



STATE OF WISCONSIN
Department of Employee Trust Funds
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CORRESPONDENCE MEMORANDUM

DATE: August 11, 2011
TO: Employee Trust Funds Board
FROM: Jon Kranz, Director
Office of Budget and Trust Finance
SUBJECT: 2011-2013 Department Biennial Budget Update


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

Attached is a document that summarizes the status of the biennial budget request for the Department of Employee Trust Funds. The biennial budget bill was enacted into law as 2011 Wisconsin Act 32 and became effective on July 1, 2011.

The period covered by this biennial budget is July 1, 2011 - June 30, 2013. This budget provides the Department an additional 6.5 full-time equivalent positions and increases the expenditure authority by over \$2.2 million over the 2-year period (a 3.7% increase over the current base budget). In addition, the budget includes provisions that allow the Department to submit a request to the Joint Committee on Finance (JCF) for additional funding and positions. Over \$6.5 million in funding was placed in the JCF's reserve for this purpose.

The budget also included some statutory changes to the Wisconsin Retirement System and insurance programs. These changes include a five-year vesting requirement for new participating employees and changes to the eligibility requirements. Finally, the final enacted budget also requires the Department to conduct various studies related to the retirement and health insurance programs. These items are detailed in the attached summary document.

In addition to the biennial budget request, the Department submitted a capital budget request for the authority to acquire a new headquarters facility. The new facility was not included in the Governor's Capital Budget Request. However, the Department is currently exploring options with the Department of Administration to obtain a new facility, possibly through a lease/purchase process.

Reviewed and approved by Robert J. Conlin, Deputy Secretary.

Signature _____ Date 9/14/2011

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Finally, on February 11, 2011, the Governor submitted a budget adjustment bill (BAB) to address an anticipated general fund deficit for the current fiscal year (FY) 2011. Various provisions in the BAB could have an effect on the FY 2011-2013 biennium. Certain provisions of the BAB were enacted as part of 2011 Wisconsin Acts 10 and 13. Provisions of these two acts relevant to the Department's FY 2011 - 2013 biennial budget are included in the attached summary.

Please contact me at (608) 267-0908 should you desire any additional information. I will also be available at the meeting to answer any of your questions.

Attachment: Summary of Fiscal 2011-2013 Biennial Budget Request

**Department of Employee Trust Funds
Summary of Fiscal 2011-2013 Biennial Budget Request**

Updated July 22, 2011

The Budget Bill was enacted into law as 2011 Wisconsin Act 32 effective July 1, 2011

Segregated Trust Fund Dollars Only

	FY 2012		FY 2013	
	FTE	Funding	FTE	Funding
Base Budget (FY 2011)	243.2	\$30,322,200	243.2	\$30,322,200
ETF Request Over Base*	6.5	\$7,249,900	6.5	\$8,339,300
Governor's Recommendations	6.5	\$1,023,600	6.5	\$356,400
Joint Committee on Finance	6.5	\$1,359,900	6.5	\$855,000
Legislature	6.5	\$1,359,900	6.5	\$855,000
Final Enacted Budget				

* Includes new initiatives and standard technical adjustments; does not include the amounts proposed for the Joint Committee on Finance (JCF) reserve (Dependent Eligibility Audit and Continuation of Customer Service Functions).

Department Initiatives

1. Continuation of Critical Customer Service Functions

	FY 2012		FY 2013	
	FTE	Funding	FTE	Funding
ETF Request	6.5	\$6,330,800	6.5	\$7,420,200
Governor's Recommendations	6.5	\$410,600	6.5	\$443,400
Joint Committee on Finance*	6.5	\$746,900	6.5	\$942,000
Legislature*	6.5	\$746,900	6.5	\$942,000
Final Enacted Budget				

* Does not include \$2,861,400 in FY 2012 and \$3,674,700 in FY 2013 that are included in the JCF reserve for release under a s. 13.10 supplemental funding request.

This initiative includes three statutory changes intended to enhance operational flexibility to allow the Department and Board to better administer the Public Employee Trust Fund. It also includes 6.5 permanent positions effective in the first year of the biennium to support on-going operations and to implement aspects of the Department's strategic plan.

The three statutory changes are as follows:

1. Expenditure Authority Flexibility

- Change the primary appropriation used for general program operations from an “annual” type to a “continuing” type. This will allow the Department to carry any unused expenditure authority to subsequent fiscal years.
- Base expenditure authority on a per participant amount. This per participant amount would be \$61.44 for the first year of the biennium and \$62.44 for the second year of the biennium. The amount would be adjusted for inflation for subsequent years.
- With Board concurrence, the Department could request that the JCF approve an increase in this amount via a passive review process.

2. Position Authority Flexibility

- Create a passive review process for creating and deleting position authority based on the active review process (under s.13.10) used during the FY 2009-2011 biennium as required by 2009 Wisconsin Act 28 (the budget bill).
- The Department would submit a position request to the JCF and the Governor. The request would be considered passively approved unless the Governor or a member of the JCF objects. In the case of an objection, a meeting would be held to address the request.
- Board approval would be required for any position request that would cause the total position authority for the Department to exceed the amount suggested by the methodology created as part of the FY 2009-2011 budget bill used to determine the appropriate position level.
- These provisions would be effective at the beginning of the second year of the biennium (July 1, 2012). For the first year of the biennium, the Department has requested 6.5 permanent positions to address workload needs and to continue implementation of the strategic plan.

3. ETF Board Appropriation

- Create a new sum sufficient appropriation to be used by the ETF Board for expenses described in s. 40.03 (1)(c) and (1)(d).
- These expenses are related to ensuring that the Board can carry out its fiduciary duties and that the Trust Fund is administered in an efficient and effective manner.
- Expenses include actuarial services, auditing services, legal services, and other necessary consulting services.

Governor’s Recommendation: Provides 6.5 FTE and associated funding. Statutory language modifications and funding adjustments to account for inflation and membership growth were not included in the Governor’s recommendations.

Joint Committee on Finance: Includes the Governor’s recommendations and increases the Department’s funding adjustment request for inflation and membership growth (\$336,300 in FY 2012 and \$498,600 in FY 2013). In addition, \$2,861,400 in FY 2012 and \$3,674,700 in FY 2013 will be available from the JCF reserve for release under s.13.10.

The Department can access these additional funds via a supplemental funding request (and additional positions) without having the JCF determine that an emergency exists.

Legislature: Same as JCF.

Final Enacted Budget: Same as Legislature.

2. Group Insurance Program Efficiencies

Statutory changes to provide additional efficiencies for the administration of the group insurance programs.

Wellness incentives for the Group Health Insurance Program. This statutory change would allow the Group Insurance Board (GIB) to incorporate a wellness incentive component into the health plans without having to reduce another benefit as currently required by the statutes. This change will allow the GIB to better encourage member participation in wellness and disease management programs developed or sanctioned by the GIB.

Expansion of GIB authority to contract for data collection and analysis services. This change would expand the GIB's authority for obtaining consulting services related to insurance programs offered by the Board. The current authority under this provision is limited to contracting for data collection and analysis related to the health insurance programs.

Additional flexibility to determine long-term care insurance options. This change would allow the GIB to limit the number of long-term care plans offered. Currently, the GIB must offer to employees any plan that meets the standards established by the GIB.

Governor's Recommendation: All statutory changes were included as requested. Changes related to the long-term care program were included in the budget bill. All other changes were included in the Budget Adjustment Bill (BAB).

Joint Committee on Finance: No change to the Governor's recommendations included in the BAB. Includes the Governor's recommendation related to the long-term care program in the budget bill.

Legislature: The Wellness incentive provisions were included in the revised BAB and enacted into law as 2011 Wisconsin Act 10. The expansion of GIB authority to contract for data collection and analysis services provisions were deleted from the revised BAB (Act 10). Includes the Governor's recommendation related to the long-term care program in the Biennial Budget Bill.

Final Enacted Budget: Same as Legislature.

3. New Headquarters Facility

Approval and expenditure authority for the design and construction/purchase of a new Department headquarters facility. Note that the majority of the request associated with this item will be handled via the Governor's Capital Budget request which is anticipated to be released sometime in March 2011.

This item includes a request for a sum sufficient appropriation to fund costs associated with the design and related pre-construction costs. It will also cover other necessary costs associated with the transition to a new facility including fixtures and furniture. The appropriation is requested so that the building-related costs do not compete with the resource needs for day-to-day departmental operations.

Governor's Recommendation: Not included.

4. Dependent Eligibility Audit

	FY 2012	FY 2013
	Funding	Funding
ETF Request	\$700,000	\$ - -
Governor's Recommendations	\$700,000	\$ - -
Joint Committee on Finance	\$700,000	\$ - -
Legislature	\$700,000	
Final Enacted Budget		

\$700,000 of funding placed in the JCF reserve for release under a passive review process for conducting a dependent eligibility audit of our health insurance programs.

The Department intends on conducting a pilot project during the current year to determine if a full-scale audit is needed to ensure that only legally eligible dependents are included as covered parties on the various health plans administered by the Department. Should the pilot project results suggest that a more thorough audit is warranted, the Department, in consultation with the GIB, would request that the JCF release funding to cover the contractor costs. It is anticipated that an extensive audit would cost between \$600,000 and \$700,000.

Governor's Recommendation: Included in the Governor's recommendations with the following modification. Instead of placing the funding in the JCF reserve, the funding will be included in the Department's appropriation with release subject to the approval of the Secretary of the Department of Administration (DOA).

Joint Committee on Finance: Modifies the Governor's recommendation to place the \$700,000 in the JCF reserve for release by the JCF under a passive review process should the Department determine that a full-scale dependent verification audit is desirable.

Legislature: Same as the JCF.

Final Enacted Budget: Same as Legislature.

Governor's Initiatives

5. Wisconsin Retirement System (WRS) Modifications

Statutory changes to the WRS as follows were included in the BAB:

- Prohibits employers from picking up the employee required contribution unless otherwise provided in a collective bargaining agreement.
- Modifies the employee-required contribution for general category and elected/executive category participants to equal one-half of the normal cost contribution rate.
- Modifies the employee-required contribution rate for protective occupation category participants (both those with and without social security coverage) to equal the rate paid by general category participants.
- Eliminates the benefit adjustment contribution (BAC).
- Prospectively modifies the multiplier used for calculating a formula benefit for an elected/executive category participant to be 1.6% (the same as general category participants).

Joint Committee on Finance: Same as the Governor's recommendation with a modification to the effective date of the elimination of the BAC.

Legislature: Same as Joint Committee on Finance. These provisions were enacted into law as 2011 Wisconsin Act 10. In addition, the Legislature's version of the Biennial Budget Bill included a technical language change and modified the effective date of the employee contribution changes in a manner that allows the Secretary of the Department of Administration to determine when the employer can no longer pay the employee required contribution on behalf of the participant.

Final Enacted Budget: Same as Legislature.

6. Group Health Insurance Modifications

Included in the BAB were statutory changes to the Group Health Insurance programs administered by the WRS as follows:

- Prohibits the employer from paying more than 88% of the average cost of the premium of tier one plans (applies to both the state and local plans).
- Requires the Secretary of ETF to allocate \$28 million from state plan reserves in a manner that reduces employer costs for the period July 1, 2011 – December 31, 2011.
- Requires the GIB to implement plan design changes effective for the CY 2012 plan year, which reduce benefits by 5%. Plan changes must include co-payments. Plan changes may include a requirement for state employees to participate in health risk assessments and wellness/disease management programs.

Joint Committee on Finance: Same as the Governor's recommendations.

Legislature: Same as JCF. The provisions requiring the ETF Secretary to allocate \$28 million from state plan reserves were enacted into law as 2011 Wisconsin Act 13. The other provisions were enacted into law as 2011 Wisconsin Act 10. In addition, the Legislature's version of the Biennial Budget Bill modified the effective date of the employee premium changes in a manner that allows the Secretary of the Department of Administration to determine when the new employee premiums will be in effect.

Final Enacted Budget: Same as Legislature.

7. Limited-term Employee (LTE) WRS Eligibility

Statutory changes were included in the BAB that would prohibit LTEs from being eligible participants under the WRS. In addition, these changes would prohibit LTEs from participating in the health insurance programs administered by the GIB.

Joint Committee on Finance: Deleted these provisions from the BAB.

8. Study of the WRS and Sick Leave Conversion Credits Programs

Included in the BAB, these provisions require that the Secretaries of ETF and DOA, along with the Director of the Office of State Employment Relations (OSER), perform a study of the WRS that must include the following:

- Establish a defined contribution plan as an option for WRS participating employees.
- Establish different vesting periods for WRS participating employees.
- Permit employees to not make employee required contributions and limit the benefit to a money purchase annuity.
- Modify the supplemental health insurance premium credit program for state employees.

These provisions also create a sum-sufficient general purpose revenue (GPR) appropriation in the Department to fund the costs associated with the study. Expenditures from this appropriation require the approval of the Secretary of DOA. The findings of this study must be reported to the Governor no later than June 30, 2012.

Joint Committee on Finance: Same as the Governor except that the requirement that expenditures from the new sum-sufficient GPR be approved by the DOA Secretary is deleted and replaced by provisions that require JCF approval under a passive review process.

Legislature: Deleted these provisions. However, see below under legislative initiatives for some mandated studies that were included in the Biennial Budget Bill by JCF.

Final Enacted Budget: Same as Legislature.

9. Health Insurance Risk Sharing Plan (HIRSP) Authority Participation in the Sick Leave Conversion Program

Statutory changes that clarify that the HIRSP is not required to make contributions to ETF associated with the sick leave conversion credit programs. HIRSP does not offer this benefit to their employees. Due to ambiguous language, HIRSP has been making contributions since their creation.

Note: The ETF Secretary had staff administratively resolve this issue. ETF anticipates that this technical provision will be removed prior to enactment.

Joint Committee on Finance: Deleted these provisions after determining that these provisions were non-budget policy items to be addressed via separate legislation.

10. Increased Employee Contributions to Pension and Health Insurance

	FY 2012	FY 2013
	Funding	Funding
ETF Request		
Governor’s Recommendations	(\$1,006,100)	(\$1,006,100)
Joint Committee on Finance	(\$1,006,100)	(\$1,006,100)
Legislature	(\$1,006,100)	(\$1,006,100)
Final Enacted Budget		

Base adjustment to the agency’s fringe benefit allocation to reflect anticipated savings due to increased WRS and health insurance contributions from agency staff.

Joint Committee on Finance: Same as the Governor’s recommendations.

Legislature: Same as the JCF.

Final Enacted Budget: Same as Legislature.

Legislature’s Initiatives

11. WRS Vesting Requirements

Joint Committee on Finance: Included provisions that would require that new participants must have five years of creditable service to be fully vested in a WRS retirement annuity. Benefits for these participants who have less than five years of service would be prorated as follows:

Creditable Service

Less than 1 year
At least 1 year and less than 2
At least 2 years and less than 3
At least 3 years and less than 4
At least 4 years and less than 5
At least 5 years

Formula Benefit

Reduced by 50%
Reduced by 40%
Reduced by 30%
Reduced by 20%
Reduced by 10%
No reduction

Money Purchase Benefit

No employer match
20% employer match
40% employer match
60% employer match
80% employer match
100% employer match

Legislature: Same as the JCF.

Final Enacted Budget: The Governor modified these provisions via a partial veto. As vetoed, individuals who become participating employees on or after July 1, 2011 will be required to have five years of creditable service to be fully vested. Participants hired after this effective date who have less than five years of service will only be eligible for a separation benefit equal to their employee contributions plus investment earnings.

12. WRS Eligibility Requirements

Joint Committee on Finance: Included provisions that would require new participants who are hired by a participating employer on or after the effective date to be employed at a level at least two thirds of what is considered full-time employment (as determined by ETF rule) to be covered under the WRS. Current law requires that a new participant be employed at a level of one third of what is considered full-time.

Legislature: Same as the JCF.

Final Enacted Budget: Same as Legislature.

13. Required Studies of the WRS and Group Health Insurance Programs

Joint Committee on Finance: Require that the following studies be done during the FY 2011-2013 biennium:

Requires that ETF, DOA, and OSER submit the following studies of the WRS to the Governor and JCF by June 30, 2012: (a) establishing a defined contribution plan as an option for participating WRS employees; and (b) permitting employees to not make required contributions and limiting retirement benefits to the money purchase benefit (for employees who opt not to pay the full employee required amounts).

Require that ETF and OSER submit the following studies related to the group health insurance program to the Governor and JCF by the October 31, 2012, unless otherwise specified below:

- a) Offering to state and local employees the option of receiving coverage via either a low-cost health coverage plan or via a high-deductible plan combined with a health savings account effective for coverage on or after January 1, 2013.

- b) Implementing a three-tier cost structure to establish separate premium levels for single individuals, married couples with no dependents, and families with dependents. Current law does not include the married couples with no dependents option as a separate premium category.
- c) Implementing a program beginning January 1, 2012, to provide an online marketplace for the purchase of prescription drugs as a supplement to the pharmacy benefit program provided by the GIB.
- d) Require state employees to receive health care coverage through a health benefits exchange established pursuant to the federal Patient Protection and Affordable Care Act of 2010 (federal health care reform).
- e) Creating a health insurance purchasing pool for all state and local government employees and individuals receiving health care coverage under the Medical Assistance program.

Require the Group Insurance Board to study the feasibility of including in the uniform benefits the costs associated with certified nurse-midwives to assist with births at home or a stand-alone birthing center for health care coverage on or after January 1, 2012.

Legislature: Same as the JCF except the implementation date of January 1, 2012, for the certified nurse-midwife benefit was deleted. The feasibility study associated with this health care benefit remains in the bill.

Final Enacted Budget: Same as Legislature except the Governor deleted the implementation date of January 1, 2012 associated with the online marketplace for the purchase on prescription drugs (item “c” on the above list).

14. Required Minimum Retirement System Contributions for Local Government Units

Legislature: Require that by December 31 of each calendar year, each local government employer must contribute to a retirement system in which its employees participates an amount at least equal to all of its employees’ required contributions. This provision applies to the WRS, the City of Milwaukee Retirement System, and the Milwaukee County retirement system.

Final Enacted Budget: The Governor vetoed these provisions.

15. Pre-Tax Treatment of Employee Required Contributions to the WRS

Legislature: Require that all required employee contributions to the WRS will be on a pre-tax basis (through a salary reduction agreement that applies to all WRS employers).

Final Enacted Budget: Same as Legislature.

Summary of Department FTE Positions by Fund Source

	FY 2011 (Base)	FY 2011-2013 Department Request	FY 2011-2013 Governor and Legislature	Change Base to Governor/Leg
SEG Permanent	243.2	249.7	249.7	6.5
SEG Project	--	--	--	--
SEG Total	243.2	249.7	249.7	6.5

**Summary of Department Budget Request by Fund Source
Through the Legislative Action (June 16, 2011)**

	FY 2012	FY 2013
SEG Funding Adjusted Base (FY 2011)	\$30,322,200	\$30,322,200
Standard Technical Adjustments	919,100	919,100
New SEG Funded Initiatives	(259,200)	(64,100)
Total SEG Funded Budget Request*	\$30,982,100	\$31,772,200
GPR Funding Adjusted Base (FY 2011)	\$641,600	\$641,600
Standard Technical Adjustments	(\$86,400)	(\$181,000)
Total GPR Funded Budget Request	\$555,200	\$460,600
All Funds Total	\$31,537,300	\$32,232,800

* Does not include the amounts proposed for the JCF reserve (Dependent Eligibility Audit and Continuation of Customer Service Functions).

FY = Fiscal Year: the State fiscal year begins July 1 and ends June 30.

FTE = Full-time Equivalent position.

GPR = General Purpose Revenues: represents appropriations from the general fund; these are primarily funds derived from income and sales taxes.

SEG = Segregated Funds: for ETF, this represents appropriations from the Public Employee Trust Fund; the source of funds included employer/employee contributions and investment earnings.

JCF = Joint Committee on Finance

BAB = Budget Adjustment Bill: Generally budget adjustment bills are utilized to make modifications in a current biennium to avoid a deficit. The BAB introduced on February 11, 2011, includes provisions that have a significant effect on the subsequent FY 2011-2013 biennium.

Act 10 = 2011 Wisconsin Act 10: This is the fully enacted bill introduced as the BAB (see above). The fiscal items were removed prior to enactment by the Legislature. Due to litigation, final enactment was delayed. It is anticipated that this Act will be effective on June 29, 2011. Most of the fiscal items that were removed from this bill were included in a subsequent bill that was enacted into law as 2011 Wisconsin Act 13.

Act 13 = 2011 Wisconsin Act 13: This bill included many of the fiscal items originally included in the BAB (see BAB and Act 10 above) including the requirement that the ETF Secretary allocate \$28 million of reserves associated with the state health insurance program in a manner that offsets employer costs.