



## Wyoming Legislative Service Office

# EXECUTIVE SUMMARY

## Wyoming Retirement System: Public Employee Plan

Program Evaluation Section

August 2007

### Purpose

The Wyoming Retirement System (WRS) provides retirement income for most public employees in the state. For the largest of its seven plans, the Public Employee Plan, WRS manages 73,387 member accounts covering active, inactive, and retiree members. In December 2006, the Management Audit Committee directed staff to review WRS administration of this plan. We compared its benefit package with those in surrounding states; analyzed the financial status and how cost-of-living adjustments (COLAs) are determined; and reviewed the structure for WRS interaction with the Legislature.

### Background

Originally created to benefit retired teachers, the Legislature has expanded plan membership to include employees of state and local governments, the university and community colleges, and special districts. The eleven-member board acts in a fiduciary capacity, making decisions about investments and plan administration solely for the benefit of system members. The board is responsible for more than \$6 billion in assets; it hires the WRS director and together, they manage plan monies to pay member benefits.

Since our 1996 report on COLAs, the investment portfolio has nearly tripled in value. In addition, in 2006 the system was 95 percent funded, while the national average for similar systems was 88 percent. Yet the dynamics of the plan's funded status are changing rapidly: as a mature plan, pension

payments exceed incoming contributions, and proportionately fewer active employees are supporting an increasing number of retirees.

### Results in Brief

Initial retiree benefits under this plan stand up well compared to those provided by plans in surrounding states. Furthermore, this is done at a relatively low statutory contribution rate of 11.25 percent of salary. However, Wyoming's plan does not guarantee retirees a minimum COLA increase, which most of the other state plans do.

State law and WRS rules do not define the term "actuarial soundness," the standard by which W.S. 9-3-419(b)(v) requires WRS to award COLAS. In practice, WRS requires annual contributions to cover actuarial costs and the system amortizes the unfunded actuarially accrued liability (UAAL) over a rolling 30-year period. This is a reasonable standard for determining actuarial soundness.

WRS may be constrained in managing system assets by having neither a chief investment officer nor the flexibility to hire staff outside of the state compensation pay scale. The Legislature has little oversight of WRS because only a small portion of system expenditures is reviewed in the budget process. Also, no single legislative committee has purview over retirement issues or has developed this expertise.

### Principal Findings

The Legislature most recently improved plan benefits in 2001. Now, compared to state

plans in the region that also participate in Social Security, Wyoming's plan provides the highest multiplier, or percentage of highest average salary for years of service. With Montana, it also has the lowest normal and early retirement ages.

The plan is pre-funded, meaning pooled contributions and interest accumulate, while members are working, to fund their pension benefits at retirement. Ensuring that the plan is adequately funded to provide these benefits involves complex actuarial computations, including projections of pension obligations. Nevertheless, experience must align with assumptions or else the plan will be over- or under-funded relative to its liabilities.

The WRS Board has exclusive authority to develop assumptions and manage investments, but other policymakers in the state also make decisions that affect plan experience. After our 1996 evaluation, the Legislature approved only one more ad hoc COLA in 2001, turning instead to annual automatic COLAs. At present, however, receiving a post-retirement increase is not guaranteed, and if one is granted, its amount is not predictable.

Due to a 2004 change in statute, the WRS Board now awards a COLA of from 0 to 3 percent, as long as it is actuarially sound. The board's interpretation of this concept has, since 2004, led it to award a "break-even" COLA, which is whatever level of increase will maintain actuarial costs within the statutory contribution rate. We recommend that together, WRS and the Legislature should determine whether the plan will provide a guaranteed COLA, or continue the current break-even, non-guaranteed COLA. We found that WRS may be constrained by the personnel restrictions applicable to all state agencies, particularly those regarding state compensation levels. To obtain the personnel necessary to monitor the system's investment portfolio and perform other sophisticated functions, WRS should develop

a proposal for legislative consideration that would give it more flexibility.

Further, unlike plans in most other states we used as comparators, WRS does not have a designated legislative committee that reviews retirement-related legislation. Since plan assets have grown so large and will likely continue to grow, we recommend that the Legislature consider specifying a committee to have ongoing connection with and oversight of the retirement system.

### **Agency Comments**

The WRS Board agrees with four of five report recommendations and conclusions. It agrees that WRS benefits compare favorably to other states, and will work to better educate policymakers about factors that affect the plan's actuarial health. It will resume the benefit planning process and will reaffirm the goal of providing a 3 percent COLA, but not as a guarantee. WRS will develop a proposal giving it greater flexibility to carry out its functions; it also agrees that having a legislative standing committee would be beneficial, and suggests Appropriations as being most appropriate.

WRS is in partial agreement with Chapter 3, maintaining it has operated under a consistent interpretation of actuarial soundness since 1981.

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*Copies of the full report are available from the Wyoming Legislative Service Office. If you would like to receive the full report, please fill out the enclosed response card or phone 307-777-7881. The report is also available on the Wyoming Legislature's website at [legisweb.state.wy.us](http://legisweb.state.wy.us)*