

The Impact of the 2008 Market Downturn on Participating Employers in the Wisconsin Retirement System (WRS)

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July 23, 2009



By the Numbers

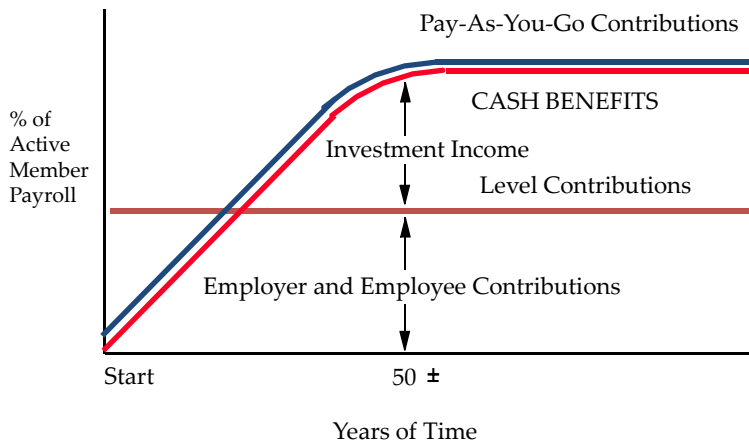
- Of the 269,838 WRS active participants, 23,567 or 8.7% work for cities.
- There are 152 cities (or 10.2% of the total 1,483 participating employers) in the WRS.

WRS Funding Structure

- The WRS uses a prefunding structure.
- An average contribution rate for all members in a particular coverage group is paid based on all employees' ages, service, salary and other characteristics.
- Contributions and investment income prefund employees' future benefits.
- More than two-thirds of the funding of WRS benefits comes from investment return.

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Financing Diagram



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WRS Contribution Structure

- There are three basic types of contributions made to the WRS:
 - Employer Contributions (required for the employer)
 - Employee Contributions (employee pays unless employer elects to pay)
 - Benefit Adjustment Contributions (BAC) (paid by the employee unless the employer agrees to pay this contribution)
 - Over 99% of employers pay most or all of the contributions to the WRS.

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WRS Contribution Rate Structure

- There are four WRS employee rate groups:
 - General Employees (91% of all covered employees)
 - Elected/Executive (0.5% of all covered employees)
 - Protective with Social Security coverage (7.5% of all covered employees)
 - Protective without Social Security coverage (1% of all covered employees and is made up of firefighters)

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How are WRS Contribution Rates Determined?

- Retiree benefit payments are not included in determining employee and employer contributions which fund current and future service.
- The largest component in the contribution rate determination is investment income.
- Actual experience involving non-economic factors including salary increases, rates of retirement, rates of disability, death in-service rates, and separations from service also impact contribution rates.

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How Are Contribution Rates Determined?

- The WRS actuary has developed funding assumptions that create the funding plan for the WRS.
- The assumptions involve the expected experience in economic and non-economic areas previously mentioned.
- If actual experience deviates from the assumptions, contribution rates may either increase, decrease or stay the same.

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General Employee Contribution Rates for 2008, 2009, 2010

Contribution Type	2008	2009	2010
Employer Required Rate	4.6%	4.5%	4.8%
Benefit Adjustment Contribution	1.0%	0.9%	1.2%
Employee Required Rate	5.0%	5.0%	5.0%
Total Contribution Rate	10.6%	10.4%	11.0%

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Executive & Elected Official Contribution Rates for 2008, 2009, 2010

Contribution Type	2008	2009	2010
Employer Required Rate	8.5%	8.5%	8.7%
Benefit Adjustment Contribution	0.0%	0.0%	0.0%
Employee Required Rate	3.0%	3.0%	3.2%
Total Contribution Rate	11.5%	11.5%	11.9%

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Protective Occupation with Social Security Contribution Rates for 2008, 2009, 2010

Contribution Type	2008	2009	2010
Employer Required Rate	8.2%	8.1%	8.6%
Benefit Adjustment Contribution	0.0%	0.0%	0.0%
Employee Required Rate	5.1%	5.0%	5.5%
Total Contribution Rate	13.3%	13.1%	14.1%

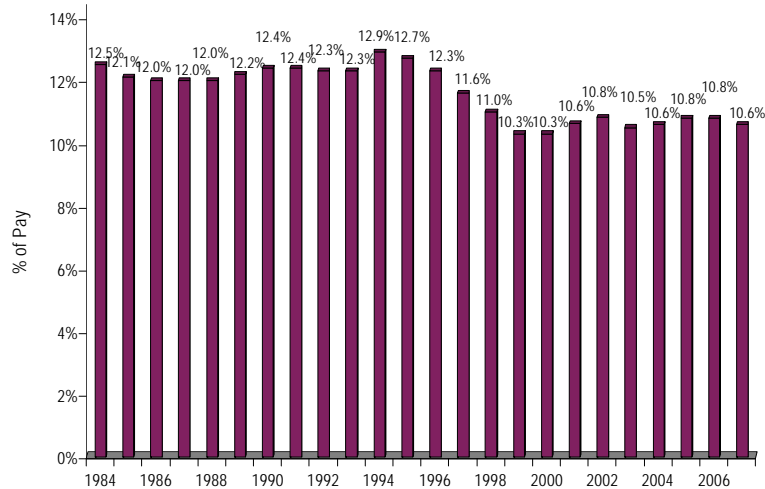
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Protective Occupation without Social Security Contribution Rates for 2008, 2009, 2010

Contribution Type	2008	2009	2010
Employer Required Rate	10.8%	10.6%	11.3%
Benefit Adjustment Contribution	0.0%	0.0%	0.0%
Employee Required Rate	3.4%	3.2%	3.9%
Total Contribution Rate	14.2%	13.8%	15.2%

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Contribution Rate History (General)



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Contribution History 1985-2009

- Since 1985, employers have had a cumulative decrease in Wisconsin Retirement System contribution costs of almost \$200 million plus an additional \$200 million contribution credit that was created in 1999 Act 11.

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WRS Contribution Rate Comparison With Other States

System	Total Rate	Employer Rate	Employee Rate
Wisconsin RS	11.0%	6.0% w/BAC	5.0%
Arkansas PERS	16.0%	11.0%	5.0%
Arkansas TRS	18.54%	14.0%	4.54%
Missouri State Employees RS	12.75%	12.75%	0.0%
Ohio PERS	17.0%	7.0%	10.0%
Maryland RS	17.62%	12.62%	5.0%
Michigan PERS	15.0%	9.6%	5.4%

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The Bad News – At the end of 2008 there was an \$18.6 billion investment loss in the Core Fund to be recognized over 5 years

(the difference between the assumed rate of return and actual return)

<u>Year Earned</u>	<u>Year to be Recognized (millions \$)</u>				
	2008	2009	2010	2011	2012
2008	(5,368)	(5,368)	(5,368)	(5,368)	(5,368)
2007	212	212	212	212	
2006	1,065	1,065	1,065		
2005	86	86			
2004	518				
Total	(3,487)	(4,005)	(4,091)	(5,156)	(5,368)

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Key Points To Remember

- There will be upward pressure on contribution rates going forward (likely in small increments)
- Funding the WRS, even in difficult times, is critical to avoid worse problems in the future
- There are cost sharing provisions that employers can consider to address these increases
- The design of the WRS provides that employers, employees and retirees share the gains and the losses