



STATE OF WISCONSIN
Department of Employee Trust Funds

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Frequently Asked Questions about
Wisconsin Retirement System (WRS) Contribution Rates

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1. How is the WRS funded?

WRS benefits are funded by **contributions** made by participating WRS employers and employees and **investment earnings** on those contributions. Although investment earnings are the primary source of funds, the two are co-dependent. Generally, when investment earnings exceed the expected rate of return, there is a "downward" pressure on WRS contribution rates – they tend to decrease. When investment earnings fall short of the expected rate of return, there is pressure to increase WRS contribution rates. Contribution rate changes are normal for pension systems like the WRS.

However, because of the magnitude of the 2008 investment decline on the WRS trust funds, there will be pressure to increase contribution rates for several more years.

2. How are WRS contribution rates set?

The WRS contribution rates are set in June each year by an independent consulting actuary and approved by the Employee Trust Funds Board.

Separate contribution rates are set for each WRS employee category at an amount that is necessary to fully fund the retirement benefits earned by the members in each category. There are four different WRS employee categories; they are as follows:

- a. **General.** This is by far the largest employment category. More than 90% of WRS active employees are in this category, which includes teachers and any employee not in the other categories (below).
- b. **Elected/Executive.** This category contains less than 1% of the total WRS membership and includes elected officials, state appointed officials such as agency heads, and members of the judiciary.
- c. **Protectives with Social Security.** This category contains approximately 8% of the total WRS membership and includes police officers, firefighters, corrections officers, and other employees classified by their employers as being primarily involved in active fire suppression or law enforcement.
- d. **Protectives without Social Security.** This category contains approximately 1% of the total WRS membership and is primarily comprised of firefighters who are not covered by Social Security.

The contribution rates vary between categories because:

1. each category has a different benefit level (retirement age, retirement formula factor, etc.) as determined by state law, and;
2. the make-up of participants in each category (earnings, age, number of people, etc.) is different.

There are three primary components of the total contribution rates:

1. Employee Rate
2. Employer Rate
3. Benefit Adjustment Contribution (BAC)

The **employee rate** is set by state law; it may vary with investment experience and must be paid by the employee unless the employer agrees to pay some or all of it. The **employer rate** must, by law, be paid by the employer. This rate fluctuates annually as determined by the actuary. The **Benefit Adjustment Contribution (BAC)** is an employee responsibility unless the employer agrees to pay it. It is credited to the employer account.

Under state law, contribution rate changes (increases and decreases) are generally split evenly between the employer rate and BAC, if any, or the employee rate absent the BAC.

3. What are the contribution rates for each category?

The following table identifies the contribution rates for each category for 2010 and 2011. Rates for 2012 will be set in June 2011.

WRS Contribution Rates Percentage of Payroll

Source: *Wisconsin Retirement System 29th Annual Actuarial Valuation, December 31, 2009; see Page I-1*

	General Participants		Elected Officials Executives &		Protective Occupation			
					With Soc. Sec.		Without Soc. Sec.	
	2011	2010	2011	2010	2011	2010	2011	2010
Employer Normal Cost	5.1%	4.8%	9.4%	8.7%	8.9%	8.6%	12.2%	11.3%
Benefit Adjustment Contribution	1.5%	1.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Participant Normal Cost	5.0%	5.0%	3.9%	3.2%	5.8%	5.5%	4.8%	3.9%
Total Normal Cost	11.6%	11.0%	13.3%	11.9%	14.7%	14.1%	17.0%	15.2%

For a twenty-year history of the WRS contribution rates for all WRS employment categories visit: http://www.etf.wi.gov/employers/wrs_contribution_rates.htm

4. What is the Benefit Adjustment Contribution (BAC)?

The BAC was created in legislation [1983 Wis. Act 141] that improved WRS retirement benefits. It was established as a way to fund those benefits without requiring the employer to bear the full cost. The BAC provided for increased employee and employer contributions beginning in 1986. Employee rates increased by 1% of salary for general category employees, teachers and protective employees with Social Security coverage only.

The employee is responsible for paying the BAC absent an agreement by the employer to pay it; and the amount paid gets credited to the employer account, rather than the employee's account.

5. Why isn't there a BAC for the elected official and state executive category?

The elected official and executive category consists of so few state employees that a BAC didn't need to be created to fund the rate of the benefit improvement bill that pertained to those particular employees. It wasn't until the enactment of benefit improvements in 1989 Wisconsin Act 13 that the BAC was applied to the elected official and executive category. The employee contribution rate at that time was 5.5% and the BAC was 0.1% for that category at that time. In addition, Act 13 created the requirement (see section 40.05 of state statute) that increases or decreases in the overall contribution rate must be split evenly between the employer share of the overall WRS contribution rate and the BAC. In the absence of the BAC, which has been the case with the elected official and executive category since 1996, increases and decreases in rates are split evenly between the employer and employee rate. Until 1996 the elected/executive category employee rate was 5.5%. Because of positive investment experience, the employee rate fell as low as 3.1%. It is now 3.9%. The BAC will not be required for the elected officials and executive category until the employee rate for this category exceeds 5.5%.

6. Who determines whether employees have to pay the employee contribution rate and the BAC of the overall WRS contribution rate?

As noted above, the employee rate of the contribution and the BAC must be paid by the employee unless the employer agrees to pay some or all of those amounts. There are approximately 1,500 WRS participating employers. These include the State of Wisconsin, the University of Wisconsin System, technical colleges, counties, cities, villages, towns, school districts and special purpose districts across Wisconsin; the notable exceptions are the City and County of Milwaukee. Historically, the employer has generally paid the vast bulk of the employee contribution and BAC as part of the overall compensation package. However, some employees do pay some or all of their contributions. Labor agreements and compensation plans between the employer and employees in each of the employing units determine how much, if anything, the employer pays towards the employees' retirement contribution. Employees should review their collective bargaining agreements or compensation plans for details on how much, if anything, their employer pays on behalf of its employees.

7. How much of the employee contribution rate does the State of Wisconsin pay for its employees?

The Office of State Employment Relations (OSER) oversees the establishment of the Compensation Plan for non-represented state employees and labor agreements for

represented state employees. The 2009-2011 Compensation Plan and most of the current labor agreements (2007-2009) specify that the state, as the employer, will pay up to 5% of payroll for the employee contribution and up to 1.3% of payroll for the BAC for its employees. The compensation plan can be viewed on the website of OSER here:

<http://oser.state.wi.us/subcategory.asp?linksubcatid=1256&linkcatid=413&linkid=27>

The labor agreements can be viewed on the same website here:

<http://oser.state.wi.us/subcategory.asp?linksubcatid=1246&linkcatid=389&linkid=27>

Thus, for employment categories with employee contribution rates or BAC rates at or below these levels, the employer will pay the entire employee share. For employment categories with rates higher than these levels, the employee must pay the difference between the required rates and the amount the employer will pay.

8. Some “general” category State of Wisconsin employees have asked why they will have a 0.2% deduction from their paychecks beginning in January 2011 and why this deduction does not apply to elected official and executive state employees.

For information about the 0.2% deduction visit:

<http://www.etf.wi.gov/news/WhatsNew2011contributionrateincreasesnov10.pdf>

There are two primary reasons elected official and executive category employees will not pay the 0.2% deduction in 2011:

1. **The 2009-2011 Compensation Plan** (see #7 above), which ETF does not play a role in; and
2. **The unique legislative history** of WRS contribution rates for each employee category. Question 5 describes why a BAC is not applied to the elected official and executive category.

The 2009-2011 Compensation Plan requires the state (as the employer) to pay up to 5% for the “employee” contribution for most categories including elected officials and executives. The employee rate for elected officials and executive employees will be 3.9% in 2011 (up from 3.2% in 2010). As a result of the provision in the current compensation plan that the state pay up to 5% for employee contributions and up to 1.3% for the BAC, state employees in this category will not have a deduction in January for retirement contributions. The 2011 employee contribution amount will not exceed the amount the state has agreed to pay in the compensation plan.