

STATE OF WISCONSIN

APPENDIX TO 2009 ASSEMBLY BILL 75

REPORT OF JOINT SURVEY COMMITTEE ON RETIREMENT SYSTEMS

(Introduced by Joint Committee on Finance by request of Governor James Doyle.)

An Act relating to: state finances and appropriations, constituting the executive budget act of the 2009 Legislature.

PROVISIONS OF THE BILL 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 pensions to public officers or employees. The provisions of this bill that are the subject of this report are the following:

1. Retirement eligibility for educational support personnel. [SECTIONS 795 and 9315 (1) of 2009 Assembly Bill 75.]
2. Early retirement creditable service for certain part-time employees. [SECTIONS 796 and 9315 (1) of 2009 Assembly Bill 75.]
3. Domestic partner retirement benefits. [SECTIONS 771 through 776, and 794, 797 through 801.]

These provisions are described below.

1. Retirement Eligibility for Educational Support Personnel***a. Description***

This provision of Assembly Bill 75 lowers the one-third full-time equivalent minimum requirement for an educational support personnel employee to qualify as a participant in the Wisconsin Retirement System (WRS) from 600 hours to 440 hours.

Current law defines an “educational support personnel employee” as any school district employee other than a teacher, librarian, or administrator. Current law also provides that, to be covered under the WRS, an individual must work for a covered employer at least one-third of what is considered full-time employment, as determined by the Department of Employee Trust Funds (ETF) by rule. ETF defines full-time employment to be 1,904 hours per year and one-third employment to be 600 hours per year for all WRS participants other than teachers, librarians and administrators. This provision currently applies to educational support personnel employees. In contrast, for teachers, librarians and administrators, ETF defines full-time employment to be 1,320 hours per year and part-time employment to be 440 hours per year.

SECTION 795 of Assembly Bill 75 requires that educational support personnel employees be treated the same as teachers, librarians and administrators in terms of qualifying for coverage under the WRS. Thus, the one-third, full-time equivalent minimum requirement for educational support personnel employees would be lowered from the current 600 hours to 440 hours. This provision would first apply to individuals who are participating employees in the WRS on the effective date of the bill. [SECTION 9315 (1).]

The **Joint Committee on Finance** adopted this provision of Assembly Bill 75 with the modification that the provision would only apply to creditable service performed on or after the effective date of the bill and that the provision would not have any retroactive effect. This modification was adopted in order to clarify the Governor's original intent for the provision.

b. Actuarial Effect

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

c. Probable Costs

This provision would increase costs for local school districts. Typically, public employers in Wisconsin pay the required employee contribution for participants in addition to the required employer contribution. Currently, the total WRS contribution rate for general participants is 10.4% of an individual's earnings. If SECTION 795 of Assembly Bill 75 was enacted, each school district would incur an additional contribution requirement of 10.4% of earnings for each newly eligible educational support personnel employee in the district.

In a prior fiscal note regarding this provision [see 2007 Senate Bill 222], ETF indicated that there is no data currently available regarding the number of individuals who would be eligible to participate in the WRS as a result of this provision. ETF also noted that there may be an increase in future costs due to increases in the number of individuals who qualify under the proposed provision. For administrative purposes, ETF estimated 2,500 new participants based on the similar provision in 2007 Senate Bill 222. However, a lack of information regarding the hours and pay of the newly eligible educational support personnel employees makes any meaningful dollar estimate impractical.

The Legislative Fiscal Bureau (LFB) provides some additional perspective on the issue of costs related to this provision in LFB Paper #322 titled, *Retirement Eligibility for Educational Support Personnel (ETF)*. According to Department of Public Instruction (DPI) data for the 2008-09 school year, there are approximately 51,149 educational support personnel employees in the state. The count includes both program aides (primarily special education aides and teacher's aides) and other support staff (primarily, clerical and support staff, plant maintenance and operation personnel, and cafeteria workers). These individuals are employed by 426 school districts, 16 non-district sponsored charter schools, 12 Cooperative Educational Service Agencies (CESAs), two county children and disabilities education boards, two state schools, and two state agencies: the Departments of Corrections and Health Services.

According to ETF officials, there are currently 42,725 individuals participating in the WRS who are employed in educational support functions. Again, these participants are employed by school

districts, as well as by the other educational employers listed above. The difference between the DPI count of educational support personnel employees (51,149) and the ETF count of WRS participants (42,725) would indicate that approximately 8,424 educational support personnel employees do not currently work at least 600 hours annually and are not eligible for the WRS.

It is likely that most, perhaps nearly all, of these 8,424 educational support personnel employees work for school districts, given that the vast majority (93%) of these employers are school districts. In addition, school districts are probably more likely to hire part-time workers than some of the other employers identified above. However, what remains unknown is how many of the 8,424 educational support personnel employees work more than 440 hours in a year and would, therefore, become eligible for WRS coverage under the bill's provision.

2. Early Retirement Creditable Service for Certain Part-Time Employees

a. Description

This provision of Assembly Bill 75 modifies how creditable service is determined for certain part-time employees for the purposes of early retirement prior to the normal retirement age of 65. These creditable service determinations are then used to calculate actuarial discounts for the early retirees.

Under current law, for early retirement purposes under the WRS, a participant, other than a teacher, librarian, or administrator, with at least 0.75 of a year of credible service in any annual earnings period must be treated as having one year of creditable service for that annual earnings period. To be eligible for this treatment of creditable service, a participant must have earned only a partial year of creditable service in at least five of the last 10 annual earnings periods immediately preceding the annual earnings period in which the participant terminated covered employment.

SECTION 796 of Assembly Bill 75 provides that, for the purpose of early retirement annuity calculations, a WRS participant's amount of creditable service in any annual earnings period must be treated as the amount of creditable service that a teacher, librarian, or administrator would earn for that annual earnings period. As noted previously, ETF defines full-time employment as 1,320 hours per year for teachers, librarians and administrators. Thus, this provision would change the number of hours used for annuity discount calculations, for all WRS participants, from 1,428 hours to 1,320 hours per year. This provision would first apply to individuals who are participating employees in the WRS on the effective date of the bill. [SECTION 9315 (1).]

b. Actuarial Effect

Because this provision creates an actuarial cost for the WRS, an independent actuarial opinion was requested. This study [attached] indicates that assuming an interest rate of 7.8% and payroll increases of 4.1% per year, the change in present value of future benefits will be approximately \$15 million and the estimated annual dollar amount of contribution will be \$1.1 million. This results in a change in contribution as a percent of total payroll of less than .01%. These estimates are based on 2007 valuation figures and assume that WRS members who currently have earned

less than one full year of service in the prior year will also have earned less than one full year of service in five of the last 10 years immediately prior to retirement.

c. Probable Costs

This provision would have the effect of increasing retirement benefits for WRS participants who retire early and are credited the additional service time. For example, assuming: (1) an employee will retire, at age 60, on January 1, 2010; (2) the employee has worked part-time in a 0.70 FTE position for 20 years; and (3) the employee had final average earnings of \$14.35 per hour; the employee could expect to receive a monthly annuity of \$513.50 under current law and \$541.77 under the proposed provision. This would result in a monthly annuity increase of \$28.27 and an annual increase of \$339.24. These costs would be borne by the WRS. The estimated full cost of this provision is addressed above and in the attached actuarial report.

3. Domestic Partner Retirement Benefits

a. Description

This provision of Assembly Bill 75 requires that domestic partners, as defined under the bill, be treated in the same manner as spouses with respect to all pension benefits provided to public employees who participate in the WRS.

For the purposes of this provision, *domestic partnership* is defined as a relationship between two individuals that satisfies all of the following:

- Each individual is at least 18 years old and otherwise competent to enter a contract;
- Neither individual is married to, or in a domestic partnership with, another individual;
- The two individuals are not related by blood in any way that would prohibit marriage under s. 765.03;
- The two individuals consider themselves to be members of each other's immediate family; and
- The two individuals agree to be responsible for each other's basic living expenses.

While the bill does not specify how a domestic partnership is registered or terminated under Chapter 40, it is presumable that ETF will provide the required affidavit or filing for both procedures.

The provision modifies the definitions of alternate payee, beneficiary, and dependent to include a domestic partner and would provide domestic partners with the same beneficiary rights as a spouse in relation to retirement annuities and annuity options. It also includes a domestic partner in provisions regarding payment of benefits to minors and individuals found incompetent and for the purposes of benefit abandonment.

b. Actuarial Effect

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

c. Probable Costs

This provision would have no significant cost to the trust funds, however, administrative costs to ETF may be substantial due to the number of forms and services that may require revision to comply with the domestic partner requirements.

POLICY RECOMMENDATION

The Joint Survey Committee on Retirement Systems finds that these provisions of Assembly Bill 75 are good public policy.



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May 27, 2009

Mr. Terry Anderson
State of Wisconsin Joint Legislative Council
One East Main Street
Suite 401
Madison, Wisconsin 53701-2536

Re: Supplemental Valuation - Assembly Bill 75 (revised)

Dear Mr. Anderson:

Enclosed is a supplemental actuarial valuation for the Wisconsin Retirement System members. This report was revised from the report dated May 22, 2009 based on data provided by ETF staff.

Please call if you have any questions regarding the calculations enclosed.

Sincerely,

Mark Buis, FSA, MAAA

MB:sac
Enclosures

cc: David Stella, WRS
Bob Willett, WRS
Bob Conlin, WRS
Jon Kranz, WRS
Norman Jones, GRS
Brian Murphy, GRS

WISCONSIN RETIREMENT SYSTEM
SUPPLEMENTAL VALUATION OF ASSEMBLY BILL 75
AS OF DECEMBER 31, 2007

Requested By: Terry Anderson
Date: May 27, 2009
Submitted By: Brian Murphy, FSA, MAAA, Norman Jones, FSA, MAAA and
Mark Buis, FSA, MAAA
Gabriel, Roeder, Smith & Company

This report contains an actuarial valuation of a proposed change in benefits for members of the Wisconsin Retirement System. The actuaries issuing this report are Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

The date of the valuation was December 31, 2007. This means that the results of the supplemental valuations indicate what the December 31, 2007 valuation would have shown if the proposed benefit changes had been in effect on that date. Supplemental valuations do **not** predict the result of future actuarial valuations. Rather, supplemental valuations give an indication of the probable long-term cost of the **benefit change only** without comment on the complete end result of the future valuations.

Actuarial assumptions and methods were consistent with those used in the regular actuarial valuation of the Retirement System on the valuation date, unless otherwise noted. Actuarial assumptions are adopted by the Retirement Board of Trustees. In particular:

- The assumed rate of interest was 7.8%.
- Payroll was assumed to increase 4.1% per year.
- Changes in liability were amortized over 20 years.

It is our understanding that benefits for current inactive or retired members would not be affected by the proposed benefit changes. They were excluded from this study.

A brief summary of the data, as of December 31, 2007, used in this valuation is presented in the comments found at the end of this report.

WISCONSIN RETIREMENT SYSTEM
SUPPLEMENTAL VALUATION OF ASSEMBLY BILL 75
AS OF DECEMBER 31, 2007

PRESENT PROVISIONS: For the purposes of calculating the early retirement reduction, a participant with at least .75 of a year of creditable service in any annual earnings period shall be treated as having one year of creditable service for that earnings period. This provision applies to part-time participants who earn only a partial year of service in at least five of the 10 annual earning periods immediately preceding termination of employment. Full-time employment is defined as 1,320 hours for teachers, librarians and administrators and 1,904 hours for non-teachers. The .75 threshold for a full year of creditable service is 1,428 hours for all participants other than teachers, librarians or administrators.

PROPOSED PROVISIONS: For the purposes of calculating the early retirement reduction, a participant's amount of creditable service in any annual earnings period shall be treated as the amount of creditable service that a teacher would earn for that period. This provision applies to part-time participants who earn only a partial year of service in at least five of the 10 annual earning periods immediately preceding termination of employment. Full-time employment is defined as 1,320 hours for all participants for the purposes of calculating the early retirement reduction.

Actuarial Statement

The financial effect of the proposal is shown below:

	<u>Total</u>
Total Payroll as of 12/31/2007	\$11,581,800,000
Change in Present Value of Future Benefits	\$15,000,000
Estimated Annual Dollar Amount of Contribution	\$1,100,000
Change in Contribution as a % of Total Payroll	less than .01%

The figures shown above are based on the December 31, 2007 actuarial valuation. Please remember that these changes, if adopted, would likely impact the December 31, 2008 or later valuations. The next valuation is completed in June of 2009 and is based on member data and financial results as of December 31, 2008, which is currently being worked on but has not been completed.

In preparing the cost estimates above, we assumed that members who currently have earned less than 1 full year of service in the prior year will also have earned less than 1 full year of service in 5 of the last 10 years immediately prior to retirement.

WISCONSIN RETIREMENT SYSTEM
SUPPLEMENTAL VALUATION OF ASSEMBLY BILL 75
AS OF DECEMBER 31, 2007

Comments

Comment 1 — The calculations are based upon assumptions regarding future events, which may or may not materialize. They are also based upon present and proposed plan provisions that are outlined in the report. If you have reason to believe that the assumptions that were used are unreasonable, that the plan provisions are incorrectly described, that important plan provisions relevant to this proposal are not described, or that conditions have changed since the calculations were made, you should contact the authors of this report prior to relying on information in the report.

Comment 2 — If you have reason to believe that the information provided in this report is inaccurate, or is in any way incomplete, or if you need further information in order to make an informed decision on the subject matter of this report, please contact the authors of the report prior to making such decision.

Comment 3 — No statement in this report is intended to be interpreted as a recommendation in favor of the changes, or in opposition to them.

Comment 4 — In the event that more than one plan change is being considered, it is very important to remember that the results of separate actuarial valuations cannot generally be added together to produce a correct estimate of the combined effect of all of the changes. The total can be considerably greater than the sum of the parts due to the interaction of various plan provisions with each other, and with the assumptions that must be used.

Comment 5 — This report is intended to describe the financial effect of the proposed plan changes on the retirement system. Except as otherwise noted, potential effects on other benefit plans were not considered.

Comment 6 — The probabilities of retirement were not adjusted in connection with this proposal. If members retire differently than our assumptions, as a result of this benefit change, then the cost of the benefit change will be different.

**WISCONSIN RETIREMENT SYSTEM
SUPPLEMENTAL VALUATION OF ASSEMBLY BILL 75
AS OF DECEMBER 31, 2007**

Comments (Concluded)

Comment 7— A summary of the Active data valued in this report is included below:

Valuation Group	Number	Annual Earnings (\$Millions)	Group Averages		
			Earnings	Age	Years of Service
Total Active Members	261,003	\$11,581.8	\$44,374	45.5	11.8

Data on Active members was provided by ETF staff.