

Gov. Walker's "Study" May Lead to Privatization of the WI Retire System

Whereas, the WI Biennial Budget passed as Act 32 requires a government study to consider radically modifying the state of WI's Retirement System (WRS); and

Whereas, the WRS is one of the best managed public retirement systems in the world and is also one of the most profitable and well-funded public retirement systems; and

Whereas, the WRS, excluding the variable option, is a defined benefit plan which has served public employees and the citizens of our state well for many years; and

Whereas, Act 32 has the following specific language in Section 9115 WI Act 32 Analysis by the Legislative Reference Bureau:

“This bill also requires the secretary of administration, the director of the Office of State Employee Relations (OSER), and the secretary of employee trust funds to study the WRS.

The study must specifically address

- establishing a *defined contribution plan* as an option for WRS participating employees;
- establishing different *vesting periods* for employer contributions and eligibility for WRS retirement benefits;
- modifying the *supplemental health insurance* premium credit program for state employees; and
- *permitting* participating employees to not make employee required contributions under the WRS and
- *limiting* retirement benefits for these employees to a *money purchase* annuity.
- Under the bill, no later than June 30, 2012, the secretary of administration, the director of OSER, and the secretary of employee trust funds must report their findings and recommendations to the governor.” (italics &format added) ; and

Whereas, [i]n [economics](#), a defined *benefit pension plan* [such as the existing WRS] is

- a major type of [pension plan](#) in which an employer promises a specified monthly benefit on retirement that is predetermined by a [formula](#) based on the employee's [earnings](#) history, tenure of service and [age](#), rather than depending on [investment](#) returns.
- It is 'defined' in the sense that the formula for computing the employer's contribution is known in advance. ... In the [United States, 26 U.S.C. § 414\(j\)](#) specifies a defined benefit plan to be any pension plan that is not a defined contribution plan where a defined contribution plan is any plan with individual accounts.
- A traditional pension plan that defines a benefit for an employee upon that employee's retirement is a defined benefit plan. ...
- The most common type of formula used is based on the employee's terminal earnings. Under this formula, benefits are based on a percentage of average earnings during a specified number of years at the end of a worker's career. ... In the [United States](#), 88 percent of public employees are covered by a defined benefit pension plan. (Source: http://en.wikipedia.org/wiki/Defined_benefit_pension_plan); and

Whereas, [t]he [United States, 26 U.S.C. § 414\(i\)](#) specifies a *defined contribution plan* as

- a plan which provides for an individual account for each participant and for benefits based solely on the amount contributed to the participant's account, and any income, expenses, gains and losses, and any forfeitures of accounts of other participants which may be allocated to such participant's account.
- In a defined contribution plan, fixed contributions are paid into an individual account by employers and employees. The contributions are then invested, for example in the stock market, and the returns

on the investment (which may be positive or negative) are credited to the individual's account. On retirement, the member's account is used to provide retirement benefits, sometimes through the purchase of an [annuity](#) which then provides a regular income.

- Defined contribution plans have become widespread all over the world in recent years, and are now the dominant form of plan in the private sector in many countries. For example, the number of defined benefit plans in the US has been steadily declining, as more and more employers see pension contributions as a large expense avoidable by disbanding the defined benefit plan and instead offering a defined contribution plan... (Source: http://en.wikipedia.org/wiki/Defined_contribution_plan); and

Whereas, the WRS serves over 572,200 workers and retirees in WI, has assets of over \$79 billion, paid out over \$3.9 billion in benefits in 2010 with the vast majority of those payments coming from investment earning - not public employer or worker contributions and whereas the over 125,000 retirees, or their beneficiaries, who receive monthly retirement checks depend upon that WRS check for a significant portion of their retirement income; and

Whereas, Gov. Walker's team may provide a plan for the dismantlement of the very successful WI Retirement System and that plan is to be presented to the governor no later than June 30, 2012; and

Whereas, the understanding of the active and retired members of the AFT-W is limited when it comes to the formulation of the WRS and its operation; and

Whereas, in June Gov. Walker and the legislature may move very quickly to implement the recommendations of the study; and

Whereas, as of 2010 nine states have already reduced state pension benefits, two states had increased employee contributions and seven states had both reduced benefits and increased worker contributions; and

Whereas, in 2010 84% of public sector workers had defined benefit plans while only 20% of private sector workers now have such plans although in 1978 over 41% of private sector workers had defined benefit plans (<http://money.usnews.com/money/retirement/articles/2011/02/07/7-reasons-you-dont-have-a-pension> & http://www.huffingtonpost.com/jonathan-tasini/ceos-boosting-their-pensi_b_160812.html);

Therefore be it resolved AFT-W will join with other unions to organize a public information and education effort directed at public workers, employers and the general public with the objectives:

- To prevent the destruction of the WI Retirement System by Governor Walker and the state legislature,
- To ensure the WRS will continue to well serve public workers and WI citizens with a reasonable, responsible, cost effective, well managed, adequately funded defined benefit retirement system,
- To enable former public workers who have served WI's citizens over long years to have financial security and dignity in their retired years,
- To reach out to public sector employee organizations, management organizations, retiree organizations and other such organizations and provide them with an educational program to ensure the future of a high quality defined benefit WRS,
- To help educate the media, the members of the WI legislature, leaders in the private sector and WI citizens as to the reasons the WRS should not be destroyed and privatized as has happened to other public and private sector retirement systems to the detriment of workers and the general public.

Submitted by the AFT-W Retirees Chapter Executive Board