Program Evaluation and Justification Review

Retirement Program Administered by the Division of Retirement

June 1998

Office of Program Policy Analysis and Government Accountability

Report No. 97-75

OPPAGA Mission Statement

This Office provides objective, independent, professional analyses of state policies and services to assist the Florida Legislature in decision-making, to ensure government accountability, and to recommend the best use of public resources.

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The Florida Legislature

OFFICE OF PROGRAM POLICY ANALYSIS AND GOVERNMENT ACCOUNTABILITY

John W. Turcotte, Director

June 1998

The President of the Senate,
the Speaker of the House of Representatives,
and the Legislative Auditing Committee

I have directed that a program evaluation and justification review be made of the Retirement Program administered by the Division of Retirement. The results of this review are presented to you in this report. This review was made as a part of a series of justification reviews to be conducted by OPPAGA under the Government Performance and Accountability Act of 1994. This review was conducted by Becky Vickers and Ron Patrick under the supervision of Thomas S. Roth.

We wish to express our appreciation to the staff of the Division of Retirement for their assistance.

Sincerely

John W. Turcotte
Director

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Executive Summary

Report No. 97-75

Retirement Program Administered by the Division of Retirement

Scope

OPPAGA is required to complete a Program Evaluation and Justification Review of each state agency program that is operating under a performance-based program budget. This report examines the Retirement Program and identifies alternatives for improving program services.

Background

Florida has the fourth largest state retirement system in the United States (the Florida Retirement System), which is administered by the Division of Retirement. The division's mission as established by statute is to provide quality and cost-effective services. The Retirement Program encompasses all of the division's activities. The program has two subprograms:

1. **Administering statewide retirement systems.** The Retirement Program administers all statewide retirement systems, the largest of which is the Florida Retirement System (FRS). Administering the FRS is the program's primary responsibility. The FRS provides retirement benefits for approximately 600,000 active employee members and 150,000 retirees. Approximately 800 government agencies participate in the FRS, including all state agencies, counties, and school boards, and many cities and special districts.[1] 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, and processing requests for benefit estimates. For Fiscal Year 1997-98, the program was appropriated $1.95 billion ($1.93 billion to pay benefits and $21 million for operations) and 239 staff for this function.

2. **Overseeing local government retirement systems.** The program is responsible for overseeing all Florida local government retirement systems that are not part of the FRS. Program activities include monitoring the actuarial soundness

[1] FRS members are predominantly local government employees (75%).

of local retirement systems, reviewing the actuarial impact of any proposed changes to these systems, and approving the distribution of insurance premium tax revenues to local police and firefighter pension plans. For Fiscal Year 1997-98, the program was appropriated $545,000 and nine staff for this function.

Conclusions

The Retirement Program is necessary. The Retirement Program should be continued. The program's primary purpose is to provide the administrative services necessary to support a large pension system for state, school district, county, and many other local government employees. Providing a pension benefit helps public employers attract and retain the employees necessary to operate their programs.

Not offering a pension to employees would put state, school district, county, and local government employers participating in FRS at a competitive disadvantage in attracting new employees from the job market and retaining experienced employees. A Department of Management Services (DMS) 1997 survey of 762 recently-hired state employees found that having a retirement benefit was the fifth most important of 13 factors considered in deciding to work for the state. Having a pension benefit is even more important in retaining experienced employees. A DMS survey of state employees employed for over a year found that for employees with 1 to 15 years of service, having a retirement benefit was the fourth most important factor in deciding to remain employed with the state. For employees with 20 or more years of service, the retirement benefit was the most important factor.

The program also benefits the public through its oversight over the billions of dollars under the control of local government retirement systems. This function helps protect Florida taxpayers from the potential liability if any of these systems were to engage in unsound financial practices.

The program's functions are not unnecessarily duplicative with those of other agencies, and we did not identify any benefit from transferring these functions to another agency. The Division of Retirement is the only state agency with a role of providing centralized retirement system support services. A centralized administrative support function is an efficient way to provide the necessary support services for the Florida Retirement System (FRS). It would be inefficient and unnecessarily duplicative to eliminate this centralized support function and expect these services to be provided by the 800 FRS employers.

Privatization is not currently viable. Outsourcing (privatizing) the program's responsibilities in administering retirement systems is not a viable alternative at this time. Due to the size of the Florida Retirement System and the complexity of its benefit structure, the system's needs are very specialized. Industry representatives reported that private sector firms providing retirement plan administration services are generally geared toward handling smaller and less complex types of pension plans than the Florida Retirement System. Although it may be possible to attract private sector firms willing to attempt to administer such a large program, there are significant risks involved in the event of poor contractor performance. For example, missing, late, or inaccurate retirement checks would be highly detrimental to retirees, as well as potentially costly to the state. We did not identify any other states that have outsourced this type of function.

Program Performance and Options for Improvement: **The program has performed well in administering statewide retirement systems, but its effectiveness in overseeing local systems has been limited due to an untimely review process. There are opportunities for improvement in both subprograms.**

1. **Administering statewide retirement systems.** The Retirement Program has achieved high levels of customer satisfaction with its administrative services and has efficiently used its resources in comparison to similarly sized state retirement systems. Moreover, the efficiency and effectiveness of this subprogram is likely to improve even further as a result of a re-engineering project undertaken to enable the program to improve its business processes and address information system and recordkeeping needs so that it can handle future growth in FRS membership. However, the Division of Retirement needs to establish performance indicators to help track the progress of the re-engineering project and evaluate its success in meeting project goals. The program's performance-based program budgeting measures would be improved by adding measures that indicate how well the FRS is serving its primary purpose of attracting and retaining employees. This information would assist the Legislature in its deliberations over alternative pension plan designs for the FRS.

2. **Overseeing local government retirement systems.** Program staff have identified significant instances of problematic local retirement plan financial practices. However, the effectiveness of this activity is limited because program staff have not reviewed and approved the actuarial documents from a large percentage of local plans in a timely manner. Program staff would be better able to review actuarial documents in a timely manner if they used risk-based criteria and random sampling to select documents for further review by the program's actuary.

Recommendations

Table 1 summarizes our recommendations to improve program performance and reporting of information to the Legislature.

Table 1
Recommendations for Changes to Improve the
Retirement Program's Performance and Reporting of Information to the Legislature

Program Activity	Recommended Improvements
Administering Statewide Retirement Systems	The Division of Retirement should establish performance indicators for its re-engineering project. Establishing performance indicators will require the division to select key processes and indicators, measure its performance prior to implementation of its re-engineered systems, and establish targets for expected performance results from the re-engineering project. The Legislature should revise the Retirement Program's performance-based program budgeting measures to add an outcome measure that indicates whether the FRS pension benefit is helping to attract public employees and another measure that indicates whether it is helping to retain experienced public employees. With some revisions, the program's annual surveys of FRS members could be used to provide the data for these measures. The measures would be for informational purposes rather than serving as assessments of program performance. The program should also use its annual surveys to obtain other information that may be of interest to the Legislature, such as preferences for alternative plan designs or whether experienced employees would prefer increases in salary levels over increases in pension benefits.
Overseeing Local Government Retirement Systems	The Legislature should revise s. 112.63(4) and (5), F.S., to allow the program's actuary to selectively review local government actuarial documents. The Division of Retirement should develop risk-based criteria that program staff could use to select local government actuarial documents for further review by the program's actuary. As time permits, the program's actuary should also randomly sample the documents from plans that do not meet the criteria.

Source: Office of Program Policy Analysis and Government Accountability

Agency Response

The Director of the Division of Retirement stated, in his written response to our preliminary and tentative report, that it is premature and unrealistic at this time to try and establish performance indicators for the reengineering project. He also did not agree that it is necessary or desirable to establish another outcome measure in addition to the existing eight outcome measures for the program.

The Director's complete response with appropriate OPPAGA comments is contained in Appendix E, page 41.)

Chapter 1: Introduction

Purpose

This is the second of two reports presenting the results of OPPAGA's Program Evaluation and Justification Review of the Retirement Program administered by the Division of Retirement. The Government Performance and Accountability Act of 1994 directs OPPAGA to complete a justification review for each state program after its first year of operation under a performance-based program budget. OPPAGA is to review each program's performance and identify alternatives for improving services.

This report analyzes the services provided by the Retirement Program and identifies alternatives for improving these services.[1] Appendix A summarizes our conclusions regarding the nine issue areas the law requires to be considered in a program evaluation and justification review.

Background

The Retirement Program Administers Statewide Retirement Systems and Oversees Local Government Retirement Systems

Florida has the fourth largest state retirement system in the United States (the Florida Retirement System), which is administered by the Division of Retirement. The division's mission as established by statute is to provide quality and cost-effective retirement services. 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 Retirement Program is administered by the Division of Retirement and encompasses all of the division's activities. The program has two subprograms:

1. **Administering statewide retirement systems.** The Retirement Program administers all statewide retirement systems, the largest of which is the Florida Retirement System (FRS). (See Appendix B for a list of the statewide retirement systems administered by the Retirement Program.)

[1] Our first report, OPPAGA Report No. 97-39, dated February 1998 (contained in Appendix D), addressed the program's performance based on its performance-based program budgeting measures and standards and made recommendations for improvements of these measures. Together, these two reports address the areas the law requires in a justification review.

Administering the FRS is the program's primary responsibility. The FRS provides retirement benefits for approximately 600,000 active employee members and 150,000 retirees. Approximately 800 government agencies participate in the FRS, including all state agencies, counties, and school boards, and many cities and special districts.[2] (See Appendix C for further information on the provisions of the FRS.)

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, and processing requests for benefit estimates. Employer contributions and earnings on investment of these contributions fund the retirement benefits paid to retirees. FRS employers submit contributions to the Retirement Program as part of their employee payroll transactions. Program staff then transfer the contributions to the State Board of Administration, which is responsible for investing FRS assets. As of June 30, 1997, the market value of FRS assets was $67 billion.

2. **Overseeing local government retirement systems.** The program is responsible for overseeing 444 Florida 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 tax revenues to qualified municipal police officer and firefighter pension plans. In order to receive the insurance premium taxes, the police officer and firefighter plans must be annually approved by the Retirement Program as having met statutory requirements, such as providing a minimum level of benefits and meeting actuarial funding requirements.[3] As of May 1998, the program had approved the distribution of $64 million in premium taxes collected for calendar year 1996 to 347 municipal police officer and firefighter pension plans.[4]

For Fiscal Year 1998-99, the Retirement Program was authorized 248 positions and appropriated $2.13 billion ($2.1 billion to pay

[2] FRS members are predominantly local government employees (75%).

[3] Chapter 175, F.S., establishes the requirements for municipal firefighter pension plans to receive insurance premium tax revenues. Chapter 185, F.S., establishes similar requirements for municipal police officer pension plans.

[4] Insurance premium taxes are collected quarterly during the calendar year in which they occur. The program then has until June of the following year to approve the distribution of premium tax revenues to local police officer and firefighter pension plans. Although most of the money is distributed in June, some of the distribution occurs after June as plans come into compliance.

benefits and $27 million for program operations). Exhibit 1 shows expenditures and full-time equivalent (FTE) employee positions for the program's two subprograms for Fiscal Year 1996-97 and appropriations for Fiscal Year 1997-98. The program's activities in administering statewide retirement systems are primarily funded by income from the investment of contributions state and local government employers make on behalf of their employees. Its activities in overseeing local government retirement systems are funded by investment income from insurance premium tax revenues collected to fund local government police officer and firefighter pension benefits.

Exhibit 1
Retirement Program Expenditures, Appropriations, and Staffing for Subprograms
Fiscal Years 1996-97 and 1997-98

	1996-97		1997-98	
	Expenditures	**FTEs**	**Appropriations**	**FTEs**
Administering statewide retirement systems	$ 15,056,715	221	$ 21,422,410	239
--Payment of pensions and benefits	1,821,038,670		1,925,096,786	
Overseeing local government retirement systems	720,375	10	544,785	9
Total	**$1,836,815,760**	**231**	**$1,947,063,981**	**248**

Source: Division of Retirement records and Fiscal Year 1997-98 General Appropriations Act

The Florida Retirement System has recently made significant progress in accumulating assets to cover the liabilities for benefits owed to its members, predominantly due to strong investment performance on the funds invested by the State Board of Administration. During Fiscal Year 1996-97, Florida Retirement System Trust Fund revenues totaled $14.651 billion, with $11.563 billion in net investment-related income and $3.089 billion from contributions made by state and local government units ($805 million from state employers, $2.258 billion from local government employers, and $26 million from employee contributions).[5] The FRS funding ratio (ratio of assets to liabilities) increased from 77% in Fiscal Year 1994-95 to 91% in Fiscal Year 1996-97.

[5] Employee contributions to the Florida Retirement System Trust Fund in Fiscal Year 1996-97 represent purchases of service credits, such as for military service. FRS members normally do not make financial contributions.

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Chapter 2: General Conclusions and Recommendations

The Retirement Program Benefits the State and Should Be Continued

Program Necessity. The Retirement Program should be continued. The program's primary purpose is to provide the administrative services necessary to support a large pension system for state, school district, county, and many other local government employees. Providing employees with a pension is of public benefit because it helps state and local government employers attract and retain the employees necessary to operate their programs.

Not offering a pension to employees would put state, school district, county, and local government employers participating in FRS at a competitive disadvantage in attracting new employees from the job market and retaining experienced employees. A Department of Management Services (DMS) 1997 survey of 762 recently-hired state employees found that having a retirement benefit was the fifth most important of 13 factors considered in deciding to work for the state.[6] Having a pension benefit is even more important in retaining experienced employees. A DMS survey of state employees employed for over a year found that for employees with 1 to 15 years of service, having a retirement benefit was the fourth most important factor in deciding to remain employed with the state. For employees with 20 or more years of service, the retirement benefit was the most important factor.[7]

The program also benefits the public through its oversight over the billions of dollars that local government retirement systems owe in benefits to their members. This activity helps protect taxpayers from the potential liability if any of these systems were to engage in unsound financial practices.

The program's activities are not unnecessarily duplicative with those of other agencies, and we did not identify any benefit from

[6] This survey was conducted by the Department of Management Services' (DMS) Workforce Program in 1997 to gather information to help in the recruitment, selection, and retention of workers. The Workforce Program surveyed 762 employees who had worked for the state for less than one year, and asked them to assign points to various factors to show how important each factor was in their decision to pursue employment with the state. The points ranged from 1 for "not important" to 10 for "very important." The factors ranked in order of average scores were as follows: 9.22 for job security, 9.06 for insurance benefits, 8.99 for sick and annual leave benefits, 8.8 for job duties or type of work, 8.75 for retirement benefits, 8.44 for salary, 8.35 for work hours or flextime, 8.23 for job location, 8.11 for other factors, 7.91 for training or educational programs, 6.18 for employee recognition programs, 5.67 for telecommuting programs, and 5.37 for child care program.

[7] In 1997, DMS's Workforce Program surveyed five groups of experienced state employees. The groupings were: 1 to 5 years, 5 to 10 years, 10 to 15 years, 15 to 20 years, and over 20 years of employment with the state. The importance of having a retirement benefit varied among the groups. Survey participants were asked to use a 10 point scale to rate 16 factors on their importance.

transferring these activities to another agency. The Division of Retirement is the only state agency with a role of providing centralized retirement system support services. A centralized administrative support function is an efficient way to provide the necessary support services for the FRS. It would be inefficient and unnecessarily duplicative to eliminate this centralized support function and expect these services to be provided by the 800 state and local government FRS employers.

Outsourcing Is Not a Viable Alternative at this Time

Privatization. Outsourcing (privatizing) the program's responsibilities in administering retirement systems is not a viable alternative at this time. Due to the size of the Florida Retirement System and the complexity of its benefit structure, the system's needs are very specialized. Industry representatives reported that private sector firms providing retirement plan administration services are generally geared toward handling smaller and less complex types of pension plans than the Florida Retirement System. Although it may be possible to attract private sector firms willing to attempt to administer such a large program, there are significant risks involved in the event of poor contractor performance. For example, missing, late, or inaccurate retirement checks would be highly detrimental to retirees, as well as potentially costly to the state. We did not identify any other states that have outsourced this type of function.

Program Performance and Options for Improvement. The program has performed well in administering statewide retirement systems, but its effectiveness in overseeing local systems has been limited due to an untimely review process. There are opportunities for improvement in both subprograms:

- **Administering statewide retirement systems.** The Retirement Program serves 150,000 retirees, 600,000 active employee members, and 800 FRS employer agencies. The program has achieved high levels of customer satisfaction with its administrative services and has efficiently used its resources in comparison to similarly sized state retirement systems. The efficiency and effectiveness of this subprogram is likely to improve even further as a result of a re-engineering project undertaken to enable the program to improve its business processes and address information system and record keeping needs so that it can handle future growth in FRS membership. However, the Division of Retirement needs to establish performance indicators to help track the progress of its re-engineering project and evaluate its success in meeting project goals. The program's performance-based program budgeting measures would be improved by adding measures that indicate how well the FRS is serving its primary purpose of attracting and retaining employees. This information would assist the Legislature in its deliberations over alternative pension plan designs for the FRS.

- **Overseeing local government retirement systems.** Program staff have identified significant instances of problematic local retirement plan financial practices. However, the effectiveness of this activity is limited because program staff have not reviewed and approved the actuarial documents from a large percentage of local plans in a timely manner. Program staff would be better able to review actuarial documents in a timely manner if they used risk-based criteria and random sampling to select documents for further review by the program's actuary.

Recommendations. Exhibit 2 summarizes our recommendations to improve program performance and reporting of information to the Legislature.

Exhibit 2
Recommendations for Changes to Improve the
Retirement Program's Performance and Reporting of Information to the Legislature

Subprogram	***Recommended Improvements***
Administering Statewide Retirement Systems	The Division of Retirement should establish performance indicators for its re-engineering project. Establishing performance indicators will require the Division to select key processes and indicators, measure its performance prior to implementation of its re-engineered systems, and establish targets for expected performance results from the re-engineering project. The Legislature should revise the Retirement Program's performance-based program budgeting measures to add an outcome measure that indicates whether the FRS pension benefit is helping to attract public employees and another measure that indicates whether it is helping to retain experienced public employees. With some revisions, the program's annual surveys of FRS members could be used to provide the data for these measures. The measures would be for informational purposes rather than serving as assessments of program performance. The program should also use its annual surveys to obtain other information that may be of interest to the Legislature, such as preferences for alternative plan designs or whether experienced employees would prefer increases in salary levels over increases in pension benefits.
Overseeing Local Government Retirement Systems	The Legislature should revise s. 112.63(4) and (5), F.S., to allow the program's actuary to selectively review local government actuarial documents. The Division of Retirement should develop risk-based criteria that program staff could use to select local government actuarial documents for further review by the program's actuary. As time permits, the program's actuary should also review a random sample of the documents that do not meet the criteria.

Source: Office of Program Policy Analysis and Government Accountability

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Chapter 3: Administering Statewide Retirement Systems

Introduction

The Retirement Program supports Florida's statewide retirement systems. Its duties 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.

Program Performance

The Retirement Program serves 150,000 retirees, 600,000 active employee members, and 800 Florida Retirement System (FRS) employer agencies. For Fiscal Year 1996-97, its workload in serving these customers included adding 12,000 retirees to the retired payroll, providing 54,000 estimates of the benefit members could expect when they retire, and issuing 1.9 million benefit payments. The program's workload has increased over time as FRS membership continues to grow.

The Program Has Performed Well in Administering Statewide Retirement Systems

The program has been effective in maintaining a high level of customer satisfaction with its administrative services for statewide retirement systems. Customer satisfaction measures can be good indicators of the quality of services the program provides to its customers. As shown in Exhibit 3, the majority of the program's customers (retired and active members of retirement systems and state agencies and local government entities that employ active members) are satisfied with program services and the retirement-related information provided them. While active members are less satisfied with program services, their level of satisfaction significantly increased from Fiscal Year 1995-96 to 1996-97. Program managers attribute this increase to the program providing a new service (annual statements showing a member's accumulated retirement benefits).

Exhibit 3
The Retirement Program Performed Well in Maintaining High Levels of Customer Satisfaction for Fiscal Year 1996-97 and Improved Its Performance Over Time

	1995-96 Performance	1996-97 Performance-Based Program Budgeting Standards	1996-97 Performance	Met Standard for 1996-97?	Improved Performance Over Time?
Percentage of participating agencies/members satisfied with retirement information					
Agencies	99%	95%	**99%**	Yes	Same
Members					
Active	67%	65%	**78%**	Yes	Yes
Recent Retired	94%	90%	**97%**	Yes	Yes
Other retired	96%	94%	**98%**	Yes	Yes
Percentage of participating agencies/members satisfied with retirement services					
Agencies	99%	95%	**98%**	Yes	No
Members					
Active	69%	65%	**82%**	Yes	Yes
Recent Retired	95%	90%	**98%**	Yes	Yes
Other retired	98%	94%	**99%**	Yes	Yes

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

The program is efficiently using its resources in that it operates at a lower cost per member and with a lower staffing level than large retirement programs in other states. As shown in Exhibit 4, 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 $24 to $89 in 1996. This is especially significant considering that the Retirement Program's costs include the non-recurring costs of a five-year re-engineering project. As shown in Exhibit 5, the program is also serving more members over time without a commensurate increase in staff.

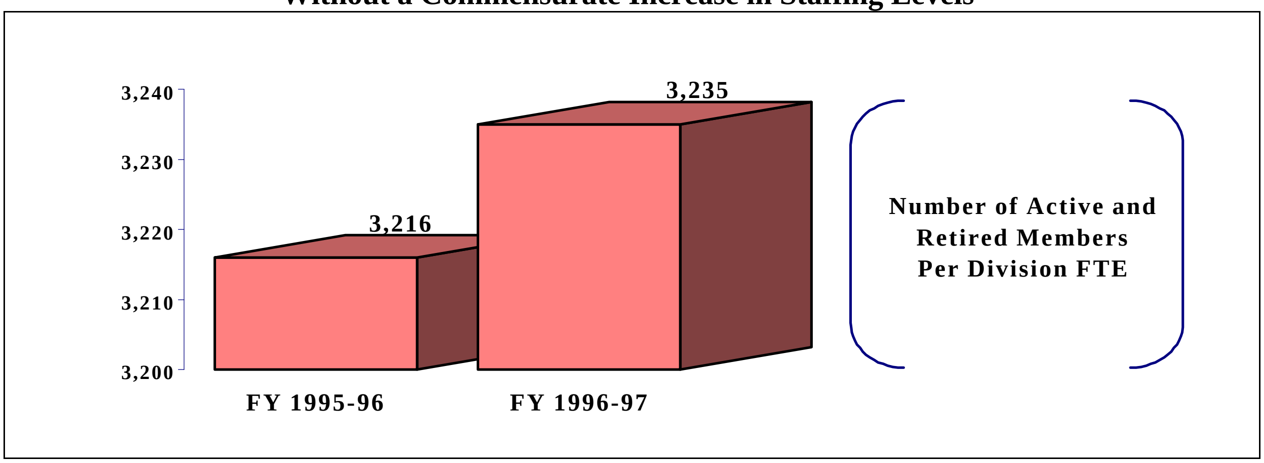
Exhibit 4
The Retirement Program Had a Lower Administrative Cost Per Member and Higher Ratio of Members to Staff in Fiscal Year 1996-97 Than Comparable Programs in Other States

	Florida Retirement Program	California Public Employees' Retirement System	California Teachers' 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	$88.67	$66.55	$57.85	$41.97	$24.41
Ratio of Members to Program Staff	3,235:1	1,261:1	1,346:1	1,458:1	1,540:1	2,444:1

Note: The administrative cost and staffing information for the other states has been updated since our previous report was published. The program uses a national survey conducted by the Public Pension Coordinating Council for this comparison. At the time the program prepared its Fiscal Year 1998-99 Legislative Budget Request, the most recent survey had been published in 1996 based on data collected during 1995. A more recent survey was conducted in 1997 that collected data from 1996. The program selects the other state programs for these comparisons based on size of membership.

Source: Office of Program Policy Analysis and Government Accountability review of the 1997 Survey of State and Local Government Employee Retirement Systems, interviews with program staff, and program records

Exhibit 5
The Retirement Program Is Serving More Members Over Time Without a Commensurate Increase in Staffing Levels



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

It should be noted that the program's low administrative cost per member is likely affected by factors other than having a lower staffing level when compared to other large state-administered retirement programs. Some of the differential is due to the fact that service levels differ and that two of the other states (California and

New York) have higher costs of living than that in Florida.[8] However, given that some of the other state programs had costs three and four times higher than the Retirement Program, we concluded that the program is operating efficiently when compared to similar size state retirement programs.

Program Re-Engineering

The Program's Re-Engineering Project Should Further Improve Its Efficiency and Effectiveness

The Retirement Program is currently implementing a re-engineering project that should further improve program efficiency and effectiveness. The state has invested significant funds into re-engineering the program. The project, which began in Fiscal Year 1994-95, is estimated to cost $27 million through Fiscal year 1999-2000. The project is currently in Phase III, which is the design and implementation phase. The first two phases involved assessment and planning. Phase III is scheduled to end as of January 2000.

The purpose of the re-engineering project is to bring about necessary business process and technological improvements so that the program can more efficiently and effectively handle its responsibility to provide services to retirement system members and employing agencies. The re-engineering project has two primary goals.

1. Improve the quality of customer service by enabling the Division of Retirement to respond more quickly and accurately to member requests for calculation of benefits and other services, to issue annual statements to members, to offer voice response and telephone activated services, and to produce better management information for policy and legislative decisions.

2. Slow the work force growth of the Division of Retirement by converting to timesaving technologies that will permit the division to absorb additional workload and improve services without a corresponding increase in staff.

Improvements in the program's computer and record-keeping systems are needed to bring these systems up-to-date with current technology and to keep pace with growth in retirement system membership. Although the program has been providing basic services at a reasonable cost, its information and record-keeping systems are antiquated and have reached their maximum potential.

[8] According to the American Federation of Teachers, California's and New York's costs of living averaged approximately 23% and 17% higher, respectively, than Florida's average cost of living in 1996.

Program managers expected that if they continued using these systems, efficiency would drop and staffing costs would increase as retirement system membership continues to grow. Project consultants estimate that improvements due to the re-engineering project will avoid $10 million in future program staffing costs through the year 2004, with recurring cost avoidance continuing into the future. Program managers had also predicted that the quality of services could suffer as a result of the incapability of current information systems to handle the growing workload. By re-engineering their business processes and information and record keeping systems, program managers hope to not only keep up with their growing workload, but also improve the quality of basic services and expand the services offered. Changes to the program's information systems were also necessary to solve the program's most serious "Year 2000" computer problems.[9]

The re-engineering project should make the program more efficient and effective in how it provides information and other services to members and agencies. The project will result in significant changes to the program's computer and record-keeping systems by the end of Phase III. One significant improvement in program capabilities will be in the speed of access to member records. Due to use of older technology (paper records, microfilm, and microfiche), program staff have not been able to quickly access member records and respond to information requests. For example, responding to a request for a benefit estimate takes an average of two months.

Currently, program staff must manually retrieve members' records in order to provide an estimate of the benefit members can expect to receive upon retirement. Members' records typically date back many years and may even involve retirement credit earned under older retirement systems that were later consolidated into the FRS.[10] Due to the length of time spent manually retrieving these records and making calculations, program staff cannot efficiently respond to members' requests for this information. The re-engineering project will result in use of modern records storage methods (scanning) and work flow changes so that member records are recorded in the program's information system and can be retrieved instantaneously.

[9]The Year 2000 problem affects a multitude of automated data systems, not just those used by the Retirement Program. In order to save on data storage and operating costs, data systems have often used two digits to represent the year. This type of system cannot distinguish the year 2000 from the year 1900, 2001 from 1901, etc. Calculations based on dates (such as age calculations) will be in error once the year 2000 is reached unless these data systems are reprogrammed.

[10]The average number of years of employment before retirement under the Florida Retirement System is currently 22 years.

The Technology Review Workgroup has appointed a project monitor for the program's re-engineering project. The project monitor is a private consultant charged with the responsibility of identifying risks that could result in the project not meeting its objectives and time deadlines. Thus far, the monitor has determined that the project is within budget. However, the monitor is concerned that the project has slipped a month on its time deadlines, meaning that the program is at risk of not having a new system on line by the beginning of the year 2000. It is too soon to tell whether or not the new system will actually miss the deadline. Division managers are preparing staff to implement a contingency plan in the event the new system is not ready to go on-line by January 1, 2000. The division continues to address the monitor's other concerns to the extent possible, such as heavy time demands on project leaders and a need to get staff trained to support the new system.

Option for Improving Performance

The Re-Engineering Project Lacks Performance Indicators

Program managers have not established performance indicators to help track progress and evaluate the success of the re-engineering project. In order to determine how well the re-engineering project has achieved its goals, program managers need to establish performance indicators for the key processes that will be affected by the re-engineering. A number of program services and processes will be affected by the re-engineering project. For example, part of the project's goal to improve customer service is to "respond more quickly and accurately to member requests for calculation of benefits and other services." Program managers have established standards and have measured performance for how quickly these services are currently provided; however, they have not developed expected levels of future performance for after the re-engineering project has been completed. Moreover, program managers have not compiled actual performance levels or future performance targets for program accuracy in providing benefit estimates and other services. Although the program has internal controls over the accuracy of processes such as benefit estimates, the program has not quantified its accuracy to a sufficient degree to enable comparisons with changes in accuracy rates as a result of re-engineering.

Performance indicators help to track the progress and evaluate the success of a re-engineering effort. Policy makers expect definitive results from this type of large technology investment, and programs should be accountable for providing these results. Moreover, program managers need to be able to monitor project progress so that they can correct any problems, make resource allocation decisions, and give feedback to stakeholders about the results they have achieved through re-engineering. Establishing performance indicators requires baseline measurement of performance prior to implementing re-engineered systems, as well as selecting targets for expected performance results from the re-engineering project.

Related Issues

There has recently been a significant amount of legislative interest in alternative pension plan designs for the Florida Retirement System (FRS). This interest has been fueled by factors such as questions about how well the current design of the FRS meets the needs of Florida's state and local government employees, national interest in alternative pension design for government employees, and the FRS's significant progress in accruing assets sufficient to fully cover its liabilities.[11] For example, the Workforce 2000 Study Commission recently recommended an alternative plan design for the FRS.[12] The commission concluded that Florida's changing workforce may not be attracted to the FRS defined benefit plan and thus employees should be offered the choice of participating in a defined contribution plan.[13] In response to legislative interest in alternative pension plan designs, the Division of Retirement requested a study from its consulting actuary on the potential impact of implementing a defined contribution plan, including the impact on the FRS, costs, and federal tax implications. This study is due to be completed by June 30, 1998.

The program can assist the Legislature's deliberations by providing information on how well the FRS is serving its primary purpose of attracting and retaining employees. Accordingly, the program's performance-based program budgeting measures should be revised to add an outcome measure that indicates whether the FRS pension benefit is helping to attract public employees and another measure that indicates whether it is helping to retain experienced public employees. Measures of this type would be for informational purposes rather than serving as assessments of program performance with some revisions, the Retirement Program could

[11] As we discussed in OPPAGA Report Number 97-39, issued February 1998, the FRS has significantly improved over time in accruing sufficient assets to cover its liabilities. The FRS funding ratio (ratio of assets to liabilities) increased from 77% in Fiscal Year 1994-95 to 91% in Fiscal Year 1996-97. The State Board of Administration's strong performance in investing FRS funds was a major reason why the funding ratio increased.

[12] The 1997 Legislature established the Workforce 2000 Study Commission to "advise the Legislature and Governor on appropriate executive, statutory, and constitutional measures in the formulation and implementation of an innovative, efficient retirement and benefits program along with setting appropriate personnel administrative policy." The commission completed its work and issued recommendations in December 1997.

[13] The Florida Retirement System is a defined benefit plan. A defined benefit plan means that the employer guarantees a certain level of retirement benefits based on years of service, as opposed to a defined contribution plan in which the employer guarantees a level of contributions. In a defined contribution plan, retirees' benefits are based on the amount of investment earnings for contributions made on their behalf. In a defined benefit plan, retirees' benefits are based on formulas that take into account years of service, salary levels, and age at retirement.

use its annual surveys of FRS members to obtain this information. The program could also use its annual surveys to obtain other information that may be of interest to the Legislature, such as preferences for alternative plan designs or whether experienced employees would prefer increases in salary levels over increases in pension benefits.

Conclusions and Recommendations

The Retirement Program has performed well in satisfying its customers and in efficiently using its resources. The state has invested significant funds into a five-year re-engineering project for the Retirement Program, which is estimated to cost $27 million through Fiscal Year 1999-2000. The re-engineering project should further improve program efficiency and effectiveness by updating its business processes and information and record-keeping systems.

Although program managers have established goals for the re-engineering project, they have not established a means to evaluate the project's success in achieving these goals. Performance indicators would help program managers monitor project progress so that corrective actions can be taken when necessary, make resource allocation decisions, and communicate results to stakeholders. We therefore recommend that the Division of Retirement establish performance indicators for its re-engineering project. Establishing performance indicators will require the division to select key processes and indicators, measure its performance prior to implementation of its re-engineered systems, and establish targets for expected performance results from the re-engineering project. A list of potential performance indicators to consider that relate some of the program's processes and services to project goals is shown in Exhibit 6.

Exhibit 6
Potential Performance Indicators for Retirement Program Re-Engineered Processes

Processes	Potential Performance Indicators
Update retired payroll records	Timeliness, error rates, cost per unit of output, staff time per unit of output
Process completed retirement applications	Timeliness, error rates, cost per unit of output, staff time per unit of output
Process benefit estimates	Timeliness, error rates, cost per unit of output, staff time per unit of output
Process amount due estimates[1]	Timeliness, error rates, cost per unit of output, staff time per unit of output
Process survivor benefit determinations	Timeliness, error rates, cost per unit of output, staff time per unit of output
Process disability determinations	Timeliness, error rates, cost per unit of output, staff time per unit of output
Process requested changes to member records	Timeliness, error rates, cost per unit of output, staff time per unit of output
Phone inquiries	Response times
Correspondence	Response times
All processes	Percentage increase in the number of program staff (none or no more than x%)

[1] An "amount due" is the cost to purchase additional service credits for past service, such as for prior and military service.

Source: Office of Program Police Analysis and Government Accountability review of program documents and interviews with program staff

There has recently been a significant amount of legislative interest in alternative pension plan designs for the Florida Retirement System. The program could assist the Legislature's deliberations by providing information on how well the FRS is serving its primary purpose of attracting and retaining employees. We recommend that the Legislature revise the Retirement Program's performance-based program budgeting measures to add an outcome measure that indicates whether the FRS pension benefit is helping to attract public employees and another measure that indicates whether it is helping to retain experienced public employees. With some revisions, the program's annual surveys of FRS members could be used to provide the data for these measures. The measures would be for informational purposes rather than serving as assessments of program performance. The program should also use its annual surveys to obtain other information that may be of interest to the Legislature, such as preferences for alternative plan designs or whether experienced employees would prefer increases in salary levels over increases in pension benefits.

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Chapter 4: Overseeing Local Government Retirement Systems

Introduction

The program has two primary responsibilities in overseeing local government systems: (1) overseeing the compliance of all Florida local retirement systems with actuarial funding requirements, and (2) monitoring the compliance of municipal police officer and firefighter pension plans with requirements prerequisite to obtaining insurance premium tax revenues. The statutory requirements relating to whether a plan is eligible to receive premium tax revenues include complying with statutory actuarial funding requirements. Thus, the program's activities to fulfill the first responsibility provide part of the information necessary to fulfill the second.

Actuarial funding standards for Florida's public retirement systems are established in both the state constitution and statutes.[14] All contributions to public defined benefit plans must be adequate to cover the anticipated costs of benefits.[15] The intent of these provisions is to assure that public retirement systems are managed and funded in an actuarially sound manner that maximizes the protection of public employee retirement benefits. The statutes generally prohibit the use of any procedure, methodology, or assumption that causes any portion of pension benefit costs to be transferred to future taxpayers that should have been paid by current taxpayers.

Program staff review and comment upon actuarial valuations and actuarial impact statements submitted by local government retirement systems. An actuarial valuation determines the amount of contributions necessary to fund promised employee retirement benefits. Actuarial impact statements evaluate the effect of proposed changes upon the retirement system and whether the changes comply with constitutional and statutory requirements for sound funding. Local retirement plans are required to conduct actuarial valuations only once every three years, but may conduct these more frequently, and may perform actuarial impact statements at any time.

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[14] Article X, Section 14, of the State Constitution and Chapter 112, Part VII, F.S. (the "Florida Protection of Public Employee Retirement Benefits Act"), establish funding requirements for all public retirement systems in Florida.

[15] Under a defined benefit plan, the employer promises the employee a certain level of pension benefits based upon factors such as salary levels, years of employment, and attainment of a certain age. Ideally, the employer provides for the pension benefits by placing contributions in a pension fund on a scheduled basis, which amount plus interest is estimated to be sufficient to provide the employee with the level of benefits promised.

Upon receipt of actuarial documents, program staff perform an initial review during which they log the documents into the program's pending list and review the documents to extract key information, some of which is recorded into a database.[16] The documents are then reviewed by the program's actuary. Once the program's actuary has completed his review, he classifies the documents as either "state-accepted" (in compliance with law and program rules) or "not state-accepted" (not in compliance). Local retirement plan contribution rates are to be based on the most recent state-accepted actuarial valuation approved by the program.

Program Performance

Program staff have identified significant funding problems with some local government retirement systems. During Fiscal Years 1995-96 and 1996-97, program staff found that 40 local retirement plans were not in compliance with statutory requirements for funding pension benefits on a sound actuarial basis. The problems identified by program staff have been resolved for 33 of these plans and program staff are still working to bring the remaining 7 plans into compliance. Problems identified by program staff included inadequate contribution rates to cover promised benefits, not making up the interest lost from late contributions, increasing benefits but not adjusting plan liabilities to reflect the increase (which affects contribution rates), and other funding deficiencies. For example, one local plan added a deferred retirement option, but did not adjust its contribution rates to take into account the increased cost likely to occur because of employees using this option and retiring sooner than expected.[17] This is a significant violation of statutory funding requirements, which prohibit transferring to future taxpayers any obligation that should have been paid by current taxpayers. Another plan's actuarial assumptions did not take into account the plan's early retirement benefits, which were not being funded. This is also a significant violation of statutory funding requirements.

[16] The program's local retirement systems database is used to generate an annual report and to respond to information requests.

[17] In a deferred retirement option plan, members who are eligible for retirement may elect to continue with employment while accumulating credit for their retirement benefits.

The Program Is Not Timely in Reviewing Local Retirement Systems to Identify Funding Problems

The program has not performed well in providing a timely review of local retirement systems to identify and resolve funding problems. The program has a large backlog of pending actuarial reports for which staff have not made a final determination as to whether or not the plans are in compliance. As of October 31, 1997, 200 plans had actuarial statements and impact statements that had been pending for over one year (45% of the state's 444 local retirement systems). These documents either had not been reviewed by the program's actuary or were still outstanding because the actuary's concerns had not been resolved.[18]

In response to our prior report's comments on this subject, program managers began to use the services of the program's contracted actuarial firm to help reduce the backlog. As of the end of February 1998, program staff had eliminated 88 plans from the October 1997 backlog. However, during this same time period, the program received more documents from local retirement plans.

As of February 1998, 160 plans had pending actuarial valuations or impact statements that had been outstanding for over a year, which represents about 36% of the state's local retirement plans (see Exhibit 7). As shown in Exhibit 8, the average length of time that documents have been pending is about one and a half years. Some documents have only been pending a few days, but the length of time that documents have been pending ranges up to seven years. Often the plans submit updated actuarial valuations or impact statements before the older ones have been reviewed or resolved.

Exhibit 7
The Retirement Program Is Not Providing a Timely Review of Funding Compliance for a Large Percentage of Local Retirement Systems

Date of Program Pending List	Number of Plans with Actuarial Documents on the Pending List for Over One Year[1]	Percentage of Total Local Retirement Systems with Actuarial Documents Pending for Over One Year[1]
October 31, 1997	200	45%
February 28, 1998	160	36%

[1] The program's method of recording its pending list did not enable us to distinguish between actuarial reports that the program's actuary has reviewed and set aside due to unresolved problems, and actuarial reports that the program's actuary has never reviewed.

Source: Office of Program Policy Analysis and Government Accountability review of Retirement Program records

[18] The program's method of recording its pending list did not enable us to distinguish between actuarial reports that the program's actuary has reviewed and set aside due to unresolved problems, and actuarial reports that the program's actuary has never reviewed.

Exhibit 8
The Length of Time That Actuarial Documents Have Been Pending Ranges Up to Seven Years

Length of Time Documents Had Been on the Program's February 28, 1998, Pending List	Number of Documents
Up to one year	265
Over one year and up to two years	154
Over two years and up to three years	114
Over three years and up to four years	44
Over four years and up to five years	20
Over five years and up to six years	11
Over six years and up to seven years	4
Over seven years	1
Total	**613**
Average equals 576 days (or 1.6 years)	

Source: Office of Program Policy Analysis and Government Accountability review of Retirement Program records

The program is also not timely responding to local plans as they try to resolve questions about their actuarial valuations or impact statements, which contributes to the backlog. The program's procedure is to send local plans with non-compliant actuarial valuations or impact statements a letter requesting additional information or other corrective action. However, program staff do not always take timely action to respond to the local plans' questions or to let the local plans know whether the information they provided sufficiently addressed program staff concerns. During Fiscal Years 1995-96 and 1996-97, an average of 70 days elapsed between the time local plans responded to the program's requests and when program staff responded back to the plans. The program's timeliness in responding to local plans ranged from 5 to 419 days.

We were not able to use the program's Fiscal Year 1996-97 performance-based program budgeting measures to evaluate its performance in overseeing local retirement systems, in large part due to the program's backlog of actuarial documents. The outcome measure that relates to this area (*percentage of local retirement systems funded on a sound actuarial basis*) purports to assess the funding status of all of the local retirement systems for which the program has oversight responsibility. However, since program staff have not been timely reviewing plans, the program's measure of performance excludes a large portion of the state's local retirement systems.

Option for Improving Performance

Although program staff have identified some significant instances of problematic local retirement plan financial practices, the program's effectiveness in carrying out its oversight responsibility is limited because staff are not providing a timely review of local retirement systems. The program has a large backlog of pending actuarial valuations and impact statements.

Program's Oversight of Local Retirement Systems Benefits the State

This subprogram is of benefit of the state because it protects taxpayers from potential financial liability and protects the retirement benefits of local government employees. If a retirement plan's levels of contributions and interest are not sufficient to fund promised benefits, the employer is liable for the difference. Florida's local governments are responsible for $10 billion in liabilities for benefits owed to their members. If a local government were to default on retirement benefit payments because of funding problems, this could trigger a local financial emergency that could cost state taxpayers as well as endanger the retirement benefits of public employees.

Program Workload Needs to be Addressed

If the Legislature wishes to continue with an oversight program over the funding of local government retirement systems, it has two primary alternatives:

1. Fund a second program actuary so that the program can keep up with its workload. A second program actuary would cost an estimated $97,000 annually. If the Legislature chooses this alternative, it may want to establish a performance-based program budgeting measure that assesses the timeliness with which the program resolves actuarial valuations and impact statements from local government retirement systems.

2. Authorize the program's actuary to selectively review local retirement system actuarial valuations and impact statements. We believe the program can effectively carry out this responsibility if program staff use risk-based criteria and random sampling to select actuarial documents for the actuary to review further, and thus avoid the additional expense of employing a second actuary. Selection criteria could include plan size, history of problems, funding status, receipt of complaints, and the age of plans (new plans should be reviewed). Program staff could use these criteria to review and screen documents for further review by the program's actuary. As time permits, the program's actuary should also review a random sample of the plan documents that do not pass the risk-based selection criteria. This method would enable the program to continue to serve a deterrent effect to help prevent local retirement systems from using unsound financial

practices. The program would also be better able to handle its workload. Implementing risk-based criteria for the program actuary's review of local retirement actuarial valuations and impact statements would require statutory revision.

Conclusions and Recommendations

The program's oversight of local government retirement plans is of benefit to the state because it protects taxpayers from potential financial liability and protects the retirement benefits of local government employees. Program staff have identified significant instances of problematic local retirement plan financial practices. However, the program's effectiveness in carrying out this responsibility is limited due to its untimely review process. If the Legislature wishes to continue with an oversight program over the funding of local government retirement systems, it could fund a second program actuary so that the program can keep up with its workload. However, we believe the program can effectively carry out this responsibility using risk-based selection criteria and random sampling and thus avoid the additional expense of a second actuary.

Accordingly, we recommend that:

- the Legislature revise s. 112.63(4), F.S., to allow the program's actuary to selectively review actuarial valuations and impact statements. It should also revise s. 112.63(5), F.S., which requires local retirement plans to make contributions based on the most recent state-accepted actuarial valuation. Instead, local plans should be required to make contributions based on their most recent actuarial valuation or as directed by the program; and

- the Division of Retirement develop risk-based criteria for program staff to use to select local government actuarial documents for further review by the program's actuary. As time permits, the program's actuary should also review a random sample of the plan documents that do not meet the criteria.

Appendices

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Appendix A
Statutory Requirements for Program Evaluation and Justification Reviews

Section 11.513(3), F.S., provides that OPPAGA Program Evaluation and Justification Reviews shall address nine issue areas. Our conclusions on these issues as they relate to the Retirement Program are summarized in Table A-1. As appropriate, Table A-1 makes references to pages in this report and Appendix D where our analysis of the program's performance based on its performance-based program budgeting measures and standards is discussed at greater length. Appendix D contains the full text of our earlier performance report (OPPAGA Report No. 97-39, published February 1998).

Table A-1
Summary of the Program Evaluation and Justification Review of the Retirement Program

Issue	OPPAGA Conclusions
The identifiable cost of the program	For Fiscal Year 1996-97, the Retirement Program's expenditures were $1.83 billion ($1.82 billion to pay benefits and $16 million for operations).
The specific purpose of the program, as well as the specific public benefit derived therefrom	The program's major purpose is to provide retirement services to retirement system members and employing agencies. Offering a pension benefit helps public employers attract and retain the employees needed to run their programs. A Department of Management Services (DMS) 1997 survey of recently-hired state employees found that having a retirement benefit was the fifth most important of 13 factors considered in deciding to work for the state. Having a pension benefit is even more important in retaining experienced employees. A DMS survey of state employees employed for over a year found that for employees with 1 to 15 years of service, having a retirement benefit was the fourth most important factor in deciding to remain employed with the state. For employees with 20 or more years of service, the retirement benefit was the most important factor. (See page 5.) The Retirement Program provides the support services necessary to administer a large pension plan, such as maintaining records, counseling with members, calculating benefits due, and distributing benefit checks. The program also benefits the public through its oversight over the billions of dollars that local government retirement systems owe in benefits to their members, which helps protect taxpayers from the potential liability if any of these systems were to engage in unsound financial practices. (See pages 5, 6, and 9.)
Progress towards achieving the outputs and outcomes associated with the program	The Retirement Program's measures demonstrate that it has maintained high levels of customer satisfaction and efficiently used its resources. The program's outputs show that the program's workload has generally increased over time as retirement system membership has grown. (See Appendix D.)

(Continued on next page)

Issue	**OPPAGA Conclusions**
An explanation of circumstances contributing to the state agency's ability to achieve, not achieve, or exceed its projected outputs and outcomes, as defined in s. 216.011, F.S., associated with the program	The Retirement Program performed well in meeting performance-based program budgeting objectives relating to customer satisfaction rates. 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) remain satisfied with program services and retirement-related information provided them. Although active members are less satisfied with program services, their level of satisfaction has significantly increased over time. Program managers attribute this increase to providing a new benefit to active members. (See Appendix D.) The program did not meet its Fiscal Year 1996-97 standards for the administrative cost per member or the ratio of membership to staff. This was due to staff slightly over-projecting the number of active members for Fiscal Year 1996-97 when they calculated the standards rather than deficiencies in program performance. (See Appendix D.) The program made an error in the Fiscal Year 1996-97 standard for the output measure that assesses the number of retirement benefit estimates, making it appear that a significantly lower number were processed than expected. The Legislature used this information to set the standard for this measure. (See Appendix D.)
Alternative courses of action that would result in administering the program more efficiently or effectively	The program's activities are not unnecessarily duplicative with those of other agencies, and we did not identify any benefit from transferring these activities to another agency. The Division of Retirement is the only state agency with a role of providing centralized retirement system support services. A centralized administrative support function is an efficient way to provide the necessary support services for the Florida Retirement System (FRS). (See page 6.) Outsourcing (privatizing) is not a viable alternative at this time. Due to the size of the Florida Retirement System and the complexity of its benefit structure, the system's needs are very specialized. Industry representatives reported that private sector firms providing retirement plan administration services are generally geared toward handling smaller and less complex types of pension plans than the Florida Retirement System. Although it may be possible to attract private sector firms willing to attempt to administer such a large program, there are significant risks involved in the event of poor contractor performance. (See page 6.) The state has invested significant funds into a five-year re-engineering project for the Retirement Program, which is estimated to cost $27 million through Fiscal Year 1999-2000. The project is designed to bring about necessary improvements in the program's business processes and computer and record-keeping systems so that the program can more efficiently and effectively handle the growing need for services from an increasing retirement system membership. (See pages 12 and 13.) The program's performance could be improved by: • Establishing performance indicators to help track progress and evaluate the success of its re-engineering project (see pages 14 through 17); and • Using risk-based criteria and random sampling for program staff to use to select documents for further review by the program's actuary so that program staff can provide more timely oversight of local government retirement systems (see pages 21 through 24).

(Continued on next page)

Issue	OPPAGA Conclusions
The consequences of discontinuing the program	Discontinuing a retirement benefit would put Florida's public employers at a competitive disadvantage in attracting new employees from the job market and retaining experienced employees. Surveys have shown that state employees rated having a retirement benefit as an important factor in deciding whether to become and remain public employees. (See page 5.) Discontinuing the Retirement Program would place additional administrative responsibilities on the 800 state and local government employers who participate in the Florida Retirement System, resulting in an inefficient duplication of effort. (See page 6.)
Determination as to public policy, which may include recommendations as to whether it would be sound public policy to continue or discontinue funding the program, either in whole or in part, in the existing manner	The operations of the Retirement Program are predominantly funded by revenues from investment of employer contributions made to fund employees' retirement benefits. This funding method is efficient and ensures that those who benefit from the program contribute to its costs. The program's costs for overseeing local retirement systems are funded by revenue from investment of insurance premium tax revenues intended for municipal police and firefighter pension benefits. Since the majority of the program's local government oversight activities relate to police and firefighter pension plans, this funding method is a logical use of these investment revenues.
Whether the information reported pursuant to s. 216. 031(5), F.S., has relevance and utility for evaluation of the program	The program has been providing reasonably reliable and accurate performance data with two exceptions. The program's methodologies for two of its performance-based program budgeting 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*). (See Appendix D.) The Division of Retirement proposed changes to these measures for Fiscal Year 1998-99 that would address some of our concerns.
Whether state agency management has established control systems sufficient to ensure that performance data are maintained and supported by state agency records and accurately presented in state agency performance reports	Program management has established sufficient control systems. The program's Management Review Section has conducted a review of the reliability and validity of performance data and made recommendations for improvement. The Management Review Section has also established a monitoring plan for data reliability and validity. The program has established a process for the documentation of performance information.

Appendix B
Statewide Retirement Systems Administered by the Retirement Program

The Florida Retirement System (FRS) was created in December 1970 to consolidate existing state-administered retirement systems (the Teachers' Retirement System, the State and County Officers and Employees' Retirement System, and the Highway Patrol Pension Fund). In 1972, the Judicial Retirement System was merged into the FRS. The old systems were closed to new members and existing members were given the option of joining the FRS or remaining in and retiring under the old systems. At the time the FRS was created, the Division of Personnel and Retirement (later the Division of Retirement) was created and given the responsibility to administer all statewide retirement systems, which also included some small programs in which pensions are provided from General Revenue. The division also received responsibility for administering Social Security coverage for all Florida public employees.

Since the creation of the FRS, the Division of Retirement's administrative responsibilities for statewide retirement systems were expanded to include the State University System Optional Retirement Program, Senior Management Service Optional Annuity Program, and the Institute of Food and Agricultural Sciences Supplemental Retirement Program. The division also was given responsibility to administer the Retiree Health Insurance Subsidy (an additional payment made to 134,871 FRS retirees to help them pay their health insurance costs). Beginning in July 1998, the program will begin administering the Deferred Retirement Option Program (DROP), in which members who are eligible for retirement may elect to continue with employment while accumulating credit for their retirement benefits.

Table B-1 shows the statewide retirement systems administered by the Retirement Program and the number of members in each of these systems.

Table B-1
Statewide Retirement Systems Administered by the Retirement Program

Statewide Retirement Systems	Active Employee Members as of June 30, 1997	Retirees as of June 30, 1997
Florida Retirement System	587,674	145,107
Teachers' Retirement System	2,043	7,327
Teachers' Retirement System--Survivors' Benefits		1,079
State and County Officers and Employees' Retirement System	74	3,148
Highway Patrol Pension Fund		97
Judicial Retirement System		23
State University System Optional Retirement Program	8,623	
Senior Management Service Optional Annuity Program	77	
Institute of Food and Agricultural Sciences Supplemental Retirement Program	159	60
General Revenue Funded Pensions		
Noncontributory (s. 112.05, F.S.)		183
Florida National Guard		468
Judicial Retirement		6
Teachers (s. 238.171, F.S.)		9
Special Pensions		3
Totals	**598,650**	**157,510**

Source: Office of Program Policy Analysis and Government Accountability review of the Florida Retirement System Annual Report, July 1, 1996 to June 30, 1997

Appendix C

General Provisions of the Florida Retirement System

The Florida Retirement System (FRS) is a defined benefit plan and is employee non-contributory, meaning that employees do not contribute toward their retirement benefits.[19] FRS employer agencies contribute a set percentage of salary for each member based on membership class. There are five membership classes in the FRS: Regular, Special Risk (law enforcement), Special Risk Administrative Support, Elected State and County Officers, and Senior Management. Contribution rates, the amount of retirement benefit provided, and vesting periods vary for the different membership classes.[20]

The contribution rates required from FRS employers are established biennially based on an actuarial valuation and approved by the Legislature. These contributions include an amount to cover what is termed the "normal cost" of the members' retirement benefits (an amount to assure that sufficient money is available to pay the benefit when a member retires or becomes disabled), and an amount to cover the FRS unfunded actuarial liability (UAL). UAL contributions fund those liabilities not already funded by the available plan assets or expected to be funded by future normal costs. Effective July 1, 1998, the Legislature established a contribution rate of 16.45% of payroll for members of the FRS Regular Class (10.64% for the normal cost of benefits, 4.87% for the UAL contribution, and 0.94% to cover the retiree health insurance subsidy). Contribution rates for other members vary depending on membership class. For example, the contribution rate for judges in the Elected State and County Officers' Class is 28.15% of payroll as of July 1, 1998 (23.59% for normal cost, 3.62% for UAL cost, and 0.94% for the health insurance subsidy).

[19] A defined benefit plan means that the employer guarantees a certain level of retirement benefits based on years of service, as opposed to a defined contribution plan in which the employer guarantees a level of contributions. In a defined contribution plan, retirees' benefits are based on the amount of investment earnings for contributions made on their behalf. In a defined benefit plan, retirees' benefits are based on formulas that take into account years of service, salary levels, and age at retirement.

[20] A vesting period is the number of years of employment required before a retirement plan member is eligible to receive a retirement benefit.

Appendix D

OPPAGA Review of the Division of Retirement's Performance-Based Program Budgeting Measures and Standards Issued February 1998 (Report No. 97-39)

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.

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

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.

[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.[1] 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.[2]

- 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.

[1] 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.

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

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 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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Appendix E

Response From the Division of Retirement

In accordance with the provisions of s. 11.45(7)(d), F.S., a list of preliminary and tentative review findings was submitted to the Director of the Division of Retirement for his review and response.

The division's written response is reprinted herein beginning on page 42.

LAWTON CHILES
Governor

A.J. MCMULLIAN III
Director

State of Florida
Division of Retirement

CEDARS EXECUTIVE CENTER ♦ 2639-C NORTH MONROE STREET ♦ TALLAHASSEE, FL 32399-1560

June 26, 1998

Mr. John W. Turcotte
Director
Office of Program Policy Analysis and
Government Accountability
Post Office Box 1735
Tallahassee, Florida 32302

Dear Mr. Turcotte:

Thank you for the opportunity to respond to your Program Evaluation and Justification Review of the Retirement Program. We are pleased with OPPAGA's conclusions that:

- "The Retirement Program benefits the state and should be continued."
- "The program also benefits the public through its oversight over the billions of dollars under the control of local government retirement systems."
- "A centralized administrative support function is an efficient way to provide the necessary support services for the Florida Retirement System (FRS)."

We believe that these conclusions provide objective support for the continuation of the Retirement Program.

It is premature and unrealistic at this time to try and establish performance indicators for the re-engineering project. Our plan over the course of the project is for the RIM Project Team to work closely with management to establish new performance standards for the new target system. At the minimum, the new standards that we will use as a baseline will be the standards currently in place for the legacy system.

> ***OPPAGA DIRECTOR's COMMENTS:***
> *It is essential for agencies to establish performance measures and targets specifying expected, future performance levels during the initial planning stages for any re-engineering project with a large capital investment. While the Division has established general goals for its re-engineering project, such as responding more quickly and accurately to FRS member requests, it has not developed measurable targets that quantify the level of performance improvement it expects to achieve following the project's completion. Establishing measurable targets would help the Division account to the Legislature and Florida taxpayers for the $27 million invested.*

We do not agree that it is necessary or desirable to establish another outcome measure in addition to the existing eight outcome measures for the program. The primary purpose of the Retirement Program is to provide retirement benefits to public employees through high quality, cost effective delivery of services, rather than attracting and retaining employees. We feel that this outcome measure more appropriately belongs to the Department of Management Services' (DMS) Workforce Program that is more specifically concerned with recruitment, selection, and retention of state workers. We will continue to survey our membership and other customers on the importance of retirement benefits, but the primary responsibility to determine the effectiveness of retirement benefits, including all fringe benefits, health insurance, etc., lies with the DMS.

OPPAGA DIRECTOR's COMMENTS:
Attracting and retaining employees is a primary purpose of any retirement system. Outcome measures would assist the Legislature by providing information on how well the FRS is accomplishing this purpose. Thus, OPPAGA strongly believes it is appropriate for the Division to develop these measures.

We agree in concept on the need to revise s. 112.63(4) and (5), F.S. to allow the program's actuary to selectively review local government actuarial documents and to require local retirement plans to make contributions based on the most recent actuarial valuation. We also agree in concept to developing risk-based criteria for program staff to use to select local government actuarial documents for further review by the program's actuary. This would also require a statute change. Based on legislative direction pertaining to these statute revisions, we will respond accordingly.

Sincerely,

/s/

A.J. McMullian III
State Retirement Director

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The Florida Legislature

Office of Program Policy Analysis and Government Accountability

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Gena Wade, FGAR Coordinator (850/487-9245)

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