

LRB 2402

STATE OF WISCONSIN
APPENDIX TO 2001 SENATE BILL 55 AND AMENDMENTS TO THE BILL
REPORT OF JOINT SURVEY COMMITTEE ON RETIREMENT SYSTEMS

(Introduced by Joint Committee on Finance by request of Governor Scott McCallum.)

An Act relating to: state finances and appropriations, constituting the executive budget act of the 2001 Legislature.

PROVISIONS OF THE BILL AND AMENDMENTS THAT ARE THE SUBJECT OF THIS REPORT

Section 13.50 (6) (a) requires that the Joint Survey Committee on Retirement Systems prepare a report on those provisions of this bill, and any amendments to the bill, that modify the system for, or make any provision for, the retirement of or payment of persons to public officers or employees. The provisions of this bill and amendments to it that are the subject of this report are the following:

1. Presumption of employment-related disease established for state and county fire fighters. [LRBb0218/2.]
2. Employee contribution rate established by statute. [LRB-3420/1.]
3. Benefit adjustment contribution rate eliminated. [LRB-3420/1.]

These provisions are described below.

1. Presumption of Employment-Related Disease Established for State and County Fire Fighters

a. Description

This provision extends to ***state and county fire fighters*** the protections granted by 1997 Wisconsin Act 173 to municipal fire fighters. Under Act 173, in any proceeding that involves an application by a municipal fire fighter or his or her beneficiary for disability or death benefits, if at the time of death or filing the application the fire fighter had served a total of ***10 years*** as a fire fighter and a qualifying medical examination ***before*** he or she joined the fire department showed no evidence of cancer, and if the disability or death is found to have been caused by cancer, the finding will be presumptive evidence that the cancer was caused by his or her employment as a fire fighter.

This presumption applies to cancers affecting the skin, breasts, central nervous system or lymphatic, digestive, hematological, urinary, skeletal, oral or reproductive systems.

In any proceeding involving the application by a municipal fire fighter or his or her beneficiary for disability or death benefits, if at the time of death or filing the application for benefits the fire fighter had served a total of *five years* as a fire fighter and a qualifying medical examination given *before* he or she joined the fire department showed no evidence of heart or respiratory impairment or disease and the disability or death of the fire fighter is found to have been caused by heart or respiratory impairment or disease, this finding is presumptive evidence that the impairment or disease was caused by his or her employment as a fire fighter. Act 173 extended those protections only to municipal fire fighters.

This provision creates the same presumptions for county fire fighters and state fire fighters.

b. Actuarial Effect

This provision would have no material actuarial effect on the Wisconsin Retirement System (WRS).

c. Probable Costs

According to the Department of Employee Trust Funds (DETF), there are 484 states fire fighters that would be affected by this provision. The number of county fire fighters that might be affected is assumed to be minimal, but the number of such persons is not known.

Based upon the experience of providing the presumptions of municipal fire fighters that are extended by this provision to state and county fire fighters, it is estimated that the average contribution rate of payroll costs for protective workers paid by employers would increase from the current 3.66% to 3.70% (an increase of .04%). In addition, individual employers with employees newly covered by the presumption would incur increases of 0.8% of covered payroll for employers with few claims (currently 1.9% to 2.70%) and 1.0% of covered payroll for employers with many claims (current 6.65% to 7.6%). Based upon these figures, the DETF estimates the increased cost to the state at \$181,000 per year, which would increase annually with payroll increases. While the number of county fire fighters affected by this bill is not known, it is estimated that counties would incur average annual costs of \$375 per year per fire fighter, which would increase annually with payroll increases.

2. Employee Contribution Rate Established by Statute

a. Description

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

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

amount of a death benefit paid to an employee and the amount of an annuity for a person who receives an annuity based upon money purchase.

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

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

b. Actuarial Effect

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

c. Probable Cost

This provision will have no significant impact on the costs of the WRS.

3. Benefit Adjustment Contribution Eliminated

a. Description

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

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

b. Actuarial Effect

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

c. Probable Costs

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

POLICY RECOMMENDATION

The Joint Survey Committee on Retirement Systems finds that the three provisions relating to retirement that are the subject of this report are good public policy and recommends that the Legislature enact them into law.

June 13, 2001