



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #290

Participant-Service Functions (ETF)

[LFB 2011-13 Budget Summary: Page 166, #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 1,460 public employers including state agencies, counties, cities, towns, villages, school districts, technical college districts, cooperative educational service agencies, and special districts. Preliminary data indicates that, as of December 31, 2010, the system covered 572,219 participants: 266,629 active employees, 155,775 annuitants, and 149,815 inactive (past) employees who have maintained their WRS accounts (rather than taking 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.

GOVERNOR

Provide \$410,600 SEG in 2011-12 and \$443,400 SEG in 2012-13 and 6.50 SEG positions annually for participant-service functions.

DISCUSSION POINTS

1. The Department's operations are funded from the segregated revenues of the Public Employee Trust Funds. All position and funding elements discussed in this paper relate to these segregated funds.
2. The positions provided under the bill were requested by ETF in the Department's

2011-13 biennial budget request and are intended to address the following: (a) 1.0 position for disaster recovery planning and management; (b) 1.0 position for research and management of healthcare service changes associated with the enactment of the federal Patient Protection and Affordable Care Act, as well as responsibilities for several other health-related services; (c) 1.0 position for information technology work associated with the maintenance of recently completed systems and the continued replacement of older legacy systems; (d) 2.0 positions to address increasing workload responding to participant inquiries made through the Department's Call Center; and (e) 1.5 positions to assist with annuity payment services to allow more senior staff to research and assist in the design of new online services and the replacement of older legacy systems. The funding provided under the bill includes \$315,600 in 2011-12 and \$420,800 in 2012-13 for salary and fringe benefit costs and \$95,000 in 2011-12 and \$22,600 in 2012-13 for staff-related space and startup costs.

3. The Department's 2011-13 budget request included a number of additional elements that were not included in the Governor's bill. These elements were intended to further address service improvements and increasing workload pressures, as well as to provide the Department with greater budgeting and position flexibility. The additional items that were requested are described below.

4. First, \$336,300 in 2011-12 and \$498,600 in 2012-13 was requested to reflect increased costs due to inflation and WRS participant growth. This is a standard element in the ETF biennial budget requests that is intended to maintain the Department's ability to maintain basic service levels on a per-member basis by adjusting supplies and services funding on the basis of projected changes in the consumer price index and anticipated participant increases. The funding supports basic supplies and services costs such as postage, printing, paper and IT supplies, and mainframe computer charges.

5. Second, ETF requested cost adjustments to bring per-participant spending into line with the median per-participant spending of peer retirement systems around the country. This component of the request totaled \$5,583,900 in 2011-12 and \$6,478,200 in 2012-13. The basis for this component of the request is discussed in more detail below.

6. Third, ETF also requested increased authority for position authorization. The Department requested that, beginning on July 1, 2012, the Secretary of ETF be provided the authority, under a 14-day passive review process, to create or abolish a full-time equivalent position or portion thereof that is funded from revenues deposited in the public employee trust fund by notifying the Governor and the Joint Committee on Finance in writing of his or her proposed action. Under the request, the Secretary of ETF would be required to utilize a methodology (developed pursuant to section 9115(1x) of 2009 Wisconsin Act 28 that sets parameters for future position requests), for determining the number of authorized positions the Department needs to exercise its powers and perform its duties under law. If the Secretary intends to increase the authorized positions beyond the number derived from the methodology, the ETF Board would be required to approve the notification to the Governor and the Committee. For approved positions, expenditure authority would be adjusted to cover salary and fringe benefit costs. The requested provision would also require quarterly reports to the ETF Board, the Governor, and the Committee of any position changes made under these procedures.

[An overview of the methodology referred to above was provided to the Committee as part of ETF's s. 13.10 request of November 20, 2009. The methodology incorporates workload metrics, projected changes in workload, and targeted customer service levels for WRS participants. Future workload is projected on the basis of historical trends and on actuarial data produced by the WRS consulting actuary. The Department also utilizes a high-level model based on projected changes in the member population mix to provide an additional estimate of required staff resources. This high-level model is compared to the more specific functional analysis and differences between the two modeling approaches are then analyzed to provide estimates of resource needs. The Department also utilizes a benchmarking study (described below) to compare its service levels and costs to similar peer public pension systems.]

Based on the methodology, the Department has concluded that the appropriate level of positions is approximately 1.0 full-time equivalent (FTE) position per 1,730 members. Based on the 1:1,730 staff-to-member ratio, a total staffing need of approximately 340 FTE would be indicated. Under the bill, ETF would be authorized 249.70 positions. Therefore, the methodology implies a need for approximately 90 additional positions. Departmental officials emphasize that this is a long-term need to fully address staffing issues as the demographics of the WRS change in the coming years.]

7. Finally, with respect to expenditure authority, ETF requested that the appropriation levels for the agency's operations be determined under a new statutory process. Under the request, the annual expenditure authority for the Department's general program operations in 2011–12 would equal the number of participants in the WRS multiplied by a base amount of \$61.44. Beginning July 1, 2012, and each year thereafter, expenditure authority would equal the number of WRS participants multiplied by a base amount of \$62.44. However, the base amount would be adjusted each fiscal year to reflect changes in the consumer price index for all urban consumers, U.S. city average, as determined by the U.S. Department of Labor, for the prior calendar year.

Under the request, annually before July 1, the Secretary of ETF would be required to determine the expenditure authority of the Department for its general program operations for the succeeding fiscal year and to notify, in writing, the Secretary of DOA and the Joint Committee on Finance of the expenditure authority. The amount provided in the notification, plus any unexpended general program operations moneys from the prior fiscal year, would be the Department's general program operations expenditure authority for the succeeding fiscal year.

If the ETF Board approves, the Secretary of ETF would also be allowed to request an increase in the expenditure authority for general program operations for the current fiscal year, over the amount previously determined by the Secretary, by notifying the Committee of the amount of the proposed increase, for approval under a 14-day passive review process. [Note that this budget authority request would result in the same total budget as providing the per-participant cost adjustments also requested by ETF (\$5,583,900 in 2011-12 and \$6,478,200 in 2012-13). The Department was proposing, in effect, two alternative ways to arrive at the same budget amounts in the 2011-13 biennium.]

8. As noted above, the Department, in its budget request, was attempting to address: (a) service improvements; (b) increasing workload pressures; and (c) budgeting and position

authorization flexibility.

9. *Service Improvements.* The Department's proposed service improvements are currently based on a comparative analysis with other major pension systems. To obtain quality-of-service measures, the Department has been working with Cost Effective Measurement (CEM) Benchmarking, Inc., to construct data comparisons with other retirement systems that are viewed as "peer" or equivalent U.S. systems in terms of size. CEM began providing assessments based on 2007 data and recently completed its analysis based on 2010 data. Generally, the 2010 results of this research indicate that while the WRS is a relatively more complex retirement system than its peers, ETF is spending approximately \$54 per WRS member while the median spending for peer systems is approximately \$76 per member.

While spending less per participant on average than other peer systems, the weighted average service score for ETF, based on a measurement of performance in a variety of service activities, was 67 in 2010 compared to a peer median of 80. A higher score for this measure represents better performance. The WRS appears to score well in the areas of pension payments, pension inception, member presentations, and disaster recovery, but trails other systems somewhat in other performance measures, particularly call center services, one-on-one counseling, website capabilities for members, and satisfaction surveys.

However, the ETF overall service score was seven points higher in 2010 than in 2009, due to improvements in the call center, the number of member presentations, and turnaround time on written pension estimates.

The CEM evaluations are intended to identify comparative differences between the WRS and its peer systems and to provide ETF with guidance on where improvements may be needed. This information assists the Department in the development of strategic planning. As a result of this work, ETF has developed goals to increase ETF's per-member spending from the current level (\$54 per member) to a higher level, but one that remains below the median per-member spending level of peer retirement systems (\$76). The Department views this goal as critical in addressing service performance, particularly in view of the imminent baby-boom generation retirement wave. The Department's approach was reflected in its 2011-13 biennial budget request, as described above (\$5,583,900 in 2011-12 and \$6,478,200 in 2012-13). The amounts, when added to the base budget, would result in spending of approximately \$61 per WRS participant in 2011-12 and \$62 per participant in 2012-13.

10. *Increasing Workload.* The Department has long anticipated the increasing workload associated with the aging of the baby boom generation. In the ETF 2011-13 biennial budget request, the Department provided projections of the number of WRS participants who will be eligible to retire, the number of new annuitants and the total number of annuitants for 2010-11, 2011-12, and 2012-13. In all these categories, annual increases are projected. For example, at the time of the budget request (September, 2010), ETF was projecting increases in new annuities of 6.6% in 2010-11, 3.5% in 2011-12, and 3.0% in 2012-13. The processing of new annuities is a significant workload issue for the Department, requiring both timely and accurate work. It should also be noted that, as individuals retire, other individuals are hired as replacements and these individuals become WRS participants. At this point in time, then, the overall WRS population is

increasing, with each segment of this population (active employees, inactive past employees, and annuitants) requiring services of the Department. [Between 2008-09 and 2012-13, ETF projects a 6.4% increase to total WRS participants, with approximately 591,300 participants in 2012-13.]

The Department has also experienced unanticipated workload increases in recent months. The increases appear to be the result of both the expected increases in retirement activity by the baby-boom generation, as well as the unanticipated increases caused by legislative proposals and enactments modifying retirement and fringe benefit policies for public employees. Since January of this year, requests have increased significantly over previous levels in the following areas: (a) formal retirement estimates; (b) actual retirement applications; and (c) call-in and email requests for information.

Retirement Estimates. The Department will provide a formal retirement estimate up to one year in advance of an anticipated retirement date. The estimate calculates the estimated retirement benefit under two separate methods (formula and money purchase), taking into consideration whether the individual participates in the variable fund, and based on the various payment options available. The estimate provides essential information for planning purposes and assistance to help the prospective retiree with the retirement decision.

The Department indicates that over the last seven years (2004 - 2010) retirement estimates averaged 1,488 estimates per month. Increases in the number of retirement estimates were seen in 2009 and 2010, which was expected due to the baby-boom generation reaching retirement eligibility ages. In 2010, the monthly average for estimates was 1,731. However the number of estimates totaled 2,204 in January, 2011, 3,662 in February, 6,810 in March, and 2,598 in April. The requests for this four-month period in 2011 are 108% higher than for the first four months of 2010.

Retirement Applications. The application for retirement, which utilizes the retirement estimate form and includes an annuity payment option selection and a formal retirement date, is submitted to ETF, if the participant chooses to retire. The monthly average for retirement applications is variable through the year with higher amounts generally received for June retirements (reflecting mostly teacher retirements in a typical year) and at the end of the calendar year (usually reflecting the preference of other, nonteaching WRS participants). Over the period 2004 through 2010, retirement applications, as expected, have increased. Over this seven-year period, applications averaged 880 per month; with the 2010 monthly average totaling 979. For the period January, to April, 2011, the monthly average for applications was 1,969, a 94% increase over the first four months of calendar year 2010.

Call Center Requests. The Department has also experienced a very high volume of calls and emails requesting information about the retirement process and of the effect of recent legislative proposals on the status of retirement and other fringe benefits. In response, ETF has posted a frequently-asked-questions section on its website relating to budget-repair legislation in an attempt to provide detailed information for inquirers and to lessen the number of calls being made to the Call Center. The Department has provided call-in and email data through April 30, 2010, and 2011. The year-to-date 2011 data shows 69,450 calls and 9,774 emails received.

These volumes are 27% and 82% higher respectively than the 2010 data for the same period.

Table 1 summarizes the available data for retirement estimates, retirement applications, and requests for information in the periods January through April, 2010 and 2011.

TABLE 1

**Employee Trust Funds Workload Data
January through April, 2010 and 2011**

<u>Type of Request</u>	<u>2010</u>	<u>2011</u>	<u>Increase</u>	<u>Percent Increase</u>
Retirement Estimates	7,339	15,274	7,935	108%
Retirement Applications	4,063	7,876	3,813	94
Calls Received	54,770	69,450	14,680	27
Emails Received	5,362	9,774	4,412	82

On March 11, 2011, ETF requested a supplement of \$503,900 SEG in 2010-11 under s. 13.10 of the statutes to address short-term needs relating to these increases in customer service demand.

In summary, the workload of ETF has increased significantly since January in comparison with earlier periods. It is uncertain, at this time, how long the influx in ETF workload will be sustained. It is to be expected that, at some point, the 2011 workload increase will run its course and retirement estimates, applications, and informational inquiries will return to more typical levels. Workload demands, however, will generally continue to increase over time, reflecting the demographical trends of the system.

11. *Budgeting and Position Flexibility.* The ETF budget request relating to additional budget and position authority (described above) is based on the Department's view that it needs to respond more quickly and appropriately to the service needs of the WRS and the system's changing and sometimes unpredictable workload pressures. Departmental officials believe that the state's two-year budget cycle and the uncertainty of obtaining requested resources does not allow the Department to be as responsive as it should be to continually changing needs.

The Department has consistently argued for and requested additional positions in recent years to address increasing workload and the need for improved customer service. With respect to staffing, ETF has experienced increases for participant services in recent biennia. 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. In the 2005-07 biennium, 4.0 FTE of 7.0 FTE requested positions were approved. In the 2007-09 biennial budget process, 14.5 of the 47.5 requested positions were approved.

In ETF's 2009-11 biennial budget request, the Department requested funding for 33.1 positions in 2009-10 and 57.1 positions in 2010-11 for customer service functions. As a result of

2009 Act 28 and two subsequent s. 13.10 approvals, the Department's position authority for participant services increased by a total of 30.5 positions in 2010-11. [The s. 13.10 approvals were for requests to draw from funds in the Committee's supplementation appropriation for segregated funds. Under Act 28, the Committee placed \$798,600 SEG in 2009-10 and \$1,493,800 SEG in 2010-11 of public employee trust funds in the Joint Committee on Finance supplemental appropriation account for segregated funds to address further agency funding and position authority needs in the 2009-11 biennium.]

12. The Governor's provision under the bill (\$410,600 SEG in 2011-12 and \$443,400 SEG in 2012-13 and 6.50 SEG positions annually) for participant-service functions would provide a 1.4% increase in 2011-12 and a 1.5% increase in 2012-13 in operations funding and a 2.7% increase in position authority.

Providing the additional supplies and services funds requested by ETF for inflation and participant growth (\$336,300 in 2011-12 and \$498,600 in 2012-13) would further assist the Department. These increases would provide an additional 1.1% in 2011-12 and 1.7% in 2012-13 in operations funding to the Department. [Alternative 2]

13. Providing the agency with its own budget authority (using the requested mechanism of setting budget authority equal to the number of WRS participants multiplied, initially, by a base amount of \$61.44, adjusted each year for inflation), or by providing the equivalent funding amounts (\$5,583,900 in 2011-12 and \$6,478,200 in 2012-13) would likely allow the Department to address both service improvements and increasing workload. However, these amounts represent an additional 20% increase in operations funding. Providing this magnitude of increase in the absence of definite spending plans could be questioned. In addition, legislative oversight of the agency's budget would be reduced if an automatic adjustment were to be built into the determination of appropriations.

14. On the other hand, the Department may be hindered from developing detailed plans for its initiatives because of the uncertainty of what level of resources will be provided in future budgets. The Committee may see the need in this situation to take some additional steps to support the Department, but may not be comfortable with providing the flexibility envisioned by ETF in its budget request.

15. The Committee could make the requested funding potentially available, but require the Department to develop detailed plans and budgets for the use of the funds, prior to its release. This would be similar to the actions taken by the Committee in the 2009-11 budget deliberations, in which funding was placed in the Committee's supplemental appropriation account for segregated funds to address agency funding and position authority needs.

Under this alternative, \$5,583,900 in 2011-12 and \$6,478,200 in 2012-13 would be placed in the Committee's supplemental appropriation account for segregated funds for release if a supplementation request under s. 13.10 of the statutes is approved. The Committee could require that any supplementation request include a detailed expenditure plan and a description of how the plan addresses increasing workload and the agency's need to improve services. The Committee could also require that any request for additional positions be consistent with the methodology,

developed by the Secretary of ETF pursuant to section 9115(1x) of 2009 Wisconsin Act 28 and provide that, if the Secretary intends to request an increase in authorized positions beyond the number derived from the methodology, the ETF Board would be required to approve the request to the Committee. The Department could submit one or more requests for the supplemental funds and any request would be required to be submitted by the applicable due date for agency requests for any of the Committee's quarterly meetings under s. 13.10. Under this alternative, the finding of an emergency under s. 13.10 would not be required. [Alternative 3]

16. The ETF request was developed on the basis of the 2009 CEM analysis and is designed to bring the Department's budget substantially closer to peer-median spending. The requested funds, as noted above, would result in average per member spending of \$61.44 in 2011-12 and \$62.44 in 2012-13 (compared to approximately \$54 currently). An alternative calculation can be made that would move the Department in the direction of the peer-median spending levels, but would do so more slowly by making funds available that would result in average per member spending of approximately \$57 in 2011-12 and \$58 in 2012-13. This provision would represent an increase of approximately 11% to the Department's operations funding.

Under this alternative, \$2,861,400 in 2011-12 and \$3,674,700 in 2012-13 would be placed in the Committee's supplemental appropriation account for segregated funds for release if a supplementation request under s. 13.10 of the statutes is approved. The same requirements for such a request that are specified in Alternative 3 would apply to this alternative. [Alternative 4]

17. The Committee may instead want to provide sufficient funds to maintain per member spending at approximately \$54. Because the WRS participant population continues to increase, this would require \$912,200 in 2011-12 and \$1,667,500 in 2012-13. These amounts would provide just under a 5% increase in the Department's operations funding. Under this alternative, these amounts would be placed in the Committee's supplemental appropriation account for segregated funds for release if a supplementation request under s. 13.10 of the statutes is approved. The same requirements for such a request that are specified in Alternatives 3 and 4 would apply to this alternative. [Alternative 5]

ALTERNATIVES

1. Approve the Governor's provision of \$410,600 SEG in 2011-12 and \$443,400 SEG in 2012-13 and 6.50 SEG positions annually for participant-service functions.

2. In addition to Alternative 1, provide an additional \$336,300 SEG in 2011-12 and \$498,600 SEG in 2012-13 for supplies and services costs associated with inflationary and participant increases in the 2011-13 biennium.

ALT 2	Change to Bill Funding
SEG	\$834,900

3. Place \$5,583,900 SEG in 2011-12 and \$6,478,200 SEG in 2012-13 of public employee trust funds in the Committee's supplemental appropriation account for segregated funds for release under s. 13.10 of the statutes to address further agency funding and position authority needs in the 2011-13 biennium. Provide that the Department may submit one or more requests for the supplemental funds and any request would be required to be submitted by the applicable due date for agency requests for any of the Committee's quarterly meetings under s. 13.10. Require that any supplementation request by ETF include a detailed expenditure plan and a description of how the plan addresses increasing workload and service improvements. Require that any request for additional positions be consistent with the methodology, developed by the Secretary of ETF pursuant to section 9115(1x) of 2009 Wisconsin Act 28. Provide that, if the Secretary intends to request an increase in authorized positions beyond the number derived from the methodology, the ETF Board would be required to approve the request to the Committee. Provide that the Committee is not required to find that an emergency exists prior to approving a supplementation request. [This alternative may be adopted in conjunction with Alternative 1 or Alternative 2.]

ALT 3	Change to Bill Funding
SEG	\$12,062,100

4. Place \$2,861,400 SEG in 2011-12 and \$3,674,700 SEG in 2012-13 of public employee trust funds in the Committee's supplemental appropriation account for segregated funds for release under s. 13.10 of the statutes to address further agency funding and position authority needs in the 2011-13 biennium. Provide that the Department may submit one or more requests for the supplemental funds and any request would be required to be submitted by the applicable due date for agency requests for any of the Committee's quarterly meetings under s. 13.10. Require that any supplementation request by ETF include a detailed expenditure plan and a description of how the plan addresses increasing workload and service improvements. Require that any request for additional positions be consistent with the methodology, developed by the Secretary of ETF pursuant to section 9115(1x) of 2009 Wisconsin Act 28. Provide that, if the Secretary intends to request an increase in authorized positions beyond the number derived from the methodology, the ETF Board would be required to approve the request to the Committee. Provide that the Committee is not required to find that an emergency exists prior to approving a supplementation request. [This alternative may be adopted in conjunction with Alternative 1 or Alternative 2.]

ALT 4	Change to Bill Funding
SEG	\$6,536,100

5. Place \$912,200 SEG in 2011-12 and \$1,667,500 SEG in 2012-13 of public employee trust funds in the Committee's supplemental appropriation account for segregated funds for release under s. 13.10 of the statutes to address further agency funding and position authority needs in the 2011-13 biennium. Provide that the Department may submit one or more requests for the supplemental funds and any request would be required to be submitted by the applicable due

date for agency requests for any of the Committee's quarterly meetings under s. 13.10. Require that any supplementation request by ETF include a detailed expenditure plan and a description of how the plan addresses increasing workload and service improvements. Require that any request for additional positions be consistent with the methodology, developed by the Secretary of ETF pursuant to section 9115(1x) of 2009 Wisconsin Act 28. Provide that, if the Secretary intends to request an increase in authorized positions beyond the number derived from the methodology, the ETF Board would be required to approve the request to the Committee. Provide that the Committee is not required to find that an emergency exists prior to approving a supplementation request. [This alternative may be adopted in conjunction with Alternative 1 or Alternative 2.]

ALT 5	Change to Bill	
	Funding	
SEG	\$2,579,700	

6. Delete provision.

ALT 6	Change to Bill	
	Funding	Positions
SEG	- \$854,000	- 6.50

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