



December 29, 2021

The Honorable Senator Chuck Riley, Co-Chair  
The Honorable Representative Nancy Nathanson, Co-Chair  
Joint Committee on Information Management and Technology

900 Court St NE  
H-178 State Capitol  
Salem, OR 97301-4048

Dear Co-Chairpersons:

**Subject: SB 5536 (2021) PERS Budget Note Report**

The Joint Committee on Ways and Means approved Senate Bill 5536 (2021) with a budget note requiring PERS and Department of Administrative Services (DAS) Enterprise Information Services (EIS), formerly OSCIO, and the Chief Financial Office (CFO), to report to the Joint Committee on Information Management and Technology and the Joint Committee on Ways and Means, during the Legislative Session in 2022, on the implementation of Senate Bill 1049 (2019).

In accordance with that budget note, PERS is reporting on agency implementation of SB 1049 (2019). PERS is collaborating with EIS and the CFO at the Department of Administrative Services (DAS), as well as other state agencies and stakeholders, on implementation of this complex piece of legislation. DAS will report on our efforts separately.

As prescribed in the Budget Note, this report includes information on the following:

- Update on project scope, schedule, budget, and total cost of ownership;
- Identification of costs associated with one-time solutions versus permanent solutions;
- Current project risks, likely impacts, and mitigation strategies;
- Explanation of the delay related to implementing member redirect and associated costs and actuarial impact;
- Independent quality assurance reporting on the project;
- Impact of SB 1049 (2019) information technology project on routine agency operations;
- Any exceptions from administrative rules, policies or procedures, or statutes granted to PERS by the Department of Administrative Services;
- Whether SB 1049 (2019) is meeting financial objectives; and
- Other information that helps inform the Legislature on the status of the project or issues that have arisen as the result of the project

## Agency Action

PERS is fully engaged in the implementation of this important initiative. The following reports on the elements requested above.

## Background

Senate Bill 1049 was approved on May 30 and signed by the Governor on June 11, 2019. This comprehensive legislation is intended to address the increasing cost of funding PERS, reduce system Unfunded Actuarial Liability (UAL) obligations, and provide relief to escalating contribution rate increases for public employers. These goals will be accomplished through re-amortization of the Tier 1 and Tier 2 UAL, existing employer rate reduction programs, and changes to member benefits.

Different provisions of the measure require the agency to develop short- and long-term plans to adjust the existing technology infrastructure for the retirement system that supports more than 900 public employers and 384,000 members and their beneficiaries. New system functionality is being developed thoughtfully and methodically to maintain the functional capabilities related to existing employer and member interfaces and data, while also analyzing, designing, and implementing new SB 1049 mandated capabilities for data needs (known and unknown), multiple accounts per member, complex benefit calculations, and all associated accounting and financial reporting requirements.

Additionally, comprehensive communication strategies are in place to share appropriate messaging with affected stakeholders. Members need to understand any impact to their benefits. Employers need to understand the impact to associated administrative processes and budgetary impacts, as well as prepare long-term funding plans as part of the Unfunded Actuarial Liability Resolution Program.

The agency has structured implementation efforts into an overarching program with five distinct projects, each having their own effective dates and spanning many areas of PERS operations. The five component projects of the SB 1049 Implementation Program are as follows:

- **Employer Programs:** Effective July 1, 2019 – The Employer Programs portions of the bill clarify and expand the requirements for the Employer Incentive Fund (EIF); appropriate \$100 Million General Fund to the EIF; direct net proceeds from Oregon Lottery Scoreboard betting to the EIF; allow participating public employers who make side account deposits greater than \$10 million to determine when they wish to have these funds included in their employer rate assessment; and require all public employers to participate in the Unfunded Actuarial Liability Resolution Program.
- **Work After Retirement (WAR):** Effective January 1, 2020 – This provision allows PERS retirees to work unlimited hours for PERS participating employers in calendar years 2020-2024. It also requires employers to pay employer contributions on retirees' salary during that period. The rate that PERS will charge the employer will be the same as if the retiree remained an active member.
- **Salary Limit:** Effective January 1, 2020 – This provision limits the amount of subject salary used in benefit calculations for all program members. Beginning in calendar year 2020, the

limit is \$195,000, but will be indexed annually based on CPI. The limit on salary for all plan purposes, including contributions and final average salary, and is not a salary cap.

- **Member Redirect:** Effective July 1, 2020 – This provision redirects a portion of member contributions (6% of salary) to a new Employee Pension Stability Account (EPSA) when the funded status of the plan is below 90% and the member's monthly salary is more than \$2,500 (now \$3,333 after HB 2906 (2021)). In addition, members can voluntarily choose to make additional after-tax contributions into the Individual Account Program (IAP) to make a full, 6% contribution to the IAP.
- **Member Choice:** Effective January 1, 2021 – This provision allows members to elect investment of their IAP account in a Target Date Fund (TDF) other than the default TDF based on their year of birth. PERS anticipates providing members the opportunity to make elections once a year during a defined time frame.

### **Update on project scope, schedule, and budget, and total cost of ownership**

#### **Program Approach**

With the exception of actuarial software associated with the Employer Programs project, the majority of implementation efforts impact the current Oregon Retirement Information Online Network (ORION) system. ORION is a system of integrated applications, including interfaces with our IAP Third Party Administrator, VOYA.

Given ORION is an existing legacy system, PERS is employing the tactic to rely on in-house business experts and backfill them with limited duration and/or work-out-of-class resources. This approach provides PERS with the most accurate and timely business solution identification. Likewise, outside technical resources or contractors are augmenting existing PERS IT staff in the areas of system architecture and development. PERS is also using contracted program and project management services to augment and support program and project implementation. This approach ultimately builds out the internal capacity and capability needed to address longer-term system requirements.

Additionally, this approach mitigated any security concerns as we build out functionality within the established ORION information security framework.

#### **Scope and Schedule**

PERS is managing implementation efforts using an overarching Program Management approach, executing five distinct projects under the Program. This allows PERS the ability to ensure, as best possible, the appropriate prioritization and sequencing of projects, ensures that resource contentions are dealt with using an enterprise approach and, most importantly, that system, policy, and communications interdependencies are identified and managed appropriately.

PERS received program-level Stage Gate 1 endorsement for the SB 1049 Implementation Program on September 13, 2019. As of January 17, 2020, EIS had reviewed and provided feedback for all program-related project management planning documents. It was subsequently determined that two projects, Member Redirect and Member Choice would follow the full Stage Gate process. Member Redirect received Stage Gate 3 approval on March 18, 2020 and Member Choice received Stage Gate 3 approval on August 24, 2020. The other three projects have

received appropriate approvals to execute through Non-Stage Gate endorsements, and all components are endorsed at this point.

Please find attached a copy of the latest program and project status report (Attachment 1) that shows progress as of December 17, 2021.

Given the mandated scope and schedule, and the complexity of the elements requiring implementation, PERS needed to use an iterative and incremental implementation approach, commonly referred to as Agile Project methodology. This approach means that PERS is building functionality with enough features so that it is usable for PERS' members and employers, and to meet the defined legislative implementation dates. As PERS designs the different solutions, the desired end-state is also defined. PERS is building and implementing solutions, in iterations, so it ultimately meets that defined permanent end-state.

There is traceability with each project's scope set out within the project's charter. The scope statement articulates the defined end-state business requirements. These requirements are then broken down into various work packages with associated implementation dates. The projects will be deemed complete when all work packages are fully implemented. The project close out reports, required by the Stage Gate process, will reconcile what functionality was implemented with each work package to demonstrate that the defined end state was, in fact, achieved.

By the end of the 2019-21 biennium, the vast majority of the legislative intent of SB 1049 was achieved. Salary Limits was fully implemented in May 2021 while Employer Programs and Member Choice had close out activities that extended into the 2021-23 biennium. Work After Retirement implemented its final Work Package on December 16, 2021.

As noted in the March 22, 2021 report to this committee, the longer-term Member Redirect solution will have implementation dates that extend into the 2023-2025 biennium given the complexity associated with components of SB 1049. The program roadmap that illustrates this approach, as well as associated timing, is attached (pages 6, 7, Attachment 1). *HB 5032(2019) Budget Report and Measure Summary, Package 804, Information Technology Applications* section (Attachment 2, page 11) noted that: "Given the timelines for implementation, the project will implement a series of temporary solutions before final versions can be implemented."

The reference to temporary solutions is not a completely accurate reflection of what PERS has completed as the majority of work packages implemented provide solutions that are permanent in nature and, using the Agile methodology, build upon earlier work package implementations; i.e. these solutions will not be thrown-away.

While enabling PERS to meet mandated legislative effective dates, the Agile methodology has some inherent risks associated with it. Given the five different projects within the overall SB 1049 Program, there are both more implementation dates as well as more system environments required to manage, which ultimately enable all the different project work packages going through the system development lifecycle simultaneously. Consequently, in late 2020, PERS reviewed the number of implementations originally scheduled and consolidated implementation dates to better manage these inherent risks.

Two elements of SB 1049 were challenged in court: Salary Limit and Member Redirect. On July 16, 2020, the Oregon Supreme Court ruled in favor of PERS in *James v. State of Oregon*. The

complaint alleged that PERS members have a contract right and a property interest in their PERS retirement benefits, including the 6% employee contributions to the IAP and PERS-covered salary, and that the changes made by SB 1049 (2019) are unconstitutional. Given the uncertainty of the timing around the court decision, PERS had to build out both solutions knowing the functionality built may have to be reversed, with minimal downstream system impacts.

Work After Retirement provisions have an effective five-year window and the legislative changes sunset on December 31, 2024. If the Legislature decides that these provisions do not meet the objective of providing a meaningful stream of contributions to PERS, and the decision is to discontinue these provisions past calendar year 2024, this functionality would also have to be reversed, again with minimal impact to the system. Consequently, this raises the complexity level associated with these implementations.

SB 5536 (2021) provided continued funding for the Work After Retirement and Member Redirect projects. It also provided funding for an additional project, Technical Debt, which began in the 2021-2023 biennia. This project was established to address specific technical debt issues created by SB 1049 implementations or that severely impact the ongoing development of new functionality identified by the Program.

In addition to the technical implementation efforts, PERS established and is executing on a robust communications strategy and plan that advised all affected stakeholders on the impact of SB 1049. This includes separate communications efforts for all five projects. These efforts are illustrated on the PERS website for both members and employers:

<https://www.oregon.gov/pers/MEM/Pages/SB1049.aspx>  
<https://www.oregon.gov/pers/EMP/Pages/SB1049.aspx>

PERS would like to acknowledge the collaborative efforts of our Employer Advisory Group as well as the PERS Coalition in refining key messaging as part of the communications review process. Staff have also made presentations at numerous stakeholder meetings on the impacts of SB 1049.

### *Employer Programs*

One aspect of Employer Programs is to enhance employers' understanding of their own funded status and its interrelationship with the System's funded status, via the Unfunded Actuarial Liability Resolution Program (UALRP). To that end, PERS staff are publishing a series of UALRP guides to provide this information to employers. The following is a link to where these guides are housed:

<https://www.oregon.gov/pers/EMP/Pages/UALRP.aspx#guides>

With respect to the Employer Incentive Fund, there was a \$100 million General Fund appropriation in SB 1049 to capitalize the EIF. At the 2020 2nd Special Session, SB 5723 moved \$35.3 million out of the EIF back into General Revenue. Additionally, the one revenue stream that was intended to provide ongoing EIF funding, Sports Betting Lottery Revenue, was reallocated, then vetoed by the Governor. Consequently, the total EIF funds used to match employer side account deposits was \$67.7 million. In 2021, there was over \$549 million in side accounts added to the PERS system including \$337 for employer side accounts and their

matches, \$41 million in transition liabilities, and \$107 million from alternative amortization periods that didn't receive an EIF match and \$64 million from waitlisted employers who set up a side account but didn't receive an EIF match.

Oregon Scoreboard Lottery proceeds have been designated as the ongoing source of EIF funding. These lottery funds provided \$7.3 Million in the 2019-21 biennium, plus an anticipated \$12.6 Million during the 2021-23 biennium to be used in the next application cycle.

Employers who applied for EIF participated in the initial version of the UAL Resolution Program (UALRP). The UALRP will evolve over time so that employers are supported in developing their long-term funding plans. PERS is working collaboratively with our Employer Advisory Group to ensure that the funding plans, which will be defined through this process, meet both employer and PERS' needs.

To support the UALRP, PERS implemented a new actuarial planning solution on June 17, 2021 to replace the existing Employer Contribution Rate Projection Tool. PERS selected a solution developed by CalPERS and made the necessary changes to this software so that it can be used by PERS' employers.

### *Salary Limit*

The initial work package was implemented January 1, 2020, which provided PERS staff with basic functionality. The final permanent solution was implemented May 13, 2021 through four work packages/iterations. This project applies to less than 1,000 members.

### *Work After Retirement*

The initial work package was implemented January 1, 2020. It established the process for PERS to be able to invoice employers for the necessary contributions on service retiree wages by eliminating current retiree wage codes. The final permanent solution was implemented by December 16, 2021 with four work packages/iterations completed.

Of note is the fact that PERS is not involved in the hiring decisions between retirees and employers. Employers are responsible for the decision to hire a PERS retiree or not, and set any other limitations. Employers may establish limitations on the number of hours members can work. An example of this is the Governor's administrative decision to limit hours for Executive Branch retirees.

### *Member Redirect*

This initial work package was implemented on June 18, 2020. The functionality established the Employee Pension Stability Account (EPSA), which applies to all active members across all Tiers and enables the transmittal and recording of mandated contributions to the EPSA.

The final permanent solution will be implemented through additional work packages/iterations that extend through to August, 2023. Each work package implements permanent solutions to deal with various administrative elements. These include the ability to calculate annual and distribution earnings, calculate a retirement, calculate a withdrawal, process a death benefit, and produce an annual statement that includes the EPSA and voluntary contributions.

PERS determined, after looking at multiple alternatives, that it would not be able to implement the mandated voluntary contribution component of the Member Redirect project before the legislated effective date of July 1, 2020. This determination was due to the fact that this is a very complex set of new business requirements that created, for all intents and purposes, a new line of business for PERS. This new functionality not only had significant impacts to PERS' systems and processes, but also impacted the 900 employers who had to make changes to their own payroll systems, and associated processes, to allow for the election, deduction and remittance of these voluntary contributions.

PERS fully implemented voluntary contribution functionality in two-phases and completed implementation on November 19, 2020. This allowed members the ability, through their respective employers, to make voluntary contributions on a retroactive basis, so that they can fully utilize this voluntary contribution option, and further allowed for appropriate accounting, earnings crediting, and tax reporting for calendar year 2020. After October 31, 2020, members were not allowed to request a retroactive voluntary contribution start date.

As of December 1, 2021, there were 6,662 members who have chosen to begin making voluntary contributions, with 2,360 of those members requesting a retroactive start date of July 1, 2020. Of the 2,360 members requesting retroactive contributions, 919 subsequently requested to cease making voluntary contributions.

#### *2021 Legislative Session Impacts to Member Redirect*

HB 2906 (2021) increased the Member Redirect monthly threshold from \$2,535 per month to \$3,333 per month effective January 1, 2022 (with corresponding yearly increases based on CPI). The impact of this change is estimated to be a reduction of member redirect contributions by \$15 million per biennia. It also decreased the impact of the Member Redirect Offset by an additional 0.05%. This, combined with an actuarial decrease of 0.05% (see page 10, below), results in a total decrease to the Member Redirect Offset of 0.10%, which correspondingly increased employer rates by 0.10%.

In addition to providing statutory clarity on SB 1049 changes, as proposed by PERS, SB 111 (2021) was amended to include an increase the Optional Spouse Death Benefit (Tier 1/Tier 2), and the OPSRP death benefit for spouses of members who die after the member's earliest retirement date. Bereaved spouses for those members will now receive 100% of the actuarially adjusted amount due to them, instead of the previous 50%. PERS will be incorporating the implementation of this legislative change into Member Redirect implementation efforts as changes to death benefits are already being enacted as part of those efforts. PERS determined this is the most efficient and cost-effective method of implementation.

#### *Member Choice*

PERS implemented an online solution, via our current Online Member Services system, that allowed members to make their choice as to which IAP Target-Date Fund they wish to be invested in for the following calendar year, beginning January 1, 2021. The final permanent solution was implemented by June 24, 2021 as one of three work packages/iterations.

PERS engaged in multiple member communications efforts regarding this new option, beginning with the release of Member Annual Statements in May 2020. These communications efforts were replicated in 2021 and will continue on a yearly basis to ensure members are aware of their ability to make a choice of which Target Date Fund they would like to have their accounts invested during the month of September.

For changes taking effect January 1, 2021, there were 1,311 members who chose to be invested in an IAP Target-Date Fund different than their default age tranche. For changes taking effect January 1, 2022, there were 685 members.

## Budget

The total 2019-21 Legislative Approved Budget for SB 1049 work was \$39,059,717. At the 2020 2nd Special Session, SB 5723 adjusted the budget as follows: the Other Funds expenditure limitation for the Core System Retirement Application was reduced by \$10.5 million, which includes \$10 million for Information Technology Applications (Policy Package 804) and \$500,000 for a Contingency Reserve (Policy Package 806). Of the remaining \$29.03 million, PERS expended \$25.9 million over the course of the 2019-2021 biennia.

Attachment 3, page 1 shows the expenditures broken down between Personal Services, Services & Supplies and Capital Outlay. PERS also utilizes permanent staff to work on various areas of SB 1049. There is a monthly average of 110 internal resources who work on the implementation efforts on a part to full-time basis. The costs of these resources for 2019-2021 are not reflected in the allocations noted above but are shown in Attachment 3, pages 2 and 3 with over 94,480 internal resource hours equating to an additional \$6.3 million in expenditures.

PERS received funding via SB 5536 (2021), in the amount of \$22.8 million, to obtain the resources for the 2021-2023 biennium to substantially complete implementation efforts. This included \$2.6 million for a new project, Technical Debt, noted above. The following chart shows the different breakdowns of the funds as well as the current positive variances for each item as of December 17, 2021.

29560- SB 1049 Implementation Program by Project					
Other Funds Lmt	21-23 Budget	Actual to Date	Projections	21-23 Total	Variance
Work After Retirement	\$ 1,127,741	\$ 275,545	\$ 656,007	\$ 931,552	\$ 196,189
Member Redirect	\$ 18,896,315	\$ 3,648,102	\$ 9,123,199	\$ 12,771,301	\$ 6,125,014
Technical Debt	\$ 2,790,741	\$ 196,440	\$ 658,580	\$ 855,020	\$ 1,935,721
				\$ -	\$ -
<b>Total</b>	<b>\$ 22,814,797</b>	<b>\$ 4,120,086</b>	<b>\$ 10,437,787</b>	<b>\$ 14,557,873</b>	<b>\$ 8,256,924</b>

29560- SB 1049 Implementation Program by POP					
Other Funds Lmt	21-23 Budget	Actual to Date	Projections	21-23 Total	Variance
Project Management & Admin	\$ 2,044,800	\$ 333,288	\$ 1,298,712	\$ 1,632,000	\$ 412,800
Quality Assurance and Testing	\$ 812,500	\$ 55,750	\$ 868,250	\$ 924,000	\$ (111,500)
Info Technology Applications	\$ 13,337,000	\$ 2,604,741	\$ 3,383,294	\$ 5,988,035	\$ 7,348,965
Operational Implementation	\$ 6,620,497	\$ 1,126,307	\$ 4,887,531	\$ 6,013,838	\$ 606,659
<b>Total</b>	<b>\$ 22,814,797</b>	<b>\$ 4,120,086</b>	<b>\$ 10,437,787</b>	<b>\$ 14,557,873</b>	<b>\$ 8,256,924</b>

The variance of \$8.2 million is expected to cover the remaining Member Redirect and Technical Debt work packages in 2022-2023 that currently only have high level estimates. These include some of the most complex business processes impacted by the Member Redirect changes, such as withdrawals, pre-retirement death, and re-employment after retirement.



The costs for internal resources up to November 30, 2021 for the current biennium are shown in Attachment 3, pages 4 and 5, with 9,589 internal resource hours equating to an additional \$598,075.

### **Total Cost of Ownership**

Given that PERS is implementing system changes to ORION, an existing legacy system, to maintain consistency with initial reporting on the implementation of SB 1049, PERS will define Total Cost of Ownership as the budgeted expenditures against the appropriations noted previously, as well as accounting for internal resource draws to support the initial implementation. PERS anticipated having to suspend non-emergent work and was able to redeploy current staff to augment additional temporary and permanent staff and contractors funded through budget appropriations.

PERS is able to estimate required longer-term support costs in addition to the costs noted previously. These costs are included in our ongoing maintenance and enhancement costs to support ORION (\$2.1 million budgeted for the 2019-21 biennium, \$2.2 million budgeted for the 2021-23 biennium).

### **Identification of costs associated with one-time solutions versus permanent solutions**

As noted previously, PERS is implementing solutions using an iterative and incremental approach. This does differ from a one-time, permanent solution approach in that the work packages are not a one-time solution that is implemented and subsequently discarded when a permanent solution is implemented. Rather, functionality is implemented and improved upon until it becomes the permanent solution. Consequently, PERS has not broken down one-time costs versus permanent solutions, as we see few throwaway costs being incurred.

One brand new functional element, outside of ORION, is the actuarial planning tool that will be implemented as part of the Employer Programs project. This will be built out as a cloud-based application.

Work done to implement the long-term solutions for SB 1049 will substantially increase the technical debt of the ORION system; both from an increased system complexity and from a timing perspective, as another biennium will have passed where PERS is not able to begin to modernize ORION. As noted above, SB 5536 provided funding for an additional project, Technical Debt, which began in the 2021-2023 biennia. This project was established to address specific technical debt issues created by SB 1049 implementations or that severely impact the ongoing development of new functionality identified by the Program. Other technical debt items will be addressed in future modernization efforts.

### **Explanation of the delay related to implementing member redirect and associated costs and actuarial impact(s)**

The Member Redirect project is the most complex and resource intense of the five projects as it impacts almost every aspect of pension administration; employer-provided data submission and reconciliations, all calculations (with the exception of pension estimates), accounting at both the member and fund level, as well as associated reports including member annual statements. Given

the complexity of PERS and the outdated legacy pension administration system, jClarety, considerable effort and associated resourcing is required to define, build, test and implement all required changes.

A long-term permanent solution continues to be implemented through additional work packages, with those implementations extending through February 2024. The culmination of this work will provide PERS the ability to, using system functionality rather than manual processes, calculate annual earnings and allocate accordingly, calculate a retirement, a withdrawal, a death benefit, and produce an annual statement including the EPSA balance as well as the voluntary contribution balance, where applicable.

In the Supreme Court ruling on the *James* case, one of the key elements for the ruling in favor of SB 1049 was the fact that, effective July 1, 2020, each member would not only have their own EPSA account established that would assist in the funding of future accruals, but also that these funds would be accurately accounted for and taken into account in all future benefit transactions. Without fully completing all twelve work packages, PERS will be unable to meet this standard.

From an actuarial perspective, the member contributions being made to members' EPSA accounts act to offset the total contribution amount. For the 2021-23 biennia, there is an estimated system-average offset of 2.45% of payroll for Tier 1/Tier 2 and 0.70% for OPSRP given that not all members have a salary that is \$2,535 (2021) per month or more. At a system average level, the pay threshold will reduce the amount of redirected contributions by about 0.05% of payroll.

With the changes due to HB 2906 (2021), the estimated system-average offset decreases to 2.40% of payroll for Tier1/Tier 2 and 0.65% for OPSRP given that the salary threshold was increased to \$3,333 (2022) per month or more. At a system average level, the pay threshold change will reduce the amount of redirected contributions by about 0.10% of payroll.

It was anticipated that the member redirect contributions will offset total required contributions by \$295 million in the 2021-23 biennium. With the changes due to HB 2906 (2021), the offset is anticipated to be \$280 million in the 2023-25 biennium, thereby reducing the employer contributions by that amount. For the 2023-25 biennia, this is best illustrated in the following tables.

## Collared Employer Pension Rates – System-Wide

Excludes Retiree Health Care & IAP Contributions

	12/31/2019 <sup>1</sup> Valuation 2021 – 2023 Final Rates			12/31/2020 <sup>1</sup> Valuation 2023 – 2025 Advisory Rates		
	Payroll			Payroll		
	Tier 1 / Tier 2	OPSRP	Weighted Average <sup>2</sup>	Tier 1 / Tier 2	OPSRP	Weighted Average <sup>2</sup>
<b>Collared Base Rate</b>	<b>29.65%</b>	<b>23.89%</b>	<b>25.82%</b>	<b>32.86%</b>	<b>27.07%</b>	<b>28.85%</b>
Member redirect offset	(2.45%)	(0.70%)	(1.25%)	(2.40%)	(0.65%)	(1.15%)
<b>Collared Base Employer Rate</b>	<b>27.20%</b>	<b>23.19%</b>	<b>24.57%</b>	<b>30.46%</b>	<b>26.42%</b>	<b>27.70%</b>
Side Account (Offset)	(6.24%)	(6.24%)	(6.24%)	(5.96%)	(5.96%)	(5.96%)
SLGRP Charge/(Offset)	(0.40%)	(0.40%)	(0.40%)	(0.40%)	(0.40%)	(0.40%)
<b>Collared Net Rate</b>	<b>20.56%</b>	<b>16.55%</b>	<b>17.93%</b>	<b>24.10%</b>	<b>20.06%</b>	<b>21.34%</b>
<b>Increase</b>				<b>3.54%</b>	<b>3.51%</b>	<b>3.41%</b>

1 For this exhibit, adjustments are assumed not to be limited due to an individual employer reaching a 0.00% contribution rate.

2 Weighting based on system-wide payroll levels (Tier 1/Tier 2, OPSRP) as of the valuation date

Rates vary by employer, as only some employers have side accounts

Changes in side account offsets are not collared

## Projected Split of 2023-2025 Total Contributions

(\$ millions)	(A) Projected 2021- 23 Total Contribution	(B) Projected 2023- 25 Total Contribution	(C) Estimated Member Redirected Contributions*	(B - C) Projected 2023- 25 Employer Contribution
State Agencies	\$ 1,520	\$ 1,885	\$ 85	\$ 1,800
School Districts	1,260	1,595	90	1,505
All Others	<u>1,915</u>	<u>2,390</u>	<u>105</u>	<u>2,285</u>
Total	\$ 4,695	\$ 5,870	\$ 280	\$ 5,590

\* Reflects member redirect offset of 2.40% of payroll for Tier 1 and Tier 2, and 0.65% for OPSRP; the statutory 2.50% and 0.75% redirection levels were adjusted downward by 0.10% to estimate the anticipated effect of members below the statutory pay threshold who will not have contributions redirected

### Independent quality assurance reporting on the project

PERS has contracted with Gartner Inc. to be the Independent Quality Management Services (iQMS) Consultant for the program. Gartner is executing on these Quality Management Services including the following:

1. Risk Assessment
2. Quality Management Planning
3. Quality Control
4. Quality Assurance

In totality, the satisfactory performance of these tasks by the iQMS Consultant identifies project risks and planned mitigation efforts, helps ensure the application of best practices in project management, including quality management. This service also ensures the delivery of technical work products that meet or exceed project requirements for schedule, cost, functionality, reliability, security, and other relevant quality standards.

PERS received the initial submission of the iQMS baseline work plan and the iQMS Quality Plan deliverables in mid-February 2020 and subsequent quarterly reports. PERS has ensured both EIS and LFO are recipients of both the recommendations as well as our responses to those recommendations. Attachment 4 is the most recent Quarterly Status Report Summary. It shows that of fifty-eight risk areas reviewed, forty-seven, or 81%, are in green with the remainder in yellow.

PERS has taken the iQMS recommendations and, to the greatest extent possible, evolved our approach with the overall Program and projects to address these recommendations. Acting on these recommendations both reduces overall risks to the Program but further allows PERS to enhance our project competencies and capabilities that allow us to execute not only on the SB 1049 Program but any future projects, including future modernization efforts.

### **Current Project Risks, Likely Impacts and Mitigation Strategies**

In December 2019, EIS identified three primary risk concerns that both they and Gartner, as the iQMS vendor, had concerns with: Program Management, Program Implementation (Testing) and Integration and Other Resource Constraints, including Organization Change Management.

After having Deloitte Consulting do a preliminary assessment of program needs, PERS engaged Deloitte in June, 2020 to assist in enhancing overall Program Management activities including a resource needs analysis, program test coordination activities, as well as Organizational Change Management assistance. Deloitte's support activities were completed in December 2020 with these risks addressed. For all these items, including Organizational Change Management, which is defined as ensuring the agency's ability to administer any new functionality being implemented through process reviews and staff training, PERS ensured that the Deloitte deliverables included new tools and knowledge transfer to PERS staff so that these efforts could be continued with internal staff. All of Deloitte's recommendations have now been implemented.

The benefits of Organizational Change Management include assessing and understanding the need and the impact of change, aligning resources within the business to support the change, reducing the time needed to implement change, supporting staff and helping them understand the change process and providing effective training and communication to staff.

PERS continues to evolve its project management practices to incorporate program resource management using new enterprise project management tools as resource management remains as the highest overall program/project risk. These efforts included providing project managers with enhanced training so they can understand and incorporate enterprise and program level activities

and the use of new project management tools into their work streams to ensure an integrated program and project plan is developed and maintained. PERS continues to review, refine and adjust resources to ensure successful project implementations.

PERS has engaged our iQMS vendor, Gartner Consulting, to conduct a lessons learned engagement. This work began in January 2022 and will seek to understand what we learned over the course of this Program and how PERS can continue to evolve our practices going forward.

### **Impact of Senate Bill 1049 (2019) information technology project on routine agency operations**

Overall, SB 1049 has impacted many critical services, resulting in increased volumes, decreased service levels, additional backlogs, and delays in projects and maintenance of desktop tools.

As stated in a letter to the PERS Director dated June 28, 2019 from Katy Coba and Terrence Woods (Attachment 5), PERS was advised as follows: “OSCIO advises PERS to confine its IT project portfolio to those efforts lined out in HB 5032A and effectively place on hold any other work not deemed emergent and mission-critical to the agency.” To that end, for the first year of this biennium, PERS ensured that all non-essential IT projects were put on hold. In addition to regular maintenance and enhancement efforts to ensure ongoing operations are supported, there are two additional IT projects that were commenced in the second year of this biennium.

The first IT project is our Production Data Center migration efforts. PERS had the Production Data Center infrastructure purchased and onsite at the State Data Center by November 30, 2021 and expects to be fully transitioned by June 2022. The second IT project involves standing up a Backup Data Center using a cloud-based solution. This solution was partially implemented but put on hold in January 2021 pending a review of how to increase data pipeline capacity to meet desired replication timeframes. DAS has now put in place increased pipeline capacity and PERS staff will pivot to this project once they have completed the Production Data Center migration.

In the pension operations areas, PERS is currently seeing some increases in requests and services comparing 2020 to 2019:

- Member calls – increase of 6,201 calls, a 4% increase
- Employer emails – increase of 35,301 emails received, a 33% increase
- Member Benefit Estimates – increase of 892 estimates, a 9% increase
- Member Retirements – increase of 13 retirements, a negligible increase

To help implement SB 1049, PERS has assigned subject matter experts, from the Operations and Financial Services Divisions, to help with gathering data and documentation. In this biennia, PERS has 35 limited duration positions budgeted within the SB 1049 Program. These positions are a mix of dedicated project resources as well as resources assisting in workload and backlog issues as Subject Matter Experts transitioned from their regular duties to supporting Program implementation efforts.

The Policy, Analysis and Compliance Section has had to put on hold many internal initiatives as a result of having to review the legislative impact of SB 1049, draft administrative rules, provide policy determinations as part of building out system specifications, and support the Department of Justice (DOJ) in the legal defense of the SB 1049 lawsuit.

As noted previously, PERS is tracking the internal resources and their associated costs. Through this tracking, PERS is aware that, on a monthly basis, up to 110 PERS permanent, internal staff have been involved, to some degree, in the implementation of SB 1049. A non-exhaustive list of these efforts include: business analysis, system architecture, system development, testing (system and business), subject matter expertise, project management, business process reviews, communications, training, organizational change management, steering and work group participation. Staff efforts range from a few hours per week to full-time engagement in the projects.

**Any exceptions from administrative rules, policies or procedures, or statutes granted to PERS by the Department of Administrative Services**

As of December, 2021, PERS has not been granted exceptions from administrative rules, policies or procedures or statutes by DAS.

Due to the mandated January 1, 2020, delivery timeframe for the Salary Limits and Work After Retirement sub-projects, PERS determined that it was essential to proceed with execution work activities prior to receiving EIS endorsement of all project management planning documents. Terrence Woods, the State CIO, provided PERS with a Memorandum dated December 6, 2019 (Attachment 6) that acknowledged that project execution activities on these projects were proceeding without attendant approvals from EIS. Minimum viable solutions to address the SB 1049 mandates for Salary Limits and Work After Retirement functionality were in place by the mandated deadline. Similar acknowledgements were provided in the Member Redirect and Member Choice Stage Gate 2 endorsements regarding work on initial work packages prior to Stage Gate 3 endorsement to execute.

**Whether SB 1049 (2019) is meeting financial objectives**

In May 2019, the PERS' consulting actuaries were requested to provide an initial analysis of the potential impact of SB 1049 to the contribution rates for the 2021-23 biennium based on the December 31, 2018 valuation results. The following provides a comparison between the initial assessment and a subsequent assessment based on the December 31, 2019 valuation results.

<b>SB 1049 Change</b>	<b>Estimated 2021-23 Rate Effect 5/9/2019 analysis</b>	<b>Estimated 2021-23 Rate Effect as per 12/31/2019 valuation</b>
<b>T1T2 UAL reamortization (uncollared rate)</b>	<b>(3.90%)</b>	<b>(3.50%)</b>
<b>Rate collar effect on UAL re-amortization</b>	<b>0.50%</b>	<b>0.00%</b>
<b>FAS Limit of \$195K</b>	<b>(0.03%)</b>	<b>(0.02%)</b>

<b>IAP Redirect</b>	<b>(1.20%)</b>	<b>(1.20%)</b>
<b>Contributions on Rehired Retiree Members</b>	<b>(0.80%)</b>	<b>(0.50%) – (0.60%)</b>

The following are explanatory notes with regard to the differences.

Because the 12/31/2019 valuation reflected 2019 asset returns and higher payroll growth, the starting point UAL rate (prior to reamortization) was lower than estimated in the May 2019 letter.

- Since the valuation UAL rate was starting from a lower point than estimated in the May 2019 letter, reamortizing the UAL did not have as large of an impact as a percentage of payroll on the uncollared UAL rate (a decrease of 3.50% vs. 3.90%).
- Additionally, the lower starting UAL rate meant that (on a system-average basis), the 2021-23 contribution rate determined in the 12/31/2019 valuation was not limited by the rate collar. While the May 2019 analysis noted that the first 0.50% of the reduced uncollared rate from the reamortization would eliminate the rate collar, there was not a similar effect in the 12/31/2019 valuation.

With respect to Work After Retirement (WAR), the following summary for WAR contributions was determined for the 2020 calendar year. It was below the original anticipated amount. PERS believes there were a few major factors that contributed to the anticipated shortfall. The first and most obvious factor is the impact of COVID-19 on hiring patterns across the public sector. The second significant factor may be that the fact that the Executive Branch of government continued with the 1040 hour limitation on retirees working.

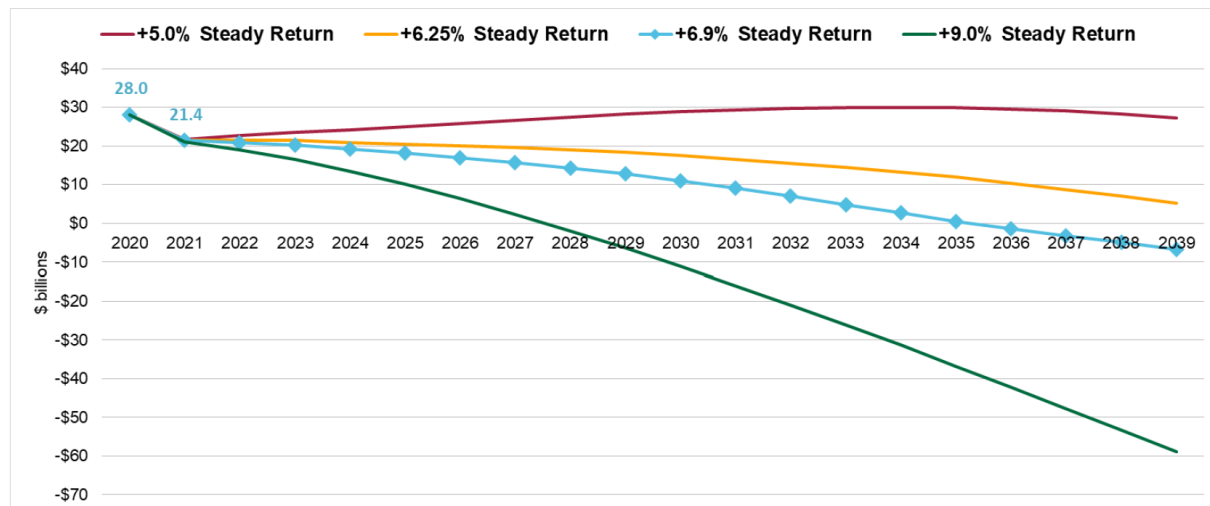
	Active	WAR	Percent Added
General Service Tier 1	253,986,232	26,759,556	10.5%
General Service Tier 2	422,968,577	4,334,946	1.0%
Police and Fire Tier 1	41,608,413	5,727,329	13.8%
Police and Fire Tier 2	104,431,089	673,407	0.6%
General Service OPSRP	1,017,149,067	740,620	0.1%
Police and Fire OPSRP	192,806,189	66,072	0.0%
	<b>2,032,949,567</b>	<b>38,301,931</b>	<b>1.9%</b>

As noted above, HB 2906 (2021) increased the Member Redirect monthly threshold from \$2,535 per month to \$3,333 per month effective January 1, 2022 (with corresponding yearly increases based on CPI). The impact of this change is estimated to be a reduction of member redirect contributions by \$15 million per biennia. It also decreased the impact of the Member Redirect Offset by an additional 0.05%, which will correspondingly increase employer rates by an additional 0.05% in the 2023-2025 biennia.

Additionally, as a result of the one-time 22-year reamortization of the Tier One and Tier Two Unfunded Actuarial Liability, the estimated pay down of the Unfunded Actuarial Liability was

calculated to extend out from 2032 to 2043. However, based on strong 2021 investment returns to September 30, 2021 and a revised rate collaring policy adopted by the Board in 2021, that date is now estimated to have moved back to 2036.

## UAL (Unfunded Actuarial Liability) Excluding Side Accounts



- 2021 UAL decreases due to estimated year-end 2021 investment returns
- At steady +6.9% returns, UAL remains relatively level for a couple years before declining to below \$0 at year-end 2036

### **Any investments made by the agency during the biennium for technical debt**

Over the course of implementing the respective projects, PERS has identified numerous technical debt issues as business and technical requirements were defined. PERS then determined which of these issues were absolutely required to implement SB 1049 and which debt issues could be addressed in the future through maintenance and enhancement activities or through future modernization efforts. Attachment 7 is a listing of technical debt items that were identified as part of implementation efforts. Technical debt items were not addressed in the 2019-2021 biennia unless it was absolutely necessary to implement SB 1049 functionality.

As noted previously, SB 5536 (2021), provided funding for an additional project that began in the 2021-2023 biennia to address specific technical debt issues that required attention as a result of both the implemented elements of SB 1049, as well as what will be implemented moving forward.

### **Other information that helps inform the Legislature on the status of the project or issues that have arisen as the result of the project**

#### *Collaboration with Other State Agencies*

PERS acknowledges the invaluable support from other state agencies, particularly DAS and the Department of Justice. PERS has received prioritized assistance from DAS Procurement Services, DAS Real Estate Services, and DOJ in expediting a wide variety of procurement activities, which minimized contractual lag time. Additionally, DAS Chief Human Resources



Office has provided expedited position description and classification reviews to support our hiring processes related to project resources.

EIS provided an embedded (on-site originally) IT Oversight Analyst to support expedited review of program documents and provide real time feedback on program and project activities, which proved effective. Given this is the first time that EIS has used this approach within any state agency program, it is a learning experience for both parties, but has proven to be quite effective and has sped up required reviews and approval cycle times. Efforts continue to refine required communications and interactions amongst all stakeholders given this new oversight model.

PERS acknowledges the partnerships and support with external stakeholders on all levels: the Governor's Office, Legislative Fiscal Office, and DAS (Director's Office, CFO, EIS). These partnerships are structured via various weekly and monthly meetings, and ensure timely communications and responsiveness to identified issues. In order to respond to various stakeholder reporting requests, PERS has and continues to refine its reporting over the course of implementing this Program. PERS also uses the EIS Project Portfolio Management repository as the definitive Program information source.

### *COVID-19 Impact on Program Implementation*

The impact of COVID-19 with respect to the overall schedule associated with the SB 1049 Implementation Program has been negligible. Overall, the agency was able to pivot quickly in March, 2020 and move Program resources to remote work arrangements. By using online tools such as Microsoft Teams and Jira, project teams were able to continue to work collaboratively in all facets of their work. PERS is extremely pleased with the responsiveness and resiliency of all resources in making this shift so quickly and effectively. It is anticipated that these remote working arrangements will continue indefinitely.

### *Administrative and Financial Impact on Employers*

As the agency moved forward with understanding implementation of different portions of SB 1049, we engaged our employer partners to create solutions that met both initial and future implementation requirements.

Senate Bill 1049 has some unanticipated impacts to employers including: the requirement to pay contribution rates on retiree wages in this current budget cycle; a need to change their reporting file format for retirees who return to work; and a requirement to facilitate the election and processing of voluntary member contributions to IAP accounts, regardless of how many of their staff choose to make voluntary contributions.

### *Statutory Clarifications*

As provisions of SB 1049 evolved rapidly during the 2019 session, we expressed there would be a need for technical fixes in statute to meet legislative intent. While we continue to work through implementation conversations that illuminate new challenges, multiple issues have been identified to date that impact Work After Retirement, Member Redirect, and the Employer Programs sub-projects.

The agency proposed, and the legislature passed, a SB 1049 cleanup bill (SB 111) for consideration in the 2021 legislative session which did address the items noted above. There were amendments to the original bill which impacted pre-retirement death benefit calculations, as noted above. These changes will be incorporated into Member Redirect Work Packages as it is the most efficient and cost effective way of addressing these changes.

### **Action Requested**

Acknowledge receipt of the report.

### **Legislation Affected**

This report reflects Budget Note directives as approved in Senate Bill 5536 (2021). Please contact Kevin Olineck, Director at (503) 603-7695 with any questions.

Sincerely,



Kevin Olineck, Director  
Oregon Public Employees Retirement System

Attachment 1: Program/Project Status Reports as of December 17, 2021  
Attachment 2: HB5032 Budget Report and Measure Summary, Package 804, IT Applications  
Attachment 3: Budget Reports by Appropriation, Program and Project, Internal Resource Usage  
Attachment 4: iQMS Quarterly Status Summary October 2020  
Attachment 5: Letter from Terrence Woods: re additional Program Management resources  
Attachment 6: Letter from Katy Coba and Terrence Woods: re stopping all non-essential IT work  
Attachment 7: Technical Debt Log