



STATE OF WISCONSIN
Department of Employee Trust Funds

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TO: Employee Trust Funds Board
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FROM: Bob Conlin, Director of Legislation, Communications and Planning
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SUBJECT: Legislative Report

New Legislative Session Under Way

January 3 marked the beginning of the 98th regular session of the Legislature. As reported at the December meeting, the new session will see split control of the Legislature, with Republicans in control of the Assembly and Democrats controlling the Senate. The primary focus of the Legislature for the next several months will be approving the 2007-2009 biennial budget. In February, the Governor introduced his budget (2007 Senate Bill 40). The Legislative Fiscal Bureau has been busy studying the 1,700-page document and preparing summaries for the Joint Committee on Finance (JCF). This week, the JCF will receive a series of briefings by various state agencies on their proposed budgets, and on March 20, the JCF will begin a schedule of six public hearings to be held around the state to solicit public feedback on the Governor's proposal. It is likely that sometime in April the JCF will begin amending the budget in the hopes of it passing the Legislature by June 30, the end of the current biennium.

Substantive Provisions of the Budget Affecting the Department and Its Programs

The budget bill contains a number of substantive provisions that will have an effect on the Department's programs. Some of the more significant provisions are summarized below:

Health insurance coverage for domestic partners of state employees and annuitants: The bill proposes to change the definition of "dependent" for purposes of health insurance provided to state employees and annuitants by the Group Insurance Board. The definition, under the bill, would be changed to include a domestic partner, a domestic partner's minor children dependent on the employee for support, and children of the domestic partner of any age if disabled and requiring continued dependence. A "domestic partnership" would be defined as a relationship between two individuals that meets all of the following criteria: (1) each individual is at least 18 years old and competent to enter a contract; (2) neither individual is married to, or in a domestic partnership with, another individual; (3) the two individuals are not related by blood in any way that would prohibit marriage under state law; (4) the two individuals consider themselves to be members of each other's immediate family; and (5) the two individuals agree to be responsible for each other's basic living expenses. The provision would apply to group health insurance coverage effective January 1, 2009.

Board	Mtg Date	Item #
Jl	03/15/07	3

2007 SESSION LEGISLATIVE ACTIVITY REPORT

3/9/07

BILL NO. AUTHOR	ACT NO.	STATUS (COMMITTEE/ HEARING DATE/ETC)	SUBJECT
<u>Assembly Bills and Resolutions</u>			
AB 13 Schneider		Introduced 1/12/07; referred to Insurance	GIB: Requires the GIB to offer prepaid legal services insurance to state employees in the WRS. For any prepaid legal services insurance policy offered by GIB, the insurer may impose underwriting considerations in determining initial eligibility and premiums. GIB may charge a fee to each insurer whose policy is offered, but the fee may not exceed the direct costs incurred by GIB in offering the policy. The secretary of ETF, with the approval of GIB, must promulgate rules for the administration of the prepaid legal services insurance program. The premiums for the prepaid legal services insurance are to be deducted directly from an employee's earnings and paid to the insurer.
AB 18 Lothian/Kedzie		Introduced 1/12/07; referred to JSCTE	TAX: Exempts from tax certain payments or distributions received each year by an individual from a qualified retirement plan under the IRC, if such payments are not already exempt from taxation. First applies to taxable year 2007, and the maximum allowable exemption is \$2,500. The exemption amount increases each year from \$2,500 to \$5,000 in 2008, \$10,000 in 2009, \$15,000 in 2010, and \$20,000 in 2011 and thereafter.
AB 23 Wasserman/Ellis		Introduced 1/24/07; referred to Labor	SICK LEAVE: Provides that no member of the assembly or senate may accumulate unused sick leave from year to year in his or her sick leave account for work performed as a member of the legislature in any legislative session beginning on or after January 5, 2009. Permits senators who are currently serving a term of office that begins on or after January 3, 2007, but before January 5, 2009, to continue to accumulate unused sick leave for work performed as a member of the legislature before the commencement of the 2011-12 legislative session.
AB 28 Lothian/Kedzie		Introduced 1/24/07; referred to Ways and Means	TAX: Creates a nonrefundable individual income tax credit for pension income received by the claimant each year from a qualified retirement plan under the IRC, except that the credit may not be based on pension income that is already exempt from taxation. First applies to taxable year 2008. The maximum amount of pension income allowable each year is \$2,500 in 2008; \$5,000 in 2009; \$10,000 in 2010; \$15,000 in 2011; and \$20,000 in 2012 and thereafter.
AB 31 Strachota/ Kanavas		Introduced 1/24/07; referred to Labor; hrg 2/7/07; passage recommended 5 – 2 on 2/7/07; ASA 1 adopted 60-38 on 2/20/07; passed 66-29 on 3/1/07; referred to Senate Gov't Affairs	SICK LEAVE: Provides that: 1) No member of the legislature may accumulate unused sick leave from year to year in his or her sick leave account for work performed as a member of the legislature during any term of office that begins after the effective date; 2) No justice or judge may accumulate unused sick leave from year to year in his or her sick leave account for work performed as a justice or judge during any term of office that begins after the effective date; and 3) No other state elected official, including a district attorney, may accumulate unused sick leave from year to year in his or her sick leave account for work performed during any term of office that begins after the effective date.

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AB 43 Musser/Jauch		Introduced 1/30/07; referred to Veterans and Military Affairs; passage recommended 8-0 on 3/7/07	WRS: Provides: 1) that a participant in the WRS who terminates covered service on or after the effective date of the bill may receive creditable military service for active military service served at any time, not just before 1974; 2) that the participant may receive military service credits for military service that is also used for the purpose of establishing entitlement to a retirement benefit paid by the federal government; and 3) that, for purposes of the break in continuous employment military service credit provision, the participant may return to employment with any WRS employer.
AB 60 Travis/Plale		Introduced 2/13/07; referred to JSCTE	RETIREMENT/TAX: Exempts from tax certain amounts of payments or distributions received each year by an individual, who is at least 62 years old, from an IRA, a Roth IRA or a qualified retirement plan, if such payments are not already exempt from tax. Under the IRC, "qualified" plans include certain pension plans, profit-sharing plans, money purchase plans, stock bonus plans, annuity plans, 401 (k) plans, Keogh plans, SIMPLE plans, government or 457 plans, and IRAs. The bill first applies to taxable year 2008, and the maximum allowable exemption is \$2,500. The exemption amount increases \$2,500 each year for eight years so that, in 2015 and thereafter, the maximum exemption is \$20,000.
AB 72 Jt. Finance		Introduced 2/14/07; referred to Jt. Finance; passage as amended recommended 16-0 on 3/7/07; placed on Assembly calendar for 3/13/07	BUDGET ADJUSTMENT: Among other things, requires DOA during the 2005-07 fiscal biennium to lapse or transfer to the general fund from appropriations to each state agency moneys that would otherwise have been expended by the state agency to pay the WRS unfunded liabilities had pension obligation bonds not been issued. In addition, requires DOA in each future fiscal biennium to lapse or transfer these moneys to the general fund based on each state agency's proportionate share of all state retirement contributions that are required to be paid in that fiscal biennium.
AB 110 Vukmir/Darling		Introduced 2/22/07; referred to Labor and Industry	INSURANCE: Prohibits bargaining over the selection of a health care coverage plan if the employer offers to enroll its employees in a plan provided to local government employers by the GIB or a substantially similar plan. OCI must promulgate rules that set out standardized benefits under health care coverage plans and that may be used for determining whether any health care coverage plan is similar to the plan offered by the GIB. In addition, provides that any local government employer may unilaterally change its employees' health care coverage plan provider if the benefits remain substantially the same and if either the providers of the health care are the same or cost savings will result from changing the health care coverage plan provider.
AB 124 Kessler/Harsdorf		Introduced 3/1/07; referred to Financial Institutions	SWIB: Generally prohibits SWIB from making certain future investments, and requires SWIB to divest itself of prior investments, related to Sudan.

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3/9/07

BILL NO. AUTHOR	ACT NO.	STATUS (COMMITTEE/ HEARING DATE/ETC)	SUBJECT
<u>Senate Bill and Resolutions</u>			
SB 3 Kedzie/Owens		Introduced 1/8/07, referred to JSCTE	TAXATION: Exempts from taxation certain amounts of payments or distributions received by an individual from a qualified retirement plan under the IRC, if such payments are not already exempt from taxation. The bill first applies to taxable year 2007, and the maximum allowable exemption is \$2,500. The exemption amount increases each year from \$2,500 to \$5,000 in 2008, \$10,000 in 2009, \$15,000 in 2010, and \$20,000 in 2011 and thereafter.
SB 4 Kedzie/Lothian		Introduced 1/8/07, referred to JSCTE	TAXATION: Increases the additional exemption that may be claimed by taxpayers who reach the age of 70 or 75 before the close of the taxable year to which his or her tax return relates. Under the bill, in general, an additional exemption of \$300 may be claimed by a taxpayer who has reached the age of 70 before the close of the taxable year to which his or her tax return relates and an additional exemption of \$350 may be claimed by a taxpayer who has reached the age of 75 before the close of the taxable year to which his or her tax return relates.
SB 5 Kanavas/ Strachota		Introduced 1/9/07, referred to Ethics Reform and Gov't Ops	SICK LEAVE CONVERSION: Provides that no member of the legislature, no justice or judge, no other state elected official, and no person appointed by the governor to a position in the executive branch requiring senate confirmation, may accumulate unused sick leave from year to year in his or her sick leave account for work performed in that position after the bill's effective date.
SB 19 Jauch/Musser		Introduced 1/30/07; referred to JSCRS	WRS: Provides: 1) that a participant in the WRS who terminates covered service on or after the effective date of the bill may receive creditable military service for active military service served at any time, not just before 1974; 2) that the participant may receive military service credits for military service that is also used for the purpose of establishing entitlement to a retirement benefit paid by the federal government; and 3) that, for purposes of the break in continuous employment military service credit provision, the participant may return to employment with any WRS employer.
SB 39 Jt. Finance		Introduced 2/14/07; referred to Jt. Finance; passage as amended recommended 16-0 on 3/2/07; placed on Senate calendar for 3/13/07	BUDGET ADJUSTMENT: Among other things, requires DOA during the 2005-07 fiscal biennium to lapse or transfer to the general fund from appropriations to each state agency moneys that would otherwise have been expended by the state agency to pay the WRS unfunded liabilities had pension obligation bonds not been issued. In addition, requires DOA in each future fiscal biennium to lapse or transfer these moneys to the general fund based on each state agency's proportionate share of all state retirement contributions that are required to be paid in that fiscal biennium.

2007 SESSION LEGISLATIVE ACTIVITY REPORT

3/9/07

BILL NO. AUTHOR	ACT NO.	STATUS (COMMITTEE/ HEARING DATE/ETC)	SUBJECT
SB 40 Jt. Finance		Introduced 2/14/07; referred to Jt. Finance	BUDGET: Various changes in state appropriations, agency budgets and policy constituting the Biennial Budget Bill.
SB 46 Darling/Vukmir		Introduced 2/15/07; referred to Labor, Elections & Urban Affairs	INSURANCE: Prohibits bargaining over the selection of a health care coverage plan if the employer offers to enroll its employees in a plan provided to local government employers by the GIB or a substantially similar plan. OCI must promulgate rules that set out standardized benefits under health care coverage plans and that may be used for determining whether any health care coverage plan is similar to the plan offered by the GIB. In addition, provides that any local government employer may unilaterally change its employees' health care coverage plan provider if the benefits remain substantially the same and if either the providers of the health care are the same or cost savings will result from changing the health care coverage plan provider.
SB 57 Harsdorf/Kessler		Introduced 2/21/07; referred to Veterans and Mil. Affairs, Biotechnology & Fin. Insts.	SWIB: Generally prohibits SWIB from making certain future investments, and requires SWIB to divest itself of prior investments, related to Sudan.

2007 SESSION LEGISLATIVE ACTIVITY REPORT

3/9/07

Floor session schedule for 2007-08 Legislature:

2007	2008
Jan. 3, 2007: Inauguration	Jan. 10, 2008: Bills sent to Governor
Jan. 9, 2007: Floorperiod	Jan. 15 – 31, 2008: Floorperiod
Jan. 30 – Feb. 1 2007: Floorperiod	Feb. 19 – March 13, 2008: Floorperiod (Last general business)
Feb. 13, 2007: Floorperiod	April 3, 2008: Bills sent to Governor
Feb. 20 – March 1, 2007: Floorperiod	May 6 – 8, 2008: Floorperiod (Limited Business)
March 13 – 15, 2007: Floorperiod	May 15, 2008: Bills sent to Governor
April 17 – 26, 2007: Floorperiod	May 27 & 28, 2008: Veto review period
May 3, 2007: Bills sent to Governor	May 29 – Jan. 5, 2009: Interim
May 8 – 17, 2007: Floorperiod	June 11, 2008: Bills sent to Governor
May 29 – June 29: Floorperiod (Budget)	January 5, 2009: 2009 Inauguration
Aug. 9, 2007: Nonbudget bills to Governor	
Aug. 9 (or later), 2007: Budget to Governor	
Sept. 18 – 20, 2007: Floorperiod	
Oct. 23 – Nov. 8, 2007: Floorperiod	
Dec. 11 – 13, 2007: Floorperiod	

Earlier pick-up of employer health insurance contribution: The bill would require that, for most state employees, the employer would be required to begin making the employer contribution to an employee's health care coverage on the first day of the third month after employment begins with the state. Currently, such contributions begin on the first day of the seventh month after employment begins.

Modification of the WRS benefit calculation for educational support staff: The bill would change the WRS retirement provisions affecting educational support staff in the following ways: (1) provide that the full-time equivalent of one year of creditable service for an educational support staff employee would be reduced from 1,904 hours to 1,320 hours; (2) provide that to qualify as a participant in the WRS, the one-third of full-time minimum requirement for educational support staff would be lowered from 600 hours to 440 hours; and (3) increase the final average earnings of educational support staff by 25% for the purposes of calculating a WRS annuity. This provision will likely be reviewed by the Joint Survey Committee on Retirement Systems (JSCRS) to determine its full actuarial effect and to render an opinion as to the desirability of the provision as a matter of public policy.

New Retirement-Related Legislation

Although most of the focus during the first part of the year will be on the biennial budget, a couple of bills affecting post-retirement benefits have already received some legislative action.

Sick leave for elected officials: 2007 Assembly Bill 31 passed the Assembly on March 1 by a vote of 66 to 29. As passed, the bill would prohibit elected officials (Legislators, constitutional officers, district attorneys, and judges and justices) from receiving sick leave during any term of office that begins, generally, after the effective date of the bill. The intent of the bill is to prevent these officials from accruing sick leave for the purposes of the Accumulated Sick Leave Credit Conversion program. This program allows retiring state employees to have accumulated, unused sick leave converted to credits that are then used to pay for post-retirement health insurance provided through the state employee health plans. The bill faces an uncertain fate in the Senate. In the meantime, both legislative houses are working to revamp their sick leave use and accounting policies.

Creditable military service: 2007 Assembly Bill 43 would, among other things, eliminate the January 1, 1974 cutoff date in current law for counting certain military service as creditable service for Wisconsin Retirement System (WRS) purposes. Currently, only military service completed prior to January 1, 1974 can be counted as creditable service under the WRS at the rate of one year of military service (up to a total of 4 years) for every 5 years of WRS service. The bill has been introduced in each of the last several sessions. On March 7, the Assembly Veterans and Military Affairs Committee recommended passage of the bill on a vote of 8 to 0. Under current law and legislative practice, because the bill modifies the law with respect to the payment of public pensions, it should be reviewed by the JSCRS prior to being acted upon by the full Assembly. The JSCRS has the authority to order an actuarial analysis of the bill to determine its fiscal impact on the costs of the WRS. The Senate companion bill, Senate Bill 19, has already been referred to the JSCRS.

SWIB Divestment Legislation

On February 21, 2007 Senate Bill 57 was introduced. The bill prohibits the State of Wisconsin Investment Board (SWIB) from making certain future investments, and requires SWIB to divest itself of certain prior investments, related to Sudan. The bill is part of a national movement to exert financial pressure on the government of Sudan and businesses that support it. The bill's Assembly companion, Assembly Bill 124, was introduced on March 1.

Sudan is an east African nation with a long history of civil war and racial and religious strife. Since 2003, world attention has been drawn to the Darfur region of western Sudan, where large numbers of people have been killed or forced to leave their homes by government forces or government supported militias. The United Nations has described actions by these groups against non-Arab tribes in Darfur as genocide. Sudan also has vast oil reserves, which are attractive to many companies around the world. To tap these reserves, companies pay royalties to the Sudanese government, which many feel plays a large part in funding the aforementioned genocide. A number of actions by the American government have placed restrictions on trade and investments in Sudan. These restrictions do not appear to apply to publicly traded companies organized in countries other than the U.S.

The bill places a number of administrative requirements on SWIB, including identifying and notifying companies it invests in that have holdings in Sudan. The bill generally suspends SWIB's divestment duties if SWIB incurs losses of 0.5% of the total current value of assets. SWIB has estimated that this suspension would be triggered only after SWIB has lost approximately \$440 million, a figure that could be reached in just two to three years.

The bill raises a number of legal issues for SWIB, including being inconsistent with the purposes of the trust that SWIB manages and conflicting with SWIB's fiduciary duty. According to SWIB's analysis, it also raises constitutional issues relating to the taking of private property and the impairment of contracts. Also, under current law, SWIB already has the duty to screen investments to determine whether organizations in which it invests respect basic human rights and adhere to prevailing local and national laws and generally accepted standards of conduct.

SWIB has placed information about this issue on its Internet site, which can be found by going to this address: http://www.swib.state.wi.us/SWIB%20and%20Sudan_ltr.pdf

2007 Legislative Session Update

The attached table identifies other relevant bills introduced during the 2007 legislative session and the status of those bills.