LRBb2967

2001 Jr2 DRAFTING REQUEST

Senate Amendment (SA-SSA1-AB1)

Received: **04/03/2002**

Received By: **champra**

Wanted: **As time permits**

Identical to LRB:

For: **Senate Democratic Caucus**

By/Representing: **Engel**

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: **NO**

Pre Topic:

SCC:......Engel - CN5561,

Topic:

Early retirement program under the Wisconsin retirement system

Instructions:

See Attached.

Drafting History:

Vers.	Drafted	Reviewed	Typed	Proofed	Submitted	Jacketed	Required
/?	champra 04/03/2002	csicilia 04/03/2002		_______ _______			
/1			rschluet 04/03/2002	_______ _______	lrb_docadmin 04/03/2002		
/2	champra 04/03/2002	csicilia 04/03/2002	pgreensl 04/03/2002	_______ _______	lrb_docadmin 04/03/2002		
/3	champra 04/04/2002	csicilia 04/04/2002	rschluet 04/04/2002	_______ _______	lrb_docadmin 04/04/2002		

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Vers.	Drafted	Reviewed	Typed	Proofed	Submitted	Jacketed	Required
/4	champra 04/04/2002	csicilia 04/04/2002	pgreensl 04/04/2002	_______ _______	lrb_docadmin 04/04/2002		

FE Sent For:

<END>

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/2	champra 04/03/2002	csicilia 04/03/2002	pgreensl 04/03/2002	4/4	lrb_docadmin 04/03/2002		
/3	champra 04/04/2002	csicilia 04/04/2002	rschluet 04/04/2002	sed	lrb_docadmin 04/04/2002		

/4 cjs 4/4/02 4/4 gb

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Drafter: **champra**

May Contact:

Addl. Drafters:

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

Extra Copies: e-mail to Sen Chvala's office also

Submit via email: **NO**

Pre Topic:

SCC:......Engel - CN5561,

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See Attached.

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/1			rschluet 04/03/2002		lrb_docadmin 04/03/2002		
/2	champra 04/03/2002	csicilia 04/03/2002	pgreensl 04/03/2002		lrb_docadmin 04/03/2002		

FE Sent For: /3 cjs 4/3/02 4-4-2 4/11/08

<END>

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See Attached.

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/?	champra 04/03/2002	csicilia 04/03/2002		4/3			
/1		/2 cjs 4/3 02	rschluet 04/03/2002 4/3 pG	S&LC	lrb_docadmin 04/03/2002		

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<END>

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For: **Senate Democratic Caucus**

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

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SCC:......Engel - CN5561,

Topic:

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Instructions:

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Vers.	Drafted	Reviewed	Typed	Proofed	Submitted	Jacketed	Required
/?	champra	/1 cjs 4/3/02	4-3-2	pg			

FE Sent For:

<END>

Champagne, Rick

From: Engel, Andy
Sent: Wednesday, April 03, 2002 9:14 AM
To: Champagne, Rick
Subject: RE: Retirement draft

Rick,

Caucus number on this one should be 5561.

Let me know if you need anything else.

Andy

-----Original Message-----
From: **Champagne, Rick**
Sent: Wednesday, April 03, 2002 8:26 AM
To: Burnett, Douglas
Cc: Mason, Tony; Engel, Andy
Subject: RE: Retirement draft

Tony correctly pointed out that I should have excluded UW from the lapse requirement. I will hold this change until I hear from you about any other changes. Also, once Andy gets me a caucus number, I can prepare this for the superamendment and incorporate any changes.

Rick

-----Original Message-----
From: Burnett, Douglas
Sent: Tuesday, April 02, 2002 5:06 PM
To: Meyer, Amber; Ford, William; Brooks, Bryan; Mason, Tony; Lang, Bob
Cc: Champagne, Rick; Engel, Andy
Subject: Retirement draft

Attached is the retirement draft. I will be putting in an amendment to Andy Engel tonight so we get a caucus number for it so it can be turned into a component draft of our superamendment. Please review....

<< File: 01b29541.pdf >>

2001 Date (time) needed ____________

LRB b2967/1

RAC : cjs : ____

CAUCUS BUDGET AMENDMENT
[CAUCUS AMDTS. ONLY]

See form **AMENDMENTS — COMPONENTS & ITEMS.**

CAUCUS AMENDMENT
TO SENATE SUBSTITUTE AMENDMENT 1
TO 2001 SPECIAL SESSION ASSEMBLY BILL 1

>>FOR CAUCUS SUPERAMENDMENT — NOT FOR INTRODUCTION<<

At the locations indicated, amend the substitute amendment as follows:

#. Page . . . . , line . . . . :

#. Page . . . . , line . . . . :

#. Page . . . . , line . . . . :

#. Page . . . . , line . . . . :

#. Page . . . . , line . . . . :

#. Page . . . . , line . . . . :

State of Wisconsin
2001 – 2002 LEGISLATURE

LRBb2954/1
RAC:cs:pg

January 2002 Special Session

SENATE AMENDMENT ,
TO SENATE SUBSTITUTE AMENDMENT 1,
TO ASSEMBLY BILL 1

At the locations indicated, amend the substitute amendment as follows:

1. Page 12, line 20: after that line insert:

"**20.515 Employee trust funds, department of**

(1) EMPLOYEE BENEFIT PLANS

(vm) Early retirement benefits under 2001 Wisconsin Act .... (this act)	SEG	B	1,075,000	1,075,000".

2. Page 19, line 20: after that line insert:

"SECTION **52h.** 20.515 (1) (vm) of the statutes is created to read:

20.515 **(1)** (vm) *Early retirement benefits under 2001 Wisconsin Act .... (this act).* Biennially, from the public employee trust fund, the amounts in the schedule for administering the provision of early retirement benefits under 2001 Wisconsin Act .... (this act), section 9116 (1q).".

3. Page 32, line 23: after that line insert:

"**SECTION 100i.** 40.05 (2) (h) of the statutes is created to read:

40.05 **(2)** (h) 1. Beginning on the January 1 that first occurs after the actuary completes the valuation required under 2001 Wisconsin Act .... (this act), section 9116 (1q) (f), contributions shall be made for state agencies in a percentage of the earnings of each participating employee to reflect the cost of providing the retirement benefits under 2001 Wisconsin Act .... (this act), section 9116 (1q), and any contribution rate shall be sufficient to amortize, as a level percent of payroll, the unfunded liability of the state agencies over a 10–year amortization period.

2. Beginning on the January 1 that first occurs after the actuary completes the valuation required under 2001 Wisconsin Act .... (this act), section 9116 (1q) (f), contributions shall be made for employers that make an election under 2001 Wisconsin Act .... (this act), section 9116 (1q) (e) in a percentage of the earnings of each participating employee to reflect the cost of providing the retirement benefits under 2001 Wisconsin Act .... (this act), section 9116 (1q) (c), and any contribution rate shall be sufficient to amortize, as a level percent of payroll, the unfunded liability of the employers over a 10–year amortization period. The department shall pool all employers that make the election under 2001 Wisconsin Act .... (this act), section 9116 (1q) (e), into a single employing unit for the purpose of calculating the contribution rate.

3. In lieu of paying contributions under subd. 1. or 2., a participating employer may fully pay the unfunded liability as a lump sum payment. Such a payment may be made only after the date on which the actuary completes the valuation required under 2001 Wisconsin Act .... (this act), section 9116 (1q) (f), but before the January

1 that first occurs after the actuary completes the valuation required under 2001 Wisconsin Act .... (this act), section 9116 (1q) (f).

SECTION 100j. 40.23 (2m) (b) of the statutes is amended to read:

40.23 **(2m)** (b) Except as provided in s. 40.26, subject to the limitations under section 415 of the Internal Revenue Code, the initial amount of the normal form annuity shall be an amount equal to 70%, or ~~65% for participants whose formula rate is determined under par. (e) 3. or 85%~~ 90% for participants whose formula rate is determined under par. (e) 4., of the participant's final average earnings plus the amount which can be provided under pars. (c) and (d) or, if less, shall be in the monthly amount equal to the sum of the amounts determined under pars. (c), (d) and (e) as modified by par. (f) and in accordance with the actuarial tables in effect on the annuity effective date. If the participant has creditable service under both par. (e) 4. and another category under par. (e), the percent applied under this paragraph shall be determined by multiplying the percent that each type of creditable service is of the participant's total creditable service by ~~85% and 65%~~ 90% or 70%, respectively, and adding the results, except that the resulting benefit may not be less than the amount of the normal form annuity that could be paid based solely on the creditable service under par. (e) 4.".

4. Page 355, line 15: after that line insert:

"(1q) EARLY RETIREMENT OPTION FOR CERTAIN PARTICIPATING EMPLOYEES IN THE WISCONSIN RETIREMENT SYSTEM.

(a) *Definitions.* The definitions in section 40.02 of the statutes are applicable in this subsection, except that "elected official" means a participating employee elected to an office by vote of the people and "participating employer" does not include a school district.

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

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

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

3. Any employee of the department of employee trust funds, who has at least 10 years of creditable service and who does either of the following:

a. Terminates covered employment during the period that begins on July 1, 2002, and ends on January 1, 2003, and who receives an immediate annuity.

b. Submits a letter of resignation to the department of employee trust funds during the period that begins on July 1, 2002, and ends on January 1, 2003, with an effective date of resignation after January 1, 2003, but before April 1, 2004, and who at the time of the effective date of resignation receives an immediate annuity. Any employee who submits such a letter may subsequently change the effective date of resignation but only if the changed date of resignation is before April 1, 2004.

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

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

(c) *Early retirement benefits: calculation of retirement annuity and receipt of other benefits.* Any participating employee described in paragraph (b) shall receive all of the following:

1. The earliest retirement age for the employee under section 40.23 (1) of the statutes is reduced by 2 years for the purpose of calculating his or her retirement annuity under section 40.23 of the statutes.

2. a. At the time of termination, the employee's years of creditable service are increased by 3 years for the purpose of calculating his or her retirement annuity under section 40.23 of the statutes, for the purpose of calculating creditable military service under section 40.02 (15), and for the purpose of life insurance coverage under subchapter VI of chapter 40.

of the statutes

b. For any employee having creditable service of more than one type under section 40.23 (2m) (e) of the statutes, the creditable service received under this subdivision shall be prorated according to the employee's years of service under each type of creditable service.

c. For the purpose of calculating the value of a money purchase annuity under section 40.23 (3) of the statutes, the initial monthly amount of the retirement annuity in the normal form shall be increased by the amount that equals the increase in the initial monthly amount of the retirement annuity under section 40.23 (2m) of the statutes that results from providing the additional 3 years of creditable service.

3. The employee's age is increased by 2 years for the purpose of calculating his or her retirement annuity under section 40.23 of the statutes.

4. Any limitation in the initial retirement annuity amount under section 40.23 (2m) (b) of the statutes shall not apply for the purpose of calculating his or her retirement annuity under section 40.23 of the statutes.

(d) *Early retirement benefits: health insurance premium credits.* Notwithstanding section 40.95 (2) of the statutes, for any participating employee described in paragraph (b) 1. to 3., the number of health insurance premium credits provided to the employee under subchapter IX of chapter 40 of the statutes are increased by the number that yields an additional $20,000 in health insurance premium credits.

(e) *Early retirement option for participating employers other than the state.*

1. Any participating employer, other than a state agency and a technical college district, may elect to make its participating employees eligible for the early retirement benefits provided under paragraph (c) by notifying the department, in writing, before July 1, 2002.

2. A technical college district may elect to make its participating employees eligible for the early retirement benefits provided under paragraph (c) by notifying the department, in writing, before January 1, 2003.

(f) *Actuarial valuation of the cost of early retirement benefits.* Not later than January 1, 2005, the department of employee trust funds shall contract with the actuary retained under section 40.03 (1) (d) of the statutes for an actuarial valuation of the costs of the retirement benefits provided under this subsection, as well as the costs incurred by the department of employee trust funds for administering the retirement benefits, for the purpose of determining contribution rates for participating employers whose employees receive retirement benefits under this subsection. The contribution rates established by the actuary shall be sufficient to fund the full cost of the retirement benefits and administrative costs over a 10–year amortization period and shall take effect beginning on the January 1 that first occurs after the actuary completes the valuation. The department shall certify to the actuary all costs, including estimated future costs, that are incurred by the department in administering the retirement benefits provided under this subsection.

(g) *Establishment of initial employer contribution rates.* Beginning on June 1, 2002, and ending on the January 1 that first occurs after the actuary completes the valuation under paragraph (f), for any participating employer whose participating employees terminate covered employment or, with respect to the department of employee trust funds, submit a letter of resignation with a delayed effective date, during the period that begins on July 1, 2002, and ends on January 1, 2003, and beginning on December 1, 2002, and ending on the January 1 that first occurs after the the actuary completes the valuation under paragraph (f), for any participating employer whose participating employees terminate covered employment during the period that begins on January 1, 2003, and ends on July 1, 2003, the department of employee trust funds shall establish, and require the payment of, employer contribution rates to fund the cost of the retirement benefits provided under this subsection. For state agencies, the department shall establish, and require the payment of, a temporary employer contribution rate, expressed as a level percent of payroll, to fund the retirement benefits that are received by participating state employees. This rate shall remain in effect until the January 1 that first occurs after the actuary completes the valuation under paragraph (f). If the participating employer is not a state agency, the department shall charge the employer the actual cost of the early retirement benefits that are received by its participating employees before the January 1 that first occurs after the actuary completes the valuation under paragraph (f).

(h) *Emergency rules.* Using the procedure under section 227.24 of the statutes, the department of employee trust funds may promulgate rules to administer the retirement benefits provided under this subsection and any funding mechanism to pay the cost of the retirement benefits for the period before the date on which permanent rules take effect, but not to exceed the period authorized under section 227.24 (1) (c) and (2) of the statutes. Notwithstanding section 227.24 (1) (a), (2) (b), and (3) of the statutes, the department is not required to provide evidence that promulgating a rule under this paragraph as an emergency rule is necessary for the preservation of the public peace, health, safety, or welfare and is not required to provide a finding of emergency for a rule promulgated under this paragraph.".

5. Page 366, line 15: after "subsection" insert ", except that "state agency" does not include the department of employee trust funds".

6. Page 368, line 8: after that line insert:

"(4r) COMPENSATION AND FRINGE BENEFIT SAVINGS FOR STATE EMPLOYEES WHO ELECT TO RECEIVE RETIREMENT ANNUITIES DURING PART OF THE 2002–03 FISCAL YEAR.

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

(b) The secretary of administration shall determine for each state agency the amount that the agency would have been required to expend for compensation and fringe benefits during the period that begins on January 1, 2003, and ends on June 30, 2003, for state employees who elect to receive retirement benefits under SECTION 9116 (1q) (c) of this act and each appropriation from which the moneys would have been expended, other than appropriations of federal revenues. For the purpose of making this calculation, the secretary shall reduce the amount by the increased employer contribution costs under the Wisconsin retirement system for that state agency that results from the retirement benefits granted under SECTION 9116 (1q) (c) of this act.

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

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

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

(f) From each sum certain appropriation of segregated fund revenues or segregated fund revenues — service identified in paragraph (b), the secretary of administration shall lapse to the underlying fund the amount specified in paragraph (b) that would otherwise have been expended from each of the appropriations. After the secretary of administration makes the lapse, each of the sum certain segregated revenues or segregated revenues — service appropriations is decreased by the amount specified in paragraph (b) for that appropriation. For each appropriation of segregated fund revenues or segregated fund revenues — services identified in paragraph (b) that is not a sum certain appropriation, the expenditure estimate is reestimated to subtract the amount specified in paragraph (b) for that appropriation. The secretary of administration shall transfer from the underlying fund the lapsed amounts and an amount equal to the amount subtracted from the estimates to the general fund.

4rq

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

4rqq (5s) POSITION AUTHORIZATIONS RELATED TO PROVISION OF EARLY RETIREMENT BENEFITS. The authorized FTE positions for the department of employee trust funds are increased by 53.0 SEG project positions, to be funded from the appropriation under section 20.515 (1) (vm) of the statutes, as created by this act, for the period beginning on the effective date of this subsection and ending on December 31, 2004, for the purpose of administering the early retirement benefits provided under SECTION 9116 (1q) (c) of this act.".

7. Page 435, line 10: after that line insert:

"(2q) INITIAL ANNUITY AMOUNT UNDER THE WISCONSIN RETIREMENT SYSTEM. The treatment of section 40.23 (2m) (b) of the statutes first applies to the calculation of retirement benefits for individuals who are participating employees in the Wisconsin retirement system on the effective date of this subsection.".

(END)

LRBb2954

2001 Jr2 DRAFTING REQUEST

Senate Amendment (SA-SSA1-AB1)

Received: **04/01/2002**

Received By: **champra**

Wanted: **Soon**

Identical to LRB:

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

By/Representing: **Doug**

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

Drafter: **champra**

May Contact:

Addl. Drafters:

Subject: **Employ Pub - retirement**

Extra Copies:

Submit via email: **YES**

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

Carbon copy (CC:) to:

Pre Topic:

No specific pre topic given

Topic:

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Instructions:

See Attached.

Drafting History:

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By/Representing: **Doug**

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Drafter: **champra**

May Contact:

Addl. Drafters:

Subject: **Employ Pub - retirement**

Extra Copies:

Submit via email: **YES**

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

Carbon copy (CC:) to: Doug.Burnett@legis.state.wi.us

Pre Topic:

No specific pre topic given

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/1	champra	/1 cjs 4/2/02	4/2 pg	4/2 pg	ch		

FE Sent For:

<END>

ETF Early Retirement Window Drafting Issues

March 27, 2002

Following are suggested changes to the initial drafting in LRBb2714/P1. Please contact Pam Henning or Julie Reneau with any questions.

PARTICIPATING EMPLOYEES

1. Service will be added to the participant's category of employment at termination. If participants are simultaneously terminated from multiple categories, service will be prorated. We would prefer that this be specified in statutes or session law.

2. We still have questions about what was intended by the authors for the Technical College System. The actuary's study included only those state employees who work directly for the System Board, but LRBb2714/P1 appears to include the entire Technical College campus system with no election option. We understand that the authors would like state agency savings as soon in the fiscal year as possible; therefore, employees of the Technical College Board should have the July 1, 2002 – January 1, 2003 window. Whether the authors want local Technical College campuses included automatically or by option, that group should have the January 1, 2003 to July 1, 2003 window.

not needed

ELIGIBILITY

3. The add-on should be used to establish eligibility for military service.

OTHER WRS BENEFITS

The current LRB draft reads that the service add-on and age reduction will apply to any benefit under Chapter 40. We prefer that the add-on apply in determining the initial formula benefit value and eligibility for programs, but not for other benefit purposes except as noted below. Any other reference to age on any health or life insurance program for premium contribution purposes should be exclude

a. Life insurance (20 years service) – Include add-on service.
b. Disabilities – specifically exclude from any window add-ons.
c. Treat new sick leave benefits separately from the ASLCC and SHCC plans to be received after exhaustion of the other balances and not eligible to be re-converted to sick leave if employee becomes re-employed.

QDROs

?

4. Impact on QDROs. Under current law the alternate payee is eligible based on the laws in effect on decree date. If the decree date is during the window, then the alternate payee would be eligible for the prorated share of the service add-on – regardless of whether the member would exercise the window option. This should be changed to allow the alternate payee to get the prorated share of the add-on years ***only*** if the member elects the window benefit.

SPECIAL DEATH BENEFIT

5. Special Death Benefit Calculations. This special death benefit should not be calculated to include the add-on during the window, unless application to retire has been received by Department. Need to terminate

LOCAL EMPLOYERS

6. Local Employers. There should be a cut-off date for local employers to elect to participate in the window of not later than one day before the window begins (i.e., if window for locals begins January 1, 2003, election must be received by December 31, 2002).

we have our date already

teacher an act

FUNDING and UAAL CONCERNS

7. Funding
   a) The DETF Secretary should certify to the actuary all DETF costs associated with the early retirement window and any probable future costs for consideration as part of the actuary's post-window valuation and permanent rate-setting.
   b) The actuary should be directed to do a complete valuation of participating employers for the purposes of setting the contribution rate for the remainder of whatever initial amortization schedule is set (in current draft set at 25 years; authors may be considering alternate time periods). This contribution rate shall be effective for all employers no later than January 1, following the actuary's valuation.
8. Window-Specific UAAL Language
   a) The DETF needs clear authority in the bill to begin the state UAAL (unfunded accrued actuarial liability) and that for any other employer under the first window period on June 1, 2002 (see "e)" below), and each local governmental entity on January 1, 2003.
   b) The existing UAAL language in the bill should be changed so that it:
      - Does not add the early retirement window UAAL to the existing UAAL. This retirement window UAAL must be tracked separately.
      - It would be preferable to use a different term for the early retirement window UAAL (e.g., 2001 Wis. Act ___ Unfunded Liability).

chang
   c) The local governments that elect to participate should ~~NOT~~ be pooled. Their unfunded liabilities and direct billings will be calculated separately.
   d) The Department must be given the authority to bill local employers for the actual cost of benefit increases from the beginning of the UAAL period for locals (i.e., Jan. 1, 2003) until the actuary sets the post-window contribution rate (this direct billing would be in lieu of setting a temporary UAAL rate for each local unit).
   e) The Department must be given the authority to begin collecting the state UAAL effective June 1, 2002, to avoid a cash flow deficit. NOTE: this means the first state payment occurs in July 2002, because we collect the month following the UAAL effective date. Since the UAAL is set as a percentage of payroll, until the actual payroll is known no payments are made, so this change remains consistent with the intent of the authors in having the state payments begin in July 2002.
   f) Employers participating in the early retirement window should be given a one-time option of paying off the associated unfunded liability at the time the post-window actuarial valuation is completed and the contribution rate for the remainder of the window period has been determined and established.
   g) Change line 3 of page 3 of LRBb2714/P1 to reflect the ability to increase *or decrease* the post-window UAAL rate (e.g., the rate could go up or down when the actuary completes the post-window valuation, depending on how many participate in the window).

9. **ADDITIONAL CONSIDERATIONS**
   a) Position authority for DETF should be included in the draft bill. We will supply information on numbers next week.
   b) The Secretary should be given the authority to promulgate such emergency rules as may be necessary to implement the window provisions (the idea here is not to <u>require</u> the promulgation of rules, but to make sure that any rules we determine we must create are accepted as <u>emergency</u> rules, otherwise we will not be able to implement the window).
   c) The draft should exempt DETF from any other position cuts or lapses that are contained within the budget bill (here we mean ANY position cuts or lapses, whether related to the retirement window or not).

d) Perhaps this should be in non-statutory language, but any DETF staff member who 1) otherwise qualifies for the window, and 2) files a resignation letter with an effective date not later than 15 months after the last day of the window, and 3) files such resignation letter by the last day of the window, and 4) begins an immediate annuity after their actual resignation from DETF, shall be entitled to have their benefit calculated under the provisions of the window.

NOTE: In writing the language, please try to avoid anything that would prevent an ETF employee from submitting the post-dated resignation letter as required, but subsequently deciding to retire sooner (or later, if still within 15 months), and still being eligible for the window benefits. We need all the help we can get, and some staff may be willing to stay on after the window closes, but they may have great difficulty predicting how long they "can last" after the window closes. We want them to be eligible for the window benefits no matter how long they stay after the window, as long as they retire on immediate annuity within 15 months of the window's close. The only reason to ask for the letter of resignation at all is so the actuary has some information on ETF staff to also include in doing the "post-window" valuation and setting the permanent rate.

e) A new appropriation for administrative expenses and position authority associated with the retirement window must be created, and authorization for the Department to bill its expenses against this appropriation rather than investment earnings must be provided.

— Include SB 323

— NEW DETF appropriation

4.3 million

53 project positions

only give 1/2 of requested appropriation in this fiscal biennium

— Re: DETF Memo

— 1. is included

— 2. is not necessary; already in draft

— 3 is included

— 4a. is included

— 4b. not necessary

— 4c. not necessary, since SACC add on is in the form of credits equaling $20,000, not hours

4. NOT CORRECT; not needed

5. Not needed: employee must terminate for benefits

6. Locals have 7/1/or window, except for technical college districts which have 1/1/03 – 7/1/03.

7. OK

8c – POOL; don't follow request here

– Exclude School Districts

– go to 10-year amortization period

State of Wisconsin
2001 – 2002 LEGISLATURE

LRBb2714/1
RAC:jld:cmh

January 2002 Special Session

SENATE AMENDMENT 1,
TO SENATE SUBSTITUTE AMENDMENT 1,
TO ASSEMBLY BILL 1

March 29, 2002 – Offered by Senators M. MEYER and WIRCH.

At the locations indicated, amend the substitute amendment as follows:

1. Page 32, line 23: after that line insert:

"**SECTION 100hr.** 40.05 (2) (b) of the statutes is amended to read:

40.05 **(2)** (b) Contributions shall be made by each participating employer for unfunded prior service liability in a percentage of the earnings of each participating employee. A separate percentage rate shall be determined for the employee occupational categories under s. 40.23 (2m) as of the employer's effective date of participation. The rates shall be sufficient to amortize as a level percent of payroll over a period of 40 years from the later of that date or January 1, 1986, the unfunded prior service liability for the categories of employees of each employer determined under s. 40.05 (2) (b), 1981 stats., increased to reflect any creditable prior service granted on or after January 1, 1986, increased to reflect the effect of 1983 Wisconsin

Act 141, increased at the end of each calendar year after January 1, 1986, by interest at the assumed rate on the unpaid balance at the end of the year and adjusted under pars. (bu)~~, (bv) and (bw)~~ to (bz).

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

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

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

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

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

40.05 **(2)** (c) The percentage rates determined under this subsection shall become effective as of the beginning of the calendar year to which they are applicable and shall remain in effect during the calendar year, except that the secretary, upon the written certification of the actuary, may change any percentage determined under par. (b) during any calendar year for the purpose of reflecting any reduced obligation which results from any payment of advance contributions <u>or any increased obligation that results from providing the retirement benefits under 2001 Wisconsin Act .... (this act), section 9116 (1c) (c)</u>.".

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

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

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

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

1. Any state agency employee, other than an elected official or an 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 during the period that begins on July 1, 2002, and ends on January 1, 2003, and who receives an immediate annuity.

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

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

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

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

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

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

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

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

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

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

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

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

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

(b) The secretary of administration shall determine for each state agency the amount that the agency would have been required to expend for compensation and fringe benefits during the period that begins on January 1, 2003, and ends on June 30, 2003, for state employees who elect to receive retirement benefits under SECTION

9116 (1c) (c) of this act and from each appropriation from which the moneys would have been expended, other than appropriations of federal revenues.

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

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

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

(f) From each appropriation of segregated fund revenues or segregated fund revenues — service identified in paragraph (b), the secretary of administration shall lapse to the underlying fund the amount specified in paragraph (b) that would otherwise have been expended from each of the appropriations. After the secretary of administration makes the lapse, each of the sum certain segregated revenues or segregated revenues — service appropriations is decreased by the amount specified in paragraph (b) for that appropriation and the expenditure estimate for each of the appropriations that are not sum certain appropriations is reestimated to subtract the amount specified in paragraph (b) for that appropriation. The secretary of administration shall then transfer the lapsed amounts and an amount equal to the amount subtracted from the estimates to the general fund.

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

(END)

LRBb2714

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

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Instructions:

See Attached.

Drafting History:

Vers.	Drafted	Reviewed	Typed	Proofed	Submitted	Jacketed	Required
/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	

LRBb2714

Vers.	Drafted	Reviewed	Typed	Proofed	Submitted	Jacketed	Required
			03/28/2002	_______	03/28/2002	03/28/2002	

FE Sent For:

<END>

LRBb2714

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bryan.brooks@legis.state.wi.us

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

FE Sent For: /(cjs [illegible]
3/28
02

<END>

LRBb2714

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FE Sent For:

<END>

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Pre Topic:

No specific pre topic given

Topic:

Early retirement option under the Wisconsin retirement system

Instructions:

See Attached.

Please submit!

Drafting History:

Vers.	Drafted	Reviewed	Typed	Proofed	Submitted	Jacketed	Required
/P1	champra	/P1 3/25	jf 3/25	3/25			

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.

NLJ\BBM: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
Total Active Participants	**67,831**	**$2,697.2**	**$39,763**	**43.7**	**12.7**	**$50,267**

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 the 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
Total Active Participants	**17,139**	**$870.5**	**$50,792**	**55.4**	**23.5**	**$121,841**

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.

	$Millions		
	Pension	Sick Leave	Total
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.

	$Millions		
	Pension	Sick Leave	Total
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. The may also affect the needed contributions to the ASLCC plan as a percent of payroll.

- **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. Somc 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