

## **Wisconsin Retirement System: Debunking the Myths**

The Wisconsin Retirement System (WRS) is a defined benefit pension program serving 572,000 active public employees and retirees (12% of Wisconsin's adult population). Public employees of 1,400 units of government, including state employees and school districts are covered by the program. It is the 9<sup>th</sup> largest public retirement system in the country.

The WRS provides exceptional return and security for its covered employees. Its nearly \$80 billion in assets are managed by the State of Wisconsin Invest Board (SWIB) which invests in a wide array of stocks, bonds, real estate, and other investments. It is a true gem among public pension programs.

Unfortunately significant disinformation and distortions are now being spread about the WRS in the hopes of undermining it for political gain and to justify program changes in 2013. This flyer reviews some of the more common myths and provides reality checks.

### **Myth: Public employee pensions are busting state and local government budgets.**

**Fact:** WRS did not cause the budget deficit. Between 2003 and 2009, 80-90% of Department Of Employee Trust Funds (ETF) revenue came from *investment earnings*. Two thirds (66%) of WRS benefits paid in 2010 were funded *by investment returns*.

**Fact:** ETF's 2010-11 administrative budget was \$31 million. It received only \$671,600 in General Purpose Revenue to employ 243 full time employees for all its programs. ETF manages a number of other financial management tasks for the state in addition to WRS.

**Fact:** All wages *and benefits* are *earned* compensation. No employee gets anything for free. Public employees DO contribute to their benefit costs directly or by bargaining for benefits in lieu of wages.

### **Myth: Public employees' "gold plated" retirements are excessively generous.**

**Fact:** In 2010 ETF paid out \$3.9 billion in retirement payments. The average retirement benefit was \$23,800 a year, 83% of WRS retirements yield less than \$40,000 per year, and 26% are less than \$10,000 per year.

**Fact:** These benefits are typical. Public employees nationally average \$23,407 per year. Private sector defined benefit pensions average \$20,298 per year.

### **Myth: Public employee pensions hurt Wisconsin's economy by increasing taxes.**

**Fact:** In 2006, WRS beneficiaries (86% of them live in Wisconsin) spent \$4.5 billion, accounted for over 33,000 jobs that paid \$1.7 billion in wages and salaries and over \$730 million in federal, state, and local taxes. Their spending generated \$1.48 in economic activity for every dollar paid in benefits. A 2012 study found \$5.52 in total economic output for every dollar contributed by taxpayers to WRS.

**Fact:** WRS invested over \$13 billion Wisconsin companies and companies with employees in Wisconsin In 2010. WRS is an asset for all of Wisconsin.

### **Myth: Defined contribution plans are better than defined benefit programs.**

**Fact:** Research shows that defined benefit plans, like WRS, are more economically efficient than defined contribution plans and can deliver the same level of retirement benefits at nearly half the cost. Most defined contribution (called 401k) programs built on individual investing are far more risky and costly than large, public pension programs.

**Fact:** WRS has provided good returns. Over the last 25 years the Core Fund effective rate of return has averaged 10.4% per year. Because of good performance, the average retirement annuity has increased 4.6% per year over this period.

**Myth: WRS is not flexible and doesn't meet the needs of employees.**

**Fact:** WRS has benefits similar to defined contribution plans. WRS provides individual accounts, retention in the event of system departure or job change, and the option for additional contributions. Public employers and WRS participants benefit from market based investment performance.

**Fact:** WRS has a feature called "money purchase" which is very similar to a defined contribution plan. This option allows employees to accept their final annuity as a series of payments based on the current market value of their account. Interestingly, money purchase amounts are often less than calculations based on "formula" amounts.

**Myth: Wisconsin's public employee retirements are not sustainable.**

**Fact:** WRS is "fully funded" (99.7%) which means the WRS assets are large enough to cover all expected *current and future* retirement payments for all current annuitants and active employees. WRS has always met all benefit payment obligations. WRS is rated as one of the top four public employee retirement systems in the nation by the Pew Center for the States.

**Fact:** The size of WRS (\$80 billion in assets) and the use of several risk management mechanisms smooth market losses over 5-year periods to provide greater stability and sustainability.

## **If it isn't broken...don't fix it!**

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This publication was developed by Protect Our Wisconsin Retirement Security (POWRS). POWRS is a statewide working group of activist public retirees who advocate for protecting the WI Retirement System and secure retirements for everyone. To contact POWRS or find other publications: go to: [www.powrs.org](http://www.powrs.org).

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