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Correspondence Memorandum

Date: November 11, 2024

To: Deferred Compensation Board

From: Tarna Hunter, Director
 Office of Budget and Management

Subject: 2025-2027 Biennial Budget Update

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

The Department of Employee Trust Funds' (ETF's) 2025-2027 Biennial Budget Request

ETF submitted its 2025-27 biennial budget request to the Department of Administration on September 27, after being endorsed by the ETF Board at its September 19 meeting. The period covered by the budget request is July 1, 2025 – June 30, 2027. The Department included the following initiatives in its 2025-27 biennial budget request:

Pension Administration Replacement Project (Resource Request) – Request a permanent increase to base funding of \$14,200,000 annually to support the replacement of ETF's antiquated Pension Administration System.

ETF operates a portfolio of legacy pension administration systems which range in age from 11 to 38 years old. Over time, ETF's information technology (IT) portfolio became a patchwork of fragile systems designed to fulfill various agency objectives. The technical knowledge and support infrastructure needed to manage these systems has become increasingly complex and difficult to obtain. In addition, information reporting has become extremely inefficient 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 a new Pension Administration System 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 11/13/2024

Board	Mtg Date	Item #
DC	12.05.24	9F

Strengthening Agency Risk Management and Information Security Functions

(Position/Resource Request) – Requests 4.0 FTE (Permanent) positions and an increase to base funding of \$2.1 million in FY 2026 and \$1.83 million in FY 2027 to help manage and reduce agency risk and continue to improve ETF’s information security management practices. ETF continues to adopt more digital technologies and pursue new business models to support enhanced customer experiences. While implementing modern IT systems is a good business practice, it also comes with increased risk of cyberattacks, data breaches and other cyber events.

The resources requested would be used to:

- Establish a formal Enterprise Risk Management function to help ETF better identify, manage, and mitigate risks.
- Implement additional measures to further enhance ETF’s ability to manage information security risks and maintain the privacy of member data.
- Strengthen ETF’s Office of Internal Audit’s ability to conduct objective reviews of ETF’s third-party administrators, IT project implementations, and staff oversight of external vendors.

Actuarial Compliance and Reporting Requirements (Position Request) – Request

1.0 FTE Actuarial Analyst (Permanent) position and associated funding of \$114,200 in FY 2026 and \$147,700 in FY 2027. This position is critical for ETF to fulfill its actuarial and accounting responsibilities related to actuarial valuations and financial reporting. Without in-house expertise and oversight of multiple vendor actuarial services, there is increased risk of compliance and errors, which could result in inaccurate financial reporting or incorrect contribution and premium calculations. This could adversely impact the financial position and funded status of benefit programs.

Actuarial functions are cornerstone to the proper management of the retirement and insurance programs ETF administers. The Actuarial Analyst is required 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.

Locating Missing WRS Participants (Position Request) – Requests 2.0 FTE Trust

Funds Specialist (Project) positions and associated funding of \$155,500 in FY 2026 and \$198,100 in FY 2027 to provide additional resources to help locate approximately 29,000 Wisconsin Retirement System (WRS) members who are designated as “missing participants.”

ETF strives to keep up-to-date contact information available on all 678,000 members the agency serves. However, member contact information can become outdated. ETF classifies a WRS member as a ‘missing participant’ if their annual Statement of Benefits

is returned as undeliverable, and ETF is unable to find a current address. Typically, missing participants are inactive members who are not receiving an annuity and are no longer working in a WRS-covered position. Currently, 185,000 WRS participants are classified as inactive. Of these, approximately 29,000 members (15%) are designated as a missing participant. Without valid contact information for missing participants, ETF cannot deliver important communications, distribute benefits, and fulfill other plan-related obligations.

Finding WRS missing participants is crucial for both ETF and the participants for several reasons.

- **Compliance and Legal Obligations** – ETF has fiduciary and legal responsibility to locate missing participants, as mandated by both federal and Wisconsin law, which requires ETF to make reasonable efforts to locate missing participants and ensure they receive their benefits.
- **Protecting Lost WRS Retirement Accounts from Fraud** – ETF is implementing new online benefits administration systems. It is imperative that ETF locate missing participants before system implementation is complete. Lost WRS accounts can be particularly vulnerable to fraud, making it essential for ETF to take proactive measures to protect these accounts.
- **Financial Security for WRS Participants** – Locating missing participants can significantly impact retirement readiness. Ensuring that individuals have access to all their retirement funds is essential for their financial security during retirement. Current retirement benefits for missing participants are estimated at \$354 million.

Addressing Critical Customer Support Needs (Position Request) – Requests 2.0 FTE Trust Funds Specialist (Permanent) positions and associated funding of \$155,500 in FY 2026 and \$198,100 in FY 2027 to help address increased demand for critical member support services.

These positions are essential to maintain adequate customer service standards. The Member Contact Center is currently experiencing an increase in both the volume of calls and complexity of calls received, along with the inclusion of several new employers, including Milwaukee City and Milwaukee County, in the WRS.

The current growth is primarily due to an increase in the annuitant population. ETF has experienced a nearly 30% increase in retiree accounts between 2013 to 2023. Annuitants, whose sensory and cognitive abilities often change and who may be less comfortable with online tools or automated systems, will increasingly rely on the Member Contact Center for assistance with complex benefits such as Medicare, insurance programs, WRS annuities, and other services. While the annuitant population is anticipated to continue growing, demand for services will also increase as ETF transitions to a new online member portal. Without additional staff, ETF will be unable to

manage these growing demands and effectively maintain service standards for members.

By adding these two positions, ETF will be better equipped to manage the increased demand, provide adequate support to its expanding member base, and maintain the necessary service levels for members relying on ETF to administer their benefits effectively.

Internal Auditor Reporting (Statutory Changes) – Creates an independent Office of Internal Audit (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 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. The IIA Quality Services, LLC recently 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.

Increased Autonomy Towards Managing Personnel (Statutory Changes) – Request the following changes related to increased authority and autonomy to manage personnel matters related to the compensation and classification of its employees.

- Provide that the Division of Personnel Management delegate to the ETF secretary classification and compensation functions set forth in Chapter 230.
- Provide that the Division of Personnel Management may at any time investigate or audit performance of the delegated functions. The ETF Secretary shall respond to and provide a written remediation plan for any specific instances identified of improper transactions.

As a fiduciary, ETF is responsible for ensuring WRS's integrity, financial health, and ability to meet its obligations to beneficiaries. These responsibilities are governed by legal and ethical standards designed to protect the interests of WRS members, including retirees, active employees, and their beneficiaries. Wis. Stat. §40.03(2)(b) provides that the ETF secretary shall employ and select administrative, clerical, or other employees as required for the administration of this chapter and establish the internal organization of the department. Given that broad authority, ETF is requesting for the ETF secretary to have a permanent delegation of authority under Chapter 230 over the classification and compensation of ETF staff necessary for the administration of benefits under Chapter 40, consistent with the State of Wisconsin Compensation Plan.

Granting ETF delegation authority to manage employee classification and compensation functions is essential for attracting and retaining top talent, ensuring operational efficiency, and maintaining flexibility in response to changing market and regulatory conditions. It allows the agency to tailor compensation to its unique needs, align performance incentives with organizational goals, and manage budgets responsibly. Ultimately, this authority enhances both ETF's effectiveness and its ability to deliver high-quality services.

Staff will be at the Board meeting to answer any questions.