

Oregon Public Employees Retirement System

2013-15

Governor's Balanced Budget

**Agency Presentation to the
Joint Ways & Means Committee
General Government Subcommittee**

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Presentation Day One

Overview of PERS

The System

Historical Perspective and Objectives

- Oregon's Public Employees Retirement System was established in 1945 by House Bill 344 to attract and retain skilled public servants and provide a fair retirement benefit for service to Oregonians.
- Benefit sustainability, affordability, and security are key objectives for any retirement system, including PERS.
- Changes to the system in 1995 and 2003 demonstrate the legislature's history of rebalancing the system to make it sustainable, secure, and affordable when economic factors, retirement trends, or member demographics tilt the balance between affordability and benefits.

System Governance

- The five-member PERS Board provides governance and policy oversight – comprised of a retired member or a represented public employee; a management employee of the state or an elected official of a participating employer; and three board members with experience in business management, pension management, or investing who cannot be a member or beneficiary of PERS.
- The six-member Oregon Investment Council (OIC) oversees PERS Fund investments with staff support from the Oregon State Treasury. The OIC consists of the State Treasurer, four appointed members with experience in in the field of investment or finance, and the PERS Executive Director who serves as an ex-officio non-voting member. The OIC is charged with investing and reinvesting the PERS Fund to “make the moneys as productive as possible.”

System Overview – Employers and Members

- PERS provides retirement, death, and disability benefits on behalf of over 900 public employers, covering 95% of Oregon’s public employees.
- The PERS retirement plan members fall into the following categories:

		State Agencies & OUS	Local Government	School Districts	Total
Tier One	Active	12,866	15,368	18,648	46,882
	Inactive	5,222	6,941	8,089	20,252
Tier Two	Active	12,757	16,640	19,733	49,130
	Inactive	3,226	6,049	6,914	16,189
OPSRP	Active	19,751	25,122	30,087	74,960
	Inactive	1,056	1,345	1,665	4,066
Retired*		28,310	31,383	58,715	118,408
TOTAL		83,188	102,848	143,851	329,887

* Includes beneficiaries but not members who received lump-sum retirement or account withdrawal payouts.

- The agency also administers a deferred compensation program, the Oregon Savings Growth Plan, for state employees and participating local governments, a post-retirement health insurance program for eligible retired members and their dependents, and Oregon’s Social Security compliance program.

System Overview – Benefit Components

Tier One – employees hired before January 1, 1996

Tier Two – employees hired between January 1, 1996, and August 28, 2003

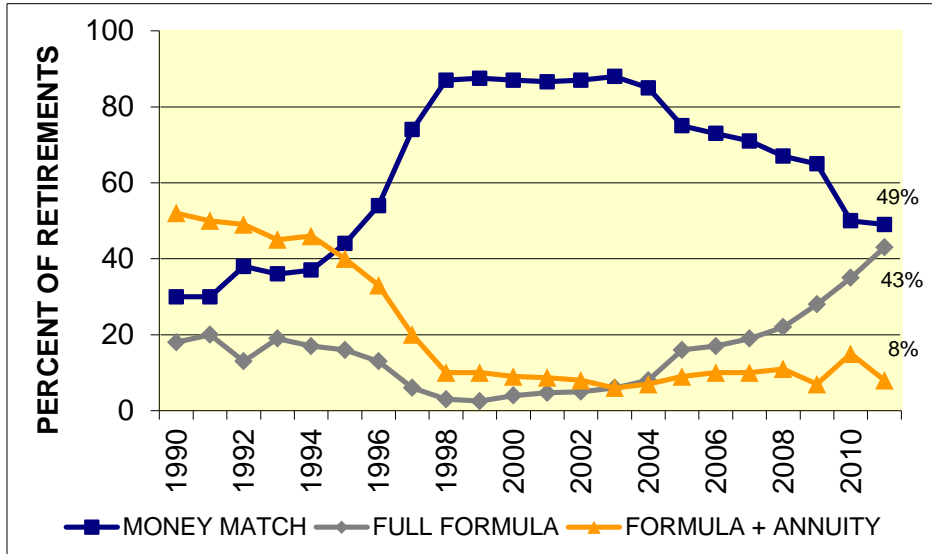
OPSRP – employees hired after August 28, 2003

IAP – all employees effective January 1, 2004

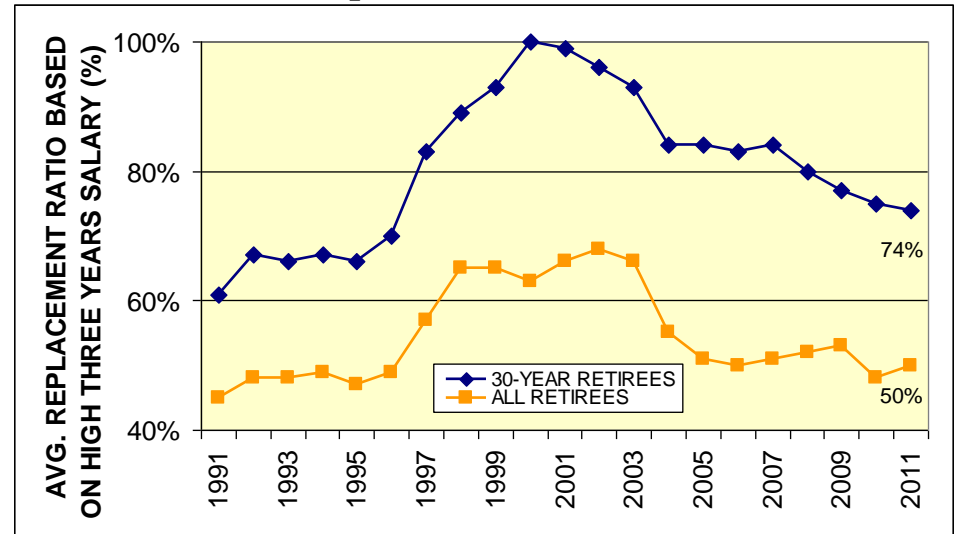
	Tier One	Tier Two	OPSRP	IAP
Normal retirement age	58 (or 30 yrs); P&F = age 55 or 50 w/ 25 yrs	60 (or 30 yrs); P&F = age 55 or 50 w/ 25 yrs	65 (58 w/ 30 yrs); P&F = age 60 or 53 w/ 25 yrs	Same as member's other retirement
Early retirement	55 (50 for P&F)	55 (50 for P&F)	55, if vested	
Retirement calc methods	Money Match Full Formula Formula +Annuity	Money Match Full Formula	Full Formula	Six account distribution options
Full Formula benefit factor	1.67% general 2.0% P&F	1.67% general 2.0% P&F	1.50% general 1.80% P&F	N/A
Lump-sum vacation payout Included in covered salary for contributions (6%)?	Yes	Yes	No	Yes for Tier One & Tier Two; no for OPSRP
Included in Final Average Salary?	Yes	No	No	
Unused sick leave included in Final Average Salary?	Yes	Yes	No	N/A

PERS Data

Benefit calculation trends

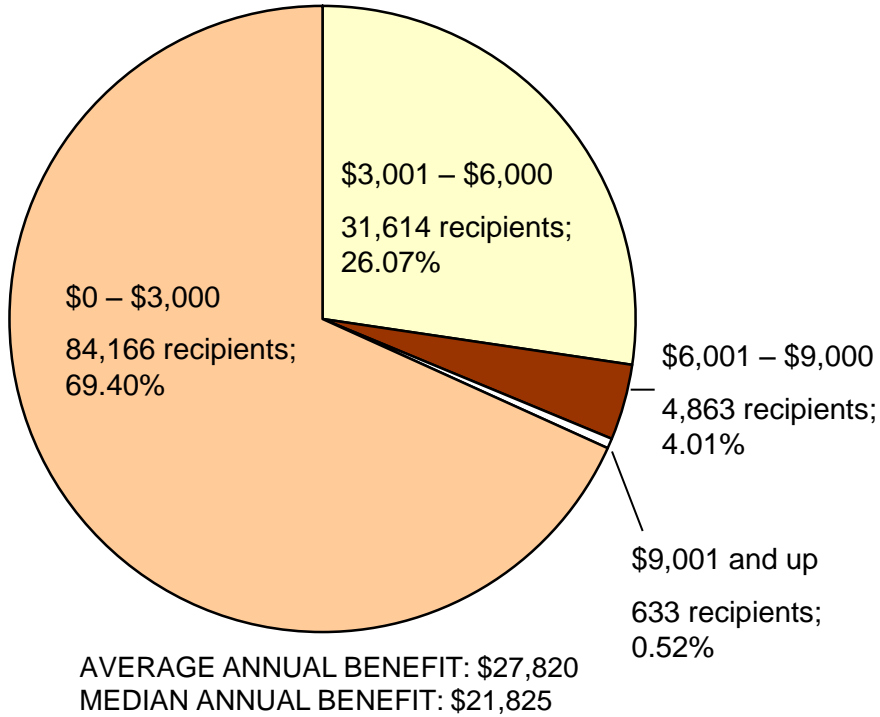


Replacement ratio trends

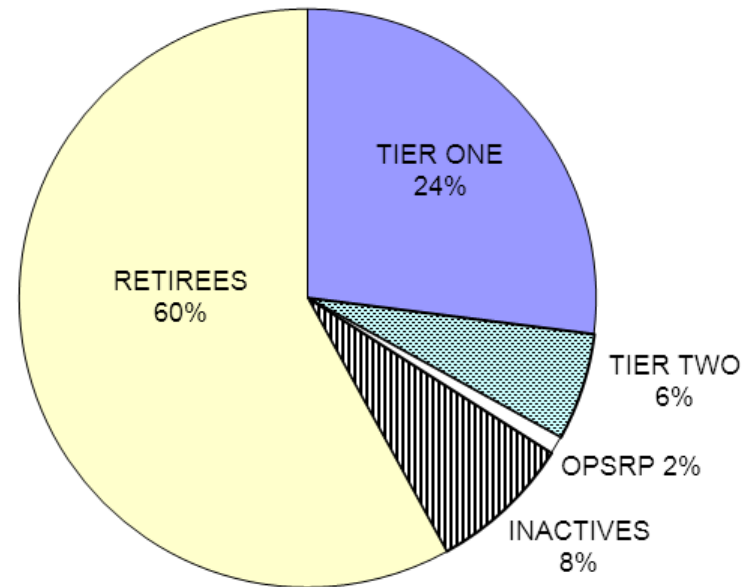


PERS Data

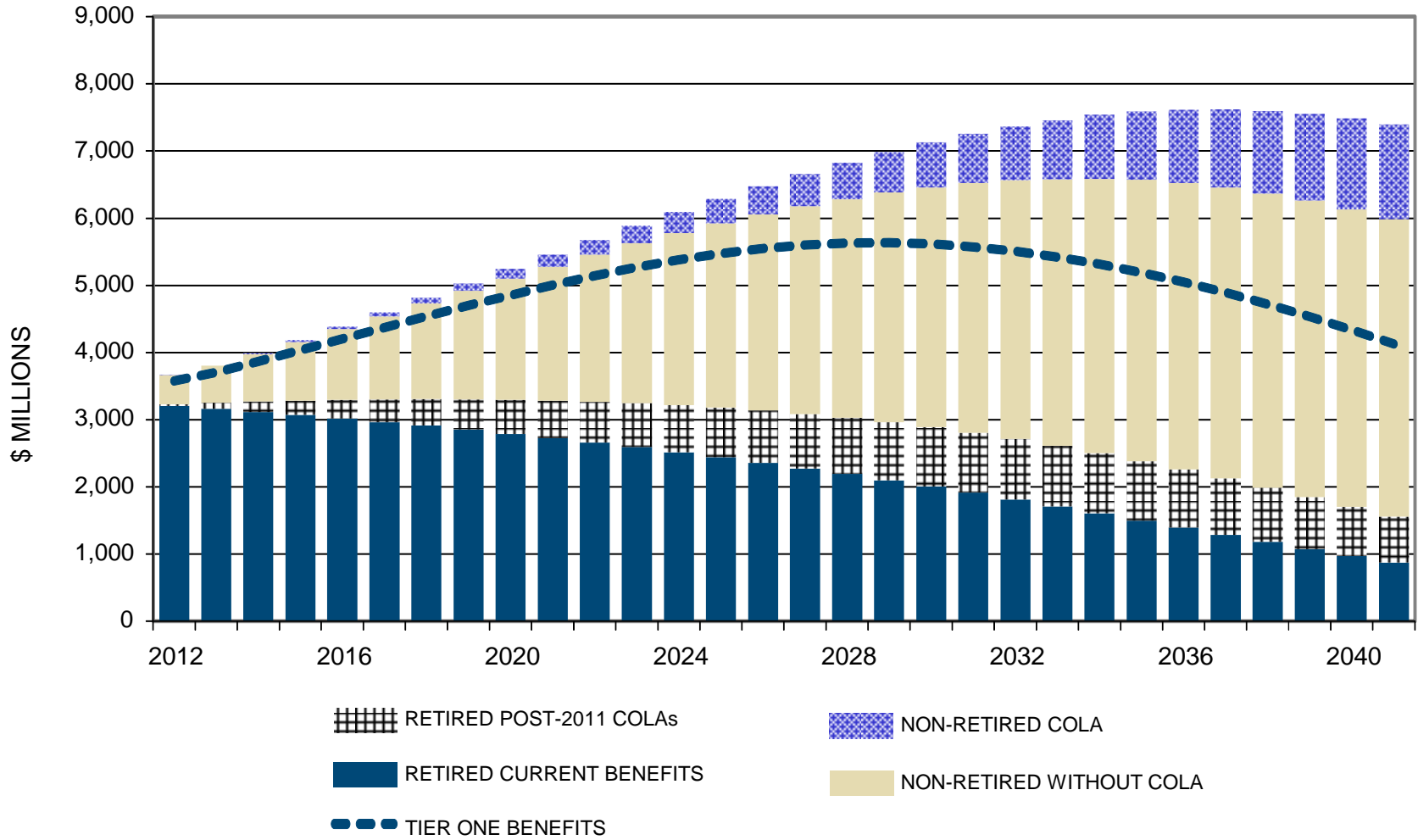
Distribution of monthly benefit payments for 121,276 recipients (as of January 1, 2013)



Actuarial accrued liabilities (as of December 31, 2011)



Tier One/Tier Two and OPSRP Expected Benefit Payments (by status as of December 31, 2011)

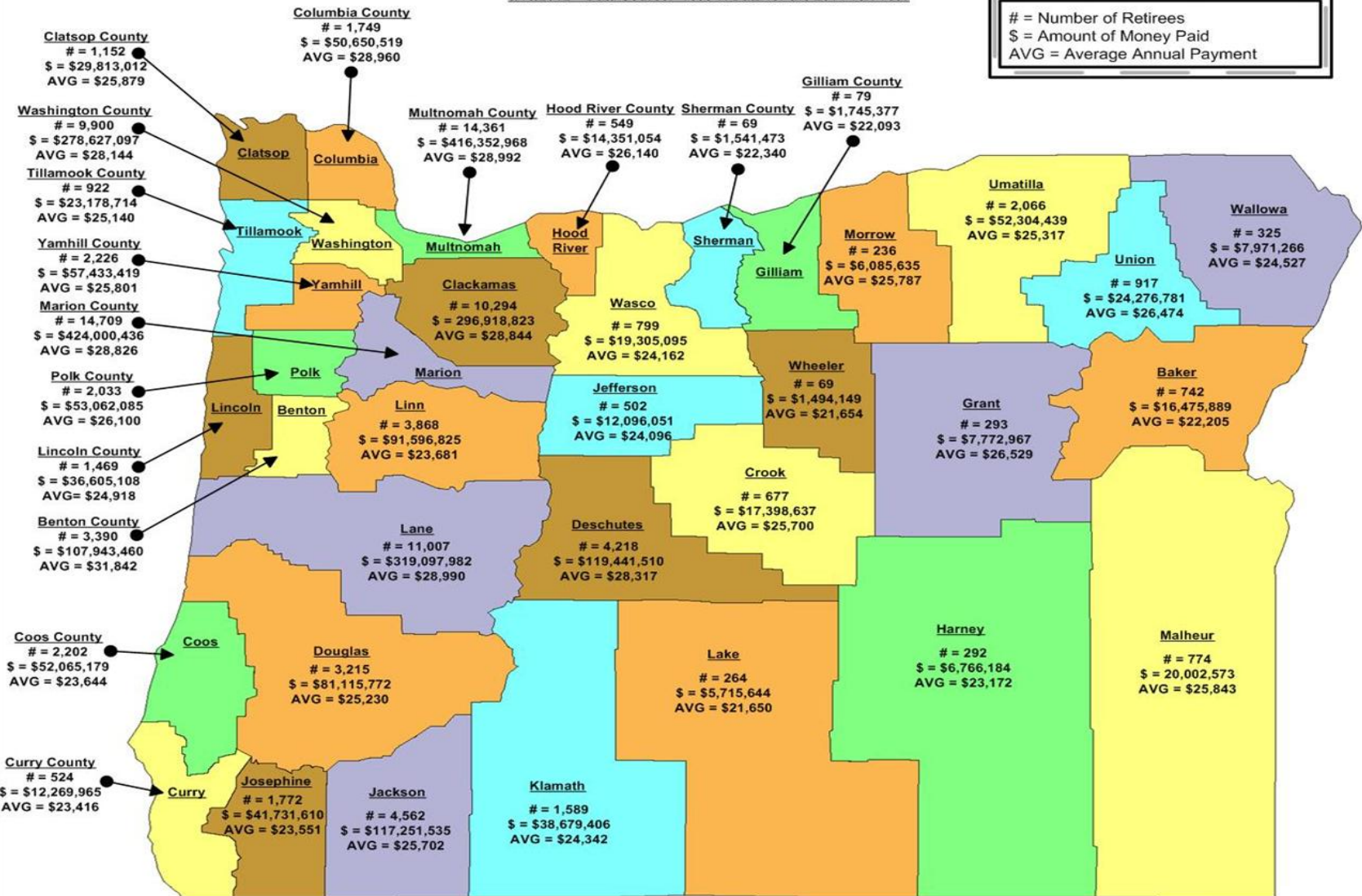


System Overview – Benefit Distribution

Total Benefit Payments by County
6/18/2012 – Data Source: 1099-R Data for the 2011 Tax Year

LEGEND

= Number of Retirees
\$ = Amount of Money Paid
AVG = Average Annual Payment

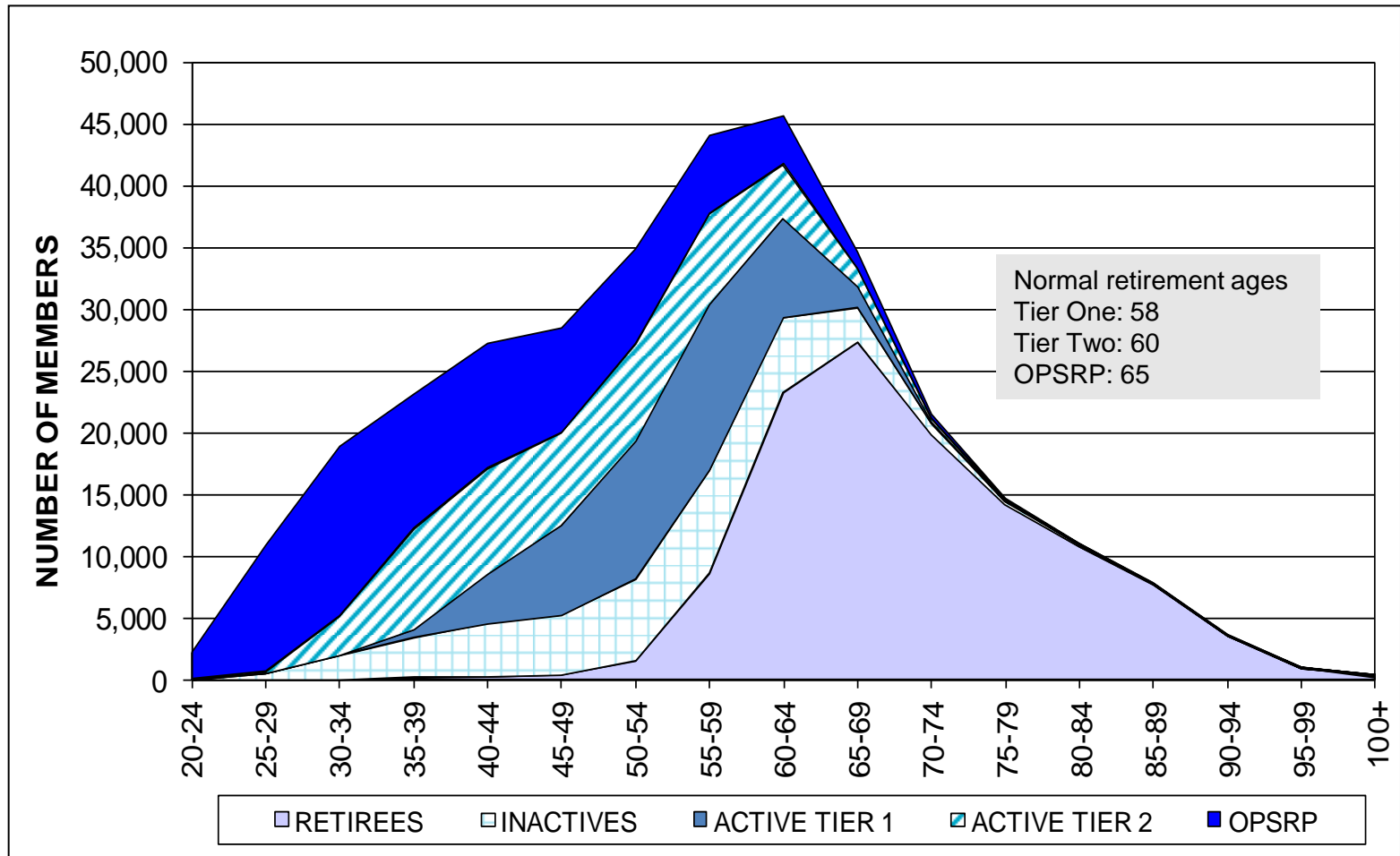


Total in-state benefits: \$2.8 billion

Total out-of-state benefits: \$0.4 billion



Member Demographics



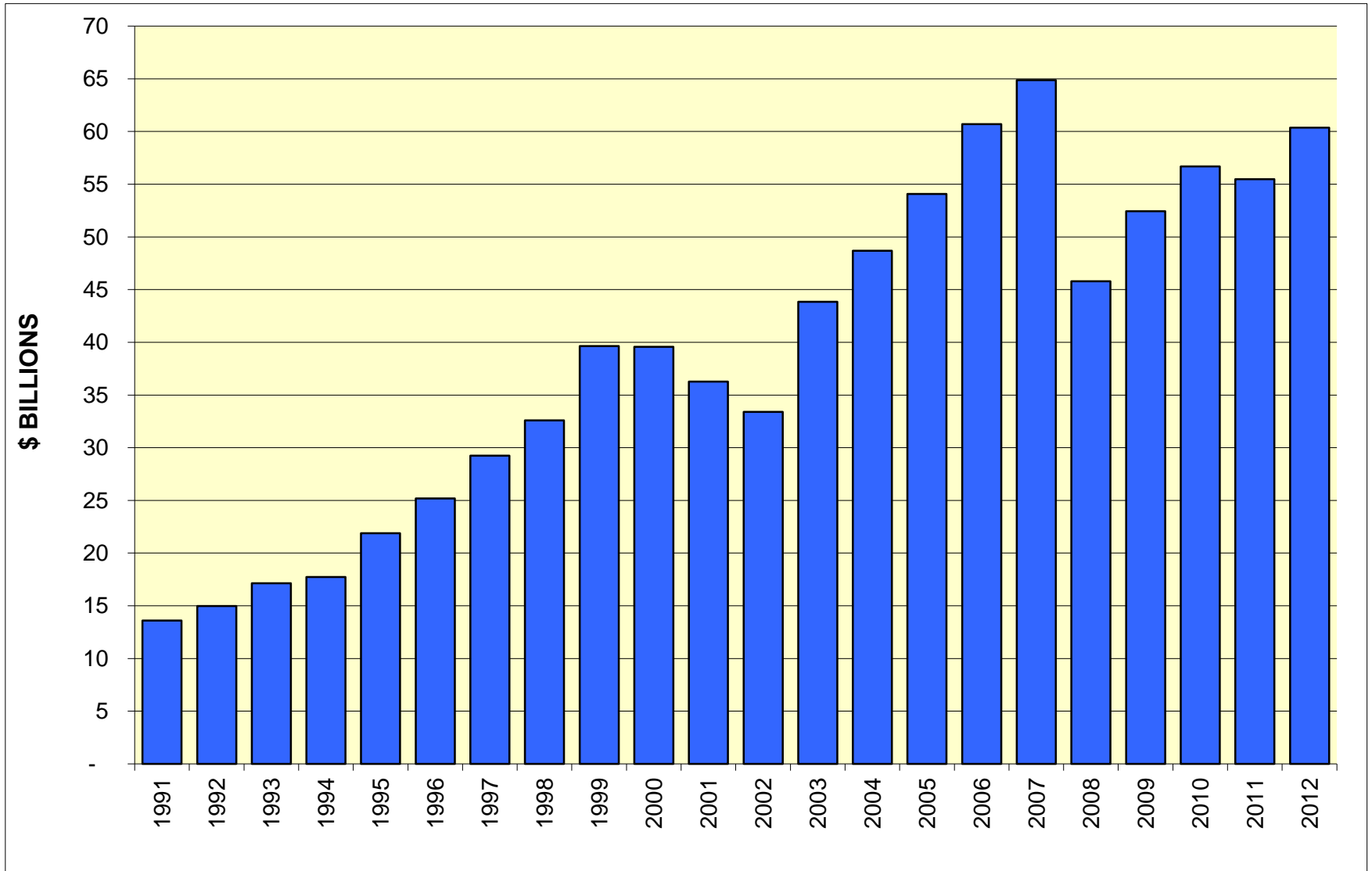
67,000 members eligible to retire by age or service as of December 2012

Members Eligible to Retire* (as of December 2012)

Total Members: 207,293	Tier One		Tier Two		OPSRP		Eligible to Retire by Actuarial Group	% of Members Eligible to Retire
	Actives	Inactives	Actives	Inactives	Actives	Inactives		
State	6,889	3,239	3,825	894	3,228	306	18,381	35.18
School Districts	9,246	3,256	5,473	1,221	5,038	561	24,795	31.00
Local Govt.	7,238	2,771	4,103	1,171	3,593	386	19,262	30.28
Judges	40	9	29	1	---	---	79	39.50
Community Colleges	1,327	518	1,009	291	1,206	154	4,505	40.07
Eligible to retire	24,740	9,793	14,439	3,578	13,065	1,407	67,022	32.33%
TOTAL	34,533		18,017		14,472		67,022	32.33%

* Reflects the number of members eligible to retire (including those eligible for reduced benefits) based on: age 55 or 30 years of service for general service members; age 50 or 25 years of service for police & firefighters; and age 60 for judge members.

PERS Fund Value by Calendar Year-End

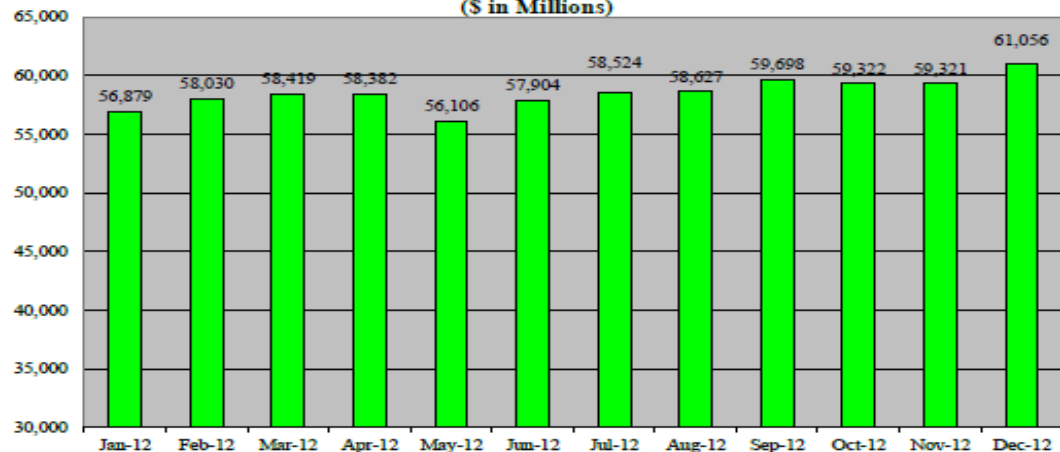


OPERF	Regular Account				Historical Performance (Annual Percentage)					
	Policy ¹	Target ¹	\$ Thousands ²	Actual	Year-To-Date ³	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS
Public Equity	38-48%	43%	\$ 22,001,434	36.5%	17.47	17.47	3.83	7.64	14.31	(0.39)
Private Equity	12-20%	16%	14,093,044	23.4%	14.41	14.41	12.72	13.95	9.06	5.24
Total Equity	54-64%	59%	36,094,478	59.9%	18.44	18.44	9.64	10.55	16.74	6.89
Opportunity Portfolio			975,565	1.6%						
Total Fixed	20-30%	25%	15,151,206	25.1%	10.33	10.33	8.21	9.06	13.01	8.01
Real Estate	8-14%	11%	7,330,411	12.2%	13.64	13.64	14.04	8.47	3.69	(0.02)
Alternative Investments	0-8%	5%	459,731	0.8%	(0.84)	(0.84)				
Cash	0-3%	0%	243,848	0.4%	1.65	1.65	0.87	0.88	1.25	1.25
TOTAL OPERF Regular Account		100%	\$ 60,255,239	100.0%	14.29	14.29	8.08	9.57	11.95	2.79
OPERF Policy Benchmark					16.57	16.57	8.40	9.36	10.87	3.06
Value Added					(2.28)	(2.28)	(0.32)	0.21	1.08	(0.27)
TOTAL OPERF Variable Account			\$ 800,279		16.98	16.98	4.00	7.41	13.84	(0.45)

Asset Class Benchmarks:

Russell 3000 Index	16.42	16.42	8.45	11.20	15.26	2.04
MSCI ACWI Ex US IMI Net	17.04	17.04	0.15	4.18	12.88	(2.50)
MSCI ACWI IMI Net	16.38	16.38	3.54	7.02	13.72	(0.73)
Russell 3000 Index + 300 bps--Quarter Lagged	34.02	34.02	17.82	16.62	11.97	5.18
Oregon Custom FI Benchmark	8.60	8.60	6.96	6.87	7.14	6.29
NCREIF Property Index--Quarter Lagged	11.00	11.00	13.52	10.90	1.52	2.26
91 Day T-Bill	0.11	0.11	0.11	0.10	0.14	0.52

TOTAL OPERF NAV
(includes variable fund assets)
One year ending December 2012
(\$ in Millions)

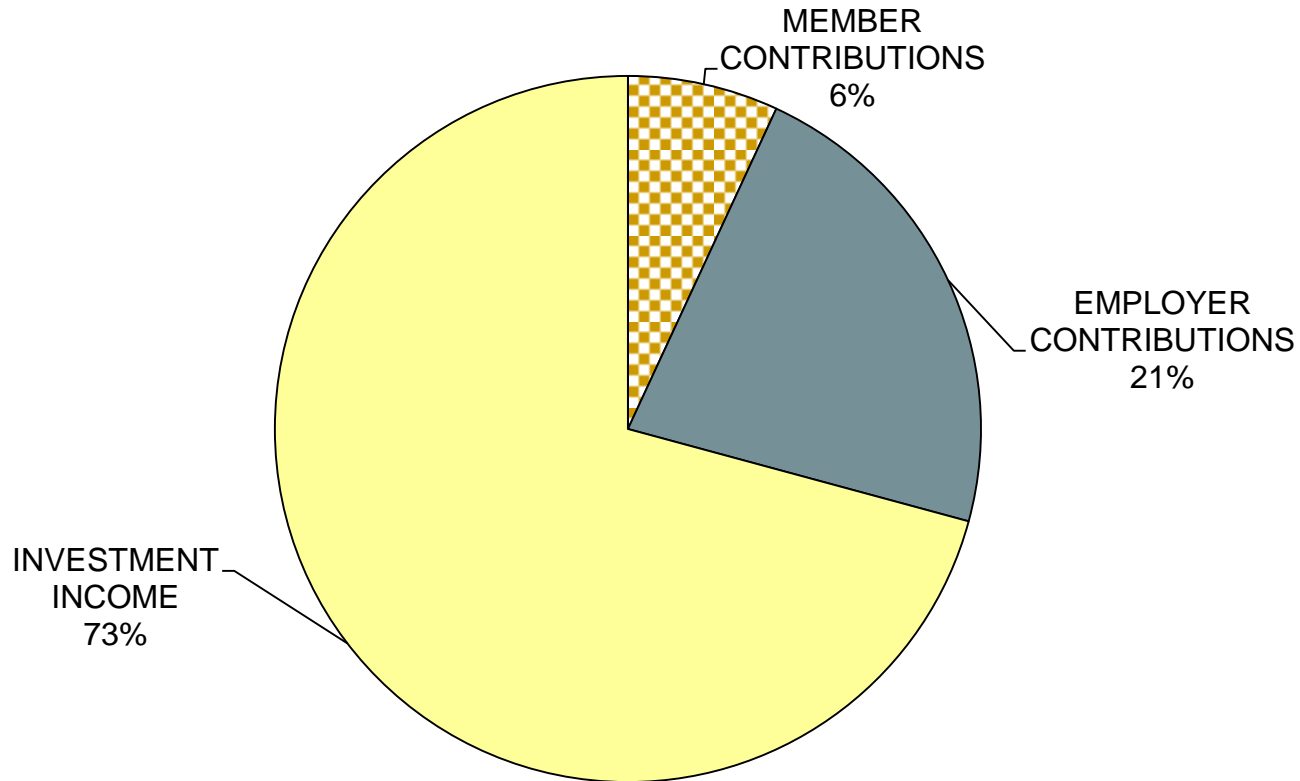


¹OIC Policy 4.01.18, as revised April 2011.

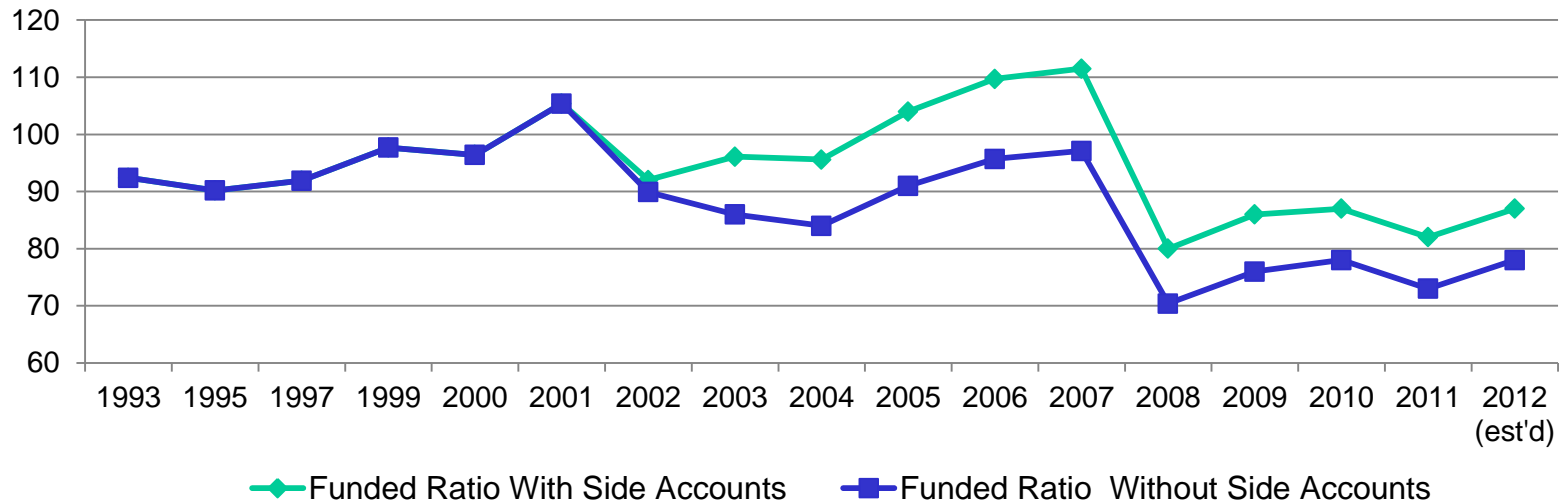
²Includes impact of cash overlay management.

³For mandates beginning after January 1 (or with lagged performance), YTD numbers are "N/A". Performance is reflected in Total OPERF.

PERS Revenues by Source (1970-2012)



Funded Status and UAL

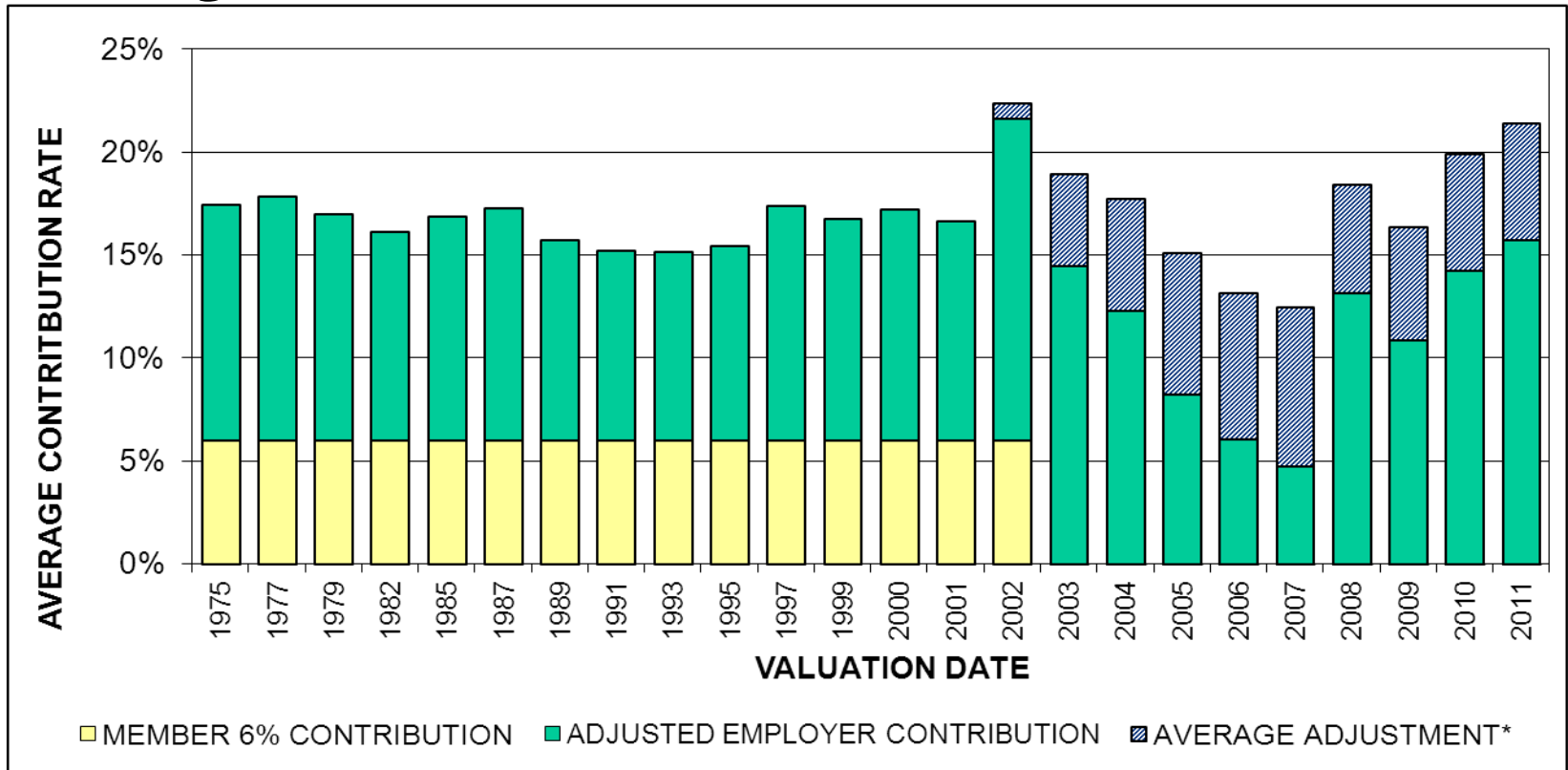


	Calendar Year					
	2007	2008	2009	2010	2011	2012*
Unfunded Actuarial Liability (UAL)						
Including side accounts (\$ billion)	\$ -6.1**	\$11.0	\$8.1	\$7.7	\$11.0	\$8.5
Excluding side accounts (\$ billion)	\$1.5	\$16.1	\$13.6	\$13.3	\$16.3	\$14.0

* Estimated based on December 31, 2012 Fund value.

** This is a surplus.

Historical Perspective on Employer Rates (Excluding IAP)



When comparing historical valuation rates, please note a number of changes have occurred including:

- Money Match benefits were not valued until 1997
- A smoothed value of assets was used from 2000 through 2003
- PERS reform was valued beginning in 2001
- The entry age normal cost method was used until 2004 when projected unit credit (PUC) was adopted

* Adjustments to individual employer contribution rates are made for side accounts and pre-SLGRP liabilities or surpluses

Average Net Employer Rates and Contributions

	2007-09	2009-11	2011-13	2013-15*	2015-17**	2013-15 Net Increases	2015-17 Projected Increases
State Government							
Net Employer Rate	6.7%	3.3%	9.6%	13.8%	16.0%	+4.2%	+2.2%
Contributions (\$M)	\$273	\$153	\$503	\$727	\$878	+\$224	+\$151
Projected Payroll (\$M)	\$4,069	\$4,710	\$5,240	\$5,253	\$5,471		
School Districts							
Net Employer Rate	7.9%	5.4%	11.4%	17.2%	19.4%	+5.8%	+2.2%
Contributions (\$M)	\$399	\$308	\$720	\$1,050	\$1,252	+\$330	+\$202
Projected Payroll (\$M)	\$5,055	\$5,750	\$6,315	\$6,122	\$6,458		
Independents/All Others							
Net Employer Rate	9.9%	6.4%	11.2%	15.8%	18.2%	+4.6%	+2.4%
Contributions (\$M)	\$542	\$422	\$761	\$1,113	\$1,438	+\$352	+\$325
Projected Payroll (\$M)	\$5,503	\$6,570	\$6,775	\$7,040	\$7,893		
System-Wide							
Net Employer Rate	8.3%	5.2%	10.8%	15.7%	18.0%	+4.9%	+2.3%
Contributions (\$M)	\$1,214	\$884	\$1,984	\$2,890	\$3,568	+\$906	+\$678
Projected Payroll (\$M)	\$14,627	\$17,030	\$18,330	\$18,415	\$19,822		

“Net Employer Rate” includes the adjustment for employer side account offsets but not IAP contributions or the costs of debt service on pension obligation bonds. Contributions are total new dollars coming into the system, by biennium. Rates for 2013-15 become effective July 1, 2013, and rates for 2015-17 become effective July 1, 2015.

*Rates and payroll figures are from the 2011 valuation with payroll projected forward at the assumed payroll growth rate of 3.75% per year, and from Milliman's October 2012 blended rate calculation letter.

**Payroll is projected based on 2011 valuation payroll, increased by 3.75% per year through 2017. Rate projections are based on 2013-15 rates increased by the amount of the 2013-15 rate collar, assuming that all actuarial assumptions are met.

State of Oregon Total PERS Cost History (Percent of Covered Salary)

Biennium	Base* Rate (%)	Side Account Offset (%)	Pension Obligation Bond Cost** (%)	Member Contributions (%)	Total PERS Cost (%)
2001 - 2003	9.49	-	-	6.00	15.49
2003 - 2005	11.31	-6.60	6.45	6.00	17.16
2005 - 2007	16.12	-8.06	6.20	6.00	20.26
2007 - 2009	16.18	-9.47	5.87	6.00	18.58
2009 - 2011	13.00	-9.83	5.95	6.00	15.12
2011 - 2013	16.05	-6.45	5.62	6.00	21.22
2013 - 2015	20.41	-6.57	6.18	6.00	26.02

Estimated state payroll for the 2013-2015 biennium is \$5,253 million. The 2012-2015 system wide payroll estimates, in millions, (based on Milliman's 2011 System Valuation) for each calendar year are:

- 2012: \$8,551 ▪ 2013: \$8,872 ▪ 2014: \$9,204 ▪ 2015: \$9,550
- Biennium total (July 1, 2013-June 30, 2015): \$18,415

When comparing historical valuation rates, note that there have been a number of changes including:

- Money Match benefits were not valued until 1997
- A smoothed value of assets was used from 2000 through 2003
- PERS Reform was valued beginning 2001
- The entry age normal cost method was used until 2004 when projected unit credit (PUC) was adopted
- Beginning January 1, 2004, member contributions were placed in the IAP

* Source: Milliman blended PERS/OPSRP rate reports.

**DAS pension obligation bond cost charges per PERS Budget section.



PERS' Role in Legislation

The Oregon Legislature (ORS 238.660(9)) has charged the PERS Board with the responsibility to “review legislative proposals for changes in the benefits provided...and make recommendations... on those proposed changes.” In fulfilling this charge, the Board is acting “as a policy advisor to the Legislative Assembly and not as a fiduciary. The Board shall seek to maintain the balance between benefits and costs, and the relative risk borne by employers and employees.”

We would urge the Legislature to apply four key principles in considering the various PERS cost containment proposals and deciding which changes to make to reduce PERS employer rates:

- Focus on major cost drivers to generate real cost savings.
- Spread the burden across all affected groups, including retirees.
- Keep it simple: avoid unintended consequences, and enable informed retirement decisions.
- Enhance the system's credibility by addressing perceived inequities and abuses.

Cost Containment Measures

Governor Kitzhaber's 2013-15 Balanced Budget calls for two cost containment measures that meet the four principles:

- 1) Limit cost-of-living adjustments (COLAs) for current and future retirees to the first \$24,000 of annual benefits to reduce costs but protect low and moderate income retirees. Uncollared employer contribution rates would decrease by about 4.4% of payroll, saving approximately \$810 million in the 2013-15 biennium.
- 2) Eliminate the Oregon state income tax "offsets" from any Tier One PERS benefit payment not paid to an Oregon resident. Estimated savings of about 0.3% of payroll or about \$55 million in the 2013-15 biennium.

PERS has created a report that [analyzes PERS cost containment concepts](#) that have been in the public discussion. The report provides high-level information on how these concepts would affect PERS members and employers, and the potential impact on system funding and administration. The report includes concepts related to:

- Individual Account Program (IAP)
- Cost-of-living adjustments (COLAs)
- Money Match
- System financing

Presentation Day Two

Overview of PERS

The Agency

Agency Overview – Programs Administered

Tier One and Tier Two Programs

The Tier One/Tier Two programs cover active, inactive, and retired members hired before August 28, 2003.

Oregon Public Service Retirement Plan (OPSRP)

OPSRP is the program for new employees hired on or after August 28, 2003. OPSRP is a hybrid benefit program with both an individual account-based benefit and pension programs.

- Pension Program: Funded solely by employer contributions and associated earnings, members' retirement benefits are based on their final average salary, length of service, and type of service.

Individual Account Program (IAP)

All active members in qualifying positions contribute 6% of their salary into a supplemental retirement savings account, effective January 1, 2004.

Retiree Health Insurance Programs

PERS serves as a group sponsor providing health insurance services to approximately 56,000 retired members and dependents.

Judge Member Retirement Program

PERS administers a separate retirement program for all judges of the Oregon Circuit Courts, Court of Appeals, and Supreme Court with a unique contribution and payment structure.

Benefit Equalization Fund (BEF)

The BEF is an IRS-compliant excess benefit fund to pay the full amount of benefits earned by members that would otherwise be capped by Internal Revenue Code (IRC) Section 415.

Social Security Administration (SSA)

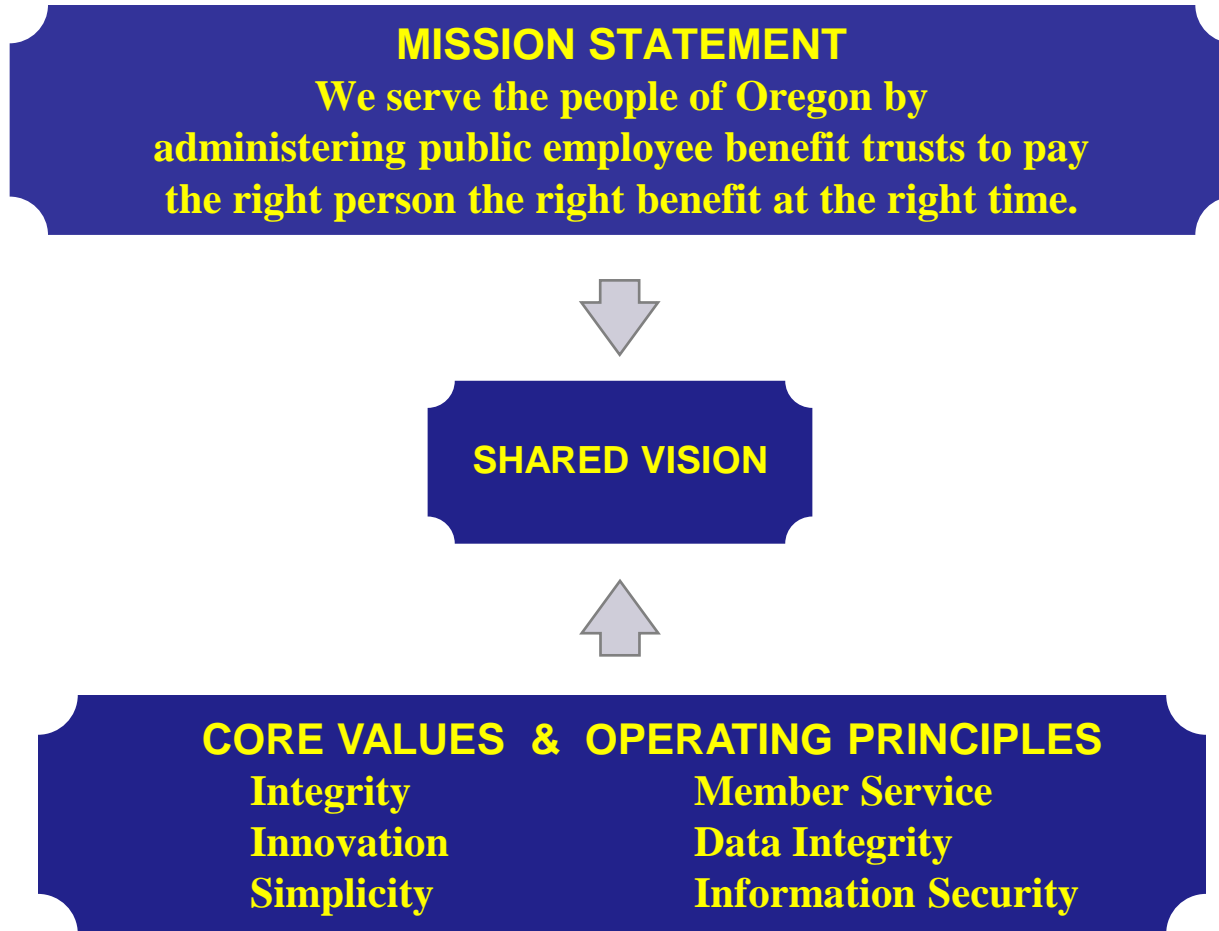
PERS administers the federal Social Security Administration (SSA) programs to over 1,000 Oregon public employers. That responsibility involves facilitating employer education, assisting with SSA coverage referendums, and other ancillary duties. Annual fees assessed to participating employers fund this service.

Deferred Compensation Program (Oregon Savings Growth Plan)

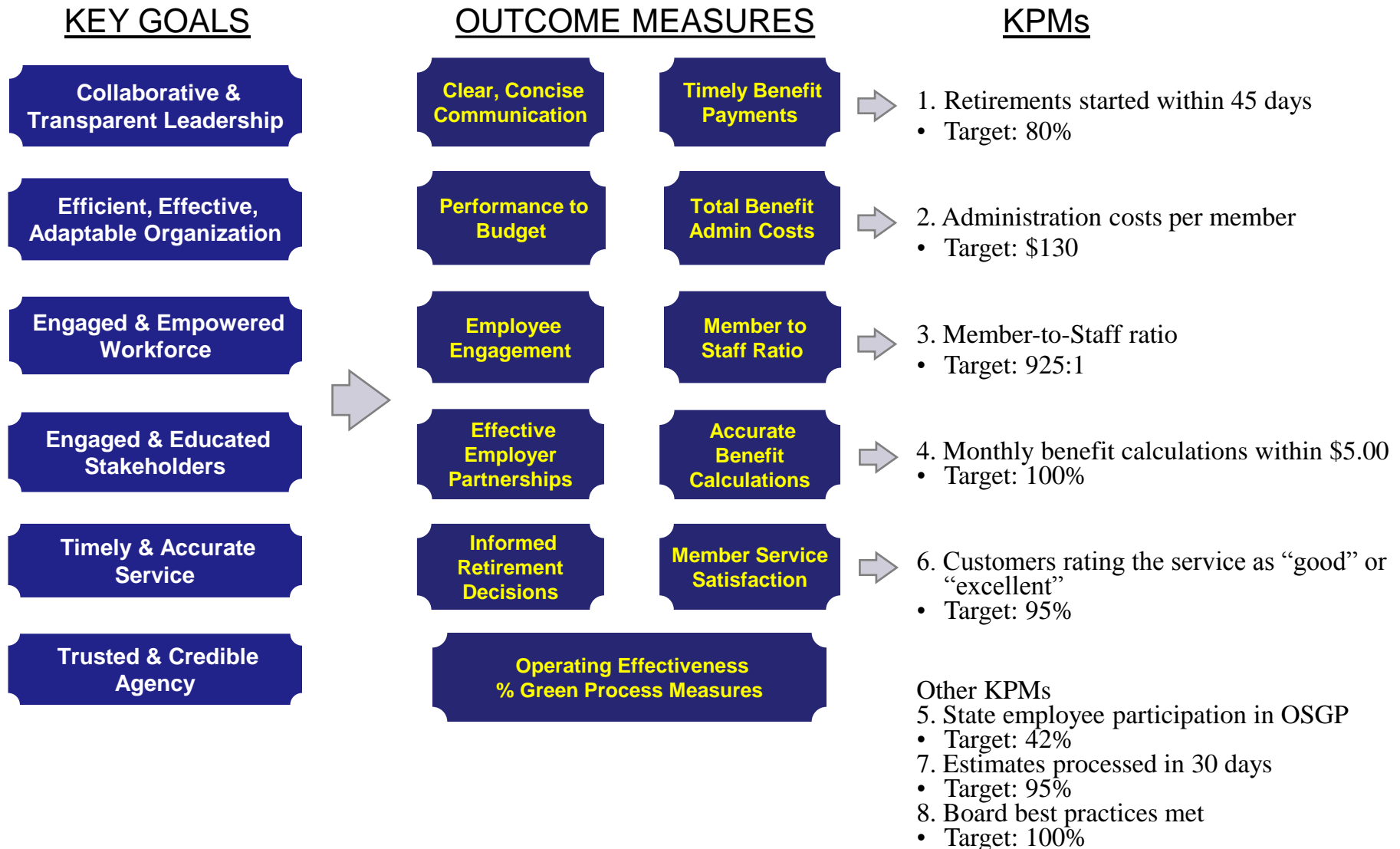
OSGP is a deferred compensation plan under §457 of the Internal Revenue Code available to all state employees and other public employers that choose to offer the program.

Agency Overview – PERS Fundamental Strategic Plan

PERS is implementing an outcome-based management system driving improvements to daily operations and work processes that are aligned with the agency's mission, core values, and core operating principles.



Agency Overview – Fundamentals Drive Alignment



Process Measures 4Q 2012 Scorecard Summary

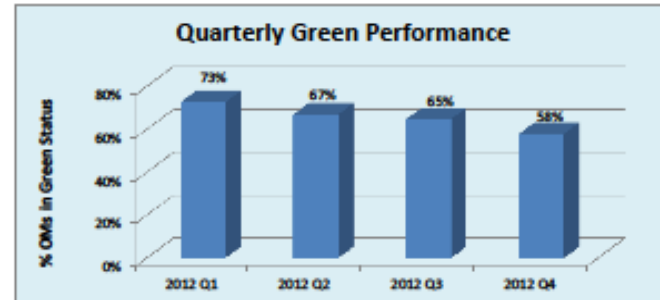
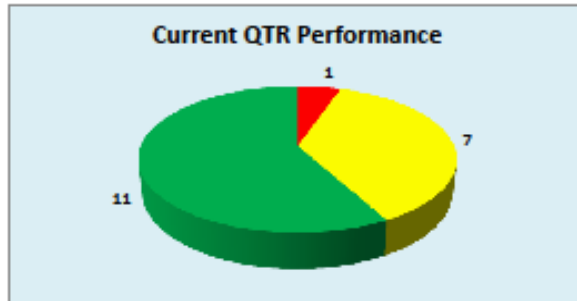
PUBLIC EMPLOYEES RETIREMENT SYSTEM Quarterly Target Review

OUTCOME MEASURE SUMMARY

QTR : 2012 Q4 - Quarter ended December 31, 2012

Total Outcome Measures: 21

Total Active Outcome Measures: 19



No.	Measure Name	Measure Calculation	RANGE			Target	Desired Perform. Trend	Data Collection Frequency	Data Source	Measure Owner	Measure Active / Inactive	Last Status	Status	Trend	Corrective Action & Comments
			Red	Yellow	Green										
O1: Clear/Concise Communication															
Y. Elledge															
O1a	Member/Employee satisfaction	% rating satisfaction good or excellent	<75%	75-89	>89%	95%	↑	Annual	Survey	Y. Elledge	A	83%	83%	=	Data as of FY2012
O1b	Service retirement application satisfaction	% rating satisfaction as good or excellent	<75%	75-89	>89%	95%	↑	Annual	Survey	Y. Elledge	I			=	
O1c	Call escalations	% of calls referred to Team One follow-up vs. total call volume	>4%	3-4	<3%	2%	↓	Monthly	Call Center	Y. Elledge	A	4.5%	5.0%	-	
O2: Employee Engagement															
S. Rodeman															
O2a	Selected Human Resource core process measures	% of SP3 pms are in green status (a, c, e, & f)	<50%	50-68	>68%	100%	↑	Quarterly	Scorecard	S. Rodeman	A	67%	67%	=	Based on 3 HR measures (SP5a not yet active). 2 out of the 3 measures are in green - timely performance evaluations in red.
O2b	Progress on scorecard measures	% of process measures in Agency Scorecard that improve from previous quarter	>5%	5-9	<9%	10%	↑	Quarterly	Scorecard	S. Rodeman	A	46.5%	46.9%	+	

PERS Legislatively Approved Budget Historical Comparison

	2003-05	2005-07	2007-09	2009-11	2011-13	2013-15 GBB
Limited:						
Other Funds- Personal Srvcs	39,846,965	46,953,972	50,682,707	52,751,494	56,744,618	60,533,935
Other Funds - Srvcs/Supplies	36,471,820	30,384,327	29,620,738	29,916,870	21,660,024	20,693,968
Other Funds - Capital Outlay	8,972,339	1,033,494	947,701	593,588	927,588	1,393,453
Other Funds	85,291,124	78,371,793	81,251,146	83,261,952	79,332,230	82,621,356
Other Funds Debt Srvc	3,629,282	5,720,950	5,709,200	1,423,075	1,418,600	1,302,850
Total	88,920,406	84,092,743	86,960,346	84,685,027	80,750,830	83,924,206
Permanent Positions	269	264	294	327	332	365
Limited Positions	151	137	100	41	33	3
Total Positions	420	401	394	368	365	368
Non-Limited:						
Other Funds	5,709,547,757	5,646,765,074	6,286,947,122	6,781,885,664	7,434,035,699	9,277,875,000
Other Funds Debt Srvc					3,140,326	
Total	5,709,547,757	5,646,765,074	6,286,947,122	6,781,885,664	7,437,176,025	9,277,875,000
Total Expenditures	5,798,468,163	5,730,857,817	6,373,907,468	6,866,570,691	7,517,926,855	9,361,799,206
% Limited/Total Budget	1.53%	1.47%	1.36%	1.23%	1.07%	0.90%

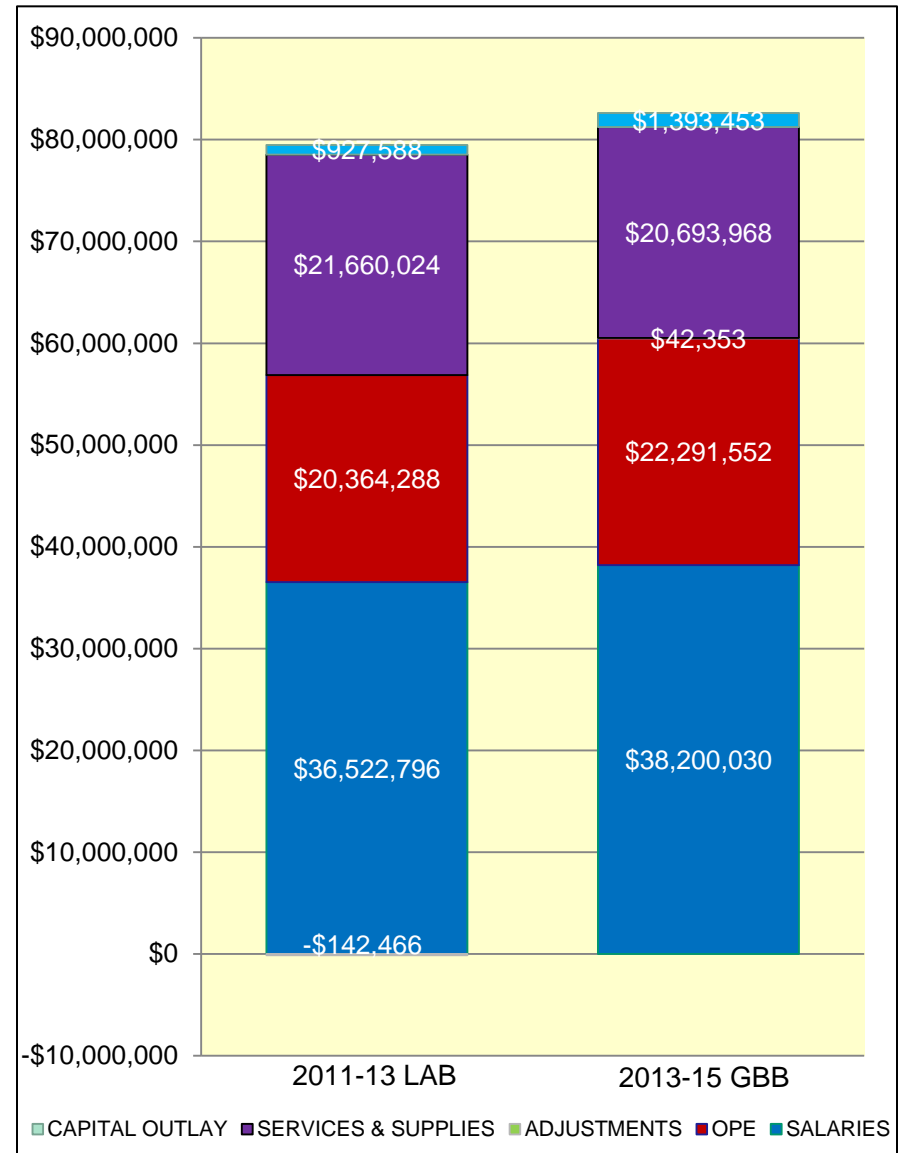
Budget Comparison: 2011-13 to 2013-15

PERS' 2013-15 budget increases

- Other Personnel Expenses (OPE): \$1,927,264
- Salaries: \$1,677,234
- Capital Outlay: \$465,865
- Adjustments: \$184,819

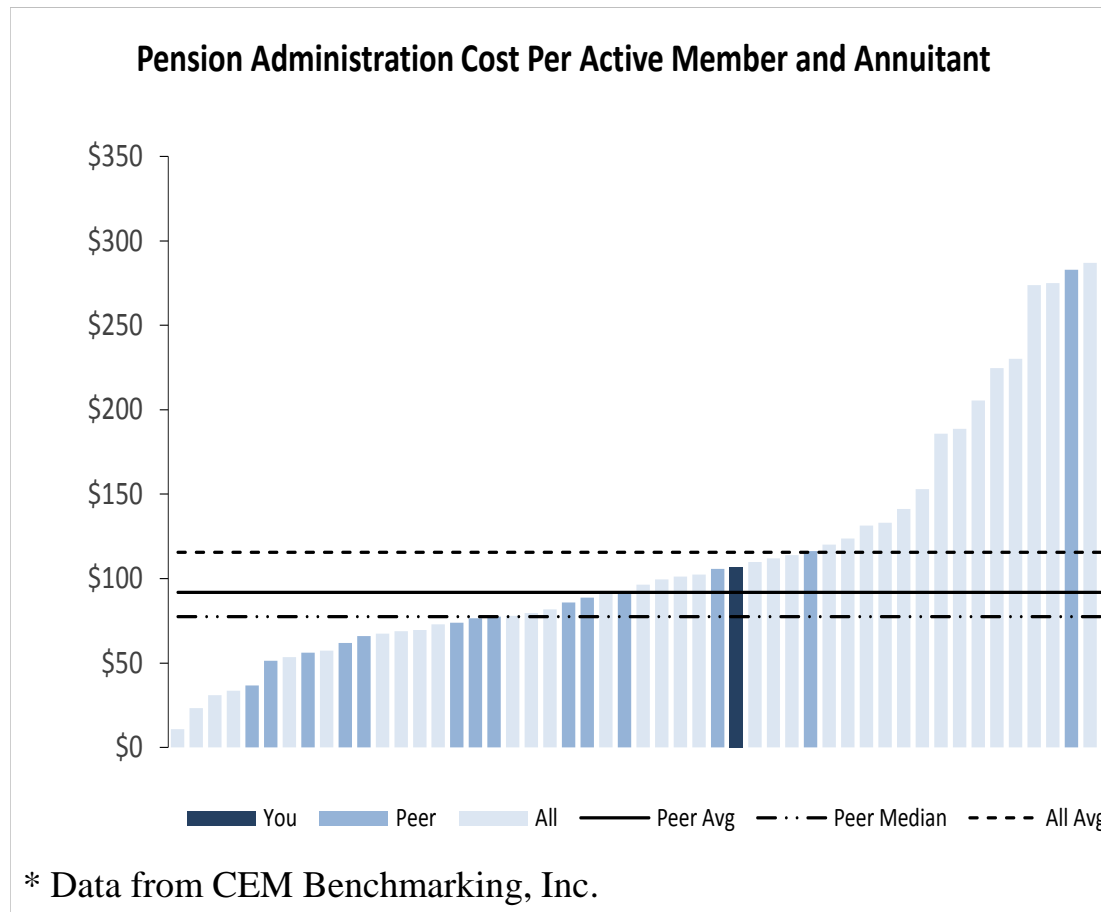
PERS' 2013-15 budget decreases

- Services and Supplies: (\$966,056)



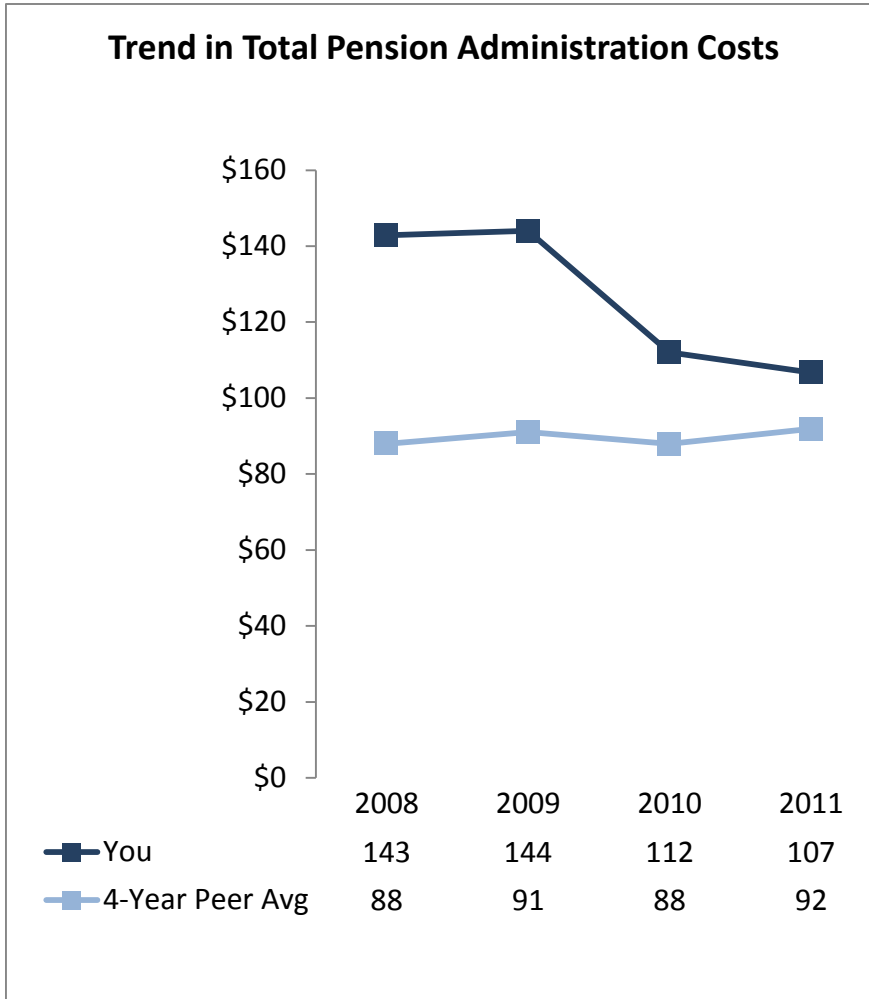
PERS Administration – Peer Comparison

PERS works with Cost Effectiveness Measurement, Inc. (CEM) to compare its administration to peer retirement systems. In its most recent report, CEM noted that Oregon PERS’ cost was \$107 per year per active and retired member. The cost per month per member is \$8.92.



- This was \$15 above the peer average of \$92 but \$10 below the North American average of \$117.
- PERS total pension administration cost was \$33.5 million.
- Excludes the cost of administering healthcare and optional benefits of \$7.1 million.

PERS Cost Trends*



- PERS costs decreased by 9.3% per year between 2008 and 2011.
- Average costs for peers increased by 1.5% per year over this time.
- The primary reason for the decrease was PERS' lower major project costs. Those costs decreased from \$10.9M in 2008 to \$3.4M in 2011.

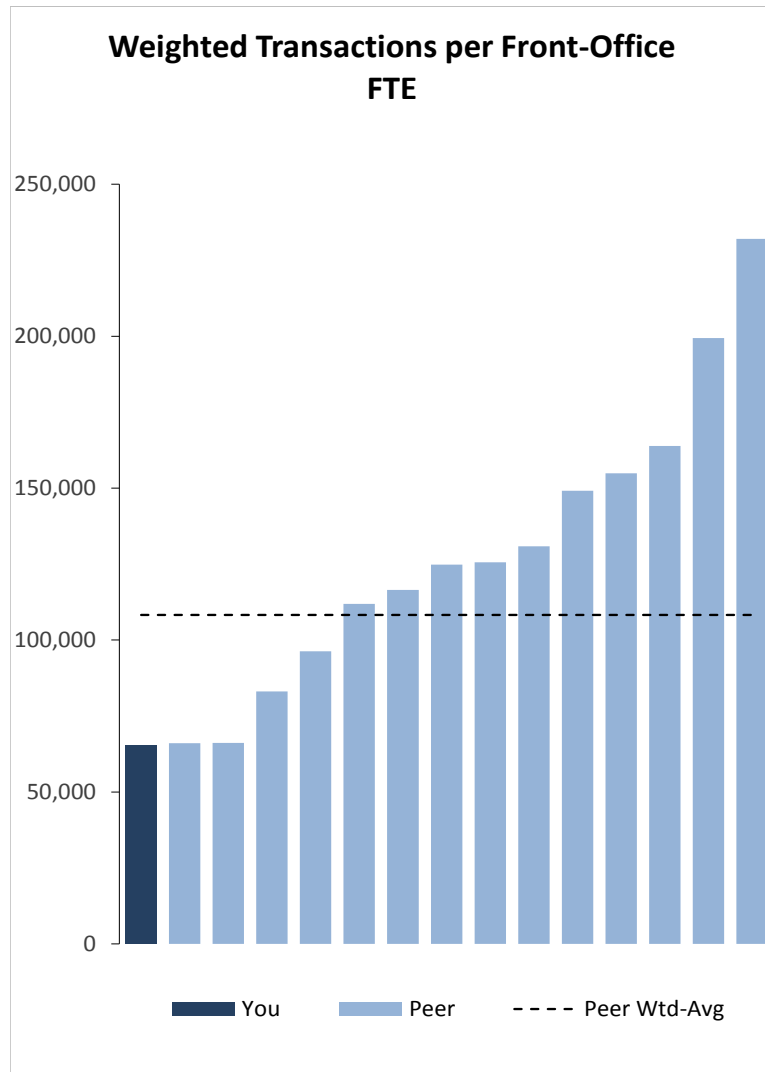
* Data from CEM Benchmarking, Inc.

Major Cost Drivers – PERS Compared to Peers*

Reason	Impact
1. Economies of scale advantage	-\$2.24
2. Lower transactions per member (workloads)	-\$0.53
3. Lower transactions per FTE (productivity)	\$21.60
4. Lower costs per FTE for: salaries and benefits, building and utilities, HR and IT desktop	-\$12.10
5. Lower third-party and other costs in front-office activities	-\$3.92
6. Paying more/-less for back-office activities:	
- Governance and Financial Control	\$0.36
- Major Projects	\$7.80
- IT Strategy, Database, Applications	\$3.74
- Actuarial, Legal, Audit, Other Support Services	\$0.10
Total	\$14.80

* Data from CEM Benchmarking, Inc.

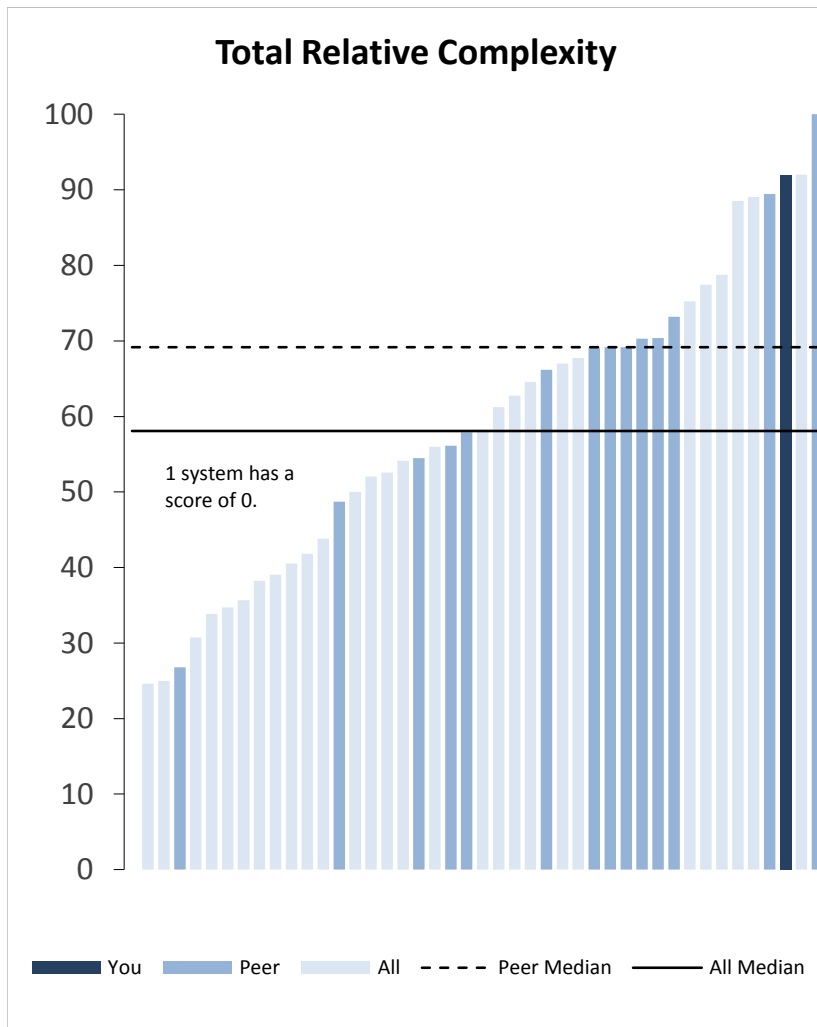
Major Cost Drivers – PERS Complexity*



- PERS’ transactions per front-office FTE were 40% below the peer average, increasing cost per member by \$21.60 over the peer average.
- This higher cost is because PERS administers multiple programs. Every retired member needs at least two separate retirement calculations. No other peer system performs dual retirement calculations, and the calculations they do are on comparatively simple plans.
- When costs are compared on a per transaction basis, PERS costs less than our peers. For fiscal year 2011, PERS’ cost per new payee inception was \$120.03, while the average peer cost per payee inception was \$133.70.

* Data from CEM Benchmarking, Inc.

PERS Complexity Relative to Peers*



Relative Complexity Score by Cause (0 least - 100 most)		
Cause	You	Peer Avg
Pension Payment Options	61	53
Customization Choices	24	18
Multiple Plan Types and Overlays	94	45
Multiple Benefit Formula	52	39
External Reciprocity	0	29
COLA Rules	57	35
Contribution Rates	68	48
Variable Compensation	100	78
Service Credit Rules	57	56
Divorce Rules	100	63
Purchase Rules	91	73
Refund Rules	31	48
Disability Rules	94	78
Translation	20	12
Defined Contribution Plan Rules	100	60
Total Relative Complexity	92	68

* Data from CEM Benchmarking, Inc.

Major Cost Drivers – FTE Costs*

Cost per FTE		
	You	FTE- Peer Avg
Salaries and Benefits	\$70,067	\$82,506
Pay-as-you-go benefits for retired staff	\$0	\$472
Building and Utilities	\$5,343	\$9,846
Human Resources	\$1,972	\$3,468
IT Desktop, Networks, Telecom	\$13,026	\$13,419
Total	\$90,408	\$109,711

PERS' lower costs per FTE decreased the total cost by \$12.10 per member relative to the peer average.

* Data from CEM Benchmarking, Inc.

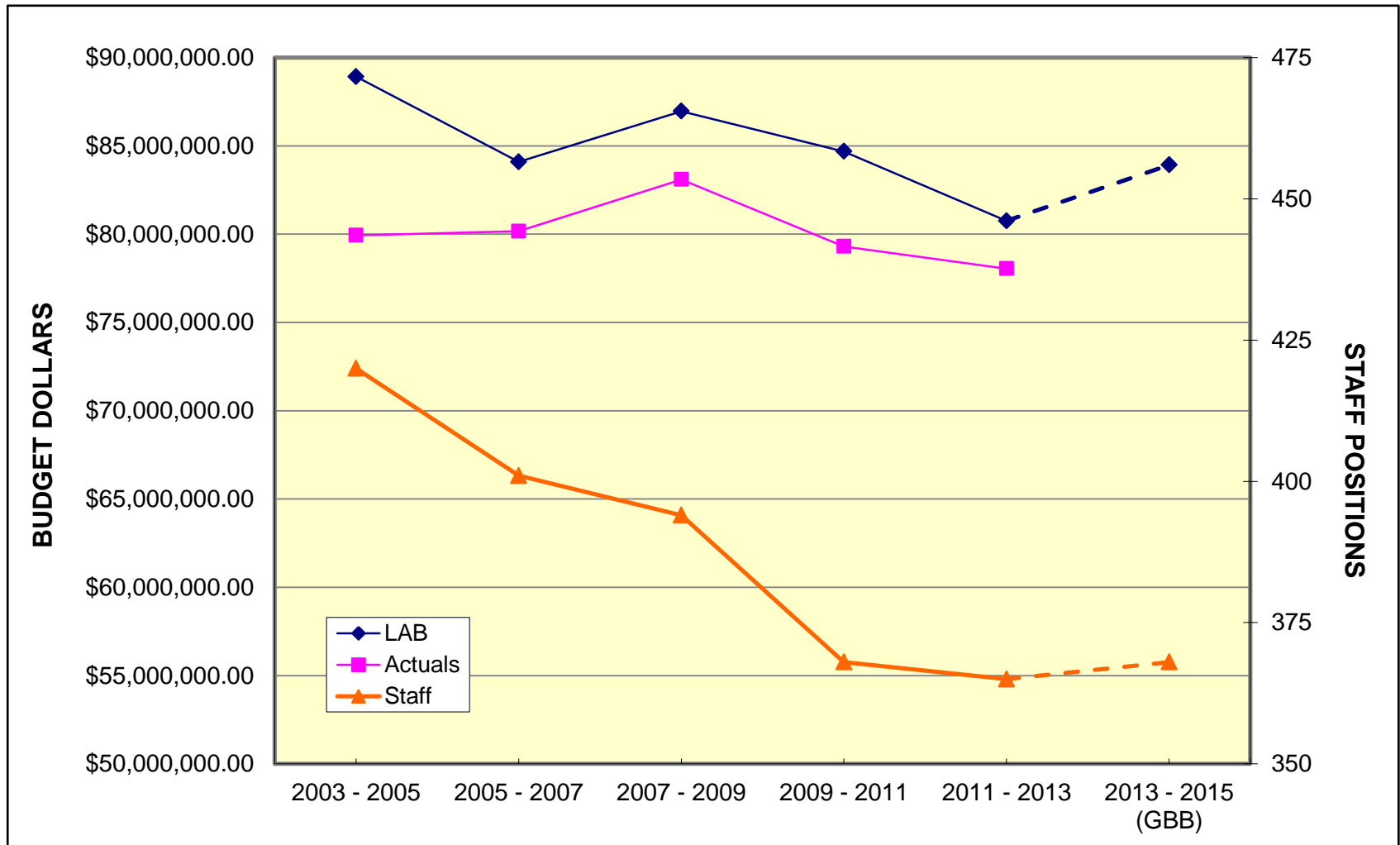
PERS Paid More for Back-Office Activities*

Back-Office Activities - Cost per Member			
Back Office Activities	You	Peer Avg	More/-less
Governance and Financial Control	\$6.81	\$6.45	\$0.36
Major Projects	\$12.73	\$4.93	\$7.80
IT Strategy, Database, Applications	\$16.88	\$13.13	\$3.74
Actuarial, Legal, Audit, Other	\$12.58	\$12.48	\$0.10
Total	\$48.99	\$36.99	\$12.00

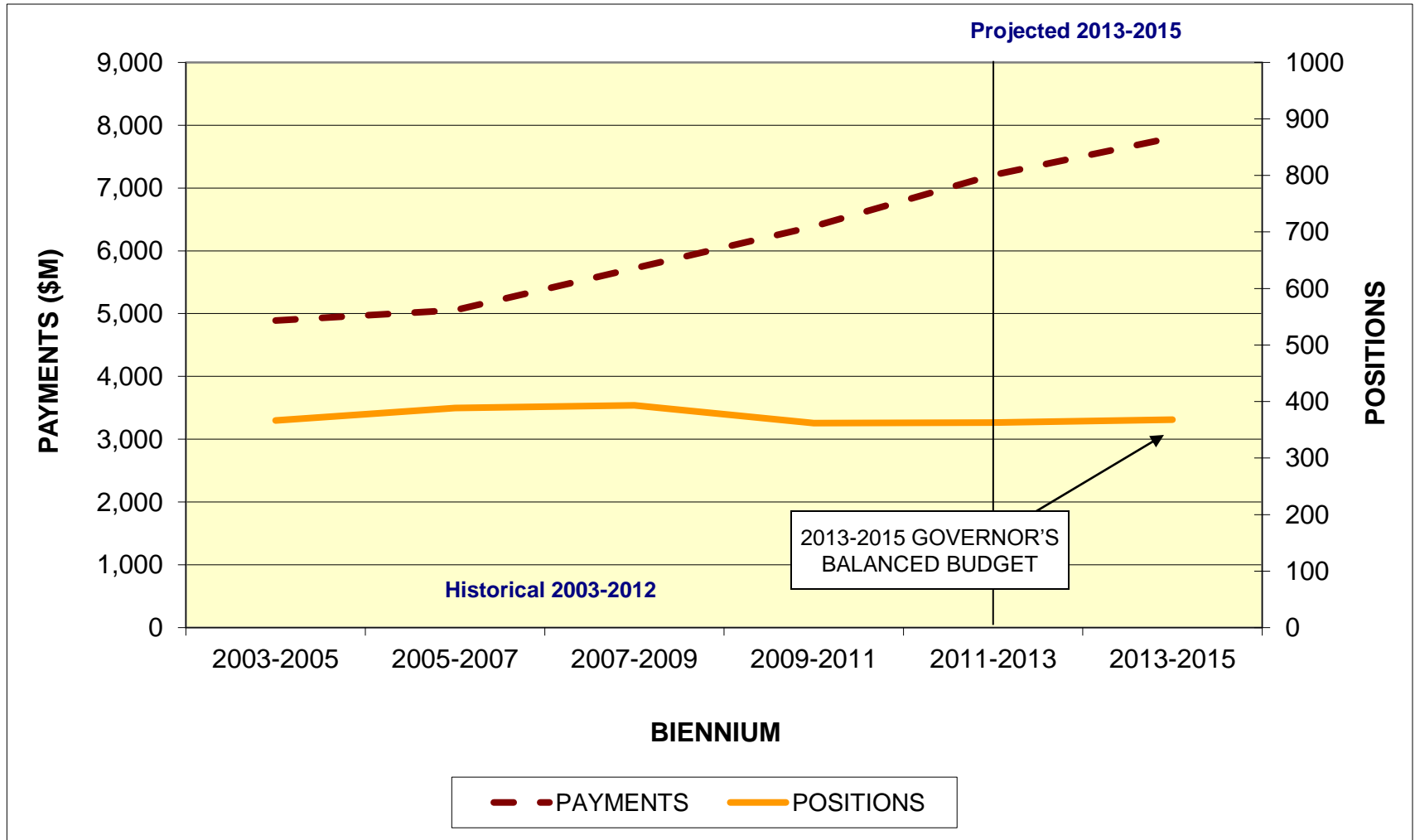
- PERS' cost per active and retiree of \$48.99 for back-office activities was above the peer average of \$36.99.
- This increased PERS' total cost per member by \$12.00 relative to the peer average.
- The average peer cost for Major Projects and IT Strategy, Database, Applications depends entirely on how many systems are undergoing those efforts.

* Data from CEM Benchmarking, Inc.

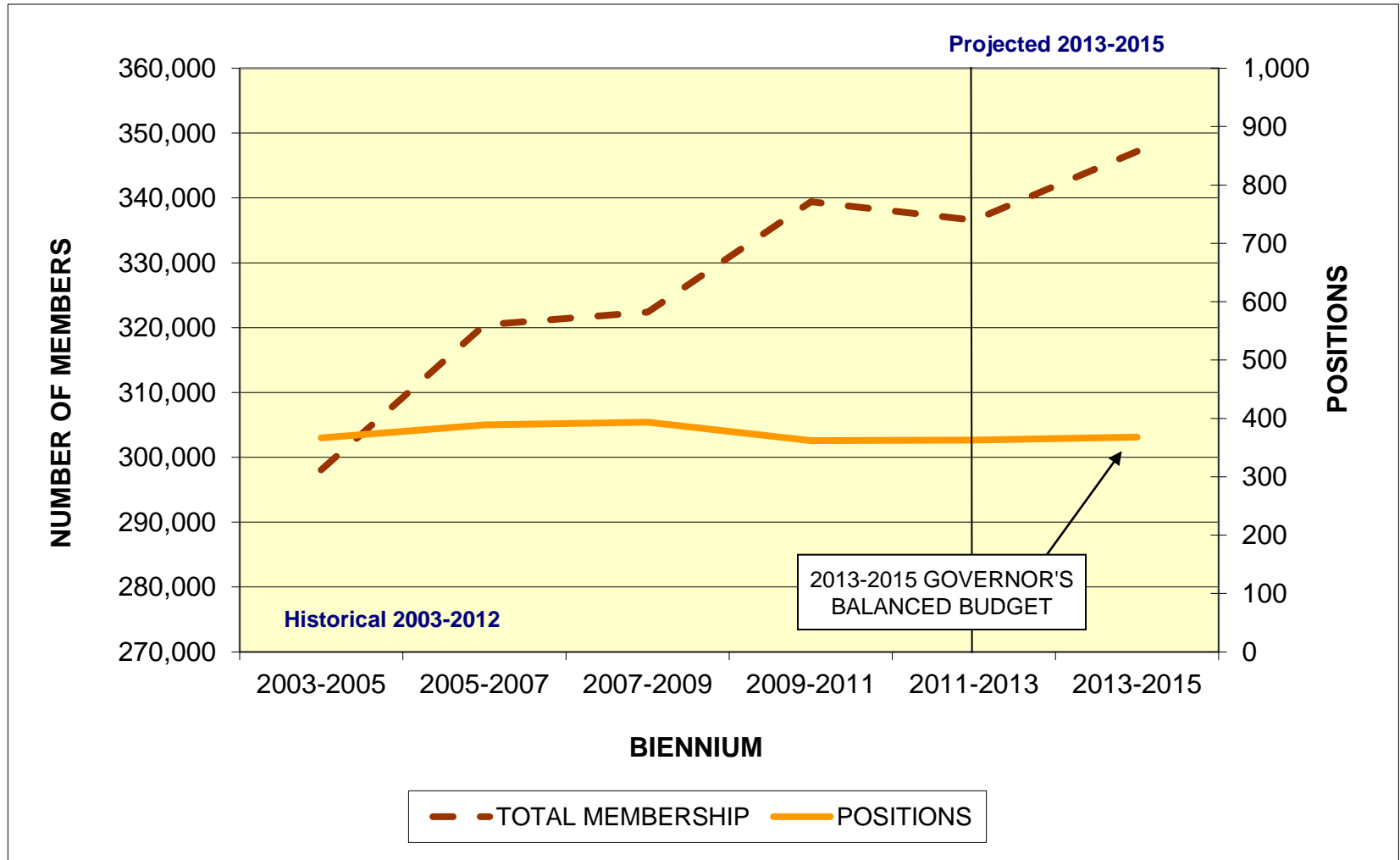
12-Year Operating Budget, Expenditure, and Staffing Trends



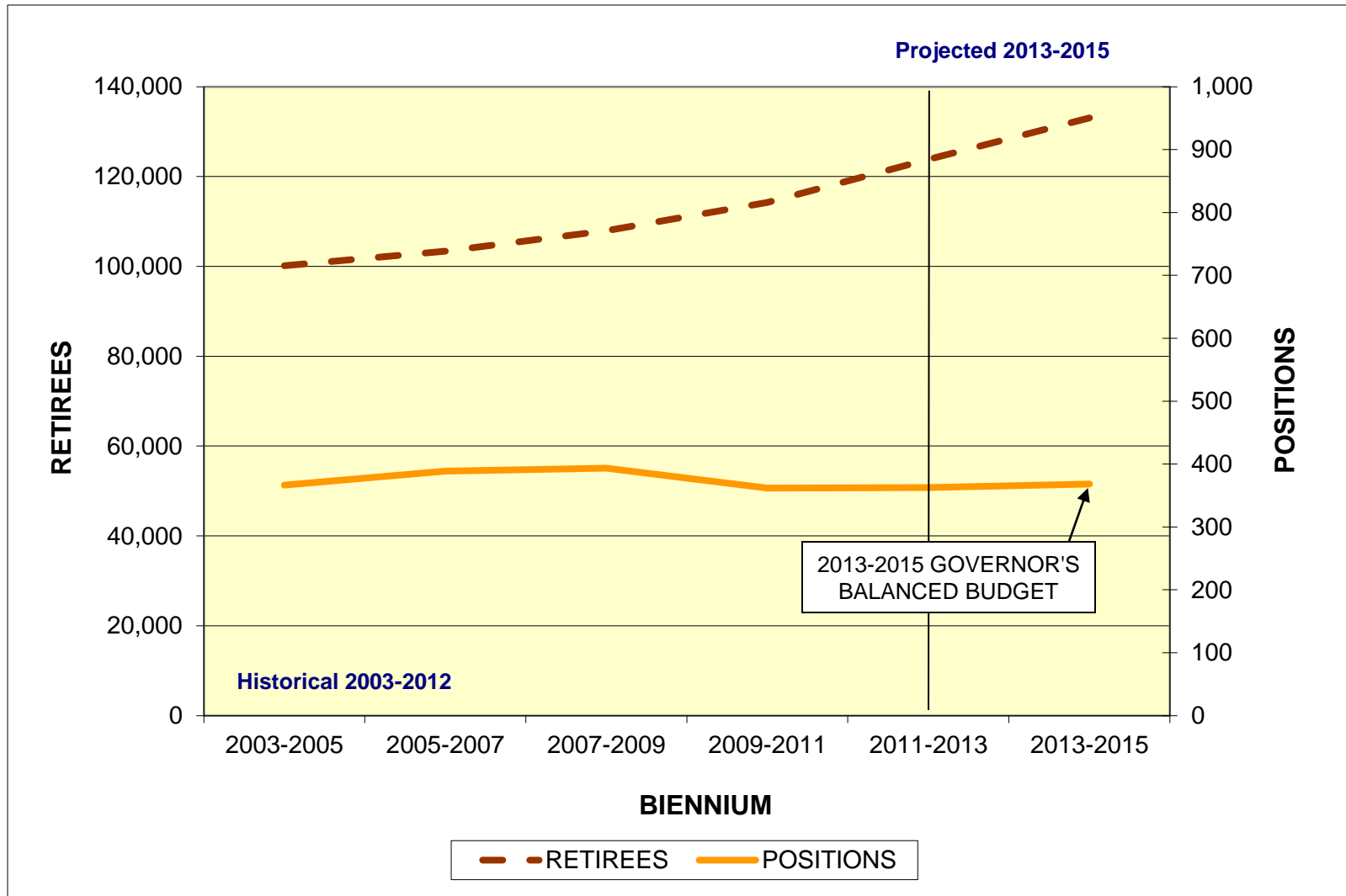
PERS Positions and Benefit Payments



PERS Positions and Total Membership



PERS Positions and Retirees



Statewide Policy Packages

Policy Package 081: May 2012 Emergency Board

Increases Other Funds by \$965,954, establishes three limited duration positions (3.0 FTE) to continue the recovery of overpaid benefits in conformance with the Oregon Supreme Court in the *Strunk* and *City of Eugene* cases, or \$564,191, and incorporates the SB 5701 non-distributed base budget adjustment as a result of position reductions implemented in Permanent Finance Plan #121, or \$401,763. The remainder of the SB 5701 \$750,000 adjustment (or \$348,237) is taken as a permanent reduction in Services & Supplies – Professional Services.

Policy Package 091: Statewide Administrative Savings

Included as a placeholder for administrative efficiencies in Finance, IT, HR, Accounting, Payroll, and Procurement activities that will be identified by the Enterprise Leadership Team's Improving Government subcommittee, reducing PERS' Other Funds by \$1,468,988.

Policy Package 092: PERS Taxation Policy

Included as a placeholder supporting a policy change discontinuing tax benefits for PERS retired members not residing in Oregon. This policy change saves approximately 40 basis points on the PERS employer rate, and reduces PERS' Other Funds by \$161,673.

Policy Package 093: Other PERS Adjustments

Included as a placeholder supporting a policy change that decreases the PERS employer rate by approximately 320 basis points, reducing PERS' Other Funds by \$1,291,845.

Policy Packages Summary

Policy Package 101 – Current Service Delivery Levels: \$5,455,428 Other Funds; replace 27 current limited-duration positions with permanent positions; establish three new permanent positions; and increase expenditures to meet current actuarial and audit requirements. These limited-duration positions have carried over from prior biennia as programs added through the 2003 PERS Reform legislation have normalized into core agency processes. These changes would staff agency functions to current service levels; the three new positions are tied to strategic objectives to improve member services. Actuarial and audit expenditure increases are caused by new national governmental accounting standards that will be imposed during the biennium.

Policy Package 102 – Retiree Health Insurance Program: \$803,696 Other Funds; establish three new permanent positions and increase the program’s actuarial and consulting support. Program administration capabilities need enhancement to adequately serve its 55,000 members and their dependents and to address the health industry changes on the near horizon.

Policy Package 103 – Infrastructure Maintenance & Enhancement: \$1,860,000 Other Funds; maintain and enhance foundational elements of the agency’s information infrastructure systems. The three components to the package are: (1) establish an enterprise-level data reporting function; (2) improve the agency’s business information storage; and (3) continue development on the agency’s enterprise-level IT applications.

Presentation Day Three

Preliminary 2012 Earnings Crediting

Preliminary 2012 Earnings Crediting (\$M)

Reserve/Account	Balance Before Crediting	2012 Crediting	Balance After Crediting	2012 Rates
Contingency Reserve	\$533.3	\$70.4	\$603.7	N/A
Tier One Member Regular Accounts	5,961.8	476.9	6,438.7	8.00%
Tier One Rate Guarantee Reserve	(345.3)	325.5	(19.8)	N/A
Benefits-In-Force (BIF) Reserve	19,160.7	2,739.4	21,900.1	14.30%
Tier Two Member Regular Accounts	666.2	97.2	763.4	14.59%
Employer Reserves	16,744.9	2,391.9	9,136.8	14.28%
OPSRP Pension Program	1,040.0	144.3	1,184.9	13.87%
UAL Lump-Sum Payment Side Accts*	4,782.3	731.3	5,513.6	Various
IAP Accounts**	4,250.8	595.7	4,846.5	14.19%
Regular Account Total	\$52,795.3	\$7,572.6	\$60,367.9	

* Side account earnings rates for lump sums on deposit vary depending on when the deposit was made within the calendar year and are not affected by Board reserving or crediting decisions.

** Informational only; not affected by Board reserving or crediting decisions.

Appendix 1: Strategic Plan and Process Improvements Supporting Documentation

Appendix 1: Strategic Plan and Process Improvements Supporting Documentation Table of Contents

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Program Priorities Summary

#1: Retirement, Death, and Disability Program

PERS administers a single, integrated system of retirement, death, and disability benefit programs for public employees throughout Oregon. Business processes, service delivery, and support functions are integrated across the agency's divisions and third-party administrators.

#2: PERS Retiree Health Insurance Program

Provides health care insurance protection to eligible members, including a Medicare health insurance supplement. Business processes, service delivery, and support functions are integrated across the agency's divisions and third-party administrators.

#3: Deferred Compensation Program

Provides a Section 457 deferred compensation plan (OSGP) for state and local government participants to supplement retirement savings.

Program Priorities Summary (continued)

#4: Social Security Coverage Program

Federally mandated program to assist public employers who join the federal Social Security Old Age and Survivorship Program. The state is required to maintain a single point-of-contact for the program; PERS serves as that contact.

#5: Debt Service Program

PERS' debt service is for repayment of costs to build the PERS headquarters building in Tigard. Construction was completed in 1997 at a total cost of \$8.3 million. The principle payment of \$1,100,000 and interest payment of \$192,850 are scheduled for 2013-15; the remaining balance of \$2.3 million will be paid off by May 2017.

PERS Policy Package 101: Current Service Level Continuation

Increases Other Funds by \$5,455,428 to continue 27 (twenty-seven) 2011-13 LAB-approved limited duration (LD) positions as permanent full-time positions, establish three new permanent positions, and increase budget limitation to meet current actuarial and audit requirements.

Component	Description	Budget Impact
Continuation of Limited Duration Positions as Permanent Positions	Continues 27 limited duration positions as permanent positions, to maintain current service delivery level. These positions have carried over from prior biennia as new programs have been added through 2003 reform legislation, and subsequent actions have been normalized into core agency functions, including planning and implementing process improvements, managing employers' data, reviewing and validating data, revising and creating business rules, and processing member appeals and contested cases.	27 positions 27.0 FTE Other Funds: \$4,378,657
Data Reconciliation – Legacy Data	Establishes two new permanent positions to augment the Data Analysis and Reconstruction Team responsible for analyzing and correcting data errors to allow a correct benefit to be paid in a timely manner.	2 positions 2.0 FTE Other Funds: \$277,361

PERS Policy Package 101: Current Service Level Continuation

Component	Description	Budget Impact
Data Reporting / Analysis and Performance Measurement	Establishes one new permanent position to support data reporting / analysis and performance measurement, including the development and implementation of a consolidated enterprise-wide data dictionary, data repository, data reporting and analysis process, and performance measurement process and schedule.	1 position 1.0 FTE Other Funds: \$164,410
GASB Pension Accounting and Reporting Requirements	Addresses costs for increased actuarial work to ensure compliance with ORS 238.660 (8) and generally accepted accounting principles (GAAP), and independent audit of employers' annual financial statements.	Other Funds: \$385,000
Secretary of State Audit Requirements	Addresses increased costs for Secretary of State, Audits Division, or their consultants to perform additional work based on revised GASB reporting requirements while auditing PERS' fiscal year-end financial statements.	Other Funds: \$250,000

PERS Policy Package 102: Retiree Health Insurance Program

Increases Other Funds by \$803,696, establishes three permanent positions, and provides budget limitation for actuarial and consulting support.

Component	Description	Impact
Program Administration	Establishes three new permanent positions for administration of retiree health insurance program with current enrollment of some 55,000 members, program administration including oversight of customer service, financial / accounting, and contract administration components, and direct supervision of program staff.	3 positions 3.0 FTE Other funds: \$553,696
Actuarial and Consulting Support	Addresses program need for actuarial and consulting support, including analysis of changes in the healthcare legal environment at the federal and state levels (i.e., Affordable Care Act, and Oregon Health Insurance Exchange), and ensuring proper accounting for the Incurred But Not Reported (IBNR) reserve amount	Other funds: \$250,000

POP 102 – PHIP Background Information

The Oregon PERS Health Insurance Program (PHIP) offers optional medical, dental, and long-term care insurance plans to eligible Tier One/Tier Two retired members, their spouses, and dependents. Upon retirement, these insurance options become a choice available to all PERS retired members. While primarily serving our Medicare-eligible (age 65 and over) population, the PERS Health Insurance Program also offers insurance coverage options for those not yet Medicare eligible.

Active members, their spouses, and dependents are not eligible for the PHIP. ORS 243.303 requires Oregon public employers to make their active employee group insurance programs available to their retirees and dependents that are not yet Medicare eligible (the rate must be no more than the blended rate for the entire group). Public employers may charge pre-Medicare retirees the entire monthly premium (as state government does) or may choose to subsidize the insurance premium for eligible retirees (as provided in varying degrees by individual school districts and local governments).

PERS administers three statutory trust funds under the PHIP for eligible Tier One and Tier Two retired members or surviving spouses. The Standard Retiree Health Insurance Account is a pass-through trust where member premium payments are held until being forwarded to the insurance provider. The other two trusts provide premium subsidies. These trusts are known as the Retirement Health Insurance Account (RHIA), serving all qualifying PERS retired members, and the Retiree Health Insurance Premium Account (RHIPA), serving qualifying members who retired from state government. Both trusts are funded from employer contributions on an actuarial basis.

POP 102 – PHIP Background Statistics

Program Enrollment (as of September 2012)

Medical Plans (four plans offered)	Totals	Medicare	Non-Medicare
Covered lives	55,922	53,268	2,654
Retirees (or surviving spouses)	45,158	43,572	1,586
Spouses/Dependents	10,764	9,696	1,068
Average age of enrolled retirees	74	75	57

Dental Plans (two plans offered)	32,893
Long Term Care Plan	1,968

Statutory Health Insurance Premium Subsidies

Retirees receiving RHIA (trust fund held by PERS*)	41,817
Retirees receiving RHIPA (trust fund held by PERS**)	1,165
RHIA monthly payment total	\$2,509,020
RHIPA monthly payment total	\$331,211

Employer rates (effective July 1, 2011):

RHIA: 0.59%

RHIPA (state only): 0.16%

Unfunded actuarial liabilities (as of December 31, 2011): \$222 million (RHIA); \$30 million (RHIPA)

* The RHIA subsidy is \$60 per month for Medicare eligible retirees.

** The RHIPA subsidy is for state government pre-Medicare retirees only and varies depending on the employee's years of state service, from \$158.08 (8 years) to \$316.16 (30+ years) per month for Plan Year 2012.

POP 102 – Business Case for PHIP Changes

An external audit of PERS financial statements found significant deficiencies in the PERS Health Insurance Program (PHIP) internal controls over financial reporting. PERS then conducted its own internal review of PHIP, led by its internal audit staff as a consulting engagement. That review led to a risk assessment that identified four risk areas:

1. Program Governance – The current program lacks defined goals and organizational structure. The PHIP governance and program management model do not provide the principles and structure necessary to provide adequate strategic planning and oversight to the program.
2. Fund Management and Reporting – Financial processes and controls are not adequate to manage the various PHIP funds, which have led to the inability to monitor the financial aspects of the program and inaccurate financial reporting
3. Member Eligibility – The program lacks adequate staffing and technical resources. Eligibility processing is not routinely integrated into PERS operations or otherwise structured to minimize determinations, which results in eligibility errors and appeals
4. Contract Administration – The program has an excess of reliance on contractors without checks and balances. Multiple health care providers, Benefit Health Solutions (BHS), and consultants play a role in managing this program; however, there is insufficient oversight which leads to lack of transparency and accountability.

PERS proposed POP 102 to adequately address these risk areas, but this budget request does not represent the only solution. With all the projected changes in the health insurance area, POP 102 may evolve as these solutions are integrated into the broader discussion of Oregon’s evolving health insurance picture.

PERS Policy Package 103: Infrastructure Maintenance & Enhancement

Increases Other Funds by \$1,860,000 to maintain and enhance foundational elements of the agency’s infrastructure and information systems.

Component	Description	Budget Impact
Data Reporting	Establishes a centralized, enterprise-level data reporting function, including hardware (\$50,000), system software – reporting tools (\$150,000), IT professional services for implementation and deployment (\$200,000), and ongoing maintenance (\$30,000 annually).	Other Funds: \$460,000
Storage Area Network	Enhances the agency’s business information storage, including hardware (\$200,000), software (\$125,000), IT professional services for implementation and deployment (\$100,000), and ongoing maintenance (\$75,000).	Other Funds: \$500,000
System Maintenance and Enhancement	Maintains and enhances current capabilities, including hardware (\$250,000), software (\$40,000), and IT professional services for implementation and deployment (\$610,000).	Other Funds: \$900,000

2012 Key Performance Measures (KPMs)

- Key performance measures (KPMs) used to gauge PERS' progress historically and with public retirement system peer group
- KPM results are used to formulate strategic and tactical plans which are, in turn, used to develop the agency's biennial budget based
- KPMs and internal performance measures help guide longer-term management and agency restructuring
- CEM Benchmarking (a third-party consultant) provides analysis and peer comparisons, including activity cost, customer service, workload volume, relative complexity, and best practices
- The agency then determines and prioritizes workload processing changes and customer service enhancements

2012 Key Performance Measures (KPMs)

KPM	Status and Comments
<p>1. Timely retirement payments (percentage of initial service retirements paid within 45 days of retirement date) Target: 80%</p>	<p>Decrease: During 2012, 33% of benefit payments were issued within 45 days of retirement date, down from 40% in 2011. This annual decrease is primarily due to IT system transition during final deployment in the first half of 2012, reaching a low of 13% of benefit payments being issued within 45 days of retirement date. Performance rebounded to 72% during the second half of 2012, after system deployment.</p>
<p>2. Total benefit administration costs (benefit administration cost per member) Target: \$130</p>	<p>Target exceeded: Total benefit administration cost per member increased from \$115 in 2011 to \$125 in 2012. This was well within the targeted performance of \$130 or less for 2012.</p>

2012 Key Performance Measures (KPMs)

KPM	Status and Comments
<p>3. PERS member-to-staff ratio Target: 925:1</p>	<p>Decrease: Ratio decreased from 975:1 in 2011 to 970:1 in 2012, due to flat membership growth and the addition of Limited Duration staff supporting the <i>Strunk/Eugene</i> Overpayment Recovery Project. Ratio is still above target.</p>
<p>4. Accurate benefit calculations (percentage of monthly benefits calculated to within \$5) Target: 100%</p>	<p>Approaching target: Initial service retirements calculated accurately to within \$5 per month 99% of the time in 2012. Performance was within 1% of the targeted 100% in the first year for this KPM.</p>
<p>5. Percent of state employees participating in the deferred compensation program (OSGP) Target: 42%</p>	<p>Increase: State employee participation in OSGP increased from 36% in 2011 to 37% in 2012, while OSGP continues to enhance efforts to educate and remind existing and new employees of the benefits of participating in the program.</p>

2012 Key Performance Measures (KPMs)

KPM	Status and Comments
<p>6. Percent of customers rating the agency's customer service as "good" or "excellent"</p> <p>Target: 95%</p>	<p>Decrease: 91% of members and retirees rated PERS customer service "good" or "excellent" overall in the 2012 customer satisfaction survey, down from 93% in 2011. This is short of the newly increased target of 95%.</p>
<p>7. Timely benefit estimates (percent of benefit estimates processed within 30 days of request)</p> <p>Target: 95%</p>	<p>Decrease: PERS provided benefit estimates within 30 days of the request 40% of the time in 2012, a decrease from 57% in 2011, mainly due to addressing an existing backlog from 2011.</p>
<p>8. Percent of best practices met by Board of Directors</p> <p>Target: 100%</p>	<p>Target met: 100% of the 15 best practices criteria were met from 2010 through 2012, an increase from 93% in 2009.</p>

2011-13 Progress Report

With the combined resources of the agency's base budget and POPs, PERS made significant progress on the objectives set forth in the Six-Year Strategic Outlook and the Key Performance Measures, as well as in the area of business process improvements. Indicators of the progress made in 2011-13 are discussed on the following pages and include:

- Timely and Accurate Benefit Payments
- High-Quality Customer Service
- Optimized Effectiveness and Efficiency
- Business Process Improvements

2011-13 Progress Report: Timely and Accurate Payments of PERS Benefits

The KPM is to provide 80% of initial retirement payments within 45 days of the member's effective retirement date. PERS has made progress toward this measure, attaining a 59% rate for the 6-month period of January through June 2010. This upward trend from 23% in the 2009 calendar year is due to process improvements and focused prioritization. The 2009 rate was also reduced as a result of allocating staff resources to the RIMS Conversion Project to test new system functionality, write procedures, and train staff on new tools and processes.

The payoff has been the 2010 resulting improvement as new processes and system functionality have improved service delivery on this measure after successfully working through a deployment and transition period. Eligibility determinations have also been streamlined and moved further up the timeline. PERS also made a process improvement by centralizing the processing of all incoming documents, and better utilizing new automation and workflow tools, which has improved the tracking of applications, separations, and information requests. In addition, PERS has established quality assurance procedures to increase accuracy.

2011-13 Progress Report: High-Quality Customer Service

The KPM is to achieve a customer satisfaction rating of “good” or “excellent” from 80% of members and employers. The percentage of members rating our service either “good” or “excellent” was 83% in 2011; employers’ ratings were 7%. Adding Retirement Application Assistance Sessions to review retirement applications has reduced the rejection rate to approximately 1% compared to a 10% rejection rate for applications not reviewed in those sessions. Response times on email and letter inquiries have been reduced to only a few days instead of weeks.

2011-13 Progress Report: Optimize Effectiveness and Efficiency

PERS strives to deliver high-quality, cost-effective service to members and employers. The successful completion of the *Strunk/Eugene* project and the RIMS Conversion Project will help to stabilize PERS' annual operating expenditures. PERS' member to staff ratio increased to 928:1 in Fiscal Year 2010, up from 848:1 in 2009, continuing the trend of member to staff ratios exceeding the Performance Measure over the last three years.

This trend shows PERS has been able to provide services to a greater number of members without significantly increasing its staffing levels. Within our current budget, efficiencies have allowed the agency to process more retirements (Tier One/Two, IAP, and OPSRP Pension Program), increasing from 13,303 in 2010 to 16,548 in 2011; more membership eligibility reviews (from 17,850 in 2010 to 21,670 in 2011; and more member information requests via emails (from 63,827 in 2010 to 122,388 in 2011).

2011-13 Progress Report: Business Process Improvements

The most recent technology improvements implemented in connection with the RIMS Conversion Project continued to expand employer's Web functionality. With the deployment of functionality to the new platform, the Oregon Retirement Information Online Network (ORION), employers have improved access and are submitting more reports and accomplishing more tasks via the Web interface instead of manually submitting paper documents. Updates to system validation rules continue to enhance the quality of the data submitted. ORION is providing a stronger connection between membership information and benefit payments, thus offering more automated checks and balances. Workflow requirements for cash processing provides greater control over refund processing. Once ORION is fully deployed in 2011, all payments will be generated and disbursed through that new system, offering improved audit controls and discontinuing the practice of paper check requests.

Lastly, two final initiatives are creating positive expectations: 1) An update to our financial reporting software will move us from antiquated COBOL code to a new SQL environment. This update will allow more efficient data access, the ability to query fresher data, and to efficiently extract selected transactions. 2) A business case is under development to examine current banking processes and costs, study current banking trends and options, and contemplate greater efficiencies and reduced costs for cash management.

2013-15 Information Technology Initiatives

Data reporting

Current enterprise-level reporting uses a basic data warehouse established to meet limited reporting needs. To respond to increased reporting needs and ORION system complexity, the agency seeks to reduce enterprise-level risks related to improper or inconsistent data reporting by achieving six specific objectives:

- 1) develop and implement a consistent enterprise-level data dictionary;
- 2) develop consistent business definitions and programming code;
- 3) identify and implement an enterprise-level data reporting tool;
- 4) re-design the current data warehouse to make data access easier and to expand role-based data access;
- 5) develop and implement standard report templates; and,
- 6) establish a “center of expertise” to enhance the agency’s ability to consistently provide data in an accurately and timely manner.

2013-15 Information Technology Initiatives

Storage Area Network (SAN)

PERS' current production SAN is over six years old, reached the end of IBM's product offering life in August of 2009, and is scheduled to reach IBM's end of product support in August of 2014. While the agency can purchase extended support beyond 2014, the current SAN is configured for maximum data storage capacity and does not provide a viable ongoing solution for PERS, which is increasingly dependent on document/image storage, historical data, and Disaster Recovery/Business Continuity Planning (DR/BCP). Replacing the current SAN with newer and scalable SAN technology will provide more flexibility for future growth and support all business requirements including DR/BCP solutions.

2013-15 Information Technology Initiatives

Maintenance and Enhancements

PERS needs to maintain the ORION platform with upgrades, patches, and new components to continue to provide continued high level customer service and responsiveness. These enhancements will be performed by a combination of internal staff and external contractors. The funds will be used to address complex system maintenance and enhancement activities that arise out of system defects, functionality gaps, additional stakeholder needs, new/changed pension plan business rules, and agency business strategy. For example, a prime investment opportunity would be to bring administration of the Individual Account Program in-house, eliminating \$2 million in annual costs to a third party administrator. Overall, however, the agency's objective is to ensure that ORION continues as a viable tool to leverage technology in advancing business and operation efficiencies to meet the agency's key goals and service levels.

Information Technology-Related Projects: Data Reporting

(THAT EQUAL OR EXCEED \$150,000)

Agency Name:	PUBLIC EMPLOYEES RETIREMENT SYSTEM						
Project Name:	DATA REPORTING						
Mandated Project?	Yes X No		By: Legislature, Federal Gov, Other (identify it)				
Budget?	Base X POP		Which agency or state plans or goals does it align with and/or support?				
Project Purpose	Routine Lifecycle Replacement Upgrade/Enhance Existing System X New System						
Project Status	X Concept Stage Planning Stage Ready to Implement Continuation of Existing Project						
SDC Involvement	X None Minor Active Participating Partner						
Estimate SDC Costs	\$ 0		Preliminary Estimate		Project Design Estimate		
<p>Project Description:</p> <p>Current enterprise-level reporting uses a basic data warehouse established to meet limited reporting needs. To respond to increased reporting needs and ORION system complexity, the agency seeks to reduce enterprise-level risks related to improper or inconsistent data reporting with the achievement of six specific objectives: 1) develop and implement a consistent enterprise-level data dictionary; 2) develop consistent business definitions and programming code; 3) identify and implement an enterprise-level data reporting tool; 4) re-design the current data warehouse to make data access easier and to expand role-based data access; 5) develop and implement standard report templates; and, 6) establish a “center of expertise” to enhance the agency’s ability to consistently provide data in an accurately and timely manner.</p>							
Cost Summary							
Total estimated cost by fund (13-15):	General Fund	Lottery Funds	Other Funds	Non-Limited	Federal Funds	Non-Limited	Total Funds
	\$	\$	\$460,000	\$	\$	\$	\$460,000
Total estimated cost by fund (all biennia):	\$	\$	\$460,000	\$	\$	\$	\$460,000
Estimated Cost by category (13-15):	Personal Services	Services & Supplies	Capital Outlay	Special Payments	Debt Service		
		\$260,000	\$200,000	\$	\$		
Estimated Cost by category (all biennia):		\$260,000	\$200,000	\$	\$		
					Positions: Internal		
	Expected Start Date:	7/1/2013			Contractor	Various	
	Expected Completion Date:	6/30/2015			FTE:		

Information Technology-Related Projects

Definitions:

Project Purpose:

- Routine Lifecycle Replacement—Normal and regularly scheduled, part of the normal planned lifecycle replacement cycle
- Upgrading or Enhancing an Existing System—Change to an existing information system that results in improvements in functionality or enables the system to continue being supported by the vendor. Improved functionality enables the system to perform new tasks.
- New System—Developing or acquiring and using a new information system

Project Status

- Concept Stage - Determining the feasibility and benefits of the project. The Agency may or may not move forward with the project upon completion of this stage.
- Planning Stage - Project is in the planning stages and will move forward at some point in time upon receipt of legislative approval/funding
- Ready to Implement - The planning is near final stage and this project will be implemented upon receipt of legislative approval/funding
- Continuation of Existing Project - Project covers more than a single biennium. This funding request represents the portion of the project still to complete.

State Data Center (SDC) Involvement

- None—Project does not have an impact on the SDC
- Minor—SDC involvement is expected to be minimal (e.g. less than 8 hours of work)
- Active—Will need to have specific actions taken by the SDC in order to complete project that will require SDC involvement (e.g. between 8 and 80 hours)
- Participating Partner—Will need to work with SDC for significant time to insure that the project can move into production. SDC time greater than 80 hours. Examples may include SDC architecture and provisioning work.

Estimate SDC Costs

- Preliminary Estimate - Rough Order of Magnitude estimate based on high level project information available at the current stage in the project's lifecycle
- Project Design Estimate – Cost estimate based on detailed project information (i.e. cost estimate provided after some level of architecture and design work between the agency and the SDC has been completed)

Information Technology-Related Projects: Storage Area Network (SAN)

(THAT EQUAL OR EXCEED \$150,000)							
Agency Name:	PUBLIC EMPLOYEES RETIREMENT SYSTEM						
Project Name:	STORAGE AREA NETWORK (SAN)						
Mandated Project?	Yes X No		By: Legislature, Federal Gov, Other (identify it)				
Budget?	Base X POP		Which agency or state plans or goals does it align with and/or support?				
Project Purpose	X Routine Lifecycle Replacement Upgrade/Enhance Existing System New System						
Project Status	X Concept Stage Planning Stage Ready to Implement Continuation of Existing Project						
SDC Involvement	X None Minor Active Participating Partner						
Estimate SDC Costs	\$ 0		Preliminary Estimate		Project Design Estimate		
Project Description:							
<p>PERS' current production SAN is over six years old, reached the end of IBM's product offering life in August of 2009, and is scheduled to reach IBM's end of product support in August of 2014. While the agency has the option of purchasing extended support beyond 2014, the current SAN is configured for maximum data storage capacity and does not provide a viable ongoing solution for PERS, which is increasingly dependent on document/image storage, historical data, Disaster Recovery/Business Continuity Planning (DR/BCP). Replacing the current SAN with newer and scalable SAN technology will provide more flexibility for future growth and support all business requirements including DR/BCP solutions.</p>							
Cost Summary							
Total estimated cost by fund (13-15):	General Fund	Lottery Funds	Other Funds	Non-Limited	Federal Funds	Non-Limited	Total Funds
	\$	\$	\$500,000	\$	\$	\$	\$500,000
Total estimated cost by fund (all biennia):	\$	\$	\$500,000	\$	\$	\$	\$500,000
Estimated Cost by category (13-15):	Personal Services		Services & Supplies	Capital Outlay	Special Payments	Debt Service	
	\$		\$175,000	\$325,000	\$	\$	
Estimated Cost by category (all biennia):	\$		\$175,000	\$325,000	\$	\$	
						Positions: Internal	
Expected Start Date:				7/1/2013		Contractor	Various
Expected Completion Date:				6/30/214		FTE:	

Information Technology-Related Projects

Definitions:

Project Purpose:

- Routine Lifecycle Replacement—Normal and regularly scheduled, part of the normal planned lifecycle replacement cycle
- Upgrading or Enhancing an Existing System—Change to an existing information system that results in improvements in functionality or enables the system to continue being supported by the vendor. Improved functionality enables the system to perform new tasks.
- New System—Developing or acquiring and using a new information system

Project Status

- Concept Stage - Determining the feasibility and benefits of the project. The Agency may or may not move forward with the project upon completion of this stage.
- Planning Stage - Project is in the planning stages and will move forward at some point in time upon receipt of legislative approval/funding
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- Continuation of Existing Project - Project covers more than a single biennium. This funding request represents the portion of the project still to complete.

State Data Center (SDC) Involvement

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- Participating Partner—Will need to work with SDC for significant time to insure that the project can move into production. SDC time greater than 80 hours. Examples may include SDC architecture and provisioning work.

Estimate SDC Costs

- Preliminary Estimate - Rough Order of Magnitude estimate based on high level project information available at the current stage in the project's lifecycle
- Project Design Estimate – Cost estimate based on detailed project information (i.e. cost estimate provided after some level of architecture and design work between the agency and the SDC has been completed)

Information Technology-Related Projects: Maintenance and Enhancements

(THAT <u>EQUAL</u> OR <u>EXCEED</u> \$150,000)							
Agency Name:	PUBLIC EMPLOYEES RETIREMENT SYSTEM						
Project Name:	MAINTENANCE AND ENHANCEMENTS						
Mandated Project?	Yes X No		By: Legislature, Federal Gov, Other (identify it)				
Budget?	Base X POP		Which agency or state plans or goals does it align with and/or support?				
Project Purpose	Routine Lifecycle Replacement	X Upgrade/Enhance Existing System	New System				
Project Status	Concept Stage	X Planning Stage	Ready to Implement	Continuation of Existing Project			
SDC Involvement	X None	Minor	Active	Participating Partner			
Estimate SDC Costs	\$ 0		Preliminary Estimate		Project Design Estimate		
<p>Project Description:</p> <p>PERS needs to maintain the ORION platform with upgrades, patches, and new components in order to continue to provide a continued high level of customer service and responsiveness. These enhancements will be performed by a combination of internal staff and external contractors. The funds requested will be used to address complex system maintenance and enhancement activities that arise out of system defects, functionality gaps, additional stakeholder needs, new/changed pension plan business rules, and agency business strategy. and the overall objective is to ensure that ORION continues to meet the business and operation needs of the agency and enables staff to meet agency goals and service levels.</p>							
Cost Summary							
Total estimated cost by fund (13-15):	General Fund	Lottery Funds	Other Funds	Non-Limited	Federal Funds	Non-Limited	Total Funds
	\$	\$	\$900,000	\$	\$	\$	\$900,000
Total estimated cost by fund (all biennia):	\$	\$	\$1,300,000	\$	\$	\$	\$1,300,000
Estimated Cost by category (13-15):	Personal Services		Services & Supplies	Capital Outlay	Special Payments	Debt Service	
			\$610,000	\$290,000	\$	\$	
Estimated Cost by category (all biennia):			\$610,000	\$690,000	\$	\$	
						Positions: Internal	
Expected Start Date:				07/01/13		Contractor	Various
Expected Completion Date:				06/30/15		FTE:	

Information Technology-Related Projects

Definitions:

Project Purpose:

- Routine Lifecycle Replacement—Normal and regularly scheduled, part of the normal planned lifecycle replacement cycle
- Upgrading or Enhancing an Existing System—Change to an existing information system that results in improvements in functionality or enables the system to continue being supported by the vendor. Improved functionality enables the system to perform new tasks.
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Project Status

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Estimate SDC Costs

- Preliminary Estimate - Rough Order of Magnitude estimate based on high level project information available at the current stage in the project's lifecycle
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Audit Response Report

The following reports were completed and/or issued by the Secretary of State or the Joint Legislative Audit Committee in the 2009-2011 biennium and thus far in the 2011-2013 biennium*:

2011-2013:

The annual audit of the PERS Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2011, was issued in December 2011 by the CPA firm, Macias, Gini, & O'Connell, LLP, under contract with the Secretary of State Audits Division (OAD). One material weakness and two significant deficiencies were identified. The auditors also identified additional observations of lesser significance for management's consideration. PERS management is working on the resolving this matters, some of which require partnering with the Oregon State Treasury to resolve.

* The audit for the fiscal year completed June 30, 2012, has not been completed, but the audit will not include any material weaknesses or significant deficiencies.

Audit Response Report (continued)

Material Weakness

Finding #1: The System has not established internal controls or evaluated the related third-party administrator's internal controls over the processing and recording of SRHIA fund transactions, which is a critical component of plan administration and financial reporting. Without such controls there is a risk that amounts reported in the System's financial statement are not complete or accurate. Furthermore, there is a risk that the SRHIA fund's activities do not comply with plan or legal provisions and financial reporting requirements.

Status: Partially complete. Reporting for the PERS SRHIA fund has been a complex matter. PERS sought advice from the Governmental Accounting Standards Board (GASB), which was followed for years and passed several financial audits without concern. Based on the modified guidance secured during this audit, we will now report this program as a public entity risk pool, using an enterprise fund. To address the concerns over third-party administrator controls, we will be requiring a report on controls in accordance with Statement on Standards for Attestation Engagements (SSAE). This requirement will be included in the new contract for third party administrator services. Regarding the legal provisions, PERS has recently received advice from the Department of Justice and will be acting on it accordingly .

Audit Response Report (continued)

Significant Deficiencies

Finding #2: PERS should establish a process for identifying and properly accounting for new or unique transactions. The process should include formal documentation of the issue, pertinent background information, relevant legal and/or accounting guidance and the conclusions reached. The documentation should be prepared by personnel with sufficient experience and reviewed by appropriate management personnel. Formal documentation will reduce staff and audit inefficiencies and ensure that transactions are properly and consistently reported in the financial statements.

Status: In Process. PERS is working with the Oregon State Treasury to resolve some of the concerns noted in this finding. OST initiated a project in 2011 to redesign financial reporting processes to standardize the work they perform to ensure that investment balances and financial disclosures are fairly presented to the OPERF in conformity with generally accepted accounting principles. Internally, PERS will establish a formal process to identify, research, and document unique transactions and new accounting issues.

Finding #3: Management should employ the following processes: 1) Establish more effective review and reconciliation policies and procedures as a customary part of the accounting process. 2) Perform monthly or quarterly reconciliations between OST, the custodian bank, external investment managers and the investment consultant's records. Also establish a formal oversight function for the tasks completed by the investment consultants. 3) Verify that appraised values are properly reflected in the partner's financial statements. For real estate partnerships that were not appraised as of fiscal year-end, appropriate personnel should review the partnerships' June 30 financial information to ensure significant changes in fair value are properly reflected in the partnerships' June 30 financial statements. 4) Reconcile sub ledgers to the G/L. Establish a policy, whereby all sub ledgers are reconciled to the G/L monthly. In addition, appropriate management-level personnel should review the reconciliations for accuracy and document evidence of their review for audit purposes. 5) Investigate and resolve variances timely.

Audit Response Report (continued)

Status: In Process. PERS is working with the Oregon State Treasury to resolve some of the concerns noted in this finding. OST will modify the review process to ensure that June 30th data is reviewed. This will cause a significant delay in when PERS receives the information needed to complete their financial statement preparation. OST will implement this change for FY12. OST is currently taking a look at improvements that can be made to the reconciliation process. Due to limited OST staffing, many of the reconciliations are performed by 3rd party consultants. OST will work to identify process improvements to the oversight of those consultants. This project is expected to be completed by 6/30/13. The PERS computer system (jClarety) was not designed to report account balances except at the individual level. Reconciling jClarety to the G/L will require additional research and may require additional system modifications. We will work with our Business Process Owners and ISD to determine a solution and implementation timeline. Monthly pension roll activity reported by jClarety has been reconciled to the G/L since implementation in June of 2011. Daily activity will be reviewed and a methodology will be developed by 6/30/13. Daily reconciliations of the 45901 payments was developed in April 2012 and reconciliations completed from January 2012 to date. Adjustments have been processed on a monthly basis.

2009-2011:

The annual audit of the PERS Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2010, was issued in December 2010 by the Secretary of State Audits Division (OAD). No reportable conditions were reported and no management letter was issued.

The annual audit of the PERS Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2009, was issued in December 2009 by the Secretary of State Audits Division (OAD). No reportable conditions were reported and no management letter was issued.

2013-15 Budget Summary

	TOTALS			FUND TYPE					
	POS	FTE	ALL FUNDS	Gen'l Fund	Lottery Funds	Other Funds	Federal Funds	Nonlimited Other	Federal
2009-11 Legislatively Approved Budget	362	361.55	6,558,969,367			82,083,703		6,476,885,664	
2011-13 Base Budget Adjustments:									
Net cost of 2009-11 Position Actions:									
Administrative, Biennialized E-Board, Phase-Out	(37)	(37.05)	298,066			298,066			
Estimated Cost of Merit Increase			1,200,800			1,200,800			
Base Debt Service Adjustment			(4,475)			(4,475)			
Base Nonlimited Adjustment			957,126,646					957,126,646	
Subtotal: 2011-13 Base Budget	325	324.50	7,517,590,404			83,578,094		7,434,012,310	
Essential Packages:									
Package No. 010									
Vacancy factor (Increase)/Decrease			25,458			25,458			
Non-PICS Personal Service Increase/(Decrease)			310,294			310,294			
Subtotal			335,752			335,752			
Package No. 021/022									
021 - Phase-In Programs Excl. One-Time Costs									
022 - Phase-Out Programs and One-Time Costs			(9,367,730)			(15,684,772)			
Subtotal			(9,367,730)			(15,684,772)			
Package No. 031/032/033									
Cost of Goods & Services Increase/(Decrease)			645,135			645,135			
State Govt. Service Charges Increase/(Decrease)			690,617			690,617			
Subtotal			1,335,752			1,335,752			
Package No. 040									
Mandated Caseload Increase/(Decrease)									
Package No. 050									
Fund Shifts									
Package No. 060									
Technical Adjustments									
Subtotal: 2011-13 Current Service Level	325	324.50	7,509,894,178			75,881,868		7,434,012,310	

2013-15 Budget Summary (continued)

	TOTALS			FUND TYPE					
	POS	FTE	ALL FUNDS	Gen'l Fund	Lottery Funds	Other Funds	Fed Funds	Nonlimited Other	Federal
2011-13 Current Service Level – Page 1	325	324.50	7,509,894,178			75,881,868		7,434,012,310	
Subtotal Package No. 070 Revenue Shortfalls									
Subtotal: 2011-13 Modified CSL	325	324.50	7,509,894,178			75,881,868		7,434,012,310	
Emergency Board Packages:									
Package No. 081 May 2010 Emergency Board	6	6.00	752,213			752,213			
Modified 2011-13 Current Service Level	331	330.50	7,510,646,391			76,634,081		7,434,012,310	
Policy Packages:									
Package No. 086 Eliminate Inflation			(636,012)			(636,012)			
Package No. 087 Personal Services Adjustments			(2,991,702)			(2,991,702)			
Package No. 131 Business Enterprise – Core Business Functions	33	33.00	4,383,516			4,383,516			
Package No. 132 Infrastructure Maintenance and Enhancement	4	4.00	2,839,771			2,839,771			
Package No. 133 Position Reclass/Realignment			176,399			176,399			
Package No. 134 Legislative Concept – PERS Housekeeping Bill (HB 2113)			475,600			475,600			
Package No. 135 Legislative Concept – Repeal of Guarantee of Inaccurate Benefits (HB 2115)									
Package No. 136 Legislative Concept – OPSRP Pension Withdrawal/IAP Restrictions (HB 2114)			1			1			
Subtotal Policy Packages	37	37.00	4,247,573			4,247,573			
2011-13 Governor's Balanced Budget	368	367.50	7,514,893,964			80,881,654		7,434,012,310	
Percent Change From 2009-11 Leg. Approved	1.70%	1.60%	14.60%	0.0%	0.0%	(1.50%)	0.0%	14.80%	0.0%
Percent Change From CSL	13.20%	13.30%	0.10%	0.0%	0.0%	6.60%	0.0%	0.0%	0.0%

Staffing Ratios and Position Actions

HB 4131

In compliance with HB 4131, PERS' has achieved the October 2013 targeted 10:1 non-supervisory to supervisory staffing ratio.

2011-13 Position Actions

There have been 48 new hires.

- Seven are limited duration and 41 are permanent positions.
- Twelve of the 48 were hired above step two, based on level of required experience and expertise, market conditions, or established salary if transferring from another state agency.
- There have been 12 position reclassifications.

10% Budget Reduction Options

- In compliance with ORS 291.216, PERS' 10% Reduction Options are included in the Governor's Balanced Budget in the Agency Summary Section.
- PERS administers a single, integrated system of retirement, death, and disability benefit programs for public employees. This system is protected under the Contracts Clause of the Oregon Constitution. As such, budget reductions are based on a strategy that would result in decreased service levels and performance, rather than eliminating programs or functions.
- The identified reduction options total 37 positions and \$7,695,651 against the Current Service Level of \$76,458,784 (10.07%).

PERS New Hires 2011-13

EFF DATE	AGY TRNSFR	CLASS	CLASS DESC	SALARY	STEP	EFF DATE	AGY TRNSFR	CLASS	CLASS DESC	SALARY	STEP
Jul-11		C0104	OFFICE SPECIALIST 2	2214	01	Jun-12	-	C0104	OFFICE SPECIALIST 2	2318	02
Jul-11		C0104	OFFICE SPECIALIST 2	2284	02	Jun-12	-	C0405	MAIL SERVICES ASSISTANT	1945	02
Aug-11		C1487	INFO SYSTEMS SPECIALIST 7	5619	05	Jun-12	-	C0104	OFFICE SPECIALIST 2	2318	02
Aug-11		C0841	RETIREMENT COUNSELOR 1	2695	01				OPERATIONS & POLICY		
Aug-11	-	C0323	PUBLIC SERVICE REP 3	2214	01	Jul-12	-	X0872	ANALYST 3	5487	04
Aug-11		C1484	INFO SYSTEMS SPECIALIST 4	3873	03				ACCOUNTING TECHNICIAN		
Aug-11		C0842	RETIREMENT COUNSELOR 2	2945	01	Jul-12	-	C0212	3	2735	02
Aug-11		C0842	RETIREMENT COUNSELOR 2	3086	02				ACCOUNTING TECHNICIAN		
Aug-11		C0323	PSR3	2214	01	Jul-12	T	C0212	3	2624	01
Sep-11		C1488	INFO SYSTEMS SPECIALIST 8	7032	08	Aug-12	-	C0104	OFFICE SPECIALIST 2	2247	01
Oct-11		C0841	RETIREMENT COUNSELOR 1	2816	02				INFO SYSTEMS SPECIALIST		
			PRINCIPAL			Aug-12	-	C1484	4	3758	02
Oct-11	T	X7002	EXECUTIVE/MANAGER B	3672	01				PRINCIPAL		
Oct-11	T	X5617	INTERNAL AUDITOR 2	5957	08	Aug-12	-	X7002	EXECUTIVE/MANAGER B	3913	02
Nov-11	-	C0211	ACCOUNTING TECHNICIAN 2	2473	02	Aug-12	-	C0104	OFFICE SPECIALIST 2	2247	01
Nov-11	-	C1487	INFO SYSTEMS SPECIALIST 7	6160	07				ACCOUNTING TECHNICIAN		
Nov-11	-	C0841	RETIREMENT COUNSELOR 1	2816	02	Aug-12	T	C0212	3	2624	01
Dec-11	-	C0841	RETIREMENT COUNSELOR 1	2858	02				OPERATIONS & POLICY		
Dec-11	-	C1485	INFO SYSTEMS SPECIALIST 5	5279	07	Sep-12	T	X0873	ANALYST 4	7332	08
			EXECUTIVE SUPPORT						RETIREMENT COUNSELOR		
Mar-12	-	C0118	SPECIALIST 1	2510	02	Sep-12	T	C0841	1	3132	04
Apr-12	-	C0104	OFFICE SPECIALIST 2	2318	02				RETIREMENT COUNSELOR		
Apr-12	-	C1486	INFO SYSTEMS SPECIALIST 6	5393	06	Oct-12	T	C0841	1	2735	01
May-12	-	C0841	RETIREMENT COUNSELOR 1	2735	01				ADMINISTRATIVE		
May-12	T	C1486	INFO SYSTEMS SPECIALIST 6	5393	06	Nov-12	T	C0107	SPECIALIST 1	2416	01
May-12	T	C0841	RETIREMENT COUNSELOR 1	2858	02				RETIREMENT COUNSELOR		
			Limited Duration Positions			Dec-12	-	C0842	2	3132	02
			Hired above step 2			Dec-12	-	C5110	REVENUE AGENT 1	2510	02
						Dec-12	-	C5110	REVENUE AGENT 1	2510	02
						Dec-12	T	C0103	OFFICE SPECIALIST 1	2046	01
						Dec-12	-	C0103	OFFICE SPECIALIST 1	2083	02
						Jan-13	T	C1338	TRAIN/DEV SPECIALIST 1	3177	01
						Jan-13	T	X0863	PROGRAM ANALYST 4	6134	05
						Jan-13	T	C5110	REVENUE AGENT 1	2546	02
						Jan-13		C0323	PSR3	2352	02

T - Agency Transfers

PERS 2011-13 Position Reclassifications

<u>Date</u>	<u>Previous Classification</u>					<u>Current Classification</u>				
	<u>Class</u>	<u>Name</u>	<u>Range</u>	<u>Step</u>	<u>Salary</u>	<u>Class</u>	<u>Name</u>	<u>Range</u>	<u>Step</u>	<u>Salary</u>
Oct-11	C1484	Info. Sys. Specialist 4	25I	8	\$4,875.00	C1486	Info. Sys. Specialist 6	29I	6	\$5,393.00
Oct-11	C0870	Ops. & Policy Analyst 1	23	9	\$4,495.00	C5247	Compliance Specialist 2	25	6	\$4,350.00
Oct-11	C1485	Info. Sys. Specialist 5	28I	5	\$4,745.00	C1486	Info. Sys. Specialist 6	29I	4	\$4,846.00
Oct-11	X0855	Project Manager 2	29	3	\$4,906.00	X7006	Princ. Exec. Mgr. D	31X	3	\$5,151.00
Oct-11	C1484	Info. Sys. Specialist 4	25I	6	\$4,446.00	C1485	Info. Sys. Specialist 5	28I	4	\$4,530.00
Oct-11	C1484	Info. Sys. Specialist 4	25I	9	\$5,105.00	C1486	Info. Sys. Specialist 6	29I	6	\$5,393.00
Oct-11	C1484	Info. Sys. Specialist 4	25I	8	\$4,875.00	C1486	Info. Sys. Specialist 6	29I	5	\$5,151.00
Oct-11	C0107	Admin. Specialist 1	17	9	\$3,383.00	C0104	Office Specialist 2	15	2	\$2,318.00
Oct-11	C1484	Info. Sys. Specialist 4	25I	8	\$4,875.00	C1486	Info. Sys. Specialist 6	29I	5	\$5,151.00
Dec-12	C0842	Retirement Counselor 2	22	4	\$3,783.00	C0871	Oper. & Policy Analyst 2	27	2	\$3,962.00
Jan-13	X1319	HR Assistant	18	8	\$3,781.00	X1320	HR Analyst 1	23	4	\$3,970.00
Feb-13	X1339	Training/Devel Spec 2	27	7	\$5,761.35	X0872	Oper. & Policy Analyst 3	30	7	\$5,873.00

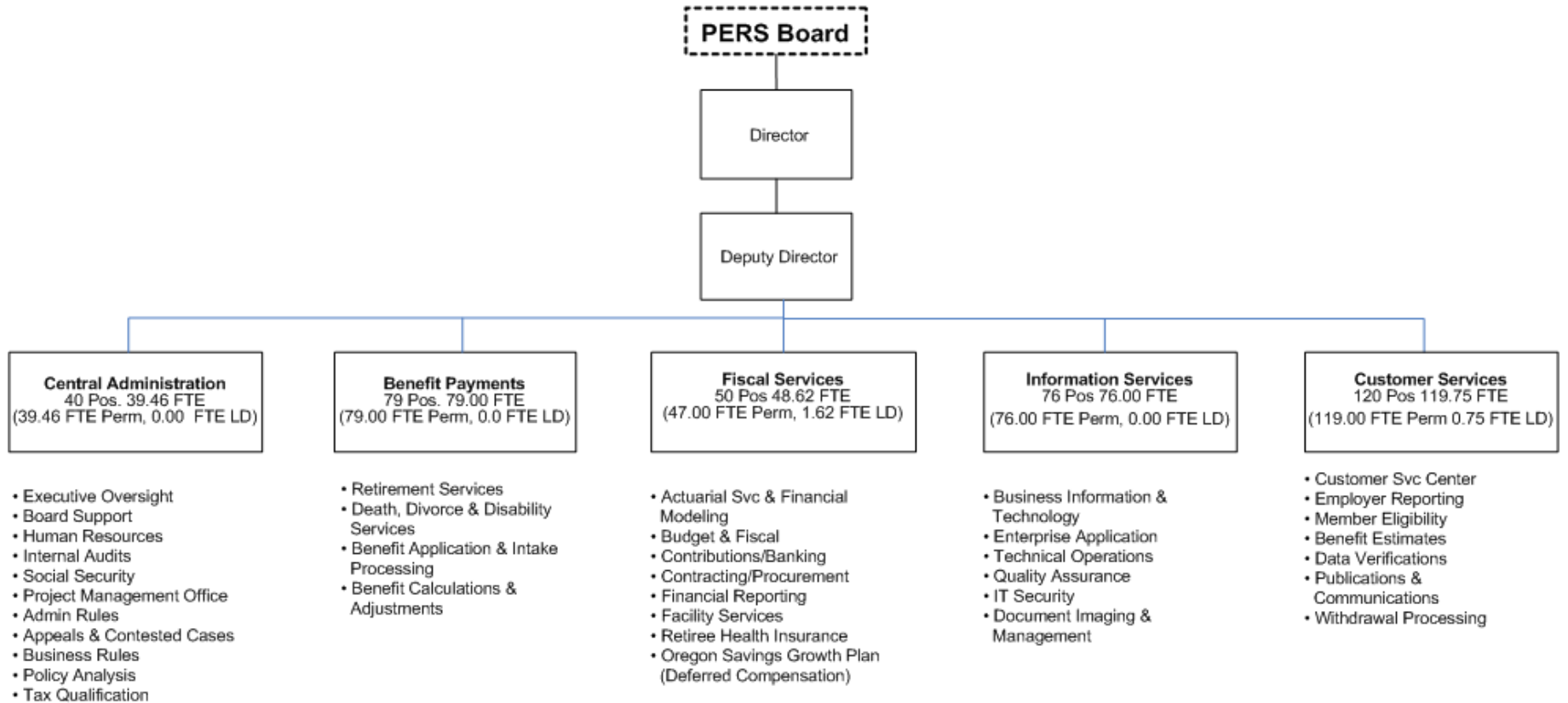
Public Employees Retirement System 2011-13 Legislatively Approved Budget

(Includes May 2012 Emergency Board Actions)

365.00 Positions (PPDB PICS Report as of Nov. 30, 2012)

362.83 FTE (PPDB PICS Report as of Nov. 30, 2012)

Total Personal Services: \$56,744,618

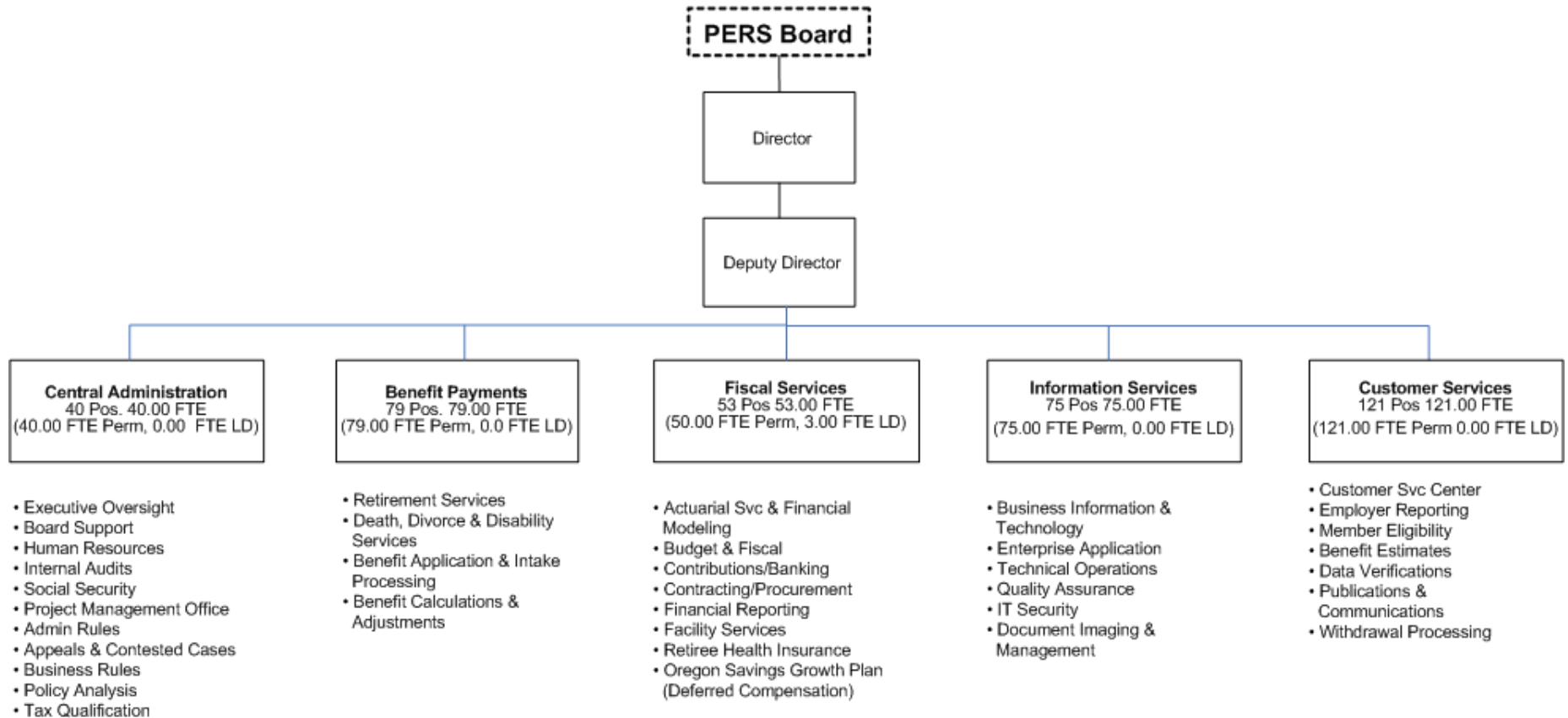


Public Employees Retirement System 2013-15 Governor's Balanced Budget

368 Positions (PPDB PICS System)

368.00 FTE (PPDB PICS System)

Total Personal Services: \$60,533,935



Appendix 2: Program Funding Proposals

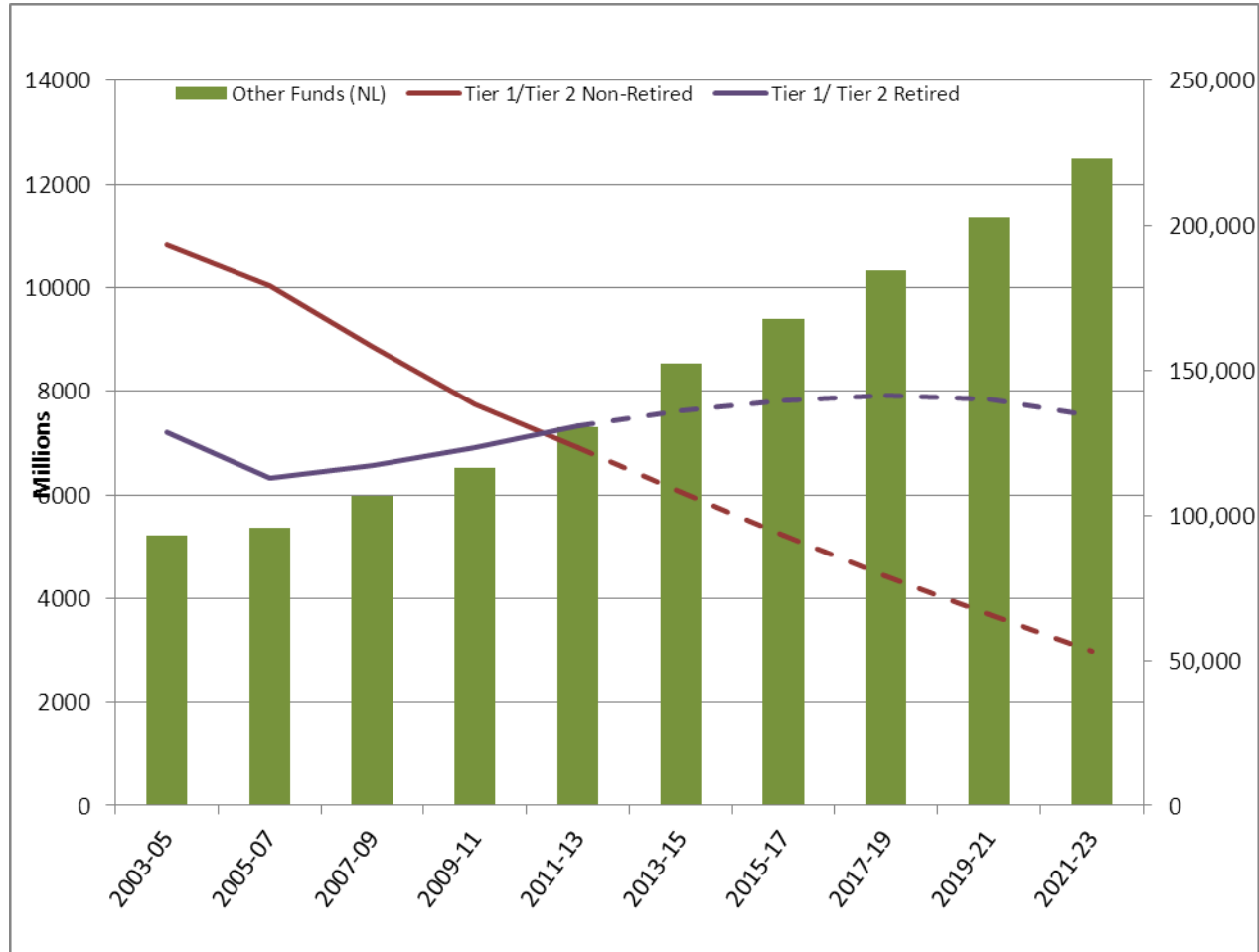
Appendix 2: Program Funding Proposals

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Tier One and Tier Two Program (Non-Limited Budget)

Primary Outcome Area: Improving Government
 Secondary Outcome Area: (None)
 Program Contact: Paul Cleary, 503.603.7701



Tier One and Tier Two Program (Non-Limited Budget) (continued)

Executive Summary

The Tier One and Tier Two Program represents benefit payments to members of the legacy retirement plans under ORS Chapter 238 that are now closed to new members. Those payments include retirement allowances, account withdrawals, death and disability benefits, and health insurance premium pass-through and subsidy account disbursements. All such funds are held in trust for the exclusive benefit of the plans' members. These plans were closed to new members as of December 31, 1995, for Tier One and August 28, 2003, for Tier Two.

Performance Achievement: Requested Non-Limited Other Funds support the Agency's 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. Performance achievement is measured through legislatively mandated Key Performance Measure, quarterly reporting of internal core operating and supporting business process measures, and monthly reporting of member transaction volumes and processing timeliness.

Tier One and Tier Two Program (Non-Limited Budget) (continued)

Program Description

The Tier One and Tier Two Program administers public employee benefit trusts for approximately 140,000 non-retired members and approximately 120,000 retired members. Membership in this program was closed, with new public employees hired after August 28, 2003, joining the Oregon Public Service Retirement Plan (OPSRP), a separate program. The types of benefits paid through these trusts include withdrawal, retirement, death, and disability benefits to members, their beneficiaries, or alternate payees. Separate trusts are maintained to provide health care insurance premium pass-through payments so members can pay their health care premiums through deductions from their on-going monthly benefits, and to provide small statutory premium subsidies for qualified members (e.g., \$60 per month for qualified Medicare-eligible retirees).

Even though membership in Tier One and Tier Two is closed, benefit payments and their associated workload will increase dramatically over the next 10 to 15 years as these members age into retirement eligibility. Currently, there are more than 58,000 Tier One and Tier Two members eligible to retire.

After our first round presentation, the Program Funding Team asked that we address the cost shift from having closed these programs and putting new members into the OPSRP program. Since OPSRP was created in August 2003, that program has become the largest segment of our active population. From a cost perspective, however, that shift only affects the “normal cost” of benefits: the incremental cost each year of new benefits accrued by active members.

Tier One & Tier Two Program (Non-Limited Budget) (continued)

Program Description (continued)

PERS costs are rising not because of this “normal cost” factor but rather because of the Unfunded Actuarial Liability (UAL) that emerged when the PERS Fund lost 27% of its value during the Great Recession in 2008 (and subsequent investment performance that was slightly below projections). The impact of that loss, as reflected in the System Valuation as of December 31, 2011, is a UAL of \$16.255 billion (excluding pre-paid employer contributions deposited in side accounts). Fully 68% of that UAL is associated with members who have already retired or are no longer actively employed in PERS-covered positions.

The cost shift, therefore, is not fully realized until this Tier One/Tier Two program goes away and the OPSRP program becomes the predominant cost driver. That tipping point is decades away. Realize that, since PERS was created in March 1945, we spent half a century adding Tier One members to this program up until the creation of Tier Two in 1996. The life cycle of a closed program like Tier One is expected to extend another half-century after its closure, as late entrants complete their full career and receive their retirement benefit for years after retirement. Consequently, Tier One member benefit payments (funded through this program) are not expected to peak until around the 2027-29 biennium at about \$11 billion for the biennium. Even after that peak, the decline is gradual, with projected expenditures for Tier One benefits exceeding \$8 billion in the 2039-2041 biennium.

Tier One and Tier Two Program (Non-Limited Budget) (continued)

Program Description (continued)

After our first round presentation, the Program Funding Team asked that we address the long-term projected costs and how they might impact plan design. At its September 28, 2012 meeting, the PERS Board is expected to adopt individual employer rates for the 2013-15 biennium which, on average, would increase PERS employer rates by 5% of payroll costing PERS employers some \$900 million more over the biennium. As noted by the PERS actuary in their report on the December 31, 2011 Valuation, “Barring future investment performance above assumption, rates are more likely than not to be at 2013-15 levels (or higher) for the foreseeable future.”

This upward pressure on employer rates is anticipated to generate another broad-based discussion of potential PERS reforms in the 2013 session that might mitigate these projected increases. PERS staff will refresh its analysis of various reform proposals, but the following are preliminary views on potential reforms for the next session:

- 1) Limit the COLA for current and any future retired members to the first \$24,000 of annual benefits. This would reduce COLA costs while protecting low and moderate income retirees. Estimated savings of 3.2% of payroll or some \$575 million over the biennium.
- 2) Reduce the 6% member IAP contribution to a 3% member IAP contribution. Employers currently “pick-up” the IAP contribution for about 70% of all active members. Those employers (including the state) would save 3% of payroll, for a total of about \$375 million over the biennium. There would be an additional savings of \$60 million per biennium (about 0.3% of payroll) from the associated impact on “final average salary” for Tier One and Tier Two members.

Tier One and Tier Two Program (Non-Limited Budget) (continued)

Program Justification and Link to 10-Year Outcome

The Tier One and Tier Two Program strongly aligns to the goals and strategies in the Improving Government area of the 10-Year Outcome planning. This program is still a major defined benefit component of the now “hybrid” public employee retirement plan, which covers all state government entities and schools, as well as over 90% of eligible local government employees.

As a defined benefit program, these retirement benefits are provided through the lowest-cost plan structure. The fundamental advantages of a multi-employer defined benefit plan are institutional fund investment, which enhances return and reduces investment expenses; risk sharing pools, which spread actuarial experience costs over a broader base; benefit portability, which allows members to transfer among participating employers without impacting benefit accruals; and unified administration, which enhances professionalism and economies of scale. Those advantages allow member and employer contributions to provide the maximum positive economic impact to state and local economies when the benefits are spent by recipients in their local community.

The Program Funding Team’s feedback also asked us to consider tracking rates of public assistance for past employees. While we do not have any specifically correlated data for Oregon retirees, the National Institute on Retirement Security recently updated its study of the effects that participation in defined benefit plans like Oregon PERS has on reducing economic hardships for seniors. Overall, the study found that older households with defined benefit plan income are far less likely to experience food, shelter, and health care hardship, and less reliant on public assistance. In 2010, rates of poverty among older households that did not have defined benefit income were approximately nine times greater than the rates among older households with such income, up from six times greater in 2006.

Tier One and Tier Two Program (Non-Limited Budget) (continued)

Program Performance

Fiscal Year	Total Active/Inactive Members	Total Retired Members	Tier One/Tier Two Program Expenditures (Non-Limited)	Annual Admin. Cost per Member
2007	215,900	115,000	\$ 2,725,178,517	\$140
2008	215,443	114,513	\$ 2,950,171,854	\$136
2009	212,996	116,615	\$ 3,003,519,319	\$140
2010	217,714	116,754	\$ 3,175,323,806	\$121
2011	233,151	119,675	\$ 3,616,792,638	\$115

The table above shows the distribution of PERS overall membership as “Active/Inactive Members” (those members either currently employed or who have left employment but are still entitled to a benefit) and “Retired Members” (those having elected to receive their benefit). As more members of the population move into receiving benefits, the “Program Expenditures” shows the growth in the number and amount of Tier One/Tier Two benefit payments distributed. Even with this growth, the agency’s overall administrative “Costs per Member” have steadily decreased as operational efficiencies, including the development and deployment of new technology systems, have enabled PERS to increase distributions (and the related member services) while decreasing the incremental administrative costs.

Tier One and Tier Two Program (Non-Limited Budget) (continued)

Enabling Legislation/Program Authorization

The program is governed by the following legislation:

The Tier One and Tier Two Plans are authorized by Oregon Revised Statutes (ORS) 237.950 to 237.980, 238.005 to 238.480, and 238.600 to 238.750.

PHIP is authorized by ORS 238.410 to 238.420.

Oregon Administrative Rules Chapter 459.

The benefits provided under the program are protected by provisions in the U.S. and Oregon Constitutions regarding contracts. Courts have construed these benefits as public contracts with the members, which can only be altered under very limited circumstances.

Funding Streams

This program is funded entirely from member and employer contributions, and the resulting investment returns on those contributions, which are held in the Public Employee Retirement Fund (PERF). In accordance with ORS 238.660(2), funds in the PERF can only be expended for the exclusive benefit of the trusts' members. ORS 238.661 further provides that moneys in the PERF are continuously appropriated to the Public Employees Retirement Board. Expenditures under this program are categorized for state budget purposes as Other Funds – Nonlimited.

Tier One and Tier Two Program (Non-Limited Budget) (continued)

Enabling Legislation/Program Authorization

The program is governed by the following legislation:

The Tier One and Tier Two Plans are authorized by Oregon Revised Statutes (ORS) 237.950 to 237.980, 238.005 to 238.480, and 238.600 to 238.750.

PHIP is authorized by ORS 238.410 to 238.420.

Oregon Administrative Rules Chapter 459.

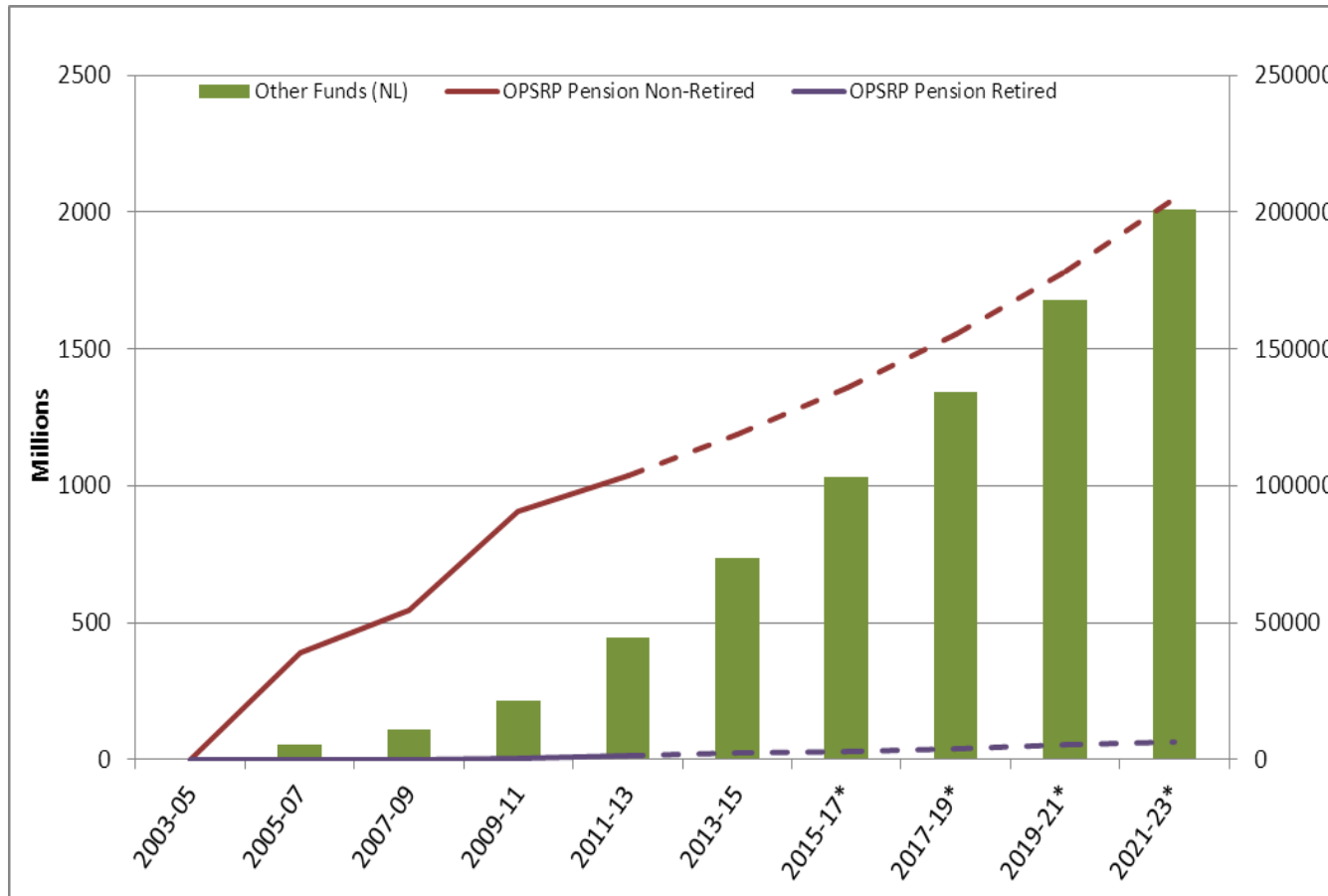
The benefits provided under the program are protected by provisions in the U.S. and Oregon Constitutions regarding contracts. Courts have construed these benefits as public contracts with the members, which can only be altered under very limited circumstances.

Significant Proposed Program Changes from 2011-13

Requested Non-Limited Other Funds represent an increase of \$1,315,000,801 over the 2011-13 budget of \$7,225,860,199, and reflect the Agency's 2013-15 anticipated benefit payment requirements for Tier One and Tier Two benefit recipients.

Oregon Public Service Retirement Plan (Non-Limited Budget)

Primary Outcome Area: Improving Government
 Secondary Outcome Area: (None)
 Program Contact: Paul Cleary, 503.603.7701



Oregon Public Service Retirement Plan (Non-Limited Budget) (continued)

Executive Summary

The Oregon Public Service Retirement Plan (OPSRP) program serves public employees who began their service after August 28, 2003. OPSRP is a hybrid retirement plan, designed to provide a reduced benefit from the legacy Tier One and Tier Two retirement plans. The hybrid plan has two components: the OPSRP Pension Program, funded by employer contributions, and the Individual Account Program (IAP), funded by member contributions. All Tier One and Tier Two member contributions made on or after January 1, 2004, have also been deposited in the IAP.

Performance Achievement: Requested Non-Limited Other Funds support the Agency's mission to serve the people of Oregon by administering the public employee benefit trusts that pay the right person the right benefit at the right time. Performance achievement is measured through legislatively mandated Key Performance Measures, quarterly reporting of internal core operating and supporting business process measures, and monthly reporting of member transaction volumes and processing timeliness.

Oregon Public Service Retirement Plan (Non-Limited Budget) (continued)

Program Description

The two components of this program were created during the 2003 PERS reforms to reduce the retirement benefit costs for public employees that begin public service after the program's creation (August 29, 2003). All public employers that participated in PERS as of that date were required to enroll any new qualifying employees in the OPSRP Pension and Individual Account Program (IAP) programs. PERS administers the benefit trusts associated with these programs on behalf of those participating employers.

The OPSRP Pension program is a defined benefit program that provides a retirement benefit based on a formula: years of service x final average salary x statutory multiplier. The OPSRP program provides a lower benefit than the legacy Tier One and Tier Two programs by using a reduced statutory multiplier (1.5% for General Service employment, 1.8% for police officers and firefighters) and an extended normal retirement age (age 65 for General Service employees, age 60 for police officers and firefighters). The IAP is funded by members contributing six percent of their salary (either through a pre-tax payroll deduction or through an employer "pick-up"). These contributions are invested on members' behalf as part of the overall PERS fund, and investment earnings or losses are credited to their accounts. Unlike the legacy Tier One member regular accounts, IAP accounts do not have a guaranteed minimum earnings rate.

Oregon Public Service Retirement Plan (Non-Limited Budget) (continued)

Program Description (continued)

The types of benefits paid through the OPSRP Pension program include withdrawal, retirement, death, and disability benefits. This program now has over 90,000 non-retired members, more than either the Tier One or Tier Two programs. Costs for the OPSRP Pension program are paid solely through employer contributions and their related investment earnings. All PERS employers participate in a single OPSRP employer pool, so costs are distributed across all employers based on their proportional share of subject salary that they pay the members in the program. Because this program provides a lower level of benefits, its “normal” cost is less than that for members in the legacy Tier One and Tier Two plans, whose formula-based benefits are calculated with higher statutory multipliers. This program does have a relatively small unfunded actuarial liability created by the 2008 investment losses, which is being amortized over 16 years.

The IAP is an account-based benefit that is paid in a lump sum upon withdrawal, or in several optional forms of payments at retirement, including a single lump sum or periodic installments at different frequency over various durations. In the 2003 PERS reform legislation, all active Tier One and Tier Two members had their contributions diverted to new IAP accounts, instead of their legacy regular or variable accounts, to restrict the growth in their benefit amounts. Consequently, the IAP now has the largest number of members of all PERS retirement programs. IAP costs are paid wholly out of earnings on member contributions. When earnings are insufficient to pay those costs, member account balances are reduced to recover those costs.

Oregon Public Service Retirement Plan (Non-Limited Budget) (continued)

Program Description (continued)

This program is funded through public employee benefit trusts that are subject to federal and state laws and rules governing tax-qualified government retirement plans. One fundamental provision of those trusts is that the contributions (both from employers and members) and their associated investment earnings can only be used for the exclusive benefit of those members to fund their benefit payments. Consequently, the funds expended through this program can only be used to support the services and benefits provided within the program.

Program Justification and Link to 10-Year Plan Outcome

Just as with the Tier One and Tier Two Program, the OPSRP Pension program strongly aligns to the goals and strategies in the Improving Government area of the 10-Year Plan Outcome areas. The pension and IAP components of this program are key features of the now “hybrid” PERS, serving all state government entities and schools, as well as over 90% of local government employees. PERS administers this program to provide assistance and service to all these public employers and employees. This combined administration allows investment in operational efficiencies (such as web-based reporting, customer service and benefit processing) that would not be economically feasible for individual agencies.

As a defined benefit program, these retirement benefits are provided through the lowest-cost plan structure. The fundamental advantages of a multi-employer defined benefit plan are institutional fund investment, which enhances return and reduces investment expenses; risk sharing pools, which spread actuarial experience costs over a broader base; benefit portability, which allows members to transfer among participating employers without impacting benefit accruals; and unified administration, which allows for enhanced professionalism and economies of scale. Those advantages allow member and employer contributions to provide the maximum positive economic impact to state and local economies when the benefits are spent by recipients in their local community.

Oregon Public Service Retirement Plan (Non-Limited Budget) (continued)

Program Justification and Link to 10-Year Plan Outcome (continued)

The level of benefits provided by the OPSRP Pension program is relatively predictable as the plan design established a simplified framework to predict the growth in benefits over time. As those benefits are lower than provided under Tier One or Tier Two, the costs will also be lower. Those costs, however, will fluctuate over time as they do in any defined benefit program as the risks associated with the investment returns are all allocated to the public employer. The members fully bear the investment risk in the IAP program, as the amount of that benefit rises and falls directly with investment returns. The nature of a hybrid plan is to provide for shared investment risks between the public employer and the participating member.

Program Performance

Fiscal Year	Total OPSRP Pension Members	Total IAP Members	Total IAP Account Balances	Total OPSRP and IAP Retirements Processed
2007	39,000	206,775	\$2,141,667,386	3,056
2008	43,747	219,685	\$1,877,503,780	3,369
2009	54,387	228,590	\$2,759,806,258	3,868
2010	68,622	233,804	\$3,559,425,141	4,696
2011	90,966	235,297	\$3,966,480,906	8,589

Oregon Public Service Retirement Plan (Non-Limited Budget) (continued)

Program Performance

Looking at “Total OPSRP Pension Members” shows how quickly the change in the workforce has populated this lower-cost pension program in a relatively short time. A significant percentage of Oregon’s active public employee workforce has been employed under this new retirement plan with lower, more predictable costs. The contrast with “Total IAP Members” shows, however, how combining the legacy Tier One and Tier Two members into the IAP program created a large base to support that program’s associated administrative costs. “Total IAP Accounts” reflects how this element of member benefits, where the member bears the entire risk of investment losses, is an increasingly significant aspect of the total retirement benefit package. Lastly, “OPSRP and IAP Retirements Processed” shows how adding two new benefit programs (OPSRP Pension and IAP) as part of 2003 PERS reform has generated a significant number of additional retirement transactions in a short period of time as all members now are retiring with both a pension benefit and an IAP benefit. The same holds true for withdrawals of members who have worked after the January 1, 2004 effective date of the IAP.

Enabling Legislation/Program Authorization

Enabling legislation:

OPSRP is authorized by ORS 238A.005 thru 238A.475.

IAP is authorized by ORS 238A.300 thru 238A.475.

Oregon Administrative Rules Chapter 459

The benefits provided under the program are protected by provisions in the U.S. and Oregon Constitutions regarding contracts. Courts have construed these benefits as public contracts with the members. In contrast with the Tier One and Tier Two Program, however, the legislature at ORS 238A.470 expressly reserved the right to alter the provisions of the OPSRP program for services performed after the effective date of any such change.

Oregon Public Service Retirement Plan (Non-Limited Budget) (continued)

Funding Streams

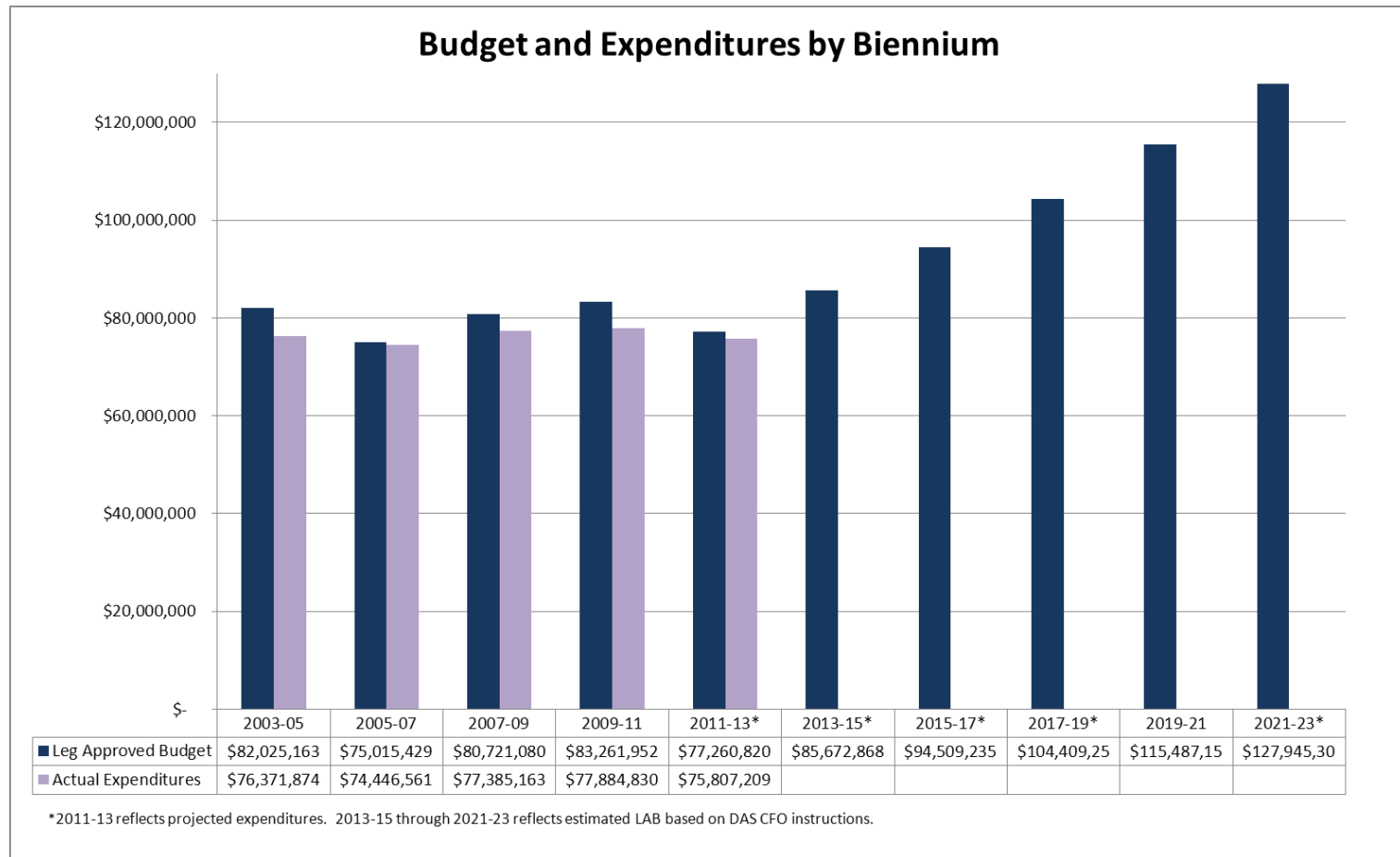
This program is funded entirely from member and employer contributions, and the resulting investment returns on those contributions, which are held in the Public Employee Retirement Fund (PERF). In accordance with ORS 238.660(2), incorporated into the OPSRP Program by ORS 238A.050(2), funds in the PERF can only be expended for the exclusive benefit of the trusts' members. ORS 238.661 (also incorporated by ORS 238A.050(2)) further provides that moneys in the PERF are continuously appropriated to the Public Employees Retirement Board. Expenditures under this program are categorized for state budget purposes as Other Funds – Nonlimited.

Significant Proposed Program Changes from 2011-13

Requested Non-Limited Other Funds represent an increase of \$528,838,500 over the 2011-13 budget of \$208,175,500, and reflect the Agency's 2013-15 anticipated benefit payment requirements for OPSRP and IAP benefit recipients.

Operations Program (Non-Limited Budget)

Primary Outcome Area: Improving Government
 Secondary Outcome Area: (None)
 Program Contact: Paul Cleary, 503.603.7701



Operations Program (Non-Limited Budget) (continued)

Executive Summary

The Operations Program reflects the costs of the Public Employees Retirement System's (PERS) administration of public employee benefit trusts that provide benefit services to employees of over 900 public employers throughout Oregon. Those services include retirement, disability, and death benefits, as well as a deferred compensation program and a retiree health insurance program. PERS also administers the state's obligations under the federal Social Security program. Centralizing these benefit administration services through PERS produces economies of scale that reduce costs, enhance customer service, and support process efficiencies. The Operations Program does not include Debt Service.

Performance Achievement

Requested Non-Limited Other Funds support the Agency's 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. Performance achievement is measured through legislatively mandated Key Performance Measures, quarterly reporting of internal core operating and supporting business process measures, and monthly reporting of member transaction volumes and processing timeliness.

Operations Program (Non-Limited Budget) (continued)

Program Description

The Operations Program budget provides the Other Fund financial resources for PERS to administer public employee benefit trusts that provide services for over 900 public employers in Oregon, serving over 350,000 members (Tier One, Tier Two, OPSRP, and IAP) and their beneficiaries or alternate payees. The budget also supports administration of a tax-qualified deferred compensation plan (the Oregon Savings Growth Plan) and several retiree health insurance premium trusts. PERS also fulfills the state's role in administering the federal Social Security program with local government employers.

The budget in the Operations Program reflects only a fraction of the agency's total expenditures. In fact, PERS services the largest "payroll" in the state, processing in excess of \$3.6 billion in benefit payments every year (the equivalent of some one-third of the total public employment payroll in Oregon). Using those benefit payments as a measure of the impact PERS has on Oregon's citizens and economy, this agency clearly constitutes one of the major components of the government sector in all of Oregon.

The drive toward efficiency and service improvement has resulted in the budget limitation for this program area decreasing from a high of \$82 million and 420 staff positions in 2003-05 to \$77.2 million with 367 positions in 2011-13. The improvements in agency operations were achieved through restructuring processes and leveraging new technologies, such as the agency's recently deployed Oregon Retirement Information On-line Network (ORION). These improvements have allowed PERS to administer the significant new programs added in the 2003 PERS reforms (OPSRP Pension and IAP) and make several structural changes to the agency's programs as directed by the legislature while overall staffing has decreased. Just as importantly, service metrics as measured by the agency's Key Performance Measures have generally improved over this same time even as the agency has integrated new programs over a declining staff.

Operations Program (Non-Limited Budget) (continued)

Program Description (continued)

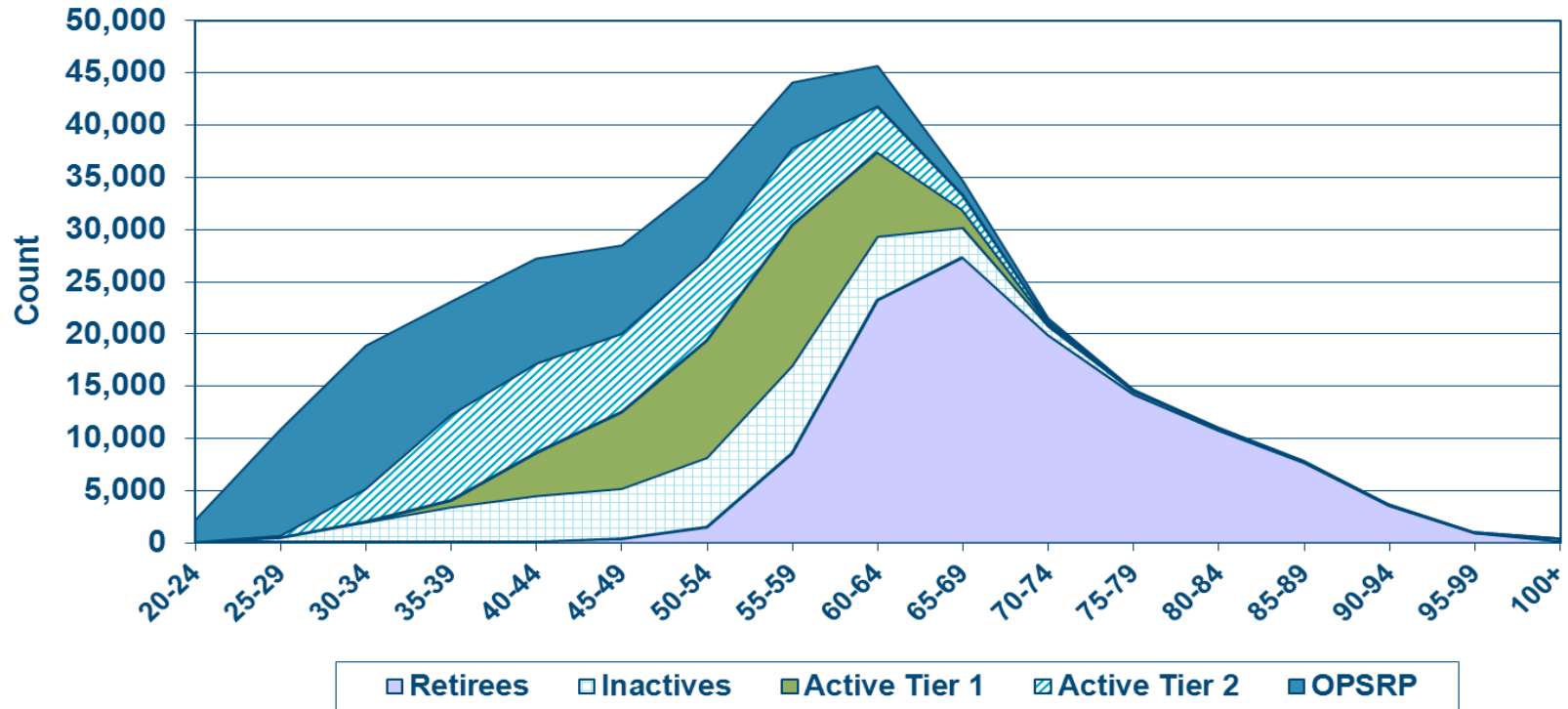
Demands for the agency's services will continue to grow for the next several biennia as an ever-greater percentage of the public work force passes into retirement age. The agency's approved 2011-13 budget is predicated on processing about 6,500-7,000 retirements per year. That average will increase markedly over the next several biennia. There are already some 67,000 PERS members currently eligible to retire, with more members becoming eligible every year. PERS' strategic imperative is to enhance efficiencies and improve processes to handle this rapidly increasing benefit administration workload, rather than just relying on increased staffing to maintain service levels.

However, supporting the focus on process improvements and service enhancements requires a new paradigm in the agency's structure and management systems. The 2013-15 Agency Request Budget is predicated on a fundamental framework that defines the agency's core operating and supporting processes. Through those processes, PERS delivers member services with a highly efficient, automated payment system. That level of process efficiency and technology leveraging often obscures the agency's operational scope. The 2011-13 state total fund budget shows that PERS is responsible for timely, accurate, and proficient distribution of 26% of the Other Funds expenditures in Oregon. It is estimated that one in four Oregonians has some direct connection to PERS, reflecting the agency's widespread impact within this state. But the agency's position classifications are still viewed through a prism of the number of FTE in the agency, not by the statewide impact or total value of the services our Operations budget provides. This perception constrains the level of professional skills we are able to attract and retain to further develop our operations and manage our staff as financial services professionals.

Note that one particular challenge is the repeated renewal of some 30 "limited duration" positions that actually support core services, but have not been fully integrated into the agency's Current Service Level despite repeated requests to do so in prior biennia. These positions have been added since the 2003 PERS Reforms which created two new retirement programs, but the permanent staffing levels have never been corrected to reflect the ongoing nature of these additional program workloads.

Operations Program (Non-Limited Budget) (continued)

Age Distribution



Operations Program (Non-Limited Budget)

Program Justification and Link to 10-Year Plan Outcomes

The PERS Operations Program strongly aligns to the goals and strategies in the Improving Government area of the 10-Year Plan Outcome areas. Given the vital role that PERS plays in public employee recruitment and retention; the often critical nature of PERS death and disability and retiree health insurance benefits; the valued retirement security that PERS provides to long-term public servants; and the substantial economic impact of PERS benefit payments to communities throughout the state, it could be argued that PERS is indirectly linked to all of the 10-Year Plan Outcome areas.

This program combines the administration of defined benefit retirement plans and other benefit trusts for all state agencies and schools, as well as over 90% of local government employees. PERS administers these programs to provide assistance and service to all these public employers and employees. This combined administration allows investment in operational efficiencies (such as web-based employer reporting, customer service, and benefit processing) that would not be economically feasible for individual agencies.

As a combined benefit plan administrator, these public employers' benefit plans are provided within the lowest-cost framework. The fundamental advantages of a multi-employer defined benefit plan are institutional fund investment, which enhances return and reduces investment expenses; risk sharing pools, which spread actuarial experience costs over a broader base; benefit portability, which allows members to transfer among participating employers without impacting benefit accruals; and unified administration, which allows for enhanced professionalism and economies of scale. Those advantages allow member and employer contributions to provide the maximum positive economic impact to state and local economies when the benefits are spent by recipients in their community.

Operations Program (Non-Limited Budget) (continued)

Program Performance

Fiscal Year	Total Members Served	Annual Admin. Cost per Member	% Initial Service Retirements Paid in 45 Days	Member Satisfaction Rating - Overall
2007	330,900	\$140	7%	83%
2008	329,956	\$136	33%	91%
2009	329,611	\$140	56%	93%
2010	334,468	\$121	21%	91%
2011	352,826	\$115	40%	94%

Operations Program (Non-Limited Budget) (continued)

Enabling Legislation/Program Authorization

Enabling legislation for PERS Operations (administrative costs) are:
Oregon Revised Statute (ORS) 237.500; 238.490, & 610; and 243.470.
Oregon Administrative Rules Chapter 459

Notably, the governing authority for the PERS system is vested in a five-member board appointed by the Governor and confirmed by the Senate under ORS 238.630. The PERS Board is charged with employing a director and creating such other positions as it deems necessary for sound and economical administration of the system.

Funding Streams

ORS 238.610 directs that the administrative operations expenses for PERS are paid from earnings on the Public Employees Retirement Fund or, in years when such earnings are insufficient, through a direct charge to participating public employers. PERS annual operations expenses, when measured as a percent of the \$58 billion PERS Fund, represent less than 7 basis points (0.07%). Any earnings not used to support agency operations must be retained and expended solely for the exclusive benefit of PERS members.

Significant Proposed Program Changes from 2011-13

Requested Limited Other Funds reflect an increase of \$3,289,126 over the 2011-13 operating budget of \$79,332,230, and a net staffing level increase of three new positions to a total of 368 staff (still down 52 positions from our 2003-05 peak of 420 positions). These adjustments will enable the Agency to maintain current service delivery levels while also supporting several key strategic initiatives including enhanced administration of the retiree health insurance program; expanded actuarial work required under new governmental accounting standards; continued IT system maintenance and enhancement; and establishing a centralized, enterprise level data reporting function.