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(FORM UPDATED: 08/11/2010)

WISCONSIN STATE LEGISLATURE ... PUBLIC HEARING - COMMITTEE RECORDS

2003-04

(session year)

Assembly

(Assembly, Senate or Joint)

Committee on Government Operations and
Spending Limitations...

COMMITTEE NOTICES ...

- Committee Reports ... **CR**
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- Public Hearings ... **PH**

INFORMATION COLLECTED BY COMMITTEE FOR AND AGAINST PROPOSAL

- Appointments ... **Appt** (w/Record of Comm. Proceedings)
- Clearinghouse Rules ... **CRule** (w/Record of Comm. Proceedings)
- Hearing Records ... bills and resolutions (w/Record of Comm. Proceedings)
(**ab** = Assembly Bill) (**ar** = Assembly Resolution) (**ajr** = Assembly Joint Resolution)
(**sb** = Senate Bill) (**sr** = Senate Resolution) (**sjr** = Senate Joint Resolution)
- Miscellaneous ... **Misc**

Assembly

Record of Committee Proceedings

Committee on Government Operations and Spending Limitations

Assembly Bill 692

Relating to: payment of fixed annuity increases under the Wisconsin Retirement System.

By Representatives Vrakas, Musser, Albers, Hahn, Hines, Seratti, Stone and J. Lehman; cosponsored by Senators Schultz and Wirch, by request of Department of Employee Trust Funds and Employee Trust Funds Board.

January 27, 2004 Referred to Committee on Government Operations and Spending
Limitations.

February 11, 2004 **PUBLIC HEARING HELD**

Present: (6) Representatives F. Lasee, Loeffelholz, Musser,
Weber, Zepnick and Wasserman.

Absent: (0) None.

Appearances For

- Sandy Drew, State of Wisconsin Investment Board
- James Skiles, Wisconsin Retired Educators Association
- Julie Reneau, Employee Trust Funds
- Dan Vrakas, 33rd Assembly District

Appearances Against

- None.

Appearances for Information Only

- None.

Registrations For

- Leigh Roberts, Wisconsin Retired Educators Association
- Ellen Roberts, Wisconsin Retired Educators Association
- Marshall Frillici, Wisconsin Retired Educators Association
- Judy Frillici, Wisconsin Retired Educators Association
- Kathi Kilgore, ASPRO

Registrations Against

- None.

February 25, 2004

EXECUTIVE SESSION HELD

Present: (6) Representatives F. Lasee, Loeffelholz, Musser,
Weber, Zepnick and Wasserman.

Absent: (0) None.

Moved by Representative Weber, seconded by Representative
Musser that **Assembly Substitute Amendment 1** be
recommended for introduction and adoption.

Ayes: (6) Representatives F. Lasee, Loeffelholz,
Musser, Weber, Zepnick and Wasserman.

Noes: (0) None.

INTRODUCTION AND ADOPTION OF ASSEMBLY
SUBSTITUTE AMENDMENT 1 RECOMMENDED, Ayes 6,
Noes 0

Moved by Representative Musser, seconded by Representative
Loeffelholz that **Assembly Bill 692** be recommended for passage
as amended.

Ayes: (6) Representatives F. Lasee, Loeffelholz,
Musser, Weber, Zepnick and Wasserman.

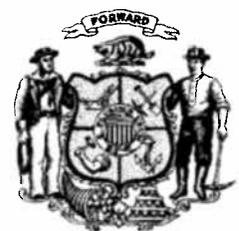
Noes: (0) None.

PASSAGE AS AMENDED RECOMMENDED, Ayes 6, Noes 0

Lance Burri
Committee Clerk



WISCONSIN STATE LEGISLATURE



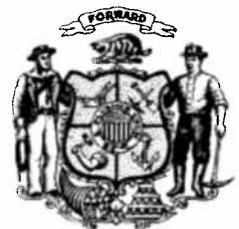


**Written Testimony Presented
To the
Assembly Committee on Government Operations and Spending Limitations
February 11, 2004**

ASPRO SUPPORTS ASSEMBLY BILL 692

ASPRO is a non-profit, professional organization that represents the legislative interests of the UW System Academic Staff.

ASPRO believes that passage of AB 692 is good policy and that many academic staff annuitants both current and future will benefit. If in the wisdom of the Department of Employee Trust Funds and the Wisconsin Retirement Board this is a reasonable and positive change, we concur and urge the passage of this legislation.





State of Wisconsin Investment Board

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February 11, 2004

Honorable Frank Lasee, Chair
Assembly Committee on Government Operations
State Capitol
Madison WI 53702

Subject: Assembly Bill 692

Dear Representative Lasee:

Thank you for holding a hearing on AB 692, a bill that will enable the Department of Employee Trust Funds (ETF) Board to set the level at which Fixed Fund annuity increases may be granted. In my previous position as Deputy Secretary of the Department of Employee Trust Funds, I was deeply involved in the issue and the merits of the bill.

I recognize that this bill pertains directly to ETF's administration of WRS annuity benefits and will have no impact on SWIB's investment of WRS funds. However, staff at the Investment Board is very aware of the fact that, for the first time since 1939-41, the US experienced three consecutive years of down markets from 2000-2002. Because the assets of the WRS are invested in the public markets, the WRS lost money during those years. The accumulated losses resulted in retirees not receiving a fixed annuity dividend increase last year. Although the markets have turned around and the Fixed Fund earned 24.1% for 2003, under current law retirees will likely not receive a fixed annuity dividend increase for a second straight year.

I know from my many years at Employee Trust Funds that even an increase of less than 2% means a great deal to retirees and will help many with increased costs of health insurance and other expenses. Paying a small amount now rather than rolling it forward to next year will not adversely affect the solvency of the WRS nor will it have any effect on SWIB's investment decisions. The senate has already adopted a substitute amendment recommended by the Joint Survey Committee on Retirement Systems to a companion bill. I urge the committee to act on AB 692 today so that this bill can become law and WRS retirees will be able to see a slight increase in their monthly checks.

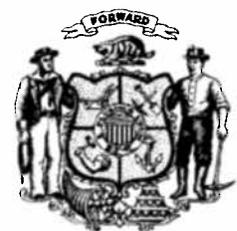
Sincerely,

David C. Mills
Executive Director

cc: Members of the Committee



WISCONSIN STATE LEGISLATURE



TESTIMONY

on

AB692

by James J. Skiles

representing

Wisconsin Retired Educators Association (WREA)

Hearing by the Assembly Committee Government Operations and Spending Limitations

February 11, 2004

The Wisconsin Retired Educators Association (WREA) has 11,500 members throughout Wisconsin and the health, integrity and the operation of the Wisconsin Retirement System is of vital concern to all WREA Retirees.

WREA thanks this Committee for scheduling this hearing on AB692 and the Substitute Amendment,

WREA appreciates the opportunity to testify in favor of this proposed legislation.

As amended, this legislation:

- 1) Sets the threshold for positive Dividends at +0.5% and -0.5% for negative Dividends. This is both a welcome improvement and a clarification of Dividend policy.
- 2) Gives the Employee Trust Funds Board the authority to change the Dividend thresholds, should this be desirable in the future, without the necessity of new legislation.

WREA believes that there is no rational reason for maintaining the 2% threshold on payment of Fixed Dividends and a reduction to 0.5% is desirable.

- **The adoption of a lower threshold than 2% would not constitute an increase in benefits for retirees, but would be an improvement in the way benefits, already earned, are distributed.**
- **The change in the threshold for paying Dividends would cost the Department of Employee Trust Funds little or nothing to administer.**
- **There would be no increased expenditure of Wisconsin tax revenues.**

There would be two major benefits to Wisconsin Retirement System annuitants if the threshold for paying Fixed Dividends were lowered from the present 2%.

- **Dividends already earned would be paid to the annuitants one year earlier in some years than would happen under the present legislation.**
- **There would be less volatility in Fixed Dividends. (Under the present system, there would be no Dividend in years where the calculated Dividend would be between 0% and 2%, but the Dividend would be larger the following year.)**

WREA TESTIMONY
on
AB692
February 11, 2004
(continued)

Annuitants may not receive an increase in their Fixed annuities in 2004 with the 2% threshold, even though there was a Return of approximately 24.2% in the Fixed Fund realized by the State Investment Board in 2003. This is because the Market Recognition Account (MRA) smoothing process used to calculate Fixed Dividends includes 1/5 of the negative SWIB returns in 2000, 2001 and 2002.

An example showing the effect on Fixed Dividends of a reduction in the threshold from 2% to 0.5% is shown in the Table below. The calculations were made using the preliminary SWIB Return of 24.1% and other preliminary data for 2003 because not all final data for 2003 was available at the time. (Calculations using the finalized SWIB Return of 24.2% and other final data will change the calculated dividends by about 0.1%, at most.) The SWIB investment return for year 2004 was assumed to be 10%, and for years 2005-2008 assumed to be 7.8%. The SWIB Investment Returns and Dividends shown in the table for years 2004 through 2008 are not predictions of future dividends, The Dividends shown in the Table are the calculated Dividends reduced by 0.3% (the approximate average of the necessary adjustments made by ETF over a recent 10 year period).

Calculations made for Year	>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Assumed SWIB Return in %	>	24.1%	10.0%	7.8%	7.8%	7.8%	7.8%
Dividend with 2.0% Threshold	>	0.0%	4.4%	0.0%	3.1%	5.1%	3.1%
Dividend with 0.5% Threshold	>	1.8%	2.6%	0.7%	2.4%	5.1%	3.1%

- **There would be no Dividends for years 2003 and 2005 with the 2% threshold.**
- **Dividends would be paid in every year with a 0.5% threshold.**

Annuitants, who received no Fixed Dividend for 2002, will welcome a Fixed Dividend for 2003. Annuitants could begin receiving a Fixed Dividend on May 1, 2004, if this Bill is enacted into law expeditiously. This improved benefit, although small, would help annuitants pay for their increased costs of prescription drugs.

WREA supports this change in the way Fixed Dividends would be distributed as a long term benefit to annuitants, an improved benefit that can be implemented at no cost to Wisconsin tax payers.

WREA encourages this Committee to recommend this Bill for passage by the Legislature in a timely manner so annuitants can receive the improved benefits this year.