

**HB 5032 BUDGET REPORT and MEASURE SUMMARY**

**Joint Committee On Ways and Means**

**Prepared By:** Patrick Heath, Department of Administrative Services

**Reviewed By:** John Borden, Legislative Fiscal Office

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**Public Employees Retirement System**

**2019-21**

PRELIMINARY

## **Budget Summary\***

	2017-19 Legislatively Approved Budget <sup>(1)</sup>	2019-21 Current Service Level	2019-21 Committee Recommendation	Committee Change from 2017-19 Leg. Approved	
				\$ Change	% Change
Other Funds Limited	\$ 101,657,012	\$ 105,912,270	\$ 163,356,188	\$ 61,699,176	60.7%
Other Funds Nonlimited	\$ 10,994,171,000	\$ 12,493,087,721	\$ 12,504,627,192	\$ 1,510,456,192	13.7%
Total	\$ 11,095,828,012	\$ 12,598,999,991	\$ 12,667,983,380	\$ 1,572,155,368	14.2%

## **Position Summary**

Authorized Positions	379	369	419	40
Full-time Equivalent (FTE) positions	375.18	369.00	414.32	39.14

<sup>(1)</sup> Includes adjustments through December 2018

\* Excludes Capital Construction expenditures

## **Summary of Revenue Changes**

The benefit trusts that the Public Employees Retirement System (PERS) administers are funded primarily through a combination of earnings generated on the investment of trust assets by the Oregon Investment Council and from employer or employee contributions. PERS projects \$10.2 billion in investment earnings and \$4.6 billion in retirement system contributions for all benefit programs in the 2019-21 biennium. For purposes of assessing system funded status, the PERS Board currently assumes the Oregon Investment Council (OIC) will earn net returns of 7.2 percent per year. The 10-year average return totals 9.46 percent as of December 31, 2018, however, more recent returns have missed the assumed rate. In 2018 the Oregon Public Employees Retirement Fund earned 0.48 percent for the year. When earnings on the fund are projected to fall short of the assumed rate of return, employer rates increase to make up the difference in order to preserve the funded status of the system. For the last several biennia, the PERS Board has reduced the assumed earnings rate of the PERS Fund to better reflect historical performance and predicted investment returns of the PERS Fund.

The employer or employee contributions budgeted for the PERS trusts come in the form of employer rates to fund the Tier 1, Tier 2, Oregon Public Service Retirement Program (OPSRP), and PERS Health Insurance Programs (PHIP) benefits. Employer payroll rates for 2019-21 were adopted by the PERS Board in October 2018. System wide, the rates the Board adopted increased collared net pension rates from 17.51 percent of payroll for Tier 1 / Tier 2 in 2017-19 to 22.00 percent of payroll in 2019-21; and increased from 11.00 percent of payroll for OPSRP General Service in 2017-19 to 15.65 percent of payroll in 2019-21. Employer rates do not include costs for the Individual Account Program or debt service costs for pension obligation bonds. Although the 2019 Legislature passed Senate Bill 1049, which is expected to reduce employer rates by an average of 5.43 percent below where they would otherwise be, these changes are not anticipated to be reflected in employer rates until

the 2021-23 biennium. Rates vary by employer based on factors including their employee demographics, their pre-funding any liability via side accounts, or their participation in a rate pool.

The PERS Health Insurance Program (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.

Recent legislative efforts have focused on using one-time and new revenues to fund the PERS liability and incentivize employers to pre-fund their liabilities by establishing side accounts. Senate Bill 1566 (2018) created the School District Unfunded Liability Fund (SDULF) and the Employer Incentive Fund (EIF) for these purposes. In 2019-21, PERS will begin to receive revenue from decoupling from a federal tax deduction for small business and interest on unclaimed property to fund the SDULF and the EIF. The Legislature also approved a \$100 million General Fund appropriation to the Employer Incentive Fund in Senate Bill 1049 (2019) along with an unknown revenue stream from sports betting. Below is a table showing the programs, the funding streams supporting each program, the estimated revenue associated with each program, and associated legislation:

Program	Funding	Estimated 2019-21 Revenue	Bill
School District Unfunded Liability Fund	82.0 percent of federal decoupling revenue	\$129.8 million	SB 1529 (2018)
	Excess capital gains	Unknown	SB 1566 (2018)
	Excess Estate Taxes	Unknown	SB 1566 (2018)
	Excess debt collections	Unknown	SB 1566 (2018)
	Excess interest on unclaimed property	\$11.5 million	SB 1566 (2018)
Employer Incentive Fund	18.0 percent of federal decoupling revenue	\$28.4 million	SB 1529 (2018)
	Employer Contributions	Unknown	SB 1566 (2018)
	Sports Gambling revenues (Lottery)	Unknown	SB 1049 (2019)
	General Fund Appropriation	\$100 million	SB 1049 (2019)

PERS' operating budget is funded primarily, or 96.6 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**

The Public Employees Retirement System (PERS) is responsible for administering retirement programs for public employees, including state, school, and local government workers. In 2017, PERS paid approximately \$3.9 billion in benefits to Oregonians. In support of its mission, PERS manages the Tier 1 and Tier 2 Retirement programs, the Oregon Public Service Retirement Program (OPSRP), the Individual Account Program (IAP), two health insurance programs, Social Security Administration activities, and the Oregon Savings Growth Plan deferred compensation program.

The five-member Public Employees Retirement Board (PERB) 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 who 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 \$12,667,983,380 and 419 positions (414.32 FTE) for the 2019-21 biennium. The budget consists of Other Funds expenditure limitation of \$163,356,188 for agency operations and \$12,504,627,192 in Nonlimited Other Funds expenditure authority for benefit payments. This represents a 60.7 percent increase in the agency's operating budget, due primarily to the implementation of Senate Bill 1049 (2019) and a 13.7 percent increase in the agency's expenditures for statutorily mandated benefits over the 2017-19 Legislatively Approved Budget.

### **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, 2018, there were approximately 84,000 non-retired Tier 1 and Tier 2 members and approximately 141,000 retirees and beneficiaries receiving monthly retirement benefits as of June 30, 2018. Tier 1 covers members hired before January 1, 1996, while Tier 2 covers members hired between January 1, 1996 and August 28, 2003, while providing a slightly higher normal retirement age and slightly less generous benefits. Public employees hired after August 28, 2003 are members of the Oregon Public Service Retirement Pension Program (OPSRP).

The Tier 1 - Tier 2 Plan program unit accounts for employee and employer contributions and interest earnings related to those plans and reflects the benefits paid to Tier 1 - Tier 2 retirees or their beneficiaries. Payments from the Benefit Equalization Fund and the Judge Member Retirement are also paid out of this program. The Subcommittee recommended a budget of \$10,272,591,713 in Nonlimited Other Funds expenditures for the 2019-21 biennium for payments to beneficiaries, an increase of 13.1 percent from the 2017-19 Legislatively Approved Budget, which includes the following package:

Package 801, LFO Analyst Adjustment. This package increase Other Funds Nonlimited expenditure authority by \$11,539,471 to account for payments from the School District Unfunded Liability Fund established by Senate Bill 1566 (2018) into the pooled side account by that bill.

### **Retirement Health Insurance Programs**

PERS serves as a group sponsor providing health insurance services to approximately 60,000 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 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 45,000 retirees receive this subsidy, which totals approximately \$32.4 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 more than \$4.6 million in premium subsidies annually, to almost 1,300 retirees, which is an average \$298 per member per month. This subsidy is limited to Tier 1 and Tier 2 PERS retirees with eight or more years of state service and also 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, over \$260 million per year, comes from member paid insurance premiums with additional revenues from federal sources like the Centers for Medicare and Medicaid Services (CMS) and resulting investment returns.

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 (PERF). The Subcommittee recommended a budget of \$733,481,352 in Nonlimited Other Funds expenditures for the 2019-21 biennium for payments to a third-party administrator and for payments to beneficiaries.

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

The Oregon Public Service Retirement Pension (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 146,000 non-retired members, more than the Tier 1 or Tier 2 plans combined, as well as 4,450 retirees and beneficiaries. This program accounts for employer contributions and retirement payments for the

OPSRP plan. The Subcommittee recommended a budget of \$75,188,960 in Nonlimited expenditure authority for payments to OPSRP beneficiaries.

### **Individual Account Program**

The Individual Account Program (IAP) is the defined contribution component of the PERS retirement plan. The IAP has no guaranteed payment or return. The IAP requires PERS members to contribute an amount equal to six percent of eligible salary to an IAP account (employers may pay the contribution on behalf of their employees). Beginning July 1, 2020, Tier 1 and Tier 2 members will contribute 3.5 percent of salary to their IAP accounts, and OPSRP members will contribute 5.25 percent to IAP accounts, with the balance of the 6.0 percent being contributed to each employee's Employee Pension Stability Account. At retirement, members will receive the balance of this account and accrued earnings. Starting January 1, 2018, the Oregon Investment Council shifted the investment portion of IAP assets to a series of Target Date Fund vintages that would adjust the assets and riskiness of each member's IAP based on their personal characteristics. Prior to January 1, 2018, these funds were invested exclusively the Public Employee Retirement Fund. Senate Bill 1049 (2019) will allow members to elect which Target Date Fund their IAP is invested in beginning January 1, 2021. As of December 31, 2017 there were 269,812 active IAP accounts with an average balance of \$33,210 each. The Subcommittee recommended a budget of \$1,423,365,167 in Nonlimited expenditure authority for payments to IAP beneficiaries.

### **Central Administration**

Central Administration, in conjunction with the PERS Board, provides the central direction, planning, and leadership for PERS. The Division consists of the executive director, deputy director, senior policy director, and the Strategic and Operational Planning section. The Subcommittee recommended a budget of \$5,549,108 in Other Funds expenditure limitation and 21 positions (20.92 FTE), which includes the following packages:

Package 081, September 2018 Emergency Board. This package increases Other Funds expenditure limitation by \$704,393 and authorizes the transfer of four positions (4.00 FTE) from the Operations Division to Central Administration to re-establish a Communications Section.

Package 805, Operational Implementation. This package increases Other Funds expenditure limitation by \$388,736 and authorizes the establishment of two permanent full-time Public Affairs Specialist 2 positions (1.92 FTE) to address the anticipated communications workload associated with the passage of Senate Bill 1049 (2019).

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

The Financial and Administrative Services Division (FASD) 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.

FASD is responsible for the receipt, posting, and deposit of over \$1.7 billion annually in contributions and the disbursement of approximately \$4.5 billion annually 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.

FASD also contains the Facilities Services Section, which manages general building maintenance, office supplies, shipping and receiving, and other various ancillary tasks. Human Resources, Retiree Health Insurance and Deferred Compensation (OSGP) programs and are also located within FASD. The Subcommittee recommended a budget for the Financial and Administrative Services Division of \$44,640,486 in Other Funds expenditure limitation and 64 positions (63.52 FTE), which includes the following packages:

Package 081, September 2018 Emergency Board. This package increases Other Funds expenditure limitation by \$198,066 and authorizes the establishment of one permanent, full-time Accountant 4 position (1.00 FTE) to perform investment accounting for the Individual Account Program and specifically the crediting of Target Date Fund earnings to members accounts.

Package 082, December 2018 Emergency Board. This package increases Other Funds expenditure limitation of \$1,698,000 to pay for contracted services with a third-party administrator for the Oregon Savings Growth Plan. The package creates expenditure limitation for Oregon Growth Savings Plan expenditures for services including an account manager, communications consultants, and field representatives for OSGP in order to increase transparency and accountability for these expenses. Expenses related to investment management and payments to beneficiaries will remain non-budgeted, as authorized by statute.

Package 090, Analyst Adjustments. This package reduces Other Funds expenditure limitation by \$183,430 by reducing excess limitation for rent.

Package 103, FASD Strategic Fulfillment. This package increases Other Funds expenditure limitation by \$357,679 and authorizes the establishment of one limited duration position (1.00 FTE). This limited duration Accounting Tech 3 will perform collections based on a 2012 Oregon Supreme Court decision to retroactively reduce the earnings credited to members. Approximately 92.2 percent of PERS members subject to collections now have collections automatically deducted from benefits and automatically applied to benefits and the work to recalculate benefits is substantially complete.

Package 107, Deferred Maintenance. This package increases Other Funds expenditure limitation by \$1,161,555 for the following projects, each of which includes a 15 percent contingency amount: \$456,918 for replacement of the building's heating, air conditioning and ventilation system, \$438,379 for replacing the building's roof, \$199,857 for exterior repairs, and \$66,401 for replacing variable air volume boxes. This package is approved on a one-time basis.

Package 801, LFO Analyst Adjustments. This package increases Other Funds expenditure limitation by \$11,539,472 for the department to make payments from the School District Unfunded Liability Fund (\$11,539,471) and Employer Incentive Fund (\$1) established by Senate Bill 1566 (2018) to the employer side accounts envisioned by that bill.

Package 805, Operational Implementation. This package increases Other Funds expenditure limitation by \$595,862 and authorizes the establishment of four permanent, full-time positions (3.52 FTE) for anticipated workload increases associated with Senate Bill 1049 (2019). This includes two Accountant 3 positions (1.76 FTE) who will provide fund accounting and earnings crediting for the Employer Pension Stability Accounts and two Accounting Technician 3 positions (1.76 FTE) to provide accounts receivable and cashiering support.

Package 812, Vacant Position Elimination. This package reduces Other Funds expenditure limitation by \$250,886 and one permanent full-time Principal Executive Manager F (1.00) that has been vacant for 11 months. This position, formerly the agency's Chief Administration Officer, is no longer needed by the agency based on the establishment of a permanent full-time Principal Executive Manager G position to serve as the agency's Chief Financial Officer and to administer the Financial and Administrative Services Division.

### **Information Services Division**

The Information Services Division (ISD) 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. ISD ensures agency staff has 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 for the Information Services Division of \$26,144,003 in Other Funds expenditure limitation and 70 positions (69.76 FTE), which includes the following packages:

Package 102, Data Center Migration. This package increases Other Funds expenditure limitation by \$1,715,318 to fund the agency's transition to the State Data Center using a new colocation model of service. The agency will need to purchase new servers and software and associated services to complete the move, which is anticipated to be completed in June 2020. The Department of Administrative Services has received funding in its Legislatively Adopted Budget to provide the new colocation service that PERS will use at the State Data Center. This package is recommended on a one-time basis.

Package 104, Maintaining Current Services. This package increases Other Funds expenditure limitation by \$356,295 and establishes two permanent full-time positions (1.76 FTE) for an Information Systems Specialist 6 Quality Assurance Engineer and an Information Systems Specialist 6 Electronic Content Management analyst.

Package 812, Vacant Position Elimination. This package reduces Other Funds expenditure limitation by \$129,751 and abolishes one permanent full-time position (1.00 FTE). This package eliminates a vacant Office Specialist 1 position and associated Services and Supplies in the Electronic Content Management section. The position has been vacant for 20 months.

### **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 Subcommittee recommended a budget of \$39,438,343 in Other Funds expenditure limitation for the Operations Division and 207 positions (206.52 FTE), which includes the following packages:

Package 081, September 2018 Emergency Board. This package reduces Other Funds expenditure limitation by \$704,393 to recognize the transfer of four positions (4.00 FTE) from the Operations Division to the Central Administration to re-establish a Communications Section in that division.

Package 090, Analyst Adjustments. This package reduces Other Funds expenditure limitation by \$461,098, including \$211,098 to account for unneeded limitation and \$250,000 in expenses for temporary staff due to increased permanent full-time staff that are recommended to be authorized in Package 104, Maintaining Current Services.

Package 104, Maintaining Current Services. This package increases Other Funds expenditure limitation by \$568,790 and authorizes the establishment of four permanent, full-time positions (3.52 FTE). These positions include a Principal Executive Manager B position to serve as the Calculations Supervisor and allow the section manager to assume higher level responsibilities; an Operations and Policy Analyst 2 position to assist the Operations division in reconciling data coming from the Oregon State Treasury related to the implementation of the Target Date Funds investing approach to the Individual Account Program; and two positions, a Retirement Counselor 2 and an Office Specialist 2, to work in the Intake and Review section.

Package 812, Vacant Position Elimination. This package reduces Other Funds expenditure limitation by \$250,886 and abolishes one permanent full-time position. This action eliminates a vacant Principal Executive Manager F position that has been vacant for 16 months. This position is no longer needed due to the agency's consolidation of two divisions into a single division in 2015, eliminating the need for one division administrator.

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

The Compliance, Audit and Risk Division provides risk management and compliance services for all agency programs. 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 are in compliance with state and federal statutes and the PERS plans maintain their tax qualified status.

The Subcommittee recommended a budget of \$8,524,534 in Other Funds expenditure limitation and 20 positions (20.00 FTE) for the Compliance, Audit and Risk Division, which includes the following packages:

Package 082, December 2018 Emergency Board. This package increases Other Funds expenditure limitation by \$442,191 and two positions (2.00 FTE), including one permanent full-time Information Systems Specialist 8 position to implement cybersecurity controls and a permanent full-

time Operations and Policy Analyst 3 to serve as the agency's Continuity and Disaster Recovery Specialist and manage the agency's continuity management program. These positions assist in maintaining the security and reliability of the agency's core pension systems and ensuring that there is no interruption in member benefit payments.

Package 106, Risk and Security Management. This package increases Other Funds expenditure limitation by \$638,291 for contracted services needed to support the agency's information security, business continuity and disaster recovery programs. PERS worked on this program during the 2015-17 biennium after information security audits revealed numerous flaws in the agency's security architecture. The agency received direction in 2016 from the Legislature, the Governor and the Department of Administrative Services – Chief Information Office to correct serious operational security deficiencies, develop and implement an industry standard Cyber Security Program, an industry standard Disaster Recovery Program, and an industry standard Business Continuity Program, and to establish a disaster recovery warm site.

PERS requested security resources in their 2017-19 Agency Request Budget, but those three positions along with two others were moved to the Enterprise Security Office within the Department of Administrative Services after the centralization of information security occurred under Senate Bill 90 (2017). During the 2017 Legislative Session PERS received \$750,000 to plan for a business continuity and disaster recovery program as well as \$1.6 million in contract dollars for IT security remediation. The December Emergency Board approved funding for two positions to staff the program (see Package 082, December 2018 Emergency Board).

The agency has assured the Legislature these programs will be complete in June of 2019. The Department of Administrative Services is requested to unschedule the \$638,291 in expenditure limitation until the Public Employees Retirement System submits a third-party assessment evaluating whether the agency has established an industry standard cybersecurity program, industry standard disaster recovery program, and industry standard business continuity program. This package is approved on a one-time basis.

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

The Core Retirement Systems Applications Division was established to budget for the project-related positions and contracts related to PERS' implementation of Senate Bill 1049, an omnibus PERS reform bill. The projects that will need to be undertaken to implement this bill include establishing a system to manage the new Employee Pension Stability Accounts that will hold contributions diverted from member's Individual Account Program contributions, establishing a system that allows members to choose which Target Date Fund their Individual Account Program will be invested in, creating a database to track the new work after retirement provisions, implementing a new information tool and staff for the Employer Incentive Fund, School District Unfunded Liability Fund, and Unfunded Actuarial Liability Resolution Program established by Senate Bill 1566 (2018), and creating a database to manage the new cap on final average salaries at \$195,000. The first of these projects, the establishment of the Employee Pension Stability Accounts, is set to take effect on July 1, 2020. The Subcommittee recommended a budget of \$39,059,714 in Other Funds expenditure limitation and 37 positions (33.60 FTE). The Subcommittee recommended the following packages:

Package 802, Project Management and Administration. This package establishes Other Funds expenditure limitation of \$2.5 million for a project management vendor contract for the overall project management of the Senate Bill 1049 implementation effort. This amount is recommended on a one-time basis.

Package 803, Quality Assurance and Testing. This package establishes Other Funds expenditure limitation of \$2.5 million for an independent quality assurance contractor to oversee the implementation of Senate Bill 1049. This amount is recommended on a one-time basis.

Package 804, Information Technology Applications. This package establishes Other Funds expenditure limitation of \$25,992,000 to fund the information technology solutions needed to implement Senate Bill 1049. Given the timelines for implementation, the project will need to implement a series of temporary solutions before final versions can be implemented.

Specifically, PERS anticipates spending \$4,675,000 on temporary solutions as follows:

- \$1,750,000 in contracted services for a database to temporarily manage Employee Pension Stability Accounts;
- \$770,000 in contracted services for a database to temporarily manage the new Final Average Salary limit;
- \$770,000 in contracted services for a database to temporarily manage the new work after retirement provisions of the bill;
- \$180,000 in contracted services for SQL Server database integration services; and
- \$1,205,000 in contracted services for a third-party administrator to manage the Employee Pension Stability Accounts and voluntary employee contributions to their Individual Account Program accounts.

To implement a series of permanent solutions that will address the programs created by Senate Bill 1049, PERS anticipates spending \$21,317,000 on the following:

- \$20.0 million in contracted services to implement the employee redirect portions of the bill;
- \$1.275 million in contracted services for an actuarial rate projection tool in order to implement the Unfunded Actuarial Liability Resolution Program; and
- \$42,000 in contracted services to modify the Employer Data Exchange database to validate employee's dates of birth.

These amounts are recommended on a one-time basis. Needs for these expenditures after the 2019-21 biennium will be addressed after the department is better able to articulate the expected future costs of operating and maintaining these new programs and systems. The Subcommittee approved the following Budget Note:

**Budget Note**

The Public Employees Retirement System (PERS) is directed to report to the Joint Committee on Information Management and Technology and the Joint Committee on Ways and Means during the Legislative session in 2020 on the implementation of SB 1049 (2019). The Department of Administrative Services and the Office of the State Chief Information Officer are to provide oversight of the PERS SB 1049 (2019) implementation project. The project shall

adhere to the Stage Gate process. The Department of Administrative Services - Office of the State Chief Information Officer and the Department of Administrative Services - Chief Financial Officer, in their oversight roles, are to report separately to the Joint Committee on Information Management and Technology and the Joint Committee on Ways and Means during the Legislative session in 2020 on the implementation of Senate Bill 1049 (2019).

The agencies' reports to the Legislature shall include:

- Update on project scope, schedule, and budget, and total cost of ownership
- Identification of costs associated with one-time solutions versus permanent solutions
- Independent quality assurance reporting on the project
- Impact of Senate Bill 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
- 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 805, Operational Implementation. This package establishes Other Funds expenditure limitation of \$7,567,714 and 37 limited duration positions (33.60 FTE) for staff needed to address additional operational workload created by Senate Bill 1049 implementation. These positions are budgeted in the Core Retirement Systems Application Division but will report to the divisions outlined.

- Central Administration Division: \$1,039,142 in Other Funds expenditure limitation and four limited duration positions (3.84 FTE), including three Operations and Policy Analyst 3 positions and one Electronic Publications and Design Specialist 3.
- Financial and Administrative Services Division: \$1,727,591 in Other Funds expenditure limitation and four limited duration positions (3.64 FTE), including one Operations and Policy Analyst 3, one Procurement and Contract Specialist 3, one Human Resource Analyst 3, and one Office Specialist 2.
- Information Services Division: \$588,506 in Other Funds expenditure limitation and three limited duration positions, including two Information Systems Specialist 7 positions and one Information Systems Specialist 4.
- Operations Division: \$3,314,898 in Other Funds expenditure limitation and 22 positions (19.68 FTE), including nine Retirement Counselor 1 positions, two Retirement Counselor 2 positions, one Program Analyst 1 position, one Office Specialist 2 position, four Operations and Policy Analyst 1 positions, three Operations and Policy Analyst 2 positions, and two Information System Specialist 4 positions.

- Compliance Audit and Risk Division: \$897,577 in Other Funds expenditure limitation and four limited duration positions (3.68 FTE), including one Operations and Policy Analyst 3, one Compliance Specialist 2, and two Operations and Policy Analyst 1s.

These positions are recommended as limited duration until the agency can assess its operational needs for these new programs and make a request of the Legislature for permanent positions.

Package 806, Contingency Reserve. This package establishes Other Funds expenditure limitation of \$500,000 to serve as a contingency reserve for the implementation of the Senate Bill 1049 given the uncertainty about the final costs of this project and the fact that it is still in an early planning phase.

### **Summary of Maximum Supervisory Ratio**

The Subcommittee reviewed the agency's proposed Maximum Supervisory Ratio of 1:10.

### **Summary of Performance Measure Action**

See attached "Legislatively Approved 2019-2021 Key Performance Measures."

PRELIMINARY

## DETAIL OF JOINT COMMITTEE ON WAYS AND MEANS ACTION

Public Employees Retirement System  
Patrick Heath - 503-378-3742

DESCRIPTION	GENERAL FUND	LOTTERY FUNDS	OTHER FUNDS		FEDERAL FUNDS		TOTAL ALL FUNDS	POS	FTE
			LIMITED	NONLIMITED	LIMITED	NONLIMITED			
2017-19 Legislatively Approved Budget at Dec 2018 *	\$ -	\$ -	\$ 101,657,012	\$ 10,994,171,000	\$ -	\$ -	\$ 11,095,828,012	379	375.18
2019-21 Current Service Level (CSL)*	\$ -	\$ -	\$ 105,912,270	\$ 12,493,087,721	\$ -	\$ -	\$ 12,598,999,991	369	369.00
<b>SUBCOMMITTEE ADJUSTMENTS (from CSL)</b>									
<b>SCR 010-01 - Tier One and Tier Two Pension Programs</b>									
Package 801: LFO Analyst Adjustments									
Special Payments	\$ -	\$ -	\$ -	\$ 11,539,471	\$ -	\$ -	\$ 11,539,471		
<b>SCR 500-01 - Central Administration</b>									
Package 081: September 2018 Emergency Board									
Personal Services	\$ -	\$ -	\$ 704,393	\$ -	\$ -	\$ -	\$ 704,393	4	4.00
Package 805: Operational Implementation									
Personal Services	\$ -	\$ -	\$ 366,558	\$ -	\$ -	\$ -	\$ 366,558	2	1.92
Services and Supplies	\$ -	\$ -	\$ 22,178	\$ -	\$ -	\$ -	\$ 22,178		
<b>SCR 500-03 - Financial &amp; Admin Services Division (FASD)</b>									
Package 081: September 2018 Emergency Board									
Personal Services	\$ -	\$ -	\$ 198,066	\$ -	\$ -	\$ -	\$ 198,066	1	1.00
Package 082: December 2018 Emergency Board									
Services and Supplies	\$ -	\$ -	\$ 1,698,000	\$ -	\$ -	\$ -	\$ 1,698,000		
Package 090: Analyst Adjustments									
Services and Supplies	\$ -	\$ -	\$ (183,430)	\$ -	\$ -	\$ -	\$ (183,430)		
Package 103: FASD Strategic Fulfillment									
Personal Services	\$ -	\$ -	\$ 170,962	\$ -	\$ -	\$ -	\$ 170,962	1	1.00
Services and Supplies	\$ -	\$ -	\$ 186,717	\$ -	\$ -	\$ -	\$ 186,717		
Package 107: Deferred Maintenance									
Services and Supplies	\$ -	\$ -	\$ 1,161,555	\$ -	\$ -	\$ -	\$ 1,161,555		
Package 801: LFO Analyst Adjustments									
Special Payments	\$ -	\$ -	\$ 11,539,472	\$ -	\$ -	\$ -	\$ 11,539,472		
Package 805: Operational Implementation									
Personal Services	\$ -	\$ -	\$ 551,506	\$ -	\$ -	\$ -	\$ 551,506	4	3.52
Services and Supplies	\$ -	\$ -	\$ 44,356	\$ -	\$ -	\$ -	\$ 44,356		
Package 812: Vacant Position Elimination									
Personal Services	\$ -	\$ -	\$ (250,886)	\$ -	\$ -	\$ -	\$ (250,886)	(1)	(1.00)
<b>SCR 500-04 - Information Services Division</b>									
Package 102: Data Center Migration									
Services and Supplies	\$ -	\$ -	\$ 183,318	\$ -	\$ -	\$ -	\$ 183,318		
Capital Outlay	\$ -	\$ -	\$ 1,532,000	\$ -	\$ -	\$ -	\$ 1,532,000		

DESCRIPTION	GENERAL FUND	LOTTERY FUNDS	OTHER FUNDS		FEDERAL FUNDS		TOTAL ALL FUNDS	POS	FTE
			LIMITED	NONLIMITED	LIMITED	NONLIMITED			
Package 104: Maintaining Current Services									
Personal Services	\$ -	\$ -	\$ 345,198	\$ -	\$ -	\$ -	\$ 345,198	2	1.76
Services and Supplies	\$ -	\$ -	\$ 11,097	\$ -	\$ -	\$ -	\$ 11,097		
Package 812: Vacant Position Elimination									
Personal Services	\$ -	\$ -	\$ (118,654)	\$ -	\$ -	\$ -	\$ (118,654)	(1)	(1.00)
Services and Supplies	\$ -	\$ -	\$ (11,097)	\$ -	\$ -	\$ -	\$ (11,097)		
<b>SCR 500-08 - Operations Division</b>									
Package 081: September 2018 Emergency Board									
Personal Services	\$ -	\$ -	\$ (704,393)	\$ -	\$ -	\$ -	\$ (704,393)	(4)	(4.00)
Package 090: Analyst Adjustments									
Personal Services	\$ -	\$ -	\$ (250,000)	\$ -	\$ -	\$ -	\$ (250,000)	0	0.00
Services and Supplies	\$ -	\$ -	\$ (211,098)	\$ -	\$ -	\$ -	\$ (211,098)		
Package 104: Maintaining Current Services									
Personal Services	\$ -	\$ -	\$ 535,539	\$ -	\$ -	\$ -	\$ 535,539	4	3.52
Services and Supplies	\$ -	\$ -	\$ 33,251	\$ -	\$ -	\$ -	\$ 33,251		
Package 812: Vacant Position Elimination									
Personal Services	\$ -	\$ -	\$ (250,886)	\$ -	\$ -	\$ -	\$ (250,886)	(1)	(1.00)
<b>SCR 500-09 - Compliance, Audit, and Risk Division</b>									
Package 082: December 2018 Emergency Board									
Personal Services	\$ -	\$ -	\$ 442,191	\$ -	\$ -	\$ -	\$ 442,191	2	2.00
Package 106: Risk and Security Management									
Services and Supplies	\$ -	\$ -	\$ 638,291	\$ -	\$ -	\$ -	\$ 638,291		
<b>SCR 900-00 - Core Retirement System Applications</b>									
Package 802: Project Management and Administration									
Services and Supplies	\$ -	\$ -	\$ 2,500,000	\$ -	\$ -	\$ -	\$ 2,500,000		
Package 803: Quality Assurance and Testing									
Services and Supplies	\$ -	\$ -	\$ 2,500,000	\$ -	\$ -	\$ -	\$ 2,500,000		
Package 804: Information Technology Applications									
Services and Supplies	\$ -	\$ -	\$ 25,992,000	\$ -	\$ -	\$ -	\$ 25,992,000		
Package 805: Operational Implementation									
Personal Services	\$ -	\$ -	\$ 5,646,497	\$ -	\$ -	\$ -	\$ 5,646,497	37	33.60
Services and Supplies	\$ -	\$ -	\$ 1,921,217	\$ -	\$ -	\$ -	\$ 1,921,217		
Package 806: Contingency Reserve									
Services and Supplies	\$ -	\$ -	\$ 500,000	\$ -	\$ -	\$ -	\$ 500,000		
<b>TOTAL ADJUSTMENTS</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 57,443,918</b>	<b>\$ 11,539,471</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 68,983,389</b>	<b>50</b>	<b>45.32</b>
<b>SUBCOMMITTEE RECOMMENDATION *</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 163,356,188</b>	<b>\$ 12,504,627,192</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 12,667,983,380</b>	<b>419</b>	<b>414.32</b>

% Change from 2017-19 Leg Approved Budget	0.0%	0.0%	60.7%	13.7%	0.0%	0.0%	14.2%	10.6%	10.4%
% Change from 2019-21 Current Service Level	0.0%	0.0%	54.2%	0.1%	0.0%	0.0%	0.6%	13.6%	12.3%

\*Excludes Capital Construction Expenditures

# Legislatively Approved 2019 - 2021 Key Performance Measures

Published: 6/13/2019 5:41:58 PM

**Agency:** Public Employees Retirement System, Oregon

**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 2020	Target 2021
1. TIMELY RETIREMENT PAYMENTS - Percent of initial service retirements paid within 45 days from retirement date.		Approved	65%	80%	80%
2. TOTAL BENEFIT ADMIN COSTS - Total benefit administration costs per member.		Approved	\$145.00	\$165.00	\$165.00
3. MEMBER TO STAFF RATIO - Ratio of members to FTE staff.		Approved	1,048	1,055	1,055
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%	45%	50%
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	91%	95%	95%
	Overall		91%	95%	95%
	Availability of Information		88%	95%	95%
	Timeliness		90%	95%	95%
	Accuracy		91%	95%	95%
	Expertise		92%	95%	95%
7. TIMELY BENEFIT ESTIMATES - Percent of benefit estimates processed within 30 days.		Approved	34%	95%	95%
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 Key Performance Measures and updated targets.

**SubCommittee Action:**

The General Government Subcommittee adopted the recommendations.