

Employees' Retirement System of the State of Hawaii

Efficiency Study

Report to the Board of Trustees

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Outline / Agenda

- ◆ Project Background
- ◆ The Efficiency Study
- ◆ Overview of Finalization Issues
- ◆ Primary Recommendations
- ◆ Prerequisites for Implementing Recommendations
- ◆ Cost of Implementing Recommendations
- ◆ Schedule for Implementing Recommendations
- ◆ Payback Period
- ◆ Other Recommendations
- ◆ Summary
- ◆ Questions



Project Background

- u The Current Retirement Process
- u Finalization Backlog
- u Concern for the Future
- u Current Technology
- u LRWL Credentials
 - Dedicated to the public sector pension arena
 - 60 public employee, defined benefit clients



The Efficiency Study

- u LRWL – 3 Staff Members
- u ERS – 23 Staff Members and 2 Contractors
- u 18 Data Gathering Meetings
- u Study Methodology
 - Gather Data
 - Analyze Data
 - Construct Recommendations
 - Review and Discuss Recommendations with ERS Staff – Multiple Cycles
 - Prepare Written Report – Multiple Review Cycles



The Efficiency Study (Contd.)

- u Study Methodology (Contd.)
 - Obtain Cost Data from Vitech
 - Analyze Cost Data
 - Prepare Cost/Benefit Analysis
 - Finalize Written Report
 - Present Findings to Board of Trustees



Overview of Finalization Issues

- u Two Primary Sources of Inefficiency:
 - Data
 - Process
- u 16 Data Elements Identified as Either Unavailable or Inaccurate
- u Inefficient Processes Center Around Work Reporting and Employer Communication



Primary Recommendations

- u #1: Construct Employment History
- u #2: Clean Historical Data
- u #3: Enhance Work Reporting
- u #4: Perform Teachers/Professors Calculations within System
- u #5: Obtain Data Needed at Time of Retirement From Employers
- u #6: Reconcile Member Contributions



#1: Construct Employment History

u Current situation

- Some employers provide employment history, Personnel Information Forms (PIFs), electronically – these can be processed by V3 system
- Some employers provide paper – these are imaged and not processed until retirement

u Recommendation:

- Help employers gain the capability to submit electronically
- Provide user interface to facilitate PIF entry
- Use V3 to determine missing PIFs



#1: Construct Employment History (Contd.)

- u Benefit to the ERS: Best practices require
 - A pension system maintain a complete and accurate employment history
 - Have data available prior to retirement



#2: Clean Historical Data

u Current situation

- Some earnings not being put into correct pay period (lagged)
- Retro pay not being distributed properly
- Some service purchases not in system

u Recommendation

- Fix lagged data using provided algorithm
- After employment history has been constructed, use it to properly distribute retro pay
- Look for service purchases using suggested methods



#2: Clean Historical Data (Contd.)

- u Benefit to the ERS: Best practices require
 - All complete and accurate data be in the system
 - Data is available in time to be useful for retirement processing



#3: Enhance Work Reporting

u Current Situation

- Many Work Report (WR) exceptions are ignored because resources are not available to deal with them in a timely fashion

u Recommendation

- Do not allow WR data into the system unless it is valid
 - » Ensure that changes in earnings are supported by required documentation (PIFs) – handles retro pay
 - » Ensure that all earnings data goes into the correct payroll period – handles lag
 - » Handle contributions for members on Workers Comp
 - » In general, deal with exceptions as they occur – not later

Benefit: Per best practices this prevents bad data getting into the system



#4: Perform Teachers/Professors Calculations within System

- u Current situation:
 - Teachers/Professors calculation are done on spreadsheets
- u Recommendation
 - Enhance tool to allow entry of teacher schedules into system
 - Create batch job within V3 to allocate summer pay over school year (Teachers and Professors)
 - Perform calculations within V3 system
- u Benefit: Will have all benefit calculations done within system as per best practices



#5: Obtain Data Needed at Time of Retirement From Employers

- u Current Situation
 - Various items not provided for months after retirement
 - Data often provided by paper
- u Recommendation
 - Request needed data items upon receipt of retirement application
 - Provide electronic means to enter these data items
- u Benefit: This will significantly reduce finalization time



#6: Reconcile Member Contributions

- u Current Situation
 - Member accounts were converted from legacy system (APPX), but not reconciled on an account-by-account basis
- u Recommendation
 - After all data is cleaned up and employment history constructed, reconcile contributions against earnings
- u Benefit:
 - This is a service to members who will have the ability to correct contribution deficiencies.
 - It will also allow the ERS to charge interest to member when this is done.



Prerequisites and Support to Implementing Recommendations

- u Prerequisites
 - Data Entry
 - » Teacher schedules
 - » Paper PIFs
- u Other suggested support functions
 - Change Management
 - Implementation Oversight



Cost/Schedule

Item	Cost
Vitech	\$1,091,500
Data Entry	\$300,000
Change Management	\$75,000
Support to Employers	\$200,000
Oversight	\$333,300
Contingency	\$399,960
Total	\$2,399,760

Implementation of all Primary recommendations are expected to take 18 months



Payback Period (Payback after 3.75 Years)

- u Reduced Cost of Resources
 - Attrition (\$750,000)
 - Savings on Finalization Contractors (\$1,000,000)
 - Savings on Employer Resources (not quantified)
- u Additional Financial Benefits to ERS
 - Interest on Contribution Deficiencies (\$400,000)
 - Increased Cost of Personal Development Time (\$20,000)
 - Increased Penalties for Non-responsive Employers (\$240,000)
 - Reduced Interest on Finalizations Taking over Six (6) Months (\$66,667)

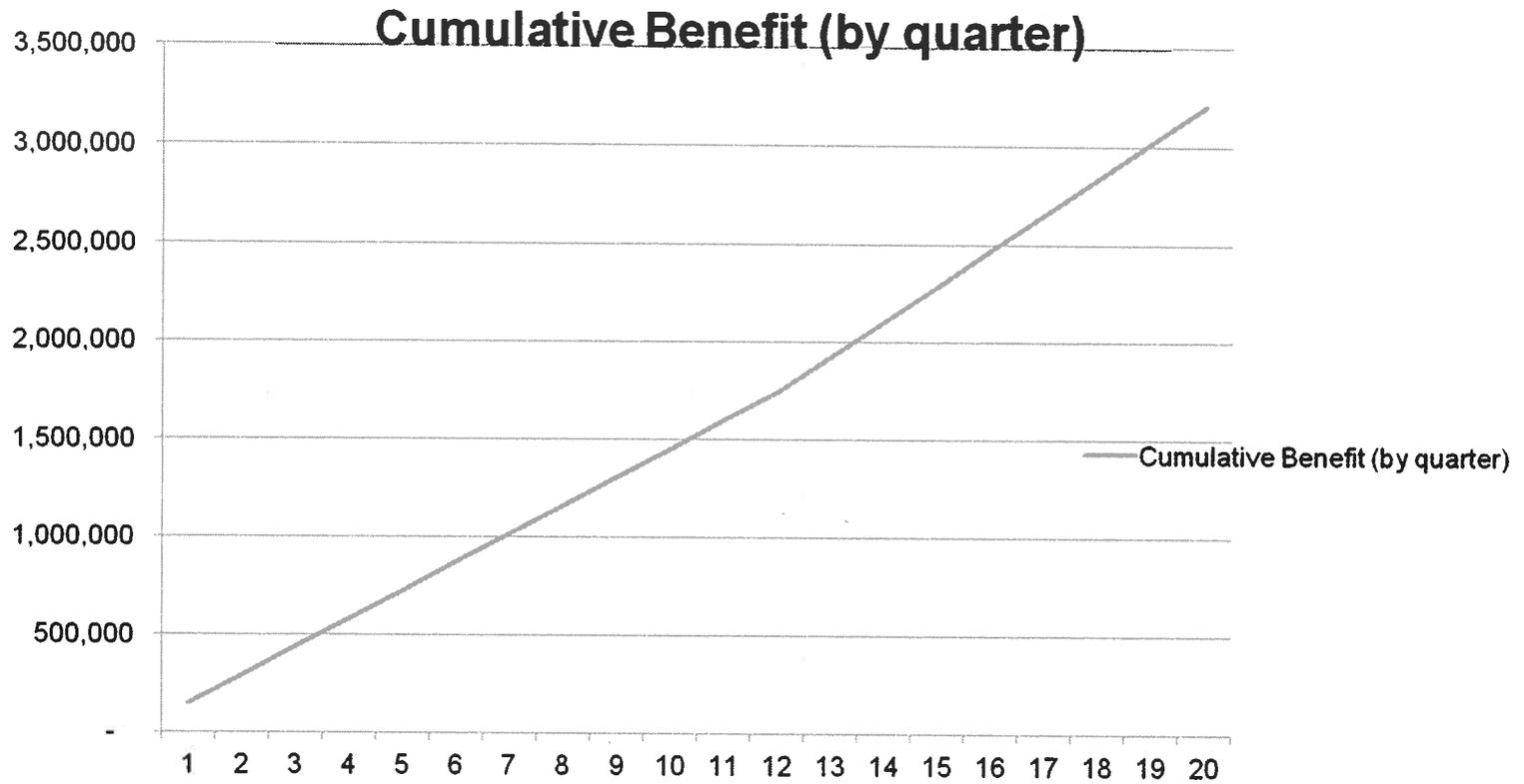


Payback Period (Contd.)

- u Better Service to Members (Not Quantified)
 - Original Payments Equal Finalized Payments
 - Annual Benefit Statements
 - Able to Fix Benefit Deficiency Before Retirement
- u Improved Perception of the ERS (Not Quantified)
 - Adherence to Best Practices
 - Audit Findings will be Reduced



Return on Investment (Contd.)



Other Recommendations

- u Management Related Recommendations
 - Ensure there is always an understanding of the full effect of a project
 - Project Management / Measurement / Communications
 - Project support from upper management
- u Imaging Recommendations
 - More effective use of imaging
- u Longer-term Enhanced Service to Members
 - Provide annual benefit statements
 - Provide member self-service
 - Enhance retirement seminars



Other Recommendations

u Legislative Recommendations

- Charge interest on contribution deficiencies
- Change cost of purchase of professional development time
- Reinstating/Increasing Incentives for Employers to Supply Data to the ERS in a Timely Fashion

u Organizational Changes

- Reallocate resources from “Finalization Team” to “Work Reporting Team”
- Move “Work Reporting Team” into Enrollment, Claims, & Benefit Eligibility (EC&B) department



Summary

- u Cost of Recommendations - \$2.4M
- u Recovery Period 3.75 years (\$2.475M)
- u Other Benefits (Not quantified)
 - Better Service to Members
 - Improved Perception of ERS
- u After Recommendations are implemented
 - The ERS will be aligned with Best Practices
 - Retirements will be more rapid
 - Backlogs will not grow



Questions

