Wisconsin Retirement System
A Risk-Sharing Public Pension Plan

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Wisconsin Department of Employee Trust Funds
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Background:

**Wisconsin Retirement System**

- Statewide, defined benefit plan
- Some defined contribution features
- Covers most public employees in Wisconsin
  - State, University, Elected, Judicial, Teachers, Municipal, Public Safety

1500
Public Employers

639K
Participants
Background:

**Wisconsin Retirement System**

- Established 1982
- Merger of several smaller plans over 40 years

**WRS: A Risk-Sharing Public Pension Plan – August 2019**
Background: Funding

Funding Goal

- Full Funding: 100% funded goal
- Stable Rates: Relatively stable contributions

Funding Statistics (12/31/2017)

- $107B Assets
- 100% Funded (FIL)
- 103% GASB
- 9%
Background:

**Key Risk-Sharing Features**

- Split normal cost contribution rates between employer and employee.
- Post-retirement benefit adjustments based on investment performance.
- Active employee money purchase benefit minimum/Variable.

WRS: A Risk-Sharing Public Pension Plan – August 2019
Cost:

Annual Rate Setting

1. Board establishes rates annually based upon recommendation of committee.

2. Normal cost contribution rates are split evenly between employers and employees.
   - 2020 Contribution Rates: 13.5%
     - ER: 6.75%
     - EE: 6.75%

3. Contributions are remitted monthly.
   - 2018 Statewide Payroll: $14.3B
   - WRS can intercept state aids for non-payment

WRS: A Risk-Sharing Public Pension Plan – August 2019
Cost:

Annuities and Contributions

Annuities are expected to increase as a percentage of pay over the next few more decades.

*Average total rate share of Participants

WRS: A Risk-Sharing Public Pension Plan – August 2019
Impact on Taxpayers

- State and local governments in Wisconsin spend 2.1% of their budgets on public pensions (this is largest)
- National average: 4%

Fiscal Year 2016
Source: National Association of State Retirement Administrators (March 2019)
Benefits:

Retirement Benefits

We compare two calculations:

Money Purchase
- Account balance
- Age

vs.

Formula
- Years of service
- 3 highest years of earnings
- Category
- Age

WRS: A Risk-Sharing Public Pension Plan – August 2019
Benefits:

Core and Variable Funds

Core Fund
- Automatic enrollment for all employees
- Diversified portfolio
  - Guaranteed minimum annuity payment
  - 5-year smoothing

Core + Variable
- Optional 50% of contributions
- All-stock portfolio
  - No guaranteed minimum
  - No smoothing

WRS: A Risk-Sharing Public Pension Plan – August 2019
Benefits:

No Cost of Living Adjustments

- Compounding adjustments are based on investment performance
  - A 5% investment return assumption is used to fund original retirement
    - Only investment returns in excess of 5% can produce an increased
      - For example, 7.0% performance - 5% = ~2% annuity adjustment
    - Can reduce previously granted adjustments

Average annual adjustment since 1982 merger

- Core: 3.7%
- Variable: 3.8%
- In 2018 $5.4 billion in benefits paid

Between 2009 and 2013, pensions reduced by cumulative $6 billion

WRS: A Risk-Sharing Public Pension Plan – August 2019
Benefits:

Annuities by Amount in 2019

- Under $10,000: 24.85%
- $10,000 to $24,999: 33.11%
- $25,000 to $39,999: 24.84%
- $40,000 to $54,999: 11.35%
- $55,000 to $74,999: 4.38%
- $75,000 to $99,999: 1.07%
- $100,000 to $149,999: 0.31%
- More than $150,000: 0.08%

WRS: A Risk-Sharing Public Pension Plan – August 2019
Lessons Learned

• Communicate, communicate, communicate

• A 2008/09 event is painful for any type of system, but risk-sharing markedly improve chances of sustainability

• Implementation of risk-sharing won’t necessarily fix legacy challenges or start addressing future liabilities

• No one-size-fits-all approach

• Still need to manage system and pay contributions
Thank you
Appendix
History of Post-Retirement Adjustments in Wisconsin

1957 Teachers System paid first annuity adjustment based on surplus in the annuity reserve

1967 Law allowed Wisconsin Retirement Fund to pay annuity adjustment based on surplus in its annuity reserve fund to non-teacher retirees

1981/82 Merged actuary and allowed such adjustment if at least 2% up in the reserve occurs

1957 Constitutional Amendment allowed for ad hoc adjustments for retired teachers if approved by Legislature with supermajority of both houses. Post-retirement adjustments were previously prohibited by Constitution

1974 Constitutional Amendment ex-ante for sufficient state funds be appropriated for teachers granted between 1957-1974

1987
History of % Changes in Annual Core and Consumer Price Index