THE FLORIDA LEGISLATURE

Report No. 97-39

Office of
Program Policy Analysis
And Government Accountability

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February 1998

Review of the Division of Retirement's Performance-Based Program Budgeting Measures and Standards

Abstract

- **The Retirement Program's performance-based program budgeting measures demonstrate that it has maintained high levels of customer satisfaction and efficiently used its resources.**
- **The Program's measures could be improved by establishing better methods to calculate results for two measures, adding a measure that assesses Program timeliness, and adjusting calculations of administrative costs to exclude non-recurring re-engineering costs.**

Purpose

This is the first of two reports presenting the results of our Program Evaluation and Justification Review of the Retirement Program. The law directs the Office of Program Policy Analysis and Government Accountability (OPPAGA) to complete a Program Evaluation and Justification Review of each state agency program by the end of the second year it operates under a performance-based program budget. OPPAGA is to review:

- program performance in achieving its performance-based program budgeting outcomes and outputs;
- the usefulness of performance-based program budgeting information in evaluating program performance;
- whether the program is necessary to the state and provides a clear public benefit; and
- whether alternative means of providing services would improve program performance or reduce program costs.

This report addresses the performance of the Retirement Program based on measures and standards established for the program by the General Appropriations Act for Fiscal Year 1996-97. In this review, we examined: (1) program performance in achieving its performance-based program budgeting outcome and output standards; (2) the usefulness of the Program's measures and standards for evaluating performance; and (3) options for improving the Program's measures and standards for Fiscal Year 1998-99. Our second report, which will be issued by June 30, 1998, will address program necessity and alternative means for providing program services.

Background

The Retirement Program's mission, as established by statute, is to provide quality and cost-effective retirement services. The Program received a total appropriation of $1.95 billion ($1.93 billion to pay benefits and $22 million for operations) in Fiscal Year 1997-98. The Program has two major functions:

- **Administering statewide retirement systems.** The largest statewide retirement system administered by the Retirement Program is the Florida Retirement System (FRS). The FRS provides retirement benefits for approximately 600,000 active employee members and 150,000 retirees. Its approximately 800 participating agencies include all state agencies, counties, school boards, and some cities and special districts. Program activities to administer statewide retirement systems 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, processing requests for benefit estimates, administering two specialized retirement plans for senior managers and State University System employees, and overseeing Social Security coverage for all Florida government employees. For Fiscal Year 1997-98, the Program was appropriated $1.95 billion ($1.93 billion to pay benefits and $21 million for operations) and 238 positions for this function.

- **Overseeing local government retirement systems.** The Program is responsible for overseeing all local government retirement systems that are not part of the FRS. Program activities include monitoring the actuarial soundness of local retirement systems, reviewing the actuarial impact of any proposed changes to these systems, and approving the distribution of insurance premium taxes to local police and firefighter pension plans. For Fiscal Year 1997-98, the Program was appropriated $552,000 and 10 positions for this function.

The Retirement Program is administered by the Division of Retirement and encompasses all of the Division's activities. The Division is administratively housed in the Department of Management Services (DMS), but operates independently of DMS. The Division is a separate budget entity and its director is its agency head for all purposes. The Director is appointed by the Governor and confirmed by the Senate.

The 1994 Government Performance and Accountability Act directs state agencies to provide the Legislature performance-based program budget requests that include proposed performance measures and standards.[1] The Legislature defines programs, provides performance measures, and sets performance standards in the General Appropriations Act. State agencies must then annually report on their performance against these standards in subsequent legislative budget requests. The Legislature considers this information in evaluating program performance and may award incentives and disincentives for performance that exceeds or fails to meet the established standards. The Retirement Program began operating under a performance-based program budget in Fiscal Year 1996-97.

The Legislature specified 14 outcome and 4 output measures for the Retirement Program in the General Appropriations Act for Fiscal Year 1996-97.[2] These measures are shown in Exhibit 1. The Legislature added one additional output measure (*number of local pension plan valuations and impact statements reviewed*) for Fiscal Year 1997-98. Outcome measures can be used to assess the results or benefits provided by a program, while output measures can be used to assess the amount of products or services provided by a program. The Legislature sets annual standards for each of the outcome and output measures.

The Retirement Program has proposed 14 outcome and 5 output measures in its budget request for Fiscal Year 1998-99. All of the proposed outcome and output measures are continued from Fiscal Year 1997-98.

Findings

What can be concluded about the Retirement Program's performance in Fiscal Year 1996-97 based on its measures?

Two major conclusions regarding Program performance can be drawn from the Program's measures:

- Two major groups of Program customers (retirees and state agencies and local government units that employ active retirement system members) remain highly satisfied with Program services. Active members are less satisfied with Program services, although their level of satisfaction has increased over the last two fiscal years.

- The Program is efficiently using its resources; it has lower administrative costs and staffing levels than retirement programs in other large states.

[1] Standards are expected levels of performance against which actual performance is to be compared.

[2] Eight of the 14 outcome measures are based on two survey questions answered by samples of Program participants. Different surveys were sent to four categories of Program customers: employing agencies, recent retirees, other retirees, and active employee members.

Exhibit 1
The Retirement Program Met or Exceeded Most of Its Standards for Fiscal Year 1996-97 and Improved Its Performance Over Time

		1995-96 Performance	1996-97 Performance	1996-97 Standards	Met Standard for 1996-97?	Improved Performance Over Time?
	Outcome Measures					
	Percentage of participating agencies/members satisfied with retirement information[1]					
1	Agencies	99%	**99%**	95%	Yes	Same
	Members:					
2	Active	67%	**78%**	65%	Yes	Yes
3	Recent Retired	94%	**97%**	90%	Yes	Yes
4	Other retired	96%	**98%**	94%	Yes	Yes
5	Percentage of agency payroll transactions correctly reported	98%	**99%**	99%	Yes	Yes
6	Percentage of retirement services offered by FRS compared to comparable programs	---[2]	---[2]	77%	---[2]	---[2]
	Percentage of participating agencies/members satisfied with retirement services[1]					
7	Agencies	99%	**98%**	95%	Yes	No
	Members:					
8	Active	69%	**82%**	65%	Yes	Yes
9	Recent retired	95%	**98%**	90%	Yes	Yes
10	Other retired	98%	**99%**	94%	Yes	Yes
11	Administrative cost per active and retired member	$19.20	**$ 20.84**	$20.38	No	No
12	Ratio of active and retired members to Division FTE	3,216:1	**3,235:1**	3,289:1	No	Yes
13	Funding ratio of FRS assets to liabilities	77%	**91%**[3]	82%	Yes	Yes
14	Percentage of local retirement systems funded on a sound actuarial basis	---[2]	---[2]	98%	---[2]	---[2]
	Output Measures					
1	Number of retirements (added to payroll)	13,154	**12,443**	12,294	Yes	No
2	Number of retirement benefit estimates	49,803	**53,831**[4]	63,700	---[5]	Yes
3	Number of changes processed	44,353	**44,553**	46,457	No	Yes
4	Number of benefit payments issued	1,758,402	**1,858,242**	1,841,050	Yes	Yes

[1] Program staff have changed the method they use to calculate survey results. They formerly included the surveys for which the respondent returned the survey but did not answer the question for which results are being calculated (non-responsive surveys). Staff have changed their methodology to exclude the non-responsive surveys, which is an accepted survey methodology. The Program reported Fiscal Year 1996-97 performance results using both calculation methods. The above performance results were calculated using the revised method, which made only slight differences in Program performance calculations.

[2] Performance cannot be assessed for these measures because the Program's methodology results in measuring a different outcome than that described by the measure. See discussion on pages 6 and 7.

[3] The Program initially reported an estimate of 82% for this measure because the funding ratio was not available at the time the Program prepared its Fiscal Year 1998-99 Legislative Budget Request. The funding ratio was subsequently calculated by an actuarial firm. Program managers plan to report the updated number (91%) in a revision to the Program's budget request.

[4] The Program initially reported this number as 45,316. The Program's Management Review Section found during a validation of Program performance data that the correct number is 53,831. Program managers plan to report the correct number (53,831) in a revision to the Program's budget request.

[5] The Program calculated the standard and performance results using different methods. Therefore, the standard and performance results are not comparable. See discussion on page 6.

Source: Office of Program Policy Analysis and Government Accountability review of the Fiscal Year 1996-97 General Appropriations Act, Program Legislative Budget Requests, and Program records supporting reported performance

Program Outcomes

Customer Satisfaction. It is important to consider customer satisfaction when evaluating the performance of a service-oriented program. Customer satisfaction measures can be good indicators of the quality of services the Program provides to its customers. The Program is required by statute to measure its performance in achieving its mission by assessing customer satisfaction and comparing its administrative costs to the administrative costs of comparable retirement systems.

The Program's performance-based program budgeting measures show that the Program has performed well in maintaining a high level of customer satisfaction with its services. As shown in Exhibit 1, the majority of the Program's customers (retired and active members of retirement systems and state agencies and local government units that employ active members) are satisfied with Program services and the retirement-related information provided them.

Exhibit 1 also indicates that while active members are less satisfied with Program services, their level of satisfaction has significantly increased over the last two fiscal years. Program managers attribute this increase to the Program providing active members with a new service (annual statements showing a member's accumulated retirement benefits).

Payroll Transactions. The Program's measures also show that state and local government agencies have maintained a high level of accuracy in their payroll transactions. The Program uses accuracy of payroll transactions as an indirect indicator of its success in keeping agencies informed on how to correctly process retirement contributions. As seen in Exhibit 1, the percentage of agency payroll transactions correctly reported increased from Fiscal Year 1995-96 to Fiscal Year 1996-97 and met the standard (99%) for Fiscal Year 1996-97. This measure is also a reflection of how well state and local government agencies administer the FRS retirement contributions made through their payrolls. We were unable to determine the degree to which the Retirement Program brought about high levels of accuracy in payroll transactions as opposed to efforts made by the state and local government agencies.

Financial Health of the Florida Retirement System. The Program's measures further demonstrate that the FRS's funding status (ratio of assets to liabilities) was greater than expected by the end of Fiscal Year 1996-97 and that the FRS has significantly improved over time in accruing sufficient assets to cover its liabilities. However, it should be noted that the funding ratio is beyond the Retirement Program's control, and thus is not an indicator of Program performance. The State Board of Administration's strong performance in investing FRS funds was a major reason why the funding ratio increased. Nevertheless, this measure was included in the Program's budget because it is an important indicator of the FRS's financial health.

Program Efficiency

Administrative Cost and Staffing Levels. The Program's measures show that the Program operates at a lower cost per member and with a lower staffing level than large retirement programs in other states. As discussed earlier, the Program is required by statute to measure its performance in achieving its mission by comparing its administrative costs with the costs of comparable retirement systems. Two of the Program's measures provide information for this type of comparison (*administrative cost per active and retired member* and *ratio of active and retired members to Division FTE*). For comparison purposes, the Program's budget request includes footnotes to these two measures that provide information on the administrative cost and staffing levels of other large state programs. This information is shown in Exhibit 2. As seen in the exhibit, the Program's cost per member of $20.84 in Fiscal Year 1996-97 is much lower than the costs for the other large state programs, which had costs per member ranging from $37 to $61 in 1994.

These results should be interpreted with some caution for two reasons:

- There may be differing service levels between the Retirement Program and the other state programs used for the comparison. A Program survey of the other state programs indicated that some of these programs provide additional services, such as online access to member benefit information and field offices. Providing different services would affect the costs and staffing needs of the other state programs.

- The data the Program used for this comparison may not reflect the current costs and staffing levels of the other state programs. The data came from a published survey conducted in 1995, and survey respondents were asked to provide information as of 1994. Since programs' costs and staffing levels are more likely to increase rather than decrease over time, the other state programs' costs and staffing levels presented in the Program's budget request may be understated.

Although the Program's administrative cost per member has significantly increased over time, the increase is not due to significant staffing level increases. As shown in Exhibit 1, the Program is serving more members over time without a commensurate increase in its staffing level. Instead, the increase in Program administrative cost is primarily due to the cost of a Program re-engineering project. The Program's re-engineering project is expected to improve service quality by changes such as updating the Program's computer and records management systems. As seen in Exhibit 1, the Program's administrative cost per member was $19.20 in Fiscal Year 1995-96 and $20.84 in Fiscal Year 1996-97 (a 9% increase). The Program is requesting a standard for this measure of $30.95 in Fiscal Year 1998-99, which is an average annual increase of 22% over its Fiscal Year 1996-97 costs. This increase is mainly due to the Program's costs for implementing its re-engineering project rather than increases in the Program's employee salaries, staffing levels, or expenses.

It should also be noted that the Program did not meet its Fiscal Year 1996-97 standards for the administrative cost per member or the ratio of membership to staff. However, not meeting the standards does not mean that the Program has performed poorly. The Program's ability to meet the standards for these measures is affected by the accuracy with which staff can predict workload when the standards are established. Program staff slightly over-projected the number of active employee members for Fiscal Year 1996-97 when they calculated the standards. The growth rate in the number of active members between Fiscal Years 1994-95 and 1996-97 was slower than historical growth rates.

Output Measures. The Program's output measures show that the Program's workload has generally increased over time as retirement system membership has grown. For example, the Program issued more benefit payments than expected in Fiscal Year 1996-97 and more than in the prior year. The Program also added more retirees than expected to its benefit payment system in Fiscal Year 1996-97.

Exhibit 2
The Retirement Program Had a Lower Administrative Cost Per Member and Higher Ratio of Members to Staff in Fiscal Year 1996-97 Than Comparable Programs in Other States

	Florida Retirement Program	California Teachers' Retirement System	California Public Employees' Retirement System	New York State and Local Employees Retirement Systems	Ohio Public Employees' Retirement System	Teacher Retirement System of Texas
Administrative Cost Per Member	$20.84	$60.62	$57.08	$54.07	$36.67	$38.04
Ratio of Members to Program Staff	3,235:1	1,264:1	1,517:1	1,706:1	1,613:1	2,075:1

Note: The Program uses a national survey conducted by the Public Pension Coordinating Council to obtain information on other programs for this comparison. The most recent survey was published in 1996 based on data collected during 1995. Survey respondents were asked to provide information for 1994. The information for Florida's Retirement Program is for Fiscal Year 1996-97. The Program selected the other state programs based on size of membership.

Source: Office of Program Policy Analysis and Government Accountability review of the Fiscal Year 1998-99 Retirement Program Legislative Budget Request, interviews with Program staff, and Program records

The output measures also appear to show that the Program processed significantly fewer retirement benefit estimates than expected. However, this was actually due to an error in setting the Fiscal Year 1996-97 standard. The standard represented the expected number of retirement benefit estimates and the number of requests for estimates of the cost to purchase credit for additional years of service such as for time spent in the military or employed by another state. However, in reporting actual performance, Program staff only included the number of retirement benefit estimates. Thus, the standard and the reported actual results are not comparable.

What improvements can be made to the Program's measures and standards for the upcoming fiscal year?

Neither our review nor a review conducted by the Program's Management Review Section identified any significant problems with the accuracy and reliability of performance measure data, except as discussed below. However, we concluded that the Program's measures could be improved by the Program: (1) establishing better methodologies to determine performance results for two of the outcome measures, (2) adding a measure that assesses the Program's timeliness in providing services, and (3) adjusting administrative costs to better reflect non-recurring costs associated with its re-engineering project.

Establish Better Methodologies. The Program has not established valid methodologies for measuring the *percentage of retirement services offered by FRS compared to comparable programs* and the *percentage of local retirement systems funded on a sound actuarial basis.*

- **Percentage of retirement services offered by FRS compared to comparable programs.** As worded, this outcome measure purports to assess the extent to which Florida's program provides the services provided by other large state pension plans. However, the Program's methodology for measuring this outcome has two major problems that weaken its usefulness for assessing performance:

  First, Program staff excluded from their calculations some of the services provided by the other states or included services only provided by Florida's program. Services provided by other states were excluded either because Program staff did not think the services were desirable for Florida's program or because all programs routinely offered the services. Further, when calculating the percent of services the Program provides, Program staff included two activities conducted by Florida's program and not by the other states (overseeing local retirement systems and administering two defined contribution plans).

  Second, Program staff have not updated their information on services provided by other states since 1995. Consequently, the Program may not be comparing itself against services currently provided by comparable programs.

- **Percentage of local retirement systems funded on a sound actuarial basis.** The Program did not use a valid methodology for calculating the percent of local retirement systems funded on a sound actuarial basis and has not accurately reported its performance using the methodology. The Program's methodology and reporting of performance had several problems. For example:

  - As worded, the measure purports to assess the funding status of all of the local retirement systems for which the Program has oversight responsibility. Instead, Program staff stated that they determined the percentage of local retirement plan actuarial valuations and impact statements they reviewed during the fiscal year that were "state-accepted" (determined by staff to be in compliance with Florida law and Division rules). This approach does not actually measure the funding status of all of the state's local retirement systems. Local retirement systems are only required to submit actuarial valuations every three years (they may conduct these more frequently) and may perform actuarial impact statements at any time. As a result, local retirement systems that did not have an actuarial valuation or impact statement made during the fiscal year would be left out of Program staff's calculations.

- The Program has not made a final determination as to whether or not a large portion of the state's 444 local retirement plans comply with funding requirements. The Program keeps a pending list of actuarial valuations and impact statements which staff have either not reviewed or for which staff have not received sufficient information to make a final determination as to whether or not the document is in compliance with funding requirements. As of October 31, 1997, 200 local retirement systems had actuarial valuations and impact statements that had been pending for over one year.[3] According to Program management, the Program will not complete a review of any subsequent actuarial valuations or impact statements sent in by these plans until the ones on the pending list are completed.[4]

- The Program's method of calculating results for this measure may count some systems more than once. Local retirement systems would be counted more than once if they submitted both an actuarial valuation and an impact statement or more than one impact statement during the fiscal year.

- Program staff did not actually report the results of their analyses. Program staff calculated percentages ranging from 96% to 97% for Fiscal Years 1994-95 to 1996-97. However, they reported that "98%" of local retirement systems were funded on a sound actuarial basis as performance for these fiscal years in the last three Program Legislative Budget Requests. The standard for this measure has been 98% for each year the Program has been under performance-based program budgeting.

Program Management Review Section staff recalculated results for this measure for Fiscal Year 1996-97 using a methodology that took into account local retirement plans the Program completed reviewing during the fiscal year and that did not count any plans more than once. Using this methodology, they determined 92% of local retirement systems were funded on a sound actuarial basis rather than 98% as reported. Although this approach is an improvement over the one the Program has been using, it does not address our concern about excluding plans that did not submit an actuarial valuation or impact statement during the fiscal year in question. The approach used by the Management Review Section also would not account for local retirement plans that have submitted documents the Program has not resolved. The 92% figure represents 38% (167 out of 444) of the local retirement plans for which the Program had oversight responsibility in Fiscal Year 1996-97.

Add a Measure of Timeliness in Providing Services. The Program should add a measure to assess its performance in providing services on a timely basis. A timeliness measure would provide a more direct indication of service quality than customer satisfaction surveys and would hold the Program more accountable for the investment the state is making in its re-engineering project. The Program has been appropriated $12 million over the last four fiscal years for a re-engineering project that is intended to improve its efficiency and timeliness. The Program is requesting an additional $9 million for this project in Fiscal Year 1998-99. A timeliness measure would help demonstrate the results of this large investment. For example, the Program currently takes an average of two months to process an application for a benefit estimate. Program management is hoping that improvements in the Program's computer systems and record-keeping methods resulting from the re-engineering project will reduce this time to two weeks. Program plans show that these improvements are scheduled for completion by July 1999.

Adjust Administrative Costs to Exclude Non-Recurring Re-Engineering Costs. As discussed previously, the Program includes the costs of its re-engineering project in calculating its average per-member costs. The re-engineering project has significantly increased the Program's administrative costs for Fiscal Year 1994-95 through 1997-98 and will continue to affect these costs through Fiscal Year 1998-99. Moreover, the Program's re-engineering project costs will grow significantly as the Program begins to implement improvements in its computer and record keeping systems. For example, the Program is requesting a Fiscal Year 1998-99 standard of $30.95 as compared to its administrative costs of $20.84 per member in Fiscal Year 1996-97. Since the

[3] There were a total of 400 actuarial valuations and impact statements that had been pending for over one year. The average time that these actuarial valuations and impact statements have been pending is approximately two and a half years.

[4] Program management indicated that they have plans to reduce the backlog by the end of the current fiscal year.

re-engineering costs are non-recurring, including these in the Program's administrative cost calculations reduces the usefulness of comparing prior and future years' costs.

Conclusions and Recommendations

The Retirement Program's measures show that the Program has maintained high levels of customer satisfaction. Two major groups of Program customers (retirees and state agencies and local government units that employ active retirement system members) remain highly satisfied with Program services. Active members are less satisfied with Program services, although their level of satisfaction has increased over the last two fiscal years. The Program's measures also show that it is efficiently using its resources when compared to similar programs in other states.

With two exceptions, the Program has been providing reasonably reliable and accurate performance data. The Program's methodologies for two of its measures do not validly portray its performance because they measure different outcomes than those described by the measures (the *percentage of retirement services offered by FRS compared to comparable programs* and the *percentage of local retirement systems funded on a sound actuarial basis*). These measures would be improved by establishing better methodologies or rewording the descriptions of the measures to better reflect the information being reported.

The Program's measures would also be improved by adding a measure that assesses the Program's timeliness in providing services. A timeliness measure with an appropriate standard would hold the Program more accountable for the large state investment in its re-engineering project. Further improvement in the Program's measures would be achieved by adjusting how the Program measures its administrative cost per member to better reflect non-recurring costs associated with the Program's re-engineering project.

Accordingly, we recommend that the Program:

- establish methodologies that more accurately measure the *percentage of retirement services offered by FRS compared to comparable programs* and the *percentage of local retirement systems funded on a sound actuarial basis*. Alternatively, the Program should request the Legislature to change the wording of these measures to reflect what is actually being measured. If the latter alternative is chosen, the Program should ensure that its methodology for the second measure does not result in a duplicative count of local retirement systems that have submitted both actuarial valuations and impact statements during a fiscal year, and accounts for plans for which the Program has not been able to resolve questions about an actuarial valuation or impact statement within a reasonable length of time, such as six months; and

- exclude re-engineering costs when calculating Program administrative cost per member and instead provide this information in a footnote to its Legislative Budget Request Schedule D-2.

We also recommend that the Legislature:

- add a measure of the Program's time to process benefit estimates to the Program's output measures.

Agency Response

The State Retirement Director agreed with our recommendations and described actions the Divison is taking to implement them.

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