



STATE OF WISCONSIN

Department of Employee Trust Funds

Eric O. Stanehfield

Secretary

801 West Badger Road

P.O. Box 7931

Madison, WI 53707-7931

December 28, 2000

Honorable Brian Burke
Senate Chair
Joint Committee on Finance
316 South, State Capitol
Madison, WI 53702

Honorable John Gard
Assembly Chair
Joint Committee on Finance
315 North, State Capitol
Madison, WI 53702

Dear Senator Burke and Representative Gard:

As required by s. 40.98(2)(a)2., Wis. Stats., the Department of Employee Trust Funds (Department) submits this report specifying the Department's reasons for not entering into a contract for administration of the Private Employer Health Care Coverage Program (Program) before January 1, 2001. Since we were not able to obtain the services of a qualified vendor, coverage will not be available through the Program by the effective date set by the Legislature.

The Department's Office of Private Employer Health Care Coverage (Office), as required by 1999 Wisconsin Act 9, initiated a procurement process to select a vendor of administrative services for the Program. The deadline for submission of proposals in response to the Office's Request for Proposals (RFP# ETA0006) has passed, and, contrary to expectations, no proposals were received.

Given the importance of the contemplated services to the success of the Program, careful attention was paid to developing the RFP. Office staff consulted with the Institute for Health Policy Solutions (IHPS), a Washington DC-based non-profit organization with particular interest and expertise in employee-choice health purchasing arrangements, to ensure that the criteria by which proposals would be evaluated were consistent with successful efforts in other states. The Office of the Commissioner of Insurance and Department of Health and Family Services were also consulted.

The Office hosted a procurement briefing in advance of releasing the RFP, to provide background about the procurement and solicit input about the process. A draft of the RFP was circulated to interested administrative vendors for comment before its final release on November 13, 2000.

Since the proposal submission deadline, Program staff have solicited feedback from potential administrators to identify barriers to their participation. The enclosed "Potential Vendor Feedback Regarding RFP# ETA0006" provides detailed comments from potential vendors. To summarize, their primary concerns include:

Health Plan Contracting: According to s. 40.98 (2) (a) 3., Wis. Stats., the administrator is required to contract with health plans to offer coverage under the program. Vendors expressed reservations about committing resources without a better understanding of health plan interest. In one vendor's words, "All of the cost and all of the risk of getting the program up and running [is placed] on the administrator." Another vendor opined, "The State would be in the best negotiating position since [Wisconsin health insurers] currently insure State employees."

Funding and Commitment: Several vendors questioned the State's commitment to the program, indicating that existing appropriations and position authorizations greatly underestimate the resources necessary to launch such a program statewide. According to one vendor, "The program is under-funded and has strong performance expectations from the Legislature. We [are] fearful that we would spend a lot of time, effort and money and either not get health plan buy in or not get continued funding."

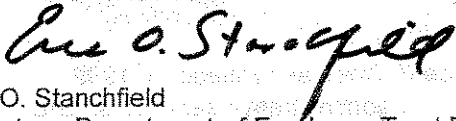
Underlying Market Dynamics: Similar employee-choice programs have been successful in states with considerably tighter restrictions on the rates health insurers may charge small

businesses. Wisconsin's broader "rate bands" complicate the administration of such a program. "It seems you've got a conflicting situation," said one potential administrator. "On the one hand [the Legislature wants] an employee-choice program, but on the other hand, there's such a wide corridor of acceptable rating, that makes it very, very difficult for health plans/carriers to be comfortable and therefore difficult for an administrator to be able to bring health plans in..."

Vendor feedback will be used to determine how to restructure the RFP to obtain the services of a qualified administrative vendor, if possible. Specifically, can the RFP or Program expectations be modified sufficiently within current statutory requirements to encourage competitive proposals? Or will it be necessary to submit to the Legislature a request for additional funding for the administrator and/or proposed statutory changes to the Program's underlying design? The Department will carefully evaluate how to proceed in developing an actuarially sound program with coverage available as soon as possible.

Please contact Phillip Borden, Director of the Office of Private Employer Health Care Coverage, if you would like additional information about the Private Employer Health Care Coverage Program.

Sincerely,



Eric O. Stanchfield
Secretary, Department of Employee Trust Funds

EOS:abo

Enclosures

cc: Private Employer Health Care Coverage Board



STATE OF WISCONSIN

Department of Employee Trust Funds

Eric O. Stanchfield

Secretary

801 West Badger Road

P.O. Box 7931

Madison, WI 53707-7931

December 29, 2000

TO: Legislative Leadership

Sen. Fred Risser, President of the Senate, 220 South
 Sen. Charles Chvala, Senate Majority Leader, 211 South
 Sen. Rodney Moen, Assistant Majority Leader, 8 South
 Sen. Mary Panzer, Minority Leader, 202 South
 Sen. Margaret Farrow, Assistant Minority Leader, 106 South

Rep. Scott Jensen, Speaker of the Assembly, 211 West
 Rep. Steven Foti, Assembly Majority Leader, 215 West
 Rep. Bonnie Ladwig, Assistant Majority Leader, 113 West
 Rep. Shirley Krug, Minority Leader, 201 West
 Rep. Spencer Black, Assistant Minority Leader, 219 North

RE: Private Employer Health Care Coverage Program

We are writing to bring to your attention some serious problems that may jeopardize the future of the Private Employer Health Care Coverage Program, and to seek your help and guidance in resolving those problems. The provisions in 1999 Wisconsin Act 9 that created the program set January 1, 2001 as the expected start date of this program. Despite diligent efforts on the part of the Department, that start date will not be met.

There are several issues that need immediate attention if this program is to survive. Foremost among these is the anticipated shortfall of adequate funding for program staff and operations. 1999 Wisconsin Act 9 allocated only \$200,000 for operations and granted the Department authority to collect fees from the premiums of participants to fund ongoing operations. Because the program is not operational and no premiums are being collected, there are no funds to supplement the original appropriation. Without additional funding, the Department will have to suspend operation of the Office of Private Employer Health Care Coverage before the end of the current fiscal year.

As required by the Act, the Department developed and released a comprehensive Request for Proposals (RFP) to secure a vendor to provide administrative services for the program. There were no responses to the RFP. We contacted several vendors who had earlier indicated an interest in the program and asked why they declined to bid. (Vendor comments are detailed in an attachment to this letter.) Most frequently, their replies cited the following key problem areas:

- Concerns that the administrator, rather than the State, is required to secure and hold the contracts with participating health plans.
- Concerns about inadequate funding available to the administrator to cover the costs of program start-up and initial marketing.
- Concerns over certain program requirements that may limit any likelihood for program success.

Consistent with the original vision of the law, we had hoped that we could develop a program that would be operated and administered predominantly by the private sector with only minimal oversight and involvement by the State. It now appears that, to get the program up and running, the State must play a much larger role, at least initially.

If the Legislature does not wish to repeal this law, we feel that it is necessary to take immediate action to make adequate funding available and enact some adjustments to the program requirements.

The Department will need its current appropriation supplemented by \$141,600 GPR in fiscal year 2001 to enable it to:

- Continue current program operations through the end of the fiscal year and fill the remaining position authorized in 1999 Wisconsin Act 9, to handle information requests and staff the toll-free telephone line required in the Act (\$41,600).
- Secure actuarial and legal assistance in developing and negotiating contracts with insurers in the State to provide coverage under the program (\$50,000 for contracted actuarial services and \$50,000 for contracted legal services).

To assure that adequate funding is available for implementation and initial operations of the program, the Department recommends that program funding of \$285,000 GPR be provided in the first year of the upcoming biennium. Once operational, the program is intended to be funded through fees paid by participants.

We also recommend that:

- Statutory changes be enacted to specify that the Department will initially secure and hold the contracts with the health insurers, thereby relieving one of the key concerns of the prospective administrators and increasing the likelihood of a successful bid process.
- Additional funds of \$315,000 GPR be made available to supplement the \$200,000 grant provided in Act 9 for the purposes of marketing the program.
- The Private Employer Health Care Coverage Board be given greater authority to determine key program requirements in order to respond to health insurance market dynamics and health plan negotiations.

We have detailed the budget requirements in an attachment to this letter.

Finally, we recommend that the Legislature consider more fundamental changes that would increase the likelihood of success of this program. The small employer health insurance market has become very volatile of late, with several insurers either leaving the market or drastically increasing their premium rates to their current customers. As a way of mitigating this, the State could agree to continue funding the administrative costs of this program, including all marketing and advertising, the costs of the administrator and the Department, and the cost of agent commissions. These costs typically represent between 10% to 20% of the premium costs, and represent a significant part of the difference in the costs paid by small employers versus the cost of insurance to large employers who frequently self-insure their employees. Alternatively, the State could establish a reinsurance program for insurers who participate in the program to relieve their concerns about adverse selection. The portion of premium allocated to risk charges for the small group market is much higher than for comparable coverage for large groups, primarily because of the uncertainty and volatility of the participant base. These two approaches could be combined to provide even greater likelihood of this program's success. We would be happy to talk with you further if you have any interest in these strategies.

Thank you for the opportunity to present these issues and to ask for your help. The Department remains committed to the success of this program and will continue to devote our best efforts to carry out the intent of the Legislature. We would be happy to meet with you if you have any questions and to work with you to secure passage of the requested legislation.

Sincerely,

Eric O. Stanchfield
EH

Eric O. Stanchfield, Secretary

Enclosures

Administrative and Marketing Costs for the Private Employer Health Care Coverage Program
Potential Vendor Feedback Regarding RFP# ETA0006
A Report to the Legislature Describing Status of the Program

cc: Senator Roger Breske
Representative Lorraine Seratti
Representative Marc Duff
Private Employer Health Care Coverage Board

**13.10 Meeting
April 24, 2001
Agenda Item XI**

Issue: Employee Trust Funds – Request for Additional Funds to Support Continuing 1999 Wisconsin Act 11 Implementation Preparations

Staff Recommendation: Alternatives 2 and 3 together

Comments:

ETF is requesting \$1,121,100 SEG to support anticipated administrative costs associated with the retirement benefit improvement provisions in 1999 Wisconsin Act 11. The law would have become effective in late 1999, but a Supreme Court challenge has put all the provisions on hold.

LFB says the request is reasonable, assuming the Court will uphold the majority of provisions outlined in the law. They suggest approving the request at a slightly reduced level (\$1,055,700 SEG – to reflect \$285,300 SEG of unobligated balance available to the Department). Alternative 2 contains this adjustment.

Alternative 3 just seems like a good idea. It puts a portion of the request (\$316,000 SEG) in unallotted reserve to be released to the Department based on the timing of the Court decision. ETF was able to identify certain expenses in their request which would not likely be expended in this fiscal year of the Court delayed its decision beyond May 1 (a very likely scenario). Alt. 3 sets aside this identified funding, to be released when and if the Department needs it.

Prepared by: Julie



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

April 24, 2001

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Employee Trust Funds: Section 13.10 Request for Additional Funds to Support Continuing 1999 Wisconsin Act 11 Implementation Preparations -- Agenda Item XI

The Department of Employee Trust Funds (ETF) is seeking a funding supplement of \$1,121,100 SEG in 2000-01 to its s. 20.515(1)(v) appropriation that supports the additional administrative costs associated with the agency's continuing preparations to implement the major retirement benefit improvement provisions contained in 1999 Wisconsin Act 11. The requested funding supplement would support the agency's additional identified Act 11 costs only through the end of the current fiscal year. On July 1, 2001, the 20.515(1)(v) appropriation to which the supplement would be provided will be repealed. The Department requests that this supplemental funding be provided from the Committee's s. 20.865(4)(u) appropriation. Supplements made from this appropriation are drawn from the available balances of the appropriate segregated fund, which in this case are from investment earnings of the Public Employee Trust Fund.

BACKGROUND

During the fall of 1999, the Legislature considered and ultimately enacted 1999 Assembly Bill 495, which made a number of significant changes to the benefits available under the Wisconsin Retirement System (WRS) and to the manner by which the WRS would be funded. At the same time the Legislature was considering Assembly Bill 495, the Committee of Conference for the 1999-01 biennial budget bill included a provision that created a biennial appropriation under ETF and provided \$1,575,700 SEG in 1999-00 and \$584,100 SEG in 2000-01 and authorized 19.0 SEG two-year project positions to support the agency's implementation costs associated with the expected passage of the new benefit improvement bill. The additional amounts that were provided for this purpose in the biennial budget represented 75% of the total funding (\$2,879,700 SEG) that ETF had initially identified as being required during the biennium to implement this legislation.

On December 16, 1999, the Governor signed Assembly Bill 495, and on December 29, 1999, it was published as 1999 Wisconsin Act 11. The new law would have become effective the following day; however, on the same day that the Act was published, the Wisconsin Supreme Court granting an injunction barring the implementation of all Act 11 provisions until the Court heard arguments on and issued an opinion in the matter of *Wisconsin Professional Police Association, Inc., et al. v. Lightbourn, et al.*, which challenged a number of the principal provisions of the legislation. Although implementation of any of the new rights and benefits created by Act 11 was enjoined, the Court did authorize ETF to take "such contingent and preparatory measures toward implementation of the Legislation as they may deem appropriate in their discretion and consistent with their fiduciary and other duties and responsibilities for administering the public employee trust fund."

On October 4, 2000, the Court heard oral arguments on the case. At this writing, the Court has not yet issued its opinion on the matter.

Act 11 contained the following major benefit improvements and WRS funding modifications:

- The formula factor used for retirement annuity calculations was increased by 0.165% for each WRS participant category for service earned before January 1, 2000. Current law factors continue to apply for service earned from January 1, 2000. Participants must be actively employed on or after January 1, 2000, for the provision to apply.
- Participation in the Variable Trust was reopened to participating active employees on or after January 1, 2001.
- The current formula benefit maximum of 65% of final average earnings was increased to 70% for general category participants and for elected and state executive category employees.
- A one-time \$4.0 billion distribution was made from unrecognized investment earnings in the Fixed Trust's Transaction Amortization Account (TAA) for distribution to the employee, employer and annuity reserves. Of the amounts distributed to the employer reserve, the first \$200 million will be used to establish a credit account for each employer to pay unfunded liabilities of the employer and then to pay employer-required contributions.
- The 5.0% annual interest crediting cap was eliminated for WRS participants hired after 1981 and interest crediting at the effective rate of earnings was restored for participants actively employed on the general effective date of Act 11.
- Death benefits for participants under age 55 (under age 50 for protective service participants) would include both the employee-required contributions and the matching employer contributions. Additionally, death benefit payments could be made to any beneficiary who is a person or a trust.

- The TAA was frozen and eliminated over a 5-year period and replaced with a new Market Recognition Account designed to flow changes in investment results into the WRS more rapidly than had been the case with the TAA.

- The underlying actuarial assumptions governing the funding needs of the WRS were changed. The Fixed Trust's assumption of long-term across-the-board salary increases for the purpose of valuing liabilities of the WRS of 4.8% (or 3.2% less than the current 8.0% long term investment earnings assumption) was reduced to 4.6% (or 3.4% less than the current 8.0% long term investment earnings assumption).

ANALYSIS

Consistent with the Supreme Court's injunction, which authorized the Department to continue making contingent preparations for the implementation of 1999 Wisconsin Act 11, ETF has been engaged since early in calendar year 2000 with an extensive effort to reprogram several hundred computer program modules, draft redesigned forms and brochures, and revise a variety of operational procedures in anticipation of the Court's ruling. While a majority of the reprogramming effort has been completed, the agency indicates that there are significant components for which contract programmers are still required, and many of the revised systems must be tested before they can be placed into service.

Most of the additional project staff has been assigned to handle an increased volume of Act 11-generated Call Center inquiries, additional pre-retirement counseling workload in the Member Services Bureau and such other activities as an increased volume of estimated benefit calculations and inquiries about reopening participation in the Variable Trust. At least 4.0 FTE of the Act 11 project positions have remained vacant since they were initially authorized. The Department anticipates filling these positions for the remainder of the current fiscal year, once the Court rules on Act 11, to handle what is anticipated to be a significant increase in the volume of calls and inquiries from WRS participants.

The Department anticipates that when the Court issues its ruling, and assuming that most of the provisions of Act 11 would be upheld, the agency will be required to undertake the following activities. First, it must make retroactive interest crediting adjustments to those active participants first hired before 1982 to reflect the impact of any accelerated distributions from the TAA authorized by the Court. In addition, if authorized by the Court, effective rate interest crediting would have to be applied to post 1981 active participants, retroactive to 1999 account year balances. It is anticipated that these types of adjustments would affect approximately 332,000 participant accounts.

Second, an estimated 100,000 annuitant accounts will require multiple adjustments to correctly reflect the retirement dividends that would have been payable for 2000 and 2001, to the extent that Act 11 is ruled constitutional. Previously, retirement dividends for these years had been

computed and distributed based on the current law flow of investment earnings into the WRS annuity reserve and did not reflect any extraordinary transfers from the TAA or the impact of replacing the TAA with a new Market Recognition Account.

Third, the accounts of approximately 16,800 participants who have retired since January 1, 2000, will require multiple recalculations to correct the cumulative impact of benefit underpayments. When these individuals initially retired, their annuity had to be calculated based on current law provisions and could not factor in the impact of any Act 11 provisions.

Finally, approximately 350 annuitants are leaving the retirement system roles each month because of death and the Department will be required to separately recalculate the adjustments that would have been payable to these individuals up to the time of their death due to the impact of any Act 11 provisions, to the extent authorized by the Court. The Department will have to make the necessary correction payments either to the decedent's beneficiary or to their estate.

The Department's supplementation request of \$1,121,100 SEG in 2000-01 to support the above activities is based on the following cost categories. [Since the Department's original supplementation request was submitted, modifications have been made to the computation of the amount of project and overtime salaries and fringe benefits needed. Consequently, the Department's supplementation request for 2000-01 should now be restated as \$1,114,700 SEG in 2000-01.]

**Restated Additional Funding Requirement
For 2000-01 Act 11 Implementation Costs**

<u>Cost Category</u>	<u>Requested Amount</u>
ETF Staff Costs	
Restated Overtime and Act 11 Project Positions	\$105,000
Supplies and Services Costs	
DOA Information Technology Charges	400,200
Programming, Applications Development and Data Entry Contractual Services	325,000
Printing Revised Forms and Brochures	95,000
Postage for Retirement Packets and Employer Bulletins	89,300
Telephone Cost Apportionment	39,700
Actuarial Services	30,000
In-State Travel for Act 11 Counseling Sessions	25,500
Office Supplies	<u>5,000</u>
 Total	 \$1,114,700

In reviewing the cost components of ETF's supplementation request, the agency's supporting documentation has been examined to determine the amount of expenses actually incurred to date. Projections were then made to determine the estimated costs of anticipated obligations through the end of the current fiscal year.

At the beginning of the 2000-01 fiscal year, the Department had available \$1,441,800 SEG in the biennial appropriation supporting Act 11 implementation expenditures. Expenditures through the date of preparation of the current request totaled an additional \$1,156,000 SEG, leaving an available balance in the appropriation for 2000-01 of \$285,300 SEG. The total amount of the Department's projected Act 11 funding deficit of \$1,114,700 SEG in 2000-01, as identified in the above table, was based on projected additional expenditures totaling \$1,400,000 SEG in the current fiscal year. However, a review of the Department's projected Act 11 obligations through the end of current year fiscal year identified total additional spending needs of only \$1,341,400 SEG. Based on the \$285,300 SEG unobligated balance that was available in the appropriation at the time of the preparation of the current request, a total supplementation of \$1,055,700 SEG in 2000-01 is indicated, rather than \$1,114,700 SEG as identified by the Department in its revised calculation.

Since the Department's request for Act 11 continuing implementation funding meets the statutory standards under s. 13.101(3) of the statutes for granting a supplementation, the Committee may wish to approve the agency's request and provide supplemental funding at a revised level of \$1,055,700 SEG in 2000-01. This level of supplementation would address the agency's documented projected Act 11 expenditure needs and is predicated on a Supreme Court decision, which would uphold most of the Act 11 benefit improvements, being handed down in the very near term.

The principal unknowns ultimately affecting the actual amount of the Department's funding needs are: (1) when the Supreme Court will act on Act 11; and (2) how it will rule when it does issue its opinion. There is no way of knowing how or when the Court will act on this matter although a ruling is likely before the end of the Court's current term in June. However, the Department appears to believe that many of the Act 11 benefit improvement provisions will likely be upheld by the Court, and the agency would need to move expeditiously in implementing those provisions once the Court does rule. From the standpoint of the Department, this view argues that the most prudent course is to make the entire amount of the required supplement immediately available to the agency so that it has maximum flexibility in responding to the Court's decision.

Nonetheless, the Department has been able to identify certain expenses in its supplementation request that would likely not be expended in 2000-01 if the Court delayed its decision beyond certain specific dates in the remainder of this fiscal year. If the Court's decision is not handed down until May 1, certain IT charges and administrative expenses amounting to \$72,000 SEG would most likely be deferred. Further, if the Court's decision is delayed until June 1, IT charges, administrative expenses and a variety of supplies and services costs amounting to \$316,000 SEG would likely be deferred. Therefore, as a further alternative, the Committee could act to place \$316,000 SEG of any supplementation amounts provided in 2000-01 in unallotted

reserve for release to ETF by the Department of Administration, based on when the Supreme Court's Act 11 decision is handed down during the current fiscal year and on the ETF's actual need for the funds.

ALTERNATIVES

1. Approve the Department of Employee Trust Fund's request for a supplementation of \$1,114,700 SEG in 2000-01 from the Committee's s. 20.865(4)(u) appropriation to the Department's s. 20.515(1)(v) appropriation to fund additional costs associated with the Department's continuing preparations to implement the retirement benefit improvement provisions contained in 1999 Wisconsin Act 11. *[This supplementation amount is restated from the Department's original request of \$1,121,100 SEG in 2000-01 to correct errors in the computation of project and overtime salary amounts.]*

2. Approve a modified supplementation amount for the Department of Employee Trust Funds of \$1,055,700 SEG in 2000-01 from the Committee's s. 20.865(4)(u) appropriation to the Department's s. 20.515(1)(v) appropriation to fund additional costs associated with the Department's continuing preparations to implement the retirement benefit improvement provisions contained in 1999 Wisconsin Act 11.

3. *[The Committee may adopt the following Alternative in addition to either Alternative #1 or Alternative #2.]* Of the amounts provided, place \$316,000 SEG in 2000-01 in unallotted reserve for release by the Department of Administration to the Department of Employee Trust Funds, based on when the Wisconsin Supreme Court hands down its decision on 1999 Wisconsin Act 11 during the current fiscal year and on the Department's actual need for the funds.

4. Deny the request.

yes. Give them \$ when S

AHS
MO# 213

Prepared by: Tony Mason

modified to reflect \$285,300 agency's appropriation. Use that up first.

BURKE	Y	N	A
DECKER	Y	N	A
MOORE	Y	N	A
SHIBILSKI	Y	N	A
PLACHE	Y	N	A
WIRCH	Y	N	A
DARLING	Y	N	A
WELCH	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUEBSCH	Y	N	A
HUBER	Y	N	A
RILEY	Y	N	A

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**13.10 Meeting
April 24, 2001
Agenda Item X**

**Issue: Employee Trust Funds – Request for Special Investment Performance
Dividend Lawsuit Settlement Project Completion Costs**

Staff Recommendation: Alternative 2

Comments:

ETF is requesting nonbase-building funding in the amount of \$296,600 SEG to fund the final round of unbudgeted costs associated with claims payment activities pursuant to the SIPD lawsuit settlement. LFB says the request appears reasonable and is just part of the continuing efforts of the Department to administer the terms of the settlement.

LFB suggests some minor modifications to the request, mainly a reduction of \$6,000 allocated for salary bonuses (bonus payments are not really an emergency), and \$15,000 for actuarial services likely not to take place until the next fiscal year.

Alternative 2 approves the request with these minor modifications.

Prepared by: Julie



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

April 24, 2001

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Employee Trust Funds: Section 13.10 Request for Special Investment Performance Dividend Lawsuit Settlement Project Completion Costs -- Agenda Item X

The Department of Employee Trust Funds (ETF) is seeking a nonbase-building funding supplement of \$296,600 SEG in 2000-01 to its s. 20.515(1)(w) general administrative appropriation to fund a final round of extraordinary, unbudgeted costs associated with the agency's continuing claims payment activities pursuant to the special investment performance dividend (SIPD) lawsuit settlement. The Department requests that this supplemental funding be provided from the Committee's s. 20.865(4)(u) appropriation. Supplements made from this appropriation are drawn from the available balances of the appropriate segregated fund, which in this case are from investment earnings of the Public Employee Trust Fund.

BACKGROUND

In mid-1997 the parties involved in the SIPD lawsuit reached an agreement under which the state was required to pay a settlement in the amount of \$215.0 million GPR, of which \$206.6 million GPR was reserved for equitable distribution to WRS annuitants or to their beneficiaries or estates. Funding sufficient to pay this settlement was included in the 1997-99 biennial budget act.

During late 1997, ETF began implementing Phase I of an anticipated three-phase project to distribute the SIPD settlement amounts. Activities during this initial phase included a notification of all WRS annuitants of the nature of the settlement and a description of the impact of the settlement on annuitants, former annuitants, alternate payees, joint survivors and on beneficiaries and estates of eligible deceased annuitants who would have been eligible to receive the approved distribution. During this period, ETF established special information lines, terminated payment of the previous SIPD distributions, adjusted the annuities of affected annuitants (those persons with

WRS annuities first effective November 1, 1987, or earlier), made lump sum distributions to approximately 42,400 current and former annuitants, and instituted a new GPR-funded annuity supplement authorized by 1997 Wisconsin Act 26 to hold harmless any retiree whose annuity amount would have been adversely affected by the termination of the SIPD payment.

Phase II of the project began in early 1998, after the payments and distributions under Phase I were fully completed. The principal focus of Phase II activities was to locate potential claimants for the purpose of making settlement payments to an estimated 27,700 estates or beneficiaries of deceased annuitants who would have been eligible for the adjusted annuity payment if they were still living. The ETF Board initially directed that all claims under Phase II activities be submitted to the Department no later than March 31, 1999, or be barred, unless the Board acted prior to that date to extend the claims submission deadline for claims from estates and beneficiaries.

Under this scenario, ETF anticipated that Phase III of the project would run from March 31, 1999, the original claims filing deadline date, through June 30, 1999. During Phase III activities, ETF expected that it would process final claims for payment, prepare final tax documents and submit a final report to the ETF Board to conclude the project. Based on this initial SIPD implementation timetable, the Committee provided ETF with a nonbase-building supplement on June 4, 1998, in the amount of \$359,800 SEG for the 1997-98 fiscal year to support Phase I and Phase II activities.

When the Department began to implement Phase II efforts, it found that a much more complex process was required to determine the names of the potential heirs for each estate for which a claims payment inquiry had been received. These additional complexities, plus substantial turnover of contract project staff, contributed to claims processing delays and the Department was unable to adhere to the original project completion timetable. As a result, the ETF Board acted to extend the deadline date for filing an SIPD settlement claim from the original March 31, 1999, deadline to November 30, 1999. The cutoff date for filing final claims payments during Phase III was also extended from June 30, 1999, to March 31, 2000.

Subsequently, on April 21, 1999, ETF received a second nonbase-building supplement of \$505,300 SEG for 1998-99 fiscal year unbudgeted SIPD settlement costs. At that time, ETF gave further indications that one or more additional claims filing deadline extensions might be required. As a result of concerns over potential future costs and the seeming open-ended nature of the claimant location process, the Department was directed by this Committee to submit a plan that would: (1) establish a final date by which all SIPD claims must be filed; (2) specify a procedure for reserving funds for final claims payments after the project ends; and (3) outline a proposed budget for each fiscal year of the 1999-01 biennium.

On July 15, 1999, the Committee approved the Department's required final plan submission. Under that plan, ETF indicated that it would retain a "locator service" to find any remaining eligible heirs or estate administrators to which an SIPD payment might be due. The plan also established June 30, 2001, as the new final date by which all SIPD claims must be filed with the Department. For claims filed up to that deadline, the ETF plan provided that final claims payments would occur within 60 days of the date on which the agency provided a claim form and requested supporting

documentation for the claim. The plan also specified that sufficient funds to pay any residual claims would be reserved at the ETF Board's June, 2001, quarterly meeting, and all remaining unreserved SIPD settlement funds would then revert to the fund balance of the pension system's annuity reserve. A tentative budget (but no formal request for funding) was also presented as part of that report for both fiscal years of the 1999-01 biennium. As estimated at that time by ETF, the projected final SIPD budget for the 1999-00 fiscal year would require another appropriation supplementation of \$1,020,300 SEG and for the 2000-01 fiscal year would require an appropriation supplementation of \$610,300 SEG.

On December 21, 1999, ETF received a third nonbase-building supplement at a revised funding level of \$1,261,800 SEG to support continuing Phase II "locator service" and related claims processing activities during the 1999-00 fiscal year. The following table summarizes the total amount of SIPD claims settlement supplemental funding provided by the Committee to ETF since the beginning of the SIPD claims settlement project.

**Previous SIPD Claims Settlement Supplementations Provided to ETF
(1997-98 through 1999-00)**

<u>Date of Supplementation</u>	<u>Amount</u>
June 4, 1998 (for 1997-98)	\$359,800
April 21, 1999 (for 1998-99)	505,300
December 21, 1999 (for 1999-00)	<u>1,261,800</u>
Total	\$2,126,900

ANALYSIS

The Department is now requesting a final, nonbase-building appropriation supplementation of \$296,600 SEG in 2000-01 to support the unbudgeted costs of closing out Phase II and completing Phase III of the SIPD claims settlement process and terminating the effort by June 30, 2001.

The principal cost categories of the Department's final SIPD supplementation request for 2000-01 are summarized in the following table.

Requested Funding for 2000-01 SIPD Claims Settlement Costs

<u>Cost Category</u>	<u>Requested Amount</u>
ETF Staff Costs	
LTE Assistance and Fringe Benefits	\$15,800
Special SIPD Services Center Operations	
Contractual Staff	185,000
Space Rental	31,900
Office and Computer Supplies	8,000
Telephone and Fax Services	16,800
Postage Expenses	10,600
Annuitant Files Retrieval and Storage	13,500
Actuarial Services	<u>15,000</u>
 Total	 \$296,600

A subsequent analysis of the agency's actual expenditures to date for the SIPD claims settlement project and a projection of anticipated additional expenditures through the end of the current fiscal year, as identified by the agency, for each of the above cost categories indicates that ETF's actual supplementation need should now be restated as \$295,000 SEG for 2000-01. Based on current expenditure projections for the agency's general administrative appropriation, ETF does not appear to have sufficient base level funds to meet these additional, unbudgeted costs.

However, a review of these revised cost projections finds that the total estimate of SIPD Services Center contract staff costs includes provision for \$6,000 SEG in bonus payments for those contract staff who have stayed with the project since its inception. While it may be desirable to reward long-term staff with such incentives, it can be argued that discretionary bonus payments do not meet the normal statutory requirements for an emergency supplementation request. If the agency chooses to provide bonus payments to contract staff, these funds should be provided from base level resources, and the Committee could reduce the amount of the restated supplementation request by \$6,000 SEG in 2000-01. YES
↓

Further, since settlement claims will still be actively processed through June 30, 2001, it is unlikely that any of the \$15,000 SEG requested for actuarial services will be required during the 2000-01 fiscal year. In addition, through late March, fully \$205.2 million of the original \$206.6 million SIPD settlement amounts has actually been paid out or has been reserved for future annuity payments. The small remaining residual SIPD settlement balances are unlikely to require significant additional actuarial analysis relating to their redistribution to the annuity reserve, if such analysis is required at all. These costs, if they are incurred, would fall in the 2001-02 fiscal year and could likely be accommodated within the scope of the agency's base level funding for actuarial services. Accordingly, the Committee could choose to delete the \$15,000 SEG in 2000-01 from the restated supplementation request. Taken together, these two modifications would result in a revised supplementation requirement of \$274,000 SEG in 2000-01.

Since the agency's request meets the statutory criteria under s. 13.101(3) of the statutes for granting a supplementation, and the agency's previously approved implementation plan indicated that these types of project close-out expenditures would have to be incurred, the Committee could choose to provide the Department with a revised SIPD claims settlement supplementation of \$274,000 SEG in 2000-01, based on the foregoing analysis. This revised supplementation level is based on the costs summarized in the following table.

**Revised Funding Requirement
For 2000-01 SIPD Claims Settlement Costs**

<u>Cost Category</u>	<u>Requested Amount</u>
ETF Staff Costs	
LTE Assistance and Fringe Benefits	\$12,400
Special SIPD Services Center Operations	
Contractual Staff	195,800
Space Rental	31,500
Office and Computer Supplies	5,800
Telephone and Fax Services	14,000
Postage Expenses	6,100
Annuitant Files Retrieval and Storage	8,400
Actuarial Services	<u>-0-</u>
 Total	 \$274,000

ALTERNATIVES

1. Approve the Department of Employee Trust Fund's request for a supplementation of \$295,000 SEG in 2000-01 from the Committee's s. 20.865(4)(u) appropriation to the Department's s. 20.515(1)(w) general administrative appropriation to fund unbudgeted costs associated with the conclusion of claims payments under the SIPD settlement. *[This supplementation amount is restated from the Department's original request of \$296,600 SEG and reflects the agency's revised identification of its funding needs through the end of the 2000-01 fiscal year.]*

2. Approve a modified supplementation for the Department of Employee Trust Funds of \$274,000 SEG in 2000-01 from the Committee's s. 20.865(4)(u) appropriation to the Department's s. 20.515(1)(w) general administrative appropriation to fund unbudgeted costs associated with the conclusion of claims payments under the SIPD settlement.

3. Deny the request.

Prepared by: Tony Mason

MO# 442

2	BURKE	<input checked="" type="checkbox"/>	N	A
	DECKER	<input checked="" type="checkbox"/>	N	A
	MOORE	<input checked="" type="checkbox"/>	N	A
	SHIBILSKI	<input checked="" type="checkbox"/>	N	A
	PLACHE	<input checked="" type="checkbox"/>	N	A
	WIRCH	<input checked="" type="checkbox"/>	N	A
	DARLING	<input checked="" type="checkbox"/>	N	A
	WELCH	<input checked="" type="checkbox"/>	N	A
1	GARD	<input checked="" type="checkbox"/>	N	A
	KAUFERT	<input checked="" type="checkbox"/>	N	A
	ALBERS	<input checked="" type="checkbox"/>	N	A
	DUFF	<input checked="" type="checkbox"/>	N	A
	WARD	<input checked="" type="checkbox"/>	N	A
	HUEBSCH	<input checked="" type="checkbox"/>	N	A
	HUBER	<input checked="" type="checkbox"/>	N	A
	RILEY	<input checked="" type="checkbox"/>	N	A

AYE 16 NO 0 ABS 0

13.10 Meeting
April 24, 2001
Agenda Item IX

Issue: Employee Trust Funds: Transfer Funds between Appropriations to Continue the Development of the Private Employer Health Care Coverage Plan

Comments:

This is kind of a Catch 22 situation. SB 81 (Moen's -changes to the private employer health care coverage plan) should really be passed before transferring any funding for the development of this plan. However, SB 81 has a fiscal note attached and no corresponding emergency clause from the governor, it won't pass unless it's referred to JFC and you exec it out prior to the budget.

So, absent immediate passage of SB 81, Moen wants you to support the funding proposed in Alternative 2 (even though LFB strongly suggest we deny the request altogether). EFT thinks they can get some things accomplished with this funding transfer that will help move this plan along, so that when SB 81 finally is passed, they'll be that much further ahead.

ETF should be in attendance at the hearing to explain why ½ a loaf is better than none.

Staff Recommendation: Alternative 2

Prepared by: Cindy



Legislative Fiscal Bureau

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Julie

April 24, 2001

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Employee Trust Funds: Section 13.10 Request to Transfer Funds between Appropriations to Continue the Development of the Private Employer Health Care Coverage Plan -- Agenda Item IX

The Department of Employee Trust Funds (ETF) is requesting that the Joint Committee on Finance transfer \$84,300 GPR in 2000-01 from the available balances in the agency's s. 20.515(2)(b) appropriation to its 20.515(2)(a) appropriation to support proposed actuarial and legal services expenditures associated with on-going efforts to implement the Private Employer Health Care Coverage Plan authorized under 1999 Wisconsin Act 9. The requested funding would come from an appropriation established to provide a grant to offset the start-up costs incurred by the third-party administrator selected by ETF to operate the Private Employer Health Care Coverage Plan and would be transferred to the agency's general program operations appropriation for the plan.

BACKGROUND

Provisions of Subchapter X of Chapter 40 of the statutes direct ETF, in consultation with the Office of the Commissioner of Insurance, to design an actuarially sound health care coverage program for employers in the private sector. Prior to the implementation of any such coverage plan, it must first be approved by a 13-member Private Employer Health Care Coverage Board.

Under current law, the approved plan must be available to any private employer doing business in the state who employs at least two employees (except for farm businesses, where only one employee is required in order to qualify for coverage). Participating employers must offer coverage to at least half of their permanent employees who have a normal work week of 30 or more hours and may offer the plan to any of their other employees. Employers must also pay at least 50% but not more than 100% of the lowest premium rate available to the employer for an

employee's coverage under the plan. An insurer that offers coverage under the plan must provide coverage to any employer applying for coverage and to all of the employer's employees who elect coverage, regardless of the health condition or claims experience of the individual seeking the coverage, subject to the employer making timely premium payments and complying with standard health care coverage plan provisions that apply generally without regard to health condition or claims experience.

Subchapter X also requires ETF to solicit and accept bids and make every reasonable effort to enter into a contract for the administration of the plan. Furthermore, if ETF is unable to contract with a third-party administrator, the agency itself must administer the program. The administrator, or ETF if no administrator is selected, must then enter into contracts with insurers to provide health care coverage under the plan. Under current law, health care coverage under the plan must begin on January 1, 2001.

During the last half of 2000, ETF began the process of developing a request for proposals (RFP) for the selection of an administrator for the plan. While preparing the RFP, the agency consulted with a variety of parties that had an interest in or experience with the development of employee-choice health purchasing alliances to ensure that the criteria by which proposals would be evaluated were consistent with successful efforts in other states. In addition, ETF conducted procurement briefings before the formal release of the RFP to solicit comments from potential administrators and to identify barriers to their participation. A draft of the RFP was even circulated to interested administrative vendors for comments before its final release.

The RFP for administrative services for the Private Employer Health Care Coverage Plan was released on November 13, 2000. Under the RFP, the plan administrator was asked to do all of the following: (1) contract with health plans; (2) conduct plan enrollments; (3) maintain eligibility files; (4) bill, collect and distribute premiums; (5) provide insurance agent training and support; (6) prepare reports about the program's performance; and (7) develop and implement a comprehensive marketing campaign for the plan. Proposals were due on December 5, 2000. Despite evidence of apparent vendor interest at the earlier procurement briefings offered by the agency, no proposals to administer the plan were received by the deadline date.

In the event that ETF is unable to enter into a contract with an administrator so that coverage under the plan can begin on January 1, 2001, s. 40.98(2)(a)2. of the statutes requires the agency to submit a report to the Joint Committee on Finance specifying the reasons for not executing such a contract. This report was submitted to the Committee on December 28, 2000. In that report, ETF indicated that it would review whether the RFP or program expectations could be modified sufficiently within current statutory constraints to encourage the subsequent submission of a successful vendor proposal or whether statutory changes to the program's basic design would be required. Furthermore, after submitting this report, current law also requires ETF to continue to provide all administrative services necessary for the provision of health care coverage plans under the program and to make every reasonable effort to contract for the administration of the plan.

Two separate GPR-funded appropriations currently support the start-up operations of the private employer health insurance program. A biennial appropriation, funded at \$200,000 GPR in 1999-00, supports the general program operations of the plan, including 3.50 GPR staff positions. The purpose of this appropriation is to fund the agency's initial plan design activities and subsequent efforts to contract for administrative services for the Private Employer Health Care Coverage Plan. A second biennial appropriation, also funded at \$200,000 GPR in 1999-00, is available to make a grant to a plan administrator during the implementation phases of the administrative services contract. Under a biennial appropriation, unexpended funds appropriated in the first fiscal year continue to remain available in the second fiscal year. At the end of the second fiscal year, any remaining unexpended funds lapse to the source fund. To date, expenditures have been incurred only under the general program operations appropriation for the plan. Since no plan administrator has yet been selected, no expenditures have been made to date from the administrative grant appropriation. Once the plan becomes operational, participating employers would remit fees to a program revenue account under ETF to pay for the costs of designing, marketing and contracting or providing administrative services for the program.

ANALYSIS

The Department requests that the Committee transfer \$84,300 GPR in 2000-01 of currently available funding from the Private Employer Health Care Coverage Plan's administrative start-up grant appropriation to the plan's general program operations appropriation so that ETF can incur a variety of actuarial and legal services expenditures aimed at securing a third-party administrator for the plan. ETF itself, even as the potential administrator for the plan, may not draw on this grant appropriation, since the appropriation purpose limits its use to providing a grant to the plan administrator "selected by the Department." Furthermore, a defective statutory cross-reference in the appropriation purpose may even bar its use to provide a grant to any third-party administrator. To date, no expenditures have been made from this appropriation. Consequently, sufficient funds would be available to support the amount of the requested transfer.

The Department proposes to use \$59,500 GPR of the transferred funds for a variety of actuarial services. These services would include: (a) development of an underwriting manual with associated rating models, criteria and processes (\$15,000); and (b) an estimated 241 hours of mid-level and senior level actuarial services relating to the development, evaluation and finalizing of risk assessment and adjustment models and assisting in developing a consensus among health plans on rating, underwriting and risk adjustment matters (\$44,500). An additional \$24,800 GPR would be used for 160 hours of legal services associated with the development of contracts between the Department and health plan providers.

The transfer of funds is requested because ETF will not have sufficient unobligated funding remaining this fiscal year in the plan's general program operations appropriation to support any of the proposed actuarial and legal services expenditures. Currently, this appropriation supports 2.50 FTE positions and associated operational expenses. An additional 1.0 FTE position is authorized

under this appropriation but has not been filled because of budgetary constraints. Based on current expenditures to date from this appropriation, plus projected salary and routine administrative costs for the remainder of the 2000-01 fiscal year, the balance in the appropriation is projected to be almost completely exhausted by June 30.

In assessing whether or not to authorize the transfer of \$84,300 GPR in 2000-01 between the appropriations to permit the Department to incur additional actuarial and legal services expenditures related to the Private Employer Health Care Coverage Plan, the Committee may wish to consider the following question. Would the expenditure of \$84,300 GPR in 2000-01 on actuarial and legal services move the Department significantly closer to the actual implementation of the plan, in the absence of first making what would appear to be needed statutory changes to the plan itself?

ETF has surveyed a number of potential administrative vendors in an effort to ascertain why they had not chosen to respond to the earlier RFP process. Many of the vendors' responses were included in ETF's December 28, 2000, report to this Committee on the reasons the agency had been unable to conclude a contract with a third party administrator. Concerns expressed by the potential bidders that have now been identified by ETF included the following.

- The statutes require the administrator to contract directly with insurers to offer coverage under the plan. Potential administrators expressed concerns that this requirement shifted most of the cost and the underwriting risk for the program to the administrator. Further, since administrators would likely have to negotiate with insurers on a county by county basis, it was questioned whether sufficient bargaining leverage could be exercised by the administrator to reduce costs.

- The potential administrators perceived the state's initial funding and staffing commitment to the program to greatly underestimate the resources necessary to launch the program. Potential administrators were concerned that they might have to incur considerable up-front program costs with no guarantee that a successful program would result.

- The statutory definition of employer would require plan coverage of employers with more than 50 employees. Currently, under s. 635.19 of the statutes, guaranteed issue provisions apply only to employers with two to 50 employees. The apparent concern is that if the Private Employer Health Care Coverage Plan were perceived as more generous than comparable insurance products available in the market at large, adverse selection to the plan could occur.

- Employees who work less than a 30-hour week could be included under the plan at the election of the employer. Potential administrators expressed concerns about adverse selection as a result. Further, employers would be required to fund at least 50% of the lowest available premium rate available to the employer for an employee's coverage. Since the current statute also does not specify whether this is the lowest single coverage rate or the much more expensive single coverage rate, employers might be reluctant to participate.

- A variety of other concerns were expressed concerning the program's requirement that all insurance rates under the plan be published annually in a single publication, that the amount of the commission paid to an insurance agent offering a policy under the plan be specified on the first page of the policy and that insurance agents offering policies under the plan on behalf of an insurer must be employed by the insurer (or have a contract with the insurer to sell such coverage).

Addressing most of these concerns would require statutory modifications to the current structure and operation of the Private Employer Health Care Coverage Plan. On March 8, 2001, Senate Bill 81 was introduced and would modify the statutes governing the operation of the plan in order to address many of the concerns cited above by potential administrative vendors. Under the bill, the following statutory changes to the program would be made:

First, ETF alone (and not the administrator where one is selected) would be the entity required to enter into contracts with insurers who are to provide the health care coverage. Under current law, the program's administrator or ETF (if no administrator has been selected) must enter into contracts with insurers.

Second, either ETF or the administrator would be required to solicit bids and enter into a contract for marketing the plan and to maintaining a toll-free telephone number. Under current law, only ETF is required to undertake these activities.

Third, all insurance rates for health care coverage under the plan would have to be made available to employers and employees in a manner determined by the Private Employer Health Care Coverage Board. Under current law, these rates must be published annually in a single publication that is made available to employers and employees.

Fourth, any employer participating in the plan would be authorized to offer health care coverage to persons who work less than 30 hours during a normal workweek only if permitted to do so by a plan offered by an insurer under the program. Under current law, any employer participating in the plan must offer coverage to all of its permanent employees who have a normal workweek of 30 or more hours and may offer such coverage to any of its other employees.

Fifth, any participating employer would be required to pay at least 50% of the lowest premium rate for single coverage that is available to the employer for an employee's coverage under the plan. Under current law, the participating employer must pay for each employee at least 50% but not more than 100% of the lowest premium rate that is available to the employer for the employee's coverage under the plan.

Sixth, an insurance agent would be authorized to sell insurance coverage under the plan only if the agent is listed by the insurer with the Office of the Commissioner of Insurance and the agent would be required to satisfy all training and certification requirements established by the Board. Under current law, an insurance agent may not sell insurance under the plan on behalf of an

insurer unless the agent is employed by the insurer or has a contract to sell health care coverage on behalf of the insurer.

Seventh, a current law provision would be deleted that requires the first page of any policy sold under the plan to include the amount of commission paid the insurance agent.

Finally, the bill would transfer \$141,600 GPR in 2000-01 from the Private Employer Health Care Coverage Plan's administrative start-up grant appropriation to the plan's general program operations appropriation to support a variety proposed expenditures (\$100,000 GPR for actuarial and legal services, \$22,900 to reimburse other ETF staff for plan-related activities undertaken to date and for miscellaneous administrative costs, and \$18,700 to fully fund an existing vacant staff position for the program).

Unless these proposed statutory changes under Senate Bill 81 are first enacted, ETF would have to use any transferred funds for the development of actuarial models and underwriting criteria and draft legal contracts based on the current law features of the Private Employer Health Care Coverage Plan. It is uncertain the degree to which these expenditures would then result in completely usable actuarial and legal products if potential administrative vendors continue to perceive problems with the current law plan features. It would not seem desirable to engage actuarial and legal services at this time if it is anticipated that important program modifications must be made before the plan will be viable.

It can be argued that it would be more prudent and cost-effective to make the necessary statutory changes to the program in advance of providing funding for additional actuarial and legal services for the plan. This course of action would tend to ensure that the resulting actuarial and legal services products would then be based on a program more likely to be successfully implemented. Under this alternative, the Committee could deny the Department's current request. The Department's actuarial and legal services needs could then be addressed in the context of funding transfers provided under Senate Bill 81.

However, if the Committee concludes that it does not wish to wait to address the Department's funding request through the enactment of Senate Bill 81, it could approve the Department's request for an appropriation transfer, but at a reduced level to reflect the fact that only two full months remain in the current fiscal year. The Department has indicated that if actuarial and legal services funding were not made available until around May 1, then a transfer of only \$60,600 GPR in 2000-01 (\$48,400 for actuarial services and \$12,200 for legal services) would be required for such services in the 2000-01 fiscal year.

ALTERNATIVES

1. Approve the Department of Employee Trust Fund's request to transfer \$84,300 GPR in 2000-01 from the available balances in the agency's s. 20.515(2)(b) appropriation to its

20.515(2)(a) appropriation to support proposed actuarial and legal services expenditures associated with on-going efforts to implement the Private Employer Health Care Coverage Plan.

2. Approve a transfer of \$60,600 GPR in 2000-01 from the available balances in the agency's s. 20.515(2)(b) appropriation to its 20.515(2)(a) appropriation to support proposed actuarial and legal services expenditures during the remaining two months of the current fiscal year associated with on-going efforts to implement the Private Employer Health Care Coverage Plan.

3. Deny the Department's request.

Prepared by: Tony Mason

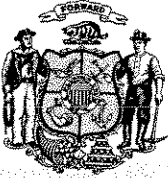
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BURKE	<input checked="" type="radio"/>	<input type="radio"/>	A
DECKER	<input checked="" type="radio"/>	<input type="radio"/>	A
MOORE	<input checked="" type="radio"/>	<input type="radio"/>	A
SHIBILSKI	<input checked="" type="radio"/>	<input type="radio"/>	A
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HUEBSCH	<input type="radio"/>	<input checked="" type="radio"/>	A
HUBER	<input type="radio"/>	<input checked="" type="radio"/>	A
RILEY	<input checked="" type="radio"/>	<input type="radio"/>	A

AYE 7 NO 9 ABS _____



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

November 11, 2002

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Employee Trust Funds: Section 13.10 Request for Additional Funds to Support Continuing 1999 Wisconsin Act 11 Implementation Costs-- Agenda Item I

REQUEST

On June 7, 2002, the Department of Employee Trust Funds (ETF) requested a funding supplement of \$4,145,900 SEG in 2001-02 to its s. 20.515(1)(v) biennial appropriation that supports the additional administrative costs associated with the agency's continuing implementation of the major retirement benefit improvement provisions contained in 1999 Wisconsin Act 11. The requested funding supplement would support the agency's identified additional Act 11 costs through the end of the current biennium at which time the 20.515(1)(v) appropriation will be repealed. The Department requests that this supplemental funding be provided from the Committee's s. 20.865(4)(u) appropriation. Supplements made from this appropriation are drawn from the available balances of the appropriate segregated fund, which in this case are from investment earnings of the Public Employee Trust Fund.

On the basis of updated information, the Department has reexamined its original request and, on November 5, 2002, revised cost information was submitted relating to the amount of the supplement needed for this appropriation. The reestimated request is for a supplement of \$3,372,300 SEG in 2002-03, which is \$773,600 SEG lower in total than the original June request. The modifications to the request are explained in the analysis section below.

BACKGROUND

During the fall of 1999, the Legislature considered and ultimately enacted 1999 Assembly Bill 495, which made a number of significant changes to the benefits available under the Wisconsin Retirement System (WRS) and to the manner by which the WRS would be funded. At the same time the Legislature was considering Assembly Bill 495, the Committee of Conference for the 1999-01 biennial budget bill included a provision that created a biennial appropriation under ETF and provided \$1,575,700 SEG in 1999-00 and \$584,100 SEG in 2000-01 and authorized 19.0 SEG two-year project positions to support the agency's implementation costs associated with the expected passage of the new benefit improvement bill. The additional amounts that were provided for this purpose in the biennial budget represented 75% of the total funding (\$2,879,700 SEG) that ETF had initially identified as being required during the biennium to implement this legislation.

On December 16, 1999, the Governor signed Assembly Bill 495, and on December 29, 1999, it was published as 1999 Wisconsin Act 11. The new law would have become effective the following day; however, on the same day that the Act was published, the Wisconsin Supreme Court granted an injunction barring the implementation of all Act 11 provisions until the Court heard arguments on and issued an opinion in the matter of *Wisconsin Professional Police Association, Inc., et al. v. Lightbourn, et al.*, which challenged a number of the principal provisions of the legislation. Although implementation of any of the new rights and benefits created by Act 11 was enjoined, the Court did authorize ETF to take "such contingent and preparatory measures toward implementation of the Legislation as they may deem appropriate in their discretion and consistent with their fiduciary and other duties and responsibilities for administering the public employee trust fund."

On May 25, 2000, the Supreme Court took original jurisdiction in the matter, and the case was argued before the Court on October 4, 2000. On June 12, 2001, the Court handed down an opinion upholding all of the Act 11 benefit improvements and funding changes in their entirety.

Act 11 contained the following major benefit improvements and WRS funding modifications:

- The formula factor used for retirement annuity calculations was increased by 0.165% for each WRS participant category for service earned before January 1, 2000. Current law factors continue to apply for service earned from January 1, 2000. Participants must be actively employed on or after January 1, 2000, for the provision to apply.
- Participation in the Variable Trust was reopened to participating active employees on or after January 1, 2001.
- The current formula benefit maximum of 65% of final average earnings was increased to 70% for general category participants and for elected and state executive category employees.

- A one-time \$4.0 billion distribution was made from unrecognized investment earnings in the Fixed Trust's Transaction Amortization Account (TAA) for distribution to the employee, employer and annuity reserves. Of the amounts distributed to the employer reserve, the first \$200 million was used to establish a credit account for each employer to pay unfunded liabilities of the employer and then to pay employer-required contributions.
- The 5.0% annual interest crediting cap was eliminated for WRS participants hired after 1981 and interest crediting at the effective rate of earnings was restored for participants actively employed on the general effective date of Act 11.
- Death benefits for participants under age 55 (under age 50 for protective service participants) would include both the employee-required contributions and the matching employer contributions. Additionally, death benefit payments could be made to any beneficiary who is a person or a trust.
- The TAA was frozen and phased out over a 5-year period and replaced with a new Market Recognition Account designed to flow changes in investment results into the WRS more rapidly that had been the case with the TAA.
- The underlying actuarial assumptions governing the funding needs of the WRS were changed. The Fixed Trust's assumption of long-term across-the-board salary increases for the purpose of valuing liabilities of the WRS of 4.8% (or 3.2% less than the current 8.0% long term investment earnings assumption) was reduced to 4.6% (or 3.4% less than the current 8.0% long term investment earnings assumption).

Because the Supreme Court did not hand down its ruling upholding the provisions of Act 11 until mid-2001, ETF was unable until then to begin to address the significant backlog of benefit computations, adjustments and recalculations that had to be applied retroactively to January 1, 2000. In light of this delay in implementing the provisions of Act 11, the repeal of the s. 20.515(1)(v) biennial appropriation was extended by 2001 Wisconsin Act 16 to June 30, 2003. In addition, Act 16 provided \$1,600,000 SEG in 2001-02 to the appropriation and authorized 20.0 SEG two-year project positions to address the expected Act 11-generated workload. This initial \$1,600,000 SEG in 2001-02 was provided with the expectation that ETF would subsequently seek a supplementation for its additional funding needs, once the estimated final costs of implementing Act 11 had been determined.

The \$1,600,000 SEG appropriated in 2001-02 was further supplemented by \$233,900 SEG of allotment adjustments from the previous biennium, resulting in a total of \$1,833,900 SEG actually being available to ETF under the appropriation for the 2001-03 biennium. Implementation expenses ultimately totaled \$2,176,600 in 2001-02, resulting in a deficit of \$342,700 SEG by the end of that fiscal year. The Department's requested supplement is intended to cover this deficit amount, reimburse another ETF appropriation for 2001-02 staffing costs associated with the Act 11 work, and provide funding for the remaining estimated Act 11 implementation costs in 2002-03.

ANALYSIS

Since early in calendar year 2000, ETF has been engaged in an extensive effort to reprogram several hundred computer program modules, draft redesigned forms and brochures, and revise a variety of operational procedures relating to the implementation of Act 11. While a majority of the reprogramming effort has been completed, the agency indicates that there are significant components for which contract programmers are still required, and many of the revised systems must be tested before they can be placed into service.

Most of the additional project staff has been assigned to handle an increased volume of Act 11-generated Call Center inquiries, additional pre-retirement counseling workload in the Member Services Bureau and such other activities as an increased volume of estimated benefit calculations and inquiries about reopening participation in the Variable Trust. The project positions are currently allocated to the following functional areas:

<u>Functional Area</u>	<u>FTE</u>
Division of Retirement Services - Benefit Services Bureau	7.7
Division of Retirement Services - Member Services Bureau	5.0
Division of Retirement Services - Customer Service Call Center	3.3
Division of Employer Services	3.0
Division of Management Services	1.0
Total Project Positions	20.0

Under the provisions of Act 11, the agency is required to undertake the following activities. First, it is making retroactive interest crediting adjustments to those active participants first hired before 1982 to reflect the impact of any accelerated distributions from the TAA. In addition, effective rate interest crediting is being applied to post 1981 active participants, retroactive to 1999 account year balances. Initially, these types of adjustments affected approximately 332,000 participant accounts.

Second, an estimated 100,000 annuitant accounts are subject to multiple adjustments to correctly reflect the retirement dividends that would have been payable for 2000 and 2001. Previously, retirement dividends for these years had been computed and distributed based on the pre-Act 11 flow of investment earnings into the WRS annuity reserve and did not reflect any extraordinary transfers from the TAA or the impact of replacing the TAA with a new Market Recognition Account.

Third, the accounts of approximately 16,800 participants who have retired since January 1, 2000, require multiple recalculations to correct the cumulative impact of benefit underpayments.

When these individuals initially retired prior to the Supreme Court's ruling on Act 11, their annuity were calculated based on the pre-Act 11 provisions and did not factor in the impact of any Act 11 provisions.

Finally, prior to the Court's decision, approximately 350 annuitants were leaving the retirement system roles each month because of death. The Department has been required to separately recalculate the adjustments that would have been payable to these individuals up to the time of their death due to the impact of any Act 11 provisions. The Department makes the necessary correction payments either to the decedent's beneficiary or to their estate.

At the end of September, ETF staff continued to work on an outstanding backlog of 5,493 benefits in need of recalculation and adjustment, including the manual computation of annuitant dividends (3,077), lump sum benefit supplement calculations (59), final calculation of annuities first started before the Supreme Court's Act 11 decision (2,078), and required corrections to previous calculations (279). The agency anticipates that these adjustments will be completed during the first three months of 2003.

The Department's original request, submitted on June 7, 2002, totaled \$4,145,900 SEG and was made on the basis of estimated 2001-02 and 2002-03 costs. The 2001-02 costs are now final and ETF has modified its request to reflect the final 2001-02 expenditure data and certain adjustments to its projected 2002-03 needs. The updated request amount totals \$3,372,300 SEG. This amount is \$773,600 SEG less than the supplementation amount requested under the original June 7, 2002, request.

The \$773,600 difference in the amounts requested is due to several factors. First, the actual 2001-02 expenses for the appropriation were less than anticipated in the June request and, as a result, the supplement required for 2001-02 costs can be reduced by \$332,300. An additional reduction of \$441,300 relates to 2002-03 and includes reductions to : (a) estimated salaries for the project positions provided for Act 11 work, reimbursement for extra hours and overtime of other ETF staff performing Act 11 transitional functions and associated LTE costs (-\$130,600); (b) fringe benefits for these employees (-\$64,000); and (c) supplies and services, including contractor costs required for the Act 11 implementation (-\$246,700). The reduction made to the salary cost estimate in 2002-03 relates primarily to ETF permanent staff performing Act 11 tasks and reflects a reevaluation of staffing needs, particularly in the member services area. The supplies and services reduction is primarily due to a slowdown in the volume of retirement processing and to the fact that a contracted accountant is no longer required. The following table details the total costs under the revised request.

**Revised Total Funding Requirement in 2001-03
For Act 11 Implementation Costs
(SEG Funds)**

<u>Cost Category</u>	<u>Requested Amount</u>
ETF Staff Costs	
Restated Overtime and Act 11 Project Positions	\$1,663,100
Supplies and Services Costs	
DEG Information Technology Charges	785,800
Programming, Applications Development and Data Entry Contractual Services	865,000
Private Space Rental	54,800
Office Supplies	3,600
Total	\$3,372,300

The agency's supporting documentation, resulting in the revised request for \$3,372,300 SEG, has been examined and appears to be reasonable. These costs are consistent with earlier departmental estimates of the implementation costs relating to Act 11. Since the Department's request for Act 11 continuing implementation funding meets the standards under s. 13.101(3) of the statutes for granting a supplementation, the Committee may wish to approve the agency's request and provide supplemental funding at a revised level of \$3,372,300 SEG in 2002-03. This level of supplementation would address the agency's documented projected Act 11 expenditure needs. Because the appropriation s. 20.515(1)(v) is repealed under Act 16, effective June 30, 2003 any supplemental funding that is provided in 2002-03 would be one-time funding and would not establish any base funding for the 2003-05 biennium.

ALTERNATIVES

1. Approve the Department of Employee Trust Fund's revised request for a supplementation of \$3,372,300 SEG in 2002-03 from the Committee's s. 20.865(4)(u) appropriation to the Department's s. 20.515(1)(v) appropriation to fund additional costs associated with the Department's continuing activities to implement the retirement benefit improvement provisions contained in 1999 Wisconsin Act 11. *[This supplementation amount is restated from the Department's original June 7, 2002, request of \$4,145,900 SEG to reflect modifications that update the computation of implementation costs relating to*

2. Deny the request.

Prepared by: Art Zimmerman

MO# A17 2

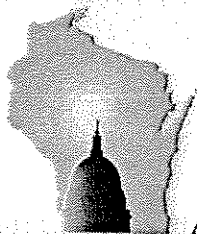
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DECKER	<input checked="" type="checkbox"/>	N
BURKE	<input checked="" type="checkbox"/>	N

I. Department of Employee Trust Funds – Dave Hinrichs, Executive Assistant and Jean Guilding, Administrator of the Division of Employer Services

The department requests a one-time supplement of \$3,372,300 SEG in fiscal year 2002-2003 from the Committee's appropriation under s. 20.865(4)(u) to the department's provision of benefits appropriation under s. 20.515(1)(v) to fund activities associated with implementing and administering major retirement benefits mandated by 1999 Wisconsin Act 11.

Governor's Recommendation

Approve the request.



**WISCONSIN DEPARTMENT OF
ADMINISTRATION**

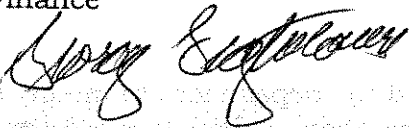
SCOTT McCALLUM
GOVERNOR

GEORGE LIGHTBOURN
SECRETARY

Office of the Secretary
Post Office Box 7864
Madison, WI 53707-7864
Voice (608) 266-1741
Fax (608) 267-3842
TTY (608) 267-9629

Date: November 8, 2002

To: Members, Joint Committee on Finance

From: George Lightbourn, Secretary
Department of Administration 

Subject: Section 13.10 Request from the Department of Employee Trust Funds for Additional Funding for Implementation of Various Provisions of 1999 Wisconsin Act 11

Request

The department requests a one-time supplement of \$3,372,300 SEG in fiscal year 2002-03 from the Committee's appropriation under s. 20.865(4)(u) to the department's provision of benefits appropriation under s. 20.515(1)(v) to fund activities associated with implementing and administering major retirement benefits mandated by 1999 Wisconsin Act 11.

Background

Act 11 was effective December 30, 1999. The provisions of the law require modifications to 483,000 Wisconsin Retirement System member accounts. These modifications included retroactive interest crediting and adjustments to retirement dividends paid in 2000 and 2001. Additionally, Act 11 affected contribution credits for employers, death benefits, the recognition of investment earnings, eligibility rules regarding member participation in the variable trust and certain actuarial assumptions.

On December 29, 1999, the Wisconsin Supreme Court granted an injunction barring implementation of the provisions of Act 11. Although the department was unable to begin actual implementation, it proceeded with planning for implementation of all provisions of Act 11 beginning in January of 2000. The court ruled that the provisions of Act 11 were constitutional in June of 2001.

On March 25, 2001, the department submitted a request to the Committee to amend its biennial budget request to include an extension of the provision of benefits appropriation until June 30, 2003, additional funding of \$5,079,100 SEG, and continuation of 15.0 FTE SEG project positions. 2001 Wisconsin Act 16 extended the appropriation end date until June 30, 2003, authorized 20.0 FTE SEG project positions and provided funding of \$1,600,000 SEG to continue implementation efforts.

On June 7, 2002, the department submitted its original request to the Committee since the funding provided by Act 16 had been expended. The original request was for \$4,145,900 SEG. The current request of \$3,372,300 SEG represents a reduction of \$773,600 SEG. This reduction is primarily due to lower than anticipated contractor costs and lower than anticipated overtime hours. The department expects to have all provisions of Act 11 implemented by June 30, 2003, if this request is approved.

Analysis

Act 11 required the department to modify every member account, reopen the variable trust to new members, calculate employer contribution credits, modify the process of recognizing investment earnings and change certain actuarial assumptions. To implement these provisions, the department had to change various computer programs, update forms and brochures, and revise operational procedures.

It was difficult for the department to precisely determine its funding needs due to the court's granting of an injunction prohibiting the implementation of the provisions of Act 11. During the development of the 2001-03 biennial budget, it was unknown when the court would issue its final ruling regarding the constitutionality of the various provision contained in Act 11.

In June of 2001, the court ruled that all provisions of Act 11 were constitutional. At that time, the department began the actual implementation of those provisions. By June of 2002, the department had expended all funding in the appropriation and transmitted its original request to the Committee. Since that time, the department recalculated the estimate of costs to complete the implementation of all Act 11 provisions. Lower than anticipated contractor and overtime hours resulted in a reduction of necessary funding.

The department estimates \$1,663,100 for staff costs, \$785,800 for computer mainframe charges, \$865,000 for other information technology costs, and \$58,400 for space rental and supplies.

The agency is required by law to complete the implementation of these provisions. Without additional funding, the agency believes that it will be forced to cease further implementation efforts. Additionally, the agency claims that ceasing implementation efforts will cause the backlog of annuity calculations to grow which would further delay payments to annuitants. The agency states that some of these annuitants have been waiting for the finalization of the retirement payment since calendar year 2000. The agency believes that approval of this request will allow them to complete implementation of all provisions of Act 11 by June 30, 2003.

Recommendation

Approve the request.



STATE OF WISCONSIN

Department of Employee Trust Funds

Eric O. Stanchfield
Secretary
801 West Badger Road
P.O. Box 7931
Madison, WI 53707-7931

June 7, 2002

The Honorable Brian Burke
Co-Chair, Joint Committee on Finance
317 East, State Capitol
Madison WI 53702

The Honorable John Gard
Co-Chair, Joint Committee on Finance
308 East, State Capitol
Madison WI 53702

Subject: Section 13.101 Request for Costs Relating to the Implementation of the 1999
Wisconsin Act 11 (Act 11)

Dear Senator Burke and Representative Gard:

The Department of Employee Trust Funds (Department) requests a supplement in the amount of \$4,145,900 SEG in the biennial appropriation [s. 20.515(1)(v)] to support costs associated with implementing and administering major retirement benefits contained in 1999 Wisconsin Act 11 (Act 11). 2001 Wisconsin Act 16 (Act 16) provided funding of \$1,600,000 SEG in 2001-2002 and 20.0 SEG two-year project positions. Act 16 funding for Act 11 was only one-third of the funding the Department requested based on the uncertainty of the Wisconsin Supreme Court's (Court) decision on the legality of various provisions of the legislation and the actual impact on the Department. As a condition of providing only \$1.6 million SEG, the Joint Committee on Finance (JCF) indicated that the Department could return to JCF under s. 13.101 for a further supplement once the full extent of the Court's findings for the remainder of the biennium were known.

The Department currently has a negative balance of -\$395,500 in its Act 11 appropriation. The Department is seeking funding approval for continued Act 11 costs at the next scheduled s. 13.101 meeting. In the event there is no s. 13.101 meeting before the end of the fiscal year 2002, the Department will continue to implement the provisions of Act 11 as required by law by spending beyond our existing expenditure authority unless the JCF indicates otherwise to the Department. If approval is not authorized or we cannot deficit spend, then the only alternative is for us to cease implementation of the provisions of Act 11 and layoff 20.0 SEG FTE project positions and limited term employees and end our contractual services. This will result in our current workload and backlog of annuity calculations to grow significantly delaying further payments to annuitants who have already waited since 2000 for finalization of their Wisconsin Retirement System payment.

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Background of Request

Act 11 was effective December 30, 1999. The provisions of the law affected benefits, interest crediting, variable annuity options, contribution credits for employers, death benefits, credit for legislative service, recognition of income and capital gains and losses in the fixed retirement investment trust, and certain actuarial assumptions and liabilities under the Wisconsin Retirement System (WRS).

On December 29, 1999 the Court granted an injunction barring implementation of the provisions of Act 11. Even though an injunction was in force, the Department began planning for the implementation of Act 11 in January of 2000, anticipating a decision was likely within one year. Computer programs, forms, brochures, and operational procedures required extensive changes in order to implement Act 11. For purposes of planning for these changes, the Department assumed that every provision in Act 11 would be found constitutional. By designing and testing changes to computer programs in separate modules, the Department began preparations to accommodate the Court's decision. In June 2001, the Court ruled that Act 11 was constitutional.

Analysis

Since fiscal year 2000-01, the Department has been engaged in an extensive effort to reprogram several hundred computer program modules, update forms and brochures, and revise a variety of operational procedures in order to implement the provisions of Act 11. The magnitude and complexity of the changes have proven to be greater than initially estimated.

Act 11 impacted all 483,000 WRS member accounts at least once. Retroactive adjustments back to January 1, 1999 occurred for about 332,000 members who received effective rate interest on their accounts. Work continues on more than 100,000 retired member accounts that require multiple adjustments to retirement dividends paid in 2000 and 2001. Thousands of members remain on estimated payroll, often receiving an annuity smaller than that to which their finalized amount would entitle them. In addition, at least 16,800 accounts required multiple adjustments due to benefit underpayments.

A key decision was made early in the process to break down the implementation of Act 11 into two distinct phases:

Phase 1 - Complete

Many of the provisions in Act 11 were implemented in Phase 1. Implementing Act 11 proved to be far more complex than originally estimated at each step of the process. This complexity was exasperated by the fact that implementation was retroactive nearly a year and a half (the Court's decision was issued in June 2001). Phase 1 included the

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retroactive distribution of the \$4 billion recognition of gains in the Transaction Amortization Account (TAA), retroactive interest crediting, implementation of the higher formula multiplier for pre-2000 creditable service and a major system conversion.

Phase 2 – In Progress

Phase 2 includes the re-opening of the variable trust fund to new enrollments. This phase is complicated by the fact that the Wisconsin Employee Benefits System (WEBS) was developed in the late 1980s and all programs were designed on the underlying principle that participants who had not elected to participate in the variable program before it was closed to new enrollments in 1980 would never have the opportunity to enroll. Phase 2 is further complicated by the fact that new variable enrollments (approximately 68,000) must be implemented retroactively to January 1, 2001. This means moving 50% of many participants' contributions that were originally recorded in the fixed fund to the variable fund. The result is that the WEBS database needs significant program changes and another major system conversion. Phase 2 also includes about 10,400 accounts requiring completion of manual annuity dividend adjustments, final annuity corrections, supplemental lump sum payments and final calculation of estimated benefits. Each of these accounts on average are handled about 3.5 times.

The Phase 2 system conversion must be completed by December 31, 2002 or the Department cannot finalize benefit payments without manual calculations. With the current system infrastructure, the Department has no mechanism to store and calculate multiple years of interest for crediting on member accounts. Final Phase 2 programming, testing, training and backlog work is scheduled for completion in June of 2003.

Brief Summary of Request

The backlogs and cost estimates contained in this request are based upon the number of accounts awaiting adjustments, the variable enrollment/cancellation system changes and the retroactive implementation of Phase 2.

Phase Two Activities

Division of Information Technology (IT)

The provisions of Act 11 result in the most comprehensive changes to the WEBS since it was first implemented in 1992. Nearly all IT functions are affected, requiring another major system conversion in Phase 2. In addition to assigning existing staff to this project, the Division currently employs 5.0 FTE contract programmers involved in the full development life cycle, construction effort and assisting business users in the development of application test plans.

Division of Retirement Services

Customer Service Call Center

The Customer Service Call Center answers incoming calls generated from Act 11. Interested members call or e-mail the Department seeking information on Act 11 and how the various provisions affect them relating to:

- Supplemental lump sum payments
- Delays in processing final calculations for 2000, 2001 and 2002
- Variable fund opt in and opt out
- Interest crediting
- Tax reporting
- Annual Statement of Benefits clarification
- Requesting retirement estimates and applications
- Requesting account summaries, pension verifications, Qualified Domestic Relations Orders, etc.
- Retirement appointment scheduling

Member Services Bureau

The Member Services Bureau processes retirement estimates, service purchase requests, and other benefit information requests. The Member Services Bureau estimates a 25% increase in retirement benefits or approximately 850 additional retirement benefit estimate requests. The Department projects workload increases/backlogs in the following areas through June 30, 2003:

- Retirement benefit estimate requests (about 1,200 retirement estimate requests)
- Benefit counseling appointments and walk-ins (33% average monthly increase in appointments and walk-ins or about 520 appointments)
- Other benefit requests and desk work (approximately 1,800 units)
- Staff training/auditing (about 1000 hours)

Benefit Services Bureau

The Benefit Services Bureau processes manual dividend adjustments, final annuity corrections, final annuity calculations, supplemental lump sum payments, 1099-R tax reporting corrections and tax withholding change requests relating to the implementation of Act 11. To date, the Benefit Services Bureau has completed:

- 40% of the manual dividend adjustments for 1999 and 2000. There is a current backlog of 5,700 manual calculations.

- 46% of the final annuity corrections with 550 annuities remaining.
- 58% of final calculations for annuitants prior to July 2001. The total final retirement benefit computation backlog is 11,073. These are all eligible for Act 11 provisions. Of the 11,073 backlog, 3,274 annuities have calendar year 2000 effective dates and are being worked first. There are 5,737 annuities with effective dates in calendar year 2001. Annuities with effective dates up through 6/2/2000 have been completed.
- 89% of the supplemental lump sum payments of the original 4,009 are complete. It is important to complete these supplemental lump sum benefits as soon as possible to lessen the chance of losing contact with benefit recipients.

Division of Employer Services

The Division of Employer Services will continue to experience Act 11 workload increases in the following areas: variable election/cancellation processing; prior-year corrections; beneficiary designations; military service inquiries; benefit inquiries; employer and employee service and earning inquiries; termination reports; insurance applications for new employees replacing those who retire; and participants purchasing qualified service, forfeited service or other governmental service. In addition, the Division will continue to require resources to back fill for staff working on the Phase 2 system changes.

Division of Management Services

The Division processes inquiries on benefit estimates, retirements, employer bulletins, prepares and mails retirement packets; prepares, scans, and indexes documents to the imaging system; and revises and prints forms and brochures.

Office of the Controller

The Office of the Controller processes refunds, Qualified Domestic Relations Orders, and employer prior service credit inquiries. In addition, the Controller's Office will require one additional contract accountant to backfill for staff working on the system changes needed to implement Phase 2.

Refer to Attachment 1 for detailed costs.

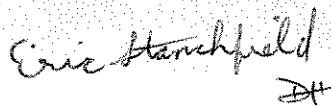
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How Request Meets Statutory Criteria

I believe the statutory standards under s. 13.101 (3) of the statutes for granting supplementation have been met. The balance of the Act 11 appropriation as of June 5, 2002 is -\$395,500 and the Department is obligated to continue implementation of benefits provisions associated with Act 11. The Department is assessing ongoing resource needs related to variable election, enrollment and cancellation provisions within Act 11 and this assessment may result in a 2003-05 biennial budget request.

Thank you for the consideration of this request. I have asked Jean Gilding, Administrator of the Division of Employer Services, and Dave Hinrichs, Executive Assistant, to be available at your meeting to answer any questions you may have.

Sincerely,



Eric O. Stanchfield
Secretary
(608) 266-0301
TTY (608) 267-0676
FAX (608) 267-0633

Enclosures

Attachment 1

Act 11 Implementation Costs during the 2001-2003 Biennium

<u>Cost Category</u>	<u>Request</u>
ETF Staff Costs	
20.0 FTE Project Positions, Staff Overtime and Extra Hours, Limited Term Employees	\$2,166,500
Supplies and Services Costs	
Department of Electronic Government Information Technology Charges	\$785,800
Programming, Application Development, Data Entry and Contractual Services	\$1,111,700
Private Space Rental	\$54,800
Office Supplies	<u>\$27,100</u>
Total:	\$4,145,900