



Oregon

John A. Kitzhaber, M.D., Governor

Public Employees Retirement System

Headquarters:
11410 S.W. 68th Parkway, Tigard, OR
Mailing Address:
P.O. Box 23700
Tigard, OR 97281-3700
(503) 598-7377
TTY (503) 603-7766
www.oregon.gov/pers

November 18, 2011

TO: Members of the PERS Board
FROM: Steven Patrick Rodeman, Deputy Director
SUBJECT: Recovery of Strunk/Eugene Overpayments

BACKGROUND

On October 6, 2011, the Oregon Supreme Court issued unanimous decisions in the *Arken*, *Robinson*, and *Goodson* cases. Together, these decisions validated the PERS Board's Order Adopting Repayment Methods, issued January 27, 2006, that set the framework for recovering the overpayments to benefit recipients caused by the re-crediting of 1999 earnings to 11.33% from the original 20%.

Under that order, benefit recipients who were paid based on the erroneous earnings crediting were given two options to repay the overpaid amounts:

1. Each recipient was to repay in a single lump sum unless the recipient was receiving monthly benefit payments.
2. Any recipient receiving a monthly benefit payment would repay the overpaid amount through an actuarial reduction of their monthly payment, unless the recipient chose to repay in a single lump sum.

Attorneys in the *Robinson* case filed a petition for reconsideration which, at this point, has neither been accepted nor rejected by the Supreme Court. Once that petition is resolved, assuming the Supreme Court denies the petition for reconsideration or otherwise affirms its current decisions, the Supreme Court will enter an appellate judgment which remands the *Robinson* case back to Judge Kantor in the Multnomah County Circuit Court. Then, the Circuit Court will enter a judgment on remand, reversing his earlier judgment, and the cases will finally be resolved. The time line for that resolution is at the discretion of the respective courts, but is expected to take several weeks.

RESUMING RECOVERY ACTIVITIES

When the Strunk/Eugene Adjustment project closed out in June 2009, all benefit payments had been recalculated based on the correct 1999 earnings crediting rate. On-going payments (retired members and beneficiaries with continuing monthly benefit payments or lump sum installments yet to be paid) were corrected as well. The remaining work to be done is to recover the overpayments that were made prior to these adjustments.

Memo on Recovery of *Strunk/Eugene* Overpayments

11/18/11

Page 2 of 2

Currently, that remaining workload is estimated to involve recovering \$156,333,437 in overpayments from 28,042 benefit recipients, spread across the following groups in the stated amounts:

Monthly Retirements	20,016	\$133,113,164
Lump Sum Retirements	1,372	\$11,458,293
Withdrawals	3,976	\$5,436,780
Police & Fire Unit Accounts	1008	\$403,200
Deceased Members (Received overpayment prior to death)	912	\$3,648,000
Beneficiaries (A survivor of a deceased person who is or has received benefits)	758	\$2,274,000

Under the Board's January 2006 order, those recipients still receiving monthly benefits will be given the option of either an actuarial reduction to recover the overpayment over the anticipated remaining period of those payments, or to return the overpayment in a lump sum. For those recipients who do not receive on-going benefits, we will recover the overpayment in a lump sum.

PERS staff will follow the established project methodology to develop and deploy the resources required to recover these overpayments. We have prepared the attached Business Case that is a high-level overview of the scope of that project. Our next step will be to create a project proposal to select the most reasonable approach to completing this project. In broad terms, the project proposal will be resource-loaded on the anticipated schedule of resuming recovery activities on or before April 1, 2012 (assuming the necessary preparation can be completed and the court processes have run their course), with a goal of completing the project's recovery activities no later than the close of calendar year 2012.

The agency currently does not have expenditure limitation or position authority to complete this recovery project. We anticipate the need to request that limitation and authority, most likely during the legislative session slated to start in February 2012.

C.2. Attachment 1 – Business Case, *Strunk/Eugene Overpayment Recovery*

Oregon Public Employees Retirement System

Business Case

Title: *Strunk/Eugene Overpayment Recovery*
Executive Sponsor: Steve Rodeman
Creation Date: 11/7/2011
Author: Paul Brown

Acceptance Sign-off:

By signing this document, you are approving the documents content and requesting that it be presented to the Steering Committee for their review & acceptance.

Signature and Title

Date

< Administrator >

Signature and Title

Date

< Business Sponsor >

Oregon Public Employees Retirement System

Revision History

Date	Description of the revision	Author's name
10/11/11	Original Draft	Paul M. Brown
10/19/11	Revised Draft	Paul M. Brown
10/28/11	Revised Draft	Paul M. Brown Steve Rodeman
11/7/11	Revised Draft	Steve Rodeman

DRAFT

Oregon Public Employees Retirement System

Table of Contents

Introduction	4
1. Description	5
2. High Level Requirements:	5
3. What are the benefits?	6
4. Who does it impact and how?	6
5. What other system or processes does this request impact?	7
6. What Business Rules and Processes are inputs to this project?	7
7. What is the impact to the organization if this operational need is not met?	7

DRAFT

Oregon Public Employees Retirement System

Business Case

Introduction

By Spring 2005, the Oregon courts had issued rulings in the *Strunk* and *Eugene* cases which established that overpayments had been made because of an erroneous earnings crediting order for calendar year 1999. PERS planned, developed, and began executing a plan to adjust ongoing benefits and recover those overpayments. The recovery effort included an Order Adopting Repayment Methods issued by the PERS Board on January 27, 2006. That order was executed for several months until subsequent legal challenges, the *Arken* and *Robinson* cases, resulted in an injunction against further collection efforts.

The *Strunk/Eugene* project did, however, complete its work to adjust ongoing benefits by the project deadline of June 30, 2009. Consequently, the debtor populations are identified, recalculations are completed, and invoices can be generated for those individuals for whom overpayment collection activities were enjoined (a small percentage of the recipients were invoiced and overpayments collected before the injunction was placed; that includes ongoing benefit payments that were reduced through the actuarial reduction method and lump sum payment recoveries).

On October 6, 2011, the Oregon Supreme Court found that the PERS Board's order was valid, which now triggers a renewed effort to collect the overpayments created out of the original *Strunk* and *Eugene* adjustments.

The renewed effort will require validating the debtor population and status and then communicating with each to determine how to proceed under the PERS Board's order.

Since the project was halted, PERS has had staff turnover and promotions; teams have been disbanded; Limited Duration positions have terminated; and a new operating system has been deployed to production.

With these changes, a new recovery plan will need to be developed. The PERS Board's order will be used as the framework for the new plan, unless the Board orders that different methods be used. Development of this plan will follow the agency's established project methodology.

This effort will again require multiple divisions working in concert to be efficiently completed. Also, support systems like functionality within the ORION system may either need to be developed or enhanced to be used to effectively process recovery efforts on a project of this scale.

Oregon Public Employees Retirement System

1. Description

What do you want to do?

Effectively recover the overpayments generated from the *Strunk/Eugene* benefit adjustments. This effort is estimated to involve recoveries an estimated \$156,333,437 in overpayments from 28,042 benefit recipients, spread across the following groups in the stated amounts:

Monthly Retirements	20,016	\$133,113,164
Lump Sum Retirements	1,372	\$11,458,293
Withdrawals	3,976	\$5,436,780
Police & Fire Unit Accounts	1008	\$403,200
Deceased Members (Received overpayment prior to death)	912	\$3,648,000
Beneficiaries (A survivor of a deceased person who is or has received benefits)	758	\$2,274,000

This project will implement technical and business process changes necessary to complete this recovery effort.

Why do you need to do this?

The recovery is in accordance with the PERS Board's January 27, 2006 Order Adopting Repayment Methods that was issued based on their fiduciary obligations as specified in ORS 238.715, Recovery of Overpayments, and the supporting administrative rules.

2. High Level Requirements:

To be successful, PERS shall recover, to the extent practicable, the overpayment amounts in the manner described in the PERS Board's order. That recovery includes adjust the on-going benefits for recipients still receiving monthly payments through the actuarial reduction method and executing a strategy to recover from those recipients who received benefits through a lump sum distribution. PERS shall also need to evaluate those overpayments that cannot be collected through practicable methods and account for those amounts accordingly. Some of the steps toward a successful execution of this project include:

- Refine and update the information on benefit recipients and the overpayment amounts owed by each.
- Develop an overall communication plan (e.g. web, call center, external communications, and letters) for those affected recipients as well as other stakeholders.

Oregon Public Employees Retirement System

- Determine what processes need to be changed or added to support the recovery effort under both the actuarial reduction method and lump sum; this determination includes reviewing options for out-sourcing recovery efforts and implementation of any necessary system enhancements, such as to ORION.
- Develop a resource plan to complete the recovery effort in a reasonable time, including the number and composition of the staff needed.

3. What are the benefits?

Tangible (benefits that can be assigned an accurate or quantifiable value)

Recovery of approximately \$156 million that was overpaid to PERS benefit recipients.

Intangible (benefits that CANNOT be assigned an accurate or quantifiable value)

Complies with the PERS Board's fiduciary responsibility to recover overpayments under Oregon law and is consistent with our Guiding Principles of being Trustworthy, Objective, Accountable, and Courageous.

4. Who does it impact and how?

The implementation of the PERS Board's order impacts all PERS divisions, as well as the benefit recipients and numerous other stakeholders. High-level impacts are noted below:

CSD:

- Member inquiries will increase customer service call volume.
- The project will need written communications in the form of letters and mailings.
- Member account flags will need to be corrected and cleared to facilitate the adjustments.

FSD:

- Invoice volume increases.
- Increased processing activity will require additional accounting entries and reconciliation efforts.
- Increased mail volume.
- Possible physical space needs.

BPD:

- Adjusting on-going benefits for those eligible for the actuarial reduction method.

PPLAD:

- Expected increase in contested case hearings.
- Increased policy guidance and support.
- Business rules review.

Oregon Public Employees Retirement System

ISD:

- Increase in record retention and work load.
- System enhancements development, construction, and deployment.

Human Resources

- Possible increase in recruitment and training of new staff.

Oregon tax payers, members, and the general public:

- Personal financial impact to the invoiced benefit recipients.
- Additional questions from the press and public directed to the legislature and other stakeholder groups as individual situations raise awareness and concerns about recovery efforts.

5. What other system or processes does this request impact?

Since this project affects virtually all divisions of PERS, the majority of systems will be impacted. Current processes will be modified and new processes will be developed.

6. What Business Rules and Processes are inputs to this project?

Although this effort is an extension of the previous recovery efforts, the previous Business Rules and processes may not apply. Considering the new system and lessons learned from the previous efforts, new rules and processes will be required.

7. What is the impact to the organization if this operational need is not met?

The agency would be in violation of ORS 238.715 by not recovering overpayments.

Oregon Public Employees Retirement System

Business Case

Title: *Strunk/Eugene Overpayment Recovery*
Executive Sponsor: Steve Rodeman
Creation Date: 11/7/2011
Author: Paul Brown

Acceptance Sign-off:

By signing this document, you are approving the documents content and requesting that it be presented to the Steering Committee for their review & acceptance.

Signature and Title

Date

< Administrator >

Signature and Title

Date

< Business Sponsor >

Oregon Public Employees Retirement System

Revision History

Date	Description of the revision	Author's name
10/11/11	Original Draft	Paul M. Brown
10/19/11	Revised Draft	Paul M. Brown
10/28/11	Revised Draft	Paul M. Brown Steve Rodeman
11/7/11	Revised Draft	Steve Rodeman

DRAFT

Oregon Public Employees Retirement System

Table of Contents

Introduction	4
1. Description	5
2. High Level Requirements:	5
3. What are the benefits?	6
4. Who does it impact and how?	6
5. What other system or processes does this request impact?	7
6. What Business Rules and Processes are inputs to this project?	7
7. What is the impact to the organization if this operational need is not met?	7

DRAFT

Oregon Public Employees Retirement System

Business Case

Introduction

By Spring 2005, the Oregon courts had issued rulings in the *Strunk* and *Eugene* cases which established that overpayments had been made because of an erroneous earnings crediting order for calendar year 1999. PERS planned, developed, and began executing a plan to adjust ongoing benefits and recover those overpayments. The recovery effort included an Order Adopting Repayment Methods issued by the PERS Board on January 27, 2006. That order was executed for several months until subsequent legal challenges, the *Arken* and *Robinson* cases, resulted in an injunction against further collection efforts.

The *Strunk/Eugene* project did, however, complete its work to adjust ongoing benefits by the project deadline of June 30, 2009. Consequently, the debtor populations are identified, recalculations are completed, and invoices can be generated for those individuals for whom overpayment collection activities were enjoined (a small percentage of the recipients were invoiced and overpayments collected before the injunction was placed; that includes ongoing benefit payments that were reduced through the actuarial reduction method and lump sum payment recoveries).

On October 6, 2011, the Oregon Supreme Court found that the PERS Board's order was valid, which now triggers a renewed effort to collect the overpayments created out of the original *Strunk* and *Eugene* adjustments.

The renewed effort will require validating the debtor population and status and then communicating with each to determine how to proceed under the PERS Board's order.

Since the project was halted, PERS has had staff turnover and promotions; teams have been disbanded; Limited Duration positions have terminated; and a new operating system has been deployed to production.

With these changes, a new recovery plan will need to be developed. The PERS Board's order will be used as the framework for the new plan, unless the Board orders that different methods be used. Development of this plan will follow the agency's established project methodology.

This effort will again require multiple divisions working in concert to be efficiently completed. Also, support systems like functionality within the ORION system may either need to be developed or enhanced to be used to effectively process recovery efforts on a project of this scale.

Oregon Public Employees Retirement System

1. Description

What do you want to do?

Effectively recover the overpayments generated from the *Strunk/Eugene* benefit adjustments. This effort is estimated to involve recoveries an estimated \$156,333,437 in overpayments from 28,042 benefit recipients, spread across the following groups in the stated amounts:

Monthly Retirements	20,016	\$133,113,164
Lump Sum Retirements	1,372	\$11,458,293
Withdrawals	3,976	\$5,436,780
Police & Fire Unit Accounts	1008	\$403,200
Deceased Members (Received overpayment prior to death)	912	\$3,648,000
Beneficiaries (A survivor of a deceased person who is or has received benefits)	758	\$2,274,000

This project will implement technical and business process changes necessary to complete this recovery effort.

Why do you need to do this?

The recovery is in accordance with the PERS Board's January 27, 2006 Order Adopting Repayment Methods that was issued based on their fiduciary obligations as specified in ORS 238.715, Recovery of Overpayments, and the supporting administrative rules.

2. High Level Requirements:

To be successful, PERS shall recover, to the extent practicable, the overpayment amounts in the manner described in the PERS Board's order. That recovery includes adjust the on-going benefits for recipients still receiving monthly payments through the actuarial reduction method and executing a strategy to recover from those recipients who received benefits through a lump sum distribution. PERS shall also need to evaluate those overpayments that cannot be collected through practicable methods and account for those amounts accordingly. Some of the steps toward a successful execution of this project include:

- Refine and update the information on benefit recipients and the overpayment amounts owed by each.
- Develop an overall communication plan (e.g. web, call center, external communications, and letters) for those affected recipients as well as other stakeholders.

Oregon Public Employees Retirement System

- Determine what processes need to be changed or added to support the recovery effort under both the actuarial reduction method and lump sum; this determination includes reviewing options for out-sourcing recovery efforts and implementation of any necessary system enhancements, such as to ORION.
- Develop a resource plan to complete the recovery effort in a reasonable time, including the number and composition of the staff needed.

3. What are the benefits?

Tangible (benefits that can be assigned an accurate or quantifiable value)

Recovery of approximately \$156 million that was overpaid to PERS benefit recipients.

Intangible (benefits that CANNOT be assigned an accurate or quantifiable value)

Complies with the PERS Board's fiduciary responsibility to recover overpayments under Oregon law and is consistent with our Guiding Principles of being Trustworthy, Objective, Accountable, and Courageous.

4. Who does it impact and how?

The implementation of the PERS Board's order impacts all PERS divisions, as well as the benefit recipients and numerous other stakeholders. High-level impacts are noted below:

CSD:

- Member inquiries will increase customer service call volume.
- The project will need written communications in the form of letters and mailings.
- Member account flags will need to be corrected and cleared to facilitate the adjustments.

FSD:

- Invoice volume increases.
- Increased processing activity will require additional accounting entries and reconciliation efforts.
- Increased mail volume.
- Possible physical space needs.

BPD:

- Adjusting on-going benefits for those eligible for the actuarial reduction method.

PPLAD:

- Expected increase in contested case hearings.
- Increased policy guidance and support.
- Business rules review.

Oregon Public Employees Retirement System

ISD:

- Increase in record retention and work load.
- System enhancements development, construction, and deployment.

Human Resources

- Possible increase in recruitment and training of new staff.

Oregon tax payers, members, and the general public:

- Personal financial impact to the invoiced benefit recipients.
- Additional questions from the press and public directed to the legislature and other stakeholder groups as individual situations raise awareness and concerns about recovery efforts.

5. What other system or processes does this request impact?

Since this project affects virtually all divisions of PERS, the majority of systems will be impacted. Current processes will be modified and new processes will be developed.

6. What Business Rules and Processes are inputs to this project?

Although this effort is an extension of the previous recovery efforts, the previous Business Rules and processes may not apply. Considering the new system and lessons learned from the previous efforts, new rules and processes will be required.

7. What is the impact to the organization if this operational need is not met?

The agency would be in violation of ORS 238.715 by not recovering overpayments.



Oregon

John A. Kitzhaber, M.D., Governor

Public Employees Retirement System

Headquarters:
11410 S.W. 68th Parkway, Tigard, OR
Mailing Address:
P.O. Box 23700
Tigard, OR 97281-3700
(503) 598-7377
TTY (503) 603-7766
www.oregon.gov/pers

November 18, 2011

TO: Members of the PERS Board
FROM: Debra Hembree, Acting Actuarial Services Manager
SUBJECT: GASB Proposed Changes to Employer Financial Reporting Standards

The Governmental Accounting Standards Board (GASB) has been engaged since early 2006 in a multi-year project to reexamine the current standards for public pension accounting and financial reporting.

On November 18 Matt Larrabee and Scott Preppernau of Mercer will discuss the GASB proposed changes and the potential effects on governmental financial reporting for PERS and our some 915 participating employers.

This presentation is informational only and will not require Board action.

When it becomes available, Mercer's presentation will be provided to the Board and posted on the agency website.