



STATE OF WISCONSIN
Department of Employee Trust Funds
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CORRESPONDENCE MEMORANDUM

DATE: November 25, 2011
TO: Employee Trust Funds Board
FROM: David Stella, Secretary
SUBJECT: Secretary's Report

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

This will be my last report to the Employee Trust Funds Board (Board) as Secretary. Since this is my final report, I would like to take some liberties and offer some opinions along with the issues that I will discuss.

Maintaining a Skilled Workforce

Overall, the Board should be comfortable with the managers and staff at Employee Trust Funds (ETF). They are experienced, intelligent and hardworking and will serve you well going forward. As you know, it is important to adequately compensate employees. Frequent turnover can disrupt customer service and recruiting and training replacements is an expensive proposition. Among my concerns is the lack of ability to financially reward employees for their exceptional efforts. Benefit cuts, shifting of benefit costs, and pay freezes have and will continue to create a difficult environment. Discretionary Merit Compensation awards are now available to award meritorious service and to help with retention. While this mechanism will likely be useful, it won't address all of the issues. We have significant pay compression issues that need to be addressed and we plan to use this compensation tool in a systematic and judicious manner. However, it is possible we may lose some talented staff, which will create additional challenges for ETF as we strive to fully implement our strategic plan.

Workload

You will likely continue to see high numbers of state and local government employees retiring, including ETF staff. The substantial increase in retirement numbers in 2011 will continue for the next five to ten years. ETF will need to manage this workload volume

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and accomplish its' strategic plan objectives at the same time, which will be challenging. This is especially true given the ambitious but necessary information technology transformation we have embarked on. We are considering various system development strategies, including partnering with an outside firm or firms to help. Various retirement systems have had recent success using this approach. A decision will likely be forthcoming within the next several months. You will have an agenda item at the December 1 Board meeting to authorize ETF to explore this option further. I ask for your support of this request.

Health Insurance Costs

The rate of increase in health insurance premiums will out strip increases in pension contributions on an annual basis. The cost of providing health insurance to employees and dependents is the fastest growing benefit cost for public employers. While the State's health insurance premiums will fall by around 3% in 2012, that only occurred because substantial costs were shifted to state employees in the form of increased premium and co-insurance and the Department was successful in its negotiations with the health plans. ETF will be under significant pressure to find ways to reduce the rate of increase in health insurance costs. Unfortunately, there are no "silver bullets" and it is likely that benefit reductions and/or more cost shifting will continue to be under consideration in the short-term.

Sick Leave Conversion

The Accumulated Sick Leave Conversion Credit Program is an extremely cost effective tool to pay for post-retirement health insurance for retired state employees. For a cost of slightly over 1% of payroll contribution by employers, retirees are able to cover the cost of insurance premiums for several years after retirement. Unfortunately, the public perception is that this benefit is too lucrative. While there may be some minor revisions that could be considered to lower its costs, the program is solvent, sustainable and achieves its purpose. It is an important tool that helps State agencies with an orderly transition of their workforce into retirement. Efforts to significantly modify this program should be considered carefully.

A Final Request

The ETF Board can be helpful to us in these areas through its ongoing oversight of the Department and its administration of employee benefit plans, as well as engaging and communicating with the Legislature and Governor on matters that affect the integrity and governance of the Public Employee Trust Fund.

The study of the feasibility of offering optional defined contribution plans to employees and allowing employees to "opt-out" of the Wisconsin Retirement System (WRS) is a case in point. While the study should speak for itself, I worry that pressure will continue

to be exerted to offer alternative defined contribution plans in place of the WRS. The long-term fiscal impact of siphoning away potentially thousands of employees from participating in the WRS will likely ultimately increase costs and threaten its financial integrity. ETF will continue to do its part to help make sure the WRS remains strong, but it will need your help.

Let me close by again thanking the Board for your support. It has been a privilege and an honor to serve as Secretary. I hope that my efforts, in some small measure, have helped protect the integrity of the trust funds and addressed the service needs of our members.