How are WRS Contribution Rates Determined?

BENEFITS

New laws affecting Wisconsin Retirement System (WRS) required contributions have prompted questions from members. Who pays and how much? Where does the money go? Why do rates change every year? The information presented here is a brief overview of how your WRS retirement benefits are funded. With more than $77 billion in assets held in trust, the WRS is the 9th largest public pension fund in the U.S., the 30th largest in the world and well-situated to pay its benefit promises.

2012 WRS Contribution Rates
(expressed as a percentage of WRS earnings)

Employment Category	Employee Required Contribution	Employer Required Contribution	Total Rate
General/Teachers	5.9%	5.9%	11.8%
Elected/Executive	7.05%	7.05%	14.1%
Protective w/ SS	5.9%	9.0%	14.9%
Protective w/o SS	5.9%	11.3%	17.2%

Rates shown exclude unfunded liability and duty disability contributions, which vary by employer.

First, it is helpful to understand a few basic facts:

1. **Your WRS retirement benefit is pre-funded.** The funds needed to pay your retirement benefit are paid into the system during your working years. You receive an annual *Statement of Benefits*, which shows your retirement account balance(s). Your balance receives the effective rate of interest each year until you take a benefit. This interest rate varies every year, depending on investment experience.
2. **The funds needed to pay your retirement benefit come from two different sources:** investment earnings and contributions made during your working years. Think of it as a math equation: WRS benefits paid = contributions + investment earnings. Of these sources, the biggest portion of funding for your retirement benefit comes from investment earnings. In summary, contributions and investment earnings combine to pay your lifelong retirement benefit.

Contributions: How much do I pay and how much does my employer pay? Both you and your employer pay a percentage of your salary . These are called "required contributions". The amount deducted from your paycheck and the amount paid by your employer depends on your WRS employment category. The accompanying table shows what you and your employer will pay, as a percentage of your salary, in 2012.*

Where does the money go? In the WRS, employee contributions are credited to the **Employee Accumulation Reserve**, which carries a separate balance for each member. Employer contributions are credited to the **Employer Accumulation Reserve**. The funds in these reserves are managed by the State of Wisconsin Investment Board and earn interest, based on investment performance. When a member retires, a sufficient amount of money needed to pay his or her *projected* lifetime retirement benefit is transferred from both the Employee and the Employer Reserve into a third pool of money, the Annuity Reserve. All members participate in the Core Fund and many participate in the optional Variable Fund. All three of these reserves maintain separate Core and Variable accounts for members.

3. **Required contribution rates can change each year, based primarily on annual investment earnings.** In general, when earnings are greater than expected, the rates the following year can be lowered. When earnings are lower than expected, rates can be increased to compensate for the shortfall. Mortality, average age and other demographic characteristics of WRS active members also affect contribution rates. At any given point in time, the total benefit obligations of the WRS should equal the available assets of the system.

Each year the WRS consulting actuary reviews the factors noted above and recommends whether to maintain or adjust contribution rates for the following year. This timing is helpful to WRS employers, who need time to prepare their budgets for the following year.

** Many WRS employers used to pay all or part of their employees' contributions, depending on compensation plans or collective bargaining agreements. 2011 Wisconsin Act 10, effective June 29, 2011, requires employees to pay their required contribution and prohibits employers from paying it on their behalf. There are some exceptions, due to collective bargaining agreements.*