

**Strunk and Eugene
Project Business Plan**

**PERS Board Meeting
July 21, 2006**

Table of Contents

Strunk & Eugene..... 3
 Project Overview 3
 Complexity Factor..... 4
Project Core Principles and Success Criteria 6
 Core Principles 6
 Success Criteria..... 6
Planning Team..... 7
 Description 7
 Activities 7
Major Project Phases 7
 Membership Adjustments..... 7
 Payment Recipient Adjustments..... 8
 Transaction Prioritization 9
 Annuity Accounts..... 10
 Lump Sum Accounts 11
Project Budget..... 13
Appendix 16
 Appendix I – Key Risks..... 16
 Appendix II – Impacted Accounts 17
 Appendix III – Actuarial Reduction Method Example 1 18
 Appendix IV - Actuarial Reduction Method Example 2 19

Strunk & Eugene

Project Overview

The 2003 PERS Reform legislation and the Oregon Supreme Court decisions in the Strunk and City of Eugene cases have defined the parameters within which PERS can implement the Settlement Agreement. PERS is required to implement the remainder of its obligations under the agreement and administer the law as it stands today. The project's goal is to implement these obligations.

The Court ruled that the Settlement Agreement and 2003 PERS Reform legislation have resolved the issues in the Eugene case. The Settlement Agreement requires PERS to reallocate 1999 earnings to Tier One member regular accounts at 11.33% instead of 20%. Other tenets of the Settlement Agreement have been met. PERS will also credit the assumed rate, currently 8%, to Tier One accounts for 2003 and 2004 as a result of the Oregon Supreme Court decision in the Strunk case. In addition, the Court held in Strunk that the Cost-of-Living Allowance (COLA) 'freeze' imposed by the 2003 PERS Reform Legislation was invalid. All members who retired between April 2000 and April 2004 that had their COLA 'frozen' are entitled to have those withheld amounts credited to them.

For those Tier One members who retired, withdrew, or received benefit payments after the 1999 earnings crediting was effective (April 1, 2000), PERS will:

- Pursue collection of overpaid amounts. This will correct past benefit overpayments and prevent future overpayments by adjusting benefits going forward.
- Use a recovery process that minimizes the effect on current monthly benefits and provides the longest possible repayment period.
 - Monthly benefit payments will be adjusted prospectively for the 1999 earnings allocation of 11.33%, and PERS will recover any overpayments that occurred up to the adjustment date. Comparing what should have been paid to a recipient against what was actually paid completes the adjustment. For those recipients who still owe a balance to the PERS Fund, PERS will calculate, based on each member's projected longevity and retirement option, the amount the benefit needs to be reduced to repay the balance over the remaining lifetime. This method is known as the Actuarial Reduction Method (ARM) and is the default collection method for benefit recipients receiving a monthly annuity. Benefit payments may be reduced in the short term, but would increase at the next, and subsequent, COLA dates.
 - Instead of the ARM, a recipient can opt to pay the entire amount owed in a lump-sum payment. The recipient's monthly payments will then only be adjusted going forward based on the 11.33% earnings reallocation for 1999 (and subsequent COLA adjustments).
 - For recipients who are no longer receiving PERS benefit payments (members, beneficiaries, or alternate payees who retired, withdrew, or received a death

Strunk and Eugene Project

benefit), staff will calculate the lump-sum amount of their overpayment and pursue normal collection efforts to recover that amount.

- Waive collection of any overpayment that is less than \$50 on an aggregate basis, as allowed by statute.
- Not charge interest or costs on the recovery of overpaid amounts.

PERS' actuary estimated the combined fiscal impacts of the Strunk and Eugene decisions and the settlement agreement to be a total of \$1.6 billion in overpaid distributions or reduced future distributions. This amount is split between benefit recipients and active/dormant members as shown in the following table.

Estimated Fiscal Impact of <u>Strunk</u> and <u>Eugene</u> , and the Settlement Agreement		
Active/Dormant Members		
	Future Distributions Yet to be Paid	\$800 million
Benefit Recipients		
	Future Distributions Yet to be Paid	\$650 million
	Overpaid Benefits	\$150 million
	TOTAL	\$ 1.6 billion

Complexity Factor

The complexity and magnitude of the solution to the Strunk and Eugene decisions have greatly impacted the decision and planning processes of this project. One of the overriding reasons this project is more complex than other RIMS related projects at PERS is that it adjusts historical member's account information rather than simply modifying system screens or reports. To adjust the accounts and transactions, PERS must create programs to back out (or void) transactions to member accounts, determine historical adjustments to each account (i.e., recreate the account as of the appropriate date in time, recalculate and apply credits accurately), and ensure that audit trails and logging files are created appropriately. In addition, since retired member benefits will change, PERS needs to develop ways to recalculate the benefits, notify members, and either collect or pay over/under payments:

Our analyses identified the following issues that need to be addressed:

- The Strunk decision impacts every PERS Tier One member that received 2003 interest earnings. This includes 105,000 members and 4,300 retirees.
- The Eugene decision impacts every PERS Tier One member that received 1999 interest earnings. This includes 100,000 members and 35,000 retirees.

Strunk and Eugene Project

- The decision to postpone 2004 earnings crediting impacted 180,000 members and delayed the issuance of 2004 member statements.
- 22,000 Retired Members that are not receiving annual COLA increases are subject to COLA reinstatements and Strunk and Eugene adjustments. These adjustments must be communicated to the retiree and invoiced or paid.
- Every impacted recipient will have 12 to 30 financial adjustment transactions applied to their account.
- Up to 60% of the original retirements were processed with manual interventions as they moved through the computer systems. This means the underlying transaction data required to adjust the retirements must be identified and confirmed prior to use.
- No automated processes currently exist to make the above-noted adjustments. These processes must be defined, built, tested, and implemented.
- Each of the following categories requires specialized processing rules. Many accounts are impacted by several of these categories and will require a combination of solutions:
 - Active/Dormant Member Accounts
 - Service Retirements
 - Disability Retirements
 - Police and Fire Units Retirements
 - Loss of Membership Accounts
 - Refunded Accounts
 - Deaths
 - Divorces
 - Lump Sum Settlements and Installments
 - Full Cost Purchases
 - AEF Estimated Payments
 - Police and Fire Units Purchases
 - One Time Variable Transfers
 - Re-Employed Accounts
 - COLA Frozen Benefits

Project Core Principles and Success Criteria

To ensure the success of this project, the management team defined a set of Core Principles and Success Criteria. Both the Principles and the Criteria were used as guides when making key project decisions.

Core Principles

The following principles guide the planning and execution of this project:

- The negative adjustment on the retiree's current benefit payment is as small as possible.
- The account processing priority and order is transparent and communicated to stakeholders for input.
- Communications are complete, understandable, concise, and we proactively answer potential questions.
- The project is completed in the most efficient method that does not put undue burden on other business operations.
- The impact to the Rims Conversion Project (RCP) is planned and managed for success.
- Members of the core Strunk and Eugene team are dedicated 100% to the project.
- One touch per account. This means we attempt to push the account through the process in the most efficient means possible and present a final transaction to the impacted benefit recipient.

Success Criteria

The project is successful if:

- Recipients incur no disruption in the receipt of monthly PERS benefits.
- The identified population of accounts requiring adjustment includes all impacted accounts.
- All account balance and benefit payment adjustments are complete, accurate, and fully auditable. This means all underlying data issues must be resolved.
- The invoicing and accounts receivable processes optimize collections.
- 2004 member statements can be created from Phase I of this project.
- No data is corrupted or lost as a result of our processing.
- Completed within the approved budget.
- Completed within the approved timeline.

Strunk and Eugene Project

Planning Team

Description

The planning effort for a project of this size represented a significant project unto itself. The purpose of the planning was to ensure that: all activities needed to make the project successful were defined; the correct project team was defined, built, housed, and trained; any setup work was planned and started; and the necessary contracts were constructed and executed.

To ensure the project's success, PERS assembled a dedicated team to define and conduct a series of planning activities.

Activities

The planning team validated the types of impacted accounts. For each defined type, the team:

- Determined the best order and time frame in which to process the adjustments.
- Identified and documented the processes and procedures required to perform the adjustments.
- Validated the initial time estimates of the amount of work needed to complete the adjustments.
- Determined the tool set necessary to calculate the adjustments.
- Based on the defined process, tool set, and time estimates determined the resources, both internal and external, needed to complete the work.

Major Project Phases

The planning team evaluated the work and identified two major phases: Membership Adjustments and Payment Recipient Adjustments. This division provided the agency the best method to organize the team in order to complete the work.

Membership Adjustments

Active / Dormant Account Adjustments and Issuance of 2004 Statements

This project phase addressed the requirement to adjust all impacted Tier-One member accounts. This phase had two goals: adjust the member accounts so 2004 member statements could be issued and, in the case where a member retired, stop unadjusted accounts from moving to the benefit calculation process.

Strunk and Eugene Project

PERS successfully adjusted the 180,610 active/dormant member accounts in December 2005. Efforts to resolve data problems with the remaining 428 unadjusted accounts remains a high-priority with assigned staff.

PERS issued 2004 member statements in January 2006.

Payment Recipient Adjustments

This phase addresses the requirement to adjust recipient benefits. The phase has two goals: adjust the benefits according to the court cases and settlement agreement and complete this process in a manner that minimizes the impact to the recipient. The work in this phase has been divided into two categories: those recipients receiving monthly annuity payments and those recipients that received a lump sum payment.

This effort involves:

1. Identify all impacted accounts.
 - Complete.
2. Classify the impacted accounts into workflow categories.
 - Complete - Accounts have been grouped into general categories and prioritized. The Board approved the general account staging at its December 2005 meeting.
3. Define the workflows, including the steps in the processes, the tools needed to adjust the benefits, and the time required to complete each step.
 - Complete - Major workflows and processing requirements have been identified and prioritized. Significant policy issues have been decided.
 - In Process – The team is identifying specific process steps and desktop tools/RIMS modifications using a just-in-time methodology. This in effect continues planning throughout the project duration with the majority of the project team working on the priority adjustments and a small planning group developing the next process steps and tools.
4. Determine the staff required to adjust the accounts in each workflow.
 - The project planning effort determined 57 limited duration positions are necessary to successfully execute the project. Additional information on composition of these staff and the associated budget is located in the Budget Section of this plan.
5. Map the workflows and staff to a timeline to estimate the completion date and total costs of the project.
 - Complete.

Strunk and Eugene Project

Transaction Prioritization

PERS identified four general conditions associated with the Strunk and Eugene adjustments that impact transaction prioritization. These conditions and general descriptions are:

1. **Fiscal** – Most transactions have a fiscal consideration in that PERS owes the recipient funds or the recipient owes PERS funds. For many transactions, the amount increases with time.
 - PERS Owes the Recipient Funds: Delaying payment of the funds negatively impacts the recipient. Staff proposes placing the highest priority on these accounts.
 - Recipient Owes PERS Funds: Delaying the receipt of these funds negatively impacts the PERS trust fund. Staff proposes prioritizing the adjustment of these accounts lower than the adjustment of accounts where the recipient is owed funds.
 - Materiality: The relative size of funds associated with the transactions runs the spectrum from a few dollars to tens of thousands. Staff proposes that the larger the sum PERS owes or is owed the earlier in the project the transaction should be prioritized.
2. **Date of Transaction** – Transaction dates range from April of 2000 to the present. For recipients that owe PERS funds, the older the transaction date the more difficult collection may be due to the likelihood the recipient has moved to a new address or the recipient has spent the overpaid funds. Staff proposes that these transactions generally be prioritized by date, older transactions first.
3. **Administrative** – The project's size and complexity significantly impacts PERS' ability to administer the workload. Four general administrative constraints or issues were identified:
 - **Workload Balance** – For project efficiency the staff recommends balancing the type and number of transactions processed in any given month, as some transactions require more PERS support than others. For example, batch processing a thousand adjustments that result in corresponding invoices could overwhelm the accounts receivable process. Balancing transaction work across the project timeline makes sense.
 - **Eligibility or other underlying account research questions** – Planning efforts identified at least 4,500 recipient accounts that require research prior to finalizing the benefit adjustments. The research effort is time consuming, therefore, staff proposes spreading these accounts across the project timeline.
 - **Adjustment Tool-Set Development** –The Strunk and Eugene adjustments require new or revised processing tools. PERS has limited resources to create these tools and, therefore, must delay some transaction categories until staff creates the tool-sets.

Strunk and Eugene Project

- Finalizing Estimated Benefits – Upon receipt of a finalized benefit and Notice of Entitlement for those recipients that are receiving estimated payments, some retirees may opt to change their benefit option, or contest the information used to calculate their benefit. Staff proposes prioritizing these transactions earlier in the project to provide time to work these issues.
4. **Cost of Living Allowance (COLA) Timing** – The timing of benefit adjustments to coincide with future COLA benefit increases helps dampen the reduction to recipient monthly benefits. For example, if the recipient's current monthly benefit is reduced due to Strunk and Eugene adjustments, future COLA increases will help close the gap between the recipient's current benefit and the revised benefit. Staff proposes that COLA timing be considered in the prioritization process to help dampen monthly benefit reductions.

The Board approved the above noted conditions and proposed prioritization at its December 16, 2005 meeting. Based on these prioritization concepts, the benefit recipient accounts are grouped and prioritized in the following order:

1. Recipients to whom PERS owes money and/or recipients receiving estimated benefit payments.
2. Recipients receiving annuity payments who owe PERS money.
3. Recipients who received a lump sum payment and owe PERS money.

Annuity Accounts

- Description - This category includes all recipients receiving a monthly annuity payment at the adjustment date.
- Dependencies -

Create a plan to determine how to best perform the work.

- Complete.

Identify and procure the resources necessary to perform the work.

- Complete.

Receive the actuarial values to complete the Actuarial Reduction Method (ARM) calculations.

- Complete.

Complete the tools necessary to complete the work.

- In process and will continue to be in process for the project duration. The project strategy is for the planning team to deploy tools and defined processes using a 'just-in-time' method that aligns with the workflow timeline.

Define the needed processes and procedures to complete the work.

- In process and will continue to be in process for the project duration. The project strategy is for the planning team to deploy tools and defined processes using a 'just-in-time' method that aligns with the workflow timeline.

Strunk and Eugene Project

Implement an invoicing and accounts receivable solution.

- Complete. The project will default benefit recipients receiving a monthly annuity to the ARM; however, recipients will have the option to make a lump sum payment to satisfy their overpayment.

The Fiscal Services Division and the Strunk and Eugene team developed processes to support these events. The decision to default overpaid recipients to the ARM increases the project's efficiency. This eliminates the need to create and then likely cancel thousands of invoices. In addition, the tracking and processing of invoices and repayment periods for each monthly batch of transactions added unnecessary project complexity and processing risk.

Resolve the policy decisions associated with account adjustments.

- Complete.

Lump Sum Accounts

- Description - This category includes all recipients that received a lump sum payment.

- Dependencies -

Build a plan to determine how to best complete the work.

- Complete.

Identify and procure the resources necessary to perform the work.

- Complete.

Complete the tools necessary to complete the work.

- In process and will continue to be in process for the project duration. The project strategy is for the planning team to deploy tools and defined processes using a 'just-in-time' method that aligns with the workflow timeline.

Define the needed processes and procedures to complete the work.

- In process and will continue to be in process for the project duration. The project strategy is for the planning team to deploy tools and defined processes using a 'just-in-time' method that aligns with the workflow timeline.

Implement an accounts receivable solution.

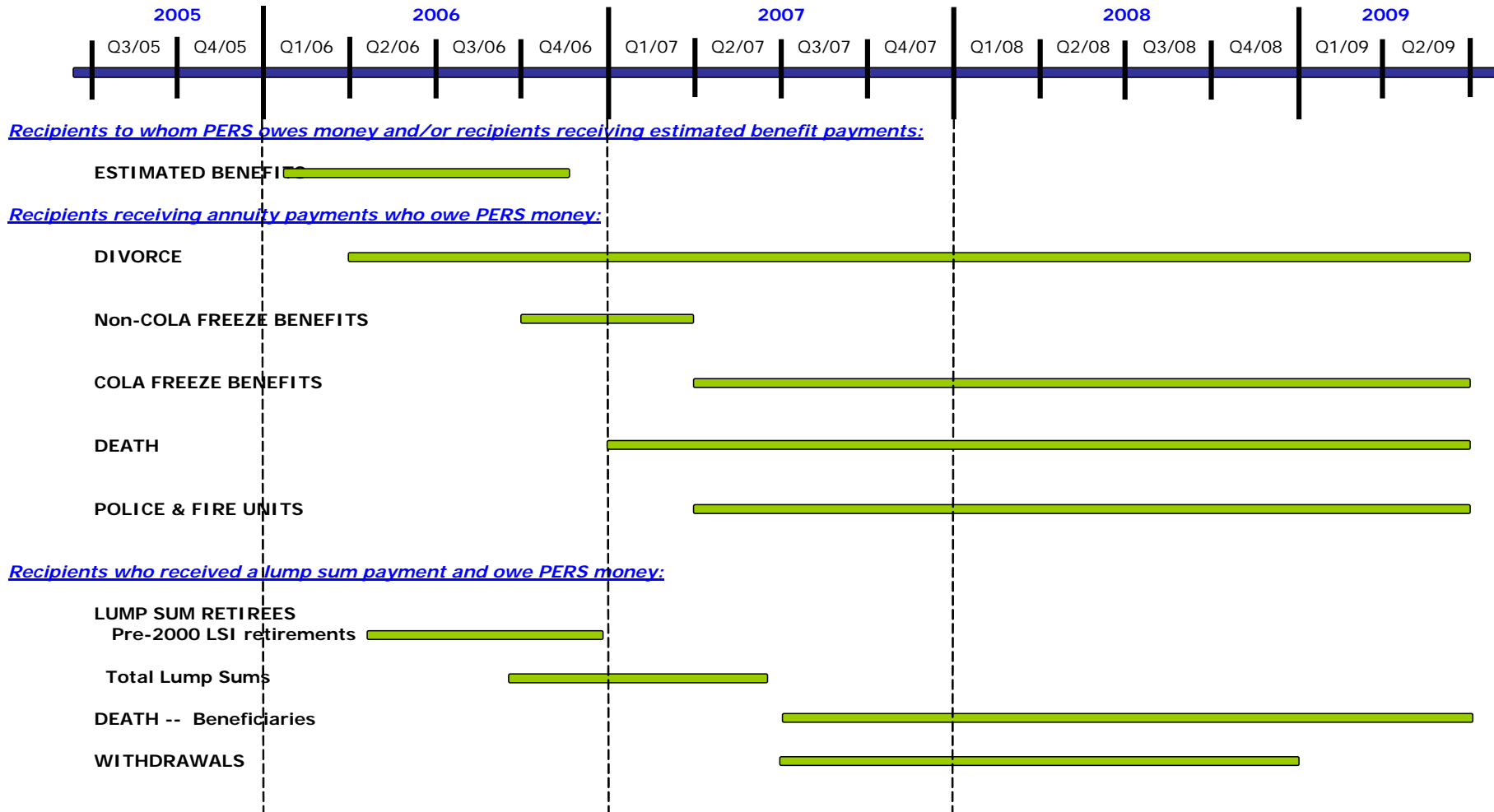
- Complete. The Fiscal Services Division is finalizing the contract and deployment of an accounts receivable software solution. The majority of accounts receivable processing procedures are developed.

Resolving the policy decisions associated with account adjustments.

- Complete with the exception of accepting roll-overs to satisfy overpayments.

Strunk and Eugene Project

The following Gantt chart displays the general account adjustment staging timeline.



Note: Some accounts in each of these types will be delayed due to data-cleanup issues, eligibility determination, etc.

Strunk and Eugene Project

Project Budget

Due to the project's duration, the total budget estimate is comprised of three separate funding and position requests. They are:

1. 2005 – 2007 Legislatively Adopted Budget
2. 2005 – 2007 Administratively Established Budget Request
3. 2007 – 2009 Agency Budget Request

2005 – 2007 Legislatively Adopted Budget

As a result of the Strunk opinion, the HB 2003 COLA team was reconfigured to meet the implementation staffing needs. In addition to the original 25 COLA positions, 4 positions were redirected from the accumulated workload package (package 103) to support the Strunk and Eugene Project. This redirection occurred because the majority of accumulated workload transactions require a Strunk and Eugene adjustment. The positions and budget provided in the 2005 – 2007 Legislatively Adopted Budget are:

2005 - 2007 Legislatively Adopted Budget		
Package	Description	Budget
810	Personal Services (25 Positions) Services and Supplies	\$ 2,310,622 944,050
103	Personal Services (4 Redirected Positions)	<u>359,492</u>
Total Budget Request		\$ 3,614,164

The legislature also approved \$1 million for legal costs associated with the Strunk and Eugene lawsuits and implementation legal costs. That amount is included in a separate budget for legal costs.

2005 – 2007 Administratively Established Budget Request

The initial estimates, created 12 months ago, to complete both the Strunk and Eugene adjustments called for a core team of 70 limited duration positions in the Benefit Payments Division plus an undetermined number of additional staff in other divisions to support the project. Due to efficiencies created by defining improved processes and automating calculations, the original estimate has been reduced to 36 limited duration

Strunk and Eugene Project

core team positions in the Benefit Payments Division plus 21 limited duration positions in other divisions for a total of 57 limited duration positions dedicated 100% to the project.

The 2005 – 2007 legislatively adopted budget provided the 29 positions identified above which are all part of the Strunk and Eugene Adjustment Section of the Benefit Payments Division. The additional 28 positions requested mid-biennium will support the project as follows:

- The Strunk and Eugene Adjustment Section of the Benefit Payments Division requests 7 additional positions. These positions are primarily management and project technical resources to perform planning, process, and tool development over the project duration.
- The Customer Service Center of the Customer Service Division requests 9 positions to focus on account eligibility issues, to support additional phone volume, and to manually process database fixes to impacted RIMS data. The existing RIMS application does not have the functionality to open and adjust retiree accounts for many data related issues. Therefore, some account adjustments require manual correction via database fixes. These adjustments require staff with programming and technical analysis skills.
- The Imaging and Information Management section of the Information Services Division requests 10 positions to retrieve benefit recipient records prior to adjustment, and then to electronically image and archive the resulting benefit adjustment reports.
- The Fiscal Services Division requests 2 positions to collect the overpaid benefits resulting from the adjustments and to support the accounts receivable process.

PERS submitted two 2005 – 2007 Administratively Established Budget Requests. The positions and budget associated with these requests are:

2005 - 2007 Administratively Established Budget Requests		
Package	Description	Budget
	Personal Services (28 Positions)	\$ 1,358,447
	Services & Supplies	<u>135,000</u>
Total Budget Request		\$ 1,493,447

Strunk and Eugene Project

2007 – 2009 Agency Budget Request

To complete the project, PERS must retain the 57 limited duration positions throughout the 2007 – 2009 biennium. To meet the total staffing needs, PERS is submitting the 2007 – 2009 Agency Budget Request. The positions and budget in the request are:

2007 - 2009 Agency Budget Request		
Package	Description	Budget
110	Personal Services (57 Positions) Services and Supplies	\$ 5,545,047 <hr style="width: 20%; margin-left: auto; margin-right: 0;"/> 928,190
Total Budget Request		\$ 6,473,237

Total Strunk and Eugene Project Budget

The total project budget is the sum of the three requests defined above.

Total Project Budget		
Description	Budget	
2005 - 2007 Legislatively Adopted Budget	\$	3,614,164
2005 - 2007 Administratively Established Budget	\$	1,493,447
2007 - 2009 Agency Budget Request	\$	6,473,237
Total Budget	\$	11,580,848

Appendix

Appendix I – Key Risks

Key Risks

This section describes the key risks to the project

1. **Risk: RIMS Conversion Project (RCP)** – The Strunk and Eugene project will not be completed by the end of RCP Stage 2 when all job segments and related data are moved to jClarety from RIMS.

Consequence:

The benefit recalculations can no longer be done in the RIMS. This would end our Strunk and Eugene project as currently planned.

Contingency Plan:

We have three possible options:

- o Extend the project and adjust the RCP schedule accordingly,
- o Migrate the functionality to jClarety and continue the project in jClarety or
- o Back bridge (send) job segments to RIMS from jClarety.

Project staff are monitoring the concurrent project schedules and will amend the Strunk and Eugene project schedule if necessary to ensure project success.

2. **Risk: New Legislative or court actions** – Future Legislative actions or court rulings could impact the scope of the project.

Consequence:

Scope and /or schedule change.

Contingency Plan:

Evaluate the impact and realign the plan upon legislation or a court ruling.

Strunk and *Eugene* Project

Appendix II – Impacted Accounts

Impacted Accounts

UNIQUE ACCOUNTS	
Member & AP Retirements Post 3/1/00	34,000
Account Withdrawals (Members & AP's)	5,000
Final LSI for Retirements prior to 4/1/00	1,000
Pre Retirement Death Benefits	1,400
Non- Retired AP/Member Divisions	3,000
Re-employed Retiree's	140
 TOTAL ACCOUNTS	 44,540

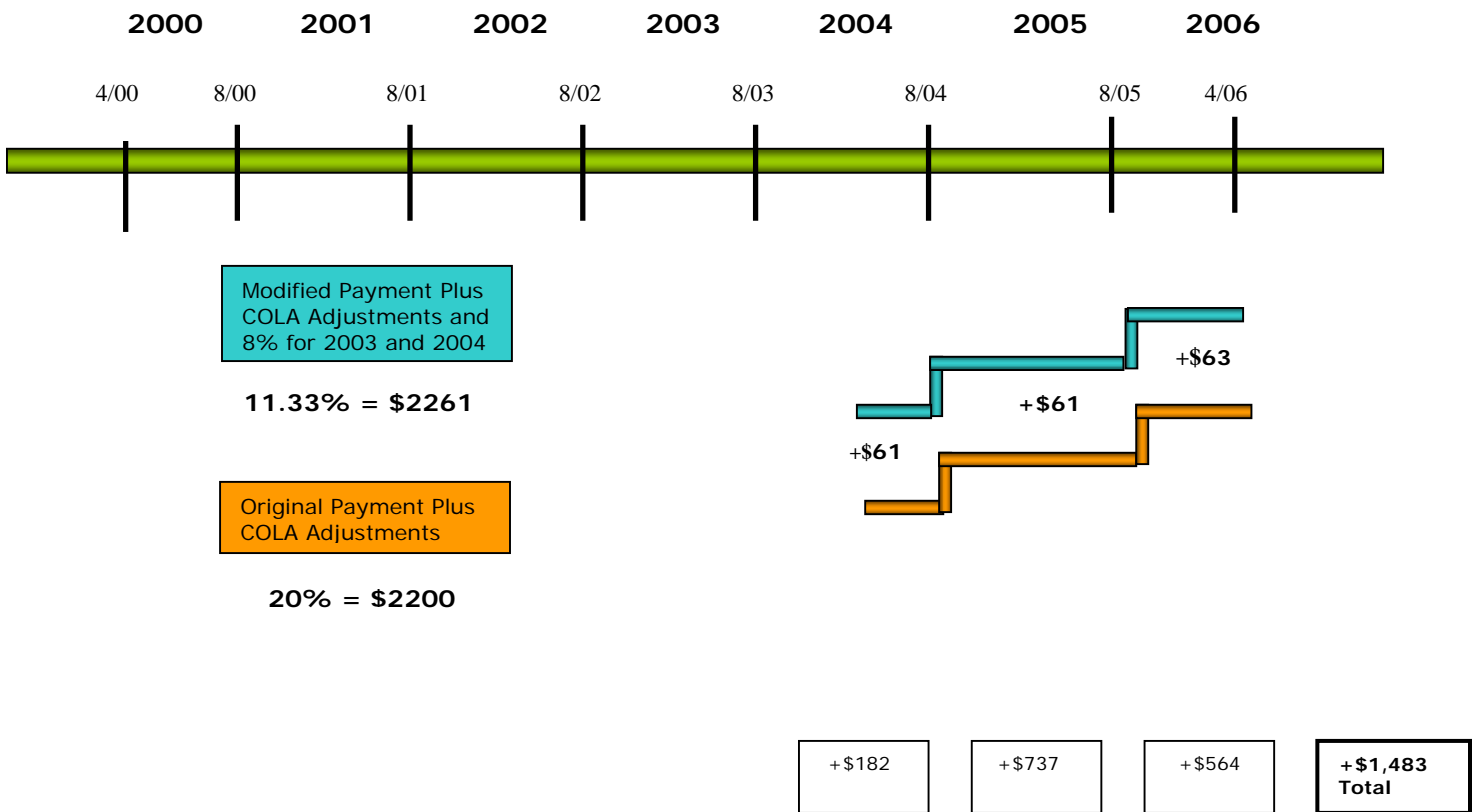
Strunk and Eugene Project

Appendix IV - Actuarial Reduction Method Example 2

Actuarial Reduction Method (ARM) Example

Example 2: The following example shows the impacts of reducing the 1999 earnings rate from 20% to 11.33%. The recipient's account balance was recalculated using the new rate and accruing 8% earnings for 2003 and 2004. This example shows that the recipient's monthly payment is increased by \$63 plus PERS owes them \$1,483 as of the adjustment date (April 1, 2006).

Strunk and Eugene Recalculation Example Retirement Date of April 2004 and Member Had No Variable The Benefit Adjustment Date is April 2006



NET RESULT: The member's monthly benefit is increased by \$63 and the PERS fund must pay them an additional \$1,483 as of the adjustment date.

The positive numbers represent the amount PERS owes the member for each year. The box on the bottom right is the sum total of all money owed as of the adjustment date.