WISCONSIN LEGISLATIVE COUNCIL
ACT MEMO

2007 Wisconsin Act 131 [2007 Assembly Bill 893]	Wisconsin Retirement System Modifications

2007 Wisconsin Act 131 contains 16 unrelated minor policy and technical revisions to Ch. 40 of the statutes, which relates to the Wisconsin Retirement System (WRS). The provisions of the Act are explained below.

1. Distribution of Remainder of 1999 Wisconsin Act 11 Employer Credits

1999 Wisconsin Act 11 provided credits to WRS employers that could be used to offset employer contributions owed to the WRS. Of the $200 million initially appropriated for these credits, approximately $24,000 remains to be distributed to six employers. The current law schedule for distribution of these credits, which is tied to unfunded liability payment schedules, is estimated to take at least 10 more years. This Act requires the Department of Employee Trust Funds (ETF) to complete the distribution by January 1, 2009 [SECTION 27.]

2. Interest on Moneys Owed by ETF

Current law prohibits ETF from paying interest on moneys paid as refunds to participants or other individuals or credited to employers in the WRS. This Act authorizes ETF to pay interest on refunds in accordance with and at rates established by rules promulgated by ETF. [SECTION 16.]

3. Beneficiary Designations for Death Benefits Under the WRS

Under current law, for purposes of paying death benefits under the WRS when there are no living beneficiaries designated by the participant, the statutes establish, in order of priority of payment, a list of relatives of the participant to whom death benefits are paid. This Act eliminates a former son-in-law or daughter-in-law from the list of default beneficiaries and adds the following relatives of the participant to the list: great-grandchildren and other descendents of the deceased participant and nieces, nephews and other descendents of the deceased participant's deceased brothers and sisters. [SECTION 1].

One East Main Street, Suite 401 • P.O. Box 2536 • Madison, WI 53701-2536
(608) 266-1304 • Fax: (608) 266-3830 • Email: leg.council@legis.state.wi.us
http://www.legis.state.wi.us/lc

4. Accelerated Annuity Payments

Under current law, a WRS annuitant who has retired prior to age 62 may select an "accelerated annuity" that, until the annuitant has attained age 62 or dies, whichever occurs first, provides a temporary additional annuity to replace the money that Social Security will provide beginning at age 62. When the annuitant reaches age 62, the subsequent annuity payments are reduced to fund the cost of the temporary additional annuity that was received before attaining age 62.

Under the Act, if the annuitant dies before reaching age 62, the temporary additional annuity continues through the month in which the annuitant would have become 62 years of age and is paid to the annuitant's named survivor or beneficiary. This change would first apply to accelerated annuity options that become effective after this provision of the Act becomes law. The amount of annuities paid to persons who choose the accelerated annuity option will be adjusted to compensate for the costs of this provision. [SECTION 17.]

5. Group Life Insurance

Under current law, an employee who does not apply to be insured under the group life insurance plan administered by ETF when he or she is initially eligible must provide evidence of insurability in order to attain coverage at a later date. However, current law does not allow a person who has attained age 55 to provide evidence of insurability and attain coverage.

The Act allows a person who has attained age 55 to obtain coverage under the group life insurance plan if he or she submits evidence of insurability satisfactory to the insurer. In addition, the Act requires that applications for group life insurance be filed in the manner provided by ETF by rule or contract. [SECTIONS 20 and 21.]

6. Life Insurance Benefits

Under current law, under the WRS, retirement benefits that are payable as the result of the death of a WRS participant are not considered to be abandoned until at least 10 years have elapsed. Under the Act, a potential beneficiary of a deceased person who was insured under the group life insurance program is treated as having abandoned any claim to the life insurance benefits after receiving notification that a benefit is payable and any necessary application forms and after failing to apply for the benefit within 12 months of the date that notification. Also, under the Act, a potential primary beneficiary of a group life insurance program may be treated as a beneficiary that predeceased the participant and all other potential beneficiaries if the beneficiary cannot be located by reasonable efforts within 12 months after the later of the date of death of the participant or the date on which ETF determines that the person, trust, or estate initially became a potential primary beneficiary. In addition, a trust that does not exist on the date of the participant's death or an estate not open or reopened within 12 months after ETF determines the estate initially became a potential primary beneficiary may be treated as a beneficiary that predeceased the participant and all other potential beneficiaries. [SECTIONS 2, 3, 24, and 25.]

7. Definition of United States Internal Revenue Code

Retirement and benefit programs administered by ETF must comply with the United States Internal Revenue Code in order to maintain their tax-exempt status. The Act provides a direct cross-reference to the current United States Internal Revenue Code for purposes of determining the laws with which ETF programs must comply. [SECTION 5.]

8. Interest Rate on Moneys Owed to ETF

Under current law, for certain moneys owed to the ETF under public employee benefit plans, interest may be charged at the "effective rate" which varies from year to year and is the most recent annual investment return on moneys in the fixed annuity division of the employee trust fund. The Act provides that the interest rate is the "assumed rate," which is the projected actuarial rate needed to fund the benefits under the WRS, unless ETF establishes another rate by administrative rule. [SECTIONS 15 and 18.]

9. Maximum Number of Guaranteed Death Benefits Clarified

Under both current federal law and current ETF practice, the number of guaranteed death benefit payments payable to a beneficiary of a participant in the WRS may not exceed the life expectancy of the beneficiary. The Act explicitly states this in state statutes. [SECTION 22.]

10. Group Insurance Board

Under current law, appeals from determinations made by ETF that affect group insurance plans may be heard by the Group Insurance Board. The Act requires the Group Insurance Board to hear these appeals. [SECTION 6.]

11. Income Verification Under the Duty Disability Program

Under current law, a participant receiving benefits under the Duty Disability program is required to submit a certified copy of his or her most recent state or federal income tax return to the Wisconsin Retirement Board for income verification purposes. The Act eliminates this requirement and instead provides that the Wisconsin Retirement Board may require a participant to authorize it to obtain a copy of the participant's tax returns. [SECTION 19.]

12. Amortization Period

Recent changes in accounting standards of the United States Governmental Accounting Standards Board (GASB) require that unfunded prior service liabilities be amortized over a 30-year period. The Act codifies this requirement and provides that all unfunded prior service liability incurred after the effective date of the bill be amortized over a 30-year period (rather than the 40-year period provided in current state statutes). [SECTIONS 7-11, and 28.]

13. Attachment of WRS Benefits by the Department of Revenue

Under current law, the State Department of Revenue may attach "benefit payments" to satisfy delinquent tax applications. The Act codifies current ETF practice and specifies that the Department of Revenue may attach WRS annuity payments, lump sum payments, and disability annuity payments. [SECTIONS 12 and 13.]

14. Codification of "Earnings" Definition for Certain Purposes

The Act codifies the definition of "earnings" for employees serving in a position covered under 38 United States Code s. 4301 as required by federal law for purposes of determining certain benefits under the WRS. [SECTION 4.]

15. Waiver of WRS Benefits

Under current law, if a participant, beneficiary, or distributee of an estate waves WRS benefits, the waiver is effective on the first day of the second month after it is received by ETF or on the date specified in the waiver, whichever is later. Under the Act, the waiver is effective 30 days after it is received by ETF or on the date specified in the waiver, if earlier. The Act also provides that a waiver may be canceled at any time before its effective date. [SECTIONS 14 and 23.]

16. Division of Deferred Compensation Accounts Pursuant to Domestic Relations Orders

The Act explicitly authorizes ETF to divide a participant's accumulated assets held in the deferred compensation plan in the manner provided by the deferred compensation board and s. 40.80 (2r), Stats., pursuant to a domestic relations order. [SECTION 26.]

Effective Date: Act 131 takes effect on April 5, 2008.

Prepared by: William Ford, Senior Staff Attorney March 27, 2008

WF:jal