

OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM BOARD MEETING

**Friday
August 3, 2018
10:00 A.M.**

**PERS
11410 SW 68th Parkway
Tigard, OR**

ITEM	PRESENTER
A. Administration	
1. Board Meeting Minutes <ul style="list-style-type: none"> a. May 24, 2018 Director Appointment b. June 1, 2018 Regular Board Meeting c. June 27, 2018 Jackson/Josephine County 2017-19 Rates 2. Director's Report <ul style="list-style-type: none"> a. Forward-Looking Calendar (including proposed 2019 dates) b. OPERF Investment Report c. Budget Execution Report d. IAP Project Status e. Final Order and Settlement Agreement – Lewis f. Public Comment 	OLINECK
B. Administrative Rulemaking	
1. Notice of IAP Target Date Fund Rules 2. Notice and First Reading of Rules Implementing SB 1566 (2018) <ul style="list-style-type: none"> a. Notice of Pooled Side Accounts for School District Employers Rule b. First Reading of Employer Lump Sum Payments Rule 3. Adoption of Rules Implementing 2018 Legislation <ul style="list-style-type: none"> a. HB 4012 (Work After Retirement) b. SB 1546 (OPSRP Vesting for Judge Members) 4. Adoption of PHIP Enrollment Rule	VAUGHN
C. Action and Discussion Items	
1. IAP TDF Implementation Update 2. 2019-21 Agency Budget Development 3. 2017 System-Wide Valuation Results	ELLEDGE-RHODES BARNETT MILLIMAN

*Public testimony will be taken on action items at the Chair's discretion.
Please contact 503.603.7785 in advance of the meeting to notify staff of your request to provide testimony at the meeting.*

There will be an Audit Committee Meeting immediately following the Board meeting

<http://www.oregon.gov/PERS/>

2018 Meetings: August 3* October 5* December 7* * Audit Committee

Stephen Buckley Steve Demarest Lawrence Furnstahl, Vice Chair Krystal deAsis John Thomas, Chair Kevin Olineck, Director
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OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM BOARD MEETING MINUTES

May 24, 2018

Board members present:

Krystal deAsis was present. Chair John Thomas, Vice-Chair Lawrence Furnstahl, Stephen Buckley, and Steve Demarest joined the meeting by phone.

Others Present:

Jessica Kneiling, and Elana Pirtle-Guiney attended by phone.

Staff Present:

Katie Brogan, Steve Rodeman, Joli Whitney.

Chair John Thomas called the meeting to order at 2:30 pm

EXECUTIVE SESSION PER ORS192.660(2)(a)

Chair Thomas recessed the Board to an Executive Session per ORS 192.660(2)(a) to consider the appointment of a new Executive Director. Board members Steve Buckley, Krystal deAsis, Steve Demarest, Vice-Chair Lawrence Furnstahl and Thomas attended the Executive Session. Jessica Kneiling, Deputy Chief Human Resources Officer, Department of Administrative Services (DAS) joined the Board to report on the recruitment process. Elana Pirtle-Guiney, Governor's Workforce and Labor Policy Advisor also attended the Executive Session.

Pirtle-Guiney and Executive Director Steve Rodeman were appointed by the Board to assist in the director candidate review and interview process. In addition to today's meeting, the Board also met in Executive Session with Kneiling, Pirtle-Guiney and Rodeman to screen applicants and discuss questions on April 12, 2018 and April 20, 2018. The panel interviewed screened candidates on May 4, 2018.

Chair Thomas adjourned the Executive Session at 3:05 pm

Chair Thomas reconvened the Board meeting into open session at 3:10 P.M.

ACTION AND DISCUSSION ITEMS

This special Board meeting was convened to appoint a new PERS Executive Director, or direct staff to resume recruitment efforts for the position.

Thomas asked the Board if there was any additional discussion or questions about Kevin Olineck's qualifications.

DeAsis moved to endorse Kevin Olineck as the finalist for the Director of PERS and direct DAS HR to negotiate with him on final salary and benefits. Demarest seconded the motion. The motion passed unanimously.

Furnstahl moved to approve the draft press release for public distribution. Demarest seconded the motion. The motion passed unanimously. The Board discussed how they would handle calls from the press and agreed to route all inquiries to Senior Policy Director, Marjorie Taylor in the Director's Office at PERS.

The Board discussed general process questions.

Thomas adjourned the Board meeting at 3:20 p.m.

Respectfully submitted,

A handwritten signature in black ink that reads "Yvette Elledge-Rhodes". The signature is written in a cursive style with a large initial 'Y'.

Yvette Elledge-Rhodes
Interim Director

OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM BOARD MEETING MINUTES

June 1, 2018

Board members present:

Chair John Thomas, Vice-Chair Lawrence Furnstahl, Stephen Buckley, Krystal deAsis, and Steve Demarest were present.

Staff present:

Linda Barnett, Dean Carson, Melanie Chandler, Mary Dunn, Yvette Elledge-Rhodes, Alyse Greer, Neil Jones, Amanda Marble, Jordan Masanga, Steve Rodeman, Jason Stanley, Marjorie Taylor, Stephanie Vaughn, AnneMarie Vu, Joli Whitney, Yong Yang, Katie Brogan, Eva Polney, Laurel Galego, John Lockwood, Tammy Nguyen, Jeff Cunningham, Rosanne Lurie-Canright, Andrew M. Kicza, Victoria Pruett, Matt Rickard, Mini Kobbervig, Debra Hembree

Others present:

Michelle Taylor, Gene Phillips, Theresa Barney, Robin Richardson, Audrey Schumacher, Patrick Weisgerber, Wally Hicks, Ken Crowley, Scott Winkels, Hilary Getz, Kelli Blechmidt, Samantha Nalnar, Rhonda Miller, Brian Harrington, David Lacy, Tracy White, Debra Grabler, Claire Havener, Trudy Vidal, Scott Preppernau, James Young, Nate Carter, Jan Petrella, Jeff Akers, Jennifer Cooperman, Greg Hartman, Karl Cheng, Hasina Wittenberg, Jean Jones, Jeff Gudman, Kevin McCartin, Kevin Olineck

Chair John Thomas called the meeting to order at 10:00 a.m.

ADMINISTRATION

A.1. MEETING MINUTES OF APRIL 2, 2018

Board member Stephen Buckley requested the minutes for item C.5, the motion to adopt the final crediting of earnings as presented for calendar year 2017, be amended to state that motion passed unanimously.

Buckley moved to approve the amended minutes from the April 2, 2018 Board meeting. Board member Demarest seconded approval of the amended minutes. The motion passed unanimously.

A.2. DIRECTOR APPOINTMENT

Vice Chair Furnstahl moved to appoint Deputy Director Yvette Elledge-Rhodes as the Interim Director June 2, 2018 through July 15, 2018. Board member deAsis seconded the appointment. The motion passed unanimously.

Furnstahl moved to appoint Kevin Olineck Director effective July 16, 2018. DeAsis seconded the appointment. The motion passed unanimously.

A.3. DIRECTOR'S REPORT

Executive Director Steve Rodeman presented. He reviewed the Forward Looking Calendar and highlighted the important items to be considered by the Board during future meetings. Rodeman presented the Oregon Investment Council (OIC) Investment Report of the Oregon Public Employees Retirement Fund (OPERF) for the period ending April 2018. He notes there was a positive return year-to-date.

Rodeman presented the Budget Execution Report. Of note is the administrative action PERS is taking to implement SB 1566 and HB 4159 in consideration of the May Emergency Board not being held.

Matt Rickard of the POBMS Council and Jason Stanley, Chief Compliance Audit and Risk Officer presented the Board Scorecard Report on Agency Performance Measures. 59% of the reported measures were in the green range, which is the highest percent since first quarter 2015. The next Board Scorecard will be presented at the December meeting.

No Board action was required.

ADMINISTRATIVE RULEMAKING

Stephanie Vaughn, Policy Analysis and Compliance Section Manager, presented. She noted that rules to implement “member choice” (HB 4159) will not be presented at this time.

B.1. NOTICE OF RULES IMPLEMENTING 2018 LEGISLATION

- a. Vaughn presented notice of rulemaking for HB 4012 (Work After Retirement), OAR 459-017-0060. This rule contains an exception to the 1,040 limitation for Tier One and Tier Two retirees who are working as career and technical education teachers. The exception was scheduled to expire June 30, 2018, but House Bill 4012 (2018) extended the exception to June 30, 2023. The rule amendment reflects this sunset extension. A rulemaking hearing is scheduled June 26, 2018, at 2:00 p.m. at PERS headquarters in Tigard. The public comment period ends July 6, 2018, at 5:00 p.m.

No Board action was required.

- b. This is notice of rulemaking for SB 1546 (OPSRP Vesting for Judge Members), OAR 459-075-0060. This rule allows judge members to use hours of service worked as a judge toward vesting as an OPSRP member. A rulemaking hearing is scheduled June 26, 2018, at 2:00 p.m. at PERS headquarters in Tigard. The public comment period ends July 6, 2018, at 5:00 p.m.

No Board action was required.

B.2. NOTICE OF PHIP ENROLLMENT RULE

Vaughn presented notice of rulemaking for Health Insurance Program Rule OAR 459-035-0070, Enrollment. The amendments to the rule address disability retirement retroactive effective date situations and provide an enrollment window for eligible persons in these circumstances. A rulemaking hearing is scheduled June 26, 2018, at 2:00 p.m. at PERS headquarters in Tigard. The public comment period ends July 6, 2018, at 5:00 p.m.

No Board action was required.

B.3. TEMPORARY ADOPTION AND NOTICE OF RULEMAKING FOR EMPLOYER SIDE ACCOUNT RULES

Vaughn presented temporary rule modifications for adoption to OAR 459-009-0084 and -0086. These temporary rules allow implementation of Section 3b of Senate Bill 1566(2018) on the effective date of the bill, June 2, 2018. This section allows participating PERS employers that make a lump sum payment of \$10 million or more, that is not sourced from pension obligation bonds, the option to select an amortization period of 6, 10, 16, or 20 years for that payment.

Staff continues to work on implementation of the other provisions in Senate Bill 1566 and anticipates additional changes to these rules. They do not anticipate adoption of these as permanent rules until the October 5, 2018 Board meeting.

Buckley moved to adopt temporary modifications to the Employer Side Account Rules, as presented. The motion was seconded by deAsis. The motion passed unanimously.

ACTION AND DISCUSSION ITEMS

C.1. 2019 RETIREE HEALTH INSURANCE PLAN RENEWALS AND RATES

Furnstahl recused himself from participating in this conversation given his association with OHSU and left the room.

Mini Kobbervig, PERS Health Insurance Program (PHIP) Manager, presented the 2019 PHIP Plans and Rates. PHIP consultants Molly Butler and Kevin McCartin also appeared before the Board. For the 2019 Plan Year, PHIP issued a formal Request for Proposal (RFP). Kobbervig outlined the plans.

Demarest moved to approve the proposed PHIP RFP contract awards, benefits, and rates for the 2019 Plan Year as presented. DeAsis seconded the motion. The motion passed unanimously.

C.2 IAP TDF/MEMBER CHOICE IMPLEMENTATION UPDATE

Deputy Director, Yvette Elledge-Rhodes presented. Oregon State Treasury (OST) has provided notification to the Board regarding the outcome of their legal and fiduciary review of the implementation of changes to the individual account program as directed in House Bill 4159 (2018). OST has determined that legal and fiduciary standards prohibit implementation of this bill as written. The notification from OST notes that legislative amendments may be proposed which could address these concerns.

The Board discussed the legislative fix that would be needed.

Marjorie Taylor, Senior Policy Director, came forward to address the Board's questions about next steps in the legislative concept process.

Elledge-Rhodes added that PERS is still considering if there are budget implications with implementing TDF.

No Board action was required.

C.3 SENATE BILL 1566 IMPLEMENTATION UPDATE

Chief Administration Officer, Mary Dunn and Actuarial Services Coordinator, Debra Hembree presented. SB 1566 created several new programs for PERS including: the Employer Incentive Fund; the Unfunded Actuarial Liability (UAL) Resolution Program; the School Districts Unfunded Liability Fund; and optional shorter amortization periods for qualifying lump sum payments. They reviewed the high level implementation activities that have been completed so far.

No Board action was required.

C.4 2019-21 AGENCY BUDGET DEVELOPMENT

Chief Administration Officer, Mary Dunn and Budget Officer, Linda Barnett presented. PERS is continuing to prepare the 2019-21 Agency Request Budget (ARB). PERS submitted the Current Service Level (CSL) budget to DAS/CFO at the end of May 2018. The CSL budget will be audited and confirmed by DAS/CFO in June 2018, after which PERS will add in any proposed 2019-21 policy option packages which, combined with the CSL budget, will comprise the ARB.

Business cases for six policy option packages in the 2019-21 budget cycle have been developed. Barnett outlined the policy option packages. The concepts have not changed but where they are being presented and packaged has changed.

No Board action was required.

C.5 RECONSIDERATION OF JACKSON/JOSEPHINE COUNTY 2017-19 EMPLOYER RATES

Stephanie Vaughn, Policy Analysis and Compliance Section Manager, presented. On September 30, 2016, the Board adopted 2017-19 employer rates for all but two employers: Jackson County and Josephine County (“the Counties”). The Board delayed adoption of the employer rates for the Counties because staff was recommending that the transition liability of The Job Council (“TJC”) be divided equally between the two counties and the Counties objected.

Staff’s plain language interpretation of ORS 190.080(3) and (5)(b) was, and still is, that the liabilities of TJC must be assumed “...by the parties to the intergovernmental agreement that created the entity,” namely, Jackson and Josephine counties. Since the Counties are required by statute to assume the liabilities of TJC, there is “an entity...by operation of law...that is responsible for the dissolved employer’s remaining liability...”; therefore, TJC does not meet the third criteria outlined in OAR 459-009-0400(1) and is not an insolvent employer.

Vaughn explained that in light of the procedural concerns brought up in the written testimony submitted by Joel Benton, Jackson County Counsel, PERS staff has drafted an addendum to the memo and altered the options slightly for the Board to consider.

Wally Hicks, Josephine County legal counsel presented. He cited the pending litigation as being important to the Board’s decision. He asked the Board to consider other options not outlined in the staff memo and provided examples.

The Board clarified the options cited in the addendum.

Furnstahl moved to notify the court of the Board’s intent to withdraw, reconsider, and affirm the 2017-19 individual employer contribution rate orders for Jackson County and Josephine County. The motion was seconded by deAsis. The motion passed unanimously.

Thomas adjourned the Board meeting at 11:35 a.m.

Respectfully submitted,

A handwritten signature in black ink that reads "Yvette Elledge-Rhodes". The signature is written in a cursive style with a large initial 'Y'.

Yvette Elledge-Rhodes, Interim Director

OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM BOARD MEETING MINUTES

June 27, 2018

Board members present:

Chair John Thomas, Vice-Chair Lawrence Furnstahl, Stephen Buckley, Krystal deAsis and Steve Demarest joined the meeting by phone.

Others Present:

Tracy White and Ken Crowley attended by phone.

Staff Present:

Yvette Elledge-Rhodes, Stephanie Vaughn, Debra Hembree, Jason Stanley and Katie Brogan

Chair John Thomas called the meeting to order at 2:01 pm

ACTION AND DISCUSSION ITEMS

RECONSIDERATION OF JACKSON/JOSEPHINE COUNTY 2017-19 EMPLOYER CONTRIBUTION RATES

Chair John Thomas asked the Board to share comments. Thomas stated based on the information provided to date, it is apparent The Job Council (TJC) does not meet the criteria of an insolvent employer. Thomas requested that Vaughn address the points in the letter of testimony provided by Joel Benton, Jackson County Counsel.

Stephanie Vaughn, Policy Analysis and Compliance Section Manager, presented.

At the June 1, 2018 Board meeting, the Board passed a motion to “notify the court of the Board’s intent to withdraw, reconsider, and affirm the 2017-19 individual employer contribution rate orders for Jackson County and Josephine County” the purpose of this meeting is for the Board to take action.

Vaughn reviewed the insolvent employer rule and the conditions that need to be met to determine insolvency. The rule was adopted in May 2017, after adoption of the Counties’ employer rates, but staff had been working on developing the policy and definition for some time. The definition of “insolvent employer” outlined in OAR 459-009-0400(1) is consistent with the analysis staff applied when evaluating whether TJC was an insolvent employer.

Under the analysis staff determined that contingency reserve funds are not available for consideration. Staff is now asking the Board to reconsider and reaffirm the Counties’ rate orders in light of the analysis under the insolvent employer rule and the successor employer provision in OAR 459-009-0070(12).

Furnstahl moved to withdraw the current rate orders for reconsideration, Buckley seconded the motion.

The motion passed unanimously.

Furnstahl moved to reaffirm the adoption of the 2017-19 individual employer contribution rates for Jackson County and Josephine County, having determined that Contingency Reserve funds are not available to pay all or part of The Job Council’s transition liability, as The Job Council was not insolvent, and declare that Jackson and Josephine Counties are the successors to The Job Council for PERS purposes. Demarest seconded the motion.

The motion passed unanimously.

Thomas adjourned the Board meeting at 2:19 p.m.

Respectfully submitted,

A handwritten signature in black ink that reads "Yvette Elledge-Rhodes". The signature is written in a cursive style with a large initial 'Y'.

Yvette Elledge-Rhodes
Interim Director

PERS Board Meeting Forward-Looking Calendar

Friday, October 5, 2018

Adoption of Employer Side Account Rules
Member & Employer Survey Results
2017 Actuarial Valuation and 2019-21 Employer Rates

Friday, December 7, 2018

Board Scorecard Report on Agency Performance Measures
Financial Modeling
Audit Committee Meeting

Proposed 2019 Meeting Dates

10:00 a.m. Start Times

- Friday, February 1
- Monday, April 1*
- Friday, May 31
- Friday, July 26*
- Friday, October 4
- Friday, December 6*

*Proposed Audit Committee Meetings

Returns for periods ending JUN-2018

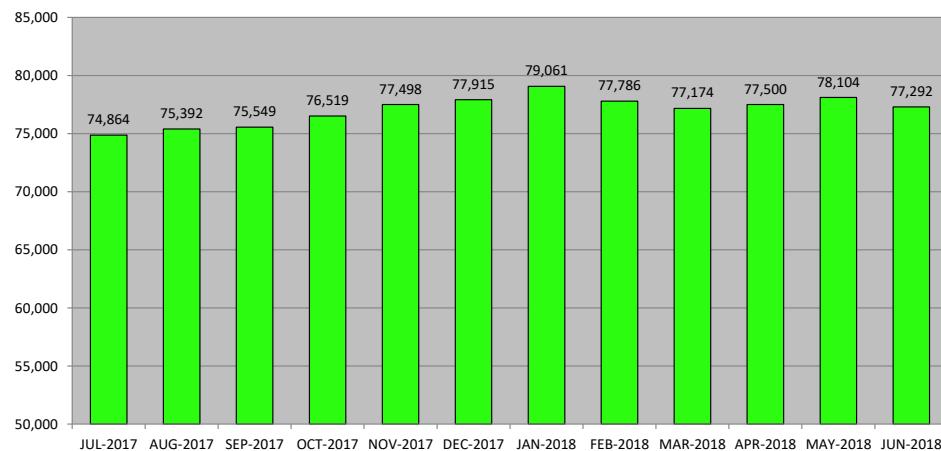
Oregon Public Employees Retirement Fund

OPERF	Regular Account				Historical Performance (Annual Percentage)							
	Policy ¹	Target ¹	\$ Thousands ²	Actual	Year-To-Date ³	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS	7 YEARS	YEARS
Public Equity	32.5-42.5%	37.5%	\$ 28,245,384	36.8%	(0.32)	11.71	15.94	8.72	6.94	10.18	8.75	6.67
Private Equity	13.5-21.5%	17.5%	\$ 15,355,148	20.0%	7.46	17.75	15.15	11.32	10.88	12.41	11.62	9.58
Total Equity	50.0-60.0%	55.0%	\$ 43,600,532	56.8%								
Opportunity Portfolio	0-3%	0%	\$ 1,783,752	2.3%	3.79	7.28	8.24	6.61	4.73	7.45	7.70	8.10
Total Fixed	15-25%	20.0%	\$ 17,374,704	22.6%	(0.81)	0.28	0.88	1.79	1.71	2.46	3.32	5.16
Real Estate	9.5-15.5%	12.5%	\$ 7,823,365	10.2%	5.04	8.65	8.47	9.26	9.95	10.49	10.78	5.91
Alternative Investments	0-12.5%	12.5%	\$ 6,134,017	8.0%	(0.29)	4.45	7.69	4.79	3.05	3.42	2.99	
Cash w/Overlay	0-3%	0%	\$ 22,938	0.0%	0.82	1.47	1.30	1.17	1.00	0.96	0.89	0.95
TOTAL OPERF Regular Account		100.0%	\$ 76,739,309	100.0%								
OPERF Policy Benchmark					1.75	9.40	10.78	7.47	6.68	8.59	8.13	6.77
Value Added					(0.19)	0.22	(0.31)	(0.35)	(0.56)	(0.62)	(0.56)	(0.53)
TOTAL OPERF Variable Account			\$ 552,399		0.08	11.53	15.46	8.78	6.82	9.98	8.48	6.45

Asset Class Benchmarks:

Russell 3000	3.22	14.78	16.63	11.58	10.50	13.29	13.01	10.23
OREGON MSCI ACWI EX US IMI NET	(3.65)	7.75	13.91	5.46	2.75	6.39	4.08	2.93
MSCI ACWI IMI NET	(0.18)	11.14	15.01	8.34	6.40	9.60	8.09	6.14
RUSSELL 3000+300 BPS QTR LAG	7.21	17.19	19.36	13.51	14.05	16.39	15.73	13.28
OREGON CUSTOM FI BENCHMARK	(0.86)	0.24	0.33	1.43	1.41	2.01	2.79	3.88
OREGON CUSTOM REAL ESTATE BENCHMARK	3.85	7.11	7.23	8.66	9.66	9.96	10.53	6.07
CPI +4%	4.23	6.98	6.33	5.90	5.45	5.59	5.64	5.44
91 Day Treasury Bill	0.81	1.36	0.92	0.68	0.51	0.42	0.33	0.35

Total OPERF NAV
(includes Variable Fund asset)
One year ending JUN-2018
(\$ in Millions)



¹OIC Policy revised June 2015.

²Includes impact of cash overlay management.

³For mandates beginning after January 1 (or with lagged performance), YTD numbers are "N/A". Performance is reflected in Total OPERF. YTD is not annualized.



Oregon

Kate Brown, Governor

Public Employees Retirement System

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August 3, 2018

TO: Members of the PERS Board
FROM: Linda M. Barnett, Budget Officer
SUBJECT: August 2018 Board Report

2017-19 OPERATING BUDGET

Operating expenditures for May 2018 and preliminary expenditures for June 2018 were \$3,736,369 and \$4,310,161 respectively. Final expenditures for June closed in the Statewide Financial Management System (SFMS) on July 13, 2018, and will be included in the October 2018 report to the Board.

- To date, through the first twelve months (or 50%) of the 2017-19 biennium, the Agency has expended a total of \$44,334,092 or 43.7% of PERS' legislatively approved operations budget of \$101,458,179.
- The current projected positive variance is \$4,605,534 or approximately 4.5% of the operations budget.

2017-19 NON-LIMITED BUDGET

Previously, PERS reported to the Board that we would continue to monitor the growth trend of IAP retirement payments. We will continue to monitor payments through September 2018, as we complete processing July 1, 2018 retirements (our highest volume retirement month). At that time, we will evaluate our projections for the remainder of the biennium and request any Non-Limited budget increases through the DAS' Chief Financial Office and the Legislative Fiscal Office.

SEPTEMBER 2018 EMERGENCY BOARD REQUESTS

Since the May Emergency Board was cancelled, staff is currently preparing to request additional budget limitation during legislative days, September 24-26. The Board will be notified of the actual request prior to August 20, when the agency Notice of Intent is due to the DAS' Chief Financial Office and the Legislative Fiscal Office.

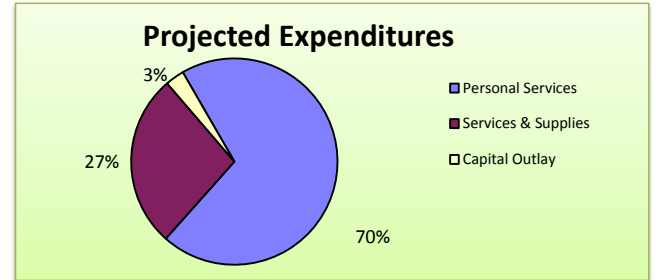
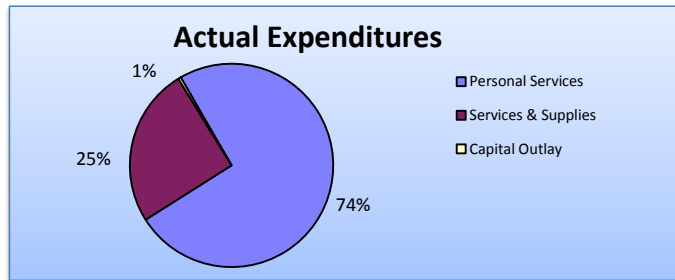
A.2.c. Attachment – *2017-19 Agency-wide Budget Execution Summary Analysis*

**2017-19 Agency-wide Budget Execution
Summary Budget Analysis
Preliminary Summary For the Month of June 2018**

Limited - Operating Budget

2017-19 Biennial Summary

Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expenditures	2017-19 LAB	Variance
Personal Services	32,966,987	36,711,866	69,678,853	73,332,965	3,654,112
Services & Supplies	11,174,480	14,249,535	25,424,015	26,830,862	1,406,847
Capital Outlay	192,625	1,557,152	1,749,777	1,294,352	(455,425)
Total	44,334,092	52,518,553	96,852,645	101,458,179	4,605,534



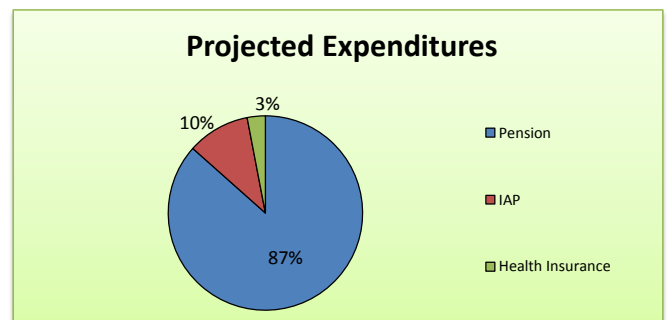
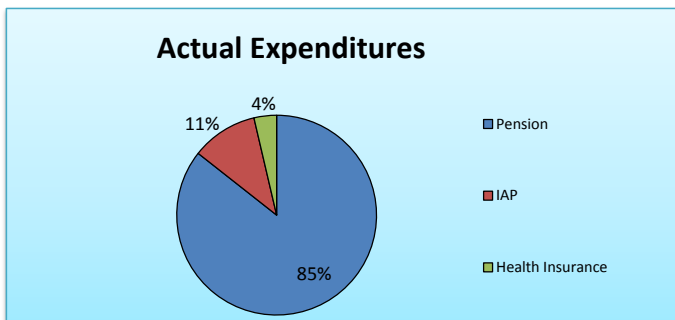
Monthly Summary

Category	Actual Exp.	Projections	Variance	Avg. Monthly Actual Exp.	Avg. Monthly Projected Exp.
Personal Services	2,794,563	3,035,294	240,731	2,747,249	3,059,323
Services & Supplies	1,515,598	1,530,460	14,862	931,207	1,187,461
Capital Outlay	0	0	0	16,052	129,763
Total	4,310,161	4,565,754	255,593	3,694,508	4,376,547

Non-Limited Budget

2017-19 Biennial Summary

Programs	Actual Exp To Date	Projected Expenditures	Total Est. Expenditures	Non-Limited LAB	Variance
Pension	4,322,243,455	5,208,432,742	9,530,676,197	9,122,000,000	(408,676,197)
IAP	541,833,880	626,750,849	1,168,584,729	1,056,900,000	(111,684,729)
Health Insurance	184,415,828	181,550,482	365,966,310	815,271,000	449,304,690
Total	5,048,493,163	6,016,734,073	11,065,227,236	10,994,171,000	(71,056,236)





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June 19, 2018

TO: Governor's Office
Office of the State Chief Information Officer
Legislative Fiscal Office
Chief Financial Office

FROM: Yvette Elledge-Rhodes, Interim Director

SUBJECT: IAP Admin Project Status

As you know, PERS has been diligently working on completing the IAP Admin Project despite all the changes to the IAP and our agency. On Friday, our Executive Leadership Team decided to "pause" the project.

Since it was first conceived in 2013, the project has evolved in terms of scope (TDF, Member Choice, etc.) and oversight/evaluation (application of Stage Gate, OSCIO partnerships, JLCIMT reporting, etc.). I appreciate your partnership over the past several years as we have navigated these changes.

What does "pause" mean? This pause means that PERS staff will thoughtfully document and wrap up current work on all aspects of the IAP project. In the coming days we'll talk with managers and staff about how we can preserve knowledge and project work in the best way, so we can move forward with IAP enhancements in the future.

In addition, with our new director Kevin Olineck coming on board in the next several weeks, this will be a time for him to evaluate and prioritize how the agency can achieve our mission of serving members. We are also aware of a variety of policy conversations on the horizon for the 2019 legislative session including continued discussions around "member choice" and "redirection" of IAP contributions. These major issues have an impact on the original concept behind the IAP Project and budgeting of resources.

Next steps – We will work with Kevin as well as OSCIO, CFO, and LFO, to evaluate short-term and long-term options available to enhance the member experience associated with IAP and provide more information when it becomes available.

Please feel free to let me know if you have any questions or concerns.



Oregon

Kate Brown, Governor

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www.oregon.gov/pers

August 3, 2018

TO: Members of the PERS Board
 FROM: Stephanie Vaughn, Manager, Policy Analysis & Compliance Section
 SUBJECT: *Strunk/Eugene* Contested Case of Cynthia Lewis
 PERS Appeal No. 363976-342

OVERVIEW

Cynthia Lewis appealed the recalculation of her 2004 total lump sum retirement distribution and recovery of the overpayment as a result of the *Strunk* and *City of Eugene* cases.

BACKGROUND

PERS notified Ms. Lewis of the recalculation by letter dated March 8, 2006. On June 20, 2007, the court in the *Robinson v. PERB* case ordered PERS to suspend collection efforts of overpayments resulting from the *Strunk* and *City of Eugene* decisions. This order also suspended the six-year time limit to notify individuals of overpayments under ORS 238.715. On October 6, 2011, the Oregon Supreme Court ruled in PERS' favor in *Robinson v. PERB*, and the six-year time limit resumed on February 2, 2012. PERS notified Ms. Lewis on April 27, 2012, of the intent to collect the overpayment. On December 26, 2012, PERS sent the Overpayment Notice to Ms. Lewis notifying her of the \$31,635.87 overpayment and providing information about repayment. On February 25, 2013, Ms. Lewis appealed the recalculation. On January 12, 2015, PERS issued a Review Determination, upholding the recalculation. By letter dated February 18, 2015, Ms. Lewis requested a contested case hearing. On February 24, 2015, PERS acknowledged receipt of Ms. Lewis' request and granted the request for a contested case proceeding.

In August and September 2015, efforts were made between PERS' Assistant Attorney General and Ms. Lewis' attorney to make a payment arrangement to resolve the contested case. Ms. Lewis objected to the documentation PERS requested in order to approve a payment plan and the matter was put on hold. On February 5, 2018, PERS filed a Motion for Summary Determination. On March 6, 2018, Administrative Law Judge (ALJ) Samantha Fair approved an extension for Ms. Lewis to respond to the motion while the parties again tried to arrange a mutually acceptable payment plan. On May 1, 2018, ALJ Fair agreed to take no further action on the motion while the parties finalized their agreement. The parties agreed to sign a Settlement Agreement and Stipulated Final Order to resolve this matter in which Ms. Lewis agrees to make monthly payments of \$180. Note that the attached Settlement Agreement and Stipulated Final Order was not issued as a Proposed Order by the ALJ, but was drafted by PERS' Assistant Attorney General (AAG) and must be approved by the Board to be effective. *See* 183.417(3)(b) (informal dispositions to be incorporated into a final order of the agency).

BOARD OPTIONS

The Board may:

1. Pass a motion to “approve the Settlement Agreement and Stipulated Final Order in the case of Cynthia Lewis.”
2. Direct staff to make other changes to the Agreement or explore other options.

STAFF RECOMMENDATION

Staff recommends the Board choose Option #1.

- Reason: The parties negotiated the terms of the settlement agreement and the terms of the agreement preserve PERS’ right to secure its interest.

If the Board does not adopt: Working with the AAG, staff would pursue litigation of the contested case in line with the Board’s policy direction.

A.2.e. Attachment 1 – *Lewis Final Order and Settlement Agreement*

RECEIVED
JUN 14 2018

**BEFORE THE STATE OF OREGON
PUBLIC EMPLOYEES RETIREMENT BOARD**

D.O.J. GENERAL COUNSEL
SALEM, OREGON

IN THE MATTER OF:) **SETTLEMENT AGREEMENT AND**
CYNTHIA LEWIS) **STIPULATED FINAL ORDER**
)
) OAH Case No.: 2016-ABC-00022
) Agency Case No.: 363976-342

The Public Employees Retirement Board (Board) and Cynthia Lewis (Petitioner) hereby enter into this Settlement Agreement as follows:

SETTLEMENT AGREEMENT OF THE BOARD AND PETITIONER

The Board and Petitioner desire to settle Agency Case No. 363976-342/OAH Case No. 2016-ABC-00022, and, pursuant to ORS 183.417(3)(a), OAR 137-003-0002(3), and OAR 137-003-0510(3), agree as follows in a full, final and complete settlement of this matter:

1. Petitioner acknowledges that she is liable to the Public Employees Retirement Fund in the amount of \$31,635.87 as invoiced to her by PERS on December 26, 2012. The debt arises from an overpayment made to Petitioner that the Board has directed PERS to recover pursuant to ORS 238.715.

2. Petitioner agrees to make monthly payments of at least \$180.00 per month to PERS towards payment of the debt described in paragraph 1 until it is fully paid (except that the last payment may be less than \$180.00 if it is equal to the outstanding balance of the debt). Petitioner agrees to commence the monthly payments on the first (1st) day of the month following the Board's final approval of this Settlement Agreement and Stipulated Final Order and continue to make payment on the first (1st) day of each month thereafter until the debt is fully paid.

3. If Petitioner makes timely payments in accordance with paragraph 2, the Board will suspend further collection actions to recover the amount in paragraph 1, except that, the Board reserves its rights to:

Entered
M/C
Cal

(a) Recover the overpayment from any future distributions from PERS pursuant to ORS 238.715(2)(b) and (c), and

(b) Take actions necessary to record this Settlement Agreement and Stipulated Final Order in the county clerk lien record in any county in Oregon and to register it as a foreign judgment in any other jurisdiction where Petitioner resides or may own property.

4. In the event Petitioner fails to comply with the terms and conditions of this Settlement Agreement, including the monthly payments required by paragraph 2, the Board shall provide written notice of default to Petitioner at her last address on file with PERS. If Petitioner does not cure the default by the deadline stated in the written notice of default, the Board may commence collection actions to recover the overpayment described in paragraph 1.

OTHER TERMS

5. This Settlement Agreement and Stipulated Final Order are conditioned upon and subject to final approval by the Board as indicated by the signatures below.

6. Petitioner has been fully advised of her right to a contested case hearing under the Oregon Administrative Procedures Act (ORS chapter 183), and fully and finally waives all such rights and any rights to appeal or to otherwise challenge this Settlement Agreement and Stipulated Proposed Order or the invoice issued to her by PERS on December 26, 2012.

7. Petitioner acknowledges by her signature below that she fully understands the terms of this Settlement Agreement and Stipulated Final Order. Petitioner declares that she has carefully reviewed the terms of this Settlement Agreement and Stipulated Final Order and consents to the issuance and entry of the Final Order below; that she knows the contents thereof; that she had adequate opportunity to consult with others of her choosing, including legal counsel, and; that she has voluntarily accepted the terms set forth herein.

8. This Settlement Agreement and Stipulated Final Order constitute the entire agreement between the Board and Petitioner in accordance with Oregon law. No waiver, consent, modification or changes of terms of this Settlement Agreement and Stipulated Final Order will bind any party unless in writing and signed by all parties. Such waiver, consent, modification or change, if made, will be effective only in the specific instance and for the specific purpose given. There are no understandings, agreements or representations, oral or written, not specified herein regarding this Settlement Agreement and Stipulated Final Order.

9. The Board and Petitioner, by their signatures, hereby acknowledge that they have read this Settlement Agreement, understand it, and agree to be bound by its terms and conditions.

STIPULATED FINAL ORDER

Based on the Settlement Agreement between the Board and Petitioner set forth above pursuant to ORS 183.417(3)(b), OAR 137-003-0002(3), and OAR 137-003-0510(3), it is hereby ORDERED:

1. The above Settlement Agreement is approved and incorporated as if fully set forth herein by this reference.

2. Petitioner is ordered to repay the sum of \$31,635.87 to the Public Employees Retirement Fund. This debt is immediately due and owing. Petitioner, however, may repay the overpayment in monthly installments as described in paragraph 2 of the Settlement Agreement above.

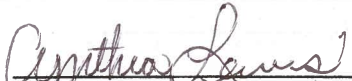
3. If Petitioner fails to make any monthly installment when due as provided in paragraphs 2 and 4 of the Settlement Agreement, the Board may immediately begin collecting on the remaining balance without further notice or hearing to Petitioner.

//

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4. Petitioner must comply with all other terms and deadlines stated in the Settlement Agreement above.

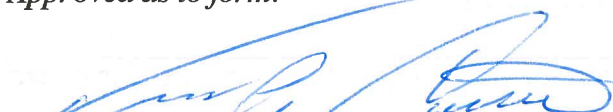
IT IS SO STIPULATED AND AGREED TO BY:



Cynthia Lewis, Petitioner

Corrected
Dated: 6-8-2018

Approved as to form:



Vincent P. Cacciottoli, Counsel for Petitioner

Dated: 6-12-2018

PUBLIC EMPLOYEES' RETIREMENT BOARD

By: _____

Dated: _____

John Thomas, Board Chair

DATED and ISSUED this _____ day of _____, 2018.

PUBLIC EMPLOYEES RETIREMENT BOARD

By: _____

John Thomas, Board Chair



Oregon

Kate Brown, Governor

Public Employees Retirement System

Headquarters:

11410 S.W. 68th Parkway, Tigard, OR

Mailing Address:

P.O. Box 23700

Tigard, OR 97281-3700

888-320-7377

TTY (503) 603-7766

www.oregon.gov/pers

August 3, 2018

TO: Members of the PERS Board
FROM: Kevin Olineck, Director
SUBJECT: Public Testimony

Tim Nesbitt, on behalf of the Oregon Business Council, Association of Oregon Counties, League of Oregon Cities, and Oregon School Boards Association, has filed the attached memo. Dated July 16, 2018, it is requesting an actuarial analysis of a variety of reform proposals.

We will evaluate the request, determine the potential cost of analysis, work with the requestors to modify the request as needed, and determine how to move forward with any analysis. As the 2019 legislative session approaches, we expect to see a variety of PERS reform proposals from legislators and stakeholders. We will work to ensure that reform analyses will not be duplicated but be flexible enough to cover a variety of scenarios.

July 16, 2018

Members
Public Employees Retirement System Board
11410 SW 68th Parkway
Tigard, OR

Re: Information Related to the Upcoming Actuarial Evaluation

Dear Board Members,

As you know, your upcoming actuarial valuation is certain to take today's record-high employer contribution rates for the Public Employees Retirement System's pension benefits to even higher levels, affecting the ability of the state, schools and local governments to maintain staffing and services despite a strong economy and rising revenues.

For this reason, we ask that you direct the actuary to take a deeper look into the causes of the system's unfunded actuarial liability (UAL) and to examine cost drivers related to salary inflation and other factors separate from the system's return on investments that could increase the UAL in the future.

Our requests here are guided both by concerns over the system's claims on public budgets and their impact on taxpayers and by the increasing inequity in costs and benefits for the sixty percent of the public workforce now enrolled in lower-cost Oregon Public Service Retirement Program (OPSRP). The case for cost-reducing reforms involves not only affordability for taxpayers but equity for a workforce, a majority of whom are burdened with higher payroll costs and lesser benefits than their predecessors.

In this context, we respectfully request that your actuary address the following.

Analysis of UAL

Previous actuarial studies have quantified the portions of the UAL attributable to retired members, inactive members and active members. For the active members, these have differentiated the portion of the UAL attributable to Tier 1/2 and OPSRP members. This differentiation has enabled us to fashion reform proposals that reflect the relative responsibility of these two groups of active members for the system's UAL.

The same should be done for Police and Fire members. With higher payroll rates and what appears to be a lesser reliance on Money Match benefits, we suspect that the Police and Fire benefit system may be less of a contributor to the UAL than that of the General members. However, the data provided to date are insufficient to verify this hypothesis. If this is the case, it will be an important consideration in the evaluation of the equity of various reform proposals.

A more detailed and complete calculation of the sources of the roughly \$6.4 billion in UAL attributable to active members, based on the actuary's 9/29/17 presentation applied to a UAL of \$22 billion, would fill in the blanks for the UAL amounts as follows:

Benefit Level	General	Police & Fire	All
Tier 1	?	?	\$3.3 billion
Tier 2	?	?	\$2.0 billion
OPSRP	?	?	\$1.1 billion
All	?	?	\$6.4 billion

Salary Inflation Assumption

In recent studies, the assumed salary inflation rate has been set at 3.5% per year. The State’s most recent economic forecasts estimate that average wage rates in Oregon’s economy will rise by an average of 4.1% per year from 2018 through 2022. If salary inflation in the PERS-covered workforce matches that of the economic forecast (4.1% vs. 3.5%) for those years, what effect will this have on the system’s UAL, whether the longer-term trend reverts to the 3.5% trend line or stays at 4.1% in future years?

Also, even if the system-wide salary inflation rate remains in the range of 3.5%, it will be important to provide guidance to participating employers as to the effect of higher-than-assumed salary increases on its UAL and future contribution rates. If an employer considers committing to higher salary increases, that employer should be able to quantify and assess these effects.

If there are other factors unrelated to the system’s investment performance that affect the rates to be set for 2019-21, whether for the normal cost or the UAL of the pension plan, it will be helpful to have the actuary explain and quantify these factors.

Post-Retirement Employment

What would be the long-term effect on the UAL of both schools and the state and local governments if those who retire under Tier 1 and 2 and resume employment for allowable periods of time were to have their employers pay the applicable PERS payroll contribution rate for their positions?

Quantification of Cost Reduction Options

Given the guidance of the Oregon Supreme Court in its *Moro* decision, we now have greater certainty that, with few exceptions, prospective changes to the accrual of benefits and cost sharing for active members of the system would be permissible under the Oregon Constitution. (Note: The few exceptions relate to terms of employment that require “time to complete,” such as the completion of a five-year vesting period.) This makes more compelling the need for a thorough analysis of the effects of reforms that would pass the court’s test.

For each of the following adjustments to the benefit structure, what would be the effect on both the UAL and on employer rates (both collared and uncollared) if implemented prospectively for benefits accrued beginning July 1, 2019? (*This assumes that benefits earned through June 30, 2019 would be*

credited in full and that benefits earned after that date would be combined with the previously accrued benefits and averaged/prorated accordingly.)

- Extending the Impact of salary cap for Tier 2 and OPSRP active members (now \$275K/year) to Tier 1 active members.
- Establishing an employee contribution of 6% for Tier 1 and 2 active members and 3% for OPSRP members. (Note: This would be structured so as to offset on a dollar-for-dollar basis the rate that would otherwise be paid by employers.)
- Transitioning all Tier 1 and 2 active members to OPSRP with or without the application of OPSRP's later retirement age. Application of the later retirement age would be managed so that employees who choose to retire under the Tier 1 or Tier 2 retirement age framework would receive an age-adjusted benefit for their OPSRP service, i.e. their benefit allowance would be recomputed in conjunction with the system's mortality tables to provide a benefit that would be equivalent in cost to the OPSRP benefit. Also, their existing employee accounts and Money Match option for the balances in those accounts would be retained.
- Establishing the full-formula amount as the basis for cost-of-living increases for Tier 1 and 2 active and inactive members who retire under the Money Match formula.
- An early retirement program which allowed Tier 1 and 2 active members who are eligible to retire to choose to do so at any time after age 50 and begin drawing a retirement benefit while working for a PERS-covered employer for up to five years thereafter. For the period of the member's post-retirement employment the employer would pay the applicable PERS payroll rate for the employee's position to offset the employer's payments for its PERS-covered employees or to apply these payments to buy down its UAL. This would require analysis of individual employee examples for various jurisdictions and pay levels.

Effect of Earlier Retirements

If there is a "rush to the exit" among Tier 1/2 in anticipation or in the wake of any changes in benefits for these employees, are there any scenarios in which earlier retirements will generate increased costs for employers because of the effect of employer-paid cost-of-living adjustments paid over a longer period of retirement?

Thank you for your attention to this request. We will be available to answer any questions you may have at your August 3 meeting or in conversations with your staff.

Sincerely,

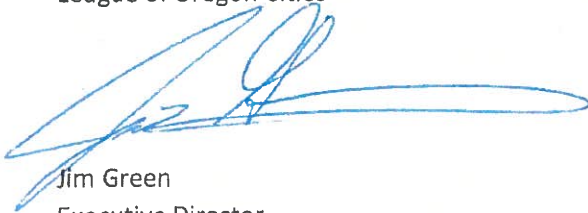
Duncan Wyse
President
Oregon Business Council



Rob Bovett
Legal Counsel
Association of Oregon Counties



Scott Winkels
Intergovernmental Relations Associate
League of Oregon Cities



Jim Green
Executive Director
Oregon School Boards Association



Oregon

Kate Brown, Governor

Public Employees Retirement System

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www.oregon.gov/pers

August 3, 2018

TO: Members of the PERS Board

FROM: Stephanie Vaughn, Manager, Policy Analysis & Compliance Section

SUBJECT: Notice of Rulemaking for IAP Target Date Fund Rules:
OAR 459-007-0335, *Crediting Earnings for IAP Account Pre-Retirement Death Benefit Payments*
OAR 459-080-0015, *Investment of IAP Account Balance*

OVERVIEW

- Action: None. This is notice that staff has begun rulemaking.
- Reason: Address administration of IAP account of deceased non-retired members with Target Date Funds.
- Policy Issue: *Should PERS leave a deceased non-retired member's IAP account balance in the Target Date Fund based upon the member's year of birth or move it to the Retirement Allocation Fund?*

BACKGROUND

A Target Date Fund (TDF) investment structure for IAP member accounts was adopted by the Oregon Investment Council on September 20, 2017. In order to implement the new TDF investment structure within a very compressed time period, we asked the PERS Board at the December 1, 2017 Board meeting for temporary rule adoption to be effective January 1, 2018. There were a total of five temporary rules up for adoption and five associated policy questions before the Board at the time.

One of the policy questions related to the administration of a deceased non-retired member's IAP account. At the December 1, 2017 Board meeting, PERS staff recommended and the Board adopted a policy that moved the non-retired member's IAP account balance to the Retirement Allocation Fund (RAF) upon notification of the member's death. Now that PERS has been administering TDFs for a number of months and has gathered more data, staff recommends altering the TDF policy with regard to deceased, non-retired member accounts.

POLICY ISSUE

- *Should PERS leave a deceased, non-retired member's IAP account balance in the Target Date Fund based upon the member's year of birth or move it to the Retirement Allocation Fund?*

In December 2017, staff recommended that a deceased, non-retired member's IAP account be moved to the RAF upon the member's death. The reason for the recommendation was to preserve the member's account for the beneficiaries when there is an extended period of time

between notice of the member's death and payment to the beneficiary. It has now been more than seven months since PERS began administering the TDF investment structure. In this time, staff has had an opportunity to further evaluate the administration of TDFs. After further evaluation of the administration of deceased non-retired member accounts, staff is recommending an adjustment to the policy previously adopted by the Board.

With regard to deceased, non-retired members, staff determined that PERS needs verification of the member's death before moving the account to the RAF. Specifically, PERS needs to receive a death certificate. In processing these death accounts, it became apparent that there is typically little time between PERS' receipt of a death certificate and payment to the beneficiary. PERS often receives verbal notification of member deaths, but the death certificates are generally included with the beneficiary's application for benefits. There can be an extended period of time between the verbal notification and the application for benefits (verbal notification can be provided by anyone). Staff reviewed IAP death benefit payment data going back to 2004 and discovered that 83% of pre-retirement death benefits are paid out to beneficiaries within six months of PERS receiving a death certificate, and 92% of pre-retirement death benefits are paid out within a year of PERS receiving a death certificate. (See charts attached.)

Moving the deceased member's account to the RAF is an added step in processing these accounts for payment when there is little need to preserve the account for the beneficiary given the timing of the payments. Staff recommends the policy be altered to pay the deceased non-retired members' IAP accounts from the members' TDFs. However, there continues to be a need to move any remaining account balance to the RAF if there are multiple beneficiaries and not all beneficiaries apply for and/or receive their benefits within the first month of distribution.

IAP accounts in the TDFs receive only annual earnings crediting as of December 31 each year. In processing a beneficiary's application for benefits, staff will credit earnings to the member's account in the member's TDF from January 1 to the date of distribution. If any balance remains in the account at the end of that month (i.e. not all beneficiaries have been paid), the balance will be transferred to the RAF. Accounts in the RAF that are in pay out status (i.e. retirement installments, and any other partially paid account) receive monthly earnings. When the remaining beneficiaries apply for their benefits, no additional processing will be required.

This adjustment in policy is reflected in the proposed amendments to OAR 459-080-0015 and we have drafted a new rule, OAR 459-007-0335, outlining the earnings crediting to these accounts.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing will be held August 28, 2018, at 2:00 p.m. at PERS headquarters in Tigard. The public comment period ends September 7, 2018, at 5:00 p.m.

LEGAL REVIEW

The attached draft rules were submitted to the Department of Justice for legal review, and any comments or changes will be incorporated before the rules are presented for adoption.

IMPACT

Mandatory: No.

Impact: Clarifies administration of pre-retirement death benefits.

Cost: There are no discrete costs attributable to the rules.

RULEMAKING TIMELINE

July 30, 2018	Staff began the rulemaking process by filing a Notice of Rulemaking with the Secretary of State.
August 1, 2018	Secretary of State publishes the Notice in the Oregon Administrative Rules Database. Notice is sent to employers, legislators, and interested parties. Public comment period begins.
August 3, 2018	PERS Board notified that staff began the rulemaking process.
August 28, 2018	Rulemaking hearing to be held at 2:00 p.m. at PERS in Tigard.
September 7, 2018	Public comment period ends at 5:00 p.m.
October 5, 2018	Staff will propose adopting the rules, including any changes resulting from public comment or reviews by staff or legal counsel.

NEXT STEPS

A rulemaking hearing will be held August 28, 2018, at 2:00 p.m. at PERS headquarters in Tigard. The rules are scheduled to be brought before the PERS Board for adoption at the October 5, 2018 Board meeting.

B.1. Attachment 1 – 459-007-0335, *Crediting Earnings for IAP Account Pre-Retirement Death Benefit Payments*

B.1. Attachment 2 – 459-080-0015, *Investment of IAP Account Balance*

B.1. Attachment 3 – *Pre-Retired Death Benefits Account Data*

**OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 007 – EARNINGS AND INTEREST DISTRIBUTION**

1 **459-007-0335**

2 **Crediting Earnings for IAP Account Pre-Retirement Death Benefit Payments**

3 **(1) For the purposes of this rule, “monthly change rate” means the monthly**
4 **earnings rate for IAP account(s) invested in the retirement allocation fund.**

5 **(2) When a beneficiary or beneficiaries receive(s) pre-retirement death benefit**
6 **payments under ORS 238A.410, earnings will be credited in the manner specified in**
7 **this rule.**

8 **(a) For payments made in the first month of distribution:**

9 **(A) If earnings for the calendar year before the date of distribution(s) have not**
10 **been credited, earnings for that year shall be credited based on the member’s target**
11 **date fund’s latest IAP year-to-date calculation available for that year.**

12 **(B) Earnings credited for the calendar year of distribution will be credited**
13 **based on the member’s target date fund’s latest IAP year-to-date calculation as of**
14 **the first day of the calendar month of the initial date of distribution.**

15 **(b) After the first month of distribution, any remaining account balance from a**
16 **deceased non-retired member’s IAP account will be moved to the retirement**
17 **allocation fund. Earnings for the remaining account balance will be credited**
18 **monthly using the latest monthly change rate beginning with the first of the month**
19 **after the first month of distribution.**

20 **Stat. Auth.: ORS 238A.450**

21 **Stats. Implemented: ORS 238A.350 & 238A.410**

**OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 080 – OPSRP INDIVIDUAL ACCOUNT PROGRAM**

1 **459-080-0015**

2 **Investment of IAP Account Balance**

3 (1) Definitions. For the purposes of this rule:

4 (a) “Retirement allocation fund” has the same meaning as defined in OAR 459-007-
5 0001(10).

6 (b) “Target date fund” has the same meaning as defined in OAR 459-007-0001(11).

7 (2) Each member’s IAP account balance will be invested in one of the target date
8 funds based upon the member’s birth year, except as provided in sections (4) and (5) of
9 this rule.

10 (3) Once PERS accepts as administrable a divorce decree that awards a portion of a
11 non-retired member’s IAP account to an alternate payee, PERS will administer the decree
12 accordingly and the alternate payee IAP account will be allocated to a target date fund
13 based on the alternate payee’s birth year. PERS will allocate the alternate payee’s IAP
14 account to the appropriate target date fund effective December 31 of the last closed year
15 for earnings crediting, as of the date PERS administers the decree.

16 (4) When a retired member who elected IAP installment payments reestablishes
17 active membership, the member’s IAP account balance and any new IAP contributions
18 will be allocated in the retirement allocation fund.

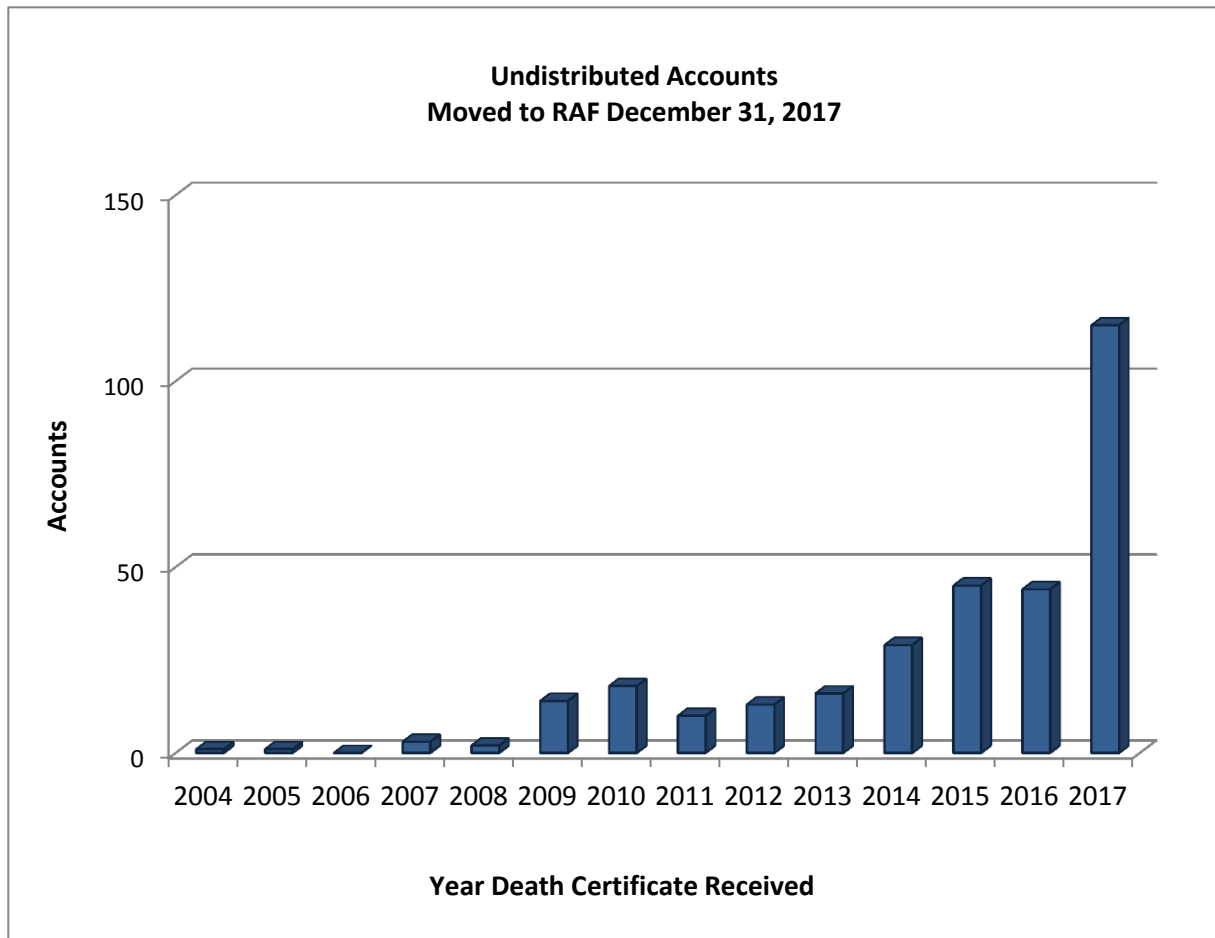
19 (5) Except as otherwise provided in this paragraph, a deceased non-retired
20 member’s IAP account will be distributed from the member’s target date fund.
21 Once the account has been processed for distribution, any balance that remains at
22 the end of the month in which the first distribution is made will be allocated to the

1 retirement allocation fund as of the first of the following month. All remaining
2 distributions will be made from the retirement allocation fund. *[When PERS is*
3 *notified of the death of a non-retired member, the deceased member's IAP account*
4 *balance will be moved to the retirement allocation fund, effective December 31 of the last*
5 *closed year for earnings crediting.]*

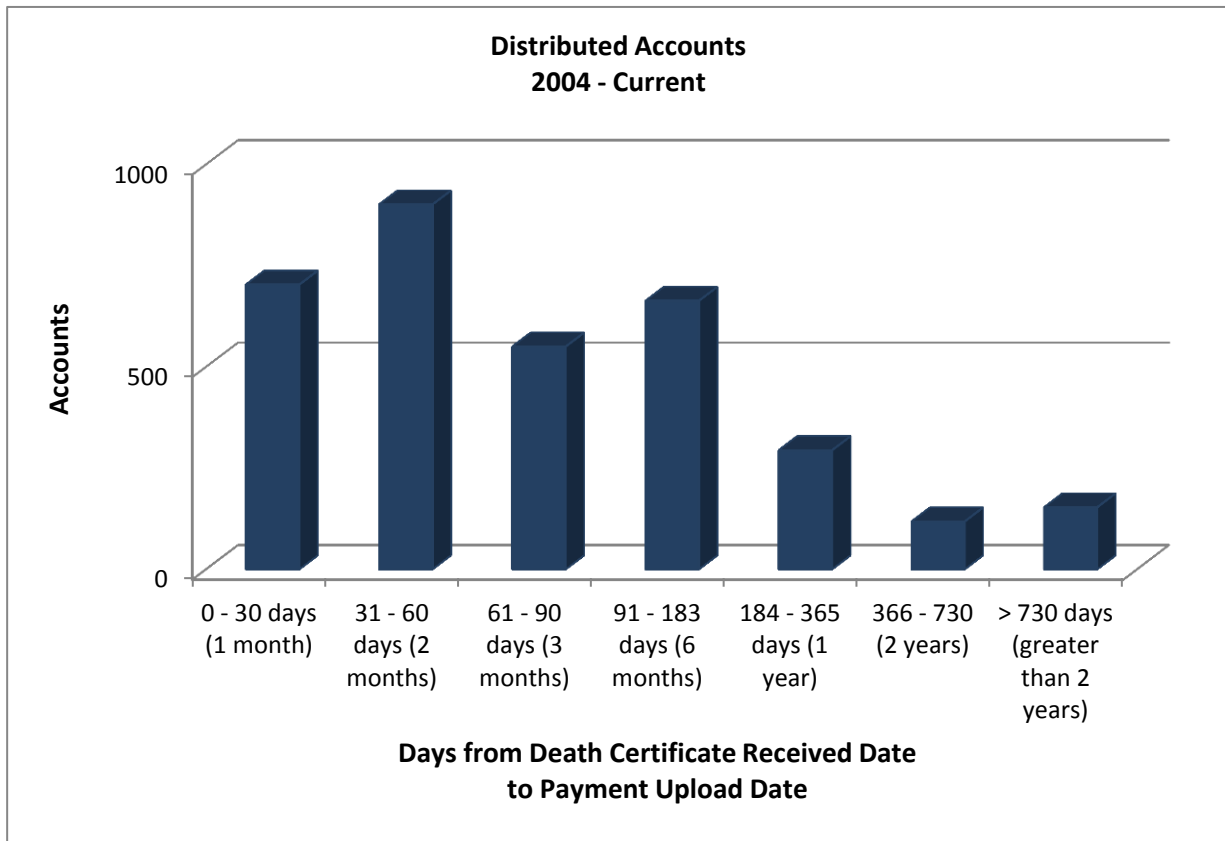
6 Stat. Auth.: ORS 238A.450

7 Stats. Implemented: ORS 238A.050 & OL 2018, Ch. 118

Undistributed Accounts Moved to RAF December 31, 2017		
Year Death Certificate Received	Accounts	Percent
2004	1	0%
2005	1	0%
2006	0	0%
2007	3	1%
2008	2	1%
2009	14	5%
2010	18	6%
2011	10	3%
2012	13	4%
2013	16	5%
2014	29	9%
2015	45	14%
2016	44	14%
2017	115	37%
Total	311	100%



Distributed Accounts 2004 - Current		
Days from Death Certificate Received Date to Payment Upload Date	Accounts	Percent
0 - 30 days (1 month)	703	21%
31 - 60 days (2 months)	901	27%
61 - 90 days (3 months)	550	16%
91 - 183 days (6 months)	663	20%
184 - 365 days (1 year)	294	9%
366 - 730 (2 years)	118	3%
> 730 days (greater than 2 years)	153	5%
Total	3,382	100%





Oregon

Kate Brown, Governor

Public Employees Retirement System

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August 3, 2018

TO: Members of the PERS Board
FROM: Stephanie Vaughn, Manager, Policy Analysis & Compliance Section
SUBJECT: Notice of Pooled Side Accounts for School District Employers Rule:
OAR 459-009-0095, *Pooled School District Employers Side Account*

OVERVIEW

- Action: None. This is notice that staff has begun rulemaking.
- Reason: Establish new rule addressing the administration of the pooled school district employers side account established under Senate Bill 1566 (2018).
- Policy Issues: None identified.

BACKGROUND

Senate Bill 1566 (2018) established a pooled school district employers side account and defines its revenue sources to include proceeds from excess debt collection, capital gains tax, estate taxes, and proceeds from unclaimed property. Funding for this side account may begin in January 2019.

The bill directs the Board to establish rules providing for proportional distributions from the new side account, as well as its amortization and general administration. The new rule specifies that the new pooled side account will be administered in the same manner as the individual employer side accounts, with modifications as needed to accommodate the nature of multiple employers in one side account. We do know we will have at least one policy question at or prior to adoption of the rule. The rule as presented today has a blank for the amortization period. Staff has engaged the relevant stakeholders, including school district employers and Oregon State Treasury, to coordinate implementation and the amortization period is a topic of discussion. We will bring that policy question forward once we have developed a recommendation with the input of stakeholders, as well as any other policy questions that may arise.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing will be held August 28, 2018, at 2:00 p.m. at PERS headquarters in Tigard. The public comment period ends September 7, 2018, at 5:00 p.m.

LEGAL REVIEW

The attached draft rule was submitted to the Department of Justice for legal review and any comments or changes will be incorporated before the rule is presented for adoption.

IMPACT

Mandatory: Yes, Senate Bill 1566 directs the PERS Board to establish this rule.

Impact: Clarifies administration of the pooled school district employers side account.

Cost: There are no discrete costs attributable to the rule.

RULEMAKING TIMELINE

July 30, 2018	Staff began the rulemaking process by filing a Notice of Rulemaking with the Secretary of State.
August 3, 2018	Secretary of State publishes the Notice in the Oregon Administrative Rules Database. Notice is sent to employers, legislators, and interested parties. Public comment period begins.
August 3, 2018	PERS Board notified that staff began the rulemaking process.
August 28, 2018	Rulemaking hearing to be held at 2:00 p.m. at PERS in Tigard.
September 7, 2018	Public comment period ends at 5:00 p.m.
October 5, 2018	Staff will propose adopting the rule, including any changes resulting from public comment or reviews by staff or legal counsel.

NEXT STEPS

A rulemaking hearing will be held August 28, 2018, at 2:00 p.m. at PERS headquarters in Tigard. The rule is scheduled to be brought before the PERS Board for adoption at the October 5, 2018 Board meeting.

B.2.a. Attachment 1 - 459-009-0095, *Pooled School District Employers Side Account*

**OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 009 – PUBLIC EMPLOYER**

1 459-009-0095

2 Pooled School District Employers Side Account

3 (1) Definitions as used in this rule:

4 (a) “Amortized amount” means the amount of a side account used to offset
5 pension contributions due from the employer.

6 (b) “Pooled” or “pooling” means the combining or grouping of public employers
7 participating in PERS for the purposes of determining employer liability for
8 retirement or other benefits under ORS Chapter 238.

9 (c) “Pooled school district employers side account” means the side account
10 created and funded under Section 24, Chapter 105, Oregon Laws 2018.

11 (d) “School district” means a common school district, a union high school
12 district, or an education service district, including chartered schools authorized
13 under Oregon law.

14 (e) “Side account” means an account in the Public Employees Retirement Fund
15 into which a UAL lump-sum payment that is not used to satisfy a transition liability is
16 deposited.

17 (2) Except as otherwise provided in this rule, the pooled school district employers
18 side account will be administered in the same manner as an individual employer side
19 account under ORS 238.229 and OAR 459-009-0084 through 459-009-0090.

20 (3) At each valuation, the PERS consulting actuary shall calculate for each school
21 district employer, its share of the amortized amount from the pooled school district

1 employers side account based on each school district’s covered salary, as a proportion
2 of the school district rate pool covered salary, as reported in that actuarial valuation.

3 (4) For school district employers with no individual employer side account(s), the
4 amount that is held in the pooled school district employers side account will be used
5 to reduce the pension contributions that would otherwise be required from each of
6 these school district employers. The amortized amount for each payroll reporting
7 period shall be transferred from the pooled school district employers side account to
8 the appropriate employer reserve accounts.

9 (5) For school districts with individual employer side account(s), the amount that
10 is held in the pooled school district employers side account will be used only after all
11 the employer’s individual employer side account(s) have been used to reduce any
12 remaining pension contributions that would otherwise be required from each of these
13 school district employers. The amortized amount for each payroll reporting period
14 shall be transferred from the pooled school district employers side account to the
15 appropriate employer reserve accounts.

16 (6) The amortization period for the pooled school district employers side account
17 is ___ years.

18 (7) Lump sum deposits into the pooled school district employers side account will
19 not be eligible for matching funds from the Employer Incentive Fund.

20 Stat. Auth.: ORS 238.650 & OL 2018, Ch. 105

21 Stats. Implemented: ORS 238.225 - 238.229



Oregon

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August 3, 2018

TO: Members of the PERS Board
FROM: Stephanie Vaughn, Manager, Policy Analysis & Compliance Section
SUBJECT: First Reading of Employer Lump Sum Payments Rule:
OAR 459-009-0086, *Employer Unfunded Actuarial Liability Lump-Sum Payments, Generally*

OVERVIEW

- Action: None. This is the first reading of a rule that was noticed at the June Board meeting.
- Reason: To allow employer lump sum payments into side accounts to be considered for matching funds from the Employer Incentive Fund established under Senate Bill 1566 (2018).
- Policy Issues: *Should PERS allow lump sum payments into employer side accounts made today to be eligible for participation in the Employer Incentive Fund?*

BACKGROUND

Staff is working through implementation of different portions of Senate Bill 1566 (2018). OAR 459-009-0086 was noticed at the June 1, 2018 Board meeting to implement Section 3b of the bill regarding alternate amortization periods for employer lump sum payments of \$10 million or more. At that time we indicated that we anticipated additional amendments to the rule as we implement the other portions of the bill. Today, we are presenting a policy issue and amendment to the rule in anticipation of implementation of the Employer Incentive Fund program. It is still possible there could be additional amendments prior to the anticipated adoption of the rule at the October 5, 2018 Board meeting.

POLICY ISSUE

- *Should PERS allow lump sum payments into employer side accounts made today to be eligible for participation in the Employer Incentive Fund?*

Senate Bill 1566 (2018) establishes an Employer Incentive Fund (EIF) to encourage employers to make additional one-time lump sum payments to pay down their UAL by matching qualifying lump sum payments. The bill directs the Board to establish the maximum percent and amount of the match as well as the qualifications for lump sum payments to be eligible for matching funds from the EIF. While employers are anxious to take advantage of this new program, there are technical issues that must be resolved before the program can be implemented. Specifically, the bill does not allow the Board to accept applications for matching funds until there are sufficient moneys in the EIF, but closes the time period for employers to apply for the matching funds on December 31, 2019, before the EIF is scheduled to receive funds in 2021.

Employers have specifically asked if lump sum payments they make today can receive matching funds from the EIF. Some employers, who have funds they would like to deposit with PERS, are holding on to the funds in anticipation of possibly receiving matching funds. Staff continues to work with stakeholders and the Governor's office on implementation of Senate Bill 1566 (2018) and would like to remove any obstacles that may prevent employers from making lump sum payments as soon as possible. To that end, staff recommends allowing lump sum payments that are made today to be eligible to be considered for matching funds once the EIF program is implemented.

Lump Sum payments will still be subject to the existing requirements and only lump sum payments, or portions of lump sum payments, that are deposited into new or existing side accounts would be eligible, as the EIF under Senate Bill 1566 (2018) does not include lump sum payments that are applied to a transition liability. All the standards and rules that will be established in implementing the EIF will apply equally to lump sum payments made before and after implementation of the program. The employer will still be required to apply to the EIF for matching funds and will not have any priority or guarantee of receiving matching funds. The amount that will be matched is the amount of the actual deposit into the new or existing side account.

This policy recommendation has been incorporated into the rule and staff will move forward with the policy unless otherwise directed by the Board.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing will be held August 28, 2018, at 2:00 p.m. at PERS headquarters in Tigard. The public comment period ends September 7, 2018, at 5:00 p.m.

LEGAL REVIEW

The attached draft rule was submitted to the Department of Justice for legal review and any comments or changes will be incorporated before the rule is presented for adoption.

IMPACT

Mandatory: No.

Impact: An opportunity for employers to budget and plan for their lump sum payment to PERS in anticipation of the start of the Employer Incentive Fund program under Senate Bill 1566 (2018).

Cost: There are no discrete costs attributable to the rule.

RULEMAKING TIMELINE

May 29, 2018	Staff began the permanent rulemaking process by filing a Notice of Rulemaking with the Secretary of State.
June 1, 2018	Secretary of State published the Notice in the Oregon Administrative Rules Database. Notice was sent to employers, legislators, and interested parties. Public comment period began.

First Reading – Employer Lump Sum Payments Rule

08/03/18

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June 1, 2018	PERS Board adopted the temporary rule modifications.
June 26, 2018	Rulemaking hearing held at 2:00 p.m. at PERS in Tigard.
July 6, 2018	First public comment period ended at 5:00 p.m.
July 30, 2018	Staff extended the rulemaking process by filing a second Notice of Rulemaking with the Secretary of State.
August 1, 2018	Secretary of State publishes the updated Notice in the Oregon Administrative Rules Database. Notice is sent to employers, legislators, and interested parties. Public comment period continues.
August 3, 2018	First reading of the rule.
August 28, 2018	Rulemaking hearing to be held at 2:00 p.m. at PERS in Tigard.
September 7, 2018	Public comment period ends at 5:00 p.m.
October 5, 2018	Staff will propose adopting the permanent rule modifications, including any changes resulting from public comment or reviews by staff or legal counsel.

NEXT STEPS

A rulemaking hearing will be held August 28, 2018, at 2:00 p.m. at PERS headquarters in Tigard. The rule is scheduled to be brought before the PERS Board for adoption at the October 5, 2018 Board meeting.

B.2.b. Attachment 1 – 459-009-0086, *Employer Unfunded Actuarial Liability Lump-Sum Payments, Generally*

**OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 009 – PUBLIC EMPLOYER**

1 **459-009-0086**

2 **Employer Unfunded Actuarial Liability Lump-Sum Payments, Generally**

3 (1) Definitions. For the purposes of this rule:

4 (a) “Amortized amount” means the amount of a side account used to offset pension
5 contributions due from the employer.

6 (b) “Employer actuarial pool” means a grouping of employers for actuarial purposes
7 such as the School District Pool and the State and Local Government Rate Pool.

8 (c) “Fair value UAL” means the unfunded actuarial liability calculated using the fair
9 market value of assets.

10 (d) “Side account” means an account in the Public Employees Retirement Fund into
11 which a UAL lump-sum payment that is not used to satisfy a transition liability is
12 deposited.

13 (e) “Transition liability” means the unfunded actuarial liability attributed to an
14 individual employer for the period before entry into the State and Local Government Rate
15 Pool.

16 (f) “Transition surplus” means the actuarial surplus attributed to an individual
17 employer for the period before entry into the State and Local Government Rate Pool.

18 (g) “Unfunded actuarial liability” or “UAL” means the excess of the actuarial
19 liability over the actuarial value of assets for the specified pension program.

20 (h) “UAL lump-sum payment” means any employer payment that is:

21 (A) Not regularly scheduled;

22 (B) Not paid as a percentage of salary;

1 (C) Made for the express purpose of reducing the pension contributions that would
2 otherwise be required from the employer, or reducing or paying off the employer's
3 transition liability; and

4 (D) Paid at the employer's election instead of at the PERS Board's direction.

5 (2) A UAL lump-sum payment must be made by either wire transfer or check
6 payable to the Public Employees Retirement System.

7 (3) An employer may make a UAL lump-sum payment to pay 100 percent of its
8 transition liability.

9 (4) A UAL lump-sum payment shall first be applied to the employer's transition
10 liability, if any. The remainder of the payment, if any, shall be held in a side account.

11 (5) An actuarial calculation must be performed prior to an employer making a UAL
12 lump-sum payment if the employer:

13 (a) Has a transition liability;

14 (b) Intends to establish a new side account with rate relief beginning on a date
15 specified by the employer; or

16 (c) Requests an actuarial calculation where a calculation is not otherwise required.

17 (6) The amount of a UAL lump-sum payment that is held in a side account will be
18 used to reduce the pension contributions that would otherwise be required from the
19 employer making the UAL lump-sum payment. The amortized amount for each payroll
20 reporting period shall be transferred from the side account to the appropriate employer
21 reserve account.

22 (7) The minimum UAL lump-sum payment required to establish a new side account
23 is the lesser of:

1 (a) 25 percent of the individual employer’s UAL calculated under OAR 459-009-
2 0084 or 459-009-0085; or

3 (b) \$250,000.

4 (8) An employer with one or more existing side accounts may make additional UAL
5 lump-sum payments into such side account(s).

6 (a) An employer may not make more than two additional UAL lump-sum payments
7 per side account in a calendar year.

8 (b) Additional UAL lump-sum payments into an existing side account will not affect
9 the amortization period of the existing side account.

10 (c) Adjustment to the employer’s contribution rates from a UAL lump-sum payment
11 into an existing side account will be effective on July 1 of the calendar year following
12 completion of the actuarial valuation for the year in which the additional deposit is made.

13 **(9) An employer making a UAL lump-sum payment equal to or greater than**
14 **\$10 million, not sourced from a pension obligation bond, and electing an**
15 **amortization period of 6 years, 10 years, or 16 years must establish a new side**
16 **account for the lump-sum payment.**

17 ~~[(9)]~~**(10)** Each employer side account shall be charged an administration fee of
18 \$1,500 for the year in which the side account is established, and \$500 per year thereafter.

19 ~~[(10)]~~**(11)** Side accounts shall be credited with earnings and losses in accordance
20 with OAR 459-007-0530.

21 ~~[(11)]~~**(12)** Nothing in this rule shall be construed to prevent the PERS Board from
22 taking action pursuant to ORS 238.225.

1 ~~[(12)]~~**(13)** Nothing in this rule shall be construed to convey to an employer making a
2 UAL lump-sum payment any proprietary interest in the Public Employees Retirement
3 Fund or in the UAL lump-sum payment made to the fund by the employer.

4 **(14) Employers making lump-sum payments into employer side accounts under**
5 **this rule on or after June 2, 2018, will be eligible to apply to have those payments**
6 **matched by the Employer Incentive Fund provided under sections 1 and 2, chapter**
7 **105, Oregon Laws 2018 according to the conditions established by the Board under**
8 **that program.**

9 Stat. Auth.: ORS 238.650

10 Stats. Implemented: ORS 238.225 - 238.229



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August 3, 2018

TO: Members of the PERS Board
FROM: Stephanie Vaughn, Manager, Policy Analysis & Compliance Section
SUBJECT: Adoption of Work After Retirement Exception rule:
OAR 459-017-0060, *Reemployment of Retired Members*

OVERVIEW

- Action: Adopt modifications to the Work After Retirement Exceptions rule.
- Reason: Implement House Bill 4012 (2018) to extend the sunset date for the work after retirement exception for career and technical education teachers.
- Policy Issue: None identified.

BACKGROUND

By statute, a Tier One or Tier Two retired member who returns to PERS-covered employment may continue to receive PERS retirement benefits so long as they work less than 1,040 hours in a calendar year. If the retiree meets or exceeds 1,040 hours of employment in a calendar year, and their employment continues into the following month, PERS will cancel the member's retirement and return the retired member to active membership status. This is sometimes referred to as the "1,040 Hour Rule" for Tier One/Tier Two retirees. However, some statutory exceptions allow retirees who work for certain employers or in certain positions to be excluded from the 1,040 Hour Rule. Retired members who meet the statutory requirements can work unlimited hours.

During the 2015 legislative session, House Bill 3058 (2015) established a new exception to the 1,040 Hour Rule for Tier One and Tier Two retired members who are re-employed by school districts or education service districts as teachers of career and technical education (CTE). Retired members who are certified by the Teacher Standards and Practices Commission (TSPC) as teachers of CTE may be re-employed and work unlimited hours in these CTE teacher positions, without loss of retirement benefits. The exception was scheduled to expire June 30, 2018, but House Bill 4012 (2018) extended the exception to June 30, 2023. The rule amendment reflects this sunset extension.

SUMMARY OF MODIFICATIONS TO RULE SINCE NOTICE

No modifications were made to the rule.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held June 26, 2018, at 2:00 p.m. at PERS headquarters in Tigard. No members of the public attended. The public comment period ended July 6, 2018, at 5:00 p.m. No public comment was received.

LEGAL REVIEW

The attached draft rule was submitted to the Department of Justice for legal review and any comments or changes are incorporated in the rule as presented for adoption.

IMPACT

Mandatory: Yes, implements 2018 legislation.

Impact: Changes to internal process and staff training.

Cost: May be absorbed in regular course of business.

RULEMAKING TIMELINE

May 29, 2018	Staff began the rulemaking process by filing a Notice of Rulemaking with the Secretary of State.
June 1, 2018	Secretary of State published the Notice in the Oregon Administrative Rules Database. Notice was sent to employers, legislators, and interested parties. Public comment period began.
June 1, 2018	PERS Board notified that staff began the rulemaking process.
June 26, 2018	Rulemaking hearing held at 2:00 p.m. at PERS in Tigard.
July 6, 2018	Public comment period ended at 5:00 p.m.
August 3, 2018	Board may adopt the permanent rule modifications.

BOARD OPTIONS

The Board may:

1. Pass a motion to “adopt modifications to the Work After Retirement Exception rule, as presented.”
2. Direct staff to make other changes to the rule or explore other options.

STAFF RECOMMENDATION

Staff recommends the Board choose Option #1.

- Reason: Implement House Bill 4012 (2018) to extend the sunset date for the work after retirement exception for career and technical education teachers.

If the Board does not adopt: Staff would return with rule modifications that more closely fit the Board’s policy direction if the Board determines that a change is warranted.

B.3.a. Attachment 1 - 459-017-0060, *Reemployment of Retired Members*

**OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 017 – REEMPLOYED RETIRED MEMBERS**

1 **459-017-0060**

2 **Reemployment of Retired Members**

3 (1) For purposes of this rule, “retired member” means a member of the PERS
4 Chapter 238 Program who is retired for service.

5 (2) Reemployment under ORS 238.082. A retired member may be employed under
6 ORS 238.082 by a participating employer without loss of retirement benefits provided:

7 (a) The period or periods of employment with one or more participating employers
8 total less than 1,040 hours in a calendar year; or

9 (b) If the retired member is receiving retirement, survivors, or disability benefits
10 under the federal Social Security Act, the period or periods of employment total less than
11 either 1,040 hours in a calendar year, or the total number of hours in a calendar year that,
12 at the retired member’s specified hourly rate of pay, would cause the annual
13 compensation of the retired member to exceed the following Social Security annual
14 compensation limits, whichever is greater.

15 (A) For retired members who have not reached full retirement age under the Social
16 Security Act, the annual compensation limit is \$17,040; or

17 (B) For the calendar year in which the retired member reaches full retirement age
18 under the Social Security Act and only for compensation for the months before reaching
19 full retirement age, the annual compensation limit is \$45,360.

20 (3) The limitations on employment in section (2) of this rule do not apply if the
21 retired member has reached full retirement age under the Social Security Act.

22 (4) The limitations on employment in section (2) of this rule do not apply if:

1 (a) The retired member meets the requirements of ORS 238.082(4), (5), (6), (7) or
2 (8), and did not retire at a reduced benefit under the provisions of ORS 238.280(1), (2) or
3 (3);

4 (b) The retired member retired at a reduced benefit under ORS 238.280(1), (2) or
5 (3), is employed in a position that meets the requirements of ORS 238.082(4), the date of
6 employment is more than six months after the member’s effective retirement date, and
7 the member’s retirement otherwise meets the standard of a bona fide retirement;

8 (c) The retired member is employed by a school district or education service district
9 as a speech-language pathologist or speech-language pathologist assistant and:

10 (A) The retired member did not retire at a reduced benefit under the provisions of
11 ORS 238.280(1) or (3); or

12 (B) If the retired member retired at a reduced benefit under the provisions of ORS
13 238.280(1) or (3), the retired member is not so employed until more than six months after
14 the member’s effective retirement date and the member’s retirement otherwise meets the
15 standard of a bona fide retirement;

16 (d) The retired member meets the requirements of section 2, chapter 499, Oregon
17 Laws 2007, as amended by section 1, chapter 108, Oregon Laws 2015;

18 (e) The retired member meets the requirements of section 2, chapter 475, Oregon
19 Laws 2015;

20 (f) The retired member is employed for service during a legislative session under
21 ORS 238.092(2);

22 (g) The retired member meets the requirements of ORS 238.088(2), and did not
23 retire at a reduced benefit under the provisions of ORS 238.280(1), (2) or (3); or

1 (h) The retired member is on state active duty in the organized militia and meets the
2 requirements under ORS 399.075(8).

3 (5) For purposes of population determinations referenced by statutes listed in this
4 rule, the latest federal decennial census shall first be operative on the first day of the
5 second calendar year following the census year.

6 (6) For purposes of ORS 238.082(6), a retired member replaces an employee if the
7 retired member:

8 (a) Is assigned to the position of the employee; and

9 (b) Performs the duties of the employee or duties that might be assigned to an
10 employee in that position.

11 (7) If a retired member is reemployed subject to the limitations of ORS 238.082 and
12 section (2) of this rule, the period or periods of employment subsequently exceed those
13 limitations, and employment continues into the month following the date the limitations
14 are exceeded:

15 (a) If the member has been retired for six or more calendar months:

16 (A) PERS will cancel the member's retirement.

17 (i) If the member is receiving a monthly service retirement allowance, the last
18 payment to which the member is entitled is for the month in which the limitations were
19 exceeded.

20 (ii) If the member is receiving installment payments under ORS 238.305(4), the last
21 installment payment to which the member is entitled is the last payment due on or before
22 the last day of the month in which the limitations were exceeded.

1 (iii) If the member received a single lump sum payment under ORS 238.305(4) or
2 238.315, the member is entitled to the payment provided the payment was dated on or
3 before the last day of the month in which the limitations were exceeded.

4 (iv) A member who receives benefits to which he or she is not entitled must repay
5 those benefits to PERS.

6 (B) The member will reestablish active membership the first of the calendar month
7 following the month in which the limitations were exceeded.

8 (C) The member's account must be rebuilt in accordance with the provisions of
9 section (9) of this rule.

10 (b) If the member has been retired for less than six calendar months:

11 (A) PERS will cancel the member's retirement effective the date the member was
12 reemployed.

13 (B) All retirement benefits received by the member must be repaid to PERS in a
14 single payment.

15 (C) The member will reestablish active membership effective the date the member
16 was reemployed.

17 (D) The member account will be rebuilt as of the date that PERS receives the single
18 payment. The amount in the member account must be the same as the amount in the
19 member account at the time of the member's retirement.

20 (8) For purposes of determining period(s) of employment in section (2) of this rule:

21 (a) Hours of employment are hours on and after the retired member's effective
22 retirement date for which the member receives wages, salary, paid leave, or other
23 compensation.

1 (b) Hours of employment that are performed under the provisions of section (4) of
2 this rule on or after the later of January 1, 2004, or the operative date of the applicable
3 statutory provision, are not counted.

4 (9) Reemployment under ORS 238.078(1). If a member has been retired for service
5 for more than six calendar months and is reemployed in a qualifying position by a
6 participating employer under the provisions of 238.078(1):

7 (a) PERS will cancel the member’s retirement effective the date the member is
8 reemployed.

9 (b) The member will reestablish active membership on the date the member is
10 reemployed.

11 (c) If the member elected a benefit payment option other than a lump sum option
12 under ORS 238.305(2) or (3), the last monthly service retirement allowance payment to
13 which the member is entitled is for the month before the calendar month in which the
14 member is reemployed. Upon subsequent retirement, the member may choose a different
15 benefit payment option.

16 (A) The member’s account will be rebuilt as required by ORS 238.078 effective the
17 date active membership is reestablished.

18 (B) Amounts from the Benefits-In-Force Reserve (BIF) credited to the member’s
19 account under the provisions of paragraph (A) of this subsection will be credited with
20 earnings at the BIF rate or the assumed rate, whichever is less, from the date of retirement
21 to the date of active membership.

22 (d) If the member elected a partial lump sum option under ORS 238.305(2), the last
23 monthly service retirement allowance payment to which the member is entitled is for the

1 month before the calendar month in which the member is reemployed. The last lump sum
2 or installment payment to which the member is entitled is the last payment due before the
3 date the member is reemployed. Upon subsequent retirement, the member may not
4 choose a different benefit payment option unless the member has repaid to PERS in a
5 single payment an amount equal to the lump sum and installment benefits received and
6 the earnings that would have accumulated on that amount.

7 (A) The member’s account will be rebuilt as required by ORS 238.078 effective the
8 date active membership is reestablished.

9 (B) Amounts from the BIF credited to the member’s account under the provisions of
10 paragraph (A) of this subsection, excluding any amounts attributable to repayment by the
11 member, will be credited with earnings at the BIF rate or the assumed rate, whichever is
12 less, from the date of retirement to the date of active membership.

13 (e) If the member elected the total lump sum option under ORS 238.305(3), the last
14 lump sum or installment payment to which the member is entitled is the last payment due
15 before the date the member is reemployed. Upon subsequent retirement, the member may
16 not choose a different benefit payment option unless the member has repaid to PERS in a
17 single payment an amount equal to the benefits received and the earnings that would have
18 accumulated on that amount.

19 (A) If the member repays PERS as described in this subsection the member’s
20 account will be rebuilt as required by ORS 238.078 effective the date that PERS receives
21 the single payment.

1 (B) If any amounts from the BIF are credited to the member’s account under the
2 provisions of paragraph (A) of this subsection, the amounts may not be credited with
3 earnings for the period from the date of retirement to the date of active membership.

4 (f) If the member received a lump sum payment under ORS 238.315:

5 (A) If the payment was dated before the date the member is reemployed, the member
6 is not required or permitted to repay the benefit amount. Upon subsequent retirement:

7 (i) The member may choose a different benefit payment option.

8 (ii) The member’s retirement benefit will be calculated based on the member’s
9 periods of active membership after the member’s initial effective retirement date.

10 (B) If the payment was dated on or after the date the member is reemployed, the
11 member must repay the benefit amount. Upon subsequent retirement:

12 (i) The member may choose a different benefit payment option.

13 (ii) The member’s retirement benefit will be calculated based on the member’s
14 periods of active membership before and after the member’s initial effective retirement
15 date.

16 (iii) The member’s account will be rebuilt as described in ORS 238.078(2).

17 (g) A member who receives benefits to which he or she is not entitled must repay
18 those benefits to PERS.

19 (10) Reemployment under ORS 238.078(2). If a member has been retired for less
20 than six calendar months and is reemployed in a qualifying position by a participating
21 employer under the provisions of 238.078(2):

22 (a) PERS will cancel the member’s retirement effective the date the member is
23 reemployed.

1 (b) All retirement benefits received by the member must be repaid to PERS in a
2 single payment.

3 (c) The member will reestablish active membership effective the date the member is
4 reemployed.

5 (d) The member account will be rebuilt as of the date that PERS receives the single
6 payment. The amount in the member account must be the same as the amount in the
7 member account at the time of the member’s retirement.

8 (e) Upon subsequent retirement, the member may choose a different benefit payment
9 option.

10 (11) Upon the subsequent retirement of any member who reestablished active
11 membership under ORS 238.078 and this rule, the retirement benefit of the member must
12 be calculated using the actuarial equivalency factors in effect on the effective date of the
13 subsequent retirement.

14 (12) The provisions of paragraphs (9)(c)(B), (9)(d)(B), and (9)(e)(B) of this rule are
15 applicable to retired members who reestablish active membership under ORS 238.078
16 and this rule and whose initial effective retirement date is on or after March 1, 2006.

17 (13) Reporting requirement. A participating employer that employs a retired member
18 must notify PERS in a format acceptable to PERS under which statute the retired member
19 is employed.

20 (a) Upon request by PERS, a participating employer must certify to PERS that a
21 retired member has not exceeded the number of hours allowed under ORS 238.082 and
22 section (2) of this rule.

1 (b) Upon request by PERS a participating employer must provide PERS with
2 business and employment records to substantiate the actual number of hours a retired
3 member was employed.

4 (c) Participating employers must provide information requested under this section
5 within 30 days of the date of the request.

6 (14) Sick leave. Accumulated unused sick leave reported by an employer to PERS
7 upon a member’s retirement, as provided in ORS 238.350, may not be made available to
8 a retired member returning to employment under sections (2) or (9) of this rule.

9 (15) Subsections (4)(c) and (4)(d) of this rule are repealed effective January 2, 2026.

10 (16) Subsection (4)(e) of this rule is repealed effective June 30, ~~2018~~ 2023.

11 Stat. Auth.: ORS 238.650

12 Stats. Implemented: ORS 238.078, 238.082, 238.088, 238.092, 399.075, 2007 OL
13 Ch. 499 & 774, 2015 OL Ch. 108 & 475, 2018 OL Ch. 48



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August 3, 2018

TO: Members of the PERS Board
FROM: Stephanie Vaughn, Manager, Policy Analysis & Compliance Section
SUBJECT: Adoption of OPSRP Member Vesting rule:
OAR 459-075-0060, *Vesting in the OPSRP Pension Program*

OVERVIEW

- Action: Adopt modifications to the OPSRP Member Vesting rule.
- Reason: Update rule to reflect Senate Bill 1546 (2018), which allows judge members to use hours of service worked as a judge member toward vesting as an OPSRP Pension Program member.
- Policy Issue: None identified.

BACKGROUND

Prior to passage of Senate Bill 1546 (2018), if an unvested OPSRP member became a judge and subsequently performed fewer than 600 hours of service as an OPSRP member in each of five consecutive calendar years, that member forfeited their OPSRP retirement credit at the end of the fifth calendar year. The statutes for OPSRP members specifically exclude judge members as “eligible employees” so they were statutorily blocked from using their judge service time to vest in their OPSRP membership.

Senate Bill 1546 allows judge members to use hours of service worked as a judge toward vesting as an OPSRP member. The modifications to the OPSRP vesting rule add hours of service as a judge member as a consideration when determining whether an OPSRP member is vested. The new statutory provision applies to judge members who retire on or after January 1, 2018.

SUMMARY OF MODIFICATIONS TO RULE SINCE NOTICE

No modifications were made to the rule.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held June 26, 2018, at 2:00 p.m. at PERS headquarters in Tigard. No members of the public attended. The public comment period ended July 6, 2018, at 5:00 p.m. No public comment was received.

LEGAL REVIEW

The attached draft rule was submitted to the Department of Justice for legal review and any comments or changes are incorporated in the rule as presented for adoption.

IMPACT

Mandatory: Yes, implements 2018 legislation.

Impact: There are approximately 199 judges participating in PERS of which an unknown number have unvested OPSRP time.

Cost: There are no discrete costs attributable to the rule.

RULEMAKING TIMELINE

May 29, 2018	Staff began the rulemaking process by filing a Notice of Rulemaking with the Secretary of State.
June 1, 2018	Secretary of State published the Notice in the Oregon Administrative Rules Database. Notice was sent to employers, legislators, and interested parties. Public comment period began.
June 1, 2018	PERS Board notified that staff began the rulemaking process.
June 26, 2018	Rulemaking hearing at 2:00 p.m. at PERS in Tigard.
July 6, 2018	Public comment period ended at 5:00 p.m.
August 3, 2018	Board may adopt the permanent rule modifications.

BOARD OPTIONS

The Board may:

1. Pass a motion to “adopt modifications to the OPSRP Member Vesting rule, as presented.”
2. Direct staff to make other changes to the rule or explore other options.

STAFF RECOMMENDATION

Staff recommends the Board choose Option #1.

- Reason: Update rule to reflect Senate Bill 1546 (2018), which allows judge members to use hours of service worked as a judge member toward vesting as an OPSRP Pension Program member.

If the Board does not adopt: Staff would return with rule modifications that more closely fit the Board’s policy direction if the Board determines that a change is warranted.

B.3.b. Attachment 1 - 459-075-0060, *Vesting in the OPSRP Pension Program*

**OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 075 – OPSRP PENSION PROGRAM**

1 **459-075-0060**

2 **Vesting in the OPSRP Pension Program**

3 For the purpose of determining vesting under ORS 238A.115(1)(a):

4 (1) Hours of service performed for all participating public employers during a
5 calendar year are included.

6 (2) Hours of service performed during the six-month period required to establish
7 membership under ORS 238A.100 are included.

8 (3) For calendar years beginning on or after January 1, 2004, hours of service will be
9 determined based on hours reported to PERS by the member’s employer(s) pursuant to
10 OAR 459-070-0100.

11 (4) An eligible employee first employed by a participating public employer on or
12 after August 29, 2003 and before January 1, 2004 is presumed to have performed less
13 than 600 hours of service in calendar year 2003 unless records provided to PERS
14 establish that the eligible employee performed at least 600 hours of service in the
15 calendar year.

16 (5) Hours of service attributable to periods of active membership before termination
17 of membership under ORS 238.095 and hours of service excluded under ORS 238A.120
18 and 238A.145 may not be included.

19 **(6) An eligible employee who has established membership in the OPSRP**
20 **Pension Program but has not vested in that program prior to becoming a judge**
21 **member, as defined in ORS 238.500(3), may use hours of service worked as a judge**
22 **member solely for the purpose of vesting in the OPSRP Pension Program so long as:**

1 **(a) The membership of the person has not been terminated under the provisions**
2 **of ORS 238.545 or 238A.110; and**

3 **(b) The judge member’s effective date of retirement is on or after January 1,**
4 **2018.**

5 Stat. Auth.: ORS 238A.450

6 Stats. Implemented: ORS 238A.010, 238A.115



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August 3, 2018

TO: Members of the PERS Board
FROM: Stephanie Vaughn, Manager, Policy Analysis & Compliance Section
SUBJECT: Adoption of Health Insurance Program Rule:
OAR 459-035-0070, *Enrollment*

OVERVIEW

- Action: Adopt modifications to the Health Insurance Program rule.
- Reason: Expand enrollment opportunities in the PERS Health Insurance Program (PHIP).
- Policy Issue: None identified.

BACKGROUND

A retired member is eligible to enroll in the PERS-sponsored health insurance plans (PHIP) within specific time periods outlined in rule. Two of those time periods are: 1) within 90 days of the retired member's effective date of retirement; and 2) within 90 days of Medicare eligibility. While these standards work in most situations, there are certain circumstances in which a member can have a retroactive retirement date and thereby miss an opportunity to enroll in PHIP.

The effective retirement date for a disability retirement is the first of the month following the date of disability. A member cannot apply for disability retirement before the date of disability and a disability application takes, on average, six months to process. Therefore, the effective date of disability retirement is always a retroactive date. In addition, if a member who is eligible for service retirement applies for disability retirement and is denied, the member can apply for a service retirement with a retroactive effective retirement date of the first of the month in which the disability application was received. Similarly, members who are initially denied Social Security benefits and are later approved will also have a retroactive Medicare eligibility date. Under the current PHIP enrollment rule, these members do not have an opportunity to enroll in PHIP due to the retroactive retirement date.

The amendments to the rule address these retroactive effective date situations and provide an enrollment window for eligible persons in these circumstances. If enrolled, PHIP coverage would only be prospective from the enrollment date. Additional edits to the rule have been made to: update the name of the PHIP application form and clarify information requirements for a completed application; clarify that all Medicare-enrolled individuals (member, spouse, dependents) enrolling in PHIP are required to be in the same Medicare Companion Plan; and remove the requirement of a new application form from a surviving spouse or dependent who is already enrolled in PHIP at the time of a member's death.

SUMMARY OF MODIFICATIONS TO RULE SINCE NOTICE

No modifications were made to the rule.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held June 26, 2018, at 2:00 p.m. at PERS headquarters in Tigard. No members of the public attended. The public comment period ended July 6, 2018, at 5:00 p.m. No public comment was received.

LEGAL REVIEW

The attached draft rule was submitted to the Department of Justice for legal review and any comments or changes are incorporated in the rule as presented for adoption.

IMPACT

Mandatory: No.

Impact: Provides direction to retirees regarding updated enrollment requirements.

Cost: There are no discrete costs attributable to the rule.

RULEMAKING TIMELINE

May 29, 2018	Staff began the rulemaking process by filing a Notice of Rulemaking with the Secretary of State.
June 1, 2018	Secretary of State published the Notice in the Oregon Administrative Rules Database. Notice was sent to employers, legislators, and interested parties. Public comment period began.
June 1, 2018	PERS Board notified that staff began the rulemaking process.
June 26, 2018	Rulemaking hearing at 2:00 p.m. at PERS in Tigard.
July 6, 2018	Public comment period ended at 5:00 p.m.
August 3, 2018	Board may adopt the permanent rule modifications.

BOARD OPTIONS

The Board may:

1. Pass a motion to “adopt modifications to the Health Insurance Program rule, as presented.”
2. Direct staff to make other changes to the rule or explore other options.

STAFF RECOMMENDATION

Staff recommends the Board choose Option #1.

- Reason: Expand enrollment opportunities in the PERS Health Insurance Program (PHIP).

If the Board does not adopt: Staff would return with rule modifications that more closely fit the Board’s policy direction if the Board determines that a change is warranted.

B.4. Attachment 1 - 459-035-0070, *Enrollment*

**OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 035 – HEALTH INSURANCE PROGRAMS**

1 **459-035-0070**

2 **Enrollment**

3 (1) Enrollment requirements of PERS-sponsored health insurance plans for eligible
4 persons are as follows:

5 (a) An eligible person must complete all applicable parts of the PERS *[Medical &*
6 *Dental]* Health Insurance *[Application]* Program Enrollment Request *[f]*Form, and
7 *[file]* submit the form with all required supporting documents to the Third Party
8 Administrator prior to the requested effective date of enrollment *[including, in the*
9 *case of a dependent domestic partner, an Affidavit of Dependent Domestic Partnership]*.

10 The PERS Health Insurance Program Enrollment Request *[f]*Form must:

11 (A) *[i]*Indicate which plan is desired;

12 (B) *[and it must]* List individually all dependents, including the spouse, that are to
13 be enrolled*[.]*; and

14 (C) Have signatures of all members, dependents over the age of 18, and spouses
15 that are to be enrolled.

16 *[The form can be obtained from the Third Party Administrator or PERS.]*

17 (b) An eligible person who is a retiree may enroll:

18 (A) Within 90 days of the retiree’s effective date of retirement;

19 (B) Within 90 days of the date of submitting a service retirement application
20 under OAR 459-015-0025(4)(c);

21 (C) Within 90 days of the date of the Disability Approval Letter generated
22 under OAR 459-015-0025(5)(a);

1 ~~[(B)]~~**(D)** At any time if covered under another group health insurance plan for 24
2 consecutive months immediately preceding enrollment, provided that the application for
3 enrollment is filed within 30 days of loss of coverage. Health care coverage under
4 workers' compensation, Medicare or any other governmental entitlement program for
5 health care do not qualify as other group health insurance coverage for purposes of this
6 paragraph;

7 ~~[(C)]~~**(E)** Within 90 days of initial Medicare eligibility, if the retiree is enrolled in
8 Parts A and B of Medicare; *[or]*

9 **(F) Within 90 days of the date of the Notice of Award letter issued by the Social**
10 **Security Administration; or**

11 ~~[(D)]~~**(G)** During an open enrollment period designated by the Board.

12 (c) Except as provided in subsections (f) **and (g)** of this section, an eligible spouse, **dependent domestic partner,**
13 **or dependent must be enrolled at the same time** *[and in*
14 *the same plan]* as the eligible retiree. **An eligible spouse, dependent domestic partner**
15 **or dependent enrolling in Parts A and B of Medicare must be enrolled in the**
16 **Medicare Companion Plan offered by the same carrier that covers the eligible**
17 **retiree.**

18 (d) An eligible surviving spouse or dependent who is enrolled under the deceased
19 retiree's plan at the time of death may continue coverage under that plan. *[, and must*
20 *complete a Medical & Dental Insurance Application form as soon as possible following*
21 *the retiree's death;]*

22 (e) An eligible surviving spouse or dependent who is not covered under the retiree's
23 plan at the time of the retiree's death, may enroll:

24 (A) Within 90 days of the retiree's death;

1 (B) At any time if covered under another group health insurance plan for 24
2 consecutive months immediately preceding enrollment, provided that the application for
3 enrollment is filed within 30 days of loss of coverage. Health care coverage under
4 workers' compensation, Medicare or any other governmental entitlement program for
5 health care do not qualify as other group health insurance plan coverage for purposes of
6 this paragraph;

7 (C) Within 90 days of initial Medicare eligibility, if he or she is enrolled in Parts A
8 and B of Medicare; *[or]*

9 **(D) Within 90 days of the date of the Notice of Award letter issued by the Social**
10 **Security Administration; or**

11 *[(D)](E)* During an open enrollment period designated by the Board.

12 (f) A new spouse, dependent domestic partner, or dependent may be enrolled:

13 (A) Within 30 days of becoming a spouse, a dependent domestic partner or
14 dependent; and

15 *[(B) If not enrolled in Medicare, only with the same carrier that the eligible retiree*
16 *is enrolled in;]*

17 *[(C)](B)* If enrolled in Parts A and B of Medicare, only in the Medicare Companion
18 Plan offered by the same carrier that covers the eligible retiree.

19 (g) An eligible retiree's spouse may enroll within 90 days of initial Medicare
20 eligibility, if he/she is enrolled in Parts A & B of Medicare even though the retiree
21 remains enrolled in a non-PERS health plan.

22 (2) Special enrollment requirements for dental insurance plans:

23 (a) Only persons who are enrolled in a PERS-sponsored health insurance plan may
24 enroll in a PERS-sponsored dental insurance plan. Enrollment in a PERS-sponsored

1 dental insurance plan must be made under the enrollment conditions for the PERS-
2 sponsored health insurance that are described in section (1) of this rule.

3 (b) Dental insurance coverage is not available to any eligible person unless all family
4 members (the retiree, spouse, dependent domestic partner and dependent(s)) who are
5 enrolled in a PERS-sponsored health insurance plan also enroll in the same PERS-
6 sponsored dental insurance plan.

7 Stat. Auth.: ORS 238.410 & 238.650

8 Stats. Implemented: ORS 238.410, 238.415 & 238.420



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August 3, 2018

TO: Members of the PERS Board
FROM: Yvette Elledge-Rhodes, Deputy Director
SUBJECT: IAP TDF Implementation Update

BACKGROUND

At the September 20, 2017 Oregon Investment Council (OIC) meeting, the OIC adopted a new Target-Date Fund (TDF) investment strategy for the Individual Account Program (IAP) effective January 1, 2018. This decision resulted in changes to the IAP investment structure by establishing TDFs in five-year vintages that reflect gradually more conservative investment mixes as a member ages.

As PERS reported at the June 1, 2018 Board meeting, the OIC's move to TDFs continues to be integrated into IAP operations through project methodology. In addition to the activities listed below, PERS is developing a budget request to present to the September Emergency Board for resources to fully implement and manage the new and expanded processes associated with TDFs. The request will include positions for accounting, data reconciliation and administration of the program as well as professional services to complete technology requirements for earnings crediting and a history table.

PROJECT ACTIVITIES

Recent TDF project activities include:

- The final tools and reports needed for TDF are in process or have been identified for completion by 12/31/18.
- Staff continue to refine policies related to TDF as we develop procedures for some of the specific populations such as deceased accounts.
- Data transfers and processes between Voya and PERS continue to be reviewed for efficiency and accuracy. A tool is being developed that will aid reconciliation of the 270,000 accounts.
- The next communication to members will be included in the December 2018 *Perspectives*.
- All activities associated with a "Member Choice" option related to House Bill 4159(2018) have ended.

PERS staff will update the Board as project implementation progresses.



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August 3, 2018

TO: Members of the PERS Board
FROM: Linda M. Barnett, Budget Officer
SUBJECT: 2019-21 Agency Request Budget (ARB)

OVERVIEW

- Action: Approve PERS' 2019-21 ARB
- Reason: Review and approval needed by the Department of Administrative Services/Chief Financial Office and the Legislative Fiscal Office.

2019-21 POLICY PACKAGES

The agency proposed policy packages for the 2019-21 biennium are briefly summarized below. They are consistent with the agency's mission and support of its vision and core values. They are based upon furthering the agency's strategic initiatives.

- *Policy Package 101, PERS Compliance Initiative*
The agency is requesting a \$695,000 budget increase. This includes Capital Outlay of \$200,000 to purchase two database software applications that are intended to provide efficiencies, increased productivity, and enhanced structure to the Compliance, Audit and Risk Division (CARD) and its Policy Analysis and Compliance Section (PACS). This software will also address customer dissatisfaction in a recent survey and answer audit findings resulting from a recent review. The remaining \$495,000 is for Professional Services to contract with a vendor who will do a feasibility study of the agency's use of state-owned and state-leased space as directed in Executive Order EO 17-07—in addition to reviewing the use of PERS Headquarters, which is not owned by the state, but by the trust.

Permanent Positions:	0.00 FTE
Professional Services	\$495,000
Personal Services	\$ 0
Services & Supplies	\$ 0
Capital Outlay	<u>\$200,000</u>
Total Other Fund Limitation	\$695,000

- *Policy Package 102, PERS Production Data Center Migration*
The agency is requesting a \$1,715,318 budget increase in support of an April 2016 joint memo from OSCIO and LFO. PERS proposes to migrate their data center to the State Data Center (SDC) in a co-location model with some applications to be hosted by Enterprise Technical Services (ETS). In addition, the data center would be downgraded to a main distribution frame (MDF), also known as a small server room, to house systems that must remain onsite, such as telephony and security. This request consists of Capital Outlay of

\$1,532,000 for co-location hosting and hardware. An additional \$183,318 is requested for Services & Supplies in order to accommodate the transition.

Permanent Positions:	0.00 FTE	
Personal Services		\$ 0
Services & Supplies		\$ 183,318
Capital Outlay		<u>\$1,532,000</u>
Total Other Fund Limitation		\$1,715,318

- *Policy Package 103, Financial & Administrative Services Strategic Fulfillment*

The agency is requesting a \$2,985,851 budget increase and the establishment of nine new full-time permanent positions, four full-time limited duration positions, and the upward reclassification of four permanent positions in the Financial and Administrative Services Division (FASD). The division is facing major challenges to maintain service levels to internal and external customers and is using manual workaround systems. With increasing responsibilities due to legislative mandates, financial, actuarial and coordinated obligations to address long-overdue audit findings, accounting and actuarial teams are stretched. The PERS Health Insurance Program, HR and Procurement programs are also at capacity and can no longer sufficiently manage workload. Resolution to these challenges requires an investment in human capital.

The financial management strategic initiative, which is part of the 2018-2023 PERS Strategic Plan, has two focus areas: investing in staff and additional resources; and a thorough evaluation of current technology with the intent to eliminate manual processes.

Permanent Positions	9.00 FTE	
Limited Duration Positions	4.00 FTE	
Positions to be Reclassed	4.00 FTE	
Personal Services		\$2,268,510
Professional Services		\$ 186,368
Services & Supplies:		<u>\$ 530,973</u>
Total Other Fund Limitation		\$2,985,851

- *Policy Package 104, Maintaining Current Services*

The agency is requesting a budget increase of \$2,144,771 and the establishment of eleven full-time permanent positions to ensure continuity of services, improve management functions, improve communications, and to keep pace with evolving demands of an increasingly complex PERS pension system, Oregon Retirement Information Online Network referred to as "ORION". The eleven positions will be assigned to different programs and divisions as follows:

The Director's Office in Central Administration is requesting a new communications officer, Principal Executive Manager E (1.00 FTE) to lead, support and build the internal and external communications strategy for PERS.

The Calculations Section in the Operations Division is requesting a new Principal Executive Manager B (1.00 FTE) position to support and supervise nineteen

positions. Intake and Review in the Operations Division is seeking two full-time positions (2.00 FTE) in lieu of hiring temps to assist with special projects.

The Strategic and Operational Planning Section is requesting a new Operations and Policy Analyst 3 position (1.00 FTE) to focus on the administration of the Individual Account Program (IAP) by serving as the business lead. In addition, the Operations Division Technical Section is requesting an Operations and Policy Analyst 2 position (1.00 FTE) to conduct work focusing on reconciliation of IAP data related to implementation of Target Date Funds (TDF).

Information Services Division is requesting three new full time permanent positions (3.00 FTE); two are Information System Specialist 6 positions which are a Test Engineer and staff to support the Enterprise Content Management Section. The third position is a Principle Executive Manager E in Information Services Administration who will take the role of IT Administration Support Manager.

The Compliance, Audit and Risk Division is requesting two new full time permanent positions (2.00 FTE) including an Operations & Policy Analyst 1 who will write business rules, and an Executive Support Specialist 1 who will help with daily management of the division.

Directors Office

Permanent Positions:	1.00 FTE	
Personal Services		\$ 231,908
Services & Supplies		\$ 12,323
Capital Outlay		\$ <u>0</u>
Total Other Fund Limitation		\$ 244,231

Operations Division

Permanent Positions:	5.00 FTE	
Personal Services		\$ 822,800
Services & Supplies		\$ 57,937
Capital Outlay		\$ <u>0</u>
Total Other Fund Limitation		\$ 880,737

Information Services Division

Permanent Positions:	3.00 FTE	
Personal Services		\$ 654,761
Services & Supplies		\$ 34,517
Capital Outlay		\$ <u>0</u>
Total Other Fund Limitation		\$ 689,278

Compliance and Risk Division

Permanent Positions:	2.00 FTE	
Personal Services		\$ 278,331
Services & Supplies		\$ 22,194
Capital Outlay		\$ <u>0</u>
Total Other Fund Limitation		\$ 300,525

- *Policy Package 105, Modern Communication*

The agency is requesting a \$1,405,388 budget increase to develop a communication solution with modern features such as customer relationship management (CRM) capability that would allow PERS to communicate with its members early and often about proactive retirement planning. PERS’ current outward-facing member communications platform consists primarily of an outdated web portal called Online Member Services (OMS). OMS limitations due to its structural deficits and its inflexible platform constrain PERS’ ability to engage with and provide excellent customer service to members.

Permanent Positions:	0.00 FTE	
IT Professional Services		\$1,032,224
Personal Services		\$ 0
Services & Supplies		\$ 51,611
Capital Outlay		<u>\$ 321,553</u>
Total Other Funds Limitation		\$1,405,388

- *Policy Package 106, Risk & Security Management*

The agency is requesting a \$1,282,475 budget increase and the establishment of three permanent positions (3.00 FTE) to implement and operate an industry standard Information Security, Continuity of Operations, Disaster Recovery, and Risk Management Programs, in alignment with the State’s Unification of Security, Oregon Revised Statutes, and Continuity and Resiliency initiatives. PERS is responsible for ensuring the confidentiality, integrity, and availability of its member data and therefore, these resources will allow the agency to implement and fund the ongoing operations of the proposed Risk and Security program and ensure the confidentiality, integrity, and availability of member data.

Permanent Positions:	3.00 FTE	
Personal Services		\$ 644,184
Services & Supplies		\$ 638,291
Capital Outlay		<u>\$ 0</u>
Total Other Fund Limitation		\$1,282,475

- *Policy Package 107, Deferred Maintenance Plan Needs*

The agency is requesting a \$625,000 budget increase to satisfy the requirement in Senate Bill 1067 (2017). As an agency owning a state building in Tigard, this will bring the agency’s total deferred maintenance and capital improvement budget to a level of two percent of the current replacement value of the building and infrastructure.

Permanent Positions:	0.00 FTE	
Personal Services		\$ 0
Services & Supplies		\$ 625,000
Capital Outlay		<u>\$ 0</u>
Total Other Fund Limitation		\$ 625,000

- Policy Package 108, Legislative Concept – Member Choice*
The agency recently determined that it will not request introduction of 2019 legislation related to implementation of House Bill 4159(2018), and this budget request will be eliminated.

The agency is requesting a \$9,586,526 budget increase and the establishment of three permanent positions (3.00 FTE) to implement House Bill 4159 (2018), “Member Choice,” and to meet the rising number of calls and need to communicate with the members educating them regarding the new choice of investment that will be available to them.

- Policy Package 109, Business Innovation Program (BIP) Architecture and Planning*
 The agency is requesting a \$512,265 budget increase to perform architecture and planning of ORION which will lead to modernization and enhancement of our communications and technological foundation. This request will initiate Stage Gate 1 tasks and activities, Architecture and Planning a Joint State CIO/LFO Review process for IT investments exceeding \$1 million.

Permanent Positions:	0.00 FTE	
Personal Services		\$ 0
IT Professional Services		\$ 512,265
Services & Supplies		\$ 0
Capital Outlay		\$ 0
Total Other Fund Limitation		\$ 512,265

2019-21 AGENCY REQUEST BUDGET (ARB)

The following table illustrates the Agency’s requested Operations limited budget by its major components (Personal Services, Services & Supplies, and Capital Outlay) and shows the effect of the policy packages in those expenditure areas as compared to our current biennial budget.

	2017-19 Legislatively Approved Budget	2019-21 Current Service Level	POP 101 Compliance Initiative	POP 102 Data Center Migration	POP 103 FASD Strategic Fulfillment	POP 104 Maintaining Current Services	POP 105 Modern Communication	POP 106 Risk and Security Management	POP 107 Deferred Maintenance	POP 108 Member Choice	POP 109 Business Innovation	2019-21 Agency Request Budget
Personal Services	73,332,965	76,270,943	-	-	2,268,510	1,987,800		644,184	-	413,259		81,584,696
Services and Supplies	26,830,862	28,999,996	495,000	183,318	717,341	126,971	1,083,835	638,291	625,000	9,173,267	512,265	42,555,284
Capital Outlay	1,294,352	641,331	200,000	1,532,000	-	-	321,553	-	-			2,694,884
Total Limitation	101,458,179	105,912,270	695,000	1,715,318	2,985,851	2,114,771	1,405,388	1,282,475	625,000	9,586,526	512,265	126,834,864
Positions	376	369	-	-	13	11	-	3	-	3	-	399
FTE	374.30	369.00	-	-	13.00	11.00	-	3.00	-	3.00	-	399.00

PERS BUDGET METRICS AND COMPARISONS

One way to view the “cost” of PERS administration is to compare the agency’s annual operating budget to the net asset value of the PERS Fund. The following table shows the biennial budget as an annualized percentage of the Fund’s value at the end of each biennium. Note that our annual operating budget has generally ranged from 6 to 9 basis points using that industry standard measurement approach.

PERS Budget/PERF Comparison							
Biennium	Legislatively Approved Limited Budget	Fiscal Year Ended June 30th	Limited Budget	PERF Balance	Column1	Percent	
2009-2011	\$ 84,685,027	2010	\$ 42,342,514	\$ 51,747,943,735		0.0818%	
		2011	\$ 42,342,513	\$ 61,189,774,807		0.0692%	
2011-2013	\$ 80,750,830	2012	\$ 40,375,415	\$ 59,456,250,160		0.0679%	
		2013	\$ 40,375,415	\$ 65,362,545,518		0.0618%	
2013-2015	\$ 86,851,130	2014	\$ 43,425,565	\$ 73,728,185,070		0.0589%	
		2015	\$ 43,425,565	\$ 73,865,147,024		0.0588%	
2015-2017	\$ 106,949,449	2016	\$ 53,474,725	\$ 71,331,639,411		0.0750%	
		2017	\$ 53,474,725	\$ 77,044,798,841		0.0694%	
2017-2019	\$ 101,458,179	2018	\$ 50,729,090	\$ 79,417,680,000	E	0.0639%	
		2019	\$ 50,729,090	\$ 81,451,520,000	E	0.0623%	
2019-2021	ARB \$ 126,834,864	2020	\$ 63,417,432	\$ 83,334,830,000	E	0.0761%	
		2021	\$ 63,417,432	\$ 85,037,440,000	E	0.0746%	

BOARD OPTIONS

PERS is required to submit the 2019-2021 Agency Request Budget to the Department of Administrative Services/ Chief Financial Office. This submission will form the basis for the Governor’s Recommended Budget to be developed prior to the 2019 Legislative Session.

The Board may:

1. Pass a motion to “approve the 2019-21 Agency Request Budget as presented for submission to the Department of Administrative Services/ Chief Financial Office.”
2. Direct staff to further refine the budget request in specific areas before submission to DAS.

STAFF RECOMMENDATION

Staff recommends the Board choose Option #1.

ATTACHMENTS – Policy Package Business Cases

- 1 – POP 101 – PERS Compliance Initiative
- 2 – POP 102 – PERS Production Data Center Migration
- 3 – POP 103 – Financial and Administrative Services Strategic Fulfillment
- 4 – POP 104 – Maintain Service Levels
- 5 – POP 105 – Member Communications and Self-Service Platform
- 6 – POP 106 – Risk and Security Management
- 7 – POP 107 – Deferred Maintenance Plan Needs
- 8 – POP 109 – Business Innovation Program

Public Employees Retirement System (PERS)

2019-21 Budget Development Business Case for

PERS Compliance Initiative 101

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Executive Summary

This proposal includes two database software applications that are intended to provide efficiencies, increased productivity, and enhanced structure to the Compliance, Audit and Risk Division (CARD) and its Policy Analysis and Compliance Section (PACS). These sections provide direction and support to the entire agency in our compliance with state and federal statute.

Since its inception, PACS has been working without supporting software to manage its workflow or provide a mechanism for productivity metrics. In the areas of “Policy Determinations” and “Appeals and Contested Cases,” PACS has used the Microsoft Access and the Suite of desktop products in an effort to gain efficiencies through a minimal level of automation. However, a recent survey of PACS internal customers revealed dissatisfaction, related to throughput, and a recent audit review produced findings at all three severity levels (Low, Medium, High) related to a lack of supporting software. The workload of these two areas of PACS is directly related to PERS’ compliance with legislative and judicial directives. With an increasing focus on PERS (the system) by our legislature, it is unlikely that this workload will trend downwards. Both Policy Determinations and Appeals and Contested Cases are in need of software support.

Additionally, per Executive Order EO 17-07 directs state agencies to optimize use of their facilities. Per EO 17-07, “State agencies shall immediately conduct a review of their use of state-owned and state-leased space.” To comply with this mandate, PERS is requesting funding for a feasibility study to review current use of owned and leased buildings, the utilization of storage space within, and projection of space needs based on use and agency growth projections.

PERS needs to address the backlog of requirements immediately to avoid noncompliance with audit findings and legislation in order to assure effective continuity of service. To address these impactful issues, PERS is requesting the following:

Professional Services	\$495,000
Capital Outlay	\$200,000
 Total Cost	 \$ 695,000

Purpose and Background

Purpose

PERS presents this proposal as a solution to achieve compliance with legislation, audit findings, executive orders and various state agency initiatives in order to more effectively and efficiently serve our members and stakeholders. Following are the drivers of this request and PERS proposed solutions to these issues:

Request	Mandate	Audit	PERS Strategic Initiative/Measures/Policy and Procedures	Solution
Policy Determinations Appeals and Contested Cases Tracking software		Internal Audit of Policy Analysis and Compliance Section	Core Process: Managing Compliance and Risk Policy 1.05.80.00.001 Information Governance Practices	A tracking system to formally track Policy Determinations and Appeals and Contested Cases, providing a centralized reference for the agency to ensure consistency, quality and increasing efficiency.
Feasibility Study	EO 17-07 DAS directive	Feasibility Study	EO 17-07 DAS directive	A location feasibility study that factors in the option for telecommuting (a feasibility study currently underway) and ensures PERS is best utilizing its resources to service its staff and members.

Background

Following are the audit findings PERS is addressing with this request:

Audit: Policy Determination Processes Conducted 2017-08

Current state: The lack of centralized storage and enterprise access to Policy Analysis and Compliance Section's (PACS) processes and business prevents a defined service level agreement. Essentially each new request must be treated as new, as members of PACS have no consolidated resource to cross-reference; as a result of the lengthy review time, stakeholders have at times circumvented the process and apply their own interpretation.

- Average number of days to assign a case to a policy analyst 3.5 days
- Average number of days to provide a determination to the customer 25 days

- 50% decline in Operations requesting PACS determination between 2016-2017
- Decisions are not timely and without centrally documented reasoning, decisions may be subject to interpretation.
- Substantial rework by both PACS and dependent divisions extends resolution time

Solution

- Implement two tracking systems, one for policy determinations and one for contested and appealed cases
- A central location for these determinations will streamline interactions between PACS and dependent divisions by eliminating a substantial amount of questions through agency access to a local repository
- Systems will allow for easy cross reference to reduce re-work and assure consistency
- PERS will be able to track trending and provide coaching to dependent teams in Operations
- Localized documentation will allow PERS to create performance measures to improve accuracy and efficiency

1. Software for Policy Determinations

In the area of Policy Determinations, PACS is responsible for the identification and analysis of statutes and rules to develop policy positions or recommendations. In addition, prior policy decisions are reviewed in light of legislative or administrative changes as they occur. In general, the work of PACS Policy Determination team includes:

Reviewing state of Oregon legislative proposals for relevancy to PERS and potential impact to existing statute, rule, and procedure;

Drafting proposed amendments to legislation;

Drafting and editing Oregon Administrative Rules (OARs);

Providing policy determinations on demand for PERS staff;

Work with outside attorneys and other stakeholders;

Review and edit internal Business Rules; and

Review internal forms, mass mailings, and publications for legal sufficiency and statutory compliance.

Per the most recent internal audit report (February, 2018), 60 percent of PACS internal customers are dissatisfied with the amount of time required for PACS to respond to requests for information and determinations. The volume and detailed nature of PACS' work has resulted in what are perceived as unacceptable delays in throughput.

Policy requests are submitted to PACS through a variety of avenues, but for the most part, requests and responses are through email (multiple mailboxes.) Some historical determinations are logged in an Excel spreadsheet, but this log is incomplete, and does not provide information on how a determination was reached. Details of this history are retained on paper, external storage devices, and email.

In order to store and retrieve historical policy determinations, PACS relies largely on the agency email system. This is in direct violation of agency policy 1.01.00.00.039.POL which states, in part, "The email system is not a substitute for a record filing system..." The email system was never intended to be used a document management tool, and its capabilities in this regard are inefficient and sometimes unreliable.

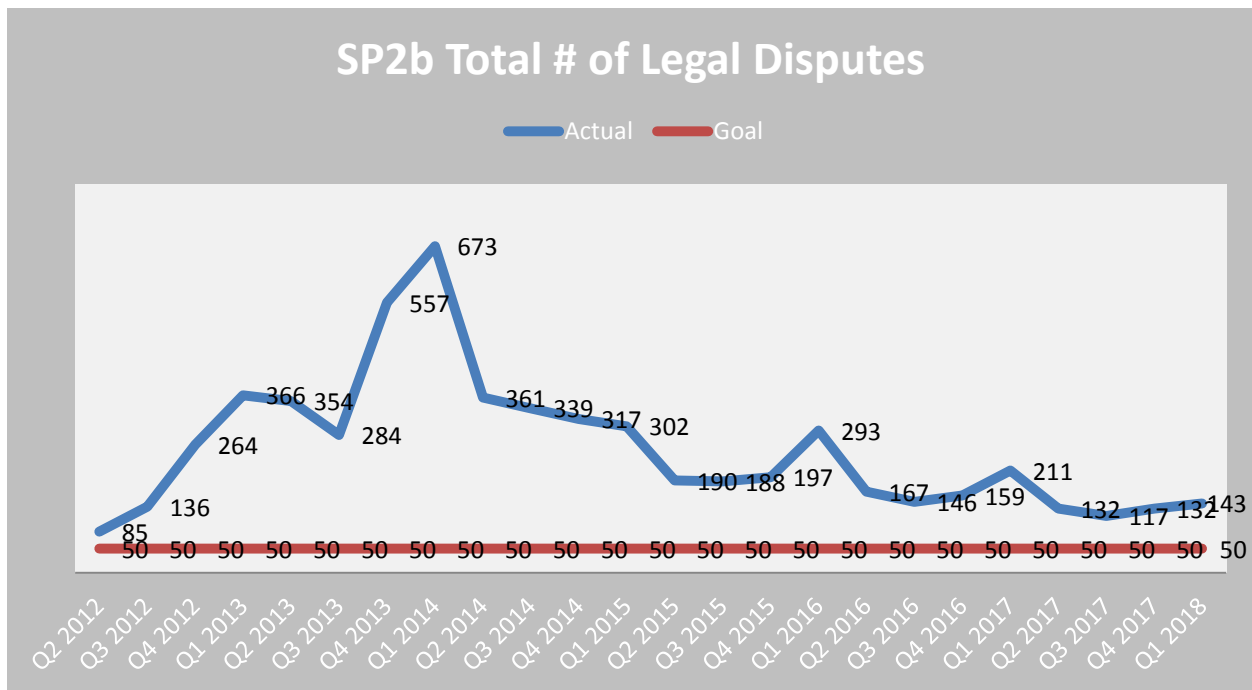
2. Software for Contested Cases and Appeals

Similarly, in the area of Contested Cases and Appeals, a variety of software tools are being used as workarounds to support this unit. PACS utilizes a variety of Microsoft products, including Word, Excel, and Access, to collect and house data relevant to member appeals and contested cases. There are several compelling reasons to find a replacement for this workaround:

This “process” is manually intensive and time consuming;
 ISD provides Microsoft Access availability, but provides no development or application support;
 This collection of products does not satisfy all of the functional or reporting needs of the unit; and
 Metrics to gauge throughput and productivity are acquired manually, and subject to error.

This request will allow PERS to successfully implement its strategic plan as well as improve its enterprise measures that demonstrate the success of the operations of the agency. Enterprise measures have suffered due to shifting resource priorities. PERS leadership and staff have determined these core processes and their subsequent measures are essential markers of PERS successfully delivering on its mission. A key supporting process for PERS is “Managing Compliance and Risk.” With a tracking system for legal determinations and appeals we can expect improvement on enterprise measures that have struggled to meet expectations.

SP2b- “Number of Legal Disputes” measures the number of member and employer appeals and contested case matters, employment disputes, litigation disputes, notices of dispute and risk management claims. From the start of this measure in the second quarter of 2012 through the first quarter of 2018, this measure has consistently underperformed. With the benefit of an automated system, resources would be readily available for future legal disputes.



Problem or Opportunity Definition

As stated in the PERS Strategic Plan, “Access to timely, accurate, and relevant internal information helps ensure that we, as an agency, communicate effectively with our members, employers, and stakeholders.” PACS has responsibility for policy guidance to the entire agency, providing compliance determinations and clarifications of statute that potentially impact every member account and PERS employer. We have the opportunity to facilitate these efforts by aligning the unit’s objectives, processes, and procedures with available technology. Our requests for software tools are in support of this concept.

1. Policy Determinations

Policy Determinations are used to inform the agency’s business practices; member accounts are administered and benefits determined based on statute and policy determinations. Any changes or additions to statutes may result in new policy. In addition, in light of new or revised regulations, prior agency policy decisions may need to be reevaluated and changed. This cascading stream of work is growing, and, in the latest internal audit report, 60 percent of PACS internal customers are dissatisfied with the amount of time required for PACS to respond to requests for information and determinations.

In support of PACS’ requests, a portion of the most recent internal audit report on PACS concluded that, “...PACS could benefit from computer software that would allow them to standardize, track, and retain policy work, as well as centralize resources used for research.”

Through the acquisition of an information system to help organize intake, consolidate data, and provide the basis for generating productivity metrics, we have the opportunity to add efficiencies and improve service to our internal customers. This is in keeping with goals stated in PERS Strategic Plan, and also supports the following Supporting Processes of PERS Fundamentals Map:

SP2.1 Providing policy advice

SP2.2 Implementing new legal mandates

SP2.9 Managing information

Utilizing a formal database for policy determinations will also poise PACS to expand the availability of this information to other areas of the agency. As the PERS system expands, PERS staff has an increasing need for determinations by PACS. By making existing determinations more readily available to other areas of the agency, we will gain efficiencies by reducing the need for agency personnel to contact PACS directly.

Additionally, use of a database product will allow PACS to discontinue use of email as a repository for policy determination research, which is in conflict with PERS policy 1.01.00.00.039.POL.

2. Appeals and Contested Cases

Some of these same opportunities exist in the area of Appeals and Contested Cases. Here too, PACS lacks the technical tools required to efficiently and most effectively support our stakeholders. The introduction of Case Management software would eliminate much of the manually intensive work required to prepare both internal reports and those required by our partners at the state Department of Justice. This would also be true for the compilation of case notes required for hearings and internal review. Also, utilizing Case Management software would allow PACS to generate productivity metrics that would allow us to more closely monitor work flow, productivity and resource management.

Ultimately, the introduction of software specifically designed to support the efforts of PACS would allow us to gather metrics, and ensure that our work is being done with the greatest efficiency. This has a potential impact on the Supporting Process Measures of PERS' Fundamentals Map:

SP2b reflecting member and employer appeals and contested cases

SP2c reflecting staff determinations that are overturned on appeal

Alternatives Analysis

POLICY DETERMINATIONS AND APPEALS AND CONTESTED CASES TRACKING SYSTEM

- Assumptions
- Continuing legislative mandates will increase the workload of the Policy Analysis and Compliance Section
- As workload continues to grow, the need for efficiencies in relation to automating services will increase
- An increase in the backlog of work places PERS at risk of being out of compliance with operational decisions related to statute and policy
- Due to conflicting priorities, internal application software support is unavailable

Alternative #1: Status Quo

Maintain status quo, and accept that in lieu of formal policy determinations by PACS, some decisions made by Operational staff may not be compliant with legislative or judicial mandates. In an effort to introduce some level of automation into manual processes, PACS has used the Microsoft Suite of products as workarounds. However, these processes are time consuming and contribute to the internal customer perceptions of unwarranted delays in responding to requests. Furthermore, these workarounds do not provide an automated means of deriving productivity metrics. This has an obvious impact on our ability to monitor work progress, establish meaningful quarterly statistics, or provide supporting documentation for our business cases.

Alternative #2: Submit Internal Requests for Application Software Support

Submit requests for software support to PERS internal technical support group (ISD). To date, ISD has a backlog of service requests related to PERS compliance with our own mission statement, "To pay the right person, the right benefit at the right time." It is likely that PACS service requests for software support will be given a low priority and would not be addressed in a timely manner.

Benefits

- Financial Benefits
- Increased staff availability
- Decreased processing time
- Improved service level agreement
- Reduced legal costs
- Non-financial Benefits
- Revive collaboration between Operations and PACS

- Analysis of tracked information may help PERS develop a more proactive approach to address consistent issues
- Decreased onboarding time for new staff
- Will identify areas of inconsistency of application of rule and judgement

Risks

- Potential retro application of policy and procedure could cause unfavorable disruption to our members
- Requires significant staff time for data migration and implementation.
- Potentially identify areas of inconsistency and noncompliance
- Implementation would require internal Project Management (PMO) and ISD resources that might not be available

Conclusions and Recommendations

Conclusions

PERS' ultimate priority is to provide its members with the right benefit at the right time. Expanding on that mission, PERS wants to collaborate with members throughout their careers, providing education and information to help prepare members for retirement. The request laid out in this business case, addresses fundamental issues that inhibit efficiency and stalls the implementation of member-focused legislation. To successfully implement current and future requests, and exceed the expectations of our members by providing robust and dynamic service, we must resolve these outstanding issues.

PERS wants to comply with legislative mandates, state directives and audit findings in a timely manner. Granting this request, as presented, ensures PERS will be able to meet these requests and also proactively address future issues. These requests will mitigate current noncompliance risks, improve its enterprise measures, improve performance management, and improve efficiency.

In addition, the area of Appeals and Contested Cases, standardizing and tracking legal and tort claim processes is critical to efficient and effective work in this area. In both the areas of Policy Determination and Appeals and Contested Cases, metrics for tracking productivity are gathered manually and prone to error. Both areas of PACS are in need of software designed to support their efforts.

Recommendations

PERS is recommending approval of the package to ensure that PERS has the full resources required to effectively update operations within the timeline intended. To maintain the effectiveness of the Policy Determination area of PACS, a software application is needed that will allow for effective management of the workflow and overlapping determinations.

In the area of Policy Analysis and Compliance, manual workarounds are employed to capture, track, and report on the status of formal disputes. Documentation required by our colleagues at the Department of Justice is produced without the benefit of software designed to extract the needed data from a variety of repositories. Much needed efficiencies would be gained from the introduction of software designed to capture, store, and update information as needed in a single repository.

Consequences of Failure to Act

If this request is not granted, an expanding backlog in the area of Policy Determinations will continue to grow. As such, the agency risks noncompliance with statutory and judicial requirements. Enterprise measures and internal customer service levels are at risk.

In the area of Appeals and Contested Cases, staff will continue to use manual workarounds to produce complex reports for both internal use and documentation required by the state DOJ. Productivity tracking will remain suspect and the opportunity to take advantage of efficiencies offered by modern software will be lost.

Non-Financial Business Results

BENEFITS TABLE: Benefits Identification:

Benefit Categories	Results
Process Improvements	
✓ Fully Documented Decisions, Policies and Procedures	<ul style="list-style-type: none"> ○ Improved efficiency ○ Decreased onboarding time ○ Addresses major concern of staff as identified in Annual Employee Survey ○ Improved transparency of operations ○ Eases and expedites resolution of change requests for business and projects ○ Continuity of Operations
✓ Reduced processing time	<ul style="list-style-type: none"> ○ Decreases dependence on tenured staff, leads and subject matter experts, freeing front line staff to resolve issues independently and allowing tenured staff to review truly escalated issues
✓ Improved internal controls	<ul style="list-style-type: none"> ○ Reduced audits findings for enterprise issues ○ Reduced risk of noncompliance
✓ Achieved Policy Objectives	<ul style="list-style-type: none"> ○ Citizens receive better quality & timely services
New or Enhanced Service	
✓ Policy Determination and Appeal and Contested Cases Tracking System	<ul style="list-style-type: none"> ○ Consistent process promotes efficiency and reliability ○ Centralized documentation repository empowers staff to seek information for themselves rather than tying up two FTE for one issue ○ Avoids information governance issues with storage of essential information in email or miscellaneous personal folders
Public/Stakeholder Satisfaction	
✓ Legislative or regulatory compliance	<ul style="list-style-type: none"> ○ Consistent reference resource able to be cross-referenced by multiple stakeholder
✓ More timely information	<ul style="list-style-type: none"> ○ More effective decision making ability backed by accurate information
✓ Streamlined processes	<ul style="list-style-type: none"> ○ Easier for divisions to work together and increase trust between divisions

Risk and Mitigations

Business/Organizational Risks

- Implementation would require substantial change management from Human Resources and leadership team
- Evaluation would require consistent enterprise level communication plan
- Fines for noncompliance
- Inability to roll out favorable initiatives as dictated by legislators due to insufficient foundational work
- Inconsistency of rollout by management team

Public Employees Retirement System (PERS)

2019-21 Budget Development Business Case for

PERS Production Data Center Migration 102

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Executive Summary

PERS is positioning itself for technical readiness in an effort to migrate systems and architecture in line with current and future technologies. To align with technical readiness, and in support of the joint April 2016 OSCIO and LFO memo, PERS proposes to migrate the agency data center to the State Data Center (SDC) in a co-location model, with some applications to be hosted by Enterprise Technical Services (ETS). In addition, the PERS data center will be downgraded to a main distribution frame (MDF), also known as a small server room, to house systems that must remain onsite, such as telephony and security. While the state has not yet outlined a cloud-based strategy, this is a bridge to prepare to move to the cloud when the state is ready.

The proposal is to migrate to the SDC by September 30, 2019. This project is dependent on the SDC meeting the required power specifications for a co-location model to power PERS hardware by June 30, 2019.

The proposed costs for the recommended solution are as follows (see details under Alternatives Analysis):

Services & Supplies	\$ 183,318	
Capital Outlay		<u>\$1,532,000</u>
Total Cost Estimate	<u>\$1,715,318</u>	

Purpose and Background

Purpose

- Comply with the joint April 2016 OSCIO and LFO memo by migrating the PERS data center from the headquarters location to the State Data Center (SDC)
- Host applications with Enterprise Technical Services (ETS) managed services
- Establish a footprint with SDC for future planning for additional hosted applications with ETS

Background

In April 2016, a joint OSCIO/LFO memo directed PERS to work collaboratively with the Office of the State CIO (OSCIO) to conduct a comprehensive State Data Center (SDC) use analysis as a result of its prioritized security planning efforts. In addition, the PERS CIO communicated a strategic direction to migrate infrastructure services to ETS/SDC over time to allow for increased agency focus on mission-specific IT services, align with enterprise IT strategy, support technical readiness for ORION modernization and address LFO expectations.

Currently, the infrastructure and systems onsite at PERS headquarters are managed by a team of seven, two of whom are infrastructure administrators. All applications and services are hosted off the PERS infrastructure in the data center and hardware refreshes are performed cyclically - the longest cycle is five years and the shortest is one year. Managing hardware, refreshes, and the administration is time consuming. With few resources allocated to the administration, little time is allowed for agency-focused

initiatives, less flexibility with support, and no time for innovation to support services and business requests of the agency.

PERS does not have experience migrating a data center, but ETS has assisted with the migration of other agencies to the SDC. The complexity of the PERS migration is considered moderate by choosing a co-location model, which means PERS will still manage the hardware while hosting some applications with ETS.

Problem or Opportunity Definition

Problems:

- PERS is out of compliance with LFO expectations
- Migrating to the SDC is a pre-requisite to support technical readiness for future programs/projects
- Time spent on administration and management of hardware reduces the focus on agency needs and mission-specific IT services
- Current architecture and management of systems does not align with the enterprise IT strategy

Opportunities:

- Establish footprint with the SDC and ETS paving the way for future hosted applications minimizing the need for PERS managed infrastructure
- Reclaim office space where the agency data center resides when equipment is removed
- Reduction in PERS energy bill due to reduced HVAC needs

Alternatives Analysis

Assumptions

- SDC will have rack space, power, and floor space ready by June 30th, 2019
- SDC will have Network connectivity to all PERS offices by August 30th, 2019
- SDC co-location model is hardware agnostic
- SDC co-location pricing, per rack, presented at time of cost analysis does not increase by more than 15%
- Agency allows migration window at time forecasted, Q4 2019
- PERS, LFO, and OSCIO strategy does not change to direct a different migration and hosting model
- Agency and State priorities are aligned to allow resources and focus on the migration
- PERS Technical Operations Section (TOS) will perform the migration as managed by PERS Information Services Division (ISD)
- Purchased hardware and software is at the discretion of PERS ISD
- ETS will set up a hosting platform for selected PERS applications to be hosted in the SDC
- Standard service level agreements (SLA) apply during and after migration

Selection Criteria and Alternatives Ranking

- Provides minimal- to no-downtime for PERS standard working hours; least business impact approach

- Provides reliability and availability matching PERS business standards and measures
- Aligns with LFO directives
- Offers scalability and flexibility for change

Solution Requirements

- ORION infrastructure and systems are accessible, manageable, available, and secure
- Applications are administered and managed remotely
- Service levels are maintained or improved as reported in the PERS management scorecard
- Reduce IT infrastructure footprint at PERS headquarters
- Established SDC network redundancy between PERS headquarters, Tualatin offices, and the SDC

Alternatives Identification

Solution 1: Migration using newly purchased hardware

- Establish a footprint in the SDC by leveraging Enterprise Technical Services (ETS) to host some smaller applications in a managed services model within the SDC
- Leverage SDC co-location space, providing PERS with power, cooling, racks, and network connectivity
- PERS to purchase new storage array, servers, networking gear, and necessary cabling
- Determine network, WAN, bandwidth needs and increase as needed for the network connection between PERS and SDC
- Install new equipment in the SDC under the co-location model
- Perform an “over-the-wire” migration” to the data center
- Upon successful testing, cut-over to the SDC and go-live
- Decommission end-of-life data center equipment and execute e-waste plan
- Downgrade PERS data center space back into a main distribution frame (MDF), housing only necessary equipment to operate the site network, physical security, off-site backups, and connection to the SDC

Solution 2: Migration using existing hardware and some new hardware

- Establish a footprint in the SDC by leveraging Enterprise Technical Services (ETS) to host some smaller applications in a managed services model within the SDC, prior to any physical move
- Determine network, WAN, bandwidth needs and increase as needed for the network connection between PERS and SDC
- PERS to purchase networking gear and cabling
- Install new equipment in the SDC under the co-location model
- Test connectivity of network services in SDC to PERS HQ
- Upon successful testing, migrate current PERS data center infrastructure to SDC in a “fork-lift” fashion
- Downgrade PERS data center space back into a main distribution frame (MDF), housing only necessary equipment to operate the site network, physical security, off-site backups, and connection to the SDC

Solution 3: Migration to cloud service provider

- Research and purchase a footprint with a cloud service provider (CSP)
- Perform a POC by hosting some smaller applications with the CSP

- Determine network, WAN, bandwidth needs and increase as needed for the network connection between PERS and CSP
- Determine if a direct WAN connection and/or redundancy from PERS to CSP is required
- Test connectivity of network services with CSP to PERS HQ, Tualatin, Salem
- Migrate servers and applications to CSP in a phased plan
- Upon successful testing, go-live with PERS data center at the CSP
- Downgrade PERS data center space back into a main distribution frame (MDF), housing only necessary equipment to operate the site network, physical security, off-site backups, and connection to the SDC

Solution 4: Partial migration, hosted applications only

- Establish a footprint in the SDC by leveraging Enterprise Technical Services to host some smaller applications in a managed services model within the SDC, prior to any physical move
- Install and configure local backup appliance in SDC as the off-site backup for the PERS data center
- Establish plan to migrate data center infrastructure to SDC/CSP at another time

Alternatives Analysis

Solution 1

Buying new equipment, placing it in the State Data Center (SDC) and migrating over-the-wire meets all of the selection criteria and solution requirements. It is the second highest cost solution, but yields moderate complexity and provides low business risk of system availability during migration. The move can happen any time of year.

Solution 2

This will require the purchase of networking equipment, but otherwise includes physically transporting PERS' existing data center equipment to the SDC. This yields the highest risk to the business as it will leave systems completely down for more than two days, subjects the equipment to physical damage, and will take more resources and professional services to assist with physically moving the gear. This solution is less expensive than Solutions 1 and 2, but greater than Solution 4. This meets all solution requirements, but only meets 75% of the selection criteria and presents the highest risk to the agency for system uptime and availability. Due to the risk, the move could only happen during non-peak months in order to avoid end of calendar year, fiscal year and end of month activities.

Solution 3

This is the most expensive solution, with cost estimates of over \$750,000 per year in perpetuity; not including premium service support. It would meet all requirements, but not align with the LFO directive to move into the SDC. Although cloud services are enticing, the state of Oregon has not established a cloud strategy or support for cloud data centers at this time. PERS is currently not considering cloud services as a viable solution and will revisit this option when the state of Oregon has established policies and standards around cloud services.

Solution 4

This option is the least costly of all solutions, but only meets 60% of solution requirements and only 75% of the selection criteria. Considering this is a no-move option where the data center stays within PERS HQ, and only some applications are migrated to an ETS-hosted managed services model, this will not meet the LFO directive and is not being considered as a viable solution.

Cost

Following is a detailed explanation of the costs associated with implementing Solution 1:

Services and Supplies:

Telecommunications	\$177,318
Training	\$ 5,000
Travel	<u>\$ 1,000</u>

Total Services and Supplies: \$ 183,318

Capital Outlay:**SDC Co-Location Hosting:**

Network core & switches, Firewall, and Storage Area Network (SAN)	\$ 800,000
Hardware	\$ 500,000
Telecom Equipment	\$ 25,000
Software	<u>\$ 52,000</u>
Total Co-Location Hosting	\$1,377,000

PERS HQ Hardware (Convert to MDF)

Storage	\$ 50,000
Servers	\$ 100,000
Cables/Misc	<u>\$ 5,000</u>
Total PERS HQ Hardware	\$ 155,000

Total Capital Outlay: \$1,532,000

Total Solution 1 Cost years 1-2: \$1,715,318

Total Solution 1 Cost years 3-4: \$377,538

Costs in perpetuity: \$377,538

Benefits

- Tangible
 - Reduction in PERS energy bill due to equipment reduction and reduced HVAC needs
 - Reclaim office space where the agency Data Center resides
 - Reduction in infrastructure support resource allocation for SDC-hosted and ETS-managed services
- Intangible (benefits that CANNOT be assigned an accurate or quantifiable value)
 - Compliance with the joint April 2016 OSCIO/LFO directive to migrate the PERS data center to the SDC
 - Increase in agency focus on mission-specific IT services as ETS will manage infrastructure services for those items listed as being ETS managed at SDC
 - Alignment with enterprise IT strategy
 - Support technical readiness for ORION optimization
 - Maximize use of ETS capabilities and SDC resources
 - Established footprint in SDC hosting allows for easier setup for new services to be hosted in a SAAS model

Risks

- Resource impact affecting all agency sections due to planning, testing, and migration outage
- Disaster Recovery procedures will need to be updated to reflect new architecture and response processes
- OSCIO oversight needed for project artifacts and consultation on IT architecture
- Impacts all other projects in planning and execution phases during testing and migration window of this project, as testing systems will need to be made available and the migration outage will cause systems to be unavailable.
- Training will be needed for any net new hardware or service resulting from migration
- Direct impact to all systems, processes and services at PERS resulting in an agency wide outage during migration window
- External facing systems will be unavailable to members, employers, and the TPA will need communication during outage window
- External users: Third party administrator (TPA), employers, and members will not be able to access systems during migration window

Conclusions and Recommendations

Conclusions

PERS wants to comply with the OSCIO/LFO directive and take steps to align with enterprise IT strategy. Migrating the PERS data center from PERS HQ to the SDC will accomplish this. In addition, PERS would like to establish a footprint at the SDC with ETS-hosted services and begin having ancillary applications hosted by ETS. This will remove some of the infrastructure burden placed on the PERS infrastructure team in addition to paving a way for future application hosting as PERS moves towards technical readiness. Aside from the benefits of reclaiming space and a lower energy bill, if PERS moves the data center, the agency will be in a position to use SDC services in the future, such as disaster recovery and cloud strategies not yet defined.

Recommendations

PERS recommends Solution 1, migrating the agency SDC, purchasing new equipment and selecting ancillary applications to be hosted with ETS managed services. This is the only solution that meets all requirements, selection criteria and offers the lowest risk to the business in regards to system availability. The migration execution can happen anytime in a calendar year and offers the least impact to change management. Given the data and servers are migrated over-the-wire (data circuit), this keeps the local, PERS' infrastructure team available to perform other tasks while migration is in process.

Proposed Plan:

- Track 1 (Target completion by December 31, 2018)
 - Identify and select ancillary applications to be hosted with ETS managed services
 - Migrate selected applications to SDC, hosted by ETS
 - Decommission related application infrastructure
- Track 2 (Target completion by December 31, 2019)
 - Plan migration while waiting for SDC power upgrade (dependency)
 - Procure equipment and stage at SDC
 - Install, configure, test equipment (once power upgrade is in place)

- Perform migration execution
- Decommission PERS HQ data center, downgrade to main distribution frame (MDF)

Consequences of Failure to Act

- Increased inability to focus on mission-specific IT services by not leveraging ETS services
- Maintain technical debt not in support of technical readiness
- Non-compliance with OSCIO/LFO joint directive
- Misaligned with enterprise IT strategy limiting future flexibility and adaptation to change

Public Employees Retirement System (PERS)

2019-21 Budget Development Business Case for

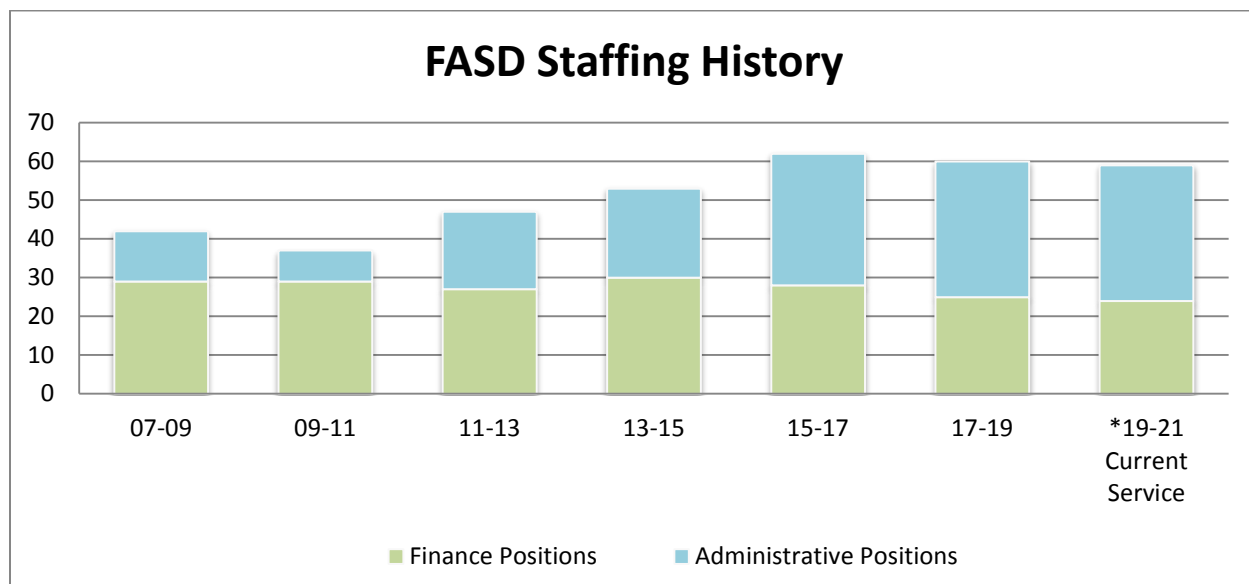
Financial and Administrative Services Strategic Fulfillment 103

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Executive Summary

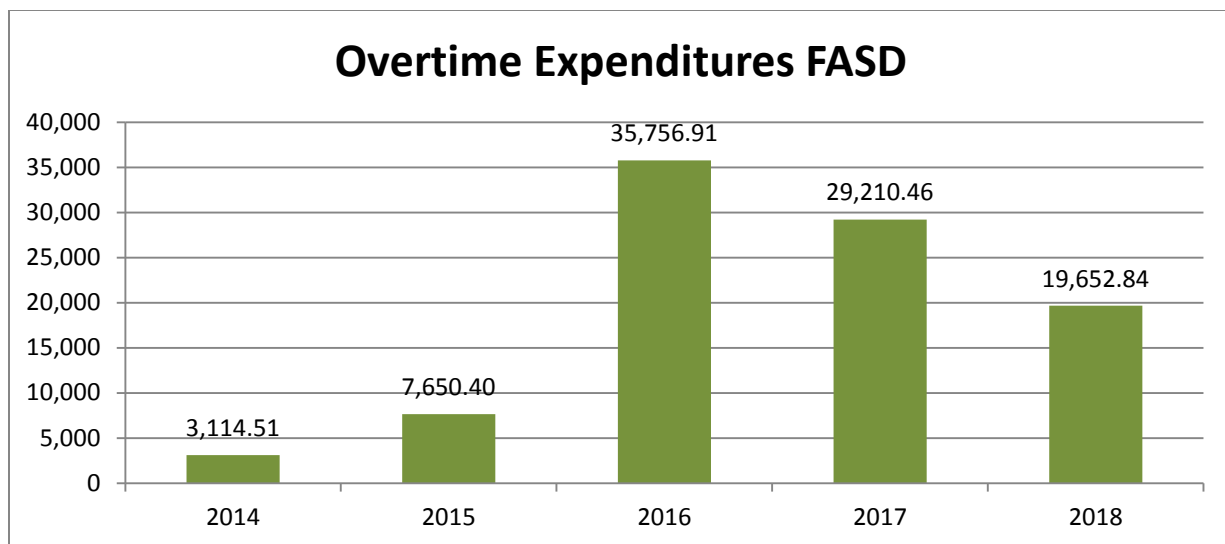
The Financial and Administrative Services Division (FASD) is a diverse unit which is responsible for both core and sub-operating processes. All of the financial, budgetary, accounting, actuarial and tax sections are among the division programs as is procurement, human resources, facilities, health insurance and the OSGP sections. Over the last four years, there has been little FTE investment in these sections and yet, the program areas have accepted the burdens of increasing expectation.



The Financial and Administrative Services Division (FASD) is facing major challenges to its continued operations. As of June 30, 2017, 62% of our tenured staff is eligible for retirement and many have voiced their interest in exercising the opportunity to retire. Understanding the impending loss, we continue to struggle with developing sound strategies for succession planning while ensuring daily responsibilities are met. The latter has taken precedence.

We have 23 outstanding audit recommendations from a 2015 internal audit. Due to resource constraints, we continue to struggle in addressing these findings. We are at a critical juncture. Although we have been able to reprioritize demands and struggle daily to meet minimum operational requirements, legislation and pending legislation continues to tax our resources resulting in staff fatigue. Our actuarial and financial management teams are struggling to address the variety of questions coming into the agency from external stakeholders and often times, long hours, and six day weeks are the result.

Human resources, procurement, facilities, the Oregon Savings & Growth Plan and our PERS Health Insurance Programs are all struggling to meet the daily demands of service. In several of these program areas, staff are overworked and there is little flexibility. In order to address fatigue and manage services, leadership in all of FASD are performing some of the daily duties; allowing staff more flex-time; telecommuting; and, side-lining important work such as succession planning; delaying performance enhancement plans; not participating on agency committees; delaying writing procedures/policies; delaying audit work, missing project meetings and/or sending a delegate. In all of these areas, department leaders are weighing the consequences of side-lining work with that of completing high-priority demands.



To determine how to boost FASD's divisional performance, a collaborative effort between front line staff and management was made to identify our greatest areas of opportunity and where we would see the most return on investment. As a result, we have created an enterprise strategic initiative for financial management that, in concert with our existing initiative for organizational management and development, raises the importance of FASD's mission to the agency and within the agency. The financial management strategic initiative has two focus areas, investing in staff and additional resources as well as a thorough evaluation of our current technology with the aim of reducing and/or eliminating our reliance on manual processes. To begin, we will focus on investment in staff. This means more robust onboarding and training plans to ensure we have the professional staff we need. We will focus on hiring additional staff to begin work that we have been unable to address for years, as well as addressing succession planning, and developing procedures and applicable policies.

Granting FASD's request gives PERS a way to dynamically support our members in the way they deserve, eliminating risks to the delivery of their benefits and ensuring the right benefit is received by the right member at the right time. This request increases our accountability; allows for the development and tracking of realistic goals and ensures we are making vital progress where needed. It provides the division with a method to shift strategies as well as resources adding a layer of flexibility that does not exist today. FASD will be able to provide robust reporting and analysis, which will allow for improved evaluation of the agency's budget, mitigate risks faster and reach a proactive level of managing agency resources. This request ensures that we are able to invest in mid-term and long-term planning that lifts us from surviving day to day, to promoting a thriving environment of continuous development and improvement.

To achieve these goals FASD is requesting:

- Personnel Services \$2,268,510
- Professional Services \$186,368
- Services and Supplies: \$530,973

- Total Request \$2,985,851

- Number of permanent positions requested: 9
- Number of limited duration positions requested: 4
- Number of reclasses: 4

Purpose and Background

Purpose

FASD's responsibilities have increased exponentially. The complexity of the work as well as the external demands requires greater depth among staff and a broader vision from leadership. As a division, history has yielded a single vision and today, we realize that we need to develop a collaborative, resourceful, fluid division that allows for growth, opportunity and depth. Retention is top of mind as is onboarding. Our staff need and demand that we move into a forward-thinking dimension that allows for development, transparency, trust, education, training and if desired, opportunities for advancement. We have created a strategic initiative that allows for greater performance with a focus on developing and using technology-based solutions. These combined will stream-line activities that are currently manual, allowing for greater efficiency and accuracy.

As indicated in a United States General Accounting Office strategic workforce study, "Strategic workforce planning addresses two critical needs, aligning an organization's human capital program and developing long-term strategies for acquiring, developing and retaining staff to achieve programmatic goals." This investment is required to ensure we have sufficient staff and resources to support the agency, complete audits, enable proactive reporting, reduce liability for noncompliance and successfully implement PERS' strategic plan.

With nearly 2/3 of our staff eligible for retirement, we must take an active approach to resolving risks, including the risk of losing a significant number of resources. At current staffing levels, we are struggling to meet current service levels, including the financial, budgetary, and actuarial needs of the agency. All support service areas are struggling as is our health insurance program area. To prioritize work we need resources that are able to deliver services that address the needs of our members, beneficiaries and our external stakeholders.

The purpose of this request is to ensure talent retention, service delivery, efficiency and accuracy. We recognize the immediate need to invest in staffing levels that meet current and future needs while we continue to focus on professional development of existing staff. The idea is to build a sustainable future through intentional strategies and goals applicable to succession planning and staff engagement.

With appropriate staffing, we will complete a thorough review of our existing processes to identify and eliminate waste, review options for automation and consider new technologies that will streamline manual processes. A thorough review of our technological infrastructure will allow us to define a sustainable process as well as the foundational technology needed to effectively move into the 21st century.

Our growth is further supported by comparison to other retirement systems through CEM benchmarking. CEM benchmarking is a global benchmarking company that provides objective and actionable benchmarking information for pension funds. CEM focuses on cost and performance of investments and administration:

- CEM has calculated our relative complexity score of a 93, the peer median is 69; we are the third most complex retirement system in CEM's database and the second in our peer group. Yet our total service score was just 64, below the peer median of 83, while we are providing more availability and more choice, FASD is struggling to provide any faster turnaround times and improve quality, which CEM recommends to improve our service score.
 - As an example, 94.3% of our service pension inceptions experienced a cash flow interruption greater than one month. The peer average was just 8.1%.
- Per CEM, benchmarking our multiple plan types and overlays are 51% more complex than peer. While we may not be as large as other retirement systems, the amount of analysis required for each transaction is significantly increased and therefore the opportunity for error is increased.
- Our contribution rates are 30% more complicated than peer. This does not include the addition of IAP TDF Member Choice, managing these various rates will require establishing new policies, procedures, and FTE to accomplish this additional work.
- While total pension administration cost was \$145 per active member and annuitant, \$40 above peer average, PERS investment into building and facilities, and human resources were below the CEM Peer average.

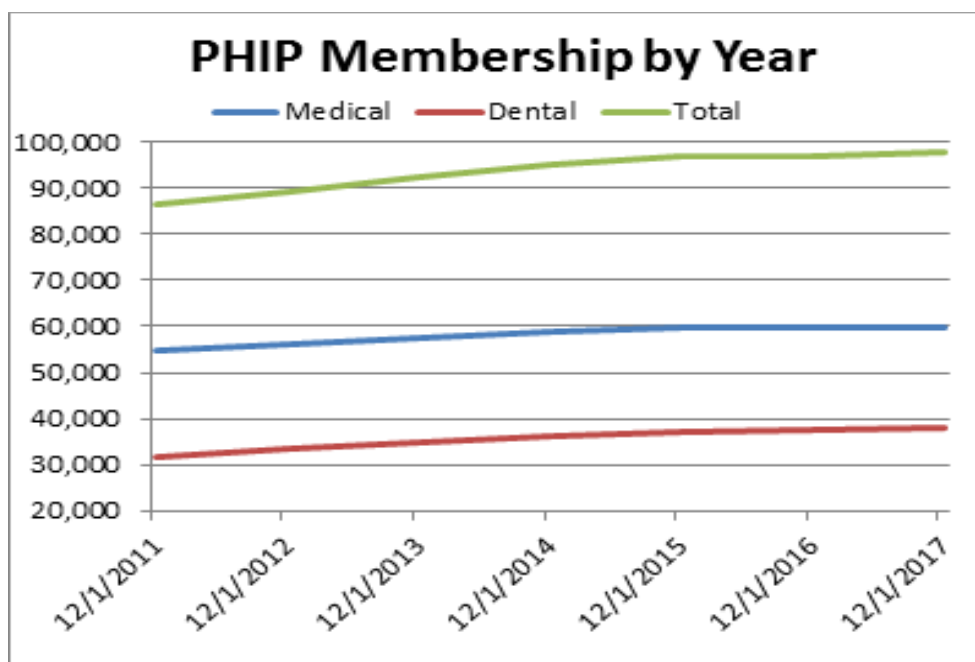
Given the information above, we conducted a workforce gap analysis and identified the following areas of opportunity:

PERS Health Insurance Plan PHIP

PHIP continues to experience steady growth and assimilate government standards into its practices, with the growth in the program and the increasing complexity, this program requires additional staff to support its operations. A significant change to PHIP's operations was implementing the ACA mandates into our plans; plan design, coverage, and taxes were all relevant to this body of work. This was uncharted territory for Employer Group Waiver Plans. The fact that PHIP is a 'retiree' program not an 'active employer' plan created ambiguity as to which mandates were applicable to PHIP. PHIP engaged in many meetings with our Contracted Health Plans (CHPs), DOJ, and our consultants in order to ensure our compliance with applicable ACA mandates and timelines.

With a new administration in Washington D.C., we are dealing with the uncertainty of repeals, suspension and reinstatement of certain taxes, coverage mandate changes, subsidy curtailment, etc. While not all ACA mandates impact PHIP as a 'retiree plan,' the trickledown effect from this still affects our line of business as the same CHPs that contract with PHIP also provide individual coverage in the marketplace. Because rates are set almost two years ahead of the plan year, it becomes much harder to administer a program with so many unknowns. The CHPs are adding a margin in their rate setting to cover the eventuality of moving forward with some of these changes. These margins directly affect the premiums of our membership. It takes staff time to ensure any changes in ACA, marketplace, and industry are considered and studied for member, program, and fiscal impact.

- PHIP requires a Program Analyst 4 to support the PERS Health Insurance Program (PHIP) by tracking healthcare industry trends and provide additional quality assurance of subsidy payments to members to reduce inherent inaccuracy of a manual process. Currently this work is being done on an adhoc basis, consequently the program does not have consistent trending and is unable to provide analysis and strategic planning regarding the results.
- Additionally, Oregon will see a record number of retirees over the next decade. As PHIP is focused on ensuring our members' health is supported in retirement, a senior program analyst will be necessary to sustain the program's growth.
- Due to PERS Health Insurance Programs steady growth, additional staff is required to meet member needs. PHIP wants to revive an education rollout to state, county and city PERS employees that has been on hold for 5 years due to lack of resources, to do this PHIP requires an additional PA1 as a full time presenter, counselor and educator.
- PHIP is also requesting an accountant 2 to consolidate work currently being done by a higher accountant and a contractor. Consolidating this work under a new FTE will reduce the need for professional services. If granted, PHIP is also requesting a decrease to their professional services budget to balance this new position.
- PERS Health Insurance Program requires a reclass from an Administrative Specialist 2 (AS2) to an Operations and Policy Analyst 3 (OPA3). The employee currently in this position is in a work out of class as a Program Analyst 2 however, PHIP requires a subject matter expert to handle the transitions, disruption, ongoing communications, member presentations and member materials. This requires a higher level of expertise and qualifications than the current position can support.



Financial Reporting Section (FRS)

The following positions are requested in response to Individual Account Program (IAP) Target-Date Fund (TDF) implementation. They will be requested in a September eBoard, however, as these are essential to financial operations we are including them in this POP as well to ensure required resources are received.

- FASD is requesting an Accountant 4 for IAP TDF accounting and reporting oversight. The implementation of TDFs in IAP has created a significant workload in FRS including accounting for all investment activity, analysis of investment management fees, monthly factor calculations for all TDFs, cash flow forecasting for IAP by TDF, all CAFR Note Disclosures, annual earnings distribution, and the monthly investment buy/sell order for IAP by TDF.
- Currently the Actuarial Analysis team consists of just two Operations and Policy Analyst 3s. FASD is requesting an additional Operations and Policy Analyst 3 to lead the strategic planning and program development for the Employer Incentive Fund program, the Unfunded Actuarial Liability Resolution Program, the School Districts Unfunded liability Fund, as well as evaluate the impact on all existing OARs. This position will develop the plan for standing up all of these programs, as well as define the resources needed to support the program. This position will also be evaluating future eBoard requests to support the expansion of work once they've begun their analysis.

Accounting, Cash and Tax Section ACTS

While PERS is requesting accounting positions for the Individual Account Program Target Date Funds, the positions below are not involved with that program, rather they handle the routine work of the agency's finances.

- ACTS is requesting an accountant 2 to consolidate all accounting work for the Oregon Growth Savings Plan. Currently this work is split between two positions that are not intended for this purpose; as a result, we have not had consistent tracking and analysis of the program and would like to ensure that we are addressing the program holistically with one individual.
- ACTS requests an accountant 1 to take over analytics for LFO and SWARM as well as serve as the lead for Accounts Receivable. Currently this work is done by an accountant tech 3 with intensive overview and revision by the manager. Providing an additional employee will move the accounting tech 3 back to accounts receivable, which has had a substantial increase in work over the years and free the manager to do more performance management.

ACTS is also seeking to continue three limited duration accounting tech 3 positions to continue the work of the Strunk and Eugene Overpayment Recovery. PERS is currently receiving payments on 17,691 accounts and has collected \$108,307,299

to date. There are an additional 80 accounts that have been suspended and further research is pending. Five hundred thirty eight (538) accounts in the amount of \$2,374,966 have been written off or waived. PERS has \$58,525,463 remaining to collect. PERS does not currently have a tracked amount for suspended accounts.

The collection process will continue for a minimum of four additional years monitoring payment plans, referring invoices to Third Party Collectors (TPC), monitoring estate activity, and processing write offs in the event that the debtor is insolvent and has no ability to pay.

The recovery effort involves recovering an estimated \$169,701,494 in overpayments from approximately 28,974 benefit recipients, spread across the following groups:

Group Type	Population	Total Amount Owed
Monthly Retirements	20,139	\$133,861,167
Lump Sum Retirements	1,919	\$21,237,244
Withdrawals	4,042	\$5,515,034
Police and Fire Unit Accounts	1,204	\$516,819
Deceased (Received overpayment prior to death)	928	\$4,200,427
Beneficiaries	742	\$4,282,803

This recovery effort follows standard state agency collection practices with modifications in light of the substantial number of benefit recipients. Benefit recipients will have different options to return the overpayment depending on their current relationship with PERS. Generally, these options depended on whether the recipient continues to receive a PERS benefit payment from which a deduction can reasonably be made to recover the overpayment. Those recipients will be presented with three options:

- Repay the amount owed in a single, lump sum payment;
- Do nothing, and PERS will recover the overpayment via a proposed reduction in the recipient's gross monthly benefit; or
- Contact PERS to request that a greater percentage of their monthly benefit be deducted so the overpayment is recovered in less time.

In addition to work flow projections there have been procedural changes that have contributed to an increase in invoices in recent years. In July 2011, procedures were changed for the Operations Division to mandate invoices for amounts under \$50. Previously, if the correction was less than \$50 invoices were not created because an assumption was made that the amount would be written off. However, what was unclear at the time of the decision to modify the procedure was the how much the volume of invoices would increase as a result of initially invoicing for any overpaid amount. Due to this change, Accounts Receivable is receiving substantially more invoices.

Additionally, the Statewide Accounts Receivable Management (SWARM) team has required additional reporting and analysis to monitor PERS debt collection functions. This work is currently assigned to an Accounting Tech 3, further reducing the FTE devoted to current accounts receivable work.

As PERS faces the beginnings of baby boomer retirements, the workload for accounts receivable continues to grow and is projected to steadily increase. In an effort to combat these growing demands, PERS has cross-trained the 3 limited duration positions it has been given for Strunk and Eugene and is evenly distributing the work both for Strunk and Eugene and regular accounts receivable work amongst the total available and qualified staff.

PERS' account receivable team consists of one full time dedicated collector, one cashier with shared duties, and one accounting person with shared duties. There are all supervised by a manager who is also responsible for other aspects of PERS' accounting, banking and reporting processes. This staff processes a current collection population of approximately 1,439 active accounts.

The Strunk and Eugene recovery effort has increased that population by 17,691. The additional workload will extend to a minimum of 4 years for payment processing, monitoring, and follow up of those accounts. This extended effort will also include processing accounts deemed uncollectable.

Recovering these funds means PERS is dedicated to delivering on its mission to deliver the right benefit, to the right person at the right time; and is an active steward in correcting any errors to ensure PERS is able to deliver to its members in the future. Beyond the fiduciary responsibility of protecting the PERS fund's assets, this recovery effort has collected

\$108,307,299 and will continue efforts to recover another \$58,525,463 in overpaid benefits, thereby restoring those monies to the PERS fund. Other benefits include meeting the requirements of the Oregon Supreme Court rulings, Oregon statute, Oregon administrative rules and the Oregon Accounting Manual.

Procurement, Facilities and Logistics PFL

- PFL is requesting a printing technician as this work is currently completed by temporary employees; however, we've established that this is a consistent need. To ensure continuity of operations, PFL believes one full time employee will suffice the existing need.
- Additionally PFL is requesting a reclass of a procurement contract specialist 1 to a procurement contract specialist 2 due to the increasing contractual demands of IAP TDF. A higher degree of support is required refocusing the effort of the existing PCS3 leaving work that needs to be completed at a higher level than a PCS1. As it is anticipated that the PCS3 will continue to be consumed with project contract management, reclassing the PCS1 ensures that existing contracts will be effectively maintained. While PFL is requesting an additional PCS3 in the September e-boards, that position is replacing management of contracts related to IAP TDF technical needs and does not affect this transition although it may mean the new PCS3 will also delegate work that will require a more proficient team member.
- As referenced above, FASD is requesting a PCS3 in the September e-Board but is including it in this business case as well due to timing. This PCS3 will be responsible for coordinating and administration of DAS-PS- generated procurements as well as low-level IT procurements. PERS recently lost a contracted IT procurement and contract specialist, however, the need is still present and PERS anticipates an ongoing need due to the nature of recent legislation that requires substantial support from third-party vendors. Currently, PERS procurement is not able to assist the Information Services Division (ISD) with projects over \$150,000 and that work has been shifted to DAS, including but not limited to:
 - Working directly with ISD for missing or insufficient information;
 - Working with ISD on scope/work order development;
 - Perform contract administration associated with work orders issued under DAS' PERS IT contracts (e.g. LanceSoft, Covendis) or individual contracts falling under DAS-PS purview; and
 - Review and pursue any OSCIO, DOJ or other approvals for procurements exceeding \$150,000 including amendments to existing agreements in that range.

Human Resources

- Human Resources is requesting a reclass of a Training and Development Specialist 1 to a Training and Development Specialist 2. Human Resources have focused its work primarily on developing programs to address labor engagement. The TDS2 position allows for strategic support in organizational development areas. This includes succession planning; employee training; employee engagement and change management. The TDS1 position is not qualified for instructional design or organizational development which is essential to delivering on agency and HR's plans to deliver on strategic efforts. With the agency's focus on organizational success planning, employee engagement and change management, human resources requires a higher level TD position and that of a TDS2.

Budget, Fiscal Analysis and Payroll (BFAP)

BFAP is responsible for developing and executing the biennial budget for PERS, identifying and forecasting resources necessary to meet the operational needs of the Agency, accurately applying best practices in accounts payable, cost accounting, and payroll while following all generally accepted accounting standards, Federal and State statutes, BOLI, etc. Our cost allocation and accounts payable tracking systems are laborious manual systems not maintained by our Information Technology department. The accounts payable team is also responsible for maintaining PERS fixed assets subsidiary ledgers which are maintained on a manual Microsoft access data base. Currently, the accounts payable team consists of an Accountant 1, who actually performs the duties and maintains the various manual data base systems, and an Accountant 2 to review and release accounts payable transactions and review and approve quarterly, calendar years end and fiscal year end work papers performed by the Accountant 1. There is no backup person should the accountant 1 be on leave for more than a week. In addition, for many years the payroll area has been without any backup putting the agency at risk.

- BFAP requests an accountant 1 serve as a program accountant for Accounts Payable. This role will assist in cost allocation, maintain accurate accounts payable transactions so payments are made timely, perform accounts payable analytical work that is only being done when a problem arises by the Accountant 2. They will also assist in performing some of the calendar and fiscal year end work papers eliminating overtime and ensuring timeliness. This position will take over the travel reimbursements that the payroll person is currently performing. Lastly, this position will serve as a back up to payroll.

Oregon Growth Savings Plan (OSGP)

- The Oregon Growth Savings Plan requires a reclass of an Administrative Specialist 2 (AS2) to a Program Analyst 2 (PA2). This position had been reviewed and approved by CHRO in July of 2015; per their recommendation. This position is involved in evaluating and improving the processes and procedures of a state program. This position monitors the collection of data from local programs receiving funding and provides reports and analysis to management and the TPA in an effort to monitor program effectiveness and to revise program procedures to manage a complete program or process. It conducts on-site reviews of local government agencies for compliance with plan rules and the proper use of a payroll administration program. These functions operate at a higher capacity than the PA 1 classification, making the PA1 an unfit classification for this position. This position is not involved in developing standards for programs plans/methods. Rather it provides evaluation, analysis and data to management to use in improving or adapting existing program methods. Therefore, PA3 is not the appropriate classification for this position.

Division Support

- We want to focus on investing in our staff, part of that is adding additional staff. However, we also require additional investment in training beyond current budgets. Due to the level of professional staffing, we require additional funds for staff to receive or maintain certifications and memberships as well as attend conferences to ensure our staff is up to date on current trends and methodologies. This investment in professional development will inform our strategies as a division going forward to ensure we are looking forward and continually raising the bar.
- Per feedback from our staff and dependent teams in other divisions, we have an urgent need for consistent policies and procedures. A lack of policies and procedures impedes our staff's ability to complete work with consistency and validation points. A lack of documentation prevents dependent teams in other divisions from establishing reasonable expectations and in some cases vital work is halted due to lack of information. To combat this dearth of documentation, we are requesting contracted technical writers to completely document our policies and procedures to ensure successful continuity of operations going forward.

Background

FASD has been immensely impacted by legislation over the past several years. As we continue to implement new retirement options for our members, we are finding this requires a degree of specialization that consumes at least one FTE if not more in a supporting capacity. These past two years, we have continued to juggle resources to meet new needs, redistributing ever more work on the existing team members. As one project sunsets, a new one arises. Currently we have our best staff supporting the implementation of current projects and we are pulling our second tier to support this new initiative. We are continually working in a talent deficit cycle. Of course these demands are not exclusive to just our financial teams, below we have outlined major legislation and state initiatives that have affected FASD:

- HB 4159 will be a major impact to our fiscal arm of the division. This will require intense collaboration across divisions, potential manual processes and complete review of policies and procedures to determine interdependencies and implications of this change; as we have a tight timeframe we will need to pull staff immediately to begin work on developing and implementing this work.
- SB 1529 requires tax resources to evaluate and incorporate new rules while working towards a resolution of HB4060.
- SB 1566 will require review and project participation by high performing staff, pulling them away from primary work for an indeterminate amount of time without a substitute.

- New governmental accounting standards
 - GASB 40 – Deposit and Investment Risk Disclosures (2004)
 - GASB 43 – financial reporting for postemployment benefit plans other than pensions (2007), GASB 50 – pension disclosures (2008)
 - GASB 63 – Financial Reporting of Deferred Outflow of Resources, Deferred Inflow of Resources, and Net Position (2013)
 - GASB 65 – Items Previously Reported as Assets and Liabilities (2014)
 - GASB 67 – Financial Reporting for Pension Plans (2013)
 - GASB 68 (2014) – Accounting and Financial Reporting for Pensions, and are monitoring implementation of GASB 73, 74, and 75 for other postemployment benefits.
- Workday project (HRIS)
- Pay Equity Analysis Project
- Audit of all work out of class (WOC) positions and reclasses resulting in 4 medium and high risk action recommendations including increasing timeliness. Approximately 75% of WOC employee forms had at least one approval that was after the effective date of the assignment.

In addition to these legislative requirements, we have had several other changes that have affected our work:

- Increase in the number of retirees, members and employers means more transactions and increased work load.
- FASD decommissioned an old accounting system and moved to the statewide accounting system.
- Changes in banking regulations, with a decline in controls by the bank, have increased the need for agency controls.
- Changes in retiree health programs have increased the staffing assigned to the PERS Health Insurance Program, including both accounting and contracting personnel.
- Errors made by our partner agencies, OST and the DAS Print Plant, have increased the need for staffing and controls over payments and associated accounting entries.
- Elimination of the bank lockbox shifted work to the PERS mailroom.
- Investment and cash management needs have changed as the system has matured. Ten years ago, we were able to meet our cash needs with the intake of employer contributions. This has changed and we now must combine current cash inflows with investment sells to provide adequate cash to meet our pension roll. To accomplish this we are heavily reliant on data from the jClarety pension system, which has been found to be inadequate.
- Current in-house technology, does not meet our General Ledger needs resulting in manual registers and entries. This results in manual checks and associated manual GL transactions including tax reporting. Batches do not always run completely and accurately so additional controls are needed to monitor, detect, and correct errors.

To complete work today FASD is:

- Creating multiple WOC positions and job rotations to temporarily fill the need for work at a much higher level. Unfortunately, staff in these positions are frequently carrying their old duties with them in addition to this higher and more complex work. Several have been in these positions for several years.
- We are quickly shifting resources to participate in the development and implementation of IAP Admin and IAP TDF. These initiatives require our high performers, leaving a gap in their former team as they work diligently to get these important new initiatives running. Upon return they are not only responsible for this new project implementation work but also have to manage their backlog.
- Due to technical limitations, the bulk of our complex work is completed manually through spreadsheets, which exposes us to quality issues, reduced communication. This creates a silo effect that prevents us from proactively addressing issues and increased demand on manager and SME time for extensive quality review.
- Our administrative staff has had to shift primary responsibilities for authoritative positions to lower classifications to meet demands or create job rotations and numerous WOC positions to address gaps. While these measures have helped us stave off the inevitable, we will not be able to sustain this set up going forward.
- We have rehired retired FASD staff to assist when needed
- We utilize overtime to address cyclical rushes

- Because we are locked into the day-to-day work without sufficient resources for division planning, we are meeting less than half of our Enterprise level measures. Below are some of the measures that we hope to see immediate improvement in with additional staffing:
 - # Of employers with invoices outstanding more than 90 days. This measure has only hit its goal once since 2012. If we are not diligent in following up with employers, they risk large payouts once they are contacted. This causes budgeting issues for our employers and perhaps our members.
 - # Line of business manual checks processed- This measure has never hit its target, it is an incredibly manual process for FASD and ISD and is extremely expensive. We've come to rely on manual checks to resolve issues such as payments made for Moro.
 - Average # of days to resolve returned payments, this measure had been maintained at the target level until quarter 2 2017 and it has grown for three straight quarters. This measure ties directly to our mission to deliver the right benefit, to the right person at the right time. As we know, members are often reliant on their retirement checks to pay for housing, bills and food. Currently it is taking us just over 30 days to resolve these issues on average, this length of time puts our member's livelihoods at risk.
 - % of performance evaluations completed by due date, this measure has never been out of the red. The most common refrain from managers is a lack of time as they are required to make up for a lack of resources on their teams. We are sacrificing engagement, coaching and development with our existing staff just to meet minimum requirements.
- Through an internal audit in 2015, we were advised that the controls over system and manual payments are not always adequate to ensure that PERS pays the right person the right amount and to ensure that payments are recorded correctly. We had 25 high and medium audit recommendations to improve payment controls, we are still in the planning stages for some of these recommendations due to lack of resources.

Problem or Opportunity Definition

If FASD maintains its current state through the next biennium, we will fail to deliver on PERS' mission to serve the people of Oregon by administering public employee benefit trusts to pay the right person the right benefit at the right time. As we grow IAP TDF, and introduce Member Choice, we are taking from already depleted resources to fill these requirements.

FASD is not meeting PERS' core value of service-focus by not retaining our institutional knowledge. FASD has a high number of seasoned staff eligible for retirement; of the core 40 finance positions, 25 are eligible to retire by the end of this biennium, and of those, 19 are eligible now. Without retaining the institutional knowledge that is critical for an agency with the fiduciary responsibilities at the core of administering public employee retirement benefits, we will be increasing our risk to administer the plan. There is not a succession or a continuity plan nor resources currently available to address meeting this need.

FASD is struggling to maintain PERS' key goals of timely and accurate service. Currently there is analysis and reporting that we are unable to complete for fiscal administration and human resources. There is information for various funds that we are unable to review to ensure they are being administered appropriately. We are unable to conduct proactive research to evaluate how PERS' is spending it's money. Given additional resources, FASD could launch a full-scale review of policies and procedures, dive deep into information that has been ignored for years and determine numerous cost saving opportunities. Additional resources would allow human resources to track and analyze trends and coach leadership to address these issues going forward. PHIP and OSGP can continue to grow without being hampered by lack of resources. This request represents a significant catalyst of change to thrust FASD to the operational performance standards we know we are capable of achieving.

Alternatives Analysis

Assumptions

- Continued legislative mandates that require changes to process and function
- Increased membership in PERS, OSGP and PHIP
- Increased retirements straining existing system
- Retirements of tenured knowledgeable staff
- Increasing desire for detailed analysis on how PERS is handling finances

Alternative Identification

Alternative Solution 1: Status Quo

- Program development
 - Maintain status quo, reprioritize, acknowledge and accept that some legislatively mandated work might not be completed as requested.
 - Redistribute staffing responsibilities where possible.
 - Shelve mid-term and long-term planning
 - Potentially add WOC opportunities
- Division Support
 - Continue to ask existing staff to devote time to creating tools, reports and queries for peers, reducing availability to their assigned work
 - Shelve strategic implementation
 - Continue to work without defined processes and policies

Alternative Solution 2: Eliminate training budget

- Program development
 - Prevents professional staff from being up to date on industry trends
 - Puts professional certifications that have yearly requirements at risk
 - Stunts the professional development of staff and management
- Division Support
 - Limits capacity to develop creative solutions
 - Limits improvement to leadership and facilitation

Alternative 3: All requested positions as limited duration

- Program Development & Division Support
 - Due to the complexity of the work performed and the training period, we would essentially only have 1 year of work from these individuals before having to start over.

Alternatives Analysis

Alternative Solution 1: Status Quo

While FASD has made due over the past several years with the staff they currently have, they have been reliant on temporary to hire and WOC positions for critical work. As we have adjusted to meet new demands, we have created an increasing liability as we are unable to do the reporting and analysis required to monitor fraud and efficiencies. Additionally, we have learned that work from legislation that we thought could be shared has required much more attention from high-level staff and has become a primary responsibility. We have realized that redistributing the work is not a feasible option going forward. Status quo is not sustainable and puts our essential processes at risk.

Alternative Solution 2: Eliminate Training budget increase

Essential to the Financial Management strategic initiative is investing in our staff. We have not invested in professional development and that has affected retention and overall performance. To ensure we are getting the best quality of work in the most efficient way, it is essential that we invest in our staff to ensure we are meeting our divisional goals. Reducing this budget also eliminates all Agency level training.

Alternative Solution 3: All requested positions as limited duration

The work we are hiring for is not generalized. We have specific needs, which will require extensive training to get the new employee up to speed with the expectation that they will be exceptional contributors. Average training for accounting, HR, PHIP, procurement and our other teams requires lasts roughly a year. If we maintain all positions as limited duration we're losing the boost in productivity that we've invested in. As a division, we are already suffering from a lack of continuity, employing this large a group as limited duration will not present an adequate return on investment.

Cost

Alternative 1-

- Potential contractor cost
- Any fines associated with noncompliance with legislative issues
- Potential lawsuits

Alternative 2

- Decreases budget by \$144,000.00

Alternative 3

- \$2,298,774.00 in the 21-23 biennium
- However considering the training period we'd also lose \$1,220,937.00 + training costs
- Requires additional strategy to determine how FASD would continue going forward and prioritizing focus areas

Benefit

Alternative 1-

- No substantial changes means reduced change management needs
- No increase in personnel or training costs

Alternative 2-

- No increase in training costs

Alternative 3-

- Potentially reduces actual number of FTE needed as changes are implemented
- At least 1 year of effort covering work that is not currently being done to develop a baseline.

Risk

Agency Risk Assessment Performed by Internal Audit:

The following risks, identified in the agency wide risk assessment, are directly related to work performed by FASD. Overall risk ratings were weighted 60% Impact and 40% Probability.

Collecting Contributions

- IT system issues may cause contributions to be recorded inaccurately in the general ledger.

Risk	Impact	Probability
Medium High	High	Medium

Paying Benefits

- Retiree deaths may be unreported and not detected timely causing overpayments and recovery efforts.

- PERS may not be able to reconcile tax transactions between jClarety and the payment register. This may result in over or under remittance of taxes to IRS, or incorrect information being reported to retirees.

Risk	Impact	Probability
Medium High	High	Medium

Managing Organizational Finances & Resources

- JClarety defects as well as information needed from external providers could result in inaccurate or incomplete accounting transactions and additional work.
- The agency may be unable to reconcile fiscal differences (between GL and jClarety and with third party administrators) and in some cases, these differences may continue to grow.
- Transactions from jClarety may be incomplete or inaccurately recorded in the general ledger requiring manual overrides or resulting in unreconciled systems.
- Earnings crediting determination is a complex manual process, which may result in errors.
- Actuaries may make assumptions based on incorrect or incomplete data provided by PERS.
- Fiscal reconciliations may not be performed adequately or timely.
- Manual checks may not be recorded in the system, resulting in duplicate payments.
- Contract administration may not be adequate, and may result in inadequate monitoring of contractors to ensure deliverables are received and payments are accurate.

Risk	Impact	Probability
Medium High	High	Medium

Managing & Developing the Workforce

- PERS may be unable to attract qualified candidates because the agency may not be competitive with pay and benefits and minimum qualifications may be too rigid.
- PERS may be unable to retain qualified employees due to poor compensation.
- PERS may not adequately cross train employees or have an adequate succession plan for key staff and managers.

Risk	Impact	Probability
High	High	High

Strategic & Operational Planning

- Staffing constraints, budget constraints, and increasing workloads may challenge efforts to maintain progress on the agency's mission, strategic plan, and management system.
- Staff resources may not be allocated appropriately and efficiently.

Risk	Impact	Probability
Medium High	High	High

Audit: External audit of Human Resource’s Work out of Class and Re-Classification Processes by Sjorberg Evashenk Consulting Inc.

- Current state
 - Unbalanced view of the role of Human Resources between PERS management and the Human Resources team
 - Human resources lack adequate policies and procedures relating to the Work Out of Class (WOC) and re-classification process.
 - Inconsistency with turnaround times varying from same day to 68 days, with an average of 20 days for WOC class. Re-classification turnaround times are unknown as it is not clear in existing documentation of employee’s files

- Lack of performance measurement and monitoring
- Inconsistent documentation of HR analysis of WOC and re-class determinations
- Risks
 - Inability to effectively further the organization’s mission and compliance with federal and state requirements as expectations of roles and responsibilities is not consistent across management
 - Stakeholders are unable to define the process for WOC and re-classes resulting in inconsistent handling of requests
 - Funding source incorrectly coded, potentially differing from position control budget code, resulting in actual expenses hitting a different line than the position is budgeted for
 - Inadequate reporting impedes Human Resource’s ability to track and measure workload or output, responsiveness or performance
 - Prioritization is impacted by perspectives and priorities of multiple stakeholders rather than an objective process and may result in labor engagement issues
 - HR incorrectly a calculating the payroll differential
 - Lack of documentation exposes risk for labor challenges and is in violation of DAS policy HRSD Policy 30.000.01(1)(b)(A)
- Recommendations
 - Develop clearly defined policies and procedures that detail the processes and protocols PERS will employ to meet the needs of the agency, and ensure compliance with Oregon Administrative Rules, DAS policies and federal and state laws and regulations
 - Update WOC forms to include more pertinent information
 - Create a standard protocol for the intake process
 - Enhance Workforce Report Log
 - Create a workload queue that automates notifications to stakeholders
 - Create an effective method of tracking and prioritizing all WOC and re-classification requests
 - Establish Minimum qualifications and differential pay protocols to allow management flexibility and consistency with DAS policy (HRSD Policy 20.005.01(1)(a))
 - Documentation should be consistent with HRSD Policy 30.000.01(1)(b)(A) and include a reason for the position review or establishment, information and classifications considered, analysis and classification decision
 - Establish a performance management and reporting system with set expectations including timeframes and milestones

Conclusions and Recommendations

Conclusions

We have a substantial opportunity to dynamically support our members in the way they deserve, not only ensuring they receive the right benefit at the right time, but also increasing transparency of operations. This investment guarantees establishing accountability; we are reducing the number of unknowns for our various processes and turning a critical eye towards establishing new performance measurement standards to demonstrate progress. Our expanded analysis and reporting will significantly influence operations at PERS and inform mid-term and long-term planning.

Legislation continues to drive priorities with PERS financial management, requiring substantial projects and process changes. With these expanding changes, we are running out of staff to implement program changes while completing required day-to-day work. 62% of FASD’s staff is eligible for retirement. Undocumented policies and procedures present a significant threat to continuity of operations. This division is responsible for ensuring our members receive checks to support their livelihoods, a threat to our division substantially affects the standard of living for thousands of Oregonians.

Recommendation

To ensure stability with our financial systems, robust analysis and tracking, reduced potential for fraud and noncompliance, increased engagement of agency staff and to promote mid and long-term range planning we need to act now to invest in foundation building. Granting this request as is ensures reduced asks in the future and avoids expedited critical decisions.

Consequences of failure to act

If this request is not granted:

- We will be unable to complete minimal requirements as dictated by legislation, leading to an increase in fines, poor member experience and potential reputational risk.
- FASD will not be able to reduce exposure of fraud and noncompliance nor will FASD be able to address ongoing outstanding audit recommendations
- Enterprise measures will continue to fail
- The financial management strategic initiative will fail as will portions of the organizational development and management strategic initiative
- Inability to address succession or continuity issues leaves more exposed risk as staff continues to retire or promote

Non-Financial Business Results

Benefits	Results
Process Improvements	
✓ Efficiency	<ul style="list-style-type: none"> ○ Staff will provide end to end implementation of new legislation ○ Staff will be able to focus on a single area rather than juggling multiple responsibilities ○ Reduces need for manager oversight of daily work ○ Enables division to set clear performance standards and begin tracking work
✓ Streamlined process	<ul style="list-style-type: none"> ○ Analysis, review and documentation of policies and procedures ensures all impacted staff are following a consistent process with clear expectations ○ Reduced processing time
✓ Improved internal controls	<ul style="list-style-type: none"> ○ Accountability and increased audit compliance & recordkeeping ○ FTE devoted to monitoring progress of measures and audits ○ Documented policies and procedures eliminates a consistent audit finding ○ Improvement of enterprise measures
Public/Stakeholder Satisfaction	
✓ Legislative or regulatory compliance	<ul style="list-style-type: none"> ○ Ensures PERS is able to effectively address legislative mandates without sacrificing availability to other work items ○ Enables PERS to adapt to future legislation without additional substantial staffing needs
✓ More timely information	<ul style="list-style-type: none"> ○ More effective decision making ability backed by thorough analysis and trending ○ Reduction in areas of process that are unknown
Strategic Alignment	
✓ Achieved Policy Objectives	<ul style="list-style-type: none"> ○ Successfully launches a main objective of PERS' financial management strategic initiative to have the right amount of staff at the appropriate classifications. ○ Directly supports the Agency's directives ○ Enables division to launch cascaded measures and enhance enterprise measures

Risk and Mitigations

Business/Organizational Risks

- May require substantial change management as implementation of this strategic initiative represents a culture shift for the division
 - First time division will be able to consistently track performance management
 - First time division will set training goals
 - Impacts the entire division at once
- Substantial policy and process review will take staff time and may prevent immediate issues to be addressed
- Requires substantial management and leadership to effectively incorporate new staff and standards
- Presents first opportunity for procedures to be subjected to process improvement, this will improve efficiency but will require another change to staff
- Will require substantial front-line staff support

Technical Risks

- Requires evaluation of existing change requests by identifying whether existing manual issues be resolved through fixes rather than replacement
- Documentation of intensely manual processes will be reviewed for possible technical solutions
- Limitations of technical debt prevent substantial change within current infrastructure
- Missing functionality contributes to reconciliation issues

Public Employees Retirement System (PERS)

2019-21 Budget Development Business Case for

Maintain Service Levels 104

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Executive Summary

In this business case, PERS requests funding to allow the agency to:

Ensure continuity and reduce expenditures

The Intake and Review team in the Operations Division is seeking two full-time positions that will save approximately \$147,522 per biennium in current contracting costs.

Improve management functions

The Calculations section in the Operations Division is striving to be more efficient in hiring, allocating resources, prioritizing workload, developing staff, and managing performance. Calculations is seeking a Principal Executive Manager B to support and supervise nineteen positions by developing, directing, and managing the pre and post retirement work for the Inceptions and Adjustments team.

Enhance business efficiency

The Strategic and Operations Planning section is seeking an Operations and Policy Analyst 3 to lead efforts to improve business processes in the Individual Account Program (IAP). The complex nature of this program as well as the continued reliance on a third party administrator (TPA) requires increased oversight. The Operations Technical Section in the Operations Division is seeking an Operations and Policy Analyst 2 to manage and reconcile the IAP data between PERS and the TPA. This workload has increased due to the new Target Date Fund investment model.

Meet changing and growing requirements

The Compliance and Risk Division is seeking to ensure it is able to comply with mandates given the legislative emphasis on the PERS system. The Division has expanded to include a new Information Security and Risk Program, headed by an Information Security and Risk Officer. Since the division now has three separate sections, administrative support is needed.

Improve Communications

The Directors Office is seeking a new communications officer to lead, support and build the internal and external communications strategy for PERS.

Keep pace with evolving demands of an increasingly complex system

The Information Services Division is seeking several positions that are needed to meet needs arising from the complexities and continual changes to the PERS pension plans, and to manage the required enhancements to the Information Technology used to administer the multi-plan PERS pension system - Oregon Retirement Information Online Network "ORION."

PERS specific funding requests are as follows:

Compliance and Risk Division

Costs for FTE's are as follows:

Personal Services	\$278,331
Services & Supplies	22,194
 Total Cost	 \$ 300,525

Total number of permanent positions: 2 FTE

Operations Division

Costs for FTE's are as follows:

Personal Services	\$822,800
Services & Supplies	\$57,937
 Total Cost	 \$880,737

Total number of permanent positions: 5 FTE

Directors Office

Costs for FTE's are as follows:

Personal Services	\$231,908
Services & Supplies	\$12,323
 Total Cost	 \$244,231

Total number of permanent positions: 1FTE

Information Services Division

Costs for FTE's are as follows:

Personal Services	\$654,761
Services & Supplies	\$34,517
 Total Cost	 \$689,278

Total number of permanent positions: 3 FTE

Purpose and Background

Requests

Central Administration

PERS is in need of a Communications Officer who is knowledgeable about the system and will lead, support and build the internal and external communications strategy for PERS. Therefore, the Director's Office requests the addition of one full time permanent PEME position to fulfill this function. Upcoming changes within the agency place additional importance on the external communications role. In addition to a new Executive Director and a new Board Chair, PERS has some key legislation to implement over the next biennium.

The Strategic and Operational Planning section requests one full time permanent Operations and Policy Analyst 3 position to focus on administration of the IAP. This position will serve as the business lead for IAP Administration and will support two of the agency's four strategic priorities: Member Services and Communications and Data Reliability. The position will support Member Services and Communication in its goal of incorporating the IAP Program into PERS' Online Member Services (OMS) platform, improving members' online access to secure content and process status. The position will also support Data Reliability in its efforts to decommission off-line tools that will reduce the need for duplicate data entry and improve data integrity.

Operations Division

The Operations Technical Section in the Operations Division requests one full time permanent Operations and Policy Analyst 2 position to conduct work focusing on reconciliation of IAP data as part of the agency's efforts toward implementing Target Date Funds (TDF). This position would provide a single point of contact with PERS' third party administrator (TPA) Voya, and would help coordinate technical requirements. It would also reduce the burden on PERS' existing Business Operations Process Analysts who have been performing data reconciliation which is not the focus of their job description.

Intake & Review

Intake & Review is requesting to add two full time permanent positions; one RC1 and one OS2 to the team. The Intake team hires temporary staff each year to help with service retirement application processing during the peak months of July and December as well as the high volume of forms received from retired members wanting to make changes to their address, direct deposit information or tax withholdings. Intake also hires temps to help with special projects such as the annual residency project when it receives thousands of extra residency forms that need processing each year. In addition, Intake has a year-round temp who helps process returned mail. Intake averages nearly 7,700 Service Retirement Applications (SRA) per year as well as 1,028 withdrawal applications, nearly 2,000 post-retired forms and at least 1,200 pieces of returned mail a month. The team works overtime during the peak seasons. For example, the team worked approximately 1,200 hours throughout the summer of 2017. Temps are not allowed to work more than 1,039 hours in a year, so PERS must hire and re-train temps for the Intake Team at least every 6 months.

Calculations

Calculations requests one permanent PEMB position. The requested management position for Calculations would support and supervise nineteen positions by developing, directing, and managing the pre and post retirement work for the Inceptions and Adjustments team. The requested position would supervise and coordinate daily work to ensure estimates, purchases, and benefits are processed and distributed in a timely and accurate fashion. This change would free up the Section Manager to perform greater analysis and strategic vision work.

Information Services Division

The complexities and continual changes to the PERS pension plans create a need for the following positions within the Information Services Division:

Enterprise Application Section (EAS) for Quality Assurance:

The Enterprise Application Section for Quality Assurance is requesting an ISS6 (SW) Test Engineer to increase capacity for unit test automation, quality, and secure code analysis and the quality program for enterprise application development. Adding this new position to the QA group will be a step forward to enable the agency to meet automated regression needs, increased requirements to meet secure coding practices and the challenges of modern IT systems development.

Currently, developers are required to provide unit tests for coding assignments. In addition, new requirements for secure coding add to the overhead to code development. Utilizing contract developers is both expensive and a less effective utilization of these expensive resources. Current contractor cost is approximately \$106 to \$126 per hour and requires a 10% utilization of their time.

From the business side, this position will automate testing which will alleviate the need to pull business staff from Operations. Presently, PERS must rely on inefficient manual testing. For example, over the course of two months (from May 1, 2018 through June 29, 2018) manual testing conducted by fourteen PERS workers resulted in twelve test scripts being completed. It is estimated that automated testing would allow for that same volume of test scripts to be completed in two days. There are over one thousand test scripts with tens of thousands of verification points to support over four hundred and fifty jClarety use cases.

Enterprise Content Management Section (ECMS):

The PERS Enterprise Content Management Section is requesting a full-time permanent system analyst and development ISS6 position to support the expanding growth and capabilities of our electronic management system. Advancements in digital information technology and the governance activities that support controls around information use, require an additional resource for the ECMS Development team.

The agency is still manually processing administrative work through the use of paper forms, from onboarding new employees, approval of invoices, as well as procurement requests. The manual process also includes hand delivery of these forms using interoffice envelopes and shuttle vans between offices. By utilizing technology (IBM FileNet) that the agency currently uses for pension administration, an ISS6 can automate these processes thereby improving the efficiency of processing work from a few days to just a few minutes. Moreover, validating data entered can also reduce error and bad data.

The team processes between 7000 and 9000 pages per day. This is approximately 3000 to 4000 documents entered into the system daily. All incoming documents from the member have to be in system prior to 5pm each day. It is the operator's responsibility to validate the right member information on the document with the right document code.

ISD Administration:

The Information Services Administration is requesting a permanent PEME position to take on the role of IT Administration Support Manager to assist in the operational management of our IT Project Management, PERS Enterprise Architecture and IT metrics program. This would allow the CIO to focus on strategic visions of the agency, providing and improving relationships with external stakeholders with regard to strategies and direction. Currently, there are six high-level staff positions (four ITPMs, two Architects) reporting directly to the CIO. The ITPMs are IT Project Managers that work closely with technical teams to support projects and strategic initiatives. Their day-to-day duties include keeping tasks and activities on schedule, identifying risks and issues, working with management to remove roadblocks and performance issues, and reporting project status to business stakeholders, PMO and management. The Architects are responsible for aligning IT and business strategies, planning for future changes that affect systems and data in the agency, evaluating and recommending new technology, and setting technical standards and guidelines. The CIO has been challenged, due to other priorities and commitments, to provide the necessary day-to-day guidance, direction and personnel management to these six staff positions. As result, projects and other initiatives have encountered schedule overruns (including stops and restarts), resource over and under allocation, and, most importantly, executive sponsorship and leadership.

Compliance and Risk DivisionBusiness Rules Writer (OPA1)

This full time permanent position is being requested to help address the ongoing workload and growing backlog in the area of business rules. The complexity of the PERS system continues to grow, and as new statutes and Administrative Rules are introduced, new business rules are often required to help clarify administrative and operational details. Approximately 12 business rules are identified each month that need to be created or updated due to new legislation, policy decisions, and court decisions that impact operations. While the length of time it takes to create or modify a business rule can vary greatly depending on the issue, we estimate a full time business rules writer can complete 8-10 business rules per month.

Executive Support Specialist (ESS1)

Currently, the Compliance and Risk Division (CARD) consolidates and coordinates the inter-related supporting processes of compliance, internal audits, risks and security, and Social Security. CARD is requesting a full time ESS1 position to meet the growing demands of a new Information Security and Risk Program, headed by an Information Security and Risk Officer. As staffing and responsibilities in this division have grown, the daily management of administrative details has become more challenging, creating the need for this additional position.

Problem or Opportunity Definition

Problems

Central Administration

A PEME Communications Officer position is needed because PERS does not currently have an outward-facing spokesperson onstaff who is knowledgeable about the system. There is a steep learning curve to understand the complicated retirement system to the point where one can articulate to stakeholders these extremely complex issues. There is also a strong need to build out a communications strategy that addresses both internal and external communications requirements.

PERS has been utilizing a work-out-of-class for the past five years to fill the IAP Business Lead position. The position is within the Operations Division's Operations and Technical Support (OTS) section. OTS is responsible for providing technical support to the Operations Division and to the agency through the development and maintenance of applications, query and report services, enterprise-wide system testing, and other technical support and solutions. OTS is also responsible for providing enterprise-level system testing, troubleshooting major system issues, and coordinating and supporting the needed resources for system releases. In addition to playing a crucial role in supporting daily operations, OTS is also integral to many agency-wide projects, including the 2015 – 2017 *Moro* Decision Project and the implementation of the IAP's new "Target Date Fund" investment policy.

The workload associated with these efforts, coupled with the resource restrictions that come with one of its team members serving as the IAP Business Lead, has contributed to backlogs in OTS that impact both project work and daily production activities across the agency. OTS currently has seven projects on hold and another seventeen projects yet to be initiated due to its ongoing resource limitations.

Operations Division

The Operations and Policy Analyst 2 position being requested by the Operations Technical Section in the Operations Division is needed because there are currently multiple staff interfacing with PERS' Third Party Administrator (TPA)Voya. This creates inefficiencies and miscommunications. In addition, the data reconciliation work that is now being performed by PERS' existing Business Operations Process Analysts reduces their ability to focus on their core work functions.

Intake & Review

The Intake unit is perpetually engaged in the difficult process of hiring temps. Contractors are limited to 1,039 hours, which is roughly a six month period. The average time required for Intake to properly train a new worker is approximately six months. Therefore, the contractors who are procured cannot ever be assigned to processing forms because they are not sufficiently trained.

Problems resulting from this lack of sufficient staffing can be seen in the performance metrics for the team that are tracked as part of PERS' Outcome Based Management System (POBMS). The quarterly measure for "member forms on time" aims for a target of processing member forms in one day. The most recent result for that measure shows the team is currently taking five days on average to process member forms.

As another example, the quarterly measure for "withdrawal efficiency" aims for a target of 80% of withdrawal applications being completed and ready for calculation within 60 days of the received date. The most recent result for that measure shows the team is currently completing only 16% of withdrawal applications within that time period.

Calculations

The Calculations section is responsible for all benefit payments; service retirement, disability, divorce and death. This section is critical for fulfilling the agency's mission to pay the right person the right benefit at the right time.

Calculations is currently composed of 41 staff, including the section manager, a PEMD. The current section manager directly supervises 19 staff and a PEMB, who manages 20 direct reports. The requested management position will allow the section manager to turn their focus on strategic planning, training and development of the managers and staff, and consistent procedures. This is work that they are not able to do at this time. Operations also has a leadership initiative in process at this time. These managers are not able to fully benefit from this training since the management to staff ratio is much higher than elsewhere in the agency.

This requested position will ensure that staff have the needed coaching and structure to enable them to be successful as well as maintain the necessary workloads service levels.

Compliance and Risk Division

Administering a system as complex as PERS requires detailed and coherent documentation related to ever-changing statutes and related policy decisions. PERS currently has 1,122 business rules in use, with 140 in various stages of editing or creation. With increasing attention to PERS (the system) by the Oregon legislature, it is not likely that these numbers will trend downwards.

The current 0.5 FTE business rules writer is unable to keep up with the number of rules coming in each month as illustrated by the growth in the backlog. There are currently 189 business rules in various stages of editing or creation, which is an increase of 49 from December 2017 to June 2018. We expect this trend to continue without additional resources.

The problem faced by CARD through the lack of administrative support is keenly felt in the areas of follow-up on time entry, ARS, scheduling, and office support services for the division.

Information Services Division

Current Information Systems Division (ISD) staffing levels are inadequate to maintain IT services required by the agency. To fill the void, PERS is reliant on outside contractors with pension system knowledge that are difficult to obtain, or expensive to train which take valuable knowledge gained when the contract is up. The complexities of the PERS pension plans requires increased staffing levels to fill key full time positions to preserve current services levels and manage the required enhancements to ORION.

To understand the challenges of supporting ORION, first you need to understand the complexity of PERS pension plans.

- PERS is governed by hundreds of complex administration business rules and is ranked by CEM Benchmarking as one of the most complex among 72 leading global pension systems.
- PERS is a multi-plan pension system; each plan has a unique set of complex business rules, yet shares some common rules and business processes in their administration.
- PERS is under constant change with mandated time-lines to contain pension costs, changing regulatory/financial rules and legal decisions. Implementations are not always optimized due to mandated deadlines and/or availability of the necessary resources.

ORION is a highly customized IT solution that performs most business automation requirements for PERS pension plans. However, the priorities to meet mandated pension changes with tight deadlines, budget pressures to reduce headcount and lack of priority to manage years of growing Technical Debt, have significantly increased the challenges for ISD to maintain current services levels. In addition, rapid changes in technology, business requirements to modernize our IT systems, requirements to meet increased security requirements and the ability to provide quality code have significantly increased workload for the ISD staff.

Opportunities

Central Administration

Adding the full time permanent PEME Communications Officer position will accomplish the following:

- Develop, plan and implement a comprehensive communications strategy (internal and external audiences)
- Advise key stakeholders on communications objectives and direct efforts to help achieve these objectives
- Develop and manage external outreach efforts to educate various audiences about new processes and requirements
- Serve as agency spokesperson
- Interface with PERS Branding effort

Adding the full time permanent OPA3 IAP Business Lead position will accomplish the following:

- Restore normal staffing levels and stabilize resources in OTS. This will allow OTS to devote resources to backlogged requests and better support daily production activities and project efforts.
- A business lead with a stronger enterprise-level view of the IAP Program. A business lead in a work-out-of-class position retains their permanent position elsewhere in the Agency, which may foster loyalty to one division over another. In creating a limited duration position, the business lead will be invested in the success of the program for the entire Agency.
- Maintaining the focus on improving the IAP business processes and being the point of contact for the TPA, Voya.

Operations Division

Adding the full time permanent OPA2 TDF Administration position will accomplish the following:

- Regular data reconciliation to ensure accurate member IAP accounts.
- Ensure compatibility and coordinate technical requirements between PERS and the TPA, Voya.
- Facilitate improved communications related to “just-in-time” retirements.
- Allow for more effective troubleshooting of data problems.

Intake & Review

For years 2016-2017, the Intake unit spent \$337,522.40 on temps and approximately \$54,000 on overtime. Hiring an RC1 position and an OS2 position would together cost approximately \$190,000 for two years (wages, benefits and supplies). Cost savings would be substantial. PERS would save approximately \$147,522 per biennium. With two new staff, the agency would not need to hire temps every few months and to re-train several times per year. Full-time employees would allow for growth and for PERS to invest more in staff that will be present year-round and hopefully for years to come. The FTE could also be cross-trained to help in all areas as needed giving the team “more bang for the buck”. Not having to hire as many temps each year will also lead to fewer errors, higher productivity, faster processing, and increased customer satisfaction.

Calculations

With the requested PEMB position, the unit would be more efficient in hiring, allocating resources, prioritizing workload, developing staff, and managing performance. The team would benefit from direct support on an individual level, and would be more engaged in goals and inclusions. The added position would allow for more frequent one-on-one meetings, more coaching, and better staff development. In addition, staff would receive improved communication regarding their processes and progress.

Compliance and Risk Division

The addition of a Business Rule Writer provides the opportunity to accelerate output in this area, and avoid the likelihood of an increasing backlog.

With the addition of an Executive Support Specialist 1, CARD has the opportunity to realize efficiencies in administrative areas that will allow other Division staff to remain focused on their specific responsibilities.

Information Services Division

Enterprise Application Section (EAS) for Quality Assurance (QA):

The requested position for a permanent QA ISS6 Software Test Engineer position will focus on consistent code quality during the development life cycle. Early capture of security and poor quality code is invaluable to the agency in maintaining and enhancing the PERS pension system while keeping members' sensitive data secure. In addition, this position will improve production quality and avoid expensive rework, especially when utilizing contract developers.

Enterprise Content Management Section (ECMS):

In the past decade, PERS has advanced its information agenda from a strictly physical media based (paper and film) program to a very advanced electronic content system where paper and film media is centralized for processing and moved to business activities via electronic workflows. To continue our efforts and improve system functionality to our business partners and in support of our membership, we require this additional resource to manage this very complex and evolving system to meet the changing world of technology. This requires an additional resource with a primary skill set of content system configuration at the ISS6 level.

ISD Administration:

The world of technology continues to make major advancements in the areas of strategic planning and new technologies that require dedicated staff to support the vision and the direction. The Information Services Administration is asking for a permanent PEME position to take on the role of IT Administrative Support Manager to assist in the operational management of our PERS Enterprise Architecture Team (PEAT), ITPM and IT metrics program. This will provide a needed resource in the development and/or implementation that moves us into the future. It will also align the ISD structure of other PERS ELT members that have been successful in supporting our PERS members.

Alternatives Analysis

Intake & Review

Alternatives other than the status quo practice of hiring contractors are limited. Existing staff would need to work substantial overtime in order to complete the work that would otherwise be done by contractors or the additional FTEs being requested.

Calculations

The alternative to the requested PEMB position is the status quo in which the PEMD position is tasked with developing, directing, and managing pre and post retirement work for the Inceptions and Adjustments team in addition to the leadership duties of that position.

Compliance and Risk Division

Until recently, PACS has attempted to fulfill the requirement for business rule writing work through Work-Out-of-Class assignments. This was largely unsuccessful. It is essential that positions requiring specific knowledge and skills are filled by full-time employees. The requisite expertise will be honed over time, and the use of Work-Out-of-Class, contractors, or limited duration staff hinders our ability to fulfill our mission and maintain the highest level of service.

To this point CARD sees no other available option for administrative support in the preparation of confidential reports and presentations for the Board and executive team.

Information Services Division

ISD can continue to hire contractors or request limited duration positions. However, the complexities of the PERS pension system and required knowledge to make significant contribution to the teams' workload is not a very effective alternative. ISD positions require experience and in-depth knowledge of the PERS pension systems. Ramp up time for new employee is significant. In most cases it takes 6-12 months for new staff to gain enough knowledge and understanding of the PERS pension plan and IT systems to perform key duties.

Filling the request positions with temporary staff (limited duration) has not been an effective solution for filling key positions and maintaining enough bench strength for IT service levels expected by the business and members.

Existing staff that possess the required skill set could work extra hours for limited workload increases. However, the agency has long-term workload demands that require the addition of resources to learn and support the complicated business rules and systems. This would also allow knowledge transfer from individuals with key knowledge in a specific area which reduces risk to the agency and continues to develop a highly skilled work force at PERS as specified in the Strategic Plan.

Operations Administration

For the full time permanent PEME Communications Officer position, PERS has considered other options, but none will reach the expected outcome.

- Pursuing a double-fill – PERS does not have the appropriate position to double-fill against.
- A work out of class is problematic as the skills and knowledge of this position most likely do not exist within the agency right now.
- Utilizing outside contracted resources will only be a short term solution.

For the full time permanent OPA3 position, the main alternative considered was continuing to utilize a WOC. As discussed above, this approach has been problematic as it has contributed to vacancies and resource limitations throughout the Operations Division that have resulted in a domino effect of vacancies and backlogs with Agency-wide impact. Additionally, PERS considered using outside contracted resources, however, this is not cost effective and it would take someone from the outside much longer to become a productive member of the project team due to the steep learning curve associated with the position.

For the OPA2 TDF Administration position, contracting is not viable option because the business needs will be ongoing. The only other option is to continue the status quo which would perpetuate existing problems and risks.

Conclusions and Recommendations

Consequences of Failure to Act

Central Administration

If the recommendations of this business case are not acted upon, PERS will continue to operate without a public spokesperson. The resulting lack of outgoing communications could be particularly problematic given the new mandates and system changes that PERS will be implementing during the upcoming biennium. As well a comprehensive communications strategy will inhibit member, stakeholder, and internal communications efforts.

Without the addition of two requested Policy Analyst positions, PERS may lack sufficient staff support for implementing any new mandates and system changes for the IAP.

Intake & Review

Failure to act would result in perpetuation of inefficient and costly hiring practices in which PERS procures and re-trains temps on a bi-annual basis. The cost-savings and increased productivity that could otherwise be achieved through the addition of two FTEs would not be realized.

Calculations

The Section Manager has not been able to apply full attention to leadership-related PEMD duties. Without this added manager position, staff may not receive the adequate supervisory attention. Promptly delivering on the requests of leadership and the necessities of staff has been an ongoing challenge which is negatively impacting morale and performance. If this position is not added, these negative trends are likely to worsen.

Compliance and Risk Division

Absent an added OPA1 Business Rules Writer position, the growing backlog of work in this area is expected to continue to grow. This work is currently taking half the time of CARD's Administrative Rule Coordinator. With increasing attention to PERS (the system) by the Oregon legislature, it is not likely that these numbers will trend downwards.

Daily management of administrative details has become more challenging with the addition of new responsibilities resulting from the creation of the Information Security and Risk Program. Duties related to time entry, ARS, scheduling and office support services for the Division have been distributed among existing staff, sometimes impeding their assigned duties and potentially in conflict with position descriptions. Without the requested Executive Support Specialist (ESS1) position, these impositions on the duties of existing staff would continue, and the newly-established Information Security and Risk Officer position may not receive sufficient administrative support.

Information Services Division

The ORION applications are over a decade old, are highly customized software solutions and not easily upgraded, enhanced or replaced by third party solutions. Failure to maintain ORION with properly trained and experienced IT workers can result in system failures, or the inability to meet required enhancements to the PERS IT systems.

The current practice of hiring contractors to augment staff can work as long as there is adequate PERS staff to provide the foundations of a quality development process and ORION subject matter expertise. However, the regulations with utilizing contractors and the time it takes to develop specialized ORION knowledge is both costly and time consuming alternative and an added drain on existing full time staff. Contractors are often utilized in new areas and key knowledge gained is lost once their contract is up. To retain this knowledge it is essential that PERS IT staff are embedded in any new development. This helps to retain knowledge and provide a better outcome with joint efforts. To support these objectives, PERS ISD requires the addition of these positions to the normal operating budget.

Public Employees Retirement System (PERS)

2019-21 Budget Development Business Case for

Member Communications and Self-Service Platform 105

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Executive Summary

In order to fulfill the agency’s mission to “pay the right person the right benefit at the right time,” PERS must engage members early and often throughout their careers. PERS’ current outward-facing member communications platform consists primarily of an outdated portal called Online Member Services (OMS). The limitations inherent to OMS, due to its structural deficits and its inflexible platform, severely constrain PERS’ ability to engage its members and thus represent risks to the core functions of the agency, including processing retirements, maintaining reliable member data, and providing excellent customer service to members.

A communications solution with modern features such as customer relationship management (CRM) capability would allow PERS to efficiently and effectively communicate with its members early and often, in order to promote and facilitate proactive retirement planning. This can reduce the growing backlog of “just-in-time” retirements and the inefficient, costly business practices needed to process them.

Interactive functionality available through a modern solution would also allow PERS to empower its members with the knowledge, transparency, and education needed to review and verify their own data, thereby greatly reducing problematic, incomplete, and ultimately unreliable member data. In addition, this type of modern functionality would allow members to conveniently and efficiently perform most retirement management activities and needed interactions with PERS online, thus reducing burdens on PERS staff and saving money.

PERS’ proposed solution utilizes an approach in which new applications with member-facing capabilities can be layered on top of the agency’s existing IT architecture, providing greater flexibility and a vastly improved customer experience. This approach, which is illustrated in Figure 4 on page 19, is being developed by other pension systems including New York City Employees’ Retirement System (NYCERS). PERS’ proposed solution aligns with the agency’s strategic priorities for 2018-2023, detailed on page 11, and PERS’ Key Performance Measures, detailed on page 12, as well as Office of the State Chief Information Officer (OSCIO) Enterprise Information Resource Management (EIRM) Strategy for 2017-22.

Failure to act on the recommendations of this business case would result in continuation of risks to core agency functions. These risks include perpetuation of unreliable member data and continuation of costly and inefficient business practices.

PERS requests the following funding in order to achieve the proposed solution:

IT Professional Services	\$1,032,224	
Services & Supplies	\$ 51,611	
Capital Outlay	\$ 321,553	
Total Cost	\$1,405,388	
Total number of permanent positions		0.00 FTE
Total number of limited duration positions		0.00 FTE

Purpose and Background

Purpose

The purpose of this business case is to request an allocation of funds sufficient for PERS to achieve a modern digital communications solution that will address current risks to core functions of the agency. This will be accomplished by replacing existing user interface technologies, including OMS, and enhancing PERS' level of customer service to members, while greatly improving the agency's efficiency and reducing its use of state resources.

Background

PERS administers public employee benefit trusts that provide members with retirement benefits and services. PERS' customers include approximately 217,000 non-retired members, 139,000 retired members or beneficiaries, and over 900 public employers. PERS' strategic priorities align the services needed by our customers to ensure that we "pay the right person, the right benefit, at the right time."

Members

Primary source of member-specific retirement information is the PERS call center.

Usually communicate with PERS by phone.

Complete retirement processes via hardcopy forms.

Mail or fax their completed hardcopy forms to PERS.

Typically have little knowledge of their retirement data and are surprised or upset when information at retirement is incorrect

PERS Employers

Total over 900.

Report data to PERS on behalf of their employees. The number of employees per employer varies widely: 25 percent report for between 1 and 10 employees; 11 percent report for more than 1,000 employees.

Complete employee-retirement-related processes via PERS' digital system for employers, EDX.

Process requests submitted electronically by PERS for documentation and corrections.

Pay unbudgeted compounded earnings to make-whole member accounts where adjustments have necessitated retroactive contributions to past years.

PERS Agency and Staff

PERS' Member Information Center (MIC) employs 16 call center agent positions

The work of at least 81 PERS positions within at least four PERS teams is primarily dedicated to promoting the accuracy of members' retirement data.

PERS requests information and documentation from employers and sometimes requests that employers make corrections to member data.

PERS currently has one Member Engagement and Communications Director position focused primarily on member communications.

PERS is working to fill a Communications Director position to focus primarily on external communications.

Oregon Taxpayers

Pay the unfunded and unbudgeted costs accrued by public employers on behalf of their current and former employees.

Process – Functions and Services: Current State

Member Information and Customer Service

- Member Services - Provides clear, consistent, and accurate information and assistance to members and related contacts. This is accomplished by phone, email, online correspondence, written correspondence, education sessions, face-to-face interactions, and other communication efforts. 197,783 calls were received in 2017; a 20,000-call increase from 2016.

Submission and Processing of Member Forms

- PERS forms are either provided in hardcopy format or must be printed from the PERS website.
- Filled-out by members and mailed or faxed to PERS. No functionality exists to email forms to PERS.
- Data from forms is manually entered and processed by PERS staff. No functionality exists to capture data directly from forms and input into the system.

Management of Member Data

- Calculations Section-Identifies issues on member accounts when members request benefit estimates (only two years before retirement eligibility), and identifies errors in data by using system validations.

Benefit Prep Section - Intake & Review – Identifies issues on member accounts when members request a benefit payment.

- Data Services Section
 - Employer Service Center – Performs an annual review of data with employers to ensure accuracy and completeness of prior year. Provides daily assistance to employers. Makes data corrections that only PERS staff can perform.
 - Data Integrity Group – Performs data verifications, a statute-directed process where a member requests their data be reviewed, corrected if necessary, and agreed upon. Reconciles legacy data that is incompatible with PERS’ current system. Corrects unique data errors where no system functionality exists.
 - Member Account Adjustment Team – Corrects data issues identified at time of benefit.

Processing of Retirements

- PERS processes benefits in order, by retirement date, to meet its Key Performance Measure (KPM) for paying members within 45 days of their retirement date.
- Work continues on accounts that fail to meet PERS’ KPM, otherwise meeting the 92-day statutory deadline to pay a retirement benefit.
- In the event that PERS cannot keep up with “just in time” data adjustment requests, PERS must issue estimated payments. PERS does this by triaging based on expected member impact:
 - Expected reduction in benefit.
 - Some benefit factors decreased, others increased.
 - Expected increase in benefit.
- PERS adjusts member benefits when employers submit retroactive data changes, impacting member benefit factors.

Technology – Current State

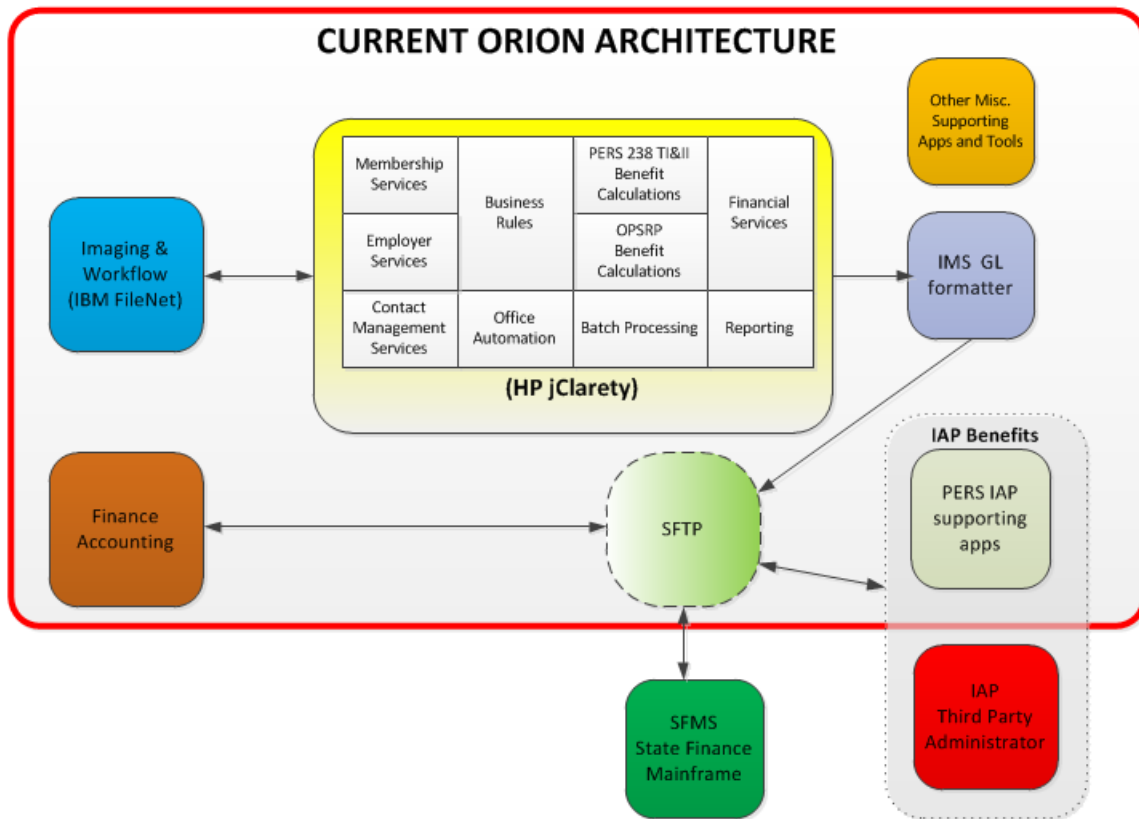
PERS’ Oregon Retirement Information Online Network (ORION) is mission-critical and jClarety, PERS’ pension administration software, is an essential part of it. jClarety provides critical functions enabling the agency to provide pension administration and service to members, employers, and other stakeholders. Although jClarety has an adequate pension administration module, it does not adequately provide member engagement or member communication capabilities. The following are architectural constraints on OMS and, therefore, PERS Member Services more generally:

- jClarety has limited ability to support any member engagement or member communication efforts. The current self-service member portal, Online Member Services (OMS), only allows members to change their phone numbers, email address, and password.
- ORION requires a full deployment of jClarety for the simplest changes in the customer-facing component. This is a challenge when deploying member-specific changes without impacting the benefit and financial services functionality.
- OMS is not capable of satisfying business needs and is non-functional during the heavy transaction cycle in the pension administration component.

- Some third-party software components used to supplement member-facing components are reaching their end of life cycle and need extended support from respective vendors.
- Ongoing support costs associated with maintaining the applications are increasing as the technical dependency makes it difficult to deploy and to automate the test and deployment process.
- Potential security gaps in outdated applications expose PERS to increased risk and require additional mitigation and manual processes.
- The complexity and limitations of ORION make it very difficult to move to the new modern business workplace with mobile, cloud, or analytical technologies to improve services or gain new insights on our member engagement and satisfaction needs.

Current State of ORION

Figure 1: Current State of ORION



Problem (Current State) Definition

Problem Statement

Due to its lack of a modern communications and self-service platform, PERS is currently unable to sufficiently engage with its members or provide them the services they expect. This inability to effectively communicate with members results in risks to the agency's mission to "pay the right person, the right benefit, at the right time," and to specific core functions of the agency including processing retirements, maintaining reliable member data, and providing excellent customer service to members.

Current State Risks:

- 1) The absence of early and ongoing engagement with members contributes greatly to "last minute" or "just-in-time" retirements that do not serve the best interests of members, and necessitate inefficient, costly business practices within PERS.
 - Ideally, PERS should engage its members early and on an ongoing basis throughout their careers. However, under current systems, PERS is unable to effectively deliver minimal proactive messaging to members even at important junctures. Specifically, PERS does not effectively communicate with members during three critical milestones:
 - 1) Membership begins;
 - 2) Vested in pension; and
 - 3) Eligible for retirement
 - PERS' existing member-facing communications tool, OMS, is not sufficiently functional, especially in communicating with members at these and other milestones, and PERS does not have funds to replace its present communications platform.
 - Members with whom PERS is unable to effectively engage with until very late in their careers are not in a position to provide PERS with complete and accurate service data in a timely fashion.
 - Due to the high volume of "just-in-time" retirements featuring incomplete data, PERS must "triage" these retirements into three categories:
 - 1) Retirements that require service time to be added.
These retirements are moved forward, and inaccuracies are dealt with subsequently.
 - 2) Retirements that require some service time to be added and some time to be removed
These retirements are moved forward, and inaccuracies are dealt with subsequently.
 - 3) Retirements that require service time to be removed.
These retirements are not moved forward, and must be submitted into a queue for remediation.
- 2) PERS' current inability to empower members to vet and verify their own data causes perpetuation of data errors.
 - In support of PERS' five-year Strategic Plan, extensive research has been conducted within PERS over the course of two years as part of a "breakthrough" project entitled Data Reliability. Among other efforts, the breakthrough has determined that OMS does not empower members with the knowledge, transparency, and education needed to review, understand, and most importantly, to verify their data.
 - For example, OMS does not allow members to:
 - Receive automatic alerts if they inadvertently attempt to submit incomplete information.

- Easily and electronically alert PERS of incorrect information that was inadvertently submitted to PERS by their employer.
 - Either confirms or correct their personal data (e.g., date of birth, address, etc.).
 - Receive information targeted to their job classification (e.g. teachers' service credit information).
 - View their data and confirm its accuracy prior to submission or prior to retirement.
- Furthermore, PERS' Data Reliability breakthrough has determined the following about the effect of problematic data on PERS members, employers, and staff:
 - Unreliable data results in 25 percent of withdrawals and 15 percent of service retirements requiring data correction at benefit calculation.
 - Incomplete, inaccurate, and late data, and/or not reconciling every year, results in additional unbudgeted cost to employers proportional to the length of the delay. For example, prior-year earnings on \$100 in member contributions for a Tier One member reported in March 2017 for year 2015 would cost \$7.75 versus \$2,059.20 for the same contribution amount for 1985.
 - An example of how this has actually occurred recently is that in 2016, 855 members' accounts were adjusted for years prior to 2004, resulting in Prior Year Earnings invoices to employers totaling \$1,722,847.
 - The unreliable nature of PERS' data erodes member and employer confidence in their retirement benefit and sense of control.

3) PERS' lack of online interactive functionality severely limits member ability to access information specific to their retirement, and/or to perform self-service tasks. As a result, PERS staff must be assigned to perform these tasks on behalf of members. This approach is costly in terms of staff time, and is more susceptible to errors.

- In today's digital world, members expect to have online access to annual statements, to view forms or information they have submitted to PERS, and to be able to securely submit forms and information online. PERS is currently unable to meet these expectations.
- The fact that these expectations are widely held is supported by recent data. For instance, PwC's 2017 Digital Banking Consumer Survey shows that 46 percent of banking consumers now interact digital-only, and 60 percent of smartphone users are already using mobile banking. For public employees that consider PERS to be like a financial institution, we are especially not meeting these expectations.

Under current PERS systems, members cannot:

- Submit forms or other information electronically
- Track the status of their transactions, including:
 - Withdrawals
 - Address updates
 - Direct deposit changes
 - Tax withholding changes
 - Power of attorney on-file
 - Divorce updates
 - Residency status updates
- Confirm/correct their personal data (DOB, address, etc.)
- View annual statements and 1099-Rs electronically
- Easily and electronically view all their important retirement information in one place
- Be provided with information on changes to monthly benefit. (Retirees)
- Access a digital calendar of events to retirees with prompts for needed activities, including:
 - 1099-R

- PERS Health Insurance premiums changed (if applicable)
- Variable adjustment (if applicable)
- Federal and state tax changes
- COLA
- Tax remedy (if applicable)
- Check stubs with year-end data

In addition, member calls and emails regarding the status of transactions or simply confirming information that could be available online limits the ability for Member Services staff to efficiently provide customer service to a growing call/email queue.

- Engaged members, especially retirees, often choose to communicate with PERS via phone.
 - The PERS call center received 197,783 calls in 2017. Phone calls rose by 20,000 over the past year.
 - Wait times average over 20-25 minutes.
 - A vast majority of phone-based questions should be able to be handled either online or by self-service features.

Because of these deficits, members give low satisfaction ratings to PERS' current communications platforms.

- Only 57 percent of members rate PERS' availability of information as "good" or "excellent."
- Only 59 percent of members rate PERS' current website as "good" or "excellent."

PERS is also currently unable to provide a modern mobile platform through which members can easily connect to PERS' communications and member-specific content. Nevertheless, statistics on usage of PERS' website indicate interest in accessing PERS content via mobile devices.

- 27 percent of users accessed the PERS website via mobile devices.

4) PERS' outdated technology, inefficient paper processes, manual workarounds due to missing technical functionality, and its lack of customer relationship management (CRM) capability significantly constrain PERS ability to provide expected levels of customer service.

The negative impacts of PERS' technology deficiencies are seen in metrics tracked by the agency:

- Only 28 percent of estimate or purchase requests submitted by members are completed within 30 days.
- Only 38 percent of new PERS and OPSRP retirees receive their first payment within 45 days of their effective retirement date.
- Only 65 percent of withdrawal applications are completed and ready for calculation within 60 days of receipt by PERS.
- Only 65 percent of active members rate PERS' quality of service as "good" or "excellent."
- Only 62 percent of active members rate PERS' timeliness of service as "good" or "excellent."
- The average retiree satisfaction rating for the retirement process is only 65 percent.

Inefficient paper processes and costly manual workarounds due to missing technical functionality also impact members directly. Two examples can be seen in the process to update a beneficiary (a critical process for members during their careers) and in the process for completing or updating a tax withholding (which is similar to the process for most forms submitted by retirees).

- Making sure their beneficiary information is up-to-date is one of the most critical processes for active members to carry out. To do so currently, members must:
 - 1) Receive a beneficiary from PERS in the mail or find it on the website and print it out.

- 2) Fill out the paper form.
 - 3) Mail or fax the paper form back to PERS.
 - 4) Hope that the information remains correct when it is manually entered into their account by PERS staff, in addition to having no way to view their current beneficiary online.
- Updating retiree tax withholding is a basic function retired members may need to perform. To do so currently, retired members must:
 - 1) Find the form online or call and have it mailed to them.
 - 2) Fill out the form either in print or with basic fillable fields online, but with no intelligence to require certain fields to be checked or filled in, leading to many returned forms.
 - 3) Make a photocopy for their own records or trust not having a duplicate.
 - 4) Mail or fax the form to PERS.
 - 5) Wait and not know if it was accepted and/or correctly updated until the next benefit payment.

To provide additional context in terms of cost-benefit analysis, in 2017 PERS received:

- 24,298 beneficiary designation forms
- 19,350 direct deposit forms
- 17,050 W4-P tax withholding forms
- 11,534 address change forms
- **925,137 forms in total**

If even a fraction of members could submit forms online, view current information online, and access the status of their processes online, PERS could vastly increase efficiencies and provide much greater customer service to its members.

In addition, PERS' lack of customer relationship management (CRM) functionality further limits the agency's ability to serve its members' individual needs.

- PERS lacks data analytics to support members. Data on members should include:
 - Phone and email history
 - Education session attendance
 - Signed up for GovDelivery opt-in email services
 - Members' key issues (e.g. past calls, divorce on file, etc.)
- PERS lacks data on major life events in order to tailor content, prompt education, or answer member questions. Occasions requiring proactive PERS outreach could include:
 - Marriage
 - Birth of child
 - Divorce
 - Job change
- PERS lacks tracking of all past communications with PERS Member Services and receipt of forms:
 - Phone or email interactions with Member Services
 - Simple, user-friendly views of what forms members have submitted
 - The ability to target groups of members who have submitted a specific form or type of request, such as when a law or policy changes and the agency must reach out to targeted groups of members

Business Needs:

1. A Modern Web Portal
2. Members Able to Vet and Verify Their Data
3. Members have access to Interactive Functions and Self-Service Features

4. Customer Relationship Management (CRM) Functionality

Agency Drivers:

The business needs underlying this request directly relate to:

PERS Mission Statement

Serve the people of Oregon by administering employee benefit trusts to pay the right person the right benefit at the right time.

PERS' Five-Year Strategic Plan

PERS' Strategic Plan looks to a five-year horizon from 2018 to 2023. The strategic focus areas identified are derived from a comprehensive review of organizational challenges and strengths, thoughtful consideration of stakeholder needs and perspectives, and the provocative and insightful conversations that PERS staff engages in regularly as PERS strives to foster a climate of consistent improvement and build upon strengths in achieving a shared vision. PERS' strategies for achieving the goals and objectives detailed in the plan leverage the resources any organization has to affect change – people, process, and technology – but unifies and prioritizes the allocation of these resources to assure that they are directed consistently and productively on the highest purposes that are achievable.

PERS Strategic Plan Drivers

Quality Delivery Methods Goal:

Enhance and modernize Online Member Services (OMS) with more electronic transactions and views into workflow progress.

Objective 1: Collaborate with Information Services Division (ISD) to understand budgets, technical debt, and timeframes necessary to improve OMS.

Objective 2: Launch new education tools and resources valuable to the member journey from hire to retire.

Data Reliability Goal:

Establish members as the primary quality check-point on their data of record.

Objective 2: Educate members on the use and limitations of OMS legacy data.

Strategy 2: Execute a campaign to recruit members to review and confirm data issues as they engage in activities related to their accounts.

PERS' Outcome Based Management System (POBMS) and Fundamentals Map

POBMS was launched by PERS in early 2012. It represents a systematic approach to improving agency performance and outcomes. PERS Fundamentals Map is one of the key artifacts of POBMS. It illustrates key goals as well as core outcome and process measures. Key goals relate to high-level areas that will reflect the agency's overall performance. Outcome measures define specific accomplishments that will show the organization's progress toward its key goals. Process measures define the routine work that the organization must excel at in order to drive Outcome Measures and achieve the key goals. Each of these elements of POBMS and PERS' Fundamentals Map are linked with the goals and objectives of the Strategic Plan.

PERS Fundamentals Map Drivers

The following Key Goals are important and relevant agency drivers for the request of this business case

- Engaged & Educated Stakeholders
- Timely & Accurate Service
- Trusted & Credible Agency
- Efficient, Effective; Adaptable Organization

The following Outcome Measures are important and relevant agency drivers for the request of this business case

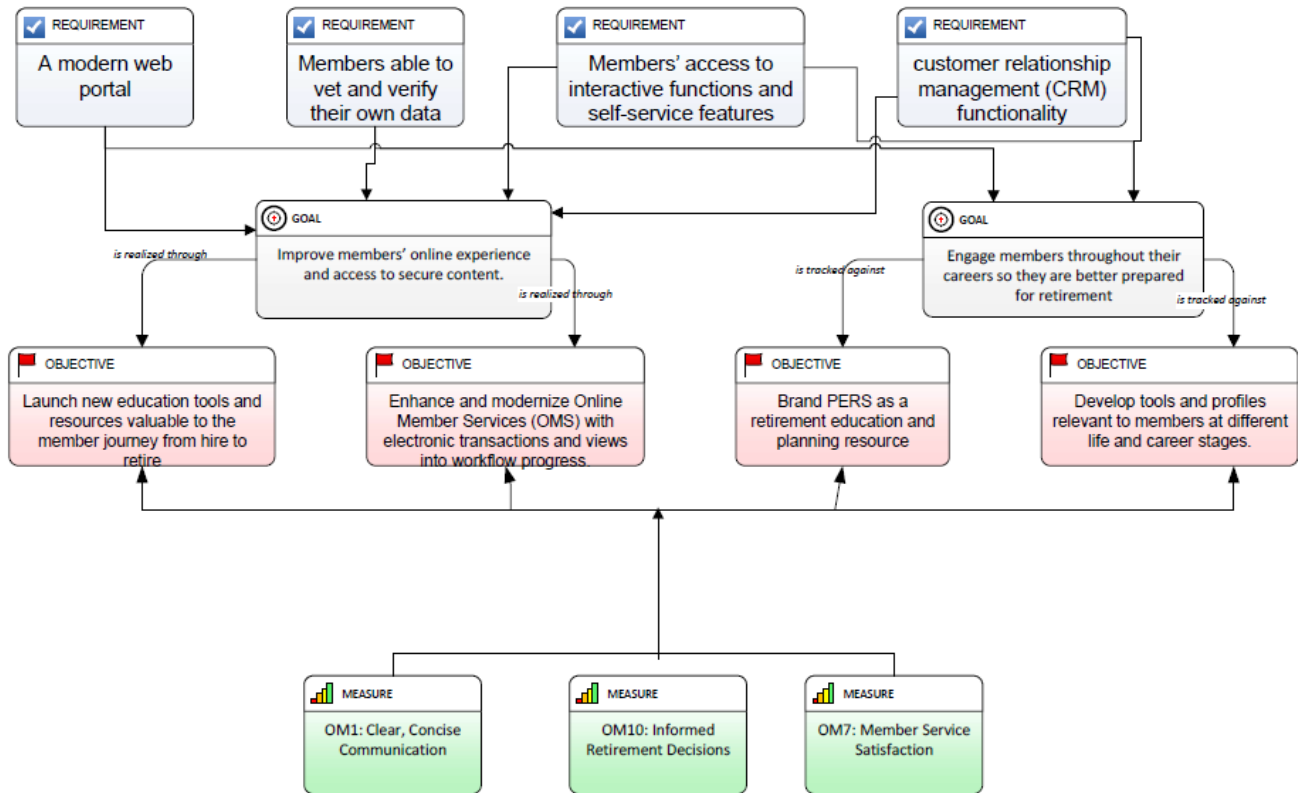
- Outcome Measure 1: Clear, Concise Communication
- Outcome Measure 7: Member Service Satisfaction

- Outcome Measure 10: Informed Retirement Decisions

Business Needs Alignment with Agency drivers

The business needs underlying the request made in this business case are directly aligned with the agency drivers in the above section. (Figure 2).

Figure 2: Strategic Alignment of Business Needs



External Drivers

The business needs underlying the request of this business case directly relate to six of PERS’ eight legislatively mandated Key Performance Measures (KPMs). Some of the relevant KPMs that would be positively impacted by the agreed upon solution are in Table 1:

Table 1: PERS Key Performance Measures

PERS’ Key Performance Measures (KPMs)	
1) Timely Retirement Benefit Payments:	Percentage of initial service retirements paid within 45 days from retirement date
2) Total Benefit Administration Costs:	Total benefit administration costs per member
3) Member to Staff Ratio:	Ratio of members to FTE staff
4) Accurate Benefit Calculations:	Percent of service retirement monthly benefits accurately calculated to within \$5 per month
5) Level of Participation:	Percent of state employees participating in the deferred compensation program
6) Customer Service:	Percent of customers rating their satisfaction with the agency’s customer service as “good” or “excellent”: overall customer service, timeliness, accuracy, helpfulness, expertise and availability of information.
7) Timely Benefit Estimates:	Percent of benefit estimates processed within 30 days
8) Board of Directors Best Practices:	Percent of total best practices criteria met by the PERS board

The Office of the State Chief Information Officer (OSCFO) has an Enterprise Information Resource Management (EIRM) Strategy for 2017-22 that lays out guiding principles that will lead to successful and measurable outcomes. Some of the relevant guiding principles that would be positively impacted by the agreed upon solution are in the list below:

Alignment	Understand the business and objectives of state leaders and constituents Ensure its capabilities are aligned with the business needs of state government and its customers
Transparency & Oversight	Enable transparent IT financial management and effective management of IT resources
Maturity	Mature IT governance to support effective IT resource management and project delivery
Optimization	Provide services to citizens in the most cost-effective manner possible Leverage shared services across government to increase value, eliminate unnecessary duplication and reduce costs
Simplicity	Ensure that proposed solutions provide a measurable impact and value to solve an identified problem Standardize the IT environment by leveraging existing state-owned solutions and shared services to reduce redundancy and complexity
Innovation	Partner with program and policy leaders in leveraging innovative and cost-effective technology solutions to address the state’s business problems
Iterative Refinement	Define incremental approaches to solution design and implementation— “the progressive reduction of uncertainty”
Adaptive	Encourage project planning and solution designs that are responsive to emergent challenges and opportunities
Measured Value	Pursue solutions with a clear business case that make government more accessible and responsive to Oregonians Substantiate tangible return on investments in technology that meet or exceed the expectations of program and policy sponsors
Security	Secure state systems and ensure that they are resilient and ready for the future

The proposed solution also aligns with Administration and Business Services IRM Plan for 2017-19:

- **Strategic Goal #1 - Customer Focus:** Improve access to state services with a focus on customer priorities and improving the customer experience.
- **Strategic Goal #2 - Sustainability:** Modernize critical state business functions and IT services using technologies and approaches that provide for:
 - Increased business agility
 - Maintainability (continuous improvement and lifecycle management)
 - Ongoing compliance with data protection, transparency and accountability requirements (This includes increased use of cloud services where appropriate.)

Opportunities (Future State) Definition

Affected Stakeholders

Instead of continuing to rely on outdated technologies and rigid systems not designed to directly serve member needs; a modern communications solution would provide the following opportunities for stakeholders:

Members

- Newly empowered to take ownership of their data and retirement planning
- Improved member experience through greater convenience and efficiency
- Increased trust in PERS data and outcomes
- Improved quality and quantity of customer service provided by PERS
- Reduced time waiting on-hold during phone calls to PERS' Member Information Center

PERS Employers

- Fewer unforeseen budget impacts arising from unreliable data
- Easier, more seamless reporting of data through improved reporting platform
- Reduced need for: re-work, reconciling problems, and historical research due to unreliable data
- Less staff time used to execute PERS processes, and more time devoted to actual work
- More engaged employees

PERS Agency and Staff

- Reduced backlogs and increased efficiency due to reduction in “just-in-time” retirements
- Freed-up staff bandwidth due to self-service tasks performed online by members
- Increased trust among stakeholders due to more reliable data and outcomes
- Improved ability to engage and communicate initiatives and priorities to members and employers
- Ability to focus on being a retirement planning resource, not just an administrator of benefits

Benefits of a Modern Communications Platform

1) Early and Ongoing Engagement – Reducing Perpetuation of “Just-in-Time” Retirements

Providing members with useful tools, resources, and education earlier and more often throughout their careers will better support PERS' goal of having engaged and educated members. Engaged, educated members take ownership of their retirement planning which reduces “just-in-time” retirements, thus allowing for more efficient business practices within PERS and reduced costs to taxpayers.

Engagement with members is especially critical at several important milestones in their retirement lifecycle, including the following points in their career:

New Public Employee

- New public employees would be notified electronically about PERS, offering online access to a portal that:
 - Explains what their benefit (pension and IAP) could be, which prompts a consideration of immediately starting to save more for retirement through the Oregon Savings Growth Plan or other personal savings
 - Allows the person to immediately confirm/correct their personal data, including date of birth, address, etc.
 - Advises them that they need to work six months with no break in service for the same employer to officially “become a member”
 - Reminds the person that contributions for the IAP will not be deducted from their paycheck, or be paid by their employer, until they have been employed for six months
 - Electronically fill out or review their IAP Pre-Retirement Beneficiary form details

New PERS Member

- After six months of employment, the person would receive an email encouraging them to log into the system now that they have officially become a member of PERS. The email and/or the online portal would offer another touchpoint to explain the IAP, how the member’s pension is calculated, and that he or she may want to save more under OSGP.
- Logging in would offer a dashboard of information specific to that member: their hire date, their personal information, and reminders about what their retirement benefits include. The dashboard could also display upcoming “goals,” such as vesting in their pension after five years of service.

Recently Vested Member

- The member would receive an email encouraging them to log into the system now that they have vested in their pension benefit. The email and/or the online portal would offer another touchpoint to explain the IAP, how their pension is calculated, and that they may want to save more under OSGP.
- Members would be immediately prompted to run an online benefit estimate and learn more about how to grow their benefit across their entire career.

Close-to-Retirement Member

- With a modern communications solution, PERS can make the retirement process easier to accomplish, through electronic data submission, digital checklists, and member resources to nudge members using behavioral science toward the “right” way to be engaged.
- The portal would use data about age and years of service to determine that a member is getting close to retirement eligibility and would change the homepage to prompt people to think about the retirement process.
- Interactive and printable, personalized checklist to prepare for retirement
 - Retirement eligibility: Online confirmation a member is likely eligible by age or years of service
- PERS members can easily access a calendar of annual events, with prompts for events targeted to members close to retirement. For example:
 - January: PERS Fund returns and how that could impact someone if they retire before April
 - February: Legislative session notification
 - April: Good time to start sending in estimates or going to sessions if considering July 1 retirement
 - June: Must retire by July 1 to get a COLA for that year. Information about July 1 being most popular retirement date to understand call wait times, processing times, etc.
 - October: Good time to sending in estimates or going to sessions if considering December 1 retirement

Retired Member

- The homepage changes to a “Retiree Edition” once members start receiving a monthly benefit. This page shows:
 - Monthly pension benefit
 - Bank account it is being sent to, plus direct deposit (yes/no) [Default is yes as part of retirement application]
 - Next month’s pension amount
 - Breakdown of payment: taxes, insurance premiums, etc.
 - Upcoming changes/things to watch
 - IAP balance (if on installments)
 - Reminder of monthly/quarterly/annual installments
 - Opportunity to change electronically if allowed
 - IAP monthly investment returns
 - IAP rollover/cash out information (if no longer with PERS)

- Reminder of where/when IAP was rolled over
- All existing contact information/past email communications/forms sent/received
- Retirees can track the status of transactions and/or regularly update information electronically, including:
 - Address updates (clear understanding of mailing a check, residency status, and tax withholding as well – can prompt if needed)
 - Direct deposit changes
 - Tax withholding changes
 - Power of attorney on file
 - Divorce updates
 - Residency status (Tier One only)
- Online retirement application and status tracking
 - PERS members should eventually be able to retire online. At any moment a known error is made, the application should alert members and not let them proceed until the error is corrected.
 - When an application is submitted electronically, PERS members receive an interactive update, which includes required prompts for correct processing.
 - After everything is correctly submitted, PERS members should be able to track the processing of their application:

2) Ability to Vet & Verify Data – Reducing Perpetuation of Problematic Data

With a modern communications platform, members would be the initial screeners of their own data, and PERS would be able to easily confirm member data and information at any point in a member's career. Confirmation by members of their own data would likely significantly reduce data errors that adversely impact members' future benefits, employers' budgets (prior-year earnings), and PERS' staff and resources.

New functionality under a modern tool would allow members to:

- Immediately confirm/correct their personal data (Date of birth, address, etc.)
- Receive automatically generated reminders to check and confirm their data
- Be instantly alerted if any information or data they submit is incomplete or incorrect
- View their contributions to the IAP, including understanding whether it is coming out of their paycheck (most members) or paid by their employer
- Be reminded about annual earnings crediting, how the IAP is invested, and other helpful reminders
- Electronically fill out or review their IAP Pre-Retirement Beneficiary details
- Have access to a reformatted, more user-friendly benefit estimate tool
- View Annual Statements electronically

3) More Efficient and Convenient Member Interactions Through Electronic Forms (E-Forms)

By having the ability to offer members the option of using e-forms or electronic information submission, PERS will be able to improve the member experience significantly by providing greater convenience through more seamless processes. PERS can also further promote its goals related to data reliability through the smart data features of e-forms.

E-Forms Provide the Following Beneficial Attributes:

- **User-Friendly Functionality:** E-forms provide members with an interactive experience when filling out forms.
- **Accuracy:** E-forms assist users (members and staff) in electronically completing and submitting information. Based on members' input, they can also validate and prompt the user when information is missing. E-forms improve the accuracy of data collected by ensuring that the type and format of the data is correct.
- **Availability:** E-forms can be made available at any time, or anywhere internet connection is available.

- **Efficiency:** E-forms can streamline the processing of forms by electronically submitting information into PERS' document management system where it can be added into a workflow for further processing, thus eliminating the manual process for staff to decipher and enter information from paper forms into the system.
- **Cost Savings:** E-forms would reduce user errors, decrease processing time, and decrease the volume of forms being scanned. They would also reduce the agency's costs for printing, mailing and storing traditional forms, and they would reduce the number of calls and emails relating to questions about completing forms.

4) Improved Customer Service to Members Through Data Analytics and CRM Functionality

Members Receive Targeted Information and Customer Service

- With a modern communications platform, members would be able to receive messages targeted to their specific membership-type. For example:
 - Tier One, Tier Two, or OPSRP
 - Job Classification (e.g. teachers)
 - Teachers could access easily understandable information with graphical presentations of how the calendar year works for service credit, so they understand how to get service credit for the entire year.
 - Presence of IAP
 - Multiple Employers
 - Inactive Status
 - Loss of Membership (LOM)
 - Submitted Estimate (Yes/No)
- PERS members can track the status of transactions
 - Withdrawals:
 - Received
 - Processing (with estimate or reminders on expected processing times)
 - Reminders about what makes certain withdrawals more complicated
 - Sent
- PERS would have data analytics to better support members contacting the agency. Data on members could include:
 - Phone and email history
 - Education session attendance
 - Signed up for GovDelivery opt-in email service
 - All other data members can see on online portal, with the ability to flag or organize members by key issues.
- Data on major life events could be used to further tailor content, or prompt education:
 - Marriage (Update beneficiary)
 - Birth of child (Update beneficiary, run estimates)
 - Divorce (Contact PERS)
 - Job change (Confirm member data, learn about withdrawal)
- All past communications with PERS could be recorded and made easily available
 - Members can see emails back and forth with Member Services
 - Members can see what forms/data has been submitted/ what is on file
- PERS members would be alerted through notifications when they sign into the online portal of upcoming Q&A sessions (webinars) about key topics
- PERS would have the ability to push a message out to specific types of members in an alert box, post-login (e.g. Tier One, Tier Two, OPSRP; Teachers; members with IAP accounts; members currently working for multiple employers; inactive members; Loss of Membership; members who have or have not submitted an estimate, such as if laws change or if we want to prompt a certain action.)

- PERS members could be directed to quick surveys while logged in, so that PERS can improve communications on a semi-regular basis, rather than only through an annual Member Engagement Survey.
- PERS members could regularly see and can click to explore more about a calendar of annual events, For example:
 - January: PERS Fund returns and how that won't impact an active member until after final earnings crediting
 - February: Legislative session notification
 - March: Prompt for address changes through Employer
 - April: Final earnings crediting and alert about annual statements coming soon
 - May: Annual statements mailed and email alert when accessible online to view electronically
 - July: PERS Board action updates on system status regarding assumed earnings rate, actuarial equivalency factors. This would include simple information on impacts to members, such as a unique view for Tier One vs. other membership types.

Figure 3: Solution Benefits Organized By Business Area/Function

 Member Engagement	"last minute" or "just-in-time for retirement" Engagement	RAAS Event pre-scheduled closer to retirement date	Lack of data retirement readiness	Standardize Member Onboarding Process	On-demand Retirement planning education Resources	Omni channel Member access	
 Member Self Service	Member and Employee Proactive Services	Customized Communication based on Member profile	Reduce Silos & Improved Member Experience	Ease on call volumes and reduced waiting/on-hold time	Intelligent Automation Tie-Ins (Machine Learning, Chatbot, etc.)	24X7 Availability	Seamless Integration to ORION Applications
 Member Data & Information	Centralized Data for Reporting and Analytics	Awareness & Data Ownership	Information transparency (360° view of member data)	Maintain reliable member data	Improved Data Quality	Reports to empower Member's decision	
 Core functional Services	Accurate Benefit Calculations	Timely retirement processing	Efficient workflows and reduction in backlog	Efficient Pension Case Management	Streamlined Legislative Compliance (What-if analysis)		
 Service Automation	Expansion & Improvement to Service Management	Powerful yet easy to maintain application	Higher productivity /faster capability delivery	Improved Safety, Security and flexibility			
 Operations	Autonomy, resiliency, and uptime	Optimized operations and Improved SLA & OLA	Cost Effective yet Leading Edge				

Future State IT Architecture

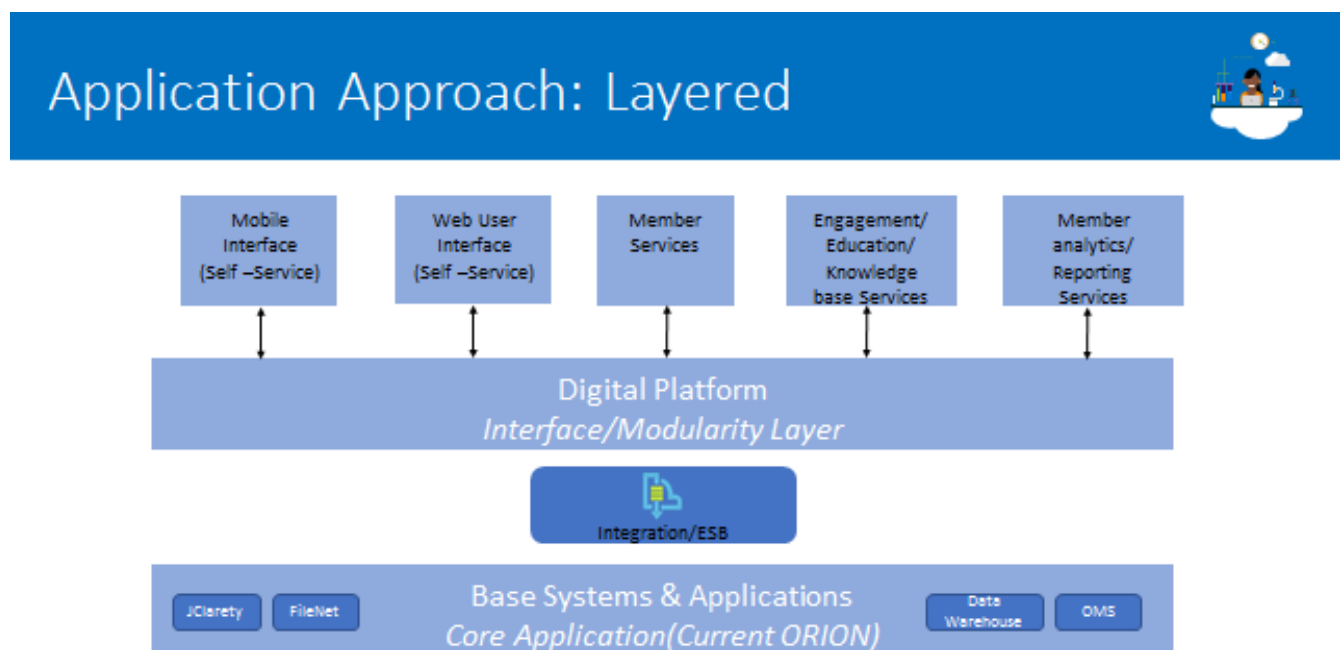
Serving PERS members by providing digital services they expect is one of the most important areas where ORION limitations are problematic. The solution requested in this business case quickly addresses member self-service pain points, improves member experiences, and it develops continuous ability to serve internal and external stakeholders.

The architectural vision behind the proposed solution is to extract the capabilities of back-end services to enable customized user experiences through apps by utilizing service-oriented architecture and software, like an enterprise service bus. This will allow the extension of member-facing capabilities to be implemented more quickly without risking the pension administration capabilities. Once the right architecture is in place, different service components can be added, eliminated, and modified to fit the precise needs of business operations. The proposed solution is a multi-tiered architecture that consists of:

- A foundation layer (base systems and applications):
These are the core business application and supporting technology building blocks (current ORION). JClarety, FileNet, PERS Data warehouse and self-service portals are some components of this layer.
- An integration layer (ecosystems platform):
These are services that support the creation of, and connection to, the foundational layer and external ecosystems. This layer enables extending the enterprise to cutting-edge technology available in marketplaces and communities. The primary elements are enterprise service bus, service virtualization, API management, control, and security.
- An information asset layer (data and analytics platform):
This layer contains information management and analytical capabilities. Data management programs and analytical applications fuel data-driven decision making, and algorithms automate discovery and action. Master data management and data virtualization are its main elements. This can be depicted as a separate layer or as part of the service layers.
- A business innovation layer (digital platform):
This layer contains the elements which enable the new capabilities and business models of a digital business that meets the needs of its stakeholders. A prime example is customer experience platform. Member portals as well as multichannel financial and customer apps are its main elements.

PERS Future State Application Architecture Overview

Figure 4: PERS Layered Application Approach



Alternatives Analysis

Solution Requirements

High-Level Functional Requirements

- 1) An up-to-date web portal
 - Alerts of deadlines, processes missed, or submission of incomplete data
 - More adaptable member portal for content edits and changes
 - Accessible on all browsers as well as mobile
 - Reduced downtime for members in overnight/weekend shifts

- 2) Members Vet & Verify Their Data
 - Members are able to confirm/correct their personal data online
 - Members may receive automatically generated reminders to check and confirm their data
 - Members are able to view annual statements electronically

- 3) Interactive and Self-Service Functionality
 - Members are able to submit and view 1099-R forms and annual statements online
 - Electronic/online forms or data can be configured to trigger workflows
 - Members are able to view past forms submitted and/or data submitted
 - Alerts flagging deadlines or missed processes can be used to assist members
 - Flags can be set up that don't let members proceed until correct processes are fulfilled
 - Workflows can be set up including transaction status processing

- 4) Customer Relationship Management (CRM) Functionality
 - PERS staff is able to pull, analyze, and target sub-sets of members
 - PERS staff is able to search for member accounts using address, DOB, or other fields
 - PERS staff is able to query call-types
 - PERS staff is able to perform data analytics
 - Link to existing systems: Access to FileNet, jClarety, etc.
 - Access all member activities: forms/presentations/calls/emails

Table 2: High Level Solution Requirements and Associated Drivers

		High-Level Innovation Objectives						
		Engage		Empower			Enhance	
		Engage members throughout their careers	Brand PERS as a retirement education and planning resource	Improve members' Experience	Enhance Member Self-service Capability	Boost Member Accountability	Nurture Member relations	Prepared for retirement
S o l u t i o n C a p a b i l i t y e s	Alerts/Notification/Messaging/Mobile message	X	X	X	X	X	X	X
	Case/Incident Management management		X	X	X	X	X	X
	Digital document management			X	X	X	X	X
	Member analytics/Data Analytics	X	X	X	X	X	X	X
	Security and Privacy	X	X	X	X	X	X	X
	Service Integration/API Economy			X	X	X	X	X
	User experience	X	X	X	X	X	X	X
	On-demand Event Scheduling		X		X		X	X
	Smart decision support	X	X	X	X	X	X	X
	Cognitive services	X	X	X	X	X	X	X
	Webinars					X	X	X
	Chat bot	X	X	X	X		X	X
	virtual assistant	X	X	X	X		X	X
Cloud onboarding			X	X			X	

Alternatives Identification

The PERS team conducted a high-level review of commercially available solutions for modern customer centric platforms based on member services and communication needs and PERS 2018-2023 strategic plan.

The “Do-Nothing” alternative is also included to establish a baseline for the analysis. All other options assume expanded functionality beyond what is available in OMS today.

- **Alternative 1:** Do nothing.

Cost: This option would perpetuate costs related to current inefficiencies.

Benefit: This option would not bring any benefits as it would maintain the current state.

Risk: This option perpetuates current risks to foundational agency functions that are detailed in this business case.

- **Alternative 2:** Extend OMS functionality by implementing a modernized user interface. This alternative includes dedicating agency IT resources to fully implement existing change requests and enhancements of self-service functionality as well nonfunctional requirements like compatibility to latest software and platforms.

Cost: This option is neither feasible, nor cost-effective.

Benefit: This option solves most critical business needs.

Risk: This option carries higher risk than other options due to the amount of effort and time to implement, as well as the risk of continuing to build on an inflexible platform.

- **Alternative 3:** Implement a modern on premise Customer Relationship Management and Customer Experience platform like Microsoft Dynamics. Under this alternative, the agency will hire a system integrator or partner with the vendor via professional services through an RFP Process.

Cost: This option is substantially more expensive than other options due to the need for dedicated staff, added IT resources needed to host onsite, and the need to partner with a systems administrator. An on premise platform would be about 30-40 percent more expensive than a cloud-based option due to the additional infrastructure PERS would need to buy and manage.

Benefit: This option would provide the benefit of assistance from third parties by using already developed, mature, and proven solutions.

Risk: This option limits scalability, and carries high risk compared to other options because of the amount of effort required.

- **Alternative 4:** Implement a modern cloud-based Customer Relationship Management and Customer Experience solution and system integrator through RFP process. **This is PERS’ recommended solution.**

Cost: This option is the most cost-effective of all the options.

Benefit: This option solves critical business needs and aligns best with applicable drivers.

Risk: This option carries lower risk because the agency would be working with a reliable partner (such as Microsoft), and be better able to respond to future need changes.

- **Alternative 5:** Partner with specialists in retirement business verticals, like Voya, Inc., and either implement internal data and application integration between their platform and ORION, or hire consultants to build the integration. This will be done through contract negotiation and/or RFP process.

Cost: This option carries an unknown cost due to the variable of what features are offered by the TPA.

Benefit: This option would provide the benefit of working with a partner.

Risk: This option adds a dependency on a third party administrator (TPA). With this solution, what PERS would be able to offer would be limited by the features offered by the TPA.

Alternatives Analysis

The request made in this business case is for funds to purchase a modern digital communications solution that will be capable of addressing identified business needs and risks to core agency functions. An in-depth analysis will be conducted by PERS in accordance with established agency practices, applying a formalized cost benefit comparison, once funding has been achieved.

Table 3: Alternative Comparison: Scale 1-5 (higher value is a better fit in the given criteria)

Criteria	Weight of Importance	Alternate 1	Alternate 2	Alternate 3	Alternate 4	Alternate 5
Business Alignment	50%	1	2	5	5	3
Technical Alignment	25%	1	3	3	5	2
External Factor Resiliency	25%	1	1	4	4	3
Total	100%	3	6	12	14	8
Weighted Total		1	2	4.5	4.75	2.75

Assumptions

- Planned architectural dependencies for data service and application service integration are aligned with new capability implementation.
- Sufficient budget is approved and available.
- No significant changes to ORION will be implemented prior to adoption of the agreed-upon solution.
- Longstanding change requests will not be resolved prior to adoption of the agreed-upon solution, but a thorough analysis of existing deficits will take place to ensure that the solution will meet stakeholder needs.
- Project is as an initial / priority component of an overall *PERS Business Innovation Program* focused on modernizing the agency's business processes, member services and ORION technical architecture
- Other future state capabilities and projects will be identified as part of the *PERS Business Innovation Program: Architecture & Planning* project
- No legislative or judicial actions will materially affect adoption of the agreed-upon solution.

Conclusions and Recommendations

Conclusions

The limitations inherent to OMS, due to its structural deficits and its inflexible platform, severely constrain PERS' ability to engage members and thus represent risks to the core functions of the agency, including processing retirements, maintaining reliable member data, and providing excellent customer service to members. PERS' proposed solution, using an approach in which new applications with member-facing capabilities are layered on top of the agency's existing IT architecture, would provide significantly greater flexibility and an improved customer experience. Positive impacts of the proposed solution, on a range of core agency functions, would be very high and justify the cost of proposed solution.

Recommendations

The recommendation of this business case is to pursue Alternative 4: Implement a cloud-based Customer Relationship Management and Customer Experience solution and system integrator through RFP process. PERS is requesting \$1,405,388.50 in funding for this purpose in the 2019-2021.

Table 4: Summary of PERS' Requested Funds for 2019-2021

Request for service level	2019-21
Professional Services	\$1,032,224.00
Services & Supplies	\$51,611.20
Other Services & Supplies (licenses & Training)	
Total	\$1,083,835.20

Request for IT software solutions	2019-21
Capital Outlay (Customer Relationship Management)	\$321,553.30
Total	\$321,553.30

Total Member services & Communication Platform Request for 2019-2021	\$1,405,388.50
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Consequences of Failure to Act

If the operational needs detailed in this business case are not met, current risks to core agency functions will continue, including:

- Perpetuation of “just-in-time” retirements that do not serve the best interests of members, and that necessitate inefficient, costly business practices within PERS.
- Perpetuation of unreliable data due to PERS' inability to empower members to vet and verify their own data.
- Continuation of costly and inefficient business practices and unnecessary workload burdens placed on PERS staff resulting from significant constraints on members' ability to access information specific to their retirement, and/or to perform self-service tasks.
- Continuation of structural limitations on the agency's ability to provide excellent customer service to its members due to its lack of customer relationship management (CRM) capabilities within its communications platform.

Appendix and References

The following three case studies show how similar government agencies successfully used a CRM solution to solve critical business problems related to outdated IT systems. The solution did not require extensive efforts in terms of integration and was quickly and efficiently implemented.



CASE STUDY

State of Illinois | *Industry* Government

Department of Corrections | *Source* Microsoft Customer

Stories

Challenge

The DOC used offender management technology from the 1980s that consisted of a mainframe system and 41 disparate applications. The system didn't conform to modern corrections science practices. It also didn't allow users to run aggregate analyses, for example to discover likely candidates for transfer in order to free up beds in the minimum security block. Such analyses required submitting a request to IT. Fulfilling the request could take a month or longer, by which time the population had already turned over significantly, with 200 to 500 intakes and releases occurring daily statewide. The system had also become unreliable and extremely costly to use and maintain. This, combined with the fact that critical offender information was scattered across so many different applications, put inmates and staff at risk.



Solution

After evaluating 20 possible solutions, the DOC selected Microsoft Dynamics CRM Online to manage its offender population statewide. The DOC's offender management solution, called Offender360, centralizes all information and intelligence on offenders to help staff **make better, more informed decisions** regarding placement, rehabilitation, and release. Offender360 relies on Microsoft Dynamics CRM Online and Microsoft SharePoint. Customer relationship management (CRM) software from Microsoft is a great match for the DOC's requirements. "Our needs come down to case management, essentially, tracking an offender through a process during and after their incarceration," says Quinde. "Microsoft Dynamics CRM supported case management without the need to code a lot of integrations. Within just a few weeks, we build the pilot prototype."



Results

- Increased safety for inmates and staff
- A complete solution at a lower cost
- Streamlined legislative compliance
- Reporting to empower people's decisions
- Superior ease of use
- Solution to benefit even more agencies
- Ease of development
- Taking Offender360 to the next level

Testimonial
 "This cutting-edge technology will give Illinois one of the most advanced criminal justice information systems in the country," says Governor Quinn. "It will save Illinois' taxpayers millions of dollars while increasing public safety throughout the state."
 "After deploying Microsoft Dynamics CRM, speed of reporting went from a 30- or 60-day turnaround to on-demand."
 —Pat Quinn: Governor
 —Illinois



CASE STUDY

[GEORGIA STATE UNIVERSITY](#)

Industry **EDUCATION**

Source **Microsoft Customer**

Stories

Challenge

Georgia State University identified the need for a customer relationship management (CRM) solution that organized and automated omni-channel service and delivered a consistent customer experience for all users across every channel and from any device. Prior to Microsoft Dynamics, Georgia State University was using an e-mail queue system and an FAQ website to manage questions regarding enrollment, financial aid, registration, and student records. Questions were addressed via telephone, e-mail, or in person as new students arrived at the university. It was becoming increasingly difficult to deliver service and support at the scale and level that the students, staff, and alumni expected. This created extended response times, causing frustration throughout the process. Additionally, the absence of an automated activity tracking program resulted in lost communications, lack of insight into trends and issues that should be addressed, and lost marketing opportunities for student recruitment.

Solution

Georgia State University evaluated several solutions and ultimately selected Microsoft Dynamics 365 for a number of reasons including:

- Functionality
- Efficiency
- Communication
- Timing
- Accountability

Georgia State University began due diligence in the fall of 2013 and identified Microsoft Dynamics 365 as a comprehensive solution that could be implemented quickly and efficiently. Development of the knowledgebase library took the most time and the system was up and fully functional by summer of 2014.

Results

The deployment of Dynamics 365 has allowed Georgia State University to deliver a one-stop omni-channel support portal on its Web site. A thorough due diligence process with clear goals and specific requirements identified Microsoft Dynamics 365 as the best solution.

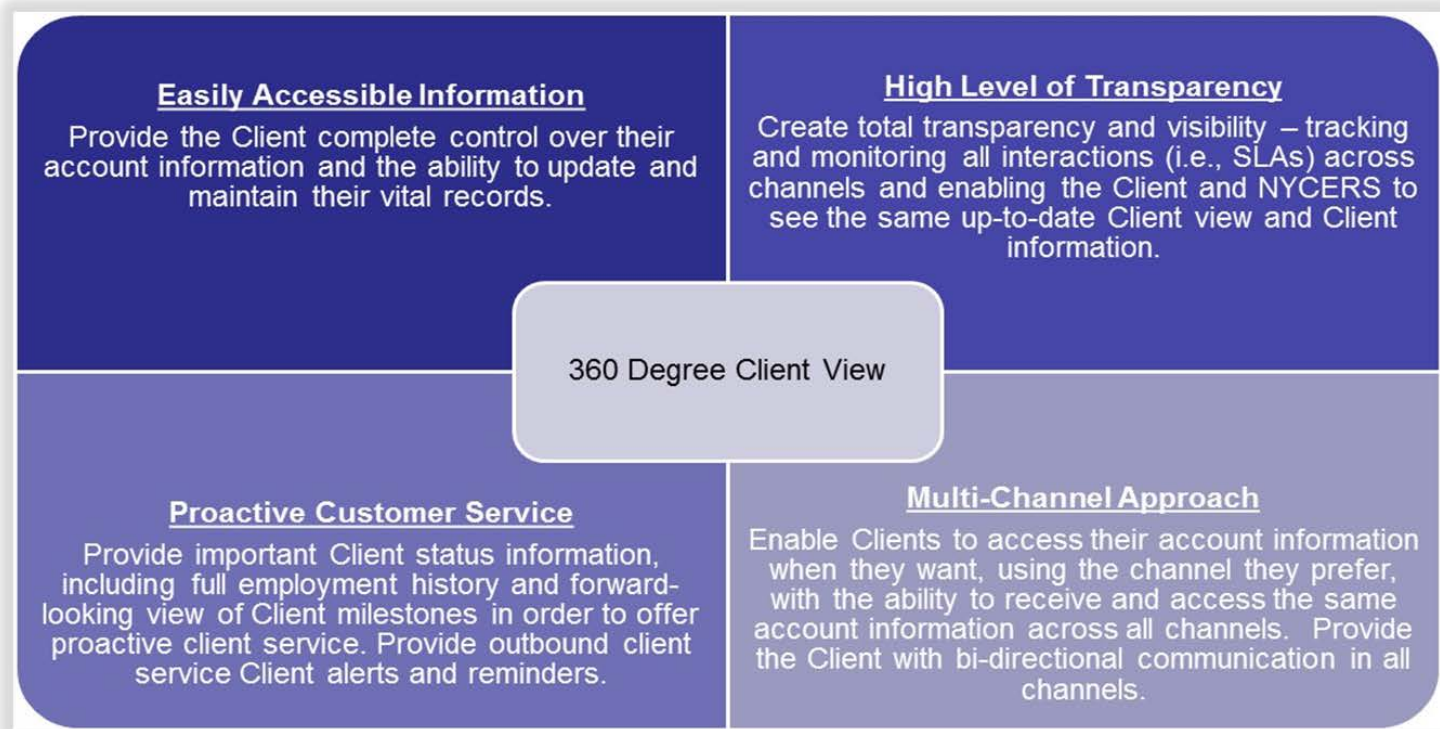
Prior to implementation, Georgia State University was using a homegrown ticketing system without tracking or analytics capabilities. An in-depth review process identified the most efficient and productive software, which enabled a fully integrated support and service platform that enhanced the user experience.

As a result of the deployment of Dynamics 365, Georgia State University now has an omni-channel agent service desk that supports ticketing and reporting across all of Georgia State University's channels.

NYCERS is developing a similar member communications approach. Full details and slide deck can be sent upon request.



CRM- At the of our Digital Strategy



Public Employees Retirement System (PERS)

2019-21 Budget Development Business Case for

Security and Risk Management Program 106

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Executive Summary

As identified in PERS 2015-2020 Strategic Plan and, subsequently called out in a Senate Bill 5534(2017) budget note, PERS was “directed to develop and implement an industry standard Cyber Security Program, including defining the long-term maintenance, operation and funding plans for the program”. Two additional budget notes require PERS to develop and implement a Business Continuity and a Disaster Recovery Programs respectively. Lastly, on February 21, 2018, Governor Brown published a policy (no. 107-001-010) requiring all agencies to develop Continuity of Operations Programs (COOP).

Throughout the 2017-2019 biennium, PERS has worked with the Enterprise Security Office (ESO) on the development of an Information Security Program and ongoing remediation efforts. PERS and the OSCIO are jointly reporting the progress of program development and remediation efforts to the Legislative Financial Office (LFO), which are estimated to be completed by June 30, 2019.

PERS has also been developing its Business Continuity Program, called the Continuity Management Program, which encompasses its Continuity, and Disaster Recovery Programs. PERS is also reporting progress of program development efforts to the Legislative Fiscal Office (LFO), which are estimated to be completed by June 30, 2019.

To ensure PERS’ limited resources are focused on meeting the agency mission of “*servicing the people of Oregon by administering public employee benefits trusts to pay the right person the right benefit at the right time*”, PERS is seeking to develop and implement a Risk Management Program, whereby agency risk will be the governing factor when evaluating Information Security, Technology, and business processes investments and services.

The purpose of this business case is to request the staff and budget resources to implement and support the ongoing operations of the PERS Security and Risk Management Program, which will include Information Security, Continuity of Operations, Disaster Recovery, and Risk Management functions. The Security and Risk program will operate under the Compliance, Audit, and Risk Division.

The proposed cost to establish and operate the PERS Security and Risk Management Program is approximately \$1,282,475 for the 2019-2021 biennium and \$1,262,295 for the 2021-2023 biennium.

PERS requests the following funding in order to achieve the proposed solution:

Personal Services	\$ 644,184	
Services & Supplies	\$ 638,291	
Capital Outlay	\$ 0	
Total Cost	\$1,282,475	
Total number of permanent positions		3.00 FTE

Purpose and Background

Purpose

The Governor, legislature, and state government are committed to meeting the needs of citizens in the event of a local or statewide disaster. The legislature and Legislative Fiscal Office, through budget notes and oversight, has directed PERS to develop industry standard Information Security, Business Continuity (COOP), and Disaster Recovery Programs. The legislature approved initial funds to help with program development efforts, but has delayed all other funding requests, pending the outcome of PERS program development efforts.

PERS is actively developing these programs in conjunction with the OSCIO, ESO, and Governor's office, and once complete they will make up the agency's Security and Risk Program. Unless PERS is provided staff and funding for the program on an ongoing basis, all efforts to meet the agency directives will end this biennium. PERS is seeking approval for staff and budget resources to implement and operate industry standard Information Security, Continuity of Operations, Disaster Recovery, and Risk Management Programs, in alignment with the State's Unification of Security, Oregon Revised Statutes, and Continuity and Resiliency initiatives. PERS is ultimately responsible for ensuring the confidentiality, integrity, availability, and privacy of member data and therefore, continuation of the Security and Risk Program is critical to meeting legal obligations.

Background

During the 2017 legislative session, three Policy Option Packages (POPs), as described below, were approved as part of the agency budget (SB 5534). Each of these POPs came with specific budget notes, which require PERS to establish ongoing programs to address the perceived deficiencies in the Information Security, Business Continuity and Disaster Recovery Programs.

Working with the Office of the State Chief Information Office (OSCIO), the Enterprise Security Office (ESO), and with oversight of the Legislative Fiscal Office (LFO), PERS has been developing its Information Security, Business Continuity, now called Continuity of Operations, and Disaster Recovery Programs. The current state of these three programs is as follows:

Information Security Program (SB 5534 POP 101) – PERS has been actively working on its Program development with the OSCIO, and by the end of the biennium, will publish its Information Security Program and all supporting documentation, based on the ISO 27000 and NIST 800 Frameworks. PERS has developed and published various information security policies and standards in support of its program, completed its Cybersecurity Incident Response Plan, and implemented its training and awareness program to supplement the statewide efforts.

Finally, PERS is actively working on and or has remediated various information security findings, noted in its 2016 Risk Assessment and Penetration Test, and those subsequently identified in the April 2016 Joint OSCIO-LFO Letter. These activities covered a broad range of activities including access management, log management and incident monitoring, secure code development, training and awareness programs, and Information Security program development and staffing plans.

To help PERS with its program development and remediation efforts, ESO provided temporary staff resources. These resources were originally requested and approved as part of POP 101, however they were reassigned to OSCIO as part of Governor Brown's Executive Order 16-13, and legislative approval of Senate Bill 90(2017).

Business Continuity Program (BCP) (SB 5534 POP 803) – PERS was provided \$250,000 for the development of the agency Business Continuity Program. PERS has been actively revising its BCP plan throughout the 2017-2019 biennium, however with the additional funding PERS will contract with a third party consultant to evaluate its Business Continuity Programs (aka COOP) and to provide recommendations for staffing, program funding and overall program governance. PERS is managing its BCP efforts as a project with status reports being distributed to both the OSCIO and LFO.

Disaster Recovery Program (DRP) (SB 5534 POP 804) – PERS was provided \$500,000 for the development and implementation of the agency Disaster Recovery Program. PERS has been actively revising its Disaster Recovery Plan throughout the 2017-2019 biennium, and will use the additional funding to contract with a third party consultant to provide recommendations for the implementation of an industry standard Disaster Recovery Program, including staffing, program funding, and overall program governance. Similar to the BCP, PERS is managing the DRP as an agency project with status reports distributed to both the OSCIO and LFO.

Problem or Opportunity Definition

As a result of PERS 2016 Risk Assessment and Penetration test, and the subsequent direction from the OSCIO, Legislative Fiscal Office, and the Governor’s office, PERS has been “directed to develop and implement an industry standard Cyber Security Program, including defining the long-term maintenance, operation and funding plans for the program”.

In Senate Bill 5534(2017) PERS was required to develop and implement industry standard Business Continuity and a Disaster Recovery Programs respectively. On February 21, 2018, Governor Brown published a policy (no. 107-001-010) requiring all agencies to develop Continuity of Operations Programs (COOP). Failure to meet these directives may place the agency at risk of not meeting its fiduciary responsibilities in the event of a business interruption.

PERS proposes to combine these projects under a Security and Risk Management Program umbrella. The program will consist of 5 FTE who will be responsible for planning, implementing, monitoring, and revising the program in order to help the agency meet its fiduciary obligations to its members, and external stakeholders in the event of a business interruption. Two of these positions currently exist, but to fully staff the program, PERS is asking for three additional FTE as noted below:

ISS8 – Senior System Security Analyst This a high level Cybersecurity professional which will be responsible for working with the Enterprise Security Office and other third party information security service providers, to ensure PERS cybersecurity controls are developed, implemented, and managed in accordance to statewide and agency standards, necessary to protect the data entrusted to the agency. Responsibilities include:

- Work with business to identify information assets and risk factors;
- Work with management to identify technical and procedural controls to reduce and mitigate risk factors;
- Monitor the environment for threats and vulnerabilities, and perform mitigation;
- Perform forensics related to HR investigations;
- Support the agency regulatory compliance program;
- Support the agency privacy program;
- Oversee and support the agency with system configuration and patch management standards;
- Support the agency security risk management program;
- Gather metrics and produce security related management reporting;
- Perform internal penetration testing and risk assessments;
- Ensure compliance with CIS version 7 basic controls;
- Develop and implement security testing for all code development (through the SDLC process);
- Provide input on enterprise security policies and develop security operations standards, and work with staff to ensure compliance with Information Security policies and standards;
- Develop, maintain, monitor, and implement the technical security architecture; and
- Conduct agency specific end-user information security awareness training.

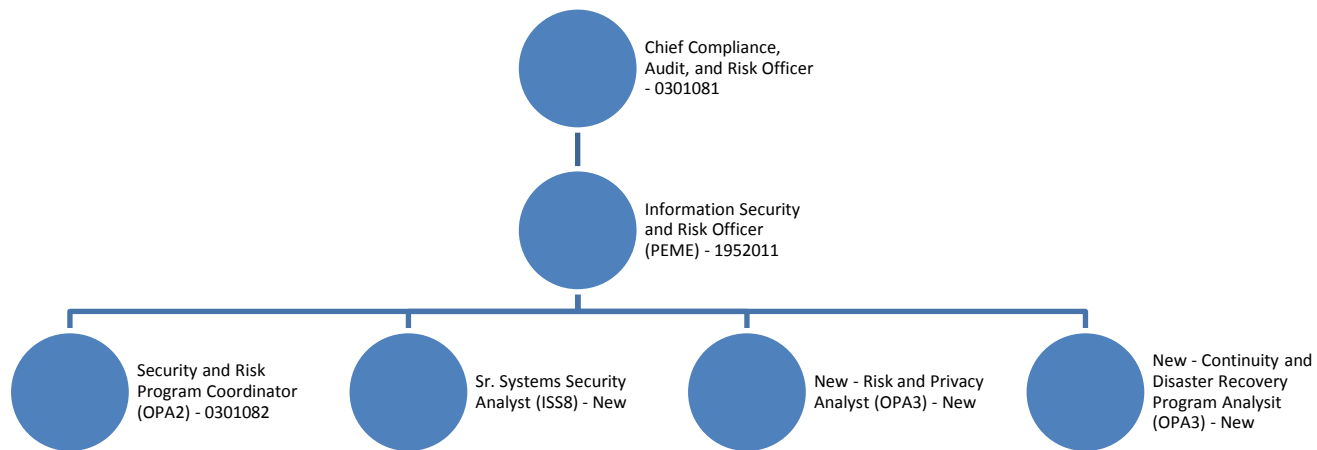
OPA3 – Risk and Privacy Analyst This a high level professional which will be responsible for working with internal and external resources (i.e., DAS Risk Management) to ensure that compliance, operational, reputational, political, and strategic risks controls are developed, implemented, and managed. The position will be responsible for conducting risk analyses and assessments, developing a risk management framework, and cultivating a risk-intelligent culture. Responsibilities include:

- Work with business and support divisions to identify information assets and risk factors;
- Work with management to identify key business processes and privacy controls to reduce and mitigate risk factors;
- Work with management to develop risk appetite, rating scale, essential forms and reports;
- Perform threat and vulnerability identification, loss exposure analysis, and assessments;
- Work with business and support divisions to identify risk treatment and mitigation strategies;
- Perform risk evaluation and coordination of corrective action strategies and mitigation implementation related to risk issues;
- Provides and/or coordinates intervention and education related to risk management issues to promote safe work practices in collaboration with Humans Resources;
- Act as central point of coordination for risk identification, monitoring and reporting for agency;
- Ensure risk information is entered into the risk management information system;
- Review, interpret, and adhere to all federal, state and local laws/legislations as applicable;
- Prepare/modify documents including reports, dashboards, and graphics; and
- Serve as a member of the PERS Safety Committee.

OPA3 – Continuity and Disaster Recovery Program Analyst; This is a high level professional which will be responsible for working with internal and external resources (i.e., ESO, Governor’s Office) to ensure appropriate and timely emergency response, resumption, restoration, and recovery of the PERS’ operations and business activities during and after a business interruption.

Responsibilities include:

- Provide Preparedness Planning, Business Continuity and IT Disaster Recovery planning to prepare/respond/recover from any event that disrupts, or threatens to disrupt, normal operations;
- Provide a coordination role to support the Information Security and Risk Officer in the management of crisis and serious incidents affecting the welfare of staff and/or critical business operations;
- Coordinate the review, maintenance, and validation of continuity and disaster recovery planning, working with business owners and technology staff to ensure these plans remain effective;
- Perform Business Impact Analyses for critical systems, facilities, applications, and processes;
- Perform hazards and risk analysis and assessments for business processes and resources;
- Develop continuity and recovery mitigation and contingency strategies;
- Work with technology subject matter experts to validate technical recovery scripts and work instructions required to recover critical applications and systems;
- Coordinate Plan review and approval process;
- Develop, coordinate, and conduct testing and exercising, including plan walk-throughs, table top exercises, technical tests and functional drills;
- Promote awareness of continuity and disaster recovery policy, standards, plans, processes;
- Review, interpret and adhere to all federal, state and local laws/legislations as applicable;
- Prepare/modify documents including reports, dashboards, and graphics; and
- Serve as a member of the PERS Safety Committee and Information Security Board.



Alternatives Analysis

One alternative for the Information Security portion of this request is to ask the Enterprise Service Office to assume more of responsibilities. However, per their current Initial Operating Capacity report, certain services are defined as agency responsibilities.

For the remaining portions of this request, Continuity and Risk Management are an agency responsibility therefore; PERS does not see alternatives other than what has been presented. PERS will work closely with the OSCIO and ESO in support of the state enterprise Security Unification efforts, and with the Governor's Office on its Continuity of Operations Program utilizing the State's BoldPlanning solution.

Assumptions

The ESO office will focus on Enterprise Information Security services and PERS will be responsible for the remaining Information Security tasks including privacy, agency forensics, vulnerability, and patch management.

Selection Criteria and Alternatives Ranking

None Identified

Solution Requirements

None Identified

Alternatives Identification

None Identified

Alternatives Analysis

None Identified

Cost

This is currently a DAS/ESO agency assessment for their identified services. No cost structure has been identified for services PERS will be responsible for.

Benefit

None Identified

Risk

None Identified

Conclusions and Recommendations

Conclusions

PERS is committed to protecting the confidentiality, integrity, availability, and privacy of member data, and all information systems utilized in the performance of the agency mission. PERS recognizes that the state has made significant strides in unifying cybersecurity and continuity efforts across the enterprise. However, there is more work to be done.

The purpose of this business case for staff and budget requests is to enable PERS to adequately perform its obligation to protect data in conjunction with similar statewide efforts.

Recommendations

PERS is seeking approval and funding to add three FTE and associated program budget of \$1,282,475 to be included in the Agency's Normal Operating Budget, assigned to the Compliance, Audit and Risk Division, for the ongoing support of its Security and Risk Management program. By doing so, PERS will be able to meet the requirements outlined Senate Bill 5534(2017):

Develop, implement, and manage an industry standard Information Security Program; and
Develop, implement, and manage an industry standard Continuity Management Program which encompasses continuity of operations, disaster recovery, and agency risk management programs.

PERS has a partially staffed Security and Risk team, however, this request is necessary to achieve the goal of protecting member data in the event of a localized disaster event.

Consequences of Failure to Act

Without this request PERS will continue to perform its Information Security, Continuity of Operations, and Risk Management responsibilities to the best of its abilities. However, the agency and state could be at risk in the event of a localized disaster causing a business interruption.

Public Employees Retirement System (PERS)

2019-21 Budget Development Business Case for

Deferred Maintenance Plan Needs 107

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Executive Summary

This proposal is intended to satisfy the requirement in Senate Bill 1067 (2017) that PERS, as an agency owning a state building in Tigard, provide support to the Governor's 2019-2021 Budget in bringing the agencies' total deferred maintenance and capital improvement budget to a level of two percent of the current replacement value of state-owned buildings and infrastructure.

While PERS' headquarters building and major equipment in Tigard, Oregon has been extremely well maintained since its construction in 1996, certain building components and major equipment are operating well beyond their expected lifecycle. This creates an ever-increasing potential need for repair and/or replacement without advance notice. Specifically, the building's roof has exceeded its anticipated functional life of 20 to 25 years, and the HVAC system has exceeded its anticipated functional life of 15 to 20 YEARS. Trane (the current HVAC unit's manufacturer & servicer) suggests that even if no performance issues are present, that Oregon businesses plan to replace units such as the one PERS has, at 25 years – which would be 2021 – 2022.

The purchase and installation of a new HVAC system of similar capacity to PERS' current unit, would be approximately \$220,000 (\$145K for equip / \$75K for installation), based on a June 2018 estimate. Based on a recent rough estimate, the purchase and installation of a new roof for PERS' headquarters building would be approximately \$120,000.

The estimated total cost of the proposed solution to PERS' deferred maintenance effort is \$340,000 (or \$380K with PMs). The cost is comprised of capital outlay for equipment (\$265,000), installation costs of (\$75,000), and attendant annual services & supplies expenses for preventive maintenance and repair services (\$40,000/ year [DAS Facilities for HVAC]). No Personal Services costs are required.

This is a Priority Three request, as these replacements will likely need to be taken in the near future - even though the equipment involved is still functioning very well, both the HVAC and the roof have exceeded their respective estimated useful lifetimes and either could fail at any time.

Business and service delivery risks exist in the form of extended disrupted operations due to the potential of the headquarters building being uninhabitable. This could occur in the event that the HVAC and / or roof performance fail as a result of not having pre-established deferred maintenance budget funds to replace or repair these critical systems in the current budget cycle.

The funding for the deferred maintenance will come from the PERS Trust.

PERS requests the following based on 2% of the building replacement value:

Services & Supplies	\$	625,000
Total Cost	\$	625,000

PERS/AGENCY PROFILE

FACILITIES

Total Facilities 1

Total Gross Square Footage (GSF) 60,220

Total Major Facilities¹ 1

Total Major Facilities GSF 60,220

Current Replacement Value (CRV) \$31,258,749

Total Major Facilities CRV \$31,258,749

2017 Facility Condition Index (FCI*) 0.0%

2026 Facility Condition Index (Unfunded) TBD

Operation + Maintenance Cost/GSF² \$29.74

¹Facilities > \$1M CRV; ² Self-Reported Data

PUBLIC EMPLOYEES RETIREMENT SYSTEM/2019-21 FACILITY PLAN 3

Purpose and Background

Purpose

This proposal is a request for funding in PERS' 2019-2021 biennium budget to proactively address the anticipated need to perform critical deferred maintenance at the agency's headquarters building in Tigard. The "investment" is pre-establishing readiness funding to expedite major repairs to, or acquisition of new HVAC equipment and / or a new roof for the HQ building. Having the funding available will greatly reduce the time and improve the responsiveness required to remedy a failure of either / both system(s). The proposed funding will also address any actual, unanticipated deferred maintenance need that PERS may encounter during the 2019 – 2021 biennium.

As is the case for every state agency, good stewardship of the public trust requires that PERS properly maintain facilities that house its operations and support the agency's mission. Additionally, the new law resulting from SB 1067 directs that a specified amount of funding be actively used by agencies to address existing and new deferred maintenance issues as the means of ensuring that the state's physical infrastructure will meet the needs of Oregon's citizens and state employees.

This proposal supports the Governor's 2019-2021 Budget in meeting the requirements of Senate Bill 1067 (2017), through PERS' establishment of a budget as part of the overall DM budget for all state agencies. Expenditures in the amount of the funding being requested will be required at some point in the very near future, regardless of whether it comes through approval of this particular request. Receiving the 2% of current replacement value of PERS headquarters building in keeping with the state's deferred maintenance solution initiative and SB 1067 provides an opportunity to proactively meet critical agency facility needs.

The estimated total cost of the proposed solution to PERS' deferred maintenance effort is \$340,000 (or \$380K with PMs). The cost is comprised of capital outlay for equipment (\$265,000), installation costs of (\$75,000), and attendant annual services & supplies expenses for preventive maintenance and repair services (\$40,000/ year [DAS Facilities for HVAC]). No Personal Services costs are required.

A Cost/Benefit Analysis is not applicable. There are only 2 options – do not contingency budget for replacement vs establish a contingency budget based on a researched total cost estimate for each of the 2 systems. The “ROI” is immediate, because if either system (or both) fails, most PERS operations and service provisions will cease or be severely compromised in terms of quality, time & expense until replacement restores the HQ facility to inhabitable / useable condition for PERS staff.

Proactively addressing these essential and likely capital equipment replacements, beginning in the 19-21 biennium, will mitigate significant agency business and service delivery risks, which exist in the form of extended, disrupted operations due to potential of the headquarters building being unusable in the event that the HVAC and / or roof performance fail as a result of not having pre-established deferred maintenance budget funds to replace or repair these critical systems.

Through this proposal, PERS, as an agency owning a state building in Tigard, is providing support to the Governor’s fulfillment of the requirement in SB 1067 Section 9, in her 2019-2021 recommended budget. PERS request in the amount of \$625,175 reflects a value equal to 2% of the agency headquarters’ current replacement value of \$31,258,749 (based on the amount cited in PERS’ Capital Projects Advisory Board 2019-21 Facilities Plan).

Approving this proposal remedies two definite, upcoming deferred maintenance needs and addresses PERS’ contribution to the Governor meeting the legal requirements of SB 1067.

Background

Having PERS’ HQ in proper condition is essential in providing agency staff with a comfortable environment in which they can provide optimum service to many thousands of PERS employers, members and retirees. As the physical “face” of the state’s public retirement system, it is also imperative that visitors be equally comfortable when their business brings them to the HQ. Having either system go down at an unexpected time could prove extremely disruptive to PERS operations, as well as inconveniencing members who may have scheduled visits during that time.

Problem or Opportunity Definition

As for every state agency, good stewardship of the public trust requires that PERS properly maintain facilities that house its operations and support the agency’s mission. Additionally, the new law resulting from SB 1067 directs that a specified amount of funding be actively used by agencies to address existing and new deferred maintenance issues as the means of ensuring that the state’s physical infrastructure will meet the needs of Oregon’s citizens and state employees.

As mentioned previously, expenditures in the amount of the funding being requested will be required at some point in the very near future, regardless of whether it comes through approval of this particular request. Receiving the 2% of current replacement value of PERS headquarters building in keeping with the state’s deferred maintenance solution initiative and SB 1067 provides an opportunity to proactively meet critical agency facility needs.

It should also be noted that addressing replacement of the HVAC system or the roof on an emergency basis (i.e. not pre-planned) can easily result in hasty provider source, logistical and

quality decisions, and lessened competition, which in turn could potentially result in acquiring sub-optimum replacements and / or paying more for the replacements than would be the case if those procurements were conducted in a thoughtful, orderly manner.

Alternatives Analysis

Assumptions

- PERS' replacement of the Headquarters HVAC system and roof, both of which have exceeded reasonable useful life expectancy, will need to occur prior to 2023, either proactively in accordance with an efficient plan or reactively in response to system failure.
- Unexpected failure of either or both systems will result in avoidable disruption to agency operations and an unplanned compromise of access to PERS by members and retirees.

Alternative Course of Action

Not receiving funding approval through this proposal. PERS can wait for the HVAC system and the headquarters roof, respectively, to fail, and request replacement funding on an emergency basis at the time of each event.

Risk: The “emergency replacement” scenario would likely include a rushed procurement process, with corresponding sub-optimum results in terms of cost and possibly quality.

Public Employees Retirement System (PERS)

2019-21 Budget Development Business Case for

Business Innovation Program 109

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Executive Summary

The Public Employee Retirement System (PERS) administers public employee benefit trusts providing members with retirement benefits and services. PERS strategic priorities align services needed by our more than 925 employers and 345,000 members, to ensure we “*pay the right person, the right benefit, at the right time*”. Our shifting demographics mean we now have more OPSRP members than Tier One and Tier Two members. We need to modernize, enhance, and sustain our communication and technological foundation to better align with the needs of these younger members as we strive to engage them in their career-long retirement planning. To implement industry standards in line with member expectations, we need to establish a technology platform that is flexible, secure, and aligned with today’s service-driven technology standards.

To adapt, PERS is planning to initiate the **Business Innovation Program (BIP)** that will improve the efficiency, responsiveness to business operational and plan changes, and resolve functionality and deficiencies that affect system administration, performance, maintainability, and sustainability.

Why Now?

For the last decade, PERS member education and outreach has focused primarily on those who are within two years of their effective retirement date. This just-in-time resource set does not provide members who are earlier in their career with the tools and motivation necessary to adequately prepare for retirement. This is an emerging dynamic as the benefit reductions from the 2003 PERS pension reforms gradually reduce benefit levels from those received by the prior generation. We recognize the need for and the value of providing members with useful tools, resources, and education throughout their careers so they can make informed decisions that guide their path to having a secure and successful retirement. Providing members with all these resources through a secure and robust portal will enhance their experience and satisfaction through better interactions with PERS.

Before those outreach and education efforts can begin, however, the technology platform on which they will be built needs to be capable of supporting them. The proven solutions to meet member and employer needs and expectations are known.

PERS is not the first public pension administration entity to innovate their business. Other organizations across the country have made or making this investment. Teachers Retirement System of Texas (TRS) is a good example. In 2014, they took the base Oregon PERS jClarety system and modernized it to gain flexibility, agility, and resiliency to adapt to the ever-changing public pension administration landscape. Architecture and Planning played a crucial part to the success of their modernization project. PERS is following this proven approach.

BIP is currently in the pre-Stage Gate 1 phase of the OSCIO oversight process.

To achieve these goals ISD is requesting:

IT Professional Services	\$512,265
Total Request	\$512,265

Purpose and Background

The Public Employee Retirement System (PERS) administers public employee benefit trusts that provide members with retirement benefits and services. PERS' customers include approximately 204,000 non-retired members, 128,000 retired members or beneficiaries, and 925 public employers. PERS' strategic priorities align the services needed by our customers to ensure that we "pay the right person, the right benefit, at the right time". Because the needs of our customers change over time, so must our business capabilities.

The most immediate set of needs to be addressed are those of PERS members. Shifting demographics mean we now have more OPSRP members than Tier One and Tier Two members. For the past decade, PERS' member education and outreach has focused primarily on those who are within two years of their effective retirement date. This just-in-time approach does not provide members who are earlier in their careers with the tools and motivation necessary to adequately prepare for retirement, increasingly important as benefit reductions from the 2003 PERS reforms gradually reduce benefit levels from those received by previous members. We recognize the need for and the value of providing members with useful tools, resources, and education throughout their careers, so they can make informed decisions that guide their path to eventually having a secure and successful retirement. We need to evolve and enhance our communications foundation and capabilities to better align with the needs of these younger members as we strive to engage them in their career-long retirement planning.

System deficiencies affect customers

Since 2005, we have administered our benefit programs on the Oregon Retirement Information Online Network (ORION), which includes a customized benefit administration platform (jClarety), that is integrated with other compatible components, via a system architecture that was designed over 22 years ago. Data volume and transactions have increased, while member and employer business needs have evolved; accordingly, ORION's limitations, flaws, and inefficiencies have become more apparent. These limitations have had a direct impact to our members and stakeholders, including:

- Missing pension functionality for some aspects of the OPSRP Pension Program;
- Reduced system availability as batch processes and other maintenance require taking the system off-line;
- Restricted communication options as modern channels are not supported;
- Inflexible system update and enhancement tools;
- Difficulty in maintaining, sustaining and enhancing system architecture and technologies; and
- Difficulty in migrating ORION from the PERS Data Center to the SDC (managed host) or Cloud solutions due to tightly-coupled, outdated technology that is sensitive to updates and has dependency on other services.

These deficiencies result in time and labor spent on work-arounds instead of on member support, and limit our engagement and communication capabilities, preventing implementation of new and enhanced services for our members. Our five-year strategic plan defines our technology commitment, services, and plans. To implement industry standards in line with member expectations, we need to establish a technology platform that is flexible, secure, and aligned with today's service-driven technology standards.

Problem or Opportunity Definition

The solution must support the following PERS 5-Year Strategic plan goals and objectives:

- 1. Engage members throughout their public careers so they are better prepared for retirement**
 - *Communication and engagement tools need to be updated to current platforms and devices if we expect members to engage with us throughout their career*
- 2. Brand PERS as a retirement education and planning resource**
 - *Supporting members by providing easy-to-use navigational tools will provide them with flexibility and convenience currently not available*
- 3. Improve members' online access to secure content**
 - *Expanding relevant content to include transaction status tracking and online processing will provide members with needed functionality that currently does not exist.*
- 4. Establish members as the primary quality checkpoint on the data of record**
 - *Education tools must remain content-rich and easily accessible if members are to understand the consequences of their work history as that relates to their PERS benefits*
- 5. Ensure data remains static after it is used in a transaction or payment**
 - *Data storage and reliability must be bolstered so PERS retains relevant information through the course of a member's public employment and retirement*
- 6. Improve IT efficiency and responsiveness to business operational changes**
 - *Members and employers want open access and timely processing, or their interaction with us will lead to frustrating outcomes that discourage engagement*

To accomplish these strategic goals, the following business objectives can only be met with the more robust Information Technology (IT) capabilities that will be built through the Business Innovation Program:

- Develop tools and profiles relevant to members;
- Enhance the member online experience through a variety of platforms and devices;
- Implement enterprise-wide information governance and management;
- Provide staff access to consistent, prompt, and reliable data and reports;
- Modernize ORION to improve performance, maintainability, sustainability, portability, and extensibility;
- Improve data reliability and security; and
- Support business continuity and disaster recovery.

Finally, during the past year there have been some significant challenges added specifically to administration of the Individual Account Plan (IAP) due to legislative initiatives:

- Target Date Fund (TDF): created 10 vintages or glide paths for IAP members;
- IAP Administration Project: postponement of the project;
- Member Choice: *potentially* allowing IAP members to choose which vintages to invest their contributions; and
- Pension Redirect: *potentially* redirecting some IAP funds to other plans

The last two initiatives have not yet been finalized, however the lack of flexibility in ORION to implement these changes would cause further system and data complexity, and continue our reliance on an aging and quickly deprecating system.

Outcomes from Architecture and Planning will comply with OSCIO project oversight requirements and deliverables, as well as developing a future roadmap for ORION. Funding will be used to bring outside experts from the public pension field to augment the team in PERS.

Proposed Solution

PERS cannot solve its challenges and problems, and consider opportunities, in a single, enterprise-wide project. PERS plans first to improve response to member needs by focusing on three high-level objectives, with more specific objectives within each:

- **Engage:** Members are **engaged** if they receive relevant content and education resources to make them aware of important decisions or actions at various points in their journey to retirement, to help them make smart financial decisions throughout their career:
 - Engage members throughout their careers;
 - Brand PERS as a retirement education and planning resource; and
 - Customize engagement to be relevant for each member’s career stage (e.g., early, mid, or nearing retirement).
- **Empower:** Members feel **empowered** when information is transparent and easy to access, when they are treated as stakeholders in their own journey from “hire to retire”:
 - Improve member experience;
 - Expand member self-service capabilities to allow them to do more for themselves; and
 - Encourage and enable member accountability for their own success
- **Enhance:** While engagement and empowerment will help reduce member anxiety, providing **enhanced** services (such as benefit preparation and calculation) will help ensure we “pay the right person, the right benefit, at the right time”, increasing satisfaction:
 - Nurture Member relations; and
 - Prepared for retirement.

Within each focus area, PERS will consider three key components that can be part of the solution:

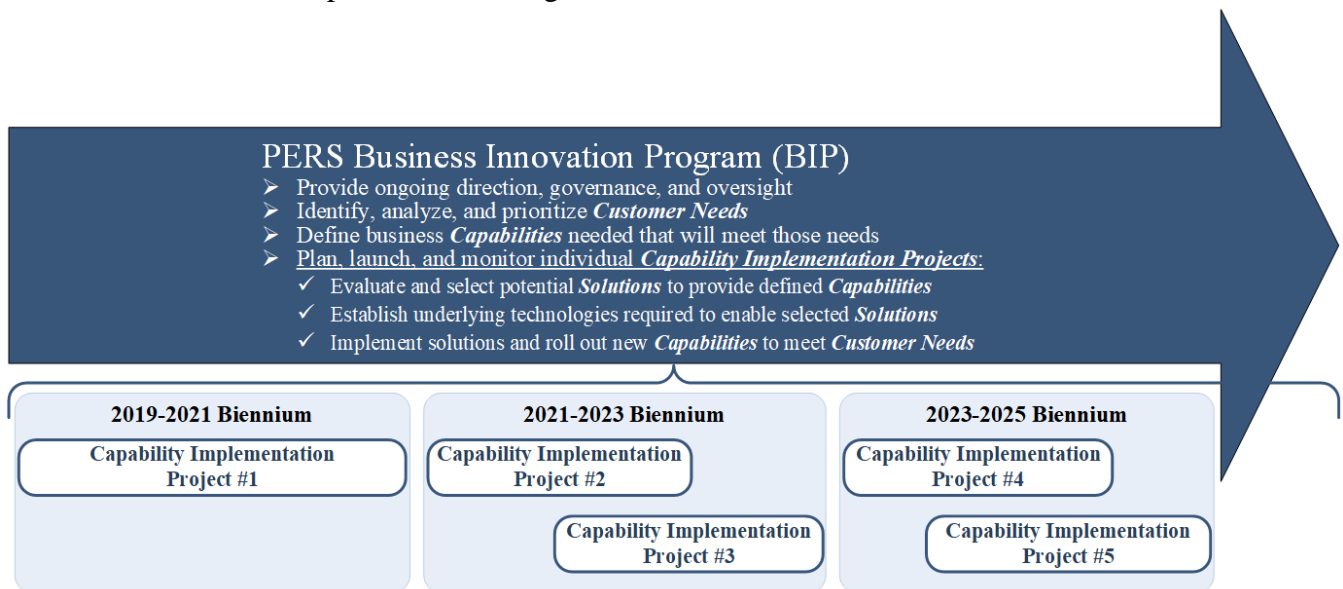
- **People:** How can we make it easier for **people** (internally and externally) to perform their roles and responsibilities?
- **Process:** How can we make the **process** more efficient and effective while increasing quality?
- **Technology:** How can **technology** be used to reduce effort and amplify results from both people and processes?

Implementation Approach – Business Innovation Program (BIP)

Because innovation is continual and needs continue to evolve, PERS is planning to set up an encompassing Business Innovation Program (BIP) to:

- Provide ongoing direction, governance, and oversight for this program;
- Identify, analyze and prioritize customer needs;
- Define business capabilities that will meet those needs; and
- Plan, launch, and monitor individual Capability Implementation Projects (CIPs), each with specific expected results and timeframes, to:
 - Evaluate and select potential solutions to provide defined capabilities;
 - Establish underlying technologies required to enable selected solutions; and
 - Implement solutions, and roll out new services to meet customer needs.

The Business Innovation Program (BIP) will contain a set of Capability Implementation Projects (CIPs) spanning multiple biennium’s; each CIP will be planned to start and finish within a given biennium as much as possible, avoiding the need to cross over biennium’s.



Under BIP, individual CIPs will be proposed, analyzed, estimated, evaluated, approved, resourced, budgeted, and executed to deliver specific capabilities. BIP is planned for three biennia (2019-21, 2021-23, and 2023-25). After year five, PERS will pause and re-evaluate whether to continue this approach.

This high-level business case describes BIP: the overall vision, approach and structure, high-level business needs, as well as related management and governance at various levels, and alignment with agency and statewide strategic goals and direction. Each CIP under will “inherit” the structure, benefits, and consistency offered by BIP, then develop specific business cases and accompanying policy option packages for that business capability and implementation. These will identify specific drivers of customer needs, business benefits to be provided, potential operational impacts, scope, project management plan, success measurements, risks, alternative analysis, cost analysis, and recommendations. This allows needed business capabilities to be *individually* analyzed, considered, estimated, and evaluated for approval, and approved implementation projects to be more *tightly scoped and managed for risk and success*.

PERS is in the process of initial visioning and planning for CIPs under this program. While this will require continuing analysis, estimating, planning, sequencing, business cases, and approvals, several initial priority business capabilities have been identified. The specific CIP planned for the 2019-21 biennium and the tentatively planned CIPs for the 2021-23 and 2023-25 biennium’s are included in the following concept diagram, then described in more detail in the [Planned Capability Implementation Projects under BIP](#) section.

Recent business and technical innovations offer proven solutions to enable prioritized capabilities. To implement capabilities aligned with member expectations using industry-standard solutions, PERS must execute certain high-level tasks; the following table shows those tasks, along with the program or project level at which each task will be executed.

High-level Tasks	Execution Level
Identify and prioritize <u>Customer needs</u>	BIP (program)
Identify corresponding <u>Capabilities</u> to meet those needs	BIP (program)
Provide overall architecture and planning to support <u>Capabilities</u>	BIP (program)
Evaluate and select innovative <u>Solutions</u> needed to implement identified capabilities	CIP (project)
Establish underlying enabling <u>Technologies</u> required to support selected solutions	CIP (project)
Implement and roll out <u>Capabilities</u>	CIP (project)
Monitor and support implemented <u>Capabilities</u> , and ensure continued relevance and value	BIP (program)

When will this be complete? The nature of *innovation* is that it is never “done” – what is innovative today will be common tomorrow – and tomorrow will bring further innovations. Although it is neither prudent nor possible to embrace every innovation that becomes available, it is wise to evaluate innovations with an eye toward possible solutions to address the changing needs of our members. PERS is currently planning to execute BIP for three biennium’s, and then re-evaluate to see if further business capabilities are needed.

BIP Program and Project Direction, Management, and Quality Approaches

PERS has well-defined and mature internal formal guidance, and program/project governance groups, at various levels (outlined below). These will provide BIP, and each related CIP, with internal oversight and project steering to ensure effective resource management, decisions, scope and risk management, and positive project outcomes that provide real value to members.

Agency-wide Project Governance and Direction

- **Executive Leadership Team (ELT)**: provides executive prioritization, guidance, and approval for high-level strategic initiatives and agency-level projects.
- **PERS 5-Year Strategic Plan**: defines overall agency strategic plan, with goals and related objectives; PERS projects are evaluated and prioritized by how strongly they support the agency strategic plan.
- **PERS 5-Year Information Technology Strategic Plan**: defines overall agency strategic plan specifically for information technology, with more detailed strategies that support the agency strategic plan.
- **PERS Outcome-Based Management System (POBMS)**: an outcome-based approach to integrating problem-solving and decision-making with active direction from front line people – those closest to the work have the opportunity to provide input and recommendations for improvement, improving the agency's daily operations and work processes by engaging staff. This approach allows PERS to drill down and connect the topmost level – the most basic reasons for PERS to exist – to very specific tasks within business and operational processes at the lowest level, collect input and recommendations from people involved in every level in between, and measure resulting process outcomes. Process measures are a very important facet of POBMS. PERS projects are evaluated and prioritized by how well they support core processes, and project success is judged by how project results impact process measures.
- **Project Steering Committee (PSC)**: monitors status and risk for all agency-level projects.
- **ORION Steering Committee (OSC)**: provides change prioritization and approval for business-related maintenance and enhancements for various components of the ORION pension administration system; BIP capabilities may require changes in ORION, which will need to be balanced and prioritized against other ORION change requests.

BIP-specific Program and Project Governance

- **BIP Core Team**: will provide guidance, direction, planning, prioritization, approval, and monitoring for all capability implementation projects within the program.
- **BIP Program Management**: will provide standard project management services at the program level, and project reporting up to the PSC.
- **BIP Project Management**: will provide standard project management services for each capability implementation project within BIP.

For more detailed information on roles and responsibilities for both the program and underlying projects, refer to [Appendix A – BIP Roles and Responsibilities \(RACI Chart\)](#).

BIP Alignment with Guidance and Direction – Internal and External

BIP also has strong alignment with guidance and direction at various levels, both internally at the agency level, and externally at the state level. Below is a summary of the alignment with applicable sources of guidance and direction.

- **PERS 2018-2023 Strategic Plan:**

BIP is designed to evolve our business capabilities as needed to achieve strategic plan goals defined in the PERS 2018-2023 Strategic Plan. Every business capability under consideration to be implemented by BIP must be clearly linked to one or more of the relevant strategic goals. For more details on BIP alignment with the PERS 2018-2023 Strategic Plan, refer to [Appendix B – BIP Alignment with Guidance and Direction](#).

- **PERS Strategic Outcome & Process Measurements:**

Every business capability to be implemented under BIP must be clearly linked to one or more fundamental Core Processes, and corresponding Outcome and Process Measures, by the Process Owner, within the PERS Outcome-Based Management System (POBMS). The POBMS approach, along with other methods (e.g., periodic satisfaction surveys of members and employers) have enabled PERS to monitor agency operations over time, identify areas that require further attention, and analyze those to identify underlying root causes and potential corrective actions. This approach allows PERS to:

- Drill down and connect the topmost level – the most basic reasons for PERS to exist – to very specific tasks within business and operational processes at the lowest level;
- Collect input and recommendations from involved people at every level; and
- Measure resulting process outcomes.

This comprehensive approach enables PERS to identify business capabilities required to meet the changing customer needs that drive this program proposal. Each capability implementation project will be clearly linked to the Process Measures that we expect to be improved by the business capabilities being implemented. For more details on BIP alignment with POBMS, refer to [Appendix B – BIP Alignment with Guidance and Direction](#).

- **PERS Key Performance Measurements (KPMs):**

BIP goals are strongly aligned with and directly support six KPMs of the eight total KPMs defined specifically for PERS. KPMs have been established and approved by the Legislature for all state agencies, to monitor the quality and value of the specific services they deliver. The program operations of PERS have a significant impact on Oregon’s economy. With approximately 10 percent of Oregonians directly participating in PERS programs, and many more who are family members and/or beneficiaries of those participants, the importance of delivering high-quality, cost-efficient services is evident. For more details on BIP alignment with PERS KPMs, refer to [Appendix B – BIP Alignment with Guidance and Direction](#).

- **OSCIO Enterprise Information Resources Management Strategy (EIRMS) and Administration and Business Services IRM Plan:**

The PERS BIP proposal has strong alignment with and support for the Guiding Principles laid out in the 2017-2022 Enterprise Information Resource Management Strategy (EIRM) document and the Strategic Goals defined in the Administration and Business Services Information Resource Management (IRM) Plan by The Office of the State CIO (OSCIO). For more details on BIP alignment with OSCIO EIRMS and IRM, refer to [Appendix B – BIP Alignment with Guidance and Direction](#).

- **OSCIO Project Oversight Process:**

The underlying business capability implementation projects will be subject to the OSCIO project oversight process and requirements.

For more details on BIP alignment with industry best practices and guidance, refer to [Appendix B – BIP Alignment with Guidance and Direction](#).

PERS Project Management (PM) Approach

PERS has a proven and mature formal project management (PM) approach, incorporating industry-standard Project Management Book of Knowledge (PMBOK) concepts and processes. This PM approach has repeatedly proven to be successful, most visibly in the multi-year and multi-million-dollar major IT projects during 2003-11, which successfully implemented the PERS pension reform requirements set by HB2020, and the subsequent replacement of the legacy mainframe Retirement Information Management System (RIMS). PERS routinely uses this PM approach in projects, and will use this approach at both the BIP level, and within each CIP.

PERS Quality Management (QM) Approach

PERS has a proven and mature formal quality management approach, including processes and tools that will be applied to this effort, both at the BIP level, and within each CIP. In the past 15 years, PERS has developed this project quality approach to manage project quality. This quality management approach has repeatedly proven to be successful, most visibly in the multi-year and multi-million-dollar major IT projects during 2003-11, which successfully implemented the PERS pension reform requirements set by HB2020, and the subsequent replacement of the legacy mainframe Retirement Information Management System (RIMS). PERS routinely uses this quality approach in projects. For more detailed information on the PERS quality management approach, refer to [Appendix C – PERS Quality Management \(QM\) Approach](#).

PERS Procurement Approach

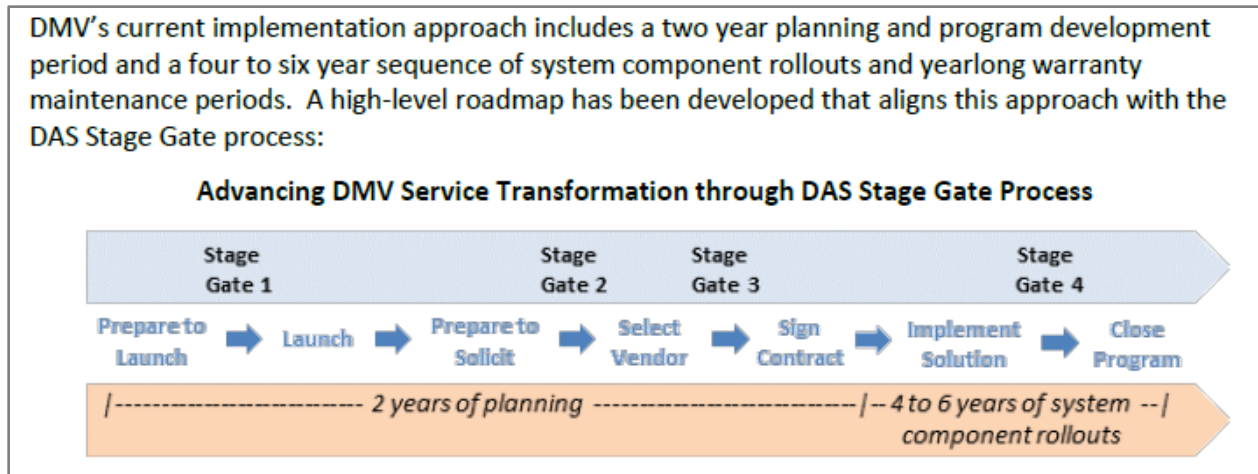
PERS has identified and adopted approaches and best practices based on state procurement guidelines and requirements, and has a strong track record in resourcing projects to help ensure success. PERS will utilize both staff and contractor resources, to be determined on a case-by-case basis. Procurement approaches include the following:

- Develop deliverable-based contracts
- Rigorously define business and system requirements
- Partner closely with the OSCIO and LFO IT experts and oversight
- Commit to transparent communications and report both positive and negative news

BIP and the OSCIO Oversight Process

The program and underlying business capability implementation projects will be subject to the OSCIO project oversight process and requirements as required.

For example, the PERS model will be similar to that used by the Oregon DMV STP BC, shown below.



Quantifying Results

There are two sets of measures that should show improvement due to the results of BIP and capability implementation projects. Each capability implementation project will be clearly linked to the specific measures we expect to show improvement by the business capabilities being implemented, and will be monitored for actual effect.

- PERS Strategic Outcome & Process Measurements:**
 PERS has a well-established and mature management methodology, the PERS Outcome-Based Management System (POBMS), which identifies fundamental Core Processes, each with a specific Process Owner and corresponding Outcome and Process Measures. These measures will be expected to show improvement due to the BIP effort. For more details, refer to [Appendix B – BIP Alignment with Guidance and Direction](#).
- PERS Key Performance Measurements (KPMs):**
 As all state agencies, PERS has Key Process Measures (KPMs), established and approved by the Legislature to monitor the quality and value of the specific services they deliver. Six of the eight total KPMs defined specifically for PERS will be expected to show improvement due to the BIP and related projects effort. (For more details, refer to [Appendix B – BIP Alignment with Guidance and Direction](#).)

Conclusions and Recommendations

PERS has struggled to keep up with changing member needs by implementing and supporting new and enhanced capabilities and services. In order to best serve our customers, PERS intends to set up BIP as a consistent approach and framework for meet changing customer needs with a series of CIPs. BIP is planned for 3 biennium's (6 years), and will then be re-evaluated during the 5th year.

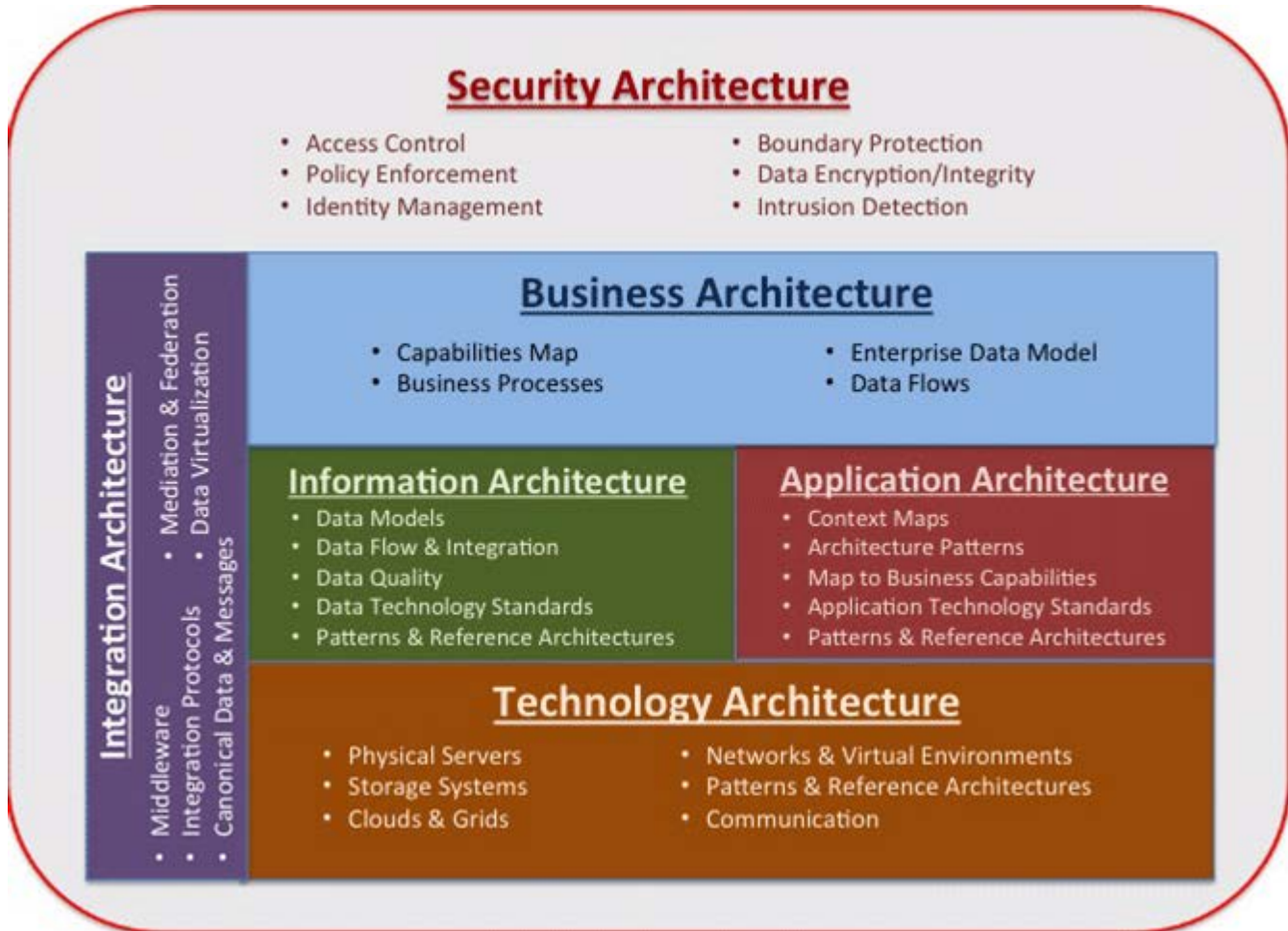
Consequences of Failure to Act

If PERS is unable to keep up with these changes providing members with useful tools, resources, and education throughout their careers, we run the risk of alienating members, or frustrating them to the point that we cannot engage them so they can make informed decisions that guide their path to eventually having a secure and successful retirement. This would be a huge disservice to the very people we exist to serve, and therefore a key failure in our mission.

BIP Architecture and Planning

Architecture and Planning is a discipline to understand *WHAT* you have and *WHERE* it is. Consultants will work with PERS to evaluate ORION's current, as-is architecture and mapping out the future, to-be architecture driven by business strategies and priorities. Typically, efforts to define the future roadmap require breaking down the architecture into components. There are a variety of industry-based Enterprise Architecture Framework, including Zachman and TOGAF. PERS is using the TOGAF framework to describe its Enterprise Architecture as illustrated in the diagram below.

Illustration 3.0: BIP Architecture and Planning

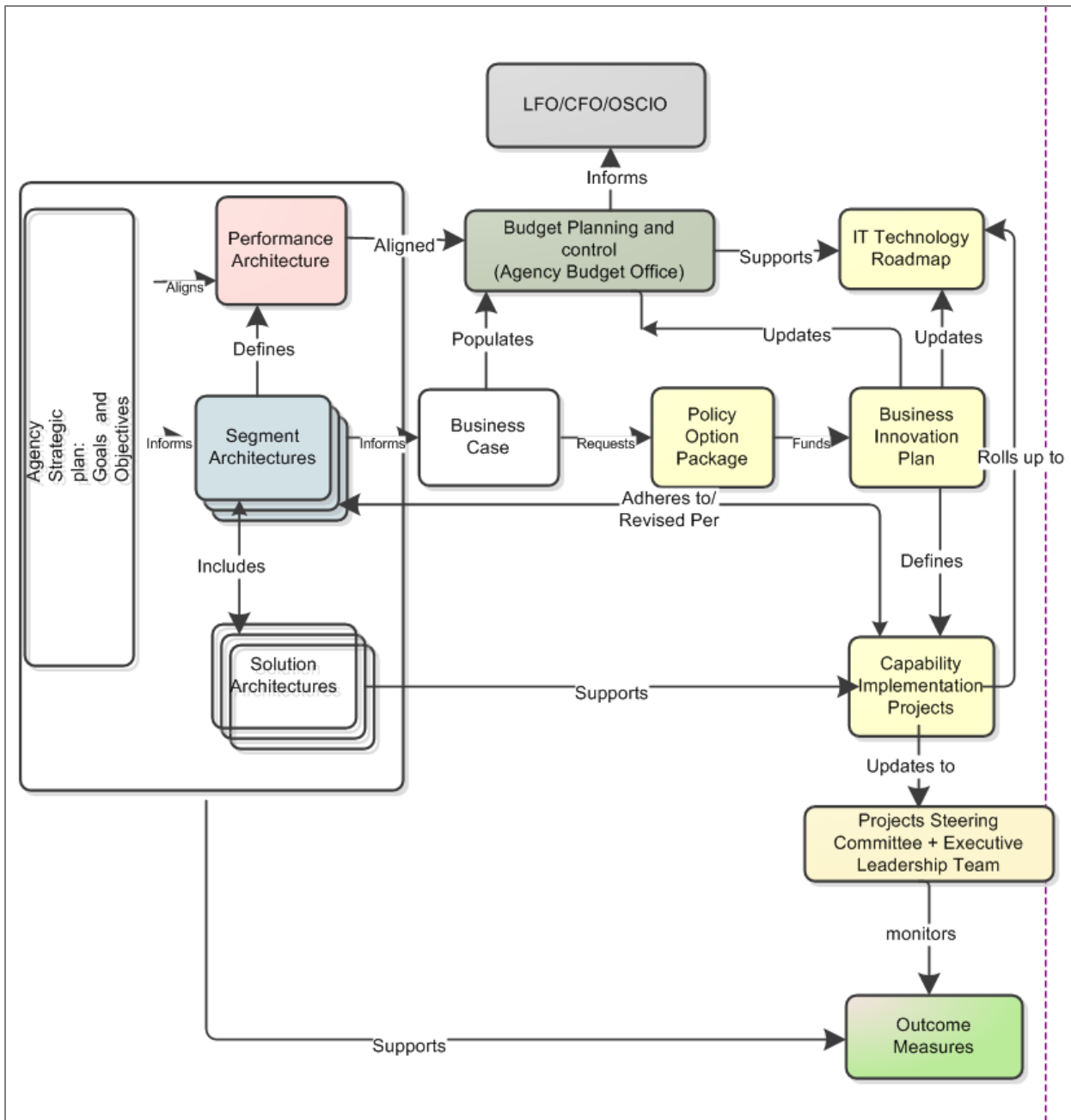


The most fundamental and critical objective of this business case is to align the PERS five-year strategic plan (goals and objectives) with PERS enterprise architecture. Enterprise Architecture also needs to align the PERS Outcome-Based Management System (POBMS) fundamentals map with the architecture components. The outcome measures should drive the performance architecture for the enterprise.

Segment architectures are discrete slices of the enterprise architecture focusing on the core processes in the fundamentals map. Solution architectures will define how resources will be applied to capability implementation projects to reach the desired business outcome. The following diagram illustrates the architecture and planning framework in the context of BIP and underlying capability implementation projects.

Public Employees Retirement System

The diagram below describes the importance of Architecture and Planning driven by Agency business strategies, through business cases to projects, and finally to outcome measures. This diagram also describes the relationship between agency and Governance.



Success Criteria

To be effective, the Business Innovation Program needs architecture and planning to achieve the following:

- Improve the agency’s ability to effectively, efficiently and economically leverage technology (SP3 of PERS outcome based management fundamental map)

- Increase the agency's capability to collect, process, and make available quality data and information to drive and support agency-wide mission and objective (PERS five year strategic plan 2018-2023); and
- Identify government and pension management industry standards and best practices to produce target architecture that support the agency's mission, are transparent, and are in alignment with business models and segments.

Problem Statement

The current PERS architecture has the following problems:

- Lack of flexibility to implement new functionality and capabilities;
- Lack of integration of services and applications within ORION;
- Lack of transparency of process and data;
- Project and compliance driven, does not look at overarching enterprise architecture;
- Disparate collection of data and information;
- Lack of cohesiveness in IT governance;
- Complex and redundant IT investments;
- Lack of IT standards for deploying systems; and
- Architecture not integrated within IT life cycle.

The Need for Architecture

The architecture work is needed to provide answers and recommendations:

- What is working and what is not?
- Where does the business need to go?
- Where is technology going?
- Define and clarify the technology roadmap

The Need for Planning

The planning needs are as follows:

- Program Planning;
- Project Planning;
- OSCIO Project Oversight Planning.

Outcome of Architecture and Planning

The architecture and planning work will address the problems in current PERS architecture as follows:

- Increased flexibility to implement new functionality and capabilities;
- Better integration of services and applications within ORION;
- Improved transparency of process and data;
- Incorporates overarching enterprise architecture requirements and design into the project driving factors;
- Appropriately consolidated and centralized data and information;
- Coordinated and effective IT governance;
- Focused and efficient IT investments;
- Comprehensive IT standards to drive systems deployment; and
- Architecture integrated into the IT life cycle.

Architecture and Planning Cost

This effort will require 3 types of consultants:

- Enterprise architect (consultant, .75 of full-time)
- Segment architect - pension SME (consultant, .25 of full-time)
- Solution architect (consultant, .75 of full-time)

The proposed 2019-21 biennium costs are:

Professional Services	\$ 465,696
Contingency	\$ 46,569
Total	\$ 512,265

The estimated total program cost for the three biennia is \$10M.

Planned Capability Implementation Projects under BIP

2019-21 Biennium

The first CIP planned under BIP is the *Member Communications and Self-Service Platform Capability Implementation Project*.

Briefly, a communications solution with modern features such as customer relationship management (CRM) capability would allow PERS to efficiently and effectively communicate with its members early and often, in order to promote and facilitate proactive retirement planning. This can reduce the growing backlog of “just-in-time” retirements and the inefficient, costly business practices needed to process them.

Interactive functionality available through a modern solution would also allow PERS to empower its members with the knowledge, transparency, and education needed to review and verify their own data, thereby greatly reducing problematic, incomplete, and ultimately unreliable member data. In addition, this type of modern functionality would allow members to conveniently and efficiently perform most retirement management activities and needed interactions with PERS online, thus reducing burdens on PERS staff and saving taxpayer money.

For more detailed information on this project, please refer to the *2019-21 Modern Communications and Self-Service Platform Business Case*.

Future Biennia

Subsequent CIPs are planned to implement further business capabilities under BIP in future biennia. The following are identified business capability focus areas:

- Employer
- Benefit Plan
- Financial and Administrative

Separate business cases for these initiatives will be developed for proposal and approval.

Appendix – BIP Alignment with Guidance & Direction

BIP has strong alignment with guidance and direction at various levels, both internal at the agency level, and external at the state level. This is summarized in an earlier section; below is a more detailed description of the BIP alignment with applicable sources of guidance and direction.

PERS 2018-2023 Strategic Plan

BIP is designed to evolve our business capabilities as needed to achieve strategic plan goals defined in the **PERS 2018-2023 Strategic Plan**. Every business capability under consideration to be implemented by BIP must be clearly linked to one or more of the relevant strategic goals; these are listed below, each followed by capabilities intended to meet that goal:

- 1. Engage members throughout their public careers so they are better prepared for retirement**
 - *Update communication and engagement tools to enabling platforms and devices, so members will engage with us throughout their career.*
- 2. Brand PERS as a retirement education and planning resource**
 - *Support members by providing easy-to-use navigational tools, so members have flexibility and convenience not currently available.*
- 3. Improve members' online access to secure content**
 - *Expand online content to include online processing and relevant transaction status tracking, so members have needed information not currently accessible.*
- 4. Establish members as the primary quality checkpoint on the data of record**
 - *Provide content-rich and easily accessible education tools, so members are able to understand the consequences of their work history as that relates to their future PERS benefits, and help verify their personal data.*
- 5. Ensure data remains static after it is used in a transaction or payment**
 - *Enhance data storage and reliability, so members have reliable information throughout the course of their public employment and retirement.*
- 6. Improve IT efficiency and responsiveness to business operational changes**
 - *Provide appropriate open access and timely processing members and employers want, so their interaction with PERS does not lead to frustrating outcomes that discourage engagement.*

PERS Strategic Outcome & Process Measurements

Every business capability to be implemented under BIP must be clearly linked to one or more fundamental Core Processes, and corresponding Outcome and Process Measures, by the Process Owner, within the PERS Outcome-Based Management System (POBMS). POBMS is an outcome-based approach to making work engaging by integrating problem-solving and decision-making with active direction from front line people – those closest to the work have the opportunity to provide input and recommendations for improvement, improving the agency's daily operations and work processes by engaging staff in POBMS.

POBMS formally defines for PERS:

- **Foundations:** agency mission, shared vision, and values
- **Key Goals:** high-level accomplishments showing whether PERS is being successful
- **Outcome Measures:** specific accomplishments showing whether PERS is progressing toward Key Goals
- **Core Processes:** routine work PERS must be good at to drive Outcome Measures to achieve Key Goals
- **Process Owners:** individuals who are the primary champion across PERS for each Core Process
- **Process Measures:** indicators of the effectiveness, efficiency, and quality of process outcomes; each Core Process has 3-5+ measures has established targets, and ranges for monitoring and reporting (Green, Yellow, Red). Measures have owners, who present current and historical information at a quarterly review meeting; measures that have negative performance get further attention via required action plans and monitoring.

This approach allows PERS to:

- Drill down and connect the topmost level – the most basic reasons for PERS to exist – to very specific tasks within business and operational processes at the lowest level;
- Collect input and recommendations from involved people at every level; and
- Measure resulting process outcomes.

The POBMS approach, along with other methods (e.g., periodic satisfaction surveys of members and employers) have enabled PERS to monitor agency operations over time, identify areas that require further attention, and analyze those to identify underlying root causes and potential corrective actions. This comprehensive approach enables PERS to identify business capabilities required to meet the changing customer needs that drive this program proposal. Each implementation project will be clearly linked to the Process Measures that we expect to be improved by the business capabilities being implemented.

PERS Key Performance Measurements (KPMs)

KPMs have been established and approved by the Legislature for all state agencies, to monitor the quality and value of the specific services they deliver. The program operations of PERS have a significant impact on Oregon's economy. With approximately 10 percent of Oregonians directly participating in PERS programs, and many more who are family members and/or beneficiaries of those participants, the importance of delivering high-quality, cost-efficient services is evident. BIP goals are strongly aligned with and directly support the following six KPMs of the eight total KPMs defined specifically for PERS:

- **KPM 1 – TIMELY RETIREMENT PAYMENTS:** Percentage of initial service retirements paid within 45 days from retirement date
- **KPM 2 – TOTAL BENEFIT ADMINISTRATION COSTS:** Total benefit administration costs per member
- **KPM 3 – MEMBER TO STAFF RATIO:** *not related*
- **KPM 4 – ACCURATE BENEFIT CALCULATIONS:** Percent of service retirement monthly benefits accurately calculated to within \$5 per month
- **KPM 5 – LEVEL OF PARTICIPATION:** Percent of state employees participating in the deferred compensation program
- **KPM 6 – CUSTOMER SERVICE:** Percent of customers rating their satisfaction with the agency's customer service as "good" or "excellent": overall customer service, timeliness, accuracy, helpfulness, expertise and availability of information
- **KPM 7 – TIMELY BENEFIT ESTIMATES:** Percent of benefit estimates processed within 30 days
- **KPM 8 – BOARD OF DIRECTORS BEST PRACTICES:** *not related*

OSCIO Enterprise Information Resources Management (EIRM) Strategy

The PERS BIP proposal has strong alignment with and support for the Guiding Principles laid out in the 2017-2022 Enterprise Information Resource Management Strategy (EIRM) document, published in February 2018 by The Office of the State CIO (OSCIO). The specific Guiding Principles related to BIP are listed below, along with specific points of alignment:

1. **Alignment** – **Understand the business and objectives of state leaders and constituents; Ensure IT capabilities are aligned with the business needs of state government and its customers**
 - *BIP is designed to provide member services and enhanced capabilities directly linked to continually changing member needs, now and in the future.*
2. **Transparency and Oversight** – **Enable transparent IT financial management and effective management of IT resources**
 - *BIP is organized to encompass individual capability implementation projects, each with its own business case, cost/benefit analysis, resources, and budget – easier to track and manage.*
3. **Maturity** – **Mature IT governance to support effective IT resource management and project delivery**
 - *PERS has well-defined and mature Project and IT Governance structures that will provide BIP with internal oversight and project steering to ensure effective resource management, decisions, and positive project outcomes. (Refer to Appendix A for more details on PERS/BIP Governance.)*
4. **Optimization** – **Provide services to citizens in the most cost-effective manner possible**
 - *BIP is designed to provide members with enhanced services directly linked to member needs, by analyzing those needs, identifying enhanced capabilities, and then evaluating possible solutions for specific capabilities, carefully selecting and implementing solutions based on cost/benefit analysis.*
5. **Simplicity** – **Ensure that proposed solutions provide a measurable impact and value to solve an identified problem**
 - *PERS uses an outcome-based management system, implemented several years ago and now mature, which defines and regularly measures a comprehensive set of metrics directly linked to formal agency strategies and objectives. This allows PERS to monitor various aspects of operational performance. Since these are focused on providing excellent service to members and employers, the outcomes of BIP will be reflected in trends (positive or negative) in these measures. (Refer to the PERS Strategic Outcome & Process Measurements section for more details on POBMS.)*
6. **Innovation** – **Partner with program and policy leaders in leveraging innovative and cost-effective technology solutions to address the state’s business problems**
 - *BIP is designed to provide members with enhanced services directly linked to member needs, carefully selecting and implementing innovative solutions based on cost/benefit analysis. PERS will evaluate alternative solutions, including partnering in related statewide solutions.*
7. **Iterative Refinement** – **Define incremental approaches to solution design and implementation — “the progressive reduction of uncertainty”**
 - *Rather than a large, multi-year project to provide multiple enhanced member services, BIP is organized to be incremental, encompassing individual projects, each intended to provide a defined capability directly linked to member needs. This reduces risk by breaking work down into smaller packages, with more narrowly focused and defined scope, and shorter timeframes and budget that can be managed more effectively.*

8. **Adaptive** – Encourage project planning and solution designs that are responsive to emergent challenges and opportunities
 - *BIP is designed to accomplish exactly this: monitor and identify challenges and opportunities in evolving member needs, which can be met by providing enhanced capabilities, using proven innovations for solutions that directly meet these needs.*
9. **Measured Value** – Pursue solutions with a clear business case that make government more accessible and responsive to Oregonians; Substantiate tangible return on investments in technology that meet or exceed the expectations of program and policy sponsors
 - *BIP is designed to encompass individual capability implementation projects, each with its own narrowly focused business case, cost/benefit analysis, and measureable success criteria set by stakeholders.*
10. **Security** – Secure state systems and ensure that they are resilient and ready for the future
 - *PERS is establishing an information and system security program based on industry standards as a critical top priority; this program, which will be established by the end of the 2017-2019 biennium, will mandate that meeting security requirements and analyzing potential security impacts are an integral part of all design, development, and enhancement efforts. BIP capability implementation projects must meet these requirements, and will benefit from this comprehensive framework. Priority and preference will be given to solutions that offer resilience and future upgrade paths, mitigating potential future risk and expense caused by legacy systems that must be replaced.*

OSCIO Administration and Business Services IRM Plan

The PERS BIP proposal has strong alignment with and support for the Strategic Goals laid out in the OSCIO Administration and Business Services IRM Plan, specifically:

Strategic Goal #1 - Customer Focus: Improve access to state services with a focus on customer priorities and improving the customer experience.

Strategic Goal #2 - Sustainability: Modernize critical state business functions and IT services using technologies and approaches that provide for:

- Increased business agility
- Maintainability (continuous improvement and lifecycle management)
- Ongoing compliance with data protection, transparency and accountability requirements

Note: This includes considering increased use of cloud services where appropriate

Strategic Goal #4 - IT Strategy and Governance: Mature IT strategic planning and governance processes to support critical modernization efforts and improve enterprise alignment.

Appendix – PERS Quality Management (QM) Approach

In the past 15 years, PERS has developed this project quality approach, incorporating both process and tools, to manage project quality. This quality management approach has repeatedly proven to be successful, most visibly in the multi-year and multi-million-dollar major IT projects during 2003-11, which successfully implemented the PERS pension reform requirements set by HB2020, and the subsequent replacement of the legacy mainframe Retirement Information Management System (RIMS).

Below are some of the key features of this quality management approach:

- **Quality Management Plan (QMP):** QMP is a plan specifying how individual concepts and processes in the PERS quality approach are to be applied; this will be used at both the BIP program level, and within each capability implementation project.
- **Quality Check Point (QCP):** QCP is a formal review and approval process focused on project *deliverables and results*. QGs are used to ensure that for all key project deliverables (both internal and contractual):
 - Each have specific established standard Acceptance Criteria, to help guide expectations for both development and subsequent completion reviews;
 - Each are reviewed by appropriate business and technical subject matter experts, and
 - The final approval decision for each is made by the most appropriate stakeholder, typically managers responsible for using the delivered results.
- **Quality Gate (QG):** QG is a formal review and approval process similar to QCPs, but focused instead on project *milestones* (e.g., completion of a phase or project, and readiness to continue). QGs are used to ensure that for all key project milestones:
 - Each have specific established standard Acceptance Criteria to reflect established project expectations and subsequent completion reviews;
 - Each are reported on by those closest to the efforts;
 - Each are reviewed by the appropriate business and technical subject matter experts; and
 - The final approval decision is made by the most appropriate stakeholder, typically project and agency management at various levels, including the executive sponsor.



PERS Board Meeting

OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM

Presented by:

Matt Larrabee, FSA, EA

Scott Preppernau, FSA, EA

August 3, 2018

Introduction

- Today we will review summary valuation results for:
 - Tier 1/Tier 2 & OPSRP retirement programs
 - Retiree Health Insurance Account (RHIA), and
 - Retiree Health Insurance Premium Account (RHIPA)
- Formal, detailed results will be presented in our forthcoming December 31, 2017 System-Wide Actuarial Valuation Report
 - All work is based on assets and member demographics at year-end 2017
- This valuation will be the basis for adoption of 2019-2021 employer contribution rates at the October 5, 2018 Board meeting
 - Employers' rates will be in the October meeting's materials
- Shortly after that meeting, we will provide PERS staff with detailed reports for each employer
 - PERS will deliver those reports to employers

Valuation Process and Timeline

- Actuarial valuations are conducted annually
 - Alternate between “rate-setting” and “advisory” valuations
 - The 12/31/2017 valuation is rate-setting
- The Board adopts employer contribution rates developed in rate-setting valuations, and those rates go into effect 18 months subsequent to the valuation date

Valuation Date	Employer Contribution Rates
12/31/2015	→ July 2017 – June 2019
12/31/2017	→ July 2019 – June 2021
12/31/2019	→ July 2021 – June 2023

Two-Year Rate-Setting Cycle

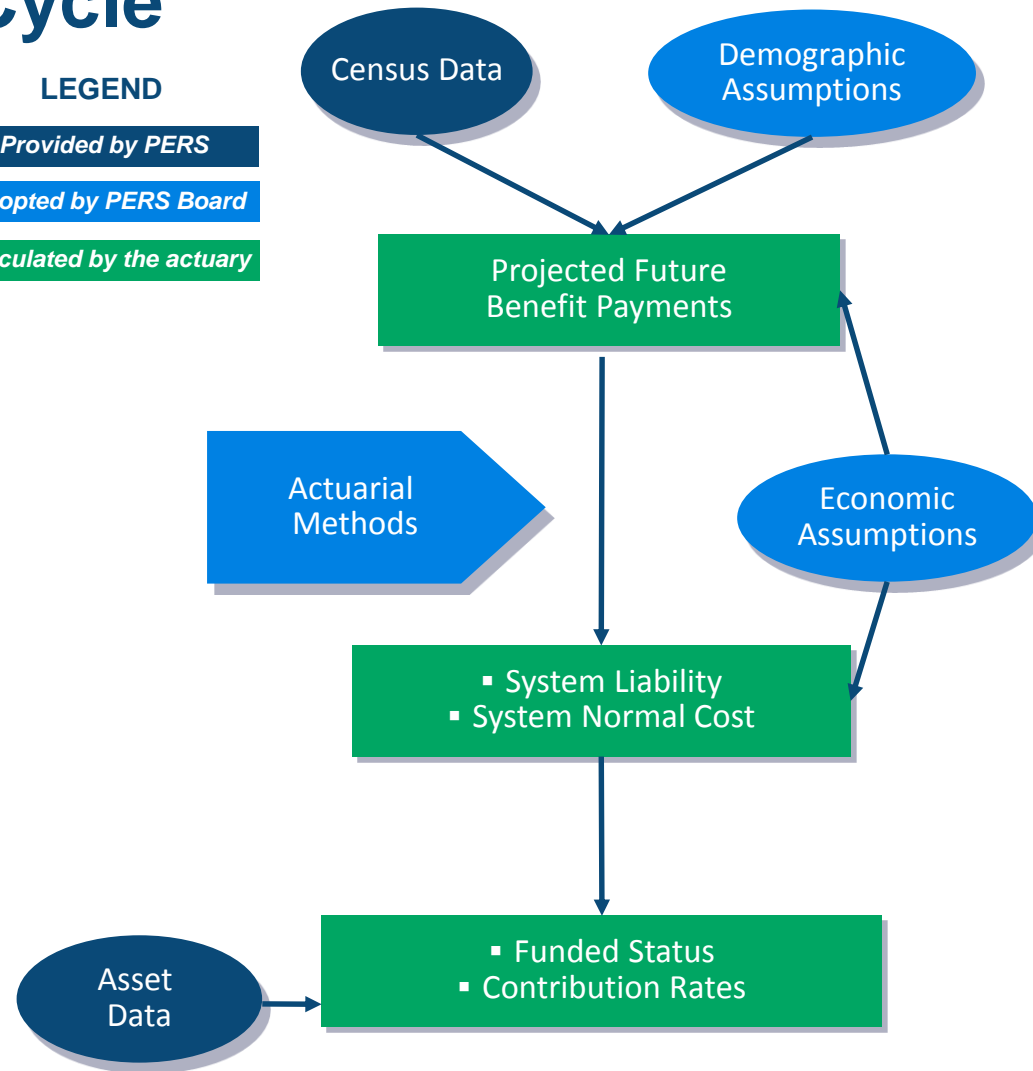
LEGEND

Provided by PERS

Adopted by PERS Board

Calculated by the actuary

- July 2017: Assumptions & methods adopted by Board in consultation with the actuary
- September 2017: System-wide 12/31/16 actuarial valuation results
- November 2017: Advisory 2019-2021 employer-specific contribution rates
- August 2018: System-wide 12/31/17 actuarial valuation results
- October 2018: Disclosure & adoption of employer-specific **2019-2021** contribution rates



Board Objectives - Methods & Assumptions

- Transparent
- Predictable and stable rates
- Protect funded status
- Equitable across generations
- Actuarially sound
- GASB compliant

Some of the objectives can conflict, particularly in periods with significant volatility in investment return or projected benefit levels. Overall system funding policies should seek an appropriate balance between conflicting objectives.

Changes Since the Last Rate-Setting Valuation

- The 12/31/2015 rate-setting actuarial valuation developed 2017-2019 contribution rates
- Since the 12/31/2015 rate-setting valuation:
 - The PERS Board adopted new assumptions and methods from the 2016 Experience Study, including lowering the investment return assumption from 7.50% to 7.20%
 - Cumulative 2016 and 2017 asset returns were greater than assumed, generating approximately a \$4.3 billion actuarial investment gain over the biennium, with the entire gain resulting from 2017 experience
 - The PERS Board transferred \$0.5 billion from the Contingency Reserve to valuation assets
 - Overall system payroll growth was about 1% less than projected over the two-year period
 - Combined pay for the School District pool grew about 1% more than assumed, while the SLGRP was about 1.5% lower than assumed

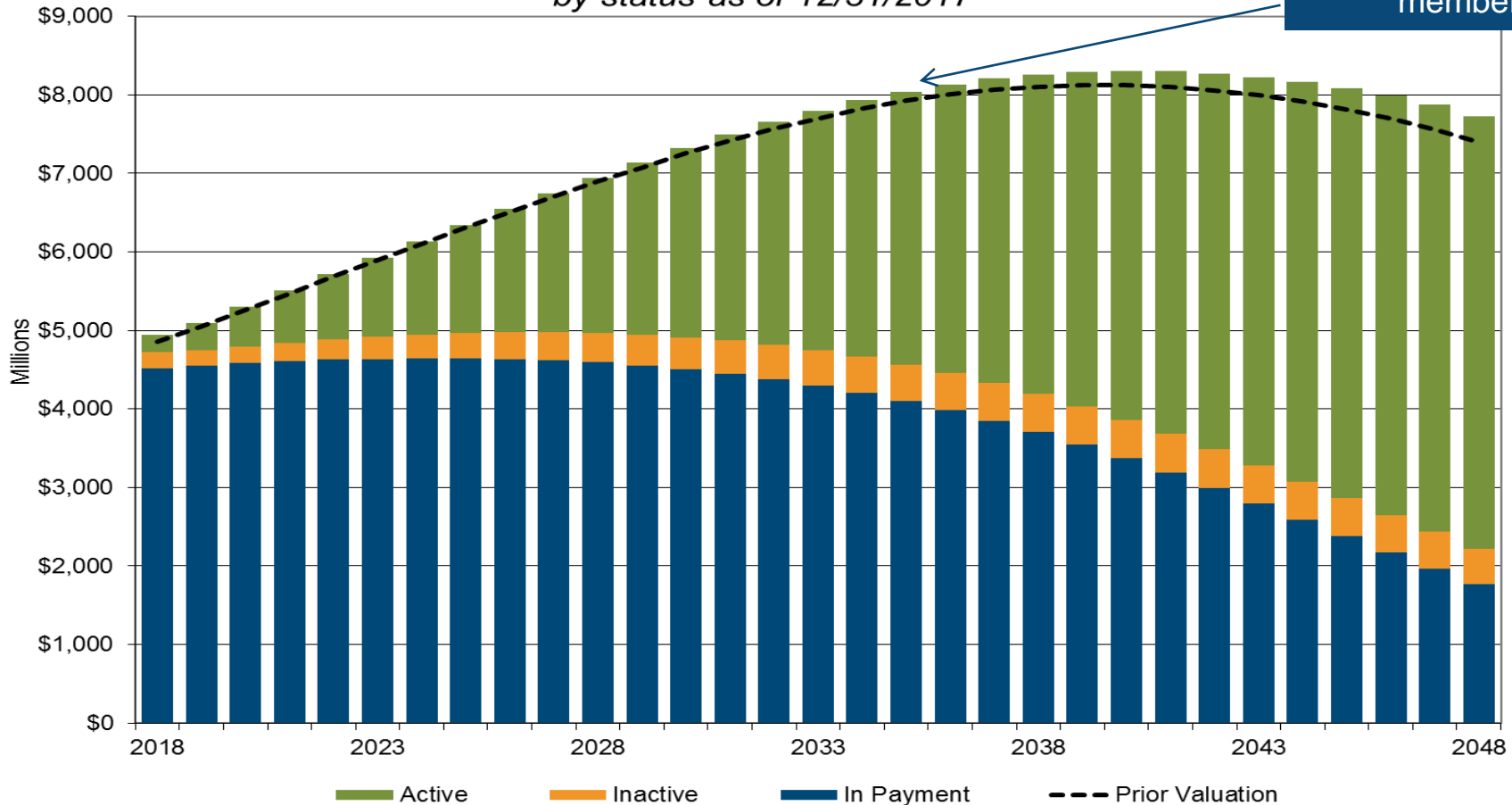
Changes Since the Last Advisory Valuation

- The 12/31/2016 advisory actuarial valuation developed advisory 2019-2021 contribution rates and reflected:
 - Updated investment return and other assumptions from the 2016 Experience Study - \$2.3 billion increase in UAL between the 12/31/2015 rate-setting valuation and the 12/31/2016 advisory valuation
 - Actuarial loss of less than \$0.1 billion for investment experience during 2016
- The 12/31/2017 rate-setting valuation develops final 2019-2021 rates and reflects the 2017 actuarial investment gain of \$4.3 billion and transfer from the Contingency Reserve of \$0.5 billion

Projected Benefit Payments

Tier 1/Tier 2 & OPSRP Expected Benefit Payments
by status as of 12/31/2017

By 2035, projected to be \$8 billion in benefit payments to current members



As illustrated by the dotted line, projected benefit payments did not change significantly between the prior and current actuarial valuation

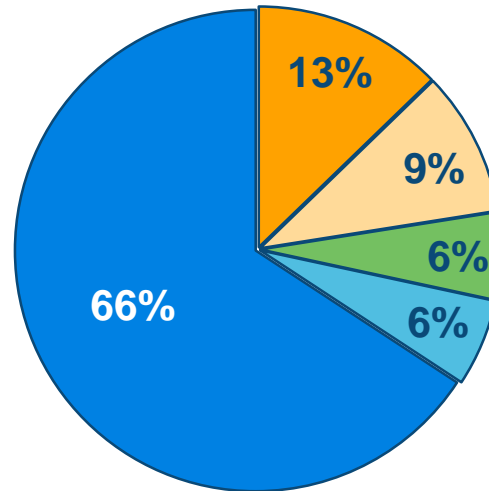
Funded Status & Unfunded Actuarial Liability (UAL)

System-total Pension Funded Status (\$ billions)			
<i>Valuation date:</i>	12/31/2015	12/31/2016	12/31/2017
<i>Assumed return:</i>	7.50%	7.20%	7.20%
Actuarial liability	\$ 76.2	\$ 81.0	\$ 84.1
Assets (excluding side accounts)	<u>54.4</u>	<u>55.7</u>	<u>61.8</u>
UAL (excluding side accounts)	\$ 21.8	\$ 25.3	\$ 22.3
Funded status (excluding side accounts)	71%	69%	73%
Side account assets	<u>\$ 5.6</u>	<u>\$ 5.4</u>	<u>\$ 5.6</u>
UAL (including side accounts)	\$ 16.2	\$ 19.9	\$ 16.7
Funded status (including side accounts)	79%	75%	80%

Division of Actuarial Liability by Category

12/31/2017 Tier 1/Tier 2 and OPSRP Actuarial Liability

Accrued Actuarial Liability by Member Category



■ Tier 1 Actives ■ Tier 2 Actives ■ OPSRP Actives ■ Inactives ■ Retirees

Accrued Actuarial Liability represents the present value of projected future benefits allocated to service performed through December 31, 2017

Sources of 2017 UAL (Excl. Side Account) Change

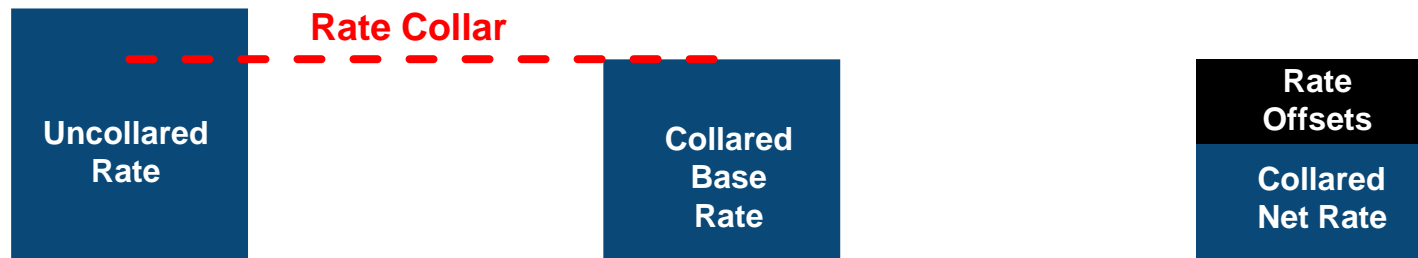
(\$ billions)	UAL Increase
Expected UAL increase/(decrease) during 2017	\$ 1.1
2017 actual investment performance	(4.3)
Contingency Reserve transfer	(0.5)
Actual demographic experience different than assumed	<u>0.7</u>
Total	\$ (3.0)

- The expected UAL increase/(decrease) is the change, based on 12/31/2016 valuation results, that was projected to occur during 2017 due to the effects of the rate collar and other constraints on employer rate increases if all actual 2017 experience followed that valuation's assumptions
- The 2017 investment gain reflects actual OPERF returns of over 15% compared to the assumed 7.20% return
- The above changes are in addition to the \$3.5 billion increase during 2016, which was driven by assumption changes and the expected UAL increase

Tier 1/Tier 2 Rate Pool Funded Status and UAL

(\$ billions) <i>totals may not add due to rounding</i>	SLGRP	School Districts
Actuarial liability	\$ 42.2	\$ 29.7
Assets (excluding side accounts)	<u>30.9</u>	<u>21.9</u>
UAL (excluding side accounts)	\$ 11.3	\$ 7.8
Funded status (excluding side accounts)	73%	74%
Projected 2018 payroll	\$ 5.9	\$ 3.3
UAL to payroll ratio	1.9x	2.3x
Side account assets	\$ 2.5	\$ 3.0
UAL (including side accounts)	\$ 8.8	\$ 4.8
Funded status (including side accounts)	79%	84%
Assets to payroll ratio	5.7x	7.6x

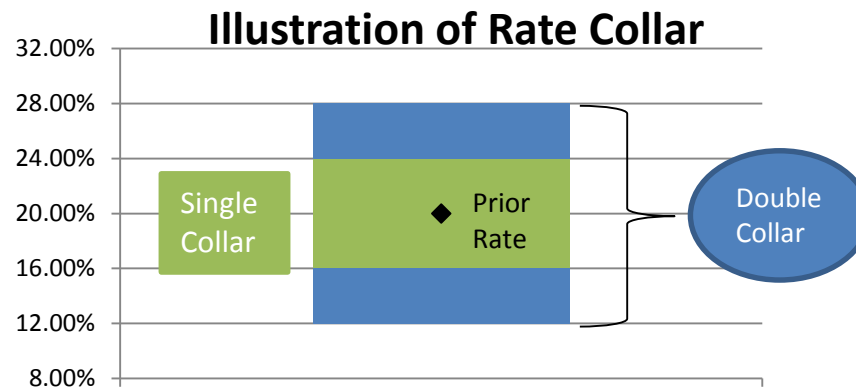
Overview of Rate Calculation Structure



- The uncollared rate is the theoretical contribution rate to reach 100% funded status over a specified amortization period if:
 - Contributions at that rate started on the actuarial valuation date, and
 - Actual future experience mirrors the actuarial valuation's assumptions
 - The normal cost rate does not change in subsequent years
- The rate collar sets a biennium's base rate, limiting the base rate change when there is a large change in the uncollared rate
- Employers pay the net rate, which can differ from the base rate due to adjustments that fall into two major categories
 - Side account rate offsets for employers with side accounts
 - SLGRP charges/offsets (e.g., Transition Liability/Surplus)

Current Rate Collar Design

- The maximum change typically permitted by the rate collar is:
 - 20% of the rate currently in effect (3% of payroll minimum collar width)
- If funded status is 60% or lower, the width of the rate collar doubles
 - 40% of rate currently in effect (6% of payroll minimum collar width)
- If the funded status is between 60% and 70%, the rate collar's width is pro-rated between the single-collar and double-collar widths

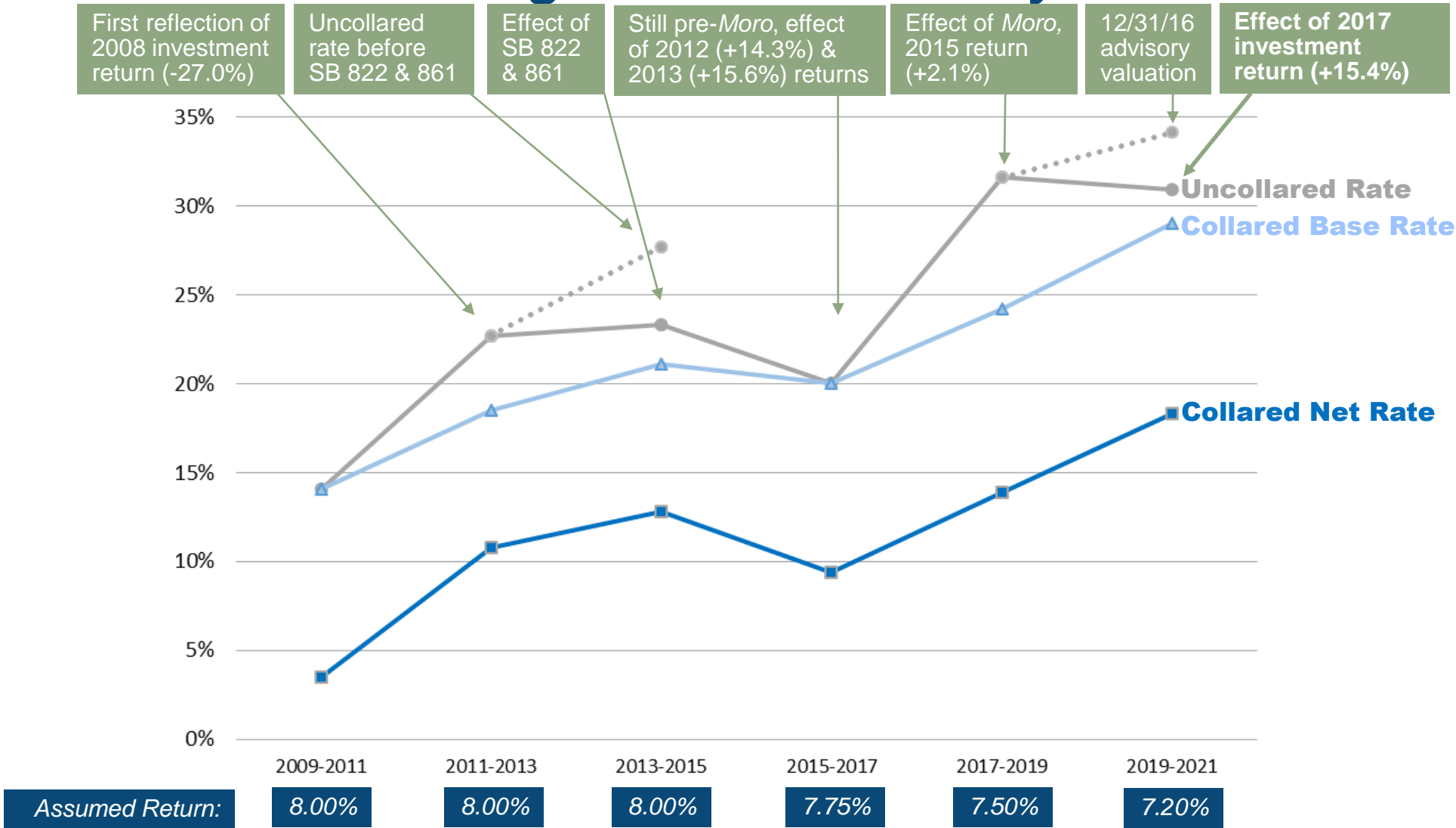


- Collars limit the biennium to biennium increase in the UAL Rate for each individual employer (or pool, if an employer participates in one)

Comments on 2019 – 2021 Rates

- No single employer pays the system-wide average rate
 - School district base rates are above the average
 - Most SLGRP employers' base rates are below the average
- Employers in a rate pool do not pay the pool average rate
 - Actual rates reflect employer-specific side account rate offsets and/or any remaining SLGRP charges/offsets
 - SLGRP normal cost rates are specific to an employer's workforce mix of member tier and job classification
- Rates shown do not include the effects of:
 - Individual Account Plan (IAP) contributions
 - Rates for the RHIA & RHIPA retiree healthcare programs
 - Debt service payments on pension obligation bonds

School District Weighted Pension-Only Rates



Uncollared Pension Rates – School Districts

Excludes Retiree Health Care, IAP Contributions, Rate Collar, Side Accounts

	12/31/2015 Valuation 2017 - 2019 Final Rates			12/31/2017 Valuation 2019 – 2021 Final Rates		
	Payroll			Payroll		
	Tier 1 / Tier 2	OPSRP	Weighted Average ¹	Tier 1 / Tier 2	OPSRP	Weighted Average ¹
Normal Cost	13.28%	8.02%	10.73%	13.79%	8.40%	10.75%
Tier 1/Tier 2 UAL	19.63%	19.63%	19.63%	18.66%	18.66%	18.66%
OPSRP UAL	<u>1.27%</u>	<u>1.27%</u>	<u>1.27%</u>	<u>1.45%</u>	<u>1.45%</u>	<u>1.45%</u>
Uncollared Rate	34.18%	28.92%	31.63%	33.90%	28.51%	30.86%
Increase				(0.28%)	(0.41%)	(0.77%)

The pool-average collared base and net rates for 2019-2021 are shown on subsequent slides

¹ Weighting based on the pool's payroll levels (Tier 1/Tier 2, OPSRP) as of the valuation date.

Collared Pension Base Rates – School Districts

Excludes Retiree Health Care & IAP Contributions, Side Account Offsets

	12/31/2015 Valuation 2017 - 2019 Final Rates			12/31/2017 Valuation 2019 - 2021 Final Rates		
	Payroll			Payroll		
	Tier 1 / Tier 2	OPSRP	Weighted Average ¹	Tier 1 / Tier 2	OPSRP	Weighted Average ¹
Uncollared Rate	34.18%	28.92%	31.63%	33.90%	28.51%	30.86%
Collar Limitation	(7.48%)	(7.48%)	(7.48%)	(1.93%)	(1.93%)	(1.93%)
Collared Base Rate	26.70%	21.44%	24.15%	31.97%	26.58%	28.93%
Increase				5.27%	5.14%	4.78%

The increases in collared base rates are smaller than shown in the 12/31/2016 advisory valuation because the improved funded status resulted in a narrower rate collar.

¹ Weighting based on the pool's payroll levels (Tier 1/Tier 2, OPSRP) as of the valuation date.

Collared Pension Net Rates – School Districts

Excludes Retiree Health Care & IAP Contributions

	12/31/2015 ¹ Valuation 2017 - 2019 Final Rates			12/31/2017 ¹ Valuation 2019 – 2021 Final Rates		
	Payroll			Payroll		
	Tier 1 / Tier 2	OPSRP	Weighted Average ²	Tier 1 / Tier 2	OPSRP	Weighted Average ²
Collared Base Rate	26.70%	21.44%	24.15%	31.97%	26.58%	28.93%
Side Account (Offset)	(10.26%)	(10.26%)	(10.26%)	(10.66%)	(10.66%)	(10.66%)
Collared Net Rate	16.44%	11.18%	13.89%	21.31%	15.92%	18.27%
Increase				4.87%	4.74%	4.38%

Rates vary by employer, as only some employers have side accounts

Net rate increases are lower than shown in the 12/31/2016 advisory valuation due to both the smaller collared increase and 2017 investment gains on side accounts.

1 For this exhibit, adjustments are assumed not to be limited due to an individual employer reaching a 0.00% contribution rate.

2 Weighting based on the pool's payroll levels (Tier 1/Tier 2, OPSRP) as of the valuation date

School Districts Rate Summary

Weighted Average Rates (Tier 1/Tier 2 and OPSRP)

	Final 2017 - 2019	Final 2019 - 2021	Increase
Uncollared Base Rate	31.63%	30.86%	(0.77%)
Collared Base Rate	24.15%	28.93%	4.78%
Collared Net Rate	13.89%	18.27%	4.38%

- *The collared base rate for School Districts is 1.93% of payroll below the uncollared base rate*
- *The uncollared base rate decrease was primarily due to the cumulative investment gains over 2016-2017 and payroll growth above assumption, partially offset by the lower assumed return and expected UAL growth*
- *The collared rate increases are continuing systematic rate modifications to amortize the UAL over time if future experience follows assumptions*

SLGRP Rate Summary

Weighted Average Rates (Tier 1/Tier 2 and OPSRP)

	2017 - 2019	2019 - 2021	Change
Uncollared Base Rate	27.75%	28.30%	0.55%
Collared Base Rate	19.40%	23.62%	4.22%
Collared Net Rate	13.88%	17.94%	4.06%

- *The SLGRP's advisory collared base rate is 4.68% of payroll below the uncollared base rate*
- *The uncollared base rate increase was primarily due to the lower assumed return, the expected UAL growth, and payroll growth below assumption, partially offset by cumulative investment gains over 2016-2017*
- *The collared rate increases are continuing systematic rate modifications to amortize the UAL over time if future experience follows assumptions*

System-Wide Rate Summary

Weighted Average Rates (Tier 1/Tier 2 and OPSRP)

	2017 - 2019	2019 - 2021	Change
Uncollared Base Rate	29.08%	29.22%	0.14%
Collared Base Rate	20.85%	25.23%	4.38%
Collared Net Rate	14.23%	18.32%	4.09%

- *System-wide rates are the payroll-weighted average of rates for School Districts, SLGRP, and independent employers*
- *The uncollared base rate increase was primarily due to the lower assumed return and the expected UAL growth, offset by cumulative investment gains over 2016-2017*
- *The collared rate increases are continuing systematic rate modifications to amortize the UAL over time if future experience follows assumptions*

Projected 2019-2021 Contributions

(\$ millions)	Projected 2017-19 Payroll*	(A) Projected 2017-19 Contribution	Projected 2019-21 Payroll*	(B) Projected 2019-21 Contribution	(B - A) Projected Contribution Increase
State Agencies	\$ 5,920	\$ 820	\$ 6,350	\$ 1,125	\$ 305
School Districts	6,630	925	7,100	1,300	375
All Others	<u>7,650</u>	<u>1,130</u>	<u>8,200</u>	<u>1,540</u>	<u>410</u>
Total	\$ 20,200	\$ 2,875	\$ 21,650	\$ 3,965	\$ 1,090

- Collared net rates are used to project 2019-2021 contributions
- The advisory valuation had a projected contribution increase of \$1,415 million, compared to a projected increase of \$1,090 million in this valuation

* Assumes payroll grows at 3.50% annually based on 12/31/2017 active member census. The collared net rate applied to this payroll reflects the proportional payroll composition (Tier 1/Tier 2 vs. OPSRP) as of the relevant rate-setting valuation dates.

Factors Driving the Projected Contribution Increase

- The projected 2019 - 2021 contribution increase of \$1.1 billion consists of:
 - System-wide average collared net rate increase of 4.09% -- \$0.9 billion
 - This is less than projected with the advisory valuation due to:
 - Improved funded status led to single collar-width increase, rather than the widened collar reflected for the advisory valuation
 - Increase in level of side account rate offsets due to actual 2017 investment returns of 15.4%
 - Projected payroll growth between biennia -- \$0.2 billion
 - Assumed system payroll growth of 3.5% per year / 7.1% per biennium means the rate increase is applied to a larger payroll base

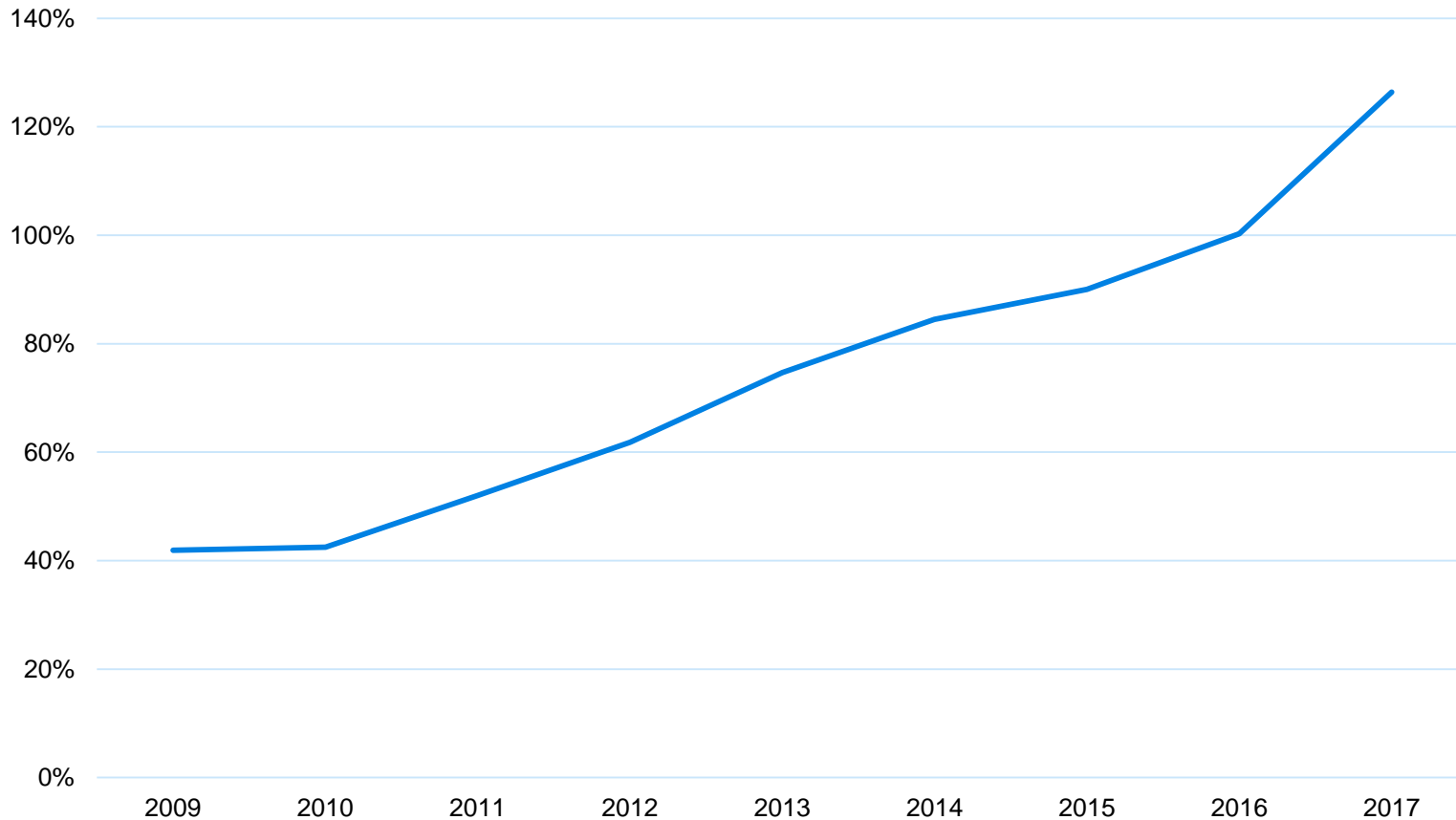
12/31/2017 Retiree Health Care Valuation

- Two separate health care benefit subsidies are valued:
 - RHIA provides a \$60 per month subsidy toward healthcare premiums for Medicare-eligible Tier 1/Tier 2 retirees
 - RHIPA provides Tier 1/Tier 2 state employees who retire prior to age 65 with an alternative to PEBB coverage until they reach Medicare eligibility
- OPSRP retirees are not eligible for either subsidy
- RHIA and RHIPA benefits historically have been less well funded than Tier 1/Tier 2 & OPSRP benefits
 - To help address that, in July 2009 the Board shortened the shortfall amortization period to ten years to improve funded status over less time
 - The first ten year amortization base reflected outstanding UAL as of December 31, 2007
 - Rates reflecting the shorter amortization were first effective July 2011

12/31/2017 Retiree Health Care Valuation

- RHIA and RHIPA liabilities combined are less than 1% of the pension liability
- The combination of a shorter amortization period and recent experience gains has improved the RHIA funded status to over 100%
 - The original ten year amortization base from December 31, 2007 has expired, and the net RHIA UAL rate is now negative
- In recent experience studies, we recommended restructuring the RHIPA participation assumption for future state government retirements
 - Assume higher participation rates for retirees eligible for the largest employer-paid subsidies
 - Rates reflecting new structure first went into effect in July 2015
- RHIPA warrants continued monitoring, as funded status is very low and subsidy payments are sensitive to actual participation levels

History of Year-end RHIA Funded Status



- RHIA funded status improved due to fewer retirees electing the benefit, actual investment returns, and the accelerated amortization of UAL
- Election rates can be volatile and are affected by other options available

12/31/2017 Retiree Health Care Valuation

UAL and Advisory Contribution Rates

	RHIA		RHIPA *	
	12/31/2016	12/31/2017	12/31/2016	12/31/2017
Actuarial Liability	\$ 464	\$ 438	\$ 68	\$ 70
Assets	<u>465</u>	<u>554</u>	<u>19</u>	<u>30</u>
UAL	\$ (1)	\$ (116)	\$ 49	\$ 40
Funded Status	100%	126%	28%	43%
Normal Cost Rate	0.07%	0.06%	0.12%	0.12%
UAL Rate	<u>0.42%</u>	<u>TBD</u>	<u>0.38%</u>	<u>0.27%</u>
Total Rate	0.49%	TBD	0.50%	0.39%

* State Agencies, OUS, and State Judiciary are the only employers who pay RHIPA rates

The initial calculated UAL rate for RHIA is -0.11% of payroll. We recommend the PERS Board set the UAL rate to 0.00% for the upcoming biennium.

Wrap Up / Next Steps

- Valuation next steps:
 - Provide employer-specific rates for adoption at October 5, 2018 meeting
 - Rates will reflect a RHIA UAL rate of 0.00% as recommended by PERS staff
 - Issue System-Wide December 31, 2017 Actuarial Valuation Report
 - Prepare employer-specific rate-setting valuation reports
 - PERS distributes to employers
- In December, we will present contribution rate and funded status projections based on this valuation
 - That analysis will use the latest year-to-date investment return information at the time the projections are made
 - Projections will be developed using two types of models
 - Steady return
 - Variable return

Appendix

Certification

This presentation summarizes key preliminary results of an actuarial valuation of the Oregon Public Employees Retirement System (“PERS” or “the System”) as of December 31, 2017, for the Plan Year ending December 31, 2017. The results are preliminary in nature and may not be relied upon to, for example, prepare the System’s Consolidated Annual Financial Report (CAFR). The reliance document will be the forthcoming formal December 31, 2017 System-Wide Actuarial Valuation Report.

In preparing this report, we relied, without audit, on information (some oral and some in writing) supplied by the System’s staff. This information includes, but is not limited to, statutory provisions, employee data, and financial information. We found this information to be reasonably consistent and comparable with information used for other purposes. The valuation results depend on the integrity of this information. If any of this information is inaccurate or incomplete our results may be different and our calculations may need to be revised.

All costs, liabilities, rates of interest, and other factors for the System have been determined on the basis of actuarial assumptions and methods which are individually reasonable (taking into account the experience of the System and reasonable expectations); and which, in combination, offer our best estimate of anticipated experience affecting the System.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements. The PERS Board has the final decision regarding the appropriateness of the assumptions.

Actuarial computations presented in this report are for purposes of determining the recommended funding amounts for the System. The computations prepared for these two purposes may differ as disclosed in our report. The calculations in the enclosed report have been made on a basis consistent with our understanding of the System’s funding requirements and goals. The calculations in this report have been made on a basis consistent with our understanding of the plan provisions described in the appendix of this report. Determinations for purposes other than meeting these requirements may be significantly different from the results contained in this report. Accordingly, additional determinations may be needed for other purposes.

Certification

Milliman's work is prepared solely for the internal business use of the Oregon Public Employees Retirement System. To the extent that Milliman's work is not subject to disclosure under applicable public records laws, Milliman's work may not be provided to third parties without Milliman's prior written consent. Milliman does not intend to benefit or create a legal duty to any third party recipient of its work product. Milliman's consent to release its work product to any third party may be conditioned on the third party signing a Release, subject to the following exception(s):

- (a) The System may provide a copy of Milliman's work, in its entirety, to the System's professional service advisors who are subject to a duty of confidentiality and who agree to not use Milliman's work for any purpose other than to benefit the System.
- (b) The System may provide a copy of Milliman's work, in its entirety, to other governmental entities, as required by law.

No third party recipient of Milliman's work product should rely upon Milliman's work product. Such recipients should engage qualified professionals for advice appropriate to their own specific needs.

The consultants who worked on this assignment are actuaries. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel. The actuaries are independent of the plan sponsors. We are not aware of any relationship that would impair the objectivity of our work.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices. We are members of the American Academy of Actuaries and meet the Qualification Standards to render the actuarial opinion contained herein.

Data Exhibits

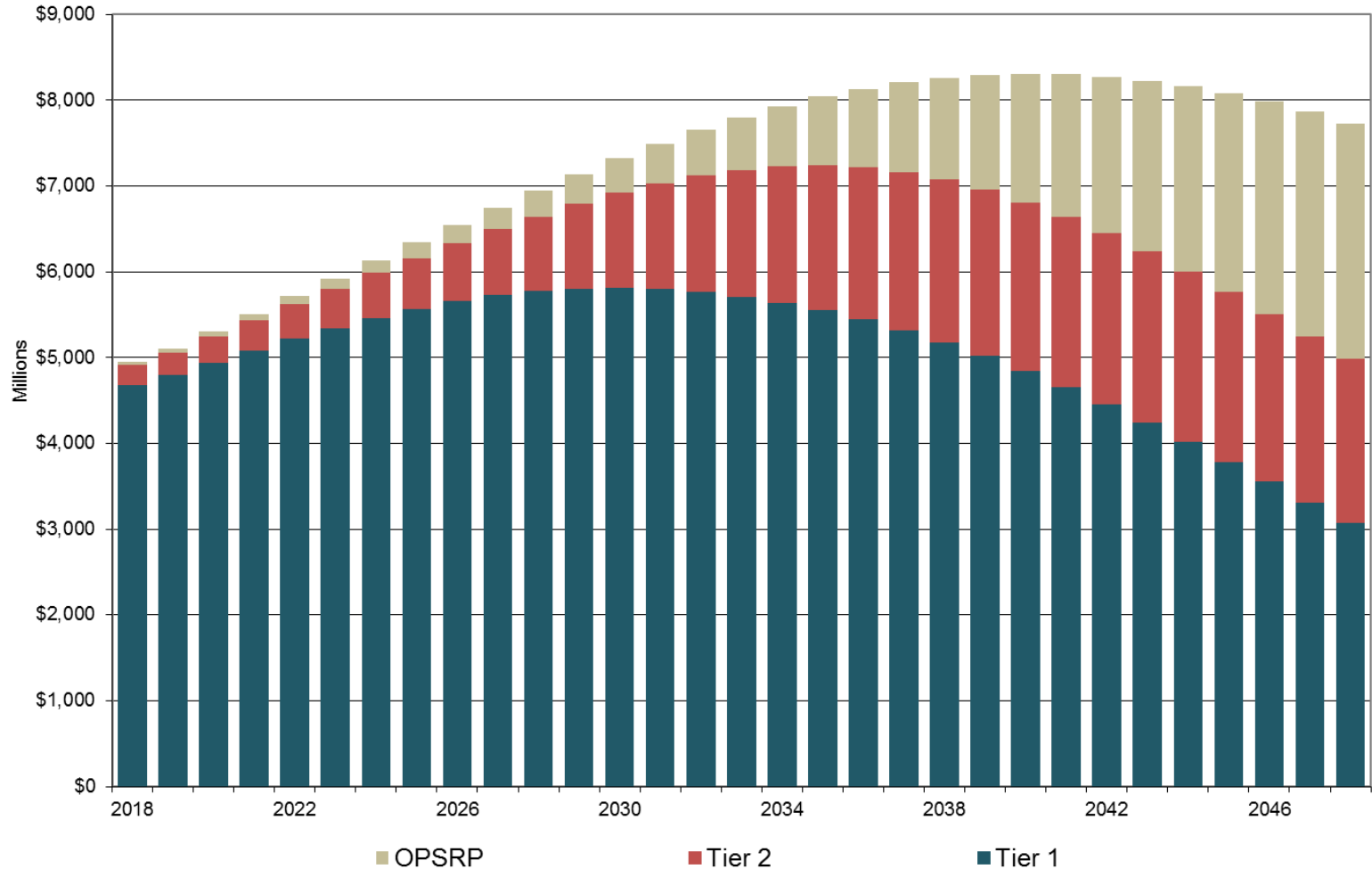
	2017			2016	
	Tier 1	Tier 2	OPSRP	Total	Total
Active Members					
Count	22,749	35,958	114,295	173,002	172,483
Average Age	56.1	51.2	42.7	46.2	46.4
Average Service	25.2	16.9	6.1	10.9	11.1
Average prior year Covered Salary	\$ 78,492	\$ 70,429	\$ 48,405	\$ 56,939	\$ 56,140
Inactive Members¹					
Count	13,188	15,166	17,349	45,703	45,321
Average Age	59.5	53.6	47.5	53.0	53.4
Average Monthly Benefit	\$ 2,068	\$ 772	\$ 406	\$ 1,007	\$ 1,053
Retired Members and Beneficiaries¹					
Count	127,687	13,180	4,115	144,982	138,783
Average Age	72.3	67.5	66.8	71.7	71.6
Average Monthly Benefit ²	\$ 2,817	\$ 1,004	\$ 478	\$ 2,586	\$ 2,521
Total Members	163,624	64,304	135,759	363,687	356,587

¹ Inactive and Retiree counts are shown by lives within each rate pool. In other words, a member is counted once for purposes of this exhibit, regardless of their service history for different rate pools. This contrasts with the method used to count inactive participants in some of the later exhibits.

² The average monthly benefit reflects an estimated adjustment for the effect of the Supreme Court decision in *Moro v. State of Oregon* for records that were not already adjusted in the data provided.

Projected Benefit Payments by Tier

Tier 1/Tier 2 & OPSRP Expected Benefit Payments
by Tier as of 12/31/2017



Funded Status and UAL by Program

Pension Funded Status (\$ billions) at 12/31/2017

	Tier 1/Tier 2	OPSRP	Combined
Actuarial liability	\$78.4	\$5.6	\$84.1
Assets (excluding side accounts)	<u>\$57.6</u>	<u>\$4.1</u>	<u>\$61.8</u>
UAL (excluding side accounts)	\$20.8	\$1.5	\$22.3
Funded status (excluding side accounts)	74%	73%	73%
Side account assets			<u>\$5.6</u>
UAL (including side accounts)			\$16.7
Funded status (including side accounts)			80%

Uncollared Pension Rates – System-Wide

Excludes Retiree Health Care, IAP Contributions, Rate Collar, Side Accounts

	12/31/2015 2017 - 2019 Final			12/31/2017 2019 – 2021 Final		
	Payroll			Payroll		
	Tier 1 / Tier 2	OPSRP	Weighted Average ¹	Tier 1 / Tier 2	OPSRP	Weighted Average ¹
Normal Cost	15.07%	8.56%	11.79%	15.27%	8.92%	11.59%
Tier 1/Tier 2 UAL	16.02%	16.02%	16.02%	16.18%	16.18%	16.18%
OPSRP UAL	1.27%	1.27%	1.27%	1.45%	1.45%	1.45%
Uncollared Rate	32.36%	25.85%	29.08%	32.90%	26.55%	29.22%
Increase				0.54%	0.70%	0.14%

¹ Weighting based on the pool's payroll levels (Tier 1/Tier 2, OPSRP) as of the valuation date.

Collared Pension Base Rates – System-Wide

Excludes Retiree Health Care & IAP Contributions, Side Account Offsets

	12/31/2015 2017 - 2019 Final			12/31/2017 2019 – 2021 Final		
	Payroll			Payroll		
	Tier 1 / Tier 2	OPSRP	Weighted Average ¹	Tier 1 / Tier 2	OPSRP	Weighted Average ¹
Uncollared Rate	32.36%	25.85%	29.08%	32.90%	26.55%	29.22%
Collar Limitation	(8.23%)	(8.23%)	(8.23%)	(3.99%)	(3.99%)	(3.99%)
Collared Base Rate	24.13%	17.62%	20.85%	28.91%	22.56%	25.23%
Increase				4.78%	4.94%	4.38%

Increases that will be effective July 2019 are limited by the collar

¹ Weighting based on the pool's payroll levels (Tier 1/Tier 2, OPSRP) as of the valuation date.

Collared Pension Net Rates – System-Wide

Excludes Retiree Health Care & IAP Contributions

	12/31/2015 ¹ 2017 - 2019 Final			12/31/2017 ¹ 2019 – 2021 Final		
	Payroll			Payroll		
	Tier 1 / Tier 2	OPSRP	Weighted Average ²	Tier 1 / Tier 2	OPSRP	Weighted Average ²
Collared Base Rate	24.13%	17.62%	20.85%	28.91%	22.56%	25.23%
Side Account (Offset)	(6.14%)	(6.14%)	(6.14%)	(6.51%)	(6.51%)	(6.51%)
SLGRP Charge/(Offset)	(0.48%)	(0.48%)	(0.48%)	(0.40%)	(0.40%)	(0.40%)
Collared Net Rate	17.51%	11.00%	14.23%	22.00%	15.65%	18.32%
Increase				4.49%	4.65%	4.09%

Rates vary by employer, as only some employers have side accounts

Changes in side account offsets are not collared

1 For this exhibit, adjustments are assumed not to be limited due to an individual employer reaching a 0.00% contribution rate.

2 Weighting based on the pool's payroll levels (Tier 1/Tier 2, OPSRP) as of the valuation date

Uncollared Pension Rates – SLGRP Average

Excludes Retiree Health Care, IAP Contributions, Rate Collar, Side Accounts

	12/31/2015 Valuation 2017 - 2019 Final Rates			12/31/2017 Valuation 2019 – 2021 Final Rates		
	Payroll			Payroll		
	Tier 1 / Tier 2	OPSRP	Weighted Average ¹	Tier 1 / Tier 2	OPSRP	Weighted Average ¹
Normal Cost	15.78%	8.56%	12.03%	15.83%	8.92%	11.74%
Tier 1/Tier 2 UAL	14.45%	14.45%	14.45%	15.11%	15.11%	15.11%
OPSRP UAL	<u>1.27%</u>	<u>1.27%</u>	<u>1.27%</u>	<u>1.45%</u>	<u>1.45%</u>	<u>1.45%</u>
Uncollared Rate	31.50%	24.28%	27.75%	32.39%	25.48%	28.30%
Increase				0.89%	1.20%	0.55%

The pool-average collared base and net rates for 2019-2021 are shown on subsequent slides

Rates vary, sometimes widely, for employers in the SLGRP

¹ Weighting based on the pool's payroll levels (Tier 1/Tier 2, OPSRP) as of the valuation date.

Collared Pension Base Rates – SLGRP Average

Excludes Retiree Health Care & IAP Contributions, Side Account Offsets

	12/31/2015 Valuation 2017 - 2019 Final Rates			12/31/2017 Valuation 2019 – 2021 Final Rates		
	Payroll			Payroll		
	Tier 1 / Tier 2	OPSRP	Weighted Average ¹	Tier 1 / Tier 2	OPSRP	Weighted Average ¹
Uncollared Rate	31.50%	24.28%	27.75%	32.39%	25.48%	28.30%
Collar Limitation	<u>(8.35%)</u>	<u>(8.35%)</u>	<u>(8.35%)</u>	<u>(4.68%)</u>	<u>(4.68%)</u>	<u>(4.68%)</u>
Collared Base Rate	23.15%	15.93%	19.40%	27.71%	20.80%	23.62%
Increase				4.56%	4.87%	4.22%

The increases in collared base rates are smaller than shown in the 12/31/2016 advisory valuation because the improved funded status resulted in a narrower rate collar.

¹ Weighting based on the pool's payroll levels (Tier 1/Tier 2, OPSRP) as of the valuation date

Collared Pension Net Rates – SLGRP Average

Excludes Retiree Health Care & IAP Contributions

	12/31/2015 ¹ Valuation 2017 - 2019 Final Rates			12/31/2017 ¹ Valuation 2019 – 2021 Final Rates		
	Payroll			Payroll		
	Tier 1 / Tier 2	OPSRP	Weighted Average ²	Tier 1 / Tier 2	OPSRP	Weighted Average ²
Collared Base Rate	23.15%	15.93%	19.40%	27.71%	20.80%	23.62%
Side Account (Offset)	(4.70%)	(4.70%)	(4.70%)	(4.99%)	(4.99%)	(4.99%)
SLGRP Charge/(Offset)	<u>(0.82%)</u>	<u>(0.82%)</u>	<u>(0.82%)</u>	<u>(0.69%)</u>	<u>(0.69%)</u>	<u>(0.69%)</u>
Collared Net Rate	17.63%	10.41%	13.88%	22.03%	15.12%	17.94%
Increase				4.40%	4.71%	4.06%

Rates vary by employer, sometimes significantly, as only some employers have side accounts and the SLGRP charge/(offset) varies by employer

Net rate increases are lower than shown in the 12/31/2016 advisory valuation due to both the smaller collared increase and 2017 investment gains on side accounts.

¹ For this exhibit, adjustments are assumed not to be limited due to an individual employer reaching a 0.00% contribution rate.

² Weighting based on the pool's payroll levels (Tier 1/Tier 2, OPSRP) as of the valuation date

Actuarial Basis

Data

We have based our calculation of the liabilities on the data supplied by the Oregon Public Employees Retirement System and summarized in the data exhibits on the preceding slides.

Assets as of December 31, 2017, were based on values provided by Oregon PERS reflecting the Board's earnings crediting decisions for 2017.

Methods / Policies

Actuarial Cost Method: Entry Age Normal, adopted effective December 31, 2012.

UAL Amortization: The UAL for OPSRP, and Retiree Health Care as of December 31, 2007 are amortized as a level percentage of combined valuation payroll over a closed 16 year period for OPSRP and a closed 10 year period for Retiree Health Care. For the Tier 1/Tier 2 UAL, the amortization period was reset at 20 years as of December 31, 2013. Gains and losses between subsequent odd-year valuations are amortized as a level percentage of combined valuation payroll over the amortization period (20 years for Tier/Tier 1, 16 years for OPSRP, 10 years for Retiree Health Care) from the odd-year valuation in which they are first recognized.

Actuarial Basis

Methods / Policies (cont'd)

Contribution rate stabilization method: Contribution rates for a rate pool (e.g. Tier 1/Tier 2 SLGRP, Tier 1/Tier 2 School Districts, OPSRP) are confined to a collar based on the prior contribution rate (prior to application of side accounts, pre-SLGRP liabilities, and 6 percent Independent Employer minimum). The new contribution rate will generally not increase or decrease from the prior contribution rate by more than the greater of 3 percentage points or 20 percent of the prior contribution rate. If the funded percentage excluding side accounts drops below 60% or increases above 140%, the size of the collar doubles. If the funded percentage excluding side accounts is between 60% and 70% or between 130% and 140%, the size of the rate collar is increased on a graded scale.

Expenses: Tier 1/Tier 2 administration expenses are assumed to be equal to \$37.5M, while OPSRP administration expenses are assumed to be equal to \$6.5M. The assumed expenses are added to the respective normal costs.

Actuarial Value of Assets: Equal to Market Value of Assets excluding Contingency and Tier 1 Rate Guarantee Reserves. The Tier 1 Rate Guarantee Reserve is not excluded from assets if it is negative (i.e. in deficit status).

Assumptions

Assumptions for valuation calculations are as described in the 2016 Experience Study for Oregon PERS and presented to the PERS Board in July 2017.

Provisions

Provisions valued are as detailed in the 2016 Valuation Report.