



STATE OF WISCONSIN
Department of Employee Trust Funds
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CORRESPONDENCE MEMORANDUM

DATE: August 26, 2011

TO: Employee Trust Funds Board
Teachers Retirement Board
Wisconsin Retirement Board

FROM: Shawn Smith, Director
Office of Communications and Legislation

SUBJECT: Legislation and Communications Update

This memo is for informational purposes only. No Board action is required.

This memorandum touches on the legislative session and provides a brief update on the Department's communication efforts since the June Joint Informational meeting.

LEGISLATION UPDATE

There have been no new laws enacted that materially impact the Wisconsin Retirement System (WRS) since the last update in June. The only pending action on the budget (Wisconsin Act 32) after the last update was which items the Governor would choose to veto from the budget language. The Governor partially vetoed language that modified the new vesting requirement in Act 32. The original language, passed by the Joint Finance Committee, would have provided a proportional credit of the employer contribution to members who were not yet fully vested, but had some service. The effect of the partial veto is that members must have five full years of service before any employer contributions can be drawn as a benefit. Members with less than five years of service are only eligible for their own contributions, plus accumulated interest.

Reviewed and approved by Robert J. Conlin, Deputy Secretary.

Signature

8/30/2011
Date

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JI	9.15.11	5A

Other Legislation

AB 51/SB 22—this proposal makes a number of changes to the structure of charter schools in Wisconsin. It would establish a new Charter School Authorizing Board and, in general, create the conditions for an expansion of the number of such schools. As it relates to the WRS, any new charter school would be eligible to join the WRS as a public employer. The Assembly and Senate versions have both passed their respective Education Committees.

AB 52/SB 29—seeks to expand the state tax exemption for retirement plan income received by an individual. It would eliminate the age (65 or older) and amount (\$5,000) caps on related income considered exempt for state tax purposes. For WRS purposes, this pertains to income from the Milwaukee Public School Teachers' Retirement Fund and the Wisconsin State Teachers' Retirement Fund for those who were members or annuitants as of 12/31/1963. There has been no new action on this bill.

SB 153—this bill was introduced in July and permits governmental employers who are not participating employers in the WRS to be covered in the local government health insurance plan offered by the Group Insurance Board.

ETF Initiated Legislation

The Department is actively seeking sponsors to implement conforming language to implement the federal HEART (Heroes Earnings Assistance and Relief Tax) Act. The provisions of this proposal must be enacted this session in order for the WRS to remain compliant with federal regulations. In 2008, the federal government passed the Heroes Earnings Assistance and Relief Tax Act, also known as the HEART Act. Under the HEART Act, when an employee leaves employment to enter military and then dies in active military service, the survivor benefit for that employee under a pension plan must be calculated as though he or she returned to employment on the date of death. Current state law governing the WRS does not yet reflect that treatment and must be amended to comply with the federal mandate.

Under current state law, a WRS survivor benefit for a military service member who leaves his or her job to serve in the military is sometimes treated as an "inactive" survivor benefit. Survivors who received an inactive benefit under the WRS generally receive only the employee required contribution balance. By comparison, the HEART Act would provide that survivors in such a situation would receive a benefit as though the deceased were still an active employee. Thus, the survivor would receive the employee required contributions, plus a matching amount of employer contributions.

The Department is also drafting legislation to make a number of technical clarifications in the law and to make recommended modifications to reflect advice ETF received from

independent tax counsel. It is the Department's intent to circulate all three pieces of legislation (the HEART Act, the Technical Bill and the IRS Conformance Bill) as a package for introduction in September.

Finally, a question was asked at the June meeting concerning the status of legislation to close the Variable Fund to new entrants. As you may recall, the Department asked the Joint Survey Committee on Retirement Systems to sponsor legislation to close the Variable Fund to new enrollments during the last legislative session. The legislation was not introduced and the Department has taken no further steps at this point to seek introduction. Figures show the percent of members enrolled in the Variable Fund continues to decrease and is now at its lowest point since 2005.

WRS Study

You will recall that Act 32 required the Department, along with the Department of Administration and Office of State Employment Relations, to do the following:

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 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.*

Findings and recommendations are to be reported to the Governor and the Joint Committee on Finance by June 30, 2012.

The Department has begun the process of scoping out the study topics, collecting research and reports from other retirement systems that have done similar studies and establishing a plan for the completion of the study.

Further updates on the study will be provided at future board meetings.

COMMUNICATIONS UPDATE

The major focus has been on developing and implementing communications to educate members and employers about recently enacted law changes and other programmatic modifications that affect WRS benefit programs. Department staff have produced and disseminated detailed guidance, created new educational videos and the Office of

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Communications and Legislation has sought to take advantage of press opportunities to get the word out. Two new online videos about health insurance changes have had more than 9,000 viewings combined as of the publication of this memo.

ETF continues to field a number of media inquiries concerning retirement trends, and, more recently, the impact of recent law changes on our benefit programs. Secretary Stella was also interviewed in-depth on WisconsinEye about all of these topics. The complete video is available on the website.

I will be at the Joint Informational meeting to answer any questions you may have.