

Fiscal Estimate - 2025 Session

Original Updated Corrected Supplemental

LRB Number 25-1552/1		Introduction Number SB-0027	
Description requiring state employees to perform their work at the offices of their employer			
Fiscal Effect State: <input type="checkbox"/> No State Fiscal Effect <input type="checkbox"/> Indeterminate <input type="checkbox"/> Increase Existing Appropriations <input type="checkbox"/> Increase Existing Revenues <input checked="checked" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget <input type="checkbox"/> Decrease Existing Appropriations <input type="checkbox"/> Decrease Existing Revenues <input type="checkbox"/> Yes <input checked="checked" type="checkbox"/> No <input type="checkbox"/> Create New Appropriations <input type="checkbox"/> Decrease Costs			
Local: <input type="checkbox"/> No Local Government Costs <input type="checkbox"/> Indeterminate 1. <input type="checkbox"/> Increase Costs 3. <input type="checkbox"/> Increase Revenue 5. Types of Local Government Units Affected <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Towns <input type="checkbox"/> Village <input type="checkbox"/> Cities 2. <input type="checkbox"/> Decrease Costs 4. <input type="checkbox"/> Decrease Revenue <input type="checkbox"/> Counties <input type="checkbox"/> Others <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts			
Fund Sources Affected <input type="checkbox"/> GPR <input type="checkbox"/> FED <input checked="checked" type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEGS		Affected Ch. 20 Appropriations	
Agency/Prepared By SWIB/ Jay Risch (608) 261-2410		Authorized Signature Jay Risch (608) 261-2410	Date 2/21/2025

Fiscal Estimate Narratives

SWIB 2/21/2025

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Assumptions Used in Arriving at Fiscal Estimate

BACKGROUND ON SWIB AND THE WRS:

As of December 31, 2024, SWIB managed more than \$162 billion of total assets, approximately 86% of which are in the Wisconsin Retirement System (WRS). The WRS consistently ranks among the 10 largest public pension funds in the U.S. and is one of the few that is fully funded.

The Core Fund, the larger of the two WRS trust funds with more than \$128 billion in assets, ended 2024 with a preliminary one-year net return of 8.5% and a preliminary five-year net return of 7.2%. The Core Fund's 10-year and 20-year returns, net of external manager fees, continue to exceed its target return of 6.8% with SWIB outperforming the Core Fund benchmark for all these periods. The Variable Fund, an optional stock-only fund with more than \$11 billion in assets, ended 2024 with a preliminary one-year net return of 18.7% and preliminary five-year net return of 10.9%. The Variable Fund's 10-year and 20-year returns, net of external manager fees, were 10.4% and 8.7%, respectively.

HIGHLY SKILLED SWIB STAFF IS CRUCIAL TO WRS'S SUCCESS:

SWIB diversifies its assets among many types of public and private investments and actively manages its assets both internally and externally to grow and protect the WRS trust funds. Over the last 20 years, SWIB's active management and diversification generated over \$15 billion for the Core Fund above what would have been earned in a low-cost passive portfolio consisting of 60% global equities and 40% domestic bonds. Further, SWIB's investment management has added value to the WRS trust funds of more than \$4 billion above benchmark returns over the five years ending December 31, 2024. To achieve these outcomes, SWIB hires professionals, the majority of whom have specialized education, expertise, skills, and knowledge to perform the work.

SWIB'S HYBRID WORK POLICY BENEFITS WRS PARTICIPANTS:

All SWIB employees are unclassified and no employee is fully remote. SWIB is not a customer-facing state agency, yet almost 75% of SWIB's 259 current employees work in SWIB's Madison office three days per week or more. The remaining employees are also required to maintain a regular presence in our office that varies based on the residence of the employee.

SWIB's hybrid work policy, adopted June 1, 2022, has been a critical factor in the agency's success in recruiting talented and high-performing investment professionals, which ultimately benefits WRS participants. Since COVID, hybrid work arrangements have become standard in the investment industry. SWIB competes with well-known firms in the investment industry in financial centers and, in order to be competitive in the talent market, it must be able to offer some level of hybrid work. SWIB's hybrid work policy has allowed the agency to hire talent previously unavailable to SWIB as it is not located in a U.S. financial center. Without the ability to offer a hybrid work environment, SWIB is concerned it could lose up to 50 employees with very in-demand skills, especially in difficult-to-fill positions in IT and internally run active investment strategies. For example, SWIB's top three technology, data, and cybersecurity leaders would all be at risk of leaving SWIB if they could not keep their current hybrid schedules, in addition to many other technology and data staff. As another example, SWIB recently assembled a team of investment professionals who run an active internal fixed income investment strategy, which earned \$42 million in profits in 2024 for the WRS. Per SWIB policy, four members of this eight-person team work from SWIB's office either one or two days per week. This internal team manages approximately \$8.5 billion dollars of assets. However, they live far enough away from SWIB's office, and have other opportunities in nearby financial centers, that SWIB believes it would be unlikely to retain these employees for the long term if they were required to be in SWIB's office five days a week. Losing these employees would limit SWIB's ability to manage this strategy internally. SWIB's independent cost consultant estimates that external managers for similar investment strategies cost five times more than SWIB's internal team. If SWIB could not retain its internal team, it would need to hire external managers to run the strategy, which could cost upwards of \$20 million dollars or more annually.

COST ESTIMATE:

In addition to the impact on SWIB's operations and investment strategies, paying full-time employees is generally more cost-effective than hiring contractors or external managers. In previous audits of SWIB, the Legislative Audit Bureau has recommended SWIB decrease its reliance on contractors to perform typical business operations. SWIB has meaningfully reduced the number of contractors it has relied on over the years, and it continues to actively look for opportunities to further reduce those that remain. IT contractors are generally more expensive than FTEs with an average hourly rate of \$132 and up to \$210 per hour depending on contractor's specific skills.

Until SWIB could fully rehire the talent that may be lost, some level of additional contractors would be required. SWIB would likely need to hire at least 10-20 contractors to augment its current staff. The average annual cost of 10-20 contractors would be \$2,828,800 to \$5,657,600. Additionally, because SWIB requires specialized expertise for many positions, SWIB may, after its own search efforts were exhausted, need to hire third-party search firms to secure the necessary talent for some positions. These searches are costly.

Finally, and as referenced above, if SWIB is required to alter or shut down internal investment strategies and hire additional external managers to run all or portions of certain strategies it currently runs internally, the costs would be in the tens of millions and it could impact returns SWIB produces annually for the WRS.

Long-Range Fiscal Implications