

PUBLIC EMPLOYEE RETIREMENT SYSTEM

II. KEY MEASURE ANALYSIS

Agency Mission: We are a well-respected organization that serves our members by enabling informed retirement and health benefits decisions and delivering retirement and health benefits effectively and efficiently.

KPM #3	TOTAL BENEFIT ADMINISTRATION COSTS Total benefit administration costs per active member and annuitant (INCLUDING special projects).	Measure since: 2006
Goal	Reduce administrative costs while maintaining high levels of service to members and employers.	
Oregon Context	Oregon Benchmark #35: Public Management Quality & #9c: Cost of Doing Business/ Taxes & Charges. Increase service cost-effectiveness to stakeholders.	
Data source	Budget/personnel statistics, PERS CAFR, report from CEM Benchmarking, Inc. comparing PERS to its peers.	
Owner	Fiscal Services Administrator Dave Tyler, 503-603-7709	

1. OUR STRATEGY

NOTE: There was a data change for this measure approved for use in 2007-09. While the 2005-07 targets are based on the old data methodology, the future targets and all of the actual data have been converted to the new data format.

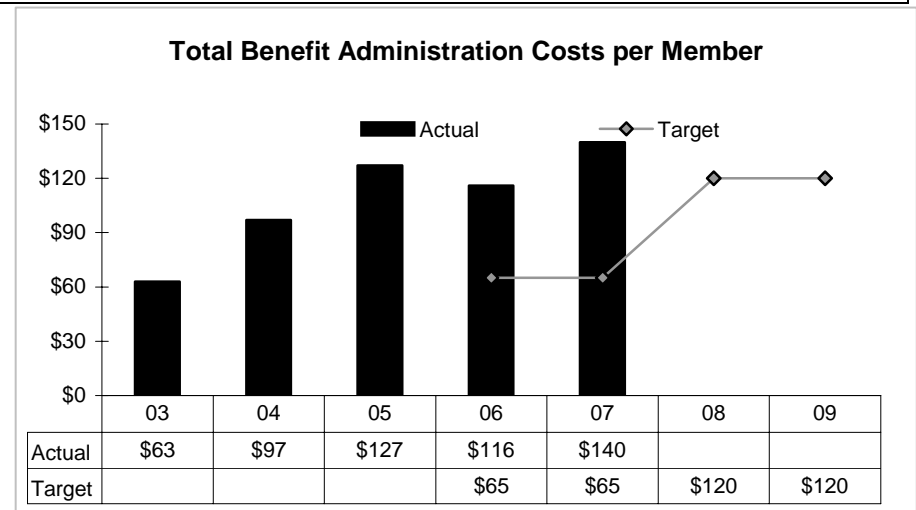
PERS strives to deliver high-quality, low-cost service to members and employers. PERS is aware that administrative costs, funded through investment earnings, have an effect on Employer rates and member account earnings crediting. The successful completion of the *Strunk* and *Eugene* project and the Retirement Information Management System (RIMS) Conversion project will help to reduce PERS' annual operating expenditures.

2. ABOUT THE TARGETS

The targets for the 2005-07 biennium were set based on 2004 peer median performance reported by a benefit administration comparison consultant, CEM Benchmarking, Inc. But the cost reporting structure used by CEM Benchmarking omits the following key pieces of data: 1) Portions of peer costs such as supplemental benefit programs (Deferred Compensation and Retiree Health Insurance) and 2) Inactive members. CEM makes these adjustments in order to compare retirement systems on an "equal" plain. Unfortunately, this renders the resulting measurement of PERS' adjusted costs much less relevant to stakeholders. In order to correct this, PERS has implemented data changes with this KPM and the Staff to Member KPM. The data changes will allow PERS to present this KPM reporting the total PERS administrative costs as published in its Comprehensive Annual Financial Report (CAFR) per the total membership.

3. HOW WE ARE DOING

For 2007, PERS' cost per member is \$140, up from \$116 in 2006. This continues the trend of higher costs over the past three years, as compared to lower levels in 2003 and 2004, which reflects 2003 legislation that added the administration of two more retirement programs in 2004 (bringing the total administered PERS programs to four), and the addition of the *Strunk/Eugene* and RIMS Conversion projects in 2005. The long-range target is to keep overall costs per member from increasing, in an environment of increasing workload per member and cost inflation.



Agency Mission: We are a well-respected organization that serves our members by enabling informed retirement and health benefits decisions and delivering retirement and health benefits effectively and efficiently.

4. HOW WE COMPARE

Because the overall adjusted cost per member structure used by CEM Benchmarking, Inc. will no longer be used for this KPM, PERS will instead focus on how it compares to its peers on an individual activity level. Since the 2007 CEM Benchmarking Analysis has not yet been published, these comparisons are based on the 2006 analysis report. For 2006, CEM Benchmarking, Inc. reported that while PERS' costs were higher than its peers for many activities, there were also some activities that PERS' costs were lower than those of its peers. When compared to its peer median costs per member or employer served, PERS was more expensive for activities such as Pension Inceptions (\$434 vs. \$287), Written Estimates (\$62 vs. \$58), Employer Billing and Inspection (\$355 vs. \$296), Employer Data (\$39 vs. \$20), Services to Employers (\$2,531 vs. \$536), Refunds (\$239 vs. \$40), Disability (\$2,785 vs. \$1,178), Financial Admin/Oversight (\$14 vs. \$8), Rules Design and Interpretation (\$12 vs. \$5) and Major Projects (\$31 vs. \$11). But PERS was less expensive per member/employer served than its peer median for activities like Paying Pensions (\$8 vs. \$15), Counseling, Member Contact and Mass Communication (\$65 vs. \$200), and Purchases (\$66 vs. \$174).

5. FACTORS AFFECTING RESULTS

Total costs are up by \$8.7 million from 2006 due in large part to increased work on the RIMS Conversion and *Strunk* and *Eugene* projects. Some of the peer comparison cost differences reported above can be attributed to how various retirement systems might organize their processes differently than PERS. For example, PERS spends more than its peer median on billing and collecting data from employers in order to save costs later on processing pension inceptions. PERS is also using 100% electronic data exchange reporting for employers which has higher front-end costs but creates long-term efficiencies.

Other cost differences can be explained by PERS' operations that are currently more staff intensive and expensive than other pension systems because of the challenges of maintaining multiple programs resulting from 2003 reform legislation, administering a multi-faceted system with multiple tiers, and having an outmoded IT infrastructure that is also undergoing conversion. For example, the multiple programs, rule sets and out-dated IT system have made eligibility testing a more staff intensive and costly process for PERS, as evidence of its higher pension inception costs. To help remedy this in the long run, PERS is investing more money than its peers in special projects (such as the RIMS Conversion Project) that will help to automate some of the more costly desktop processes.

Costs are also impacted by the large amount of "re-work" associated with the *Strunk* and *Eugene* court rulings. While in 2004, PERS Pension Inception cost per member was slightly lower than its peer median (\$249 vs. \$250), the costs for the same activity in 2005 and 2006 have jumped significantly. Following the 2003 legislation, PERS had begun making earnings crediting adjustments. When some of the reform changes were subsequently overturned, PERS had to go back and readjust the same accounts and retirements. These adjustments and re-work added to much higher pension inception costs for PERS in 2005 and in 2006 when the *Strunk* and *Eugene* project commenced.

6. WHAT NEEDS TO BE DONE

PERS is committed to completing each of its projects on schedule and within budget. It is safe to assume that with completion of its special projects, PERS overall costs will be reduced (especially the costs associated with the *Strunk* and *Eugene* project). But completion of the current projects will also have an effect on future costs. Long-term cost savings will eventually be realized as PERS completes the RCP project (scheduled for completion by December of 2009), and replaces many of its current desktop supported processes with much more cost efficient automated processes.

7. ABOUT THE DATA

This measure is based on data for the Oregon fiscal year period. As mentioned above in the Target discussion, PERS is making a significant data change with this measure. Because the cost reporting structure used by CEM Benchmarking omits key pieces of data like supplemental benefit program costs (Def

PUBLIC EMPLOYEE RETIREMENT SYSTEM

II. KEY MEASURE ANALYSIS

Agency Mission: We are a well-respected organization that serves our members by enabling informed retirement and health benefits decisions and delivering retirement and health benefits effectively and efficiently.

Comp and Retiree Health Ins.) and inactive members, the resulting measurement of PERS' adjusted costs is much less relevant to stakeholders. In order to correct this, PERS has implemented data changes with this KPM and the Staff to Member KPM. The data changes will allow PERS to present this KPM using total PERS administrative costs (as published in its CAFR) per the total membership. The CEM data will continue to be used for peer group comparisons at the individual activity level.