

Fiscal Estimate Narratives
UWS 3/8/2012

LRB Number	11-3202/1	Introduction Number	AB-0539	Estimate Type	Original
Description Authorizing the Board of Regents of the University of Wisconsin System to establish an optional retirement system for its employees					

Assumptions Used in Arriving at Fiscal Estimate

AB 539 authorizes the University of Wisconsin Board of Regents to establish an Optional Retirement System (ORS) for UW faculty and academic staff employees hired on or after January 1, 2012. The ORS must be established, maintained, and administered as a qualified governmental plan either under 401(a) or 403(a) or (b) that is compliant with IRS code. The bill stipulates that employer contributions for an employee cannot exceed the WRS contributions that would have been made under the WRS for a similarly situated employee.

Under the bill, the Board of Regents shall establish a process for employees to elect to participate in the ORS and shall determine all benefits for faculty and academic staff members who participate; the Board may delegate powers and duties necessary to administer the system. Employees who participate in the ORP may not also participate in the WRS and may not subsequently participate in the WRS.

To provide the ORS, the Board of Regents shall enter into contracts with one or more companies to provide retirement annuities (fixed or variable) for employees.

The bill also provides that the Board of Regents may offer long-term disability insurance for all employees who participate in the optional retirement system, but employees pay the full premium cost.

Faculty and Academic Staff who elect to participate in the ORS may still receive the group insurances administered by ETF, except for long-term disability insurance, and may use their banked sick leave credits to pay for group health insurance in retirement.

Administering an Optional Retirement System (ORS) involves much of the same work that the Department of Employee Trust Funds (ETF) performs administering the Wisconsin Retirement System (WRS).

Costs to administer an ORS for UW Faculty and Academic Staff are indeterminate but include the following items:

„X Hiring a consulting firm with expertise in benefit plan design and pension tax law. The consultant would assist with designing the plan, handling the tax qualification issues, developing and managing the Request for Proposal (RFP) process for investment company vendor selection, reviewing the contract language and designing and drafting the educational materials so that employees can make an educated choice between the ORS and the WRS. When Illinois developed an ORS option in the State University Retirement System (SURS) in 1997, they estimated spending \$250,000 ;V \$350,000 for consulting services.

„X In AB539, the University of Wisconsin Board of Regents has fiduciary responsibility for the ORS. In its current composition, the Board does not have the legal and investment background necessary to carry out these fiduciary obligations. The Board would need to be reconfigured to be able to handle this fiduciary obligation and the University would need additional personnel to support the Board activities.

„X The oversight of a retirement plan requires legal staff with pension law background, an actuary, and accountants with pension plan reporting experience. The Department of Employee Trust Funds has staff in all these fields of expertise. The University would either need to hire staff with this expertise or contract out to manage the plan on an on-going basis. Even if a third party administrator is hired, the University must monitor and audit the third party administrator and would require additional staff with the needed expertise to be able to do so.

„X Maintaining and administering a retirement system requires an Internal Audit area with expertise in pension fund auditing. Staff with this additional expertise would need to be hired.

„X An appeal process must be established and applicable administrative rules developed to handle claims for those who were wrongly denied eligibility for the ORS, with staff or a means to able to handle the appeals. ETF has a process and staff to hear WRS appeals.

„X Many UW campuses and institutions would need additional benefits personnel to support the ORS. Benefits offices at all our institutions/campuses would need training in order to answer employee questions and provide information necessary for new employees to make an informed decision between the ORS and the WRS. Employees have a limited time to make this decision and cannot change their minds later on.

„X The University payroll system, HRS, would need extensive reprogramming to allow deductions to the ORS. Our Shared Financial System would also require modification to allow the University to send ORS contributions.

„X The Legislative Audit Bureau must perform regular audits of the WRS. Audits of the ORS would be required as well, including an assessment of the financial stability of the companies participating in the ORS, a financial audit of the ORS plan and potentially an actuarial audit. By comparison, last year LAB received approximately \$215,000 for its annual financial audits of ETF and SWIB and \$63,000 for the WRS actuarial audit.

„X AB 539 also allows the UW Board of Regents to offer a long-term disability program for all employees who participate in the ORS. A consulting firm is also needed to design the long-term disability program, handle the RFP process, and assist with the development of the long-term disability contract.

„X Additional staffing is necessary at UW System Administration to manage the new long-term disability program and train the benefits staff at the UW campuses and institutions so that they can answer employee questions and assist employees.

„X By siphoning off future WRS participants, there could be an increased long-term cost to the University to fund retirement benefits for those who participate in the WRS. An actuarial study is required to determine this. In addition, the University pays the Department of Administration a per WRS participant cost towards the bond used to pay down the State's WRS unfunded liability debt. Having fewer WRS participants may extend the time required to pay down the bond.

Long-Range Fiscal Implications