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SNAPSHOT: The Wisconsin Retirement System

Overview

The Wisconsin Retirement System (WRS) is a cost-sharing, multiple-employer public employee retirement system that provides defined benefit (DB) pension benefits for state and local government employees. A defined benefit (DB) pension is a retirement plan that typically offers a modest but stable monthly retirement income that lasts the remainder of the retiree's life. Public sector pensions usually employ a shared financing model whereby both employees and employers contribute to the pension fund over time to manage costs. In contrast, private sector pensions almost always are funded solely by the employer.

Defined benefit (DB) pension benefits often are a function of an employee's years of service and salary at the end of one's career. The benefits are financed by a combination of employer contributions, employee contributions, and investment earnings. Contributions typically are pooled among all employees and invested, with investment decisions made by professional asset managers overseen by trustees.

WRS benefit payments may be periodically adjusted based on annual investment performance—not on cost of living or other similar factors. By law, benefits based on the Core Fund which is a "diversified account" cannot be reduced to an amount below the original, guaranteed amount (the "floor") set at retirement. In this way, the plan is able to stay relatively well-funded over time. Some employees in Wisconsin want to have more of their retirement savings invested in equities and they can opt to have one half of employee and employer contributions invested in the Variable Fund.

Retirement benefits from the Variable Fund are adjusted for the investment experience of the Variable Fund. The Variable Fund was closed to new membership after April 30, 1980, but then reopened for existing and future participants in 2001. As of December 31, 2011, there were 68,162 active and inactive members and 38,949 annuitants participating in the Variable Fund.

Key Facts

- Teachers and general employees contribute 5.8% of salary to the fund.
- Employers contribute 5.9% to the fund on behalf of teachers.
- Each dollar invested by Wisconsin taxpayers in the pension supported $5.23 in total economic activity in the state.

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Key Wisconsin Data[1]

The chart below summarizes the key data for WRS, as of December 31, 2011:

	Total WRS	Teachers
Total active employees	257,254	98,532
Total retired, disabled, and survivor beneficiaries	167,453	
Employer contribution rate	5.9%*	5.9%
Employee contribution rate**	5.8%	5.8%
Average annual annuity***	$24,989	
Actuarial value of assets	$78.9 billion	
Funded ratio	99.9%	
Unfunded actuarial accrued liability	$99.3 million	
Percent of ARC contributed***	99.8% in 2002; 334.0% in 2003; 121.0% in 2004; 108.0% in 2005; 104.0% in 2006; 105.0% in 2007; 105.0% in 2008; 108.0% in 2009; 108.0% in 2010; 100.0% in 2011	

* For general employees.
** As of June 29, 2011.
*** Core and Variable combined.
**** A 1999 law provided $200 million in "credits" to employers to be used in lieu of required contributions. These credits resulted in employers making contributions less than the ARC in 2002. In 2003, the increase in employer contributions was due to a prepayment on the liability in connection with a pension obligation bond that was issued.

The Economic Impact of Wisconsin Pensions[2]

Expenditures made by retirees of state and local government provide a steady economic stimulus to Wisconsin communities and the state economy. Within the state of Wisconsin, 2012 expenditures stemming from state and local pensions supported:

- 47,969 jobs that paid $2.1 billion in wages and salaries
- $6.6 billion in total economic output
- $1.1 billion in federal, state, and local tax revenues

Each dollar paid out in pension benefits supported $1.32 in total economic activity in Wisconsin.

Each dollar "invested" by Wisconsin taxpayers in these plans supported $5.23 in total economic activity in the state.

[1] All data, unless otherwise noted, as of December 31, 2011.

[2] Rhee, N. 2014. *Pensionomics 2014: Measuring the Economic Impacts of DB Pension Expenditures.* Washington, DC: National Institute on Retirement Security.

The Wisconsin Retirement System By the Numbers

The following provides a snapshot of key data relative to the **Wisconsin Retirement System (WRS)**. WRS provides retirement benefits for public employees in Wisconsin, including public school employees. The system provides a defined benefit (DB) pension, a retirement plan that typically offers a modest but stable monthly retirement income that lasts the remainder of a retiree's life.

$5.23 The total economic activity in Wisconsin for each dollar invested by Wisconsin taxpayers in WRS.

$6.6 billion Total economic output in Wisconsin created in 2012 when public sector retirees spent their pension income.

$1.1 billion Federal, state and local tax revenues generated by spending of Wisconsin public pension income.

67,969 Jobs created from pension income spending by Wisconsin state and local government retirees.

257,254 Total active members of WRS.

$24,989 Average annual pension income for a WRS retiree.

5.8 Percentage of salary that employees contribute from every paycheck to their pension benefit to share the funding responsibility. Nationally, the median employee contribution rate is 5%.

48 Percentage of pre-retirement income replaced by the defined benefit (DB) plan for a teacher hired since 2011 with 30 years of service. A replacement ratio of 80% from all income sources is considered adequate for a secure retirement.

257 The number of teachers retained each year solely due to the defined benefit (DB) plan.

$3.2 million Teacher turnover cost savings generated by the retention effect of the defined benefit (DB) pension.

All data come from either WRS or the National Institute on Retirement Security.

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SNAPSHOT: Pensions for Wisconsin Teachers

Overview

As early as the turn of the 20th century, American legislators seemed to understand the importance of teacher quality to students' education. A 1917 report on public education noted that, "A school teacher's work is personal, direct, and positive. It works for the good or the ill of each pupil."[1]

Key Facts

- Employees contribute 5.8% of salary out of each paycheck to the pension fund.
- The average retirement benefit is $24,989 per year, or $2,082 per month.
- Teachers are paid 14.3% less than comparable private sector workers.
- The pension replaces 48% of pre-retirement income for a teacher hired since 2011 with 30 years of service.
- Most experts find that a replacement ratio of 80% or more, from all income sources, is adequate for a secure retirement.

Defined benefit (DB) pension plans were first introduced for teachers in the United States to help with the recruitment of high quality educators, and as an incentive to keep those educators in the teaching profession. By 1916, some form of retirement plan was available to public schoolteachers in 33 states. It was thought that such a retirement system might serve two purposes: 1) bringing more diverse, and highly qualified teachers into the profession; and 2) creating a more productive workforce that actually saves public employers money, as one dollar in pension benefits was seen as worth more than a dollar in salary.[2]

Public school teachers in Wisconsin have pension coverage through the Wisconsin Retirement System (WRS).

WRS covers 257,254 active employees, including 98,532 employees of public educational institutions, as well as 167,453 retired employees and beneficiaries. Employees contribute 5.8% out of each of their paychecks to the pension fund. The average retirement benefit is $24,989 per year, or $2,082 per month.

The pension replaces 48% of pre-retirement income for a teacher hired since 2011 with 30 years of service. Most experts find that a replacement ratio of 80% or more, from all income sources, is adequate for a secure retirement.

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Teachers Receive Lower Compensation

Public employees receive lower wages than their private sector counterparts. Even after accounting for pensions and other benefits, on average, state and local workers receive 7% less than those in the private sector.[3] More specifically, teachers are paid 14.3% less than comparable private sector workers—and this pay gap has increased in the last decade.[4] Teacher pensions play an important role in offsetting the financial impact of lower salaries.

Research shows that pensions are reliable and relieve retirement anxiety. Some 82% of Americans indicated that those with pensions are more likely to have a secure retirement, and 82% believe all workers should have access to a pension plan.[5]

Pensions Help Retain Quality Teachers in Wisconsin[6]

Better teachers are experienced teachers. DB pensions help to retain highly productive teachers longer, as compared with individual defined contribution (DC) accounts. Moreover, the cost of teacher turnover is quite high, both in terms of financial cost and loss of productivity to the school district.

In Wisconsin:

- The cost of turnover in Wisconsin is $12,343 per teacher.
- 257 teachers are retained each year due to the defined benefit (DB) plan.
- The defined benefit (DB) pension system saved $3.2 million in teacher turnover costs in 2003 in school districts across the state.

About NRTA

NRTA: *AARP's Educator Community* is a national umbrella organization for the nation's largest network of retired educators. For nearly 65 years, NRTA has worked with state and local Retired Educators Associations (REAs) across the country on areas of mutual interest in advocacy and community outreach.

Collectively, NRTA and REAs engage and advocate on behalf of nearly one-million retired educators. Our shared priorities are to protect earned pension benefits and to assure access to affordable retiree healthcare. Additionally, NRTA helps inspire and honor the work of REA volunteers through NRTA's With our Youth! national recognition program.

[1, 2] Graebner, W. 1978. Retirement in education: The economic and social functions of the teachers' pension. *History of Education Quarterly*, 18(4), 397-417.

[3] Heywood, J., and K. Bender. 2010. *Out of Balance: Comparing Public and Private Sector Pay over Twenty Years*. Washington, DC: National Institute on Retirement Security.

[4] Allegretto, S., S. Corcoran, and L. Mishel. 2008. *Teachers' Pay Continues to Slide.* Washington, DC: Economic Policy Institute.

[5] Oakley, D, and K. Kenneally. 2013. Pensions and Retirement Security 2013: A Roadmap for Policy Makers. Washington, DC: National Institute on Retirement Security.

[6] Boivie, I. 2011. *The Three Rs of Teacher Pension Plans: Recruitment, Retention, and Retirement*. Washington, DC: National Institute on Retirement Security.