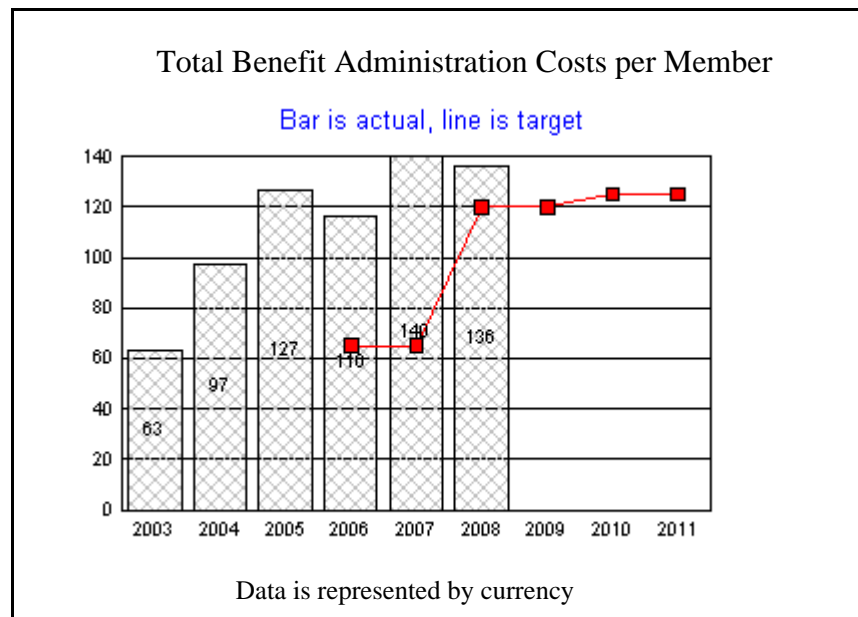


KPM #2	TOTAL BENEFIT ADMIN COSTS: Total benefit administration costs per member.	2006
Goal	Reduce administrative costs while maintaining high level of service to members and employers.	
Oregon Context	Oregon Benchmark #35: Public Management Quality and Benchmark #9c: Cost of Doing Business/ Taxes & Charges. Increase service cost-effectiveness to stakeholders.	
Data Source	Budget/personnel statistics, PERS CAFR, PERS retirement and refund statistics, report from CEM Benchmarking, Inc. comparing PERS to its peers.	
Owner	Fiscal Services Administrator Dave Tyler, 503-603-7709	



1. OUR STRATEGY

PERS strives to deliver high-quality, cost-effective 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/Eugene

project and the Retirement Information Management System (RIMS) Conversion Project will help to reduce PERS' annual operating expenditures. As evidence of this, the Agency Request Budget for 2009-11 reflects a decrease from the 2007-09 Legislatively Adopted Budget, despite significant projected inflationary cost increases.

2. ABOUT THE TARGETS

The targets for the 2005-07 biennium were set based on the previous data format that included some confusing adjustments mirroring the cost comparison calculations used by a benefit administration comparison consultant, CEM Benchmarking, Inc. CEM makes these adjustments to compare retirement systems on an "equal" plane. Unfortunately, this renders the resulting measurement of PERS' adjusted costs much less relevant to stakeholders. To correct this, PERS 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. The targets from 2008 and forward represent the new data structure, and all actual data have been updated to the new data structure. The targets for 2009-11 include an increase for inflation. The goal is to keep the costs at or below the targeted level.

3. HOW WE ARE DOING

For 2008, PERS' cost per member is \$136, down from \$140 in 2007. This is an improvement over the higher costs in 2007, and demonstrates improved progress towards the target. But it also continues the trend of a higher cost retirement system that is a result of administering multiple retirement programs and a number of special projects. The costs have been greater over the last four 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 PERS retirement 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, while operating in an environment of increasing workload per member and cost inflation.

4. HOW WE COMPARE

PERS uses the services of a third-party benchmarking firm (CEM Benchmarking, Inc.) to compare its costs, services, and performance to other public retirement systems. CEM Benchmarking makes various adjustments in calculating total cost figures to make comparisons amongst differing systems more realistic. For this reason, PERS will focus on how it compares to its peers on an individual activity level rather than the adjusted overall cost figure presented by CEM. Since the 2008 CEM Benchmarking Analysis has not yet been published, these comparisons are based on the 2007 analysis report.

For 2007, CEM Benchmarking, Inc. reported that while PERS' costs were higher than its peers for many activities, there were also a number of

activities where 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 (\$374 vs. \$276), Benefit Estimates (\$90 vs. \$76), Employer Billing and Inspection (\$396 vs. \$186), Employer Data (\$22 vs. \$11), Services to Employers (\$3,574 vs. \$704), Refunds (\$281 vs. \$37), Disability (\$3,246 vs. \$1,414), Financial Admin/Oversight (\$12 vs. \$7), Rules Design and Interpretation (\$13 vs. \$4) and Major Projects (\$33 vs. \$8). On the other hand, PERS was less expensive per member/employer served than its peer median for activities like Paying Pensions (\$7 vs. \$14), Counseling, Member Contact and Mass Communication (\$78 vs. \$111), and Purchases (\$46 vs. \$233).

5. FACTORS AFFECTING RESULTS

Total administrative costs are down by \$1.7 million from 2007. Also, because the membership numbers have increased over 2007, the result is a decrease to the cost per member. Personal Services costs have increased as a result of the 2007-09 state employee COLA package and management compensation package. But these cost increases have been mitigated somewhat by other savings efforts. Because of some concerns earlier in the fiscal year that PERS would not receive budget limitation for the compensation packages, PERS put plans in place to cut spending. An internal hiring freeze was imposed in February and each division put together spending reduction plans in case there would be no budget increase for the compensation packages. While this made operations much more difficult during that time period, there was additional budget approved for a portion of the compensation packages at the June 2008 E-Board. This has allowed PERS to return to a more effective staffing and service level.

6. WHAT NEEDS TO BE DONE

Retiree volume and workload will increase over the next five to ten years with the inevitable retirement of the large number of members who are already (or soon will be) eligible to retire. But PERS is committed to limit cost increases in proportion to the workload increase through process and organization efficiencies and improved IT system capabilities. With the current policy option packages included in the 2009-11 Agency Request Budget, PERS is positioning itself to be staffed, organized, and technologically supported to handle the projected increasing workload with greater efficiency. The goal is to mitigate potential significant cost increases with the IT system conversion, continuous process improvements, and staffing productivity gains and efficiencies.

7. ABOUT THE DATA

This measure is based on data for the Oregon fiscal year period. The cost per member is calculated by dividing the total administrative expenses as reported in the PERS Comprehensive Annual Financial Report (CAFR) by the total membership including all active, inactive, and retired members (including current year lump sum and withdrawal recipients).