
CHAPTER 2

Public Employee Plan basic benefits are comparable to, and sometimes better than, those in surrounding states

Chapter summary

WRS reviewed plan benefits in the late 1990s, then proposed enhancements.

Following the release of our 1996 report on COLAs, the WRS proposed and the Legislature approved a series of benefit enhancements. Completed in 2001, they included consecutive increases to the maximum COLA and an increase in the multiplier used to calculate base benefits for new retirees. WRS had conducted a multi-year comprehensive review targeted at setting benefits at levels the system could afford. These efforts took place within the context of generous investment returns the system was earning during the late 1990s; they were capped off by a contracted benefit study in 2001 that suggested Wyoming's plan had no discernable weaknesses.

WRS plan benefits compare favorably to those in other states.

Six years have elapsed since those benefit goals were achieved, so we sought more current information as to whether Wyoming's plan has kept pace with plans in other states. Finding no recent analysis of this type, we gathered information to compare basic benefit provisions of Wyoming's plan and plans in selected states in the region. We conclude that current base benefits for new retirees under Wyoming's plan are comparable to, and in some cases more generous than, those in surrounding states.

Plan members qualify for Social Security benefits

Unlike Wyoming, some states including Colorado do not participate in Social Security for public employees.

In the past, when designing pension plans, states had the option of opting out of the federal Social Security system. Colorado is an example of a state that chose to opt out and so does not contribute to Social Security on behalf of members covered by its plan. Wyoming, on the other hand, did not opt out and thus its public employees qualify for Social Security. Plan members and employers pay into both programs, WRS and Social Security, with a retired member's Social Security benefit based on his or her entire work history, not just the public service portion.

A member's retirement plan should include personal savings.

The plan, Social Security, and Deferred Compensation make up the “three-legged stool” of retirement

In educating members on how to prepare for retirement, WRS advocates for the “three-legged stool” of retirement planning. Under this concept, a member’s expected retirement income will consist of a pension benefit, Social Security, and personal savings. Since a pension benefit is only a portion of the retirement income, and may be high or low depending on salary and length of employment, WRS stresses that members should consider all three legs of the stool, not just their pension, when choosing to retire. Deferred Compensation is considered under a member’s personal savings portion of retirement income.

Plan benefits, including the COLA, were increased through 2001.

The plan’s normal and early retirement provisions have remained stable since 2001

In the last decade, the WRS Board has supported numerous statutory changes for plan administration. For plan benefits, the WRS advocated a steady increase in the maximum-awardable COLA from 1997 through 2001, when it reached an annual maximum of 3 percent. In addition, the board supported an increase in the service multiplier used to determine base benefits, moving from a flat two percent per year of service to a higher, tiered multiplier. Figure 2.1 summarizes the major benefit provisions of the plan for normal and early retirement; 2001 was the last time benefits were enhanced in statute (see Appendix D for a timeline of pension events since 1943, when the plan was established).

Figure 2.1

**Public Employee Plan base benefit components
January 1, 2007**

Normal retirement provisions		Benefit calculation	
Age	60 years	Multiplier	2.125% per YOS first 15 years; 2.25% per YOS after 15 years
Years of Service (YOS)	At least 4 YOS	Highest Average Salary (HAS)	Highest 3 continuous years salary
"Rule of XX"	Rule of 85, at any age	Vesting Required	4 years
Early retirement provisions		Post-retirement benefit adjustments (COLAs)	
Age	50 years	Applied July 1 after 2 years retired	
Years of Service	At least 4 YOS	Indexed	WRS Board discretion up to 3%, depending on the Wyoming Consumer Price Index (CPI)
Discount Rate on Benefits	5% per year under age 60		

Source: LSO analysis of WRS documents and data

The difference between normal and early retirement benefits can be substantial

A key provision of a pension plan is whether employees can retire early and if so, what will be the penalty, or discount, to their benefit. Under Wyoming's plan, the discount rate applied to early retiree benefits who do not meet Rule of 85 requirements is 5 percent for each year the individual retires before age 60.

Early retirement reductions can drastically reduce a member's benefit payments.

Figure 2.2 gives an example of the benefit calculations for two similarly-situated employees, one of whom retires at 60 and the other at 56. Due to early retirement, the younger retiree would receive almost \$3,262 less each year than would the 60 year-old, despite having the same highest average salary and years of service.¹

¹ These calculations represent retiree payments under the plan's payment option for single lifetime benefit with no beneficiary; other payment option choices would change the amounts.

Figure 2.2

Example normal and early retirement benefit amounts¹

Retirement Provisions	Example - Normal	Example - Early
Normal Retirement		
Age	60 years old	
Years of Service	20.6 years of service	
"Rule of XX"		
Early Retirement		
Age		56 years old
Years of Service (YOS)		20.6 years of service
Discount Rate on Benefits		5% for 4 years before age 60 = 20%
Benefit Calculation		
Multiplier	2.125% x 15 YOS = 31.875%; 2.25% x 5.6 YOS = 12.6%; Total = 44.475%	2.125% x 15 YOS = 31.875%; 2.25% x 5.6 YOS = 12.6%; Total = 44.475%
Highest Average Salary (HAS)	\$36,671	\$36,671
Vesting Required	Vested	Vested
Annual Benefit	\$16,309.43	\$16,309.43
Monthly Benefit	\$1,359.12	\$1,359.12
Early Retirement Discount	\$0.00	\$271.82
Adjusted Monthly Benefit	\$1,359.12	\$1,087.30
Adjusted Annual Benefit	\$16,309.43	\$13,047.54

Source: LSO analysis of WRS documents and data

¹ Calculations are based on the plan's January 1, 2007 actuarial valuation data: the average active member's salary was used as a proxy for the "highest average salary," and the most recent retirees (CY '06) had an average of 20.6 years of service prior to retirement.

In 2001, a consultant concluded plan benefits and costs were comparable to other states

As recommended by LSO's 2000 evaluation, *Placement of the Deferred Compensation Plan*, and following the last benefit enhancements in 2001, WRS contracted for a legislatively-required study to determine whether plan benefits needed further changes. This study is the most recent formal comparison of Wyoming's plan with other states. Completed by WRS'

actuarial consultant late in 2001, it analyzed the plan statistically as well as qualitatively.

The consultant concluded that once Social Security benefits were added to retiree benefits from the plan, Wyoming plan benefits were among the best relative to their comparison states. The consultant also found that plan contributions were comparable to other states and that the state was providing adequate benefits for retirees at a reasonable cost to the state. In terms of constituent surveys, employers and employees were generally pleased with plan benefits at that time.

A 2001 study found no major plan weaknesses and recommended only minor changes.

Overall, the consultant concluded there were no significant weaknesses to the plan's structure, and recommended the state consider only small changes to better utilize the plan as a recruitment and retention tool. Suggested options were (with the consultant's supplementary comments):

- **Make no changes** – communication should increase to improve understanding of the generous benefits available.
- **Enhance refund feature** – provide additional benefits for short-term public employees.
- **Deferred Retirement Option Plan (DROP)** – help retain older skilled workers by offering retirement income and a lump-sum benefit.
- **Expand defined contribution elements** – encourage more employees to contribute to Deferred Compensation; allow full participation for part-time employees; implement automatic enrollment into Deferred Comp.

Shortly after the study was finished, WRS endorsed making no changes to the plan. In 2007, the board discussed implementing automatic enrollment into the Deferred Compensation plan for state employees, but has not acted formally on this issue.

Surrounding states have different plan structures and features

To assess plan benefits and costs, we chose to look at other states whose plans resemble Wyoming's plan in design and cover similar populations of employees: general state and local

government, universities and colleges, and public schools. As a secondary consideration, we included states similar to Wyoming in geographic, economic, and cultural characteristics; thus, most of our analysis considers surrounding states (and Nevada).

Some states have large single plans; others split plans between general government and educator plans.

Our analysis considered defined benefit plans, similar populations, and both states that do and do not provide Social Security benefits for participating public employees. Figure 2.3 shows the states used in our comparison: like Wyoming, some have large single plans that cover general government *and* public school employees (Idaho, South Dakota, and Utah), while others (Montana, North Dakota, and Nebraska) have split plans for general government and schools. Nebraska provides further variety in our analysis in that for general government employees, it offers a cash-balance/defined contribution plan.

Colorado and Nevada are similar to Wyoming in having large defined benefit plans, but they do not provide Social Security benefits. Thus, retirees whose substantial work history has been exclusively under these states’ plans receive one public retirement pension, not two. Having opted out of participation in the Social Security system years ago, Colorado and Nevada attempt to compensate by offering generally higher plan benefits than states that also participate in Social Security.

Figure 2.3

Other state retirement systems used for comparison

Large Single Plans	Split Plans	Large Plans, no Social Security
Idaho, South Dakota, Utah	Montana, North Dakota, Nebraska	Colorado, Nevada

Source: Compiled by LSO.

Surrounding states generally offer less generous base benefits for new retirees

We compared the base benefits of other states’ plans by analyzing the same components listed in Figure 2.1 (Wyoming’s plan provisions). Figure 2.4 on pages 22 and 23 shows how the other states’ plans compare to Wyoming’s for both general

Of the comparator states that also participate in Social Security, Wyoming provides the highest benefit.

government and school/teacher plans.² We used the same salary and years of service to calculate benefits under each plan, factoring in the Wyoming requirement of age 60 years. As indicated in Figure 2.4, Wyoming ranks third behind Nevada and Colorado (two non-Social Security states) in providing the most generous benefit. When compared only to those states that also offer Social Security, Wyoming provides the highest benefit.

Although each state has slightly different overall plan features and options that impact their plan's experience, the basic concepts of setting and calculating defined benefits remain constant among most states (with the exception of Nebraska's defined contribution/cash balance plan). This means plan-to-plan comparisons can yield a broad level understanding of when members can retire and at what benefit, under similar conditions. Based on the information in Figure 2.3, we came to several conclusions about Wyoming's plan as it compares to the states whose plans we analyzed:

Wyoming's plan has the highest multiplier among states also participating in Social Security.

- Wyoming and Montana have the earliest normal and early retirement age for defined benefit plan members (Montana sets the same age for retirement but requires an additional year for vesting).
- Unlike most other states, Wyoming's "Rule of XX" requirements do not specify a minimum age.
- Wyoming has the highest multiplier among surrounding states that also provide Social Security benefits.
- Wyoming has a similar 3-year HAS standard.
- COLA standards among these states are very different and comparisons are difficult to make; generally, most surrounding states guarantee a minimum COLA or a floor to retiree purchasing power, but Wyoming does not.

² Plans in some states, such as Utah and North Dakota, would require benefit reductions for retiring at age 60; we calculated the reduced benefits along with normal base benefits in the "Example Retirement Calculation" section.

Figure 2.4

Other states' plan provisions for general government and school employees

Plan Categories	Nevada	Colorado	Wyoming	Montana	North Dakota	Idaho
				Public Plan	Public Plan	
Normal Retirement Eligibility Requirements						
Normal Minimum Age	65 years	65 years	60 years	60 years	65 years	65 years
Minimum Years of Service (YOS)	at least 5 YOS	at least 5 YOS	at least 4 YOS	at least 5 YOS	at least 3 YOS	at least 5 YOS
"Rule of XX"; Other provisions allowing normal/unreduced benefits	60 years with 10 YOS or any age with 30 YOS	Rule of 80 at age 50; Rule of 85 at age 55; any age with 35 YOS	Rule of 85 at any age	Any age with 30 YOS	Rule of 85	Rule of 90 at 55 years
Early Retirement Eligibility Requirements						
Early Retirement Minimum Age	None	Age and service = 75 at age 50 or 55; age 60 with 5 YOS	50 years	50 years	55 years	55 years
Years of Service	at least 5 YOS		at least 4 YOS	5 YOS	at least 3 YOS	at least 5 years
Discount Rate on Benefits	4% per year under age requirement	Prescribed in statute, varies depending on age at retirement	5% per year under age 60	6% per year under age 60	6% per year under age 65 or age at which member qualifies for Rule of 85	3% per year for first 5 years; 8% per year for more than 5 years...under age 65 or under Rule of 90
Benefit Calculation						
Multiplier	2.5% per YOS prior to July 1, 2001; 2.67 after July 1, 2001	2.50% per YOS	2.125% for first 15 YOS; 2.25% for YOS more than 15 years	Qualify for 1.785% per YOS under 25 YOS; 2.00% for 25+ YOS	2% per YOS	2.00% per YOS
Highest/Final Average Salary (H/FAS)	Highest 3 years salary	Highest three 12-month periods	Highest 3-continuous years average salary	Highest 3-continuous years average salary	Highest 3-year average salary within last 10 years of service	Highest 3.5 consecutive years salary
Vesting Required	5 years	5 years	4 years	5 years	3 years	5 years
Post-Retirement Benefit Adjustments						
COLA	2% in years 4-6; 3% in years 7-9; 3.5% in years 10-12; 4% in years 13-14; 5% in 15+ years; COLA may be lower if benefit outpaces inflation - lifetime COLA cap at CPI to maintain 100% purchasing power	3.50% compounded annually for hires prior to July 1, 2005; post July 1, 2005 hires: lesser of 3% or CPI or 10% of market value increase reserve	"Actuarially sound," based on board discretion: 0% up to the lesser of 3% or CPI	3.0% compounded for hires before July 1, 2007; 1.5% compounded for hires after July 1, 2007	Ad Hoc Goal	Varies between 1-6% depending on CPI; 100% purchasing power standard
Example Retirement Calculation (retire at age 60)						
H/FAS (CY '06 Wyoming - average)	\$36,671.00	\$36,671.00	\$36,671.00	\$36,671.00	\$36,671.00	\$36,671.00
YOS (CY '06 Wyoming - average)	20.6	20.6	20.6	20.6	20.6	20.6
Multiplier (relevant to state)	2.5% for 15.1 years; 2.67% for 5.5 years	2.50% per YOS	2.125% for first 15 YOS; 2.25% for YOS over 15 years	Qualify for 1.785% per YOS under 25 YOS; 2.00% for 25+ YOS	2.00%	2.00%
Basic Annual Retirement Amount	\$19,228.44	\$18,885.57	\$16,309.43	\$15,108.45	\$15,108.45	\$15,108.45
Monthly amount	\$1,602.37	\$1,573.80	\$1,359.12	\$1,259.04	\$1,259.04	\$1,259.04
Reductions, if applicable, for other plans' early retirement	None	None	None	None	6% per year under age 65 or age at which member qualifies for Rule of 85	3% per year for first 5 years; 8% per year for more than 5 years...under age 65 or under Rule of 90
Age under requirement					Age 60 is 5 years under age 65; or YOS + age = 80.6	4.7 years of service below Rule of 90
Reduction Percentage					Reduction = 6% x 2.2 yrs to meet Rule of 85 = 13.2%	Reduction = 3% x 4.7 years to meet Rule of 90 = 14.1%
Basic Annual Retirement Amount after Reduction	\$19,228.44	\$18,885.57	\$16,309.43	\$15,108.45	\$13,114.14	\$12,978.16
Adjusted Monthly amount	\$1,602.37	\$1,573.80	\$1,359.12	\$1,259.04	\$1,092.84	\$1,081.51

Figure 2.4 (continued)

Plan Categories	Nebraska	Utah	Montana	South Dakota	North Dakota	Nebraska
	Teachers Plan		Teachers Plan		Teachers/School	Cash Balance
Normal Retirement Eligibility Requirements						
Normal Minimum Age	65 years	65 years	60 years	65 years	65 years	55 years
Minimum Years of Service (YOS)	at least 1/2 YOS	at least 4 YOS	at least 5 YOS	at least 3 YOS	at least 3 YOS	at least 3 YOS
"Rule of XX"; Other provisions allowing normal/unreduced benefits	Rule of 85 at 55 years	Any age with 30 YOS	Any age with 25 YOS	Rule of 85 at 55 years	Rule of 85	N/A
Early Retirement Eligibility Requirements						
Early Retirement Minimum Age	60 years	No age given	50 years	55 years	55 years	N/A
Years of Service (YOS)	at least 5 YOS	4 YOS	5 YOS	at least 3 YOS	at least 3 YOS	N/A
Discount Rate on Benefits	3% per year under age 65	7% per year under age 60; 3% per year 60-65 years	6% per YOS first five years under age 60, 3.6% per YOS thereafter	3% per year under age 65	6% per year under age 65	N/A
Benefit Calculation						
Multiplier	2% per YOS	2% per YOS	1.667% per YOS	1.625% prior to July 1, 2002; 1.55% after July 1, 2002	2% per YOS	N/A
Highest/Final Average Salary (H/FAS)	Highest 3-year FAS	Highest 3-year FAS (10% plus CPI cap)	Highest 3-continuous years average salary	Highest 3-consecutive years salary	Highest 3-year FAS	N/A
Vesting Required		4 years	5 years	3 years	3 years	Immediate
Post-Retirement Benefit Adjustments						
COLA	CPI to max. 2.5% with 75% purchasing power floor	CPI to max. of 4%; Simple - always based on original benefit	1.5% compounded beginning in 4th year of retirement	3.1% compounded annually	2% ad hoc goal	Depends on payment option
Example Retirement Calculation (retire at age 60)						
H/FAS (CY '06 Wyoming - average)	\$36,671.00	\$36,671.00	\$36,671.00	\$36,671.00	\$36,671.00	N/A
YOS (CY '06 Wyoming - average)	20.6	20.6	20.6	20.6	20.6	N/A
Multiplier (relevant to state)	2.00%	2.00%	1.67%	1.625% for 16.1 years; 1.55% for 4.5 years	2.00%	N/A
Basic Annual Retirement Amount	\$15,108.45	\$15,108.45	\$12,615.56	\$12,151.85	\$15,108.45	N/A
Monthly amount	\$1,259.04	\$1,259.04	\$1,051.30	\$1,012.65	\$1,259.04	N/A
Reductions, if applicable, for other plans' early retirement	3% per for each year under age 65	3% per for each year between age 60 and 65	None	3% per year under age 65	6% for each year under age 65	N/A
Age under requirement	Age 60 is 5 years under age 65	Age 60 is 5 years under age 65		Age 60 is 5 years under age 65	Age 60 is 5 years under age 65	N/A
Reduction Percentage	Reduction = 3% x 5 yrs = 15%	Reduction = 3% x 5 yrs = 15%		Reduction = 3% x 5 years = 15%	Reduction = 6% x 5 yrs = 30%	N/A
Basic Annual Retirement Amount after Reduction	\$12,842.18	\$12,842.18	\$12,615.56	\$10,329.07	\$9,292.43	N/A
Adjusted Monthly Amount	\$1,070.18	\$1,070.18	\$1,051.30	\$860.76	\$774.37	N/A

Source: WRS summary of compiled documents and interviews from other states.

Contribution rates in other states are generally higher than Wyoming's rate

Among similar states, only North Dakota has a lower overall contribution rate, including Social Security.

In terms of the ongoing plan costs to employers and employees, Wyoming has the next-to-lowest contribution rate in our analysis among Social Security participating states. Figure 2.5 on the next page shows the contribution rates for employers and employees in the states we used for comparison, whether employers pay the employee's share, and the date when the contribution rate was last changed. Only North Dakota has a lower overall contribution rate than Wyoming; most Wyoming employers also pay the employee's share, which creates an additional benefit for members.

Conclusion: Public Employee Plan benefits and cost provisions still measure up well in comparison to state plans in the region.

Wyoming's plan provides generally higher benefits and lower employee costs, but no guaranteed COLA.

Our analysis suggests that Wyoming's plan differs in several respects from the other states' plans, but is generally better in terms of higher benefits and lower employee-paid costs than those states that also participate in Social Security. Plan contribution rates are lower than in most surrounding states and have not been changed in over 25 years. Wyoming's plan benefits for both normal and early retirement allow members to claim their pensions sooner than in most other states and the multiplier is higher; for the most part, penalties under early retirement are comparable, depending on how early a member retires. However, Wyoming is one of the few states that do not guarantee a minimum COLA or purchasing power floor for retirees.

Figure 2.5

Other states' contribution rates, pick-up provisions, and date of last contribution rate change

Contributions	Wyoming	South Dakota	Idaho	Nevada	Colorado	Utah
State Pension						
Employee	5.57%	6.00%	6.23%	10.50%	8.00%	None
Employer	5.68%	6.00%	10.39%	10.50%	10.15%	14.22% State and School; 11.62% Local Gov't
Employer pays Employee share	Yes	No	No	No	No	N/A
Fixed or Floating	Fixed by statute	Fixed by statute	System/Board Discretion	System/Board Discretion	Fixed by statute	Fixed by statute
Total Contribution	11.25%	12.00%	16.62%	21.00%	18.15%	11.62-14.22%
Date of last contribution change	1981	2001	2004	2003	2006	2007
Federal Social Security (SS) Rate						
Employee	6.20%	6.20%	6.20%	N/A	N/A	6.20%
Employer	6.20%	6.20%	6.20%	N/A	N/A	6.20%
Total SS Rate	12.40%	12.40%	12.40%	N/A	N/A	12.40%
Total Contribution Rate (pension and SS)	23.65%	24.40%	29.02%	21.00%	18.15%	24.02% Locals; 26.62% State and School
Contributions	North Dakota	North Dakota	Montana	Montana	Nebraska	Nebraska
	General Plan	Teacher Plan	General Plan	Teacher Plan	Cash Balance Plan	School DB Plan
State Pension						
Employee	4.00%	7.75%	6.90%	7.15%	4.5% Local; 4.8% State	7.25%
Employer	4.12%	7.75%	6.9% + State share of 0.1%	7.47% + 0.11% for plan amortization	150% employee share (Local) = 6.75%; 156% employee share (state) = 7.488%	101% of employee share = 7.3225%
Employer pays Employee share	Yes	Depends on Employer	No	No	No	No
Fixed or Floating	Fixed by statute	Fixed by statute	Fixed by statute	Fixed by statute	Fixed by statute	Fixed by statute
Total Contribution	8.12%	15.50%	13.90%	14.73%	11.25% Local; 12.288% State	14.57%
Date of last contribution change	1980s	1998	1999	2007	2007	2005
Federal Social Security (SS) Rate						
Employee	6.20%	6.20%	6.20%	6.20%	6.20%	6.20%
Employer	6.20%	6.20%	6.20%	6.20%	6.20%	6.20%
Total SS Rate	12.40%	12.40%	12.40%	12.40%	12.40%	12.40%
Total Contribution Rate (pension and SS)	20.52%	27.90%	26.30%	27.13%	23.65% Local; 24.688% State	26.97%

Source: WRS summary of compiled documents and interviews from other states.

