

Wisconsin Retirement System  
(WRS)

*Board Member Orientation*  
**WRS Funding and Benefits**

By Linda Owen  
Benefit Plan Policy Analyst  
Office of Policy, Privacy & Compliance  
Department of Employee Trust Funds



October 2009

**WRS Funding**

2

## Basic Funding Formula: $B = C + I - E$

**B**enefits = **C**ontributions + **I**nvestment Earnings - **E**xpenses

### Benefits

- WRS benefits established by statute
- Participants and beneficiaries have rights to the benefits provided by law

### Expenses

- Administrative expenses are relatively low, but
- Always costs to administer a benefit program

## Funding Sources

- Two sources of WRS funding:
  - 1) Contributions – employee and employer
  - 2) Investment earnings
- When investment returns are high
  - Contribution rates can decrease because more necessary funding comes from investment earnings
- When investment returns are low
  - Contribution rates must be increased to compensate

## Funding Sources

- The ETF Board has a fiduciary duty to assure that sufficient assets are available to pay the benefits promised by law
- Each year the consulting actuary analyzes data provided by ETF and recommends contribution rate changes
  - Must be approved by the ETF Board



5

## The Three Reserves

- 1) Employee Reserve – Employee contributions deposited in this reserve. Each participant has an individual WRS account that includes:
  - Employee required contributions
  - Voluntary additional contributions (if applicable)
- 2) Employer Reserve – Employer contributions are deposited in this reserve
  - No individual participant or employer accounts
- 3) Annuity Reserve – The fund from which all WRS annuities in force are paid
  - When participants retire, sufficient funds needed to pay annuities for projected lifetimes are transferred from the Employee and Employer reserves to the annuity reserve

Each reserve is credited with annual interest

## Contributions

Contributions are calculated as a percentage of a participant's WRS earnings

- Percentage varies by employment category
  - General/teacher/educational support
  - Protective
  - Elected officials/Executives

Contribution rates can be adjusted annually

Four types of WRS contributions

- Employee Required
- Employer Required
- Benefit Adjustment
- Unfunded liability

## The Four Contribution Types

### 1) Employee Required

- Credited to Employee Reserve
- Each participant has a WRS account
  - ✓ Includes the employee required contributions plus accumulated interest
- Employers can pay as a fringe benefit
  - ✓ Still treated as employee contributions for benefit purposes

### 2) Employer Required

- Credited to the Employer Reserve
  - ✓ No individual participant or employer accounts in the employer reserve

## The Four Contribution Types

### 3) Benefit Adjustment

- Employee contributions credited to the Employer Reserve
  - ✓ Purpose is to help fund formula retirement benefits
- Employers can pay as a fringe benefit
  - ✓ Credited to employer reserve regardless of who paid them

### 4) Unfunded Liability

- Credited to the Employer Reserve
- Employers can buy their employees' years of service
  - ✓ Buys service worked prior to employer's WRS participation
  - ✓ Employers pay "unfunded liability" contributions to the WRS
    - Cost amortized over 30 years
    - Contribution rate varies by employer

9



10

## WRS Benefits

### Separation Benefits

- Participant must terminate employment and apply for benefit before age 55 (age 50 if protective)
- Lump sum payment includes:
  - Employee required contributions
  - Voluntary additional contributions (if applicable)
  - Accumulated interest
- Employer contributions and years of service are forfeited

11

## WRS Benefits

### Retirement Benefits

Must be minimum retirement age (MRA)  
(55 or 50 if protective)

Benefit is always the higher of two calculations

#### Formula

Final Average Monthly Earnings x Multipliers x Years of Service x Actuarial (age) Reduction (if applicable)

Or

#### Money Purchase

Participant account balance x Actuarial (age) Reduction

12

## WRS Benefit Types

### Disability Benefits

- Participants can choose between either *Disability Retirement* or *Long Term Disability Insurance (LTDI)* benefits if continuously employed since October 16, 1992
  - If employment began later, eligible for LTDI only
- Must terminate employment due to a mental or physical impairment expected to be of an indefinite duration

For more information, see Webcasts on these programs in ETF's online Video Library

13

## WRS Benefit Types

### Survivor (death) Benefits

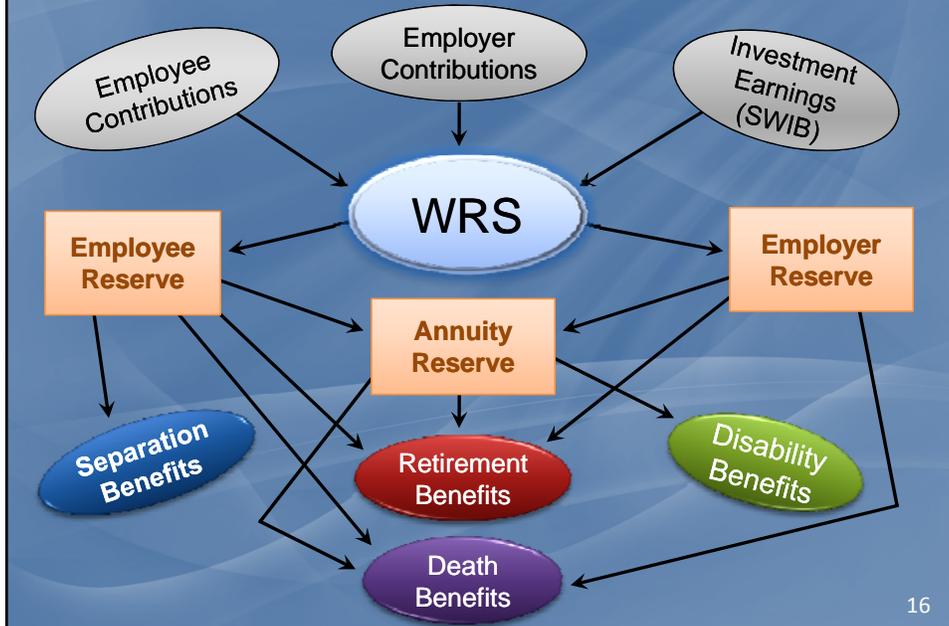
- Active death benefit includes
  - Employee and employer required contributions
  - Additional contributions (if applicable)
  - Accumulated interest
- Inactive death benefit includes
  - Employee contributions
  - Additional contributions (if applicable)
  - Accumulated interest
- Annuitants
  - Whether a benefit is payable and the amount is based on the annuity payment option selected at retirement

14

# Summary

15

## WRS Contributions and Benefits



16

