



Legislative Fiscal Bureau

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August 10, 2012

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Employee Trust Funds: Section 13.10 Request for Funds to Support Agency Operations -- Agenda Item I

REQUEST

On June 19, 2012, the Department of Employee Trust Funds (ETF) requested a supplement of \$2,702,500 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 is intended to support strategic initiatives to modernize and integrate various agency functions. 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 would be allocated for the following three purposes: (a) costs associated with contracting with a "strategic partner" specializing in the identification and evaluation of business requirements relating to the procurement of new benefits administration software; (b) costs associated with contracting with a firm for improving the integrity and management of retirement data and migrating this data to the new benefits administration software; and (c) the procurement of additional information technology (IT) equipment and services. The estimated budgeted amounts for the three components under the request are summarized in Table 1.

TABLE 1

**Employee Trust Funds
Request under s. 13.10
June 19, 2012**

<u>Component</u>	<u>2012-13</u>
Strategic Partner Contract	\$1,200,000
Data Management Contract	1,000,000
IT Equipment and Services	<u>502,500</u>
Total Request	\$2,702,500

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 currently includes 1,501 public employers including state agencies, counties, cities, towns, villages, school districts, technical college districts, cooperative educational service agencies, and special districts. Preliminary retirement system data indicates that, as of December 31, 2011, the system covered 569,900 participants: 260,711 active employees, 169,229 annuitants, and 139,960 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. The Committee is not required to find that an emergency exists prior to approving a supplementation request under this provision.

On August 30, 2011, the Department made its first request under the Act 32 provisions and on September 14, 2011, the Committee approved the request, providing 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)). The requested funding and positions were provided 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.

In summary, Act 32 provided \$2,861,400 SEG in 2011-12 and \$3,674,700 SEG in 2012-13 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. With the approval, on September 14, 2011, of a supplement \$2,261,200 SEG in 2011-12 and \$1,572,400 SEG in 2012-13, the funds remaining in the Committee's appropriation for ETF supplementation totals \$600,200 in 2011-12 and \$2,102,300 in 2012-13 (a combined total of \$2,702,500). Therefore, the current request would fully deplete the remaining funds placed in the Committee's supplemental appropriation for ETF customer service functions in the 2011-13 biennium.

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.]

The Department currently works within a context of rapidly growing workload, a mixture of old and new hardware/software systems, and significant operational changes required under 2011 Acts 10 and 32. 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 workload is increasing, with each segment of the population (active employees, inactive past employees, and annuitants) requiring services of the Department.

The Department experienced significant workload increases in 2011. 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. In 2011, requests increased significantly over 2010 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 data for 2010 and 2011.

TABLE 2

**Employee Trust Funds Workload Data
2010 and 2011**

<u>Total Requests</u>	<u>2010</u>	<u>2011</u>
Retirement Estimates	20,777	27,756
Retirement Applications	11,750	18,780
Calls Received	141,159	167,925
Emails Received	12,289	17,457

Workload data for 2012 is available through May. Table 3 compares 2010, 2011, and 2012 on the basis of monthly averages. In comparing 2012 to 2011, these data indicate some decline in requests in the areas of formal retirement estimates, retirement applications, and email requests. However, the requests in 2012, on average, still exceed the 2010 levels in these areas. The 2012 data for calls received exceed both 2010 and 2011 levels.

TABLE 3

**Employee Trust Funds Workload Data
Average Monthly Requests
2010, 2011, 2012**

<u>Average Monthly Requests</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Retirement Estimates	1,731	2,313	1,931
Retirement Applications	979	1,565	1,207
Calls Received	11,763	13,994	14,772
Emails Received	1,024	1,455	1,181

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 changes require modification of the Department's WRS IT systems, modification to internal operational procedures of ETF, increased WRS employer educational activities, and increased workload responding to participant inquiries regarding the changes.

The funding supplementation provided to ETF in September, 2011 (\$2,261,200 SEG in 2011-12 and \$1,572,400 SEG in 2012-13), addressed some of the Department's immediate concerns, as follows: (a) additional positions were provided to the Department's call center to address the increased volume of telephone and email inquiries being received from WRS participants; (b) funding was provided for implementation costs related to Acts 10 and 32, including initial IT redesigns and actuarial work; (c) positions were provided for help desk and other technical support within the agency, retirement workload processing, and annuitant services; (d) funding and positions were provided for initial work on 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; and (e) funding was provided for board-member training and to address office space issues.

The Department's s. 13.10 request now before the Committee addresses the additional needs of: (a) contracting with a strategic partner (a consulting firm specializing in the identification and evaluation of business requirements relating to the procurement of new benefits administration software); (b) contracting with a firm for improving the integrity and management of retirement data and migrating this data to the new benefits administration software; and (c) the procurement of additional IT equipment and services. These initiatives reflect the ETF plan to move to a comprehensive hardware and software platform that better integrates the various components of the Department's service delivery relating to the retirement system and employee benefit programs. Currently, these components are operated with separate IT systems of variable age, with data sets specific to each system. This variability in systems makes it difficult for the Department to address ongoing workload pressures and to respond to required changes such as those mandated by Acts 10 and 32.

Strategic Partner Component. The first initiative involves an estimated cost of \$1.2 million SEG in 2012-13. Department officials indicate that the costs associated with the strategic partner are estimated to total \$3.0 to \$5.0 million over the estimated five-to-seven year project length. The Department indicates that a contract with the strategic-partner firm (L.R. Wechsler, Ltd.) was signed on July 18, 2012. The 2012-13 contract amount is \$1,217,440. The contract may be cancelled, if funding is not made available. The selected firm has extensive experience in consulting with large public retirement systems to implement commercial off-the-shelf benefit systems software. The Department indicates the strategic partner would be involved in all stages of project implementation, including planning, identifying business requirements, request for proposal (RFP) development, vendor selection, overseeing the implementation of required business process changes, and the eventual independent verification and validation of the software vendor's implementation.

Data Integrity and Migration. The second initiative requires contract costs of approximately \$1.0 million in 2012-13. The Department indicates that the s. 13.10 request would fund the first phase of the initiative, which involves systematic "data cleaning." As noted above, ETF has many different systems that store and process data. This first phase would begin the process of identifying data sources, verifying and validating the integrity and accuracy of the data, and devising processes to convert the data into the format required by the benefit software system to be developed with the assistance of the strategic partner. Following the initial data cleaning process, the vendor would provide for the secure storage of data and maintain its integrity while the older Departmental systems continue to utilize the data. It should then be possible to efficiently migrate the data to the new software system when it is in place. The new software system will be phased in; therefore, ETF indicates it will need to maintain the data in both the old and new formats until the implementation is complete. The initial phase is expected to take one-to-two years. As noted above, the Department indicates the duration of the entire project will be in the range of five-to-seven years.

In discussions with other public retirement systems that have implemented commercial off-the-shelf benefit systems software, the Department has learned that the data cleaning and conversion function is critical to the successful migration of data to a new software system. Officials indicate that the most successful system conversions initiated this process early.

The Department has identified two firms that specialize in providing these services for public pension systems, but has not yet chosen the vendor. The eventual total cost of the initiative is not known at this time, but the Department indicates that it could total approximately \$2.0 million.

IT Equipment and Services. Department officials indicate that the IT acquisition plan includes the purchase of either a high-capacity tape back-up unit or implementing a "mirrored SANS." [SANS is the acronym for Storage Area Network System, which is a system of servers. The term mirrored refers to two coexisting systems, located at different physical sites, that provide redundancy; if one system fails, the other system can be utilized with minimal or no downtime.] Additional security tools and services are also needed in preparation for providing participant on-line services. [Greater online self-service capacity for WRS participants reflects one of the Department's major goals under its five-year strategic plan.] The funding request in this area would also allow key staff to attend specialized training on data security. The Department is still evaluating equipment options at this time and anticipates that the procurement process will begin later this summer.

The funding requested for this component (\$502,500) represents the balance of supplemental funding available for the Department in the Committee's appropriation (\$2.7 million), less the amounts needed for the first two components described above.

The Act 32 supplementation provision for ETF requires a detailed expenditure plan for any request for funds. In the case of this request, the Department is requesting all available funding with approximate projections of total cost for each of three components. While the projects are important to the Department's long-range plans for administering the WRS in the years to come, the Committee may want to receive additional information on costs and

implementation of the components in 2012-13. The Committee could require ETF to provide a year-end informational report on: (a) the actual costs of contracts and procurement for the three components in 2012-13; and (b) a discussion of projected costs and goals in the three project areas in the 2013-15 biennium.

In summary, the Committee, under Act 32, provided potential supplemental funding for ETF to address workload issues, as well as the implementation of Act 10 and Act 32 retirement and other employee benefit provisions. The Department's current s. 13.10 request would provide funding to address improvements consistent with ETF's strategic planning work, including initiatives to address the Department's business operation 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 \$2,702,500 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 the request [Alternative 1] and, in addition, require ETF to provide an informational report on or before June 30, 2013, that includes: (a) the actual costs of contracts and procurement in 2012-13 for the three components being funded with the approved supplement; and (b) a discussion of projected costs and goals in the three project areas in the 2013-15 biennium.

3. Deny the request.

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