



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #320

Customer Service Functions (ETF)

[LFB 2009-11 Budget Summary: Page 234, #3]

CURRENT LAW

The Wisconsin Retirement System (WRS) is administered by the Department of Employee Trust Funds (ETF), under the supervision of a 13-member Employee Trust Funds Board. The WRS covers nearly all public employees in the state except employees of the City of Milwaukee and Milwaukee County, which maintain separate retirement systems. The WRS includes over 1,400 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 taken 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.

GOVERNOR

Provide \$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. The position authorization would include 4.0 trust fund specialist positions and 2.0 information systems development specialist positions in 2009-10 and 8.0 trust fund specialist positions and 2.0 information systems development specialist positions in 2010-11.

DISCUSSION POINTS

1. The funding and position increases provided under the bill are intended to partially address 2009-11 workload projections. Demographic trends for the WRS indicate, for the next biennium and beyond, increases in the number of WRS participants eligible to retire, actually retiring, and relying on post-retirement services from ETF. These trends are discussed below.

2. Of the recommended funding, \$326,000 in 2009-10 and \$828,600 in 2010-11 is related to salary and fringe benefit costs for the positions provided under the bill. The remaining funding, \$620,400 in 2009-10 and \$854,800 in 2010-11, represents supplies and services costs for the following purposes: (a) staff-related space and startup costs of \$90,700 in 2009-10 and \$119,700 in 2010-11; and (b) increased supplies and services costs due to inflation and WRS participant growth, totaling \$529,700 in 2009-10 and \$735,100 in 2010-11.

3. The inflationary and participant growth adjustments are provided because supplies and services costs of the Department vary due to both inflation and the number of WRS participants being served. The calculation of the inflationary and population increases has been reviewed and the adjustments appear to be reasonable.

4. According to DOA budget officials, the 6.0 FTE positions in 2009-10 and 12.0 FTE positions in 2010-11 that would be authorized under the bill are intended to help maintain current service levels in the 2009-11 biennium. [It should be noted that, under a standard budget adjustment for the removal of noncontinuing elements from the base, ETF is also losing 8.1 project positions annually under the bill. To a large extent, the positions provided under the bill would replace current project staff that are being discontinued.]

5. A major responsibility of the Department is the provision of WRS participant services and this workload is the basis for the Department's request for staffing and operations resources. According to ETF, the primary factors contributing to caseload growth are the increasing number of WRS participants (active employees, inactive participants, and annuitants), and the growth in the number of participants eligible to retire (the "baby-boom" effect). The agency maintains that it lacks sufficient staff to adequately respond to this growth.

6. With respect to staffing, the Department has experienced some increases in recent years for participant services; however, the positions provided have 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. Finally, in the 2007-09 biennial budget process, 14.5 of the 47.5 requested positions were approved.

7. WRS participation data in 2007-08 and projected data for 2008-09, 2009-10, and 2010-11 are provided in the Table 1. The table presents data on: (a) the number of active participants [current employees of state and local WRS public employers]; (b) the number in inactive participants [former employees who have maintained their WRS accounts and who will

receive future benefits]; (c) the number of WRS annuitants; (d) the number of participants eligible to retire; (e) the annual number of new annuities [retirements]; and (f) the number of annuities ending through the period. The data indicates fairly significant growth in each area except active participants, which is declining slightly.

TABLE 1

**WRS Participant Projections
2007-08 to 2010-11**

<u>WRS Participants</u>	<u>Actual 2007-08</u>	<u>Projected 2008-09</u>	<u>Projected 2009-10</u>	<u>Projected 2010-11</u>	<u>Percent Change FY08 to FY11</u>
Active	263,161	262,736	262,456	262,323	-0.3%
Inactive	143,408	150,418	155,125	159,935	11.5
Annuitants	<u>145,942</u>	<u>152,139</u>	<u>158,578</u>	<u>165,221</u>	13.2
Total Participants	552,511	565,293	576,159	587,479	6.3
Participants Eligible to Retire	107,447	112,886	117,591	121,423	13.0
New Annuities	8,677	9,161	9,512	9,807	13.0
Terminated Annuities	2,746	2,965	3,072	3,164	15.2

8. The Department has the responsibility to provide a wide range of participant services relating to active employee benefits, assisting employees transitioning from active to annuitant status, and ongoing post-retirement support. Table 2 provides a partial list of key WRS-related functions or tasks that are required of ETF. For each function, the number of outstanding requests to be processed are provided as of July 1, 2004, July 1, 2006, July 1, 2008, and currently.

TABLE 2

Number of Outstanding Requests

<u>Function/Task</u>	<u>Outstanding Requests as of July 1,2004</u>	<u>Outstanding Requests as of July 1,2006</u>	<u>Outstanding Requests as of July 1,2008</u>	<u>Percent Change '04 to '08</u>	<u>Outstanding Current Requests</u>
Retirement Estimates	1,750	2,033	168	-90.4%	251
Disability Estimates	14	39	26	85.7	27
Death Benefit - Annuitants	127	153	270	112.6	170
Death Benefit - Non-Annuitants	67	68	84	25.4	96
Pension Verifications	5	36	27	440.0	76
Final Annuity Calculation	2,565	4,889	3,955	54.2	2,750
Purchase of Qualified Service	44	28	7	-84.1	4
Purchase of Forfeited Service	124	168	19	-84.7	21
Purchase of Other Governmental Service	9	10	1	-88.9	12
Lump-Sum Payments	189	1,056	1,016	437.6	788
General Requests	245	199	63	-74.3	107

9. This data provides an indication of workload pressures over time. The number of outstanding requests increased from 2004 to 2008 in six categories and decreased in five categories. Generally, there has been marked improvement reducing the number of outstanding requests for retirement estimates, various purchase of service requests, and general requests. Areas in which the number of outstanding requests have grown significantly include requests for death benefits, pension verification, final annuity calculations, and lump-sum payments. While the Department has had some success in managing these requests, ETF officials express an ongoing concern about the anticipated increase in the number of requests in the years ahead.

10. Another measure of workload pressure is the time it takes to process outstanding requests. The Department has established time-period goals for completing requests for services. These turnaround goals provide a quality-of-service measure for assessing actual performance. Table 3 provides, for each of the functional areas shown in Table 2, the turnaround goal, and the actual turnaround times as of July 1, 2004, July 1, 2006, July 1, 2008, and currently.

TABLE 3
Request Turnaround Times

<u>Function/Task</u>	<u>Turnaround Goal</u>	<u>Turnaround July 1,2004</u>	<u>Turnaround July 1,2006</u>	<u>Turnaround July 1,2008</u>	<u>Turnaround Current</u>
Retirement Estimates	2 Weeks	12 Weeks	10 Weeks	1 Week	2 Weeks
Disability Estimates	1 Week	1 Week	1 Week	1 Week	1 Week
Death Benefit - Annuitants	2 Weeks	2 Weeks	2 Weeks	3 Weeks	2 Weeks
Death Benefit - Non-Annuitants	1 Week	2 Weeks	1 Week	1 Week	1 Week
Pension Verifications	1 Week	1 Week	1 Week	2 Weeks	2 Weeks
Final Annuity Calculation	3 Months	2 Months	6 Months	7 Months	7 Months
Purchase of Qualified Service	2 Weeks	12 Weeks	8 Weeks	1 Week	1 Week
Purchase of Forfeited Service	2 Weeks	10 Weeks	9 Weeks	1 Week	1 Week
Purchase of Other Governmental Service	2 Weeks	3 Weeks	1 Week	1 Week	1 Week
Lump-Sum Payments	2 Weeks	4 Weeks	8 Weeks	7 Weeks	6 Weeks
General Requests	3 Weeks	8 Weeks	8 Weeks	1 Week	2 Weeks

11. These turnaround times, with some exceptions, have shown improvement over the four-year period, particularly for retirement estimates, purchase of service requests, and general requests. On the other hand, turnaround times for final annuity calculations and lump-sum payments have grown. With the use of additional staffing provided in the last four years, the Department appears to have improved turnaround times in some areas and maintained turnaround times in other areas. Arguably, the increased turnaround times for final annuity calculations and lump-sum payments are mitigated by the fact that these functions are less immediately critical to annuitants than many of the other functions listed. Again, ETF officials are concerned with the expected increase in workloads in the years ahead.

12. As an additional quality-of-service measure, the Department has been working with Cost Effective Measurement (CEM) Benchmarking, Inc., to construct data comparisons with other

retirement systems that are viewed as "peer" or equivalent U.S. systems in terms of size. CEM has provided assessments based on 2007 and 2008 data. Generally, the 2008 results of this research indicate that while the WRS is a relatively more complex retirement system than its peers, ETF is spending approximately \$56 per retirement member while the median spending for peer systems is approximately \$71 per member. The weighted average service score for ETF, based on a measurement of performance in a variety of service activities, was 59 in 2008 compared to a peer average of 73. A higher score represents better performance. In addition, the ETF service score was slightly lower in 2008 than it was in 2007.

13. The CEM evaluations are intended to identify comparative differences between the WRS and its peer systems and to provide ETF with guidance on where improvements may be needed. The information assists the Department in the development of strategic planning. As a result of this work, ETF has developed goals to increase ETF's per-member spending to the median per-member spending level of peer retirement systems (from \$56 to \$71 per member). The Department views this goal as critical in addressing the imminent baby-boomer retirement wave.

The Department's approach was reflected in its 2009-11 biennial budget request, which included a proposal to convert ETF's annual, sum certain appropriation for administration to a continuing appropriation in an amount determined under a new 14-day passive review process. This initiative was intended to provide ETF with expenditure authority flexibility that would have allowed the Department to move toward the median per-member spending of peer retirement systems. The cost of doing this was indicated in a related funding request, submitted in the event the Governor did not approve ETF's budget flexibility request, in which \$7,294,800 in 2009-10 and \$7,135,600 in 2010-11 in funding was requested to bring per-member spending in line with the median spending level of peer retirement systems. The budget flexibility proposal and the additional funding, however, was not approved by the Governor.

14. In summary, in its 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 operations appropriation to a continuing appropriation with expenditure authority set through a 14-day passive review process. In the event the proposals were not approved by the Governor, the Department also requested \$9,806,700 and 33.1 positions in 2009-10 and \$11,835,600 and 57.1 positions in 2010-11 for customer service functions. As mentioned above, the funding request included \$7,294,800 in 2009-10 and \$7,135,600 in 2010-11 in funding associated with the Department's proposal to bring per-member spending in line with the median spending level of peer retirement systems.

15. According to ETF officials, the Department's position request (33.1 positions in 2009-10 and 57.1 positions in 2010-11 for customer service functions) 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, it should be noted that the Department also 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, but was deferred to allow further planning.

16. While the Committee may approve the Governor's staffing recommendation under the bill, this level of staffing may be inadequate to address Departmental needs in the 2009-11 biennium. In this event, the Department may need to request additional staff resources under a s. 13.10 request to the Committee.

17. The Committee could also consider approving the ETF 2009-11 biennial budget request (33.1 positions in 2009-10 and 57.1 positions in 2010-11) which was projected to reflect the Department's eventual needs for customer service functions. However, following further discussions with the Department, an argument can be made that this level of new position authority may not be practical at this time. As noted above, the Department capital budget request for a new facility has been deferred. Current space limitations may not allow the Department to readily absorb this many new positions in the next two years. 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. Under this alternative, the Committee could provide \$1,745,000 and 20.0 FTE positions in 2009-10 and \$3,177,200 and 35.0 FTE positions in 2010-11 for customer service functions. This funding would include \$529,700 in 2009-10 and \$735,100 in 2010-11 for increased supplies and services costs due to inflation and WRS participant growth. The positions that would be authorized (20.0 FTE in 2009-10 and 35.0 FTE in 2010-11), are an increase of 14.0 FTE in 2009-10 and 23.0 FTE in 2010-11 to the positions recommended by the Governor in AB 75.

18. Finally, if the Committee believes that it would be more appropriate to address this position request at a later date, the Committee could approve the Governor's recommendation under the bill, \$946,400 and 6.0 positions in 2009-10 and \$1,683,400 and 12.0 positions in 2010-11, and, in addition, place the funding difference between the AB 75 provision and the Department's revised position calculation [\$798,600 in 2009-10 and \$1,493,800 in 2010-11] 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 under s. 13.10 of the statutes. Under this approach, legislative intent would be established that additional funding to address ETF customer service functions may be made available in the future based on demonstrated need.

In addition, as a condition for accessing these funds, the Committee could require ETF to base a position request on 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. This provision was part of ETF's agency budget proposal relating to position requests, but was inadvertently deleted from AB 75.

ALTERNATIVES

1. Approve the Governor's recommendation to provide \$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.

2. Delete the governor's provision. Instead, provide \$1,745,000 SEG and 20.0 SEG positions in 2009-10 and \$3,177,200 SEG and 35.0 SEG positions in 2010-11 for customer service functions.

ALT 2	Change to Bill	
	Funding	Positions
SEG	\$2,292,400	23.00

3. Approve the Governor's recommendation to provide \$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. In addition, place \$798,600 SEG in 2009-10 and \$1,493,800 SEG in 2010-11 of public employee trust funds 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. Provide 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. Provide that, if the Secretary intends to request an increase in authorized positions beyond the number derived from the methodology, the ETF Board would be required to approve the request to the Committee.

ALT 3	Change to Bill	
	Funding	Positions
SEG	\$2,292,400	0.00

4. Delete provision.

ALT 4	Change to Bill	
	Funding	Positions
SEG	-\$2,629,800	- 12.00

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