

**HB 5033 BUDGET REPORT and MEASURE SUMMARY**

**Joint Committee On Ways and Means**

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**Public Employees Retirement System  
2023-25**

PRELIMINARY

## **Budget Summary\***

	2021-23 Legislatively Approved Budget <sup>(1)</sup>	2023-25 Current Service Level	2023-25 Committee Recommendation	Committee Change from 2021-23 Leg. Approved	
				\$ Change	% Change
General Fund	\$ 17,250,000	\$ -	\$ -	\$ -	(100.0%)
Lottery Funds	\$ 19,461,706	\$ 16,792,239	\$ 21,217,388	\$ 1,755,682	9.0%
Other Funds Limited	\$ 171,611,372	\$ 132,007,763	\$ 166,910,377	\$ (4,700,995)	(2.7%)
Other Funds Nonlimited	\$ 12,886,613,593	\$ 13,523,120,517	\$ 13,523,120,517	\$ 636,506,924	4.9%
<b>Total</b>	<b>\$ 13,094,936,671</b>	<b>\$ 13,671,920,519</b>	<b>\$ 13,711,248,282</b>	<b>\$ 633,561,611</b>	<b>4.7%</b>

## **Position Summary**

Authorized Positions	429	384	439	10
Full-time Equivalent (FTE) positions	424.67	384.00	436.69	12.02

<sup>(1)</sup> Includes adjustments through January 2023

\* Excludes Capital Construction expenditures

## **Summary of Revenue Changes**

The benefit trusts administered by the Public Employees Retirement System (PERS) are funded primarily through a combination of earnings generated on the investment of trust assets by the Oregon Investment Council (OIC) and from employer or employee contributions. PERS projects \$15.0 billion in investment earnings and \$9.2 billion in retirement system contributions for all benefit programs in the 2023-25 biennium. For purposes of assessing system-funded status, the PERS Board currently assumes the OIC will earn net returns of 6.9 percent per year. The five-year average return totals 7.7 percent as of December 31, 2022, and in 2022, the Oregon Public Employees Retirement Fund earned negative 1.9 percent. If earnings on the fund fall short of the assumed rate of return, employer rates increase to make up the difference to preserve the funded status of the system. Overall, for the calendar year 2022, after all credits are applied, the reserve balance is \$94.6 billion, which includes a \$50 million contingency reserve.

The employer or employee contributions budgeted for the PERS trusts are established through employer rates used to fund the Tier 1/Tier 2, Oregon Public Service Retirement Program (OPSRP), and PERS Health Insurance Programs (PHIP) benefits. Employer payroll rates for 2023-25 were adopted by the PERS Board in September 2022. Systemwide, the rates adopted by the Board increased collared net pension rates from 20.5 percent of payroll for Tier 1/Tier 2 in 2021-23 to 21.2 percent of payroll in 2023-25 and decreased net collared rates from 16.5 percent of payroll for OPSRP General Service in 2021-23 to 17.55 percent of payroll in 2023-25. Employer rates do not include costs for the Individual Account Program (IAP) or debt service costs for pension obligation bonds. Rates vary by employer based on multiple factors, including their employee demographics, their pre-funding any liability via side accounts, or their participation in a rate pool.

The IAP is the defined contribution component of the PERS retirement plan. As of January 1, 2004, all Tier 1/Tier 2 member contributions have been directed to the IAP, along with OPSRP member contributions. IAP is funded entirely from the members contributions and the returns on investment are held in the Oregon Public Employee Retirement Fund. IAP accounts are invested in the Oregon Public Employees Benefit Fund, as well as a series of Target Date Fund vintages, which adjust the assets and riskiness of each member's IAP, based on their age. OIC automatically selects the Target Date Fund vintage for members, but members may select a different fund. The overall final IAP earnings for calendar year 2022 are at a negative 4.2 percent after deducting IAP expenses, leaving a final reserve balance of \$11.9 billion.

The PHIP is funded via a combination of employer rates, earnings on the PERS Fund, insurance premiums paid by beneficiaries and passed through to the insurers, and subsidy payments from the Centers for Medicare and Medicaid Services.

The Employer Resolution Programs are funded by sports betting Lottery Funds, as well as excess revenues from debt collection, capital gains, estate taxes, and interest on unclaimed property.

PERS' operating budget is funded primarily, or 96 percent, by recovering its administrative costs from the benefit trusts the agency administers. The agency also has some limited charges for service for administering the Oregon Savings Growth Plan deferred compensation program, side accounts established by PERS employers, and for Benefit Equalization Fund payments.

### **Summary of General Government Subcommittee Action**

PERS is responsible for administering retirement programs for public employees, including state, school, and local government workers. In 2022, PERS paid approximately \$6.4 billion in benefits to beneficiaries. In support of its mission, PERS manages the Tier 1/Tier 2 Retirement programs, OPSRP, IAP, two health insurance programs, Social Security Administration activities, and the Oregon Savings Growth Plan deferred compensation program. One fundamental provision of those trusts is the contribution both from employers, members, and their associated investment earnings can only be used for the exclusive benefit of those members to fund their benefit payments.

The five-member Public Employees Retirement Board provides administrative oversight for all PERS programs. Board members are appointed by the Governor and confirmed by the Senate for three-year terms. The Board is made up of three members with experience in business management, pension management or investing and are not members of PERS, one member who is an employee of the state in a management position or a person who holds an elective office in the governing body of a participating public employer other than the state, and one member who works for a PERS employer and is a member of a collective bargaining unit.

The Subcommittee recommended a total funds budget of \$13,711,248,282, which includes \$21,217,388 Lottery Funds, \$166,910,377 Other Funds expenditure limitation, \$13,523,120,517 Other Funds Nonlimited, and 439 positions (436.69 FTE). The total funds budget is a 4.7 percent increase from the 2021-23 Legislatively Approved Budget and a 0.3 percent increase from the 2021-23 current service level.

### **Tier One and Tier Two Pension Programs**

More than 900 public employers participate in the retirement and health care plans administered by PERS. This includes all state agencies, all public-school districts, and the majority of local government entities – making PERS the provider of retirement programs for the vast majority of state and local government employees in the state. As of June 30, 2022, there were approximately 60,176 non-retired Tier 1 and Tier 2 members and approximately 148,000 retirees and beneficiaries receiving monthly retirement benefits. Tier 1 covers members hired before January 1, 1996, while Tier 2 covers members hired between January 1, 1996, and August 28, 2003, providing a slightly higher normal retirement age and less generous benefits. Public employees hired after August 28, 2003, are members of the OPSRP. The Subcommittee recommended a budget of \$11,662,157,523 Nonlimited Other Funds expenditures for the 2023-25 biennium for payments to beneficiaries.

### **Retirement Health Insurance Programs**

PERS serves as a group sponsor providing health insurance services to approximately 49,000 retired members and dependents. PERS works with insurance carriers to design benefit packages, determine specifications, solicit proposals, analyze carrier responses, and award contracts. The PERS Health Insurance Program is comprised of the below two health insurance programs and an account for costs associated with administrative services:

- Retirement Health Insurance Account (RHIA): provides a \$60 per month subsidy to help offset the cost of insurance premiums in PERS-sponsored health insurance plans for eligible retirees enrolled in Medicare Parts A and B. All PERS employers fund this subsidy through contributions of 0.06 percent of payroll. Approximately 42,000 retirees receive this subsidy, which totals approximately \$30.9 million annually.
- Retiree Health Insurance Premium Account (RHIPA): subsidizes the cost of insurance premiums in PERS-sponsored health insurance plans for those who retired directly from state of Oregon employment but are not yet Medicare eligible and are not enrolled in the state employee health insurance retiree plans sponsored by Public Employees Benefit Board. The subsidy, which is funded by the state of Oregon through its contribution rate at 0.39 percent of payroll, is based on the number of years the retired member was employed in state service. PERS pays almost \$4.5 million in premium subsidies annually, to just over 600 retirees. This subsidy is limited to Tier 1/Tier 2 PERS retirees with eight or more years of state service and to their surviving spouses.
- Standard Retiree Health Insurance Account (SRHIA): covers all administrative services related to the PERS Health Insurance Program not specific to RHIA and RHIPA. This program encompasses such health insurance-related administrative activities as premium transfers, third-party administrative agreements, and consultant services. The majority of the revenue for the SRHIA program, approximately \$30 million per year, comes from member paid insurance premiums with additional revenues from federal sources like the Centers for Medicare and Medicaid Services and resulting investment returns. As of 2022, there were approximately 49,000 members in this program.

The RHIA and RHIPA programs are funded from employer contributions and the return on investment of those contributions, which are held in the Oregon Public Employee Retirement Fund. The Subcommittee recommended a budget of \$217,258,687 Nonlimited Other Funds expenditures for the 2023-25 biennium for payments on behalf of program beneficiaries. This is a 41.7 percent decrease from the 2021-23 Legislative Approved Budget and is attributed to a one-time adjustment made to reflect actual expenditures that have been lower than budgeted for the past several biennia.

### **Oregon Public Service Retirement Pension Program**

The OPSRP program serves public employees who began public employment after August 28, 2003. The OPSRP pension program is funded solely by employer contributions and investment earnings. The plan has a higher retirement age and less generous benefits than either the Tier 1 or Tier 2 programs. OPSRP now has over 172,000 non-retired members, more than the Tier 1 or Tier 2 plans combined, with just under 10,230 retirees and beneficiaries. This program accounts for employer contributions and retirement payments for the OPSRP plan. This program accounts for employer contributions and retirement payments for the OPSRP plan. The Subcommittee recommended a budget of \$160,874,644 Other Funds Nonlimited expenditures for payments to OPSRP beneficiaries.

### **Individual Account Program**

IAP is the defined contribution component of the PERS retirement plan. IAP has no guaranteed payment or return. The IAP program was established in 2003 and impacted individuals who began public service after the program creation. All PERS-participating employers were required to enroll all new qualifying employees.

One change in the passage of Senate Bill 1049 (2019) was a member (IAP) redirect account, known as Employee Pension Stability Account (EPSA). EPSA functions to help pay for part of the member's lifetime, monthly pension benefit. EPSA rules became effective July 1, 2020. It applies to most PERS members, but the redirect is only triggered when the PERS fund status is less than 90 percent and if an employee's gross pay in a month exceeds the monthly threshold. The monthly threshold is tied to the annual Consumer Price Index (all urban consumers, western region). The threshold is updated in January of each year. The current threshold for 2023 is \$3,570/month. The redirect is a portion of the six percent contributions: for Tier 1/Tier 2 it is 2.5 percent and OPSRP is 0.75 percent. Moneys in an employee's EPSA are ineligible for the Money Match benefit. As of June 30, 2022, there were more than 312,000 active IAP accounts. Members also have the ability to make additional voluntary contributions to offset the redirected amounts. The Subcommittee recommended a budget of \$1,482,829,663 Other Funds Nonlimited expenditures for payments to IAP beneficiaries.

### **Employer Incentive Fund**

The Employer Incentive Fund provides up to a 25 percent match to employers who fund a side account to reduce their PERS employer rates and bring additional assets into the PERS trusts. In 2023-25, the Employer Incentive Fund is funded on an ongoing basis with proceeds from sports betting Lottery Funds. The Subcommittee recommended a budget of \$21,217,388 Lottery Funds expenditure limitation and \$1 Other Funds expenditure limitation. The Subcommittee recommended the following package:

Package 801, LFO Analyst Adjustments. This package recommends increasing Lottery Funds expenditure limitation by \$4,425,149 for the allocation of net sports betting revenue dedicated to the Employer Incentive Fund based on the March 2023 Department of Administrative Services - Office of Economic Analysis revenue forecast. An additional adjustment may be necessary based on the May 2023 revenue forecast.

This amount includes \$341,000 in projected ending balance carryforward from the 2021-23 biennium and \$4,923,761 in additional forecasted revenue and a reduction of \$839,612 to meet statewide budget targets. With these three adjustments, Lottery Funds expenditure limitation totals \$21,217,388 for the 2023-25 biennium.

PERS does not anticipate opening a new round of Employer Incentive Fund applications until existing waitlisted employers are matched and the remaining Lottery Funds balance reaches a minimum of \$25 million. Therefore, the next Employer Incentive Fund application period may not be until 2025, which means that any matched employer side account contributions under the Employer Incentive Fund will not impact employer contribution rates until the 2027-29 biennium.

### **School District Unfunded Liability Fund**

The School District Unfunded Liability Fund is a pooled side account proportionately distributed among school districts to reduce employer rates. The sources of revenue for the Fund include excess revenues from debt collection, capital gains, estate taxes, and interest on unclaimed property. PERS has estimated the School District Unfunded Liability Fund would require a \$500 million balance to create the pooled side account and provide a one percent reduction in school district pool employer rates; revenue to reach this threshold is not anticipated during the 2023-25 biennium. The Subcommittee recommended a budget of \$1 Other Funds expenditure limitation.

### **Central Administration**

Central Administration, in conjunction with the PERS Board, provides the central direction, planning, and leadership for PERS. The Division consists of the director, deputy director, and senior policy advisor, as well as the Strategic and Operational Planning, Communications, Human Resources and Procurement, Facilities and Logistics sections. The Subcommittee recommended a total funds budget of \$19,740,974 Other Funds expenditure limitation and 54 positions (54.00 FTE). The Subcommittee recommended the following packages:

Package 102, SB 1049-Permanent Workload. This is a one-time package increase of \$382,557 Other Funds expenditure limitation, which includes establishing two full-time limited duration Electronic Publication Design Specialists 3 positions (2.00 FTE), and \$13,000 in associated Services and Supplies costs for the ongoing operational cost of Senate Bill 1049 (2019). The two positions will support the internal and external website design work.

Package 111, Increase Agency Support Service. This package increases Other Funds expenditure limitation by \$143,861 and authorizes the establishment of one permanent full-time Office Specialist 2 position (1.00 FTE). The package includes \$6,500 in Services and Supplies. The

position would support the Procurement, Facilities, and Logistics Section with the mail, distribution, and printing workloads, as well as general administrative duties. The revenue to support this package falls under ORS 238.610, which directs administrative operations expenses for the agency are to be paid from earnings on the Public Employees Retirement Fund or, in years when such earnings are insufficient, through a direct charge to participating public employers.

### **Financial and Administrative Services Division**

The Financial and Administrative Services Division provides comprehensive financial and administrative services to the agency. This includes financial accounting, reporting, and tax services for all PERS' trust and agency fund activities, including the Retirement Fund, Deferred Compensation funds, Benefit Equalization Fund, health insurance programs, and Social Security Program.

Annually, the Financial and Administrative Services Division is responsible for the receipt, posting, and deposit of approximately \$1.7 billion in contributions and the disbursement of approximately \$6.3 billion in benefits. Other fiscal activities include preparation, maintenance, and reporting of the agency's biennial budget, coordination of actuarial services, fiscal analysis, accounts receivable, accounts payable, contracts, and procurement. The Subcommittee recommended a budget of \$23,900,400 Other Funds expenditure limitation and 34 positions (34.00 FTE). The Subcommittee recommended the following package:

Package 106, PHIP Administration. This package reduces Other Funds expenditure limitation by \$500,000 and transfers the expenditure limitation to the Operations Division, Health Insurance Program, which is responsible for paying for the PHIP contract administrator. These funds will offset some of the costs for the new three-year contract signed on October 20, 2021. This contract is in place until October 20, 2024, and totals \$1,128,000 per biennium or \$47,000 per month.

The revenue to support this package is funded from an allocation of expenses across three health insurance trust accounts: RHIPA; RHIPA; SRHIA. The RHIA and RHIPA programs are funded from employer contributions and the return on investment of those contributions, which are held in the Public Employee Retirement Fund. The SRHIA program is funded from member paid insurance premiums with additional revenues from federal sources like the Centers for Medicare and Medicaid Services and resulting investment returns.

### **Information Services Division**

The Information Services Division develops and operates PERS' complex information systems, maintains the agency's in-house data center, provides desktop support and training to PERS staff, and performs related activities including software development, database management, network support, and quality assurance. The Enterprise Content Management section provides imaging services, records management, and public records, and discovery responses to the agency. The Division ensures agency staff have the appropriate IT tools and services necessary to perform their duties and provide customer service to members, employers, and other stakeholders. The Subcommittee recommended a budget of \$34,216,261 Other Funds expenditure limitation and 89 positions (88.40 FTE). The Subcommittee recommended the following packages:

Package 102, SB 1049-Permanent Workload. This is a one-time package increase of \$1,338,591 Other Funds expenditure limitation, which includes establishing six full-time limited duration positions (6.00 FTE), and \$39,000 in associated Services and Supplies, for the ongoing operational cost of Senate Bill 1049 (2019). The package includes the following positions:

- Two Information Systems Specialist 7 positions (2.00 FTE) to the Enterprise Architecture Section for maintenance, enhancements, and Software Development Life Cycle process to support Oregon Retirement Online Network,
- Two Information Systems Specialist 4 positions (2.00 FTE) to the Technical Operations Section for help desk, desktop support,
- One Information Systems Specialist 4 position (1.00 FTE) to the Technical Operations Section for central data management report development, and
- One Operations and Policy Analyst 2 position (1.00 FTE) in the Operations Technical Section for developing tools and reports for the Central Data Management program.

The revenue to support this package falls under ORS 238.610, which directs the administrative operations expenses for the agency to be paid from earnings on the Public Employees Retirement Fund, or in years when such earnings are insufficient, through a direct charge to participating public employers.

Package 105, IT Hardware & Subscriptions. This is a one-time package increase of \$1,964,000 Other Funds expenditure limitation, which includes \$1,068,000 for information technology software budgeted under Service and Supplies and \$896,000 for hardware budgeted under capital outlay.

The Capital Outlay purchases are to be made through the Department of Administrative Services for \$586,000 of expenses for switches, servers, firewall maintenance and support, among other investments maintained by the State Data Center, and \$310,000 for switches, monitoring appliance, and other end-of-life cycle replacements housed within the PERS Headquarters.

The Services and Supplies software expenses include—telephony licensing, Microsoft support plan and 365 licensing, licensing for additional data center development environments, licensing for training publications, and internet circuit charge increase.

- Some of the software purchases are associated with the yet-to-be established backup data center, which will use a private data center located in Bend Oregon. The vendor will provide networking, servers, and storage at the backup data center. The amount of the contract is estimated to be \$22,000 per month, or \$528,000 per biennium, and includes test functionality on a cyclical basis. The contract is expected to be completed by June 30, 2023.



The revenue to support this package falls under ORS 238.610, which directs the administrative operations expenses for the agency to be paid from earnings on the Public Employees Retirement Fund or, in years when such earnings are insufficient, through a direct charge to participating public employers.

Package 107, Maintain Service Level. This package increases Other Funds expenditure limitation by \$90,585, establishes five permanent full-time position (4.40 FTE) and reduces Information Technology Professional Services by \$1.0 million. The positions have a budgeted start date of October 1, 2023. The estimated 2025-27 biennial cost for the five positions (5.00 FTE) is \$1.2 million Other Funds.

The package moves services currently performed by contractors to state employees to manage the existing Oregon Retirement Online Network/JClarity legacy pension system. This action would leave \$1.1 million in residual Information Technology Professional Services for contract services. The package adds the following positions:

- Two positions to the Enterprise Architecture Section (maintenance, enhancements, and Software Development Life Cycle process to support ORION)—one Information Systems Specialist 7 (ORION Release Manager) and one Information Systems Specialist 6 (Quality Assurance Systems Analyst), and
- Three positions to the Technical Operations Section (application support, database administration, help desk, desktop support, infrastructure)—one Information Systems Specialist 7 (Release Manager), one Information Systems Specialist 6 (Information Technology Service Management Administrator), and a second Information Systems Specialist 6 (System Administrator).

The revenue to support this package falls under ORS 238.610, which directs the administrative operations expenses for the agency to be paid from earnings on the Public Employees Retirement Fund or, in years when such earnings are insufficient, through a direct charge to participating public employers.

### **Operations Division**

The Operations Division provides comprehensive retirement plan information and assistance to PERS members and employers for the Tier 1, Tier 2, OPSRP, and IAP programs. The Division is the primary point of contact for PERS members and employers through its call center and correspondence units. The Division provides member education through group presentations and assistance with retirement applications. The Division processes benefit applications, determines benefit eligibility, reviews disability applications, and calculates and adjusts benefit payments. The Division also includes the agency's Retiree Health Insurance, Oregon Savings Growth Plan, and Social Security programs. The Subcommittee recommended a budget of \$48,877,505 Other Funds expenditure limitation and 205 positions (204.88 FTE). The Subcommittee includes the following packages:

Package 102, SB 1049-Permanent Workload. This is a one-time package increase of \$166,613 Other Funds expenditure limitation, which includes establishing one full-time limited duration Retirement Counselor 1 position (1.00 FTE), and \$6,500 in associated Services and Supplies, for the

ongoing operational cost of Senate Bill 1049 (2019). The position will be working in the Operation and Data Service section for employer reporting.

Package 106, PHIP Administration. This package increases Other Funds expenditure limitation by \$867,960 to fund a portion of the Professional Services consulting contract under the Operations Division, Health Insurance Program. This package seeks retroactive approval of funding for the contract. The estimated 2025-27 biennial cost for these services is \$1.2 million Other Funds.

PERS serves as a group sponsor providing health insurance services to approximately 49,000 retired members and dependents. A three-year contract was signed on October 20, 2021, through October 20, 2024, and totals \$1,128,000 per biennium or \$47,000 per month. The prior contract totaled \$13,100 per month or \$314,000 per biennium. A portion of the total cost is offset by \$500,000 of existing Other Funds expenditure limitation transferred from the Financial and Administrative Services Division to the Operations Division and \$367,960 of existing Other Funds expenditure limitation from the prior contract.

The revenue to support this package is funded from an allocation of expenses across three health insurance trust accounts: RHIPA; RHIPA; SRHIA. The RHIA and RHIPA programs are funded from employer contributions and the return on investment of those contributions, which are held in the Public Employee Retirement Fund. The SRHIA program is funded from member paid insurance premiums with additional revenues from federal sources like the Centers for Medicare and Medicaid Services and resulting investment returns.

**Budget Note:** The Public Employee Retirement System (PERS) is directed to review the healthcare insurance marketplace and report back to the Joint Committee on Ways and Means during the 2024 session on whether the pre-Medicare population within the PERS Health Insurance Program should be combined with other groups in acquiring healthcare coverage under the Oregon Health Insurance Market Place plans and whether the Affordable Care Act or Oregon Health Insurance Market Place could provide coverage for the Medicare Plan policy holders under the PERS Health Insurance Program.

Package 108, Retirement Workload. This package increases Other Funds expenditure limitation by \$161,205, establishes one permanent full-time Retirement Counselor 2 position (0.88 FTE) and includes \$10,688 in associated Services and Supplies.

The position would be assigned to the Member Services section in the Team One Follow Up team (TOFU). TOFU is a resource to assist with member call escalations and to manage sensitive/complex cases. TOFU assists with specialty qualifications by contacting members and alternate payees for death, divorce, and disability inquiries and assists other areas of the agency, including addressing board, agency leadership, and legislator inquiries. The position is expected to handle an estimated 450 escalated calls/callbacks and 100 emails per month, according to PERS.

The revenue to support this package falls under ORS 238.610, which directs the administrative operations expenses for the agency to be paid from earnings on the Public Employees Retirement Fund or, in years when such earnings are insufficient, through a direct charge to participating public employers.

Package 109, Qualifying/Non-Qualifying Project. This package is a one-time increase of \$523,653 Other Funds expenditure limitation, which includes the re-authorization to establish one limited duration full-time Retirement Counselor 1 position (1.00 FTE), two limited duration full-time Retirement Counselor 2 positions (2.00 FTE), and \$19,500 in associated Services and Supplies.

The positions will be utilized to reconcile qualifying/non-qualifying employment eligibility issues. This work is a continuation from the 2021-23 biennium efforts to address qualifying/non-qualifying employment eligibility issues. The agency will continue to undertake a more proactive approach to verifying the accuracy of membership data based on eligibility laws and requirements, and each member's unique employment data. This review process is primarily manual. This effort would facilitate early resolution of qualifying/non-qualifying employment eligibility issues for PERS membership.

The revenue to support this package falls under ORS 238.610 and directs the administrative operations expenses for the agency to be paid from earnings on the Public Employees Retirement Fund or, in years when such earnings are insufficient, through a direct charge to participating public employers.

Package 110, Positions Reclassification. This package increases Other Funds expenditure limitation by \$58,744 and authorizes four positions to be upwardly reclassified, which were approved by the Department of Administrative Services, Office of the Chief Human Resources Office. The reclassifications are as follows:

- A Retirement Counselor 1 in the Disability Unit to a Retirement Counselor 2 position to match similar position classifications,
- A Retirement Counselor 2 in the Intake Team to an Operations and Policy Analyst 1 position to address an acknowledged misclassification,
- A Retirement Counselor 1 in the Estimates and Purchases team to a Retirement Counselor 2 position to align job duties to work currently being performed, and
- A Retirement Counselor 1 in the Individual Account Program team to a Retirement Counselor 2 position to align job duties to work currently being performed.

The revenue to support this package falls under ORS 238.610, which directs the administrative operations expenses for the agency to be paid from earnings on the Public Employees Retirement Fund or, in years when such earnings are insufficient, through a direct charge to participating public employers.

### **Compliance, Audit, and Risk Division**

The Compliance, Audit, and Risk Division provides risk management and compliance services for all agency programs, including cyber security, disaster recovery, and business continuity. The Division oversees and coordinates legal activities, assists in the identification and management of risks, and provides independent audit and consulting services to ensure legal and policy compliance, and manages Section 218 of the State Social Security Program. The Division ensures policies, business rules, and administrative rules comply with state and federal statutes and the PERS plans maintain their tax qualified status. The Subcommittee recommended a budget of \$10,470,390 Other Funds expenditure limitation and 21 positions (21.00 FTE).

### **Core Retirement Systems Applications Division**

The Core Retirement Systems Applications Division was established to budget for core information technology investments, which include the project-related positions and contracts related to PERS' implementation of Senate Bill 1049 (2019) and the continued planning efforts to modernize the Oregon Retirement Information Online Network (ORION). The Subcommittee recommended a budget of \$29,704,845 Other Funds expenditure limitation and 36 positions (34.41 FTE). The Subcommittee includes the following packages:

Package 101, SB1049 Implementation. This package is a one-time increase of \$20,131,772 Other Funds expenditure limitation, which includes authorizing the establishment of 20 limited duration positions (20.00 FTE), and \$16,493,400 in associated Services and Supplies to complete the implementation of reforms directed by Senate Bill 1049 (2019).

The package includes the following major cost components: (a) Information Technology Applications (\$13,423,000); (b) Operational Staffing (\$3,769,372; 20 positions/20.00 FTE); (c) Project Management and Administration (\$1,876,800); and (d) Quality Assurance and Testing (\$1,062,600). Also included is a 25 percent contingency of \$3.1 million, which is common for most information technology project components.

Key provisions of Senate Bill 1049 related to information technology efforts include: (1) Redirected a portion of employee contributions from the employee's defined contribution plan, IAP; (2) placed a limit on the Final Average Salary; (3) eliminated restrictions on annual hours of employment for retired workers (sunsets on January 2, 2025). Other ancillary projects included technical debt or minimal information technology changes needed to existing applications to implement Senate Bill 1049. The project also has a "Cross Project Effort" piece that was completed in June of 2022.

The implementation of Senate Bill 1049 has proved more complex, time consuming, and costly than originally estimated. Total project costs are estimated at \$70 million, which excludes the cost of approximately 110 other PERS staff, who have been involved with the implementation of Senate Bill 1049. The project's completion date was recently extended to June of 2025. While PERS reports having completed the limit on the Final Average Salary and restrictions on annual hours of employment for retired workers projects, the project to redirect employee

contributions are estimated to be completed in May of 2025. Completion of the Member Redirect project remains critical due to revenue offset to employer contributions estimated to be \$300 million per biennium. Technical debt will be completed by February of 2024.

The revenue to support this package falls under ORS 238.610, which directs the administrative operations expenses for the agency to be paid from earnings on the Public Employees Retirement Fund or, in years when such earnings are insufficient, through a direct charge to participating public employers.

The Subcommittee approved the following budget note related to the SB 1049 project:

**Budget Note:** The Public Employees Retirement System (PERS) and the Department of Administrative Services - Office of the State Chief Information Officer (OSCIO) are directed to report to the Joint Committee on Information Management and Technology during the legislative session in 2024 on the implementation of SB 1049 (2019). The agencies' reports to the Legislature shall include: (a) update on project scope, schedule, budget, and total cost of ownership; (b) identification of costs associated with one-time solutions versus permanent solutions; (c) current project risks, likely impacts, and mitigation strategies; (d) explanation of the delay related to implementing member redirect and associated costs and actuarial impact(s); (e) independent quality assurance reporting on the project; (f) impact of SB 1049 (2019) information technology projects on routine agency operations; (g) any exceptions from administrative rules, policies or procedures, or statutes granted to PERS by the Department of Administrative Services; (h) whether SB 1049 (2019) is meeting financial objectives; and (i) other information that helps inform the Legislature on the status of the project or issues that have arisen as the result of the project.

Package 103, Retirement Info Network Modernization. This package is a one-time increase of \$9,573,073 Other Funds expenditure limitation, which includes establishing 16 limited duration positions (14.41 FTE) and \$6,344,970 in associated Services and Supplies to continue planning for the modernization of ORION, which is the agency's core retirement system application.

On April 26, 2023, the Joint Committee on Information Management and Technology recommended conditional approval of the request to the Joint Committee on Ways and Means, General Government Subcommittee.

The request includes the following major cost components: (1) Hybrid Integration Platform (\$400,000); (2) Client Relationship Management (\$1,255,000); (3) Development and Operations (\$1,102,000); (4) Telephony (\$210,000); (5) Independent Quality Management Services (\$950,000); (6) Architecture (\$950,000); and (7) Data & Analytics (\$1,300,000).

The overall PERS proposal for modernizing the ORION System has a cost estimate of \$150.4 million, which includes \$128.1 million for implementation and \$22.3 million for five years of post-implementation modification costs. No estimate has been developed for ongoing operation and maintenance costs. Currently, PERS has not identified any mission-critical systems or applications that are in urgent (i.e., highly

likely to fail with significant impacts) need of upgrade or replacement. In addition, no formal risk assessment(s) has been conducted by the agency on its full range of business and technology architectural assets. A modernization effort of the scale, scope, complexity, cost, and risk, proposed by PERS has a highly elevated risk profile.

Prior funding approval for the PERS Modernization included \$800,000 Other Funds approved by the 2021 Legislative Session for the origination or planning phase, and \$3,797,797 million Other Funds and six limited duration positions (2.75 FTE) by the June 2022 Emergency Board (Item #72) for pre-modernization planning.

The revenue to support this package falls under ORS 238.610, which directs the administrative operations expenses for the agency to be paid from earnings on the Public Employees Retirement Fund or, in years when such earnings are insufficient, through a direct charge to participating public employers.

The Subcommittee recommended the following budget note related to the project:

**Budget Note:** The Public Employees Retirement System is to report to the Joint Legislative Committee on Information Management and Technology during the 2024 Legislative session with updates to the business case, foundational program and project management documentation, system design artifacts, integrated implementation timeframes, including all component projects, and program budget, spending plans, and anticipated total costs.

PRELIMINARY

**DETAIL OF JOINT COMMITTEE ON WAYS AND MEANS ACTION**

**Public Employees Retirement System  
Michelle Lisper-- 971-283-6360**

DESCRIPTION	GENERAL FUND	LOTTERY FUNDS	OTHER FUNDS		FEDERAL FUNDS		TOTAL ALL FUNDS	POS	FTE	
			LIMITED	NONLIMITED	LIMITED	NONLIMITED				
2021-23 Legislatively Approved Budget at Jan 2023 *	\$ 17,250,000	\$ 19,461,706	\$ 171,611,372	\$ 12,886,613,593	\$ -	\$ -	13,094,936,671	429	424.67	
2023-25 Current Service Level (CSL)*	\$ -	\$ 16,792,239	\$ 132,007,763	\$ 13,523,120,517	\$ -	\$ -	13,671,920,519	384	384.00	
<b>SUBCOMMITTEE ADJUSTMENTS (from CSL)</b>										
<b>SCR 200 - 01 Employer Incentive Fund</b>										
Package 801: LFO Analyst Adjustments										
Special Payments	\$ -	\$ 4,425,149	\$ -	\$ -	\$ -	\$ -	4,425,149			
<b>SCR 500-01 Central Administration</b>										
Package 102: SB 1049-Permanent Workload										
Personal Services	\$ -	\$ -	\$ 369,557	\$ -	\$ -	\$ -	369,557	2	2.00	
Services and Supplies	\$ -	\$ -	\$ 13,000	\$ -	\$ -	\$ -	13,000			
Package 111: Increase Agency Support Service										
Personal Services	\$ -	\$ -	\$ 137,361	\$ -	\$ -	\$ -	137,361	1	1.00	
Services and Supplies	\$ -	\$ -	\$ 6,500	\$ -	\$ -	\$ -	6,500			
<b>SCR 500-03 - Financial &amp; Admin Service Division</b>										
Package 106: PHIP Administration										
Services and Supplies	\$ -	\$ -	\$ (500,000)	\$ -	\$ -	\$ -	(500,000)			
<b>SCR 500-04 - Information Service Division</b>										
Package 102: SB1049- Permanent Workload										
Personal Services	\$ -	\$ -	\$ 1,299,591	\$ -	\$ -	\$ -	1,299,591	6	6.00	
Services and Supplies	\$ -	\$ -	\$ 39,000	\$ -	\$ -	\$ -	39,000			
Package 105: IT Hardware & Subscriptions										
Services and Supplies	\$ -	\$ -	\$ 1,068,000	\$ -	\$ -	\$ -	1,068,000			
Capital Outlay	\$ -	\$ -	\$ 896,000	\$ -	\$ -	\$ -	896,000			
Package 107: Maintain Service Level										
Personal Services	\$ -	\$ -	\$ 1,037,147	\$ -	\$ -	\$ -	1,037,147	5	4.40	
Services and Supplies	\$ -	\$ -	\$ (946,562)	\$ -	\$ -	\$ -	(946,562)			
<b>SCR 500-08 - Operations Division</b>										
Package 102: SB1049-Permanent Workload										
Personal Services	\$ -	\$ -	\$ 160,113	\$ -	\$ -	\$ -	160,113	1	1.00	
Services and Supplies	\$ -	\$ -	\$ 6,500	\$ -	\$ -	\$ -	6,500			
Package 106: PHIP Administration										
Services and Supplies	\$ -	\$ -	\$ 867,960	\$ -	\$ -	\$ -	867,960			
Package 108: Retirement Workload										
Personal Services	\$ -	\$ -	\$ 150,517	\$ -	\$ -	\$ -	150,517	1	0.88	
Services and Supplies	\$ -	\$ -	\$ 10,688	\$ -	\$ -	\$ -	10,688			
Package 109: Qualifying/Non-Qualifying Project										
Personal Services	\$ -	\$ -	\$ 504,153	\$ -	\$ -	\$ -	504,153	3	3.00	
Services and Supplies	\$ -	\$ -	\$ 19,500	\$ -	\$ -	\$ -	19,500			
Package 110: Position Reclassification										
Personal Services	\$ -	\$ -	\$ 58,744	\$ -	\$ -	\$ -	58,744	0	0.00	

DESCRIPTION	GENERAL FUND	LOTTERY FUNDS	OTHER FUNDS		FEDERAL FUNDS		TOTAL ALL FUNDS	POS	FTE
			LIMITED	NONLIMITED	LIMITED	NONLIMITED			
<b>SCR 900 - Core Retirement System</b>									
Package 101: SB1049 Implementation									
Personal Services	\$ -	\$ -	\$ 3,638,372	\$ -	\$ -	\$ -	\$ 3,638,372	20	20.00
Services and Supplies	\$ -	\$ -	\$ 16,493,400	\$ -	\$ -	\$ -	\$ 16,493,400		
Package 103: Retirement Info Network Modernization									
Personal Services	\$ -	\$ -	\$ 3,228,103	\$ -	\$ -	\$ -	\$ 3,228,103	16	14.41
Services and Supplies	\$ -	\$ -	\$ 6,344,970	\$ -	\$ -	\$ -	\$ 6,344,970		
TOTAL ADJUSTMENTS	\$ -	\$ 4,425,149	\$ 34,902,614	\$ -	\$ -	\$ -	\$ 39,327,763	55	52.69
SUBCOMMITTEE RECOMMENDATION *	\$ -	\$ 21,217,388	\$ 166,910,377	\$ 13,523,120,517	\$ -	\$ -	\$ 13,711,248,282	439	436.69

% Change from 2021-23 Leg Approved Budget	(100.0%)	9.0%	(2.7%)	4.9%	0.0%	0.0%	4.7%	2.3%	2.8%
% Change from 2023-25 Current Service Level	0.0%	26.4%	26.4%	0.0%	0.0%	0.0%	0.3%	14.3%	13.7%

\*Excludes Capital Construction Expenditures

PRELIMINARY



# Legislatively Approved 2023 - 2025 Key Performance Measures

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**Agency:** Public Employees Retirement System

**Mission Statement:**

We serve the people of Oregon by administering public employee benefit trusts to pay the right person the right benefit at the right time.

Legislatively Approved KPMs	Metrics	Agency Request	Last Reported Result	Target 2024	Target 2025
1. TIMELY RETIREMENT PAYMENTS - Percent of initial service retirements paid within 45 days from retirement date.		Approved	45%	80%	80%
2. TOTAL BENEFIT ADMIN COSTS - Total benefit administration costs per member.		Approved	\$190.00	\$200.00	\$200.00
3. MEMBER TO STAFF RATIO - Ratio of members to FTE staff.		Approved	979	1,000	1,000
4. ACCURATE BENEFIT CALCULATIONS - Percent of service retirement monthly benefits accurately calculated to within \$5 per month.		Approved	100%	100%	100%
5. LEVEL OF PARTICIPATION - Percent of state employees participating in the deferred compensation program.		Approved	42%	50%	60%
6. CUSTOMER SERVICE - Percent of member customers rating their satisfaction with the agency's customer service as "good" or "excellent": overall customer service, timeliness, accuracy, helpfulness, expertise and availability of information.	Helpfulness	Approved	85%	95%	95%
	Overall		85%	95%	95%
	Availability of Information		80%	95%	95%
	Timeliness		85%	95%	95%
	Accuracy		86%	95%	95%
	Expertise		87%	95%	95%
7. TIMELY BENEFIT ESTIMATES - Percent of benefit estimates processed within 30 days.		Approved	96%	95%	98%
8. BOARD OF DIRECTORS BEST PRACTICES - Percent of total best practices criteria met by the PERS board.		Approved	100%	100%	100%

**LFO Recommendation:**

The Legislative Fiscal Office recommends approval of the Public Employees Retirement System's 2023-25 Key Performance Measures and targets.

**SubCommittee Action:**

The Public Safety Subcommittee approved the Legislative Fiscal Office recommendations.