



# ADOA-ASET

Arizona Strategic Enterprise Technology

## Project Investment Justification

Version 01.01

A Statewide Standard Document for Information Technology Projects

**Project Title: ASRS Benefit Disbursement Project**

<b>Agency Name:</b>	Arizona State Retirement System (ASRS)
<b>Date:</b>	4/6/2015
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## I. Management Summary\*

The Director commissioned a study to research whether the benefits disbursement process could be made more cost-effective. The study was commissioned as a result of the yearly Cost Effectiveness Measurement (CEM) pension benefit administration benchmarking study, whose findings indicate the ASRS benefit disbursement costs were 51 percent greater than similar sized U.S. public pension funds within the CEM universe.

The ASRS has participated in the CEM pension benefit administration benchmarking study since 2001. Each year, the ASRS submits data regarding service features, transaction volume, and costs and staffing, broken down by activity, membership, and plan design. CEM compiles the results and provides a report that benchmarks the ASRS against a group of like-sized peers (approximately 15) within the US and also to a larger universe of participants in North America. Specifically, the report compares and contrasts:

- Peer Characteristics
- Service Levels
- Total Costs
- Cost by Activity
- Staff Costs and Productivity
- Transaction Volumes
- Complexity
- IT and Major Projects

ASRS staff conducted a high level analysis of the following areas: risks and risk mitigation strategies, technology, human resources, equipment and physical space, service delivery impacts, return on investment. Based on this research, staff concluded the ASRS would experience both cost and efficiency savings over the medium and long term if the ADOA-approved banking partner, Bank of America (BofA), was used and more back-office, disbursement-related processes were handled internally.

In the current agreement with State Street bank, the bank is responsible for making payments to members, retirees, State and Federal tax authorities and other parties. The bank also does several accounting and bookkeeping processes for the ASRS. These include tax reporting and printing, remittance advice printing and mailing, payment update processing, account reconciliation and general accounting reporting. For all of these processes, the ASRS pays State Street bank.

ASRS Management is looking to reduce costs and improve efficiencies by switching to the ADOA-approved banking partner. BofA will be responsible for payment creation and movement of funds. ASRS will be required to take over more back-office accounting processes and some disbursement-related reconciliation and maintenance. The ASRS will continue to do all pension benefit calculations, new retirement transitions, health insurance premium assessments, calculation of tax implications and beneficiary payment creation.

## II. Project Investment Justification (PIJ) Type\*

Yes  No Is this document being provided for a Pre-PIJ / Assessment phase?

If Yes,

Identify any cost to be incurred during the Assessment phase.	\$0
Based on research done to date, provide a high-level estimate or range of development costs anticipated for the full PIJ.	\$0

Explain:

[Click here to enter text.](#)

Yes  No Will a Request for Proposal (RFP) be issued as part of the Pre-PIJ or PIJ?

### III. Business Case

#### A. Business Problem\*

A February 2012 CEM pension benefit administration benchmarking report indicated that ASRS benefit disbursement costs were 51 percent greater than similar sized U.S. public pension funds within the CEM universe. CEM's report identified the primary reason for the difference in cost to be the ASRS' reliance on a third party to disburse benefits. Since 1999, the ASRS has utilized a third-party vendor to administer the benefit disbursement process. There were a number of reasons the ASRS shifted toward an external vendor: technological concerns associated with Y2K, a desire to mitigate operational risk related to business continuity, and a desire to lessen the agency's need to maintain the equipment and human resources that were necessary to disburse the volume of checks being sent each month. In fiscal year 2013, the ASRS paid over \$1.4 million in fees to a third-party vendor for benefit disbursement services. The majority of peers within the CEM peer universe appear to administer the entire benefit cycle in-house, which includes benefit calculations, electronic payment transmission, printing and mailing paper checks and remittance advices, and tax withholding and reporting. Other retirement systems appear able to perform this service less expensively and without a large commitment of human resources.

#### B. Proposed Business Solution\*

In 1999, when the benefit disbursement process was outsourced to a 3<sup>rd</sup> party bank, payments were primarily issued via paper check. Today, the majority of payments (99% plus of pension payments and 90% plus of refunds) are made electronically. The ASRS can help to keep volumes manageable for staff by continuing to maximize its use of electronic payments and minimize the volume of printed checks and remittance advices. Bank of America (BoFA), the state's current depository bank, has the capability needed to issue benefit disbursements for the ASRS. The ASRS should be able to utilize the existing state contract, which eliminates the need for the ASRS to procure banking services. Historically, BoFA has offered a pricing structure substantially below what other banks charge for the same services because of the large deposits the state houses with them. Therefore, this document assumes that the ASRS will use BoFA under the existing state contract. In addition to switching banks, ASRS will take over some of the processes done by the current bank. Some of those processes are:

- Payments of taxes to IRS and AZDOR
- Payments of dues and levies to 3<sup>rd</sup> parties
- Printing checks to members, retirees and 3<sup>rd</sup> parties
- Payments to vendors and other 3<sup>rd</sup> parties
- Storing and distribution of 1099/1042 tax data

- Payment of child support garnishments
- Reconciliation processes

**C. Quantified Benefits\***

<input checked="" type="checkbox"/>	Service enhancement
<input type="checkbox"/>	Increased revenue
<input checked="" type="checkbox"/>	Cost reduction
<input type="checkbox"/>	Problem avoidance
<input checked="" type="checkbox"/>	Risk avoidance

Explain:

Service Enhancement

ASRS estimates that taking over many of the benefit disbursement processes from State Street will shorten the number of days required to send disbursement files to the bank in advance of the actual disbursement date (1<sup>st</sup> of the month) by four business days. The reduction comes as a result of eliminating the processes in place related to reconciling agency records to the disbursement bank records and the disbursement bank not having to pass the file on to a third vendor for printing.

Cost Reduction

In fiscal year 2013, the ASRS paid over \$1.4 million in fees to a third party.

FY2013 Costs for Third Party Administration of Disbursements	
State Street Bank-Processing	\$1,263,024
Mellon-Historical Information (for service purchase)	9,250
State Street Bank-Postage	154,108
<b>Total</b>	<b>\$1,426,382</b>

If the ASRS brings the full benefit disbursement process in-house, the ASRS estimates the annual ongoing cost to be significantly lower. There will be a significant up-front investment required in technology enhancements and equipment purchases.

Estimated Annual Costs of Internal Administration of Benefit Disbursements		
Item	Approximate Annual Cost	Comments
Bank of America fees	\$18,635	Provided by BofA
Berwyn	22,000	To identify deceased members (monthly for pensioners/ twice a year for non-retired)
Paper – remittance advices	8,000	For approximately 200,000 remittance advices
Paper – 1099R	6,000	For approximately 150,000 1099's
Paper stock - checks	600	For approximately 10,000 checks
Envelopes	18,000	For approximately 360,000 pieces mailed
Postage	147,600	For approximately 360,000 pieces mailed * .41 =
Printer maintenance fee	18,000	
FTE Cost	100,000	For 2 FTEs (1 each in records management

		and general accounting)
<b>Total</b>	<b>\$338,835</b>	

<b>Total Estimated Annual Savings – Achieved by Insourcing</b>	
	<b>Estimate</b>
Current fees – external vendor	\$1,426,382
Estimated costs – internal disbursements	(-338,835)
<b>Total Annual Savings</b>	<b>\$1,087,547</b>

Risk Avoidance

The charts below identify both new and eliminated risks. The risks are categorized as either implementation risks or operational risks. Mitigation strategies are provided for the additional risks.

<b>Implementation Risks</b>	<b>Mitigation Strategy</b>
Technology resources not available to implement	ASRS Technology Services Division (TSD) priorities will need to be evaluated. The ASRS will coordinate the existing large project and agency projects with this effort. TSD has worked with Senior Management to prioritize development efforts for the agency. A five-year plan has been developed to encompass all agency technology goals.
Complexity factor working with banks, vendors, and the IRS	The agency has experience in implementing large-scale, complex systems. The Agile/Scrum process should be used to reduce the overall project complexity to smaller, simpler mini-projects. Appropriate time must be built into the schedule to ensure successful completion.
Requirements are not fully defined or are missed	Detailed requirements will not be known until development has begun. Agile/Scrum development recommends that detailed analysis is done in small sub-projects. This distributes and minimizes requirements risk. Appropriate time must be built into the schedule to ensure adequate time to fully define requirements and ensure successful completion.
All requested process automation cannot be accomplished	The cost of automation should be weighed against the value provided to the ASRS and the risk created by not automating. Since the project will be done iteratively, processes that cannot be automated will be discovered early and development will work around those issues.
Inadequate testing time due to Bank of America’s (BoFA) testing policies	Adequate testing with BoFA will be critical to the success of the project. It is desirable to have at least three months set aside to do parallel payroll testing with BoFA. BoFA’s testing schedule must be carefully coordinated with TSD’s testing schedule.
TSD unable to support both State Street & BoFA during the transition phase and post implementation	Adequate resources will need to be allocated to the project to ensure that there is sufficient staff available to support both BoFA and State Street for six months. Architecture and development will take into consideration the need for parallel processing and support both prior to and after the

	conversion.
Existing system performance may be degraded	Adequate resources and budget (time and dollars) will need to be allocated to this project to ensure the development of this system will not degrade our existing system performance. ASRS will include regression and performance testing as part of the development effort to ensure that we do not degrade any existing applications or develop any new applications that do not perform adequately.
Inability to implement by beginning of a new year	Adequate resources will need to be allocated to the project to ensure the development can be completed in time for three months of parallel testing prior to implementation. Sub-projects will need to be arranged so that development essential to the conversion is prioritized. Other development that does not need to be ready for a January 1 implementation can be scheduled for later releases.

Operational Risks	Mitigation Strategy
Staying current with IRS/ADOR tax regulations; Inability to comply with IRS/ADOR tax regulations	Subscribe to on-line tax services, CPE and consult with ASRS tax counsel.
Ongoing resource requirements are greater than anticipated	Staff will have to monitor the process to ensure adequate resources are in place. Agile/Scrum development process will provide earlier indications of potential resource needs.
Maintaining check stock internally; Securing signature plates/stamps for check printing	Implement generally accepted internal controls.

#### IV. Technology Approach

##### **A. Proposed Technology Solution\***

TSD is proposing to take in-house certain processes currently performed by State Street using the Java and FileNet toolsets already in place. The bank interface files will be converted to standard National Automated Clearing House Association (NACHA) formats. Files transferred between ASRS and BofA will be sent via secure transmission protocols. Reconciliation processes that are no longer required will be eliminated. This will result in a development application that leverages existing Public Employees' Retirement Information (PERIS) On-Line functionality and provides the business users with improved processes and functionality as needed.

ASRS will need a more robust disaster recovery setup in Tucson to support additional payroll responsibilities, such as running pension in the event of a disaster in Phoenix. Because of this we will need to add more hardware and printers. Network upgrades will also be required, including new switch and new security appliance for data transfer in both Phoenix and Tucson.

ASRS will use the Agile/Scrum software development process for this project. Scrum is an agile software development model based on a small team working in an intensive and interdependent manner. The

project will be divided into short, three week “sprints” where the team will work on user stories (subsections of the desired features). A sprint consists of planning session, combined development and testing, daily status meetings (daily scrum meeting), a review of the finished stories (sprint reviews) and a review of the sprint process (sprint retrospectives). There will be heavy user involvement throughout each sprint and multiple opportunities to ‘inspect and adapt’. The business users will be involved in requirements gathering, user acceptance testing, training, development of standard operating procedures and ultimately in using the new applications. This implementation will allow TSD to adequately manage the resources needed to bring current bank processes in-house.

ASRS Disbursement Processes: Current and Proposed

Payment processes	Currently done by:	Proposed to be done by:
Check for fraud before sending payment files	State Street	ASRS
Generate and send daily disbursement files	ASRS	ASRS
Generate and send monthly new retiree file	ASRS	ASRS
Generate and send monthly pension file	ASRS	ASRS
Generate and send annual 13th Check file	ASRS	ASRS

Tax processes	Currently done by:	Proposed to be done by:
Pay State taxes	State Street	ASRS
Pay Federal taxes	State Street	ASRS
Reclaim taxes from State	State Street	ASRS
Reclaim taxes from Federal	State Street	ASRS

Other deduction processes	Currently done by:	Proposed to be done by:
Pay dues	State Street	ASRS
Pay levies	State Street	ASRS
Pay child support	State Street	ASRS
Pay other vendors	State Street	ASRS

Check and payment information processes	Currently done by:	Proposed to be done by:
Process ACH	State Street	BofA
Print check and check stubs	State Street	ASRS
Store check stub/ACH deposit information	State Street	ASRS
View payment information online (member)	ASRS	ASRS
Print payment information for member (one offs)	ASRS	ASRS

Payment update processes	Currently done	Proposed to be
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	by:	done by:
Stop payment (check or ACH)	ASRS/State Street	ASRS/BofA
Reissue payment (check or ACH)	ASRS/State Street	ASRS/BofA
Reclaim payment (check or ACH)	ASRS/State Street	ASRS/BofA
Stale check processing (check only)	ASRS/State Street	ASRS/BofA
Process returned items and NOC File (53 return codes and 13 NOC codes)	ASRS/State Street	ASRS/BofA
Process paid file (checks only)	ASRS/State Street	ASRS/BofA

1099 processes	Currently done by:	Proposed to be done by:
Update 1099 information	State Street	ASRS
Reconcile 1099s to payments sent throughout the year	ASRS	ASRS
Print 1099s for members	State Street	ASRS
Print adjusted 1099s	State Street	ASRS
View 1099 information online (members)	ASRS	ASRS
Print 1042s for members for Non-resident aliens	State Street	ASRS
Send State 1099 file	State Street	ASRS
Send Federal 1099 file	State Street	ASRS

Reconciliation & other processes	Currently done by:	Proposed to be done by:
Reconcile all payments	ASRS	ASRS
Create journal entries	ASRS	ASRS
Process Berwyn Death Report	State Street	ASRS
Process Thompson Quarterly Report	ASRS	ASRS

Report processes	Currently done by:	Proposed to be done by:
Generate reports	ASRS	ASRS

	Before	After
ASRS	18	35
State Street	25	0
BofA	0	7
<b>Total Processes</b>	<b>37</b>	<b>37</b>

## **B. Technology Environment**

Switching from State Street to BofA will not require any technology environment changes. ASRS already interfaces with BofA for ACH payments from Employers. BofA is also the provider for ASRS Debit Cards (used in lieu of paper checks for pensioners).



The bank processes that will be taken in house will be developed in the current ASRS Java environment. The disbursements engine is written entirely within existing Java framework, known as Peris On-Line (POL). Certain monthly payment processes are still done using Oracle Forms and PL/SQL code. These processes will be converted either as required during the project, or their conversion will be coordinated with the Oracle Modernization project teams.

The ASRS Oracle Modernization (RT13001) project is to reengineer the existing PERIS applications originally developed from 1998-2004 utilizing Oracle Forms and Reports, into a modern and sustainable technology platform. The replacement applications will be developed by ASRS resources, utilizing the Java (Forms) and Cognos (Reports) toolsets, in order to integrate these into the existing POL Java Web based application.

### ***C. Selection Process***

The majority of peers within the CEM peer universe appear to administer the entire benefit cycle in-house, which includes benefit calculations, electronic payment transmission, printing and mailing paper checks and remittance advices, and tax withholding and reporting. Interviews were conducted with the following pension plans that process their entire benefit cycle in-house:

- California State Teachers Retirement System (CalSTRS)
- Missouri State Employees Retirement System (MOSERS)
- Wisconsin Department of Employee Trust Funds (WDETf)
- Illinois Municipal Retirement System (IMRF)
- Arizona Public Safety Personnel Retirement System (PSPRS)

Staff also interviewed key personnel at the ADOA, the State Treasurer's Office and Bank of America to ask questions about their business processes. The overall impression of staff based on the interviews conducted was:

- Other retirement systems are able to perform this service without a large commitment of human resources.
- In 1999, when the benefit disbursement process was outsourced, payments were primarily issued via paper check. Today, the majority of payments are made electronically. The ASRS can help to keep volumes manageable for staff by continuing to maximize its use of electronic payments and minimize the volume of printed checks and remittance advices.
- BofA, the state's current depository bank, has the capability needed to issue benefit disbursements for the ASRS. To successfully implement an internal benefit disbursement system, the ASRS would need to ensure its file formats conform to the formats required by BofA.
- The ASRS should be able to utilize the existing state contract, which eliminates the need for the ASRS to procure banking services. Historically, BofA has offered a pricing structure substantially below what other banks charge for the same services because of the large deposits the state houses with them. Therefore, it makes sense to proceed on the assumption the ASRS will use BofA.

The State Treasurer’s Office has historically absorbed banking costs for other state agencies. It absorbs the costs because it also enjoys the benefit of any interest earned on state agency bank accounts. The Treasurer’s Office has said that it will discuss the possibility of absorbing banking fees related to the benefit disbursement process in the event we decide to move forward with our project and move closer to an implementation date.

**V. Project Approach**

**A. Project Schedule\***

**Project Start Date:** 7/1/2015    **Project End Date:** 6/28/2019

**B. Project Milestones**

Major Milestones	Start Date	Finish Date
Vendor Management	7/1/15	9/22/15
General Accounting	9/23/15	8/23/16
Stop Check Payment	8/24/16	10/25/16
Fraud Check	10/26/16	3/21/17
Generate EFT File	3/22/17	6/13/17
Generate Image File	6/14/17	7/25/17
Payment Status Updates	7/26/17	11/7/17
Generate Payments	11/8/17	4/24/18
Handling of Inserts	4/25/18	6/26/18
Payment for Reissued EFTs and Checks	6/27/18	9/18/18
Print Paper Checks, Stubs and Advices	9/19/18	11/20/18
Generate 1099R	11/21/18	5/7/19
Corrected 1099	5/8/19	6/28/19

**VI. Roles and Responsibilities**

**A. Project Roles and Responsibilities**

The following technology resources will be dedicated to the project, with other ASRS subject matter experts supporting the work effort as needed. The team will utilize the current Agile/Scrum development methodology and will apply Project Management Institute (PMI) principles. The development team will have the necessary technical skillsets to perform the work required.

The development team will consist of two FTE resources for scrum master and project manager/business analyst. The other four roles (technical lead, developers and tester) will be filled by consultants.

A Change Management Board consisting of Chief Operating Officer (Deputy Director) and Senior Management Team (Assistant Directors) will provide project oversight.

Resource Type	Total Resources	%

Scrum Master	1	17%
Project Manager/Business Analyst	1	17%
Technical Lead	1	17%
Java Software Engineer	2	33%
Quality Assurance Engineer	1	17%
TOTAL	6	100.0%

Other supporting resources includes: Chief Information Officer, Project Management Team Manager, System Architect and Quality Assurance Manager.

**B. Project Manager Certification**

- Project Management Professional (PMP) Certified
- State of Arizona Certified
- Project Management Certification not required

**C. Full-Time Employee (FTE) Project Hours**

<b>Total Full-Time Employee Hours</b>	10,224
<b>Total Full-Time Employee Cost</b>	\$589,516

**VII. Risk Matrix, Areas of Impact, Itemized List, PIJ Financials**



Project Investment Justification.xlsx

## VIII. Project Approvals

### A. Agency CIO Review\*

Key Management Information	Yes	No
1. Is this project for a mission-critical application system?	X	
2. Is this project referenced in your agency's Strategic IT Plan?	X	
3. Is this project in compliance with all agency and State standards and policies for network, security, platform, software/application, and/or data/information as defined in <a href="http://aset.azdoa.gov/security/policies-standards-and-procedures">http://aset.azdoa.gov/security/policies-standards-and-procedures</a> , and applicable to this project? If <b>NO</b> , explain in detail in the "XI. Additional Information" section below.	X	
4. Will this project transmit, store, or process sensitive, confidential or Personally Identifiable Information (PII) data? If <b>YES</b> , in the "XI. Additional Information" section below, describe what security controls are being put in place to protect the data.	X	
5. Is this project in compliance with the Arizona Revised Statutes (A.R.S.) and GRRC rules?	X	
6. Is this project in compliance with the statewide policy regarding the accessibility to equipment and information technology for citizens with disabilities?	X	

### B. Project Values\*

The following table should be populated with summary information from other sections of the PIJ.

Description	Section	Number or Cost
Assessment Cost (if applicable for Pre-PIJ)	II. PIJ Type - Pre-PIJ Assessment Cost	\$0
Total Development Cost	VII. PIJ Financials tab	\$2,874,823
Total Project Cost	VII. PIJ Financials tab	\$3,016,774
FTE Hours	VI. Roles and Responsibilities	10,224

### C. Agency Approvals\*

Contact	Printed Name	Signature	Email and Phone
Project Manager:	Brandon Heathcotte		
Agency Information Security Officer:	Gary Hummel		
Agency CIO:	Kent Smith		
Project Sponsor:	Nancy Bennett		
Agency Director:	Paul Matson		

## IX. Optional Attachments

Not Applicable

## X. Glossary

ACH - An electronic network for financial transactions in the United States; ACH processes large volumes of credit and debit transactions in batches.

CEM - The ASRS has participated in the CEM defined benefit administration benchmarking service since 2001. Each year, the ASRS submits data regarding the various services offered to members, as well as current service levels, transaction volumes, costs, and staffing levels, broken down between different activities. CEM compiles the results and provides a report that benchmarks the ASRS against a group of like-sized peers (approximately 15) within the US and also to a larger universe of participants in North America.

NACHA - Previously the National Automated Clearing House Association, manages the development, administration, and governance of the ACH Network

POL – Peris Online, user interface used by ASRS, developed in Java

PERIS – User interface used by ASRS, developed in Oracle Forms

## XI. Additional Information

At the ASRS, we utilize industry best practices (e.g. firewall, anti-virus, log review) including encryption to transmit any data outside of our network. In addition, we are in the process of implementing security controls based on the state-recommended NIST standards. We also participate in external security assessments on a bi-annual basis.

Links:

[ADOA-ASET Website](#)

[ADOA-ASET Project Investment Justification Information Templates and Contacts](#)

Email Addresses:

[Strategic Oversight](#)

[ADOA-ASET Webmaster@azdoa.gov](mailto:Webmaster@azdoa.gov)