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Correspondence Memorandum

Date: November 13, 2022

To: Deferred Compensation Board

From: Tarna Hunter, Government Relations Director
 Office of the Secretary

Subject: ETF's 2023-2025 Biennial Budget Update

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

ETF's 2023-2025 Biennial Budget Request

ETF submitted its 2023-25 biennial budget request to the Department of Administration on September 29, after being endorsed by the ETF Board at its September 22 meeting. The period covered by the budget request is July 1, 2023 – June 30, 2025. The Department included the following initiatives in its 2023-25 biennial budget request:

Legacy Systems Replacement Project (Position/Resource Request) – Requests 7.0 FTE and a permanent increase to base funding of \$15,101,800 in FY 2024 and \$19,586,000 in FY 2025 to support increases for ongoing operational IT expenses related to replacing antiquated legacy IT systems.

ETF operates a portfolio of legacy systems which range in age from 9 to 36 years old. Over time, ETF's IT portfolio developed into a patchwork of legacy systems designed to fulfill various agency objectives. The technical knowledge and support infrastructure needed to manage legacy systems has become increasingly complex and difficult to obtain. In addition, information reporting has become needlessly complex as duplicate and siloed data proliferated with the increase in systems. Agency risks increased in several categories, including information security, fulfillment of business objectives, financial costs, and agency reputation.

The transition to new IT systems will better secure ETF members' confidential information, increase system reliability and flexibility, and enhance accessibility of customer information through online, on-demand platforms. ETF's future IT state will seamlessly blend third party vendor systems and custom developed applications using a common set of master data. Systems will communicate with each other through our integration platform all while secured through modern standard technologies.

Pamela L Henning

Reviewed and approved by Pam Henning, Assistant Deputy Secretary
 Electronically Signed 11/14/2022

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Requested resources will support implementation of a Pension Administration System (PAS), ongoing operations of ETF's Insurance Administration System (IAS), IAS and PAS-related consulting and contractor costs, and support for ETF's Data Management Program.

Maintaining Critical Customer Service Functions (Position Request) – Requests 7.0 FTE Trust Funds Specialists and associated funding of \$437,800 in FY 2024 and \$551,800 in FY 2025 to maintain basic, critical customer service functions for members and employers as a result of significant increases in the member and employer populations that ETF serves. The total ETF member population increased by 14.1% from 2010 to 2020, while the retiree population increased by 41.9%.

Inadequate service levels result in errors and delays, which pose significant risks to members and employers. Delays due to ETF staff availability may result in members making uninformed decisions that significantly impact their retirement. Delays may also affect disability and retirement benefit payments. Additionally, interruptions in service levels may impact member decisions related to employee and retiree health insurance and other supplemental benefits. Insufficient staffing diminishes ETF's capacity to support employers and monitor employer compliance.

The following positions will enable ETF to improve member and employer customer service and mitigate risks associated with delays and increases in errors.

- 2.0 FTE Trust Fund Specialists to provide retirement estimates and appointments to a growing member and retiree population. Between 2010 and 2020, the number of retirement estimate requests increased by 11.0% and is expected to continue to increase as the young baby boomers near retirement. These positions are critical for ETF to be able to meet the needs of these future retirees.
- 2.0 FTE Trust Fund Specialists to address the increasing call volume, call length, and call complexity. Retirees account for more than 80,000 calls per year (since 2020, 42% of calls on average are from retirees). As a result of the growing retiree population, ETF has seen an increase in the length and complexity of calls. These positions are needed to ensure that ETF is able to answer calls and provide accurate and timely information to members.
- 2.0 FTE Trust Fund Specialists to support new and current employers—147 new employers have joined the WRS from 2010 to 2020. Additional employer case managers are needed to provide education and training to employers and support them in providing accurate and timely retirement and insurance benefit information to employees.
- 1.0 FTE Trust Fund Specialist to process retirement applications, ACH changes, tax withholding changes, and address changes. ETF essentially serves as the

payroll center for the fast-growing retiree population. This position is needed to ensure that these transactions are completed in an accurate and timely manner.

Financial and Actuarial Compliance and Reporting Requirements (Position Request) – Requests 1.0 FTE Accountant Advanced and 1.0 FTE Actuarial Analyst and associated funding of \$143,600 in FY 2024 and \$182,200 in FY 2025. These positions are critical for ETF to fulfill its actuarial and accounting responsibilities related to actuarial valuations, financial reporting, and the proper implementation of accounting statements promulgated by the Governmental Accounting Standards Board (GASB).

Actuarial and accounting functions are cornerstone to the proper management of the retirement and insurance programs ETF administers. The following positions will enable ETF to manage its actuarial responsibilities and to maintain the additional financial internal controls ETF has employed over the past five years.

- 1.0 FTE Actuarial Analyst to manage and provide leadership in actuarial functions and projects, complete actuarial analyses and reports, and coordinate and oversee the work of external consulting actuaries. This position is critical to help ensure accurate member and benefit data is provided and used as inputs to actuarial valuations, to complete timely actuarial valuations, and to provide qualitative and technical support in actuarial research.
- 1.0 FTE Accountant Advanced to ensure compliance with ETF and state financial reporting requirements and deadlines and assisting with the proper implementation of new GASB regulations. Additionally, the position will support ETF's various accounting responsibilities, including paying over \$6 billion annually in annuity payments, making payments to vendors, assisting employers with accounting compliance requirements, and processing qualified domestic relations orders, service purchase requests, and employee paid contributions. This position will minimize the risks of inaccurate and late payments and ensure that transactions are timely and correct.

Mandatory LAB Actuarial Audit – Requests one-time funding of \$17,000 SEG in FY 2024 and \$174,000 SEG in FY 2025 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 performing a Governmental Accounting Standards Board valuation audit related to the retiree life insurance and sick leave programs.

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, approved by the ETF Board and the Group Insurance Board, also support the long-term sustainability of the disability programs administered by ETF.

ETF's biennial budget request includes the following statutory changes necessary to complete the disability redesign project:

- Decouple Sick Leave from the State Income Continuation Insurance (ICI) Plan Premium and Benefit Determinations. Premiums would be based on an elimination period and income instead of the employee's sick leave balance. Additionally, the provision eliminates the requirement to use sick leave before receiving benefits.
- Transfer oversight of the ICI program to the Employee Trust Funds Board.

Completion of the redesign effort will reduce complexity and confusion for employers and members, improve sustainability of the State ICI Plan program and streamline the administration of disability benefits.

Internal Auditor Reporting (Statutory Changes) – Creates an independent Office of Internal Auditing (OIA) 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.

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 auditor reports functionally to the Board.

Trust Fund Earnings Allocation (Statutory Changes) – Provides that ETF may distribute investment gains and losses of the core and variable trust funds accounts by calculating a simple average balance using the beginning and end of year balances. Current statutory language provides that investment gains and losses shall be

distributed in a ratio of each participating account's average daily balance to the total average daily balance of all participating accounts.

The change is needed to align statutory language with current administrative practices. Because activity is not recorded in the various separate participating accounts on a daily basis, it would not be accurate to use an average daily balance as the basis for distributing investment earnings.

I will be available at the December 1, 2022, Board meeting to answer any questions.