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CORRESPONDENCE MEMORANDUM

DATE: June 3, 2010

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

FROM: Matt Stohr, Director of Legislative Affairs, Communications and Quality Assurance

SUBJECT: Legislative and Communications Update

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

Legislative Update

The 2009-2010 Legislative Session began in January 2009 and the general business portion of the session concluded on April 22, 2010. The bills listed below were introduced during the 2009-2010 Legislative Session and, if passed and signed into law, would have had an impact on the Wisconsin Retirement System (WRS). None of these bills passed the Legislature this session.

2009 Senate Bill 320

Pursuant to the Employee Trust Funds (ETF) Board's request, Senator Wirch and Representative Hubler introduced 2009 Senate Bill 320, which would have closed the WRS Variable Fund to new enrollees as of January 1, 2011. Senator Wirch and Representative Hubler are the co-chairs of the Legislature's Joint Survey Committee on Retirement Systems. The bill was referred to the Joint Survey Committee on Retirement Systems but it was not scheduled for a hearing.

2009 Senate Bill 390/Assembly 916

Senate Bill 390, as amended, would have permitted a WRS retiree, who is a member of a retiree organization that is affiliated with an employee organization or a retiree organization that represents WRS retirees, to have the Department deduct voluntary payments for retiree organizations from the retiree's monthly WRS annuity. More

Reviewed and approved by Robert Conlin, Deputy Secretary.

Signature Date

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JI	6.24.10	3B

importantly, the bill also had a component that related to the mailing (by the Department) of retiree organizational material to WRS members. The bill passed committee but was not scheduled for a vote in the Senate. Assembly Bill 916 was ultimately amended at the end of the session and the amended version did not include the mailing provision. That version passed the Assembly, but it was not taken up by the Senate.

2009 Senate Bill 88/Assembly Bill 126

2009 Senate Bill 88, and its companion bill 2009 Assembly Bill 126, would have created a program to allow participating employees in the WRS to purchase creditable service for all years of active military service subject to certain conditions. Among other things, the conditions included: the employee pays the Department the required employee contribution for general category employees based on the employee's final average earnings (determined as if the employee had retired on the first day of the annual earnings period during which the Department received the application). Neither of the bills passed committee.

2009 Assembly Bill 199

2009 Assembly Bill 199 would have classified various employees as protective occupation employees for the purposes of the WRS, including employees of the Parole Commission; state employees who are employed at state correctional institutes, juvenile correctional facilities, the mental health institutes at Mendota and Winnebago, the Wisconsin Resource Center, or any secure mental health facility for sexually violent persons; psychologists and corrections classification specialists employed by the Department of Corrections who perform duties related to sexually violent person commitments; and clerical employees employed at probation, extended supervision and parole offices. This bill did not pass committee.

2009 Assembly Bill 337

2009 Assembly Bill 337 provided that a participating WRS employer who is subject to the Municipal Employment Relations Act (MERA) may not pay, on behalf of any employee who first becomes a participating employee on or after the bill's effective date, the first 3% of earnings of an employee's required contribution. Employers covered by MERA generally include any city, county, village, town, metropolitan sewerage district, school district, family care district, or any other political subdivision of the state, or instrumentality of one or more political subdivisions of the state. This bill did not pass committee.

Public Pension Plan Changes in Other States

Although there were not any major state law changes that impacted the WRS this legislative session, there were many significant law changes to public retirement systems in other states. Please find attached to this memorandum a grid containing recent changes to public pension plan designs across the nation.

Communications Update

Reports and Studies on Public Pension Plans

At the March meeting we talked about the Wisconsin Policy Research Institute report entitled "The Imbalance Between Public and Private Pensions in Wisconsin" and Secretary Stella's response to the report. Since the March meeting, there have been other reports about public pensions plans in the United States. The common theme of the reports is the unfunded liability and the funded status of the plans. The author's of the reports use varying methods to determine the funding ratio of each state public pension plan. The table below lists a few of the recent reports on public plans, the method used to determine the funding ratio of each plan, and funding ratio for the WRS in each of the reports. The last two rows in the table provide information about the WRS from the independent WRS consulting actuary.

Source	Method	Funding Ratio of WRS
PEW Center on States	Actuarial Valuation	99.67%
Boston College Center for Retirement Research	Projection for 2009	97.1%
Manhattan Institute	Projection using 4% discount rate for liabilities	78%
WRS Consulting Actuary	Actuarial Valuation	99.7%
WRS Consulting Actuary	Market Value Measure	88%

There are, and will continue to be, reports about public pension funding and it is important to consider the source of the report, the assumptions used in the report, whether those assumptions are appropriate for public pension plans that have a long-term focus and investment strategy, and the intentions of the authors of the report.

Newsletter

As I mentioned at a previous Board meeting, ETF and the State of Wisconsin Investment Board (SWIB) intend to launch a joint newsletter soon. As of now, we intend to announce the joint newsletter in the September 2010 edition of *Trust Fund News* and implement the change in the January 2011 edition. The joint newsletter will provide many benefits. For example, all WRS related information will be included in one newsletter for WRS members, SWIB will get more direct access to WRS members (which is especially important during difficult economic times) and ETF intends to experience operational cost-savings.

I will be at the June 24, 2010, Joint Information meeting to answer any questions you may have.

Attachment

Selected approved changes to state public pensions to restore or preserve plan sustainability						
System	**Contributions**	**Benefits**	**Early retirement**	**Actuarial methods/processes**	**Study commission**	**Notes**
Retirement Systems of Alabama				Increase statutory max amortization period from 20 years to 30		
Arizona SRS	Employee and employer contributions are matched and adjusted annually based on actuarial results; they will rise from 9.0% to 9.6% on 7/1/10; this includes the retiree health insurance benefit.	For new hires: • Change from Rule of 80 to Rule of 85 • Change FAS from high 3 years to high 5 • Eliminate access to ER contributions for terminating participants Also, • Made service purchases cost-neutral • Decreased interest rate paid on refunds • Requiring ERs to pay ASRS for early retirement incentives • Rescinded modified DROP Program	Early retirement provisions revised commensurate with change in normal retirement eligibility			
Colorado PERA	Employee and employer contribution rates will rise incrementally for several years.	• Lower auto-COLA for existing retirees, to lesser of CPI-W or 2.0% • Require future retirees to be retired for 1 year before receiving a COLA • 5-year service credit required on 50% employer match on contribution refunds, effective 1/1/11	Increased actuarial reduction for early retirement		Proposed changes were preceded by a statewide listening tour	A group of retirees has filed suit opposing the COLA reduction; bill also includes an anti-spiking provision.
Illinois statewide		For new hires as of 1/1/11: • Normal retirement age	Early retirement provisions revised			Suspends pension benefits for those

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plans (except judges and legislators)		increases to 67, from 60 • Minimum retirement age set at 62 • FAS basis is now highest 8 of last 10 years, up from final 4 • Limits pension benefit to 75% of FAS or $106,800, indexed to the lesser of 3% or half of CPI • COLAs will be lesser of 3% or half of CPI, non-compounded, from current auto 3% compounded • COLAs begin at age 67	commensurate with change in normal retirement eligibility			who return-to-work for another public employer in the state.
Iowa PERS	Contribution rates will rise incrementally, from 4.7% to 5.3% for EEs and 7.25% to 8.15% for ERs. Thereafter, the board has authority to adjust the total rate by up to 1%.	• Vesting period for those not vested (currently 4 years) on 7/1/12 will increase to 7 years. • Increased FAS period from 3 years to 5	Increased actuarial reduction for early retirement			
Michigan Public School ERS		New school system hires will have a hybrid plan instead of the current DB plan				Reform bill includes an early retirement incentive, creating a window during which retiring school EEs will receive a bump in retirement benefit and payments toward a retiree health care benefit.

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Minnesota PERA	Employer contribution rates will rise from 7.0% to 7.25% and employee contributions will rise from 6.0% to 6.25%, on 1/1/11.	• Reduction in COLA for existing retirees from 2.5% to 1.0%, until funding ratio=90% • Reduction in interest paid on inactive and terminating accounts. • Increase in vesting period, from 3 years to 5			Directors of the 3 statewide systems were directed to conduct study of cost, benefits, and feasibility of DB, DC, and other plans, and report back by 6/11.	A lawsuit has been filed against the COLA reduction.
Minnesota SRS		• Reduction in COLA for existing retirees from 2.5% to 2.0%, until funding ratio=90% • Reduction in interest paid on inactive and terminating accounts. • Increase in vesting period, from 3 years to 5		Extended amortization period from 2020 to 2040.	Directors of the 3 statewide systems were directed to conduct study of cost, benefits, and feasibility of DB, DC, and other plans, and report back by 6/11.	A lawsuit has been filed against the COLA reduction.
Minnesota Teachers	Employer and employee contributions will rise by 0.5% each year, from 5.5% each to 7.5%, phased over 4 years. After the phase-in, the TRA board has authority to adjust future rates (within limits) should the system have a contribution deficiency or sufficiency.	• For existing retirees, 2-yr suspension of COLA followed by permanent reduction in COLA from 2.5% to 2.0%, until funding ratio=90% • Reduction in interest paid on inactive and terminating accounts.			Directors of the 3 statewide systems were directed to conduct study of cost, benefits, and feasibility of DB, DC, and other plans, and report back by 6/11.	A lawsuit has been filed against the COLA reduction.
Mississippi PERS	Raised contribution rates for all employees by 1.75%.	For new hires after 7/1/11, • Retirement eligibility will be based on 30 years, up from 25 • Effective 7/1/11, ERs will			An ad hoc committee of the MS PERS board has been established to look at the overall sustainability of PERS	Statute requires increase in EE rate to be accompanied by commensurate benefit increase;

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		be required to pay ER contributions on any re-employed retiree, and a 90-day break in service will be required (currently PERS requires a 45-day break in service, with an emergency provision). • Effective 7/1/10, local elected officials who retire and continue in office must meet the minimum in-service distribution age as prescribed by the IRS. Additionally, the ER must pay the ER contributions on the salary in effect for the position at retirement.			and its benefits, with the following objectives: ♦ What is a career in public service? ♦ How much should the benefit be following that career? ♦ What is an appropriate amount for the EE and ER to pay to fund that benefit? It is the expectation that the PERS will develop a legislative packet for 2011 based on the outcome of this committee.	because approved benefit improvement was minor, a legal challenge is likely
Nevada PERS		For new hires as of 7/1/10: • New minimum retirement age • Lower multiplier • Anti-spiking provision	Increased actuarial reduction for early retirement			Changes were made in '09 and reflected a consensus among affected groups. Changes apply to all participants.
New Jersey Division of Pension and Benefits	Requires, for the first time, contributions of 1.5% from current participants for retiree health care benefits	• Rescinds 9% across-the-board benefit increase approved in 2001. • For new hires, limits use of sick leave payouts for pension benefits and limits access to DB plan for part-time workers.				

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New York State & Local RS	Most new hires must now make contributions of 3% their entire career, instead of only first 10 years.	For new hires as of 1/1/10: • 10-year vesting, up from 5 • Limit on use of OT in benefit calculation	Increased actuarial reduction for early retirement			
New York State TRS	New hires must now make contributions of 3.5% their entire career, instead of only first 10 years.	For new hires as of 1/1/10: • 10-year vesting, from 5 • Full retirement factor of 2.0% after 25 years of service, up from 20 • Normal retirement at age 57 with 30 years of service, up from age 55 • Limit on use of OT in benefit calculation	Increased actuarial reduction for early retirement			
North Carolina RS					Blue ribbon study commission is taking a bottom-up look at retirement benefits; results scheduled for November	NCRS benefits and costs are modest already
Rhode Island		Reduced benefits for state EEs, teachers and judges not eligible to retire on or before 9/30/09, by increasing retirement age to 62 with a methodology that proportionally changes age requirement based on years of service, so the closer one is to retirement, the less the impact. Also, increased FAS period from 3 years to 5 and reduced COLA to lesser of CPI or 3.0%.				A group of public employee unions has filed suit against the benefit reductions.

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South Dakota RS		• New COLA format, affecting existing retirees, based on plan funding level • Eliminate first-year pro-rated COLAs • Reduce refunds of ER contributions				New limits on return-to-work
Texas ERS		For new hires, retirement eligibility increases to age 65 with 10 years of service, from 60 and 5				Changes made in '09 and are similar to those made in '07 for the TRS of Texas
Utah RS	Plan currently is non-contributory. New hybrid plan is projected to cost 7.5%. ERs will fund first 10% of the hybrid or the DC plan. Difference between the cost of the hybrid and 10% is deposited into EEs' DC account. If the cost of the hybrid exceeds 10%, EEs will pay the difference.	• New hires as of 7/1/11 will have their choice of DC or hybrid, and employers will fund the first 10% of either.			State will be studying projected costs of approved changes and may make additional changes	
Vermont TRS	Raises contributions for current employees from 3.54% to 5.0%.	For current teachers 5 years or more from normal retirement eligibility: • raises normal retirement to 65 or Rule of 90, from 62 or any/30 • increases max benefit to 60% of FAS, from 50% • increases multiplier for those w/20 years of	Increases penalties for early retirement			Also increases limits on maximum permissible benefit and includes anti-spiking provision.

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		service, to 2.0 from 1.67				
Virginia RS	New hires as of 7/1/10 will be required to make contributions, of 5%	For new hires as of 7/1/10: • Normal retirement age tied to Social Security retirement age, from 65 • Lower auto-COLA • FAS of 5 years, up from 3	Early retirement provisions revised commensurate with change in normal retirement eligibility			Will continue as non-contributory for existing employees