



**OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM**

**BOARD MEETING AGENDA**

<b>Friday</b> <b>May 29, 2020</b> <b>9:00 A.M.</b>	<b>PERS</b> <b>11410 SW 68<sup>th</sup> Parkway</b> <b>Tigard, OR</b>
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	ITEM	PRESENTER
<b>A. Administration</b>		
1.	Board Meeting Minutes <ul style="list-style-type: none"> <li>a. <a href="#">March 30, 2020 Regular Board Meeting</a></li> <li>b. <a href="#">April 24, 2020 Supplementary Board Meeting</a></li> </ul>	SHENOY
2.	<a href="#">Director's Report</a> <ul style="list-style-type: none"> <li>a. <a href="#">Forward-Looking Calendar</a></li> <li>b. <a href="#">OPERF Investment Report</a></li> <li>c. <a href="#">Budget Execution Report</a></li> </ul>	OLINECK
3.	<a href="#">Board Scorecard Report on Agency Performance Measures</a>	RICKARD
<b>B. Administrative Rulemaking</b>		
1.	<a href="#">Notice of SB 1049 Voluntary Contributions - Member Redirect Rule</a>	VAUGHN
2.	<a href="#">Temporary Adoption and Notice of Permanent Rulemaking for Rules to Implement the CARES Act</a>	
3.	<a href="#">Temporary Adoption of COVID-19 Rule</a>	
4.	<a href="#">Adoption of IRC Annual Compensation Limitations Rules</a>	
5.	<a href="#">Adoption of SB 1049 Member Choice Rule</a>	
<b>C. Action and Discussion Items</b>		
1.	<a href="#">PERS Health Insurance Plan Reserve Policy</a>	CHAVEZ
2.	<a href="#">2021 Retiree Health Insurance Plan Renewals and Rates</a>	CHAVEZ
3.	<a href="#">Board Education Policy</a>	OLINECK
4.	<a href="#">SB 1049 Implementation Update</a>	ELLEDGE-RHODES
5.	<a href="#">2021-2023 Agency Budget Development</a>	GABRIEL, HORSFORD
6.	<a href="#">Rate Collaring - Continuation of Discussion</a>	MILLIMAN

*PERS Board members will be utilizing a conference call option for this meeting. The public will not be able to attend the meeting in person. They can listen by telephone only. Listen only phone number: Phone No. (888) 808.6929, Access Code: 8672353*

*Public testimony will be taken on action items at the Chair's discretion. Please submit written testimony to [PERS.Board@state.or.us](mailto:PERS.Board@state.or.us) (three days in advance of the meeting is preferred.)*

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

**2020 Meetings: June 23, July 31\*, October 2, December 4\***  
**\*Audit Committee planned for post-Board meeting**

Sadhana Shenoy, Chair    Lawrence Furnstahl, Vice Chair    Stephen Bupp, Chair    Steve Demarest    Jardon Jaramillo    Kevin Olineck, Director

# OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM BOARD MEETING MINUTES

March 30, 2020

## **Board members present:**

Vice Chair Lawrence Furnstahl, Stephen Buckley, Steve Demarest, and Jardon Jaramillo attended by phone.

## **Staff present:**

Karen Chavez, Katie Brogan, Kevin Olineck, Marjorie Taylor, Richard Horsford, Yvette Elledge-Rhodes attended in person.

Amanda Marble, Jason Stanley, Jordan Masanga, Matt Graves, Sam Paris, Stephanie Vaughn, Yong Yang, Elizabeth Rossman, Dean Carson, Susannah Bodman, Shawn Dempewolf attended by phone.

## **Others present:**

A listen-only conference line was made available for the public and PERS staff.

Vice Chair Furnstahl called the meeting to order at 9:02 a.m.

## **ADMINISTRATION**

### A.1. MEETING MINUTES OF JANUARY 31, 2020

Board member Buckley requested that the minutes for item C.3. be amended. The original minutes attributed a statement that was made by board member Demarest, regarding staff reaching capacity with SB 1049 work, to board member Buckley.

Board member Buckley moved to approve the amended minutes with the suggested change from the January 31, 2020 PERS Board meeting. Board member Demarest seconded the approval of the minutes. The motion passed unanimously.

### A.2. DIRECTOR'S REPORT

Director Kevin Olineck presented the Director's Report. The Director's Report contains information on other activities that the organization is working on that do not appear on the agenda. Olineck noted that the agency had recently completed a tabletop pandemic plan exercise. The team had put a significant amount of work into continuity management plans in 2019, which enabled a quicker response to the COVID-19 threat. The COVID-19 incident response team is meeting daily. Approximately 200 staff are working from home, allowing proper social distancing for the staff remaining onsite.

The follow-up report from Secretary of State IT and Continuity Management Audit was received last week. Of the 16 recommendations, eight are complete, five are partially complete, and three not started.

Olineck presented the forward looking calendar. Two supplementary board meetings were added to address member redirect rules.

The Oregon Public Employees Retirement Fund (OPERF) returns, for the period ending February 29, 2020 were -2.45%. The budget execution report shows a projected variance of \$484,519.

John Skjervem, Oregon State Treasury Chief Investment Officer, presented the Oregon Investment Council (OIC) Investment Report of the Oregon Public Employees Retirement Fund (OPERF) for the period ending December 31, 2019. He reviewed the OPERF 20-year net asset value history, current asset allocation, staffing, fees, cost savings, and the IAP target date funds investment performance summary.

### **ADMINISTRATIVE RULEMAKING**

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

#### **B.1. UPDATE ON SB 1049 MEMBER CONTRIBUTION REDIRECT RULES**

Staff had intended to notice the administrative rules associated with Member Redirect at the March Board meeting and adopt at the May Board meeting. However, the Member Redirect provision has required substantial elaboration, as it touches many different aspects of plan administration. Staff anticipate that this process will result in a significant number of administrative rules being edited and drafted and brought to this board for notice and approval in the coming weeks. In order to provide staff as much time as possible to work through the initial implementation before the July 1, 2020 effective date, the rules will be presented at a special board meeting in late April, and adopted at another special board meeting in late June.

No board action was required.

#### **B.2. NOTICE OF INTERNAL REVENUE CODE LIMITATIONS RULES**

Vaughn presented Notice of Rulemaking for Internal Revenue Code Limitations Rules: *OAR 459-005-0545*, Annual Addition Limitation, *OAR 459-080-0250*, IAP Account Installments, and *OAR 459-080-0500*, Limitation on Contributions. A rulemaking hearing will be held April 28, 2020, at 2:00 p.m. at PERS headquarters in Tigard. The public comment period ends May 5, 2020, at 5:00 p.m.

No board action was required.

#### **B.3. NOTICE OF SB 1049 MEMBER CHOICE RULES**

Vaughn presented Notice of Rulemaking for SB 1049 Member Choice Rule: *OAR 459-080-0015*, Investment of IAP Account Balance. A rulemaking hearing will be held April 28, 2020, at 2:00 p.m. at PERS headquarters in Tigard. The public comment period ends May 5, 2020, at 5:00 p.m.

No board action was required.

### **ACTION AND DISCUSSION ITEMS**

#### **C.1. PERS HEALTH INSURANCE PLAN RESERVE POLICY**

Karen Chavez, PERS Health Insurance Program (PHIP) Manager Presented.

PHIP proposes to reduce the amount of reserves being held over a period of approximately seven to 11 years using the conceptual design model and requested board input on preferred amortization period.

The PERS board discussed options and shared preferences. Board member Buckley suggested seven years. Board member Demarest preferred nine years. Board member Jaramillo and Vice Chair Furnstahl preferred nine or eleven years. Given the stated preferences, PHIP staff will use a nine year amortization period.

At the May board meeting, staff will bring a final recommendation to adopt the preferred option, with this option being incorporated into the proposed PHIP 2021 Rate setting recommendation.

No board action was required.

#### C.2. FINAL 2019 EARNINGS CREDITING AND RESERVING

Richard Horsford, Chief Financial Officer, and Amanda Marble, Financial Reporting Manager, presented.

The final crediting rates as presented include:

Tier One member regular accounts:	7.20%
Tier Two member regular accounts	13.27%
Individual Account Program accounts	13.00%
OPSRP Pension	13.35%

Board member Jaramillo motioned to adopt the final crediting of earnings as presented for calendar year 2019. Board member Buckley seconded. The motion passed unanimously.

#### C.3. SB 1049 IMPLEMENTATION UPDATE

Yvette Elledge-Rhodes, Deputy Director presented.

Elledge-Rhodes gave an update on the five individual projects that make up the SB 1049 Implementation Program. She highlighted program activities that have been completed, or are in process, since the last board meeting. PERS staff will continue to update the board as project implementation continues throughout the next year.

Staff have identified some new risks due to impacts of COVID-19. All projects are now in yellow except the Work After Retirement project.

No board action was required.

#### C.4. REVIEW OF 2020 LEGISLATIVE SESSION

Marjorie Taylor, Senior Policy Advisor presented.

The 2020 Regular Legislative Session adjourned Thursday, March 5. Taylor reviewed the six bills that would have had an impact on PERS statutes or programs that were considered by various committees during session. They were not ultimately approved by the legislature and Governor during the 2020 Regular Session.

During the session, PERS made required reports related to Preliminary Earnings Crediting, Senate Bill 1566 (2018), and implementation of Senate Bill 1049 (2019).

No board action was required.

#### C.5. LEGISLATIVE CONCEPT PROPOSALS – 2021 SESSION

Marjorie Taylor, Senior Policy Advisor, and Stephanie Vaughn, Policy Analysis and Compliance Section Manager, presented.

They reviewed three legislative concepts to be drafted. Concepts are Senate Bill 1049 (2019) Technical Fixes, Treatment of Common-Law Employees, and Individual Account Program and Prior Year Earnings.

Upon board approval of the 2021 package of draft requests, they will be filed with the Department of Administrative Services and Governor's Office for review and further consideration.

Board member Demarest motioned to recommend approval of submitting requests to DAS for drafting Legislative Concepts for the 2021 session. Board member Jaramillo seconded. The motion passed unanimously.

#### C.6. 2021-2023 BUDGET DEVELOPMENT

Richard Horsford, Chief Financial Officer presented.

Horsford provided an update on the latest activities in development of the agency's next budget request. A preliminary budget package will be presented to the PERS Board at the May meeting. Final board approval of the 2021-23 Agency Request Budget will occur during the PERS Board meeting on July 31, 2020.

No board action was required.

#### C.7. RATE COLLARING APPROACH

Scott Preppernau and Matt Larrabee of Milliman presented an overview of the rate collaring approach. The Oregon Secretary of State Actuarial Review in 2019 had recommended a more robust and detailed discussion on the rate collaring approach. With the volatility of the market this quarter, the presentation is timely. The board requested that Milliman plan for further discussions on this matter at future meetings.

Vice Chair Lawrence Furnstahl noted that the board had accepted and read written public testimony Douglas Berg of Eugene (Item A.1. Exhibit 1) and Eric Fruits, Ph.D., Cascade Policy Institute (Item A.1. Exhibit 2).

Vice Chair Furnstahl adjourned the PERS Board meeting at 11:34 a.m.

Respectfully submitted,



Kevin Olineck, Director

**From:** [Douglas Berg](#)  
**To:** [PERS BOARD](#)  
**Subject:** Written testimony for March 30, 2020 PERS Board meeting  
**Date:** Wednesday, March 25, 2020 9:36:06 AM

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Members of the PERS Board:

The long bull market in stocks has finally come to a cataclysmic and terrifying end. The timing could not be worse for the Oregon Public Employees Retirement System and the PERS Board.

The OPERF valuation you are using for rate setting (year-end 2019) is now a distant dream.

While we don't yet have numbers on what the damage to OPERF has been so far, it's possible \$10 billion in value has disappeared.

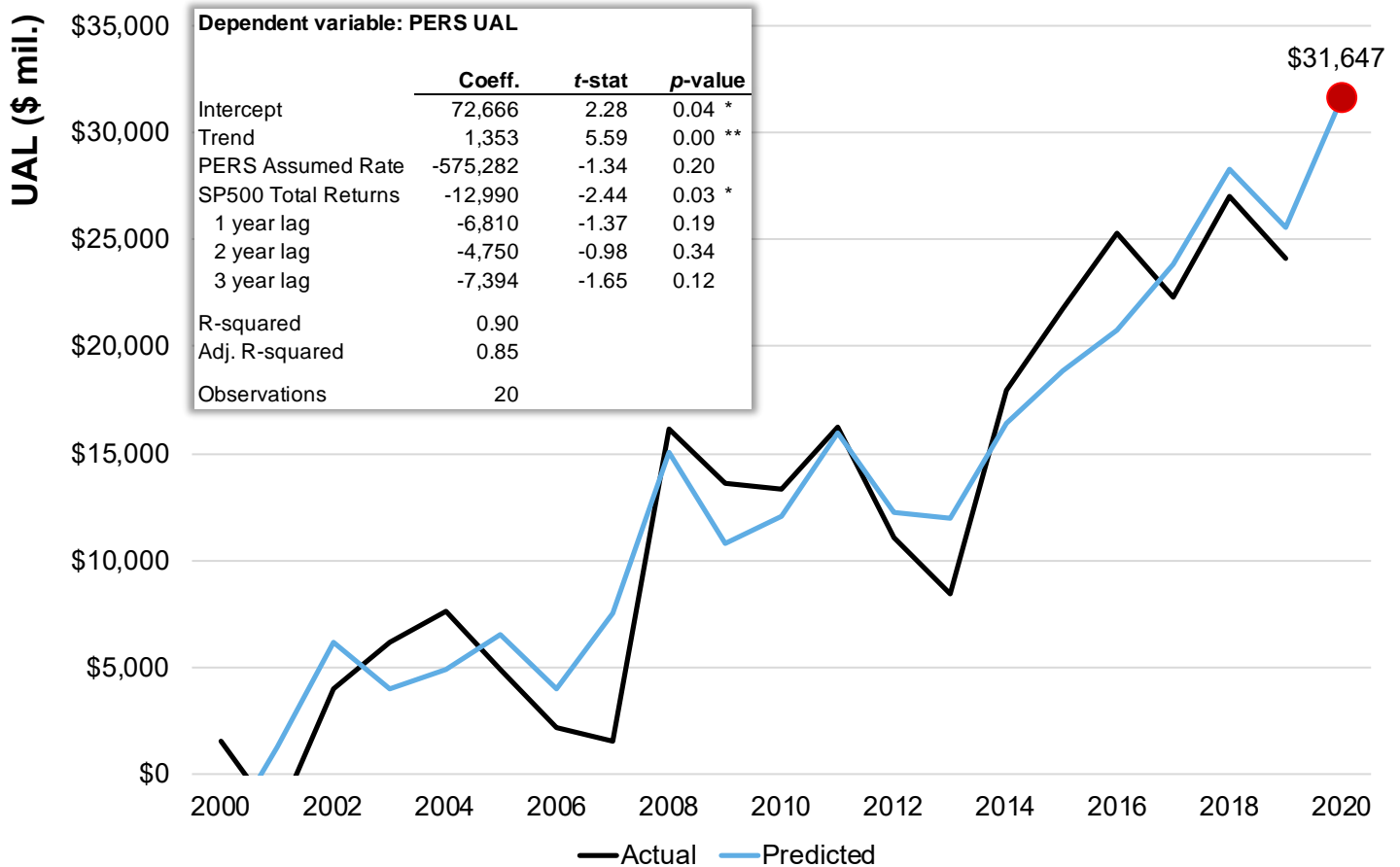
It makes no sense for the PERS Board to continue its rate setting process under these circumstances. The process has been rendered meaningless.

Instead, the PERS Board should suspend its rate setting activities and begin discussions on a path forward given an unfunded liability that overnight has skyrocketed and threatens the survival of the entire system.

This is no time for business as usual.

Douglas Berg  
Eugene  
206 353 2350  
[bergdw@icloud.com](mailto:bergdw@icloud.com)

# WILL A \$30 BILLION PERS SHORTFALL SINK THE STATE?



Coronavirus has hit the economy hard. Nearly all the stock market gains from the past two or three years have been wiped out. This likely to fuel the third major PERS crisis since the dot-com bust.

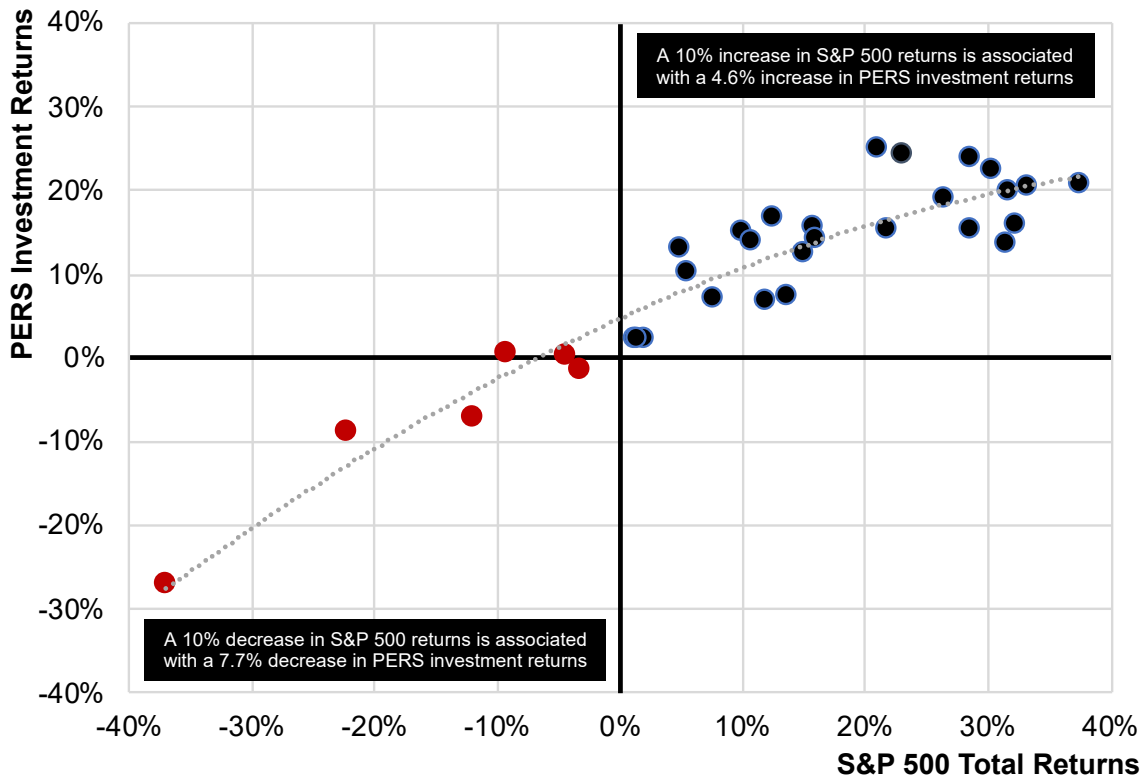
## PERS IS FACING ITS THIRD MAJOR CRISIS IN 20 YEARS

The figure above is based on an econometric estimation of the relationship between the PERS UAL and S&P 500 total returns, which accounts for dividends, distributions, interest, and capital gains. Because gains and losses in the PERS investment portfolio take time to be realized, the econometric model includes lagged S&P 500 total returns. The model has a “good fit” as measured by R-squared—90% of the variation in UAL can be explained by changes in the variables in the model.

The econometric model indicates if S&P 500 total returns end the year down 20%, the PERS UAL will be nearly \$32 billion. Even if the market fully recovers by the end of the year, the PERS UAL will be just under \$30 billion.

## A \$30 BILLION SHORTFALL

The figure on the following page shows that PERS investment returns are highly correlated with S&P 500 total returns. However, the beta on PERS investments is higher when the S&P 500 total returns are negative. In other words, losses on PERS investments during a downturn are bigger than the gains seen in a bull market.



The stock market is down more than 20% from the beginning of the year. That means PERS investments are projected to be down by about 11%. Based on past experience, such a drop would add another \$6 billion to PERS' unfunded liabilities, for a total UAL of about \$32 billion.

Let's say the economy improves and the stock market recovers all its losses, ending the year unchanged from the beginning of the year. PERS investments would be up by about 5%, based on past experience. Even so, PERS unfunded liabilities would increase to approximately \$29 billion.

With a \$30 billion UAL and the associated spike in employer rates, legislators and local governments will be under tremendous pressure to raise taxes to pay for skyrocketing PERS costs. With a huge portion of the state struggling financially, more taxes would impose insurmountable burdens on households and businesses. Along with tax increases will come budget cuts—fewer teachers, state police, foster care workers resulting in bigger class sizes, reduced law enforcement, and more children stranded in the foster system. The UAL will turn a financial crisis into a human crisis.

PERS has been a ticking time bomb for two decades. Attempts at meaningful reform have been put off by timid politicians and thwarted by powerful public employee unions. In the first PERS crisis of 2002, the system's unfunded liabilities were less than \$4 billion. In the second crisis, beginning in 2008, the UAL ballooned to \$16 billion. Today, we're looking at a third crisis with a UAL of \$30 billion or more, or nearly \$19,000 per household.

## THE TIME FOR TWEAKS IS OVER—PERS REQUIRES A RADICAL OVERHAUL

We are entering an era in which PERS cannot be merely tweaked or reformed. We are entering a PERS crisis that will require a radical overhaul of the entire system. It can begin with some straightforward **first steps**:

1. **Move all new public employees into a 403(b) defined contribution plan.** These are similar to the 401(k) plans held by many private sector employees. TriMet has already made the switch, and it saved the agency from insolvency.
2. The **PERS Board must change its assumed rate of return** on PERS investments. Because of the mismatch between assumed and actual investment returns, PERS is accruing liabilities much faster than it's growing its assets. Bad assumptions were unsustainable 20 years ago, and they're disastrous now.



## OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM BOARD MEETING MINUTES

April 24, 2020

### **Board members present:**

Chair Sadhana Shenoy, Vice Chair Lawrence Furnstahl, Stephen Buckley, Steve Demarest, and Jardon Jaramillo attended by phone.

### **Staff present:**

Katie Brogan and Kevin Olineck attended in person.

Jason Stanley and Stephanie Vaughn attended by phone.

### **Others present:**

A listen only conference line was made available for the public and PERS staff.

Chair Shenoy called the meeting to order at 1:02 p.m.

### **ADMINISTRATIVE RULEMAKING**

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

#### **A.1. TEMPORARY ADOPTION OF COVID-19 MITIGATION RULE**

Vaughn presented Temporary Adoption of COVID-19 Mitigation Rule: *OAR 459-001-0100*, Temporary Rule Relating to Executive Order 20-03 Declaration of Emergency Due to Coronavirus (COVID-19) Outbreak in Oregon. While Governor Brown's Executive Order 20-03 is in place, no person's PERS-sponsored health insurance coverage shall be terminated for failure to make payment of monthly contributions by the applicable due date. The temporary rule will become effective upon filing. The maximum period the rule can remain in effect is 180 days.

Board member Demarest motioned to adopt a new temporary rule regarding the mitigation of the impact of the Coronavirus (COVID-19) Outbreak on PERS members. Board member Jaramillo seconded. The motion passed unanimously.

#### **A.2. NOTICE OF MEMBER REDIRECT RULES**

Vaughn presented Notice of Rulemaking for Rules to Implement SB 1049 Member Redirect: *OAR 459-005-0370*, Date of Participating and Transfer of Employee Funds to an Alternative Retirement Plan – OHSU, *OAR 459-007-0001*, Definitions, *OAR 459-007-0005*, Annual Earnings Crediting, *OAR 459-007-0320*, Crediting Earnings for IAP Account Lump Sum Payments, *OAR 459-007-0335*, Crediting Earnings for IAP Account Pre-Retirement Death, Benefit Payments, *OAR 459-007-0350*, Crediting Earnings to the Employee Pension Stability, Account at Retirement, *OAR 459-007-0360*, Crediting Earnings to the Employee Pension Stability, Account at Death, *OAR 459-007-0370*, Crediting Earnings to the Employee Pension Stability, Account on Withdrawal, *OAR 459-010-0055*, Withdrawal of Contributions, *OAR 459-070-0001*, Definitions, *OAR 459-075-0020*, Withdrawal from OPSRP Pension Program, *OAR 459-080-0020*, Withdrawal of Individual Accounts, *OAR 459-080-0200*, IAP Account Adjustments for Earnings or Losses, and *OAR 459-080-0400*, Employee Pension Stability Account (EPSA). A rulemaking hearing is tentatively scheduled for May 26, 2020, at 2:00 p.m. at PERS headquarters in Tigard. The public comment period ends June 1, 2020, at 5:00 p.m.

No board action was required.

Chair Shenoy adjourned the PERS Board meeting at 1:18 p.m.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Kevin Olineck". The signature is written in a cursive style with a large initial "K".

Kevin Olineck, Director

**OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**DIRECTOR'S REPORT**

KEVIN OLINECK, DIRECTOR

**MAY 2020**

This Director's Report tries to encapsulate, at a high level, noteworthy changes that have taken place since the last board meeting, while highlighting staff accomplishments.

**SENATE BILL 1049 (SB 1049)**  
**CONTINUED IMPLEMENTATION**

Work continues on implementing elements of all five projects associated with SB 1049. More detailed SB 1049 implementation reports on the overall program and projects will be provided in the board packet.

**COVID-19 RESPONSE AND IMPACTS**  
**MITIGATION MEASURES AND BUDGET**

**AGENCY RESPONSE**

As I noted at the March 30 board meeting, PERS has been working through the operational impacts of COVID-19 for some time. We continue to monitor what the State is doing, on a regular basis, to ensure that our agency is in sync with new information and directives. Our Incident Response Team meets regularly to assess the situation and then make determinations as to next steps. Some internal highlights, to date, are as follows:

- Worked with building managers and cleaning staff to enhance cleaning protocols.
- Enhanced our VPN capacity from approximately 200 to over 400 staff within a few weeks.
- Established telecommuting protocols for both vulnerable and other staff.
- Staff who self-identified as "vulnerable" were enabled to move to telecommuting as quickly as practical.
- Enabled 295 staff to telecommute by April 17.
- Set up weekly Question and Answer sessions with the Management Team, as a means of identifying and addressing staff concerns.
- Initiated a weekly email from the Director to regularly update staff.

We also ensured that members and employers were kept up to date on COVID-19 impacts on any processes or scheduled educational sessions via updates to our website, as well as tailored messaging through newsletters and GovDelivery emails.

I am proud of the collaborative efforts shown by all areas of the agency in responding to this situation. I am particularly proud of the fact that, operationally, PERS was able to provide our regular services with minimal interruption to normal service levels.



*We continue to monitor what the State is doing, on a regular basis, to ensure that our agency is in sync with new information and directives.*

**BUDGETARY IMPACTS ASSOCIATED WITH COVID-19**

Given the impacts of falling revenue to the State, agencies who are funded via the General Fund were asked to participate in a budget reduction exercise, in an effort to better match up projected revenues and expenses. PERS is deemed to be an "Other Funds" agency, as we are funded by the PERS System. This means that PERS is not compelled to engage in this exercise. However, given the current environment, PERS executives, as prudent managers, engaged in a review of our future expenditures and identified areas where we could stop or slow our current expenditure rate. It is important to note this did not include any staff salary freezes, layoffs, or furloughs. Instead, the exercise focused on non-critical spending, such as enhanced vacancy management and ongoing building maintenance, where appropriate. Additionally, we did not slow down any spending on SB 1049 work, as we have deemed this to be a critical work effort.

## AGENCY HIGHLIGHTS AND ACCOMPLISHMENTS

I want to continue to highlight where PERS staff have not only made great progress with standard operational initiatives, but also made significant progress on strategic initiatives. The following are initiatives that deserve to be mentioned, with staff publicly acknowledged for their efforts.

### CHIEF FINANCIAL OFFICE GOLD STAR CERTIFICATE

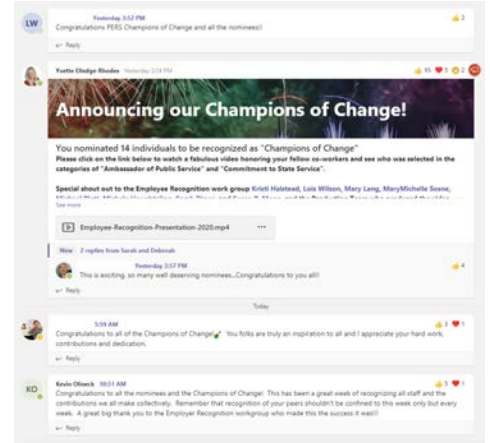
PERS Financial Services Division Staff, who are responsible for our Comprehensive Annual Financial Report (CAFR), received the Department of Administrative Services Chief Financial Office Gold Star Certificate for fiscal year 2019. The Certificate is awarded to state agencies that assist the State in submitting timely and accurate fiscal year-end reports. Achievement of this recognition is due primarily to staff's efforts to maintain accurate and complete accounting records throughout the year.



*PERS Financial Services Division Staff received the Department of Administrative Services Chief Financial Office Gold Star Certificate for fiscal year 2019.*

### EMPLOYEE RECOGNITION

PERS staff “virtually” participated in Public Service Recognition Week (May 3-9) and State Employee Recognition Day (May 6). This annual recognition is an opportunity to thank public employees for their service, make visible their important work, and deepen connections between state agencies and the communities they serve. Even though the state-level activities were canceled due to COVID-19, we had a workgroup that reviewed and selected winners from the nominees and also planned employee recognition activities throughout Public Service Recognition Week. This year’s focus was on Champions of Change, with two distinct categories of recognition. We received 23 nominations, with 14 unique individuals nominated in the two categories.



*A screenshot of our virtual appreciation page in Microsoft Teams. We used this medium to celebrate our staff throughout the week.*

### RECOGNITION CATEGORIES

#### Ambassador of Public Service

This recognizes employees who are ambassadors of public service and who are change champions. These are individuals who lean in to new opportunities, new ideas, and new possibilities – and who help bring others along, through their motivation and positivity.

The three employees selected in this category were Dee Monday, Carole Anne Boal, and Daniel Gregory.

#### Commitment to State Service

This designation honors individuals who are change champions in the workplace and who fall into one of two categories:

- New-to-state-service (serving one to two years)
- Long-serving employee (serving 30+ years)

The two employees selected in this area were Juan Vasquez, who is new-to-state service, and George Schellenberg in the long-serving category; he has 35 years with PERS.

## PERS Board Meeting Forward-Looking Calendar

### Tuesday, June 23, 2020

Supplementary Meeting for SB 1049 Rulemaking

### Friday, July 31, 2020\*

Approve 2021-2023 Agency Request Budget  
CEM Benchmarking Cost Effectiveness Presentation  
Presentation of December 31, 2019 System Valuation

### Friday, October 2, 2020

Legislative Update and Agency-Requested Legislative Concepts  
Member and Employer Survey Results  
Actuarial Valuation and Adoption of 2021-2023 Employer Contribution Rates

### Friday, December 4, 2020\*

Board Governance Assignments  
Board Scorecard Report on Agency Performance Measures  
Approval to File Agency-Requested Legislative Concepts  
Financial Modeling Presentation

\*Audit Committee planned for post-board meeting

### Proposed 2021 Meeting Dates

9:00 a.m. Start Times

- Monday, February 1
- Monday, March 29\*
- Friday, June 4
- Friday, July 23\*
- Friday, October 1
- Friday, December 3\*

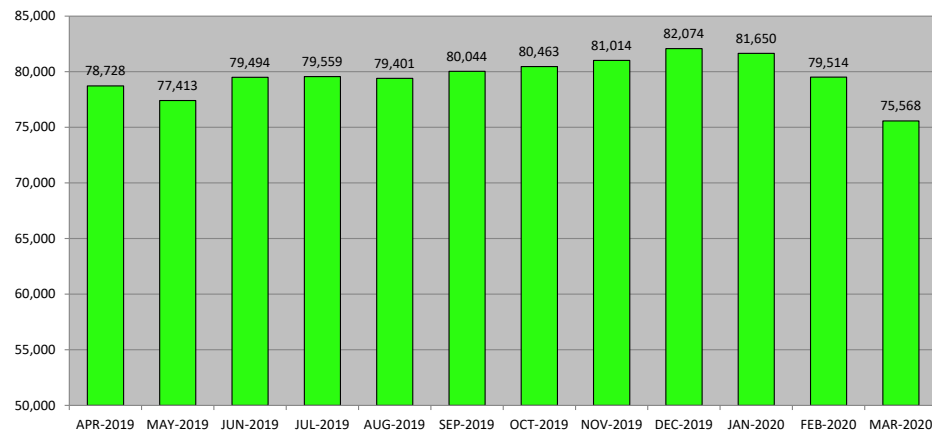
\* Proposed Audit Committee Meetings

Returns for periods ending MAR-2020

Oregon Public Employees Retirement Fund

OPERF	Regular Account			Historical Performance (Annual Percentage)								
	Policy <sup>1</sup>	Target <sup>1</sup>	\$ Thousands <sup>2</sup>	Actual	Year-To-Date <sup>3</sup>	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS	7 YEARS	10 YEARS
Public Equity	27.5-37.5%	32.5%	\$ 20,660,299	28.4%	(23.51)	(14.25)	(7.14)	0.10	3.97	2.21	4.93	6.11
Private Equity	13.5-21.5%	17.5%	\$ 18,153,763	25.0%	3.52	16.40	14.45	16.31	13.92	12.50	13.16	13.14
<b>Total Equity</b>	<b>45.0-55.0%</b>	<b>50.0%</b>	<b>\$ 38,814,062</b>	<b>53.4%</b>								
Opportunity Portfolio	0-5%	0%	\$ 1,658,527	2.3%	0.59	5.74	6.17	6.16	7.62	6.06	7.22	8.54
<b>Total Fixed</b>	<b>15-25%</b>	<b>20.0%</b>	<b>\$ 15,538,438</b>	<b>21.4%</b>	<b>1.14</b>	<b>6.77</b>	<b>5.50</b>	<b>4.18</b>	<b>3.79</b>	<b>3.16</b>	<b>3.01</b>	<b>4.50</b>
Risk Parity	0.0-2.5%	2.5%	\$ -	0.0%								
Real Estate	9.5-15.5%	12.5%	\$ 8,714,534	12.0%	2.34	7.76	7.85	7.66	7.80	8.03	9.57	10.97
Alternative Investments	7.5-17.5%	15.0%	\$ 7,924,241	10.9%	(3.15)	(4.03)	(4.15)	(0.62)	2.31	1.59	1.54	
Cash w/Overlay	0-3%	0%	\$ 27,929	0.0%	(0.28)	1.95	2.39	2.01	1.80	1.56	1.29	1.15
<b>TOTAL OPERF Regular Account</b>		<b>100.0%</b>	<b>\$ 72,677,732</b>	<b>100.0%</b>	<b>(7.24)</b>	<b>0.73</b>	<b>2.57</b>	<b>5.56</b>	<b>6.67</b>	<b>5.45</b>	<b>6.80</b>	<b>7.81</b>
OPERF Policy Benchmark					(6.33)	3.87	3.33	6.23	7.38	6.08	7.61	8.21
Value Added					(0.91)	(3.15)	(0.76)	(0.67)	(0.71)	(0.63)	(0.81)	(0.39)
<b>Target Date Funds</b>			<b>2,522,842</b>									
<b>TOTAL OPERF Variable Account</b>			<b>\$ 367,779</b>		<b>(22.25)</b>	<b>(12.31)</b>	<b>(5.26)</b>	<b>1.16</b>	<b>4.63</b>	<b>2.86</b>	<b>5.18</b>	<b>6.18</b>
<b>Asset Class Benchmarks:</b>												
Russell 3000					(20.90)	(9.13)	(0.58)	4.00	7.35	5.77	8.96	10.15
OREGON MSCI ACWI EX US IMI NET					(24.11)	(16.32)	(10.82)	(2.34)	1.29	(0.66)	1.06	2.14
MSCI ACWI IMI NET					(22.44)	(12.73)	(5.70)	0.76	4.23	2.45	4.81	5.80
RUSSELL 3000+300 BPS QTR LAG					9.88	34.86	14.74	17.97	17.50	14.55	17.77	16.78
OREGON CUSTOM FI BENCHMARK					2.14	7.41	5.83	4.35	3.63	3.04	2.76	3.83
OREGON CUSTOM REAL ESTATE BENCHMARK					1.27	4.39	5.87	6.13	6.54	7.87	8.86	9.98
CPI +4%					1.43	5.60	5.76	5.99	6.11	5.86	5.54	5.79
91 Day Treasury Bill					0.57	2.25	2.19	1.83	1.46	1.19	0.86	0.64

**Total OPERF NAV**  
(includes Variable Fund assets)  
**One year ending MAR-2020**  
(S in Millions)



<sup>1</sup>OIC Policy revised April 2019.

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

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

Returns for periods ending APR-2020

Oregon Public Employees Retirement Fund

OPERF	Regular Account				Historical Performance (Annual Percentage)							
	Policy <sup>1</sup>	Target <sup>1</sup>	\$ Thousands <sup>2</sup>	Actual	Year-To-Date <sup>3</sup>	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS	7 YEARS	10 YEARS
Public Equity	27.5-37.5%	32.5%	\$ 23,117,250	31.2%	(15.43)	(7.81)	(2.64)	2.95	6.19	3.79	6.04	7.10
Private Equity	13.5-21.5%	17.5%	\$ 17,872,534	24.1%	0.78	11.31	12.46	14.65	13.16	11.90	12.73	12.84
<b>Total Equity</b>	<b>45.0-55.0%</b>	<b>50.0%</b>	<b>\$ 40,989,784</b>	<b>55.3%</b>								
Opportunity Portfolio	0-5%	0%	\$ 1,613,123	2.2%	(5.32)	(0.86)	1.90	3.77	5.16	4.62	6.03	7.70
<b>Total Fixed</b>	<b>15-25%</b>	<b>20.0%</b>	<b>\$ 14,699,242</b>	<b>19.8%</b>	<b>3.14</b>	<b>8.62</b>	<b>6.80</b>	<b>4.61</b>	<b>4.11</b>	<b>3.52</b>	<b>3.11</b>	<b>4.51</b>
Risk Parity	0.0-2.5%	2.5%	\$ 300,004	0.4%								
Real Estate	9.5-15.5%	12.5%	\$ 8,609,396	11.6%	2.04	7.49	7.66	7.52	7.77	8.12	9.26	10.78
Alternative Investments	7.5-17.5%	15.0%	\$ 7,887,156	10.6%	(5.17)	(5.93)	(5.13)	(1.04)	1.27	0.66	1.24	
Cash w/Overlay	0-3%	0%	\$ (19,695)	0.0%	0.60	2.57	2.75	2.26	1.98	1.73	1.41	1.24
<b>TOTAL OPERF Regular Account</b>		<b>100.0%</b>	<b>\$ 74,079,010</b>	<b>100.0%</b>	<b>(5.04)</b>	<b>1.65</b>	<b>3.59</b>	<b>6.00</b>	<b>7.06</b>	<b>5.73</b>	<b>6.92</b>	<b>7.96</b>
<b>OPERF Policy Benchmark</b>					<b>(3.41)</b>	<b>4.70</b>	<b>4.73</b>	<b>7.03</b>	<b>8.00</b>	<b>6.47</b>	<b>7.83</b>	<b>8.50</b>
Value Added					<b>(1.64)</b>	<b>(3.05)</b>	<b>(1.14)</b>	<b>(1.02)</b>	<b>(0.95)</b>	<b>(0.74)</b>	<b>(0.91)</b>	<b>(0.54)</b>

Target Date Funds

2,726,279

TOTAL OPERF Variable Account

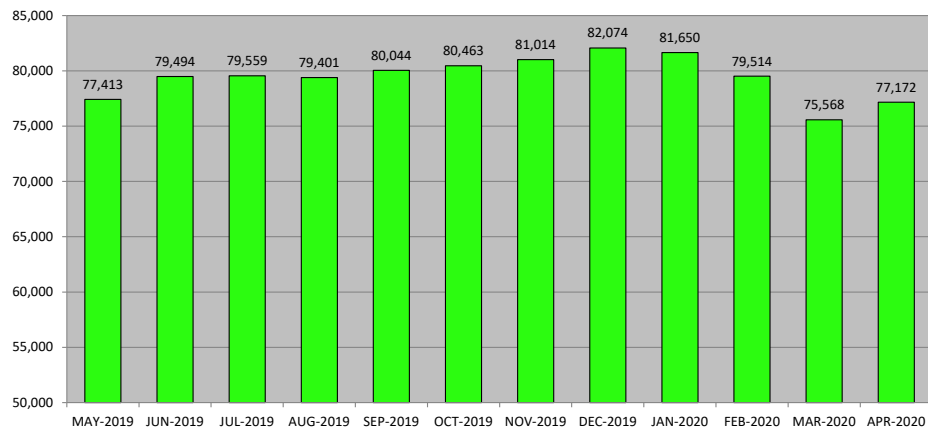
\$ 366,681

(13.82)	(5.92)	(0.79)	4.12	6.94	4.45	6.36	7.21
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Asset Class Benchmarks:

Russell 3000	(10.42)	(1.04)	5.60	8.02	10.57	8.33	10.66	11.29
OREGON MSCI ACWI EX US IMI NET	(17.93)	(11.78)	(7.96)	(0.50)	2.62	(0.10)	1.69	3.00
MSCI ACWI IMI NET	(13.90)	(6.22)	(1.11)	3.77	6.57	4.05	5.99	6.84
RUSSELL 3000+300 BPS QTR LAG	1.89	19.42	10.47	15.04	15.30	12.83	16.51	15.91
OREGON CUSTOM FI BENCHMARK	3.97	9.14	7.08	4.72	3.95	3.39	2.84	3.91
OREGON CUSTOM REAL ESTATE BENCHMARK	1.53	4.24	5.65	6.22	6.61	7.92	8.90	10.01
CPI +4%	1.09	4.34	5.20	5.65	5.81	5.68	5.46	5.70
91 Day Treasury Bill	0.58	2.07	2.13	1.81	1.45	1.19	0.86	0.64

**Total OPERF NAV**  
(includes Variable Fund assets)  
One year ending APR-2020  
(\$ in Millions)



<sup>1</sup>OIC Policy revised April 2019.

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

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



# Oregon

Kate Brown, Governor

## Public Employees Retirement System

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May 29, 2020

TO: Members of the PERS Board  
FROM: Greg Gabriel, Budget Officer  
SUBJECT: May 2020 Board Report

### 2019-21 OPERATING BUDGET

Operating expenditures for March, preliminary expenditures for April, and preliminary expenditures for May are \$4,038,535, \$4,055,550 and \$4,209,088 respectively. Final expenditures for May will close in the Statewide Financial Management System (SFMS) on June 12, and will be included in the July 2020 report to the board.

- Through May 8, 2020, the agency has expended a total of \$42,696,546 or 37.9% of PERS' legislatively adopted operations budget of \$112,657,461.
- The agency has \$525,791 in unscheduled expenditure limitation related to Package 106 (funding for continuity management and information security programs).
- At this time, the agency's projected variance is \$500,531.
- SB 1049 expenditures for March, preliminary April, and preliminary May were \$713,330, \$1,483,020, and \$841,430 respectively. As of May 8, the agency has expended \$4,784,051 of the legislatively adopted budget of \$39,059,714.

### 2019-21 NON-LIMITED BUDGET

The adopted budget includes \$12,504,627,192 in total estimated non-limited expenditures. Non-limited expenditures include benefit payments, health insurance premiums, and third-party administration payments for both the PERS Health Insurance Program (PHIP) and the Individual Account Program (IAP).

- Preliminary Non-Limited expenditures through May 8, 2020 are \$4,821,819,918.

### STATEWIDE BUDGET ENVIRONMENT

General Fund agencies were notified earlier this month to reduce their 2019-21 legislatively adopted budgets by 8.5% due to projected revenue shortfalls from the corona virus pandemic. Although PERS was not directed to make this adjustment, the agency is working on multiple cost reduction options to help minimize statewide costs such as:

- Freezing hiring on open vacancies through the remainder of the biennium
- Working to defer non-essential projects
- Reducing program costs where possible without service level interruptions

A.2.c. Attachment 1 – 2019-21, SB1049 Agency-wide Budget Execution Summary Analysis



# PERS Monthly Budget Report

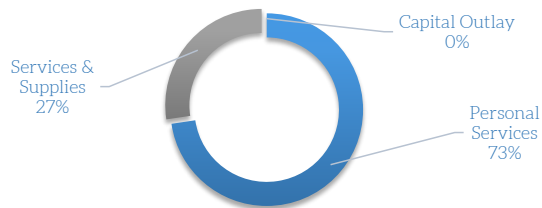
2019-21 Agency-wide Budget Execution  
Preliminary Summary For the Month of May 2020

## Limited - Operating Budget

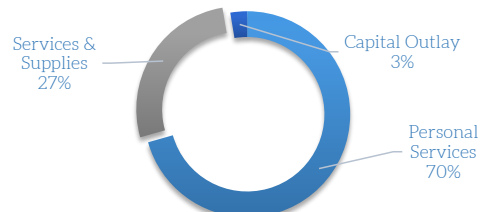
### 2019-21 Biennial Summary

Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expenditures	2019-21 LAB	Variance
Personal Services	31,019,844	48,673,429	79,693,273	77,726,803	(1,966,470)
Services & Supplies	11,676,702	18,449,021	30,125,723	32,231,536	2,105,813
Capital Outlay	0	1,812,143	1,812,143	2,173,331	361,188
Unscheduled		525,791	525,791	525,791	0
<b>Total</b>	<b>42,696,546</b>	<b>68,934,593</b>	<b>111,631,139</b>	<b>112,657,461</b>	<b>500,531</b>

### Actual Expenditures



### Projected Expenditures



### Monthly Summary

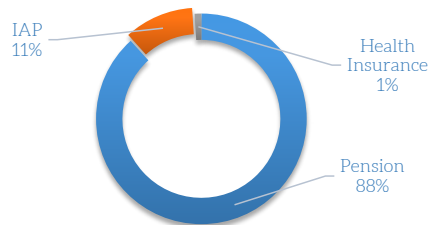
Category	Actual Exp.	Projections	Variance	Avg. Monthly Actual Exp.	Avg. Monthly Projected Exp.
Personal Services	3,046,786	3,344,627	297,842	3,553,726	3,265,712
Services & Supplies	1,008,925	1,561,528	552,603	1,485,580	1,151,091
Capital Outlay	0	0	0	0	106,597
<b>Total</b>	<b>4,055,711</b>	<b>4,906,156</b>	<b>850,445</b>	<b>5,039,306</b>	<b>4,523,400</b>

## Non-Limited Budget

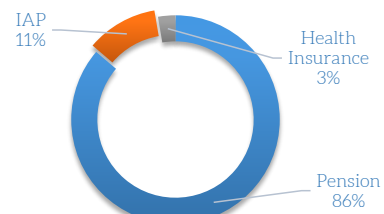
### 2019-21 Biennial Summary

Programs	Actual Exp To Date	Projected Expenditures	Total Est. Expenditures	Non-Limited LAB	Variance
Pension	4,257,080,055	6,128,635,683	10,385,715,738	10,347,780,673	(37,935,065)
IAP	514,728,115	786,413,224	1,301,141,339	1,423,365,167	122,223,828
Health Insurance	50,011,748	191,300,113	241,311,861	733,481,352	492,169,491
<b>Total</b>	<b>4,821,819,918</b>	<b>7,106,349,020</b>	<b>11,928,168,938</b>	<b>12,504,627,192</b>	<b>576,458,254</b>

### Actual Expenditures



### Projected Expenditures



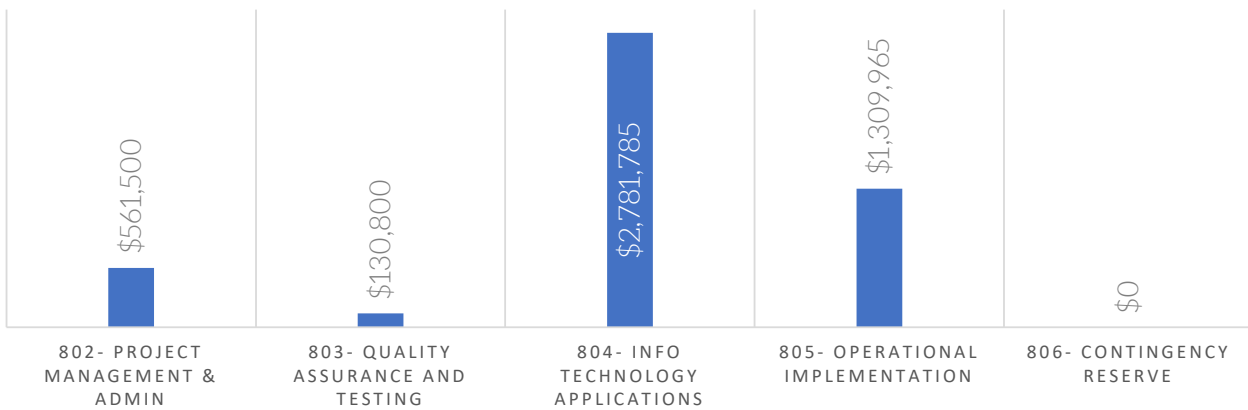
# SB 1049 Budget Report

## Preliminary Summary Budget Analysis Preliminary For The Month of May 2020

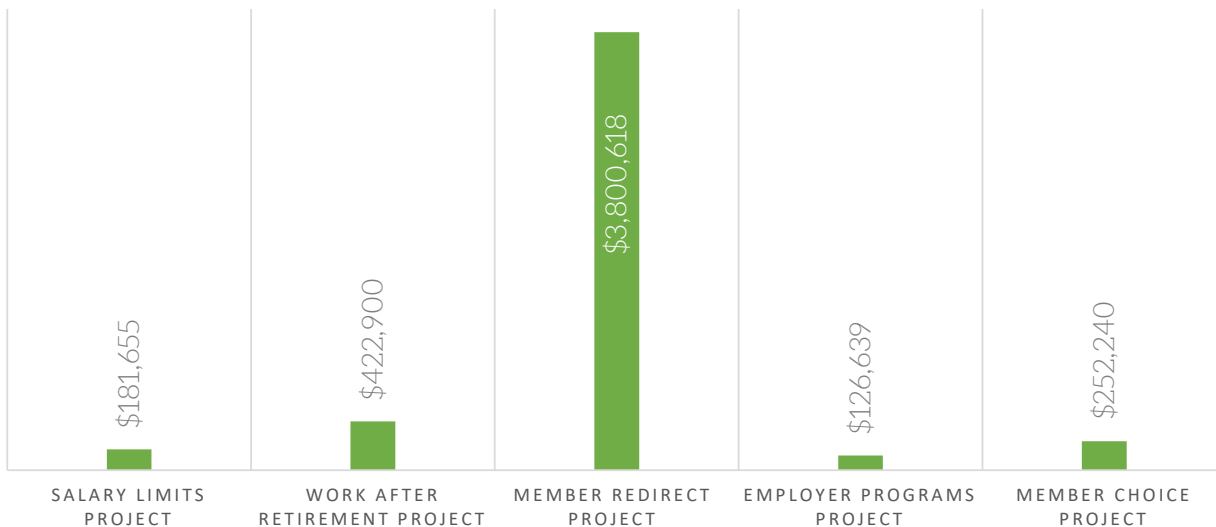
### Biennial Summary

Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expend.	2019-21 LAB	Variance
Personal Services	801,410	4,075,030	4,876,440	5,646,497	770,057
Services & Supplies	3,804,768	11,733,416	15,538,184	33,413,217	17,875,033
Capital Outlay	177,873		177,873		(177,873)
<b>Total</b>	<b>4,784,051</b>	<b>15,808,446</b>	<b>20,592,497</b>	<b>39,059,714</b>	<b>18,467,217</b>

### EXPENDITURES BY PACKAGE



### EXPENDITURES BY PROJECT





# Oregon

Kate Brown, Governor

## Public Employees Retirement System

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

May 29, 2020

TO: Members of the PERS Board  
FROM: POBMS Council  
SUBJECT: Board Scorecard Report on Agency Performance Measures

A key part of PERS' Outcome-Based Management System is a Quarterly Target Review of scorecards that evaluate our effectiveness in a number of Outcome and Process Measures. These measures foster accountability and transparency in key operating areas. The scorecard results help direct strategic planning, resource allocation, and risk assessment.

The attached Board Scorecard Report for the first quarter 2020 focuses on several measures we currently track, based on essential business operations. A targeted performance range is created for each measure:

- “Green” – performance is at or above acceptable levels.
- “Yellow” – performance is marginally below acceptable levels.
- “Red” – performance is significantly below acceptable levels; corrective action such as assigning a problem-solving team should be directed.

Highlights include:

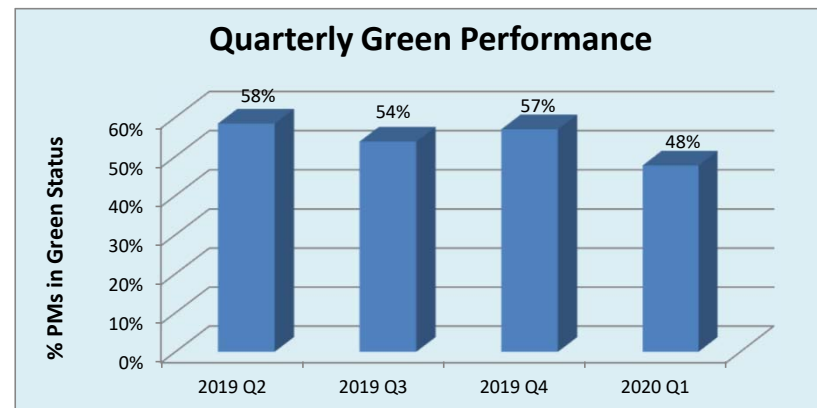
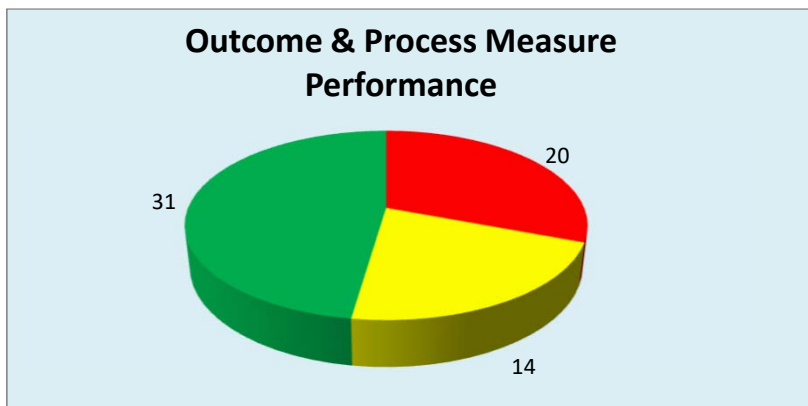
- Four consecutive quarters in the green range for Eligibility Reviews Completed and Accuracy of Calculations
- Three out of four quarters in the green for Recruiting/Onboarding
- A positive or even trend with four of the eight measures
- Overall performance has dipped, due in part to staff shortages associated with SB 1049 project work

The next report will be presented at the December 4, 2020 meeting, showing the scorecard results for the third quarter. If you would like us to report on any specific measures, please let us know.

A.3. Attachment 1 – *Board Scorecard Report for First Quarter 2020*

## PUBLIC EMPLOYEES RETIREMENT SYSTEM Outcome-Based Performance Review

### PERS Board Scorecard Report - QTR: 2020 Q1 - Quarter ended March 31, 2020



### Operating Processes - Highlighted Measures

	Measure Name	Measure Calculation	RANGE			Target	Desired Perform Trend	Data Collection Frequency	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Trend	Corrective Action & Comments
			Red	Yellow	Green									
OP3c	Estimate KPM	% of estimate requests completed within 30 days of receipt	<75%	75-85	>85%	95%	↑	Quarterly	64.0%	38.0%	49.0%	59.0%	+	Four resources involved in training, implementation of new procedure for WFH, highest concentration of production on upcoming ERDs/July rush reduced overall pending estimates from 1800 to 800 in two months
OP4a	Eligibility review completed	% of applications completed by the eligibility team within 30 days of the effective retirement	<50%	50-70	>70%	80%	↑	Monthly	90.0%	85.0%	88.0%	81.0%	-	
OP5b	Accuracy of calculations	% of sample calculations that are accurate within plus or minus \$5	<95%	95-99	>99%	100%	↑	Monthly	99.4%	100.0%	99.4%	100.0%	+	
OP5c	Timely benefit calculation	% of calculations completed within 15 calendar days from completed application date	<93%	93-96	>96%	100%	↑	Monthly	96.1%	96.7%	91.5%	92.3%	+	Multiple vacancies, key resource retired, system delays, resources dedicated to higher than normal TRUD project

# PUBLIC EMPLOYEES RETIREMENT SYSTEM

## Outcome-Based Performance Review

### Supporting Processes - Highlighted Measures

	Measure Name	Measure Calculation	RANGE			Target	Desired Perform Trend	Data Collection Frequency	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Trend	Corrective Action & Comments
			Red	Yellow	Green									
OP1f	Call Wait Time	Average length of wait before caller reaches live person	>6 minutes	6-4 minutes	<4 minutes	2 minutes	↓	Monthly	18.1	6.1	7.5	27.3	-	83% of all incoming calls answered during this QTR than QTR 1 last year; answered 14,566 more calls than last year in the same QTR; largest volume of calls ever received by our Call Center
SP2c	Appeal reversal rate	% of staff determinations that are reversed on appeal	>15%	15-10	<10%	5%	↓	Quarterly	6.3%	14.0%	9.0%	43.0%	-	Members who submit Residency Certifications between December 15 and December 31 and appeal because their tax remedy is turned off are automatic reversals. Most of the reversals were tax remedy cases.
SP3h	System uptime	% of time systems are available during the service window	<97%	97-98	>98%	100%	↑	Monthly	97.36%	97.42%	95.67%	95.35%	-	2674 min - long batch runs 114 min - DBA job failure (PDW refresh) 45 min - DNS issue (jClarety) 65 min - emergency deployment 155 min - Cisco ACD issue
SP5c	Recruiting / Onboarding	% of employees completing trial service	<85%	85-94	>94%	100%	↑	Quarterly	86%	100%	100%	100%	=	No trial service removals this quarter



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May 29, 2020

TO: Members of the PERS Board  
FROM: Stephanie Vaughn, Manager, Policy Analysis & Compliance Section  
SUBJECT: Notice of Rulemaking to Implement SB 1049 Member Redirect – Voluntary Contributions:  
OAR 459-080-0410, *Voluntary Contributions to Individual Account Program (IAP)*

### OVERVIEW

- Action: None. This is notice that staff has begun rulemaking.
- Reason: Establish how members may make voluntary contributions to the Individual Account Program (IAP).
- Policy Issue: None identified.

### BACKGROUND

During the 2019 Legislative Session, the Oregon Legislature passed Senate Bill (SB) 1049, which made significant amendments to ORS Chapters 238 and 238A. The Member Redirect portion of the bill requires that, effective July 1, 2020, a portion of the member six percent mandatory contribution will be directed to a new Employee Pension Stability Account (EPSA) when the funded status of the plan is below 90% (including side accounts) and the member's monthly salary is more than \$2,500 (indexed for inflation). When those conditions are met, 2.5% of Tier 1 and Tier 2 members' subject salary will be redirected to the EPSA and 0.75% of OPSRP members' subject salary will be redirected to the EPSA.

When the redirect is in effect, the legislation includes language allowing members the option of making after-tax contributions to their regular IAP accounts. This option is available only when the mandatory member contributions are being redirected to the EPSA, and only in the amount redirected. Per SB 1049, voluntary member contributions cannot be "picked up" by employers.

PERS is introducing OAR 459-080-0410 to clarify how the voluntary contribution option provided in Senate Bill 1049 will be administered by the agency. Though the Member Redirect project team diligently worked to ensure necessary processes would be in place for the July 1, 2020 effective date, due to the size and scope of the necessary system changes, the agency is unable to have the voluntary contribution election process ready for the July 1, 2020 effective date. For this reason, though the voluntary contribution election is prospective only, OAR 459-080-0410 includes language for a brief period of retroactivity to ensure members are provided the opportunity to make voluntary contribution elections as provided by SB 1049.

The voluntary contribution process requires not only changes to agency procedures and programming, but also requires that our employer partners make updates to their practices. Some

employers have expressed concerns about the added workload and complexity associated with the voluntary contribution election option. For example, their need to balance the member’s election against established payroll cycles or how to address the additional invoicing that will result from the voluntary contribution elections. We appreciate employers’ feedback and are addressing their concerns to the extent possible in developing this rule.

Given that members must meet eligibility requirements to make the voluntary contributions and that eligibility must be determined month-to-month, PERS will be invoicing employers in arrears for the voluntary employee contributions. Employers expressed concern about collecting contributions in arrears and the prospect of collecting from employees who have left service. To address this concern, the rule directs employers to begin deducting the contributions from the member’s pay as of the voluntary contribution effective date. If the member does not meet the eligibility requirement for the month, the employer will refund the contributions to the member. The employers will essentially be withholding the contributions in “real time” subject to PERS’ eligibility determination.

Staff is currently evaluating options to address employers’ concern regarding retroactive contributions triggered by account adjustments, specifically when the employee is no longer employed with the participating employer, and ways to address concerns regarding the administration of the retroactive contributions allowed back to July 1.

#### PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing is scheduled for June 30, 2020, at 2:00 p.m. at PERS headquarters in Tigard. However, a hearing will not be held if the building is closed to the public due to COVID-19. The public comment period ends July 3, 2020, at 5:00 p.m.

#### LEGAL REVIEW

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

#### IMPACT

Mandatory: No, but statute authorizes the board to update its rules as necessary to implement SB 1049, including the voluntary contribution option.

Benefit: Clarifies the administration of the voluntary contribution option.

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

#### RULEMAKING TIMELINE

May 29, 2020	PERS Board notified that staff began the rulemaking process.
May 29, 2020	Staff begins the rulemaking process by filing a Notice of Rulemaking with the Secretary of State. Secretary of State publishes the Notice in the Oregon Administrative Rules Database. Notice is sent to employers, legislators, and interested parties. Public comment period begins.

June 30, 2020	Rulemaking hearing scheduled for 2:00 p.m. at PERS in Tigard.
July 3, 2020	Public comment period ends at 5:00 p.m.
July 31, 2020	Staff will propose adopting the rule modifications, including any changes resulting from public comment or reviews by staff or legal counsel.

NEXT STEPS

A rulemaking hearing is scheduled for June 30, 2020, at 2:00 p.m. at PERS headquarters in Tigard. The rule is scheduled to be brought before the PERS Board for adoption at the July 31, 2020 PERS Board meeting.

B.1. Attachment 1 – 459-080-0410, *Voluntary Contributions to Individual Account Program (IAP)*



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

1 459-080-0410

2 Voluntary Contributions to Individual Account Program (IAP)

3 (1) Definitions.

4 (a) “Voluntary contribution effective date” is the:

5 (A) First day of the month following one full calendar month after the voluntary  
6 contribution election date, if the voluntary contribution election date is on or after  
7 the second day of the month.

8 (B) First of the following month if the voluntary contribution election date is the  
9 first of the month.

10 (b) “Voluntary contribution election date” is the date PERS receives a  
11 member’s voluntary contribution election request.

12 (c) “Voluntary contribution stop date” is the:

13 (A) First day of the month following one full calendar month after PERS  
14 receives a request to discontinue an election if such request is received on or after  
15 the second day of the month.

16 (B) First of the following month if PERS receives the request on the first of the  
17 month.

18 (2) Members may elect to make voluntary contributions to the employee  
19 account under the Individual Account Program (IAP) in the same amount credited  
20 to the member’s Employee Pension Stability Account (EPSA). Voluntary  
21 contributions are after-tax contributions and cannot be funded by the employer  
22 under ORS 238A.335.

1 (a) An election to make voluntary contributions must be submitted using PERS  
2 Online Member Services or forms provided by PERS.

3 (b) The election applies to all PERS salary paid to the member.

4 (c) Voluntary contributions will be withheld from the member's pay as of the  
5 voluntary contribution effective date and, except as provided in subsection (d) of  
6 this section, will be prospective only.

7 (d) A member may elect to make retroactive voluntary contributions for the  
8 period July 1, 2020 to October 1, 2020, only if:

9 (A) The election is received by PERS by November 1, 2020; and

10 (B) The election is made using PERS Online Member Services.

11 (3) A member may discontinue an election to make voluntary contributions by  
12 submitting the request through PERS Online Member Services or forms provided  
13 by PERS. If a member discontinues an election, the discontinuance becomes  
14 effective on the voluntary contribution stop date.

15 (4) When a member elects to make voluntary contributions under section (1) of  
16 this rule, the participating employer(s) with which the member is employed in a  
17 qualifying position shall assume the member meets the voluntary contribution  
18 requirements and begin withholding those contributions from the member's salary  
19 paid as of the voluntary contribution effective date. In the event a member does not  
20 meet the eligibility requirement in any month, any voluntary contributions withheld  
21 from the member's salary will be refunded by the employer to the member.

1 (5) When a member elects to make voluntary contributions, or to discontinue  
2 an election, PERS will timely notify all employers with which the member is  
3 employed in a qualifying position of the member’s election or request.

4 (6) PERS will invoice employers in arrears after it determines if a member  
5 meets the salary threshold under ORS 238A.330 triggering contributions being  
6 credited to EPSA accounts.

7 (7) Voluntary contributions will be deposited into the member’s IAP employee  
8 account and invested as described in OAR 459-080-0015.

9 (8) Refunds. If a member’s account is adjusted and a refund of voluntary  
10 contributions is owed to the member, the employer will receive a credit on their  
11 account and the employer will be responsible for refunding the contributions to the  
12 member.

13 Stat. Auth.: ORS 238A.450

14 Stats. Implemented: ORS 238A.330



# Oregon

Kate Brown, Governor

## Public Employees Retirement System

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May 29, 2020

TO: Members of the PERS Board

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

SUBJECT: Temporary Adoption and Notice of Permanent Rulemaking for Rules to Implement the CARES Act:  
 OAR 459-050-0075, *Distributions During Employment*  
 OAR 459-050-0077, *Loan Program*  
 OAR 459-050-0080, *Distribution of Funds After a Severance of Employment*  
 OAR 459-050-0300, *Required Minimum Distribution Requirements*

### OVERVIEW

- Action: Adopt temporary rules to implement the federal CARES Act, and begin permanent rulemaking.
- Reason for Temporary Rules: Implement the mandatory provisions of the SECURE Act and the CARES Act, and implement the optional in-service withdrawal provision of the CARES Act.
- Policy Issue: *Should OSGP allow in-service distributions as allowed by the federal CARES Act?*

### BACKGROUND

The federal Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law on March 27, 2020, and addresses the economic impacts faced by many sectors of the U.S. economy due to the COVID-19 pandemic. The provisions of the CARES Act that are incorporated into OSGP by the current rule amendments include a mandatory waiver of required minimum distributions (RMD) for calendar year 2020 and a mandatory one year delay of plan loan repayments for qualified individuals. The suspension of the RMD requirement applies to all distributions made in calendar year 2020. The delay of loan repayments applies to loan payments that would be due between March 27, 2020 and December 31, 2020, and interest will continue to accrue on the balance of the loan during this time.

Staff evaluated the CARES Act with regard to PERS as well and determined that, because the mandatory suspension of RMD applies only to defined contribution plans and PERS is a defined benefit plan, it does not apply to PERS. Therefore, PERS will continue to administer RMDs as usual.

The federal Setting Every Community Up for Retirement Enhancement (SECURE) Act was signed into law on December 20, 2019. Among other things, it raised the required minimum distribution (RMD) age from 70½ to 72 starting on January 1, 2020, which is applicable to the Oregon Savings Growth Plan (OSGP).

The SECURE Act also applies to PERS; however, incorporating the RMD provisions for PERS will require a statutory change. While the SECURE Act changes were effective January 1, 2020, the plan has until 2025 to incorporate the changes into the plan. We anticipate this will be addressed in the 2021 legislative session in the federal tax reconnect bill that is presented every session.

### POLICY QUESTION

*Should OSGP allow in-service distributions as allowed by the federal CARES Act?*

Federal law normally requires a participant be separated from service with all participating employers to be eligible to take a distribution. An “in-service” distribution is one that is made while the participant is still employed with a participating employer. The CARES Act provides an optional provision for plans to allow qualified individuals to take in-service distributions of up to a total of \$100,000 only in calendar year 2020. “Qualified individual” is defined in the CARES Act and is generally an individual specifically impacted by COVID-19. The Act also allows these distributions to be redeposited within three years.

Staff recommends implementing this optional provision. As a defined contribution plan, the participant’s benefit is not tied to service or salary, so there are no administrative adjustments necessary in the participant’s benefit. The option is allowed for only a short time, and OSGP’s third party administrator has a process to allow participants to self-identify as qualifying individuals. Because these withdrawals can be redeposited, they are more advantageous than taking a loan for participants who are still employed.

The rules have been amended to include this optional provision; unless the board directs otherwise, we will include this provision in implementation.

### SUMMARY OF MODIFICATIONS TO RULES

OAR 459-050-0075: A new section (7) was added to the rule to implement the CARES Act optional withdrawal provision, which allows qualified individuals to take an in-service withdrawal of no more than \$100,000 from their OSGP account balance during calendar year 2020. The withdrawn amount may be redeposited back into OSGP within three years of the withdrawal.

OAR 459-050-0077: A new section (13) was added to the rule to implement the CARES Act mandatory provision that provides a one-year loan repayment delay for qualified individuals with an outstanding loan at OSGP and a payment due date between March 27 and December 31 of this year.

OAR 459-050-0080: Sections (1) and (2) of the rule were amended to reflect the change of RMD age under the SECURE Act from 70½ to 72 starting on January 1, 2020.

OAR 459-050-0300: Sections (1) and (9) of the rule were amended to reflect the change of RMD age under the SECURE Act from 70½ to 72 starting on January 1, 2020. A new section (13) was added to the rule to implement the CARES Act RMD waiver for 2020. Plan participants are not required to take an RMD this year.

### JUSTIFICATION FOR TEMPORARY RULEMAKING

This rulemaking is needed to implement the mandatory provisions of the CARES Act. Also, it is necessary to implement the optional in-service withdrawal provision of the CARES Act.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing is scheduled for June 30, 2020, at 2:00 p.m. at PERS headquarters in Tigard. However, a hearing will not be held if the building is closed to the public due to COVID-19. The public comment period ends July 3, 2020, at 5:00 p.m.

LEGAL REVIEW

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

EFFECTIVE DATE

The temporary rules will become effective upon filing. The maximum period they can remain in effect is 180 days, so staff has initiated permanent rulemaking to replace the temporary rules.

IMPACT

Mandatory: Yes.

Benefit: Provides direction to staff and OSGP members regarding implementation of the federal SECURE Act and CARES Act.

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

RULEMAKING TIMELINE

May 29, 2020	PERS Board may adopt the proposed temporary rules, effective for 180 days; PERS staff will proceed with permanent rulemaking unless otherwise directed.
May 29, 2020	Staff begins the permanent rulemaking process by filing a Notice of Rulemaking with the Secretary of State. Secretary of State publishes the Notice in the Oregon Administrative Rules Database. Notice is sent to employers, legislators, and interested parties. Public comment period begins.
June 30, 2020	Rulemaking hearing scheduled for 2:00 p.m. at PERS in Tigard.
July 3, 2020	Public comment period ends at 5:00 p.m.
July 31, 2020	Staff will propose adopting the permanent rules, including any changes resulting from public comment or reviews by staff or legal counsel. The permanent rules replace the previously adopted temporary rules.

BOARD OPTIONS

The PERS Board may:

1. Pass a motion to “adopt temporary rules regarding the federal CARES Act, and SECURE Act 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: Implement the mandatory provisions of the SECURE Act and the CARES Act, and implement the optional in-service withdrawal provision of the CARES Act.

If the PERS 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.

NEXT STEPS

A rulemaking hearing is scheduled for June 30, 2020, at 2:00 p.m. at PERS headquarters in Tigard. The rule is scheduled to be brought before the PERS Board for adoption at the July 31, 2020 PERS Board meeting.

B.2. Attachment 1 – 459-050-0075, *Distributions During Employment*

B.2. Attachment 2 – 459-050-0077, *Loan Program*

B.2. Attachment 3 – 459-050-0080, *Distribution of Funds After a Severance of Employment*

B.2. Attachment 4 – 459-050-0300, *Required Minimum Distribution Requirements*

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

1 **459-050-0075**

2 **Distributions During Employment**

3 The purpose of this rule is to describe the types of distributions available to a  
4 participant who has not had a severance of employment. Distributions made while a  
5 participant is still employed are in-service distributions.

6 (1) De minimis distribution. A de minimis distribution is an in-service distribution of  
7 the entire balance of a small account before the date a participant has a severance of  
8 employment. A de minimis distribution may be made if all of the following conditions  
9 are satisfied:

10 (a) No prior de minimis distribution was made to the participant;

11 (b) The total balance of the participant’s account(s) within the Deferred  
12 Compensation Program do(es) not exceed the limitations in the Internal Revenue Code  
13 Section (IRC) 457(e)(9)(A), which is \$5,000;

14 (c) Participant has not made any contributions to the Deferred Compensation  
15 Program in the two-year period before the date of distribution; and

16 (d) Participant has submitted an application for a de minimis distribution on forms  
17 provided by, or other methods approved by the Deferred Compensation Program. No  
18 distribution will be paid unless a complete application is filed with, and approved by, the  
19 Deferred Compensation Program.

20 (2) Unforeseeable emergency withdrawal. An unforeseeable emergency withdrawal  
21 is an in-service distribution made to a participant due to an unforeseeable emergency.

22 This withdrawal may be made before the date a participant has a severance of



1 employment and as defined in OAR 459-050-0150. A participant must apply for an  
2 unforeseeable emergency withdrawal using forms provided by, or other methods  
3 approved by, the Deferred Compensation Program as provided for in OAR 459-050-  
4 0150(4).

5 (3) Military distribution. A participant is treated as having been severed from  
6 employment during any period the participant is performing service in the uniformed  
7 services while on active duty for a period of more than 30 days for the purposes of the  
8 limitation on in-service distributions. For purposes of this rule, “uniformed services” has  
9 the same meaning as given in OAR 459-050-0072. This section applies to distributions  
10 made on or after January 1, 2009.

11 (4) Trustee-to-Trustee Transfers. A Trustee-to-Trustee Transfer for the purpose of  
12 purchasing permissive service credit as described in Code Section 415(n) or a Trustee-to-  
13 Trustee Transfer that meets the requirements of 26 CFR 1.457.10(b)(4) may be made  
14 while a participant is still employed.

15 (5) Funds available for in-service distribution. Funds contributed to the Deferred  
16 Compensation Program, and earnings on those contributions may be distributed in a de  
17 minimis distribution or unforeseeable emergency withdrawal. Any funds directly  
18 transferred or rolled over to the Deferred Compensation Program from any plan other  
19 than an IRC 457 deferred compensation plan may not be distributed for a de minimis  
20 distribution or an unforeseeable emergency withdrawal.

21 (6) Prohibitions on elective deferrals after an in-service distribution. A participant  
22 who receives a de minimis distribution, an unforeseeable emergency withdrawal, or a  
23 military distribution may not make elective deferrals and employee contributions to the

1 Deferred Compensation Program for a period of six consecutive months from the date of  
2 distribution.

3 (7) Notwithstanding any other sections of this rule, a participant who self-  
4 certifies through a process provided by the Deferred Compensation Program as a  
5 “qualified individual” as that term is defined in the Coronavirus Aid, Relief, and  
6 Economic Security Act of 2020, may take an in-service distribution of no more than  
7 \$100,000 during calendar year 2020.

8 (a) A qualified individual means an individual:

9 (A) Who is diagnosed with the virus SARS-CoV-2 or with coronavirus disease  
10 2019 (COVID-19) by a test approved by the Centers for Disease Control and  
11 Prevention;

12 (B) Whose spouse or dependent (as defined in section 152 of the Internal  
13 Revenue Code of 1986) is diagnosed with such virus or disease by such a test; or

14 (C) Who experiences adverse financial consequences as a result of being  
15 quarantined, being furloughed or laid off or having work hours reduced due to such  
16 virus or disease, being unable to work due to lack of child care due to such virus or  
17 disease, closing or reducing hours of a business owned or operated by the individual  
18 due to such virus or disease, or other factors as determined by the Secretary of the  
19 Treasury (or the Secretary’s delegate).

20 (b) A distribution taken under this section, or any portion thereof, may be  
21 redeposited by the plan participant back into the participant’s Deferred  
22 Compensation Account within three years beginning on the day after the date of the  
23 withdrawal.

1 Stat. Auth.: ORS 243.470

2 Stats. Implemented: ORS 243.401 – 243.507, [Pub. L. No. 116-136](#)

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

1 **459-050-0077**

2 **Loan Program**

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

4 (a) “Cure period” is that time from when a default occurs until the end of the quarter  
5 following the quarter in which the default occurred.

6 (b) “Deferred Compensation Account” means the account described in OAR 459-  
7 050-0001, but does not include any amount in the Self-Directed Brokerage Option.

8 (c) “Designated Roth Account” means the account described in OAR 459-050-0001,  
9 but does not include any amount in the Self-Directed Brokerage Option.

10 (d) “Loan balance” means the outstanding principal and accrued interest due on the  
11 loan.

12 (e) “Participant Loan” means a loan that affects the Deferred Compensation  
13 Account, Designated Roth Account, or a combination of both, of a participant.

14 (f) “Promissory note” means the agreement of loan terms between the Program and a  
15 participant.

16 (g) “Third Party Administrator (TPA)” means the entity providing record keeping  
17 and administrative services to the Program.

18 (2) Eligibility for loan. Participants who are currently employed by a Plan Sponsor  
19 that has agreed to participate in a Participant Loan program are eligible for a Participant  
20 Loan. Retired participants, participants separated from employment, designated  
21 beneficiaries, and alternate payees are not eligible.

1 (3) Application for loan: A participant must apply for a loan and meet the  
2 requirements set forth in this rule.

3 (a) Once a loan is approved, a participant must execute a promissory note in the form  
4 prescribed by the Program.

5 (b) If a participant is deceased before the disbursement of the proceeds of a loan, the  
6 participant's loan application shall be void as of the date of death.

7 (4) Loan Types:

8 (a) General purpose loan — a loan not taken for the purpose of acquiring a principal  
9 residence. General purpose loans must be repaid over a non-renewable repayment period  
10 of up to five years.

11 (b) Residential loan — a loan made for the purpose of acquiring a principal  
12 residence, which is, or within a reasonable time shall be, the principal residence of the  
13 participant. Residential loans must be repaid over a non-renewable repayment period of  
14 up to 15 years. A refinancing does not qualify as a residential loan. However, a loan from  
15 the Program that will be used to repay a loan from a third party will qualify as a  
16 residential loan if the loan would qualify as a residential loan without regard to the loan  
17 from the third party.

18 (5) Interest Rate: The rate of interest for a loan shall be fixed at one percent (1%)  
19 above the prime interest rate as published by the Wall Street Journal on the last business  
20 day of the month before the month in which the loan is requested.

21 (6) Loan Fees: A loan fee of \$50.00 shall be assessed when the loan is approved. The  
22 fee shall be deducted from a participant's deferred compensation account on a pro-rata  
23 basis from existing investments.

1            (7) Loan Limitations:

2            (a) The maximum loan amount is the lesser of:

3            (A) \$50,000; or

4            (B) One-half of the combined value of the participant’s Deferred Compensation

5 Account and the Designated Roth Account on the date the loan is made.

6            (b) The minimum loan amount is \$1,000.

7            (c) A participant may only have one outstanding loan.

8            (d) A participant who has received a loan may not apply for another loan until 12

9 months from the date the previous loan was paid in full.

10           (8) Source of Loan: The loan amount will be deducted from a participant’s Deferred  
11 Compensation Account, Designated Roth Account, or a combination of both.

12           (a) Loan amounts will be deducted first from the Deferred Compensation Account.

13           (b) Loan amounts will be deducted pro-rata from existing investments in a  
14 participant’s account(s).

15           (c) A participant may not transfer a loan to or from another retirement or deferred  
16 compensation plan.

17           (9) Repayment Terms: The loan amount will be amortized over the repayment period  
18 of the loan with interest compounded daily to calculate a level payment for the duration  
19 of the loan.

20           (a) Loan payments must be made by payroll deduction. To receive a loan from the  
21 Program a participant must enter into a payroll deduction agreement. For the purposes of  
22 this rule, a promissory note or other document that includes the payroll deduction amount  
23 and is signed by a participant as a requirement to obtain a loan may be a payroll

1    deduction agreement. Except as provided in this rule, a participant may not submit a loan  
2    payment directly to the Program or the Third Party Administrator.

3            (b) A participant is responsible for loan repayment even if the employer fails to  
4    deduct or submit payments as directed under the payroll deduction agreement. To avoid  
5    defaulting on a loan by reason of the employer’s failure to deduct or submit a payment a  
6    participant may submit a loan payment by sending a money order or certified check to the  
7    Third Party Administrator.

8            (c) A participant may repay the loan balance in a single payment at any time before  
9    the date the final loan payment is due.

10           (d) Partial payment of a scheduled payment and partial prepayment or advance  
11   payment of future payments may not be permitted.

12           (e) Loan payments will be allocated in a participant’s account(s) in the same manner  
13   as the participant’s current contribution allocation. If, for any reason, the allocation is not  
14   known, the payment will be allocated to the Stable Value Option.

15           (f) Any overpayment will be refunded to the participant.

16           (10) Leave of Absence. Terms of outstanding loans are not subject to revision except  
17   as provided in this section.

18           (a) Loan payments may be suspended up to one year during an authorized leave of  
19   absence if a participant’s pay from the employer does not at least equal the payment  
20   amount.

21           (A) Interest on a loan continues to accrue during a leave of absence.

22           (B) A participant must immediately resume payments by payroll deduction upon  
23   return to work.

1            (C) The loan balance will be re-amortized upon the participant’s return to work to be  
2 repaid within the remaining loan repayment period.

3            (D) Loan payments may be revised to extend the remaining loan repayment period to  
4 the maximum period allowed in the event the loan originally had a term shorter than the  
5 maximum period allowed under section (4) of this rule.

6            (E) If a participant is on a leave of absence that exceeds one year, the loan shall be in  
7 default unless repayment begins one year from the participant’s last date worked or the  
8 date the final payment is due under the promissory note, whichever is earlier.

9            (b) Military Leave. Loan payments for participants on military leave may be  
10 suspended for the period of military service.

11           (A) A leave of absence for military service longer than one year will not cause a loan  
12 to be in default.

13           (B) Loan payments by payroll deduction must resume upon the participant’s return  
14 to work.

15           (C) The original repayment period of a loan will be extended for the period of  
16 military service or to the maximum repayment period allowed for that type of loan,  
17 whichever is greater.

18           (D) Interest on a loan continues to accrue during a leave of absence for military  
19 service. If the interest rate on the loan is greater than 6%, then under the provisions of the  
20 Servicemembers Civil Relief Act of 2003, the rate shall be reduced to 6% during the  
21 period of military service.



1 (E) The loan balance will be re-amortized upon the participant's return to work to be  
2 repaid within the remaining loan repayment period as determined under paragraph (C) of  
3 this subsection.

4 (c) A participant on an authorized leave of absence or military leave may submit  
5 loan payments by sending a money order or certified check to the Third Party  
6 Administrator.

7 (11) Tax Reporting.

8 (a) The loan balance of a general purpose loan will be reported as a taxable  
9 distribution to the participant on the earlier of the last day of the loan repayment period,  
10 as adjusted under paragraphs (10)(a)(D) or (10)(b)(C) of this rule, if applicable, or if the  
11 loan is in default, the last day of the cure period.

12 (b) The loan balance of a residential loan will be reported as a taxable distribution to  
13 the participant on the earlier of the last day of the loan repayment period, as adjusted  
14 under paragraphs (10)(a)(D) or (10)(b)(C) of this rule, if applicable, or if the loan is in  
15 default, the last day of the cure period.

16 (c) If a participant dies before the loan balance being repaid, and the participant's  
17 beneficiary does not repay the loan balance in a single payment within 90 days of the  
18 participant's death, the loan balance will be reported as a taxable distribution to the estate  
19 of the participant.

20 (d) If a participant is eligible to receive a distribution under the Program, the  
21 reporting of a loan balance as a taxable distribution under this section will cancel the loan  
22 at the time the taxable distribution is reported. A canceled loan is a distribution and is no  
23 longer outstanding in a participant's account.

1 (e) If a participant is not eligible to receive a distribution under the Program, a loan  
2 balance reported as a taxable distribution under this section will be a deemed distribution  
3 for tax reporting purposes. A loan deemed distributed may not be canceled until the loan  
4 balance is repaid or the participant becomes eligible to receive a distribution. The loan  
5 balance will remain outstanding in the participant’s account and will continue to accrue  
6 interest until repaid or canceled.

7 (12) Default.

8 (a) A loan is in default if a payment is not paid as scheduled or under any of the  
9 provisions set forth in this rule, the promissory note, or any related loan agreement.

10 (b) A loan is in default if the participant separates from employment with the plan  
11 sponsor that administers the loan payment payroll deductions.

12 (c) If a participant with a loan in default resumes loan payments by payroll deduction  
13 before the end of the cure period, the default will be cured. The participant must pay any  
14 missed payments and accrued interest before the end of the loan repayment period.

15 (d) Except as provided in subsection (c) of this section, if the participant does not  
16 cure a default by repaying the loan balance before the end of the cure period, the loan  
17 balance will be reported as a taxable distribution to the participant as provided in section  
18 (11) of this rule.

19 **(13) Notwithstanding any other sections of this rule, a participant who self-**  
20 **certifies through a process provided by the Deferred Compensation Program as a**  
21 **“qualified individual” as that term is defined in the Coronavirus Aid, Relief, and**  
22 **Economic Security Act of 2020, will have any repayment due date between March**  
23 **27 and December 31, 2020 delayed for one year.**

- 1 (a) A qualified individual means an individual:
- 2 (A) Who is diagnosed with the virus SARS-CoV-2 or with coronavirus disease
- 3 2019 (COVID-19) by a test approved by the Centers for Disease Control and
- 4 Prevention;
- 5 (B) Whose spouse or dependent (as defined in section 152 of the Internal
- 6 Revenue Code of 1986) is diagnosed with such virus or disease by such a test; or
- 7 (C) Who experiences adverse financial consequences as a result of being
- 8 quarantined, being furloughed or laid off or having work hours reduced due to such
- 9 virus or disease, being unable to work due to lack of child care due to such virus or
- 10 disease, closing or reducing hours of a business owned or operated by the individual
- 11 due to such virus or disease, or other factors as determined by the Secretary of the
- 12 Treasury (or the Secretary’s delegate).
- 13 (b) Interest will continue to accrue on the outstanding balance of the loan
- 14 during the period of repayment delay.

15 Stat. Auth.: ORS 243.470

16 Stats. Implemented: ORS 243.401 – 243.507, Pub. L. No. 116-136

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

1    **459-050-0080**

2    **Distribution of Funds After a Severance of Employment**

3           The purpose of this rule is to establish the criteria and process for obtaining a  
4    distribution of deferred compensation funds after a participant’s severance of  
5    employment as defined herein. Distribution under the Deferred Compensation Program  
6    shall be made in accordance with any minimum distribution or other limitations required  
7    by Internal Revenue Code (IRC) section 401(a)(9), 26 U.S.C. 401(a)(9) and related  
8    regulations.

9           (1) Definitions. The following definitions apply for the purpose of this rule:

10          (a) “Commencement date” means the month and year that a participant will begin  
11    receiving a distribution(s) from the Deferred Compensation Program, whether by  
12    operation of the participant’s election or under the terms of the plan. The commencement  
13    date is not the date that the necessary funds are liquidated for distribution.

14          (b) “Date of distribution” means the date funds are distributed to the participant,  
15    alternate payee, beneficiary, or other recipient in accordance with the plan, regardless of  
16    the mechanism by which those funds are distributed.

17          (c) “Intention to return to work” means a written or oral, formal or informal  
18    agreement has been made with the plan sponsor to return to work on a full time, part time  
19    or temporary basis at the time the severance is effective. If a participant returns to work  
20    with the plan sponsor within 30 calendar days of severance, then a rebuttable  
21    presumption exists that the participant intended to return to work as of the date of  
22    severance.

1 (d) “Liquidation date” means the date the Deferred Compensation Program  
2 designates for liquidation of funds. Generally, the liquidation date will not be earlier than  
3 the 25th day of the calendar month preceding the commencement date. The Deferred  
4 Compensation Program may determine the liquidation date based on normal business  
5 practices. The Deferred Compensation Program is not liable to a participant for failure to  
6 liquidate an investment on a specified date.

7 (e) “Liquidation of funds” means the conversion of the necessary funds from the  
8 investments in the Deferred Compensation Program into cash for payment under a  
9 specified manner of distribution.

10 (f) “Manner of distribution” means the manner elected by the participant, alternate  
11 payee, or beneficiary in accordance with the terms of the plan, in which a distribution is  
12 to be paid out of the Deferred Compensation Program.

13 (g) “Required beginning date” means April 1 of the calendar year following the later  
14 of:

15 (A) The calendar year in which the participant reaches 70-1/2 years of age if the  
16 participant was born before July 1, 1949, or age 72 if the participant was born after  
17 June 30, 1949; or

18 (B) The calendar year in which the participant retires.

19 (h) “Severance of Employment” means a participant has ceased rendering services as  
20 an employee or an independent contractor of a plan sponsor for a minimum of 30  
21 consecutive days, including services as a temporary employee, and has no intention to  
22 return to work for the plan sponsor.

1 (2) Manner of distribution. Subject to the provisions of sections (3) through (5) set  
2 out below, a participant, surviving beneficiary, or alternate payee may elect a manner of  
3 distribution, designate one or more beneficiaries, and change beneficiaries at any time.  
4 The total amount distributed may not exceed the total account value. The following  
5 manners of distribution are available:

6 (a) Total distribution of the account value in a lump sum. A lump-sum distribution is  
7 not eligible for direct deposit;

8 (b) Single distribution of a portion of the account value in a lump sum. This form of  
9 lump-sum distribution is not eligible for direct deposit. Funds not distributed shall  
10 continue to receive earnings or losses based on the performance of investment option(s)  
11 in which funds are held;

12 (c) Systematic withdrawal distribution for a specific number of years, which may be  
13 paid annually, semiannually, quarterly or monthly. Any funds remaining after each  
14 periodic payment shall continue to receive earnings or losses based on the performance of  
15 investment option(s) in which the funds are held. The remaining number of periodic  
16 distributions may not change. However, the amount of distributions shall be adjusted  
17 depending on the earnings or losses experienced;

18 (d) Periodic specified dollar amount distribution. This distribution may be paid  
19 annually, semiannually, quarterly or monthly, and may be paid in specific dollar amounts  
20 in \$5 increments. Any funds remaining after each periodic payment shall continue to  
21 receive earnings or losses based on the performance of investment option(s) in which the  
22 funds are held. The amount of each periodic distribution will remain the same throughout

1 the withdrawal period. However, the withdrawal period may vary depending on the  
2 earnings or losses experienced;

3 (e) Required minimum distribution, which will provide an annual distribution of the  
4 minimum amount required in IRC section 401(a)(9), 26 U.S.C. 401(a)(9). This manner of  
5 distribution is available only to those who defer distribution to age 70-1/2 [*years of age*]  
6 **if the participant was born before July 1, 1949, or age 72 if the participant was born**  
7 **after June 30, 1949** (no later than April of the year following the year reaching 70-1/2  
8 years of age **or 72 years of age**) or a participant who continues to work and severs  
9 employment after 70-1/2 years of age **if the participant was born before July 1, 1949,**  
10 **or age 72 if the participant was born after June 30, 1949.** Funds not distributed shall  
11 continue to receive earnings or losses based on the performance of investment option(s)  
12 in which funds are held; or

13 (f) Mandatory single lump-sum distribution of an account balance of less than  
14 \$1,000. This distribution shall be made to any participant or alternate payee with an  
15 account balance of less than \$1,000 within one year of the participant's severance of  
16 employment.

17 (3) Application Requirements. Application shall be made on forms provided by, or  
18 other methods approved by, the Deferred Compensation Program. No distribution may be  
19 paid unless a timely and complete application is filed with the Deferred Compensation  
20 Program as follows:

21 (a) An application for distribution or to change the manner of distribution will be  
22 considered filed in a timely manner if it is received in writing or other method approved  
23 by the Deferred Compensation Program at least 30 days before the requested

1 commencement date. The commencement date may be no earlier than the second  
2 calendar month following the month of severance of employment.

3 (b) An application for distribution or to change the manner of distribution may be  
4 made by a participant, surviving beneficiary, or alternate payee or the authorized  
5 representative of a participant, surviving beneficiary or alternate payee. A valid document  
6 appointing an authorized representative such as a power of attorney, guardianship or  
7 conservatorship appointment, must be submitted to the Deferred Compensation Program.  
8 The Deferred Compensation Program retains the discretion to determine whether the  
9 document is valid for purposes of this rule.

10 (c) Except in the case of a qualified distribution as defined in section 402A(d)(2) of  
11 the Internal Revenue Code, the participant, surviving beneficiary, or alternate payee must  
12 file a tax-withholding certificate with the Deferred Compensation Program at least 30  
13 days before the requested commencement date. If the certificate is not filed, the Deferred  
14 Compensation Program shall withhold state income taxes based on a marital status of  
15 single and no dependents and federal income taxes based on a marital status of married  
16 and 3 dependents, or other federally mandated tax withholding requirements. A new  
17 certificate may be filed at any time, and will be applied to distributions paid on and after  
18 the first calendar month following the date received or as soon as reasonably possible.

19 (d) When direct deposit is permitted under the Deferred Compensation Program, a  
20 request for periodic distributions to be transmitted to a financial institution for direct  
21 deposit must be made using a Deferred Compensation Program Automatic Deposit  
22 Agreement.



1 (e) Distribution of deferred compensation funds will occur no later than five days  
2 following the date funds necessary for a specified payment were liquidated. Liquidation  
3 of funds will be done on a pro-rata basis determined by the investment allocation of an  
4 account at the time the funds are liquidated or from the Stable Value account, at the  
5 participant's election. The election must be filed before the participant begins receiving  
6 distributions. If the participant elects distribution from the Stable Value account and there  
7 are insufficient funds in that account on the date of each distribution (whether monthly,  
8 quarterly, semi-annually, or annually), the distribution will be done on the pro-rata basis  
9 described above regardless of the participant's election.

10 (4) Denial of distribution election. The Deferred Compensation Program may deny  
11 any distribution election if that denial is required to maintain the status of the Deferred  
12 Compensation Program under the Internal Revenue Code and regulations adopted  
13 pursuant to the Internal Revenue Code and ORS Chapter 243.

14 (5) Changing the manner of distribution. A participant, surviving beneficiary or  
15 alternate payee may change or discontinue the manner of distribution only as follows and  
16 subject to the requirements of section (3) above:

17 (a) Manners of distribution under sections (2)(c), (2)(d) and (2)(e) of this rule may  
18 be changed at any time upon application as required under section (3) of this rule.

19 (b) Distributions under sections (2)(c) and (2)(d) of this rule may be discontinued  
20 upon written notification or by other methods approved by the Deferred Compensation  
21 Program. The participant, surviving beneficiary, or alternate payee must submit an  
22 application, as required in section (3) of this rule, to restart distributions and elect a  
23 manner of distribution for the remaining account.

1 (c) Subject to the requirements of this rule, a participant, surviving beneficiary or  
2 alternate payee who has commenced receiving a required minimum distribution may  
3 apply under the requirements of section (3) of this rule:

4 (A) For one or more additional distributions in a lump sum not to exceed the total  
5 value of the account; and

6 (B) To change the manner of distribution so long as future distributions will be  
7 continuous and equal to or greater than the minimum distribution required.

8 Stat. Auth.: ORS 243.470

9 Stats. Implemented: ORS 243.401 – 243.507, [Pub. L. No. 116-136](#)

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

1 **459-050-0300**

2 **Required Minimum Distribution Requirements**

3 (1) Definitions. The following definitions apply for the purposes of this rule:

4 (a) “Designated Beneficiary” means:

5 (A) A natural person designated as a beneficiary by the participant, alternate payee,  
6 or surviving beneficiary as provided in OAR 459-050-0060; or

7 (B) If a trust is designated as a beneficiary, the individual beneficiaries of the trust  
8 will be treated as designated beneficiaries if the trust satisfies the requirements in section  
9 (2) of this rule and applicable Treasury Regulations, including but not limited to  
10 Proposed Treasury Regulation Section 1.401(a)(9)-1, Q&A-D-5.

11 (C) If the beneficiary is not a person or a trust satisfying these requirements, the  
12 participant, alternate payee, or surviving beneficiary will be deemed to have no  
13 designated beneficiary only for purposes of required minimum distributions under IRC  
14 409(a)(9), and distribution shall be made in accordance with section (11) of this rule.

15 (b) “Life Expectancy” means the length of time a person of a given age is expected  
16 to live as set forth in Treasury Regulation Section 1.72-9. Required minimum  
17 distributions shall be calculated so as to satisfy the requirements of Section 401(a)(9)  
18 using the life expectancy tables provided in Treasury regulations. Life expectancies may  
19 not be recalculated after the initial determination, except as otherwise required under  
20 Oregon or federal law.

21 (c) “Required Beginning Date” means April 1 of the calendar year following the  
22 later of:

1            (A) The calendar year in which the participant reaches 70-1/2 years of age if the  
2 participant was born before July 1, 1949, or age 72 if the participant was born after  
3 June 30, 1949; or

4            (B) The calendar year in which the participant retires.

5            (d) “Required Commencement Date” means the date that the deferred compensation  
6 plan must begin to distribute all or part of an account to a surviving beneficiary.

7            (2) A trust as beneficiary. If a trust is designated as a beneficiary, the individual  
8 beneficiaries of the trust will be treated as designated beneficiaries as defined in  
9 paragraph (1)(c)(B) if by December 31 of the calendar year following the death of a  
10 person who designated a trust as beneficiary, the trust satisfies the following conditions:

11            (a) The trust must be irrevocable, or become irrevocable by its terms at the time of  
12 the person’s death;

13            (b) The trust’s beneficiaries must be natural persons who are identifiable from the  
14 trust instrument; and

15            (c) One of the following must be provided to the Deferred Compensation Program:

16            (A) A list of all beneficiaries of the trust, including contingent beneficiaries, along  
17 with a description of the portion to which they are entitled and any conditions on their  
18 entitlement, all corrected certifications of trust amendments, and a copy of the trust  
19 instrument if requested by the Deferred Compensation Program; or

20            (B) A copy of the trust instrument and copies of any amendments after they are  
21 adopted.

22            (3) Applicable law. Distributions under the Deferred Compensation Program shall be  
23 made in accordance with Internal Revenue Code (IRC) Section 401(a)(9), Treasury

1 regulations, Internal Revenue Service rulings and other interpretations issued, including  
2 Proposed Treasury Regulation Section 1.401(a)(9)-2. IRC Section 401(a)(9) overrides the  
3 provisions of this rule and any other statute or rule pertaining to the required minimum  
4 distribution requirements and any manners of distributions, if they are found to be  
5 inconsistent with IRC Section 401(a)(9).

6 (a) If a participant, alternate payee, or surviving beneficiary has not begun  
7 distribution or elected a minimum distribution by the beginning date or commencement  
8 date required in this rule and IRC Section 401(a)(9), the Deferred Compensation Program  
9 shall begin distribution of the minimum amount required as provided under OAR 459-  
10 050-0080(2)(e) or, if required, the entire account. Distribution under this subsection is  
11 subject to the provisions of OAR 459-050-0120(5).

12 (b) The required minimum distribution amount may never exceed the entire account  
13 balance on the date of distribution.

14 (4) Minimum distribution requirements for participants. Distributions must begin no  
15 later than the participant's required beginning date.

16 (a) The participant's entire account balance shall be distributed over the participant's  
17 life expectancy or over a period not extending beyond the participant's life expectancy  
18 without regard to the designated beneficiary's age unless the designated beneficiary is a  
19 spouse who is more than 10 years younger than the participant.

20 (b) If the designated beneficiary is a spouse and is more than 10 years younger than  
21 the participant, the entire account balance shall be distributed over the joint lives of the  
22 participant and the designated beneficiary.

1 (c) The participant’s entire account(s) balance in the Deferred Compensation  
2 Program shall be distributed first from the Deferred Compensation Account unless the  
3 participant indicates otherwise.

4 (5) Minimum distribution requirements for alternate payees. The minimum  
5 distribution requirements applicable to an alternate payee are determined by whether a  
6 Qualified Domestic Relations Order (QDRO) allocates a separate account to the alternate  
7 payee or provides that a portion of a participant’s benefit is to be paid to the alternate  
8 payee.

9 (a) If a separate account is established in the name of the alternate payee under OAR  
10 459-050-0210, required minimum distributions to the alternate payee must begin no later  
11 than the participant’s required beginning date. The alternate payee’s entire account  
12 balance shall be distributed over the alternate payee’s life expectancy or over a period not  
13 extending beyond the alternate payee’s life expectancy.

14 (b) If no separate account is established in the name of the alternate payee and the  
15 alternate payee is paid a portion of a participant’s benefit, the alternate payee’s portion of  
16 the benefit shall be aggregated with the amount distributed to the participant and will be  
17 treated, for purposes of meeting the minimum distribution requirement, as if it had been  
18 distributed to the participant.

19 (6) Manners of distribution available to surviving designated beneficiaries. A  
20 surviving designated beneficiary may choose a manner of distribution and apply for a  
21 distribution as provided for in OAR 459-050-0080. If the distribution to a participant or  
22 alternate payee has begun in accordance with section 401(a)(9)(A)(ii) and the participant  
23 dies before the entire account has been distributed or after distributions are required to

1 begin under section (4) of this rule, distributions to the surviving designated beneficiary  
2 must be made at least as rapidly as under the manner of distribution used before the  
3 participant's or alternate payee's death.

4 (7)(a) Distributions treated as having begun. Distributions from an individual  
5 account are not treated as having begun to a participant in accordance with section  
6 401(a)(9)(A)(ii) until the participant's required minimum distribution beginning date,  
7 without regard to whether distributions from an individual account have been made  
8 before the required beginning date.

9 (b) If distribution has been made before the required beginning date in the form of an  
10 irrevocable annuity, the distributions are treated as having begun if a participant dies after  
11 the annuity starting date but before the required beginning date. The annuity starting date  
12 will be deemed the required minimum distribution beginning date.

13 (8) Required commencement date for a surviving designated beneficiary. If a  
14 participant dies before distributions are required to begin or are treated as having begun,  
15 the entire account balance must be distributed by December 31 of the calendar year  
16 containing the fifth anniversary of the participant's death, unless the beneficiary makes  
17 the following distribution election in the manner prescribed by the Deferred

18 Compensation Plan:

19 (a) Distributions must begin no later than December 31 of the calendar year  
20 following the year of the participant's or alternate payee's death; and

21 (b) Distribution of payments over the designated beneficiary's lifetime or over a  
22 period not exceeding the designated beneficiary's life expectancy.

1 (A) The beneficiary's life expectancy is calculated using the age of the beneficiary in  
2 the year following the year of the participant's death, reduced by one for each subsequent  
3 year.

4 (B) If the participant has more than one designated beneficiary as of December 31 of  
5 the calendar year following the year of the participant's death and the account has not  
6 been divided into separate accounts for each beneficiary, the beneficiary with the shortest  
7 life expectancy is treated as the designated beneficiary.

8 (9) Required commencement date for a spousal beneficiary. If distributions have not  
9 begun before the participant's death and if the sole designated beneficiary is the  
10 participant's surviving spouse, distributions to the surviving spouse must commence on  
11 or before the later of the dates set forth in subsections (a) and (b) below:

12 (a) December 31 of the calendar year immediately following the calendar year in  
13 which the participant died; or

14 (b) December 31 of the calendar year in which the participant would have attained  
15 70-1/2 years of age if the participant was born before July 1, 1949, or age 72 if the  
16 participant was born after June 30, 1949.

17 (c) The distribution period during the surviving spouse's life is the spouse's single  
18 life expectancy.

19 (10)(a) Required commencement date for a surviving spouse's beneficiary. If the  
20 surviving spouse dies after the participant's death but before distributions to the spouse  
21 have begun, any death benefits payable to the surviving spouse's beneficiary will be  
22 applied as if the surviving spouse were the participant. The date of death of the surviving  
23 spouse will be substituted for the date of death of the participant.



1 (b) A death benefit payable to the surviving spouse of the deceased participant’s  
2 surviving spouse shall be distributed as provided in section (8) of this rule. The  
3 provisions of section (9) of this rule do not apply to a death benefit payable to a surviving  
4 spouse of the deceased participant’s surviving spouse.

5 (11)(a) Required commencement date if no designated beneficiary: If a participant  
6 dies before the required beginning date with no designated beneficiary as defined in  
7 paragraph (1)(c)(C) of this rule, the total account balance must be distributed as provided  
8 for in OAR 459-050-0060, by December 31 of the calendar year containing the fifth  
9 anniversary of the participant’s or alternate payee’s death.

10 (b) If a participant dies after the required beginning date with no designated  
11 beneficiary as defined in paragraph (1)(c)(C) of this rule, the applicable distribution  
12 period must not be longer than the participant’s life expectancy.

13 (12) Determining the designated beneficiary. The designated beneficiary will be  
14 determined based on the beneficiary(s) designated as of December 31 of the calendar  
15 year following the calendar year of the participant’s, alternate payee’s, or surviving  
16 beneficiary’s death.

17 (a) A participant may change beneficiaries after his or her required beginning date.

18 (b) A beneficiary may be changed after a participant’s death, such as by one or more  
19 beneficiaries disclaiming benefits.

20 **(13) Notwithstanding any other sections of this rule and pursuant to the**  
21 **Coronavirus Aid, Relief, and Economic Security Act of 2020, required minimum**  
22 **distribution under IRC 401(a)(9) is waived for calendar year 2020, including 2019**

1 required minimum distribution that would be made between January 1 and April 1,  
2 2020.

3 Stat. Auth.: ORS 243.470

4 Stats. Implemented: ORS 243.401 - 243.507, Pub. L. No. 116-136



# Oregon

Kate Brown, Governor

## Public Employees Retirement System

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May 29, 2020

TO: Members of the PERS Board  
FROM: Stephanie Vaughn, Manager, Policy Analysis & Compliance Section  
SUBJECT: Temporary Adoption of COVID-19 Mitigation Rule:  
OAR 459-001-0100, *Temporary Rule Relating to Executive Order 20-03  
Declaration of Emergency Due to Coronavirus (COVID-19) Outbreak in Oregon*

### OVERVIEW

- Action: Adopt temporary rule for COVID-19 mitigation.
- Reason for Temporary Rule: Adopt temporary administrative rule necessary to mitigate the impact of the Coronavirus (COVID-19) outbreak on PERS members and employers.
- Policy Issue: None identified.

### BACKGROUND

On March 8, 2020, Governor Kate Brown issued Executive Order 20-03 instructing state agencies to develop and implement procedures designed to prevent or alleviate the public health threat caused by the Coronavirus (COVID-19) outbreak in Oregon. PERS staff evaluated, and continues to evaluate, the agency's administrative rules and PERS' internal processes to determine how members might be negatively impacted due to the COVID-19 outbreak and what, if anything, can be done at the agency level to mitigate that effect. This temporary rule was originally adopted at the April board meeting to address health insurance premiums; that portion of the rule has not changed. We are bringing the rule forward for adoption again to implement mitigating action with respect to the Employer Incentive Fund (EIF).

#### Employer Incentive Fund Payment Due Date Extension

The Board opened the first EIF application cycle on September 3, 2019. According to OAR 459-009-0092, that application cycle is scheduled to close on August 31, 2020. With the economic downturn due to COVID-19, and the extension of the income tax filing deadline, some employers are reevaluating their budgets and their commitments to make lump sum payments under the EIF program. In light of the economic impact of the COVID-19 pandemic on employers' budgets, staff recommends the board extend the application cycle to December 1, 2020. This will allow employers who wish to delay their lump sum payment to request a later date to make their payment.

### JUSTIFICATION FOR TEMPORARY RULEMAKING

Due to the nature of the COVID-19 outbreak, exceptions to certain timelines are necessary in order to accommodate Governor Brown's Executive Order 20-03.

### LEGAL REVIEW

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

### IMPACT

Mandatory: No, but the Governor has advised agencies to develop and implement procedures, including waiving rules or adopting temporary rules, within the agency’s authority, to prevent or alleviate the public health threat.

Effect: The new temporary rule will mitigate the impact of the Coronavirus (COVID-19) outbreak on PERS members and employers.

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

### BOARD OPTIONS

The board may:

1. Pass a motion to “adopt a new temporary rule regarding the mitigation of the impact of the Coronavirus (COVID-19) outbreak on PERS members and employers.”
2. Direct staff to make other changes to the rule or explore other options.

### STAFF RECOMMENDATION

Staff recommends the board choose Option #1.

- Reason: Adopt temporary administrative rule necessary to mitigate the impact of the Coronavirus (COVID-19) outbreak on PERS members and employers.

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

B.3. Attachment 1 – 459-001-0100, *Temporary Rule Relating to Executive Order 20-03 Declaration of Emergency Due to Coronavirus (COVID-19) Outbreak in Oregon*

**OREGON ADMINISTRATIVE RULE  
PUBLIC EMPLOYEES RETIREMENT BOARD  
CHAPTER 459  
DIVISION 1 – PROCEDURAL RULES**

1 **459-001-0100**

2 **Temporary Administrative Rule Relating to Executive Order 20-03 Declaration of**  
3 **Emergency Due to Coronavirus (COVID-19) Outbreak in Oregon**

4 Authorized by Executive Order 20-03 (Section 5), instructing that State agencies  
5 shall develop and implement procedures, including waiving rules or adopting temporary  
6 rules within the agency’s authority, consistent with recommendations from the state  
7 Public Health Director, designed to prevent or alleviate the public health threat, and in  
8 response to Executive Order 20-03 Section 1(d) limitations put upon employers and  
9 members that are affected by guidelines issued by the Governor for private  
10 businesses and public buildings regarding appropriate work restrictions, and in response  
11 to Executive Order 20-03 Section 3 limitations put on members that are affected by  
12 heeding the advice of emergency officials regarding the outbreak, temporary rules  
13 are adopted as follows:

14 **Health Insurance Premium Payments**

15 **(1)** During the period in which the Governor’s Executive Order No. 20-03  
16 (Declaration of Emergency Due to Coronavirus (COVID-19) Outbreak in Oregon)  
17 remains in effect, no person’s PERS-sponsored health insurance coverage shall be  
18 terminated under OAR 459-035-0090(4) for failure to make payment of monthly  
19 contributions by the applicable due date. Any person whose payments are received in full  
20 by the Third Party Administrator within 30 days after the state of emergency is no longer  
21 in effect shall be deemed to have submitted timely payments during the state of  
22 emergency for purposes of OAR 459-035-0090.

1 Employer Incentive Fund Payment Due Date Extension

2 (2) During the August 16, 2019 supplemental PERS Board meeting, the Board  
3 established September 3, 2019 as the begin date for the first Employer Incentive  
4 Fund (EIF) application cycle.

5 (a) According to OAR 459-009-0092, PERS employers that have successfully  
6 submitted their applications and were accepted to participate in the EIF program  
7 during the EIF application cycle established on September 3, 2019, must make their  
8 lump-sum payment no later than 12 months after the date the application cycle  
9 opens; in other words, August 31, 2020.

10 (b) Due to the COVID-19 pandemic and its impact on the budgets of many  
11 participating employers, the Board is extending the EIF employer lump-sum  
12 payment deadline from August 31, 2020 to December 1, 2020, for the application  
13 cycle established on September 3, 2019. Employers that wish to extend their  
14 payment deadline under this temporary rule must notify PERS of the new payment  
15 date at least five business days before the date the employer indicated it would make  
16 the payment, and the new payment date must be no later than December 1, 2020.

17 Stat. Auth.: ORS Chapters 238 & 238A

18 Stats. Implemented: ORS Chapters 238 & 238A



# Oregon

Kate Brown, Governor

## Public Employees Retirement System

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May 29, 2020

TO: Members of the PERS Board  
FROM: Stephanie Vaughn, Manager, Policy Analysis & Compliance Section  
SUBJECT: Adoption Internal Revenue Code Limitations Rules:  
OAR 459-005-0545, *Annual Addition Limitation*  
OAR 459-080-0250, *IAP Account Installments*  
OAR 459-080-0500, *Limitation on Contributions*

### OVERVIEW

- Action: Adopt modifications to the Internal Revenue Code Limitations rules.
- Reason: Update rules to reflect the 2020 Internal Revenue Code (IRC) 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 PERS 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 2020 and are necessary to ensure compliance with the federal limits on the amount of annual compensation allowed for determining contributions and benefits.

### SUMMARY OF MODIFICATIONS TO RULES SINCE NOTICE

A definition for “account balance” was added in OAR 459-080-0250 to clarify the specific IAP accounts discussed in the rule.

### PUBLIC COMMENT AND HEARING TESTIMONY

No rulemaking hearing was held because the PERS headquarters building was closed to the public. The public comment period ended May 5, 2020, 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.

Benefit: Clarifies the limits for contributions and benefits under federal law for calendar year 2020.

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

#### RULEMAKING TIMELINE

March 30, 2020	Staff began the rulemaking process by filing a Notice of Rulemaking with the Secretary of State.
March 30, 2020	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.
March 30, 2020	PERS Board notified that staff began the rulemaking process.
May 5, 2020	Public comment period ended at 5:00 p.m.
May 29, 2020	Board may adopt the rule modifications.

#### BOARD OPTIONS

The PERS Board may:

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

#### STAFF RECOMMENDATION

Staff recommends the PERS Board choose Option #1.

- Reason: Update rules to reflect the 2020 Internal Revenue Code (IRC) annual compensation limitations for retirement contributions and benefits.

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

B.4. Attachment 1 - 459-005-0545, *Annual Addition Limitation*

B.4. Attachment 2 - 459-080-0250, *IAP Account Installments*

B.4. Attachment 3 - 459-080-0500, *Limitation on Contributions*



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

1 **459-005-0545**

2 **Annual Addition Limitation**

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

6 (2) Except as otherwise provided in this rule, a member’s annual additions to PERS  
7 for any calendar year after ~~2018~~ 2019 may not exceed ~~[\$56,000]~~ \$57,000 (as adjusted  
8 under IRC Section 415(d)).

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

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

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

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

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

5            (a) The payment shall be allocated as an annual addition to the calendar year to  
6 which it relates; and

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

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

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

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

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

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

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

1    **459-080-0250**

2    **IAP Account Installments**

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

4       (a) “Account balance” means the member’s employee and employer accounts  
5 established under ORS 238A.350, to the extent the member is vested in those  
6 accounts.

7       (b) “Anniversary date” means the first day of the calendar month of the date of  
8 distribution of the first installment payment.

9       [(b)](c) “Date of distribution” has the same meaning as defined in OAR 459-007-  
10 0001(7).

11       [(c)](d) “Estimated Life Expectancy” means the member’s life expectancy as  
12 determined by the applicable IRS mortality table.

13       [(d)](e) “Payout Period” means the span of years over which the member elects to  
14 receive installment payments under section (2) of this rule.

15       (2) Upon retirement, a member of the individual account program who elects to  
16 receive the amounts in the member’s employee and employer accounts in installments  
17 under ORS 238A.400(2) shall designate the number of years over which the installments  
18 are to be paid, selecting a period of 5, 10, 15, or 20 years, or a period equal to the  
19 member’s estimated life expectancy. The member may also request that installments be  
20 made on a monthly, quarterly, or annual basis.

21       (3) Account balances will be adjusted each month in accordance with OAR 459-007-  
22 0330.

1 (a) The amount of each 5-, 10-, 15-, or 20-year installment will be determined by  
2 dividing the member's adjusted balance by the number of remaining installment payments.

3 (b) The installment amount for the member's estimated life expectancy will be  
4 determined once a year by dividing the member's adjusted balance on the anniversary date  
5 by the member's remaining estimated life expectancy, which amount will then be paid  
6 monthly, quarterly, or annually.

7 (4) If a member requests installments under section (2) of this rule, but the amount of  
8 the requested installment would be less than \$200 as determined at the time of the initial  
9 request, the frequency and Payout Period of the installment payment will be modified so  
10 that the amount of the installment is at least \$200. If the member's account balance is  
11 \$1,000 or less at the time of the initial request, the member will not be eligible for  
12 installments and the balance will be paid in a lump sum.

13 (5) Notwithstanding the Payout Period selected by the member under section (2) of  
14 this rule, any distribution will be adjusted to comply with the required minimum  
15 distribution requirements of 26 U.S.C. 401(a)(9) and regulations implementing that  
16 section[, *as in effect on December 31, 2013*].

17 (6) Members who elect a five year Payout Period or a lump sum payment may elect to  
18 directly roll over any portion of their IAP installment or lump sum payment to an eligible  
19 retirement plan subject to the limitations in OAR 459-005-0595.

20 (7) Members who elect a 10-, 15-, or 20-year, or an estimated life expectancy Payout  
21 Period cannot elect to have any portion of their installment payments rolled over.

1           (8) Members who are subject to the required minimum distribution requirements  
2   referenced in section (5) of this rule may only roll over that portion of their installment or  
3   lump sum payments that exceeds required minimum distribution requirements.

4           Stat. Auth.: ORS 238A.450

5           Stats. Implemented: ORS 238A.400

**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) For purposes of this rule, “annual addition” has the same meaning given the term  
4 in 26 U.S.C. 415(c)(2).

5 (2) Except as otherwise provided in this rule, the annual addition to a member  
6 account for any calendar year may not exceed [~~\$56,000~~] \$57,000 effective January 1,  
7 [~~2019~~] 2020.

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

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

12 (b) For the purpose of determining the amount of the payment under this section, the  
13 member’s compensation shall be determined under OAR 459-080-0100(3)(d).

14 Stat. Auth.: ORS 238A.450

15 Stats. Implemented: ORS 238A.370



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May 29, 2020

TO: Members of the PERS Board  
FROM: Stephanie Vaughn, Manager, Policy Analysis & Compliance Section  
SUBJECT: Adoption of SB 1049 Member Choice Rule:  
OAR 459-080-0015, *Investment of IAP Account Balance*

### OVERVIEW

- Action: Adopt modifications to the SB 1049 Member Choice rule.
- Reason: Update rule to implement Member Choice provision of Senate Bill 1049 (2019).
- Policy Issue: None identified.

### BACKGROUND

In September 2017, the Oregon Investment Council (OIC) adopted a new Target Date Fund (TDF) investment strategy for the Individual Account Program (IAP), effective January 1, 2018. During the 2018 Legislative Session, the Oregon Legislature enacted House Bill 4159 (codified as 238A.420) which, among other things, allowed a PERS member with an IAP account to elect the TDF of their choice (Member Choice), effective January 1, 2019, unless the Office of the State Treasurer determined that legal or fiduciary standards prohibit the implementation of Member Choice. The State Treasurer did determine that implementation of Member Choice, as outlined in HB 4159, was prohibited and Member Choice was put on hold.

During the 2019 Legislative Session, the Oregon Legislature enacted Senate Bill 1049, which includes provisions that amend the Member Choice statutory language in 238A.420 to address the concerns raised by the State Treasurer. The newly amended Member Choice is effective January 1, 2021.

PERS is amending OAR 459-080-0015 to implement Member Choice as provided in SB 1049. The rule will now provide members with an opportunity to make an election to have their entire non-retired IAP account balance invested in a TDF of their choice (as opposed to the default TDF based on their year of birth) once every calendar year. A member may make one election each calendar year from January through September. A valid election made by a member in a calendar year will be effective January 1 of the following calendar year.

### SUMMARY OF MODIFICATIONS TO RULE SINCE NOTICE

In subsection (1)(a), a definition of “IAP account” was added to clarify the meaning of the term for purposes of the rule. In subsection (1)(e), the phrase “and new contributions” was added for clarification as proposed by board member Demarest at the March 30, 2020 board meeting.

### PUBLIC COMMENT AND HEARING TESTIMONY

No rulemaking hearing was held because the PERS headquarters building was closed to the public. The public comment period ended May 5, 2020, at 5:00 p.m. No public comment was received.

### LEGAL REVIEW

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

### IMPACT

Mandatory: No, but statute authorizes the board to update its rules as necessary to implement Member Choice.

Benefit: Clarifies the administration of Member Choice.

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

### RULEMAKING TIMELINE

March 30, 2020	Staff began the rulemaking process by filing a Notice of Rulemaking with the Secretary of State.
March 30, 2020	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.
March 30, 2020	PERS Board notified that staff began the rulemaking process.
May 5, 2020	Public comment period ended at 5:00 p.m.
May 29, 2020	Board may adopt the rule modifications.

### BOARD OPTIONS

The PERS Board may:

1. Pass a motion to “adopt modifications to the Member Choice rule, as presented.”
2. Direct staff to make other changes to the rule or explore other options.

### STAFF RECOMMENDATION

Staff recommends the PERS Board choose Option #1.

- Reason: Update rule to implement Member Choice provision of Senate Bill 1049 (2019).

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

B.5. Attachment 1 - 459-080-0015, *Investment of IAP Account Balance*



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

1 **459-080-0015**

2 **Investment of IAP Account Balance**

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

4 **(a) “IAP account” means the employee account, employer account, and rollover**  
5 **account established under ORS 238A.350.**

6 ~~[(a)]~~**(b)** “Retirement allocation fund” has the same meaning as defined in OAR 459-  
7 007-0001(10).

8 ~~[(b)]~~**(c)** “Retirement installments fund” has the same meaning as defined in OAR  
9 459-007-0001(11).

10 ~~[(c)]~~**(d)** “Target date fund” has the same meaning as defined in OAR 459-007-  
11 0001(12).

12 **(e) “Valid election” means a member election, received by PERS no later than**  
13 **September 30 of a calendar year, to have their IAP account balance and new**  
14 **contributions invested in a target date fund of their choice that can be administered**  
15 **by PERS and will take effect on January 1 of the following calendar year.**

16 (2) Each member’s IAP account balance will be invested in one of the target date  
17 funds based upon the member’s birth year, except as provided in sections (4), ~~[(and)]~~ (5),  
18 **and (6)** of this rule.

19 (3) Once PERS accepts as administrable a divorce decree that awards a portion of a  
20 non-retired member’s IAP account to an alternate payee, PERS will administer the decree  
21 accordingly and the alternate payee IAP account will be allocated to a target date fund  
22 based on the alternate payee’s birth year. PERS will allocate the alternate payee’s IAP

1 account to the appropriate target date fund effective December 31 of the last closed year  
2 for earnings crediting, as of the date PERS administers the decree.

3 (4) During the calendar year when a retired member who elected IAP installment  
4 payments reestablishes active membership, the member’s remaining IAP account balance  
5 and any new IAP contributions will be allocated in the retirement installments fund.  
6 Beginning on the first day of the following calendar year, the member’s remaining IAP  
7 account balance and any new IAP contributions will be allocated to a target date fund  
8 based on the member’s birth year unless the member made a *[timely choice]* valid  
9 election for a different target date fund under section (6) of this rule.

10 (5) Except as otherwise provided in this paragraph, a deceased non-retired member’s  
11 IAP account will be distributed from the member’s target date fund. Once the account has  
12 been processed for distribution, any balance that remains at the end of the month in which  
13 the first distribution is made will be allocated to the retirement installments fund as of the  
14 first of the following month. All remaining distributions will be made from the retirement  
15 installments fund.

16 (6) Each calendar year from January through September, a member with a  
17 non-retired IAP account may make one valid election.

18 (a) A valid election made under this section cannot be changed or canceled.

19 (b) In the event a member submits more than one election in a calendar year,  
20 PERS will only consider the valid election with the earliest receipt date.

21 Stat. Auth.: ORS 238A.450

22 Stats. Implemented: ORS 238A.050, OL 2019, Ch. 355, Sec. 2, & OL 2018, Ch. 118



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May 29, 2020

TO: Members of the PERS Board  
FROM: Karen Chavez, Manager, PERS Health Insurance Program (PHIP)  
SUBJECT: PHIP Reserves Conceptual Design

### OVERVIEW

- Action: Adopt the recommended nine-year term to the PHIP Reserves drawdown approach, beginning January 2021.

### BACKGROUND

At the March 30, 2020 PERS Board meeting, PHIP presented a Summary of Proposed PHIP Reserves Conceptual Design. That document outlined the reserves that have been built over time and are required for PHIP to satisfy contractual requirements, under a minimum premium program that PHIP held with one of its Contracted Health Plans (CHP). With changes to the financial arrangement for which PHIP is now contracted, the required reserves are materially lower. The policy also addressed how reserve amounts in excess of the contractually required amounts would be reviewed annually, to determine if a portion of the excess reserves should be used to subsidize rates during the annual rate-setting process. Any such use of reserves would be included in the recommendations provided to the PERS Board for approval.

In the original summary, three drawdown period options were presented. Those options were seven years, nine years or 11 years. Those options were primarily intended to smooth out and minimize the rate shock resulting from the final spend down of unrestricted reserves. They also displayed a potential year-to-year use that most recent projections indicated could achieve the drawdown time period. The PERS Board, after discussion, stated a preference for a nine year drawdown and directed staff to make a final recommendation as to the most appropriate drawdown period.

### STAFF RECOMMENDATION

After further consideration, PHIP staff is recommending the nine year drawdown approach for the following reasons:

1. It allows for a longer less volatile rate impact from year to year.
2. It allows for a smoother transition to the final year when there are no reserve funds available to subsidize rates.

3. It allows greater flexibility in dealing with unanticipated events. COVID-19 is the perfect example of an unanticipated event. As PERS is poised to finalize calendar year 2021 rates, there is great uncertainty as to the short-and long-term impacts of this new virus. Although Oregon appears to have not been as heavily impacted as other states, that scenario could change. The PERS member population is the most vulnerable to experiencing significant impact from this virus.
4. PHIP staff is recommending no further changes to the conceptual design presented at the March 30, 2020 meeting.

### BOARD OPTIONS

The PERS Board may:

1. Approve the nine year PHIP reserve drawdown recommendation beginning January 1, 2021,  
or
2. Direct staff to make other changes or explore other options.

### STAFF RECOMMENDATION

Staff recommends the PERS Board choose Option #1.



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May 29, 2020

TO: Members of the PERS Board  
FROM: Karen Chavez, PERS Health Insurance Program Manager  
SUBJECT: PERS Health Insurance Program (PHIP) 2021 Plans and Rates

### OVERVIEW

- Action: Approve the PHIP contract renewals, benefits, and rates for 2021.

### CURRENT PHIP PLANS OFFERED

PHIP contracts with five Contracted Health Plans (CHPs) for Medical, Dental, and Prescription Drug Plans (PDP), allowing participants a range of choices while maintaining stability of the overall program. Currently, contracts that are in place are as follows:

1. Kaiser Permanente NW
  - a. Medicare Advantage - Senior Advantage HMO Plan/Part D PDP
  - b. Traditional HMO Core Value Non-Medicare Plan/PDP
  - c. \$3,000 HSA-qualified High Deductible Health Plan (HDHP) Non-Medicare Plan/PDP
  - d. DMO Dental Plan
2. Moda Health Plan/ Delta Dental Plan of Oregon
  - a. Medicare Supplement – Moda Health Medicare Supplement Plan/Part D PDP
  - b. Indemnity Dental Plan with passive PPO
3. PacificSource Community Health Plans, Inc.
  - a. Medicare Advantage - Medicare Essentials RX 803 HMO Plan/Part D PDP
4. Providence Health Assurance
  - a. Medicare Advantage - Medicare Align Group HMO Plan/Part D PDP
  - b. Medicare Advantage - Medicare Flex Group HMO-POS Plan/Part D PDP
5. UnitedHealthcare
  - a. Medicare Advantage - Medicare Advantage PPO plan/Part D PDP
  - b. \$1,000 Deductible Core Value Non-Medicare Plan/PDP Plan
  - c. \$3,000 HSA-qualified High Deductible Health Plan (HDHP) Non-Medicare Plan/PDP

PHIP is a voluntary insurance plan where eligible members pay most, if not all, of their own premiums for the plan of their choice. In addition to the premium, PERS retirees also cover the cost of program administration. The premium rates that members pay are inclusive of these costs.

## **RENEWAL PROCESS**

There were several factors influencing the PHIP renewal process, including:

- The elimination of the ACA HIT tax, effective January 1, 2021, that impacted some CHPs.
- The growing short- and long-term uncertainty regarding COVID-19.
- Consideration of plan design and benefit improvements in response to Member Services interaction with PHIP members.
- Implementation of the Proposed Reserve Drawdown policy.

In an effort to ensure positive outcomes for the renewal process, PHIP began working with our CHPs in December 2019, asking preliminary questions about potential benefit changes and the legislative and regulatory landscape.

Following several exchanges with the CHPs, they presented their proposals and final rate offers in early May 2020. All CHPs provided rates in the face of uncertainty, regarding COVID-19. Depending upon the CHP, rate loads ranging between 0-2% were included in the 2021 proposed rates. The 2021 premium rate changes were finalized and outlined by type of coverage for both Medicare and non-Medicare enrollees. The submissions were reviewed by PHIP staff and its consultants, with oversight from the PERS Director, Chief Operations Officer, and PHIP's Board Liaison, Steve Demarest.

Two primary benefit focus areas for the 2021 Renewal were identified:

- Review pharmacy benefit modifications with two goals in mind:
  - Retain 'Actuarial Equivalence' above the standard Medicare Part D benefit.
  - Modernize and create a market-competitive benefit structure with the potential to increase adherence and decrease member cost.
- Review the inclusion of additional benefits that offer value to PHIP members and address perceived deficiencies by PHIP members.

## **2021 PLAN RENEWAL OVERVIEW**

### *Medical*

Minimal benefit changes were made to CHP Medicare plans. The most significant change was the addition of a vision exam and hardware benefit for the Moda Medicare Supplement plan.

For non-Medicare plans, a vision benefit was added for Kaiser. UHC was unable to offer an integrated proposal and therefore, vision benefits will not be added to their product offering.

### *Pharmacy*

Based on last years' proposals, reviewed for Pharmacy changes, PHIP requested updated pricing from CHPs on a variety of Pharmacy benefit changes, effective January 1, 2021. After review of these options, PHIP is proposing the following changes:

- For Medicare, a change to a five-tiered benefit design that establishes fixed dollar copays for Preferred Generic (\$8) and other generics (\$15) in lieu of the current 40% coinsurance. For those CHPs able to do so, some reallocation of higher cost generics to 40% coinsurance is also included. In addition, a \$0 copay tier was established for vaccines.
- For Kaisers' non-Medicare Core Value plan, a change to a five-tiered benefit design that establishes fixed dollar copays for Preferred Generic (\$8) and other generics (\$15) in lieu of the current 40% coinsurance. Kaiser currently covers vaccines for a \$0 copay.
- UHC is unable to offer the requested five-tiered benefit design for its Core Value Plan members and, therefore, the only change is the addition of a \$0 copay for vaccines.
- Other than the addition of a \$0 copay for vaccines, there are no other changes to the HDHP Rx plan for either Kaiser or UHC.

#### *Dental*

PHIP considered several changes to the dental plan design, however, ultimately decided to not make any changes.

#### *Taxes*

The ACA HIT tax is eliminated beginning January 1, 2021. This reduced costs for those CHPs where its corporate structure and tax status had previously subjected them to this tax.

### **RATE STABILIZATION RESERVE DRAWDOWN**

Recommended rates provided include the rate credits outlined in the Proposed PHIP Reserves Conceptual Design presented to the board on March 30, 2020. This is based on the adoption of the nine-year drawdown option. The rate credits applied are consistent with the guidelines provided in that document and range between 0-5%.

### **SUMMARY OF ACTION REQUIRING BOARD APPROVAL**

- PHIP will continue to contract with Kaiser Permanente NW, PacificSource Health Plans, Providence Health Assurance, Moda Health Plan, and UnitedHealthcare for medical, prescription drugs, and dental (where applicable) insurance coverage for eligible retired Medicare and non-Medicare members, spouses, and eligible dependents.
- PHIP recommends adopting the premium rates as outlined in item c.3. Attachment 1: PHIP 2021 Proposed Rates.

**BOARD OPTIONS**

The PERS Board may:

1. Pass a motion to “approve the proposed PHIP RFP contract renewals, benefits, and rates for the 2021 Plan Year as presented in Item C.2.Attachment 1: PHIP 2021 Proposed Rates” assuming a nine-year drawdown; or
2. Direct staff to make changes to these terms or explore other options.

**STAFF RECOMMENDATION**

Staff recommends the PERS Board approve the contract renewals, benefits, and rates for 2021 as presented in Option #1.

*C.2. Attachment 1 - PHIP 2021 Proposed Rates*  
*C.2. Attachment 2 - PHIP Membership*





**PHIP 2021 PROPOSED RATES  
2020 vs. 2021 Contracted Health Plan Rates**

Effective January 1, 2021

*Rates not approved/finalized*

**SUMMARY**

	Enrollment as of April 2020	Current 2020 Rates	2021 Proposed Medical/RX and Dental Rates	Percentage Change 2021 vs. 2020
<b>Medicare Plans</b>				
Kaiser Foundation Health Plan of the NW Medicare Senior Advantage	10,068	\$ 244.33	\$ 234.38	-4.07%
Moda Health Medicare Supplement	25,634	\$ 309.01	\$ 308.17	-0.27%
PacificSource Medicare Advantage Essentials Rx 803	1,230	\$ 259.70	\$ 259.41	-0.11%
Providence Health Assurance Medicare Advantage Group Align Plan + Rx	8,237	\$ 287.46	\$ 273.19	-4.96%
Providence Health Assurance Medicare Advantage Group Flex Plan + Rx (HMO-POS)	4,230	\$ 242.89	\$ 236.33	-2.70%
UnitedHealthcare Group Medicare Advantage (PPO)	6,422	\$ 295.10	\$ 247.29	-16.20%
<b>Non-Medicare Plans</b>				
<b>Core Value</b>				
Kaiser Foundation Health Plan of the NW Traditional Core Value Plan	370	\$ 918.55	\$ 950.47	3.48%
UnitedHealthcare Choice Core Value Plan	861	\$ 1,150.51	\$ 1,151.50	0.09%
<b>HDHP</b>				
Kaiser Foundation Health Plan of the NW Qualified HDHP Plan	172	\$ 545.25	\$ 568.30	4.23%
UnitedHealthcare Qualified HDHP Plan	295	\$ 827.86	\$ 828.56	0.08%
<b>Dental Plans</b>				
Kaiser Foundation Health Plan of the NW Dental HMO Plan	4,723	\$ 67.43	\$ 66.76	-0.99%
Delta Dental Plan of Oregon	33,147	\$ 64.46	\$ 62.57	-2.93%

**Notes to Rate Sheet:**

- Rates illustrated are "Adult" only premium (retiree or spouse)
- Child rates are calculated as a percentage of the "Adult" rate as follows:
  - Child with Medicare coverage = 80%
  - Child with non-Medicare Coverage = 30%
  - Child with dental coverage = 40%
- Rates do not include any PERS Administrative fees



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### PHIP Membership

Program Enrollment (March 2020)	Non- Medicare Core Value & HDHP Plans	Medicare	Totals
<b>Covered Lives</b>	1,701	55,818	57,519
Retirees (or Surviving Spouses)	174	45,987	47,061
Spouses/Dependents	627	9,831	10,458
Average Age of Enrolled Retirees	57	76	75.5

Health Plan Membership Enrollment			
Medicare		Non-Medicare (Core Value & HDHP Plans)	
Kaiser	10,068	Kaiser	543
United HealthCare	6,422	United HealthCare	1,156
Moda Medicare Supplement	25,634		
PacificSource	1,230		
Providence - Medicare Flex	4,230		
Providence- Medicare Align	8,237		
Dental		Dental	
Kaiser Dental	4,482	Kaiser Dental	241
Delta Dental	32,175	Delta Dental	972

Statutory Health Insurance Premium Subsidies (March 2020)	
Retirees Receiving Retirement Health Insurance Account (RHIA)	43,892
Retirees Receiving Retiree Health Insurance Premium Account (RHIPA)	834
RHIA Payment - \$60 Per Member Per Month (PMPM)	\$2,633,520
RHIPA Monthly Payment - \$398 (avg) PMPM	\$332,090
Total Monthly Premium Paid to Health Plans	\$19,842,194





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May 29, 2020

TO: Members of the Board  
FROM: Kevin Olineck, Director  
Jason Stanley, Chief Compliance, Audit and Risk Officer  
SUBJECT: Board Education Policy

### OVERVIEW

Action: Adopt the proposed Board Education Policy

### BACKGROUND

As a follow-up to the Board Governance Review in December, management was to begin work on putting together the relevant policies and procedures for identified gaps in the board's governance practices, and bring them back for review and approval.

The first policy for consideration is a Board Education Policy. Management reviewed numerous peer organization policies and is proposing one that will allow for each board member to identify areas of interest they would like to engage in, and then take relevant courses.

Management reviewed the policy with the Audit Committee at their March meeting and, after review, the Committee recommended that it be brought to the May board meeting for review and adoption.

The policy proposes that each board member be subject to a \$5,000 per annum education limit. As shown in Attachment 2, Sample Board Education Opportunities, there are board specific courses that are available and the \$5,000 limit would allow for one course, with associated travel costs, per board member, per year.

### BOARD OPTIONS

The PERS Board may:

1. Pass a motion to "adopt the Board Education Policy, as presented."
2. Direct staff to make other changes to the Policy or explore other options

### STAFF RECOMMENDATION

Staff recommends the PERS Board choose Option #1

C.3. Attachment 1 –*Board Education Policy*



## PERS Board Education Policy

As fiduciaries, PERS Board Members are expected to be capable of performing their duties and responsibilities. To that end, each board member should avail themselves of sufficient education to discharge the obligations of the position.

The PERS Board has established this Board Education Policy, which is applicable to all board members.

### A. Board Orientation Manual

As soon as is practicable, the board member should be provided with an up-to-date version of the Board Orientation Manual and meet with the Director to review its contents. Contents of the Orientation Manual should include:

- Objective, Overview, PERS Programs
- Overview of the PERS Board's Role
  - PERS Board Member Information
  - Appointment of Director and Consultants
- PERS System Overview
  - Statutory Authority & Requirements
  - PERS Stakeholders
  - Legislative Process
  - Actuarial Information
  - Oregon Investment Council (OIC)
- PERS Agency Overview
  - Mission Statement
  - PERS Executive & Organizational Structure
  - PERS Strategic Plan
    - PERS Outcome-Based Management System (POBMS)
  - Financial Information
    - Budget Information
    - Comprehensive Annual Financial Report (CAFR)
  - Other PERS Programs
    - Oregon Savings Growth Plan (OSGP)
    - PERS Health Insurance Plan (PHIP)

## **B. Education Policy**

Board members will evaluate their own educational needs to obtain knowledge in specific subject matters. Board members are encouraged to attend educational sessions related to:

- Pension Benefit Design
- Fiduciary Responsibilities
- Actuarial Issues & Trends
- Investment Issues & Trends
- Other subjects related to the administration, management and operation of PERS.

The Director will periodically provide the board with information on available conferences and seminars. Examples of conferences and seminars that would be seen to be applicable include the following:

- Conference and Programs (including Trustee certifications) sponsored by the International Foundation of Employee Benefit Plans (IFEBP)
- Conferences and Programs (including Trustee certifications) sponsored by the National Conference of Public Employees Retirement Systems (NCPERS)
- Conferences sponsored by the National Association of State Retirement Administrators (NASRA);
- Conferences sponsored by Pension and Investments
- Conferences sponsored by the National Institute on Retirement Security
- Conferences sponsored by Callan

Each board member will be provided a yearly educational budget of \$5,000. This is intended to cover not only the registration for educational activities, but also travel-related expenses.

Payment and reimbursement of travel-related expenses for training will be in accordance with the State of Oregon's Statewide Travel Policy:

(<https://www.oregon.gov/das/Financial/Acctng/Documents/40.10.00.pdf> )

The Director will prepare a yearly report on the training activities of the PERS Board members. The report will include the seminar/conference name, sponsor, location, dates, and cost of the training.

## **C. State Mandated Education**

On a yearly basis, each board member must also complete the following state mandated education sessions via the state learning system:

DAS - CHRO - Preventing Discrimination, Harassment, and Sexual Harassment in the workplace Required Training. <https://ilearn.oregon.gov/Default.aspx>

## **D. Policy Review and History**

1. This policy shall be reviewed by the PERS Board no less frequently than every two years, for continued relevance and appropriateness.
2. The PERS Board adopted this policy on XXX, 2020.



# Oregon

Kate Brown, Governor

## Public Employees Retirement System

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May 29, 2020

TO: Members of the PERS Board  
FROM: Yvette Elledge-Rhodes, Deputy Director  
SUBJECT: SB 1049 Implementation Update

Senate Bill 1049 was signed into law by the Governor on June 11, 2019. PERS staff continue to focus on completing work in an efficient and effective manner.

### PROGRAM/PROJECT IMPLEMENTATION

The SB 1049 Implementation Program is being managed as one comprehensive program, with the following five individual projects. All projects are going through the Enterprise Information Services (EIS) stage gate process.

Project	Effective Date	Project Health and Status
SB 1049 Program		Program health: Yellow <ul style="list-style-type: none"> <li>All schedules have not been baselined.</li> <li>Program team has been focusing efforts on the schedule development for the last two un-baselined projects, updating program reports, and project planning documentation required for Stage Gate 3 endorsements.</li> </ul>
Employer Programs Project	Effective 7/1/2019	Project health: Yellow <ul style="list-style-type: none"> <li>Drafting temporary rule to extend Employer Incentive Fund (EIF) deadline from September 1 to December 1.</li> <li>Coordinating with CalPERS to receive the Employer Rate Projection Tool.</li> </ul>
Salary Limit Project	Effective 1/1/2020	Project health: Yellow <ul style="list-style-type: none"> <li>Change request to extend Work Package (WP) 4 end date to 4/15/21.</li> <li>Continued construction of WP3; on track for the 10/22/20 deployment.</li> </ul>
Work After Retirement Project	Effective 1/1/2020	Project health: Green <ul style="list-style-type: none"> <li>Continued construction in process for WP2; on track for the 10/22/20 deployment.</li> <li>Brought in project end date by 2 months.</li> </ul>
Member Redirect Project	Effective 7/1/2020	Project health: Green <ul style="list-style-type: none"> <li>WP1B and WP1D began user acceptance testing on 5/11/20; on track for 6/18/20 deployment.</li> </ul>

		<ul style="list-style-type: none"> <li>• Release dates for Voluntary Contribution continue to be refined.</li> <li>• New sub-project for EPSA ID.</li> </ul>
Member Choice Project	Effective 1/1/2021	<p>Project health: Green</p> <ul style="list-style-type: none"> <li>• Stage Gate 2 Endorsement received 4/3/20.</li> <li>• Continued schedule development and scope review.</li> </ul>

**Highlighted activities completed or in progress since March 2020:**

- Program and project activities
  - iQMS activities
    - Incorporated Gartner recommendations into the Program Action and Risk Logs
    - Gartner completed the Quality Checklists deliverables
  - Majority of program and project staff telecommuting from home
  - Drafted the May 2020 quarterly status report submitted 5/15/2020
- Resources
  - Projects fully staffed
  - Deloitte completed assessment 5/4/20; will be providing resources to augment program management
  - Staff recruitments; 43 total positions
    - Eight positions critical to project – all filled
    - 35 operational positions (2 on hold)
      - Drafting/planning recruitment – 4
      - Active Recruitments – 7
      - Hired - 22
- EIS Stage Gate process requirements
  - Member Redirect project received conditional Stage Gate 3 approval
  - Member Choice project received State Gate 2 approval
- Budget structure and reporting
  - Continuing monthly meetings with the Chief Financial Office, Legislative Fiscal Office (LFO), and the Governor’s office
  - Drafted responses to the February 2020 LFO recommendations
  - Developing budget request for 2021-2023
- Communications
  - Internal communication activities have focused on keeping staff informed
  - External Communications activities include:
    - May edition of the *Perspectives*
    - Special inserts for Annual Statements (mailed this month)
    - Partnering with Employer Advisory Group
    - Updates to Work After Retirement communications
    - Published an OPSRP withdrawal webpage to clarify changes due to SB 1049
    - Rulemaking for Member Choice and Member Redirect projects
- Organizational Change Management
  - Increased resources dedicated to process mapping

### **EMPLOYER CONCERNS**

At the April 17, 2020 Employer Advisory Group meeting, employers expressed some concerns about timing and magnitude of the Voluntary Contributions portion of the Member Redirect project. The main concern brought forward was that employers will be deducting these contributions from employees' salary instead of PERS. This additional workload, as well as the potential retroactive election that members can make, will cause a big impact on employers.

PERS staff appreciates the employers' concerns and is working to address those concerns as much as possible while implementing the voluntary contributions. In addition to having employers withhold the voluntary contributions from the member's salary upon election, instead of when PERS invoices for the contributions, PERS is evaluating the possibility of not invoicing employers for voluntary contributions triggered by account adjustments if the employee is no longer employed with the employer. Also, with the exception of allowing members to make voluntary contributions back to July 1, 2020 (the effective date of the provision in SB 1049) when voluntary elections are first made available, retroactive elections will not be allowed.

### **PROGRAM/PROJECT BUDGET**

The budget information is contained within Page 3 of the attachment to agenda item A.2.c. PERS staff will continue to update the board as project implementation continues throughout the year.

- C.4. Attachment 1 – *Monthly Project Status Report and Roadmap*
- C.4. Attachment 2 – *Public Comment*



# SB 1049 Implementation Program

## Status Report for May 22, 2020

Executive Sponsor: Kevin Olineck  
Program Manager: Christa Harrison

### Program information:

**Program start:** July 1, 2019 | **Program end:** December 31, 2021

### Subprojects

Project 1: Employer Programs

- Project start: July 1, 2019 | Project end September 4, 2020
- Project status: **Red**

Project 2: Work After Retirement (WAR)

- Project start: July 1, 2019 | Project end: June 11, 2021
- Project status: **Green**

Project 3: Salary Limit

- Project start: July 1, 2019 | Project end: April 15, 2021
- Project status: **Yellow**

### Program statement:

SB 1049 is comprehensive legislation intended to address the increasing cost of funding Oregon’s Public Employees Retirement System (PERS), reduce system Unfunded Actuarial Liability (UAL) obligations, and provide relief to escalating contribution rate increases for public employers. Implementation will occur across five subprojects.

Project 4: Member Redirect

- Project start: July 1, 2019 | Project end: December 31, 2021
- Project status: **Green**

Project 5: Member Choice

- Project start: October 23, 2019 | Project end: TBD
- Project status: **Yellow**

For details regarding individual project status, please refer to the respective project section(s) below.

### Overall program status: **Yellow**

Project teams have been focusing on developing and deploying the short-term solutions for each project in order to meet the legislative mandates and then moving on to long-term solutions to add functionality needed to implement the final product.

The teams continue to monitor COVID-19 impact and are mitigating impact to the program. The Employer Programs project has suffered several COVID-19 related issues and has been turned red due to COVID-19 caused delays in obtaining the Employer Rate Projection Tool (ERPT). See the Employer Programs section for specific details. Otherwise the program has not suffered much impact. Staff are practicing social distancing with most staff working from home and a few working from PERS HQ.

Program remains yellow due to lack of baselined project schedules. Outstanding is the Salary Limit schedule, which has recently been adjusted per approved change request SL\_01 and is in review. Member Choice schedule is in development, with the short-term release schedule well understood and the long-term release schedule in planning.

# SB 1049 Implementation Program

## Status Report for May 22, 2020

Executive Sponsor: Kevin Olineck  
Program Manager: Christa Harrison

**Budget health: Green**

The SB 1049 Implementation Program is currently within the budget allocated by the Legislature.

29560- SB 1049 Implementation Program by Project				
Other Funds Lmt	Budget	Projections	Actual to Date	Remaining
Salary Limit Project	\$ 1,254,174	\$ 943,500	\$ 182,612	\$ 128,062
Work After Retirement Project	\$ 1,581,114	\$ 1,086,500	\$ 467,768	\$ 26,846
Member Redirect Project	\$ 31,836,719	\$ 26,952,457	\$ 3,740,972	\$ 1,143,290
Employer Programs Project	\$ 2,059,375	\$ 594,950	\$ 127,596	\$ 1,336,829
Member Choice Project	\$ 2,328,332	\$ 1,084,033	\$ 253,197	\$ 991,102
<b>Total</b>	<b>\$ 39,059,714</b>	<b>\$ 30,661,440</b>	<b>\$ 4,772,145</b>	<b>\$ 3,626,130</b>

**Schedule Health: Yellow**

Program and most projects have been baselined. Will return to green once Salary Limit is baselined (reviews in process).

**Scope health: Green**

The program and project scope is understood and has been incorporated into program-level plans and schedules.

Quality Assurance activities:

- Program continued work on risks and action items per iQMS Deliverable D1.1.1 Project Risk Assessment Report- Initial recommendations.
- iQMS Deliverable 3.1.1 Quality Control - Requirements Traceability Matrix started on 4/16/2020, due 6/10/2020.
- iQMS Deliverable 3.1.2 Quality Control - Program Management Plan started on 4/16/2020, due 6/10/2020.
- iQMS Deliverable 3.3.1 Periodic Quality Status Report started on 4/1/2020, due 6/15/2020.
- iQMS Deliverable 4.1.1 Quarterly QA Status and Improvement Report started 4/13/2020, due 6/5/2020.
- iQMS Deliverable 4.1.2 Quarterly QA Status and Improvement Report will start 6/9/2020, due 8/3/2020.

Emerging concerns/needs/impacts:

- COVID-19 - Employer Programs heavily impacted by COVID-19. Details in the Employer Programs section of this report.
- Resource constraints - resources working on multiple SB 1049 projects is constraining availability for individual projects.

# SB 1049 Implementation Program

## Status Report for May 22, 2020

Executive Sponsor: Kevin Olineck  
Program Manager: Christa Harrison

### Program Risks and Mitigation

Listed below are the most critical risks for this project.

For the complete Risk Log, please see the Risk Log tab in the most recent weekly status report: [SB 1049 Program Weekly Status Report](#)

#	Risk Description	Mitigation and/or Contingency Plan	Notes
38	<b>Schedule impact due to competing resources:</b> Critical resources are involved in multiple concurrent SB 1049 projects, limiting availability for individual projects	Coordinated schedule planning and priorities within the Program and all projects; reassign other staff to help cover absences or help offset extreme workload periods.	
46	<b>Program Master Schedule Incomplete:</b> The schedule does not reflect all appropriate levels of required information	Add tasks to the Program Master Schedule as they are identified, including external program dependencies, cross-project dependencies, and Organizational Change Management activities.	Addressing feedback provided by Gartner in iQMS Deliverable D1.1.1 Project Risk Assessment Report- Initial
13	<b>Organizational or Process Changes:</b> The project requires new or significantly changed organizational processes or culture in order to succeed	Update and communicate the program's RACI Chart and organizational charts; clarify program roles and responsibilities	Closed 5/20/2020. Addressed feedback provided by Gartner in iQMS Deliverable D1.1.1 Project Risk Assessment Report- Initial. Organizational charts and RACI were updated and approved.

### Program Issues and Action Plans

Listed below are the most critical issues for this project.

For the complete Issue Log, please see the Issue Log tab in the most recent weekly status report: [SB 1049 Program Weekly Status Report](#)

No	Issue	Resolution / Notes	Estimated Resolution Date
5	<b>Realized risk #44: All Project Schedules have not been Baselined:</b> Project schedules have not been baselined prior to requirements and development work	Salary Limit schedule has been revised per change request SL-01 and is in review with the project team and EIS. Revised planned baseline date to 6/17/2020	06/17/2020

# SB 1049 Implementation Program

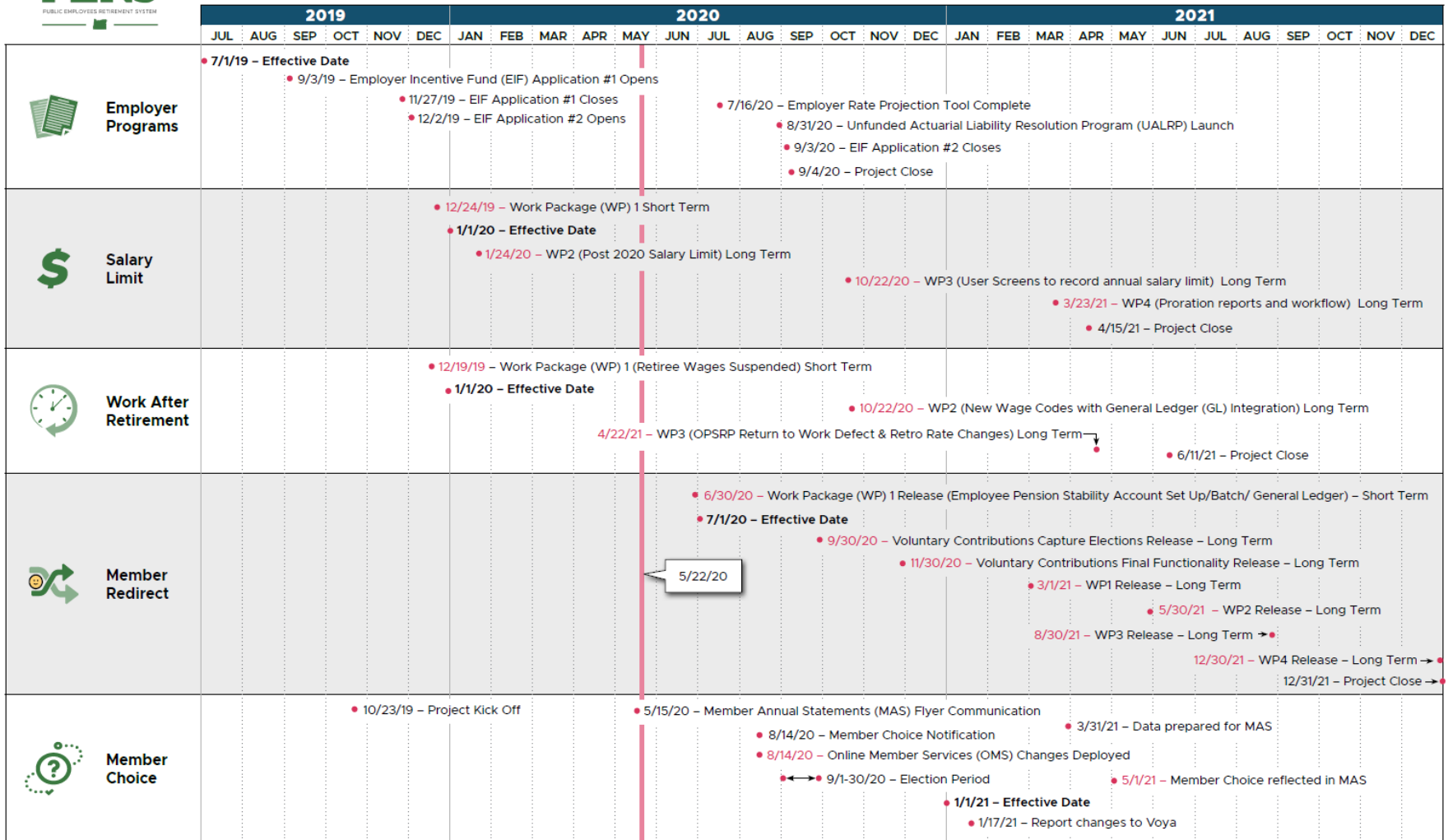
Status Report for May 22, 2020

Executive Sponsor: Kevin Olineck  
Program Manager: Christa Harrison

Program Schedule



## Senate Bill (SB) 1049 Implementation Road Map



# SB 1049 Implementation Program

## Status Report for May 22, 2020

Executive Sponsor: Kevin Olineck  
Program Manager: Christa Harrison

### Project information: Employer Programs

**Project start:** July 1, 2019 | **Project end:** September 4, 2020  
**Project Manager:** Joli Whitney

### Project objective:

The Employer Programs section of SB 1049 expands the requirements for the Employer Incentive Fund (EIF); and appropriates \$100 million from the General Fund to the Employer Incentive Fund; directs net proceeds from Oregon Lottery Sports betting to the Employer Incentive Fund; allows participating public employers who make larger than \$10 million deposits to side accounts to determine when they wish to have these funds included in their employer rate assessment; and requires all public employers to participate in the Unfunded Actuarial Liability Resolution Program (UALRP).

### Overall project status: **Red**

**Project Narrative:** The project continues to be impacted by several challenges related to COVID-19. Strategies to obtain the Employer Rate Projection Tool (ERPT) have been developed, but the process will take much more time than originally planned. Issue #4 Employer Rate Projection Tool (ERPT) Delay has been opened related to this concern. A temporary Oregon Administrative Rule (OAR) change to extend the deadline for the Employer Incentive Fund (EIF) through December 2020 has been prepared for PERS Board consideration at their meeting later this month. The EIF is a general fund account which is subject to the recent 8.5% reduction activity requested by the Governor. The related risk #25 EIF Funding Uncertainty has been escalated, but will not be realized until a cut is made to the account. The project team is preparing communications for employers to explain the coming changes anticipated as a result of these two activities. The temporary OAR change extended the deadline for the EIF and the delay in receiving the ERPT are impacting key project deliverables beyond the currently scheduled project end date. As more information is gathered and decisions are made by the Board, a change request will be submitted to rebaseline the schedule and extend the project end date.

### EIF:

#### EIF Application Window #1

(Employers with UAL greater than 200% of payroll only)

- Opened 9/3/2019
- 61 applications were approved
- Closed 11/27/2019

#### EIF Application Window #2:

(All Employers eligible to apply)

- Opened 12/2/2019
- 56 applications have been approved to date
- Application period will close 9/3/2020

### Waitlist

- 41 employers are currently on the waitlist

### Changes since COVID-19 Shut Down

- 4 Employers have rescinded their EIF application (2 additional are considering rescinding or extending pending rule change)
- 3 Employers have reduced their payments
- 4 Employers have requested extensions

# SB 1049 Implementation Program

Status Report for May 22, 2020

Executive Sponsor: Kevin Olineck  
Program Manager: Christa Harrison

**Budget health: Green**

Employer Programs is currently within the budget allocated by the Legislature.

29560 SB 1049 - Employer Programs Project				
Expenses	Budget	Projections	Actual to Date	Remaining
<b>*Personal Services - PERS</b>	\$ 463,000	\$ 125,000	\$ 337,367	\$ 633
General Overhead Allocation	\$ 252,138	\$ 179,000	\$ 70,491	\$ 2,647
Personal Services - SB 1049	\$ 521,485	\$ 260,000	\$ 39,861	\$ 221,624
Office Expenses	\$ 5,000	\$ 4,000	\$ 77	\$ 923
IT Professional Services	\$ 1,100,000	\$ 147,950	\$ 11,284	\$ 940,766
Professional Services	\$ 170,752	\$ -	\$ -	\$ 170,752
IT Expendable Prop	\$ 10,000	\$ 4,000	\$ 5,883	\$ 117
SB 1049 Expenses	\$ 2,059,375	\$ 594,950	\$ 127,596	\$ 1,336,829
<b>Project Total</b>	<b>\$ 2,522,375</b>	<b>\$ 719,950</b>	<b>\$ 464,963</b>	<b>\$ 1,337,462</b>
Average Monthly Spend (Burn Rate)		\$ 118,990	\$ 12,760	
*Not included in SB 1049 Expenses				

**Schedule Health: Red**

Two key project deliverables are projected beyond the currently scheduled project end date. A rebaseline will be necessary once the PERS Board takes action to enact a temporary OAR change to extend the EIF deadline and the ERPT technical analysis is complete. The resources and schedule for the work needed to deploy the ERPT will not be fully understood until the ERPT technical analysis is complete.

**Scope health: Yellow**

The full scope of requirements for deploying the ERPT into PERS environment is not fully understood and the current project estimates may not accurately reflect all resources needed for implementation.

**Quality Assurance activities:**

- None at this time. Once the tool is better understood a schedule will be established for this work and baselined.

**Emerging concerns/needs/impacts:**

- The economic impacts of the COVID-19 pandemic will have significant impact on whether employers are financially capable of making a side account deposit. This, coupled with the significant losses experienced in Oregon Public Employees Retirement Fund (OPERF) investment accounts will likely negate any reductions in UAL experienced so far.

# SB 1049 Implementation Program

## Status Report for May 22, 2020

Executive Sponsor: Kevin Olineck  
Program Manager: Christa Harrison

### High Level Project Risks and Mitigation

Listed below are the most critical risks for this project.

For the complete Risk Log, please see the Risk Log tab in the most recent weekly status report: [Employer Programs Weekly Status Report](#)

#	Risk Description	Mitigation and/or Contingency Plan	Notes
24	<b>EIF Funding Uncertainty</b> - unclear funding schedule and shifting legislative priorities, leave employers unwilling or unable to participate in EIF and UALRP	Upfront communication regarding funding status and any new opportunities as quickly as they become available.	The proposed 8.5% cuts to general fund accounts would remove \$8.5m of available matching funds to distribute to employers. This will further impact the overall success of the program as there will be less funds available to help offset UAL deficits.

### Project Issues and Action Plans

Listed below are the most critical issues for this project.

For the complete Issue Log, please see the Issue Log tab in the most recent weekly status report: [Employer Programs Weekly Status Report](#)

No	Issue	Resolution / Notes	Estimated Resolution Date
3	<b>COVID 19- Economic Impacts</b> - Employers withdraw from or do not participate in the EIF due to financial strain of pandemic in providing basic government services	The temporary OAR extensions to the EIF deadline may help mitigate this issue for employers to allow more time to better evaluate their future budgets and whether they are still able to dedicate funds into a side account in the post pandemic economy.	5/29/2020
4	<b>Employer Rate Projection Tool (ERPT) Delay</b> - The ERPT is not received in time to implement by project end date. Delays in receiving the employer rate projection tool do not allow sufficient time to analyze implementation needs and execute on those needs before the scheduled project end date	The timeline to receive the ERPT has been delayed related to COVID-19 travel restrictions. We will need to submit a CR once the timeline is better understood.	7/14/2020



# SB 1049 Implementation Program

Status Report for May 22, 2020

Executive Sponsor: Kevin Olineck  
Program Manager: Christa Harrison

## Project Schedule Deliverables and Milestones

Milestones Schedule				
Milestone	Percent Complete	Baseline Finish Date	Actual / Forecast Finish Date*	Status/ Notes
Baseline Project Schedule	100%	1/9/2020	1/10/2020	
Finalize Project Business Case	100%	1/29/2020	2/28/2020	
Evaluate Employer Rate Projection Tool (ERPT)	0%	5/6/2020	7/14/2020	This delay is the outcome of the impact of the COVID-19 restriction on travel and the need to develop alternatives to receive the tool
Receive EIS Endorsement Memo	0%	1/31/2020	7/24/2020	This delay is related to the delay in receiving and evaluating the CalPERS tool. This may impact the critical path.
Employer Rate Projection Tool (ERPT) Complete	0%	6/30/2020	6/30/2020	COVID-19 restrictions have impacted milestone. The evaluation date has slipped beyond this finish date.
Launch UALRP	0%	8/31/2020	8/31/2020	This date is in jeopardy due to COVID-19 related group restrictions and will likely impact the critical path.
EIF Application Closes (Window #2)	0%	9/3/2020	9/3/2020	Temporary OAR change considered by the PERS Board at the 5/29/2020 meeting to extend the EIF application closure beyond the current project end date. This will impact the critical path.

\*Finish Date Color: Green = on Schedule, Yellow = in Jeopardy, Red = Late



## Status Report for May 22, 2020

Executive Sponsor: Kevin Olineck  
Program Manager: Christa Harrison

### Project information: Work After Retirement (WAR)

**Project start:** July 1, 2019 | **Project end:** June 11, 2021

**Project Manager:** Susan K. Mundell

**Overall project status:** **Green**

**Project Narrative:** The project continues the monitoring and controlling of the development of Work Package 2: New Wage Codes with G/L Integration. The non-Technical project team is focusing on member and employer communications to ensure that new communications are developed and previous communications are updated, as appropriate, with the SB 1049 WAR information. These communications are planned to be complete before the October deployment. PERS Employer Service Center (ESC) is preparing for the release of the new wage codes and modification of the suspended DTL2-07 records to the DTL2-17 new wage code that will invoice employers on retiree WAR wages.

### Work Packages:

#### Work Package 1: Short-term Iterative Incremental Solution (IIS)

- Suspend 07 Service Retiree Wage Codes
- Successfully deployed to production 12/19/2019

#### Work Package 2: Long-term New Wage Codes with G/L Integration

- Development and Unit Testing are underway. They are scheduled for completion by 8/14/2020
- Production deployment scheduled for 10/22/2020

### Project objective:

Effective January 1, 2020, the Work After Retirement (WAR) sections of SB 1049 allow most service retirees to work unlimited hours for PERS participating employers in calendar years 2020-2024 while retaining their retirement benefit. It also requires employers to pay employer contributions on retirees' salary during that period.

#### Work Package 3: OPSRP Return to Work Issue and Retro Rate Change

- OPSRP Return to Work Defect: DTL2-07 posting adds an active status to a retiree segment that has to be manually removed.
- Retro Rate Change: Modification of SD610 Batch Job requires significant testing
- Development is scheduled to begin 10/28/2020
- Production deployment scheduled for 4/22/2021

# SB 1049 Implementation Program

## Status Report for May 22, 2020

Executive Sponsor: Kevin Olineck  
Program Manager: Christa Harrison

**Budget health: Green**

WAR is currently within the budget allocated by the Legislature.

29560 SB 1049 - Work After Retirement (WAR) Project				
Expenses	Budget	Projections	Actual to Date	Remaining
*Personal Services - PERS	\$ 1,214,174	\$ 705,000	\$ 505,737	\$ 3,437
General Overhead Allocation	\$ 504,275	\$ 363,000	\$ 140,982	\$ 293
Personal Services - SB 1049	\$ 133,253	\$ 50,000	\$ 79,722	\$ 3,531
Office Expenses	\$ 2,194	\$ 500	\$ 97	\$ 1,597
IT Professional Services	\$ 931,392	\$ 670,000	\$ 241,432	\$ 19,960
IT Expendable Property	\$ 10,000	\$ 3,000	\$ 5,536	\$ 1,464
SB 1049 Total Expenses	\$ 1,581,114	\$ 1,086,500	\$ 467,768	\$ 26,846
<b>Project Total</b>	<b>\$ 2,795,288</b>	<b>\$ 1,791,500</b>	<b>\$ 973,505</b>	<b>\$ 30,283</b>
Average Monthly Spend (Burn Rate)		\$ 77,607	\$ 46,777	
*Not included in SB 1049 expenses				

**Schedule Health: Green**

The schedule was baselined on 2/25/2020. All activities are on schedule or ahead of schedule.

**Scope health: Green**

The Scope for Work Package 3: OPSRP Return to Work Issue and Retro Rate Change has been clarified. The elaboration and Business Requirements Document is complete, the business and technical user stories have been entered into JIRA and the backlog refinement has been completed.

Quality Assurance activities:

- Pre- Quality Check Point (QCP) reviews & final QCP's that have been completed in this last month for contractual deliverables: D1.0.8 Contractor Support Log, and D2.2.1 Final Design Specification.
- Communication Team Progress: Finalized Retiree WAR Letter, Reviewing Notice of Entitlement Insert (Tier & OPSRP), Reviewing Service Retirement Application Instructions Update with WAR information (Tier & OPSRP), and Reviewing Pre-Retirement guides.

Emerging concerns/needs/impacts:

- Employer Service Center is not currently staffed for the workload to modify the suspended DLT2-07 to the new DTL2-17 wage codes. Reviewing options to manage this workload including consideration of hiring temporary staff.

## Status Report for May 22, 2020

Executive Sponsor: Kevin Olineck  
Program Manager: Christa Harrison

### High Level Project Risks and Mitigation

Listed below are the most critical risks for this project.

For the complete Risk Log, please see the Risk Log tab in the most recent weekly status report: [WAR Weekly Status Report](#)

#	Risk Description	Mitigation and/or Contingency Plan	Notes
52	<b>Competing SB 1049 Resources:</b> Critical resources are involved in multiple concurrent SB 1049 project, limiting availability for individual projects.	<ul style="list-style-type: none"> <li>➤ Careful coordinated schedule planning and priorities within the Program and all projects; affected staff are setting priorities and working overtime if needed.</li> <li>➤ Business Owner or Program Business Owner may reassign other staff to help cover absences or help offset extreme workload periods.</li> </ul>	The team discusses this in our weekly team meetings to ensure things are still under control.
54	<b>Technical Debt Impact to Timelines:</b> Technical Debt Limits Ability to Provide SB 1049 Functionality within the mandated timeframes.	<ul style="list-style-type: none"> <li>➤ Research alternate path for deploying the WAR Wage Codes.</li> <li>➤ Update test scripts to include accounts with known technical debt related issues.</li> <li>➤ Review technical debt in light of new coding to ensure that coding is not reliant on a technical debt issue.</li> <li>➤ Assess the individual technical debt items to determine if it is required or optional. Escalate to Steering as required.</li> </ul>	<p>5/19/20: The new alternate path code has passed Unit testing. Additional testing of BFT and UAT will finalize this code.</p> <p>4/20/20: Code has been developed and applied to the development environment to address the WAR Wage Code alternate path. This code is still in Unit Testing.</p>
75	<b>ESC Manual Work:</b> Modifying the suspended DTL2-07 records to DTL2-17 records and reposting them to jClarety is a significant workload that ESC cannot manage with their normal workload. Employers will not be invoiced until the records are changed to DTL2-17.	<ul style="list-style-type: none"> <li>➤ Hire Temporary Staff to prepare .DAT files for input into jClarety.</li> <li>➤ Review other solutions for a more automated approach.</li> </ul>	5/14/20: A change order is being developed to add the \$140,000 to the WAR budget to pay for 5 RC1 level temporary workers for no more than 1040 hours each.

# SB 1049 Implementation Program

## Status Report for May 22, 2020

Executive Sponsor: Kevin Olineck  
Program Manager: Christa Harrison

### Project Issues and Action Plans

Listed below are the most critical issues for this project.

For the complete Issue Log, please see the Issue Log tab in the most recent weekly status report: [WAR Weekly Status Report](#)

No	Issue	Resolution / Notes	Estimated Resolution Date
	No current issues		

### Project Schedule Deliverables and Milestones

Milestones Schedule				
Milestone	Percent Complete	Baseline Finish Date	Actual / Forecast Finish Date*	Status/ Notes
WP1 - Phase Closure Complete	100%	1/17/2020	1/17/2020	
Business Requirements WP2 Completed	100%	1/21/2020	1/21/2020	
Stage Gate 2-3 Endorsement Memo Received	100%	2/3/2020	2/3/2020	
WP2 - Development Complete	0%	8/17/2020		
Business Requirements WP3 Completed	0%	9/22/2020		
Technical Requirements WP3 Completed	0%	9/29/2020		
WP2 - User Acceptance Testing Complete	0%	10/02/2020		
WP2 - Deployment	0%	10/22/2020		
WP2 - Specification Documents Complete	0%	12/23/2020		
WP3 - Deployment	0%	4/22/2021		
WP3 - Specification Documents Complete	0%	6/4/2021		
WP3 - Phase Closure Complete	0%	6/4/2021		
WAR Project Complete	0%	8/6/2021		Currently planned to close 6/11/2021

\*Finish Date Color: Green = on Schedule, Yellow = in Jeopardy, Red = Late

## Status Report for May 22, 2020

Executive Sponsor: Kevin Olineck  
Program Manager: Christa Harrison

### Project information: Salary Limit

Project start: 7/01/ 2019 | Project end: 4/15/2021

Project Manager: Bruce Rosenblatt

### Project objective:

Effective January 1, 2020, SB 1049 redefines “salary” which changes the method that Final Average Salary, and contributions for members with subject salary greater than \$195,000, are calculated. This is a limit on salary for plan purposes, and not a salary cap.

The redefinition impacts the data and business processes used by separate teams at PERS, including Benefit Calculations, Member Estimates, Data Verifications, Employer Data Reporting, and Account Data Reviews and Reporting. Salary Limit will be indexed annually to the Consumer Price Index.

### Overall project status: **Yellow**

**Project Narrative:** The 2020 Salary Limit was deployed, and now PERS can manually report on impacted members and their employers for Tier 1/Tier 2, and Oregon Public Service Retirement Plan (OPSRP). Work Package 2 implemented a short term solution for 1/01/2020. Work Package 3 will deliver entry screens to record future salary limit and effective dates for all plans. Work Package 4 addresses the proration processes for full and partial year activities. Work Package 4 includes the new Wages Codes that will be introduced by the Work After Retirement project.

Project Status is yellow due to lack of baselined schedule. The initial project forecast required additional technical detail to accurately forecast the timeline. Developing the business requirements provided the details necessary to forecast the duration for each work package. The SB 1049 Steering Team approved Change Request SL\_01, to extend the schedule to 4/15/2021. By utilizing existing staff developers, the project schedule is within the approved budget allocation, and no additional funding is anticipated. The schedule, including changes per the change request, is in review. Once approved the schedule will be baselined by 6/17/2021.

### Work Packages:

#### Work Package 3: User screens to record annual salary limit

- Developed test cases and captured test data for creating functional test plans, and defined the new users’ roles for posting and validating each salary limit and effective date
- Created training guide for multiple business teams, to improve understanding of rules, and to facilitate handling of requests impacted by the salary limit legislation
- Revised Employer Service Center (ESC) website content by improving sample scenarios and information visibility

- Set up test cases for wage code changes and ran process in new development environment to integrate with WAR Project release schedule

#### Work Package 4 - Proration reports and workflow

- Forecasted schedule and resources, for all development and code release tasks
- Policy and Compliance Section (PACS) completed all updates to Business Rules impacted by Salary Limit legislation
- Completed discussions with PACS to clarify policy decisions for future technical elaboration

# SB 1049 Implementation Program

## Status Report for May 22, 2020

Executive Sponsor: Kevin Olineck  
Program Manager: Christa Harrison

**Budget health: Green**

Salary Limit Project budget projections are currently 24% lower than the budget allocated by the Legislature.

29560 SB 1049 - Salary Limit				
Expenses	Budget	Projections	Actual to Date	Remaining
*Personal Services - PERS	\$ 423,000	\$ 25,000	\$ 397,280	\$ 720
General Overhead Allocation	\$ 252,138	\$ 179,000	\$ 70,491	\$ 2,647
Personal Services - SB 1049	\$ 130,947	\$ 90,000	\$ 39,861	\$ 1,086
Services and Supplies	\$ 1,089	\$ 500	\$ 240	\$ 349
IT Professional Services	\$ 860,000	\$ 670,000	\$ 66,484	\$ 123,516
IT Expendable Prop	\$ 10,000	\$ 4,000	\$ 5,536	\$ 464
SB 1049 Total Expenses	\$ 1,254,174	\$ 943,500	\$ 182,612	\$ 128,062
<b>Project Total</b>	<b>\$ 1,677,174</b>	<b>\$ 968,500</b>	<b>\$ 579,893</b>	<b>\$ 128,781</b>
Average Monthly Spend (Burn Rate)		\$ 188,700	\$ 18,261	
*Not included in SB 1049 Expenses				

**Schedule Health: Yellow**

- Schedule is not baselined. Following the completion of the Quality Check Point (QCP) Process, and review by EIS, the schedule will be baselined and the schedule health will be reclassified to Green by 6/17/2020

**Scope health: Green**

- Work Package 3: scope has been approved by the Business Owner, with 154 defined Acceptance Criteria
- Work Package 4: Product Owners and business subject matter experts began requirements elaboration and are scheduled to complete business requirements documentation by 7/14/2020
- Business teams have identified 7 reports that will assist PERS staff, 4 of which are currently in User Acceptance Testing (UAT) verification

Quality Assurance activities:

- Pre-Quality Check Point (QCP) reviews are in progress for the Functional Design Specification (FDS) and the project schedule
- Quality Check Point (QCP) review of the project schedule will begin on 6/01/20, and be complete by 6/16/2020
- Project Charter and schedule will be reviewed by EIS, with a target completion of 6/01/2020

Emerging concerns/needs/impacts:

None at this time

# SB 1049 Implementation Program

## Status Report for May 22, 2020

Executive Sponsor: Kevin Olineck  
Program Manager: Christa Harrison

### High Level Project Risks and Mitigation

Listed below are the most critical risks for this project.

For the complete Risk Log, please see the Risk Log tab in the most recent weekly status report: [Salary Limit Weekly Status Report](#)

#	Risk Description	Mitigation and/or Contingency Plan	Notes
	No current high level risks		

### Project Issues and Action Plans

Listed below are the most critical issues for this project.

For the complete Issue Log, please see the Issue Log tab in the most recent weekly status report: [Salary Limit Weekly Status Report](#)

No	Issue	Resolution / Notes	Estimated Resolution Date
4	Baseline schedule not complete	The draft schedule has been created and reviews are in process. Once approved, the schedule will be baselined	6/17/2020

# SB 1049 Implementation Program

**Status Report for May 22, 2020**

Executive Sponsor: Kevin Olineck  
Program Manager: Christa Harrison

**Project Schedule Deliverables and Milestones**

These milestones reflect the changes from approved CR SL\_01

Milestones Schedule				
Milestone	Percent Complete	Baseline Finish Date	Actual / Forecast Finish Date*	Status/ Notes
WP2 - Posting 2020 Salary Limit- jClarety- complete	100%		1/08/2020	
WP2 - User Acceptance Testing complete	100%		1/15/2020	
WP2 - Quality Gate complete	100%		1/21/2020	
WP2 - Production Deployment released	100%		1/23/2020	
WP3 - High Level Estimate (HLE)	100%		2/20/2020	
WP3 - Business Requirements Document (BRS) Complete	100%		3/13/2020	
Change Request Approval	100%		5/15/2020	
Baseline the project schedule	0%		6/16/2020	
WP4 - Business Requirements Document (BRS) Complete	0%		7/14/2020	
WP3 - User Acceptance Testing (UAT) Complete	0%		10/13/2020	
WP4 - User Acceptance Testing (UAT) Complete	0%		3/22/2021	
Project Complete	0%		4/15/2021	

\*Finish Date Color: Green = on Schedule, Yellow = in Jeopardy, Red = Late



## Status Report for May 22, 2020

Executive Sponsor: Kevin Olineck  
Program Manager: Christa Harrison

### Project information: Member Redirect

Project start: July 1, 2019 | Project end: 12/31/2021

Project Manager: Chris Yu

### Overall project status: **Green**

**Project Narrative:** The Business Functional Testing (BFT) were completed on schedule for the short-term release. The current priority is to complete the short-term release User Acceptance Testing (UAT) by 5/29/2020. Work Package VC1 (Voluntary Contributions) is on track and the project team is analyzing whether the 11/30/2020 release can be added to the 9/30/2020. Other long-term work items are being elaborated in order to baseline the long-term schedule by 5/29/2020.

### Work Packages:

#### Work Package 1A: Employee Pension Stability Account Setup (Short-Term)

- Construction began on 1/14/2020
- Construction completed on 2/13/2020
- User Testing completed 3/6/2020
- Work Package production release due on 6/30/2020

#### Work Package 1B: Individual Account Program Redirect (Short-Term)

- Construction completed on 4/6/2020
- BFT Completed 4/20/2020
- User Acceptance Testing due on 5/29/2020
- Work Package production release due on 6/30/2020

### Project objective:

Effective July 1, 2020 this section of the bill redirects a portion of member contributions to a new Employee Pension Stability Account (EPSA) when the funded status of the plan is below 90% and the member's monthly salary is more than \$2,500.

#### Work Package 1D: General Ledger Setup for Individual Account Program Redirect (Short-Term)

- Construction completed on 4/6/2020
- BFT completed 4/28/2020
- User Acceptance testing due on 5/29/2020
- Work Package production release due on 6/30/2020

#### Work Package VC1: Voluntary Contribution (Long-Term)

- Work Package VC1.1 release due on 9/30/2020
- Work Package VC1.2 release due on 11/30/2020
- Work Package VC1.3 release due on 11/30/2020
- Work Package VC1.4 release due on 11/30/2020

#### Long-term Work Packages (WP):

- Work Package 1 due on 3/1/2021
- Work Package 2 due on 5/30/2021
- Work Package 3 due on 8/30/2021
- Work Package 4 due on 12/30/2021

# SB 1049 Implementation Program

**Status Report for May 22, 2020**

Executive Sponsor: Kevin Olineck  
Program Manager: Christa Harrison

**Budget health: Green**

Member Redirect is currently within the budget allocated by the Legislature.

29560 SB 1049 - Member Redirect Project				
Expenses	Budget	Projections	Actual to Date	Remaining
*Personal Services - PERS	\$ 456,634	\$ -	\$ 482,720	\$ (26,086)
General Overhead Allocation	\$ 3,782,063	\$ 2,720,000	\$ 1,057,362	\$ 4,701
Personal Services - SB 1049	\$ 5,127,767	\$ 4,163,499	\$ 597,912	\$ 366,356
Office Expense	\$ 426,890	\$ 133,958	\$ 1,254	\$ 291,678
IT Professional Services	\$ 22,100,000	\$ 19,825,000	\$ 1,995,871	\$ 279,129
IT Expendable Property	\$ 400,000	\$ 110,000	\$ 88,573	\$ 201,427
SB 1049 Total Expenses	\$ 31,836,720	\$ 26,952,457	\$ 3,740,972	\$ 1,143,291
<b>Project Total</b>	<b>\$ 32,293,354</b>	<b>\$ 26,952,457</b>	<b>\$ 4,223,693</b>	<b>\$ 1,117,204</b>
Average Monthly Spend (Burn Rate)		\$ 1,925,176	\$ 374,097	
*Not included in SB 1049 Expenses				

**Schedule Health: Green**

The BFT tasks were completed on schedule for work package 1B (Individual Account Program Redirect) and work package 1D (General Ledger Setup for Individual Account Program Redirect). All activities are progressing on track or ahead of schedule

**Scope health: Green**

The project scope is currently understood for short term activities. The project team provided a list of work item priorities for long-term on 4/30/2020. The long-term project schedule will be drafted by 5/29/2020

Quality Assurance activities:

- The Quality Gate for the draft design system for voluntary contributions D6.1.1 was complete on 5/1/2020
- The Quality Gate for Work Package 1A (EPSA Setup) will be complete on 5/27/2020
- The Quality Gate for Work Package 1B (IAP Redirect Job) will be complete on 5/27/2020
- The Quality Gate for Work Package 1D (General Ledger Setup) will be complete on 5/27/2020

Emerging concerns/needs/impacts:

- The project team is awaiting answers from Policy Analysis and Compliance Section (PACs), which impacts the long-term project schedule

# SB 1049 Implementation Program

## Status Report for May 22, 2020

Executive Sponsor: Kevin Olineck  
Program Manager: Christa Harrison

### High Level Project Risks and Mitigation

Listed below are the most critical risks for this project.

For the complete Risk Log, please see the Risk Log tab in the most recent weekly status report: [Member Redirect Weekly Status Report](#)

#	Risk Description	Mitigation and/or Contingency Plan	Notes
1	<b>Policy Analysis and Compliance Section (PACS) questions are delayed:</b> The project team is awaiting answers from the policy team that impact long-term scheduling	The project manager will work with the policy coordinator to ensure that the questions are answered by close of business Friday, 5/22/2020.	As of 5/20/20, there are 14 questions that are outstanding and awaiting to be answered.
2	<b>UAT task ownership:</b> There is some confusion on who owns escalation communication for UAT	Manage expectations on roles and responsibilities with leadership to move forward	The Release Coordinator has been facilitating the daily stand ups until UAT is complete. The Project Manager, Release Coordinator and QA analyst are working together daily to prevent any delay in schedule.
3	<b>Limited Browsers Supported-</b> PERS only supports Internet Explorer for all ORION applications. Members using other browsers may have less than optimal to failed user experience accessing OMS to submit their election.	Monitor OMS with communication with the project team and escalate to the CIO when appropriate	As of 5/20/2020, the project manager is working with the project team on a change request to add additional scope of work that will address this risk.

### Project Issues and Action Plans

Listed below are the most critical issues for this project.

For the complete Issue Log, please see the Issue Log tab in the most recent weekly status report: [Member Redirect Weekly Status Report](#)

No	Issue	Resolution / Notes	Estimated Resolution Date
	No current issues		

# SB 1049 Implementation Program

Status Report for May 22, 2020

Executive Sponsor: Kevin Olineck  
Program Manager: Christa Harrison

## Project Schedule Deliverables and Milestones

Milestones Schedule				
Milestone	Percent Complete	Baseline Finish Date	Actual / Forecast Finish Date*	Status/ Notes
WP1B - EPSA Processing Construction Complete	100%	4/6/2020	4/6/2020	
WP1D - G/L Setup IAP Redirect Construction Complete	100%	4/9/2020	4/6/2020	
WP1B - BFT Complete	100%	4/20/2020	4/20/2020	
WP1D - BFT Complete	100%	4/28/2020	4/28/2020	
Long-Term Project Schedule Baselined	0%	5/29/2020	5/29/2020	
WP1A - Quality Gate Complete	0%	5/29/2020	5/29/2020	
WP1B - Quality Gate Complete	0%	5/29/2020	5/29/2020	
WP1D - Quality Gate Complete	0%	5/29/2020	5/29/2020	
WP1A - Release Date	0%	6/30/2020	6/30/2020	
WP1B - Release Date	0%	6/30/2020	6/30/2020	
WP1D - Release Date	0%	6/30/2020	6/30/2020	
WPVC1.1 - Release Date	0%		9/30/2020	
WPVC1.2 - Release Date	0%		11/30/2020	May be pulled back to 9/30/2020
WPVC1.3 - Release Date	0%		11/30/2020	May be pulled back to 9/30/2020
WPVC1.4 - Release Date	0%		11/30/2020	May be pulled back to 9/30/2020
Long-Term Work Package 1 Release Date	0%		3/1/2021	
Long-Term Work Package 2 Release Date	0%		5/30/2021	
Long-Term Work Package 3 Release Date	0%		8/30/2021	

\*Finish Date Color: Green = on Schedule, Yellow = in Jeopardy, Red = Late

### Project information: Member Choice

**Project start:** October 23, 2019 | **Project end:** TBD

**Project Manager:** Joli Whitney

### Project objective:

The Member Choice sections of SB 1049 give members a say in how their Individual Account Program (IAP) accounts will be invested. Members' regular IAP accounts are currently allocated to Target-Date Funds (TDF) based on their year of birth. Beginning with calendar year 2021, members will be able to elect a TDF other than the default TDF.

### Overall project status: **Yellow**

**Project Narrative:** Work Package 1.1 (WP1.1) is progressing on schedule. WP1.1 will deliver functionality to provide members with the ability to log in to Online Member Services (OMS) on September 1 to make their optional TDF election. Voya is determining the best solution to provide the requested updates to their website and change in nightly sweep program. The project team is in the final stages of developing the paper form to be made available for members to submit their changes outside of OMS if this is their preference or they are unable to do so via the electronic system.

A decision was made by the Program Business Owner to remove the final work package, WP4 (TDF Ownership), from project scope. After further analysis, this work package was determined to be not critical to delivering SB 1049. A project change request is in process to implement this change.

Maintaining continuity of contracted staff has been a past challenge and has once again become an issue for this project. A contracted Business Systems Analyst has resigned. Interviews have just concluded and a new resource has been identified and will be brought in as soon as possible. The project will remain yellow until the new resource has started and had sufficient training to begin critical project work.

### Short Term Solutions (to meet 1/1/21 Member Choice effective date)

#### WP1: Member Election

##### WP1.1 Online Election 8/14/20 Deployment

- OMS Election Ability
- jClarety User Interface

##### Other elements of WP1

- Voya's updates to website and nightly sweep program
- PERS paper form election process including workflow
- Development of new reports (to Voya and internal)

### Long Term Solutions (Items needing following 1/1/21 effective date)

#### WP2- Refining TDF Processes

- SQL Server Integration Services (SSIS)
- WP1.1 Backlog
- Offline tools (Operations Technical Support)

#### WP3- jClarety Updates

- Add IAP Earnings Rate table to jClarety
- DOB validation updates for jClarety employer reporting

# SB 1049 Implementation Program

## Status Report for May 22, 2020

Executive Sponsor: Kevin Olineck  
Program Manager: Christa Harrison

**Budget health: Green**

Member Choice Project is currently within the budget allocated by the Legislature.

29560 SB 1049 - Member Choice Project Budget				
Expenses	Budget	Projections	Actual to Date	Remaining
*Personal Services - PERS	\$ 325,000	\$ 20,000	\$ 302,489	\$ 2,511
General Overhead Allocation	\$ 252,138	\$ 180,000	\$ 70,491	\$ 1,647
Personal Services - SB 1049	\$ 569,354	\$ 490,000	\$ 39,861	\$ 39,493
Office Expenses	\$ 500	\$ 250	\$ 114	\$ 136
IT Professional Services	\$ 1,500,000	\$ 413,283	\$ 137,195	\$ 949,522
IT Expendable Prop	\$ 6,340	\$ 500	\$ 5,536	\$ 304
SB 1049 Total Expenses	\$ 2,328,332	\$ 1,084,033	\$ 253,197	\$ 991,102
<b>Project Total</b>	<b>\$ 2,653,332</b>	<b>\$ 1,104,033</b>	<b>\$ 555,686</b>	<b>\$ 993,613</b>
Average Monthly Spend (Burn Rate)		\$ 77,431	\$ 25,320	
*Not included in SB 1049 Expenses				

**Schedule Health: Green**

The short term schedule is well understood. The long term schedule continues to be developed. A strategic approach to best utilize resources and consolidate work needed on offline tools and processes is under evaluation and will inform the long term schedule in Work Package 2.

**Scope health: Yellow**

Short term scope is well understood Long term scope is under review. A decision was made to remove WP4 (TDF Ownership) from the project scope. A project change request is being processed to reflect this decision. WP2 and WP3 are being analyzed to ensure any planned work to support WP4 has been removed as well.

Quality Assurance activities:

- System Design Specification CHG 3236 D2.1.1 QCP approved on 5/15/2020

Emerging concerns/needs/impacts:

- Key skilled resources are stretched very thin to support this project. This concern is exacerbated when we experience turnover in contracted project staff. There is a significant knowledge gap of resources with SQL Server Integration Services (SSIS) both in FTE and in available contracted resources. See Issues #3 & 4

## Status Report for May 22, 2020

Executive Sponsor: Kevin Olineck  
Program Manager: Christa Harrison

### High Level Project Risks and Mitigation

Listed below are the most critical risks for this project.

For the complete Risk Log, please see the Risk Log tab in the most recent weekly status report: [Member Choice Weekly Status Report](#)

#	Risk Description	Mitigation and/or Contingency Plan	Notes
3	<b>Internal Staffing:</b> Resource shifting, competing priorities, or over allocation impact the availability of dedicated project resources, or a key resource leaves PERS or is out for an extended period, and/or staff experience levels are inadequate	Sharing of resource load, assistance from program level perspective. May need to add temp staff	This risk will be clarified as the schedule is developed

### Project Issues and Action Plans

Listed below are the most critical issues for this project.

For the complete Issue Log, please see the Issue Log tab in the most recent weekly status report: [Member Choice Weekly Status Report](#)

No	Issue	Resolution / Notes	Estimated Resolution Date
3	<b>Vendor or Contractor Staff:</b> Work orders for contracted resources are not finalized within scheduled timelines and/or contracted staff experience levels are inadequate.	Contracted BA resource has tendered her resignation. This is a critical time for the work performed by this position. A new resource has been selected to start work on May 25, but we have lost time to ramp up new staff.	6/12/2020
4	<b>Competing SB 1049 Resources:</b> Critical resources are involved in multiple concurrent SB 1049 projects, limiting availability for individual projects	Careful coordinated schedule planning with Program Manager and Member Redirect Project Manager; affected staff are setting priorities and working overtime if needed. Business Owner or Program Business Owner may reassign other staff to help cover absences or help offset extreme workload periods.	6/12/2020

# SB 1049 Implementation Program

**Status Report for May 22, 2020**

Executive Sponsor: Kevin Olineck  
Program Manager: Christa Harrison






**Project Schedule Deliverables and Milestones**

Milestones Schedule				
Milestone	Percent Complete	Baseline Finish Date	Actual / Forecast Finish Date*	Status/ Notes
Project Charter Approved	100%		1/22/2020	
Finalize Project Team	100%		2/14/2020	
Project Business Case Approved	100%		4/2/2020	
Receive Stage Gate 2 Endorsement Memo from EIS	100%		4/3/2020	
TDF Insert in 2019 Member Annual Statements	100%		5/15/2020	
Approval Final OARs	0%		5/29/2020	
Baseline Project Schedule	0%		6/12/2020	
Member Communication About Member Choice	0%		8/3/2020	
WP1.1 Release (OMS election)	0%		8/14/2020	
Member Choice Election Period Opens	0%		9/1/2020	
Member Choice Election Period Closes	0%		9/30/2020	
Member Choice TDFs Effective	0%		1/1/2021	

\*Finish Date Color: Green = on Schedule, Yellow = in Jeopardy, Red = Late



# Senate Bill (SB) 1049 Implementation Road Map

	2019						2020												2021											
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
 <b>Employer Programs</b>	<ul style="list-style-type: none"> <li>7/1/19 – Effective Date               <ul style="list-style-type: none"> <li>9/3/19 – Employer Incentive Fund (EIF) Application #1 Opens</li> </ul> </li> </ul>						<ul style="list-style-type: none"> <li>11/27/19 – EIF Application #1 Closes</li> <li>12/2/19 – EIF Application #2 Opens</li> </ul>						<ul style="list-style-type: none"> <li>7/16/20 – Employer Rate Projection Tool Complete</li> <li>8/31/20 – Unfunded Actuarial Liability Resolution Program (UALRP) Launch</li> <li>9/3/20 – EIF Application #2 Closes</li> <li>9/4/20 – Project Close</li> </ul>																	
 <b>Salary Limit</b>							<ul style="list-style-type: none"> <li>12/24/19 – Work Package (WP) 1 Short Term</li> <li>1/1/20 – Effective Date               <ul style="list-style-type: none"> <li>1/24/20 – WP2 (Post 2020 Salary Limit) Long Term</li> </ul> </li> </ul>						<ul style="list-style-type: none"> <li>10/22/20 – WP3 (User Screens to record annual salary limit) Long Term</li> <li>3/23/21 – WP4 (Proration reports and workflow) Long Term</li> <li>4/15/21 – Project Close</li> </ul>																	
 <b>Work After Retirement</b>							<ul style="list-style-type: none"> <li>12/19/19 – Work Package (WP) 1 (Retiree Wages Suspended) Short Term</li> <li>1/1/20 – Effective Date</li> </ul>						<ul style="list-style-type: none"> <li>10/22/20 – WP2 (New Wage Codes with General Ledger (GL) Integration) Long Term</li> <li>4/22/21 – WP3 (OPSRP Return to Work Defect &amp; Retro Rate Changes) Long Term →</li> <li>6/11/21 – Project Close</li> </ul>																	
 <b>Member Redirect</b>							<ul style="list-style-type: none"> <li>6/30/20 – Work Package (WP) 1 Release (Employee Pension Stability Account Set Up/Batch/ General Ledger) – Short Term</li> <li>7/1/20 – Effective Date</li> </ul>						<ul style="list-style-type: none"> <li>9/30/20 – Voluntary Contributions Capture Elections Release – Long Term</li> <li>11/30/20 – Voluntary Contributions Final Functionality Release – Long Term</li> <li>3/1/21 – WP1 Release – Long Term</li> <li>5/30/21 – WP2 Release – Long Term</li> <li>8/30/21 – WP3 Release – Long Term →</li> <li>12/30/21 – WP4 Release – Long Term →</li> <li>12/31/21 – Project Close →</li> </ul>																	
 <b>Member Choice</b>	<ul style="list-style-type: none"> <li>10/23/19 – Project Kick Off</li> </ul>						<ul style="list-style-type: none"> <li>5/15/20 – Member Annual Statements (MAS) Flyer Communication</li> <li>8/14/20 – Member Choice Notification</li> <li>8/14/20 – Online Member Services (OMS) Changes Deployed</li> <li>9/1-30/20 – Election Period</li> <li>3/31/21 – Data prepared for MAS</li> <li>5/1/21 – Member Choice reflected in MAS</li> <li>1/1/21 – Effective Date               <ul style="list-style-type: none"> <li>1/17/21 – Report changes to Voya</li> </ul> </li> </ul>																							

**From:** MUNDADEN Jacob P \* DCBS <Jacob.P.Mundaden@oregon.gov>

**Sent:** Monday, May 25, 2020 5:48 PM

**To:** PERS BOARD <pers.board@pers.state.or.us>

**Subject:** SB 1049 Salary Limit

Dear Board Members,

I wish to bring to your attention an obvious flaw in the manner in which the SB 1049 salary limit is being implemented for state workers and possibly employees of other PERS employers.

As you may know, state workers get paid monthly and receive their first paycheck of the year on January 1. Because of that, as an example, a state worker that retires effective February 1 will receive two paychecks for the year prior to their retirement date. However, the salary limit against which the aggregate amount of those two paychecks is compared is \$16,250 (\$195,000 divided by 12 multiplied by 1). As a consequence, a state worker who makes more than \$8,150 per month will be adversely affected by the manner in which the limit is being currently applied.

This anomaly where actual months of salary received by a state worker is one month more than the number of months on which the SB 1049 limit is based continues for every month of the year. If an employee retires on December 1 of the year, they will have received 12 monthly paychecks but the applicable SB 1049 salary limit will be based on 11 months.

Your Deputy Director Ms. Elledge-Rhodes and I have had an e-mail exchange (see attached) regarding this issue. Regardless of the fact that I did not agree with her final conclusion, I sincerely appreciate the time she took out of her busy schedule to try to answer my questions and address my concerns. Her final e-mail to me indicated that PERS is confident that it is correctly interpreting the legislation. I can agree that PERS' interpretation follows the letter of the law; however, it should be obvious to everyone that this could not have been the legislative intent. As someone that has worked for many years in a position where I have had to frequently interpret state and federal laws and regulations, I know the critical importance of not just looking at the letter of the law but determining legislative intent. I also disagree with Ms. Elledge-Rhodes' suggestion that this only adversely affects workers who have a lump sum vacation payout. As I showed in the example above, someone making more than \$8,150 per month with zero lump sum vacation payout can be adversely affected. The adverse impact is only magnified for Tier 1 members with lump sum vacation payouts. In fact if 300 hours of lump sum vacation payout is considered, state workers making as little as \$4,500 per month are adversely affected.

I realize that with all the financial challenges facing PERS and the State, there might be little motivation for anyone to do anything that will increase costs for the State. However, I appeal to your sense of fairness and justice to make right something that is clearly wrong. I believe that, as PERS Board members, you have a fiduciary responsibility to do that. If you have any questions of me in regards to the issue I have brought to your attention please let me know.

Sincerely,

Jacob

Jacob P. Mundaden  
Oregon Division of Financial Regulation  
(503) 947-7495



# Oregon

Kate Brown, Governor

## Public Employees Retirement System

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May 29, 2020

TO: Members of the PERS Board  
 FROM: Richard Horsford, Chief Financial Officer  
 Greg Gabriel, Budget Officer  
 SUBJECT: 2021-23 Budget Development

### OVERVIEW

The 2021-23 State Agency Budget development continues to progress despite uncertain times ahead. The state revenue forecasts will certainly provide more direction on 2021-23 budgets, with anticipated reductions state-wide. In anticipation of these reductions, PERS has reduced its policy package requests to essential needs only, removing \$1.9M from our initial request outlined in the March 2020 report. Agencies continue to receive updated guidance regarding budget preparation as the effects of the COVID19 pandemic unfold for the state.

### BUDGET DEVELOPMENT ACTIVITIES

The Agency Request Budget (ARB), one of three phases of budget development for the 2021-23 biennium, will be in process until July 31. During this first phase, the agency carefully evaluates its operations and puts forth policy package requests, in an effort to improve efficiency and increase value to its members. The agency is considering the following revised policy package requests for the 21-23 budget cycle:

<i>Division</i>	<i>Perm Staff</i>	<i>Limited Staff</i>	<i>Position Re/class</i>	<i>Personnel Costs</i>	<i>Supplies/Capital</i>	<i>Total</i>
<i>Central Admin</i>	2			253,870	139,800	393,670
<i>ISD</i>	1		1	289,124	811,500	1,100,624
<i>OD</i>	4	3		931,356	92,500	1,023,856
<i>CARD</i>	1			198,025	1,656,500	1,854,525
<i>Agency Request Total</i>	<b>8</b>	<b>3</b>	<b>1</b>			<b>\$4,372,675</b>

The proposed policy packages are considered to be preliminary, as the agency will gain a better understanding of our future needs. On top of these items, we also expect to include a request for any Senate Bill 1049 work that may not be completed in the 19-21 biennium. The size and scope of this will be shared once it is known. The agency will present a final request at the July 31, 2020 Board meeting. Detailed costs follow.

### **Central Administration Division**

#### **Facilities Staffing: 1 Position | \$121,663**

The goal of this proposal is to achieve the appropriate level of PERS' Procurement, Facilities & Logistics (PFL) unit staffing required to deliver essential services that are critical to supporting the PERS mission. The PFL staffing level continues to affect delivery of critical support to those charged with conducting the agency's business.

#### **Communications Enterprise Support: 1 Position | \$272,007**

This improvement package would allow the Communications Section to improve its support of agency operations and needs, making the section personnel more skilled and processes more efficient, while enabling the teams to produce a higher caliber of deliverables.

### **Information Services Division**

#### **Position Re/class: 1 Position | \$15,769**

Upward re/class of one Information Systems Specialist (ISS) 5 position to an ISS 8 classification to meet the growing workload and complexity within the IT systems administration.

#### **Senior Systems Disaster Recovery Administrator: 1 Position | \$284,855**

Purpose is to decrease contractor spending, and have the current disaster recovery (DR) solution supported, maintained, and matured. The primary responsibilities will be maintaining the backup data center, disaster recovery plan, backups, and be the primary contact for DR-related administration.

#### **Modernization: 0 Positions | \$800,000**

This business case is a proposal to initiate and conduct envisioning, architecture, and planning activities for ORION Modernization.

### **Operations Division**

#### **Education Team Enhancement: 2 Positions | \$300,033**

The purpose of this request is to increase the service offerings of Member Services' Education Team and increase customer satisfaction ratings.

#### **Death Unit Staffing: 2 Positions | \$287,219**

This request will more effectively address the complex workload created by an increasing number of deaths and benefits payable from multiple plans.

#### **Qualifying/Non-Qualifying Data Backlog: 3 Positions | \$436,604**

This is a request for limited duration staff and budgetary support within the Data Services Section to secure assistance with addressing the growing agency backlog of member data issues known as the Qualifying/Non-Qualifying (Q/NQ) population.

**Compliance, Audit and Risk Division**

**Enterprise Risk Management Program: 1 Position | \$860,525**

This proposal is intended to enhance the capabilities of the agency by implementing an Enterprise Risk Management program, which ties together strategy and business plans using risk management methodologies as one of the key decision-making criteria.

**Information Security and Continuity Program: 0 Positions | \$994,000**

PERS was granted \$638,291 in Other Funds expenditure limitation during the 2019-2021 legislative session as initial funding for operating its information security and continuity management programs. The agency was directed to return during 2021-2023 legislative session to request permanent funding for its two programs.



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May 12, 2020

Public Employees Retirement Board  
Oregon Public Employees Retirement System

**Re: Comparison of Input and Output Smoothing for Contribution Rate Calculations**

Dear PERS Board Members:

To continue the discussion from the March 2020 and prior PERS Board meetings, this letter summarizes and compares two available approaches to respond to volatility in setting actuarially determined contribution rates. An *input smoothing* approach, which is most commonly used by public systems, smooths one or more of the early-stage inputs to the actuarially determined contribution rate calculations. The second, less commonly used approach first calculates an output contribution rate without any smoothed inputs and only then smooths that contribution rate output to calculate the actuarially determined contribution rate. While we refer to this approach as the *rate collar*, in the broader sponsor and actuarial community the general approach is called *output smoothing* or *direct rate smoothing*.

**Future volatility is certain, and smoothing will be used to respond to that volatility**

It is certain there will be future volatility affecting PERS. Volatility can come from a variety of sources, as well-illustrated by the System's experience over the past decade where large volatility arose from all of the following:

- Updates to investment return assumption responding to revised capital market outlooks
- Updates to retiree life expectancy assumption responding to observed societal trends
- A biennium's actual investment returns differing materially from long-term assumption
- Legislative actions modifying projected benefit levels and/or amortization policy
- Judicial decisions materially modifying the financial effects of prior legislative actions

Our subsequent discussion comes from a real-world perspective, and thus takes as a given that some smoothing approach will be used in contribution rate calculations in order to respond to material sources of volatility. Theoretically, contribution rates could immediately and fully adjust to any source of actual future volatility regardless of the magnitude of that volatility. However, we are not aware of any state-wide or large municipality systems that follow such a policy. Given the share of employer budgets such systems usually affect, we understand that the speed and responsiveness necessary to fully and immediately absorb the budgetary impact of significant volatility events does not exist outside of the theoretical world.

**Summary of the input smoothing approach**

The graphic in Attachment A gives an overview of the input smoothing approach. Four key inputs are illustrated. In our experience, virtually all systems that follow an input smoothing approach will incorporate the first input described below (smoothing of actual asset returns). This is a well-established approach to smoothing actuarial calculations in anticipation of future

Comparison of Input and Output Smoothing for Contribution Rate Calculations.docx

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volatility, and can be done in such a way that still fits within what are considered best practices. By contrast, smoothing of the other three inputs in the manner described below is not considered a best practice, but such approaches have been used at times by some systems' boards in response to actual observed volatility.

- **Timing to recognize actual asset returns** – a given year's investment return is recognized systematically over a multi-year period using an "asset smoothing" calculation with above and below-assumption single-year returns offsetting each other
- **Investment return assumption** – board selects an assumption materially more optimistic than the current capital market outlook, affects both components [normal cost rate, unfunded actuarial liability (UAL) amortization rate] of the contribution rate calculation
- **UAL amortization periods** – In response to a large source of negative volatility, board extends the amortization period for at least a portion of the UAL well beyond the best practice of 20-year amortization; given that amortization is calculated as a level percentage of projected payroll, this may lead to an extended period of net negative amortization (where the remaining unamortized balance grows in excess of the original balance)
- **Retiree life expectancy assumption** - board selects a life expectancy assumption materially shorter than current data and observed trends would suggest, affecting both components of the contribution rate calculation

### **Summary of the output smoothing approach (rate collaring)**

The output smoothing approach does not smooth any of the four inputs noted in the prior section. Actual asset returns are fully and immediately reflected once known. The investment return and life expectancy assumptions should be unbiased prudent estimates based on current best guidance, rather than being based on unwarranted optimism. The preferred approach to the UAL amortization policy is to consistently follow the best practice of amortization periods of 20 years or less to avoid extended periods of net negative amortization. In the output smoothing approach, each input is designed to be transparent and prudent.

The graphic in Attachment B gives an overview of the output smoothing approach. As can be seen in the graphic, the approach calculates the two contribution rate components using the unsmoothed inputs that should reflect prudent assumptions, current fair market asset values, and best practice amortization policies. Those rate components are combined to calculate the *uncollared contribution rate* in PERS terminology. In our view, the uncollared rate should be thought of as the actuarially calculated contribution rate for a hypothetical situation where budgetary constraints do not exist and contribution rate stability and predictability are not articulated objectives of the board. The uncollared rate provides all interested parties with a clear-eyed view of what the contribution rate would hypothetically be set at if rates adjusted

immediately using assumptions and methods that adhere to best practices, including fully taking into account already-known actual investment returns.

As noted earlier in this letter, we take it as a given that some smoothing approach will be applied to respond to material sources of volatility. When the uncollared rate is “close enough” to the current effective contribution rate, the rate will fully and immediately adjust to the new uncollared rate at the next biennium. But when the uncollared rate developed using best-practice inputs indicates a large contribution rate increase (or decrease) is advisable, the rate collar’s output smoothing approach systematically spreads that change across multiple biennia. Mechanically, the collar acts to limit the increase in the UAL amortization rate component. The rate actually paid in a given biennium is referred to as the collared rate, and consists of the normal cost rate and the UAL rate as limited by the rate collar. The collared rate is the actuarially determined contribution rate for the biennium, and reflects smoothing of large rate changes, in accordance with a Board-approved framework based on analysis by the actuary. While the collared rate serves as the contribution rate paid in a biennium by employers, the uncollared rate serves as a target rate that the collared contribution rate will systematically approach if actual future experience is similar to the valuation’s assumptions.

### **Comparison – pros and cons of input smoothing**

One notable advantage of an input smoothing approach is that it provides a systematic method to respond to volatility in actual investment returns in a stable manner. Often, a year with good returns will be immediately followed by a year with bad returns, and vice versa. If that pattern occurs, the systematic recognition of single-year investment results over a multi-year period will lead to a comparatively stable smoothed asset value for use in the actuarial contribution rate calculations. Another advantage of an input smoothing approach is that some boards take comfort in using an approach that is widely used by other systems.

In our view, the input smoothing approach does have several disadvantages, especially for a large, complex, and high-profile system such as PERS. Foremost is the absence of signaling guidance to policy makers and interested parties on what the contribution rate would ideally be based on best practices and all current data. Another is that the approach is ill-suited to systematically deal with sources of volatility other than actual investment returns, which can lead to frequent ad hoc policy making in response to large-effect volatility, including the use of rosy assumptions or troublingly long amortization periods for UAL.

Input smoothing can also lead to counterintuitive changes in funded status and contribution rates that may cause confusion for some interested parties. For example, under a typical 5-year asset smoothing approach, it would be possible for a biennium with two years of asset returns greater than the assumed rate to still lead to declining funded status and increasing contribution rates. Explaining that this results from the System still reflecting market investment losses from three to five years ago may not alleviate concerns about the soundness of the contribution rate calculations for interested parties who have not been routinely following the board’s rate-setting process.

In addition, for a system such as PERS, where individualized contribution rates are calculated for hundreds of different employers, using an input smoothing approach would delay



employers' ability to gain a good understanding of how their contribution rates may change in response to actual experience. Because the contribution rates under an input smoothing approach are determined by opaque actuarial calculations, employers would not have a good sense of upcoming contributions (or even the potential range of those contributions) until valuation results are published. This is unlike the current output smoothing approach, where employers can know the full range of potential contribution rate changes in the next biennium as soon as the rate for the current biennium is adopted.

### **Comparison – pros and cons of output smoothing (rate collaring)**

We can think of several potential perceived disadvantages of output smoothing when compared to input smoothing. One possible disadvantage is the unease a board or system staff could have using an approach that is not the most commonly used one. There can be a comfort in crowds, even if the crowd's approach may have the disadvantages discussed in the prior section of this letter. Another potential disadvantage is that while the use of fair market value of assets introduces all currently known market return information into the uncollared calculation, the calculations before collaring will be more volatile than calculations using an input smoothing approach with a smoothed asset value. While that level of volatility is appropriately representative of the challenges that systems presently face, it can be potentially disconcerting for some policy makers and/or other interested parties.

Output smoothing has some pronounced advantages, and those advantages are what led the PERS Board to initially adopt a rate collaring approach after extensive analysis in 2005 and 2006. We feel the rate collar is a significantly more transparent approach. This is especially true when the approach uses fair market asset values, best practice amortization periods, and prudent assumptions to create the uncollared rate, which then acts as a clear signal to all interested parties. In an input smoothing approach, quite often nothing analogous to the uncollared rate is calculated. This leaves interested parties without clear, consistent quantification of the future direction and magnitude of rate changes, particularly if the input smoothing approach uses an overly optimistic investment return or life expectancy assumption or a UAL amortization period that is lengthier than best practice.

Additionally, the output smoothing approach communicates the maximum potential year-to-year contribution rate change as a percent of payroll. This stands in contrast to input smoothing, where the contribution rate change is more mathematically complicated. For example, the effect due to variance in market-returns with five-year asset smoothing is one-fifth of the difference between the assumed market return and the actual market return, amortized over the UAL amortization period, and then divided by the employer's projected payroll. Quantifying the rate effects of assumption updates, which have been a major driver in contribution rate changes over the past decade, are even more complex.

Under PERS' rate collar approach, if a significant volatility event occurs, each of the hundreds of different employers has a built-in quantitative framework for the range of potential changes in the contribution rate that could occur in the next biennium. This differs from the input smoothing approach, which would require waiting until the actuarial estimates with smoothed inputs were available to have a good understanding of the rate changes, as described above.

Next, in our view a rate collar methodology makes it more likely that a board will select prudent, rather than optimistic, assumptions for investment return and life expectancy and best practice amortization periods. There are numerous instances around the country of boards selecting optimistic assumptions and/or lengthy amortization periods to smooth inputs to manage the contribution rate output. By placing the smoothing mechanism after the development of the uncollared rate, rate collaring allows a board to use prudent assumptions and best practice amortization periods and then manage the rate as they deem appropriate via the rate collar.

Finally, a rate collaring methodology can more robustly deal with the wide variety of volatility sources. The first page of this letter listed five major sources of volatility experience by PERS in the past decade. An input smoothing approach only readily deals with one of those five sources (actual investment return) without deviation from best practices and prudent assumptions. Input smoothing provides no road map for the final two sources listed (legislative action, judicial decisions), leading to ad hoc policy making in response to those events. Output smoothing provides a proactive framework to smooth the combined effects of all potential sources of volatility.

We would be happy to discuss this letter at the May meeting if it would be helpful to the Board.

Sincerely,



Matt Larrabee, FSA, EA, MAAA  
Principal and Consulting Actuary

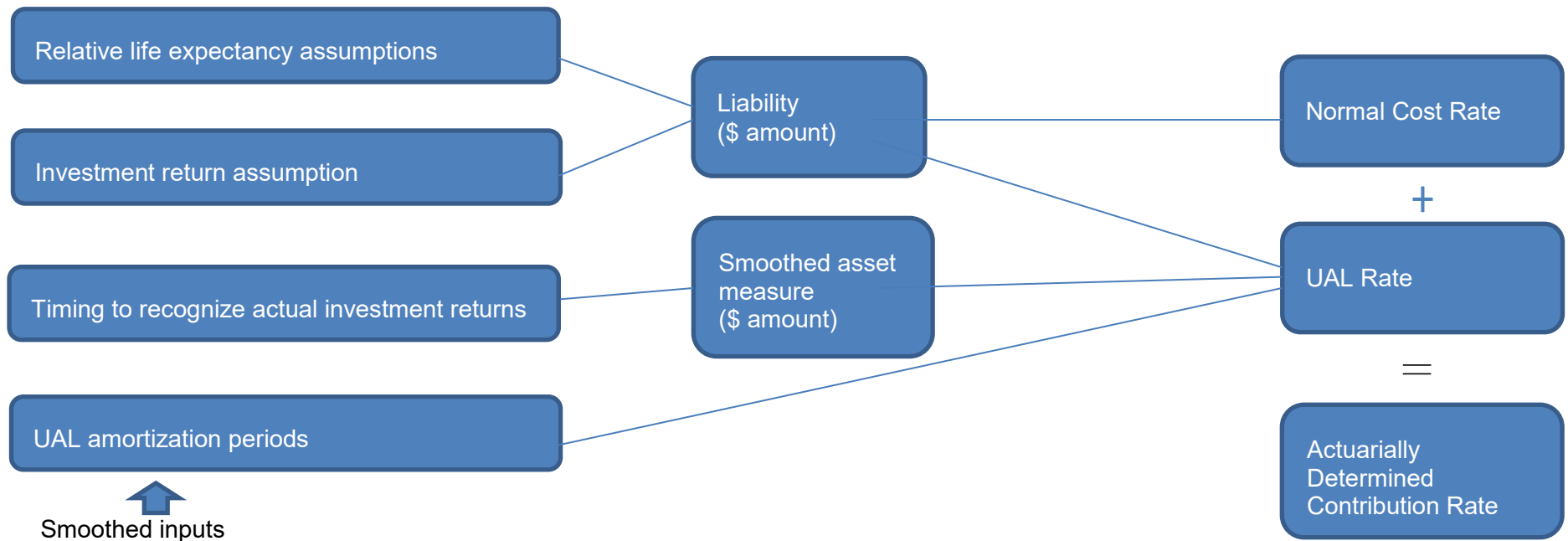


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MRL:SDP

cc: Kevin Olineck

### Overview of Input Smoothing Approach



### Overview of Output Smoothing (Rate Collar) Approach

