WISCONSIN DEPARTMENT OF EMPLOYEE TRUST FUNDS

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CORRESPONDENCE MEMORANDUM

DATE: August 20, 2009

TO: Employee Trust Funds Board

FROM: David Stella, Secretary

SUBJECT: Secretary's Report

This memorandum is for informational purposes only. No action is required.

Now that the 2007-2009 biennial budget has been completed, we are developing plans to address how it will specifically affect the Department of Employee Trust Funds (ETF). I would like to highlight a number of areas in this report that discuss the challenges and opportunities we face over the coming biennium and beyond.

Biennial and Operating Budget Challenges: ETF's final biennial budget is a "mixed bag of pluses and minuses." The combination of an across-the-board base budget reduction of 1% and reductions to the salary line amounted to - 3%. These cuts were offset by an increase of 6.0 FTE positions in each year of the biennium and the associated salary line increases to support the positions, leaving ETF with a net budget increase of +3%. However, this increase was more than wiped out by the loss of position funding due to the furloughs for state employees that resulted in the loss of 27,000+ hours of staff productivity and a salary line reduction for those hours.

One encouraging budget provision was included by the Legislature's Joint Finance Committee. It authorizes ETF to request additional funding and positions through the s. 13.10 process if we create a workload metric that justifies the request, which we plan to pursue.

We carried over $209,000 in expenses from last fiscal year (FY) due to funding shortfalls. This means that we will have to pay those costs from the FY 2010 budget. This is the third year that prior year costs had to be moved into the new FY despite two attempts through the s.13.10 process to increase our administrative appropriation to address the deficit. We will attempt to eliminate this carried deficit through expenditure reductions.

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ETF continues to operate under a state-wide “position freeze” imposed by the Department of Administration for all current and future vacancies. Despite approval to fill 4.0 positions granted recently, ETF still has 19 vacant positions, and expects many more vacancies as staff retire over the next year. The 19 vacancies amount to a rate of 9% of our workforce.

As it stands, the biennial budget and other reductions will require us to focus our efforts on delivery of critical core functions while reducing service and expenditures in areas that are less critical. We are already in the process of creating an operating budget plan that reduces costs for training, publications, mailings, communication, travel and other areas. We have advised member organizations that they should expect reductions in service in a variety of ways.

Strategic Planning Process: In my last report I described our overall strategic planning process and our efforts to complete the plan. To date, we have developed a broad vision statement and goals that will drive the remainder of the strategic planning process. Senior Department leadership is now in the process of engaging staff to identify objectives and tactics to achieve the goals. Throughout this process, we will focus on creating measureable objectives that can be quantified and verified. Both supervisor and staff performance evaluations will include specific expectations related to the strategic plan tactics, objectives and goals.

We anticipate that our 2010-2015 Strategic Plan will be completed later this fall for presentation to the ETF Board in December. However, one significant obstacle to successfully accomplishing our planned objectives is resource-related. Since the strategic plan covers more than one biennium, it will be difficult to predict what resources the Department will receive in the 2011-2013 biennium in order to achieve the goals established in the plan. As a result, future adjustments may be necessary.

Recent Information Technology (IT) successes and on-going IT projects: I am particularly pleased to report on several IT project successes that have been completed or are well underway. The Benefit Payment System (BPS) continues to perform well during the ten months after it was implemented. Some enhancements to the system are also being completed on schedule.

Two other projects, the Lump Sum Payment System (LSPS) and Health Insurance Enrollment, Validation and Payment (EVP) project, are on schedule and in the testing phases and implementation phases.

EVP, which replaces key parts of the Health Insurance and Complaint System, is being brought up in four phases, plus two additional phases that are for internal staff use only. Phase two of that project will begin on September 1, 2009, with the elimination of paper reporting by employers and conversion to electronic reporting and payment of health insurance premiums via the Automated Clearing House (ACH).

The LSPS project is on schedule and is nearing the end of phase three of construction. The project has eight phases and is scheduled to be deployed at the end of March 2010.

Where the Wisconsin Retirement System (WRS) Stands Relative to Other Public Retirement Systems: I have had the opportunity to communicate with a number of public pension plans across the country and learn about their funding status. The conversations I have had with various directors, and the information they provided, indicate significant concerns about the funding levels of public retirement systems.

At a recent meeting of the National Association of State Retirement Administrators (NASRA), the theme of the discussions was “sustainability.” Many systems, including two of the nation’s largest funds, the California Public Employees Retirement System (CALPERS) and Colorado Public Employees Retirement Association (COPERA), have described their benefit structures as “unsustainable” given the market losses they have experienced. In a recent financial disclosure CALPERS and California State Teachers Retirement System (CALSTRS) announced a combined fiscal year investment loss of $100 billion. Very few systems reported having sustainable funding models.

I was pleased to be able to report to NASRA members that the WRS was well funded and its benefit structure was “sustainable.” This is primarily due to the modest benefit levels and shared risk and reward structure of our benefit plan. Most systems also reported they have few problems obtaining funding to provide needed service to members. ETF’s problem is just the opposite. Our funded status appears strong, but our service levels are hampered by the reductions applied to our operating budget. This is ironic considering that administrative expenses are a small part of the cost of providing retirement benefits.