

Public Employees Retirement System					
	2015-17 Actual	2017-19 Legislatively Adopted	2017-19 Legislatively Approved *	2019-21 Current Service Level	2019-21 Governor's Budget
General Fund	--	--	--	--	100,000,000
Other Funds	98,827,001	98,448,004	101,537,470	105,912,270	110,852,846
Other Funds (NL)	9,856,259,772	10,994,171,000	10,994,171,000	12,493,087,721	12,493,087,721
Total Funds	9,955,086,773	11,092,619,004	11,095,708,470	12,598,999,991	12,703,940,567
Positions	381	373	377	369	379
FTE	379.26	372.29	374.68	369.00	379.00
* Includes Emergency Board and administrative actions through December 2018.					

Program Description

The Public Employees Retirement System (PERS) administers the retirement system covering employees of state agencies; public universities, public school districts; statutory judges, and participating cities, counties, and special districts in Oregon. The agency also administers a retiree health insurance program and a voluntary deferred compensation program for state agencies and some local governmental units. Due to its complexity, the PERS system is costly to administer.

Other Funds Limited revenue includes: the agency's administrative budget is primarily financed by revenue transfers from the various benefit trust funds administered by the agency. Other Funds NonLimited revenue includes: investment earnings, employer contributions, employee contributions, retiree healthcare insurance premium payments, and nominal miscellaneous revenue.

CSL Summary and Issues

The 2019-21 current service level budget for the agency totals \$12.6 billion, of which \$105.9 million (369 positions; 369.00 FTE) is for operations and \$12.5 billion is for benefit payments. The CSL operating budget is \$4.4 million, or 4.3%, more than the 2017-19 legislatively approved budget of \$101.5 million. CSL benefit payments are \$1.5 billion, or 13.6%, more than the 2017-19 legislatively approved budget of \$11 billion. There are no noted differences between the DAS and LFO CSL calculations; however, there are a number of position reclassifications that have yet to be submitted by the agency.

The budget includes the phase-out of \$5.4 million of predominately one-time information technology costs for: (a) information security contracting (\$1.6 million); (b) warm site to aid in disaster recovery (\$1.2 million); (c) Individual Account Program project (\$1.1 million); (d) disaster recovery planning (\$500,000); (e) \$250,000 for business continuity planning (\$250,000); (f) one-time adjustments in the February 2018 session for information technology and target-date fund change, information technology contract for backfilling SB 90 position transfers (\$406,000) and (g) the Strunk-Eugene collections recovery project. PERS has one technical adjustment package that has a net zero agency-

wide impact by moving for in-state travel, employee training, and office expenses among various divisions (\$388,000). Other CSL changes include standard adjustments for contractually approved compensation plans, vacancy factor, mass transit taxes, PERS pension obligation bond assessments, inflation on services and supplies, Attorney General line-item, professional services, and rent.

Policy Issues

There are a large number of preliminary budget issues that the Co-Chairs budget will need to consider beyond which the agency may have additional requests.

Information Technology - Cybersecurity/Disaster Recovery/Business Continuity (\$1.3 million Other Funds; three positions/3.00 FTE):

provides three positions and contracted resources to administer the agency's Information Security, Business Continuity, and Disaster Recovery programs. PERS hired a contractor in August 2018 to perform an assessment of their disaster recovery and business continuity programs and the findings validate a high-level of concern. ***This request was funded in the Governor's budget, but as a placeholder.***

Information Technology - Data Center Migration (\$1.7 million Other Funds): relocate PERS' data center to the state data center using a co-location model. In addition, the agency needs to reconcile the package requested with base budget resources it is planning to use for server upgrades in 2019-21 and the servers requested in POP 105 – Modern Communication. ***This request was funded in the Governor's budget.***

Information Technology - Individual Account Program (\$0 Other Funds; 0 positions/0.00 FTE): The IAP project experienced a major change in scope, schedule, and budget since first being approved by the Legislature in 2013. Issues with the failure of the IAP project should not be blamed on the target-date fund or member choice. ***No funding was provided in the Governor's budget for this request.***

Information Technology - Business Innovation "Program" Architectural and Planning (aka Modernization)(\$512,265 Other Funds): For the third time in as many biennia, PERS would like to begin planning for modernizing the agency's outdated and inflexible information technology infrastructure. ***This request was funded in the Governor's budget.***

Information Technology - Modern Communication (\$1.4 million Other Funds): implement customer relationship management (CRM) software in order to better communicate with members and help them manage their accounts. This project has not begun the Joint Stage Gate review process. ***No funding was provided in the Governor's budget for this request.***

Financial and Administrative Services Division Strategic Fulfillment (\$3 million Other Funds; 13 positions/13.00 FTE): To address various operational issues within the Financial and Administrative Services Division, a) one limited duration position and provides collections fees for the department to continue long-term collections efforts related to the *Strunk* and *Eugene* Oregon Supreme Court cases; including *Strunk-Eugene* collections positions, four reclassifications, a Procurement, and Target-Date Fund accounting, to name a few. ***A portion of this request was included in the Governor's budget (\$357,679; 1 positions/1.00 FTE).***

Maintain Current Services (\$2.1 million Other Funds; 11 positions/11.00 FTE): PERS is requesting a assortment of positions for: (b) a Communications Officer position to lead the agency’s centralized Communications section (currently a double-fill); (c) one position to deal with a backlog of change requests to the department’s imaging and content management systems; (d) one position to assist the Operations Division with the administration of the Target Date Fund investment strategy implemented by the Oregon Treasury; (e) two positions to address workload issues in the Intake and Review section of the Operations Division; (f) establish a Deputy Chief Information Officer, an Information Systems Specialist 6, Quality Assurance Engineer, and an ISS 6, Electronic Content Management section analyst. inability by the agency to quantify the contracted savings that granting such a position would create. **A portion of this request was included in the Governor’s budget (\$1.3 million; 7positions/7.00 FTE).**

SB 1566 (2018)(\$0 Other Funds; 0 positions/0.00 FTE): The measure was enacted to address the PERS Unfunded Accrued Liability. The administrative cost of SB 1566 is moving from what was initially categorized as indeterminate to determinate. Determinate costs, based on an administrative implementation plan that has yet-to-be produced, need to be identified and presented to the Legislature. Such a request needs to identify the source(s) of revenue available to fund SB 1566 activities given the statutory and cashflow limitation of the measure as well as existing legal limitation on the use of PERS trust funds. The Legislature will be under pressure to find additional sources of revenue for these programs. **The Governor’s budget includes a \$100 million General Fund appropriation to PERS for the School District Unfunded Liability Fund. PERS is unable to articulate a plan for how or when this appropriation will be used.**

IAP Target-Date Fund (\$0 Other Funds; 0 positions/0.00 FTE): After the close of the legislative session in 2017, the Oregon Investment Council (OIC) voted to move the IAP to a target-date fund solution beginning January 2, 2018. This is an age-based approach that moves a member’s IAP assets into an increasingly conservative investment portfolio, which may impact member earnings and ultimately their retirement benefit. Since inception on January 1, 2004, the IAP had been invested no differently than other assets in the Oregon Public Employees Retirement Fund. The Legislature in 2018 provided information technology resources (\$200,000), and the Emergency Board added an Investment Accountant-4, but more resources may be needed. **No funding was provided in the Governor’s budget for this change.**

IAP Member Choice (\$9.6 million Other Funds; three positions/3.00 FTE): PERS and State Treasury have default to Legislature on the issue of drafting legislation to address IAP member choice. The OIC decision was mandatory and provided for no member choice to make individual investment decisions. The Legislature in 2018 enacted a member choice option (HB 4159; Chapter 118, Oregon Laws) effective on January 1, 2019; however, a provision in the measure required the State Treasurer to notify the PERS Board by December 31, 2018, if legal and fiduciary standards prohibit implementation. In May of 2018, State Treasury (OST) made the determination, based upon the advice of outside legal counsel, rather than the Department of Justice, that legal and fiduciary standards prohibited implementation. Apparently, OIC and OST need legal immunity from liability if an IAP member were to lose funds (“safe harbor” provision). OST also noted that IAP members require information (i.e., disclosures) related to making a member choice investment selection. These two concerns require, according to OST, a legislative change that was characterized as minor in nature; however, apparently neither OST nor PERS will be proposing such a legislative

concept for the legislative session in 2019.HB 4159 (2018) provides for Individual Account Program member choice in investment selection. **No funding was provided in the Governor's budget for this request.**

Deferred Maintenance (\$625,000 Other Funds): Request for deferred maintenance for a roof and HVAC system. **This request was funded in the Governor's budget; however, the amount approved, and the actual need, have yet-to-be reconciled.**

Oregon Savings Growth Plan (\$3.4 million Other Funds): PERS has a request into the Emergency Board in December to move the Oregon Savings Growth Plan Administrative costs from being a NonLimited expenditure to a limited expended. **No funding was provided in the Governor's budget for this project.**

Excess Expenditure Limitation: The PERS budget continues to have an inordinate amount of excess expenditure limitation that likely could be reduced to better align the agency's limitation with projected expenditures and without impacting the operations of the agency. **A similar-type action was included in the Governor's budget that eliminates a long-term vacancy and services and supplies (\$724,279 and one position).**

Policy Packages: The PERS agency request budget includes nine policy packages totaling \$20.9 million Other Funds and 30 positions (30.00 FTE). The change in the agency's executive director has resulted in some of the agency request budget requests being withdrawn. A re-evaluation of policy packages is needed by the agency.

The Governor's budget funds PERS operating budget at \$110.9 million Other Funds or \$4.9 million and ten positions above current service level. The Governor's budget is \$5 million, or 4.66%, more than the current service level, excluding the \$100 million General Fund appropriation for SB 1566.

Other Significant Issues and Background

There are a few policy-type issues for the Co-Chairs to consider.

Governance: PERS is in a period of major transition, both in terms of governance and culture. PERS has undergone significant leadership changes with a new agency executive director (June 2018), a new board chair (September 2018), and the filling of various critical vacancies, such as Deputy Director, Chief Financial Officer, and Chief Operating Officer. PERS will be faced with leadership challenges related to setting the financial strategy and course of the system as well as improving the culture of the agency.

Reorganization 2.0: Although PERS was reorganized in 2015, the agency's new executive director will be proposing to make additional changes, including the submission of a budget request as well as a permanent finance plan to resolve classification issues and pay line

exceptions remaining from the 2015 reorganization that are almost exclude related to the agency's executive management team. **No funding was requested by the agency nor provided in the Governor's budget for the reorganization.**

Audits: A recently released Secretary of State audit (October 2018) validated the concerns expressed by the Legislature in 2017 on the agency's many deficiencies related to cybersecurity, disaster recovery, and business continuity. Additionally, the Legislature in 2020 will receive an actuarial review of the reasonableness and consistency actuarial methods and assumptions adopted by the PERS Board. PERS also had completed the agency's *Comprehensive Annual Financial Report* for fiscal year 2018.

Information Technology Deficiencies: Due the PERS backlog of critical information technology issues further needed investments in the agency's information technology infrastructure will be complicated at the last, and likely delayed, including implementing any potential legislation, modernization, and a proposed customer relations management software. The Legislature should also be wary of any legislation that provides PERS with an exemption from standard information technology requirements and oversight and procurement law.