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Assembly Amendment (AA-AB133)

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Abolish SWIB bonus compensation program

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June 7, 1999 | Joint Committee on Finance | Paper #600

Compensation for Investment Professional Staff (Investment Board)

[LFB 1999-01 Budget Summary: Pages 372, #2 and 374, #3]

CURRENT LAW

Under provisions of s. 230.12(1)(a)1.b. of the statutes, the compensation levels for the unclassified staff of the Investment Board are determined by the Board, subject only to the total amounts appropriated to the agency for salaries and fringe benefits. Salary increases for the Board's unclassified staff are not governed by the state compensation plan except that the cost of pay plan increases for its employes, equivalent to the state compensation plan increases, may be funded from compensation reserves. While additional funds for the Board's pay plan is subject to the overall amounts appropriated to the Board for increased compensation in each budget, the Board has total flexibility in allocating those pay plan increases among its staff.

In addition to setting the rates of compensation for its unclassified staff, the Board may also award annual bonuses during a fiscal year to such staff for recognition of investment performance and for meritorious service that occurred in the immediately preceding fiscal year. Currently, 92.5 FTE of the agency's 99.5 FTE base level permanent employes are unclassified and are potentially eligible for these bonus awards.

The annual amount of funding for the bonus award program to be made available through the budget is set by statute at an amount equivalent to 10% of the total base level salaries for the agency's unclassified employes. Individual bonus awards are limited by statute to a maximum of 25% of an employe's annual salary amount and must be paid out over a three-year period (50% in the year of the award and 25% in each of the succeeding two years), provided the individual continues employment with the agency. Exceptions to this continued employment requirement are provided for employes who retire or become disabled, and also for employes who die, in which case the employee's estate receives payment of the escrowed amounts. Unclassified staff first become eligible for an award after they have been employed with the Board for an entire fiscal year.

Funds for the bonus pool are appropriated in unallotted reserve in each fiscal year as a part of the Investment Board's budget. Current base level funding (10% of salary plus fringe benefit costs) for the bonus award pool is $629,000 PR annually. Since the establishment of the Investment Board's bonus compensation program in 1988, bonus compensation distributions totaling $3,231,924 PR have been awarded to eligible unclassified staff. Award of the bonus monies are subject to investment performance and other criteria for the bonus compensation program which have been established by the Board.

GOVERNOR

Enhanced Bonus Compensation Plan for Investment Professionals. Establish an additional, separate, enhanced bonus compensation plan for only those unclassified employes of the Board who are designated as investment professionals. Stipulate that no later than June 30 of each year, the Secretary of DOA would determine which of Board's employes were investment professionals and would be eligible for the enhanced bonus plan and report the results of this determination to the Board. For the 1999-00 fiscal year, however, the Secretary of DOA would have to make this determination and report to the Board by October 1, 1999.

This second plan would be similar in operation to the existing bonus compensation plan, except for these three program enhancements: (1) specify that the annual amount of funding available in the second bonus pool would be an amount equal to 25% [rather than the existing plan's 10%] of the total base level salaries of Board unclassified staff who are determined to be investment professionals; (2) allow individual bonus awards of up to a maximum of 50% of an employe's annual salary amount [rather than the existing plan's 25%]; and (3) direct that the entire bonus amount payable to investment staff would be payable in the year awarded [rather than the existing plan's required three-year payout schedule].

Require that the Board adopt a plan governing the operation of the enhanced bonus program which specifies all of the following: (1) the conditions under which bonus compensation would be awarded; (2) the percentage of the total available bonus amounts that would be based on investment performance and the amounts that would be awarded for meritorious performance; and (3) the specific criteria that would be employed in considering whether to award bonus compensation to a particular employe. Provide that in awarding bonus compensation for a given period under the enhanced program, the Board would also be required to consider the performance of funds similar to those managed by the Board and market indices for the same period. These requirements are the same as those established for the existing bonus compensation plan.

Funding for the Enhanced Bonus Plan. Provide $555,700 PR annually in unallotted reserve for release by DOA for the increased costs of the offering the enhanced bonus program for investment professionals. This increased funding level is equivalent to 15% of the annual base salary level of the unclassified employes initially identified as the individuals likely to be designated as investment professionals by the Secretary of DOA. This 15% increment represents the increased funding required to provide a bonus award pool based on 25%, rather than the current 10%, of the annual base level salaries of the Board's investment professionals. Funding equivalent to 10% of the base level salary and fringe benefits costs of these Board's investment professionals ($409,500 annually) is already included in the total bonus awards pool for the existing bonus compensation program. These base amounts would be transferred to the enhanced bonus program, thereby providing a total enhanced bonus pool funding of $965,200 annually under the Governor's recommendation for professional investment staff.

Limit the Current Bonus Compensation Plan to Unclassified Staff Who are Not Investment Professionals. Retain the current law bonus compensation plan for other Board employes but stipulate that it would apply only to the following unclassified staff: the executive director, the internal auditor, employes appointed by the internal auditor and other Board employes who are not "investment professionals" as determined by the Secretary of DOA. Provide that the annual amount of funding available for this bonus pool would be an amount equal to 10% of the total base level salaries of the revised group of employes who would remain eligible for the current bonus compensation plan.

Except for the limitations concerning which Board employes would be eligible for bonus awards and which staff salaries would be used to generate the award pool, there would be no other modifications to the operation of the current bonus compensation plan under the Governor's recommendations.

Continuation Funding for the Existing Bonus Compensation Program. Provide $92,900 PR annually in unallotted reserve to fully fund the current bonus compensation pool from which awards are paid. Under the Governor's recommendation, the total available in unallotted reserve for bonus compensation awards in each fiscal year of the next biennium under the current program for all unclassified staff would be $721,900 PR annually.

DISCUSSION POINTS

Establishment of Original Bonus Compensation Program

1. Prior to 1988, virtually all Investment Board staff were in the classified service and were subject to the same state hiring, termination and compensation procedures as all other classified state employes.

2. Between 1984 and 1988, the Board experienced a number of staff departures. The agency argued that it was unable to recruit and retain quality staff due to state compensation policies. The Board further maintained that this situation was due largely to the rigidity of classified civil service hiring procedures and the agency's inability under the classified civil service compensation structure to compete with the salary offers of private sector investing organizations.

3. At the Board's request, the Legislature sought to address these concerns through provisions included in 1987 Wisconsin Act 399 (the 1998 annual budget bill). Provisions of that Act provided that:

• all Investment Board employes, except clerical staff, be shifted to the unclassified service;

• the Board be granted the authority to set salary levels for its unclassified employes subject only to the overall amounts appropriated to the Board for such compensation in each budget; and

• a bonus compensation plan be established and additional annual funding be provided to the Board, as a part of the budget process, equal to 10% of unclassified staff salaries to make bonus awards to eligible employes. Other legislation passed in both the 1987 and 1989 legislative sessions also provided specific additional funding increases to permit the agency to immediately improve the base pay of its unclassified staff.

4. An evaluation of the bonus compensation program that was conducted by the Legislative Audit Bureau in 1991 found that the awards were being used primarily to supplement salaries instead of rewarding meritorious investment performance. That audit recommended that the Legislature either act to repeal the bonus compensation program or to improve its overall operation.

5. Provisions of 1991 Wisconsin Act 39 directed the Investment Board to develop a revised bonus distribution plan for 1991-92 fiscal year awards. Act 39 required that the following aspects of the bonus program be addressed: (a) the conditions under which the bonuses would be awarded; (b) the relative percentages of the bonus pool that would be awarded respectively for investment performance and for other meritorious performance; and (c) the criteria that would be considered in determining whether to award bonus compensation to an employe. No bonus distributions were to be made under that revised plan until the plan had been approved by the Joint Committee on Finance.

Current Procedures Governing Bonus Distributions

6. In May, 1992, the Finance Committee approved the Board's revised bonus distribution mechanism. That new procedure, as approved by the Committee, has governed the distribution of all bonus pool distributions authorized by the Board since the 1992-93 fiscal year.

7. This current bonus distribution procedure has the following principal elements:

• *Use of Performance Benchmarks.* Comparative measures ("benchmarks") are used to assess the performance of each of the Board's investment portfolios. These benchmarks are intended to provide a basis for comparing the actual rate of return of each Board portfolio to a composite measure of the performance of the specific markets in which the individual portfolios invest. In general, if an individual investment portfolio exceeds its benchmark, performance bonuses are available to the unclassified employes that work directly on that portfolio.

• *"Dual Release" Payout Mechanism.* The Board uses a "dual release" mechanism to allocate different portions of the bonus pool for award for investment performance and for meritorious performance.

8. Under this "dual release" procedure, 50% of the total bonus award pool is available for distribution to those employes directly engaged in investing portfolios that have exceeded their respective benchmarks. If a portfolio does not exceed its benchmark, the portfolio's proportionate share of the bonus pool is not allocated and these amounts lapse at the end of the fiscal year.

9. The second 50% of the total bonus award pool is available for distribution only if the investment returns on the entire Fixed Retirement Trust Fund exceed the composite benchmark for all portfolios, as calculated on a five-year rolling average basis. When this composite benchmark is exceeded, an additional 20% of the total bonus award pool is available to supplement the amounts released under the first 50% distributed to individuals whose portfolios exceeded their respective benchmarks. The remaining 30% of the total bonus pool is then available for awards for meritorious service for those other unclassified employes who are not investment professionals but whose work activities are determined to have contributed to the performance of the Fixed Retirement Trust Fund. In addition, meritorious service awards may be used to provide additional bonus awards to those investment staff whose portfolios performed exceptionally well.

Recent Proposals to Modify the Bonus Compensation Program

10. Previously, as part of the 1995-97 biennial budget, the Governor recommended enhancing the bonus program along many of the same lines as contained in the Governor's current budget proposal.

11. The 1995-97 proposal would have provided similar increases in the total size of the salary pool available for distribution (from 10% of unclassified salaries to 25% of such salaries) and the maximum bonus award allowed for any individual employe (from 25% of an individual's annual salary to 50% of salary).

12. However, the Governor's 1995-97 proposal differed from the current recommendation in that it would have: (a) applied to all unclassified staff (rather than just to investment staff as in the current proposal); (b) retained the three-year distribution schedule for the payment of awards (instead of the immediate total lump sum distribution in the current proposal); and (c) established a three-tiered performance standard against which portfolio investment results would have been measured (no such provision is contained in the current proposal). Under that three-tiered performance standard, staff would have become eligible for the release of successively higher distributions from the enhanced bonus pool upon achieving each higher performance standard. Whether staff had achieved a performance standard would have been determined annually by the Secretary of DOA.

13. At the same time that these proposals were being considered by the Committee as part of its budget deliberations, losses to the State Investment Fund from derivative investments were reported by the Investment Board. Among other legislative responses, an audit was requested of Board's investment practices and of the operation of the bonus compensation program. The Committee decided to delete all of the Governor's recommended changes to the bonus compensation program from the budget bill and await the result of the audit report.

14. The resulting audit, released in August, 1995, found that: (a) the administration of the bonus award program had improved since the earlier audit in 1991 and that there appeared to be

greater success in recognizing meritorious performance through the program; and (b) the bonus program overall may have had a favorable impact on the retention of senior investment staff since the program's inception, though in the preceding two years a new upturn in staff turnover was observed. No modifications to the operation of the bonus compensation program were made as a result of this audit.

15. As part of the 1997-99 biennial budget, the Governor recommended that new IT staff hired by the Board after the effective date of the budget act would no longer be eligible for awards under the bonus compensation award program. The Committee deleted this provision from the budget bill.

Proposed Enhanced Bonus Compensation Program

16. In arguing for the Governor's current recommendation to establish an enhanced bonus compensation award program for its investment professionals, the Board has relied on the same justifications that were used when the bonus compensation plan was first proposed in 1988. The Board cites the following interrelated salary and staff retention concerns: (a) unfavorable salary comparisons with peer group investment organizations, primarily in the private sector, make it difficult to recruit investment staff; and (b) these same unfavorable salary comparisons have resulted in continuing staff turnover, as a number of Board investment professionals have departed to take better paying positions in the private sector.

17. The Board's argument for supporting the proposed changes to the bonus compensation program is that enhanced bonus award payments for professional staff will begin to address these particular staff salary, recruitment and retention matters by making Board employment economically more attractive, thereby improving the agency's ability to attract new employes and also providing an additional financial incentive for current employes to remain at the Board.

18. Two overall questions may be raised regarding the Governor's proposal:

- Are the concerns cited by the Board sufficient to warrant the proposed expansion of the bonus compensation program at this time?

- If so, are there alternatives to the Governor's recommended changes that might better address the fundamental salary disparity and staff retention concerns being raised by the Board?

Salary Comparisons

19. Adverse salary comparisons between the Board's investment professionals and comparable positions in peer investment organizations were frequently noted when the current bonus award program was being considered in 1988. It was stated at the time that the Board's ability to award bonuses would allow it to offer more competitive compensation levels which would in turn enhance the agency's ability to recruit new staff and retain existing personnel.

20. The Board argues that staff salaries continue to lag behind those offered by peer group private investing organizations. This is because it has been the private sector firms, rather

than the other public sector investment agencies, that have hired away Board staff.

21. During the last few years, the Investment Board has either conducted or has participated in compensation surveys involving other comparable public and private investing agencies and organizations. These surveys have been used by the Board to gauge the degree to which its compensation package is competitive with these peer groups and to make its case regarding the existence of a salary gap for its investment professionals.

22. In 1997, the Board surveyed the ten largest state and municipal public retirement funds in the country. That survey determined that the Board's average salaries for investment professionals were generally "at or somewhat above" the median salaries for many of staff positions surveyed (such as, investment directors, portfolio managers, securities analysts and equity traders). However, the Board argued that other major public funds are not the most appropriate comparison group for determining the competitiveness of Board salaries because most of the investment staff that have left the Board for other employment have moved to the private sector where their new salaries (self-reported) have generally been considerably higher then their salaries at the Board.

23. In 1997, the Board also participated in a biennial salary survey that compared its salary and compensation packages with 54 banks, insurance companies or investment corporations, all of whom engaged in the in-house management of pension or other funds. These companies were selected because they were deemed to be roughly comparable in operation to the Board and managed assets ranging in value from a low of $10.0 billion to a high of $130.3 billion. [Currently the Board manages assets valued at $62.3 billion.] Further, these private sector peer companies were screened out from a larger survey list. This was done by deleting from the survey data those large national mutual fund and investment organizations, particularly those located in major metropolitan areas such as New York or Los Angeles, which were thought to have significantly higher compensation packages. Had these firms been included in the comparisons, the salary difference between the Board and private sector peer firms would have been even greater.

24. The Board then calculated the average salaries (as of March, 1998) for various categories of its investment staff (such as investment directors, portfolio managers and traders) and compared these results to the median salary averages identified in the survey for the comparable private sector investment staff categories of the remaining private firms in the survey. This comparison enabled the Board to calculate a "salary gap" determination for each category of its investment staff. This "salary gap" represents the difference between the Board's average salary for investment staff in each category and the average of the median salaries paid to comparable private sector staff a the other surveyed entities. These results are summarized in Table 1.

TABLE 1

Computed Salary Gap
Investment Base Salaries Compared to Private Sector Peer Institutions Salaries

Position Type	Number of FTEs	Private Sector Salary Comparisons[a]	Investment Board Average Salaries[b]	Average Salary Gap Per Position	Total Salary Gap
Executive Director	1	$295,000	$126,729	$168,271	$168,271
Chief Investment Officer	1	300,000	113,299	186,701	186,701
Investment Directors	10	177,855	102,603	75,252	752,520
Assistant Investment Director, Portfolio Manager or Assistant Portfolio Manager	11	112,614	70,907	41,707	458,777
Senior Analysts	4	111,250	59,749	51,501	206,004
Intermediate Analysts	4	66,550	44,902	21,648	86,592
Junior Analysts	12	46,775	37,377	9,398	112,776
Senior Traders	4	76,250	58,974	17,276	69,104
Other Investment Staff	3	37,033	35,953	1,080	3,240
Totals	50				$2,043,985

[a]March,1997, private sector peer institution salary study.
[b]March, 1998, Investment Board salaries.

25. Based on the results of this survey, the Board argues that average salaries of all of its investment professionals lag the average median salaries of their counterparts in the peer private sector by a total of $2,044,000 PR annually (or $2,510,000 PR when associated state fringe benefit costs are added).

26. The Investment Board provided the results of both the public sector investment peers and this private sector wage survey to the Department of Employment Relations (DER) for its review and possible recommendations concerning the necessity for enhancing the Board's compensation as a part of the 1999-01 biennial budget.

27. DER subsequently informally recommended a base building funding increase of $600,000 PR annually for salaries (with associated fringe benefits costs of $136,800 PR annually) to "immediately improve the base pay and associated fringe benefits of existing unclassified [investment] staff." This salary figure of $600,000 was not specifically tied to any of the specific "salary gaps" or portion of such shortfalls as identified under Table 1. Rather, it is simply reflects DER's judgment of an appropriate amount to recommend for base building salary increases for the Board's investment staff, based on discrete judgments by DER as to needed base salary increases for individual positions.

28. DER also included in its reply a recommendation for a revised bonus award program and associated implementation funding along the lines of the enhanced bonus compensation plan

recommended by the Governor.

29. At the Committee's March 24, 1999, public hearing on the Board's budget, the Executive Director formally requested that the Committee provide this additional $600,000 PR annually of base-building salary funding, in addition to the enhanced bonus program recommended by the Governor. (This funding request, however, would also require a further $136,800 PR annually for the additional fringe benefits costs associated with these salary increases.)

Investment Staff Turnover

30. What the Investment Board has identified as unacceptable levels of investment management staff departures were also cited when the agency first proposed establishing the current bonus compensation award program in 1988. It was asserted by the Board at that time that the availability of the bonus award program would help the Board minimize the rate of unwanted staff departures. The Board again feels that the level of unwanted staff departures to private sector investment firms is a major concern and has the potential of affecting investment results, especially where there are multiple departures involving a single portfolio or the loss of an investment director. The Board argues that the enhanced bonus award program recommended by the Governor would aid in reducing the rate of unwanted departures.

31. The following Table 2 summarizes the Board's reported unwanted investment staff departures since the inception of the existing bonus compensation award program:

TABLE 2
Unwanted Investment Staff Departures
(FY 1988-89 thru 1997-98)

Fiscal Year	Total Agency FTE Positions[a]	# Unwanted Investment Staff Departures Total	Net[b]	% Net % of Total FTE's Departing	FTE's Departing
1988-89	63.0	0	0	0.0%	0.0%
1989-90	65.0	2	1	3.1	1.5
1990-91	65.0	1	1	1.5	1.5
1991-92	74.5	2	0	2.7	0.0
1992-93	74.5	2	2	2.7	2.7
1993-94	78.5	3	2	3.8	2.5
1994-95	79.5	4	3	5.0	3.8
1995-96	83.5	5	4	6.0	4.8
1996-97	96.5	4	4	4.1	4.1
1997-98	99.5	6	5	6.0	5.0

[a]Permanent positions.
[b]Represents number of departures excluding investment staff returning to SWIB within one year of initial departure and excluding investment staff leaving SWIB for family reasons, because of retirement from state service or to pursue non-investment related career opportunities.

32. It is estimated that the Board's investment professional staff constitutes approximately 50% of all agency employes, although precise historical data is not available. For the 1997-98 fiscal year, investment professionals represented 50.3% of all permanent agency staff positions. Based on this number, if the percentages listed in Table 2 were to be doubled, the result could be used to approximate of the Board's total investment staff departing in a given year. For example, in 1997-98, the five investment staff departures who left for employment with private sector investment firms represented a 10% turnover of investment staff. Based on that same comparison, it would be indicated that from 1994-95 to date, the Board has consistently lost each year an estimated 8% to 10% of all of its investment professionals to investment careers in the private sector.

Implications of the Salary Comparison and Staff Turnover Data

33. The private sector salary comparisons developed by the Board demonstrate a disparity between the average salaries paid by the Board to its investment professionals and the average of the median salaries paid to comparable professionals by what the Board views as a group of its private sector peer investment companies. The annual rates of the Board's identified unwanted investment staff departures to private sector investment management opportunities is estimated to be averaging 8% to 10% of total investment staff during the last four fiscal years.

34. The Board did not include any request or proposed initiative to address these problems in its budget request to the Governor and the Legislature. However, the Board believes that granting the agency the authority to make significantly higher bonus awards to its investment professionals would serve to reduce (but would not eliminate) the total compensation differentials between Board staff and its peer group private sector firms' staff compensation levels. The Board believes that the enhanced bonus award program would also help diminish the number of unwanted investment staff departures by making continued agency employment more attractive to highly performing investment staff.

35. Further, in addition to supporting the Governor's recommendation, the Board has now requested a total of $736,800 PR annually of additional base-building salary ($600,000 PR) and fringe benefits amounts ($136,800 PR) to address investment staff competitive salary problem.

36. A basic question that may be raised is whether both the Governor's enhanced bonus award program and the Board's new request for an additional base-building salary and fringe benefits increase aimed at reducing the "salary gap" differential will actually solve the Board's turnover problem. Further, if truly competitive salary levels are the key to that the Board believes must be addressed to ameliorate this problem, do further efforts at providing bonus compensation serve to effectively solve the problem?

Potential Solution to the Board's Concerns: Full Funding of the "Salary Gap"

37. Even if the Committee were to: (a) approve an enhanced bonus award program as recommended by the Governor for the Board's investment professionals; and (b) provide the level of base-building salary and fringe benefits funding that has now been requested by the Board, some of the "salary gap" as identified by the Board would still exist due to higher average salaries in the

private sector. Further, it is likely that some unwanted departures of agency investment staff to the private sector due to higher salaries would still occur, because the higher salaries for experienced staff will still be likely in private sector firms. Finally, if "staying competitive" with peer private sector firms is used as a standard at this time, it could be expected that additional salary and/or bonus program enhancements would continue to be made in the future by the Board, based on measures of competitive salary gaps.

38. Notwithstanding the above, it could be argued that if the principal issue which the Board has identified as contributing to its investment staff turnover problems is "competitive market salaries," then efforts ought to be focused on either addressing that sole issue or the Board should further explore alternative strategies for investment management of Board funds. Based on this view of the problem, the following could be considered.

39. Instead of approving the Governor's recommendation to establish an enhanced bonus award program, the Committee could address this persistent salary disparity issue by providing funding solely to eliminate the previously identified salary gap for most of the Board's investment professionals, first effective with the 2000-01 fiscal year. The total cost of this approach could be partially funded by using funding from eliminating the current bonus compensation award program after the 1999-00 fiscal year and by deleting the proposed enhanced bonus award program.

40. Under this alternative, the Committee could fully fund the identified salary gap for its investment professional staff at the investment director level and below, as shown in Table 1. This would require additional annual funding of $1,889,000 PR for salary and fringe benefit costs. Further, an additional $200,000 PR of salary increase funding could be provided to address likely pay compression issues that may arise related to existing salaries paid to the Board's Executive Director and the Chief Investment Officer. These actions would require total salary and fringe benefits funding of $2,319,700 PR in 2000-01. However, the elimination of funding for the current bonus award program beginning in the 2000-01 fiscal year (1999-00 funding is provided awards based on 1998-99 fiscal year performance) and the deletion of the enhanced bonus award program in the budget would provide offsetting cost reductions of $1,833,300 PR. Consequently, the net additional funding requirement under this alternative would be $486,400 PR in 2000-01.

41. The following points could be made in support this alternative:

- The elimination of the bonus award program could be justified on the grounds that it has not successfully addressed the salary and staff retention concerns that originally led to its creation and that no degree of future modification to this type of supplementary compensation program seems likely to address the basic issue claimed to be causing for staff turnover, namely "non-competitive" salaries.

- If the Board's explanation of the principal cause of investment staff turnover is accepted, then it can be argued that any proposed "solution" needs to address the salary gap problem head-on.

- Large numbers of public employers and Wisconsin Retirement System participants and annuitants rely on the Investment Board for favorable investment returns on the Fixed and

Variable Retirement Trust Funds. Favorable investment experience: (a) reduces the amount of employer-required pension contributions which in turn reduces the amount of funds which must be raised through tax levies for the employer contributions; (b) produces dividend payments for retirees; and (c) increases earnings posted to certain WRS active participant accounts. Arguably, the staff responsible for these investment responsibilities should receive competitive compensation to allow the Board to attract and retain a competent and experienced staff of investment professionals.

42. In the Board's view, if it is unable to recruit and retain experienced investment staff, it will likely be forced to resort to increased use of outside investment managers. In fact, in an issue discussed in a separate budget paper, the Governors' budget includes a recommendation to increase the limit on the amount of assets that may be placed by the Board with outside investment managers from the current 15% to 25%. The Board indicates that it currently does not expect to go significantly above the existing 15% maximum.

43. However, to illustrate the estimated comparative cost of using additional outside investment managers relative to increased salary funding for Board-employed staff, the following comparison may be made. The Board currently pays (not out of its budget but out of direct charges to investment earnings) approximately $19.8 million annually to outside equity portfolio managers. If it were assumed that a proportionate cost increase would result if the Board were to decide to go to the proposed 25% of funds to be handled by outside investment managers, the additional cost would be estimated at $15.3 million annually. This cost would be over six times greater than the proposed annual salary gap funding increase proposed in this alternative.

44. The following points could be made against adopting this alternative:

- The effort to completely address the Board's salary disparities for its professional staff will likely have an accompanying effect of creating significant differences in compensation levels between Board investment staff and other state employes.

- The elimination of the bonus award program would end the possibility of bonuses for Board employes who are not investment professionals.

- The elimination of the "salary gap" for Board investment professionals would require two years of funding during the 2001-03 biennium, and the additional costs would be deducted from the earnings that otherwise would be credited to the funds under management.

Potential Solution to the Board's Concerns: Enhanced Bonus Award Program for Investment Staff Only

45. *Board Employes Covered by the Enhanced Bonus Award Program.* As recommended by the Governor, the enhanced bonus award program would be designed to apply only to Board professional investment staff as determined by the Secretary of DOA. The staff that would remain under the current bonus program would be enumerated as the following unclassified staff: the Executive Director, the Internal Auditor, employes appointed by the internal auditor and other Board employes who are not "investment professionals" as determined by the Secretary of DOA. The Board has indicated that it believes the Executive Director should be included in the enhanced bonus award program. The Board's rationale for this requested modification is that the

Executive Director: (a) is ultimately responsible for the overall investment performance of the funds under management; (b) manages the process for determining how assets will be diversified; and (c) chairs the agency's risk committee, which reviews the investment strategies of each portfolio division. The Committee could specifically enumerate the Executive Director position as eligible for awards under the enhanced bonus program.

46. *Allocation of Bonus Award Amounts under the Existing Bonus Program and the Enhanced Bonus Program.* Under the proposed language establishing the enhanced bonus award program, it is ambiguous whether the bonus award amounts generated from the salaries of Board staff remaining under the existing bonus compensation program would be earmarked exclusively to those individuals or whether such funds could be allocated, in part, to help fund the enhanced bonus award program. If the former interpretation is correct, the Board's unclassified staff who are not investment professionals could also receive larger bonus awards under the current program as a result of establishing the parallel enhanced bonus program for investment professionals. Discussions with DOA staff indicate that this potential result was not intended. The Committee could clarify the proposed language by stipulating the total amount available for the bonuses would be the sum of 10% of the total annualized salaries of Board unclassified staff who are not investment professionals and 25% of the salaries of the Board's unclassified staff who are investment professionals.

47. *Payout Period for the Enhanced Bonus Awards.* Under the proposed enhanced bonus award program, the entire bonus award would be paid to qualifying investment staff in a single lump sum in the year following the year the meritorious performance occurred. Investment Board staff receiving an award under the current bonus compensation program would continue to have that award paid out over a three-year period. A main part of the original rationale for initially providing for a three-year payout under the current bonus compensation program was to provide some further incentive for staff to remain with the Board since the whole purpose of the bonus program was aimed at addressing retention issues. (Currently, staff departing to take positions in the private sector forfeit any pending second and third-year bonus payments.) Under the Governor's proposal, a lump sum bonus will added to an otherwise "under-paid" staff member's salary in one-year, but without a similar bonus payment in the next year, it could be argued that the perceived gap for that employe would be even larger in the succeeding year.

48. However, the Board indicates that private sector firms may offer to buy out a Board employe's owed but unpaid bonus amounts as part of a job offer. It is open to question, therefore, the extent to which the current three-year payout provision seems to provide a significant incentive for a employe to remain with the Board. The incentive effect on those employes who remain is unknown. Board staff also indicate that for those other states that provide bonus award programs (seven out of a total of 16 including Wisconsin, that were surveyed) those states distribute their awards as a single payment except for Oregon which also uses a three-year payout. Inasmuch as the Legislature has previously determined that the use of a three-year payout mechanism is appropriate for the current bonus award program, the Committee could modify the Governor's recommendation to apply this same payout provision to the enhanced bonus award program. If not, it could be argued that an identical payout timeline should be used for both the current bonus program and the proposed enhanced program.

49. *Funding and Initial Applicability.* The $555,700 PR annually recommended by the

Governor for the increased costs of the enhanced bonus award program does not provide any funding for the fringe benefits costs associated with the proposed program. Based on a revised listing of investment professionals that would be eligible for the enhanced bonus pool (this listing would include the Board's Executive Director), total funding of $673,400 PR annually for salaries ($548,400 PR) and fringe benefits ($125,000 PR) would be required to fully fund the program. The net additional funding to be added to the bill would be $117,700 PR annually. The Committee could add this funding.

50. Further, as proposed by the Governor, the enhanced bonus award program would first provide the enhanced bonus payments in 1999-00 to Board investment professionals for meritorious investment performance that has essentially already occurred during the current 1998-99 fiscal year. Since the purpose of the enhanced bonus compensation program is to encourage and reward superior investment performance, the argument can be made that the performance to be rewarded under the new program should be that which occurs once these professionals know in advance of their performance of the enhanced rewards available for superior investment performance. Therefore, the Committee could provide for the enhanced bonus program beginning in the 2000-01 fiscal year (which would provide funding to award performance that occurred in the 1999-00 fiscal year) and delete the $555,700 PR recommended by the Governor for the enhanced bonus program in 1999-00 (for performance essentially already completed this fiscal year, 1998-99). The corrected total funding level of $673,400 PR would then need to be provided to fully fund the enhanced bonus award program in 2000-01.

51. *Committee Approval of a Board Plan Governing the Distribution of Enhanced Bonus Award Amounts.* Under the proposal recommended by the Governor, the Investment Board would be required to adopt a plan governing the operation of the enhanced bonus program detailing: (a) the conditions for awarding the enhanced bonuses; (b) the percentage of total available bonus amounts that would be for investment performance and for meritorious performance; and (c) the specific criteria that would be employed in considering whether to award bonus compensation to a particular employe. When a similar plan was developed by the Board for the current bonus compensation program, no awards were permitted under that program until after the Committee had reviewed and approved the Board's plan.

52. The Committee could adopt a similar approach in this instance by transferring the funding provided for the enhanced bonus award program to the Committee's reserved supplemental PR appropriation, with the understanding that these funds could be released by the Committee after the Board submits its plan for the enhanced bonus compensation award plan to the Committee for approval under a 14-day passive review process.

53. *Other Considerations.* As recommended by the Governor, enhanced bonuses would be available to the Board's investment professionals for meritorious investment performance recognized pursuant to conditions specified under a plan developed by the Board. As a modification of the Governor's recommendation, the Committee could require that the additional 15% available in the enhanced bonus compensation plan awards be available for distribution, according to the Board's plan, in a range of specific amounts determined by the extent to which investment returns on the Fixed Retirement Trust Fund exceeded the established benchmark during a fiscal year.

54. Under this approach, the enhanced bonus award pool would be fully available for awards if the actual overall returns for the fixed fund exceeded the fund's benchmark by 100 basis points (equivalent to an additional 1% return) with proportionate amounts allocated for increased performance levels which fall between 1 and 99 basis points above the Fixed Fund benchmark, as illustrated in Table 3. The allocation of the additional bonus pool funds would be awarded only to those investment professionals who directly work on investment portfolios and whose portfolios exceeded their individual respective benchmarks.

TABLE 3

Enhanced Bonus Awards under Alternative Distribution Mechanism

Additional Bonus Pool Amounts (15% of Investment Professional Salaries): $548,400

Example Based on Performance Over Benchmark By:	% of Additional Bonus Pool Awarded	Additional Payment from 15% Bonus Pool (Salaries Only)
20 Basis Points (0.2%)	20%	$109,700
40 Basis Points (0.4%)	40	219,400
60 Basis Points (0.6%)	60	329,000
80 Basis Points (0.8%)	80	438,700
100 Basis Points (1.0%)	100	548,400

Potential Solution to the Board's Concerns: Partial Salary Gap Funding

55. In addition to any enhanced bonus award program alternatives considered by the Committee, the Committee could also act to provide the base building funding increase of $600,000 PR annually for salaries (with associated fringe benefits costs of $136,800 PR annually) for the agency's investment professionals, as was recommended by DER and subsequently requested by the Board as an addition to the Governor's budget.

ALTERNATIVES TO BASE

A. Proposed Enhanced Bonus Award Program

1. Approve the Governor's recommendation to: (a) establish an enhanced bonus award program for the Investment Board's investment professionals; (b) provide $555,700 PR annually in unallotted reserve, for release by DOA, for the increased costs of an enhanced bonus program; and (c) provide an additional $92,900 PR annually in unallotted reserve to fully fund the existing bonus compensation award program during the next biennium.

Alternative A1	PR
1999-01 FUNDING (Change to Base)	$1,297,200
[Change to Bill	*$0]*

The Committee may adopt one or more of the following modifications:

2. Modify the Governor's recommendations to establish an enhanced bonus award program by: (a) specifying that the Board's Executive Director would be eligible for awards under the enhanced bonus program; (b) clarifying that the total amount available for enhanced bonuses would be the sum of 10% of the total annualized salaries of Board unclassified staff who are not investment professionals and 25% of the salaries of the Board's unclassified staff who are designated by the Secretary of DOA as investment professionals; (c) specifying that the enhanced bonus awards would first apply to meritorious performance of investment staff in the 1999-00 fiscal year for which actual awards would first be made in the 2000-01 fiscal year and deleting $555,700 PR in 1999-00 to reflect the fact that no enhanced bonus awards would be made in that year; and (d) providing an additional $117,700 PR in 2000-01 (to provide total funding of $673,400 PR) to fully fund the potential enhanced bonus awards in that year; and (e) transferring the funding provided for the enhanced bonus award program to the Committee's supplemental appropriation and specify that these funds could be released by the Committee after the Board had submitted its enhanced bonus compensation award plan to the Committee for approval under a 14-day passive review process.

Alternative A2	PR
1999-01 FUNDING (Change to Base)	$859,200
[Change to Bill	*- $438,000]*

3. Adopt either 3a or 3b:

a. Provide that awards made under the enhanced bonus program would be distributed to an eligible employe over a three-year period, rather all in one year, as a lump sum award, as recommended by the Governor; or

b. Modify the existing bonus compensation award program to provide that awards to eligible employes would be distributed all in one year, as a lump sum award, rather than over a three-year period as provided under current law.

4. Modify the Governor's recommendation by specifying that the that the amount of funds distributed from the enhanced bonus award pool would be released in direct proportion to the amount by which the Fixed Retirement Trust Fund five-year average benchmark is actually exceeded during a fiscal year. Provide that an additional one percent of the enhanced bonus pool would be available for distribution for every basis point (0.1%) by which Fixed Retirement Trust Fund performance for a fiscal year exceeded the Fixed Retirement Trust Fund five-year average benchmark in that same fiscal year. Further, provide that the additional bonus pool fund could be awarded only to those investment professionals who worked directly on investment portfolios which exceeded their respective benchmarks.

B. Partial Funding of Board Investment Professionals Salary Gap

The Committee may adopt the following alternative in addition to any of the enhanced bonus award program alternatives adopted under A above.

1. Provide a base building funding increase of $736,800 PR annually ($600,000 PR annually for salaries and $136,800 PR annually for fringe benefits) to improve the salary structure for the Board's investment professionals.

Alternative B1	PR
1999-01 FUNDING (Change to Base)	$1,473,600
[Change to Bill	*$1,473,600]*

C. Full Funding of the Board's Investment Professionals "Salary Gap"

The Committee may adopt this alternative if it does not select the alternatives under A or B.

1. Modify the Governor's recommendation by: (a) eliminating the current bonus compensation award program after the 1999-00 fiscal year (-$721,900 PR in 2000-01); (b) deleting the proposed enhanced bonus award program (-$555,700 PR annually); (c) providing the total of these savings ($1,833,300 PR) plus additional funding of $486,400 PR in 2000-01 to allow the Board to adjust the salaries of its investment professional staff to respond to the Board's identified salary gap problem.

Alternative C1	PR
1999-01 FUNDING (Change to Base)	$1,690,700
[Change to Bill	*$486,400]*

Prepared by: Tony Mason

DOA:......Holden – Bonus compensation plan for SWIB employes

FOR 1999–01 BUDGET — NOT READY FOR INTRODUCTION

AN ACT ...; **relating to:** the budget.

Analysis by the Legislative Reference Bureau

STATE GOVERNMENT

STATE FINANCE

Under current law, the investment board (board) may establish a bonus compensation plan for the executive director and other employes of the board who are appointed in the unclassified service of the state. Under the plan, these employes may qualify for an annual bonus for meritorious performance, which is required to be distributed over a three–year period. Current law provides that total amount of bonuses awarded for any fiscal year may not exceed a total of 10% of the total annualized salaries of all unclassified employes of the board. In addition, no bonus awarded to an individual employe for any fiscal year may exceed a total of 25% of the annual salary of the employe. In awarding bonus compensation for a given period, the board must consider the performance of funds similar to those for which it has managing authority and market indices for the same period.

This bill authorizes the board to create two different bonus compensation plans for two different groups of employes. The first plan provides bonus compensation for the executive director, internal auditor, employes appointed by the internal auditor who are appointed in the unclassified service of the state and other employes of the board who are in the unclassified service but who are not investment professionals, as determined by the secretary of administration. This plan is identical to the bonus compensation plan established under current law, except that the total amount of bonuses awarded for any fiscal year may not exceed a total of 10% of the total annualized salaries of these employes.

The second plan provides bonus compensation for employes of the board who are in the unclassified service of the state and are investment professionals, as determined by the secretary of administration. The plan provides that total amount of bonuses awarded for any fiscal year may not exceed a total of 25% of the total annualized salaries of these employes. In addition, the plan provides that no bonus awarded to an individual employe for any fiscal year may exceed a total of 50% of the annual salary of the employe. Under the plan, there is no requirement that the bonus compensation must be paid out over a three–year period. The bill requires the board, in awarding bonuses to these employes, to consider the performance of funds similar to those for which it has managing authority and market indices for the same period.

For further information see the ***state*** fiscal estimate, which will be printed as an appendix to this bill.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

SECTION 1. 25.156 (6) (intro.) of the statutes is amended to read:

25.156 **(6)** (intro.) The investment board may provide a plan of bonus compensation for the executive director, internal auditor, employes appointed by the internal auditor who are appointed in the unclassified service and other employes of the board who are appointed in the unclassified service, other than employes eligible for the plan of bonus compensation provided under sub. (6m), whereby the employes may qualify for an annual bonus for meritorious performance. No such bonuses awarded by the board for any fiscal year may exceed a total of 10% of the total annualized salaries of all unclassified employes ~~of the board~~, other than employes eligible for the plan of bonus compensation provided under sub. (6m), at the beginning of the fiscal year. No bonus awarded by the board to any individual employe for any fiscal year may exceed a total of 25% of the annual salary of the employe at the beginning of the fiscal year. In awarding bonus compensation for a given period, the board shall consider the performance of funds similar to those for which it has managing authority and market indices for the same period. The board shall provide for a portion of the bonus compensation awarded under this subsection to be distributed to an employe over a 3–year period conditioned upon continuation of employment to the time of distribution, except as provided in sub. (7). Bonus compensation may only be awarded under this subsection pursuant to a plan adopted by the board that specifies all of the following:

SECTION 2. 25.156 (6m) of the statutes is created to read:

25.156 **(6m)** (a) The investment board may provide a plan of bonus compensation for employes of the board who are appointed in the unclassified service and who are investment professionals, as determined by the secretary of administration under par. (b), whereby the employes may qualify for an annual bonus for meritorious performance. No such bonuses awarded by the board for any fiscal year may exceed a total of 25% of the total annualized salaries of all employes who are investment professionals, as determined by the secretary of administration under par. (b), at the beginning of the fiscal year. No bonus awarded by the board to any individual employe for any fiscal year may exceed a total of 50% of the annual salary of the employe at the beginning of the fiscal year. In awarding bonus compensation for a given period, the board shall consider the performance of funds similar to those for which it has managing authority and market indices for the same period. Bonus compensation may only be awarded under this subsection pursuant to a plan adopted by the board that specifies all of the following:

1. The conditions under which bonus compensation will be awarded.

2. The percentage of the total available bonus compensation that will be awarded based upon beneficial investment performance and the percentage of such compensation that will be awarded based upon other meritorious performance.

3. The specific criteria that will be employed in considering whether to award bonus compensation to a particular employe.

(b) Annually, no later than June 30, the secretary of administration shall determine which employes of the board are investment professionals and eligible for the plan of bonus compensation provided under par. (a) for the succeeding fiscal year and shall report this determination to the board.

SECTION 3. 25.16 (7) of the statutes is amended to read:

25.16 **(7)** The executive director shall fix the compensation of all employes appointed by the executive director, subject to restrictions set forth in the compensation plan under s. 230.12 or any applicable collective bargaining agreement in the case of employes in the classified service, but the investment board may provide for bonus compensation to employes in the unclassified service as authorized under s. 25.156 (6) <u>and (6m)</u>.

SECTION 9127. Nonstatutory provisions; investment board.

(1) BONUS COMPENSATION PLAN FOR CERTAIN EMPLOYES OF THE INVESTMENT BOARD. Notwithstanding section 25.156 (6m) (b) of the statutes, as created by this act, the secretary shall, no later than October 1, 1999, determine which employes of the investment board are investment professionals and eligible for the plan of bonus compensation provided under section 25.156 (6m) (a) of the statutes, as created by this act, for the 1999–2000 fiscal year, and shall report this determination to the investment board.

(END)

State of Wisconsin
1999 – 2000 LEGISLATURE

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cmh

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LFB:......Mason – Abolish SWIB bonus compensation program

FOR 1999–01 BUDGET — NOT READY FOR INTRODUCTION

LFB AMENDMENT

TO 1999 ASSEMBLY BILL 133 AND 1999 SENATE BILL 45

At the locations indicated, amend the bill as follows:

1. Page 495, line 16: delete the material beginning with that line and ending with page 497, line 17, and substitute:

"SECTION **694c.** 25.156 (2) of the statutes is amended to read:

25.156 **(2)** The investment board shall employ an executive director, who shall serve outside the classified service. The executive director shall be qualified by training and prior experience to manage, administer and direct the investment of funds. The investment board shall fix the compensation of the executive director~~, and may award bonus compensation as authorized under sub. (6)~~.

History: 1979 c. 110; 1985 a. 332 s. 251 (1), (6); 1987 a. 399; 1991 a. 39; 1995 a. 274; 1997 a. 27, 35.

SECTION **694g.** 25.156 (6) of the statutes is repealed.

SECTION **694n.** 25.156 (7) of the statutes is repealed.

SECTION 694r. 25.16 (7) of the statutes is amended to read:

25.16 **(7)** The executive director shall fix the compensation of all employes appointed by the executive director, subject to restrictions set forth in the compensation plan under s. 230.12 or any applicable collective bargaining agreement in the case of employes in the classified service~~, but the investment board may provide for bonus compensation to employes in the unclassified service as authorized under s. 25.156 (6)~~.

History: 1979 c. 110, 221; 1985 a. 29; 1987 a. 27, 399; 1991 a. 39, 269, 316; 1995 a. 274; 1997 a. 27.

SECTION 694w. 25.165 (1) of the statutes is amended to read:

25.165 **(1)** There is created in the investment board an internal audit subunit, under the supervision of the internal auditor. The internal auditor shall report directly to the board and, subject to authorization under s. 16.505, shall appoint all employes necessary to carry out the duties of the internal auditor. The internal auditor shall appoint all employes outside the classified service, except blue collar and clerical employes. The internal auditor shall fix the compensation of all employes appointed by the internal auditor, subject to restrictions set forth in the compensation plan under s. 230.12 or any applicable collective bargaining agreement in the case of employes in the classified service~~, but the investment board may provide for bonus compensation to employes in the unclassified service as authorized under s. 25.156 (6)~~.".

History: 1995 a. 274.

2. Page 561, line 9: after that line insert:

"**SECTION 944m.** 40.63 (1) (c) of the statutes is amended to read:

40.63 **(1)** (c) The employe is not entitled to any earnings from the employer and the employer has certified that it has paid to the employe all earnings to which the employe is entitled, that the employe is on a leave of absence and is not expected to resume active service, or that the employe's participating employment has been terminated, because of a disability as described in par. (b) and as a consequence the employe is not entitled to any earnings from the employer. In this paragraph, "earnings" does not include bonus compensation to which the employe ~~is~~ was entitled under s. 25.156 (7) (a), 1997 stats.".

History: 1981 c. 96, 386; 1983 a. 141 s. 20; 1983 a. 191 s. 6; 1983 a. 290; 1985 a. 11; 1985 a. 182 s. 57; 1987 a. 303, 372; 1989 a. 13, 166; 1991 a. 39, 152; 1995 a. 27 s. 9130 (4); 1997 a. 3, 69.

3. Page 1410, line 2: delete lines 2 to 8 and substitute:

letter "g"

non stats.

"(1g) BONUS COMPENSATION PAID TO CERTAIN EMPLOYES OF THE INVESTMENT BOARD. Any employe of the investment board who was awarded a bonus before the effective date of this subsection under section 25.156 (6), 1997 stats., pursuant to a plan of bonus compensation adopted by the investment board, shall be entitled to receive any unpaid part of the bonus as provided under the terms of the plan of bonus compensation, provided that the employe satisfies all conditions specified in section 25.156 (6) and (7), 1997 stats.".

(END)

1999 – 2000 LEGISLATURE

LRBb0572/~~1~~ 2
RAC:cmh:mrc

Soon

RM has been run

LFB:......Mason – Abolish SWIB bonus compensation program

FOR 1999–01 BUDGET — NOT READY FOR INTRODUCTION

LFB AMENDMENT

TO 1999 ASSEMBLY BILL 133 AND 1999 SENATE BILL 45

At the locations indicated, amend the bill as follows:

1. Page 495, line 16: delete the material beginning with that line and ending with page 497, line 17, and substitute:

"SECTION **694c.** 25.156 (2) of the statutes is amended to read:

25.156 **(2)** The investment board shall employ an executive director, who shall serve outside the classified service. The executive director shall be qualified by training and prior experience to manage, administer and direct the investment of funds. The investment board shall fix the compensation of the executive director~~, and may award bonus compensation as authorized under sub. (6)~~.

SECTION **694g.** 25.156 (6) of the statutes is repealed.

SECTION **694n.** 25.156 (7) of the statutes is repealed.

SECTION **694r.** 25.16 (7) of the statutes is amended to read:

25.16 **(7)** The executive director shall fix the compensation of all employes appointed by the executive director, subject to restrictions set forth in the compensation plan under s. 230.12 or any applicable collective bargaining agreement in the case of employes in the classified service~~, but the investment board may provide for bonus compensation to employes in the unclassified service as authorized under s. 25.156 (6)~~.

SECTION 694w. 25.165 (1) of the statutes is amended to read:

25.165 **(1)** There is created in the investment board an internal audit subunit, under the supervision of the internal auditor. The internal auditor shall report directly to the board and, subject to authorization under s. 16.505, shall appoint all employes necessary to carry out the duties of the internal auditor. The internal auditor shall appoint all employes outside the classified service, except blue collar and clerical employes. The internal auditor shall fix the compensation of all employes appointed by the internal auditor, subject to restrictions set forth in the compensation plan under s. 230.12 or any applicable collective bargaining agreement in the case of employes in the classified service~~, but the investment board may provide for bonus compensation to employes in the unclassified service as authorized under s. 25.156 (6)~~.".

2. Page 561, line 9: after that line insert:

"**SECTION 944m.** 40.63 (1) (c) of the statutes is amended to read:

40.63 **(1)** (c) The employe is not entitled to any earnings from the employer and the employer has certified that it has paid to the employe all earnings to which the employe is entitled, that the employe is on a leave of absence and is not expected to resume active service, or that the employe's participating employment has been terminated, because of a disability as described in par. (b) and as a consequence the employe is not entitled to any earnings from the employer. In this paragraph, "earnings" does not include bonus compensation to which the employe ~~is~~ was entitled under s. 25.156 (7) (a), 1997 stats.".

3. Page 1410, line 2: delete lines 2 to 8 and substitute:

"(1g) BONUS COMPENSATION PAID TO CERTAIN EMPLOYES OF THE INVESTMENT BOARD. Any employe of the investment board who was awarded a bonus before the effective date of this subsection under section 25.156 (6), 1997 stats., pursuant to a plan of bonus compensation adopted by the investment board, shall be entitled to receive any unpaid part of the bonus as provided under the terms of the plan of bonus compensation, provided that the employe satisfies all conditions specified in section 25.156 (6) and (7), 1997 stats.".

(END)

Insert 3-13

1999–2000 DRAFTING INSERT
FROM THE
LEGISLATIVE REFERENCE BUREAU

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RAC:~~cjh~~:~~mfc~~

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3-13

Effective Date

1. Page 1474, line 1: after that line insert:

"(1g) ABOLITION OF BONUS COMPENSATION PROGRAM FOR CERTAIN EMPLOYES OF THE INVESTMENT BOARD. The treatment of sections 25.156 (2), (6) and (7), 25.16 (7), 25.165 (1) and 40.63 (1) (c) of the statutes and SECTIONS 9127 (1g) of this act take~~s~~ effect on July 1, 2000.".

(END OF INSERT)

State of Wisconsin
1999 – 2000 LEGISLATURE

LRBb0572/2
RAC:cmh:km

LFB:......Mason – Abolish SWIB bonus compensation program

FOR 1999–01 BUDGET — NOT READY FOR INTRODUCTION

LFB AMENDMENT

TO 1999 ASSEMBLY BILL 133 AND 1999 SENATE BILL 45

At the locations indicated, amend the bill as follows:

1. Page 495, line 16: delete the material beginning with that line and ending with page 497, line 17, and substitute:

"SECTION **694c.** 25.156 (2) of the statutes is amended to read:

25.156 **(2)** The investment board shall employ an executive director, who shall serve outside the classified service. The executive director shall be qualified by training and prior experience to manage, administer and direct the investment of funds. The investment board shall fix the compensation of the executive director~~, and may award bonus compensation as authorized under sub. (6)~~.

SECTION **694g.** 25.156 (6) of the statutes is repealed.

SECTION **694n.** 25.156 (7) of the statutes is repealed.

SECTION **694r.** 25.16 (7) of the statutes is amended to read:

25.16 **(7)** The executive director shall fix the compensation of all employes appointed by the executive director, subject to restrictions set forth in the compensation plan under s. 230.12 or any applicable collective bargaining agreement in the case of employes in the classified service~~, but the investment board may provide for bonus compensation to employes in the unclassified service as authorized under s. 25.156 (6)~~.

SECTION 694w. 25.165 (1) of the statutes is amended to read:

25.165 **(1)** There is created in the investment board an internal audit subunit, under the supervision of the internal auditor. The internal auditor shall report directly to the board and, subject to authorization under s. 16.505, shall appoint all employes necessary to carry out the duties of the internal auditor. The internal auditor shall appoint all employes outside the classified service, except blue collar and clerical employes. The internal auditor shall fix the compensation of all employes appointed by the internal auditor, subject to restrictions set forth in the compensation plan under s. 230.12 or any applicable collective bargaining agreement in the case of employes in the classified service~~, but the investment board may provide for bonus compensation to employes in the unclassified service as authorized under s. 25.156 (6)~~.".

2. Page 561, line 9: after that line insert:

"**SECTION 944m.** 40.63 (1) (c) of the statutes is amended to read:

40.63 **(1)** (c) The employe is not entitled to any earnings from the employer and the employer has certified that it has paid to the employe all earnings to which the employe is entitled, that the employe is on a leave of absence and is not expected to resume active service, or that the employe's participating employment has been terminated, because of a disability as described in par. (b) and as a consequence the employe is not entitled to any earnings from the employer. In this paragraph, "earnings" does not include bonus compensation to which the employe ~~is~~ was entitled under s. 25.156 (7) (a), 1997 stats.".

3. Page 1410, line 2: delete lines 2 to 8 and substitute:

"(1g) BONUS COMPENSATION PAID TO CERTAIN EMPLOYES OF THE INVESTMENT BOARD. Any employe of the investment board who was awarded a bonus before the effective date of this subsection under section 25.156 (6), 1997 stats., pursuant to a plan of bonus compensation adopted by the investment board, shall be entitled to receive any unpaid part of the bonus as provided under the terms of the plan of bonus compensation, provided that the employe satisfies all conditions specified in section 25.156 (6) and (7), 1997 stats.".

4. Page 1474, line 1: after that line insert:

"(1g) ABOLITION OF BONUS COMPENSATION PROGRAM FOR CERTAIN EMPLOYES OF THE INVESTMENT BOARD. The treatment of sections 25.156 (2), (6) and (7), 25.16 (7), 25.165 (1) and 40.63 (1) (c) of the statutes and SECTION 9127 (1g) of this act take effect on July 1, 2000.".

(END)