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# Progress Report



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## Retirement Program Addresses Backlog, But It Defers Developing Re-Engineering Indicators

### *at a glance*

The Retirement Program still has not established performance indicators for assessing the results of its \$38 million re-engineering project. Program managers cite other priorities as causing them to defer developing these indicators, but plan to establish them in the fall of 2003.

Current program managers agree with our recommendation to assess whether the Florida Retirement System benefit choices are helping attract and retain public employees. This is especially important in light of the 2000 Legislature creating a new defined contribution plan option for Florida Retirement System members.

Consistent with our recommendations, the Legislature has addressed the Retirement Program's backlog in reviewing local actuarial reports. The Legislature amended the law in 1999 to allow the program to streamline the review process. The Legislature also funded a second actuarial position in Fiscal Year 2000-01 to help the program cope with its workload problems.

### Purpose

In accordance with state law, this progress report informs the Legislature of actions taken in response to a 1998 OPPAGA report.<sup>1,2</sup> At the time of our prior report's release, the Retirement Program was administered by the Division of Retirement. The division was administratively housed in the Department of Management Services, but operated independently of the department. The Legislature amended the law effective July 1, 1999, to make the department responsible for administering the program rather than the Division of Retirement.

This report presents our assessment of the extent to which our report's findings and recommendations have been addressed.

### Background

The Retirement Program, has two major responsibilities.

- **Administering Statewide Retirement Systems.** The Retirement Program operates all statewide retirement systems, the largest of which is the Florida Retirement System (FRS). FRS serves approximately 592,000 active members and 174,000 retirees.

<sup>1</sup> Section 11.45(7)(f), F.S.

<sup>2</sup> Review of the Retirement Program Administered by the Division of Retirement, [OPPAGA Report No. 97-75](#), June 1998.

The program's mission is to provide high-quality, competitive, and cost-effective retirement services to system members. Program activities include distributing benefit payments to retirees and beneficiaries, determining eligibility for retirement system membership and disability benefits, enrolling members, maintaining retirement records, counseling members on their retirement rights and benefits, and processing requests for benefit estimates.

- **Overseeing Local Government Retirement Systems.** The Retirement Program is responsible for overseeing all Florida local government retirement systems which are not part of the FRS. Activities include monitoring the actuarial soundness of local retirement systems on a triennial basis and reviewing the actuarial impact of any proposed changes to these systems.

For Fiscal Year 2000-01, the Retirement Program was appropriated \$2.763 billion (\$0.008 billion from general revenue and \$2.755 billion from trust funds) and was authorized 246 positions.

## Prior Findings

### Administering Statewide Retirement Systems

#### *Re-engineering project*

In our 1998 report, we determined that program managers had not established measures and indicators needed to evaluate the results of its costly, major re-engineering project. To improve the Retirement Program's efficiency and effectiveness, the Legislature authorized the Re-engineering, Improvement, and Modernization project (RIM) in Fiscal Year 1994-95. The purpose of the project was to bring about process and technological improvements so that the program could

provide more timely services to retirement system members and employing agencies and avoid costs by slowing the growth in program staff.

At the time of our 1998 review, program staff were using antiquated technologies (paper records, microfilm, microfiche) and labor-intensive manual processes to access member records and respond to information requests. The re-engineering was designed to incorporate electronic data storage methods that would allow member records to be retrieved instantaneously. The project was estimated to cost \$27 million through Fiscal Year 1999-2000, and its implementation phase was to be completed in January 2000.

We recommended that the Division of Retirement establish performance measures and indicators to evaluate the re-engineering project's success in helping it achieve its goals, such as "responding more quickly and accurately to member requests for calculation of benefits and other services." Such indicators are essential for determining whether the re-engineering project is providing desired performance improvements in return for the state's large financial investment.

#### *Measure for attracting and retaining employees*

Our 1998 review addressed the increasing amount of legislative interest in alternative pension plan designs for the Florida Retirement System (FRS), such as adopting a defined contribution plan.<sup>3</sup> This interest had been fueled primarily by questions about how

<sup>3</sup>The current Florida Retirement System is a defined benefit plan. Under a defined benefit plan, the employer guarantees a certain level of retirement benefit; benefits are based on formulas that take into account years of service, salary levels, and age at retirement; and the employer bears the investment risk. Under a defined contribution plan, the employer guarantees a certain level of contributions; retirees' benefits are based on the amount of investment earnings for contributions made on their behalf; and the employees have the choice and risk of investment.

well the current design of the FRS meets the needs of Florida's state and local government employees, by national interest in alternative pension designs for government employees, and the FRS's significant progress in accruing assets sufficient to fully cover its liabilities.<sup>4</sup>

We concluded that the program could assist the Legislature's deliberations by providing information on how well the FRS is serving its purpose of attracting and retaining employees. Accordingly, we recommended that the program assess whether the FRS pension plan is helping to attract and retain public employees. We noted that with some revisions, the program's annual surveys of FRS members could be used to provide the data for these measures, and to obtain other information that may be essential to legislative decisions, such as preferences for alternative plan designs.

## Overseeing Local Government Retirement Systems

Our 1998 report found that the Retirement Program had not performed well in providing a timely review of local government retirement systems' actuarial reports and impact statements. Program staff review these documents to determine whether the plans are in compliance with state disclosure and funding requirements and to identify potential funding problems. The program had a large backlog of actuarial reports for which staff had not made a final determination as to whether or not the plans were in compliance. As of February 1998, 160 local retirement systems (36% of the state's local retirement plans) had actuarial valuations or impact statements

whose review had been pending for over one year.

To alleviate this backlog, we recommended that the Legislature fund a second program actuary position. Furthermore, to streamline the reviewing process and make it more timely and efficient, we recommended that the Legislature revise the law and authorize the program to use a process of selectively reviewing local government actuarial reports, based on risk-based selection criteria and random sampling.

## Current Status

### Administering Statewide Retirement Systems

#### *Performance indicators for re-engineering project still not established*

The Retirement Program still has not established performance indicators for assessing the results of its \$38 million re-engineering project. The project is now scheduled for completion by January 2002. Over the period from Fiscal Year 1994-95 through Fiscal Year 2000-01, the Legislature appropriated a total of \$38 million for the project.

Program managers recognize the need to establish performance indicators and standards for the re-engineering project. However, they said they deferred creating these indicators because they placed a higher priority on using their limited resources on other activities, such as transitioning quickly from an antiquated information system that was not Y2K compliant to a new system. They plan to establish indicators and standards in the fall of 2003.

<sup>4</sup> See *Program Review: The Florida Retirement System Continues to Be Fully Funded; Unfunded Liability Eliminated*, [OPPAGA Report No. 99-50](#), May 2000, for more information on the Florida Retirement System's progress in eliminating its unfunded actuarial liability.

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In our opinion, program management has been remiss in not developing project performance indicators and standards on a timelier basis. These indicators and standards are essential for evaluating whether re-engineered processes are producing desired improvements. Further delay would limit policymakers' facility to assess the returns from the state's \$38 million investment in the project.

### ***New plan underscores need to assess whether benefit choices attract and retain public employees***

Current program managers agree with our prior report's recommendation that the Retirement Program should assess whether FRS pension benefit choices are helping to attract and retain public employees. This issue will be especially important, given the 2000 Legislature's creation of a new defined contribution plan option for FRS members.<sup>5</sup> This new plan, the Public Employee Optional Retirement Program, will be offered to both current and new FRS members beginning in 2002. The new defined contribution plan was intended to enhance FRS members' individual freedom and personal responsibility. Accordingly, we strongly recommend as we did in our prior report that the program's annual surveys of FRS members be revised to provide data for such measures. This has not been done to date.

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<sup>5</sup> Ch. 2000-169, *Laws of Florida*.

## Overseeing Local Government Retirement Systems

The Legislature took action to address the program's problems in providing a timely review of local retirement systems.

- The Legislature revised s. 112.63(4), *F.S.*, to eliminate the requirement that the program separately examine each local government's actuarial valuation or impact statement. Instead, the program is to evaluate only the actuarial valuations on at least a triennial basis.
- The Legislature amended s. 112.63(5), *F.S.*, to allow local governments to make payment changes to their pension funds according to their most recent actuarial evaluation, even before the state has accepted the new version.
- The Legislature also authorized the program an additional actuarial staff position in Fiscal Year 1999-2000 to help reduce the backlog.<sup>6</sup> The department is currently in the process of filling the position.

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<sup>6</sup> The Legislature appropriated \$79,712 to fund a second actuarial position.

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Project supervised by Tom Roth (850/488-1024)

Project conducted by Rahel Kahlert

John W. Turcotte, OPPAGA Director