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Department of Employee Trust Funds  
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**CORRESPONDENCE MEMORANDUM**

**DATE:** March 7, 2011  
**TO:** Employee Trust Funds Board  
Budget and Operations Committee  
**FROM:** Jon Kranz, Director  
Office of Budget and Trust Finance  
**SUBJECT:** 2011-2013 Department Biennial Budget Update

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

Attached is a document that summarizes the status of the biennial budget request for the Department of Employee Trust Funds.

The period covered by this biennial budget is July 1, 2011 - June 30, 2013. The schedule for review and action by the Governor and Legislature is anticipated to be as follows:

Stage	Anticipated Schedule
Agency Budget Request Due	September 2010
<b>Governor Issues Budget Recommendations</b>	<b>March 1, 2011</b>
Review and Action by the Joint Committee on Finance (JCF)	March – June 2011
Action by Full Legislature	June 2011
Final Enacted Budget	July 2011

Reviewed and approved by Robert J. Conlin, Deputy Secretary.

Signature \_\_\_\_\_

Date \_\_\_\_\_

Board	Mtg Date	Item #
BUD	3.10.11	2B
ETF	3.10.11	9A

In addition to the biennial budget request, the Department submitted a capital budget request for the authority to acquire a new headquarters facility. As of the date of this memo, no action has been taken by the Governor regarding this capital budget request. It is anticipated that the Governor will submit recommendations related to the capital budget sometime in March 2011.

Finally, on February 11, 2011, the Governor submitted a budget adjustment bill (BAB) to address an anticipated general fund deficit for the current fiscal year (FY) 2011. Various provisions in the BAB could have an effect on the FY 2011-2013 biennium. Since the BAB has not been enacted into law as of the date of this memo, relevant provisions have been included in the attached summary.

Please contact me at (608) 267-0908 should you desire any additional information. I will also be available at the meeting to answer any of your questions.

Attachment

**Department of Employee Trust Funds**  
**Summary of Fiscal 2011-2013 Biennial Budget Request**

Updated March 7, 2011

**Segregated Trust Fund Dollars Only**

	FY 2012		FY 2013	
	FTE	Funding	FTE	Funding
<b>Base Budget (FY 2011)</b>	243.2	\$30,322,200	243.2	\$30,322,200
<b>ETF Request Over Base*</b>	6.5	\$7,249,900	6.5	\$8,339,300
<b>Governor's Recommendations</b>	6.5	\$1,023,600	6.5	\$356,400
<b>Joint Committee on Finance</b>				
<b>Legislature</b>				
<b>Final Enacted Budget</b>				

\* Includes new initiatives and standard technical adjustments; does not include the \$700,000 proposed for the JCF reserve (Dependent Eligibility Audit).

**Department Initiatives**

**1. Continuation of Critical Customer Service Functions**

	FY 2012		FY 2013	
	FTE	Funding	FTE	Funding
<b>ETF Request</b>	6.5	\$6,330,800	6.5	\$7,420,200
<b>Governor's Recommendations</b>	6.5	\$410,600	6.5	\$443,600
<b>Joint Committee on Finance</b>				
<b>Legislature</b>				
<b>Final Enacted Budget</b>				

This initiative includes three statutory changes intended to enhance operational flexibility to allow the Department and Board to better administer the Public Employee Trust Fund. It also includes 6.5 permanent positions effective in the first year of the biennium to support on-going operations and to implement aspects of the Department's strategic plan.

The three statutory changes are as follows:

**Expenditure Authority Flexibility**

- Change the primary appropriation used for general program operations from an "annual" type to a "continuing" type. This will allow the Department to carry any unused expenditure authority to subsequent fiscal years.

- Base expenditure authority on a per participant amount. This per participant amount would be \$61.44 for the first year of the biennium and \$62.44 for the second year of the biennium. The amount would be adjusted for inflation for subsequent years.
- With Board concurrence, the Department could request that the Joint Committee on Finance (JCF) approve an increase in this amount via a passive review process.

### **Position Authority Flexibility**

- Create a passive review process for creating and deleting position authority based on the active review process (under s.13.10) used during the FY 2009-2011 biennium as required by 2009 Wisconsin Act 28 (the budget bill).
- The Department would submit a position request to the JCF and the Governor. The request would be considered passively approved unless the Governor or a member of the JCF objects. In the case of an objection, a meeting would be held to address the request.
- Board approval would be required for any position request that would cause the total position authority for the Department to exceed the amount suggested by the methodology created as part of the FY 2009-2011 budget bill used to determine the appropriate position level.
- These provisions would be effective at the beginning of the second year of the biennium (July 1, 2012). For the first year of the biennium, the Department has requested 6.5 permanent positions to address workload needs and to continue implementation of the strategic plan.

### **ETF Board Appropriation**

- Create a new sum sufficient appropriation to be used by the ETF Board for expenses described in s. 40.03 (1)(c) and (1)(d).
- These expenses are related to ensuring that the Board can carry out its fiduciary duties and that the Trust Fund is administered in an efficient and effective manner.
- Expenses include actuarial services, auditing services, legal services, and other necessary consulting services.

**Governor's Recommendation:** Provides 6.5 FTE and associated funding. Statutory language modifications and funding adjustments to account for inflation and membership growth were not included in the Governor's recommendations.

**Joint Committee on Finance:** No action to date.

## **2. Group Insurance Program Efficiencies**

Statutory changes to provide additional efficiencies for the administration of the group insurance programs.

**Wellness incentives for the Group Health Insurance Program.** This statutory change would allow the Group Insurance Board (GIB) to incorporate a wellness incentive component into the health plans without having to reduce another benefit as currently required by the statutes. This change will allow the GIB to better encourage member

participation in wellness and disease management programs developed or sanctioned by the GIB.

**Expansion of GIB authority to contact for data collection and analysis services.** This change would expand the GIB's authority for obtaining consulting services related to insurance programs offered by the Board. The current authority under this provision is limited to contracting for data collection and analysis related to the health insurance programs.

**Additional flexibility to determine long-term care insurance options.** This change would allow the GIB to limit the number of long-term care plans offered. Currently, the GIB must offer to employees any plan that meets the standards established by the GIB.

**Governor's Recommendation:** All statutory changes were included as requested. Changes related to the long-term care program were included in the budget bill. All other changes were included in the Budget Adjustment Bill (BAB).

**Joint Committee on Finance:** No change to the Governor's recommendations included in the BAB. Note that JCF has not yet reviewed the change related to the long-term care program as that was included in the biennial budget bill.

### 3. New Headquarters Facility

Approval and expenditure authority for the design and construction/purchase of a new Department headquarters facility. Note that the majority of the request associated with this item will be handled via the Governor's Capital Budget request which is anticipated to be released sometime in March 2011.

This item includes a request for a sum sufficient appropriation to fund costs associated with the design and related pre-construction costs. It will also cover other necessary costs associated with the transition to a new facility including fixtures and furniture. The appropriation is requested so that the building-related costs do not compete with the resource needs for day-to-day departmental operations.

**Governor's Recommendation:** Not included.

### 4. Dependent Eligibility Audit

	FY 2012	FY 2013
	Funding	Funding
<b>ETF Request</b>	\$700,000	\$ - - -
<b>Governor's Recommendations</b>	700,000	- - -
<b>Joint Committee on Finance</b>		
<b>Legislature</b>		
<b>Final Enacted Budget</b>		

\$700,000 of funding placed in the JCF reserve for release under a passive review process for conducting a dependent eligibility audit of our health insurance programs.

The Department intends on conducting a pilot project during the current year to determine if a full-scale audit is needed to ensure that only legally eligible dependents are included as covered parties on the various health plans administered by the Department. Should the pilot project results suggest that a more thorough audit is warranted, the Department, in consultation with the GIB, would request that the JCF release funding to cover the contractor costs. It is anticipated that an extensive audit would cost between \$600,000 and \$700,000.

**Governor's Recommendation:** Included in the Governor's recommendations with the following modification. Instead of placing the funding in the JCF reserve, the funding will be included in the Department's appropriation with release subject to the approval of the Secretary of the Department of Administration (DOA).

**Joint Committee on Finance:** No action to date.

## **Governor's Initiatives**

### **5. Wisconsin Retirement System (WRS) Modifications**

Statutory changes to the WRS as follows were included in the Budget Adjustment Bill:

- Prohibits employers from picking up the employee required contribution unless otherwise provided in a collective bargaining agreement.
- Modifies the employee-required contribution for general category and elected/executive category participants to equal one-half of the normal cost contribution rate.
- Modifies the employee-required contribution rate for protective occupation category participants (both those with and without social security coverage) to equal the rate paid by general category participants.
- Eliminates the benefit adjustment contribution (BAC).
- Prospectively modifies the multiplier used for calculating a formula benefit for an elected/executive category participant to be 1.6% (the same as general category participants).

**Joint Committee on Finance:** Same as the Governor's recommendation with a modification to the effective date of the elimination of the BAC.

### **6. Group Health Insurance Modifications**

Included in the Budget Adjustment Bill were statutory changes to the Group Health Insurance programs administered by the WRS as follows:

- Prohibits the employer from paying more than 88% of the average cost of the premium of tier one plans (applies to both the state and local plans).
- Requires the Secretary of ETF to allocate \$28 million from state plan reserves in a manner that reduces employer costs for the period July 1, 2011 – December 31, 2011.

- Requires the GIB to implement plan design changes effective for the CY 2012 plan year, which reduce benefits by 5%. Plan changes must include co-payments. Plan changes may include a requirement for state employees to participate in health risk assessments and wellness/disease management programs.

**Joint Committee on Finance:** Same as the Governor's recommendations.

### **7. Limited-term Employee (LTE) WRS Eligibility**

Statutory changes were included in the Budget Adjustment Bill that would prohibit LTEs from being eligible participants under the WRS. In addition, these changes would prohibit LTEs from participating in the health insurance programs administered by the GIB.

**Joint Committee on Finance:** Deleted these provisions from the Budget Adjustment Bill.

### **8. Study of the WRS and Sick Leave Conversion Credits Programs**

Included in the Budget Adjustment Bill, these provisions require that the Secretaries of ETF and DOA, along with the Director of the Office of State Employment Relations, perform a study of the WRS that must include the following:

- Establish a defined contribution plan as an option for WRS participating employees.
- Establish different vesting periods for WRS participating employees.
- Permit employees to not make employee required contributions and limit the benefit to a money purchase annuity.
- Modify the supplemental health insurance premium credit program for state employees.

These provisions also create a sum sufficient general purpose revenue (GPR) appropriation in the Department to fund the costs associated with the study. Expenditures from this appropriation require the approval of the Secretary of DOA. The findings of this study must be reported to the Governor no later than June 30, 2012.

**Joint Committee on Finance:** Same as the Governor except that the requirement that expenditures from the new sum sufficient GPR be approved by the DOA Secretary is deleted and replaced by provisions that require JCF approval under a passive review process.

### **9. Health Insurance Risk Sharing Plan (HIRSP) Authority Participation in the Sick Leave Conversion Program**

Statutory changes that clarify that the HIRSP is not required to make contributions to ETF associated with the sick leave conversion credit programs. HIRSP does not offer this benefit to their employees. Due to ambiguous language, HIRSP has been making contributions since their creation.

Note: The ETF Secretary has requested that staff administratively resolve this issue. ETF anticipates that this technical provision will be removed prior to enactment.

**Joint Committee on Finance:** No action to date.

**10. Increased Employee Contributions to Pension and Health Insurance**

	FY 2012	FY 2013
	Funding	Funding
<b>ETF Request</b>		
<b>Governor's Recommendations</b>	(\$1,006,100)	(\$1,006,100)
<b>Joint Committee on Finance</b>		
<b>Legislature</b>		
<b>Final Enacted Budget</b>		

Base adjustment to the agency's fringe benefit allocation to reflect anticipated savings due to increased WRS and health insurance contributions from agency staff.

**Joint Committee on Finance:** No action to date.

**Summary of Department FTE Positions by Fund Source**

	FY 2011 (Base)	FY 2011-2013 Department Request	FY 2011-2013 Governor	Change Base to Governor
<b>SEG Permanent</b>	243.2	248.7	248.7	6.5
<b>SEG Project</b>	--	--	--	--
<b>SEG Total</b>	<b>243.2</b>	<b>248.7</b>	<b>248.7</b>	<b>6.5</b>

**Summary of Department Budget Request by Fund Source  
Through the Governor's Recommendations (March 1, 2011)**

	FY 2012	FY 2013
SEG Funding Adjusted Base (FY 2011)	\$30,322,200	\$30,322,200
Standard Technical Adjustments	919,100	919,100
<b><i>New SEG Funded Initiatives</i></b>	<b>104,500</b>	<b>(562,700)</b>
<b><i>Total SEG Funded Budget Request*</i></b>	<b>\$31,345,800</b>	<b>\$30,678,600</b>
GPR Funding Adjusted Base (FY 2011)	\$641,600	\$641,600
Standard Technical Adjustments	(\$86,400)	(\$181,000)
<b><i>Total GPR Funded Budget Request</i></b>	<b>\$555,200</b>	<b>\$460,600</b>
<b><i>All Funds Total</i></b>	<b>\$31,901,000</b>	<b>\$31,139,200</b>

**FY = Fiscal Year:** the State fiscal year begins July 1 and ends June 30.

**FTE = Full-time Equivalent position.**

**GPR = General Purpose Revenues:** represents appropriations from the general fund; these are primarily funds derived from income and sales taxes.



**SEG = Segregated Funds:** for ETF, this represents appropriations from the Public Employee Trust Fund; the source of funds included employer/employee contributions and investment earnings.

**JCF = Joint Committee on Finance**

**BAB = Budget Adjustment Bill:** Generally budget adjustment bills are utilized to make modifications in a current biennium to avoid a deficit. The BAB introduced on February 11, 2011, includes provisions that have a significant effect on the subsequent FY 2011-2013 biennium.