# Oversight of the Wisconsin Retirement System

State of Wisconsin
Legislative Reference Bureau
Informational Bulletin 06−2, February 2006

## Table of Contents

# OVERSIGHT OF THE WISCONSIN RETIREMENT SYSTEM


## SUMMARY

Recent news stories about pension plans paint a discouraging picture regarding the retirement security of many workers, particularly those in the private sector. In addition, a number of public pension plans in states and localities around the country are underfunded and may require extra taxpayer support to achieve solvency.

In contrast, the Wisconsin Retirement System (WRS), which covers most state and local government workers in the state (City of Milwaukee and Milwaukee County employees are in separate systems) is designed to be fully funded, with sufficient assets set aside to pay expected obligations to all eligible beneficiaries. The WRS is the 10th largest public pension fund in the United States, and is considered to be one of the most secure. This bulletin discusses the history, management, and administrative oversight of the Wisconsin Retirement System.


## INTRODUCTION

The Wisconsin Retirement System (WRS) provides pension benefits for all state government employees, all public school teachers, and the employees of most units of local government in the state. The major exceptions are the City and County of Milwaukee, which operate their own systems.

**Administration.** The WRS is designed to be a fully-funded, actuarially sound, defined-benefit plan. The system, which is generally considered as providing relatively generous benefits, is administered by the Department of Employee Trust Funds (DETF). The department is governed by the Employee Trust Funds Board and advised by several other bodies. Funds for the system are provided through payroll deductions, contributions by employers, and investment earnings. The system's financial assets are managed by the State of Wisconsin Investment Board (SWIB).

**WRS Facts**. Currently, there are over 525,000 participants covered by the WRS. Of these, about 265,000 are active employees of participating governmental units, about 130,000 are former employees who are vested in the system and are eligible to receive annuities in the future, and about 125,000 are retired employees or their beneficiaries who are receiving monthly payments. Over 1,400 employers, including the state and local units of government, and school districts, participate in the WRS. Of the total number of participants, 27% are employees of state government. As of June 30, 2005, the SWIB managed about $70 billion of retirement funds for the system, with almost $3 billion being paid out to annuitants each year.

## PENSION ANXIETY

Traditional formula-based retirement plans, which guarantee a portion of a worker's salary for life, are coming under increasing stress. Most threatened are the plans offered by many older companies in the manufacturing and airline industries, that have promised generous pension plans negotiated as part of collective bargaining agreements over the years.

**Defined-Benefit vs. Defined Contribution.** The two major types of pension plans are known as defined-benefit and defined-contribution. Traditionally, most pension plans were of the defined-benefit variety. This type provides a specified level of payments, typically an annuity for life, as determined by a formula based on level of income and years of service with the company. The organization invests the employee and employer contributions and guarantees receipt of the promised level of payments. In contrast, in a defined-contribution model, the


Prepared by Daniel F. Ritsche, Legislative Analyst

payments into the plan (by the employee, employer, or both) are specified, but later payouts in retirement will vary based on the earnings of the invested funds. Employees assume the responsibility and the risk of investing their retirement assets. If they make unwise decisions or if the economy and the markets fall, pensions will reflect a corresponding drop.

An increasing trend has been away from defined-benefit plans and towards defined-contribution plans, such as 401(k)s. This allows the employer to more accurately forecast annual costs, and does not leave them vulnerable to the ups and downs of the financial markets or the uncertain obligations due to an increasingly long-lived post-retirement population. Although defined-contribution plans are more volatile and typically less generous than a traditional pension, workers who make frequent job changes often prefer defined-contribution plans due to their portability and the absence of a required vesting period before becoming eligible for a pension.

**Underfunded Private Pensions Insured by PBGC**. Federal accounting rules, which are under review by Congress, have allowed many companies to seriously underfund their actual pension obligations. According to the Secretary of the U.S. Department of Labor, American companies had underfunded their pension plans by about $450 billion as of December 2005, and about $100 billion of the shortfall was attributed to financially ailing companies. When a company offering a formula-based retirement plan goes bankrupt, responsibility for the plan is usually assumed by the Pension Benefit Guarantee Corporation (PBGC), a quasi-federal agency. Currently, about 44 million workers, or approximately 21% of the labor force, are covered by about 31,000 traditional pension plans. The PBGC guarantees that covered workers will receive promised pensions, up to a certain level (a maximum of $45,614 annually for workers who retire at age 65 for pension obligations assumed by the agency in 2005). However, the PBGC reported a deficit of almost $23 billion for the fiscal year ending September 30, 2005, taking into account the total of pension liabilities the agency has taken over thus far and those it anticipates in the future.

The PBGC's long-term deficit has been accelerating recently due to the shifting of underfunded pension responsibilities onto the system. The trend started with problems in the steel industry in the 1990s, and has been accelerating with the wave of bankruptcies in the airline industry. It is feared that looming troubles in the automobile industry may greatly exacerbate the problem. Under current law, the PBGC receives no tax money, with its revenues coming from employer premiums and income from invested assets. Congress is currently considering legislation to increase insurance premiums to bolster the fund, but in the end, federal tax revenues may be required to allow the PBGC to make good on the pensions on which millions of present and future retirees are counting.

**Troubled Government Pensions.** Nationwide, about 90% of public employees participate in defined-benefit pension plans. Unlike private companies, government retirement systems are not currently required by federal rules to set aside a particular level of assets. In fact, some plans have little or no reserves − they are, like the Social Security system, essentially "pay as you go," with payouts to retirees coming largely from contributions made by currently active workers. Because government pensions are generally guaranteed by contract, taxpayers must make up any shortfalls between promised benefits and available assets.

Among the reasons for underfunding of government pension systems are the downturn in the stock market which began in 2000, failed risky investments, some cases of malfeasance, and burdensome benefit enhancements to pension plans. One of the most troubled insolvency situations is in the City of San Diego, California, where a $1.4

billion shortfall has prompted talk of the city filing for bankruptcy. West Virginia's state teacher's fund held reserves of only $1 for every $5 in liabilities at the end of 2003. As of May 2005, the retirement fund of teachers in the Minneapolis, Minnesota school system had a deficit of more than $850 million. And, in Wisconsin, Milwaukee County is struggling with a significant shortfall, largely caused by pension enhancements enacted in 2001 being more expensive than anticipated.

To shore up their pension funds, governments have increased employer and employee contribution rates, and some have sold bonds, although the interest on the borrowed money increases overall long-term costs to the public. A number of states and local governments have begun offering optional, privately-run retirement accounts. Some have proposed making 401(k)-type plans mandatory for new hires, an idea resisted by public employee unions. While there has been no legislation advanced in Wisconsin to change the structure of the current system, the governor vetoed a proposal in the 2005 budget bill which would have required state employees to contribute more to their pension accounts.

## SYSTEM ADMINISTRATION: DEPARTMENT OF EMPLOYEE TRUST FUNDS

The Wisconsin Retirement System is administered by the Department of Employee Trust Funds (DETF), under the direction and supervision of the Employee Trust Funds Board. Advice is provided to the ETF Board, and additional oversight and administrative functions are performed by, the Wisconsin Retirement Board and the Teachers Retirement Board. Also attached to the department are the Deferred Compensation Board and the Group Insurance Board, which exercise administrative and oversight responsibilities in their functional areas. Together, these bodies carry out the purposes of the "Public Employee Trust Fund," stated in Section 40.01 (1), Wisconsin Statutes, including: "to aid public employees in protecting themselves and their beneficiaries against the financial hardships of old age, disability, death, illness and accident" and to attract competent employees and keep them in the public service.

**Employee Trust Funds Board.** The 13-member Employee Trust Funds Board provides direction and supervision to the department and the Wisconsin Retirement System. Board membership includes two *ex officio* members and 11 members who are appointed or elected for 4-year terms to represent employers, employees, taxpayers, and annuitants. (See Appendix II for the composition of the board.)

The board approves all administrative rules; authorizes payment of all retirement annuities, except those for disability; and hears appeals of benefit determinations. The Department of Justice furnishes legal counsel and prosecutes or defends all actions brought by or against the board, department, or any department employee as a result of the performance of the employee's duties. In addition, the board may employ or contract with any medical, legal, and other independent service providers required for it to perform its administrative duties.

The board contractually retains an actuary or actuarial firm, approves the contribution rates and actuarial assumptions determined by the actuary, and approves the tables used for computing benefits under the WRS. The actuary serves as the technical advisor for the board and the secretary on any matters of an actuarial nature affecting the soundness or operation of the retirement fund. The actuary must make a general investigation at least once every three years of the experience of the WRS relating to mortality, disability, retirement, separation, interest, employee earnings rates, and of any other factors pertinent to the administration of the system.

The board appoints the Secretary of Employee Trust Funds from outside the classified service, and the secretary selects the deputy from outside the classified service. Division and office heads are appointed from within the classified service by the secretary. The secretary, with the approval of the board, promulgates all administrative rules and supervises department employees. Rules relating to teachers or general WRS participants must also be approved by the Teachers Retirement Board or the Wisconsin Retirement Board. The Department's Division of Retirement Services develops and implements retirement policies and services for system participants, including processing, calculation, and payment of retirement and related benefits. The division also monitors and interprets related state and federal legislation.

**Wisconsin Retirement Board.** The 9-member Wisconsin Retirement Board advises the ETF Board about retirement matters related to state and local general and protective service employees. It recommends and approves or rejects administrative rules, authorizes payment of disability annuities, and hears appeals of staff determinations of disability. (See Appendix II for the composition of the board.)

**Teachers Retirement Board.** The 13-member Teachers Retirement Board is the policy-setting body relating to retirement programs for public school teachers. Its board advises the ETF Board about retirement matters related to teachers and recommends and approves or rejects administrative rules, authorizes payment of disability annuities, and hears appeals of staff determinations of disability. (See Appendix II for the composition of the board.)

**Joint Survey Committee on Retirement Systems.** The 10-member Joint Survey Committee on Retirement Systems makes recommendations on all legislation that affects retirement and pension plans for public officers and employees, and its recommendations must be attached as an appendix to each retirement bill. Neither house of the legislature may consider such a bill until the joint survey committee submits a written report that describes the proposal's purpose, probable costs, actuarial effect, and desirability as a matter of public policy. The committee is authorized to employ a research director and staff under the classified service to assist it in developing its reports. These research functions would be transferred to the Legislative Council Staff if 2005 Senate Bill 527 is enacted. (See Appendix II for the composition of the committee.)

**Retirement Research Committee.** The Retirement Research Committee, originally named the Retirement Research Council, was created as a broadly representative permanent study group by Chapter 375, Laws of 1959. It conducts an ongoing review of state retirement benefits and programs. It also investigates and reports to the legislature on the status of public employee retirement systems and maintains a library of public employee pension and retirement plans from throughout the country.

All administrators of public pension or retirement plans to which the state contributes must submit financial reports to the committee. The officers and staff of the Joint Survey Committee on Retirement Systems serve the same functions for the Retirement Research Committee. 2005 Senate Bill 527 proposes abolishing the committee. (See Appendix II for the composition of the committee.)

## MANAGING THE ASSETS: STATE INVESTMENT BOARD

The financial assets that are accumulated to pay the pensions of WRS participants are invested by the State of Wisconsin Investment Board. While the board manages financial assets belonging to almost 60 other funds, the approximately $70 billion in WRS assets constitute about 90% of the total amount under the control of the board.

**Funds To Be Used Only For Pension Purposes.** As stated in Section 40.01 (2), Wisconsin Statutes, with respect to WRS assets, the primary duty of the Investment Board is to invest the funds to benefit the public employees who rely on it for their retirement security:

> The public employee trust fund is a public trust and shall be managed, administered, invested and otherwise dealt with solely for the purpose of ensuring the fulfillment at the lowest possible cost of the benefit commitments to participants . . . and shall not be used for any other purpose.

The prohibition on using WRS assets for other than pension purposes was affirmed in 1997 by the Wisconsin Supreme Court in the case of the so-called Pension Fund "Raid." Beginning in 1974, the legislature had appropriated general budget monies to fund supplemental benefits to WRS annuitants who had retired before that year in order to bring their pensions closer to the benefits enjoyed by those who retired post-1974. In order to free up revenue to preserve numerous jobs in the state by aiding the financially-ailing Chrysler Corporation (then Kenosha County's largest employer), the 1987 budget discontinued paying the supplemental benefits from general purpose funds (GPR) and instead transferred approximately $78.6 million from WRS trust funds to continue paying the supplements. This enabled the state to direct the now-available GPR funds to economic development aids. The court, in *Retired Teachers Association v. Employe Trust Funds Board* (207 Wis. 2d 1), agreed that the diversion of trust funds was illegal, and ordered the state to repay the WRS, plus interest.

**Investment Board Duties.** The 9-member State of Wisconsin Investment Board is an independent state agency whose purpose is to provide professional investment management of money and property for the state, its agencies, and trust funds. It is required to prudently invest the assets in a diversified manner to minimize the risk of large losses. It establishes asset allocation policies, investment guidelines, and performance benchmarks. (See Appendix II for the composition of the board.)

**SWIB Employees**. The board appoints the executive director and the director of internal audit from outside the classified service. The executive director must be qualified by training and prior experience to manage, administer, and direct the investment of funds. The board sets the salary of the executive director and the internal auditor, and may award bonus compensation to the executive director. The executive director performs the executive and administrative functions of the board, in accordance with board policies, principles, and directives.

The executive director may appoint an executive assistant, chief legal counsel, chief financial officer, chief risk officer, and not more than 11 investment directors and must appoint a chief investment officer and all other employees needed to carry out the functions of the board. The board participates in the selection of the chief investment officer and the investment directors. All employees are outside of the classified service, except for blue collar and clerical employees.

The board designates an individual to serve as the assistant executive director from among the investment director, the executive assistant, the internal auditor, the chief investment officer (or officers), chief financial officer, chief legal counsel, or chief risk officer. The executive director sets the compensation of all employees that he or she appoints, subject to any restrictions in the state compensation plan or any applicable collective bargaining agreements. The board may provide for bonus compensation for employees in the unclassified service, including performance-based bonuses for investment officers. Key employees may not have any direct or indirect financial interest in any firm engaged in the sale or marketing of real estate or investments nor give paid investment advice to others.

**Funds Management.** All WRS participants have at least 50% of their pension assets in the Fixed Retirement Investment Trust Fund (FRITF or "Fixed Fund"). The current investment goal of the Fixed Fund is to achieve an average 7.8% annual return over the long-term that includes an annual rate of return of 3.7% above the expected average increase of wage rates. A second objective is to exceed the benchmark established by the board, which measures the fund's performance against market indices. In keeping with its long-term focus and fiduciary responsibilities, the Fixed Fund is broadly diversified to manage risk. About 59% of the fund's $64 billion in assets are invested in domestic and international stocks (equities), with the remainder in other forms including fixed income assets such as U.S. Treasury securities and corporate bonds; real estate and mortgages; venture capital portfolios; money market instruments, cash, and long-term loans to Wisconsin companies.

About 20% of WRS participants have elected to have 50% of their retirement contributions invested in the Variable Retirement Investment Trust Fund (VRITF or "Variable Fund"). About 99.7% of the $6 billion of Variable Fund assets are invested in equities, with the remainder held in money market investments. Employees who choose to participate in this fund accept a higher degree of risk for the potential of greater returns. Fixed Fund gains and losses are spread over five years to smooth the up or down effect on participants' accounts. Prior year gains or losses in the Variable Fund are fully reflected in participants' accounts.

All costs for managing the board's investments, including agency operations and external management and advisory fees, and investment support services, are paid with earnings from the funds. The majority of expenses are fees paid to outside advisors, fund managers, and index funds, with most of the remainder for other support services including custodial banking services, investment research, and legal services. No more than 20% of the total assets of either the Fixed or Variable Funds may be managed by contracted investment advisors. The statutes also require that the board attempt to ensure that 5% of the total funds expended for financial and investment analysis and stock and bond brokerage commissions go to minority financial advisors or investment firms. The SWIB's total costs for managing all of its funds are about 22 cents for every $100 under management, similar to the costs incurred by other funds with a comparable mixture of assets.

**Investing in Wisconsin.** SWIB, in conjunction with the Department of Commerce, must submit a biennial report to the governor and legislature establishing a five-year plan for making investments in Wisconsin. The purpose of the plan, consistent with prudence and its fiduciary responsibilities, is to encourage the board to make the maximum amount of investments that will have the greatest likelihood of enhancing economic development in the state. The plan is required to outline nonbinding management objectives regarding investments in entities headquartered or primarily located in Wisconsin, entities with significant employment in the state, or companies that are reasonably likely to use the monies invested by the board to maintain or expand employment in the state. This includes small businesses headquartered in the state and venture capital firms based in Wisconsin or in other states if those investments are going to be used to purchase securities in companies located in this state. However, investments in firms that are in the venture capital stage may not exceed 2% of the assets of either the Fixed or Variable Funds.

In addition, the board must pay at least 5% of the total funds expended in securities trading brokerage commissions to broker-dealers who are licensed, headquartered, and primarily operate in Wisconsin.

**Investor Responsibility Program.** SWIB implemented an Investor Responsibility Program in 1986 under which it exercises its rights as a shareholder to improve corporate governance with the goals of enhancing its long-term investment returns and meeting its fiduciary obligations. The board works with company management, corporate boards, and other shareholders to make positive changes, often using its tool of proxy voting. It supports effective, independent boards of directors free from conflicts of interest; the election by majority vote of shareholders of directors who are willing to act in the best interest of shareholders; transparent executive compensation plans which pay company officers at reasonable levels with rewards strongly correlated with performance; and the right of shareholders to periodically vote on allowing poison pills or other antitakeover devices.

**Good Corporate Citizenship.** Investment or the use of proxy votes solely to promote social or political causes or goals are generally considered outside the board's fiduciary responsibilities. However, socially unacceptable products or practices can negatively affect a company's long-term success and the board's investment returns. Therefore, the board engages in corporate social responsibility activities, particularly in the areas of human rights, fair employment, and environmental health, when a company's misbehavior will be felt on the bottom line. For instance, the board limits investments to countries rated "free" or "partly free" by the Freedom House Index of country ratings.

The board participates in corporate governance organizations, it communicates with other public pension funds, and is a member of the Council of Institutional Investors. SWIB initiates or joins claims litigation as appropriate to protect shareholder value, such as cases of corporate fraud or other criminal activity by company executives.

**Accountability: Reports and Audits.** 1995 Wisconsin Act 274 created an internal audit function within the board. Directed by the internal auditor, the internal audit unit may review any activity of the board and has access to the records of the board and any external party under contract with the board. The auditor plans and conducts audits, risk assessments, research projects, and management reviews under the direction of the board; assists with external audits and reviews of the board; and monitors the board's contractual agreements with financial institutions, investment advisors, and any other party providing investment services to the board.

The board annually has the Legislative Audit Bureau conduct a financial audit, including an assessment of the fair presentation of the financial statements. The audit also evaluates the board's internal controls and compliance with applicable statutes, policies, and guidelines.

The Legislative Audit Bureau conducts a biennial performance evaluation that includes an audit of the board's policies and management practices.

The board must annually file a report with DETF on the market value of the assets of the Fixed and Variable Funds. Whenever it adopts any change in its investment policies or guidelines, it must submit a summary report to the Joint Legislative Audit Committee, the Joint Committee on Finance, and the chief clerk of each house of the legislature.

SWIB submits to the legislative bodies listed above an annual report detailing: a description of the board's annual investment goals and long-term investment strategies, including any changes from those in the previous year; an assessment of the board's progress in meeting its annual investment goals; information on the types of investments held by the board, including the market values and degree of risk associated with the investments; and a discussion of the amounts and categories of investments made within Wisconsin, with an update on progress in meeting the objectives of the "Invest in Wisconsin" plan.

**Summary: WRS on Solid Ground.** The Investment Board works closely with DETF and its actuary to ensure that its investment strategy is aligned with long-term projections for payout of pension annuities and other benefits. SWIB Executive Director David C. Mills stated in the agency's Fiscal Year 2005 Annual Report, that the WRS has avoided the funding problems that now afflict a number of public pension systems, and that a recently updated 50-year actuarial projection affirmed that the WRS should remain in sound financial condition even as the number of retirees increases significantly over the next decade.

## FOR FURTHER INFORMATION

For retirement or pension information, visit the Department of Employee Trust Fund's Web site at: **http://etf.wi.gov/**, or call toll-free (877) 533-5020, or in the Madison area call (608) 266-3285. Electronic mail inquiries may be sent directly from the department's Web site.

Visit the State of Wisconsin Investment Board's Web site at:
**http://www.swib.state.wi.us** or call (608) 266-2381.

## APPENDIX I: HISTORY OF THE WRS

From modest beginnings, the Wisconsin Retirement System has evolved into one of the largest and most secure public pension systems in the country. Following are key events in the development of today's WRS:

- **Police.** The legislature provided pension coverage to police in cities (excluding the City of Milwaukee) by Chapter 671, Laws of 1907. Previously The 1891 Legislature (Chapter 287) initiated pension coverage for local government employees when it required the City of Milwaukee to create a pension fund for retired and disabled police and fire fighters.
- **Teachers.** Teachers and administrators of public schools (excluding the City of Milwaukee) could elect to participate in a noncompulsory retirement fund authorized by Chapter 323, Laws of 1911. It was designed to be funded solely by contributions deducted from teachers' salaries. Participation in the "State Retirement System" by non-Milwaukee teachers was made mandatory by Chapter 459, Laws of 1921. Subsequently, Chapter 204, Laws of 1953, changed the name to the "State Teachers Retirement System," administered by the "State Teachers Retirement Board." This system, which also included teachers at the normal schools (teacher's colleges) and state universities, was funded by contributions from both teachers and their employers. In 1909, the legislature (Chapter 510) authorized a pension system for teachers in the City of Milwaukee.
- **State Annuity and Investment Board.** The assets of the retirement funds created in 1921 for public school, normal school, and normal school teachers were administered by separate boards for each class of participants. Chapter 491, Laws of 1929, repealed the funds managed by these boards and transferred the management of the pension reserves to the State Annuity and Investment Board, which was created to invest pension assets and other state funds.
- **Conservation Wardens.** Chapter 227, Laws of 1935, created a pension fund for state conservation wardens, administered by a separate board of trustees.
- **Local Government Employees.** Chapter 175, Laws of 1943, created a pension system for general municipal employees outside of Milwaukee. Governing bodies of municipalities had the option of including their employees in the system. Both employees and employers contributed to the Wisconsin Municipal Retirement Fund, with the monies

invested by the board of trustees. In 1937, the legislature had established separate pension funds for personnel of the Milwaukee County Sheriff's department and general employees of the City and County of Milwaukee.

- **General State Employees.** Chapter 176, Laws of 1943, created a pension system for general state employees. The system was administered, and the funds of the State Employees Retirement Fund were invested, by the State Annuity and Investment Board. Pensions were funded by contributions from both employees and the state. The voluntary retirement age was set at 65, and the general compulsory retirement age was established at 70, with extensions to age 74 being approved by the individual department and the state Bureau of Personnel. Among the reasons given in the statement of "Legislative Purpose" for the creation of the state retirement system was the fact that public employees were not covered under the federal Social Security law. Chapter 60, Laws of 1951, subsequently made Wisconsin the first state in the nation to permit some state and local government employees to be covered under Social Security.
- **Consolidation of Law Enforcement Funds.** 1945 Senate Joint Resolution 46 established a Joint Interim Committee on Pensions and Retirement Plans. The resolution noted the existence of numerous disparate pension systems in the state "that leads to a confusion, an uncertainty, and bewilderment not ever equalled by the adventures of Alice in Wonderland." It noted that many of the systems were not actuarially sound, that it was inadvisable to perpetuate special pension laws for special groups of public employees, and that a number of states had acted to consolidate their pension systems. The committee was charged to report its findings and recommendations regarding the modification and consolidation of the state's pension programs to the 1947 Legislature. While falling short of implementing all of the committee's suggestions, the resulting legislation, Chapter 206, Laws of 1947, closed local fire and police pension funds to new members and merged these funds into the Wisconsin Retirement Fund.
- **Joint Survey Committee on Retirement Systems.** Chapter 376, Laws of 1947, created a Joint Survey Committee on Retirement Systems, with the power to hold hearings at which subpoenaed witnesses and records can be examined. The law provided that any bill creating or modifying any aspect of the public employee retirement systems must be referred to the committee, and a bill may not be acted upon by the legislature until the committee issues a written report which discusses the probable costs of the bill, its effect on the actuarial soundness to the system, and the desirability of the proposal as a matter of public policy.
- **Judges Added to System.** Justices of the Supreme Court and circuit court judges were added to the state retirement system (Wisconsin Retirement Fund) by Chapter 475, Laws of 1951. County judges were added to the system by Chapter 461, Laws of 1953.
- **Investment Board Created.** The State of Wisconsin Investment Board was created to replace the State Annuity and Investment Board by Chapter 511, Laws of 1951. It granted the Investment Board the authority to invest the assets of all non-Milwaukee teachers and the nonteaching, non-Milwaukee public employees covered under the Wisconsin Retirement Fund. In addition, the act replaced the three teacher retirement boards (Public School, Normal School, and University) with the State Teachers Retirement Board. The pension funds of the Milwaukee teachers were subsequently brought under the control of the State Investment Board by Chapter 430, Laws of 1957. Chapter 151, Laws of 1973, abolished the Conservation Wardens

Pension Fund and transferred its assets to the WRF. Chapter 137, Laws of 1973, created the Fixed Retirement Investment Trust and the Variable Retirement Investment Trust under the management of the Investment Board for the purpose of managing the pooled holdings of the retirement funds.

- **Elected State Officers Added to System.** Chapter 617, Laws of 1957, permitted all elected state officials, including legislators and constitutional officers, to join the retirement system if they chose to do so. Participation in the system by these elected officials was made mandatory by Chapter 288, Laws of 1973.
- **Department of Employee Trust Funds Created.** The reorganization of the executive branch by Chapter 75, Laws of 1967, created the Department of Employee Trust Funds. The Department, under the policy direction of the Employee Trust Funds Board, was given the responsibility of administering the various retirement funds, and the pension system management boards (other than the City and County of Milwaukee ) were attached to it.
- **Merger of the Wisconsin Retirement System, 1975-1982**. First, Chapter 39, Laws of 1975, abolished the State Employee Retirement Fund, and directed that those annuities would be paid from the Wisconsin Retirement Fund. Next, Chapter 280, Laws of 1975, initiated the process of merging the existing, separate retirement funds that covered all publicly employed teachers in the state, and all state and local public employees (except the systems covering nonteaching employees of the City and County of Milwaukee). Chapter 280 directed the Employee Trust Funds Board to prepare implementing legislation for introduction in the 1977 legislative session (and which was reintroduced in the 1979 and 1981 sessions). Chapter 182, Laws of 1977, merged the retirement programs for non-Milwaukee municipal police and fire fighters into the general employee retirement system. Finally, Chapter 96, Laws of 1981, fully implemented the consolidation of the retirement plans into the integrated Wisconsin Retirement System, under the control of the Employee Trust Funds Board, with all funds managed by the State Investment Board. Merged were the Wisconsin Retirement Fund, the State Teachers Retirement System, and the Milwaukee Teachers Retirement Fund. Chapter 96 created a policy-making Teachers Retirement Board from the former State Teachers Retirement Board and the former Milwaukee Teachers Retirement Board, and created the Wisconsin Retirement Board to make rules for participants other than teachers.

The mergers which resulted in the new Wisconsin Retirement System were completed effective January 1, 1982. Now, when an eligible participant retires, he or she may choose the higher of one of two basic options: a "money-purchase" annuity (which is the monthly pension payment plan that can be bought with the total of accumulated employer and employee contributions), or the "formula option".

The formula system was created by Chapter 251, Laws of 1965. A retiree's initial annuity is computed by multiplying a participant's final average earnings figure (based on the highest three years of salary) by the number of years of creditable service and the applicable multiplier. The multiplier for general employees is lower than that for elected officials, executive service participants, and protective occupation workers (such as law enforcement employees and fire fighters).

The amount of a retiree's annuity may be adjusted, up or down, based on the performance of fund assets managed by the Investment Board, and how much, if any, of a person's contributions he or she had opted to have invested in the variable fund (as opposed to the fixed fund). However, the "fixed" portion of a retiree's pension check may never go lower than the initial amount. Protective occupation participants may begin to receive a pension at age 50, and general employees may receive a reduced annuity beginning at age 55. The normal retirement age for general employees and teachers, when they are eligible to receive a full pension, is age 65.

## APPENDIX II: COMPOSITION OF BOARDS

The **Employee Trust Funds Board** consists of the following 13 members appointed or elected for 4-year terms:

- The governor (or the governor's designee on the Group Insurance Board).
- The director of the Office of State Employment Relations (or the director's designee).
- Four members of the Teachers Retirement Board, appointed by that board: 1) a public school or technical college teacher, 2) a teacher in the University of Wisconsin System, 3) a public school teacher in the City of Milwaukee, and 4) a public school administrator or school board member.
- Four members of the Wisconsin Retirement Board, appointed by that board: 1) at least one member who is a chief executive, member of the governing body, or principal finance officer of a city or village; or a chairperson or member of the governing body of a county or town; or a county clerk or a deputy county clerk; or a member of the public who is not a participant in or beneficiary of the WRS, to represent the interest of the taxpayers, 2) at least one member who is an employee of a city or village; or an employee of a local employer other than a city or village; or a state employee, 3) at least one member who is a state employee, or a public member.
- One member of the public, appointed by the governor to represent the interests of the taxpayers, who is not a participant in or beneficiary of the WRS, with at least 5 years of experience in actuarial analysis, administration of an employee benefit plan, or significant administrative responsibility in a major insurer.
- One annuitant, elected by annuitants.
- One technical college educational support personnel employee or an educational support personnel employee, elected by participating employees meeting the same criteria.

The **Wisconsin Retirement Board** consists of the following 9 members who serve staggered 5-year terms:

- The chief executive of a member of the governing body of a city or village, appointed from a list of 5 names submitted by the board of directors of the League of Wisconsin Municipalities.
- The principal finance officer of a city or village.
- An employee of a city or village.
- The chairperson or a member of the governing body of a county or town, appointed from a list of 5 names submitted by the executive committee of the Wisconsin Counties Association.
- A county clerk or deputy county clerk.
- An employee of a local government employer other than a city or village.
- A state employee.
- One member of the public appointed to represent the interests of the taxpayers, who is not a participant in or beneficiary of the WRS.
- The commissioner of insurance or an experienced actuary in the office of the commissioner, designated by the commissioner.

All members of the board, except the insurance commissioner or designee, are appointed by the governor. The 3 members representing cities or villages must be from different counties. Likewise, the 3 members representing a county, town, or a local employer other than a city or village must all be from different counties.

**Teachers Retirement Board.** The 13-members of the board, who serve staggered 5-year terms, are:

- Six public school teachers, elected by teachers who participate in the WRS, who are not employed by a technical college district or the UW System.
- One public school teacher from a technical college district elected by technical college teachers.
- One public school administrator who is not a classroom teacher, appointed by the governor.
- Two UW System teachers who participate in the WRS, appointed by the governor. The

representatives must be from different campuses.

- One school board member, appointed by the governor.
- One annuitant who was a teacher, elected by WRS annuitants who were teachers.
- One teacher in the City of Milwaukee, elected by other Milwaukee public schoolteachers.

**Joint Survey Committee on Retirement Systems.** Appointed members serve 4-year terms unless they lose the status upon which the appointment was based. The 10 members of the committee are:

- Two majority party senators, one minority party senator, two majority party representatives to the assembly, and one minority party representative to the assembly, appointed as are the members of standing committees in their respective houses.
- An assistant attorney general appointed by the attorney general.
- A member of the public selected by the governor who is not a participant in any public retirement system in this state and is expected to "represent the interests of the taxpayers."
- The commissioner of insurance or an experienced actuary in the commissioner's office designated by the commissioner.
- The secretary of employee trust funds or his or her designee.

**Retirement Research Committee.** Employee and employer representatives and public members of the Retirement Research Committee are appointed for 4-year terms, unless they lose the status upon which the appointment is based. The 19 members of the committee are:

- The 10 members of the Joint Survey Committee on Retirement Systems.
- The director of the Office of State Employment Relations or the director's designee.
- One representative of state employees or nonteaching local government employees, appointed by the governor.
- One teacher, appointed by the governor, who is not employed by the state or the City of Milwaukee.
- One teacher, appointed by the governor, who is employed by the City of Milwaukee.
- Three members of the public, appointed by the governor, to represent the interests of taxpayers.
- One chief executive or a member of the governing body of a local government participating in the WRS, appointed by the governor.
- An annuitant member of the Employee Trust Funds Board.

**Investment Board.** The State of Wisconsin Investment Board is composed of the following 9 members (except as noted, the members are appointed by the governor with senate consent):

- The secretary of administration, or the secretary's designee.
- A representative of a local government that participates in the local government pooled-investment fund. The member, appointed for a 6-year term, must have been employed by the government in a finance position and have at least 10 years of financial experience, but must not be an elected official, and an employee of a county with a population of 450,000 or greater, or an employee of a city, town, or village with a population greater than 150,000.
- Five members appointed for staggered 6-year terms, four of whom shall have had at least 10 years' experience in making investments. Not eligible is any person having a financial interest in or whose employer is primarily a dealer or broker in securities or mortgage or real estate investments.
- A teacher who is a participant in the WRS appointed for a 6-year term by the Teachers Retirement Board.

# Selected Legislative Reference Bureau Publications

These and other LRB publications are available at **www.legis.state.wi.us/lrb/pubs**

### Research Bulletins

| | |
|---|---|
| RB−04−1 | Wisconsin Legislative District Almanac. April 2004 |
| RB−04−2 | Summary of the 2003-2004 Wisconsin Legislative Session, 2003 Wisconsin Acts 1 to 319. September 2004 |

### Informational Bulletins

| | |
|---|---|
| IB−04−1 | The Partial Veto in Wisconsin. January 2004 |
| IB−04−2 | Wisconsin's Role in Electing the President. February 2004 |
| IB−04−3 | Sex Crimes and Penalties in Wisconsin. September 2004 |
| IB−05−1 | A Study Guide to the *2005-2006 Wisconsin Blue Book*. October 2005 |
| IB−05−1 | Inside the *2005-2006 Wisconsin Blue Book*. October 2005 |
| IB−06−1 | 2005 Legislative Session Fiscal Estimate Manual. January 2006 |
| IB−06−02 | Oversight of the Wisconsin Retirement System. February 2006 |

### Wisconsin Briefs

| | |
|---|---|
| Brief 04−9 | Regulation of Payday Loan Providers. May 2004 |
| Brief 04−10 | Alternatives to Prison for Nonviolent Drug Offenders. May 2004 |
| Brief 04−11 | Rent-to-Own Stores. Updated September 2004 |
| Brief 04−12 | Veterans and Military Benefits − Summary of 2003-04 Wisconsin Legislation. June 2004 |
| Brief 04−13 | Tuition Reciprocity. July 2004 |
| Brief 04−14 | Candidates: Primary Election, September 14, 2004. July 2004 |
| Brief 04−15 | Voice Over Internet Protocol: New Telephone Service Poses Regulatory Challenges. August 2004 |
| Brief 04−16 | State Agencies, Boards, Commissions, and Councils Created, Abolished, or Altered by the 2003 Legislature: 2003 Wisconsin Acts 1-327. September 2004 |
| Brief 04−17 | Candidates: General Election, November 2, 2004. October 2004 |
| Brief 04−18 | Wisconsin State Officers. November 2004 |
| Brief 04−19 | The Wisconsin Jury Process. November 2004 |
| Brief 04−20 | Salaries of State Elected Officials, Effective January 2005. December 2004 |
| Brief 05−1 | Brief Biographies 2005 Wisconsin Officers. January 2005 |
| Brief 05−2 | Compensation of Wisconsin Legislators. January 2005 |
| Brief 05−3 | Profile of the 2005 Wisconsin Legislature, January 3, 2005. January 2005 |
| Brief 05−4 | Constitutional Amendments given "First Consideration" Approval by the 2003 Wisconsin Legislature. January 2005 |
| Brief 05−5 | Wisconsin Women Legislators − A Historical List. January 2005 |
| Brief 05−6 | Executive Budget Bills Enacted by the Wisconsin Legislature, 1931-2003. January 2005 |
| Brief 05−7 | Childhood Obesity. March 2005 |
| Brief 05−8 | Executive Partial Veto of 2005 Assembly Bill 100: Executive Budget Bill Passed by the 2005 Wisconsin Legislature (2005 Wisconsin Act 25). September 2005 |
| Brief 05−9 | SeniorCare. September 2005 |
| Brief 06−1 | Eminent Domain: Public or Private Purposes? January 2006 |
| Brief 06−2 | Identity Theft in Wisconsin. January 2006 |
| Brief 06−03 | State Incentives for the Film Industry. February 2006 |

### Budget Briefs

| | |
|---|---|
| Brief 02−1 | Campaign Finance Reform. September 2002 |
| Brief 02−2 | Domestic Abuse and Stalking. September 2002 |
| Brief 02−3 | Bioterrorism and Public Health Emergencies. October 2002 |
| Brief 04−1 | Earned Release Program. April 2004 |
| Brief 04−2 | Enforcement of Tavern Video Gambling Laws. April 2004 |
| Brief 05−1 | Mentoring Grants For Initial Educators. August 2005 |
| Brief 05−2 | Veterans Educational, Tax, and Housing Benefits. August 2005 |
| Brief 05−3 | County Program Grants for Nonviolent Offenders. August 2005 |
| Brief 05−4 | Tax Changes in 2005 Wisconsin Act 25. August 2005 |

### Legislative Briefs

| | |
|---|---|
| Brief 02−1 | Fighting Chronic Wasting Disease in Deer. June 2002 |
| Brief 02−2 | Second-Chance Homes for Teenage Mothers. August 2002 |
| Brief 02−3 | Constitutional Amendment Given "First Consideration" Approval by the 2001 Wisconsin Legislature. September 2002 |
| Brief 03−1 | Revised Penalty for Homicide by Intoxicated Use of a Vehicle. January 2003 |
| Brief 04−1 | "Puppy Mills": State Licensing of Pet Breeders and Dealers. February 2004 |
| Brief 04−2 | Organ Donation. February 2004 |
| Brief 04−3 | Spousal Abuse and Joint Legal Custody. March 2004 |
| Brief 06−1 | County Board Size Reduction. January 2006 |
| Brief 06−2 | Repeal of Motor Fuel Tax Indexing. January 2006 |

Reference Section (608) 266−0341: Fax (608) 266−5648
Legal Section (608) 266−3561: Fax (608) 264−6948
Library Circulation Desk (608) 266−7040

One East Main Street
P.O. Box 2037
Madison, Wisconsin 53701−2037