

**Committee Name:**

# **Joint Survey Committee – Retirement Systems (JSC–RS)**

**Appointments**

01hr\_JSC–RS\_Appt\_pt00

**Clearinghouse Rules**

01hr\_JSC–RS\_CRule\_01–

**Committee Hearings**

01hr\_JSC–RS\_CH\_pt00

**Committee Reports**

01hr\_JSC–RS\_CR\_pt00

**Executive Sessions**

01hr\_JSC–RS\_ES\_pt00

**Hearing Records**

01hr\_ab0000

01hr\_sb0000

## **Misc.**

# 01hr\_JSC–RS\_\_Misc\_\_pt01

**Record of Committee Proceedings**

01hr\_JSC–RS\_RCP\_pt00



# **BRIAN BURKE**

WISCONSIN STATE SENATOR

Senate Chair, Joint Committee on Finance

TESTIMONY OF SENATOR BRIAN BURKE  
ON SENATE BILL 55  
BEFORE THE JOINT SURVEY COMMITTEE ON RETIREMENT SYSTEMS  
JUNE 13, 2001

Thank you Co-Chairs Wirch and Vrakas and committee members for giving me the opportunity to comment on a portion of the state budget that relates to the Wisconsin Retirement System.

I would like to ask for your support for Motion #216 to Senate Bill 55 as passed by the Joint Committee on Finance. As you may recall, three years ago the legislature extended disability benefits to municipal firefighters who developed cancer. It is presumed that if a firefighter develops a certain types of cancer it is related to their job.

Motion #216 extends the cancer presumption law to firefighters that work for county and state government. Milwaukee County employs about 20 firefighters at Mitchell Airport and is the only county to employ firefighters. In addition, the state employs approximately 200 firefighters through the Department of Natural Resources and the Department of Military Affairs.

Motion #216 would level the playing field for these state and county workers and provide them with the same protections others in their profession enjoy.

Thank you for your consideration of this amendment to the state budget.

# PRELIMINARY

## 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.

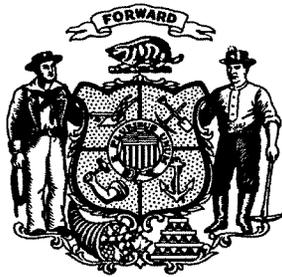
*c. Probable Costs*

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

State of Wisconsin  
JOINT LEGISLATIVE COUNCIL

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*Terry C. Anderson, Director*

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January 16, 2001

Senator Robert W. Wirsch, Co-Chair  
Joint Survey Committee on Retirement Systems  
Room 310 South, State Capitol  
Madison, WI 53702

Dear Senator Wirsch:

I hope the New Year and legislative biennium are off to a good start for you. Now that committee schedules have been established, I am able to assign Legislative Council staff members to each standing committee.

Bill Ford will be assigned to the Joint Survey Committee on Retirement Systems. In addition to the normal staff assistance, the Legislative Council will be adding an additional service this year. Bill will prepare an Amendment Memo explaining the effects of each successful amendment to bills in your committee's subject areas. Examples of these memos are enclosed. These memos will be posted on our web site as soon as possible after they are completed.

Best of luck with your committee. I know Bill will provide excellent assistance to your committee. If you have any questions or concerns, please contact me.

Sincerely,

A handwritten signature in cursive script, appearing to read 'Terry C. Anderson'.

Terry C. Anderson  
Director

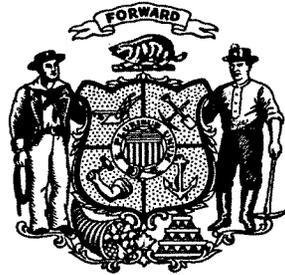
Enclosures

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President, State Senate

Assembly Cochairperson  
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Representative, State Assembly



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January 30, 2001

Senator Robert Wirch  
Cochair, Joint Survey Committee on Retirement Systems  
Room 310 South, State Capitol  
Madison, WI 53702

Representative Daniel Vrakas  
Cochair, Joint Survey Committee on Retirement Systems  
Room 119 West, State Capitol  
Madison, WI 53702

Gentlemen:

Regarding your request for temporary staff assistance for the Joint Survey Committee on Retirement Systems, I am pleased to inform you that Mr. William Ford, Senior Staff Attorney, is assigned to this responsibility. Bill has twenty years of experience in staffing joint committees.

The Legislative Council will provide staff assistance pursuant to Wisconsin Statute 13.91. Primarily, the Council staff works directly with the committee chairs; however, staff is always available to the other committee members. In addition, staff is available to answer inquiries from the public.

The Legislative Council is a state agency; therefore, it is open to the public. Individuals may visit with staff and access office information during regular business hours.

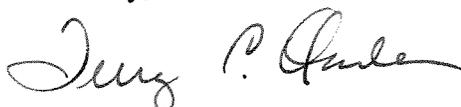
Mr. Ford will make this assignment one of his top priorities. In order to accomplish this, I am reassigning his other major committee assignments. Additionally, due to the unique nature of this subject area, he will make every effort to attend the various meetings of the retirement groups.

This office is in the final stages of completing the fifty-state survey of retirement systems and will be delivering it to you early next month. If you need us to compile future editions, we will be happy to oblige.

Although Mr. Ford will provide your primary staff needs, actuarial studies will still need to be conducted by professionals trained in that area. I would be happy to arrange such contractual services using the budgetary resources of the committee.

I hope this provides you with an overview of how the Legislative Council will provide temporary staff assistance to your committee. We are very proud of the quality of work that we provide to the standing committees of the Wisconsin Legislature. We look forward to providing your committee with this same service. Please contact me if you have questions.

Sincerely,

A handwritten signature in cursive script, appearing to read "Terry C. Anderson".

Terry C. Anderson  
Director

TCA:wu

**STATE OF WISCONSIN  
DEPARTMENT OF EMPLOYEE TRUST FUNDS  
801 West Badger Road  
Madison, WI 53702**

**CORRESPONDENCE MEMORANDUM**

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**DATE:** June 11, 2001

**TO:** Senator Robert Wirch, Co-Chair, Joint Survey Committee on Retirement Systems  
Representative Daniel Vrakas, Co-Chair, Joint Survey Committee on Retirement Systems

**FROM:** Dave Stella, Administrator  
Division of Retirement Services

**SUBJECT:** **Proposed Legislative Change to Address the Benefit Loss Due to WRS Contribution Rate Reductions Being Split Between the Employee and Employer Rate**

Under current Wisconsin Retirement System (WRS) law any increase or decrease in contribution rates is applied equally to the employer and employee required contribution rate. The significant contribution rate declines over the past 5 years this has resulted in a benefit loss to police, firefighters and executive and elected officials. This is because the death benefit, separation benefit and money purchase retirement benefit are based on the contributions and interest applied to the employee contribution account. If contribution rates continue to fall general employees will also begin to experience a loss in these benefits.

The Department of Employee Trust Funds is proposing elimination of the contribution rate provision that splits increases and decreases in the contribution rates between the employee and employer contribution rate. Instead, a flat 5% employee required contribution rate would be established for all employment categories. The employer required contribution rate would receive the full rate decrease or increase. Under this proposal the employee contribution rate would remain constant thereby protecting the value of the employee account and the associated benefits derived from the account value. This change would not result in a contribution rate increase to the total WRS contribution, rather it would simply reallocate different percentages to the employer and employee contribution.

The following tables illustrate the difference in separation, death and money purchase benefit accrual for an employee who receives a 3% employee contribution vs. a 5% contribution or a 2% differential. In the WRS protective employee contribution rates have actually declined from 8% for firefighters and 6% for police to 3% and 4% respectively. Elected and executive employee contribution rates have fallen from 5.5% to 3.1%.

**Employee Contribution Account with 3% and 5% Contribution Rate**

<b>Year</b>	<b>Salary w/ 3% increase annually</b>	<b>Contribution at 3%</b>	<b>Interest at 8%</b>	<b>Account Balance</b>	<b>Contribution at 5%</b>	<b>Interest at 8%</b>	<b>Account Balance</b>	<b>Loss in Value</b>
<b>1</b>	\$30,000	\$900	0	\$900	\$1,500	0	\$1,500	<b>\$600</b>
<b>5</b>	\$33,765	\$1,013	\$338	\$5,581	\$1,688	\$564	\$9,302	<b>\$3,721</b>
<b>10</b>	\$39,143	\$1,174	\$1,000	\$14,670	\$1,957	\$1,666	\$24,450	<b>\$9,780</b>
<b>15</b>	\$45,378	\$1,361	\$2,051	\$29,056	\$2,269	\$3,419	\$48,426	<b>\$19,370</b>
<b>20</b>	\$52,605	\$1,578	\$3,690	\$51,387	\$2,630	\$6,149	\$85,645	<b>\$34,258</b>
<b>30</b>	\$70,697	\$2,121	\$10,023	\$137,437	\$3,535	\$16,706	\$229,062	<b>\$91,625</b>

The loss in value illustrated in the last column clearly shows that when the employee contribution rate declines dramatically employee benefits are harmed. It should also be noted that the actual difference in the death and money purchase benefit is twice the amount shown in that column since these two benefits are matched by employer contributions. The fiscal impact on the WRS is expected to be minimal since this proposal only marginally increases the employee contribution rates for protective and elected and executive participants and does not change the employee contribution for general participants who make up 92% of the covered population.

The second proposed legislative change concerns a special contribution rate that was created in 1984 called the Benefit Adjustment Contribution (BAC). This contribution is an employer contribution, but is paid by the employee unless the employer agrees to pay it under a compensation plan agreement. Almost all WRS participating employers now pay this contribution. Because employer contributions are not credited to the employee account, if the employee pays this contribution out of their payroll check it is not credited to their retirement account and they receive no future interest on this contribution. This also adversely impacts the employee account value and creates significant confusion for employees and employers.

As previously noted, over the past 5 years contribution rates have fallen dramatically and the BAC has gone to -0- for all categories of employees except general employees. The general employee BAC rate is just 0.2% at this point. At this point elimination of the Benefit Adjustment Contribution (BAC) for all categories of employees and placement of the 0.2% BAC

Senator Robert Wirch and Representative Daniel Vrakas  
Co-chairs of the Joint Survey Committee on Retirement Systems  
Page 3

in the employer contribution rate for general employees should occur to simplify and streamline the contribution rate structure of the WRS.

Given that further contribution rate reductions for some categories of employees are due to take effect on January 1, 2002, the Department recommends that the statutory changes to establish a five percent fixed employee contribution rate and eliminate the Benefit Adjustment Contribution take effect on January 1, 2002.

cc: William Ford, Director of the Retirement Research Committee  
Eric Stanchfield, Secretary, Department of Employee Trust Funds  
Dave Mills, Deputy Secretary, Department of Employee Trust Funds

STATE OF WISCONSIN

JOINT SURVEY COMMITTEE ON RETIREMENT SYSTEMS

WEDNESDAY, JUNE 13, 2001

1:30 P.M.

ROOM 225 NORTHWEST, STATE CAPITOL BLDG.

A G E N D A

1. Call to Order and Roll Call.
2. Consideration of the Minutes of the March 6, 2000, Meeting.
3. **Senate Bill 55**, relating to state finances and appropriations, constituting the executive budget act of the 2001 legislature.
4. **Comparative Study of Major Public Employee Retirement Systems**, compiled by Mr. Gordon Anderson, former Senior Staff Attorney at the Legislative Council, with assistance from Ms. Debra Breggeman of the Retirement Research Committee.
5. Other Matters.
6. Adjournment.

# Law Revision Committee

## 2001 Remedial Legislation Proposals

### Department of Employee Trust Funds

- LRB-1564/P1
- LRB-1567/P1
- LRB-1568/P1
- LRB-1570/P1
- LRB-1571/P1
- LRB-1572/P1
- LRB-1573/P1
- LRB-1574/P1
- LRB-1575/P1
- LRB-1576/P1
- LRB-1577/P1
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- LRB-1591/P1
- LRB-1593/P1
- LRB-1594/P1
- LRB-1596/P1
- LRB-1597/P1