

OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM BOARD MEETING

**Monday
April 2, 2018
10:00 A.M.**

**PERS
11410 SW 68th Parkway
Tigard, OR**

ITEM	PRESENTER
A. Administration	
1. February 2, 2018 Board Meeting Minutes	THOMAS
2. Executive Director Recruitment	
3. Director's Report	RODEMAN
a. Forward-Looking Calendar	
b. OPERF Investment Report	
c. Budget Execution Report	
d. Annual Report of Executive Director's Financial Transactions	STANLEY
B. Administrative Rulemaking	
1. Adoption of IRC/Social Security Limits Rules	VAUGHN
C. Action and Discussion Items	
1. 2018 Legislative Session Review	TAYLOR
2. Rules for Legislative Implementation	VAUGHN
a. Potential Rules for HB 4159(2018)	
b. Potential Rules for SB 1566(2018)	
c. Potential Rules for HB 4012 & SB 1546(2018)	
3. IAP TDF Implementation Update	ELLEDGE-RHODES
4. IAP Member Choice Implementation	DUNN, ELLEDGE-RHODES
5. Final 2017 Earnings Crediting and Reserving	DUNN, MARBLE
6. May E-Board Requests	BARNETT, DUNN
7. 2019-2021 Budget Development	BARNETT, DUNN

The Board will meet briefly in Executive Session at the end of the regular agenda pursuant to ORS 192.660(2)(a).

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

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

2018 Meetings: · June 1 August 3* October 5· December 7* * Audit Committee

Stephen Buckley Krystal de Asis Steve Demarest Lawrence Furnstahl, Vice Chair John Thomas, Chair Steve Rodeman, Executive Director
SL1

OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM BOARD MEETING MINUTES

February 2, 2018

Board members present:

Chair John Thomas, Stephen Buckley, Krystal deAsis, Steve Demarest, and Vice-Chair Lawrence Furnstahl were present.

Staff present:

Dean Carson, Melanie Chandler, Mary Dunn, Yvette Elledge-Rhodes, Greg Gabriel, Brian Harrington, Neil Jones, Amanda Marble, Jordan Masanga, Beth Porter, Alyse , Janice Richards, Steve Rodeman, Jason Stanley, Marjorie Taylor, Stephanie Vaughn, AnneMarie Vu, Joli Whitney, Yong Yang

Others present:

Kelli Blechschmidt, Steve Barrett, Gay Lynn Bath, Steve Bell, Nate Carter, Jennifer Cooperman, Stacy Cowan, Ken Crowley, Dennis Erickson, Tahni Fagerberg, Jeff Gudman, Debra Grabler, Greg Hartman, Patrick Heath, David Lacy, Elizabeth McCann, David Moore, Michelle Morrison, Scott Preppernau, Shauna Tobiasson, Deborah Tremblay, Tracy White, Peter Wong

Chair John Thomas called the meeting to order at 10:00 a.m.

ADMINISTRATION

A.1. MEETING MINUTES OF DECEMBER 1, 2017

Board member deAsis moved to approve the minutes submitted from the December 1, 2017 Board meeting. Vice Chair Furnstahl seconded approval of the minutes. The motion passed unanimously.

A.2. DIRECTOR'S REPORT

Executive Director Steve Rodeman presented. He reviewed the Forward Looking Calendar and highlighted the important items to be considered by the Board during future meetings. Rodeman announced his retirement effective June 1. Rodeman presented the Oregon Investment Council (OIC) Investment Report of the Oregon Public Employees Retirement Fund (OPERF) for the period ending December 31, 2017. Scott Preppernau of Milliman came forward to comment on the return results so far and the impact to the UAL and employer rates.

Rodeman presented the Budget Execution Report. The projected positive variance continues. The close of the last biennium resulted with about 6.5 percent positive variance.

ADMINISTRATIVE RULEMAKING

Stephanie Vaughn, Policy Analysis and Compliance Section Manager, presented.

B.1. NOTICE OF IRC AND SOCIAL SECURITY LIMITATIONS RULE

Vaughn presented notice of rulemaking for the rules, OAR 459-005-0525, -0545; -017-0060; and -080-0500. These rules are updated every year to incorporate federal adjustments to the limits on the amount of annual compensation allowed for determining contributions and benefits, annual benefits, and annual additions to PERS. A rulemaking hearing will be held February 27, 2018, at PERS Headquarters. The public comment period ends on March 7, 2018.

No Board action was required.

B.2. ADOPTION OF POST-DOCTORAL SCHOLAR RULE

Vaughn presented the modifications for the Post-Doctoral Scholar rule, OAR 459-005-0300. This rule is being modified to implement provisions of Senate Bill 214 (2017) related to post-doctoral scholars. The bill became effective January 1, 2018. This rule further clarifies certain statutory provisions ensuring that all universities use consistent standards in classifying a position as a “post-doctoral scholar” position. A rulemaking hearing was held December 20, 2017. No members of the public attended. The public comment period ended January 5, 2018. No public comment was received. Furnstahl moved to adopt the Post-Doctoral Scholar rule as presented. Board member Demarest seconded the motion. The motion passed unanimously.

B.3. ADOPTION OF IAP TARGET DATE FUND RULES

Vaughn presented the modifications to the IAP Target Date Fund rules, OAR 459-007-0001, -0005, -0320, -033; and -080-0015. These rules are being modified to implement the target date funding structure into the Individual Account Program (IAP) as was adopted by the Oregon Investment Council (OIC) at their September 20, 2017 meeting with an effective date of January 1, 2018. These modifications were adopted as temporary rules at the December 1, 2017 PERS Board meeting due to the short timeline to the effective date of the new investment strategy. No further modifications to these rules have been made since that meeting. A rulemaking hearing was held December 20, 2017. No members of the public attended. The public comment period ended January 5, 2018. No public comment was received.

DeAsis moved to adopt modifications to the IAP Target Date Fund rules as presented. Furnstahl seconded the motion. The motion passed unanimously.

ACTION AND DISCUSSION ITEMS

C.1. IAP TDF IMPLEMENTATION UPDATE

Yvette Elledge-Rhodes, Deputy Director, presented. She reviewed the ongoing activities to implement the new target date fund (TDF) investment structure into the IAP. A significant milestone was reached at the end of the year. All IAP Funds were moved into new target date vintages. Upcoming milestones include tools to automate where possible and a significant communication effort in upcoming member annual statements.

Thomas asked about the impact this change in investment strategy has had to the IAP Admin project. Elledge-Rhodes explained that the IAP Admin project is being re-baselined to reexamine what the best course of action is moving forward with the changing landscape of how the IAP is designed. There will be a more substantive update at the April meeting to allow for the consideration of any new legislation enacted in the February session into the future of the project.

No Board action was required.

C.2. LEGISLATIVE UPDATE

Marjorie Taylor, Senior Policy Director, presented. Taylor gave a brief overview of which PERS related legislation has already been released and other concepts that we expect to see in the brief legislative session which commences next week.

No Board action was required.

C.3. PRELIMINARY 2017 EARNINGS CREDITING AND RESERVING

Mary Dunn, Chief Administration Officer and Amanda Marble, Financial Reporting Coordinator, presented. Marble reviewed the preliminary rates for 2017.

Furnstahl moved to adopt the preliminary crediting of earnings as presented for calendar year 2017, subject to final adoption at the April 2, 2018 Board meeting. DeAsis seconded. The preliminary earnings will be reported to the legislature.

C.4. STRATEGIC PLAN UPDATES

Rodeman reviewed the steps which were taken to develop the latest strategic plan. Elledge-Rhodes, Jordan Masanga, Chief Information Officer, and Dunn presented. Elledge-Rhodes reviewed the proposed changes in the area of member relations and communications and quality delivery methods. Dean Carson, Member Relations and Communications Director, commented on the achievements so far in focusing efforts on communications with members. Dunn reviewed the new Financial Management section. Masanga provided background behind the proposed changes to the Information Governance and Technology section.

Thomas asked how much autonomy the agency has regarding contracting and procurement. Masanga noted that there is significant coordination needed with Office to the State Chief Information Officer (OSCIO) and Department of Administrative Services Budget and Management (DAS BAM.)

No Board action was required.

The Board entered an executive session to confer with counsel regarding litigation at 11:00 a.m.

Thomas adjourned the Board meeting at 11:45 p.m.

Respectfully submitted,



Steven Patrick Rodeman
Executive Director



Oregon

Kate Brown, Governor

Public Employees Retirement System

Headquarters:
11410 S.W. 68th Parkway, Tigard, OR
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Tigard, OR 97281-3700
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April 2, 2018

TO: Members of the PERS Board
FROM: John Thomas, PERS Board Chair
SUBJECT: Executive Director Recruitment

Executive Director Steve Rodeman has announced his plan to retire, with his last official date in office of June 1, 2018. Per ORS 238.630(3)(b), the PERS Board “shall employ a director.” At today’s Board Meeting, the Board shall review and approve a process and timeline and adopt standards, criteria, and policy directives for recruitment of a new PERS Executive Director.

This agenda item is also an opportunity for public comment on this process. At the meeting, members of the public who wish to comment on the standards, criteria, or policy directives will be invited to do so.

Attached to this memo is a timeline for the recruitment, as well as the recruitment announcement and position description. These documents:

- Define the minimum qualifications for this position, in line with the classification requirements for the position as established by the Department of Administrative Services
- List the following desired attributes:
 - Familiar with PERS -- past, present, and actuarial future
 - Understands actuarial science
 - Experienced team builder
 - Possesses analytical and processing skills and understands the plan and impacts of any proposed changes
 - Proven ability to interface with different constituency and legislative groups in the form of testimony/explanation
 - Understands IT systems and necessary auditing to ensure members are best served
- Include a job brochure with further information about the position, including desired qualifications.

BOARD OPTIONS

The Board may:

1. Pass a motion to “Approve the process and timeline for recruitment and adopt standards, criteria, and policy directives for the Executive Director position as presented.”
2. Direct staff to revise the recruitment methodologies.

If the Board does not adopt: If the PERS Board does not pass this motion, the employment of a new Executive Director will be delayed as a revised recruitment process is reinitiated.

This recruitment will establish a pool of candidates which will be reviewed for meeting minimum qualifications; from those qualified applicants, this board can proceed through its selection process to hopefully find its next executive director. The Board may nominate and select a subcommittee to evaluate and screen qualified candidates, or have all members review the candidate pool that is presented. As a public body, the interviews and selection must be conducted under the public meetings requirements, but can be done under the executive session procedures.

BOARD OPTIONS

The Board may:

1. Pass a motion to “Appoint (insert board member’s names) as a subcommittee to review and screen the qualified candidates, to present a recommendation as to the candidates to be further considered by the full PERS Board.”
2. Direct staff to organize the meetings so that the full Board will meet to consider the candidates.

If the Board does not adopt: If the PERS Board does not pass this motion, the applicant pool for the entire Board to review will be significantly larger and will require more time to process.

A.2. Attachment 1 *Recruitment Timeline*

A.2. Attachment 2 *Position Description*



Public Employees Retirement System Executive Director Proposed Recruitment Plan

April 2, 2018

Task	Who	Completion Dates
Update Position Description	Executive Recruiter	Complete
Develop Recruiting Plan for Board's approval	PERS Board, Executive Recruiter	Complete
Draft announcement and desired attributes	Executive Recruiter	Complete
Post and Distribute Job Posting 30 day recruitment (targeted recruitment) Advertising & Outreach conducted (state focused or national search)	Executive Recruiter	February 26 – March 26
Public comment on qualities and qualifications of Executive Director. Identify selection criteria and process.	PERS Board	April 2
Review Applications – initial screening	Executive Recruiter	March 27 – April 9
Recommend candidates for first round interviews	Screening Panel, Executive Recruiter	Week of April 9
Round 1 Interview Panel conducts in person / or video if they prefer for candidates who are not local, recommends candidates to be considered finalists to full Board.	Round 1 Interview Panel	Week of April 23
Board conducts final interviews with stakeholder session (meet and greet) held same day	PERS Board, PERS staff and stakeholders	Week of April 30
Reference Checks	Executive Recruiter	Once finalists are identified
Appointment Decision and Public Vote to approve offer being extended	PERS Board	Same date as finalist interviews.
Official Offer & Announcement	PERS Board	May board meeting (Date TBD)
New Executive Director on Board		June 1



STATE OF OREGON RECRUITMENT FOR Executive Director



PUBLIC EMPLOYEES RETIREMENT SYSTEM



PERS AT A GLANCE:

- Oregon PERS was established in 1946 to provide retirement, disability, and death benefits to Oregon's state, school district, and local government employees.
- The agency's 370 employees serves 204,000 non-retired members, 128,000 retired members or beneficiaries, and approximately 925 public employers.
- PERS is administered by a five-member board who also administer the Oregon Savings Growth Plan, a deferred compensation program open to Oregon public employees, and the PERS Retiree Health Insurance Program.
- The PERS Fund is invested and managed on behalf of members and beneficiaries by the Oregon Investment Council with staff support from the State Treasury Investment Division.
- PERS Fund investment returns have averaged more than 6 percent annually over the last decade, helping PERS become one of the best funded public retirement systems in the nation.
- PERS headquarters are in Tigard (Washington County), a suburb of Portland.
- To learn more about us, please visit PERS online at: <http://Oregon.gov/PERS>.



PORTLAND AT A GLANCE:

POPULATION

City 628,830

EDUCATION

Elementary Schools 28

K-8 Schools 29

Middle Schools 29

High Schools 10

Colleges & Universities 33

ECONOMY

Average Home Price \$340,000

Average Income \$55,402

MISC.

Average Rainfall 39.14 inches

Average Snowfall 3 inches

City Parks 279

PERS' 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

PERS AND THE STATE OF OREGON ARE EQUAL OPPORTUNITY AFFIRMATIVE ACTION EMPLOYERS COMMITTED TO WORKFORCE DIVERSITY.

PERS, Oregon's Public Employees Retirement System is searching for an Executive Director. PERS is part of the Oregon state government enterprise working together to provide quality programs and outcomes via a committed workforce that services the people of Oregon.

The Executive Director oversees the statewide administration and delivery of an integrated program of retirement, disability, death, deferred compensation, and retiree health insurance benefits to 332,000 members (95% of Oregon's public employees) and 925 state and local government employers, with \$70 billion in trust fund assets (the 16th largest public retirement fund in the nation), an average of \$6 billion in annual contributions and earnings, and some \$4 billion in annual benefit payments (85% of which are distributed in Oregon).

This position is established in statute ([ORS 238.645](#)) and serves as the chief executive officer of the Oregon Public Employees Retirement System (PERS), appointed by and reporting to the five member PERS Board, and providing overall management, leadership and strategic direction in the statewide administration and delivery of an integrated program of retirement, disability, death, deferred compensation, and retiree health insurance benefits to its members. To view the job brochure click [here](#).

Desired Qualifications:

- Experience building relationships throughout an enterprise
- Proven ability to interface with different constituency and legislative groups in the form of testimony/explanation
- Experienced team builder
- Familiar with PERS -- past, present, and actuarial future
- Possesses analytical and processing skills and understands how proposed changes impact the plan
- Understands IT systems and necessary auditing to ensure members are best served

Benefits with State Government

Oregon state government offers its employees a range of benefits:

- [Medical, vision, and dental plans](#)
- [Retirement: Pension program and Individual Account Program](#)

For more information on PERS please visit
<http://www.oregon.gov/pers/Pages/index.aspx>

To apply and view a complete job description, requirements, qualifications and pay, click here
[Insert Link Here](#)



STATE OF OREGON
invites applications for the position of:

Executive Director, Public Employees Retirement System (PERS)

JOB CODE: PERS18-4001

OPENING DATE/TIME: 02/26/18 12:00 AM

CLOSING DATE/TIME: 03/26/18 11:59 PM

SALARY: \$150,000.00 - \$185,000.00 Annually

JOB TYPE: Permanent

LOCATION: Tigard, Oregon

AGENCY: State of Oregon-Executive Search Services

DESCRIPTION:

PERS, Oregon's Public Employees Retirement System is searching for an Executive Director. The Executive Director oversees the statewide administration and delivery of an integrated program of retirement, disability, death, deferred compensation, and retiree health insurance benefits to 332,000 members (95% of Oregon's public employees) and 925 state and local government employers, with \$70 billion in trust fund assets (the 16th largest public retirement fund in the nation), an average of \$6 billion in annual contributions and earnings, and some \$4 billion in annual benefit payments (85% of which are distributed in Oregon).

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DUTIES & RESPONSIBILITIES:

The Executive Director will lead the overall development and administration of all agency programs, personnel, budgets, planning, and projects to ensure efficient and effective delivery of member benefits and employer services, advancement of the agency mission, compliance with state legislative mandates and federal regulatory requirements, and achievement of PERS Board policies and priorities.

As the Executive Director you are accountable for ensuring that all agency services are delivered in a timely and efficient manner, documented by agency key performance measures (KPM's) and business process/outcome measure scorecards, in full compliance with state and federal requirements, and within the agency's biennial budget limitation and position authorization. The

Executive Director will ensure the PERS Board decisions are well-supported by completed staff work; reflect consensus among all Board members to the fullest extent possible; include opportunities for stakeholder engagement and input; and are accurately communicated and implemented by staff.

Serve as an ex-officio member of the Oregon Investment Council (OIC), representing the PERS Board as its liaison to the OIC and keeping the OIC informed of system liabilities and funded status, cash flow requirements, actuarial methods and assumptions, system valuations, risk assessments, and financial modeling results; while also reviewing proposed asset allocations, investment manager selections, and investment policy and performance for the \$70 billion PERS fund and \$19 billion in other funds overseen by the OIC. Ensure the agency is providing customer-focused and outcome-based service delivery to members and employers, effectively addressing needs and concerns, providing accurate data, securing personal information, and processing all transactions in a timely, efficient and accurate manner.

Work with Executive Leadership Team to regularly review and update agency performance measures and business process/outcome scorecard results, strategic and tactical plans, organizational structure, staffing and budgeting, risk assessments, audit findings and other internal control reports to ensure that agency resources are effectively deployed and fully aligned with PERS mission, goals and objectives.

**QUALIFICATIONS, REQUIRED & REQUESTED SKILLS:
MINIMUM QUALIFICATIONS**

- Eight years of management experience in a public or private organization which included responsibility for each of the following: a) development of program rules and policies, b) development of long- and short-range goals and plans, c) program evaluation, and d) budget preparation.

DESIRED ATTRIBUTES:

- Familiar with PERS -- past, present, and actuarial future
- Understands actuarial science
- Experienced team builder
- Possesses analytical and processing skills and understands the plan and impacts of any proposed changes
- Proven ability to interface with different constituency and legislative groups in the form of testimony/explanation
- Understands IT systems and necessary auditing to ensure members are best served

To Apply:

1. Complete electronic application
2. Attach a resume and cover letter

**THE STATE OF OREGON IS AN EQUAL OPPORTUNITY, AFFIRMATIVE ACTION EMPLOYER
COMMITTED TO WORK FORCE DIVERSITY.**

ADDITIONAL INFORMATION:

Employment is contingent on the outcome of a criminal records check which may require fingerprints (FBI). Any history of criminal activity will be reviewed and could result in the withdrawal of the offer or termination of employment.

Veterans' Preference

Eligible veterans who meet the qualifications will be given veterans' preference. To receive preference you **MUST** attach appropriate documentation as outlined by the Department of Administrative Services at the following website <http://www.oregon.gov/jobs/Pages/Veterans.aspx> or you may call the Oregon Department of Veterans' Affairs at 1-800-692-9666.

Contact Information

For additional information or if you need an alternate format in order to complete the application process, please contact Jill Woods at 503-378-4202 or <mailto:amber.ingram@oregon.gov>

VISIT OUR AGENCY WEBSITE AT:
www.oregonjobs.org

Job #PERS18-4001
EXECUTIVE DIRECTOR, PUBLIC EMPLOYEES
RETIREMENT SYSTEM (PERS)
JW

OUR OFFICE IS LOCATED AT:

Salem, OR
503-373-7677

Executive Director, Public Employees Retirement System (PERS) Supplemental Questionnaire

Work Experience

The work experience section of your application must include a clear description of your experience in order to determine if you meet the required skills (**minimum and special qualifications**) and at what level you meet the requested skills (**desired attributes**). Your answers to supplemental questions about your specific experience must also be supported in the work experience statements in your application form or, if requested, your resume. Supplemental materials such as cover letters and/or a resume will NOT be reviewed or used to determine candidates' qualifications unless the posting specifically states those materials are required from applicants.

Supplemental Questions

Your answers to the Supplemental Questions may be reviewed to help determine if you meet the required skills and how you meet the requested skills for the position to which you have applied. This review may include an automated scoring process and/or a manual review of all or some of the responses.

Note: The specific questions and scoring process used are determined by each hiring authority. Only those individuals who meet the required skills and most closely match the requested skills will be invited to an interview.

* 1. Which of the following best describes your **highest related level of education**?

- Associate's Degree
- Bachelor's Degree
- Master's Degree
- Doctorate Degree
- Juris Doctor Degree
- None of the Above

* 2. Which of the following best describes the **focus of your degree**?

- Business Administration
- Public Administration
- Other Related Degree
- My degree is not related
- I do not have a degree

* 3. If you selected "Other Related Education" in question 2, please identify the **focus of your degree**. If you did not, enter N/A.

* 4. Which of the following best describes your level of experience in **management** in a public or private organization which included responsibility for **ALL** of the following: a) development of program rules and policies, b) development of long- and short-range goals and plans, c) program evaluation, and d) budget preparation?

- less than 12 months
- 1 year
- 2 years
- 3 years
- 4 years
- 5 years
- 6 years
- 7 years

- 8 years
- 9 years
- 10 years or above
- None of the above

- * 5. Please copy and paste the following links into a browser to review the Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2017, PERS: By the Numbers, May 2017, and the Oregon Public Employee Retirement System 2018-2023 Strategic Plan. After reviewing the documents, please provide your thoughts regarding issues and opportunities found in those documents.
- <http://www.oregon.gov/pers/documents/financials/CAFR/2017-CAFR.pdf>
<http://www.oregon.gov/pers/Documents/General-Information/PERS-by-the-Numbers.pdf>
<http://www.oregon.gov/pers/Documents/Strategic-Plan.pdf>

* Required Question

PERS Board Meeting Forward-Looking Calendar

May ?, 2018 (meeting dates TBD)

Notice and Adoption of temporary IAP TDF Member Choice Rules
Emergency Board Budget Requests
Executive Director Interviews/Appointment

Friday, June 1, 2018

Notice of 2018 Legislation Rules
Notice of PHIP Enrollment and Payment Process Rules
Board Scorecard Report on Agency Performance Measures
2019-21 Agency Budget Development
2019 Retiree Health Insurance Plan Renewals and Rates
OSGP Advisory Committee Appointments

Friday, August 3, 2018

Adoption of 2018 Legislation Rules
Adoption of PHIP Enrollment and Payment Process Rules
2019-21 Agency Request Budget
2017 System Wide Valuation Results
Audit Committee Meeting

Friday, October 5, 2018

Member & Employer Survey Results
2017 Actuarial Valuation and 2019-21 Employer Rates

Friday, December 7, 2018

Board Scorecard Report on Agency Performance Measures
Financial Modeling
Audit Committee Meeting

Returns for periods ending JAN-2018

Oregon Public Employees Retirement Fund

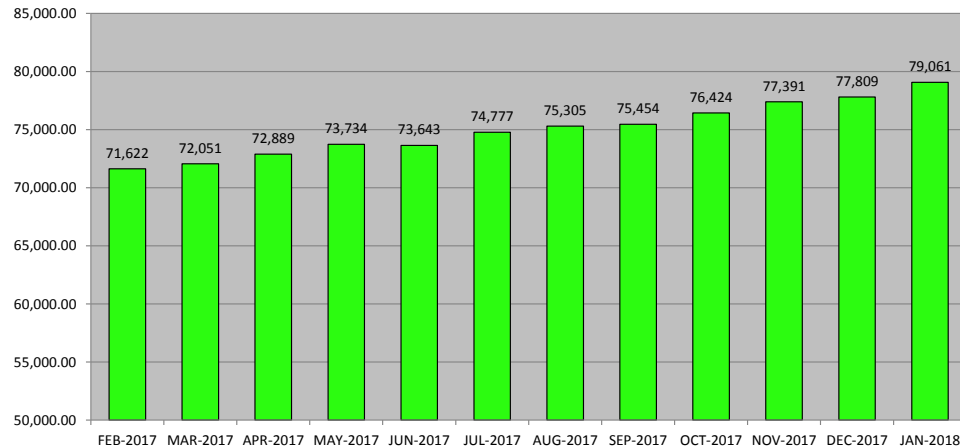
Item A.3.b.

OPERF	Regular Account				Historical Performance (Annual Percentage)							
	Policy ¹	Target ¹	\$ Thousands ²	Actual	Year-To-Date ³	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS	7 YEARS	10 YEARS
Public Equity	32.5-42.5%	37.5%	\$ 31,758,500	40.5%	5.11	27.37	24.05	12.75	10.91	11.95	10.16	6.99
Private Equity	13.5-21.5%	17.5%	\$ 14,688,088	18.7%	0.26	17.78	11.80	10.28	11.66	12.55	12.60	8.88
Total Equity	50.0-60.0%	55.0%	\$ 46,446,588	59.2%								
Opportunity Portfolio	0-3%	0%	\$ 1,649,067	2.1%	(1.40)	6.95	7.49	6.10	6.86	7.77	8.31	7.53
Total Fixed	15-25%	20.0%	\$ 17,692,406	22.6%	(0.82)	2.46	2.88	1.82	2.26	2.18	3.75	4.95
Real Estate	9.5-15.5%	12.5%	\$ 7,443,978	9.5%	(0.15)	9.70	9.50	8.76	10.42	10.81	11.71	5.35
Alternative Investments	0-12.5%	12.5%	\$ 5,183,655	6.6%	0.12	8.31	7.55	3.14	3.71	4.13		
Cash w/Overlay	0-3%	0%	\$ 7,536	0.0%	0.09	1.30	1.24	0.99	0.89	0.85	0.85	1.00
TOTAL OPERF Regular Account		100.0%	\$ 78,423,229	100.0%	1.78	16.07	13.70	8.75	8.68	9.31	9.14	6.63
OPERF Policy Benchmark					2.54	17.18	15.02	9.62	9.57	9.97	9.72	7.09
Value Added					(0.76)	(1.11)	(1.32)	(0.86)	(0.89)	(0.66)	(0.58)	(0.46)
TOTAL OPERF Variable Account			\$ 638,159		5.39	27.61	23.24	12.44	10.92	11.50	9.81	6.46

Asset Class Benchmarks:

Russell 3000	5.27	25.16	23.43	14.11	13.83	15.53	13.98	9.85
OREGON MSCI ACWI EX US IMI NET	5.48	30.15	22.97	10.39	7.74	7.50	5.83	3.84
MSCI ACWI IMI NET	5.39	27.19	22.89	12.04	10.54	11.15	9.42	6.44
RUSSELL 3000+300 BPS QTR LAG	2.32	25.05	21.67	14.91	16.46	18.15	18.06	11.48
OREGON CUSTOM FI BENCHMARK	(0.88)	2.10	2.17	1.31	1.82	1.70	3.14	3.80
OREGON CUSTOM REAL ESTATE BENCHMARK	0.61	7.35	8.11	9.87	10.22	10.37	11.26	6.24
CPI +4%	0.87	6.15	6.37	6.05	5.51	5.54	5.77	5.65
91 Day Treasury Bill	0.12	0.93	0.65	0.45	0.35	0.29	0.24	0.35

Total OPERF NAV
(includes Variable Fund asset)
One year ending JAN-2018
(\$ in Millions)



¹OIC Policy revised June 2015.

²Includes impact of cash overlay management.

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

April 2, 2018

PERS Board Meeting

SL1



Oregon

Kate Brown, Governor

Public Employees Retirement System

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

April 2, 2018

TO: Members of the PERS Board
FROM: Linda M. Barnett, Budget Officer
SUBJECT: April 2018 Board Report

2017-19 OPERATIONS BUDGET

Operating expenditures for January 2018 and preliminary expenditures for February 2018 were \$3,767,930 and \$3,824,674 respectively. Final expenditures for February closed in the Statewide Financial Management System (SFMS) on March 16, 2018, and will be included in the June 2018 report to the Board.

- To date, through the first seven months (or 29.2%) of the 2017-19 biennium, the Agency has expended a total of \$28,266,042 or 28.7% of PERS' legislatively approved operations budget of \$98,448,004.
- The current projected positive variance is \$3,256,499 or approximately 3.3% of the operations budget.

2018 LEGISLATIVE SESSION UPDATES

HB 5201 was passed in the February 2018 legislative session to increase PERS' 2017-19 Legislatively Approved Budget by the following amounts:

- \$80,000 for an Actuarial Audit
- \$281,174 for Information Security Personnel
- \$206,000 for Information Security Contractor Resources
- \$176,661 for a Security and Risk Officer
- \$200,000 for Target Date Fund (TDF) Contractor Resources
- \$2,066,340 Salary/Cost of Living Adjustments/Pension Obligation Bond

Total increase to the PERS operating budget is \$3,010,175. The updated Legislatively Approved Budget (LAB) of \$101,458,179 will be reflected in the June report to the PERS board.

2017-19 NON-LIMITED BUDGET

PERS recently updated projections for the remaining 2017-19 pension payments, based on the first 7 months of the biennium. 2017 retirements were above average and, consequently, retirement payments are exceeding our forecasts for both Tier One and Tier Two Pension Programs and the

Budget Execution Report

04/02/18

Page 2 of 2

Individual Account Program (IAP). Pension (Tier One, Tier Two and OPSRP) payments are trending at 6.9% over last year versus an average of 5.0% for the same period in the last five years.

From a budgeting viewpoint, the more pressing issue is the growth in IAP payments. IAP payments have surged to an average growth rate of 67.9% over the first 7 months compared to the same period last year, and an average of 16.2% over the same period for the last five years. PERS expects this trend to continue as the “eligible to retire” population remains high.

Therefore, we anticipate needing to process an increase in the agency’s Non-Limited budget. PERS will continue to monitor this trend closely through September 2018 to allow for the agency to complete processing of July retirements, which represent the highest volume of pension payments. At that time, PERS will review the remaining projections and make any necessary requests for additional Non-Limited budget.

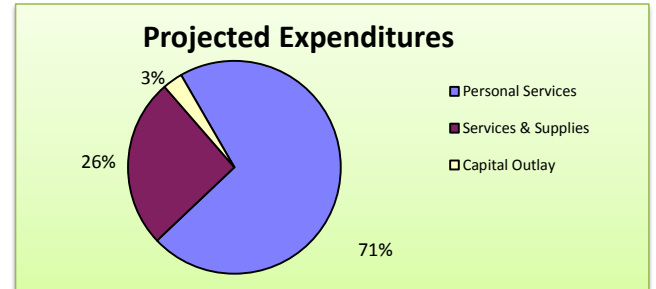
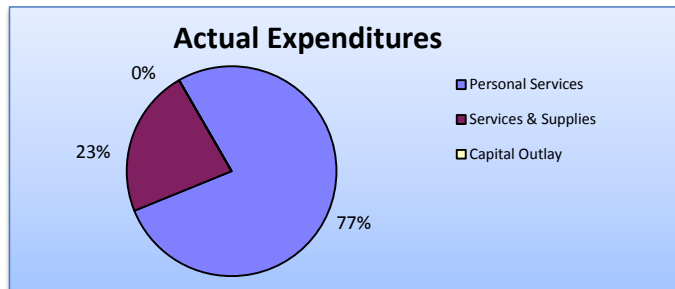
A.3.c. Attachment 1 – 2017-19 Agency-wide Budget Execution Summary Analysis

**2017-19 Agency-wide Budget Execution
Summary Budget Analysis
Preliminary For the Month of February 2018**

Limited - Operating Budget

2017-19 Biennial Summary

Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expenditures	2017-19 LAB	Variance
Personal Services	21,817,948	47,692,312	69,510,260	70,836,969	1,326,709
Services & Supplies	6,448,094	17,193,343	23,641,437	26,316,683	2,675,246
Capital Outlay	0	2,039,808	2,039,808	1,294,352	(745,456)
Total	28,266,042	66,925,463	95,191,505	98,448,004	3,256,499



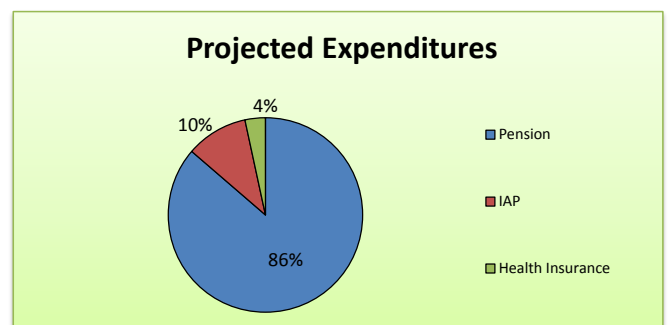
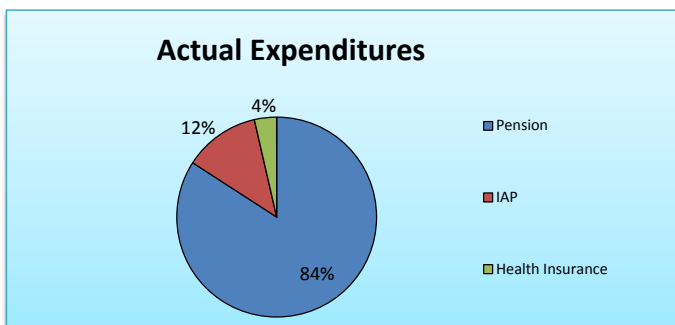
Monthly Summary

Category	Actual Exp.	Projections	Variance	Avg. Monthly Actual Exp.	Avg. Monthly Projected Exp.
Personal Services	2,713,294	2,954,157	240,864	2,727,244	2,980,770
Services & Supplies	1,111,380	1,170,179	58,799	806,012	1,074,584
Capital Outlay	0	0	0	0	127,488
Total	3,824,674	4,124,336	299,663	3,533,256	4,182,842

Non-Limited Budget

2017-19 Biennial Summary

Programs	Actual Exp To Date	Projected Expenditures	Total Est. Expenditures	Non-Limited LAB	Variance
Pension	2,761,453,010	6,750,284,338	9,511,737,348	9,122,000,000	(389,737,348)
IAP	402,420,129	805,120,998	1,207,541,127	1,056,900,000	(150,641,127)
Health Insurance	118,144,932	264,236,035	382,380,967	815,271,000	432,890,033
Total	3,282,018,071	7,819,641,371	11,101,659,442	10,994,171,000	(107,488,442)





Oregon

Kate Brown, Governor

Public Employees Retirement System

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April 2, 2018

TO: Members of the PERS Board

FROM: Jason Stanley, Chief Compliance, Audit, and Risk Officer

SUBJECT: Review the Annual Report of Financial Transactions of the Executive Director for the fiscal year ended June 30, 2017

REQUESTED ACTION

In accordance with PERS policy and procedure, the Chair of the Audit Committee has reviewed the summary of salary, benefits, personnel expenses, travel, and other financial charges incurred by PERS Executive Director Steve Rodeman in the aggregate amount of \$265,014. This amount covers the period of July 1, 2016, through June 30, 2017. Details of this amount were provided at the February 2, 2018 Audit Committee meeting. The financial records supporting this summary are maintained in the Financial and Administrative Services Division (FASD).

BACKGROUND

Oregon Accounting Manual (OAM) policy number 10.90.00.PO requires boards and commissions to establish a formal structure to ensure the proper review and approval of the agency head's financial transactions. This is supported by PERS policy number 1.01.02.00.001.POL.

The policy requires the Chief Compliance, Audit, and Risk Officer or Chief Administration Officer to review and approve all financial transactions of the Executive Director, including monthly timesheets, travel claims (both in-state and out-of-state), Small Purchase Order Transaction System (SPOTS) card purchases, etc. The policy also requires that the Chair of the Audit Committee report to the Audit Committee and the PERS Board annually that they have reviewed the Executive Director's financial transactions, and that their review and approval be documented in the Board meeting minutes.

I approved and reviewed the detailed transactions (payroll time reports, travel expense reimbursement claims, and SPOTS card purchases) of the PERS Executive Director for the period of July 1, 2016, through fiscal year ended June 30, 2017, and found no exceptions or inappropriate transactions. During this period, the Executive Director had no exceptional performance leave or vacation payouts.

The PERS Board minutes for this meeting will reflect receipt of this report on the Executive Director's financial transactions for the fiscal year ended June 30, 2017, as submitted by the Chief Compliance, Audit, and Risk Officer in compliance with OAM 10.90.00 PO.



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April 2, 2018

TO: Members of the PERS Board

FROM: Stephanie Vaughn, Manager, Policy Analysis & Compliance Section

SUBJECT: Adoption of IRC and Social Security Limitations Rules:
OAR 459-005-0525, *Ceiling on Compensation for Purposes of Contributions and Benefits*
OAR 459-005-0545, *Annual Addition Limitation*
OAR 459-017-0060, *Reemployment of Retired Members*
OAR 459-080-0500, *Limitation on Contributions*

OVERVIEW

- Action: Adopt modifications to the IRC and Social Security Limitations rules.
- Reason: Update rules to reflect the 2018 Internal Revenue Code (IRC) and Social Security annual compensation limitations for retirement contributions and benefits.
- Policy Issue: None identified.

BACKGROUND

The Internal Revenue Service revises various dollar limits annually based on cost-of-living adjustments. These revisions are used throughout the PERS plan's statutes and rules, but revisions to the limits must be adopted by the legislature or PERS Board to be effective.

The proposed rule modifications incorporate these federal adjustments for calendar year 2018 and are necessary to ensure compliance with the federal limits on the amount of annual compensation allowed for determining contributions and benefits, annual benefits, and annual additions to PERS.

Also, under ORS 238.082, a Tier One or Tier Two retired member who is receiving Social Security benefits and who returns to PERS-covered employment may continue to receive their PERS retirement benefits so long as they work less than 1,040 hours or do not exceed any related Social Security annual compensation limits. The proposed modifications to OAR 459-017-0060 adopt the 2018 Social Security earnings limitations. For these increases to be effective, the PERS Board must adopt these rule modifications.

SUMMARY OF MODIFICATIONS TO RULES SINCE NOTICE

No modifications were made to the rules.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held February 27, 2018, at 2:00 p.m. at PERS headquarters in Tigard. No members of the public attended. The public comment period ended March 7, 2018, 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, statute requires the Board to update its rules to reflect revisions by the IRS and Social Security Administration.

Impact: Clarifies the limits for contributions and benefits under federal law for calendar year 2018.

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

RULEMAKING TIMELINE

January 29, 2018	Staff began the rulemaking process by filing a Notice of Rulemaking with the Secretary of State.
February 1, 2018	Secretary of State published the Notice in the Oregon Administrative Rules Database. Notice was sent to employers, legislators, and interested parties. Public comment period began.
February 2, 2018	PERS Board notified that staff began the rulemaking process.
February 27, 2018	Rulemaking hearing held at 2:00 p.m. at PERS in Tigard.
March 7, 2018	Public comment period ended at 5:00 p.m.
April 2, 2018	Board may adopt the permanent rule modifications.

BOARD OPTIONS

The Board may:

1. Pass a motion to “adopt modifications to the IRC and Social Security Limitations 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: Update rules to reflect the 2018 Internal Revenue Code (IRC) and Social Security annual compensation limitations for retirement contributions and benefits.

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 - 459-005-0525, *Ceiling on Compensation for Purposes of Contributions and Benefits*

B.1. Attachment 2 - 459-005-0545, *Annual Addition Limitation*

B.1. Attachment 3 - 459-017-0060, *Reemployment of Retired Members*

B.1. Attachment 4 - 459-080-0500, *Limitation on Contributions*

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

1 **459-005-0525**

2 **Ceiling on Compensation for Purposes of Contributions and Benefits**

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

7 (2) Definitions:

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

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

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

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

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

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

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

5 (4) For noneligible participants, the annual compensation taken into account for
6 purposes of determining contributions or benefits under ORS Chapters 238 and 238A
7 shall be measured on a calendar year basis, and shall not exceed [~~\$270,000~~] \$275,000 per
8 calendar year beginning in [~~2017~~] 2018.

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

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

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

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

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

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

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

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

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

16 Stats. Implemented: ORS chapters 238 & 238A

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

1 **459-005-0545**

2 **Annual Addition Limitation**

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

7 (2) Annual Addition Limitation. Except as otherwise provided in this rule, a
8 member’s annual additions to PERS for any calendar year after ~~2016~~ 2017 may not
9 exceed ~~[\$54,000]~~ \$55,000 (as adjusted under IRC Section 415(d)).

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

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

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

19 (b) With respect to any eligible participant, the annual addition limitation in section
20 (2) of this rule shall not be applied to reduce the amount of permissive service credit to an
21 amount less than the amount that could be purchased under the terms of the plan as in

1 effect on August 5, 1997. As used in this subsection, the term “eligible participant”
2 includes any individual who became an active member before January 1, 2000.

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

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

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

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

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

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

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

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

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

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

1 **459-017-0060**

2 **Reemployment of Retired Members**

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

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

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

9 (b) If the retired member is receiving retirement, survivors, or disability benefits
10 under the federal Social Security Act, the period or periods of employment total less than
11 either 1,040 hours in a calendar year, or the total number of hours in a calendar year that,
12 at the retired member’s specified hourly rate of pay, would cause the annual
13 compensation of the retired member to exceed the following Social Security annual
14 compensation limits, whichever is greater.

15 (A) For retired members who have not reached full retirement age under the Social
16 Security Act, the annual compensation limit is ~~[\$16,920]~~ \$17,040; or

17 (B) For the calendar year in which the retired member reaches full retirement age
18 under the Social Security Act and only for compensation for the months before reaching
19 full retirement age, the annual compensation limit is ~~[\$44,880]~~ \$45,360.

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

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

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

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

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

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

12 (B) If the retired member retired at a reduced benefit under the provisions of ORS
13 238.280(1) or (3), the retired member is not so employed until more than six months after
14 the member’s effective retirement date and the member’s retirement otherwise meets the
15 standard of a bona fide retirement;

16 (d) The retired member meets the requirements of section 2, chapter 499, Oregon
17 Laws 2007, as amended by section 1, chapter 108, Oregon Laws 2015;

18 (e) The retired member meets the requirements of section 2, chapter 475, Oregon
19 Laws 2015;

20 (f) The retired member is employed for service during a legislative session under
21 ORS 238.092(2);

22 (g) The retired member meets the requirements of ORS 238.088(2), and did not
23 retire at a reduced benefit under the provisions of ORS 238.280(1), (2) or (3); or

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

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

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

8 (a) Is assigned to the position of the employee; and

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

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

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

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

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

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

1 (iii) If the member received a single lump sum payment under ORS 238.305(4) or
2 238.315, the member is entitled to the payment provided the payment was dated on or
3 before the last day of the month in which the limitations were exceeded.

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

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

8 (C) The member's account must be rebuilt in accordance with the provisions of
9 section (9) of this rule.

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

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

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

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

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

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

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

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

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

7 (a) PERS will cancel the member’s retirement effective the date the member is
8 reemployed.

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

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

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

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

22 (d) If the member elected a partial lump sum option under ORS 238.305(2), the last
23 monthly service retirement allowance payment to which the member is entitled is for the

1 month before the calendar month in which the member is reemployed. The last lump sum
2 or installment payment to which the member is entitled is the last payment due before the
3 date the member is reemployed. Upon subsequent retirement, the member may not
4 choose a different benefit payment option unless the member has repaid to PERS in a
5 single payment an amount equal to the lump sum and installment benefits received and
6 the earnings that would have accumulated on that amount.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

22 (a) PERS will cancel the member’s retirement effective the date the member is
23 reemployed.

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

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

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

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

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

14 (12) The provisions of paragraphs (9)(c)(B), (9)(d)(B), and (9)(e)(B) of this rule are
15 applicable to retired members who reestablish active membership under ORS 238.078
16 and this rule and whose initial effective retirement date is on or after March 1, 2006.

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

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

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

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

6 (14) Sick leave. Accumulated unused sick leave reported by an employer to PERS
7 upon a member’s retirement, as provided in ORS 238.350, may not be made available to
8 a retired member returning to employment under sections (2) or (9) of this rule.

9 (15) Subsections (4)(c) and (4)(d) of this rule are repealed effective January 2, 2026.

10 (16) Subsection (4)(e) of this rule is repealed effective June 30, 2018.

11 Stat. Auth.: ORS 238.650

12 Stats. Implemented: ORS 238.078, 238.082, 238.088, 238.092, 399.075, 2007 OL
13 Ch. 499 & 774, 2015 OL Ch. 108 & 475

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

1 **459-080-0500**

2 **Limitation on Contributions**

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

4 (a) “Annual addition” has the same meaning given the term in 26 U.S.C. 415(c)(2).

5 (b) “Compensation” has the same meaning given the term in 26 U.S.C. 415(c)(3)(A).

6 (2) Annual addition limitation. Except as otherwise provided in this rule, the annual
7 addition to a member account for any calendar year may not exceed ~~[\$54,000]~~ \$55,000
8 effective January 1, ~~[2017]~~ 2018.

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

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

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

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

17 Stat. Auth.: ORS 238A.450

18 Stats. Implemented: ORS 238A.370



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Kate Brown, Governor

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April 2, 2018

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

2018 LEGISLATIVE SESSION

The 2018 Legislative Session ended Saturday, March 3, and it was an active one for PERS. The following bills were approved by the legislature and we are proceeding with implementation:

Bill Number	Bill Summary (may not reflect all of the bill's content)
Policy Bills that Impact Defined or Limited Populations	
HB 4012	Extends the sunset from June 30, 2018 to June 30, 2023 on provisions allowing PERS Tier One or Tier Two retirees to be reemployed by a PERS employer as a teacher of Career and Technical Education without loss of their retirement benefit.
HB 4046	Provides that outside compensation of PERS-participating employees of OHSU, public universities, or community colleges is not included in the employee's salary for purposes of PERS.
SB 1546	Allows creditable service performed by a judge member of PERS to count toward the hours of service required to vest in their pension benefit of OPSRP.
Policy Bills that Impact All Members or Employers	
HB 4159	Directs the PERS Board, with consultation from the Oregon State Treasury, to approve rules to allow members to direct the investment of their Individual Account Program (IAP) into an approved investment option.
SB 1529	Establishes the Employer Incentive Fund and School Districts Unfunded Liability Fund and the revenue source for each.
SB 1566	Establishes the Employer Incentive Fund and the UAL Resolution Program for PERS-participating employers to use to reduce their UAL. Establishes the School Districts UAL Fund and the revenue sources thereof. Requires the PERS Board to adopt rules for use of funds and for the program.
Budget Bills that have some Policy Impact	
HB 4163	Requires the Secretary of State to perform an independent review of the PERS actuarial valuation. The first review must be complete by December 31, 2019.
HB 5201	Increases the PERS 2017-19 Legislatively Approved Budget by specific amounts for: an actuarial audit; Information Security personnel; Information Security contractor resources; Security and Risk Officer; Target Date Fund contractor resources; and common salary adjustments.

BUDGET and INFORMATION TECHNOLOGY REQUESTS or PRESENTATIONS

PERS reported to the Joint Committee on Information Management and Technology on the status of the following topics:

- Development and implementation of an industry standard Cyber Security Program, including defining the long-term maintenance, operation, and funding plans for the program;
- Status of the Individual Account Program;
- A comprehensive State Data Center usage analysis and report on the feasibility study findings; and
- Development and implementation of an industry standard Disaster Recovery Program, Business Continuity Program, and disaster recovery warm site.

Budget and position requests that were presented to the Ways and Means Subcommittee on General Government in January were ultimately approved by the Committee on Ways and Means during the February session. The approved requests included:

- **Target Date Fund Implementation** - *Request:* Increase Other Funds limitation by \$200,000 in the Information Services Division.
- **Security Officer Position** - *Request:* Increase Other Funds limitation \$176,661 in the Compliance, Audit, and Risk Division to establish an Information Security and Risk Officer permanent position effective March 1, 2018.
- **Technical Operations Staff Restoration** - *Request:* Increase Other Funds limitation by \$281,174 in the Information Services Division to establish Information Systems Specialist 6 and Information Systems Specialist 7 positions to be effective March 1, 2018, and reimburse \$206,000 for IT professional services.
- **Actuarial Audit** - *Request:* Increase Other Funds limitation by \$80,000 in the Compliance, Audit, and Risk Division.

As required by law, we also presented the Preliminary Earnings Crediting Report to the Ways and Means Committee through the subcommittee on General Government, who acknowledged receipt of the report. We received no comment or direction that would affect your adoption of final crediting that will be considered today.

INTERIM LEGISLATIVE ACTIVITIES

PERS will make requests to the Emergency Board during May 2018 Legislative Days regarding the implementation of HB 4159 and SB 1566, and other agency activities; further requests are likely during September Legislative Days as progress is made towards implementing these bills. We also anticipate reporting in May to the Joint Committee on Information Management and Technology on the status of the IAP Administration project and other programs.

Additionally, I had previously reported that the agency would not request that any legislative concepts be considered for drafting in the 2019 session. Instead, we will now request that two placeholder bill concepts be submitted through the bill drafting process to be used if we need any statutory clarification around the implementation of HB 4159 or SB 1566.



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April 2, 2018

TO: Members of the PERS Board
FROM: Stephanie Vaughn, Manager, Policy Analysis & Compliance Section
SUBJECT: Administrative Rules Implementing HB 4159 (2018)

BACKGROUND

On September 20, 2017, the Oregon Investment Council (OIC) adopted a Target Date Fund (TDF) investment structure for the Individual Account Program (IAP). This new investment structure groups member accounts together in TDFs based on the year of birth and adjusts the investment allocation as each group approaches retirement. House Bill 4159 (2018) introduces “member choice” to the new TDF investment structure.

SUMMARY OF HOUSE BILL 4159

House Bill 4159 directs the PERS Board, in consultation with the Office of the State Treasurer, to adopt rules allowing members with Individual Account Program (IAP) accounts to elect to have the Oregon Investment Council (OIC) invest their accounts in any investment option approved by the OIC, as opposed to being assigned a risk category strictly based on the member’s year of birth. The bill allows a member to make this election once per calendar year, to be effective January 1st of the following calendar year. The bill also specifically requires PERS to allow members to make an election that becomes effective January 1, 2019.

House Bill 4159 specifies that, should a private provider be needed to implement aspects of this bill, the Board shall establish procedures for inviting proposals and awarding contracts but that the Board will not be subject to the Public Contracting Code provisions in ORS Chapter 279A or 279B regarding those contracts.

The PERS Board is specifically prohibited from adopting rules to carry out this bill if it violates state or federal laws or regulations. Finally, the Office of the State Treasurer has until December 31, 2018, to notify the PERS Board if it determines that legal or fiduciary standards prohibit the implementation of the bill and the PERS Board must not implement the bill if so noticed.

STATUS OF RULES FOR IMPLEMENTATION

While HB 4159 was moving through the legislative process, the Office of the State Treasurer expressed concern regarding legal and fiduciary issues related to the bill. An amendment was adopted to address Treasury’s concern, providing them the opportunity for additional evaluation and the authority to prevent implementation of the bill if it would violate state or federal laws or regulations. PERS has and will continue to partner with Treasury in addressing these concerns and consult with them on development of the administrative rules, as required by the bill. Unless, and until, Treasury notifies PERS that implementation is not possible, PERS will take all steps necessary to implement the bill, with some minor adjustments to our usual rulemaking process.

ANTICIPATED RULE TIMELINE

PERS staff are working to identify administrative and policy issues associated with implementing HB 4159. Having just established rules for the administration of TDFs, we have an excellent base from which to begin. When rules to implement Member Choice are presented for notice, we anticipate presenting policy questions similar to the questions presented with the TDF rules (i.e. how to handle special circumstances). Staff are currently working through the analysis and developing recommendations.

The PERS Financial and Administrative Services Division has indicated that, to make any shifts in IAP investments effective January 1, 2019, we will need members to make their TDF elections by September 30, 2018. Implementation will require rules to provide an administrative structure for the election process, and the September 30, 2018 date provides a very short timeframe in which to complete rulemaking and allow members to make elections.

Staff anticipates bringing forward temporary rules for adoption at the June Board meeting that will provide the administrative structure for staff to implement the bill. Also at the June Board meeting, PERS will notice the permanent rules which the Board can adopt at its August meeting (before the temporary rules expire). If Treasury determines that its legal and fiduciary concerns cannot be resolved, PERS can withdraw the rules before adoption.

Although at this point it is not anticipated, there is a possibility that we may need to adopt the temporary rules before the June Board meeting. If a special Board meeting is required, staff will coordinate with the Board members on scheduling.



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April 2, 2018

TO: Members of the PERS Board
FROM: Stephanie Vaughn, Manager, Policy Analysis & Compliance Section
SUBJECT: Administrative Rules Implementing Senate Bill 1566 (2018)

BACKGROUND

In May 2017, Governor Kate Brown appointed the PERS UAL Task Force to investigate and identify potential funding sources that would provide up to \$5 billion to address PERS' unfunded actuarial liability (UAL). The task force submitted its report to Governor Brown on November 1, 2017. The Governor put forward Senate Bill 1566 (2018), which incorporates some of the recommendations made by the Task Force.

SUMMARY of SENATE BILL 1566

Senate Bill 1566 establishes an Employer Incentive Fund (EIF) to encourage employers to make additional one-time lump sum payments to pay down their UAL by matching either a maximum of 25% of a qualifying lump-sum payment or \$300,000, whichever is lower. The bill directs the PERS Board to establish the qualifications for lump sum payments to be eligible for matching funds from the EIF. Employers must submit the application for the matching fund no later than December 31, 2019, make the qualifying lump-sum payment no later than July 1, 2023, participate in the Unfunded Actuarial Liability Resolution Program as described below, and the qualifying lump-sum payment cannot come from money borrowed by an employer (i.e. pension obligation bonds). The bill provides that EIF matching payments will be made available first to employers with a UAL that is more than 200 percent of payroll. The bill also allows for transfers from the EIF to the Benefits-In-Force reserve under ORS 238.670(2).

For employers that make a lump sum payment under ORS 238.229 that is \$10 million or greater and is not sourced from pension obligation bonds, the PERS Board must allow such employers to pick an amortization period of 6, 10, 16 or 20 years for that payment.

Senate Bill 1566 establishes a School District Employer Rate Pool and defines its revenue sources to include proceeds from excess debt collection, capital gains tax, estate taxes, and proceeds from unclaimed property. This is a new single pooled side account for school district employers.

The bill establishes the Unfunded Actuarial Liability Resolution Program (UALRP) that requires PERS to assist employers with developing plans to improve their funded status and manage their contribution rate changes into the future. Employers are not required to participate in the program, unless they are applying for matching funds from the EIF.

STATUS OF ADMINISTRATIVE RULES for IMPLEMENTATION

For administrative rule purposes, the bill can be broken down into three parts: 1) the Employer Incentive Fund; 2) the pooled side account for school district employers; and 3) the Unfunded Actuarial Liability Resolution Program. PERS staff are working with the Governor's Office and

will engage other stakeholders, including participating employers, as we work through our analysis and development of policy recommendations. Note that we also anticipate potential statutory adjustments or clarifications to SB 1566 during the 2019 Legislative Session.

Employer Incentive Fund (EIF)

The bill requires the Board to adopt rules to implement the EIF and specifies certain requirements for the program to be covered in the rules, such as maximum matching amounts, application and payment deadlines, and participation in the UALRP. According to the bill, the EIF will be held at Treasury, separate from the General Fund and outside of the Public Employees Retirement Fund. Staff have raised a number of policy questions that will be presented with the rules.

Pooled Side Account for School District Employers

The new side account established under SB 1566 for school district employers is a pooled side account. All existing side accounts have been established for individual employers under ORS 238.229. The bill directs the Board to establish rules addressing proportional distributions from the new side account, as well as its amortization and general administration. This new side account will be administered in the same manner as the individual employer side accounts, with modifications as needed to accommodate the nature of multiple employers in one side account. Staff anticipates policy questions with these rules, particularly in the areas with which the bill provides the Board discretion (e.g., proportional distribution and amortization).

Unfunded Actuarial Liability Resolution Program

The bill requires PERS to provide technical expertise to employers regarding their UAL and managing their employer rates. Staff will work with the Governor's Office and stakeholders to develop recommendations regarding the structure and parameters of this new program.

ANTICIPATED ADMINISTRATIVE RULE TIMELINE

Employer Incentive Fund (EIF)

The EIF will require new rules and amendments to our existing employer side account rules. The bill requires PERS to wait until "...the Board determines that there are sufficient moneys in the Employer Incentive Fund" before accepting applications. The bill also requires employers to apply for matching funds under the EIF by December 31, 2019. There is only one funding source that has been identified at this time: Senate Bill 1529 provides that 18 percent of the increase in corporate tax revenue, as defined in Section 31(1) of the bill, be directed to the EIF. However, the date for such distribution is "...on or before July 1, 2021". Staff anticipates notice of the EIF rules at the PERS Board's meeting in October 2018.

Pooled Side Account for School District Employers

The School District Employers side account will require new rules. Funding for this side account may begin in January 2019. Staff anticipates notice of these rules at the PERS Board's meeting in August 2018.

Unfunded Actuarial Liability Resolution Program (UALRP)

The UALRP will require new rules which staff anticipates noticing in October 2018.



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April 2, 2018

TO: Members of the PERS Board
FROM: Stephanie Vaughn, Manager, Policy Analysis & Compliance Section
SUBJECT: Administrative Rules Implementing House Bill 4012 & Senate Bill 1546 (2018)

BACKGROUND

Two bills approved during the 2018 Legislative Session require amendments to existing administrative rules as part of the implementation process. At this time, we have not identified any policy questions associated with the implementation of these bills and anticipate bringing forward rule amendments for notice at the June 1, 2018 Board meeting.

HOUSE BILL 4012

The work-after-retirement exception for Tier One or Tier Two career and technical education (CTE) teachers was originally approved in House Bill 3058 (2015), which established a sunset date of June 30, 2018, for the exception. House Bill 4012 (2018) extends current work after retirement exception for retirees employed by a school district or education service district as a CTE teacher from June 30, 2018 to June 30, 2023. With the passage of HB 4012, there will be no gap in coverage for retired members currently working under the exception. OAR 459-017-0060 will need to be amended to extend the sunset date.

SENATE BILL 1546

Prior to passage of Senate Bill 1546 (2018), if an unvested OPSRP member became a judge and subsequently performed fewer than 600 hours of service as an OPSRP member in each of five consecutive calendar years, that member forfeited their OPSRP retirement credit at the end of the fifth calendar year. The statutes for OPSRP members specifically exclude judge members as “eligible employees” so they were statutorily blocked from using their judge service time to vest in their OPSRP membership.

SB 1546 allows judge members to use hours of service worked as a judge toward vesting as an OPSRP member. Staff is still evaluating the administrative impact of this bill to determine what rule amendments are needed for implementation.



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April 2, 2018

TO: Members of the PERS Board
FROM: Yvette Elledge-Rhodes, Deputy Director
SUBJECT: IAP Target-Date Fund Project Update

BACKGROUND

At the September 20, 2017 Oregon Investment Council (OIC) meeting, the OIC adopted a new Target-Date Fund (TDF) investment strategy for the Individual Account Program (IAP) effective January 1, 2018. This decision resulted in changes to the IAP investment structure by establishing TDFs in five-year vintages that reflect gradually more conservative investment mixes as a member ages.

PROJECT ACTIVITIES

This project was initiated to integrate the OIC's new TDF structure into our IAP administrative processes. However, House Bill 4159 was passed in the 2018 session to allow members to choose their IAP investment among the TDF options. Therefore, this project will be re-baselined to reflect these increased deliverables since most of the processes and staff resources overlap.

Recent project activities include:

- Identifying high-level milestones and constraints regarding the extended timeline and expanded project scope as a result of adding member choice implementation.
- Developing a more robust process to validate the data between Voya and PERS. This area has been particularly challenging and can have an impact on all financial transactions.
- The team is re-evaluating the TDF communication plan in light of Member Choice.

PERS staff will continue to update the Board as project implementation progresses.



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April 2, 2018

TO: Members of the PERS Board
FROM: Yvette Elledge-Rhodes, Deputy Director
Mary Dunn, Chief Administrative Officer
SUBJECT: IAP Member Choice Implementation

BACKGROUND

With the passage of House Bill 4159 in the 2018 legislative session, PERS is working through implementation of “Member Choice” for the IAP Program, effective January 1, 2019. Though members have never had a choice in how their IAP account was invested, this bill allows them to exercise some direction over their IAP account, choosing that their account be invested in a Target Date Fund (TDF) according to their risk tolerance, other than the one assigned by birth year. PERS staff are reviewing the impact of Member Choice in the following areas:

1. *Earnings Crediting and Financial Reporting* – The change to a TDF investment policy has required PERS to develop a new IAP administration model: instead of a single earnings rate for IAP accounts, PERS must now derive earnings rates across 10 TDFs. A member choice model adds the further complexity of moving accounts from one TDF to another at designated intervals and aligning investment returns to those shifting balances.
2. *Member Education and Communication* – Giving members an investment choice will require informing them about that choice, capturing their elections if they choose to make one, and then tracking their preferences over time as they choose (or not) to shift their investment mix further. This effort will require basic education on TDFs and, perhaps, licensed investment advisors if members seek direction on their individual choices.
3. *Technology* – PERS currently uses a third-party administrator (TPA) to provide payment processing and recordkeeping services for the IAP program. Member choice will require PERS to re-negotiate with the TPA, perhaps folding in assistance with member communications and payment processing, to implement a member choice option in a short timeframe.
4. *Policy* – HB 4159 directed PERS to adopt rules in consultation with the Oregon State Treasury (OST). As PERS reviews our Oregon Administrative Rules, we will be working with OST to ensure that our policies are aligned.

PLANNING ACTIVITIES

Due to the short implementation time, staff are focused on the immediate needs:

- Project support ~ Internally this work will be folded in with the TDF Project. PERS will also require professional consultation services to assist in incorporating Member Choice.
- Budget ~ PERS will be requesting funding through the May and September E-Boards.
- Communication plan ~ Staff are currently re-evaluating our TDF communication plan.

PERS staff will update the Board as project implementation progresses.



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April 2, 2018

TO: Members of the PERS Board

FROM: Amanda Marble, Financial Reporting Coordinator
Mary Dunn, Chief Administration Officer

SUBJECT: 2017 Final Earnings Crediting and Reserving

OVERVIEW

- Action: Allocate 2017 Final Earnings Crediting.
- Subject: Crediting earnings for calendar year 2017 to the PERS Fund's accounts and reserves.

The PERS Board is charged with crediting the 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 the February 2, 2018 meeting, the PERS Board adopted preliminary earnings allocations. That preliminary allocation was reported to and acknowledged at a meeting of the Joint Ways and Means Subcommittee on General Government on February 19, 2018, and subsequently by the full committee. We received no further comments or directions as a result of that report.

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:** PERS administrative costs are funded by earnings when they are sufficient, as they were in 2017 (ORS 238.610(1)). As directed by House Bill 4155 (2014 Regular Session), the administrative costs to comply with Governmental Accounting Standards Board (GASB) 68 reporting standards were \$142,577, and will be recovered from earnings on employer's contributions.
2. **Health Insurance Accounts:** These accounts are created as part of the PERS Fund and directed by statute to be credited with actual earnings or losses, less the expense related to the administration of the programs (ORS 238.410(7); 238.415(4); 238.420(4)). For 2017, the final crediting rate for these accounts are 14.78% for RHIA, 9.80 % for RHIPA, and -1.13% for SRHIA (invested in the Treasury Short-Term Fund).
3. **Employer Lump Sum Payment Accounts:** These accounts are credited with actual earnings or losses of the PERS Fund Regular Account less administrative expenses, as authorized by ORS 238.225. For 2017, the final crediting rate for these accounts average 15.64%.
4. **Variable Annuity Account:** This account is credited with earnings and losses on its distinct asset allocation 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 PERS Fund Regular Account. For 2017, final Variable Annuity Account earnings are 26.48%

5. **Individual Account Program (IAP):** These member accounts are credited with actual earnings or losses of the PERS Fund Regular Account as required by ORS 238A.350(1). Final IAP earnings for 2017 are calculated to be 14.72% after deducting IAP expenses.
6. **Tier One Rate Guarantee Reserve:** This reserve, established under ORS 238.255(1), is used to fund crediting of the assumed rate to Tier One member regular accounts when earnings are less than the assumed rate. Because earnings on Tier One member regular accounts for 2017 exceed the assumed rate, those earnings in excess will be credited to Tier One Rate Guarantee Reserve, resulting in a remaining balance of \$510.5 million.

CONTINGENCY RESERVE ALLOCATION

The passage of Senate Bill 1067 in 2017 amended ORS 238.670(1) to limit the Board's crediting of funds to the Contingency Reserve; specifically, "...the board may not credit further amounts to the reserve account if the amounts in the reserve account exceed \$50 million."

As the current balance of the Contingency Reserve is \$50 million, the staff recommends no additional allocation at this time.

2017 FINAL ALLOCATIONS

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

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 (7.50%) in effect during 2017.

Judge Member Accounts

Credit Judge Member Accounts with the assumed earnings rate (7.50%) in effect during 2017.

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 final rate of 15.23%.

Benefits-in-Force and Employer Reserves

Credit the Benefits-in-Force and Employer Reserves evenly with the remaining available PERS Fund Regular Account earnings. The final crediting rate to those accounts is 15.23%.

BOARD ACTION – FINAL EARNINGS CREDITING

The Board's options for 2017 final earnings crediting include:

1. Pass a motion to “adopt the final crediting of earnings as presented for calendar year 2017.”
2. Pass a motion adopting an alternative final allocation of 2017 earnings.

STAFF RECOMMENDATION

Staff recommends the Board choose Option #1.

Attachment:

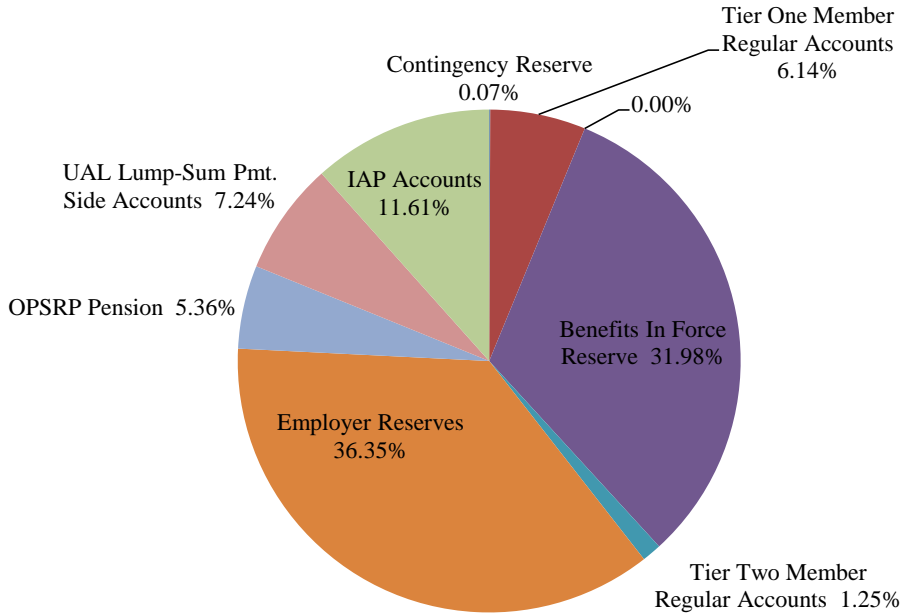
- C.5. Attachment 1 – Final 2017 Accounts and Reserves Crediting

Oregon Public Employees Retirement System Final 2017 Crediting and Reserving

(All dollar amounts in millions)

	Reserves Before Crediting	2017 Crediting	Reserves After Crediting	2017 Rates
Contingency Reserve	\$50.0	-	\$50.0	N/A
Tier One Member Regular Accounts	3,907.5	293.0	4,200.5	7.50%
Tier One Rate Guarantee Reserve	180.8	329.7	510.5	N/A
Benefits In Force Reserve	21,298.1	3,244.4	24,542.5	15.23%
Tier Two Member Regular Accounts	833.5	127.0	960.5	15.23%
Employer Reserves	24,202.3	3,686.6	27,888.9	15.23%
OPSRP Pension	3,562.5	548.6	4,111.1	15.37%
*UAL Lump-Sum Pmt. Side Accounts	4,765.1	792.5	5,557.6	Various
*IAP Accounts	7,794.8	1,117.8	8,912.6	14.72%
Total	\$66,594.6	\$10,139.6	\$76,734.2	

2017 Reserve Balances After 2017 Crediting



*Informational only. Not affected by Board reserving or crediting decisions.
IAP accounts receiving installments have already received 2017 earnings.



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April 2, 2018

TO: Members of the PERS Board
FROM: Linda M. Barnett, Budget Officer
Mary Dunn, Chief Administration Officer
SUBJECT: May 2018 E-Board Requests

To implement the legislation that was adopted during the February 2018 legislative session that affects PERS, we will be submitting requests to the Emergency Board (E-Board) for their consideration in May 2018, with subsequent requests anticipated for September and perhaps even December. Agency requests are directed to bring requests to the E-Board for items specifically deferred by the Legislature and newly legislated assignments. PERS will make the following requests in May:

1. House Bill 4159, approved in the 2018 Session, establishes member choice of a target date fund (TDF) investment for their Individual Account Program (IAP) account. To implement this legislation, PERS will request a \$1,006,812 increase in limitation and establishment of eight new permanent positions as noted below:
 - \$470,056 increase in limitation and establishment of five new permanent positions for communication to and education of members regarding the changes to IAP;
 - \$356,756 increase in limitation and establishment of three new permanent positions for additional financial reporting, accounting, and procurement services; and
 - \$180,000 increase in limitation for Professional Services to allow a vendor to examine, analyze, and plan for enhancements to the current database to retain the history of member TDF elections.
2. Senate Bill 1566, approved in the 2018 Session, establishes the Employer Incentive Fund and the UAL Resolution Program for PERS-participating employers. The measure also establishes the School Districts UAL Fund and the revenue sources thereof. To implement this legislation, PERS will request a \$130,874 increase in limitation and the establishment of one permanent position to review the program and provide employer education and support.
3. PERS will request additional limitation of \$3,211,090 for the final development and deployment of IAP Administration Project by June 30, 2019. PERS originally requested \$2,757,595 in the 2017-19 biennium to complete this Project by January 1, 2019. Instead, PERS received \$1,387,895 for work through June 30, 2018, with the understanding that the agency would request the remainder during the interim. TDF and Member Choice both revised the IAP program to the extent that PERS has had to re-think the IAP administrative model. This request will be to fund this revised project through the balance of the 2017-19 biennium, salvaging pieces of the original functionality and making necessary adjustments to be compatible with the new requirements from TDF and Member Choice.

4. The following technical corrections for position and limitation movement:
 - House Bill 5201 established a Security and Risk Officer position in the Compliance, Audit and Risk Division (CARD). One of the positions this officer supervises is currently in the Information Services Division (ISD). PERS will request that that position, and related limitation, move from ISD to CARD.
 - The Financial & Administrative Services Division (FASD) continues to evaluate the organizational structure of the division; in that review, staff discovered a position that was moved from Central Administration into FASD without its associated limitation during the 2017-19 budget process. PERS will request a correction to this position move.
 - PERS intends to centralize communications positions within the Director's Office (Central Administration). The agency will request that related positions and their limitation be moved from the Operations Division to Central Administration.

ANTICIPATED SEPTEMBER 2018 E-Board REQUESTS

1. To implement Member Choice, PERS needs more time, information, and critical decisions regarding the project before we can present a more thoughtful budget request. Some of this will be resolved in the planning work provided by the vendor we're requesting funds for in May and other pieces will come from collaborating with the Oregon State Treasury on this project. PERS anticipates making a request during the September 2018 E-Board to recover costs incurred and carry out the remainder of an implementation plan.
2. To implement the employer services needed to support the UAL Reduction plans required under Senate Bill 1566, we expect to make additional requests in September:
 - In consideration of the additional funding and calculations that may be requested by employers under this program, PERS foresees the need for additional services from our actuaries. PERS will request additional limitation for Professional Services at the September E-Board once further cost analysis has been performed.
 - The position that we are requesting in the May E-Board will be tasked with establishing the employer UAL programs identified in this bill, and that may require added resources which would be brought forth in September.



Oregon

Kate Brown, Governor

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April 2, 2018

TO: Members of the PERS Board
 FROM: Linda M. Barnett, Budget Officer
 Mary Dunn, Chief Administration Officer
 SUBJECT: 2019-21 Budget Development

OVERVIEW

The 2019-21 State Agency Budget Kick-Off Meeting occurred March 20, 2018. Agencies received guidance regarding budget preparation for the upcoming biennium. The theme shared at this event is a “Future Ready Oregon,” which includes closing the gap in the workforce by preparing it to be the workforce we need in the future.

BUDGET DEVELOPMENT ACTIVITIES

The several bills adopted during the February 2018 legislative session that directly affected PERS caused us to reconsider our strategic initiatives; particularly, the timing and scope of those efforts. We know that we will need additional resources to implement those bills, and therefore have to appear at future Emergency Board (E-Board) meetings in this biennium to request those resources, many of which are related to areas we had already targeted for 2019-21 development (e.g., financial management; benefit processing; information security and risk; member education and communications; and technology).

As you see in these materials elsewhere, our May and September E-Board requests will touch on many of these areas, so we are calibrating our 2019-21 budget development requests based on the results of our May 2018 E-Board requests. As we move through our May E-board activities, we will gain a better understanding of our future needs and will use this information to finalize our budget concepts for introduction at the June 1, 2018 PERS Board meeting.

Final Board approval of the 2019-21 Agency Request Budget will occur during the PERS Board’s meeting on August 3, 2018.