



February 15, 2003

Administrative Services Consolidation

Statewide Retirement Systems

*Submitted in accordance with the 2001 First Special Session
Laws of Minnesota, Chapter 10, Article 11, Section 19,
Implementation Plan; Major Statewide Retirement System
Administrative Services Consolidation*



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Introduction

The 2001 First Special Session Laws of Minnesota, Chapter 10, Article 11, Section 19 requires the directors of the three statewide funds to prepare and submit to the Legislature a report on the possible consolidation of the administrative functions of the three statewide retirement systems. Specifically, the provision requires the directors to:

- Prepare a report detailing the steps necessary to consolidate the administration of all three systems into a single administrative structure;
- Include in the report proposed legislation detailing the steps and the schedule required to effect an administrative consolidation; and
- Submit the report to the Legislature by February 15, 2003.

We have prepared this report to include the steps we have taken and the areas we are considering for joint administration of some functions purely from the perspective of administrative efficiency and better service to our members. We have not developed a thorough plan for administrative consolidation pending the results of the teacher plan restructuring proposal. If the teacher plans' restructuring proposal is considered, it encompasses much more than an administrative consolidation. Therefore, we have approached our report from the perspective that if at some time an administrative consolidation of the three statewide funds is desirable, there are many factors to consider. We have attempted to identify those factors and have incorporated those areas where we are currently working together to accommodate joint administration of some functions.

Public Employees Retirement Association (PERA)

The Public Employees Retirement Association (PERA) administers three defined benefit plans and one defined contribution plan. The Regular defined benefit plan provides benefit coverage to about 138,000 individuals currently employed by cities, counties and those employed by the school districts in non-teaching employment positions. The PERA also has a plan covering about 10,000 city and county police and fire personnel and one for county correctional personnel with a membership of about 3,300. The defined contribution plan administered by PERA primarily covers local government elected officials with a membership of about 4,500. There are also approximately 30,000 individuals who have left local government employment to whom PERA owes benefits at the time the individuals reach retirement age, and payments are currently being made to over 55,000 individuals in the form of retirement, survivor or disability benefits. As of the most recent actuarial valuation on July 1, 2002, the Association had an actuarial value of assets of \$16.1 billion.

With the addition of administration of the Health Care Savings Plan to MSRS, the satellite offices allow additional savings. Staff at those offices are able to travel to locations in the area to explain the program and respond to questions interested local government employers and employees, and greater Minnesota state employees have about the new program. This reduces travel and lodging expenses by not having to send staff from the main office in St. Paul.

Legal advisors

The three statewide retirement systems currently share the expertise of two assistant attorneys from the Office of the Attorney General as legal advisors for the staff and the boards. These two individuals are able to compare legal issues encountered by the three funds and ensure consistent interpretation and application of the laws governing the retirement funds. The funds have also been able to share costs associated with the services provided by the legal advisors given the percentage of time spent on each of the systems' issues.

Administrative Functions Shared in Joint Facility

Board room

An approximately 1,100 square foot meeting room was designed for the first floor of the jointly-owned retirement systems' building for use by all three boards and other tenants. The room includes built-in sound and tape recording systems, which eliminates the need for each of the retirement systems and SBI to own and maintain their own sophisticated recording systems for purposes of recording board meetings.

Training room

The new facility includes a 2,700 square foot meeting room to be shared by TRA and PERA to accommodate educational programs for members, employers and staff. This meeting space is also available for use by MSRS, SBI and other tenants of the building. There is another smaller meeting room designed specifically for computer training to be used by PERA and TRA, and if needed, by the other tenants.

MSRS/PERA single payments for combined service benefit recipient

Preliminary work has been done by staff of the MSRS and PERA in defining the procedures required to combine payments for individuals receiving a payment from each of the systems under the combined service provisions of Section 356.30. It has been decided that the initial payments targeted for this process will be those benefit recipients for which one of the payments is under \$100. Recommendations for modifications to the enabling statute are being developed to enable the two systems to expand the process. Implementation is targeted for July 1, 2003.

Steps Preliminary to a Complete Administrative Operational Restructuring

Operational restructuring

Before any plans or schedule can be detailed for the Legislature, if it is the desire to consolidate the administration of the three statewide systems, the prudent first step would be to engage the directors, key staff and representatives of each of the Boards in a strategic planning exercise, a costly and time-consuming process. Elements to be considered would be:

- **Relationships with participating employers** – the reporting of participant personal data, salary and contributions varies among the three retirement systems given the number and variety of participating employers. The MSRS has a direct connection to the State's Central Payroll system, enabling them to collect accurate, current payroll data on the majority of their participants. PERA has established flexible reporting requirements to accommodate the average 5,200 monthly payments for bi-weekly payroll data submitted on behalf of PERA's more than 150,000 active members. TRA has a periodic payroll reporting system with approximately 500 employer units who not only report salary and retirement constituencies, but also determine the credited service for each teacher based upon the number of days and hours per day worked. PERA does not collect similar data on its members, so while PERA and TRA provide retirement benefits for employees of the school districts, their reporting requirements do vary enough to require careful consideration of how joint reporting may be accommodated.

- **Centralized call center** – incorporating an integrated voice response system at the front end of the phone to direct callers to the right group of staff trained to accommodate their calls would also require detailed planning and training. It would also require careful research to determine if any of the existing phone systems used by one of the three statewide systems could accommodate the consolidation of the phone centers, or if a new one should be purchased.
- **Information systems consolidation** – see separate discussion

Impact of plan differences

The operating systems developed individually by the three retirement systems currently account for the differences in how each awards service credit and the variety of leave of absence provisions granted based upon the demographic make-up of the membership of the three separate retirement systems and the plans within them. True administrative consolidation, if the intended result is to streamline the collection and recording of service credit and leave of absence data, may require, or may be best served, by making those provisions more uniform.

However, making service credit and leave provisions more uniform requires getting consensus on the final outcome. For example, PERA recently attempted to implement pro-rated service credit, but was unsuccessful. While the intent was to try to make PERA's allocation of service credit more uniform with the other two systems, there were factions that opposed the concept. The leave of absence provisions allowed in the teachers' systems align with the structure and benefits of the teaching profession, but do not necessarily work well with other segments of the public employee workforce. How do we resolve those differences without taking away benefits from current participants or adding cost to plans by adding benefits some members may not currently offer? How do we make sure that all interested parties have input so that if a change is made, it is not reversed after sparse resources have put many hours into designing an implementation plan to accommodate the change, and the plan is ultimately discarded?

The retirement systems each have developed web sites to provide quick access to information to members and to participating employers. The extent to which those sites provide interaction with the retirement system's main database varies. There are direct links established from each of the sites to the other retirement systems as well as to other useful retirement and financial planning sites available on the World Wide Web. As the retirement systems' web development evolves, a Joint Committee will be able to determine ways to consolidate efforts and perhaps reduce investment costs to keep up with the demand for faster, more immediate access to general and specific member data.

Future considerations

The idea of consolidating the administration of our information systems requires some careful study of the extent of the consolidation. We have tried to put together thoughts about the low to high end of possibilities, but will not be able to go into much depth at this time.

At the low end of the spectrum, managerial functions, network operations or business operations may be able to be consolidated at little cost, but will create a host of other issues. This basically means putting all of the computer operations and systems into one main area and keeping most, if not all, of the current staff to develop and maintain the systems. In assigning a manager to the joint operations, one of the most significant issues to be dealt with would be to what extent developers and analysts must be cross-trained to understand all of the systems' technology architecture and programs. Another would be how priorities are decided when two or more of the different systems need development work, but there may not be enough resources (or the right competencies) available to accommodate the work. The data and data structures among the three funds are very different. Opportunities to develop more than read-only access to those structures is being explored as time permits, but each of the systems have ongoing demands for system upgrades and improvements that will accommodate the increasing service demands from members, leaving little time for expansion of functions beyond the normal scope of daily work.

At the high end of the spectrum would be the decision to build a single set of core business applications that must support the three retirement systems and particularly the variety of benefit plans administered by MSRS and PERA. In 2001, the systems determined that it could cost as much as \$20 to \$35 million dollars to develop this concept, and it is reasonable to expect that those cost estimates will look conservative as time passes. It

- Some of the fundamental differences in the structures of the plans administered by the three retirement systems have evolved over time to accommodate the special needs and demographics of the members of the systems. As mentioned earlier in this report, service credit determinations, leave of absence provisions, reduction and other actuarial factors used to calculate benefits, and actuarial assumptions are different for the plans, because of the differences in the types of employees for whom those plans provide benefits.
- The reason for pointing out these differences is that common business rules and an enterprise-wide database cannot begin to be formulated and developed without some fundamental changes in these types of plan provisions. It would seem that to be fair and prudent in making any changes to the plan provisions, discussions and planning with the affected constituencies would be required.
- The best time to entertain the development of a an enterprise-wide database may not be for another six to ten years when both PERA and TRA will be looking at leveraging new technology to provide vastly new business functionality. MSRS just completed a major database conversion. They would have to weigh the advantages and disadvantages of moving away from the State mainframe computer, which currently provides essential integration with the State payroll process that reports contributions for the majority of MSRS members. And, all three systems are still recovering from the work associated with converting their systems to accommodate the turn of the century.

Conclusion

The retirement systems have come a long way in providing service to their members in the last decade. All have developed web sites that are easily accessed by their members and others who navigate the Internet. With the adoption of laws allowing purchases of service, the web site calculators developed by all three systems were key in helping manage the significant increase in requests for information on this complicated calculation.

Further development of the web is helping us meet our information service demands and will continue to do so. PERA is currently in the process of developing an interactive web site available to its employers for reporting data on members. The Association is also in the process of developing a three to five-year strategic plan that will incorporate that development, and the development of a secure on-line interactive benefit calculator so as to meet the needs of a growing older population of members.

The use of technology in administering our operations has proven absolutely critical in meeting information service demands, but has also provided an opportunity to expand the scope of service we can provide. We are reasonably certain that the cost of converting our technology infrastructures would never be recovered if those infrastructures were abandoned within the next six to ten years.

Questions about moving to another career, retiring, or just trying to understand what is needed to prepare for retirement life increasingly become a part of the individual discussions members have with our counselors. Defining the appropriate information to share, training staff, developing web applications or links and expanding our assistance through information networks and contacts have become more of the norm for our staff and will continue to expand. We look forward to increasing our ability to assist our members in those areas.

Combining administrative functions to gain efficiency in service delivery while trying to minimize costs will require strategic planning and well thought out design and implementation schedules. The costs associated with planning a major consolidation effort will be considerable. The resources to accommodate such planning efforts will take away from some of the critical work facing the retirement systems as we prepare to move a significant portion of our members – who are part of the baby boom generation – into retirement. Our purpose, and our priority, is to serve our members as they prepare for retirement. If

Current information systems structures

One of the areas for consolidating administration of the three funds into one structure that would provide the most efficiency, but be the most costly to accommodate is in the area of information systems. We thought it would first be instructive to explain our current structures and recent work undertaken to update those operations. With members becoming more educated about retirement, we needed better information system structures to more effectively meet the demands for providing service and information to our memberships and to meet the increase in retirements expected as the baby boom generation moves into the next phase of their lives.

Minnesota State Retirement System

The MSRS collects individual personal data and service and salary data from one major employer, the State, through its Central Payroll processing division. While there are a few other smaller entities reporting personal data on members to MSRS, the majority of the information the retirement system collects comes from Central Payroll.

The MSRS database, where all record keeping for the participants in the retirement plans administered by the System is done, is on Intertech's mainframe computer systems. Connectivity between the MSRS Local Area Network (LAN) and Intertech is done through MNET, the state's wide area network. Disaster recovery of MSRS operations is coordinated with Intertech, and the database is backed up daily to two separate locations. The MSRS expects to continue to do the bulk of data processing for their operations on Intertech's mainframe for several years to come.

In August 2000, MSRS introduced its interactive Web site. The site allows participants to access account values and calculate retirement estimates. To date, 2,200 different members have used the Web site to get personal account information. The static web site averages about 1,800 hits each month, and was recently upgraded to allow members of the Unclassified Plan to make changes to the investment allocation of new and existing contributions to their accounts. In April 2001, 57 percent of all asset allocation changes were handled over the Web, even though it had been available for less than one week.

been modified as legislative changes have occurred. The integrated TRA database will continue to reside on the AS-400 mainframe computer. Program applications will reside and process on a series of network servers providing Graphical User Interface (GUI) or "point and click" screens to a network of TRA employees. The applications are being developed in the Delphi computer language.

The FROST project has been divided into four phases. Phase 1 and Phase 2 of FROST were implemented in July 2002 with the redesign of the employer reporting process in which participating employers communicate salary, service credit and other demographic changes periodically on over 71,000 active TRA members. Phase 3 of FROST will address benefit estimates, refund estimates, annual statements, leaves of absence and internet-based functionality. Phase 4 will redesign the actual benefit payment processes of retirement annuities, disabilities, survivor benefits and federal and state tax reporting. Phases 3 and 4 are scheduled for implementation by mid-2004. Upon full implementation, FROST applications will be integrated with the document imaging system with workflow capabilities. The workflow applications will allow for automated, systematic processing of TRA customer service requests.

TRA implemented a document imaging system in 1999 to replace the ever-growing volume of member files in paper format. Document imaging has improved the processing efficiency of agency operations by organizing documents systematically, allowing use by multiple users and providing disaster recovery protection in the event that the paper records are lost or destroyed. The document imaging system runs on the TRA AS-400 mid-range computer using IBM's VisualInfo application program.

All active member and all inactive members with an account balance are on the document imaging system. As of July 1, 2002, the retiree conversion process was approximately 40 percent complete. The records of members who have taken refunds of their contributions are largely still in microfiche format.

used by the local units of government and their service agencies and must be capable of processing an average of 20,000 contribution transactions a day and 70,000 payments (via Electronic Funds Transfer and paper checks) a year.

PERA defined requirements and purchased hardware and software to accommodate imaging of more than 600,000 paper and microfilmed files on current and former members and all benefit recipients. The process to convert several million documents to electronic images and to fully integrate optical storage of those records will take years to complete.

PERA acquired Panagon IDM software from Filenet to accommodate its optical storage imaging needs and developed a custom workflow application using @Work Custom Solution software to route electronic documents within the agency.

TRA and PERA customer service call centers

As part of its reengineering efforts, PERA implemented a call center in April 1997 using an automatic call distribution (ACD) system like that used by the Office of the Secretary of State. The system includes a Management Information System (MIS) that allows PERA to track call volumes and other management data important to ensuring the proper level of staffing required to accommodate service demands. PERA has three full-time staff responsible for taking calls with the goal of handling those calls at the first point of contact with the agency. There are about 20 other Pension Services Division staff, who spend 50 to 60 percent of their time on the phones, as needed to accommodate the daily influx of phone calls. These staff members are also responsible for calculating estimates and final benefit payments, and providing individual counseling to members in the office and outstate. PERA receives over 106,000 calls each year.

The TRA has a dedicated a group of five retirement services specialists to staff the Telephone Service Center that receives about 60,000 calls a year. All of the retirement counselors in the Customer Service Division have telephones whereby they can log on and become part of the Telephone Service Center also. The goal of the center is to address over 90 percent of calls on a first-time basis, without the need for further transferring within the office. TRA upgraded its telephone system upon its move into the new building to provide for additional call capacity and new features. TRA's phone system is also an ACD system which allows TRA to change messages and track call volumes and other data.