

# OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM BOARD MEETING

<b>FRIDAY</b> <b>July 26, 2013</b> <b>1:00 P.M.</b>		<b>PERS</b> <b>11410 SW 68<sup>th</sup> Parkway</b> <b>Tigard, OR</b>	
<b>ITEM</b>		<b>PRESENTER</b>	
<b>A. Administration</b>			
1.	May 31, 2013 Board Meeting Minutes Director's Report <ul style="list-style-type: none"> <li>a. Forward-Looking Calendar</li> <li>b. OIC Investment Report</li> <li>c. Operating Budget Report</li> <li>d. Working After Retirement Project Progress Report</li> <li>e. Strunk / Eugene 2.0 Project Closure Report</li> <li>f. Retiree Health Insurance Program Governance</li> </ul>	CLEARY	
<b>B. Administrative Rulemaking</b>			
1. 2. 3. 4.	Second Notice of Assumed Rate Rule Notice of OPSRP Pension Benefits Rule Notice of SB 822 Tax Remedy Rules Adoption of Payment of Retirement Benefits Rule	RODEMAN	
<b>C. Action and Discussion Items</b>			
1. 2.	2013 Legislative Session Results 2012 Experience Study and Adoption of Actuarial Methods and Assumptions	TAYLOR MILLIMAN	
<b>D. Executive Session Pursuant to ORS 192.660(2)(f), (h), and/or ORS 40.225</b>			
1.	Litigation Update	LEGAL COUNSEL	

An Audit Committee meeting will immediately follow the Board meeting.

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**Remaining 2013 Meetings: September 27    November 22**

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# OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM BOARD MEETING MINUTES

May 31, 2013  
Tigard, Oregon

## **Board Members:**

John Thomas, Chair  
Krystal Gema  
Michael Jordan  
Pat West  
Rhoni Wiswall

## **Staff:**

Donna Allen  
Helen Bamford  
Gay Lynn Bath  
Carmela Bowns  
Paul Cleary  
David Crosley  
Jon DuFrene  
Stephanie Engel

Yvette Elledge  
Brian Harrington  
Debra Hembree  
Danielle Keyser  
Mini Kobbervig  
Jeff Marecic  
Daniel Rivas  
Steve Rodeman

Teri Roper  
Jason Stanley  
Marjorie Taylor  
Nancy Van Dyke  
Stephanie Vaughn  
Dale Wakabayashi

## **Others:**

Nancy Brewer  
Lance Colley  
Alison Chan  
Doug Dillon  
Janice Esenberg  
Ursula Euler  
Rebecca Gabriel  
Jeff Gudman  
Greg Hartman

Claire Hertz  
Gordon Hoberg  
Doug Lauderbach  
Trish Isaak  
Jerry King  
Keith Kutler  
Matt Larrabee  
David Lacy  
Elizabeth McCann

Michael McCoy  
Troy Marcoe  
Lori McKinney  
Michelle Morrison  
Linda Nezbeda  
Joanne Ossanna  
P. Peg  
Scott Peppernau  
Robin Richardson

Bill Robertson  
Carol Samuels  
Deborah Tremblay  
Debbie Voystoke  
Brendan Watkins  
Shirley Yee  
Denise Yunker

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

## **ADMINISTRATION**

### **A.2. BOARD MEETING MINUTES OF MARCH 29, 2013**

The Board unanimously approved the minutes from the March 29, 2013 Board meeting.

#### **A.2.a. DIRECTOR'S REPORT**

Director Paul Cleary presented the 2013 Forward Looking calendar noting that the July 26 meeting will focus on a presentation of the 2012 Experience Study and adoption of Actuarial Methods and Assumptions that will be applied in the 2012 and 2013 valuations. Cleary reviewed the OPERF investment returns for April noting regular account year-to-date returns were 6.05%, and variable account returns were 9.67%, with the net asset value for the total fund is almost \$64 billion. Cleary also presented the April 2013 Budget Report that continues to show a positive variance of nearly 3% for the agency operating budget. Cleary reviewed a staff report on member transactions noting an increase in member retirement activity possibly due to proposed legislative benefit modifications.

## **ADMINISTRATIVE RULEMAKING**

### **B.1. NOTICE OF ASSUMED RATE RULE**

Deputy Director Steve Rodeman presented the notice of rulemaking for the Assumed Rate Rule. The purpose of the rule is to document how a change in the assumed rate will affect PERS transactions. A rulemaking public hearing will be held at Oregon State Archives in Salem on June 25, 2013 and at PERS headquarters in Tigard on June 27, 2013. The public comment period ends on July 2, 2013. The rule is scheduled to be brought before the PERS Board for adoption at the July 26, 2013 meeting. No Board action was required.

### **B.2. NOTICE OF PAYMENT OF RETIREMENT BENEFITS RULE**

Rodeman presented the notice of rulemaking for the Payment of Retirement Benefits Rule. The purpose of the rule is to remove outdated language and clarify the current administration of retirement benefit payments. A rulemaking public hearing will be held at Oregon State Archives in Salem on June 25, 2013. The rule is scheduled to be brought before the PERS Board for adoption at the July 26, 2013 meeting. No Board action was required.

## **ACTION AND DISCUSSION ITEMS**

### **C.1. 2014 RETIREE HEALTH INSURANCE PLAN RENEWALS AND RATES**

Retiree Insurance Program Manager Mini Kobbervig reviewed the 2014 PERS Health Insurance Program (PHIP) plan renewals and rates including contract and enrollment details by plan providers and types of coverage. PHIP Consultants, Molly Butler of Butler Partners & Associates and Kevin McCartin of McCartin Analytical Services described the plan renewal and rate negotiation process and the various options available for Medicare and non-Medicare covered retirees.

Board member Pat West moved and Rhoni Wiswall seconded to adopt the Retiree Health Insurance Program 2014 Plan Renewals and Rates as presented. The motion passed unanimously.

### **C.2. OSGP ADVISORY COMMITTEE APPOINTMENTS**

Gay Lynn Bath, Manager of the Oregon Savings Growth Plan (OSGP), presented the recommended appointments of three new OSGP Advisory Committee members. Bath recommended the Board appoint Brady Boothe from the State Police in Springfield, and Stefani Pastoor from the State Hospital in Salem, to fill the upcoming vacant state government positions; and appoint Kevin Nordhill, a retired State Treasury investment officer to fill the vacant retiree position.

Board member Wiswall moved and Krystal Gema seconded to adopt the recommended appointments as presented. The motion passed unanimously.

### **C.3. 2013 LEGISLATIVE SESSION UPDATE**

Senior Policy Analyst Marjorie Taylor summarized the 2013 legislative session to date. Taylor briefly reviewed the implementation of SB 822 and three bills, HB 3243, HB 3487, and SB 565, that are related to police and fire members. Taylor reported that PERS will continue to monitor almost 35 additional PERS plan-related bills assigned to committees that may remain

active until the end of session. Taylor also noted that the agency budget bill (SB 5537) was still being favorably reviewed and would likely be finalized in the final weeks of session.

#### C.4. 2013-15 EMPLOYER RATE ADJUSTMENT APPROACH (SB 822)

Rodeman and Actuarial Services Coordinator Debra Hembree reviewed the methodology and implementation of SB 822 that requires the Board to adjust 2013-15 employer rates to reflect the statutory long-term liability reductions, and the associated budget note rate deferral by the July 1, 2013 deadline. Board members discussed the two policy issues described in the staff memorandum and asked questions of staff and the PERS actuary. Rodeman asked the Board to pass a motion to “direct Milliman to recalculate employer rates that reduce the 2013-15 employer rates by 2.5 percent of payroll for all employers, and to further reduce all employers’ base rates by up to an additional 1.9 percent of payroll, with the limitation that no employer’s adjusted 2013-15 base rates will be less than its 2011-13 base rates.”

West moved and Gema seconded to approve the recommended rate setting methodology as presented. The motion passed unanimously.

#### C.5. CONTINUED REVIEW OF ACTUARIAL METHODS AND ASSUMPTIONS

Milliman actuaries Matt Larrabee and Scott Preppernau continued a review of Actuarial Methods and Economic Assumptions in preparation for the adoption of updated methods and assumptions at the July 26, 2013 Board meeting.

Board members discussed the various investment return projections and asked questions about the differences between the projections and the potential effects on employer rates and member benefits. Larrabee responded and also described possible actions to help mitigate the impacts. Cleary noted that the OIC was completing an asset/liability analysis and may make some incremental changes in the OPERF asset allocation, which will be reflected in the updated assumed rate analysis. The Board asked the actuaries to look at the effects of a change to both a 7.5% and a 7.75% assumed rate, while also noting that the lower investment return projections would be the key decision factor in setting the assumed earnings rate.

Nancy Brewer, Corvallis Finance Manager, and Lance Colley, Roseburg City Manager, commented on implementation of the SB 822 budget note, expressing concerns about the potential long-term costs of the short-term rate deferral.

No executive session was held.

Thomas adjourned the Board meeting at 3:40 PM.

Respectfully submitted,



Paul R. Cleary  
Executive Director

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

### **Friday, September 27, 2013**

Adoption of Assumed Rate Rule  
Adoption of OPSRP Pension Benefits Rule  
Adoption of SB 822 Tax Remedy Rules  
Notice of Recovery of Overpayments Rule  
Notice of Rules Impacted by 2013 Legislation  
Notice of Data Verification Rules  
2012 Valuation Results

### **Friday, November 22, 2013**

Adoption of Recovery of Overpayments Rule  
Adoption of Rules Impacted by Legislation  
Adoption of Data Verification Rules  
Employer Reporting Update  
Audit Committee Meeting

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Returns for periods ending 6/30/13

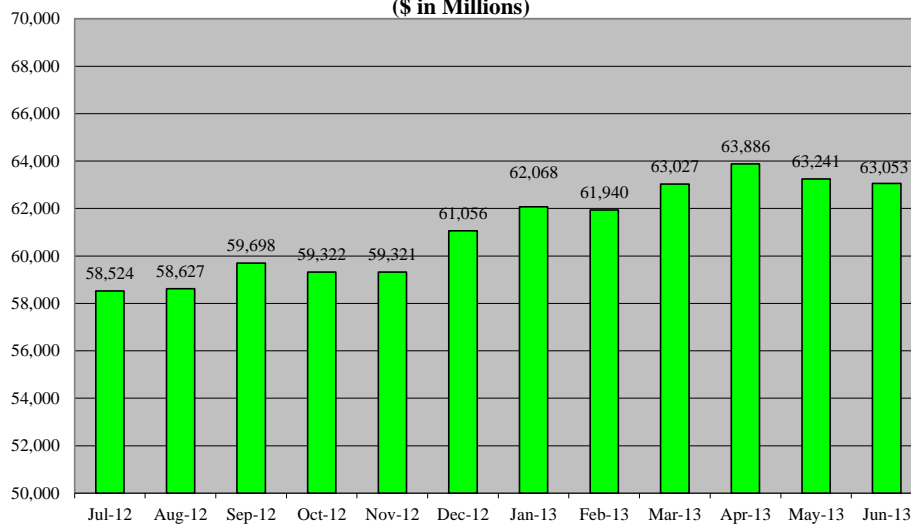
Oregon Public Employees Retirement Fund

OPERF	Regular Account				Historical Performance (Annual Percentage)							
	Policy <sup>1</sup>	Target <sup>1</sup>	\$ Thousands <sup>2</sup>	Actual	Year-To-Date <sup>3</sup>	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS	7 YEARS	10 YEARS
Public Equity	38-48%	43%	\$ 23,508,512	37.7%	7.87	19.24	5.24	13.55	13.65	3.27	3.79	7.90
Private Equity	12-20%	16%	14,096,731	22.6%	7.86	12.74	9.66	13.44	17.00	6.82	9.47	14.32
<b>Total Equity</b>	<b>54-64%</b>	<b>59%</b>	<b>37,605,243</b>	<b>60.4%</b>								
Opportunity Portfolio			820,042	1.3%	8.58	17.65	8.32	12.85	16.58	8.76		
<b>Total Fixed</b>	<b>20-30%</b>	<b>25%</b>	<b>15,706,554</b>	<b>25.2%</b>	<b>(1.22)</b>	<b>3.64</b>	<b>5.52</b>	<b>6.60</b>	<b>9.46</b>	<b>7.94</b>	<b>7.04</b>	<b>6.11</b>
Real Estate	8-14%	11%	7,514,469	12.1%	7.18	14.40	11.51	14.53	10.52	1.52	3.84	10.58
Alternative Investments	0-8%	5%	616,553	1.0%	3.09	(0.10)	1.93					
Cash	0-3%	0%	21,287	0.0%	0.24	0.87	0.73	0.81	0.91	0.95	2.09	2.20
<b>TOTAL OPERF Regular Account</b>		<b>100%</b>	<b>\$ 62,284,148</b>	<b>100.0%</b>	5.37	12.68	7.00	11.86	13.13	4.98	5.55	8.40
<b>OPERF Policy Benchmark</b>					5.06	12.44	7.39	11.55	12.54	5.42	5.79	8.13
Value Added					0.31	0.24	(0.39)	0.31	0.59	(0.44)	(0.24)	0.27
<b>TOTAL OPERF Variable Account</b>			<b>\$ 768,820</b>		6.50	17.38	4.82	12.94	13.02	3.03	2.34	

Asset Class Benchmarks:

Russell 3000 Index	14.06	21.46	12.31	18.63	17.90	7.25	5.84	7.81
MSCI ACWI Ex US IMI Net	0.18	13.91	(1.48)	8.13	8.96	(0.41)	2.58	9.05
MSCI ACWI IMI Net	6.40	17.08	4.40	12.60	12.72	2.79	3.79	8.02
Russell 3000 Index + 300 bps--Quarter Lagged	12.98	17.96	14.11	16.33	25.21	10.26	8.85	13.06
Oregon Custom FI Benchmark	(1.62)	2.65	4.76	4.58	5.91	5.79	5.91	4.94
NCREIF Property Index--Quarter Lagged	5.17	10.52	11.95	13.30	7.08	2.32	5.81	8.51
91 Day T-Bill	0.04	0.11	0.08	0.11	0.12	0.29	1.46	1.74

**TOTAL OPERF NAV**  
(includes variable fund assets)  
One year ending June 2013  
(\$ in Millions)



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

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

<sup>3</sup>For mandates beginning after January 1 (or with lagged performance), YTD numbers are "N/A". Performance is reflected in Total OPERF. YTD is not annualized.

Returns for periods ending 5/31/13

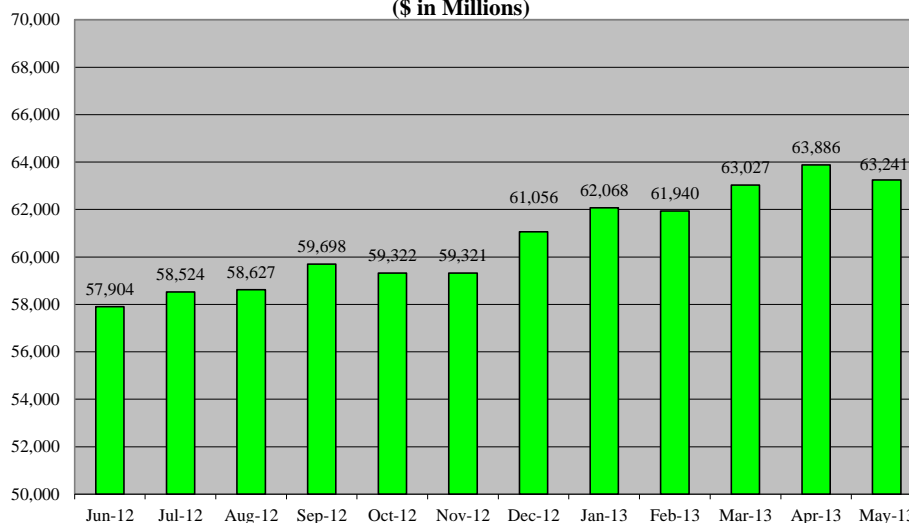
Oregon Public Employees Retirement Fund

OPERF	Regular Account				Historical Performance (Annual Percentage)							
	Policy <sup>1</sup>	Target <sup>1</sup>	\$ Thousands <sup>2</sup>	Actual	Year-To-Date <sup>3</sup>	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS	7 YEARS	10 YEARS
Public Equity	38-48%	43%	\$ 24,206,993	38.8%	10.94	28.58	5.89	13.36	14.37	2.16	4.19	8.39
Private Equity	12-20%	16%	13,552,644	21.7%	2.99	14.05	10.89	13.06	14.67	5.59	9.54	13.64
<b>Total Equity</b>	<b>54-64%</b>	<b>59%</b>	<b>37,759,637</b>	<b>60.5%</b>								
Opportunity Portfolio			902,305	1.4%	9.59	22.90	9.23	12.71	16.73	9.05		
<b>Total Fixed</b>	<b>20-30%</b>	<b>25%</b>	<b>15,697,584</b>	<b>25.1%</b>	<b>0.70</b>	<b>6.67</b>	<b>6.37</b>	<b>7.68</b>	<b>10.53</b>	<b>8.16</b>	<b>7.37</b>	<b>6.34</b>
Real Estate	8-14%	11%	7,468,058	12.0%	5.38	15.84	11.61	14.45	9.57	0.45	4.15	10.59
Alternative Investments	0-8%	5%	608,490	1.0%	2.86	0.34						
Cash	0-3%	0%	5,403	0.0%	0.29	1.04	0.77	0.84	0.99	1.03	2.15	2.22
<b>TOTAL OPERF Regular Account</b>		<b>100%</b>	<b>\$ 62,441,477</b>	<b>100.0%</b>	5.72	17.43	7.72	11.93	13.08	4.10	5.71	8.55
<b>OPERF Policy Benchmark</b>					4.74	17.66	7.61	11.49	11.79	4.27	5.88	8.20
Value Added					0.98	(0.23)	0.11	0.44	1.29	(0.17)	(0.17)	0.35
<b>TOTAL OPERF Variable Account</b>			<b>\$ 800,002</b>		9.63	26.55	5.48	12.86	13.76	1.89	2.77	

Asset Class Benchmarks:

Russell 3000 Index	15.55	27.88	12.02	16.82	18.38	5.69	6.06	8.09
MSCI ACWI Ex US IMI Net	4.82	25.84	0.00	9.35	9.96	(1.22)	3.23	9.84
MSCI ACWI IMI Net	9.60	26.34	5.07	12.50	13.45	1.64	4.20	8.55
Russell 3000 Index + 300 bps--Quarter Lagged	0.99	19.86	11.68	14.51	18.81	5.92	8.01	11.61
Oregon Custom FI Benchmark	0.34	5.58	5.66	5.76	6.64	6.14	6.23	5.14
NCREIF Property Index--Quarter Lagged	2.54	10.54	12.39	12.63	4.40	2.13	5.97	8.44
91 Day T-Bill	0.03	0.12	0.09	0.11	0.12	0.32	1.52	1.76

**TOTAL OPERF NAV**  
(includes variable fund assets)  
One year ending May 2013  
(\$ in Millions)



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

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

<sup>3</sup>For mandates beginning after January 1 (or with lagged performance), YTD numbers are "N/A". Performance is reflected in Total OPERF. YTD is not annualized.



# Oregon

John A. Kitzhaber, M.D., Governor

## Public Employees Retirement System

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Mailing Address:  
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July 26, 2013

TO: Members of the PERS Board  
FROM: Kyle J. Knoll, Interim Fiscal Services Administrator  
SUBJECT: July 2013 Budget Report

### 2011-13 OPERATIONS BUDGET

Operating expenditures for May and June 2013 were \$3,136,076 and \$3,410,964, respectively.

- To date, through the twenty-four months (100%) of the 2011-13 biennium, the Agency has expended a total of \$71,436,988, or 92.46% of PERS' legislatively approved operating budget of \$77,260,820.
- The current projected positive variance is \$2,784,630, or 3.6% of the operating budget.

### STRUNK/EUGENE OVERPAYMENT RECOVERY PROJECT

To date, the Agency has expended a total of \$685,698, or 33.1% of PERS' 2011-13 legislatively approved budget of \$2,071,410. A separate report (agenda item A.1.e) addresses that project's status as it comes to a close and elaborates on the project's positive budget variance.

### 2013-15 BUDGET

The agency's Legislatively Approved Budget for 2013-15 (SB 5537-A) was signed by Governor Kitzhaber on June 26, 2013. The Budget Report and Measure Summary is attached, and summarized below:

\$ 81,571,322	Other Funds – Limited (Operating Budget)
1,008,151	Other Funds – Limited (Special appropriation for SB 822 implementation)
1,302,850	Other Funds – Debt Service (Bond payments on the current PERS HQ)
<u>9,277,875,000</u>	Other Funds – Non-limited (Benefits, health insurance pass-throughs, etc.)
\$ 9,361,757,323	

A final budget adjustment bill (HB 5008) is currently pending signature by Governor Kitzhaber. This bill, typical for the end of the legislative session, includes some adjustments to PERS' 2013-15 budget (and all other agency budgets). Those adjustments will be reflected in the September budget report to the Board.

Highlights of the PERS 2013-15 Legislatively Approved Budget includes:

- Authorization for 364 permanent positions in the current service level (CSL) or base for future budget development, and 3 limited duration positions for continuation of the Strunk/Eugene Overpayment Recovery Project.
- A budget note directing PERS to report to the Legislative Fiscal Office (LFO) on the Board's implementation of legislation and administration actions related to 2013-15 employer contribution rates. PERS is also to report on retirement activity, by major employer groups and membership types.
- A second budget note directing PERS to review the healthcare insurance marketplace and report back to the Joint Ways and Means Committee during the 2015 legislative session on whether the pre-Medicare population within the PERS Health Insurance Program should be combined with other groups acquiring healthcare coverage under the Cover Oregon plans.
- In addition, PERS is also directed to work with the Department of Administrative Services and the Legislative Fiscal Office to conduct a review of the agency's Oregon Budget Information Tracking System (ORBITS) budget structure and to incorporate any recommended changes for the 2015-17 budget cycle.

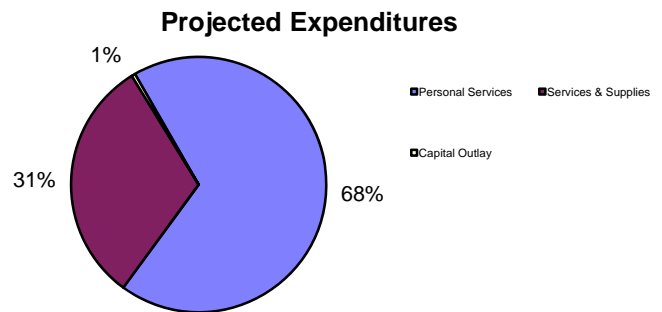
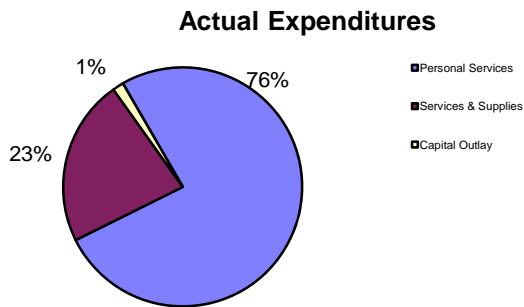
Attachment 1 – Summary Budget Analysis

Attachment 2 – SB 5537-A Budget Report and Measure Summary

**2011-13 Agency-wide Operations - Budget Execution**  
**Summary Budget Analysis**  
 For the Month of: June 2013

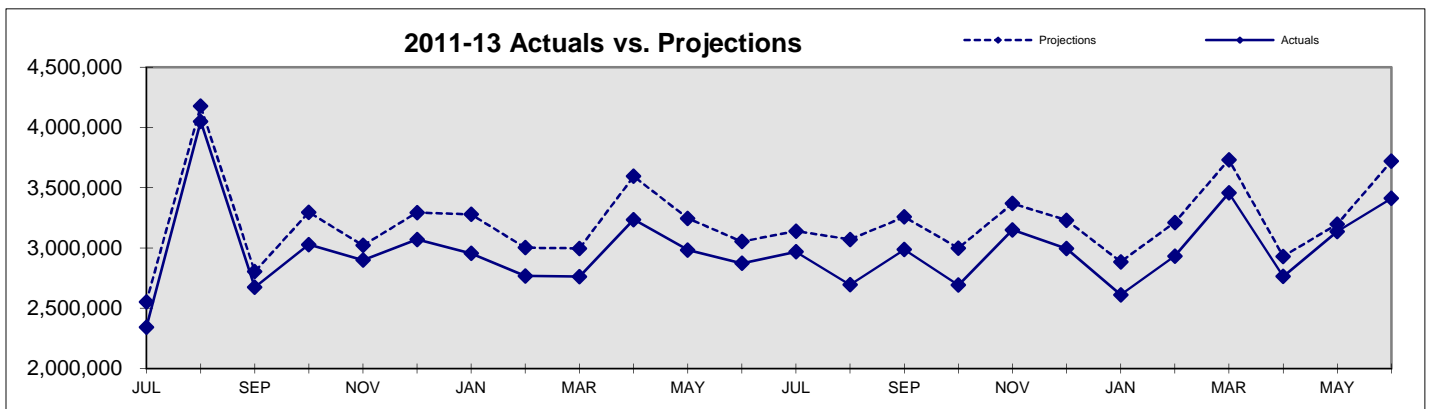
**Biennial Summary**

Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expend.	2011-13 LAB	Variance
Personal Services	54,288,716	4,840	54,293,556	55,827,463	1,533,907
Services & Supplies	16,078,889	2,427,644	18,506,533	20,505,769	1,999,236
Capital Outlay	1,069,383	606,717	1,676,100	927,588	(748,512)
<b>Total</b>	<b>71,436,988</b>	<b>3,039,201</b>	<b>74,476,190</b>	<b>77,260,820</b>	<b>2,784,630</b>



**Monthly Summary**

Category	Actual Exp.	Projections	Variance	Avg. Monthly Actual Exp.	Avg. Monthly Projected Exp.
Personal Services	2,334,968	2,543,753	208,785	2,262,030	2,543,753
Services & Supplies	1,059,411	1,158,526	99,115	669,954	1,158,526
Capital Outlay	16,585	16,600	15	44,558	16,600
<b>Total</b>	<b>3,410,964</b>	<b>3,718,879</b>	<b>307,915</b>	<b>2,976,541</b>	<b>3,718,879</b>



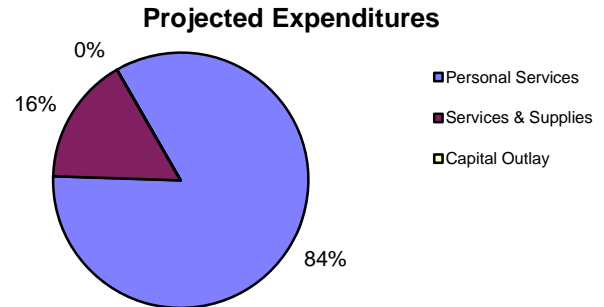
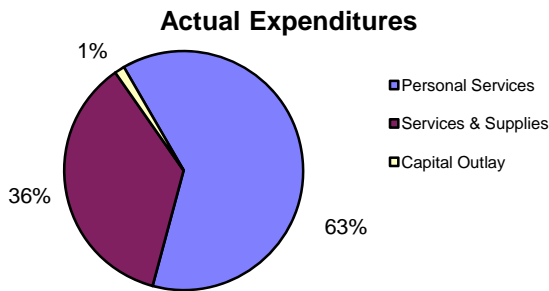
**2009-11 Biennium Summary**

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

## 2011-13 Strunk/Eugene Overpayment Recovery Project - Budget Execution Summary Budget Analysis For the Month of: June 2013

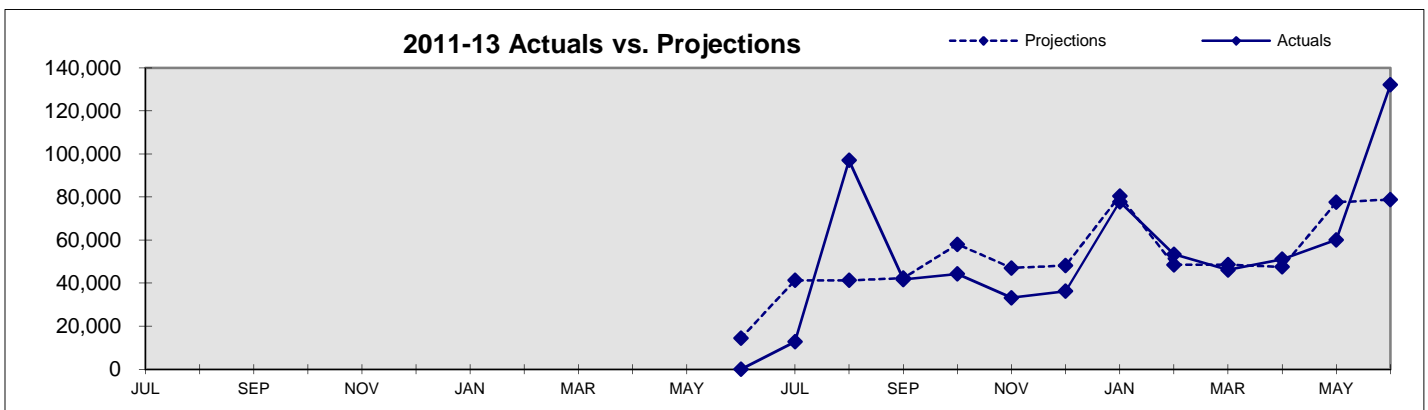
### Biennial Summary

Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expend.	2011-13 LAB	Variance
Personal Services	428,774	50,535	479,309	917,155	437,846
Services & Supplies	247,570	30,000	277,570	1,154,255	876,685
Capital Outlay	9,354		9,354		(9,354)
<b>Total</b>	<b>685,698</b>	<b>80,535</b>	<b>766,233</b>	<b>2,071,410</b>	<b>1,305,177</b>



### Monthly Summary

Category	Actual Exp.	Projections	Variance	Avg. Monthly Actual Exp.	Avg. Monthly Projected Exp.
Personal Services	74,805	48,771	(26,034)	35,731	
Services & Supplies	57,276	30,050	(27,226)	20,631	
Capital Outlay				780	
<b>Total</b>	<b>132,081</b>	<b>78,821</b>	<b>(53,260)</b>	<b>57,142</b>	



### Project Tracker:

Percent of 2011-13 E-board Budget Expended:	33.1%
Percent of 2011-13 Project Duration Expired:	100.0%

**77<sup>th</sup> OREGON LEGISLATIVE ASSEMBLY – 2013 Session  
BUDGET REPORT AND MEASURE SUMMARY**

**JOINT COMMITTEE ON WAYS AND MEANS**

**MEASURE: SB 5537-A**

**Carrier – House: Rep. Gomberg**

**Carrier – Senate: Sen. Whitsett**

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**Action:** Do Pass as Amended and as Printed A-Engrossed

**Vote:** 26 – 0 – 0

House

Yeas: Barker, Buckley, Frederick, Freeman, Hanna, Huffman, Jenson, Komp, McLane, Nathanson, Read, Richardson, Smith, Tomei, Williamson

Nays:

Exc:

Senate

Yeas: Bates, Devlin, Edwards, Girod, Hansell, Johnson, Monroe, Steiner Hayward, Thomsen, Whitsett, Winters

Nays:

Exc:

**Prepared By:** Jim Carbone, Department of Administrative Services

**Reviewed By:** John Borden, Legislative Fiscal Office

**Meeting Date:** June 6, 2013

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Agency

Public Employees Retirement System

Biennium

2013-15

## **Budget Summary**\*

	<u>2011-13 Legislatively Approved Budget <sup>(1)</sup></u>	<u>2013-15 Current Service Level</u>	<u>2013-15 Committee Recommendation</u>	<u>Committee Change from 2011-13 Leg. Approved</u>	
				<u>\$\$ Change</u>	<u>% Change</u>
Other Funds	\$ 79,332,230	\$ 76,458,784	\$ 81,571,322	\$ 2,239,092	2.8%
Other Funds Debt Service	\$ 1,418,600	\$ 1,302,850	\$ 1,302,850	\$ -115,750	-8.2%
Other Funds Nonlimited	\$ 7,434,035,699	\$ 9,277,875,000	\$ 9,277,875,000	\$ 1,843,839,301	24.8%
Other Funds Debt Service Nonlimited	\$ 3,140,326	\$ 0	\$ 0	\$ -3,140,326	-100.0%
Total	\$ 7,517,926,855	\$ 9,355,636,634	\$ 9,360,749,172	\$ 1,842,822,317	24.5%

## **Position Summary**

Authorized Positions	367	334	367	0
Full-time Equivalent (FTE) positions	365.70	334.00	365.73	0.03

(1) Includes adjustments through December 2012.

\* Excludes Capital Construction expenditures

## **Summary of Revenue Changes**

Revenue sources for the agency include investment earnings, contributions and fees from participating employers and public employees.

## **Summary of General Government Subcommittee Action**

The Public Employee Retirement System agency administers seven programs that provide retirement services for about 900 organizations that, collectively, employ approximately 95 percent of all public school district, state and local government employees in Oregon.

The Subcommittee approved the 2013-15 operations budget of \$81,571,322 Other Funds. In addition, the budget includes \$1,302,850 Other Funds for debt service and \$9,277,875,000 Non-limited Other Funds for benefit payments. The agency's budget is organized into four units:

### **Tier One and Tier Two Plan**

The Tier One and Tier Two programs include employer and member contributions and investment earnings related to Tier One and Tier Two members and employer accounts. Expenditures reflect the retirement payments made to retirees and beneficiaries in these programs. As of January 1, 2004, all member contributions have been directed to the Individual Account Program (IAP). The Tier One and Two programs were closed to new members on August 29, 2003. This program unit is made up entirely of Other Funds, Non-limited expenditures totaling \$8,540,861,000.



## **Budget Note:**

The Public Employees Retirement System (PERS) is directed to report to the Legislative Fiscal Office (LFO) on the Board's implementation of legislation and administrative actions related to 2013-15 employer contribution rates. PERS is to provide LFO with final employer contribution rates for the 2013-15 biennium and with an updated estimate of the amount of system wide savings generated by major employer group (state agencies and university system; school districts; and local governments). PERS is to report quarterly to LFO on retirement applications by major employer group, including inactive member retirements, retirement plan, and benefit calculation methodology. PERS is to provide LFO with an annual report on actual retirement activity, including inactive members, for calendar years 2012, 2013, and 2014.

In addition, the Public Employees Retirement System is directed to work with the Department of Administrative Services and the Legislative Fiscal Office to conduct a review of the agency's Oregon Budget Information Tracking System (ORBITS) budget structure and to incorporate any recommended changes for the 2015-17 budget cycle.

### **Oregon Public Service Retirement Plan**

The 2003 Legislature created the Oregon Public Service Retirement Plan (OPSRP). It is a hybrid retirement program with two components: the Pension Program and the Individual Account Program (IAP). Employers participating in PERS as of August 28, 2003, must participate in OPSRP. This program unit is made up entirely of Other Funds, Non-limited expenditures totaling \$737,014,000.

### **Operations**

The Operations Unit comprises the budget for all administrative activity within the agency. PERS Operations has five divisions: Central Administration, Benefit Payments Division, Fiscal Services Division, Information Services Division, and Customer Services Division. The Subcommittee approved a limited Other Funds budget for this unit totaling \$81,571,322 (367 positions/365.73 FTE). It includes the following adjustments to the current services level:

Package 081, May 2012 E-Board, adds three limited duration positions (3.00 FTE) and \$965,954 Other Funds expenditure limitation. This package continues the limited duration positions that were authorized during the May, 2012 meeting of the Emergency Board. These positions are involved in recovering overpaid benefits in conformance with the Oregon Supreme Court decisions in the *Strunk* and the *City of Eugene* cases. The package also makes permanent budget reductions related to a portion (\$401,763) of the Senate Bill 5701 government restructuring that was initiated in 2012. Package 811 also addresses Senate Bill 5701 changes.

Package 091, Statewide Administrative Savings, eliminates \$1,468,988 Other Funds expenditure limitation. This package is a placeholder for administrative efficiencies in finance, information technology, human resources, accounting, payroll, and procurement expenditures. The Department of Administrative Services will continue to work on details of these reductions with agencies and report back during the 2014 session.

Package 092, PERS Taxation Policy, eliminates \$161,673 Other Funds expenditure limitation. This package reflects the policy change in Senate Bill 822 that eliminates the increased retirement benefits resulting from Oregon income taxation of payments if the person receiving payments does not pay Oregon income tax on those benefits and is not an Oregon resident. This change reduces state employer contribution rates by approximately 0.30 percent.

Package 093, Other PERS Adjustments, eliminates \$1,291,845 Other Funds expenditure limitation. This package reflects the policy change in Senate Bill 822 that modifies the cost-of-living adjustment under the Public Employees Retirement System. This change reduces state employer contribution rates by approximately 2.2 percent.

An administrative action by the PERS Board, as directed by a budget note in the SB 822 budget report, will reduce state employer contribution rates by up to an additional 1.9 percent. However, no employer rate is reduced below its 2011-13 biennium rate.

Package 101, Current Service Delivery Levels, authorizes 30 positions (29.64 FTE) and \$5,431,929 Other Funds expenditure limitation. This package has four components: (a) the package moves 27 previously classified limited duration positions to permanent full-time status; (b) adds two new permanent full-time positions to enhance work on reconciling data issues on primarily retiree and non-active member accounts; (c) adds one new permanent full-time position to focus on enterprise-wide data consistency, reporting and performance measurement; and (d) adds actuarial (\$385,000) and auditing contract services (\$250,000). Note that the Operations and Policy Analyst 2 position that was originally requested in this package is changed to a Research Analyst 4 classification. The 0.36 FTE reduction in this recommendation accounts for the time that three of the positions will be vacant prior to being hired.

Package 102, Retiree Health Insurance, adds three permanent, full-time positions (2.84 FTE) and \$760,879 Other Funds expenditure limitation. This package (a) increases the management and financial oversight of the Retiree Health Insurance Program; and (b) adds consulting and actuarial contract services for the program. The positions include a Principle Executive Manager D, a Procurement and Contract Specialist 3, and an Accountant 3. This package is funded by revenue transfers from retirement programs. The 0.16 FTE reduction in this recommendation accounts for the time that two of the positions will be vacant prior to being hired.

**Budget Note:**

PERS is directed to review the healthcare insurance marketplace and report back to the Joint Committee on Ways and Means during the 2015 session on whether the pre-Medicare population within the PERS Health Insurance Program should be combined with other groups in acquiring healthcare coverage under the Cover Oregon plans and whether the Affordable Care Act or Cover Oregon could provide coverage for the Medicare Plan policy holders under the PERS Health Insurance Program.

Package 103, Infrastructure Maintenance and Enhancement, adds \$1,260,000 Other Funds expenditure limitation. This package has three information technology components related to the agency's Oregon Retirement Information On-line Network (ORION): (a) enterprise-level data reporting (\$460,000); (b) replacement of the agency's production storage area network (\$500,000); and (c) system development to add functionality for select services and for the development and deployment of a module to administer the Individual Account Program, which is currently outsourced by a third party administrator (\$300,000).

This package is a one-time expenditure and is to be phased-out of the agency's 2015-17 budget.

PERS is directed to submit to the Joint Committee on Ways and Means during the Legislative session in 2014 a fully developed business case for bringing the administration of the Individual Account Program in-house.

Package 811, Compliance Plan for Senate Bill 5701 (2012), reflects the final restructuring changes that were initiated by the Emergency Board in May of 2012. The package reduces Other Funds expenditure limitation by \$383,718 and eliminates three positions (3.75 FTE): two Data Entry Operators and one Information support Specialist 6. It also phases out one Policy Analyst 2 on January 1, 2014.

### **Debt Service**

The Debt Service budget unit accounts for debt service payments on 2012 Series K Article XI-Q Bond that replaced the Certificates of Participation (COPs) that were previously issued to finance the PERS headquarters building construction. This debt will be fully paid by May 2017. The Subcommittee approved an Other Funds expenditure limitation of \$1,302,850 for this budget unit.

### **Summary of Performance Measure Action**

See attached Legislatively Adopted 2013-15 Key Performance Measures form.

# DETAIL OF JOINT COMMITTEE ON WAYS AND MEANS ACTION

SB 5537-A

Public Employees Retirement System  
 Jim Carbone - 503-378-3619

DESCRIPTION	GENERAL FUND	LOTTERY FUNDS	OTHER FUNDS		FEDERAL FUNDS		TOTAL ALL FUNDS	POS	FTE	
			LIMITED	NONLIMITED	LIMITED	NONLIMITED				
2011-13 Legislatively Approved Budget at Dec 2012 *	\$ 0	\$ 0	\$ 80,750,830	\$ 7,437,176,025	\$ 0	\$ 0	\$ 7,517,926,855	367	365.70	
2013-15 ORBITS printed Current Service Level (CSL)*	\$ 0	\$ 0	\$ 77,761,634	\$ 9,277,875,000	\$ 0	\$ 0	\$ 9,355,636,634	334	334.00	
<b>SUBCOMMITTEE ADJUSTMENTS (from CSL)</b>										
<b>SCR 300 - Operations</b>										
Package 081: May 2012 E-Board										
Personal Services	\$ 0	\$ 0	\$ 1,096,266	\$ 0	\$ 0	\$ 0	\$ 1,096,266	3	3.00	
Services & Supplies	\$ 0	\$ 0	\$ (130,312)	\$ 0	\$ 0	\$ 0	\$ (130,312)			
Package 091: Administrative Savings										
Personal Services	\$ 0	\$ 0	\$ (1,087,051)	\$ 0	\$ 0	\$ 0	\$ (1,087,051)	0	0.00	
Services & Supplies	\$ 0	\$ 0	\$ (352,557)	\$ 0	\$ 0	\$ 0	\$ (352,557)			
Capital Outlay	\$ 0	\$ 0	\$ (29,380)	\$ 0	\$ 0	\$ 0	\$ (29,380)			
Package 092: PERS Taxation Policy										
Personal Services	\$ 0	\$ 0	\$ (161,673)	\$ 0	\$ 0	\$ 0	\$ (161,673)	0	0.00	
Package 093: Other PERS Adjustments										
Personal Services	\$ 0	\$ 0	\$ (1,291,845)	\$ 0	\$ 0	\$ 0	\$ (1,291,845)	0	0.00	
Package 101: CSL Delivery Levels										
Personal Services	\$ 0	\$ 0	\$ 4,595,929	\$ 0	\$ 0	\$ 0	\$ 4,595,929	30	29.64	
Services & Supplies	\$ 0	\$ 0	\$ 836,000	\$ 0	\$ 0	\$ 0	\$ 836,000			
Package 102: Retiree Health Insurance										
Personal Services	\$ 0	\$ 0	\$ 476,829	\$ 0	\$ 0	\$ 0	\$ 476,829	3	2.84	
Services & Supplies	\$ 0	\$ 0	\$ 284,050	\$ 0	\$ 0	\$ 0	\$ 284,050			
Package 103: Infrastructure Maintenance/Enhance										
Services & Supplies	\$ 0	\$ 0	\$ 585,000	\$ 0	\$ 0	\$ 0	\$ 585,000	0	0.00	
Capital Outlay	\$ 0	\$ 0	\$ 675,000	\$ 0	\$ 0	\$ 0	\$ 675,000			
Package 811: Compliance Plan for SB 5701 (2012)										
Personal Services	\$ 0	\$ 0	\$ (383,718)	\$ 0	\$ 0	\$ 0	\$ (383,718)	-3	-3.75	
<b>TOTAL ADJUSTMENTS</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 5,112,538</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 5,112,538</b>	<b>33</b>	<b>31.73</b>	
<b>SUBCOMMITTEE RECOMMENDATION *</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 82,874,172</b>	<b>\$ 9,277,875,000</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 9,360,749,172</b>	<b>367</b>	<b>365.73</b>	
% Change from 2011-13 Leg Approved Budget	0.0%	0.0%	2.6%	24.7%	0.0%	0.0%	24.5%	0.0%	0.0%	
% Change from 2013-15 Current Service Level	0.0%	0.0%	6.6%	0.0%	0.0%	0.0%	0.1%	9.9%	9.5%	

## Legislatively Approved 2013-2015 Key Performance Measures

**Agency: PUBLIC EMPLOYEES RETIREMENT SYSTEM, OREGON**

Mission: We serve the people of Oregon by administering public employee benefit trusts to pay the right person the right benefit at the right time.

Legislatively Proposed KPMs	Customer Service Category	Agency Request	Most Current Result	Target 2014	Target 2015
1 - TIMELY RETIREMENT PAYMENTS: Percent of initial service retirements paid within 45 days from retirement date.		Approved KPM	33.00	80.00	80.00
2 - TOTAL BENEFIT ADMIN COSTS: Total benefit administration costs per member.		Approved KPM	125.00	135.00	135.00
3 - MEMBER TO STAFF RATIO: Ratio of members to FTE staff.		Approved KPM	970.00	975.00	985.00
4 - ACCURATE BENEFIT CALCULATIONS: Percent of service retirement monthly benefits accurately calculated to within \$5 per month.		Approved KPM	99.00	100.00	100.00
5 - LEVEL OF PARTICIPATION: Percent of state employees participating in the deferred compensation program.		Approved KPM	37.00	38.00	38.00
6 - CUSTOMER SERVICE- Percent of member customers rating their satisfaction with the agency's customer service as "good" or "excellent": overall customer service, timeliness, accuracy, helpfulness, expertise and availability of information.	Accuracy	Approved KPM	88.00	95.00	95.00
6 - CUSTOMER SERVICE- Percent of member customers rating their satisfaction with the agency's customer service as "good" or "excellent": overall customer service, timeliness, accuracy, helpfulness, expertise and availability of information.	Availability of Information	Approved KPM	89.00	95.00	95.00
6 - CUSTOMER SERVICE- Percent of member customers rating their satisfaction with the agency's customer service as "good" or "excellent": overall customer service, timeliness, accuracy, helpfulness, expertise and availability of information.	Expertise	Approved KPM	91.00	95.00	95.00
6 - CUSTOMER SERVICE- Percent of member customers rating their satisfaction with the agency's customer service as "good" or "excellent": overall customer service, timeliness, accuracy, helpfulness, expertise and availability of information.	Helpfulness	Approved KPM	90.00	95.00	95.00

**Agency: PUBLIC EMPLOYEES RETIREMENT SYSTEM, OREGON**

Mission: We serve the people of Oregon by administering public employee benefit trusts to pay the right person the right benefit at the right time.

<b>Legislatively Proposed KPMs</b>	<b>Customer Service Category</b>	<b>Agency Request</b>	<b>Most Current Result</b>	<b>Target 2014</b>	<b>Target 2015</b>
6 - CUSTOMER SERVICE- Percent of member customers rating their satisfaction with the agency's customer service as "good" or "excellent": overall customer service, timeliness, accuracy, helpfulness, expertise and availability of information.	Overall	Approved KPM	91.00	95.00	95.00
6 - CUSTOMER SERVICE- Percent of member customers rating their satisfaction with the agency's customer service as "good" or "excellent": overall customer service, timeliness, accuracy, helpfulness, expertise and availability of information.	Timeliness	Approved KPM	89.00	95.00	95.00
7 - TIMELY BENEFIT ESTIMATES: Percent of benefit estimates processed within 30 days.		Approved KPM	40.00	95.00	95.00
8 - BOARD OF DIRECTORS BEST PRACTICES: Percent of total best practices criteria met by the PERS board.		Approved KPM	100.00	100.00	100.00

**LFO Recommendation:**

The Legislative Fiscal Office recommends approval of the proposed Key Performance Measures and targets with direction that the agency will work with the Department of Administrative Service and the Legislative Fiscal Office to conduct a review of existing KPMs and targets.

**Sub-Committee Action:**

The General Government Subcommittee adopted the Legislative Fiscal Office recommendation.



# Oregon

John A. Kitzhaber, M.D., Governor

## Public Employees Retirement System

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July 26, 2013

TO: Members of the PERS Board  
FROM: Yvette Elledge, Customer Services Division Administrator  
SUBJECT: Working After Retirement Project Progress Report

### ISSUE

PERS statutes allow retirees to work a limited number of hours in any given calendar year after they have retired without paying back their benefits. Tier One and Tier Two members are able to work up to 1040 hours and OPSRP members are able to work up to 600 hours. If they exceed that limit, and are not eligible for a statutory “exemption,” their benefits must be stopped, they must be re-employed, and the member must pay back past benefit payments. If the member is re-employed, any health insurance subsidies must also be repaid. Additionally, employers must pay contributions and earnings for those years in which the retiree now qualifies as an “employee.”

This is a plan qualification issue and PERS must pursue collection of these overpaid benefits.

### BACKGROUND

Currently, when a member retires, information is provided regarding the limited number of hours a retiree can work and the consequences should they exceed that limitation. Additionally it is emphasized that it is the responsibility of the employee/retiree to track their hours. However each year, some retirees exceed the number of hours they are allowed and must be re-employed. PERS is currently working on identifying and reconciling retirees who exceeded in prior years as well as staying current on the 2013 working retirees. In 2012, there were 11,056 retirees with some number of hours reported working in a PERS-covered position, with 610 reported as working more than 1039 hours.

### PRIOR ACTIVITIES

A project team is reviewing retiree accounts which exceeded between the years 2004 and 2012. The team “triages” the accounts for any exemptions that may preclude the limit from applying, which must be done in conjunction with employers. The team has triaged 1811 accounts, of which 309 need to be re-employed. Two hundred and thirteen re-employments are in progress and an additional 96 are pending employer verification. The average amount of overpaid benefits is \$300,000.

CURRENT ACTIVITIES

We have enhanced our communications on the website and implemented a monthly monitoring program to prevent large invoices from being sent to retirees and employers in the future. Members will soon be asked to sign a statement of understanding in the new service retirement application that indicates they understand the rules associated with returning to work as a retiree. Educational opportunities are also provided to members through RAAS sessions and to employers through training and our outreach programs. Additionally, our improved monitoring and reconciliation process will minimize impact to members and to the employers by processing re-employments in the same year.

In spite of our efforts to prevent the need to re-employ retirees, for 2013, 198 retirees have worked over 900 hours, and 32 retirees have already exceeded the limits and are being triaged for reconciliation.





# Oregon

John A. Kitzhaber, M.D., Governor

Item A.1.e.

## Public Employees Retirement System

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July 26, 2013

TO: Members of the PERS Board  
FROM: Steven Patrick Rodeman, Deputy Director  
Kyle Knoll, Administrator, Fiscal Services Division  
SUBJECT: Strunk/Eugene Overpayment Recovery Project (S/E 2.0)

### OVERVIEW

On October 6, 2011, the Oregon Supreme Court found that the PERS Board's order on recovering overpayments related to 1999 earnings crediting was valid. PERS then initiated a project to recover the remaining overpayments, the last piece of work that was on hold pending the court's review from the original Strunk/Eugene project (referred to as Strunk/Eugene or S/E 1.0). The remaining efforts (referred to as the S/E 2.0) required validating the debtor population, confirming invoice amounts, and recovering overpayments or setting up collection plans with the recipients.

At the May 2012 E-board legislative session, an expenditure limitation of \$2.1 million was approved for PERS to complete the S/E 2.0 project. This funding was for personal services, system upgrades, and collection expenses.

### BUDGET EXECUTION

Currently, we have a positive projected variance of \$1,385,066. We have expended \$605,809 and are expected to expend an additional \$80,353 through the end of the 2011-2013 biennium. Please refer to the Director's Operating Budget report (Item A.1.c.) for the Summary Budget Analysis through the month of June 2013.

- **Personal Services:** We have a positive variance in the Personal Service category due to various efficiencies throughout the project, such as converting four Temporary positions to Limited Duration positions that allowed us to retain experienced staff instead of turning them over after six months. As a result of these efficiencies and productivity gains, we did not have to retain as many staff for as long as originally projected.
- **Services & Supplies:** The major positive variance here was under the IT Professional Services line item, where we have a positive variance of \$548,967. This variance resulted from our decision to perform some invoicing steps manually using staff resources rather than automating this functionality into our system. The automated solution would not have been used beyond the project life so, rather than making a stranded IT investment, we performed this work with project staff. Also, the Professional Collection Expenses came in at a much lower rate, due to the fact that we had a much greater than expected response from recipients in establishing payment plans upon first contact from our staff, meaning fewer referrals to the third party collectors.

- **Capital Outlay:** The Capital Outlay budget was for telecommunication equipment needed for the S/E 2.0 phone team.

TRANSITION

The status of the project’s recipients is summarized below. As you can see, 15% have paid in full and 77% have made payment arrangements with PERS; as expected, the majority of these payment arrangements extend to 10 years. We currently have set up 19,911 payment arrangements: 18,150 are deductions from ongoing PERS benefit payments and the remaining 1,761 are with members who do not receive a monthly benefit from PERS. Through May 2013, we have recovered \$20,723,073 in overpayments. How much of the total overpayments we will ultimately recover cannot be determined until the payment plans are completed.

Appeals and contested cases from this recovery effort are being processed by the Policy, Planning, & Legislative Analysis Division (PPLAD). We have received a total of 529 appeal requests. Currently, there are 206 closed appeals, 311 open appeals, and 12 who have moved on to contested cases. These appeals are expected to run their course to conclusion during the 2013-15 biennium.

The agency’s 2013-15 Legislatively Approved Budget included three Limited Duration positions to complete the invoice processing for the remaining S/E 2.0 population, and to monitor and adjust payment plans as necessary.

	Accounts	%	Accounts	%
<b>Total Number of Benefit Recipients</b>			<b>29,169*</b>	
Accounts waiting to be worked			11	0%
Accounts that need additional review			9	0%
Accounts in progress			3	0%
Accounts awaiting recipient response			2,434	9%
Accounts worked:			25,695	88%
<i>Paid in Full</i>	3,802	15%		
<i>PERS Payment Plan</i>	19,911	77%		
<i>Referred to Department of Revenue</i>	1,201	5%		
<i>Referred to out-of-state collection firms</i>	781	3%		
Accounts determined not to have received a recoverable overpayment			1,016	3%
<b>Total</b>	<b>25,695</b>	<b>100%</b>	<b>29,169*</b>	<b>100%</b>

\* Varies from Jan 2013 report amount because of 71 alternate payee accounts being added.



# Oregon

John A. Kitzhaber, M.D., Governor

Item A.1.f.

## Public Employees Retirement System

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<http://oregon.gov/pers>

July 26, 2013

TO: Members of the PERS Board  
FROM: Mini Kobbervig, PERS Health Insurance Manager  
SUBJECT: Retiree Health Insurance Program Governance

### BACKGROUND

An Internal Audit Finding in June 2012 recommended a governance and program management model with clearly defined objectives be created for the PERS Health Insurance Program (PHIP), to furthermore be presented to the PERS Board as follow-up on the audit.

### ACTION

In addressing the Audit Finding and recommendation, the PHIP Strategic Planning Group in collaboration with the PHIP Advisory Group has finalized the governance and program management model which resulted in formal documentation of the PHIP Mission, Advisory Committee Charter Interest Form, and two PHIP policies covering rate setting and financial reserve management. A brief summary of each attached document is provided below.

### SUMMARY OF ATTACHED DOCUMENTS

#### *PERS Health Insurance Program, Mission Statement*

This formally documents the Mission Statement and Core Values by which the PERS Health Insurance Program operates.

#### *PERS Health Insurance Program, Advisory Committee Charter*

The charter formally establishes the purpose, responsibility and composition of the PERS Health Insurance Program Advisory Committee.

#### *PERS Health Insurance Program, Advisory Committee Appointment, Interest Form*

The interest form provides a standard method of soliciting and reviewing prospective PERS Health Insurance Advisory Committee membership.

#### *PERS Health Insurance Program, Rate Setting Policy*

This policy formally establishes the health care plan premium rate-setting standard for the PERS Health Insurance Program.

#### *PERS Health Insurance Program, Reserve Policy*

This policy formally describes the financial reserves that are associated with the PERS Health Insurance Program for benefit plans under a Minimum Premium Funding Arrangement and under a Fully Insured Funding Arrangement.

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## **PERS HEALTH INSURANCE PROGRAM**

### **Mission Statement**

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#### **PERS Mission**

We serve the people of Oregon by administering public employee benefit trusts to pay the right person the right benefit at the right time.

#### **PHIP Purpose**

The PERS Health Insurance Program (PHIP) exists to provide medical and dental insurance plan options and long-term care insurance (optional) to PERS retirees who qualify for the program.

#### **PHIP Mission**

PHIP provides PERS retirees with benefits that provide high quality, comprehensive coverage (or benefits) at the most cost effective rates possible that will also meet retirees' benefit needs.

#### **PHIP Core Values**

- **Maintain stability of premiums:** In order to avoid significant swings in rates from year to year, premium stabilization approaches to proposed carrier rates should be considered
- **Maintain stability of coverage:** Benefits provided by PHIP should be reviewed annually to attempt to avoid significant changes in benefits required by either local or national legislation or required to maintain premium rate affordability.
- **Maintain stability of carriers:** promoting stability and long term relationships with carriers – consistent with responsible procurement practices - is desired. Changes in carriers should be driven by protection of current members' benefits and demonstrated long-term beneficial treatment of members.

## **PHIP Core Operating Principles**

- Provide, to the extent possible, benefit plans to each PHIP population (Medicare and non-Medicare) served that are comparable as to the services covered and the member cost sharing required.
- Utilize all available resources to obtain competitive benefit options and establish premium rates that are consistent with plans offered and utilization of services.
- Facilitate collaboration between PHIP consultants, insurance carriers, and other vendors to meet and exceed industry quality standards and to provide innovative benefit designs and care coordination that includes wellness and disease-prevention activities.
- Advocate for PHIP enrollees in both coverage and cost.
- Provide customer service in a timely, professional, and respectful manner.



## **PERS HEALTH INSURANCE PROGRAM ADVISORY COMMITTEE CHARTER**

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### **Purpose of Advisory Committee**

The key role of the PERS Health Insurance Program (PHIP) Advisory Committee can best be described as participant representation. It provides information and advice to PHIP as well as providing a forum for feedback and an opportunity for interaction on matters concerning PHIP. These matters, among others, include administration, cost containment, funding, carrier selection, plan design, health insurance trends, proposed legislation, alternatives to traditional coverage, and recommendations for PERS Board position on health insurance issues.

### **Responsibilities**

- Develop an understanding of the PERS Health Insurance Program
- Contribute opinions, ideas, and information on how the program can meet its goals
- Advocate on behalf of PHIP members by sharing relevant information gathered through experience, study, and research
- Evaluate:
  - Carrier proposals/plan renewals including, but not limited to, plan design, specifications, proposed plan changes and rates, health insurance trends, and proposed legislation
  - Administration including, but not limited to, cost containment, funding status, and adherence to programs operating principles and values
  - Maintain confidentiality of information

### **Committee Composition**

The PHIP advisory committee consists of up to five retiree members, selected to reflect a cross section of participants which include Medicare and non-Medicare members. One member will serve as a liaison to the PERS Board; this member will be an active PERS Board member and is designated by the PERS Board Chair.

In addition, PERS staff, selected by the PERS Executive Director or designee will serve on the committee; PERS staff is not subject to term limits. Subject matter experts will serve on an advisory capacity and will be utilized as needed.

Members serve for a two year term and may be reappointed for up to two additional terms. Members are not eligible for compensation or expense reimbursement for Committee service.

## **Selection Process**

PERS will publish notice of a Committee vacancy in PHIP publications, on the PHIP website, and at other locations likely to be seen by interested persons.

Interested persons may complete a PHIP Advisory Committee Appointment Interest form and send it to the PHIP Program Manager at the address indicated on the form.

Applications will be reviewed by the PHIP Manager, Chief Financial Officer or designee, and possibly the PERS Board liaison. Selected applicants will be interviewed and a selection for appointment to the PHIP Advisory Committee will be made.

In the event of a vacancy of an unexpired term, the PHIP Manager will review the list of interested persons from the most recent applicant pool and make a recommendation to the Board liaison for appointment to the PHIP Advisory Committee. The appointment will be effective for the remainder of the unexpired term.

## **Meetings**

The Advisory Committee typically meets four times a year in Tigard or Salem, with attendance at every meeting expected. If in-person attendance is not possible, telephone conferencing arrangements may be possible. Additional meetings, such as Retiree Plan Change Meetings, may occasionally be required to fulfill Committee responsibilities.

Whenever possible, PHIP will provide meeting agendas and materials in advance of the scheduled meeting.





## PERS HEALTH INSURANCE PROGRAM ADVISORY COMMITTEE APPOINTMENT INTEREST FORM

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The purpose of this form is to assist the PERS Health Insurance Program (PHIP) staff in evaluating the qualifications of an applicant for appointment to the PHIP Advisory Committee. Please complete the entire form and return to:

**PERS Health Insurance Program**  
800 Summer St. Suite 200  
Salem, OR 97310  
Fax: 503-378-5888

### PERSONAL DATA

Preferred Title \_\_\_\_\_ (Mr., Mrs., Ms., Dr., etc.)

First name \_\_\_\_\_ MI \_\_\_\_\_ Last Name \_\_\_\_\_

Home Mailing Address \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_ County \_\_\_\_\_

Home Phone \_\_\_\_\_ Business Phone \_\_\_\_\_ Ext \_\_\_\_\_

Cell Phone \_\_\_\_\_ E-mail address \_\_\_\_\_

Are you a PHIP participant? Y  N

If Yes: Medicare Plan  Non-Medicare Plan

I pledge my best efforts to resolve, before assumption of office, any conflicts of interest that would be inconsistent with my responsibilities as a member of the PHIP Advisory Committee. I understand confidential and proprietary information may be discussed at these meetings and I agree to maintain confidentiality.

Signature \_\_\_\_\_

Date \_\_\_\_\_

---

**Additional Pages**

**INTEREST IN APPOINTMENT:**

Describe in detail why you are interested in serving on this committee.

1. Include information about your background.
2. How is your experience or background beneficial in helping to advance the values and goals of the PERS Health Insurance Program?

<b>Oregon Public Employees Retirement System</b>	<b>Posted date</b> July 8, 2013	<b>Number</b> 2.01.08.02.001.POL
<b>Signature</b> <i>Paul Cleary</i>	<b>Approval date</b> July 8, 2013	<b>Page</b> 1 of 2
<b>Policy:</b>	PERS Health Insurance Program Rate Setting	
<b>Objective:</b>	Establishes health care plan premium rate-setting standards.	
<b>Reference:</b>	<a href="#">Oregon Revised Statute (ORS) 238.410</a>	

### Policy

ORS 238.410 directs, “The Public Employees Retirement Board shall conduct a continuing study and investigation of all matters connected with the providing of health care insurance protection to eligible persons.” It further specifies, “The Board shall design benefits, devise specifications, invite proposals... and do acts necessary to award contracts to provide health care insurance... with emphasis on features based on health care cost containment principles...” It also includes authority “to enter into more than one contract with one or more carriers, contracting jointly or severally, if in the opinion of the Board it is necessary to do so to obtain the maximum coverage at minimum cost and consistent with the health care insurance needs of eligible persons.”

Based on the above statutory guidance, it follows that the key purpose of the PERS Health Insurance Program (PHIP) is to provide for quality health insurance with a balance of cost and benefits for all our eligible retirees. Inherent in this program purpose are reasonable and actuarially sound premium rates that provide reliable coverage and generate consistency in the relationships with our health insurance carriers. To “obtain the maximum coverage at minimum costs consistent with the health care insurance needs of eligible persons,” the PHIP Advisory Committee advocates the following key rate-setting objectives for the benefit of our insured populations:

#### Review of Drivers of Premium Changes

This entails quarterly review of actual plan experience and consultant updated projections of potential future rate actions. Emphasis should be placed on medical inflation, government reimbursement, utilization patterns, legislation (both local and federal), reinsurance, administrative overhead, and other factors that influence premiums.

#### Stability of Premiums

In order to avoid significant swings in rates from year to year, premium stabilization approaches to proposed carrier rates should be considered. These could include use of the excess reserves (i.e., subsidies) to stabilize rates, or the imposition of surcharges to rates for new products or carriers for which insufficient experience is available.

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Origination date: June 12, 2013

Last revision date: June 12, 2013

Last review date: June 12, 2013

**Compliance with PHIP Reserve Policy**

An annual demonstration of compliance with the PHIP Reserve Policy should be included in the final proposed rating action to the PERS Board.

**Stability of Coverage**

The benefits provided by PHIP should be reviewed annually to attempt to avoid significant changes in benefits required by either local or national legislation or required to maintain premium rate affordability.

**Stability of Carriers**

As changes in carriers available to the PHIP members can be disruptive, promoting stability and long-term relationships with carriers – consistent with responsible procurement practices – is desired. Changes in carriers should be driven by protection of current members' benefits and demonstrated long-term beneficial treatment of members.

The Committee shall pursue and advance these objectives in an impartial manner that recognizes and supports open free-market forces within the health care industry.

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Origination date: June 12, 2013

Last revision date: June 12, 2013

Last review date: June 12, 2013

SL2

<b>Oregon Public Employees Retirement System</b>	<b>Posted date</b> July 8, 2013	<b>Number</b> 2.01.08.03.001.POL
<b>Signature</b> <i>Paul Cleary</i>	<b>Approval date</b> July 8, 2013	<b>Page</b> 1 of 2
<b>Policy:</b>	PERS Health Insurance Program Reserve	
<b>Objective:</b>	Describes financial reserves that are associated with the PERS Health Insurance Program.	
<b>Reference:</b>		

## Policy

### I. Benefit Plans Under a Minimum Premium Funding Arrangement

The PERS Health Insurance Program (PHIP), with analysis and review by PHIP consultants and actuaries, has determined that those benefit plans covered under any Minimum Premium Funding Arrangement should have financial reserves segregated and identified by the following components in order to best meet the legal, fiduciary, and contractual requirements of the health insurance program.

#### **Incurred but Not Reported (IBNR) Reserve**

This is the current estimate of claims costs for PHIP-covered services already delivered at the date of valuation but for which payment has not been made. It should be reviewed and calculated at minimum on an annual basis.

#### **Terminal Claims Liability**

In the event of contract termination, if a higher terminal contractual liability is required, the higher amount less that already accrued under the IBNR should be established and funded.

#### **Members' Claim Fund**

This is a claims payment fund equal to maximum claims liability established by contract.

#### **Rate Stabilization Reserve (RSR) – Recommended**

Based on a 2012 actuarial analysis of the risks borne by the current benefit plans covered under the minimum premium plan, PERS shall maintain a rate stabilization reserve equal to 1.24 months of annual premium for such programs. This reserve is intended to provide an adequate safety net for adverse financial results that may occur in any given year. The RSR will be reviewed at least once every five years.

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Origination date: June 12, 2013

Last revision date: June 12, 2013

Last review date: June 12, 2013

**Rate Stabilization Reserve (RSR) – Subsidy Fund**

This represents the difference between the net overall available funds and the sum of the prior four fund amounts and is available for use in subsidizing the required member premium rates under such programs.

The reserve amounts and levels are to be reviewed annually by the PHIP Advisory Committee as part of the retiree health insurance plan renewals and carrier rate-setting process. Annual utilization of and adjustments to the reserves will be proposed consistent with the rate-setting policy and subject to the approval by the PERS Board.

**II. Benefit Plans Under a Fully Insured Funding Arrangement****Fully Insured Funding**

From time to time under a fully insured arrangement, a rate stabilization reserve may be established due to unexpected additional revenues or rating actions taken to stabilize premiums. In those instances, the entire amount will be established in a Rate Stabilization Reserve Subsidy Fund, as none of the other funds defined above apply. These subsidy funds should be spent over a relatively short period of time (one to two years) based on PHIP Advisory Committee recommendation and PERS Board approval.

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Origination date: June 12, 2013

Last revision date: June 12, 2013

Last review date: June 12, 2013

SL2



# Oregon

John A. Kitzhaber, M.D., Governor

## Public Employees Retirement System

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

July 26, 2013

TO: Members of the PERS Board  
FROM: Steven Patrick Rodeman, Deputy Director  
SUBJECT: Second Notice of Rulemaking for Assumed Rate Rule:  
OAR 459-007-0007, *Assumed Rate*

### OVERVIEW

- Action: None. This is notice that staff has begun another round of rulemaking.
- Reason: A new rule cycle is needed to imbed a change to the assumed rate in rule; this rulemaking replaces the proposed rule that also specified the effective date to implement the rate change for PERS transactions.
- Policy Issue: When should a change in the assumed rate be effective for PERS transactions?

### BACKGROUND

At the May 31, 2013 PERS Board Meeting, staff gave notice that rulemaking had begun, sharing draft rule modifications specifying separate dates that a change in the assumed rate would apply for latest year-to-date calculations, AEFs, and Tier One annual earnings crediting. The rule directed staff to implement the new rate for the latest year-to-date calculation on the first of the month following the Board's adoption of the change, and credit Tier One annual earnings at the new rate as of December 31 of the year of the adoption. AEFs would be affected as of January 1 of the year following adoption, as required by statute.

Adoption of these rule modifications was scheduled for this July 26, 2013 meeting. Rather than seek adoption, however, staff is proposing a new rulemaking cycle to imbed the new assumed rate in rule and, based on public comment, to move the implementation of any rule change to an effective date of January 1 for all PERS transactions.

### POLICY ISSUE

*When should a change in the assumed rate be effective for PERS transactions?*

The original rule modifications had a change in the assumed rate taking place at various points, depending on the type of transaction. The May 31, 2013 policy memo on this rule listed the pros and cons of this staggered implementation, as well as considerations for implementing any change for all transactions as of January 1 of the year following the change.

Staff has concluded that the cost savings of implementing any change to the assumed rate before January 1, 2014, do not outweigh the negative consequences. Challenges to the agency include impacts to workload, need for clear communication with members and employers, and the need for staff training on the impact and use of a changed assumed rate. As evident in the attached

public comments and testimony from public hearings, members expressed serious concerns about the insufficient time given to weigh their retirement options and confusion over how the three separate implementation dates affect them.

Also, staff has decided to imbed the new assumed rate in administrative rule, which means the rulemaking cycle had to be restarted because the original published notice did not describe that the rate would be changed in the rule. To avoid adopting the rule twice (once in July with the implementation provisions and again in September with the actual adopted rate), staff must re-notice the rulemaking, which pushes adoption of the rule until September 27, 2013. An assumed rate change that was effective for some transactions on the first of the month after adoption, October 1, would have new rate apply to those limited transactions for only three months before January 1, 2014. Therefore, staff has changed its recommendation to reflect the public comments received and delay implementation of any change to the assumed rate until January 1 for all affected transactions.

An effective date of January 1 gives staff ample time to perform the necessary preparation and communicate with members and employers. An effective date of January 1 gives all members who retire in the year that the change is adopted equitable treatment, no matter which month they retire. The January 1 date also allows members sufficient time to understand how the change will affect their plans for retirement. One effective date for all transactions related to the assumed rate will be clear and simple for PERS members and agency staff to understand and administer. The new assumed rate would be aligned with the new AEFs, which would allow for a clear effective date for all transactions that involve calculations involving both the latest year-to-date rate and AEF components.

#### STAFF RECOMMENDATION

Staff will return to the September 26, 2013 PERS Board meeting with rule modifications that implement any change to the assumed rate with an effective date of January 1 following the change. Those modifications are reflected in the proposed rule attached to this memo, which also includes a blank space to show the assumed rate once it is adopted by the Board.

- Reason: Clear and convincing public comment received on the initial draft of the rule identified several member concerns with different implementation dates for different PERS transactions. Staff has determined that no compelling reason exists to stagger implementation of the assumed rate, especially with a delayed rule adoption to the September meeting.

#### PUBLIC COMMENT AND HEARING TESTIMONY

Mary Barron submitted public comment via email on June 12, 2013. A copy of her email is Attachment 2 to this memo. Ms. Barron wrote that the effective date of August 1 for implementing the assume rate does not give employees enough time to evaluate retirement options. She recommended an effective date of no sooner than the 1<sup>st</sup> of the second month following adoption.

Jeff Niebergall submitted a letter received June 12, 2013, and David Peake submitted a letter received June 13, 2013. Copies of these letters are included as Attachments 3 and 4 to this memo. Mr. Niebergall and Mr. Peake expressed similar concerns regarding insufficient time to



weigh their retirement options if the August 1 effective date stands. They work in a school district that requires employees to give 60 days of notice prior to retirement in order to access the district's early retirement benefits. Mr. Niebergall and Mr. Peake asked for an implementation date which allows employees to complete the 2013 work year and have those earnings included in their retirement calculations.

On June 24, 2013, PERS received public comment from Doug Crumme. A copy of his email is included as Attachment 5. Mr. Crumme argues that the original draft rule was unclear and confusing because sections (1) and (2) contained different effective dates. He recommended the effective date be the first of the year after adoption of the change, after the Board provides notice of a clear proposed rule.

On June 26, 2013, PERS received public comment from Greg Hartman, on behalf of the PERS Coalition. A copy of his letter is included as Attachment 6. Mr. Hartman notes that the legislature mandated that a new assumed rate be used in calculating AEFs effective January 1 of the year following adoption of the new rate. He states that there is no compelling reason to use a new assumed rate for transactions prior to using the new assumed rate in the AEF calculations. Mr. Hartman argues that aligning the effective date of the assumed rate for all PERS transactions with the effective date of the AEFs would cause the least confusion for members and be easiest for the system to administer.

On July 1, 2013, PERS received a public comment email from David Boyd. A copy of his email is included as Attachment 7. Mr. Boyd stressed that the short time frame between adoption and the effective date of the new assumed rate would not give members enough time to make an informed retirement decision.

A rulemaking hearing was held on June 25, 2013 at 2:00 p.m. at the Oregon State Archives in Salem. Four members of the public attended, and two of the attendees provided public comment. Kathy Kincaid expressed difficulty understanding how the rule affects PERS transactions because section (1) refers to an effective date of the first of the year, whereas section (2) has an effective date of the first month following adoption of the change. Ms. Kincaid recommends that all transactions affected by the assumed rate should take effect on January 1, 2014 to allow members time to plan for retirement and understand how the assumed rate will change. Ms. Kincaid noted that the assumed rate would also negatively impact employers that would have to pay more into the system, and concluded that she thinks the rate should not be changed, especially when considering the economy has improved. She stated that, to be fair to workers who have put in so much time and effort into their jobs and who deserve the opportunity to prepare for retirement, a January 1 effective date is the best option.

John Phillips suggested adding examples to the rule to show how the rule would affect potential retirees. He referred to the Attorney General's Model Rules of Procedure that encourage examples to help illustrate a concept that needs clarification in the rule. Mr. Phillips also provided more detailed written public comment dated June 25, 2013, which is Attachment 8 to this memo.

A second public hearing was held on June 27, 2013, at 3:30 p.m. at PERS headquarters in Tigard. Two members of the public attended, and one of the attendees provided comment. Ted Scheinman, a professor at Mount Hood Community College, read from prepared written

comment, a copy of which is Attachment 9 to this memo. Mr. Scheinman's two concerns were with the separate implementation dates for PERS transactions and with reducing long-term effects on members. He noted that too much confusion exists regarding how the original draft rule would be implemented, and that potential retirees would rush to retire without understanding how the change impacts them. He also recommended that PERS provide a "look-back" option for members who retire after the implementation date.

The first public comment period ended on July 2, 2013, at 5:00 p.m. Staff submitted a revised Notice of Rulemaking on July 15 to start a new public comment period. A third public hearing will be held on August 27, 2013 at 3:00 p.m. at PERS headquarters in Tigard. The second public comment period ends on September 3, 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 assumed rate determined by the Board must be adopted by rule and clearly describe the effective date of the assumed rate change on PERS transactions.

**Impact:** The proposed rule benefits members, employers and staff by setting forth the assumed rate and a clear effective date for implementing a change in the rate.

**Cost:** There are no discrete costs directly attributable to specifying the assumed rate in rule.

### RULEMAKING TIMELINE

May 15, 2013	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
May 31, 2013	PERS Board notified that staff began the rulemaking process.
June 1, 2013	<i>Oregon Bulletin</i> published the first Notice. Notice was sent to employers, legislators, and interested parties. Public comment period began.
June 25, 2013	First rulemaking hearing held at 2:00 p.m. at Oregon State Archives in Salem.
June 27, 2013	Second rulemaking hearing held at 3:30 p.m. at PERS headquarters in Tigard.
July 2, 2013	First public comment period ended at 5:00 p.m.
July 15, 2013	Staff restarted the rulemaking process for the new version of the rule by filing Notice of Rulemaking with the Secretary of State.
July 26, 2013	PERS Board notified that staff restarted the rulemaking process.

Second Notice – Assumed Rate Rule

07/26/13

Page 5 of 5

- |                    |                                                                                                                                                            |
|--------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|
| August 1, 2013     | <i>Oregon Bulletin</i> publishes the second Notice. Notice is sent to employers, legislators, and interested parties. Second public comment period begins. |
| August 27, 2013    | Third rulemaking hearing to be held at 3:00 p.m. at PERS headquarters in Tigard.                                                                           |
| September 3, 2013  | Second public comment period ends at 5:00 p.m.                                                                                                             |
| September 27, 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 public hearing will be held on August 27, 2013 at 3:00 p.m. at PERS headquarters in Tigard. The rule is scheduled to be brought before the PERS Board for adoption at its September 27, 2013 meeting.

- B.1. Attachment 1 – 459-007-0007, *Assumed Rate*
- B.1. Attachment 2 – Public Comment Email from Mary Barron
- B.1. Attachment 3 – Public Comment Letter from Jeff Niebergall
- B.1. Attachment 4 – Public Comment Letter from David Peake
- B.1. Attachment 5 – Public Comment Email from Doug Crumme
- B.1. Attachment 6 – Public Comment Letter from Greg Hartman
- B.1. Attachment 7 – Public Comment Email from David Boyd
- B.1. Attachment 8 – Public Comment Letter from John Phillips
- B.1. Attachment 9 – Public Comment Letter from Ted Scheinman

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**OREGON ADMINISTRATIVE RULE  
PUBLIC EMPLOYEES RETIREMENT BOARD  
CHAPTER 459  
DIVISION 007 – EARNINGS AND INTEREST DISTRIBUTION**

1 **459-007-0007**

2 **Assumed Rate**

3 **(1) The Board will review the assumed rate in odd-numbered years as part of**  
4 **the Board’s review and adoption of actuarial assumptions and methods.**

5 **(2) The Board may adopt a change in the assumed rate at any time. A change in**  
6 **the assumed rate is effective the first of the year following the Board’s adoption of**  
7 **the change.**

8 **(3) The assumed rate is set at \_\_\_\_ percent, effective on January 1, 2014.**

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

10 **Stats. Implemented: ORS Chapters 238 & 238A**

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**From:** BARRON Mary A <Mary.A.BARRON@odot.state.or.us>  
**To:** RIVAS Daniel <Daniel.RIVAS@state.or.us>  
**Date:** 6/12/2013 1:35 PM  
**Subject:** PERS COMMENTS

I would like to register my concern about the discussion of voting at the 26 July meeting and having the effective date be 1 August for changes to the guaranteed rate (8% to 7.75 or 7.5%). This is not consistent with the normal practice of a typical implementation date being the first of the next year and not very realistic. I realize that the effects will be felt immediately, but this is not very fair to public employees who have spent our careers making Oregon a better place to live, work and play. This does not give us chance to evaluate our options. Please consider making the change effective the first of the second month following a vote if at all possible. Thank you very much for your consideration.

Mary Barron  
ODOT Region 4  
64989 Hunnell Rd  
Bend, OR 97701

P.E.R.S  
Attn: Executive Director

Re: Assumed Rate change and proposed OAR 459-007-0007.

I am a public employee with thirty two years of service and am very disturbed with the proposed changes in the system regarding the Assumed rate and the proposed OAR 459-007-0007.

Public employees should not be treated as door mats at the end of their careers. What I am referring to is that if the Assumed rate is changed then the proposal being discussed is that it would take effect five days after the fact as well as part of the newly proposed OAR 459-007-0007.

Under these two proposals I would lose benefits and no way to retire before the they were enacted. This is now way to treat long time employees.

\*\*\*In the district that I work I need to give sixty days notice to be able to access district sponsored early retirement benefits. This is a Big deal.

I am also going to retire under the Annuity Plus option and this last year will be my highest year for earnings and if I have to retire December 1, 2013 then I will not be able to use 2013 in my calculations. I had my second highest year four years ago so I would not be able to use my highest year (2013) because I will fall one month short of a complete year. This hardly seems fair.

I implore you to set a date that allows all public employees to complete the 2013 work year and to have those earnings be included in their retirement calculations.

Thank You



Jeff Niebergall  
503-256-9565



P.E.R.S  
Attn: Executive Director

Re: Assumed Rate change and proposed OAR 459-007-0007.

I am a public employee with thirty-one years of service and am very disturbed with the proposed changes in the system regarding the assumed rate and the proposed OAR 459-007-0007.

Public employees should not be treated as door mats at the end of their careers. What I am referring to is that if the assumed rate is changed, then the proposal being discussed would take effect five days after the fact. So would part of the newly proposed OAR 459-007-0007.

Under these two proposals, I would lose benefits and not have enough of a time notice to retire before the they were enacted. This is no way to treat long time employees.

\*\*\*In the district that I work, I need to give sixty days notice to be able to access district sponsored early retirement benefits. This is a Big deal.

I implore you to set a date that allows all public employees to complete the 2013 work year and to have those earnings be included in their retirement calculations.

Thank You

David Peake  
503-256-9565

**From:** "Crumme Doug C" <doug.c.crumme@state.or.us>  
**To:** "RIVAS Daniel" <daniel.rivas@state.or.us>  
**CC:** <pers.board@state.or.us>  
**Date:** 6/24/2013 7:09 PM  
**Subject:** Proposed Rule 459-007-0007

Dear PERS Board,

I am a State of Oregon employee. Proposed rule OAR 459-007-0007 is unclear and confusing in several respects.

To what "assumed rate" does the proposed rule refer?

To what "year-to-date calculations" does section (2)(a) refer?

Does section (2)(a) mean that a new assumed earnings rate applies to calculating money match benefits for retirements on and after the first day of the month after the Board adopts the change?

If that is the case, does that conflict with section (2)(b)? Section (2)(b) appears to only apply a changed assumed rate to money match calculations for retirements on and after January 1 of the year after the Board adopts the change.

Any rule that the Board adopts should be clear on these issues.

The most fair approach would be to begin applying any changed rate for money match calculations to retirements that occur in the year after adoption of the change, after the Board has provided notice of a clear proposed rule.

Thank you for your service.

# BENNETT, HARTMAN, MORRIS & KAPLAN, LLP

ATTORNEYS AT LAW

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June 26, 2013

BY EMAIL AND FIRST CLASS MAIL

Steve Rodeman  
Deputy Director  
Public Employee Retirement System  
PO Box 23700  
Tigard, OR 97281-3700

Re: Proposed OAR 459-007-0007; Assumed Rate  
Our File No.: 5415-237

Dear Steve:

The purpose of this letter is to comment on proposed rule OAR 459-007-0007 (assumed rate) which will be before the board at its July 26, 2013 meeting. Anticipating that the PERS board may change the actuarial earnings assumption at that meeting, the new rule addresses the timing of the use of any newly adopted actuarial earnings assumption. By statute, ORS 238.607, any change in the actuarial earnings assumption will be incorporated into the actuarial equivalency factors (AEFs) effective January 1 of the year following its adoption. Thus any July 26 change in the actuarial earnings assumption will first be used in the AEFs to amortize member account balances for the money match benefits and pension plus annuity for retirements on or after January 1, 2014.

As has been identified in the memo accompanying the proposed rule, the actuarial earnings assumption is also used in crediting Tier One accounts and doing part-year crediting for members who retire during the calendar year. The issue to be addressed by the board is when any new assumption will be used to make these calculations. Unfortunately the option recommended by staff is not the best option.

Since the legislature has already mandated that any new assumption first be used for AEF calculations effective January 1 of the following year, the initial question which should be asked is whether there is any compelling reason to use a new earnings assumption for other purposes prior to January 1 of the following calendar year. The only reasons stated by staff for using new earnings assumptions at an earlier date are the potential to save money and secondarily avoidance of pension retirement spiking. Neither is a compelling reason.

In PERS the earnings assumption is adopted along with other assumptions as part of the biannual process of setting employer contribution rates. Lowering the assumed earnings rate will impact the calculation of money match benefits and pension plus annuity, thereby saving money for the system. However, the lowering of benefits has never been and should not be a motivation for the change in the earnings assumption nor should it be a factor in setting the timing for the initial use of those new factors. In addition, this new rule will presumably be applied whether the earnings assumption is raised or lowered. Should the earnings assumption be raised at some future date while money match or pension plus annuity remain forms of PERS pensions, then early use of the new assumption would cost money. The decision on when a new earnings assumption should be used should be driven by factors other than the potential savings or cost to the system.

Staff also suggests that setting January 1 as the utilization date for all purposes may lead to additional spiking of retirement applications. There is no question that there will likely be significant spiking prior to January 1, which is when the new factors will be used for AEF purposes. Certainly any member otherwise eligible to retire who is concerned about these factors may choose to retire prior to the implementation of new AEFs which will have a significant impact on retirement calculations. The fact that early implementation of the new assumption might have a marginal impact on that member's 2013 earnings is not likely to lead to additional retirements.

As noted in the memo accompanying the proposed rule, early use of a newly-adopted earnings assumption is going to cause confusion for members. It is well known by now that members find PERS very difficult to understand and PERS should make every effort when adopting new rules to keep them as simple as possible. The rule supported by staff would establish three separate dates for the implementation of a new earnings assumption. For AEF purposes the rule would be applied on January 1 of the following year, for the year-to-date calculations on the first of the month following adoption, and for calculation of yearly earnings retroactively to the first of the year prior to the adoption. For instance, if the board were to lower the assumed earnings rate at their July 26 meeting, under the staff-supported rule it would be used for AEF purposes commencing January 1, 2014, for part-year calculations commencing on August 1, 2013, and when allocating Tier One earnings retroactively to January 1, 2013. Whatever else can be said about the rule it does not keep things simple. In addition, retroactive application of any rule should be avoided both to avoid legal complications and also as a matter of policy. Members should not have the task of retirement planning made any more daunting and even trying to explain the application of the staff-proposed rule should make it clear why it will sow confusion among PERS participants who are at or nearing retirement age.

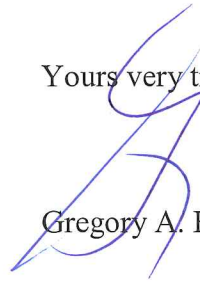
Additionally, though ease of administration should not be a primary factor, early adoption will clearly place challenges on the PERS staff in administering the rule. As an example, is the PERS calculator for member benefits going to be amended between the potential July 26 adoption of the rule and the July 31 utilization of that rule for part-year retirement? Are members going to be informed that prior estimates are no longer accurate? Simply resetting the PERS calculator and adequately advising PERS members of any change will take some time. Adding complexity to the system without an adequate period of time to advise members is not an acceptable policy choice.

The legislature has mandated that changes in the earnings assumption to be incorporated in the AEFs will take effect the first of the year after their adoption. There is no compelling reason to use any newly-adopted earnings assumption prior to January 1 of the year following adoption. This is

Steve Rodeman  
June 26, 2013  
Page 3

consistent with the legislative mandate, will cause the least confusion for members, and will be easiest for the system to administer.

Yours very truly,



Gregory A. Hartman

GAH:kaj

G:\Hartman\AFSCME 5415\237 PERS 2\Rodeman 13-06-26.docx

cc: Clients

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**From:** BOYD David W <David.W.BOYD@odot.state.or.us>  
**To:** RIVAS Daniel <Daniel.RIVAS@state.or.us>  
**Date:** 7/1/2013 8:29 AM  
**Subject:** PERS Rule change, 459-007-0007

Mr. Rivas,

I would like to comment on the proposed rule making for 459-007-0007.

I think is good to have solid dates defined in administration rules, what I find hard to accept is implementation within one week of passing a Board decision.

(2)(a) A latest year-to-date calculation completed on or after the first of the month following the Board's adoption of the change.

Implementation of any decision that has an affect on a retirement calculation should have a time period that allows those members time to evaluate the affect the decision has and make an informed decision.

As of today no one can submit paper work to retire and avoid the affects of a decision yet to come.

Even allowing an affective date of the next quarter allows time to react to the change.

Please consider the affect a number of members are complaining about, "the feeling of being forced to retire to protect their retirement", whether it be from legislation and now our own Board.

David W. Boyd  
(541) 388-6182

Proposed PERS administrative rule 459-007-0007

1. Section 1 says the rate change is effective on the first of the year following approval and the second section says it is effective for two specific calculations. In section 2, I think what you mean by "effective for" is probably better stated "applicable to". That would draw a better distinction between when it is effective and to what calculations it apply
2. I suggest you include examples in the rule. These sample examples assume the two following statements are true. The change in the assumed rate made by the board applies to the annual crediting of earnings on a pro rata basis for calculations on or after the first month following the board's adoption of a change. The change in the assumed rate applies to annuity calculations beginning on the first of the year following the change.

**Example 1:**

1. Board changes the assumed rate in July, 20XX.
2. Employee's retirement date is June 1 of 20XX, that same year.
3. Earnings are credited at the pre change rate for five months.
4. Annuity is calculated for the June 1 retirement date at the pre changed assumed rate.

**Example 2:**

1. Board changes the assumed rate in July, 20XX
2. Employee's retirement date is September 1, 20XX, that same year.
3. Earnings are credited at the pre change rate for 7 months and at the post change rate for 1 month.
4. Annuity is calculated for the September 1 retirement date at the pre changed assumed rate.

**Example 3:**

1. Board changes the assumed rate in July, 20XX
2. Employee's retirement date is February 1, 20X1, that following year.
3. Earnings are credited at the pre change rate for 7 months and at the post change rate for 5 months for year 20XX.
4. Earnings are credited at the post change rate for 1 month for year 20X1.
5. Annuity is calculated for the February 1 retirement date at the post change assumed rate.

As far as examples are concerned, I believe your rule OAR 459-001-0005 states that PERS adopts the AG's model rules. The model rules in Appendix B-6 (8) encourage you to use examples to illustrate a concept. I can't think of a concept that needs more clarification and has so much riding on it's clear understanding than this rule.

3. Additionally, section 2 could be written more clearly by including an "and" on line 10 or an "or" depending on what you are trying to say. I read it as meaning that the change is effective (applicable) for either (a) or (b) however it would be better communication to make that explicit.

John Phillips

June 25, 2013

Public Comment on Proposed PERS OAR 459-007-0007



Ted Scheinman  
36 SW Brugger St.  
Portland, OR 97219

June 27, 2013

PUBLIC HEARING BEFORE PERS BOARD  
OAR 459-007-0007

Thank you for this opportunity to provide testimony on the Assumed Rate Rule, reducing the Assumed Rate from 8% to 7.5%. I appreciate the difficult task you have to change a system that must be fair to members and employers alike. I have been an Instructor in Economics at Mt Hood Community College for more than 36 years.

As an economist, I am aware of the difficulty in predicting the assumed interest rate that will affect many employees and employers for the rest of their lives. Having been responsible for similar forecasts for state governments, I am especially dubious of precise estimates of an assumed interest rate. It should take a major change in long-term conditions to change the current rate from 8%. I will let others argue over the appropriate interest rate for the assumed rate.

I would like to limit my testimony to only two issues: Dates of implementation and reducing negative effects on long-term participants.

**1. Dates of implementation**

There are two options that have been offered for an effective date to implement any new assumed rate: (1) January 1, 2014, when the AEFs will also go into effect or (2) immediately after the PERS vote on July 26, on August 1, 2013.

Option 1.

- This first option would be “clear and simple” to understand and administer, and would give members (and staff) an adequate opportunity to evaluate and make retirement choices.
- Less money will be raised from this option, as it would postpone the time when more funds are raised.

Option 2.

- This second option would be very confusing as to what impact it might have on retirement benefits, based on the specific month of retirement. Each month will provide additional confusion – July 1 retirement gives cost of living, August 1 retirement does not provide cost of living, but preserves value of the retirement assets, September 1 retirement gives lower retirement benefits for the above two reasons, but extends them because of later retirement. The numbers could not be run through a retirement calculator quickly enough to allow a member to evaluate decisions. And technically, could a person learning on July 26 file papers in time to avoid the impact by the August 1 date? I am sure many people would find out that they would have to work many months longer to achieve the same retirement benefit they would have received with a January 1 date for the change.
- PERS staff will have to scramble to process the changes in the assumed rate in a few days.
- This second option, would, of course raise more money for the PERS system.

As a point-person at Mt Hood Community College on such issues, I have been amazed how much confusion exists on what the impact would be on members. I have spoken with Vice-Presidents, Instructors, and Maintenance workers, and other Staff – nobody can even begin to understand that fact that a lower assumed interest rate will lower benefits in the future substantially, not just only funds in the current member’s account but in the growth of that account, as the assumed interest rate is applied. In simple terms, it changes the benefit amount substantially. Anyone who has attended the excellent PERS Retirement Sessions learns that the expected benefits from estimates are based on current assumed interest rates, but that “those rates could change in the future.” Of course, they do not explain what that might change.

Most of those I spoke with at MHCC thought that since the Legislature cut the cost of living amounts, that was all that was going to be done now and they have nothing to worry about. And, any changes will result in a rush to make decisions – many of them bad decisions – as people rush to submit their applications.

The statement in the May 31 letter that “The public has been aware of a possible change to the assumed earnings rate for more than a year” is completely erroneous and casts doubt on the rest of the arguments! Where is the evidence? Where is the new Retirement Calculator? And, how quickly will people act to make decisions – many of them bad decisions – as people learn of the changes?

Therefore, I **disagree** completely with the staff recommendation for the Option 2; if the rate is to be changed, it should be changed on January 1, 2014.

## **2. Reducing long-term negative effects on retirees.**

Even if the implementation date for the assumed rate changes is selected to be January 1, 2014, there are a number of members who would receive LOWER benefits by working longer. Even the simple example given in the PERS FAQs says that an employee will have to work SIX MONTHS LONGER to reach the initial benefit level as a result of changing the assumed interest rate on January 1, 2014 (and that does not even include the changes in AEF also implemented in January 1, 2014. Most will have to work longer than that.

A reasonable approach would be to provide a look-back option for those members who retire after the implementation date. PERS will compare what you would have received if you had retired on July 1, 2013, with what you would receive after all changes. This was done ten years ago, when substantial changes were made.

### **Summary**

There is really no compelling reason to implement any changes until January 1, 2014. The small addition to the PERS assets would not be worth the lack of transparency that would be seen as “rushing” to beat the August 1 date. I am sure court challenges would be made to such timing.

Since minutes from the past May meeting will not even be available until a few days before the July 26<sup>th</sup> PERS Board Meeting, people will not know what will occur until the last minute and they will make poor decisions.



# Oregon

John A. Kitzhaber, M.D., Governor

## Public Employees Retirement System

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July 26, 2013

TO: Members of the PERS Board  
FROM: Steven Patrick Rodeman, Deputy Director  
SUBJECT: Notice of Rulemaking for OPSRP Pension Program Benefits Rule:  
459-0075-0170, *Payment of OPSRP Pension Program Benefits*

### OVERVIEW

- Action: None. This is notice that staff has begun rulemaking.
- Reason: Creates a new rule to clarify retirement benefit eligibility of OPSRP Pension Program members who die after the effective date of retirement but before the first monthly pension benefit payment is issued.
- Policy Issue: No policy issues have been identified at this time.

### BACKGROUND

Under ORS 238A.180, an OPSRP Pension Program member's monthly pension is payable on their effective retirement date and ends on the first day of the month in which the member's death occurs. An ambiguous event occurs when the member dies in the month of retirement and the pension payable on the first of the month also ends on the first of the same month.

This rule will clarify the accrual of pension benefits and the last pension benefit the member or their benefit recipient is entitled to receive. Under OPSRP, a member or beneficiary who is receiving a monthly pension payment will be paid that benefit for the month in which that person dies. This result is different than a Tier One or Two member or their beneficiary, because of differences in the OPSRP statute. The rule is intended to clarify this difference.

### PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing will be held on August 27, 2013 at 3:00 p.m. at PERS headquarters in Tigard. The public comment period ends on September 6, 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: No.

Impact: Benefits members and staff by clarifying payment of pension benefits in certain situations.

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

RULEMAKING TIMELINE

June 14, 2013	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
July 1, 2013	<i>Oregon Bulletin</i> published the Notice. Notice was sent to employers, legislators, and interested parties. Public comment period began.
July 26, 2013	PERS Board notified that staff began the rulemaking process.
August 27, 2013	Rulemaking hearing to be held at 3:00 p.m. at PERS in Tigard.
September 6, 2013	Public comment period ends at 5:00 p.m.
September 27, 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 August 27, 2013 at 3:00 p.m. at PERS headquarters in Tigard. The rule is scheduled to be brought before the PERS Board for adoption at the September 27, 2013 Board meeting.

B.2. Attachment 1 – 459-0075-0170, *Payment of OPSRP Pension Program Benefits*

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

1 **459-075-0170**

2 **Payment of OPSRP Pension Program Benefits**

3 **(1) Definitions. For purposes of this rule:**

4 **(a) “Benefit recipient” means an OPSRP Pension Program member, surviving**  
5 **beneficiary or alternate payee who is entitled to receive a retirement benefit under**  
6 **the OPSRP Pension Program.**

7 **(b) “Non-survivorship benefit” means a lifetime benefit that is paid to an**  
8 **eligible benefit recipient and ends after death.**

9 **(c) “Survivorship benefit” means a survivor monthly pension benefit that is**  
10 **paid to a surviving beneficiary after an OPSRP Pension Program member’s death.**

11 **(2) An OPSRP monthly pension benefit accrues on the first day of the calendar**  
12 **month and shall be paid to the benefit recipient on the first day of the following**  
13 **month.**

14 **(3) If a benefit recipient who is receiving an OPSRP pension dies during a**  
15 **calendar month:**

16 **(a) Non-survivorship benefits shall accrue on the first day of the month of death**  
17 **and shall be paid to the deceased member or deceased alternate payee on the first**  
18 **day of the following month.**

19 **(b) Survivorship benefits shall accrue on the first day of the month after the last**  
20 **payable OPSRP pension benefit to a deceased member or deceased alternate payee.**

21 **(4) If the member or alternate payee is entitled to receive a cash-out of a small**  
22 **benefit under ORS 238A.195, the benefit accrues on the member’s or alternate**

1 payee's effective retirement date and shall be paid to the member or alternate

2 payee.

3 Stat. Auth.: ORS 238A.450

4 Stats. Implemented: ORS 238A.180, 238A.185, 238A.190, 238A.195



# Oregon

John A. Kitzhaber, M.D., Governor

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July 26, 2013

TO: Members of the PERS Board  
FROM: Steven Patrick Rodeman, Deputy Director  
SUBJECT: Notice of Rulemaking for Senate Bill 822 Tax Remedy/Increased Benefits Rules:  
OAR 459-013-0310, *Payment of Increased Benefits under ORS 238.375 to 238.384*  
OAR 459-013-0320, *Payment of Increased Benefits to an Alternate Payee*

### OVERVIEW

- Action: None. This is notice that staff has begun rulemaking.
- Reason: Implement provisions of Senate Bill 822 (2013) which affect payment of tax remedy benefits to out-of-state residents.
- Policy Issue: No policy issues have been identified at this time.

### BACKGROUND

Senate Bill 822 (2013) became effective on May 6, 2013. The bill prohibits PERS from paying increased benefits provided by SB 656 (Chapter 796, Oregon Laws 1991), or HB 3349 (Chapter 569, Oregon Laws 1995) if the benefit payments are not subject to Oregon personal income tax because the recipient is not an Oregon resident (as provided in ORS 316.127(9)). The following rule modifications are intended to conform existing administrative rules to this new law.

### SUMMARY OF PROPOSED RULE MODIFICATIONS

OAR 459-013-0310, *Payment of Increased Benefits under ORS 238.375 to 238.384*: the rule has been amended to include increased benefits under ORS 238.368, delete reference to the effective date of January 1, 2012, and add standard residency status determinations based upon information received from the Oregon Department of Revenue.

OAR 459-013-0320, *Payment of Increased Benefits to an Alternate Payee*: the rule has been amended to include increased benefits under ORS 238.368, and delete reference to the effective date of January 1, 2012.

### PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing will be held on August 27, 2013 at 3:00 p.m. at PERS headquarters in Tigard. The public comment period ends on September 6, 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: No.

Impact: Clarify eligibility for a benefit increase resulting from taxation of PERS benefits for PERS participants.

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

### RULEMAKING TIMELINE

June 14, 2013	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
July 1, 2013	<i>Oregon Bulletin</i> published the Notice. Notice was sent to employers, legislators, and interested parties. Public comment period began.
July 26, 2013	PERS Board notified that staff began the rulemaking process.
August 27, 2013	Rulemaking hearing to be held at 3:00 p.m. at PERS in Tigard.
September 6, 2013	Public comment period ends at 5:00 p.m.
September 27, 2013	Staff will propose adopting the new rule, including any changes resulting from public comment or reviews by staff or legal counsel.

### NEXT STEPS

A hearing will be held on August 27, 2013 at 3:00 p.m. at PERS headquarters in Tigard. The rule is scheduled to be brought before the PERS Board for adoption at the September 27, 2013 Board meeting.

B.3. Attachment 1 – OAR 459-013-0310, *Payment of Increased Benefits under ORS 238.375 to 238.384*

B.3. Attachment 2 – OAR 459-013-0320, *Payment of Increased Benefits to an Alternate Payee*



**OREGON ADMINISTRATIVE RULE  
PUBLIC EMPLOYEES RETIREMENT BOARD  
CHAPTER 459  
DIVISION 013 – RETIREMENT BENEFITS**

1 **459-013-0310**

2 **Payment of Increased Benefits under ORS 238.372 to 238.384**

3 (1) For purposes of determinations under ORS 238.372 to 238.384:

4 (a) “Person” includes *[but is not limited to a trust or charitable organization that is]*  
5 a member, an alternate payee or a beneficiary.

6 (b) The increased benefit percentage to be added to a benefit paid to a beneficiary  
7 under ORS 238.390, 238.395, 238.400, 238.405, or under an optional form of retirement  
8 allowance under ORS 238.305 or 238.325 will be determined based on:

9 (A) The increased benefit percentage(s) for which the member is otherwise eligible  
10 under ORS 238.364, *[and]* 238.366 and 238.368; and

11 (B) The residency of the beneficiary.

12 (2) PERS will make the following determinations on residency status for the  
13 purpose of determining increased benefit eligibility under ORS 238.372 to 238.384,  
14 based upon the yearly Oregon personal income tax return information provided by  
15 the Department of Revenue.

16 (a) If the Department of Revenue notifies PERS that a person:

17 (A) Filed Oregon personal income tax as a resident, PERS will treat the person  
18 as a resident of Oregon.

19 (B) Filed Oregon personal income tax as a non-resident, PERS will treat the  
20 person as a non-resident of Oregon.

21 (C) Did not file Oregon personal income tax, PERS will treat the person as a  
22 non-resident of Oregon.

1 (D) Filed Oregon personal income tax as a partial-year resident and the prior  
2 year the person filed personal income tax as a resident, PERS will treat the person  
3 as a non-resident of Oregon.

4 (E) Filed Oregon personal income tax as a partial-year resident and the prior  
5 year the person filed personal income tax as a non-resident, PERS will treat the  
6 person as a resident of Oregon.

7 (F) Filed Oregon personal income tax as a partial-year resident and the prior  
8 year the person did not file personal income tax, PERS will treat the person as a  
9 resident of Oregon.

10 (b) If PERS cannot make a residency status determination based upon  
11 information provided by the Department of Revenue or the person did not  
12 otherwise provide PERS with residency status information, PERS will treat the  
13 person as a non-resident of Oregon.

14 (3) Residency status determinations made in section (2) may be changed by  
15 PERS if a person submits an updated residency status on a form provided by PERS.

16 *[(c) A payment begins before January 1, 2012 if the effective date of the payment, as*  
17 *described in this chapter, is before January 1, 2012.]*

18 *[(2) This rule is effective January 1, 2012.]*

19 Stat. Auth.: ORS 238.650

20 Stats. Implemented: ORS 238.362, 238.364, 238.366, 238.368 & 238.372 to 238.384

**OREGON ADMINISTRATIVE RULE  
PUBLIC EMPLOYEES RETIREMENT BOARD  
CHAPTER 459  
DIVISION 013 – RETIREMENT BENEFITS**

1 **459-013-0320**

2 **Payment of Increased Benefits to an Alternate Payee**

3 (1) The provisions of this rule apply to an alternate payee who[:]

4 *[(a) R] receives retirement benefit payments derived from an “alternate payee account”*

5 or a separate benefit option as provided under OAR 459-045-0010(2) or (3)(b).[:; and]

6 *[(b) Has an effective retirement date on or after January 1, 2012.]*

7 (2) If an alternate payee is eligible to receive increased benefits under ORS

8 238.465(5), the percentage of the increased benefit payable to the member, as determined

9 under ORS 238.364, 238.366, 238.368, and 238.372 to 238.384, is the increased benefit

10 percentage for which the alternate payee is eligible. If the member predeceases the alternate

11 payee, the increased benefit percentage payable to the member at the time of death remains

12 the increased benefit percentage for which the alternate payee is eligible.

13 (3) If the alternate payee is eligible for the increased benefit under section (2),

14 *[P]*payment of the increased benefit to the alternate payee under ORS 238.372 to 238.384

15 is *[governed]* determined by the residency of the alternate payee.

16 *[(4) An alternate payee described in section (1) of this rule whose effective retirement*

17 *date is before January 1, 2012 may receive an increased benefit under ORS 238.364 or*

18 *238.366 regardless of the member’s or alternate payee’s residency.]*

19 *[(5) This rule is effective January 1, 2012.]*

20 Stat. Auth.: ORS 238.650

21 Stats. Implemented: ORS 238.362, 238.364, 238.366, 238.368, 238.465 & 238.372 to

22 238.384

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# Oregon

John A. Kitzhaber, M.D., Governor

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July 26, 2013

TO: Members of the PERS Board  
FROM: Steven Patrick Rodeman, Deputy Director  
SUBJECT: Adoption of Payment of Retirement Benefits Rule:  
OAR 459-013-0060, *Payment of Retirement Benefits*

### OVERVIEW

- Action: Adopt modifications to Payment of Retirement Benefits rule.
- Reason: Housekeeping edits are needed to delete obsolete language and clarify the current administration of retirement benefit payments.
- Policy Issue: No policy issues were identified.

### BACKGROUND

Edits to this administrative rule are required to delete references to gender and obsolete language such as “insurable interest,” which was removed from statute in 1971; to reference our new administrative rule regarding any accrued benefits due a retired member after death; and to clarify the date of subsequent lump sum installment payments after the initial installment payment was made.

### SUMMARY OF MODIFICATIONS TO RULE SINCE NOTICE

No modifications have been made to the rule.

### PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held on June 25, 2013 at 2:00 p.m. at the Oregon State Archives in Salem. No members of the public presented comment on the rule. The public comment period ended on July 2, 2013 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: Clarifies the administration of retirement benefit payments.

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

### RULEMAKING TIMELINE

April 15, 2013	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
May 1, 2013	<i>Oregon Bulletin</i> published the Notice. Notice was sent to employers, legislators, and interested parties. Public comment period began.
May 31, 2013	PERS Board notified that staff began the rulemaking process.
June 25, 2013	Rulemaking hearing held at 2:00 p.m. at Oregon State Archives in Salem.
July 2, 2013	Public comment period ended at 5:00 p.m.
July 26, 2013	Board may adopt the permanent rule modifications.

### BOARD OPTIONS

The Board may:

1. Pass a motion to “adopt modifications to the Payment of Retirement Benefits 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: Housekeeping edits are needed to delete obsolete language and clarify the current administration of retirement benefit payments.

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 – 459-013-0060, *Payment of Retirement Benefits*

**OREGON ADMINISTRATIVE RULE  
PUBLIC EMPLOYEES RETIREMENT BOARD  
CHAPTER 459  
DIVISION 013 – RETIREMENT BENEFITS**

1 **459-013-0060**

2 **Payment of Retirement Benefits**

3 **(1)** Retirement benefits shall be payable *[in equal]* **each** month*[ly payments]* as of  
4 **the first** *[the last]* day *[of each]* **of the** month*[:]* **following the effective date of**  
5 **retirement.**

6 *[(1) A member's retirement allowance shall accrue from the effective date of his*  
7 *retirement.] **At the time of death, accrued benefits shall be payable as provided***  
8 ***under OAR 459-014-0050(4).** [Should he die during a calendar month for which he*  
9 *would have received a service or disability retirement allowance had he lived that entire*  
10 *month, and after the first payment was normally due, benefits computed to the date of his*  
11 *death on the basis of 30 days constituting a month, shall be payable as follows (ORS*  
12 *238.390(3)):]*

13 *[(a) Under the non-refund plan, accrued benefits are payable to the administrator or*  
14 *executor of the estate of the deceased member;]*

15 *[(b) Under the Refund Annuity plan, accrued benefits other than the annuity portion*  
16 *of the allowance are payable to the administrator or executor of the estate of the*  
17 *deceased member. When electing payment of benefits under the Refund Annuity plan, a*  
18 *retiring member of the system may designate any person to receive any balance*  
19 *remaining in his account at the time of death;]*

20 *[(c) Under options No. 2 and 3, accrued benefits are payable to the administrator or*  
21 *executor of the estate of the deceased member, and benefits to the member's beneficiary,*  
22 *if surviving, shall accrue from the date of the death of the member. Retirement*

1 *allowances payable to the surviving beneficiary of a deceased member under options No.*  
2 *2 and 3 shall cease with the allowance payable for the last full calendar month of such*  
3 *beneficiary's life.]*

4 (2) **If a retiree elects to receive more than one installment payment as provided**  
5 **under ORS 238.305(4), the subsequent installment payments will be paid on the**  
6 **anniversary of the first day of the month that the initial installment payment was**  
7 **made.** *[At any time before the first payment on account of his service allowance becomes*  
8 *normally due, a member of the system who has retired under option No. 2 or 3 may*  
9 *designate new beneficiaries or revoke previous designations by giving written notice to*  
10 *the Retirement Board, but no revocation or new designation shall be effective until*  
11 *received by the Public Employees Retirement Board. A beneficiary named under option*  
12 *No. 2 or 3 must have an insurable interest in the life of the member.]*

13 Stat. Auth.: ORS 238.650

14 Stats. Implemented: ORS 238.300 & 238.305





# Oregon

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July 26, 2013

TO: Members of the PERS Board  
FROM: Marjorie Taylor, Senior Policy Advisor  
SUBJECT: 2013 Legislative Session Update

### OVERVIEW

The 2013 regular legislative session adjourned Monday, July 8. Since the May 31, 2013 Board meeting, much of our legislative focus was directed toward consideration of SB 857 and various amendments. The bill would have modified the COLA structure established in SB 822 and directed the annuitization rate for a specific group of inactive members whose benefits would be calculated under Money Match. Ultimately, SB 857 was not approved by the legislature.

### IMPLEMENTATION OF SB 822

Several lawsuits have been filed that challenge provisions of SB 822; at least one of those suits included a request for an injunction against implementing the bill. Until a court directs otherwise, we continue to implement the measure. That included reducing COLA from a 2% maximum to 1.5% fixed, for July 1, 2013 benefits payable August 1. The 2014 and beyond COLA will use a progressive marginal rate scale which varies by benefit level. New 2013-15 employer rates, based on SB 822's liability reductions and budget note direction on employer rate deferral, have also been implemented. Elimination of out-of-state tax remedy for non-residents requires coordination of data with the Department of Revenue, and we continue to develop and test that structure.

### ADDITIONAL LEGISLATION

As previously reported, several bills were approved by the legislature that impact: beneficiaries of judge members (SB 771); OHSU police officers (SB 565); and specific non-vested, OPSRP members (HB 3243 and HB 3487). Over the next several weeks, agency staff will work on implementation of these bills.

### AGENCY BUDGET – SB 5537

The PERS agency budget was approved and signed by the Governor before July 1, 2013, which was the beginning of the fiscal year. The legislatively approved budget generally followed the agency request budget approved by the PERS Board, with slight modification to Policy Option Packages and includes several budget notes for PERS to report on specific topics in the future.

### NEXT STEPS

The media has reported about the possibility of a Special Session to address PERS cost containment proposals among other topics. PERS staff is available to respond to questions about proposals from legislative offices about the impact to members, benefits, employer rates, and agency operations. I look forward to communicating with the Board as legislative activities and discussions pertaining to PERS progress through the interim.

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# Oregon

John A. Kitzhaber, M.D., Governor

## Public Employees Retirement System

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July 26, 2013

TO: Members of the PERS Board

FROM: Paul R. Cleary, Director

SUBJECT: Actuarial Methods and Assumptions – Part Two

PERS actuaries (Matt Larrabee and Scott Preppernau with Milliman) will present Actuarial Methods and Assumptions – Part Two.

This presentation will include recommendations on a revised actuarial cost allocation method and a modification to the rate collar structure. It will also discuss policy considerations regarding a potential re-set of the Tier 1/Tier 2 shortfall (or UAL) amortization period to 20 years. An updated analysis of the long-term investment return assumption (reflecting the recently revised OIC target asset allocation) will be presented. Key demographic assumptions (reflecting the 2012 Experience Study) will also be highlighted, along with a recap of the economic assumptions presented at the May Board meeting.

These materials will be available in hard copy at the meeting, and circulated electronically once available before the meeting.

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# Actuarial Assumptions & Methods

## Part Two

### OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM

July 26, 2013

Presented by:

Matt Larrabee, FSA, EA

Scott Preppernau, FSA, EA



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# Agenda

- Recommendation on cost allocation method
- Discussion of shortfall amortization
- Recommendation on rate collar method
- Review of investment return assumption
- Overview of other recommended assumptions
  - Demographic
  - Economic

# Two-Year Rate-Setting Cycle

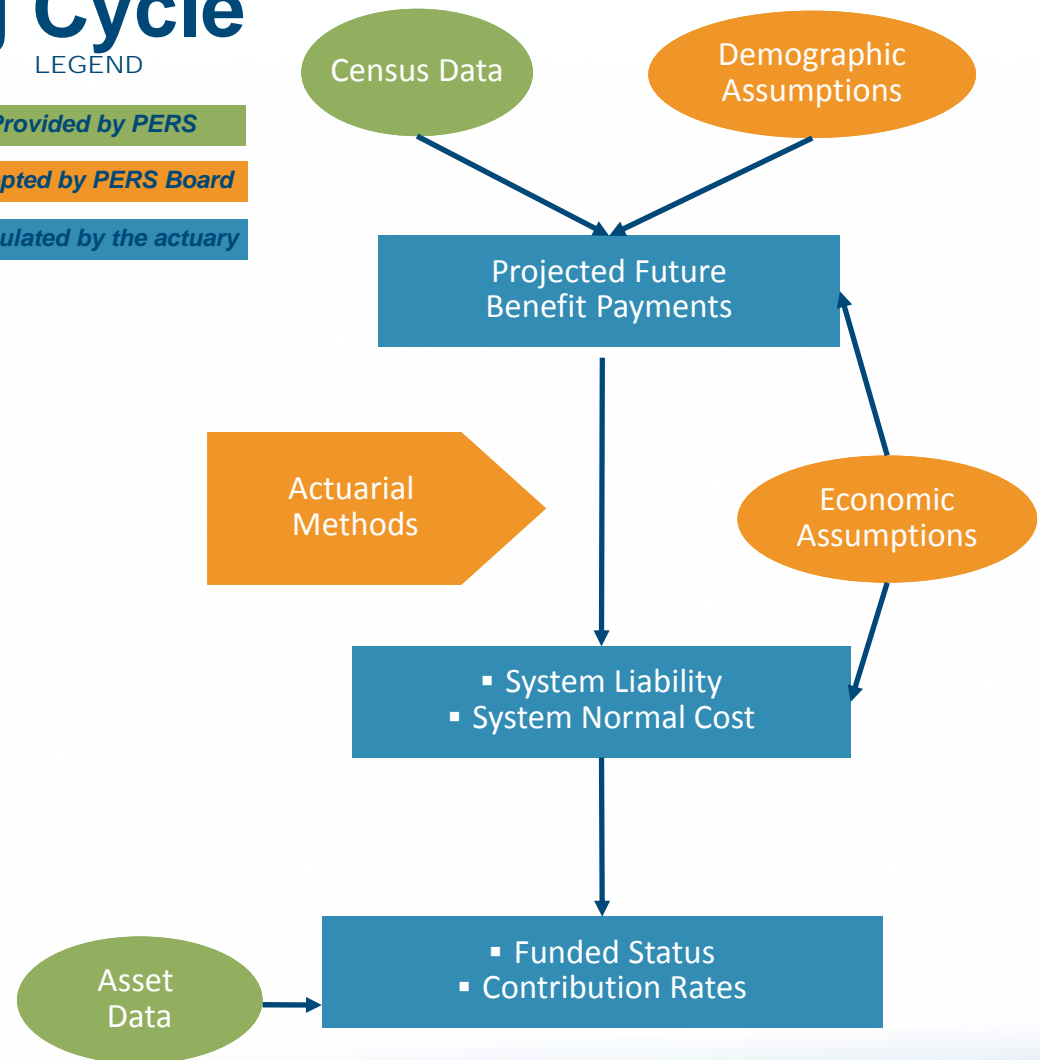
LEGEND

*Provided by PERS*

*Adopted by PERS Board*

*Calculated by the actuary*

- July 2013: Assumptions & methods endorsed by Board in consultation with the actuary
- September 2013: System-wide 12/31/12 “advisory” actuarial valuation results
- November 2013: Advisory 2015-2017 employer-specific contribution rates
- July 2014: System-wide 12/31/13 “rate-setting” actuarial valuation results
- September 2014: Disclosure & adoption of employer-specific 2015-2017 contribution rates



# Objectives for Actuarial Methods & Assumptions

- Transparent
- Predictable and stable rates
- Protect funded status
- Equitable across generations
- Actuarially sound
- GASB compliant



Some of the objectives can compete with each other, particularly in periods with significant investment return volatility.

Overall system funding policies should seek an appropriate balance between competing objectives.



# The Fundamental Cost Equation

- Long-term program costs are the contributions, which are governed by the “fundamental cost equation”:

$$\begin{aligned} & \textit{BENEFITS} = \\ & \textit{EARNINGS} + \\ & \textit{CONTRIBUTIONS} \end{aligned}$$



# Governance Structure

- Benefits: Plan design set by Legislature
- Earnings: Asset allocation set by Oregon Investment Council (OIC); actual returns determined by market
- Contributions: Funding, methods & assumptions set by PERS Board
  - Since contributions are the balancing item in the equation, PERS Board funding policies primarily affect the **timing** of contributions
  - Different actuarial methods and assumptions produce different expected contribution patterns



# Alternative Proposed Rate Setting Approach

- The assumptions and methods set this year will guide the employer rate calculations for the 2015-2017 biennium
- Today we will analyze the policy used for 2013-2015 employer rates versus an alternative recommended policy that:
  - *Calculates liabilities using the entry age normal (EAN) actuarial cost allocation method*
  - *Considers re-amortizing all accumulated 12/31/2013 Tier 1/Tier 2 shortfall over 20 years*
  - *Modifies the rate collar structure by having the double rate collar grade in from 70% to 60% funded status*
- The policy comparison includes a stress test under a wide variety of potential future investment return scenarios

# Actuarial Cost Allocation Method

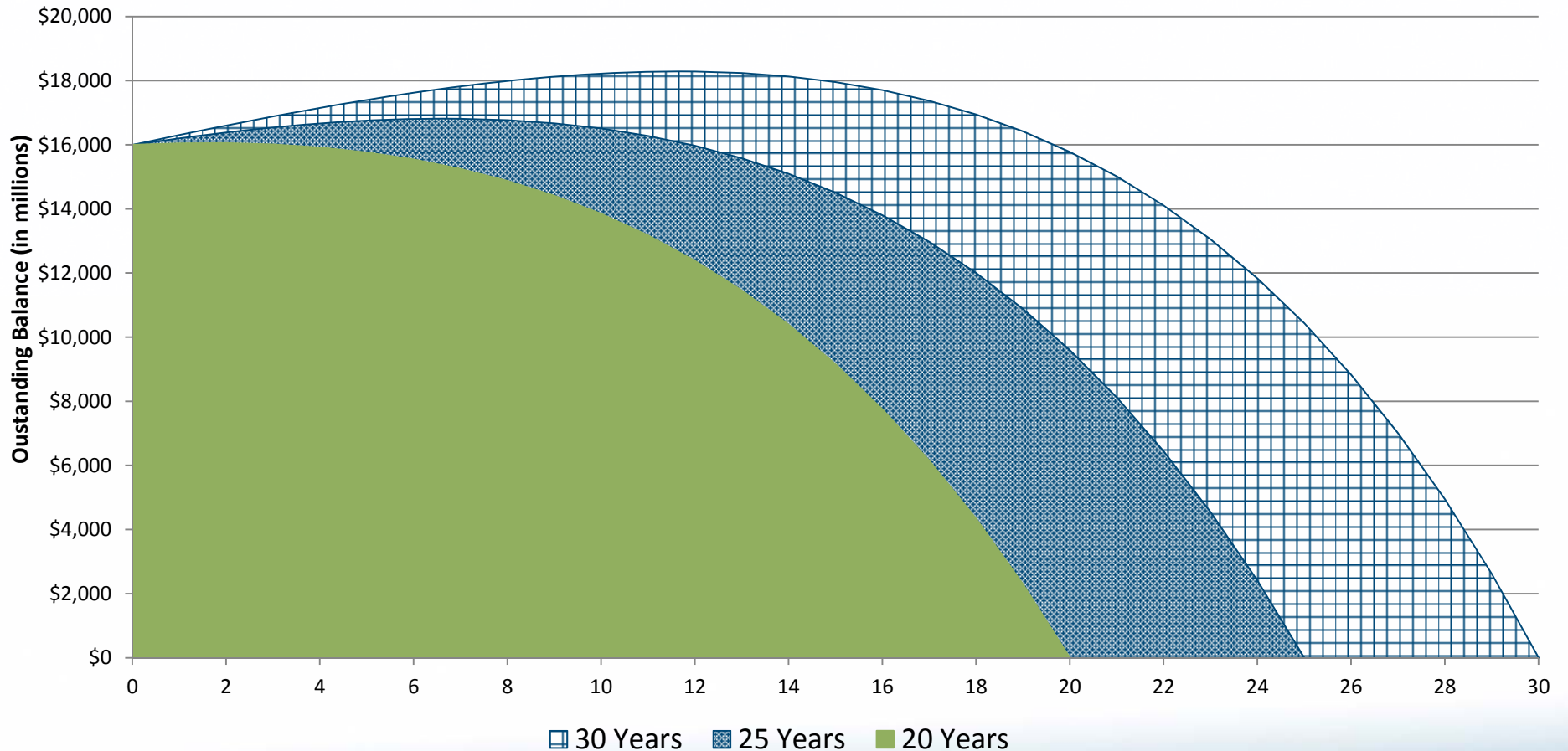
- Rates are calculated to pre-fund retirement benefits during a member's working career if all assumptions are met
- The division between past, current & future service is done through use of an actuarial cost allocation method
- We are recommending a change to the entry age normal (EAN) method from the projected unit credit (PUC) method
- Rationale:
  - EAN is required by GASB for financial reporting starting next year
  - Using EAN for contribution rates will avoid having two sets of numbers
  - EAN provides a reasonable proxy of the annual economic value of benefit costs as a level percentage of payroll

# Shortfall Amortization

- A key part of contribution rate calculations is amortization of Tier 1 / Tier 2 shortfalls over twenty years as a level percentage of payroll
  - Current policy has been in place for the last three rate-setting valuations
  - The 12/31/2013 rate-setting valuation will have Tier 1/Tier 2 shortfall amortization bases ranging from 14 to 20 years remaining
- Recent funding policy guidance recommends periods of twenty years or less for amortizations of most shortfall sources as a best practice
- Twenty years avoids significant negative amortization, where shortfall actually increases in the initial “pay down” years even if assumptions are met and contributions are made
  - The following slide illustrates pay down of a \$16 billion shortfall over periods of 20, 25 or 30 years at current assumptions

# Shortfall Amortization

**UAL Balance by Amortization Period**  
 Level % of Pay, 8.0% interest, 3.75% salary growth



# Shortfall Amortization

- The recommended change to EAN creates a near-term increase to uncollared contribution rates compared to current policy
  - A decrease in the investment return assumption (discussed in the next section) would create an additional uncollared rate increase
  - Increases in the 2015-2017 base rate actually charged to employers can be managed via application of the rate collar
- With these changes, the board could also consider re-amortizing all existing Tier 1/Tier 2 shortfall as of 12/31/2013 over twenty years
  - Decision is a trade-off between two objectives: predictable and stable rates and protect funded status
  - Provides partial mitigation of rate hikes due to assumption and method changes
  - Limiting amortization period to twenty years avoids negative amortization

# Rate Collar

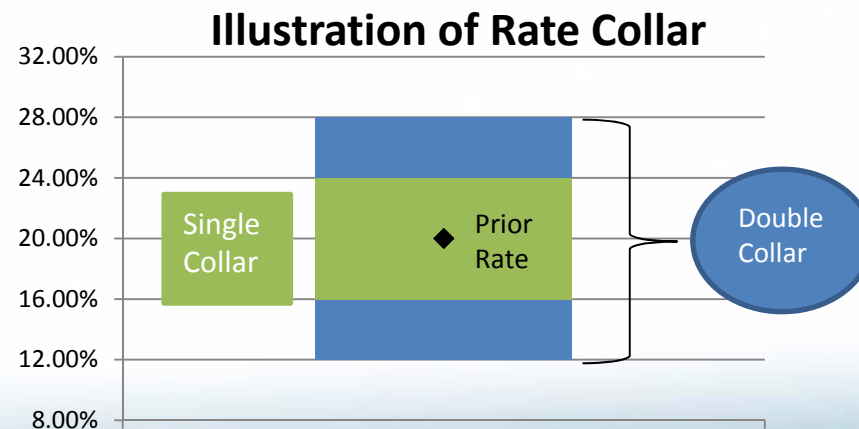
- Period to period changes in base employer contribution rates are limited to a range defined by the “rate collar”
- After a downturn, the difference between the current contribution rate and the updated actuarially calculated rate may be large
  - The collar spreads actuarially needed increases across several periods
- The collar’s current design includes a “double collar” feature that widens the collar’s width, and thus the maximum permissible rate change, when funded status\* falls below 80%

\* Excluding side accounts



# Rate Collar

- The rate collar's current design is shown below
  - The maximum change typically permitted by the collar is:
    - 20% of the rate currently in effect (3% of payroll minimum collar width)
  - If funded status is 70% or lower, the width of the collar doubles
    - 40% of rate currently in effect (6% of payroll minimum collar width)
  - If the funded status is between 70% and 80%, the collar size is pro-rated between the initial collar and double collar level



# Rate Collar

- Our projection model indicates that rate increases will likely continue over the next few biennia if actual post-2012 investment returns fail to exceed assumption
- Beginning in 2017-2019, system average base rates (excluding IAP contributions and before reflecting the effects of side account rate offsets) are projected in the low-to-mid 20s as a percentage of payroll at median investment return forecast
  - At that level, a “single collar” increase would be in excess of 4% of payroll
- In most foreseeable scenarios, increases of 4%+ would restore funded status over time
  - Only the worst scenarios modeled would require larger increases

# Rate Collar

- As such, we recommend modifying the “grade in range” for the double collar feature from 80%-70% downward to 70%-60%
- Such a change involves trade-offs, as it modifies the equilibrium between competing policy objectives
  - Predictable and stable rates
  - Protect funded status
- The rate collar only comes into effect after investment returns deviate significantly from assumption
  - Trade-offs of collar modifications are assessed using a stress test analysis with a wide variety of possible future investment returns
- In combination with the other recommended changes, the risk profile for the system is not materially modified by the proposed changes

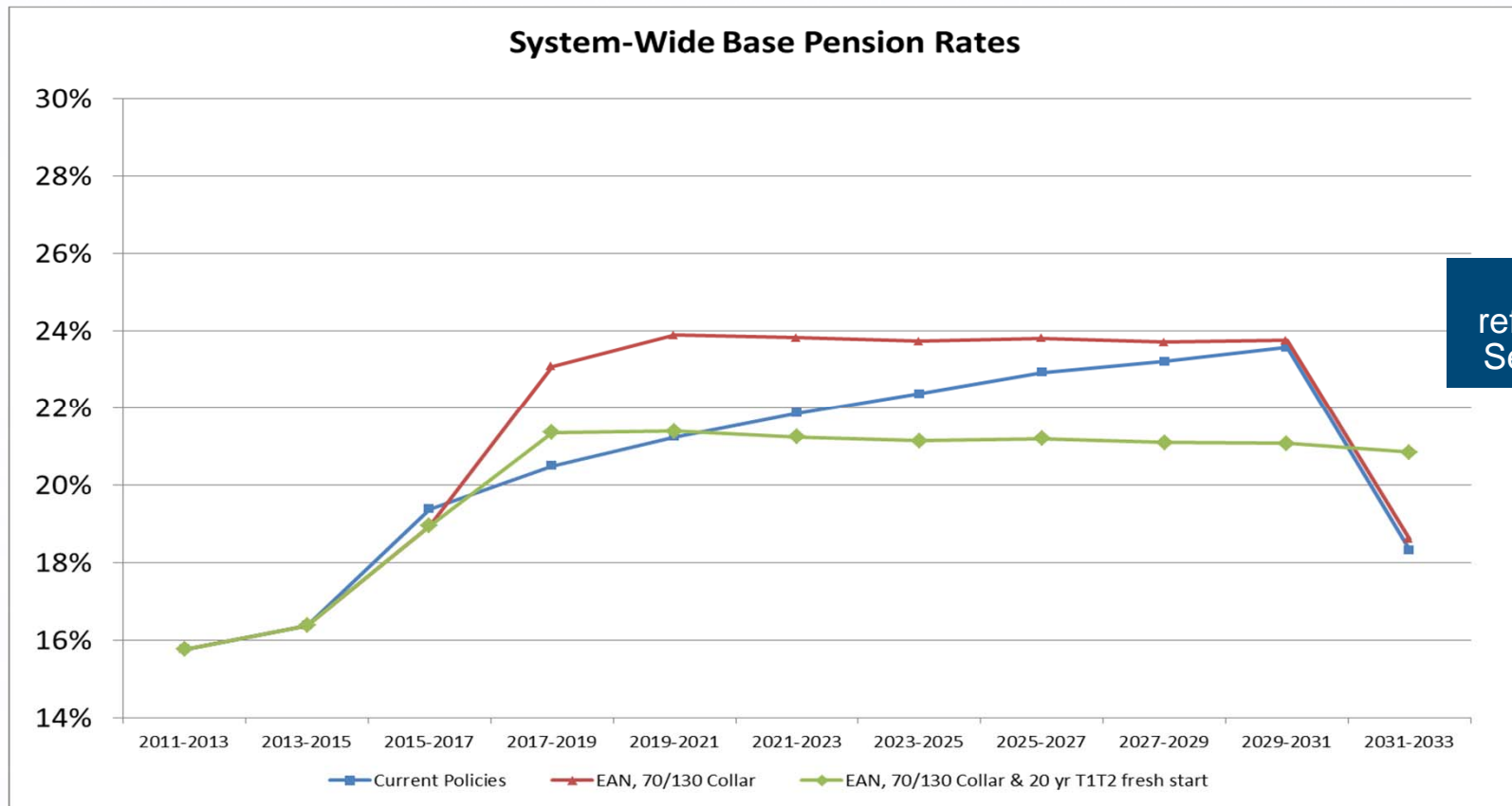
# Analysis of Recommended Changes

## Models and Inputs

- Policies can be compared with either a fixed return assumption or with a stochastic model that varies investment returns from year to year
- Modeling uses 12/31/2011 liabilities and assumptions, with **liabilities recalculated to reflect SB 822 changes**
- Modeling uses 12/31/2012 assets based on Board crediting decisions, and target investment policy selected by the OIC
- Modeling assumes 8% return assumption remains in place for duration of modeling period
- The model's results are a probability range instead of a single amount
  - The distribution is based on a stochastic simulation using 1,000 trials
  - Economic scenarios were developed by our national team that specializes in capital market models, and uses the OPERF asset allocation policy

# Analysis of Recommended Changes

- Comparison of policies under an 8.00% assumed return with 7.50% fixed actual asset return



Modeling assumes 8% valuation assumption used for duration of projection

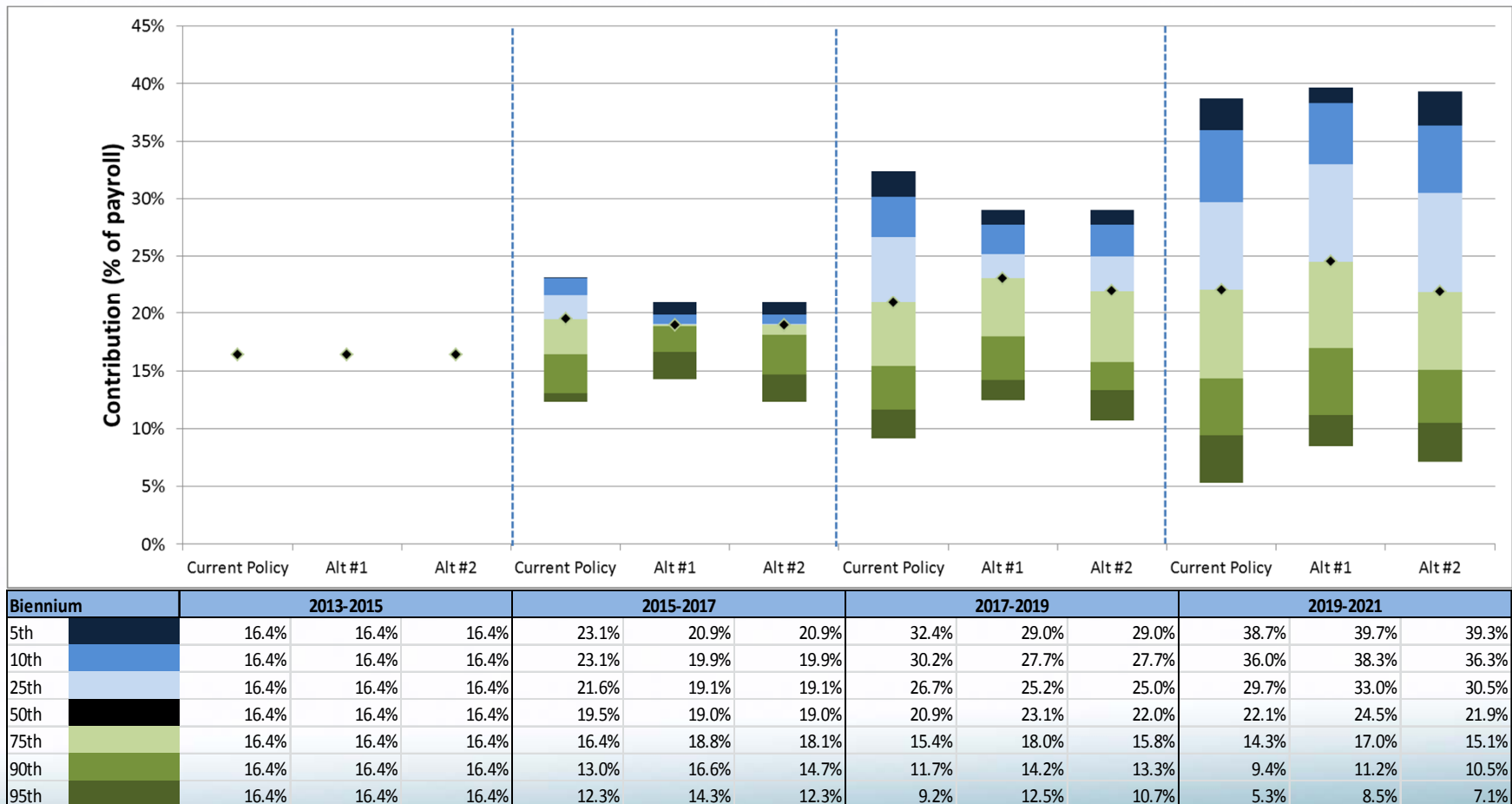
# Analysis of Recommended Changes

- A stochastic “stress test” allows assessment of the likelihood of certain events in the 1,000 scenarios modeled
  - Effect of policy changes on these probabilities can be instructive
- The stress test model’s probability of specified events occurring at some point during the 20-year projection period under both current and alternative policies is shown below

Likelihood of Event	Current Policy	Alternative #1: EAN & Move Collar Threshold	Alternative #2: EAN, Move Collar & 20 Year Re-amortization
Funded Status < 60%	49.4%	50.6%	53.7%
Funded Status < 40%	12.4%	11.8%	14.6%
Base Rate >30% of Pay	54.3%	56.5%	52.6%

# Analysis of Recommended Changes

- System average collared pension base rates with an 8% investment return assumption under 1,000 possible investment return scenarios



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# Long-Term Investment Return Assumption



# Uses of the Investment Return Assumption

- Uses of the long-term investment return assumption
  - As a “discount rate” for establishing the:
    - The actuarial accrued liability, which is a net present value
    - The associated unfunded actuarial liability, also called the UAL or actuarial shortfall
  - Guaranteed crediting level for regular Tier 1 active member account balances
  - Annuitization rate for converting member account balance to lifetime monthly Money Match benefits



Reflecting expectations for both investment earnings and benefit levels for certain members, the assumption helps set an appropriate glide path for employer contribution rates

# Return Assumption and the Shortfall

- At the 8% investment return assumption, money in hand today is forecast to be insufficient to fully satisfy member benefit promises allocated to service already completed
- In present-day dollars, the shortfall is the \$16 billion unfunded accrued liability (UAL) in the 12/31/2011 actuarial valuation
- \$16 billion is prior to adjustment for:
  - SB 822 benefit changes,
  - 2012 investment returns in excess of assumption,
  - A change to the EAN cost allocation method, or
  - Any downward adjustment to the investment return assumption

# Guidance to Set the Return Assumption

Given that we do not know what the fund will earn in the future, how should we proceed?

- Prudently select a best estimate
- Solicit forecasts from investment professionals
- Recognize that hoping for a result does not make it happen; the assumption does not affect actual investment returns
- Don't be myopic --- the objective is to make a sound 20-year estimate, not to get a single individual year right
- Neither ignore historical results nor be 100% beholden to them
- Since actual results will vary from assumption, review the forecasts' probability ranges and consider a margin for variance

# Investment Return 20-Year Forecasts

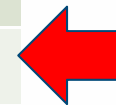
- To assist the Board, we have 20-year annualized return forecasts from two professional advisors
  - Strategic Investment Solutions (SIS)
  - Milliman
- Forecasts do not reflect any “alpha” due to managers potentially outperforming their peers and market benchmarks
- SIS consults to the Oregon Investment Council (OIC)
  - SIS provided us with their market outlook assumptions, which we placed into an industry standard mean/variance model
- Today’s speakers are not credentialed investment advisors
  - We are presenting results based on market outlook assumptions developed by Milliman’s credentialed investment professionals



# Investment Return 20-Year Forecasts

- Forecasts are based on OIC target long-term asset allocation, and have been updated to reflect June 2013 OIC target changes
  - Current actual allocation differs somewhat from the target allocation

Percentile	Milliman	SIS
25 <sup>th</sup>	5.64%	5.61%
35 <sup>th</sup>	6.46%	6.49%
45 <sup>th</sup>	7.21%	7.28%
<b>50<sup>th</sup></b>	<b>7.57%</b>	<b>7.66%</b>
55 <sup>th</sup>	7.93%	8.05%
65 <sup>th</sup>	8.68%	8.85%
75 <sup>th</sup>	9.53%	9.75%



50<sup>th</sup> percentile using OPERF's actual 5/31/2013 allocation produces 7.52% with Milliman assumptions

- In our opinion, the assumption should be lowered based on the data from the investment forecasts and review of the guiding principles

# Effects of Lowering the Return Assumption

- For many employers, an assumption change does not affect the forecasted 2015-2017 base contribution rate
  - The combined effects of the downturn and the 2013-2015 cost increase deferral mandated by SB 822 means that the rate collar will likely set the 2015-2017 rate for many employers
- An assumption change does affect the forecast long-term (20 year) contribution rate to restore the system funded status
- The return assumption identifies the projected cruising altitude of contribution rates, but the rate collar sets the climb's steepness --- and rates are still ascending
- An assumption change decreases long-term costs by lowering future projected Money Match benefits



# Effects of Lowering the Return Assumption

- A lower investment return assumption would produce higher reported liabilities and “cruising altitude” contribution rates
  - Modifies the forecast balance of the fundamental cost equation from earnings to contributions, so current assets are not assumed to cover as high a fraction of projected benefits
  - Effect of lowering the rate to 7.5% was previously estimated in November 2012 as a 3.0% of payroll increase in uncollared base rate
    - Lowering the return assumption to 7.75% would have approximately half as much rate impact --- 1.5% of payroll based on the November
    - SB 822 decreased plan liabilities since that estimate was made by 4%-5%
- For PERS, such a change would also lower benefits for future retirements calculated under Money Match as illustrated on the next slide

# Effects of Lowering the Return Assumption

- Lowering the assumed rate from 8.0% to either 7.75% or 7.50% would affect the Money Match calculation for a member age 59 ½ with a \$135,000 member account balance as of 6/30/2013 as shown

Benefit Commencement	7/1/2013	12/1/2013	1/1/2014	3/1/2014
Assumed Rate	8.00%	8.00%	7.75%	7.75%
Starting Benefit	\$2,093	\$2,172	\$2,144	\$2,176

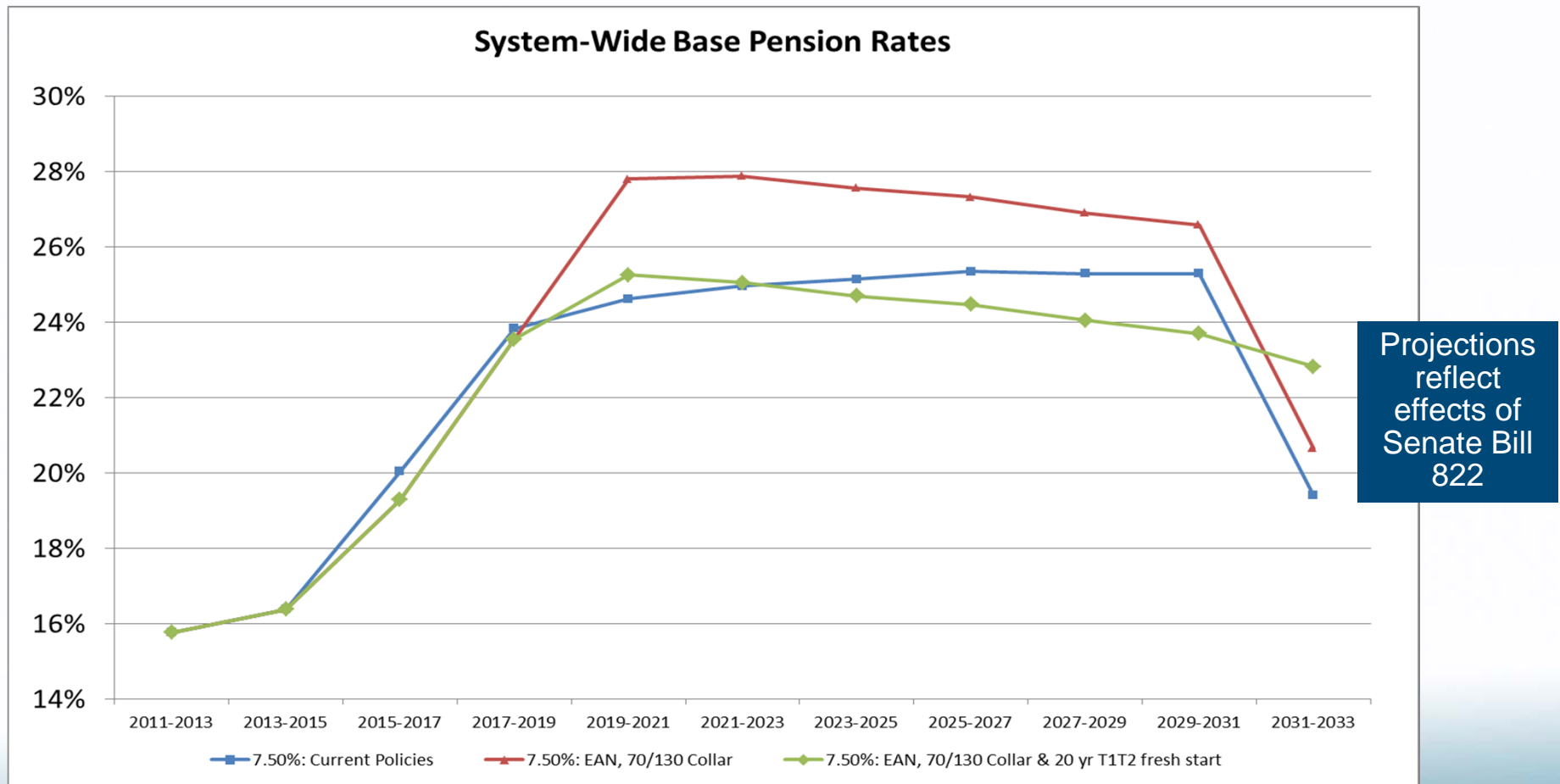
Benefit Commencement	7/1/2013	12/1/2013	1/1/2014	6/1/2014
Assumed Rate	8.00%	8.00%	7.50%	7.50%
Starting Benefit	\$2,093	\$2,172	\$2,099	\$2,177

- At a 7.75% rate it would take about three months without retirement for the December 2013 initial benefit level to be reached
  - At 7.50%, it would take about six months



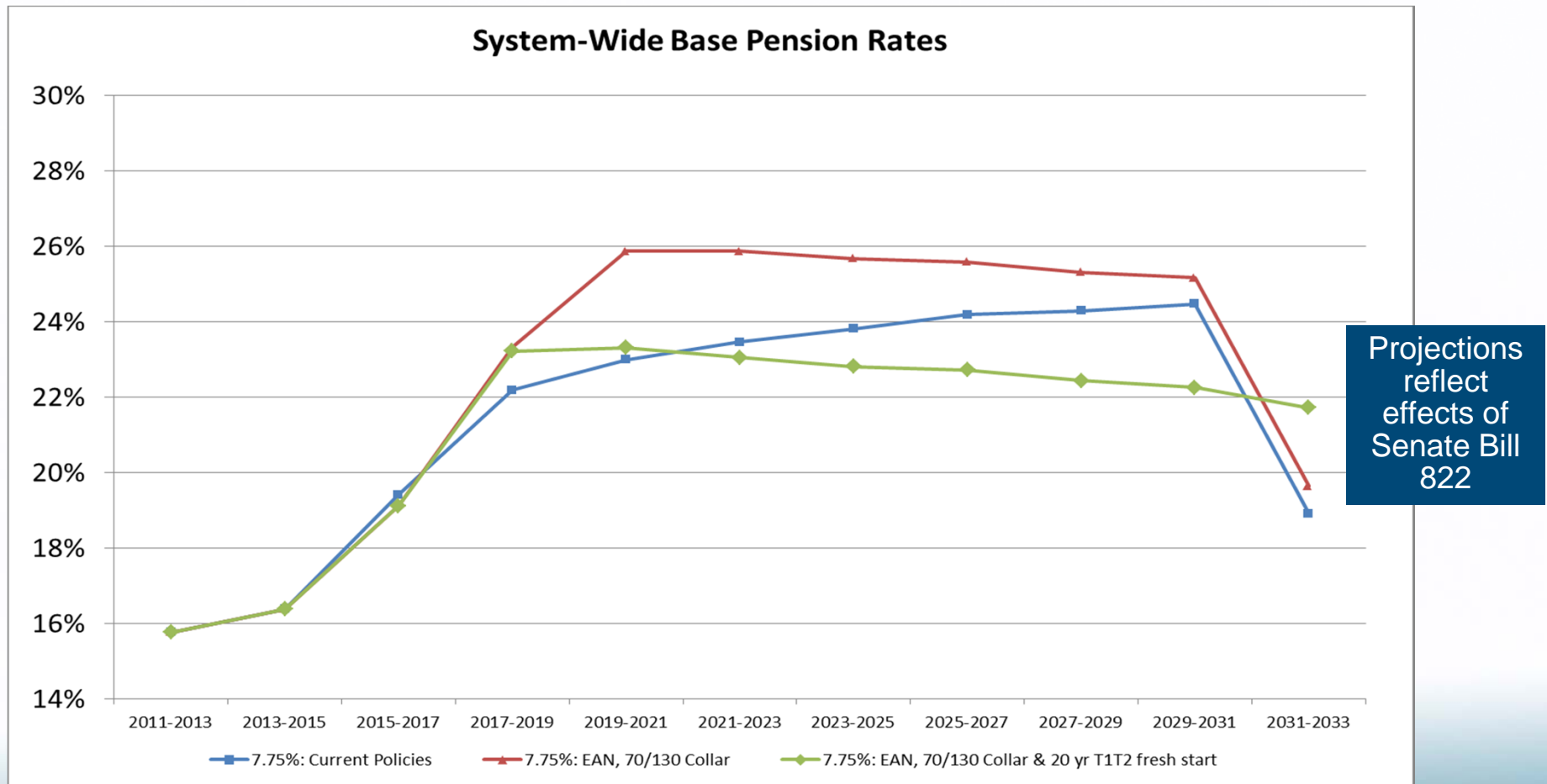
# Effects of Lowering the Return Assumption

- Comparison of policies under a 7.50% assumed return with 7.50% fixed actual asset return



# Effects of Lowering the Return Assumption

- Comparison of policies under a 7.75% assumed return with 7.50% fixed actual asset return



# Overview of Other Recommended Assumptions

# Other Recommended Assumptions

- We have statistically analyzed census data provided by PERS
  - Four years of data for most assumptions
  - Eight years of data for salary increases
- Recommended demographic assumptions were developed based on the statistical analysis
- With very limited exceptions, recommended assumptions are either identical or very similar to current assumptions
- Full details on the recommended assumptions are in our formal experience study report
- Economic assumptions were presented in May

# Highlights of Demographic Assumptions

- Salary assumption for school district employees continued its downward trend, especially for long service members
- For full career (30+ year) general service members:
  - Retirement rates in the early to mid-50 decreased
  - Retirement rates in the mid to late 60s increased
- Post-retirement medical program assumptions
  - Participation (RHIA & RHIPA)
  - Healthcare inflation assumption for RHIPA program
  - Effect of the above assumptions on funded status
- Final Average Salary adjustments

# Action Items - July Meeting

- Selection of a long-term investment return assumption for actuarial valuation
- Approval of recommendations for:
  - Cost allocation method: move to Entry Age Normal method
  - Shortfall amortization approach: decide whether to re-amortize UAL
  - Update to rate collar structure: set the grade-in range for the double collar as 70% to 60% funded status
- Approval of economic and demographic assumptions detailed in the 2012 Experience Study Report

Methods and assumptions adopted will be used in:

- December 31, 2012 “advisory” valuation that estimates 2015-2017 rates
- December 31, 2013 valuation that sets recommended 2015-2017 rates

# Caveats and Disclaimers

This presentation discusses actuarial methods and assumptions for use in the valuation of the Oregon Public Employees Retirement System (“PERS” or “the System”). For the most recent complete actuarial valuation results, including cautions regarding the limitations of use of valuation calculations, please refer to our formal Actuarial Valuation Report as of December 31, 2011 (“the Valuation Report”) published on October 26, 2012. The Valuation Report, including all supporting information regarding data, assumptions, methods, and provisions, is incorporated by reference into this presentation. The statements of reliance and limitations on the use of this material is reflected in the actuarial report and still apply to this presentation.

In preparing this presentation, we relied, without audit, on information (some oral and some in writing) supplied by the System’s staff, as well as capital market expectations provided by Strategic Investment Solutions (SIS) and Pension Consulting Alliance (PCA). This information includes, but is not limited to, statutory provisions, employee data, and financial information. We found this information to be reasonably consistent and comparable with information used for other purposes. The results depend on the integrity of this information. If any of this information is inaccurate or incomplete our results may be different and our calculations may need to be revised.

Milliman’s work product was prepared exclusively for Oregon PERS for a specific and limited purpose. It is a complex, technical analysis that assumes a high level of knowledge concerning PERS’ operations, and uses PERS’ data, which Milliman has not audited. It is not for the use or benefit of any third party for any purpose. To the extent that Milliman’s work is not subject to disclosure under applicable public records laws, Milliman’s work may not be provided to third parties without Milliman’s prior written consent. Milliman does not intend to benefit or create a legal duty to any third party recipient of its work product. Any third party recipient of Milliman’s work product who desires professional guidance should not rely upon Milliman’s work product, but should engage qualified professionals for advice appropriate to its own specific needs.

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

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

# Circular 230 Notice

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# Appendix

## Actuarial Basis

### Capital Market Assumptions - Milliman

For assessing the expected portfolio return under Milliman's capital market assumptions, we considered the Oregon PERS Fund to be allocated among the model's asset classes as shown below. This allocation is based on the Oregon Investment Council's Statement of Investment Objectives and Policy Framework for the Oregon PERS Fund, as revised December 18, 2012, and the updated asset allocation adopted at the June 26 2013 OIC meeting.

	Annual Arithmetic Mean	30-Year Annualized Geometric Mean	Annual Standard Deviation	Policy Allocation
US Large-Cap Equity	8.60%	7.20%	17.90%	11.65%
US Mid-Cap Equity	9.38%	7.30%	22.00%	3.88%
US Small-Cap Equity	10.38%	7.45%	26.40%	2.27%
Non-US Developed Equity	8.73%	6.90%	20.55%	14.20%
Emerging Markets Equity	11.51%	7.40%	31.70%	5.50%
Private Equity	11.95%	8.26%	30.00%	20.00%
US Universal Fixed Income	4.70%	4.50%	6.50%	7.20%
US Intermediate-Term Bonds	4.23%	4.10%	5.15%	3.00%
US Short-Term Bonds	3.70%	3.19%	10.50%	8.00%
High Yield Bonds	7.21%	6.66%	11.10%	1.80%
Real Estate	7.27%	6.51%	13.00%	13.75%
Global REITs	8.41%	6.76%	19.45%	2.50%
Commodities	7.71%	6.01%	19.70%	1.25%
Hedge Funds	6.46%	6.01%	10.00%	5.00%
US Inflation (CPI-U)		2.75%	2.00%	N/A
<b>Fund Total (reflecting asset class correlations)</b>	<b>8.39%</b>	<b>7.57%*</b>	<b>13.01%</b>	<b>100.00%</b>

\* Reflects 0.12% average reduction for investment expense and 0.05% reduction for administrative expenses.

# Appendix

## Actuarial Basis

### Capital Market Assumptions - SIS

For assessing the expected portfolio return under SIS's capital market assumptions, we applied the assumptions shown below provided by SIS.

	Annual Arithmetic Mean	Annual Standard Deviation	Policy Allocation	30-Year Annualized Geometric Mean	
US Large-Cap Equity	9.1%	17.5%	15.00%		
US Small-Cap Equity	9.8%	20.0%	3.75%		
Non-US Developed Equity	9.8%	20.0%	14.25%		
Emerging Markets Equity	12.2%	29.0%	4.50%		
Private Equity	12.9%	25.0%	20.00%		
US Universal Fixed Income	2.5%	5.0%	8.00%		
Bank Loans	4.4%	7.5%	3.00%		
Short Duration Fixed Income	1.1%	1.3%	8.00%		
High Yield Bonds	5.1%	11.0%	1.00%		
Real Estate	9.2%	21.5%	12.50%		
Absolute Return	5.4%	10.0%	2.50%		
Commodities	8.0%	30.0%	2.50%		
Infrastructure	9.1%	24.0%	2.50%		
Hard Assets	10.8%	28.0%	2.50%		
<b>Fund Total (reflecting asset class correlations)</b>	<b>8.71%</b>	<b>13.91%</b>	<b>100.0%</b>		<b>7.66%*</b>

\* Reflects 0.12% average reduction for investment expense and 0.05% reduction for administrative expenses.

# Appendix

## Actuarial Basis

### Data

We have based our projection of system liabilities on the data supplied by the Oregon Public Employees Retirement System (PERS) and summarized in the December 31, 2011 Actuarial Valuation (“2011 Valuation Report”) for Oregon PERS.

Assets as of December 31, 2011, were based on values provided by Oregon PERS as shown in the 2011 Valuation Report. Calendar year 2012 asset returns were assumed to be equal to the one-year returns published by the Oregon Investment Council as of December 31, 2012. For regular accounts, this was equal to a 14.29% return; for variable accounts, it is equal to a 16.98% return.

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

### Methods / Policies

*Actuarial Cost Method:* Projected Unit Credit, as described in the 2011 Valuation Report.

*Normal cost:* Normal cost increases with assumed wage growth adjusted for wage, demographic, and asset return experience (if applicable). Demographic experience follow assumptions described in the 2011 Valuation Report.

*Accrued liability:* Liabilities increase with normal cost and decrease with benefit payments. Results are adjusted for wage, demographic, and asset return experience (if applicable). Demographic experience follow assumptions described in the 2011 Valuation Report.

*Contribution Rates:* The projected contribution rates are calculated on each odd year valuation date in accordance with methodologies described in the 2011 Valuation Report. Rates are applied 18 months after the valuation date.

# Appendix

## Actuarial Basis

### Methods / Policies (cont'd)

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

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

For system-wide contribution rate projections, the entire Tier 1/Tier 2 program was treated as a single rate pool.

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

*Actuarial Value of Assets:* Equal to Market Value of Assets excluding Contingency and Tier 1 Rate Guarantee Reserves. The Tier 1 Rate Guarantee Reserve is not excluded from assets if it is negative (i.e. in deficit status).

# Appendix

## Actuarial Basis

### Assumptions

In general, all assumptions are as described in the 2011 Valuation Report.

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

- Valuation interest rate – 8.00%
- Tier 1 Regular account growth – 8.00%
- Actual fund investment return– Varies by scenario according to capital market assumptions
- Variable account growth – 0.25% greater than fund investment return
- Inflation assumption – 2.75%
- Inflation experience – Varies by scenario according to capital market assumptions
- Wage growth assumption – 3.75%
- Wage growth experience– 1.00% greater than inflation experience
- Demographic experience – as described in 2011 Valuation report

# Appendix

## Actuarial Basis

### Reserve Projection

Contingency Reserve as of 12/31/2012 was assumed to be \$603.7M, based on the PERS Board's preliminary 2012 crediting decisions. No future increases or decreases to this reserve were assumed.

The Tier 1 Rate Guarantee Reserve ("RGR") was assumed to be -\$19.8M (i.e., in deficit status) as of 12/31/2012, based on the PERS Board's preliminary 2012 crediting decisions. The reserve was assumed to grow with returns in excess of 8% on Tier 1 Member Accounts. When aggregate returns were below 8%, applicable amounts from the RGR were transferred to Tier 1 Member Accounts to maintain the 8% target growth on the member accounts. The RGR reserve is allowed to be negative, but the reserve is not excluded from valuation assets when it is negative. We did not include in rates any potential additional employer levy that could be required to eliminate a persistent negative RGR.

### Provisions

Provisions valued are as described in the 2011 Valuation Report.

# Appendix

## Actuarial Basis

### Capital Market Model

For each 20-year projection, we ran 1,000 stochastic scenarios for inflation and asset class rates of return. The scenarios were calibrated to represent Milliman's capital market assumptions in terms of expected average returns, the expected year-to-year volatility of the returns, and the expected correlation between the returns of different asset classes. Annual rates of return for each of the asset classes and inflation are generated from a multivariate lognormal probability distribution. Rates of return are independent from year to year.

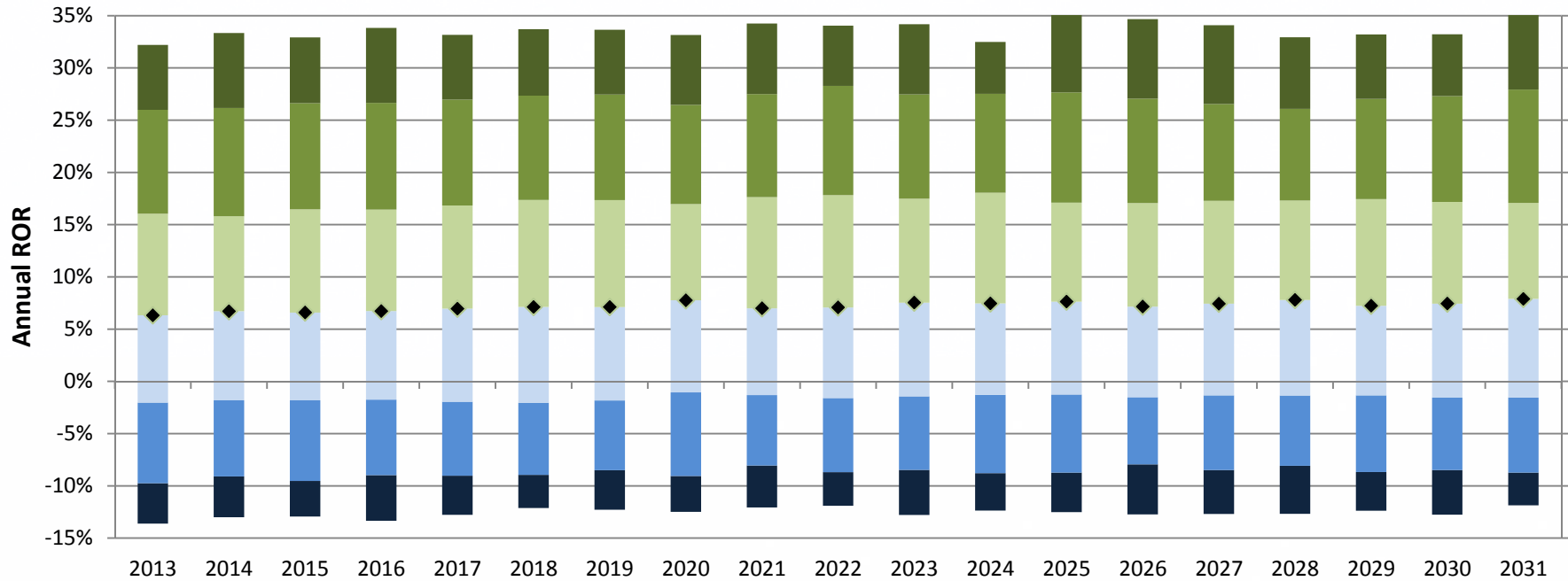
For this purpose, we considered the Oregon PERS Fund to be allocated among the model's asset classes as shown below. This allocation is based on the Oregon Investment Council's Statement of Investment Objectives and Policy Framework for the Oregon PERS Fund, as revised December 18, 2012.

	Annual Arithmetic Mean	30-Year Annualized Geometric Mean	Annual Standard Deviation	Policy Allocation
US Large/Mid-Cap Equity	8.75%	7.25%	18.45%	17.81%
US Small-Cap Equity	9.70%	7.35%	23.45%	2.61%
Non-US Developed Large/Mid-Cap Equity	9.00%	7.10%	21.30%	15.20%
Non-US Developed Small-Cap Equity	9.80%	7.70%	22.15%	2.17%
Emerging Markets Equity	11.25%	7.50%	30.10%	5.21%
Private Equity	11.70%	8.00%	30.00%	16.00%
US Universal Fixed Income	5.00%	4.90%	4.10%	15.25%
Emerging Market Bonds	7.30%	6.25%	15.25%	2.50%
Leveraged Loans	6.90%	6.40%	10.20%	5.00%
High Yield	7.80%	7.25%	11.05%	2.50%
Real Estate	7.10%	6.50%	12.00%	10.30%
Global REITs	8.90%	6.60%	23.15%	2.20%
Natural Resources	6.55%	6.25%	8.30%	2.25%
Hedge Funds	6.50%	6.25%	7.35%	1.00%
US Inflation (CPI-U)	2.75%	2.75%	1.70%	N/A
<b>Fund Total (reflecting asset class correlations)</b>	<b>8.45%</b>	<b>7.60%</b>	<b>14.25%</b>	<b>100.00%</b>

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# PERS Fund Rate of Return

## Annual Investment Return

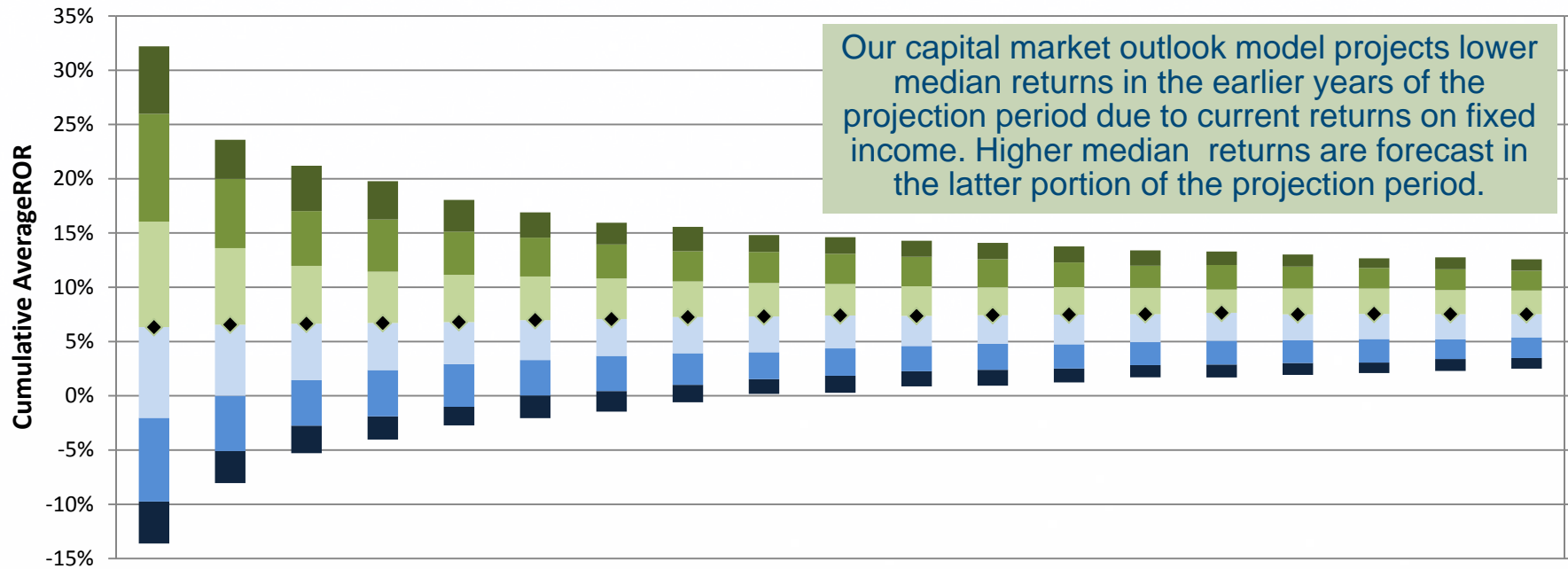


PY Ending 12/31	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
95th	32.2%	33.3%	32.9%	33.8%	33.2%	33.7%	33.7%	33.2%	34.2%	34.0%	34.2%	32.5%	35.2%	34.7%	34.1%	32.9%	33.2%	33.2%	36.1%
90th	26.0%	26.2%	26.6%	26.7%	27.0%	27.4%	27.5%	26.5%	27.5%	28.3%	27.5%	27.5%	27.7%	27.1%	26.5%	26.1%	27.0%	27.3%	27.9%
75th	16.0%	15.8%	16.5%	16.4%	16.8%	17.4%	17.3%	17.0%	17.6%	17.8%	17.5%	18.1%	17.1%	17.1%	17.3%	17.3%	17.4%	17.2%	17.1%
50th	6.3%	6.7%	6.6%	6.7%	7.0%	7.1%	7.1%	7.8%	7.0%	7.1%	7.5%	7.5%	7.6%	7.2%	7.4%	7.8%	7.2%	7.4%	7.9%
25th	-2.0%	-1.8%	-1.8%	-1.7%	-1.9%	-2.0%	-1.8%	-1.1%	-1.3%	-1.6%	-1.4%	-1.3%	-1.3%	-1.5%	-1.3%	-1.4%	-1.3%	-1.6%	-1.5%
10th	-9.7%	-9.1%	-9.5%	-9.0%	-9.0%	-8.9%	-8.5%	-9.0%	-8.1%	-8.7%	-8.5%	-8.8%	-8.7%	-7.9%	-8.5%	-8.1%	-8.7%	-8.5%	-8.7%
5th	-13.6%	-13.0%	-12.9%	-13.3%	-12.8%	-12.1%	-12.3%	-12.5%	-12.1%	-11.9%	-12.8%	-12.4%	-12.5%	-12.7%	-12.7%	-12.7%	-12.4%	-12.8%	-11.9%



# PERS Fund Rate of Return

## Annualized Average Post-2012 Investment Return (Geometric Average)



PY Ending 12/31	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
95th	32.2%	23.6%	21.2%	19.8%	18.1%	16.9%	16.0%	15.6%	14.8%	14.6%	14.3%	14.1%	13.8%	13.4%	13.3%	13.0%	12.7%	12.8%	12.6%
90th	26.0%	20.0%	17.0%	16.2%	15.1%	14.6%	13.9%	13.3%	13.3%	13.1%	12.8%	12.6%	12.3%	12.0%	12.1%	11.9%	11.8%	11.7%	11.5%
75th	16.0%	13.6%	12.0%	11.4%	11.2%	11.0%	10.8%	10.5%	10.4%	10.3%	10.1%	10.0%	10.0%	9.9%	9.8%	9.9%	9.9%	9.7%	9.7%
50th	6.3%	6.6%	6.6%	6.7%	6.8%	7.0%	7.1%	7.3%	7.3%	7.4%	7.4%	7.4%	7.5%	7.5%	7.6%	7.5%	7.6%	7.5%	7.5%
25th	-2.0%	0.0%	1.5%	2.4%	2.9%	3.3%	3.7%	3.9%	4.0%	4.4%	4.6%	4.8%	4.8%	4.9%	5.1%	5.1%	5.2%	5.2%	5.4%
10th	-9.7%	-5.1%	-2.7%	-1.9%	-1.0%	0.0%	0.4%	1.0%	1.5%	1.8%	2.3%	2.4%	2.5%	2.8%	2.9%	3.0%	3.1%	3.4%	3.5%
5th	-13.6%	-8.1%	-5.3%	-4.0%	-2.7%	-2.1%	-1.5%	-0.6%	0.2%	0.3%	0.9%	0.9%	1.2%	1.7%	1.7%	1.9%	2.1%	2.3%	2.5%