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May 3, 2011 Joint Committee on Finance Paper #410

Adjustment for Employee Benefit Contributions (Investment Board)

[LFB 2011-13 Budget Summary: Page 266, #1]

CURRENT LAW

The Board's general program operations are funded from a program revenue continuing appropriation account that receives assessments from the funds managed by SWIB, as described below.

Under s. 25.187 of the statutes, the agency's budget for a fiscal year may not exceed the greater of the amount that the Board could have assessed the trust funds in the second year of the prior fiscal biennium or 0.0325% of the average market value of the assets of the funds at the end of each month between November 30 and April 30 of the preceding fiscal year. The average month-end market value of assets under management for the period November 30, 2009, through April 30, 2010, was $78,835 million. Because 0.0325% of this amount (approximately $25.6 million) is lower than the amount that the Board could have assessed the trust funds in the second year of the prior fiscal biennium ($30,022,600), the budget authority for the 2010-11 adjusted base year is established at $30,022,600.

Under current law, the actual budget levels for the 2011-12 fiscal year will be determined by the greater of the amount that the Board could have assessed the trust funds in 2010-11 ($30,022,600) or 0.0325% of the average month-end market value of assets under management for the period November 30, 2010 through April 30, 2011. The actual budget levels for the 2012-13 fiscal year will be determined by the greater of the amount that the Board could have assessed the funds in 2010-11 ($30,022,600) or 0.0325% of the average month-end market value of assets under management for the period November 30, 2011, through April 30, 2012.

GOVERNOR

Delete $1,134,000 PR annually to reflect fringe benefit cost reductions associated with increased state employee contributions for Wisconsin Retirement System (WRS) benefits and health insurance coverage. The calculation of retirement savings is based on employee WRS contributions equal to 5.8% of salary. Health insurance cost reductions are based on employees paying an average of approximately 12.6% of total premium costs, compared to the current average of approximately 6% of costs.

DISCUSSION POINTS

1. The SWIB funding mechanism is intended to provide a stable base of operational funds for the agency that can increase as investment assets grow, but also establishes a funding floor for operations in periods of market decline.

2. The floor (the amount that the Board could have assessed the trust funds in the second year of the prior fiscal biennium) is currently in effect because the market losses of 2008 significantly reduced investment assets. The assets reported as the basis for the 2010-11 assessment ($78.835 billion) would have provided $25.6 million for operations under the 0.0325% calculation described above. This would be a $4.4 million reduction to the current floor of $30.0 million.

3. The Governor's provision would delete $1,134,000 PR annually from SWIB's general program operations appropriation account to reflect the reduction in fringe benefit costs. However, because the appropriation account is a program revenue continuing appropriation, the amounts in the schedule are an estimate of the amount that will be expended in a given fiscal year. While the Chapter 20 appropriation schedule reflects the reduction for the fringe benefit savings, SWIB would retain the ability to assess the funds and expend up to $30 million annually in the 2011-13 biennium.

4. It could be argued that, to ensure that the cost reductions specified in the bill actually result in the intended savings, the SWIB assessment authority (the moneys the agency may charge the respective funds under management) should be reduced to reflect the new employee payments for fringe benefits. Under this alternative, the statutory formula for setting the amount that the funds can be assessed (the amount assessed in the second year of the prior fiscal biennium or 0.0325% of the average market value of the defined assets, whichever is greater) would be modified to provide that the amount that SWIB may assess the funds under the current law provision be reduced in any fiscal year by an amount equal to the contributions made by SWIB employees for retirement and health insurance benefits in the prior fiscal year. In addition, to implement the provision in the first year, a nonstatutory provision would specify that the amount that SWIB may assess the funds in 2011-12 be reduced by $1,134,000 to reflect fringe benefit cost reductions associated with increased state employee contributions for retirement and health insurance benefits. [Alternative 2]

This treatment would be similar to that of other state agencies whose 2011-13 appropriations are reduced to account for the savings due to fringe benefit cost reductions associated with increased employee contributions for WRS benefits and health insurance coverage.

5. On the other hand, the Committee may wish to leave the current law provision

unmodified to provide SWIB with the ability to assess the funds under management the full amount currently authorized ($30.0 million annually in the 2011-13 biennium) to ensure that the agency has greater flexibility to address its operational needs in the current uncertain economic environment. [Alternative 1]

ALTERNATIVES

1. Approve the Governor's provision to delete $1,134,000 PR annually to reflect fringe benefit cost reductions associated with increased state employee contributions for Wisconsin Retirement System benefits and health insurance coverage.

2. In addition to Alternative 1, provide that the amount that SWIB may assess the funds under the current law provision be reduced in any fiscal year by an amount equal to the contributions made by SWIB employees for retirement and health insurance benefits in the prior fiscal year. Further, create a nonstatutory provision to specify that the amount that SWIB may assess the funds in 2011-12 under the statutory formula be reduced by $1,134,000 to reflect fringe benefit cost reductions associated with increased state employee contributions for retirement and health insurance benefits.

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