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

This is a summary of the 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 fewer services and longer wait times due to a lack of resources. 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 if our workload will increase; rather it is a question of how quickly 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 predict 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).

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 FTE | ETF Request New Funding | Enacted Budget FTE | Enacted Budget New Funding | Enacted/Requested FTE | Enacted/Requested 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.