



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #281

Customer Service Functions (ETF)

Bill Item

[LFB 2007-09 Budget Summary: Page 130, #3]

CURRENT LAW

The Wisconsin Retirement System (WRS) is administered by the Department of Employee Trust Funds (ETF), under the supervision of a 13-member Employee Trust Funds Board. The WRS covers nearly all public employees in the state except employees of the City of Milwaukee and Milwaukee County, which maintain separate retirement systems. The WRS includes over 1,400 public employers including state agencies, counties, cities, towns, villages, school districts, technical college districts, cooperative educational service agencies, and special districts. As of December 31, 2006, the system covered 532,942 participants: 262,989 active employees, 134,396 annuitants, and 135,557 inactive (past) employees who have maintained their WRS accounts (rather than taken a separation benefit). In addition, the Department administers a number of employee benefit programs, including health insurance plans available to all state employees and to some local governmental employees under the Wisconsin Public Employers' group health insurance program.

The Department's funding for state operations relating to the WRS is provided from the Public Employee Trust Fund. Base funding totals \$21,513,600 SEG, with 193.1 SEG positions.

GOVERNOR

Provide \$1,351,000 SEG and 4.0 SEG positions in 2007-08 and \$1,331,200 SEG and 9.5 SEG positions in 2008-09 for customer service functions. Under the bill, 4.0 SEG permanent positions would be authorized in each year and 5.5 SEG four-year project positions would be

authorized in 2008-09. In 2008-09, \$339,500 SEG of the funding, relating to the 5.5 SEG project positions, is placed in unallotted reserve.

DISCUSSION POINTS

1. The SEG funding and positions provided under the bill (from the Public Employee Trust Fund) would be allocated for the following purposes:

a. General program operations would be provided with \$203,200 and 4.0 positions in 2007-08 and \$549,000 and 9.5 positions in 2008-09. This funding and position authorization is intended to address the Department's WRS caseload growth. This caseload growth and the resources provided under the bill will be discussed in greater detail below. [In addition, in a budget errata report dated March 6, 2007, the Department of Administration (DOA) indicates that an ETF request for inflationary increases for supplies and services, which was intended to be approved was inadvertently deleted from the bill. The restoration of this funding would require \$793,000 in 2007-08 and \$821,200 in 2008-09. This technical correction would be made under Alternatives 1, 2, and 3.]

b. An appropriation for health insurance data collection and analysis contracts is provided \$19,800 in 2007-08 and -\$23,100 in 2008-09. This item was part of the agency budget request and the annual amounts reflect, among other changes, the reallocation of \$77,800 in 2007-08 and \$124,200 in 2008-09 in base level funds from this appropriation to help fund certain requested positions under the general program operations appropriation. [In the budget errata report dated March 6, 2007, DOA also indicates that these positions were not approved, but the reallocation to fund the positions (\$77,800 in 2007-08 and \$124,200 in 2008-09) was not restored to the health insurance data collection and analysis contracts appropriation, resulting in an unintended base budget reduction. This technical correction to the Governor's provision would also be made under Alternatives 1, 2, and 3.]

c. The agency's appropriation for automated operating system costs would be provided \$439,200 in 2007-08 and \$92,000 in 2008-09. This funding is intended to provide inflationary and additional WRS membership increases to base funding for supplies and services (\$80,200 in 2007-08 and \$83,000 in 2008-09) and to provide additional supplies and services and one-time funding to facilitate the transition from older "legacy" systems to updated technologies (\$359,000 in 2007-08 and \$9,000 in 2008-09).

d. The general program operations appropriation would also be provided \$688,800 in 2007-08 and \$713,300 in 2008-09 for other information technology costs. These increases are provided to address inflationary cost increases for supplies and services and to reflect additional WRS membership costs.

2. The inflationary increases provided under the errata item described in discussion point 1 (a) and the increases provided under the bill, as described in discussion points 1 (c) and (d), adjust base funding for supplies and services for inflation and the increasing number of WRS

participants. ETF officials indicate that supplies and services costs vary due to both inflation and the number of WRS participants being served by the agency. The Department indicates that the last inflationary adjustment for supplies and services was made prior to the 2003-05 biennium.

The adjustments made in SB 40 are based on the annual, all U.S. city average consumer price index (CPI) measures made through July, 2006, and projected through 2009, and then applied to base level funding for the 2003-05, 2005-07, and 2007-09 biennia. In addition, an adjustment is made to reflect the projected increase in WRS participants between 2003 and 2009. The calculation of the increases has been reviewed and the adjustments appear to be reasonable.

3. With the exception of the errata item mentioned in discussion point 1(b) above, the funding identified in discussion points 1 (b), (c), and (d) reflect ETF's 2007-09 budget request. However, with respect to the item described in discussion point 1 (a), ETF requested \$3,388,100 SEG in 2007-08 and \$3,440,600 SEG in 2008-09 and 51.0 SEG positions annually to address growing caseload for WRS services. The bill would provide 7.8% of the requested positions in 2007-08 and 18.6% of the requested positions in 2008-09.

4. The general program operations funding in 2008-09 includes \$339,500 for the 5.5 FTE project positions authorized under the bill. The funding covers salary, fringe benefits, supplies and services, and one-time funding for the positions. DOA indicates that project, rather than permanent, positions are provided under the bill in order to monitor whether the expected retirement caseload growth will actually be realized. According to DOA, the actuarial trend for the growth has been slightly lower than expected in terms of the ratio of retirement-eligible to retirement-taking participants. DOA officials would also like to gage the impact of the implementation of information technology improvements, also funded under SB 40, before approving permanent positions.

5. As noted above, the \$339,500 relating to the 5.5 FTE project positions is placed in unallotted reserve. The Executive Budget Book indicates that DOA would release the \$339,500 funding and related position authority upon approval of a detailed project implementation plan to be submitted by ETF. DOA indicates that funding for the positions would only be released when caseload measures clearly demonstrate the need for the funding. DOA also envisions the possibility that the release of the funding may not occur all at once, but may be incremental, as needed.

6. The ETF Secretary, in a letter to the Co-Chairpersons of the Committee dated March 15, 2007, requested that the 5.5 FTE project positions provided in the bill be made permanent and authorized in 2007-08, rather than 2008-09. He indicates that: (a) the current growth in caseload is unprecedented and will remain high for the next 20 years; and (b) permanent positions are needed to facilitate recruitment, training, and retention of staff that will be needed beyond the term of a four-year project position. In addition, the Secretary requests \$243,000 SEG in 2007-08 and \$244,000 SEG in 2008-09 and an additional 5.0 SEG trust fund specialist positions annually to further address customer service caseload growth.

7. In an item unrelated to the 2007-09 biennial budget process, but of relevance to caseload issues, ETF has submitted a request to the Committee under s. 13.10 of the statutes for

\$450,000 SEG in one-time funding in 2006-07 for general program operations and the transfer of \$150,000 SEG from the agency's appropriation for health insurance data collection and analysis contracts in 2006-07 to general program operations to address current customer service backlogs associated with retirement services for state and local governmental employees. The request was submitted on April 11, 2007, and is still pending.

8. The administration would provide 4.0 FTE permanent positions in response to the caseload situation, and 5.5 FTE additional project positions in 2008-09, if caseload growth and backlog issues can be clearly demonstrated. Based on the agency's budget request and the Secretary's letter of March 15, 2007, the Department is taking the position that the resources provided under the bill are not adequate to fully address workload issues. The Department believes that the growth in workload is verifiable, will continue into the foreseeable future, and is currently outstripping staff resources, causing the development of unacceptable waiting periods for the provision of retirement-related services to WRS participants.

9. According to ETF, the factors contributing to this caseload growth are the increasing number of WRS participants (active employees, inactive participants, and annuitants), the growth in the number of participants eligible to retire (the "baby-boom" effect), and the lack of additional staff resources to respond to this growth.

10. With respect to staffing, the Department has experienced some increases in recent years for participant services, including the Department's customer service call center; however, the positions provided have always fallen short of the positions requested by the Department. In the 2001-03 biennium, 19.5 FTE positions were requested and 14.5 FTE positions were provided. For the 2003-05 biennium, the Department requested 20.3 FTE positions and were provided 6.5 FTE positions. Finally, in the 2005-07 biennium, 4.0 FTE of 7.0 FTE requested positions were approved.

11. The Department indicates that these past budget requests were limited requests aimed at addressing immediate needs. According to ETF officials, the agency's 2007-09 budget request (for 51.0 additional positions annually) represents a unique attempt to fully address departmental efforts to effectively meet service standards within the context of anticipated growth.

12. WRS participation data in 2005-06 and projected data for 2006-07, 2007-08, and 2008-09 are provided in the Table 1. The table presents data on: (a) the number of active participants [current employees of state and local public employers]; (b) the number in inactive participants [former employees who have maintained their WRS accounts and who will receive future benefits]; (c) the number of WRS annuitants; (d) the number of participants eligible to retire; and (e) the annual number of new annuities [retirements] projected through 2008-09. The data indicates fairly significant growth in each area except active participants, which is declining slightly.

TABLE 1**WRS Participant Projections
2005-06 to 2008-09**

| <u>WRS Participants</u> | <u>2005-06</u> | <u>2006-07</u> | <u>2007-08</u> | <u>2008-09</u> | <u>Percent Change FY06 to FY09</u> |
|---------------------------------|----------------|----------------|----------------|----------------|--|
| Active | 262,989 | 262,423 | 261,598 | 260,786 | -0.8% |
| Inactive | 135,557 | 142,795 | 151,542 | 158,621 | 17.0 |
| Annuitants | <u>134,396</u> | <u>140,274</u> | <u>146,774</u> | <u>153,473</u> | <u>14.2</u> |
| Total Participants | 532,942 | 545,493 | 559,915 | 572,880 | 7.5% |
| Participants Eligible to Retire | 96,663 | 104,211 | 109,709 | 114,202 | 18.1% |
| New Annuities | 8,059 | 8,685 | 9,487 | 9,772 | 21.3% |

13. The Department has responsibility to provide a wide range of participant services relating to active employee benefits, assisting employees transitioning from active to annuitant status, and ongoing post-retirement support. Table 2 provides a partial list of key WRS-related functions or tasks that are required of ETF. For each function, the number of outstanding requests to be processed are provided, as of July 1, 2004, July 1, 2005, July 1, 2006, and currently.

TABLE 2**ETF
Number of Outstanding Requests**

| <u>Function/Task</u> | <u>Outstanding Requests as of July 1, 2004</u> | <u>Outstanding Requests as of July 1, 2005</u> | <u>Outstanding Requests as of July 1, 2006</u> | <u>Percent Change '04 to '06</u> | <u>Outstanding Current Requests</u> |
|--|--|--|--|--|---|
| Retirement Estimates | 1,750 | 1,803 | 2,033 | 16.2% | 1,285 |
| Disability Estimates | 14 | 19 | 39 | 178.6% | 35 |
| Death Benefit - Annuitants | 127 | 219 | 153 | 20.5% | 393 |
| Death Benefit - Non-Annuitants | 67 | 60 | 68 | 1.5% | 105 |
| Pension Verifications | 5 | 70 | 36 | 620.0% | 25 |
| Final Annuity Calculation | 2,565 | 3,884 | 4,889 | 90.6% | 4,192 |
| Purchase of Qualified Service | 44 | 39 | 28 | -36.4% | 9 |
| Purchase of Forfeited Service | 124 | 118 | 168 | 35.5% | 136 |
| Purchase of Other Governmental Service | 9 | 13 | 10 | 11.1% | 35 |
| Lump-Sum Payments | 189 | 195 | 1,056 | 458.7% | 836 |
| General Requests | 245 | 60 | 199 | -18.8% | 227 |

14. This data provides an indication of workload pressures over time. The number of outstanding requests generally increased from 2004 to 2006, with only two categories showing a

decrease (Purchase of Qualified Service and General Requests). It should be noted that caseload in some of these areas fluctuate due to seasonal variations in how participant requests are made. For example, most retirement annuities are initiated in June of each year, with July and January being the second and third highest months. These patterns drive caseload in related areas such as requests for retirement estimates, purchase of creditable service, pension verifications, final annuity calculations, and so forth. Thus, the outstanding current requests in Table 2 are likely to increase to higher levels in several functional areas by the end of June, and into July.

15. Another measure of workload pressure is the time it takes to process outstanding requests. The Department has established time-period goals for completing requests for services. These turnaround goals provide a quality-of-service measure for assessing actual performance. Table 3 provides, for each of the functional areas shown in Table 2, the turnaround goal, and the actual turnaround times as of July 1, 2004, July 1, 2005, July 1, 2006, and currently.

TABLE 3

**ETF
Request Turnaround Times**

| <u>Function/Task</u> | <u>Turnaround Goal</u> | <u>Turnaround July 1, 2004</u> | <u>Turnaround July 1, 2005</u> | <u>Turnaround July 1, 2006</u> | <u>Turnaround Current</u> |
|--|------------------------|--------------------------------|--------------------------------|--------------------------------|---------------------------|
| Retirement Estimates | 2 Weeks | 12 Weeks | 13 Weeks | 10 Weeks | 10 Weeks |
| Disability Estimate | 1 Week | 1 Week | 1 Week | 1 Week | 1 Week |
| Death Benefit - Annuitants | 2 Weeks | 2 Weeks | 3 Weeks | 2 Weeks | 5 Weeks |
| Death Benefit - Non-Annuitants | 1 Week | 2 Weeks | 1 Week | 1 Week | 3 Weeks |
| Pension Verifications | 1 Week | 1 Week | 2 Weeks | 1 Week | 1 Week |
| Final Annuity Calculation | 3 Months | 2 Months | 2 Months | 6 Months | 9 Months |
| Purchase of Qualified Service | 2 Weeks | 12 Weeks | 11 Weeks | 8 Weeks | 6 Weeks |
| Purchase of Forfeited Service | 2 Weeks | 10 Weeks | 9 Weeks | 9 Weeks | 8 Weeks |
| Purchase of Other Governmental Service | 2 Weeks | 3 Weeks | 3 Weeks | 1 Week | 11 Weeks |
| Lump-Sum Payments | 2 Weeks | 4 Weeks | 4 Weeks | 8 Weeks | 10 Weeks |
| General Requests | 3 Weeks | 8 Weeks | 6 Weeks | 8 Weeks | 9 Weeks |

16. These turnaround times generally exceed the service goals of the Department. While turnaround times have increased over this period in some areas (final annuity calculations, purchase of other governmental service, and lump-sum payments), the Department appears to have maintained turnaround times, preventing further increases, in several other areas. For example, retirement estimates, purchase of qualified and forfeited services, and general requests have fairly steady turnaround times through the period, albeit well in excess of the turnaround goals in each of these areas.

17. It is difficult to characterize the effect additional staffing would have on these caseload measures under either the bill or the request for additional resources by the ETF Secretary. Any effect would depend, in part, upon how the Department allocates the positions among its

divisions and bureaus and how it prioritizes work in different functional areas. It is possible, however, to make some comparative assessment of staffing, if it is assumed that the trust fund specialist positions that would be authorized would be allocated entirely to the Member Services Bureau. This Bureau handles the majority of the functions or tasks listed in Tables 2 and 3. The relative effect of different staffing patterns on the Bureau's workload can be assessed on the basis of a model used by the Department to project outstanding caseload into the future and to develop budget requests.

18. The model does not project backlogs and waiting periods for each type of request. Rather, it provides an aggregate projection for all the Bureau's workload, based on a standardized workload unit that reflects the weighted average of all the bureau's work tasks. The model allows varying assumptions to be made about changing workload projections and staffing levels. In utilizing the model, ETF has: (a) projected caseload growth; (b) assumed that staffing would be in place for the entire first year of the biennium (although funding would only be for nine months in 2007-08); (c) not reduced its projection of completed work in 2007-08 and 2008-09 to reflect the training of new staff; and (d) not reduced its projection of completed work in 2007-08 and 2008-09 to reflect the anticipated loss of experienced Bureau staff due to retirement. As a result of this approach, the Department believes the model tends to minimize, rather than exaggerate, staffing needs.

Further, in calculating the projected number of outstanding requests at the end of each fiscal year, the ETF model also excludes what might be termed an "acceptable" backlog. The acceptable backlog represents recent requests that are in the earliest stages of processing. This adjustment is made in order not to overstate the backlog that exceeds the agency's processing time standards.

Based on these assumptions, the model indicates that if no new staffing is provided in the 2007-09 biennium, the year-end backlog of cases would increase by approximately 200% as compared to the 2006-07 year-end projection and the average turnaround time for the average weighted case would increase by approximately 230%. While the model cannot fully capture the complexity of the Bureau's work or provide precise predictions of future outcomes, it can provide feedback on the relative impact of different levels of additional staffing in the 2007-09 biennium, as discussed in the following points.

19. *Governor's Provision.* Of the 4.0 FTE positions in 2007-08 and 9.5 FTE positions in 2008-09 provided under the bill, 4.0 FTE positions in 2007-08 and 7.5 FTE positions in 2008-09 would be trust fund specialist positions that could potentially be assigned to the Member Services Bureau. If this staffing level is averaged over the two years of the 2007-09 biennium (in order to accommodate the model described above, which assumes equal staffing in both years), the model would project that the year-end backlog of cases would increase by approximately 18%, as compared to the 2006-07 year-end projection. In addition, the average turnaround time for the average weighted case would decrease by approximately 6%.

Arguably, with the additional resources provided under the bill, the Department could reduce turnaround times in some of the functional areas and, once "caught up," could maintain

acceptable service levels with the 4.0 FTE permanent staff and 5.5 FTE project positions for the next two years. The Department will also have the opportunity to have its staffing issues reconsidered in the 2009-11 biennial budget process. In addition, if workload issues become critical, the Department can request additional funding and position authority from the Committee under a s. 13.10 request.

20. *Secretary's Modification Request.* The ETF Secretary's March 15, 2007, request would, in part, authorize the 5.5 FTE project positions provided in the bill in 2007-08, rather than 2008-09, and make the positions permanent, rather than project. This would provide a total of 9.5 FTE positions annually, including 7.5 FTE trust fund specialist positions. If these 7.5 FTE positions are used in the member services bureau, the model would project that the year-end backlog of cases would decline by approximately 86%, as compared to the 2006-07 year-end projection, and the average turnaround time for the average weighted case would decrease by approximately 79%. This level of additional staffing would largely address the caseload backlog and turnaround issues in the Member Services Bureau (but not in other areas of the Department's WRS operations).

It could be argued that this staffing modification, which would provide additional permanent staff in 2007-08, affords the Department the opportunity to effectively address current backlog issues quickly, rather than having backlogs continue to worsen before additional staff is provided. Arguably, growth in caseload will continue for many years and the current increases in the number of pending requests and turnaround time support the need for permanent staff increases. In addition, permanent positions, rather than project positions, likely do facilitate recruitment and retention of qualified staff.

Under this portion of the Secretary's request, 9.5 FTE permanent positions would be provided annually. This alternative would modify the funding under the bill by providing an additional \$293,300 SEG in 2007-08 and reducing funds by \$47,600 SEG in 2008-09.

21. *Secretary's Full Request.* The Secretary's March 15, 2007, letter to the Committee also includes a request for an additional 5.0 SEG trust fund specialist positions annually to further address customer service caseload growth. If both of the Secretary's requests are adopted, the Department would be authorized a total of 14.5 FTE positions annually for WRS workload, including 12.5 trust fund specialist positions. As noted above, the model shows that 7.5 FTE trust fund specialist positions would fully address Member Services Bureau caseload. Therefore, under this approach, the remaining 5.0 FTE trust fund specialist positions could be allocated for other duties in the Department.

Under the Secretary's full request, a total of 14.5 FTE positions annually would be authorized. This alternative would modify the funding under the bill by providing an additional \$545,900 SEG in 2007-08 and \$209,200 SEG in 2008-09.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation to provide \$1,351,000 SEG and 4.0 SEG

positions in 2007-08 and \$1,331,200 SEG and 9.5 SEG positions in 2008-09 for customer service functions. The provision includes 4.0 SEG permanent positions that would be authorized in each year and 5.5 SEG four-year project positions that would be authorized in 2008-09. In 2008-09, \$339,500 SEG of the funding, relating to the 5.5 SEG project positions, is placed in unallotted reserve.

In addition, provide \$793,000 SEG in 2007-08 and \$821,200 in 2008-09 SEG for general program operations inflationary increases for supplies and services, which were intended to be approved, but were inadvertently deleted from the bill. Finally, provide \$77,800 SEG in 2007-08 and \$124,200 SEG in 2008-09 to the appropriation for health insurance data collection and analysis contracts to restore an unintended budget reduction.

| ALT 1 | Change to Bill | | Change to Base | |
|-------|----------------|-----------|----------------|-----------|
| | Funding | Positions | Funding | Positions |
| SEG | \$1,816,200 | 0.00 | \$4,498,400 | 9.50 |

2. Provide \$1,644,300 SEG in 2007-08 and \$1,283,600 SEG in 2008-09 and 9.5 SEG positions annually for customer service functions. The 9.5 SEG positions would be permanent. The unallotted reserve amount under the bill (\$339,500 SEG in 2008-09) would be instead be budgeted for salary, fringe benefit, and supplies and services. This action would modify the funding under the bill by providing an additional \$293,300 SEG in 2007-08 and reducing funds by \$47,600 SEG in 2008-09.

In addition, provide \$793,000 SEG in 2007-08 and \$821,200 in 2008-09 SEG for general program operations inflationary increases for supplies and services, which were intended to be approved, but were inadvertently deleted from the bill. Finally, provide \$77,800 SEG in 2007-08 and \$124,200 SEG in 2008-09 to the appropriation for health insurance data collection and analysis contracts to restore an unintended budget reduction.

| ALT 2 | Change to Bill | | Change to Base | |
|-------|----------------|-----------|----------------|-----------|
| | Funding | Positions | Funding | Positions |
| SEG | \$2,061,900 | 0.00 | \$4,744,100 | 9.50 |

3. Provide \$1,896,900 SEG in 2007-08 and \$1,540,400 SEG in 2008-09 and 14.5 SEG positions annually for customer service functions. The 14.5 SEG positions would be permanent. The unallotted reserve amount under the bill (\$339,500 SEG in 2008-09) would be instead be budgeted for salary, fringe benefit, and supplies and services. This action would modify the funding under the bill by providing an additional \$545,900 SEG in 2007-08 and \$209,200 SEG in 2008-09.

In addition, provide \$793,000 SEG in 2007-08 and \$821,200 in 2008-09 SEG for general program operations inflationary increases for supplies and services, which were intended to be

approved, but were inadvertently deleted from the bill. Finally, provide \$77,800 SEG in 2007-08 and \$124,200 SEG in 2008-09 to the appropriation for health insurance data collection and analysis contracts to restore an unintended budget reduction.

| ALT 3 | Change to Bill | | Change to Base | |
|-------|----------------|-----------|----------------|-----------|
| | Funding | Positions | Funding | Positions |
| SEG | \$2,571,300 | 5.00 | \$5,253,500 | 14.50 |

4. Delete provision.

| ALT 4 | Change to Bill | | Change to Base | |
|-------|----------------|-----------|----------------|-----------|
| | Funding | Positions | Funding | Positions |
| SEG | -\$2,682,200 | - 9.50 | \$0 | 0.00 |

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