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JOHN H. ASHLEY, EXECUTIVE DIRECTOR

**TO:** Members, Senate Committee on Government Operations, Technology and Consumer Protection  
**FROM:** Dan Rossmiller, WASB Government Relations Director  
**DATE:** January 29, 2020  
**RE:** Support for SENATE BILL 612, relating to allowing rehired annuitants to elect to not participate in the Wisconsin Retirement System; decreasing the minimum break in service for annuitants in the Wisconsin Retirement System who are rehired by a participating employer; and increasing the minimum retirement age under the Wisconsin Retirement System.

My name is Dan Rossmiller, I am the Government Relations Director for the Wisconsin Association of School Boards (WASB), a voluntary membership association representing all 421 of Wisconsin's locally elected public school boards.

Senate Bill 612 would make a number of changes to state statutes regarding the Wisconsin Retirement System (WRS), affecting two groups of people: those who retired on or after July 2, 2013 and are drawing a pension payment (annuity) from the WRS; and those who are working in WRS covered employment and will be under 40 years of age on the date this legislation takes effect. I will explain this in my testimony.

Wisconsin's schools are facing significant teacher supply issues. One way to address this problem is to encourage retired teachers to return to work in Wisconsin schools. Retired teachers are ideally suited to help our state address this issue if we can entice them to return to work. They have both subject matter and pedagogical expertise, they understand how to evaluate students' progress and they understand school rules and how schools operate, including school discipline and other procedures.

However, a significant deterrent to teachers who retired on or after July 2, 2013 and wish to return to the classroom is our state's current so-called "double dipping" law. Under that law, a WRS annuitant (i.e., a retiree receiving a WRS pension benefit) who retired on or after July 2, 2013, and who is hired in a WRS position (expected to last 365 consecutive days and 880 hours per fiscal year) does not have the option to choose whether to be a participating WRS employee. Instead, such an annuitant's WRS annuity (pension payment) is automatically suspended when he/she is hired in a WRS position, at which point both the annuitant and the district are required to make statutory contributions to WRS on behalf of the annuitant. Evidence suggests that many retired teachers who hold valid DPI licenses to teach and are able to return to teaching are unwilling to do so if it means forfeiting their pension payments. Bottom line: If they wish to go back to work, they would prefer to work in jobs that don't require them to forego their pensions.

Ironically, however, these retired teachers can move to another state and resume teaching without forfeiting their WRS pension payments. (Thus, we may be inadvertently helping other states solve their teacher supply issues.)

Alternatively, these retired teachers can choose to remain within our state and take jobs with non-WRS covered employers without forfeiting their pension payments. Either way, Wisconsin schools are losing the benefit of their teaching ability at a time when many districts with vacant teaching positions are seeking teachers with the right credentials to step right into the classroom.

### **What Senate Bill 612 Does and Why It is Good for Both Schools and the WRS:**

This bill would allow teachers who retire from teaching and later wish to return to teaching in Wisconsin public schools to elect to not participate in the WRS for a period of up to 3 years, thus allowing them to continue to receive their WRS annuities (pension payments) while working. This would save both school districts (taxpayers) and these rehired teachers the cost of making contribution payments to the WRS that are required under current law. In effect, this bill would make it easier and cheaper for school districts to hire fully credentialed and highly qualified teachers.

This bill would also reduce from 75 days to 45 days the minimum required break in service before a person who retires and receives a WRS pension can be rehired by a participating WRS employer (e.g., a school district). This change would help school districts address teacher shortage issues by helping them hire replacement teachers in a timely manner. The bill would, for example, allow a school district to hire a teacher who retired effective June 30 for the following school year by roughly August 15, in time for that teacher to complete any required in-service training before classes start. This would be an especially valuable tool to have available to fill a vacant position for which the school, despite its best efforts, cannot find another suitable candidate.

Finally, this bill would increase the minimum retirement age for general employees (including teachers) under the WRS from 55 to 59.5 for covered employees who are under age 40 at the time either bill becomes law.<sup>1</sup> This age (59.5) matches the minimum age at which individuals may make withdrawals from their tax deferred retirements accounts such as IRAs, 401(k) or 403(b) plans without a tax penalty.

As people live longer, they are collecting WRS pension benefits for a longer and longer period compared to how long they contributed to the WRS. Much in the same way that raising the normal retirement age for Social Security has helped to stabilize the Social Security Trust Fund, raising the minimum WRS retirement age makes sense and would stabilize the Retirement Fund as workers would contribute for a longer period and collect annuities for a shorter period.

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<sup>1</sup> Most public employee pension systems have a “normal” retirement age and a “minimum” retirement age. “Normal retirement” refers to the age, number of years of service, or both, that a person must attain in order to qualify for full retirement benefits without an actuarial reduction in his or her annuity for retiring earlier. The normal retirement requirement for general employees (including teachers) in the WRS is 65 years of age. (The employee must also have completed 5 years of service in order for his or her annuity benefit to have vested.)

The current “minimum age” at which general employees (including teachers) in the WRS can retire with an annuity is 55 years of age; however their monthly annuity payment will generally be subject to a permanent actuarial reduction (or discount) to reflect the fact that they will be paying in for a shorter than normal period and collecting for a longer than normal period of time. The amount of actuarial discount for early retirement for general employees (and teachers) in the WRS varies according to the employee’s number of years of service. It continues even after an annuitant reaches normal retirement age.

Wisconsin currently uses the so-called “rule of 87” to determine whether an actuarial reduction applies. If an employee’s age at retirement plus years of service total up to 87 no actuarial reduction (or discount) applies. Thus, a general employee (or teacher) who is at least 57 years of age and who has at least 30 years of service can retire without an actuarial reduction in their annuity amount. A general employee (or teacher) who retires at the minimum age of 55 is currently subject to an actuarial reduction in their annuity amount unless they have at least 32 years of covered service.

As the attached chart indicates, relative few employees would be negatively affected by this change. While the minimum retirement age would increase from 55 to 59.5 for WRS participants under 40, most employees currently retire almost a couple years after having reached age 59.5. As the chart indicates (see highlighted portions) both the average (mean) and median age at which general employees and teachers covered by the WRS are retiring is currently well above age 61. Further, according to the Department of Employee Trust Funds, “Most Public School employees choose to retire early at age 62. The next most popular ages for early retirement are 63 or 64. The least common early retirement age for teachers is age 55.”<sup>2</sup> This negates arguments that raising the retirement age will deter young people from entering the teaching profession.

This may be explained by the fact that the absolute earliest you can start claiming Social Security retirement benefits is 62. However, claiming before your full (or normal) retirement age will result in the payout being permanently reduced. For those who turned 62 in 2018, full retirement age is 66 and four months. However, for those who turn 62 in 2019, the full retirement age will increase to 66 and six months. Full retirement age is set to increase by two months each year until it hits 67. Therefore, for anyone born in 1960 or later, including all those affected by this bill, the full retirement age for Social Security purposes will be 67. Even after the change made in this bill, that is a gap of 7.5 years. Without the change made by this bill, it is 12 years.

Given current life expectancies, of those reaching age 65, men can expect to reach age 84.4; women can expect to reach 86.7. That means men who retire at 55 and live to be 65 can expect to live off their WRS pensions for 29.4 years after retirement, while women who retire at 55 and live to be 65 can expect to live off their WRS pension income for 31.7 years, which could easily be a span longer than their working career (during which they made contributions to the WRS).

Raising the retirement age will help to stabilize the Retirement Fund in another way. The bulk of pension benefits paid by the WRS result from investment earnings of the Retirement Fund rather than employee contributions. It should be of concern to policy makers that as WRS participants are living longer, they are drawing even more upon investment earnings than in previous periods. It should be of further concern that the ratio of active employees (those contributing to the fund) compared to retirees (those drawing benefits out of the fund) is decreasing rapidly.

Since 2000, the number of beneficiaries and annuitants of retirement systems throughout the nation has increased significantly, likely due to an increase in baby boomer retirements. According to the “*2017-18 Comparative Study of Major Public Employee Retirement Systems*” prepared by the non-partisan Legislative Council staff, the ratio of active employees to retired employees in the WRS in 2017-18 is 1.30, which is a decrease from the ratio of 1.61 found in the 2015 Report. The report notes that the ratio of active employees to retired employees in the WRS for 2017-18 (1.30) is slightly lower than the average ratio for all plans in the report (1.48). By increasing the minimum retirement age, albeit with an effective date roughly twenty years from now, this bill will bring that ratio of active employees to retired employees more in balance and closer to the ratios found in other public employee retirement systems.

Finally, the current treatment of rehired annuitant teachers is actually disadvantageous to many of those teachers. When a teacher who retired on or after July 2, 2013 returns to work, the Department of Employee Trust Funds (ETF) essentially freezes their initial annuity account and labels it “Annuity A.” It then places the employee and employer contributions earned by the rehired annuitant into a new annuity account labelled

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<sup>2</sup> Source: <https://etf.wi.gov/publications/et4964/direct> (See chart 5 on page 6 of 10 and accompanying narrative.)

“Annuity B.” Because most rehired annuitant teachers do not accrue enough accumulated contributions in their “Annuity B’ account before they “re-retire” to qualify for a monthly payment under the WRS, they receive a lump-sum payment, all of which is then subject to income taxes in the year in which they receive it. Rather than this income being spread and taxed out over time, it is taxed all at once, negating part of the benefit.

### **The WASB’s Position:**

WASB member boards, through their appointed delegates to the WASB Delegate Assembly, our policy setting body, have adopted two resolutions that directly address and support the changes made by this bill. Once adopted, WASB resolutions remain in effect until amended or repealed. These resolutions are:

#### **4.37 Rehiring Wisconsin Retirement System (WRS) Retirees**

The WASB supports legislation that would: a) allow a person who is receiving a Wisconsin Retirement System (WRS) retirement annuity to be rehired in WRS participating employment after at least a 30-day break period between terminating WRS participating employment and returning to WRS participating employment; and b) restore to such rehired employees the option to continue to receive their WRS annuity (but not accrue any additional WRS contributions or service credit), regardless of the number of hours worked.

#### **4.36 Retirement Age**

The WASB supports an incremental increase in the age at which employees are eligible for retirement benefits under the Wisconsin Retirement System.

Thank you for the opportunity to share our perspective on this bill and support for it.

**Employee Trust Fund Data on the Average and Median Ages of Retirement for Each Employee Category**

<b>YEAR</b>	<b>EMPLOYMENT CATEGORY</b>	<b>AVERAGE AGE</b>	<b>MEDIAN AGE</b>
2008	ELECTEDS AND EXECUTIVES	62.18	61.37
2008	GENERAL AND TEACHERS	60.06	59.46
2008	PROTECTIVE WITH SOC SEC (POLICE)	55	53.62
2008	PROTECTIVE WITHOUT SOC SEC	53.75	53.92
2009	ELECTEDS AND EXECUTIVES	62.7	62.32
2009	GENERAL AND TEACHERS	60.34	59.86
2009	PROTECTIVE WITH SOC SEC (POLICE)	55.55	54.21
2009	PROTECTIVE WITHOUT SOC SEC	54.46	53.42
2010	ELECTEDS AND EXECUTIVES	61.95	61.55
2010	GENERAL AND TEACHERS	60.64	60.29
2010	PROTECTIVE WITH SOC SEC (POLICE)	55.23	53.98
2010	PROTECTIVE WITHOUT SOC SEC	54.22	53.65
2011	ELECTEDS AND EXECUTIVES	62.54	62.13
2011	GENERAL AND TEACHERS	60.39	59.94
2011	PROTECTIVE WITH SOC SEC (POLICE)	55.86	54.93
2011	PROTECTIVE WITHOUT SOC SEC	54.45	53.95
2012	ELECTEDS AND EXECUTIVES	63.73	62.97
2012	GENERAL AND TEACHERS	60.66	60.47
2012	PROTECTIVE WITH SOC SEC (POLICE)	55.27	54.12
2012	PROTECTIVE WITHOUT SOC SEC	54.99	54.33
2013	ELECTEDS AND EXECUTIVES	62.84	63.21
2013	GENERAL AND TEACHERS	60.8	60.68
2013	PROTECTIVE WITH SOC SEC (POLICE)	55.72	54.81
2013	PROTECTIVE WITHOUT SOC SEC	55.04	54.12
2014	ELECTEDS AND EXECUTIVES	64.09	63.99
2014	GENERAL AND TEACHERS	61.1	61
2014	PROTECTIVE WITH SOC SEC (POLICE)	55.59	54.77
2014	PROTECTIVE WITHOUT SOC SEC	54.67	53.83
2015	ELECTEDS AND EXECUTIVES	62.73	62.78
2015	GENERAL AND TEACHERS	61.23	61.05
2015	PROTECTIVE WITH SOC SEC (POLICE)	55.75	54.36
2015	PROTECTIVE WITHOUT SOC SEC	55.5	54.9
2016	ELECTEDS AND EXECUTIVES	64.57	63.81
2016	GENERAL AND TEACHERS	61.28	61.07
2016	PROTECTIVE WITH SOC SEC (POLICE)	55.4	54.15
2016	PROTECTIVE WITHOUT SOC SEC	54.53	53.93
2017	ELECTEDS AND EXECUTIVES	63.69	63.05
2017	GENERAL AND TEACHERS	61.32	61.17
2017	PROTECTIVE WITH SOC SEC (POLICE)	55.45	53.96
2017	PROTECTIVE WITHOUT SOC SEC	54.96	54.08
2018	ELECTEDS AND EXECUTIVES	62.28	62.05
2018	GENERAL AND TEACHERS	61.38	61.24
2018	PROTECTIVE WITH SOC SEC (POLICE)	55.29	54.04
2018	PROTECTIVE WITHOUT SOC SEC	55.25	54.4