



March 22, 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 5723 (2020) PERS Budget Note Report

The Joint Committee on Ways and Means approved Senate Bill 5723 (2020) 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 2021, 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, and 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 implement member redirect and associated costs and actuarial impacts
- 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
- Other investments made by the agency during the biennium for technical debt
- 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 378,000 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:** 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. 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 (Attachment1) that shows progress as of February 19, 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 will be achieved. With the exception of Member Redirect which requires multiple Work Packages and Work After Retirement with one further Work Package, the three other projects will have final permanent solutions implemented by the end of this biennium. They will, however, have close out activities, including Stage Gate close out reports, that extend into the 2021-23 biennium.

As noted in the January 17, 2020 report to this committee, the longer-term Member Redirect solution will have implementation dates that extend into the 2021-23 biennium and beyond, given the complexity associated with components of SB 1049. The program roadmap that illustrates this approach, as well as associated timing, is attached (Attachment 2). *HB5032 Budget Report and Measure Summary, Package 804, Information Technology Applications* section (Attachment 3, 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.

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 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. The following chart is a summation of the impact of the EIF.

Employer Incentive Fund Summary			
Employers who received EIF Match			
Number of Employers	Employer Funds	EIF Match	Total
89	\$ 272,807,856.40	\$ 64,751,661.80	\$ 337,559,518.20
Transitional Liabilities Paid Off			
Number of Employers	Employer Funds		Total
4 ¹	\$ 35,170,251.00		\$ 35,170,251.00
9 ²	\$ 4,865,293.00		\$ 4,865,293.00
5 ³	\$ 565,505.00		\$ 565,505.00
Deferred Rate Offset or Revised Amortization Schedule			
Number of Employers	Employer Funds		Total
2	\$ 107,000,000.00		\$ 107,000,000.00
New Side Accounts Established - No EIF Match			
Number of Employers	Employer Funds		Total
12 ⁴	\$ 56,652,000.00		\$ 64,051,839.20
SIDE ACCOUNT TOTALS			\$ 549,212,406.40
Employers on Waiting List			
Number of Employers	Employer Funds	EIF Match	Total
41 ⁵	\$ 148,108,750.20	\$ 36,599,424.85 ⁶	\$ 184,708,175.05
27 ⁷	\$ 94,547,641.00	\$ 23,636,910.00	\$ 118,184,551.00
¹ - SB 1566 (2018) Launch to EIF Launch - September 2019 ² - EIF Launch to December 1, 2020 ³ - Non EIF Matched Employers ⁴ - Includes Employers on the wait list that pre-emptively made a payment or applied with a side account established in June 2018 ⁵ - Employers on Waiting List, including those accounted for above under "New Side Accounts Established - No EIF Match" ⁶ - Amount is calculated totaling the \$53.6m in side accounts received and no EIF match to date + \$135.8m in Employers on Waiting List ⁷ - Only Employers on the Wait List that have not made a lump sum payment			

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 is planning to implement a new actuarial planning solution to replace the existing Employer Contribution Rate Projection Tool. PERS selected a solution developed by CalPERS and is making the necessary changes to this software so that it can be used by PERS' employers. The implementation date for this permanent solution is June 17, 2021.

Salary Limit

The initial work package was implemented January 1, 2020, which provided PERS staff with basic functionality. The final permanent solution will be implemented by May 13, 2021 with three of four work packages/iterations complete to date. 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 wages codes. The final permanent solution will be implemented by December 16, 2021 with two of four work packages/iterations complete to date.

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 March 1, 2021, there were 4,400 members who have chosen to begin making voluntary contributions, with 2,360 of those members requesting a retroactive start date of July 1, 2020.

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 will be implemented by June 24, 2021 with one of three work packages/iterations complete to date.

PERS engaged in multiple member communications efforts regarding this new option, beginning with the release of Member Annual Statements in May 2020.

One thousand, three hundred and eleven members chose to be invested in an IAP Target-Date Fund different than their default age tranche. These investment changes took effect January 1, 2021.

Budget

The following appropriations were granted as part of HB 5032, the PERS agency budget:

- Policy Package 802 – established a \$2,500,000 expenditure limitation for a vendor contract for Project Management resources;
- Policy Package 803 – established a \$2,500,000 expenditure limitation for a vendor contract for independent Quality Assurance and Control;
- Policy Package 804 – established an Other Funds expenditure limitation of \$25,992,000 for Information Technology Applications;
- Policy Package 805 – established an Other Funds expenditure limitation of \$7,567,714 for limited duration positions, including associated services and supplies for Operational Implementation; and
- Policy Package 806 – established an Other Funds expenditure limitation of \$500,000 as a Contingency Reserve.

The total 2019-21 Legislative Approved Budget for SB 1049 work is \$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).

Attachment 4, page 1 show these appropriations broken down at the appropriate level while Attachment 2, page 2 provides the costs to date at a program and project level. 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 are not reflected in the allocations noted above but are shown in Attachment 4, pages 2 and 3 with over 80,663 internal resource hours equating to \$5.3 million as of February 2021.

Given the very short timeframe in which PERS developed the budget noted above, there were some unknowns that were not part of PERS initial request. Subsequently, PERS identified additional unbudgeted costs:

1. Additional office space to support program/project staff;
2. Additional Storage Area Network capacity to support increased system environments; and
3. Additional resources to support program management and project execution, as identified by DAS EIS (Attachment 5).

These total unbudgeted costs, in the amount of \$3,133,667 as of February, 2021 have been identified to the Legislative Fiscal Office and Chief Financial Office (CFO), DAS. There is sufficient limitation to pay for these unbudgeted costs.

As was noted in our January 17, 2020 report, additional funding will be required to complete the Member Redirect work in the 2021-2023 biennium and beyond.

PERS anticipates expending approximately \$26.4 million of the original \$39 million allocation in the 2019-2021 biennium. Within the PERS 2021-23 biennial budget request (SB 5536), PERS is proposing a Policy Option Package in the amount of \$22.5 million, to obtain the resources for the 2021-2023 biennium to substantially complete implementation efforts. PERS estimates the overall funding to complete implementation on all five projects within the Program will be approximately \$49 million.

Package 805, Operational Implementation, established 37 Limited Duration positions (33.60 FTE) for staff needed to address additional operational workload created by SB 1049 implementation. Package 805 also established six permanent full-time positions (5.44 FTE) to address anticipated long-term workload requirements resulting from SB 1049.

Staffing of these positions took longer than anticipated for a number of reasons. Given the current economy, it was difficult to hire staff with specialized skill sets (i.e. project management, communications) as the number of applicants who meet qualifications have diminished. In quite a few instances, offers of employment have been turned down as current or competing employers counter-offer with salaries above our ranges. Additionally, internal staff were not interested in taking on Limited Duration opportunities, given that the current rules do not provide employment certainty to those staff upon their return from a limited duration assignment.

As of March 1, 2021, PERS has filled 35 of the 37 limited duration positions and 5 of the 6 permanent positions. All remaining positions are in the recruitment stage.

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 requested 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. Within the PERS 2021-23 biennial budget request (SB 5536), PERS is proposing Policy Option Package 102, to modernize PERS' future business and technical architecture with a view to planning out modernization efforts, once SB 1049 is substantially implemented, so that the technical debt issues are ultimately addressed. Initial modernization efforts in the 2021-23 biennium will focus on more client-facing systems to enhance Online Member Services and the Member Information Center so that efforts to complete Member Redirect functionality is not put at risk.

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 December 2023. Six work packages will be complete by the end of this biennium with six to be completed in future biennia. 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.

As noted in our January 17, 2020 report, additional funding is required to complete the Member Redirect work in the 2021-2023 biennium. PERS is proposing Policy Option Package 101 in this Session to obtain the resources required as we've finalized the scope, schedule, and estimated implementation costs. Approximately 60 percent of the \$10 million increase in estimated cost to complete this work, over our original \$39 million estimate from May 2019, is attributable to the continuation of limited duration resources for the 2021-23 biennium to assist in both in the implementation of the work packages as well as to supplement regular staffing levels to address workloads due to SB 1049 such as manual benefit calculations.

From an actuarial perspective, the member contributions being made to members' EPSA accounts act to offset the total contribution amount. There is an estimated system-average effect 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.

It is anticipated that the member redirect contributions will offset total required contributions by \$295 million in the 2021-23 biennium, thereby reducing the employer contributions by that amount. This is best illustrated in the following tables.

Collared Employer Pension Rates – System-Wide

Excludes Retiree Health Care & IAP Contributions

	12/31/2017 ¹ Valuation 2019 – 2021 Final Rates			12/31/2019 ¹ Valuation 2021 – 2023 Final Rates		
	Tier 1 / Tier 2	Payroll OPSRP	Weighted Average ²	Tier 1 / Tier 2	Payroll OPSRP	Weighted Average ²
Collared Base Rate	28.91%	22.56%	25.23%	29.65%	23.89%	25.82%
Member redirect offset	0.00%	0.00%	0.00%	(2.45%)	(0.70%)	(1.25%)
Collared Base Employer Rate	28.91%	22.56%	25.23%	27.20%	23.19%	24.57%
Side Account (Offset)	(6.51%)	(6.51%)	(6.51%)	(6.24%)	(6.24%)	(6.24%)
SLGRP Charge/(Offset)	(0.40%)	(0.40%)	(0.40%)	(0.40%)	(0.40%)	(0.40%)
Collared Net Rate	22.00%	15.65%	18.32%	20.56%	16.55%	17.93%
Increase				(1.44%)	0.90%	(0.39%)

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

Changes in side account offsets are not collared

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

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

Projected Split of 2021-2023 Total Contributions

(\$ millions)	(A) Projected 2019-21 Contribution	(B) Projected 2021-23 Total Contribution	(C) Estimated Member Redirected Contributions*	(B - C) Projected 2021-23 Employer Contribution	(B - C - A) Projected Employer Contribution Increase / (Decrease)
State Agencies	\$ 1,185	\$ 1,480	\$ 85	\$ 1,395	\$ 210
School Districts	1,335	1,275	100	1,175	(160)
All Others	1,585	1,910	110	1,800	215
Total	\$ 4,105	\$ 4,665	\$ 295	\$ 4,370	\$ 265

* Reflects member redirect offset of 2.45% of payroll for Tier 1 and Tier 2, and 0.70% for OPSRP; the statutory 2.50% and 0.75% redirection levels were adjusted downward by 0.05% 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 5 is the most recent Quarterly Status Report Summary.

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 (Attachment 6) 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.

Of particular concern to all stakeholders was the length of time PERS has taken to build out a fully integrated Program and project schedule including full resourcing. Prior to embarking on the SB 1049 Program, PERS' project management resources exclusively used duration-based project scheduling methodology. However, given the intricacies of managing a Program with five distinct projects, it became apparent that PERS also required a resource-based program and project schedule to ensure there were sufficient resources allocated to all projects as well as ensuring that there wasn't an over allocation of resources, particularly key resources.

Deloitte worked with our Project Management Office and project managers to define both an integrated approach as well as build out portfolio management level tools, including enhanced reporting, to complete this assessment. It has taken PERS longer than anticipated to complete this overall assessment given that project managers were not only actively managing their projects but also needed to become familiar with the methodology and toolsets required to complete this resource assessment. This assessment is now complete with DAS EIS approving the program schedule rebaseline and acknowledging the accompanying Change Request.

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.

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 7), 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 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. Staff engaged with this project pivoted to Production Data Center migration efforts, which is the second IT project. PERS is planning to have the Production Data Center infrastructure purchased and onsite at the State Data Center by June 30, 2021 and fully transitioned by January 2022.

In the pension operations areas, PERS is currently seeing some increases in requests and services compared 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. As stated previously, 35 of 37 limited duration positions have been filled and five of six permanent positions filled, with the last positions in recruitment. 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, an average of 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 January, 2021, 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 7) 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.

SB 1049 Change	Estimated 2021-23 Rate Effect 5/9/2019 analysis	Estimated 2021-23 Rate Effect as per 12/31/2019 valuation
T1T2 UAL reamortization (uncollared rate)	(3.90%)	(3.50%)
Rate collar effect on UAL re-amortization	0.50%	0.00%
FAS Limit of \$195K	(0.03%)	(0.02%)
IAP Redirect	(1.20%)	(1.20%)
Contributions on Rehired Retiree Members	(0.80%)	(0.50%) – (0.60%)

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.

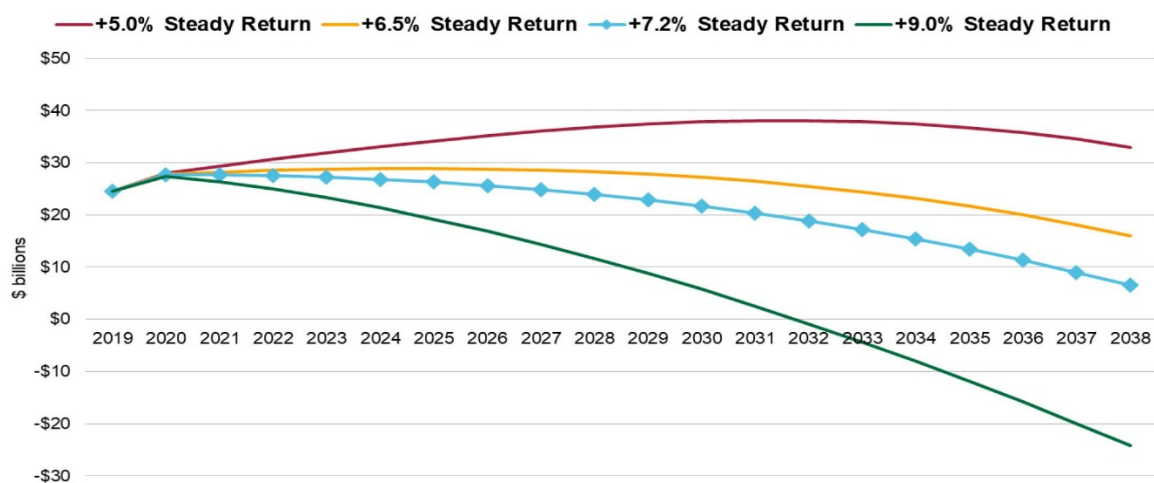
Regarding the updated estimate for rehired retiree members:

- PERS does not have any additional information regarding the prevalence of rehired retirees compared to the original analysis. Since the changes of SB 1049 could affect employer hiring behavior, it will be worth reviewing whether the amount of rehired retiree payroll has changed meaningfully compared to the original estimate so far in 2020.
- Updated estimate reflects lower projected 2021-23 rates than the May 2019 analysis, largely due to the UAL reamortization, 2019 asset gains, and increased system payroll. As a result, the rate equivalent of the estimated contributions for rehired retirees declined.
- **Note:** this is only an illustration of the potential magnitude of this change, but no estimate is actually incorporated into the employer rates adopted by the Board. Instead, the contributions associated with rehired retirees will be recognized over time as they are made.

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 extended out from 2035 to 2043.

UAL (Unfunded Actuarial Liability) Excluding Side Accounts

Current Rate Setting Structure



- 2020 UAL increases due to estimated year-end 2020 investment returns
- At steady +7.2% returns, UAL remains relatively level for several years before declining to below \$7 billion at year-end 2038

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 8 is a listing of technical debt items that were identified as part of implementation efforts. Technical debt items were not addressed unless it was absolutely necessary to implement SB 1049 functionality. Within the PERS 2021-23 biennial budget request (SB 5536), PERS is proposing Policy Option Package 102, to modernize PERS' future business and technical architecture with a view to planning out modernization efforts, once SB 1049 is substantially implemented, so that the technical debt issues are ultimately addressed.

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 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.

Agency Change Fatigue

As noted in my February 2020 report to this committee, on the first day that the Capital Construction Subcommittee discussed PERS in February 2019, Senator Johnson and Senator Courtney asked if the agency had reached a "legislative fatigue wall" where our systems and processes are not able to keep up with legislative directives. The written response provided to the committee outlined at the time that if PERS wasn't there, we were close to it (Attachment 9).

With approval of SB 1049, including aggressive mandated implementation dates, PERS is now stretched to, and in some areas, beyond the "fatigue wall," from which the agency will take some time to recover. PERS is initially creating solutions to meet legislative directives – these solutions do not include logical or cost-effective methods to improve functionality of our antiquated technology, improve services to more than 900 public employers, or improve services as a retirement system to more than 378,000 members.

During subsequent legislative conversations, the agency will be measured by our success with implementation of SB 1049. PERS is doing what we are able to within allowable resources (hiring challenges notwithstanding), required reporting, and oversight. PERS requested more resources in the 2021-2023 Governor's Recommended Budget to begin the journey to create a more sustainable and modern technology and communications system to accommodate this complicated retirement plan on an ongoing basis.

This increased complexity, and associated technical debt, substantially increases the overall risk profile of PERS. It is important to note that, as per Cost Effective Measurement (CEM) Benchmarking, PERS is the second most complex public sector pension system in the nation. This complexity score was derived prior to the passing of SB 1049 and the increased complexities associated with the implementation and ongoing administration of its legislative elements. It bears mentioning that, while the ORION system is not a modern system, it has been relatively stable, and we are working diligently to ensure ongoing stability as we make the required legislative changes to the system.

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 is proposing a SB 1049 cleanup bill (SB 111) for consideration this session.

Action Requested

Acknowledge receipt of the report.

Legislation Affected

This report reflects Budget Note directives as approved in Senate Bill 5723 (2020). 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
- Attachment 2: Program Roadmap
- Attachment 3: HB5032 Budget Report and Measure Summary, Package 804, IT Applications
- Attachment 4: Budget Reports by Appropriation, Program and Project, Internal Resource Usage
- Attachment 5: iQMS Quarterly Status Summary October 2020
- Attachment 6: Letter from Terrence Woods: re additional Program Management resources
- Attachment 7: Letter from Katy Coba and Terrence Woods: re stopping all non-essential IT work
- Attachment 8: Technical Debt Log
- Attachment 9: PERS Response Legislative Fatigue Cap Const 21519