

### Fiscal Estimate - 2021 Session

Original     
  Updated     
  Corrected     
  Supplemental

<b>LRB Number</b> <b>21-5348/1</b>	<b>Introduction Number</b> <b>AB-0974</b>
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**Description**  
 Creating a 401Kids savings program and the 401Kids savings program trust fund; granting rule-making authority; and making an appropriation

**Fiscal Effect**

**State:**

- |   |   |  |
|---|---|--|
| <input type="checkbox"/> No State Fiscal Effect           | <input type="checkbox"/> Increase Existing Revenues | <input type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget |
| <input checked="" type="checkbox"/> Indeterminate         | <input type="checkbox"/> Decrease Existing Revenues | <input type="checkbox"/> Yes <input type="checkbox"/> No                                   |
| <input type="checkbox"/> Increase Existing Appropriations |   | <input type="checkbox"/> Decrease Costs  |
| <input type="checkbox"/> Decrease Existing Appropriations |   |  |
| <input type="checkbox"/> Create New Appropriations        |   |  |

**Local:**

- |  |  |   |
|--|--|---|
| <input type="checkbox"/> No Local Government Costs                     |  |   |
| <input type="checkbox"/> Indeterminate                                 |  |   |
| 1. <input type="checkbox"/> Increase Costs                             | 3. <input type="checkbox"/> Increase Revenue                           | <b>5. Types of Local Government Units Affected</b><br><input type="checkbox"/> Towns <input type="checkbox"/> Village <input type="checkbox"/> Cities<br><input type="checkbox"/> Counties <input type="checkbox"/> Others<br><input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts |
| <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory | <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory |   |
| 2. <input type="checkbox"/> Decrease Costs                             | 4. <input type="checkbox"/> Decrease Revenue                           |   |
| <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory | <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory |   |

**Fund Sources Affected** **Affected Ch. 20 Appropriations**

GPR   
  FED   
  PRO   
  PRS   
  SEG   
  SEGS

<b>Agency/Prepared By</b> SWIB/ Jay Risch (608) 261-2410	<b>Authorized Signature</b> Jay Risch (608) 261-2410	<b>Date</b> 2/23/2022
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## Fiscal Estimate Narratives

SWIB 2/23/2022

LRB Number	21-5348/1	Introduction Number	AB-0974	Estimate Type	Original
<b>Description</b> Creating a 401Kids savings program and the 401Kids savings program trust fund; granting rule-making authority; and making an appropriation					

### Assumptions Used in Arriving at Fiscal Estimate

#### Background on SWIB's Assets Under Management:

As of Dec. 31, 2021, the State of Wisconsin Investment Board (SWIB) managed over \$165 billion of trust fund assets. The largest portion of assets managed by SWIB, about 89%, is in the Wisconsin Retirement System (WRS) trust fund. About 10% is in the State Investment Fund (SIF), which is a pool of cash balances for state and local governments. The remaining 1% of total assets are in other separately managed trust funds. These other trust funds include the Injured Patients & Families Compensation Fund, the State Historical Society Fund, the University of Wisconsin System Trust Funds, and the State Life Insurance Fund.

#### Bill Summary:

2021 Assembly Bill 974 creates a 401Kids Savings Program and requires the Department of Employee Trust Funds (ETF) to establish and administer the program or to select a vendor to administer the program. AB 974 would require SWIB to invest the moneys belonging to the 401Kids savings program trust fund in a manner consistent with the guidelines established under s. 40.96 (2) (b), unless the moneys are under the management and control of a vendor selected under s. 40.96 (8).

#### Assumptions and Cost Estimate:

Should ETF select a vendor to manage a 401Kids Savings Program, SWIB expects it would incur little or no costs under AB 974 as drafted.

Should ETF choose to administer the program without a vendor, SWIB would be required to invest the moneys belonging to the 401Kids savings program trust fund in a manner consistent with the guidelines established under s. 40.96 (2) (b) of the bill.

SWIB would likely manage the assets of this new fund in a manner similar to the way SWIB currently manages its other separately managed funds, which are predominantly invested in low-cost passive index funds. However, the separately managed funds SWIB currently manages all generally have a stable and long-term asset allocation strategy. If ETF were to develop a program that gave individual account holders choices in asset allocation rather than a single "one-size-fits-all" option, that would raise the cost of administering the program significantly.

SWIB charges various fees and costs to separately managed funds to comply with statutory requirements and its fiduciary duty to each of the trust funds under its management. SWIB expects its management fee for a 401Kids savings program trust fund to be about 5.5 basis points (bps) on the annual average assets under management (AUM). (One basis point is equal to 0.01 percent, 1/100th of a percent, or 1 cent for each \$100.) Custody fees would likely be about 0.11 bps on the fund's annual average AUM. Middle office fees (risk management, IT, etc.) would likely be 0.36 bps on the fund's annual average AUM. Custody fees and middle office fees can change from year to year.

Depending on the investment needs of the trust fund, external asset managers could charge fees up to 14 bps or more on AUM invested in passively managed funds. Some fee schedules are structured in tiers such that as AUM grows, the basis point fee rate decreases when AUM reaches the next tier.

SWIB may also need to engage an asset allocation consultant to review the 401Kids Savings Program's investment needs and recommend an appropriate asset allocation. The initial cost for this review would be approximately \$50,000 - \$100,000 and should be revisited every 1-2 years (at an additional cost of about \$25,000 per review).

If the 401Kids program allows for individual choice among investment options and the ability to change elections periodically, SWIB would need to add staff to manage the inflows of assets and movement among portfolios. The annual cost to SWIB could be \$500,000 to 1 million per year (including compensation, benefits,

IT, and research related services), depending on the number of additional staff that are needed based on the particulars of the program.

### **Long-Range Fiscal Implications**