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Correspondence Memorandum

Date: June 17, 2015
To: Employee Trust Funds Board
From: Matt Stohr, Administrator
Division of Retirement Services
Subject: 2016 WRS Contribution Rate for the Executive/Elected Official
Employment Category

Staff recommends the Employee Trust Funds Board (Board) accept the supplemental report adding the WRS Executive/Elected Employment Category to the actuarial valuation of the General Category Employment Category pending enactment of the law change described below.

Current law requires the Board to set a separate contribution rate for each employment category.ⁱ On May 19, 2015, in its biennial state budget deliberations, the Legislature's Joint Committee on Finance passed Motion #456ⁱⁱ, which would authorize the Board to combine the General Category and the Elected/Executive Category for purposes of establishing the annual employer and employee contribution rates to the WRS and would provide that the normal retirement age for that category would be increased from 62 to 65 for new participants entering the category after December 31, 2016. Per the motion, the Board can only combine the categories if the combination would be in the actuarial interest of the fund and would result in administrative efficiency.

As of this writing, the 2015-2017 state budget has not been enacted into law. Therefore, we are asking the Board to adopt the supplemental report from the Board's actuary and, if the provision is included in the final version of the state budget, ETF will implement the change to merge the Elected/Executive Category into the General Category for contribution rate setting purposes beginning in 2016. GRS has confirmed that bringing the Elected/Executive Category into the General Category will not have a material effect on the employees in the General Category. Please find below more background information on the Elected/Executive Category.

Board	Mtg Date	Item #
ETF	6.25.15	4A2

What Does the WRS Employment Category Designation Determine For a WRS Member?

Chapter 40 of Wisconsin State Statutes creates four different employment categories under the Wisconsin Retirement System (WRS).

- General Employees.
- Elected Officials and Executive Employees.
- Protective Employees with Social Security (most police officers).
- Protective Employees without Social Security (most firefighters).

Each WRS-eligible position is allocated to one of these employment categories. The category a position is allocated to determine the normal retirement age and the formula multiplier for that position. All positions in the Elected/Executive Category are placed in that category by law.ⁱⁱⁱ

These categories were developed to reflect different benefit levels as determined by state law and assumptions as to member experience regarding working careers and normal retirement ages. Elected and executive members were presumed to have shorter, more stressful careers. Executive category employees originally did not, in fact, earn WRS service credit for work performed after reaching the age of 62 years and 4 months. The limit was repealed by 1987 Wisconsin Act 372.

Contribution Rates for Elected/Executive Category

The chart below shows the total contribution rates for the General and Elected/Executive categories since 2004. The rates for the Elected/Executive Category are typically higher and more volatile than those for the General Category because of the following:

- The Elected/Executive Category is much smaller, so that variations are spread out over a smaller group.
- The Elected/Executive Category has a higher average age. Its members have fewer years on average remaining to retirement.
- The normal retirement age is less than the General Category.

Year	Total Rate for General Category	Total Rate for Elected/Executive Category
2016 (proposed)	13.2	15.6
2015	13.6	15.4
2014	14.0	15.5
2013	13.3	14.0
2012	11.8	14.1
2011	11.6	13.3
2010	11.0	11.9
2009	10.4	11.5
2008	10.6	11.5
2007	10.6	11.5
2006	10.4	11.3
2005	10.2	11.1
2004	9.8	10.7

In the 34 years since the WRS was formed by the merger of the Wisconsin Retirement Fund, the State Teachers Retirement Fund, and the Milwaukee Teachers Retirement Fund, the rate for the Elected/Executive Category has been more volatile than that of the General Category, as shown by the difference in standard deviation.

	General Category	Elected/Executive Category
Minimum Total Rate	9.00	10.70
Average Total Rate	10.89	14.40
Maximum Total Rate	14.00	16.70
Standard Deviation	1.09	2.16

Normal Retirement Age for Elected/Executive Members

Because of the changes brought about by 2011 Wisconsin Act 10, the only remaining difference between the General and the Elected/Executive Category is the normal retirement age, which is the age at which the member can retire without an actuarial reduction.^{iv}

- The normal retirement age for General Category members is 65, while the normal retirement age for Elected/Executive Category members is 62.
- Under current law, General and Elected/Executive members have the same formula multiplier for service after June 29, 2011. For service before that date, General employees have a 1.6 formula multiplier, while Elected/Executive employees have a 2.0 formula multiplier.

In order to make the WRS benefits for the groups equal and justify a combined and lower contribution rate for the Elected/Executive Category, the Legislature's motion raises the normal retirement age for the Elected/Executive group from 62 to 65 for people who enter the group after December 31, 2016. A member who is in the group now will keep the current age 62 retirement age. A member who becomes employed in one of these positions after December 31, 2016, must be 65 years of age to receive his or her full benefit unless that member has 30 years of service, in which case he or she can retire at age 57 and receive the full benefit.

ⁱ **40.05 (2) (a)** Each participating employer shall make contributions for current service determined as a percentage of the earnings of each participating employee, determined as though all employees of all participating employers were employees of a single employer, but with a separate percentage rate determined for the employee occupational categories specified under s. 40.23 (2m), unless otherwise determined by the department. A separate percentage shall also be determined for subcategories within each category determined by the department to be necessary for equity among employers.

ⁱⁱ Provide that beginning in calendar year 2016, the Employee Trust Fund Board may combine the state and local elected officials and state executives employee category and the general employee category under the Wisconsin Retirement System (WRS) for purposes of establishing annual employer and employee contribution rates to the WRS, if such a combination would be in the actuarial interest of the fund and would result in administrative efficiency. Specify that state and local elected officials and state executive employees who initially assume office or begin employment after December 31, 2016, would have a normal retirement date of 65 years of age.

ⁱⁱⁱ An "executive participating employee" is a participating employee in a position designated under any of the following [\[s. 40.02\(30\)\]](#) :

- State of Wisconsin Investment Board senior management listed in [s. 19.42\(10\)\(L\)](#).
- State agency heads and certain senior management listed in [s. 20.923\(4\)](#).
- The Wisconsin Technical College System director and executive assistant under [s. 20.923\(7\)](#).
- Deputies of the Legislative Audit Bureau and independent agencies. Director of the Office of State Employment Relations. Administrator of the Division of Securities in the Department of Financial Institutions, assistant state treasurer, assistant secretary of state, associate director of the historical society, and deputy director of the office of business development. All under [s. 20.923\(8\)](#).
- State agency deputies and executive assistants under [20.923\(9\)](#).
- Division administrators of state agencies listed under [s. 230.08\(2\)\(e\)](#).
- The president and vice presidents of the University of Wisconsin System and the chancellors and vice chancellors who are serving as deputies of all University of Wisconsin institutions, the University of Wisconsin Colleges, and the University of Wisconsin-Extension.

"Elected official" [\[s 40.02\(24\)\]](#) is a participating employee who is:

- A supreme court justice,
- court of appeals judge,
- circuit judge or
- state, county or municipal official elected by vote of the people (except for sheriffs, who are in the protective category).

^{iv} Elected officials are treated differently in several of the disability programs, but this is tied to the definition of "elected official," and not to the employment category. This differential treatment is due to the fact that elected officials serve defined terms of office.

**WISCONSIN RETIREMENT SYSTEM
SUPPLEMENTAL ACTUARIAL VALUATION
AS OF DECEMBER 31, 2014**

Requested By: Mr. Steve Hurley, Director, Office of Policy, Privacy & Compliance
Date: June 10, 2015
Submitted By: Brian B. Murphy, FSA, EA, FCA, MAAA, Mark Buis, FSA, EA, FCA, MAAA,
and James D. Anderson, FSA, EA, MAAA
Gabriel, Roeder, Smith & Company

This report contains an actuarial valuation related to moving the Executive & Elected Officials group to the General category, only for rate setting purposes, with pension benefits unchanged. Brian B. Murphy, Mark Buis and James D. Anderson are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

The date of the valuation was December 31, 2014. This means that the results of the supplemental valuation indicate what the December 31, 2014 valuation would have shown if the proposed change had been in effect on that date. Supplemental valuations do **not** predict the result of future actuarial valuations. Rather, supplemental valuations give an indication of the probable long-term cost of the **change only** without comment on the complete end result of the future valuations.

Actuarial assumptions and methods were consistent with those used in the regular actuarial valuation of the Retirement System on the valuation date, unless otherwise noted. Actuarial assumptions are adopted by the Employee Trust Funds Board. In particular:

- The assumed rate of interest was 7.2%.
- Payroll was assumed to increase 3.2% per year.

A brief summary of the data, as of December 31, 2014, used in this valuation is presented in the comments found at the end of this report.

**WISCONSIN RETIREMENT SYSTEM
SUPPLEMENTAL ACTUARIAL VALUATION
AS OF DECEMBER 31, 2014**

PRESENT APPROACH: General group and Executive & Elected Officials group are valued separately.

PROPOSED APPROACH: Combine the General group with the Executive & Elected Officials group in the actuarial valuation.

Actuarial Statement

The effect of employer contribution rates is shown below:

	Current Provisions		Proposed
	General	Executive & Elected Officials	General and Executive Combined
Normal Cost			
Future Service Portion	13.026 %	12.541 %	13.015 %
Exp. Amort. Res. Portion	0.194 %	3.139 %	0.223 %
Total (before rounding)	13.220 %	15.680 %	13.238 %
Total (after rounding to one decimal)	13.2 %	15.6 %	13.2 %
2016 Normal Cost Rate			
Employer Normal Cost	6.6 %	7.8 %	6.6 %
Participant Normal Cost	6.6 %	7.8 %	6.6 %
Total Normal Cost	13.2 %	15.6 %	13.2 %

WISCONSIN RETIREMENT SYSTEM
SUPPLEMENTAL ACTUARIAL VALUATION
AS OF DECEMBER 31, 2014

Comments

Comment 1 — Executive & Elected Officials were valued with consistently distinct benefits and assumptions as in the December 31, 2014 actuarial valuation (i.e., not General group assumptions). Considerations related to combining the groups include:

- Combining the groups eliminates volatility in results associated with the smaller group (Executive & Elected Officials).
- As a result of the combination, the Executive & Elected Officials participant Normal Cost decreases from 7.80% to 6.60% (based on valuation rounding conventions).
- Executive & Elected Officials group demographics are different from average General demographics and so there will be a very small impact on the participant Normal Cost for the current General group. Other groups currently valued within the General group are also different from average.
- For rate setting purposes, age 62 retirement for existing Executive & Elected participants was maintained. Note that recently forwarded statutory language requires age 65 retirement for post-2015 new hires – which does not impact results as of December 31, 2014, but will impact results as future hires enter the Retirement System under the new provision.
- Combining the groups may necessitate an “Accrued Multiplier” in the data since past service multiplier depends on past conditions. At least in the near term, it will result in less total money going into the System than otherwise.
- Combining the groups leads to a decrease in the employee rate for the Executive & Elected Officials group, thereby impacting money purchase benefits.
- Once combined, it will be difficult to carve out the Executive & Elected Officials group in the future.

**WISCONSIN RETIREMENT SYSTEM
SUPPLEMENTAL ACTUARIAL VALUATION
AS OF DECEMBER 31, 2014**

Comments (Continued)

- There may be a perceived inequity since General and Executive & Elected members are paying the same member rate, while Executive & Elected members have an age 62 normal retirement age (versus 65 for General members) – in other words, an argument could be made that the Executive & Elected Officials are getting the age 62 Normal Retirement Age for “free.” However, the age 62 normal retirement benefit may not result in a higher cost since most Executive & Elected members have shorter service careers. In addition, recently forwarded statutory language requires age 65 retirement for post-2015 new hires.

Comment 2 — The calculations are based upon assumptions regarding future events, which may or may not materialize. They are also based upon present and proposed plan provisions that are outlined in the report. If you have reason to believe that the assumptions that were used are unreasonable, that the plan provisions are incorrectly described, that important plan provisions relevant to this proposal are not described, or that conditions have changed since the calculations were made, you should contact the authors of this report prior to relying on information in the report.

Comment 3 — If you have reason to believe that the information provided in this report is inaccurate, or is in any way incomplete, or if you need further information in order to make an informed decision on the subject matter of this report, please contact the authors of the report prior to making such decision.

Comment 4 — No statement in this report is intended to be interpreted as a recommendation in favor of the changes, or in opposition to them.

Comment 5 — This report is intended to describe the financial effect of the proposed change on the Retirement System. Except as otherwise noted, potential effects on other benefit plans were not considered.

**WISCONSIN RETIREMENT SYSTEM
SUPPLEMENTAL ACTUARIAL VALUATION
AS OF DECEMBER 31, 2014**

Comments (Concluded)

Comment 6 — A summary of the data used in this study is shown below:

Valuation Group	Number	Annual Earnings (\$Millions)	Group Averages			
			Earnings	Age	Years of Service	Contribs.
General	232,433	\$11,573.7	\$49,794	45.8	11.6	\$52,539
Executive Group & Elected Officials	1,401	109.3	77,998	55.2	13.8	98,497
Protective Occupation with Social Security	19,533	1,150.8	58,916	40.7	12.9	61,350
Protective Occupation without Social Security	2,733	203.6	74,487	41.4	14.4	77,665
Total Active Participants	256,100	\$13,037.4	\$50,907	45.5	11.7	\$53,731
Prior Year	255,396	\$12,694.6	\$49,706	45.6	11.8	\$51,082