

Employee Trust Funds

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LFB Summary Items for Which an Issue Paper Has Been Prepared

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2	Retired Employees Benefit Supplement Reestimate



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May 25, 2023

Joint Committee on Finance

Paper #335

Business Processes and Systems Modernization (Employee Trust Funds)

[LFB 2023-25 Budget Summary: Page 165, #3]

CURRENT LAW

The Department of Employee Trust Funds (ETF) 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. In 2023, the group health insurance program covers approximately 240,000 members. The Department's operations are funded from the segregated revenues of the Public Employee Trust Fund.

The Department also administers the Wisconsin Retirement System (WRS) under the supervision of the 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 1,618 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, 2022, the system covered 673,071 participants: 260,504 active employees, 225,849 annuitants, and 186,718 inactive (past) employees who have maintained their WRS accounts (rather than taking a separation benefit).

Pursuant to 2013 Act 20, ETF submits to the Secretary of Administration and the Committee an annual report before July 1 regarding the agency's progress in modernizing its business processes and integrating its IT systems.

DISCUSSION POINTS

1. This paper provides information relating to several business processes and systems modernization items for which ETF requested funding and positions in its 2023-25 agency budget

request and which were also included in 2023 Assembly Bill 43/Senate Bill 70. Each item for which SEG funding and position authority would be provided is shown in Table 1.

TABLE 1

**Funding for Business Processes and Systems Modernization,
2023 AB 43/SB 70**

<u>Item</u>	<u>2023-24</u>	<u>2024-25</u>
Insurance Admin. System Ongoing Costs	\$0	\$4,344,100
Pension Admin. System Consulting Services	2,160,000	2,160,000
Data Management Supplies and Services	950,400	950,400
Permanent (4.0) and Project (3.0) Positions	<u>515,900</u>	<u>656,000</u>
Total	\$3,626,300	\$8,110,500

Table 2 provides further detail relating to funding that would be provided for 4.0 permanent and 3.0 project positions.

TABLE 2

**Position Detail for ETF Modernization Items,
2023 AB 43/SB 70**

<u>Item</u>	<u>2023-24</u>	<u>2024-25</u>
Subject Matter Expert "Backfill" (3.0 Project FTE)	\$187,600	\$236,500
Data Management (2.0 Permanent FTE)	154,400	196,700
IT Devt. and Quality Assurance (2.0 Permanent FTE)	<u>173,900</u>	<u>222,800</u>
Total	\$515,900	\$656,000

Insurance Administration System

2. As part of its multi-year modernization planning, ETF identified insurance benefits administration as one of its priorities for improvement. Currently, enrollment and administration of insurance benefits are managed using multiple systems and processes that are not fully integrated. According to ETF staff, updates to insurance benefit programs require careful planning and testing due to system limitations, which in some cases have previously prevented new benefit options from being pursued or made available.

3. Following a request for proposals for a new insurance administration system in 2020, ETF completed an analysis of the proposals that were received and selected Benefitfocus as the vendor. The Department executed a contract in July, 2021, with the vendor for purchase and

implementation of the insurance administration system. The system is expected to be functional by July, 2024.

4. The insurance administration system will be used to administer health insurance, life insurance, and income continuation insurance, as well as several supplemental benefits. In addition, the system will be used by employees for benefits enrollment. The Department anticipates the system will increase data quality, provide a single place to view benefits, facilitate automated communications, allow for monthly reconciliation of employer reporting, and reduce paper processing.

5. Under the contract, one-time implementation costs of \$2,487,000 will be paid to the vendor, the cost of which ETF can support from existing funds. Once the system is operational, the contract stipulates that ETF will be charged a minimum of \$4,054,600 annually for ongoing hosting, licensing, and maintenance costs. Actual charges will be variable and dependent on the number of covered, eligible, or billable members (employees). The Department requested, and AB 43/SB 70 would provide, \$4,344,100 SEG in 2024-25, the first year in which the system will be operational. The difference in funding (\$289,500) would provide for a degree of increase in costs, since actual charges could exceed the minimum amounts in the contract.

6. In addition, implementation of the insurance administration system in the 2023-25 biennium, and subsequent work to implement the pension administration system, require input and time from existing ETF staff who are subject matter experts in their program areas. Staff subject matter experts are also involved in data management project efforts. The Department requested, and AB 43/SB 70 would provide, \$187,600 SEG in 2023-24, \$236,500 SEG in 2024-25, and 3.0 four-year project positions annually for temporary trust funds specialist positions as "backfill" for the subject matter experts who will be providing support for modernization efforts, and unable to attend to their regular duties on a full-time basis. The project positions would start on October 1, 2023, and end on September 30, 2027.

Data Management, IT Development, and Quality Assurance

7. In July, 2020, ETF established a Data Management Bureau within the Division of Management Services to oversee data management functions, including data strategy, architecture, integration, quality, and governance. Under 2021 Act 58, ETF was provided \$74,400 SEG in 2021-22, \$95,800 SEG in 2022-23, and 1.0 SEG information systems data services specialist position annually for the Data Management Bureau to facilitate more comprehensive data management efforts, including data integration between systems and data quality improvement, through a "master data management" program.

8. Funding under AB 43/SB 70 for data management supplies and services (\$950,400 annually) would support the cost of two data management tools that have already been implemented, and two that ETF plans to implement in the near future.

9. In 2021, ETF implemented a data integration tool known as "application programming interface exchange" (ongoing cost of \$475,000 annually) and additionally implemented a data quality tool known as "master data management" (ongoing cost of \$209,000 annually).

10. The Department plans to implement two additional tools in 2024, one for data quality relating to address validation (ongoing cost of \$117,600 annually) and another for data governance known as "metadata management" (ongoing cost of \$148,800 annually). The Department indicates that these tools would enable more timely address updates and help staff more easily find, understand, and use data, as well as enable staff to better certify data quality, classify data, capture data definitions, and monitor data usage.

11. In addition to funding for supplies and services, ETF requested, and AB 43/SB 70 would provide: (a) \$154,400 SEG in 2023-24, \$196,700 SEG in 2024-25, and 2.0 information systems business automation specialist SEG positions annually for data management; and (b) \$173,900 SEG in 2023-24, \$222,800 SEG in 2024-25, and 2.0 SEG positions annually for IT development and quality assurance.

12. Positions for the data management program would establish data resources in several program areas to perform duties that would include: identifying reporting needs, improving data quality, ensuring appropriate use of data, enforcing security and privacy policies related to data, and defining and maintaining business rules for input to the master data management system. The Department indicates that the additional resources are needed to continue making improvements to data management to minimize operational risks and inefficiencies, and to prevent errors that could be costly and cause reputational harm to the agency.

13. Positions for IT development and quality assurance would consist of 1.0 information systems (IS) comprehensive services consultant/administrator to serve as a "development operations lead" and 1.0 IS systems development services consultant/administrator to serve as an "application lead architect." The development operations lead would be responsible for overseeing IT staff time and duties to ensure that objectives are met in a timely manner and work between technical teams, internally and externally, is efficient and coordinated. The application lead architect would: provide technical oversight for all applications developed for ETF, lead internal development contractors, represent the agency when coordinating with vendor developers, and communicate with other state agencies.

Pension Administration System

14. The next and largest modernization project that ETF will undertake is for a pension administration system. In July, 2022, based on the number of employers, participants, and size of assets of the WRS, ETF's IT modernization consultant, Segal, estimated an "off-the-shelf" pension administration system will cost \$68,852,800 to implement over a four-year period. In early May, 2023, Segal reviewed the estimate, considered costs associated with two other large state pension system procurements that had occurred since July, 2022, and determined that the estimate previously provided was still reasonable. Segal notes that the figure does not include ongoing hosting costs, implementation consulting services, or post-implementation support services.

15. When undergoing major upgrades and initiatives, ETF utilizes consulting services to manage risk and better ensure project success. Based on ETF's agency budget request, AB 43/SB 70 would provide \$2,160,000 SEG annually for consultant costs associated with the pension administration system project. Funding would be for: (a) planning and project oversight, consisting

of general project planning and project management services (\$1,080,000 annually); (b) business process reengineering, to optimize business processes and eliminate unnecessary requirements (\$720,000 annually); and (c) organization change management, to assist staff, employers, and participants during the transition (\$360,000 annually).

16. The Department published a request for proposals (RFP) on April 12, 2023, for a consultant to assist in the search, selection, implementation, and oversight of a pension administration system. Evaluation of responses is planned to occur from the due date for proposals, May 12, 2023, through July and August, 2023. The Department plans to notify proposers of an intent to award in September or October, with a contract start date of January 1, 2024, and initial contract term through December 31, 2028.

17. In addition to funding for consulting services, ETF requested an increase of \$11,475,500 SEG annually to spread the cost of implementing a pension administration system over six years. This request was not included in AB 43/SB 70. Although a specific system has not yet been identified, and implementation of the system will not occur in the 2023-25 biennium, the appropriation from which the system will be funded [automated operating system, s. 20.515(1)(t)] is a continuing, sum certain appropriation that carries forward unutilized expenditure authority from year to year. If funding is not provided for the pension administration system beginning in 2023-24, it is likely that a greater amount of annual funding will need to be provided in the 2025-27 biennium. Implementation efforts are anticipated to begin near the end of the 2023-25 biennium, and occur over a four-year period. Annualized costs over four years (rather than six) would be approximately \$17.2 million SEG annually.

18. Funding under AB 43/SB 70 would provide for: ongoing costs of an insurance administration system currently under contract with a vendor; consulting costs to effectively procure a pension administration system; data management supplies and services for data tools that have been or will soon be implemented; 4.0 permanent positions for data management, IT staff management, and IT application oversight; and 3.0 project positions to provide temporary service support while subject matter expert staff work on modernization projects;. The Committee could include funding for these items by providing \$3,626,300 SEG in 2023-24, \$8,110,500 SEG in 2024-25, and 7.0 SEG positions annually (4.0 permanent and 3.0 project). [Alternative 1]

19. If the Committee wished to provide funding for implementing a pension administration system, estimated to begin near the end of the 2023-25 biennium, it could additionally provide \$11,475,500 SEG annually to ETF's automated operating system appropriation. [Alternative 2] If, however, the Committee wished to provide funding based on more specific, known costs, it could estimate expenditures of \$11,475,500 SEG annually from the Committee's supplemental appropriation for segregated funds, for which ETF could later submit a request under s. 13.101 of the statutes. [Alternative 3]

20. Under 2013 Act 20 (the 2013-15 biennial budget act), ETF was provided temporary authority to request SEG positions and expenditure authority under passive review, mirroring provisions under s. 16.505/515 of the statutes relating to agency requests for PR positions and expenditure authority. The Act 20 provision specified that ETF could request that the Governor create or abolish any position or supplement any sum certain appropriation from the Public Employee Trust

Fund for the purpose of modernizing business processes or integrating IT systems, subject to passive review by the Joint Committee on Finance. In addition, the act specified a sunset date of July 1, 2019, for this authority.

21. If the Committee wished to provide ETF with similar authority to that previously provided under Act 20, it could specify that such authority be again provided on a temporary basis. Since implementation of the pension administration system is expected to take four years, a sunset date of July 1, 2029, could be specified. [Alternative 4]

22. If the Committee takes no action, ETF will not have sufficient expenditure authority to fund its ongoing costs associated with the new insurance administration system, to contract with a consultant for procuring a pension administration system, to support the ongoing costs of data management tools, to improve IT staff management and application oversight, or to maintain staff service levels due to subject matter expert time spent on modernization efforts. [Alternative 5]

ALTERNATIVES

1. Provide ETF \$3,626,300 SEG in 2023-24, \$8,110,500 SEG in 2024-25, and 7.0 SEG positions annually (4.0 permanent and 3.0 project) for ongoing insurance administration system costs, pension administration system consulting services, data management supplies and services, and related positions.

ALT 1	Change to Base	
	Funding	Positions
SEG	\$11,736,800	7.00

2. Provide ETF \$15,101,800 SEG in 2023-24, \$19,586,000 SEG in 2024-25, and 7.0 SEG positions annually (4.0 permanent and 3.0 project) for ongoing insurance administration system costs, pension administration system consulting services, data management supplies and services, related positions, and pension administration system implementation costs.

ALT 2	Change to Base	
	Funding	Positions
SEG	\$34,687,800	7.00

3. Provide ETF \$3,626,300 SEG in 2023-24, \$8,110,500 SEG in 2024-25, and 7.0 SEG positions annually (4.0 permanent and 3.0 project) for ongoing insurance administration system costs, pension administration system consulting services, data management supplies and services, and related positions. In addition, estimate expenditures of \$11,475,500 SEG annually from the Committee's supplemental appropriation for segregated funds, for which ETF could later submit a request for pension administration system funding under s. 13.101 of the statutes.

ALT 3	Change to Base	
	Funding	Positions
SEG	\$34,687,800	7.00

4. Provide ETF \$3,626,300 SEG in 2023-24, \$8,110,500 SEG in 2024-25, and 7.0 SEG positions annually (4.0 permanent and 3.0 project) for ongoing insurance administration system costs, pension administration system consulting services, data management supplies and services, and related positions. In addition, specify that ETF may request that the Governor create or abolish any position or supplement any sum certain appropriation from the Public Employee Trust Fund for the purpose of modernizing business processes or integrating IT systems, subject to passive review by the Joint Committee on Finance. Specify that the passive review authority would end July 1, 2029.

ALT 4	Change to Base	
	Funding	Positions
SEG	\$11,736,800	7.00

5. Take no action.

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May 25, 2023

Joint Committee on Finance

Paper #336

Resources for Service Support and Financial Functions (Employee Trust Funds)

[LFB 2023-25 Budget Summary: Page 166, #4 and #5]

CURRENT LAW

The Department of Employee Trust Funds (ETF) administers the Wisconsin Retirement System (WRS) 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 1,618 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, 2022, the system covered 673,071 participants: 260,504 active employees, 225,849 annuitants, and 186,718 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. The Department's operations are funded from the segregated revenues of the Public Employee Trust Fund.

DISCUSSION POINTS

1. This paper provides information relating to certain agency functions pertaining to employer and member service support, financial operations, and actuarial reporting, for which ETF requested 9.0 positions and associated funding in its 2023-25 agency budget request and which were also included in 2023 Assembly Bill 43/Senate Bill 70. The provisions include funding only for positions, as follows: (a) nine months of salaries in 2023-24 and 12 months of salaries in 2024-25, calculated at the minimum hourly rate of the pay range for each proposed position classification; (b)

fringe benefits calculated at the 2023-25 full fringe benefits rate for ETF, 39.31%; (c) reoccurring supplies and services funding of \$6,900 per position annually, pro-rated for nine months in 2023-24; and (d) additional one-time supplies and services funding of \$3,400 per position in 2023-24.

Service Support

2. The Department requested \$437,800 SEG in 2023-24, \$551,800 SEG in 2024-25 and 7.0 SEG positions annually (5.0 trust fund specialist-objective and 2.0 trust fund specialist-advanced) to expand the service capacity of ETF to meet growth in the number of employers and members over time (retirees and inactive members in particular). These positions would be assigned to the Division of Retirement Services within ETF.

3. The Division of Retirement Services is responsible for customer service to WRS employers and participants. The Division obtains necessary data from employers to determine benefits for employees, answers participant questions about benefits through its call center, offers outreach, appointments, and webinars to help employee prepare for retirement, and provides employees with benefit estimates, applications, and other information to assist them with retirement, health insurance, disability and other benefits administered by ETF. The Division additionally develops and implements policies, training, and support for employers that participate in ETF benefit programs.

4. From 2010 to 2022, more than 140 employers joined the WRS (an increase of 10%). While the number of active employees over the same period remained relatively stable, with increases in some years and decreases in other years, the number of inactive WRS participants grew by 28% over the 12-year period and the number of annuitants increased by 45%. Over the same period, the number of authorized positions in the trust fund specialist classification series increased by 29.4 full-time equivalent positions (42%).

5. Staff must provide training for new WRS employers to ensure that benefits are administered correctly. In addition, the number of retirements and retirees is expected to further increase with demographic trends. These trends have an impact on workload for staff, including answering more calls, providing retirement estimates, processing retirement benefit applications, and administering payroll functions for annuity payments. According to ETF, staffing is currently inadequate to provide quality customer service and meet the demands of employers, employees, and annuitants in a timely manner. As an example, ETF indicates it has not been able to meet its minimum service goal of answering 70% of calls in 3 minutes, and call center wait times range from 6 to 7 minutes. In addition, health insurance change requests and wait times for WRS participants to meet with a benefits specialist each take eight weeks on average. An addition of 7.0 positions would constitute a 7% increase in trust fund specialists.

6. The Department would assign the positions to the following areas of responsibility: (a) call center, 2.0 trust fund specialist-objective positions, to manage increase volume and length of calls; (b) member services, 2.0 trust fund specialist-advanced positions, to provide retirement estimates and appointments; (c) employer services, 2.0 trust fund specialist-objective positions, to support employers and retirees with matters relating to health insurance and supplemental programs; and (d) benefit services, 1.0 trust fund specialist-objective position, to address workload relating to

retirement services, such as processing retirement applications and transactions.

Financial and Actuarial Functions

7. The Department requested \$143,600 SEG in 2023-24, \$182,200 SEG in 2024-25, and 2.0 SEG positions annually to address increased workload in financial and actuarial duties relating to retirement and insurance programs administered by ETF for state and local employees. One position would have a job title of actuarial analyst, and the other would be an accountant. Both positions would be classified as accountant-advanced.

8. The Division of Trust Finance within ETF is responsible for accounting and financial reporting of benefit programs. The Division administers collection of retirement contributions and insurance premiums, payment of insurance claims, disbursement of WRS benefit payments, maintenance of WRS participant accounts, and the production of ETF's annual comprehensive financial report. Division staff additionally work with ETF's consulting actuaries to set contribution rates and annuity adjustments.

9. According to ETF, due to increased reporting requirements, new accounting standards, and audit recommendations, the need for Division of Trust Finance staff to review data has increased and has contributed to a high workload that is difficult to sustain. In addition, a portion of staff time is devoted to planning and implementation efforts for the insurance and pension administration systems. The Department believes that an addition of 2.0 accountants, including an accountant with actuarial experience, would alleviate workload issues and improve the agency's ability to support reliable financial operations, ensure compliance with state and federal regulations, provide high quality data to consulting actuaries, complete valuations in a more timely manner, assess reasonableness of actuarial methodology and assumptions, and provide support in actuarial research.

10. The actuarial analyst would be responsible for: ensuring accurate data is maintained and utilized for actuarial valuations; providing leadership in actuarial functions and projects; managing the work of consulting actuaries; providing support for actuarial research and analysis; and overseeing data quality of financial data in support of the Department's data management program.

11. The accountant would be responsible for: processing annuity payments, vendor payments, qualified domestic relations orders, service purchase requests, and additional retirement contributions; assisting employers with accounting compliance requirements; ensuring that financial reporting requirements and deadlines are met; and enforcing compliance with tax laws and regulations

12. The Committee could provide \$581,400 SEG in 2023-24, \$734,000 SEG in 2024-25, and 9.0 SEG positions annually to: (a) reduce workload for Division of Retirement Services staff and improve customer service support for WRS employers and participants; and (b) reduce workload for Division of Trust Finance staff and improve accounting and financial functions, including the addition of staff with actuarial experience. [Alternative 1]

13. If the Committee wished to provide some additional resources, but less than what ETF requested and AB 43/SB 70 would provide, it could choose to provide some combination of: (a) 7.0, 5.0, or 3.0 trust fund specialists; and (b) 2.0 accountants or 1.0 accountant. [Alternatives 2a, 2b, 2c,

3a, and 3b] Under these alternatives, ETF would determine how to allocate the provided funding and position authority for the stated objectives, based on agency priorities.

14. If no additional funding or position authority is provided, ETF is concerned that customer service may deteriorate beyond current levels and the agency will be limited in its ability to provide reliable financial support, compliance with state and federal regulations, and accurate information for actuarial purposes. [Alternative 4]

ALTERNATIVES

1. Provide \$581,400 SEG in 2023-24, \$734,000 SEG in 2024-25, and 9.0 SEG positions annually to: (a) reduce workload for Division of Retirement Services staff and improve customer service support for WRS employers and participants; and (b) reduce workload for Division of Trust Finance staff and improve accounting and financial functions, including the addition of staff with actuarial experience.

ALT 1	Change to Base	
	Funding	Positions
SEG	\$1,315,400	9.00

2. Provide funding and position authority in the following amounts for Division of Retirement Services customer service support to WRS employers and participants. [Each alternative listed may be selected in combination with Alternatives 3a or 3b.]

a. \$437,800 SEG in 2023-24, \$551,800 SEG in 2024-25 and 7.0 SEG positions annually

ALT 2a	Change to Base	
	Funding	Positions
SEG	\$989,600	7.00

b. \$312,600 SEG in 2023-24, \$394,100 SEG in 2024-25, and 5.0 SEG positions annually

ALT 2b	Change to Base	
	Funding	Positions
SEG	\$706,700	5.00

c. \$187,600 SEG in 2023-24, \$236,500 SEG in 2024-25, and 3.0 SEG positions annually

ALT 2c	Change to Base	
	Funding	Positions
SEG	\$424,100	3.00

3. Provide funding and position authority in the following amounts for 1.0 or 2.0 Division of Trust Finance accountant-advanced positions. [Each alternative listed may be selected in combination with Alternatives 2a, 2b, or 2c.]

- a. \$143,600 SEG in 2023-24, \$182,200 SEG in 2024-25, and 2.0 SEG positions annually

ALT 3a	Change to Base	
	Funding	Positions
SEG	\$325,800	2.00

- b. \$71,700 SEG in 2023-24, \$91,000 SEG in 2024-25, and 1.0 SEG position annually

ALT 3b	Change to Base	
	Funding	Positions
SEG	\$162,700	1.00

4. Take no action.

Prepared by: Rachel Janke

EMPLOYEE TRUST FUNDS

LFB Summary Item for Which No Issue Paper Has Been Prepared

<u>Item #</u>	<u>Title</u>
6	Expenditure Authority for Audits Conducted by Legislative Audit Bureau

