Legislative Fiscal Bureau

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December 17, 2009

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 Customer Service Functions -- Agenda Item I

REQUEST

On November 20, 2009, the Department of Employee Trust Funds (ETF) requested a supplement of $488,500 SEG in 2009-10 and $671,500 SEG in 2010-11 and 4.0 SEG positions annually to its administration appropriation account s. 20.515(1)(w). The additional funding and position authority is intended to address customer service and outreach, compliance, and audit and benchmarking issues relating to the agency's administration of retirement and other benefit programs for state and local public employees. If approved, the supplement 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 funds and positions would be allocated to a number of projects in four areas: (a) customer service and outreach; (b) federal tax law compliance review; (c) one-time funding for a required audit; and (d) ongoing funding for benchmarking surveys. Each of these are summarized below.

Customer Service and Outreach. This component of the request totals $313,500 SEG in 2009-10 and $451,500 SEG in 2010-11 and 4.0 SEG positions annually for the following items.

The Department's call center staff would be increased by 2.0 FTE positions to address increasing phone and email inquiries from WRS members ($82,100 in 2009-10 and $116,300 in 2010-11). In addition, outreach staff in the Member Services Bureau would be increased by 2.0

FTE positions to allow the Department to reach areas of the state and segments of the WRS population currently underserved ($91,600 in 2009-10 and $135,200 in 2010-11).

The requested funding would also address increased postage and printing costs (one-time funding of $14,800 in 2009-10) associated with informing retirees of changes to their net annuity amounts as a result of changes to state and federal tax tables. In addition, postage costs ($65,000 in 2010-11) associated with mailing the annual statement of benefits to active participant's place of residence is being requested. This would begin with the 2010 statements, mailed in 2011. Currently, the statements are provided to WRS employers and the employer is required to distribute the statement accordingly.

Additional resources (one-time funding of $125,000 in 2009-10 and $135,000 in 2010-11) are also requested to help the Department to provide retirees who participate in the WRS Variable Trust Fund with periodic information to assist in deciding whether to remain in, or opt-out of, this investment option. The project would include manual data entry of account information by contract staff for approximately 34,000 WRS participants in the ETF benefit payments system so that the financial effects of participating or not participating in the variable fund could be automatically calculated and updated.

Compliance with Federal Tax Law. The request includes $140,000 SEG in 2009-10 and $120,000 SEG in 2010-11 to provide for a federal Internal Revenue Service (IRS) code compliance review. ETF is required to be in compliance with all relevant IRS laws, rules, and regulations in order for the Department-administered benefit programs to maintain their tax-favored qualification. The ETF Board has contracted for the specialized assistance of legal advisors in this area. The additional funding would allow this review work to continue on an ongoing basis by establishing a base budget for this purpose.

Audit Contract. The request also includes one-time costs of $65,000 SEG in 2010-11 to fund an actuarial audit of the WRS required under state law to be performed by the Legislative Audit Bureau every five years.

Contract for Benchmarking Surveys. Finally, $35,000 SEG annually is requested to fund the Department's continued participation in the Cost Effective Measurement (CEM) Benchmarking, Inc. annual survey. The survey measures pension administration "best industry practices" and reports data that compares cost and customer service levels of the WRS with peer public retirement systems. The CEM survey is an important component of the methodology ETF uses to determine staffing needs.

The following table summarizes the Department's request:

Department of Employee Trust funds
November 20, 2009, s. 13.10 Request

Project	2009-10	2010-11
Customer Service and Outreach		
Call Center Staff	$82,100	$116,300
Member Outreach Staff	91,600	135,200
Postage and Printing: Annuitants	14,800	0
Postage: Active Participant Statements	0	65,000
Variable Trust Fund Assistance	125,000	135,000
Subtotal	$313,500	$451,500
Contracts		
Compliance with Federal Tax Law	$140,000	$120,000
LAB Actuarial Audit	0	65,000
CEM Benchmarking Survey	35,000	35,000
Subtotal	$175,000	$220,000
Total Request	$488,500	$671,500

The total funding request includes $187,800 in 2009-10 and $200,000 in 2010-11 in one-time costs. These one-time costs include $48,000 in 2009-10 for startup costs for the 4.0 FTE positions, $14,800 in 2009-10 for postage and printing for annuitant information, $125,000 in 2009-10 and $135,000 in 2010-11 for variable trust fund assistance, and $65,000 in 2010-11 for the LAB audit.

BACKGROUND

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. Preliminary data indicates that, as of December 31, 2008, the system covered 556,513 participants: 265,952 active employees, 144,033 annuitants, and 146,528 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 2009 Wisconsin Act 28, the 2009-11 biennial budget act, ETF was provided $946,400 SEG and 6.0 SEG positions in 2009-10 and $1,683,400 SEG and 12.0 SEG positions in 2010-11 for customer service functions relating to public employee benefit programs. In addition, $798,600 SEG in 2009-10 and $1,493,800 SEG in 2010-11 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 2009-11 biennium. Act 28 specified that a supplementation request under s. 13.10 of the statutes include a methodology, developed by the Secretary of ETF, for determining the number of authorized positions the Department needs to exercise its powers and perform its duties under law. In addition, 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. Act 28 also provided that the Committee is not required to find that an emergency exists prior to making a supplementation in response to the request.

The request now before the Committee is the Department's first under the Act 28 provision. The current request would not fully deplete the funds placed in the Committee's supplemental appropriation for ETF customer service functions. Departmental officials indicate that an additional request may, or may not, be made at a later date.

ANALYSIS

The Act 28 provision of funding and positions to ETF ($946,400 SEG and 6.0 SEG positions in 2009-10 and $1,683,400 SEG and 12.0 SEG positions in 2010-11) was intended to partially address 2009-11 workload projections. The provision of $798,600 SEG in 2009-10 and $1,493,800 SEG in 2010-11 in the Committee's supplemental appropriation account reflected the Committee's view that it would be more appropriate to address the Department's resource and position needs at a later date. The Act 28 requirement that position requests should be based on a methodology to demonstrate the need for additional positions was intended to assist the Committee in assessing future requests.

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, but position authorizations have always been less than that 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. 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.

Finally, in ETF's 2009-11 biennial budget request, the Department asked for the ability to modify the agency's position authority through a 14-day passive review process and to convert its sum certain program operations appropriation to a continuing appropriation with expenditure authority set through a 14-day passive review process. In the event these proposals were not approved during the budget process (which they were not), the Department also requested funding for 33.1 positions in 2009-10 and 57.1 positions in 2010-11 for customer service functions. According to ETF officials, the position request was intended to specify the staffing levels the Department believes are necessary to fully address the increasing workload projections for 2009-11 and beyond. In addition, the Department requested the enumeration of the construction of a new office facility in the 2009-11 capital budget. According to ETF, the capital budget request was made to address immediate space concerns and to meet projected growth over the next 10 to 20 years. [The facility request was not approved for inclusion in the 2009-11 capital budget by the State Building Commission, and was deferred to allow further planning.]

In the 2009-11 budget deliberations, a Fiscal Bureau budget paper was developed indicating that an argument could be made that the requested level of new position authority (33.1 positions in 2009-10 and 57.1 positions in 2010-11) may not be practical. As noted above, the Department's capital budget request for a new facility was deferred. Current space limitations may not allow the Department to readily absorb this many new positions in the next two years. Finally, attempting to hire this many positions in a two-year period could also present challenges for the Department's human resources and training capacities. In discussions aimed at balancing the eventual needs of ETF and the immediate practicalities the Department faces in the 2009-11 biennium (space and other resource restrictions), a more limited staffing alternative was developed for the Committee's consideration: 20.0 FTE positions in 2009-10 and 35.0 FTE positions in 2010-11 for customer service functions.

Instead of providing this level of position authority, the Committee adopted the Governor's recommendation ($946,400 SEG and 6.0 SEG positions in 2009-10 and $1,683,400 SEG and 12.0 SEG positions in 2010-11) and placed sufficient additional funds ($798,600 SEG in 2009-10 and $1,493,800 SEG in 2010-11) in the Committee's supplemental appropriation for segregated funds to fund an additional 14.0 FTE positions in 2009-10 and 23.0 FTE positions in 2010-11 (for a total of 20.0 FTE positions in 2009-10 and 35.0 FTE positions in 2010-11), if the need for these positions was demonstrated.

As noted above, Act 28 also specified that an ETF supplemental request demonstrate the need for additional positions on the basis of a methodology. The Department provided an overview of its methodology in Attachment B (attached to this memorandum) to 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. Workload metrics are collected at the work-unit level (a basic function performed within a bureau or section of the Department) and, for each work unit, models have, or will be, developed to measure or account for the differences in the work performed. Future workload will be projected on the basis of historical trends and on actuarial data produced by the WRS consulting actuary. This analysis will produce preliminary estimates of staff resources required to meet projected demand for services.

In conjunction with the workload measures, the Department will also utilize 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 will be compared to the more specific functional analysis described above. Differences between the two modeling approaches are to be analyzed by staff, with initial estimates of resource needs revised accordingly.

In addition, ETF intends to utilize a benchmarking study to compare its service levels and costs to similar peer public pension systems. [This is the CEM Benchmarking, Inc. annual survey for which ETF is seeking $35,000 annually as part of its current s. 13.10 request.] The Department's goal is to achieve service levels that are above the median of those provided by peer public systems, while providing these services at a cost below the median cost of these same systems.

The Department indicates that, for the 2009-2011 biennium, 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. This ratio is based primarily on the CEM benchmarking goals with some adjustments to reflect ETF workload associated with other benefit programs administered by the Department, for example state employee health insurance coverage. ETF officials also indicate that the current work metric modeling efforts support this ratio.

Based on the 1:1,730 staff-to-member ratio, the methodology would indicate a total staffing need of approximately 322 FTE. Under Act 28, ETF will have a total of 224.7 authorized positions in 2010-11. Therefore, the ETF methodology implies a need for approximately 97 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. The Department also does not currently have the office space or other capacities to accommodate a staffing increase of this magnitude.

However, the request currently before the Committee (4.0 FTE positions annually) does not appear to be tied to the Department's methodology. Departmental officials indicate that the current request is intended to be conservative and seeks to address two of ETF's highest priorities: (a) additional staff to address increasing phone and email inquiries from WRS members; and (b) additional outreach staff in the Member Services Bureau to allow the Department to reach areas of the state and segments of the WRS population currently underserved. These fairly limited goals reflect a recent strategic planning effort at ETF that is attempting to clarify and prioritize the Department's efforts to address increasing workload.

The differences between the agency's request for positions and the methodology that is meant to inform such requests reflects, in part, the fact that the methodology is a relatively new process. The modeling of workload at the functional level is still being developed and refined, and integrating this modeling approach into the CEM benchmarking process will require more work. In addition, the relatively small position request now before the Committee reflects the agency's uncertainty about future office space. Departmental officials indicate that additional positions may be requested in a subsequent s. 13.10 request, or a larger request may be advanced in the agency's 2011-13 biennial budget request.

As noted above, the requested funds and positions would be allocated to: (a) customer service and outreach; (b) federal tax law compliance review; (c) one-time funding for a required audit; and (d) ongoing funding for benchmarking surveys. The customer service and outreach initiatives reflect ETF's recent strategic planning work and appears to be consistent with long-standing Departmental priorities as reflected in previous budget requests. Also, as noted, the position request is a modest one within the context of the long-range needs projected by the Department's proposed methodology. Given that this component of the request is consistent with the intent of Act 28 to set aside supplemental funds ETF staffing needs, the Committee may wish to approve the funding and positions relating to customer service and outreach.

The request for one-time funding for the LAB audit work is also arguably justified. ETF does not have base funding for this purpose and the provision of one-time funding for this statutorily-required audit work is appropriate. Such one-time funding has been provided in the past for this purpose. While funding for the audit perhaps should have been clearly requested in the 2009-11 biennial budget process, and an explicit request for these funds was not made as a separate item, the general funding increase requested by the Department for 2009-11, to achieve service levels that are above the median of those provided by peer public systems, was intended to cover these audit expenses. [Act 28 provided increased expenditure authority of $65,000 PR in 2010-11 to the Legislative Audit Bureau (LAB) to cover its costs for performing the audit. ETF is responsible for providing the program revenue to LAB for these services.]

The requested contract funding for legal services to research federal tax law compliance and for CEM benchmarking surveys present some different issues. Contracts for both of these activities are currently in effect (beginning early in 2009-10 for legal services relating to IRS compliance and since 2007-08 for the CEM studies) and the costs for this work have been covered from base funding. ETF officials indicate that while this work was initiated with base funding, no funds have ever been explicitly provided for these purposes. Departmental officials believe there is a need to now support these efforts on a permanent basis with additional funding, allowing base funding to cover other high-priority needs. However, as with the audit, it should be noted that ETF did not explicitly request funds for these two purposes (as separate items) in their 2009-11 biennial budget request, although the general funding increase requested at the time (to achieve service levels that are above the median of those provided by peer public systems) did contemplate such expenditures. The Committee may wish to provide that requested funding at this time, allowing the Department to free up base resources for other purposes. Alternatively, the Committee could delete the requested funding for these existing contracts and allow the Department to request these funds in its next biennial budget request.

ALTERNATIVES

1. Approve the Department of Employee Trust Funds request for a supplement of $488,500 SEG in 2009-10 and $671,500 SEG in 2010-11 and 4.0 SEG positions annually to its administration appropriation account s. 20.515(1)(w). 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 Alternative 1 with one or both of the following modifications:

a. Delete the request for $140,000 SEG in 2009-10 and $120,000 SEG in 2010-11 to provide funds for a federal Internal Revenue Service code compliance review.

b. Delete the request for $35,000 SEG annually to fund the Department's continued participation in the Cost Effective Measurement (CEM) Benchmarking, Inc. annual survey.

3. Deny the request.

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Attachment

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Attachment B

JCF 13.10 Mailing
November 20, 2009

Methodology for Determining the Appropriate Position Level

This document describes the general methodology for determining the appropriate authorized position level required to effectively and efficiently administer the various benefit programs created under Chapter 40 of the Wisconsin State Statutes. This methodology was prepared pursuant to 2009 Wisconsin Act 28-section 9115 (non-statutory provisions – Employee Trust Funds).

Background

The Department of Employee Trust Funds (herein Department) administers benefit programs for state and local government employees. All benefits are funded via the segregated Public Employee Trust Fund. These funds are held in trust solely for the purpose of providing benefits at the lowest reasonable costs. As such, the methodology incorporates workload metrics, projected changes in workload, and targeted customer service levels. To ensure that cost and service levels are reasonable, the Department utilizes a benchmarking study to compare our service levels and costs to similar peer public pension systems. The Department desires to achieve service levels that are above the median of those provided by peer public systems while providing these services at a cost below the median cost of these same systems.

While the Department administers various benefit programs, approximately 85% of the administrative appropriation expenditures are associated with the Wisconsin Retirement System (WRS) which includes the retirement and certain disability programs. As such, the focus of the methodology is on the WRS programs.

The Methodology

The Department determines position (and expenditure) needs in a "bottom up" fashion. Workload metrics are collected at the work unit level. Models for each work unit vary to account for the differences in the work performed. Historical trends are analyzed and projections are made for future workload. These projections are based in part on historical trends and in part on actuarial data produced by the WRS consulting actuary. The actuarial data provides more accurate information regarding the possible numbers of individuals who may desire to access our services in a given year. For example, we focus heavily on the projected numbers of members who are approaching retirement age as this group tends to be a heavy user of agency services. Historical trends are better indicators of the resources required to process each transaction. Work unit managers work in conjunction with budget and policy staff to perform this analysis. This analysis produces preliminary estimates of staff resources required to meet projected demand for services.

The results of the above are then compared to the results of a high level projection model. This model uses projected changes in the member population mix and levels to determine the staff resources required. Differences between this high level method are compared to the "bottom up" approach described above. Differences between the two methods are analyzed by staff. Initial estimates of resource needs are revised accordingly.

Finally, the Department participates in a national benchmarking study which compares our cost and service levels to those of peer public pension systems. This component provides information useful in determining if the service levels we provided are adequate and if our costs to provide those services are reasonable. Since the benchmarking study only includes retirement and disability programs, an adjustment is made to account for the other benefit programs administered by the Department.

Workload metrics, service levels, and costs are reviewed regularly. Administrative workflow/process changes, information technology solutions, and modifications to the benefit program design all require changes to the various models used in determining Department resource needs. In addition, the retiree population is expected to double over the next 12 to 15 years due to the retirement of public employees born during the "baby boom". Since the retiree population and the population at or near retirement are heavy users of agency services, it is expected that workload metrics will be revised coincident with changes in the economy of scale for various services.

For the Fiscal Year (FY) 2009-2011 Biennium, this methodology suggests that the appropriate level of positions is approximately 1.0 full-time equivalent (FTE) position per 1,560 members. However, the Department 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.

This methodology will serve as a backdrop for future position requests. The Department Secretary will seek the approval of the Employee Trust Funds Board prior to submitting a position request that would cause the total authorized position level to exceed these threshold amounts.