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Wisc. Pension Touts Internal Mgmt for Performance, Cost Savings

By Fola Akinnibi April 17, 2018

The $117 billion State of Wisconsin Investment Board (SWIB) unveiled an $11.6 million bonus compensation package for its staff, rewarding them for five-year performance that beat the market by nearly $760 million.

SWIB was able to do this because it has freed itself from the political constraints faced by other pensions, gaining an unusual level freedom and flexibility. SWIB's board can determine its own incentive compensation, staffing levels and other budgetary decisions without seeking prior sign off from legislature.

SWIB touted its large internal management team as part of the reason for its market-beating performance. The state investment system has a 161-person staff, 71 of which are investment managers, running about 62% of the fund in-house, according to a spokesperson.

"Managing a successful lower cost internal management program requires the ability to attract, hire and retain qualified professionals," SWIB board chair **David Stein** said in a statement. "SWIB's compensation plan has resulted in the creation of a talented and skilled workforce."

A spokesperson says that 85% of the $11.6 million bonus payout based on five-year results, though the investment system reports bonus payouts every year. Last year, SWIB reported $13.8 million in bonuses, $11.1 million in 2016, $11.9 million in 2015 and $13.3 million in 2014, according to the spokesperson.

The investment board manages, among other things, the state's pension dollars as an independent state agency. When it began bringing assets in-house more than a decade ago, it only managed about 21% of its assets internally, a spokesperson says.

In the beginning, the fund had to go through legislature for staffing, budgeting and compensation issues. However, it began to work with legislature and wrest those powers away beginning in 2011, the spokesperson says.

Now, it has the flexibility and freedom that allows it to find ways to bring even more money internally, the spokesperson continues.

For other large systems, the process is much more politically fraught.

In February, the $147.4 billion Teacher Retirement System of Texas (TRS) CIO **Jerry Albright** announced a plan to hire 120 new staff members over the next five years or so to increase internal management capabilities and rein in costs, as reported.

"We're trying to make a transition away from some external management and bring more of those resources in-house, particularly in the alternatives area," TRS executive director **Brian Guthrie** said at the annual Pension Bridge conference in San Francisco. "This is something that will require us to probably double the size of our investments team over the next five or six years."

TRS, like SWIB, has control over budget and general compensation level. However, it does not have control over staffing levels. For that, the pension must go to the legislature — and increased staffing can be a tough sell politically.

“It doesn’t matter if it’s our dollars that we’re spending on these new positions, [the legislature just doesn’t] like adding headcount,” Guthrie said at the conference. “The last time I went to the legislature asking for new positions, I asked for 20 and I got five. Asking for 120 is probably going to create sticker shock.”

But, the savings from moving to this sort of structure can be significant.

SWIB’s annual operating budget, including employee compensation is $55.7 million. However, the extra spending on internal management saves it about $72 million annually over what a similar fund would pay to manage the assets, according to a statement.

Despite the potential political roadblocks, Albright says he is committed to the process and is willing to go to bat for the plan.

“We do believe — and are prepared to make the business case for — that bringing more management in-house will help meet our goals of increasing alpha and reducing costs,” Albright said in an emailed response to questions. “If the decision makers don’t have the appetite for the proposal, then we’ll continue the dialogue and possibly look at other ways to achieve our goals.”