State Retirement Funds Bear Careful Watching

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More than one out of ten Wisconsinites participates as a current or former state or local government employee. Senator Kathleen Vinehout writes about the Wisconsin Retirement System and the State of Wisconsin Investment Board.

MADISON - “What’s going on with the state retirement system?” the retired woman asked me. She’d started a business but needed retirement income to keep things going. “Wisconsin’s system is the best funded in the country,” I told her. “But we’ve got to carefully watch what happens there.”

More than one out of ten Wisconsinites participates in the Wisconsin’s Retirement System (WRS) either as a current or former state or local government employee. Countless more family members depend on a well-run system to keep their aging relatives out of poverty.

As reported by the La Crosse Tribune in June of 2012, “Wisconsin is the only state in the nation to receive high marks for its public employee pension system.” The article commented on work of the Pew Center for States. Over the years Pew has released several reports analyzing states’ obligation to their employees. Many states have a large funding gap but not Wisconsin.

Much confusion exists as to why Wisconsin is so far ahead of other states. The La Crosse Tribune article reminds us, “The ‘solid performer’ ranking is for fiscal year 2010. That’s before Republican Gov. Scott Walker and the Legislature required public employees to contribute more to their pensions.” Some of the action to protect funds happened late in the last decade despite the recession.

The answer to why Wisconsin is so far ahead of other states in funding retirement lies in the unusual ‘self-righting’ WRS formula that adjusts based on investment returns. Another success factor is the strict discipline WRS follows in collecting contributions. A third factor is action taken in 2003 when the Governor and Legislature authorized General Fund bonds to eliminate the WRS unfunded liability.

Cost to taxpayers is kept low – according to a 2012 state report – “the portion of state and local government budgets allocated to retirement costs was only 1.26%”. Compare this to 2.9% nationally using US Census Bureau data.

Recently the Audit Committee, of which I am ranking minority member, held a public hearing reviewing the agency that manages money in the state’s retirement system. We learned details of an important but relatively unknown part of government that oversees investments known as the State of Wisconsin Investment Board or SWIB.

The Investment Board is to – by law - “manage investment assets with the care, skill, prudence, and diligence that a prudent person would exhibit acting in a similar capacity with similar resources, and for similar types of funds.” As of calendar year 2013, SWIB had an operating budget of $34.9 million and managed assets totaled $101.3 billion. This is by far the largest fund in any part of state government.

Because the retirement system is a ‘mature’ system – meaning the number of retirees is expected to be increasing – the money in the system is necessarily very large. WRS funds make up most of the fund SWIB manages. WRS funds total $93.7 billion.

The role of the Audit Committee in overseeing the activities of the Investment Board took on new meaning when the Governor and the Legislature reduced legislative oversight of SWIB. Those voting for the 2011 budget gave SWIB power to create staff positions and set its own budget. This is highly unusual.

At the recent hearing, members quizzed SWIB officials about rising operating and investment costs, increased risky and expensive investments and poorer performance as measured by one-year and three-year returns compared to nine other states’ pension investments.

Money going to salaries, bonuses and other expenses comes out of investment earnings. SWIB saw a 55.7% increase in operating expenses over a 4 year period (from 2009 to 2013). This increase was during the Great Recession when many public employees saw no raises, took unpaid furloughs, and retirees took deep cuts.

A large part of the increase in the operating budget was due to increases in bonuses – one totaled $660,400! Officials argued that keeping good employees requires an investment.

I'd argue investing in good employees includes helping them through retirement. Changes in the autonomy of the Investment Board makes it doubly important the public and the Legislature keep a close eye on the money invested and those doing the investing.

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