THE WISCONSIN RETIREMENT SYSTEM IS ONE OF THE HEALTHIEST IN THE COUNTRY

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Wisconsin's pension system is on excellent financial footing and among the healthiest in the nation, according to multiple independent reports and an analysis by COWS and CEPR. These reports show that the WRS has consistently contributed 100 percent of the amount of money that actuaries calculate is needed each year. As a result, while the fund's holdings dipped during 2008 due to stock market losses, it remains one of the most solid in the country and has enough funds to cover the promises made not only to current retirees but to those in the future. A report by the nonpartisan Pew Center for the States concluded that Wisconsin is a "national leader in managing its long-term liabilities for both pension and retiree health care."[1]

Nonetheless, conservatives inexplicably continue to imply that the fund is in trouble, and Gov. Walker has proposed reforming the pension system to increase public sector workers' pension contributions, a change some experts see as a first step toward dismantling the state's current system and moving to a 401(k)-style defined contribution system.[2]

1. THE WRS OBLIGATIONS AND ASSETS

Reports from nationally-recognized centers[3] contradict the idea that the WRS is on poor financial ground, giving Wisconsin top marks on the management of the WRS, and ranking it at or near the top of plans nationwide. Wisconsin has consistently contributed 100 percent of the amount of money that actuaries calculate is needed each year and 100 percent of Wisconsin's retirement liabilities can be funded directly through existing assets. As Figure 1 (next page) shows, since 2006, the WRS has been able to meet no less than 99.6 percent of its pension obligations directly out of its pool of assets. By comparison, the U.S. Government Accountability Office recommends that at least 80 percent of liabilities be financeable through assets.

The fund has also received high marks because the state has developed a creative way to share some of the risk of investment volatility with employees. It substitutes a dividend process for standard cost-of-living increases. If the investment returns are positive in a given year, the system can declare a dividend that is paid to retirees. But this is not guaranteed. If a good year is followed by one with poor investment returns, retirees can see their pensions reduced. That has now happened three years in a row.

Moreover, a National Association of State Retirement Administrators analysis shows that Wisconsin's pension system is not a driver of the state's budget gap: the portion of state and local government budgets taken up by the retirement system is unusually small in Wisconsin — only 1.35 percent in 2008, compared to an average of about 3 percent nationally.[4]

The Wisconsin Retirement System

Pew Center for the States:
"Wisconsin is a national leader in managing its long-term liabilities for both pensions and retiree health care… it has funded nearly 100 percent of its total pension bill." The WRS is one of only four states nationwide that is 100 percent funded.

National Association of State Retirement Administrators:
"Solid Performer"
(the top mark available)

Center for Retirement Research at Boston College:
"The Wisconsin Retirement System is one of the better funded plans in the nation."

The WRS runs defined-benefits plan for Wisconsin public workers and is a national leader in pension systems management. One way Wisconsin is able to finance almost all its liabilities directly from assets is via an automated dividend system, which pays out benefits in years the system is making gains while restricting payouts in years when it takes losses.

cepr
Center for Economic and Policy Research

COWS
center on wisconsin strategy

1 Pew Center for the States, "The Trillion Dollar Gap: Underfunded State Retirement Systems and the Roads to Reform" (2010), available at http://downloads.pewcenteronthestates.org/The_Trillion_Dollar_Gap_final.pdf.

2 See http://www.jsonline.com/business/117472998.html.

3 Pew Center for the States, "The Trillion Dollar Gap: Underfunded State Retirement Systems and the Roads to Reform" (2010) and National Association of State Retirement Administrators, "Public Fund Survey: Summary of Findings for Fiscal 2009" (2010).

4 See http://nasra.org/resources/ERContributions.pdf.

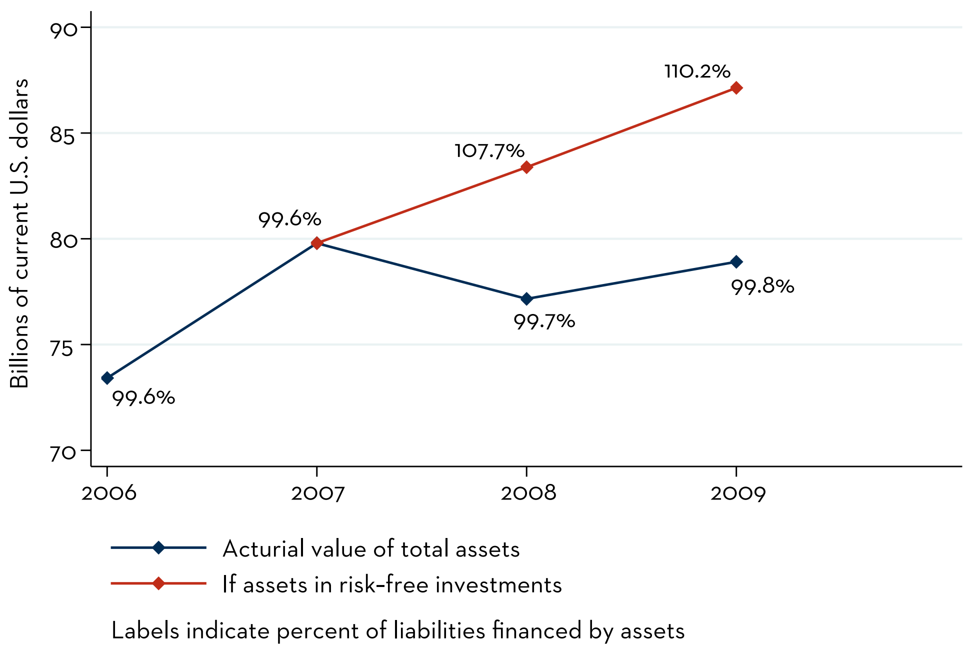
2. THE ROLE OF PENSION PAYMENTS

In fact, the WRS would currently be overfunded if the value of its assets, which are invested partly in stocks, had not plunged as a result of the market collapse in 2008-2009. The (blue) line in Figure 1 shows the actuarially-evaluated value of WRS' assets and the percent of liabilities (payouts to pensioners) that can be met directly through those assets. As can clearly be seen, the value of the pension's investments declined as the market dipped during the recession that began in December 2007. The (red) line in Figure 1 shows a hypothetical scenario that values the pension's assets as if they were invested entirely in risk-free assets, such as U.S. treasury bonds, that pay a 4.5 percent annual return. Had the WRS funds been invested in risk-free instruments, the value of its invested assets would in fact exceed its payments obligations to retired public workers.

While the stock market is inherently volatile, the drop following the collapse of the housing bubble was extraordinary. Pension fund managers can perhaps be blamed for failing to see the risk posed the stock market and the economy by the housing bubble. They share this blame with the Federal Reserve Board and most of the country's most prominent economists. Furthermore, the market has already recovered much of its value, which means that future pension reports will show its financial status to be even stronger, unless the market takes another plunge.

In short, while Gov. Walker and conservatives argue that pension payments to public sector workers are too generous, the WRS is currently extremely healthy and requires little or no immediate reform. The miniscule current shortfall (pension liabilities exceed assets by 0.2 percent) exists because the value of pension investments, including stocks, took a hit in the 2008 recession, not because public sector workers have pension benefits that are too high. As a percentage of the state's future economic growth, the gap to be made up approaches zero.[5] Rather than a necessary reform, Gov. Walker's proposal to increase state employees' pension contributions seems simply to be a way to cut workers' pay.

Figure 1
FINANCES OF THE WISCONSIN RETIREMENT SYSTEM



Source: *State of WI Department of Employee Trust Funds. 2009. Comprehensive Annual Financial Report.*

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5 See http://www.cepr.net/documents/publications/pensions-2011-02.pdf.