THE STATE OF WISCONSIN

The plans:
Wisconsin has only one state-administered pension system. The state also maintains one retiree health plan. This analysis focuses primarily on the state-administered pension system – the Wisconsin Retirement System (RS)– which makes up just over 95 percent of public plan active membership in the state.

The impact of the crisis:
Unlike most public sector retirement systems, the Wisconsin RS uses an aggregate cost actuarial accounting method. This method does not separately account for normal cost contributions and unfunded liabiity amortization payments. Instead, it generates a single contribution rate that is necessary to ensure that benefits are fully funded over the average career of the members of the system. This rate is called the aggregate normal cost. As a result of the economic crisis, the employer's contribution to the aggregate normal cost increased from 6 percent to 7.1 percent of payroll for RS. Importantly, the system remained a responsible funder over the crisis period, continuing to fund 100 percent of the annual required contribution (ARC). For the state as a whole, the economic crisis increased the share of state and local budgets devoted to pensions from 2.2 percent to 3.2 percent.

The impact of pension plan reforms:
In the wake of the crisis, RS made only minor benefits cuts. The system introduced a five year vesting period for new hires, where there was no vesting period prior. This change has a neglible impact on costs. In terms of employer costs, the most important change was an increase in employee's share of the normal cost. RS increased the employee's share of the normal cost from 40 percent to 50 percent. In total, these two plan design changes reduce the projected employer's contribution to the aggregate normal cost from 7.1 percent of payroll today to 6.9 percent by 2046, at which point all active employees will be covered under the new benefit structure.

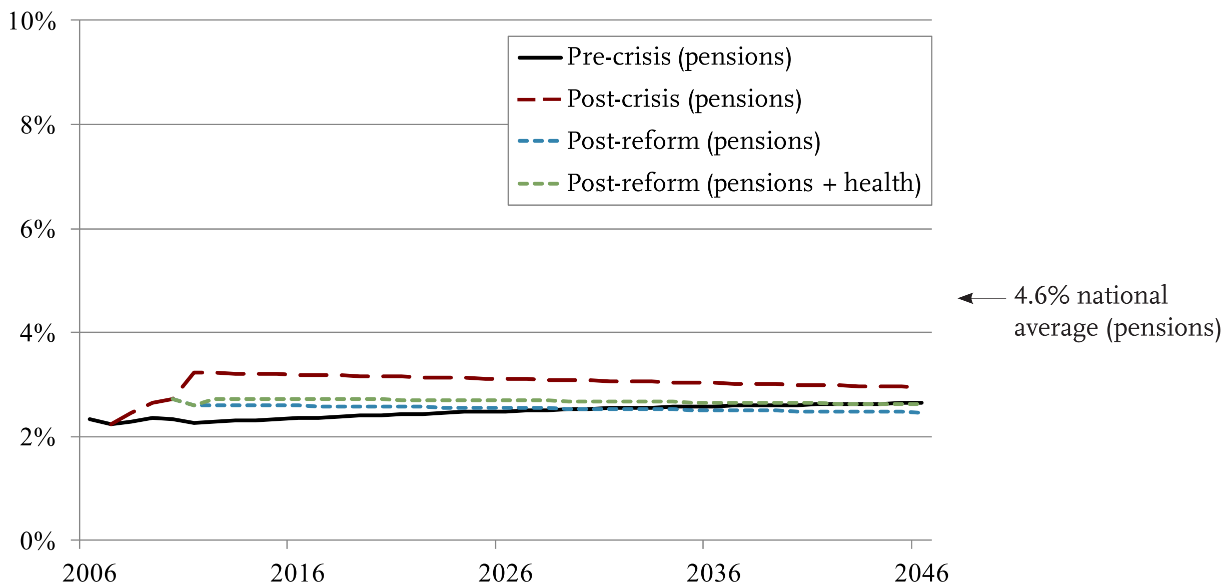
Going forward, if the system continues to pay the full ARC – as it has historically done – and assumed returns materialize, the aggregate normal cost payments will decline and the share of state and local budgets devoted to pensions is projected to drop from 3.2 today to 2.5 percent by 2046. Overall, pension reforms were commensurate with the challenges caused by the crisis and are expected to bring total pension costs just below pre-crisis levels by 2046.

Total state costs:
Wisconsin state government also provides retiree health benefits, which amounted to 0.1 percent of state and local budgets prior to the crisis and are projected to grow to 0.2 percent by 2046. When retiree health and pension costs are combined, Wisconsin's total retirement benefit costs as a percent of state and local budgets equaled 2.3 percent prior to the crisis, increased to 3.3 percent during the crisis, and are projected to drop to 2.6 percent in 2046 after pension reforms are in force for all employees.

PENSION AND RETIREE HEALTH COSTS: PRE- AND POST-CRISIS

WISCONSIN: TOTAL PENSION AND RETIREE HEALTH COSTS

Figure 1. Employer Pension and Retiree Health Costs as Percent of Budget: Pre-Crisis, Post-Crisis, and Post-Reform



Note: Budget = general own source revenues of all Wisconsin state/local governments. Retiree health costs assumed pay-as-you-go.

Table 1. Employer Pension and Retiree Health Costs as Percent of Budget, by Plan

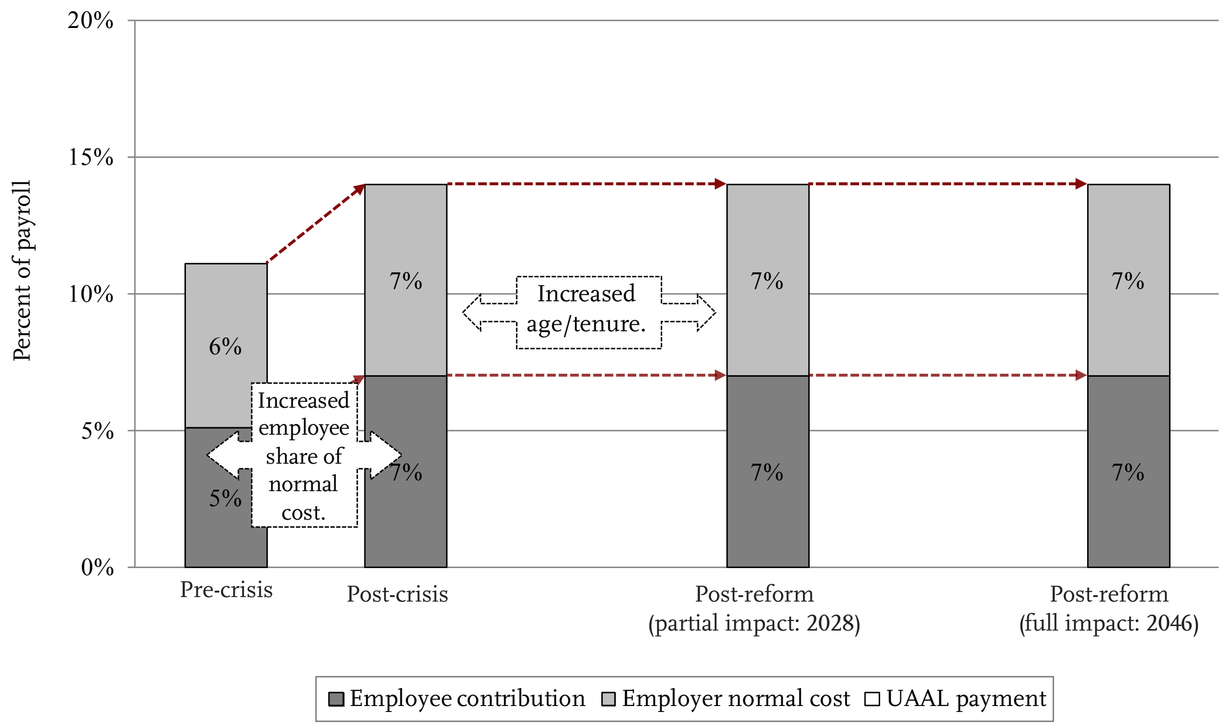
Plan	Pre-crisis	Post-crisis	Post-reform 2028	Post-reform 2046
Total pensions	2.2 %	3.2 %	2.5 %	2.5 %
Wisconsin RS	2.1	3.1	2.4	2.4
Other pension plans[a]	0.1	0.1	0.1	0.1
Total retiree health	0.1	0.1	0.2	0.2
Wisconsin retiree health	0.1	0.1	0.1	0.2
Total	2.3	3.3	2.7	2.7

[a] Includes all the locally-administered plans within Wisconsin.

Sources: CRR calculations from plan actuarial valuations; and U.S. Census Bureau, *State and Local Government Finances* and *State and Local Public-Employee Retirement Systems.*

WISCONSIN RETIREMENT SYSTEM (RS)

Figure 2. Pension Costs as Percent of Payroll: Pre-Crisis, Post-Crisis, and Post-Reform



KEY FACTS

Structure of retirement system

- ☐ Social Security coverage
- ☑ Defined benefit
- ☐ Defined contribution/hybrid

Funding method and history

- ☐ Set by statute
- ☑ Actuarially determined

In 1990, a 40-yr. UAAL amortization schedule was established (equal to about 0.1 percent of payroll). Since 1990, the plan has been funded using the aggregate cost method, which does not separate employer costs into normal costs and UAAL payments.

Plan design changes

- ☐ Cut COLA
- ☑ Increased employee contribution: all employees
- ☑ Increased age/tenure eligibility: new hires only
- ☐ Increased average salary period
- ☐ Reduced benefit factor
- ☐ None

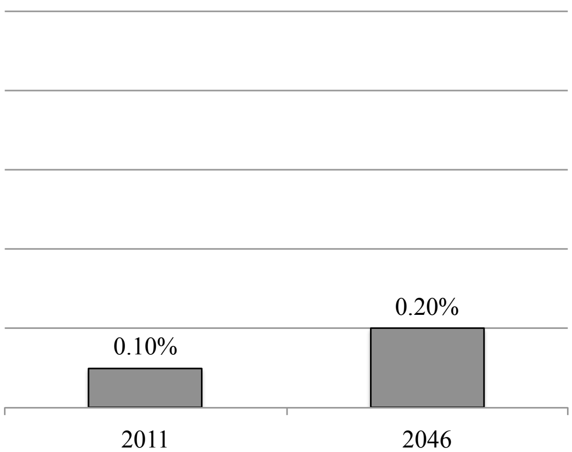
Table 2. Pension Finances and Actuarial Assumptions

Item	Pre-crisis	Post-crisis	Post-reform	
			2028	2046
Plan finances				
Funded ratio	103.8 %	99.9 %	–	–
Employer ARC rate	6.0	7.1	7.3	7.4
Percent of ARC paid	100.0	104.0	100	100
Assumptions				
Discount rate*	7.8	7.8	7.2	7.2
Payroll growth	4.1	3.2	3.2	3.2
Amortization period	20 yrs.	20 yrs.	20 yrs.	20 yrs.

* The discount rate for benefits paid to current retirees is 5 percent.
Sources: Actuarial valuation; and CRR calculations.

STATE OF WISCONSIN RETIREE HEALTH PROGRAM

Retiree Health as Percent of Budget



Sources: CRR calculations from plan actuarial valuation; and U.S. Census Bureau, *State and Local Government Finances*.

Average Annual Benefit

Source: CRR calculations from plan actuarial valuations.

Retiree health funding and costs

- Funding method: Pay-as-you-go.
- Medical inflation rate: 7 percent, drops to 5 percent by 2024.
- Employer contribution: Retirees pay 100 percent of insurance premiums. Employer contributions pay for the implicit insurance rate subsidy retirees receive in the plan.

Benefits and membership

- Benefit eligibility: Members receiving pension benefits or terminated members with 20 years of service.
- Benefits for Medicare-eligible retirees: Same plan as active employees and non-Medicare-eligible retirees, but lower premiums.
- Active employees: 57,934
- Beneficiaries: 7,021
- Most recent actuarial valuation: 1/1/12