



STATE OF WISCONSIN
Department of Employee Trust Funds
Robert J. Conlin
SECRETARY

Wisconsin Department
of Employee Trust Funds
PO Box 7931
Madison WI 53707-7931
1-877-533-5020 (toll free)
Fax 608-267-4549
etf.wi.gov

Correspondence Memorandum

Date: October 25, 2018
To: Group Insurance Board
From: Tarna Hunter, Legislative Liaison
Subject: 2019-21 Biennial Budget Update

This memo is for informational purposes only. No Board action is required.

This memo summarizes ETF's request for the 2019-2021 biennial budget submission to the Department of Administration. The period covered by the budget request is July 1, 2019 - June 30, 2021. The schedule for review and action by the Governor and Legislature is anticipated to be as follows:

<u>Stage</u>	<u>Anticipated Schedule</u>
Agency Budget Request Due	September 2018
Governor Issues Budget Recommendations	January/February 2019
Review and Action by the Joint Committee on Finance (JCF)	February – June 2019
Action by Full Legislature	June 2019
Final Enacted Budget	July 2019

Reviewed and approved by Pam Henning, Assistant Deputy Secretary

Pamela L Henning

Electronically Signed 10/25/18

Board	Mtg Date	Item #
GIB	11.14.18	12D

**Department of Employee Trust Funds
 Summary of Fiscal 2019-2021 Biennial Budget Request
 Updated October 25, 2018**

SEG = Segregated funding

	FY 2020		FY 2021	
	FTE	Funding	FTE	Funding
Base Budget (FY 2019) – SEG	272.20	\$47,901,700	272.20	\$47,901,700
Base Budget (FY 2019) – GPR	0.00	\$68,000	0.00	\$68,000
ETF Request Over Base* - SEG	4.00	\$735,800	4.00	\$649,700
ETF Request Over Base** - GPR	0.00	(\$20,100)	0.00	(\$36,400)
Governor’s Recommendations				
Joint Committee on Finance				
Legislature				
Final Enacted Budget				

GPR = General Purpose Revenue funding

*Includes new initiatives and standard technical adjustments.

**GPR funding is a reduction from 2017-19 biennium.

ETF’s 2019-21 budget request consists of an overall increase of 1.39% all funds, including a 1.45% increase in SEG funds and a 41.54% decrease in GPR funds. Below is a table detailing ETF’s funding for the 2019-21 biennium.

Funding Item	FY 2020 Funding	FY 2021 Funding
Adjusted Base	\$47,969,700	\$47,969,700
Full Funding of Positions and Operations	\$853,500	\$853,500
Turnover Reduction	(\$537,400)	(\$537,400)
Annuity Supplements	(\$20,100)	(\$36,400)
Overtime + Night & Weekend	\$117,800	\$117,800
DOA Lease & Directed Moves	\$118,900	\$167,800
LAB 5-Year Actuarial Audit	\$183,000	\$48,000
Disability Programs Positions – 2.0 FTE	\$0	\$0
Business Intelligence Positions – 2.0 FTE	\$0	\$0
Total	\$48,685,400	\$48,583,000

The Department included the following initiatives in its 2019-21 biennial budget request:

Disability Program Redesign (Statutory Changes) – ETF’s biennial budget proposal includes statutory changes necessary to complete ETF’s disability redesign project. The changes will streamline, simplify, and reduce duplication of the state’s disability programs currently offered to State of Wisconsin and local government employees. The changes will restructure the disability programs to have one short-term disability program (Income Continuation Insurance) and one long-term disability program (Disability Retirement Annuity/§ 40.63). The changes, approved by the ETF Board and the Group Insurance Board, also support the long-term sustainability of the disability programs administered by ETF.

Additionally, in 2017, the Legislative Audit Bureau released an audit (17-7) of ETF’s Income Continuation Insurance (ICI) plan. The LAB provided several recommendations to ETF regarding the ICI plan. As noted in the audit, implementing some these changes would require statutory changes.

ETF’s biennial budget request includes the following statutory changes necessary to complete the disability redesign project and comply with the recommendations included in the LAB audit of the ICI plan:

- Decouple Sick Leave from the State ICI Plan Premium and Benefit Determinations;
- Eliminate ICI Coverage for Long-Term Benefits – remove the provision in §40.62 (1) that establishes the ICI program as a short-term and long-term disability income benefit program;
- Amend §40.63 (9) (c): Provide that if an individual exceeds the annual earnings limit in two calendar years within a five-year period starting on January 1, 2020, that individual’s disability annuity benefit payments will be terminated;
- Streamline how the Disability Retirement Annuity (§40.63) program determines the last day paid to be consistent with regular WRS retirements and other ETF disability programs;
- Provide that a named joint survivor is entitled to the larger of either the disability benefit or the member’s active WRS death benefit if the member dies before their disability application is approved; and
- Transfer oversight of the ICI and LTDI programs to the Employee Trust Funds Board.

Completion of the redesign effort will reduce complexity and confusion for employers and members, address the actuarial deficit in the State Income Continuation Insurance plan (ICI) program and reduce State ICI plan liabilities, streamline the administration of disability benefits, and reduce duplication of disability benefits.

Disability Program Redesign (Position Request) – Requests 2.0 FTE SEG Trust Funds Specialist Advanced positions. ETF is only requesting position authority and will use existing expenditure authority to fund these positions. These positions are essential for the effective administration of ETF's disability programs. As noted above, ETF is restructuring its disability programs to improve financial performance, improve processes, reduce complexity and help members and employers better understand the programs.

As part of this larger program redesign, ETF has closed the Long-Term Disability Insurance Program (LTDI) to new applicants and reopened the Disability Retirement Annuity (§ 40.63) program. The LTDI program was managed by a third-party administrator. ETF has assumed responsibility for the administration of the remaining 2,458 LTDI benefits, which is expected to take 37 years to close-out. Additionally, ETF is administering the Disability Retirement Annuity (§ 40.63) program internally. Administering both disability programs in-house has increased ETF's workload related to the disability programs.

However, by administering these functions internally, ETF was able to reduce administrative fees paid to the current third-party administrator by \$864,000 annually. The addition of these positions will provide an estimated net savings of \$610,500 annually to the trust fund.

Business Intelligence (Position Request) – Requests 2.0 FTE SEG Information Systems Specialist positions to support ETF's on-going efforts to transform into a data driven enterprise. ETF is only requesting position authority and will use existing expenditure authority to fund these positions. The requested positions will assist in building a business intelligence framework that will provide information that supports and drives decision making in a timely, repeatable manner.

BI capabilities will provide ETF decision makers and policy makers with insights that will enable ETF to take an enterprise view of financial and operational information leading to effective business decision making. This will increase efficiencies and allow ETF to optimize its operations and continue to keep its administrative costs low. Additionally, BI capabilities will provide timely and enhanced insights of customer needs. Finally, it will enable ETF to adapt quickly and cost effectively to shifting regulatory landscapes.

Overall, these capabilities will support the objective of keeping the Wisconsin Retirement System as a leader in public pension system design and add value for over 620,000 members and the 1,500 employers we serve.

Internal Auditor Reporting (Statutory Changes) – Creates an independent Office of Internal Auditing at ETF. These changes are consistent with auditing best practices of public retirement systems and are essential to ensure that ETF's internal auditing is an independent, objective assurance and consulting activity designed to add value and improve ETF's operations.

This recommendation provides that ETF's Internal Auditor (IA) report functionally to the ETF Board and administratively to the ETF Secretary. The ETF Board appoints and sets

the salary of the unclassified Internal Auditor position. The Internal Auditor appoints unclassified employees in the IA unit and sets their salaries and any salary increases.

An independent Internal Auditor would support the Board's oversight responsibilities of ETF. The ETF Board has established an Audit Committee Charter to assist them in fulfilling their oversight responsibilities for the financial reporting process, the system of internal control, the audit process, and ETF's process for monitoring compliance with laws and regulations. The Board needs full and unrestricted access to the Internal Auditor regarding all evaluations, assessments, and analyses pertaining to ETF.

Finally, these changes conform with the Institute of Internal Auditors (IIA) Standards. Recent, the IIA Quality Services, LLC completed an external quality assessment of ETF's internal audit function. The report recommended that ETF revise its policy and the OIA Charter to ensure OIA functional and administrative reporting relationships are properly defined, and clearly provide the appropriate appearance of organizational independence and objectivity. The standards provide that organizational independence is effectively achieved when the chief audit executive reports functionally to the Board.

Mandatory LAB Actuarial Audits – Requests one-time funding of \$183,000 SEG in FY20 and \$48,000 SEG in FY21 to contract with the Legislative Audit Bureau (LAB) for the statutorily required actuarial audit of the Wisconsin Retirement System and for actuarial services related to audits required by the new Governmental Accounting Standards Board.

Staff will be available at the November 14, 2018, board meeting to answer questions.