OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM BOARD MEETING

FRIDAY January 25, 2013 1:00 P.M.	PERS 11410 SW 68th Parkway Tigard, OR

	ITEM	PRESENTER
A.	**Administration**	
1.	Board Governance Assignments	THOMAS
2.	November 30, 2012 Board Meeting Minutes	CLEARY
	Director's Report	
	a. Forward-Looking Calendar	
	b. OIC Investment Report	
	c. Operating Budget Report	
	d. Strunk and Eugene Project Update	
	e. Annual Report of Executive Director's Financial Transactions	STANLEY
B.	**Administrative Rulemaking**	
1.	Notice of IRC Limitations Rules	RODEMAN
2.	Notice of Social Security Annual Compensation Limits Rule	
3.	First Reading of P & F Continuous Service Rule	
4.	Adoption of Employer Remitting of Employee Contributions Rule	
5.	Adoption of Data Verification Rule	
C.	**Action and Discussion Items**	
1.	Preliminary 2012 Earnings Crediting and Reserving	RODEMAN / DUFRENE
2.	PERS Cost Containment Concepts and Legislative Principles	RODEMAN / TAYLOR
D.	**Executive Session Pursuant to ORS 192.660(2)(f), (h), and/or ORS 40.225**	
1.	Litigation Update	LEGAL COUNSEL

Note: A Board training session on ethics will be conducted by Lynn Rosik, Oregon Department of Justice, following the Board meeting. This session is open to the public.

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PERS BOARD GOVERNANCE ASSIGNMENTS

KRYSTAL GEMA	Audit Committee (Chair)
MICHAEL JORDAN	Legislative Advisory Committee
JOHN THOMAS	Board Chair Audit Committee
PAT WEST	Board Vice Chair Retiree Health Insurance Advisory Committee Legislative Advisory Committee
RHONI WISWALL	OIC Liaison with Director Paul Cleary Audit Committee

OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM
BOARD MEETING

November 30, 2012
Tigard, Oregon

Board Members:	**Staff:**		
John Thomas, Chair	Donna Allen	Brian Harrington	Steve Rodeman
Krystal Gema	Carmella Bowes	Debra Hembree	Susan Sjordal
Laurie Warner	Paul Cleary	Danielle Keyser	Jason Stanley
Pat West	David Crosley	Sue Korn	Marjorie Taylor
Rhoni Wiswall	Jon DuFrene	Jeff Marecic	Nancy VanDyke
	Yvette Elledge	Brenda Pearson	Stephanie Vaughn
			Anne Marie Vu

Others:			
Bruce Adams	Janice Essenberg	Keith Kutler	Michael Robertson
Duane Bales	Frank Goulard	Matt Larrabee	Carol Samuels
Nancy Brewer	Mary Gruss	Wayne Lowry	Lonnie Tucker
Sue Cutsogeorge	Celia Heron	Elizabeth McCann	Deborah Tremblay
Myrnie Daut	Claire Hertz	Michelle Morrison	Peggy Woolsey
Roger Davey	Michael Jordan	Scott Preppernau	Denise Yunker

Chair John Thomas called the meeting to order at 1:00 P.M.

Executive Director Paul Cleary reported John Thomas has been designated as Board Chair by Governor Kitzhaber.

Cleary introduced Michael Jordan, Chief Operating Officer for the State of Oregon and Department of Administrative Services Director, who has been nominated by the Governor to join the PERS Board. Jordan is up for review by Senate Rules Committee on December 10, 2012 and if confirmed by the Senate on December 12th, will replace Laurie Warner whose term is expiring.

Board member Krystal Gema was welcomed to her first official Board meeting.

John Borden, PERS Legislative Fiscal Officer, joined the meeting by phone.

ADMINISTRATION

A.1. BOARD MEETING MINUTES OF SEPTEMBER 28, 2012

The Board unanimously approved the minutes from the September 28, 2012 Board meeting.

A.2. DIRECTOR'S REPORT

Executive Director Paul Cleary presented the Forward Looking calendar. He noted the next Board meeting is scheduled for January 25, 2013. Agenda items include Preliminary 2012 Earnings Crediting and Reserving. There will be Board member training on Ethics provided by Department of Justice. Cleary reviewed the 2013 Board meeting dates and noted that all major Board decisions are generally covered over two meetings before being adopted.

Cleary presented the OPERF investment returns for the period ending September 30, 2012 noting this third-quarter data is used to compare with other funds. The regular account was up by 10.84 percent year-to-date and the variable was up 13.42 percent for the same period. Cleary reported that as of September 30, 2012, OPERF's 10-year annualized return was 8.84 percent. The average 10-year annualized rate of return was 8.2 percent for all public retirement systems with more than $1 billion in assets, so Oregon outperformed the average fund returns by more than 60 basis points (0.64 percent).

Cleary reported the investment returns ending October 31, 2012 fell to 10.73 percent for the regular account year-to-date and the variable fell to 12.71 percent year-to-date, with a 10-year annualized return of 8.46 percent for the regular account.

Cleary reported that the agency's 2011-13 biennial operating budget continues to show a positive variance of approximately 3.3 percent through September 2012. Cleary stated some of those budget savings may be used for special projects addressing transaction backlogs and for maintenance/enhancements to the IT system.

Cleary presented the Strunk and Eugene Overpayment Recovery Project budget. He noted the report does not yet reflect expenses from outside collection agencies that will be incurred as accounts are turned over for collections.

Cleary presented the Employer Reporting Update. He recognized employers and the PERS staff for reducing the outstanding employer reports and unposted member records. The goal is to finish the clean-up by end of this calendar year.

Cleary reported the 2013-15 Governor's Recommended Budget was released today. PERS will be expected to absorb the same administrative cost reduction as all agencies. Cleary described the Governors' proposed PERS cost-saving measures relating to limiting future cost-of-living adjustments (COLAs) for retirees and removing the tax remedy for non-Oregon resident Tier One benefit recipients. Overall, the PERS agency's request budget received favorable recommendations. The budget will go before the Legislature for final approval during the 2013 session.

ADMINSTRATIVE RULEMAKING

B.1. NOTICE OF OPSRP P & F CONTINUOUS SERVICE RULE

Deputy Director Steve Rodeman presented the notice of rulemaking for the OPSRP Police and Fire (P&F) rule. The purpose of the rule is to clarify the five-year continuous employment requirement for a P&F member prior to the effective date of retirement and the status of a member who is employed concurrently. Rodeman described various scenarios that he would like the public to review and to provide comment. There is a rulemaking hearing scheduled on December 18 and the public comment period ends on December 31, 2012. Board members discussed proposed rule modifications and provided comment. No Board action was required.

B.2. NOTICE OF DATA VERIFICATION RULE

Rodeman presented the notice of rulemaking for the Data Verification rule. These modifications will clarify certain standards concerning employer obligations in verifying retirement data. Rodeman described the situations that have occurred and the mismatched timelines when a data verification and retirement application are submitted at the same time. PERS will continue to monitor this process and work with employers.

Board member Laurie Warner commented on the report findings noting the majority of employers with the exception of the State of Oregon reply back to PERS on data verification requests in a timely manner. Rodeman clarified the experience with DAS is they usually let the 60-day review period lapse without responding. Cleary noted that employers are not required to respond, and that "no response" may reflect confidence in the data as originally submitted. Board members provided comment on rule modifications. No Board action was required.

B.3. NOTICE OF EMPLOYER REMITTING OF EMPLOYEE CONTRIBUTIONS RULE

Rodeman presented the notice of rulemaking for the Employer Remitting of Employee Contribution rule. Employers requested the rule be modified to clarify that "date of hire" can be used as a standard for distinguishing between employees in determining the method of an employee's Individual Account Program (IAP) contributions (such as member paid vs. employer "pick-up"). No Board action was required.

B.4. ADOPTION OF PUBLIC CONTRACTING RULES

Rodeman presented the Public Contracting rules for adoption. These rules establish uniform contracting and procurement provisions that apply when PERS has independent contract authority and also codifies the agency's public contracting rules in one location. Rodeman noted no significant modifications have been made since the rule was first noticed at the September Board meeting.

Warner moved and Board member Rhoni Wiswall seconded to adopt the new rules and modifications to the Public Contracting rules as presented. The motion passed unanimously.

ACTION AND DISCUSSION ITEMS

C.1. ADOPTION OF CITY OF SPRINGIELD EMPLOYER RATES

Rodeman presented for adoption the amended 2013-15 rate order for the City of Springfield as set forth in the supplemental November 15, 2012 Milliman letter. Rodeman stated Milliman discovered an anomaly in the City of Springfield's data after the 2013-15 Employer Contribution Rates were adopted at the September Board meeting. Chair Thomas described the details around the anomaly.

Board member Pat West moved and Warner seconded to adopt the amended order for the City of Springfield's 2013-15 employer rates as presented. Motion passed unanimously.

C.2. ANALYSIS OF PERS COST ALLOCATION, BENEFIT MODIFICATION AND SYSTEM FINANCING CONCEPTS

Milliman actuary Matt Larrabee presented an Actuarial Shortfall and Contribution Rate report. Larrabee noted that despite investment returns above expectations from 2009-2011, the shortfall is almost unchanged from the first post-2008 market downturn valuation. Larrabee provided detailed information on why the shortfall has remained unchanged. He explained the effect of side accounts and how they add leverage to employer's contribution rates.

Rodeman and Larrabee presented the Analysis of PERS Cost Allocation, Benefit Modification, and System Financing Concepts that could be considered in the 2013 Legislative session. Rodeman described suggested principles for prioritizing the concepts. They included focusing on concepts that can save significant dollars, are simple to implement and administer, and allocate the burden across all of PERS members, including retirees. Larrabee described the actuarial evaluation of the various concepts and the various assumptions incorporated in the analysis.

Rodeman noted that according to statute, the PERS Board serves as a policy advisor to the Legislature and needs to provide the best information possible. Rodeman stated a more comprehensive concept analysis report will be prepared that will show the impact on system funding, employer rates, member benefits, and administration. PERS will work with the Legislative Advisory Committee to finalize the report in preparation for the 2013 session. Board members asked clarifying questions and provided comments.

Cleary noted that PERS needs to provide these kinds of concept analyses to help the Governor and legislators make informed decisions. Cleary noted some of the unintended consequences of 2003 reforms when PERS was not fully utilized or engaged in the legislative debate.

Greg Hartman, PERS coalition, encouraged the Board to provide the full report soon so members could be better informed about the potential impacts on their benefits.

Finance Director for City of Corvallis, Nancy Brewer, thanked PERS for the presentation. She recommended not extending the amortization period to 30 years because of the potential for negative amortization and it would unwind all the work that was done over the past decade in reducing the amortization period to 20 years.

Tier One member Bill Roberson, asked the Board to include a Q&A and possibly a tool that could be used to analyze how proposed plan design modifications could impact member benefits.

Sherwood School Board Chief Financial Officer Wayne Lowry noted that employers need healthy payroll growth in order for the system to remain stable, and that rising employer contribution rates are adversely affecting school staffing and payroll.

Thomas adjourned the Board meeting at 2:55 PM.

Respectfully submitted,

Paul R. Cleary

Paul R. Cleary
Executive Director

PERS Board Meeting
Forward-Looking Calendar

Friday, March 29, 2013

Adoption of P & F Continuous Service Rule
Adoption of IRC Limitations Rules
Adoption of Social Security Annual Compensation Limits Rule
2013 Legislative Session Update
Review of Actuarial Methods and Economic Assumptions
Final 2012 Earnings Crediting and Reserving
Audit Committee Meeting

Friday, May 31, 2013

2013 Legislative Session Update
Adoption of Actuarial Methods and Economic Assumptions
2014 Retiree Health Insurance Plan Renewals and Rates
Employer Reporting Update

Friday, July 26, 2013

2013 Legislative Session Results
2012 Experience Study and Adoption of Demographic Assumptions
Audit Committee Meeting

Friday, September 27, 2013

2012 Valuation Results

Friday, November 22, 2013

Employer Reporting Update
Audit Committee Meeting

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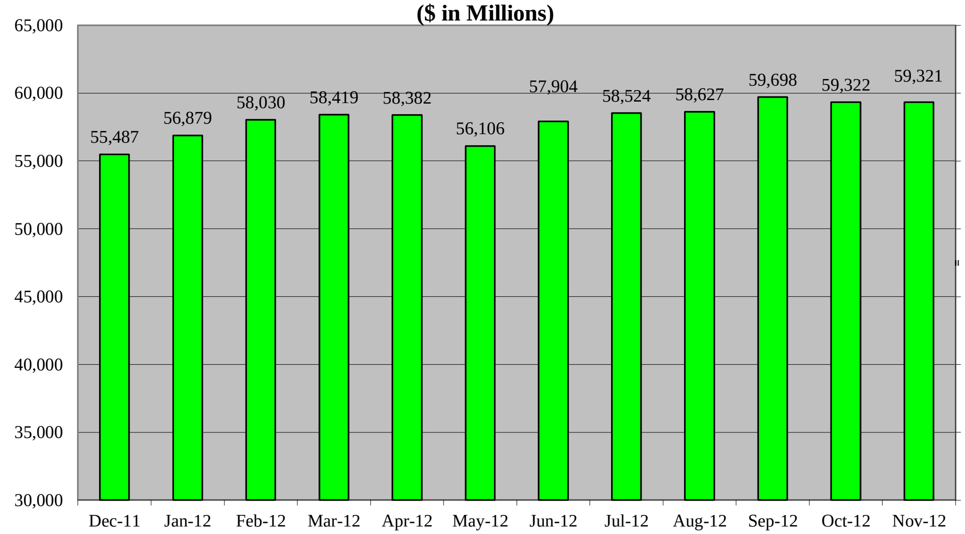
Returns for periods ending 11/30/12 **Oregon Public Employees Retirement Fund**

OPERF	Policy[1]	Target[1]	$ Thousands[2]	Actual	Year-To-Date[3]	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS
	Regular Account				Historical Performance (Annual Percentage)					
Public Equity	38-48%	43%	$ 21,258,037	36.3%	14.29	13.59	6.20	7.65	14.73	(1.12)
Private Equity	12-20%	16%	13,950,730	23.8%	9.97	4.18	13.41	15.97	5.73	4.85
Total Equity	**54-64%**	**59%**	**35,208,767**	**60.2%**						
Opportunity Portfolio			979,469	1.7%	17.88	16.94	10.09	10.89	14.10	6.47
Total Fixed	**20-30%**	**25%**	**14,971,069**	**25.6%**	9.77	10.90	8.05	9.09	13.75	7.95
Real Estate	**8-14%**	**11%**	**6,956,998**	**11.9%**	9.71	10.72	13.95	7.99	1.37	(0.68)
Alternative Investments	**0-8%**	**5%**	**416,897**	**0.7%**	(0.86)	(1.81)				
Cash	**0-3%**	**0%**	**250**	**0.0%**	1.58	1.57	0.86	0.84	1.39	1.31
TOTAL OPERF Regular Account		**100%**	**$ 58,533,450**	**100.0%**	11.49	10.14	9.16	9.87	11.15	2.24
OPERF Policy Benchmark					13.69	11.69	9.98	9.52	10.57	2.57
Value Added					(2.20)	(1.55)	(0.82)	0.35	0.58	(0.33)
TOTAL OPERF Variable Account			**$ 787,077**		14.17	13.88	6.52	7.39	14.27	(1.09)

Asset Class Benchmarks:

	Year-To-Date	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS
Russell 3000 Index	15.01	15.95	11.38	11.80	15.46	1.67
MSCI ACWI Ex US IMI Net	13.04	11.69	2.33	3.71	13.52	(3.46)
MSCI ACWI IMI Net	13.65	13.32	6.10	7.02	14.14	(1.43)
Russell 3000 Index + 300 bps--Quarter Lagged	25.26	6.95	20.71	20.11	7.94	4.24
Oregon Custom FI Benchmark	8.15	9.41	6.31	6.30	7.99	6.26
NCREIF Property Index--Quarter Lagged	8.46	12.04	14.36	8.82	0.90	2.51
91 Day T-Bill	0.10	0.09	0.11	0.11	0.13	0.58

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



[1] OIC Policy 4.01.18, as revised April 2011.

[2] Includes impact of cash overlay management.

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

Item A.2.b.

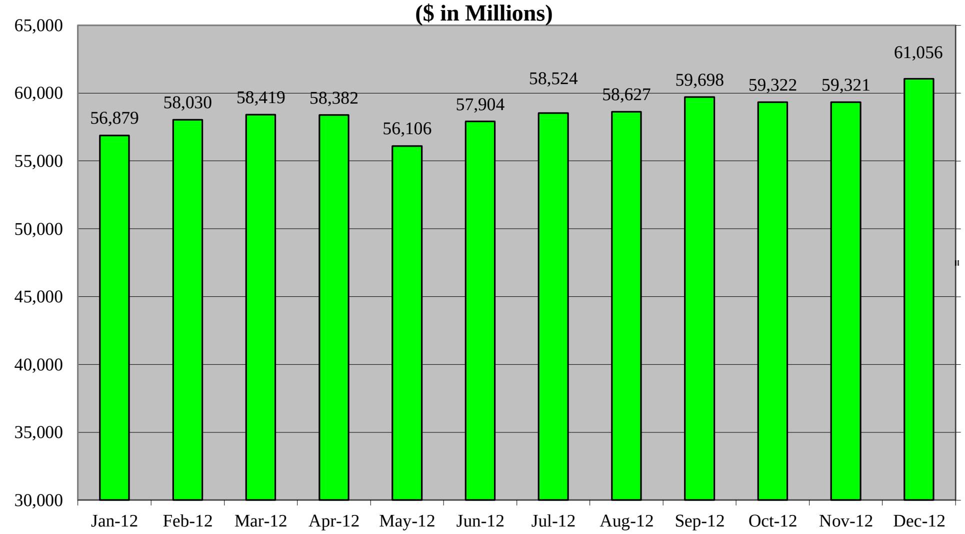
Returns for periods ending 12/31/12 **Oregon Public Employees Retirement Fund**

OPERF	Policy[1]	Target[1]	$ Thousands[2]	Actual	Year-To-Date[3]	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS
	Regular Account				Historical Performance (Annual Percentage)					
Public Equity	38-48%	43%	$ 22,001,434	36.5%	**17.47**	**17.47**	**3.83**	**7.64**	**14.31**	**(0.39)**
Private Equity	12-20%	16%	14,093,044	23.4%	**14.41**	**14.41**	**12.72**	**13.95**	**9.06**	**5.24**
Total Equity	**54-64%**	**59%**	**36,094,478**	**59.9%**						
Opportunity Portfolio			975,565	1.6%	**18.44**	**18.44**	**9.64**	**10.55**	**16.74**	**6.89**
Total Fixed	**20-30%**	**25%**	**15,151,206**	**25.1%**	**10.33**	**10.33**	**8.21**	**9.06**	**13.01**	**8.01**
Real Estate	**8-14%**	**11%**	**7,330,411**	**12.2%**	**13.64**	**13.64**	**14.04**	**8.47**	**3.69**	**(0.02)**
Alternative Investments	**0-8%**	**5%**	**459,731**	**0.8%**	**(0.84)**	**(0.84)**				
Cash	**0-3%**	**0%**	**243,848**	**0.4%**	**1.65**	**1.65**	**0.87**	**0.88**	**1.25**	**1.25**
TOTAL OPERF Regular Account		**100%**	**$ 60,255,239**	**100.0%**	**14.29**	**14.29**	**8.08**	**9.57**	**11.95**	**2.79**
OPERF Policy Benchmark					**16.57**	**16.57**	**8.40**	**9.36**	**10.87**	**3.06**
Value Added					**(2.28)**	**(2.28)**	**(0.32)**	**0.21**	**1.08**	**(0.27)**
TOTAL OPERF Variable Account			**$ 800,279**		**16.98**	**16.98**	**4.00**	**7.41**	**13.84**	**(0.45)**

Asset Class Benchmarks:

Asset Class Benchmarks	Year-To-Date	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS
Russell 3000 Index	16.42	16.42	8.45	11.20	15.26	2.04
MSCI ACWI Ex US IMI Net	17.04	17.04	0.15	4.18	12.88	(2.50)
MSCI ACWI IMI Net	16.38	16.38	3.54	7.02	13.72	(0.73)
Russell 3000 Index + 300 bps--Quarter Lagged	34.02	34.02	17.82	16.62	11.97	5.18
Oregon Custom FI Benchmark	8.60	8.60	6.96	6.87	7.14	6.29
NCREIF Property Index--Quarter Lagged	11.00	11.00	13.52	10.90	1.52	2.26
91 Day T-Bill	0.11	0.11	0.11	0.10	0.14	0.52

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



[1] OIC Policy 4.01.18, as revised April 2011.
[2] Includes impact of cash overlay management.
[3] For mandates beginning after January 1 (or with lagged performance), YTD numbers are "N/A". Performance is reflected in Total OPERF.

Oregon

John A. Kitzhaber, M.D., Governor

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January 25, 2013

TO: Members of the PERS Board

FROM: Kyle J. Knoll, Budget Officer

SUBJECT: January 2013 Budget Report

2011-13 OPERATIONS BUDGET

Operating expenditures for October and November 2012 were $2,692,762 and $3,150,270 respectively, and preliminary December 2012 expenditures are $2,994,954. Final December 2012 expenditures will be included in the March 2013 Budget Report to the Board.

- To date, through the first eighteen months (75%) of the 2011-13 biennium, the Agency has expended a total of $53,126,784, or 68.76% of PERS' legislatively approved operating budget of $77,260,820.

- The current projected positive variance is $1,488,992, or 1.9% of the operating budget. The $1,034,113 decrease in the projected variance is primarily due to management's decision to increase the allocated expenditure for ORION maintenance & enhancement (M&E), which will enable the Agency to complete additional defect remediation and system enhancements during the remainder of this biennium, while funds are available due to savings in other areas. The remaining variance is a reasonable buffer for other potential needs such as processing any spikes in retirements that may occur before the end of the biennium.

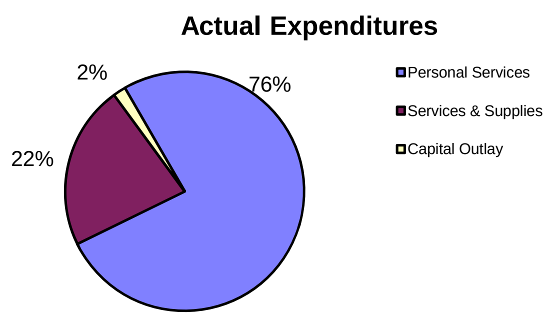
STRUNK EUGENE OVERPAYMENT RECOVERY PROJECT

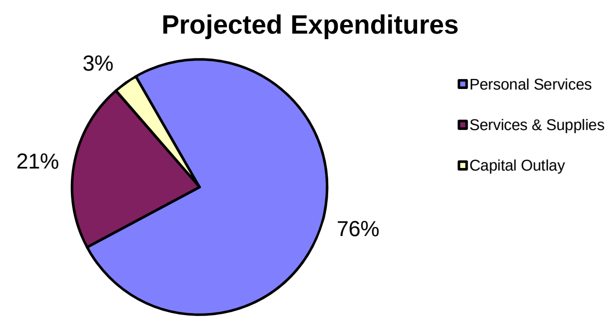
To date, the Agency has expended a total of $265,169, or 12.8% of PERS' 2011-13 legislatively approved budget of $2,071,410. Agenda item A.2.d. is a report on the project's status and details some of the causes for this positive variance.

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

Biennial Summary

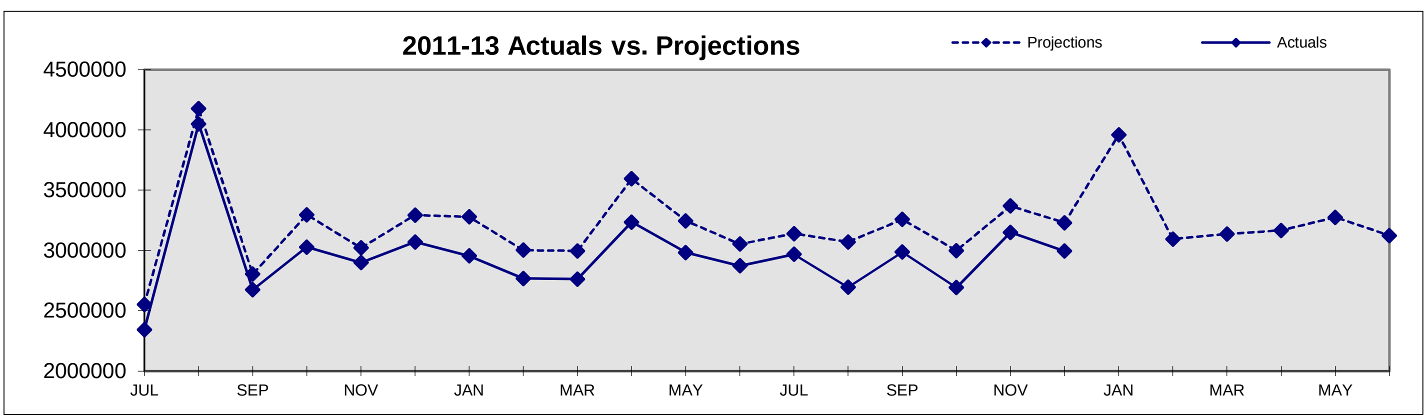
Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expend.	2011-13 LAB	Variance
Personal Services	40,431,004	14,885,770	55,316,775	55,827,463	**510,688**
Services & Supplies	11,737,807	6,962,557	18,700,364	20,505,769	**1,805,405**
Capital Outlay	957,972	796,717	1,754,689	927,588	**(827,101)**
Total	**53,126,784**	**22,645,044**	**75,771,828**	**77,260,820**	**1,488,992**





Monthly Summary

Category	Actual Exp.	Projections	Variance	Avg. Monthly Actual Exp.	Avg. Monthly Projected Exp.
Personal Services	2,293,800	2,468,611	174,811	2,246,167	2,480,905
Services & Supplies	610,965	670,576	59,612	652,100	710,304
Capital Outlay	90,189	90,000	(189)	53,221	101,120
Total	**2,994,954**	**3,229,188**	**234,234**	**2,951,488**	**3,292,329**



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)**
Total	**77,884,830**		**77,884,830**	**83,261,952**	**5,377,122**

Oregon

John A. Kitzhaber, M.D., Governor

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January 25, 2013

TO: Members of the PERS Board

FROM: Steven Patrick Rodeman, Deputy Director
Jon DuFrene, Administrator, Fiscal Services Division

SUBJECT: Strunk/Eugene Overpayment Recovery Project (S/E 2.0)

BACKGROUND

The Strunk/Eugene Overpayment Recovery Project (Strunk/Eugene 2.0) began last year when court cases were resolved. The project is to recover overpayments to benefit recipients that resulted from a previous PERS Board having been found to be in error in crediting earnings to Tier One member regular accounts at the rate of 20% for calendar year 1999. Instead, the legislature and court directed that a rate of 11.33% crediting for that year was correct. In 2005, the Oregon Supreme Court decided two cases (*Strunk* and *City of Eugene*) which upheld portions of the 2003 PERS Reform legislation and previous circuit court decisions that established the correct 1999 earnings crediting rate to be 11.33%.

The first project (Strunk/Eugene 1.0) was initiated in 2006 to adjust Tier One member accounts and benefit levels to the correct amount based on the revised 1999 earnings crediting rate. In furtherance of that effort, the PERS Board adopted an Order on Repayment Methods on January 27, 2006. That order was separately challenged in court. On June 20, 2007, a Circuit Court judge held that PERS' order was not valid and enjoined further collection efforts. The Strunk/Eugene 1.0 project team continued on with adjusting account balances and ongoing benefits, capturing the amounts that were overpaid prior to the adjustments but not collecting on those amounts, to conform to the court's injunction. That project's activities were completed by the project deadline of June 30, 2009, leaving the overpaid amounts unrecovered.

On October 6, 2011, the Oregon Supreme Court found that the PERS Board's order was valid. Therefore, PERS must now endeavor to recover the remaining overpayments (approximately $165 million) to complete the work from the original Strunk/Eugene 1.0 project. The renewed effort, Strunk/Eugene 2.0, involves validating the debtor population, confirming invoice amounts, and setting up collection plans with the recipients.

PERS requested funding for the project from the Oregon Legislature's Emergency Board in May 2012. This request included additional expenditure authority to hire limited duration and temporary project staff, as well as funds for system upgrades and third-party collection expenses. The total request was $2.1 million.

The objective of the Strunk/Eugene Project 2.0 is to establish invoice amounts for all affected benefit recipients, contact them to inform them of those amounts, and either establish repayment plans or refer those recovery efforts to outside collectors, as required by state law. This project's focus during the balance of this biennium is on "billing" the recipients, not effecting actual recoveries, within this limited time frame. As such, metrics for the current project's efforts are based on the staff completing the process of contacting the affected recipients and providing them an opportunity to establish an extended repayment plan or pay the amount owed in a lump sum. As the majority of payment plans extend this overpayment recovery for up to 10 years, a reduced staffing level is contemplated in future biennia.

CURRENT PROGRESS REPORT

	Accounts	%		Accounts	%
Total Number of Benefit Recipients				**29,098**	
Accounts waiting to be worked				7,248	25%
Accounts that need additional review				535	2%
Accounts in progress				4,100	14%
Accounts awaiting recipient response				1,877	6%
Accounts worked:				14,475	50%
Paid in Full	1,383	9.6%			
PERS Payment Plan	12,477	86.2%			
Referred to Dept. of Revenue	394	2.7%			
Referred to out-of-state collection firms	221	1.5%			
Accounts determined not to have received a recoverable overpayment				863	3%
Total		100%		**29,098**	100%

"Accounts waiting to be worked" – Benefit recipients where we have not yet started the billing process.
"Accounts that need additional review" – Benefit recipients where we have some question of the amount owed and further research is needed to confirm the overpayment amount.
"Accounts in progress" – Benefit recipients where we have started but not yet completed the billing process.
"Accounts awaiting recipient response" – Benefit recipients where further action is delayed because of not having a valid address, the recipient has filed bankruptcy, additional research is required, or the recipient's time to determine their repayment options has not yet passed.

BUDGET EXECUTION

The Summary Budget Analysis attached to this memo is through the month of December 2012. Currently, we have a positive projected variance of $1,214,000. We have expended $265,169 (12.75%) to date and are projected to expend an additional $592,141 (28.59%) through the end of the biennium. As such, we expect to significantly under-spend the additional expenditure authority that was provided for this biennium. The reasons are:

1. **Personal Services:** Staff costs will be lower than projected because we have accelerated the number of invoices we send out on a monthly basis due to various efficiencies throughout the project, resulting in needing to retain fewer staff through the rest of the project.

2. **Services & Supplies:** Savings in this area are predominantly in IT Professional Services, with a projected positive variance of $548,967. This variance arose because we decided not to automate a phase of the project, instead using project staff to manually perform the task. This decision avoided us building functionality in our system that would have little or no utility beyond this project. We also project a positive variance in “Professional Services” which, in the context of this project, relates to the collection expenses for the Department of Revenue and out-of-state collection agencies. That projected positive variance is about $450,000. The variance is the result first of a larger-than-anticipated percentage of members agreeing to payment arrangements without an outside referral, and to the lag experienced from when we refer these accounts out and any actual recovery is effectuated.

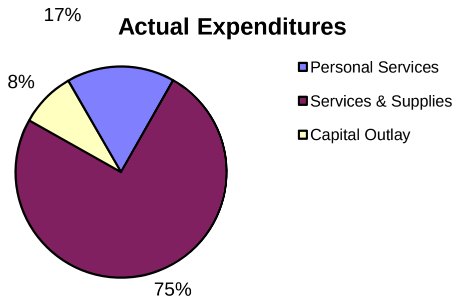
3. **Capital Outlay:** The Capital Outlay budget category was for telecommunication equipment needed for the temporary S/E 2.0 recovery phone team. Only a portion of that equipment ended up being needed, due to staffing efficiencies.

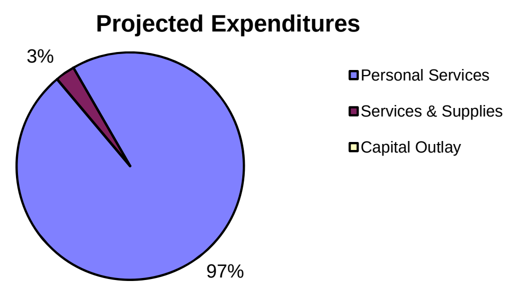
A.2.d. Attachment – Summary Budget Analysis

2011-13 Strunk/Eugene Overpayment Recovery Project - Budget Execution
Summary Budget Analysis
For the Month of: December 2012

Biennial Summary

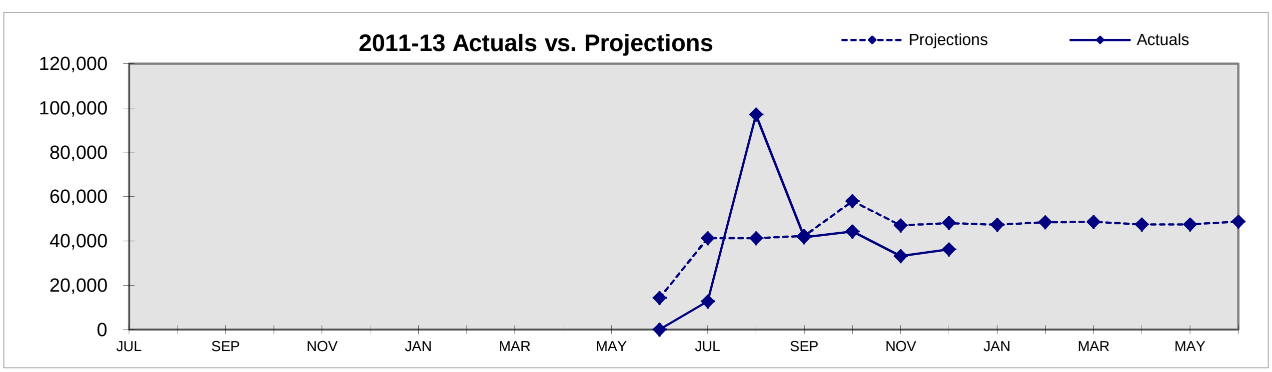
Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expend.	2011-13 LAB	Variance
Personal Services	156,878	506,321	663,199	917,155	**253,956**
Services & Supplies	98,937	85,820	184,757	1,154,255	**969,498**
Capital Outlay	9,354		9,354		**(9,354)**
Total	**265,169**	**592,141**	**857,310**	**2,071,410**	**1,214,100**





Monthly Summary

Category	Actual Exp.	Projections	Variance	Avg. Monthly Actual Exp.	Avg. Monthly Projected Exp.
Personal Services	33,640	48,098	14,458	26,146	48,044
Services & Supplies	2,626		(2,626)	16,490	
Capital Outlay				1,559	
Total	**36,266**	**48,098**	**11,832**	**44,195**	**48,044**



Project Tracker:

Percent of 2011-13 E-board Budget Expended:	**12.8%**
Percent of 2011-13 Project Duration Expired:	**53.8%**

Oregon

Theodore R. Kulongoski, Governor

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January 25, 2013

TO: Members of the PERS Board

FROM: Jason Stanley, Internal Audit Director

SUBJECT: Review the Annual Report of Financial Transactions of the Executive Director for the Fiscal Year Ended June 30, 2012.

REQUESTED ACTION

In accordance with PERS policy and procedure, the Chair of the Audit Committee has reviewed the summary of salary, benefits, personnel expenses, travel and other financial charges incurred by the PERS Executive Director for the fiscal year ended June 30, 2012 in the aggregate amount of $235,595.33. Details of this amount were provided at the Audit Committee meeting held on November 30, 2012. The financial records supporting this summary are maintained in the Fiscal Services Division.

BACKGROUND

Oregon Accounting Manual policy number 10.90.00.PO requires that agency heads reporting to a board or commission shall delegate review and approval authority for financial transactions to the person holding the position of second-in-command to the agency head or the Chief Financial Officer, and that the delegation be in writing. This is supported by PERS policy number 1.01.02.00.001.POL, which requires the Board to establish a formal structure to ensure the proper review and approval of the Executive Director's financial transactions.

That structure is contained within PERS' procedure number 1.01.02.00.001.PRO. The procedure requires that the Deputy Director or the Chief Financial Office review and approve all financial transactions of the Executive Director, including monthly timesheets, travel claims (both in-state and out-of-state), SPOTS card purchases, etc. The procedure also requires that the Chair of the Audit Committee report to the Audit Committee and the PERS Board annually that they have reviewed the Executive Director's financial transactions, and that this review and approval be documented in the Board meeting minutes.

The Chief Financial Officer has reviewed the detailed transactions (payroll time reports, travel expense reimbursement claims and Small Purchase Order Transaction System (SPOTS) card purchases) of the Executive Director of PERS for the fiscal year ended June 30, 2012, and has determined that they were appropriately submitted and archived with supporting documentation and contained the appropriate authorization and approval by either the Deputy Director or the Chief Financial Officer. Jason Stanley, Internal Audit Director, has also reviewed the detailed financial summaries and identified no exceptions or inappropriate financial transactions. During the 2012 fiscal year, the Executive Director had no exceptional performance leave or vacation payouts to report.

Recommendation:

Acknowledge receipt and acceptance of the report of the Executive Director's financial transactions for the fiscal year ended June 30, 2012 as submitted by the Chief Financial Officer, and document receipt and acceptance in the PERS Board minutes of January 25, 2013, in compliance with OAM 10.90.00 PO.

Oregon

John A. Kitzhaber, M.D., Governor

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January 25, 2013

TO: Members of the PERS Board

FROM: Steven Patrick Rodeman, Deputy Director

SUBJECT: Notice of Rulemaking for IRC Limitations Rules:
OAR 459-005-0525, *Ceiling on Compensation for Purposes of Contributions and Benefits*
OAR 459-005-0545, *Annual Addition Limitation*
OAR 459-080-0500, *Limitation on Contributions*

OVERVIEW

- Action: None. This is notice that staff has begun rulemaking.
- Reason: Update rules to reflect 2013 Internal Revenue Code (IRC) compensation limitations.
- Policy Issue: No policy issues have been identified at this time.

BACKGROUND

Annually, the Internal Revenue Service revises various dollar limits based on cost of living adjustments. These revisions apply to our plan by statute and rule, but must be adopted by the legislature or PERS Board, respectively, to be effective.

The IRS' revisions that are to be effective for calendar year 2013 have been announced. The proposed rule modifications incorporate these adjustments and make non-substantive edits to update citations and effective dates. These updates are necessary to ensure PERS compliance with the IRC's limits on the amount of annual compensation allowed for determining contributions and benefits, the limits on annual benefits, and the limits on annual additions to PERS. (Note that PERS staff will work with the legislature on a "federal re-connect bill" to update the necessary statutory provisions as well).

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing will be held on February 26, 2013 at 3:00 p.m. at PERS headquarters in Tigard. The public comment period ends on March 1, 2013 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: Yes, statute requires the Board to update its rules to reflect revisions by the Internal Revenue Service.

Impact: Clarifies the current limits for contributions and benefits under federal law.

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

RULEMAKING TIMELINE

December 14, 2012	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
January 1, 2013	*Oregon Bulletin* published the Notice. Notice was sent to employers, legislators, and interested parties. Public comment period began.
January 25, 2013	PERS Board notified that staff began the rulemaking process.
February 26, 2013	Rulemaking hearing to be held at 3:00 p.m. in Tigard.
March 1, 2013	Public comment period ends at 5:00 p.m.
March 29, 2013	Staff will propose adopting the rule modifications, including any changes resulting from public comment or reviews by staff or legal counsel.

NEXT STEPS

A hearing will be held on February 26, 2013 at PERS headquarters in Tigard. The public comment period ends on March 1, 2013, at 5:00 p.m. The rules are scheduled to be brought before the PERS Board for adoption at the March 29, 2013 Board meeting.

B.1. Attachment 1 – 459-005-0525, *Ceiling on Compensation for Purposes of Contributions and Benefits*
B.1. Attachment 2 – 459-005-0545, *Annual Addition Limitation*
B.1. Attachment 3 – 459-080-0500, *Limitation on Contributions*

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

459-005-0525

Ceiling on Compensation for Purposes of Contributions and Benefits

(1) The purpose of this rule is to assure compliance of the Public Employees Retirement System (PERS) with Internal Revenue Code (IRC) Section 401(a)(17) relating to the limitation on annual compensation allowable for determining contribution and benefits under ORS Chapters 238 and 238A.

(2) Definitions:

(a) “Annual compensation” means “salary,” as defined in ORS 238.005 and 238.205 with respect to Chapter 238 and in 238A.005 with respect to Chapter 238A paid to the member during a calendar year or other 12-month period, as specified in this rule.

(b) “Eligible participant” means a person who first becomes a member of PERS before January 1, 1996.

(c) “Employer” means a “public employer” as defined in ORS 238.005, for the purposes of this rule as it applies to Chapter 238. For the purposes of this rule as it applies to Chapter 238A, an “employer” means a “participating public employer” as defined in 238A.005.

(d) “Noneligible participant” means a person who first becomes a member of PERS after December 31, 1995.

(e) “Participant” means an active or inactive member of PERS.

(3) For eligible participants, the limit set forth in IRC Section 401(a)(17) shall not apply for purposes of determining the amount of employee or employer contributions that may be paid into PERS, and for purposes of determining benefits due under ORS

Chapters 238 and 238A. The limit on annual compensation for eligible participants shall be no less than the amount which was allowed to be taken into account for purposes of determining contributions or benefits under former **ORS** 237.001 to 237.315 as in effect on July 1, 1993.

(4) For noneligible participants, the annual compensation taken into account for purposes of determining contributions or benefits under ORS Chapters 238 and 238A shall be measured on a calendar year basis, and shall not exceed *[$250,000]* **$255,000** per calendar year beginning in *[2012]* **2013**.

(a) The limitation on annual compensation will be indexed by cost-of-living adjustments in subsequent years as provided in IRC Section 401(a)(17)(B).

(b) A noneligible participant employed by two or more agencies or instrumentalities of a PERS participating employer in a calendar year, whether concurrently or consecutively, shall have all compensation paid by the employer combined for determining the allowable annual compensation under this rule.

(c) PERS participating employers shall monitor annual compensation and contributions to assure that reports and remitting are within the limits established by this rule and IRC Section 401(a)(17).

(5) For a noneligible participant, Final Average Salary under ORS 238.005 with respect to Chapter 238 and under 238A.130 with respect to Chapter 238A shall be calculated based on the amount of compensation that is allowed to be taken into account under this rule.

(6) Notwithstanding section**s** (4) and (5) of this rule, if the Final Average Salary as defined in ORS 238.005 with respect to Chapter 238 and as defined in 238A.130 with

respect to Chapter 238A is used in computing a noneligible participant's retirement benefits, the annual compensation shall be based on compensation paid in a 12-month period beginning with the earliest calendar month used in determining the 36 months of salary paid. For each 12-month period, annual compensation shall not exceed the amount of compensation that is allowable under this rule for the calendar year in which the 12-month period begins.

(7) With respect to ORS Chapter 238, creditable service, as defined in 238.005, shall be given for each month that an active member is paid salary or wages and allowable contributions have been remitted to PERS, or would be remitted but for the annual compensation limit in IRC Section 410(a)(17). With respect to Chapter 238A, retirement credit as determined in 238A.140, shall be given for each month that an active member is paid salary or wages and allowable contributions have been remitted to PERS, or would be remitted but for the annual compensation limit in IRC Section 401(a)(17).

(8) The provisions of this rule are effective on January 1, 2004.

Stat. Auth.: ORS 238.630, 238.650, 238A.370 & 238A.450

Stats. Implemented: ORS Chapters 238 & 238A

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

459-005-0545

Annual Addition Limitation

(1) Applicable Law. This administrative rule shall be construed consistently with the requirements of the Internal Revenue Code (IRC) Section 415(c) and the Treasury regulations and Internal Revenue Service rulings and other interpretations issued thereunder.

(2) Annual Addition Limitation. Except as otherwise provided in this rule, a member's annual additions to PERS for any calendar year after *[2011]* **2012** may not exceed *[$50,000]* **$51,000** (as adjusted under IRC Section 415*[(d)]* **(c)**).

(3) Annual Additions. For purposes of this rule, the term "annual additions" has the same meaning as under IRC Section 415(c)(2).

(4) Permissive Service Credit. The following special rules shall apply with respect to purchases of permissive service credit, as defined in OAR 459-005-0540, Permissive Service Credit:

(a) If a member's after-tax contributions to purchase permissive service credit are included in the member's annual additions under section (3) of this rule, the member shall not be treated as exceeding the limitation under section (2) of this rule solely because of the inclusion of such contributions.

(b) With respect to any eligible participant, the annual addition limitation in section (2) of this rule shall not be applied to reduce the amount of permissive service credit to an amount less than the amount that could be purchased under the terms of the plan as in effect on August 5, 1997. As used in this subsection, the term "eligible participant" includes any individual who became an active member before January 1, 2000.

(5) Purchase of Service in the Armed Forces Under ORS 238.156 or 238A.150. If a member makes a payment to PERS to purchase retirement credit for service in the Armed Forces pursuant to 238.156(3)(c) or 238A.150 and the service is covered under Internal Revenue Code Section 414(u), the following special rules shall apply for purposes of applying the annual addition limitation in section (2) of this rule:

(a) The payment shall be treated as an annual addition for the calendar year to which it relates;

(b) The payment shall not be treated as an annual addition for the calendar year in which it is made; and

(c) The member shall be treated as having received the following amount of compensation for the period of service in the Armed Forces to which the payment relates:

(A) The amount of compensation the member would have received from a participating employer had the member not been in the Armed Forces; or

(B) If the amount in paragraph (A) of this subsection is not reasonably certain, the member's average compensation from the participating employer during the 12-month period immediately preceding the period of service in the Armed Forces (or, if shorter, the period of employment immediately preceding the period of service in the Armed Forces).

(6) The provisions of this rule are effective on January 1, 2004.

Stat. Auth.: ORS 238.630, 238.650, 238A.370 & 238A.450

Stats. Implemented: ORS 238.005 - 238.715, 238A.370

OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 080 – OPSRP INDIVIDUAL ACCOUNT PROGRAM

459-080-0500

Limitation on Contributions

(1) Definitions. For purposes of this rule:

(a) “Annual addition” has the same meaning given the term in 26 U.S.C. 415(c)(2)**.** *[as in effect on December 31, 2010.]*

(b) “Compensation” has the same meaning given the term in 26 U.S.C. 415(c)(3)**(A).** *[as in effect on December 31, 2010.]*

(2) Annual addition limitation. Except as otherwise provided in this rule, the annual addition to a member account for any calendar year may not exceed *[$50,000]* **$51,000 effective January 1, 2013**.

(3) Payment for military service. If a payment of employee contributions for a period of military service is made under OAR 459-080-0100:

(a) The payment shall be treated as an annual addition for the calendar year(s) of military service to which it relates;

(b) The payment shall not be treated as an annual addition for the calendar year in which it is made; and

(c) For the purpose of allocating payments under this section, the member’s compensation shall be the amount described in OAR 459-080-0100(3)(d).

Stat. Auth.: ORS 238A.450

Stats. Implemented: ORS 238A.370

Oregon

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January 25, 2013

TO: Members of the PERS Board

FROM: Steven Patrick Rodeman, Deputy Director

SUBJECT: Notice of Rulemaking for Social Security Annual Compensation Limits Rule: OAR 459-017-0060, *Reemployment of Retired Members*

OVERVIEW

- Action: None. This is notice that staff has begun rulemaking.
- Reason: The current rule needs to be amended to reflect the most recent Social Security annual compensation limitations.
- Policy Issue: No policy issues have been identified at this time.

BACKGROUND

Under ORS 238.082, a Tier One or Tier Two retired member may work less than 1,040 hours in a calendar year or the number of hours the member can work and not exceed the Social Security annual compensation limits and continue to receive retirement benefits.

The Social Security Administration has announced the 2013 Social Security annual compensation limits. The new limits are $15,120 (for retired members who have not reached full retirement age under the Social Security Act), and $40,080 (for the calendar year in which the retired member reaches full retirement age under the Social Security Act and only for compensation for the months before reaching full retirement age).

OAR 459-017-0060 must be modified to reflect the 2013 Social Security earnings limitations. The new limitations are not effective for PERS purposes until adopted by the Board.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing will be held on February 26, 2013 at 3:00 p.m. at PERS headquarters in Tigard. The public comment period ends on March 1, 2013 at 5:00 p.m.

LEGAL REVIEW

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

IMPACT

Mandatory: Yes, the rule should be updated to reflect the statutory changes. Otherwise, the rule would provide incomplete guidance regarding reemployed retired members and outdated Social Security annual compensation limits.

Impact: Retired members will benefit from the updated Social Security annual compensation limits.

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

RULEMAKING TIMELINE

January 15, 2013	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
January 25, 2013	PERS Board notified that staff began the rulemaking process.
February 1, 2013	*Oregon Bulletin* published the Notice. Notice was sent to employers, legislators, and interested parties. Public comment period began.
February 26, 2013	Rulemaking hearing to be held at 3:00 p.m. in Tigard.
March 1, 2013	Public comment period ends at 5:00 p.m.
March 29, 2013	Staff will propose adopting the rule modifications, including any changes resulting from public comment or reviews by staff or legal counsel.

NEXT STEPS

A hearing will be held on February 26, 2013 at PERS headquarters in Tigard. The public comment period ends on March 1, 2013, at 5:00 p.m. The rules are scheduled to be brought before the PERS Board for adoption at the March 29, 2013 Board meeting.

B.2. Attachment 1 – 459-017-0060, *Reemployment of Retired Members*

OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 017 – REEMPLOYED RETIRED MEMBERS

459-017-0060

Reemployment of Retired Members

(1) For purposes of this rule, “retired member” means a member of the PERS Chapter 238 Program who is retired for service.

(2) Reemployment under ORS 238.082. A retired member may be employed under 238.082 by a participating employer without loss of retirement benefits provided:

(a) The period or periods of employment with one or more participating employers total less than 1,040 hours in a calendar year; or

(b) If the retired member is receiving retirement, survivors, or disability benefits under the federal Social Security Act, the period or periods of employment total less than 1,040 hours in a calendar year or no more than the total number of hours in a calendar year that, at the retired member’s specified hourly rate of pay, limits the annual compensation of the retired member to an amount that does not exceed the following Social Security annual compensation limits:

(A) For retired members who have not reached full retirement age under the Social Security Act, the annual compensation limit is *[$14,640]* **$15,120**; or

(B) For the calendar year in which the retired member reaches full retirement age under the Social Security Act and only for compensation for the months before reaching full retirement age, the annual compensation limit is *[$38,880]* **$40,080**.

(3) The limitations on employment in section (2) of this rule do not apply if the retired member has reached full retirement age under the Social Security Act.

(4) The limitations on employment in section (2) of this rule do not apply if:

(a) The retired member meets the requirements of ORS 238.082(4), (5), (6), (7) or (8), and did not retire at a reduced benefit under the provisions of 238.280(1), (2), or (3);

(b) The retired member retired at a reduced benefit under ORS 238.280(1), (2) or (3), is employed in a position that meets the requirements of 238.082(4), the date of employment is more than six months after the member's effective retirement date, and the member's retirement otherwise meets the standard of a bona fide retirement;

(c) The retired member is employed by a school district or education service district as a speech-language pathologist or speech-language pathologist assistant and:

(A) The retired member did not retire at a reduced benefit under the provisions of ORS 238.280(1), (2), or (3); or

(B) If the retired member retired at a reduced benefit under the provisions of ORS 238.280(1), (2) or (3), the retired member is not so employed until more than six months after the member's effective retirement date and the member's retirement otherwise meets the standard of a bona fide retirement;

(d) The retired member meets the requirements of section 2, chapter 499, Oregon Laws 2007;

(e) The retired member is employed for service during a legislative session under ORS 238.092(2); or

(f) The retired member is on active state duty in the organized militia and meets the requirements under ORS 399.075(8).

(g) For purposes of population determinations referenced by statutes listed in this section, the latest federal decennial census shall first be operative on the first day of the second calendar year following the census year.

(h) For purposes of ORS 238.082(6), a retired member replaces an employee if the retired member:

(A) Is assigned to the position of the employee; and

(B) Performs the duties of the employee or duties that might be assigned to an employee in that position.

(5) If a retired member is reemployed subject to the limitations of ORS 238.082 and section (2) of this rule, the period or periods of employment subsequently exceed those limitations, and employment continues into the month following the date the limitations are exceeded:

(a) If the member has been retired for six or more calendar months:

(A) PERS will cancel the member's retirement.

(i) If the member is receiving a monthly service retirement allowance, the last payment to which the member is entitled is for the month in which the limitations were exceeded.

(ii) If the member is receiving installment payments under ORS 238.305(4), the last installment payment to which the member is entitled is the last payment due on or before the last day of the month in which the limitations were exceeded.

(iii) If the member received a single lump sum payment under ORS 238.305(4) or 238.315, the member is entitled to the payment provided the payment was dated on or before the last day of the month in which the limitations were exceeded.

(iv) A member who receives benefits to which he or she is not entitled must repay those benefits to PERS.

(B) The member will reestablish active membership the first of the calendar month following the month in which the limitations were exceeded.

(C) The member's account must be rebuilt in accordance with the provisions of section (7) of this rule.

(b) If the member has been retired for less than six calendar months:

(A) PERS will cancel the member's retirement effective the date the member was reemployed.

(B) All retirement benefits received by the member must be repaid to PERS in a single payment.

(C) The member will reestablish active membership effective the date the member was reemployed.

(D) The member account will be rebuilt as of the date that PERS receives the single payment. The amount in the member account must be the same as the amount in the member account at the time of the member's retirement.

(6) For purposes of determining period(s) of employment in section (2) of this rule:

(a) Hours of employment are hours on and after the retired member's effective retirement date for which the member receives wages, salary, paid leave, or other compensation.

(b) Hours of employment that are performed under the provisions of section (4) of this rule on or after the later of January 1, 2004 or the operative date of the applicable statutory provision are not counted.

(7) Reemployment under ORS 238.078(1). If a member has been retired for service for more than six calendar months and is reemployed in a qualifying position by a participating employer under the provisions of 238.078(1):

(a) PERS will cancel the member's retirement effective the date the member is reemployed.

(b) The member will reestablish active membership on the date the member is reemployed.

(c) If the member elected a benefit payment option other than a lump sum option under ORS 238.305(2) or (3), the last monthly service retirement allowance payment to which the member is entitled is for the month before the calendar month in which the member is reemployed. Upon subsequent retirement, the member may choose a different benefit payment option.

(A) The member's account will be rebuilt as required by ORS 238.078 effective the date active membership is reestablished.

(B) Amounts from the Benefits-In-Force Reserve (BIF) credited to the member's account under the provisions of paragraph (A) of this subsection will be credited with earnings at the BIF rate or the assumed rate, whichever is less, from the date of retirement to the date of active membership.

(d) If the member elected a partial lump sum option under ORS 238.305(2), the last monthly service retirement allowance payment to which the member is entitled is for the month before the calendar month in which the member is reemployed. The last lump sum or installment payment to which the member is entitled is the last payment due before the date the member is reemployed. Upon subsequent retirement, the member may not choose a different benefit payment option unless the member has repaid to PERS in a single payment an amount equal to the lump sum and installment benefits received and the earnings that would have accumulated on that amount.

(A) The member’s account will be rebuilt as required by ORS 238.078 effective the date active membership is reestablished.

(B) Amounts from the BIF credited to the member’s account under the provisions of paragraph (A) of this subsection, excluding any amounts attributable to repayment by the member, will be credited with earnings at the BIF rate or the assumed rate, whichever is less, from the date of retirement to the date of active membership.

(e) If the member elected the total lump sum option under ORS 238.305(3), the last lump sum or installment payment to which the member is entitled is the last payment due before the date the member is reemployed. Upon subsequent retirement, the member may not choose a different benefit payment option unless the member has repaid to PERS in a single payment an amount equal to the benefits received and the earnings that would have accumulated on that amount.

(A) If the member repays PERS as described in this subsection the member’s account will be rebuilt as required by ORS 238.078 effective the date that PERS receives the single payment.

(B) If any amounts from the BIF are credited to the member’s account under the provisions of paragraph (A) of this subsection, the amounts may not be credited with earnings for the period from the date of retirement to the date of active membership.

(f) If the member received a lump sum payment under ORS 238.315:

(A) If the payment was dated before the date the member is reemployed, the member is not required or permitted to repay the benefit amount. Upon subsequent retirement:

(i) The member may choose a different benefit payment option.

(ii) The member's retirement benefit will be calculated based on the member's periods of active membership after the member's initial effective retirement date.

(B) If the payment was dated on or after the date the member is reemployed, the member must repay the benefit amount. Upon subsequent retirement:

(i) The member may choose a different benefit payment option.

(ii) The member's retirement benefit will be calculated based on the member's periods of active membership before and after the member's initial effective retirement date.

(iii) The member's account will be rebuilt as described in ORS 238.078(2)

(g) A member who receives benefits to which he or she is not entitled must repay those benefits to PERS.

(8) Reemployment under ORS 238.078(2). If a member has been retired for less than six calendar months and is reemployed in a qualifying position by a participating employer under the provisions of 238.078(2):

(a) PERS will cancel the member's retirement effective the date the member is reemployed.

(b) All retirement benefits received by the member must be repaid to PERS in a single payment.

(c) The member will reestablish active membership effective the date the member is reemployed.

(d) The member account will be rebuilt as of the date that PERS receives the single payment. The amount in the member account must be the same as the amount in the member account at the time of the member's retirement.

(e) Upon subsequent retirement, the member may choose a different benefit payment option.

(9) Upon the subsequent retirement of any member who reestablished active membership under ORS 238.078 and this rule, the retirement benefit of the member must be calculated using the actuarial equivalency factors in effect on the effective date of the subsequent retirement.

(10) The provisions of paragraphs (7)(c)(B), (7)(d)(B), and (7)(e)(B) of this rule are applicable to retired members who reestablish active membership under ORS 238.078 and this rule and whose initial effective retirement date is on or after March 1, 2006.

(11) Reporting requirement. A participating employer that employs a retired member must notify PERS in a format acceptable to PERS under which statute the retired member is employed.

(a) Upon request by PERS, a participating employer must certify to PERS that a retired member has not exceeded the number of hours allowed under ORS 238.082 and section (2) of this rule.

(b) Upon request by PERS a participating employer must provide PERS with business and employment records to substantiate the actual number of hours a retired member was employed.

(c) Participating employers must provide information requested under this section within 30 days of the date of the request.

(12) Sick leave. Accumulated unused sick leave reported by an employer to PERS upon a member’s retirement, as provided in ORS 238.350, may not be made available to a retired member returning to employment under sections (2) or (7) of this rule.

(13) Subsections (4)(c) and (4)(d) of this rule are repealed effective January 2, 2016.

(14) This rule is effective January 1, *[2012]*<u>**2013**</u>.

Stat. Auth.: ORS 238.650

Stats. Implemented: ORS 238.078, 238.082, 238.092, 399.075, & 2007 OL Ch. 499 & 774

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January 25, 2013

TO: Members of the PERS Board

FROM: Steven Patrick Rodeman, Deputy Director

SUBJECT: First Reading of OPSRP Pension Program P&F Continuous Service Rule:
OAR 459-075-0200, *Retirement Eligibility for Police Officer and Firefighter Members*

OVERVIEW

- Action: None. This is the first reading of the OPSRP Pension Program P&F Continuous Service rule.
- Reason: Clarify the five year continuous employment as Police Officer and Firefighter (P&F) prior to effective date of retirement and the status of a member who is employed concurrently as P&F and other than P&F.
- Policy Issue: No policy issues have been identified.

BACKGROUND

Under ORS 238A.160(2) and 238A.165(2), an OPSRP Pension Program member establishes eligibility for retirement as a Police Officer and Firefighter (P&F) member by working in a P&F position continuously for a period of not less than five years immediately prior to their effective date of retirement.

PERS staff presented OAR 459-075-0200 at the November 30, 2012 board meeting. At that meeting, we noted two scenarios that those modifications could address:

1) Separating from one P&F position and starting another P&F position does not restart the five year (60-month) clock for eligibility so long as the member does not work in a general service position during that separation.
2) If a member works concurrently in a P&F and general service position, the five year (60-month) clock is not restarted so long as the member remains continuously employed in the P&F position.

The modifications as presented may not be adequately consistent with the legislative language. Further modifications are suggested in the rules attached to this memo to more closely follow the constrictions that the terms “continuous” and “immediately” commonly mean.

SUMMARY OF MODIFICATIONS TO RULE SINCE NOTICE

A definition for “continuously” was added to OAR 459-075-0200(1) to specify that a member must accrue retirement credit in consecutive months without interruption to meet this standard.

Under this definition, a member must terminate from one P&F position and start another P&F position without a break in retirement credit to prevent the five-year clock from re-setting. Generally, that would require that the member work at least the major fraction of each month to earn retirement credit in each month. Subsection (2)(a) was modified to insert "continuously" and the term "separation" was replaced with "termination" for consistent terminology.

"Immediately" is further refined by modifications to subsection (2)(b) to reflect that the member must retire on the first of the month after terminating employment to maintain P&F qualification.

PERS staff recognize that these restrictions may not be consistent with member expectations in several real-world scenarios where an interval may occur between positions or from termination to retirement. We consider these rule modifications to more clearly define the parameters that the current legislative language imposes. We are postponing adoption of these modifications to allow for further public comment, or possible legislative revision of these restrictions should the affected stakeholder groups wish to pursue a legislative fix.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held on December 18, 2012 at 3:00 p.m. at PERS headquarters in Tigard. No members of the public attended. The first public comment period ended on December 31, 2012 at 5:00 p.m. No public comment was received. The second public comment period ends on January 31, 2013 at 5:00 p.m.

LEGAL REVIEW

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

IMPACT

Mandatory: No.

Impact: Clarifies the eligibility for early or normal retirement status of a P&F member going from one P&F position to another and concurrent employment as P&F and other than P&F.

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

RULEMAKING TIMELINE

October 15, 2012	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
November 1, 2012	*Oregon Bulletin* published the Notice. Notice was sent to employers, legislators, and interested parties. Public comment period began.
November 30, 2012	PERS Board notified that staff began the rulemaking process.
December 14, 2012	Staff extended the public comment period by filing Notice of Rulemaking with Secretary of State.
December 18, 2012	Rulemaking hearing held at 3:00 p.m. in Tigard.

December 31, 2012	First public comment period ended at 5:00 p.m.
January 1, 2013	*Oregon Bulletin* published the second Notice of Rulemaking.
January 25, 2013	First reading of the rule.
January 31, 2013	Second public comment period ends at 5:00 p.m.
March 29, 2013	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 public comment period ends on January 31, 2013 at 5:00 p.m. The rules are scheduled to be brought before the PERS Board for adoption at the March 29, 2013 Board meeting.

B.3. Attachment 1 – 459-075-0200, *Retirement Eligibility for Police Officer and Firefighter Members*

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OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 075 – OPSRP PENSION PROGRAM

459-075-0200

Retirement Eligibility for Police Officer and Firefighter Members

(1) **For purposes of this rule:**

(a) “Police officer” and “firefighter” have the same meaning given them in ORS 238A.005.

(b) “Continuously” means a period of employment during which the member accrues retirement credit in consecutive months without interruption.

(2) For the purpose of establishing eligibility for normal retirement under ORS 238A.160(2) and early retirement under 238A.165(2), an OPSRP Pension Program member will be considered to have held a position as a police officer or firefighter continuously for a period of not less than five years immediately preceding the effective date of retirement if:

(a) The member was employed in a qualifying position as a police officer or firefighter **continuously** for five years prior to the date of the member’s *[separation]* **termination** from that employment; and

(b) The member**’s effective date of retirement is the first of the month following termination from that employment.** *[did not return to a qualifying position after separation from that employment.]*

(3) A member who is concurrently employed by two or more employers in qualifying positions as a police officer or firefighter and as other than a police officer or firefighter is employed as a police officer or firefighter for purposes of this rule.

Stat. Auth.: ORS 238A.450

Stats. Implemented: 238A.160 & 238A.165

Oregon

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January 25, 2013

TO: Members of the PERS Board

FROM: Steven Patrick Rodeman, Deputy Director

SUBJECT: Adoption of Employer Remitting of Employee Contributions Rule:
OAR 459-009-0200, *Employer Remitting of Employee Contributions*

OVERVIEW

- Action: Adopt modifications to Employer Remitting of Employee Contributions rule.
- Reason: Clarifies employers may use date of hire in determination of method of employee contribution.
- Policy Issue: Should "date of hire" be a standard for determining the method of the member's Individual Account Program (IAP) contribution?

BACKGROUND

Employers have three methods to remit the member's IAP contribution to PERS:

(1) Member-Paid After Tax ("MPAT"): the contribution is paid by the member and remitted on an after-tax basis.

(2) Member-Paid Pre-Tax ("MPPT"): the contribution is paid by the member but remitted on a pre-tax basis, so the member does not pay taxes (e.g., income, FICA) on the contribution.

(3) Employer-Paid Pre-Tax ("EPPT"): the contribution is assumed and paid by the employer on a pre-tax basis.

ORS 238A.335 allows an employer to use MPAT, MPPT, or EPPT for different groups of employees, so long as the employer has a policy or collective bargaining agreement to support any distinction. OAR 459-009-0200 currently requires an employer to apply the method of contribution uniformly to employees who are in similarly situated positions and provides examples of similarly situated positions. The list of examples is not exclusive, but does not include "date of hire" as one of the specifically permissible examples. Employers have requested that we modify this rule to list a member's date of hire as a permissible method to differentiate among IAP contribution methods.

POLICY ISSUE

Should "date of hire" be a standard for determining the method of the member's IAP contribution?

Employers seeking additional flexibility in collective bargaining and personnel policies have contacted PERS to confirm that "date of hire" is a permissible standard for determining the contribution method. Staff expects the number of employer inquiries to increase as employers explore ways to address limited budgets. PERS' response to date has been that use of "date of hire" is permissible under the statute and not specifically excluded under the rule. Staff supports the rule modification to clarify that "date of hire" is an acceptable standard and to memorialize that standard.

The proposed modifications to OAR 459-009-0200 clearly indicate that employers have this flexibility. For example, an employer may agree to remit employer-paid pre-tax (EPPT) contributions for all employees who are members of a collective bargaining unit and were hired before July 1, 2013, and member-paid pre-tax (MPPT) contributions for employees who are members of the same collective bargaining unit, but are hired on or after July 1, 2013.

SUMMARY OF MODIFICATIONS TO RULE SINCE NOTICE

There have been no modifications to the rule since notice.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held on December 18, 2012 at 3:00 p.m. at PERS headquarters in Tigard. No members of the public attended. The public comment period ended on December 31, 2012 at 5:00 p.m. No public comment was received.

LEGAL REVIEW

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

IMPACT

Mandatory: No.

Impact: Employers and employees will benefit from this clarification in the determination of methods of remitting employee contributions.

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

RULEMAKING TIMELINE

October 15, 2012	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
November 1, 2012	*Oregon Bulletin* published the Notice. Notice was sent to employers, legislators, and interested parties. Public comment period began.
November 30, 2012	PERS Board notified that staff began the rulemaking process.
December 18, 2012	Rulemaking hearing held at 3:00 p.m. in Tigard.
December 31, 2012	Public comment period ended at 5:00 p.m.
January 25, 2013	Board may adopt the permanent rule modifications.

BOARD OPTIONS

The Board may:

1. Pass a motion to "adopt modifications to the Employer Remitting of Employee Contributions rule, as presented."
2. Direct staff to make other changes to the rule or explore other options.

STAFF RECOMMENDATION

Staff recommends the Board choose Option #1.

- Reason: Clarifies employers may use date of hire in determination of method of employee contribution.

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.4. Attachment 1 – 459-009-0200, *Employer Remitting of Employee Contributions*

OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 009 – PUBLIC EMPLOYER

459-009-0200

Employer Remitting of Employee Contributions

(1) A participating employer shall remit to PERS in accordance with OAR 459-070-0110 the contributions required by ORS 238A.330. Unless otherwise agreed to as provided for in section (2) or (3) of this rule, the employer shall withhold and remit the required contributions on an after-tax basis as defined in OAR 459-005-0001(2), which shall be known as “member paid after-tax contributions (MPAT)”.

(2) In accordance with Internal Revenue Code (IRC) Section 414(h), and under provision of ORS 238A.335(2)(b), participating employers may voluntarily agree to assume and pay the employee contribution on behalf of its employees, which shall be known as “employer paid pre-tax contributions (EPPT)”. The employer assumption and payment of the employee contributions shall be subject to the following terms and conditions:

(a) The employer’s employment agreement(s) to assume and pay the contributions must be evidenced by a certified copy of the employer’s policy established by statute, charter, ordinance, administrative rule, executive order, collective bargaining agreement, or other written employment policy or agreement. The employer’s employment policy(s) or agreement(s) shall specify that:

(A) The required PERS employee contribution is deemed to be picked up for purposes of IRC Section 414(h)(2) and is assumed and paid for purposes of ORS 238A.335(2)(b);

(B) The employees do not have the option of receiving the assumed amount directly;

(C) Employee compensation may not be reduced and the employer shall provide the additional amounts necessary to make the employee contributions; and

(D) The employer's employment policy(s) or agreement(s) is not retroactive in its application.

(b) The employer's employment policy(s) or agreement(s) to assume and pay employee contributions may not be construed to require an employer to open or renegotiate a pre-existing collective bargaining agreement or change an employment policy before its normal expiration date.

(c) The employer's employment policy(s) or agreement(s) must be to assume and pay the full amount, and not a portion thereof, of the affected employees' contributions required by ORS 238A.330.

(d) The employer's policy(s) or agreement(s) may apply to all its employees or some of its employees. If it applies only to some employees, it shall apply uniformly to *[all]* employees of the public employer who are *[employed in]* similarly situated *[positions]*, such as, but not limited to:

(A) The chief executive officer or administrative head of a public employer.

(B) Management personnel, as defined by the public employer, not otherwise covered by a collective bargaining agreement.

(C) Confidential personnel, as defined by the public employer, not otherwise covered by a collective bargaining agreement.

(D) Administrative personnel, as defined by the public employer, not otherwise covered by a collective bargaining agreement.

(E) Personnel covered by a collective bargaining agreement.

(F) Other personnel, whether full time, part time, temporary, or as a substitute, who are not covered by a collective bargaining agreement.

(G) Personnel hired on or after a date established or agreed upon by the employer.

(3) Under provision of ORS 238A.335(2)(a), participating employers may voluntarily agree to "pick-up" the employee contributions withheld, and such picked-up contributions shall be known as "member paid pre-tax contributions (MPPT)". The employer "pick-up" of the employee contributions shall be subject to the following terms and conditions:

(a) The employer's agreement(s) to "pick-up" the contributions must be evidenced by a certified copy of the employer's policy established by statute, charter, ordinance, administrative rule, executive order, collective bargaining agreement, or other written employment policy or agreement. The employer's policy(s) or agreement(s) shall specify that:

(A) The employees do not have the option of receiving the picked-up amount directly;

(B) The employee compensation shall be reduced by the amount necessary to make the employee contributions; and

(C) The employer's policy(s) or agreement(s) is not retroactive in its application.

(b) The employer's employment policy(s) or agreement(s) to "pick-up" employee contributions withheld may not be construed to require an employer to open or re-negotiate a pre-existing collective bargaining agreement or change an employment policy before its normal expiration date.

(c) The employer's policy(s) or agreement(s) must be to "pick-up" the full amount, and not a portion thereof, of the affected employees' contributions required by ORS 238A.330.

(d) The employer's employment policy(s) or agreement(s) may apply to all its employees, or some of its employees. If it applies to only some of its employees, it shall apply uniformly to *[all]* employees of the public employer who are *[employed in]* similarly situated *[positions]*, such as, but not limited to:

(A) The chief executive officer or administrative head of a public employer.

(B) Management personnel, as defined by the public employer, not otherwise covered by a collective bargaining agreement.

(C) Confidential personnel, as defined by the public employer, not otherwise covered by a collective bargaining agreement.

(D) Administrative personnel, as defined by the public employer, not otherwise covered by a collective bargaining agreement.

(E) Personnel covered by a collective bargaining agreement.

(F) Other personnel, whether full time, part time, temporary, or as a substitute, who are not covered by a collective bargaining agreement.

(G) Personnel hired on or after a date established or agreed upon by the employer.

(4) The notification of the employer's written employment policy(s) or agreement(s) to enter into or to revoke (1) the "pick-up", or (2) to assume and pay contributions on behalf of employees, shall be submitted to PERS for review and approval, and shall become effective on the date the notification is received by PERS. Additional

information related to the employer's policy or agreement shall be provided at the request of staff and in the manner required by staff. If approved by PERS, such policy and agreement may not be revoked by the employer except with prior written notice to PERS. All costs to correct any errors caused by failure to give required notice shall be borne by the employer.

(5) Notwithstanding sections (1) to (4) of this rule, judge member contributions shall be made in accordance with ORS 238.515.

Stat. Auth.: ORS 238.650 & 238A.450

Stats. Implemented: ORS 238.515, 238A.330 & 238A.335

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January 25, 2013

TO: Members of the PERS Board

FROM: Steven Patrick Rodeman, Deputy Director

SUBJECT: Adoption of Data Verification Rule:
OAR 459-005-0040, *Verification of Retirement Data*

OVERVIEW

- Action: Adopt modifications to the Data Verification Rule.
- Reason: Modification of certain standards concerning employer obligations in verification of retirement data process.
- Policy Issue: Is 30 days a reasonable time for employers to confirm or modify employee records for a data verification?

BACKGROUND

Senate Bill 897 (2010) (codified at ORS 238.285) added the data verification process. Under the bill, an eligible member may request that retirement data be verified prior to retirement. Upon receiving the request, PERS notifies the member's employers of the request, and gives them a reasonable time to confirm or modify the data previously reported to PERS. PERS then issues a verification based upon the reported data. Once PERS issues an undisputed data verification, the verified data will be locked, and a member's retirement benefit will be calculated using data that is not less than the amounts provided in the verification, except in certain circumstances. Although employers have always been obligated to "verify" data, the new process ends the period by which employers could make certain data changes.

OAR 459-005-0040 sets forth the standards PERS follows when an eligible member requests a verification. The "reasonable time" for employers to confirm or modify records is currently 60 days. As noted above, after this period has passed, the member's employer may no longer modify that data. PERS then completes the verification.

The 60-day deadline was established when the data verification process was initiated July 1, 2011. Since that time, a mismatch in time frames has arisen because of the number of members who request data verifications at the same time that they apply for retirement. The 60-day time line for employers to verify data does not allow timely processing of the member's retirement application, since we strive to commence payments within 45 days.

At the November 30, 2012 PERS Board meeting, staff presented the modified rule. The policy issues and operational provisions were reviewed at that meeting.

POLICY ISSUE

Is 30 days a reasonable time for employers to confirm or modify employee records for a data verification?

The great majority of employers who have responded to PERS' notification and work item requests have responded within the first 30 days. During the period from July 1, 2011 to November 9, 2012, PERS sent employers 1,175 work items relating to data verification requests. Of these, PERS received affirmative responses for 850 work items, or 72.3% (for the rest of the work items, the employer simply allowed the 60 days to lapse). For those 850 work items, 78.4% (666) were received within 30 days or less. The proposed 30-day response time was discussed at a recent Employer Advisory Council meeting and there was no broad opposition. A public comment was received regarding the proposed standard, which is discussed below.

As the majority of employers respond to data verification work item requests within 30 days, lowering the standard for a response would allow for more timely benefit payment processing and remove what has proven to be an unnecessary delay. The proposed rule modifications also shorten the corresponding period during which an employer can petition for a discretionary extension of the deadline from 45 days to 21 days. This change is proposed because a 45-day deadline to petition for an extension would fall after the 30-day period had already expired. To date, no petitions for extension have been made by any PERS employers.

PERS staff recommends adopting these proposed rule modifications to allow for better alignment in processing benefits and improve administration of data verifications.

SUMMARY OF MODIFICATIONS TO RULE SINCE NOTICE

There have been no modifications to the rule since notice.

PUBLIC COMMENT AND HEARING TESTIMONY

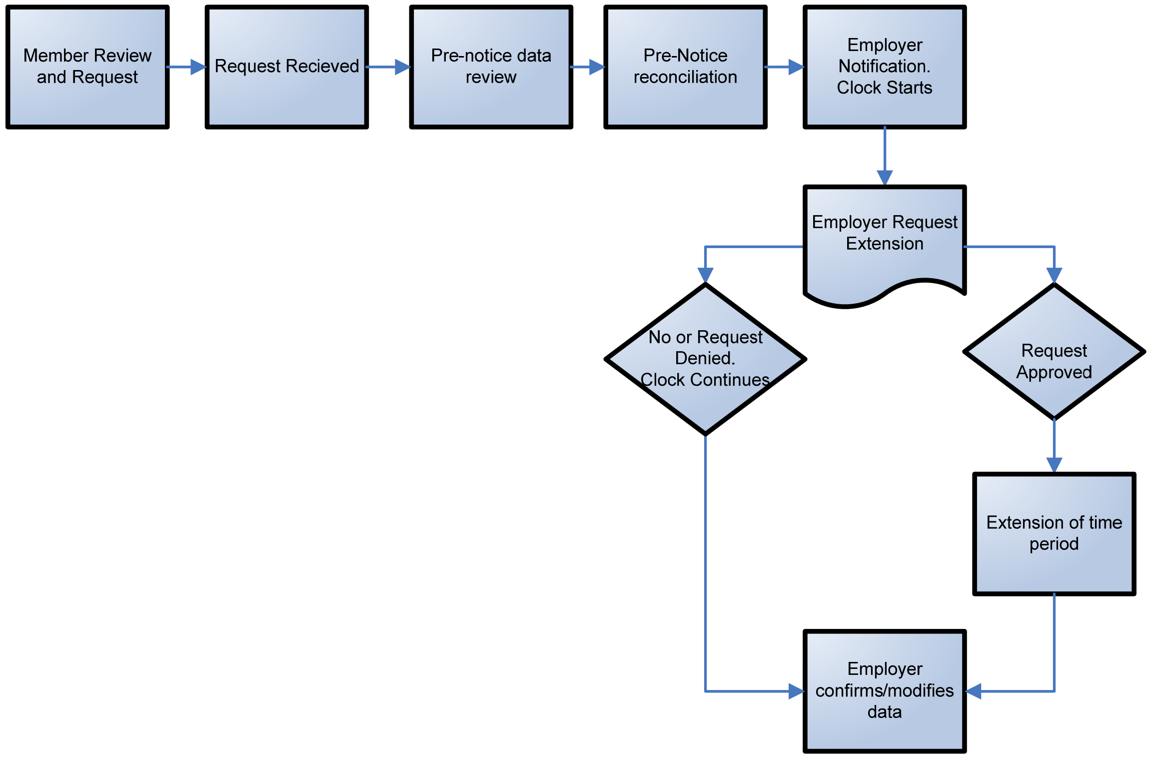
A rulemaking hearing was held on December 18, 2012, at 3:00 p.m. at PERS headquarters in Tigard. No members of the public attended. The public comment period ended on December 31, 2012, at 5:00 p.m. One public comment was received.

On December 31, 2012, Denise A. Yunker, Human Resources Director at Oregon University System ("OUS") submitted a comment on the proposed rule modifications. A copy of her letter is included as Attachment 2 to this memo.

Ms. Yunker asserts that 30 days is not a reasonable amount of time for employers to review member records. She proposes changing the response time from the proposed 30 calendar days to 45 calendar days, and changing the time to petition for an extension from the proposed 21 days to 29 days. She also suggests an extended response time for OUS institutions, and asks for clarification of what does and does not constitute "good cause" for extending the time period to respond to a data verification request.

First, note that the data employers are being asked to verify is open to their review and modification at any time prior to the completion of a data verification. Any employer concerned about the validity, accuracy, or completeness of their data can address those concerns on their own volition. The policy question, therefore, is when to close that opportunity to facilitate completion of the member's data verification request.

To put these concerns in an operational context, consider the process PERS has developed, as outlined below:



The employer's "clock," be it 30, 45, or 60 days, does not start until the data has been reviewed by PERS, the member, and, in many cases, the employer. Currently, upon receiving a member request for a verification, staff conduct a pre-notice review of the member's data to identify and, if possible, reconcile any data issues. During this pre-notice period, communications with the employer often occur in order to address any data issues. Such communications, however, do not start the employer's "clock" running. The pre-notice review and reconciliation is currently taking approximately 15 days after starting this process to complete. Only after PERS has completed its review will staff submit a work item to the employer that starts their "clock."

In response to Ms. Yunker's concerns that the reported metrics do not take into account the number of affected members which could lead to a large number of requests for the large employers, understand the constraint that PERS' pre-notice review places on the number of data verifications that can be processed. Like most employers, PERS' staff resources are also limited and can only process so many verification requests at a time. This fact effectively limits the number of data verification requests that employers will receive at any given time.

Staff appreciates Ms. Yunker's concerns relating to potential aggregate costs to employers for erroneous benefit payments, however, staff notes that these risks remain the same whether employers are allowed 60 days or 30 days to verify or confirm employment data. If lack of adequate time is an issue for completing the request, the petition for extension provision should address that concern.

Staff feels the modified provisions on petitioning for an extension provide sufficient flexibility for an employer to address more complex records. To date, no employer has petitioned for an extension. Further elaboration of the "good cause" standard for granting a extension would more likely limit flexibility to address different situations as they arise. Subsection (2)(c)(A)(iv) of the rule provides that an employer must establish "good cause" as to why the extension should be granted; that determination must be made on a case by case basis because the outcome will depend on the facts of the specific case. Many of the challenges described in Ms. Yunker's letter, such as difficulty in gathering data or limited staffing resources, could establish "good cause" warranting an extension. PERS is always willing to partner with employers to ensure timely and reliable information, and any petition for an extension will be reviewed with this core operating principle in mind.

The request for an extended response time specifically for OUS institutions is not feasible. Our records show that, as of November 9, 2012, OUS had an average response time of 16.623 days from notice. Our systems are simply not capable of assigning various deadlines to each employer.

Staff appreciates OUS' concerns but does not feel that they compel further changes to the proposed rule modifications, because the process as implemented already addresses many of those concerns. Employers, including OUS, generally reply to verification notification within 30 days and have not requested any extensions of the current 60-day standard. Staff continues to recommend adopting the rule as presented.

LEGAL REVIEW

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

IMPACT

Mandatory: No.

Impact: Improves the administration of verifications by removing any unnecessary delays, such that data verification requests are processed more quickly.

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

RULEMAKING TIMELINE

October 15, 2012	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
November 1, 2012	*Oregon Bulletin* published the Notice. Notice was sent to employers, legislators, and interested parties. Public comment period began.
November 30, 2012	PERS Board notified that staff began the rulemaking process.
December 18, 2012	Rulemaking hearing held at 3:00 p.m. in Tigard.

December 31, 2012	Public comment period ended at 5:00 p.m.
January 25, 2013	Board may adopt the permanent rule modifications.

BOARD OPTIONS

The Board may:

1. Pass a motion to "adopt modifications to the Data Verification rule, as presented."
2. Direct staff to make other changes to the rule or explore other options.

STAFF RECOMMENDATION

Staff recommends the Board choose Option #1.

- Reason: Clarification of certain standards concerning employer obligations in verification of retirement data process.

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.5. Attachment 1 – 459-005-0040, *Verification of Retirement Data*
B.5. Attachment 2 – Public comment letter from Denise Yunker, Oregon University System

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

459-005-0040

Verification of Retirement Data

(1) For purposes of this rule:

(a) “Eligible member” means an active or inactive member of the system who is within two years of attaining earliest service retirement age or has attained earliest service retirement age. “Eligible member” does not include a retired member of the system, an alternate payee, or a beneficiary.

(b) “Verification” means a document provided to an eligible member by PERS pursuant to **ORS 238.285** *[section 3, chapter 1, Oregon Laws 2010]*.

(2)(a) PERS will determine an eligible member’s creditable service, retirement credit, final average salary, member account balance, and accumulated unused sick leave for a verification based on employment data reported to PERS by the member’s employers, as reflected in PERS’ records. Except as provided in this section, an employer may not modify an eligible member’s records after the earlier of the *[60th]* **30th** day after PERS notifies the eligible member’s employer that a request for a verification has been submitted or the date the employer confirms the records in a manner determined by PERS.

(b) PERS may direct an employer to modify records if PERS determines modification is necessary, such as:

(A) To reconcile the member’s records before the verification is issued;

(B) To implement the resolution of a dispute under *[section 3(2), chapter 1, Oregon Laws 2010]* **ORS 238.285(2)**; or

(C) To reissue a verification under subsection (4)(e) of this rule.

(c) An employer may petition PERS for an extension of the *[60]***30**-day period described in subsection (a) of this section.

(A) The petition must:

(i) Be specific to an eligible member;

(ii) Specify the duration and end date of the extension requested;

(iii) Be received by PERS no later than the *[45th]* **21st** day after notice is issued; and

(iv) Establish good cause why the extension should be granted.

(B) The PERS Executive Director or a person designated by the Director may grant or deny the request.

(C) An employer may not request more than one extension for an eligible member.

(3) For any verification provided by PERS:

(a) All data in a verification will be as of December 31 of the last calendar year before the date the verification is produced for which the Board has adopted annual earnings crediting.

(b) If an eligible member requests an additional verification, an employer may not confirm or modify, nor may a member dispute, by reason of the additional verification, data for periods before the date specified in the most recent verification.

(4) When a member who has received a verification retires for service, PERS may not use amounts less than the amounts verified to calculate the member's retirement allowance or pension, except as permitted in *[section 3(3), chapter 1, Oregon Laws 2010,]* **ORS 238.285(3)** and this section.

(a) Amounts in a verification may be adjusted if a Tier Two member restores forfeited creditable service and establishes Tier One membership in the manner described in ORS 238.430(2)(b).

(b) Amounts in a verification may be adjusted to comply with USERRA.

(c) Amounts in a verification may be adjusted to implement a judgment, administrative order, arbitration award, conciliation agreement, or settlement agreement.

(d) If, subsequent to the date specified in a verification, a member's account is divided pursuant to ORS 238.465, the member and alternate payee accounts will be used to determine compliance with *[section 3(3), chapter 1, Oregon Laws 2010]* **ORS 238.285(3)** and this section.

(e) If the amounts in a verification are adjusted under *[section 3(3), chapter 1, Oregon Laws 2010]* **ORS 238.285(3)** or this section, the verification will be reissued by PERS as of the date specified in the original verification.

(5) Erroneous payments or overpayments not recoverable under *[section 3(6), chapter 1, Oregon Laws 2010]* **ORS 238.285(6)** will be allocated annually by the Board.

Stat. Auth.: ORS 238.650, 238A.450

Stats. Impl.: **ORS 238.285** *[Sections 2-4, chapter 1, Oregon Laws 2010 (Enrolled Senate Bill 897)]*

Oregon University System

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December 30, 2012

Daniel Rivas, Rules Coordinator
Public Employees Retirement System
P.O. Box 23700
Tigard, OR 97281-3700

Dear Mr. Rivas:

Thank you for the opportunity to comment on proposed changes to OAR 459-005-0040, *Verification of Retirement Data* that was published on October 15, 2012 and discussed with the PERS board on November 30, 2012.

The question posed by Deputy Director Steven Rodeman in the board docket is whether 30 days constitutes a reasonable time for employers to confirm or modify employee records. The Oregon University System (OUS) institutions respectfully respond that until there is more history and experience with members' use of data verification, 30 days is not a reasonable amount of time.

While we understand the problem that PERS staff is trying to resolve, i.e., conflicting timelines for data verification and the beginning of retiree benefit payments, a one-time opportunity to review and correct data errors requires sufficient time to ensure that the public universities are able to make necessary corrections. We request that the rule be re-developed for the following reasons:

1. Although the docket summary notes the majority of employers respond within the first 30 days of notice, the number of responding employers does not take into account the number of affected members. The potential number of data verification requests for large employers and the aggregate cost to employers for errors in benefit payments is understated by this metric.

2. The proposed change does not consider how the new data verification workload will increasingly stress staffing resources. Given the short period during which data verification has been available to members, and that PERS has so recently completed development of the member-initiated process and systems, we believe that utilization rates have not reached a stable state and will increase as members become more familiar with their opportunity to request verification as they begin to consider retirement.

3. Data verification relies on multi-media research and multiple-party communication that inherently interrupts the process.
    a. Compiling a single employee record can require more than half of a workday, depending the media type and historical data capture. Most OUS verifications require accessing archived physical records, microfiche/microfilm, and electronic records.
    b. Since the data verification process began, there have been instances where only a partial record could be reported, and PERS' records were needed to complete the profile. Coordinating member records requires responses from PERS, which frequently delays completion of our internal processing.
    c. In 2004, OUS institutions were assigned individual employer numbers to accommodate EDX reporting, creating multiple-employer records for members' service with the university system prior to that date and service with their respective campuses after it. This effectively doubles the staff work and coordination required to complete each OUS member's data verification.

Proposed Changes to Draft OAR 459-005-0040

The number of members and the complexity of their data retrieval described above leads OUS institutions to respond that 30 days is not a reasonable amount of time to confirm or modify employee records. Understanding that PERS is proposing a rule modification to better align the data verification process with other statutory timelines, the following changes to the proposed rule are submitted to ensure that both the PERS' and OUS' processes effectively meet the intent of ORS 238.285 and our shared efforts to comply with the law.

1. **Increase the response time from 30 calendar days to 45 calendar days and increase the time to petition for an extension from 21 days to 29 days.**
   OUS administrators find that by the time enough information has been gathered to recognize that additional time is needed, most of the verification work has already been accomplished. By limiting the time to petition for an extension, the effect is that date verification work needs to be accomplished in 21 rather than the proposed 30 days.

2. **Consider an extended response time for OUS institutions.**
   Currently, with over 4,000 active members each, the three largest public universities and the system office that is responsible for all universities' members up to 2004 have no more than 1 administrator apiece assigned for all PERS retirement transaction and recordkeeping duties. Due to the number of members and distribution of records over time, it is unlikely that the proposed data verification timeline will be achievable. Although the regional universities report on fewer members a uniform standard for is needed to all nine reporting entities that include the legacy OUS employer reports for the full university system and the eight current Oregon University System employers.

3. **Clarify what does and does not constitute "good cause" for purposes of a petition to extend the period described in subsection (2)(a).** Due to the broad interpretations that are possible by both PERS and by employers, guidelines, examples, or an employers' appeal process would be of long term benefit for all parties.

We appreciate that the draft rule does not cut off members' ability to request data verification within a certain amount of time prior to applying for retirement, and members' personal circumstances and questions about their employment histories vary widely.

We look forward to a favorable response and would welcome an opportunity to respond to any questions these comments raise.

Thank you for your consideration.

Denise A. Yunker

Denise A. Yunker, CHRO
Oregon University System
1600 Millrace Drive
Eugene, OR 97403-0175

The following institutions of the Oregon University System are in agreement that this modification to the proposed rule is necessary to support accurate data verification for OUS employees with PERS/OPSRP membership status. Signatures on file.

Jamie H. Moffitt
VP Finance & Administration and CFO
University of Oregon

Monica Rimai
Vice President, Finance and Administration
Portland State University

Mark McCambridge
Vice President for Finance and Administration
Oregon State University

Christopher G. Maples
President
Oregon Institute of Technology

Eric Yanhke, Interim
Vice President for Finance and Administration
Western Oregon University

Jay D. Kenton
Vice Chancellor for Finance and Administration
Oregon University System

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Oregon

John A. Kitzhaber, M.D., Governor

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January 25, 2013

TO: Members of the PERS Board

FROM: Steven Patrick Rodeman, Deputy Director
Jon DuFrene, Administrator, Fiscal Services Division

SUBJECT: 2012 Preliminary Earnings Crediting and Reserving

OVERVIEW

- Action: Adopt 2012 preliminary earnings crediting decisions.
- Reason: ORS 238.670(5) requires PERS to submit a preliminary proposal to the appropriate legislative committee at least 30 days before making a final decision on earnings crediting.
- Subject: Crediting earnings for calendar year 2012 to the PERS Fund's accounts and reserves.
- Policy Issue: Is the Contingency Reserve adequately funded?

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

EARNINGS ALLOCATIONS DIRECTED BY STATUTE OR RULE

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

1. **Administrative Expenses:** Administrative costs are funded by earnings when they are sufficient, as they were in 2012 (ORS 238.610(1)).
2. **Heath Insurance Accounts:** These accounts are created as part of the PERS Fund and directed by statute to be credited with actual earnings or losses, less the expense related to the administration of the programs (ORS 238.410(7); 238.415(4); 238.420(4)). For 2012, the preliminary rate for these accounts is estimated to be 13.34% for RHIA, 8.45% for RHIPA, and .58% for SRHIA.
3. **Employer Lump Sum Payment Accounts:** These accounts are credited with actual earnings or losses less administrative expenses, as authorized by ORS 238.225(10). For 2012, the preliminary rate for these accounts is estimated to average 14.57%.
4. **Variable Annuity Account:** This account is credited with earnings and losses on its share of the PERS Fund. The Variable Annuity Account is only invested in equities and therefore its earnings are discrete from those of the more diversified components of the PERS Fund. For 2012, preliminary variable earnings are estimated to be 18.35%. These earnings include an allocation of $1.9 million from the Contingency Reserve to earnings available for crediting from settlement of the *Murray v. PERB* litigation.
5. **Individual Account Program (IAP):** These accounts are credited with actual earnings or losses as required by ORS 238A.350(1). Preliminary IAP earnings for 2012 are estimated to be 14.19%.

6. **Tier One Rate Guarantee Reserve:** This reserve, established under ORS 238.255(1), is used to credit the assumed rate to Tier One member regular accounts. The reserve is currently in deficit in the amount of ($345.3 million) from the crediting required to Tier One member regular accounts in 2011, when earnings were less than the assumed rate of 8%. As preliminary earnings on Tier One member regular accounts for 2012 exceed the assumed rate, those excess earnings will be applied to reduce this deficit. Based on preliminary crediting, that reduction is estimated to be $335.1 million, but will vary depending on the amount of earnings the PERS Board decides to allocate to the Contingency Reserve.

POLICY ISSUE

- *Is the Contingency Reserve adequately funded?*

ORS 238.670(1) allows the PERS Board to establish a Contingency Reserve, which the Board can then allocate for specific purposes stated in the statute. The current beginning balance in the Contingency Reserve is $535.3 million.

One of the purposes for which the Contingency Reserve may be used is to pay legal expenses or judgments. PERS has settled litigation in two matters, *White* and *Murray*. These settlements will be facilitated through contributions both to and from the Contingency Reserve such that the reserve's current balance will be reduced by a net of $2 million to $533.3 million.

When the fund's earnings for a year exceed the assumed rate, the PERS Board can allocate to the Contingency Reserve "such sums as the board may deem advisable" but no more than 7.5% of the Fund's total earnings for that year. Attached to this memo are allocation models that show the effect of the PERS Board allocating 2012 earnings to the Contingency Reserve under four scenarios:

(1) Making no allocation to the Contingency Reserve;

(2) Allocating the Contingency Reserve its proportional share of 2012 earnings (an earnings rate of about 14.50%);

(3) Increasing the Contingency Reserve balance to equal 1% of the PERS Fund year-end balance; or

(4) Allocating the maximum 7.5% of total Fund earnings to the Contingency Reserve.

In 2011, significant litigation was resolved that narrowed the agency's risk exposure. The PERS Board decided to distribute a portion of the Contingency Reserve to liquidate the Tier One Rate Guarantee Reserve deficit remaining from 2008, leaving the Contingency Reserve at its current balance (which was about 1% of the PERS Fund year-end balance for calendar year 2011).

Staff's recommendation is to allocate sufficient 2012 earnings to maintain the Contingency Reserve at about 1% of the Fund's 2012 year-end balance (the third earnings allocation model attached). Please advise if staff should model other crediting scenarios to consider for the final earnings crediting decision at the PERS Board's March 29, 2013 meeting.

2012 PRELIMINARY ALLOCATIONS

The PERS Board's Annual Crediting Rule (OAR 459-007-0005) directs the crediting to the Judge and Tier Two member regular accounts, as well as the OPSRP Pension, Benefits-in-Force, and Employer reserves. Staff recommends the following allocations be adopted preliminarily by the PERS Board:

Non-Discretionary Allocations

Credit administrative expenses, health insurance accounts, employer lump sum accounts, variable annuity accounts, and accounts in the Individual Account Program in the manner described above. Credit Tier One member regular accounts with the assumed earnings rate (8%).

Judge Member Accounts

Credit Judge Member Accounts with the assumed earnings rate (8%).

Tier Two Member Regular Accounts

As a term of the settlement in the above-referenced cases, PERS agreed to transfer $2 million from the Contingency Reserve to earnings available for Tier Two member regular accounts in 2012. As a result, although Tier Two member regular accounts usually receive a proportional share of available earnings, the increase in 2012 earnings will result in a preliminary rate of 14.75%, but will vary depending on the amount of earnings the PERS Board decides to allocate to the Contingency Reserve.

Benefits-in-Force and Employer Reserves

Credit the Benefits-in-Force and Employer reserves evenly with the remaining available earnings. The preliminary crediting rate to those accounts would be 14.45%, but will vary depending on the amount of earnings the PERS Board decides to allocate to the Contingency Reserve.

BOARD OPTIONS

The Board's options for 2012 preliminary earnings crediting include:

1. Pass a motion to "adopt the preliminary crediting of earnings as presented for calendar year 2012, subject to final adoption at the March 29, 2013 PERS Board meeting, with no allocation of earnings to the Contingency Reserve."
2. Pass a motion to "adopt the preliminary crediting of earnings for calendar year 2012, subject to final adoption at the March 29, 2013 PERS Board meeting," allocating a stated amount or percentage of 2012 earnings to the Contingency Reserve (e.g., a proportional share).
3. Pass a motion to "adopt the preliminary crediting of earnings for calendar year 2012, subject to final adoption at the March 29, 2013 PERS Board meeting, so that the Contingency Reserve is maintained at approximately 1% of the PERS Fund year-end balance."
4. Pass a motion to "adopt the preliminary earnings as presented for calendar year 2012, subject to final adoption at the March 29, 2013 PERS Board meeting, allocating the maximum of 7.5% of total 2012 earnings to the Contingency Reserve".

STAFF RECOMMENDATION

Staff recommends the Board choose Option #3.

- Reason: This option is consistent with the PERS Board's general practice of maintaining the Contingency Reserve at approximately 1% of the PERS Fund in years when allocations to the reserve can be made.

NEXT STEPS

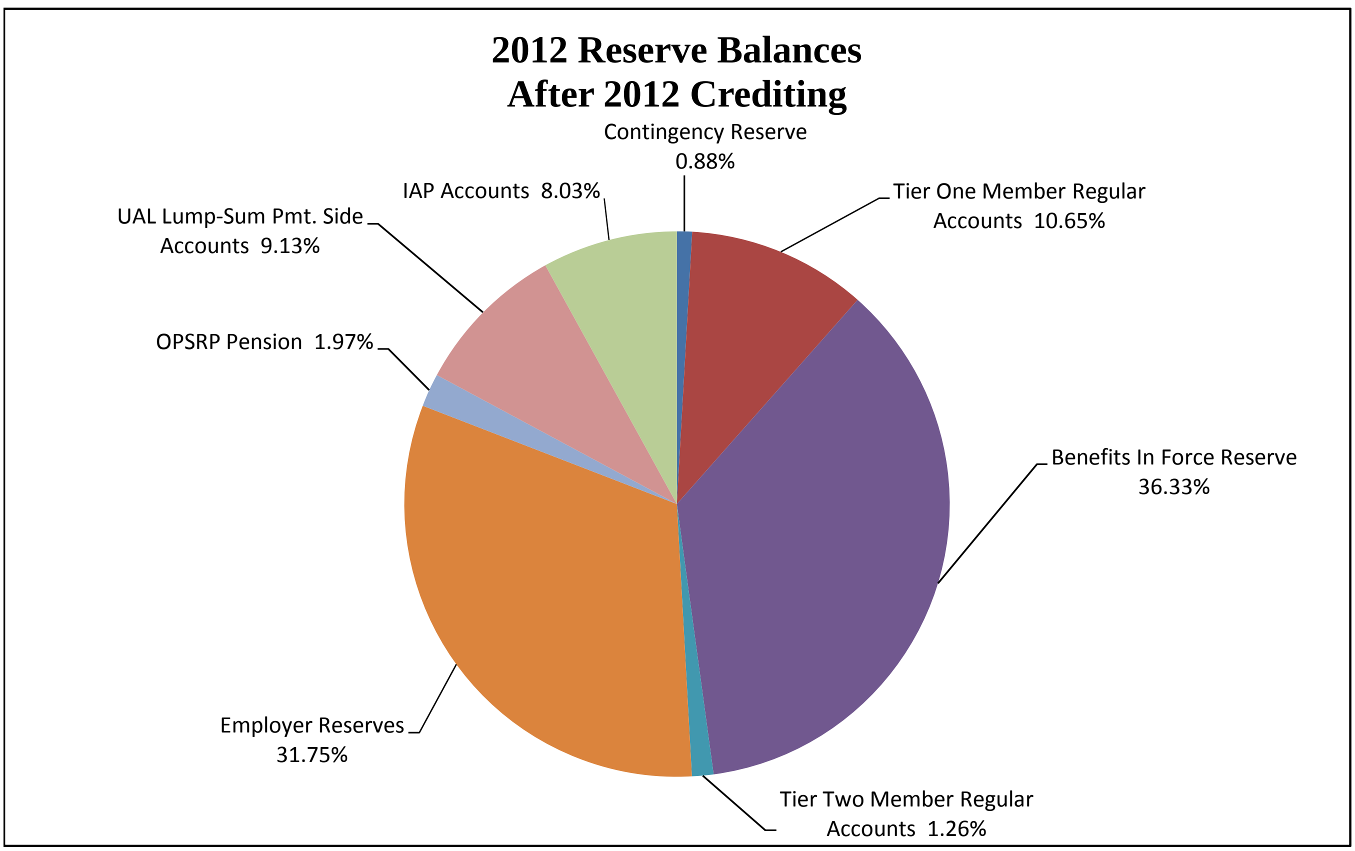
Once the Board makes its preliminary decisions, staff will prepare and present the required report to the Oregon Legislature's Ways and Means Committee. Any comments received from the committee will be presented to the Board prior to its final crediting decision on March 29, 2013.

This preliminary action and the resulting report to the Legislature do not prohibit the PERS Board from changing its final crediting and reserving decisions, such as if new information becomes available. If the Board makes a significant change from its preliminary decisions, staff will report the Board's actions to the Legislature.

Attachments:
Option 1: Contingency Reserve Allocation Model for no allocation
Option 2: Contingency Reserve Allocation Model for proportional share of 2012 earnings
Option 3: Contingency Reserve Allocation Model maintains the reserve's balance at 1% of the PERS Fund
Option 4: Contingency Reserve Allocation Model of maximum 7.5% of 2012 earnings

Oregon Public Employees Retirement System
2012 Crediting and Reserving
Credit Contingency Reserve with 0% of Earnings
(All dollar amounts in millions)

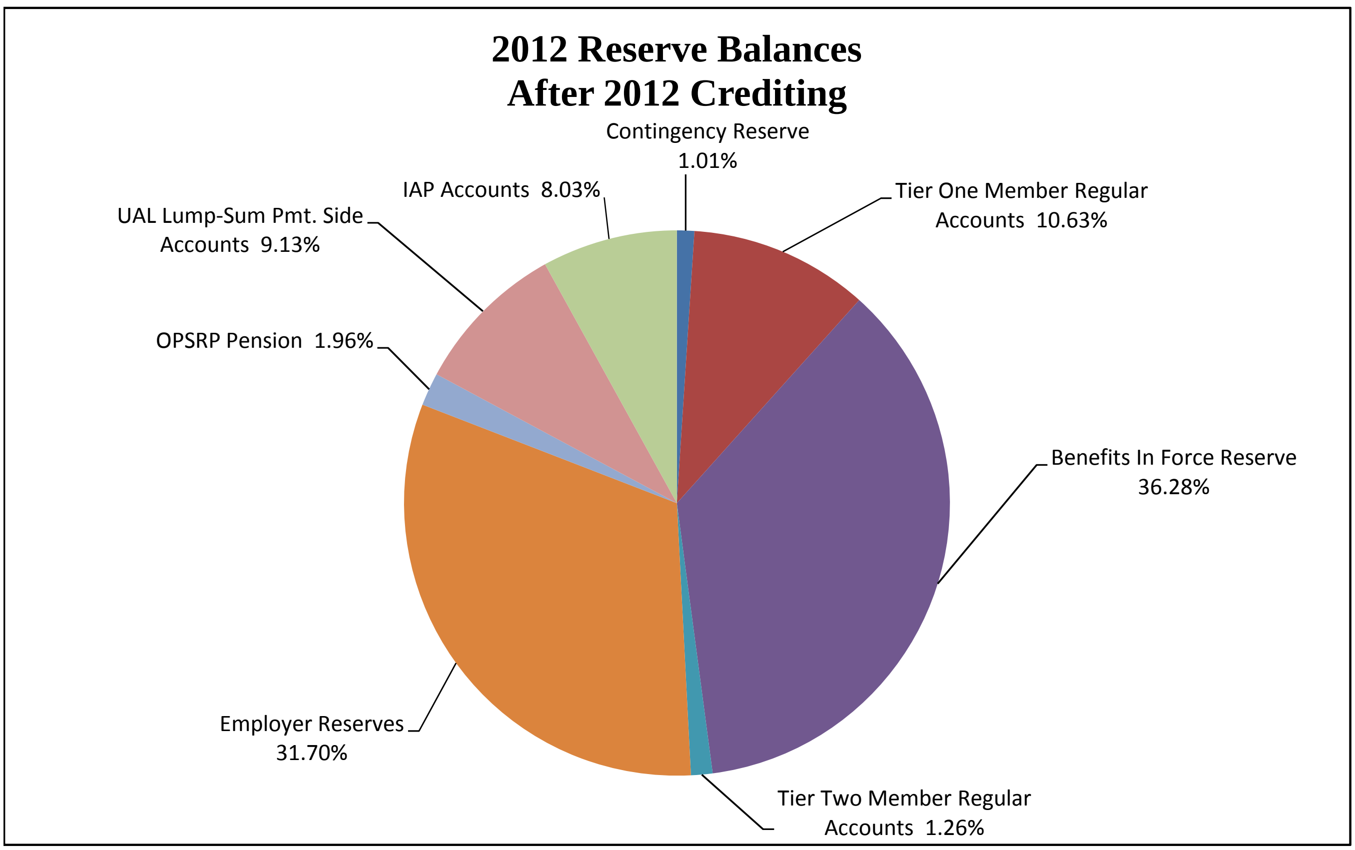
Regular Account Reserve	Reserves Before Crediting	2012 Crediting	Reserves After Crediting	2012 Rates
Contingency Reserve	$533.3		$533.3	N/A
Tier One Member Regular Accounts	5,961.8	476.9	6,438.7	8.00%
Tier One Rate Guarantee Reserve	(345.3)	335.1	(10.2)	N/A
Benefits In Force Reserve	19,160.7	2,770.3	21,931.0	14.45%
Tier Two Member Regular Accounts	666.2	98.3	764.5	14.75%
Employer Reserves	16,744.9	2,419.0	19,163.9	14.44%
OPSRP Pension	1,040.6	146.0	1,186.6	13.97%
***UAL Lump-Sum Pmt. Side Accounts**	4,782.3	731.3	5,513.6	Various
***IAP Accounts**	4,250.8	595.7	4,846.5	14.19%
Total	$52,795.3	$7,572.6	$60,367.9	



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

Oregon Public Employees Retirement System
2012 Crediting and Reserving
Credit Contingency Reserve with Equal Earnings
(All dollar amounts in millions)

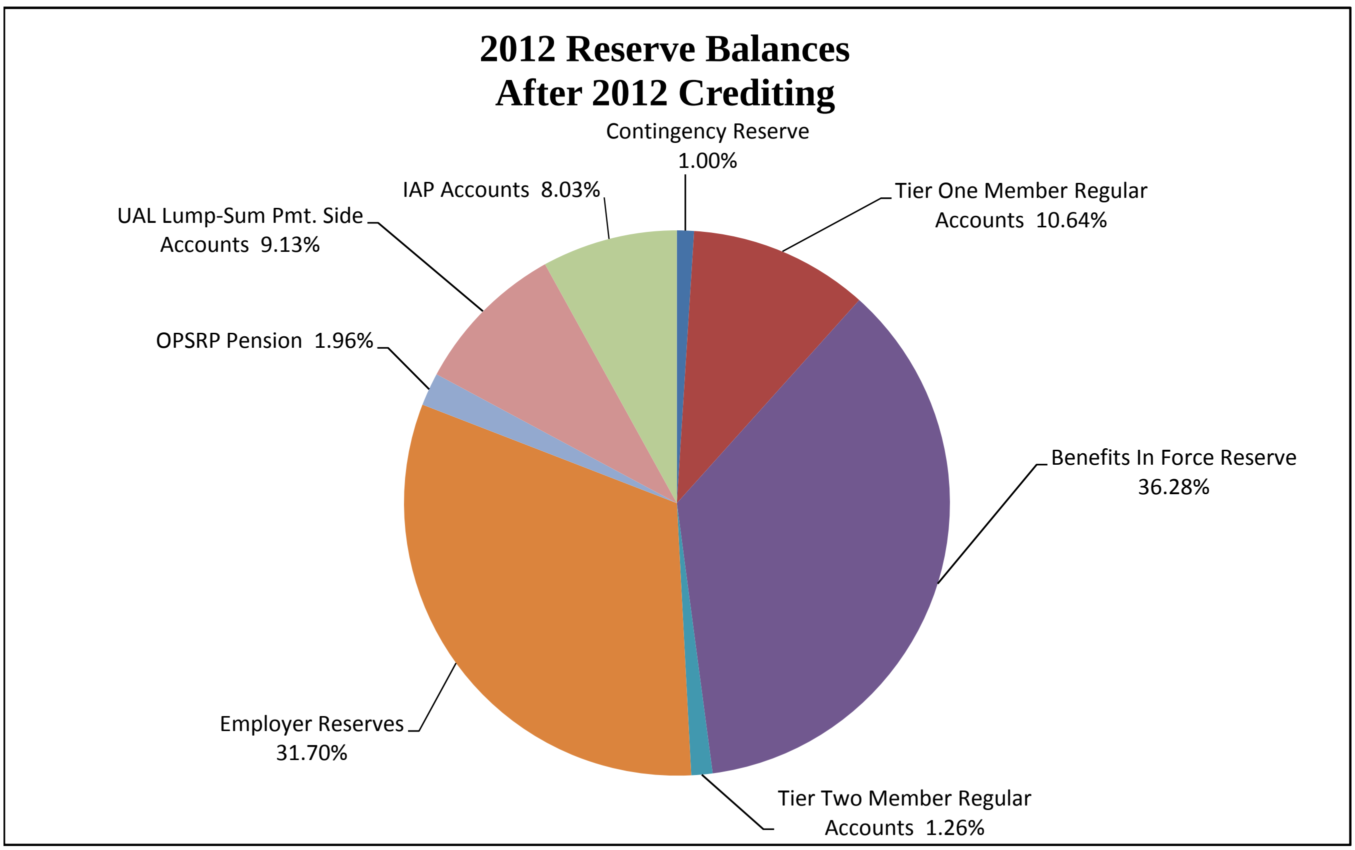
Regular Account Reserve	Reserves Before Crediting	2012 Crediting	Reserves After Crediting	2012 Rates
Contingency Reserve	$533.3	$77.7	$611.0	N/A
Tier One Member Regular Accounts	5,961.8	476.9	6,438.7	8.00%
Tier One Rate Guarantee Reserve	(345.3)	325.0	(20.3)	N/A
Benefits In Force Reserve	19,160.7	2,735.9	21,896.6	14.28%
Tier Two Member Regular Accounts	666.2	97.1	763.3	14.58%
Employer Reserves	16,744.9	2,388.9	19,133.8	14.27%
OPSRP Pension	1,040.6	144.1	1,184.7	13.85%
***UAL Lump-Sum Pmt. Side Accounts**	4,782.3	731.3	5,513.6	Various
***IAP Accounts**	4,250.8	595.7	4,846.5	14.19%
Total	$52,795.3	$7,572.6	$60,367.9	



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

Oregon Public Employees Retirement System
2012 Crediting and Reserving
Credit Contingency Reserve to 1% of Reserves
(All dollar amounts in millions)

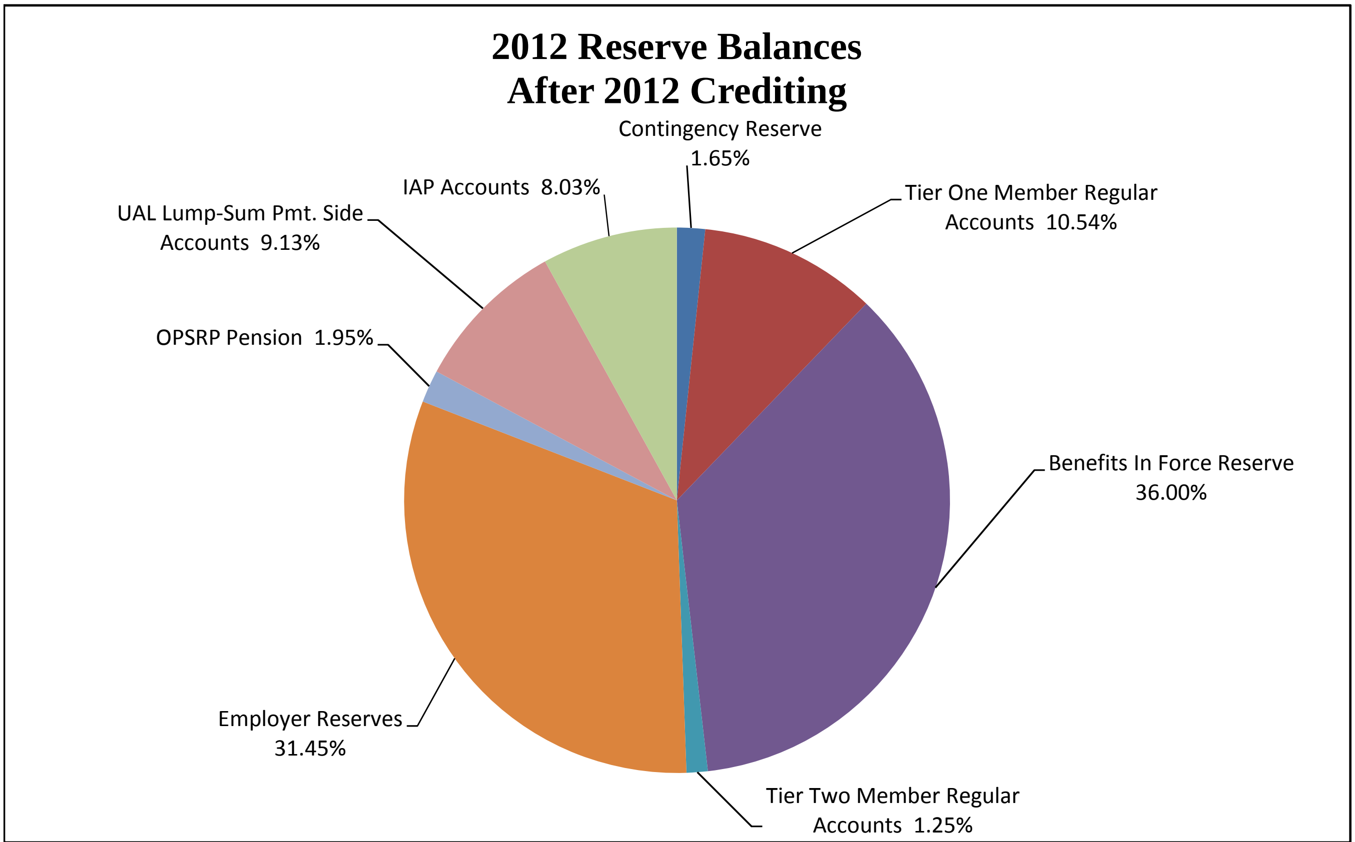
Regular Account Reserve	Reserves Before Crediting	2012 Crediting	Reserves After Crediting	2012 Rates
Contingency Reserve	$533.3	$70.4	$603.7	N/A
Tier One Member Regular Accounts	5,961.8	476.9	6,438.7	8.00%
Tier One Rate Guarantee Reserve	(345.3)	325.5	(19.8)	N/A
Benefits In Force Reserve	19,160.7	2,739.4	21,900.1	14.30%
Tier Two Member Regular Accounts	666.2	97.2	763.4	14.59%
Employer Reserves	16,744.9	2,391.9	19,136.8	14.28%
OPSRP Pension	1,040.6	144.3	1,184.9	13.87%
***UAL Lump-Sum Pmt. Side Accounts**	4,782.3	731.3	5,513.6	Various
***IAP Accounts**	4,250.8	595.7	4,846.5	14.19%
Total	$52,795.3	$7,572.6	$60,367.9	



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

Oregon Public Employees Retirement System
2012 Crediting and Reserving
Credit Contingency Reserve with 7.50% of Earnings
(All dollar amounts in millions)

Regular Account Reserve	Reserves Before Crediting	2012 Crediting	Reserves After Crediting	2012 Rates
Contingency Reserve	$533.3	$463.0	$996.3	N/A
Tier One Member Regular Accounts	5,961.8	476.9	6,438.7	8.00%
Tier One Rate Guarantee Reserve	(345.3)	271.7	(73.6)	N/A
Benefits In Force Reserve	19,160.7	2,566.7	21,727.4	13.40%
Tier Two Member Regular Accounts	666.2	91.3	757.5	13.70%
Employer Reserves	16,744.9	2,241.1	18,986.0	13.38%
OPSRP Pension	1,040.6	134.9	1,175.5	12.96%
***UAL Lump-Sum Pmt. Side Accounts**	4,782.3	731.3	5,513.6	Various
***IAP Accounts**	4,250.8	595.7	4,846.5	14.19%
Total	$52,795.3	$7,572.6	$60,367.9	



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Oregon

John A. Kitzhaber, M.D., Governor

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January 25, 2013

TO: Members of the PERS Board

FROM: Steven Patrick Rodeman, Deputy Director
Marjorie Taylor, Senior Policy Analyst

SUBJECT: PERS Cost Containment Concepts and Legislative Principles

BACKGROUND

The Oregon Legislature, at ORS 238.660(9), has charged the PERS Board with the responsibility to "review legislative proposals for changes in the benefits provided … and make recommendations … on those proposed changes." In fulfilling this charge, the PERS Board is acting as a policy advisor to the Legislature, and not in its fiduciary capacity. The recommendations should "maintain the balance between benefits and costs, and the relative risk borne by employers and employees."

PREVIOUS BOARD POLICY POSITIONS

The PERS Board has adopted policy positions in prior sessions for legislators to consider when evaluating proposed changes to the PERS Plan. For example, the following two concepts frequently arise and the Board has advocated principles for each for the Legislature's consideration:

1. *Expanding the Definition of "Police" & "Firefighter"*

PERS members who work in a position that meets the definition for "Police Officer" and "Firefighter" ("P&F") are eligible to retire at an earlier age and their service or retirement credit is calculated using a higher factor. Frequently, legislation is introduced to expand the definition of "Police Officer" to accord P&F status to a broader range of positions. Recent proposed expansions would have included dog control officers, physicians and nurses at Oregon State Hospital, juvenile caseworkers and juvenile detention workers, and community college police. The policy question about which positions should be accorded P&F status involves broader consideration than just state law. The federal tax code also allows for different treatment of benefits paid to people who retire from some public safety positions, such as waiver of the 10% penalty for distributions from tax-advantaged accounts like the IAP. The federal provisions for "Police Officers" only apply to positions that principally engage in the custody, control, or supervision of individuals convicted of, or arrested for, a criminal offense or confined to a place of incarceration or detention.

As policy direction to the Oregon Legislature, therefore, the PERS Board has directed staff to advocate that any proposals to expand the definition of "Police Officer" should meet these same criteria, to avoid divergence between those positions to which the PERS Plan accords P&F status and federal law. Otherwise, PERS members with P&F status may find themselves facing tax consequences on their distributions that are inconsistent with the early retirement dates allowed under state law.

2. *Return to Work Exceptions*

Retired Tier One and Tier Two members are currently allowed, under ORS 238.082, to return to PERS-covered employment without affecting their status as a retired member, so long as they work less than 1,040 hours in a calendar year. The law currently contains exceptions that allow members to exceed that limit in certain positions without affecting their retired status. Historically, these exceptions have expanded as employers look to retired members to supplement their workforce.

The policy question of whether a retired member should be able to return to PERS-covered employment is, first, a question for the public employer, who must determine under the current statute that the employment is in the public interest. Previously, the PERS Board has directed staff to work with the Legislature so any exception is narrowly tailored and clearly defined; includes a declaration to justify the exception that a work force shortage or other special situation currently exists; and includes a sunset clause so the exception does not persist beyond the shortage or special situation.

If a public employer makes a sufficient case to the Legislature to justify an additional exception under these considerations, then federal tax provisions must also be considered. Distributions from a tax-qualified retirement plan like PERS have to meet certain conditions, one of which is that the distribution is triggered by a "bona-fide" retirement. A retired member receiving a PERS benefit distribution and then returning to public employment must meet this bona-fide retirement standard. Therefore, the PERS Board has directed staff to inform the Legislature of these federal conditions, principally for members who take early retirement, so they can be imposed on exceptions and preserve the plan's tax qualification.

Lastly, the current list of exceptions is complicated by conditions and variables that make their application unclear to members and employers, so some members have returned to work thinking they were working under an exception that did not apply in their case. The confusion of members and employers has led the PERS Board to direct staff to urge the Legislature to conduct a comprehensive evaluation with the goal of establishing a consistent standard for granting exceptions. The existing list of exceptions does not reflect consistent policy criteria that would allow public employers to make a principled decision on whether employing a retired member is in the public's interest.

BOARD POLICY POSITIONS FOR THE 2013 LEGISLATIVE SESSION

In ORS 238.601, the Legislature further directs the PERS Board to "recognize that the continued stability and viability of the Public Employees Retirement System depends on the ability of public employers and taxpayers to pay the costs of the system." As we enter the 2013 legislative session, one area where policy direction will be necessary is the various cost containment proposals that will be advanced to reduce employer rates for the upcoming 2013-15 biennium and future biennia.

The PERS vision of maintaining a sustainable, secure and affordable retirement system has been greatly challenged by the 2008 market meltdown and slow economic recovery. Changes to PERS in 1995 and 2003 demonstrate the legislature's history of rebalancing the system to make it sustainable, secure, and affordable when economic factors, retirement trends, or member demographics tilt the balance between affordability and benefits. Staff recommends that PERS cost containment proposals be evaluated on whether they move the system toward that vision by applying the following principles:

1. Focus on major cost drivers to generate real cost savings.
2. Spread the burden across all affected groups, including retirees.
3. Keep it simple: avoid unintended consequences, and enable informed retirement decisions.
4. Enhance the system's credibility by addressing perceived inequities and abuses.

As an example of the application of these principles to legislative proposals on cost containment, consider those items the Governor included in his budget:

Limit Cost-Of-Living Adjustments (COLA) to the first $24,000 of annual benefits:

1. Major cost drivers: COLA adds 20-22% to the cost of a retired member's benefit as it compounds through the term of the payments. Imposing this limitation would reduce the system's accrued liability by $4.3 billion and uncapped employer rates by 4.4% of payroll.
2. Spread the burden: COLA is one system element that applies to all members who receive an ongoing benefit payment. Imposing this limit would include currently retired and inactive members in the cost containment effort, which spreads the burden over benefits representing 68% of the system's accrued liability (benefits to retired members represent 60% and benefits to inactive members are 8%) instead of just reducing compensation available to active members.
3. Keep it simple: The COLA limitation is easily determinable for members and will not affect the timing of their retirement, since the concept would apply regardless of when the member retired.

Stop Paying Tax Remedy Benefits to Members Residing Outside Oregon

4. Enhance credibility: This concept would not significantly reduce costs were it adopted, but it would address a perceived system inequity by eliminating tax remedy benefit payments to members who do not pay Oregon taxes. In principle, those tax remedy benefits were to compensate members when Oregon's laws changed to impose income taxes on their benefits.

So, for members who do not pay Oregon income taxes, the perception is that they receive an inequitable benefit increase.

As these and other cost containment proposals are considered, staff recommends that we urge the Legislature to consider these principles in deciding which changes to make to reduce PERS employer rates. Other factors that may enter their deliberations, such as whether a particular concept would survive a legal challenge, are important considerations but ones that the PERS Board is not in a position to resolve. We are, however, uniquely well positioned to evaluate proposals based on these factors and, therefore, should narrow our consideration to them.
PERS staff has also worked with the actuary to update its “Analysis of PERS Cost Allocation, Benefit Modification, and System Financing Concepts.” That analysis is attached to this memo and available on the PERS website. We will update that analysis through the course of the upcoming legislative session as concepts emerge or are refined, or as additional elements surface that should be included in the analysis.

C.2. Attachment – Analysis of PERS Cost Allocations, Benefit Modification, and System Financing Concepts, January, 2013

Analysis of PERS Cost Allocation, Benefit Modification, and System Financing Concepts

January 2013

Oregon
Public
Employees
Retirement
System

Version 1.0

Important Notes Regarding This Report

This report is produced to support the PERS Board in its role as a policy advisor to the Legislative Assembly on potential changes in PERS benefits. The report does not reflect any legal analysis, or specific stakeholder group or interested party viewpoints.

This report analyzes concepts that have been in the public discussion and addresses ways to mitigate or reduce PERS costs. These concepts (or ones similar) have surfaced in different forums over the years, including the Legislature, ballot initiatives, special study committees, and various PERS and other public retirement system analyses.

The intent of this report is to provide high-level information on how these concepts would affect PERS members and employers, and the potential impact on system funding, employer rates, member benefits, and administration.

Impacts are to uncollared system-wide average employer contribution rates based on:

- December 31, 2011 valuation data
- Current methods and assumptions except where noted (e.g., liabilities amortized over 20 years); results under different methods or assumptions could differ significantly

Rate changes resulting from the concepts will vary by employer.

Overall, note that employer rate reductions are generally only realized if a concept decreases benefits to be paid to members or the time over which employer costs are paid is extended.

Similarly, employer rates would be increased if a concept increases the benefits to be paid to members or decreases the proportion of member benefits that are assumed to be funded by investment earnings.

Benefit changes resulting from the concepts will vary by member; for example, the effect may vary based on which benefit calculation method is used to determine that member's highest benefit. Note that, for 2011 retirements, 49% of members had their benefits calculated using the Money Match method, 43% were calculated under Full Formula, and 8% were Formula+Annuity.

PERS uses up to three methods to calculate Tier One and Tier Two retirement benefits: Full Formula, Formula + Annuity (for Tier One members beginning service before August 21, 1981) and Money Match. PERS uses the method (for which a member is eligible) that produces the highest benefit amount. OPSRP pension benefits are based only on a formula method.

CAVEATS

Concepts have not been evaluated for:

- **Impact to collective bargaining discussions**
- **Relationship to workforce management objectives**
- **Compliance with previous court rulings**
- **Prospects for adoption by the 2013 Legislature**

Cost Savings Overview

Concepts have been analyzed on a discrete basis; combining concepts could affect the cost-saving estimates and the impact to member benefits. The cost savings estimates reflect a projected $18.4 billion PERS-covered payroll for the 2013-15 biennium. Estimated employer rate impacts are system-wide averages. The $18.4 billion biennial covered payroll projection is composed of $5.1 billion for state agencies and the university system (about 28%); $6 billion for school districts (about 33%); and $7.3 billion for local governments (about 40%). The 2013-15 biennial cost savings are based on the assumption that the Legislature will direct the PERS Board to revise employer contribution rates effective July 1, 2013, based on the legislative change, as they did when adopting the 2003 PERS Reform legislation.

Potential Legislative Concepts That Would Affect Costs for the 2013-15 Biennium		**2013-15 Cost Savings ($M)**	**Employer Rate Decrease (%)**
Related to the IAP	Eliminate Employer "Pick-up" of the 6% Member IAP Contribution	$129	0.7%
	Allow Partial Employer "Pick-up" of Member IAP Contributions	$74	0.4%
	Eliminate the 6% Member IAP Contribution Requirement	$129	0.7%
	Re-direct the 6% Member Contribution from the IAP to the Pension Programs	$570	3.1%
Related to Cost-of-Living Adjustments (COLAs)	Limit COLA Eligibility to the First $24,000 of Annual Benefits	$810	4.4%
	Do Not Pay COLA for One Biennium	$221	1.2%
	Eliminate All Future COLA Increases for Current and Future Benefit Recipients	$1,800	9.7%
	Establish a 10-year Service Time Requirement for COLAs	$55	0.3%
Related to Money Match	Reduce the Money Match Annuity Rate to 6%	$147	0.8%
	Eliminate Money Match Benefit Calculation for All *Future* Tier One/Tier Two Retirements	$497	2.7%
	Eliminate Money Match Benefit Calculation for All *Inactive* Tier One/Tier Two Retirements	$442	2.4%
Miscellaneous	Eliminate Tax Remedy Payments for Current and Future Non-Oregon Resident Retirees	$55	0.3%
	Remove the Adjustment Factors Used to Calculate Final Average Salary	$129	0.7%
	Establish a Defined Contribution Plan for New Hires	$0	0.0%

Potential PERS Board Concepts That Would Affect Costs for the 2015-17 Biennium		**2015-17 Cost Savings or Increase ($M)**	**Employer Rate Decrease or Increase (%)**
Related to System Financing	Reduce Assumed Earnings Rate to 7.5%	$552 increase	3.0% increase
	Reduce Assumed Earnings Rate to 7%	$1,200 increase	6.3% increase
	Increase Unfunded Actuarial Liability Amortization Period to 30 Years	$534 savings	2.9% decrease
	Increase Unfunded Actuarial Liability Amortization Period to 25 Years	$331 savings	1.8% decrease
	Limit Net Biennial Employer Contribution Rate Increases to 3% of Payroll	$350 savings	1.9% decrease

Glossary

Accrued liability: The net present value of projected future benefits allocated to service already completed in accordance with the actuarial cost method.

Actuarial asset value: The value of assets used in calculating the required contributions. The actuarial asset value may be equal to the fair market value of assets, or it may spread the recognition of certain investment gains or losses over a period of years in accordance with a smoothing method.

Actuarial assumptions: Assumptions as to the occurrence of future events affecting pension costs, such as: mortality, withdrawal, disablement, and retirement; rates of investment earnings and other relevant items. Actual experience will vary from assumption, and at times the variance will be substantial.

Actuarial cost method: A technique used by actuaries to allocate the amount and incidence of the annual actuarial cost of pension plan benefits, or normal cost, and the related unfunded actuarial liability (UAL). Ordinarily, the annual contribution to the plan comprises the normal cost and an amount for amortization of the unfunded actuarial accrued liability.

Base employer contribution rates: Consists of the normal cost rate plus the UAL rate. This is paid by a combination of employer contributions and side account transfers. Base rates do not reflect the effects of side account rate offsets.

Combined valuation payroll: Projected payroll for the calendar year following the valuation date for Tier One, Tier Two, and OPSRP active members. This payroll is used to calculate UAL rates.

Funded ratio or funded status: The actuarial value of assets expressed as a percentage of the accrued liability.

Individual Account Program (IAP): A defined contribution-like program that contains all member contributions (6% of covered payroll) made on or after January 1, 2004.

Net employer contribution rates: The rate funded by employer contributions, consisting of the base employer contribution rate minus the effect of side account rate offsets.

Normal cost: The annual cost assigned to the current year, under the actuarial cost method in use. The normal cost divided by the applicable payroll is the normal cost rate.

Oregon Public Service Retirement Plan (OPSRP) Pension Program: The program covering members hired on or after August 29, 2003.

Rate collar: A methodology that limits the maximum allowable period-to-period change in employer contribution rates. The width of the rate collar is determined by the current contribution rate and funded status.

Side accounts: Side accounts are established for employers who make supplemental payments (a lump-sum payment in excess of the required employer contribution). For State and Local Government Rate Pool (SLGRP) employers, this supplemental payment is first applied toward the employer's transition liability, if any, with the remainder going into a side account. Side accounts are treated as pre-paid contributions. Employer contribution rates are first determined excluding side accounts (base employer contribution rate). Then, an amortized portion of the side account is used to offset the contribution otherwise required for each individual employer that has a side account (net employer contribution rate). While side accounts are excluded from valuation assets in determining contribution rates for pools and non-pooled employers, side accounts are included in valuation assets for financial reporting purposes such as the reporting of funded status.

Total liability: The net present value of all projected future benefits attributable to all anticipated service (past *and* future) for current active and inactive members.

Tier One: The pension program covering members hired before January 1, 1996.

Tier Two: The pension program covering members hired from January 1, 1996 through August 28, 2003.

Unfunded actuarial liability (UAL): The excess of the actuarial accrued liability over the actuarial value of assets. The UAL is amortized over a fixed period of time to determine the UAL rate component of employer contribution rates.

Contents

Category: Concepts Related to the IAP

Eliminate Employer "Pick-up" of the 6% Member IAP Contribution

The IAP is a member-funded individual account benefit that is separate from the defined pension benefit. This concept would remove the statutory option for employers to "pick-up" the member's 6% Individual Account Program (IAP) contribution, which will require members to pay the 6% contribution directly.

Impact		
System Liabilities/Employer Rates/ Other Employer Costs	**Member Benefits and Cost Sharing**	**Administrative**
Accrued liability impact: $0.30 billion reduction Total liability impact: $0.65 billion reduction Enacting this concept would reduce uncollared employer rates by approximately 0.70%, saving approximately $129 million in the 2013-15 biennium, due to a reduction in the final average salary (FAS) for those Tier One/Tier Two members whose IAP contributions are employer paid or "picked up" and who retire under the Full Formula or Formula+Annuity benefit calculation methods. Preventing employers that currently "pick-up" member IAP contributions from doing so would shift the cost of those contributions to members. Currently, 70% of employers, representing 80% of covered payroll, "pick up" these member contributions. Approximately $880 million in costs would be shifted from employers to members during the 2013-15 biennium.	Directly deducting the 6% contribution from members (on either a pre-tax or post-tax basis) reduces take-home pay for the approximately 70% of members whose contributions are now "picked up" by their employer. This reduction may also affect the final average salary (FAS) used to calculate Full Formula or Formula+Annuity benefits for Tier One/Tier Two members when determining those members' three highest salary years. Benefit calculations for Tier One/Tier Two members under Money Match would not be affected. Benefit calculations for OPSRP members would also not be affected because the "pick-up" is excluded from the FAS used in OPSRP formula pension benefits.	**PERS** No impact on PERS; employers report whether contributions are "picked-up" for each member. **Employer** Employers who currently pay the "pick-up" will have to change their salary reporting to member-paid status on either a pre-tax or post-tax basis.

Allow Partial Employer "Pick-up" of Member IAP Contribution

The IAP is a member-funded individual account benefit that is separate from the defined pension benefit. This concept would amend statute to allow employers to "pick-up" a negotiated percentage of member Individual Account Program (IAP) contributions. Currently, the law provides that employers can only chose between "picking up" all of the 6% contribution or none of it; this concept would allow employers to negotiate a split of the 6% between "picked up" and member-paid. Savings below are calculated based on a 3%-3% split of the member's IAP contribution.

Impact		
System Liabilities/Employer Rates/ Other Employer Costs	**Member Benefits and Cost Sharing**	**Administrative**
Based on a 3%-3% split: Accrued liability impact: $0.15 billion reduction Total liability impact: $0.33 billion reduction These liability reductions from a 3%-3% split of the "pick up" would reduce uncollared employer rates by approximately 0.40%, saving approximately $74 million in the 2013-15 biennium, because the split would reduce the FAS for those Tier One/Tier Two members whose contributions are currently fully "picked up" and who retire under the Full Formula or Formula+Annuity benefit calculation method. Allowing employers that currently "pick-up" member IAP contributions to shift a percentage of those contributions to employees would shift approximately $147 million in costs for each percentage point that the "pick up" is reduced during the 2013-15 biennium. Based on a 3% - 3% split, a total of $441 million would be shifted from employers to members in the 2013-15 biennium.	Directly deducting a portion of the 6% contribution from members (on either a pre-tax or post-tax basis) reduces take-home pay for the approximately 70% of members whose contributions are now "picked up" by their employer. This reduction may also affect the final average salary (FAS) used to calculate Full Formula or Formula+Annuity benefits for Tier One/Tier Two members when determining those members' three highest salary years. Benefit calculations for Tier One/Tier Two members under Money Match would not be affected. Benefit calculations for OPSRP members would also not be affected because the "pick-up" is excluded from the FAS used in OPSRP formula benefits.	**PERS** No impact on PERS so long as the current expectation that employers report whether contributions are "picked-up" for each member is maintained. Substantial IT system modifications and tracking would need to be developed were PERS expected to track the history of the varying percentages "picked up" by a member's employer(s) over an entire career. **Employer** Employers will have to modify salary reporting to reflect the split contributions.

Category: Concepts Related to the IAP

Eliminate the 6% Member IAP Contribution Requirement

The IAP is a member-funded individual account benefit that is separate from the defined pension benefit. This concept would amend statute to eliminate the member 6% Individual Account Program (IAP) contribution.

Impact		
System Liabilities/Employer Rates/ Other Employer Costs	**Member Benefits and Cost Sharing**	**Administrative**
If the IAP contribution requirement was eliminated: Accrued liability impact: $0.30 billion reduction Total liability impact: $0.65 billion reduction These liability reductions would reduce uncollared employer rates by approximately 0.70%, saving approximately $129 million in the 2013-15 biennium, because eliminating the 6% "picked up" contribution reduces the final average salary (FAS) for those Tier One/Tier Two members who retire under the Full Formula or Formula +Annuity benefit calculation methods. Would also reduce costs for those employers that currently "pick-up" member IAP contributions. Employers pay member IAP contributions for approximately 70% of active members, representing 80% of covered payroll. If the contribution requirement was eliminated, those employers would avoid the "pick-up" and save approximately $880 million in the 2013-15 biennium.	Eliminating the 6% IAP contribution requirement for all members reduces their IAP benefit going forward. The IAP benefit was projected (using an 8% earnings assumption) to replace some 15% to 20% of a member's final salary for a 30-year career employee. This concept may also affect the Final Average Salary used to calculate Full Formula or Formula+Annuity benefits for Tier One/Tier Two members when determining those members' three highest salary years. Benefit calculations under Money Match would not be affected for Tier One/Tier Two members. Benefit calculations for OPSRP members would also not be affected.	**PERS** Substantial IT system modifications would be needed to remove validations and controls on employer reports that currently verify, track, allocate, and invoice for the 6% contribution. **Employer** Employers would need to modify their payroll systems to remove report fields that relate to the IAP contribution.

Category: Concepts Related to the IAP

Re-direct the 6% Member Contribution from the IAP to the Pension Programs

The Individual Account Program (IAP) is a member-funded individual account benefit that is separate from the defined pension benefit. This concept would amend statute to re-direct Tier One/Tier Two and OPSRP member contributions from the IAP to the member's regular account (for Tier One/Tier Two members), or to a similar account to fund the member's pension under the OPSRP Program.

Impact		
System Liabilities/Employer Rates/ Other Employer Costs	**Member Benefits and Cost Sharing**	**Administrative**
Accrued liability impact: $0.1 billion increase Total liability impact: $1.2 billion increase Increasing the portion of a member's retirement allowance that is paid through their contributions would decrease uncollared employer contribution rates by about 3.1% of payroll, saving approximately $570 million in the 2013-15 biennium. These savings would be realized because the 6% member contribution currently funding the member's IAP benefit would instead be redirected to contribute towards funding the member's retirement allowance. Not all of this cost-shifting is realized as employer rate savings because the redirection would also increase benefits for those Tier One/Tier Two members who retire under the Money Match calculation method (see the "Member Benefits" column for a further explanation of that dynamic). This concept would also increase Tier One member regular account balances, which adds risk in poor investment scenarios because those increased balances would also have annual guaranteed crediting at the assumed rate.	Members who retire under the Money Match method will see increased benefits because their regular accounts will resume growing with contributions, and that growth will be matched by their employers at retirement. The average projected liability increases for longer-serving members (i.e., 30+ years) are 2.5% to 4.0% given the relatively low number of years such members are expected to continue working before retirement. Tier One members with comparatively less service (i.e., 23-25 years) are projected to see higher average increases in their liability, approximately 8%. Some members in this group are currently projected to retire under Full Formula and re-contributing to their account would switch some to Money Match. OPSRP does not have an account balance-based benefit, but some increases are projected to benefits for OPSRP members who make a pre-retirement withdrawal, assuming any account balance in excess of their withdrawal benefit amount is paid to them.	**PERS** Would require substantial IT system modifications to resume posting contributions to Tier One/Tier Two members' regular accounts and to create an account structure that is integrated into the OPSRP system functionality. Preliminary estimates are that IT system changes for this concept could cost over $1.2 million. **Employer** Employer reports would need to be modified to reflect the additional information fields that might be needed to allow administration of this concept.

Category: Concepts Related to Cost-of-Living Adjustments (COLAs)

Limit COLA Eligibility to the First $24,000 of Annual Benefits

This concept would amend statute to limit the payment of any future COLA to only the first $24,000 of all current and future benefit recipients' annual benefits.

Impact		
System Liabilities/Employer Rates/ Other Employer Costs	**Member Benefits and Cost Sharing**	**Administrative**
Accrued liability impact: $4.3 billion reduction Total liability impact: $5.2 billion reduction Uncollared employer contribution rates would decrease by about 4.4% of payroll, saving approximately $810 million in the 2013-15 biennium. Accrued liability reduction: Active members = 30% Inactive members = 9% Retired members = 61% Total liability reduction: Active members = 42% Inactive members = 8% Retired members = 50%	Would slow the growth of current and future benefits for affected benefit recipients, causing those benefits to diminish in purchasing power over time due to the impact of inflation. See the chart on page 11 for examples of this concept's accumulated effect on benefits paid in the future. Approximately 54% of all current retired members receive a benefit of $24,000 a year or less and would not be impacted until their annual benefit after COLAs grew to greater than $24,000. Approximately 82% of all current retired members would receive at least a 1% COLA annually until their annual benefit after COLAs grew to greater than $48,000.	**PERS** Would require IT system modifications to limit application of COLA to the specified benefit level. Preliminary estimates put that cost at approximately $40,000. **Employer** No identified administrative impact.

COLA Cap Examples

This chart shows the impact of the COLA cap for a benefit recipient with a $24,000, $48,000, or $60,000 annual benefit for the first 10 years of payments and the cumulative impact at 10, 20, and 30 years.

Year	$24,000 Annual Benefit			$48,000 Annual Benefit			$60,000 Annual Benefit		
	2% Annual COLA	COLA Cap ($480 annually)	Annual Change	2% Annual COLA	COLA Cap ($480 annually)	Annual Change	2% Annual COLA	COLA Cap ($480 annually)	Annual Change
1	24,480	24,480	-0	48,960	48,480	-480	61,200	60,480	-720
2	24,970	24,960	-10	49,939	48,960	-979	62,424	60,960	-1,464
3	25,469	25,440	-29	50,938	49,440	-1,498	63,672	61,440	-2,232
4	25,978	25,920	-58	51,957	49,920	-2,037	64,946	61,920	-3,026
5	26,498	26,400	-98	52,996	50,400	-2,596	66,245	62,400	-3,845
6	27,028	26,880	-148	54,056	50,880	-3,176	67,570	62,880	-4,690
7	27,568	27,360	-208	55,137	51,360	-3,777	68,921	63,360	-5,561
8	28,120	27,840	-280	56,240	51,840	-4,400	70,300	63,840	-6,460
9	28,682	28,320	-362	57,364	52,320	-5,044	71,706	64,320	-7,386
10	29,256	28,800	-456	58,512	52,800	-5,712	73,140	64,800	-8,340
10-year cumulative benefits	**$268,049**	**$266,400**	**-$1,649**	**$536,098**	**$506,400**	**-$29,698**	**$670,123**	**$626,400**	**-$43,723**
20-year cumulative benefits	**$594,800**	**$580,800**	**-$14,000**	**$1,189,599**	**$1,060,800**	**-$128,799**	**$1,486,999**	**$1,300,800**	**-$186,199**
30-year cumulative benefits	**$993,107**	**$943,200**	**-$49,907**	**$1,986,213**	**$1,663,200**	**-$323,013**	**$2,482,766**	**$2,023,200**	**-$459,566**

Category: Concepts Related to Cost-of-Living Adjustments (COLAs)

Do Not Pay COLA for One Biennium

This concept would amend statute to direct PERS not to pay the COLA currently provided for July 1, 2013 or July 1, 2014.

Impact		
System Liabilities/Employer Rates/ Other Employer Costs	**Member Benefits and Cost Sharing**	**Administrative**
Accrued liability impact: $1.4 billion reduction Total liability impact: $1.4 billion reduction Uncollared employer contribution rates would decrease by about 1.2% of payroll. This would save approximately $221 million in the 2013-15 biennium. Note: An additional 1% of payroll rate reduction would occur for each successive biennium in which the COLA is eliminated (e.g. a six-year COLA elimination would reduce employer rates by 3% of payroll).	Benefit levels would remain flat for the biennium. Current and future benefits would diminish in purchasing power over time due to the impact of inflation. Total benefits received over affected benefit recipients' lifetimes would also be reduced as the suspended COLA would not be compounded in future years. The relative size of the reduction would vary depending on the length of the time benefits are paid after the COLA resumes.	**PERS** Would require IT system changes to suspend the COLA and exclude both additional accumulation and application of any banked COLA during the period that the COLA is suspended. **Employer** No identified administrative impact.

Category: Concepts Related to Cost-of-Living Adjustments (COLAs)

Eliminate All Future COLA Increases for Current and Future Benefit Recipients

This concept would amend statute to direct PERS not to pay the COLA in the future.

Impact		
System Liabilities/Employer Rates/ Other Employer Costs	**Member Benefits and Cost Sharing**	**Administrative**
Accrued liability impact: $9.7 billion reduction Total liability impact: $11.0 billion reduction Uncollared employer contribution rates would decrease by about 9.7% of payroll. This would save approximately $1.8 billion in the 2013-15 biennium.	Current and future benefits would remain flat and diminish in purchasing power over time due to the impact of inflation. Total benefits received over the affected person's lifetime would also be less due to the loss of COLAs. For example, a 2% COLA compounded annually increases a benefit by 50% over 21 years, so eliminating the COLA would also eliminate that benefit increase.	**PERS** Would require some IT system changes to eliminate COLA and exclude both additional accumulation and application of any banked COLA during the period that the COLA is eliminated. **Employer** No identified administrative impact.

Category: Concepts Related to Cost-of-Living Adjustments (COLAs)

Establish a 10-Year Service Requirement for COLAs

This concept would amend statute to impose a requirement of 10 years of creditable service before being eligible for a COLA.

Impact		
System Liabilities/Employer Rates/ Other Employer Costs	**Member Benefits and Cost Sharing**	**Administrative**
Accrued liability impact: $0.3 billion reduction Total liability impact: $0.3 billion reduction Uncollared employer contribution rates would decrease by about 0.3% of payroll, saving approximately $55 million in the 2013-15 biennium.	Members retiring with less than 10 years of service time would not be eligible for a COLA. Their benefits would remain flat and experience diminished purchasing power over time due to the impact of inflation. Total benefits received over the affected person's lifetime would also be less due to the loss of COLAs. Approximately 12% of PERS members retiring in 2011 had less than 10 years of creditable service.	**PERS** Would require significant IT system changes to add an additional qualifier to determine whether COLA should be applied. **Employer** No identified administrative impact.

Category: Concepts Related to Money Match

Reduce the Money Match Annuity Rate to 6%

This concept would set the interest rate used to derive the annuity portion when calculating future Money Match retirement benefits at 6% instead of using the system's assumed earnings rate (currently 8%).

Impact		
System Liabilities/Employer Rates/ Other Employer Costs	**Member Benefits and Cost Sharing**	**Administrative**
Accrued liability impact: $2.0 billion reduction Total liability impact: $1.6 billion reduction Employer rates would decrease by 0.8% of payroll saving approximately $147 million in the 2013-15 biennium. Decreasing the annuitization rate to 6% would cause some members to be projected to retire under Full Formula rather than Money Match. This would lower the member's total liability and accrued liability, but would increase the member's "normal cost" under the current actuarial cost method. The entire normal cost is funded each year in the employer's contribution rate, while changes in accrued liability are typically amortized over a number of years.	All Tier One/Tier Two members are provided the highest of (up to) three benefit calculation methods, so reducing Money Match benefits could move affected members to Full Formula or Formula+Annuity "floors" that would limit the decrease in their benefit at retirement. Reducing the annuity rate from 8% to 6% would reduce a 55-year old member's Money Match benefit by 17.7%, while a 65-year old member's Money Match benefit would be reduced 14.7%. Tier One members who began service before August 21, 1981 are eligible for the Formula+Annuity benefit calculation, and the Annuity portion of their benefit would be reduced. Tier Two members are eligible for either Full Formula or Money Match, but most are likely to retire under Full Formula and this reduction would not affect their benefits. OPSRP members only receive a formula-based benefit so this reduction would also not affect their benefits.	**PERS** Would require the implementation of special actuarial factor tables to be used only for Money Match calculations that would derive the actuarial equivalent based on the reduced interest rate. **Employer** No identified administrative impact.

Category: Concepts Related to Money Match

Eliminate the Money Match Benefit Calculation for *Future* Tier One/Tier Two Retirements

This concept would amend statute to eliminate Money Match as a benefit calculation method used to determine benefits for Tier One and Tier Two members.

Impact		
System Liabilities/Employer Rates/ Other Employer Costs	**Member Benefits and Cost Sharing**	**Administrative**
Accrued liability impact: $6.1 billion reduction Total liability impact: $5.0 billion reduction Employer rates would decrease by 2.7% of payroll saving approximately $497 million in the 2013-15 biennium.	Tier One and Tier Two members currently projected to have their benefits calculated under Money Match would have their benefit reduced to the level provided by the Full Formula calculation. The reduction would be most significant for long-service active Tier One general service members, and for members who have been inactive for an extended time. In 2011, retired members whose retirement benefits were calculated under Money Match replaced an average of 70% of salary in retirement. Also in 2011, 30-year career members whose retirement benefits were calculated under Money Match replaced an average of 85% of salary in retirement.	**PERS** Would require substantial IT system modifications to remove Money Match calculations from the benefit determination system. **Employer** No identified administrative impact.

Category: Concepts Related to Money Match

Eliminate the Money Match Benefit Calculation for All *Inactive* Tier One/Tier Two Retirements

This concept would amend statute to eliminate Money Match as a benefit calculation method used to determine benefits for Tier One and Tier Two members who are not active members (i.e., working in a PERS-covered position at retirement).

Impact		
System Liabilities/Employer Rates/ Other Employer Costs	**Member Benefits and Cost Sharing**	**Administrative**
Accrued liability impact: $2.9 billion reduction Total liability impact: $2.9 billion reduction Employer rates would decrease by 2.4% of payroll, saving approximately $442 million in the 2013-15 biennium.	Inactive members currently projected to have their benefits calculated under Money Match would have their benefit reduced to the level provided by the Full Formula calculation. The reduction would be greatest for members who have been inactive for an extended period. There were 40,500 members reported as “inactive” in the December 31, 2011 actuarial valuation.	**PERS** Would require substantial IT system modifications to remove Money Match calculations from the benefit determination system. **Employer** No identified administrative impact.

Category: Miscellaneous Concepts

Eliminate Tax Remedy Payments for Current and Future Non-Oregon Resident Retirees This concept would amend statute to eliminate supplemental tax remedy benefits for PERS retirees that do not pay state income taxes in Oregon.

Impact		
System Liabilities/Employer Rates/ Other Employer Costs	**Member Benefits and Cost Sharing**	**Administrative**
Accrued liability impact: $0.38 billion reduction Total liability impact: $0.39 billion reduction Uncollared employer contribution rates would decrease by about 0.3% of payroll, saving approximately $55 million in the 2013-15 biennium. Estimates shown above assume 15% of benefits are paid to non-Oregon residents.	Would reduce benefits of retired Tier One members who reside out-of-state by approximately 6%, on average (estimated at 15% of current retired members, or about 18,000 people). The reduction would be highest for those affected members with the greatest proportion of their service prior to September 29, 1991. The supplemental tax remedy payments are only paid to members who started service before July 14, 1995. Benefit recipients who are entitled to the tax remedy receive a maximum monthly increase of 9.8% and minimum of 2%.	**PERS** Would require IT system modifications to coordinate withholding tax remedy benefits from those recipients who should no longer receive them. Oregon's Department of Revenue would also need to coordinate eligibility determinations and complications would arise as recipients move in and out of Oregon residency status. **Employer** No identified administrative impact.

Category: Miscellaneous Concepts

Remove the Adjustment Factors Used to Calculate Final Average Salary

This concept would amend statute to eliminate lump sum vacation pay and unused sick leave as factors included in determining a Tier One/Tier Two member's final average salary (FAS) for such members not yet retired.

Impact		
System Liabilities/Employer Rates/ Other Employer Costs	**Member Benefits and Cost Sharing**	**Administrative**
Accrued liability impact: $0.33 billion reduction Total liability impact: $0.66 billion reduction Uncollared employer contribution rates would decrease by about 0.7% of payroll, saving approximately $129 million in the 2013-15 biennium.	Tier One FAS would be reduced by eliminating both factors (estimated average reduction of about 8%). Tier Two FAS would be reduced by eliminating the unused sick leave factor (lump sum vacation pay is already excluded), for an estimated average reduction of about 6%. Only members who would retire using the Full Formula and Formula+Annuity benefit calculation methods would be affected. Formula+Annuity only applies to Tier One members who started service before August 21, 1981. Benefit calculations for Tier One / Tier Two members under Money Match would not be affected. OPSRP members would also not be affected as both factors are already excluded from FAS calculation for OPSRP benefits.	**PERS** Would require significant IT system changes to revise or remove reporting, validation, verification, and calculation processes that use these factors. **Employer** Change the salary reporting process to eliminate these factors.

Category: Miscellaneous Concepts

Establish a Defined Contribution (DC) Plan for New Hires

Adopt a statutory DC plan for new hires that requires employers to contribute a set percentage of the member's salary to an account, to combine with member contributions and receive market earnings and losses.

Impact		
System Liabilities/Employer Rates/ Other Employer Costs	**Member Benefits and Cost Sharing**	**Administrative**
Accrued liability impact: No impact Total liability impact: No Impact No savings unless employer contributions are less than the "normal cost" rate (the cost of benefits accrued for the current year of service). All costs associated with existing plans would still need to be paid, so there would be no reduction in accrued liability or total liability for exiting plan members.	The impact on the value of retirement benefits for new hires will depend on the level of member and employer contributions and investment performance. Prior projections for the IAP component of the current PERS hybrid plan were that a 6% contribution with a compounded 8% annual return provides a benefit equal to 15% to 20% of final average salary for a 30-year member. DC plan contributions would need to be about 18% of pay with a compounded 8% annual return to achieve the same final salary replacement ratio as a 30-year OPSRP pension benefit. A DC plan also shifts all investment and longevity risk to the individual member.	**PERS** Would require a new fund investment and benefit administration system, or contracting with a third party administrator, or outsourcing both investment and plan administration functions. Increases administrative complexity and costs by introducing a different benefit structure. **Employer** Transfers all investment and longevity risk from the employer to the employee; establishes a determinable, consistent benefit plan cost structure for new hires.

Category: Concepts Related to System Financing

Reduce Assumed Earnings Rate to 7.5%

This concept assesses the impact of the PERS Board, based on advice from OIC investment consultant and PERS actuary, reducing the assumed earnings rate from the current 8% per year to 7.5% per year if that changes was made effective with the December 31, 2011 valuation that set 2013-2015 employer contribution rates.

Impact		
System Liabilities/Employer Rates/ Other Employer Costs	**Member Benefits and Cost Sharing**	**Administrative**
Accrued liability impact: $2.7 billion increase Total liability impact: $4.0 billion increase Lowering the assumed earnings rate assumption by 0.5% would increase uncollared employer Tier One/Tier Two rates by 3% of payroll, increasing employer contributions by $552 million per biennium (based on the 2013-15 PERS covered payroll). This is partially because retirements from 1989 to the present were funded based on an 8% assumed rate and decreasing the assumed rate would require more employer dollars to adequately fund those retirements. In addition, earnings would be projected to fund a smaller portion of benefits for anticipated future retirements, thus requiring increased contributions to fill the gap. A change in the assumed rate from 8% to 7.5% would result in an increase of $4 billion in total actuarial liability due to the lowering of future earnings expectations. That increase reflects the net effect of lowered earnings expectations and a partial offset of those expectations due to the lowering of expected costs for future benefits calculated under the Money Match and Formula+Annuity methods.	Reducing the assumed earnings rate would also result in a reduction in the actuarial equivalency factors used to derive Tier One/Tier Two Money Match and Tier One Formula+Annuity benefits. Money Match benefits would be reduced by approximately 4.5% for a member retiring at age 55 and 3.7% for a member retiring at age 65. Formula +Annuity benefits would be affected by approximately half as much as Money Match benefits. However, both of these reductions may be limited as the member may shift to a Full Formula calculated benefit. OPSRP member benefits are only calculated on a formula basis.	**PERS** Would require the creation of new actuarial factor tables for benefit calculations and to derive the actuarial equivalent for optional benefit forms. **Employer** No identified administrative impact.

Category: Concepts Related to System Financing

Reduce Assumed Earnings Rate to 7%

This concept assesses the impact of the PERS Board, based on advice from the OIC investment consultant and PERS actuary, reducing the assumed earnings rate from the current 8% per year to 7% per year.

Impact		
System Liabilities/Employer Rates/ Other Employer Costs	**Member Benefits and Cost Sharing**	**Administrative**
Accrued liability impact: \$5.7 billion increase Total liability impact: \$8.5 billion increase Lowering the assumed earnings rate assumption by 1% would increase uncollared employer Tier One/Tier Two rates by 6.3% of payroll, increasing employer contributions by \$1.2 billion per biennium (based on the 2013-15 PERS covered payroll). This is partially because retirements from 1989 to the present were funded based on an 8% assumed rate and decreasing the assumed rate would require more employer dollars to adequately fund those retirements. In addition, earnings would be projected to fund a smaller portion of benefits for anticipated future retirements, thus requiring increased contributions to fill the gap. A change in the assumed rate from 8% to 7% would result in an increase of \$8.5 billion in total actuarial liability due to the lowering of future earnings expectations. That increase reflects the net effect of lowered earnings expectations and a partial offset of those expectations due to the lowering of expected costs for future benefits calculated under the Money Match and Formula+Annuity methods.	Reducing the assumed earnings rate would also result in a reduction in the actuarial equivalency factors used to derive Tier One/Tier Two Money Match and Tier One Formula+Annuity benefits. Money Match benefits would be reduced by approximately 9% for a member retiring at age 55 and 7.3% for a member retiring at age 65. Formula+Annuity benefits would be affected by approximately half as much as Money Match benefits. However, both of these reductions may be limited as the member may shift to a Full Formula calculated benefit. OPSRP member benefits are only calculated on a full formula basis.	**PERS** Would require the creation of new actuarial factor tables for benefit calculations and to derive the actuarial equivalent for optional benefit forms. **Employer** No identifiable administrative impact.

Category: Concepts Related to System Financing

Increase Unfunded Actuarial Liability Amortization Period to 30 Years

This concept assesses the impact from the PERS Board, based on advice from the PERS actuary, increasing the amortization period of the current Tier One/Tier Two unfunded actuarial liability (UAL) from a closed 20 years to a closed 30 years. Future UALs or surpluses would be amortized over a new 30-year period. Current side account amortization periods would remain the same.

Impact		
System Liabilities/Employer Rates/ Other Employer Costs	**Member Benefits and Cost Sharing**	**Administrative**
Accrued liability impact: $0 Total liability impact: $0 (This concept only affects the timing and total cost of recovering the unfunded liability over a longer time) Increasing the amortization period from 20 to 30 years would initially lower uncollared employer rates by approximately 2.9% of payroll system-wide, providing near-term "savings" of approximately $534 million per biennium (based on the 2013-15 PERS covered payroll) by shifting costs to future years. This would cause negative amortization of the UAL on a cumulative basis for approximately the first 20 years, causing the UAL to increase and the system funded status to decline compared to the current amortizations. This increased UAL would need to be financed through future contributions. In addition, the UAL contribution rate would have to be assessed for an additional 10 years should earnings grow only at the assumed rate. Lengthening the amortization period will also result in greater generational inequity as the payoff of UALs attributed to current members and retirees will be deferred, in part, to future member payrolls and future taxpayers.	No direct impact on member benefits.	**PERS** None. **Employer** None.

Category: Concepts Related to System Financing

Increase Unfunded Actuarial Liability Amortization Period to 25 Years

This concept assesses the impact from the PERS Board, based on advice from the PERS actuary, increasing the amortization period of the current Tier One/Tier Two unfunded actuarial liability (UAL) from a closed 20 years to a closed 25 years. Future UALs or surpluses would be amortized over a new 25-year period. Current side account amortization periods would remain the same.

Impact		
System Liabilities/Employer Rates/ Other Employer Costs	**Member Benefits and Cost Sharing**	**Administrative**
Accrued liability impact: $0 Total liability impact: $0 (This concept only affects the timing and total cost of recovering the unfunded liability over a longer time) Increasing the amortization period from 20 to 25 years would initially lower uncollared employer rates by approximately 1.8% of payroll system-wide, providing near-term "savings" of approximately $331 million per biennium (based on the 2013-15 PERS covered payroll) by shifting costs to future years. This would cause negative amortization of the UAL on a cumulative basis for approximately the first 12 years, causing the UAL to increase and the system funded status to decline compared to the current amortizations. This increased UAL would need to be financed through future contributions. In addition, the UAL contribution rate would have to be assessed for an additional 5 years should earnings grow only at the assumed rate. Lengthening the amortization period will also result in greater generational inequity as the payoff of UALs attributed to current members and retirees will be deferred, in part, to future member payrolls and future taxpayers.	No direct impact on member benefits.	**PERS** None. **Employer** None.

Category: Concepts Related to System Financing

Limit Net Biennial Employer Contribution Rate Increases to 3% of Payroll

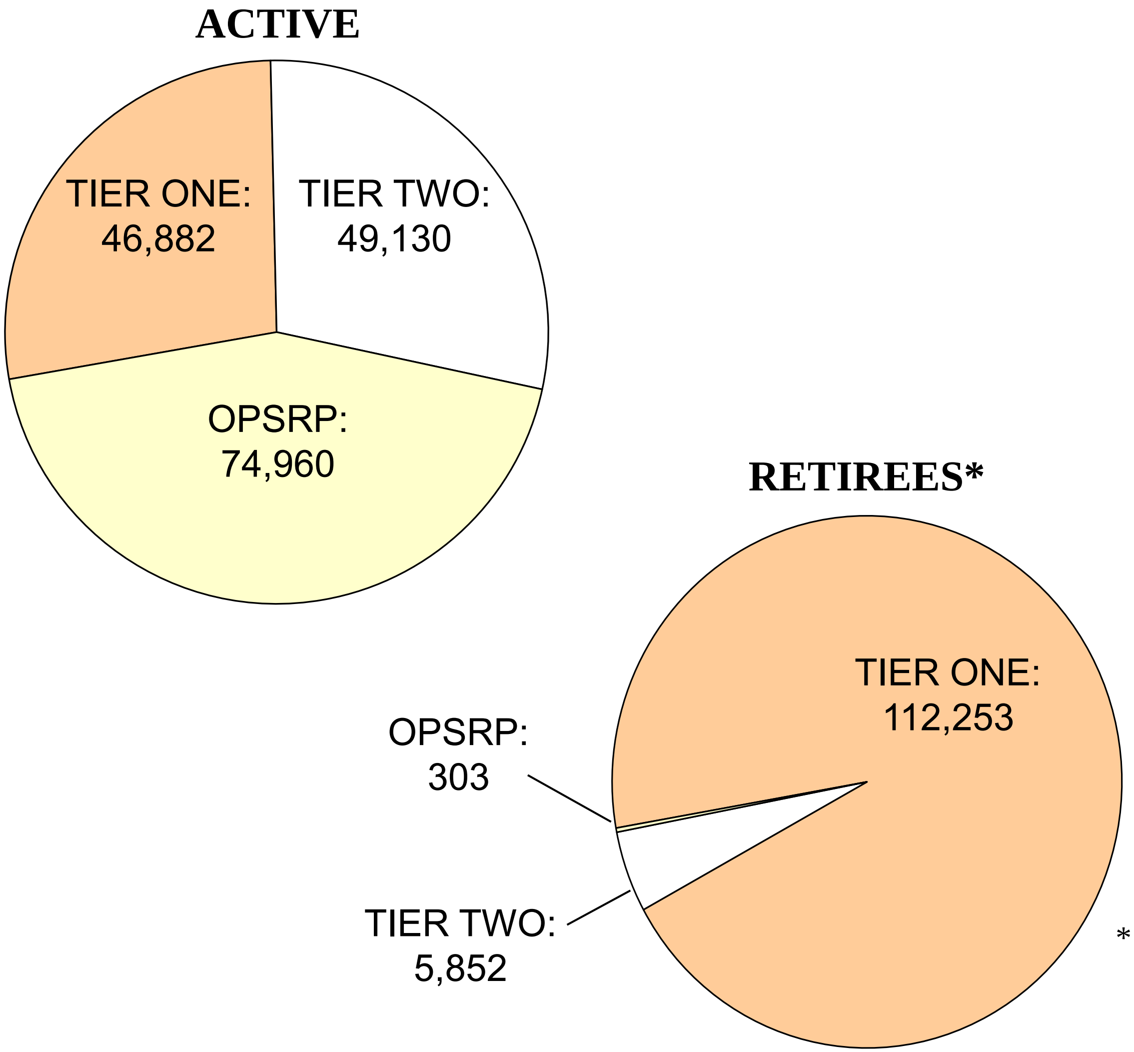
This concept assesses the impact from the PERS Board, based on advice from the PERS actuary, adopting a new rate collaring methodology to limit base rate increases to 3% of payroll from one biennium to the next. The rate increase limit would apply to base, pooled rates. This concept does not affect rates offsets for employers with side accounts.

Impact		
System Liabilities/Employer Rates/ Other Employer Costs	**Member Benefits and Cost Sharing**	**Administrative**
Accrued liability impact: $0 Total liability impact: $0 (This concept only affects the timing and total cost of recovering the unfunded liability over a longer time) Limiting the increase in employer rates to 3% of payroll in the 2013-15 biennium would reduce the projected rate increases by 1.9% of payroll system-wide providing near-term "savings" of approximately $350 million per biennium (based on the 2013-15 PERS covered payroll) by shifting costs to future years. System funded status would decline by about 1% of assets per biennium over the next four to five biennia, as employer contributions would be less than the amount needed to adequately fund benefits. Employer contribution rates would ultimately rise to a higher level in the future, even if earnings exceed the assumed rate, because of the deferred collection of contributions. Also, if earnings do not meet projections, funded status deterioration and future rate impact would be more pronounced.	No direct impact on member benefits.	**PERS** Increases overall complexity of setting employer rates, but is manageable within current system design. **Employer** Could result in significantly higher long-term contribution rates for employers. Could create substantial accounting, actuarial, and bond finance reporting concerns. For those employers with side accounts, the net effect could be further complicated if the increase was limited to base contribution rates or to include side account offsets, which may result in those accounts being depleted more rapidly than anticipated.

Appendix Contents

PERS Oregon Public Employees Retirement System

PERS Membership by Category
(as of December 31, 2011)



* Includes beneficiaries but not members who received total lump-sum retirement or account withdrawal payouts.

PERS Oregon Public Employees Retirement System

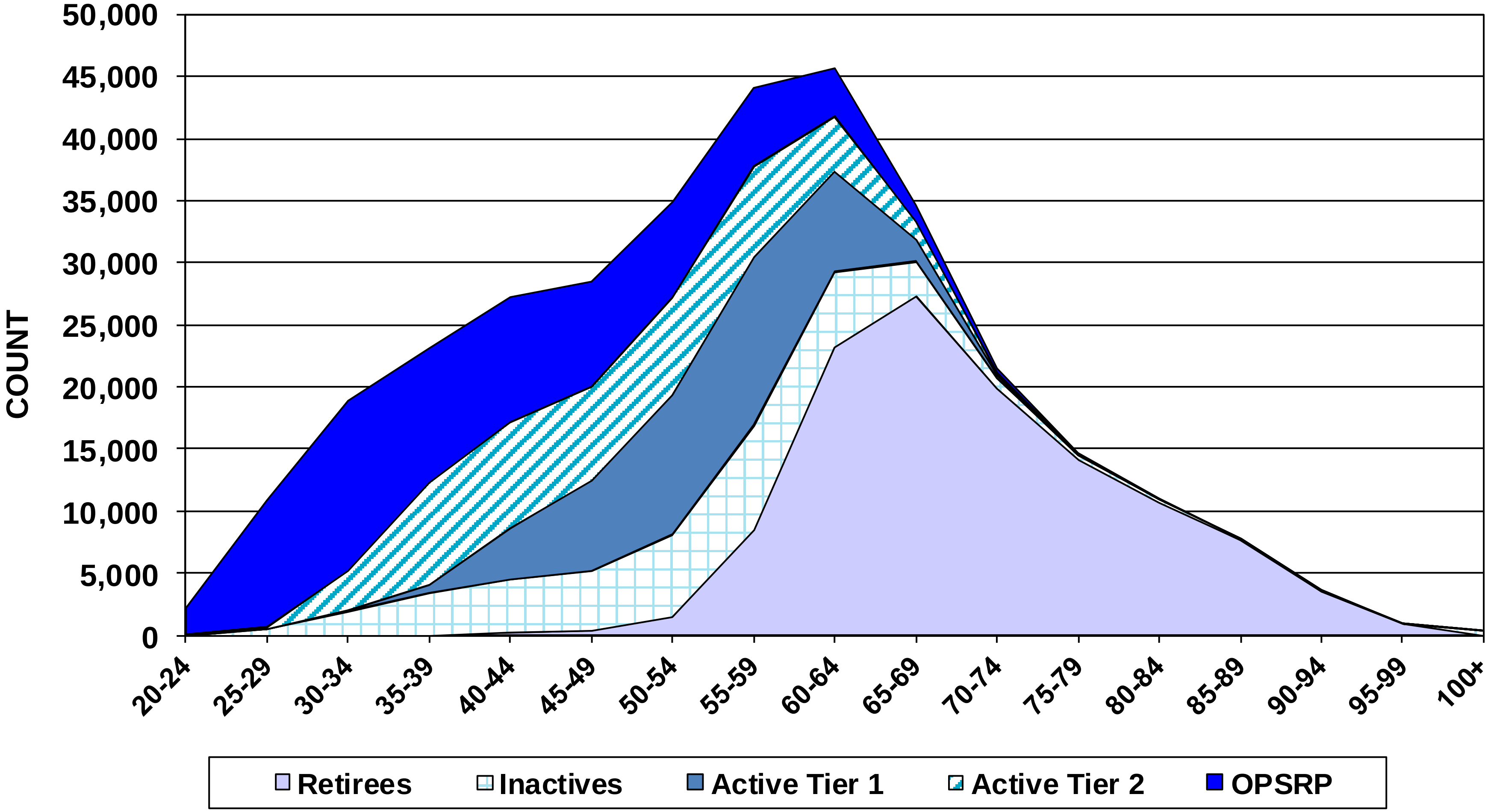
PERS Membership by Employer Group
(as of December 31, 2011)

		State Govt.	Local Govt.	School Districts	Total
Tier One	Active	12,866	15,368	18,648	46,882
	Inactive	5,222	6,941	8,089	20,252
Tier Two	Active	12,757	16,640	19,733	49,130
	Inactive	3,226	6,049	6,914	16,189
OPSRP	Active	19,751	25,122	30,087	74,960
	Inactive	1,056	1,345	1,665	4,066
Sub-total	Active	45,374	57,130	68,468	**170,972**
	Inactive	9,504	14,335	16,668	**40,507**
Retirees*		28,310	31,383	58,715	**118,408**
TOTAL					**329,887**

* Includes beneficiaries but not members who received total lump-sum retirement or account withdrawal payouts.

PERS Oregon Public Employees Retirement System

Member Age Distribution
(as of December 31, 2011)



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PERS Oregon Public Employees Retirement System

Members Eligible to Retire* (as of December 2012)

Total Members: 207,293	**Tier One**		**Tier Two**		**OPSRP**		**Eligible to Retire by Actuarial Group**	**% of Members Eligible to Retire**
	Actives	Inactives	Actives	Inactives	Actives	Inactives		
State	6,889	3,239	3,825	894	3,228	306	18,381	35.18
School Districts	9,246	3,256	5,473	1,221	5,038	561	24,795	31.00
Local Govt.	7,238	2,771	4,103	1,171	3,593	386	19,262	30.28
Judges	40	9	29	1	---	---	79	39.50
Community Colleges	1,327	518	1,009	291	1,206	154	4,505	40.07
Eligible to retire	**24,740**	**9,793**	**14,439**	**3,578**	**13,065**	**1,407**	**67,022**	**32.33%**
TOTAL	**34,533**		**18,017**		**14,472**		**67,022**	**32.33%**

* Reflects the number of members eligible to retire (including those eligible for reduced benefits) based on: age 55 or 30 years of service for general service members; age 50 or 25 years of service for police & firefighters; and age 60 for judge members.

PERS Oregon Public Employees Retirement System

Retirees with Hours Reported Working in a PERS-Covered Position in 2011

Hours	Employer Group			Total
	State and University	Local Government	School Districts	
< 200	335	1,115	2,860	4,310
201 - 400	243	551	1,196	1,990
401 - 600	203	409	908	1,520
601 - 800	168	285	609	1,062
801 - 1039	283	433	613	1,329
> 1039	119	228	177	525
Total	**1,351**	**3,021**	**6,363**	**10,735**

PERS Oregon Public Employees Retirement System

Benefit Program Comparisons

Tier One covers members hired before January 1, 1996; Tier Two covers members hired between January 1, 1996 and August 28, 2003; and OPSRP covers members hired on or after August 29, 2003.

The IAP contains all member contributions (6% of covered salary) made on and after January 1, 2004.

	Tier One	**Tier Two**	**OPSRP Pension**	**IAP**
Normal retirement age	58 (or 30 yrs) P&F = age 55 or 50 w/25 yrs	60 (or 30 yrs) P&F = age 55 or 50 w/25 yrs	65 (58 w/30 yrs) P&F = age 60 or 53 w/25 yrs	55
Early retirement age	55 (50 for P&F)	55 (50 for P&F)	55, if vested (50 for P&F)	55
Regular account earnings	Guaranteed assumed rate annually (currently 8%)	No guarantee; market returns	N/A; no member account	No guarantee; market returns
Variable account earnings	Market returns on 100% global equity portfolio	Market returns on 100% global equity portfolio	N/A; no member account	N/A
Retirement calculation methods	Money Match, Full Formula, or Formula + Annuity (if eligible)	Money Match or Full Formula	Formula	Six account distribution options
Full Formula benefit factor	1.67% general; 2.00% P&F	1.67% general; 2.00% P&F	1.50% general; 1.80% P&F	N/A
Formula + Annuity benefit factor	1.00% general; 1.35% P&F	N/A	N/A	N/A

PERS Oregon Public Employees Retirement System

Benefit Program Comparisons (continued)

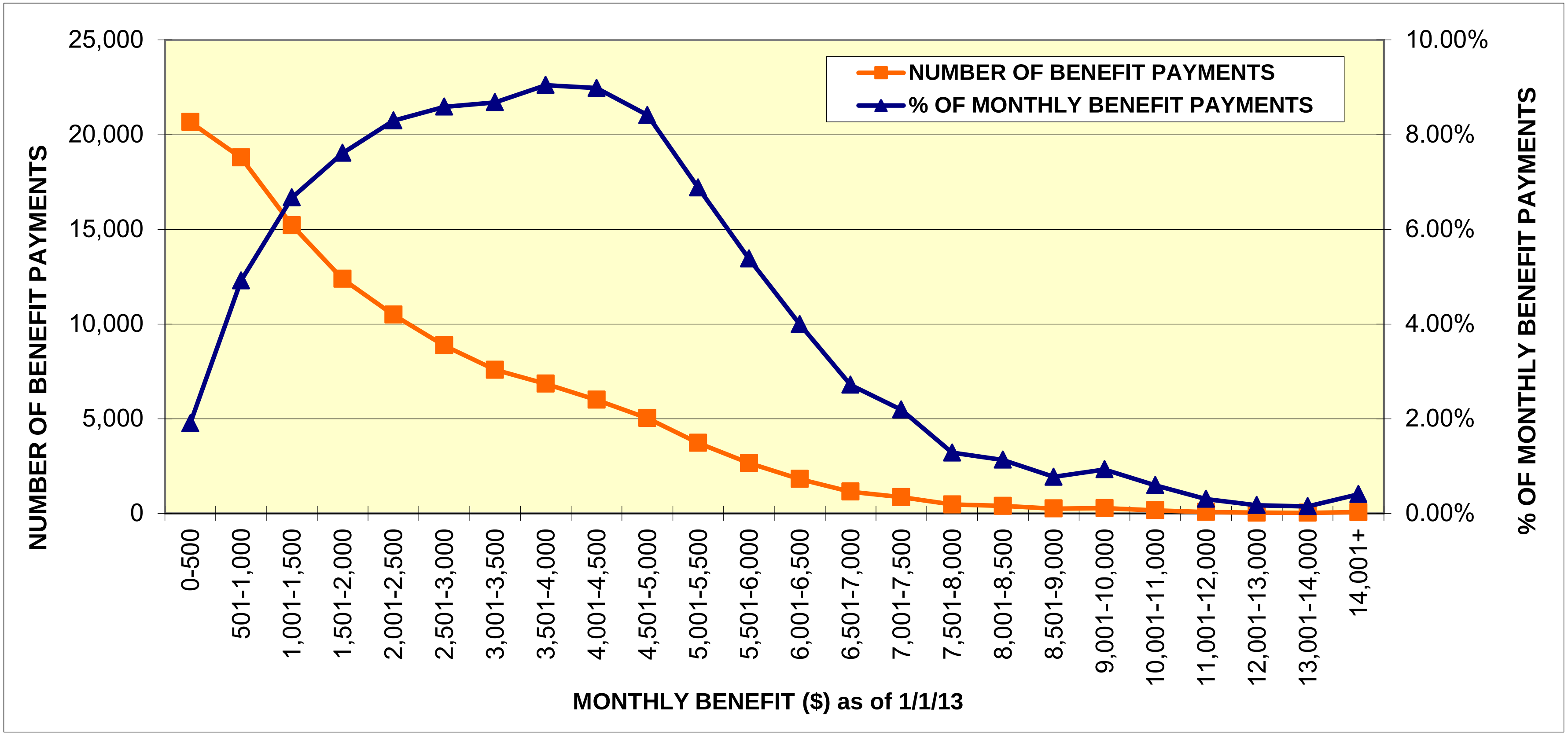
	Tier One	Tier Two	OPSRP Pension	IAP
Oregon state income tax remedy	If eligible, higher of 9.89% on service time before Oct. 1, 1991 or 4.0% or less based on total service time	No tax remedy provided	No tax remedy provided	No tax remedy provided
6% member contribution included in FAS	Yes	Yes	No	No
Lump-sum vacation payout				
Included in covered salary (6%)	Yes	Yes	No	Yes for Tier One & Tier Two; no for OPSRP
Included in FAS	Yes	No	No	N/A
Unused sick leave included in FAS	Yes, if the employer participates in the sick leave program	Yes, if the employer participates in the sick leave program	No	N/A
Vesting	Contributions in each of 5 yrs or active member at age 50	Contributions in each of 5 yrs or active member at age 50	5 yrs qualifying service or normal retirement age	Immediate
2% maximum annual COLA after retirement	Can retire through July 1 and receive maximum COLA for the year	Can retire through July 1 and receive maximum COLA for the year	COLA prorated in year of retirement based on retirement date	N/A

P&F = police and firefighters; FAS = final average salary; COLA = cost-of-living adjustment; N/A = not applicable

Note: PERS uses up to three methods to calculate Tier One and Tier Two retirement benefits: Full Formula, Formula + Annuity (for members who made contributions before August 21, 1981), and Money Match. PERS uses the method (for which a member is eligible) that produces the highest benefit amount. OPSRP Pension benefits are based only on a formula method.

PERS Oregon Public Employees Retirement System

Monthly Benefit Payments



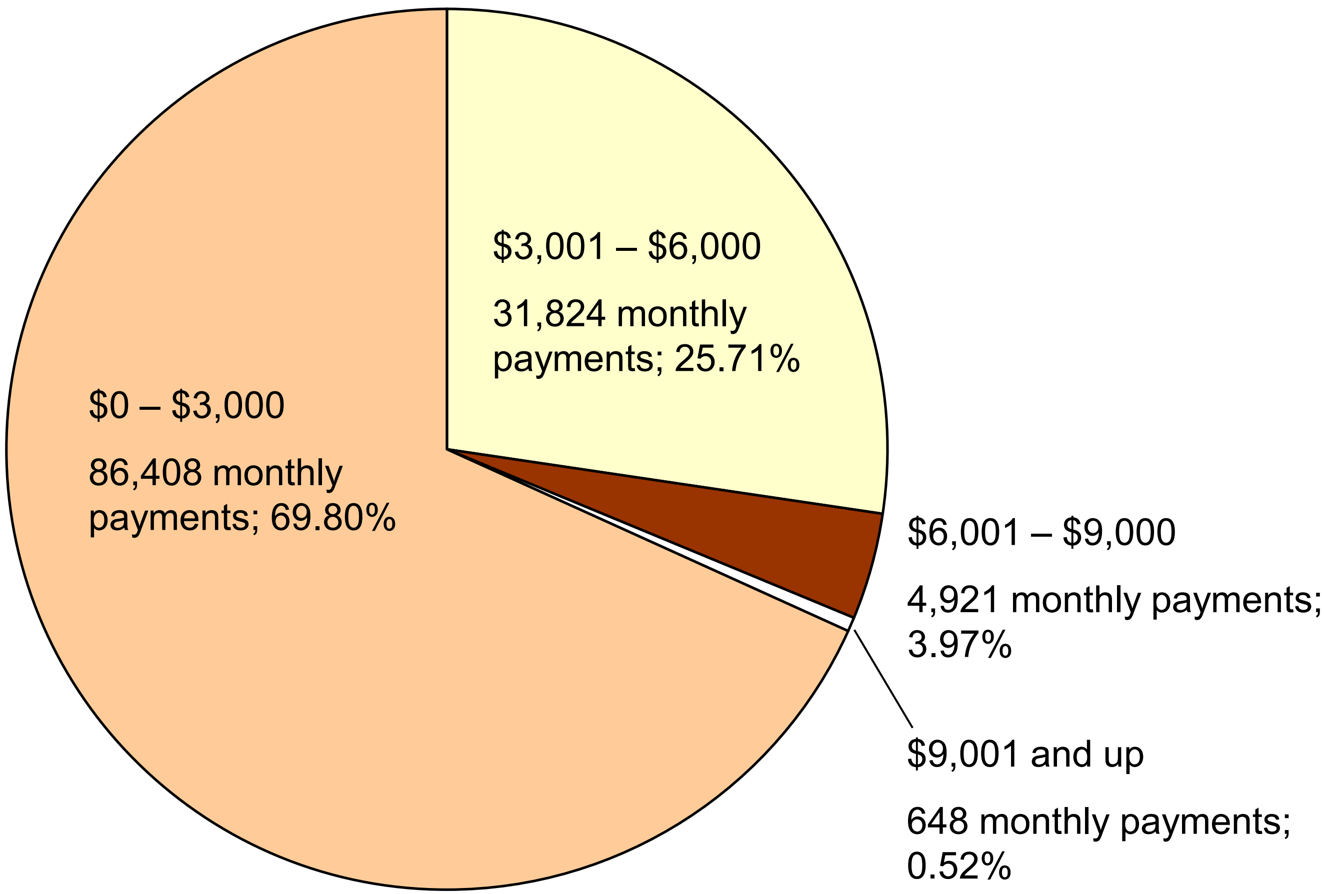
Monthly Benefit ($)	# of Payments	% of Benefits Paid	Monthly Benefit ($)	# of Payments	% of Benefits Paid	Monthly Benefit ($)	# of Payments	% of Benefits Paid	Monthly Benefit ($)	# of Payments	% of Benefits Paid
0 - 500	20,669	1.90%	3,001 - 3,500	7,581	8.68%	6,001 - 6,500	1,816	4.00%	9,001 - 10,000	277	0.93%
501 - 1,000	18,793	4.92%	3,501 - 4,000	6,842	9.05%	6,501 - 7,000	1,142	2.71%	10,001 - 11,000	161	0.59%
1,001 - 1,500	15,214	6.67%	4,001 - 4,500	5,992	8.98%	7,001 - 7,500	856	2.19%	11,001 - 12,000	75	0.30%
1,501 - 2,000	12,379	7.61%	4,501 - 5,000	5,030	8.41%	7,501 - 8,000	468	1.28%	12,001 - 13,000	39	0.17%
2,001 - 2,500	10,486	8.30%	5,001 - 5,500	3,721	6.88%	8,001 - 8,500	389	1.13%	13,001 - 14,000	31	0.15%
2,501 - 3,000	8,867	8.59%	5,501 - 6,000	2,658	5.38%	8,501 - 9,000	250	0.77%	14,001 and up	65	0.41%
Subtotal	**86,408**		**Subtotal**	**31,824**		**Subtotal**	**4,921**		**Subtotal**	**648**	
% of total	**69.80%**	**37.98%**	**% of total**	**25.71%**	**47.38%**	**% of total**	**3.97%**	**12.09%**	**% of total**	**0.52%**	**2.55%**

TOTAL MONTHLY BENEFIT PAYMENTS: 123,801 (includes alternate payees and survivors)
TOTAL DOLLARS: $283.4 million

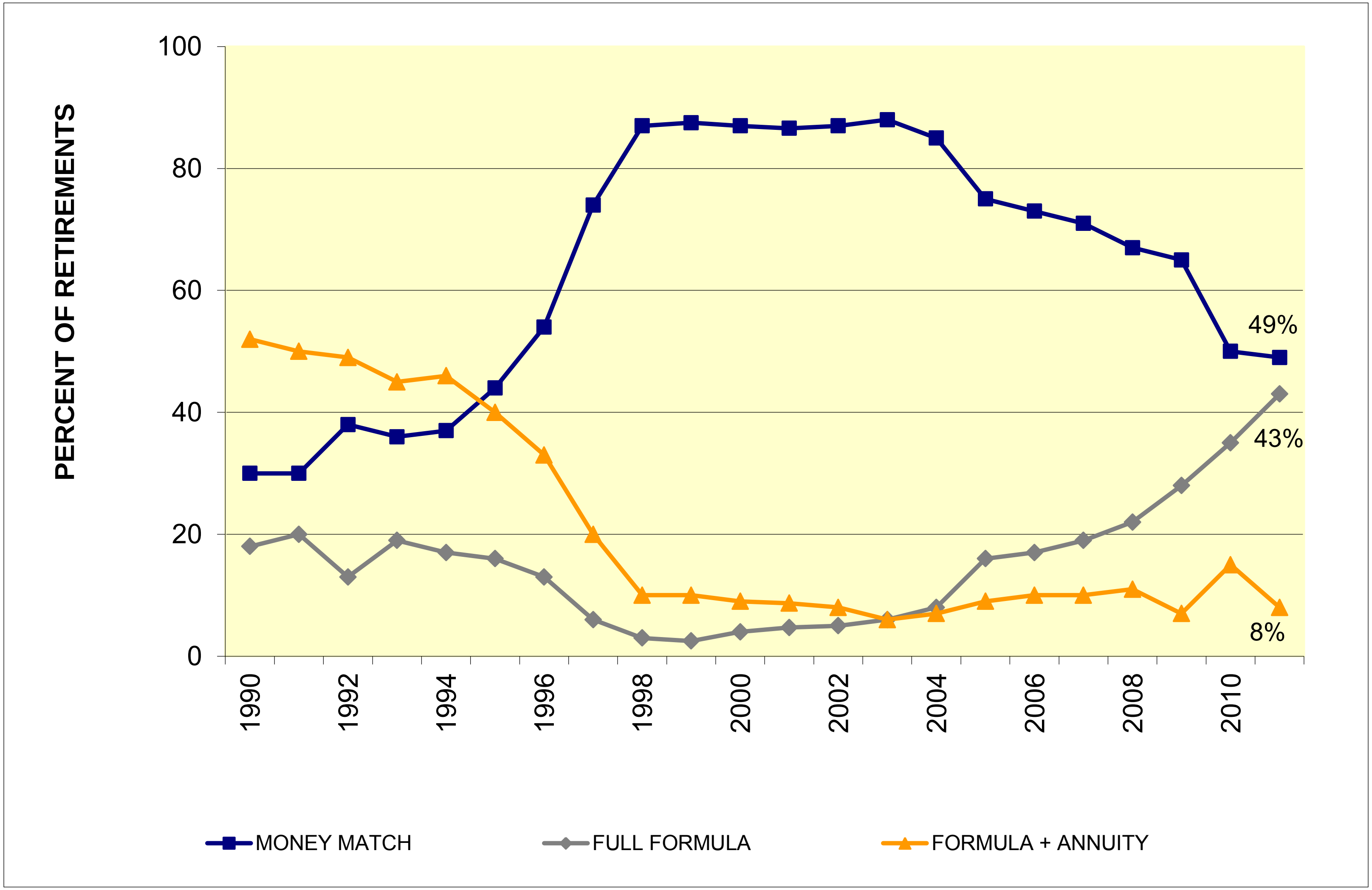
AVERAGE ANNUAL BENEFIT: $27,472
MEDIAN ANNUAL BENEFIT: $21,352

Monthly Benefit Payments Distribution

(123,801 payments as of January 1, 2013)

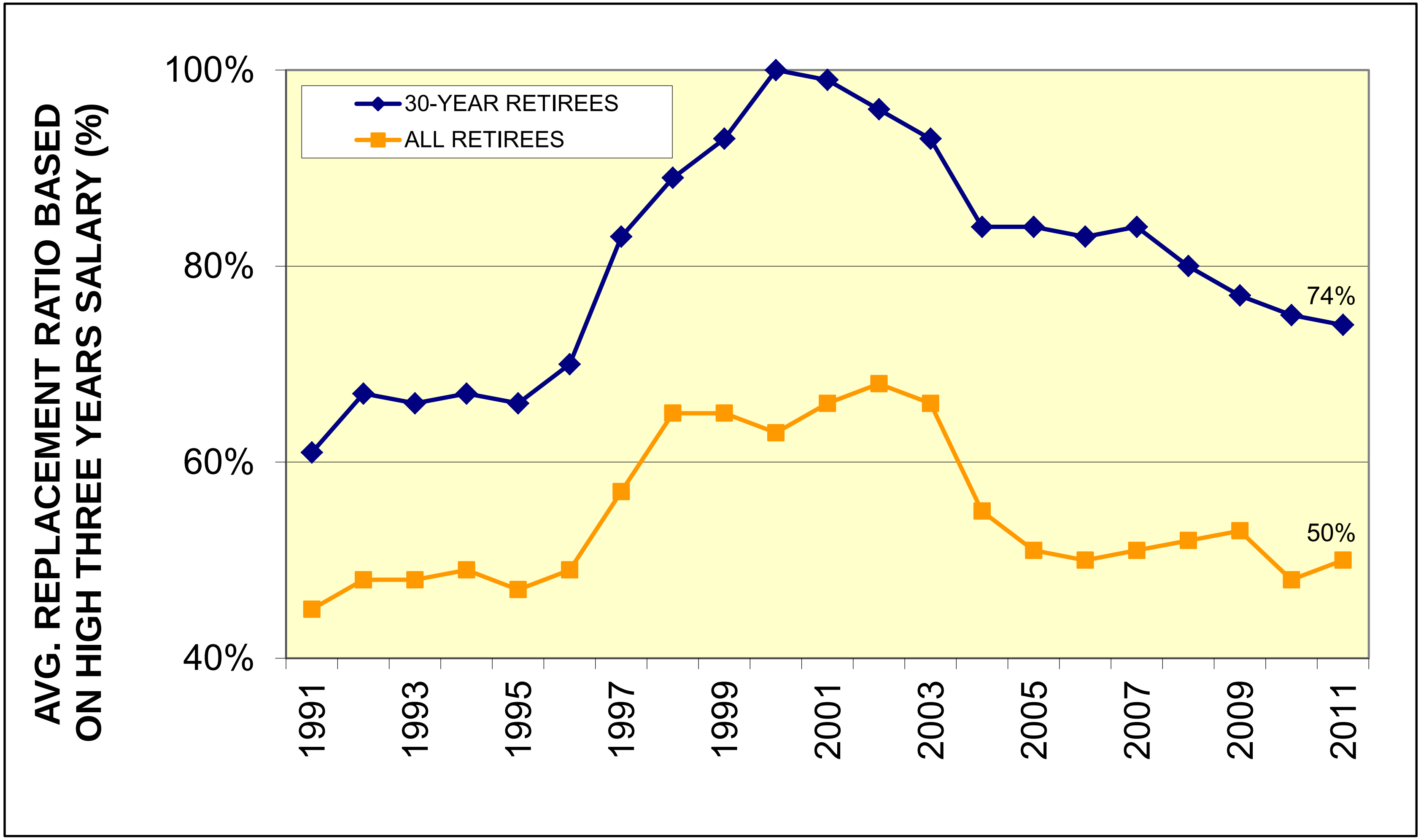


Tier One/Tier Two Retirement Benefit Calculation Method Trends



PERS Oregon Public Employees Retirement System

Replacement Ratio Trends



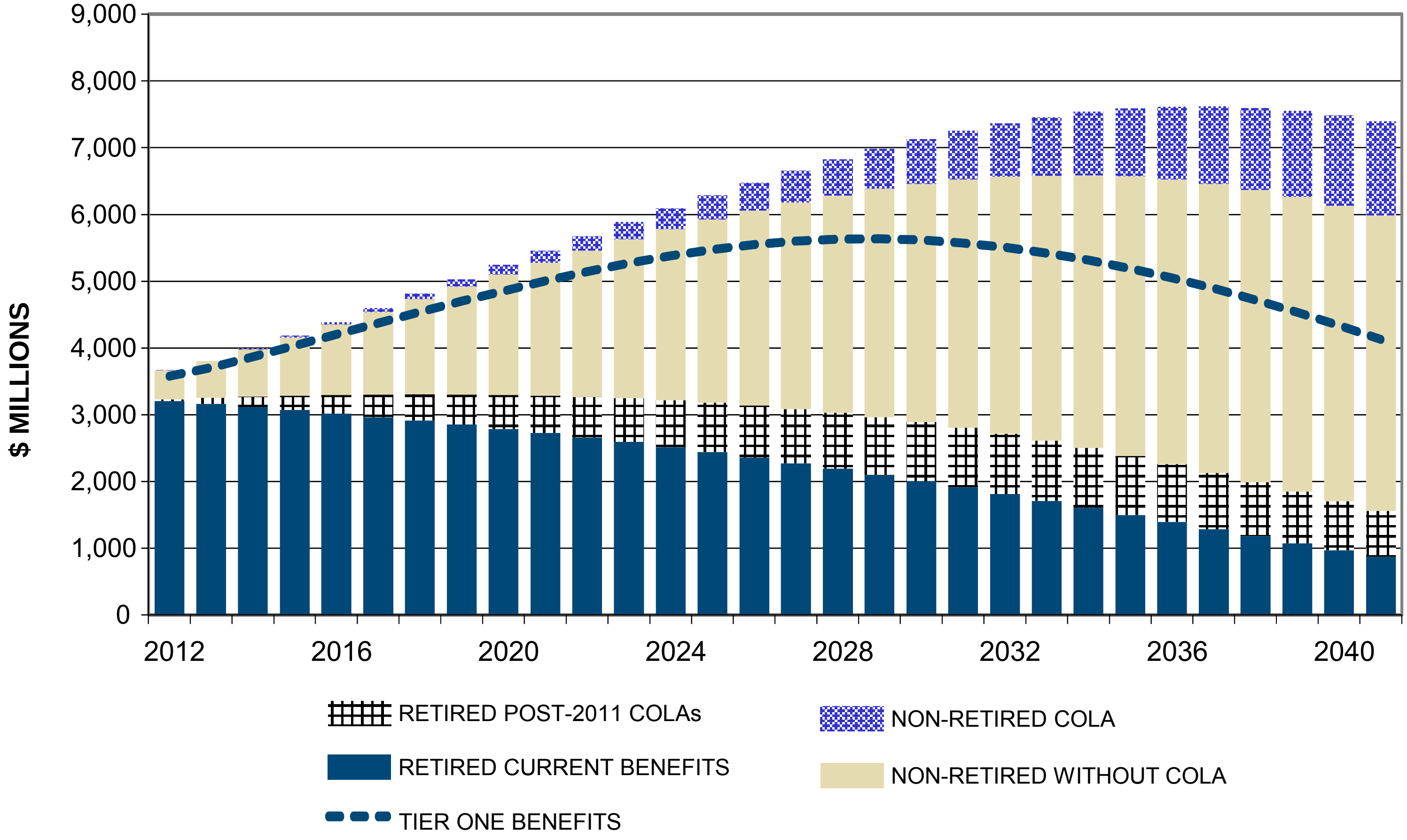
PERS Oregon Public Employees Retirement System

History of PERS Benefit Caps and Reductions

Category	Year	Action	Affected Members
Retirement Age/Vesting	1996	Increased retirement age for new members from 58 to 60 (General Service)	Tier Two
	2003	Increased retirement age from 60 to 65 (General Service) 55 to 60 (Police & Fire)	OPSRP
	2003	Increased vesting from 5 years or age 50 to 5 years or age 65 (General Service) or age 60 (Police & Fire)	OPSRP
Benefit Calc/Formula	1981	Eliminated Formula Plus Annuity benefit calculation method	Tier One
	1991	Imposed state income tax on PERS benefits	All
	2003	Decreased Full Formula benefit pension factor (General Service: 1.67 to 1.50; Police & Fire 2.00 to 1.80)	OPSRP
	2003	Eliminated Money Match benefit calculation method	OPSRP
	2003	Redirected member contributions to freeze Money Match (MM) benefit levels	Prospective MM retirees
	2003	Required regularly updated mortality assumptions and actuarial factors	All
	2005	Adjusted member accounts and benefit payments to recapture 1999 earnings over-crediting	Tier One
Final Average Salary	1996	Excluded lump sum vacation payouts from final average salary	Tier Two
	1996	Federal limit on member contributions and benefits	Tier Two/OPSRP
	2003	Eliminated lump sum vacation payouts from subject salary	OPSRP
	2003	Eliminated accumulated sick leave from final average salary	OPSRP
Investment Risk Allocation	1976	Gain Loss Reserve established to "self-fund" assumed earnings rate crediting	Tier One
	1996	Eliminated guaranteed return on regular accounts for new members	Tier Two
	2000	Eliminated 'Last Known Rate' member account crediting guarantee	Tier One
	2003	Required members to self-fund guaranteed return on member accounts	Tier One
	2003	Subjected all future member contributions made on or after 01/01/04 to actual earnings and losses with no guarantee	All
Retiree Health Benefits	1989	Capped Medicare premium subsidy at $60 per month	Tier One/Two
	2003	Eliminated post-retirement health insurance premium subsidies	OPSRP
Cost-of-Living Adjustment (COLA)	1973	Capped COLA at actual inflation rate or 2%, whichever is less	All retirees
	2003	Pro-rated first year COLA	OPSRP
	2003	Eliminated COLA 'bank' carryover	OPSRP
Tax Remedy	2011	Eliminated HB 3349 tax remedy for prospective retirees who move out of state on or after January 1, 2012	Tier One

PERS Oregon Public Employees Retirement System

Tier One/Tier Two and OPSRP Expected Benefit Payments (by status as of December 31, 2011)



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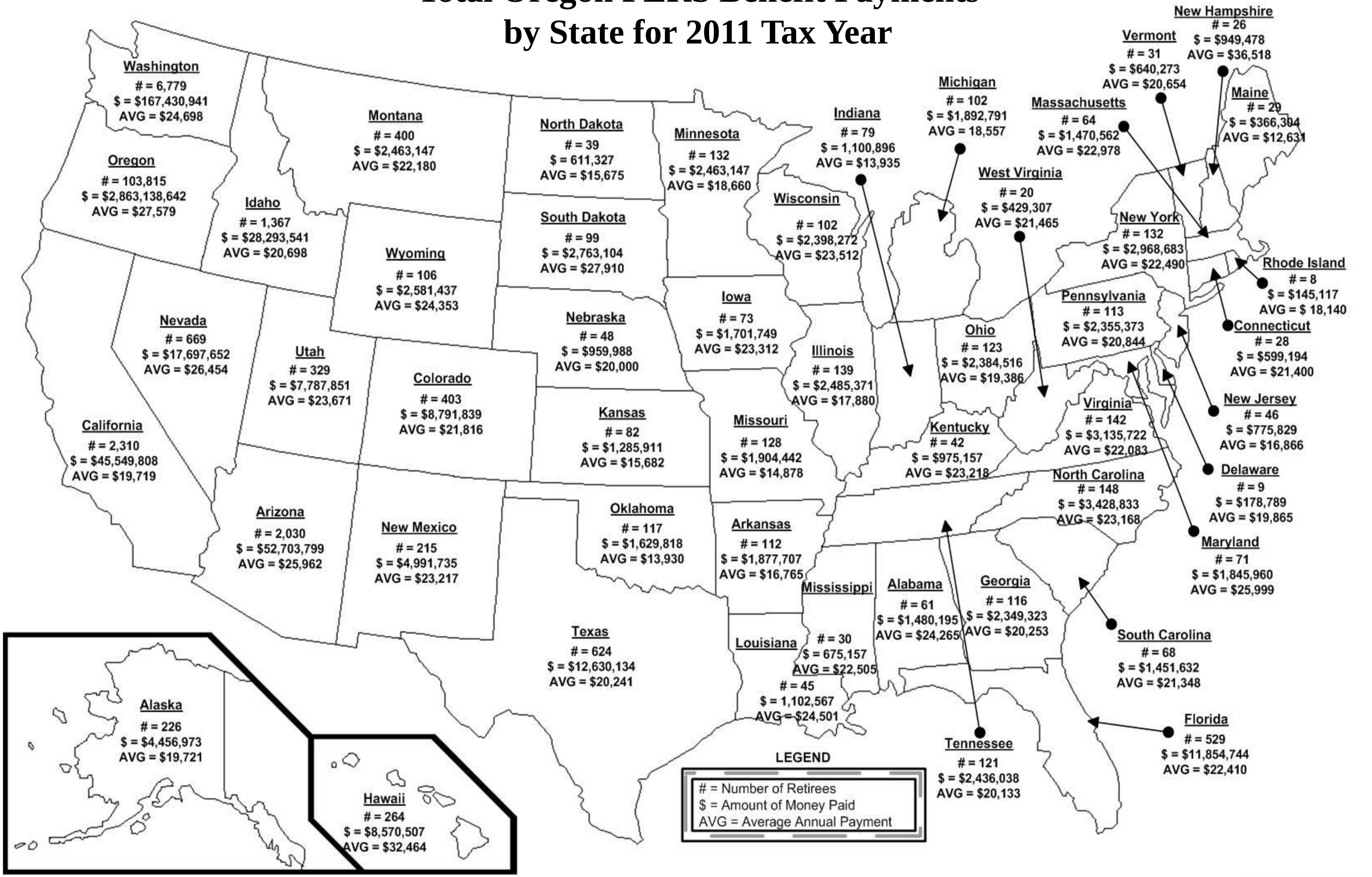
Oregon Public Employees Retirement System

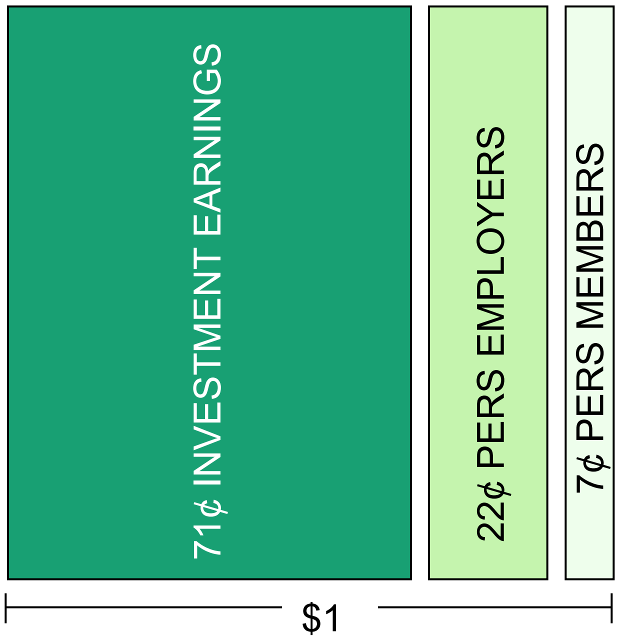
Total Oregon PERS Benefit Payments by State for 2011 Tax Year



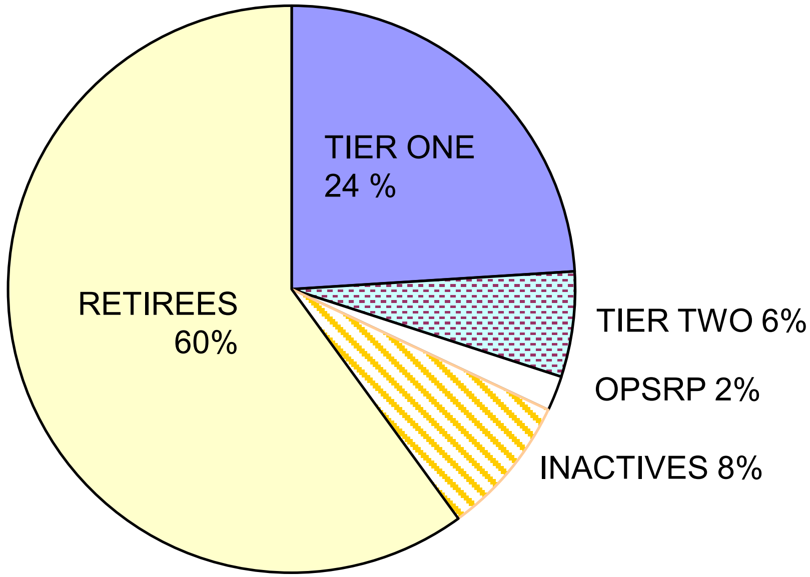
Benefit Funding and Accrued Liabilities

FUNDING SOURCES (1970-2010)

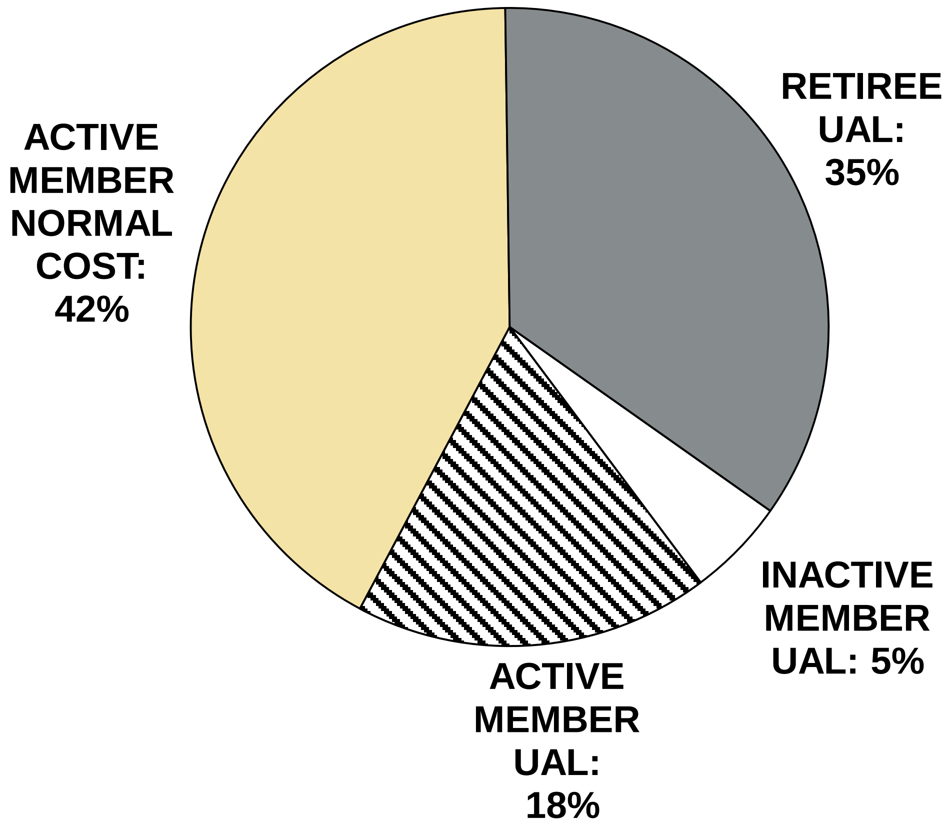
Money for benefit payments comes from three sources



ACCRUED LIABILITIES

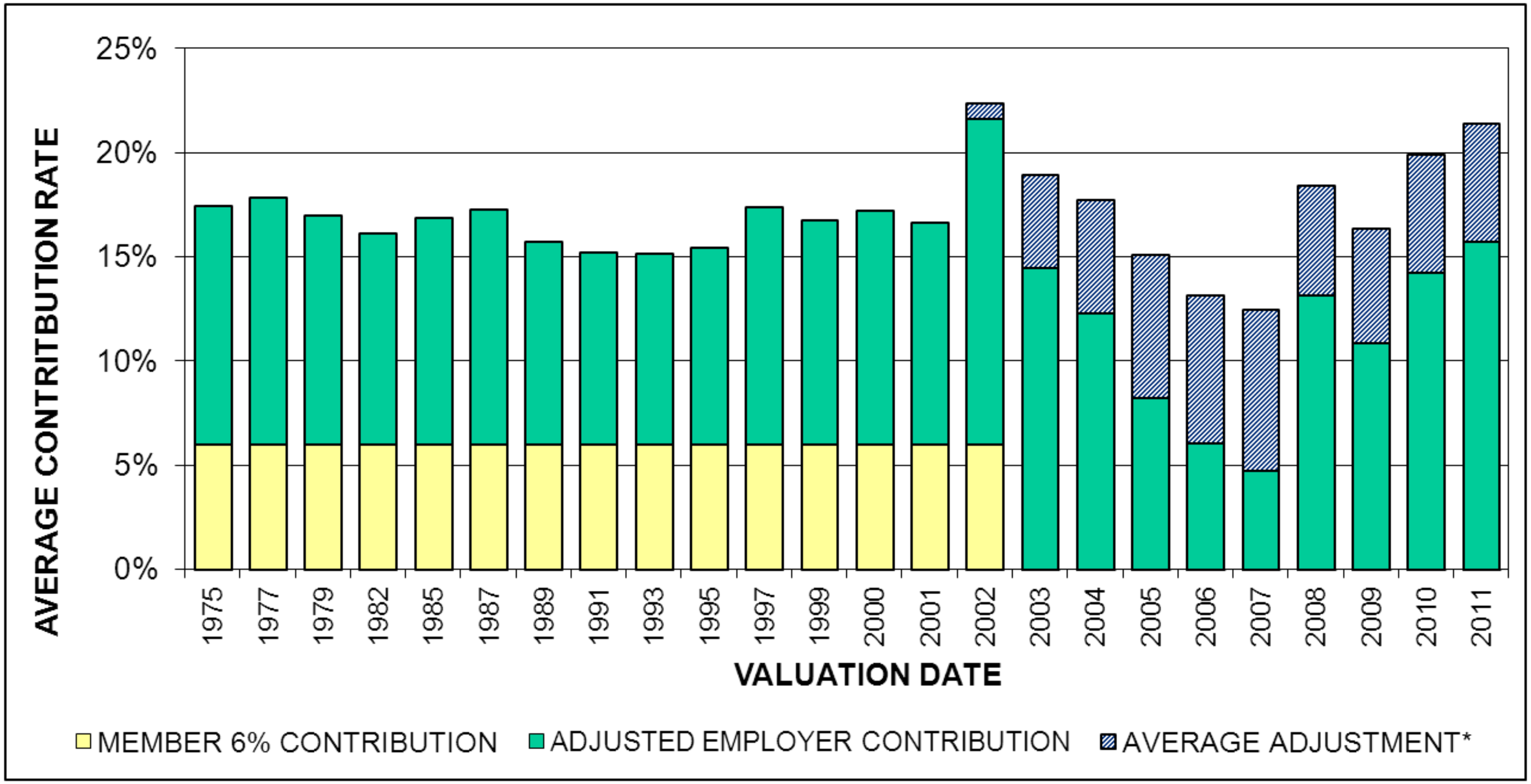


PERS 2013-15 Base Employer Rate Allocation



- Normal cost: Cost of benefits earned in the current period
- Unfunded actuarial liability (UAL): Amortized cost of accrued liabilities not covered by actuarial value of assets

Historical Perspective on Valuation Rates
(Excluding IAP)



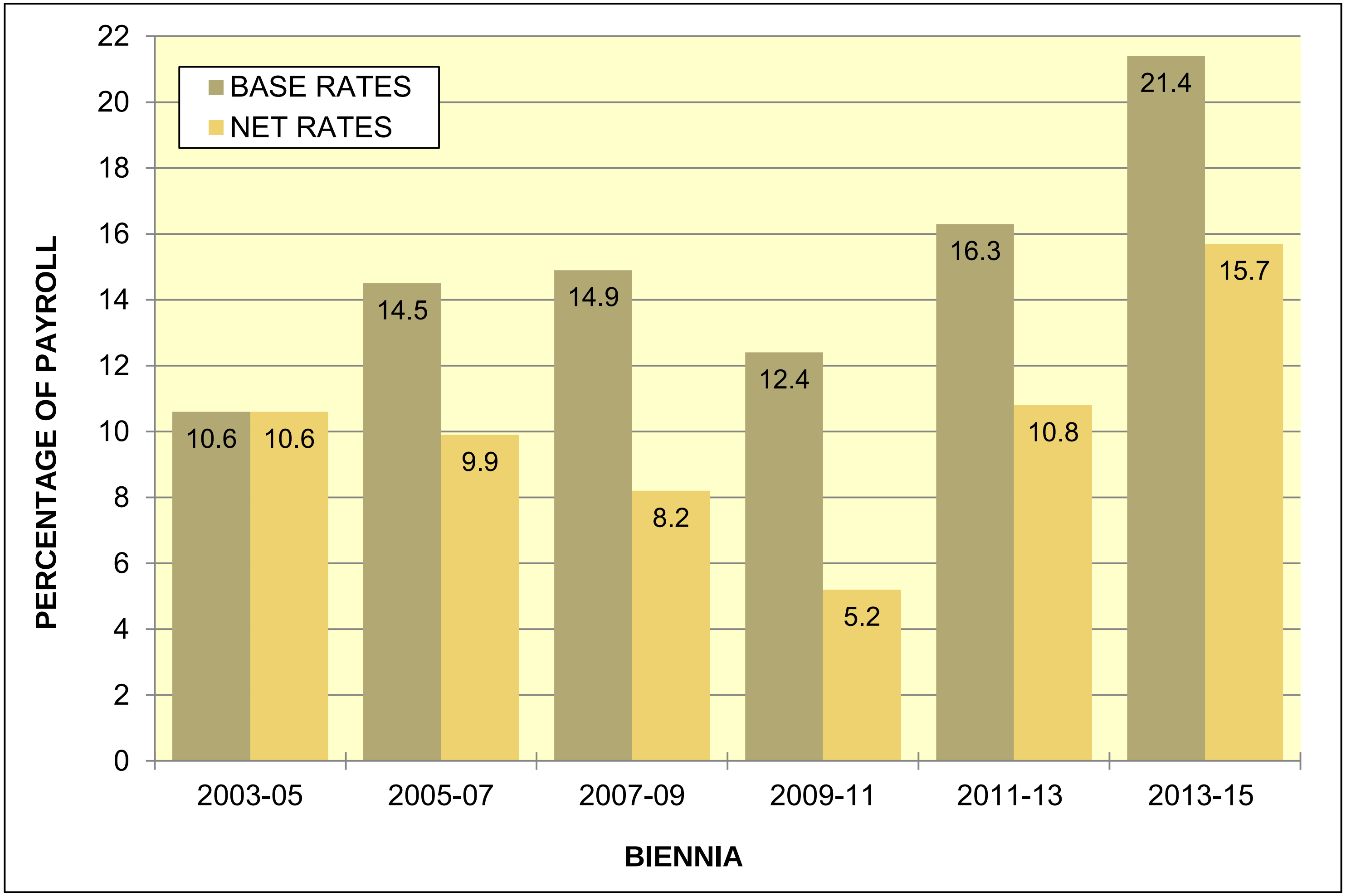
When comparing historical valuation rates, please note a number of changes have occurred including:

- 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

PERS Oregon Public Employees Retirement System

PERS Systemwide Average Employer Rates



- EXCLUDES 6% MEMBER CONTRIBUTIONS
- INCLUDES TIER ONE/TIER TWO AND OPSRP
- RATES FOR 2005-07 AND BEFORE ARE AS OF VALUATION DATE

PERS Oregon Public Employees Retirement System

Average Net Employer Rates and Contributions

	2009-2011	2011-2013	2013-2015	2013-2015 Net Increases
State Government				
Net Employer Rate	3.3%	10.1%	13.8%	+3.7 %
Contributions ($M)	$153	$510	$750	+ $240
Projected Payroll ($M)	$4,710	$5,070	$5,250	
School Districts				
Net Employer Rate	5.4%	11.4%	17.6%	+6.2 %
Contributions ($M)	$308	$703	$1,100	+ $400
Projected Payroll ($M)	$5,750	$6,190	$6,000	
Independents/All Others				
Net Employer Rate	6.4%	10.9%	14.1%	+ 3.2%
Contributions ($M)	$422	$770	$1,030	+ $260
Projected Payroll ($M)	$6,570	$7,070	$7,330	
All Employers				
Net Employer Rate	5.2%	10.8%	15.7%	+ 4.9%
Contributions ($M)	$884	$1,984	$2,890	+ $900
Projected Payroll ($M)	$17,030	$18,330	$18,415	

"Net Employer Rate" includes the adjustment for side account offsets but not IAP contributions or the costs of debt service on pension obligation bonds. Contributions are total new dollars coming into the system, by biennium. Rates for 2013-2015 will be effective July 1, 2013. Payroll amounts were projected based on the December 31, 2011 valuation payroll and assuming a 3.75% annual payroll growth.

PERS Oregon Public Employees Retirement System

State of Oregon Total PERS Cost History

(Percent of Covered Salary)

Biennium	Base* Rate (%)	Side Account Offset (%)	Pension Obligation Bond Cost** (%)	Member Contributions (%)	Total PERS Cost (%)
2001 - 2003	9.49	-	-	6.00	**15.49**
2003 - 2005	11.31	-6.60	6.45	6.00	**17.16**
2005 - 2007	16.12	-8.06	6.20	6.00	**20.26**
2007 - 2009	16.18	-9.47	5.87	6.00	**18.58**
2009 - 2011	13.00	-9.83	5.95	6.00	**15.12**
2011 - 2013	16.05	-6.45	5.62	6.00	**21.22**
2013 - 2015	20.41	-6.57	6.18	6.00	**26.02**

Estimated state agency and university system payroll for the 2013-2015 biennium is $5,253 million.

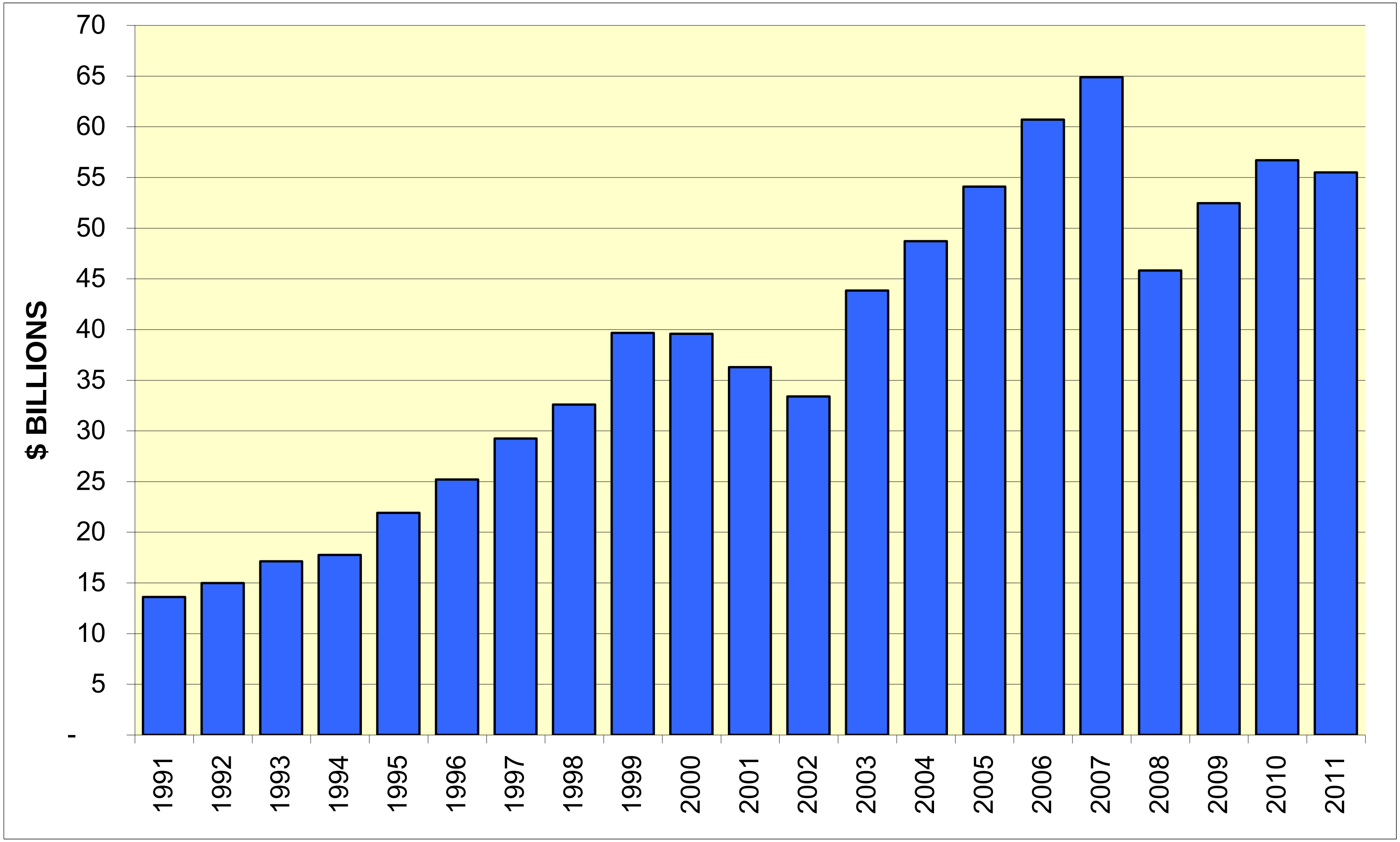
When comparing historical valuation rates, note that there have been a number of changes including:

- Money Match benefits were not valued until 1997
- A smoothed value of assets was used from 2000 through 2003
- PERS Reform was valued beginning 2001
- The entry age normal cost method was used until 2004 when projected unit credit (PUC) was adopted
- Beginning January 1, 2004, member contributions were placed in the IAP

* Source: Milliman blended PERS/OPSRP rate reports.
**DAS pension obligation bond cost charges per PERS Budget section.

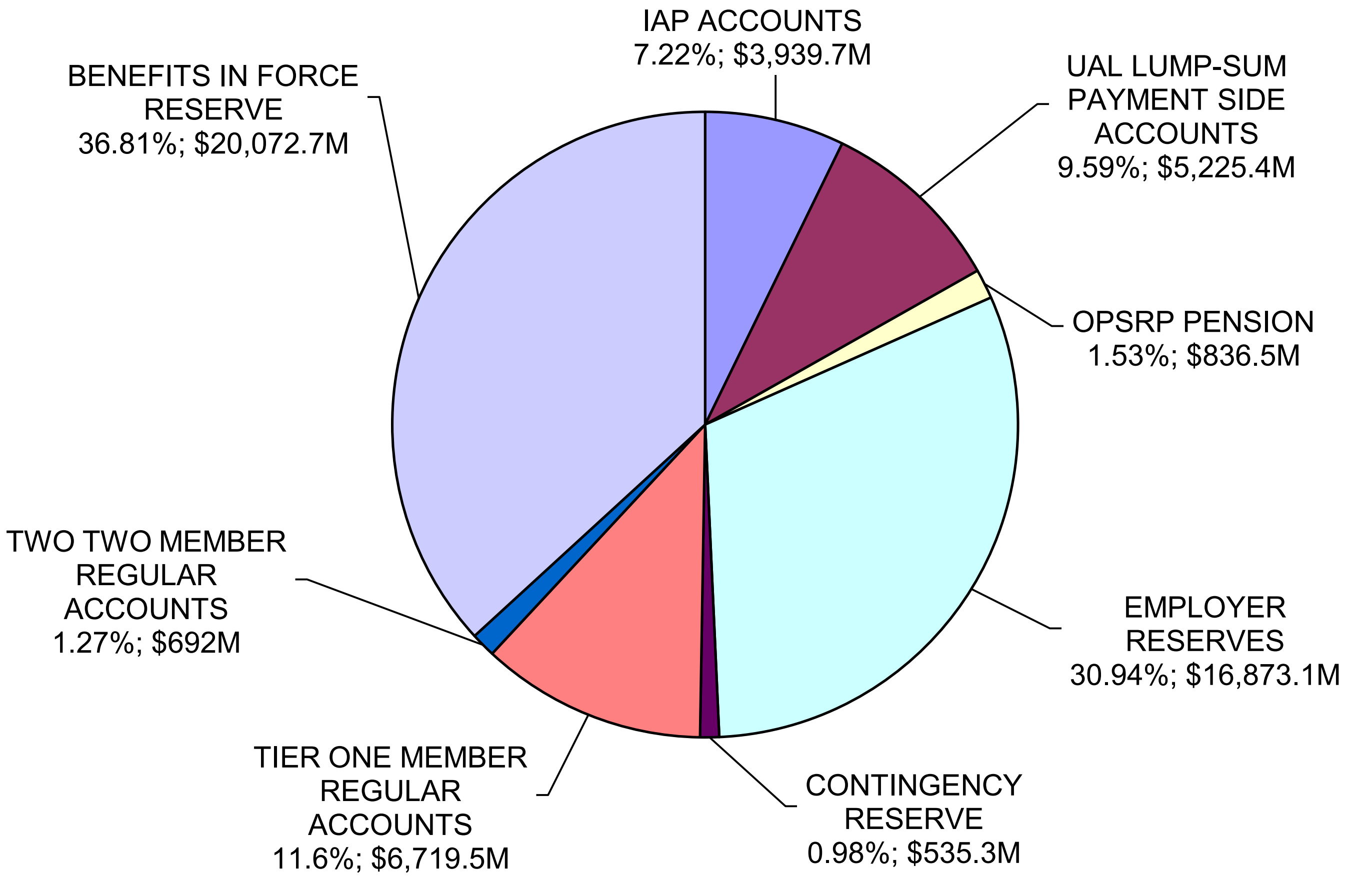
PERS Oregon Public Employees Retirement System

PERS Fund Value by Calendar Year



PERS Oregon Public Employees Retirement System

Regular Account with 2011 Earnings Crediting



Note: Total Regular Account after 2011 earnings equaled $54.5 billion.

PERS Oregon Public Employees Retirement System

2007-2011 Funded Status and UAL

	Calendar Year				
	2007	2008	2009	2010	2011
Funded Status					
Including side accounts (%)	112%	80%	86%	87%	82%
Excluding side accounts (%)	98%	71%	76%	78%	73%
Unfunded Actuarial Liability (UAL)					
Including side accounts ($ billion)	$ -6.1*	$11.0	$8.1	$7.7	$11.0
Excluding side accounts ($ billion)	$1.5	$16.1	$13.6	$13.3	$16.3

* This is a surplus.

From December 31, 2011 System Valuation

PERS Oregon Public Employees Retirement System

SL1

Limiting Cost-of-Living Adjustment (COLA) Eligibility to the First $24,000 of Annual Benefits: How Do the Savings Work?

PERS benefit payments for 2012 were forecast by the actuary to be $3.7 billion. The forecast COLA increase on those amounts for 2013 is $74 million, or a 2% increase on $3.7 billion.

The Governor's proposal eliminates about 45% of the COLA increases, with the impact varying based on a retiree's benefit level. Retirees with the lowest benefits will see no impact while retirees with the highest benefits will be significantly impacted. (See the Cost Containment Concepts Analysis document and supporting analysis letter from PERS' actuary, Milliman, on the PERS website).

This means that if the Governor's proposal was in effect for 2013 it would lower 2013 projected benefit payments by $33 million, which is 45% of the forecast COLA increase noted above. However, the cost savings of that initial lowering of the COLA is far greater than just $33 million.

The $33 million in 2013 benefits would be foregone not just for 2013 but for all future years in an affected member's retirement period. PERS retirees tend to live to their mid-80s on average based on recent observed experience. Hence, if the affected retirees had a 15-20 year life average expectancy, the present value of the $33 million reduction for 2013 would be approximately $300 million. The impact of the COLA cap being effective in 2013 would be to lower benefits by $33 million in 2013 and also in each subsequent year up to the 15-20 year average life expectancy.

Note that the Governor's proposal does not just limit COLA increases for 2013. In 2014, the COLA increase would also be limited. This would create an additional layer of savings that would persist for the life expectancies of those receiving benefits in 2014. The first year impact for 2014 would be higher than 2013 as more members are forecast to be in retirement in status in 2014.

In fact, annual benefit payments are forecast to double over the next 25 years as current Tier One and Tier Two members file for retirement. The COLA cap in each of those years has a significant long-lasting effect, and the effect of each future year's cap grows as the benefit payments for future years escalate, leading to a total liability savings in present-day dollar terms of $5.2 billion.

This is a long-term reduction in liability costs, and current PERS Board employer contribution rate policy is to recognize the value of liability increases or decreases over a 20-year period, with the annual cost or savings amount in that period increasing each year by 3.75% to align with long-term payroll forecasts. Following that policy, and using standard financial techniques and amortization tables, the first biennium savings are calculated to be approximately $810 million with the savings amounts increasing by approximately 7.5% per biennium for each of the subsequent nine biennia.