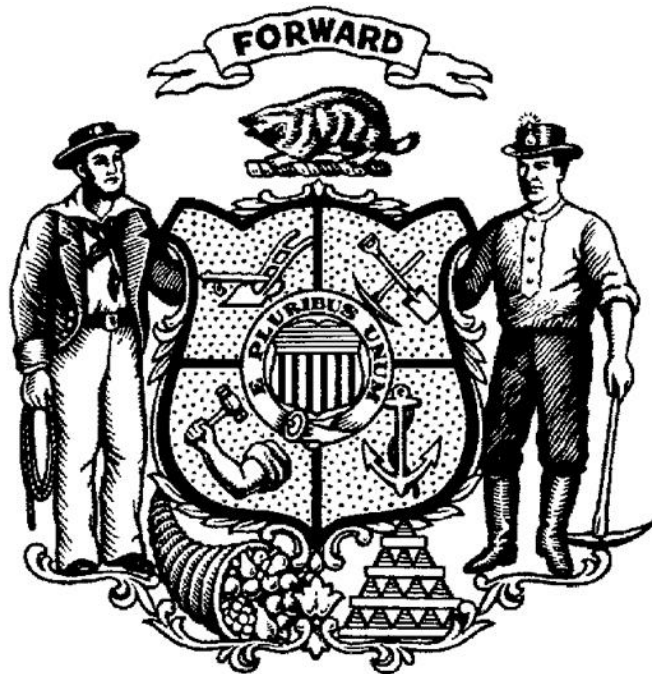


State of Wisconsin

Department of Employee Trust Funds



Agency Budget Request

2023 – 2025 Biennium

September 15, 2022

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STATE OF WISCONSIN
Department of Employee Trust Funds
A. John Voelker
SECRETARY

Wisconsin Department
of Employee Trust Funds
PO Box 7931
Madison WI 53707-7931
1-877-533-5020 (toll free)
Fax 608-267-4549
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September 29, 2022

SECRETARY-DESIGNEE KATHY BLUMENFELD
DEPT OF ADMINISTRATION
101 E WILSON ST 10th FL
PO BOX 7864
MADISON WI 53703-7864

RE: 2023-25 Biennial Budget Request

Dear Secretary-Designee Blumenfeld:

I am pleased to submit the 2023-25 biennial budget request for the Department of Employee Trust Funds (ETF). The ETF Board endorsed the attached budget request at its September 22, 2022 meeting.

The accompanying 2023-25 biennial budget request ensures ETF has the position and spending authority necessary to replace legacy IT systems and address critical position needs. As we developed our budget request, we leveraged existing resources whenever possible, as part of our duty to ensure we are acting in the best interests of our members. What remains, and is included in our budget request, are items that represent the agency's most critical needs.

In addition to standard budget adjustment and technical items, this budget request includes the following key items:

Replacement of Legacy IT Systems

To complete its replacement of legacy systems, ETF requests additional segregated (SEG) position and spending authority for the 23-25 biennium.

ETF cannot continue to operate legacy systems, one of which is 36 years old and on average, collectively, are 16.2 years old, without increased risk that they fail or compromise sensitive information. ETF embarked on multiple projects intended to lessen these risks and enhance the quality of services provided to ETF members. The requests included in this budget will equip ETF with the necessary resources to fully execute these projects.

Customer Service Enhancements

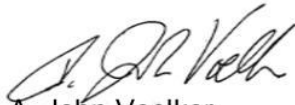
ETF requests position authority for 7.0 permanent FTE Trust Funds Specialists. The positions will be used to address unacceptable service levels for basic, critical customer service functions for members and employers. ETF's member and employer populations have significantly increased. From 2010 to 2020, the retiree population increased by 41.9%, and 147 more employers joined the Wisconsin Retirement System. ETF customer service staffing levels have not maintained pace with the increases.

Financial Compliance

Actuarial and accounting functions are cornerstone to the proper management of the retirement and insurance programs ETF administers. ETF is requesting an Actuarial Analyst and Accountant to support ETF's oversight and management of its actuarial responsibilities and to maintain the additional financial internal controls ETF has employed over the past five years.

We look forward to working with you on the items above and the other requests in our budget. If you have any questions, please do not hesitate to contact me at 266-0301 or Tim Steiner, Director of Budget, Contract Administration & Procurement, at 261-2915.

Sincerely,



A. John Voelker
Secretary

cc: Brian D. Pahnke, State Budget Director, Department of Administration
Robert Lang, Director, Legislative Fiscal Bureau

AGENCY DESCRIPTION

The department is headed by a secretary appointed by a 13-member Employee Trust Funds Board and is responsible for the state-administered retirement program; group insurance programs (health, life, income continuation, long-term disability and long-term care); employee reimbursement account program; commuter benefits program; deferred compensation program for state and local government employees; and the state accumulated sick leave conversion credits program. The Group Insurance Board, Teachers Retirement Board, Wisconsin Retirement Board and Deferred Compensation Board are attached to the department.

The department is responsible for the implementation of retirement system policies and the day-to-day operations and management of the Wisconsin Retirement System (WRS). Either by Employee Trust Funds Board delegation or by statutory assignment, the department is charged with collecting and accounting for all monies due to the retirement trust funds, calculating and accurately disbursing all benefit payments, providing information and responding to inquiries from participating employers and employees, and accounting for all WRS benefit transactions.

The assets invested by the State of Wisconsin Investment Board are not assets of the state, but are held in trust pending disbursement to secure coverage for, or to pay benefits to, members or their beneficiaries.

MISSION

The mission of the department is to develop and deliver quality benefits and services to customers while safeguarding the integrity of the trust.

PROGRAMS, GOALS, OBJECTIVES AND ACTIVITIES

Note: Goals, objectives and activities have been updated.

Program 1: Employee Benefit Plans

Goal: Create an effortless Customer Experience (CX)

Objective: Increase employer competency for managing employee benefits

Activity: Configure and implement Cornerstone application to support capture and use of employer data and engagement strategies

Objective: Determine the strategy, programs, and organizational infrastructure needed to drive customer experience improvements

Activity: Create a high-level long-term dynamic customer experience roadmap

Objective: Ensure insurance program sustainability

Activity: Implement Group Insurance Board-approved initiatives to reduce cost of specialty drugs to the Group Health Insurance Program (GHIP); to determine appropriate enrollment for the high deductible health plan (HDHP); to incorporate social determinants to help manage program costs; and to improve member understanding of benefits and reduce stigma related to mental health services

Goal: Implement outcomes-driven performance measurement and process management

Objective: Improve operational performance management through effective process management, performance metrics, controls, and improvement initiatives

Activity: Define enterprise business intelligence (BI) building blocks to support CX (Goal 1) and performance measurement (Goal 2)

Objective: Optimize processes to leverage capabilities of modernization initiatives.

Activity: In concert with the Insurance Administration System (IAS) implementation, identify, optimize, and implement new insurance administration system processes by leveraging best practices within insurance solution

Goal: Build a talented and agile workforce

Objective: Attract, integrate and advance top talent

Activity: Create and initiate a road map for positions and job classifications for enterprise content management (ECM) and IAS job-specific competencies

Objective: Advance employee development through meaningful and intentional performance management approaches

Activity: Apply new job-specific competencies (common competencies for all positions, leadership competencies and job-specific competencies for all positions within pilot supervisor direct reports)

Objective: Build the recruitment and retention practices and culture that will make ETF an equitable and inclusive organization

Activity: Implement strategies and action steps of the ETF Equity & Inclusion Plan scheduled for this fiscal year, to include developing ETF's Mentoring Program, conducting an Employer Seminar and facilitating a pilot Staff Network Group

Goal: Implement modern, secure and resilient information technologies to support an effortless customer experience

Objective: Develop and deploy solutions to support an effortless customer experience that enables accurate self-service and timely benefit administration services

Activity: Begin implementing insurance administration technologies providing administration capabilities for multiple insurance benefits including Health, Life, Income Continuation Insurance, and Supplemental benefits, etc. to enable more efficient and consistent processes and enhance customer service including online access

Objective: Integrate systems and data to support an effortless customer experience.

Activity: Implement a data storage and warehouse solution to support the creation of dashboards, reports and analytics providing transparency, increasing collaboration, and ensuring accurate and current data (Data Management Project 3: Data Storage, Warehouse, and Business Intelligence)

Objective: Preserve the safety and security of all ETF systems and data through standard practices, appropriate security controls, risk management and information security technologies

Activity: Implement Identity Proofing

Objective: Strengthen infrastructure to support modernization

Activity: Define nonfunctional requirements and associated strategies to support modernization, including accessibility/usability and Disaster Recovery for modernized systems

PERFORMANCE MEASURES

2021 AND 2022 GOALS AND ACTUALS

Prog. No.	Performance Measure	Goal 2021	Actual 2021	Goal 2022	Actual 2022
1.	Average speed of call answered.	>70% calls answered in 3 minutes >50% calls answered in 2 minutes	72% calls answered in 3 minutes 63% calls answered in 2 minutes	>70% calls answered in 3 minutes >50% calls answered in 2 minutes	67% calls answered in 3 minutes ¹ 57% calls answered in 2 minutes
1.	Percentage of customer calls that are abandoned.	<10%	7%	<10%	10% ¹
1.	Member counseling appointment wait time (one-on-one, individual appointments).	15 days	13 days	15 days	30 days ¹
1.	Members expressing high-level satisfaction.	95%	99%	95%	99%
1.	Days to provide annuity retirement estimate from date of receipt to mailing, assuming requests from 25 percent of participants eligible to retire.	15 days	5 days	15 days	7 days
1.	Vendor invoices paid within 30 days (no interest charges). ²	98%	99%	98%	98%

Note: Based on fiscal year.

¹The number of members ETF serves is increasing, which has made it challenging to continue to meet service goals.

²Vendor invoices paid within 30 days from the invoice received day per the prompt payment law.

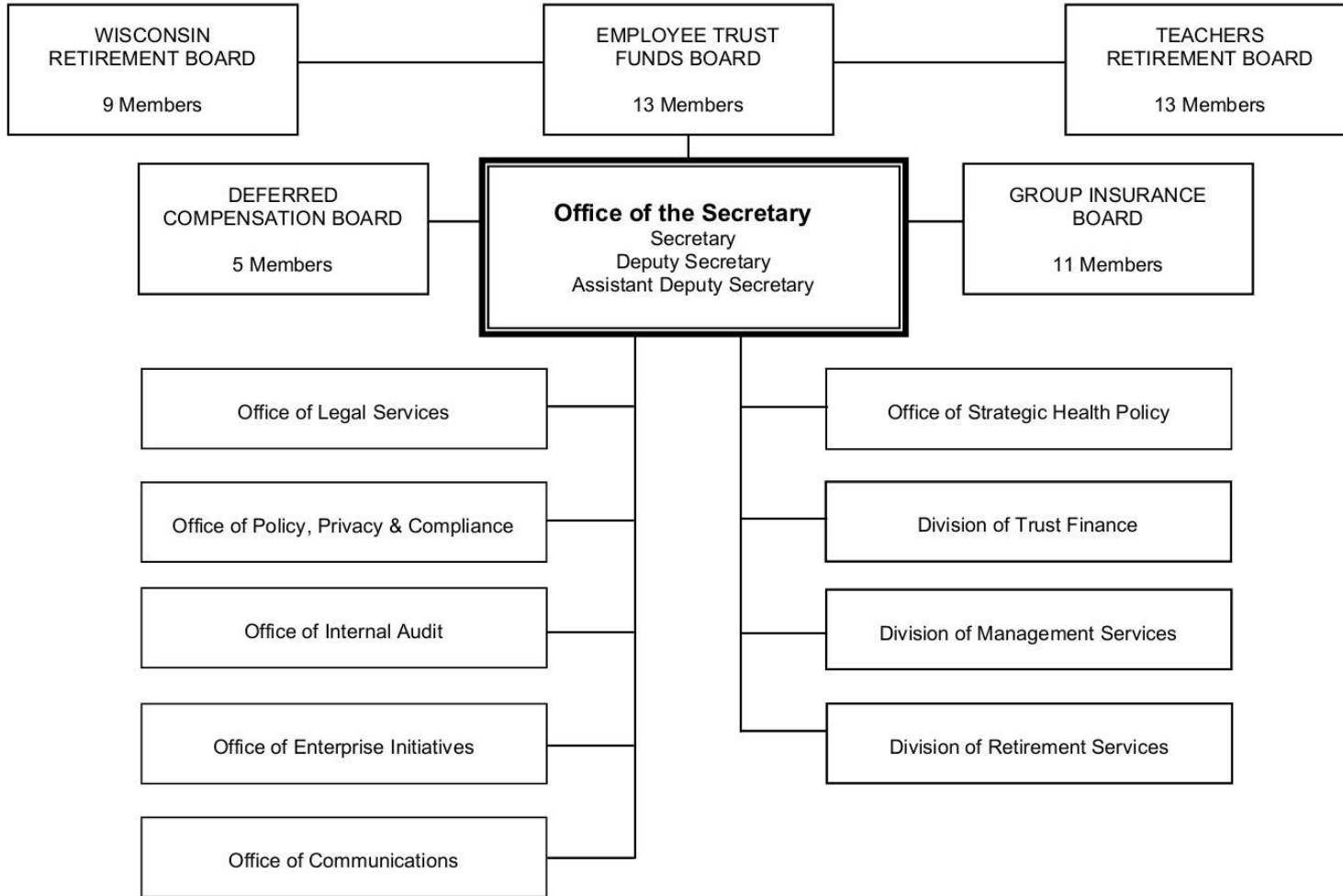
2023, 2024 AND 2025 GOALS

Prog. No.	Performance Measure¹	Goal 2023	Goal 2024	Goal 2025
1.	Percentage of beneficiary designations effective within 15 business days of receipt	90%	90%	90%
1.	Percentage of calls answered within 3 minutes; percentage of emails responded to within 2 business days	70% for calls answered 95% for emails responded to	70% for calls answered 95% for emails responded to	70% for calls answered 95% for emails responded to
1.	Percentage of retirement estimates completed within 15 business days of request	100%	100%	100%
1.	Percentage of separation benefits paid within one week after employer submits necessary information	100%	100%	100%
1.	Average wait for available appointment session	15 days	15 days	15 days
1.	Percentage of retiree benefits started by next payroll or desired effective date.	100%	100%	100%
1.	Percentage of lump sum death benefits paid within 30 days of beneficiary application	80%	80%	80%

Note: Based on fiscal year.

¹Performance measures and goals were updated for the upcoming biennium to be aligned with ETF's Strategic Plan.

**DEPARTMENT OF EMPLOYEE TRUST FUNDS
FUNCTIONAL ORGANIZATIONAL CHART
August 2022**



Agency Total by Fund Source

Department of Employee Trust Funds

2325 Biennial

		ANNUAL SUMMARY						BIENNIAL SUMMARY			
Source of Funds		Prior Year Total	Adjusted Base	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE	Base Year Doubled (BYD)	Biennial Request	Change From (BYD)	Change From BYD %
GPR	A	\$42,257	\$32,500	\$27,900	\$21,400	0.00	0.00	\$65,000	\$49,300	(\$15,700)	-24.20%
Total		\$42,257	\$32,500	\$27,900	\$21,400	0.00	0.00	\$65,000	\$49,300	(\$15,700)	-24.20%
SEG	S	\$52,743,224	\$52,712,300	\$69,202,500	\$73,996,300	291.20	291.20	\$105,424,600	\$143,198,800	\$37,774,200	35.80%
Total		\$52,743,224	\$52,712,300	\$69,202,500	\$73,996,300	291.20	291.20	\$105,424,600	\$143,198,800	\$37,774,200	35.80%
Grand Total		\$52,785,481	\$52,744,800	\$69,230,400	\$74,017,700	291.20	291.20	\$105,489,600	\$143,248,100	\$37,758,500	35.80%

Agency Total by Program

Department of Employee Trust Funds

2325 Biennial Budget

Source of Funds	Prior Year Total	ANNUAL SUMMARY					BIENNIAL SUMMARY				
		Adjusted Base	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE	Base Year Doubled (BYD)	Biennial Request	Change From (BYD)	Change From BYD %	
01 Employee benefit plans											
Non Federal											
GPR	\$42,257	\$32,500	\$27,900	\$21,400	0.00	0.00	\$65,000	\$49,300	(\$15,700)	-24.15%	
A	\$42,257	\$32,500	\$27,900	\$21,400	0.00	0.00	\$65,000	\$49,300	(\$15,700)	-24.15%	
SEG	\$52,743,224	\$52,712,300	\$69,202,500	\$73,996,300	291.20	291.20	\$105,424,600	\$143,198,800	\$37,774,200	35.83%	
S	\$52,743,224	\$52,712,300	\$69,202,500	\$73,996,300	291.20	291.20	\$105,424,600	\$143,198,800	\$37,774,200	35.83%	
Total - Non Federal	\$52,785,481	\$52,744,800	\$69,230,400	\$74,017,700	291.20	291.20	\$105,489,600	\$143,248,100	\$37,758,500	35.79%	
A	\$42,257	\$32,500	\$27,900	\$21,400	0.00	0.00	\$65,000	\$49,300	(\$15,700)	-24.15%	
S	\$52,743,224	\$52,712,300	\$69,202,500	\$73,996,300	291.20	291.20	\$105,424,600	\$143,198,800	\$37,774,200	35.83%	
PGM 01 Total	\$52,785,481	\$52,744,800	\$69,230,400	\$74,017,700	291.20	291.20	\$105,489,600	\$143,248,100	\$37,758,500	35.79%	
GPR	\$42,257	\$32,500	\$27,900	\$21,400	0.00	0.00	\$65,000	\$49,300	(\$15,700)	-24.15%	
A	\$42,257	\$32,500	\$27,900	\$21,400	0.00	0.00	\$65,000	\$49,300	(\$15,700)	-24.15%	
SEG	\$52,743,224	\$52,712,300	\$69,202,500	\$73,996,300	291.20	291.20	\$105,424,600	\$143,198,800	\$37,774,200	35.83%	
S	\$52,743,224	\$52,712,300	\$69,202,500	\$73,996,300	291.20	291.20	\$105,424,600	\$143,198,800	\$37,774,200	35.83%	
TOTAL 01	\$52,785,481	\$52,744,800	\$69,230,400	\$74,017,700	291.20	291.20	\$105,489,600	\$143,248,100	\$37,758,500	35.79%	

Agency Total by Program

Department of Employee Trust Funds

2325 Biennial Budget

Source of Funds	Prior Year Total	ANNUAL SUMMARY					BIENNIAL SUMMARY			
		Adjusted Base	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE	Base Year Doubled (BYD)	Biennial Request	Change From (BYD)	Change From BYD %
01 Employee benefit plans										
A	\$42,257	\$32,500	\$27,900	\$21,400	0.00	0.00	\$65,000	\$49,300	(\$15,700)	-24.15%
S	\$52,743,224	\$52,712,300	\$69,202,500	\$73,996,300	291.20	291.20	\$105,424,600	\$143,198,800	\$37,774,200	35.83%
AGENCY TOTAL	\$52,785,481	\$52,744,800	\$69,230,400	\$74,017,700	291.20	291.20	\$105,489,600	\$143,248,100	\$37,758,500	35.79%

Agency Total by Decision Item

Department of Employee Trust Funds

2325 Biennial Budget

Decision Item	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
2000 Adjusted Base Funding Level	\$52,744,800	\$52,744,800	275.20	275.20
3001 Turnover Reduction	(\$634,600)	(\$634,600)	0.00	0.00
3003 Full Funding of Continuing Position Salaries and Fringe Benefits	\$1,306,700	\$1,306,700	0.00	0.00
3007 Overtime	\$45,600	\$45,600	0.00	0.00
3008 Night and Weekend Differential Pay	\$72,300	\$72,300	0.00	0.00
4000 Annuity Supplement Re-estimate	(\$4,600)	(\$11,100)	0.00	0.00
4001 Mandatory LAB Audits	\$17,000	\$174,000	0.00	0.00
5000 Replacement of Fragile IT Infrastructure	\$15,101,800	\$19,586,000	7.00	7.00
6000 Restoring Critical Customer Service	\$437,800	\$551,800	7.00	7.00
6001 Financial and Actuarial Compliance and Reporting Requirements	\$143,600	\$182,200	2.00	2.00
7001 Internal Audit Function	\$0	\$0	0.00	0.00
TOTAL	\$69,230,400	\$74,017,700	291.20	291.20

Segregated Funds Revenue and Balances Statement

2325 Biennial Budget

	CODES	TITLES
DEPARTMENT	515	Department of Employee Trust Funds
PROGRAM	01	Employee benefit plans
SUBPROGRAM		
NUMERIC APPROPRIATION	61	Automated operating system
STATUTORY FUND	262	PUBLIC EMPLOYEE TRUST

Revenue and Expenditures	Prior Year Actuals	Base Year Estimate	1st Year Estimate	2nd Year Estimate
Opening Balance	\$17,987,365	\$15,904,100	\$7,692,500	\$4,730,900
Program Reimbursement Revenue	\$8,393,600	\$8,393,600	\$8,393,600	\$10,968,400
Total Revenue	\$26,380,965	\$24,297,700	\$16,086,100	\$15,699,300
Expenditures	\$10,476,870	\$16,605,200	\$0	\$0
2000 Adjusted Base Funding Level	\$0	\$0	\$8,393,600	\$8,393,600
5000 Replacement of Fragile IT Infrastructure	\$0	\$0	\$2,961,600	\$7,305,700
Total Expenditures	\$10,476,870	\$16,605,200	\$11,355,200	\$15,699,300
Closing Balance	\$15,904,095	\$7,692,500	\$4,730,900	\$0

Segregated Funds Revenue and Balances Statement

2325 Biennial Budget

	CODES	TITLES
DEPARTMENT	515	Department of Employee Trust Funds
PROGRAM	01	Employee benefit plans
SUBPROGRAM		
NUMERIC APPROPRIATION	76	Administration
STATUTORY FUND	262	PUBLIC EMPLOYEE TRUST

Revenue and Expenditures	Prior Year Actuals	Base Year Estimate	1st Year Estimate	2nd Year Estimate
Opening Balance	\$459,026	\$849,100	\$0	\$0
Budget Reversion	(\$4,817)	\$0	\$0	\$0
Program Reimbursement Revenue	\$42,661,201	\$42,595,300	\$48,009,600	\$48,811,800
Total Revenue	\$43,115,410	\$43,444,400	\$48,009,600	\$48,811,800
Expenditures	\$42,266,354	\$43,444,400	\$0	\$0
2000 Adjusted Base Funding Level	\$0	\$0	\$44,318,700	\$44,318,700
3001 Turnover Reduction	\$0	\$0	(\$634,600)	(\$634,600)
3003 Full Funding of Continuing Position Salaries and Fringe Benefits	\$0	\$0	\$1,306,700	\$1,306,700
3007 Overtime	\$0	\$0	\$45,600	\$45,600
3008 Night and Weekend Differential Pay	\$0	\$0	\$72,300	\$72,300
5000 Replacement of Fragile IT Infrastructure	\$0	\$0	\$515,900	\$656,000
6000 Restoring Critical Customer Service	\$0	\$0	\$437,800	\$551,800
6001 Financial and Actuarial Compliance and Reporting Requirements	\$0	\$0	\$143,600	\$182,200
Health Insurance Reserves	\$0	\$0	\$303,100	\$594,700
Compensation Reserve	\$0	\$0	\$506,000	\$1,538,300
Wisconsin Retirement System	\$0	\$0	\$3,000	\$6,100
27th Pay Period Reserve (FY24 only)	\$0	\$0	\$974,500	\$0

Segregated Funds Revenue and Balances Statement

2325 Biennial Budget

	CODES	TITLES
DEPARTMENT	515	Department of Employee Trust Funds
PROGRAM	01	Employee benefit plans
SUBPROGRAM		
NUMERIC APPROPRIATION	76	Administration
STATUTORY FUND	262	PUBLIC EMPLOYEE TRUST

Revenue and Expenditures	Prior Year Actuals	Base Year Estimate	1st Year Estimate	2nd Year Estimate
4001 Mandatory LAB Audits	\$0	\$0	\$17,000	\$174,000
7001 Internal Audit Function	\$0	\$0	\$0	\$0
Total Expenditures	\$42,266,354	\$43,444,400	\$48,009,600	\$48,811,800
Closing Balance	\$849,056	\$0	\$0	\$0

Decision Item (DIN) - 2000

Decision Item (DIN) Title - Adjusted Base Funding Level

NARRATIVE

Adjusted Base Funding Level

Decision Item by Line

2325 Biennial Budget

DEPARTMENT	CODES	TITLES
	515	Department of Employee Trust Funds
DECISION ITEM	CODES	TITLES
	2000	Adjusted Base Funding Level

	Expenditure Items	1st Year Cost	2nd Year Cost
01	Permanent Position Salaries	\$21,152,100	\$21,152,100
02	Turnover	\$0	\$0
03	Project Position Salaries	\$0	\$0
04	LTE/Misc. Salaries	\$121,700	\$121,700
05	Fringe Benefits	\$8,106,500	\$8,106,500
06	Supplies and Services	\$21,671,200	\$21,671,200
07	Permanent Property	\$1,660,800	\$1,660,800
08	Unallotted Reserve	\$0	\$0
09	Aids to Individuals & Organizations	\$0	\$0
10	Local Assistance	\$0	\$0
11	One-time Financing	\$0	\$0
12	Debt service	\$0	\$0
13	Annuity Supplements	\$32,500	\$32,500
14		\$0	\$0
15		\$0	\$0
16		\$0	\$0
17	TOTAL	\$52,744,800	\$52,744,800
18	Project Positions Authorized	0.00	0.00
19	Classified Positions Authorized	272.20	272.20
20	Unclassified Positions Authorized	3.00	3.00

Decision Item by Numeric

2325 Biennial Budget

Department of Employee Trust Funds

Program	Decision Item/Numeric	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
	2000 Adjusted Base Funding Level				
01	Employee benefit plans				
	01 Annuity supplements and payments	\$32,500	\$32,500	0.00	0.00
	61 Automated operating system	\$8,393,600	\$8,393,600	0.00	0.00
	76 Administration	\$44,318,700	\$44,318,700	275.20	275.20
	Employee benefit plans Sub Total	\$52,744,800	\$52,744,800	275.20	275.20
	Adjusted Base Funding Level Sub Total	\$52,744,800	\$52,744,800	275.20	275.20
	Agency Total	\$52,744,800	\$52,744,800	275.20	275.20

Decision Item by Fund Source

2325 Biennial Budget

Department of Employee Trust Funds

Decision Item/Source of Funds		1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
2000 Adjusted Base Funding Level					
GPR	A	\$32,500	\$32,500	0.00	0.00
SEG	S	\$52,712,300	\$52,712,300	275.20	275.20
Adjusted Base Funding Level Total		\$52,744,800	\$52,744,800	275.20	275.20
Agency Total		\$52,744,800	\$52,744,800	275.20	275.20

Decision Item (DIN) - 3001

Decision Item (DIN) Title - Turnover Reduction

NARRATIVE

Standard Budget Adjustment - Turnover Reduction

Decision Item by Line

2325 Biennial Budget

DEPARTMENT	CODES	TITLES
	515	Department of Employee Trust Funds
DECISION ITEM	CODES	TITLES
	3001	Turnover Reduction

	Expenditure Items	1st Year Cost	2nd Year Cost
01	Permanent Position Salaries	\$0	\$0
02	Turnover	(\$634,600)	(\$634,600)
03	Project Position Salaries	\$0	\$0
04	LTE/Misc. Salaries	\$0	\$0
05	Fringe Benefits	\$0	\$0
06	Supplies and Services	\$0	\$0
07	Permanent Property	\$0	\$0
08	Unallotted Reserve	\$0	\$0
09	Aids to Individuals & Organizations	\$0	\$0
10	Local Assistance	\$0	\$0
11	One-time Financing	\$0	\$0
12	Debt service	\$0	\$0
13	Annuity Supplements	\$0	\$0
14		\$0	\$0
15		\$0	\$0
16		\$0	\$0
17	TOTAL	(\$634,600)	(\$634,600)
18	Project Positions Authorized	0.00	0.00
19	Classified Positions Authorized	0.00	0.00
20	Unclassified Positions Authorized	0.00	0.00

Decision Item by Numeric

2325 Biennial Budget

Department of Employee Trust Funds

Program	Decision Item/Numeric	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
	3001 Turnover Reduction				
01	Employee benefit plans				
	76 Administration	(\$634,600)	(\$634,600)	0.00	0.00
	Employee benefit plans Sub Total	(\$634,600)	(\$634,600)	0.00	0.00
	Turnover Reduction Sub Total	(\$634,600)	(\$634,600)	0.00	0.00
	Agency Total	(\$634,600)	(\$634,600)	0.00	0.00

Decision Item by Fund Source

2325 Biennial Budget

Department of Employee Trust Funds

Decision Item/Source of Funds		1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
3001 Turnover Reduction					
SEG	S	(\$634,600)	(\$634,600)	0.00	0.00
Turnover Reduction Total		(\$634,600)	(\$634,600)	0.00	0.00
Agency Total		(\$634,600)	(\$634,600)	0.00	0.00

Decision Item (DIN) - 3003

Decision Item (DIN) Title - Full Funding of Continuing Position Salaries and Fringe Benefits

NARRATIVE

Standard Budget Adjustment - Full Funding of Continuing Position Salaries and Fringe Benefits

Decision Item by Line

2325 Biennial Budget

DEPARTMENT	CODES	TITLES
	515	Department of Employee Trust Funds
DECISION ITEM	CODES	TITLES
	3003	Full Funding of Continuing Position Salaries and Fringe Benefits

	Expenditure Items	1st Year Cost	2nd Year Cost
01	Permanent Position Salaries	\$781,700	\$781,700
02	Turnover	\$0	\$0
03	Project Position Salaries	\$0	\$0
04	LTE/Misc. Salaries	\$0	\$0
05	Fringe Benefits	\$525,000	\$525,000
06	Supplies and Services	\$0	\$0
07	Permanent Property	\$0	\$0
08	Unallotted Reserve	\$0	\$0
09	Aids to Individuals & Organizations	\$0	\$0
10	Local Assistance	\$0	\$0
11	One-time Financing	\$0	\$0
12	Debt service	\$0	\$0
13	Annuity Supplements	\$0	\$0
14		\$0	\$0
15		\$0	\$0
16		\$0	\$0
17	TOTAL	\$1,306,700	\$1,306,700
18	Project Positions Authorized	0.00	0.00
19	Classified Positions Authorized	0.00	0.00
20	Unclassified Positions Authorized	0.00	0.00

Decision Item by Numeric

2325 Biennial Budget

Department of Employee Trust Funds

Program	Decision Item/Numeric	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
	3003 Full Funding of Continuing Position Salaries and Fringe Benefits				
01	Employee benefit plans				
	76 Administration	\$1,306,700	\$1,306,700	0.00	0.00
	Employee benefit plans Sub Total	\$1,306,700	\$1,306,700	0.00	0.00
	Full Funding of Continuing Position Salaries and Fringe Benefits Sub Total	\$1,306,700	\$1,306,700	0.00	0.00
	Agency Total	\$1,306,700	\$1,306,700	0.00	0.00

Decision Item by Fund Source

2325 Biennial Budget

Department of Employee Trust Funds

Decision Item/Source of Funds		1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
3003 Full Funding of Continuing Position Salaries and Fringe Benefits					
SEG	S	\$1,306,700	\$1,306,700	0.00	0.00
Full Funding of Continuing Position Salaries and Fringe Benefits Total		\$1,306,700	\$1,306,700	0.00	0.00
Agency Total		\$1,306,700	\$1,306,700	0.00	0.00

Decision Item (DIN) - 3007

Decision Item (DIN) Title - Overtime

NARRATIVE

Standard Budget Adjustment - Overtime

Decision Item by Line

2325 Biennial Budget

DEPARTMENT	CODES	TITLES
	515	Department of Employee Trust Funds
DECISION ITEM	CODES	TITLES
	3007	Overtime

	Expenditure Items	1st Year Cost	2nd Year Cost
01	Permanent Position Salaries	\$39,500	\$39,500
02	Turnover	\$0	\$0
03	Project Position Salaries	\$0	\$0
04	LTE/Misc. Salaries	\$0	\$0
05	Fringe Benefits	\$6,100	\$6,100
06	Supplies and Services	\$0	\$0
07	Permanent Property	\$0	\$0
08	Unallotted Reserve	\$0	\$0
09	Aids to Individuals & Organizations	\$0	\$0
10	Local Assistance	\$0	\$0
11	One-time Financing	\$0	\$0
12	Debt service	\$0	\$0
13	Annuity Supplements	\$0	\$0
14		\$0	\$0
15		\$0	\$0
16		\$0	\$0
17	TOTAL	\$45,600	\$45,600
18	Project Positions Authorized	0.00	0.00
19	Classified Positions Authorized	0.00	0.00
20	Unclassified Positions Authorized	0.00	0.00

Decision Item by Numeric

2325 Biennial Budget

Department of Employee Trust Funds

Program	Decision Item/Numeric	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
	3007 Overtime				
01	Employee benefit plans				
	76 Administration	\$45,600	\$45,600	0.00	0.00
	Employee benefit plans Sub Total	\$45,600	\$45,600	0.00	0.00
	Overtime Sub Total	\$45,600	\$45,600	0.00	0.00
	Agency Total	\$45,600	\$45,600	0.00	0.00

Decision Item by Fund Source

2325 Biennial Budget

Department of Employee Trust Funds

Decision Item/Source of Funds		1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
3007 Overtime					
SEG	S	\$45,600	\$45,600	0.00	0.00
Overtime Total		\$45,600	\$45,600	0.00	0.00
Agency Total		\$45,600	\$45,600	0.00	0.00

Decision Item (DIN) - 3008

Decision Item (DIN) Title - Night and Weekend Differential Pay

NARRATIVE

Standard Budget Adjustment - Night and Weekend Differential Pay

Decision Item by Line

2325 Biennial Budget

DEPARTMENT	CODES	TITLES
	515	Department of Employee Trust Funds
DECISION ITEM	CODES	TITLES
	3008	Night and Weekend Differential Pay

	Expenditure Items	1st Year Cost	2nd Year Cost
01	Permanent Position Salaries	\$62,600	\$62,600
02	Turnover	\$0	\$0
03	Project Position Salaries	\$0	\$0
04	LTE/Misc. Salaries	\$0	\$0
05	Fringe Benefits	\$9,700	\$9,700
06	Supplies and Services	\$0	\$0
07	Permanent Property	\$0	\$0
08	Unallotted Reserve	\$0	\$0
09	Aids to Individuals & Organizations	\$0	\$0
10	Local Assistance	\$0	\$0
11	One-time Financing	\$0	\$0
12	Debt service	\$0	\$0
13	Annuity Supplements	\$0	\$0
14		\$0	\$0
15		\$0	\$0
16		\$0	\$0
17	TOTAL	\$72,300	\$72,300
18	Project Positions Authorized	0.00	0.00
19	Classified Positions Authorized	0.00	0.00
20	Unclassified Positions Authorized	0.00	0.00

Decision Item by Numeric

2325 Biennial Budget

Department of Employee Trust Funds

Program	Decision Item/Numeric	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
	3008 Night and Weekend Differential Pay				
01	Employee benefit plans				
	76 Administration	\$72,300	\$72,300	0.00	0.00
	Employee benefit plans Sub Total	\$72,300	\$72,300	0.00	0.00
	Night and Weekend Differential Pay Sub Total	\$72,300	\$72,300	0.00	0.00
	Agency Total	\$72,300	\$72,300	0.00	0.00

Decision Item by Fund Source

2325 Biennial Budget

Department of Employee Trust Funds

Decision Item/Source of Funds		1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
3008 Night and Weekend Differential Pay					
SEG	S	\$72,300	\$72,300	0.00	0.00
Night and Weekend Differential Pay Total		\$72,300	\$72,300	0.00	0.00
Agency Total		\$72,300	\$72,300	0.00	0.00

Decision Item (DIN) - 4000

Decision Item (DIN) Title - Annuity Supplement Re-estimate

NARRATIVE

The Department of Employee Trust Funds (ETF) requests a reduced base funding of -\$4,600 GPR in FY24 and -\$11,100 GPR in FY25 to reflect decreased amounts necessary to pay benefit supplements for retirees who first began receiving annuities before October 1, 1974.

ETF – Annuity Supplement Re-Estimate

Objective/Issue

These supplements were authorized primarily by Chapter 337, Laws of 1973, 1983 Wisconsin Act 394 and 1997 Wisconsin Act 26. The re-estimate is due to a declining number of retirees eligible for these supplements due to deaths. Current base funding for the appropriation is \$32,500.

Request

The Department of Employee Trust Funds (ETF) requests a reduced base funding of -\$4,600 GPR in FY24 and -\$11,100 GPR in FY25 to reflect decreased amounts necessary to pay benefit supplements for retirees who first began receiving annuities before October 1, 1974.

Fiscal Summary		
	2023-24 Request	2024-25 Request
Total Request	(\$4,600)	(\$11,100)

Decision Item by Line

2325 Biennial Budget

DEPARTMENT	CODES	TITLES
	515	Department of Employee Trust Funds
DECISION ITEM	CODES	TITLES
	4000	Annuity Supplement Re-estimate

	Expenditure Items	1st Year Cost	2nd Year Cost
01	Permanent Position Salaries	\$0	\$0
02	Turnover	\$0	\$0
03	Project Position Salaries	\$0	\$0
04	LTE/Misc. Salaries	\$0	\$0
05	Fringe Benefits	\$0	\$0
06	Supplies and Services	\$0	\$0
07	Permanent Property	\$0	\$0
08	Unallotted Reserve	\$0	\$0
09	Aids to Individuals & Organizations	\$0	\$0
10	Local Assistance	\$0	\$0
11	One-time Financing	\$0	\$0
12	Debt service	\$0	\$0
13	Annuity Supplements	(\$4,600)	(\$11,100)
14		\$0	\$0
15		\$0	\$0
16		\$0	\$0
17	TOTAL	(\$4,600)	(\$11,100)
18	Project Positions Authorized	0.00	0.00
19	Classified Positions Authorized	0.00	0.00
20	Unclassified Positions Authorized	0.00	0.00

Decision Item by Numeric

2325 Biennial Budget

Department of Employee Trust Funds

Program	Decision Item/Numeric	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
	4000 Annuity Supplement Re-estimate				
01	Employee benefit plans				
	01 Annuity supplements and payments	(\$4,600)	(\$11,100)	0.00	0.00
	Employee benefit plans Sub Total	(\$4,600)	(\$11,100)	0.00	0.00
	Annuity Supplement Re-estimate Sub Total	(\$4,600)	(\$11,100)	0.00	0.00
	Agency Total	(\$4,600)	(\$11,100)	0.00	0.00

Decision Item by Fund Source

2325 Biennial Budget

Department of Employee Trust Funds

Decision Item/Source of Funds		1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
4000 Annuity Supplement Re-estimate					
GPR	A	(\$4,600)	(\$11,100)	0.00	0.00
Annuity Supplement Re-estimate Total		(\$4,600)	(\$11,100)	0.00	0.00
Agency Total		(\$4,600)	(\$11,100)	0.00	0.00

Decision Item (DIN) - 4001

Decision Item (DIN) Title - Mandatory LAB Audits

NARRATIVE

Under s. 13.94 (1) (dc), Wis. Stats., the Legislative Audit Bureau (LAB) is required to contract for the performance of an actuarial audit of the Wisconsin Retirement System (WRS) at least once every five years. This cost is then billed to the Department of Employee Trust Funds (ETF) as indicated in s. 13.94 (1s) (c) 1, Wis. Stats. The cost of this audit is \$157,000 and will be performed in FY 2024-25.

Additionally, the LAB will be performing a GASB 74/75 SHICC and Retiree Life Insurance valuation audit. The cost of this audit is \$34,000 and will be performed in FY 2023-24 and 2024-25. ETF requests one-time funding of \$17,000 in FY 2023-24 and \$174,000 in FY 2024-25 for the costs of these two LAB audits.

ETF – Mandatory LAB Audits

Objective

Under s. 13.94 (1) (dc), Wis. Stats., the Legislative Audit Bureau (LAB) is required to contract for the performance of an actuarial audit of the Wisconsin Retirement System (WRS) at least once every five years. This cost is then billed to the Department of Employee Trust Funds (ETF) as indicated in s. 13.94 (1s) (c) 1, Wis. Stats. The cost of this audit is \$157,000 and will be performed in FY 2024-25.

Additionally, the LAB will be performing a GASB 74/75 SHICC and Retiree Life Insurance valuation audit. The cost of this audit is \$34,000 and will be performed in FY 2023-24 and 2024-25.

ETF requests one-time funding of \$17,000 in FY 2023-24 and \$174,000 in FY 2024-25 for the costs of these two LAB audits.

Issue

The Wisconsin Statutes require an actuarial audit of the WRS at least every five years. The Government Finance Officers Association considers it a “Best Practice” to perform an actuarial audit at least every five years. They identify five benefits:

- Enhance the credibility of the actuarial valuation process by providing independent assurance that it was performed in accordance with actuarial standards of practice;
- Increase public trust in how the pension plan is being governed;
- Help plan fiduciaries to assess whether the pension plan is meeting its funding objectives;
- Lead to the remediation of errors that might otherwise go undiscovered; and
- Provide recommendations for improving the actuarial valuation process, including how information is presented in the actuarial valuation report and in other communications.

In 1989 the Legislature recognized the value of actuarial audits and assigned the LAB responsibility for overseeing the audits. Section 13.94 (1) (dc), Wis. Stats., requires the LAB to perform an actuarial audit of WRS. The most recent actuarial audit was conducted in 2019/2020 by the LAB. ETF received one-time funding in the 2019-21 biennial budget for this audit. The next audit is scheduled to begin in 2024 and conclude in 2025. Due to the five-year nature of this audit, ETF is requesting one-time funding for the costs of this audit.

The WRS actuarial audit is expected to include the following components:

1) Governmental Accounting Standards Board (GASB) Statements 67 and 68 Roll-Forward Component – an independent assessment of the procedures performed to roll-forward the consulting actuary’s valuation of the Wisconsin Retirement System (WRS) as of December 31, 2022 (the valuation date), to December 31, 2023 (the measurement date) to meet plan and employer reporting and disclosure requirements under GASB Statements Number 67 and 68.

2) Funding Valuation Component – an independent verification and analysis of the assumptions, procedures, and methods used by the WRS consulting actuary for the active and retiree lives valuation of the WRS as of December 31, 2023 (valuation date). This audit will involve the performance of a full replication of the calculation of the December 31, 2023, active and retired lives actuarial valuation. This component of the audit will also include an independent review of the three-year experience study for the period January 1, 2018, through December 31, 2020.

Request

ETF requests one-time funding for the WRS actuarial audit in the amounts of \$17,000 in FY 2023-24 and \$174,000 in FY 2024-25. Funding is requested in s.20.525(1)(w), Wis. Stats.

Fiscal Summary		
	2023-24 Request	2024-25 Request
Total Request	\$17,000	\$174,000

Decision Item by Line

2325 Biennial Budget

DEPARTMENT	CODES	TITLES
	515	Department of Employee Trust Funds
DECISION ITEM	CODES	TITLES
	4001	Mandatory LAB Audits

	Expenditure Items	1st Year Cost	2nd Year Cost
01	Permanent Position Salaries	\$0	\$0
02	Turnover	\$0	\$0
03	Project Position Salaries	\$0	\$0
04	LTE/Misc. Salaries	\$0	\$0
05	Fringe Benefits	\$0	\$0
06	Supplies and Services	\$0	\$0
07	Permanent Property	\$0	\$0
08	Unallotted Reserve	\$0	\$0
09	Aids to Individuals & Organizations	\$0	\$0
10	Local Assistance	\$0	\$0
11	One-time Financing	\$17,000	\$174,000
12	Debt service	\$0	\$0
13	Annuity Supplements	\$0	\$0
14		\$0	\$0
15		\$0	\$0
16		\$0	\$0
17	TOTAL	\$17,000	\$174,000
18	Project Positions Authorized	0.00	0.00
19	Classified Positions Authorized	0.00	0.00
20	Unclassified Positions Authorized	0.00	0.00

Decision Item by Numeric

2325 Biennial Budget

Department of Employee Trust Funds

Program	Decision Item/Numeric	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
	4001 Mandatory LAB Audits				
01	Employee benefit plans				
	76 Administration	\$17,000	\$174,000	0.00	0.00
	Employee benefit plans Sub Total	\$17,000	\$174,000	0.00	0.00
	Mandatory LAB Audits Sub Total	\$17,000	\$174,000	0.00	0.00
	Agency Total	\$17,000	\$174,000	0.00	0.00

Decision Item by Fund Source

2325 Biennial Budget

Department of Employee Trust Funds

Decision Item/Source of Funds		1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
4001 Mandatory LAB Audits					
SEG	S	\$17,000	\$174,000	0.00	0.00
Mandatory LAB Audits Total		\$17,000	\$174,000	0.00	0.00
Agency Total		\$17,000	\$174,000	0.00	0.00

Decision Item (DIN) - 5000

Decision Item (DIN) Title - Replacement of Fragile IT Infrastructure

NARRATIVE

In light of an increasingly fragile IT infrastructure, ETF requests segregated (SEG) resources of 7.0 FTE (4.0 permanent and 3.0 project) and \$15.10 million in SFY 2023-24 and \$19.59 million in SFY 2024-25. The resources will enable ETF to reduce risk of IT system failure by completing its transition to more modern, secure, and reliable information technology (IT) systems.

-The transition to new IT systems will better secure ETF members' confidential information, increase system reliability and flexibility, and enhance accessibility of customer information through online, on-demand platforms.

-ETF's systems serve over 1,500 employers and 660,000 current and former state and local government employees (members) and contain members' confidential information.

-ETF takes great care to ensure legacy systems are maintained and confidential information is secured. However, the legacy systems operated by the Department, many over 20 years old, continue to become more difficult to maintain, update, and integrate with each other to support the multiple benefit plans administered by the agency.

-Failure to adequately fund ETF's ongoing IT improvement efforts will force continued reliance on legacy systems and increase the risk of incidents that incur significant costs for the Department, negatively impact ETF's customers, and cause reputational harm to ETF and the State.

ETF – Replacement of Fragile IT Infrastructure

Objective:

In light of an increasingly fragile IT infrastructure, ETF requests segregated (SEG) resources of 7.0 FTE (4.0 permanent and 3.0 project) and \$15.10 million in SFY 2023-24 and \$19.59 million in SFY 2024-25. The resources will enable ETF to reduce risk of IT system failure by completing its transition to more modern, secure, and reliable information technology (IT) systems.

- The transition to new IT systems will better secure ETF members' confidential information, increase system reliability and flexibility, and enhance accessibility of customer information through online, on-demand platforms.
- ETF's systems serve over 1,500 employers and 660,000 current and former state and local government employees (members) and contain members' confidential information.
- ETF takes great care to ensure legacy systems¹ are maintained and confidential information is secured. However, the legacy systems operated by the Department, many over 20 years old, continue to become more difficult to maintain, update, and integrate with each other to support the multiple benefit plans administered by the agency.
- Failure to adequately fund ETF's ongoing IT improvement efforts will force continued reliance on legacy systems and increase the risk of incidents that incur significant costs for the Department, negatively impact ETF's customers, and cause reputational harm to ETF and the State.

Issue:

ETF is replacing its legacy systems to mitigate significant risks. For example, if the current 14-year-old system responsible for making annuity payments fails, the agency would be unable to make regular payments to retirees which totaled \$6.1 billion in 2021. This effort is also in alignment with the FY 2022-2024 Statewide Strategic IT Plan goal to modernize state agency legacy data and technology assets.²

As noted in Appendix 1, ETF operates a portfolio of legacy systems that range in age, with the oldest and most vital data system over 36 years old. Over time, ETF's IT portfolio developed into a patchwork of legacy systems designed to fulfill various agency objectives. The technical knowledge and support infrastructure needed to manage legacy systems has become increasingly complex and difficult to obtain. In addition, information reporting has become needlessly complex as duplicate and siloed data proliferated with the increase in systems. Agency risk also increased in several categories, including information security, fulfillment of business objectives, financial costs, and agency reputation, which are expanded on below.

The impact of these risks is severe. ETF's legacy systems serve critical functions for our customers:

- The legacy systems cited in Appendix 1 are responsible for administering over 25 benefits for ETF's 660,000 members and over 1,500 state and local employers. The systems support eligibility determinations, enrollments, payroll, billing, and reporting/reconciliation functions.
 - In combination, the referenced legacy systems annually process millions of member and employer transactions that impact the approximately \$142 billion in trust funds administered by the agency. In 2021, annuitant benefit payments alone were \$6.1 billion.
-

- The information contained in legacy systems is sensitive and includes Personal Identifiable Information (PII) and Personal Health Information (PHI). Legacy system PII and PHI includes Dates of Birth, Social Security Numbers, confidential health information, banking information, and contact information.

The next two sub-sections summarize the general risk environment caused by the operation of legacy systems and highlight how legacy system failures and data breaches impact ETF’s operations and, by extension, its customers. The third sub-section highlights the efforts undertaken by ETF to address these risks.

General Risk Environment

Based on Government Accountability Office (GAO) reporting and guidance from technology and consulting firm Gartner, ETF summarized relevant risks associated with operating legacy systems in Table 1.³ Though the risks described below are general in nature, they result in real, negative repercussions if not addressed.

To reinforce that these risks are not hypothetical, Appendix 2 provides examples of actual legacy system related data breaches and system failures that resulted in significant expenses and other consequences.

Table 1 – Legacy System Risk Environment

Risk Area	Description
<p>Information Security: Legacy systems can operate with security vulnerabilities that are technically difficult or prohibitively expensive to address.</p>	<p>Vendors no longer provide support for legacy hardware or software, which creates security vulnerabilities that cost more to remediate with each passing year.</p> <p>Agencies with confidential information, such as Personal Identifiable Information (PII), risk exposing this information, which is even more expensive than remediation and causes reputational harm. In addition, agencies risk the inability to obtain cyber-liability insurance coverage if expensive remediation steps are not taken.</p>
<p>Business Risk: Maintaining legacy systems becomes more difficult over time and presents an increased risk to fulfilling business objectives.</p>	<p><u>Service Gaps/Failures:</u> Legacy systems are inflexible and do not accommodate required changes, which results in significant manual processing that is prone to errors. System failures and outages leave stakeholders without service. Depending on the service and outage duration, this often has broad downstream impacts.</p> <p><u>Compliance Issues:</u> Agencies face compliance issues as they operate systems that cannot be easily updated to reflect changes in state/federal regulations.</p> <p><u>Poor Data Quality:</u> Legacy systems were not designed to communicate with each other, which leads to data siloes that can impact the accuracy and relevancy of business data. Maintaining legacy systems can also complicate the management of data retention and privacy regulation policies.</p> <p><u>Staffing Issues:</u> Staff experienced with older technology and programming languages are becoming more difficult to hire/retain. Because qualified staff are scarcer, associated personnel costs may increase.</p>
<p>Financial Risk: Though costs are difficult to predict, operational and information security risks often have financial implications.</p>	<p>Opportunity costs (i.e., cost savings associated with operating a more modern, reliable, secure, and flexible system) are more difficult to estimate due to their prospective nature.</p> <p>Conversely, costs can typically be quantified after an adverse event, like a system failure or data breach. Costs may include services for data breach detection and escalation, emergency response, credit monitoring, and general staff remediation time. IBM reports that the average cost per breach in 2022 is</p>

Risk Area	Description
	\$4.35 million. For the healthcare industry, which handles PII and PHI data much like ETF, average costs per breach were \$10.10 million. ⁴
Reputational Risk: Organizations risk damaging trust when they fail to meet stakeholder expectations.	Information security and business risks could negatively impact stakeholders and result in reputational harm and a loss in trust. Though more abstract than financial risk, reputational loss is a serious risk that impacts an organization’s ability to conduct business with its stakeholders. It can cost significant time and money to re-establish trust.

ETF Risk Environment

When placed in the context of the dollar amounts, large customer base, and confidential information ETF manages, the risks and consequences of legacy system-related failures and security breaches are significant.

- State and local retirees count on annuity payments (\$6.1 billion in 2021) being made accurately and timely. Interruptions to service leave them financially vulnerable.
- ETF members expect access to well-managed, low-cost insurance programs that improve quality of life. Legacy system-related issues around eligibility, enrollment, and billing can cause interruptions in service that expose members to unnecessary risk.
- ETF must collect and account for all monies due to the various retirement and insurance-related accounts. System failures or breaches would impact ETF’s ability to account for funds and safeguard the integrity of the trust.
- The combination of sensitive confidential information and ETF’s large member population make our systems a target for potential security breaches. Though ETF takes numerous proactive steps to manage security, ETF’s reliance on aged legacy systems increases security risks and the subsequent financial and reputational consequences.

In addition to the broad risks outlined above, risks can also be viewed under the framework of ETF’s core benefit administration functions. Table 2 defines ETF’s core functions and illustrates the impact of legacy systems on this critical work.

Table 2 – ETF Risk Environment by Function

Functional Area	Impact/Risk of Operating Legacy Systems
Eligibility: In conjunction with employers, ETF systems manage eligibility for all members and annuitants. This includes determinations of eligibility for WRS annuity benefits and major insurance plans.	ETF struggles to modify legacy systems arising from regular changes in eligibility requirements. The inability to easily make system changes increases the risk that ETF will fail to comply with eligibility rules, which impacts a member’s ability to enroll and receive services under a benefit program. Current systems are not easily modifiable due to technical limitations, skill set shortages, and resource constraints. Even simple changes can result in lengthy and costly IT upgrades. For example, 2015 Act 55 changed the normal retirement age for the Elected/Executive category from age 62 to 65 for new employees. ETF

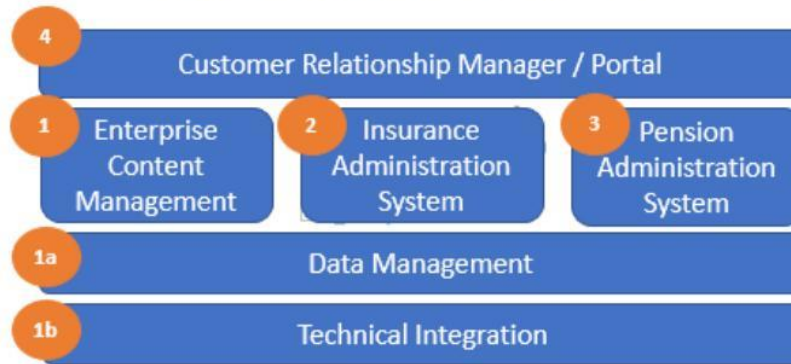
Functional Area	Impact/Risk of Operating Legacy Systems
	developed manual workarounds to comply with the law changes until automatic system changes were implemented long after the law took effect.
<p>Enrollment: Once determined eligible, employers, including ETF for retirees, enroll members into ETF's systems.</p>	<p>Legacy system limitations impact ETF's ability to retain and report accurate enrollment-related member information. In turn, this information is critical to ensuring ETF can communicate with and serve its members.</p> <ul style="list-style-type: none"> • Legacy systems do not contain enrollment information for select insurance plans. This results in mismatches where members are billed for a benefit, but the system does not list them as enrolled or vice versa. • Field size limitations in legacy systems create an inability to maintain accurate, relevant member information. For example, the system used to manage WRS benefits cannot document a full legal address. This creates reporting and data matching issues with other systems when verifying contact information.
<p>Payroll: ETF processes and distributes annuitant payments on a regular basis. In 2021, \$6.1 billion in annuity payments were made to retirees.</p> <p>Employers deduct and transfer the benefit premiums from active employees and deposit into ETF directed accounts.</p>	<p>It is critical that annuitants receive the correct annuity payment on time. When issues arise, not only are there immediate financial repercussions for the member, but it also results in additional staff time spent remediating issues.</p> <p>Changes to payroll functionality are time consuming and costly. For example, a federal mandate required changes to ACH processing. To comply, ETF's legacy pension systems required significant modifications to allow for better monitoring and control over member banking information. These changes took over 14 weeks and 240 work hours to accomplish. Legacy systems were often not built to be extensible and meet modern security needs.</p>
<p>Billing: ETF's legacy systems supply insurance-related billing amounts to participating employers, including ETF for retiree billings.</p>	<p>Legacy systems do not contain supplemental insurance and Income Continuation Insurance (ICI) enrollment information, as examples. Legacy systems are reliant on insurance vendors to supply the correct billing amounts, which ETF in turn may need to provide to the employers.</p> <p>As referenced earlier, this can lead to issues where incorrect deductions occur. In turn, this results in customer service complaints and additional staff time spent resolving customer service issues.</p>
<p>Reporting and Reconciliation: ETF relies on reporting to monitor benefit programs and reconcile member data.</p>	<p>Reports are hard coded in the system and were not built for flexibility. This means that ETF staff must deal with the limitations of current reports, find workarounds to gather information, or commit resources to modifying reports. Report modifications are time consuming and costly.</p> <p>For example, recent changes to tax law resulted in a need for reporting modifications. Because reports are coded in outdated standards, ETF has limited resources with the skills needed to make these changes. This increases the risk of non-compliance or results in delays and additional costs to secure the resources necessary to make modifications.</p>

Future State

ETF is taking steps to mitigate the outlined risks by replacing legacy systems and consolidating system functions. Our future IT state will seamlessly blend third-party vendor systems and custom developed applications using a common set of master data. Systems will communicate with each other through our integration platform all while secured through modern standard technologies.

ETF has learned from experience on past IT projects and accordingly revised its approach in a way that reduces the risk of project failure and offers good value and service to our members. ETF is now using a “best-of-breed” approach to purchase the best performing Commercial Off the Shelf (COTS) software solution for each major functional area (i.e., member and employer records, insurance administration, and pension administration). This approach reduces reliance on any one vendor and allows for a staged implementation. Diagram 1 provides a visual overview of ETF’s staged implementation strategy.

Diagram 1 – ETF Legacy IT Replacement Plan¹



¹Appendix 3 includes additional information on each program. Programs are numbered in order of implementation.

Additional steps taken by ETF in recent years to ensure project success include:

- Invested in data management and information security functions through the establishment of dedicated data management and information security bureaus led by a Chief Data Officer and Chief Information Security Officer, respectively.
- Successfully implemented several components of ETF’s IT improvement plan. This includes an Enterprise Content Management system as well as components of the Data Management and Technical Integration programs (see 1, 1a, and 1b in Diagram 1). In addition, ETF has successfully acquired and is implementing a new Insurance Administration System. Appendix 3 contains additional information on ETF’s IT improvement efforts and accomplishments.
- Undergoing business process re-engineering efforts to define ETF business processes and identify inefficiencies so purchases of new systems are not informed by unnecessary and outdated requirements.
- Strengthened ETF governance structure for strong oversight and alignment of our strategic goals to the individual IT implementations to drive toward our desired business outcomes.

Request

Overview

ETF's IT modernization consultant, Segal, Inc., identified the components of IT system modernization that require funding such as software licensing, hosting, and implementation costs; position backfill to sustain operations during technology projects; new personnel to manage modern systems going forward; and technical subject matter experts to assist with project design and implementation.

Current resources are insufficient to complete and sustain IT improvement efforts. Existing resources are committed to several IT-related efforts including implementation and support costs associated with the IT improvements noted earlier.

ETF has exercised most facets of the product selection and implementation process for the major components of its IT improvement efforts. The costs associated with these components plus ETF's updated PAS estimate inform current and future needs over the next six-year period.

Consequently, ETF requests the resources outlined in Table 3 be added to existing funding levels to ensure the successful implementation and support of modern benefits administration systems. The request includes:

- \$515,900 in SFY 2023-24 and \$656,000 in SFY 2024-25 added to s.20.515(1)(w), Wis. Stats. to support 4.0 permanent FTE positions and 3.0 four-year project FTE positions (project positions would start on October 1, 2023, and end on September 30, 2027); and
- \$14,585,900 in SFY 2023-24 and \$18,930,000 in SFY 2024-25 added to s.20.515(1)(t), Wis. Stats. to support vendor payments related to the various IT solutions described below and discussed in further detail in Appendix 3.

Table 3 – IT Modernization Resource Request (All Funds)

	SFY 2023-24	SFY 2024-25
FTE (Perm/Proj.) – 20.515(1)(w)		
Total (#)	7.0 (4.0/3.0)	7.0 (4.0/3.0)
Salary	\$327,200	\$436,200
Fringe	128,600	171,500
Supplies and Services	60,100	48,300
Subtotal	\$515,900	\$656,000
Contract Services – 20.515(1)(t)		
Pension Administration System (Implementation)	\$11,475,500	\$11,475,500
Insurance Administration System (Ongoing – Post Implementation)	–	4,344,100
Consulting Services	2,160,000	2,160,000
Data Management	950,400	950,400
Subtotal	\$14,585,900	\$18,930,000
Total	\$15,101,800	\$19,586,000

Smart investments in modern IT solutions will help mitigate identified risks to support ETF's strategic goal of providing an exceptional customer experience. ETF has historically been a low-cost, low-service pension administrator. In 2019, ETF worked with CEM Benchmarking Inc., to analyze agency performance, which

included analysis of ETF's costs and service levels relative to its peers. ETF's costs were \$87 per active member and annuitant, which was \$11 below the peer average of \$98. ETF's service score was 18 points below the peer median. Service scores were most impacted by a lack of secure online access for members. A secure online system is not possible with the current IT infrastructure.

ETF considered the impact that additional costs would have on the programs it administers. ETF has a fiduciary duty to prudently administer trust funds and recognizes the magnitude of the funding request. The increase in funding will not have a material impact on the benefit programs and contribution rates administered by ETF. For example, WRS Trust Fund, the largest benefit program administered by ETF, remains fully funded. The risks mitigated and benefits realized through the implementation of modern systems outweigh the estimated cost impact to the trust fund. The ETF Board also realizes the importance of replacing legacy systems and fully supports this request.

Contract Services

As noted, ETF proceeded with a strategy of selecting several smaller scoped "best of breed" COTS software solutions. The costs associated with each solution, as well as background into the cost estimation methodology, are provided below. Appendix 3 contains more extensive information on these initiatives.

Pension Administration System (PAS) – \$11,475,500 Annually

ETF requests funding to source a fully integrated PAS solution that replaces ETF's current legacy pension systems, which is comprised of the Wisconsin Employee Benefits System (WEBS) implemented in 1985 and several subsequent subsystems. The Pension Administration Solution will provide easier, more reliable, and secure access to pension benefit information for ETF's customers. For additional information on the scope of the pension system functionality, please see Appendix 3.

In July 2022, Segal, Inc. estimated ETF-specific PAS costs. Segal utilized and combined two methodologies when deriving the estimate: a proprietary predictive data model informed by 51 prior Segal clients and a benchmark comparison to four peer pension systems. Segal's peer comparison methodology considered the complexity of the Wisconsin Retirement System to similar organizations. Pension systems costs are impacted by complexity. In 2019, CEM Benchmarking found that Wisconsin's pension system ranked more complex than 8 out of 14 of its peers. More information on Segal's cost estimate is included in their report, which is available upon request.

The estimated total for a PAS solution is \$68,852,800, which includes implementation, licensing, support, reserve funds, and hosting costs anticipated over a four-year implementation period. Spread out over a six-year period (SFY 2024 – SFY 2029), ETF requests \$11,475,500 in additional annual budget authority in s. 20.515(1)(t), Wis. Stats. This six-year period coincides with the anticipated timeframe for conducting the procurement, contract negotiations, and subsequent software implementation. It is the Board's fiduciary responsibility to ensure funding is available before proceeding with the PAS Request for Proposal.

Insurance Administration System (IAS) - \$4,344,100 Annually

ETF signed a contract with Benefitfocus in July 2021 for its Insurance Administration System - Benefitplace. Implementation efforts began in Fall 2021 and will continue through anticipated go-live in June 2024.

Benefitfocus provides its solution under a Software as a Service (SaaS) model. IAS one-time implementation costs are \$2,287,000 and will be paid from existing funds in s. 20.515(1)(t), Wis. Stats. After implementation, ETF incurs an annual charge of \$4,344,100 that includes ongoing hosting, licensing, and maintenance costs. This cost is variable and is based on the number of Enrollment Eligible Employees multiplied by the respective Per Employee Per Year (PEPY) rate. The contract assumes a minimum number of Enrollment Eligible

Employees; however, costs could increase based on an increase in enrollment numbers. The requested amount includes a 10.0% reserve for unforeseen ad hoc work and potential increases in Enrollment Eligible Employees.

Consulting Services - \$2,160,000 Annually

ETF engages the services of specialized consultants and contractors to assist with IAS and PAS implementation. This includes services for general planning and project oversight, business process improvements, and organization change management (OCM). The estimated costs associated with each service type and an accompanying description are found in Table 4 below. Estimates are based off Segal’s assessment of consulting service costs for a pension system the size and complexity of Wisconsin’s and an assessment of ETF’s consulting service expenses to-date for IAS implementation.

Table 4 - Estimated Costs for Consulting Services

Service Type/Cost	Description
Planning and Project Oversight (\$1,080,000)	<ul style="list-style-type: none"> • Includes general project planning and project management services. • Involves independent staff reviewing requirements and confirming the system correctly implements the required functionality and security requirements.
Business Process Re-engineering (BPR) (\$720,000)	<ul style="list-style-type: none"> • Evaluates current business processes and identifies ways to reduce enterprise costs and eliminate redundancies. • Defining and optimizing processes helps identify key system requirements and eliminate unnecessary requirements that lead to more costly system customizations.
Organization Change Management (OCM) (\$360,000)	<ul style="list-style-type: none"> • Ensures that staff and customers are supported while significant changes in the business environment occur. • Assist ETF’s customers to transition from transacting business via paper forms to doing business digitally. • Helps advance employees’ understanding of change, enhance communication, identify and mitigate risks, and improve employee preparedness. • Increasing employee satisfaction during change can lead to higher productivity and reduced turnover.⁵

Data Management - \$950,400 Annually

The establishment of the Data Management Bureau (DMB) at ETF kick-started a multi-year effort to create reliable, accessible data for administering ETF’s benefit programs. Table 5 includes an itemized breakout of Data Management-related request items followed by a brief description of the item and its purpose. A more in-depth analysis of the Data Management Bureau’s efforts is found in Appendix 3.

Table 5 – Annual Data Management Costs

Project	Amount
Data Integration – Application Programming Interface (API) Exchange Tool	\$475,000
Data Quality	\$326,600
Master Data Management	209,000
Enterprise Address Validation	117,600
Data Governance – Metadata Management	\$148,800
Total	\$950,400

ETF implemented the Master Data Management and API Exchange tools in 2021. Master data management uses automated business rules to match records across multiple systems and determine the single version of the truth (i.e., a “golden record”) for our members. The API Exchange tool enables data integration, which helps our future systems communicate and share data effectively. These are new costs for ETF and will require additional support to sustain.

ETF estimates that the purchase of Address Validation tools will occur in 2024 with Metadata Management sequenced afterwards. Each tool is integral to Data Management efforts and modernizing ETF systems.

- Enterprise address validation services will be integrated with the master data management solution to provide more timely address updates. This will replace legacy standalone address validation services that are used and maintained on legacy systems. The \$117,600 requested represent net costs for implementing and operating new address validation services.
- Metadata management tools will help staff more easily find, understand, and use data. These tools will enable ETF staff to better certify data quality levels, classify data, capture data definitions, monitor data usage, and support other aspects of data management.

Positions

Data Management: (2.0 Permanent FTE - IS Business Automation Specialists)

ETF created the Data Management Bureau in July 2020 to oversee and implement data management functions, including data strategy, data architecture, data integration, master data management, data quality, data governance, and business intelligence. The Bureau is currently staffed with three permanent positions, which are largely supplemented with contract staff. Additional permanent resources are needed to sustain and mature the data management program.

As ETF pursues replacements of its core business applications with best-of-breed modern IT Solutions, sound data management becomes the linchpin that binds these efforts together. ETF’s data management program ensures that the information contained in the new systems is of high quality, integrates with other systems, and offers a “single version of the truth.”

The requested permanent positions will be used to establish data resources in several key business areas to assist with sustaining and expanding the data management program. Work will include, but not be limited to, identifying reporting needs, improving data quality, ensuring appropriate usage of data, enforcing security and privacy policies related to data, and defining (and maintaining) business rules that populate ETF's master data management system with high quality information.

Without a properly resourced data management function, ETF will not be able to leverage the full value of its new solutions. It will continue to present operational risks to the Department that lead to costly inefficiencies. Reporting is siloed within each system. Overlapping and conflicting data would make it difficult to develop actionable business insights. Poor data quality and reporting negatively impacts customer experience and leads to errors in business decision-making that costs time, money, and reputational harm to ETF.

Subject Matter Expert Backfill: (3.0 Project FTE – Trust Funds Specialist)

ETF requests 3.0 four-year Trust Fund Specialist project positions (starting on October 1, 2023, and ending on September 30, 2027). The success of ETF's IT improvement efforts is dependent on the availability and input of program staff subject matter experts (SMEs). This is particularly significant for ETF's Division of Retirement Services, where program staff are closely involved in IAS, PAS, and data management project efforts.

From 2010 to 2020, ETF's member population has increased by 14.1%; the retiree population increased by 41.9%; and 147 new employers joined the WRS. Service demands are expected to continue to rise as more employers join the WRS and as the baby boom generation retires. Concurrently, there is a demand for increased DRS staff representation on IT project planning and implementation efforts. For example, this includes assisting with requirements gathering, initial discovery sessions, system testing, training, and vendor communications.

Two of the requested three project positions would provide critical support for SMEs in the Employer and Contact Services (ECS) Bureau's Employer Services Section (ESS). Currently, SMEs in this section are balancing day-to-day operational tasks with IT improvement project-based efforts. Increased demands for ESS staff time creates challenges providing acceptable member service levels while also assisting with current and projected IT planning and implementation efforts.

The remaining project position would work in the member call center to support an anticipated increase in call volumes over the next several years as IAS and then PAS are implemented and used by ETF customers. For example, with IAS implementation, ETF expects a significant increase in calls from members setting up accounts for the secure authentication system (Okta), which members will need to access before logging into IAS.

Call center staff are already struggling to meet service demands due to high call volumes and insufficient staffing. For perspective, the annual volume of member calls in 2021 was 182,458 and this year that number is projected to surpass 215,000 based on 108,118 calls in the first six months, which does not include the busiest time of the year, the fall It's Your Choice (health insurance) open enrollment period.

Without the additional support, SMEs would not be able to fully participate in project planning and implementation efforts, which increases the risk of project failure. For example, the RFP may not include comprehensive requirements which would likely lead to subsequent project delays and increased costs. Staff inability to participate in implementation efforts could also lead to gaps in knowledge that ultimately jeopardize successful implementation. The requested project positions will provide much-needed additional capacity for SMEs to assist with IT projects, while project staff help manage critical member services.

IT Development and Quality Assurance: (2.0 Permanent FTE)

The Bureau of Information and Technology Services (BITS) plays a critical role building integrations and supplementary systems to stitch together multiple major software components seamlessly and securely. BITS also provides the following critical services:

- Maintains existing legacy systems;
- Assists in RFP requirement gathering and evaluation, in addition to product selection and contract development;
- Engages with staff and vendors in early project discovery and scheduling;
- Conducts system data migration, development, implementation, testing, and vendor management support; and
- Provides operational support after go-live/deployment.

Both requested positions would reside in the Development and Quality Assurance service team within BITS. The Development and Quality Assurance team develops modern web applications and creates the integrations between modern systems, legacy systems, and all data sources. In addition, this team is responsible for all Quality Assurance processes and procedures.

Development Operations Lead (1.0 FTE IS Comp. Services Consultant/Admin.)

As IT improvement planning and implementation progresses, BITS has identified a permanent resource need for a dedicated development operations lead. As noted, ETF's approach uses multiple "best of breed" COTS software solutions. Though this approach has many benefits, it also requires additional staff time to manage multiple interdependent systems. In this environment, no single system update can be treated as independent. New software releases and updates require more oversight to ensure stakeholders are aware of impacts, adequate testing occurs, and software changes are appropriately applied and monitored.

A strong development operations lead is needed to ensure development and quality assurance staff time is highly focused on efficient production. The lead removes production blocks, is accountable for ensuring sufficient requirement detail and oversight to keep all development activity in line with stakeholder expectations and coordinates technical work between inter-dependent teams both within ETF and externally.

Without adequate oversight and facilitation, new system implementations, software development activity, and subsequent updates may not occur without unintended, negative impacts and missed deadlines and budget goals.

Application Lead Architect (1.0 FTE IS System Development Services Consultant/Admin.)

ETF needs a dedicated application lead architect to oversee the design and development of ETF's modern applications architecture and to represent ETF when coordinating with vendor developers. This position should be a permanent resource that provides agency leadership whether leading internal development contractors, coordinating with external vendors, or communicating with other state agencies.

Currently, lead architect responsibilities are being split between the integration lead and several contractor staff. This method of work distribution is not sustainable. The integration lead needs to focus on the core and unique responsibilities of their position. Use of contract staff is a stop-gap solution that creates a lack of central oversight.

This key role will continue to be involved in IT improvement efforts. This position provides technical oversight of all applications developed for ETF, including both vendor and ETF-developed systems and applications. The role ensures all development activity follows industry and ETF standards around performance, stability, security, and usability.

A lack of expert technical oversight of application development activities could lead to insecure and unstable systems, as well as cost overruns from lower quality development practices.

Endnotes

¹ Legacy System means a “critical system that is out of date in some way.” The system may not support future business operations; vendors may no longer support the system or may no longer be in business; the system architecture may be fragile or complex and unsuitable for upgrades or fixes; or the finer details of how the system works are no longer understood. *Robert Charette, IEEE Spectrum “Inside the Hidden World of Legacy IT Systems,” August 28, 2020.*

² Goal 3: Optimizing Wisconsin: Modernize state agency legacy data and technology assets to achieve greater efficiency and effectiveness in delivering government services and operations.

Objective 1: Prioritize investments in current and emerging technologies to accelerate sustainable, scalable modernization of legacy, outdated technologies.

Source: Wisconsin Strategic IT Plan 2022-2024, *WI Department of Administration (DOA)* [website], <https://det.wi.gov/Documents/StrategicITPlan2022.pdf> (accessed 17 August 2022).

³ GAO, *Information Technology: Agencies Need to Develop and Implement Modernization Plans for Critical Legacy Systems*, [GAO-21-524T](#) (Washington, D.C.: April 27, 2021).

⁴ 17 Key Findings of the 2022 IBM Cost of Data Breach Report, *UpGuard* [website], <https://www.upguard.com/blog/cost-of-data-breach#:~:text=In%202022%2C%20the%20healthcare%20industry,than%20the%20figure%20in%202021.> (accessed 8 September 2022).

⁵ Managing Organizational Change, *Society for Human Resource Management* [website], <https://www.shrm.org/resourcesandtools/tools-and-samples/toolkits/pages/managingorganizationalchange.aspx> (accessed 17 August 2022).

Appendix 1 – ETF IT Legacy Systems

As shown in the table below, ETF operates numerous legacy systems that range in age but average 16.2 years old. These systems will be replaced by ETF's modernized IAS and PAS solutions.

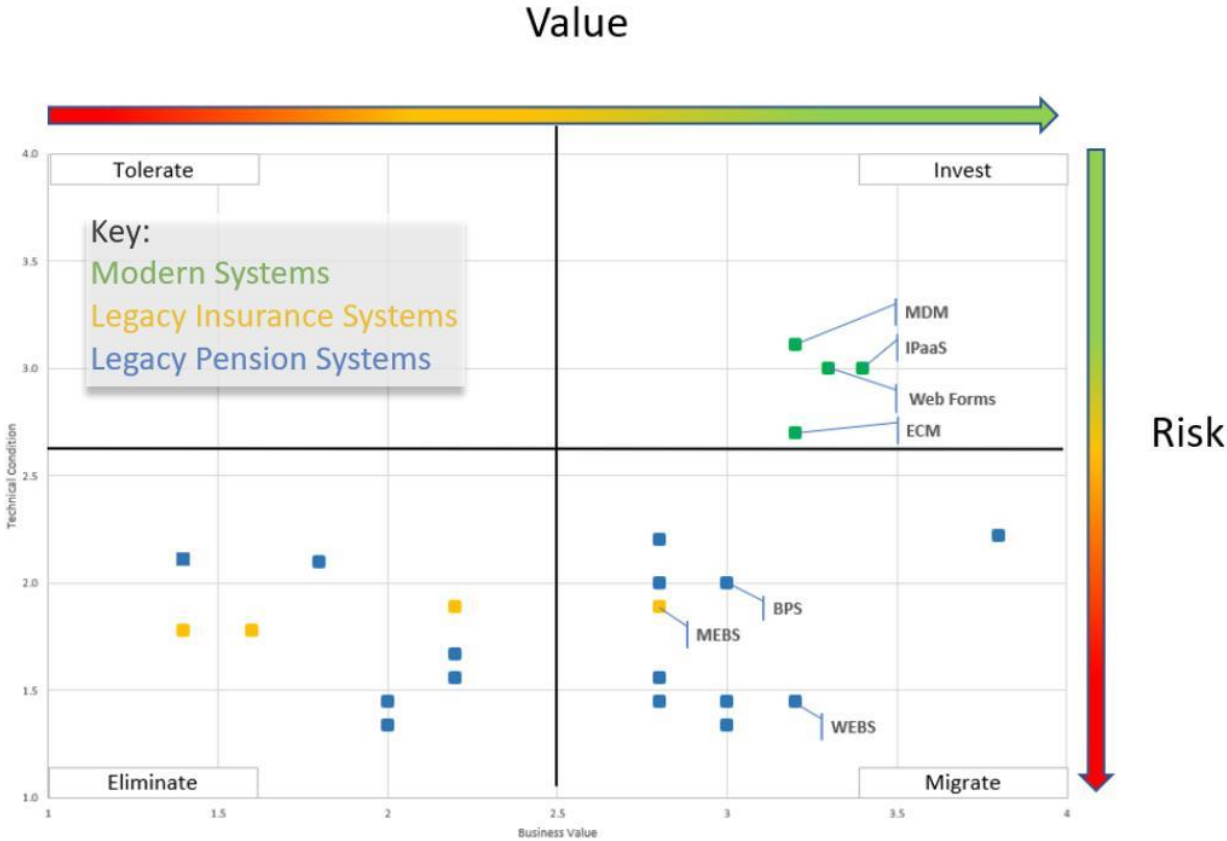
Table 1 – ETF IT Legacy System Inventory

Application	System Responsibility	Age	Replace w/ PAS or IAS?
40.63 Disability Environment	Manage the benefits for an employee who becomes disabled (permanent, total disability) and cannot work until normal retirement age.	14 Years	Yes (PAS)
40.65 Duty Disability	This benefit is for protective positions only, and the employee must have a work-related injury or illness and can't continue work.	14 Years	Yes (PAS)
Benefit Complaint System	Benefit Complaint System is used to track details of member appeals, issues, and complaints.	13 Years	Yes (IAS)
Benefit Payment System	The system processes annuitant retirement, disability, and death benefit payments.	14 Years	Yes (PAS)
Call and Service System	The system tracks member phone contact information, initiates member service requests and workflow jobs, and sends communications to other business areas when follow-up is required.	14 Years	Yes (PAS)
Disability Benefits Calculator	Calculates disability retirement benefits, duty disability benefits, and LTDI benefits.	4 Years	Yes (PAS)
Domestic Partner System (DPS)	This system is a registry of people still entitled to Chapter 40 or health insurance benefits as a result of being in a domestic partner relationship.	10 Years	Yes (IAS)
Employer CRM	Allows staff to manage customer information and interactions.	10 Years	Yes (IAS/PAS)
ETF Address Inquiry	Displays member's address info including the mailing address, check address, and physical address.	9 Years	Yes (PAS)
ETF Calculators	Allows members to go online and put in information to create an estimate on their projected retirement amounts as well as other retirement related information.	20 Years	Yes (PAS)
Lump Sum Payment System (LSPS)	The system processes lump-sum payments for retirement, separation, death benefits.	12 Years	Yes (IAS/PAS)
Member Services Purchases System	Member service purchases – both years of service and dollars associated with years credited to a member's account.	22 Years	Yes (PAS)
MEBS (My ETF Benefits System)	The myETF Benefits system contains health insurance information for current and past coverage, dependents and demographics for state and local employees.	12 Years	Yes (IAS)
Retcalcs	Calculates the estimated and actual retirement within WEBS. Once a member retires it transfers data from WEBS to BPS.	24 years	Yes (PAS)
VDSA	Uses data from CMS to make enrollment corrections into MEBS.	13 Years	Yes (IAS)
Variable Participation System (VPS)	The system stores records for WRS participants who have elected variable participation or later opt to cancel their variable participation.	20 Years	Yes (PAS)
WEBS Total	The system is used as part of the daily/monthly reconciliation process for WEBS.	23 Years	Yes (PAS)

Application	System Responsibility	Age	Replace w/ PAS or IAS?
WEBS (Wisconsin Employee Benefits System)	WEBS and Retirement Calculations (RetCalcs) store retirement account information for all active, inactive, alternate payee, non-annuitant beneficiary and most annuity members related to rights, dates, service, earnings and monies maintained in their Wisconsin Retirement System (WRS) accounts.	36 Years	Yes (PAS)
WRS Statistics	IT extracts data from WEBS and BPS and produces a series of statistic files. DTF puts them into Access to further analyze the data and compile statistics then used in the CAFR.	24 Years	Yes (PAS)

The diagram below maps ETF’s modern and legacy solutions into one of four quadrants based on the dimensions of business value and technical condition.

Diagram 1 – ETF Modern and Legacy System Business Value



ETF’s modern systems are in better technical condition and offer increased business value. These systems present fewer operational risks and include the Master Data Management solution, Application Programming Interface (API) Exchange tool (iPaas), Enterprise Content Management solution, and online web forms. All legacy insurance and pension systems will be retired after the migration to IAS and PAS.

Appendix 2 – Legacy System Failure Case Studies

Organization	Year	Event/Incident
U.S. Office of Personnel Management (OPM) ¹	2015	In 2015, OPM experienced a major data breach that impacted upwards of 18.0 million Americans. Costs for notification letters and credit monitoring totaled up to \$21.0 million. The need to centralize and modernize OPM’s many IT systems was a primary discussion point in subsequent hearings on the breach.
Equifax ²	2017	Equifax failed to patch a critical vulnerability in the company’s Automated Consumer Interview System, which was built in the 1970’s. The resulting data breach impacted 146 million individuals. The settlement included \$425 million to help individuals affected by the breach. ³
City of Atlanta ⁴	2018	The City of Atlanta experienced a ransomware attack in 2018 due, in part, to vulnerable legacy systems. The cost to recover and decrypt the data and remediate vulnerabilities was estimated to be at least \$17.0 million.
State of New Jersey ⁵	2020	Due to a high-volume of unemployment insurance applications, the state’s 40-plus years old system suffered system failures and outages that impacted residents seeking assistance in the early months of the COVID-19 pandemic. The Governor put out a general call for Common Business Oriented Language (COBOL) programmers to help get the system running. (COBOL is a programming language no longer commonly taught.) Maintaining code is critical to system security and functionality.
State of Wisconsin – Department of Workforce Development (DWD) ⁶	2020	Like New Jersey and several other states, Wisconsin experienced a large increase in unemployment insurance claims in Spring 2020. When coupled with an outdated legacy system dating back to the 1970’s, this created ongoing issues catching up with claims capacity. DWD is in the process of modernizing its UI system.
United Kingdom Government’s Department of Work and Pensions ⁷	2021	The U.K.’s Department of Work and Pensions operated a legacy system built in 1988 that resulted in underpayments of more than 1.0 billion pounds (approximately 1.2 billion dollars). Staff time alone to repair and remediate the damage was expected to cost the equivalent of \$29.4 million.

¹ OPM Director Blames Federal Breach on Legacy Systems in Senate Committee Hearing, *Forbes* [website], <https://www.forbes.com/sites/katevinton/2015/06/23/opm-director-blames-federal-breach-on-legacy-systems-in-senate-hearing/?sh=5be7e7b97081> (accessed 23 August 2022).

² U.S. House of Representatives Committee on Oversight and Government Reform, ‘*The Equifax Data Breach*’, December 2018, <https://republicans-oversight.house.gov/wp-content/uploads/2018/12/Equifax-Report.pdf> (accessed 22 August 2022).

³ Federal Trade Commission, Equifax Data Breach Settlement, ‘*Important Settlement Update*’, February 2022, <https://www.ftc.gov/enforcement/refunds/equifax-data-breach-settlement> (accessed 22 August 2022).

⁴ Confidential Report: Atlanta’s Cyber Attack Could Cost Taxpayers \$17 million, *The Atlanta Journal Constitution* [website], <https://www.ajc.com/news/confidential-report-atlanta-cyber-attack-could-hit-million/GAljmndAF3EQdVWIMcXS0K/> (accessed 22 August 2022).

⁵ Why New Jersey’s Unemployment Insurance System Uses a 60-Year-Old Programming Language, *Slate* [website], <https://slate.com/technology/2020/04/new-jersey-unemployment-cobol-coronavirus.html> (accessed 17 August 2022).

⁶ Coronavirus exposed huge flaws in Wisconsin unemployment system. Where things stand and what still needs to be done, *Milwaukee Journal Sentinel* [website], <https://www.jsonline.com/story/news/local/wisconsin/2021/07/29/covid-exposed-flaws-unemployment-system-where-things-stand-now/7939753002/> (accessed 19 August 2022).

⁷ You Might Want to Consider the Cost of Not Upgrading Legacy Tech, UK’s Department for Work and Pensions Told, *The Register* [website], https://www.theregister.com/2022/01/21/dwp_1bn_pension_shortfall/ (accessed 18 August 2022).

Appendix 3 – Overview of ETF IT Improvements

ETF is migrating to several modern IT systems that will facilitate easier access to customers, while also increasing system accuracy, reliability, and security. Improvement efforts are projected to continue through at least SFY 2029.

ETF's IT improvement efforts are comprised of a series of projects designed to address ETF's outdated legacy systems using modern technology solutions and industry best practices. The chosen solution strategy is to implement multiple commercial-off-the-shelf solutions (COTS), each specializing in a specific business area and function. Systems will communicate with each other through our integration platform all while secured through modern standard technologies.

Pension Administration System

Overview

ETF's objective is to implement a Pension Administration System software package. The key components of the software will allow ETF to perform all its operations, for example: perform wage and contribution reporting, generate benefit estimates, issue contribution refunds, calculate the cost of purchased service, retirement processing, payroll, tax processing, 1099 processing, and production of member annual statements.

Additionally, the solution will provide:

- Browser-based access to the solution for members, users, employers, and managers to facilitate ease of application system deployment and maintenance;
- Internet-based, self-service functionality to improve access to ETF by pension participants, retirees, and employers;
- Integration with ETF's Enterprise Content Management system, Hyland OnBase;
- Enablement of all required interfaces with other entities, including but not limited to employers;
- Ad hoc reporting capabilities;
- Audit indicator capabilities such that a member's account can be identified as to whether it has been audited, through what date and by whom;
- Integrated workflow and business process management; and
- Customer Relationship Management.

Status

PAS project planning and RFP release will occur in the 2023-25 biennium. PAS project planning is estimated to begin in late SFY 2024. The RFP is estimated to release in SFY 2025. ETF needs to secure additional PAS funding before proceeding with the RFP.

Insurance Administration System

Overview

ETF partnered with Benefitfocus to implement a best practice based, fully integrated IAS that will both replace ETF's current health insurance system, MEBS, and support administration for other insurance programs,

including life, income continuation, and supplemental benefits. Our new IAS will enable ETF to fully leverage a best-of-breed, proven, integrated solution with one source of master data.

IAS will provide core line-of-business insurance functions, including:

- determining member insurance eligibility;
- facilitating benefit enrollment including transfer of data from and to other internal ETF systems, employers, and third-party administrators (TPAs);
- updating and maintaining coverage records;
- calculating and generating premium payment invoices;
- reconciling invoices with incoming payments;
- executing queries and other data extractions used to determine plan trends, usage patterns, and facilitate statistical analysis, etc.; and
- facilitating TPA carrier payments and financial reporting, data/records, etc.

The system will offer web-based, self-service functionality that provide access to the Department, participants, retirees, and other stakeholders (i.e., employers and TPAs).

Status

ETF signed the IAS contract with Benefitfocus in July 2021. IAS implementation began in Fall 2021 and is estimated to be complete by June 2024.

Enterprise Content Management System

Overview

ECM software captures, stores, retrieves, shares, manages, and integrates member and employer records and information, as well as creates and manages workflows for customer case management by business units throughout the department.

Status

ETF successfully completed the migration to the ECM system in November 2021. ECM will be integrated with IAS and PAS solutions as they are acquired and implemented.

Data Management Program

Overview

The Data Management Program is a multi-year effort led by ETF's Data Management Bureau that aims to create reliable, accessible data for administering our benefit programs.

The Data Management Bureau:

- Documents current-state and future-state data flows;
 - Updates technical architecture to enable new and existing technology systems to communicate with each other while maintaining data integrity, quality, and security;
-

- Enhances reporting and analytics through a new data warehouse; and
- Increases data quality by establishing data governance, identifying, prioritizing, and cleansing data quality issues, and implementing a new master data management tool to assist this process.

Data Management Program projects represent the scope of data management as outlined by the Data Management Association (DAMA) – Data Management Body of Knowledge (DMBoK). The DAMA framework guided the creation of the following major projects:

- Data Management Project 1: Current-State Analysis and Future-State Data Flow Design (*complete*) – Identify and document the current-state data flows, data architecture (impacted systems and processes), and design the ideal future-state data flows in consultation with Modernization projects.
- Data Management Project 2: Technical Architecture and Integration – Create the architecture necessary to enable all ETF technology systems and databases to communicate with each other while maintaining data integrity, data quality, and data security.
- Data Management Project 3: Data Storage, Warehouse, and Business Intelligence – Develop an ETF data lake (similar to a "data warehouse") to store data from both Legacy and Modernized systems to identify trends over time. Once mature, the data lake will enable Business Analysts and the Data Management Bureau (DMB) to mine data, create dashboards, reports, and analytics.
- Data Management Project 4: Data Governance, Data Quality, and Master Data Management:
 - Data Governance Workstream: Establish a formal data governance structure and accountability framework which involves data stewards, data owners, and the Data Governance Council.
 - Master Data Management Workstream: Establish an MDM program to implement solutions to support the use and maintenance of master data across all systems and business functions.
 - Data Quality Workstream: Identify data that is not accurate; cleanse data based on ETF data domains; create metrics to track data quality and meet NorthStar goals.
- Data Management Project 5: Data Literacy - Develop data competencies and skills in all ETF staff to improve our ability to make data-driven decisions.

Status

The Data Management Program met several significant milestones since its initiation in December 2019. Several examples are noted below:

- Documented current state and high-level future state data architecture.
- Developed data quality and trend dashboard.
- Developed infrastructure and environments for data lake.
- Procured and implemented portions of the Master Data Management and API Data Integration platforms.
- Completed data literacy pilot for targeted ETF staff.
- Moved employer and member demographic information to data lake.

Future efforts will focus on continued integrations with IAS and PAS, enhancements to Business Intelligence reporting and dashboard functionality, and maturation of data governance and data literacy functions.

Technology Program

Overview

The Technology Program was a collection of projects to deliver the specific capabilities needed to implement and support the new systems and data management functions being introduced by Modernization.

- IT Operations & Support Model: Create and implement a new IT operating model to connect ETF's strategy to day-to-day operational activity.
- Dev OPS – Repository & Code Management and Continuous Integration & Deployment: Implement additional process, structure, and automation to manage source code and application configuration more effectively. Implement an automated integration, development, and testing framework to drive accuracy and efficiency in the development and testing processes.
- Authorization and Authentication: Identify and implement authentication and authorization technologies, processes, and standards to deliver a modern, secure, and reliable citizen identity for accessing digital services at ETF.
- Adaptive Security: Identify approaches, processes, and tools that are needed to manage an expanding security perimeter to most effectively manage threats and risks to the organization.
- Security Standards, Procedures, and Guidelines: Develop security standards, procedures, and guidelines in alignment with the security policies that are being put in place to better secure the data, applications, and infrastructure the organization uses.

Status

The technology program ran from April of 2020 and concluded in August of 2022. In just over two years this program implemented:

- A new IT Operating Model prioritizing roles and practices necessary for modernization;
- A new Identity Management Solution that has been adopted by the State Enterprise;
- New Security Policies satisfying Enterprise IT Audit findings;
- A new DevOps practice including tools that set the stage for future automation;
- A new Application Integration Practice that is enabling the stitching together of the various purchased products in ETF's modernization; and
- A new IT Service Management Practice enabling consistency of IT service delivery vision.

Decision Item by Line

2325 Biennial Budget

DEPARTMENT	CODES	TITLES
	515	Department of Employee Trust Funds
DECISION ITEM	CODES	TITLES
	5000	Replacement of Fragile IT Infrastructure

	Expenditure Items	1st Year Cost	2nd Year Cost
01	Permanent Position Salaries	\$211,000	\$281,300
02	Turnover	\$0	\$0
03	Project Position Salaries	\$116,200	\$154,900
04	LTE/Misc. Salaries	\$0	\$0
05	Fringe Benefits	\$128,600	\$171,500
06	Supplies and Services	\$14,646,000	\$18,978,300
07	Permanent Property	\$0	\$0
08	Unallotted Reserve	\$0	\$0
09	Aids to Individuals & Organizations	\$0	\$0
10	Local Assistance	\$0	\$0
11	One-time Financing	\$0	\$0
12	Debt service	\$0	\$0
13	Annuity Supplements	\$0	\$0
14		\$0	\$0
15		\$0	\$0
16		\$0	\$0
17	TOTAL	\$15,101,800	\$19,586,000
18	Project Positions Authorized	3.00	3.00
19	Classified Positions Authorized	4.00	4.00
20	Unclassified Positions Authorized	0.00	0.00

Decision Item by Numeric

2325 Biennial Budget

Department of Employee Trust Funds

Program	Decision Item/Numeric	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
	5000 Replacement of Fragile IT Infrastructure				
01	Employee benefit plans				
	61 Automated operating system	\$14,585,900	\$18,930,000	0.00	0.00
	76 Administration	\$515,900	\$656,000	7.00	7.00
	Employee benefit plans Sub Total	\$15,101,800	\$19,586,000	7.00	7.00
	Replacement of Fragile IT Infrastructure Sub Total	\$15,101,800	\$19,586,000	7.00	7.00
	Agency Total	\$15,101,800	\$19,586,000	7.00	7.00

Decision Item by Fund Source

2325 Biennial Budget

Department of Employee Trust Funds

Decision Item/Source of Funds		1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
5000 Replacement of Fragile IT Infrastructure					
SEG	S	\$15,101,800	\$19,586,000	7.00	7.00
Replacement of Fragile IT Infrastructure Total		\$15,101,800	\$19,586,000	7.00	7.00
Agency Total		\$15,101,800	\$19,586,000	7.00	7.00

Decision Item (DIN) - 6000

Decision Item (DIN) Title - Restoring Critical Customer Service

NARRATIVE

ETF requests position authority for 7.0 permanent FTE Trust Funds Specialists and associated funding of \$437,800 in SFY 2024 and \$551,800 in SFY 2025. The additional resources will be used to address unacceptable service levels for basic, critical customer service functions for members and employers. Inadequate service levels result in errors and delays, which pose risk to members, employers, ETF, and the public trust fund. ETF is responsible for administering the trust fund to protect over 660,000 members and their families against these risks.

ETF—Restoring Critical Customer Service

Objective

ETF requests position authority for 7.0 permanent FTE Trust Funds Specialists and associated funding of \$437,800 in SFY 2024 and \$551,800 in SFY 2025. The additional resources will be used to address unacceptable service levels for basic, critical customer service functions for members and employers. Inadequate service levels result in errors and delays, which pose risk to members, employers, ETF, and the public trust fund. ETF is responsible for administering the trust fund to protect over 660,000 members and their families against these risks.

These position needs are driven by significant increases in the member and employer populations that ETF serves. From 2010 to 2020 (the date of the most recent ETF Annual Comprehensive Financial Report):

- The retiree population has increased by 41.9%. More ETF resources are required for retirees than active members since ETF functions as the payroll and benefit office for the fast-growing retiree population, administering retirement and insurance benefits directly.
- The inactive member population has increased by 15.1%. Inactive members no longer have an employer to contact so they rely on ETF to provide needed information. Additionally, the contact information for some inactive members becomes outdated and the effort to find these members when they are eligible for benefit payments is significant. ETF has a responsibility to locate these members under both federal and Wisconsin law (s. 40.08 (8), Wis. Stat., and Internal Revenue Code (IRC) Section 401 (a)). Many inactive members fail to keep ETF updated on address changes. There are currently about 25,000 members with whom ETF has lost contact. This means that in order to comply with state and federal law of required minimum distributions, ETF must expend a lot of resources—on average about 1.4 hours for each member or beneficiary located.
- 147 new employers have joined the Wisconsin Retirement System (WRS) since 2010. On average, the number of employers grows by 20 each year. New employers generally require significantly more time and support from ETF than existing employers to train on retirement and insurance benefit policies and the IT systems employers use to enter and reconcile employee benefit data. Existing employers require ongoing support and also can require extra support and training from ETF if employers' payroll and benefit staff leave. Employees rely on their employers to communicate accurate, easy-to-understand benefit information.

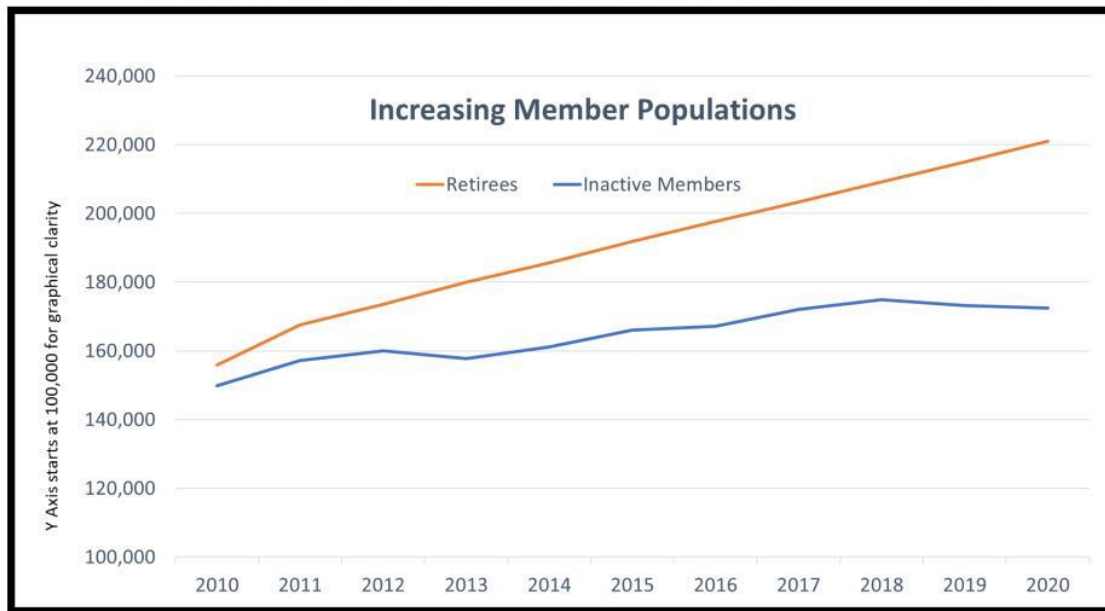
Service demands are expected to continue to rise as more employers join the WRS and as the baby boom generation retires. Active members left WRS employment at a significant rate in 2021, becoming retirees or inactive members. ETF anticipates the upward trend in the number of retirees and inactive members will continue.

Issue

Service Demands Increased Due to Growth In Employer and ETF Member Populations

The total ETF member population (active members, inactive members, and retirees) increased by 14.1% since 2010, including a 15.1% increase of inactive members (or more than 22,000 inactive members) and a 41.9% increase of retirees (or more than 65,000 retirees) (**Diagram 1**). The rapidly increasing inactive member and retiree populations are particularly significant because more ETF resources are needed to serve these populations; ETF serves as the payroll and benefits office for retirees and the benefits point of contact for inactive members.

Diagram 1 – ETF Inactive Member and Retiree Populations (2010-2020)



With all of the payroll and benefit services ETF provides for retirees, maintaining service levels has been increasingly challenging.

- ETF processes changes to retiree names, addresses, tax withholding, and bank accounts for direct deposit.
- ETF also handles changes to retiree health insurance plans, dependents, coverage (e.g., single vs. family, Medicare coverage), and premium sources (sick leave credits, annuity deduction, or direct payment).
- Retirees require pension verifications from ETF to prove income for subsidized housing, mortgage refinancing, and divorce.
- ETF is responsible for all activities in processing death notifications, including stopping an annuity, determining survivors or beneficiaries, creating death benefit estimates, ending health insurance or changing coverage (family to single), refunding pre-paid benefits, and recovering overpaid benefits.

To support the needs of the increasing retiree population, one position will be in the Benefit Services area. While active employees rely on their employer to function as the payroll and benefits office, ETF provides this support directly for the fast-growing retiree population. Staff review and process numerous retiree requests related to the retirement benefit application, payroll setup, and initial deductions. The number of retirement applications in 2020 was 149.2% more than in 2010.

Two of the requested positions will be in Member Services to meet the demand for retirement estimates and member appointments. As more members retire, requests for retirement estimates are on the rise. Between 2010 and 2020, the number of retirement estimate requests increased by 38.2%.

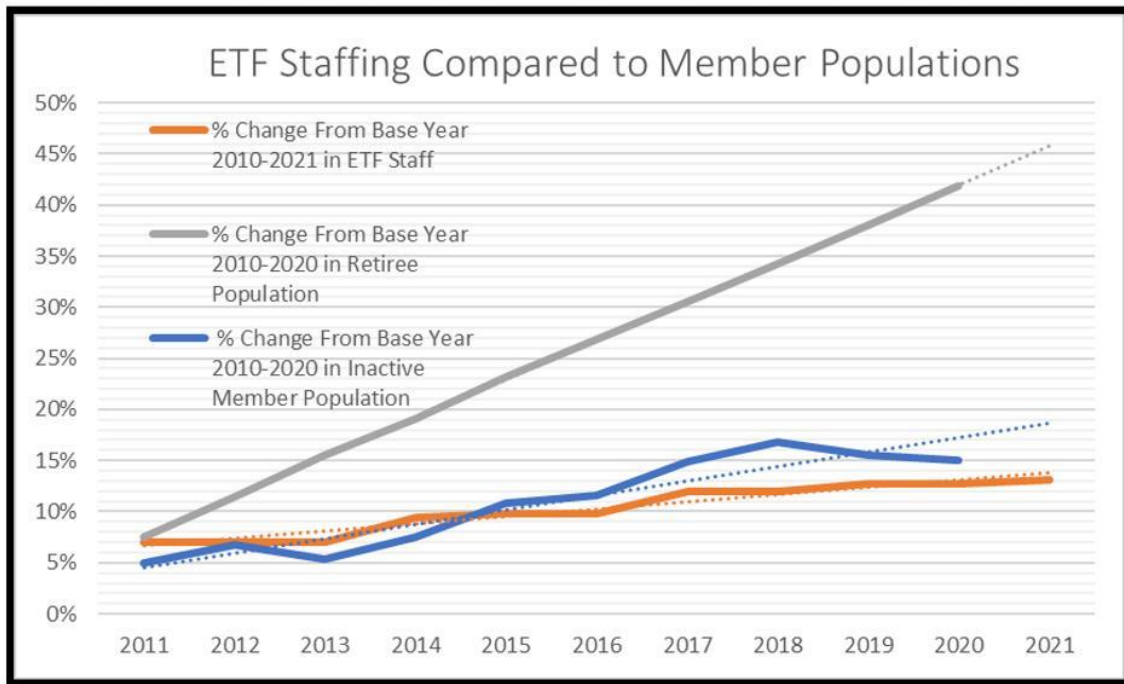
Two of the requested positions will be in the Call Center to address the increasing call volume, call length, and call complexity. Retirees account for more than 80,000 calls per year (since 2020, 42% of calls on average are from retirees). As a result of the growing retiree population, ETF has seen an increase in talk times because retiree requests touch on more topics than a call from an active employee. During the first six months of 2022, member call volume was up 10.5%--or an extra 11,500 calls over the first six months of 2021. In 2016, the average talk time was 5 minutes, 45 seconds. In 2022, the average talk time is 6 minutes, 6 seconds. An extra 21 seconds per call may not seem like a lot until factoring in how many calls ETF receives. The annual volume of member calls in 2021 was 182,458 and this year that number is projected to surpass 215,000 based on 108,118 calls in the first six months, which does not include our busiest time of the year, the fall *It's Your Choice* (health insurance) open enrollment period. With 215,000 calls projected in 2022, the additional 21 seconds per call equates to over 1,250 hours of additional call time annually.

The two positions located in Employer Services will be used to help support new employers. In addition to providing ongoing support for employers who previously joined WRS, Employer Services also provides support to new employers. 147 new employers have joined the WRS from 2010 to 2020. Most of these new employers are small, local government organizations that join the WRS to attract and retain new employees. Regardless of size, new employers require an initial investment of ETF staff time and resources to onboard. ETF must modify its systems to add these new employers. ETF is also required to train and educate employer staff on benefit programs and the procedures for entering employer information into program applications and systems. Errors are more likely to be made by new employers unfamiliar with the systems and associated benefit rules. If errors go unnoticed, ETF risks paying benefits incorrectly.

ETF Cannot Maintain Critical Customer Service Functions with Current Resources

From end of 2010 to end of 2020, the inactive member population increased 15.1% and the retiree population increased 41.9%; ETF staffing only increased 13.2% from end of 2010 to end of 2021 (see **Diagram 2**). Despite many operational improvements, with the limited staffing increases, ETF has not been able to maintain basic, critical customer service functions.

Diagram 2 – Change in ETF Staffing Relative to Increasing Member Populations



With service demands growing, current staffing levels are insufficient to take calls, respond to emails, process simple to highly complex transactions, and fulfill other member requests. Due to sustained high call volume and insufficient staffing, call center staff have not met service demands. The minimum service goal (70% of calls answered within 3 minutes) has not been obtained for the first 6 months of 2022. Staff from other DRS sections supplement call center staffing during spikes in volume, but this impacts other sections' ability to meet their own service level expectations.

Allowing service levels to decline further is not advisable. ETF is already a low service provider among peers. In the annual Cost Effectiveness Management (CEM) organization benchmarking analyses, ETF consistently had a lower service score than its peers every year it participated (2007-2019). In 2019, the most recent year ETF participated in this benchmarking analysis, ETF's service score was 62 out of 100 compared to our peer median of 80.

ETF implemented operational improvements to enhance customer service and leverage available resources. These improvements include self-serve member options, which allow redirection of some staff resources. However, these improvements do not sufficiently address the growing employer and member populations, and associated service demands.

Declining Service Levels Put Members, Employers, and ETF At Risk

Inadequate service levels and backlogs result in serious errors and delays that lead to financial harm and gaps in coverage for members and their families. In addition, inadequate service

levels can result in an unfortunate cycle of further delays and frustration as ETF receives multiple member contacts on the same issue, must manually work to repair errors, and must resolve escalated issues that could have been avoided. If staffing would have been sufficient to produce service levels that avoid significant delay, most issues would have been avoided and ETF staff would have had more time to work on pending member and employer inquiries to be able to respond more promptly.

Delays due to ETF staff availability lead members to make uninformed decisions that significantly impact their retirement. On average, a member waits eight weeks for a meeting with a benefits specialist. Some members are unable to wait or unable to obtain an appointment when it is needed most. They make uninformed decisions such as failing to take necessary actions to preserve available sick leave, resulting in losses of hundreds of thousands of available dollars that could pay for health insurance long after they retire. Some make uninformed annuity choices such as selecting a 'life only' annuity and not realizing that the benefit ceases when they die because they lacked an adequate chance to meet with a benefits specialist to get the best information for their one-time decision. The decisions have long-standing ramifications to their and their families' lives after retirement.

Delays also affect payments to retirees. If ETF is not able to process a retirement application in a timely manner, a lapse in paychecks between a member's active employee paycheck and their retirement benefit annuity can occur. In addition, with the increasing numbers of retirees, ETF is processing more requests for automatic deposit of benefit annuity payments. Additional staff are needed to ensure that these requests are processed correctly—incorrect processing may result in errors and the inability to detect and protect members from fraudulent activity.

Low service levels also impact members making health insurance decisions. The volume of health insurance change requests coupled with inadequate staffing levels create an eight-week turnaround time. During this period, members may experience a gap in health coverage, paying out-of-pocket costs or delaying medical care, while waiting for ETF to process their request. Additionally, delays in responding to health insurance-related inquiries may result in members paying for unwanted insurance coverage. Members may end up paying for a Medicare plan because delays prevent ETF and the member from meeting the required timeline for cancelling the plan.

Inadequate staffing diminishes ETF's capacity to support employers and monitor employer compliance. Employer errors create significant downstream impacts. Employers who are not fully supported cannot provide accurate and comprehensive information to employees, which can cause employees to miss benefit timelines or make uninformed benefit decisions. Staff must also manually intervene to identify and fix errors in reporting. At worst it can result in benefits based on incorrect service and earnings data.

Request

As shown in **Table 1**, ETF requests 7.0 permanent Trust Fund Specialist positions to restore essential, critical customer services as member and employer populations rise and service levels sharply decline. All requested positions provide direct customer service.

Table 1 – ETF FY24 and FY25 Request

	SFY 2023-24	SFY 2024-25
FTE (Perm)		
Total (#)	7.0	7.0
Salary	\$271,100	\$361,400
Fringe	\$106,600	\$142,100
Supplies and Services	\$60,100	\$48,300
Total	\$437,800	\$551,800

Member and Employer Customer Service Will Improve with the Addition of These Positions and Risks Will Be Mitigated

- Two Trust Fund Specialist positions would be used for the Call Center, which is typically the first point of contact for members, to manage the increased volume of calls, length of talk times, and the number of repeat calls. The addition of two trust fund specialists is projected to allow ETF to handle 20,565 more calls per year. This will improve ETF's level of service in answering questions from members as they make important benefit decisions.
- Two Trust Fund Specialists would be used in the Member Services Bureau to meet members' demand for retirement estimates and appointments. This will also support members in making informed benefit decisions.
- Two of the Trust Fund Specialist positions will be in Employer Services, which supports employers in providing accurate insurance information to their employees and carries out retiree insurance-related requests, including payment options and supplemental programs. This will support members making important health insurance decisions, enable ETF to provide more robust support to employers and enable ETF to sufficiently monitor employer compliance.
- One Trust Fund Specialist will be used in the Benefit Services Bureau to address workload as the number of members submitting retirement applications increases, and also support the many more transactional requests in retirement, such as ACH changes, tax withholding changes, and address changes. This will enable the accurate and timely processing of various transactions and avoid errors that would create security issues regarding personal and financial information.

Decision Item by Line

2325 Biennial Budget

DEPARTMENT	CODES	TITLES
	515	Department of Employee Trust Funds
DECISION ITEM	CODES	TITLES
	6000	Restoring Critical Customer Service

	Expenditure Items	1st Year Cost	2nd Year Cost
01	Permanent Position Salaries	\$271,100	\$361,400
02	Turnover	\$0	\$0
03	Project Position Salaries	\$0	\$0
04	LTE/Misc. Salaries	\$0	\$0
05	Fringe Benefits	\$106,600	\$142,100
06	Supplies and Services	\$60,100	\$48,300
07	Permanent Property	\$0	\$0
08	Unallotted Reserve	\$0	\$0
09	Aids to Individuals & Organizations	\$0	\$0
10	Local Assistance	\$0	\$0
11	One-time Financing	\$0	\$0
12	Debt service	\$0	\$0
13	Annuity Supplements	\$0	\$0
14		\$0	\$0
15		\$0	\$0
16		\$0	\$0
17	TOTAL	\$437,800	\$551,800
18	Project Positions Authorized	0.00	0.00
19	Classified Positions Authorized	7.00	7.00
20	Unclassified Positions Authorized	0.00	0.00

Decision Item by Numeric

2325 Biennial Budget

Department of Employee Trust Funds

Program	Decision Item/Numeric	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
	6000 Restoring Critical Customer Service				
01	Employee benefit plans				
	76 Administration	\$437,800	\$551,800	7.00	7.00
	Employee benefit plans Sub Total	\$437,800	\$551,800	7.00	7.00
	Restoring Critical Customer Service Sub Total	\$437,800	\$551,800	7.00	7.00
	Agency Total	\$437,800	\$551,800	7.00	7.00

Decision Item by Fund Source

2325 Biennial Budget

Department of Employee Trust Funds

Decision Item/Source of Funds		1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
6000 Restoring Critical Customer Service					
SEG	S	\$437,800	\$551,800	7.00	7.00
Restoring Critical Customer Service Total		\$437,800	\$551,800	7.00	7.00
Agency Total		\$437,800	\$551,800	7.00	7.00

Decision Item (DIN) - 6001

Decision Item (DIN) Title - Financial and Actuarial Compliance and Reporting Requirements

NARRATIVE

The Department of Employee Trust Funds (ETF) requests segregated (SEG) resources of 2.0 permanent FTE and \$143,600 in SFY 2023-24 and \$182,200 in SFY 2024-25. The requested positions include 1.0 FTE Accountant Advanced position and 1.0 FTE Actuarial Analyst position in the Division of Trust Finance (DTF). These positions are critical for ETF to fulfill its actuarial and accounting responsibilities related to actuarial valuations, financial reporting, and the proper implementation of accounting pronouncements promulgated by the Governmental Accounting Standards Board (GASB). Without the additional support there is increased risk of errors, which could result in inaccurate financial reporting, inaccurate contribution and premium calculations, and ETF's ability to maintain sustainable benefit programs. In addition, there could be adverse impacts to servicing members.

ETF - Financial and Actuarial Compliance and Reporting Requirements

Objective:

The Department of Employee Trust Funds (ETF) requests segregated (SEG) resources of 2.0 permanent FTE and \$143,600 in SFY 2023-24 and \$182,200 in SFY 2024-25. The requested positions include 1.0 FTE Accountant Advanced position and 1.0 FTE Actuarial Analyst position in the Division of Trust Finance (DTF).

- These positions are critical for ETF to fulfill its actuarial and accounting responsibilities related to actuarial valuations, financial reporting, and the proper implementation of accounting pronouncements promulgated by the Governmental Accounting Standards Board (GASB).
- Without the additional support there is increased risk of errors, which could result in inaccurate financial reporting, inaccurate contribution and premium calculations, and ETF's ability to maintain sustainable benefit programs. In addition, there could be adverse impacts to servicing members.

Issue:

ETF's monitoring of the trust fund through its actuarial and accounting functions is key to the proper management of public retirement and insurance programs.

- ETF manages the \$142 billion Wisconsin Retirement System (WRS), which is the 8th largest pension system in the nation and is one of the only fully funded pension systems.
- ETF administers the Group Health Insurance Program. GHIP is one of the state's largest health plans and provides health insurance coverage to over 260,000 individuals throughout the state and recorded over \$1.6 billion in expenses in 2021.
- ETF also oversees the Duty Disability Insurance, Income Continuation Insurance, Life Insurance, and the Sick Leave programs.

Support for Actuarial Services

Actuarial valuations calculate benefit liabilities and are the basis for setting annual contributions or premiums for both employees and employers. It is critical that this information is accurate to ensure the proper funding and sustainability of these programs. Beyond funding purposes, actuaries are also used to conduct specific valuations or calculations for financial reporting purposes, as promulgated by the GASB. ETF currently works with three actuarial firms to perform actuarial functions of employee benefit programs, including those benefit programs listed above, with valuations performed annually and experience studies typically performed every three years.

Presently, ETF accounting staff within Trust Finance, who have limited actuarial backgrounds, work with the external consulting actuaries. This work includes:

- ensuring accurate benefit data is provided to actuaries to be used as inputs in valuations;

- providing qualitative and technical support in actuarial research, and actuarial vendor oversight;
- monitoring actuarial vendors, including coordinating and managing their general work and ensuring that valuations and experience studies are completed timely; and
- coordinating and supporting board reporting by actuaries.

Trust Finance staff are increasingly pressed for resources. Increased reporting requirements, new accounting standards, and audit recommendations, have increased the review of data. This has contributed to an excessively high workload for existing staff. There has also been a growth in general workload due to increases in the member population and new project commitments.

- The member population has increased by 14.1% from 2010 to 2020—the date of the most recent ETF Annual Comprehensive Financial Report (ACFR).
- During that same time-period, the retiree population has increased by 41.9% and 147 employers have joined the WRS.
- Accounting and actuarial compliance and reporting requirements have and are expected to continue to rise as more employers join the WRS and as the baby boom generation retires.
- Additionally, Trust Finance staff need to serve as Subject Matter Experts (SMEs) on ETF's transition from legacy IT systems. For example, Trust Finance staff are involved in the planning and implementation efforts for the new Insurance Administration System and Pension Administration System.

A dedicated actuarial analyst position is critical to ensuring accurate member and benefit data is provided and used as inputs to actuarial valuations, to complete timely actuarial valuations, to assess reasonableness of actuarial methodology and assumption changes, and to provide qualitative and technical support in actuarial research. The position is also critical to supporting actuarial requests for proposals and evaluating vendor responses and onboarding and offboarding of actuarial firms. As fiduciaries, the ETF Board or Group Insurance Board selects and contracts directly with actuarial firms.

Support for Financial Reporting and Internal Controls

Accounting staff in ETF's Division of Trust Finance help ensure the reliable financial operations of the trust fund and compliance with state and federal regulations. Their services are key to protecting the \$142 billion WRS trust fund. Trust Finance accounting staff are experiencing additional sustained workloads due to several factors.

- As noted earlier, employer and member participation in the retirement and insurance programs have significantly increased in the last ten years and are expected to continue to increase in the future.
- Additionally, ETF is responsible for managing an increasing number of insurance plans that are subject to frequent modifications requiring systematic analysis and reconciliation.

Consequently, an additional accountant is needed to perform core tasks, including financial reporting and ensuring adherence to established internal controls.

Financial Reporting

As part of administering public employee retirement and insurance programs, ETF is accountable for generating the annual financial statements and related notes of these benefit programs and issuing ETFs ACFR. This reporting is provided to DOA for inclusion in the State of Wisconsin's ACFR. ETF is also responsible for producing additional financial reports for over 1,500 state and local employers to accomplish their GAAP reporting requirements. This reporting is time sensitive as it is used by employers for federal expenditure and bond reporting.

Recently, GASB issued new accounting standards related to leases, subscription-based information technology arrangements, compensated absences, deferred compensation plans, and other changes. Additional resources are required to research, implement, and continue to meet GASB compliance requirements. ETF staff also provides reporting to employers to assist their GASB compliance efforts.

Internal Controls

ETF requires additional staffing to maintain strong internal controls over financial activities. As recognized by improved audit results, ETF has strengthened its internal controls over the past few years. This has significantly mitigated the risk of errors; however, additional staff are needed to maintain adherence to strengthened internal controls. Inadequate staffing increases the risk of errors, which would result in inaccurate financial reporting, inaccurate calculations in contribution and premium development, and ultimately ETF's ability to maintain sustainable benefit programs.

In addition to maintaining internal controls, ensuring ETF has the resources to accurately collect retirement contributions, insurance contributions, manage vendor and employer accounting obligations, pay premiums, pay annuities and a myriad of other responsibilities is vital to the proper administration of these programs and ETF fulfilling its fiduciary responsibilities.

Request:

As shown in **Table 1**, ETF requests 1.0 permanent Actuarial Analyst position and 1.0 permanent Accountant Advanced position to fulfill its actuarial responsibilities, financial reporting obligations, and compliance with regulations necessary for the implementation of GASB standards.

Table 1 – ETF FY24 and FY25 Request

	SFY 2023-24	SFY 2024-25
FTE (Perm)		
Total (#)	2.0	2.0
Salary	\$90,700	\$120,900
Fringe	\$35,700	\$47,500
Supplies and Services	\$17,200	\$13,800
Total	\$143,600	\$182,200

Actuarial Management – 1.0 SEG FTE Actuarial Analyst Position

The Actuarial Analyst will be responsible for the following functions:

- Review, test, and analyze data extracted from various systems to ensure accurate data is maintained and provided for actuarial valuations;
- Direct and provide leadership in actuarial functions and projects, coordinating and managing the work of external consulting actuaries;
- Provide actuarial research and analyses to ETF; and
- Provide management and oversight of ETF's financial data to support ETF's data management program and help ensure data quality.

According to the National Association of State Retirement Administrators, a growing number of public retirement systems employ one or more actuaries as staff. Of the 15 largest public retirement systems in the nation, only three (including Wisconsin) do not employ an actuary as staff.

The financial, operational and governance risks associated with the WRS trust fund demonstrate the need for an actuarial analyst to strengthen the state's ability to balance: 1) the fulfilling of the promise of paying future benefits to retirees; 2) the need to recruit and retain qualified governmental employees; and 3) reasonable tax assessment. This position is vital to assisting ETF and the state manage these oversight functions.

Without a dedicated permanent resource overseeing ETF's actuarial valuations, existing staff will likely not have adequate time to ensure that actuarial valuations are using accurate data, providing timely results, and processes performed at a high standard. This compromises ETF's ability to maintain high quality financial and actuarial reporting processes to ensure the integrity of program financial information and contribution rates for members. The timeliness of completing actuarial valuations, related studies and financial reports is also at risk.

Financial Reporting and Compliance Requirements – 1.0 SEG FTE Accountant-Advanced

The accountant will be responsible for the following functions:

- process annuity payments to retirees and vendor payments,
- assist employers with accounting compliance requirements,
- process qualified domestic relations orders,
- process service purchase requests,
- process WRS additional contributions,
- assist ETF in complying with financial reporting requirements and deadlines, and
- enforce compliance with tax laws and regulations.

ETF's focus on accountability, accuracy, internal controls, and reliable financial operations and reporting is fundamental to protecting the \$142 billion WRS trust fund. If ETF is not provided additional resources, there could be increased risk of errors, resulting in financial reporting errors as well as adverse impacts in processing member financial transactions.

Decision Item by Line

2325 Biennial Budget

DEPARTMENT	CODES	TITLES
	515	Department of Employee Trust Funds
DECISION ITEM	CODES	TITLES
	6001	Financial and Actuarial Compliance and Reporting Requirements

	Expenditure Items	1st Year Cost	2nd Year Cost
01	Permanent Position Salaries	\$90,700	\$120,900
02	Turnover	\$0	\$0
03	Project Position Salaries	\$0	\$0
04	LTE/Misc. Salaries	\$0	\$0
05	Fringe Benefits	\$35,700	\$47,500
06	Supplies and Services	\$17,200	\$13,800
07	Permanent Property	\$0	\$0
08	Unallotted Reserve	\$0	\$0
09	Aids to Individuals & Organizations	\$0	\$0
10	Local Assistance	\$0	\$0
11	One-time Financing	\$0	\$0
12	Debt service	\$0	\$0
13	Annuity Supplements	\$0	\$0
14		\$0	\$0
15		\$0	\$0
16		\$0	\$0
17	TOTAL	\$143,600	\$182,200
18	Project Positions Authorized	0.00	0.00
19	Classified Positions Authorized	2.00	2.00
20	Unclassified Positions Authorized	0.00	0.00

Decision Item by Numeric

2325 Biennial Budget

Department of Employee Trust Funds

Program	Decision Item/Numeric	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
	6001 Financial and Actuarial Compliance and Reporting Requirements				
01	Employee benefit plans				
	76 Administration	\$143,600	\$182,200	2.00	2.00
	Employee benefit plans Sub Total	\$143,600	\$182,200	2.00	2.00
	Financial and Actuarial Compliance and Reporting Requirements Sub Total	\$143,600	\$182,200	2.00	2.00
	Agency Total	\$143,600	\$182,200	2.00	2.00

Decision Item by Fund Source

2325 Biennial Budget

Department of Employee Trust Funds

Decision Item/Source of Funds		1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
6001 Financial and Actuarial Compliance and Reporting Requirements					
SEG	S	\$143,600	\$182,200	2.00	2.00
Financial and Actuarial Compliance and Reporting Requirements Total		\$143,600	\$182,200	2.00	2.00
Agency Total		\$143,600	\$182,200	2.00	2.00

Decision Item (DIN) - 7000

Decision Item (DIN) Title - Disability Redesign

NARRATIVE

ETF requests statutory changes necessary to complete ETF's disability redesign project. As part of its disability redesign project, ETF proposes to base income continuation insurance (ICI) program premiums for state employees on how long they are willing to wait for ICI benefits (the elimination period) in the event they were to become disabled. Currently, ICI program premiums for most state employees are based on their accumulated sick leave balance. Additionally, oversight of the ICI and long-term disability insurance (LTDI) programs will be transferred to the Employee Trust Funds Board. These changes will streamline, simplify, and reduce duplication of the state's disability programs currently offered to State of Wisconsin and local government employees. The changes, approved by the ETF Board and the Group Insurance Board, also support the long-term sustainability of the disability programs administered by ETF.

ETF – Disability Redesign – Statutory Changes

Objective

ETF requests statutory changes necessary to complete ETF's disability redesign project. As part of its disability redesign project, ETF proposes to base income continuation insurance (ICI) program premiums for state employees on how long they are willing to wait for ICI benefits (the elimination period) in the event they were to become disabled. Currently, ICI program premiums for most state employees are based on their accumulated sick leave balance. Additionally, oversight of the ICI and long-term disability insurance (LTDI) programs will be transferred to the Employee Trust Funds Board.

These changes will streamline, simplify, and reduce duplication of the state's disability programs currently offered to State of Wisconsin and local government employees. The changes, approved by the ETF Board and the Group Insurance Board, also support the long-term sustainability of the disability programs administered by ETF.

Issue

The Department of Employee Trust Funds has completed a comprehensive evaluation of ETF's disability programs offered to State of Wisconsin and local government employees. The goal of the analysis was to identify a redesign approach that would reduce complexity and duplication of the disability benefit programs. ETF has implemented the initial phases of the redesign which generated approximately \$860,000 in annual administrative savings for the ICI program. Completion of the redesign effort will reduce complexity and confusion for employers and members and streamline the administration of disability benefits.

Income Continuation Insurance (ICI) Program

The ICI plan is an optional short-term and long-term disability program that consists of two separate plans. The state ICI plan is available to state employees, and the local ICI plan is available to local government employees if their employer has elected to participate in the plan. The ICI benefit amount is based on an employee's salary and whether an employee has chosen only the standard benefit or both the standard and supplemental benefits. Employees and employers split the cost of the standard benefit whereas employees must cover the full cost of the supplemental benefit. Both plans pay a standard benefit based on an employee's salary with supplemental benefits available as well if selected by the employee.

For most state employees, ICI plan premiums are associated with an employee's accumulated sick leave balance. Accumulated sick leave is used to determine premiums, employer cost sharing, and the start date of benefits. All enrollees in the state ICI plan (including UW faculty and academic staff) must exhaust their sick leave, up to 130 days, before they can start receiving ICI benefits.

The exception to this structure is for University of Wisconsin (UW) faculty and academic staff employees, whose premiums are based on an elimination period, which is the period of time an employee must wait before benefits are payable. For example, UW faculty and academic staff who

choose an elimination period of 90 days would have to wait 90 days (or exhaust up to 130 days of sick leave, whichever is longer) after they were disabled before benefit payments begin.

UW faculty and academic staff can select from four elimination periods, up to a maximum of 180 days. Under the current UW plan, the premium for a 180-day elimination period is fully paid by the employer whereas part of the premium is paid by the employee if they wish to enroll in a shorter elimination period.

The changes will provide employees the ability to customize the ICI program to meet their specific needs. For example, employees may choose to use vacation leave as an alternative to sick leave to cover their elimination period or choose to pay a higher premium for a shorter elimination period. These changes will make the program more attractive and useful to employees and employers.

This proposal seeks to align the state ICI program with the UW ICI program by determining the premium based on the elimination period the employee selects when electing ICI coverage, rather than the amount of sick leave an employee has. Using elimination periods is considered industry best practice and is far more common than using sick leave balances to determine premiums.

Request

ETF contracted with Milliman Inc. to help develop a plan to reform the state ICI program. Milliman is the current actuary for ETF's disability programs. The primary objective was to reduce the program's deficit and liabilities but also to encourage enrollment, which was and still is necessary for long-term financial sustainability.

The proposed ICI program changes would streamline the state, local and UW ICI plans by determining the premium based on the elimination period the employee selects when electing ICI coverage, rather than the amount of sick leave an employee has. As noted above, using elimination periods to determine premiums is consistent with other disability programs and considered industry best practice.

Recommended Statutory Changes to Redesign the ICI Program Structure

Under current law, employers and employees share the premium cost of the plan. For most state employees (other than UW faculty and academic staff), the employer's share is a specified percentage that is based on the employee's accumulated sick leave balance. The higher an employee's accumulated balance, the greater the employer share. The employee then pays the remaining share. Employers pay 100% of the premium for all employees who accumulate more than 130 days of sick leave.

This change amends §40.05 (5) Wis. Stat. to remove sick leave as a factor in the determination of employee premium rates. The result of these changes is the decoupling of all requirements related to accumulated sick leave from the ICI program.

- Employees would elect an elimination period and pay the ICI premium remaining after the employer has paid the premium for the equivalent of the longest elimination period option available under the ICI contract plan language.

- The UW faculty and academic staff creditable service provisions in §40.05 (5) would be removed.
- The provision for employers to have an annual deferred enrollment period connected to sick leave accrual as established in §40.61 (2) would be removed.
- Additionally, the requirement for an employee to exhaust their accumulated sick leave as required in §40.62 (1) would be removed.

Removing the sick leave provisions from premium and benefit determinations is part of the department's strategy to reduce the complexity of the ICI program and simplify administration by making all eligible employees subject to the same premium pricing, cost sharing, and benefit determination provisions.

Removing the sick leave provisions for all employees would create an incentive for newly hired employees to enroll in coverage immediately because of the opportunity for employer cost sharing of premiums. Currently, new employees only have the option for coverage at the highest cost level, which does not include an employer share of premiums, or they must wait until they accumulate enough sick leave to receive the employer share. Incentivizing increased employee enrollment will strengthen the fiscal position of the program.

Additionally, removing the accumulated sick leave provisions from the premium calculation removes some uncertainty regarding future income from premiums because sick leave balances are subject to fluctuation from year-to-year. Employees can still voluntarily use sick leave but will also have the opportunity to substitute other types of accumulated leave (such as vacation leave) during their selected elimination period in order to preserve their sick leave accumulation.

Recommended Statutory Changes to Board Oversight

Finally, the Employee Trust Funds Board has authority over the Disability Retirement Annuity (§40.63) program and the Duty Disability Program. The Group Insurance Board has authority over Long-Term Disability Insurance (LTDI) and ICI. In an effort to streamline administration of the disability programs, both the Group Insurance Board and the Employee Trust Funds Board approved the transfer of ICI and LTDI oversight to the Employee Trust Funds Board. This change requires statutory changes and is included in the proposal.

The LRB is in the final stages of drafting statutory language changes for this request.

Decision Item by Line

2325 Biennial Budget

DEPARTMENT	CODES	TITLES
	515	Department of Employee Trust Funds
DECISION ITEM	CODES	TITLES
	7000	Disability Redesign

	Expenditure Items	1st Year Cost	2nd Year Cost
01	Permanent Position Salaries	\$0	\$0
02	Turnover	\$0	\$0
03	Project Position Salaries	\$0	\$0
04	LTE/Misc. Salaries	\$0	\$0
05	Fringe Benefits	\$0	\$0
06	Supplies and Services	\$0	\$0
07	Permanent Property	\$0	\$0
08	Unallotted Reserve	\$0	\$0
09	Aids to Individuals & Organizations	\$0	\$0
10	Local Assistance	\$0	\$0
11	One-time Financing	\$0	\$0
12	Debt service	\$0	\$0
13	Annuity Supplements	\$0	\$0
14		\$0	\$0
15		\$0	\$0
16		\$0	\$0
17	TOTAL	\$0	\$0
18	Project Positions Authorized	0.00	0.00
19	Classified Positions Authorized	0.00	0.00
20	Unclassified Positions Authorized	0.00	0.00

Decision Item by Numeric

Program	Decision Item/Numeric	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
	Agency Total				

Decision Item by Fund Source

Decision Item/Source of Funds	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
Agency Total				

Decision Item (DIN) - 7001

Decision Item (DIN) Title - Internal Audit Function

NARRATIVE

The Department of Employee Trust Funds (ETF) requests creation of an independent Office of Internal Audit (OIA). If approved, the OIA will report directly to the ETF Board.

-Currently, the OIA Director reports functionally and administratively to the ETF Secretary.

-ETF requests that the OIA Director position become an unclassified position that functionally reports to the ETF Board.

-The ETF Board will appoint and set the salary of the OIA Director.

-This position will not be included in the State of Wisconsin Compensation Plan.

ETF – Internal Audit Function

Objective

The Department of Employee Trust Funds (ETF) requests creation of an independent Office of Internal Audit (OIA). If approved, the OIA will report directly to the ETF Board.

- Currently, the OIA Director reports functionally and administratively to the ETF Secretary.
- ETF requests that the OIA Director position become an unclassified position that functionally reports to the ETF Board.
- The ETF Board will appoint and set the salary of the OIA Director.
- This position will not be included in the State of Wisconsin Compensation Plan.

Proposed statutory changes are necessary to provide organizational independence and objectivity in fact and in appearance. These changes are consistent with the audit industry's best practices of public retirement systems and are essential to ensure that ETF's internal audit function is an independent, objective assurance and consulting entity designed to add value and improve ETF's operations.

The ETF Audit Sub-Committee and the ETF Board unanimously support this organizational change, recognizing that to fulfill their fiduciary duties, they need full and unrestricted access to the OIA Director regarding all evaluations, assessments, and analyses pertaining to ETF.

Issue

The purpose and mission of OIA is to provide assurance to management and the ETF Board Audit-Subcommittee that ETF's assets are safeguarded, operating efficiency is achieved, and that compliance is maintained with prescribed laws and ETF policies. Objectives also include assessment of ETF's governance, risk management, and control and monitoring processes.

According to the Institute of Internal Auditors (IIA), "the role of internal audit is to provide independent assurance that an organization's risk management, governance, and internal control processes are operating effectively." Internal audit is conducted objectively and designed to improve and mature an organization's business practices.

These changes conform with the IIA Standards. In 2018, the IIA Quality Services, LLC completed an external quality assessment of ETF's internal audit function. The report recommended that ETF revise its policy and structure to ensure OIA functional and administrative reporting relationships are properly defined, and clearly provide the appropriate organizational independence and objectivity. The standards provide that organizational independence is effectively achieved when the chief audit executive reports functionally to the Board.

The required organizational independence from management enables unrestricted evaluation of management activities and personnel and allows internal auditors to perform their role effectively.

Examples of Board functions related to internal audit include:

- Approving the internal audit charter;

- Approving the risk based internal audit plan;
- Approving the internal audit budget and resource plan;
- Receiving communications from the OIA Director on the internal audit activity's performance relative to its plan and other matters;
- Approving decisions regarding the appointment and removal of the OIA Director;
- Approving the compensation of the OIA Director; and
- Making appropriate inquiries of management and the OIA to determine whether there are inappropriate scope or resource limitations.

This is consistent with other public retirement systems. A recent poll by the Association of Public Pension Fund Auditors found that all 26 responding systems have their Internal Auditor reporting functionally to their Board.

Request

The ETF Board has established an Audit Committee Charter to assist them in fulfilling their oversight responsibilities for the financial reporting process, the system of internal control, the audit process, and ETF's process for monitoring compliance with laws and regulations. An independent OIA will support the Board's oversight responsibilities of ETF.

The LRB is in the final stages of drafting statutory language changes for this request.

Decision Item by Line

2325 Biennial Budget

DEPARTMENT	CODES	TITLES
	515	Department of Employee Trust Funds
DECISION ITEM	CODES	TITLES
	7001	Internal Audit Function

	Expenditure Items	1st Year Cost	2nd Year Cost
01	Permanent Position Salaries	\$0	\$0
02	Turnover	\$0	\$0
03	Project Position Salaries	\$0	\$0
04	LTE/Misc. Salaries	\$0	\$0
05	Fringe Benefits	\$0	\$0
06	Supplies and Services	\$0	\$0
07	Permanent Property	\$0	\$0
08	Unallotted Reserve	\$0	\$0
09	Aids to Individuals & Organizations	\$0	\$0
10	Local Assistance	\$0	\$0
11	One-time Financing	\$0	\$0
12	Debt service	\$0	\$0
13	Annuity Supplements	\$0	\$0
14		\$0	\$0
15		\$0	\$0
16		\$0	\$0
17	TOTAL	\$0	\$0
18	Project Positions Authorized	0.00	0.00
19	Classified Positions Authorized	(1.00)	(1.00)
20	Unclassified Positions Authorized	1.00	1.00

Decision Item by Numeric

2325 Biennial Budget

Department of Employee Trust Funds

Program	Decision Item/Numeric	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
	7001 Internal Audit Function				
01	Employee benefit plans				
	76 Administration	\$0	\$0	0.00	0.00
	Employee benefit plans Sub Total	\$0	\$0	0.00	0.00
	Internal Audit Function Sub Total	\$0	\$0	0.00	0.00
	Agency Total	\$0	\$0	0.00	0.00

Decision Item by Fund Source

2325 Biennial Budget

Department of Employee Trust Funds

Decision Item/Source of Funds		1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
7001 Internal Audit Function					
SEG	S	\$0	\$0	0.00	0.00
Internal Audit Function Total		\$0	\$0	0.00	0.00
Agency Total		\$0	\$0	0.00	0.00

Decision Item (DIN) - 7002

Decision Item (DIN) Title - Trust Fund Earnings Allocation

NARRATIVE

ETF is requesting a statutory language change to more closely align statutory provisions in Wis. Stats. §40.04 (3) (a) and §40.04 (3) (am) (3) with the current administrative practice for allocating trust fund earnings. ETF believes that the current administrative practice adheres to legislative intent. This change would update statutes to better reflect the operational realities of how trust fund investment earnings are held and allocated.

ETF – TRUST FUND EARNINGS ALLOCATION

Objective

ETF requests a statutory language change to more closely align statutory provisions in Wis. Stats. §40.04 (3) (a) and §40.04 (3) (am) (3) with the current administrative practice for allocating trust fund earnings. ETF believes that the current administrative practice adheres to legislative intent. This change would update statutes to better reflect the operational realities of how trust fund investment earnings are held and allocated.

Issue

The allocation basis used to distribute trust fund earnings to ETF programs differs between statute and administrative practice. Current statute specifies that earnings should be distributed based on the ratio of each participating account's average daily balance to the total average daily balance of all participating accounts. Proposed statutory revisions and current administrative practice distribute earnings based on the ratio of each participating account's simple average beginning and end of year balances compared to the total average balance of all participating accounts.

Under current administrative practice, the State of Wisconsin Investment Board (SWIB) invests assets of the core and variable investment trust funds which include assets for several programs that ETF administers. Because assets are commingled per 40.04 (3)(am)3.b., Wis. Stats. all activity is not recorded in the various separate participating accounts on a daily basis. SWIB provides ETF certified earnings for the core and variable investment trust funds annually.

After SWIB provides the annual certified earnings for the core and variable investment trust funds, ETF distributes the earnings to each participating account by calculating a simple average balance. This involves using beginning of year and end of year balances for each participating account compared to the total average balance of all participating accounts. ETF believes this practice carries out the intent of distributing gains and losses in an equitable manner using a ratio of each account to all participating accounts.

Request

The LRB draft for the proposed statutory language changes is attached to this budget request. A statutory language change is needed to align statute with current administrative practices. Because activity is not recorded in the various separate participating accounts on a daily basis, it would not be accurate to use an average daily balance as the basis for distributing investment earnings.



PRELIMINARY DRAFT - NOT READY FOR INTRODUCTION

1 **AN ACT to amend** 40.04 (3) (a) and 40.04 (3) (am) 3. (intro.) of the statutes;
2 **relating to:** allocation of core and variable investment trust earnings of the
3 employee trust funds.

Analysis by the Legislative Reference Bureau

RETIREMENT AND GROUP INSURANCE

ADMINISTRATIVE CHANGES

Trust funds earnings allocations

Under current law, investment gains and losses of the core and variable retirement investment trust funds are distributed in a ratio of each participating account's average daily balance to the total average daily balance of all participating accounts. The State of Wisconsin Investment Board invests assets of the core and variable investment trust funds, which are commingled under current law, but all activity is not recorded on a daily basis for the separate participating accounts. SWIB provides certified annual earnings reports for the core and variable trust funds.

This bill provides that ETF may distribute the earnings to each participating account by calculating a simple average balance, which uses beginning and

Decision Item by Line

2325 Biennial Budget

DEPARTMENT	CODES	TITLES
	515	Department of Employee Trust Funds
DECISION ITEM	CODES	TITLES
	7002	Trust Fund Earnings Allocation

	Expenditure Items	1st Year Cost	2nd Year Cost
01	Permanent Position Salaries	\$0	\$0
02	Turnover	\$0	\$0
03	Project Position Salaries	\$0	\$0
04	LTE/Misc. Salaries	\$0	\$0
05	Fringe Benefits	\$0	\$0
06	Supplies and Services	\$0	\$0
07	Permanent Property	\$0	\$0
08	Unallotted Reserve	\$0	\$0
09	Aids to Individuals & Organizations	\$0	\$0
10	Local Assistance	\$0	\$0
11	One-time Financing	\$0	\$0
12	Debt service	\$0	\$0
13	Annuity Supplements	\$0	\$0
14		\$0	\$0
15		\$0	\$0
16		\$0	\$0
17	TOTAL	\$0	\$0
18	Project Positions Authorized	0.00	0.00
19	Classified Positions Authorized	0.00	0.00
20	Unclassified Positions Authorized	0.00	0.00

Decision Item by Numeric

Program	Decision Item/Numeric	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
	Agency Total				

Decision Item by Fund Source

Decision Item/Source of Funds	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
Agency Total				

ACT 201

Proposal under s. 16.42(4)(b)2.: **0% change in each fiscal year**

FY: **FY24 AND 25**

Agency: **ETF - 515**

Exclusions: Federal
Debt Service

Columns A-G were prepopulated for agencies to reflect state operations adjusted base and reductions agreed to by DOA and LFB. See Appendix H for instructions on how to complete these templates.

Proposed \$ and Proposed FTE columns reflect total agency proposed spending and positions for indicated fiscal year. These amounts should include standard budget adjustments (SBAs), any proposed reallocations or reductions to meet the target, and any other requests that the agency would want considered under this proposal.

Appropriations with zero dollars and zero FTEs are not loaded into the template. If you have any questions, contact your SBO analyst.

IF YOUR AGENCY PLANS TO TAKE THE SAME CUTS OVER BOTH YEARS, YOU SHOULD ONLY FILL OUT ONE GRID FOR 0% GROWTH AND ONE GRID FOR 5% REDUCTION, THEN CHANGE "FY24" TO "FY24 AND 25".

Agency	Appropriation		Fund Source	Adjusted Base		(See Note 1)	Proposed Budget FY24 & FY25			Change from Adj Base		(See Note 2)	Change from Adjusted Base after Removal of SBAs		
	Alpha	Numeric		\$	FTE	0% Change Target	Proposed \$	Proposed FTE	Item Ref.	\$	FTE	Remove SBAs \$	FTE	\$	FTE
515	1t	161	SEG	\$8,393,600.00	0.00	0	8,393,600	0.00	1, 2	0	0.00	0	0.00	0	0.00
515	1w	176	SEG	\$44,318,700.00	275.20	0	45,108,700	275.20	1, 3	790,000	0.00	(790,000)	0.00	0	0.00
515	1w	188	SEG	\$0.00	0.00	0	0	0.00		0	0.00	0	0.00	0	0.00
Totals				52,712,300	275.20	0	53,502,300	275.20		790,000	0.00	(790,000)	0.00	0	0.00

Note 1: Reduction target must be met within state operations appropriations, but may be allocated across those appropriations and fund sources.

Note 2: Amounts should be SBAs (DINs 3001 - 3011) from agency request multiplied by -1.

Target Reduction = 0

Difference = **0**
Should equal \$0

Items - Describe proposed changes (excl. SBAs) to reach target or other priorities of agency

- 1 All ETF appropriations are SEG Public Trust Funds and not state funds (OAG 1-95); a no growth scenario yields no GPR benefits.
- 2 Reduces funding for IT resources that would delay modernization efforts, thereby increasing costs and potential risks in the long-term.
- 3 The no growth scenario could result in state and local compliance issues and a delay in the agency's modernization efforts to upgrade antiquated legacy systems, which could result in additional costs and operational risk.

ACT 201

Proposal under s. 16.42(4)(b)1.: 5% change in each fiscal year

FY: **FY24 AND 25**

Agency: **ETF - 515**

Exclusions Federal
Debt Service

Columns A-G were prepopulated for agencies to reflect state operations adjusted base and reductions agreed to by DOA and LFB. See Appendix H for instructions on how to complete these templates.

Proposed \$ and Proposed FTE columns reflect total agency proposed spending and positions for indicated fiscal year. These amounts should include standard budget adjustments (SBAs), any proposed reallocations or reductions to meet the target, and any other requests that the agency would want considered under this proposal.

Appropriations with zero dollars and zero FTEs are not loaded into the template. If you have any questions, contact your SBO analyst.

IF YOUR AGENCY PLANS TO TAKE THE SAME CUTS OVER BOTH YEARS, YOU SHOULD ONLY FILL OUT ONE GRID FOR 0% GROWTH AND ONE GRID FOR 5% REDUCTION, THEN CHANGE "FY24" TO "FY24 AND 25".

Agency	Appropriation		Fund Source	Adjusted Base		(See Note 1)	Proposed Budget FY24 & FY25			Change from Adj Base		(See Note 2)		Change from Adjusted Base after Removal of SBAs	
	Alpha	Numeric		\$	FTE	5% Reduction Target	Proposed \$	Proposed FTE	Item Ref.	\$	FTE	\$	FTE	\$	FTE
515	1t	161	SEG	\$8,393,600.00	0.00	(419,700)	5,758,000	0.00	1, 2	(2,635,600)	0.00	0	0.00	(2,635,600)	0.00
515	1w	176	SEG	\$44,318,700.00	275.20	(2,215,900)	45,108,700	275.20	1, 3	790,000	0.00	(790,000)	0.00	0	0.00
515	1w	188	SEG	\$0.00	0.00	0	0	0.00		0	0.00	0	0.00	0	0.00
Totals				52,712,300	275.20	(2,635,600)	50,866,700	275.20		(1,845,600)	0.00	(790,000)	0.00	(2,635,600)	0.00

Note 1: Reduction target must be met within state operations appropriations, but may be allocated across those appropriations and fund sources.

Note 2: Amounts should be SBAs (DINs 3001 - 3011) from agency request multiplied by -1.

Target Reduction = (2,635,600)

Difference = 0

Should equal \$0

Items - Describe proposed changes (excl. SBAs) to reach target or other priorities of agency

- 1 All ETF appropriations are SEG Public Trust Funds and not state funds (OAG 1-95), a 5% cut yields no GPR benefits.
- 2 Reduces funding for IT resources that would delay modernization efforts, thereby increasing costs and potential risks in the long-term.
- 3 This scenario could result in state and local compliance issues and a delay in the agency's modernization efforts to upgrade antiquated legacy systems, which could result in additional costs and operational risk.
- 4
- 5