

# OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM BOARD MEETING

Monday March 31, 2014 1:00 P.M.		PERS 11410 SW 68 <sup>th</sup> Parkway Tigard, OR	
ITEM		PRESENTER	
<b>A. Administration</b>			
1.	January 31, 2014 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. Budget Execution Report</li> <li>d. Society of Actuaries Blue Ribbon Panel Report on Public Pension Plan Funding</li> </ul>	CLEARY	
<b>B. Administrative Rulemaking</b>			
1. 2. 3. 4.	Adoption of Receipt Date Rule Adoption of RHIPA Rules Adoption of Model Rules of Procedure Rule Adoption of SB 861 Rule	RODEMAN	
<b>C. Action and Discussion Items</b>			
1. 2. 3.	2014 Legislative Session Review and 2015 Proposed Legislative Concepts 2015-17 Budget Development and Strategic Planning Update Final 2013 Earnings Crediting and Reserving	TAYLOR  RODEMAN  HOWITT / RODEMAN	
<b>D. Executive Session Pursuant to ORS 192.660(2)(f), (h), and/or ORS 40.225</b>			
1.	Litigation Update	LEGAL COUNSEL	

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

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**Remaining 2014 Meetings:    May 30    July 25    September 26    November 21**



**OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**BOARD MEETING MINUTES**

January 31, 2014

**Board Members:**

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

**Staff:**

Donna Allen	Debra Hembree	Beth Porter
Linda Barnett	Rick Howitt	Steve Rodeman
Paul Cleary	Danielle Keyser	Marjorie Taylor
David Crosley	Kyle Knoll	Stephanie Vaughn
Yvette Elledge	Mini Kobbervig	Dale Wakabayashi
Brian Harrington	Jordan Masanga	Ann Marie Vu

**Others:**

Linda Agee	Debra Guzman	Keith Kutler	Deborah Tremblay
Robert Burket	Greg Hartman	David Lacy	Vickie West
Alison Chan	Celia Heron	Elizabeth McCann	

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

**ADMINISTRATION**

**A.1. BOARD MEETING MINUTES OF NOVEMBER 22, 2013**

The Board unanimously approved the minutes from the November 22, 2013 Board meeting.

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

Executive Director Paul Cleary introduced PERS new Chief Information Officer (CIO) Jordan Masanga who replaced Jeff Marecic after Marecic moved to be the CIO for the North Carolina unified court system.

Cleary reviewed the 2014 Forward Looking Calendar by month noting that final 2013 Earnings Crediting and Reserving will be presented at the March 31 meeting.

Presenting the OPERF investment returns for the period ending December 31, 2013, Cleary noted the year-end regular account returns were 15.59 percent and the variable returns were 23.7 percent for the same period, and that the net asset value of the fund was a record high of \$67.9 billion.

Cleary presented the Budget Execution Report for year-end 2013 showing a positive variance of 2.3% for the first quarter of the 2013-15 biennium and also reported that the final positive variance for the 2011-13 biennium was approximately 5.5% of the operating budget of \$77,260,820.

Cleary provided an update on the Final Average Salary Audit finding regarding potential overpayments to a subset of Tier 2 and OPSRP retirees' full formula calculations that were effected by a 2005 statutory change that was missed in the agency's legislation implementation. Cleary said staff is working with Milliman actuaries to further research and evaluate potential options for resolution of the audit finding.

Cleary reported on the status of the SB 822 Out of State Tax Remedy Elimination project, noting that PERS had worked with the Department of Revenue to try to identify benefit recipients who receive the tax remedy that are not subject to Oregon person income tax because they are not residents of Oregon. Cleary said that individual tax remedy payments will be restored to members who certify they are Oregon residents based on when the member returns the form to PERS.

Cleary provided a report from Chief Auditor Jason Stanley on the Director's Fiscal Year 2013 Financial Transactions, which had been reviewed in detail by the Audit Committee. Board member Michael Jordan moved and Board member Rhoni Wiswall seconded to acknowledge receipt of the report of Executive Director's financial transactions as presented. The motion passed unanimously.

### **ADMINISTRATIVE RULEMAKING**

#### **B.1. NOTICE OF RECEIPT DATE RULE**

Deputy Director Steve Rodeman presented the notice of rulemaking for the Receipt Date Rule that will modify the date that imaged items are considered to be filed and received and clarify that the receipt stamp satisfies the requirement for other recorded items. Rodeman said that a rulemaking hearing will be held on February 25 and the public comment period ends on March 4. The Receipt Date Rule will be presented for adoption at the March meeting. No Board action was required.

#### **B.2. NOTICE OF RETIREE HEALTH INSURANCE PREMIUM ACCOUNT RULES**

Rodeman presented the notice of rulemaking for the Retiree Health Insurance Premium Account (RHIPA) Rules to clarify participant eligibility and service time used in apportioning the health insurance premium. Rodeman said that a rulemaking hearing will be held on February 25 and the public comment period ends on March 4. The RHIPA Rules will be presented for adoption at the March meeting. No Board action was required.

#### **B.3. NOTICE OF MODEL RULES OF PROCEDURE RULE**

Rodeman presented notice of rulemaking for the Model Rules of Procedure Rule to reflect the Attorney General's updated administrative procedure rules. Rodeman said that a rulemaking hearing will be held on February 25 and the public comment period ends on March 4. The Model Rules of Procedure Rule will be presented for adoption at the March meeting. No Board action was required.

#### **B.4. ADOPTION OF SENATE BILL 861 RULES**

Rodeman updated the Board on the status of the Senate Bill 861 Rules and proposed that this item be postponed to the March meeting to accommodate further staff and Department of Justice review.

#### **B.5. ADOPTION OF FINAL AVERAGE SALARY RULE**

Rodeman presented the Final Average Salary Rule for adoption. This rule clarifies the determination of "final average salary" for Tier Two and OPSRP member retirement calculations.

Board member Pat West moved and Wiswall seconded to adopt modifications to the Final Average Salary Rule, as presented. The motion passed unanimously.

**B.6. ADOPTION OF DATA VERIFICATION DISPUTES RULE**

Rodeman presented the Data Verification Disputes Rule for adoption. This rule clarifies which administrative review process applies to data verification disputes.

Board member Wiswall moved and Krystal Gema seconded to adopt modifications to the Data Verification Disputes Rule, as presented. The motion passed unanimously.

**B.7. ADOPTION OF IRC AND SOCIAL SECURITY LIMITATIONS RULES**

Rodeman presented the IRC and Social Security Limitation Rules modifications for adoption. Rodeman said modifications to the rules would reflect the 2014 Internal Revenue Code and Social Security annual compensation limitations.

Board member West moved and Jordan seconded to adopt the IRC and Social Security Limitation Rules, as presented. The motion passed unanimously.

**ACTION AND DISCUSSION ITEMS**

**C.1. PERS HEALTH INSURANCE SPECIAL OPEN ENROLLMENT PERIOD**

PERS Health Insurance Manager Mini Kobbervig presented a proposal for a special enrollment period to offer PHIP enrollment to same-sex spouses and their eligible dependents that were previously excluded because of the federal law limitation (Section 3 of the Defense of Marriage Act) that was struck down last summer by the U.S. Supreme Court.

Board member Wiswall moved and Gema seconded to designate an open enrollment period for PHIP from February 1, 2014 through April 30, 2014 for persons eligible to participate in PHIP and their same-sex spouses and eligible dependents, as presented. The motion passed unanimously.

**C.2. 2014 LEGISLATIVE SESSION PREVIEW AND 2015 PRELIMINARY LEGISLATIVE CONCEPTS**

Senior Policy Advisor Marjorie Taylor presented a preview of the 2014 legislative session and noted possible agency legislative concepts for the 2015 session. Taylor noted the agency had two budget-related requests for the 2014 session and was also working with PERS employers on a GASB 68 implementation bill.

**C.3. PRELIMINARY 2013 EARNINGS CREDITING AND RESERVING**

Rodeman presented the 2013 Preliminary Earnings Crediting and Reserving report and staff's recommendation for preliminary crediting of earnings for calendar year 2013. The Board discussed the staff recommendation to adopt Option 3 on a preliminary basis subject to final adoption at the March meeting. Under that option, the Contingency Reserve would be maintained at approximately 1% of the PERS Regular Account year-end balance. Rodeman and Cleary answered questions from the Board on Contingency Reserve levels and potential uses.

Board member Wiswall moved and Gema seconded to adopt the staff recommendations on 2013 preliminary earnings crediting and reserving as presented. The motion passed unanimously.

Rodeman also requested that the Board designate \$65 million of the Contingency Reserve balance to cover the estimated cost of the six years of supplementary payments required by SB 861. Rodeman answered questions from the Board on the supplementary benefit payments formula and schedule.

Board member Jordan moved and West seconded to adopt the staff recommendation to earmark \$65 million of the Contingency Reserve balance for the supplementary payments required by SB 861. The motion passed unanimously.

Thomas adjourned the Board meeting at 2:25 PM.

Respectfully submitted,

A handwritten signature in black ink that reads "Paul R. Cleary". The signature is written in a cursive style with a large, sweeping initial "P".

Paul R. Cleary  
Executive Director

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

### **Friday, May 30, 2014**

Notice of 2014 Legislation Rules  
Notice of OSGP Rules  
Notice of OPSRP Disability Rule  
2015-17 Agency Budget Development and Strategic Plan Update  
2015 Retiree Health Insurance Plan Renewals and Rates

### **Friday, July 25, 2014**

Adoption of 2014 Legislation Rules  
Adoption of OSGP Rules  
Adoption of OPSRP Disability Rule  
2013 Systemwide Valuation Results  
2015-17 Agency Request Budget Approval  
Audit Committee Meeting

### **Friday, September 26, 2014**

2015-17 Employer Rate Adoption

### **Friday, November 21, 2014**

Approval to File 2015 Final Legislative Concepts  
Audit Committee Meeting





Returns for periods ending 2/28/14

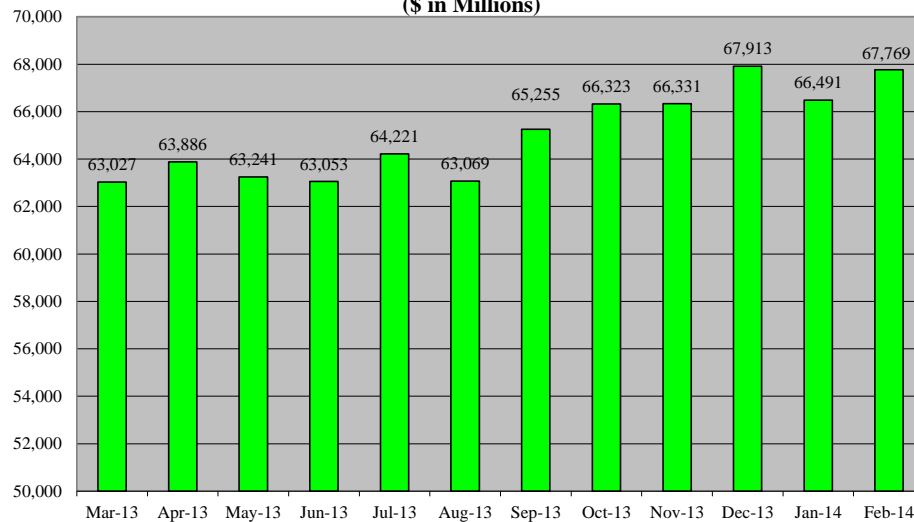
Oregon Public Employees Retirement Fund

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	32.5-42.5%	37.5%	\$ 27,742,645	41.4%	1.14	21.86	15.99	9.82	13.27	21.27	4.48	7.33
Private Equity	16-24%	20%	13,926,112	20.8%	0.00	16.19	15.30	13.87	14.50	10.45	9.49	14.82
<b>Total Equity</b>	<b>52.5-62.5%</b>	<b>57.5%</b>	<b>41,668,757</b>	<b>62.2%</b>								
Opportunity Portfolio			826,723	1.2%	1.56	14.89	15.60	10.57	11.81	17.28	7.68	
<b>Total Fixed</b>	<b>15-25%</b>	<b>20%</b>	<b>15,790,122</b>	<b>23.6%</b>	<b>1.52</b>	<b>2.07</b>	<b>4.89</b>	<b>5.73</b>	<b>6.79</b>	<b>10.89</b>	<b>6.53</b>	<b>6.11</b>
Real Estate	9.5-15.5%	12.5%	7,545,961	11.3%	0.91	13.31	12.78	13.46	9.86	6.31	2.99	9.65
Alternative Investments	0-10%	10%	1,110,423	1.7%	0.79	7.04	3.09					
Cash	0-3%	0%	76	0.0%	0.18	0.68	0.90	0.77	0.79	1.14	1.65	2.18
<b>TOTAL OPERF Regular Account</b>		<b>100%</b>	<b>\$ 66,942,062</b>	<b>100.0%</b>	<b>0.97</b>	<b>14.29</b>	<b>12.63</b>	<b>10.03</b>	<b>11.49</b>	<b>14.54</b>	<b>5.51</b>	<b>7.86</b>
<b>OPERF Policy Benchmark</b>					<b>0.63</b>	<b>13.85</b>	<b>13.26</b>	<b>10.18</b>	<b>11.33</b>	<b>13.96</b>	<b>5.81</b>	<b>7.57</b>
Value Added					<b>0.34</b>	<b>0.44</b>	<b>(0.63)</b>	<b>(0.15)</b>	<b>0.16</b>	<b>0.58</b>	<b>(0.30)</b>	<b>0.29</b>
<b>TOTAL OPERF Variable Account</b>			<b>\$ 826,647</b>		<b>1.02</b>	<b>19.17</b>	<b>14.53</b>	<b>8.98</b>	<b>12.35</b>	<b>20.46</b>	<b>3.14</b>	<b>5.27</b>

Asset Class Benchmarks:

Russell 3000 Index	1.43	26.74	20.01	14.58	16.93	23.86	6.68	7.67
MSCI ACWI Ex US IMI Net	0.63	12.94	9.80	4.20	8.41	17.91	2.53	7.63
MSCI ACWI IMI Net	0.97	19.02	14.15	8.61	11.99	20.35	4.13	7.27
Russell 3000 Index + 300 bps--Quarter Lagged	N/A	25.19	29.53	20.22	18.71	14.50	9.83	11.94
Oregon Custom FI Benchmark	1.20	1.23	3.76	4.95	5.03	6.21	5.37	5.00
NCREIF Property Index--Quarter Lagged	N/A	11.00	11.00	12.67	10.92	3.35	5.51	8.66
91 Day T-Bill	0.01	0.08	0.10	0.09	0.10	0.12	0.98	1.68

**TOTAL OPERF NAV**  
(includes variable fund assets)  
One year ending February 2014  
(\$ in Millions)



<sup>1</sup>OIC Policy 4.01.18, as revised October 2013.

<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 1/31/14

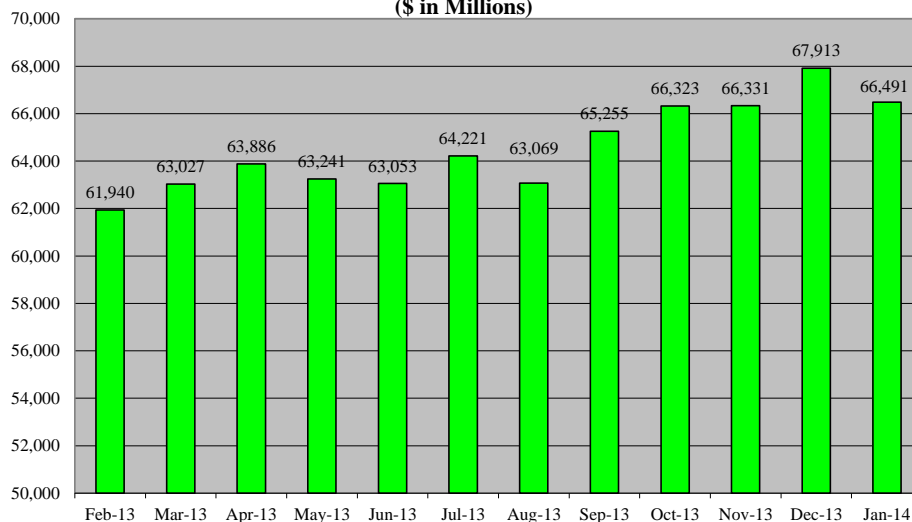
Oregon Public Employees Retirement Fund

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	32.5-42.5%	37.5%	\$ 26,526,710	40.4%	(3.63)	16.21	16.18	9.18	12.21	17.75	3.68	6.99
Private Equity	16-24%	20%	14,124,243	21.5%	0.00	16.19	15.30	13.87	14.50	10.45	9.49	14.82
<b>Total Equity</b>	<b>52.5-62.5%</b>	<b>57.5%</b>	<b>40,650,953</b>	<b>61.9%</b>								
Opportunity Portfolio			824,935	1.3%	(1.47)	11.48	15.17	10.28	11.09	16.66	7.22	
<b>Total Fixed</b>	<b>15-25%</b>	<b>20%</b>	<b>15,640,840</b>	<b>23.8%</b>	<b>0.91</b>	<b>1.87</b>	<b>5.10</b>	<b>5.76</b>	<b>6.75</b>	<b>10.37</b>	<b>6.67</b>	<b>6.15</b>
Real Estate	9.5-15.5%	12.5%	7,494,450	11.4%	0.02	12.35	12.51	13.44	9.89	5.78	2.88	9.61
Alternative Investments	0-10%	10%	1,067,737	1.6%	(0.15)	5.82	2.61					
Cash	0-3%	0%	14,177	0.0%	0.09	0.68	0.95	0.79	0.79	1.08	1.70	2.18
<b>TOTAL OPERF Regular Account</b>		<b>100%</b>	<b>\$ 65,693,092</b>	<b>100.0%</b>	<b>(1.32)</b>	<b>11.86</b>	<b>12.59</b>	<b>9.75</b>	<b>11.04</b>	<b>13.04</b>	<b>5.17</b>	<b>7.74</b>
<b>OPERF Policy Benchmark</b>					<b>(1.46)</b>	<b>11.58</b>	<b>13.49</b>	<b>9.93</b>	<b>10.93</b>	<b>12.41</b>	<b>5.49</b>	<b>7.48</b>
Value Added					<b>0.14</b>	<b>0.28</b>	<b>(0.90)</b>	<b>(0.18)</b>	<b>0.11</b>	<b>0.63</b>	<b>(0.32)</b>	<b>0.26</b>
<b>TOTAL OPERF Variable Account</b>			<b>\$ 798,105</b>		<b>(3.65)</b>	<b>13.84</b>	<b>14.63</b>	<b>8.33</b>	<b>11.42</b>	<b>16.93</b>	<b>2.14</b>	<b>4.93</b>

Asset Class Benchmarks:

Russell 3000 Index	(3.16)	22.60	19.72	14.18	16.55	20.03	5.72	7.32
MSCI ACWI Ex US IMI Net	(4.22)	6.56	10.14	3.34	7.06	14.51	1.89	7.37
MSCI ACWI IMI Net	(3.73)	13.59	14.23	7.93	11.04	16.78	3.37	6.97
Russell 3000 Index + 300 bps--Quarter Lagged	N/A	25.19	29.53	20.22	18.71	14.50	9.83	11.94
Oregon Custom FI Benchmark	0.80	1.20	3.97	4.91	5.03	6.04	5.53	5.07
NCREIF Property Index--Quarter Lagged	N/A	11.00	11.00	12.67	10.92	3.35	5.51	8.66
91 Day T-Bill	0.01	0.08	0.10	0.10	0.10	0.13	1.03	1.69

**TOTAL OPERF NAV**  
(includes variable fund assets)  
One year ending January 2014  
(\$ in Millions)



<sup>1</sup>OIC Policy 4.01.18, as revised October 2013.

<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

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)

March 31, 2014

TO: Members of the PERS Board  
FROM: Kyle J. Knoll, Financial & Administrative Services Division Administrator  
SUBJECT: March 2014 Board Report

### 2013-15 OPERATIONS BUDGET

Operating expenditures for January and February 2014 were \$3,525,708 and \$3,222,101 respectively.

- To date, through the first eight months (33.3%) of the 2013-15 biennium, the Agency has expended a total of \$24,864,833, or 30.4% of PERS' legislatively adopted operations budget of \$81,691,343.
- The current projected positive variance is \$2,330,845, or approximately 2.85% of the operations budget. The positive variance increased primarily through continued vacancy savings and adjustments to payroll projections and software maintenance renewals.
- Funding increases of \$2,409,941 for 2013-15 salary and COLA adjustments, and \$718,750 for Phase Two of the project to move the administration of the Individual Account Program from a third-party administrator to PERS were included in House Bill 5201, currently pending signature by Governor Kitzhaber. After Governor Kitzhaber's approval, those funding increases will be reflected in the May 2014 budget report to the Board.

### SENATE BILLS 822 and 861 BUDGET

These separate budget limitations were approved by the legislature in 2013 and 2014 for the administrative costs to implement the COLA modifications for 2013 and beyond; remove tax remedy benefits for recipients who do not pay Oregon income taxes because they do not reside in Oregon; implement the six-year supplementary payments program; and recalculate employer contribution rates effective July 1, 2013.

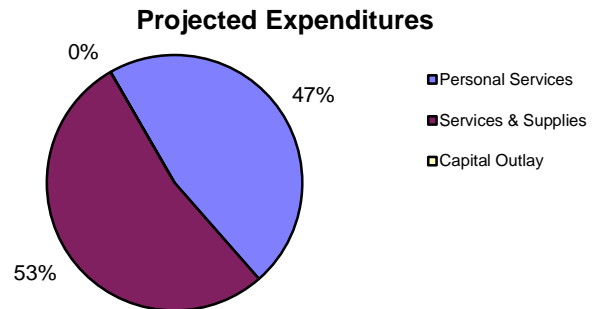
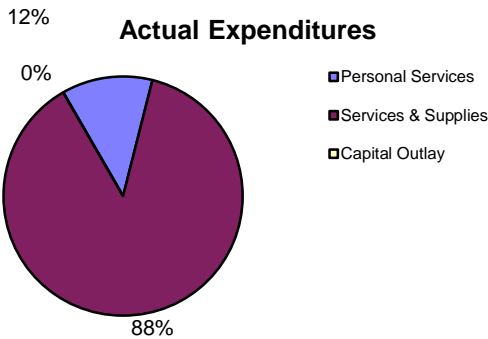
- Expenditures to date for SB 822 total \$220,784, or 21.9% of the legislatively adopted budget of \$1,008,151.
- The current projected variance is \$78,730, or 7.81% of the SB 822 budget.
- A funding increase of \$1,022,945 for the implementation of SB 861 was provided by the 2014 legislature and, after the Governor's approval of HB 5201, will be reflected in the May 2014 budget report to the Board.



**2013-15 SB822 Project - Budget Execution  
Summary Budget Analysis  
For the Month of: February 2014**

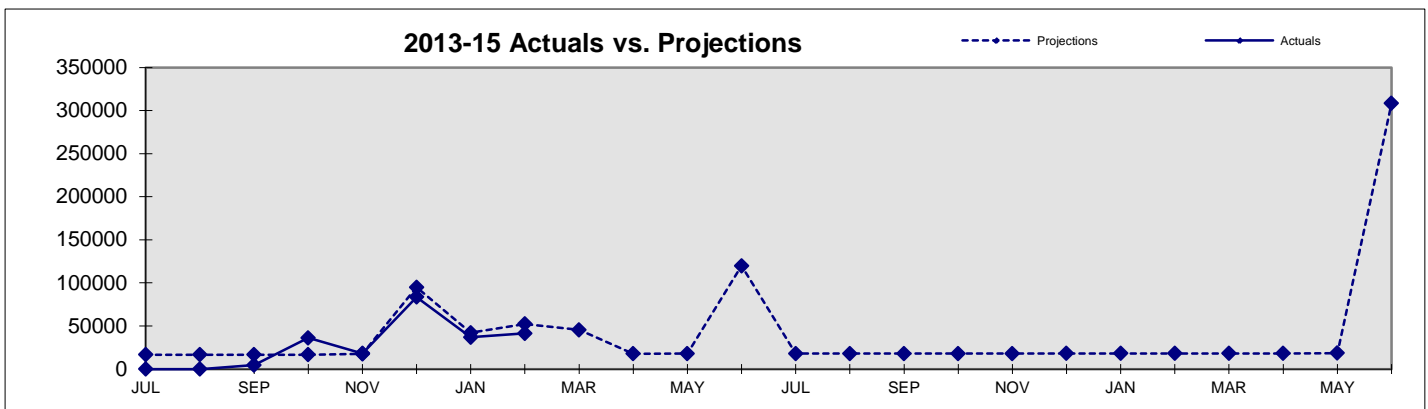
**Biennial Summary**

Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expend.	2013-15 LAB	Variance
Personal Services	27,099	332,119	359,218	435,018	75,800
Services & Supplies	193,685	376,518	570,203	573,133	2,930
Capital Outlay					
<b>Total</b>	<b>220,784</b>	<b>708,637</b>	<b>929,421</b>	<b>1,008,151</b>	<b>78,730</b>



**Monthly Summary**

Category	Actual Exp.	Projections	Variance	Avg. Monthly Actual Exp.	Avg. Monthly Projected Exp.
Personal Services	6,554	17,715	11,161	3,387	20,757
Services & Supplies	34,791	34,635	(156)	24,211	23,532
Capital Outlay					
<b>Total</b>	<b>41,345</b>	<b>52,350</b>	<b>11,005</b>	<b>27,598</b>	<b>44,289</b>



**Project Tracker:**

Percent of 2013-15 SB822 Budget Expended:	21.9%
Percent of 2013-15 Project Duration Expired:	33.3%

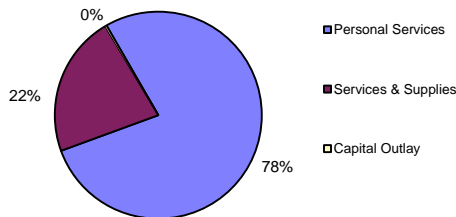
**2013-15 Agency-wide Budget Execution  
Summary Budget Analysis  
For the Month of: February 2014**

**Limited - Operating Budget**

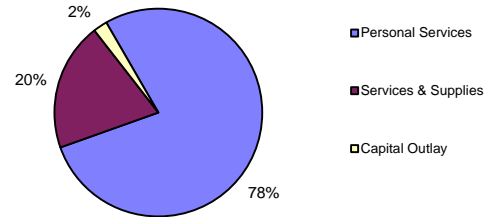
**2013-15 Biennial Summary**

Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expenditures	2013-15 LAB	Variance
Personal Services	19,328,555	42,440,882	61,769,436	60,083,901	(1,685,535)
Services & Supplies	5,480,616	10,857,003	16,337,619	20,353,989	4,016,370
Capital Outlay	55,663	1,197,780	1,253,443	1,253,453	10
<b>Total</b>	<b>24,864,833</b>	<b>54,495,665</b>	<b>79,360,498</b>	<b>81,691,343</b>	<b>2,330,845</b>

**Actual Expenditures**



**Projected Expenditures**



**Monthly Summary**

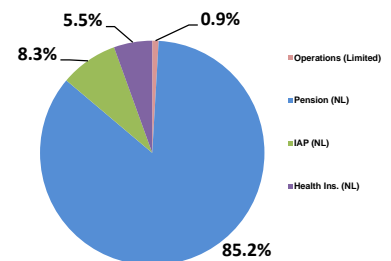
Category	Actual Exp.	Projections	Variance	Avg. Monthly Actual Exp.	Avg. Monthly Projected Exp.
Personal Services	2,446,223	2,583,333	137,109	2,416,069	2,652,555
Services & Supplies	720,215	732,271	12,056	685,077	678,563
Capital Outlay	55,663	48,258	(7,405)	6,958	74,861
<b>Total</b>	<b>3,222,101</b>	<b>3,363,861</b>	<b>141,761</b>	<b>3,108,104</b>	<b>3,405,979</b>

**Non-Limited Budget**

**2013-15 Biennial Summary**

Programs	Current Month Actual Exp	Biennium to Date Actual Exp	Non-Limited LAB
Pension	323,601,576	2,304,191,210	8,148,014,000
IAP	25,900,933	224,949,288	721,200,000
Health Insurance	21,570,500	149,158,948	408,661,000
<b>Total</b>	<b>371,073,009</b>	<b>2,678,299,446</b>	<b>9,277,875,000</b>

**2013-15 Biennium To Date Actual Expenditures**





111 SW Fifth Avenue  
Suite 3700  
Portland, OR 97204  
USA

Tel +1 503 227 0634  
Fax +1 503 227 7956

milliman.com

## MEMO

March 20, 2014

To: Paul Cleary, OPERS Executive Director  
From: Matt Larrabee, FSA  
Re: **Society of Actuaries Blue Ribbon Panel Report on Public Pension Funding**

In late February, a blue ribbon panel commissioned by the Society of Actuaries (SOA) issued a report on the funding of public pension systems. The SOA is the organization that establishes and administers the examination series for actuarial credentialing. The full report and a shorter summary of it are available at: <http://www.soa.org/blueribbonpanel/>.

The report has received significant attention from public retirement system personnel, media and other interested parties. As such, I wanted to give you a summary of my read on the report.

The SOA convened the panel because of concerns about the funding (or lack thereof) of some public plans. The panel appeared to be particularly concerned about situations where boards and other policy makers were perceived to have insufficient information from the actuaries to set funding policy in a fully informed manner. The panel's composition was fairly non-actuarial as the majority of panel members are not actuaries and only one panel member is a currently practicing public sector actuary. It is important to note a couple of caveats about the report up front. First, the report represents the views of the panel members and **not** the view of the SOA. Second, the SOA is **not** the body that sets Actuarial Standards of Practice (ASOPs) in the United States. The report appears to lean on the standards-setting body to incorporate the panel's suggestions into the ASOPs, while also encouraging governing boards and actuaries to voluntarily develop the exhibits they suggest.

The report breaks into two parts:

- Defining funding principles; and
- Providing recommendations on risk analysis and disclosures, the role of the actuary, and plan governance.

Many of the recommendations can be categorized as either funding guidance or policy benchmarks.

The funding guidance includes recommendations to:

- Show contribution rate and funded status projection “stress tests” if actual investment returns are above or below long-term assumption (OPERS does this)
- Amortize unfunded liabilities over periods not in excess of 20 years (OPERS does this)
- Avoid using an investment return assumption that clearly does not have a 50% chance of being realized (OPERS does this)
- Consider using “direct rate smoothing” techniques such as a rate collar because those techniques are more transparent and understandable than traditional asset smoothing techniques (OPERS does this)

The policy benchmarks encourage sponsors to calculate and disclose a variety of benchmark information on a normalized basis. That benchmark information could be used, among other purposes, to compare one system to another. The benchmarks include suggestions to:

- Disclose the standard deviation of the investment portfolio (Treasury does this)
- Disclose the calculated liabilities on a “risk-free” discount rate basis (we do not currently do this, but it could be done; please refer to our May 2011 Board materials for a discussion of risk-free rate discounting and its uses)
- Disclose ten-year trends in financial and demographic measures (OPERS has presented some similar information in the past, but not precisely the items or following the template created by the panel)
- Calculate a “benchmark contribution” based on a 6.4% discount rate, five-year asset smoothing, and a fifteen-year rolling amortization (OPERS, like all other systems, does not do this presently)
- Disclose year-by-year projected benefit payments (OPERS does this in Board materials for a forward-looking thirty-year period)

Where I’ve noted that OPERS already satisfies one of the points above, there are frequently differences in the details of the panel’s recommendation versus the analogous OPERS practice, but the intent corresponds with the recommendations. As an example, the panel calls for the stress test to show investment returns of plus or minus 3% around a baseline assumption, while we have in the past presented various deterministic and stochastic projections. Also, the panel seems to envision all the material being provided in a single document along with the funding report, where the OPERS equivalents reside in several different presentations and documents.

I would be happy to field any questions you or the Board have regarding the panel’s report.





# 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)

March 31, 2014

TO: Members of the PERS Board  
FROM: Steven Patrick Rodeman, Deputy Director  
SUBJECT: Adoption of Receipt Date Rule:  
OAR 459-005-0220, *Receipt Date for Reports, Documents, Remittances, and Payments*

### OVERVIEW

- Action: Adopt modifications to Receipt Date rule.
- Reason: (1) Modify the date that imaged items are deemed filed and received from five business days to three business days before the imaged date; and (2) Clarify that items recorded on PERS' daily cash receipts log and/or check log satisfy the receipt stamp requirement for received items.
- Policy Issue: Should the date that imaged items that do not display a receipt stamp are deemed to be filed and received be changed from five business days to three business days?

### BACKGROUND

Numerous PERS statutory provisions require receipt of certain items such as documents or payments within a specified time period. In 2007, PERS adopted OAR 459-005-0220 to provide guidelines for when an item is considered received by PERS. For items that do not receive a receipt stamp, the rule set a default of five business days from when the item is imaged. This window was in response to preliminary concerns that imaging of a timely received item could be delayed after actual receipt by PERS because the agency did not have a centralized process for receiving and imaging items. Past practice was to direct an item to a business division, which would then stamp the received date on the item before it was sent to imaging.

Since the rule's implementation, PERS document receipt practices have improved, and processes have been streamlined in order to achieve timely and accurate imaging. Today all items received by the agency are imaged the same business day. After they are imaged they are then loaded into system workflows that notify the relevant sections that the item has been received. In other words, imaging is the first destination before any further action is taken. As such, the "imaged date" and the "receipt date" are usually one and the same. An exception to this general rule is checks that are sent to a PERS post office box that is handled by a lockbox service through U.S. Bank.

### POLICY ISSUE

*Should the date that imaged items that do not display a receipt stamp are deemed to be filed and received be changed from five business days to three business days before the imaged date?*

To streamline operations and create greater efficiencies, PERS has been moving away from maintaining records in physical hard copy form, and has been directly imaging all documents received, rather than affixing a receipt stamp to the item and then imaging it. (Items received at the front desk are still receipt stamped.) As a consequence, receipt stamping and imaging are often one and the same.

The five business day window creates delays and extra work for staff by extending the time period in which they must wait before they can complete work on member accounts, or requiring recalculations due to late purchases or other transactions. A three business day window will reduce the number of recalculations that PERS will have to perform due to purchase submissions that come in after the purchase deadline but before the imaging window has ended and will allow PERS to process retirement applications in a more timely manner. PERS considers three business days sufficient to avoid the risk of any delay attributable to the document being routed to imaging.

Because of the third party handling and processing, there is still a need to maintain a window to account for any potential delays in processing by the third party. Delays are rare and would not extend beyond a few business days. Therefore, three business days would be more than sufficient to address this narrow concern.

Some members, however, have been disregarding the statutory deadlines and have been instead relying on the five business days window and treating it as a grace period to complete certain transactions. For example, rather than delivering an item in person at the front desk, where it will be receipt stamped, some members are sending the item in after the statutory deadline, based upon the understanding that it will be imaged, triggering the five business days window. This essentially allows the member an extra week beyond the statutory deadline.

For these reasons, staff recommends narrowing the window from five business days to three business days to provide greater administrative efficiency, consistency, and certainty, and allows PERS to administer its processes in line with the timelines prescribed in statute. This modification also decreases the risk of using the rule to circumvent statutory deadlines. The proposed rule modifications also clarify that items recorded on PERS' daily cash receipts log and/or check log satisfy the receipt stamp affixation/display requirement for received items.

### SUMMARY OF MODIFICATIONS TO RULE SINCE NOTICE

No modifications were made to the rule.

### PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held on February 25, 2014 at 2:00 p.m. at PERS headquarters in Tigard. No members of the public attended. The public comment period ended on March 4, 2014 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: Members and staff will benefit from clarification of the receipt date requirements.

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

### RULEMAKING TIMELINE

December 13, 2013	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
January 1, 2014	<i>Oregon Bulletin</i> published the Notice. Notice was sent to employers, legislators, and interested parties. Public comment period began.
January 31, 2014	PERS Board notified that staff began the rulemaking process.
February 25, 2014	Rulemaking hearing held at 2:00 p.m. at PERS in Tigard.
March 4, 2014	Public comment period ended at 5:00 p.m.
March 31, 2014	Board may adopt the permanent rule modifications.

### BOARD OPTIONS

The Board may:

1. Pass a motion to “adopt modifications to the Receipt Date 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: The proposed rule changes help protect the funds within PERS’ control, and allows PERS to efficiently process purchases and other relevant transactions in order to provide more certainty and optimal administration. In addition, the change will reduce the number of recalculations that PERS will have to perform due to purchase submissions that are processed based upon the current rule, and will allow PERS to process retirement applications in a timely manner.

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.1. Attachment 1 – 459-005-0220, *Receipt Date for Reports, Documents, Remittances, and Payments*



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

1 **459-005-0220**

2 **Receipt Date for Reports, Documents, Remittances, and Payments**

3 (1) As used in this rule:

4 (a) “Imaged date” means the date on which a report, document, remittance, or  
5 payment is imaged and stored electronically to a dedicated network server.

6 (b) “Private express carrier” has the same meaning as in ORS 293.660(2).

7 (c) “Settlement date” means the date on which the participating Depository Financial  
8 Institution (DFI) or its correspondent is scheduled to be debited or credited by the Federal  
9 Reserve.

10 (2) If the due date of a report, document, remittance, or payment falls on a weekend  
11 or legal holiday, the due date is deemed to be the next business day.

12 (3) Any report, document, remittance, or payment required by PERS shall be  
13 deemed filed and received based on the receipt stamp affixed to the report, document,  
14 remittance, or payment when received by PERS; or in the case of a check or cash  
15 submission, on the date recorded in PERS’ daily cash receipts log or check log.

16 (4) Any report, document, remittance, or payment that does not display a PERS  
17 receipt stamp, or has not been recorded in PERS’ daily cash receipts log or check log,  
18 shall be deemed filed and received on the imaged date. If the imaged date is later than the  
19 due date, the report, document, remittance, or payment shall be deemed filed and  
20 received three (3) *[five]* business days before the imaged date.

1 (5) Any report, document, remittance, or payment required by PERS which is lost or  
2 delayed in transmission through USPS or by a private express carrier, shall be deemed  
3 filed and received on the date it was mailed or deposited for transmittal if the sender:

4 (a) Can establish by evidence satisfactory to PERS, which includes but is not limited  
5 to documentation provided by USPS or the private express carrier, that the report,  
6 document, remittance, or payment was deposited in the USPS or with a private express  
7 carrier before the date due for filing, and was correctly addressed to PERS;

8 (b) Files with PERS a duplicate of the lost report, document, remittance, or payment,  
9 in accordance with the transmittal requirements of OAR 459-005-0210 or 459-005-0215;  
10 and

11 (c) Satisfies the requirements of subsections (a) and (b) of this section within 30 days  
12 after PERS notifies the sender in writing of failure to receive the report, document,  
13 remittance, or payment.

14 (6) An electronic funds transfer (EFT) shall be deemed received on the settlement  
15 date of the transfer. A settlement date specified by an employer for an EFT shall be no  
16 later than the due date specified by PERS for a remittance or a payment.

17 (7) Any report or document that PERS accepts by fax as provided in OAR 459-005-  
18 0210 or 459-005-0215 which is:

19 (a) Transmitted by a fax device to any office of PERS shall be deemed filed or  
20 received on the date of transmission as inscribed by the PERS fax device.

21 (b) Lost in transmission through a fax communication shall be deemed filed and  
22 received when originally transmitted if the sender can establish by affidavit the proof of

1 sending and correct addressing, together with a copy of any activity report from the  
2 sender's fax device, and a duplicate of the original report or document.

3 (8) A fax shall be accepted on weekends and holidays as long as the fax is otherwise  
4 in compliance with due dates specified in administrative rule.

5 (9) Any report or document that PERS accepts by e-mail transmission as specified in  
6 OAR 459-005-0210(5) which is:

7 (a) Transmitted by e-mail to any office of PERS shall be deemed received as of the  
8 date PERS receives the transmission.

9 (b) Lost in transmission by e-mail shall be deemed filed and received when  
10 originally transmitted if the sender can establish by affidavit the proof of sending and  
11 correct addressing, together with a copy of any activity report from the sender's electronic  
12 device, and a duplicate of the original report or document.

13 (10) A report or document transmitted by fax or e-mail must be transmitted in  
14 accordance with the provisions of this rule and OAR 459-005-0215 and must be received  
15 by PERS before midnight on the due date.

16 (11) When transmitting a document or report by use of fax or e-mail, the sender  
17 bears the risk of failure of the transmission.

18 Stat. Auth.: ORS 238.650

19 Stats. Implemented: ORS 238, 238A







# 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)

March 31, 2014

TO: Members of the PERS Board  
FROM: Steven Patrick Rodeman, Deputy Director  
SUBJECT: Adoption of Retiree Health Insurance Premium Account Rules:  
OAR 459-035-0001, *Definitions*  
OAR 459-035-0050, *Contribution Payment from Retiree Health Insurance Premium Account for Eligible Retired State Employees Not Eligible for Medicare*

### OVERVIEW

- Action: Adopt modifications to the Retiree Health Insurance Premium Account rules.
- Reason: Clarify participant eligibility and service time used in apportioning the health insurance premium.
- Policy Issue: No policy issues were identified.

### BACKGROUND

ORS 238.415 established the Retiree Health Insurance Premium Account (RHIPA) to pay a monthly subsidy toward the cost of healthcare coverage for eligible retired state employees who are not Medicare eligible. This subsidy is actuarially funded solely by state employers as part of their employer rates and applies only to members who retire from a state employer and who immediately apply for their monthly retirement benefit.

To be eligible for the subsidy, the state employee (or their surviving spouse or dependent) must retire for service or disability and have 8 years or more of “qualifying service.” The monthly premium subsidy is calculated on a sliding scale that incrementally increases with years of “qualifying service” with a state employer. For Plan Year 2014, the RHIPA monthly premium subsidy will range from \$163.39 (8 years of service) to \$326.79 (30+ years of service).

### SUMMARY OF RULE PROVISIONS

These rule revisions clarify that RHIPA eligibility and subsidy are based on “qualifying service” with a state employer only. This statutory interpretation was recently contested and the rule modifications clarify this point. Some housekeeping changes are also proposed to definitions and other non-substantive changes.

### SUMMARY OF MODIFICATIONS TO RULES SINCE NOTICE

No modifications were made to the rules.

### PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held on February 25, 2014 at 2:00 p.m. at PERS headquarters in Tigard. No members of the public attended. The public comment period ended on March 4, 2014 at 5:00 p.m. No public comment was received.

### LEGAL REVIEW

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

### IMPACT

Mandatory: No.

Impact: Members, employers, stakeholders, and staff will benefit from clear and consistent rules that clarify the administration of the RHIPA subsidy.

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

### RULEMAKING TIMELINE

December 13, 2013	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
January 1, 2014	<i>Oregon Bulletin</i> published the Notice. Notice was sent to employers, legislators, and interested parties. Public comment period began.
January 31, 2014	PERS Board notified that staff began the rulemaking process.
February 25, 2014	Rulemaking hearing held at 2:00 p.m. at PERS in Tigard.
March 4, 2014	Public comment period ended at 5:00 p.m.
March 31, 2014	Board may adopt the permanent rule modifications.

### BOARD OPTIONS

The Board may:

1. Pass a motion to “adopt modifications to the Retiree Health Insurance Premium Account rules, as presented.”
2. Direct staff to make other changes to the rules or explore other options.

### STAFF RECOMMENDATION

Staff recommends the Board choose Option #1.

- Reason: Clarify participant eligibility and service time used in apportioning the health insurance premium.

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.2. Attachment 1 – 459-035-0001, *Definitions*

B.2. Attachment 2 – 459-035-0050, *Contribution Payment from Retiree Health Insurance Premium Account for Eligible Retired State Employees Not Eligible for Medicare*



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

1   **459-035-0001**

2   **Definitions**

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

6       (1) “Dependent” means a PERS member’s or retiree’s dependent child. For the  
7   purpose of this rule a “child” is defined as follows:

8       (a) A natural child.

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

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

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

15      (2) “Dependent Domestic Partner” means a person who has a relationship with a  
16   PERS retiree that has the characteristics described below. To qualify as a “dependent  
17   domestic partner”, the person and the PERS retiree must:

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

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

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

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

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

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

8 (3) “Eligible Person” means a person who is eligible for coverage under a PERS-  
9 sponsored health insurance plan. The conditions for such eligibility are set forth in OAR  
10 459-035-0020.

11 (4) “Eligible Retired Member” means an eligible person who is eligible for payments  
12 toward the cost of the Medicare Companion Plan from RHIA. The conditions for such  
13 eligibility are set forth in OAR 459-035-0030.

14 (5) “Eligible Retired State Employee” means an eligible person who is eligible for  
15 non-Medicare insurance premium payments from the RHIPA. Conditions for such  
16 eligibility are set forth in OAR 459-035-0040.

17 **(6) “Health Insurance Premium” means the self-sustaining premium calculated**  
18 **to cover the projected claims and costs incurred by the insurance company for a**  
19 **participant in a health care plan. “Health Insurance Premium” includes**  
20 **retrospective premiums and employee contributions. “Health Insurance Premium”**  
21 **does not include any intentional load to cover dependents or other groups or**  
22 **participants.**

1 ~~[(6)]~~(7) “Medicare” means the federal health care insurance plan established under  
2 Title XVIII of the Social Security Act as amended.

3 ~~[(7)]~~(8) “Medicare Companion Plan” means a PERS-sponsored health insurance  
4 plan for eligible persons who are eligible for and enrolled in Medicare.

5 **(9) “Net to Carrier” means the health insurance premium due to the insurance**  
6 **company. “Net to Carrier” does not include any charges for PEBB or PERS health**  
7 **insurance administration.**

8 ~~[(8)]~~(10) “PEBB” means the Public Employees’ Benefit Board established under  
9 ORS 243.061.

10 ~~[(9)]~~(11) “PERS Member” has the same meaning as “member” provided in ORS  
11 238.005 and 238A.005.

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

14 ~~[(11)]~~(13) “Qualifying Service” under ORS 238.415(1)(c) means[:]

15 ~~[(a) C]~~Creditable service, as defined in ORS 238.005, **with a state employer**, plus  
16 any periods of employment with a[n] **state** employer participating in PERS that are  
17 required of the employee before becoming a PERS member[; or].

18 *~~[(b) Periods of employment in a qualifying position, as that term is defined in OAR~~*  
19 *~~459-010-0003.]~~*

20 ~~[(12)]~~(14) “Retiree” means a PERS member who is receiving a service or disability  
21 retirement allowance or benefit under PERS or who received a lump sum payment under  
22 ORS 238.305(3), 238.315, or 238A.195, or payment(s) under ORS 238A.400, or a person

1 who is receiving retirement pay or pension calculated under ORS 1.314 to 1.380 (1989  
2 Edition).

3 **(15) “Retrospective Premium” means any additional premium liability that is**  
4 **determined at the end of the plan year, based on any pre-determined formula.**

5 ~~[(13)]~~**(16)** “RHIA” means the Retirement Health Insurance Account established  
6 under ORS 238.420 to help defray the cost of the Medicare Companion Plan.

7 ~~[(14)]~~**(17)** “RHIPA” means the Retiree Health Insurance Premium Account  
8 established under ORS 238.415 to help defray the cost of PERS-sponsored health plans  
9 other than the Medicare Companion Plan.

10 ~~[(15)]~~**(18)** “SRHIA” means the Standard Retiree Health Insurance Account  
11 established under ORS 238.410 to administer employee and the employer contributions  
12 to the PERS sponsored health insurance program.

13 ~~[(16)]~~**(19)** “Staff” means the employees of the Public Employees Retirement  
14 System.

15 ~~[(17)]~~**(20)** “Third Party Administrator” means the individual or organization that the  
16 Board contracts with to provide administrative services as specified in the contract.

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

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



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

1 **459-035-0050**

2 **Contribution Payment From Retiree Health Insurance Premium Account for**  
3 **Eligible Retired State Employees Not Eligible for Medicare**

4 This rule establishes the procedure for determining the amount of contribution that  
5 will be paid from the Retiree Health Insurance Premium Account (RHIPA)(ORS  
6 238.415) on behalf of an eligible retired state employee under age 65, as described in  
7 OAR 459-035-0040, who is enrolled in a health insurance plan sponsored by PERS.

8 *[(1) Definitions:]*

9 *[(a) “Health Insurance Premium” means the self-sustaining premium calculated to*  
10 *cover the projected claims and costs incurred by the insurance company for a participant*  
11 *in a health care plan. “Health Insurance Premium” includes retrospective premiums and*  
12 *employee contributions. “Health Insurance Premium” does not include any intentional*  
13 *load to cover dependents or other groups or participants;]*

14 *[(b) “Net to Carrier” means the health insurance premium due to the insurance*  
15 *company. “Net to Carrier” does not include any charges for PEBB or PERS health*  
16 *insurance administration;]*

17 *[(c) “Retrospective Premium” means any additional premium liability that is*  
18 *determined at the end of the plan year, based on any pre-determined formula.]*

19 *[(2)]***(1)** On or before November 1 of each calendar year, staff shall determine the  
20 monthly amount available to be paid from the RHIPA on behalf of an eligible retired  
21 state employee enrolled in a PERS health insurance plan contracted for under ORS  
22 238.410. In determining the average difference between the health insurance premiums

1 paid by retired state employees under contracts entered into by the Public Employees  
2 Retirement Board and the health insurance premiums paid by state employees who are  
3 not retired under contracts entered into by PEBB (without regard to employees who have  
4 opted out of PEBB-sponsored health insurance coverage), the staff shall calculate the  
5 change in value of the average of active PEBB plans after adjusting for the demographic  
6 (age/sex) differences between:

- 7 (a) The active employee participants; and
- 8 (b) Retired members receiving a subsidy and participating in one of the PERS non-  
9 Medicare health insurance plans as follows:

10 (A) Obtain the average employee participation for each health insurance plan  
11 sponsored by PEBB for the most recent three-month period;

12 (B) Obtain the health insurance premium for each health insurance plan sponsored  
13 by PEBB for the plan year next following;

14 (C) Obtain the average eligible retired state employee participation for each health  
15 insurance plan sponsored by PERS for the most recent three-month period;

16 (D) Compute the average health insurance premium for all plans sponsored by PEBB  
17 pursuant to the following formula:

18 (i) Step 1. Multiply the average participation in paragraph (A) of this subsection by  
19 the health insurance premium in paragraph (B) of this subsection for each plan;

20 (ii) Step 2. Total the average participation for all plans;

21 (iii) Step 3. Total the result for all of the calculations in Step 1 of sub-paragraph (i)  
22 of this paragraph; and

1 (iv) Step 4. Divide the total in Step 3 of sub-paragraph (iii) of this paragraph by the  
2 total in Step 2 of sub-paragraph (ii) of this paragraph.

3 (E) Compute the change in value of the average active PEBB plan pursuant to the  
4 following formula:

5 (i) Step 1. Divide the total in paragraph (C) of this subsection by the total in Step 2  
6 of paragraph (D) of this subsection;

7 (ii) Step 2. Multiply the average participation for each plan in paragraph (A) of this  
8 subsection by the result of Step 1 of sub-paragraph [(E)](i) of this [subsection]  
9 paragraph for each plan;

10 (iii) Step 3. Multiply the premium for each plan in paragraph (B) of this subsection  
11 by the [factor 1.6240. The factor 1.6240 is the] estimated [ratio] factor of non-Medicare  
12 retiree claims cost to active claims cost;

13 (iv) Step 4. Multiply the result of Step 2 of sub-paragraph (ii) of this paragraph by  
14 the result of Step 3 of subparagraph (iii) of this paragraph for each plan;

15 (v) Step 5. Total the results for all of the calculations in Step 4 of sub-paragraph (iv)  
16 of this paragraph;

17 (vi) Step 6. Total the results of the average participation calculations for all plans in  
18 Step 2 of sub-paragraph (ii) of this paragraph; and

19 (vii) Step 7. Divide the total premium in Step 5 of sub-paragraph (v) of this  
20 paragraph by total average participation as calculated in Step 6 of sub-paragraph (vi) of  
21 this paragraph.

22 (F) The result of Step 7 of sub-paragraph (E)(vii) of this subsection minus Step 4 of  
23 sub-paragraph (D)(iv) of this subsection is the maximum monthly amount available to be

1 paid by *[the]* PERS on behalf of an eligible retired state employee. Under no  
2 circumstances will this amount be less than \$0.

3 **(G) The maximum monthly amount paid by PERS on behalf of an eligible**  
4 **retired state employee shall be determined using qualifying service.**

5 ~~[(3)]~~(2) The factor in Step 3 of sub-paragraph ~~[(2)]~~(1)(b)(E)(iii) of this rule shall be  
6 evaluated no less frequently than every three years.

7 ~~[(4)]~~(3) The monthly amount available established under section ~~[(2)]~~(1) of this rule  
8 shall be published by November 1 of each calendar year, or as soon as possible thereafter,  
9 and shall be effective for the plan year next following for PERS sponsored plans.

10 ~~[(5)]~~(4) In the event an active plan is not to be renewed for a subsequent plan year,  
11 the participants shall be deemed to be covered by another existing plan most similar in  
12 benefits.

13 ~~[(6)]~~(5) This rule applies to the amount to be paid by PERS for the plan year 1993  
14 and subsequent plan years.

15 ~~[(7)]~~(6) No person eligible for a contribution from the RHIPA as provided for in this  
16 rule shall be entitled to a contribution from the RHIA.

17 Stat. Auth.: ORS 238.650

18 Stats. Implemented: ORS 238.415



# 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)

March 31, 2014

TO: Members of the PERS Board  
FROM: Steven Patrick Rodeman, Deputy Director  
SUBJECT: Adoption of Model Rules of Procedure Rule:  
OAR 459-001-0005, *Model Rules of Procedure*

### OVERVIEW

- Action: Adopt modifications to the Model Rules of Procedure rule.
- Reason: Update the Model Rules of Procedure Rule to reflect current state law.
- Policy Issue: No policy issues were identified.

### BACKGROUND

The Oregon Administrative Procedures Act (APA) requires state agencies to adopt procedural rules for administrative rulemaking and conducting contested case proceedings. The APA also requires the Attorney General to adopt model rules that state agencies must use, although agencies may adopt additional rules governing administrative procedures. OAR 459-001-0005 adopted the Attorney General's Model Rules of Procedure. In response to statutory changes and appellate court decisions, the Attorney General updated the Model Rules, effective January 31, 2012. These rule modifications are only to conform to the date of and therefore adopt the updated Model Rules.

### SUMMARY OF MODIFICATIONS TO RULE SINCE NOTICE

No modifications were made to the rule.

### PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held on February 25, 2014 at 2:00 p.m. at PERS headquarters in Tigard. No members of the public attended. The public comment period ended on March 4, 2014 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: Yes, to comply with statute.

Impact: The modifications conform to state law and do not have a material fiscal or economic impact.

Cost: There is not expected to be any cost incurred by members, employers, PERS administration or the fund.

#### RULEMAKING TIMELINE

December 13, 2013	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
January 1, 2014	<i>Oregon Bulletin</i> published the Notice. Notice was sent to employers, legislators, and interested parties. Public comment period began.
January 31, 2014	PERS Board notified that staff began the rulemaking process.
February 25, 2014	Rulemaking hearing held at 2:00 p.m. at PERS in Tigard.
March 4, 2014	Public comment period ended at 5:00 p.m.
March 31, 2014	Board may adopt the permanent rule modifications.

#### BOARD OPTIONS

The Board may:

1. Pass a motion to “adopt modifications to the Model Rules of Procedure 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: Update the Model Rules of Procedure Rule to reflect current state law.

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

B.3. Attachment 1 – 459-001-0005, *Model Rules of Procedure*

**OREGON ADMINISTRATIVE RULE  
PUBLIC EMPLOYEES RETIREMENT BOARD  
CHAPTER 459  
DIVISION 001 – PROCEDURAL RULES**

1 **459-001-0005**

2 **Model Rules of Procedure**

3 The Attorney General’s Model Rules of Procedure under the Administrative  
4 Procedures Act, as adopted and effective January 31, ~~[2008]~~2012, are adopted as rules of  
5 procedure of the Public Employees Retirement Board, except as modified by other rules  
6 of the Board.

7 [ED. NOTE: The full text of the Attorney General’s Model Rules of Procedure is  
8 available from the office of the Attorney General or the Oregon Public Employees  
9 Retirement System.]

10 Stat. Auth.: ORS 183.341, 237.470, ~~[&]~~ 238.650, 238A.450 & 243.470

11 Stats. Implemented: ORS ~~[238.005 - 238.715 &]~~ 237.410 - 237.620, chapters 238,  
12 238A & 243.401-243.507







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March 31, 2014

TO: Members of the PERS Board  
FROM: Steven Patrick Rodeman, Deputy Director  
SUBJECT: Adoption of Senate Bill 861 Rules:  
OAR 459-005-0510, *Cost-of-Living Adjustment*  
OAR 459-005-0520, *Supplementary Payment*

### OVERVIEW

- Action: Adopt new Senate Bill 861 rules.
- Reason: Implement provisions of Senate Bill 861 (2013) affecting the calculation of the cost-of-living adjustment (COLA) payable to benefit recipients on and after July 1, 2014, and the administration of the supplementary payments for PERS benefit recipients.
- Policy Issue: No policy issues were identified.

### SUMMARY OF RULE PROVISIONS

The 2013 Oregon Legislative Assembly (Special Session) passed Senate Bill 861, which modified the COLA structure previously adopted in Senate Bill 822 (2013) for COLAs paid on or after July 1, 2014. Under Senate Bill 861, the COLA is determined using the monthly allowance, pension, or benefit a recipient is entitled to on July 1 of the year in which the increase is calculated. The proposed OAR 459-005-0510 clarifies that the resulting annual COLA is paid during the following 12 months in the recipient's monthly allowance, pension, or benefit starting on August 1.

The bill includes an annual supplementary payment that begins in 2014 and sunsets on December 31, 2019. The annual supplementary payment is based on 0.25 percent of the benefit recipient's yearly allowance, pension, or benefit, but capped at \$150. An additional supplementary payment of 0.25 percent is paid to a benefit recipient whose yearly allowance, pension, or benefit is \$20,000 or less.

Annual supplementary payments will be paid to retired members, beneficiaries, alternate payees, and judges who receive or are entitled to receive a retirement allowance, pension, or benefit on July 1. Alternate payees will receive a supplementary payment by operation of ORS 238.465(5), which requires that any increase in a member's retirement allowance increases the amount paid to the spouse in the same proportion. Similar to the provisions applicable to the COLA, however, if the associated member is not receiving a supplementary payment because he or she has not yet retired, then the alternate payee will not receive a supplementary payment.

### SUMMARY OF MODIFICATIONS TO RULES SINCE NOTICE

In OAR 459-005-0510, section (1) was amended to remove the introductory clause, “As provided in ORS 238.360 and 238A.210,” because the citations are listed below under “Stats.

Implemented.” The revised wording clarifies that the members do not get the COLA all at once, but rather that the amount, once calculated, is then paid out over 12 months beginning August 1.

Similarly, the introductory clause in OAR 459-005-0520, section 1, “The purpose of this rule is to implement the supplementary payment under Section 8 of Chapter 2, Oregon Laws 2013 (Special Session)” was removed because the citation is listed below under “Stats. Implemented.” The statutory reference in Section 2 was revised from “...ORS 238.465(5)...” to “...ORS 238.465(1)...”

### PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held on November 26, 2013 at 3:00 p.m. at PERS headquarters in Tigard. No members of the public attended. The public comment period ended on December 6, 2013 at 5:00 p.m. No public comment was received.

### LEGAL REVIEW

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

### IMPACT

Mandatory: Yes, the rules should be updated to reflect the statutory changes.

Impact: Clarification of procedures in the administration of the annual cost-of-living adjustment and supplementary payments will benefit retirees, employers and staff.

Cost: An expenditure limitation for implementing SB 861 in the amount of \$1,022,945 was provided during the 2014 legislative session.

### RULEMAKING TIMELINE

October 15, 2013	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
November 1, 2013	<i>Oregon Bulletin</i> published the Notice. Notice was sent to employers, legislators, and interested parties. Public comment period began.
November 22, 2013	PERS Board notified that staff began the rulemaking process.
November 26, 2013	Rulemaking hearing held at 3:00 p.m. at PERS in Tigard.
December 6, 2013	Public comment period ended at 5:00 p.m.
January 31, 2014	Board postponed adoption of the permanent rules.
March 31, 2014	Board may adopt the permanent rules.

BOARD OPTIONS

The Board may:

1. Pass a motion to “adopt new Senate Bill 861 rules, 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: Implement provisions of Senate Bill 861 (2013) affecting the calculation of the cost-of-living adjustment (COLA) payable to benefit recipients on and after July 1, 2014 and the administration of the supplementary payments for PERS benefit recipients from 2014 through 2019.

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

B.4. Attachment 1 – 459-005-0510, *Cost-of-Living Adjustment*

B.4. Attachment 2 – 459-005-0520, *Supplementary Payment*



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

1 **459-005-0510**

2 **Cost-of-Living Adjustment**

3 **(1) A cost-of-living adjustment (COLA) under ORS 238.360 and 238A.210 is**  
4 **calculated on an annual basis and then divided by 12 to determine the adjustment to**  
5 **the recipient’s monthly allowance, pension, or benefit.**

6 **(2) Monthly COLA increases end when the recipient is no longer eligible to**  
7 **receive a monthly allowance, pension, or benefit.**

8 **(3) This rule is effective on July 1, 2014.**

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

10 **Stats. Implemented: ORS 238.360, 238.575 & 238A.210**

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

1 **459-005-0520**

2 **Supplementary Payment**

3 **(1) For purposes of this rule, “benefit recipient” means a member, beneficiary,**  
4 **alternate payee, or judge member.**

5 **(2) In accordance with ORS 238.465(1), an alternate payee is eligible for a**  
6 **supplementary payment only if the associated member or judge member is eligible.**

7 **(3) Increased benefits under ORS 238.364 and 238.366 or cost-of-living**  
8 **adjustments under 238.360 or 238A.210 are not applied to a benefit recipient’s**  
9 **supplementary payments.**

10 **(4) A benefit recipient’s supplementary payment shall not be included in a**  
11 **benefit recipient’s yearly allowance or yearly pension or benefit for the purpose of**  
12 **calculating the cost-of-living adjustments under ORS 238.360, 238.575, or 238A.210.**

13 **Stat. Auth: ORS 238.650, 238.465 & 238A.450**

14 **Stats. Implemented: ORS 238.360, 238.575, 238A.210 & OL 2013, Ch. 2, §8**  
15 **(first special session).**



# Oregon

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March 31, 2014

TO: Members of the PERS Board  
FROM: Marjorie Taylor, Senior Policy Advisor  
SUBJECT: 2014 Legislative Session Review and 2015 Proposed Legislative Concepts

### FEBRUARY 2014 LEGISLATIVE SESSION REVIEW

The Legislative Assembly adjourned the 2014 regular session on Friday, March 7, two days ahead of their constitutional deadline. Several adopted bills impact PERS, either the agency or plan, and we are now working to implement the new provisions of law.

House Bill 4155 authorizes PERS to establish procedures for recovering administrative costs from employers to provide standardized, audited actuarial data to comply with GASB (Governmental Accounting Standards Board) No. 68 reporting standards. A variety of local government partners submitted letters in support of the concept as did the Municipal Debt Advisory Committee from the State Treasurer's Office. Gary Blackmer, State Auditor from the Secretary of State's Office, was also available at committee meetings to explain the need for the measure. To implement the measure, PERS staff will convene a group of employers to discuss how, what, and when information will be provided for financial statements, and propose a methodology to recover administrative expenses. Prior to release of the 2014-15 fiscal year data, we anticipate a "trial run" financial reporting and data distribution to employers using 2013-14 fiscal year data.

Senate Bill 1525 clarifies that universities with governing boards, currently the University of Oregon, Oregon State University, and Portland State University, are state agencies for the purpose of PERS statutes. This clarification will allow their employees to continue to be eligible for state employee retiree health care subsidies and make the employer rate setting process clear for state agencies and the universities. PERS staff will acknowledge the relationship in an administrative rule.

House Bills 4003 and 4157 include technical fixes to update connections with the federal tax code and to codify elimination of the Industries for the Blind program.

House Bill 4144 would have established the Oregon Investment Department as a new agency separate from the State Treasurer's Office under the supervision of a director appointed by the Oregon Investment Council. The Department would have had the staff and budget authority to hire investment professionals to manage Oregon's investment program and staff, enabling certain investment functions to be in-sourced and improve portfolio net returns and risk management. After several hearings, the measure was not advanced through the floor vote process.

LEGISLATIVE CONCEPT REQUESTS for the 2015 LEGISLATIVE SESSION

Development of legislative concepts for the 2015 regular session will follow this time line:

<u>Who</u>	<u>When</u>	<u>Action</u>
PERS Board	March 31, 2014	Direct staff to submit concept requests for drafting.
PERS Staff	By May 2, 2014	Submit draft requests to Governor/DAS for consideration.
DAS/Gov.	Mid-June	Submit approved requests to Legislative Counsel for drafting.
Legislative Counsel	By Late September	Return bill drafts to agency for review. PERS will distribute drafts to stakeholders and Board for comments and suggestions. Legislative Counsel will revise the drafts if requested.
PERS Board	November 21, 2014	Select which drafted concepts will be submitted to the Governor/DAS to file as bills on behalf of PERS.
DAS/Gov.	Mid-December	Submits final bill drafts to the legislature for consideration in the 2015 regular session.

Any concepts that move forward in the drafting process will result in Legislative Counsel drafts which we will distribute to the Legislative Advisory Committee and interested parties for review and comment. Those comments and any recommendations will be included in the information we present to the PERS Board in the fall when we request a decision on whether to recommend that the Governor's Office introduce these concepts as bills in the 2015 legislative session.

At this time, three concepts are proposed for consideration. The following information was provided to members of the PERS Legislative Advisory Committee (LAC) and interested parties who follow that committee. We did not hear of questions or concerns with the three concepts.

**1. Police and Firefighters (P&F) Unit Purchases.** Police and Fire Units are an additional benefit a police officer or firefighter may purchase with after-tax dollars before retirement. After retirement, the unit account will provide a monthly stream of income, usually for five years, which is partially paid for by the employer. Over time, a PERS P&F member who is younger than age 65 may elect to purchase up to eight units through payroll deductions. The actuarial cost of eight units is \$4,000 at age 60.

ORS 238.440(2) allows lump sum P&F unit purchases to be made 60 days before a member's retirement date. Technically, if a member chooses to make a lump sum units purchase before that 60 day period, PERS must return the check and ask the member to submit the purchase within the 60-day window. A member may make other service time purchases (waiting time, refunded time, military time, etc.) within the 60-90 day window, so this inconsistency causes confusion and inefficiencies.

**Solution:** Standardize the timeline so members may make any unit or time purchase within 90 days of their effective retirement date.



**Proposed Statutory Change:** ORS 238.440(2) Notwithstanding subsection (1) of this section, a police officer or firefighter who retires prior to age 60 may apply for and receive an actuarially reduced unit income commencing at any date between the date of early retirement and age 60, with monthly benefits payable for at least 60 months or any other monthly formula in excess of 60 months but always terminating by age 65. Such a police officer or firefighter may elect to pay in a lump sum within the **90** [60] days immediately preceding early retirement the contribution that the police officer or firefighter would have made to the account had the police officer or firefighter worked to age 60.

**2. OPSRP Disability – Educational Employees Receiving a Non-Duty Disability Benefit.**

Currently, there is a disparity in statute where an OPSRP member who is an educational employee is required to have *active membership* in 10 or more calendar years to qualify for non-duty disability benefits; however, to be eligible to receive retirement credit for their period of disability, they are required to have 10 years of *retirement credit*. This proposal will refine the disparity between *active membership* in 10 calendar years versus 10 years of *retirement credit*.

**Solution:** Eliminate the discrepancy between retirement credit and length of active membership for school employees.

**Proposed Statutory Change:** ORS 238A.235 (1) An active member of the pension program described in subsection (2) of this section who becomes disabled shall receive a disability benefit in the amount of 45 percent of the salary of the member determined as of the last full month of employment before the disability commences.

(2) The provisions of this section apply only to:

- (a) A member [ , other than a school employee as defined by ORS 238A.140, ] who has accrued 10 years or more of retirement credit before the member becomes disabled; **or** [(b) A member who is a school employee as defined by ORS 238A.140 and who was an active member in 10 or more calendar years before the member becomes disabled; or] [(c)]
- (b) A member who becomes disabled by reason of injury or disease sustained while in the actual performance of duty.

(3) A disability benefit under this section shall be paid until:

- (a) The member is no longer disabled; or
- (b) The member attains normal retirement age under ORS 238A.160.

(4) A member is considered to be disabled for the purpose of this section if the member is found, after being examined by one or more physicians selected by the board, to be mentally or physically incapacitated for an extended duration and unable to perform any work for which qualified, by reason of injury or disease that was not intentionally self-inflicted.

**3. Housekeeping – Updating Statutory References.** This housekeeping concept is necessary to properly reflect newly codified statutes in all programs, such as including reference to ORS 238.372-.382 (tax remedy) in ORS 238.580 (judges), and including ORS 238.092 in ORS 238A.050, to clarify how the IAP account is handled for legislators who retire for service other than legislative service, but remain an active member of the system for their legislative service.

Also, ORS 238A.050 specifies which provisions of Chapter 238 apply to Chapter 238A. Legislators have special retirement plan election options. Some legislators may have other PERS-covered service time in addition to legislative service. Under ORS 238.092, legislators may retire

from one service-type before they retire from legislative service, and the benefit they receive at retirement generally consists of a pension benefit and an IAP benefit. PERS operates as if ORS 238.092 also applies to the IAP benefit, but seeks clarity in statute.

**Solution:** Include appropriate statutory references for corresponding provisions.

**Proposed Statutory Changes: For judges** – ORS 238.580 (1) ORS 238.005 (4) and (26), 238.025, 238.078, 238.082, 238.092, 238.115 (1), 238.250, 238.255, 238.260, 238.350, 238.364, **238.372, 238.374, 238.376, 238.378, 238.382**, 238.410, 238.415, 238.420, 238.445, 238.458, 238.460, 238.465, 238.475, 238.600, 238.605, 238.610, 238.618, 238.630, 238.635, 238.645, 238.650, 238.655, 238.660, 238.665, 238.670 and 238.705 and the increases provided by ORS 238.366 for members of the system who are serving as other than police officers or firefighters apply in respect to service as a judge member.

(2) This chapter applies in respect to persons described in ORS 238.505 (1) and in respect to service as a judge member only as specifically provided in ORS 238.500 to 238.585.

**For legislators** – ORS 238A.050 (1) The Oregon Public Service Retirement Plan is part of the Public Employees Retirement System and is administered by the Public Employees Retirement Board.

(2) ORS 238.008, **238.092**, 238.225, 238.229, 238.231, 238.285, 238.410, 238.445, 238.447, 238.450, 238.455, 238.458, 238.460, 238.465, 238.470, 238.600, 238.601, 238.605, 238.610, 238.615, 238.618, 238.630, 238.635, 238.640, 238.645, 238.655, 238.660, 238.661, 238.665, 238.675, 238.692, 238.694, 238.695, 238.696, 238.698, 238.700, 238.705, 238.710 and 238.715 apply to the Oregon Public Service Retirement Plan. {No other changes proposed to remaining portions of ORS 238A.050}

### BOARD OPTIONS

The Board may:

1. Pass a motion to “Direct staff to submit these three legislative concepts to the Governor’s Office and DAS to consider having drafted by Legislative Counsel.”
2. Direct staff to develop and submit additional or different draft legislative concepts.

### STAFF RECOMMENDATION

Staff recommends the Board choose Option #1. The proposals have been reviewed by stakeholders and will achieve some clarity and operational efficiencies for members and staff.



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March 31, 2014

TO: Members of the PERS Board

FROM: Steven Patrick Rodeman, Deputy Director  
Paul Brown, Manager, Strategic & Operational Planning

SUBJECT: 2015-17 Budget Development and Strategic Planning Update

Even though the start of the current biennium, July 1, 2013, does not seem that long ago, the agency must already turn its attention to developing our Agency Request Budget (ARB) for the next biennium that begins July 1, 2015. Our budget development process should always align with the agency's strategic priorities, so we wanted to update you on the progress we have made since we developed the 2013-15 biennium budget.

In any discussion about strategic priorities, we have to be mindful of our Mission Statement:

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

The Mission Statement is supported by the agency's Shared Vision:

“Honoring your public service through secure retirement benefits.”

PERS provides benefits to every state agency employee and employees of every other type of public employer in this state, covering about 95% of the public servants at the county, city, school, and other local government level. To honor the lifetime of service that these employees contribute to Oregon, our “outward-facing” strategic focus is reflected in our Core Operating Principle of Member Service. The complement to that focus is an “inward-facing” strategy to ensure that agency staff have the technology tools to effectively provide the expected level of service in the most efficient manner possible.

One of the tools in our outcome-based management system is Breakthrough Planning, to organize and measure progress toward major strategic initiatives. In 2013, we launched a breakthrough with the objective of becoming an “aligned, outcome-driven agency.” The cornerstone to this breakthrough is implementing an agency strategic plan that defines our areas of alignment and outcomes. The agency's Fundamentals Map, with its Outcome and Performance Measures, provides a solid foundation for a plan to remove impediments caused by resource constraints that can be remedied through the budget process.

As an “Other Fund” funded agency, our ARB for the 2015-17 biennium has to be buttressed by sound business cases tied to our strategic initiatives. Reinforcing the connection back through to our Mission Statement and Shared Vision gives clarity to the purpose and prioritization of these initiatives.

In the 2013-15 budget, the Oregon Legislature “right-sized” the agency to perpetuate our current service levels, principally by recognizing that many Limited Duration positions we had carried in prior biennia were needed on a permanent basis. Therefore, our budget development for 2015-17 starts from the premise that any enhancement to our current budget must result in predictable and measurable progress toward improving those current service levels. Our proposed Policy Option Packages (POPs) for 2015-17 will support tactical, incremental steps in line with our member-focused strategy and in areas targeted through our measure scorecards.

At a high-level view, these POP requests will be structured around the following themes:

- **Improving Customer Service Metrics:** some operations have already maximized the service levels that can be improved through technology investments and process improvements; those metrics cannot be improved without more staff resources. A good example is in the Call Center, where we established four Limited Duration positions to reduce call wait times and abandonment rates to more tolerable (but still not optimal) levels. This POP will include a request to make those positions permanent and “hold the gain” on the service metric improvements. Other areas under consideration for enhanced staffing are undergoing rigorous analysis before we bring them forward to assure that the proposed service improvements meet our member’s principle needs and necessarily require additional staff resources (instead of technology or process improvements).
- **Strengthening Technology Infrastructure:** PERS continually needs to improve the technology platform from which we deliver member services. An example is completing Phase 3 of the IAP Administration breakthrough, building the technology infrastructure to allow us to bring all of that program’s services and administration in-house. Another example may be enhancing our agency’s Disaster Recovery and Business Continuity capabilities.

As we complete our budget requests for this biennium cycle, we will expand this planning into a comprehensive multi-biennium strategic plan. This will allow the agency to effectively plan and stage major customer service improvements.

We will return to the Board at your May 31, 2014 meeting with a draft ARB for your consideration and feedback, which will include further details on these themes and their connection to the agency’s strategic goals, as well as cost estimates. Based on your feedback and further development, the ARB with the detailed POP descriptions will be presented to you at your July 25, 2014 meeting for approval to submit to DAS so we can comply with our budget development timeline.



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March 31, 2014

TO: Members of the PERS Board

FROM: Steven Patrick Rodeman, Deputy Director  
Rick Howitt, Manager, Financial Reporting Section

SUBJECT: 2013 Final Earnings Crediting and Reserving

### OVERVIEW

- Action: Adopt 2013 final earnings crediting decisions.
- Subject: Crediting earnings for calendar year 2013 to the PERS Fund's accounts and reserves.
- Policy Issue: Is the Contingency Reserve adequately funded?

The PERS Board is charged with crediting earnings from the PERS Fund each calendar year. Some of those allocations are directed by statute or rule; the balance are at the PERS Board's discretion. At its January 31, 2014 meeting, the PERS Board adopted preliminary earnings allocations. That preliminary allocation was reported to and acknowledged at a meeting of the Joint Ways & Means Committee on February 14, 2014.

### MODIFICATION OF 2013 EARNINGS AVAILABLE

After the PERS Board's January 31, 2014 meeting, State Street Bank reported that investments in the PERS Alternative portfolio were overstated by \$110.4 million in their initial reports to PERS staff. Removing those amounts from the 2013 PERS Fund Regular Account earnings available for crediting generally resulted in a 26 basis point reduction (0.26%) from the rates that the PERS Board preliminarily allocated.

### EARNINGS ALLOCATIONS DIRECTED BY STATUTE OR RULE

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

- 1. Administrative Expenses:** Administrative costs are funded by earnings when they are sufficient, as they were in 2013 (ORS 238.610(1)).
- 2. Health Insurance Accounts:** These accounts are part of the PERS Fund and directed by statute to be credited with actual earnings or losses, less their administrative expense of the programs (ORS 238.410(7); 238.415(4); 238.420(4)). For 2013, the crediting rate for these accounts was 14.70% for RHIA, 8.61% for RHIPA, and 0.55% for SRHIA.
- 3. Employer Lump Sum Payment Accounts:** These accounts are credited with actual earnings or losses less administrative expenses, as authorized by ORS 238.229(2). For 2013, the crediting rate for these accounts averaged 15.98%.
- 4. Variable Annuity Account:** This account is credited with earnings or losses on its share of the PERS Fund. The Variable Annuity Account is only invested in equities and therefore its

earnings are discrete from those of the more diversified components of the PERS Fund. For 2013, variable earnings are credited at 25.74%.

- 5. Individual Account Program (IAP):** These accounts are credited with actual earnings or losses as required by ORS 238A.350(1). IAP earnings for 2013 are estimated to be 15.59%.
- 6. Tier One Rate Guarantee Reserve:** This reserve, established under ORS 238.255(1), is used to credit the assumed rate to Tier One member regular accounts. The reserve is currently in deficit in the amount of \$340,000 from the required crediting to Tier One member regular accounts in prior years, when earnings were less than the assumed rate of 8%. As earnings on Tier One member regular accounts for 2013 exceed the assumed rate, those excess earnings will eliminate this deficit. This reserve's ending balance will be about \$416.5 million, unless the Board changes its preliminary allocation of earnings to the Contingency Reserve.

### 2013 BOARD ALLOCATIONS

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

#### **Non-Discretionary Allocations**

Credit administrative expenses, health insurance accounts, employer lump sum accounts, Variable Annuity accounts, and accounts in the Individual Account Program in the manner described above. Credit Tier One member regular accounts with the assumed earnings rate (8%) in effect during 2013.

#### **Judge Member Accounts**

Credit Judge member accounts with the assumed earnings rate (8%) in effect during 2013.

#### **Tier Two Member Regular Accounts**

Tier Two member regular accounts usually are credited with a proportional share of available PERS Fund Regular Account earnings which will result in a rate of 15.62%, unless the PERS Board changes its preliminary allocation of earnings to the Contingency Reserve.

#### **Benefits-in-Force and Employer Reserves**

Credit the Benefits-in-Force and Employer reserves evenly with the remaining available earnings. The rate credited to those accounts would be 15.62%, unless the PERS Board changes its preliminary allocation of earnings to the Contingency Reserve.

### POLICY ISSUE

- *Is the Contingency Reserve adequately funded?*

ORS 238.670(1) allows the PERS Board to establish a Contingency Reserve, which the Board can then allocate for specific purposes stated in the statute. The current beginning balance in the Contingency Reserve is \$600.2 million.

In adopting the preliminary rates, the Board was presented four options for consideration:

- (1) Make no allocation to the Contingency Reserve;
- (2) Allocate the Contingency Reserve its proportional share of 2013 earnings (an earnings rate of about 15.56%);
- (3) Increase the Contingency Reserve to about 1% of the PERS Fund year-end balance; or
- (4) Allocate the maximum 7.5% of total earnings to the Contingency Reserve.

The Board chose Option 3 above when adopting preliminary 2013 earnings crediting so that the Contingency Reserve would be maintained at approximately 1% of the PERS Fund's year-end balance. Staff continues to recommend that approach as a prudent benchmark, subject to review on a regular basis as part of the Board's annual earnings crediting and reserving process. A total of \$65 million of the final reserve balance is earmarked as the estimated cost for six years (2014 -2019) of supplementary payments required to be paid from the Contingency Reserve under Senate Bill 861 (2013 Special Session).

#### BOARD OPTIONS

The Board may:

1. **1% Allocation to the Contingency Reserve:** Pass a motion to “adopt the final crediting of earnings for calendar year 2013 as presented, distributing \$67.5 million to the Contingency Reserve.”
2. **Adopt an Alternative Allocation:** Adopt an alternative final crediting of 2013 earnings.

#### STAFF RECOMMENDATION

Staff recommends the Board choose Option #1.

- Reason: This option is consistent with the PERS Board's preliminary allocation that was reviewed by the Oregon Legislature.

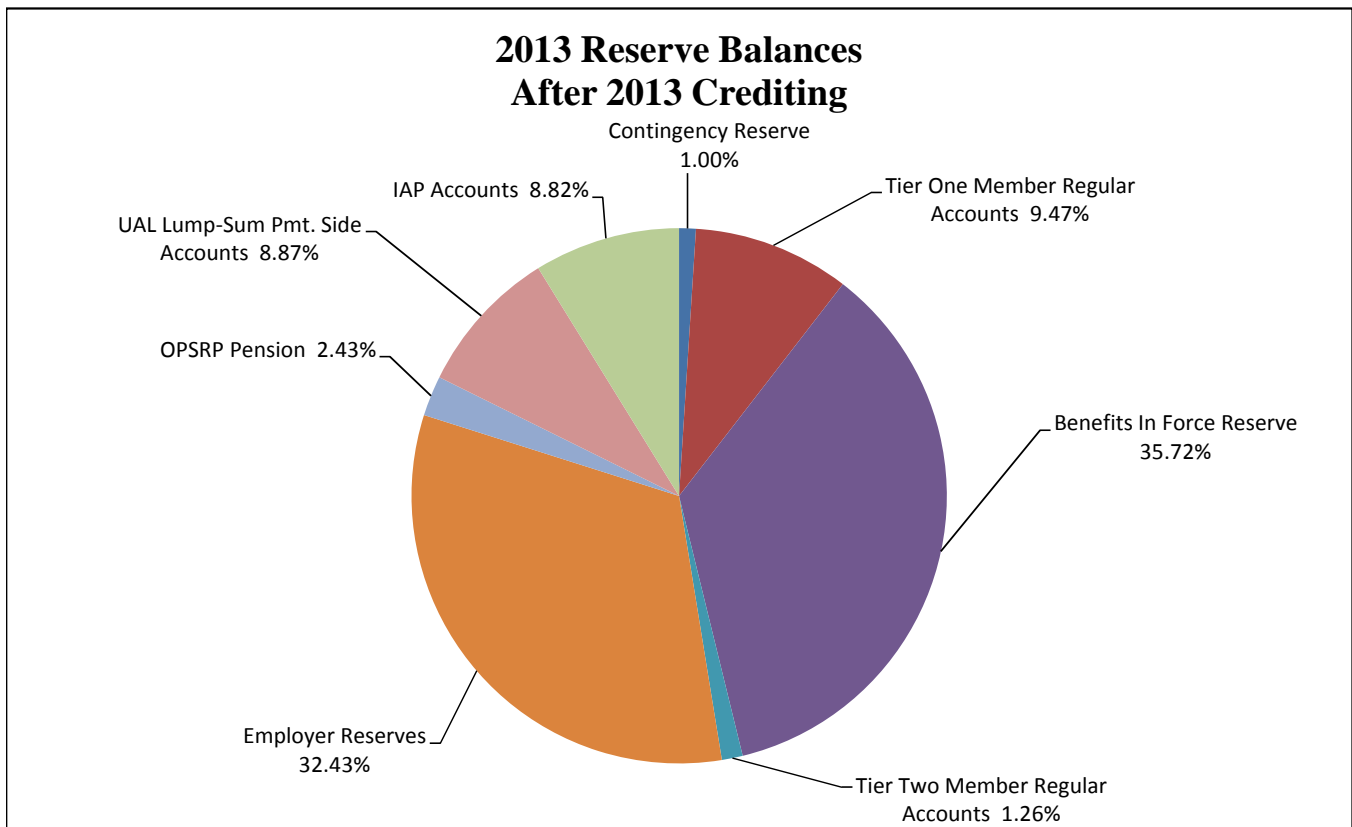
C.3.Attachment 1 – Chart 2013 Reserve Balances





**Oregon Public Employees Retirement System**  
**2013 Crediting and Reserving**  
**Credit Contingency Reserve to 1% of Reserves**  
 (All dollar amounts in millions)

Regular Account Reserve	Reserves Before Crediting	2013 Crediting	Reserves After Crediting	2013 Rates
Contingency Reserve	\$600.2	\$67.5	\$667.7	N/A
Tier One Member Regular Accounts	5,467.6	437.4	5,905.0	8.00%
Tier One Rate Guarantee Reserve	(0.3)	416.8	416.5	N/A
Benefits In Force Reserve	20,621.7	3,222.2	23,843.9	15.62%
Tier Two Member Regular Accounts	732.7	114.5	847.2	15.62%
Employer Reserves	18,727.5	2,926.2	21,653.7	15.62%
OPSRP Pension	1,407.9	218.4	1,626.3	15.51%
*UAL Lump-Sum Pmt. Side Accounts	5,077.6	846.0	5,923.6	Various
*IAP Accounts	5,113.9	772.5	5,886.4	15.59%
<b>Total</b>	<b>\$57,748.8</b>	<b>\$9,021.5</b>	<b>\$66,770.3</b>	



\*Informational only. Not affected by Board reserving or crediting decisions.  
 IAP accounts receiving installments have already received 2013 earnings.