CHAPTER 1

Background

The Wyoming Retirement System manages eight retirement plans

WRS manages $6.2 billion in assets.

In 1943, the Wyoming Legislature created the first public retirement plan, designed to benefit teachers. Since then, it has adjusted that plan and added new plans to the Wyoming Retirement System (WRS) to serve the needs of Wyoming's non-federal public workforce. As of 2007, WRS administers seven *defined benefit* public pension plans and one *defined contribution* plan (a "457" or deferred compensation plan). The seven defined benefit pension plans**,** which have combined assets of $6.2 billion, are:

- Public Employee Plan ("big plan")
- Law Enforcement Plan
- Game Warden, Highway Patrol, and Criminal Investigation Plan
- Volunteer Fire Plan
- Plan A Paid Firefighter Plan (closed)
- Plan B Paid Firefighter Plan
- Judicial Plan

The Public Employee Plan serves most public employees in Wyoming

The big plan covers employees and retirees of the state, university, school districts, and local governments.

This report focuses on the Public Employee Plan (the plan, or when referenced in a context that includes one or more of the six smaller plans, the big plan). The big plan, which WRS sometimes refers to as "the State of Wyoming Retirement System," covers most public employees in the state. It includes not only employees in state government but also those from other levels of Wyoming government specified in W.S. 9-3-402(a)(vi), including cities, counties, and special district employees as well as school district and higher education employees (see Appendix A for selected statutes).

As of January 1, 2007, the big plan had 73,387 individual accounts consisting of:

WRS maintains nearly 74,000 accounts for active, inactive, and retired members.

34,189 active (currently employed) members

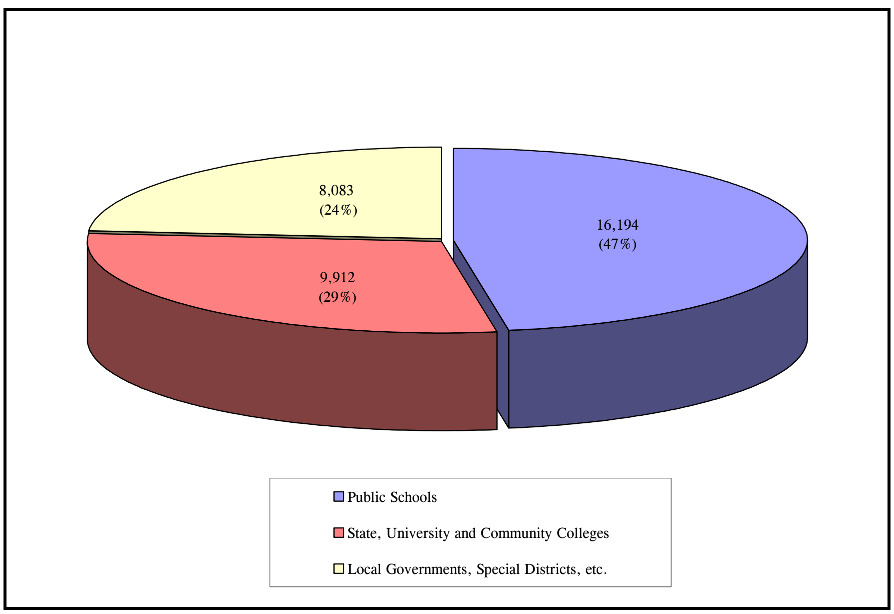
- 22,188 inactive (not currently employed) members whose contributions are on deposit with WRS; 4,950 of these members are vested and can receive a retirement benefit in the future
- 17,010 retiree members including survivor/beneficiaries and disabled retirees

As shown in Figure 1.1, on January 1, 2006 the active membership included 16,194 members employed by school districts, and 9,912 employed by the state, university, or community colleges. Another 8,083 members were employed by local governments and political subdivisions, including cities, towns, counties, and special districts, or by non-profit agencies.

Public school employees account for 47% of the active membership.

Figure 1.1

Active members by employer type
CY 2006



Source: LSO analysis of WRS data.

WRS is a public corporation governed by a board of trustees

The board acts in a fiduciary capacity on behalf of plan members.

By statute, WRS is a corporate body whose sole purpose is to operate public retirement systems and to hold in trust the assets of the membership. As trustees of the plan, the WRS Board acts in a fiduciary capacity on behalf of members and their beneficiaries.[1] The Wyoming Constitution allows system assets to be spent only on membership benefits and administrative expenses.

The board's 11 members include 5 non-members of the public retirement plans

Ten of the WRS Board's members are appointed by the Governor with the consent of the Senate; the State Treasurer is the eleventh member. The appointed members serve six-year terms and no more than half can be members of the same political party:

Five at-large board members have no vested interest in plan benefits.

- 1 retiree currently receiving benefits
- 2 system members representing education (public schools, community colleges, and the University of Wyoming)
- 2 system members not from schools, at least one of whom participates in the Deferred Compensation plan
- 5 at-large individuals who are not system members, at least one of whom has professional expertise in investments and finance

Trustees who are system members receive no additional salary for their service, while at-large members receive $50 per day when on WRS business; all trustees are reimbursed for travel expenses. The board meets at six scheduled times per year and can call emergency meetings when needed. Several sub-committees conduct interim work on topics such as future investment strategies and legislative concerns, and to hear appeals of staff determinations on contested cases, most often related to disability claims.

[1] The Volunteer Fireman's pension plan has a separate board, but WRS staff administer the plan, and the WRS Board manages its investments, commingled with funds from the other plans.

The WRS Board establishes policies and can promulgate rules to direct plan administration

A key aspect of the board's duties is establishing policies and rules to guide staff's day-to-day administration of the plan and to carry out board decisions. The board has three written policies; they cover investments, ethics and conflicts of interest, and board travel. The board also promulgates rules for the system, covering such matters as the disability determination and appeals hearing process, and allowable salary that counts toward benefit determinations.

The WRS director and staff carry out day-to-day system administration

The board hires the WRS director.

WRS operations generally consist of two components: pension administration and Deferred Compensation administration (for a brief description of the Deferred Compensation Plan and six smaller pension plans, see Appendix B). WRS has 27 staff including a director hired by the board. The 21 staff members in pension plan management have duties such as estimating benefits for prospective retirees, calculating retiree benefits, and preparing monthly payroll for the State Auditor's Office, which distributes retirees' checks. Another 5 staff support the Deferred Compensation Plan and also conduct educational seminars on saving for retirement.

The WRS budget reflects operational, but not investment, expenses.

Only the system's operational expenses are reviewed through the normal state budgeting process; these expenses are approved by the Governor and Legislature and paid for by system assets, not state General Funds. Fees that WRS pays its investment managers are not presented in the WRS budget request. Figure 1.2 shows the WRS administrative budget and staff allocations for five biennia (the WRS director is included in the count of pension plan positions).

Figure 1.2

WRS biennial appropriations and staff allocations (all plans)
FY 1999 – 2008 [1]

Biennium (FY)	Administrative Appropriations		Total Budget Authorization	Allocated Positions		
	Pension Plans	Deferred Comp.		Pension Plans	Deferred Comp.	Total Positions
'99 - '00	$2,739,351	-----	$2,739,351	18	-----	18
'01 - '02	$3,134,507	-----	$3,134,507	18	-----	18
'03 - '04	$3,821,901	-----	$3,821,901	18	2	20
'05 - '06	$4,678,109	$1,295,981	$5,974,090	22	5	27
'07 - '08	$5,548,736	$1,393,016	$6,941,752	22	5	27

Source: LSO analysis of WRS budget requests and Wyoming Session Laws.

1 Pension and Deferred Compensation administrative expenses are paid from plan funds, not from the state General Fund. However, the Legislature has appropriated additional General Funds in recent years: about $30 million to WRS for the Law Enforcement pension plan, and about $9 million to the Supreme Court for the Judicial pension plan, to pay off the original unfunded liabilities when those plans were established. The Supreme Court transferred the $9 million appropriation to WRS.

The board manages system assets and investments of $6.2 billion

Commingling funds from all pension plans lowers investment fees.

Responsibility for the system's assets rests with the board: It sets investment policies for managing the portfolio, presently valued at $6.2 billion. This includes commingled funds from all seven pension plans but does not include Deferred Compensation assets. Commingling the funds for investment purposes results in lower managers' fees than managing each plan's funds separately. Lower management fees have a positive influence on the rates of return for the portfolio overall and for the individual plans.

WRS paid nearly $73 million in investment fees in the last 7 years.

WRS does not have in-house investment staff; instead, it hires a variety of investment managers to carry out investing and trading activities. Between 2000 and 2006, it paid nearly $73 million in fees to contract investment managers. Figure 1.3 summarizes the portfolio size and investment manager fees paid for three large investment categories during these seven years.

Figure 1.3

WRS year-end portfolio market value and investment manager fees 2000 – 2006

Year	Portfolio Size ($millions)	Fees: Equity	Fees: Fixed Income	Fees: Real Estate	Total Annual Fees	Fees as % of Portfolio Value
2000	$4,767.7	$ 8,386,223	$ 2,459,286	-----	$10,845,509	0.23%
2001	$4,343.4	$ 5,896,107	$ 2,239,891	-----	$ 8,135,998	0.19%
2002	$4,075.3	$ 5,918,873	$ 2,570,192	-----	$ 8,489,065	0.21%
2003	$4,800.8	$ 6,659,905	$ 3,091,866	-----	$ 9,751,771	0.20%
2004	$5,298.8	$ 6,584,863	$ 2,777,051	$814,818	$10,176,732	0.19%
2005	$5,626.9	$ 6,799,235	$ 2,918,054	$2,108,351	$11,825,640	0.21%
2006	$6,245.1	$ 6,889,694	$ 2,903,057	$3,754,664	$13,547,415	0.22%
Total Fees	**-----**	**$47,134,900**	**$18,959,397**	**$6,677,833**	**$72,772,130**	

Source: LSO summary and analysis of WRS documents.

Investment expertise is critical to carrying out board policies and its monitoring functions.

To carry out its investment responsibilities, the board relies heavily on the expertise of its members; at present, three board members have professional backgrounds in finance and investments. The board also contracts with a consultant for guidance and advice. Under this arrangement, the board's role is setting asset allocation targets and policies and, if necessary, moving money among the asset classes to gain greater value and return. The board also monitors individual investment manager performance based on established benchmarks and investment guidelines, and may dismiss managers who do not meet board expectations.

The board relies on benchmarks to track and compare investment returns.

Figure 1.4 shows the portfolio's annual, 3-year, 5-year, and 10-year rates of return since 2000 (based on market value), compared to the system's established "composite benchmark." The composite benchmark is, in essence, the performance standard against which the board compares the portfolio's investment returns. It is calculated as the weighted average of the separate benchmarks for individual asset classes, relative to their asset size or proportion of the total portfolio. Highlighted percentages indicate the better return (WRS or benchmark) for each time interval.

Figure 1.4

WRS portfolio rates of return and composite benchmark returns
CY 2000 – 2006

Year	WRS Portfolio Return				Composite Benchmark Return			
	Annual	3-year	5-year	10-year	Annual	3-year	5-year	10-year
2000	-0.99%	10.30%	12.64%	12.32%	-1.33%	10.40%	12.33%	11.90%
2001	-4.47%	2.52%	9.17%	9.76%	-1.71%	3.19%	9.64%	9.72%
2002	-9.29%	-4.97%	3.07%	7.80%	-8.26%	-3.79%	3.96%	8.02%
2003	21.00%	1.60%	3.41%	8.81%	19.52%	2.56%	3.82%	8.98%
2004	11.54%	6.98%	2.98%	10.32%	8.78%	6.05%	2.98%	10.03%
2005	8.22%	13.46%	4.83%	8.66%	4.24%	10.66%	4.11%	8.15%
2006	12.63%	10.78%	8.34%	8.75%	13.99%	10.37%	8.49%	9.19%

Source: LSO summary of WRS documents.

WRS invests under the Prudent Investor Rule

In 1985, Wyoming voters approved a Constitutional amendment allowing the WRS to invest in the domestic equity market, or stocks. For the next 11 years, through 1996, the WRS operated under a "legal list" standard for investing, whereby investment targets and allowable asset classes were specified in statute.

The board has considerable discretion to manage investments.

In 1997, the Legislature approved the Prudent Investor Rule in statute, giving the board more flexibility in determining what investments to make. Under this standard, statute directs the board to "exercise the judgment and care that a prudent investor would…including risk and return objectives established by the board which are reasonably suitable to the purpose of the [WRS]." The Prudent Investor Rule allows the board to act quickly to move assets, and gives it more discretion in setting asset targets and adopting new investment strategies or asset classes than it had previously possessed.

Actuarial valuations summarize the plan's condition each year

All seven plans are defined benefit plans in which a benefit is based on a formula set in statute. Once a member meets

The board uses annual actuarial valuations to determine the plan's funding level.

retirement eligibility requirements, the benefit is promised – regardless of a member's accumulated contributions or the plan's funding status. To understand the aggregate impact of members' benefits and determine the system's funding requirements, the board obtains an annual actuarial valuation. Required in statute (W.S. 9–3–410(b)), it compares plan assets to liabilities. As of January 1, 2007, the big plan was 94.4 percent funded (at the approved 1 percent cost-of-living adjustment, or COLA), meaning it had enough assets to fund that percentage of all current members' projected, earned benefits.

Plan design sets benefit expectations

Although other factors also have an impact, computing a retiree's base benefit under a defined benefit plan generally involves four major factors: age at retirement; highest average salary; years of service; and the salary/service multiplier the system has established. Figure 1.5 describes these four factors and how they help determine members' benefits.

Figure 1.5

Plan benefit provisions

Retirement Age: The earliest a plan member can obtain full, unreduced benefits is at age 60, or with a combination of age and service years equal to 85 years ("Rule of 85"). Members can retire as early as age 50, but those who do not meet the Rule of 85 incur a five percent penalty for each year they are younger than 60.

Highest Average Salary (HAS): The final salary figure used to compute a member's benefit is calculated on the average of the three highest and consecutive years of salary while employed with eligible employers. The WRS defines what is considered salary for this purpose, which generally does not include bonuses.

Years of Service (YOS): Service credit is calculated on a full-time, half-time, and quarter-time basis for determining allowable years of service. Any individual working over 1,032 hours in a year gets full-time service credit.

Salary/Years of Service Multiplier: Statute sets the multiplier as a percentage of the HAS. It is multiplied by years of service to figure base benefits (see equation below). The Legislature increased the multiplier beginning July 1, 2001 (retroactive to all active members' service): retirees now get 2.125% of HAS per year of service for 1 through 15 years of earned service, and 2.25% of HAS per year of service for service credit earned above 15 years.

Normal retirement benefit = YOS x multiplier x HAS

Source: LSO summary of WRS documents and Wyoming Statutes.

Members must be vested to receive benefits

Each factor has an impact on the size of an individual's benefit at retirement. The underlying requirement to obtaining a benefit is that a member must be vested, or employed for a minimum period, before having a right to benefits. Members of the big plan need 48 months of contributions to the plan to become vested.

Benefit amounts will vary, depending on the payment option chosen and whether a COLA is awarded.

Retiree benefit payment reductions Other factors may reduce members' benefits at retirement. Some circumstances that can reduce benefit payments include: which payout a retiree chooses from among seven payment options, and whether a member takes early retirement or qualifies for disability retirement.

Benefit adjustments Statute allows the board discretion to approve an annual, compounded cost-of-living-adjustment (COLA) from 0 to 3 percent. The COLA must be actuarially sound and cannot be above the Wyoming cost-of-living (consumer price) index. COLAs are applied to retirees' benefits beginning in their third year of retirement (see Chapter 4 for more detail on the COLA determination process).

Employer and employee contributions are required

Member contributions and investment returns "pre-fund" benefits.

The plan's basic source of funding is statutorily-required contributions from participating employers and employees. These contributions "pre-fund" members' eventual benefits, together with investment returns; "pre-funding" means consistently paying into the fund an amount that is enough to pay each individual member's earned benefit upon retirement. Longer careers, higher salaries, and later ages of retirement mean the system accrues more contributions to invest for an employee's eventual benefit.

Contribution rates are set in statute and have not changed since 1981.

The Legislature sets the contribution rates for employers and employees in statute; these are 5.68 percent and 5.57 percent, respectively, for a total of 11.25 percent of gross salary. The employee share was most recently adjusted by the Legislature in 1979, the employer share in 1981. Since 1979, statute has allowed employers to pay the employee share; this is often called a "pick up" provision. Although state agencies picked up the

Most employers pay the employee share of required contributions.

employee share from 1983 to 1991 so taxes on contributions would be deferred until employees claimed their pension, agencies continued to deduct these contributions from salaries. Since 1991, state agencies have paid the employee contribution without a corresponding salary deduction. WRS staff estimates that currently, over 90 percent of employers participating in the big plan pay the employee share of contributions. Figure 1.6 shows numbers of employers by governmental category, and numbers of active employees in the big plan on January 1, 2007.

Most participating employers are at the local level.

Figure 1.6

Plan employers and employees
January 1, 2007 [1]

Employer Category	Number of Employer Units	Number of Active Employees	Percent of All active membership
Public Schools	50	16,194	47.37%
State	79	7,666	22.42%
University and Community Colleges	8	2,246	6.57%
Local Governments	304	6,785	19.85%
Cities/Towns	74	2,232	6.53%
Counties	20	1,899	5.55%
Special Districts	210	2,654	7.76%
Other - Unknown	-----	1,298	3.80%
Total	**441**	**34,189**	**100.00%**

Source: LSO analysis of WRS data.

[1] "Special Districts" includes some private, non-profit employers such as community substance abuse and mental health providers; employees included in the "Other – Unknown" category did not have a designated employer number or name.

Baby boomers are starting to retire

Since 1994, annual pension payments have exceeded annual contributions.

A challenge facing WRS is the big plan's "maturity," a term that reflects the increasing number of retirees supported by the plan and also the growth in benefits it pays out to retirees. Several recent trends illustrate the plan's maturity: pension payments first began to exceed incoming contributions in 1994 and have continued to do so; also, since 1995 the plan's total annual benefit payments have increased by nearly 150 percent.

The number of active to retiree members (ratio) has steadily decreased since 1998.

In addition, 2006 was the first year in which members of the baby boom generation (born 1946 - 1964) were eligible to retire under the big plan's normal retirement age of 60 years. As the number of retirees continues to grow, proportionately more members who are no longer contributing will need to be supported by the plan. Figure 1.7 shows the plan's active and retiree populations since 1998 (see Appendix C for more detail on plan demographics); since then, the number of actives has increased by almost 12 percent, while the number of retirees/beneficiaries has increased more than 29 percent.

Figure 1.7

Changes in membership and the average salary and benefit
CY '98 – '06 [1]

Calendar Year (CY)	Active Members				Retirees/Beneficiaries				
	Total Active	% Change + / (-)	Average Annual Salary	Salary % Change + / (-)	Total Retirees	% Change + / (-)	Average Annual Benefit	Benefit % Change + / (-)	Active to Retiree Ratio
1998	30,597		$27,390		13,149		$8,724		2.33
1999	31,487	2.91%	$25,198	-8.00%	13,578	3.26%	$9,144	4.81%	2.32
2000	30,396	-3.46%	$26,833	6.49%	14,009	3.17%	$9,600	4.99%	2.25
2001	31,609	3.99%	$28,539	6.36%	14,446	3.12%	$10,788	12.38%	2.27
2002	31,135	-1.50%	$30,963	8.49%	14,850	2.80%	$11,280	4.56%	2.10
2003	31,494	1.15%	$31,977	3.27%	15,392	3.65%	$11,904	5.53%	2.05
2004	32,134	2.03%	$32,996	3.19%	15,951	3.63%	$12,516	5.14%	2.01
2005	32,919	2.44%	$34,272	3.87%	16,461	3.20%	$12,960	3.55%	2.00
2006	34,189	3.86%	$36,671	7.00%	17,010	3.34%	$13,404	3.43%	2.01
Change from CY '98 - '06	**3,592**	**11.74%**	**$9,281**	**33.88%**	**3,861**	**29.36%**	**$4,680**	**53.65%**	**-0.32**
Average Annual Rate	**449**	**1.40%**	**$1,160**	**3.71%**	**483**	**3.27%**	**$585**	**5.52%**	**-0.04**

Source: LSO summary and analysis of WRS actuarial valuations, '99 – '07.

[1] This figure only includes general plan members, not law enforcement members.

Members wait to retire about 1.75 years from the date they are eligible.

With respect to new retirees, Figure 1.8 shows the number of new pensions each year since 2000, how many active and inactive members are currently eligible for normal retirement benefits, and how long members are waiting to retire once they become eligible. On average, currently retired members (as of January 1, 2007) waited 1.75 years to retire once they became eligible. Overall, members who are eligible for normal or unreduced retirement make up nearly 15 percent of the vested membership. A similar proportion of public school employees fit this description, while for state employees (including the University and community colleges), 17 percent are eligible to retire but have not.

Figure 1.8

New pensions paid, retirement-eligible members, and average retirement deferral time CY 2000 – 2006 [1]

Year	New Pension Claims	Actives Members Eligible for Pension	Inactive Members Eligible for Pension	Active and Inactive Members Eligible for Pension	Total Vested Members	% Eligible of Vested Members	Average Years Deferred Pension (New Retirees)	Average Years Deferred Pension (All Retirees)
2000	793	1,745	402	2,147	25,560	8.40%	1.96	1.81
2001	766	1,919	496	2,415	25,962	9.30%	1.93	1.79
2002	736	2,106	520	2,626	25,292	10.38%	1.82	1.77
2003	848	2,372	533	2,905	26,153	11.11%	2.02	1.75
2004	892	2,652	594	3,246	26,676	12.17%	2.11	1.74
2005	843	2,976	598	3,574	27,213	13.13%	2.30	1.74
2006	863	3,428	613	4,041	27,533	14.68%	2.36	1.75

Source: LSO analysis of WRS data.

[1] The last two columns showing average years deferred retirement are calculated using only normal retirees' records; the numbers do not include disabled retirees, survivors/beneficiaries, members retired multiple times, under divorce decrees, or those retired under law enforcement requirements. For "All Retirees" the numbers include retirees from July 1, 1975 through January 1, 2007.

The Legislature is the plan's sponsor

One significant difference between private and public pension plans is that private defined benefit plans are federally insured by the Pension Benefit Guarantee Corporation (PBGC). It will pay

By the Wyoming Constitution, plan monies can be used only for members' benefits.

out some portion of plan benefits if a business sponsoring a plan fails to meet obligations and the PBGC assumes control of the plan. Public pensions such as WRS are not insured by the PBGC. As the plan's sponsor, the Wyoming Legislature represents the plan's "insurance" on members' earned benefits, and according to the Wyoming Constitution, all monies paid into the plan shall be used only for the benefit of plan members.

As earlier LSO evaluations recommended, the Legislature has made system changes

Past legislative changes include appointing legislators as board liaisons.

LSO has evaluated several retirement-related issues in the last decade: *Deferred Compensation Program* (1996), WRS big plan *COLAs* (1996), and *Placement of Deferred Compensation* (2000). Several changes resulted from those studies. The Legislature began to appoint four legislative liaisons (two members each from the House and Senate) to attend WRS Board meetings and coordinate on issues impacting the system. In 2001, it approved statutory changes moving Deferred Compensation from the State Treasurer's Office to WRS. Also in 2001, WRS in collaboration with the former Deferred Compensation Advisory Board contracted for a study of additional plan options to help recruitment and retention of public employees.

WRS can continue to improve plan administration by establishing clear goals and formal policies

In terms of its funding level, the plan compares well to the average public plan.

The most recent comparison of the funded status of state retirement plans shows Wyoming's big plan to be in good condition: for 2006, it was 95 percent funded, while the national average was 88 percent.[2] Chapter 2 compares this and other significant aspects of the plan to similar features in the plans of eight states, and finds that WRS benefits and costs measure up well. The remaining chapters identify areas where WRS, in consultation with the Legislature, can make improvements.

[2] "2007 Wilshire Report on State Retirement Systems: Funding Levels and Asset Allocation," Wilshire Associates Incorporated.

Chapter 3 reviews the complex actuarial basis for figuring the plan's ongoing funding stability, emphasizing the importance of plan experience matching assumptions about the growth of assets and liabilities. Chapter 4 examines the process for determining a COLA and indicates that policymakers should consider whether or not a guaranteed COLA is desired for plan members. Chapter 5 shows the need for flexible budget and personnel authority, coupled with formal oversight and regular legislative interaction.