AGENDA AND NOTICE OF MEETING
STATE OF WISCONSIN
EMPLOYEE TRUST FUNDS BOARD

Wednesday, August 27, 2008
9:00 a.m.
Holiday Inn Hotel and Suites
1109 Fourier Drive
Madison, Wisconsin

Documents for this meeting are available on-line at:
http://etf.wi.gov/boards/board_etf.htm
To request a printed copy of any of the agenda items, please contact
Ann McCarthy, at (608) 261-0736.

Denotes action item

9:00 a.m. **1. Board Working Session**

- **Department of Employee Trust Funds 2009-2011 Proposed Biennial Budget**
  - **Presentation by Department Staff**
  - **Board Discussion**

12:00 p.m. **2. Adjournment**

Times shown are estimates only.

The meeting location is handicap accessible. If you need other special accommodations due to a disability, please contact Ann McCarthy, Department of Employee Trust Funds, P.O. Box 7931, Madison, WI 53707-7931. Telephone: (608) 261-0736. Wisconsin Relay Service 7-1-1. E-mail: ann.mccarthy@etf.state.wi.us

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Summary of the Department of Employee Trust Funds FY 2009-2011 Biennial Budget Request

This is a summary of the anticipated fiscal year (FY) 2009-2011 biennial budget request for the Department of Employee Trust Funds (Department). The period covered by this request is July 1, 2009 – June 30, 2011.

As you are aware, the Department currently has a relatively low administrative cost but, in turn, we offer Wisconsin Retirement System (WRS) participants a low level of service. The Department has taken many steps to improve services through the use of technology and administrative process redesign, however, those efforts alone will not allow the Board and the Department to carry out their fiduciary responsibilities to participants. That is especially true considering the fact the “eligible to retire” population alone is expected to increase more than 18% from fiscal year 2007 to fiscal year 2011. Looking further into the future, our actuary projects that our annuitant population will more than double in 30 years. It isn’t a question of <u>if</u> our workload will increase; rather it is a question of <u>how quickly</u> it will increase. The current budgetary system does not allow us to plan for, or be ready for, this workload issue when it occurs.

More must be done to address our current and future challenges and to make sure we are able to provide contractually defined benefits to WRS participants. We feel our budget request contains mechanisms and solutions to meet these challenges.

What is driving this request?

1) **Increasing workload associated with the retirement of the baby boom generation.**

    a. Eligible to retire population expected to increase 18.1 % from FY 2007 to FY 2011.

    b. New annuities expected to increase 19.9% from FY 2007 to FY 2011.

    c. The annuitant population will increase to more than 165,000 from the current level of approximately 145,000 from FY 2007 to FY 2011.

2) **The current model used to provide the agency with expenditure and position authority is inflexible and hinders the ability to create and implement long-term strategies to address an increasing workload.**

    a. The current model requires that the Department <u>predict</u> precise workload levels one to two years in advance of the actual activity.

    b. The Department must “compete” with other agencies for resources, even though the Department is 100% funded from the Public Employee Trust Fund and not state tax funds.

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c. Should actual workload during the biennium increase significantly more than predicted, the only option is to request emergency funding or further reduce service levels.

d. The current "annual" appropriation model makes it difficult, if not impossible, to effectively create and implement long-term strategies to address the workload issues associated with the retirement of the "baby boom" generation. Under the current system, funding commitments are limited to no more than two years.

3) The current process for obtaining position and expenditure authority is not a "best practice" in terms of Trust governance as identified in a governance study performed by Ennis Knupp and Associates (presented at the June 2008 ETF Board Meeting). In addition, based on the Ennis Knupp report, staff recommends that statutory ambiguities regarding the Board's and Department's authority to contract for goods and services be clarified.

4) The desire to increase service levels to participants to at least the median of peer public pension systems.

a. Current service levels are well below the median of our peers according to a recent Cost Effective Measurement (CEM) Benchmarking report for FY 2007.

1. CEM is an independent research firm that, on a global basis, performs benchmarking studies for pension administration, pension investment performance and departments of motor vehicles service levels. The peer system used by CEM for the WRS was independently selected by CEM based on comparable systems.

2. In the FY 2007 study, the WRS service score was 60 compared to the peer system median of 73-the higher the score, the higher the service level.

3. In the FY 2007 study, the annual WRS cost per participant (active and annuitant) was $53 compared to the peer median of $65.

5) Participants are increasingly demanding more information and higher levels of service when making important decisions about retirement and other fringe benefits.

<u>How does the biennial budget request address these needs?</u>

The Department's budget request will consist of 7 different elements:

1) Request a change from the current annual appropriation model to a continuing appropriation.

a. Annual expenditure authority amounts would be based on the peer system median amount per participant (CEM information will be used initially with adjustments to account for the benefit programs not included in the CEM analysis).

b. Unused expenditure authority in a given fiscal year would carry forward to the next fiscal year (builds a reserve to accommodate workload spikes).

c. Board concurrence would need to be obtained if workload metrics indicate that it is necessary for the Department to exceed the peer median amount per participant in a given fiscal year.

d. Expenditure authority would be $35,952,600 for FY 2010 and $37,981,500 for FY 2011 based on the most recent CEM data. For the current fiscal year (FY 2009) the Department's budget authority is $25,011,900.

e. The expenditure authority requested above is equivalent to 4.4 basis points of the WRS assets or 0.71% of annual benefit payments.

2) Request the creation of a passive review process to create or delete position authority.

a. The Department would request the creation or deletion of positions based on actual workload metrics.

b. The Department's position level would not exceed the peer system median ratio of participants to full-time equivalent (FTE) positions without Board approval.

c. For FY 2007, the WRS ratio of participants (active and annuitant) per FTE was 2,495/1 compared to the peer median of 1,790/1.

d. Based on internal Department projections and actuarial data, the number of new positions required to address some of the workload issues will be 25.0 FTE for FY 2010 and 24.0 FTE for FY 2011.

e. The peer system median position limit (adjusted to account for the programs not included in the CEM analysis) would be 283.39 FTE or 62.59 more FTE positions than currently authorized for the current FY 2009 year.

3) Request statutory changes to eliminate current ambiguities regarding the Board's independent ability to contract for necessary goods and services.

4) Request changes to require annual reporting by the Department regarding the use of funds, positions, and contracting authority to the Joint Committee on Finance and the Department of Administration to enhance accountability and transparency.

5) Request appropriate funding levels for the GPR annuity supplements for certain pre-1974 retirees– this will be a decrease from current funding levels.

6) Request a capital budget associated with obtaining a new headquarters facility.

7) Request statutory changes to improve efficiencies and effectiveness of the insurance programs.

a. Statutory change to authorize the Group Insurance Board (GIB) to contract for actuarial assistance for its programs and removal of that authority from the ETF Board (s. 40.03 (1) (d) & (6) (d)).

b. Statutory change to clarify that GIB may modify benefits to allow for the incorporation of wellness incentives (s. 40.03 (6) (c).

c. Statutory change to broaden the authority of GIB to hire for data collection and analysis services (s. 40.03 (6) (j)).

d. Statutory change to eliminate GIB approval of optional insurances (s. 20.921 (1) (a) 3).

e. Statutory change to shift responsibility for the Badger Rx Gold program (a prescription drug discount program for non-WRS participants) to the Department of Health Services (formerly the Department of Health and Family Services) (s. 40.53).

f. Statutory change to provide additional flexibility to determine long-term care insurance options (s. 40.55).

Summary of the most recent three ETF biennial budget requests

Fiscal Biennium	ETF Request		Enacted Budget		Enacted/Requested	
	FTE	**New Funding**	**FTE**	**New Funding**	**FTE**	**New Funding**
FY 2007-2009	63.00	$ 14,748,200	24.50	$ 10,997,700	38.9%	74.6%
FY 2005-2007	4.50	$ 1,199,100	1.75	$ 1,034,500	38.9%	86.3%
FY 2003-2005	27.80	$ 7,097,700	10.00	$ 4,179,100	36.0%	58.9%
	95.30	**$ 23,045,000**	**36.25**	**$ 16,211,300**	**38.0%**	**70.3%**

New funding amount is the biennial total (on-going and one-time) less standard budget

2009-2011 Department of Employee Trust Funds Budget Proposal

August 27, 2008

Madison, WI

Purpose of Meeting

- Discuss the demographic, budgetary and statutory challenges facing the Department.
- Provide information on how the Department proposes to address these challenges in the budget.
- Obtain Board support for budget concepts at September 19, 2008 meeting.

Overview

- Background
- Challenges
  - Future ETF workload
  - Current ETF administrative budget and services
  - State Budget picture
- Solutions
  - What has the Department done administratively
  - 2009-2011 budget proposal

Background

- The ETF Board and Department Secretary are responsible for the effective administration of the Wisconsin Retirement System (WRS).
  - Board is responsible for policy and oversight.
  - Secretary is responsible for day-to-day administration.
- To more effectively fulfill legal obligations to members, the Board has supported, and the Department has sought, increased budgetary and administrative flexibility.

Challenges

Demographics

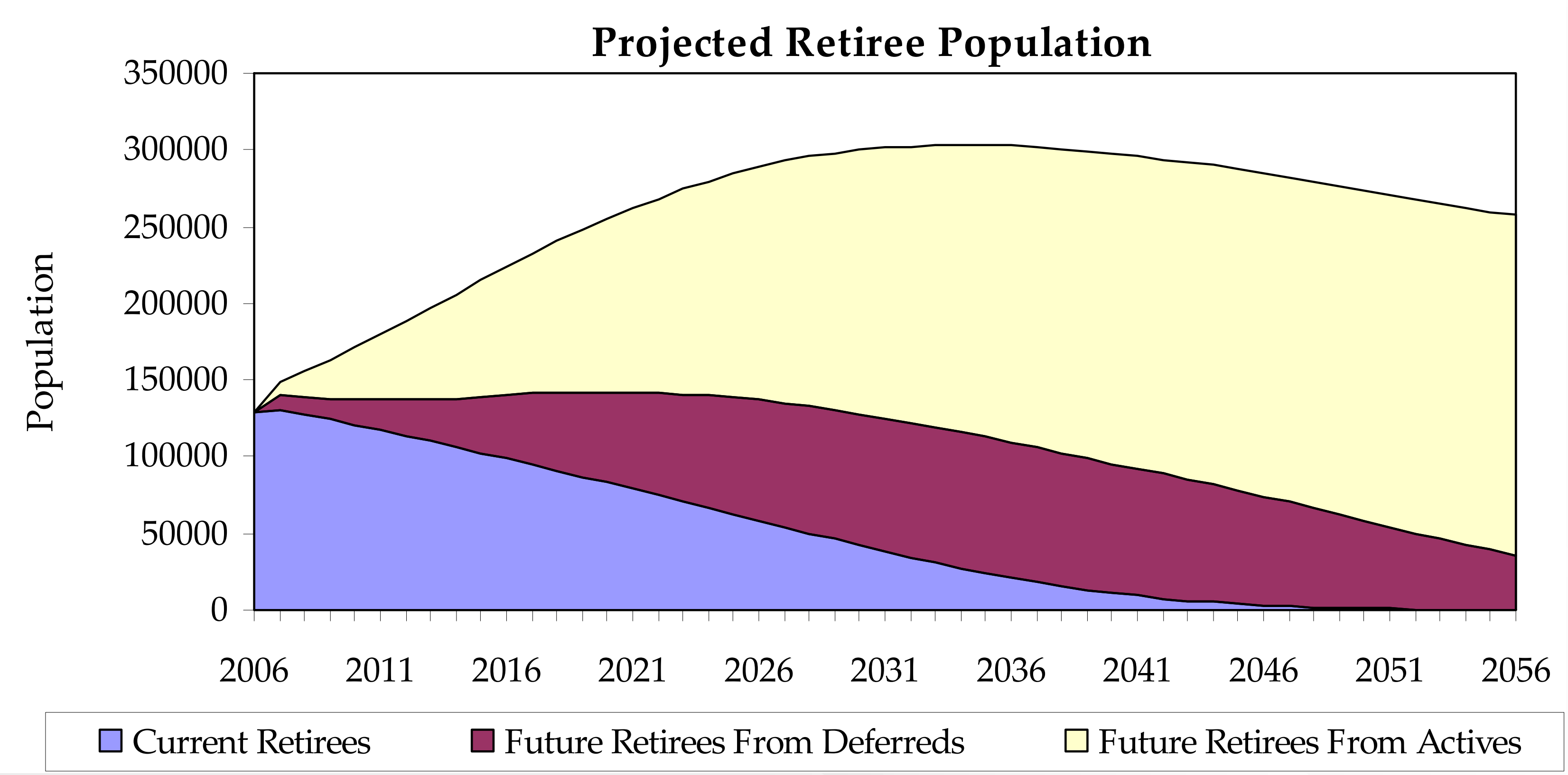
- Baby boomers are beginning to retire.
- The number of annual retirements have been increasing and will soon increase by more than 50%.
- The number of retirees will double in less than 20 years.
- Trend will continue for at least 30 years.

Challenges

Demographics

- Department workload is increasing concurrent with the retirement of the baby boom generation.
  - Many Department staff hired today will most likely retire prior to the end of this trend.
  - Current Department staff is also retiring.

Retiree Population Present and Future



Challenges

Workload

- The eligible to retire population and the retiree population require the most services from the Department.
  - Retirement estimates, counseling, Call Center service, service purchases, tax withholding, beneficiary designations, other benefit inquiries, estimated annuities, finalized annuities, etc.
  - Effectively a financial institution or payroll office for members.

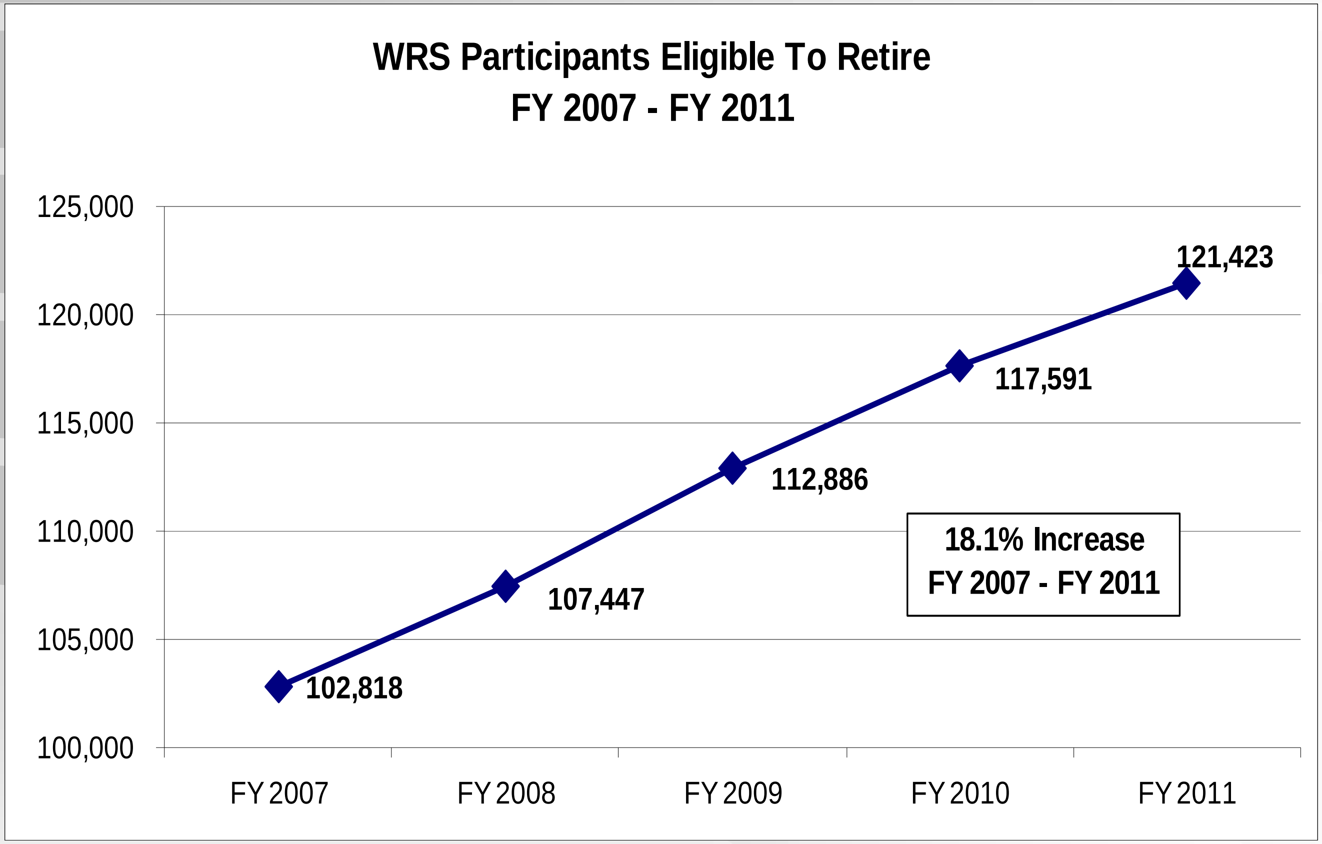
Challenges

Workload

- Participants must receive services regardless of resources.
- Every participant will eventually receive a benefit and create administrative work:
  - retirement annuity
  - separation benefit
  - death benefit
  - *Statement of Benefits*

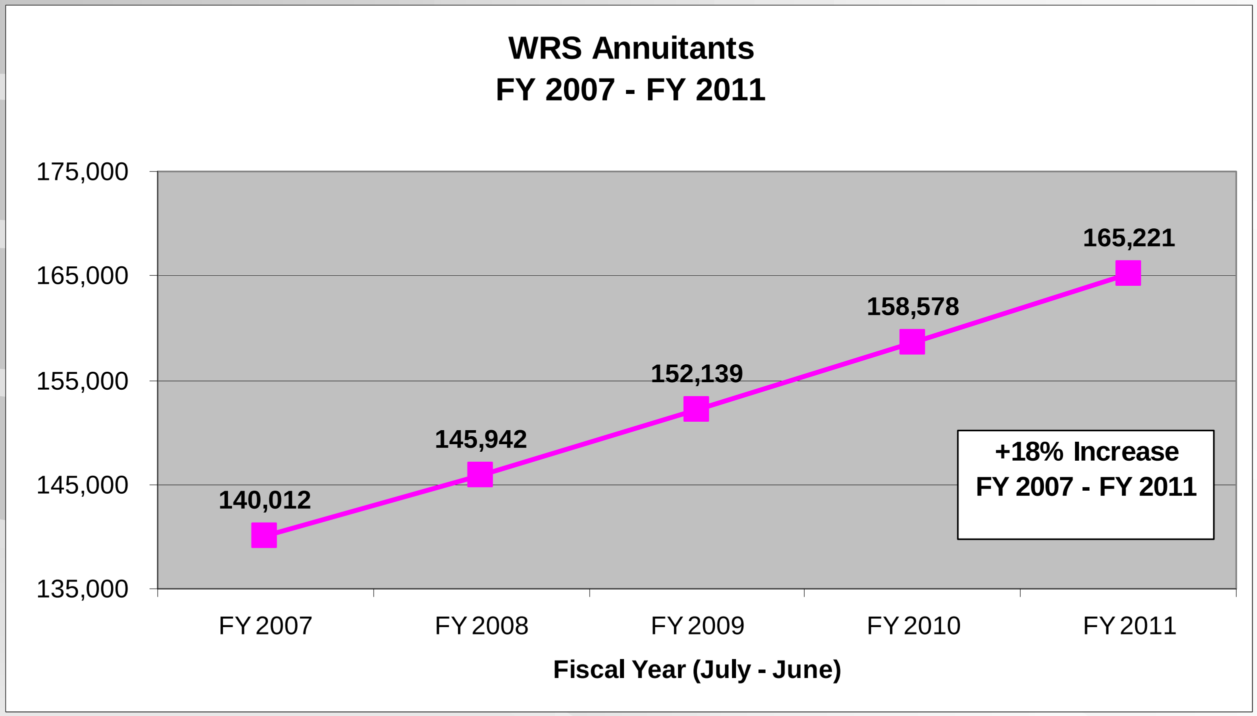
Eligible to Retire FY 2007-2011

Source: ETF



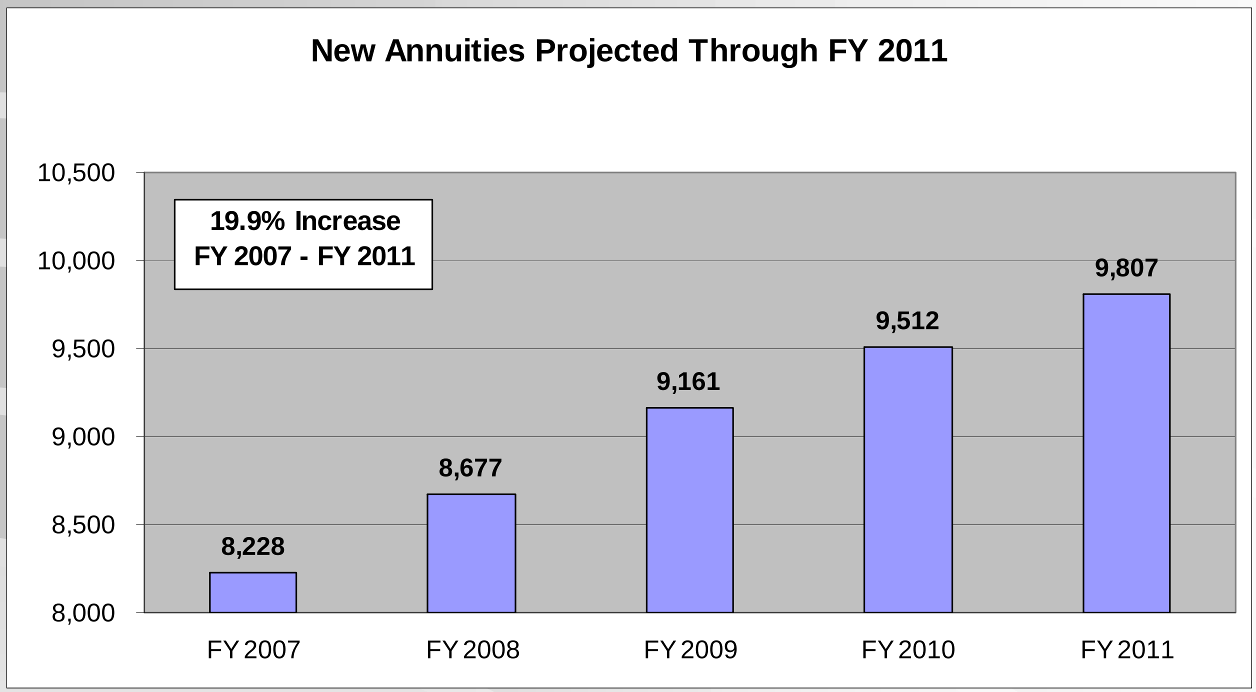
Annuitants FY 2007-2011

Source: ETF



New Annuities FY 2007-2011

Source: ETF



Projected Benefit Payments- 5 year Increments (Source: GRS)

Year	Total # of Retirees	Benefit Payments (in billions)
2007(actual)	142,906	$3.4
2012	188,681	$4.5
2017	232,189	$6.2
2022	268,370	$8.0
2027	292,659	$9.9
2032	302,364	$11.8

By 2057, annual payments expected to reach $29.4 billion.

Challenges

Workload

- Can project retirements and corresponding needs for services over the long-term.
- However, it is impossible to precisely project retirements over the short-term.
  - Economy
  - Health Insurance
  - Family Situations

Challenges

Current Department Budget

- All Department administrative costs come from investment earnings, not tax dollars.
- Primarily an annual appropriation (funds lapse if not spent).
- Positions must be specifically allocated and approved by Legislature and Governor.
- Current Department administrative budget equals just over three cents for every $100 dollars of trust fund assets (about $25 million).
- However, current resources and staff are low in comparison to peer retirement systems according to recent benchmarking survey. (CEM)

Challenges

Current Department Budget

- Budget requests are submitted to DOA 9 months before the start of the next biennium and almost 1.5 years before first workload peak of new biennium (June).
- The difficulty in projecting precise workloads and a budget cycle that does not coincide with those workloads makes it difficult to plan and often pits immediate customer service needs with other departmental projects and objectives. (e.g., M.S. Office)
- Current options: shift resources, delay initiatives, or seek emergency funding (“13.10” process).

Challenges

State Budget

- 2009-2011 State Budget promises to be tight.
  - Sagging economy leads to lower tax revenue.
  - Department will have to “compete” with other high profile priorities: Corrections, Education, Human Services, Transportation, Local Aids.
  - Governor’s instructions require most agencies to hold the line on growth.

Challenges

Service Levels

CEM STUDY (2007 FY)

- CEM is an independent research firm-studies pension system administration around the world.
- Department commissioned study to develop objective metrics with which to compare ourselves.
- Intent is to continue the study in the future to refine results and to measure improvement.

Challenges

Service Level

- Findings (includes actives and annuitants only):
  - Department's cost per member is low compared to peers.
    - Cost per member is $53 compared to the peer median of $65. If major projects (BPS) are excluded the cost is $39.86 compared to the peer median of $54.43.
  - Department's staffing ratio (member/staff) is high compared to peers.
    - Participants per full time employee (FTE) is 2,495/1 compared to the peer median of 1,790/1.
  - Service level score is 59 compared to peer median of 73
    - Highest score awarded: 87; best possible: 100.
    - Service level is determined by member contacts, website, member statements and pension inceptions.
    - Department has low service levels in response to calls and e-mails, counseling, member presentations, estimates, separation benefits and more.

Challenges

Service Levels

Examples of what low service levels mean:

- Wait times of
  - 5 months for separation benefit.
  - 4-8 months for finalized annuities.
  - Call center wait time (283 seconds) nearly double the wait time of peer systems (175 seconds).

Solutions

Past Actions

- Department has sought to make progress.
- Previous State Budgets:
  - 2003-05: requested 27.8 positions, received 10
  - 2005-07: requested 4.5 positions, received 1.75
  - 2007-09: requested 63 positions; received 24.5 (see next slide)

Solutions

Past Actions

- 2007-09 state budget requested 63 positions; received 24.5 positions
  - Positions, along with other measures, have helped make some progress towards reducing the <u>current</u> retirement estimates backlog.
  - Positions have helped reduce the <u>current</u> backlog of tax returns for 40.65 disability benefit recipients.

Solutions

Past Actions

- In addition to budget requests:
  - Technology-BPS, e-mail distribution of employer bulletins, internal electronic document routing, more information on ETF website
  - Reduced Appeals
  - Online Video Library Presentations (+ 40,000 hits)
  - Small Group Counseling Sessions
  - Reorganized Member Services and Call Center for efficiency

Solutions

Past Actions

- Streamlined Board election processes
- Annual processing improvements
  - Developed an application on the ONE system to allow employers to transmit annual report data more accurately and efficiently.
- Medical recertification for disability benefits
  - Changed to an annual process.
  - Identified exempt members (due to disabilities, age, etc.).
  - Significant reduction in administrative effort overall.
- Changes to *It’s Your Choice* booklet-electronic distribution and streamlined editing process

Solutions

Past Actions

- Call and Service System (CallSS) – Replaced legacy system with an internally developed web-based application to track member contacts. The application has the potential to be distributed to all Department staff to streamline customer contact tracking.
- Energy efficiency measures: Initiated energy saving actions that resulted in energy cost savings of over $10,000 and a rent rebate of over $2,500.

Solutions

Past Actions

- Slumping economy has caused some reduction in retirements from expected levels.
- Gives us opportunity to train new staff and fill positions.
- How long will it continue?

Solutions

- Other areas we'd like to explore include greater Internet accessibility, making counseling available in other parts of the state, and further replacement of legacy systems.
- Department cannot meet all of the needs associated with the increasing workload through information technology and process redesign.
- Statutory changes and additional administrative resources will also be necessary to address the increasing workload.

Solutions

The proposal

Expendıture Authority

- Continuing all funds received appropriation: funds don't lapse.
  - Defined limits:
    - Based on CEM peer median per participant levels
    - $65/per member per year
  - Timely reporting to Board (every three months) and to DOA and JCF annually.
  - Unused authority will be carried forward.

Solutions

The Proposal

Expenditure Authority

- What it means:
  - Expenditure Authority-administrative budget: $36 million (fy 2010) vs. $25 million (fy 2009)
  - 4.4 cents per $100 of trust fund assets (fy 2010) vs. about 3.1 cents per $100 of trust fund assets (fy 2009)

Solutions

The Proposal

Position Authority

- Passive review position authority (Wis. Stat. 16.505):
  - Submit request to JCF periodically throughout year, if no action within 14 working days, it is approved.
- Currently available to state agencies with program revenue appropriations and SWIB.

Solutions

The Proposal

Position Authority

Passive review:

- Requests based on objective workload data
- Defined limits-cap based on CEM peer median staff/participant ratio.
  - 1800 members/FTE (inactives excluded)
- Timely reporting to Board-every three months.
- Process to exceed cap and limitations, if necessary.

Solutions

The Proposal

Position Authority

- Based on workload models, approximately 70 positions are required to fill the needs of the Department in the 2009-11 biennium.
- The CEM peer median“cap” would limit us to 62.5 positions.
- However, because of space considerations and the challenges associated with hiring large numbers of staff, the Department anticipates requesting no more than 49 over the biennium.

Solutions

The Proposal

Position Authority

- What it means:
  - 269 positions in fy 2011 vs. 220 positions in fy 2009.

Solutions

The Proposal

<u>Clarify Contracting Authority (goods/services)</u>

- Exempt Department/Board from Ch. 16 requirements-DOA contracts/processes would be optional.
  - Include ability to contract for IT services (hardware and software) without DOA approval-SWIB model.
  - Department would follow Board-approved model.
- Include clear authority for the Board to select legal counsel and other necessary consultants-similar to the way actuary is currently selected.

Solutions

The Proposal

Health Insurance

- Authorize the Group Insurance Board (GIB) to contract for actuarial assistance, power currently vested in ETF Board-(s. 40.30 (1) (d))
- Clarify that GIB may modify benefits to allow for the incorporation of wellness incentives (s.40.03 (6) (c))

Solutions

What's Not Included

- Although the Board has been supportive of it, improved compensation range for Secretary is <u>not</u> part of this proposal.

- Can be addressed at another time by the Board.

Solutions

This Approach:

- Provides the Department and the Board the necessary flexibility and tools to address the current and future needs of our participants.
- Seeks to shift active responsibility for administration of WRS from Gov./Legislature to Board/Department.
- Requires increased oversight and improved accountability by the Board and Department.
- Allows the Board and Department to engage in long-term planning to improve efficiency.
- Improves service delivery without affecting participant dividends.

Solutions

Conclusions

- We need to create the customer service infrastructure to accommodate the demands of the baby boom generation.
- We need your support.
- Questions?