OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM
BOARD MEETING

Monday, March 28, 2011 1:00 P.M.		PERS 11410 SW 68th Parkway Tigard, OR
	ITEM	**PRESENTER**
A.	**Administration – 1:00 P.M.**	
1.	January 28, 2011 Board Meeting Minutes	
2.	Director's Report	CLEARY
	a. Forward-Looking Calendar	
	b. OIC Investment Report	MUELLER
	c. OIC Investment Cost and Performance Benchmarking Report	MUELLER
	d. Operating Budget Report	
	e. Annual Cost-of-Living Adjustment (COLA)	
	f. Quarterly Report of Member Transactions	
B.	**Notice of Rulemaking**	
1.	Second Notice of Recovery of Administrative Costs Rule	RODEMAN
C.	**First Reading**	
1.	First Reading of Trustee-to-Trustee Transfer Rules	RODEMAN
D.	**Action and Discussion Items**	
1.	2010 Final Earnings Crediting	RODEMAN / ORR
2.	Updated Financial Modeling Results	MERCER
3.	2011 Legislative Session Update	RODEMAN / O'LEARY
E.	**Executive Session Pursuant to ORS 192.660(2)(f), (h), and/or ORS 40.225**	
1.	Litigation Update	LEGAL COUNSEL

Note: A PERS Audit Committee meeting will be held immediately following the Board meeting.

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Level 1 - Public

PERS

Oregon Public Employees Retirement System

OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM

Item A.1.

PERS Board Meeting
January 28, 2011
Tigard, Oregon
MINUTES

Board Members:	Staff:		
James Dalton, Chair	Donna Allen	Jon DuFrene	Jeff Marecic
Eva Kripalani	Gay Lynn Bath	Yvette Elledge	Dale Orr
Mike Pittman	Helen Bamford	Brian Harrington	Steve Rodeman
Laurie Warner	Paul Cleary	Rick Howitt	Jason Stanley
Pat West	David Crosley	Mary Lang	Stephanie Vaughn

Others:

Bruce Adams	Keith Kutler	Victor Nolan	Dennis Thompson
Linda Ely	Matt Larrabee	Scott Preppernau	Deborah Tremblay
Bruce Griswold	Steve Manton	Bill Robertson	Denise Yunker
Blake Johnson	Elizabeth McCann	Todd Stucky	

Chair James Dalton called the meeting to order at 1:00 pm.; Board member Mike Pittman attended by phone.

Dalton requested a motion to appoint Board member Laurie Warner as the Board Vice-Chair. It was moved by Eva Kripalani and seconded by Pat West to appoint Board Member Laurie Warner to the Vice-Chair position. The motion passed unanimously.

Dalton confirmed that Board committee positions have been appointed as follows:

Pat West	Legislative Advisory Committee Retiree Health Insurance Advisory Committee
Eva Kripalani	Audit Committee Legal Subcommittee
Mike Pittman	Audit Committee Actuarial Subcommittee
Laurie Warner	Legislative Advisory Committee
James Dalton	Audit Committee Actuarial Subcommittee

ADMINISTRATION

A.1. BOARD MEETING MINUTES OF NOVEMBER 19, 2010

The Board unanimously approved the minutes from the November 19, 2010 Board meeting.

A.2. DIRECTOR'S REPORT

Executive Director Paul Cleary reviewed the Board's forward-looking calendar noting the next Board meeting is on Monday, March 28, 2011.

Cleary presented the December 31, 2010 Oregon Investment Council (OIC) report detailing the Fund's asset allocation and related investment returns. Cleary noted the overall fund is now at $56.7 billion dollars. Cleary announced the OIC has created an "alternatives portfolio" using 3% of public equity and 2% of fixed income to create a strategic allocation of 5% of the total fund to be invested in commodities, infrastructure, and inflation-protected securities that will provide additional portfolio diversification and downside risk protection.

Cleary presented the 2009-11 operating budget report noting a positive variance of approximately $4.3 million as of December, 2010.

Cleary read a letter of appreciation from Governor Kulongoski thanking the Board members for their dedicated and generous service to the Oregon Public Employees Retirement System.

NOTICE OF RULEMAKING

B.1. NOTICE OF TRUSTEE-TO-TRUSTEE TRANSFER FULES

Deputy Director Steve Rodeman provided notice of rulemaking that will clarify a member's ability to restore forfeited creditable service or to make retirement credit purchases via a trustee-to-trustee transfer from certain other retirement plans.

FINAL RULE ADOPTION

C.1. ADOPTION OF EMPLOYER REPORTING AND REMITTANCE RULES

Rodeman presented the proposed modifications to Employer Reporting and Remittance Rules to help stabilize employment data and enhance the accuracy of data provided to members and used in benefit administration.

Laurie Warner asked Rodeman to respond to Department of Administrative Services (DAS) concerns that the rule adoption may create work backlogs and to a letter from the City of Eugene regarding the five-day remitting requirement for contributions and penalties (if any).

Rodeman responded that concerns about the rule implementation will be resolved by staff, and confirmed that PERS has regular contact with DAS to address their concerns. In response to the City of Eugene comments, Rodeman said the Employer Data Exchange (EDX) automatically provides notification to the employer, that any reporting of service is initiated by an action of the employer, and that employers had 60 days to appeal invoices for prior year contributions and earnings.

Eva Kripalani moved and Laurie Warner seconded the motion to adopt the Adoption of Employer Reporting and Remittance Rules as presented. The motion passed unanimously.

ACTION AND DISCUSSION ITEMS

D.1. 2010 PRELIMINARY EARNINGS CREDITING

Rodeman submitted a preliminary proposal for earnings crediting and provided background information regarding the process and the Board's responsibility and authority for crediting earnings from the PERS Fund.

The Board will determine final earnings crediting at the March 28, 2011 Board meeting.

The Board discussed the staff recommendation, and alternatives to allocate more earnings to the Contingency Reserve.

Pat West moved and Eva Kripalani seconded the motion to direct staff to preliminarily allocate earnings to the Contingency Reserve proportional to the amounts available for crediting to other accounts and reserves, and to allocate the remainder as recommended by staff. The motion passed unanimously.

D.2. 2011 LEGISLATIVE SESSION UPDATE

Laurie Warner reported on the Legislative Advisory Committee (LAC) meeting that was held in Salem on January 24, 2011. Warner said the Committee reviewed the three PERS-sponsored bills and additional PERS-related bills that were introduced to date for the 2011 legislative session. Warner said that with the positive changes from the 2003 PERS Reform and the continued growth of OPSRP, the Committee felt that the basic PERS plan design was fairly well-grounded on a going forward basis.

West said the Advisory committee, composed of employee and employer groups, had a dynamic discussion on the substantive bills that proposed changes to the PERS Plan, and most LAC members agreed there was little need for or support of major changes to the PERS plan design during the 2011 session.

Rodeman provided a report outlining legislative bills and related Board policy positions and welcomed Board response and direction regarding all bills that have been introduced in the 2011 Session.

Steve Manton, City of Portland, said that while interested in HB 2115 (the agency's proposed bill that would maintain the process for a PERS member to request verification of retirement data before retirement, but eliminate the data "guarantee"), he felt that employers had not taken a firm position for or against that bill.

On another topic, Manton stated his concern that the OIC may be paying excessive fees to PERS fund managers and advisors. Cleary responded that the OIC was a leader in pushing back on private equity and other investment management fees. Cleary said he would provide a CEM Benchmarking Services report of fund management expenses and returns at the next Board meeting.

Chair Dalton adjourned the meeting at 1:44 PM.

Respectfully submitted,

Paul R Cleary

Paul R. Cleary
Executive Director

PERS Board Meeting
Forward-Looking Calendar

May 26, 2011

Adoption of Trustee-to-Trustee Transfer Rules
Adoption of Recovery of Administrative Costs Rule
Adoption of Limitation on Contributions Rule
Notice of Self-Directed Brokerage Option Rule
Notice of Combined and Concurrent Service Rules
Notice of Disability Rules
Notice of Social Security Rules
Employer Reporting
Retiree Health Insurance Rates 2011 Plan Renewals and Rates
2011 Legislative Update

July 22, 2011

Adoption of OSGP Self-Directed Brokerage Option Rule
Adoption of Combined and Concurrent Service Rules
Adoption of Disability Rules
Adoption of Social Security Rules
2010 Experience Study
2011 Legislative Results

Audit Committee Meeting

September 23, 2011

2010 Valuation Results
2010 Actuarial Equivalency Factors

November 18, 2011

Employer Reporting

Audit Committee Meeting

PERS

Oregon
Public
Employees
Retirement
System

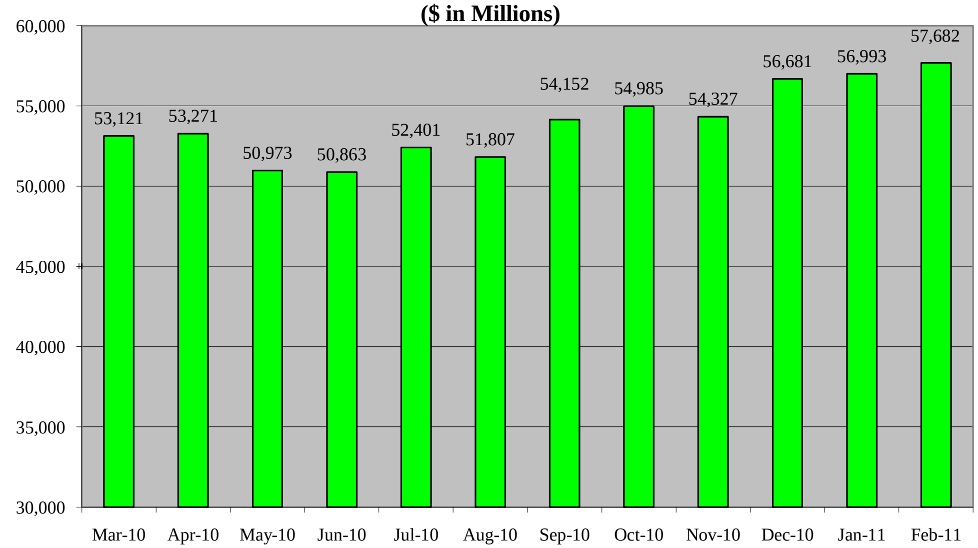
Returns for periods ending 2/28/11 **Oregon Public Employees Retirement Fund**

OPERF	Policy[1]	Target[1]	$ Thousands[2]	Actual	Year-To-Date[3]	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS
	Regular Account				Historical Performance (Annual Percentage)					
Public Equity	41-51%	46%	$ 23,357,985	41.2%	**4.27**	**24.27**	**40.71**	**1.05**	**0.65**	**3.20**
Private Equity	12-20%	16%	12,048,351	21.3%	**N/A**	**16.44**	**5.53**	**0.54**	**6.32**	**8.14**
Total Equity	**57-67%**	**62%**	**35,406,336**	**62.5%**						
Opportunity Portfolio			1,072,700	1.9%	**3.85**	**15.60**	**28.12**	**6.50**	**5.57**	
Total Fixed	**22-32%**	**27%**	**14,772,879**	**26.1%**	**1.62**	**10.03**	**19.12**	**8.34**	**7.13**	**7.01**
Real Estate	**8-14%**	**11%**	**5,389,778**	**9.5%**	**1.37**	**(0.28)**	**(3.59)**	**(7.68)**	**(4.22)**	**1.33**
Cash	**0-3%**	**0%**	**22,436**	**0.0%**	**0.26**	**0.84**	**1.69**	**1.29**	**2.31**	**2.89**
TOTAL OPERF Regular Account		**100%**	**$ 56,664,129**	**100.0%**	**2.37**	**16.02**	**21.66**	**1.57**	**2.25**	**4.27**
OPERF Policy Benchmark					**2.19**	**14.83**	**19.86**	**1.70**	**2.65**	**4.57**
Value Added					**0.18**	**1.19**	**1.80**	**(0.13)**	**(0.40)**	**(0.30)**
TOTAL OPERF Variable Account			**$ 1,017,665**		**4.43**	**23.08**	**39.97**	**1.19**	**(1.04)**	**1.23**

Asset Class Benchmarks:

Benchmark	Year-To-Date	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS
Russell 3000 Index	5.90	24.25	39.21	3.06	1.11	3.21
MSCI ACWI Ex US IMI Net	3.31	22.07	41.91	(0.78)	1.29	4.85
MSCI ACWI IMI Net	4.39	22.79	40.40	0.63	0.89	3.74
Russell 3000 Index + 300 bps--Quarter Lagged	N/A	14.27	6.41	(2.48)	2.64	4.69
BC Universal--Custom FI Benchmark	0.43	5.26	8.13	5.46	5.69	5.72
NCREIF Property Index--Quarter Lagged	N/A	5.84	(9.20)	(4.62)	0.45	3.67
91 Day T-Bill	0.02	0.14	0.17	0.58	1.63	2.30

TOTAL OPERF NAV
(includes variable fund assets)
One year ending February 2011
($ in Millions)



[1]OIC Policy 4.01.18, as revised September 2007.

[2]Includes impact of cash overlay management.

[3]For mandates beginning after January 1 (or with lagged performance), YTD numbers are "N/A". Performance is reflected in Total OPERF.

PERS
Oregon
Public
Employees
Retirement
System

Oregon Public Employees Retirement Fund
Investment Benchmarking Results

For the 5 year period ending December 2009

Bruce Hopkins
CEM Benchmarking Inc

CEM Benchmarking Inc.
What gets measured gets managed

This benchmarking report compares your cost and return performance to CEM's extensive pension database.

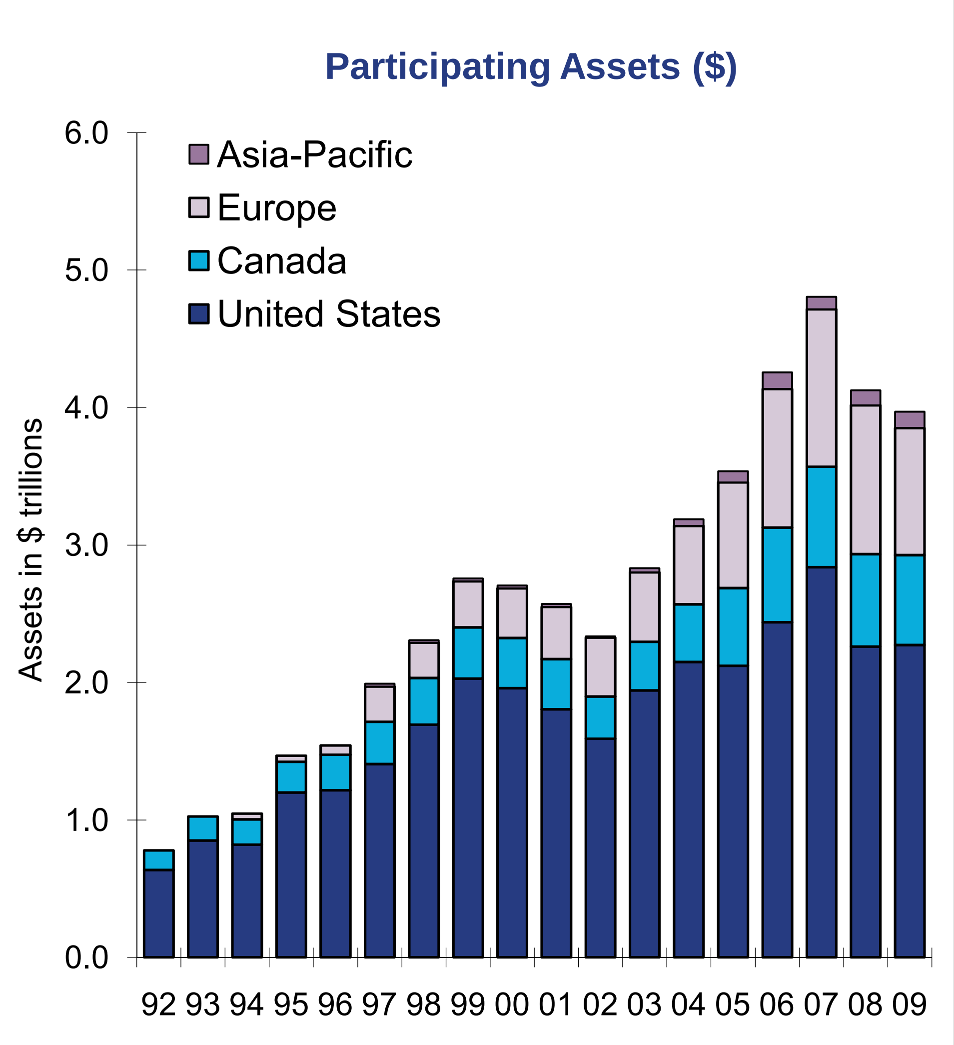
- 189 U.S. pension funds participate with assets totaling $2.3 trillion.

- 87 Canadian funds participate with assets totaling $655 billion.

- 46 European funds participate with aggregate assets of $924 billion. Included are funds from the Netherlands, Norway, Sweden, Finland, France, Denmark, U.K. and Ireland.

- 7 Asia-Pacific funds participate with aggregate assets of $161 billion. Included are funds from Australia, New Zealand and South Korea.

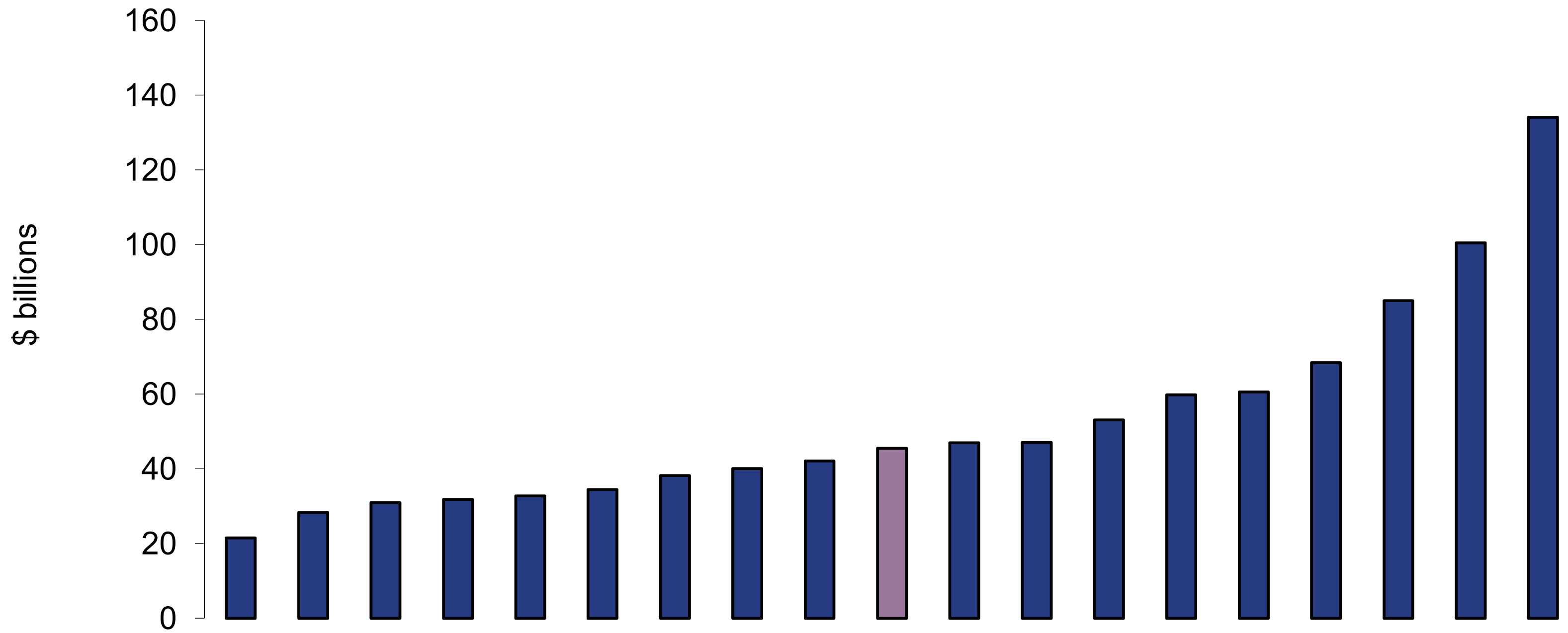
The most meaningful comparisons for your returns and value added are to the U.S. universe.



The most valuable comparisons for cost performance are to your custom peer group because size impacts costs.

Custom Peer Group for
Oregon Public Employees Retirement Fund

- 19 U.S. sponsors from $21.5 billion to $134.1 billion
- Median size $45.6 billion versus your $45.6 billion



To preserve client confidentiality, given potential access to documents as permitted by the Freedom of Information Act, we do not disclose your peers' names in this document.

What gets measured gets managed, so it is critical that you measure and compare the right things:

1. Policy Return	How did the impact of your policy mix decision compare to other funds?
2. Value Added	Are your implementation decisions (i.e., the amount of active versus passive management) adding value?
3. Costs	Are your costs reasonable? Costs matter and can be managed.

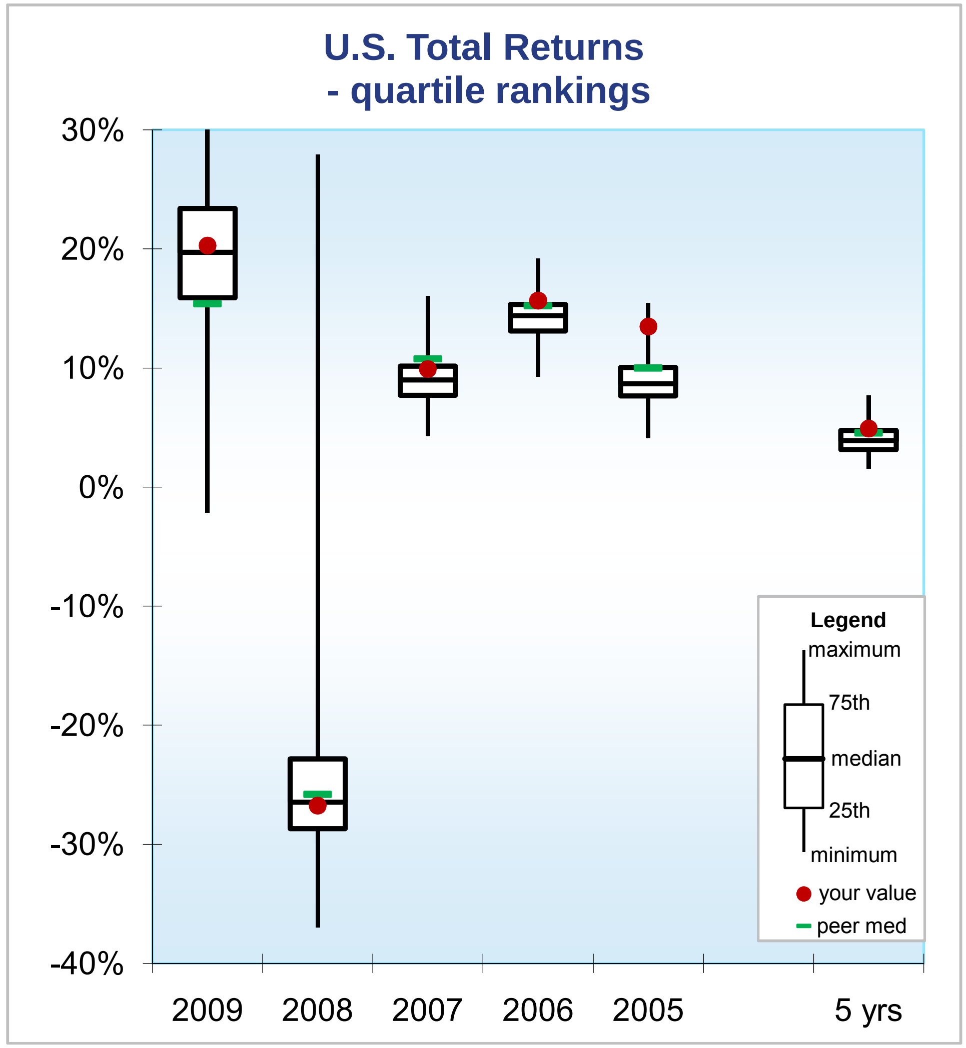
Your 5-year total return of 4.9% was above the U.S. median of 3.9%.

Total returns, by themselves, provide little insight into the reasons behind relative performance. Therefore, we separate total return into its more meaningful components: policy return and value added.

	Your 5-yr.
Total Fund Return	4.9%
Policy Return	4.4%
Value Added	0.5%

This approach enables you to understand the contribution from both policy mix decisions (which tend to be the board's responsibility) and implementation decisions (which tend to be management's responsibility).

The median 5-year total return of your peers was 4.6%.



1. Policy Return

Your 5-year policy return of 4.4% was above the U.S. median of 3.7%.

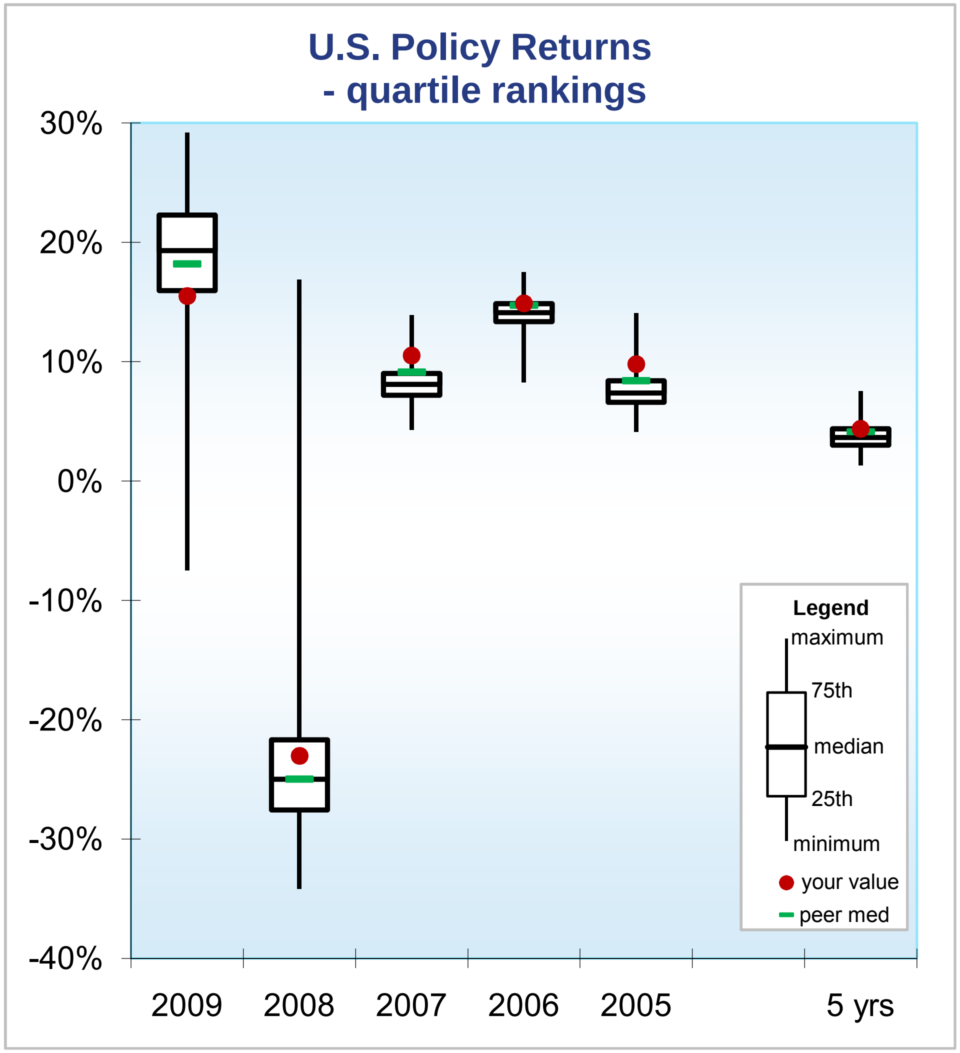
Your policy return is the return you could have earned passively by indexing your investments according to your policy mix.

Having a higher or lower relative policy return is not necessarily good or bad. Your policy return reflects your investment policy, which should reflect your:

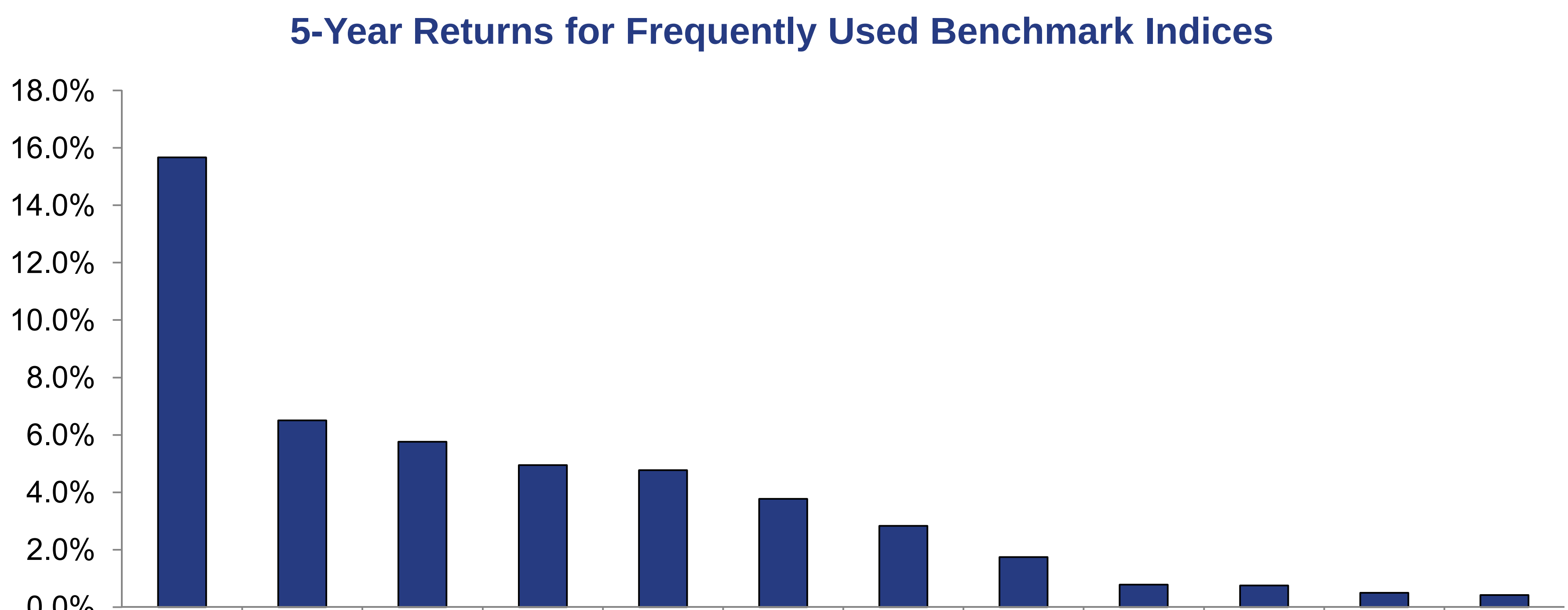
- Long term capital market expectations
- Liabilities
- Appetite for risk

Each of these three factors is different across funds. Therefore, it is not surprising that policy returns often vary widely between funds.

The median 5-year policy return of your peers was 4.1%.



Differences in policy returns are caused by differences in policy mix and benchmarks.



	MSCI Emerg. Market	Private Equity	Hedge Funds	Barclays Aggr. Bond	NCREIF	MSCI EAFE	MSCI World	Barclays Long Bond	Russell 1000	Russell 3000	Russell 2000	NAREIT
US5yr	15.7%	6.5%	5.8%	4.9%	4.8%	3.8%	2.8%	1.7%	0.8%	0.8%	0.5%	0.4%

The private equity and hedge fund benchmark returns shown reflect the average of all benchmarks given by CEM participants.

Your 5-year policy return was above the U.S. median primarily because of:

• The positive impact of your higher weights in two of the better performing asset classes of the past 5 years: EAFE/global stock and private equity.

• The positive impact of your lower weight in one of the poorer performing asset classes of the past 5 years: U.S. stock.

5-Year Average Policy Mix

Asset class	Your fund	U.S. avg	Peer avg
U.S. Stock	22%	39%	32%
EAFE/Global Stock	29%	17%	20%
Emerging Mkt Stock	0%	1%	2%
Total Stock	51%	57%	53%
U.S. Bonds	27%	22%	21%
Long Bonds	0%	4%	3%
High Yield Bonds	0%	2%	1%
Inflation Index Bonds	0%	1%	1%
Fixed Income - Other	0%	2%	4%
Cash	0%	1%	1%
Total Fixed Income	27%	31%	31%
Real Assets*	9%	5%	8%
Hedge Funds	0%	2%	2%
Private Equity	13%	4%	7%
Total	100%	100%	100%

* Includes Real Estate, REITs, Commodities, Infrastructure and Natural Resources

Your policy mix has changed over the past 5 years. At the end of 2009, it compared to your peers and the U.S. universe as follows.

Policy Mix	2009			2005
Asset Class	Your Fund	U.S. Avg	Peer Avg	Your Fund
U.S. Stock	0%	32%	24%	35%
EAFE/Global Stock	46%	18%	23%	20%
Emerging Mkt Stock	0%	2%	2%	0%
Total Stock	46%	52%	48%	55%
U.S. Bonds	27%	21%	15%	27%
Long Bonds	0%	7%	8%	0%
High Yield Bonds	0%	2%	2%	0%
Inflation Index Bonds	0%	1%	1%	0%
Fixed Income - Other	0%	2%	5%	0%
Cash	0%	1%	1%	0%
Total Fixed Income	27%	34%	32%	27%
Real Assets	11%	6%	8%	8%
Hedge Funds	0%	4%	3%	0%
Private Equity	16%	5%	8%	10%
Total	100%	100%	100%	100%

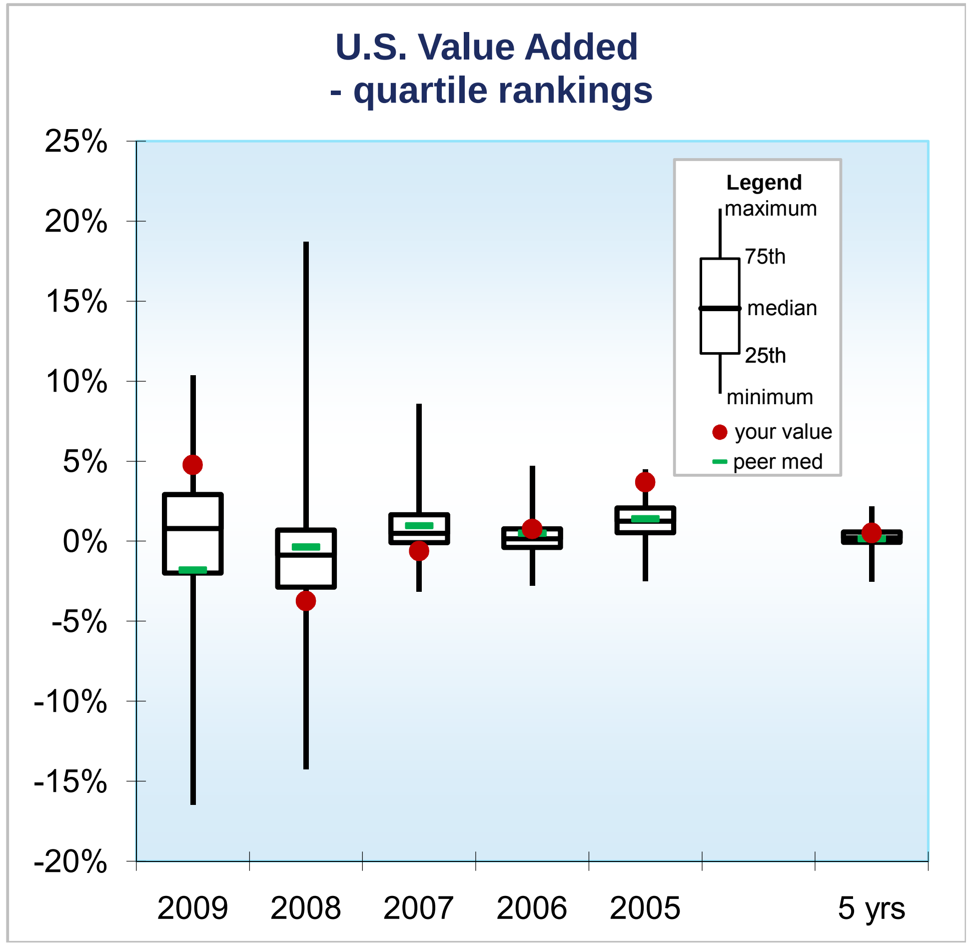
2. Value Added

Value added is the component of your total return from active management. Your 5-year value added of 0.5% was above the U.S. median of 0.2%.

Value added equals your total return minus your policy return.

Oregon PERF			
Year	**Total return**	**Policy return**	**Value added**
2009	20.3%	15.5%	4.8%
2008	(26.8)%	(23.0)%	(3.7)%
2007	9.9%	10.5%	(0.6)%
2006	15.7%	14.9%	0.8%
2005	13.5%	9.8%	3.7%
5-year	4.9%	4.4%	0.5%

Your 5-year value added of 0.5% compares to a median of 0.2% for your peers and 0.2% for the U.S. universe.



3. Costs

Your asset management costs in 2009 were $404.6 million or 88.8 basis points.

Your Investment Management Costs ($000s)						
	Internal		External			
	Passive	Active	Passive	Active: base fees	Active: perform fees	Total
Stock - All U.S.	78		103	21,970		22,151
Stock - ACWIxU.S.				30,766		30,766
Stock - Global			175	6,081		6,256
Fixed Income - U.S.				20,715		20,715
Cash		225				225
REITs				2,872		2,872
Real Estate ex-REITs				25,160	n/a[2]	25,160
Diversified Private Equity				264,845 [1]	n/a[2]	264,845
Other Private Equity				22,113 [1]	n/a[2]	22,113
Overlay Programs				644	n/a[2]	644
Total investment management costs					86.9bp	395,717

Your Oversight, Custodial and Other Asset Related Costs[3] ($000s)		
Oversight of the fund		6,519
Trustee & custodial		100
Consulting and performance measurement		2,003
Audit		265
Other		
Total oversight, custodial & other costs	2.0bp	8,887

Total asset management costs	88.8bp	404,604

Notes
[1] Private equity costs derived from the partnership level detail you provided.
[2] Total cost excludes carry/performance fees for real estate, private equity and overlays. Performance fees are included for the public market asset classes.
[3] Excludes non-investment costs, such as preparing checks for retirees.

Benchmark cost analysis suggests that your fund was low cost by 7.2 basis points.

Your benchmark cost is an estimate of what your cost would be given your actual asset mix and the median costs that your peers pay for similar services. It represents the cost your peers would incur if they had your actual asset mix.

Your total cost of 88.8 bp was lower than your benchmark cost of 96.0 bp. Thus, your cost savings was 7.2 bp.

	$000s	basis points
Your actual cost	404,604	88.8 bp
Your benchmark cost	437,497	96.0 bp
Your excess cost	(32,893)	(7.2) bp

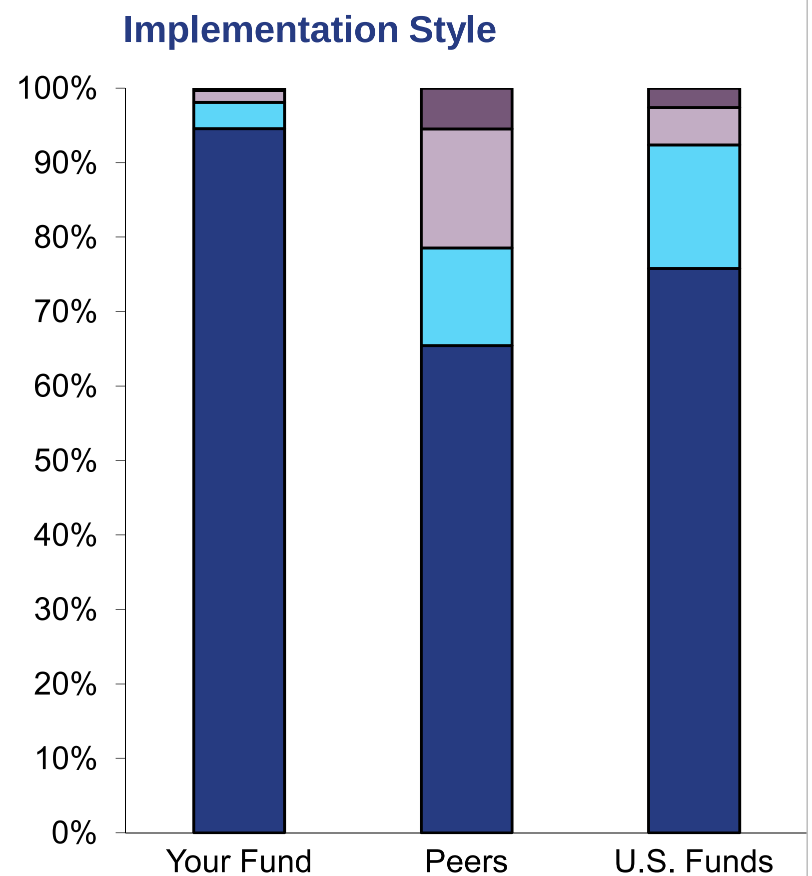
One key cause of differences in cost performance is often differences in implementation style.

Implementation style is defined as the way in which you implement your asset allocation. It includes internal, external, active and passive styles.

The greatest cost impact is usually caused by differences in the use of:

- External active management because it tends to be much more expensive than internal or passive management. You used more external active management than your peers (your 95% versus 65% for your peers).

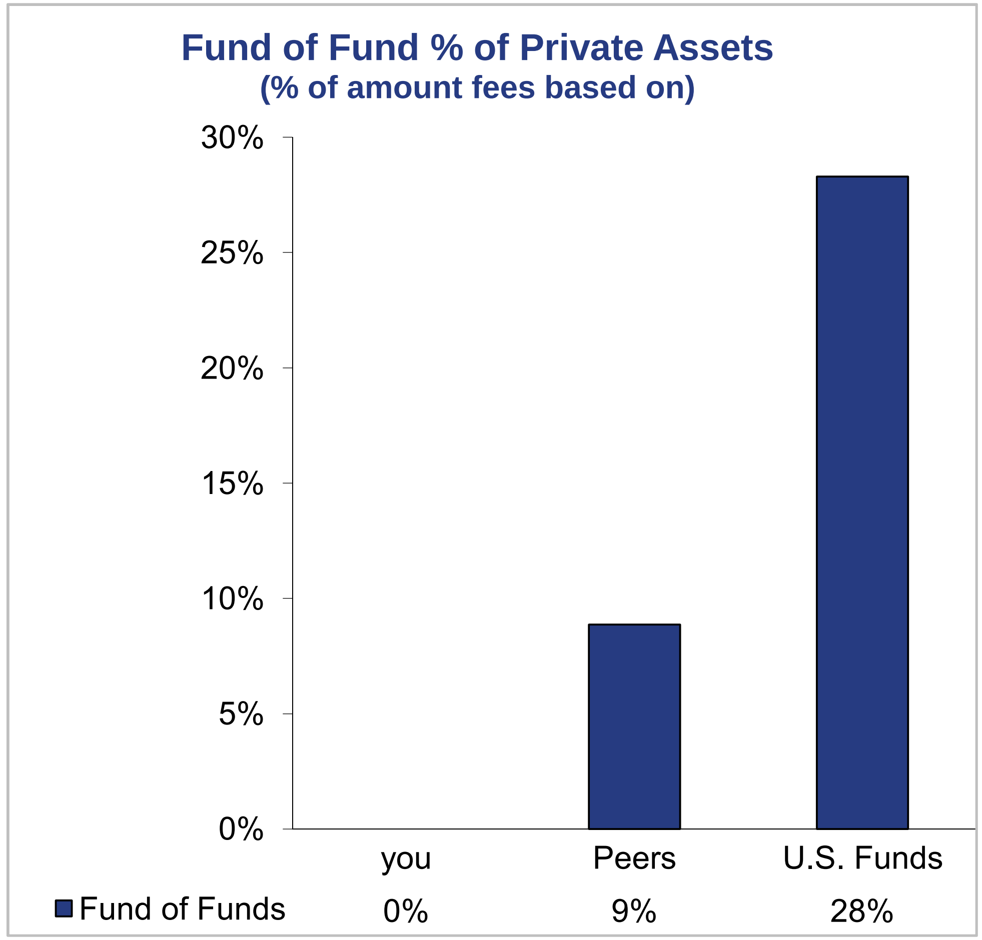
- Within external active holdings, fund of funds usage because it is more expensive than direct fund investment. You did not uses fund of fund managers (see next page).



	Your Fund	Peers	U.S. Funds
Internal passive	0.3%	5%	3%
Internal active	2%	16%	5%
External passive	4%	13%	17%
External active	95%	65%	76%

Your private asset implementation style was lower cost. You used less fund of funds.

None of your private assets were in fund of funds, whereas 9% of peers' private assets were in fund of funds (as a % of the amount fees are based upon).



Differences in implementation style cost you 4.4 bp relative to your peers.

Cost Impact of Differences in Implementation Style

Asset class	Your avg holdings in ($mils)	% External Active: You	% External Active: Peer average	% External Active: More/ (less)	Cost[1,2] premium	Cost/ (Savings) in $000s
Stock - All U.S.	6,925	77.0%	37.5%	39.4%	36.7 bp	10,019
Stock - ACWIxU.S.	8,855	100.0%	59.1%	40.9%	22.1 bp	7,999
Stock - Global	2,569	100.0%	62.5%	37.5%	N/A	
Fixed Income - U.S.	12,147	100.0%	53.3%	46.7%	14.7 bp	8,355
REITs	987	100.0%	74.3%	25.7%	40.0 bp	1,014
Real Estate ex-REITs	3,407	100.0%	88.8%	11.2%	63.5 bp	2,419
of which Partnerships represent:		0.0%	16.9%	(16.9%)	40.5 bp	(2,339)
Diversified Private Equity	18,600	100.0%	98.2%	1.8%	159.2 bp	5,208
of which Fund of Funds represent:		0.0%	4.9%	(4.9%)	90.0 bp	(8,128)
Other private equity	1,500	100.0%	92.3%	7.7%	N/A	0
Total 94.		6%	65.4%	29.2%		24,547
Total external active style impact in bps						5.4 bp
Impact of differences in the use of lower cost styles[3]						(0.1) bp
Savings from your lower use of portfolio level overlays (your one passive beta hedge)						(0.9) bp
Total style impact						4.4 bp

1. The cost premium is the additional cost of external active management relative to the average of other lower cost implementation styles - internal passive, internal active and external passive.
2. A cost premium of 'N/A' indicates that there was insufficient peer data to calculate the premium.
3. The 'Impact of differences in the use of lower cost styles' quantifies the net impact of your relative use of internal passive, internal active and external passive management.

The net impact of differences in external investment management costs saved you 11.3 bps.

Impact of Paying More/(Less) for External Investment Management					
	Your avg holdings in $mils	Cost in bps			Cost/ (Savings) in $000s
		You	Peer median	More/ (Less)	
Stock - All U.S. - Active	5,330	41.2	40.4	0.9	454
Stock - ACWIxU.S. - Active	8,855	34.7	36.9	(2.1)	(1,869)
Stock - Global - Active	2,569	24.2	44.1	(19.8)	(5,099)
Fixed Income - U.S. - Active	12,147	17.1	17.1	0.0	0
REITs - Active	987	29.1	45.7	(16.6)	(1,638)
Real Estate ex-REITs - Active	3,407	73.8	75.0	(1.2)	(392)
Diversified Private Equity - Active	18,600	142.4	165.0	(22.6)	(42,055)
Other Private Equity - Active	1,500	147.4	N/A	N/A	
Derivatives/Overlays - Passive Beta	*Notional* 2,079	3.1	7.6	(4.5 bp)	(938)
Total external investment management impact				(11.3) bp	(51,563)

'N/A' indicates insufficient peer data to do meaningful comparisons.

The net impact of differences in internal investment management costs was negligible.

Impact of Paying More/(Less) for Internal Investment Management					
	Your avg holdings in $mils	Cost in bps			Cost/ (Savings) in $000s
		You	Peer median	More/ (Less)	
Stock - All U.S. - Passive	289	2.7	1.4	1.3	37
Cash - Active	871	2.6	2.6	0.0	0
Total internal investment management impact				0.0 bp	37

The net impact of differences in your oversight, custodial & other costs saved you 0.3 bps.

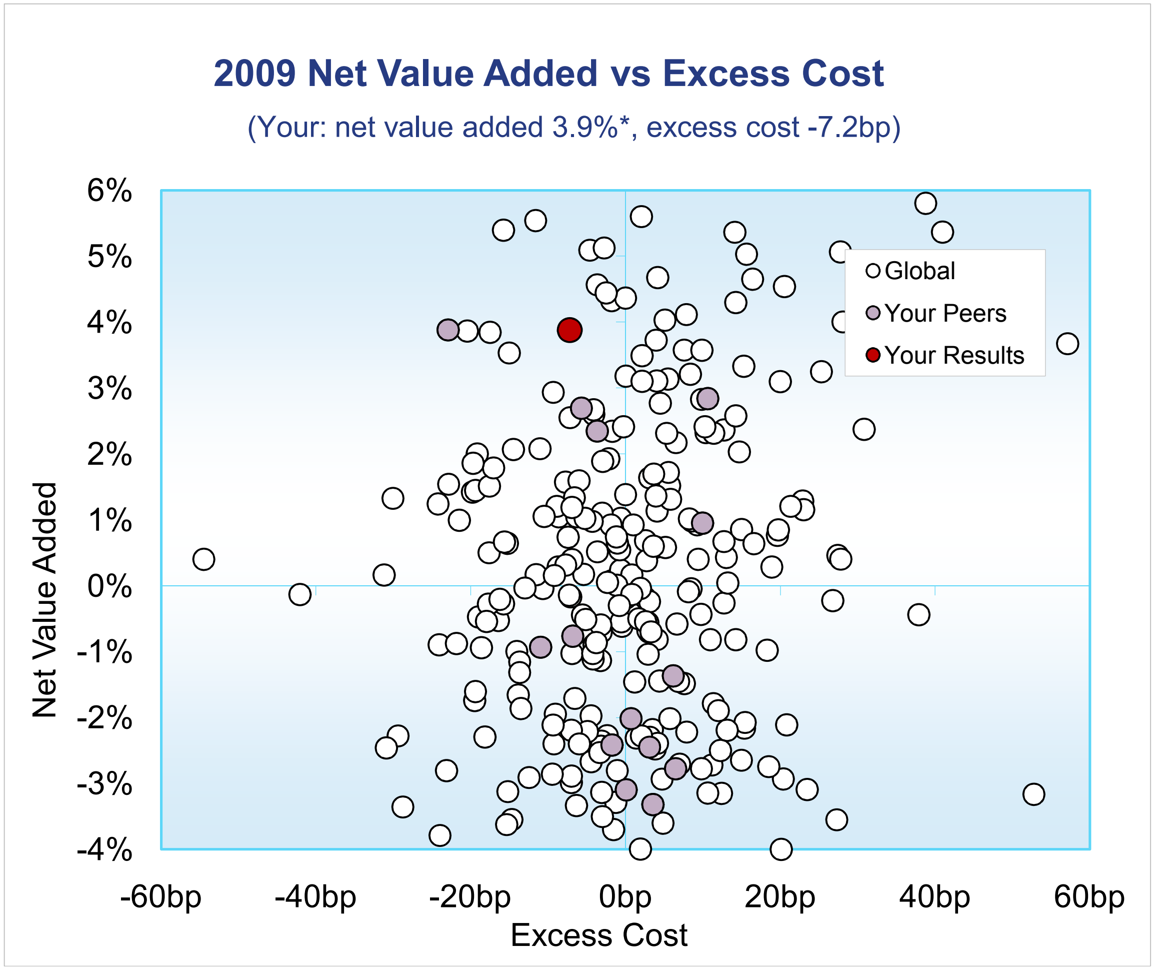
Impact of Differences in Oversight, Custodial & Other Costs					
	Your avg holdings in $mils	Cost in bps			Cost/ (Savings) in $000s
		You	Peer median	More/ (Less)	
Oversight	45,560	1.4	1.2	0.2	1,030
Custodial / trustee	45,560	0.0	0.4	(0.4)	(1,802)
Consulting / performance measurement	45,560	0.4	0.5	(0.0)	(76)
Audit	45,560	0.1	0.1	0.0	19
Other	45,560	0.0	0.1	(0.1)	(663)
Total impact				(0.3) bp	(1,493)

In summary, you were low cost primarily because you paid less for similar mandates.

Explanation of Your Cost Status	Excess Cost/ (Savings) $000s	Excess Cost/ (Savings) bps
1. Higher cost implementation style		
• Higher use of external management	24,547	5.4
• Differences in the use of lower cost styles	(418)	(0.1)
• Lower use of overlays	(4,004)	(0.9)
	20,125	4.4
2. Paying less than your peers		
• External investment management costs	(51,563)	(11.3)
• Internal investment management costs	37	0.0
• Oversight, custodial & other costs	(1,493)	(0.3)
	(53,018)	(11.6)
Total Savings	(32,893)	(7.2)

Cost Effectiveness

For 2009 you were in the positive net value added, low cost quadrant of the cost effectiveness chart.



[1] Your 2009 Net implementation value added of 3.9% equals your 4.8% gross impl. value added minus your 0.9% actual cost.

In summary:

1. Policy Return

Your 5-year policy return was 4.4%. This was above the U.S. median of 3.7% and above the peer median of 4.1%.

2. Value Added

Your 5-year value added was 0.5%. This was above the U.S. median of 0.2% and above the peer median of 0.2%.

3. Costs

Your actual cost of 88.8 bps was below your benchmark cost of 96.0 bps. This suggests that your fund was low cost.
You were low cost primarily because you paid less for similar mandates.

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March 28, 2011

TO: Members of the PERS Board

FROM: Kyle J. Knoll, Business Operations Manager

SUBJECT: March 2011 Budget Report

2009-11 BUDGET UPDATE

Operating expenditures for January 2011 were $3,043,888, and preliminary expenditures for February 2011 are $2,735,491. Final February 2011 expenditures close in the Statewide Financial Management System (SFMS) March 18, 2011, and will be included in the May 2011 Board Report.

- To-date, through the first twenty months (83.33%) of the 2009-11 biennium, the Agency has expended a total of $59,663,013, or 71.66% of PERS' 2009-11 operating budget.

- PERS currently maintains a projected positive budget variance of $4,129,341, or approximately 5.0% of the 2009-11 operating budget of $83,261,952. Of that projected positive variance, $140,605 is in the RIMS Conversion Project (RCP) budget.

2011-13 BUDGET UPDATE

Governor Kitzhaber submitted the 2011-13 Governor's Balanced Budget (GBB) to the Legislature February 1, 2011. Essentially, the 2011-13 GBB baseline is the current 2009-11 Legislatively Approved Budget (LAB) minus allotment reductions.

- Director Paul Cleary presented PERS 2011-13 GBB to the Ways & Means General Government Subcommittee on February 14 and 15, 2011, along with the 2010 Preliminary Earnings Crediting Report.

- A related 2011-13 GBB work session will be scheduled by the General Government Subcommittee at a later date.

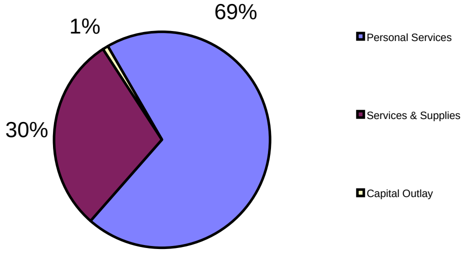
2009-11 Agency-wide Operations - Budget Execution
Summary Budget Analysis
For the Month of: February 2011 (preliminary)

Biennial Summary

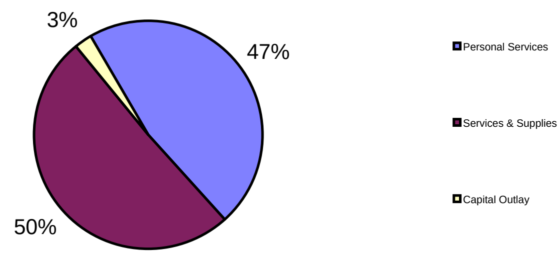
Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expend.	2009-11 LAB	Variance
Personal Services	41,528,511	9,105,486	50,633,998	52,751,494	**2,117,496**
Services & Supplies	17,618,554	9,865,712	27,484,266	29,916,870	**2,432,604**
Capital Outlay	515,947	498,400	1,014,347	593,588	**(420,759)**
Special Payments					
Total	**59,663,013**	**19,469,598**	**79,132,611**	**83,261,952**	**4,129,341**

Targeted Reserve Variance	**2,754,000**
RCP Reserved	**140,605**
Net Budget Available	**1,234,735**

Actual Expenditures

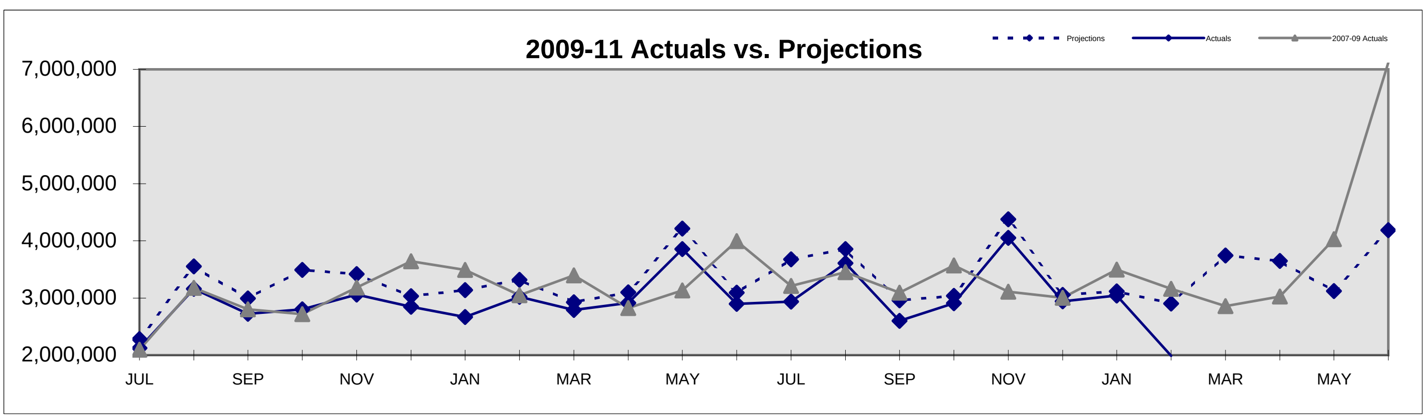


Projected Expenditures



Monthly Summary

Category	Actual Exp.	Projections	Variance	Avg. Monthly Actual Exp.	Avg. Projected Expenditures
Personal Services	2,137,020	2,206,011	68,991	2,076,426	2,276,372
Services & Supplies	598,471	696,700	98,229	880,928	2,466,428
Capital Outlay				25,797	124,600
Special Payments					
Total	**2,735,491**	**2,902,711**	**167,220**	**2,983,151**	**4,867,400**



2007-09 Biennium Summary

Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expend.	2007-09 LAB	Variance
Personal Services	49,613,038		49,613,038	53,288,261	**3,675,223**
Services & Supplies	27,421,160		27,421,160	26,553,000	**(868,160)**
Capital Outlay	350,966		350,966	947,701	**596,735**
Special Payments					
Total	**77,385,163**		**77,385,163**	**80,788,962**	**3,403,799**

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John A. Kitzhaber, M.D., Governor

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March 28, 2011

TO: Members of the PERS Board

FROM Brian Harrington, Benefit Payments Division (BPD) Administrator

SUBJECT: Annual Cost-of-Living Adjustment (COLA)

Oregon statute caps annual cost-of-living increases or decreases for Tier One / Tier Two PERS monthly pension benefits at 2 percent. The amount of any COLA increase or decrease in any year in excess of 2 percent shall be accumulated and used to calculate COLA increases or decreases in succeeding years.

The annual COLA is based on the Consumer Price Index (CPI) as published by the U.S. Department of Labor's Bureau of Labor Statistics for the Portland-Salem area. The final 2010 published CPI for the Portland-Salem area is 1.25 percent.

The COLA for PERS retirees and beneficiaries is effective July 1, 2011 and payable with the August 1, 2011 benefit payment and will be applied as follows:

- Tier One and Tier Two members and beneficiaries with effective retirement dates between August 1, 2008 and July 1, 2011, will receive a 1.25 percent COLA, as the adjustment is less than 2 percent and there is no accumulation.
- Tier One and Tier Two members and beneficiaries with effective retirement dates on or before July 1, 2008, will receive a 2 percent COLA, as they have enough accumulation established from prior years.

Statute controlling the COLA for Oregon Public Service Retirement Plan (OPSRP) Pension Program retirees and beneficiaries also caps increases or decreases at 2 percent, and is effective July 1 and payable August 1. However, statute does not provide for any year to year carryover accumulations for OPSRP Pension Program retirees and beneficiaries. Therefore:

- OPSRP Pension Program retirees and beneficiaries with effective retirement dates on or after August 1, 2010, will receive a pro-rate of the 1.25 percent COLA based on the number of months the benefit was received before July 1, 2011.
- OPSRP Pension Program retirees and beneficiaries with effective retirement dates on or before July 1, 2010, will receive a 1.25 percent COLA.

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March 28, 2011

TO: Members of the PERS Board

FROM: Dale S. Orr, Actuarial Services Manager

SUBJECT: Quarterly Report of Member Transactions

Attached is the PERS Quarterly Report of Member Transactions with the results for each quarter in calendar year 2010. This report reflects production volume and pending information for five key agency activities. This information is being provided to assist the Board in understanding the general workload demands and performance of PERS' operations. The report provides a breakout of activity on both a quarterly and a cumulative, calendar year-to-date basis. The year-to-date charts also show cumulative totals for calendar year 2009, to provide a comparative to the 2010 results.

In addition, the 'Retirements', 'Withdrawals', and 'Estimates' activities reflect the combined statistics of Tier One, Tier Two and OPSRP pension. Pending counts do not necessarily reflect a backlog of work, but rather the normal end-of-quarter carry-over of items in the processing pipeline. Supplemental information to assist in understanding the report is as follows:

1. 'Estimates' Backlog. As throughout 2010, Tier One and Tier Two estimates continued to be in backlog status. A backlog occurs when the number of pending estimates exceeds twice the normal amount of work-in-process. Even though the year-to-date cumulative total shows progress, the backlog resumed its growth in the fourth quarter due to loss of production from furlough days, staff turnover, and the reallocation of staff to focus on RCP testing. The initial backlog was caused primarily from a halt in estimate production in 2009 due to the RCP conversion of pre-retirement functions and related learning curve associated with the new system. PERS continues to prioritize the processing of estimate requests based on anticipated retirement date and then allocating remaining resources to older requests. Currently, PERS tries to provide the requesting member an estimate within 90 days of the designated retirement date.

2. Pending Retirements. The number of pending 'Retirements' (Tier One, Two and OPSRP) and 'IAP Retirements' increased in the fourth quarter due mainly to a surge in retirement requests. Even with this increase, PERS has been able to allocate sufficient processing resources to keep the number of applications pending well below back-log thresholds and ensure that retirements are being completed within statutory mandated timelines.

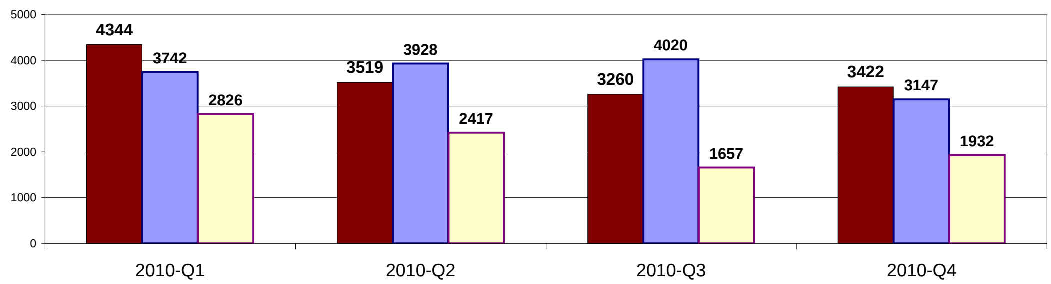
The next Quarterly Board Report, reflecting the results from the first calendar quarter of 2011, is scheduled to be presented at the May 2011 Board meeting.

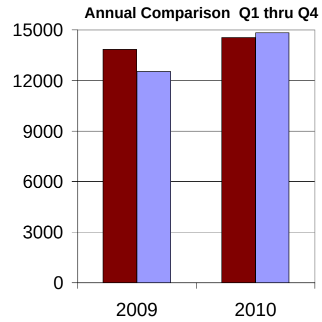
Attachment: Quarterly Report of Member Transactions (Through Fourth Quarter, 2010)

Quarterly Report of Member Transactions

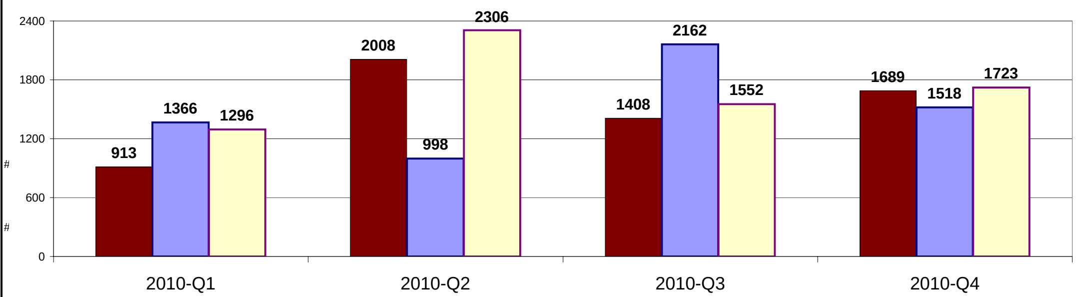
Thru Quarter Q4 2010 Run Date: 2/22/2011

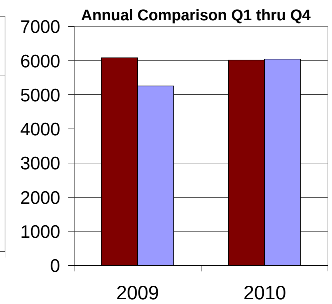
Estimates



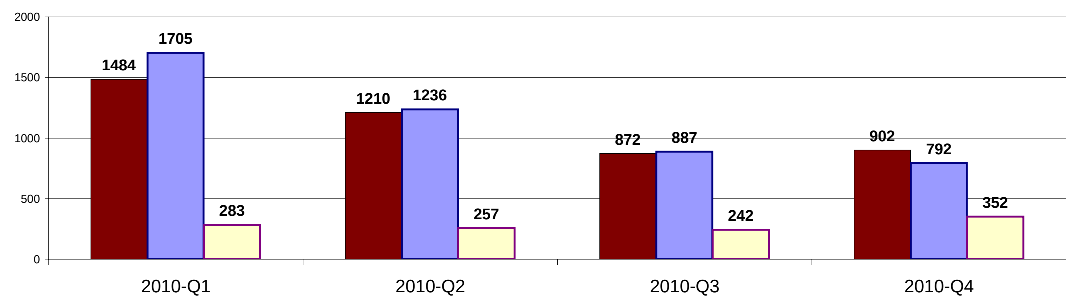


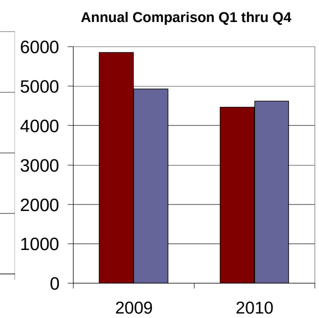
Retirements



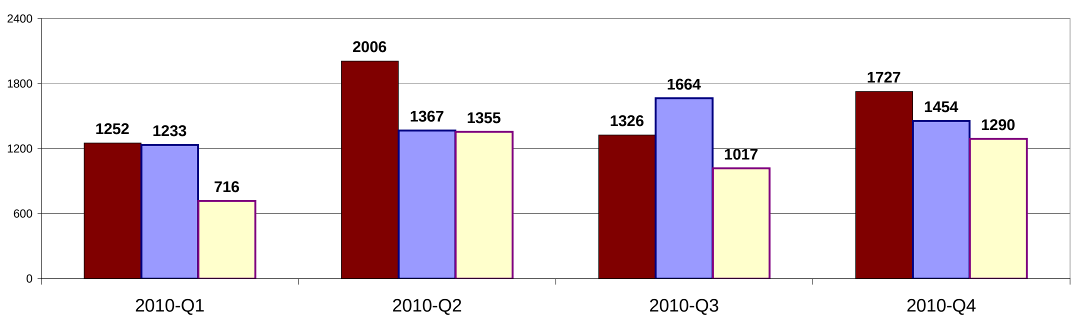


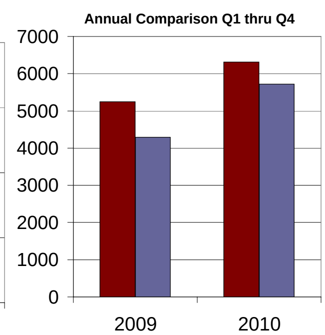
Withdrawals



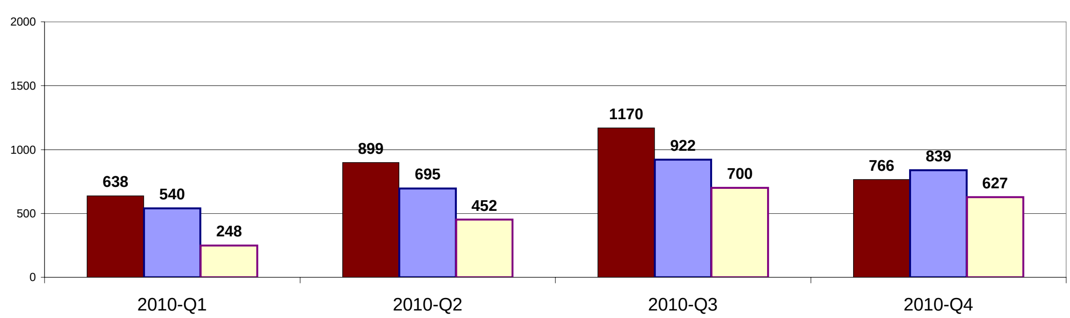


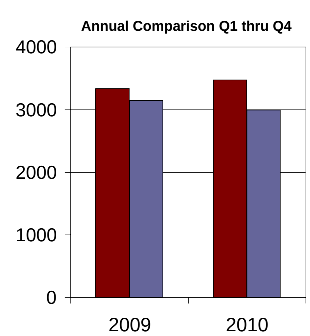
IAP Retirements





IAP Withdrawals





Incoming Completed Pending

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John A. Kitzhaber, M.D., Governor

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March 28, 2011

TO: Members of the PERS Board

FROM: Steven Patrick Rodeman, Deputy Director

SUBJECT: Second Notice of Rulemaking for Recovery of Administrative Costs Rule:
OAR 459-005-0250, *Recovery of Administrative Costs*

OVERVIEW

- Action: None. This is notice that staff has begun rulemaking.
- Reason: Clarify eligibility and costs to members for requesting additional verifications of retirement data.
- Policy Issue: No policy issues have been identified at this time.

BACKGROUND

In July 2010, PERS staff published notice through the Secretary of State to begin rulemaking and provided draft modifications to interested parties. The modifications established the administrative cost for additional data verifications and addressed the cost and availability of benefit estimates. Notice of rulemaking was scheduled to be presented to the Board at the September 24, 2010 meeting. However, staff postponed rulemaking, concluding that further development of the rule was needed.

The anticipated release of Online Member Services (OMS) in July 2011 will make online benefit estimates based on PERS records available. Through OMS, members will have access to the same information in their accounts as staff, and acquire the capability to determine their own estimated retirement benefits. Rather than implement new restrictions for requesting estimates in rule at this time, staff will postpone changes to the limits for estimate requests until after members become familiar with the process of calculating their own estimates via OMS. Some employers submitted public comments on the original draft modifications regarding limiting the number of estimates, and staff has informed those employers about the postponement of the benefit estimate request restrictions.

The primary need for this rulemaking is to implement the provisions of Senate Bill 897 (2010), which allows members to request their first retirement data verification at no cost, but permits PERS to impose a fee to recover its costs for subsequent verifications. The proposed rule modifications establish procedures for recovering those costs and set the fee at $100, based on the projected average cost of preparing a second verification. These cost projections are based only on the incremental expected costs in providing another verification, which would only cover the period of time between the effective date of the first verification and the second one.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing on the original version of the rule was held on August 24, 2010 at 1:00 p.m. at PERS headquarters in Tigard. No members of the public presented comment on the rule. The original public comment period ended on September 3, 2010 at 5:00 p.m. PERS received an email on August 24, 2010, with public comment from Vicki Hunter, Payroll Manager for Klamath Falls City Schools. A copy of her email is attached to this memo.

Staff responded to Ms. Hunter via email on August 30, 2010, and informed her that her comments would be taken into account during further consideration of the rule. The limitations on requesting estimates upon which Ms. Hunter based her comments have since been removed, and staff notified Ms. Hunter of the changes in the rule modifications. Ms. Hunter's recommendation to change the administrative fee for additional estimates to $25.00 instead of $60.00 was not included because the fee is based on recovering PERS' administrative costs.

A rulemaking hearing for the current version of the rule will be held on April 26, 2011 at 2:00 p.m. at PERS headquarters in Tigard. The public comment period ends on May 4, 2011 at 5:00 p.m.

LEGAL REVIEW

The attached draft rule was submitted to the Department of Justice for legal review and any comments or changes will be incorporated before the rule is presented for adoption.

IMPACT

Mandatory: No, however SB 897 allows the Board to establish procedures for recovering administrative costs from members for providing additional verifications.

Impact: The rule modifications will clarify the costs for requesting additional data verifications.

Cost: There are no discrete costs attributable to the rule.

RULEMAKING TIMELINE

June 15, 2010	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
July 1, 2010	*Oregon Bulletin* published the Notice. Notice was mailed to employers, legislators, and interested parties. Public comment period began.
August 24, 2010	Rulemaking hearing held at 2:00 p.m. in Tigard.
September 3, 2010	First public comment period ended at 5:00 p.m.
September 24, 2010	Staff postponed the Notice of Rulemaking at the Board meeting in order to further develop the rule.
February 15, 2011	Staff re-opened rulemaking by filing a second Notice of Rulemaking with the Secretary of State.

March 1, 2011	*Oregon Bulletin* published the Notice. Notice was mailed to employers, legislators, and interested parties. Public comment period began.
March 28, 2011	PERS Board notified that staff began the rulemaking process.
April 26, 2011	Rulemaking hearing to be held at 2:00 p.m. in Tigard.
May 4, 2011	Public comment period ends at 5:00 p.m.
May 26, 2011	Staff will propose adopting the permanent rule modifications, including any changes resulting from public comment or reviews by staff or legal counsel.

NEXT STEPS

A hearing will be held on April 26, 2011 at PERS Headquarters in Tigard. The public comment period ends on May 4, 2011 at 5:00 p.m. The rule is scheduled to be brought before the PERS Board for adoption at the May 26, 2011 Board meeting.

B.1. Attachment 1 – 459-005-0250, *Recovery of Administrative Costs*
B.1. Attachment 2 – Public Comment Email from Vicki Hunter dated August 24, 2010

PERS

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OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 005 – ADMINISTRATION

459-005-0250

Recovery of Administrative Costs

(1) Estimates.

(a) Any active or inactive member within two years of eligibility for service retirement may request from PERS an estimate of service retirement benefits (estimate).

(b) *[Upon request,]* PERS shall provide a member with a maximum of two estimates in a calendar year at no cost.

(c) PERS shall charge a fee of $60 for each estimate that exceeds the limit specified in subsection (b) of this section.

(d) A fee charged under subsection (c) of this section must be paid in full before receipt of the requested estimate(s). Payment must be made by check or money order payable to the Public Employees Retirement System.

(e) The provisions of subsections (a) to (d) of this section do not apply to current judge members during their term of office.

(f) A disability estimate shall be provided to a member if a completed disability application is on file with PERS. A disability estimate is provided at no charge.

(2) Verification of Retirement Data.

(a) Pursuant to section 3, chapter 1, Oregon Laws 2010 and OAR 459-005-0040, PERS shall provide one verification of retirement data at no cost.

(b) PERS shall charge a fee of $100 for each verification of retirement data provided to a member who has already received at least one verification.

(c) A verification of retirement data that is reissued pursuant to OAR 459-005-0040(4)(e) is not subject to the fee established by this section.

(d) A fee charged under subsection (b) of this section must be paid in full at the time the member submits a request for a verification of retirement data. Payment must be made by check or money order payable to the Public Employees Retirement System.

(e) This section is effective on July 1, 2011.

[(2)] **(3)** Full cost purchases. If a member purchases retirement credit under section 2, chapter 971, Oregon Laws 1999, ORS 238.148, 238.157, 238.162, or 238.175, a fee of $145 shall be added to the cost of the purchase to cover the administrative costs incurred by PERS in processing the request.

Stat. Auth: ORS 238.650 & 238.610

Stat. Implemented: ORS 238.610 **& OL 2010, Ch. 1**

B.1. Attachment 2

Daniel RIVAS - Requests for Retirement Estimates

From: "Vicki Hunter" <HunterV@kfalls.k12.or.us>
To: <daniel.rivas@state.or.us>
Date: 8/24/2010 10:12 AM
Subject: Requests for Retirement Estimates
CC: "Pat Baldini" <BaldiniP@kfalls.k12.or.us>, "Don Abbott" <donald.abbott@state.or.us>

I disagree with the number of estimates an employee can request being reduced to 1 within 1 year of retirement. With the economy in the state that it is, many of our employees may have to work longer and are trying to figure their budgets according to these requests for estimates. I believe that there should be at least two per year and that an employee may be at least two years out from retiring. This is critical and could have an greater impact on employees decision to retire. I believe that an employee should be able to send in two requests with different retirement dates, make their decision and not be required to pay PERS an administrative cost of $60.00 per request. If the employee requests more than two in a two year period, then perhaps an administrative fee of $25.00 for additional requests would be more reasonable.

Realizing that these estimates are estimates only, to base a decision on the estimator employees have access to on your web site is not as accurate as the ones PERS prepares upon request.

Many of our employees in the classified groups do not have the funds to make payment for these requests. I do realize that it will be a burden on many of the employers and PERS, but how can PERS penalize an employee for these requests???

If I am not understanding this rule, please let me know so that I can advise our employees correctly.

Vicki Hunter
Klamath Falls City Schools
Payroll Manager
(541) 883-4703 Ext: 7130
hunterv@kfalls.k12.or.us

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March 28, 2011

TO: Members of the PERS Board

FROM: Steven Patrick Rodeman, Deputy Director

SUBJECT: First Reading of Trustee-to-Trustee Transfer Rules and Notice of Rulemaking for New Purchases Rules
OAR 459-005-0580, *Trustee-to-Trustee Transfers*
OAR 459-015-0055, *Selection of Benefit Option and Commencement of Allowance*
OAR 459-050-0075, *Allowable Distributions During Employment*
OAR 459-050-0090, *Direct Rollover*
OAR 459-011-0150, *General Purchases*

OVERVIEW

- Action: None. This is the first reading of the Trustee-to-Trustee Transfer rules and notice of rulemaking for the General Purchases rule.
- Reason: Clarify member's ability to restore forfeited creditable service or to make retirement credit purchases via a trustee-to-trustee transfer from certain other retirement plans.
- Policy Issue: No policy issues have been identified at this time.

BACKGROUND

Senate Bill 399 (2009), codified as ORS 238.222, allows eligible members to restore forfeited creditable service or purchase retirement credit with pre-tax dollars transferred from certain other retirement plans. The bill has an operative date of September 1, 2011.

Previously, staff noticed rulemaking to address the parameters for eligibility to fund a purchase with a trustee-to-trustee transfer, guidance on how PERS will treat excess dollars transferred to PERS, and the relevant timelines. Conforming modifications were proposed to other administrative rules to reflect this new purchase funding method.

As these rules were developed further, staff concluded that putting these transfers in a broader context made sense, as these new rules addressed aspects of service credit purchases that were of general application, but no general rule addressed purchases. Also, while the Oregon Savings Growth Plan (OSGP) is a possible source of these transfers, staff thought we should provide the opportunity for OSGP participants to use their funds to purchase service credit in another governmental plan, if that plan allows such purchases.

As a result, the rules originally noticed in January 2011 have been augmented with additional rules and revisions to address the issue of purchases more comprehensively. Adoption is now expected at the PERS Board's May 2011 meeting, to assure the rules are a coordinated package.

SUMMARY OF MODIFICATIONS TO RULES SINCE NOTICE

459-005-0580: Edited generally for clarity. Some procedural tax report items were removed from section (3).

459-050-0075: Minor edits for clarity.

459-050-0090: Introductory paragraph edited for clarity. Definition of distributee edited for clarity. Eligibility items removed from definition of Trustee-to-Trustee transfer definition in (1)(h). Section (4), regarding rollovers into OSGP from other eligible retirement plans, was restructured, removing the portions referring to transfers into OSGP from other 457(b) funds and moving them to a new paragraph (5).

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing on the rules noticed previously was held on February 22, 2011 at 2:00 p.m. at PERS headquarters in Tigard. No members of the public attended. A rulemaking hearing for OAR 459-011-0150 is scheduled for May 3, 2011 at 1:00 p.m. at PERS headquarters in Tigard. The public comment period for all the rules will be extended to May 10, 2011 at 5:00 p.m., to facilitate public comment on the rules as a comprehensive package.

LEGAL REVIEW

The attached draft rules were submitted to the Department of Justice for legal review and any comments or changes will be incorporated before the rules are presented for adoption.

IMPACT

Mandatory: Yes. These provisions are required by SB 399 (2009).

Impact: Members, employers, and staff will benefit from clarification of the administration of trustee-to-trustee transfers.

Cost: There are no discrete costs attributable to the rules.

RULEMAKING TIMELINE

January 14, 2011	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
January 28, 2011	PERS Board notified that staff began the rulemaking process.
February 1, 2011	*Oregon Bulletin* published the Notice. Notice was mailed to employers, legislators, and interested parties. Public comment period began.
February 22, 2011	Rulemaking hearing held at 2:00 p.m. in Tigard.
March 9, 2011	Public comment period ended at 5:00 p.m., but will be extended.
March 28, 2011	Notice of Rulemaking for OAR 459-011-0150 and First Reading of the Trustee-to-Trustee Transfer rules.

April 1, 2011	Notice for OAR 459-011-0150 is mailed to employers, legislators, and interested parties. Public comment period begins.
May 3, 2011	Rulemaking hearing for OAR 459-011-0150 to be held at 1:00 p.m. in Tigard.
May 10, 2011	Public comment period for all rules ends at 5:00 p.m.
May 26, 2011 or	Staff will propose adopting the permanent rule modifications and new rules, including any changes resulting from public comment reviews by staff or legal counsel.

NEXT STEPS

A public hearing for OAR 459-011-0150 will be held on May 3, 2011 at PERS Headquarters in Tigard. The public comment period for all rules will end on May 10, 2011 at 5:00 p.m. The rules are scheduled to be brought before the PERS Board for adoption at the May 26, 2011 Board meeting.

C.1. Attachment 1 – OAR 459-005-0580, *Trustee-to-Trustee Transfers*
C.1. Attachment 2 – OAR 459-015-0055, *Selection of Benefit Option and Commencement of Allowance*
C.1. Attachment 3 – OAR 459-050-0075, *Distributions During Employment*
C.1. Attachment 4 – OAR 459-050-0090, *Direct Rollover and Trustee-to-Trustee Transfer*
C.1. Attachment 5 – OAR 459-011-0150, *General Purchases*

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OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 005 – ADMINISTRATION

459-005-0580

Trustee-to-Trustee Transfers

(1) For purposes of this rule, "trustee-to-trustee transfer" means a transfer of funds from an eligible retirement plan to PERS for the purpose of obtaining restoration of forfeited creditable service or purchasing retirement credit pursuant to ORS 238.222.

(2)(a) Except as provided in subsection (c) below, PERS must receive the trustee-to-trustee transfer within the time period established in ORS 238.115 for restoration of creditable service and Chapter 238 or section 2, Chapter 971, Oregon Laws 1999 for obtaining retirement credit.

(b) A trustee-to-trustee transfer received by PERS outside the time period permitted for the transfer will be returned to the eligible retirement plan from which the transfer was received.

(c) If the cost of obtaining restoration of creditable service or obtaining retirement credit is adjusted when the member's benefit is calculated and PERS determines that the amount required is greater than the amount originally received, a trustee-to-trustee transfer may be made to remit the additional amount required.

(d) Nothing in either ORS 238.222 or this rule shall be construed to provide an extension of time for obtaining restoration of forfeited creditable service or obtaining retirement credit beyond the time permitted under the relevant Chapter 238 provisions.

(3)(a) If PERS receives a trustee-to-trustee transfer and determines that all or a portion of the transfer may not be accepted by PERS and must be returned:

(A) Before the issuance of the member's notice of entitlement:

(i) PERS will transfer the excess amount back to the eligible retirement plan from which the transfer was received;

(ii) If the retirement plan from which the dollars came will not accept the transfer, then PERS will distribute the excess amount to the member and report the distribution as a non rollover eligible distribution.

(B) After the issuance of the member's notice of entitlement, PERS will treat the distribution as a distribution to the member that is an eligible rollover distribution from the plan.

(4) The provisions of this rule are effective on September 1, 2011.

Stat. Auth.: ORS 238.222 & 238.650

Stats. Implemented: ORS 238.222 and section 2, Chapter 971, Oregon Laws 1999.

OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 015 – DISABILITY RETIREMENT ALLOWANCES

459-015-0055

Selection of Benefit Option and Commencement of Allowance

(1) Upon filing an application for a disability retirement allowance, the member may make a preliminary designation of beneficiary and a preliminary selection of benefit option.

(a) A member may choose from retirement Options 1, 2, 2A, 3, 3A, 15 year certain or refund annuity as set forth in ORS 238.300 and 238.305, or an optional disability retirement allowance under ORS 238.325.

(b) A member may not choose a lump-sum option.

(2) Within 90 days following the Director's, or the Director's designee's, approval of the application for disability retirement allowance, the member must complete a final designation of beneficiary and selection of benefit option on forms provided by PERS. Receipt of the final forms will supersede any preliminary beneficiary designation or benefit option.

(a) The final option selected applies only to the corresponding time period the member is receiving a disability retirement allowance.

(b) The beneficiary designation or benefit option may be changed up to 60 days after the date of the first actual (not estimated) benefit payment as provided in ORS 238.325(2). The beneficiary or benefit option change will be retroactive to the effective disability retirement date.

(c) If a member's disability retirement allowance is canceled before the first benefit payment or is discontinued, the option selected for the purposes of that disability retirement allowance is canceled and a new option may be selected upon a subsequent disability or service retirement.

(3) If the member does not complete a final selection of benefit option within 90 days following the Director's, or the Director's designee's, approval of the application for disability retirement allowance:

(a) The benefit will be the benefit as set forth under ORS 238.320(1) **if the member is single, or the benefit as set forth under ORS 238.462 if the member is married**; and

(b) The latest beneficiary designation on file for the PERS Chapter 238 Program will be used to determine the default beneficiary. If no designation exists, the beneficiary will be as provided for under ORS 238.390(2).

(4) Purchases. If a member is eligible to purchase additional creditable service or retirement credit under ORS Chapter 238 **or section 2, chapter 971, Oregon Laws 1999**, the member must submit payment for the purchase(s) *[at the time]* **no later than the earlier of:**

(a) 90 days following the Director's, or the Director's designee's, approval of the application for disability retirement allowance; or

(b) The time the member submits the final selection of benefit option *[form]* required under section (2) of this rule.

(5) If the member elects to purchase all or a portion of the additional creditable service or retirement credit through a trustee-to-trustee transfer as described in OAR 459-005-0580, the transfer must be received no later than the earlier of:

(a) 90 days following the Director's, or the Director's designee's, approval of the application for disability retirement allowance; or

(b) The time the member submits the final selection of benefit option.

[(5)] **(6)** The payment of a disability retirement allowance shall commence within 10 business days following receipt by PERS of all of the following items, or the date the first

payment is due, as set forth in Section *[(6)]* **(7)** of this rule, **or 90 days following the Director's, or the Director's designee's, approval of the application for disability retirement allowance,** whichever is later:

(a) From the member:

(A) **Completed disability benefit application,** *[F]***f**inal designation of beneficiary and selection of benefit option form;

(B) Proof of member's age;

(C) Proof of age for the designated beneficiary if a joint survivor option is elected; and

(D) Spousal consent form.

(b) From the employer:

(A) Financial; and

(B) Demographic information indicating the member has separated from PERS-covered employment.

[(6)] **(7)** A disability **benefit accrues from the effective date of disability retirement, except as provided as in section (6) of this rule. The benefit accrued for a month of disability retirement is payable on the first of the following month.** *[payment is first due on the later of:*

(a) The first of the calendar month in which the member files a complete application for disability benefits with PERS; or

(b) The first of the month following the first full calendar month after final payment by the employer of any wages or paid leave benefits to the member, excluding any cash payoff of accrued vacation or compensatory time; or

(c) The first of the calendar month following the date that the disability application is approved by the Director.]

[(7)] **(8)** Notwithstanding section (6) of this rule, no payment shall be made before the end of the period of 90 consecutive days beginning with the date of disability and shall be retroactive to the effective date of disability.

[(8)] **(9)** If PERS cannot calculate the actual disability benefit payment, an estimated payment will be made until PERS receives all the necessary information needed to calculate the actual benefit payment. The payment will be made retroactive to the effective date of disability if the benefits become due before the 90 consecutive day period of incapacitation has elapsed.

(a) If the estimated payment results in an underpayment of $10 or more a month, the member will receive interest based on the provisions set forth in OAR 459-007-0015.

(b) If the estimated payment results in an overpayment of any amount, the overpayments may be recovered by decreasing the monthly benefit amount until the difference between the amount the member received and the amount the member should have received is recovered.

[(9)] **(10)** Minimum disability benefit. A disability benefit will not be less than $100 per month under the non-refund Option 1 benefit or the amount the member would have received for service retirement, if eligible, whichever is higher.

[(10)] **(11)** In the event a member applying for a disability retirement allowance dies before the Director's approval of the application:

(a)(A) If the member has made a preliminary benefit option election, the preliminary election shall be effective upon the Director's approval of the application for disability retirement.

(B) If the deceased member was eligible to purchase additional creditable service or retirement credit under ORS Chapter 238, the beneficiary, if any, designated in the preliminary election may make the purchase(s) by submitting the required forms and payment within 90 days from the date the disability application is approved.

(b) If the member has not made a preliminary benefit option election, the member will be considered as having died before retirement.

(A) If the beneficiary designated under ORS 238.390(1) is the surviving spouse, the surviving spouse may, within 90 days from the date the disability application is approved, elect to have either Option 2 or 3 disability benefits or pre-retirement death benefits, as provided in ORS 238.390 or 238.395, if eligible.

(i) Regardless of the election made by the surviving spouse under paragraph (b)(A) of this section, all benefits will cease upon the surviving spouse's death.

(ii) If the deceased member was eligible to purchase additional creditable service or retirement credit under ORS Chapter 238, a surviving spouse who elects disability benefits under paragraph (b)(A) of this section, may make the purchase(s) by submitting the required forms and payment at the time of the election.

(B) If the beneficiary designated under ORS 238.390(1) is not the surviving spouse, the beneficiary will receive pre-retirement death benefits as provided in ORS 238.390 or 238.395, if eligible.

Stat. Auth.: ORS 238.650

Stats. Implemented: ORS 238.320, 238.325 & 238.330

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OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 050 – DEFERRED COMPENSATION

459-050-0075

[In-Service] **Distributions During Employment**

The purpose of this rule is to describe the types of distributions available to a participant who has not had a severance of employment. Distributions made while a participant is still employed are *[“]*in-service*[”]* distributions.

(1) De minimis distribution. A de minimis distribution is an in-service distribution of the entire balance of a small account before the date a participant has a severance of employment. A de minimis distribution may be made if all of the following conditions are satisfied:

(a) No prior de minimis distribution was made to the participant;

(b) The total balance of the participant's account does not exceed the limitations in the Internal Revenue Code Section (IRC) 457(e)(9)(A), which is $5,000;

(c) Participant has not made any contributions to the Deferred Compensation Plan in the two-year period before the date of distribution; and

(d) Participant has submitted an application for a de minimis distribution on forms provided by, or other methods approved by the Deferred Compensation Program. No distribution will be paid unless a complete application is filed with, and approved by, the Deferred Compensation Program.

(2) Unforeseeable emergency withdrawal. An unforeseeable emergency withdrawal is an in-service distribution made to a participant due to an unforeseeable emergency. This withdrawal may be made before the date a participant has a severance of employment and as defined in OAR 459-050-0150. A participant must apply for an unforeseeable emergency

withdrawal using forms provided by, or other methods approved by, the Deferred Compensation Program as provided for in OAR 459-050-0150(4).

(3) Military distribution. A participant is treated as having been severed from employment during any period the participant is performing service in the uniformed services while on active duty for a period of more than 30 days for the purposes of the limitation on in-service distributions. For purposes of this rule, “uniformed services” has the same meaning as given in OAR 459-050-0072. This section applies to distributions made on or after January 1, 2009.

(4) Trustee-to-trustee transfers. A trustee-to-trustee transfer as defined in OAR 459-050-0090(1)(h) may be made while a participant is still employed.

[4] **(5)** Funds available for in-service distribution. Only funds contributed to a deferred compensation plan, as defined in IRC 457, and earnings on those contributions may be distributed in a de minimis distribution or unforeseeable emergency withdrawal. Any funds directly transferred or rolled over to the Deferred Compensation Program from any plan other than an IRC 457 deferred compensation plan shall not be distributed for a de minimis distribution or an unforeseeable emergency withdrawal.

[(5)] **(6)** Prohibitions on elective deferrals after an in-service distribution. A participant who receives a de minimis distribution, an unforeseeable emergency withdrawal, or a military distribution may not make elective deferrals and employee contributions to the Deferred Compensation Program for a period of 6 consecutive months from the date of distribution.

[Publications: Publications referenced are available from the agency.]

Stat. Auth: ORS 243.470

Stats. Implemented: ORS 243.401 - 243.507

OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 050 – DEFERRED COMPENSATION

459-050-0090

Direct Rollover and Trustee-to-Trustee Transfer

The purpose of this rule is to establish the criteria and process**es** for *[a]* direct rollover**s** *[(a transfer made from trustee to trustee) by]* **between** the Deferred Compensation Program *[to]* **and** an eligible retirement plan **and trustee-to-trustee transfers between the Deferred Compensation Program and either a defined benefit governmental plan or a deferred compensation plan described in Code Section 457(b) that is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state.** *[and to establish the criteria and process for the Deferred Compensation Program to accept an eligible rollover distribution from another eligible retirement plan. This rule shall apply to any direct rollover distribution received by the Deferred Compensation Program on behalf of a participant and any request for distribution from a Deferred Compensation Program account processed on or after January 1, 2008.]*

(1) Definitions. The following definitions apply for the purpose of this rule:

(a) “Code” means the Internal Revenue Code of 1986, as amended.

(b) “Direct Rollover” means:

(A) The payment of an eligible rollover distribution by the Deferred Compensation Plan to an eligible retirement plan specified by the distributee; or

(B) The payment of an eligible rollover distribution by an eligible retirement plan to the Deferred Compensation Program.

(c) "Distributee" means **an individual who has requested a distribution under one of the following criteria**:

(A) A Deferred Compensation Plan participant who has a severance of employment;

(B) A Deferred Compensation Plan participant who is approved for a de minimis distribution under OAR 459-050-0075(1);

(C) The surviving spouse of a deceased participant;

(D) The spouse or former spouse who is the alternate payee under a domestic relations order that satisfies the requirements of ORS 243.507 and OAR 459-050-0200 to 459-050-0250; or

(E) The non-spouse beneficiary of a deceased participant who is a designated beneficiary under Code Section 402(c)(11).

(d) "Distributing Plan" means an eligible retirement plan that is designated to distribute a direct rollover to another eligible plan (recipient plan).

(e) "Eligible Retirement Plan" means any one of the following that accepts the distributee's eligible rollover distribution:

(A) An individual retirement account or annuity described in Code Section 408(a) or (b), including a Roth IRA as described in Code Section 408(A);

(B) An annuity plan described in Code Section 403(a);

(C) An annuity contract described in Code Section 403(b);

(D) A qualified trust described in Code Section 401(a);

(E) An eligible deferred compensation plan described in Code Section 457(b) that is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state; or

(F) A plan described in Code Section 401(k).

(f) "Eligible Rollover Distribution" means a distribution of all or a portion of a distributee's Deferred Compensation account. An eligible rollover distribution shall not include:

(A) A distribution that is one of a series of substantially equal periodic payments made no less frequently than annually for the life (or life expectancy) of the distributee or the joint lives (or life expectancies) of the distributee and the distributee's designated beneficiary, or for a specified period of ten years or more;

(B) A distribution that is a required or minimum distribution under Code Section 401(a)(9);

(C) An amount that is distributed due to an unforeseen emergency under OAR 459-050-0075(2).

(g) "Recipient Plan" means an eligible retirement plan that is designated by a distributee to receive a direct rollover.

(h) "Trustee-to-Trustee Transfer" means a transfer either:

(A) By the Deferred Compensation Program to:

(i) A governmental defined benefit plan (within the meaning of Code Section 414(d)) for the purchase of permissive service credit as described in Code Section 415(n); or

(ii) A deferred compensation plan described in Code Section 457(b) that is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state.

(B) To the Deferred Compensation Program from a deferred compensation plan described in Code Section 457(b) that is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state.

(2) Direct rollover to an eligible retirement plan. The direct rollover of an eligible rollover distribution by the Deferred Compensation Program to an eligible retirement plan shall be interpreted and administered in accordance with Code Section 457(d)(1)(C) and all applicable regulations. A distributee may elect to have an eligible rollover distribution paid by the Deferred Compensation Program directly to an eligible retirement plan specified by the distributee.

(a) The Deferred Compensation Program staff shall provide each distributee with a written explanation of the direct rollover rules for an eligible distribution, as required by the Code.

(b) A distributee's right to elect a direct rollover is subject to the following limitations:

(A) A distributee may elect to have an eligible rollover distribution paid as a direct rollover to only one eligible retirement plan.

(B) A distributee may elect to have part of an eligible rollover distribution be paid directly to the distributee, and to have part of the distribution paid as a direct rollover only if the distributee elects to have at least $500 transferred to the eligible retirement plan.

(c) A direct rollover election shall be in writing and must be signed by the distributee or by his or her authorized representative pursuant to a valid power of attorney. The direct rollover election may be on forms furnished by the Deferred Compensation Program, or on forms submitted by recipient plan which must include:

(A) The distributee's full name;

(B) The distributee's social security number;

(C) The distributee's account number with recipient plan, if available;

(D) The name and complete mailing address of recipient plan; and

(E) If the distributee is a non-spouse beneficiary of the member, the title of the recipient IRA account.

(d) The distributee is responsible for determining that the recipient plan's administrator will accept the direct rollover for the benefit of the distributee. Any taxes or penalties that are the result of the distributee's failure to ascertain that the recipient plan will accept the direct rollover shall be the sole liability of the distributee.

(3) Trustee-to-trustee transfer to another deferred compensation plan or governmental defined benefit plan.

(a) A trustee-to-trustee transfer request shall be in writing and must be signed by the distributee or by his or her authorized representative pursuant to a valid power of attorney. The trustee-to-trustee transfer request may be on forms furnished by the Deferred Compensation Program, or on forms submitted by the recipient plan which must include:

(A) The distributee's full name;

(B) The distributee's social security number;

(C) The distributee's account number with the recipient plan, if available;

(D) The name and complete mailing address of the recipient plan; and

(E) If the transfer is for the purpose of purchasing service credit under a governmental defined benefit plan, the exact amount to be transferred.

(b) The distributee is responsible for determining that the recipient plan's administrator will accept the trustee-to-trustee transfer for the benefit of the participant. Any taxes or penalties that are the result of the distributee's failure to ascertain that the recipient plan will accept the trustee-to-trustee transfer shall be the sole liability of the distributee.

[(3)] **(4)** Direct rollover from an eligible retirement plan. *[On or after January 1, 2002, t]*The Deferred Compensation Program *[shall only]* **may** accept rollover contributions from participants and direct rollovers of distributions from an eligible retirement plan on behalf of a participant. *[Section (3) of this rule]* **This section** shall be interpreted and administered in accordance with Code Section 402(c) and all applicable regulations.

(a) The Deferred Compensation Program shall only accept pre-tax assets. After-tax employee contributions are not eligible for rollover into the Deferred Compensation Program.

[(A) The Deferred Compensation Program may require that a direct rollover from an eligible deferred compensation plan described in Code Section 457(b) plan include or be accompanied by a statement by the participant's previous employer or the plan administrator that the distribution is eligible for rollover treatment.]

[(B)] **(b)** A direct rollover from an eligible retirement plan *[other than a Deferred Compensation Plan described in Code Section 457(b)]* must be an eligible rollover distribution. It is the participant's responsibility to determine that the assets qualify for

rollover treatment. Any taxes or penalties that are the result of the participant's failure to ascertain that the distributing plan assets qualify for a direct rollover to a deferred compensation plan described in Code Section 457(b), shall be the sole liability of the *[distributee]* **participant**.

[(b)] **(c)** Subject to the requirements of subsections *[(3)]***(4)***[(b)]***(c)**(A) and (B) below, eligible rollover distribution(s) shall be credited to the participant's Deferred Compensation account established pursuant to the Plan and Agreement on file with the Deferred Compensation Program and shall be subject to all the terms and provisions of the Plan and Agreement. Account assets received from the distributing plan will be invested by the Deferred Compensation Plan record keeper in accordance with the terms and conditions of the Deferred Compensation Program according to the asset allocation the participant has established for monthly contributions unless instructed otherwise in writing on forms provided by the Deferred Compensation Program.

[(A) Assets from an eligible deferred compensation plan account described in Code Section 457(b) will be aggregated with the participant's accumulated Deferred Compensation Plan account.]

[(B)] **(A)** Assets from an eligible retirement plan other than a Deferred Compensation Plan described in Code Section 457(b) will be segregated into a separate account established by the Deferred Compensation Program for tax purposes only, but not for investment purposes. For investment purposes, the participant's assets are treated as a single account. If a participant changes the allocation of existing assets among investment options within the plan, the transfer or reallocation shall apply to and will occur in all accounts automatically.

[(c)] **<u>(B)</u>** Assets directly rolled over to the Deferred Compensation Program may be subject to the 10 percent penalty on early withdrawal to the extent that the funds directly rolled over are attributable to rollovers from a qualified plan, a 403(b) annuity, or an individual retirement account.

<u>(5) Trustee-to-trustee transfer from another deferred compensation plan. The Deferred Compensation Program may accept trustee to trustee transfers from other eligible deferred compensation plans described in Code Section 457(b). Assets transferred from an eligible deferred compensation plan will be aggregated with the participant's accumulated Deferred Compensation Plan account.</u>

Stat. Auth: ORS 243.470

Stats. Implemented: ORS 243.401 - 243.507

OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 011 – RETIREMENT CREDIT

459-011-0150

General Purchases

(1) For the purposes of this rule, "purchase" means obtaining restoration of creditable service under ORS 238.115 or obtaining retirement credit under ORS 238.125, 238.135, 238.145, 238.148, 238.156, 238.157, 238.160, 238.162, 238.165, 238.175, 526.052 or section 2, Chapter 971, Oregon Laws 1999.

(2) To make a purchase, a member must submit the application and the full amount of the purchase, provided by PERS, within the time lines established in the statute that corresponds to the particular purchase.

(3) If the cost of the purchase is adjusted when the member's benefit is calculated and requires an additional payment, PERS will notify the member of the balance due. To complete the purchase, the member must remit the balance due by the later of:

(a) 15 days from the date of notification; or

(b) The member's effective retirement date.

(4) If the cost of the purchase is adjusted when the member's benefit is calculated and the cost is lower than the original amount paid, PERS will refund the excess amount to the member.

Stat. Auth.: ORS 238.650

Stats. Implemented: ORS 238.157

PERS Oregon Public Employees Retirement System

Oregon

John A. Kitzhaber, M.D., Governor

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March 28, 2011

TO: Members of the PERS Board

FROM: Steven Patrick Rodeman, Deputy Director
Dale S. Orr, Actuarial Services Manager

SUBJECT: 2010 Final Earnings Crediting and Reserving

OVERVIEW

- Action: Adopt 2010 final earnings crediting and reserving decisions.
- Reason: After having adopted a preliminary earnings crediting allocation for calendar year 2010 earnings, the PERS Board must complete the process to adopt a final order.
- Policy Issue: Should the Contingency Reserve be allocated a share of 2010 earnings?

The PERS Board is charged with crediting earnings from the PERS Fund each calendar year. Some of those allocations are directed by statute or rule; the balance is at the PERS Board's discretion.

NON-DISCRETIONARY EARNINGS ALLOCATIONS

The following reserves and accounts are allocated earnings by applicable statute or rule. In compliance with these restrictions, the final 2010 earnings allocation reflects the following:

1. **Administrative Expenses:** Administrative costs are funded by earnings when they are sufficient, as they were in 2010 (ORS 238.610(1)). Earnings allocated to administrative expenses are reflected in the rates stated below for other accounts and reserves.
2. **Heath Insurance Accounts:** These accounts are created as part of the PERS Fund and directed by statute to be credited with actual earnings or losses, less the expense related to the administration of the programs (ORS 238.410(7); 238.415(4); 238.420(4)). For 2010, the preliminary rate for these accounts is estimated to be 12.12%.
3. **Employer Lump Sum Payment Accounts:** These accounts are credited with actual earnings or losses less administrative expenses, as authorized by ORS 238.225(10). For 2010, the preliminary rate for these accounts is estimated to average 12.74%.
4. **Variable Annuity Account and Individual Account Program (IAP):** These accounts are credited with actual earnings or losses, less a proportional charge for administrative expenses. Preliminary variable earnings for 2010 are estimated to be 15.17%, and IAP account earnings for 2010 are estimated to be 12.29%.
5. **Tier One Rate Guarantee Reserve:** This reserve, established under ORS 238.255(1), is to be used to credit the assumed rate to Tier One member regular accounts. The reserve is currently in deficit. When in deficit status, earnings on the Tier One member regular accounts that are in excess of the assumed earnings rate must be used to offset that deficit.

The amount of 2010 earnings used for this offset will depend, in part, on the Board's Contingency Reserve decision.

DISCRETIONARY EARNINGS ALLOCATIONS

The PERS Board's Annual Crediting Rule (OAR 459-007-0005) directs the crediting to the Judge and Tier Two member regular accounts, as well as the OPSRP Pension, Benefits-in-Force, and Employer reserves. In addition, ORS 238.670(1) provides that, in those years in which earnings exceed the assumed rate, up to 7.5% of earnings can be allocated to the Contingency Reserve. Earnings for 2010 did exceed the assumed rate, so the question of adding funds to the Contingency Reserve is properly before the PERS Board.

At its January 28, 2011 meeting, the PERS Board preliminarily approved the allocation of approximately $6.2 billion in OPERF Regular Account 2010 earnings to member and employer accounts and other reserves. In this preliminary action, the Board allocated earnings at a rate of 12.45% to the Contingency Reserve, which paralleled the rate of earnings credited to the Benefits-In-Force Reserve, Employer Reserves, and Tier Two member regular accounts. That allocation was reported to the Joint Ways & Means Committee by letter dated February 4, 2011, who acknowledged receipt of the report at its March 4, 2011 meeting. That letter is attached.

POLICY ISSUE

- *Should the Contingency Reserve be allocated a share of 2010 earnings?*

In adopting its preliminary allocation for the 2010 earnings, the Board cited the limiting factor in statute that only allows them to consider crediting additional amounts to this reserve when earnings exceed the assumed rate. Given the continued uncertain resolution of pending litigation with substantial risk exposure, as well as the challenging financial picture for government employers, the PERS Board decided that the Contingency Reserve should basically be credited with a proportional share of the 2010 earnings. As a result, an additional $81.3 million would be added to the reserve, so it would end 2010 with a balance of $734.4 million.

Final year-end numbers will not be reported to PERS until the week of March 21, 2011. Once reported, staff will prepare and distribute the allocation results based on the Board's preliminary earnings allocation policy direction from the January 28, 2011 meeting.

BOARD OPTIONS

The Board may:

1. **Adopt as Final the Board's Preliminary Allocation**: Pass a motion to "adopt the PERS Board's preliminary crediting of earnings for calendar year 2010 from the January 28, 2011 meeting as the final allocation of 2010 earnings."
2. **Adopt an Alternative Allocation**: Adopt an alternative crediting to the Contingency or other reserves.

STAFF RECOMMENDATION

Staff recommends the Board choose Option #1.

Attachment: 2010 Preliminary Legislative Earnings Crediting Report

Oregon

John A. Kitzhaber, M.D., Governor

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February 4, 2011

Senator Richard Devlin, Co-Chair
Representative Peter Buckley, Co-Chair
Representative Dennis Richardson, Co-Chair
Joint Committee on Ways and Means
900 Court Street NE
H-178 State Capitol
Salem, OR 97301-4048

Dear Co-Chairs:

Nature of the Request:
To report the PERS Board's preliminary crediting of 2010 earnings received through investment of the Oregon Public Employees Retirement Fund (OPERF) Regular Account. This report is being provided in accordance with ORS 238.670(5), which requires PERS to submit a preliminary annual crediting report to the appropriate legislative committee 30 days prior to the allocation of earnings and losses to member and employer accounts and other reserves.

Agency Action:
On January 28, 2011, the PERS Board preliminarily approved the allocation of approximately \$6.2 billion in OPERF Regular Account 2010 earnings to member and employer accounts and other reserves. In this preliminary action, the Board allocated earnings at a rate of 12.45% to the Contingency Reserve, Benefits-In-Force Reserve, Employer Reserves, and Tier Two member regular accounts and 11.51% to the OPSRP Pension Reserve.

The Board also preliminarily approved crediting earnings at the current assumed rate of 8.00% to Tier One member regular accounts. Earnings from these accounts over the assumed rate, totaling \$234.0 million, are required by ORS 238.255(1) to be used to offset the deficit in the Tier One Rate Guarantee Reserve. This preliminary action reduced the Tier One Rate Guarantee Reserve's deficit from -\$441.8 million to -\$207.8 million. The deficit in this reserve resulted from having to cover 2008 losses related to Tier One member regular accounts and allow for the mandatory crediting of the assumed earnings rate to those accounts. The remaining deficit will be recovered from future Tier One member account earnings in excess of the assumed earnings rate.

A summary of the Board's preliminary decision is reflected in the attached exhibit.

PERS staff is available to report to the Legislature and answer questions regarding the Board's preliminary decisions at your discretion.

Action Requested:
PERS is requesting that the Committee acknowledge receipt of the report.

Legislation Affected:
No legislative revisions will be required.

Thank you for your interest and assistance.

Sincerely,

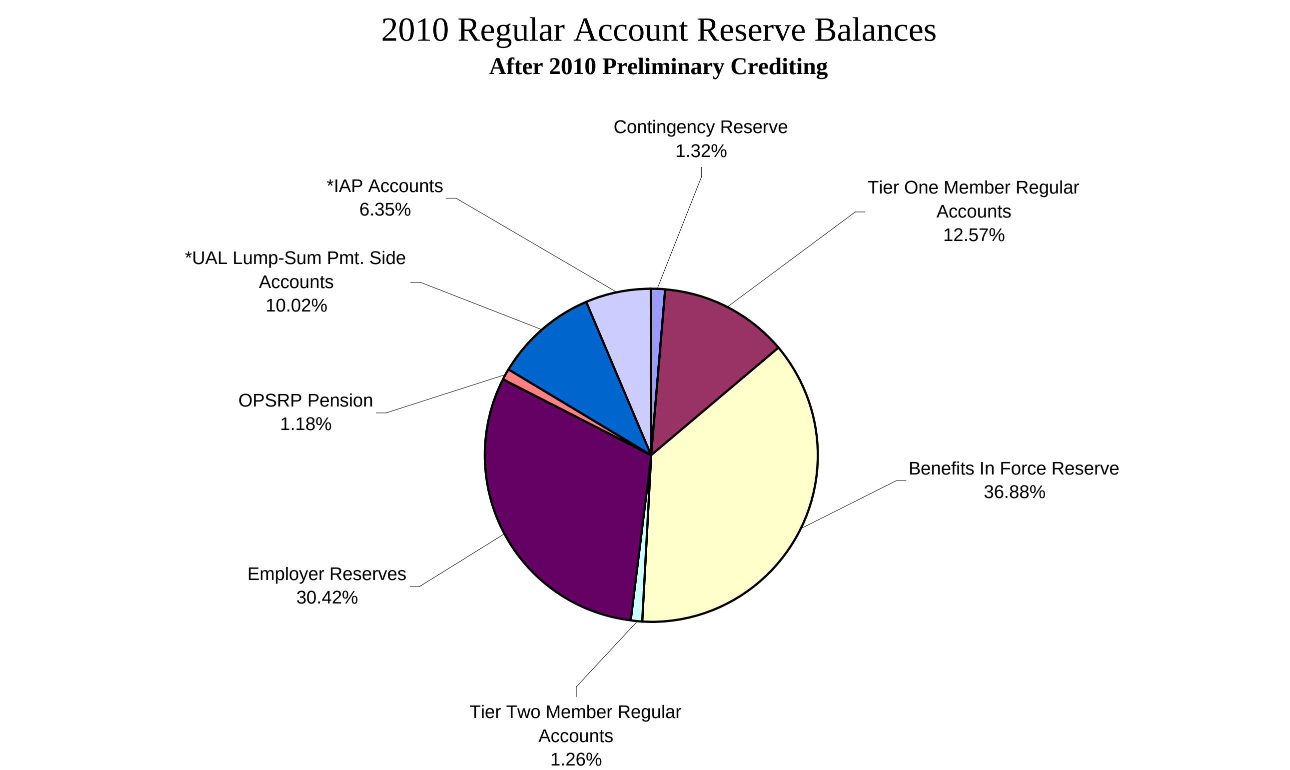
Paul R. Cleary
Executive Director

Attachment: 2010 Preliminary Earnings Crediting and Reserving

Oregon Public Employees Retirement System
2010 Preliminary Earnings Crediting and Reserving

(All dollar amounts in millions)

Regular Account Reserve	Reserves Before Preliminary Crediting	2010 Preliminary Crediting	Reserves After Preliminary Crediting	2010 Preliminary Rates
Contingency Reserve	$653.1	$81.3	$734.4	N/A
Tier One Member Regular Accounts	6,485.4	518.8	7,004.2	8.00%
Tier One Rate Guarantee Reserve	-441.8	234.0	-207.8	N/A
Benefits In Force Reserve	18,270.7	2,275.8	20,546.5	12.45%
Tier Two Member Regular Accounts	625.3	77.9	703.2	12.45%
Employer Reserves	15,070.7	1,877.3	16,948.0	12.45%
OPSRP Pension	587.3	67.6	654.9	11.51%
***UAL Lump-Sum Pmt. Side Accounts**	4,932.3	647.5	5,579.7	Various
***IAP Accounts**	3,150.5	386.4	3,536.9	12.29%
Total	$49,333.3	$6,166.6	$55,499.9	



*Informational only. Not affected by Board reserving or crediting decisions.

PERS
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Public
Employees
Retirement
System

Oregon

John A. Kitzhaber, M.D., Governor

Public Employees Retirement System
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March 28, 2011

TO: Members of the PERS Board

FROM: Dale S. Orr, Actuarial Services Manager

SUBJECT: Updated Financial Modeling Results

On March 28, Matthew Larrabee and Scott Preppernau of Mercer will present updated system financial modeling results based on asset levels and estimated liabilities as of the end of calendar year 2010. This analysis will reflect refreshed estimates of key measures such as employer rates and funded statuses through 2029. The actuaries also plan to provide an analysis of the effect of pension obligation bonds and related side accounts on system employer rates and rate volatility.

This presentation is informational only and will not require Board action.

When it becomes available, Mercer's presentation will be provided to the Board prior to its meeting on March 28, and posted on the agency website.

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March 28, 2011

TO: Members of the PERS Board

FROM: Joseph A. O'Leary, Administrator, PPLAD

SUBJECT: 2011 Legislative Session Update

Attached is an updated summary report of the bills introduced in the 2011 session that make substantive changes to PERS. The report also shows the bill's status; to date, none have been scheduled for their initial public hearing. I will provide an update at the Board meeting should that status change.

The following deadlines have been set for the 2011 legislative calendar:

April 8: Deadline for bills to be posted for Work Session in first chamber policy committee (excludes Revenue, Rules, Redistricting and Ways and Means)

April 21: Deadline for bills to out of policy committee in the first chamber (excludes Revenue, Rules, Redistricting and Ways and Means)

Consequently, unless a bill has moved through its original chamber by the end of April, it will not be considered without taking a major detour through one of the committees led by the House and Senate leadership.

We are working with the House Business and Labor committee staff to hopefully have the agency's bills (HB 2113, 2114, and 2115) heard before the deadline. Again, I should have more information to present on these bills at the Board meeting. Also, note that Sen. Chip Shields has introduced Senate Bill 950, which would allow OSGP to offer a Roth 457 account, a concept that was discussed at the PERS Board's January 28, 2011 meeting.

Attachment 1: Bill Summary Report for March 17, 2011

PERS Oregon Public Employees Retirement System

Bill Summary Report

Report Date: Thu, Mar 17, 2011

Bill #	Relating To Clause	Summary	Last Three Actions	Next Hearing
HB2113	Relating to public employee retirement; declaring an emergency.	Modifies retirement plan options of persons elected or appointed as members of Legislative Assembly. Authorizes use of trustee-to-trustee transfers to fund specified retirement credit purchases under Public Employees Retirement System. Modifies vesting dates for pension program and individual account program of Oregon Public Service Retirement Plan. Amends law relating to crediting of earnings on PERS member accounts for purpose of conforming law to Supreme Court decision. Declares emergency, effective on passage.	01/21/11 - Referred to Business and Labor with subsequent referral to Ways and Means. 01/10/11 - First reading. Referred to Speakers desk.	No hearings scheduled at this time.
HB2114	Relating to membership in the individual account program of the Oregon Public Service Retirement Plan; declaring an emergency.	Provides that inactive member of pension program of Oregon Public Service Retirement Plan who withdrew amounts in individual account program becomes member of individual account program immediately upon reemployment in qualifying position. Declares emergency, effective on passage.	01/21/11 - Referred to Business and Labor with subsequent referral to Ways and Means. 01/10/11 - First reading. Referred to Speakers desk.	No hearings scheduled at this time.
HB2115	Relating to public employee retirement; declaring an emergency.	Modifies law that allows member of Public Employees Retirement System to request verification of retirement data before retirement. Eliminates provision that prohibits Public Employees Retirement Board from using creditable service, retirement credit, final average salary, member account balances or accumulated unused sick leave that is less than amount specified in verification for purposes of determining retirement benefits. Declares emergency, effective on passage.	01/21/11 - Referred to Business and Labor with subsequent referral to Ways and Means. 01/10/11 - First reading. Referred to Speakers desk.	No hearings scheduled at this time.
HB2161	Relating to individual account program; declaring an emergency.	Eliminates employee contributions, employer contributions and rollover contributions to individual account program of Oregon Public Service Retirement Plan, effective January 1, 2012. Prohibits employee from becoming member of program on or after January 1, 2012. Declares emergency, effective on passage.	01/21/11 - Referred to Business and Labor with subsequent referral to Ways and Means. 01/10/11 - First reading. Referred to Speakers desk.	No hearings scheduled at this time.
HB2343	Relating to reemployment of retired workers; declaring an emergency.	Modifies law limiting number of hours that retired member of Public Employees Retirement System may work while still receiving retirement benefits. Eliminates limitation on reemployment of certain retired employees by or in certain cities and counties with specified populations. Declares emergency, effective on passage.	01/21/11 - Referred to Business and Labor with subsequent referral to Ways and Means. 01/11/11 - First reading. Referred to Speakers desk.	No hearings scheduled at this time.
HB2436	Relating to contributions made by public employers to Public Employees Retirement System; declaring an emergency.	Provides that Public Employees Retirement Board may not require employer contributions during 2011-2013 biennium, 2013-2015 biennium or 2015-2017 biennium that would cause contribution rate of participating public employer to increase by more than three percent over average contribution rate during immediately preceding biennium. Provides that public employer that has side account by reason of lump sum payment to Public Employees Retirement Fund may elect to apply amounts in account to offset contributions to system that would otherwise be required during 2011-2013 biennium, 2013-2015 biennium and 2015-2017 biennium that are in excess of amounts determined by Public Employees Retirement Board. Declares emergency, effective on passage.	01/21/11 - Referred to Business and Labor with subsequent referral to Ways and Means. 01/11/11 - First reading. Referred to Speakers desk.	No hearings scheduled at this time.

HB2444	Relating to cost-of-living adjustments under the Public Employees Retirement System; declaring an emergency.	Limits cost-of-living adjustments for monthly benefits payable under Public Employees Retirement System to members of system who have at least 10 years of creditable service at time member retires, becomes disabled or dies. Applies only to members who retire, become disabled or die on or after effective date of Act. Declares emergency, effective on passage.	01/21/11 - Referred to Business and Labor with subsequent referral to Ways and Means. 01/11/11 - First reading. Referred to Speakers desk.	No hearings scheduled at this time.
HB2445	Relating to cost-of-living adjustments under the Public Employees Retirement System; declaring an emergency.	Modifies laws governing cost-of-living increases for benefits paid by Public Employees Retirement System. Provides that cost-of-living increase or decrease in excess of maximum annual retirement allowance adjustment of two percent does not accumulate from year to year and Public Employees Retirement Board may not include excess in computation of increases or decreases in subsequent years. Declares emergency, effective on passage.	01/21/11 - Referred to Business and Labor with subsequent referral to Ways and Means. 01/11/11 - First reading. Referred to Speakers desk.	No hearings scheduled at this time.
HB2447	Relating to the final average salary of members of the Public Employees Retirement System; declaring an emergency.	Provides that, in computing final average salary for purpose of determining retirement benefit of members of Public Employees Retirement System, salary includes amounts attributable to hours of overtime only to extent that hours do not exceed average number of hours of overtime for same class of employees. Applies only to members who retire on or after effective date of Act. Declares emergency, effective on passage.	01/21/11 - Referred to Business and Labor with subsequent referral to Ways and Means. 01/11/11 - First reading. Referred to Speakers desk.	No hearings scheduled at this time.
HB2450	Relating to cost-of-living adjustments under Public Employees Retirement System; declaring an emergency.	Limits cost-of-living adjustments for monthly benefits payable under Public Employees Retirement System to members of system who have at least 10 years of creditable service at time member retires, becomes disabled or dies. Applies only to members who retire, become disabled or die on or after effective date of Act. Declares emergency, effective on passage.	01/21/11 - Referred to Business and Labor with subsequent referral to Ways and Means. 01/11/11 - First reading. Referred to Speakers desk.	No hearings scheduled at this time.
HB2453	Relating to cost-of-living adjustments under Public Employees Retirement System; declaring an emergency.	Modifies cost-of-living adjustment for retirement allowances, pensions and other benefits payable under Public Employees Retirement System. Limits application of adjustment to lesser of $2,000 or amount of monthly retirement allowance, pension or other benefit. Declares emergency, effective on passage.	01/21/11 - Referred to Business and Labor with subsequent referral to Ways and Means. 01/11/11 - First reading. Referred to Speakers desk.	No hearings scheduled at this time.
HB2454	Relating to final average salary of members of Public Employees Retirement System; declaring an emergency.	Eliminates use of accumulated unused vacation leave and unused sick leave in computation of final average salary for purposes of determining retirement benefit of member of Public Employees Retirement System. Applies only to members who retire on or after effective date of Act. Declares emergency, effective on passage.	01/21/11 - Referred to Business and Labor with subsequent referral to Ways and Means. 01/11/11 - First reading. Referred to Speakers desk.	No hearings scheduled at this time.
HB2455	Relating to maximum benefit payable under Public Employees Retirement System; declaring an emergency.	Limits retirement allowance or pension payable to retired member of Public Employees Retirement System to final average salary of member. Applies only to members who retire on or after effective date of Act. Declares emergency, effective on passage.	01/21/11 - Referred to Business and Labor with subsequent referral to Ways and Means. 01/11/11 - First reading. Referred to Speakers desk.	No hearings scheduled at this time.

HB2456	Relating to payments made under Public Employees Retirement System that are not subject to Oregon income tax; declaring an emergency.	Prohibits Public Employees Retirement Board from paying increased benefit by reason of state income taxation of payments made by board if person receiving payments does not pay Oregon income tax on retirement benefits. Provides procedures for enforcing prohibition. Imposes similar prohibition for certain public employers that provide retirement benefits for police officers and firefighters other than by participation in Public Employees Retirement System. Provides for expedited review by Supreme Court upon petition by adversely affected party. Declares emergency, effective on passage.	01/21/11 - Referred to Business and Labor with subsequent referral to Ways and Means. 01/11/11 - First reading. Referred to Speakers desk.	No hearings scheduled at this time.
HB2814	Relating to reemployment of retired workers; declaring an emergency.	Modifies law limiting number of hours that may be worked by retired member of Public Employees Retirement System while still receiving retirement benefits. Eliminates limitation on reemployment of certain public safety officers by or in certain small cities and counties, based on population under 2000 federal decennial census instead of latest federal decennial census. Declares emergency, effective on passage.	01/21/11 - Referred to Business and Labor. 01/11/11 - First reading. Referred to Speakers desk.	No hearings scheduled at this time.
HB2984	Relating to public employee retirement; declaring an emergency.	Eliminates employer pick-up of six percent employee contribution required of members of individual account program of Public Employees Retirement System. Requires employee contributions to individual account program only if elected by employee. Requires that employee contributions be percentage of salary, be not less than one percent of salary or more than six percent of salary, and be whole number. Eliminates ability of public employer to make employer contributions to individual account program. Declares emergency, effective on passage.	01/21/11 - Referred to Business and Labor with subsequent referral to Ways and Means. 01/11/11 - First reading. Referred to Speakers desk.	No hearings scheduled at this time.
HB2985	Relating to public employee retirement; declaring an emergency.	Eliminates employer pick-up of six percent employee contribution required of members of Public Employees Retirement System. Eliminates ability of public employer to make employer contributions to individual account program of system. Declares emergency, effective on passage.	01/21/11 - Referred to Business and Labor with subsequent referral to Ways and Means. 01/11/11 - First reading. Referred to Speakers desk.	No hearings scheduled at this time.
HB2986	Relating to public employee retirement.	Eliminates Oregon Public Service Retirement Plan and substitutes Tier 3 level of benefits under Public Employees Retirement System. Specifies benefits payable to Tier 1 PERS members, Tier 2 PERS members and Tier 3 PERS members.	01/21/11 - Referred to Business and Labor with subsequent referral to Ways and Means. 01/11/11 - First reading. Referred to Speakers desk.	No hearings scheduled at this time.
HB2987	Relating to legislators; declaring an emergency.	Provides that person appointed or elected as member of Legislative Assembly may not become member of Public Employees Retirement System. Retains provision allowing person appointed or elected as member of Legislative Assembly to elect to become legislator member of state deferred compensation plan. Requires that Legislative Assembly make employer contributions to state deferred compensation plan on behalf of legislative member in amount that is equal to six percent of members salary or amount that is equal to legislator members contribution, whichever is less. Applies only to service as member of the Legislative Assembly that is attributable to election or appointment that occurs on or after effective date of Act. Confers jurisdiction on Supreme Court to review petition of any person aggrieved by Act. Declares emergency, effective on passage.	01/21/11 - Referred to Business and Labor with subsequent referral to Ways and Means. 01/11/11 - First reading. Referred to Speakers desk.	No hearings scheduled at this time.
HB2988	Relating to legislators; declaring an emergency.	Provides that person appointed or elected as member of Legislative Assembly may not become member of Public Employees Retirement System or participate in state deferred compensation plan as legislator member. Applies only to service as member of the Legislative Assembly that is attributable to election or appointment that occurs on or after effective date of Act. Declares emergency, effective on passage.	01/21/11 - Referred to Business and Labor with subsequent referral to Ways and Means. 01/11/11 - First reading. Referred to Speakers desk.	No hearings scheduled at this time.

HB2989	Relating to legislators; declaring an emergency.	Provides that person appointed or elected as member of Legislative Assembly may not become member of Public Employees Retirement System or participate in state deferred compensation plan as legislator member. Applies to members of Legislative Assembly who are first appointed or elected on or after effective date of Act. Declares emergency, effective on passage.	01/21/11 - Referred to Business and Labor with subsequent referral to Ways and Means. 01/11/11 - First reading. Referred to Speakers desk.	No hearings scheduled at this time.
HB2990	Relating to a public employee successor retirement plan; appropriating money; declaring an emergency.	Establishes Fair Retirement Plan for persons hired on or after July 1, 2011, who have not established membership in Public Employees Retirement System before July 1, 2011. Specifies that Fair Retirement Plan be part of Public Employees Retirement System administered by Public Employees Retirement Board. Provides that Fair Retirement Plan be defined contribution plan. Declares emergency, effective on passage.	01/21/11 - Referred to Business and Labor with subsequent referral to Ways and Means. 01/11/11 - First reading. Referred to Speakers desk.	No hearings scheduled at this time.
HB2991	Relating to public employee retirement; declaring an emergency.	Prohibits Public Employees Retirement Board from paying increased benefit by reason of state income taxation of payments made by board if person receiving payments does not pay Oregon income tax on retirement benefits. Provides procedures for enforcing prohibition. Imposes similar prohibition for certain public employers that provide retirement benefits for police officers and firefighters other than by participation in Public Employees Retirement System. Provides for expedited review by Supreme Court upon petition by adversely affected party. Declares emergency, effective on passage.	01/21/11 - Referred to Business and Labor. 01/11/11 - First reading. Referred to Speakers desk.	No hearings scheduled at this time.
HB3020	Relating to public employee retirement; declaring an emergency.	Prohibits Public Employees Retirement Board from paying increased benefit by reason of state income taxation of payments made by board if person receiving payments does not pay Oregon income tax on retirement benefits. Provides procedures for enforcing prohibition. Imposes similar prohibition for certain public employers that provide retirement benefits for police officers and firefighters other than by participation in Public Employees Retirement System. Provides for expedited review by Supreme Court upon petition by adversely affected party. Declares emergency, effective on passage.	02/07/11 - Referred to Business and Labor with subsequent referral to Revenue. 02/01/11 - First reading. Referred to the desks of the Co-Speakers.	No hearings scheduled at this time.
HB3084	Relating to public employee retirement; declaring an emergency.	Directs Public Employees Retirement Board to issue 13th monthly benefit check for calendar year 2011 to specified retired members of Public Employees Retirement System and specified beneficiaries of retired members. Provides that check be in amount equal to monthly check payable to retired member or beneficiary for month of November 2011. Limits benefit to retired members, and beneficiaries of retired members, who retired before 1993 with no less than 25 years of creditable service. Declares emergency, effective on passage.	02/07/11 - Referred to Business and Labor. 02/01/11 - First reading. Referred to the desks of the Co-Speakers.	No hearings scheduled at this time.
HB3116	Relating to public employee retirement; declaring an emergency.	Prohibits public employer that participates in Public Employees Retirement System from reemploying retired member of system for period of one year after retirement. Applies only to members who retire on or after effective date of Act. Declares emergency, effective on passage.	02/14/11 - Referred to Business and Labor. 02/07/11 - First reading. Referred to the desks of the Co-Speakers.	No hearings scheduled at this time.
HB3135	Relating to deferred compensation.	Allows physician or dentist who treats patients who are receiving medical assistance under states medical assistance program to elect to participate as independent contractor in state deferred compensation plan.	03/07/11 - Public Hearing held. 02/14/11 - Referred to Health Care. 02/07/11 - First reading. Referred to the desks of the Co-Speakers.	No hearings scheduled at this time.

HB3218	Relating to public employee retirement; declaring an emergency.	Reduces amount of employee contribution to individual account program of Public Employees Retirement System that public employer may agree to pay from six percent to three percent. Specifies that reduction does not apply to existing collective bargaining agreements. Declares emergency, effective on passage.	02/21/11 - Referred to Business and Labor. 02/14/11 - First reading. Referred to the desks of the Co-Speakers.	No hearings scheduled at this time.
HB3364	Relating to public employee retirement; declaring an emergency.	Allows retired member of Public Employees Retirement System to be employed without limitation on number of hours in two calendar years after retirement. Provides that calendar years may include year in which member retires, or any of immediately following four calendar years. Sunsets December 31, 2015. Declares emergency, effective on passage.	02/28/11 - Referred to Business and Labor with subsequent referral to Ways and Means. 02/21/11 - First reading. Referred to the desks of the Co-Speakers.	No hearings scheduled at this time.
HB3407	Relating to reemployment of retired members of the Public Employees Retirement System.	Modifies number of hours that member of Public Employees Retirement System may work after retirement without loss of benefits. Eliminates exceptions to limitations on number of hours that member of system may work after retirement without loss of benefits. Allows retired member of Public Employees Retirement System to be employed without limitation on number of hours in two calendar years after retirement. Provides that allowed calendar years may include only year in which member retires, or any of immediately following four calendar years. Allows retired member to be employed without limitation on number of hours in any position that pays less than $2,500 per month. Applies to calendar year 2012 and subsequent calendar years. Applies only to members with effective retirement date on or after effective date of Act.	02/28/11 - Referred to Business and Labor. 02/21/11 - First reading. Referred to the desks of the Co-Speakers.	No hearings scheduled at this time.
HB3540	Relating to public employee retirement; declaring an emergency.	Prohibits public employer from agreeing to pay or provide retirement benefit to member of Public Employees Retirement System other than payments required or provided for in statutes governing retirement benefits of members of system. Declares emergency, effective on passage.	02/28/11 - Referred to Business and Labor. 02/21/11 - First reading. Referred to the desks of the Co-Speakers.	No hearings scheduled at this time.
HB3548	Relating to public employee retirement; declaring an emergency.	Establishes retirement benefits payable under Oregon Public Service Retirement Plan to persons who establish membership in Public Employees Retirement System on or after effective date of Act. Provides that such persons do not become members of pension program of plan. Allows such persons to contribute up to 10 percent of salary to individual account program of plan. Requires employer match of contributions up to maximum of 10 percent of salary. Provides break in service rules for persons who established membership in system before effective date of Act. Declares emergency, effective on passage.	02/28/11 - Referred to Business and Labor. 02/21/11 - First reading. Referred to the desks of the Co-Speakers.	No hearings scheduled at this time.
HB5039	Relating to the financial administration of the Public Employees Retirement System; declaring an emergency.	Limits certain biennial expenditures from fees, moneys or other revenues, including Miscellaneous Receipts, but excluding lottery funds and federal funds, collected or received by Public Employees Retirement System. Authorizes specified nonlimited expenditures. Declares emergency, effective July 1, 2011.	02/15/11 - Public Hearing held. 02/14/11 - Public Hearing held. 02/04/11 - Assigned to Subcommittee On General Government.	No hearings scheduled at this time.
SB34	Relating to public employee retirement.	Removes limit on number of hours retired member may work and still qualify for retirement under Public Employees Retirement System if retired member is employed by school district or education service district as other than teacher or management employee, or by community college as other than faculty member or management employee. Applies to Oregon Public Service Retirement Plan.	01/18/11 - Referred to General Government, Consumer and Small Business Protection. 01/10/11 - Introduction and first reading. Referred to Presidents desk.	No hearings scheduled at this time.

SB76A	Relating to certification of corrections officers; declaring an emergency.	Expands definition of corrections officer to include officers who supervise other corrections officers. Declares emergency, effective on passage.	03/07/11 - Referred to Judiciary. 02/28/11 - First reading. Referred to the desks of the Co-Speakers. 02/24/11 - Third reading. Carried by Prozanski. Passed.	No hearings scheduled at this time.
SB223	Relating to reemployment of retired physicians by Oregon Health and Science University; declaring an emergency.	Declares that physician faculty workforce shortage exists. Provides that Governor may suspend declaration by executive order. Provides that limitations on employment of retired member of Public Employees Retirement System do not apply to retired member who is physician and is employed by Oregon Health and Science University as faculty member during period in which workforce shortage declaration remains in effect. Declares emergency, effective on passage.	01/18/11 - Referred to General Government, Consumer and Small Business Protection. 01/10/11 - Introduction and first reading. Referred to Presidents desk.	No hearings scheduled at this time.
SB572	Relating to reemployment of retired members of the Public Employees Retirement System; declaring an emergency.	Provides that limitations on employment of retired member of Public Employees Retirement System do not apply to retired member who is employed by school district or community college district located within county with population of not more than 35,000 inhabitants, or who is employed by education service district with primary work duties in county with population of not more than 35,000 inhabitants. Declares emergency, effective on passage.	02/08/11 - Referred to General Government, Consumer and Small Business Protection. 02/01/11 - Introduction and first reading. Referred to Presidents desk.	No hearings scheduled at this time.
SB576	Relating to payments made under Public Employees Retirement System that are not subject to Oregon income tax; declaring an emergency.	Prohibits Public Employees Retirement Board from paying increased benefit by reason of state income taxation of payments made by board if person receiving payments does not pay Oregon income tax on retirement benefits. Provides procedures for enforcing prohibition. Imposes similar prohibition for certain public employers that provide retirement benefits for police officers and firefighters other than by participation in Public Employees Retirement System. Provides for expedited review by Supreme Court upon petition by adversely affected party. Declares emergency, effective on passage.	02/08/11 - Referred to General Government, Consumer and Small Business Protection. 02/01/11 - Introduction and first reading. Referred to Presidents desk.	No hearings scheduled at this time.
SB665	Relating to public employee retirement.	Requires that employer of Tier One or Tier Two member of Public Employees Retirement System continue to make contributions for member as though member continued to work during period in which member receives temporary total disability benefits under Workers Compensation Law. Provides that contributions be based on salary of member at time member left work. Provides that final average salary of member be calculated as though member continued to work during period of temporary total disability, based on salary of member at time member left work.	02/15/11 - Referred to General Government, Consumer and Small Business Protection. 02/08/11 - Introduction and first reading. Referred to Presidents desk.	No hearings scheduled at this time.
SB896	Relating to the individual account program; declaring an emergency.	Eliminates employee contributions, employer contributions and rollover contributions to individual account program of Public Employees Retirement System, effective January 1, 2012. Prohibits employee from becoming member of program on or after January 1, 2012. Declares emergency, effective on passage.	02/28/11 - Referred to Rules. 02/22/11 - Introduction and first reading. Referred to Presidents desk.	No hearings scheduled at this time.
SB897	Relating to public employee retirement; declaring an emergency.	Eliminates employer pick-up of six percent employee contribution required of members of Public Employees Retirement System. Eliminates ability of public employer to make employer contributions to individual account program of system. Declares emergency, effective on passage.	02/28/11 - Referred to Rules. 02/22/11 - Introduction and first reading. Referred to Presidents desk.	No hearings scheduled at this time.
SB950	Relating to deferred compensation plans; declaring an emergency.	Authorizes Public Employees Retirement Board to allow eligible state employee participating in state deferred compensation plan to defer compensation on after-tax basis. Declares emergency, effective on passage.	03/09/11 - Referred to General Government, Consumer and Small Business Protection. 03/07/11 - Introduction and first reading. Ref'd to Presidents desk.	No hearings scheduled at this time.

ADDITIONAL ITEMS FOR PERS BOARD
March 28, 2011

Agenda Item A.2.d.	Revised March 2011 Budget Report
Agenda Item D.1.a.	2010 Final Earnings Crediting and Reserving
Agenda Item D.2.	Mercer Presentation: Oregon PERS Financial Modeling Contribution Projections and Impact of Side Accounts

Oregon

John A. Kitzhaber, M.D., Governor

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March 28, 2011

TO: Members of the PERS Board

FROM: Steven Patrick Rodeman, Deputy Director

SUBJECT: Revised March 2011 Budget Report

Two strategic directions have been adopted by PERS staff that resulted in material changes to the agency's projected ending balance for the 2009-11 biennium. Attached is a revised budget report showing the net effect of these changes. The principle result was to reduce the overall projected positive budget variance from $4.1 million to $3.4 million and the Net Budget Available from $1,234,735 to $326,280. The two directions are:

1. Final RCP Wrap-Up. Contract amendments have been finalized with our principle contractor, HP Enterprise Services, to bring the RIMS Conversion Project to closure. These amendments were a final allocation of project expenditures to close the scope of functionality to be delivered within this project, including the Maintenance and Enhancement items that are to be delivered with the project's final system deployment.

As a result, RCP's total projected costs for this biennium increased by about $560,000. Even with these amendments, we have reserved $282,518 of the total project budget of $32.8 million for any other contingencies that arise between now and the project's final system deployment, which is still slated to occur before July 1, 2011.

2. Data Center Infrastructure Upgrades. ISD has identified several important upgrades or changes that should be made to the agency's server infrastructure. These include adding a generator to facilitate system shut-down and recovery if the building loses power and improving the server room's HVAC and fire suppression systems. Some of this work was included in the 2011-13 Agency Request Budget (and supported in the Governor's Balanced Budget), but as the agency has available budget limitation in this biennium and these are critical system needs, we plan to accelerate those expenditures into this biennium.

The projected costs for Capital Outlay in this biennium have been increased accordingly. We have already informed our Legislative Fiscal Office budget analyst that we will be withdrawing that portion of our 2011-13 budget request for these items.

We would be happy to provide any additional information you would like on these adjusted expenditure projections.

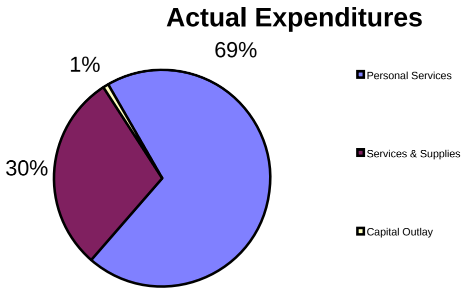
Attachment 1: Revised March 2011 Budget Report

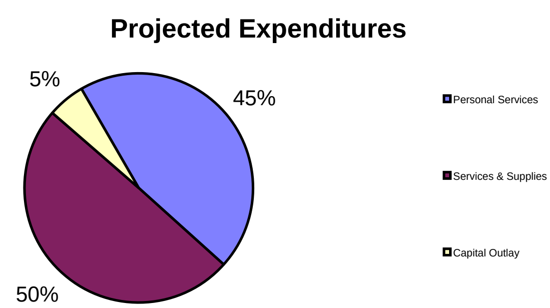
2009-11 Agency-wide Operations - Budget Execution
Summary Budget Analysis
For the Month of: February 2011

Biennial Summary

Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expend.	2009-11 LAB	Variance
Personal Services	41,528,511	9,105,486	50,633,998	52,751,494	**2,117,496**
Services & Supplies	17,618,554	10,075,654	27,694,208	29,916,870	**2,222,662**
Capital Outlay	515,947	1,055,000	1,570,947	593,588	**(977,359)**
Special Payments					
Total	**59,663,013**	**20,236,140**	**79,899,153**	**83,261,952**	**3,362,799**

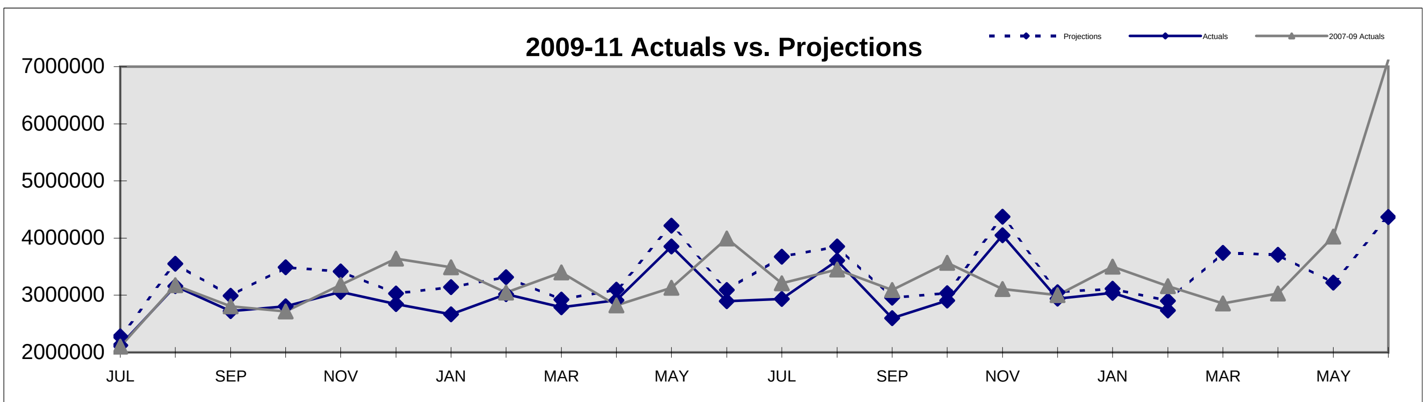
Targeted Reserve Variance	**2,754,000**
RCP Reserved	**282,518**
Net Budget Available	**326,280**





Monthly Summary

Category	Actual Exp.	Projections	Variance	Avg. Monthly Actual Exp.	Avg. Projected Expenditures
Personal Services	2,137,020	2,206,011	68,991	2,076,426	2,276,372
Services & Supplies	598,471	696,700	98,229	880,928	2,518,914
Capital Outlay				25,797	263,750
Special Payments					
Total	**2,735,491**	**2,902,711**	**167,220**	**2,983,151**	**5,059,035**



2007-09 Biennium Summary

Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expend.	2007-09 LAB	Variance
Personal Services	49,613,038		49,613,038	53,288,261	**3,675,223**
Services & Supplies	27,421,160		27,421,160	26,553,000	**(868,160)**
Capital Outlay	350,966		350,966	947,701	**596,735**
Special Payments					
Total	**77,385,163**		**77,385,163**	**80,788,962**	**3,403,799**

Oregon

John A. Kitzhaber, M.D., Governor

Public Employees Retirement System
Headquarters:
11410 S.W. 68th Parkway, Tigard, OR
Mailing Address:
P.O. Box 23700
Tigard, OR 97281-3700
(503) 598-7377
TTY (503) 603-7766
www.oregon.gov/pers

March 28, 2011

TO: Members of the PERS Board

FROM: Dale S. Orr, Manager, Actuarial Analysis Section

SUBJECT: 2010 Final Earnings Crediting and Reserving

Final 2010 earnings have been calculated and changed only marginally from preliminary estimates due to adjustments resulting from routine final year-end postings.

A chart ("Recommended Allocation") is attached showing the final allocation based on the Board's preliminary decision to evenly credit earnings to the Contingency Reserve. When applied, this decision increases the reserve by $81.3 million to $734.4 million.

Please let me know if you have any questions.

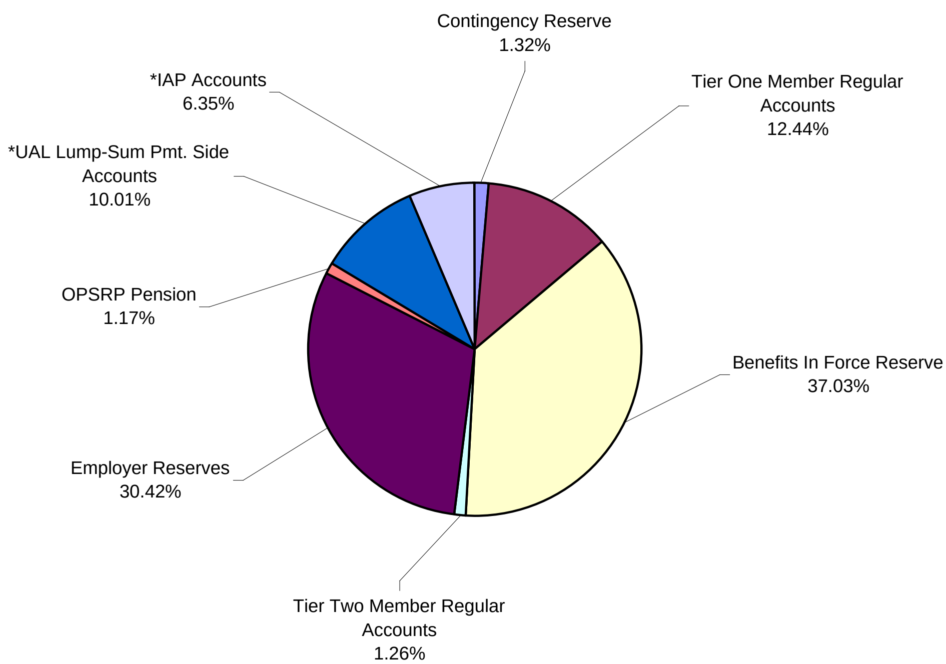
Attachment: Recommended Allocation (Even crediting to the Contingency Reserve)

Oregon Public Employees Retirement System
2010 Earnings Crediting and Reserving
Recommended Allocation: Even Crediting to Contingency Reserve
(All dollar amounts in millions)

Regular Account Reserve	Reserves Before Crediting	2010 Crediting	Reserves After Crediting	2010 Rates
Contingency Reserve	$653.1	$81.3	$734.4	N/A
Tier One Member Regular Accounts	6,418.6	513.5	6,932.1	8.00%
Tier One Rate Guarantee Reserve	-441.8	230.6	-211.1	N/A
Benefits In Force Reserve	18,344.1	2,283.8	20,627.9	12.44%
Tier Two Member Regular Accounts	623.6	77.6	701.2	12.44%
Employer Reserves	15,068.6	1,876.0	16,944.6	12.44%
OPSRP Pension	587.3	67.3	654.6	11.46%
***UAL Lump-Sum Pmt. Side Accounts**	4,931.5	647.7	5,579.2	Various
***IAP Accounts**	3,154.3	382.7	3,537.0	12.13%
Total	$49,339.2	$6,160.6	$55,499.8	

2010 Regular Account Reserve Balances

After 2010 Crediting



*Informational only. Not affected by Board reserving or crediting decisions.

MERCER

Consulting. Outsourcing. Investments.

March 28, 2011

Oregon PERS Financial Modeling

Contribution Projections and Impact of Side Accounts

Matt Larrabee, FSA
Scott Preppernau, FSA

Introduction

- Mercer conducts actuarial valuations of the PERS program annually
  – Valuations are used to develop recommended contribution rates and assess system funded status
  – Valuation calculations are based on outcomes if all actuarial assumptions are met
    - A key assumption is annual investment return, currently at 8%
- Of course, assumptions are never met precisely and in some years actual experience will vary widely from assumption
- Given this, periodically Mercer conducts financial modeling studies
  – In these studies, contribution rates and funded status levels are calculated under a variety of possible investment return scenarios
  – While the scenarios shown are not all inclusive, the study results convey the system's sensitivity to investment results

Overview of Employer Rate Setting

- Actuarial valuations are conducted annually each year-end
  - Rates are set biennially based on “odd year” actuarial valuations
  - “Even year” valuations are strictly advisory
- The rates determined by the actuarial valuation are adopted by the Board and go into effect 18 months subsequent to the valuation date

Valuation Date	Employer Contribution Rates
12/31/2009 →	July 2011 – June 2013
12/31/2011 →	July 2013 – June 2015

Overview of Employer Rate Setting

- *Two types of employer contribution rates calculated in each valuation*
- **Base Rate**
  - A base rate is calculated for each employer or employer rate pool, and base rates vary from employer to employer and pool to pool
  - The base rate has two components:
    - Normal cost rate – economic value of benefits earned during the current year
    - UAL (unfunded actuarial liability) rate – projected cost to eliminate funding shortfalls for benefits already earned over a period of time approved by the PERS Board and assuming actuarial assumptions are met
  - The change in base rate from period to period is restricted by the “rate collar” mechanism

Overview of Employer Rate Setting

- *Two types of employer contribution rates calculated in each valuation*
- **Net Rate**
  - Employers pay the net rate
  - For employers without a side account, the net rate is the same as the base rate
  - For side account employers, the net rate is lower than the base rate
    - In the valuation, the employer's side account asset and payroll levels are used to develop a "side account rate offset"
    - The rate offset level is calculated to provide a steady level of contribution rate relief until the end of 2027 if assumptions are met
  - Side account employers pay their calculated net rate
    - The difference between an employer's base rate and its net rate is funded by a transfer from the employer's side account to general PERS assets at the calculated rate offset level

Overview of Employer Rate Setting
Structure of Employer Pension Contribution Rates

Employer Contribution Rates* July 2011 – June 2013				
Payroll	**Tier 1/Tier 2**	**OPSRP GS**	**OPSRP P&F**	**Combined**
Normal Cost	8.6%	6.1%	8.8%	7.8%
T1/T2 UAL	7.7%	7.7%	7.7%	7.7%
OPSRP UAL	0.1%	0.1%	0.1%	0.1%
Base Rate*	**16.4%**	**13.9%**	**16.6%**	**15.6%**
Average Adjustment**	(5.5%)	(5.5%)	(5.5%)	(5.5%)
Net Rate*	**10.8%**	**8.4%**	**11.1%**	**10.1%**

** Base and net rates excluding retiree healthcare component*
*** Adjustments are for side accounts and Pre-SLGRP liabilities and are shown on a system-wide basis*

- Employer pension contribution rates have two key components: Normal Cost and UAL
- Rates shown here and throughout the rest of this presentation are calculated on a systemwide basis
  - Rates for any single employer will vary from the systemwide rate
- IAP and retiree healthcare rates, as well as any repayment on pension obligation bonds (POBs) are charged in addition to the pension rate

Overview of Employer Rate Setting
The Rate Collar

- From one biennium to the next, employer base rate changes for Tier 1/Tier 2 and OPSRP are restricted to stay inside of a "rate collar"
  - The rate collar is defined as the greater of:
    - 20% of the base rate currently in effect, or
    - 3% of payroll
- If the plan's funded status goes above 120% or below 80%, the width of the rate collar increases on a graded schedule such that above 130% or below 70% the size of the collar is doubled
- The rate collar will limit base rates for the 2011-2013 contribution period
  - The 12/31/2009 valuation established 2011-2013 employer rates
  - Without the collar, the average system-wide base rate of 15.6% would have been approximately 19.6%
  - This deferred increase means the rates for the 2013-2015 biennium are expected to rise if assumptions are met during 2010 and 2011

Baseline Financial Modeling

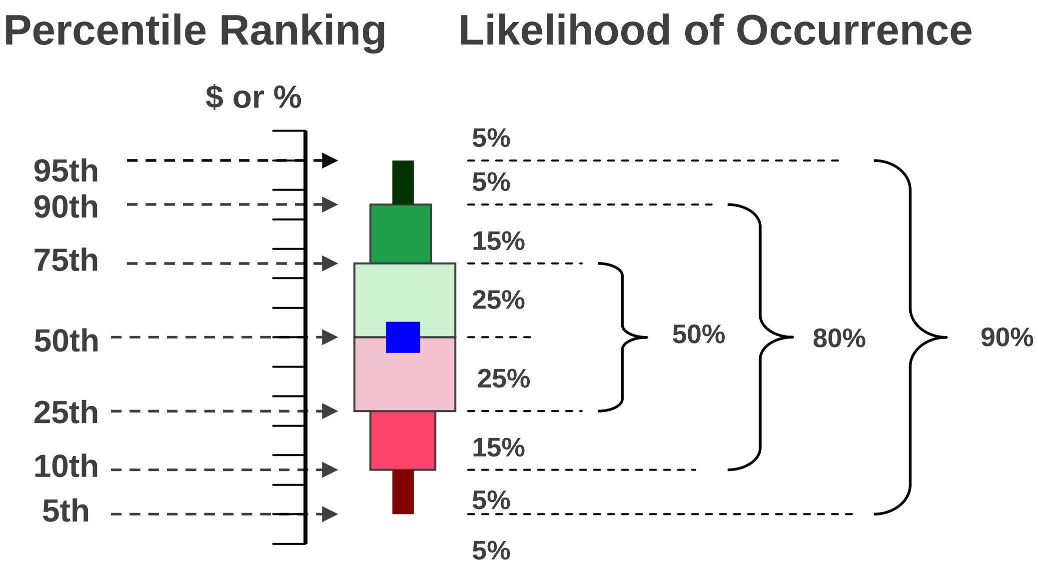
Baseline Financial Modeling
Overview of Modeling

- Basis for modeling is most recently available year-end asset and liability information
  - **12/31/2009 liabilities and assumptions** for Tier 1/Tier 2/OSPRP
    - Modeling assumes 8% annual investment return assumption remains in place for duration of modeling period
  - Does <u>not</u> include retiree healthcare or IAP contributions
  - **12/31/2010 assets** based on preliminary board crediting decisions
  - Investment policy as selected by Oregon Investment Council (OIC)
- In the 12/31/2009 valuation, the Contingency Reserve and Tier 1 Rate Guarantee Reserve were each excluded from valuation assets
  - The Tier 1 Rate Guarantee Reserve (RGR) is currently negative
    - Excluding a negative reserve increases valuation assets
    - If the RGR remains negative for 5 years, action must be taken to address the deficit, per statute
  - Our model treats a negative reserve as part of the unfunded actuarial liability (UAL)

Baseline Financial Modeling

Introduction

- We used a stochastic model to create 1,000 trials of projected future experience for the system
  - Uses Mercer Investment Consulting's capital market assumptions
  - Detail on model and market assumptions included in the appendix
- The model outputs key system measures such as contribution rates and funded status, with results displayed graphically in percentiles



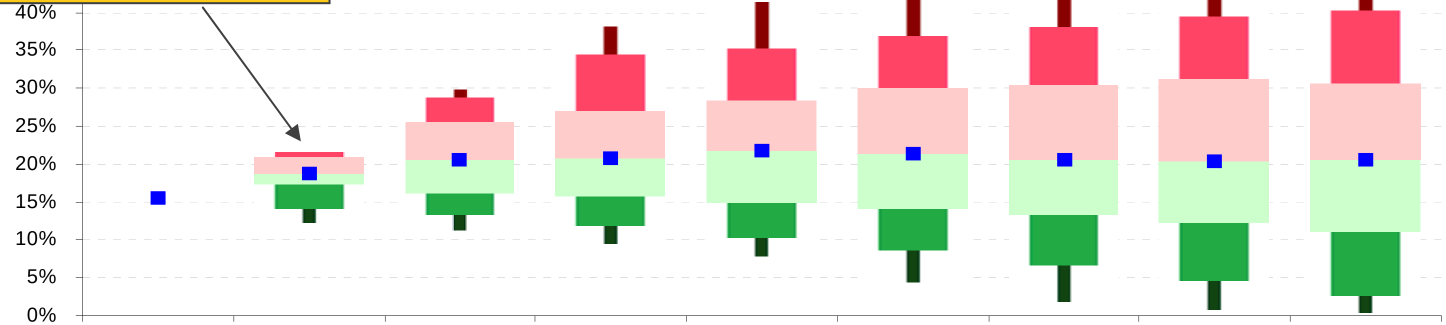
Darkening shades of green indicate progressively more favorable outcomes. Red is used in the same way to show progressively more unfavorable results. The graphics are supplemented with numerical tables.

Baseline Financial Modeling

Combined (Tier 1/Tier 2, OPSRP) Base* Contribution Rate

In over 75 percent of scenarios, base rates increase at 2013. The 50th percentile increase is 3.1% of payroll. The rate collar prevents rates in worst scenarios from rising above 21.6%.

For 2015 and beyond, over half of all scenarios have base rates in excess of 20% of payroll, but significant volatility exists



Biennium		2011 - 2013	2013 - 2015	2015 - 2017	2017 - 2019	2019 - 2021	2021 - 2023	2023 - 2025	2025 - 2027	2027 - 2029
5th		15.6%	21.6%	29.9%	38.1%	41.3%	42.4%	43.8%	44.3%	46.2%
10th		15.6%	21.6%	28.9%	34.4%	35.3%	37.0%	38.1%	39.6%	40.4%
25th		15.6%	21.0%	25.6%	27.0%	28.5%	30.0%	30.3%	31.2%	30.7%
50th		15.6%	18.7%	20.5%	20.7%	21.8%	21.3%	20.6%	20.4%	20.5%
75th		15.6%	17.4%	16.0%	15.8%	14.9%	14.2%	13.3%	12.3%	11.0%
90th		15.6%	14.2%	13.2%	11.9%	10.2%	8.7%	6.6%	4.7%	2.7%
95th		15.6%	12.3%	11.3%	9.6%	7.8%	4.5%	1.8%	0.9%	0.5%
5th - 95th		0.0%	9.3%	18.6%	28.5%	33.5%	37.9%	41.9%	43.5%	45.8%

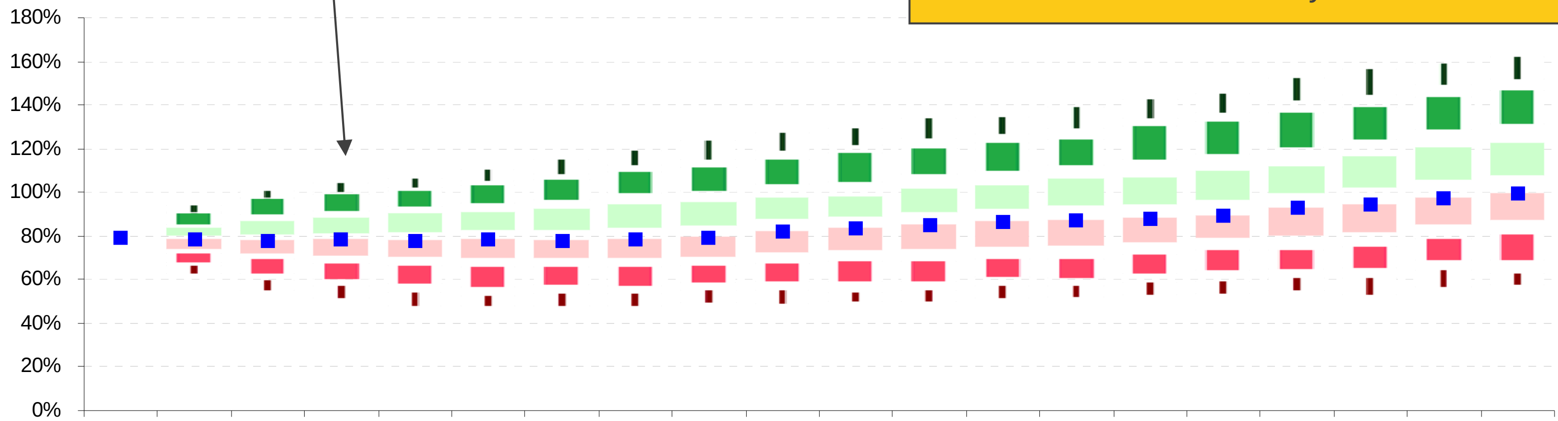
**Base rates do not reflect the effects of side account rate offsets and Pre-SLGRP liabilities, and do not include contribution rates for the IAP or retiree healthcare programs, or debt service on pension obligation bonds. The Tier 1 Rate Guarantee Reserve is not excluded from assets for years where the reserve is negative.*

Baseline Financial Modeling

Combined (Tier 1/Tier 2, OPSRP) Funded Status (Excluding Side Accounts)

Investment sensitivity is high enough that by the 2013 rate-setting valuation, funded status is greater than 100% in more than 5% of scenarios and less than 50% in more than 5% of scenarios

The large Tier 1/Tier 2 shortfall created by the 2008 market downturn is scheduled to be amortized over 20 years if assumptions are met. At the 50th percentile, the amortization pattern is that funded status stabilizes over the first ten years and then improves over the second ten years.



PY Ending 12/31	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
95th	79%	94%	100%	104%	106%	110%	114%	119%	123%	127%	129%	133%	134%	138%	142%	145%	152%	156%	159%	162%
90th	79%	90%	96%	98%	100%	103%	105%	109%	111%	115%	118%	120%	122%	124%	130%	132%	137%	139%	143%	147%
75th	79%	84%	86%	88%	90%	91%	92%	94%	95%	97%	98%	102%	103%	106%	107%	109%	112%	116%	120%	123%
50th	79%	79%	78%	78%	78%	78%	78%	78%	79%	82%	83%	85%	87%	87%	88%	90%	93%	95%	97%	99%
25th	79%	72%	69%	67%	66%	65%	65%	65%	66%	66%	68%	68%	69%	69%	71%	73%	73%	75%	78%	81%
10th	79%	66%	60%	56%	54%	52%	53%	53%	54%	54%	54%	55%	56%	57%	58%	59%	60%	60%	64%	63%
5th	79%	62%	53%	49%	45%	46%	46%	45%	46%	46%	48%	48%	49%	50%	50%	50%	52%	49%	52%	55%
95th - 5th	0%	32%	48%	55%	61%	65%	69%	74%	77%	81%	82%	86%	85%	88%	92%	95%	100%	107%	107%	106%

Baseline Financial Modeling

Combined (Tier 1/Tier 2, OPSRP) Net* Contribution Rate

Net rates increase at 2027-2029 with the expiration of side account rate offsets, but this increase coincides with the expiration of debt payments on pension obligation bonds

Net rates exhibit even higher volatility than base rates. This is because investment return scenarios that increase base rates tend to simultaneously decrease side account rate offset levels.

Biennium	2011 - 2013	2013 - 2015	2015 - 2017	2017 - 2019	2019 - 2021	2021 - 2023	2023 - 2025	2025 - 2027	2027 - 2029
5th	10.0%	17.1%	25.8%	34.2%	37.6%	38.1%	39.6%	41.0%	45.4%
10th	10.0%	16.8%	24.6%	30.0%	31.3%	32.7%	34.4%	35.7%	39.0%
25th	10.0%	15.8%	20.8%	22.3%	23.7%	25.4%	25.6%	26.9%	28.9%
50th	10.0%	13.1%	14.7%	15.2%	16.2%	15.6%	14.8%	14.7%	18.4%
75th	10.0%	11.3%	9.6%	9.3%	8.4%	7.8%	6.3%	4.8%	7.4%
90th	10.0%	7.6%	5.8%	4.4%	2.4%	0.2%	0.0%	0.0%	0.0%
95th	10.0%	5.3%	3.4%	1.3%	0.0%	0.0%	0.0%	0.0%	0.0%
5th - 95th	0.0%	11.8%	22.4%	32.9%	37.6%	38.1%	39.6%	41.0%	45.4%

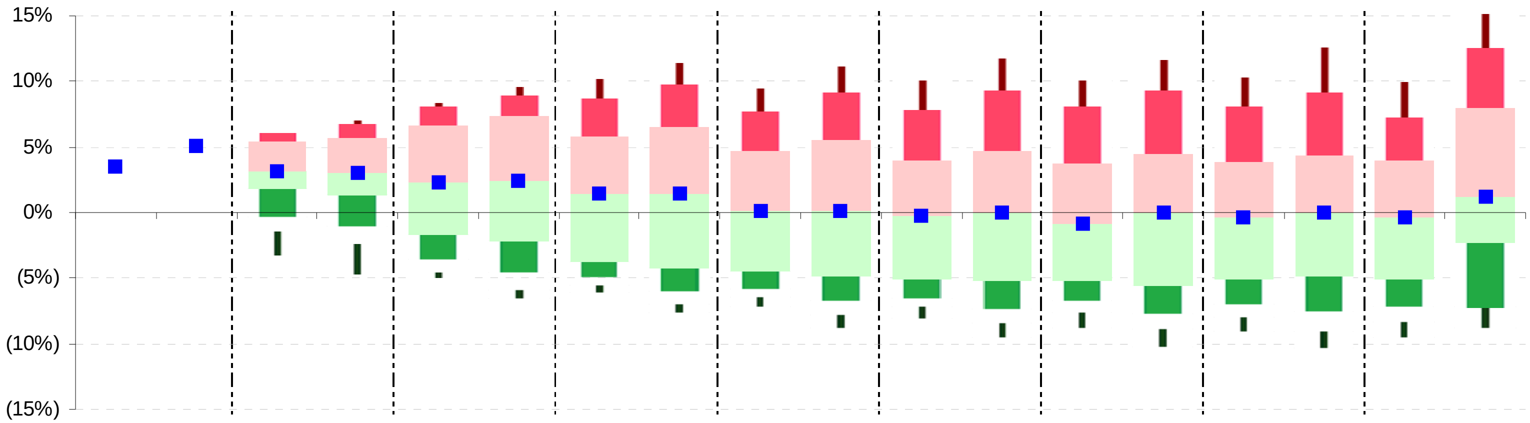
***Net rates *do* reflect the effects of side account rate offsets and Pre-SLGRP liabilities, but *do not* include contribution rates for the IAP or retiree healthcare programs, or debt service on pension obligation bonds. The Tier 1 Rate Guarantee Reserve is not excluded from assets for years where the reserve is negative.**

Baseline Financial Modeling

Biennium to Biennium Change to Contribution Rates

This chart compares period-to-period changes in base and net rates. Change levels tend to be similar around the 50th percentile, which are for investment returns close to assumption In scenarios with both good and poor deviation from assumption, net rate changes exhibit higher volatility.

About 1/3rd of PERS payroll is for employers without side accounts, for whom base rates and net rates are identical. This means that employers with side accounts will have somewhat higher volatility than that displayed in this “system-wide average” chart.



Biennium	2009 - 2011 to 2011 - 2013		2011 - 2013 to 2013 - 2015		2013 - 2015 to 2015 - 2017		2015 - 2017 to 2017 - 2019		2017 - 2019 to 2019 - 2021		2019 - 2021 to 2021 - 2023		2021 - 2023 to 2023 - 2025		2023 - 2025 to 2025 - 2027		2025 - 2027 to 2027 - 2029	
	Base	Net	Base	Net	Base	Net	Base	Net	Base	Net	Base	Net	Base	Net	Base	Net	Base	Net
5th	3.5%	5.1%	6.0%	7.1%	8.4%	9.6%	10.2%	11.3%	9.4%	11.1%	10.0%	11.7%	10.1%	11.6%	10.3%	12.6%	10.0%	15.1%
10th	3.5%	5.1%	6.0%	6.7%	8.1%	9.0%	8.8%	9.9%	7.7%	9.2%	7.9%	9.3%	8.1%	9.3%	8.1%	9.2%	7.2%	12.6%
25th	3.5%	5.1%	5.4%	5.7%	6.7%	7.3%	5.8%	6.5%	4.7%	5.6%	4.0%	4.7%	3.7%	4.5%	3.9%	4.4%	4.0%	8.0%
50th	3.5%	5.1%	3.1%	3.0%	2.3%	2.4%	1.4%	1.5%	0.2%	0.1%	(0.2%)	0.0%	(0.8%)	0.0%	(0.4%)	0.0%	(0.4%)	1.2%
75th	3.5%	5.1%	1.8%	1.3%	(1.6%)	(2.2%)	(3.8%)	(4.2%)	(4.5%)	(4.9%)	(5.0%)	(5.2%)	(5.3%)	(5.5%)	(5.1%)	(4.9%)	(5.0%)	(2.3%)
90th	3.5%	5.1%	(1.4%)	(2.5%)	(4.6%)	(5.9%)	(5.6%)	(7.0%)	(6.5%)	(7.8%)	(7.3%)	(8.5%)	(7.6%)	(9.0%)	(7.9%)	(9.1%)	(8.3%)	(7.2%)
95th	3.5%	5.1%	(3.3%)	(4.7%)	(5.0%)	(6.7%)	(6.3%)	(7.8%)	(7.6%)	(9.1%)	(8.4%)	(10.0%)	(9.3%)	(10.9%)	(9.5%)	(11.0%)	(10.1%)	(9.7%)
5th - 95th	0.0%	0.0%	9.3%	11.8%	13.3%	16.3%	16.5%	19.2%	17.0%	20.3%	18.4%	21.7%	19.4%	22.5%	19.8%	23.7%	20.1%	24.8%

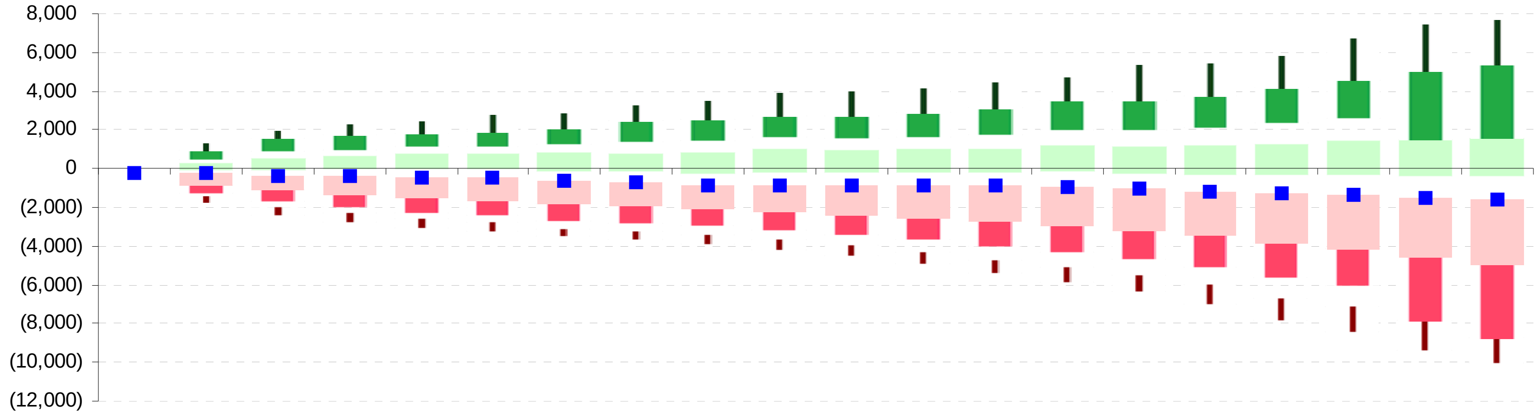
Baseline Financial Modeling

Tier 1 Rate Guarantee Reserve

Since the end of 2008, the reserve has been in a deficit situation. Our understanding is that the deficit cannot persist beyond five years.

In over 50 percent of scenarios, the Rate Guarantee Reserve remains negative for the duration of the projection period.

In later years, results away from the 50th percentile become very spread out as the size of the reserve becomes large compared to the value of underlying active member account balances.



($millions)

PY Ending 12/31		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
95th		(208)	1,305	1,989	2,302	2,467	2,748	2,811	3,213	3,471	3,854	3,981	4,095	4,433	4,669	5,317	5,451	5,852	6,680	7,424	7,681
90th		(208)	914	1,542	1,673	1,750	1,881	2,038	2,406	2,518	2,639	2,674	2,808	3,120	3,457	3,515	3,756	4,158	4,569	4,995	5,352
75th		(208)	236	490	560	726	742	791	760	814	951	939	1,016	991	1,117	1,103	1,153	1,250	1,385	1,485	1,561
50th		(208)	(250)	(364)	(384)	(497)	(494)	(639)	(726)	(833)	(832)	(850)	(865)	(896)	(969)	(1,044)	(1,165)	(1,273)	(1,371)	(1,488)	(1,599)
25th		(208)	(854)	(1,113)	(1,385)	(1,554)	(1,680)	(1,824)	(1,959)	(2,068)	(2,218)	(2,389)	(2,534)	(2,686)	(2,939)	(3,200)	(3,482)	(3,827)	(4,141)	(4,569)	(4,944)
10th		(208)	(1,405)	(1,968)	(2,331)	(2,617)	(2,840)	(3,109)	(3,277)	(3,462)	(3,730)	(4,049)	(4,334)	(4,729)	(5,130)	(5,584)	(6,049)	(6,734)	(7,185)	(7,859)	(8,738)
5th		(208)	(1,757)	(2,559)	(2,965)	(3,327)	(3,439)	(3,629)	(3,819)	(4,066)	(4,429)	(4,772)	(5,200)	(5,692)	(6,272)	(6,855)	(7,596)	(8,474)	(9,181)	(10,309)	(10,762)
95th - 5th		0	3,062	4,548	5,267	5,793	6,187	6,440	7,032	7,536	8,283	8,753	9,295	10,124	10,941	12,173	13,047	14,326	15,861	17,733	18,443

Negative Rate Guarantee Reserves are reflected in our model via decreased asset levels and increased UAL rates. This effectively reduces the valuation assets in those years to reflect the presence of a deficit reserve.

Baseline Financial Modeling
Observations

- Base rate and net rates for 2013-2015, which will be based on 12/31/2011 valuation results, increase in over 75 percent of scenarios, despite good 2010 investment results
  - At the 50th percentile, the increase is just over 3% of payroll
  - Increases are due to the rate collar spreading the base rate impact of 2008 investment losses over more than one rate-setting period
- The spread in projected outcomes is greater for the net rates than for base rates, due to the additional volatility of side accounts
- At the 50th percentile, projected funded status does not begin to increase significantly until about ten years out
- For scenarios that deviate from assumption, system volatility is increasing as the system continues to mature
  - For the 12/31/2013 rate-setting valuation, more than 5% of scenarios show funded status (excluding side accounts) greater than 100% and more than 5% of scenarios show funded status (excluding side accounts) under 50%

Modeling Hypothetical Side Account Including Debt Service Costs

Modeling Hypothetical Side Account Including Debt Service Costs
Introduction

- In our baseline financial modeling, net rates are lower than base rates due to the effect of side account rate offsets
  - The baseline modeling does not display the cost of debt service on pension obligation bonds (POBs) used to establish side accounts
    - POB debt payment schedules vary from employer to employer and are not collected as part of our valuation process
- In addition, since approximately 1/3rd of system payroll is for employers without side accounts the net rate volatility for side account employers is understated when it is blended at a system-wide level with the base/net rate volatility of non-side account employers
- To address these two issues and give side account employers a better understanding of the potential cost/benefit trade-offs and underlying volatility associated with side accounts, we extended our analysis by modeling a hypothetical single system-wide side account

Modeling Hypothetical Side Account Including Debt Service Costs
Structure of Hypothetical Side Account and POB

- *To address the two issues noted on slide 17 and make the analysis as useful as possible, the hypothetical side account was established in the following manner:*
  - The level of the side account was "scaled up" so that at a system-wide level the side account exposure would parallel the current exposure of the average employer that presently has a side account
    - It produces an $8.3 billion hypothetical side account at 12/31/2010
      - For comparison, actual system side accounts at 12/31/2010 were $5.6 billion
  - The side account level so modeled will allow system-wide results to be more consistent with expectations for current side account employers

Modeling Hypothetical Side Account Including Debt Service Costs

Structure of Hypothetical Side Account and POB

- *To address the two issues noted on slide 17 and make the analysis as useful as possible, the hypothetical side account was established in the following manner:*
  - A pension obligation bond (POB) debt service payment schedule was created for the hypothetical side account and incorporated into the employer cost model
    - The schedule was made assuming a borrowing rate of 5.75% per year and payments as a level percentage of payroll from POB issue date to 2027 assuming 3.75% annual payroll growth
      - While actual side account schedules and borrowing rates vary from employer to employer, we feel the hypothetical schedule provides an approximate guide to total cost dynamics for a side account employer
  - By incorporating POB debt service into the modeling, the overall cost of the side account/POB combination can be shown

Modeling Hypothetical Side Account Including Debt Service Costs

Decision-Making Process Regarding Establishment of Side Accounts

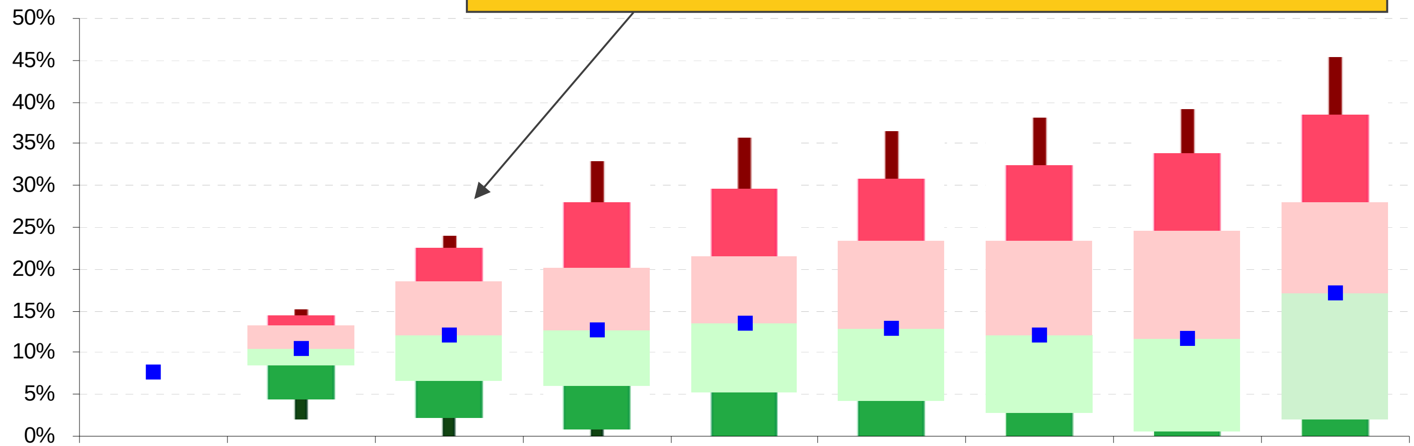
- The decision to issue a POB and establish a side account is an investment decision made individually by sponsoring employers, and one that includes significant risk
  - These decisions are made based on each employer's governance structure and in consultation with the employer's own advisors
  - By modeling such a situation, we are not counseling for or against the establishment of side accounts in general or any POB structure in particular
  - Our sole intent is to illustrate dynamics of choices that many employers have already made or may make in the future to help employers understand the possible outcomes of establishing a side account, based on the underlying assumptions in our financial model

Modeling Hypothetical Side Account Including Debt Service Costs

Combined (Tier 1/Tier 2, OPSRP) Net* Contribution Rate

At the scaled up level of the hypothetical side account, a higher portion of the base rate is paid by side account rate offsets, which reduces the net rate shown. The 50th percentile net rates top out at 13.6% of payroll during the POB repayment period.

Rate volatility is significant in "deviation from assumption" scenarios. In over 10% of scenarios 2015-2017 net rates are less than 3% of payroll. Alternatively 2015-2017 net rates are greater than 22% of payroll in over 10% of scenarios.



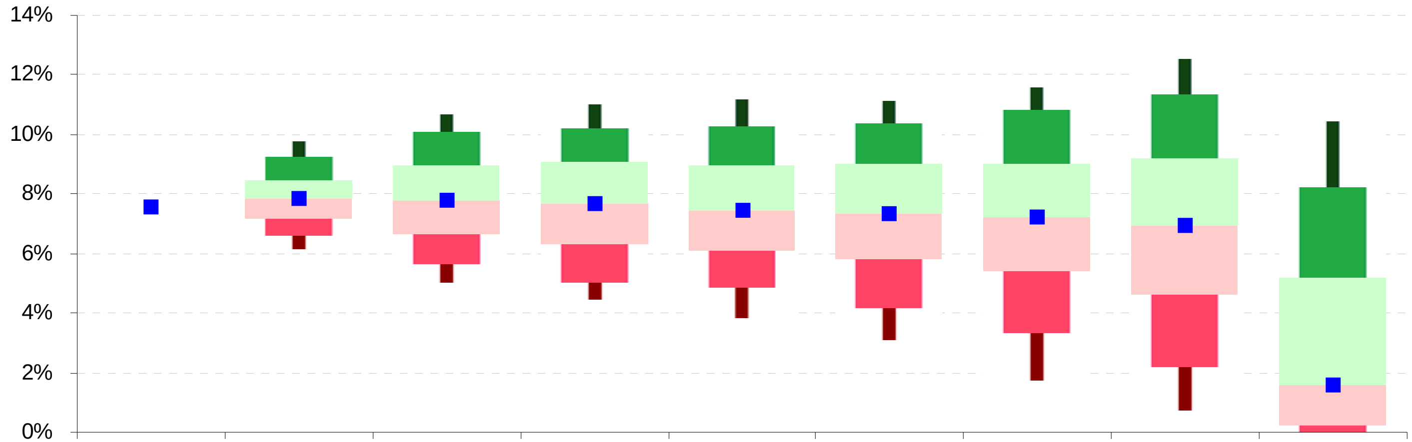
Biennium		2011 - 2013	2013 - 2015	2015 - 2017	2017 - 2019	2019 - 2021	2021 - 2023	2023 - 2025	2025 - 2027	2027 - 2029
5th		7.6%	15.0%	23.9%	32.8%	35.6%	36.6%	38.1%	39.2%	45.3%
10th		7.6%	14.5%	22.6%	28.0%	29.6%	30.9%	32.5%	33.9%	38.5%
25th		7.6%	13.4%	18.6%	20.2%	21.6%	23.3%	23.4%	24.7%	28.0%
50th		7.6%	10.5%	12.1%	12.7%	13.6%	12.8%	12.1%	11.6%	17.1%
75th		7.6%	8.5%	6.6%	6.1%	5.2%	4.3%	2.8%	0.7%	2.1%
90th		7.6%	4.5%	2.3%	0.8%	0.0%	0.0%	0.0%	0.0%	0.0%
95th		7.6%	2.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
5th - 95th		0.0%	13.0%	23.9%	32.8%	35.6%	36.6%	38.1%	39.2%	45.3%

** Net rate excluding retiree healthcare component*

Modeling Hypothetical Side Account Including Debt Service Costs

Projected Side Account Rate Offset

At the scaled up level of the hypothetical side account, the side account initially provides 7.6% of rate offset, with the offset level in future periods dependent on investment results and inflation-linked payroll growth levels. At the 50th percentile, the side account provides 7.0% to 7.9% of rate offset.

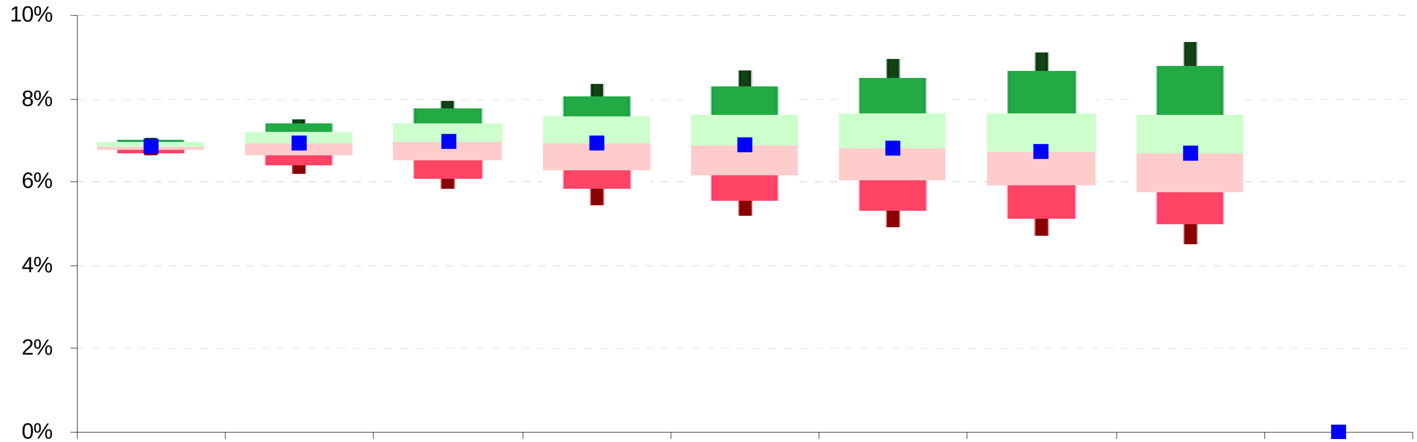


Biennium		2011 - 2013	2013 - 2015	2015 - 2017	2017 - 2019	2019 - 2021	2021 - 2023	2023 - 2025	2025 - 2027	2027 - 2029
95th		7.6%	9.8%	10.7%	11.0%	11.2%	11.1%	11.6%	12.6%	10.5%
90th		7.6%	9.2%	10.1%	10.2%	10.2%	10.4%	10.8%	11.3%	8.2%
75th		7.6%	8.5%	9.0%	9.1%	9.0%	9.0%	9.0%	9.2%	5.2%
50th		7.6%	7.9%	7.8%	7.7%	7.5%	7.3%	7.2%	7.0%	1.6%
25th		7.6%	7.2%	6.7%	6.3%	6.1%	5.8%	5.4%	4.6%	0.3%
10th		7.6%	6.6%	5.7%	5.0%	4.9%	4.2%	3.3%	2.2%	0.0%
5th		7.6%	6.2%	5.0%	4.4%	3.9%	3.1%	1.7%	0.7%	0.0%
95th - 5th		0.0%	3.6%	5.6%	6.6%	7.3%	8.0%	9.8%	11.8%	10.5%

Modeling Hypothetical Side Account Including Debt Service Costs

Projected Pension Obligation Bond (POB) Repayment

The POB repayment schedule is established as annual fixed-dollar amounts. In future periods, the repayment level as a percentage of payroll depends on inflation-linked payroll growth levels. At the 50th percentile, the repayment is 6.7% to 7.0% of annual pay.

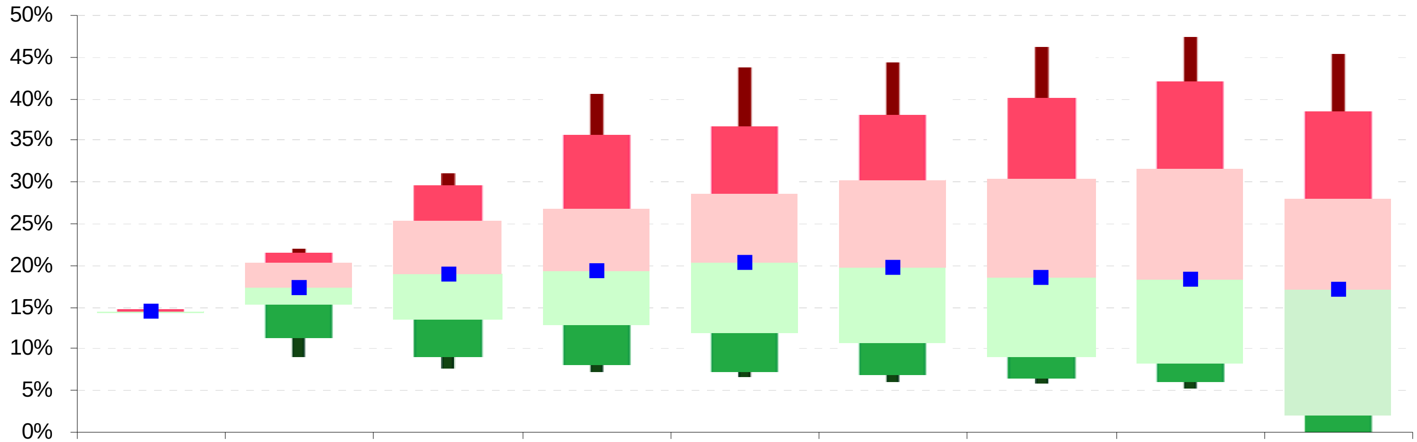


Biennium		2011 - 2013	2013 - 2015	2015 - 2017	2017 - 2019	2019 - 2021	2021 - 2023	2023 - 2025	2025 - 2027	2027 - 2029
95th		7.1%	7.5%	8.0%	8.3%	8.7%	9.0%	9.1%	9.3%	0.0%
90th		7.0%	7.4%	7.8%	8.1%	8.3%	8.5%	8.7%	8.8%	0.0%
75th		7.0%	7.2%	7.4%	7.6%	7.6%	7.7%	7.7%	7.6%	0.0%
50th		6.9%	6.9%	7.0%	7.0%	6.9%	6.8%	6.7%	6.7%	0.0%
25th		6.8%	6.7%	6.5%	6.3%	6.2%	6.0%	5.9%	5.7%	0.0%
10th		6.7%	6.4%	6.1%	5.9%	5.6%	5.3%	5.1%	5.0%	0.0%
5th		6.6%	6.2%	5.8%	5.4%	5.2%	4.9%	4.7%	4.5%	0.0%
95th - 5th		0.4%	1.3%	2.1%	2.9%	3.5%	4.1%	4.4%	4.8%	0.0%

Modeling Hypothetical Side Account Including Debt Service Costs

Net* Rate + Pension Obligation Bond Repayment

Combining the net rate with the POB repayment schedule is an estimate of overall cost for employers with POBs



Biennium		2011 - 2013	2013 - 2015	2015 - 2017	2017 - 2019	2019 - 2021	2021 - 2023	2023 - 2025	2025 - 2027	2027 - 2029
5th		14.7%	22.0%	31.1%	40.4%	43.7%	44.4%	46.1%	47.4%	45.3%
10th		14.6%	21.6%	29.7%	35.7%	36.8%	38.2%	40.1%	42.2%	38.5%
25th		14.6%	20.3%	25.5%	26.9%	28.6%	30.3%	30.4%	31.6%	28.0%
50th		14.5%	17.3%	18.9%	19.4%	20.4%	19.7%	18.6%	18.3%	17.1%
75th		14.4%	15.4%	13.4%	12.8%	11.8%	10.8%	9.1%	8.2%	2.1%
90th		14.3%	11.3%	9.2%	8.1%	7.3%	6.9%	6.5%	6.0%	0.0%
95th		14.2%	9.1%	7.6%	7.2%	6.6%	6.0%	5.8%	5.3%	0.0%
5th - 95th		0.4%	13.0%	23.5%	33.3%	37.0%	38.4%	40.3%	42.1%	45.3%

** Net rate excluding retiree healthcare component*

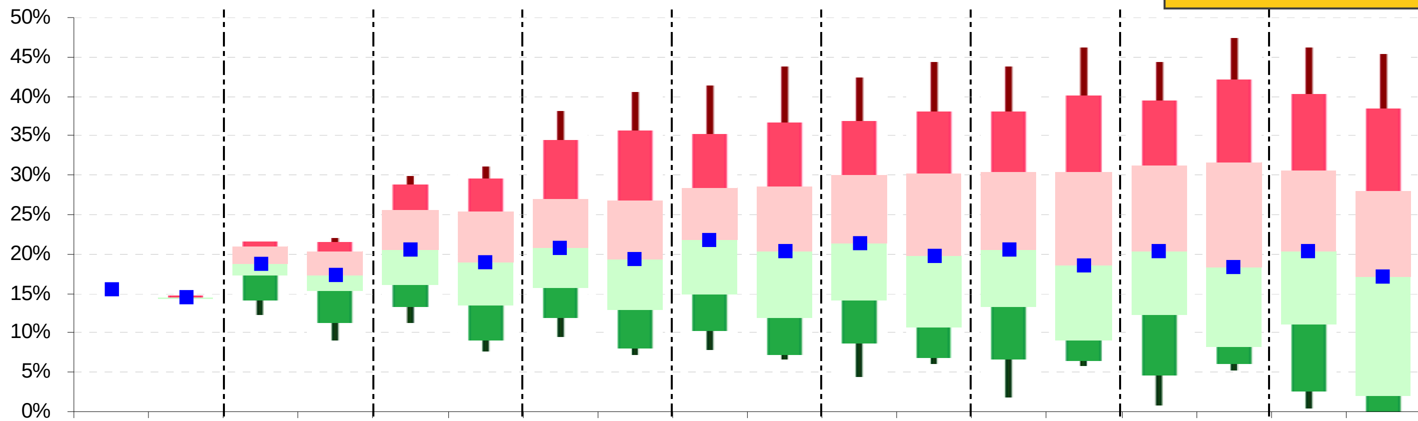
Modeling Hypothetical Side Account Including Debt Service Costs

Compare Base* Rate vs. Net* Rate + Pension Obligation Bond Repayment

This slide compares the "net rate plus POB" cost for the hypothetical bond to the "base rate" cost of no side account and no POB

At the 50th and 75th percentiles, establishing a side account is forecast to save money as assumptions are met or exceeded

In the 5th and 10th percentiles, where assumptions are not met, establishing a side account is more expensive as side account assets lose value



For most scenarios, and especially poor outlier scenarios, the effect of the side account is to increase rate volatility

Biennium	2011 - 2013		2013 - 2015		2015 - 2017		2017 - 2019		2019 - 2021		2021 - 2023		2023 - 2025		2025 - 2027		2027 - 2029	
	Base	Net+ POB	Base	Net+ POB	Base	Net+ POB	Base	Net+ POB	Base	Net+ POB	Base	Net+ POB	Base	Net+ POB	Base	Net+ POB	Base	Net+ POB
5th	15.6%	14.7%	21.6%	22.0%	29.9%	31.1%	38.1%	40.4%	41.3%	43.7%	42.4%	44.4%	43.8%	46.1%	44.3%	47.4%	46.2%	45.3%
10th	15.6%	14.6%	21.6%	21.6%	28.9%	29.7%	34.4%	35.7%	35.3%	36.8%	37.0%	38.2%	38.2%	40.1%	39.6%	42.2%	40.4%	38.5%
25th	15.6%	14.6%	21.0%	20.3%	25.6%	25.5%	27.0%	26.9%	28.5%	28.6%	30.0%	30.3%	30.3%	30.4%	31.2%	31.6%	30.7%	28.0%
50th	15.6%	14.5%	18.7%	17.3%	20.5%	18.9%	20.7%	19.4%	21.8%	20.4%	21.3%	19.7%	20.6%	18.6%	20.3%	18.3%	20.4%	17.1%
75th	15.6%	14.4%	17.4%	15.4%	16.0%	13.4%	15.8%	12.8%	14.9%	11.8%	14.2%	10.8%	13.3%	9.1%	12.3%	8.2%	11.0%	2.1%
90th	15.6%	14.3%	14.2%	11.3%	13.2%	9.2%	11.9%	8.1%	10.2%	7.3%	8.7%	6.9%	6.6%	6.5%	4.7%	6.0%	2.7%	0.0%
95th	15.6%	14.2%	12.3%	9.1%	11.3%	7.6%	9.6%	7.2%	7.8%	6.6%	4.5%	6.0%	1.8%	5.8%	0.9%	5.3%	0.5%	0.0%
5th - 95th	0.0%	0.4%	9.3%	13.0%	18.6%	23.5%	28.5%	33.3%	33.5%	37.0%	37.9%	38.4%	41.9%	40.3%	43.5%	42.1%	45.7%	45.3%

** Base rates and net rates excluding retiree healthcare component*

Modeling Hypothetical Side Account Including Debt Service Costs

Win/Lose Chart: Base Rate – (Net Rate + Pension Obligation Bond Repayment)

For each contribution period modeled, this slide indicates the difference between the “no side account” and “side account” costs

In the majority of scenarios, the net rate plus POB cost is less than the base rate

The asymmetrical risk profile (downside risk is greater than upside reward) is due to very good scenarios with base rates low enough that the maximum rate offset is limited

Net Rate +POB payments lower than Base Rates

Biennium		2011 - 2013	2013 - 2015	2015 - 2017	2017 - 2019	2019 - 2021	2021 - 2023	2023 - 2025	2025 - 2027
95th		1.3%	3.2%	4.0%	4.2%	4.4%	4.5%	4.8%	5.3%
90th		1.3%	2.8%	3.6%	3.7%	3.8%	3.9%	4.2%	4.5%
75th		1.2%	2.0%	2.5%	2.7%	2.7%	2.7%	2.9%	3.0%
50th		1.1%	1.4%	1.4%	1.3%	1.1%	0.9%	1.0%	0.7%
25th		1.0%	0.7%	0.2%	(0.3%)	(0.4%)	(0.9%)	(1.1%)	(1.6%)
10th		1.0%	(0.0%)	(1.1%)	(1.9%)	(2.1%)	(2.7%)	(3.4%)	(4.5%)
5th		0.9%	(0.5%)	(2.1%)	(2.9%)	(3.4%)	(4.0%)	(5.4%)	(7.0%)
95th - 5th		0.4%	3.7%	6.1%	7.1%	7.8%	8.5%	10.2%	12.3%

Modeling Hypothetical Side Account Including Debt Service Costs
Observations

- Despite establishing a fixed schedule to pay a variable cost, creating a side account does not appear to trade "variable for fixed"
  - Instead, due to bond proceeds being invested in the trust, rate volatility increases when a side account is created
- In the majority of scenarios modeled, overall costs decrease when a side account is established
  - Lower cost scenarios occur when investments meet or exceed assumption
- In scenarios where investment results are the most poor, costs increase as an outcome of establishing a side account
- Payment schedules or borrowing terms that differ significantly from the hypothetical POB could significantly affect analysis
  - For example, a "back loaded" debt payment schedule may lead to early savings followed by likely higher costs in later years

Effect of Early-Year Returns on Cost Analysis

Effect of Early Year Returns on Cost Analysis
Introduction

- The prior section indicated that in over 50% of the scenarios the "side account plus pension obligation bond (POB)" approach had lower costs than the "pay the base rate" approach
  - This is unsurprising given the hypothetical POB's cost structure and the model's expected investment return level on side accounts
    - The hypothetical POB's fixed rate interest cost is 5.75% per year
    - The side account's 50th percentile geometric average annualized investment return is 8.1% for 2011 to 2027
- It would seem that if:
  - The side account's average investment return over the POB's debt payment period <u>exceeds</u>
  - The POB's interest rate, <u>then</u>
  - The "side account plus POB" approach will have lower costs
    - ➢ *This is not always the case, however*

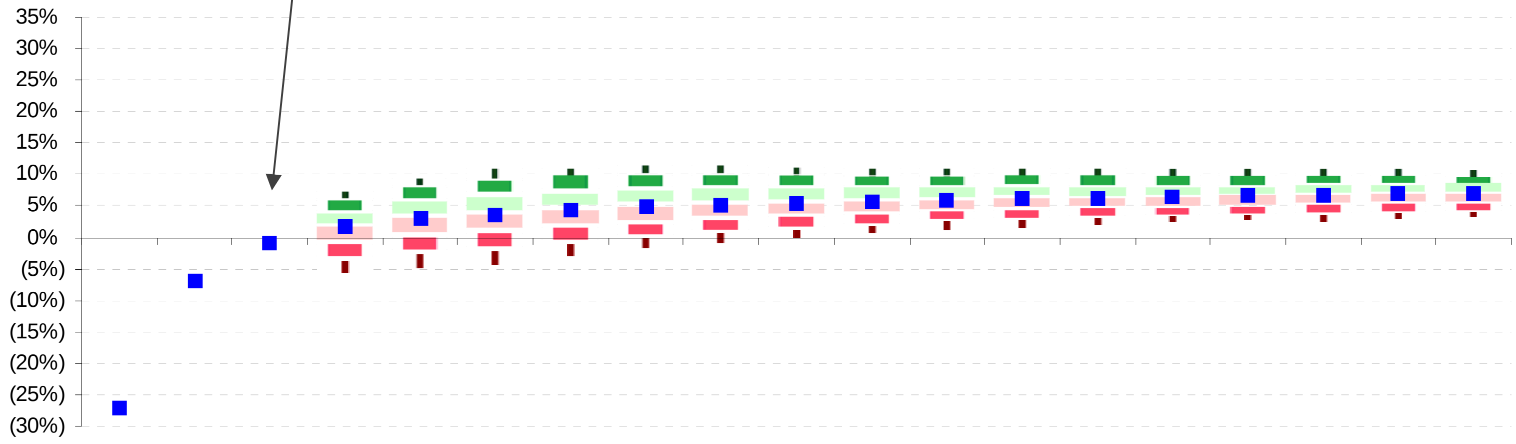
Effect of Early Year Returns on Cost Analysis
Hypothetical Bond Model

- One reason for this is that early year side account investment returns carry greater weight than later year returns
  - Even if the side account's average investment return exceeds the bond's cost rate over the debt payment period, the "side account plus POB" approach can be more costly if early returns are poor
- To illustrate this phenomenon, we modeled the effect on the hypothetical bond from the prior section of side accounts underperforming compared to assumption during the initial three years of the bond (2011-2013)
  - We used asset returns approximately equal to those experienced by the PERS regular account for the period 2008-2010
    - The cumulative three year return of -2.5% during that period is between a 10th and 25th percentile event in our financial model

Effect of Early Year Returns on Cost Analysis

Assumed Regular Account Asset Returns – Geometric Average

The initial three years have a cumulative return of -2.5% and an average annualized return of -0.8%



For PYE 12/31		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
95th		(27.2%)	(6.9%)	(0.8%)	7.2%	9.4%	10.8%	11.0%	11.4%	11.4%	11.3%	10.8%	10.9%	11.0%	10.9%	10.8%	11.0%	10.8%	10.8%	10.7%
90th		(27.2%)	(6.9%)	(0.8%)	5.9%	7.9%	9.0%	9.7%	9.8%	9.7%	9.9%	9.7%	9.7%	9.8%	9.8%	9.8%	9.9%	9.8%	9.8%	9.7%
75th		(27.2%)	(6.9%)	(0.8%)	3.8%	5.6%	6.4%	7.0%	7.5%	7.6%	7.7%	7.9%	8.0%	7.9%	7.9%	8.0%	8.1%	8.3%	8.3%	8.4%
50th		(27.2%)	(6.9%)	(0.8%)	1.6%	3.0%	3.5%	4.2%	4.8%	5.1%	5.4%	5.7%	6.0%	6.1%	6.2%	6.4%	6.6%	6.8%	6.9%	6.9%
25th		(27.2%)	(6.9%)	(0.8%)	(1.2%)	(0.2%)	0.7%	1.6%	1.9%	2.7%	3.3%	3.7%	4.0%	4.3%	4.6%	4.7%	4.9%	5.0%	5.3%	5.4%
10th		(27.2%)	(6.9%)	(0.8%)	(3.9%)	(2.7%)	(2.2%)	(1.2%)	(0.1%)	0.6%	1.2%	1.7%	2.4%	2.7%	3.1%	3.2%	3.4%	3.6%	3.9%	4.2%
5th		(27.2%)	(6.9%)	(0.8%)	(5.6%)	(4.9%)	(4.2%)	(2.9%)	(1.7%)	(0.8%)	(0.1%)	0.5%	1.1%	1.5%	2.0%	2.4%	2.8%	2.6%	3.0%	3.2%
95th - 5th		0.0%	0.0%	0.0%	12.8%	14.3%	15.0%	13.9%	13.1%	12.3%	11.4%	10.2%	9.8%	9.5%	8.9%	8.3%	8.2%	8.2%	7.8%	7.6%

With the initial three years of side account returns set to parallel 2008-2010 returns, the average annualized investment return for the 2011-2027 debt repayment period is 6.8% at the 50th percentile, which is in excess of the 5.75% bond interest rate

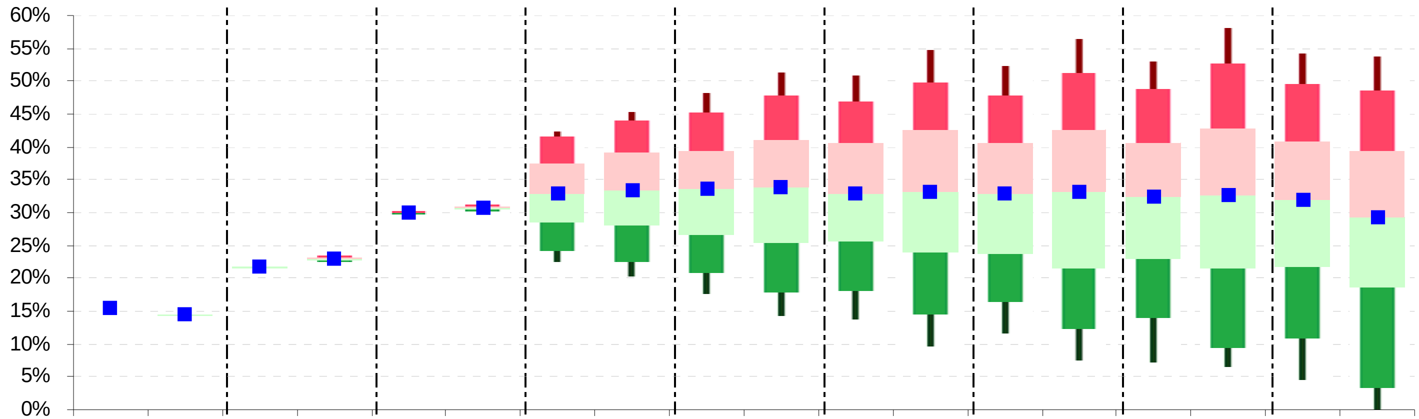
Effect of Early Year Returns on Cost Analysis

Compare Base* Rate vs. Net* Rate + Pension Obligation Bond Repayment

Base rates shown here are higher than shown in prior sections because this scenario assumes a large asset loss in 2011

This slide compares the “net rate plus POB” cost for the hypothetical bond to the “base rate” cost of no side account and no POB

If the early side account returns are poor, the “net rate plus POB” cost is higher in the majority of scenarios



For most scenarios, and especially poor outlier scenarios, the effect of the side account is to increase rate volatility

Biennium	2011 - 2013		2013 - 2015		2015 - 2017		2017 - 2019		2019 - 2021		2021 - 2023		2023 - 2025		2025 - 2027		2027 - 2029	
	Base	Net+ POB	Base	Net+ POB	Base	Net+ POB	Base	Net+ POB	Base	Net+ POB	Base	Net+ POB	Base	Net+ POB	Base	Net+ POB	Base	Net+ POB
5th	15.6%	14.7%	21.7%	23.5%	30.3%	31.2%	42.3%	45.3%	48.0%	51.3%	50.7%	54.6%	52.2%	56.5%	53.0%	58.2%	54.2%	53.6%
10th	15.6%	14.6%	21.7%	23.4%	30.2%	31.1%	41.7%	44.0%	45.2%	48.0%	46.8%	49.8%	47.9%	51.2%	48.9%	52.7%	49.7%	48.6%
25th	15.6%	14.6%	21.7%	23.2%	30.1%	31.0%	37.6%	39.1%	39.5%	41.2%	40.6%	42.7%	40.7%	42.6%	40.6%	42.9%	40.8%	39.6%
50th	15.6%	14.5%	21.7%	23.1%	30.0%	30.8%	32.8%	33.4%	33.5%	34.0%	32.9%	33.2%	33.0%	33.1%	32.5%	32.6%	31.9%	29.2%
75th	15.6%	14.4%	21.6%	22.8%	29.9%	30.6%	28.6%	28.1%	26.7%	25.4%	25.7%	24.0%	23.6%	21.4%	23.0%	21.6%	21.9%	18.7%
90th	15.6%	14.3%	21.6%	22.6%	29.8%	30.3%	24.1%	22.6%	20.8%	17.9%	18.2%	14.5%	16.4%	12.4%	14.0%	9.4%	11.0%	3.4%
95th	15.6%	14.2%	21.6%	22.5%	29.8%	30.1%	22.5%	20.4%	17.7%	14.2%	13.8%	9.7%	11.6%	7.6%	7.3%	6.4%	4.6%	0.0%
5th - 95th	0.0%	0.4%	0.1%	1.0%	0.5%	1.1%	19.8%	24.9%	30.4%	37.1%	36.9%	44.9%	40.7%	48.9%	45.8%	51.7%	49.6%	53.6%

** Base rates and net rates excluding retiree healthcare component*

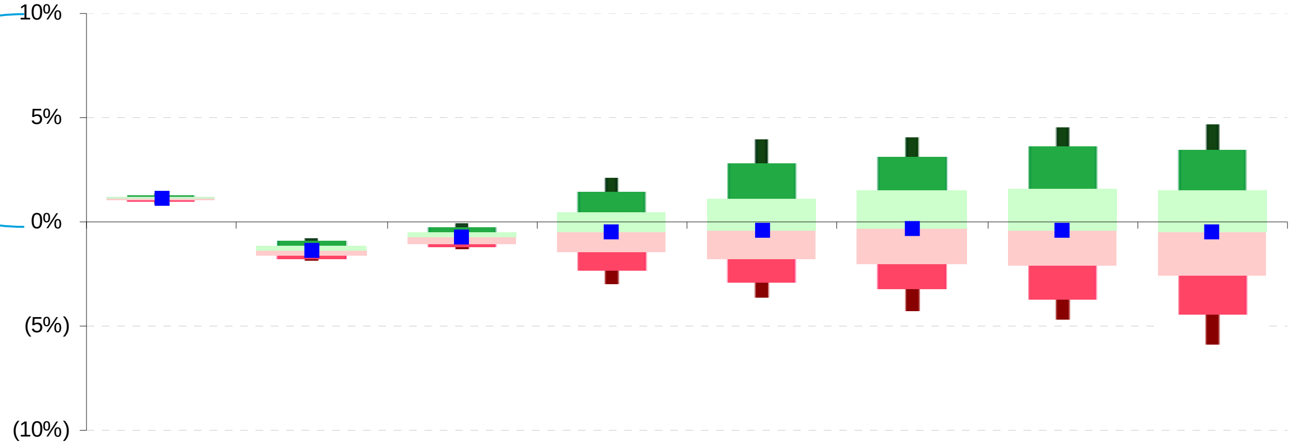
Effect of Early Year Returns on Cost Analysis

Win/Lose Chart: Base Rate – (Net Rate + Pension Obligation Bond Repayment)

For each contribution period modeled, this slide indicates the difference between the "no side account" and "side account" costs

If investment returns are poor in the initial years, the "side account plus bond" approach is more expensive for 2013-2017 for all scenarios depicted on the chart

Net Rate +POB payments lower than Base Rates



Biennium		2011 - 2013	2013 - 2015	2015 - 2017	2017 - 2019	2019 - 2021	2021 - 2023	2023 - 2025	2025 - 2027
95th		1.3%	(0.8%)	(0.1%)	2.1%	3.9%	4.0%	4.5%	4.7%
90th		1.3%	(0.9%)	(0.3%)	1.4%	2.8%	3.2%	3.6%	3.5%
75th		1.2%	(1.1%)	(0.5%)	0.5%	1.2%	1.6%	1.6%	1.5%
50th		1.1%	(1.4%)	(0.8%)	(0.5%)	(0.4%)	(0.3%)	(0.4%)	(0.5%)
25th		1.0%	(1.6%)	(1.0%)	(1.4%)	(1.8%)	(2.0%)	(2.1%)	(2.6%)
10th		1.0%	(1.8%)	(1.2%)	(2.4%)	(2.9%)	(3.2%)	(3.7%)	(4.4%)
5th		0.9%	(1.8%)	(1.3%)	(3.0%)	(3.6%)	(4.3%)	(4.7%)	(5.9%)
95th - 5th		0.4%	1.1%	1.2%	5.1%	7.5%	8.3%	9.2%	10.5%

For 2017-2027, the "side account plus bond" approach is more expensive in over half of the scenarios, even though the 50th percentile investment return for 2011-2027 of 6.8% exceeds the 5.75% bond interest rate by over 1%

Effect of Early Year Returns on Cost Analysis
Observations

- Even if side account investment earnings average in excess of the bond interest rate, it is possible for the side account approach to be more expensive
  - This can occur if early year investment returns are poor
  - Because the side account is depleted steadily over time via rate offset transfers, strong later year returns may not be able to restore the side account approach to a net cost savings position
- The early year returns of side accounts determine the long-term win/lose profile of a side account
  - In essence, if market conditions deviate significantly from the assumption in early years the long-term win/lose prospects may become firmly established

Wrap-Up/Forward Looking Calendar

- Questions or comments on today's presentation?
- Upcoming actuarial calendar
  - May Board meeting
    - Review of economic assumptions and actuarial methods
  - July Board meeting
    - Review of demographic assumptions
    - Board approval of all assumptions and methods
  - September Board meeting
    - Presentation of summary 12/31/2010 actuarial valuation results

Appendix

Appendix
Important Notices

Mercer has prepared this report exclusively for the Oregon PERS Board; Mercer is not responsible for reliance upon this report by any other party. The only purposes of this report are to present Mercer's actuarial estimates of the system's contributions rates and funded status under a limited set of assumptions. This report may not be used for any other purpose; Mercer is not responsible for the consequences of any unauthorized use.

Decisions about benefit changes, granting new benefits, investment policy, funding policy, benefit security and/or benefit-related issues should not be made on the basis of this report, but only after careful consideration of alternative economic, financial, demographic and societal factors, including financial scenarios that assume future sustained investment losses.

The Oregon Investment Council (OIC) is solely responsible for selecting the plan's investment policies, asset allocations and individual investments of the Oregon PERS program. Mercer's actuaries have not provided any investment advice to Oregon PERS or OIC.

A valuation report is only a snapshot of a Plan's estimated financial condition at a particular point in time; it does not predict the Plan's future financial condition or its ability to pay benefits in the future and does not provide any guarantee of future financial soundness of the Plan. Over time, a plan's total cost will depend on a number of factors, including the amount of benefits the plan pays, the number of people paid benefits, the period of time over which benefits are paid, plan expenses and the amount earned on any assets invested to pay benefits. These amounts and other variables are uncertain and unknowable at the valuation date

Because modeling all aspects of a situation is not possible or practical, we may use summary information, estimates, or simplifications of calculations to facilitate the modeling of future events in an efficient and cost-effective manner. We may also exclude factors or data that are immaterial in our judgment. Use of such simplifying techniques does not, in our judgment, affect the reasonableness of valuation results for the plan.

To prepare the valuation report, actuarial assumptions, as described in the actuarial valuation report as of December 31, 2009, for Oregon PERS are used in a forward looking financial and demographic model to select a single scenario from a wide range of possibilities; the results based on that single scenario are included in the valuation. The future is uncertain and the plan's actual experience will differ from those assumptions; these differences may be significant or material because these results are very sensitive to the assumptions made and, in some cases, to the interaction between the assumptions.

Appendix
Important Notices

Different assumptions or scenarios within the range of possibilities may also be reasonable and results based on those assumptions would be different. As a result of the uncertainty inherent in a forward looking projection over a very long period of time, no one projection is uniquely “correct” and many alternative projections of the future could also be regarded as reasonable. Two different actuaries could, quite reasonably, arrive at different results based on the same data and different views of the future. A "sensitivity analysis" shows the degree to which results would be different if you substitute alternative assumptions within the range of possibilities for those utilized in this report. This report displays a limited-scope sensitivity analysis of alternate possible economic scenarios only, as detailed in this report. At Oregon PERS request, Mercer is available to perform additional sensitivity analyses.

Actuarial assumptions may also be changed from one valuation to the next because of changes in mandated requirements, plan experience, changes in expectations about the future and other factors. A change in assumptions is not an indication that prior assumptions were unreasonable when made.

The calculation of actuarial liabilities for valuation purposes is based on a current estimate of future benefit payments. The calculation includes a computation of the "present value" of those estimated future benefit payments using an assumed discount rate; the higher the discount rate assumption, the lower the estimated liability will be. For purposes of estimating the liabilities (future and accrued) in this report, Oregon PERS selected an assumption based on the expected long term rate of return on plan investments. Using a lower discount rate assumption, such as a rate based on long-term bond yields, could substantially increase the estimated present value of future and accrued liabilities.

Because valuations are a snapshot in time and are based on estimates and assumptions that are not precise and will differ from actual experience, contribution calculations are inherently imprecise. There is no uniquely “correct” level of contributions for the coming plan year.

Valuations do not affect the ultimate cost of the Plan. Plan funding occurs over time. Contributions not made this year, for whatever reason, including errors, remain the responsibility of the Plan sponsor and can be made in later years. If the contribution levels over a period of years are lower or higher than necessary, it is normal and expected practice for adjustments to be made to future contribution levels to take account of this with a view to funding the plan over time.

Appendix
Important Notices

Data, computer coding and mathematical errors are possible in the preparation of a valuation involving complex computer programming and thousands of calculations and data inputs. Errors in a valuation discovered after its preparation may be corrected by amendment to the valuation or in a subsequent year's valuation.

To prepare this report, Mercer has used and relied on member and financial data submitted by the Oregon Public Employees Retirement System as summarized in the December 31, 2009 actuarial valuation report and on investment return information as published by Oregon PERS and Oregon Investment Council (OIC). Oregon PERS is responsible for ensuring that such participant data provides an accurate description of all persons who are participants under the terms of the plan or otherwise entitled to benefits as of December 31, 2009, that is sufficiently comprehensive and accurate for the purposes of this report. Although Mercer has reviewed the data in accordance with Actuarial Standards of Practice No. 23, Mercer has not verified or audited any of the data or information provided.

Mercer has also used and relied on the plan provisions described in Oregon Revised Statutes Sections 238 and 238A and legislative amendments supplied by Oregon PERS. A summary of the plan provisions valued is presented in our report. Oregon PERS is solely responsible for the accuracy, validity and comprehensiveness of this information. If the data or plan provisions supplied are not accurate and complete the valuation results may differ significantly from the results that would be obtained with accurate and complete information; this may require a later revision of this report. Moreover, plan documents may be susceptible to different interpretations, each of which could be reasonable, and that the different interpretations could lead to different valuation results.

Assumptions used are based on the last experience study, as adopted by the Board on July 16, 2009. The Board is responsible for selecting the plan's funding policy, actuarial valuation methods, asset valuation methods and assumptions. This valuation is based on assumptions, plan provisions, methods and other parameters so prescribed and as summarized in this report. Oregon PERS is solely responsible for communicating to Mercer any changes required thereto.

Important Notices

Professional Qualifications

We are available to answer any questions on the material in this report or to provide explanations or further details as appropriate. The undersigned credentialed actuaries meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report. We are not aware of any direct or material indirect financial interest or relationship, including investments or other services that could create a conflict of interest, that would impair the objectivity of our work.

We are available to answer any questions on the material contained in the report, or to provide explanations or further details as may be appropriate.

March 28, 2011

Matthew R. Larrabee, FSA, EA, MAAA **Date**
Enrolled Actuary No. 08-6154

March 28, 2011

Scott D. Preppernau, FSA, EA, MAAA **Date**
Enrolled Actuary No. 08-7360

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The information contained in this document is not intended by Mercer to be used, and it cannot be used, for the purpose of avoiding penalties under the Internal Revenue Code that may be imposed on the taxpayer.

Appendix
Actuarial Basis

Data

We have based our projection of the liabilities on the data, methods, assumptions and plan provisions described in the December 31, 2009, Actuarial Valuation ("2009 Valuation Report") for the Oregon Public Employees Retirement System.

Assets as of December 31, 2010, were based on values provided by Oregon PERS reflecting the Board's preliminary earnings crediting decisions for 2010.

We have assumed that the active participant data reflected in the valuation of the Plan remains stable over the projection period (i.e. – participants leaving employment are replaced by new hires in such a way that the total counts, average age, and average service remain stable from year to year). No new members are assumed to be eligible for Tier 1 and Tier 2 benefits; all new entrants are assumed to become members under the OPSRP benefit formula.

Methods / Policies

Liabilities are based on the Projected Unit Credit method and are rolled forward according to the following rules:

Normal cost: Normal cost increases with assumed wage growth adjusted for wage experience, demographic experience and asset return experience (if applicable). Demographic experience follows assumptions described in the Valuation Report.

Accrued liability: Liabilities increase with normal cost and decrease with benefit payments. Results are adjusted for wage, demographic and asset experience (if applicable).

Contribution Rates: The projected contribution rates are calculated on each odd valuation date in accordance with methodologies described in the Valuation Report. Rates are applied 18 months after the determination date.

Expenses: OPSRP administration expenses are assumed to be equal to $6.6M and are added to the OPSRP normal cost.

Actuarial Value of Assets: Equal to Market Value of Assets excluding Contingency and Tier 1 Rate Guarantee Reserves, when such reserves are individually greater than zero

Appendix
Actuarial Basis

Investment Policy

General Accounts were assumed to be invested as follows: 46% Global Equity; 11% Real Estate; 16% Private Equity; 27% Fixed Income, in accordance with the Oregon Investment Council “Statement of Investment Objectives and Policy Framework for the Oregon Public Employees Retirement Fund” dated December 1, 2010.

Variable Accounts were assumed to be invested in 100% Global Equity.

Assumptions

In general, all assumptions are as described in the Valuation Report.

The major assumptions used in our projections are shown below. They are aggregate average assumptions that apply to the whole population and were held constant throughout the projection period. The economic experience adjustments were allowed to vary in future years given the conditions defined in each economic scenario.

- Valuation interest rate — 8.00%
- General Accounts Growth — 8.00%
- Variable Account Growth — 8.50%
- Wage growth assumption — 3.75%
- Wage growth experience — inflation + 1.25%
- Demographic experience — reflects decrement assumptions as described in the Valuation Report.
- Actual Investment earnings are based on Mercer’s Capital Market Outlook reflecting actual market experience through January 1, 2011.

Reserve Projections

Contingency Reserve as of 12/31/2010 was estimated to be $734.4M. No future increases or decreases from this reserve were assumed.

Tier 1 Rate Guarantee Reserve (“T1RGR”) was estimated to be $-207.8M as of 12/31/2010. The reserve was assumed to grow with returns in excess of 8% on Tier 1 Member Accounts plus T1RGR. When aggregate returns were below 8%, applicable amounts from the T1RGR were transferred to the Tier 1 Member Accounts to maintain the 8% target growth on the member accounts. The T1RGR reserve was allowed to go negative, but the reserve is not excluded from valuation assets when it is negative.

Appendix
Actuarial Basis

Assumptions

Assumptions for valuation calculations are as described in the 2009 Valuation Report.

Provisions

Provisions valued are as detailed in the 2009 Valuation Report.

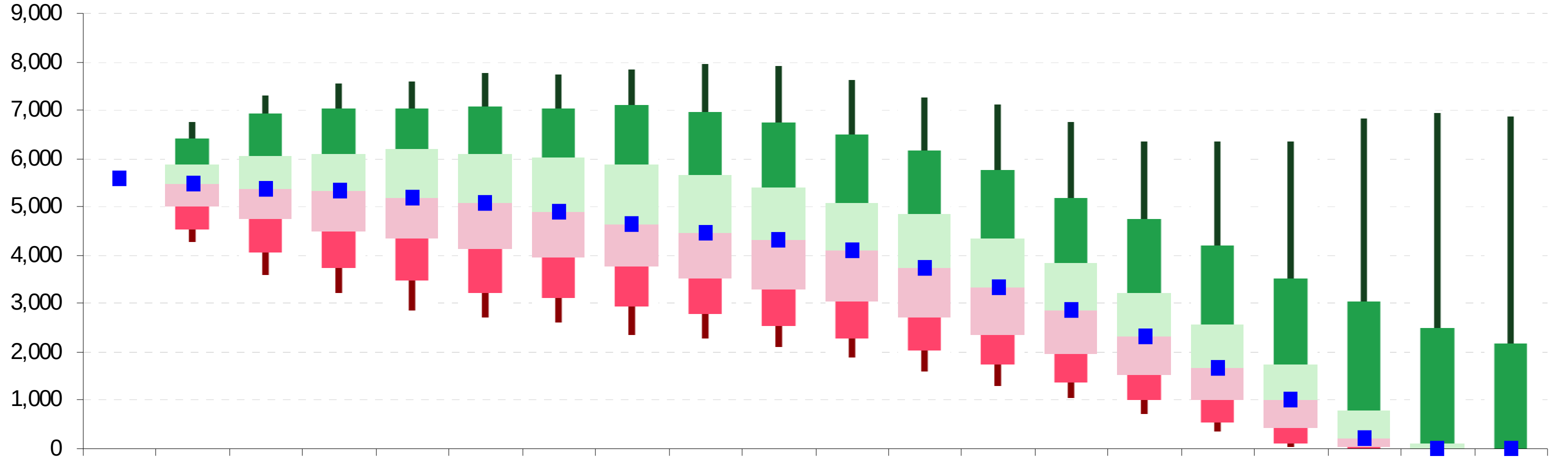
Arken and Robinson Litigation

We have made no adjustment to these valuation results to reflect any interpretation of Judge Kantor's rulings in the *Arken and Robinson* cases.

Appendix
Assumed Regular Account Asset Returns – Geometric Average

For PYE 12/31	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
95th	30.0%	22.8%	18.7%	16.5%	15.3%	14.3%	14.2%	13.8%	13.5%	13.0%	12.6%	12.2%	12.1%	12.0%	11.8%	11.8%	11.7%	11.5%	11.3%
90th	24.4%	19.9%	16.4%	14.4%	13.6%	13.0%	12.8%	12.3%	12.1%	11.7%	11.5%	11.3%	11.3%	11.2%	11.0%	10.9%	10.8%	10.8%	10.7%
75th	14.5%	12.9%	11.8%	11.3%	10.9%	10.6%	10.4%	10.1%	9.9%	9.8%	9.9%	9.8%	9.7%	9.7%	9.5%	9.5%	9.6%	9.5%	9.5%
50th	7.5%	7.4%	7.5%	7.3%	7.5%	7.4%	7.5%	7.6%	7.8%	8.0%	8.1%	8.2%	8.1%	8.0%	8.0%	8.1%	8.1%	8.2%	8.2%
25th	(1.2%)	1.4%	2.7%	3.5%	4.3%	4.6%	5.0%	5.3%	5.6%	5.9%	6.0%	6.1%	6.1%	6.4%	6.6%	6.6%	6.7%	6.8%	6.7%
10th	(9.2%)	(5.0%)	(2.7%)	(1.1%)	0.3%	1.5%	2.3%	3.0%	3.5%	3.9%	4.1%	4.4%	4.7%	4.9%	5.0%	5.2%	5.1%	5.5%	5.5%
5th	(14.3%)	(10.0%)	(6.3%)	(4.7%)	(2.4%)	(0.7%)	0.3%	1.5%	2.0%	2.7%	2.9%	3.4%	3.6%	3.9%	3.9%	4.2%	4.2%	4.6%	4.6%
95th - 5th	44.3%	32.8%	25.0%	21.2%	17.6%	15.0%	13.9%	12.3%	11.5%	10.2%	9.7%	8.8%	8.5%	8.1%	7.9%	7.7%	7.5%	6.9%	6.7%

Appendix
Baseline Projected Side Account Balance

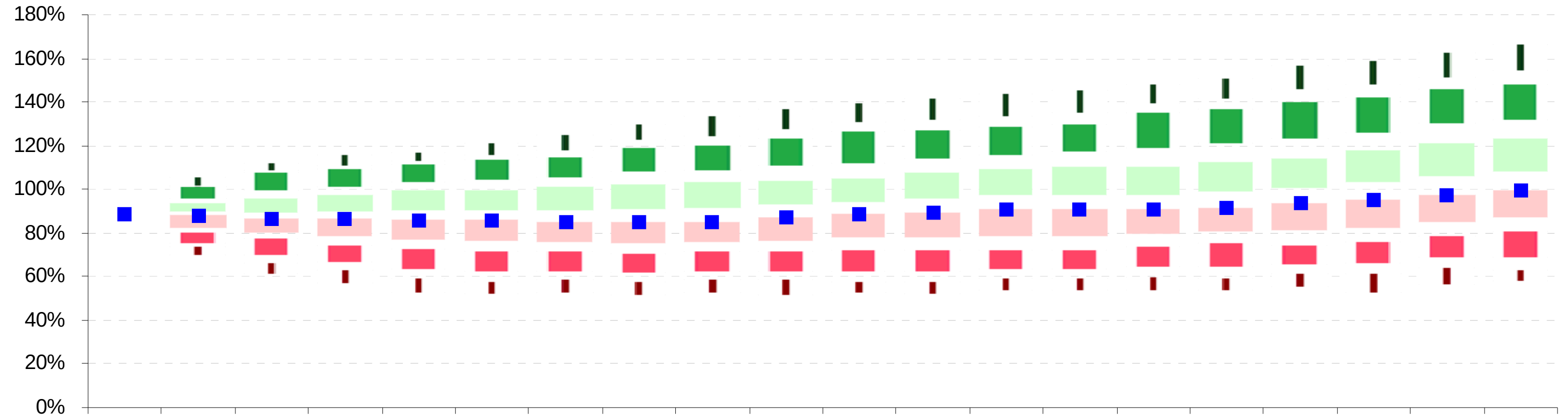


($millions)

PY Ending 12/31		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
95th		5,580	6,740	7,292	7,532	7,588	7,784	7,726	7,823	7,930	7,927	7,623	7,272	7,097	6,743	6,353	6,347	6,356	6,820	6,927	6,856
90th		5,580	6,423	6,949	7,037	7,055	7,071	7,054	7,128	6,953	6,766	6,493	6,176	5,773	5,205	4,744	4,214	3,513	3,032	2,492	2,186
75th		5,580	5,876	6,073	6,114	6,202	6,112	6,019	5,876	5,661	5,421	5,069	4,868	4,349	3,852	3,242	2,573	1,751	802	97	9
50th		5,580	5,483	5,384	5,334	5,199	5,083	4,889	4,647	4,475	4,313	4,083	3,746	3,324	2,879	2,332	1,685	999	216	13	0
25th		5,580	4,995	4,764	4,502	4,363	4,141	3,959	3,760	3,525	3,306	3,058	2,739	2,366	1,969	1,525	1,029	435	29	0	0
10th		5,580	4,549	4,056	3,746	3,472	3,215	3,125	2,922	2,804	2,551	2,282	2,032	1,726	1,385	1,024	551	124	0	0	0
5th		5,580	4,266	3,584	3,242	2,849	2,737	2,599	2,361	2,296	2,112	1,895	1,583	1,306	1,048	721	347	39	0	0	0
95th - 5th		0	2,474	3,708	4,290	4,739	5,047	5,126	5,462	5,634	5,815	5,728	5,689	5,791	5,694	5,632	5,999	6,317	6,820	6,927	6,856

Variable 122

Appendix
Baseline Combined (Tier 1/Tier 2, OPSRP) Funded Status (Including Side Accounts)



PY Ending 12/31	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
95th	88%	105%	112%	115%	117%	121%	125%	130%	133%	137%	139%	142%	144%	145%	148%	151%	157%	159%	163%	166%
90th	88%	101%	108%	109%	111%	113%	115%	119%	120%	123%	126%	127%	129%	130%	135%	136%	140%	142%	146%	148%
75th	88%	93%	96%	97%	100%	100%	101%	102%	103%	104%	104%	108%	109%	110%	111%	112%	114%	118%	122%	123%
50th	88%	88%	87%	86%	86%	86%	85%	85%	85%	87%	89%	89%	91%	91%	91%	92%	94%	95%	97%	100%
25th	88%	80%	77%	74%	73%	71%	71%	70%	71%	71%	72%	72%	72%	72%	73%	75%	74%	76%	78%	81%
10th	88%	73%	66%	62%	59%	57%	58%	58%	58%	58%	57%	57%	59%	59%	59%	59%	61%	61%	64%	63%
5th	88%	69%	59%	54%	49%	50%	50%	49%	50%	49%	51%	49%	51%	52%	51%	51%	53%	49%	52%	56%
95th - 5th	0%	36%	53%	61%	68%	71%	76%	81%	84%	88%	88%	92%	92%	94%	97%	100%	104%	110%	110%	111%

Variable 172

Appendix
Stochastic Modeling

- **Stochastic (Monte Carlo) Modeling**
  - In order to understand the range of outcomes, we employ an economic model of capital markets in which we focus on the three fundamental factors – growth, inflation, and interest rates – that drive capital markets.
  - Thus, if interest rates rise due to inflation, we utilize the same rise in inflation and interest rates in order to calculate returns on bonds and to determine if the discount rate is reasonable.
  - Stochastic modeling is used to help assign probabilities to the various market environments.
  - Our capital market assumptions represent general future expectations and significant volatility around those expectations.

Appendix
Capital Market Assumptions

- Mercer's Methodology:
  - Mercer's stochastic model is based on a 7 state regime-switching Monte Carle simulation.
  - This technique generates 1,000 economic trials with each trial producing projected results for each year over the selected planning horizon.
  - Each state or regime has a defined set of means, volatilities, reversion coefficients and correlation assumptions.
  - We define a probability transition matrix for achieving each regime given the past state-of-the-world.
  - We adjust the Base Case state (described on next slide) so that the median results across all trials produce inflation and growth that correspond to our long run projections. Essentially, this becomes a recentering state because in the other six states there are more negative than positive states. Properly speaking, this state should be labeled "Optimistic Normal", since we generally have to lower inflation, raise growth, and lower credit spreads to more optimistic conditions (but not quite as high as Ideal Growth).

Appendix
Capital Market Assumptions

- Mercer's Methodology *(continued)*:
  - We define the seven possible states (or regimes) of the world as:
    - **Base Case:** Inflation, growth, and equity returns hover around their long term expected values. (Inflation is 2.8%, growth is 3.1%, and equity returns are in the low 8.0% range.) Bond yields adjust from their current conditions to their long run values over a period of three to five years. This path of interest rates then determines bond returns.
      - Since the Treasury curve in the US is quite steep with very low short rates, this Base Case scenario has low bond returns initially and then returns in the 5.0% to 5.5% range once the adjustment of interest rates is finished.
    - **Recession:** This is a "classical recession", not a severe credit crunch or depression. In the recession scenario, inflation is quite low, but not negative, while growth dips below zero. Treasury yields decline sharply, but T-Bills do not approach zero. Credit spreads widen and the equity returns are low because of a decline in earnings and drop in the P/E level.
    - **Stagflation:** Inflation rises to around 6.0% and growth stalls to 1.0% (but is not necessarily negative). The Treasury yield curve flattens at about 7.0% to 7.5%. Equity returns are weak, because the P/E level drops. Credit spreads widen, but not to recession levels.
    - **Inflationary growth:** Inflation rises to 6.0% and economic growth is very strong at 4.5%. Treasury yields rise to the 8.0% level. The P/E level of the market rises slightly, producing returns consistently in the 10% range.
    - **Ideal Growth:** Inflation falls to 0.5%, economic growth booms at 6%. Treasury yields stay near our long run projected curve, producing very high real yields. P/E level soars, producing equity returns in the teens. If this regime persists for a few years, equity returns drop back down to the 8.0% level, which means that real returns are still quite high, in the 7.5% range.
    - **High Inflation:** Inflation rises to 10%, economic growth is below average at 2.5%. Treasury yields rise to 10% to 11%, credit spreads widen slightly. Equity returns are depressed as the P/E level falls.
    - **Credit Crunch/Depression:** This is modeled after the events of 2008. Inflation and economic growth are both negative (around -1.5% to -2.0%). Credit spreads soar, treasury yields decline sharply and T-Bill yields approach zero. The P/E level of the market declines sharply.

Appendix

Capital Market Assumptions - Base Case State Modeling Parameters

	Asset Class Name	Arithmetic Expected Annual Return	Geometric Annual Return Equivalent	Annual Standard Deviation	Correlation Matrix				
					1	2	3	4	5
1	Global All Cap Unhedged	10.00%	8.33%	19.40%	1.00				
2	Fixed Income-Aggregate	4.70%	4.53%	6.00%	0.09	1.00			
3	Fixed Income-High Yield	6.40%	5.89%	10.50%	0.62	0.50	1.00		
4	Real Estate-Core	8.20%	7.11%	15.49%	0.40	0.25	0.35	1.00	
5	Private Equity-Total	13.40%	9.17%	31.86%	0.65	0.20	0.40	0.50	1.00

Based on Mercer’s December 2010 Capital Market Outlook

Appendix
Investment Strategy - Capital Market Simulator

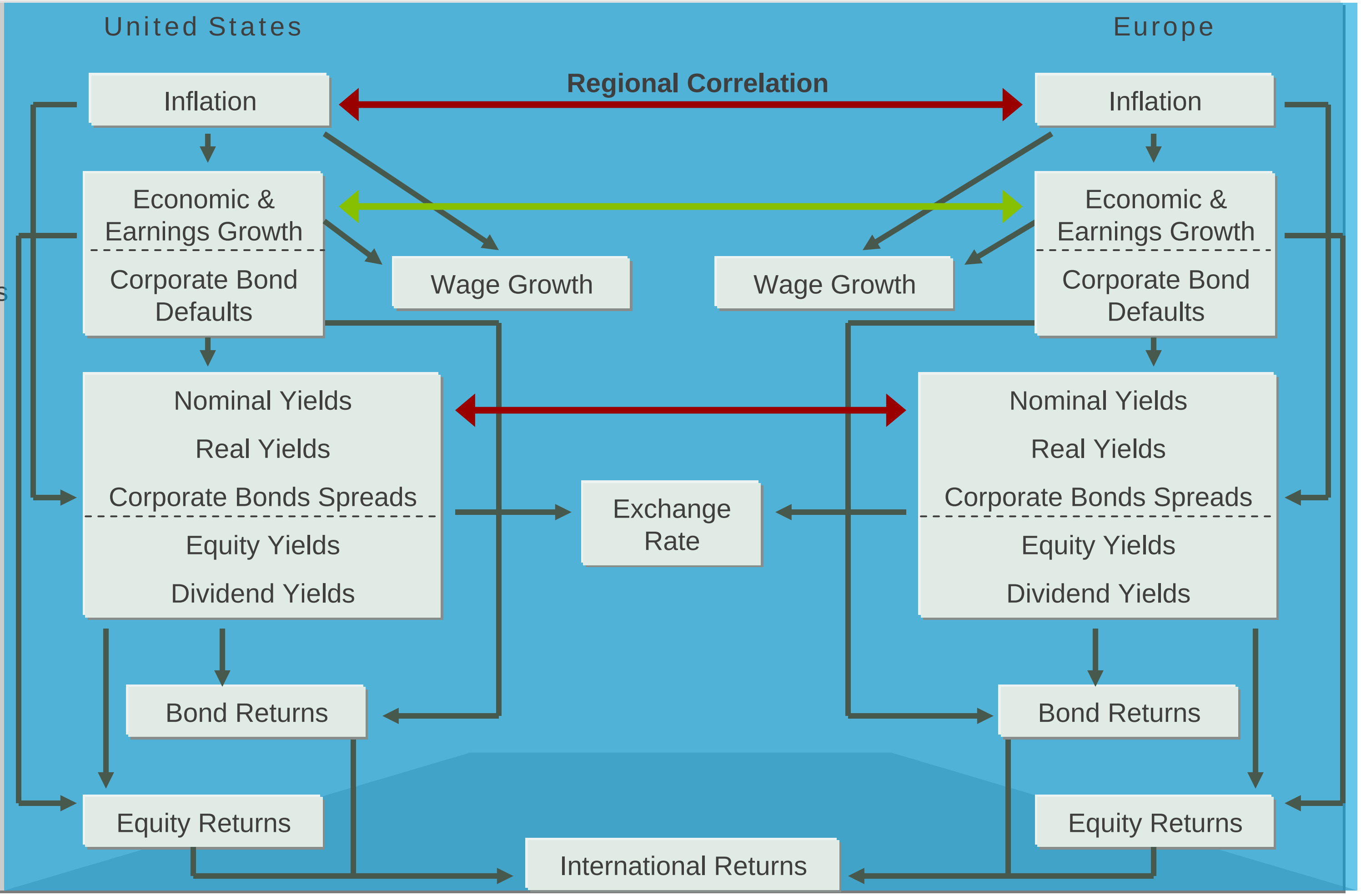
Step 1. Generate
- Inflation
- Economic growth

Step 2. Generate
- Nominal yield curve
- Real yield curve
- Equity yields, dividend yields
- Corporate bond spreads

Step 3. Determine change in exchange rates

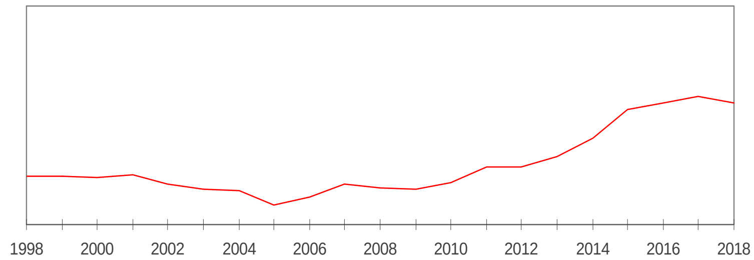
Step 4. Compute
- Bond returns
- Equity returns

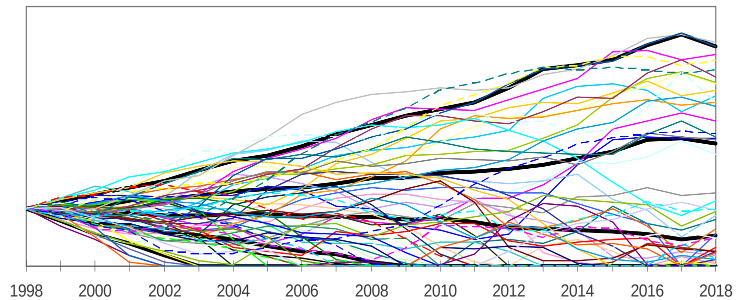
Step 5. Determine Int'l returns

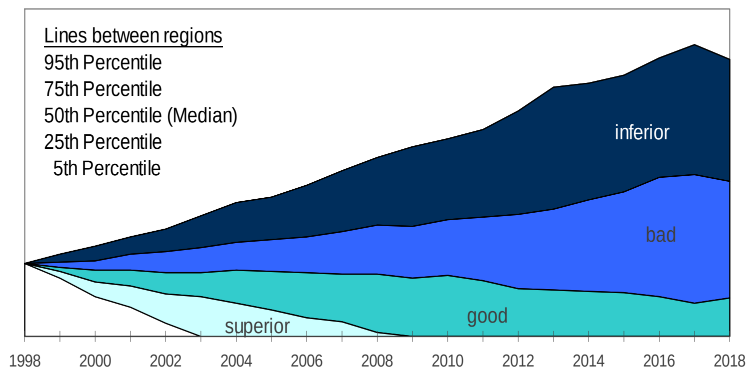


Appendix

Modeling Parameters and Assumptions
Simulation Framework – Unfunded Liabilities Illustrated



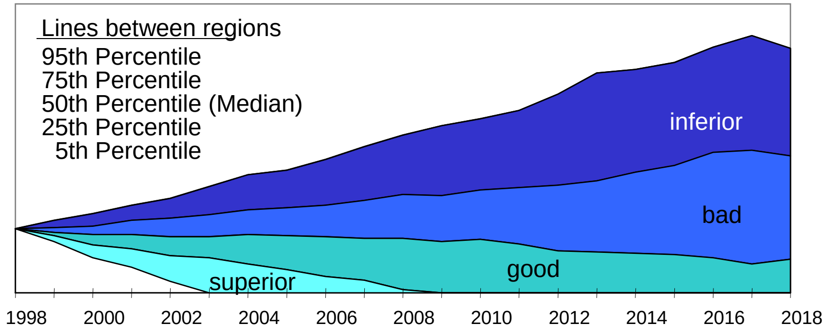


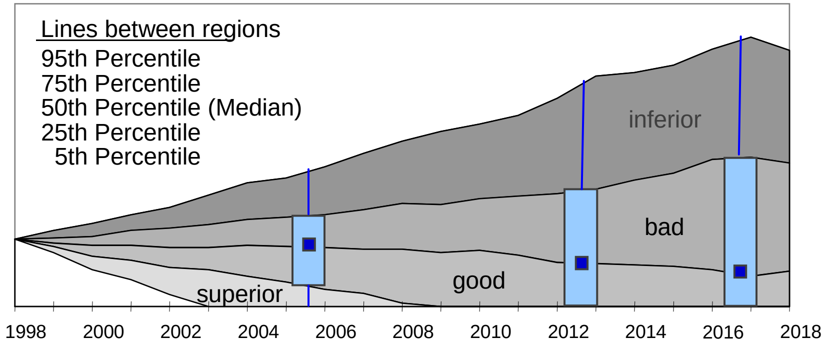


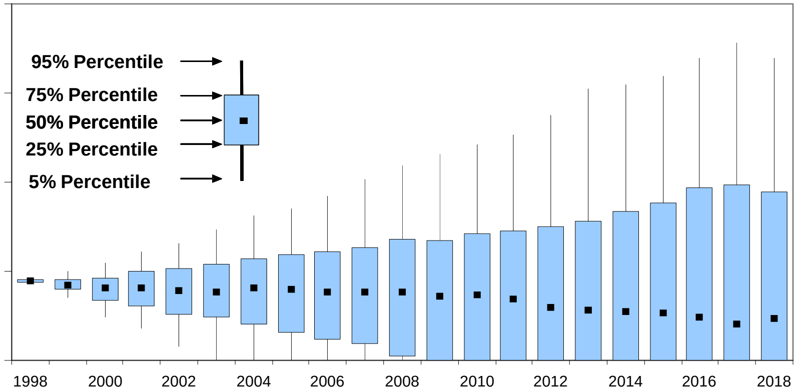
- Results are calculated for one path of the stochastic model
- This is repeated 1000 times
- Each year is percentiled
- The percentiles group each years' results into regions
- The good and bad regions represent 25% variance from median results, or together what would be expected half of the time
- The superior and inferior regions add another 20% of upside and downside variance
- All the regions combined show 90% of simulated results

Appendix

Presenting Results - Stochastic percentiles







- The line chart is potentially confusing because it might appear that the 75th percentile (for example) is generated by the same simulated path over time.
- In fact, any given simulated path could vary between regions over time
- In any year, we can represent the key percentile values with "candlesticks", which remove the implied connection between percentiles over time.

MERCER