Fiscal Estimate - 2003 Session

[X] Original [ ] Updated [ ] Corrected [ ] Supplemental

LRB Number **03-4035/3**	Introduction Number **AB-875**

Subject

Deferred compensation plan for private sector employees operated by the State of Wisconsin Investment Board

Fiscal Effect

State:

[ ] No State Fiscal Effect
[X] Indeterminate

- [ ] Increase Existing Appropriations
- [ ] Decrease Existing Appropriations
- [X] Create New Appropriations
- [ ] Increase Existing Revenues
- [ ] Decrease Existing Revenues
- [X] Increase Costs - May be possible to absorb within agency's budget
  - [ ] Yes [X] No
- [ ] Decrease Costs

Local:

[ ] No Local Government Costs
[ ] Indeterminate

1. [ ] Increase Costs
   - [ ] Permissive [ ] Mandatory
2. [ ] Decrease Costs
   - [ ] Permissive [ ] Mandatory
3. [ ] Increase Revenue
   - [ ] Permissive [ ] Mandatory
4. [ ] Decrease Revenue
   - [ ] Permissive [ ] Mandatory

5.Types of Local Government Units Affected

[ ] Towns [ ] Village [ ] Cities
[ ] Counties [ ] Others
[ ] School Districts [ ] WTCS Districts

Fund Sources Affected

[X] GPR [ ] FED [ ] PRO [ ] PRS [ ] SEG [ ] SEGS 20.536

Affected Ch. 20 Appropriations

Agency/Prepared By	Authorized Signature	Date
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Fiscal Estimate Narratives

INV 2/23/2004

LRB Number **03-4035/3**	Introduction Number **AB-875**	Estimate Type **Original**
Subject		
Deferred compensation plan for private sector employees operated by the State of Wisconsin Investment Board		

Assumptions Used in Arriving at Fiscal Estimate

LRB 4035/3 requires the State of Wisconsin Investment Board (SWIB) to establish a deferred compensation program called the Wisconsin Family Investment and Retirement Stability Trust Program (WFIRSTP). The bill includes a sum sufficient appropriation to pay funds to individuals who participate in the program but does not include an appropriation for the costs to create or administer the program or to invest the funds.

The bill makes the program available to any individual state who is employed by a private employer or organization located in Wisconsin. To the extent possible, the program should be similar to a federally qualified deferred compensation or profit-sharing plan.

In developing this estimate, SWIB made the following assumptions:

1. The program funds cannot be commingled with the public funds in any of the other trusts invested by SWIB; and none of the public trust funds may subsidize the new program in any way.

2. Prior to commencing the program, SWIB would contract with private attorneys and advisers to:
a. Research the Internal Revenue Code and state and federal securities laws to determine which laws apply to the new program and what SWIB must do to comply;
b. Identify the costs to apply for and maintain all necessary licenses and file on-going reports required by state and federal securities' regulators;
c. Determine which requirements under the Employee Retirement Income Security Act (ERISA) apply to this program, if any, and what SWIB must do to comply;
d. Determine necessary steps required to ensure that SWIB's fiduciary responsibilities to the public funds it manages are not breached;
e. Secure rulings from the Securities and Exchange Commission (SEC) and the Internal Revenue Service to affirm that administering and investing a deferred compensation or profit sharing plan for individuals employed by private employers would not adversely affect the tax qualification status of the Wisconsin Retirement System trust funds;
f. Recommend whether SWIB's current board of trustees could oversee the program or if it would be necessary to create a separate board to invest the fund's assets; and
g. Review the state's and SWIB's potential legal liability in offering a program to individuals employed by private employers.

3. Once the legal research has been completed, SWIB would hire a consultant to conduct a market review to determine the potential level of public interest in the program and do an initial cost analysis. This will include:
a. Determining if boards of other public pension funds administer any retirement funds for private individuals and, if so, the results;
b. Preparing an initial cost estimate and
c. Surveying employees with private firms to determine level of interest. (There are over 2.2 million individuals employed in the private sector in Wisconsin.) The intent of the legislation is to model the program after federally qualified deferred compensation or profit sharing plans. However, it may not be possible to create a federally qualified plan. If the contributions to the program do not qualify for a federal tax exemption, it is likely that there will be few participants. In that case, the costs to offer the program would be prohibitive.

4. SWIB will invest participant funds and contract with a third party administrator (TPA) to manage participant accounts, marketing and other aspects of the program.

5. To ensure that the Board's fiduciary responsibilities to the public funds under its management are not infringed, SWIB will establish guidelines, policies and procedures that apply specifically to the WFIRSTP and hire staff to oversee the investment of its assets.

6. To establish the proposed program, a separate appropriation will be necessary to assure there is no commingling administrative funding and costs with the public trust funds.

Planning Costs

An initial GPR appropriation of approximately $600,000 may be required for the following planning expenses:

Contracted legal services to research state and federal securities, tax and ERISA law and secure all required SEC licensing, draft plan document, contract with TPA
Conduct a search to select a TPA
An additional 0.5 FTE SWIB attorney position to work with external counsel
Market and cost analysis

Implementation and Operating Expenses

Once the planning and analysis are completed, another funding source of indeterminable amount (GPR or other) will be required for the following expenses to implement the program and to operate it until it is self-sufficient:

Legal fees
Filing fees
Fees to design plan document
Modification of internal operations and trading systems
Investment expenses. (If investments are made internally, this will require portfolio managers, analysts, traders, and support staff. If investments are done externally, this will entail fees paid to outside managers and internal staff to oversee & coordinate their work.)
Custodial banking fees
Audit expenses
Directors & officers liability coverage
Consultants to assist with asset allocation, risk management and performance benchmarking
TPA fees to market and administer the plan
Space rental and other support expenses

7. The program will not be self-sufficient for an indefinite period of time until enough people enroll to cover the costs. Many of the costs will be fixed, e.g., legal services, consultants, systems development, and audits. As more people enroll in the program, the average cost per enrollee will be lower. For these reasons, it will be necessary to continue to support the program with some other funding source for an indeterminate amount of time until the program is self-supporting.

Long-Range Fiscal Implications

Indeterminate on-going costs.