

**74th OREGON LEGISLATIVE ASSEMBLY – 2007 Regular Session
BUDGET REPORT AND MEASURE SUMMARY**

JOINT COMMITTEE ON WAYS AND MEANS

MEASURE: HB 5040-A

Carrier – House: Rep. Galizio

Carrier – Senate: Sen. Whitsett

Action: Do pass as amended and be printed A-Engrossed.

Vote: 17 – 0 – 4

House – Yeas: D. Edwards, Galizio, Garrard, Hanna, Jenson, Morgan, Nathanson, Shields

– Nays:

– Exc: Nolan

Senate – Yeas: Devlin, Gordly, Johnson, Morse, Nelson, Schrader, Verger, Whitsett, Winters

– Nays:

– Exc: Bates, Carter, Westlund

Prepared By: Bill McGee, Department of Administrative Services

Reviewed By: Dallas Weyand, Legislative Fiscal Office

Meeting Date: 3/23/07

Agency

Public Employees Retirement System

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LFO Analysis Page

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Biennium

2007-09

Senators: Bates, Carter, Devlin, Gordly, Johnson, Morse, Nelson,
Schrader, Verger, Westlund, Whitsett, Winters

Senator Kurt Schrader, Co-Chair

Representatives: D. Edwards, Galizio, Garrard, Hanna, Jenson,
Morgan, Nathanson, Nolan, Shields

Representative Mary Nolan, Co-Chair

Representative Bob Jenson, General Government Subcommittee Chair

Budget Summary*

	2005-07		2007-09		Percentage Committee
	Legislatively Approved Budget (1)	Governor's Budget	Committee Recommendation	Difference from Governor's Budget	Change from Governor's Budget
Other Funds	78,371,793	82,267,097	81,356,159	-910,938	-1.1%
Other Funds Debt Service	5,720,950	5,709,200	5,709,200	0	0.0%
Other Funds Nonlimited	5,646,765,074	6,286,947,122	6,286,947,122	0	-100.0%
Total	\$ 5,730,857,817	\$ 6,374,923,419	\$ 6,374,012,481	\$ -910,938	-0.0%

Position Summary

Authorized Positions	380	403	401	-2
Full-time Equivalent (FTE) Positions	379.00	401.63	394.88	-6.75

(1) Includes adjustments through the December 2006 meeting of the Emergency Board

* Excludes Capital Construction expenditures

Summary of Revenue Changes

Principal revenue sources for the Public Employees Retirement System (PERS) include investment earnings, employer contributions, member contributions, and fees. Employee contributions, whether made by employees or by employers on employees' behalf, are credited to members' Individual Account Program (IAP) accounts. Funding for administration of the IAP accounts is drawn from the accounts.

The PERS operating budget is funded from investment earnings. Net earnings, if any, are then distributed to employee, employer, and reserve accounts as directed by statute and board crediting decisions. Revenues to fund administrative activities for deferred compensation programs come largely from participant fees.

There were no revenue forecast changes, fee ratifications, revenue source changes or other significant revenue actions approved by the Subcommittee.

Summary of Subcommittee Action

PERS is responsible for administering retirement programs for public employees, including state, school, and local government workers. PERS distributes \$2.5 billion in retirement benefits annually. The agency manages a number of programs, including the Tier One-Tier Two Retirement programs, the Oregon Public Service Retirement Program (OPSRP) and the Individual Account Program (IAP), three health insurance programs, Social Security Administration activities, and a deferred compensation program.

The Subcommittee approved a budget of \$87,065,359 Other Funds, \$6,286,947,122 Other Funds Non-limited, and 394.88 full-time equivalent (FTE) positions. Other Funds and FTE are increased from the 2007-09 Essential Budget Level (EBL) by 51.1 percent and 50.4 percent respectively while Other Funds Non-limited are unchanged. Compared with the 2005-07 Legislatively Approved Budget, Other Funds and FTE are increased by 3.5 percent and 4.2 percent respectively. The approved budget includes 301 permanent and 100 limited duration positions, almost all of the limited duration positions were established as limited duration in the 2005-07 biennium. These positions are being re-established to continue implementation of the *Strunk* and *City of Eugene* settlements and replacement of the agency's legacy information system, Retirement Information Management System (RIMS), with jClarety.

The Subcommittee reduced Other Funds by \$1,165,484, eliminated four positions, and reduced FTE by 8.75, for the two percent in efficiencies presented by the agency. The Subcommittee restored \$254,546 Other Funds, 2 positions, and 2.00 FTE to improve retirement services to members.

The Subcommittee discussed the agency's progress in implementing the *Strunk/Eugene* decisions, converting from RIMS to jClarety, and managing ongoing workload. PERS was directed to report to the Joint Committee on Ways and Means or Emergency Board, as appropriate, in the first and third quarters of calendar 2008 with updates to its performance measures and other data demonstrating its progress in each of these areas.

Tier One and Tier Two Plan

The Tier One and Tier Two Plan program unit accounts for employer contributions and interest earnings related to PERS Tier One and Tier Two plans. It also reflects the retirement payments made to Tier One and Tier Two retirees, as well as activity related to the agency's health insurance programs. As a result of statutory changes to the Tier One and Tier Two plans, this program unit no longer includes employee contributions as those are directed to the Oregon Public Service Retirement Plan (OPSRP) Individual Account Program (IAP). This program unit is made up entirely of Other Funds Nonlimited. The Subcommittee approved the budget requested for this program unit.

Oregon Public Service Retirement Plan

This program accounts for employee contributions into the IAP, including contributions made by employers on behalf of employees. It also reflects employer contributions for the defined benefit portion of the OPSRP plan. This program unit is made up entirely of Other Funds Nonlimited. The Subcommittee approved the budget requested for this program unit.

Operations

This program unit includes the operational costs associated with administration of the agency's various retirement related plans and programs.

The Subcommittee approved Package 802 that reduced the budget for the two percent efficiency reductions identified by PERS. Specific reductions are:

- Elimination of two limited duration imaging positions originally planned for the Strunk/Eugene benefit adjustment work: (\$144,554) Other Funds, (2) positions, and (2.00) FTE:
- Reduction in temporary staffing for year-end processing due to implementation of jClarety: (\$53,000) Other Funds.
- Elimination of filming of records for archival purposes following shift to digital imaging (\$50,000) Other Funds.
- Elimination of published handbook for judge members in favor of website-based program materials (\$8,712) Other Funds.
- Deferral of actuarial audit until 2008 when it will be conducted concurrently with system valuation: (\$105,000) Other Funds.
- Elimination of a contracts and procurement position due to process streamlining: (\$113,284) Other Funds, (1) position, and (1.00) FTE.
- Reduction of Department of Justice costs: (\$87,053) Other Funds by denying hearings when no material facts are in dispute.
- Elimination of a contributions and banking position due to process streamlining: (\$117,387) Other Funds, (1) position, and (1.00) FTE.
- Reduction in frequency of newsletter production and mailings, increasing reliance on website for communications with members and retirees: (\$43,000) Other Funds.
- Implementation of a workforce management program to phase-out Strunk/Eugene project at the end of the biennium by non-positions specific reductions in Personal Services costs and FTE: (\$443,494) Other Funds and (4.75) FTE.

The Subcommittee discussed opportunities to improve services to members as they move into retirement. Package 806 was approved to restore \$254,546 Other Funds from the efficiency savings in Package 802 and establish two permanent full-time Retirement Counselor 2 positions to provide assistance with retirement form completion in areas of the state outside the Willamette Valley. Opportunities for members to have their benefit estimates explained and to review their application forms with a PERS staff member prior to submittal would be provided in conjunction with group presentations and other scheduled travel. PERS will reassign duties of two existing positions and increase use of overtime to expand its face-to-face application assistance to Willamette Valley members. PERS will also work with its stakeholders to improve access to web-based retirement tools and with private-sector vendors to make pre-retirement education workshops more broadly available throughout the state.

The Subcommittee approved funding for limited duration positions to continue the adjustment of 1999 earnings crediting and subsequent year account balances, and all related benefit payments, for some 45,000 retirees and benefit recipients. The project (labeled the *Strunk/Eugene* project) is expected to be substantially complete by the end of the 2007-09 biennium. All positions in this package are limited duration and are continued from the 2005-07 biennium. It also approved funding for continuation of the Retirement Information Management System (RIMS) conversion. This conversion project converts the agency's major information technology system for Tiers 1 and 2 to jClarety (the new system for OPSRP). The 44 month project is projected to be completed in November 2009.

The Subcommittee approved funding to continue labor intensive retirement benefit calculations and processing activities. Of the 25 positions approved, 23 are limited duration. Approximately 6,000 retirements are expected in each year of the 2007-09 biennium, consistent with the current biennium. Until the RIMS conversion is complete, the workload needs to be addressed with additional staffing. The conversion of RIMS, coupled with workflow process improvements will enable PERS to reduce staffing in 2009-11. Also to address workload issues, the Subcommittee approved additional staff to improve the collection, preparation, and integrity of data needed for efficient and accurate benefit

calculations. The staff are involved in call center operations, employer reporting support, data quality assurance, and member separation processing. Because of the ongoing infrastructure needs, 15 of the 23 positions in this approved are permanent. The Subcommittee also provided resources for operations and infrastructure support. This provides back office support improvements in processing and contracting, human resources, information technology maintenance, document imaging, and workload balancing.

Additionally, the Subcommittee approved \$1 million Other Funds expenditure limitation for legal representation by outside council for litigation, contested cases, and fiduciary responsibilities. PERS is required by statute to obtain outside council for these types of issues. No positions are included in the package. It is expected that legal costs will decrease after all litigation and other issues resulting from the 2003 reform legislation has been settled.

Debt Service

This program includes debt service on Certificates of Participation sold to finance construction of the PERS headquarters building in Tigard and replacement of the RIMS legacy information system. The Subcommittee approved the requested budget for this program.

Summary of Performance Measure Action

The Subcommittee approved performance measures as submitted by the agency, with the exception of Key Performance Measure #8, Employer Satisfaction. The Subcommittee directed that this measure be made part of Key Performance Measure #6, Customer Satisfaction.

See attached Legislatively Adopted 2007-09 Key Performance Measures form.