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

- 27% State
- 73% Local
- 40% Active
- 33% Retired
- 27% Vested / Deferred
Background:

**Wisconsin Retirement System**

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

Funding

**Funding Goal**

- **Full Funding**: 100% funded goal
- **Stable Rates**: Relatively stable contribution rates

**Funding Statistics (12/31/2017)**

- **$107B**: Assets
- **100%**: Funded (FIL)
- **103%**: GASB
- **99.5%**: EAN
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 Fund
Annual Rate Setting

1. Board establishes rates annually based upon recommendation of consulting actuary

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
Cost:

Annuities and Contributions*

Annuities are expected to continue to increase as a percent of payroll for several more decades.

*Average total rate shown is for General Participants
Impact on Taxpayers

- State and local governments in Wisconsin spend 2.1% of their budgets on public pensions (WRS is largest)
- National average: 4.7%

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

Members get paid the higher of the 2
Benefits:

Core and Variable Funds

Core Fund

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

Core + Variable Fund

- Optional 50% of contribution
- All-stock portfolio
  - No guaranteed minimum annuity payment
  - No smoothing
Benefits:

No Cost of Living Adjustment

- Compounding adjustments are based on investment performance
  - A 5% investment return assumption is used to fund original retirement benefit
  - Only investment returns in excess of 5% can produce an increase in annuity
  - 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
Benefits:

Annuities by Amount in 2018

- 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%

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Lessons Learned

• Communicate, communicate, communicate

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

• Implementation of risk-sharing won’t necessarily fix legacy costs, but will 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 Merger legislation provided for annuity adjustments from annuity surplus if at least 2% upon recommendation of actuary and allowed the board to revoke such adjustments prospectively if a deficit 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 extended post-retirement adjustments to all public retirees but required sufficient state funds be appropriated for any such increases. 4 separate general fund ad hoc adjustments for teachers granted between 1957 and 1974

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History of % Changes in Annuities and Consumer Price Index

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