

# OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM BOARD MEETING

<b>TUESDAY</b> August 28, 2012 1:00 P.M.		<b>PERS</b> 11410 SW 68 <sup>th</sup> Parkway Tigard, OR	
<b>ITEM</b>		<b>PRESENTER</b>	
<b>A. Administration</b>			
1.	May 18, 2012 Board Meeting Minutes	CLEARY	
2.	Director's Report		
	a. Forward-Looking Calendar		
	b. OIC Investment Report		
	c. Operating Budget Report		
	d. Quarterly Report on Member Transactions		
	e. Overpayment Recovery Project Update		
	f. Retiree Health Insurance Administrative Contracts		
	g. Assumed Earnings Rate Review Schedule		
<b>B. Administrative Rulemaking</b>			
1.	Notice of Judge Member Rules	RODEMAN	
2.	Notice of Public Contracting Rules		
3.	Adoption of Disability Application Rules		
<b>C. Action and Discussion Items</b>			
1.	Appoint OSGP Advisory Committee Members	BATH MILLIMAN RODEMAN / KNOLL	
2.	2011 Systemwide Valuation Results		
3.	2013-15 Agency Request Budget Approval		
<b>D. Executive Session Pursuant to ORS 192.660(2)(f), (h), and/or ORS 40.225</b>			
1.	Litigation Update	LEGAL COUNSEL	

Note: There will be an Audit Committee Meeting immediately following the Board meeting.

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<http://www.oregon.gov/PERS/>

**2012 Meeting Dates: January 27 - March 22 - May 18 - August 28 - September 28 - November 30**  
 James Dalton, Chair    Laurie Warner, Vice Chair    John Thomas    Pat West    Rhoni Wiswall    Paul R. Cleary, Executive Director

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# OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM BOARD MEETING

May 18, 2012  
Tigard, Oregon

## Board Members:

James Dalton, Chair  
John Thomas  
Laurie Warner  
Pat West  
Rhoni Wiswall

## Staff:

Donna Allen  
Carmella Bowns  
Paul Brown  
Paul Cleary  
David Crosley  
Joe DeLillo  
Stephanie Engle

Jon DuFrene  
Yvette Elledge  
Brian Harrington  
Danielle Keyser  
Sue Korn  
Jeff Marecic  
Joe O'Leary

Brenda Pearson  
Beth Porter  
Steve Rodeman  
Teri Roper  
Susan Sjordal  
Jason Stanley  
Stephanie Vaughn

## Others:

Jim Brown  
Molly Butler  
Tyler Burnett  
John Dunbar

Trish Isaak  
Celia Heron  
Keith Kutler  
Jackie Kamis

Matt Larrabee  
Scott Preppernau  
Bill Robertson  
P. Peg

Robert Schmidt  
Debra Trembley  
Scott Winkles

Chair James Dalton called the meeting to order at 1:00 P.M.

## ADMINISTRATION

### A.1. BOARD MEETING MINUTES OF MARCH 22, 2012

The Board unanimously approved the minutes from the March 22, 2012 Board meeting.

### A.2. DIRECTOR'S REPORT

Executive Director Cleary presented the Forward Looking calendar. Agenda items for the next Board meeting will include the 2013-15 Agency request budget approval, 2011 Valuation Results, and 2013-15 System-wide Employer Rates. There will be an Audit Committee meeting following the Board meeting. Individual employer rates will be presented at the September 28, 2012 Board meeting.

Cleary presented the OPERF investment returns for March. He noted the drop in the public equity market this month has muted March returns, but there is a major portion of the year remaining to see some recovery.

Cleary presented the 2011-13 biennial operating budget, indicating a positive variance of approximately 1.4% through March. The significant decline in the variance was due to the removal of \$750,000 from the operating budget to comply with a state-wide budget reduction effort outlined in Senate Bill 5701A (2012 Session).

Cleary presented the Employer Reporting update results as of April 2012. Cleary reviewed the Quarterly Report on Member Transactions. He noted the number of retirement applications has

fallen to what is considered normal; therefore, the percent of retirements processed in 45 days has increased. Cleary reported 250,000 annual statements have been sent out, completing the 2011 Annual Statements project. He recognized staff for implementing improvements in the preparation of annual statements, making it the smoothest project in eight years.

Cleary presented the updated figures for the Strunk/ Eugene Overpayment Recovery Project, noting that this is a dynamic population and will continue to change. The report reflects the updated average amount owed and the percentage deductions required to recover the overpayments over a 10-year period. Cleary reported that a supplemental budget request will go before the Emergency Board next week, which has a favorable recommendation by both DAS Budget and Management and the Legislative Fiscal Office. Cleary noted that, if the request is approved, hiring will begin immediately. The goal is to begin sending letters in June/July, begin recoveries in August, and have everyone on repayment plans by end of the biennium (June 30, 2013).

## **NOTICE OF RULEMAKING**

### **B.1. SECOND NOTICE OF DISABILITY APPLICATION RULES**

Deputy Director Steve Rodeman presented the second notice of rulemaking for Disability Application rules. These rules were noticed in January and then staff determined additional edits were required. They are open for public comment until June 29, 2012. No board action was requested at this time.

## **RULE ADOPTION**

### **B.2. ADOPTION OF ROTH 457 RULES**

Rodeman presented the OSGP Roth 457 rules for adoption. These rules were developed to establish a Roth 457 account within the Oregon Saving Growth Plan (OSGP), as provided in HB 2113 (2011 Session) which addresses the change in federal law.

Vice-Chair Laurie Warner moved and Board member John Thomas seconded to adopt the OSGP Roth 457 rules as presented. Motion passed unanimously.

### **B.3. ADOPTION OF ANNUAL EARNINGS CREDITING RULE**

Rodeman presented the modification of the Annual Earnings Crediting rule for adoption. The rule was modified to reflect the variable account administrative expense allocation issue resolved in the Murray court case.

Thomas moved and Warner seconded to adopt the Annual Earnings Crediting Rule as presented. Motion passed unanimously.

## **ACTION AND DISCUSSION ITEMS**

### **C.1. 2013 RETIREE HEALTH INSURANCE PLAN RENEWALS AND RESERVE ANALYSIS**

#### **C.1.a. RATE STABILIZATION RESERVE ANALYSIS**

Cleary introduced Milliman actuaries Robert Schmidt and Tyler Burnett, who were engaged by PERS to conduct a detailed analysis of the retiree health insurance rate stabilization reserves held at ODS. Cleary stated that the recent growth of the ODS reserves attracted a lot of attention and prompted the question as to what is the appropriate reserve level and, if there is a surplus, what is the reasonable “spend-down” plan. The question of who should hold and manage those reserves will be addressed separately pending DOJ review and advice.

Schmidt explained the ODS reserves are held in two different accounts: a claims fund and an interest-earning account. Milliman analyzed a variety of financial information and documentation and explored actuarial methods used to determine an appropriate Incurred But Not Reported Reserve (IBNR) amount. Milliman recommends using an actuarial model to set the IBNR, which is a different methodology from what ODS uses.

Board members asked clarifying questions in regard to how the ODS reserves are invested and what is done with these earnings.

Burnett explained the process used to determine the desired Rate Stabilization Reserve (RSR) level. Milliman recommends using a RSR that equals 1.2 months of premium with a minimum threshold \$12.4 million for 2013-15, and the target level be reviewed as the population changes and federal health care reform is executed. Schmidt described the gradual rate relief transition plan recommended to bring the reserve to the level suggested.

Cleary explained that the next step is to go to the Department of Justice and discuss who has the authority to hold and manage the reserves, which will also influence how the reserves should be invested. Cleary reported approximately \$6 to \$7 million of the reserves will be used to subsidize rates in the ODS lines of coverage in the 2013 plan year. Cleary noted this is same subsidy level as the last plan year.

Board member Pat West recommended changes be made gradually and supported continual use of the reserves for premium rate subsidies so long as the reserve can remain stable.

Cleary reported that staff is developing rate-setting and reserve policies, an advisory committee charter, and mission statement for the PERS Health Insurance Program that will be presented for Board adoption at a later meeting.

Board members commented on the recommendations to revise the rate reserve level and concurred with the recommended use of the reserve surplus to provide gradual rate relief in the form of premium subsidies over a three to five year period.

C.1.b. HEALTH INSURANCE PLAN RENEWALS

Molly Butler, with Butler Partners & Associates, and PERS Chief Financial Officer Jon DuFrene presented the 2013 Retiree Health Insurance Program contracts and rate renewals. Butler provided a recap on the various insurance plan coverages and rate renewals, noting that the proposed 2013 rates were very stable with minimal if any increases from the 2012 rates. Board members asked follow-up questions.

West moved and Warner seconded to approve the 2013 Retiree Health Insurance Program contract renewals, rates and conditions as presented. Motion passed unanimously.

Cleary recognized the health care plan providers in the audience and extended his appreciation for their efforts in maintaining a quality program with stable renewal rates.

C.2 2013-15 BUDGET DEVELOPMENT UPDATES

Rodeman provided an update on the 2013-15 Budget Development process. He described the framework and reviewed the Fundamentals Map used in developing the 2013-15 Agency Request Budget (ARB). Rodeman explained the three strategic initiatives being considered as part of the 2013-ARB. With the new budget process, PERS is required to submit initial funding request to the "Improving Government" Program Funding Team in early June. Rodeman outlined the three plan areas that will be presented to the Funding Team. The ARB will be presented to the Board for approval prior to the August 31, 2012 submission date.

Dalton adjourned the meeting at 2:15 PM for a break and reconvened for an executive session at 2:30 PM.

The Board ended the executive session at 3:00 PM and Dalton reconvened the meeting with no decisions required. Dalton adjourned the meeting at 3:01 PM.

Respectfully submitted,



Paul R. Cleary  
Executive Director

## **PERS Board Meeting Forward-Looking Calendar**

### **September 28, 2012**

Notice of HB 3349 Benefit Calculation Rule  
Adoption of Judge Member Rules  
Adoption of Public Contracting Rules  
2013-15 Individual Employer Rate Adoption  
Update on Revised GASB Pension and Accounting Reporting Standards

### **November 30, 2012**

Potential Cost Allocation, Benefit Modification and System Financing Concepts  
OPERF Asset/Liability Study Update  
Audit Committee Meeting

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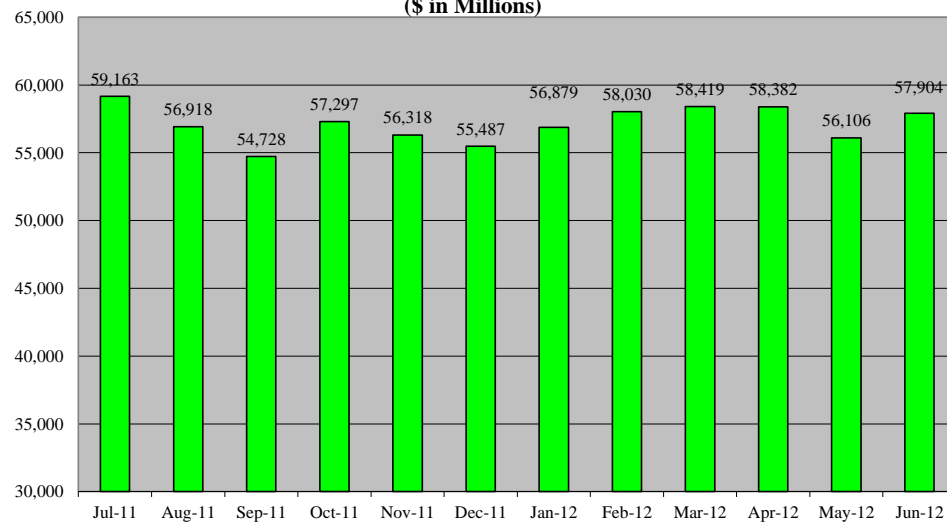


OPERF	Regular Account				Historical Performance (Annual Percentage)					
	Policy <sup>1</sup>	Target <sup>1</sup>	\$ Thousands <sup>2</sup>	Actual	Year-To-Date <sup>3</sup>	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS
Public Equity	38-48%	43%	\$ 20,515,501	35.9%	6.27	(7.11)	10.80	11.84	(0.38)	(2.43)
Private Equity	12-20%	16%	14,396,620	25.2%	9.46	6.67	13.80	18.45	5.39	5.82
<b>Total Equity</b>	<b>54-64%</b>	<b>59%</b>	<b>34,912,121</b>	<b>61.1%</b>						
Opportunity Portfolio			920,579	1.6%	9.31	(0.27)	10.53	16.23	6.64	4.25
<b>Total Fixed</b>	<b>20-30%</b>	<b>25%</b>	<b>14,112,605</b>	<b>24.7%</b>	<b>5.15</b>	<b>7.44</b>	<b>8.10</b>	<b>11.46</b>	<b>9.05</b>	<b>7.75</b>
Real Estate	8-14%	11%	6,769,307	11.8%	6.47	8.71	14.60	9.26	(1.46)	(1.09)
Alternative Investments	0-8%	5%	424,787	0.7%	2.33	4.01				
Cash	0-3%	0%	220	0.0%	1.02	0.59	0.79	0.92	0.97	1.66
<b>TOTAL OPERF Regular Account</b>		<b>100%</b>	<b>\$ 57,139,619</b>	<b>100.0%</b>	<b>6.88</b>	<b>1.61</b>	<b>11.46</b>	<b>13.28</b>	<b>3.14</b>	<b>1.77</b>
<b>OPERF Policy Benchmark</b>					<b>8.92</b>	<b>2.58</b>	<b>11.11</b>	<b>12.57</b>	<b>3.73</b>	<b>2.35</b>
Value Added					(2.04)	(0.97)	0.35	0.71	(0.59)	(0.58)
<b>TOTAL OPERF Variable Account</b>			<b>\$ 763,903</b>		<b>6.14</b>	<b>(6.39)</b>	<b>10.79</b>	<b>11.60</b>	<b>(0.27)</b>	<b>(3.22)</b>

Asset Class Benchmarks:

Russell 3000 Index	9.32	3.84	17.24	16.73	3.96	0.39
MSCI ACWI Ex US IMI Net	2.93	(14.79)	5.36	7.36	(3.70)	(4.22)
MSCI ACWI IMI Net	5.76	(6.91)	10.43	11.30	(0.50)	(2.44)
Russell 3000 Index + 300 bps--Quarter Lagged	28.36	10.39	15.52	27.72	8.42	6.07
Oregon Custom FI Benchmark	4.09	6.92	5.55	7.02	6.59	6.48
NCREIF Property Index--Quarter Lagged	5.63	13.41	14.71	5.96	0.37	2.88
91 Day T-Bill	0.04	0.05	0.11	0.12	0.33	0.98

**TOTAL OPERF NAV**  
(includes variable fund assets)  
One year ending June 2012  
(\$ in Millions)



<sup>1</sup>OIC Policy 4.01.18, as revised April 2011.

<sup>2</sup>Includes impact of cash overlay management.

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

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# Oregon

John A. Kitzhaber, M.D., Governor

## Public Employees Retirement System

Headquarters:  
11410 S.W. 68<sup>th</sup> Parkway, Tigard, OR  
Mailing Address:  
P.O. Box 23700  
Tigard, OR 97281-3700  
(503) 598-7377  
TTY (503) 603-7766  
[www.oregon.gov/pers](http://www.oregon.gov/pers)

August 28, 2012

TO: Members of the PERS Board  
FROM: Kyle J. Knoll, Budget Officer  
SUBJECT: August 2012 Budget Report

### 2011-13 OPERATIONS BUDGET UPDATE

Operating expenditures for the last three months were \$3,235,528 (April); \$2,983,215 (May); and \$2,873,296 (June). July 2012 expenditures will close in the Statewide Financial Management System (SFMS) September 7th, and will be included in the September budget report to the Board.

- To date, through the first twelve months (50.0%) of the 2011-13 biennium, the Agency has expended a total of \$35,639,508, or 46.13% of PERS' legislatively approved operating budget of \$77,260,820.
- The current projected positive variance is \$ 1,453,611, or approximately 1.9% of the operating budget.

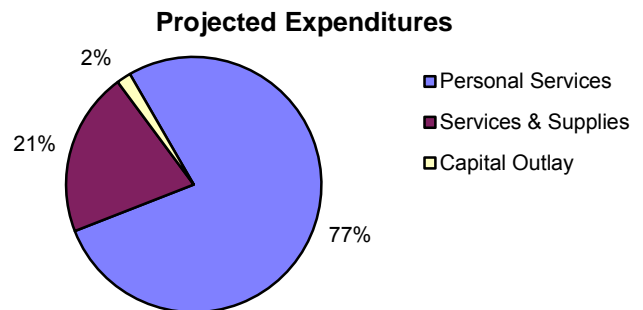
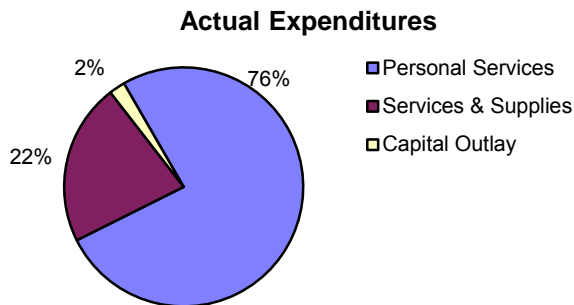
### Strunk/Eugene Overpayment Recovery Project

The May 2012 Emergency Board approved PERS' request for \$2,071,410 in Other Fund expenditure limitation, and the establishment of three limited duration positions to support the Strunk/Eugene Overpayment Recovery Project. This new 2011-13 budget limitation and initial July 2012 expenditures against that limitation will be included in the September budget report to the Board.

**2011-13 Agency-wide Operations - Budget Execution  
Summary Budget Analysis  
For the Month of: June 2012**

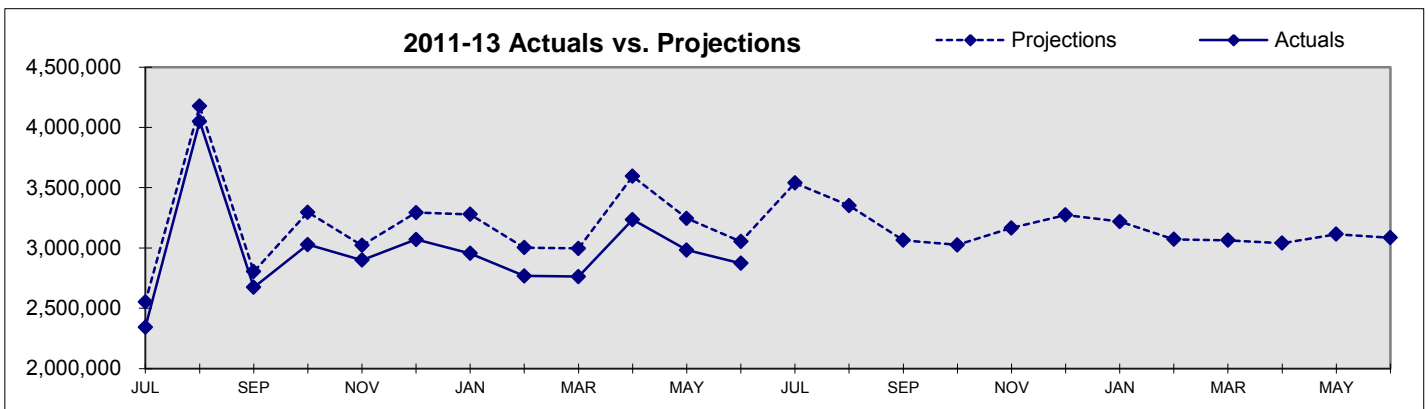
**Biennial Summary**

Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expend.	2011-13 LAB	Variance
Personal Services	27,072,522	29,420,383	56,492,904	55,827,463	(65,441)
Services & Supplies	7,793,672	9,517,309	17,310,981	20,505,769	3,194,788
Capital Outlay	773,315	1,230,009	2,003,324	927,588	(1,075,736)
<b>Total</b>	<b>35,639,508</b>	<b>40,167,701</b>	<b>75,807,209</b>	<b>77,260,820</b>	<b>1,453,611</b>



**Monthly Summary**

Category	Actual Exp.	Projections	Variance	Avg. Monthly Actual Exp.	Avg. Monthly Projected Exp.
Personal Services	2,295,636	2,465,524	169,888	2,256,043	2,451,699
Services & Supplies	568,236	587,985	19,749	649,473	658,267
Capital Outlay	9,424		(9,424)	64,443	57,537
<b>Total</b>	<b>2,873,296</b>	<b>3,053,509</b>	<b>180,213</b>	<b>2,969,959</b>	<b>3,167,502</b>



**2009-11 Biennium Summary**

Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expend.	2009-11 LAB	Variance
Personal Services	50,562,257		50,562,257	52,751,494	2,189,237
Services & Supplies	25,938,410		25,938,410	29,916,870	3,978,460
Capital Outlay	1,384,164		1,384,164	593,588	(790,576)
<b>Total</b>	<b>77,884,830</b>		<b>77,884,830</b>	<b>83,261,952</b>	<b>5,377,122</b>



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August 28, 2012

TO: Members of the PERS Board

FROM: Jim Jost, Metrics Engineer

SUBJECT: Quarterly Report of Member Transactions

Attached is the PERS Quarterly Report of Member Transactions with updated results for the four quarters through June 30, 2012.

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 report shows the activity from the last four quarters and the year-to-date charts shows cumulative totals for the first two quarters of calendar year 2011 compared to the 2012 cumulative two quarter results.

In addition, the 'Retirements', 'Withdrawals', and 'Estimates' activities reflect the combined statistics of Tier One, Tier Two, and OPSRP Pension Program. 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:

### ESTIMATES

Tier One and Tier Two estimates continued to be in backlog status. However, the number pending has been steadily reduced during the last four years (from 2400 to 1400 a month). A backlog occurs when the number of pending estimates exceeds twice the normal amount of work-in-process.

PERS continues to give priority to those members with a retirement already scheduled, or those members with a projected retirement date within 90 days. PERS is currently meeting the needs of this population. Any available resources are being allocated to the remaining estimates based on the estimate request receipt date.

### WITHDRAWALS

All withdrawals are in normal status (i.e. none are in backlog status).

Management has done a good job keeping pending Withdrawals in 'normal' state

## RETIREMENTS

All retirements are in normal status (i.e. none are in backlog status). And, as noted last quarter, there is always a jump in retirements in the second quarter because of school retirees, and other factors. Last year it showed a pattern of a large increase in retirements in second quarter and then was relatively flat during the rest of the year.

Even though spikes do occur, all retirements are paid in accordance with statute. Staff continues working hard and regularly pay out a portion of finalized applications in 30 to 45 days after retirement, and pay out all within 92 days of the effective retirement date.

Also, these numbers are slightly skewed since members apply months in advance. This causes the applications to remain in pending status longer than normal because they cannot be paid prior to their effective retirement date

The next Quarterly Board Report, reflecting the results from the third calendar quarter of 2012, is scheduled to be presented at the November, 2012 Board meeting.

Attachment: Quarterly Report of Member Transactions (Through Second Quarter 2012)

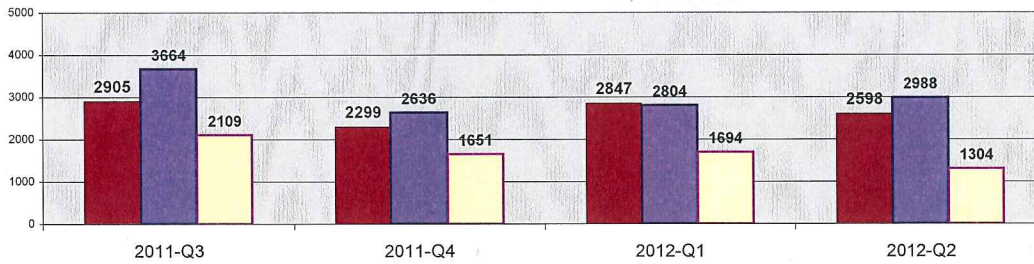


# Quarterly Report of Member Transactions

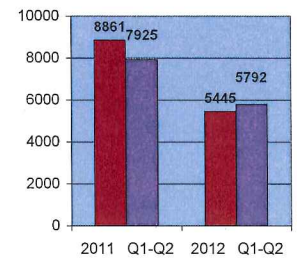
Thru Quarter Q2 2012

Run Date: 8/1/2012

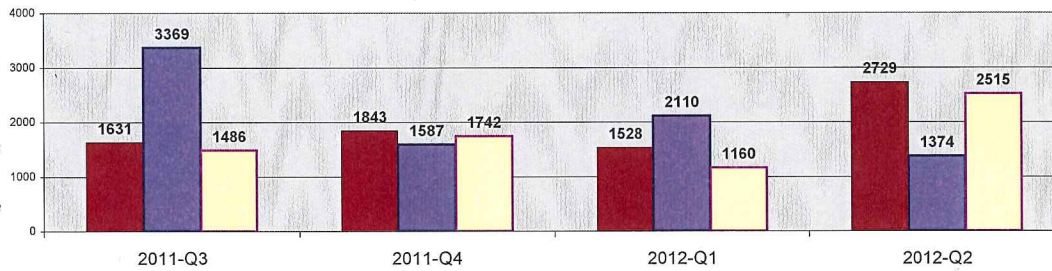
## Estimates



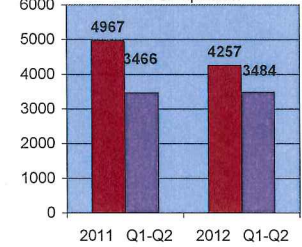
## YTD Comparison



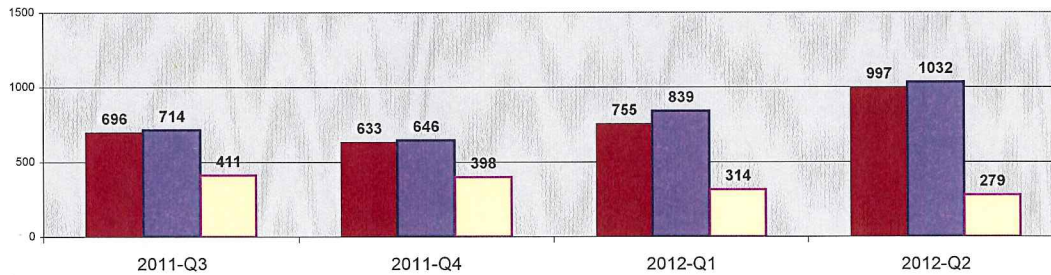
## Retirements



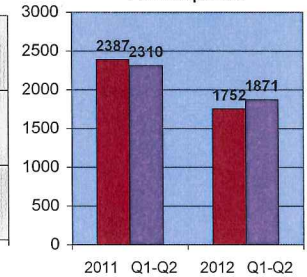
## YTD Comparison



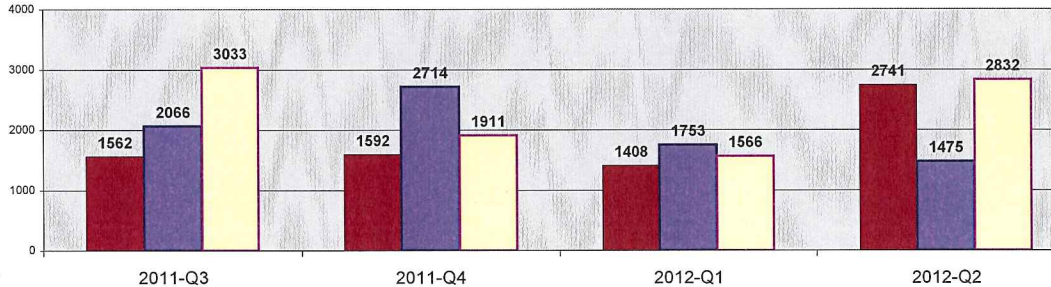
## Withdrawals



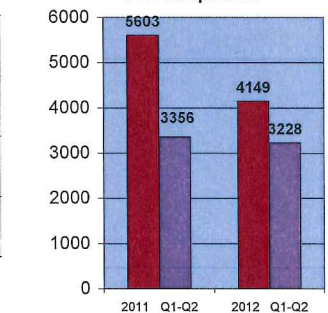
## YTD Comparison



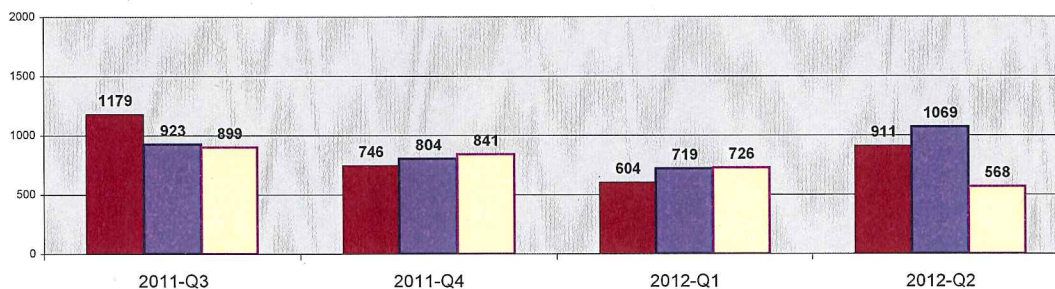
## IAP Retirements



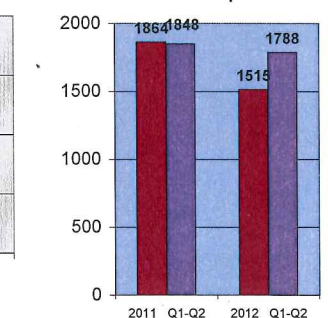
## YTD Comparison



## IAP Withdrawals



## YTD Comparison



■ Incoming    
 ■ Completed    
 ■ Pending

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August 28, 2012

TO: Members of the PERS Board

FROM: Steven Patrick Rodeman, Deputy Director

SUBJECT: Overpayment Recovery Project Update

Following on the Board's approval at its March 22, 2012 meeting, staff submitted a supplemental agency request to the Legislative Emergency Board to procure the project's necessary budget and staffing authority. At its May 23, 2012 meeting, the E-Board approved this request in its entirety, so PERS' 2011-13 legislatively approved budget has been increased as follows:

1. Approved three Limited Duration positions for the remainder of the biennium of 1.62 FTE.
2. Increased Personal Services Other Fund Limitation by \$916,771.
3. Increase Services & Supplies Other Fund Limitation by \$1,154,639.

Once these additional resources were approved, a project schedule was developed to contact benefit recipients and begin the process to recover the overpayments. Generally, that schedule is:

**If recipient's last name starts with:**

A – Ad  
Ad – B  
C – Er  
Er – He  
He – La  
La – Mo  
Mo – Ri  
Ri – Su  
Su – Z  
P&F Units  
Deceased

**Recovery letter to be mailed:**

July 2012  
August 2012  
September 2012  
October 2012  
November 2012  
December 2012  
January 2013  
February 2013  
March 2013  
April 2013  
May 2013

An initial test group of 98 invoices was generated and delivered on July 25, 2012, to test the systems that have been developed and installed to support the project. This initial group test was successful and a full run of 2,937 invoices is scheduled for August 25, 2012. Approximately 3000 invoices per month will be generated through the project's completion before June 30, 2013.

Limited duration staff and temporary workers were brought on board starting in mid-July. Their main functions are data input of the invoices, fielding of phone calls, creating payment arrangements, and processing payments. Additional temporary workers are starting in late August, when the first large mailing is scheduled to occur. Temporary workers can only stay on a project for six months, so their start dates are being staggered to retain a level of experienced staff as that six month limit is reached.

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August 28, 2012

TO: Members of the PERS Board  
FROM: Paul R. Cleary, Director  
SUBJECT: Assumed Earnings Rate Review Schedule

As you know, State Treasurer Ted Wheeler sent the Board a letter on June 22<sup>nd</sup> encouraging immediate review of the PERS fund assumed earnings rate and suggesting various legislative reforms to the PERS plan design. I've attached the Treasurer's letter along with my August 20<sup>th</sup> response and the schedule of upcoming events related to the assumed earnings rate review.

The Treasurer's letter was timely in that we are just now ending the 2010 – 2011 actuarial valuation cycle with Milliman's presentation of the year-end 2011 valuation results at today's Board meeting. This will be followed with the approval of individual employer rates for the 2013-15 biennium at the September 28<sup>th</sup> Board meeting. The preliminary work for the next valuation cycle will then begin.

In the meantime, the OIC will be examining the PERS fund asset allocation and related return expectations at its September 18<sup>th</sup> meeting. The asset allocation will then be matched up with our 2011 valuation results to prepare an asset/liability study update for presentation at the October 31<sup>st</sup> OIC meeting. These activities are key steps in the assumed rate review process.

All the above information, along with updated capital market expectations from the OIC's investment consultants, will then be incorporated into Milliman's assumed earnings rate analysis. That evaluation will be conducted as part of the 2012-2013 actuarial valuation cycle, and will be completed next spring.

We concur with the Treasurer's viewpoint that current economic and investment market conditions are producing downward pressure on the long-term earnings assumption for the PERS fund. At the same time, that assumption is a key factor in calculating system liabilities, employer contribution rates, and various member benefits (most significantly Tier One member "Money Match" benefits). We will assess all those potential impacts this fall when we update our December 2010 analysis of potential cost allocation, benefit modification and system financing concepts to help inform the 2013 legislative session.

As I noted in my response letter to the Treasurer, we greatly appreciate his interest in improving the funding and sustainability of PERS, and look forward to working with him and the other OIC members on these important matters.

A.2.g. Attachment 1 – PERS August 20, 2012 Letter to State Treasurer Wheeler  
A.2.g. Attachment 2 – Assumed Earnings Rate Review Timeline and Related Events  
A.2.g. Attachment 3 – State Treasurer Wheeler's June 22, 2012 Letter to PERS Board

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# Oregon

John A. Kitzhaber, M.D., Governor

## Public Employees Retirement System

Headquarters:  
11410 S.W. 68<sup>th</sup> Parkway, Tigard, OR  
Mailing Address:  
P.O. Box 23700  
Tigard, OR 97281-3700  
(503) 598-7377  
TTY (503) 603-7766  
[www.oregon.gov/pers](http://www.oregon.gov/pers)

August 20, 2012

The Honorable Ted Wheeler  
Oregon State Treasurer  
900 Court Street NE  
Salem, OR 97301-4043

Dear Treasurer Wheeler,

Thank you for your June 22, 2012 letter to the PERS Board. As we have discussed over the past several months, PERS follows a deliberative process to review and update the system's actuarial methods and assumptions. That process uses a sequenced schedule of PERS Board actions, with necessary assistance from the Oregon Investment Council (OIC), that occurs on a regular and ongoing cycle.

The assumed earnings rate is a key actuarial assumption of what the PERS Fund investments are expected to return over the long term. The PERS Board uses that rate during its two-year valuation cycle to calculate system liabilities and set employer contribution rates for the next biennium. Results from the current cycle, reflecting the value of system assets and liabilities at the end of calendar year 2011, will be presented to the PERS Board at its August 28, 2012 meeting. Individual employer contribution rates will then be determined and presented for adoption at the Board's September 28, 2012 meeting. Those rates will be effective July 1, 2013 through June 30, 2015.

The current assumed rate was adopted by the PERS Board in July 2011. For the last two valuation cycles, the PERS Board has reviewed earnings projections from both its actuary and the OIC's general investment consultant. At the 50<sup>th</sup> percentile, those return projections have been:

	<u>2009 Projections</u>	<u>2011 Projections</u>
PERS Actuary	7.7%	7.88%
OIC Consultant	8.9%	8.16%

The PERS Board considers both of these projections when determining the assumed rate. Although the Board is not bound to follow the OIC consultant's projections, they are influential and the Board presumes they reflect the same PERS Fund asset class return expectations that are provided to the OIC.

The Board will initiate the next valuation cycle before the 2013-15 employer contribution rates even take effect when it once again reviews the actuarial methods and assumptions next spring. The assumed earnings rate review process also relies on several critical OIC activities that are scheduled to occur this fall; most importantly, the OIC's review of the PERS Fund's asset allocation, which is the initial step in determining the investment portfolio's assumed rate.

Oregon State Treasurer Ted Wheeler  
8/20/2012

Those OIC activities will confirm the PERS Fund's asset allocation, examine it with an updated asset/liability study, and provide projections from the OIC's consultants on the expected returns from such an allocation. The PERS actuary will use those updated investment return projections in evaluating the earnings rate assumption and making recommendations to the PERS Board in spring 2013.

No question, we are dealing with economic and investment market conditions that are producing downward pressure on the long-term earnings assumption. Reducing that assumption would have the converse effect of putting upward pressure on employer rates, as fund earnings would be expected to cover less of the cost of the plan's liabilities, after accounting for any offsets from other actuarial method and assumption changes.

As noted in your letter, there are also additional plan design reforms that the Oregon legislature may consider during its 2013 session that could reduce system liabilities and allow a reduction in the assumed rate to have less of an adverse impact on state and local government budgets. We evaluated a number of cost allocation, benefit modification, and system financing concepts for the 2011 legislative session and will be updating that evaluation this fall to help inform the 2013 session.

Thank you again for your letter and your thoughts on the PERS assumed earnings rate. As described above, the PERS Board establishes the assumed earnings rate through a robust and time-sequenced process with multiple interactions between the Board and the OIC. The Board encourages that interaction as it is critical to making well-informed decisions for managing the PERS Fund and system. The Board greatly appreciates your interest in improving the funding and sustainability of PERS, and looks forward to working with you and the other OIC members on these matters.

Sincerely,



Paul R. Cleary  
PERS Executive Director

PRC: dra

cc: The Honorable John Kitzhaber, Governor  
Oregon Public Employees Retirement Board Members  
Oregon Investment Council Members



### Assumed Earnings Rate Review Timeline and Related Events

Date	Event
August 28, 2012	PERS Board receives the December 31, 2011 System Valuation Report from the PERS actuary (Milliman), used for calculating system liabilities and 2013-15 employer rate setting.
September 19, 2012	Oregon Investment Council (OIC) reviews the PERS Fund's asset allocation and the various asset class capital market return expectations currently used by the OIC's consultants.
September 28, 2012	Milliman presents 2013-2015 individual employer rates for PERS Board adoption. Rates become effective July 1, 2013.
October 31, 2012	OIC's general consultant (SIS), working with the Milliman's December 31, 2011 valuation data, prepares and presents a PERS Fund asset/liability update to the OIC.
October-November 2012	PERS staff and actuary update the December 2010 analysis of potential cost allocation, benefit modification, and system financing concepts to inform 2013 legislative session.
November 2012	SIS provides updated capital market projections.
January 2013	PCA (OIC consultant) provides updated capital market projections.
January-March 2013	PERS Board approves preliminary and then final calendar year 2012 earnings crediting.
March-May 2013	Milliman completes the evaluation of the assumed earnings rate using the OIC's confirmed asset allocation, the updated SIS and PCA capital market projections, and Milliman's capital market projections.
July 2013	Milliman's evaluation and associated recommendations for setting the assumed rate (and other actuarial methods and assumptions) are presented to the PERS Board for adoption.

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TED WHEELER  
STATE TREASURER



PHONE 503-378-4329  
FAX 503-373-7051

STATE OF OREGON  
OREGON STATE TREASURY  
159 STATE CAPITOL, 900 COURT ST NE  
SALEM, OREGON 97301-4043

June 22, 2012

Memo To: Oregon Public Employees Retirement Board Members  
James Dalton, Chair  
John Thomas  
Laurie Warner  
Pat West  
Rhoni Wiswall

From: Oregon State Treasurer Ted Wheeler

This week, the PEW Charitable Trusts issued a national report which rated Oregon's pension plan as one of the best funded in the country. As a Treasurer who believes that public employees are entitled to a fair and reliable pension during their retirement years, I am proud of the collaboration between the legislature and labor union leaders who have worked, in concert, to ensure the strength of Oregon PERS relative to pension programs in other states.

While I agree with the PEW report that our system is fundamentally sound, there are still critical steps that must be taken in order to better manage costs and ensure the sustainability of the pension program for the future. This is particularly true in light of the fact that local governments across Oregon are struggling to provide basic services, like public safety and education.

Here's the reality: The prolonged nature of this economic recession is hampering our ability to earn the level of investment returns necessary to meet our long-term funding objectives. Oregon is heavily dependent on investment returns as the largest source of funding for our pension benefits; this means local school districts, county and city governments, and other entities across the state face large increases in their required pension contributions in order to fund the pension system. These rate increases are steadily supplanting basic services such as education, public safety, and safety net programs.

As a former Chief Executive of Oregon's most populous county, I have watched the increase in pension rates charged to local jurisdictions with concern. I understand that these increases could not come at a worse time – no one wants to lay off teachers or others who provide critical services to Oregonians to pay pension obligations.

As State Treasurer, I recommend the following actions:

1. The PERS Board should immediately revisit the assumed investment return rate, which is currently set at 8%. Two months ago, in a meeting of the Oregon Investment Council, I informed my colleagues that I am asking for a more frequent review of this key rate in light of the continued uncertainty in the global economy. The PERS Board should evaluate lowering this rate, because it is imperative we have a realistic rate of return that will ensure the long-term sustainability of our pension fund.

Oregon Public Employees Retirement Board Members  
June 21, 2012

Unfortunately, lowering this rate will make the short-term problem worse for local governments saddled with rising PERS costs. To mitigate this problem, I recommend implementing accounting changes that would help Oregon governments cope with the resulting increase in rates. One such change might be to increase the amortization timeframe by which gains and losses are recorded to be more consistent with the average length of employment, which has increased over time.

2. Additionally, it is time for a new look at ways to make the existing system more sustainable and fair. Lawmakers made significant progress in 2003, but more can be done. I will encourage Governor Kitzhaber, our legislative leadership, and pension beneficiaries, represented by public employee unions, to act in concert during the 2013 legislature so we can enact other common sense cost saving measures.

A wide menu of options are being discussed. There are two in particular that I believe merit consideration. First, I recommend that we eliminate the practice of paying retirees extra money to live out of state by allowing them to collect reimbursements for Oregon income taxes that they do not actually pay. Second, I believe Oregon should evaluate capping the cost of living increase at a portion of retiree's income. This is already being done in other states and can be accomplished in a way that protects the majority of PERS beneficiaries who retire with only a modest pension.

Many discussions are still ahead and I urge the board to be engaged in the effort to find common sense changes.

I also want you to know that after a recent recommendation from a consultant to modernize our investment program, the Oregon Investment Council directed Treasury staff to find costs savings and strengthen risk management. As you know, the State Treasurer is not responsible for the level of benefits in PERS or the employer rates - these decisions are the purview of the Legislature, PERS Board and Governor. However, I am directly responsible for the staff that invests the PERS fund, in adherence with the policies set by the Oregon Investment Council. I will work with my colleagues on the Council to explore cost-saving efficiencies since every additional dollar in investment returns is a dollar less that comes from taxpayers' pockets to fund pension costs.

Oregon is fortunate to have had both a well-managed pension plan and leadership over the past twenty years that has already made many of the reforms that states across the country are just now doing to control their pension costs. At the Treasury, we will keep working hard to get the most out of our investments. All of us, regardless of our titles and formal roles, should work together in the meantime to reduce costs. Oregon deserves a pension system that provides a decent benefit and does not require taxpayers to choose between funding basic services or retirement costs.

cc: The Honorable John Kitzhaber, Governor  
Paul Cleary, Executive Director, Oregon PERS



# Oregon

John A. Kitzhaber, M.D., Governor

## Public Employees Retirement System

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11410 S.W. 68<sup>th</sup> Parkway, Tigard, OR  
Mailing Address:  
P.O. Box 23700  
Tigard, OR 97281-3700  
(503) 598-7377  
TTY (503) 603-7766  
[www.oregon.gov/pers](http://www.oregon.gov/pers)

August 28, 2012

TO: Members of the PERS Board  
FROM: Steven Patrick Rodeman, Deputy Director  
SUBJECT: Notice of Rulemaking for Judge Member Rules  
OAR 459-040-0020, *Judge Member Disability Retirement*  
OAR 459-040-0080, *Required Minimum Distribution of Judge Member Death Benefits*

### OVERVIEW

- Action: None. This is notice that staff has begun rulemaking.
- Reason: Clarify administration of the judge member retirement program.
- Policy Issue: No policy issues have been identified at this time.

### BACKGROUND

Legislation in 2005 (House Bill 3238) requires agencies to review new rules adopted since January 1, 2006, within five years of the date the new rules are adopted. The rules contained in Chapter 459, Division 40 – Judge Member Program, were adopted on July 26, 2007, and the five-year review of these rules was completed on July 26, 2012. The proposed modifications to OAR 459-040-0020 and 459-040-0080 include housekeeping edits to delete and update rule citations and deletion of the separate date of disability retirement standard for judge members.

### SUMMARY OF MODIFICATIONS TO RULES

#### OAR 459-040-0020:

Section (3) was deleted. The definition for “qualifying position” in OAR 459-015-0001 was removed during the disability rule modifications that were adopted on May 21, 2010. The definition was redundant because “qualifying position” is defined in ORS 238.005. Also, under the Judge Member statute (ORS 238.580(1)), the only definitions in 238.005 that apply to judge members are sections (4) (“Calendar Year”) and (26) (“Salary”).

Section (4) was deleted because a judge member’s “effective date of disability retirement” would be determined under the same definition as provided in OAR 459-015-0001.

Sections (5) and (6) were renumbered to (3) and (4).

Section (7) was renumbered to (5) and edited to consolidate the two sentences into one.

Section (8) was deleted. OAR 459-015-0060 related to the reduction of disability benefits due to the receipt of Workers’ Compensation benefits. The administrative rule was repealed when the legislature passed HB 2704 (2009), which removed the offset of Workers’ Compensation

benefits in calculating a disability retirement allowance/benefit for Tier 2 and OPSRP Pension Program members.

OAR 459-040-0080:

Section (1) was deleted as the reference to OAR 459-014-0100 in section (1) was incorrect.

Section (2) was renumbered to (1) and edited to delete the reference to a retired judge member, because whether the judge is retired, active, or inactive, required minimum distributions are paid in accordance with OAR 459-005-0560.

Section (3) was renumbered to (2).

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing will be held on September 18, 2012, at 3:00 p.m. at PERS headquarters in Tigard. The public comment period ends on September 21, 2012, at 5:00 p.m.

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: No.

Impact: Clarification of procedures in administration of judge member retirement will benefit members, employers, and staff.

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

RULEMAKING TIMELINE

August 15, 2012	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
August 28, 2012	PERS Board notified that staff began the rulemaking process.
September 1, 2012	<i>Oregon Bulletin</i> publishes the Notice. Notice is sent to employers, legislators, and interested parties. Public comment period begins.
September 18, 2012	Rulemaking hearing to be held at 3:00 p.m. in Tigard.
September 21, 2012	Public comment period ends at 5:00 p.m.
September 28, 2012	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 September 18, 2012 at PERS Headquarters in Tigard. The rules are scheduled to be brought before the PERS Board for adoption at the September 28, 2012 Board meeting.

B.1. Attachment 1 – 459-040-0020, *Judge Member Disability Retirement*

B.1. Attachment 2 – 459-040-0080, *Required Minimum Distribution of Judge Member Death Benefits*

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**OREGON ADMINISTRATIVE RULE  
PUBLIC EMPLOYEES RETIREMENT BOARD  
CHAPTER 459  
DIVISION 040 – JUDGE MEMBERS**

1 **459-040-0020**

2 **Judge Member Disability Retirement**

3 A judge member who meets the requirements of ORS 238.555 may apply for  
4 disability retirement. The provisions of OAR Chapter 459, Division 15 apply to judge  
5 member disability retirement with the following exceptions:

6 (1) The terms “member” and “employee member” in Division 15 mean a judge  
7 member as defined in ORS 238.500.

8 (2) “Normal retirement age” means the age at which a judge member may retire  
9 without a reduced benefit as set forth under ORS 238.535.

10 *[(3) “Qualifying position” as defined in OAR 459-015-0001(18) does not apply to*  
11 *judge members.]*

12 *[(4) A judge member’s effective disability retirement date is the first day of the*  
13 *month following the month in which the judge member’s disability retirement application*  
14 *is approved.]*

15 *[(5)]*(3) A judge member must have six years of service as a judge member to be  
16 eligible for non-duty disability retirement.

17 *[(6)]*(4) If a judge member meets the eligibility criteria for disability retirement, the  
18 member’s disability retirement allowance shall be based on creditable service time as  
19 though the member had continuously worked as a judge pursuant to ORS 238.555(1) or  
20 (2).

21 *[(7)]*(5) *[PERS judge membership is terminated by withdrawal of the member*  
22 *account balance as provided in ORS 238.545.]* Former PERS judge members who have

1 terminated *[their]* membership through a withdrawal [under ORS 238.545](#) are not  
2 eligible to receive PERS disability retirement allowances.

3 *[(8) OAR 459-015-0060 does not apply to judge members.]*

4 Stat. Auth: ORS 238.650

5 Stats. Implemented: ORS 238.555

**OREGON ADMINISTRATIVE RULE  
PUBLIC EMPLOYEES RETIREMENT BOARD  
CHAPTER 459  
DIVISION 040 – JUDGE MEMBERS**

1 **459-040-0080**

2 **Required Minimum Distribution of Judge Member Death Benefits**

3 *[(1) In the event an active or inactive judge member dies before retiring, the*  
4 *required minimum distribution of death benefits attributable to the deceased judge*  
5 *member shall be made in accordance with OAR 459-014-0100.]*

6 *[(2)]***(1) Upon the death of a** *[In the event a retired]* judge member *[dies]*, the  
7 required minimum distribution(s) to a surviving spouse and/or to a beneficiary of the  
8 deceased judge member shall be made in accordance with OAR 459-005-0560. For the  
9 purposes of this rule, a former spouse is a non-spouse beneficiary of the deceased judge  
10 member.

11 *[(3)]***(2)** A lump sum distribution of death benefits of a deceased judge member may  
12 be eligible for a rollover in accordance with OAR 459-005-0590 to 459-005-0599.

13 Stat. Auth: ORS 238.650

14 Stats. Implemented: ORS 238.565

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# Oregon

John A. Kitzhaber, M.D., Governor

## Public Employees Retirement System

Headquarters:  
11410 S.W. 68<sup>th</sup> Parkway, Tigard, OR  
Mailing Address:  
P.O. Box 23700  
Tigard, OR 97281-3700  
(503) 598-7377  
TTY (503) 603-7766  
[www.oregon.gov/pers](http://www.oregon.gov/pers)

August 28, 2012

TO: Members of the PERS Board

FROM: Steven Patrick Rodeman, Deputy Director

SUBJECT: Notice of Rulemaking for Public Contracting Rules  
 OAR 459-005-0400, *General Applicability of Attorney General's Model Public Contract Rules*  
 OAR 459-005-0420, *Designation of Positions Authorized to Execute Contract*  
 OAR 459-035-0001, *Definitions*  
 OAR 459-035-0200, *Contracting for Health Insurance Plans, Administrator and Other Services* (repeal)  
 OAR 459-035-0220, *Contract and Bid Request Solicitations* (repeal)

### OVERVIEW

- Action: None. This is notice that staff has begun rulemaking.
- Reason: Establish uniform rules applicable when PERS has independent contracting authority and the Public Contracting Code does not apply.
- Policy Issue: No policy issues have been identified at this time.

### BACKGROUND

PERS is generally subject to the Department of Administrative Services (DAS) public contracting and procurement provisions in ORS Chapters 279A, 279B, and 279C (Public Contracting Code), with some statutory exceptions such as the PERS Health Insurance Program (PHIP) or the Oregon Savings Growth Plan. This rulemaking establishes uniform rules for when PERS has independent contracting authority under those exceptions. These rules are based on the Department of Justice (DOJ) model public contract rules, as effective on August 1, 2012, as generally applicable to PERS, with exceptions being specifically identified. The DOJ rules applicable to PERS through OAR 459-005-0400 are included as Attachment 6 to this memo.

This rulemaking would also codify the public contracting rules in one place rather than having similar provisions in each subject area, which makes the rules easier to use and to update, as well as provides consistency of rules for all subjects. Repealing existing rules and adopting these new rules will not substantively change any of PERS' contracting practices.

### PUBLIC COMMENT AND HEARING TESTIMONY

The first rulemaking hearing was held on August 22, 2012 at 2:00 p.m. at PERS headquarters in Tigard. The second rulemaking hearing will be held on October 23, 2012 at 3:00 p.m. at PERS headquarters in Tigard. The public comment period ends on November 2, 2012 at 5:00 p.m.

### 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:** No. However, without these modifications and new rules, PERS is governed by DOJ contracting rules rather than by its own set of rules.

**Impact:** Staff will benefit from one set of rules that provide consistency for all public contracting subjects.

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

### RULEMAKING TIMELINE

June 15, 2012	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
July 1, 2012	<i>Oregon Bulletin</i> published the Notice. Notice was sent to employers, legislators, and interested parties. Public comment period began.
August 15, 2012	Staff added OAR 459-035-0001 to the rulemaking by filing a second Notice of Rulemaking with the Secretary of State.
August 22, 2012	First rulemaking hearing held at 2:00 p.m. in Tigard.
August 28, 2012	PERS Board notified that staff began the rulemaking process.
September 1, 2012	<i>Oregon Bulletin</i> publishes the Second Notice. Notice is sent to employers, legislators, and interested parties.
October 23, 2012	Second rulemaking hearing to be held at 3:00 p.m. in Tigard.
November 2, 2012	Public comment period ends at 5:00 p.m.
November 30, 2012	Staff will propose adopting the permanent rule modifications, including any changes resulting from public comment or reviews by staff or legal counsel.

### NEXT STEPS

The rules are scheduled to be brought before the PERS Board for adoption at the November 30, 2012 Board meeting.

B.2. Attachment 1 – 459-005-0400, *General Applicability of Attorney General’s Model Public Contract Rules*

B.2. Attachment 2 – 459-005-0420, *Designation of Positions Authorized to Execute Contract*

B.2. Attachment 3 – 459-035-0001, *Definitions*

B.2. Attachment 4 – 459-035-0200, *Contracting for Health Insurance Plans, Administrator and Other Services* (repeal)

B.2. Attachment 5 – 459-035-0220, *Contract and Bid Request Solicitations* (repeal)

B.2. Attachment 6 – Applicable Public Contracting Rules in OAR Chapter 137, Divisions 46 and 47

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

1 **459-005-0400**

2 **General Applicability of Attorney General’s Model Public Contract Rules**

3 **(1) When PERS has independent statutory authority to contract, and the Public**  
4 **Contracting Code does not apply, PERS adopts the following Attorney General’s**  
5 **Model Public Contract Rules to govern its contracting activity:**

6 **(a) OAR Chapter 137, Division 46 - General Provisions Related to Public**  
7 **Contracting: 137-046-0100, 137-046-0110, 137-046-0200, 137-046-0252, and 137-046-**  
8 **0400 through 137-046-0480; and**

9 **(b) OAR Chapter 137, Division 47 – Public Procurements for Goods or**  
10 **Services: 137-047-0100, 137-047-0260 through 137-047-0670, 137-047-0700 through**  
11 **137-047-0760 (excluding provisions governing judicial review), and 137-047-0800.**  
12 **Judicial review of decisions relating to any protest is governed by the Oregon**  
13 **Administrative Procedures Act, ORS Chapter 183.**

14 **(2) For PERS’ purposes, references in the Model Public Contract Rules to the**  
15 **Director of the Oregon Department of Administrative Services shall be applied as**  
16 **references to the PERS Executive Director.**

17 **(3) Model Public Contract rules other than those identified in section (1) of this**  
18 **rule do not apply to PERS.**

19 **Stat. Auth.: ORS 238.650, 238A.450 & 279A.065**

20 **Stats. Implemented: ORS Chapters 279A & 279B**

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

1 **459-005-0420**

2 **Designation of Positions Authorized to Execute Contract**

3 **The PERS Procurement Manager or other person with responsibility for**  
4 **managing PERS’ contracting activities shall maintain a list of positions authorized**  
5 **to execute contracts on behalf of PERS. The list may identify limitations on such**  
6 **authority.**

7 **Stat. Auth.: ORS 238.650**

8 **Stats. Implemented: ORS Chapters 279A & 279B**



**OREGON ADMINISTRATIVE RULE  
PUBLIC EMPLOYEES RETIREMENT BOARD  
CHAPTER 459  
DIVISION 035 – HEALTH INSURANCE PROGRAMS**

1   **459-035-0001**

2   **Definitions**

3       The words and phrases used in this division have the same meaning given them in  
4   ORS Chapters 238 and 238A. Additional terms are defined as follows unless the context  
5   requires otherwise.

6       *[(1) “Board” means the Public Employees Retirement Board as established in ORS  
7   238.630.]*

8       *[(2) “Competitive Negotiation” means the procurement method whereby proposals  
9   are requested from a number of sources and the Request for Proposals is publicized.]*

10       *[(3)]*(1) “Dependent” means a PERS member’s or retiree’s dependent child. For the  
11   purpose of this rule a “child” is defined as follows:

12       (a) A natural child.

13       (b) A legally adopted child, or a child placed in the home pending adoption.

14       (c) A step-child who resides in the household of the stepparent who is an eligible  
15   retired member.

16       (d) A grandchild, provided that at the time of birth, at least one of the grandchild’s  
17   parents was covered under a PERS-sponsored health insurance plan as a dependent child  
18   of the PERS member or retiree and resides in the household of the member or retiree.

19       *[(4)]*(2) “Dependent Domestic Partner” means a person who has a relationship with  
20   a PERS retiree that has the characteristics described below. To qualify as a “dependent  
21   domestic partner”, the person and the PERS retiree must:

1 (a) Share a close personal relationship and be responsible for each other’s common  
2 welfare, including but not limited to having joint financial responsibilities;

3 (b) Be each other’s sole domestic partner;

4 (c) Not be married to anyone, nor have had another domestic partner within the  
5 previous 12 months;

6 (d) Not be related by blood so closely as to bar marriage in the State of Oregon;

7 (e) Have jointly shared the same regular and permanent residence for at least 12  
8 months immediately preceding the effective date of coverage with the intent to continue  
9 doing so indefinitely; and

10 (f) Have the PERS retiree providing over one-half of the financial support for the  
11 person and qualify as a dependent of the PERS retiree as determined under section 105(b)  
12 of the Internal Revenue Code, 26 USC 105(b).

13 *[(5)](3)* “Eligible Person” means a person who is eligible for coverage under a  
14 PERS-sponsored health insurance plan. The conditions for such eligibility are set forth in  
15 OAR 459-035-0020.

16 *[(6)](4)* “Eligible Retired Member” means an eligible person who is eligible for  
17 payments toward the cost of the Medicare Companion Plan from RHIA. The conditions  
18 for such eligibility are set forth in OAR 459-035-0030.

19 *[(7)](5)* “Eligible Retired State Employee” means an eligible person who is eligible  
20 for non-Medicare insurance premium payments from the RHIPA. Conditions for such  
21 eligibility are set forth in OAR 459-035-0040.

22 *[(8) “Fund” has the same meaning as the Public Employees Retirement Fund in*  
23 *ORS 238.660.]*

1 [(9)](6) “Medicare” means the federal health care insurance plan established under  
2 Title XVIII of the Social Security Act as amended.

3 [(10)](7) “Medicare Companion Plan” means a PERS-sponsored health insurance  
4 plan for eligible persons who are eligible for and enrolled in Medicare.

5 [(11) “Non-Competitive Negotiation” means procurement through solicitation of a  
6 proposal from only one source.]

7 [(12)](8) “PEBB” means the Public Employees’ Benefit Board established under  
8 ORS 243.061.

9 [(13)](9) “PERS Member” has the same meaning as “member” provided in ORS  
10 238.005 and 238A.005.

11 [(14)](10) “Plan Year” means a 12-month period beginning January 1 and ending  
12 December 31.

13 [(15)](11) “Qualifying Service” means:

14 (a) Creditable service, as defined in ORS 238.005, plus any periods of employment  
15 with an employer participating in PERS that are required of the employee before  
16 becoming a PERS member; or

17 (b) Periods of employment in a qualifying position, as that term is defined in OAR  
18 459-010-0003.

19 [(16)](12) “Retiree” means a PERS member who is receiving a service or disability  
20 retirement allowance or benefit under PERS or who received a lump sum payment under  
21 ORS 238.305(3), 238.315, or 238A.195, or payment(s) under ORS 238A.400, or a person  
22 who is receiving retirement pay or pension calculated under ORS 1.314 to 1.380 (1989  
23 Edition).

1        ~~[(17)]~~**(13)** “RHIA” means the Retirement Health Insurance Account established  
 2 under ORS 238.420 to help defray the cost of the Medicare Companion Plan.

3        ~~[(18)]~~**(14)** “RHIPA” means the Retiree Health Insurance Premium Account  
 4 established under ORS 238.415 to help defray the cost of PERS-sponsored health plans  
 5 other than the Medicare Companion Plan.

6        ~~[(19)]~~ *“Small Purchase Procedures” means a simple and informal procurement*  
 7 *methods whereby price and rate quotations are obtained from at least three sources and*  
 8 *selection is made on the basis of cost and other applicable criteria.]*

9        ~~[(20)]~~**(15)** “SRHIA” means the Standard Retiree Health Insurance Account  
 10 established under ORS 238.410 to administer employee and the employer contributions  
 11 to the PERS sponsored health insurance program.

12        ~~[(21)]~~**(16)** “Staff” means the employees of the Public Employees Retirement  
 13 System.

14        ~~[(22)]~~**(17)** “Third Party Administrator” means the individual or organization that the  
 15 Board contracts with to provide administrative services as specified in the contract.

16        Stat. Auth.: ORS 238.410, 238.650 & 238A.450

17        Stats. Implemented: ORS 238.410, 238.415, 238.420 & 238A.050

**OREGON ADMINISTRATIVE RULE  
PUBLIC EMPLOYEES RETIREMENT BOARD  
CHAPTER 459  
DIVISION 035 – HEALTH INSURANCE PROGRAMS**

1 *[459-035-0200*

2 *Contracting for Health Insurance Plans, Administrator and Other Services*

3 *(1) In accordance with ORS 238.410, the Board shall enter into one or more*  
4 *contracts with one or more carriers to provide health insurance coverage to all eligible*  
5 *persons. Such contracts may include health insurance plans that provide:*

6 *(a) Coverage supplemental to Medicare coverage;*

7 *(b) Non-Medicare health insurance coverage;*

8 *(c) Managed care health plan coverage;*

9 *(d) Dental insurance coverage; and*

10 *(e) Long term care insurance plans.*

11 *(2) The Board may retain consultants, brokers or other advisory personnel, or*  
12 *organizations specializing in health care costs containment or other administrative*  
13 *services when it deems necessary.*

14 *(3) The procurement of health insurance coverage, health insurance administration*  
15 *services, and other specialized services will follow one or more of the following*  
16 *procurement methods:*

17 *(a) Small Purchase Procedures. Small Purchase Procedures may be used for the*  
18 *procurement of services costing not more than \$75,000.*

19 *(b) Competitive Negotiation. Competitive Negotiation shall be used for personal*  
20 *service contracts in excess of \$75,000 per agreement per fiscal year and may be used for*  
21 *contracts of less than \$75,000. Exceptions may be granted to accommodate one or more*  
22 *of the conditions described in subsection (3)(c) of this rule with the approval of the*

1 *Director. The procedure described below must be followed when Competitive*  
2 *Negotiation is used.*

3 *(A) A Request for Proposal (RFP) shall be prepared for contracts for which*  
4 *competitive negotiation procedures will be used. The RFP shall include, at a minimum,*  
5 *the following information:*

6 *(i) Date and hour which proposals must be received;*

7 *(ii) Description of work; and*

8 *(iii) Evaluation specific to contract criteria.*

9 *(B) Notification of the availability of the RFP shall be advertised in newspapers or*  
10 *periodicals as determined by the staff.*

11 *(C) Proposals shall be evaluated in a manner consistent with the evaluation criteria*  
12 *included in the RFP by the Board or committee thereof. A written document stating why*  
13 *the selection was made will be on file at PERS office.*

14 *(D) Paragraphs (3)(b)(B) and (3)(b)(C) of this rule may be excepted from these*  
15 *competitive negotiation procedures if the Director determines it is warranted by time or*  
16 *cost considerations.*

17 *(c) Non-Competitive Negotiation. Non-Competitive Negotiation may be used for*  
18 *contracts if public notice of the Board's intent to contract for services is properly*  
19 *published and one of the following is applicable:*

20 *(A) The item or service is available only from a single source, or the sole source has*  
21 *special skills that are only available based upon his/her expertise or situation;*

22 *(B) Public need or emergency situation compels purchasing the coverage or service*  
23 *without the delay incident to competitive solicitation; or*

1        *(C) The contract is a renewal of an existing contract, subject to approval by all*  
2 *required parties.*

3        *Stat. Auth: ORS 238.410 & ORS 238.650*

4        *Stats. Implemented: ORS 238.410]*

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**OREGON ADMINISTRATIVE RULE  
PUBLIC EMPLOYEES RETIREMENT BOARD  
CHAPTER 459  
DIVISION 035 – HEALTH INSURANCE PROGRAMS**

1 ***[459-035-0220***

2 ***Contract and Bid Request Solicitations***

3 *The Board and PERS will comply with the requirements of ORS 200.035 regarding*

4 *the timely notice of all contract and bid request solicitations in excess of \$5,000 to the*

5 *Advocate for Minority, Women and Emerging Small Business.*

6 *Stat. Auth.: ORS 238.410 & ORS 238.650*

7 *Stats. Implemented: ORS 238.410, ORS 238.415 & ORS 238.420]*

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**OAR Chapter 137  
ATTORNEY GENERAL'S MODEL PUBLIC CONTRACT RULES**

**ADOPTED BY PERS**

**GENERAL PROVISIONS RELATED TO PUBLIC CONTRACTING**

- 137-046-0100** Content and General Application; Federal Law Supremacy
- 137-046-0110** Definitions for the Model Rules
- 137-046-0200** Notice to Advocate for Minorities, Women and Emerging Small Businesses
- 137-046-0252** Personnel Employment Disclosure and Preference — State Agency Contracts for Goods or Services
- 137-046-0400** Authority for Cooperative Procurements
- 137-046-0410** Responsibilities of Administering Contracting Agencies and Purchasing Contracting Agencies
- 137-046-0420** Joint Cooperative Procurements
- 137-046-0430** Permissive Cooperative Procurements
- 137-046-0440** Advertisements of Intent to Establish Contracts through a Permissive Cooperative Procurement
- 137-046-0450** Interstate Cooperative Procurements
- 137-046-0460** Advertisements of Interstate Cooperative Procurements
- 137-046-0470** Protests and Disputes
- 137-046-0480** Contract Amendments

**PUBLIC PROCUREMENTS FOR GOODS OR SERVICES**

- 137-047-0100** Definitions
- 137-047-0260** Competitive Sealed Proposals
- 137-047-0261** Multi-tiered and Multistep Proposals
- 137-047-0265** Small Procurements
- 137-047-0270** Intermediate Procurements
- 137-047-0275** Sole-source Procurements
- 137-047-0280** Emergency Procurements
- 137-047-0285** Special Procurements
- 137-047-0290** Cooperative Procurements
- 137-047-0300** Public Notice of Solicitation Documents
- 137-047-0310** Bids or Proposals are Offers
- 137-047-0320** Facsimile Bids and Proposals
- 137-047-0330** Electronic Procurement
- 137-047-0400** Offer Preparation
- 137-047-0410** Offer Submission
- 137-047-0420** Pre-Offer Conferences
- 137-047-0430** Addenda to Solicitation Document
- 137-047-0440** Pre-Closing Modification or Withdrawal of Offers
- 137-047-0450** Receipt, Opening, and Recording of Offers; Confidentiality of Offers
- 137-047-0460** Late Offers, Late Withdrawals and Late Modifications
- 137-047-0470** Mistakes
- 137-047-0480** Time for Agency Acceptance
- 137-047-0490** Extension of Time for Acceptance of Offer
- 137-047-0500** Responsibility of Bidders and Proposers
- 137-047-0525** Qualified Products Lists
- 137-047-0550** Prequalification of Prospective Offerors; Pre-negotiation of Contract Terms and Conditions
- 137-047-0575** Debarment of Prospective Offerors

**137-047-0600** Offer Evaluation and Award  
**137-047-0610** Notice of Intent to Award  
**137-047-0620** Documentation of Award  
**137-047-0630** Availability of Award Decisions  
**137-047-0640** Rejection of an Offer  
**137-047-0650** Rejection of All Offers  
**137-047-0660** Cancellation of Procurement or Solicitation  
**137-047-0670** Disposition of Offers if Procurement or Solicitation Canceled  
**137-047-0700** Protests and Judicial Review of Special Procurements  
**137-047-0710** Protests and Judicial Review of Sole-Source Procurements  
**137-047-0720** Protests and Judicial Review of Multi-Tiered and Multistep Solicitations  
**137-047-0730** Protests and Judicial Review of Solicitations  
**137-047-0740** Protests and Judicial Review of Contract Award  
**137-047-0745** Protests and Judicial Review of Qualified Products List Decisions  
**137-047-0750** Judicial Review of Other Violations  
**137-047-0760** Review of Prequalification and Debarment Decisions  
**137-047-0800** Amendments to Contracts and Price Agreements



# Oregon

John A. Kitzhaber, M.D., Governor

## Public Employees Retirement System

Headquarters:  
11410 S.W. 68<sup>th</sup> Parkway, Tigard, OR  
Mailing Address:  
P.O. Box 23700  
Tigard, OR 97281-3700  
(503) 598-7377  
TTY (503) 603-7766  
[www.oregon.gov/pers](http://www.oregon.gov/pers)

August 28, 2012

TO: Members of the PERS Board  
FROM: Steven Patrick Rodeman, Deputy Director  
SUBJECT: Adoption of Disability Application Rules:  
OAR 459-015-0020, *Application Required*  
OAR 459-076-0020, *Application Required*

### OVERVIEW

- Action: Adoption of modifications to the disability application rules.
- Reason: OAR 459-015-0020(7) and 459-076-0020(5) were previously noticed as housekeeping edits to change “date of termination” to “date of separation from service.” Further modifications are warranted to clarify the timely filing of applications for disability benefits when a member has not terminated employment or become an inactive member and returns to work before filing the application.
- Policy Issue: No policy issues have been identified.

### BACKGROUND

At the January 27, 2012 Board meeting, PERS noticed these two rules for housekeeping updates to OAR 459-015-0020(7) and 459-076-0020(5) to correctly use the term “date of separation from service” when PERS may begin paying disability benefits to a disability recipient.

Since the January 2012 meeting, staff determined that additional edits were needed. The new rule modifications clarify requirements for the timely filing of an application for disability when a member is totally disabled but is not terminated from service or otherwise becomes an inactive member. An employer could, for example, allow a disabled member to take an unpaid leave of absence while recovering from their disability and then return to work after recovery. These modifications clarify the timing for such a member to apply for disability benefits.

The main substantive modification is by adding a new subsection (6)(c) to OAR 459-015-0020 to address the timing requirement explained above. Recently, a member filed an application for disability benefits and was initially going to be denied because the member had not been separated by their employer, so staff presumed the member did not meet the standard of total disability. Further review of the medical information revealed that the member did have a period of total disability lasting 90 days or more (as required to be eligible for a benefit), but the member did not file for that benefit until after returning to work. These rules did not address this situation, so a new subsection clarifies the timing.

The modifications provide that the member’s application must be filed no later than 90 days from either the date the member was medically released for work or the date the member actually returned to work, whichever is earlier. The 90-day period to file the application was selected

because it coincides with the 90-day trial service as provided under OAR 459-015-0045(1)(a) for members who are receiving a disability retirement benefit and attempt to return to work although not medically released to return to work. In OAR 459-076-0020(4)(a), paragraphs (A) and (B) were added to address this same timing issue.

#### SUMMARY OF MODIFICATIONS TO RULES SINCE SECOND NOTICE

No modifications have been made since second notice at the May 18, 2012 Board meeting.

#### PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held on February 28, 2012 at 3:00 p.m. at PERS headquarters in Tigard. After the rule was re-noticed and public comment period extended, a second hearing was held on April 25, 2012 at 2:00 p.m. at PERS headquarters in Tigard. No members of the public attended either hearing. As these new provisions were added, staff extended the public comment period until June 29, 2012. No public comment was received.

#### LEGAL REVIEW

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

#### IMPACT

Mandatory: No.

Impact: The housekeeping edits conform the terms to the recently modified disability rule definitions and the other edits provide clarity for time frames to file applications for disability.

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

#### RULEMAKING TIMELINE

January 13, 2012	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
January 27, 2012	PERS Board notified that staff began the rulemaking process.
February 1, 2012	<i>Oregon Bulletin</i> published the Notice. Notice was mailed to employers, legislators, and interested parties. First public comment period began.
February 28, 2012	First rulemaking hearing held at 3:00 p.m. in Tigard.
March 1, 2012	First public comment period ended at 5:00 p.m.
March 15, 2012	Staff extended the public comment period and re-noticed the rule modifications by filing Notice of Rulemaking with the Secretary of State.

Adoption – Disability Application Rules

08/28/12

Page 3 of 3

April 1, 2012	<i>Oregon Bulletin</i> published the second notice. Notice was mailed to employers, legislators, and interested parties. Second public comment period began.
April 25, 2012	Second rulemaking hearing held at 2:00 p.m. in Tigard.
April 30, 2012	Second public comment period ended at 5:00 p.m.
May 16, 2012	Staff re-opened the public comment period and re-noticed the rule modifications by emailing Notice of Rulemaking to employers, legislators, and interested parties.
May 18, 2012	Second Notice of rules at Board meeting.
June 29, 2012	Third public comment period ended at 5:00 p.m.
August 28, 2012	Board may adopt the permanent rule modifications.

BOARD OPTIONS

The Board may:

1. Pass a motion to “adopt modifications to the disability application rules, as presented.”
2. Direct staff to make other changes to the rules or explore other options.

STAFF RECOMMENDATION

Staff recommends the Board choose Option #1.

- Reason: OAR 459-015-0020(7) and 459-076-0020(5) were previously noticed as housekeeping edits to change “date of termination” to “date of separation from service”. Further modifications are warranted to clarify the timely filing of applications for disability benefits when a member has not terminated employment or become an inactive member and returns to work before filing the application.

If the Board does not adopt: Staff would return with rule modifications that more closely fit the Board’s policy direction if the Board determines that a change is warranted.

B.3. Attachment 1 – 459-015-0020, *Application Required*

B.3. Attachment 2 – 459-076-0020, *Application Required*

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

1    **459-015-0020**

2    **Application Required**

3       (1) Application[s] must be made on forms provided by PERS. PERS may require the  
4    member to provide any information that PERS considers necessary to determine the  
5    applicant’s eligibility for a disability retirement allowance.

6       (2) No disability retirement allowance will be paid unless the member files a timely  
7    and complete application.

8       (3) Application must be made by a member or the member’s authorized  
9    representative. A representative must submit to PERS written proof of the representative’s  
10   authority; such as, a power of attorney, guardianship or conservatorship appointment.

11      (4) Upon the filing of an application for a disability retirement allowance, PERS will  
12   notify the applicant’s current or most recent employer of the filing. Additionally, PERS  
13   may request of an employer information pertaining to current or previous employment.

14      (5) When an employee member is disabled due to injury or disease, the member may  
15   make application immediately after the last day worked even though the member may be  
16   on a paid leave or on an official leave of absence without pay. No application will be  
17   accepted that predates the last day the member was actually on the job.

18      (6) An application will be considered filed in a timely manner when received by PERS  
19   as follows:

20      (a) For a member who is totally disabled due to injury or disease before terminating  
21   employment from all PERS qualifying positions and has not withdrawn the amount  
22   credited to the account of the member in the system, the member must file an application

1 for a disability retirement allowance within five calendar years of the date of termination.

2 *[The disabling condition]* **Total disability** must be continuous from the date of

3 *[termination]* **separation from service** to the date the application is filed.

4 (b) For a member who is totally disabled due to injury or disease after terminating  
5 employment from all PERS qualifying positions and has not withdrawn the amount  
6 credited to the account of the member in the system, the member must file an application  
7 for a disability retirement allowance within six months (180 days) after the date of  
8 separation from service. *[The disabling condition]* **Total disability** must be continuous  
9 from the date of disability to the date the application is filed.

10 **(c)(A) For a member who is totally disabled due to injury or disease but does not**  
11 **terminate employment, an application for disability retirement must be filed no later**  
12 **than 90 calendar days from:**

13 **(i) The date the member is medically released for work; or**

14 **(ii) The date the member returns to work, whichever is earlier.**

15 **(B) Total disability must be continuous from the date of disability to the earlier of**  
16 **paragraph (A)(i) or (ii) of this subsection.**

17 *[(c)](d)* A member cannot apply for disability retirement before their date of  
18 disability.

19 (7) In determining the effective date of a disability retirement allowance, PERS may  
20 allow up to 60 months of benefits retroactive from the date the application is filed with  
21 PERS, but in no case earlier than the first day of the month following the date of  
22 *[termination]* **separation**.

23 (8) When making application for a PERS disability retirement allowance, PERS will  
24 request the applicant authorize any physician, health practitioner, hospital, clinic,

1 pharmacy, employer, employment agency, or government agency to release and disclose to  
2 PERS, or independent physicians and vocational consultants retained by PERS, any  
3 information within their records or knowledge, including that information otherwise  
4 protected under federal or state law, regarding the applicant’s health and employment  
5 which PERS determines relates to the applicant’s claim of disability and inability to  
6 perform any work for which qualified.

7 (9) When filing an application for disability retirement allowance, if the applicant  
8 wishes to authorize release and disclosure of protected health information, as defined in  
9 OAR 459-015-0001[(17)], the applicant must complete and sign a consent form which  
10 specifically authorizes the release and disclosure of such information.

11 (a) This authorization is voluntary. Because PERS is not a covered entity as defined in  
12 45 C.F.R., Parts 160 and 164, the protected health information is not subject to federal and  
13 state health information privacy laws, but may be protected under Oregon State Public  
14 Record disclosure laws.

15 (b) This authorization may be revoked in writing at any time, except to the extent the  
16 entities named on the authorization form(s) have taken action in reliance of the  
17 authorization.

18 (c) If the applicant refuses to give or revokes authorization to disclose to PERS  
19 medical information that PERS determines it needs to evaluate the application, eligibility  
20 for a disability retirement allowance may be affected.

21 Stat. Auth.: ORS 238.650

22 Stats. Implemented: ORS 238.320 - 238.345

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**OREGON ADMINISTRATIVE RULE  
PUBLIC EMPLOYEES RETIREMENT BOARD  
CHAPTER 459  
DIVISION 076 – OPSRP DISABILITY BENEFIT**

1 **459-076-0020**

2 **Application Required**

3 (1) Application must be made on forms provided by PERS. PERS may require the  
4 member to provide any information that PERS considers necessary to determine the  
5 member’s eligibility for a disability benefit.

6 (2) No disability benefit will be paid unless the member files a timely and complete  
7 application with PERS.

8 (3) Application must be made by a member or the member’s authorized  
9 representative. A representative must submit to PERS written proof of the  
10 representative’s authority; such as, a power of attorney, guardianship or conservatorship  
11 appointment.

12 (4) A member must file a timely application for disability benefits:

13 (a) An active member may file the application immediately after the last day worked  
14 even though the member may be on a paid leave or on an official leave of absence  
15 without pay. No application will be accepted that predates the last day the member was  
16 actually on the job, **and:**

17 **(A) The application must be filed no later than 90 calendar days from:**

18 **(i) The date the member is medically released for work; or**

19 **(ii) The date the member returns to work, whichever is earlier.**

20 **(B) Total disability must be continuous from the date of disability to the earlier**  
21 **of paragraph (A)(i) or (ii) of this subsection.**

1            (b) An inactive member who was totally disabled due to injury or disease while the  
2 applicant was an active member and has not terminated membership, must file an  
3 application for a disability benefit within five calendar years of the date of separation  
4 from service. *[The disabling condition]* Total disability must have arisen while the  
5 applicant was an active member and be continuous from the date the member last worked  
6 to the date the application is filed.

7            (c) A member cannot apply for disability benefits before their date of disability.

8            (5) In determining the effective date of a disability benefit PERS may allow up to 60  
9 months of benefits retroactive from the date the application is filed with PERS, but in no  
10 case earlier than the first day of the month following the date of *[termination]* separation  
11 from service.

12            (6) Upon the filing of an application for a disability benefit, PERS will notify the  
13 applicant's current or most recent employer of the filing. Additionally, PERS may request  
14 of an employer information pertaining to current or previous employment.

15            (7) When making application for a PERS disability benefit, PERS will request the  
16 applicant authorize any physician, health practitioner, hospital, clinic, pharmacy,  
17 employer, employment agency, or government agency to release and disclose to PERS,  
18 or independent physicians and vocational consultants retained by PERS, any information  
19 within their records or knowledge, including that information otherwise protected under  
20 federal or state law, regarding the applicant's health and employment which PERS  
21 determines relates to the applicant's claim of disability and inability to perform any work  
22 for which qualified.

1            (8) When filing an application for disability benefit, if the applicant wishes to  
2 authorize release and disclosure of protected health information, as defined in OAR 459-  
3 076-0001, the applicant must complete and sign a consent form which specifically  
4 authorizes the release and disclosure of such information.

5            (a) This authorization is voluntary. Because PERS is not a covered entity as defined  
6 in 45 CFR Parts 160 and 164, the protected health information is not subject to federal  
7 and state health information privacy laws, but may be protected under Oregon State  
8 Public Record disclosure laws.

9            (b) This authorization may be revoked in writing at any time, except to the extent the  
10 entities named on the authorization form(s) have taken action in reliance of the  
11 authorization.

12            (c) If the applicant refuses to give or revokes authorization to disclose to PERS  
13 medical information that PERS determines it needs to evaluate the application, eligibility  
14 for a disability benefit may be affected.

15            Stat. Auth.: ORS 238A.450

16            Stats. Implemented: ORS 238A.235

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# Oregon

John A. Kitzhaber, M.D., Governor

## Public Employees Retirement System

Headquarters:  
11410 S.W. 68<sup>th</sup> Parkway, Tigard, OR

Mailing Address:  
P.O. Box 23700  
Tigard, OR 97281-3700  
(503) 598-7377  
TTY (503) 603-7766  
[www.oregon.gov/pers](http://www.oregon.gov/pers)

August 28, 2012

TO: Members of the PERS Board

FROM: Gay Lynn Bath, Deferred Compensation Manager

SUBJECT: Appoint Advisory Committee Members for Oregon Savings Growth Plan (OSGP)

### OVERVIEW

- Subject: The PERS Board needs to appoint three new members to the Oregon Savings Growth Plan (“OSGP”) Advisory Committee.
- Action: Appoint three new members to fill one state and two local government vacancies.
- Reasons: The Advisory Committee consists of seven members appointed by the PERS Board for fixed terms, but each member serves at the pleasure of the PERS Board.

### BACKGROUND

ORS 243.505 provides an Advisory Committee for the Oregon Savings Growth Plan that consists of seven members with knowledge of deferred compensation plans. According to that statute and OAR 459-050-0025 (attached hereto), the Committee shall study and advise the Public Employees Retirement Board, upon request, on all aspects of the deferred compensation program, including but not limited to:

- (a) The deferred compensation program fee structure and program procedures;
- (b) State and federal legislative issues relative to the administration of deferred compensation;
- (c) Administration of the catch-up and financial hardship provisions in Section 457 of the Internal Revenue Code;
- (d) Ways and means to inform and educate eligible employees about the deferred compensation program;
- (e) The expressed desires of eligible employees as to the Deferred Compensation Program.

Advisory Committee members must be OSGP participants and have knowledge of the current program. One member shall be retired from state service. Two members shall be participants with separate local government plan sponsors who offer the OSGP. Four members shall be employees of separate state agencies. No member shall be an employee of PERS during the term of appointment. No two members shall be employed by the same state agency or local government plan sponsor.

Appointment is for three years except in the case of a vacancy during an unexpired term, in which case the Board’s appointment will become immediately effective for the unexpired term.

A member is eligible for reappointment, but no person shall serve more than two consecutive full terms.

Currently, the Advisory Committee is made up of the following members:

<b>Name</b>	<b>Employer/City</b>	<b>Term</b>	<b>Term Ends</b>
Peter Farrelly, Chair	OHA, Portland	Second	6/30/2013
Sharlyn Rayment	Retiree Position	First	6/30/2013
Priyanka Shukla	State Position	First	6/30/2013
Keith Baldwin	Department of Forestry, Molalla	Second	6/30/2014
Open	State Position		6/30/2015
Open	Local Government Position		6/30/2015
Open	Local Government Position		6/30/2015

The criterion staff uses in selecting Advisory Committee members includes:

1. Current participation in OSGP.
2. Meeting the qualifications for the slot to be filled.
3. Possessing a mixture of expertise, knowledge and experience useful to Advisory Committee
4. Sincere interest in deferred compensation program.
5. Willing and able to work in a group setting to review and recommend policies governing the program.

#### RECOMMENDED APPOINTMENTS

Staff recommends Jeffrey Labhart, Oregon Department of Transportation; Debbie Darst, Harrisburg School District; and Mark Carlton, McMinnville Water & Light to fill the vacant positions.

#### **Board Options:**

The Board may:

1. Approve the appointment of Jeffrey Labhart, Debbie Darst, and Mark Carlton to fill the vacancies on the Advisory Committee, effective immediately.
2. Direct staff to solicit one or more different candidates for appointment.

#### **Staff Recommendation:**

Staff recommends the Board chose Option 1 above.

Reason: Staff believes that Jeffrey Labhart, Debbie Darst and Mark Carlton meet the criteria and service needs of the Advisory Committee.

C.1. Attachment 1 – 459-050-0025, Deferred Compensation Advisory Committee

C.1. Attachment 2 – OSGP History

C.1. Attachment 3 – OSGP Survey Summary

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

**459-050-0025**

**Deferred Compensation Advisory Committee**

(1) The seven members of the Deferred Compensation Advisory Committee provided for under ORS 243.505, shall be subject to the following qualifications and limitations:

- (a) Each member shall be a participant in a deferred compensation plan established under ORS 243.401 to 243.507, and shall have knowledge of the Program.
- (b) Four members shall be participants in the state deferred compensation plan.
- (c) Two members shall be participants in a local government deferred compensation plan.
- (d) One member shall be a retired deferred compensation plan participant.
- (e) No two members may be employed by the same state agency or local government except that a member who transfers employment to the employer of another member may continue to serve on the Advisory Committee, but only for the balance of the term of appointment of the transferring member.
- (f) No member may serve more than two consecutive full terms.
- (g) No member may be an employee of PERS during the term of appointment.

(2) The Advisory Committee shall study and advise the Board on all aspects of the Program, including but not limited to:

- (a) The Program fee structure and procedures;
- (b) State and federal legislative issues relative to the administration of deferred compensation plans;
- (c) The administration of the catch-up and the financial hardship provisions in Section 457 of the Internal Revenue Code;
- (d) Ways and means to inform and educate eligible employees about the Program;
- (e) The expressed desires of eligible employees as to the Program; and
- (f) The actuarial characteristics of eligible employees.

(3) Upon the request of the OIC, the Advisory Committee shall study and advise the Board on the following:

- (a) Investment programs, including options and providers; and
- (b) Information furnished by the OIC or the State Treasurer concerning the types of available investments, the respective balance of risk and return of each investment, and the administrative costs associated with each investment.

(4) The Advisory Committee shall meet at least four times during a calendar year.

(5) A majority of the Advisory Committee shall constitute a quorum for transacting business.

However, the Advisory Committee may establish such other procedures for conducting business that it deems necessary.

(6) Pursuant to the Public Meetings Law, ORS 192.610 to 192.690, the Deferred Compensation Manager shall distribute to the Advisory Committee, and other interested parties, an agenda for a regular meeting a reasonable time prior to the meeting.

(7) Nominations of candidates for the Advisory Committee shall be made as follows:

- (a) Notice of a position on the Advisory Committee expected to become vacant upon the expiration of a term of appointment shall be published not later than April 15 of each calendar year.

(b) Persons interested in serving on the Advisory Committee must apply in writing to the Manager not later than May 15 following the publication of a vacancy.

(c) The Manager shall review the written applications of interested persons for completeness, accuracy, and satisfaction of the minimum requirements of the vacant position on the Advisory Committee.

(d) A committee consisting of the Manager and four members of PERS executive or managerial staff designated by the PERS Executive Director shall review the acceptable applications and recommend to the Board candidates for appointment to the Advisory Committee that:

(A) Reflect a cross section of state agencies, participating local governments, and classification levels;

(B) Reflect a mixture of expertise, knowledge, and experience useful to the Advisory Committee;

(C) Appear to have a sincere interest in the Program; and

(D) Appear to be willing and able to work in a group setting to review and recommend policies governing the Program.

(e) In the event of a vacancy for an unexpired term, the Manager may select applications from the most recent list of interested persons established under subsection (c) of this section and the applications of other persons as deemed appropriate for consideration. A committee consisting of the Manager and four members of PERS executive or managerial staff designated by the PERS Executive Director shall review the selected applications and recommend to the Board candidates for appointment to the Advisory Committee. The appointment shall be immediately effective for the remainder of the unexpired term. If no candidate is recommended or appointed, the vacancy must be filled under the provisions of subsections (a) through (d) of this section.

Stat. Auth: ORS 243.470

Stats. Implemented: ORS 243.505



**History**

ORS 243.400 was passed in 1977 authorizing a deferred compensation plan, hereinafter referred to as the Oregon Savings Growth Plan (OSGP) for state employees. The Oregon Investment Council (OIC) and Oregon State Treasury (OST) were assigned oversight responsibility for OSGP. In 1978, Section 457 of the Internal Revenue Code was enacted on the federal level. The first deferrals were made to the plan in 1980.

Savings and loan companies, credit unions, and banks provided fixed-rate vehicles for investment purposes. At that time, earnings were guaranteed at rates as high as 10.25%. Valic, Nationwide, and Standard provided variable annuity contracts as investment options for participants.

In 1991, House Bill 2151 transferred the deferred compensation program from the Executive Department to Public Employees Retirement System (PERS). PERS was given plan administration oversight duties. The OSGP Advisory Committee was added at that time. A Prudent Investor Standard along with a Standard of Productivity were included to guide the OIC in investment review. At the same time, the plan became available to local government agencies and an investment staff position was added at OST to provide oversight of the investments in the plan. The first local government assets went into the plan in 1999.

The biggest change to the plan came in 1996, when the plan and investment line-ups were restructured. A Request for Proposal (RFP) for a record keeper was issued and CitiStreet (now ING) was the successful bidder. Education was kept in-house and the OIC continued to monitor the funds. All investment contracts were renegotiated at this time. Nine generic asset classes were set up as fund options, allowing conservative to more aggressive investment choices. Those options were as follows:

- ◆ Short-Term Fixed
- ◆ Stable Value
- ◆ Intermediate Bond
- ◆ Large Company Value
- ◆ Stock Market Index
- ◆ Large Company Growth
- ◆ International
- ◆ Small/Mid-Size Company
- ◆ Balanced

House Bill 2187 was passed in 1997, making the following changes to OSGP:

- ◆ Created the Deferred Compensation Fund to hold investment assets,
- ◆ Placed assets in trust for the exclusive benefit of employees, and
- ◆ Named the Public Employees Retirement Board (PERB) as the Trustee.

Major changes were also made to the plan in 2001 with the passage of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA). Contribution limits in the 457 plan were now the same as 401(k) and 403(b) plans. Some other changes included the portability of defined contribution plans, which allowed the ability to roll 401(k), 403(b) and IRAs into 457 plans, and vice-versa. A catch-up provision was allowed for

## C.1. Attachment 2

participants who are at least age 50. Employees with access to 403(b) and 401(k) are now able to contribute the maximum to one of those plans, as well as to the 457 plan; there is no coordination of benefits so participants may contribute the maximum amounts to both a 457(b) and either a 401(k) or 403(b) plan.

In 2001, a Request for Information was issued to find a stable value manager. INVESCO won that bid and continues to administer the stable value fund in the plan. INVESCO negotiated with ING (formerly Aetna), Standard, and Nationwide to allow the contracts to mature over four to five years to avoid penalties if the money was transferred at one time. By the end of 2005, there was approximately \$10 million remaining in these contracts. If the contracts had been terminated in 2001, there would have been severe market value adjustment penalties. As of March 31, 2006, only 6% of the fund remains in the Nationwide contract; the ING and Standard contracts have matured and have been eliminated. By the end of 2006, the fund was fully divested of the Nationwide contract as well. In 2007, OST made the decision to terminate its relationship with INVESCO due to significant changes in management at the company, and Dwight Asset Management Company LLC was hired to fill that spot.

In 2002, the Legislative Fiscal Office conducted an audit of the plan to confirm cost and administrative effectiveness. The conclusion was that the current administration of the program needed no statutory or other substantive "fix." They concluded that employers and plan participants alike are apparently satisfied with the nature and level of services provided.

In 2006, the Pension Protection Act (PPA) made EGTRRA tax-favored provisions permanent, including the contribution limits and the saver's credit. It also allowed rollovers from 457(b) plans directly to a Roth IRA. Prior to PPA, a participant would have to roll to a traditional IRA and then have it converted to a Roth. Non-spouse beneficiaries were permitted to transfer amounts from a qualified plan directly to an IRA. Another provision made distributions for unforeseeable emergency withdrawals on account of hardships to a grandchild, parent or domestic partner.

In July 2007, OSGP introduced a loan program. There are two types of loans; residential and general purpose. Participants may borrow up to 50% of their account balance. For a residential loan, participants must provide documentation that they are borrowing for the purchase of a primary residence and they have up to 15 years to pay back the loan. For a general purpose loan, they have five years to pay it back. As of December 31, 2010, there have been 1382 loans issued for a total of \$11,924,456. The average loan is \$8,628 and we receive approximately 30 requests each month.

In February 2008, LifePath® target date funds were added to the plan. They replaced the Balanced Option, and participants were mapped from the Balanced Option into a LifePath fund that corresponded with the year closest to when they would turn age 65. These funds have been proven to be well utilized, and as of December 31, 2010, 23% of the assets were invested in the LifePath funds.

In November 2008, because of market timing and excessive trading in OSGP options, OAR 459-050-0037 was implemented. It restricts trades over \$100,000, and states that a trade may not be redeemed from the International Stock option for a period of 30 days following the date of the trade. There is also an equity wash restriction on the Stable Value fund that prohibits money moving directly from the Stable Value to the Intermediate Bond or Short-Term Fixed options.

In September of 2009, OSGP added a Self-Directed Brokerage Account to its list of investment options. This brokerage account is available through Charles Schwab, and it allows participants to invest in hundreds of different mutual funds and exchange traded funds (ETFs). Individual stocks are not available at this time, but may be in the future.

In August of 2012, OSGP added the Roth 457 to the plan. This new feature allows participants to save in OSGP on an after-tax basis. As long as they are considered qualified distributions, when funds are withdrawn, participants will not have to pay taxes.

### **Regulation Information**

OSGP is an Internal Revenue Code Section 457 Plan and is referred to as a “deferred compensation” plan. It is similar to 401(k) plans, but because it is a government-sponsored plan, there are some differences. For example, there is no 10% penalty upon early withdrawal (before age 59 ½). Prior to the introduction of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) in 2001, deferral limits were calculated differently and were lower than those in 401(k) plans. EGTRRA made 457 plans more similar to 401(k) plans.

As a government plan, OSGP is not required to adhere to the Employee Retirement Income Security Act (ERISA), which is a federal law that sets minimum standards for most voluntarily established pension and health plans in private industry. Therefore, public plans do not have to complete an annual Form 5500, which is required by 401(k) plans, there is no “discrimination testing,” and there are no considerations for “highly compensated” employees versus “non-highly compensated” employees.

Any employee who is eligible for PERS is eligible for OSGP, and governmental employees who opt out of PERS, such as higher education and some local government agencies, may also be eligible. Local governments have separate trusts and must adopt the plan before its employees can participate.

The minimum contribution in OSGP is \$25 per month. The maximum limit for 2012 is \$17,000 with a catch-up of \$5,500 for those participants age 50 or over. The maximum limits may increase thereafter as adjusted for inflation. The 457 plan is also unique in that it offers another catch-up provision that allows participants to make up for eligible contributions they had not made in previous years. In 2012, a participant can contribute up to \$34,000, which is double the regular limit.

### **Plan Statistics**

As of June 30, 2012, there were 23,419 OSGP accounts. Of those, 19,898 were state, miscellaneous agency, and higher education employees, 3,521 worked for local government agencies. Of the 23,419 accounts 13,923 represented actively deferring participants; the remaining accounts represent participant who are not currently contributing, as well as retired or inactive participants. Plan assets were valued at \$1.2 billion.

In June 2012, OSGP received \$5.9 million in monthly employee contributions and the average monthly deferral for state employees was \$385. From January 1, 2012 to June 30, 2012, 691 employees enrolled in the plan, and \$11.8 million was rolled into the plan from other eligible plans and IRAs.

### **Fees**

In 2010, OSGP issued a Request for Proposal (RFP) for record keeping services. ING was the successful bidder, and the plan was able to lower fees by 4 basis points while adding an on-site ING representative.

Fees in OSGP are traditionally lower than other retirement vehicles such as IRAs and 403(b) plans which may have loads, transfer fees, or surrender fees. According to a 2009 CEM report, OSGP’s overall plan fees of 47 basis points (0.47%) were a little higher than the average of 44 (0.44%) basis points. However, that particular report compared OSGP to several very large private 401(k) plans with assets as much as \$10 billion, enabling them to negotiate for lower fees based solely on their size. OSGP funds are valued on a daily basis and earnings are reported net of fees. In 2012, participants pay 0.18%, based on the assets in their account, for administrative and record keeping fees. A participant whose assets are distributed equally

among the options (excluding the LifePath® funds) will pay a weighted average of 0.26% in investment fees, for an overall total of 0.44%.

**Oregon Investment Council and Oregon State Treasury**

By statute, OIC has oversight for selecting and managing investments for OSGP. The OSGP manager works closely with an OST Equities Investment Officer on any investment issues that may affect the plan (e.g., market timing, redemption fees, etc.). OIC has several investment policies governing the management of the investments in OSGP. Investments are monitored on an ongoing basis and funds are changed out when they are no longer deemed appropriate for the fund or other opportunities are deemed more appropriate. OIC formally reviews the plan on an annual basis, typically during the first quarter of the calendar year.

**Consultant**

OSGP also works with an outside consultant, Arnerich Massena & Associates (Arnerich). The contract is between Arnerich and OST, but OSGP has an interagency agreement with OST that sets out OST’s obligations regarding supporting OSGP in supervising Arnerich and ensuring that services for both OST and OSGP are meeting expectations. OSGP reimburses OST for the cost of services with Arnerich. The contract provides the following services to OST: investment consulting that includes quarterly reporting to OIC and OSGP, on-going monitoring of the funds, investment manager searches, current trends and issues research, request for proposals and offers fiduciary duties. It also includes assistance to OSGP for request for proposals, plan design, communication, and assistance with any IRS audit should one come up. Arnerich also reports to the OIC and OSGP on a quarterly basis.

**Advisory Committee**

OSGP’s Advisory Committee is made up of seven members who represent state, local government, and retiree interests. At each quarterly meeting, the committee hears from OST, ING, Arnerich, and OSGP staff about the plan performance, plan statistics, and any current issues affecting the plan. The committee provides input and guidance to the plan, and any changes to the plan are presented to the committee before they are implemented or presented to the Board. The role of the Advisory Committee is set out in OAR 459-050-0025. The current make-up of the Advisory Committee is as follows:

<b>Name, Employer</b>	<b>Title</b>
Peter Farrelly, Oregon Health Authority	Chair
Sharlyn Rayment, Retiree	Member
Priyanka Shukla, Treasury/OSU	Member
*Debbie Darst, Harrisburg School District	Member
*Mark Carlton, McMinnville Water & Light	Member
*Jeffrey Labhart, Oregon Department of Transportation	Member

**\*pending Board approval on 8/28/12**

**OSGP Goals**

Some significant OSGP goals for 2012 are to increase participation in the plan, and decrease the number of rollovers out of the plan. Strategies to reach increased participation include increasing the number of workshops offered, increasing the number of “brown bag” meetings (one-hour presentations on OSGP topics offered over the lunch hour), enhancing the communication material, sending direct emails and mailings to targeted employee groups. The addition of an on-site ING representative will make it easier to reach out to employees and provide more on-site meetings and workshops. To decrease rollovers out of the plan, OSGP



will be sending targeted mailings to potential retirees and also working closely with ING using its Transition Counseling program. It is anticipated that the addition of the Roth 457 will also increase participation from younger state employees.

The Advisory Committee was very interested in offering a financial advice program through Financial Engines which partners with ING. Participants would be able to use the services through the website, open a managed account, or talk to a financial advisor. The costs for the web services would be paid by the plan for one year, and individuals would be responsible for costs associated with the managed accounts or personal financial advice. If participants wanted to continue the use of Financial Engines, they would pay the ongoing fees (approximately \$6 per year each).

**OSGP Operations**

OSGP is a self-funded program that is paid for by the participants in the plan. The OSGP office is located in Salem and consists of the manager and seven staff members who are responsible for plan administration and oversight.

<b>Name</b>	<b>Title</b>
Gay Lynn Bath	Deferred Compensation Manager
Kathy Gannon	Program Coordinator
Jack Schafroth	Local Government Representative
Denise Helms	Local Government Payroll Enrollment Specialist and Assistant to Manager
Karen Blanton	Educational Representative
Sandy Newman	State Payroll Enrollment Specialist
Doug Pederson	Retirement Counselor
Tamie Cannon	Public Service Representative

Participant and payroll support, education and training, the design and updating of forms and communication material, and the administration of enrollments, qualified domestic relation orders, death benefits, catch-up provisions, rollovers, required minimum distributions, severance packages, and unforeseeable emergency withdrawals are administered through the office.

OSGP is under the purview of the Fiscal Services Division at PERS, and the OSGP manager reports to the Chief Financial Officer, Jon DuFrene.

**Third Party Administrator (TPA)**

ING has been the TPA for OSGP since 1996. It provides record keeping services for the participant accounts, a customer service call center, website, and voice response system. The TPA also provides printed copies of communication material and a quarterly newsletter. It sets up individual accounts for participants upon enrollment, and provides quarterly report to those participants. As directed by OSGP staff, ING processes distributions, enrollments, qualified domestic relations orders, rollovers, catch-up provisions, and unforeseeable emergency withdrawals. Its system provides personal identification numbers for participants, confirmation notices for any transactions of participants, and also processes loan requests. ING processes payroll transmissions from the state, higher education, miscellaneous agencies and local government agencies. ING also provides financial reports for employers. The current contract with ING expires in 2016, and at that time, OSGP has the option to renew it for two more years or issue an RFP for a new record keeper.

## Custodian

State Street Bank has been the custodian of the funds in OSGP since 1996. By Statute, OST must either act as or appoint the custodian; therefore OST and State Street have entered into a contract for those services. As custodian, State Street holds the participant money exclusively for the benefit of the participants in OSGP. Its duties include striking the daily Net Asset Value (NAV) which includes posting daily participant cash/unit transactions, placing all mutual fund/commingled trades, and moving daily cash flow based on the daily activity, and settling all trades with the fund managers. The money is held in trust and is not commingled with any other assets of ING or State Street Bank.

## Current and Future Issues

1. **Increasing participation.** OSGP staff's main goal is to increase participation in the plan for both state and local government employees. Local governments still present a challenge because they are not automatically eligible, but must adopt the plan. Currently, we have 230 local governments participating with 3,521 employee accounts. There is significant potential for growth in this area as those employers have over 49,000 employees eligible for the plan. The local government representative works diligently to keep in touch with all agencies and offer presentations and workshops to their employees. Schools are probably the most challenging because most already have 403(b) plans available to them offered by companies like TIAA Cref and Valic.
2. **Higher education participation.** Higher education employees tend to contribute the most money to the plan, but many of them also have 403(b) plans. It has become easier to visit campuses as Higher Ed made the decision to limit its option to three providers, one of which is OSGP.
3. **Rollovers out of the plan.** This has been an ongoing issue for OSGP. In the first six months of 2012, over \$19.7 million was rolled out of the plan, while \$11.8 million was rolled in. When we have called or surveyed participants, we are told it is because they want a financial advisor.
4. **Financial advice.** Based on feedback from a 2004 participant survey, OSGP asked for approval to offer on-line financial advice services through Financial Engines which partners with ING. A Department of Justice (DOJ) opinion was rendered that indicated the PERS Board might not have the authority to make this decision. Because the Advisory Committee is interested in offering financial advice, OSGP plans to bring this request forward again as we believe we are losing retiree accounts because we do not offer financial advice.
5. **Automatic enrollment.** OSGP would like to look into automatic enrollment in the future. Participants would be automatically enrolled upon date of hire at a given deferral percentage (2% of pay) unless they chose to opt out at that time or any time thereafter. Currently, state law prohibits auto enrollment due to payroll laws surrounding garnishments. This law would have to be revised to allow auto enrollment. The Texas 457 plan currently offers auto enrollment and they find that less than 9% of new employees opt out of the plan. The Advisory Committee also showed great interest in offering this service. When all state employees were sent a survey in 2011, 60 percent indicated they liked the idea of auto-enrollment, while 37 percent said they were not (see attached survey summary).
6. **On-line enrollment.** OSGP would like to be able to allow its eligible participants to enroll for the plan on-line instead of having to complete paperwork. While this would require that the demographics for all eligible employees be reviewed and updated before implementation, there may be other options to pursue.
7. **Demographics.** If OSGP had demographics for new and current eligible employees, it would be easier to send targeted messages. OSGP can get names and addresses for state employees, but we have been unable to get them for local government employees and will continue to work with PERS to achieve this goal.

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OSGP has created the A-Z OSGP Participant Info Help File which is posted at <http://www.oregon.gov/PERS/OSGP/>. Terms are defined and provisions are explained. There are also links to forms and communication material.

Oregon Revised Statutes 243.401 through 243.507 govern OSGP, and there are 24 administrative rules for the plan.

**Glossary:**

**403(b) Plan** – sometimes referred to as a tax sheltered annuity (TSA) are used mostly by public schools and some 501(c)(3) organizations.

Individual accounts in a 403(b) plan can be any of the following types.

- An annuity contract, which is a contract provided through an insurance company,
- A custodial account, which is an account invested in mutual funds, or
- A retirement income account set up for church employees. Generally, retirement income accounts can invest in either annuities or mutual funds.

**457(b) Plan** – a deferred compensation plan for governmental employees that allows participants to save for retirement on a pre-tax basis. The contribution limits for 457 plans are currently \$16,500 per year, or \$22,000 if at least age 50.

**Basis Point** - A basis point is an investment term used to make percentages easier to understand and less likely to be confused. One percent (1%) is equal to one hundred (100) basis points. So,  $\frac{1}{4}$  of a percent (.25%) is equal to 25 basis points.

**Coordination of Benefits** - contribution limits for 457(b) plans are no longer reduced by 401(k) elective deferrals and 403(b) contributions.

**Discrimination Testing** – applies only to ERISA plans, such as 401(k) plans in the private sector. According to [stock-simplified.com](http://stock-simplified.com):

Testing is necessary to make sure that employers do not give more benefits to highly compensated employees than to non-highly compensated employees. The following two tests must be run on an annual basis:

1. ADP The actual deferral percentage (ADP) will look for the amount deferred by each group in the company. The amount deferred by highly compensated employees cannot exceed 2% of that deferred by non highly compensated employees.
2. ACP Average Contribution Percentage (ACP) is relevant only if the company matches employee contributions or after tax contributions. It can limit the amount of money that highly compensated Employees are able to contribute.

If the company does not meet these tests then they may have to refund money that was invested into the 401k by their employees. These employees must then pay taxes on the money that was refunded to them.

**EGTRRA** – Economic Growth and Tax Relief Reconciliation Act. This law was passed in 2001 and it changed 457(b) plan regulations in many ways including, but not limited to, the following:

- a) Participants can now contribute the same amount as 401(k) and 403(b) Plans
- b) Participants do not have to make irrevocable decisions about distributions
- c) Rollovers are now allowed between 457(b) plans and other eligible plans and pre-tax IRAs.
- d) It created the 50-Plus Catch-Up provision.
- e) It created the Saver's Credit.
- f) Lowered the prohibition period from 12 months to 6 months for those participants taking hardships from the plan.

**Eligible Plans** – means any of the following that accepts eligible rollovers from OSGP, including 457(b), 401(k), 401(a), 403(b) and IRAs.

**ETF** – Exchange Traded Fund is a security that tracks an index, a commodity or a basket of assets like an index fund, but trades like a stock on an exchange. ETFs experience price changes throughout the day as they are bought and sold. OSGP offers LifePath® funds for this purpose, a product offered by BlackRock.

**LifePath® Funds** – target date funds offered by BlackRock which range from conservative (Retirement Fund) to aggressive (LifePath 2055).

**Load** –A load is a type of commission in a mutual fund. Depending on the type of load a mutual fund exhibits, charges may be incurred at time of purchase, time of sale, or a mix of both. A front-end load is paid when shares are purchases, while a back-end load is a fee paid when shares are sold. These fees normally go to a broker for the mutual fund.

**Market Timing** - The purchase and sale of securities based on short-term price patterns as well as on asset values in the hope of making a profit by predicting how the market will perform. It is a practice frowned upon because it passes the trading costs to long-term investors

**Qualified Distribution** - To be considered a Roth qualified distribution, and therefore, tax free, a two-prong test must be met:

- Five year holding period, and
- Distribution on/after age 59 ½ ( assuming separation from service) death, or disability

**Roth 457** – a plan that allows participants to contribute on an after-tax basis. Congress passed a bill in September of 2010 to allow 457 plans to offer the Roth 457. Unlike a Roth IRA, participants in OSGP would be able to contribute up to the maximum allowable limits for 457(b) plans.

**Self-Directed Brokerage Account (SDBA)** - an option that allows the participant to invest in a wider selection of investments than is provided within the plan. A SDBA is a sub-account of the retirement plan and money (not investments) can be moved between the SDBA and the plan fund choices. The SDBA may allow the participant to purchase mutual funds without an additional brokerage account, or a brokerage account can be opened and tied to the SDBA for purchasing stocks, bonds and ETFs.

**Target Date Funds** – funds that are based on a unique time horizon. The particular level of risk is one that investors on average would find appropriate for that time frame. They invest in any or all of the major asset classes to ensure that the fund is properly diversified. They are constructed so the investment strategy evolves as it approaches its maturity date. In the early years, it gives preference to the equity market. As participants age, the fund gradually moves more out of equities and into fixed income and cash.

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### Auto Enrollment Survey Summary

This survey was done to ask state employees what they thought about the possibility of automatically enrolling employees into the Oregon Savings Growth Plan (OSGP), essentially changing the default enrollment decision from an “opt-in” plan to an “opt-out” plan.

The idea behind the change is to reduce the analysis paralysis that accompanies retirement saving and to financially benefit state workers. A common regret of retiree-aged workers is wishing they started saving earlier. In that sense, the current system more often hurts than helps a state employee.

While the advantages are not immediately obvious, beginning a small deferment early in one’s career pays off.

Over 4,500 employees responded. While some were very vocal in their opposition to auto-enrollment, the majority believe it is a good idea.

The results are as follows:

When asked if state employees felt they were saving enough for retirement:

- 62 percent of all respondents stated that they were not.

Asked if they knew about OSGP:

- 58 percent stated they were already enrolled in OSGP. Of those not enrolled, when asked why they were

not, 33 percent said they could not afford it, and 30 percent said they didn’t know enough about it. Others responded that they wanted a Roth, some felt overwhelmed by the paperwork, and others thought they weren’t eligible because they were new employees and had not completed their six months.

Asked if they would support making OSGP an “opt-out” program:

- 60 percent of all respondents said they would support making OSGP an “opt-out” program, while 37 percent said they would not support that decision.

Comments ranged from, “I think this is a great idea to get people saving early,” to “I think this plan is too paternalistic and employees should have control over their own money.”

When asked if they supported auto-enrolling all state employees or just new hires:

- 44 percent stated they supported automatically enrolling all existing and new state workers in OSGP, while 40 percent said they opposed automatically enrolling anyone in OSGP.
- 16 percent said they supported automatically enrolling only new employees.

Asked about adding auto-escalation of deferments (increasing contributions by 1 percent in the first year up to 3 percent if the participation had not increased contributions on their own):

- 33 percent supported auto escalation
- 30 percent felt that the contribution should be left at 1 percent until participants chose to change it.

- 33 percent said they were opposed to auto enrollment and therefore auto escalation.
- For those who said they supported automatic enrollment, 38 percent said they liked the idea of increasing contributions annually up to 5 percent over a five-year period, 16 percent said they felt that going up to 3 percent was sufficient, and 45 percent said they preferred that it be left at 1 percent until participant changed it on their own.

**Feedback from respondents:**

“This is a great idea to help people save for the future.”

“Need to target new(er) employees and educate them on the importance of starting a plan. The 1% is a good start and is a way to get information to them about options they have about the program. I am one of those staff who are wishing I started sooner in the plan.”

“This is a good idea and you should implement it despite protests. The best advice I got as a new hire - years ago from a caring supervisor, was to contribute to my retirement plan.”

“Opt-in is the ONLY way enrollment SHOULD BE. Taking from a paycheck without an employee’s full knowledge is tantamount to THEFT. Rarely do clear instructions or options find their way to unaware contributors. WE STRONGLY DISAGREE WITH OPT-OUT.”

“Very bad idea all around.”

“Great idea to help people establish more for their later years. I just think people can think for themselves and don't like the idea of having deduction just taken out and hope I would remember before 90 days to take action.”

“THANKS YOU FOR THE OPPORTUNITY TO HAVE MY VOICE HEARD.”

“I think the initial automatic enrollment amount should be 2% or 3%, and after 1 year employees should be allowed to increase or decrease that percentage as they choose.”

“State Employees' paychecks are already under attack from Health Insurance premiums and Furlough Days. Not to mention the looming 3-6% PERS pick-up that's coming down the road. The overall impact will be, as usual, having to do more with less. This just makes it harder and harder to be able to afford to save, whether it's for retirement, or just a rainy day. Maybe this is all the more reason to encourage people to think, think, think about retirement, and where they'd like to be when they get there... They won't regret it!”

“This process, if passed will eliminate procrastination of initial enrollment. Thanks.”

“I think auto enrollment is a bad idea. Give the employees credit for being able to make good decisions for themselves given adequate information.”

“It is a personal decision. I don't think the state has the right to demand someone set up a savings program. It is good information to provide and I do share what I do with others but it is still their choice.”

“This is a great idea! I think people need a reality check when it comes to saving for retirement. OSGP would be well advised to hire people very skilled at communicating to young/new employees about the realities of paying for retirement.”

“If the automatic enrollment does not get approved, then all new employees should receive some literature about the program and an email with clear and easy instructions on how to sign up. Investment examples would help ‘sell’ the idea to people. I really



appreciate the efforts OSGP has undergone to get the word out to employees. I brought Justin into our office to provide training and it was very useful.”

“Leave my money alone!”

“I believe you need to do a better job of communicating the severe problems associated with not having adequately prepared for retirement. It is absolutely devastating!”

“My biggest concern is that during times of pay freezes and/or furloughs, an automatic escalation would be a huge burden on the employees. I could only support the program if escalations can be suspended during those times. I also don't like to limit the ‘opt out’ alternative to the first 90 days of employment. A year would be better.”

“OSGP is a great program. Many of my coworkers choose to ignore it. If you have the budget, find a way to promote it more heavily.”

“Thanks for asking for feedback.”

“I find the thought of making this program an opt-out program bad. I find the thought of automatic contribution increases appalling.”

### **Questions and comments from respondents:**

*I was never told about OSGP when I was hired. OSGP sends plan information to HR departments across the state. We count on them to provide this information to new employees. We also send out welcome postcard to new hires. OSGP offers workshops across the state and employees can register on-line at:*

[http://www.oregon.gov/PERS/OSGP/section/2012\\_osgp\\_workshop.shtml](http://www.oregon.gov/PERS/OSGP/section/2012_osgp_workshop.shtml)

*I would like to see a Roth account.*

OSGP is adding a Roth 457 in 2012. Watch for more information about this new provision next year. It should be available on or about July 1.

*One of my family members is a teacher for the state of OR and has the opportunity to participate in a Roth 403-b, and I would like to know why I don't also have that option.*

As indicated in the response above, OSGP will be offering a Roth 457 in 2012. Participants will be able to contribute the maximum allowable limit to the Roth 457 (\$17,000 in 2012) in the same manner they currently do on a pre-tax basis.

*I would consider enrolling and supporting your proposal if there were socially responsible options.*

While OSGP does not offer a socially responsible option at this time, you can find those options in the Self-Directed Brokerage Option which offers more than 6,000 mutual funds and ETFs.

*I am unsure how to invest. It is confusing to me.*

OSGP offers workshops on the investments in the plan. You can also call our office at any time, and staff will go over the funds with you.

*Why would you do this?*

Statistics tell us that people are not saving enough for retirement. Survey respondents indicated that 60 percent of them felt they were not saving enough. Even public employees, who have a pension plan, need to have personal savings along with the PERS plan and Social Security to ensure a financially sound retirement.

We heard from many participants who said they didn't even know about OSGP, and that they wish they would have gotten into the plan sooner.

Helping state employees save for retirement is the only reason we would have for opening this discussion. OSGP has nothing to gain from auto-enrollment and no outside entity is pushing this.

*Why are you promoting OSGP over some other investment?*

OSGP is the only employer-sponsored voluntary plan offered to state employees. The plan offers low fees and a diversified investment line-up. For example, the fees on the target date funds are only 10 basis points.

Employees are free to choose whatever investment vehicle they want on their own, and many of our participants in the local government and education sector have several choices offered by their employers.

*I answered the questions assuming that a person could "opt-out" of continuing to contribute earnings at any time. Is that correct?*

Yes, it is. Even if an employee missed the 90-day window to opt out, he/she could stop contributing to the account at any time.

*When can we expect to be able to transfer 100% of our account to the Self-Directed Brokerage Option (SDBO)?*

OSGP and Treasury made the decision to allow a transfer of 50 percent of a participant's OSGP account in to the SDBO. There is no possibility of allowing 100 percent of the account to be transferred, as you are still responsible for administrative fees, and so a portion would have to be available in the core funds to pay these fees. Treasury may consider allowing a larger percentage sometime in the future. Other investment options may also become available.

*Is this deduction pre-tax dollars?*

Yes, the plan is currently a pre-tax plan. However, in 2012, we will also offer a Roth, and the employee could choose whether they wanted pre-tax or after-tax dollars.

If your question wasn't answered, or if you have any further comments or suggestions, send them to [osgpcustsvc.PERS@state.or.us](mailto:osgpcustsvc.PERS@state.or.us) Please keep your comments professional and related to auto-enrollment. OSGP staff will respond within two business days.



# Oregon

John A. Kitzhaber, M.D., Governor

## Public Employees Retirement System

Headquarters:  
11410 S.W. 68<sup>th</sup> Parkway, Tigard, OR  
Mailing Address:  
P.O. Box 23700  
Tigard, OR 97281-3700  
(503) 598-7377  
TTY (503) 603-7766  
[www.oregon.gov/pers](http://www.oregon.gov/pers)

August 28, 2012

TO: Members of the PERS Board

FROM: Debra Hembree, Interim Actuarial Services Manager

SUBJECT: 2011 Valuation System-Wide Results

On August 28, 2012, Milliman actuaries Matt Larrabee and Scott Preppernau will present system-wide results from the December 31, 2011 Valuation for the Tier One/Tier Two and Oregon Public Service Retirement Plan (OPSRP) pension programs, and the retiree healthcare programs. Milliman will discuss the continuing impacts of the 2008 market downturn and the effects of 2010-2011 investment returns on system funded status, rate setting collars, and system-wide employer rates. The Milliman presentation is attached.

The 2011 Valuation will be the basis for setting employer contribution rates for the period beginning July 1, 2013 through June 30, 2015. Individual employer rates are not available at this time, but will be ready for Board adoption at the September Board meeting.

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# DECEMBER 31, 2011 ACTUARIAL VALUATION OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM

August 28, 2012

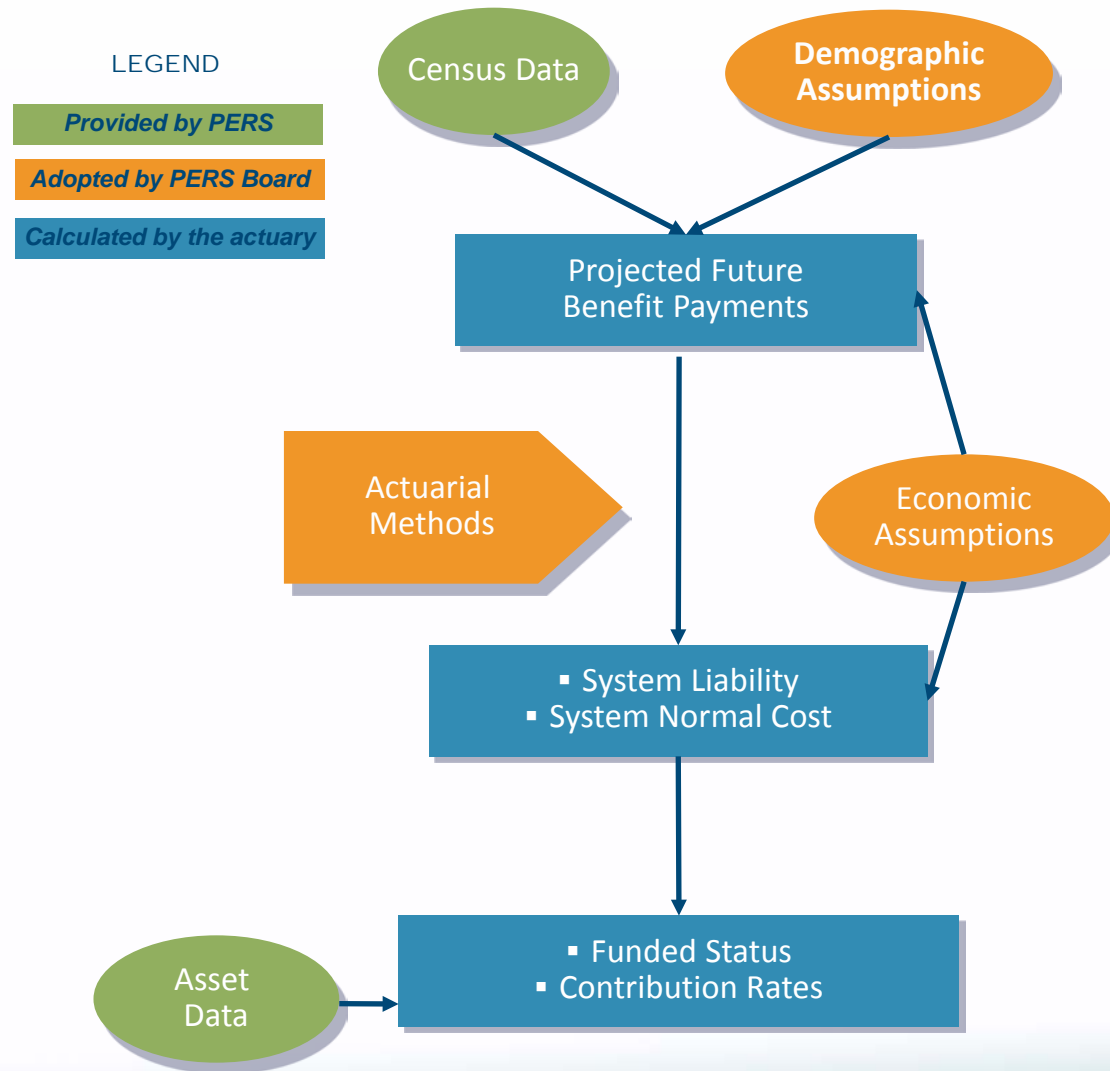


# Introduction

- Today we will be presenting a summary of system-wide results of our December 31, 2011 actuarial valuation
- This valuation is the basis for setting July 2013 – June 2015 employer contribution rates
- A listing of rates for each employer will be included in the Board materials for the September 28<sup>th</sup> meeting
- Shortly after that meeting we will provide PERS staff with detailed reports for each employer
- PERS will deliver those reports to employers

# Introduction

- July 2011: Assumptions & methods adopted by Board in consultation with the actuary
- August 2012: System-wide actuarial valuation results
- September 2012: Disclosure and adoption of employer-specific contribution rates effective July 2013
- October 2012: Delivery of detailed valuation reports to employers
- July 2013: New contribution rates become effective



# Introduction

## Valuation Process and Timeline

- Actuarial valuations are conducted annually
  - Alternate between “rate setting valuations” and “advisory valuations”
- Rate setting valuation results are adopted by the Board and rates 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



# Introduction

- In setting rates, PERS Board has identified the following guiding principles:
  - Transparent
  - Predictable and stable rates
  - Protect funded status
  - Equitable across generations
  - Actuarially sound
  - GASB compliant

# Introduction

- Significant employer contribution rate increases have been calculated for the two-year period starting July 2013
  - The system-wide average increase is approximately 5% of payroll
  - The rate collar is deferring an additional increase of 2% to a later period
- While significant, the increases are not a surprise
- System level financial projections since 2009 have, under a wide variety of economic scenarios, forecast significant July 2013 rate increases to help account for investment losses
- Employer level advisory reports were distributed in fall 2011 to estimate 2013-2015 contribution rates based on investment results through the end of 2010

# Introduction

- Employer contribution rates are calculated using a systematic methodology developed by the Board and actuary in 2005
- The “rate collar” methodology spreads very large rate changes across more than one biennium
- The first employer rate increase in response to the 2008 downturn was effective July 2011
  - July 2011 rates were based on investment performance through the end of 2009
- A second increase of similar magnitude was forecast for July 2013 barring investments outperforming assumption during 2010 and 2011

# Investment Experience in 2010 & 2011

- Investments modestly underperformed assumption during 2010 and 2011
  - \$1,000 of OPERF Regular Account assets as of year-end 2009 was assumed to grow to \$1,166 by year-end 2011
  - Actual year-end 2011 investment experience was \$1,149
- Investments earned an annualized average return of 7.2% during the two-year period

# Liability Experience in 2010 & 2011

- Liabilities grew about 3.4% per year during 2010 and 2011, which was very close to forecast
- Key experience observed over the period included:
  - Salary increases lower than assumed (liability decrease)
  - COLA crediting for some retirees lower than assumed (decrease)
  - More retirements than assumed (increase)
  - Interest crediting on variable accounts higher than assumed in 2010 (increase) and lower than assumed in 2011 (decrease)

# Guiding Policy in Calculating Rates

- Barring future investment performance well in excess of assumption, contribution rate increases are needed to adhere to the guiding principles of:
  - Protect funded status
  - Intergenerational equity
  - Actuarially sound

## ***Actuarially sound employer contribution rate policy:***

*If all assumptions are met, the system will return to 100% funded status over a selected time period*

# Effect of Earnings Assumption on Rates

- The rate-setting methodology in effect for 2013-2015 is actuarially sound under the assumption of 8% annual future investment returns
- An actuarially sound policy at a lower return assumption would have higher near-term contribution rates since a smaller portion of future benefits is assumed funded by future investment earnings, and a larger portion from contributions

$$BENEFITS + EXPENSES = EARNINGS + CONTRIBUTIONS$$

- Actual investment earnings and “full formula” pension benefits are not affected by the earnings assumption

# Likelihood of Future Rate Decreases

- Are 2013-2015 rates permanent or do they likely represent temporary increases?
- Are the 2013-2015 rates long-term budget items or are they likely to be short-term?

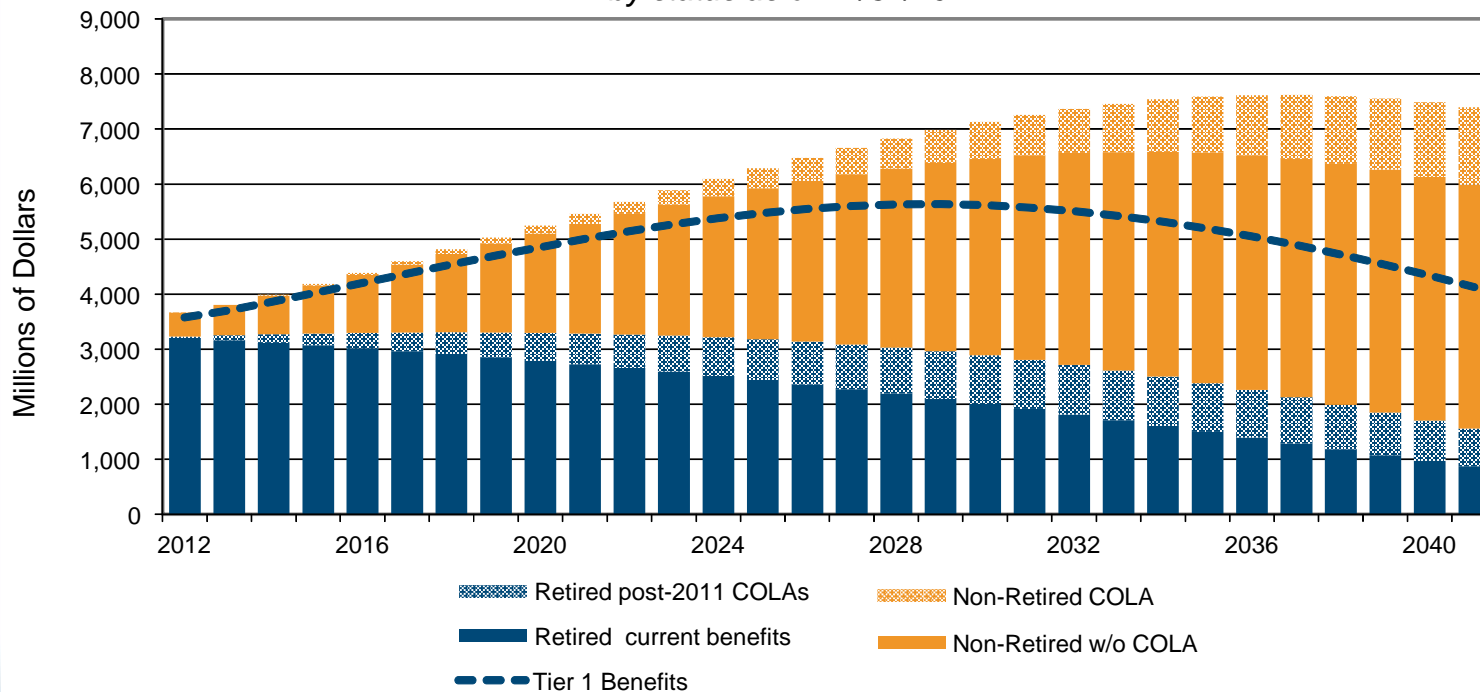
*Barring future investment performance above assumption, rates are more likely than not to be at 2013-2015 levels (or higher) for the foreseeable future*



# Development of Liabilities

- Liabilities are calculated from projected benefit payments
- Projected benefit payments are well defined in the near-term
- The effect of projected post-2011 COLAs are illustrated below

Tier 1/Tier 2 & OPSRP Expected Benefit Payments  
by status as of 12/31/2011



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# Shortfall Recovery Considerations

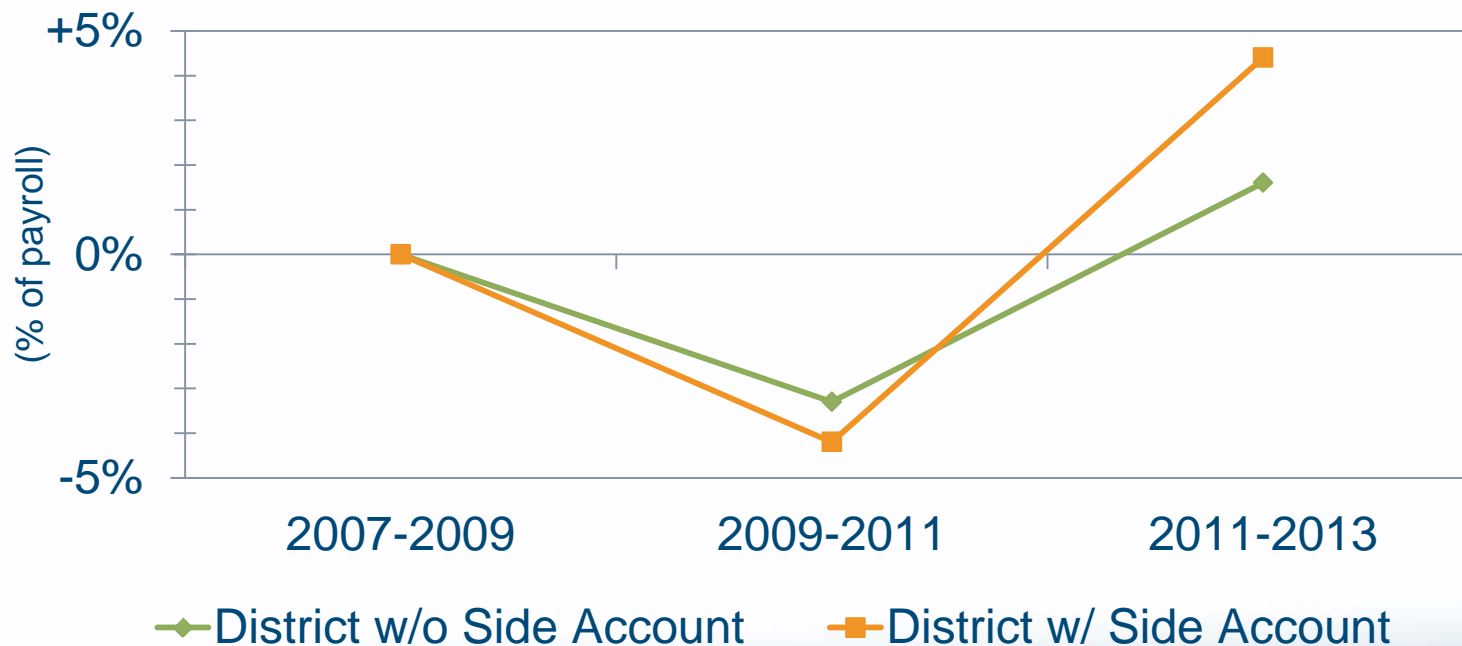
- Assets excluding side accounts are approximately \$16 billion below system liabilities at year-end 2011
  - The \$16 billion shortfall level is predicated on an assumed annual future investment return level of 8%
- We project that system payroll subject to contribution rates will be approximately \$8.6 billion in 2012
- The shortfall is approximately 1.9 times the system's payroll
  - Addressing a shortfall of that magnitude requires a long-term commitment of substantial resources
  - The current policy is designed to eliminate the 2008 shortfall systematically over a 20 year period as a level percentage of payroll

# Employer Rate Sensitivity Factors

- Rate increases vary by employer and by rate pool
- Factors that lead to higher rate volatility include:
  - Width of the rate collar for the employer or rate pool
    - Higher contribution rate in preceding biennium
      - Rate collar initially set to 20% of preceding rate (but at least 3.00% of payroll)
    - Lower funded status
      - The rate collar widens as funded status decreases below 80%
  - Side accounts
    - Pre-paying contributions leverages up the sensitivity of employer contribution rates to investment experience, be it good or bad

# Employer Rate Sensitivity Factors

- The chart shows the effect of cumulative rate changes since 2007-2009 for two very similar school districts
  - The only significant difference is that one district has a side account, which leverages the effects of investment results, be it good or bad



# 12/31/2011 Valuation Results

## Average Base Contribution Rates Including Retiree Health Care (Excluding IAP)

- Rates shown below do not include Individual Account Program (IAP) contributions or debt service payments on pension obligation bonds

### System-Wide Tier 1/Tier 2/OPSRP Plus Retiree Health Care Contribution Rates

	2009-2011	2011-2013	Collared 2013-2015	Uncollared 2013-2015
Base rates (before effect of side account offsets)	12.4%	16.3%	21.4%	23.7%
Net rates (reflect side account rate offsets)	5.2%	10.8%	15.7%	18.0%

- Unlike base rates, net rates are affected by side account rate offset levels. Changes in side account rate offset levels are closely linked to investment performance during each biennium compared to the investment return assumption.

# 12/31/2011 Valuation Results

## Average Base Contribution Rates Including Retiree Health Care (Excluding IAP)

- System-wide advisory base rates increased by 5.1% of payroll, but the increase varies by rate pool
  - The SLGRP, which is 75% funded excluding side accounts, has lower rates and a lower increase than the School District rate pool, which is 71% funded excluding side accounts

Average Base Employer Rates	SLGRP	School Districts	OPSRP	System-wide
2011-2013 Base Rates	15.8%	19.5%	14.7%	16.3%
<b>2013-2015 Base Rates</b>	<b>20.4%</b>	<b>26.7%</b>	<b>19.7%</b>	<b>21.4%</b>
Base Rate Increase	4.6%	7.2%	5.0%	5.1%

- Base rate changes can vary significantly by employer

# 12/31/2011 Valuation Results

## Average Net Contribution Rates Including Retiree Health Care (Excluding IAP)

- Net rate increases are similar to base rate increases

Average Net Employer Rates <sup>1</sup>	SLGRP	School Districts	OPSRP	System-wide
2011-2013 Net Rates	10.8%	11.7%	9.2%	10.8%
<b>2013-2015 Net Rates</b>	<b>15.4%</b>	<b>18.3%</b>	<b>14.0%</b>	<b>15.7%</b>
Net Rate Increase	4.6%	6.6%	4.8%	4.9%

- Changes in net rates also can vary significantly by employer and to a lesser extent by rate pool

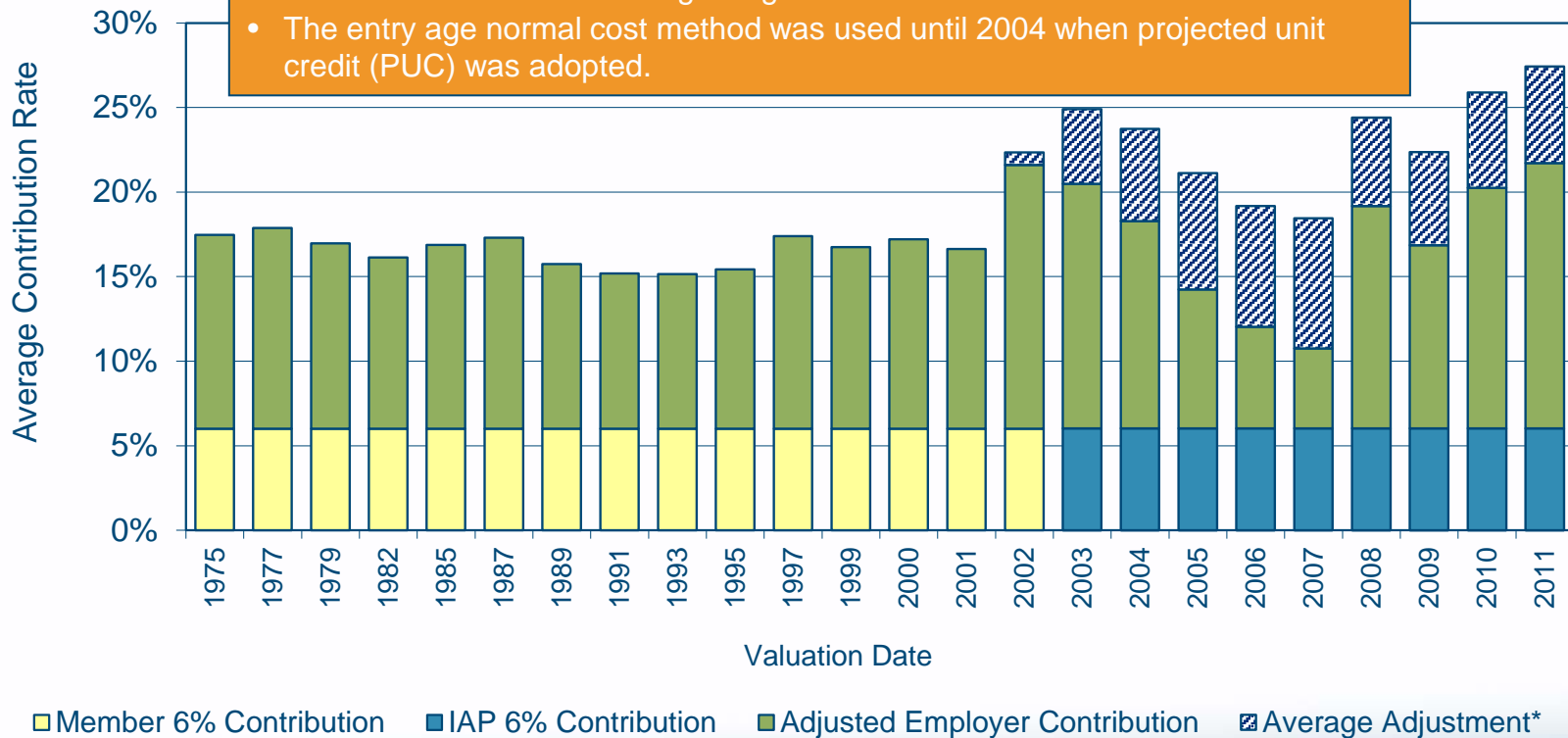
<sup>1</sup> In this exhibit, 2011-2013 and 2013-2015 base rates are adjusted by two factors to calculate estimated system-wide net rates. Adjustments are for side accounts and pre-SLGRP liabilities/(surpluses) and are assumed not to be limited when an individual employer reaches a 0% contribution rate.

# 12/31/2011 Valuation Results

## Historical Perspective on Valuation Rates (Including IAP)

When comparing historical valuation rates, please note that there have been a number of changes including:

- Money Match benefits were not valued until 1997.
- A smoothed value of assets was used from 2000 through 2003.
- PERS reform was valued beginning in 2001.
- The entry age normal cost method was used until 2004 when projected unit credit (PUC) was adopted.



\* Adjustments to individual employer contribution rates are made for side accounts and pre-SLGRP liabilities or surpluses

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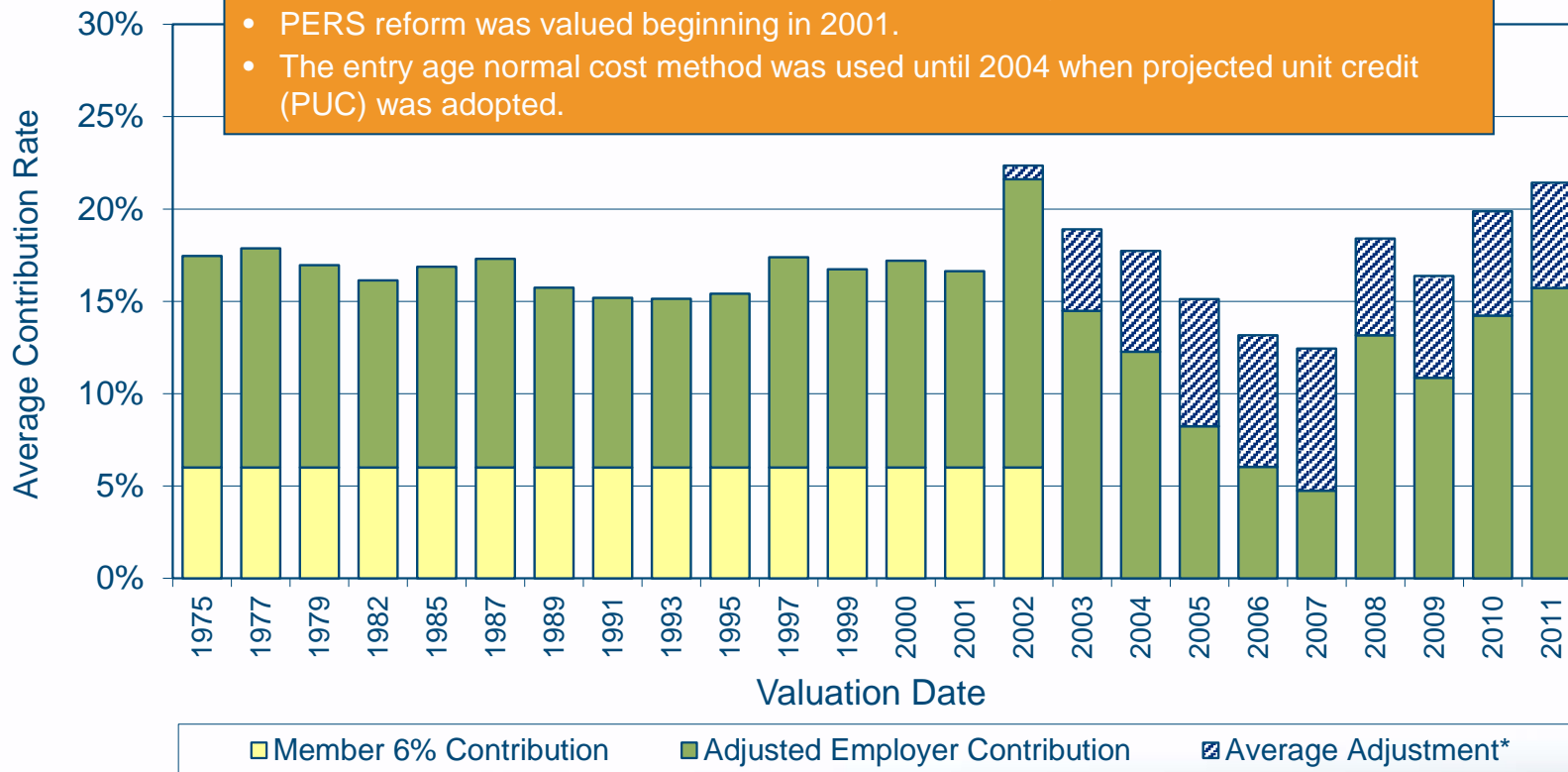


# 12/31/2011 Valuation Results

## Historical Perspective on Valuation Rates (Excluding IAP)

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# 12/31/2011 Valuation Results

## Overview of System-Wide December 31, 2011 Valuation Results

- Funded status declined during 2011 due to lower than assumed investment returns

Tier 1/Tier 2/OPSRP Combined Funded Status as of December 31

	2007	2008	2009	2010	2011
Excluding side accounts	98%	71%	76%	78%	<b>73%</b>
Including side accounts	112%	80%	86%	87%	<b>82%</b>

- After the significant asset losses of 2008, investment return averaged 11.0% from 12/31/2008 to 12/31/2011
  - This prevented funded status erosion that otherwise could have occurred before contribution rates adjusted to reflect 2008 losses
- Year-to-date 2012 investment return through July 31 was +7.8% for regular accounts

# 12/31/2011 Valuation Results

## Tier 1/Tier 2/OPSRP UAL (Excluding Retiree Health Care)

(amounts in millions)	12/31/2010 Valuation	12/31/2011 Valuation
	System-Wide <sup>1</sup>	System-Wide <sup>1</sup>
Accrued Liability	\$59,330	\$61,198
Assets	\$46,004	\$44,943
<b>UAL Excluding Side Accounts</b>	<b>\$13,325</b>	<b>\$16,255</b>
Side Accounts	\$5,579	\$5,225
<b>UAL Including Side Accounts</b>	<b>\$7,746</b>	<b>\$11,030</b>
Pension Obligation Bonds	\$6,000	\$5,896
<b>Employer Net Obligations</b>	<b>\$13,746</b>	<b>\$16,926</b>

**68% of liability is attributable to members no longer in PERS-covered employment**

<sup>1</sup> System-wide results include Multnomah Fire District #10

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# 12/31/2011 Valuation Results

## Tier 1/Tier 2/OPSRP UAL (Excluding Retiree Health Care)

<i>(amounts in millions)</i>	12/31/2010 Valuation	12/31/2011 Valuation
	System-Wide <sup>1</sup>	System-Wide <sup>1</sup>
Projected Next Year Payroll (T1/T2 + OPSRP)	\$8,750	\$8,551
UAL Excluding Side Accounts	\$13,325	\$16,255
<b>UAL Excluding Side Accounts as % of Payroll</b>	<b>152%</b>	<b>190%</b>
UAL Including Side Accounts	\$7,746	\$11,030
<b>UAL Including Side Accounts as % of Payroll</b>	<b>89%</b>	<b>129%</b>
UAL Including Side Accounts Adjusted for POBs	\$13,746	\$16,926
<b>Employer Net Obligations as % of Payroll</b>	<b>157%</b>	<b>198%</b>

<sup>1</sup> System-wide results include Multnomah Fire District #10

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# 12/31/2011 Valuation Results

## 2013-2015 Pension Contribution Rates (Excluding Retiree Health Care and IAP)

	Rate Pools			
	SLGRP	School Districts	OPSRP	System-Wide
<b>Base Rates</b>				
Normal Cost	9.15%	8.17%	6.56%	8.16%
Tier 1/Tier 2 UAL	10.42%	17.78%	12.47%	12.47%
OPSRP UAL	0.15%	0.15%	0.15%	0.15%
<b>Base Rate, Excluding Retiree Health Care &amp; IAP</b>	<b>19.72%</b>	<b>26.10%</b>	<b>19.18%</b>	<b>20.78%</b>
<b>Adjustments<sup>1</sup></b>				
Side Accounts	(4.25%)	(8.35%)	(5.26%)	(5.26%)
Pre-SLGRP Liabilities	(0.77%)	N/A	(0.44%)	(0.44%)
Average Adjustment	(5.02%)	(8.35%)	(5.70%)	(5.70%)
<b>Net Rate, Excluding Retiree Health Care &amp; IAP<sup>1</sup></b>	<b>14.70%</b>	<b>17.75%</b>	<b>13.48%</b>	<b>15.08%</b>

<sup>1</sup> For this exhibit, adjustments are assumed not to be limited due to an individual employer reaching a 0.00% contribution rate.

# 12/31/2011 Retiree Health Care Valuation

- Two separate health care benefit subsidies are valued:
  - RHIA provides \$60 per month subsidy toward healthcare premiums for Medicare-eligible Tier 1/Tier 2 retirees
  - RHIPA provides Tier 1/Tier 2 State employees who retire prior to age 65 with an alternative to PEBB coverage until they reach Medicare eligibility
- OPSRP retirees are not eligible for either subsidy
- RHIA and RHIPA are not as well-funded as the pension program
  - To help address that, in July 2009 the Board shortened the shortfall amortization period to 10 years to more rapidly improve funded status of those programs
  - Contribution rates effective July 2011 first reflected this accelerated amortization
- RHIPA funded status declined in the past year from 17% to 13%
  - Partially due to recent increased participation and ensuing higher subsidy payments
  - The higher contributions effective July 2011 began to mitigate the program's negative cash flow, and will help further in 2012 when higher rates are in effect for the entire year
  - Program warrants continued monitoring, as experience is very sensitive to participation

# 12/31/2011 Retiree Health Care Valuation

## Unfunded Accrued Liability (UAL) and Employer Contribution Rates

<i>(amounts in millions)</i>	RHIA		RHIPA*	
	12/31/2010	12/31/2011	12/31/2010	12/31/2011
Accrued Liability	\$547	\$461	\$34	\$35
Assets	\$232	\$240	\$ 6	\$ 5
UAL	\$315	\$222	\$28	\$30
<b>Funded Percentage</b>	<b>42%</b>	<b>52%</b>	<b>17%</b>	<b>13%</b>
<b>Normal Cost Rate</b>	<b>0.10%</b>	<b>0.10%</b>	<b>0.07%</b>	<b>0.07%</b>
<b>UAL Rate</b>	<b>0.56%</b>	<b>0.49%</b>	<b>0.17%</b>	<b>0.20%</b>
<b>Total Rate</b>	<b>0.66%</b>	<b>0.59%</b>	<b>0.24%</b>	<b>0.27%</b>

*\*State Agencies and the State Judiciary are the only employers who pay RHIPA rates*

**RHIPA assets at the end of 2011 were only between one and two times the size of 2011 RHIPA benefit payments**

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# Next Steps

- A listing of rates for each employer will be included in the Board materials for the September 28<sup>th</sup> meeting
- Shortly after that meeting we will provide PERS staff with detailed reports for each employer
- PERS will deliver those reports to employers



# Certification

This presentation summarizes key results of an actuarial valuation of the Oregon Public Employees Retirement System (“PERS” or “the System”) as of December 31, 2011, for the Plan Year ending December 31, 2011.

In preparing this report, we relied, without audit, on information (some oral and some in writing) supplied by the System’s staff. This information includes, but is not limited to, statutory provisions, employee data, and financial information. We found this information to be reasonably consistent and comparable with information used for other purposes. The valuation results depend on the integrity of this information. If any of this information is inaccurate or incomplete our results may be different and our calculations may need to be revised.

All costs, liabilities, rates of interest, and other factors for the System have been determined on the basis of actuarial assumptions and methods which are individually reasonable (taking into account the experience of the System and reasonable expectations); and which, in combination, offer our best estimate of anticipated experience affecting the System.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan’s funded status); and changes in plan provisions or applicable law. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements. The PERS Board has the final decision regarding the appropriateness of the assumptions and adopted them as indicated in July 2011.

Actuarial computations presented in this report are for purposes of determining the recommended funding amounts for the System. Actuarial computations presented in this report under GASB Statements No. 25 and 27, 43 and 45 are for purposes of fulfilling financial accounting requirements. The computations prepared for these two purposes may differ as disclosed in our report. The calculations in the enclosed report have been made on a basis consistent with our understanding of the System’s funding requirements and goals. The calculations in this report have been made on a basis consistent with our understanding of the plan provisions described in the appendix of this report, and of GASB Statements No. 25 and 27, 43 and 45. Determinations for purposes other than meeting these requirements may be significantly different from the results contained in this report. Accordingly, additional determinations may be needed for other purposes.

This work product was prepared for discussion purposes only and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. Any recipient of this work product who desires professional guidance should engage qualified professionals for advice appropriate to its own specific needs.

# Certification

Milliman's work is prepared solely for the internal business use of the Oregon Public Employees Retirement System. To the extent that Milliman's work is not subject to disclosure under applicable public records laws, Milliman's work may not be provided to third parties without Milliman's prior written consent. Milliman does not intend to benefit or create a legal duty to any third party recipient of its work product. Milliman's consent to release its work product to any third party may be conditioned on the third party signing a Release, subject to the following exception(s):

- (a) The System may provide a copy of Milliman's work, in its entirety, to the System's professional service advisors who are subject to a duty of confidentiality and who agree to not use Milliman's work for any purpose other than to benefit the System.
- (b) The System may provide a copy of Milliman's work, in its entirety, to other governmental entities, as required by law.

No third party recipient of Milliman's work product should rely upon Milliman's work product. Such recipients should engage qualified professionals for advice appropriate to their own specific needs.

The consultants who worked on this assignment are pension actuaries. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices. We are members of the American Academy of Actuaries and meet the Qualification Standards to render the actuarial opinion contained herein.

# Circular 230 Notice

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# Appendix

## Data Exhibits

	December 31				2010 Totals
	2011				
	Tier 1	Tier 2	OPSRP	Total	
Active Members					
Count	46,882	49,130	74,960	170,972	193,569
Average age	54.0	47.8	41.3	46.6	46.1
Average total service	21.4	11.2	4.4	11.0	10.1
Average salary <sup>1</sup>	\$64,398	\$54,144	\$36,883	\$49,388	\$45,204
Inactive Members <sup>2</sup>					
Count	20,252	16,189	4,066	40,507	39,353
Average age	56.6	50.0	45.8	52.9	52.7
Average monthly deferred benefit	\$1,953	\$584	\$249	\$1,235	\$1,402
Retired Members and Beneficiaries <sup>2</sup>					
Count	112,253	5,852	303	118,408	113,464
Average age	70.9	64.7	64.7	70.6	70.6
Average monthly benefit	\$2,346	\$823	\$342	\$2,265	\$2,198
Total members	179,387	71,171	79,329	329,887	346,386

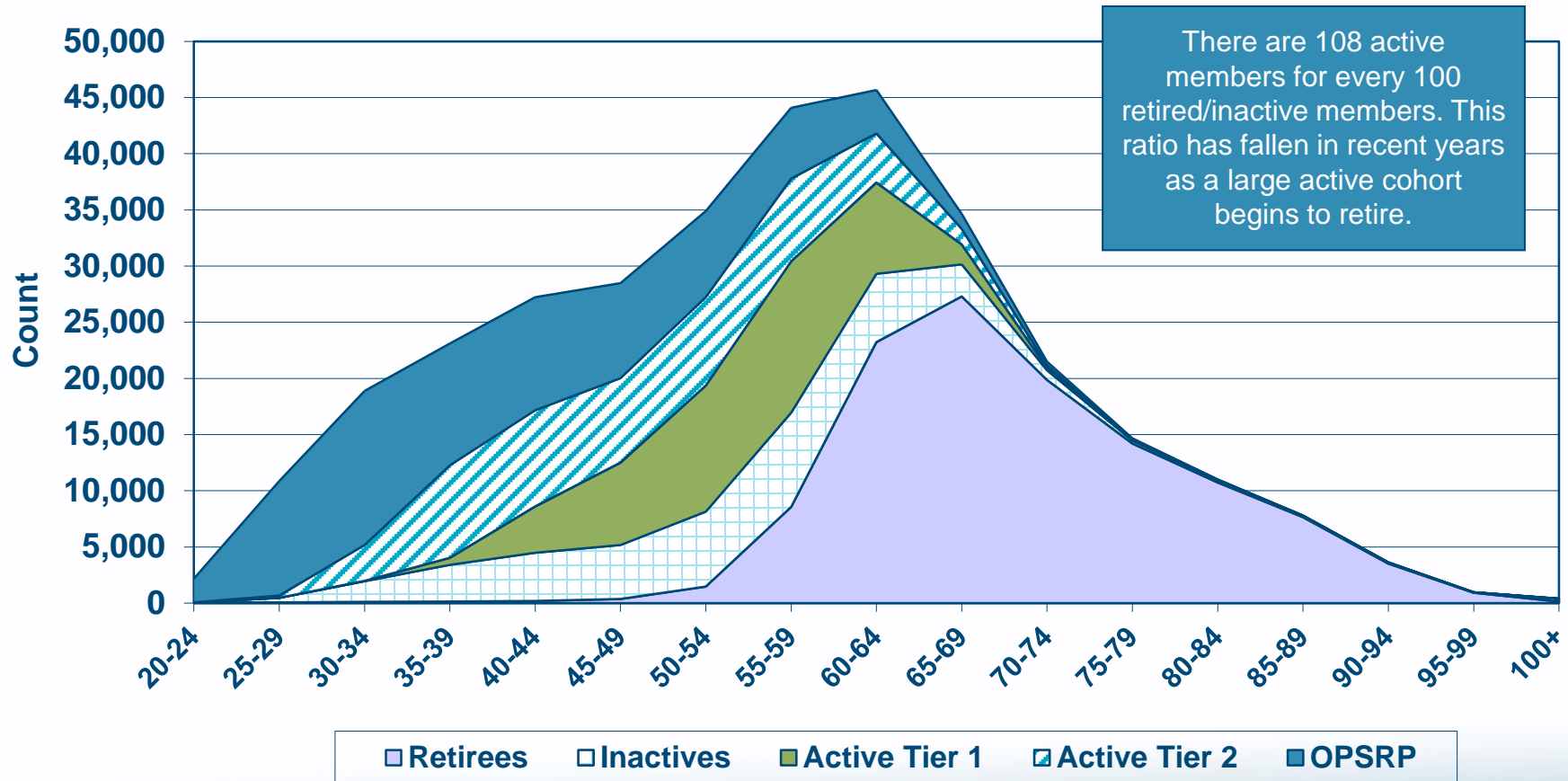
1. Amounts shown for 12/31/2011 are prior year (i.e. 2011) reported covered salary. Amounts shown for 12/31/2010 are following year (i.e. 2011) projected salary subject to contributions.

2. Inactive and Retiree counts are shown by lives within the system. In other words, a member is counted once for purposes of this exhibit, regardless of their service history for different rate pools. This contrasts with the method used to count inactive participants in some of the later exhibits of this report.

# Appendix

## Data Exhibits

### Age Distribution

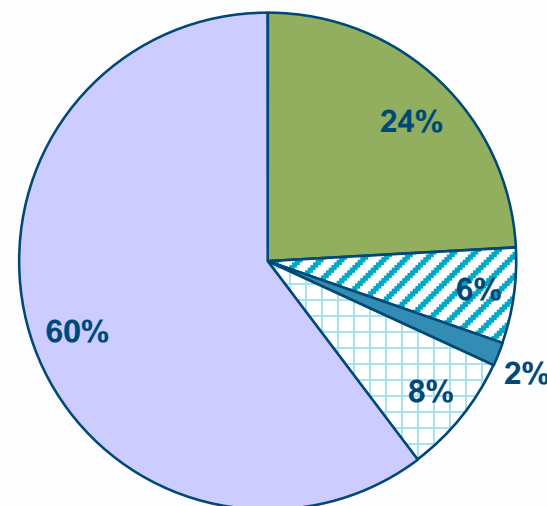


# Appendix

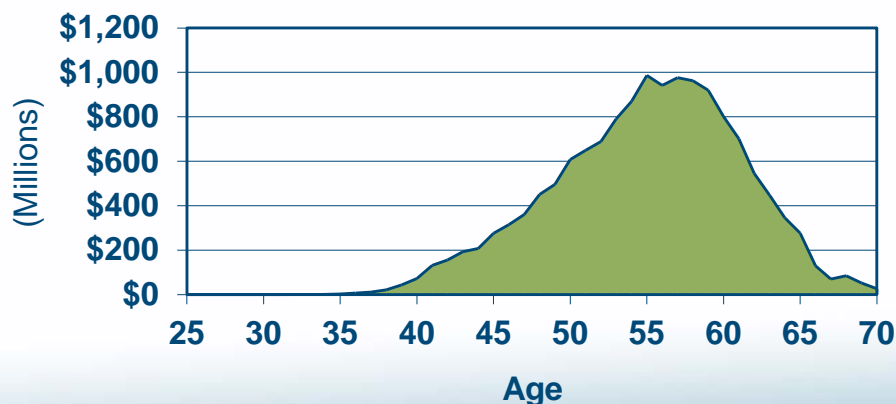
## 12/31/2011 Tier 1/Tier 2 and OPSRP Actuarial Accrued Liabilities

- While Tier 1 members represent the predominant portion of the active member liability, 68% of the system's total accrued liability is for members who are no longer working in covered employment
- Over 56% of the Tier 1 active member liability is for members over age 55, and over 80% of the Tier 1 active member liability is for members over age 50

Actuarial Accrued Liability by Member Category



Distribution of Tier 1 Active Liability

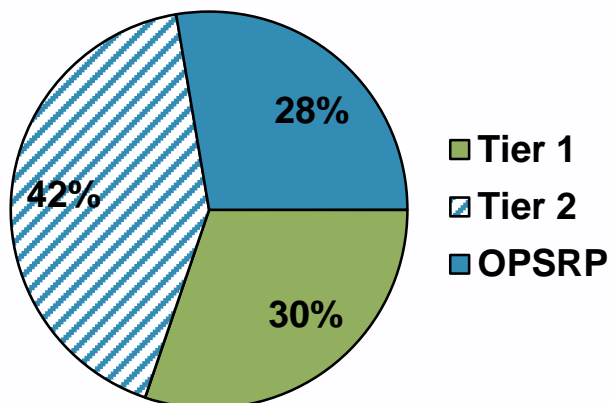


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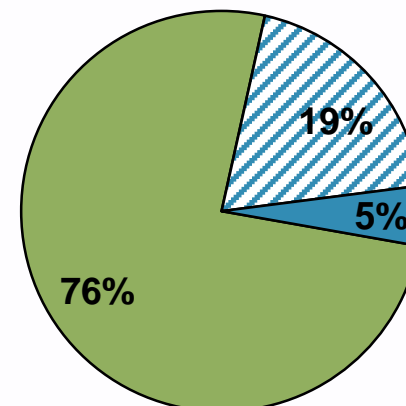
# Appendix

## 12/31/2011 Tier 1/Tier 2 and OPSRP Active Liabilities

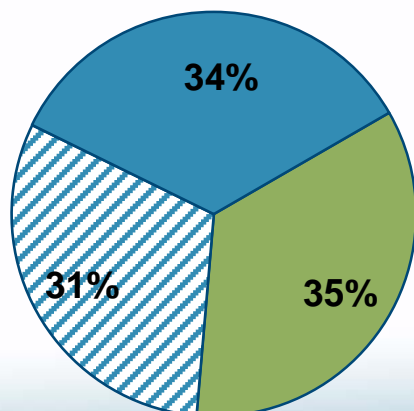
### Normal Cost



### Actuarial Accrued Liability



### Valuation Payroll

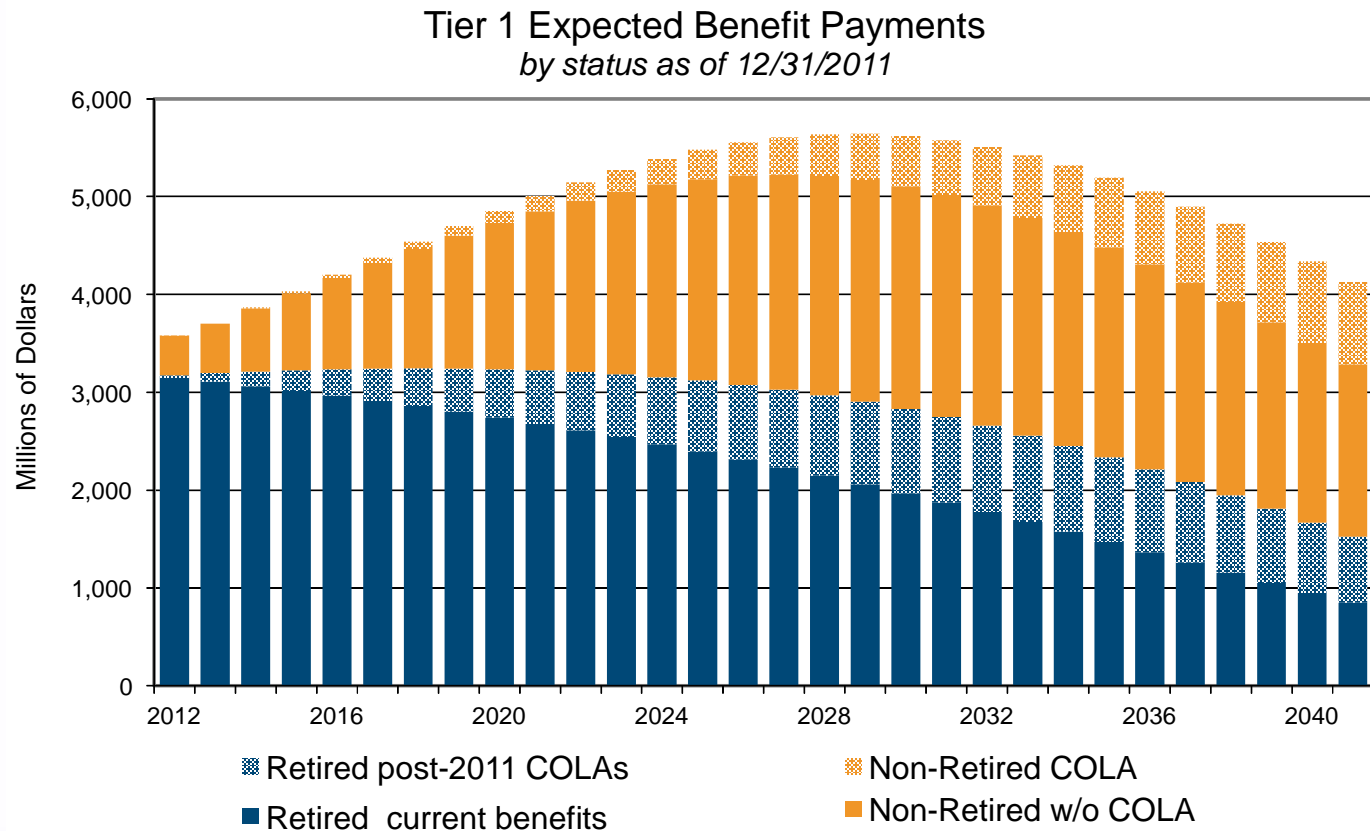


- While Tier 1 represents 76% of the accrued liability for active members, it is only 35% of the payroll and 30% of the normal cost
- Tier 2 represents 19% of the accrued liability, 31% of the payroll and 42% of the normal cost
- OPSRP represents 35% of the payroll and 28% of the normal cost, but only 5% of the active member liability

# Appendix

## Projected benefit payments by Tier

- Projected benefit payments for Tier 1 are illustrated below



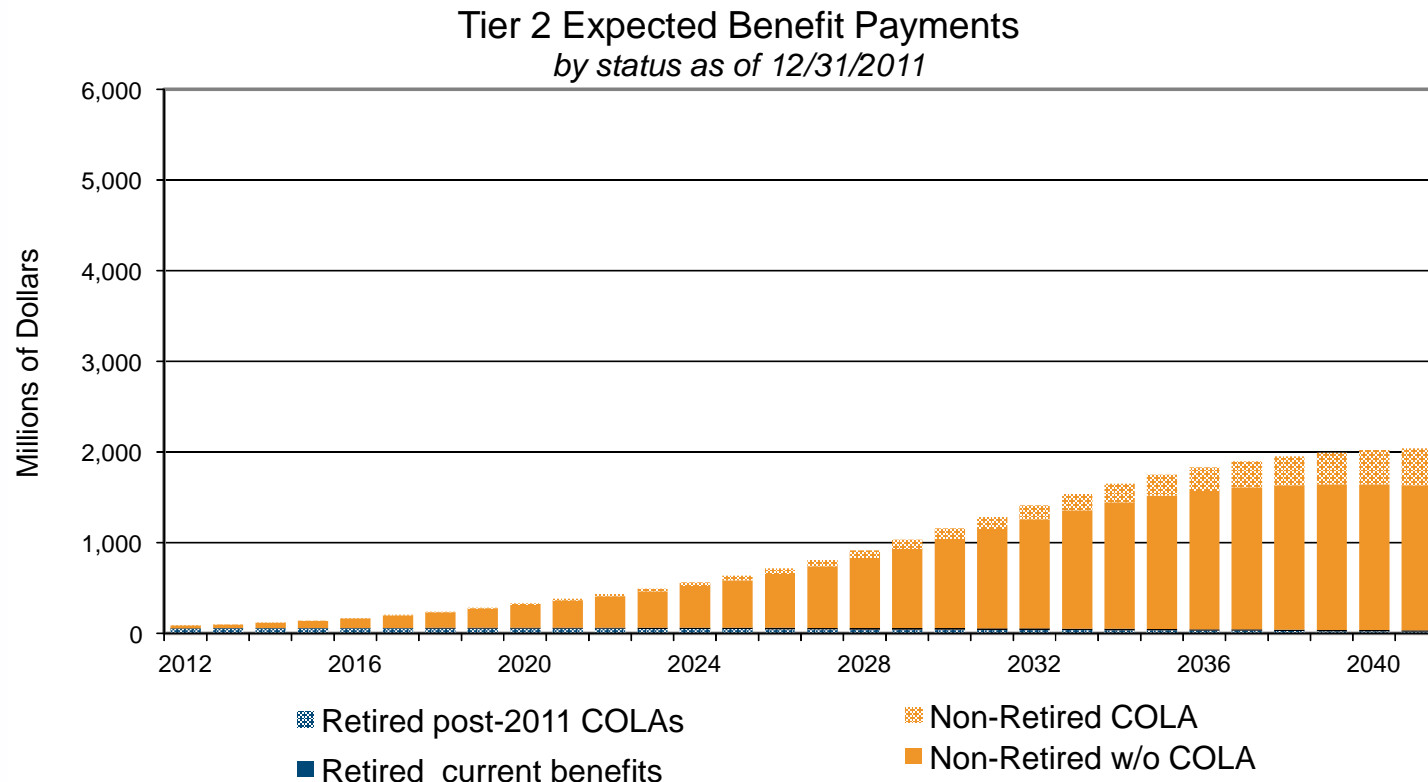
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# Appendix

## Projected benefit payments by Tier

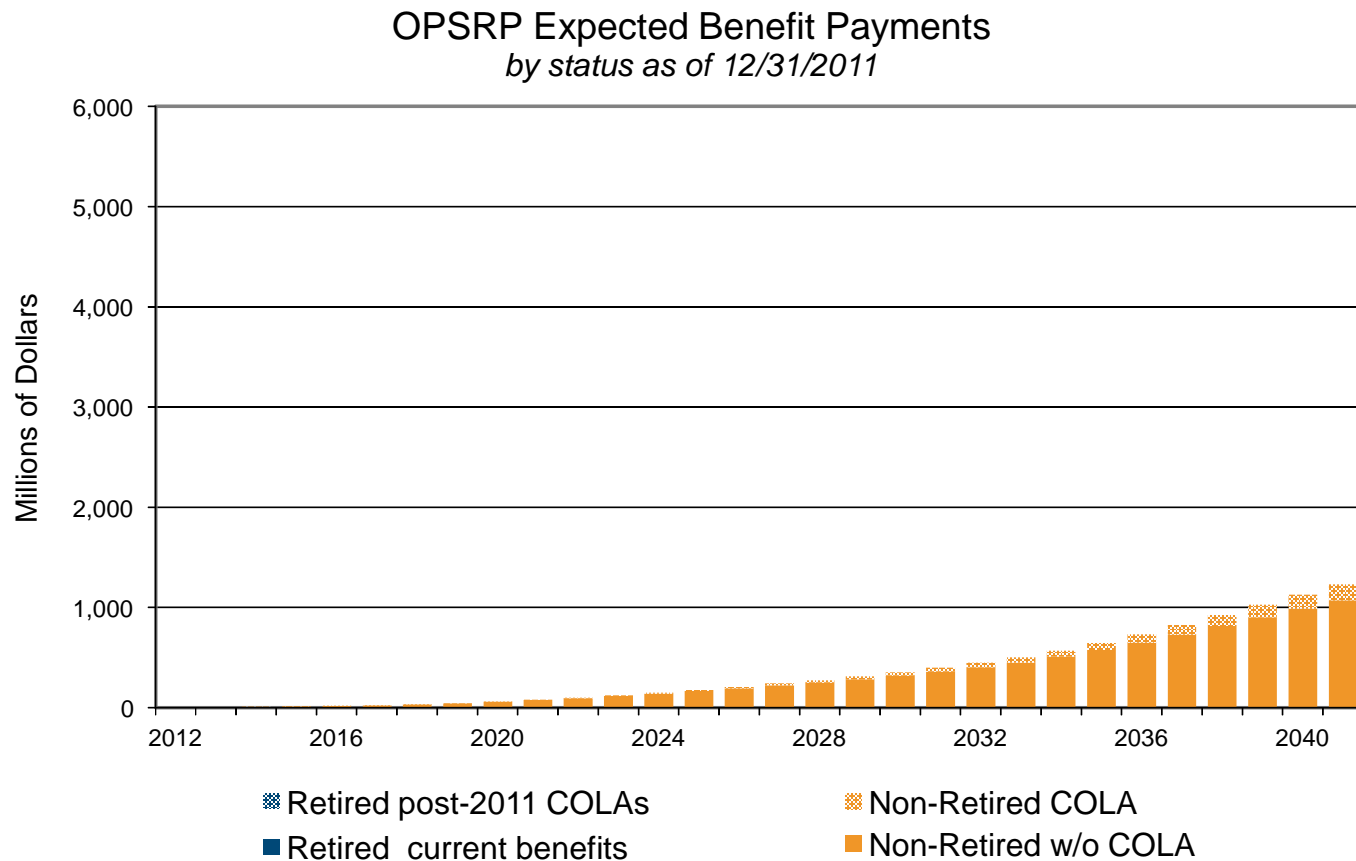
- Projected benefit payments for Tier 2 are illustrated below



# Appendix

## Projected benefit payments by Tier

- Projected benefit payments for OPSRP are illustrated below

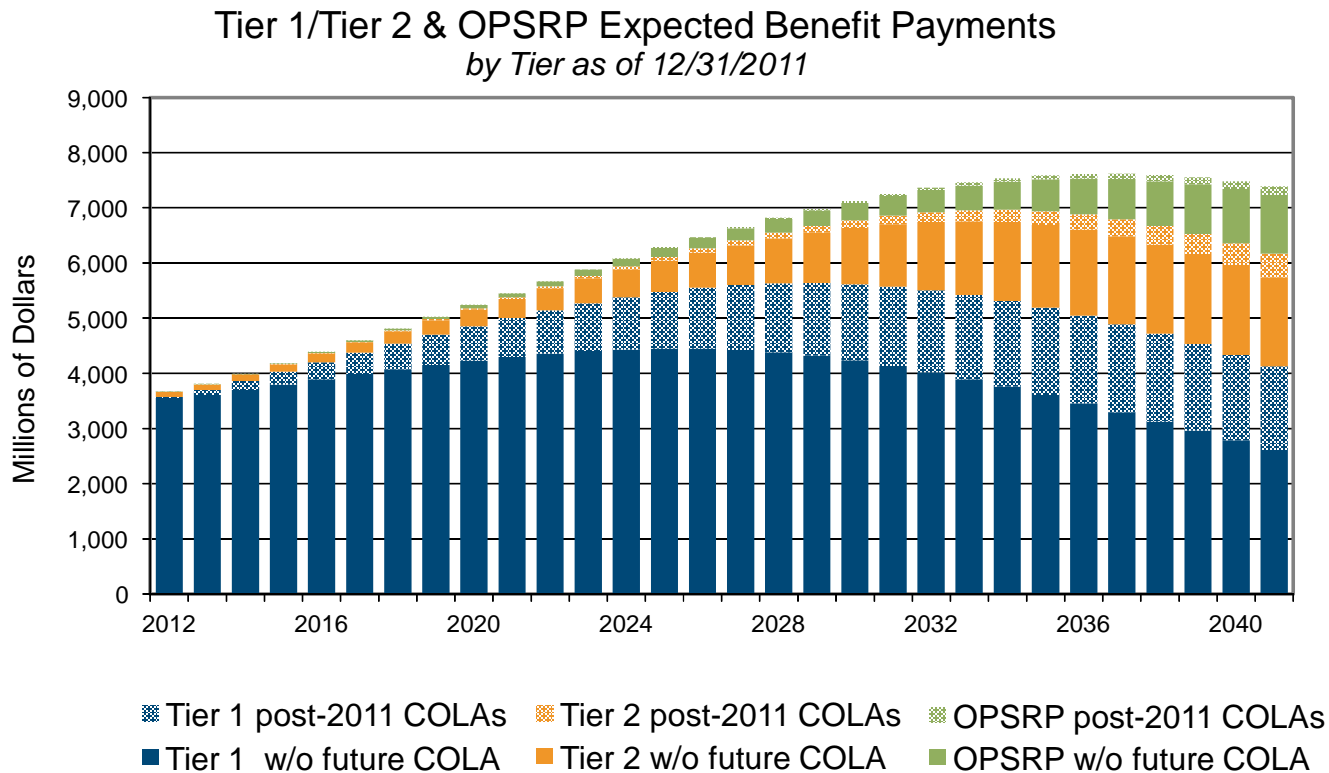


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# Appendix

## Projected benefit payments by Tier

- Projected benefit payments by Tier are illustrated below



# Appendix

## When will current and future contributions fund benefit payments?

- Intergenerational equity is a guiding principle of the Board
- One assessment of intergenerational equity is to project when current employer contributions, which are assessed on payroll, return to members in the form of benefit payments
- This can be analyzed theoretically using a “first in, first out” approach to paying member benefits
  - Assets as of 12/31/2011 and earnings on those assets are first used to pay member benefits
  - Post-2011 contributions and side account transfers and earnings on those amounts are subsequently used to pay member benefits
- 12/31/2011 Tier 1/Tier 2 & OPSRP assets excluding side accounts (\$5B), net reserves (\$0.2B) and IAP funds (\$4B) are approximately \$45 billion

# Appendix

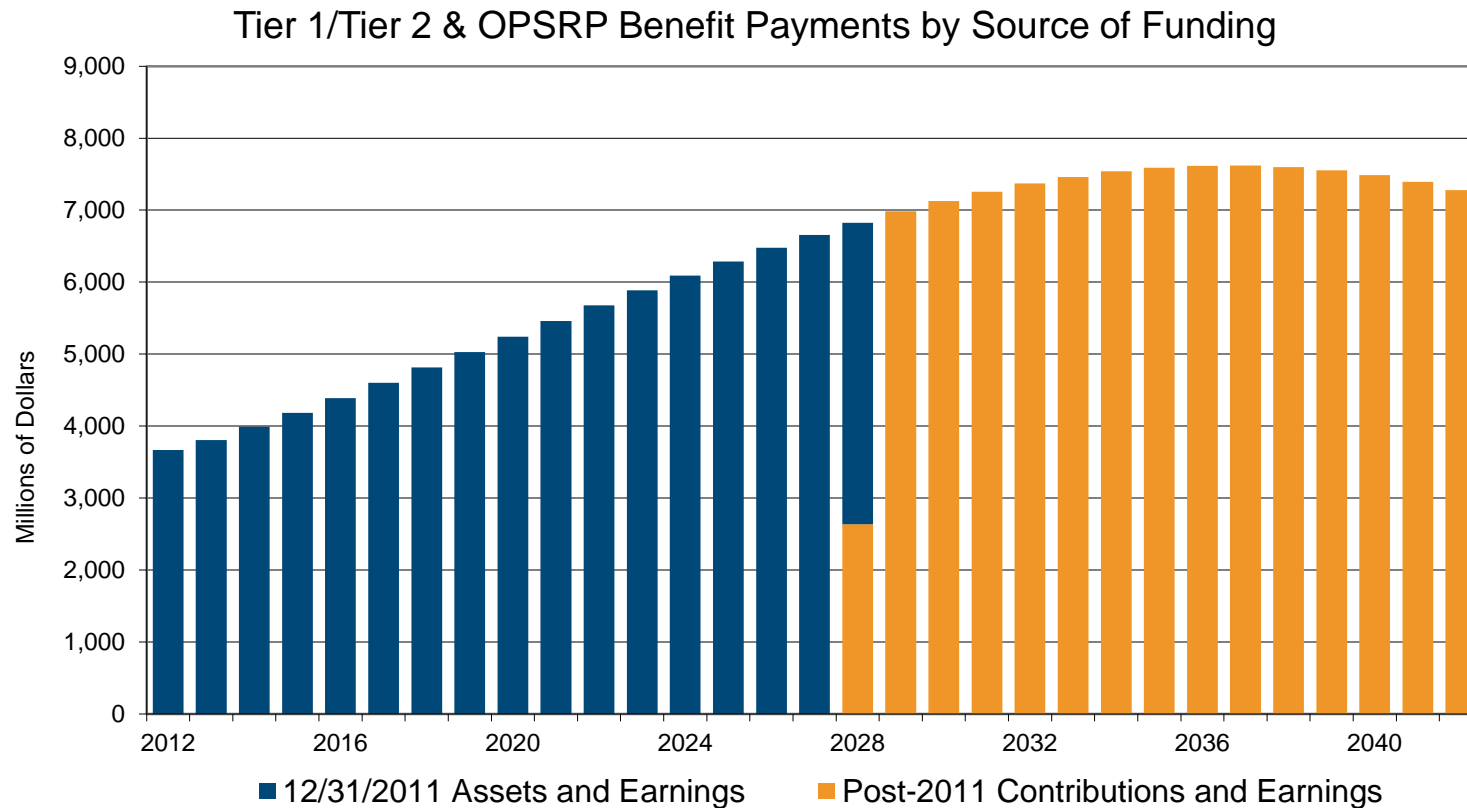
## When will current and future contributions fund benefit payments?

- There is a “crossover year” where benefits begin to be paid from post-2011 contributions and side account transfers
- The next slide illustrates the crossover year for a simplified contribution policy of:
  - Increasing contribution rates by 5% of payroll on July 2013
  - Increasing contribution rates an additional 2% of payroll on July 2015

# Appendix

## When will current and future contributions fund benefit payments?

- At 8% investment return and the simplified rate policy, the projected “crossover year” is 2028



# Appendix

## When will current and future contributions fund benefit payments?

- The projected crossover year will vary significantly depending on the actual investment return realized
- Crossover years under the simplified rate methodology are shown below

Actual Annual Return	Crossover Year
10%	2033
8%	2028
6%	2026
4%	2024

# Appendix

## When will current and future contributions fund benefit payments?

- The lower the actual realized return, the lower the funds that will be available at crossover for two reasons
  - Shorter accumulation period
  - Lower annual investment earnings
- This table shows the ratio of projected assets to projected benefit payments at the crossover year

Actual Annual Return	Crossover Year	Projected Assets / Crossover Year Benefit Payments
10%	2033	24.7
8%	2028	11.9
6%	2026	7.8
4%	2024	5.7

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# Appendix

## When will current and future contributions fund benefit payments?

- If the rates instead were held at 2011-2013 levels, the funds available at the crossover will be lower
- The risk to member benefit security would be most acute in the 4% investment return scenario
  - In these scenarios, the assets available would be reduced by one quarter to one third

Actual Annual Return	Crossover Year	Projected Assets / Crossover Year Benefits
10%	2033	<del>24.7</del> -> 17.7
8%	2028	<del>11.9</del> -> 8.6
6%	2026	<del>7.8</del> -> 5.3
4%	2024	<del>5.7</del> -> 4.0

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# Appendix

## Actuarial Basis

### Data

We have based our calculation of the liabilities on the data supplied by the Oregon Public Employees Retirement System and summarized in the data exhibits on the preceding slides.

Assets as of December 31, 2011, were based on values provided by Oregon PERS reflecting the Board's earnings crediting decisions for 2011.

### Methods / Policies

*Actuarial Cost Method:* Projected Unit Credit, as described in the December 31, 2010, Actuarial Valuation ("2010 Valuation Report") for the Oregon Public Employees Retirement System.

*UAL Amortization:* The UAL for Tier 1/Tier 2, OPSRP, and Retiree Health Care as of December 31, 2007 are amortized as a level percentage of combined valuation payroll over a closed period. For the Tier 1/Tier 2 UAL, this period is 20 years; for OPSRP, it is 16 years; for Retiree Health Care, it is 10 years. Gains and losses between subsequent odd-year valuations are amortized as a level percentage of combined valuation payroll over the amortization period (20 years for Tier/Tier 1, 16 years for OPSRP, 10 years for Retiree Health Care) from the odd-year valuation in which they are first recognized.

The amortization of the UAL using the current amortization method results in an initial payment less than the "interest only" payment on the UAL. Payments less than the interest only amount will result in the UAL increasing for an initial period of time.

# Appendix

## Actuarial Basis

### Methods / Policies (cont'd)

*Contribution rate stabilization method:* Contribution rates for a rate pool (e.g. Tier 1/Tier 2 SLGRP, Tier 1/Tier 2 School Districts, OPSRP) are confined to a collar based on the prior contribution rate (prior to application of side accounts, pre-SLGRP liabilities, and 6 percent Independent Employer minimum). The new contribution rate will generally not increase or decrease from the prior contribution rate by more than the greater of 3 percentage points or 20 percent of the prior contribution rate. If the funded percentage excluding side accounts drops below 70% or increases above 130%, the size of the collar doubles. If the funded percentage excluding side accounts is between 70% and 80% or between 120% and 130%, the size of the rate collar is increased on a graded scale. The “sliding scale” implementation of the double rate collar was approved by the Board in January 2010 and was effective with the 2009 Valuation.

*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. The Tier 1 Rate Guarantee Reserve is not excluded from assets if it is negative (i.e. in deficit status).

### Assumptions

Assumptions for valuation calculations are as described in the 2010 Experience Study for Oregon PERS and adopted by the PERS Board in July 2011.

### Provisions

Provisions valued are as detailed in the 2010 Valuation Report.

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# Oregon

John A. Kitzhaber, M.D., Governor

## Public Employees Retirement System

Headquarters:  
11410 S.W. 68<sup>th</sup> Parkway, Tigard, OR  
Mailing Address:  
P.O. Box 23700  
Tigard, OR 97281-3700  
(503) 598-7377  
TTY (503) 603-7766  
[www.oregon.gov/pers](http://www.oregon.gov/pers)

August 28, 2012

TO: Members of the PERS Board  
FROM: Steven Patrick Rodeman, Deputy Director  
Kyle J. Knoll, Budget Officer  
SUBJECT: 2013-15 Agency Request Budget

### OVERVIEW

- Action: Request Board approval of PERS' 2013-15 Agency Request Budget (ARB).
- Reason: To complete and submit PERS' Board-approved 2013-15 Agency Request Budget to the Department of Administrative Services / Budget and Management and the Legislative Fiscal Office by August 31, 2012.

The strategic planning for the next budget cycle began late last summer, when we revisited the agency's Mission Statement and developed Core Values and Operating Principles. You'll recall that we then moved through the phases of developing the agency's Fundamentals Map (a single-page illustration of the routine work that must be managed for the agency to achieve its mission). Working from that process-oriented view, the staff next considered areas that present operational risk and conducted assessments on those areas to prioritize development of strategic initiatives to address those risks. All that preparatory work culminated in business cases to support those strategic initiatives that are now being incorporated into the agency's requested budget for the 2013-15 biennium that begins July 1, 2013.

### 2013-15 STRATEGIC INITIATIVES

PERS' 2013-15 Agency Request Budget (ARB) and supporting Policy Packages have been developed with the strategic goals of:

- Stabilizing core business operations by establishing 30 Permanent positions, 27 of which are currently Limited Duration positions, to continue to meet current service delivery levels.
- Addressing recently identified PERS Health Insurance Program (PHIP) deficiencies by integrating operations and properly resourcing the program.
- Addressing the need for an enterprise data reporting function to support agency operations with consistently derived reports and forecasting, as well as stakeholders' requests for prompt, accurate, and comprehensive assessments of system dynamics.

#### ***Stabilizing Core Operations (Policy Option Package 101)***

The normal starting point in a state government budget cycle is to return agencies to their Current Service Level (CSL) budget. The CSL budget usually represents the agency's base budget for core operations, with any project-related or one-time policy option packages that were approved in the previous budget cycle stripped away.

PERS' operating budget is positioned differently. When the Oregon Legislature adopted the agency's budget for 2011-13 at \$77,260,820 with 363 staff positions, that budget included authority for 29 Limited Duration positions. Normally, Limited Duration positions are tied to a project or short-term operation that spans only that biennium. In our case, however, these positions were carried over from previous biennia and are associated with processes or programs that have become core operational functions for this agency.

For PERS to continue to provide the mission-critical processes described in our Fundamentals Map, most of those 29 positions need to be continued as Permanent positions into the 2013-15 biennium and beyond just to maintain the agency's current service delivery levels. Our first challenge will be for recognition that PERS' "CSL" budget really should include the 27 Limited Duration positions proposed to be made permanent. So, in essence, our current staffing level should be used as the starting point for PERS' 2013-15 ARB.

Additionally, this package establishes three new permanent positions to address current data reconciliation and performance measurement requirements. These elements of POP 101 support the augmentation of current service levels in areas identified as needing additional resources through our risk assessment. Lastly, this package includes increased budget limitation to meet enhanced actuarial requirements to comply with the new GASB standards and cost increases associated with the external audit requirements through the Secretary of State.

The total amount requested in POP 101 is \$5,474,609 Other Funds and the establishment of 30 Permanent positions (again, 27 of which are currently Limited Duration positions).

#### ***PERS Health Insurance Program (Policy Package 102)***

Currently, the PERS Health Insurance Program (PHIP) has only two full-time staff servicing 55,000 members. Recent audits and reviews have underscored that this staffing level is inadequate to monitor the customer service and fiscal processes of the program. The PHIP, like other state agency health insurance programs (e.g., PEBA for state employees and OEBA for school employees) needs a proper mix of professional staff with health insurance expertise that can adequately monitor and facilitate the necessary contracting, customer service, accounting, and overall program management duties that are required. This policy package requests \$805,913 Other Funds, the establishment of three new permanent positions for PHIP administration, and program actuarial and consulting support.

#### ***Infrastructure Maintenance and Enhancement (Policy Package 103)***

This policy package requests \$1,860,000 Other Funds to maintain and enhance foundational elements of the agency's system infrastructure and information systems. Key components of this package would:

- 1) Provide the hardware, software, licensing, and professional services necessary to establish a centralized, enterprise-level data reporting function;
- 2) Improve the agency's business information storage by providing funding for the hardware, software, licensing, and professional services needed to replace the Storage Area Network (SAN); and
- 3) Provide funding for professional services to maintain and enhance the agency's newly installed ORION system. These efforts would add to or improve the system's

functionality to improve process efficiencies, fill gaps that were not included in the installation project's scope, or support innovations in service delivery.

***May 2012 Emergency Board (Policy Package 081)***

The Oregon Legislature's May 2012 Emergency Board approved our request for additional budget limitation and positions for the Strunk/Eugene Overpayment Recovery Project. This policy package requests \$1,315,510 Other Funds to continue funding and authorization for the three limited duration positions approved by the Emergency Board. The package also restores \$750,00 which relates to the 2012 session budget reconciliation that amended the agency's 2011-13 Legislatively Approved Budget (Senate Bill 5701A).

The following table shows the components of the ARB by its major components (Personal Services, Services & Supplies, and Capital Outlay) and the effect of the Policy Option Packages in those expenditure areas:

	<b>2011-13 Legis. Approved</b>	<b>2013-15 Current Svc Lvl</b>	<b>POP 101 Current Service</b>	<b>POP 102 PHIP Admin</b>	<b>POP 103 Infra. M &amp; E</b>	<b>POP 081 May '12 E-Board</b>	<b>Total 2013-15 ARB</b>
Personal Services	56,744,618	57,073,979	4,638,609	521,863	0	1,097,586	63,332,037
Services & Supplies	21,660,024	18,535,022	836,000	284,050	1,045,000	217,925	20,917,997
Capital Outlay	927,588	607,833			815,000		1,422,833
<b>Total Limitation</b>	<b>79,332,230</b>	<b>76,216,834</b>	<b>5,474,609</b>	<b>805,913</b>	<b>1,860,000</b>	<b>1,315,511</b>	<b>85,672,867</b>
Positions	367	334	30	3	0	3	370
FTE	365.99	334.00	30.00	3.00	0.00	3.00	370.00

**PERS BUDGET METRICS AND COMPARISONS**

One of the measures we use as a check-point is comparing the agency's operating budget to the PERS Fund. As a retirement system administrator, we use this check to determine the "costs" of our administration as a percentage of the Fund and accounting for the associated growth in the number of members and benefit payments processed:

**PERS Budget/PERF Comparison**

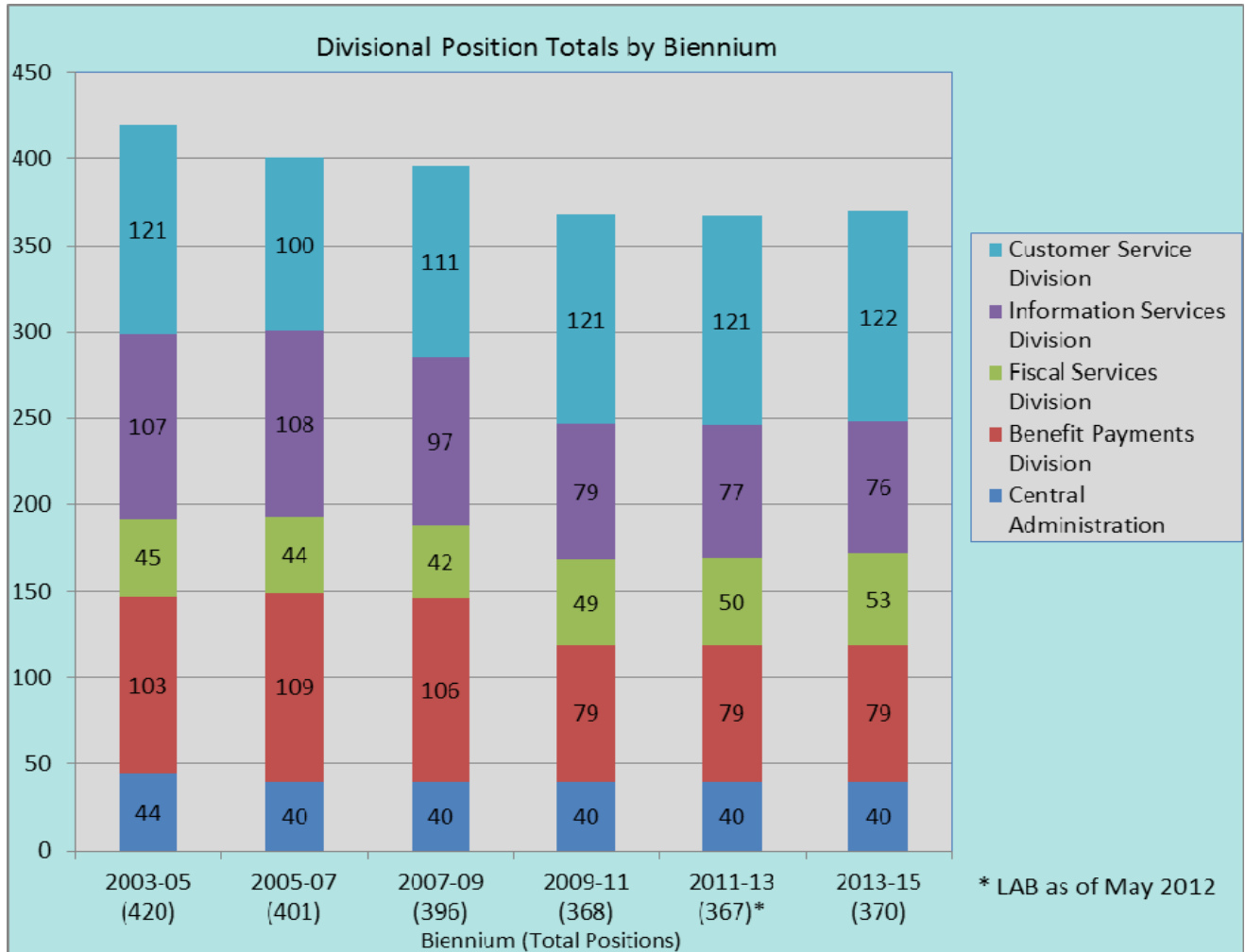
<b>Biennium</b>	<b>Legislatively Approved Limited Budget</b>	<b>Fiscal Year Ended June 30th</b>	<b>Limited Budget</b>	<b>PERF Balance</b>	<b>Percent</b>
2003-2005	\$87,915,406	2004	\$43,957,703	\$46,031,766,920	0.0955%
		2005	\$43,957,703	\$50,613,623,493	0.0868%
2005-2007	\$81,703,709	2006	\$40,851,855	\$56,554,878,450	0.0722%
		2007	\$40,851,854	\$66,009,334,073	0.0619%
2007-2009	\$86,960,346	2008	\$43,480,173	\$61,409,698,133	0.0708%
		2009	\$43,480,173	\$46,043,394,714	0.0944%
2009-2011	\$84,685,027	2010	\$42,342,514	\$51,747,943,735	0.0818%
		2011	\$42,342,513	\$61,189,774,807	0.0692%
2011-2013	\$80,750,830	2012	\$40,375,415	\$59,165,586,098	0.0682%
		2013	\$40,375,415	\$61,550,640,000 E	0.0656%
	ARB				
2013-2015	\$86,975,718	2014	\$43,487,859	\$64,481,590,000 E	0.0674%
		2015	\$43,487,859	\$67,522,950,000 E	0.0644%

E = Estimated PERF Balance Projections

The agency’s budget has fluctuated in absolute dollars in recent bienniums. However, it has remained below the peak expenditures of the 2003-05 biennium. Moreover, it has represented a stable to decreasing percentage of the PERS Fund, even accounting for the additional costs of administering new retirement programs, increasing service populations, and special projects completed during this period.



Similarly, the following graph shows the agency’s staffing levels by division over the previous biennia. While the agency has grown with the implementation of the 2003 PERS reforms, the staffing peak in the 2003-05 biennium at 420 positions has been reduced by some 50 positions as process efficiencies have been realized and special projects related to the reforms have closed.



**BOARD OPTIONS**

PERS is required to submit its 2013-15 Agency Request Budget to the Department of Administrative Services / Budget and Management Office and the Legislative Fiscal Office by August 31, 2012. This submission will form the basis for the Governor’s Recommended Budget to be developed prior to the Oregon Legislature’s 2013 session, during which they will adopt a Legislatively Approved Budget for the biennium starting July 1, 2013.

The Board may:

1. Pass a motion to “approve the 2013-15 Agency Request Budget as presented for submission to the Department of Administrative Services / Budget and Management Office and the Legislative Fiscal Office .”
2. Direct the staff to further refine the budget request in specific areas before submission at the end of this month.

STAFF RECOMMENDATION

Staff recommends the Board choose Option #1.