



State of Wisconsin
Department of Employee Trust Funds
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SECRETARY

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Correspondence Memorandum

Date: October 17, 2017
To: Matt Adamczyk, Wisconsin State Treasurer
From: Robert J. Conlin, Secretary
Subject: WRS Retirement Benefits

You recently asked the Department of Employee Trust Funds (ETF) to provide information about pension and sick leave conversion benefits. Specifically, you asked for information about employees who retired in 2015 and 2016 and receive annual retirement pension benefits of \$150,000 or greater. Additionally, you asked for information on sick leave balances \$500,000 and greater for this same period of time.

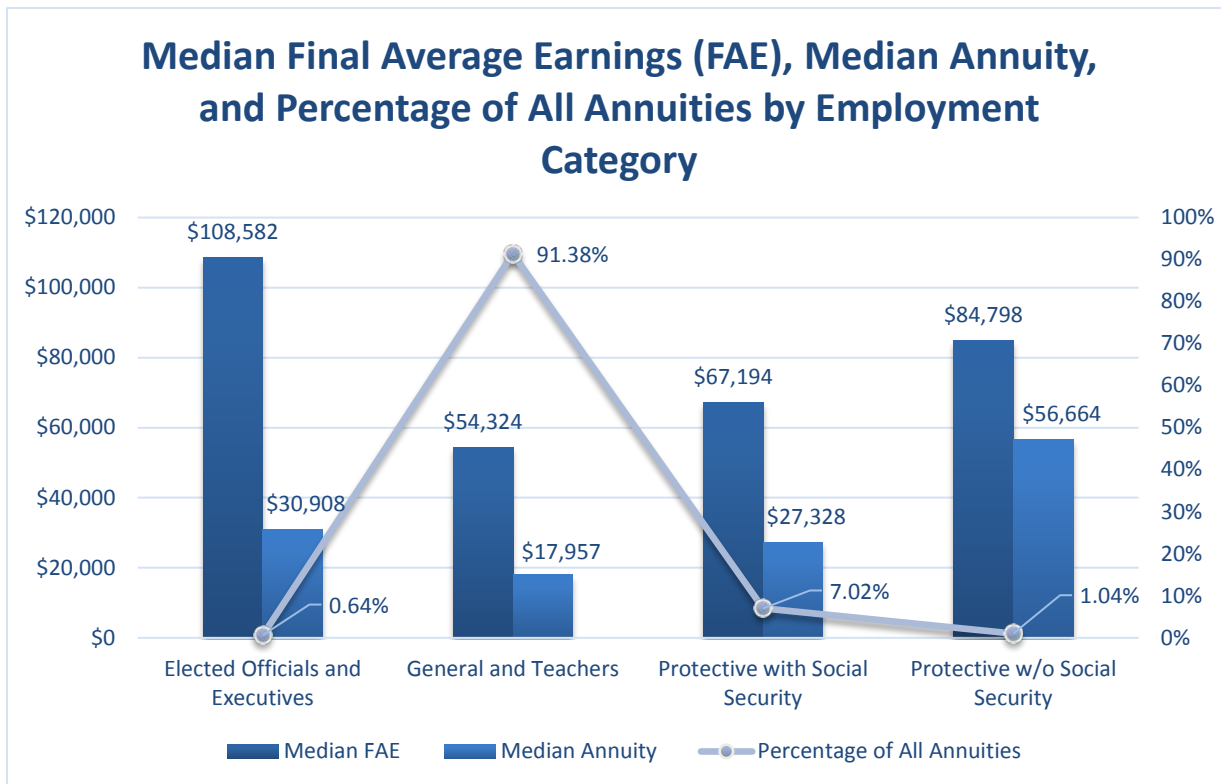
Wisconsin Retirement System Retirement Benefits - Background

The Wisconsin Retirement System (WRS) provides retirement benefits to former public employees and their beneficiaries. The objective of a WRS retirement benefit is to provide a benefit that, when combined with Social Security benefits, would produce a total retirement income to protect WRS members from the financial hardships of old age. Based on actuarial assumptions, a typical WRS career public employee retiring with 30 years of service can expect an income of about 40% to 50% of his or her previous gross earnings.

WRS retirement benefits are pre-funded by employee and employer contributions (currently 6.8% for employees and 6.8% for employers), plus investment earnings. Approximately 75% of benefits being paid come from investment earnings. At the end of 2016, the WRS paid more than \$4.5 billion to approximately 202,600 retired persons, disabled retirees and beneficiaries of WRS participants. In addition:

- The average annual pension paid was approximately \$23,612;
- The median annual pension paid was \$20,565;
- Retirees average 21 years of service;
- 86% of benefit recipients have a Wisconsin address; and
- The average age of a WRS member at retirement is approximately 61 years.

The chart on the next page details final average earnings, median annuity and percentage of all annuities by employment category. In line with national trends, Wisconsin's public employees are working longer and putting off retirement. The average retirement age for most WRS members (General and Teachers) is 61 and the median annual annuity is \$17,957 for General and Teacher members. This annuity replaces 33.06% of their final average earnings.



A member may apply for a WRS retirement benefit after meeting all retirement benefit eligibility requirements. A retirement benefit is normally a lifetime annuity with several annuity options to choose from at the time of retirement. Two separate retirement benefit calculations are completed when a member applies for retirement: a formula benefit annuity calculation, which is a defined benefit calculation and a money purchase annuity calculation, which is a defined contribution calculation. The participant receives the higher benefit amount resulting from the two benefit calculations.

The formula method is based on the employee's three highest years of earnings, a formula factor based on the employment category, years of creditable WRS service and any applicable age reduction factor for early retirement. The formula benefit may not exceed 70%¹ of final average earnings.

A WRS money purchase benefit is based on the employee's money purchase account balance and age at retirement. The money purchase benefit is not subject to a state limit. The employee's money purchase account is comprised of employer and employee contributions to the account, plus accumulated interest. The balance is multiplied by an age reduction factor, also known as a "money purchase factor," which is based the employee's age at retirement, to determine the initial monthly benefit amount.

Which benefit calculation will provide a higher benefit depends on many factors, including the employee's age when the retirement benefit begins, years of WRS service, annual earnings and the interest credited to the account.

The Internal Revenue Code also limits the annual benefit that an employee can receive. The 2017 limit is \$215,000. However, there may be adjustments to the limit for age at

¹ For teachers and general category employees, which make up over 90% of WRS members. 65% for protectives with Social Security coverage, and 85% for protectives without Social Security coverage.

retirement, WRS enrollment date, and for certain protective category employees. Generally, individuals employed before 1990 are excluded from this limit. Additionally, the IRC limits the maximum amount of annual compensation on which retirement contributions may be based (which limits benefits paid) for employees hired after January 1, 1996. The maximum amount for 2017 is \$267,500. These retirees would not have been subject to the IRS compensation limitations because they were hired prior to January 1, 1996.

2015 and 2016 WRS Retirement Annuities over \$150,000

Out of 19,717 retirements in 2015 and 2016, 26 (.0013%) had annual benefit amounts over \$150,000. The retirement annuities ranged from \$151,455 to \$311,139, with a median annuity of \$186,546. Almost 60% of these annuities were under \$200,000 and one was over \$300,000.

Retirement ages for the group were older than the average retirement age of 61 with a median and average retirement age of 70 years old. The final average earnings of the retirees were also higher, with a median final average earnings of \$180,000*.

Additionally, these retirees worked much longer than the average retiree's tenure of 21 years. This group had an average and median of 41 years of creditable service.

As stated above, retirements are calculated using both the formula and money purchase calculation. The retiree receives the higher benefit. It is important to note, that benefits paid are fully funded, and consistent with actuarial standards. The majority of the retirees receiving a pension benefit over \$150,000 annually were calculated under the money purchase method. These retirees were much older and worked much longer than the average retiree.

* Rounded to the nearest ten thousand

2015 and 2016 Retirements - Annuities Over \$150,000

Retiree	Annual Annuity Amount	Annual Final Average Earnings*	Creditable Service Years	Age at Retirement
Retiree #1	\$151,455	\$140,000	35	69
Retiree #2	\$152,725	\$90,000	39	86
Retiree #3	\$154,463	\$190,000	44	70
Retiree #4	\$158,245	\$440,000	25	61
Retiree #5	\$158,281	\$210,000	41	73
Retiree #6	\$158,401	\$160,000	41	69
Retiree #7	\$160,753	\$120,000	42	67
Retiree #8	\$162,822	\$310,000	31	57
Retiree #9	\$164,655	\$180,000	44	66
Retiree #10	\$182,287	\$90,000	50	75
Retiree #11	\$183,647	\$240,000	41	66
Retiree #12	\$185,218	\$130,000	44	75
Retiree #13	\$186,546	\$290,000	42	69
Retiree #14	\$188,104	\$90,000	52	77
Retiree #15	\$188,452	\$210,000	36	70
Retiree #16	\$200,606	\$330,000	36	67
Retiree #17	\$213,222	\$180,000	47	74
Retiree #18	\$222,390	\$130,000	40	72
Retiree #19	\$233,103	\$320,000	41	66
Retiree #20	\$239,604	\$690,000	20	63
Retiree #21	\$242,188	\$180,000	41	76
Retiree #22	\$250,083	\$100,000	49	77
Retiree #23	\$275,300	\$190,000	44	77
Retiree #24	\$279,586	\$160,000	38	70
Retiree #25	\$288,910	\$120,000	46	70
Retiree #26	\$311,139	\$540,000	42	68

*Final average earnings are calculated using the employee's three highest years of earnings. Out of 26 retirees, 19 were calculated as money purchase. Rounded to the nearest ten thousand.

State of Wisconsin Sick Leave Programs

Sick leave is a fringe benefit available to State of Wisconsin employees². Most employees earn and, depending on usage, accumulate hours of unused sick leave while they are employed with the state. Eligible employees, upon retirement, layoff or death, can use unused sick leave credits to pay post-termination state group health insurance premiums. It is important to note that sick leave credit conversion accounts have no cash value and do not accrue interest over time. Currently, the average State and University of Wisconsin employee is 45.5 years old, has 11.4 years of service and has 84.5 days of sick leave accumulated.

Once an individual's sick leave credits are exhausted, they are responsible for directly paying the full amount of the premiums. Consequently, the value of unused sick leave to pay for health insurance premiums after leaving state service provides a financial incentive for employees to use sick leave as sparingly as possible. It also provides employers a tool to recruit and retain qualified employees. There are two sick leave credit programs for State of Wisconsin employees:

Accumulated Sick Leave Conversion Credit (ASLCC) Program – The ASLCC program allows employees to convert sick leave to pay for health insurance at retirement, as well as in other situations such as death, layoff or termination with 20 years of service. Under this program, accumulated sick leave is multiplied by the employee's highest basic pay rate in a qualifying position and converted to credits to pay for State Group Health Insurance in retirement. The ASLCC program was created by Wis. Stat. § 40.05 (4) (b) in 1972. ETF and the ETF Board have statutory authority for program administration and oversight [Wis. Stat. § 40.05 (4) (b) and § 40.95].

Supplemental Health Insurance Conversion Credit (SHICC) Program –The SHICC program allows employees who have at least 15 years of continuous state service to earn sick leave credits in addition to those provided by the ASLCC program. The SHICC program was first authorized in 1995. DOA's Division of Personnel Management (DPM) authorizes the continuation of the SHICC program through collective bargaining agreements and compensation plans.

Funding – Both sick leave conversion programs are pre-funded, based on a percentage of payroll as recommended by the ETF Board's consulting actuary. The current employer paid contribution rate is 1.2% of covered payroll (effective 01/01/2018). It is reviewed annually and designed to generate sufficient income to support benefits while maintaining a level percent of contribution from year to year.

2015 and 2016 State Retiree Sick Leave Balances Over \$500,000

In 2015 and 2016, 38 employees retired with a sick leave account balance worth over \$500,000. As noted above, sick leave is calculated using the employee's highest rate of pay, which ranged between \$120,000 and \$650,000 annually for these individuals, with a median of \$210,000. Generally, the longer an employee works for the state, the greater the opportunity to accumulate sick leave credits. Creditable service for this group ranged from 15 to 47 years, with a median of 38 years of creditable service. This

² State of WI employees include UW System, UW Hospitals and Clinics, state agencies, the State Legislature and Constitutional Officers, and state authority employees.

group also tended to be older than the average retiree. The age at retirement ranged from 57 to 77, with a median of 68 years old.

Please contact ETF's Government Relations Director, Tarna Hunter at 267-0908, if you have any questions or would like additional information.

2015 and 2016 Retirements - Sick Leave Accounts Over \$500,000

Retirees	Beginning Sick Leave Balance	Highest Annual Salary*	Creditable Service - Years	Age at Retirement
Retiree#1	\$501,460	\$210,000	27	64
Retiree#2	\$502,695	\$150,000	42	70
Retiree#3	\$505,201	\$180,000	37	65
Retiree#4	\$505,912	\$150,000	41	77
Retiree#5	\$507,245	\$180,000	37	66
Retiree#6	\$507,485	\$170,000	38	70
Retiree#7	\$520,520	\$290,000	27	63
Retiree#8	\$521,658	\$520,000	46	73
Retiree#9	\$529,579	\$270,000	27	57
Retiree#10	\$531,569	\$120,000	37	64
Retiree#11	\$539,321	\$220,000	36	71
Retiree#12	\$551,619	\$250,000	15	66
Retiree#13	\$564,077	\$120,000	41	71
Retiree#14	\$571,264	\$180,000	39	71
Retiree#15	\$577,146	\$190,000	41	76
Retiree#16	\$578,126	\$230,000	33	64
Retiree#17	\$580,027	\$120,000	36	76
Retiree#18	\$583,579	\$170,000	39	65
Retiree#19	\$585,956	\$590,000	41	70
Retiree#20	\$590,248	\$160,000	38	65
Retiree#21	\$604,292	\$210,000	40	64
Retiree#22	\$624,190	\$650,000	30	64
Retiree#23	\$624,864	\$200,000	47	74
Retiree#24	\$634,077	\$270,000	33	62
Retiree#25	\$636,184	\$230,000	36	68
Retiree#26	\$642,683	\$200,000	41	74
Retiree#27	\$647,677	\$210,000	41	67
Retiree#28	\$648,711	\$260,000	35	72
Retiree#29	\$652,096	\$190,000	44	70
Retiree#30	\$694,019	\$210,000	41	73
Retiree#31	\$722,229	\$320,000	31	58
Retiree#32	\$756,071	\$190,000	44	77
Retiree#33	\$764,660	\$310,000	42	69
Retiree#34	\$779,360	\$230,000	34	71
Retiree#35	\$849,595	\$250,000	41	66
Retiree#36	\$863,899	\$300,000	30	64
Retiree#37	\$896,900	\$230,000	33	67
Retiree#38	\$965,169	\$330,000	36	68

* Rounded to the nearest ten thousand