



STATE OF WISCONSIN  
Department of Employee Trust Funds  
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**CORRESPONDENCE MEMORANDUM**

**DATE:** November 20, 2009  
**TO:** Budget and Operations Committee  
Employee Trust Funds Board  
**FROM:** Bob Conlin, Deputy Secretary  
**SUBJECT:** Supplemental Funding Request (Section 13.10)

**This memo is offered for the consideration of the Committee and Board. No formal action is required.**

Attached to this memo is the Department's request for supplemental funding which was recently submitted to the Joint Committee on Finance pursuant to authority recently granted to the Department under the Biennial Budget Act (2009 Wisconsin Act 28). The request is relatively straightforward and requests modest funding and position increases that will help the Department begin implementing some of the initiatives developed as part of its strategic planning activities as well as address customer service capacity in the more immediate future.

The Joint Committee on Finance has not yet scheduled a meeting on this request.

Attachment

Board	Mtg Date	Item #
BUD	12/3/09	2B
ETF	12/3/09	4E



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November 20, 2009

The Honorable Mark Miller  
Co-Chair, Joint Committee on Finance  
317 East, State Capitol  
Madison, WI 53707

The Honorable Mark Pocan  
Co-Chair, Joint Committee on Finance  
309 East, State Capitol  
Madison, WI 53708

Subject: Wis. Stat. 13.10 Request

Dear Senator Miller and Representative Pocan:

The Department of Employee Trust Funds (Department) requests \$488,500 SEG in fiscal year (FY) 2010, \$671,500 SEG in FY 2011, and 4.0 permanent SEG full-time equivalent (FTE) positions (beginning in FY 2010) in the appropriation under s. 20.515 (1)(w) to address critical operational needs required to administer benefit programs for state and local government employees. Sufficient funding exists in the segregated Public Employee Trust Fund to cover the requested increase in expenditure authority.

The Joint Committee on Finance reserved \$798,600 SEG in FY 2010 and \$1,493,800 SEG in FY 2011 in the Committee's appropriation under s. 20.865 (4s) for the purpose of providing supplemental funding to the Department. This request will have no impact on Wisconsin Retirement System (WRS) annuity adjustments for WRS retirees or contribution rates for employers and active employees.

The Department administers retirement and other fringe benefit programs for over 550,000 members (retirees, active and inactive) and nearly public 1,500 employers across Wisconsin. Roughly 75% of active members are employed at the local government level (teachers, police officers, firefighters, etc.).

**Background of Request**

This request responds to a provision in 2009 Wisconsin Act 28 (2009-2011 state biennial budget), authorizing the Department to request ongoing operating resources without the need to show that an emergency exists. Act 28 included non-statutory provisions that allow the Department to request additional funding and positions required to efficiently and effectively

administer the provisions of Chapter 40 of the Wisconsin Statutes (please see Attachment A). These provisions require that the Secretary of the Department develop a methodology for determining the FTE position level needed to administer the various programs funded by the segregated Public Employee Trust Fund.

During the development of the FY 2009-2011 biennial budget, the Department requested additional positions and expenditure authority to address workload backlogs, improve customer service to a level closer to peer public retirement systems, and prepare for the increase in work associated with the retirement of members born during the post World War II "baby boom" era. That request described the methodology used to determine the appropriate level of positions and expenditure authority. At a special meeting of the Employee Trust Funds Board held in August 2008, the Board endorsed both the resource request and methodology used in developing that request. The methodology is attached as Attachment B.

In addition to creating the attached methodology, the Department also initiated a planning exercise to create a five-year strategic plan that will allow the agency to achieve the following goals:

- Offer a suite of tools that will provide on-line services in addition to the traditional service model. This will provide members with better and expanded access to benefit information, account/member specific information, and the ability to apply for benefits without reliance on staff resources; and
- Expand outreach services to reach underserved areas of the state and members to allow for better retirement planning, problem solving, and general education regarding the benefits provided.

The focus of this request is to obtain the resources necessary to address pressing workload needs and to begin the process of creating the infrastructure necessary to achieve the goals identified during the Department's strategic planning process. If this funding is approved, the Department intends to deploy the resources as follows:

#### Customer Service and Outreach

- Increased postage and printing costs due to federal and state tax table changes. Earlier this year, tax withholding tables were changed several times. The Department experienced additional workload associated with informing retirees of changes to their net annuity amounts. Only the printing and postage related charges are being requested.
- Increase Department Call Center staff by 2.0 permanent SEG FTE to address increasing phone and e-mail inquiries from members. In addition to the normal types of inquiries, unprecedented market conditions experienced since the fall of 2008 have generated additional member inquiries. For example, e-mail volume to the Department's Call Center has increased roughly 20% in the 3<sup>rd</sup> quarter (July-September) of this year compared to the 3<sup>rd</sup> quarter last year. In addition, call volume (tracked by the number of calls we were able to answer) is up about 4% this year as compared to last year. We

currently are able to answer roughly 60% of incoming calls, so the increased volume of calls will markedly increase wait times. We would expect to answer another 20,000-24,000 calls per year, which currently go unanswered, with the additional 2.0 FTEs.

- Increase outreach staff in the Member Services Bureau by 2.0 permanent SEG FTE to allow the Department to reach areas of the state and segments of the WRS population currently not served. This will allow the Department to develop a regular circuit of presentations and benefit counseling sessions outside the Madison area. In addition, it will allow for group presentations and information sessions for new and mid-career members to better allow this population to plan for their eventual retirement. This population is currently underserved.
- Provide retirees who participate in the WRS Variable Trust Fund with periodic information to assist in deciding whether to remain or opt-out of this investment option. Retirees who have a portion of their annuity sourced from the Variable Fund can opt-out of this option by having the variable portion of their annuity converted to the Core Trust Fund. Many retirees contact the Department and ask how their annuity would be affected if they opt-out of Variable Fund, however, the Department does not have the resources to automatically provide the information. The Department's recently implemented benefit payments system has the capability of performing this calculation for retirees but the account information must be manually loaded into the system before the system can run the calculation. Once this information is loaded into our benefit payment system, it will automatically and routinely provide updated information. Approximately 34,000 WRS accounts need to be processed to have this feature fully-functional.
- Each year, the Department sends all active and inactive WRS members a statement regarding their WRS benefits, which provides information about account balance, beneficiary designations and other important information. Currently, we send employers a statement for each employee/active member and the employer is required to distribute the statement accordingly. If resources permit, we intend to mail the 2010 statement (which will be mailed in 2011) directly to the active members at their place of residence. This is an industry best practice and it would relieve employers of the administrative burden of distributing the statements.
- Total funds: \$313,500 (FY 2010) SEG, \$451,500 (FY 2011) SEG
- Total positions: 4 permanent SEG FTEs (for 6 months in FY 2010 and 12 months in FY 2011)

#### Compliance

- Federal Internal Revenue Service (IRS) code compliance review. Compliance with all relevant IRS laws, rules, and regulations is required in order for the Department-administered benefit programs to maintain their tax-favored qualification. The Employee Trust Funds Board contracted with legal advisors who specialize in tax compliance issues specific to public benefit systems. Funding is required to continue this essential

review. It has been over 15 years since the last review occurred. Since there have been various federal and state law changes since that time, the Department believes that a thorough review is warranted.

- Total funds: \$140,000 (FY 2010) SEG, \$120,000 (FY 2011) SEG

#### Audits and Benchmarking

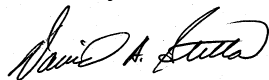
- Fund the required actuarial audit of the WRS. State law currently requires that the Legislative Audit Bureau perform an actuarial audit every five years. In addition, the Department, as well as the industry, considers this independent review of the WRS consulting actuary a best practice that should occur at least every five years. The next audit is scheduled for FY 2011.
- Fund the Department's participation in the CEM Benchmarking Inc. annual survey. This firm is currently the only entity that provides a comprehensive pension administration benchmarking survey and a report on "best industry practices." The survey and report are useful instruments that compare cost and customer service levels of the WRS with peer public retirement systems. It is one of several tools used to ensure that the Department is effective and efficient in providing necessary services at a low cost. In addition, the survey and report are the basis for the methodology included with this request.
- Total funds: \$35,000 (FY 2010) SEG, \$100,000 (FY 2011) SEG

#### Conclusion

This request will provide the Department with the ability to initiate critical portions of the above referenced strategic plan, while beginning to reduce service delays to members and employers. We appreciate the ability to address our ongoing service needs in this manner.

Thank you for considering this request. Deputy Secretary Bob Conlin and Legislative Director Matt Stohr are both familiar with this request and will be available at your meeting to answer any questions you may have. Should you desire any additional information prior to the meeting, please contact Jon Kranz, Director of Budget and Trust Finance, at (608) 267-0908.

Sincerely,



David A. Stella  
Secretary

enclosures



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**Attachment A**

**JCF 13.10 Mailing  
November 20, 2009**

**2009 Wisconsin Act 28**

**SECTION 9115. Nonstatutory provisions; Employee Trust Funds.**

(1x) SUPPLEMENTAL APPROPRIATIONS FOR DEPARTMENT OF EMPLOYEE TRUST FUNDS. During the 2009–11 fiscal biennium, the secretary of employee trust funds may submit one or more requests to the joint committee on finance to supplement the appropriation under section 20.515 (1) (w) of the statutes from the appropriation account under section 20.865 (4) (u) of the statutes for additional agency funding and authorized positions. Before submitting a request under this subsection, the secretary shall develop a methodology for determining the number of authorized positions the department of employee trust funds requires to exercise its powers and perform its duties under chapter 40 of the statutes. If the secretary intends to request additional authorized positions beyond the number derived from the methodology, the employee trust funds board must first approve the request before the secretary submits the request to the joint committee on finance. Any request submitted under this subsection shall be submitted by the applicable due date for agency requests for any of the joint committee on finance's quarterly meetings under section 13.10 of the statutes and shall also include the methodology used by the secretary. Notwithstanding section 13.101 (3) of the statutes, the joint committee on finance is not required to find that an emergency exists prior to making the supplementation under this subsection.



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## Attachment B

JCF 13.10 Mailing  
November 20, 2009

### Methodology for Determining the Appropriate Position Level

This document describes the general methodology for determining the appropriate authorized position level required to effectively and efficiently administer the various benefit programs created under Chapter 40 of the Wisconsin State Statutes. This methodology was prepared pursuant to 2009 Wisconsin Act 28-section 9115 (non-statutory provisions – Employee Trust Funds).

#### Background

The Department of Employee Trust Funds (herein Department) administers benefit programs for state and local government employees. All benefits are funded via the segregated Public Employee Trust Fund. These funds are held in trust solely for the purpose of providing benefits at the lowest reasonable costs. As such, the methodology incorporates workload metrics, projected changes in workload, and targeted customer service levels. To ensure that cost and service levels are reasonable, the Department utilizes a benchmarking study to compare our service levels and costs to similar peer public pension systems. The Department desires to achieve service levels that are above the median of those provided by peer public systems while providing these services at a cost below the median cost of these same systems.

While the Department administers various benefit programs, approximately 85% of the administrative appropriation expenditures are associated with the Wisconsin Retirement System (WRS) which includes the retirement and certain disability programs. As such, the focus of the methodology is on the WRS programs.

#### The Methodology

The Department determines position (and expenditure) needs in a “bottom up” fashion. Workload metrics are collected at the work unit level. Models for each work unit vary to account for the differences in the work performed. Historical trends are analyzed and projections are made for future workload. These projections are based in part on historical trends and in part on actuarial data produced by the WRS consulting actuary. The actuarial data provides more accurate information regarding the possible numbers of individuals who may desire to access our services in a given year. For example, we focus heavily on the projected numbers of members who are approaching retirement age as this group tends to be a heavy user of agency services. Historical trends are better indicators of the resources required to process each transaction. Work unit managers work in conjunction with budget and policy staff to perform this analysis. This analysis produces preliminary estimates of staff resources required to meet projected demand for services.

The results of the above are then compared to the results of a high level projection model. This model uses projected changes in the member population mix and levels to determine the staff resources required. Differences between this high level method are compared to the “bottom up” approach described above. Differences between the two methods are analyzed by staff. Initial estimates of resource needs are revised accordingly.

Finally, the Department participates in a national benchmarking study which compares our cost and service levels to those of peer public pension systems. This component provides information useful in determining if the service levels we provided are adequate and if our costs to provide those services are reasonable. Since the benchmarking study only includes retirement and disability programs, an adjustment is made to account for the other benefit programs administered by the Department.

Workload metrics, service levels, and costs are reviewed regularly. Administrative workflow/process changes, information technology solutions, and modifications to the benefit program design all require changes to the various models used in determining Department resource needs. In addition, the retiree population is expected to double over the next 12 to 15 years due to the retirement of public employees born during the “baby boom”. Since the retiree population and the population at or near retirement are heavy users of agency services, it is expected that workload metrics will be revised coincident with changes in the economy of scale for various services.

For the Fiscal Year (FY) 2009-2011 Biennium, this methodology suggests that the appropriate level of positions is approximately 1.0 full-time equivalent (FTE) position per 1,560 members. However, the Department Secretary has directed that the position level be set at 90% of the above level to ensure that services are provided in a cost effective manner. As such, the adjusted position level under this methodology is 1.0 FTE per 1,730 members.

This methodology will serve as a backdrop for future position requests. The Department Secretary will seek the approval of the Employee Trust Funds Board prior to submitting a position request that would cause the total authorized position level to exceed these threshold amounts.