

# **Public Employees Retirement System (PERS) Progress: A Report to the Joint Interim Committee on Ways and Means**

**September 18, 2008**

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## Overview

In its 2007-09 budget, PERS was directed to report in the first and third quarters of 2008 on its progress in three areas: converting the agency's retirement administration IT platform from the Retirement Information Management System (RIMS) to jClarety; managing ongoing workload; and implementing the *Strunk/Eugene* court decisions and related Settlement Agreement.

PERS has made significant progress in each of the three areas:

1. RIMS conversion is already providing enhanced functionality and process improvements, and plans are also underway to incorporate recent PERS legislative changes into the RIMS Conversion Project;
2. Ongoing and changing workloads are being effectively prioritized and managed; and
3. The *Strunk/Eugene* project has completed the majority of monthly benefit adjustments and is on schedule for completion, as originally projected, by June 30, 2009.

While PERS has become much more effective in managing internal factors, external influences and demographic trends continue to affect PERS projects and workload. Key recent and ongoing events and influences include:

### Litigation

Judge Kantor's rulings (June 2007 and May 2008) in the *Arken/Robinson* cases allowed monthly benefit adjustments under the *Strunk/Eugene* project to proceed, but put a hold on collecting overpayments from various classes of benefit recipients. Barring additional rulings or restrictions, the *Strunk/Eugene* project should complete its adjustments by the end of the biennium.

In October 2007, the Oregon Supreme Court directed that Tier One members and benefit recipients pay the member's attorney fees and costs in the *Strunk* case, requiring adjustments to 2007 Tier One member regular account earnings crediting and a one-time deduction from "window retiree" benefit payments.

The jury in a recent Marion County Circuit Court case (*Bell vs. PERS*) concluded that the member reasonably relied upon the benefit estimates received from PERS. Those estimates mistakenly showed that her retirement benefit would be approximately \$1100 per month higher than the actual amount she was entitled to receive. Although the verdict affects only one member, PERS will be revamping processes, practices, and communications to mitigate the risks associated with providing benefit information and estimates. The case also reinforces the need for PERS to verify employer and membership data earlier in a member's career instead of at or near retirement, and to improve data integrity and calculation review processes.

### Legislative changes

Recent legislative changes to PERS retirement programs require additional IT system programming under the RIMS Conversion Project (RCP) that will entail scope, schedule, and budget adjustments. Likewise, the maturing of the new retirement programs created under the 2003 PERS Reform legislation coupled with the "baby boom" generation entering retirement age are increasing workloads. Given this dynamic environment, the PERS Board and agency management continually monitor budgets, projects, and workloads for any necessary adjustments.

### **2009-11 biennium employer rates**

PERS' actuary, Mercer, has completed the December 31, 2007 System Actuarial Valuation. The Valuation projects that employer contribution rates effective July 1, 2009 through June 30, 2011 will average about 12 percent (not counting side account offsets). Those rates averaged about 15 percent for the 2007-09 biennium, so next biennium's projected rates should decrease PERS employer costs by some \$245 million per year.

Contribution rates for many employers are much less than the systemwide average due to the leveraging effect of their pension obligation bonds and other side account deposits. After adjusting for employer side account offsets, the systemwide net average employer rate is projected to be less than 5 percent beginning July 1, 2009. Final adoption of individual employer rates for the 2009-11 biennium is scheduled for the September 26, 2008 PERS Board meeting.

### **Financial modeling and analysis**

The PERS Fund is subject to earnings and losses and the market's 2008 downturn and ongoing volatility could negatively impact employer rates in the 2011-13 biennium. Investment returns constitute some 80 percent of PERS revenue, and have the greatest influence of all factors on systemwide employer rates. As such, investment return volatility is a key concern of the PERS Board. Given this concern, the Board has commissioned a number of financial modeling studies through its actuary, Mercer, and shared the results with PERS stakeholders and the Oregon Investment Council (OIC).

Some of the key findings of the Mercer studies include:

- If investment experience in 2008 and 2009 is similar to that of the 2001 and 2002 market downturn (a cumulative -14.2 percent return), the funded status of the system would decline from 113 percent to 87 percent, employer rates in 2011-13 would increase by some 6 to 8 percent of covered payroll, and the Tier One Rate Guarantee Reserve would decline from a positive balance of \$1.9 billion to a shortfall of \$600 million.
- Employer side accounts, which hold over \$6 billion in pension obligation bond (POB) proceeds and other advance deposits, have generally performed very well so far compared to the underlying POBs. However, going forward, the potential gains from good investment experience on side accounts may be deferred many years into the future while potential losses from poor investment experience may impact employer contribution rates more immediately. These dynamics are important for employers to understand and factor into their budgeting and POB decisions.

The PERS Board will continue to commission various financial modeling studies to improve the understanding and transparency of PERS, and enhance coordination with the OIC. These studies will also help give advance notice to employers of potential rate changes and facilitate long-term budgeting.

### **Employer reporting system performance**

PERS experienced intermittent performance issues with the employer reporting system, EDX, beginning in March 2008. The key issues included database locks and slow system response time, due in part to increased employer and PERS staff usage. Using monitoring and analysis, configuration changes to the system were identified and deployed on an incremental basis through July and early August. These changes resulted in significant performance and stability improvements. We continue to monitor the system's performance daily, and communicate with employers to assess problems and develop improvements.

## **I. Converting from RIMS to jClarety**

The RIMS Conversion Project (RCP) will result in an enterprise-level retirement administration and information system that will support the agency's core business functions.

### **Background**

RCP is Phase II of a two-phase project to implement an enterprise-wide technology architecture. The goal is to create an integrated platform that provides administration services across all PERS retirement programs. The resulting system will be named ORION (Oregon Retirement Information Online Network).

RCP will extend and further customize the jClarety application template developed in Phase I (completed in 2005) to support the OPSRP Pension and Individual Account programs. RCP's scope includes the retirement plan administration components needed to administer the PERS Chapter 238 Plan (Tier One and Tier Two), currently being managed by RIMS and its associated desktop applications and manual processes.

### **Scope, schedule, and budget changes since last report**

We noted in February's report that the agency was evaluating potential impacts to RCP's scope, schedule, and budget due to recent legislative changes to the retirement plan. While many changes to the retirement plan's provisions can be implemented with little or no impact on the enterprise-level information systems, some can dramatically alter the way calculations are performed and applications are coded.

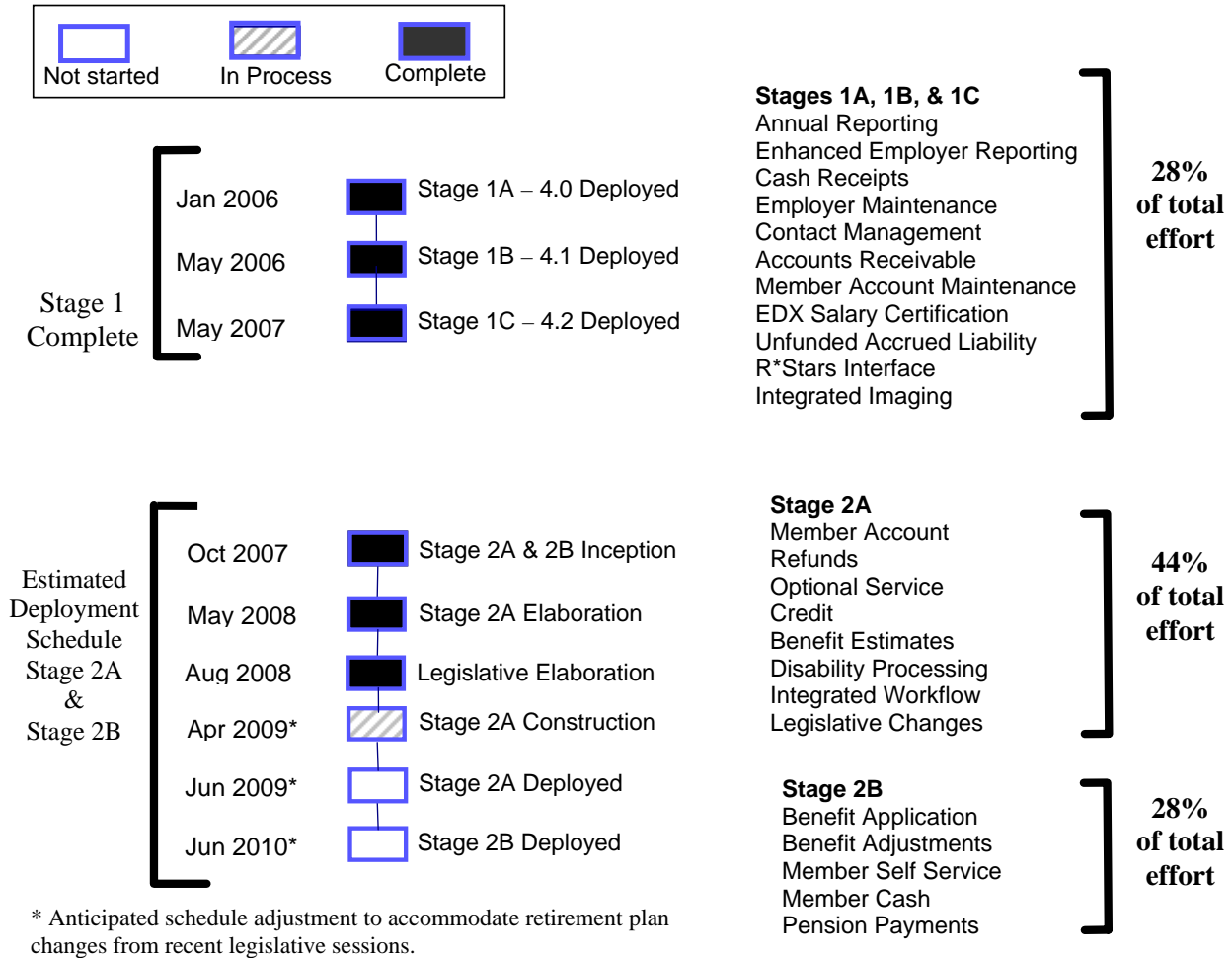
After reviewing the legislative changes with potential RCP impact, the project team identified several critical gaps in system functionality. Following thorough evaluation and vetting, the project's steering committee determined that five plan changes should be included in RCP. These five plan changes, if not included in RCP, would have significantly delayed integration of the legislative changes; creating stakeholder confusion and frustration; and increasing risks of processing delays and calculation errors. The remaining functionality gaps will be addressed through other methods, including developing off-line processes or adding system enhancements outside of RCP.

The analysis and programming work effort for these five items are currently projected to add 25 weeks to the project schedule and just over \$2.5M to the RCP budget which the agency will request in its 2009-11 budget. With these changes included, the overall project budget would increase from \$27.5M to \$30M (a 9 percent increase). Both the time and cost to address these legislative changes outside of RCP would be substantially higher than incorporating the changes into the ongoing project. Moreover, delaying delivery of this functionality beyond the RCP would inhibit full use of the new system's capabilities and adversely affect the return on the overall project investment.

### **Revised project progress and schedule**

The diagram below illustrates the progress of the project to date. Stages 1A, 1B, and 1C have been completed and the functionalities delivered to production are displayed on the right. Stage 2A is currently in development and construction, with deployment anticipated in summer 2009. Stage 2B is planned for development and deployment in summer 2010.

## RCP progress



The staged implementation strategy for the project has allowed for accelerated use of system functionality by PERS staff, and responsiveness to the dynamic nature of the retirement plan’s environment. The project, as originally conceived, was expected to take 44 months to implement, creating a risk that legislative changes and related system functionality modifications would occur within that time period. To mitigate this risk, the project management process included procedural mechanisms and oversight for adding and removing system functionality as prudent given the project’s scope, schedule, and budget. This approach ensures that functionality needed for the business at the project’s conclusion is achieved in the most efficient and economical manner.

### Summary of key project objectives

The RCP is a multi-staged project to deliver a comprehensive retirement administration and information system. Some important characteristics of the project are:

- ORION will provide greater and more timely access to information needed to serve PERS members and employers.
- New functionality is being added to the system in staged releases. This allows staff to begin to gain the benefits of the new system sooner and allows the project to manage risk.
- Organizational and process changes will be instituted as new functionality and related efficiencies are realized during and after transition to the new system.

- ORION will integrate complementary and supporting technologies (e.g., electronic workflow, contact management, member and employer self-service, call center management, financial transactions and reporting) to create a system that supports all business operations.
- All RIMS functionality will be decommissioned and transferred to applications that coordinate with the architectural design of the agency's new enterprise system.
- At project end, any remaining change requests will have been prioritized and classified appropriately for future deployment (if necessary). The ORION system can also be modified over time to support retirement plan statutory changes and rules.
- Ongoing system support after implementation will be provided by agency staff and, for large enhancements or modifications, via a support agreement with the implementation partner. Training of internal staff in jClarety application support is included in the main RCP contract.

### **Project benefits realized to date**

Since RCP is being implemented in stages, agency staff and employers have been introduced to some of the benefits and capabilities of the new system in functional releases. This approach, in contrast to a "big bang" approach where all system functionality is developed and released at one time, has the advantage of allowing users to gradually become accustomed to the new tools and integrate their experiences into subsequent releases. Conversely, the approach also presents some challenges since staff is required to navigate and bridge between the old system and the new system until the old one is fully decommissioned.

Some of the functionality already delivered through RCP staged releases include:

- Employers have a single, web-enabled entry point (the Employer Data Exchange or EDX) to report and correct demographic, wage, and contribution information for all PERS programs. Validation rules enhance the quality of incoming data. Employers can report more timely.
- New customer service capabilities, such as contact management, have allowed PERS' staff to respond to member inquires more efficiently and effectively.
- Electronic document imaging has greatly improved staff efficiency by providing secure access to documents within minutes, rather than hours or days, and reduced paper consumption from more than 45,000 copies per month to 500 while eliminating lost or misplaced documents and filming costs (approximately \$50K/biennium).
- Electronic workflows have enabled PERS staff and employers to receive, track, prioritize, and report status on significant business processes. Workflows already implemented include salary certification, retirement application intake, and member withdrawals.
- Employer payments are received via electronic funds transfers. This has decreased employer workload and costs of paper check payments. It has also decreased the time it takes for these funds to be deposited and available for investing.
- Employers now receive consolidated bi-monthly statements that provide a comprehensive view of their accounts and give PERS enhanced accounts receivable tracking and reporting capabilities.
- Full auditing capabilities have been provided for every update to data in the system.
- Agency technical staff are learning the new technologies.

Additional benefits expected at RCP completion include:

- Administration of Tier One, Tier Two, and the OPSRP Pension Program will be conducted in a single system.
- More common elements of retirement calculations will be automatically processed by ORION. Currently, retirement calculations (about 6,000 a year) require frequent manual intervention due to RIMS limitations and poor data quality, with some handled completely manually.

- Self-service will enable members to get plan materials, forms, and estimates as well as view and update individual information over the Internet.
- Integrated workflows will provide repeatable processes to increase efficiency, improve data availability, and enhance PERS staff workload allocation.
- A single data source will allow staff to complete account reviews faster, and provide benefit estimates and final benefits faster.
- Data will be corrected systematically through designed user interfaces (currently most of the data correction is done manually and is extremely time consuming).

#### RCP 2008 actual and 2009 budgeted expenditures

Expenditure	FY 2008 Total	Projected FY 2009 Total	Projected Biennium Total
Saber	\$3,300,946	\$ 5,555,988	\$8,856,934
Provaliant	\$724,160	\$837,000	\$1,561,160
Integration	\$144,000	\$220,500	\$364,500
QAPM	\$246,000	\$184,500	\$430,500
DAS QA	\$42,772	\$54,000	\$96,772
SDC MF	\$35,318	\$66,556	\$101,874
Personal Services	\$412,188	\$489,802	\$901,991
Capital	\$203,056	\$25,000	\$228,056
Misc	\$171,936	\$38,500	\$210,436
<b>Totals</b>	<b>\$5,280,376</b>	<b>\$7,471,846</b>	<b>\$12,752,222</b>

2007-09 LAB	\$ 13,538,393
Projected 2007-09 total	\$ (12,752,222)
<b>Projected 2007-09 balance</b>	<b>\$ 786,171</b>

#### RCP total project expenditures

Expenditure	2003-05	2005-07	Projected 2007-09	Projected Total Thru 07-09	Projected Thru June 2010	RCP Project Total
Saber	\$351,171	\$6,945,355	\$8,856,934	\$16,153,460	\$5,586,558	\$21,740,018
Provaliant	\$96,398	\$1,434,680	\$1,561,160	\$3,092,238	\$334,800	\$3,427,038
NxtSrc/Integr/ Rapidigm		\$169,598	\$364,500	\$534,098		\$534,098
QA Misc		\$317,100	\$430,500	\$747,600	\$147,600	\$895,200
DAS QA	\$19,394	\$81,194	\$96,772	\$197,360	\$54,000	\$251,360
SDC MF		\$350,308	\$101,874	\$452,182	\$60,000	\$512,182
Prsnl Srvc	\$40,116	\$597,167	\$901,991	\$1,539,274	\$499,404	\$2,038,678
Capital			\$228,056	\$228,056	\$86,310	\$314,366
Misc	\$15,441	\$9,442	\$210,436	\$235,318	\$75,000	\$310,318
<b>Totals</b>	<b>\$522,519</b>	<b>\$9,904,844</b>	<b>\$12,752,222</b>	<b>\$23,179,585</b>	<b>\$6,843,672</b>	<b>\$30,023,258</b>

### Risks and mitigation strategies

The following table lists the major risks that have been identified to the project as well as the mitigation plans associated with the risks.

<b>Risk #1</b>	RCP is competing with other PERS projects and ongoing workloads for limited staff resources.
<b>Mitigation</b>	PERS management and staff have developed a prioritized, integrated approach that takes into account the interdependencies of daily operations and all agency projects.
<b>Risk #2</b>	Data integrity is inconsistent in RIMS, which will be the source of much of the data used in jClarety.
<b>Mitigation</b>	A business-led data preparation, migration, and cleansing team has been formed to deal with the data integrity issue and is developing a series of initiatives to identify and correct problem data over time using a data lifecycle approach.
<b>Risk #3</b>	New development methodologies, procedures, and software impose a formal set of processes and skill sets that need to be mastered through training and assimilation time.
<b>Mitigation</b>	PERS is using outside experts to provide training on these new tools and continued staff improvement and skill development is expected.
<b>Risk #4</b>	Legislative changes to the retirement plan in recent sessions have altered the scope and functionality required to administer the retirement system. Similar legislative changes may occur before the end of this project, which is scheduled to complete in 2010.
<b>Mitigation</b>	To the extent possible, functionality and scope changes to the project were managed within the current budget and time line by exchanging functionality no longer needed with the required additional functionality. Some additional budget authority will be requested and project scope and schedule adjustments presented as part of the agency's 2009-11 budget process.



## **II. Performance and Progress in Managing Ongoing Workload**

When considering the agency's 2007-09 budget, the Ways and Means' General Government Subcommittee discussed and supported various initiatives designed to improve agency performance and customer satisfaction. In particular, the Subcommittee focused on:

1. Transitioning data from the agency's legacy information system to the new jClarety platform.
2. Working more closely with employers to improve data reporting.
3. Providing greater assistance to retiring members to improve application processing.
4. Improving overall customer service to members and employers.

### **Data transition to jClarety**

Stage 2A of the RIMS Conversion Project (RCP) includes migrating all membership data from the agency's legacy system to the new jClarety platform. Since our February report, the Data Preparation Team cleared an additional 37,566 data migration exceptions and is on-track to successfully execute their conversion strategy when Stage 2A is deployed next summer. The cost for this team of contractors from July 2007 through June 2008 was approximately \$600,000. Given the critical nature of the data migration task to RCP, the agency has reduced other expenditures and generated internal savings to continue this team's efforts beyond June 2008. The balance of the legacy system data will need to be migrated at the conclusion of Stage 2B (projected to be June 2010), when RIMS will be decommissioned and the jClarety platform becomes the system of record for agency data.

After data preparation/migration is complete, the focus will shift to information integrity. Contribution and service time data must be validated, corrected, and completed for accurate benefit calculations and payments. The goal is to resolve any invalid, incorrect, or incomplete data as early as possible in a member's career, and certainly before the member makes an irrevocable retirement decision. Resolving information integrity issues are also crucial for the agency to meet its Key Performance Measures on timely retirement benefit payment inception (within 45 days of the member's retirement date) and improved customer satisfaction. This goal will be met by implementing two initiatives: strengthen the data validation process at the point of data entry and resolve key data exceptions and issues by exposing data to members and employers on a regular basis.

The agency's information integrity efforts are designed to:

- Reduce the time it takes to begin retirement benefit payments from 92 to 45 days from the effective retirement date.
- Limit the number of membership eligibility investigations and verifications needed in the future when retirement or other benefit applications are processed.
- Improve the accuracy of actuarial experience studies and valuations by providing more valid data.
- Identify eligibility errors as early as possible to reduce the financial impact on employers.

### **Improving employer data reporting**

We are continuing our employer training and outreach sessions with presentations offered annually in the spring and fall. We conducted 74 sessions in 126 locations throughout the state during spring 2008. These sessions covered Employer Data Exchange (EDX) upgrades, the annual reconciliation process, and actions required by employers and PERS when a member retires. Recent EDX improvements included:

- Greater functionality for employers viewing wage and contribution report history, unbilled activity, and historical employer statements; and
- Ability for employers to report hours with wages on certain wage codes.

### **Improving the retirement application process**

#### *Retirement Application Assistance Sessions (RAAS)*

With legislative support and budget authority, PERS began providing individual retirement application assistance sessions to our members in 2007. We established four Retirement Application Assistance positions and began offering one-hour individual RAAS in July 2007 in Tigard and Salem. Statewide sessions were added in September 2007. We conducted 750 sessions statewide in 2007.

In 2008, we will conduct over 3,000 individual RAAS in 24 different locations statewide. We advertise these sessions via phones, website, and flyers that are included in every retirement estimate and handed out during One-Year Group presentations. We will offer 3,200 individual RAAS in 2009.

#### *Group Turn In Forms Sessions (TIFS)*

In 2007, PERS reestablished group TIFS for members who are retiring within three months and are prepared to submit their retirement application(s). In 2007, PERS conducted nine TIFS in Tigard, attended by 337 participants. The TIFS program has continued in 2008 with 10 sessions scheduled.

RAAS and TIFS have dramatically reduced common errors and, subsequently, the number of retirement applications returned for corrections. In December 2007, 11 percent of all retirement applications were returned to members because of errors or missing information. The return rate for applications received from members who attended a RAAS or TIF was less than 1 percent.

#### *Benefit estimates*

We provide benefit estimates to members within 30 days of the request. Members can request estimates if they are within two years of retirement eligibility. Members are eligible to retire based on their age or their years of service. In May 2008, we began verifying the service records of members who are retirement eligible because of years of service rather than age. The goal is to complete a review and verification of that member's service history before fulfilling the estimate request to ensure that employers confirm that the member has worked enough years to be eligible to retire. This review and verification is being completed in time for the estimate to be sent within 30 days of the request for 95 percent of the members who are retirement eligible because of years of service rather than age.

Other benefit estimates receiving additional scrutiny are for members with factors that might complicate their retirement benefit calculation or eligibility. These include members who previously received disability benefits, are taking a second retirement after returning to active employment, have had multiple employers (like some substitute teachers), have had their accounts affected by a divorce, and have other special circumstances. Staff is working to flag and review these member accounts to ensure accuracy and completeness before the estimate is sent out, instead of just relying on the information previously reported.

## Improving customer service

### *Member annual statements*

In May 2008, PERS generated and mailed 245,000 member annual statements. These statements showed account balances as of December 31, 2007, and combined all of a member's PERS accounts on one statement. Including the member's Individual Account Program (IAP) information with their Tier One, Tier Two, or OPSRP annual statement helped members better understand the IAP structure and significantly reduced calls from members confused or unclear on how their PERS accounts were related.

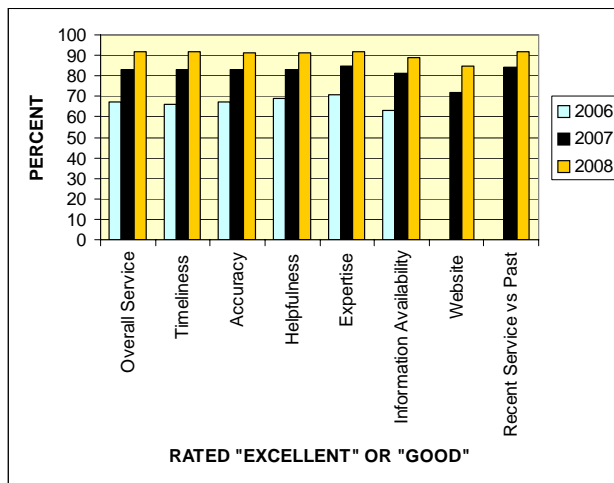
### *Membership Kit*

PERS began mailing Membership Kits to new OPSRP members in March 2008. The kit explains the OPSRP benefits, shows the member's demographic information (birth date, hire date, address, etc.) that has been reported to PERS, and tells the member how to correct any inaccurate information. This reflects PERS' goal to work with data earlier in the retirement process and at key points in a member's career. Kits have been mailed to approximately 3,500 new members to date.

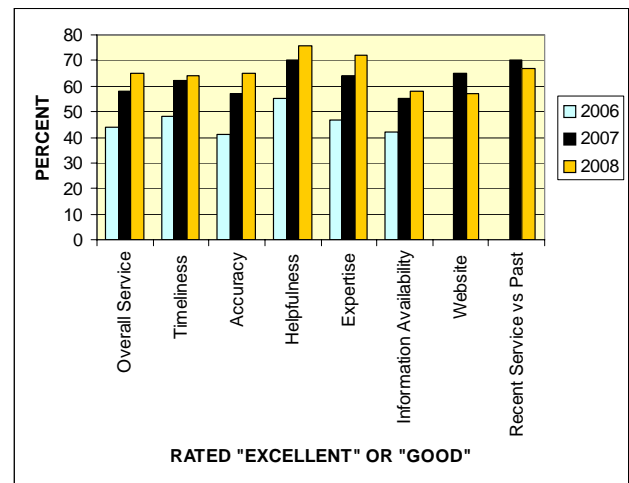
### *Customer satisfaction surveys*

PERS began an annual survey program in 2006 for members and employers to measure customer satisfaction. The 2007 survey results for members and employers showed marked improvement. The graphs below present the 2008 survey data collected up to August 22, 2008, and also show continued improvement in almost all areas. The 2008 surveys ran through August 31, 2008. We will provide the final results during the 2009-11 budget presentation.

**Member results (as of August 22, 2008)**



**Employer results (as of August 22, 2008)**



### **Other workload and customer satisfaction progress**

We now answer letters from members and retirees within 10 business days (unless extensive research is required). Previously, responses to letters took up to 45 days.

Since 2006, the average wait time for a member calling Customer Service has been reduced by nearly 50 percent (from 4 minutes, 10 seconds to 2 minutes, 15 seconds). Call length has been reduced by 20 percent in the same time period, and the number of abandoned calls has been reduced from 12.6 to 6.9 percent.

Our Customer Service Information Center Lead took a call in early August from a recent retiree who was impressed with the speed in which his first retirement benefit payment was processed. The notation in our call log states:

*“This member called today to express his profound appreciation of the job that PERS has done regarding his service retirement effective July 1, 2008. The member stated that he had worked as a teacher for 34 years. He expected the retirement process to be impersonal and fraught with bureaucratic difficulty. Instead, he found that every step of the process greatly exceeded his expectations.*

*He expressed thanks for the customer service that he has received each time he has contacted the CSC member phone team. He stated that everyone was professional and happy to answer his questions, explain his options, and send any needed forms.*

*Finally, the member was greatly impressed by the fact that his first benefit payment had already been deposited into his bank account. He knew that the first benefit payment could be paid out as late as the end of September. He had checked his bank account this morning just in case the first benefit payment had been issued.*

*The member wanted me to communicate his appreciation to anyone who would be interested in hearing about it. I thanked him for letting us know how he felt.”*

PERS wants to be renowned for this business model and level of customer service.

## Workload statistics

The table below compares program transaction work volume for calendar years 2006, 2007, and through the first six months of 2008.

### Quantity

<b>Employer Reporting</b>	<b>2006 CY</b>	<b>2007 CY</b>	<b>Jan. - June 2008</b>
Number of employers reporting	871	878	880
Number of reports received	11,882	12,773	6,389
Number of member records received	2,748,302	3,342,576	1,730,474

<b>Member Annual Statements</b>	<b>2006 CY</b>	<b>2007 CY</b>	<b>Jan. - June 2008</b>
Tier One/Tier Two	163,000	179,000	155,573
OPSRP Pension Program	28,700	45,300	57,609
Individual Account Program (IAP)	185,000	200,400	205,945

<b>Member Transactions</b>	<b>2006 CY</b>	<b>2007 CY</b>	<b>Jan. - June 2008</b>
Retirements – monthly benefit checks	134,587	128,019	59,488
Retirements – monthly benefit automatic deposits	1,135,487	1,166,711	689,856
Retirements – Tier One/Tier Two	5,050	5,883	2,368
Retirements – IAP	2,375	3,480	2,096
Retirements – OPSRP Pension Program	0	27	17
Retirements – contests/appeals (including <i>Strunk/Eugene</i> )	107	696	358
Membership Eligibility Reviews	1,968	2,286	1,098
Withdrawals – Tier One/Tier Two	2,766	4,871	2,465
Withdrawals – OPSRP Pension Program	0	0	0
Withdrawals – IAP	2,046	2,953	1,262
Loss of Membership accounts closed	360	1,287	1,375
Purchases – Tier One/Tier Two	3,091	2,507	1,372
Deaths – IAP beneficiary payment requests	414	289	227
Deaths (pre/post retirement death benefits processed)	3,235	4,252	2,359
Divorces			
Decrees received	1,058	1,118	614
Retirement calculations for members/alternate payees	657	778	378
Pre/post divorce retirement estimates	578	548	391
Account split requests	6	48	387
Disability			
Disability applications	359	357	169
Periodic reviews of existing cases	598	669	336
Retirement calculations	204	271	153
Death, Divorce, Disability – contests/appeals	53	35	16

<b>Member and Employer Customer Service</b>	<b>2006 CY</b>	<b>2007 CY</b>	<b>Jan. - June 2008</b>
Telephone calls (incoming/outgoing)	234,000	250,712	108,439
Emails (incoming)	91,351	95,108	90,296
Letters (incoming/outgoing)	15,858	40,541	44,397
Group presentation attendance	17,532	12,941	6,280
Website visits	900,000	825,500	401,418
Tier One/Tier Two written benefit estimates	10,250	12,469	6,865
OPSRP written benefit estimates	1	26	52
Website benefit estimate calculator page visits	119,148	98,328	52,751

## Risks and mitigation strategies in managing ongoing workload

<p><b>Risk #1</b></p>	<p>Statutory changes, court rulings, and demographic trends have created additional workloads that are impacting agency priorities and requiring IT system reprogramming. This workload reprioritization may eventually impact other work areas, and the necessary IT system changes may impact other ongoing projects.</p>
<p><b>Mitigation</b></p>	<p>PERS management is continuing to monitor and adjust priorities accordingly, coordinate projects, and ensure that limited resources are being deployed in the most effective manner possible.</p>
<p><b>Risk #2</b></p>	<p>Additional statutory changes in the 2009 legislative session could create increased workload and programming needs.</p>
<p><b>Mitigation</b></p>	<p>PERS has been communicating with stakeholders on the benefits of maintaining a stable workload environment and the difficulties with accommodating additional statutory changes, particularly until the RCP is completed and all retirement administration is moved off RIMS.</p>
<p><b>Risk #3</b></p>	<p>Approximately 55,000 PERS Tier One and Tier Two members are eligible to retire. In 2007, we handled 1,965 more retirement applications (Tier One/Tier Two, OPSRP Pension Program, and Individual Account Program) than in 2006 (a 26 percent increase).</p>
<p><b>Mitigation</b></p>	<p>The individual Retirement Application Assistance Sessions (RAAS) and group Turn In Forms Sessions (TIFS), combined with improved member communication and employer outreach, have allowed us to process applications more efficiently.</p>

### **III. The Strunk/Eugene Project**

#### ***Strunk/Eugene* requirements and PERS actions**

The following table shows the requirements of the *Strunk/Eugene* court cases and related Settlement Agreement, as well as the actions PERS has initiated.

<b>Requirement</b>	<b>Action</b>
Reallocate 1999 earnings crediting for Tier One member regular accounts at 11.33 percent instead of 20 percent (active and retired members).	PERS recalculated 1999 earnings crediting at 11.33 percent for some 103,000 active/inactive members in 2005 and reflected the change in 2004 Member Annual Statements (mailed in January 2006).  PERS is currently adjusting benefits (where allowable) for all benefit recipients whose payments included 1999 earnings crediting (see <i>Strunk/Eugene</i> project schedule and progress table below and related <i>Arken/Robinson</i> court cases discussion).
Credit 8 percent earnings to Tier One member regular accounts for 2003 and beyond.	This was accomplished as part of the 2004 Annual Statement project. The PERS Board has also credited 8 percent to Tier One member regular accounts in subsequent years, and placed excess earnings in the Tier One Rate Guarantee Reserve (\$1.9 billion balance as of December 31, 2007 Valuation).
Restore COLA increases to retirees that were frozen due to 2003 PERS reform Legislation.	For those members whose COLA was frozen, those adjustments are being incorporated into their corrected benefit amount after adjusting for the 1999 re-crediting (see <i>Strunk/Eugene</i> project schedule and progress table below). All eligible members have received COLA on their benefits since July 2007.

#### **Accounts affected by *Strunk/Eugene* and the Settlement Agreement**

<b>Category</b>	<b>Accounts</b>
Active/inactive Tier One members	103,000
Member and alternate payee retirements after March 1, 2000	34,000
Account withdrawals (member and alternate payee)	5,000
Final lump-sum installment for retirements before April 1, 2000	1,000
Pre-retirement death benefits	1,400
Non-retired alternate payee/member divisions	3,000
Reemployed retirees	140
<b>TOTAL ACCOUNTS</b>	<b>147,540</b>

**Strunk/Eugene project schedule and progress (as of June 30, 2008)**

<b>Benefit Type</b>	<b>Adjustment Timeline</b>	<b>Number of Accounts</b>	<b>Accounts Adjusted</b>
<b>Estimated benefits</b> (convert to actual benefits)	Feb. - Sep. 2006	4,500	4,402
<b>Recipients with annuity payments</b>			
Divorce	Apr. 2006 - June 2009	1,500	331
Non-COLA freeze benefits (benefit recipients not affected by the July 1, 2003 COLA freeze)	Sep. 2006 - Mar. 2007	5,200	4,551
COLA freeze benefits (benefit recipients affected by the July 1, 2003 COLA freeze)	Apr. 2007 - June 2009	19,000	18,430
Death benefits	Jan. 2007 - June 2009	1,100	187
Police & Fire units	Apr. 2007 - June 2009	1,400	264
<b>Recipients who had a lump-sum payment(s)</b>			
Lump-sum benefits (pre-2000 retirements)	Apr. 2006 - Dec. 2007	900	567
Total lump-sum benefits	Sep. 2006 - Mar. 2007	3,240	3,175
Death benefits (post-retirement benefits; this applies to benefit recipients that passed away with a beneficiary)	Apr. 2007 - June 2009	900	666
Withdrawals (those who withdrew their PERS accounts)	Apr. 2007 - Dec. 2008	6,800	6,366
<b>TOTALS</b>		<b>44,540</b>	<b>38,939</b>

**Arken/Robinson cases**

Multnomah County Circuit Court Judge Kantor has considered two challenges to the agency’s efforts to collect benefits that were overpaid based on 20 percent crediting for 1999. In the *Arken* case, a class of retired members argued that they were entitled to their “fixed benefits” based on 20 percent crediting plus COLAs. The judge ruled against those members and for PERS, deciding that those members had no right to that fixed benefit. In the *Robinson* case, all benefit recipients argued that the PERS Board’s order outlining the repayment methods it was going to use to collect benefit overpayments was unlawful because Section 14b of House Bill 2003 (passed in 2003) limited PERS to recovering the overpayments from administrative expenses deducted from the PERS Fund earnings. The judge found in the benefit recipient’s favor on that argument and ruled that the PERS Board’s order was unlawful. Judgments are expected to be entered in this matter soon and are likely to be appealed.

PERS is continuing to calculate adjustments to benefits based on correcting 1999 earnings crediting to 11.33 percent, to prevent any further overpayments from occurring. Any collection actions pursuant to the PERS Board’s order are suspended until the case is fully resolved. As to prior overpayments, the *Strunk/Eugene* project will complete calculation and recording of those overpayments so PERS can properly allocate those amounts once the court actions have run their course.



### ***Strunk/Eugene* project staffing phase-out plan**

Pursuant to the Subcommittee's discussion on the *Strunk/Eugene* project's 2007-09 budget, we implemented a staffing phase-out plan matching resources to anticipated workload as the project proceeds through the biennium. We have identified several strategies to make the staffing phase-out as successful as possible for the agency and affected employees. Management will determine the exact timing and execution of each strategy to provide the best possible outcome for each situation. These strategies include restricting future agency recruitments to internal candidates, leaving positions open to coincide with layoffs and associated bumping rights, and using temporary staff to fill future project openings. To date, we have reduced *Strunk/Eugene* project staff from 57 to 35 positions. As of June 30, 2008, we have adjusted 38,939 of 44,540 accounts, or 87 percent. The remaining 13 percent represent specialized cases, some of which have to be calculated manually, which will require retaining sufficient staff resources until the conclusion of the project.

### ***Strunk* case attorney costs and fees**

In October 2007, the Oregon Supreme Court awarded fees and costs to the members' attorneys for the *Strunk* case. This affected approximately 21,260 PERS "window" retirees whose cost-of-living adjustments (COLAs) were frozen by the 2003 PERS reform legislation, as well as Tier One members who had yet to retire.

The court determined that the attorneys representing "window" retirees were entitled to \$763,367, to be paid out of the restored COLA adjustments. PERS calculated the COLA each recipient would have received July 1, 2004 based on the actual benefit payment at that time. The attorney fee award was then allocated in proportion to the COLA each person would have received at that time. The one-time deduction affected the July 1, 2008 benefit, payable August 1, 2008. The average one-time deduction was \$36.

PERS posted information on its website, included an article in its August retiree newsletter, and sent letters to the 21,260 affected retirees explaining the one-time deduction and showing the calculation. Check stubs mailed for the August 1, 2008 benefit payments also had information about the reduction and showed the amount of the one-time deduction as "Legal Fee."

The court also determined that attorneys representing Tier One members in the *Strunk* case were entitled to \$1,394,566 to be paid from earnings that would otherwise be credited to Tier One members for 2007. The case restored annual earnings crediting at the assumed rate (currently eight percent) to Tier One member regular accounts. The attorney fee deduction resulted in an effective crediting rate of 7.97 percent for 2007. The reason for this earnings rate adjustment was explained in the 2007 member annual statements, on the PERS website, and in the April 2008 PERS newsletter.

### ***Young* case adjustments**

The *Young* case affects 1,826 current and former state management service employees entitled to additional contributions to their PERS accounts from their successful challenge to the state's calculation of overtime salary during 1995 to 1997.

PERS has been crediting the additional contributions and earnings to the affected member accounts and preparing the employer invoices. Benefit adjustments are being calculated for those members who have subsequently retired or withdrawn their account. For members who have not retired or withdrawn, the additional crediting will be used in determining benefits at retirement or when the member account is withdrawn.

PERS anticipates completing the *Young* case adjustment for most retired members by October 2008. The *Young* case adjustment for non-retired members was completed in July 2008 with some exceptions. The adjustment will be included on the member's 2008 annual statement. Some retired members were impacted by both the *Young* case and the *Strunk/Eugene* project. PERS expects to complete the *Young* case adjustments for all groups no later than March 1, 2009.

**Risks and mitigation strategies for the *Strunk/Eugene* project**

<b>Risk #1</b>	Final court resolution in the <i>Arken/Robinson</i> cases may not occur for an extended period.
<b>Mitigation</b>	<p>Project staff will continue to calculate all benefit adjustments but additional overpayment invoicing and collection activities will remain on hold.</p> <p>Schedule coordination between the <i>Strunk/Eugene</i> project and the RIMS Conversion Project will continue to be refined. Critical project staff may be temporarily reassigned to other projects to maintain staff expertise to complete the <i>Strunk/Eugene</i> project when further court action is finalized.</p>

[Read the February 2008 report](#)