

# 2011 WI Act 32 Study Provision Threatens WRS

Protect Our Wisconsin Retirement System (powrs2012@gmail.com)

## A. Some facts about The Wisconsin Retirement System (WRS): (from DETF):

1. It's the pension plan for employees of most public school districts and state and local governments outside of Milwaukee. Over 1,470 units of government across Wisconsin participate in the WRS.
2. The state Department of Employee Trust Funds (DETF) manages the system and other public employee benefits while its assets are invested by the State of Wisconsin Investment Board (SWIB).
3. It has over 572,200 members, including current state and local government employees and retirees.
4. It has over \$79 billion in assets. The assets are invested by SWIB in stocks, bonds, real estate and other money-making ventures for the benefit of the WRS members. In 2010, ETF paid out over \$3.8 billion in pension payments to retired members. Approximately 66% of those benefits were derived from investment returns.
5. It is the 9th largest public pension fund in the U.S. and the 30th largest in the world.
6. It's a hybrid<sup>i</sup> pension plan with both defined benefit and defined contribution components.

## B. Can public employees who work for a WRS employer opt out of the WRS? (from DETF):

- "No. Current law prohibits participating employees from opting out of the WRS. Allowing WRS members to opt out of the WRS may ultimately have a detrimental impact on the sustainability of the WRS and would very likely increase contribution rates for employees and employers remaining in the WRS.
- Belonging to the WRS involves pooling risk and benefit by funding the system through employer and employee contributions. If public employees were not obligated to participate, a likely result is lower system revenue with liabilities increased and underfunding of the WRS. In addition, allowing individual members to opt out of the WRS may violate provisions of the IRS Code governing defined benefit<sup>ii</sup> pension plans. This could result in disqualification of the WRS as a tax-qualified pension plan."

C. What's the issue? Wisconsin's 2011-13 Biennial Budget bill (2011 WI Act 32), requires a study of the WRS. Previously part of 2011 WI Act 10 (Walker's "budget repair" bill), it was removed. Joint Finance Committee Co-Chairs Darling and Vos reinserted it into Act 32. Vos is the WI State Chairman for the American Legislative Exchange Council [ALEC]<sup>iii</sup>.

2011 Assembly Bill 40/2011 WI Act 32 "SECTION 9115. Nonstatutory provisions; Employee Trust Funds.

### (3q) MODIFICATIONS TO WISCONSIN RETIREMENT SYSTEM.

(a) The secretary of administration, the director of the office of state employment relations, and the secretary of employee trust funds shall study the structure of the Wisconsin Retirement System and benefits provided under the Wisconsin Retirement System. The study shall specifically address the following issues:

1. Establishing a defined contribution<sup>iv</sup> plan as an option for participating employees, as defined in section 40.02 (46) of the statutes.
2. Permitting employees to not make employee required contributions under section 40.05 (1) (a) of the statutes and limiting retirement benefits for employees who do not make employee required contributions to a money purchase annuity calculated under section 40.23 (3) of the statutes.

(b) No later than June 30, 2012, the secretary of administration, the director of the office of state employment relations, and the secretary of employee trust funds shall report their findings and recommendations to the governor and the joint committee on finance."

D. Who are the players? Mike Huebsch, Secretary, Department of Administration (DOA); Greg Gracz, Director, Office of State Employment Relations (OSER); Governor Walker; the Joint Finance Committee (JFC) members below; David Stella, Secretary, Department of Employee Trust Funds (resigned effective Jan 3, 2012, and Robert Conlin, Deputy Secretary, succeeds him). Gracz and Huebsch are Walker appointees. Conlin and Stella are DETF board appointees.

Senator Alberta Darling, Co-Chair (R, River Hills)  
Senator Luther Olsen (R, Ripon)  
Senator Sheila Harsdorf (R, River Falls)  
Senator Joe Leibham (R, Sheboygan)  
Senator Glenn Grothman (R, West Bend)  
Senator Rich Zipperer (R, Pewaukee)  
Senator Lena Taylor (D, Milwaukee)  
Senator Robert Jauch (D, Poplar)

Representative Robin Vos, Co-Chair (R, Burlington)  
Representative Dan Meyer (R, Eagle River)  
Representative Dan LeMahieu (R, Cascade)  
Representative John Nygren (R, Marinette)  
Representative Pat Strachota (R, West Bend)  
Representative Joel Kleefisch (R, Oconomowoc)  
Representative Tamara Grigsby (D, Milwaukee)  
Representative Cory Mason (D, Racine)

**E. What's the political climate?** The 2011-2012 edition of the State of Wisconsin *Blue Book* affirms that the Nov 2, 2010, elections resulted in a seismic shift in WI's political landscape:

On November 2, 2010, there was:

- A Democratic governor.
- An 18-15 Democratic majority in the 33 member state senate.
- A 52-46 Democratic majority in the 99 member state assembly (with one Independent).
- A 4-3 Republican majority on the WI Supreme Court.
- A Republican Attorney General.

On January 1, 2011, there was:

- A Republican governor.
- A 19-14 Republican majority (17-16 after the summer 2011 recall elections).
- A 59-39 Republican majority (with one Independent).
- A 4-3 Republican majority on the WI Supreme Court.
- A Republican Attorney General.

**F. What's the concern?** Republicans now control all branches of state government (executive, judicial and legislative).

1. They wrote many heinous anti-public worker provisions into 2011 WI Act 10 (Walker's "budget repair" bill) and Act 32 continues the onslaught by targeting the WRS once again.
2. The Act 32 study results and findings will be reported to Walker and the JFC. It's predictable that the study group, 2/3rds of whose members are Walker appointees, will recommend what he/ALEC wants.
3. There's no need to establish a defined contribution plan option for WRS participants because it's already there.
4. The Wisconsin Legislative Council's 2008 Comparative Study of Major Public Employee Retirement Systems (revised 2010)<sup>v</sup> indicates the WRS is 99.7% funded and well managed. There is NO unfunded liability.
5. Permitting new hires to opt out of the WRS (like Republican efforts to dismantle Social Security via "Personal Retirement Accounts") siphons off contributions usually available for SWIB investment, potentially jeopardizes investment returns and could decrease your monthly annuity.

**G. What can you do?**

1. Learn about the issue. Remain informed. Use the Internet to do research.
2. Read Dave Stella's Trust Fund News column (<http://etf.wi.gov/publications.htm>, click on WRS News/ Sep '11).
3. Watch Dave Stella's WisconsinEye interview on "Newsmakers" ([http://etf.wi.gov/news/ht\\_20110816.htm](http://etf.wi.gov/news/ht_20110816.htm)).
4. Monitor DETF (<http://etf.wi.gov/>) and Wisconsin Coalition of Annuitants (WCOA: <http://wicoa.org/>) websites.
5. Ask what your professional association, union or workplace employee group is doing on the issue.
6. Share information with other WRS participants. Create a WRSPN (WRS Participant Network) in your community.
7. Sign the petition at: [http://signon.org/sign/save-the-wisconsin-retiremen?source=s.em.cp&r\\_by=1866482](http://signon.org/sign/save-the-wisconsin-retiremen?source=s.em.cp&r_by=1866482)
8. Stay connected via POWRS: [powrs2012@gmail.com](mailto:powrs2012@gmail.com).
9. **"The best defense is a good offense."**

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<sup>i</sup> Excerpted from DETF WRS Administration Manual

- The WRS is a multi-employer qualified retirement system under Section 401(a) of the IRS Code.
- It is a hybrid pension plan with both defined benefit and defined contribution components.
- Because of this hybrid design, a participant's retirement benefit is based on the higher of two calculations: 1) **Defined benefit formula:** Uses the three highest years' earnings to calculate the final average earnings and the number of years of WRS creditable service to determine the benefit, or 2) **Money purchase (defined contribution) benefit:** Calculated based on the value accumulated in the participant account at the time of retirement and matched equally with an amount from the employer reserve.

<sup>ii</sup> <http://www.investopedia.com/terms/d/definedbenefitpensionplan.asp>

**What Does Defined-Benefit Plan Mean?** It's an employer-sponsored retirement plan where employee benefits are based on a formula using factors such as salary history and duration of employment. Investment risk and portfolio management are entirely under the control of the company.

<sup>iii</sup> [http://alecexposed.org/wiki/ALEC\\_Exposed](http://alecexposed.org/wiki/ALEC_Exposed)

<sup>iv</sup> <http://www.investopedia.com/terms/d/definedcontributionplan.asp>

**What Does Defined-Contribution Plan Mean?** It's a retirement plan in which a certain amount is set aside each year by a company for the benefit of the employee.

<sup>v</sup> <http://etf.wi.gov/publications.htm>