



Legislative Fiscal Bureau

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September 14, 2011

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Employee Trust Funds: Section 13.10 Request for Funds and Position Authority to Support Participant Service and Infrastructure Functions -- Agenda Item III

REQUEST

On August 30, 2011, the Department of Employee Trust Funds (ETF) requested a supplement of \$2,468,700 SEG in 2011-12 and \$1,572,400 SEG in 2012-13 and 10.5 SEG positions annually, as follows: (a) \$1,218,700 SEG in 2011-12 and \$872,400 SEG in 2012-13 and 10.5 positions annually to the administration appropriation account for general program operations (s. 20.515(1)(w)); and (b) \$1,250,000 SEG in 2011-12 and \$700,000 SEG in 2012-13 to the automated operating system appropriation account (s. 20.515(1)(t)). The Department administers the Wisconsin Retirement System (WRS) and various employee benefit programs. The additional funding and position authority is intended to address operational needs relating to the administration of these programs for state and local government employees. If approved, the funding would be provided from the Committee's supplemental appropriation for segregated funds under s. 20.865(4)(u). Supplements made from this appropriation account are drawn from the available balances of the appropriate segregated fund, in this case, the Public Employee Trust Fund.

The requested funding and positions would be allocated for the following purposes: (a) call center services; (b) implementation of 2011 Wisconsin Acts 10 and 32; (c) participant retirement services; (d) implementation of additional online self-service options for WRS participants; and (e) general operations costs. The request is summarized in Table 1 below.

TABLE 1

**Employee Trust Funds
Request under s. 13.10
August 30, 2011**

<u>Function</u>	<u>Appropriation</u>	<u>2011-12</u>	<u>2012-13</u>	<u>Positions</u>
Call Center Services	s. 20.515(1)(w)	\$149,000	\$150,700	3.00
Acts 10 and 32 Implementation	s. 20.515(1)(t)	550,000	0	0.00
Acts 10 and 32 Implementation	s. 20.515(1)(w)	75,000	0	0.00
Participant Retirement Services	s. 20.515(1)(w)	254,500	259,400	5.00
Online, Self-Service Options	s. 20.515(1)(w)	156,100	168,100	2.50
Online, Self-Service Options	s. 20.515(1)(t)	700,000	700,000	0.00
General Operations	s. 20.515(1)(w)	<u>584,100</u>	<u>294,200</u>	<u>0.00</u>
Total Request		\$2,468,700	\$1,572,400	10.50
Subtotal for s. 20.515(1)(t)		\$1,250,000	\$700,000	0.00
Subtotal for s. 20.515(1)(w)		1,218,700	872,400	10.50

Regarding the component parts of the request, the following should be noted:

- The call center services component of the request is intended to address an increased volume of telephone and email inquiries being received by the Department from WRS participants.
- The one-time funding for implementation costs related to Acts 10 and 32 include \$550,000 in 2011-12 for information technology (IT) redesigns that are necessitated primarily by the WRS modifications made in Acts 10 and 32, and \$75,000 in 2011-12 for actuarial services relating to studies required of the Department under Act 32.
- The request for participant services resources include 1.0 position for help desk and other technical support within the agency, 2.0 positions for processing retirement workload, and 2.0 positions for workload relating to annuitant services.
- The online self-service portion of the request relates to the provision of online tools that would allow WRS participants to access account-specific benefit information and to select options or make routine changes to account information without relying on ETF staff. The provision of additional online tools addresses a major component of the Department's five-year strategic plan to improve participant services. The request includes funding for 1.0 web-designer position, 1.5 positions for business process reengineering activities, and \$700,000 annually for IT applications development.
- The general operations category includes \$20,000 annually for board-member training and \$564,100 in 2011-12 and \$274,200 in 2012-13 for ETF space costs in the Department of Revenue (DOR) state office building in Madison. The office space amounts include \$427,000 in 2011-12 in one-time costs for the reconfiguration of space to accommodate ETF staff, as well as \$137,100 in 2011-12 and \$274,200 in 2012-13 for rent expenses.

BACKGROUND

The Wisconsin Retirement System is administered by 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. Retirement system data indicates that, as of December 31, 2010, the system covered 572,219 participants: 266,629 active employees, 159,787 annuitants, and 145,803 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.

Under 2011 Wisconsin Act 32, the 2011-13 biennial budget act, ETF was provided \$746,900 SEG in 2011-12 and \$942,000 SEG in 2012-13 and 6.5 positions annually for customer service functions relating to public employee benefit programs. In addition, \$2,861,400 SEG in 2011-12 and \$3,674,700 SEG in 2012-13 of public employee trust funds was placed in the Committee's appropriation account for segregated funds general program supplementation to address further agency funding and position authority needs in the 2011-13 biennium. Act 32 specified 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. Any supplementation request by ETF must include a detailed expenditure plan and a description of how the plan addresses increasing workload and service improvements. Act 32 also requires 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. The Committee is not required to find that an emergency exists prior to approving a supplementation request under this provision.

The August 30, 2011, request before the Committee is the Department's first under the Act 32 provision. The current request would not fully deplete the funds placed in the Committee's supplemental appropriation for ETF customer service functions. [If the full request is approved, \$0.4 million SEG in 2011-12 and \$2.1 million SEG in 2012-13 of supplemental funding would remain in the Committee's appropriation.] Departmental officials indicate that an additional request may be made at a later date.

ANALYSIS

In its 2011-13 budget deliberations, the Committee reviewed issues relating to ETF participant service functions. The issues reviewed by the Committee included ETF's plans to make overall participant service improvements, the general demographic trends affecting WRS, and the significant workload increases for the Department that occurred during deliberations on Special Session Assembly Bill 11 (enacted as Act 10).

The Committee determined that additional resources would be needed by the Department, but delayed any final decisions pending further assessment of specific budget needs by ETF. Thus, the Committee made additional funding (\$2,861,400 SEG in 2011-12 and \$3,674,700 SEG in 2012-13) potentially available under s. 13.10, and required the Department to develop detailed plans for a budget supplementation at a later date. [This was 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 in the last biennium.]

Rapidly growing workload is the key issue that ETF seeks to address. 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. 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.

The Department has experienced significant 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 modifications to the retirement and fringe benefit policies for public employees. Since January, 2011, 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. Table 2 shows the latest data for 2011 compared to the same period in 2010.

TABLE 2

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

<u>Type of Request</u>	<u>2010</u>	<u>2011</u>	<u>Increase</u>	<u>Percent Increase</u>
Retirement Estimates	12,220	20,015	7,795	64%
Retirement Applications	7,527	13,907	6,380	85
Calls Received	86,328	103,475	17,147	20
Emails Received	7,864	12,847	4,993	64

In addition to these direct workload increases, resulting from WRS participant requests, the Acts 10 and 32 changes to various retirement and other employee benefit provisions also result in workload increases for the Department. Act 10 modified employee contribution policies for both retirement and health insurance benefits, modified the retirement multiplier for elected officials and state executive personnel, and mandated health insurance cost reductions in 2012. Act 32 created a

five-year vesting period for retirement annuities for new WRS employees, changed the eligibility requirements for participation in the WRS for new employees, and required the pre-tax treatment of employee retirement contributions (which affects the eventual tax treatment of annuity payments). These legislative changes will require modification of the Department's WRS IT systems, modification to internal operational procedures of ETF, increased WRS employer education activities, as well as increased workload responding to participant inquires regarding the changes.

The Act 32 provision that provides supplemental funding for ETF requires that any position request be consistent with the methodology, developed by the Secretary of ETF pursuant to section 9115(1x) of 2009 Wisconsin Act 28. Under 2009 Act 28, it was specified that an ETF supplemental request to the Committee for additional positions must demonstrate the need for such positions on the basis of a methodology to be developed by the agency. The Department provided an overview of its methodology as part of its 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. In conjunction with the workload measures, 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. Differences between this high-level method are compared to the more specific functional analysis, which are then analyzed by staff. This methodology suggests that the appropriate level of positions is approximately 1.0 full-time equivalent (FTE) position per 1,560 members. However, the ETF Secretary has directed that the position level be set at 90% of the above level to ensure that services are provided in a cost effective manner. As such, the adjusted position level under this methodology is 1.0 FTE per 1,730 members.

Based on the 1:1,730 staff-to-member ratio, the methodology would indicate a total staffing need of approximately 331 FTE. Under Act 32, ETF is provided a total of 249.70 authorized positions in the 2011-13 biennium. Therefore, the ETF methodology implies a need for approximately 81 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. While the ETF request does not explicitly address the methodology requirement, the position request (10.5 positions) is well within the projected need for positions under the methodology.

The Department's s. 13.10 request addresses these and other issues. As shown in Table 1, the request includes resources for call center services, participant retirement services, and IT system changes. These components of the request address ETF's general workload issues and the specific issues caused by the Acts 10 and 32 changes. In addition, funding is requested for the development of greater online self-service capacity for WRS participants, which reflects one of the Department's major goals under its five-year strategic plan. Finally, the request includes funding for Board training, and office space reconfiguration and rent that would support the general operations of the Department. Given the workload increases identified in Table 2, recent changes to ETF administered programs, and the Department's ongoing quality improvement efforts, the request (with one exception identified below) appears to be appropriate.

It should be noted that ETF has been dealing with ongoing space issues in recent years. The Department requested the enumeration of the construction of a new office facility in the 2009-11

capital budget to address immediate space concerns and to meet projected growth over the next 10 to 20 years. [The facility request was not approved.] Current space limitations at the Department's headquarters (on Badger Road in Madison) do not allow the agency to readily absorb new positions. The Department, with the assistance of DOA, has now occupied satellite office space at the DOR state office building. However, it has been determined that additional space at the DOR facility is needed and the current s. 13.10 request includes funding for one-time and ongoing rent costs for this space.

As noted above, the requested funds for space costs include \$427,000 in one-time costs in 2011-12 for the reconfiguration of space to accommodate ETF staff. Officials at ETF have informed this office that this one-time amount incorrectly double-counted some of the projected expenses; the actual amount for one-time costs in 2011-12 associated with the space reconfiguration should be \$219,500 (a reduction of \$207,500 in 2011-12). Alternative 2 corrects for this error.

In summary, the Committee, under Act 32, provided potential supplemental funding for ETF to address workload issues and the implementation of Act 10 and Act 32 retirement and other employee benefit provisions. The Department's s. 13.10 request would provide funding and positions to address workload associated with participant services, the implementation of the Acts 10 and 32 provisions, long-term service improvements consistent with ETF's strategic planning work, and continuing initiatives to address the Department's office space needs. Also, the position request is consistent with the long-range needs projected by the Department's methodology for assessing personnel needs. The request appears to be consistent with the intent of providing the supplemental funding.

ALTERNATIVES

1. Approve the Department of Employee Trust Funds request for a supplement of \$2,468,700 SEG in 2011-12 and \$1,572,400 SEG in 2012-13 and 10.5 SEG positions annually, as follows: (a) \$1,218,700 SEG in 2011-12 and \$872,400 SEG in 2012-13 and 10.5 positions annually to the administration appropriation account for general program operations (s. 20.515(1)(w)); and (b) \$1,250,000 SEG in 2011-12 and \$700,000 SEG in 2012-13 to the automated operating system appropriation account (s. 20.515(1)(t)). The supplement would be provided from the Committee's supplemental appropriation for segregated funds under s. 20.865(4)(u), with funds drawn from the available balances of the Public Employee Trust Fund.

2. Approve a supplement of \$2,261,200 SEG in 2011-12 and \$1,572,400 SEG in 2012-13 and 10.5 SEG positions annually, as follows: (a) \$1,011,200 SEG in 2011-12 and \$872,400 SEG in 2012-13 and 10.5 positions annually to the administration appropriation account for general program operations (s. 20.515(1)(w)); and (b) \$1,250,000 SEG in 2011-12 and \$700,000 SEG in 2012-13 to the automated operating system appropriation account (s. 20.515(1)(t)). This alternative corrects the amount of one-time funding in 2011-12 for office space reconfiguration from the \$427,000 originally requested to \$219,500.

3. Deny the request.

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