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## Correspondence Memorandum

**Date:** February 21, 2020  
**To:** Employee Trust Funds Board  
**From:** Timothy Steiner, Director, Bureau of Budget, Contract Administration, and Procurement  
**Subject:** Program Versus Administrative Cost Charging

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

This memo is intended to update the Board on the Department of Employee Trust Funds (ETF) process and practice for charging costs to its administrative appropriation versus directly to benefit program appropriations.

### Background

Managing how costs are charged is critical to maximizing the use of agency resources while also supporting the interests of the trust and complying with appropriate state requirements. Standards and consistency in charging is also important for monitoring and analyzing cost levels and trends.

ETF recently reviewed and modified the process used to determine how administrative and benefit program expenses are charged. Staff are also reviewing current cost charging practices to ensure consistency with ETF's modified process. ETF is not yet proposing any changes to current cost charging practices. If changes are warranted, the Board will be informed.

ETF's revenue is derived from segregated (SEG) funds, comprised of benefit program contributions, premiums, and investment income. Expenses are broadly classified as either administrative expenses authorized under the biennial budget process or benefit program costs charged directly to benefit program accounts. Wisconsin Statutes Chapters 20 (Appropriations and Budget Management) and 40 (Public Employee Trust Fund) establish the mechanisms for funding and payment of costs; however, they do not define what comprises administrative versus program costs or outline how ETF should determine which appropriation(s) should be charged for particular expenses.

Reviewed and approved by Pamela Henning, Assistant Deputy Secretary

Electronically Signed 3/9/20

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### Administrative Expenses

Administrative spending levels or annual operating budgets are established through the biennial budget process outlined in Wisconsin Statutes Chapter 20. Administrative appropriations are established in Wisconsin Statutes 20.515(t) and (w). In CY 2018, ETF's administrative expenses totaled \$45.9 million. These consist of staff salaries and fringe benefits, staff travel/training, rent, contract staff and some contractual services, and Department of Administration assessments and shared service costs.

### Benefit Program Costs

ETF's benefit program costs are managed through several appropriations established under Wisconsin Statutes 20.515(1)(r), (s), (tm) and (u). These appropriations recognize incoming revenue, principally in the form of employer/employee benefit contributions and investment earnings. In addition, these appropriations are used to make benefit payments to qualifying program participants and pay for other direct program costs, such as Third-Party Administration (TPA) services and data warehouse and analytical services.

CY 2018 program benefit costs can be summarized as:

- **Benefit Payments:** For the two largest benefit programs, the Wisconsin Retirement System (WRS) benefit payments totaled approximately \$5.6 billion and premiums for the group health insurance program totaled approximately \$1.3 billion.
- **Third-Party Administration Costs:** \$27.7 million across all programs.
- **Health insurance data warehouse and analytics service costs** were approximately \$600,000.

### **Charging Methodology**

ETF is implementing improvements to how it determines and documents whether expenses will be charged to an administrative or benefit program appropriation, to ensure consistency and transparency in charging. The following approach will be used in determining the appropriate appropriation for expenses.

- Excluding benefit disbursements to participants, all other expenses are by default considered administrative expenses unless ETF staff demonstrate and document a rationale for charging the expenses directly to the benefit program appropriations per the criteria established below.
- The following criteria will be used to determine whether to charge expenses to a benefit program appropriation:
  - The expense relates directly to the administration of a particular benefit program; and
  - The expense reflects a procurement conducted under the Chapter 40 authority of one of the ETF governing boards.

- Using the above criteria, ETF will document the results of its analysis. Proposals for any changes to current practice will be reviewed and approved by the ETF Secretary or their designee. Where necessary, ETF will also notify external partners.
- Starting with the June 2020 ETF Board meeting, ETF will report benefit program expenses on a quarterly or biannual basis. The report will specifically identify the payments made beyond benefit disbursements to participants.

### **Application of the Charging Methodology**

As noted above, in CY 2018 ETF charged \$27.7 million in costs for third-party administration of programs and \$0.6 million for health insurance data warehouse and analytics services directly to their related benefit program appropriations.

In addition, ETF will begin evaluating whether other expenses, for example actuarial, contract compliance audits and select financial audit expenses, could be direct charged to benefit program appropriations. In CY 2018, these services totaled approximately \$1.5 million.

I will be available at the meeting to address any questions.