LFO Revised Budget Form #107BF04c

Public Employees Retirement System
Annual Performance Progress Report (APPR)
for Fiscal Year 2006-07

Submission Date: September 28, 2007

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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.

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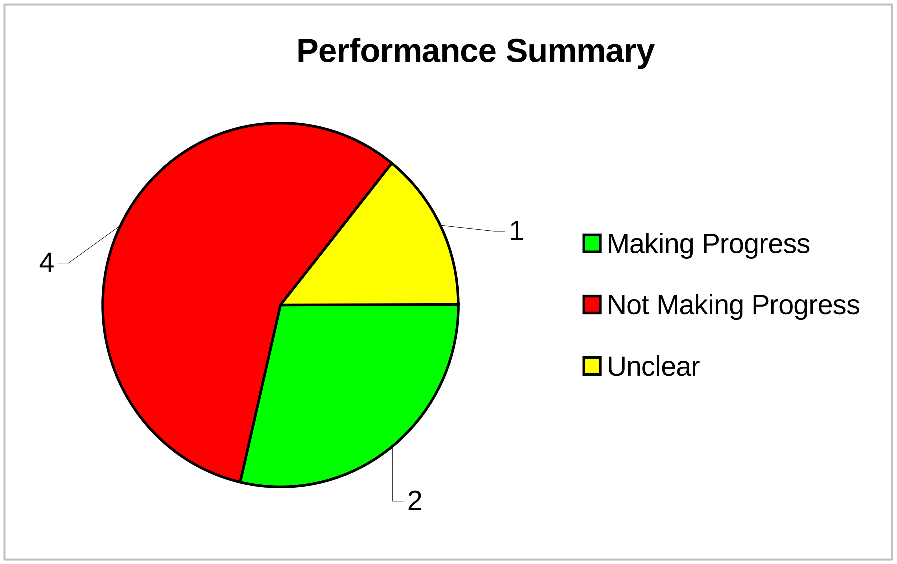

1. SCOPE OF REPORT

The Public Employees Retirement System (PERS) provides a full range of retirement services to public employers and public employees throughout the State of Oregon. These services are provided to approximately 880 state and local government entities across the State. The agency administers the Tier One and Tier Two Retirement Programs (ORS 238), the Oregon Public Service Retirement Plan (or OPSRP, ORS 238A) pension program, the Individual Account Program (IAP), the Oregon Savings Growth Plan (a deferred compensation program), the Public Employee Benefit Equalization Fund, the Social Security Administration program, and the Retiree Health Insurance program. With the Debt Service program, PERS also administers the financing of two projects that were funded by Certificates of Participation.

PERS programs addressed by these measures: Tier One-Tier Two Programs, Oregon Public Service Retirement Plan (OPSRP) pension program, the Individual Account Program, the Benefit Equalization Fund (KPMs #1-4 and 7 address these programs together), and the Deferred Compensation Program (KPMs #5-6)

PERS programs not addressed by these measures: Retiree Health Insurance program, the Social Security Administration program and Debt Service.

2. THE OREGON CONTEXT

The program operations of PERS have a significant impact on Oregon's economy. PERS provides retirement services to roughly 10 percent of Oregon's population, and the agency distributes $2.6 billion in benefits annually to Oregonians that served in the public sector. This large and widespread distribution of benefit payments (over $200 million each month) has a direct impact on the Oregon economy.

The Tier One-Tier Two, OPSRP and IAP programs provide retirement services to approximately 216,000 non-retired members and 115,000 retirees and beneficiaries. The retiree Health Insurance program serves as a group sponsor, providing health insurance services to approximately 50,000 retirees and dependents. With approximately 10 percent of Oregonians directly affected (and many more who are family members of those directly affected), the importance of delivering high-quality, cost-efficient services is evident.

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3. PERFORMANCE SUMMARY

Two KPMs, Average Dollars Deferred By Participant (page 14) and Customer Satisfaction (page 18) are making progress, while four KPMs, Annuity Pension Inceptions (page 4), Total Benefit Admin Costs w/projects (page 8), Member to Staff Ratio (page 11) and Level of Participation (page 16) are not yet making progress. For the Total Benefit Admin Costs w/o projects (page 6), progress is unclear, as this KPM has been approved for deletion for 2007-09, and the 2007 data is not yet available in the existing format.

4. CHALLENGES

There are several key challenges facing the PERS Retirement Programs. An aging membership, including 28% of PERS members who are eligible to retire, increases demands for near-retirement services including the call center, benefit estimates, group presentations and website. Likewise, the number of retired members and beneficiaries who require regular contact and services continues to grow. There is increased workload resulting from two additional retirement programs added with PERS reform. PERS now administers four major retirement programs, maintains at least two accounts for each member with two associated annual statements, and pays two retirement benefits or two withdrawal benefits and issues two 1099-R statements for each retiree. PERS must continue to rely on an outdated information technology system (RIMS), which has caused reduced service levels, workload backlogs, additional work-arounds, and inefficient utilization of agency resources. Adding to these challenges is the substantial amount of work necessary to comply with the *Strunk* and *Eugene* Oregon Supreme Court rulings that affected some 190,000 active and inactive member accounts, and approximately 55,000 retired, withdrawn or otherwise impacted benefit recipient accounts. While PERS service and efficiency levels have been dramatically impacted, the agency is prioritizing additional action to ensure that the deterioration has been halted and a foundation for rapid improvements is set in place.

One challenge impacting the Deferred Compensation Program (OSGP) is the large number of soon-to-retire baby boomers. The large number of upcoming retirements will have an impact on the participation level as many withdraw or roll their accounts to other institutions. This will also impact participation rates and the average deferral levels, as younger and lower-paid employees replace those retiring from the workforce, who both participated and deferred at hjgher levels in the later stages of their careers. Despite these challenges, the OSGP is taking steps to keep eligible employees and participants educated about the advantages of participating in this supplemental retirement savings program.

5. RESOURCES USED AND EFFICIENCY

For 2007, PERS expended $46.5 million in administrative and special project expenditures, and $2.9 billion in total expenditures (this includes benefit payments). Efficiency measures include KPM #2 and #3 – Total Benefit Administration Costs (with and without special projects), and #4 Member to Staff Ratio. The performance in these measures demonstrates that PERS is currently undertaking a multitude of special projects and operations (e.g. the *Strunk* and *Eugene* project and RIMS Conversion Project) while simultaneously administering a rapidly changing and increasing core program workload. Some of this inefficiency will be resolved as PERS completes projects designed to shift the agency from staff intensive processes to more efficient automated processes. With the completion of some special projects, various limited duration positions will also be eliminated, reducing cost and staffing levels.

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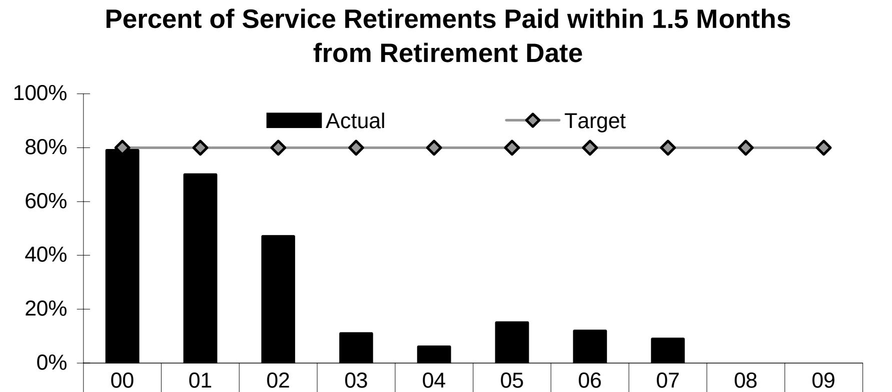
KPM #1	SERVICE RETIREMENTS Percent of service retirements paid within 1.5 months from retirement date.	Measure since: 1995
Goal	To deliver retirement benefits effectively and efficiently.	
Oregon Context	Oregon Benchmark #58: Independent Seniors. Encourage member independence and financial well-being into retirement.	
Data source	Benefit Payments Division (BPD) statistics.	
Owner	BPD Administrator Patrick Teague, 503-431-8259	



	00	01	02	03	04	05	06	07	08	09
Actual	79%	70%	47%	11%	6%	15%	12%	9%		
Target	80%	80%	80%	80%	80%	80%	80%	80%	80%	80%

1. **OUR STRATEGY**

PERS' main priority is delivering benefits to members in an accurate and timely manner. While statute requires PERS to issue the first benefit payment within 92 days from retirement date, PERS' goal is to provide even quicker service to reduce potential cash flow interruption for the retiree.

2. **ABOUT THE TARGETS**

The target of 80% was set many years ago. While many factors have caused performance to drop significantly, the goal is still to provide the first benefit payment as quickly and accurately as possible.

3. **HOW WE ARE DOING**

During 2007, PERS issued 9% of its pension inceptions within 1.5 months of the retirement date, down slightly from 12% in 2006. This continues the trend of lower performance over the last five years. While performance remained above 70% in the years prior to 2002, it has hovered between 6% and 15% since 2003, when PERS reform created two new programs (OPSRP and IAP) and revised the Tier One-Tier Two program while also triggering a record number of retirements.

4. **HOW WE COMPARE**

When compared to other pension systems peers, PERS lags behind in this area of service. According to CEM Benchmarking, Inc. (a Benefit Administration benchmarking firm), other pension systems in PERS' peer group were able to pay 75% of pension inceptions within one month of the final pay check date in 2006. While this is significantly higher than PERS' performance, it is important to note that other systems have different statutory requirements and fewer program options than PERS. Moreover, pension systems in PERS' peer group issue 73% of their initial benefit payments based on estimates (making corrections and finalizing the benefit later on), rather than issuing finalized benefit payments as PERS strives to produce (PERS only issued 3.5% of initial payments based on estimates in 2007).

5. **FACTORS AFFECTING RESULTS**

Factors affecting the timeliness of retirement processing include delays in receiving correct final data from employers, complex eligibility standards and reporting requirements, and retirement application errors that delay the process. Employers have 30 days following an employee's retirement to send the final data to PERS. With this KPM measuring the standard of retirements processed in 45 days, this leaves a narrow window of time between the Employer's timeframe, and that of this measure. Also, the retirement applications have sometimes been confusing for members to complete, resulting in errors that lengthen the retirement processing duration.

In general, PERS would have a difficult time keeping pace with its peers in this category due to its multi-faceted, multiple tiered system, which makes the pension inception process much more difficult, and due to PERS' desire to issue final rather than estimated benefits. But recent factors have caused service levels to slip significantly. This drop in service can be attributed to statutory changes made to the PERS Tier One-Tier Two programs, and the concurrent implementation of two new programs (OPSRP and IAP). These structural and legal changes were coupled with the associated *Strunk* and *Eugene* court rulings and the inability of PERS' IT systems to accommodate those changes. As a result, PERS has been forced to use more desktop application supported and time consuming processes to calculate member benefits, while simultaneously facing an increasing retirement workload.

6. **WHAT NEEDS TO BE DONE**

This data is being used in support of plans and projects currently underway to update and replace PERS' outmoded IT system. Once the IT system upgrade has been fully implemented in late 2009, PERS will begin the process of converting many of its benefit inception procedures to much more automated processes. This will help to speed up the service and return the performance to higher service levels.

Additionally, resources for a Retirement Application Assistance program were added to PERS' base budget in the 2007-09 Legislative Ways and Means process. This program, along with retirement application form improvements will greatly help employees to complete the retirement forms fully and accurately, in turn helping to speed up the retirement processing timeframe.

7. **ABOUT THE DATA**

This data is being reported on the Oregon Fiscal Year basis. While the integrity of this data has not been in question, previous wording of this KPM made analysis of the data confusing. A wording change was approved for 2007-09 to make the data much easier to communicate and understand.

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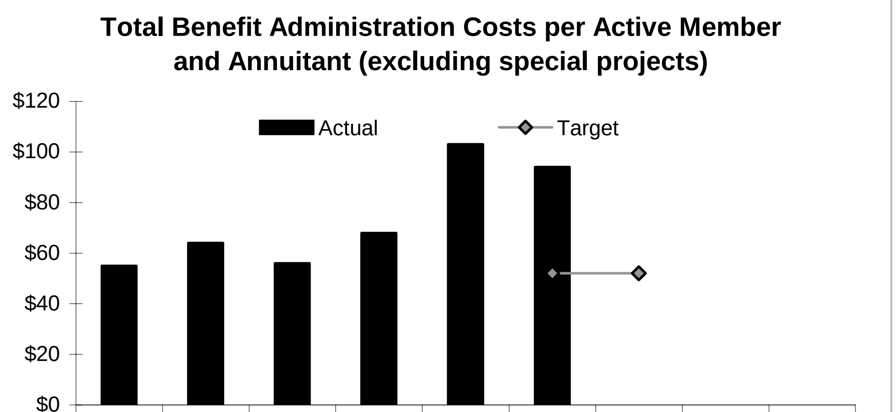
KPM #2	TOTAL BENEFIT ADMINISTRATION COSTS Total benefit administration costs per active member and annuitant (excluding special projects).	Measure since: 2006
Goal	Reduce administrative costs while maintaining high level of service to members and employers.	
Oregon Context	Oregon Benchmark #35: Public 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	



	01	02	03	04	05	06	07	08	09
Actual	$55	$64	$56	$68	$103	$94			
Target						$52	$52		

1. **OUR STRATEGY**
   NOTE: This KPM approved for deletion for 2007-09 biennium. This KPM depends on data from a third-party benchmarking consultant, which will not be available until early 2008. As a result, no FY2007 data is being reported in this Annual Performance Progress Report.

   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. PERS long-term approach is to make processes more efficient through automation, and reduce the need for staff intensive desktop procedures.

2. **ABOUT THE TARGETS**
   The 2005-07 targets were set based on peer performance reported by a benefit administration comparison expert, CEM Benchmarking, Inc. The targets were aligned with the median value of PERS' peer group at the time of 2005-07 budget development, and the aim was to be at or below this value. This KPM was approved for deletion for 2007-09. This measure is redundant with 2005-07 KPM #3 Total Benefit Administration Costs per Member, and it involves subjective exclusions of "project" costs, supplemental benefit costs and inactive members, in order to match the model presented by CEM Benchmarking, Inc. Additionally, this KPM is dependant on data provided by CEM Benchmarking, Inc. that is often not available by the time the APPR is due each year. This measure does not add value beyond the other existing KPMs, and PERS feels it is more meaningful to management and stakeholders to present the full cost per full membership base. Because of this KPM's deletion, no future targets have been established.

3. **HOW WE ARE DOING**
   PERS operating costs (excluding special projects) have risen since 2003, with the implementation of new and revised retirement programs following PERS reform. While costs remained between $55 to $65 per Active Member and Retiree from 2001 to 2003, they climbed to a high of $103 in 2005. While the 2006 cost of $94 per Active Member and Retiree remains high as compared to those earlier years, it is down 10% from the previous year's level.

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4. **HOW WE COMPARE**

   In 2006, CEM Benchmarking, Inc. reported that the average cost (less special projects) per active member and retiree amongst PERS' peers was $68. While PERS' costs for 2006 are down to $94 per active/retiree, it does remain higher than average peer levels reflecting higher transaction volumes per member, more extensive employer data collection and services, extensive benefit reviews and adjustments in response to court actions, and less automation than our peers.

5. **FACTORS AFFECTING RESULTS**

   PERS' per member/retiree costs are currently above the peer median cost of other similar size pension systems. PERS' operations are currently more staff intensive and expensive than other pension systems because of the continuing challenges of implementing the 2003 reform legislation, administering a multi-faceted, multiple tiered system, and having an outmoded IT infrastructure that is also undergoing conversion. Costs are also impacted by the large amount of "re-work" associated with the *Strunk* and *Eugene* rulings.

6. **WHAT NEEDS TO BE DONE**

   PERS is committed to having its operating expenditures comparable with industry standards and similarly composed retirement systems. Successful completion of the *Strunk* and *Eugene* project (currently scheduled for completion in June 2009) will reduce PERS staffing levels by over 40 FTE. Other long-term cost savings will be realized when PERS completes the conversion of its outdated Retirement Information Management System (RIMS), which is scheduled for completion by December of 2009. This IT system conversion will allow PERS to replace many of its current desktop application supported processes with more cost efficient automated processes.

7. **ABOUT THE DATA**

   This measure is based on data for the Oregon fiscal year period. All of PERS' cost and volume related data is submitted to CEM Benchmarking, Inc in the form of an annual benefit administration survey they conduct involving over 55 leading global pension systems (27 in the US). The fiscal year data is submitted each October, and CEM compiles the data and prepares a customized report for PERS that is released in January. This comprehensive report summarizes PERS' data and performance compared to that of its peers. As a result of these timelines, the current year data (FY2007) is not available until the report from CEM is published in early 2008. This is one of the contributing reasons why this KPM has been approved for deletion for 2007-09.

   This measure is based on PERS' total annual expenditures as reported in its CAFR. For comparison purposes with the CEM Benchmarking model, all of the supplemental benefit expenditures are pulled out (for PERS this includes costs related to the Deferred Comp and retiree Health Insurance programs), because CEM found that many of the pension systems supported a wide range of varying supplemental benefit programs (or none at all), and it was very difficult to compare that aspect from system to system. This measure also pulls out special project costs. CEM defines these as capital projects or very rare one-time projects outside the course of normal business (and they limit what is applied to that category).

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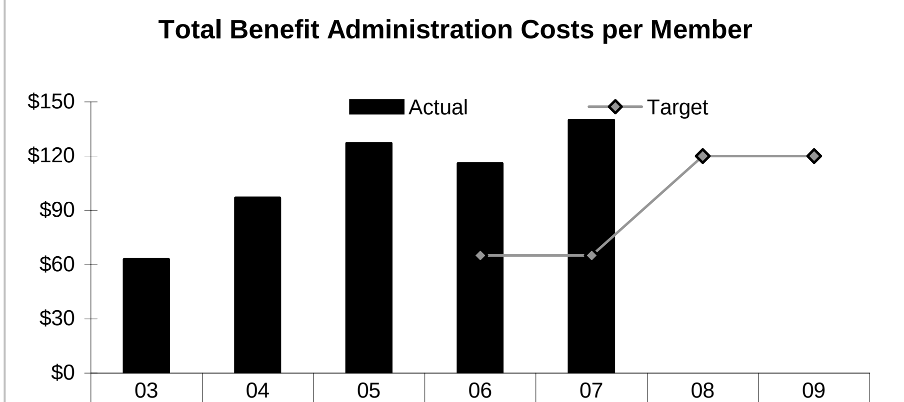
KPM #3	TOTAL BENEFIT ADMINISTRATION COSTS Total benefit administration costs per active member and annuitant (INCLUDING special projects).	Measure since: 2006
Goal	Reduce administrative costs while maintaining high levels of service to members and employers.	
Oregon Context	Oregon Benchmark #35: Public 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	



	03	04	05	06	07	08	09
Actual	$63	$97	$127	$116	$140		
Target				$65	$65	$120	$120

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.

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

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.

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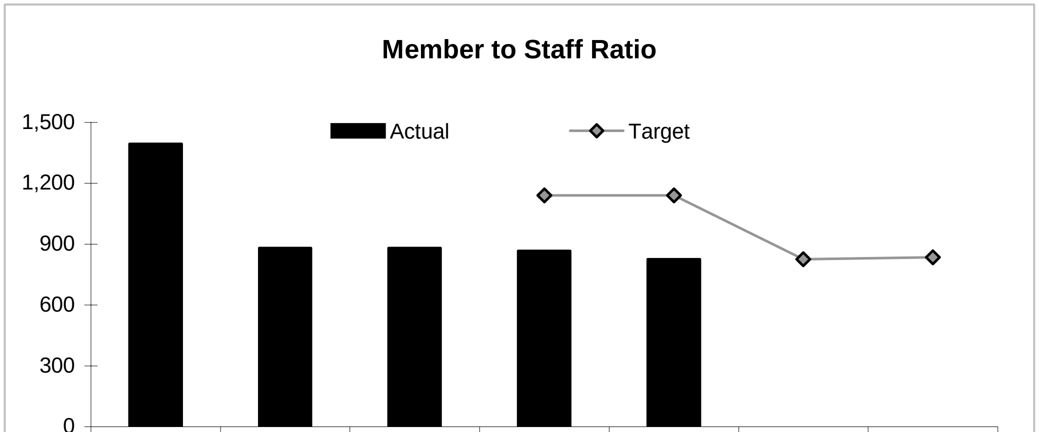
KPM #4	MEMBER TO STAFF RATIO Ratio of Active Members and Annuitants to full-time equivalent (FTE) staff.	Measure since: 2006
Goal	Increase productivity of staff to improve service to members and retirees.	
Oregon Context	Oregon Benchmark #35: Public Management Quality. Increase efficiency of service to members.	
Data source	Budget/personnel statistics, report from CEM Benchmarking, Inc. comparing PERS to its peers.	
Owner	Fiscal Services Administrator Dave Tyler, 503-603-7709	



	03	04	05	06	07	08	09
Actual	1,394	881	880	866	826		
Target				1,140	1,140	825	835

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 aims to deliver high-quality service while remaining cost-efficient. In order to accomplish this PERS needs to keep staffing numbers reasonable while continuing to meet statutory obligations and without sacrificing service.

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. The targets for these years were aligned with the median value of PERS' peer group, and the aim was to be at or below this value, subject to adjustment for varying program types. But the staff ratio measure used by CEM omits staffing associated with supplemental benefit programs (Deferred Compensation and Retiree Health Insurance), and inactive members. CEM makes these omissions when comparing retirement systems, because the numbers vary greatly from system to system. But these adjustments make the data less meaningful to PERS stakeholders, and it cannot be tied to any published PERS documents. So PERS has implemented data changes with this KPM and the previous Cost per Member KPM. The data changes will allow PERS to present this KPM using actual verifiable data as published in its CAFR and official personnel reports. The long-range goal is to gradually increase the number of members served per employee through technology enhancements and process improvements to be implemented over the next two biennia. The approved targets for 2007-09 are based on projected membership levels for that biennium, and the staffing included in the Agency Request Budget.

3. **HOW WE ARE DOING**

PERS' member to staff ratio decreased to 826:1 in 2007, down from 866:1 in 2006. This continues the trend of lower staff to member ratios since 2003. Over the course of those three years, the ratio has remained in the 825-880 range, reflecting the two new retirement programs created under the 2003 PERS reform, the associated workload increases, and the special projects ongoing throughout that period.

4. **HOW WE COMPARE**

Since PERS is moving away from using the adjusted staffing and membership criteria used by CEM Benchmarking, PERS will instead focus on how it compares to its peers on an individual benefit administration activity level. The 2007 CEM Benchmarking Analysis has not yet been published, so these comparisons are based on the 2006 analysis report. For Fiscal Year 2006, CEM Benchmarking, Inc. reported that PERS is higher staffed (thus serving fewer members and employers per FTE staff) than many of its peers. But although PERS serves fewer members or employers per FTE for many benefit administration activities, there are also activities that PERS serves more per FTE than its peers. When compared to its peer median, PERS served fewer members per single FTE for activities like Pension Inceptions (215 vs. 416), Written Estimates (1,744 vs. 2,056), Mass Communication (18,795 vs. 25,094), Refunds (465 vs. 2,444) and Disability (45 vs. 104). But PERS was able to serve more members per single FTE than its peer median for activities like Paying Pensions (16,613 vs. 11,804), Group Counseling and Member Contacts (17,401 vs. 15,141) and Purchases (1,656 vs. 729).

5. **FACTORS AFFECTING RESULTS**

When comparing the 2007 results to those of 2006, it is important to note that the FTE count increased in FY07 due to the ramping up of the *Strunk* and *Eugene* project. This trend is expected to continue through much of the 2007-09 biennium.

In considering the peer comparison results listed above, it should be noted that PERS was observed to be the second most complex system among 20 other similar sized public pension systems as identified in the CEM Benchmarking, Inc. survey. This complexity is driven by PERS' service to multiple classes of public employees, including part-time employees, the large number of retirement options, multiple retirement benefit calculations, and a number of other benefit add-ons. The complexity has made it difficult to provide automated IT based applications and solutions, particularly given the outmoded nature of its Retirement Information Management System (RIMS), which requires more staff to provide basic services. Moreover, PERS is currently doing a substantial amount of "re-work" to comply with the *Strunk* and *Eugene* rulings that affected some 190,000 active and inactive member accounts, and approximately 55,000 retired, withdrawn, or otherwise impacted benefit recipient accounts.

The 2003 PERS reform legislation has contributed to increased staffing by adding two new retirement programs (OPSRP and IAP). PERS went from an agency of 273 positions in FY 01-03 to 420 positions in FY 03-05 when the reform legislation implementation began and many permanent and limited duration staff were added. PERS' Legislatively Approved Budget for 2007-09 includes staffing of 396 positions (390.7 FTE).

6. **WHAT NEEDS TO BE DONE**

Demographic research shows that in the next five-to-ten years, there will be a surging number of members who qualify for retirement benefits. The total number of living retirees will also continue to grow. While the rising volume of retirements is an issue facing most public pension systems, PERS has the additional burden of an outmoded IT system, which causes PERS' disproportionately higher staffing needs. This situation is expected to continue until the legacy IT systems can be replaced and the operational demands of statutory changes, program expansions (OPSRP and IAP) and the *Strunk* and *Eugene* court rulings are accommodated.

And with the completion of projects staffed by limited duration employees, like the *Strunk/Eugene* project, staffing levels will drop accordingly. In the long-term, projects like the RIMS Conversion project will also lead to a more automated-processes approach, lowering PERS' dependency on staff-intensive desktop application 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 implementing data changes with this KPM in order to make it more relevant to stakeholders and to make the data more easily verifiable. This measure will now be based on the full staffing levels according to official DAS Budget and Management records and reported in the Position Inventory Control System (PICS) records. The membership data is based on the information published in the PERS Comprehensive Annual Financial Report.

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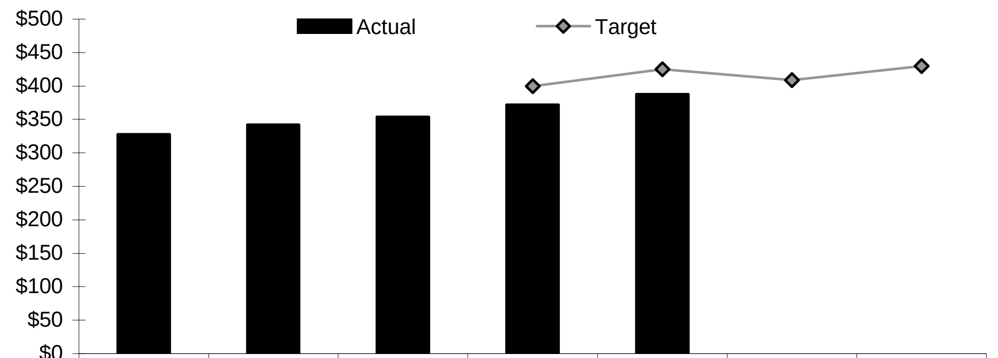
KPM #5	**AVERAGE DOLLARS DEFERRED BY PARTICIPANT** **The average monthly deferral for Deferred Compensation program participants.**	**Measure since:** **2006**
Goal	Increase voluntary participation by members in Deferred Compensation Program	
Oregon Context	Encourage member independence and financial well-being into retirement. Has an effect on Oregon Benchmark #58: Independent Seniors.	
Data source	Deferred Compensation records, along with reports from the Oregon Savings Growth Plan (OSGP) Third party administrator, Citistreet	
Owner	Deferred Compensation Administrator, Gay Lynn Bath, 503-378-3730 ext. 86425	

Average Dollars Deferred by Participant



	03	04	05	06	07	08	09
Actual	$328	$342	$354	$372	$388		
Target				$400	$425	$409	$430

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' Deferred Compensation program, the Oregon Savings Growth Plan (OSGP) understands that the financial demands of current and future retirees are increasing. And with rising health care costs and Social Security uncertainties, the OSGP aims to provide Oregon public employees with another option to help supplement their PERS benefits and help bridge the gap between retirees' expected needs and their PERS benefits. In order to remain a valued option for PERS members, OSGP's goal is to provide solid investment options through its third-party administrator, and to educate participants about the importance of retirement preparation through increased deferrals.

2. **ABOUT THE TARGETS**
   Targets for the 2005-07 biennium were set based on a data model that was inconsistent with the other Deferred Compensation KPM. PERS has implemented a data change with this measure to factor in the average monthly deferrals of state employees only, in order for it to match the state employment-only measurement criteria for the Deferred Compensation participation KPM. This will make it much easier for stakeholders to understand and compare the two measures. The requested targets for 2007-09 are based on the updated data and OSGP's goal to increase average monthly deferrals by 5% each year.

3. **HOW WE ARE DOING**
   The average monthly deferral for OSGP participants has increased steadily since 2003. The performance has remained at or near the targeted 5% growth throughout this time period. In 2007, the average monthly deferral was $388, which was an increase of 4.3% from 2006. This is very close to the desired goal of 5% annual increases.

4. **HOW WE COMPARE**

In 2005, The National Association of Government Defined Contribution Administrators (NAGDCA) conducted a survey of state 457 plans that showed state participating state employees deferred $291 per month on average. Since OSGP participants are contributing more dollars on average than their industry peers, it demonstrates OSGP's relatively high perceived value to its members.

5. **FACTORS AFFECTING RESULTS**

One factor that could affect results over the next several years is the large number of potential retiring participants. There is a large number of participants who are either already eligible to retire, or will become eligible during the next few years. These retiring participants are generally higher paid than their younger replacements, and are later in their careers, making them more likely to participate, so this could reduce both participation rates and the average deferrals for a period of time.

6. **WHAT NEEDS TO BE DONE**

As participants retire, the OSGP will need to continue educating the remaining and new participants on the importance of retirement savings. The OSGP has recently expanded marketing opportunities the form of plan information printed on the back of state employees' pay stubs to increase awareness about the program. The results have been positive as inquiries and participation have increased.

7. **ABOUT THE DATA**

This data is reported on the Oregon Fiscal Year basis. The data is provided by the OSGP's third-party administrator, Citistreet, and is easily verifiable by looking at monthly deferral records. This measurement factors in deferrals from all state employee groups.

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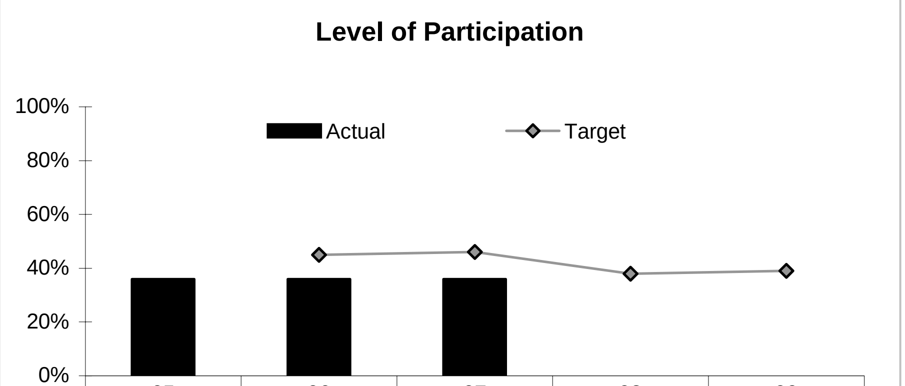
KPM #6	LEVEL OF PARTICIPATION The percentage of eligible state employees who participate in the Deferred Compensation program.	Measure since: 2006
Goal	Increase voluntary participation by state employee members in Deferred Compensation Program	
Oregon Context	Encourage member independence and financial well-being into retirement. Has an effect on Oregon Benchmark #58: Independent Seniors.	
Data source	Deferred Compensation records, along with reports from the Oregon Savings Growth Plan (OSGP) Third party administrator, Citistreet	
Owner	Deferred Compensation Administrator, Gay Lynn Bath, 503-378-3730 ext. 86425.	



	05	06	07	08	09
Actual	36%	36%	36%		
Target		45%	46%	38%	39%

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' Deferred Compensation program, the Oregon Savings Growth Plan (OSGP) understands that the financial demands of current and future retirees are increasing. And with rising health care costs and Social Security uncertainties, the OSGP aims to provide Oregon public employees with another option to help supplement their PERS benefits and help bridge the gap between retirees' expected needs and their PERS benefits. In order to remain a valued option for PERS members, OSGP's goal is to provide solid investment options through its third-party administrator, and to educate participants about the importance of retirement preparation through participation in this supplemental program.

2. **ABOUT THE TARGETS**
   Targets for the 2005-07 biennium were based on data containing an incorrect assumption that was not discovered until January 2007. The previous data had included the still open accounts of inactive participants (retired/terminated) in calculating total participants, but only factored in current state employee numbers in calculating eligible participants. This had the effect of increasing the participation percentage in error. In order to correct this, PERS has implemented a data change to factor in only the accounts of active state employees in calculating participants. The targets for 2007-09 are based on the corrected data and OSGP's goal to gradually increase the participation level by 1% annually.

3. **HOW WE ARE DOING**
   State government employee participation in the OSGP has remained steady at 36% over the last three years. While the underlying data shows a slight increase in the number of state participants from 2006 (13,675) to 2007 (13,849), the number of eligible participants has also increased, and so the

participation rate has remained the same. The participation rate did increase slightly from 36.2% in 2006 to 36.3% in 2007, but that was not enough to bump the rate up to the next whole percent.

4. **HOW WE COMPARE**
The National Association of Government Defined Contribution Administrators (NAGDCA) conducts a periodic survey that measures participation in optional state and local government defined contribution plans. In their 2005 survey results, NAGDCA reported that among the 29 responding state plans, 21% of the eligible employees participated in optional defined contribution programs like OSGP. So at 36% participation amongst state employees, the OSGP is performing well ahead of the national average participation rate for similar plans.

5. **FACTORS AFFECTING RESULTS**
Because the Deferred Compensation Program is voluntary for state employees, to have both a high rate of penetration and a high average monthly deferral rate reflects that the Deferred Compensation program is both well known and represents an important retirement savings tool for many state employees. Despite this, there are other factors that will affect (and possibly decrease) the ongoing participation rates. There are a large number of baby boomer generation employees who are set to retire in the near future. Many of these retirees will withdraw their OSGP accounts or roll them into other retirement accounts and the demographics of their replacements (normally younger and lower paid) will create a challenge for increasing participation rates and deferral amounts.

6. **WHAT NEEDS TO BE DONE**
Data shows that participation does not change drastically from year to year. And when factoring in the effect that the many upcoming retirements will have on OSGP participation rates, it will be important for the OSGP to educate and remind existing and new eligible employees of the benefits of participating in the program. One tactic the OSGP has recently used is expanded marketing opportunities in the form of plan information printed on the back of state employees' pay stubs to increase awareness about the program. This has resulted in increased interest in the program.

7. **ABOUT THE DATA**
This data is reported on the Oregon Fiscal Year basis. The data is provided by the OSGP's third-party administrator, Citistreet. Because the available records of certain participating employee groups (Higher Ed, miscellaneous small agencies and participating local government entities) are more difficult to verify, only Oregon State Payroll System (OSPS) employees are factored in this measure. The OSPS records are easily verifiable and make for stable comparison from year to year.

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KPM #7	CUSTOMER SATISFACTION Percent of customers rating their satisfaction with the agency's customer service as "good" or "excellent": overall, timeliness, accuracy, helpfulness, expertise, availability of information	Measure since: 2006
Goal	To improve customer satisfaction through effective and efficient delivery of retirement benefits.	
Oregon Context	#35: Public Management Quality - Citizen satisfaction with government services.	
Data source	Agency-administered survey (Survey Monkey online tool was used, along with a hard copy provided in the retiree newsletter).	
Owner	CSD Administrator, 503-603-7703 (currently vacant) & BPD Administrator Patrick Teague, 503-431-8259	

1. **OUR STRATEGY**
   PERS is committed to providing high-quality, low-cost customer service. The goal is to deliver effective and efficient service to PERS members, employers and stakeholders.

   The customer satisfaction surveys help to determine areas of strength and needed improvement. PERS management will make strategic decisions based on the results to place resources and effort where improvement is needed.

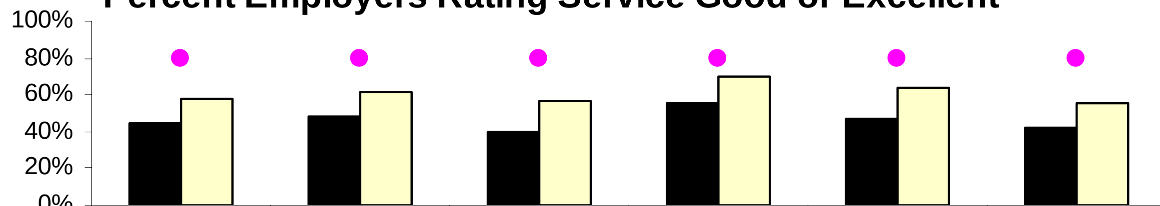
2. **ABOUT THE TARGETS**
   Since this is the first biennium for customer satisfaction measurement, no targets were previously established. The current and ongoing goal is to maintain 80% of customers rating their PERS service as good or excellent.

3. **HOW WE ARE DOING**
   In the 2007 member survey PERS scored in a fairly tight range between 80% and 85% across all categories, with 83% of member and retiree customers rating PERS overall service as Excellent or

Percent Members Rating Service Good or Excellent

	Overall	Timeliness	Accuracy	Helpfulness	Expertise	Availability of Information
■ 2006	67%	67%	67%	69%	71%	63%
□ 2007	83%	83%	83%	82%	85%	80%
● 2007-09 Target	80%	80%	80%	80%	80%	80%

Percent Employers Rating Service Good or Excellent



	Overall	Timeliness	Accuracy	Helpfulness	Expertise	Availability of Information
■ 2006	44%	48%	40%	55%	47%	42%
□ 2007	58%	62%	57%	70%	64%	55%
● 2007-09 Target	80%	80%	80%	80%	80%	80%

Good. These ratings are up significantly from the 2006 results falling between 63% and 71%. Member and retiree customers rated PERS highest in Expertise (85%), and lowest in Availability of Information (80%).

For the 2007 employer survey, the employers rated PERS between 55% and 70% Good or Excellent, with 58% of employers rating PERS overall service as Excellent or Good. The 2007 employer ratings are also up significantly from the 2006 scores falling between 40% and 55%. Employers rated PERS highest in Helpfulness (70%) and lowest in Availability of Information (55%).

4. **HOW WE COMPARE**
PERS does use the services of a benchmarking consultant (CEM Benchmarking, Inc.), but customer satisfaction ratings is not one of the comparators.

5. **FACTORS AFFECTING RESULTS**
Recent PERS reform plan changes and Oregon Supreme Court rulings in the *Strunk* and *Eugene* cases have reduced many members' current and future benefits, and in turn have impacted members' view of PERS. The recent implementation of mandatory electronic data reporting has also been a challenging transition for employers. These factors played a part in some of the lower responses in 2006. But the sharp increases in the 2007 responses reflect PERS' continual efforts to improve its customer service levels.

After seeing the results with the initial surveys in 2006, PERS went to great lengths to increase its focus on customer service agency-wide. One tactic PERS employed was bringing in a third-party service consultant and trainer to first evaluate the customer service standards and efforts, and then design and conduct customized training for all managers and staff with the intent of raising customer service awareness and delivery. A new slogan that was developed with the training is, "Customer-Focused, Customer-Friendly, Every Customer, Every Day." The results of this increased awareness and focus on service are apparent with the higher satisfaction ratings from the survey.

6. **WHAT NEEDS TO BE DONE**
PERS will need to continue to maintain its high level of awareness and focus on customer service. Establishing and maintaining effective communication modes and techniques will also ensure that its members receive all available information. Something that has helped is a clear plan in executing the *Strunk* and *Eugene* project. With the plan in place, it is easier to communicate the course of action to members. And a successful project completion (currently scheduled for 2009) will help PERS gain its members' trust in the information provided to them. Employer outreach and hands-on assistance with the electronic reporting function is also helping to improve service and satisfaction with employers.

7. **ABOUT OUR CUSTOMER SERVICE SURVEY**
The member satisfaction survey was conducted by PERS staff using the online Survey Monkey tool and hard copy surveys mailed to retirees. The survey was open from August 1 through 31. The population can be classified as consumers, since members and retirees are end users of PERS services. For the sampling frame, PERS left the survey open to all members (active and inactive) and retirees. The survey was advertised in the *Perspectives* newsletter (a PERS-produced newsletter sent to all members and retirees), which listed the web link to take part in the survey. Since PERS left the survey open to the full population of members and retirees, the sampling procedure could be considered a passive census. Out of 319,000 members and retirees PERS received 2,510 responses, a .8% response rate. There was no weighting involved with the tabulation of results.

The employer survey was also conducted by PERS staff using Survey Monkey online. The survey was open from August 1 through 31. The employer population could be considered clients, and for the sampling frame, PERS left the survey open to all employers. The survey link was emailed to all employers, and posted on the employer portion of the PERS website. The sampling procedure would be considered a census. Out of 880 employers, PERS received 227 responses, a 26% response rate.

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Contact: Matthew Rickard, Budget Analyst	Phone: (503) 603-7576
Alternate: Kyle Knoll, Budget Officer	Phone: (503) 603-7568

The following questions indicate how performance measures and data are used for management and accountability purposes.	
1 INCLUSIVITY Describe the involvement of the following groups in the development of the agency's performance measures.	• Staff: The 2005-07 approved KPMs were developed by PERS staff with the assistance of student interns. • Elected Officials: Elected officials have reviewed and approved the 2005-07 KPMs, as a part of the Ways and Means process, as well as approving the 2007-09 data changes that are also reflected in this report. • Stakeholders: Staff met with key management and stakeholders to determine how each measured success. The KPMs were then formed using strict selection criteria to ensure accuracy, longevity and applicability to each program. • Citizens: While citizens are not involved in the KPM formation process, the annual results are posted on the OPB and PERS websites for the general public to view.
2 MANAGING FOR RESULTS How are performance measures used for management of the agency? What changes have been made in the past year?	The results are used to gauge PERS' progress versus previous performance, as well as its peers. The results are also used in the formation of business plans and in development of the agency's biennial budget. All but one of the KPMs are new for 2005-07. There were several data changes approved with the 2007-09 Ways and Means process, and those changes have been carried forward to this report, since these changes involved improvements and data corrections. The agency's six-year strategic plan and two-year tactical plan are also linked to the performance measures to guide longer-term management of the agency. One positive effect of analyzing the previous results involves the improved focus on customer service, and the resulting higher member and employer ratings this year.
3 STAFF TRAINING What training has staff had in the past year on the practical value and use of performance measures?	In the KPM formulation process, meetings with managers and stakeholders have taken place to educate them on the KPM process, and to help them understand how the measures can be useful in program and agency management. Staff working directly with the KPMs also have attended Oregon Progress Board (OPB) trainings and participate in most of the OPB quarterly roundtables and informational meetings.
4 COMMUNICATING RESULTS How does the agency communicate performance results to each of the following audiences and for what purpose?	• Staff: Results are posted on PERS' internal network, along with sectional budget execution reports for managers, and posted on the PERS website for general staff. • Elected Officials: Results are communicated through the Annual Performance Progress Report, and as part of the agency's biennial budget request. • Stakeholders: Results are reported directly to the PERS Board, and posted on the PERS website for other stakeholders. • Citizens: The results are posted on the OPB website and the PERS website.