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CORRESPONDENCE MEMORANDUM

DATE: November 14, 2014
TO: Audit Committee Members
FROM: Anne Boudreau, Deputy Administrator
Division of Retirement Services
SUBJECT: Manual Calculation of Benefit Estimates

This report is for Audit Committee review and discussion. No action is required.

The Department is examining the manual calculation of benefit estimates. Although most estimates are prepared using an automated system, a small percentage require manual calculation. This increases the risk of error. Retirement estimates are a critical part of a member's decision-making process, therefore our goal is to be as accurate as possible with our estimates.

Benefit Calculation Process

The retirement estimate calculation process resides in the Member Services Bureau (Bureau). In an average year, the Bureau prepares approximately 24,000 benefit estimates—for retirement, disability, and death benefits. Approximately 94% of these are retirement estimates.

Most calculations—more than 98%—are automated. In addition, most required member data (service, earnings, etc.) is prepopulated because it is contained in the same system where the benefit calculators reside.

Some 1% – 2% of calculations are completed manually, approximately 500 estimates per year. These calculations have not been automated because of the complexity of the calculations and the volume is not significant enough to justify the expenditure of resources. With manual calculations, errors could occur in the entry of data or in the calculation.

Some examples of cases requiring a manual calculation are:

- Member has service in more than four different employment categories
- A qualified domestic relations order (QDRO) was applied to the member's account as a result of divorce, and the member is due military service credit

Reviewed and approved by Matt Stohr, Administrator,
Division of Retirement Services

Electronically Signed 11/24/14

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- Member is an annuitant who has returned to covered service, necessitating the reestablishment of his account

Safeguards to Reduce the Risk of Error

- **Training.** The Bureau has a lengthy training program for new staff, including continued auditing of staff work until proficiency and accuracy are attained. This training plan is not new. It has been in place for many years and we are continually improving the training program.
- **Dedicated Trainer.** The Bureau has a dedicated staff trainer, a position created in 2008. Prior to that the task had been shared among tenured staff in the bureau. Centralizing the training function allows for more consistency and better tracking of staff progress. When the trainer position became vacant last year, a new trainer was hired and this brought a fresh perspective and new techniques, including the practice of self-auditing.
- **Audit of All Manual Benefit Estimates.** The Bureau recently implemented a *significant* process change -- each manual benefit calculation is now audited by a second staff person, regardless of the experience level of the first staff member. This effort will require approximately 300 – 500 additional hours of staff time each year, however, we feel the expenditure is worthwhile because any error has the potential to cause a significant effect on the individual member.
- **Automation of Benefit Calculations.** Looking to more long-range solutions, the department is in the early stages of a multi-year, enterprise-wide system modernization project to create a new Benefit Administration System (BAS). To automate all estimate calculations now—prior to implementation of the BAS—would be extremely costly in terms of resources to build new system components and resources diverted from the BAS project. Plus, any new system components would be discarded when replaced by the BAS in the next few years. As part of the BAS design, however, we have the ambitious goal of automating *all* benefit estimate data entry and calculations.
- **Reasonableness Checks.** If it is not possible or practical to automate all calculations, the alternative is to build “reasonableness checks” into the calculation process. For example, if the money purchase and formula calculations produce significantly different results, the system might prompt staff to take another look. Another example: If projected service exceeds a certain threshold, the system would produce an error message, prompting closer scrutiny.

In summary, we believe that these solutions will decrease the likelihood of errors in the estimate calculation process.