michael  
**Subject:** RE:

yes, that's good on drafting. go ahead and copy bryan brooks and amber meyer.

also, please include a provision in the local option part that requires police and fire work forces to be restored within one year to at least the level they were at when the window closed--and include some weasel words in there so that if there are not available employees, they aren't in violation.

-----Original Message-----

**From:** Champagne, Rick  
**Sent:** Friday, March 22, 2002 8:30 AM  
**To:** Burnett, Douglas  
**Subject:**

Doug:

For now, I'm going to draft the early retirement program under Sen. Chvala's name and as an amendment to the joint finance committee sub to AB 1. Is that OK? I'll be working with Julie from DETF on some of the technical issues. Should I copy in all of the other senate offices involved or just get a copy of the amendment to you for distribution?

Rick Champagne  
Senior Staff Counsel  
Legal Section  
Wisconsin Legislative Reference Bureau  
100 N. Hamilton St.  
P.O. Box 2037  
Madison, WI 53701-2037  
(608) 266-9930  
FAX (608) 264-6948  
rick.champagne@legis.state.wi.us

*per Doug (3/22):  
at this juncture, no "freeze"  
but have savings (other than  
FED) lapsed or transferred to  
general fund*

**Wisconsin Retirement System  
Actuarial Valuations of  
Early Retirement Incentive Plan for State Employees  
As of 12/31/2000**

**Prepared for the  
Senate Committee on Organization  
March, 2002**

**Gabriel, Roeder, Smith & Company**



March 20, 2002

Senate Committee on Organization  
State of Wisconsin  
Madison, Wisconsin

Ladies and Gentlemen:

This report presents the results of supplemental actuarial valuations that were prepared at your request. The valuations measure the potential financial effect of alternate early retirement window provisions on State employees currently covered by the Wisconsin Retirement System (WRS) and the Supplemental Sick Leave Plan.

Valuations were based upon active participant data and financial information used in the last regular annual actuarial valuation of the Wisconsin Retirement System and the Accumulated Sick Leave Conversion Credit Plan (ASLCC) as of December 31, 2000, and the provisions of Act 11 of 1999.

Actuarial methods and assumptions were, except where otherwise noted, the same as those adopted by the Employee Trust Funds Board in 2000 pursuant to the tri-ennial experience study covering the 3 year period from January 1, 1997 to December 31, 1999. Actuarial valuations were conducted in accordance with standards of practice prescribed by the Actuarial Standards Board and Wisconsin statutes.

Respectfully submitted,  
Gabriel, Roeder, Smith and Company

Norman L. Jones, F.S.A.      Brian B. Murphy, F.S.A.

NLJBBM:cg

**WISCONSIN RETIREMENT SYSTEM**  
**ACTIVE PARTICIPANTS INCLUDED IN VALUATIONS**  
**DECEMBER 31, 2000**

---

Active participants included in the valuations totaled 67,831 with an annual payroll totaling \$2,697.2 million, as follows:

**ACTIVE STATE EMPLOYEES AT DECEMBER 31, 2000**

Valuation Group	Number	Annual Earnings (\$ millions)	Group Averages			
			Earnings	Age	Years of Service	Contrib Balance.
General and Teachers	59,954	\$2,363.4	\$39,420	44.3	13.1	\$51,489
Executive Group & Elected Officials	714	61.8	86,533	51.6	14.4	109,461
Protective Occupation with Social Security	7,163	272.0	37,969	38.0	9.6	34,138
<b>Total Active Participants</b>	<b>67,831</b>	<b>\$2,697.2</b>	<b>\$39,763</b>	<b>43.7</b>	<b>12.7</b>	<b>\$50,267</b>

The figure reported as contributions includes an adjustment for an Act 11 interest credit that was not in the original 2000 data.

---

## **Description of Window Provisions**

## **Window Period**

The window period runs from July 1, 2002 through January 1, 2003 for non-Teachers and from January 1, 2003 through June 30, 2003 for teachers, University of Wisconsin, and Wisconsin Technical College System employees.

### **Window Benefit Provisions**

1. All non-elected state employees who have 10 years of service credit and who meet other age and service conditions at some point during the window period are eligible for Window Benefits.
2. The earliest retirement age is reduced by two years for all employment categories. An actuarial reduction of 4.8% applies to those years. Therefore, the earliest age at which non-protective employees can retire is age 53. Protective employees with sufficient service credit could retire at age 48.
3. Extra service credit granted in connection with the Window is credited to the employment category of the individual at time of retirement.
4. Extra service credit granted in connection with the window will be an add on to benefits regardless of whether or not the individual has already achieved the maximum formula benefit, and whether or not the individual qualifies for a money purchase benefit.
5. Sick leave credits granted in connection with the window will be treated as an add on to the existing Supplemental Sick Leave Plan.

### **Window Financing Provisions**

1. Additional retirement benefits will be funded by creating a new unfunded liability which will be amortized as a level percent of payroll over 25 years.
2. No separate funding will be established for sick leave liabilities that are created incidentally or directly by the window.
3. In order to avoid negative cash flow from the Trust Fund, an estimated percent of payroll will be paid at the start of the window period. This figure will be readjusted based upon actual window utilization, following the close of the Window.

### **Window Assumptions**

1. Approximately 6,000 people will retire during the Window period and receive Window enhanced benefits.
2. In order to avoid underestimating percent of payroll costs, it was assumed that none of the individuals who retire during the window would be replaced. Obviously, many of them will be replaced, and to the extent that that happens, the final percent of payroll costs may be less than this report indicates.

## WINDOW ELIGIBLE POPULATION

The following table shows the subset of the 12/31/2000 Active population that will be eligible for Window benefits.

Valuation Group	Number	Annual Earnings (\$ millions)	Group Averages at 12/31/2000			
			Earnings	Age	Years of Service	Contrib Balance.
General and Teachers	15,417	\$776.0	\$50,333	55.7	23.4	\$123,030
Executive Group	311	29.5	94,935	57.8	20.5	184,373
Protective Occupation with Social Security	1,411	65.0	46,078	51.2	19.4	95,075
<b>Total Active Participants</b>	<b>17,139</b>	<b>\$870.5</b>	<b>\$50,792</b>	<b>55.4</b>	<b>23.5</b>	<b>\$121,841</b>

The figure reported as contributions includes an adjustment for an Act 11 interest credit that was not in the original 2000 data.

## Window Option 1

Window Option 1 provides a choice between

- An additional 5 years of creditable service. This service credit is used to enhance an individual's benefit, but does not affect the individual's eligibility for the benefit.
- An additional credit of \$40,000 applied to the person's sick leave account.

In conjunction with Window Option 1, it was assumed that 20% of those retiring would elect sick leave credit in lieu of additional service credit. The following table illustrates the estimated funding requirements of Window Option 1, based upon the utilization assumptions specified in the request.

	<u>\$Millions</u>		
	<u>Pension</u>	<u>Sick Leave</u>	<u>Total</u>
Lump Sum Liability	\$ 202.5	\$ 79.5	\$ 282.0
Total State Payroll	2,697.1	2,697.1	
Estimated Surviving Payroll	2,436.0	2,436.0	
25 Year amortization Factor	16.67	16.67	
First Year Dollar Amortization	\$ 12.15	\$ 4.77	\$ 16.92
Amortization Percent of Pay	0.5%	0.2%	0.7%
Estimated Additional Payout as Percent of Surviving Payroll	0.7%	0.0%	
Computed Initial Rate	0.7%	0.2%	0.9%

## Window Option 2

Window Option 2 provides:

- An additional 5 years of creditable service. This service credit is used to enhance an individual's benefit, but does not affect the individual's eligibility for the benefit, and
- An additional credit of \$20,000 applied to the person's sick leave account.

The following table illustrates the estimated funding requirements of Window Option 2, based upon the utilization assumptions specified in the request.

	\$ Millions		
	Pension	Sick Leave	Total
Lump Sum Liability	\$ 257.9	\$ 104.5	\$ 362.4
Total State Payroll	2,697.1	2,697.1	
Estimated Surviving Payroll	2,436.0	2,436.0	
25 Year amortization Factor	16.67	16.67	
First Year Dollar Amortization	\$ 15.47	\$ 6.27	\$ 21.74
Amortization Percent of Pay	0.6%	0.3%	0.9%
Estimated Additional Payout as Percent of Surviving Payroll	0.9%	0.0%	
Computed Initial Rate	0.9%	0.3%	1.2%

## Window Option 3

Window Option 3 provides:

- An additional 3 years of creditable service. This service credit is used to enhance an individual's benefit, but does not affect the individual's eligibility for the benefit, and
- An additional credit of \$20,000 applied to the person's sick leave account.
- An additional 2 years of age for computing age reduction factors.

The following table illustrates the estimated funding requirements of Window Option 3, based upon the utilization assumptions specified in the request.

	<b>\$ Millions</b>		
	<b>Pension</b>	<b>Sick Leave</b>	<b>Total</b>
Lump Sum Liability	\$ 188.2	\$ 104.5	\$ 292.7
Total State Payroll	2,697.1	2,697.1	
Estimated Surviving Payroll	2,436.0	2,436.0	
25 Year amortization Factor	16.67	16.67	
First Year Dollar Amortization	\$ 11.29	\$ 6.27	\$ 17.56
Amortization Percent of Pay	0.5%	0.3%	0.8%
Estimated Additional Payout as Percent of Surviving Payroll	0.5%	0.0%	
Computed Initial Rate	0.5%	0.3%	0.8%



## ADDITIONAL QUESTIONS

**1. What is the effect of each \$10,000 of sick leave credit on costs?**

Each \$10,000 of sick leave credit adds 0.1% to costs assuming that it is given to all people who retire under the window. The analysis of Window Option 2 indicates a Sick Leave cost of 0.3% for \$20,000, instead of 0.2%, which would be expected, based upon the foregoing. This happens because accelerated retirement itself adds to Sick Leave costs even if no additional credits are given.

**2. How much does each year of added service add to costs?**

Each year of added service adds 0.15% to costs.

**3. How much does each year of added age for age reduction purposes add to costs?**

Two years of additional age reduction will add about 0.1% to costs.

**4. If a similar early retirement window, without a sick leave component, were offered to local government employees, would the costs be similar to those shown for State Employees?**

It would be necessary to redo the study for local government employees to answer this question definitively. Generally, local government employees probably have higher turnover, and are lower paid than state employees. On the average, costs would probably run from about the same to perhaps a little less for local government employees, but they could vary very widely by employer.

**5. What is the estimated effect of increasing the formula maximum benefit for protective employees by 5 percentage points to 70% (90% for protective employees not covered by Social Security)?**

This change would increase plan costs by 0.2% for protective employees covered by social security, and by 0.1% for others.

## COMMENTS

- **Scope of this study:** The liability increases shown in this report represent the estimated lump sum costs of the window options that were valued. It is usually expected that a reduction in active employee cash and fringe benefit compensation will offset costs associated with offering the early retirement window. However, employees leaving during a window would eventually have retired anyway, and offsetting savings gradually decline over a several year period following the close of the window. Measurement of such potential savings is beyond the scope of this study.
- **Act 11 of 1999:** Act 11 of 1999 provided enhanced benefits for service prior to 2000. One of the funding sources for Act 11 benefits was to be change in the wage base assumption. The wage base assumption change was included in the December 31, 2000 valuation, upon which this report was based. It is reasonable to assume, therefore, that costs will be higher in the 12/31/2001 valuation, because that valuation will also contain the benefit provisions of Act 11, which were not reflected in the 12/31/2000 valuation.
- **Recent Investment Market Activity:** Investment markets have been unsettled since roughly March of 2000, and particularly since September 11, 2001. Early indications are that investment gains will not be available to fund benefits when the 2001 valuation is completed.
- **Amortization Period:** The parameters of this study required a 25 year amortization of liabilities generated by the Window provisions. 25 years is a long period for such a purpose. Future generations of taxpayers will be funding benefits for individuals who have long since retired. Other systems have used periods of 5 or 10 years for this purpose. A shorter period would result in higher near term contribution rates, and would reduce or eliminate the need for special calculations to prevent negative cash flow. We would be more comfortable with a shorter amortization period than we are with special calculations that are designed to prevent negative cash flow.
- **Payroll Effect:** If the State covered payroll actually is reduced due to operation of the window, it may be necessary to review the funding percent of pay for the State's non-Window accrued liability in order to be compliant with GASB Standards, which will require a 30 year amortization period by 2006. This may also affect the needed contributions to the ASLCC plan as a percent of payroll.

## COMMENTS (CONCLUDED)

- **Replacement Employees:** It is possible that some employees may be induced to retire who must be replaced, but for whom a replacement cannot be found. We are aware of cases where it has been necessary to rehire window employees as contractors.
- **Local Government Effects:** It is a common practice, when early retirement plans are offered to local governments, that the local government itself has a choice whether or not to opt into the program. Some plans (Ohio and Illinois being examples), have permanent Early retirement windows available, that the Local Governments can voluntarily elect for a limited time. The costs of an early retirement program can vary widely among local governments, as can the effects. A small government with only a handful of employees may have difficulty replacing employees who retired under a window. Also, an employer that does not provide retiree health benefits would likely get lower participation in the Window than one that does. There would be a hidden effect on the retiree health liability for those employers that do provide retiree health.
- **Sick Leave Effects:** The State is presumably providing health care coverage to all or most of the employees who are eligible to retire under the window. To the extent that employees retire under the window and are not replaced, the additional sick leave costs that are shown in this report may not necessarily represent a cost increase for the State, because the State was already paying for health care coverage for the people.

March 20, 2002

Senator Chuck Chvala  
Senate Majority Leader  
State Capitol Building, Room 211 South  
Madison, Wisconsin 53702

Re: Valuations of Early Retirement Window programs in accordance with your requested dated  
February 26, 2002

Dear Senator Chvala:

Enclosed are 20 bound copies of our report. Please let us know if additional copies are needed.

Sincerely,

Norman L. Jones

NLJ:cg  
Enclosures



(D-Note)  
State of Wisconsin  
2001 - 2002 LEGISLATURE

LRBb2714/P1  
RAC:.....

January 2002 Special Session

Monday, NOON (if possible) Jld

PRELIMINARY DRAFT - NOT READY FOR INTRODUCTION

SENATE AMENDMENT,

TO SENATE SUBSTITUTE AMENDMENT 1,

TO ASSEMBLY BILL 1

1 At the locations indicated, amend the substitute amendment as follows: ✓  
2 1. Page 32, line 23: after that line insert:  
3 "SECTION 100hr. ✓ 40.05 (2) (b) ✓ of the statutes is amended to read:  
4 40.05 (2) (b) Contributions shall be made by each participating employer for  
5 unfunded prior service liability in a percentage of the earnings of each participating  
6 employee. A separate percentage rate shall be determined for the employee  
7 occupational categories under s. 40.23 (2m) as of the employer's effective date of  
8 participation. The rates shall be sufficient to amortize as a level percent of payroll  
9 over a period of 40 years from the later of that date or January 1, 1986, the unfunded  
10 prior service liability for the categories of employees of each employer determined  
11 under s. 40.05 (2) (b), 1981 stats., increased to reflect any creditable prior service

1 granted on or after January 1, 1986, increased to reflect the effect of 1983 Wisconsin  
2 Act 141, increased at the end of each calendar year after January 1, 1986, by interest  
3 at the assumed rate on the unpaid balance at the end of the year and adjusted under  
4 pars. (bu), ~~(bv)~~ and ~~(bw)~~ to (bz).

History: 1981 c. 96, 274, 278, 386; 1983 a. 9 s. 6; 1983 a. 27, 30; 1983 a. 46 ss. 2 to 4, 7; 1983 a. 140; 1983 a. 141 ss. 7 to 12, 20; 1983 a. 290, 504, 538; 1985 a. 29, 119, 135, 225, 1987 a. 27, 83, 107, 309, 356, 363; 1987 a. 493 s. 256; 1989 a. 13, 14, 31, 119, 122, 166, 182, 189, 230, 336, 355, 359; 1991 a. 32, 39, 107, 113, 141, 152, 189, 269; 1995 a. 27, 81, 88, 89, 240, 302; 1997 a. 35, 58, 149; 1999 a. 9, 11, 13, 104; 2001 a. 6.

5 **SECTION 100ht.** 40.05 (2) (bwd) of the statutes is created to read:

6 40.05 (2) (bwd) The employer contribution rate under par. (b) for state agencies  
7 shall be adjusted to reflect the cost of providing the retirement benefits under 2001  
8 Wisconsin Act ... (this act), section 9116 (1g) (c), and that rate shall be sufficient to  
9 amortize the unfunded prior service liability of the state agencies over a 25-year  
10 amortization period.

11 **SECTION 100ig.** 40.05 (2) (bwm) of the statutes is created to read:

12 40.05 (2) (bwm) The employer contribution rate under par. (b) for employers  
13 that make an election under 2001 Wisconsin Act ... (this act), section 9116 (1g) (e),  
14 shall be adjusted to reflect the cost of providing the retirement benefits under 2001  
15 Wisconsin Act ... (this act), section 9116 (1g) (c), and that rate shall be sufficient to  
16 amortize the unfunded prior service liability of the employers over a 25-year  
17 amortization period. The department shall pool all employers that make the election  
18 under 2001 Wisconsin Act ... (this act), section 9116 (1g) (e), into a single employing  
19 unit for the purpose of calculating the increase in unfunded prior service liability  
20 rates under par. (b) that results from providing the retirement benefits under 2001  
21 Wisconsin Act ... (this act), section 9116 (1g) (c).

22 **SECTION 100jc.** 40.05 (2) (c) of the statutes is amended to read:

23 40.05 (2) (c) The percentage rates determined under this subsection shall  
24 become effective as of the beginning of the calendar year to which they are applicable

1 and shall remain in effect during the calendar year, except that the secretary, upon  
2 the written certification of the actuary, may change any percentage determined  
3 under par. (b) during any calendar year for the purpose of reflecting any reduced  
4 obligation which results from any payment of advance contributions <sup>or any increased</sup>  
5 obligation that results from providing the retirement benefits under 2001 Wisconsin  
6 Act ... (this act), section 9116 (1g) (c). <sup>??</sup> <sub>c</sub>

History: 1981 c. 96, 274, 278, 386; 1983 a. 9 s. 6; 1983 a. 27, 30; 1983 a. 46 ss. 2 to 4, 7; 1983 a. 140; 1983 a. 141 ss. 7 to 12, 20; 1983 a. 290, 504, 538; 1985 a. 29, 119, 135, 225; 1987 a. 27, 83, 107, 309, 356, 363; 1987 a. 403 s. 256; 1989 a. 13, 14, 31, 119, 122, 166, 182, 189, 230, 336, 355, 359; 1991 a. 32, 39, 107, 113, 141, 152, 189, 269; 1995 a. 27, 81, 88, 89, 240, 302; 1997 a. 35, 58, 149; 1999 a. 9, 11, 13, 104; 2001 a. 16.

7 2. Page 355, line 15: after that line insert:

8 <sup>c</sup>  
9 “(1g) EARLY RETIREMENT OPTION FOR CERTAIN PARTICIPATING EMPLOYEES IN THE  
10 WISCONSIN RETIREMENT SYSTEM.

11 (a) *Definitions.* The definitions in section 40.02 of the statutes are applicable  
12 in this subsection, except that “elected official” means a participating employee  
13 elected to an office by vote of the people.

14 (b) *Eligibility for early retirement benefits.* All of the following individuals who  
15 are participating employees on the effective date of this paragraph and who were  
16 employed by a participating employer, or on a leave of absence from a position with  
17 a participating employer, on February 1, 2002, are eligible for the early retirement  
18 benefits provided under paragraphs (c) and (d):

19 1. Any state agency employee, other than an elected official or an employee of  
20 the board of regents of the University of Wisconsin System, who has at least 10 years  
21 of creditable service, who terminates covered employment during the period that  
22 begins on July 1, 2002, and ends on January 1, 2003, and <sup>who</sup> receives an immediate  
23 annuity.

24 2. Any employee of the board of regents of the University of Wisconsin System,  
who has at least 10 years of creditable service, who terminates covered employment

1 during the period that begins on January 1, 2003, and ends on July 1, 2003, and<sup>who</sup>  
2 receives an immediate annuity.

3 3. Any employee who is not a state agency employee, a school district employee,  
4 a technical college district employee, or an elected official, whose employer has  
5 elected under paragraph (e) to make its employees eligible for the early retirement  
6 benefits, who has at least 10 years of creditable service, who terminates covered  
7 employment during the period that begins on July 1, 2002, and ends on January 1,  
8 2003, and<sup>who</sup> receives an immediate annuity.

9 4. Any employee who is a school district employee or a technical college district  
10 employee, whose employer has elected under paragraph (e) to make its employees  
11 eligible for the early retirement benefits, who has at least 10 years of creditable  
12 service, who terminates covered employment during the period that begins on  
13 January 1, 2003, and ends on July 1, 2003, and<sup>who</sup> receives an immediate annuity.

14 (c) *Early retirement benefits: calculation of retirement annuity and receipt of*  
15 *other benefits.* Any participating employee described in paragraph (b) shall have all  
16 of the following apply for the purpose of calculating his or her retirement annuity  
17 under section 40.23 of the statutes and for receiving any benefit provided under  
18 chapter 40 of the statutes:

19 1. The earliest retirement date for the employee under section 40.23 (1) of the  
20 statutes is reduced by 2 years.

21 2. The employee's years of creditable service are increased by 3 years. For the  
22 purpose of calculating the value of a money purchase annuity under section 40.23 (3)  
23 of the statutes, the initial monthly amount of the retirement annuity in the normal  
24 form shall be increased by the amount that equals the increase in the initial monthly



1 amount of the retirement annuity under section 40.23 (2m) of the statutes that results  
2 from providing the additional 3 years of creditable service.

3 3. The employee's age is increased by 2 years, except for the purpose specified  
4 under section 40.23 (2m) (f) 3. of the statutes.

5 4. Any limitation in the initial retirement annuity amount under section 40.23  
6 (2m) (b) of the statutes shall not apply.

7 (d) *Early retirement benefits: health insurance premium credits.* For any  
8 participating employee described in paragraph (b) 1. or 2., the number of health  
9 insurance premium credits provided to the employee under subchapter IX of chapter  
10 40 are increased by the number that yields an additional \$20,000 in health insurance  
11 premium credits.

12 (e) *Early retirement option for employers other than the state.* Any employer,  
13 other than a state agency, may elect to make its participating employees eligible for  
14 the early retirement benefits provided under paragraph (c) by notifying the  
15 department of employee funds, in writing, before July 1, 2002."

16 **3.** Page 368, line 8: after that line insert:

17 **(4)** COMPENSATION AND FRINGE BENEFIT SAVINGS FOR STATE EMPLOYEES WHO ELECT  
18 TO RECEIVE RETIREMENT ANNUITIES DURING PART OF THE 2002-2003 FISCAL YEAR.

19 (a) The definitions in section 20.001 of the statutes are applicable in this  
20 subsection, except that "state agency" does not include the department of employee  
21 trust funds or the investment board.

22 (b) The secretary of administration shall determine for each state agency the  
23 amount that the agency would have been required to expend for compensation and  
24 fringe benefits during the period that begins on January 1, 2003, and ends on June

CS

1 30, 2003, for state employees who elect to receive retirement benefits under section  
2 9116 (1<sup>c</sup>) (c) <sup>of this act</sup> and from each appropriation from which the moneys would have been  
3 expended, other than appropriations of federal revenues.

4 (c) From each sum certain appropriation of general purpose revenue identified  
5 in paragraph (b), the secretary of administration shall lapse to the general fund the  
6 amount specified in paragraph (b) that would otherwise have been expended from  
7 each of the appropriations. After the secretary <sup>of administration</sup> makes the lapse, each of the sum  
8 certain appropriations is decreased by the amount specified in paragraph (b) for that  
9 appropriation.

10 (d) For each sum sufficient appropriation of general purpose revenue identified  
11 in paragraph (b), the expenditure estimate for the appropriation during the 2002–03  
12 fiscal year is reestimated to subtract the amount specified in paragraph (b) for that  
13 appropriation.

14 (e) From each appropriation of program revenues or program revenues–service  
15 identified in paragraph (b), the secretary of administration shall lapse to the general  
16 fund the amount specified in paragraph (b) that would otherwise have been  
17 expended from each of the appropriations. After the secretary <sup>of administration</sup> makes the lapse, each  
18 of the sum certain program revenues or program revenues–service appropriations  
19 is decreased by the amount specified in paragraph (b) for that appropriation.

20 (f) From each appropriation of segregated fund revenues or segregated fund  
21 revenues — service identified in paragraph (b), the secretary of administration shall  
22 lapse to the underlying fund the amount specified in paragraph (b) that would  
23 otherwise have been expended from each of the appropriations. After the secretary  
24 makes the lapse, each of the sum certain segregated revenues or segregated revenues  
25 — service appropriations is decreased by the amount specified in paragraph (b) for

1 that appropriation and the expenditure estimate for each of the appropriations that  
2 are not sum certain appropriations is reestimated to subtract the amount specified  
3 in paragraph (b) for that appropriation. The secretary of administration shall then transfer the lapsed  
4 amounts and an amount equal to the amount subtracted from the estimates to the  
5 general fund.

6 (4) EMPLOYER OBLIGATION TO FILL CERTAIN VACANT POSITIONS. Any employer that  
7 elects under section 9116 (1) (e) to provide the retirement benefits under section  
8 9116 (1) (c) to its employees shall fill, no later than January 1, 2004, all law  
9 enforcement and fire fighting positions that are vacated by employees who receive  
10 the retirement benefits under section 9116 (1) (c), but only if the employer can fill  
11 the positions with qualified individuals.”.

(END)

D-note  
↓

**DRAFTER'S NOTE**  
**FROM THE**  
**LEGISLATIVE REFERENCE BUREAU**

LRBb2714/P1dn

RAC:.....

Jld

Per your instructions, this draft contains the benefit provisions described in "Window Option 3" of the actuary's report. I prepared this draft as a preliminary draft, so that any technical issues can be addressed, as well as any policy changes made, before the amendment is in introducible form. In looking over the amendment, please note the following:

1. The treatment of s. 40.05 (2) (b), (bwd) and (bwm) provides that the increased cost of the early retirement benefits is to be added to the employers' unfunded prior service liability. All state agencies are treated as one unit and all local employers that opt in are pooled as a single employing unit for the purpose of calculating the increase in unfunded prior service liability rates.

2. The treatment of s. 40.05 (2) (c) authorizes the secretary of employee trust funds, upon the written certification of the actuary, to change the employer contribution rates during the calendar year to reflect the increased cost that results from providing the early retirement benefits. This will allow the rates to be increased during the year and not only at the start of the calendar year.

3. Under section 9116 (1g) (a), as you requested, "elected official" is defined to be a participating employee elected to an office by vote of the people.

4. Per your instructions, section 9116 (1g) (b) (intro.) requires that a person have been a participating employee on February 1, 2002. As a result, any participating employee hired after February 1, 2002, will not be eligible for the early retirement program. If this eligibility restriction is challenged as violating the federal or state constitutional requirement of the equal protection of the laws, a court would have to find that there is a reasonable basis justifying the classification. Please note that a possible justification could be that the legislature determines that the early retirement benefits are for public employees who have remained in public employment and not for former employees who may have left public employment long ago and returned to such employment for the sole purpose of receiving the early retirement benefits.

5. Please note that section 9116 (1g) (c) (intro.) ensures that the provisions requiring the reduction in the earliest retirement date under s. 40.23 (1), the increase in years of creditable service, and the increase in the employee's age apply not just for the

purpose of calculating the employee's retirement annuity, but also for all other benefit purposes under ch. 40. You may wish to have DETF verify that there are no unintended consequences of having these provisions apply to all benefits provided under ch. 40.

\*

6. Is my assumption in section 9116 (1~~4~~)<sup>CS</sup> (3) correct? I assume that you still want the penalty provisions for employees who retire under age 57 to apply.

\*

7. In section 9116 (1~~4~~)<sup>CS</sup> (e), I required that the local employers must elect before July 1, 2002. Is that date OK, or do you want a different date?

Wisconsin

8. Per Doug's instructions late Friday afternoon, I did not draft a "freeze," but instead required that all dollar savings resulting from the early retirement program be lapsed or transferred to the general fund (with the exception of federal revenue savings). As a result of this lapse or transfer, coupled with the other across-the-board reductions in 2001 Act 16 and in the joint finance committee sub to Special Session AB<sup>1</sup>, most state agencies will have difficulty filling these vacant positions before July 1, 2003.

\*

\*

9. Also, per Doug's instructions, in section 9159 (4~~7~~)<sup>CS</sup>, I required that local employers fill, no later than January 1, 2004, all law enforcement and fire fighting positions that are vacated by individuals who take the early retirement benefits. Please note that this requirement only applies if there are qualified individuals to fill the positions.

10. Finally, please note that the legislature may not affect "the actuarial soundness" of a retirement plan. *Ass'n of State Prosecutors v. Milwaukee County*, 199 Wis. 2d 549, 562 (1996). If for any reason the recommendations of the actuary providing for increased employer contribution rates to fund the early retirement benefits are not implemented, the early retirement benefits provided under the amendment could be challenged as affecting "the actuarial soundness" of the WRS.

Rick A. Champagne  
Senior Legislative Attorney  
Phone: (608) 266-9930  
E-mail: rick.champagne@legis.state.wi.us

**DRAFTER'S NOTE**  
**FROM THE**  
**LEGISLATIVE REFERENCE BUREAU**

LRBb2714/P1dn  
RAC:jld:jf

March 25, 2002

Per your instructions, this draft contains the benefit provisions described in "Window Option 3" of the actuary's report. I prepared this draft as a preliminary draft, so that any technical issues can be addressed, as well as any policy changes made, before the amendment is in introducible form. In looking over the amendment, please note the following:

1. The treatment of s. 40.05 (2) (b), (bwd) and (bwm) provides that the increased cost of the early retirement benefits is to be added to the employers' unfunded prior service liability. All state agencies are treated as one unit and all local employers that opt in are pooled as a single employing unit for the purpose of calculating the increase in unfunded prior service liability rates.
2. The treatment of s. 40.05 (2) (c) authorizes the secretary of employee trust funds, upon the written certification of the actuary, to change the employer contribution rates during the calendar year to reflect the increased cost that results from providing the early retirement benefits. This will allow the rates to be increased during the year and not only at the start of the calendar year.
3. Under SECTION 9116 (1c) (a), as you requested, "elected official" is defined to be a participating employee elected to an office by vote of the people.
4. Per your instructions, SECTION 9116 (1c) (b) (intro.) requires that a person have been a participating employee on February 1, 2002. As a result, any participating employee hired after February 1, 2002, will not be eligible for the early retirement program. If this eligibility restriction is challenged as violating the federal or state constitutional requirement of the equal protection of the laws, a court would have to find that there is a reasonable basis justifying the classification. Please note that a possible justification could be that the legislature determines that the early retirement benefits are for public employees who have remained in public employment and not for former employees who may have left public employment long ago and returned to such employment for the sole purpose of receiving the early retirement benefits.
5. Please note that SECTION 9116 (1c) (c) (intro.) ensures that the provisions requiring the reduction in the earliest retirement date under s. 40.23 (1), the increase in years of creditable service, and the increase in the employee's age apply not just for the purpose of calculating the employee's retirement annuity, but also for all other benefit purposes under ch. 40. You may wish to have DETF verify that there are no unintended consequences of having these provisions apply to all benefits provided under ch. 40.

6. Is my assumption in SECTION 9116 (1c) (c) 3. correct? I assume that you still want the penalty provisions for employees who retire under age 57 to apply.
7. In SECTION 9116 (1c) (e), I required that the local employers must elect before July 1, 2002. Is that date OK, or do you want a different date?
8. Per Doug's instructions late Friday afternoon, I did not draft a "freeze," but instead required that all dollar savings resulting from the early retirement program be lapsed or transferred to the general fund (with the exception of federal revenue savings). As a result of this lapse or transfer, coupled with the other across-the-board reductions in 2001 Wisconsin Act 16 and in the joint finance committee sub to Special Session AB-1, most state agencies will have difficulty filling these vacant positions before July 1, 2003.
9. Also, per Doug's instructions, in SECTION 9159 (4cc), I required that local employers fill, no later than January 1, 2004, all law enforcement and fire fighting positions that are vacated by individuals who take the early retirement benefits. Please note that this requirement only applies if there are qualified individuals to fill the positions.
10. Finally, please note that the legislature may not affect "the actuarial soundness" of a retirement plan. *Ass'n of State Prosecutors v. Milwaukee County*, 199 Wis. 2d 549, 562 (1996). If for any reason the recommendations of the actuary providing for increased employer contribution rates to fund the early retirement benefits are not implemented, the early retirement benefits provided under the amendment could be challenged as affecting "the actuarial soundness" of the WRS.

Rick A. Champagne  
Senior Legislative Attorney  
Phone: (608) 266-9930  
E-mail: rick.champagnc@legis.state.wi.us

## Marchant, Robert

---

**From:** Burnett, Douglas  
**Sent:** Thursday, March 28, 2002 10:04 AM  
**To:** Marchant, Robert  
**Cc:** Schneider, Donald J.  
**Subject:** 01b2714P.pdf



01b2714P.pdf

ob--We need this turned into an introducible draft asap. Sens. Meyer and Wirch need to introduce it today--even though it is not our final proposal--so that we can deal with some procedural issues related to the retirement research committee.

01b2714P.pdf



NOW

2001 - 2002 LEGISLATURE  
January 2002 Special Session

LRBb2714/PT  
RAC:jld:jf

1  
EMPR

PRELIMINARY DRAFT - NOT READY FOR INTRODUCTION  
SENATE AMENDMENT ,  
TO SENATE SUBSTITUTE AMENDMENT 1,  
TO ASSEMBLY BILL 1

1 At the locations indicated, amend the substitute amendment as follows:  
2 1. Page 32, line 23: after that line insert:  
3 "SECTION 100hr. 40.05 (2) (b) of the statutes is amended to read:  
4 40.05 (2) (b) Contributions shall be made by each participating employer for  
5 unfunded prior service liability in a percentage of the earnings of each participating  
6 employee. A separate percentage rate shall be determined for the employee  
7 occupational categories under s. 40.23 (2m) as of the employer's effective date of  
8 participation. The rates shall be sufficient to amortize as a level percent of payroll  
9 over a period of 40 years from the later of that date or January 1, 1986, the unfunded  
10 prior service liability for the categories of employees of each employer determined  
11 under s. 40.05 (2) (b), 1981 stats., increased to reflect any creditable prior service

1 granted on or after January 1, 1986, increased to reflect the effect of 1983 Wisconsin  
2 Act 141, increased at the end of each calendar year after January 1, 1986, by interest  
3 at the assumed rate on the unpaid balance at the end of the year and adjusted under  
4 pars. (bu), ~~(bv)~~ and ~~(bw)~~ to (bz).

5 **SECTION 100ht.** 40.05 (2) (bwd) of the statutes is created to read:

6 40.05 (2) (bwd) The employer contribution rate under par. (b) for state agencies  
7 shall be adjusted to reflect the cost of providing the retirement benefits under 2001  
8 Wisconsin Act .... (this act), section 9116 (1c) (c), and that rate shall be sufficient to  
9 amortize the unfunded prior service liability of the state agencies over a 25-year  
10 amortization period.

11 **SECTION 100ig.** 40.05 (2) (bwm) of the statutes is created to read:

12 40.05 (2) (bwm) The employer contribution rate under par. (b) for employers  
13 that make an election under 2001 Wisconsin Act .... (this act), section 9116 (1c) (e),  
14 shall be adjusted to reflect the cost of providing the retirement benefits under 2001  
15 Wisconsin Act .... (this act), section 9116 (1c) (c), and that rate shall be sufficient to  
16 amortize the unfunded prior service liability of the employers over a 25-year  
17 amortization period. The department shall pool all employers that make the election  
18 under 2001 Wisconsin Act .... (this act), section 9116 (1c) (e), into a single employing  
19 unit for the purpose of calculating the increase in unfunded prior service liability  
20 rates under par. (b) that results from providing the retirement benefits under 2001  
21 Wisconsin Act .... (this act), section 9116 (1c) (c).

22 **SECTION 100jc.** 40.05 (2) (c) of the statutes is amended to read:

23 40.05 (2) (c) The percentage rates determined under this subsection shall  
24 become effective as of the beginning of the calendar year to which they are applicable  
25 and shall remain in effect during the calendar year, except that the secretary, upon

1 the written certification of the actuary, may change any percentage determined  
2 under par. (b) during any calendar year for the purpose of reflecting any reduced  
3 obligation which results from any payment of advance contributions or any increased  
4 obligation that results from providing the retirement benefits under 2001 Wisconsin  
5 Act .... (this act), section 9116 (1c) (c).”.

6 **2.** Page 355, line 15: after that line insert:

7 “(1c) EARLY RETIREMENT OPTION FOR CERTAIN PARTICIPATING EMPLOYEES IN THE  
8 WISCONSIN RETIREMENT SYSTEM.

9 (a) *Definitions.* The definitions in section 40.02 of the statutes are applicable  
10 in this subsection, except that “elected official” means a participating employee  
11 elected to an office by vote of the people.

12 (b) *Eligibility for early retirement benefits.* All of the following individuals who  
13 are participating employees on the effective date of this paragraph and who were  
14 employed by a participating employer, or on a leave of absence from a position with  
15 a participating employer, on February 1, 2002, are eligible for the early retirement  
16 benefits provided under paragraphs (c) and (d):

17 1. Any state agency employee, other than an elected official or an employee of  
18 the board of regents of the University of Wisconsin System, who has at least 10 years  
19 of creditable service, who terminates covered employment during the period that  
20 begins on July 1, 2002, and ends on January 1, 2003, and who receives an immediate  
21 annuity.

22 2. Any employee of the board of regents of the University of Wisconsin System,  
23 who has at least 10 years of creditable service, who terminates covered employment

1 during the period that begins on January 1, 2003, and ends on July 1, 2003, and who  
2 receives an immediate annuity.

3 3. Any employee who is not a state agency employee, a school district employee,  
4 a technical college district employee, or an elected official, whose employer has  
5 elected under paragraph (e) to make its employees eligible for the early retirement  
6 benefits, who has at least 10 years of creditable service, who terminates covered  
7 employment during the period that begins on July 1, 2002, and ends on January 1,  
8 2003, and who receives an immediate annuity.

9 4. Any employee who is a school district employee or a technical college district  
10 employee, whose employer has elected under paragraph (e) to make its employees  
11 eligible for the early retirement benefits, who has at least 10 years of creditable  
12 service, who terminates covered employment during the period that begins on  
13 January 1, 2003, and ends on July 1, 2003, and who receives an immediate annuity.

14 (c) *Early retirement benefits: calculation of retirement annuity and receipt of*  
15 *other benefits.* Any participating employee described in paragraph (b) shall have all  
16 of the following apply for the purpose of calculating his or her retirement annuity  
17 under section 40.23 of the statutes and for receiving any benefit provided under  
18 chapter 40 of the statutes:

19 1. The earliest retirement date for the employee under section 40.23 (1) of the  
20 statutes is reduced by 2 years.

21 2. The employee's years of creditable service are increased by 3 years. For the  
22 purpose of calculating the value of a money purchase annuity under section 40.23 (3)  
23 of the statutes, the initial monthly amount of the retirement annuity in the normal  
24 form shall be increased by the amount that equals the increase in the initial monthly

1 amount of the retirement annuity under section 40.23 (2m) of the statutes that results  
2 from providing the additional 3 years of creditable service.

3 3. The employee's age is increased by 2 years, except for the purpose specified  
4 under section 40.23 (2m) (f) 3. of the statutes.

5 4. Any limitation in the initial retirement annuity amount under section 40.23  
6 (2m) (b) of the statutes shall not apply.

7 (d) *Early retirement benefits: health insurance premium credits.* For any  
8 participating employee described in paragraph (b) 1. or 2., the number of health  
9 insurance premium credits provided to the employee under subchapter IX of chapter  
10 40 are increased by the number that yields an additional \$20,000 in health insurance  
11 premium credits.

12 (e) *Early retirement option for employers other than the state.* Any employer,  
13 other than a state agency, may elect to make its participating employees eligible for  
14 the early retirement benefits provided under paragraph (c) by notifying the  
15 department, in writing, before July 1, 2002.”.

16 **3.** Page 368, line 8: after that line insert:

17 “(4c) COMPENSATION AND FRINGE BENEFIT SAVINGS FOR STATE EMPLOYEES WHO ELECT  
18 TO RECEIVE RETIREMENT ANNUITIES DURING PART OF THE 2002-03 FISCAL YEAR.

19 (a) The definitions in section 20.001 of the statutes are applicable in this  
20 subsection, except that “state agency” does not include the department of employee  
21 trust funds or the investment board.

22 (b) The secretary of administration shall determine for each state agency the  
23 amount that the agency would have been required to expend for compensation and  
24 fringe benefits during the period that begins on January 1, 2003, and ends on June

1 30, 2003, for state employees who elect to receive retirement benefits under SECTION  
2 9116 (1c) (c) of this act and from each appropriation from which the moneys would  
3 have been expended, other than appropriations of federal revenues.

4 (c) From each sum certain appropriation of general purpose revenue identified  
5 in paragraph (b), the secretary of administration shall lapse to the general fund the  
6 amount specified in paragraph (b) that would otherwise have been expended from  
7 each of the appropriations. After the secretary of administration makes the lapse,  
8 each of the sum certain appropriations is decreased by the amount specified in  
9 paragraph (b) for that appropriation.

10 (d) For each sum sufficient appropriation of general purpose revenue identified  
11 in paragraph (b), the expenditure estimate for the appropriation during the 2002–03  
12 fiscal year is reestimated to subtract the amount specified in paragraph (b) for that  
13 appropriation.

14 (e) From each appropriation of program revenues or program revenues–service  
15 identified in paragraph (b), the secretary of administration shall lapse to the general  
16 fund the amount specified in paragraph (b) that would otherwise have been  
17 expended from each of the appropriations. After the secretary of administration  
18 makes the lapse, each of the sum certain program revenues or program  
19 revenues–service appropriations is decreased by the amount specified in paragraph  
20 (b) for that appropriation.

21 (f) From each appropriation of segregated fund revenues or segregated fund  
22 revenues — service identified in paragraph (b), the secretary of administration shall  
23 lapse to the underlying fund the amount specified in paragraph (b) that would  
24 otherwise have been expended from each of the appropriations. After the secretary  
25 of administration makes the lapse, each of the sum certain segregated revenues or

1 segregated revenues — service appropriations is decreased by the amount specified  
2 in paragraph (b) for that appropriation and the expenditure estimate for each of the  
3 appropriations that are not sum certain appropriations is reestimated to subtract  
4 the amount specified in paragraph (b) for that appropriation. The secretary of  
5 administration shall then transfer the lapsed amounts and an amount equal to the  
6 amount subtracted from the estimates to the general fund.

7 (4cc) EMPLOYER OBLIGATION TO FILL CERTAIN VACANT POSITIONS. Any employer that  
8 elects under SECTION 9116 (1c) (e) of this act to provide the retirement benefits under  
9 SECTION 9116 (1c) (c) of this act to its employees shall fill, no later than January 1,  
10 2004, all law enforcement and fire fighting positions that are vacated by employees  
11 who receive the retirement benefits under SECTION 9116 (1c) (c) of this act, but only  
12 if the employer can fill the positions with qualified individuals.”

13 (END)