

*Oregon Public Employees
Retirement System
An Agency of the State of Oregon*

*Comprehensive Annual
Financial Report
For the Fiscal Year Ended June 30, 2005*

Paul R. Cleary
Executive Director

David W. Tyler
Chief Financial Officer

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Introductory Section

Letter of Transmittal



Oregon

Theodore R. Kulongoski, Governor

Public Employees Retirement System

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December 16, 2005

Public Employees Retirement Board
Oregon Public Employees Retirement System
11410 SW 68th Parkway
Tigard, Oregon 97223

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the Oregon Public Employees Retirement System (PERS or “the System”) for the fiscal year ended June 30, 2005. This report includes all funds over which the Public Employees Retirement Board (Board) exercises authority. These funds were established to provide retirement, death, and disability benefits to members; administer retiree health insurance programs; and oversee the state-sponsored deferred compensation program. PERS currently provides services to over 300,000 members and retirees and to nearly 900 employers.

The CAFR is intended to fulfill the legal requirements of Oregon Revised Statute (ORS) 238.630(2)(e). PERS management is responsible for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures.

The Oregon Audits Division has audited the accompanying financial statements in accordance with generally accepted auditing standards, and their opinion is included in this report.

The report is divided into five sections: (1) an Introductory Section, which contains this transmittal letter, administrative organization, the Certificate of Achievement for Excellence in Financial Reporting, and the Public Pension Standards Award; (2) the Financial Section, which contains the Independent Auditor’s Report by the Oregon Audits Division, Management’s Discussion and Analysis, the System’s financial statements and notes, and certain required supplementary information; (3) an Investment Section, which contains the investment officer’s report on investment activity, investment policies, investment results, and various investment schedules; (4) the Actuarial Section, which contains the actuary’s Certification Letter and the results of the biennial actuarial valuation; and (5) the Statistical Section, which includes significant PERS data.

Management’s Discussion and Analysis

Management’s Discussion and Analysis (MD&A) provides a narrative introduction, overview, and analysis to accompany the basic financial statements. This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. We would like to direct your attention to MD&A, which begins on page 12.

Economic Condition and Major Initiatives

The economic condition of PERS is affected primarily by investment earnings. A comparative analysis of rates of return is presented on page 52 of this report.

Major Initiatives

The Oregon Supreme Court issued long-awaited decisions in two important PERS-related lawsuits. On March 8, 2005, the Court ruled on *Strunk v. PERS*, the consolidated petition challenging elements of the 2003 PERS Reform legislation. The Court held that two aspects of the Reform legislation impair the PERS contract:

- eliminating annual crediting at the assumed rate for Tier One member regular accounts, and
- temporarily suspending COLA to certain retired members.

The Court affirmed the following reform aspects:

- redirection of employee contributions from the Regular Account and the Variable Annuity Account to the Individual Account Program, and
- use of updated actuarial factors.

The Court also concluded that Tier One regular members had no contract right to annual earnings crediting in excess of the assumed rate.

On August 11, 2005, after the end of fiscal year 2005 but prior to publishing this CAFR, the Court issued its decision in the *City of Eugene v. PERS* case. The Court ruled that the issues in the case have been resolved by the settlement agreement and 2003 PERS Reform legislation. The settlement agreement requires PERS to reallocate 1999 earnings to Tier One member regular accounts, employer accounts, and the benefits in force reserve at 11.33 percent instead of 20 percent.

PERS staff continued its efforts in a four-year project to replace the Retirement Information Management System (RIMS) with a new, fully integrated application. The new line of business application is expected to provide increased efficiencies through automation, integration, and data accuracy not currently provided by RIMS.

Fiscal year 2005 marked the first full fiscal year of operation for the Oregon Public Service Retirement Plan (OPSRP). OPSRP consists of a Pension Program, which provides a defined benefit pension plan for employees hired on or after August 29, 2003, and is funded by employer contributions, and the Individual Account Program, a defined contribution plan funded by employee contributions.

Financial Information

The financial information contained in this document is presented in conformance with reporting requirements of the Governmental Accounting Standards Board (GASB) Statements 25 (defined benefit pension plans), 26 (postemployment healthcare plans), and 32 (deferred compensation plans).

Internal Controls

Management is responsible for establishing and maintaining a system of internal controls to protect PERS assets from loss, theft, or misuse and to ensure that adequate accounting data is compiled for the preparation of financial statements in conformity with generally accepted accounting principles. This internal control system provides reasonable, but not absolute, assurance that these objectives are met.

Funding

Member contributions are set by statute at 6.0 to 7.0 percent of covered salary. Employer contributions have been established by actuarial valuations conducted biennially in odd-numbered calendar years. PERS' funding objective is to meet long-term benefit promises through contributions that remain approximately level as a percent of employer payroll. If the level of funding is adequate, the ratio of assets accumulated to total liabilities will increase, and more income will be available for investment. Prudent investment of assets and returns on those investments should increase the funding base and allow for a more stable employer contribution rate. PERS currently has a funded ratio of 96 percent (see page 62).

Investments

The Oregon Investment Council (OIC) has statutory authority (ORS 293.701) to establish policies for the investment and reinvestment of PERS funds. The OIC's primary investment objective is to make PERS investment funds as productive as possible. At the same time, the OIC acts as a prudent investor in the management of the PERS portfolio. Descriptions of specific OIC policies regarding diversification, performance objectives, fees, and asset allocation are found on pages 50 through 56.

Awards and Acknowledgements

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to PERS for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2004. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards of preparation of state and local government financial reports.

To be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for one year only. PERS has received a Certificate of Achievement for the last 14

consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

Public Pension Standards Award

The Public Pension Coordinating Council (PPCC) awarded the 2005 Public Pension Standards Award to PERS for its plan design and administration.

The PPCC is a coalition of three associations representing public pension funds that cover the vast majority of public employees in the United States. The associations are: the National Association of State Retirement Administrators (NASRA), the National Conference on Public Employee Retirement Systems (NCPERS), and the National Council on Teacher Retirement (NCTR). Public pension standards are intended to reflect minimum expectations for public retirement system management and administration and to serve as benchmarks by which all defined benefit public plans are measured.

This is the third year the PPCC has offered the award to public retirement systems, and the second consecutive year PERS has received the award.

Acknowledgments

PERS intends to provide complete and reliable information as a basis for making management decisions, to demonstrate responsible stewardship of assets contributed by members and their employers, and to comply with legal provisions. The compilation of this report reflects the combined efforts of the PERS staff.

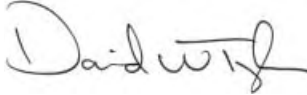
This report is available on the PERS website at www.oregon.gov/pers. Summary financial information will be reported in the PERS newsletter, *Perspectives*, which is distributed to active and retired members.

The cooperation of PERS employers contributes significantly to PERS' success and is greatly appreciated. We would also like to express our gratitude to the staff, the Board, the advisors, and the many other people who work so diligently to assure the successful operation of PERS.

Respectfully submitted,



Paul R. Cleary
Executive Director



David W. Tyler
Chief Financial Officer

Public Employees Retirement Board

The Oregon Legislature has delegated authority to the PERS Board of Trustees to administer the System. The Board is composed of five trustees who administer retirement (service and disability), death, and retiree health insurance benefits.

PERS also administers the Oregon Savings Growth Plan, a deferred compensation program for state and local government employees.

All members of the Board are appointed by the governor and confirmed by the Senate. The governor designates the chairperson.

One member must be a public employer manager or a local elected official, one member must be a union-represented public employee, and three members must have experience in business management, pension management, or investing.

The three Board members representing business management, pension management, or investing are James Dalton, Eva Kripalani, and Michael Pittman. Thomas Grimsley was appointed to represent public employees, and Brenda Rocklin was appointed to represent public employers. Pittman is Board chair; Rocklin is vice chair.

The current term for each member began September 1, 2003, with staggered expiration dates.

Michael Pittman (chair)

Michael Pittman, chair, has approximately 20 years of experience in the human resource and employee benefits field. He has served in senior corporate human resource roles which have included responsibilities for pensions in the United States and the United Kingdom. Currently, he is providing consulting services in this area. Pittman received his bachelor's degree in environmental health in 1975 and his master's degree in environmental health in 1982. Both degrees were earned at the University of Washington.

Brenda Rocklin (vice chair)

Brenda Rocklin, vice chair, is the president and chief executive officer of the State Accident Insurance Fund (SAIF) Corporation. Before SAIF, she served as director of the Oregon Lottery. Rocklin was an assistant attorney general in the Oregon Department of Justice (DOJ) from 1984 to 2002, where she worked in administration, the Appellate Division, the Criminal Justice Division, and the Civil Enforcement Division. Before joining the Department of Justice, Rocklin was a deputy district attorney in Umatilla County from 1981 to 1983. Rocklin received her bachelor's degree in journalism at Idaho State University in 1978 and her J.D. at the Willamette University College of Law in 1981.

James Dalton

James Dalton has been with Beaverton-based technology firm Tektronix since 1989. He currently serves as the senior vice president of Corporate Development and is responsible for Corporate Development, Central Engineering, the corporate secretary, and the law department. He also chairs the Tektronix Foundation. He was a past member of the board of directors of RadiSys Corporation and the Multnomah County Library Foundation. Dalton received his bachelor's degree in economics from the University of Massachusetts and his J.D. from Boston College Law School.

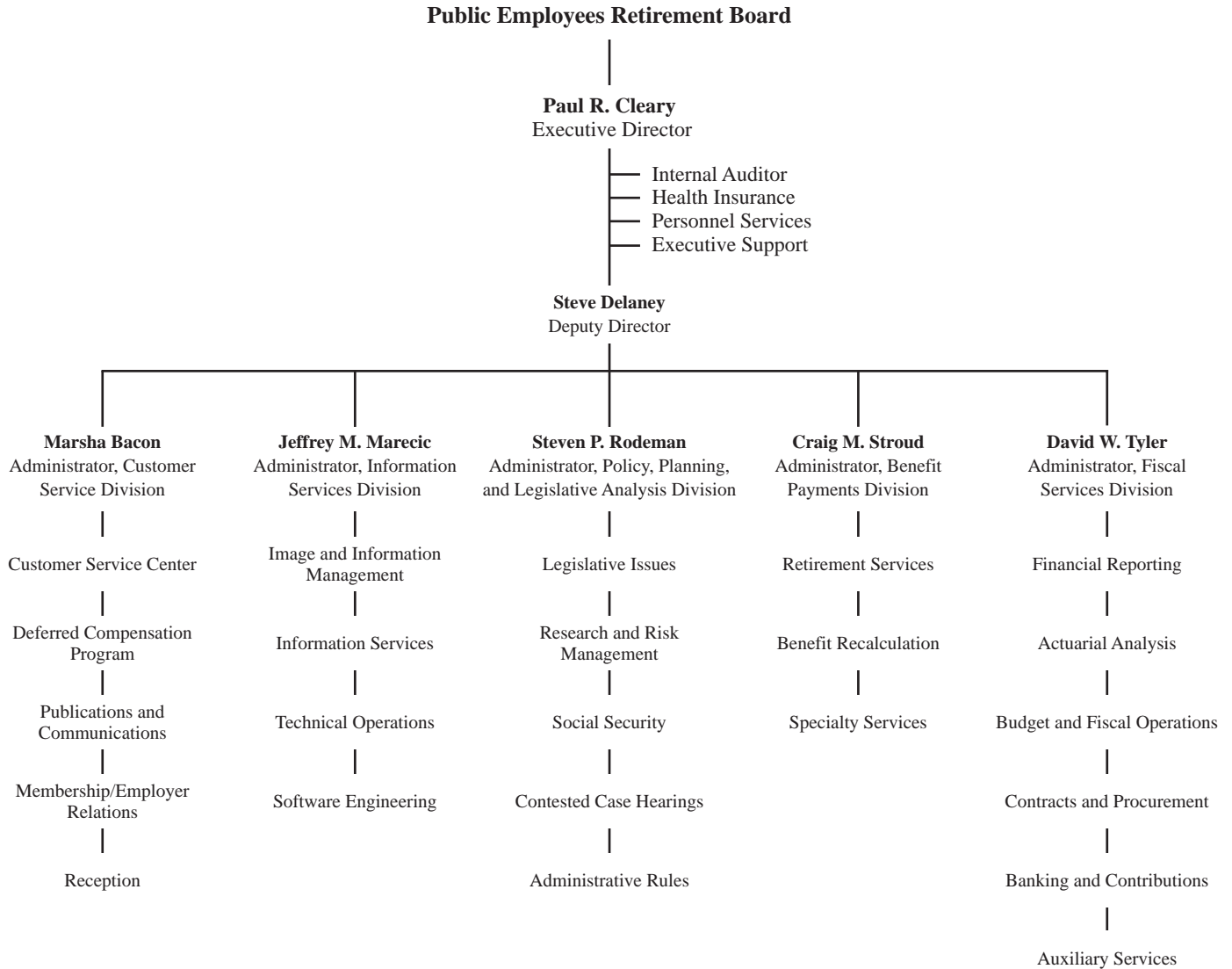
Thomas Grimsley

Thomas Grimsley has taught in the Bethel School District #52 in Eugene since 1981 and was a contract negotiator for Bethel teachers' last four labor contracts. He has served as a member of Bethel's Joint Benefits and Insurance committee for the past 17 years. He has also served as vice president of Eugene's Education Association for the past eight years. He taught in the Rogue River School District from 1979 to 1981 and two high schools in San Jose, California, from 1977 to 1978. Grimsley received his bachelor's degree in music and his teaching credential in music, speech, English, and drama at California State University Chico in 1977. He completed his math endorsement at Lane Community College and the University of Oregon in 1990.

Eva Kripalani

Eva Kripalani became senior vice president and general counsel of Knowledge Learning Corporation effective January 7, 2005, following the company's acquisition of KinderCare Learning Centers, Inc. She joined KinderCare in 1997 and served as senior vice president, general counsel, and corporate secretary. Prior to KinderCare, Kripalani was a partner in the law firm of Stoel Rives LLP in Portland, Oregon, where she had worked since 1987 with an emphasis on corporate and securities law, mergers, and acquisitions. Kripalani serves on the boards of directors of the Cascade AIDS Project and the Portland State University Foundation. She also serves on the advisory board for the Portland State University School of Business. Ms. Kripalani was selected as a 2002 outstanding woman in business by the Portland Business Journal. She received her B.S. in finance law, magna cum laude, from Portland State University in 1983 and her J.D., magna cum laude, from the Willamette University College of Law in 1986.

Public Employees Retirement System Organizational Chart



Public Employees Retirement System Consultants

Actuary:

Mercer Human Resource Consulting, LLC

Legal Counsel:

Oregon Department of Justice
 Orrick Herrington & Sutcliffe LLP
 Ice Miller®
 Bullivant Houser Bailey PC

Insurance Consultant:

B.W. Reed Benefits, LLC

Medical Advisor:

Lawrence Duckler, MD

Technology:

Covansys Corporation
 Provaliant, Inc.

Auditor:

Oregon Audits Division

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Oregon Public Employees Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Zielke

President

Jeffrey R. Emer

Executive Director



Public Pension Coordinating Council
Public Pension Standards
2005 Award

Presented to

Oregon Public Employees Retirement System

In recognition of meeting professional standards for
plan design and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

A handwritten signature in black ink that reads "Alan H. Winkle". The signature is fluid and cursive, with the first name "Alan" and last name "Winkle" clearly distinguishable.

Alan H. Winkle
Program Administrator

Financial Section

OFFICE OF THE
SECRETARY OF STATE

Bill Bradbury
Secretary of State



AUDITS DIVISION
Cathy Pollino
State Auditor

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Auditing for a Better Oregon

The Honorable Theodore Kulongoski
Governor of Oregon
254 State Capitol
Salem, Oregon 97301-4047

The Board of Trustees
Oregon Public Employees Retirement System
11410 SW 68th Parkway
Tigard, Oregon 97223

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the Oregon Public Employees Retirement System (PERS), as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of PERS' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PERS' internal controls over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 4, the financial statements referred to above present only the Oregon Public Employees Retirement System and do not purport to, and do not, present fairly the financial position of the state of Oregon as of June 30, 2005, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PERS, as of June 30, 2005, and the changes in financial

position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2005, on our consideration of the Oregon Public Employees Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the required supplementary information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise PERS' basic financial statements. The accompanying supporting schedules, introductory section, investment section, actuarial section, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supporting schedules, as listed in the table of contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section, investment section, actuarial section, and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

OREGON AUDITS DIVISION



Bill Bradbury
Secretary of State

December 16, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's discussion and analysis of the Oregon Public Employees Retirement System's (PERS or "the System") financial performance during the fiscal year that ended on June 30, 2005. Please read it in conjunction with the transmittal letter on pages 2 through 4 and the financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS AND ACCOMPANYING INFORMATION

1. **Basic Financial Statements.** The System presents financial statements as of June 30, 2005 and 2004, prepared on a full accrual basis. They are:
 - a. Statements of Fiduciary Net Assets
 - b. Statements of Changes in Fiduciary Net Assets
 - c. Notes to the Financial Statements
2. **Required Supplementary Information.** The required supplementary information consists of:
 - a. Schedules of Funding Progress
 - b. Schedules of Employer Contributions
 - c. Notes to the Required Supplementary Information
3. **Other Supplementary Schedules.**
 - a. Combining schedules show the detailed components of the ORS Chapter 238 Defined Benefit Plan and Postemployment Healthcare Plan.
 - b. Other schedules include detailed information on administrative expenses incurred by the System and a summary of investment fees, commissions, and expenses.

The basic financial statements contained in this CAFR are described below:

- The Statements of Fiduciary Net Assets show a point-in-time snapshot of account balances at fiscal year-end. They report the assets available for future benefit payments and any current liabilities as of the statement date. The liabilities do not include the actuarial value of future benefits. Net Assets (Assets – Liabilities = Net Assets) represent the value of assets held in trust for payment of pension benefits.
- The Statements of Changes in Fiduciary Net Assets show the sources and uses of funds during the fiscal year, where Additions – Deductions = Net Increase (or Decrease) in Net Assets. This Net Increase (or Decrease) in Net Assets illustrates the change in net assets as reported in the Statements of Fiduciary Net Assets from the prior year to the current year.

The financial statements are prepared based on an economic resources focus and accrual basis of accounting in accordance with Governmental Accounting Standards Board (GASB) pronouncements. The provision of objective, consistent, and comparable information about operating costs requires a measurement focus on economic resource flows. It also requires use of the accrual basis of accounting, which recognizes economic transactions and other events when they occur rather than only when the related inflows and outflows of cash or other financial resources occur. Acquired but unused goods and services are reported as assets until they are used, thus giving important information about resources already acquired that can be used to provide future services.

- The notes to the financial statements, beginning on page 22, are an integral part of the financial statements and include additional detailed information and schedules to provide a better understanding of the financial statements. Information in the notes discloses the System's organization, benefits and contributions, how asset values are determined, and contingencies and commitments.

In addition to the financial statements explained above, this CAFR includes two additional Required Supplementary Information schedules with historical trend information.

- The Schedules of Funding Progress, page 37, contain actuarial information about the status of the plan from an ongoing, long-term perspective, showing whether there are sufficient assets to pay pension and postemployment benefits when due. Actuarial Liabilities in excess of Valuation Assets indicate that insufficient assets have been accumulated as of the valuation date to fund the future benefits of current members and retirees.
- The Schedules of Employer Contributions, page 38, contain historical trend information regarding the value of total annual contributions employers must pay and the actual contributions made to meet this requirement.
- The Notes to the Required Supplementary Information, page 39, provide background information and explanatory detail to help understand the required supplementary schedules.

The Schedules of Plan Net Assets and Schedules of Changes in Plan Net Assets, pages 40 through 43, display the components of the ORS Chapter 238 defined benefit and postemployment healthcare plans.

The Schedule of Administrative Expenses and Schedule of Payments to Consultants on page 44 show the costs of managing the System. The Summary of Investment Fees, Commissions, and Expenses on page 45 provides the detail of investment-related expenses included in the line item Investment Expense reported in the Statements of Changes in Fiduciary Net Assets.

FINANCIAL HIGHLIGHTS

- PERS' assets exceed its liabilities at the close of fiscal year 2005, with \$50,613.6 million held in trust for pension, postemployment healthcare, Oregon Public Service Retirement Plan Defined Benefit (OPSRP DB), Oregon Public Service Retirement Plan Individual Account Program (OPSRP IAP), and deferred compensation benefits.
- Fiduciary net assets increased by \$4,581.9 million, or 10.0 percent, during the fiscal year due primarily to a rise in equity markets at home and abroad. Additionally, several employers made significant payments to reduce their unfunded actuarial liabilities (UALs).
- PERS' funding objective is to meet long-term benefit obligations. As of December 31, 2003, the date of the latest actuarial valuation, the funded ratio of PERS was 96 percent. In general, this means that for every dollar of pension benefits due, PERS has approximately \$0.96 of net assets available for payment.
- Revenues (additions to fiduciary net assets) for fiscal year 2005 were \$7,204.0 million, which includes member and employer contributions of \$851.4 million, UAL payments of \$518.8 million, and net gains from investment activities totaling \$5,803.6 million.
- Expenses (deductions from fiduciary net assets) fell slightly to \$2,622.2 million, or 4.3 percent, during fiscal year 2005, from \$2,739.6 million during fiscal year 2004.

FIDUCIARY NET ASSETS

The condensed comparative summary of Fiduciary Net Assets below demonstrates that the pension trust funds are primarily focused on investments and net assets (reserves).

- Improving financial markets produced positive returns on PERS investments for the third year in a row. The net assets of the ORS Chapter 238 defined benefit pension plan increased approximately \$4,052.1 million, or 9.0 percent, during the year ended June 30, 2005.
- The net assets of the postemployment healthcare plan increased approximately \$27.1 million, or 18.7 percent, during the year ended June 30, 2005, due to increases in member contributions and investment income.
- The net assets of the OPSRP DB increased approximately \$24.4 million during the year ended June 30, 2005, primarily due to increases in employer contributions.
- The net assets of the OPSRP IAP increased approximately \$408.4 million during the year ended June 30, 2005, primarily due to increases in member contributions.
- The net assets of the deferred compensation plan increased approximately \$69.9 million, or 10.4 percent, during the year ended June 30, 2005, due to positive investment returns.

TABLE 1
FIDUCIARY NET ASSETS
(in millions)
As of June 30:

	Defined Benefit Pension Plan		Postemployment Healthcare Plan		OPSRP DB		OPSRP IAP		Deferred Compensation Plan	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Cash and Receivables	\$ 4,066.2	\$ 3,218.1	\$ 22.2	\$ 35.7	\$ 8.3	\$ 10.4	\$ 91.2	\$ 140.7	\$ 1.3	\$ 1.2
Investments at Fair Value	47,790.1	44,110.3	158.3	114.4	23.8	0.1	550.0	63.4	742.4	672.5
Securities Lending Collateral	5,506.0	4,364.2	19.8	16.8	3.2	0.3	69.7	14.2	0.2	0.5
Other	9.8	11.4	—	—	6.3	6.7	0.8	1.9	—	—
Total Assets	57,372.1	51,704.0	200.3	166.9	41.6	17.5	711.7	220.2	743.9	674.2
Investment Purchases	2,632.1	2,085.6	8.2	4.9	5.9	6.1	30.1	3.4	0.1	0.3
Securities Lending Payable	5,506.0	4,364.2	19.8	16.8	3.2	0.3	69.7	14.2	0.2	0.5
Other Payables	170.6	242.9	0.1	0.1	7.6	10.6	2.0	1.1	0.4	0.1
Total Liabilities	8,308.7	6,692.7	28.1	21.8	16.7	17.0	101.8	18.7	0.7	0.9
Total Net Assets	\$ 49,063.4	\$ 45,011.3	\$ 172.2	\$ 145.1	\$ 24.9	\$ 0.5	\$ 609.9	\$ 201.5	\$ 743.2	\$ 673.3

CHANGES IN FIDUCIARY NET ASSETS

Revenues – Additions to Fiduciary Net Assets

Additions to Fiduciary Net Assets needed to finance retirement benefits are accumulated through the collection of employer and member contributions and through investment income.

- Member contributions to the ORS Chapter 238 defined benefit pension plan decreased \$176.1 million, or 94.8 percent, compared to fiscal year 2004. The decrease is attributed to a law change requiring member contributions after January 1, 2004, to be made to a defined contribution plan, the OPSRP IAP.
- Member contributions to the postemployment healthcare plan increased \$12.9 million, or 17.7 percent, compared to fiscal year 2004. The increase is attributed to higher contributions made to the Standard Retirement Health Insurance Account to pay for higher healthcare costs in fiscal year 2005; it is also due to increased participation in the plans.
- Member contributions to the OPSRP IAP increased \$161.6 million, or 80.3 percent. Contributions were made for a full year in fiscal 2005, as opposed to only one half a year in fiscal 2004.
- Member contributions to the deferred compensation plan remained the same from fiscal 2004 to fiscal 2005. Active membership increased slightly from 18,306 to 18,516.
- Employer contributions to the ORS Chapter 238 defined benefit pension plan decreased \$2,378.5 million, or 75.2 percent, compared to fiscal year 2004. Employer contributions were \$785.8 million in fiscal year 2005 and \$3,164.2 million in fiscal year 2004. The decrease in employer contributions resulted because less was received in UAL payments in fiscal year 2005. UAL payments in fiscal year 2005 totaled \$518.8 million, while they were \$2,584.8 million in fiscal year 2004.
- Employer contributions to the postemployment healthcare plan decreased \$4.0 million, or 9.2 percent, compared to fiscal year 2004 due to a decrease in the subject salaries on which payments are based.
- Employer contributions to the OPSRP DB increased \$28.2 million. Contributions were made for a full year in fiscal 2005, as opposed to only one half a year in fiscal 2004.
- Net investment and other income in the ORS Chapter 238 defined benefit pension plan was \$5,685.5 million, a \$1,497.0 million, or 20.8 percent, decrease over fiscal year 2004 income of \$7,182.5 million, due to lower returns from domestic and international equities.
- Net investment and other income in the postemployment healthcare plan was \$17.9 million, a \$3.6 million decrease, or 16.7 percent, over fiscal year 2004 income of \$21.5 million, due to lower equity returns.
- Net investment and other income in the OPSRP DB was \$1.2 million in fiscal 2005. Investment income was minimal in the prior fiscal year, as that was the first year of operations for the plan.
- Net investment and other income in the OPSRP IAP was \$52.0 million. Investment income was minimal in the prior fiscal year, as that was the first year of operations for the plan.
- Net investment and other income in the deferred compensation plan was \$53.5 million, a \$26.4 million, or 33.0 percent, decrease from fiscal year 2004 income of \$79.9 million, due to lower equity returns.

Expenses – Deductions from Fiduciary Net Assets

Benefit payments, refunds of contributions to members who terminate employment, health insurance premium subsidies, deferred compensation payments, and administrative costs comprise the System's expenses.

- Pension benefit and other payments from the ORS Chapter 238 defined benefit pension plan decreased by \$133.7 million, or 5.2 percent, due to fewer retirees electing to receive lump-sum retirement payments.
- Postemployment healthcare and other payments increased \$6.7 million, or 6.1 percent, from prior year payments due to increases in premium payments.
- OPSRP DB benefit and other payments increased \$5.5 million due to the acquisition and implementation of computer software to administer the new plan. Expenses were minimal in the prior fiscal year.
- OPSRP IAP benefit and other payments increased \$5.1 million due to the acquisition and implementation of computer software to administer the new plan. Expenses were minimal in the prior fiscal year.
- Deferred compensation benefit and other payments decreased \$1.0 million, or 2.5 percent, due to a decrease in the number of retirements.

The table below shows a condensed comparative summary of the changes in fiduciary net assets and reflects the activities of the plans administered by the System.

TABLE 2
CHANGES IN FIDUCIARY NET ASSETS
(in millions)
For the Years Ending June 30:

	Defined Benefit Pension Plan		Postemployment Healthcare Plan		OPSRP DB		OPSRP IAP		Deferred Compensation Plan	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Additions:										
Member Contributions	\$ 9.6	\$ 185.7	\$ 85.8	\$ 72.9	\$ —	\$ —	\$ 362.9	\$ 201.3	\$ 56.5	\$ 56.5
Employer Contributions	785.7	3,164.2	39.7	43.7	30.1	1.9	—	—	—	—
Other Sources	23.6	23.8	—	—	—	—	—	—	—	—
Net Investment and Other Income (Loss)	5,685.5	7,182.5	17.9	21.5	1.2	—	52.0	1.6	53.5	79.9
Total Additions	<u>6,504.4</u>	<u>10,556.2</u>	<u>143.4</u>	<u>138.1</u>	<u>31.3</u>	<u>1.9</u>	<u>414.9</u>	<u>202.9</u>	<u>110.0</u>	<u>136.4</u>
Deductions:										
Pension Benefits	2,353.8	2,510.4	—	—	—	—	1.2	—	39.4	40.4
Other	98.6	75.7	116.3	109.5	6.9	1.4	5.3	1.4	0.7	0.8
Total Deductions	<u>2,452.4</u>	<u>2,586.1</u>	<u>116.3</u>	<u>109.5</u>	<u>6.9</u>	<u>1.4</u>	<u>6.5</u>	<u>1.4</u>	<u>40.1</u>	<u>41.2</u>
Total Increase (Decrease)	<u>\$ 4,052.0</u>	<u>\$ 7,970.1</u>	<u>\$ 27.1</u>	<u>\$ 28.6</u>	<u>\$ 24.4</u>	<u>\$ 0.5</u>	<u>\$ 408.4</u>	<u>\$ 201.5</u>	<u>\$ 69.9</u>	<u>\$ 95.2</u>

PLAN MEMBERSHIP

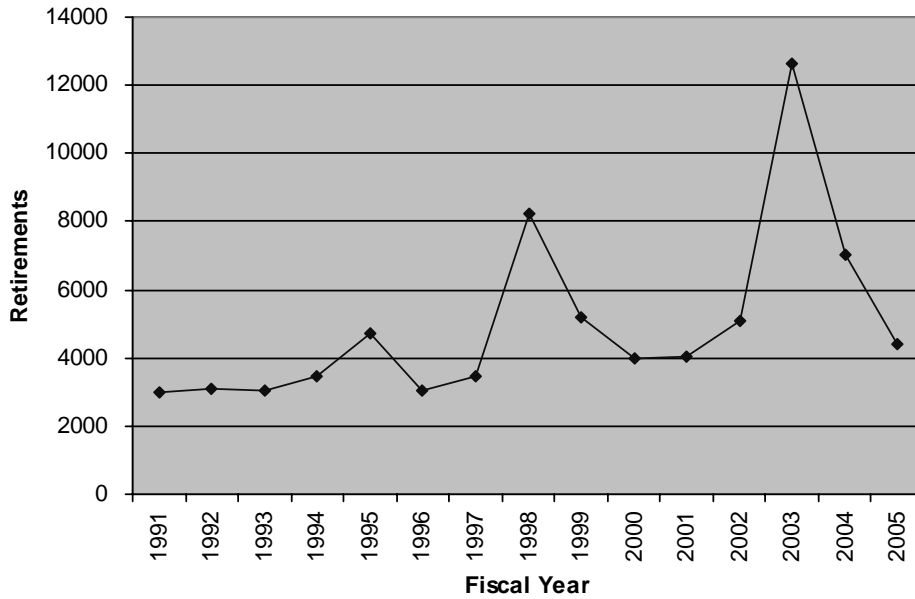
The table below reflects the defined benefit pension plan membership as of the beginning and end of the fiscal year.

TABLE 3
CHANGES IN PLAN MEMBERSHIP
As of June 30:

	2005	2004	Percentage Change
Retirees and beneficiaries receiving benefits:			
General	93,235	91,973	1.4%
Police and Fire	6,889	6,713	2.6
Total	<u>100,124</u>	<u>98,686</u>	1.5
Current and terminated employees entitled to benefits but not yet receiving them:			
Vested:			
General	142,687	140,192	1.8
Police and Fire	11,818	11,567	2.2
Nonvested:			
General	41,185	54,371	(24.3)
Police and Fire	2,249	3,305	(3.2)
Total	<u>197,939</u>	<u>209,435</u>	(5.4)

Service retirements in fiscal year 2005 were 4,422 compared to 7,043 in fiscal year 2004, a decrease of 37.2 percent. A surge in retirements in the prior two fiscal years reduced the number of members eligible to retire. Of those remaining, many were deferring retirement until the settlement of lawsuits still pending as of June 30, 2005.

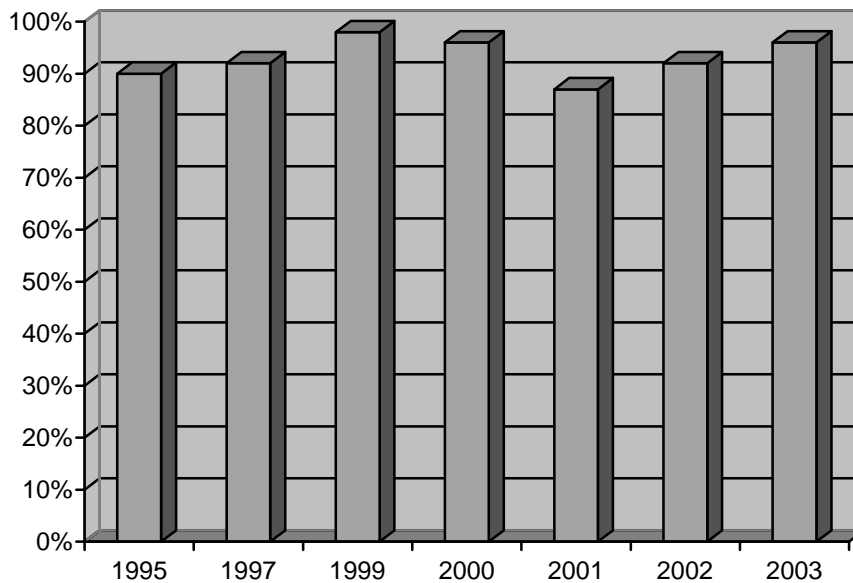
**TABLE 4
SERVICE RETIREMENTS
By Fiscal Year**



FUNDING STATUS

The System's UAL as of December 31, 2003, was \$1,751.2 million, which was derived using the entry age cost method (see Summary of Actuarial and Unfunded Actuarial Liabilities on page 62). The 2003 UAL decreased by \$1,452.5 million, or 45.3 percent, from \$3,203.7 million in 2002. The 2003 Oregon Legislature passed a number of bills resulting in a significant reduction in the UAL. Additionally, several employers made large payments specifically to reduce their UALs.

**TABLE 5
SCHEDULE OF FUNDING PROGRESS
FUNDED RATIO
As of December 31:**



INVESTMENT ACTIVITIES

During fiscal year 2005, domestic and international equities increased approximately \$1,880.1 million and alternative equities increased approximately \$48.1 million due to improvements in global equity markets. Investments in fixed income securities increased approximately \$1,277.0 million as a result of purchases made in accordance with the Oregon Investment Council's asset allocation policy. Real Estate performance was more than twice that of the benchmark, increasing approximately \$1,094.3 million. This value added was primarily due to strong performance in all real estate segments, including direct properties, opportunistic partnerships, and the public REIT portfolio. One-year returns on asset classes and comparative benchmarks are presented in the table below.

TABLE 6
INVESTMENT RETURN
Periods Ending June 30:

	<u>2005</u>	<u>2004</u>
Total Portfolio	13.7%	18.0%
Total Portfolio, Excluding Variable	13.9	N/A
Domestic Stocks	8.2	22.5
Benchmark: Russell 3000 Index	8.1	20.5
International Stocks	17.2	31.7
Benchmark: Custom Index ¹	17.0	32.5
Fixed Income Segment	8.7	2.4
Benchmark: Custom Index ²	7.6	0.9
Real Estate ³	31.6	20.9
Benchmark: NCREIF	15.6	9.7
Private Equity ⁴	38.8	16.5
Benchmark: S&P 500 + 5%	12.0	43.4

¹ 90% Salomon World Equity Broad Market ex-US/10% International Finance corporation EMG Investable Securities.

² 90% Lehman Universal/10% SSBI Non-US World Government Bond Hedged.

³ Returns are lagged one quarter.

⁴ Returns are lagged one quarter.

EFFECT OF ECONOMIC FACTORS

The financial position of the System improved during the fiscal year due to significant UAL payments and strong global equity, real estate, and private equity markets. Table 6 above shows portfolio returns and indexes, which are reflective of the market environment.

Benefit payments decreased in fiscal year 2005 due to fewer lump-sum payments. Retirees who elected to continue participating in the Variable Annuity Account after retirement experienced an increase in benefits of approximately 2.9 percent, effective February 1, 2005. This increase in benefits was due to investment gains experienced by the Variable Annuity Account for the period November 1, 2003, through October 31, 2004.

CONTACTING THE SYSTEM'S FINANCIAL MANAGEMENT

This financial report is designed to provide plan participants, employers, citizens, taxpayers, and others with a general overview of the System's finances and to demonstrate the Board's oversight of the System. If you have questions about this report or need additional financial information, please contact the Fiscal Services Division Administrator, P.O. Box 23700, Tigard, Oregon 97281-3700.

**Statements of Fiduciary Net Assets -
Pension and Other Postemployment Plans
June 30, 2005**

	Defined Benefit Pension Plan	Postemployment Healthcare Plan	Oregon Public Service Retirement Plan Pension Program
Assets:			
Cash and Cash Equivalents	\$ 2,846,197,441	\$ 16,462,308	\$ 5,919,414
Receivables:			
Employer	14,202,211	1,664,163	1,917,603
Plan Member	—	—	—
Interest and Dividends	149,369,691	502,049	62,832
Investment Sales and Other Receivables	1,054,518,878	3,528,874	441,639
Total Receivables	<u>1,218,090,780</u>	<u>5,695,086</u>	<u>2,422,074</u>
Due from Other Funds	1,899,837	60,949	—
Investments:			
Debt Securities	13,833,890,215	46,435,596	5,811,428
Equity	26,853,520,680	87,636,052	10,967,676
Real Estate	2,862,481,160	9,743,489	1,219,400
Alternative Equity	4,240,232,672	14,494,741	1,814,021
Restricted Investment Contracts	—	—	3,991,699
Total Investments	<u>47,790,124,727</u>	<u>158,309,878</u>	<u>23,804,224</u>
Securities Lending Cash Collateral	5,506,029,627	19,797,622	3,156,467
Prepaid Expenses and Deferred Charges	1,611,097	—	82,244
Equipment and Fixtures, Cost Net of Accumulated Depreciation at 2005: \$2,820,352; at 2004: \$2,406,511	1,287,378	—	6,214,035
Buildings, Cost Net of Accumulated Depreciation at 2005: \$1,467,249; at 2004: \$1,280,236	5,968,832	—	—
Land and Land Improvements	944,463	—	—
Office Supplies Inventory, Cost	5,411	—	—
Total Assets	<u>57,372,159,593</u>	<u>200,325,843</u>	<u>41,598,458</u>
Liabilities:			
Investment Purchases and Accrued Expenses	2,632,112,886	8,209,436	5,897,730
Deposits and Other Liabilities	121,006,813	—	—
Due to Other Funds	60,949	115,416	523,817
Bonds/COPs Payable	49,527,776	—	7,130,654
Securities Lending Collateral Due Borrowers	5,506,029,627	19,797,622	3,156,467
Total Liabilities	<u>8,308,738,051</u>	<u>28,122,474</u>	<u>16,708,668</u>
Net Assets Held in Trust for Benefits (Schedules of Funding Progress are presented on page 37.)	<u>\$ 49,063,421,542</u>	<u>\$ 172,203,369</u>	<u>\$ 24,889,790</u>

The accompanying notes are an integral part of the financial statements.

Oregon Public Service Retirement Plan Individual Account Program	Deferred Compensation Plan	2005	2004
\$ 62,998,528	\$ 1,239,061	\$ 2,932,816,752	\$ 2,499,117,112
—	—	17,783,977	92,994,909
14,221,429	—	14,221,429	89,149,243
1,742,827	—	151,677,399	139,615,122
<u>12,250,219</u>	<u>50,670</u>	<u>1,070,790,280</u>	<u>538,741,658</u>
<u>28,214,475</u>	<u>50,670</u>	<u>1,254,473,085</u>	<u>860,500,932</u>
—	—	1,960,786	37,873,856
161,197,669	278,150,432	14,325,485,340	13,048,495,674
304,221,947	464,209,646	27,720,556,001	25,840,471,862
33,823,790	—	2,907,267,839	1,812,939,631
50,317,398	—	4,306,858,832	4,258,716,872
498,962	—	4,490,661	9,846,971
<u>550,059,766</u>	<u>742,360,078</u>	<u>49,264,658,673</u>	<u>44,970,471,010</u>
69,684,258	218,925	5,598,886,899	4,395,980,130
10,280	—	1,703,621	2,816,875
768,027	—	8,269,440	8,908,065
—	—	5,968,832	6,155,845
—	—	944,463	944,463
—	—	5,411	7,560
<u>711,735,334</u>	<u>743,868,734</u>	<u>59,069,687,962</u>	<u>52,782,775,848</u>
30,109,336	1,556	2,676,330,944	2,100,197,008
—	329,265	121,336,078	156,120,160
1,152,273	108,331	1,960,786	37,873,854
891,332	—	57,549,762	60,837,775
69,684,258	218,925	5,598,886,899	4,395,980,130
<u>101,837,199</u>	<u>658,077</u>	<u>8,456,064,469</u>	<u>6,751,008,927</u>
<u>\$ 609,898,135</u>	<u>\$ 743,210,657</u>	<u>\$ 50,613,623,493</u>	<u>\$ 46,031,766,921</u>

**Statements of Changes in Fiduciary Net Assets -
Pension and Other Postemployment Plans
For the Year Ended June 30, 2005**

	Defined Benefit Pension Plan	Postemployment Healthcare Plan	Oregon Public Service Retirement Plan Pension Program
Additions:			
Contributions:			
Employer	\$ 785,753,821	\$ 39,653,029	\$ 30,054,164
Plan Member	9,590,285	85,791,039	—
Other Sources	23,587,024	—	—
Total Contributions	<u>818,931,130</u>	<u>125,444,068</u>	<u>30,054,164</u>
Investment Income:			
Net Appreciation (Depreciation) in Fair Value of Investments	4,465,890,598	13,845,661	880,621
Interest, Dividends, and Other Investment Income	<u>1,422,708,894</u>	<u>4,725,463</u>	<u>441,020</u>
Total Investment Income	5,888,599,492	18,571,124	1,321,641
Less Investment Expense	<u>215,636,472</u>	<u>691,434</u>	<u>54,750</u>
Net Investment Income	5,672,963,020	17,879,690	1,266,891
Securities Lending Income:			
Securities Lending Income	106,939,820	337,607	25,521
Less Securities Lending Expense	<u>94,740,835</u>	<u>298,757</u>	<u>22,584</u>
Net Securities Lending Income	12,198,985	38,850	2,937
Other Income:	327,544	22,128	—
Total Additions	<u>6,504,420,679</u>	<u>143,384,736</u>	<u>31,323,992</u>
Deductions:			
Benefits	2,353,828,583	—	—
Death Benefits	10,572,405	—	—
Refunds of Contributions	60,241,863	—	—
Administrative Expense	27,744,201	2,608,005	6,939,098
Healthcare Premium Subsidies	—	27,205,078	—
Retiree Healthcare Expense	<u>—</u>	<u>86,457,202</u>	<u>—</u>
Total Deductions	<u>2,452,387,052</u>	<u>116,270,285</u>	<u>6,939,098</u>
Net Increase (Decrease)	4,052,033,627	27,114,451	24,384,894
Net Assets Held in Trust for Benefits			
Beginning of Year	45,011,387,915	145,088,918	504,896
End of Year	<u>\$ 49,063,421,542</u>	<u>\$ 172,203,369</u>	<u>\$ 24,889,790</u>

The accompanying notes are an integral part of the financial statements.

Oregon Public Service Retirement Plan Individual Account Program	Deferred Compensation Plan	2005	2004
\$ —	\$ —	\$ 855,461,014	\$ 3,209,873,307
362,893,934	56,542,080	514,817,338	516,373,083
—	—	23,587,024	23,763,183
<u>362,893,934</u>	<u>56,542,080</u>	<u>1,393,865,376</u>	<u>3,750,009,573</u>
36,187,806	41,834,417	4,558,639,103	6,405,890,670
11,942,060	12,851,248	1,452,668,685	1,058,419,970
<u>48,129,866</u>	<u>54,685,665</u>	<u>6,011,307,788</u>	<u>7,464,310,640</u>
1,817,165	1,862,483	220,062,304	190,270,481
<u>46,312,701</u>	<u>52,823,182</u>	<u>5,791,245,484</u>	<u>7,274,040,159</u>
876,121	—	108,179,069	41,108,224
775,301	—	95,837,477	31,066,547
<u>100,820</u>	<u>—</u>	<u>12,341,592</u>	<u>10,041,677</u>
5,556,285	683,224	6,589,181	1,458,504
<u>414,863,740</u>	<u>110,048,486</u>	<u>7,204,041,633</u>	<u>11,035,549,913</u>
1,234,891	39,406,579	2,394,470,053	2,550,753,511
—	—	10,572,405	8,610,162
—	—	60,241,863	42,193,518
5,243,347	703,809	43,238,460	30,856,372
—	—	27,205,078	26,289,873
—	—	86,457,202	80,896,727
<u>6,478,238</u>	<u>40,110,388</u>	<u>2,622,185,061</u>	<u>2,739,600,163</u>
408,385,502	69,938,098	4,581,856,572	8,295,949,750
201,512,633	673,272,559	46,031,766,921	37,735,817,171
<u>\$ 609,898,135</u>	<u>\$ 743,210,657</u>	<u>\$ 50,613,623,493</u>	<u>\$ 46,031,766,921</u>

**Notes to the Financial Statements
June 30, 2005**

(1) Description of Plan

A. Plan Membership

The Oregon Public Employees Retirement System (PERS or “the System”) provides statewide defined benefit and defined contribution retirement plans for units of state government, political subdivisions, community colleges, and school districts. PERS is administered under Oregon Revised Statutes (ORS) Chapter 238, Chapter 238A, and Internal Revenue Code Section 401(a) by the Public Employees Retirement Board (Board). For state agencies, community colleges, and school districts, PERS is a cost-sharing, multiple-employer system. PERS is an agent multiple-employer system for political subdivisions that have not elected to join the State and Local Government Rate Pool. Participation by state government units, school districts, and community colleges is mandatory. Participation by most political subdivisions is optional, but irrevocable if elected. Plan assets of the defined benefit, defined contribution, postemployment healthcare, and deferred compensation plans may legally be used to pay benefits only to plan members or plan beneficiaries for which the assets were accumulated.

Employee and Retiree Members	
Retirees and beneficiaries currently receiving benefits:	
	<u>6/30/2005</u>
General	93,235
Police and Fire	<u>6,889</u>
Total	<u><u>100,124</u></u>
Current employees and terminated employees entitled to benefits but not yet receiving them:	
Vested:	
General	142,687
Police and Fire	11,818
Nonvested:	
General	41,185
Police and Fire	<u>2,249</u>
Total	<u><u>197,939</u></u>

Participating Employers	
	<u>6/30/2005</u>
State Agencies	132
Political Subdivisions	497
Community Colleges	17
School Districts	<u>244</u>
Total	<u><u>890</u></u>

For many years, retirement programs for Oregon judges were administered by special legislation and programs under the Judges’ Retirement Fund (JRF), established in 1963 under ORS 1.314 to 1.380. Effective August 1, 1991, the JRF was merged into the Public Employees Retirement Fund.

The 1995 Legislature enacted Chapter 654, Section 3, Oregon Laws 1995 which has been codified into ORS 238.435. This legislation created a second tier of benefits for those who established membership on or after January 1, 1996. The second tier does not have the Tier One assumed earnings rate guarantee and has a higher normal retirement age of 60, compared to 58 for Tier One. As of June 30, 2005, there were 76,272 active and 24,940 inactive for a total of 101,212 Tier One members and 73,650 active and 23,077 inactive for a total of 96,727 Tier Two members in the System.

The 2003 Legislature enacted HB2020, codified as ORS 238A, which created the Oregon Public Service Retirement Plan (OPSRP). OPSRP consists of the Pension Program (defined benefit) and the Individual Account Program (defined contribution). Public employees hired on or after August 29, 2003, and inactive Tier One or Tier Two members who return to employment following a six-month or greater break in service participate in the OPSRP Pension Program.

Beginning January 1, 2004, PERS active Tier One and Tier Two members became members of the Individual Account Program (IAP) of OPSRP. PERS members retain their existing PERS accounts, but member contributions are now deposited into the member’s IAP account, not into the member’s PERS account. Accounts are credited with earnings and losses. Administrative costs of the plan are charged to these accounts. OPSRP is administered by PERS, the agency. The PERS Board is directed to adopt any rules necessary to administer OPSRP, and such rules are to be considered part of the plan for IRS purposes.

member’s IAP account, not into the member’s PERS account. Accounts are credited with earnings and losses. Administrative costs of the plan are charged to these accounts. OPSRP is administered by PERS, the agency. The PERS Board is directed to adopt any rules necessary to administer OPSRP, and such rules are to be considered part of the plan for IRS purposes.

B. Plan Benefits

a. PERS Pension (Chapter 238)

1. Pension Benefits

The PERS retirement allowance is payable monthly for life. It may be selected from 13 retirement benefit options. These options include survivorship benefits and lump-sum refunds. The basic benefit is based on years of service and final average salary. A percentage (2.0 percent for police and fire employees, 1.67 percent for general service employees) is multiplied by the number of years of service and the final average salary. Benefits may also be calculated under either a formula plus annuity (for members who were contributing before August 21, 1981) or a money match computation if a greater benefit results. Monthly payments must be a minimum of \$200 per month or the member will receive a lump-sum payment of the actuarial equivalence of benefits to which he or she is entitled.

Police and fire members may purchase increased benefits that are payable between the date of retirement and age 65.

A member is considered vested and will be eligible at minimum retirement age for a service retirement allowance if he or she has had a contribution in each of five calendar years or has reached at least 50 years of age before ceasing employment with a participating employer (age 45 for police and fire members). General service employees may retire after reaching age 55. Police and fire members are eligible after reaching age 50. Tier One general service employee benefits are reduced if retirement occurs prior to age 58 with fewer than 30 years of service. Police and fire member benefits are reduced if retirement occurs prior to age 55 with fewer than 25 years of service. Tier Two members are eligible for full benefits at age 60. The ORS Chapter 238 Defined Benefit Pension Plan is closed to new members as of December 31, 2003.

A judge member who has made contributions to the PERS Fund during each of five calendar years shall receive a retirement allowance, payable monthly, for life. Before reaching age 60, judge members must choose the calculation formula under which they will retire. The election is irrevocable after the member attains age 60. The two formulas, A and B, are described below.

The Plan A retirement allowance for judge members is computed by multiplying 2.8125 percent by the final average salary for the first 16 years of service and 1.67 percent of the final average salary multiplied by the number of years of service as a judge in excess of 16. For most judge members the maximum amount is limited to 65 percent of final average salary. The Plan B retirement allowance for judge members is computed by multiplying 3.75 percent by the final average salary for the first 16 years of service and 2.0 percent of the final average salary multiplied by the number of years of service as a judge in excess of 16. For most judge members the maximum amount is limited to 75 percent of final average salary. Plan B requires a judge to serve up to 35 days per year for a period of five years as a pro-tem judge. There is no actuarial reduction for retirement prior to age 65.

Judges' Retirement System (JRS) members were entitled to a monthly amount equal to one-twelfth of final average salary upon reaching age 65 with 16 years of service or at age 70 with 12 years of service.

2. Death Benefits

Upon the death of a non-retired member, the beneficiary receives a lump-sum refund of the member's account balance (accumulated contributions and interest). In addition, the beneficiary will receive a lump-sum payment from employer funds equal to the account balance, provided that one or more of the following conditions are met:

- the member was employed by a PERS employer at the time of death,
- the member died within 120 days after termination of PERS-covered employment,
- the member died as a result of injury sustained while employed in a PERS-covered job, or
- the member was on an official leave of absence from a PERS-covered job at the time of death.

A member's beneficiary may choose a monthly payment for life instead of the lump sum, or a combination of lump-sum and monthly payments, if eligible. The monthly payment must be a minimum of \$30 per month for deaths July 30, 2003 and earlier; \$200 per month for deaths after July 30, 2003.

Surviving spouses of JRS members and judge members of PERS receive benefits as provided in ORS 238.055 and ORS 238.565.

3. Disability Benefits

A member with 10 or more years of creditable service who becomes disabled from other than duty-connected causes may receive a non-duty disability benefit. A disability resulting from a job-incurred injury or illness qualifies a member (including judge members of PERS) for disability benefits regardless of the length of PERS-covered service. Upon qualifying for either a non-duty or duty disability, service time is computed to age 58 (55 for police and fire members) when determining the monthly benefit.

Judge members of PERS who have served a minimum of six consecutive years and who become physically or mentally incapacitated are entitled to benefits as provided in ORS 238.555.

4. Benefit Changes After Retirement

Members may choose to continue participation in a "variable" stock investment account after retiring and may experience annual benefit fluctuations due to changes in the market value of equity investments.

Monthly benefits are adjusted annually through cost-of-living changes. Two percent per year is the maximum cost-of-living adjustment. Periodically, the Oregon Legislature has granted *ad hoc* increases to postretirement benefits.

b. OPSRP Pension Program (OPSRP DB)

1. Pension Benefits

This portion of OPSRP provides a life pension funded by employer contributions. Benefits are calculated with the following formula for members who attain normal retirement age:

Police and fire (P and F): 1.8 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for P and F members is age 60 or age 53 with 25 years of retirement credit. To be classified as a P and F member, the individual must have been employed continuously as a P and F member for at least five years immediately preceding retirement.

General service: 1.5 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for general service members is age 65 or age 58 with 30 years of retirement credit.

A member of the pension program becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, and, if the pension program is terminated, the date on which termination becomes effective.

2. Death Benefits

Upon the death of a non-retired member, the spouse or other person who is constitutionally required to be treated in the same manner as the spouse, receives for life 50 percent of the pension that would otherwise have been paid to the deceased member. The surviving spouse or other person may elect to delay payment of the death benefit, but payment must commence no later than December 31 of the calendar year in which the member would have reached 70½ years.

3. Disability Benefits

A member who has accrued 10 years or more of retirement credits before the member becomes disabled or a member who becomes disabled due to job-related injury shall receive a disability benefit of 45 percent of the member's salary determined as of the last full month of employment before the disability occurred.

c. OPSRP Individual Account Program (OPSRP IAP)

1. Pension Benefits.

Upon retirement, a member of the Individual Account Program (IAP) may receive the amounts in the member's employee account, rollover account, and employer account as a lump-sum payment or in equal installments over a 5-, 10-, 15-, or 20-year period.

A member of OPSRP IAP becomes vested on the date the employee account is established or on the date the rollover account was established. If the employer makes employer contributions for a member, the member becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, the date the IAP program is terminated, the date the active member becomes disabled, or the date the active member dies.

2. Death Benefits

Upon the death of a non-retired member, the beneficiary receives in a lump sum the member's account balance, rollover account balance, and employer's account balance. If a retired member dies before the installment payments are completed, the beneficiary may receive the remaining installment payments or choose a lump-sum payment.

3. Recordkeeping

PERS contracts with CitiStreet, a joint venture between Citigroup and State Street Bank and Trust Company, to maintain IAP participant records. The Oregon State Treasury also contracts with State Street Bank and Trust Company to provide custodial services for investments that are pooled with other Public Employees Retirement Fund investments.

d. Postemployment Healthcare Benefits

Under ORS 238.410 the Board contracts for medical and hospital insurance on behalf of retired members. Members and their dependents are eligible for PERS healthcare coverage if the member is receiving a retirement allowance or benefit under the System. A surviving spouse of a PERS retiree is eligible to participate if he or she was covered under the health plan at the time of the retiree's death.

ORS 238.420 established the Retirement Health Insurance Account (RHIA) and authorizes a payment of up to \$60 from RHIA toward the monthly cost of health insurance for eligible PERS members.

To be eligible to receive this monthly payment toward the premium cost the member must: (1) have eight years or more of qualifying service in PERS at the time of retirement or receive a disability allowance as if the member had eight years or more of creditable service in PERS, (2) receive both Medicare Parts A and B coverage, and (3) enroll in a PERS-sponsored health plan.

A surviving spouse or dependent of a deceased PERS retiree who was eligible to receive the subsidy is eligible to receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from PERS or (2) was insured at the time the member died and the member retired before May 1, 1991.

For the year ended June 30, 2005, all PERS employers contributed 0.64 percent of PERS-covered salaries to fund RHIA benefits based on the December 31, 2001 actuarial valuation. This is included in the employer contribution rates listed on page 26. The employer contribution rate covers the normal cost payment and an amount to amortize the unfunded actuarial accrued liability over a period commencing on the actuarial valuation date and ending on December 31, 2027.

The employers' contributions are advance-funded on an actuarially determined basis. Employers' actual contributions for the fiscal year ended June 30, 2005, were \$37.3 million. There is no inflation assumption for RHIA postemployment benefits because the payment amount is set by statute and is not adjusted for increases in healthcare costs. The number of active plan RHIA participants was 35,360 for the fiscal year ended June 30, 2005.

ORS 238.415 established the Retiree Health Insurance Premium Account (RHIPA) and requires the Board on or before January 1 of each year to calculate the average difference between the health insurance premiums paid by retired state employees under contracts entered into by the Board and health insurance premiums paid by state employees who are not retired. ORS 238.415 authorizes payment of this average difference to qualified retired state employees. Retired state employees are qualified to receive this benefit if they had eight or more years of qualifying service in the System at the time of retirement or are receiving a disability pension calculated as if they had eight or more years of qualifying service, but are not eligible for federal Medicare coverage.

A surviving spouse or dependent of a deceased retired state employee is eligible to receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from PERS or (2) was insured at the time the member died, and the member retired on or after September 29, 1991.

For the year ended June 30, 2005, state agencies contributed 0.16 percent of PERS-covered salaries to fund RHIPA benefits, based on the December 31, 2001 actuarial valuation. See health cost inflation assumptions on page 39. The number of active plan RHIPA participants was 902 for the fiscal year ended June 30, 2005.

ORS 238.410(7) established the Standard Retiree Health Insurance Account (SRHIA). All subsidy payments from the RHIA, the RHIPA, and contributions from retired members are deposited in the SRHIA. Payments for medical and hospital insurance contracted for on behalf of retired members are made from SRHIA.

(2) Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying financial statements are prepared in accordance with Governmental Accounting Standards Board Statements 25, 26, and 34, as well as generally accepted accounting principles that apply to governmental accounting for fiduciary funds. Fiduciary funds are used to account for assets held by a governmental unit in a trustee capacity (trust funds).

PERS' activities are accounted for in two trust funds:

- Public Employees Retirement Fund:
 - Defined Benefit Pension Plans
 - Defined Contribution Plan
 - Postemployment Healthcare Plan
- Deferred Compensation Fund:
 - Deferred Compensation Plan

B. Basis of Accounting

The accrual basis of accounting is used for all funds. Revenues are recognized when earned. Contributions are recognized when due, pursuant to formal commitments, as well as statutory and Board requirements. Expenses are recognized when incurred. Benefits and refunds are recognized in the month they are due and payable.

C. Budgetary Data

Only administrative expenses are subject to biennial legislative budget control. The Legislature exercises this control at the agency level. Any unobligated balance lapses at the end of each biennium.

Encumbrance accounting is allowed only during the biennium. All encumbrances lapse at the end of the biennium except capital construction, capital improvements, and contested claims.

Budgetary accounting is not consistent with generally accepted accounting principles (GAAP) because the measurement focus is on decreases in financial resources rather than net income determination.

The accompanying schedule reconciles administrative expenses on the budgetary basis to administrative expenses presented in the Statements of Changes in Fiduciary Net Assets. The legislatively approved budget includes increases approved by the Legislative Emergency Board through June 2005.

D. Valuation of Investments

Investments are recognized at fair value, the amount at which financial instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The fair value of debt and equity securities is determined by the custodial agent, using recognized pricing services. Equity securities traded on a national or international exchange are valued at the last reported sales price. Debt securities are generally valued at the midpoint between the bid and ask prices. A small percentage of debt securities cannot be priced in this manner, and for these a similar "benchmark" security is used. The benchmark has a coupon rate and maturity date comparable to the debt security being valued, and its market risk is similar considering current market conditions. Mortgage loans on real estate and state agency loans are stated at the amortized unpaid principal balance. Fair values of investments in real estate are based upon valuations provided by investment managers and advisors retained by the Oregon State Treasury. Investments that do not have an established market are represented at estimated fair value.

E. Distribution of Earnings

By law earnings distribution to members is made on a calendar-year basis. Members in Tier One were guaranteed to receive at least the assumed earnings rate used in the most recent actuarial valuation through December 31, 2002. Members participating in the Variable Account and Tier Two members receive actual earnings or losses.

	Legislatively Approved Budget	Actual	Unobligated Balance at June 30, 2005
2003 - 2005 Biennium:			
Personal Services	\$ 40,419,764	\$ 34,543,646	\$ 5,876,118
Services and Supplies	36,471,820	34,628,971	1,842,849
Capital Outlays	8,972,339	4,233,350	4,738,989
2003 - 2005 Totals	<u>\$ 85,863,923</u>	<u>\$ 73,405,967</u>	<u>\$ 12,457,956</u>
Total Expenses July 1, 2003 - June 30, 2005			
Budgetary Basis (non-GAAP)			\$ 73,405,967
Biennium Adjustments to Administrative Expenses			
Add:			
Depreciation Expense			964,956
COP Amortization			15,160
Increase in Compensated Absences			136,595
Increase in Accruals			52,341
Decrease in Prepaids			278,493
Decrease in Supplies Inventory			2,149
Deduct:			
Capital Outlay			142,692
COP Interest Payments			618,137
Expenses from July 1, 2003 - June 30, 2004			30,856,372
Statement of Changes in Fiduciary Net Assets			<u>\$ 43,238,460</u>

(3) Contributions and Reserves**A. Contributions****a. Member Contributions**

Beginning January 1, 2004, all member contributions, except for contributions by judge members, were prospectively placed in the OPSRP Individual Account Program (IAP), an IRC 401a defined contribution plan. Prior to that date, all member contributions were credited to the Defined Benefit Pension Plan. Member contributions are set by statute at 6.0 to 7.0 percent of salary and are remitted by participating employers. Participating employers may agree to make member contributions on the member's behalf. The contributions are either deducted from member salaries or paid by the employers. The Member Reserve, described in Note (3)C.a., represents member contributions made prior to January 1, 2004, and earnings allocations less refunds and amounts transferred to reserves for retirements and disabilities. The OPSRP IAP Member Reserve described in Note (3)C., represents member contributions made on or after January 1, 2004, plus earnings allocations less disbursements for refunds, death benefits, and retirements.

b. Employer Contributions

PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a level percentage of annual covered payroll, are intended to accumulate sufficient assets to pay benefits when due. This funding policy applies to the PERS Defined Benefit Plan, the Postemployment Healthcare Plans, and the OPSRP Pension Program.

Contribution Rate Summary	State and Local Government Pool			School Pool	Non-Pooled	
	State Agencies	Community Colleges	Political Subdivisions		Political Subdivisions	Judiciary
Employee IAP	<u>6.00%</u>	<u>6.00%</u>	<u>6.00%</u>	<u>6.00%</u>	<u>6.00%</u>	<u>0.00%</u>
PERS Defined Benefit Plan						
Employee Normal Cost	0.00	0.00	0.00	0.00	0.00	7.00
Employer Normal Cost	11.87	11.05	—	12.75	—	21.28
Unfunded Actuarial Liability	<u>-0.56</u>	<u>-0.81</u>	<u>—</u>	<u>-1.64</u>	<u>—</u>	<u>-1.89</u>
Total PERS Defined Benefit	<u>11.31%</u>	<u>10.24%</u>	<u>8.66%*</u>	<u>11.11%</u>	<u>10.60%*</u>	<u>19.39%</u>
OPSRP Pension Program						
Employer Normal Cost						
General Service	8.04	8.04	8.04	8.04	8.04	8.04
Police and Fire	11.65	11.65	11.65	11.65	11.65	11.65
Unfunded Actuarial Liability	0.00	0.00	0.00	0.00	0.00	0.00

* Political subdivisions are valued separately for the Defined Benefit Plan. Group average rates shown are as of the December 31, 2001 actuarial valuation.

1. PERS Defined Benefit Plan and Postemployment Healthcare Plan Contributions

Employer contribution rates for state agencies were 11.31 percent, community colleges 10.24 percent, schools 11.11 percent, and judiciary 19.39 percent of PERS-covered salaries, effective July 1, 2003. Political subdivisions are divided between those that joined the State and Local Government Rate Pool and those that have not. Rates for both pooled and non-pooled political subdivisions vary by employer with the average rate being 8.66 percent for pooled political subdivisions and 10.60 percent for non-pooled employers (see table above for average rates).

Employer contribution rates during the period were based on the December 31, 2001 actuarial valuation, which became effective July 1, 2003. The state of Oregon made a UAL payment of \$2 billion on October 31, 2003, which reduced the contribution rate from 11.31 percent to 4.71 percent. Certain schools, community colleges, and political subdivisions have made UAL payments, and their rates have been reduced.

Oregon Laws 2001, Chapter 945, Section 13 authorized the establishment of the State and Local Government Rate Pool. Local political subdivisions were given the option to join the state of Oregon and community colleges for the actuarial purpose of calculating employer rates. Participation by local political subdivisions in this pool was effective for the actuarial valuation period beginning January 1, 2002.

Based on the actuarial valuation as of December 31, 2001, judiciary, state agencies, and certain political subdivisions received lower employer contribution rates. Schools and other political subdivisions experienced an increase in their employer contribution rates. The Board practice has been to implement the new employer contribution rates for those employers who experienced a decrease and to delay implementation of the new employer contribution rates for those employers who experienced an increase in their employer contribution rate to provide employers an opportunity to budget for the increases. Due to a significant increase in employer contribution rates, based on the December 31, 2001 valuation, the Board allowed local employers to elect actuarially equivalent rates which deferred increases to future periods.

2. OPSRP Pension Program Contributions:

PERS employers participating in the OPSRP Pension Program participate in the same rate sharing pool and therefore share the same contribution rate. The OPSRP Pension Program normal-cost employer rates beginning January 1, 2004, were 8.04 percent of covered salaries for general service employees and 11.65 percent of covered salaries for police and fire employees. Each of these rates includes a component related to disability benefits for general service and police and fire members.

The PERS consulting actuary, Milliman Consultants and Actuaries, based on the demographic and economic assumptions used for the PERS Defined Benefit Plan, provided employer rates during the period. Because this is a new pension program for members joining the System on or after August 29, 2003, membership size and demographic experience will not be sufficient to conduct a meaningful valuation until December 31, 2005. That valuation will become the basis for adjusting current employer rates.

B. Actuarial Cost Method and Assumptions

Employer contribution rates are set using the entry age actuarial cost method. For the PERS Defined Benefit Plan, this method produces an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (2) an amount for amortization of the unfunded actuarial accrued liability over a period commencing on the valuation date and ending on December 31, 2027, and (3) an actuarially determined amount for funding postemployment healthcare subsidies. For the OPSRP Pension Program, this method produces an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year) and (2) an actuarially determined amount for funding a disability benefit component. A rate component for an unfunded actuarial accrued liability may be added in the future when the first valuation for the OPSRP Pension Program is conducted.

C. Reserves and Designations

Chapter 238 Defined Benefit Plan

a. Member Reserve

The Member Reserve of \$8,013.5 million as of June 30, 2005, represents member contributions made through December 31, 2003, and earnings allocations less refunds and amounts transferred to reserves for retirements and disabilities.

b. Employer Contribution Designation

The Employer Contribution Designation of \$15,408.6 million as of June 30, 2005, represents employer contributions and earnings allocations less amounts transferred to reserves for retirements and disabilities.

c. Benefit Reserve

The Benefit Reserve of \$17,307.8 million as of June 30, 2005, is the amount set aside to pay future benefits. It includes funds transferred from the individual member and employer accounts and earnings allocations less amounts paid for retirements and disabilities.

d. Undistributed Investment Earnings Designation

The Undistributed Investment Earnings Designation may be credited with investment earnings in excess of required minimum distributions. Oregon law requires individual accounts for Tier One members to be credited at the assumed rate of return on investments adopted by the Board for use in actuarial valuations. In previous years, this designation has been used to meet this crediting requirement. As of June 30, 2005, the balance of this designation was zero, and it is not fully funded according to Board policy.

e. Contingency Reserve

The Contingency Reserve is to be maintained and used by the Board to prevent any deficit of moneys available for the payment of retirement allowances due to interest fluctuations, changes in mortality rates, or other unforeseen contingency. As of June 30, 2005, the balance of this reserve was \$668.2 million.

f. Employer Contingency Reserve

The Employer Contingency Reserve was established by the Board to prevent any deficit in the fund caused by the insolvency of an employer. Only earnings on employer contributions fund this reserve. As of June 30, 2005, the reserve had a balance of \$58.3 million.

g. Capital Preservation Reserve

The Capital Preservation Reserve, as of June 30, 2005, had a balance of \$432.9 million. In accordance with ORS 238.670, funds in this reserve may be used only to offset gains and losses of invested capital.

h. Unallocated Earnings Designation

The Unallocated Earnings Designation represents January through June investment earnings or losses less administrative expenses, which will be distributed after member accounts have been credited with contributions. This distribution takes place in March of the following year after employer annual reports have been reconciled and contributions have been posted to individual member and employer accounts. As of June 30, 2005, the balance of this designation was \$1,587.0 million.

i. Deficit Reserve

The Deficit Reserve was established for amounts credited to members regular accounts as required by ORS 238.255, prior to its amendment in 2003. This statute required the Board to credit Tier One member regular accounts with at least the assumed rate of return on investments. As of June 30, 2005, the balance of this designation was (\$255.6) million.

j. Pending Designation

The PERS Board did not distribute calendar year 2004 earnings until October 23, 2005, because of litigation pending. As of June 30, 2005, the balance of this account was \$5,842.7 million.

k. Retirement Health Insurance Account

The RHIA plan net assets balance represents the program’s accumulation of employer contributions and investment earnings less premiums and administrative expenses. As of June 30, 2005, the balance of this account was \$161.2 million.

l. Retiree Health Insurance Premium Account

The RHIPA plan net assets balance represents the program’s accumulation of employer contributions and investment earnings less premiums and administrative expenses. As of June 30, 2005, the balance of this account was \$5.6 million.

m. Standard Retiree Health Insurance Account

The SRHIA plan net assets balance represents the program’s accumulation of retiree contributions and interest earnings less premiums and administrative expenses. As of June 30, 2005, the balance of this account was \$5.4 million.

D. Administrative Costs

Costs for administering the System are funded from investment earnings and administrative fees collected from members and are allocated to all plans and programs administered by the System.

(4) Reporting Entity

The Public Employees Retirement Board is the governing authority of the System. It consists of five people appointed by the governor and subject to confirmation by the state Senate. The Board appoints an executive director to act as the principal administrative officer of the System. The Board has independence in the operation and management of the System. The state Legislature has significant ability to influence funding, approve the System’s budget, and pass laws governing the System.

PERS’ financial statements are prepared on the basis of a fiscal year ended June 30. The Oregon State Treasury has statutory responsibility for custody and investment of PERS assets. As a result of this fiduciary responsibility, PERS is included as part of the primary government in the *State of Oregon Comprehensive Annual Financial Report*.

(5) Assets Used in Plan Operations

A. Building and Improvements

Capital construction of PERS’ headquarters in Tigard, Oregon, was completed May 31, 1997. The land, building, and improvements are recorded at cost. The depreciation of the building and improvements is computed on the straight-line method over the estimated useful life of 40 years.

B. Equipment and Fixtures

Equipment and fixtures are recorded at cost. These are items which are not consumed in the normal course of operations, have a useful life of more than two years, and whose value is \$5,000 or more. Depreciation is computed using the straight-line method over the assets’ estimated useful lives. Useful lives range from three to 10 years.

C. Office Supplies Inventory

Office supplies inventory is reflected at cost, using the first-in/first-out (FIFO) method.

(6) Deposits and Investments

A. Deposits

PERS cash and cash equivalents consist of cash on hand, deposits in the Oregon Short Term Fund (OSTF), and monies held by external investment managers, and are carried at cost. The OSTF is a cash and investment pool that operates as a demand deposit account and is required for use by all state funds.

a. Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, PERS’ deposits may not be recovered.

Cash and cash equivalents in the OSTF are held in demand deposit accounts and time certificates of deposit. These deposits are insured by FDIC coverage and are also collateralized to a minimum of 25 percent in accordance with ORS 295.015. Balances in excess of the FDIC insurance plus 25 percent are considered exposed to custodial credit risk. Since the OSTF is a pool, PERS’ share of the risk is difficult to estimate. As of June 30, 2005, the carrying amount of PERS’ deposits in the Oregon Short Term Fund totaled \$633.5 million, and the corresponding bank balance was \$638.3 million.

Deposits of cash and cash equivalents from the proceeds of certificates of participation, totaling \$3,196 at June 30, 2005, are collateralized with collateral held by the pledging bank’s trust department but not in the name of the state of Oregon.

Investment managers’ deposits with custodian banks consist of cash and cash equivalents that represent buying reserves. As of June 30, 2005, there was \$2,299.3 million on deposit for the accounts of the Public Employees Retirement Fund (PERF) investment managers, of which \$2,299.2 million was exposed to custodial credit risk.

<u>Depository Account</u>	<u>Bank Balance</u>
Insured	\$ 100,000
Collateralized with collateral held by the pledging bank’s trust department but not in the name of the state of Oregon	3,196
Oregon Short Term Fund	638,312,046
Uninsured and uncollateralized	2,299,223,060
Total deposits	<u>\$2,937,638,302</u>

b. Foreign Currency Risk

Foreign currency risk for deposits is the risk that changes in exchange rates will adversely affect the fair value of the deposits. At June 30, 2005, \$75.5 million in cash and cash equivalents was exposed to foreign currency risk. The U.S. dollar balances of these deposits, organized by currency denomination, are presented in the table on page 31.

B. Investments

The first schedule on the right presents the fair value of investments held by the state of Oregon for PERS as of June 30, 2005.

a. Credit Risk Debt Securities

The Oregon Investment Council (OIC) establishes policies for the investment and reinvestment of moneys in PERS' investment funds.

It is the OIC's policy that no more than 30 percent of the debt securities portfolio be below investment grade. Securities with a quality rating of below BBB- are considered below investment grade. Policies also require that the minimum aggregate credit quality be A+ as measured by the weighted average of the portfolio. As of June 30, 2005, the fair value of below grade investments is \$2,537.2 million or 17.7 percent of the debt securities portfolio, and the weighted quality rating average is AA-.

The second table on the right shows the quality ratings for debt investments as of June 30, 2005.

b. Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, PERS will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. The OIC has no formal policy regarding the holding of securities by a custodian or counterparty. At June 30, 2005, all securities were registered in the state of Oregon's name and were held at State Street Bank, except for \$799.3 million in uninsured domestic equity investments held by a subcustodian, the Northern Trust Company, not held in the state's name. This amount represents 1.6 percent of the fair value of investments at June 30, 2005.

c. Concentrations of Credit Risk

The OIC expects investment managers to maintain diversified portfolios by sector and by issuer using the following guidelines:

- Obligations issued or guaranteed by the U.S. government, U.S. agencies, or government sponsored enterprises – no restriction.
- Obligations of other national governments – no more than 10 percent of the debt investment portfolio per issuer.
- Private mortgage-backed and asset-backed securities, unless collateral is credit-independent of the issuer and the security's credit enhancement is generated internally – no more than 10 percent of the debt investment portfolio per issuer; 25 percent per issuer if the collateral exception is met.
- Other issuers, excluding investments in commingled vehicles – no more than 3 percent of the debt investment portfolio.

At June 30, 2005, there were no single issuer debt investments that exceeded the above guidelines, nor were there investments in any one issuer that represent 5 percent or more of total investments.

<u>Investments at June 30, 2005</u>	<u>Fair Value</u>
U.S. Treasury Obligations	\$ 1,599,184,999
U.S. Federal Agency Mortgage Securities	2,175,644,154
U.S. Federal Agency Debt	434,909,304
U.S. Treasury Obligations – Strips	53,167,167
U.S. Treasury Obligations – TIPS	451,668,640
International Debt Securities	1,543,708,546
Corporate Bonds	2,873,470,488
Municipal Bonds	40,190,437
Collateralized Mortgage Obligations	1,368,028,538
Asset-Backed Securities	881,292,544
Futures and Options	(11,056,130)
Mutual Funds – Domestic Fixed Income	2,008,189,405
Mutual Funds – International Fixed Income	904,817,949
Insurance Contracts	2,269,299
Total Debt Securities Investments	14,325,485,340
Restricted Investment Contracts	4,490,661
Total Debt Investments	14,329,976,001
Domestic Equity Securities	10,014,515,001
International Equity Securities	8,401,042,591
Mutual Funds – Domestic Equity	6,801,264,778
Mutual Funds – International Equity	2,503,733,631
Limited Partnerships	3,009,819,818
Leveraged Buyouts	1,296,865,385
Venture Capital	173,629
Real Estate and Real Estate Mortgages	2,907,267,839
Total PERS Investments	\$ 49,264,658,673

<u>Debt Investments at June 30, 2005</u>	<u>Fair Value</u>
Quality Rating	
AAA	\$ 3,520,077,479
AA	1,204,090,185
A	921,786,005
BBB	1,427,729,895
BB	1,260,811,535
B	930,606,030
CCC	108,210,504
CC	9,216,209
C	6,248,122
Unrated	222,135,112
Total Credit Risk – Debt Securities	9,610,911,076
U.S. Government and Agency Securities	4,714,574,264
Restricted Investment Contracts	4,490,661
Total Debt Investments	\$ 14,329,976,001

Oregon Public Employees Retirement System

There is no limit on single issuer investments for domestic equities, although the amount that may be invested in domestic equities is targeted at 28 to 38 percent of PERS' portfolio. At June 30, 2005, domestic equities were 32.2 percent of total assets. Policy states that the asset class will be diversified across the U.S. stock market. Additionally, both passive and active investing strategies are employed, and several external managers engage in active management. The policy for international equity investing is the same as that of the domestic equity portfolio in that holdings are diversified across stock markets outside of the United States. Passive and active investment strategies are employed, and several active managers invest in different market segments. The target allocation range for international equities is 15 to 25 percent of PERS' portfolio. At June 30, 2005, 20.9 percent of total assets were invested in international equities.

d. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

Policies state that the debt investment portfolio will maintain an average bond duration level of plus or minus 20 percent of the benchmark duration. As of June 30, 2005, the average duration of PERS' debt investment portfolio was 4.07 years, 4.5 percent lower than the benchmark duration of 4.26 years. Since the debt investment portfolio may contain holdings with prepayments and variable cash flows, an analysis of interest rate risk using the segmented time distribution method is presented in the schedule below.

Schedule of Interest Rate Risk — Segmented Time Distribution Investment Maturities at June 30, 2005

Investment	Less than 1 year	1 - 5 years	6 - 10 years	More than 10 years	Total Fair Value
U.S. Treasury Obligations	\$ 16,636,204	\$ 829,814,940	\$ 236,304,755	\$ 516,429,100	\$ 1,599,184,999
U.S. Federal Agency Mortgage Securities	68,726,316	117,239,524	18,329,060	1,971,349,254	2,175,644,154
U.S. Federal Agency Debt	159,061,410	111,908,186	158,146,108	5,793,600	434,909,304
U.S. Treasury Obligations – Strips	—	—	—	53,167,167	53,167,167
U.S. Treasury Obligations – TIPS	—	294,564,852	55,201,229	101,902,559	451,668,640
International Debt Securities	85,020,025	343,234,416	601,753,405	513,700,700	1,543,708,546
Corporate Bonds	205,615,054	795,220,960	1,126,245,822	746,388,652	2,873,470,488
Municipal Bonds	11,571,335	—	9,335,172	19,283,930	40,190,437
Collateralized Mortgage Obligations	280,202,717	138,373,352	121,352,059	828,100,410	1,368,028,538
Asset-Backed Securities	348,437,555	264,614,828	123,938,232	144,301,929	881,292,544
Futures and Options	(5,837,029)	249,661	(3,141,570)	(2,327,192)	(11,056,130)
Mutual Funds – Domestic Fixed Income	51,658,933	1,612,044,221	310,569,086	33,917,165	2,008,189,405
Mutual Funds – International Fixed Income	—	195,227,495	553,114,904	156,475,550	904,817,949
Insurance Contracts	2,269,299	—	—	—	2,269,299
Restricted Investment Contracts	4,490,661	—	—	—	4,490,661
Total Debt Investments	\$ 1,227,852,480	\$ 4,702,492,435	\$ 3,311,148,262	\$ 5,088,482,824	\$ 14,329,976,001

e. Foreign Currency Risk

Foreign currency and security risk of loss arises from changes in currency exchange rates. Policy states that no more than 15 percent of the debt investment portfolio may be invested in non-dollar denominated securities. As of June 30, 2005, approximately 4.7 percent of the debt investment portfolio was invested in non-dollar denominated securities. Policies for the equity portion of PERS' portfolio are silent regarding this risk, although investment manager contracts provide guidelines that vary from manager to manager. The System's exposure to foreign currency risk is as follows:

International Cash and Cash Equivalents and Investments at Fair Value in U.S. Dollars at June 30, 2005

Currency	Cash and Cash Equivalents	Equity	Debt	Total
Argentine peso	\$ 31,575	\$ —	\$ 4,940,100	\$ 4,971,675
Australian dollar	3,040,281	238,833,393	—	241,873,674
Brazilian real	136,234	63,315,686	—	63,451,920
Canadian dollar	4,119,841	286,983,315	46,373,300	337,476,456
Chilean peso	3,907	—	—	3,907
Colombian peso	250	34,725	—	34,975
Czech koruna	4,499	5,813,427	—	5,817,926
Danish krone	120,374	41,714,222	—	41,834,596
Egyptian pound	649,445	23,584,765	—	24,234,210
Euro	11,600,019	2,556,033,554	233,051,183	2,800,684,756
Hong Kong dollar	1,624,560	208,650,322	—	210,274,882
Hungarian forint	2,310	17,411,209	—	17,413,519
Indonesian rupiah	350,103	36,860,787	—	37,210,890
Israeli shekel	755,506	8,059,394	1,103,397	9,918,297
Japanese yen	10,761,147	1,416,217,274	181,091,679	1,608,070,100
Jordanian dinar	2	—	—	2
Malaysian ringgit	502,729	11,066,342	6,485,459	18,054,530
Mexican peso	1,893,839	29,994,493	63,339,578	95,227,910
New Russian ruble	—	—	5,561	5,561
New Taiwan dollar	14,128,289	61,410,890	—	75,539,179
New Turkish lira	127,214	50,441,393	—	50,568,607
New Zealand dollar	53,641	16,394,199	10,325,056	26,772,896
Norwegian krone	403,080	135,804,366	—	136,207,446
Pakistan rupee	712	18,232,766	—	18,233,478
Peruvian nouveau sol	30	733,500	—	733,530
Philippine peso	61,865	9,132,311	—	9,194,176
Polish zloty	29,286	2,322,339	15,371,260	17,722,885
Pound sterling	14,435,982	1,259,786,808	55,715,443	1,329,938,233
Singapore dollar	1,652,195	69,700,840	—	71,353,035
South African rand	293,286	97,526,222	—	97,819,508
South Korean won	1,171,734	277,028,619	—	278,200,353
Sri Lanka rupee	—	2,945,427	—	2,945,427
Swedish krona	2,973,444	173,935,206	51,490,353	228,399,003
Swiss franc	3,428,978	343,113,924	—	346,542,902
Thai baht	614,209	21,044,118	—	21,658,327
Uruguayan peso	—	—	7,641,992	7,641,992
Venezuelan bolivar	562,231	1,855,826	—	2,418,057
Zimbabwe dollar	9,006	758,129	—	767,135
Total Subject to Foreign Currency Risk	75,541,803	7,486,739,791	676,934,361	8,239,215,955
International Securities Denominated in U.S. Dollars	—	3,418,036,431	1,771,592,134	5,189,628,565
Total International Cash and Cash Equivalents and Investments	\$ 75,541,803	\$ 10,904,776,222	\$ 2,448,526,495	\$ 13,428,844,520

f. Derivatives

Derivatives are contracts for which the value depends on, or derives from, the value of an underlying asset, reference rate, or index. In accordance with state investment policy, the Oregon State Treasury invests either directly or through its outside investment managers on behalf of PERS in contracts that have derivative characteristics. Derivatives are used to manage the overall risk of investment portfolios. PERS does not hold or issue derivative financial instruments for trading purposes.

PERS reports investments in accordance with GASB Technical Bulletin 2003-01. The standard provides disclosure requirements for governmental units holding derivatives that are not reported at fair value in the statements of net assets. Since all investments, including those with derivative characteristics, are reported at fair value in accordance with GASB Statements 25 and 31, no additional disclosures are required.

C. Securities Lending

In accordance with state investment policies, PERF participates in securities lending transactions. Through securities lending authorization agreements, the state treasury has authorized its custodian to lend its securities pursuant to a form of loan agreement. Both PERF and the borrowers maintained the right to terminate all securities lending transactions on demand. There were no significant violations of the provisions of securities lending agreements during the period of these financial statements.

The custodian had the authority to loan short-term, fixed income, and equity securities and to receive as collateral U.S. dollar and foreign currency cash, U.S. government and agency securities, letters of credit, and foreign sovereign debt of Organization of Economic Cooperation and Development (OECD) countries. Borrowers were required to deliver collateral for each loan equal to not less than 102 percent of the market value of the loaned security, or 105 percent in the case of international securities. The custodian did not have the ability to pledge or sell collateral securities absent a borrower default, and PERF did not impose any restrictions during the fiscal year on the amount of the loans the custodian made on its behalf. PERF is fully indemnified against losses due to borrower default by its current custodian. There were no losses during the year from the failure of borrowers to return loaned securities and no recoveries of amounts from prior losses.

The maturities of investments made with cash collateral did not generally match the maturities of the securities loaned. Since the securities loaned are callable on demand by either the lender or borrower, the life of the loans at June 30, 2005, is effectively one day. On June 30, 2005, PERF had no credit risk exposure to borrowers because the amounts the PERF owes borrowers exceed the amounts borrowers owe PERF. The fair values of the collateral received and the securities on loan from PERF as of June 30, 2005, including accrued income, were \$5,679.0 million and \$5,514.7 million, respectively. For the fiscal year ended June 30, 2005, total income from securities lending activity was \$108.1 million, and total expenses for the period were \$95.8 million for net income of \$12.3 million.

Cash balances held by the state treasurer are invested in the Oregon Short Term Fund (OSTF), as is the cash of other state agencies. As of June 30, 2005, the fair values of the collateral received and the securities on loan, including accrued income, from the OSTF were \$1,482.8 million and \$1,452.6 million, respectively. PERF's allocated portions of the collateral received and securities on loan were \$112.8 million and \$110.5 million, respectively. These amounts are not included in the table above.

<u>Securities Loaned</u>	<u>Fair Value</u>
U.S. Government Securities	\$ 467,940,029
U.S. Agency Securities	1,938,171,754
Domestic Equity Securities	1,262,833,334
Domestic Debt Securities	399,083,894
International Equity Securities	1,393,653,018
International Debt Securities	53,000,826
Total	\$ 5,514,682,855
<u>Collateral</u>	<u>Fair Value</u>
Cash	\$ 5,486,099,915
Securities	192,917,902
Total	\$ 5,679,017,817

(7) Leases

Operating leases are rental agreements where the payments are chargeable as rent and recorded in the services and supplies expense account. Should the legislature disallow the necessary funding for particular leases, all lease agreements contain termination clauses which provide for cancellation of the lease as of the end of a fiscal year. Lease obligations decrease each year because of various lease expirations. It is expected that ongoing leases will be replaced with leases which have higher rental rates due to inflation. Fiscal year 2005 operating lease expenses were \$135,370.

	<u>Operating Leases</u>
2006	\$ 136,125
2007	110,043
2008	6,618
Thereafter	0
Total Future Minimum Lease Payments	\$ 252,786

The schedule to the right summarizes the minimum lease payments for operating leases in effect as of June 30, 2005.

(8) Deferred Compensation Plan

Deferred compensation plans are authorized under Internal Revenue Code Section 457. The Oregon Legislature enacted Chapter 179, Oregon Laws 1997 that established the Deferred Compensation Fund. ORS 243.400 to 243.507 established and provided for PERS to administer the state deferred compensation plan, known as the Oregon Savings Growth Plan (OSGP). As of June 30, 2005, the fair value of investments was \$742.4 million.

The plan is a benefit available to all state employees. To participate, an employee executes an individual agreement with the state deferring current earnings to be paid at a future date. Participants in the plan are not required to pay federal and state income taxes on the deferred contributions and earnings until the funds are received. Participants or their beneficiaries cannot receive the funds until at least one of the following occurs: termination by reason of resignation, death, disability, or retirement; unforeseeable emergency; or by requesting a *de minimis* distribution from inactive accounts valued less than \$5,000.

PERS contracts with CitiStreet, a joint venture between Citigroup and State Street Bank and Trust Company, to maintain the OSGP participant records. The state treasurer, as custodian of the assets, also contracts with State Street Bank and

Trust Company to provide financial services. There are nine investment options with varying degrees of market risk. Up to four financial institutions provide investment services in mutual funds for each investment option. A participant receives a blend of these mutual funds within the investment option. Participants direct the selection of investment options and also bear any market risk. The state has no liability for losses under the plan but does have the prudent investor responsibility of due care.

PERS may assess a charge to the participants not to exceed 2.0 percent on amounts deferred, both contributions and investment earnings, to cover costs incurred for administering the program. Actual charges to participants, including investment charges, for the year ended June 30, 2005, averaged 0.26 percent of amounts deferred.

Oregon Revised Statute 243.505 established a Deferred Compensation Advisory Committee to provide input to the PERS Board. This committee is composed of seven members who meet at least quarterly.

(9) Long-Term Debt

In 1992 PERF entered into an agreement to guarantee \$50 million in taxable special revenue obligation bonds issued by the Port of Portland on behalf of a start-up aircraft maintenance company at Portland International Airport. The company ceased operations at the end of October 1993. Initial interest payments were made from a reserve fund established from bond sale proceeds. This reserve fund was depleted and interest payments from the retirement trust fund commenced in October 1994.

PERS has purchased a lease-hold interest in the facility. The value of any recovery cannot be estimated because it will depend on whether PERS can re-lease or sell the facility, and on what terms. In October 1996 the attorney

general filed a lawsuit against the owners of the company and the consulting firm that advised the investment. During fiscal year 2005, PERS received insurance settlement payments of \$5.4 million. At the time of this report, some claims are still pending. The value of any recovery from pending claims cannot be estimated at this time.

The table above describes taxable obligation revenue bonds issued and outstanding guaranteed by the retirement fund.

The table below summarizes the amounts necessary to pay all future long-term guaranteed debt principal and interest requirements for each fiscal year during the next five-year period ending June 30, 2010, and for the periods ending June 30, 2015, June 30, 2020, and June 30, 2022. The current portion of the long-term guaranteed debt is \$4,996,500.

In 1996 PERF purchased the land and began construction on a new retirement system headquarters building in Tigard, Oregon. The construction was financed by the sale of certificates of participation. The certificates of participation (COPs) were sold on March 16, 1996, for \$8.6 million at a 5.45 percent interest rate. On March 1, 2002, a new COP, Series B, was issued at a 4.41 percent interest rate and was used to partially refund the original Series A COP. The remaining Series A COP has a final repayment due May 1, 2006. The Series B COP has a final repayment due May 1, 2017.

Pamcorp Taxable Special Obligation Revenue Bonds Issued and Outstanding

	Amount Issued and Outstanding	Interest Rate	Due Date	Issue Date
Series "A"	\$ 6,500,000	8.350%	May 15, 2010	June 1, 1992
Series "B"	9,800,000	8.875	May 15, 2015	June 1, 1992
Series "C"	27,000,000	9.200	May 15, 2022	June 1, 1992

Pamcorp Debt Service Requirements to Maturity

Fiscal Year	Series "A"		Series "B"		Series "C"		Total Principal	Total Interest	Total Expenses
	Principal	Interest	Principal	Interest	Principal	Interest			
2006	\$ 1,100,000	\$ 542,750	\$ —	\$ 869,750	\$ —	\$ 2,484,000	\$ 1,100,000	\$ 3,896,500	\$ 4,996,500
2007	1,200,000	450,900	—	869,750	—	2,484,000	1,200,000	3,804,650	5,004,650
2008	1,300,000	350,700	—	869,750	—	2,484,000	1,300,000	3,704,450	5,004,450
2009	1,400,000	242,150	—	869,750	—	2,484,000	1,400,000	3,595,900	4,995,900
2010	1,500,000	125,250	—	869,750	—	2,484,000	1,500,000	3,479,000	4,979,000
2011-2015	—	—	9,800,000	2,724,628	—	12,420,000	9,800,000	15,144,628	24,944,628
2016-2020	—	—	—	—	14,900,000	9,908,400	14,900,000	9,908,400	24,808,400
2021-2022	—	—	—	—	12,100,000	1,876,800	12,100,000	1,876,800	13,976,800
	<u>\$ 6,500,000</u>	<u>\$ 1,711,750</u>	<u>\$ 9,800,000</u>	<u>\$ 7,073,378</u>	<u>\$27,000,000</u>	<u>\$36,625,200</u>	<u>\$43,300,000</u>	<u>\$45,410,328</u>	<u>\$88,710,328</u>

Oregon Public Employees Retirement System

The first table on this page describes PERS building COPs issued and outstanding. The second table below summarizes all future PERS building COPs payments of principal and interest for each fiscal year during the next five-year period ending June 30, 2010, and the periods ending June 30, 2015, and June 30, 2017. The current portion of the PERS building debt is \$711,825.

PERS Building Certificates of Participation Issued and Outstanding				
	Amount Issued and Outstanding	Interest Rate	Due Date	Issue Date
Series "A"	\$ 375,000	5.450%	May 1, 2006	March 16, 1996
Series "B"	5,840,000	4.410	May 1, 2017	March 1, 2002

PERS Building Debt Service Requirements to Maturity

Fiscal Year	Series "A"		Series "B"		Total Principal	Total Interest	Total Expenses
	Principal	Interest	Principal	Interest			
2006	\$ 375,000	\$ 18,750	\$ 15,000	\$ 303,075	\$ 390,000	\$ 321,825	\$ 711,825
2007	—	—	405,000	302,625	405,000	302,625	707,625
2008	—	—	425,000	282,375	425,000	282,375	707,375
2009	—	—	445,000	261,125	445,000	261,125	706,125
2010	—	—	470,000	238,875	470,000	238,875	708,875
2011-2015	—	—	2,765,000	795,900	2,765,000	795,900	3,560,900
2016-2017	—	—	1,315,000	104,475	1,315,000	104,475	1,419,475
	<u>\$ 375,000</u>	<u>\$ 18,750</u>	<u>\$ 5,840,000</u>	<u>\$ 2,288,450</u>	<u>\$ 6,215,000</u>	<u>\$ 2,307,200</u>	<u>\$ 8,522,200</u>

In 2004 COPs, Series A, were issued to finance the purchase of computer software and system upgrades to maintain accuracy and statutory compliance with current Oregon law. The COPs were sold on June 16, 2004, for \$9.9 million at a 3.20 percent interest rate. The Series A COP has a final repayment due May 1, 2009. Proceeds from the 2004 Series A COP, not yet used, are listed as "Restricted Investment Contracts" on the Statement of Fiduciary Net Assets.

This table describes OPSRP computer system COPs issued and outstanding.

OPSRP Computer System Certificates of Participation Issued and Outstanding				
	Amount Issued and Outstanding	Interest Rate	Due Date	Issue Date
Series "A"	\$ 7,960,000	3.200%	May 1, 2009	June 16, 2004

The table below summarizes all future COPs payments of principal and interest for each fiscal year during the next five-year period ending June 30, 2010. The current portion of OPSRP computer system debt is \$2,149,625.

OPSRP Computer System			
Fiscal Year	Series "A"		Total Expenses
	Principal	Interest	
2006	1,910,000	239,625	2,149,625
2007	1,960,000	191,875	2,151,875
2008	2,015,000	133,075	2,148,075
2009	2,075,000	72,625	2,147,625
2010	—	—	—
	<u>\$ 7,960,000</u>	<u>\$ 637,200</u>	<u>\$ 8,597,200</u>

The following table summarizes the changes in long-term debt for the year ended June 30, 2005:

Long-Term Debt Activity	Balance	Additions	Deductions	Balance	Amounts Due Within One Year
	July 1, 2004			June 30, 2005	
Pamcorp Principal	\$ 44,300,000	\$ —	\$ 1,000,000	\$ 43,300,000	\$ 4,996,500
PERS Building Principal	6,585,000	—	370,000	6,215,000	711,825
OPSRP Computer System	9,865,000	—	1,905,000	7,960,000	2,149,625
Plus: Premium (Net)	403,827	—	41,936	361,891	41,385
Less: Deferred Gain (Net)	(316,052)	—	(28,923)	(287,129)	(29,002)
Total Bonds/COPS Payable	<u>\$ 60,837,775</u>	<u>\$ —</u>	<u>\$ 3,288,013</u>	<u>\$ 57,549,762</u>	<u>\$ 7,870,333</u>

(10) Litigation

Following is a summary of current PERS-related lawsuits:

A. Consolidated Public Employees Retirement System Litigation ("Strunk")

On March 8, 2005, the Oregon Supreme Court rendered its decision in *Strunk v. PERB, et al.* overturning portions of the 2003 PERS Reform Legislation and upholding the balance. After the Supreme Court's opinion, petitioners filed petitions for awards of attorneys' fees and costs totaling about \$2.5 million. On May 31, 2005, all of the respondents (the State, the public employers, and PERB) filed oppositions to the petitions. Petitioners filed reply briefs on June 28, 2005. There is no deadline for the Court to render a decision. Counsel is unable to provide an opinion as to the outcome.

B. City Of Eugene v. State of Oregon, PERB, et al.

The Marion County District Court determined that certain rate orders that PERB issued in 1998 and 2000 were erroneous and remanded so that PERB could revise the rate orders. After appealing the decision, PERB and petitioners entered into a settlement agreement. Interveners, who are PERS members, objected to the settlement agreement and moved that the Court not dismiss the appeal. On August 11, 2005, the Oregon Supreme Court determined that the appeal by the interveners was moot by virtue of the settlement agreement between PERB and the employers.

On August 24, 2005, intervener-appellants filed a Petition for Reconsideration with the Supreme Court. In the petition, the interveners asked the Court to modify its decision to not simply dismiss the appeal, but to vacate Judge Lipscomb's judgment as moot. The Court has not asked for a response to the petition, and neither PERB nor the State nor the employers have filed any response. There is no deadline for the Court to render a decision. Counsel is unable to provide an opinion as to the outcome.

C. PERS Reform Legislation

There are a number of related state and federal court challenges to the 2003 PERS Reform Legislation and its implementation. Currently counsel is unable to provide an opinion as to the outcome of these cases.

D. White, et al. v. PERB

On April 22, 2004, in Multnomah County Circuit Court (*White I*), petitioners challenged the *City of Eugene* settlement (see above), the reallocation of 1999 earnings, and the allocation of 2003 earnings. Various local PERS employers intervened and also began a separate action in Marion County Circuit Court.

On July 9, 2004, the Board filed a motion to change the venue of this case to Marion County (*White II*), which was later granted. A writ of *mandamus* was filed with the Oregon Supreme Court challenging the change of venue. While the Marion County *White* case was on hold, plaintiffs, facing statute of limitation concerns, filed a new action in Multnomah County (*White III*).

The Oregon Supreme Court granted the writ of *mandamus* setting aside the transfer of *White I* to Marion County. Due to various procedural challenges, including a motion to change the judge, the Marion County case was not transferred back to Multnomah County until July 21, 2005.

Shortly after the City of Eugene decision came down, Judge Henry Kantor sent an e-mail to the parties inquiring as to the next steps. After a September 30, 2005 status conference, plaintiffs' counsel filed stipulated orders with the Court consolidating *White I* and *II* and dismissing *White III*. Defendants filed motions for judgment on the pleadings and to dismiss on October 27, 2005. The hearing on these motions is set for December 16, 2005. Counsel is unable to provide an opinion as to the outcome.

E. Howser v. PERB et al.

On July 29, 2005, Bradford Howser and Bryon Beaulieu brought a purported class action on behalf of themselves and all others similarly situated against PERS, the Board, the state of Oregon, and the Oregon Department of Revenue over alleged erroneous reporting of duty-related disability payments on federal tax reporting forms (Form 1099-R). Plaintiffs sued PERB for breach of contract and conversion. Although the complaint does not specify a dollar amount the Department of Revenue and PERS staff estimate a potential exposure of approximately \$1.8 million. As pled, if a judgment was entered against PERS the judgment would be covered under Oregon's Tort Claims Act. If the matter is settled, there is an unresolved question as to whether PERS or the Torts Claims Act would cover the loss. Counsel has no opinion at the present time as to the likelihood of an unfavorable outcome. Parties are exploring settlement.

F. Murray v. PERB

The petitioner requested that PERS change its method of allocating administrative expenses to variable accounts for 2001 and 2002. Petitioner is appealing to the Oregon Court of Appeals from a final order by the Board rejecting his contention. No specific monetary amount has been pled. There is no insurance. Plaintiff's objective is to obtain additional benefits for himself and other members who participate in the Variable Account. PERS is contesting the case and counsel has no opinion on the likelihood of an unfavorable outcome or an estimate of potential loss at this time.

G. Contests and Appeals of Staff Determinations

There are a number of claims by petitioners appealing orders of the Board or determinations made by PERS staff. These proceedings are being made pursuant to the administrative process. These orders or determinations resulted in denying petitioners some or all of the benefits to which they claim to be entitled. The Board is contesting the cases and counsel is unable to determine possible losses at this time.

(11) Subsequent Events

As a result of the August 11, 2005 Oregon Supreme Court decision regarding the PERS Reform Legislation, active and inactive Tier One member accounts, employer accounts and the Benefit Reserve will be adjusted to reflect a crediting of 11.33 percent for 1999 rather than the previously credited 20.00 percent. In addition, Tier One member accounts that had previously received zero percent crediting for 2003 will be credited with 8.00 percent for 2003. The effect of these adjustments will result in a decrease in amounts charged to employers to fund retiree benefits with a corresponding reduction in amounts held in the Benefit Reserve, a decrease in the remaining Deficit Reserve, and an increase in the Contingency Reserve. The amounts will not be determined until all member and employer accounts and retiree benefits have been adjusted and cannot be reliably estimated at this time. Certain Tier One members who have retired and received 20.00 percent crediting for 1999, their beneficiaries, and alternate payees will have their benefits adjusted for a reduced account balance; some retired members will also see benefit adjustments through reinstated cost of living increases due to this decision. Certain retired Tier One members, beneficiaries, and alternate payees who received lump-sum distributions will be invoiced to recover overpayments. The amounts to be recovered cannot be reliably estimated at this time.

Required Supplementary Information
Schedules of Funding Progress
(dollar amounts in millions)

Valuation Date	Actuarial Liability	Valuation of Assets	Assets as a % of Actuarial Liabilities	Unfunded Accrued Liabilities (UAL)	Annual Active Member Payroll	UAL as a % of Annual Active Member Payroll
Pension Benefits						
12/31/2003 ¹	\$ 44,078.1	\$ 42,753.3	97.0%	\$ 1,324.8	\$ 6,248.5	21.2%
12/31/2002 ¹	38,947.0	35,446.9	91.0	3,500.1	6,383.5	54.8
12/31/2001 ¹	37,258.3	39,772.7	106.7	(2,514.4)	6,254.0	(40.2)
12/31/2001	45,386.1	39,772.7	87.6	5,613.4	6,254.0 ⁴	89.8
12/31/2000	42,783.9	41,739.6	97.6	1,044.3	6,195.9	16.9
12/31/1999	40,395.4	39,920.9	98.8	474.5	5,676.6	8.4
12/31/1997	31,178.0	29,097.2	93.3	2,080.8	5,161.6	40.3
12/31/1995	22,794.0	20,963.6	92.0	1,830.4	4,848.1	37.8
12/31/1993	18,614.7	17,560.1	94.3	1,054.6	4,466.8	23.6
12/31/1991	14,378.7	14,679.4	102.1	(300.7)	3,887.5	(7.7)
Postemployment Healthcare Benefits - Retirement Health Insurance Account²						
12/31/2003 ¹	\$ 522.5	\$ 117.1	22.4%	\$ 405.4	\$ 6,248.5	6.5%
12/31/2002 ¹	542.3	87.4	16.1	454.9	6,383.5	7.1
12/31/2001 ¹	533.2	76.6	14.4	456.6	6,254.0	7.3
12/31/2001	532.1	76.6	14.4	455.5	6,254.0 ⁴	7.3
12/31/2000	543.5	62.1	11.4	481.4	6,195.9	7.8
12/31/1999	495.3	41.4	8.4	453.9	5,676.6	8.0
12/31/1997	473.8	10.7	2.3	463.1	5,161.6	9.0
12/31/1995	428.1	(3.4)	(0.8)	431.5	4,848.1	8.9
12/31/1993	360.7	(6.8)	(1.9)	367.5	4,466.8	8.2
12/31/1991	263.2	(11.5)	(4.4)	274.7	3,887.5	7.1
Postemployment Healthcare Benefits - Retiree Health Insurance Premium Account³						
12/31/2003 ¹	\$ 25.0	\$ 4.0	16.0%	\$ 21.0	\$ 1,711.9	1.2%
12/31/2002 ¹	30.1	2.9	9.6	27.2	1,741.9	1.6
12/31/2001 ¹	29.6	2.9	9.8	26.7	1,954.1	1.4
12/31/2001	29.5	3.0	10.2	26.5	1,954.1 ⁴	1.4
12/31/2000	23.1	2.9	12.6	20.2	1,984.0	1.0
12/31/1999	17.2	2.5	14.5	14.7	1,802.7	0.8
12/31/1997	13.1	0.3	2.3	12.8	1,399.8	0.9
12/31/1995	26.5	(2.6)	(9.8)	29.1	1,581.5	1.8
12/31/1993	25.9	(1.3)	(5.0)	27.2	1,498.1	1.8
12/31/1991	29.3	0.0	0.0	29.3	1,440.6	2.0

¹ The 2001 valuation was revised to include the input of PERS Reform Legislation enacted in 2003. These figures do not reflect the judicial review or subsequent Board action.

² The Retirement Health Insurance Account provides postemployment healthcare benefits for eligible members for all participating employers. When created, the account also assumed the debt of its predecessor trust fund of \$11.5 million, resulting in a negative valuation of assets prior to December 31, 1997.

³ The Retiree Health Insurance Premium Account provides postemployment healthcare benefits only for eligible members who retired from state of Oregon employers. Required annual contributions did not begin until July 1, 1995, while benefits were being paid, resulting in a negative valuation of assets prior to December 31, 1997.

⁴ Effective in 2001, the Annual Active Member Payroll excludes the member pick-up, if any.

Required Supplementary Information
Schedule of Contributions From Employers and Other Contributing Entities
(dollar amounts in millions)

Year Ended	Annual Required Contribution	Percentage Contributed
Defined Benefit Pension Plan Benefits		
12/31/2004	\$ 354.0	99.7%
12/31/2003	537.4	99.7
12/31/2002	665.9	97.4 ¹
12/31/2001	681.5	94.6 ¹
12/31/2000	635.6	95.2 ¹
12/31/1999	545.9	96.6 ¹
12/31/1998	452.1	100.0
12/31/1997	440.0	100.0
12/31/1996	432.1	100.0
12/31/1995	401.4	100.0
OPSRP Pension Program Benefits²		
12/31/2004	\$ 10.8	100.0%
Postemployment Healthcare Benefits - Retirement Health Insurance Account³		
12/31/2004	\$ 35.7	100.0%
12/31/2003	40.8	100.0
12/31/2002	41.0	100.0
12/31/2001	41.7	100.0
12/31/2000	41.1	100.0
12/31/1999	37.4	100.0
12/31/1998	33.7	100.0
12/31/1997	30.7	100.0
12/31/1996	28.0	100.0
12/31/1995	24.6	100.0
Postemployment Healthcare Benefits - Retiree Health Insurance Premium Account⁴		
12/31/2004	\$ 2.6	100.0%
12/31/2003	2.2	100.0
12/31/2002	1.6	100.0
12/31/2001	1.3	100.0
12/31/2000	1.1	100.0
12/31/1999	1.7	100.0
12/31/1998	2.2	100.0
12/31/1997	2.3	100.0
12/31/1996	2.4	100.0
12/31/1995	1.2	100.0

¹ Due to a significant increase in employer contribution rates based on the December 31, 1997 and December 31, 1999 actuarial valuations, the Board allowed employers to elect to defer increases to future periods.

² Required annual contributions did not begin until January 1, 2004.

³ The Retirement Health Insurance Account provides postemployment healthcare benefits for eligible members for all participating employers.

⁴ The Retiree Health Insurance Premium Account provides postemployment healthcare benefits only for eligible members who retired from state of Oregon employers.

Notes to Required Supplementary Schedules

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

PERS

Valuation Date	December 31, 2003
Actuarial Cost Method	Entry age
Amortization Method	Level percent of salary over a period commencing on the valuation date and ending on December 31, 2027.
Actuarial Assumptions:	
Investment Rate of Return	8.0 percent
Projected Salary Increases	4.0 percent
Consumer Price Inflation (Inflation Rate)	3.0 percent
Health Cost Inflation	Graded from 8.0 percent in 2005, to 5.0 percent in 2011, at the rate of 0.5 percent per year.
Cost-of-living Adjustments	2.0 percent
Method Used to Value Assets	The actuarial value of assets is equal to the fair market value of assets on the valuation date, less a reserve equal to a pro-rata portion of the investment gains (losses) over the four-year period ending on the evaluation date. Investment gains (losses), effective from January 1, 2000, are recognized at the rate of 25.0 percent per year. The actuarial value of assets is limited to a 10.0 percent corridor above and below the fair market value.
Amortization Period	24 years
Selection of Amortization Approach	Closed

Note: The December 31, 2003 valuation will amortize the unfunded actuarial liability over a 24-year period. This amortization period will be shortened each valuation until a 20-year amortization period is achieved.

**Schedule of Plan Net Assets -
Defined Benefit Pension Plan
June 30, 2005**

	Regular Account	Variable Account	Totals	
			2005	2004
Assets:				
Cash and Cash Equivalents	\$ 2,725,597,073	\$ 120,600,368	\$ 2,846,197,441	\$ 2,459,543,374
Receivables:				
Employer	14,202,211	—	14,202,211	81,092,986
Plan Member	—	—	—	—
Interest and Dividends	146,867,510	2,502,181	149,369,691	139,070,103
Investment Sales and Other Receivables	1,037,847,453	16,671,425	1,054,518,878	536,445,877
Total Receivables	<u>1,198,917,174</u>	<u>19,173,606</u>	<u>1,218,090,780</u>	<u>756,608,966</u>
Interaccount Receivables and Payables	12,729,729	(12,729,729)	—	—
Due from Other Funds	1,899,837	—	1,899,837	2,016,646
Investments:				
Debt Securities	13,584,081,361	249,808,854	13,833,890,215	12,744,117,190
Equity	25,636,696,193	1,216,824,487	26,853,520,680	25,319,713,917
Real Estate	2,850,321,067	12,160,093	2,862,481,160	1,805,418,715
Alternative Equity	4,240,232,672	—	4,240,232,672	4,241,049,736
Total Investments	<u>46,311,331,293</u>	<u>1,478,793,434</u>	<u>47,790,124,727</u>	<u>44,110,299,558</u>
Securities Lending Cash Collateral	5,416,653,746	89,375,881	5,506,029,627	4,364,197,746
Prepaid Expenses and Deferred Charges	1,611,097	—	1,611,097	2,699,322
Equipment and Fixtures, Cost Net of Accumulated Depreciation at 2005: \$2,820,352; at 2004: \$2,406,511	1,287,378	—	1,287,378	1,558,526
Buildings, Cost Net of Accumulated Depreciation at 2005: \$1,467,249; at 2004: \$1,280,236	5,968,832	—	5,968,832	6,155,845
Land and Land Improvements	944,463	—	944,463	944,463
Office Supplies Inventory, Cost	5,411	—	5,411	7,560
Total Assets	<u>55,676,946,033</u>	<u>1,695,213,560</u>	<u>57,372,159,593</u>	<u>51,704,032,006</u>
Liabilities:				
Investment Purchases and Accrued Expenses	2,605,791,903	26,320,983	2,632,112,886	2,085,551,191
Deposits and Other Liabilities	120,151,163	855,650	121,006,813	156,120,161
Due Other Funds	60,949	—	60,949	35,880,973
Bonds/COPs Payable	49,527,776	—	49,527,776	50,894,020
Securities Lending Collateral Due Borrowers	5,416,653,746	89,375,881	5,506,029,627	4,364,197,746
Total Liabilities	<u>8,192,185,537</u>	<u>116,552,514</u>	<u>8,308,738,051</u>	<u>6,692,644,091</u>
Net Assets Held in Trust for Pension Benefits	<u>\$ 47,484,760,496</u>	<u>\$ 1,578,661,046</u>	<u>\$ 49,063,421,542</u>	<u>\$ 45,011,387,915</u>

**Schedule of Changes in Plan Net Assets -
Defined Benefit Pension Plan
For the Year Ended
June 30, 2005**

	Regular Account	Variable Account	Totals	
			2005	2004
Additions:				
Contributions:				
Employer	\$ 785,753,821	\$ —	\$ 785,753,821	\$ 3,164,219,088
Plan Member	9,155,108	435,177	9,590,285	185,693,017
Other Sources	23,587,024	—	23,587,024	23,763,183
Total Contributions	<u>818,495,953</u>	<u>435,177</u>	<u>818,931,130</u>	<u>3,373,675,288</u>
Investment Income:				
Net Appreciation (Depreciation) in Fair Value of Investments	4,359,235,835	106,654,763	4,465,890,598	6,327,231,042
Interest, Dividends, and Other Investment Income	1,391,967,325	30,741,569	1,422,708,894	1,033,003,667
Total Investment Income	<u>5,751,203,160</u>	<u>137,396,332</u>	<u>5,888,599,492</u>	<u>7,360,234,709</u>
Less Investment Expense	<u>211,076,172</u>	<u>4,560,300</u>	<u>215,636,472</u>	<u>188,082,424</u>
Net Investment Income	5,540,126,988	132,836,032	5,672,963,020	7,172,152,285
Securities Lending Income:				
Securities Lending Income	106,106,737	833,083	106,939,820	41,108,224
Less Securities Lending Expense	<u>93,974,764</u>	<u>766,071</u>	<u>94,740,835</u>	<u>31,066,547</u>
Net Securities Lending Income	12,131,973	67,012	12,198,985	10,041,677
Other Income:	327,544	—	327,544	330,243
Total Additions	<u>6,371,082,458</u>	<u>133,338,221</u>	<u>6,504,420,679</u>	<u>10,556,199,493</u>
Deductions:				
Benefits	2,307,876,981	45,951,602	2,353,828,583	2,510,375,912
Death Benefits	10,572,405	—	10,572,405	8,610,162
Refunds of Contributions	58,633,812	1,608,051	60,241,863	42,193,518
Administrative Expense	27,018,848	725,353	27,744,201	24,874,201
Interaccount Transfers	(45,417,443)	45,417,443	—	—
Total Deductions	<u>2,358,684,603</u>	<u>93,702,449</u>	<u>2,452,387,052</u>	<u>2,586,053,793</u>
Net Increase (Decrease)	4,012,397,855	39,635,772	4,052,033,627	7,970,145,700
Net Assets Held in Trust for Pension Benefits				
Beginning of Year	43,472,362,641	1,539,025,274	45,011,387,915	37,041,242,215
End of Year	<u>\$ 47,484,760,496</u>	<u>\$ 1,578,661,046</u>	<u>\$ 49,063,421,542</u>	<u>\$ 45,011,387,915</u>

**Schedule of Plan Net Assets -
Postemployment Healthcare Plan
June 30, 2005**

	Retirement Health Insurance Account	Retiree Health Insurance Premium Account	Standard Retiree Health Insurance Account	Totals	
				2005	2004
Assets:					
Cash and Cash Equivalents	\$ 10,538,291	\$ 510,391	\$ 5,413,626	\$ 16,462,308	\$ 17,693,094
Receivables:					
Employer	1,533,409	130,754	—	1,664,163	10,767,087
Plan Member	—	—	—	—	—
Interest and Dividends	485,758	16,291	—	502,049	350,390
Investment Sales and Other Receivables	3,414,366	114,508	—	3,528,874	1,424,352
Total Receivables	<u>5,433,533</u>	<u>261,553</u>	<u>—</u>	<u>5,695,086</u>	<u>12,541,829</u>
Due from Other Funds	60,775	174	—	60,949	5,471,754
Investments:					
Debt Securities	44,928,817	1,506,779	—	46,435,596	33,707,334
Equity	84,792,369	2,843,683	—	87,636,052	64,468,260
Real Estate	9,427,325	316,164	—	9,743,489	4,835,160
Alternative Equity	14,024,404	470,337	—	14,494,741	11,358,115
Total Investments	<u>153,172,915</u>	<u>5,136,963</u>	<u>—</u>	<u>158,309,878</u>	<u>114,368,869</u>
Securities Lending Cash Collateral	<u>18,181,818</u>	<u>637,500</u>	<u>978,304</u>	<u>19,797,622</u>	<u>16,782,366</u>
Total Assets	<u>187,387,332</u>	<u>6,546,581</u>	<u>6,391,930</u>	<u>200,325,843</u>	<u>166,857,912</u>
Liabilities:					
Account Payable and Accrued Expenses	7,943,050	266,386	—	8,209,436	4,846,825
Due to Other Funds	71,670	13,364	30,382	115,416	139,803
Securities Lending Due Borrowers	<u>18,181,818</u>	<u>637,500</u>	<u>978,304</u>	<u>19,797,622</u>	<u>16,782,366</u>
Total Liabilities	<u>26,196,538</u>	<u>917,250</u>	<u>1,008,686</u>	<u>28,122,474</u>	<u>21,768,994</u>
Net Assets Held in Trust for Postemployment Healthcare Benefits	<u>\$ 161,190,794</u>	<u>\$ 5,629,331</u>	<u>\$ 5,383,244</u>	<u>\$ 172,203,369</u>	<u>\$ 145,088,918</u>

**Schedule of Changes in Plan Net Assets -
Postemployment Healthcare Plan
For the Year Ended
June 30, 2005**

	Retirement Health Insurance Account	Retiree Health Insurance Premium Account	Standard Retiree Health Insurance Account	Totals	
				2005	2004
Additions:					
Contributions:					
Employer	\$ 37,308,769	\$ 2,344,260	\$ —	\$ 39,653,029	\$ 43,720,234
Plan Member	—	—	85,791,039	85,791,039	72,894,536
Total Contributions	<u>37,308,769</u>	<u>2,344,260</u>	<u>85,791,039</u>	<u>125,444,068</u>	<u>116,614,770</u>
Investment Income:					
Net Appreciation (Depreciation) in Fair Value of Investments	13,379,372	466,289	—	13,845,661	3,662,368
Interest, Dividends, and Other Investment Income	4,358,494	149,081	217,888	4,725,463	18,105,317
Total Investment Income	<u>17,737,866</u>	<u>615,370</u>	<u>217,888</u>	<u>18,571,124</u>	<u>21,767,685</u>
Less Investment Expense	<u>669,191</u>	<u>22,243</u>	<u>—</u>	<u>691,434</u>	<u>254,653</u>
Net Investment Income	<u>17,068,675</u>	<u>593,127</u>	<u>217,888</u>	<u>17,879,690</u>	<u>21,513,032</u>
Securities Lending Income:					
Securities Lending Income	326,752	10,855	—	337,607	—
Less Securities Lending Expense	<u>289,151</u>	<u>9,606</u>	<u>—</u>	<u>298,757</u>	<u>—</u>
Net Securities Lending Income	<u>37,601</u>	<u>1,249</u>	<u>—</u>	<u>38,850</u>	<u>—</u>
Other Income:	—	—	22,128	22,128	7,345
Total Additions	<u>54,415,045</u>	<u>2,938,636</u>	<u>86,031,055</u>	<u>143,384,736</u>	<u>138,135,147</u>
Deductions:					
Healthcare Premium Subsidies	25,282,377	1,922,701	—	27,205,078	26,289,873
Retiree Healthcare Expense	—	—	86,457,202	86,457,202	80,896,727
Administrative Expense	<u>777,979</u>	<u>81,816</u>	<u>1,748,210</u>	<u>2,608,005</u>	<u>2,378,635</u>
Total Deductions	<u>26,060,356</u>	<u>2,004,517</u>	<u>88,205,412</u>	<u>116,270,285</u>	<u>109,565,235</u>
Net Increase (Decrease)	28,354,689	934,119	(2,174,357)	27,114,451	28,569,912
Net Assets Held in Trust for Postemployment Healthcare Benefits					
Beginning of Year	132,836,105	4,695,212	7,557,601	145,088,918	116,519,006
End of Year	<u>\$ 161,190,794</u>	<u>\$ 5,629,331</u>	<u>\$ 5,383,244</u>	<u>\$ 172,203,369</u>	<u>\$ 145,088,918</u>

Schedule of Administrative Expenses For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Personal Services:		
Staff Salaries	\$ 12,894,308	\$ 11,070,348
Social Security	972,246	851,991
Retirement	2,121,646	1,304,329
Insurance	2,895,067	2,151,211
Assessments	139,188	161,284
Total Personal Services	<u>19,022,455</u>	<u>15,539,163</u>
Professional Services:		
Actuarial	710,849	422,650
Data Processing	1,125,696	635,855
Audit	154,634	149,635
Legal Counsel	2,519,887	2,133,139
Medical Consultants	103,228	96,756
Training and Recruitment	233,882	218,929
Contract Services	11,090,718	4,608,919
Healthcare Fees	2,239,095	2,115,330
Total Professional Services	<u>18,177,989</u>	<u>10,381,213</u>
Communications:		
Printing	85,546	92,538
Telephone	258,999	321,668
Postage	425,484	395,316
Travel	102,300	98,042
Total Communications	<u>872,329</u>	<u>907,564</u>
Rentals:		
Office Space	368,644	271,088
Equipment	102,247	179,214
Total Rentals	<u>470,891</u>	<u>450,302</u>
Miscellaneous:		
Central Government Charges	431,998	512,132
Supplies	1,747,021	1,402,078
Maintenance	645,309	758,517
Non-Capitalized Equipment	266,450	348,353
Depreciation	968,331	525,269
COP Amortization	635,687	31,781
Total Miscellaneous	<u>4,694,796</u>	<u>3,578,130</u>
Total Administrative Expenses	<u><u>\$ 43,238,460</u></u>	<u><u>\$ 30,856,372</u></u>

Schedule of Payments to Consultants and Contractors For the Years Ended June 30, 2005 and 2004

<u>Individual or Firm</u>	<u>Commission / Fees</u>		<u>Nature of Service</u>
	<u>2005</u>	<u>2004</u>	
Orrick, Herrington & Sutcliffe LLP	\$ 1,622,832	\$ 671,787	Legal
Oregon Department of Justice	381,634	475,433	Legal
Ice Miller®	160,035	—	Legal
Bullivant Houser Bailey PC	23,158	—	Legal
Covansys Corporation	5,519,843	384,177	Technology
Provaliant, Inc.	1,031,650	448,152	Technology
Pacific Crest Corporation	774,607	—	Technology
Dye Management Group, Inc.	466,855	—	Technology
Rapidigm, Inc.	398,500	—	Technology
Hepieric, Inc.	226,822	—	Technology
Meridian Technology Group	109,856	—	Technology
Case Associates, Inc.	97,955	—	Technology
ProDX®	55,349	—	Technology
Milliman	388,303	363,650	Actuarial
Mercer Human Resource Consulting LLC	13,800	—	Actuarial
Berwyn Group	4,230	—	Actuarial
Oregon Audits Division	154,634	140,404	Audit
B.W. Reed Benefits LLC	80,353	73,806	Health Insurance
Lawrence Duckler, MD	22,875	22,950	Medical
CitiStreet	2,644,092	—	IAP Administration

Summary of Investment Fees, Commissions, and Expenses For the Years Ended June 30, 2005 and 2004

	2005	2004
International Equity Fund Managers		
Acadian Asset Management, Inc.	\$ 2,783,800	\$ 2,389,773
AllianceBernstein International Premier Growth Fund	3,020,067	2,540,861
Arrowstreet Capital, LP	2,609,985	2,193,624
Barclays Global Investors (EAFE)	5,431,722	2,268,523
Brandes Investment Partners LLC	2,789,972	2,333,974
Fidelity Management Trust Co.	1,248,006	—
Genesis Investment Management, Ltd.	2,197,523	1,954,822
Lazard Asset Management	181,231	203,871
Marvin & Palmer Associates, Inc.	2,169,882	1,989,502
Putnam Investments	—	638,214
T. Rowe Price Group, Inc.	2,744,651	2,425,363
TT International Co. Ltd.	2,104,985	1,931,722
Walter Scott & Partners Limited	1,421,183	—
Wells Capital Management	1,483,192	1,434,945
Other International Equity Fund Managers	1,639,939	—
Domestic Equity Fund Managers		
AllianceBernstein Domestic Equity	2,404,716	2,115,955
Alliance Capital Management	1,531,268	1,569,597
Aronson, Johnson, Ortiz, L.P.	1,696,946	1,143,364
Barclays Global Investors (all funds)	3,401,959	1,944,104
Becker Capital Management	1,487,446	1,640,741
Froley Revy Equity	1,226,710	1,209,784
MFS Institutional Advisors, Inc.	1,714,599	1,484,741
Nicholas Applegate Capital Management	1,724,537	1,415,717
Northern Trust Company	1,031,628	930,483
PIMCO	3,762,920	763,465
TCW Asset Management	2,139,916	910,119
Thompson/Rubinstein Investment Mgmt, Inc.	937,944	1,160,294
Wanger Asset Management, LP	3,227,874	3,097,973
Wellington Management Company, LLP	2,688,757	2,961,714
Winslow Capital Management Inc	1,258,401	1,230,669
Other Domestic Equity Fees	7,147,240	3,216,144
Debt Securities Managers		
Alliance Capital Management	2,501,672	2,135,228
Barclays Global Investors (Corporate Government Bond Index)	132,528	112,906
BlackRock Asset Management	2,488,873	2,140,724
Fidelity Management Trust Co.	3,200,152	2,756,816
Wellington Management Company, LLP	2,193,433	1,733,207
Western Asset Management Company	2,079,668	1,605,935
Other Fixed Income Fees	11,148	—
Real Estate Investment Fund Manager		
La Salle Advisors Ltd.	1,220,637	1,150,443
Leveraged Buyout Manager		
Kohlberg Kravis Roberts & Co.	4,510,869	19,005,287
Custodian		
State Street Bank	584,913	400,773
Alternative Equity Managers		
BDCM Opportunity Fund, LP	606,924	1,252,083
Castle Harlan, Inc.	1,114,813	1,371,725
CVC	2,687,617	2,021,859
Doughty Hanson & Co.	2,439,028	2,432,607
Grove Street Advisors, LLC	1,571,429	2,187,500
Hicks, Muse, Tate & Furst Inc.	456,847	2,019,975
Oak Hill Capital	1,022,863	—
Parthenon Investors II LP	1,663,654	1,887,160
Pathway Capital Management, LLC	1,250,000	1,250,000
Solera Capital LLC	1,160,164	971,161
TPG Partners	3,710,084	3,943,430
Vestar Capital Partners IV LP	1,132,803	923,088
Wellspring Capital	1,200,561	970,052
Other Alternative Equity Fund Managers	24,654,813	20,143,296
Real Estate Fees and Expenses	37,570,812	20,334,876
Real Estate Bond Expenses	4,336,430	4,972,875
State Treasury Fees	5,694,540	5,111,583
Securities Lending Fees	95,837,477	31,066,547
Brokerage Commissions	31,406,927	34,143,093
Other Investment Fees and Expenses	6,386,620	2,298,962
Deferred Compensation Investment Fees and Expenses	1,862,483	1,893,779
Total Investment Fees, Commissions, and Expenses	\$ 315,899,781	\$ 221,337,028

OFFICE OF THE
SECRETARY OF STATE

Bill Bradbury
Secretary of State



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Auditing for a Better Oregon

The Honorable Theodore R. Kulongoski
Governor of Oregon
254 State Capitol
Salem, Oregon 97310-4047

The Board of Trustees
Oregon Public Employees Retirement System
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Tigard, Oregon 97223

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

We have audited the basic financial statements of the Oregon Public Employees Retirement System (PERS) as of and for the year ended June 30, 2005, and have issued our report thereon dated December 16, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered PERS' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect PERS' ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying finding.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk

that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PERS' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted additional matters that we reported to management of PERS in a separate letter dated December 16, 2005.

This report is intended solely for the information and use of the Board of Trustees of the PERS, the PERS' management, the governor of the State of Oregon, and the Oregon Legislative Assembly and is not intended to be and should not be used by anyone other than these specified parties.

OREGON AUDITS DIVISION



Bill Bradbury
Secretary of State

December 16, 2005

Audit Finding and Recommendation

Inadequate Control Over Personal Member Information

PERS did not adequately protect some personal member information (including names, addresses, birth dates, and social security numbers) when it used production data from the live pension system in test and development regions. PERS staff, as well as contractors and vendors, had access to confidential data not required to perform their job duties. On at least one occasion, confidential production data was placed on PERS' personal computers that were taken to the contractor's place of business where PERS no longer had control over their security and use. Furthermore, while PERS staff stated that it would be difficult to create test data that would cover all retirement scenarios, PERS did not scrub the production data to remove specific identification of PERS members.

In addition, PERS did not protect some member's medical information. PERS staff, who did not require access to perform their job duties, were given access to view confidential medical information through the archival imaging system. Though aware that access to the confidential information was not limited, PERS was not proactive to identify and remove those confidential records.

A lack of security increases the risk that personal member information could be used for inappropriate or malicious purposes.

We recommend that PERS:

1. Discontinue the use of production data for test and development purposes and document in formal policy.
2. Create test data to use in test and development regions.
3. Actively identify and remove all confidential medical information that has been posted to the archival imaging system.
4. Review and modify archival procedures to ensure that confidential medical information is not made available to persons not needing access.

Agency Response

PERS generally agrees with the findings indicated. There is one area of clarification in the findings as outlined above. The incident cited above concerning PERS supplying a PC that contained confidential information to a contractor occurred in 2003. Since that occurrence, the agency has instituted an information security program and has implemented several policies including an Acceptable Use of Information Systems Policy and a Data Classification Policy that are aimed at protecting confidential information. PERS requires each employee and contractor to adhere to these policies while using PERS' systems and networks. Furthermore, there have been no other incidents where confidential information has been provided to contractors on PCs.

PERS also generally agrees with the recommendations. Specifically, PERS will address the findings and recommendations as follows.

Recommendation 1: PERS will create a policy controlling the use of actual data in test environments. The agency believes that prohibiting the use of actual data during the testing phase of complex projects can add additional risk to the agency. The PERS retirement plan and underlying systems are very complex and data interactions are difficult to duplicate in a completely sanitized environment. Nevertheless, PERS management recognizes and fully embraces its responsibility in protecting personal information and will implement formal policies to achieve both data confidentiality and risk mitigation due to incomplete data test beds.

Recommendation 2: In conjunction with Recommendation 1, PERS staff will create a fictitious set of data for initial unit testing of programs. This will minimize the risk associated with having a full set of data in the test regions during initial program development and testing. However, during final system testing, and prior to production deployment, some programs may require testing against a full complement of data to minimize the risk associated with not testing thoroughly against all possible data permutations. PERS will explore the feasibility of creating a full set of test data that adequately characterizes the variability in the target data. If staff can do this in a cost effective manner it will. Otherwise, PERS will develop stricter procedures and controls governing the use of actual data during the pre-deployment phase of testing.

Recommendation 3: PERS staff has developed a method that now restricts access to medical information in the imaging system. This filter screens out all medical/disability related document types from use by the general agency user population. The agency believes this has eliminated the need to "identify and remove all confidential medical information that has been posted to FYI."

Additionally, in conjunction with the conversion to the new imaging system scheduled for 2006, the agency will build specific user profiles to limit access to sensitive medical information to a 'need to know' basis.

Recommendation 4: The Imaging and Information Management section (IIM) has ceased the imaging of any additional disability/medical related documents until after the implementation of the new imaging system and secure user profiles (2006).

Investment Section

Investment Officer's Report



OREGON INVESTMENT COUNCIL

November 17, 2005

350 WINTER STREET, SUITE 100
SALEM, OR 97301-3896

Dear PERS Members:

The fiscal year-end asset class weightings were within policy ranges. The actual versus policy underweight in real estate is intentional and has generated a meaningful return of investment capital to the fund. The overweight to public equities will be reduced as the private equity and real estate investments are increased.

The risk reward profile of the Public Employees Retirement Fund (PERF) has improved over the past three years. While the five and seven year total fund returns have exceeded the policy index, they underperformed the 8 percent actuarial discount rate. More recently, the post-bear market recovery of the PERF has been remarkable. The three-year return of 11.4 percent exceeded the 8 percent assumed rate by 3.4 percent.

The one-year return of 13.9 percent exceeded the passive policy benchmark of 10.8 percent by over 3 percent resulting in a top percentile ranking among large public funds. All asset classes outperformed their benchmarks for the fiscal year ended June 30, 2005. The greatest contribution to the PERF's outperformance for the one-year-period came from fixed income, real estate, and private equity. The one-year returns for real estate and private equity were particularly noteworthy, up 31.6 percent and 38.8 percent respectively.

The public markets asset classes ended the year within policy guidelines. For the first time in a number of years, the domestic large cap growth managers ended the fiscal year with strong benchmark relative outperformance. Such was not the case with the international portfolio as returns were right in line with the market owing to underperformance by the growth segment of the portfolio. Staff and consultants have certain restructuring recommendations to present to the Oregon Investment Council. The multi-year extreme outperformance of value over growth appears to be waning as excesses invariably are corrected by the marketplace.

In summary, the asset mix is within policy and the overweight to real estate and private equity relative to other public funds has contributed handsomely to the market value recovery of the PERF over the past three years.

Calculations were prepared using a time-weighted rate of return based on the market rate in accordance with AIMR's performance presentation standards.

Ronald D. Schmitz
Director, Investments

Description of Investment Policies

Oregon Revised Statute (ORS) 293.706 established the Oregon Investment Council (OIC), which consists of five voting members. Four members of the council, who are qualified by training and experience in the field of investment or finance, are appointed by the governor, subject to Senate confirmation. The state treasurer serves as the remaining voting member of the council. In addition, the director of the Public Employees Retirement System serves as a non-voting member of the OIC.

ORS 293.701 defines the investment funds over which the OIC has responsibility. Included are the Public Employees Retirement Fund (PERF) and the Deferred Compensation Fund. The OIC establishes policies for the investment and reinvestment of moneys in the investment funds, as well as the acquisition, retention, management, and disposition of investments in the investment funds. The OIC is also responsible for providing an examination of the effectiveness of the investment program.

The OIC ensures that moneys in the investment funds are invested and reinvested to achieve the investment objective of making the moneys as productive as possible. Furthermore, the investments of those funds are managed as a prudent investor would do, under the prevailing circumstances and in light of the purposes, terms, distribution requirements, and laws governing each investment fund. This standard requires the exercise of reasonable care, skill, and caution, and is applied to investments not in isolation, but in the context of each fund's portfolio as part of an overall investment strategy. The strategy should incorporate risk and return objectives reasonably suitable to the particular investment fund.

When implementing investment decisions, the OIC has a duty to diversify the investments of the investment funds unless, under the circumstances, it is not prudent to do so. In addition, the OIC must act with prudence when selecting agents and delegating authority.

The OIC has approved the following asset classes for the PERF: Oregon Short-Term Fund, Fixed Income, Real Estate, Equities, Alternative Equities, and Venture Capital Partnerships. The OIC must approve, in advance, the purchase of investments in a new asset class not described above. Individual investments that will require more than 10.0 percent of the funds allocated to a single asset class require OIC's advance and explicit approval.

The OIC maintains an "open-door" policy wherein investment officers employed by the Oregon State Treasury will hear and consider investment proposals and solicitations from any person, firm, or partnership that submits a proposal or solicitation in good faith. However, under no circumstance does this policy require that the Oregon State Treasury purchase the proposed investment.

The OIC also maintains an equal opportunity policy. When awarding contracts or agreements, the OIC does not discriminate because of age, race, color, sex, religion, national origin, marital status, sexual orientation, or disability. Furthermore, the OIC encourages firms doing or seeking to do business with the OIC to have equal opportunity programs. The OIC requires that all written contracts or agreements with the OIC incorporate reference that affirms compliance with applicable nondiscrimination, equal opportunity, and contract compliance laws.

The OIC meets monthly and in compliance with ORS 192.630-660 holds its meeting in a public forum. Public notice, including a meeting agenda, is provided to interested persons and news media that have requested notice. Written minutes and recordings are taken at all meetings.

The OIC recently embarked on a detailed documentation of its governance structure and beliefs encompassing delegation and return expectations. As funds under management have grown significantly over the last decade, these more formal guidelines have become invaluable to the professional management of state funds. The OIC also regularly reviews various aspects of investment policy, performance of investment managers and accounts, asset allocation, and a large number of investment proposals and recommendations.

Investment Results

	Periods Ending June 30, 2005		
	1-Year	Annualized	
		3-Year	5-Year
Total Portfolio	13.7%	11.3%	3.5%
Total Portfolio, Excluding Variable	13.9	11.4	3.8
Domestic Stocks	8.2	10.1	-0.7
Benchmark: Russell 3000 Index	8.1	9.5	-1.4
International Stocks	17.2	14.2	1.1
Benchmark: Custom Index ¹	17.0	14.1	0.8
Fixed Income Segment	8.7	8.4	8.5
Benchmark: Custom Index ²	7.6	6.5	7.5
Real Estate ³	31.6	19.1	15.5
Benchmark: NCREIF	15.6	10.7	10.2
Private Equity ⁴	38.8	14.1	-2.0
Benchmark: Russell 3000 +500 bps	12.0	9.3	3.3

Calculations were prepared using a time-weighted rate of return based on the market rate in accordance with AIMR's performance presentation standards.

¹ 90% Salomon World Equity Broad Market ex-US/10% International Finance Corporation EMG Investable Securities

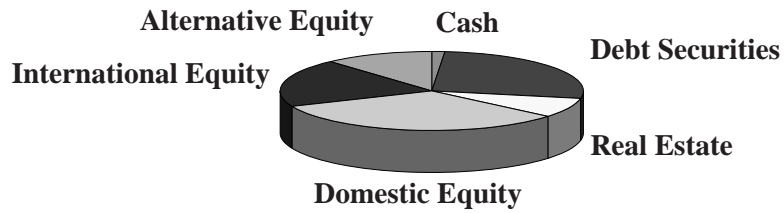
² 90% Lehman Universal/10% SSBI Non-US World Government Bond Hedged

³ Returns are lagged one quarter.

⁴ Returns are lagged one quarter.

OIC Allocation as of June 30, 2005

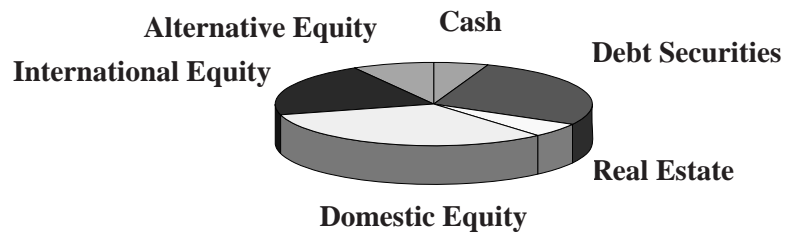
OIC Allocation



	Low Range	High Range	Weighted Average Range
Cash	0.0%	3.0%	1.5%
Debt Securities	22.0	32.0	26.6
Real Estate	5.0	11.0	7.9
Domestic Equity	28.0	38.0	32.5
International Equity	15.0	25.0	19.7
Alternative Equity	9.0	15.0	11.8
	<u>79.0%</u>	<u>124.0%</u>	<u>100.0%</u>

Investment Actual Allocation as of June 30, 2005

Actual Allocation



	Actual
Cash	5.6%
Debt Securities	27.5
Real Estate	5.5
Domestic Equity	32.2
International Equity	20.9
Alternative Equity	8.3
	<u>100.0%</u>

Schedule of Largest Assets Held

Largest Stock Holdings (by Fair Value)

June 30, 2005

<u>Shares</u>	<u>Description</u>	<u>Fair Value</u>
6,682,373	General Electric Co.	\$ 231,544,224
3,407,719	Citigroup, Inc.	157,150,453
2,451,294	Exxon Mobil Corp.	140,875,866
1,990,901	Johnson & Johnson	129,408,565
2,821,771	Bank of America Corp.	128,700,976
583,512	Total South Africa	125,705,236
4,863,291	Microsoft Corp.	120,804,148
4,204,335	Pfizer, Inc.	115,955,559
1,892,436	ConocoPhillips	108,796,146
3,735,559	ING Groep NV	105,675,619
		<u><u>\$ 1,364,616,792</u></u>

Largest Bond Holdings (by Fair Value)

June 30, 2005

<u>Par Value</u>	<u>Description</u>	<u>Fair Value</u>
\$ 238,022,065	Federal National Mortgage Association TBA 6.0% Due 07-14-2035 Rating Aaa	\$ 244,028,409
220,000,000	Federal Home Loan Mortgage Discount Notes Due 08-31-2005 Rating Aaa	218,782,718
215,620,000	Federal National Mortgage Association TBA 5.0% Due 07-14-2035 Rating Aaa	215,603,160
207,745,000	U.S. Treasury Bills Due 07-7-2005 Rating Aaa	207,647,017
173,695,000	U.S. Treasury Notes 3.125% Due 01-31-2007 Rating Aaa	172,319,336
160,768,451	U.S. Treasury Notes 3.375% Due 01-15-2007 Rating Aaa	165,993,425
162,309,000	U.S. Treasury Notes 2.75% Due 07-31-2006 Rating Aaa	160,927,754
154,935,000	Federal Home Loan Mortgage Discount Notes Due 7-14-2005 Rating Aaa	154,743,283
118,172,000	U.S. Treasury Bonds 5.375% Due 02-15-2031 Rating Aaa	139,498,497
137,610,000	Federal National Mortgage Association TBA 4.5% Due 07-19-2020 Rating Aaa	136,986,462
		<u><u>\$ 1,816,530,061</u></u>

A complete list of portfolio holdings may be requested from the Oregon State Treasury, 350 Winter Street NE, Suite 100, Salem, OR 97301-3896.

**Schedule of Fees and Commissions
For the Fiscal Year Ended June 30, 2005**

	<u>Assets Under Management</u>	<u>Fees</u>	<u>Basis Points</u>
Investment Managers' Fees:			
Debt Securities Managers	\$ 14,329,976,001	\$ 12,607,474	0.087980
Equity Managers	27,720,556,001	69,209,001	0.249667
Venture Capital Managers	173,629	—	0.000000
KKR Leveraged Buyouts	1,296,865,385	4,510,869	0.347829
Alternative Equity Managers (Limited Partnerships)	3,009,819,818	44,671,599	1.484195
Real Estate Managers	<u>2,907,267,839</u>	43,019,542	1.479724
Total Assets Under Management	<u>\$49,264,658,673</u>		
Other Investment Service Fees:			
Securities Lending Fees		95,837,477	
Investment Consultants		1,837,313	
Commissions and Other Fees		<u>44,206,506</u>	
Total Investment Service and Managers' Fees		<u>\$ 315,899,781</u>	

**Schedule of Broker Commissions
For the Fiscal Year Ended June 30, 2005**

<u>Broker's Name</u>	<u>Commission</u>	<u>Share / Par</u>	<u>Commission per Share</u>
Merrill Lynch, Pierce, Fenner & Smith, Inc.	\$ 3,899,259	\$ 3,111,619,581	\$ 0.00125
UBS Securities Inc.	2,184,158	2,105,446,379	0.00104
Credit Suisse First Boston Corporation	1,784,333	553,327,876	0.00322
Deutsche Bank	1,648,965	158,219,386	0.01042
Goldman, Sachs & Co.	1,482,082	97,416,903	0.01521
Citigroup Global Markets Inc.	1,453,691	844,199,255	0.00172
Lehman Brothers, Inc.	1,368,966	109,668,497	0.01248
Bear, Stearns & Co., Inc.	1,322,078	57,826,348	0.02286
Morgan Stanley & Co., Inc.	1,252,039	1,839,577,134	0.00068
J.P. Morgan Securities, Inc.	1,160,153	86,174,658	0.01346
Investment Technology Group, Inc.	607,887	41,151,430	0.01477
DLJ/Pershing	523,845	55,818,568	0.00938
Jefferies & Co.	519,366	14,421,734	0.03601
Société Générale	433,151	21,208,256	0.02042
State Street Brokerage Services Inc.	425,105	42,081,907	0.01010
Instinet Corporation	385,946	24,325,657	0.01587
Frank Russell Company	369,954	8,783,631	0.04212
Lynch Jones and Ryan	340,597	8,247,715	0.04130
Credit Lyonnais Securities	332,539	107,623,895	0.00309
Weeden & Co.	281,450	7,581,487	0.03712

Brokerage commissions on purchases and sales are too numerous to list; therefore, only the top 20 brokers by amount of commission paid are shown.

Investment Summary

Type of Investment	Fair Value at June 30, 2005	Percent of Total Fair Value
Debt Securities		
U.S. Government Securities	\$ 2,104,020,806	4.27%
U.S. Agency Securities	2,610,553,458	5.30
Domestic Debt Securities	2,913,660,926	5.91
Domestic Mutual Funds	2,008,189,404	4.08
International Debt Securities	1,543,708,546	3.13
Global Mutual Funds	904,817,949	1.84
Asset-Backed Securities and Insurance Contracts	2,240,534,251	4.55
Total Debt Securities	<u>14,325,485,340</u>	<u>29.08</u>
Equity		
Domestic Equity Securities	10,014,515,001	20.32
Domestic Mutual Funds	6,801,264,778	13.81
International Equity Securities	8,401,042,591	17.05
Global Mutual Funds	2,503,733,631	5.08
Total Equity	<u>27,720,556,001</u>	<u>56.26</u>
Real Estate		
Real Estate	2,111,696,014	4.29
Limited Partnerships	766,505,172	1.56
Private Placements	28,331,798	0.06
Real Estate Mortgages	734,855	0.00
Total Real Estate	<u>2,907,267,839</u>	<u>5.91</u>
Alternative Equity		
Limited Partnerships	3,009,819,818	6.11
Venture Capital	173,629	0.00
Leveraged Buy-Outs	1,296,865,385	2.63
Total Alternative Equity	<u>4,306,858,832</u>	<u>8.74</u>
Restricted Investment Contracts	<u>4,490,661</u>	<u>0.01</u>
Total Fair Value	<u>\$ 49,264,658,673</u>	<u>100.00%</u>

Actuarial Section

A MILLIMAN GLOBAL FIRM



Milliman

Consultants and Actuaries

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October 10, 2005

Retirement Board
Oregon Public Employees Retirement System

Dear Members of the Board:

We have performed an actuarial valuation of the Oregon Public Employees Retirement System as of December 31, 2003. Actuarial valuations are normally performed every two years, as of the end of each odd-numbered year. Special interim valuations were performed as of December 31, 2000 and December 31, 2002. Beginning on January 1, 2005, Milliman was no longer the independent actuary for PERS.

In preparing the valuation, we relied upon the financial and membership data furnished by the System. Although we did not audit this data, we compared the data for this and the prior valuation and tested for reasonableness. Based on these tests, we believe the data to be sufficiently accurate for the purposes of our calculations.

Milliman prepared the information presented in this Actuarial Section of the 2005 Comprehensive Annual Financial Report, including the following supporting tables, based on information in our 2003 actuarial valuation report:

- Actuarial Assumptions and Methods
 - Economic Assumptions
 - Mortality Tables
 - Disability and Service Retirement
 - Other Terminations of Employment
 - Future Salaries
 - Unused Sick Leave
 - Probability of Annuity
 - Purchases of Credited Service
 - Probability of Vesting
 - Actuarial Cost Method
 - Actuarial Value of Assets
- Actuarial Schedules
 - Schedule of Active Member Valuation Data
 - Schedule of Retirees and Beneficiaries
- Summary of Actuarial and Unfunded Actuarial Liabilities
- Solvency Test
- Recommended vs. Actual Contributions

In addition, we reviewed the Summary of Plan Provisions and prepared the Schedules of Funding Progress in the Financial Section of this report.



Retirement Board
October 10, 2005
Page 2

Legislation enacted during 2003 had a significant impact on the actuarial liabilities of the System. The 2001, 2002 and 2003 valuations have been performed including the impact of the 2003 PERS Reform Legislation, but prior to final judicial review. Our certification does not include the impact of judicial reviews nor subsequent Retirement Board actions, if any.

The Retirement Board has sole authority to determine the actuarial assumptions and methods used for the valuation of the System. The Board adopted all of the actuarial methods and assumptions used in the 2003 valuation.

The findings have been determined according to actuarial assumptions and methods that were chosen on the basis of recent experience of the System and of current expectations concerning future economic conditions. In our opinion, the assumptions used in the actuarial valuation are appropriate for purposes of the valuation, are internally consistent, and reflect reasonable expectations. The assumptions represent our best estimate of future conditions affecting the System. Nevertheless, the emerging costs of the System will vary from those presented in this report to the extent that actual experience differs from that projected by the assumptions.

The actuarial valuation was prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the applicable Standards of Practice adopted by the Actuarial Standards Board of the American Academy of Actuaries. In addition, the assumptions and methods used meet the parameters set for disclosures by Governmental Accounting Standards Board Statement No. 25.

The undersigned is an independent actuary, a Fellow of the Society of Actuaries, a Member of the American Academy of Actuaries, an Enrolled Actuary, and experienced in performing valuations for large public employee retirement systems.

In conclusion, the Oregon Public Employees Retirement System was an actuarially sound system based on the actuarial methods, assumptions and benefit provisions in place on December 31, 2003.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mark O. Johnson".

Mark O. Johnson, F.S.A., M.A.A.A., E.A.
Principal and Consulting Actuary

MILLIMAN

Actuarial Assumptions and Methods

1. Economic Assumptions

a. Consumer Price Inflation	3.0 percent	(Adopted 2003)
b. Health Cost Inflation	Graded from 8.0 percent in 2005 to 5.0 percent in 2011	(Adopted 2001)
c. Investment Return (Portfolio)	8.0 percent net of investment and administrative expenses	(Adopted 1989)
d. Investment Return (Variable Program)	8.5 percent net of investment and administrative expenses	(Adopted 2003)
e. Interest on Member Accounts	8.0 percent	(Adopted 2003)
f. Wage Growth	4.0 percent	(Adopted 2003)

2. Mortality Tables (Adopted 2001)

Class	Service Retirees	Contributing Members
General Service	RP-2000	
Male	18-month setback	75 percent of retiree table
Female	18-month setback	60 percent of retiree table
Police and Fire	RP-2000	
Male	12-month setback	40 percent of retiree table
Female	18-month setback	40 percent of retiree table
School District	RP-2000	
Male	24-month setback	50 percent of retiree table
Female	36-month setback	50 percent of retiree table
Judge Members	RP-2000	
Male	18-month setback	100 percent of retiree table
Female	18-month setback	100 percent of retiree table
Disabled Members	Service retiree table set forward	
Male	36 months; minimum 2.5 percent	N/A
Female	Service retiree table set forward	
	24 months; minimum 3.0 percent	N/A
Surviving Beneficiaries	RP-2000	
Male	18-month setback	N/A
Female	18-month setback	N/A

3. Disability and Service Retirement (Adopted 2003)

Rates of disablement and retirement are illustrated in the following table.

Attained Age	State Employees			School Employees		Subdivision Employees			Judge Members ¹	
	General Service		Police and Fire	Male	Female	General Service		Police and Fire	Male	Female
	Male	Female				Male	Female			
Duty Disablement										
32	0.01%	0.01%	0.03%	0.01%	0.01%	0.02%	0.00%	0.11%	0.01%	0.02%
42	0.01	0.01	0.07	0.02	0.01	0.02	0.01	0.11	0.01	0.02
52	0.03	0.02	0.19	0.02	0.01	0.02	0.01	0.38	0.03	0.03
Ordinary Disablement										
32	0.10%	0.16%	0.08%	0.00%	0.00%	0.09%	0.02%	0.12%	0.07%	0.10%
42	0.16	0.24	0.20	0.13	0.17	0.13	0.23	0.30	0.10	0.16
52	0.40	0.69	0.33	0.64	0.45	0.66	0.75	0.51	0.21	0.45
Service Retirement - Tier One ²										
50	0.0%	0.0%	13.1%	0.0%	0.0%	0.0%	0.0%	11.3%	0.0%	0.0%
55	9.5	4.9	11.3	14.0	8.6	4.9	4.9	22.2	0.0	0.0
58	13.1	10.4	11.3	18.2	14.0	14.0	7.7	22.2	0.0	0.0
60	11.3	9.5	14.0	18.2	17.4	9.5	9.5	22.2	0.0	0.0
62	33.3	26.1	29.8	46.2	33.3	43.1	26.1	51.9	0.0	0.0
65	49.1	51.9	100.0	40.0	46.2	54.6	40.0	100.0	100.0	100.0
70	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
30 and Out	33.3%	18.2%	—	33.3%	33.3%	22.2%	14.0%	—	—	—

¹ All judge members are assumed to retire at age 63 under Plan B.

² Tier Two service retirement rates are reduced 33 percent for retirement from ages 55 through 59 for General Service and School Employee members.

4. Other Terminations of Employment (Adopted 2001)

A select period of five years is used in the withdrawal assumption. The rates of termination after five years of membership are illustrated in the following table:

Attained Age	State Employees			Subdivision Employees							
	General Service		Police and Fire	School Employees		General Services		Police and Fire	OHSU ¹		Judge Members
	Male	Female		Male	Female	Male	Female		Male	Female	
32	8%	8%	3%	5%	6%	4%	7%	3%	5%	9%	0%
42	4	5	2	2	3	3	5	2	4	6	-
52	3	3	-	2	2	2	3	-	2	4	-

¹ Oregon Health & Science University

5. Future Salaries (Adopted 2003)

The total annual rates of salary increase include an assumed 4.0 percent per annum rate of increase in the general wage level of the membership plus increases due to promotions and longevity based on attained service. The total rates of salary increase are illustrated below:

Attained Service	State Employees			Subdivision Employees			
	General Service	Police and Fire	School Employees	General Service	Police and Fire	OHSU ¹	Judge Members
5	5.80%	6.00%	6.50%	5.80%	6.50%	5.00%	4.00%
10	4.90	4.95	5.60	5.00	5.30	4.30	4.00
15	4.40	4.45	5.00	4.55	4.80	4.25	4.00
20	4.00	4.00	4.50	4.30	4.50	4.00	4.00

¹ Oregon Health & Science University

6. Unused Sick Leave (Adopted 2001)

For members covered by this provision, unused sick leave increases the final average salary used to calculate the pension. These members are assumed to receive an increase in their pensions on account of such provision varying from 3.0 percent to 10.0 percent.

7. Probability of Annuity (Adopted 2001)

The probability that retiring members will elect to receive an annuity based on their own contributions rather than a lump-sum distribution range is 80 percent.

8. Purchases of Credited Service (Adopted 2003)

It is assumed that all members retiring under the Full Formula and Formula Plus Annuity calculation methods purchase the six-month waiting period at the time of retirement.

9. Probability of Vesting (Adopted 2003)

The following table illustrates the probability that vested terminating members will elect to receive a deferred benefit instead of withdrawing accumulated contributions.

Attained Service	State Employees			Subdivision Employees						
	General Service	Police and Fire	School Employees	General Service		Police and Fire	Judge Members			
	Male	Female	Male	Female	Male	Female	Male	Female		
22	46%	46%	40%	63%	53%	44%	48%	50%	100%	100%
32	58	58	45	63	79	55	72	60	100	100
42	75	75	60	75	79	72	78	70	100	100
52	92	92	100	94	95	83	84	100	100	100

10. Actuarial Cost Method (Adopted 1999)

Accruing costs for all benefits are measured by the entry age actuarial cost method. The unfunded actuarial liability created by this method, including gains and losses, is amortized as a level percentage of salary over a period commencing on the valuation date and ending on December 31, 2027.

11. Actuarial Value of Assets (Adopted 2000)

The Actuarial Value of Assets is equal to the fair market value of assets on the valuation date, less a reserve equal to a *pro rata* portion of the investment gains (losses) over the four-year period ending on the valuation date. Investment gains (losses) effective from January 1, 2000, are recognized at the rate of 25.0 percent per year. The actuarial value of assets is limited to a 10.0 percent corridor above and below the fair market value.

Actuarial Schedules

Schedule of Active Member Valuation Data

Valuation Date	Number	Annual Payroll in Thousands	Average Annual Pay	Annualized % Increase Average
12/31/1993	137,513	4,466,797	32,483	4.9
12/31/1995	141,471	4,848,058	34,269	2.7
12/31/1997	143,194	5,161,562	36,045	2.6
12/31/1999	151,262	5,676,606	37,528	2.0
12/31/2000	156,869	6,195,862	39,497	5.2
12/31/2001	160,477	6,520,225	40,630	2.9 Old Basis
12/31/2001	160,477	6,253,965	38,971	— New Basis ¹
12/31/2002	159,287	6,383,475	40,075	2.8
12/31/2003	153,723	6,248,550	40,648	1.4

¹ Effective in 2001, the Annual Payroll excludes the member pick-up, if any.

Schedule of Retirees and Beneficiaries¹

Valuation Date	Number	Annual Allowances in Thousands	% Increase in Annual Allowances ²	Average Annual Allowances
12/31/1993	60,841	564,341	27.6	9,276
12/31/1995	64,796	700,171	24.1	10,806
12/31/1997	69,624	919,038	31.3	13,200
12/31/1999	82,819	1,299,380	41.4	15,689
12/31/2000	82,458	1,385,556	6.6	16,803
12/31/2001	85,216	1,514,491	9.3	17,772
12/31/2002	89,482	1,722,865	13.8	19,254
12/31/2003	97,777	2,040,533	8.4	20,869

¹ Information regarding the number of retirees and beneficiaries added to/removed from the rolls was not used in the actuarial valuations and was not available in the records given to the actuary.

² Since last valuation date.

Summary of Actuarial and Unfunded Actuarial Liabilities¹

(dollar amounts in millions)

Valuation Date	Aggregate Actuarial Liabilities	Valuation Assets ²	Assets as a % of Actuarial Liabilities	Unfunded Accrued Liabilities (UAL)	Annual Active Member Payroll	UAL as a % of Annual Active Member Payroll
12/31/1993	19,001.3	17,552.0	92	1,449.3	4,466.8	32
12/31/1995	23,248.6	20,957.6	90	2,291.0	4,848.1	47
12/31/1997	31,664.9	29,108.2	92	2,556.7	5,161.6	50
12/31/1999	40,907.9	39,964.8	98	943.1	5,676.6	17
12/31/2000	43,350.5	41,804.6	96	1,545.9	6,195.9	25
12/31/2001	45,947.7	39,852.2	87	6,095.5	6,254.0	97
12/31/2001 ³	37,821.6	39,852.2	105	(2,030.6)	6,254.0	(32)
12/31/2002 ³	39,520.5	36,316.8	92	3,203.7	6,383.5	50
12/31/2003 ³	44,625.6	42,874.4	96	1,751.2	6,248.5	28

¹ An extensive revision of the actuarial valuation assumptions occurs at each valuation; therefore, the figures are not directly comparable.

² Includes value of UAL Lump-Sum Accounts beginning in 2002.

³ The 2001 valuation was revised to include the input of PERS Reform Legislation enacted in 2003.

Solvency Test

(dollar amounts in millions)

Valuation Date	(1)	(2)	(3)	Valuation Assets ²	Portion of Actuarial Liabilities Covered by Assets		
	Active Member Contributions	Retirees and Beneficiaries	Other Members (Employer Financed) ¹		(1)	(2)	(3)
12/31/1993	4,853.4	6,239.3	7,908.6	17,552.0	100	100	82
12/31/1995	5,753.0	7,492.8	10,002.8	20,957.6	100	100	77
12/31/1997	8,135.4	9,994.9	13,534.6	29,108.2	100	100	81
12/31/1999	8,238.1	14,333.7	18,336.1	39,964.8	100	100	95
12/31/2000	10,142.5	15,664.1	17,543.9	41,804.6	100	100	91
12/31/2001	10,252.8	17,465.9	18,229.0	39,852.2	100	100	67
12/31/2001 ³	10,252.8	17,340.0	10,228.8	39,852.2	100	100	120
12/31/2002 ³	9,940.7	19,339.0	10,240.8	36,316.8	100	100	69
12/31/2003 ³	9,005.8	23,625.9	11,993.9	42,874.4	100	100	85

¹ An extensive revision of the actuarial valuation assumptions occurs at each valuation; therefore, the figures are not directly comparable.

² Includes value of UAL Lump Sum Accounts beginning in 2002.

³ The 2001 valuation was revised to include the input of PERS Reform Legislation enacted in 2003.

Recommended vs. Actual Contributions

Separate contribution rates are adopted by the Board for all state agencies, community colleges, all school districts combined, and the state judiciary. Each individual political subdivision employer (470 subdivision employers on December 31, 2003) has a unique contribution rate. The rates adopted by the Board were those recommended by the actuary after each valuation and after legislative changes enacted subsequent to the valuations, except for the 2000 and 2002 interim actuarial valuations which did not impact employer contribution rates.

Plan Summary

Summary of Plan Provisions as of December 31, 2003

(including the impact of PERS Reform Legislation in 2003, but prior to final judicial review)

Membership

All employees of public employers participating in this system who are in qualifying positions become members of the System after completing six months of service.

Employee Contributions Mandatory

Employment categories

All.

Amount of mandatory contributions

Employee contributions are at a fixed rate of 6 percent of salary except for some cases where another rate from an old law is still in effect. Judges contribute at the rate of 7 percent of salary. Some employers have elected to “pick-up” employee contributions.

Unit Purchases

Purpose

To allow police officers and firefighters to purchase, jointly with their employers, additional benefits payable between retirement and age 65.

Amount of employee contributions

That amount actuarially determined to be necessary to provide half the additional benefits desired. Benefits are in units of \$10 per month. A total of eight units may be purchased providing \$80 per month at age 60.

Matching feature

Each unit purchased by the member is matched by an equal benefit from the employer.

Employer Contribution

To provide for benefits earned by prior service

As necessary to pay for such benefits amortized over a 24-year period beginning January 1, 2004, and ending on December 31, 2027.

To provide for benefits earned by current service

Normal costs plus amounts as necessary to pay for the excess of the value of such benefits over the sum of the present value of future normal costs plus the assets available to provide benefits amortized over a 24-year period beginning January 1, 2004, and ending on December 31, 2027.

Prior Service Credit

State and school district employees prior to formation of System

Service prior to July 1946, but not to exceed 20 years.

Other employees prior to employer joining System

Service prior to the date on which the employer commenced participation in the System, as determined by formula agreed upon by the Board of the System and the governing body of the public employer.

Normal Retirement Allowance

Eligibility

Police officers and firefighters

Age 55

Judges

Age 65

Others

Age 58

Amount of monthly retirement allowance: Full Formula

The sum of:

- a. a current service life pension equal to final average monthly salary times years of service times a percentage factor (see table on next page), plus
- b. a prior service life pension of \$4 (\$6 for employees retired before April 8, 1953) times years of prior service.

Minimum monthly retirement allowance

\$100 for an employee with at least 15 years of creditable service. This is actuarially reduced if retirement occurs prior to age 65. Benefits under the former judges' system are grandfathered for those who retire after age 70 with at least 12 years of service.

Formula Plus Annuity

For members making contributions prior to August 21, 1981, the benefit will not be less than the sum of:

- a. an annuity actuarially equivalent to the employee's accumulated contributions with interest, plus
- b. a current service life pension equal to final average monthly salary times years of service times a percentage factor (see table below under "Old") but at least equal to the annuity.

Money Match

In no case will the current service allowance be less than:

- a. an annuity actuarially equivalent to the employee's accumulated contributions with interest, plus
- b. a matching amount from the employer.

	Percentage Factor		Limitation on Years of Membership Service ¹
	New	Old	
Police Officers, Firefighters, and Legislators	2.00%	1.35%	None
Judges ²	Plan A	2.8125	16-year limit on new percentage factor. Old factor used for service after 16 years.
	Plan B	3.75	
Others	1.67	1.00	None

¹ If the participant has at least 10 years of membership service and agrees to pay an amount equal to the employer plus employee contribution that would have been paid, credit is granted for the six-month waiting period.

² Under law, the maximum benefit payable is 65 percent of final average salary for Plan A, and 75 percent for Plan B.

Early Retirement Allowance**Eligibility**

- Police officers and firefighters
 - Age 50 or 25 years of service
- Judges
 - Age 60
- Others
 - Age 55 or 30 years of service

Amount of Benefit

- Police officers and firefighters
 - Normal retirement allowance, actuarially reduced if retirement occurs prior to age 55 or 25 years of service.
- Judges
 - Normal retirement allowance, actuarially reduced from age 65 for Plan A judges.
- Others
 - Normal retirement allowance, actuarially reduced if retirement occurs prior to age 58 or 30 years of service.

Optional Forms of Benefit Payment**Options available**

1. Lifetime annuity
2. Cash refund annuity
3. Lifetime annuity guaranteed 15 years
4. Joint and 100 percent survivor contingent annuity, with or without pop-up feature
5. Joint and 50 percent survivor contingent annuity, with or without pop-up feature
6. Lump sum of employee contributions and interest plus life pension (under any form) for current service under old law and prior service pension.

Amount of benefit

All options are actuarially equivalent.

Special judges' provision

The normal form is a joint and two-thirds survivor contingent benefit for a married judge and a cash refund annuity for an unmarried judge.

Death Benefit Prior to Retirement

Eligibility

Judges

Six or more years of service

Others

All members

Amount of benefit

Judges

1. The spouse shall receive a life pension equal to two-thirds of the service allowance.

2. The beneficiary of an unmarried judge shall receive the member's accumulated contributions with interest.

Others

1. If death occurs while the member is an employee of a participating employer, within 120 days of termination if the employee does not withdraw the account balance or retire, or if death results from injury received while in the service of a participating employer, the benefit is the member's accumulated contributions with interest plus an equal amount from employer contributions.

2. If death occurs more than 120 days after termination, the benefit is the member's accumulated contributions with interest.

Survivor Benefit After Retirement

Amount of benefit

Continuation of payments in accordance with the optional form of retirement allowance, if such election was made.

Additional Death Benefits For Police Officers And Firefighters

Eligibility

Spouse or dependent children under age 18 of deceased police officer or firefighter whose death occurred after retirement for service or disability.

Amount of benefit

Twenty-five percent of the unmodified retirement allowance that the police officer or firefighter was entitled to at the time of death.

Disability Benefits: Duty-Related

Eligibility

Disablement occurring as a direct result of a job-incurred injury or illness, regardless of length of service.

Amount of benefit

The sum of:

a. the current service pension the employee would be entitled to at age 58 (age 55 if police officer or firefighter; age 65 if a judge) or age at disablement, if greater, plus

b. the same prior service pension the employee would be entitled to at normal retirement date.

Police officers' and firefighters' alternatives

In lieu of the above, police officers and firefighters may elect to receive a benefit of 50 percent of final average salary at the time of disablement.

Minimum monthly retirement allowance

Judges

45 percent of final average salary

Others

\$100. This is actuarially reduced if an optional form of benefits is chosen.

Reduction of benefits

Whenever a disabled employee's disability benefit and earned income for any month exceed the monthly salary received at the time of disablement, the disability benefit will be reduced by the excess, but the combined income shall not be reduced to less than \$400 per month.

Disability Benefits: Non-Duty Related

Eligibility

Disablement occurring after 10 years of service (six years, if a judge), but prior to normal retirement age.

Amount of benefit

Same as duty-related disability benefits, but with no police officers' and firefighters' alternative benefit.

Withdrawal of Benefits

Form of benefit

Payment of accumulated employee contributions with interest. Judges must have completed at least five years of service; otherwise, contributions are forfeited.

Vested Benefits

Eligibility

Contributions made in five calendar years without withdrawal of contributions.

Form of benefit

A deferred retirement allowance with payments starting on or after the employee's earliest retirement date. During the deferral period, the vested employee is, in some instances, eligible for death and disability benefits.

Amount of benefit

Service retirement allowance, actuarially reduced to the age at which benefits start.

Alternative

In lieu of all other benefits and prior to voluntary retirement age, a member may receive a payment of accumulated contributions with interest.

Postemployment Adjustments

Benefits affected

Applicable pension and annuity benefits except unit purchases.

Provisions

Benefits are adjusted annually to reflect the increase or decrease in the Consumer Price Index (CPI) (Portland area — all items) as published by the Bureau of Labor Statistics, U.S. Department of Labor.

The maximum adjustment to be made for any year is 2.0 percent of the previous year's benefit. Any CPI change in excess of 2.0 percent is accumulated for future benefit adjustments that would otherwise be less than 2.0 percent. No benefit will be decreased below its original amount. In addition, the Legislature periodically has granted *ad hoc* increases.

In addition to the provisions described above, all members are eligible for a benefit adjustment equal to the greater of (a) or (b):

(a) Senate Bill 656

For all benefits, except the return of member contributions, an adjustment equal to the following percentage:

<u>Benefit Increase</u>		
<u>Years of Service</u>	<u>General Service</u>	<u>Police and Fire</u>
0 - 9	0.0%	0.0%
10 - 14	1.0	1.0
15 - 19	1.0	1.0
20 - 24	2.0	2.5
25 - 29	3.0	4.0
30+	4.0	4.0

(b) House Bill 3349

For all benefits, an adjustment equal to the following multiplier:

$$\frac{1}{\text{1 - maximum Oregon personal income tax rate}} \times \frac{\text{creditable service prior to October 1, 1991}}{\text{all creditable services}}$$

Variable Annuity Program

Employee contributions

Prior to January 1, 2004, an employee could elect to have 25, 50, or 75 percent of his or her contributions placed into the Variable Annuity Account.

Investment of contributions to Variable Annuity Account

Money in the Variable Annuity Account may be invested by the Oregon Investment Council in any investment authorized for the System, but is to be directed primarily to equity investments.

Benefits purchased from Variable Annuity Account funds at retirement

At retirement an employee may elect to receive a variable annuity with the funds accumulated in his or her Variable Account.

The variable annuity portion of the benefit is thus increased or decreased annually to reflect investment gains and losses of the variable annuity portfolio.

Alternatively, the employee may elect to have all variable funds in his or her account transferred to the regular fund and receive an annuity from the System as though no variable annuity program existed. The benefit is increased or decreased to reflect the value of the Variable Annuity Account at retirement. No subsequent changes after retirement are made.

Retiree Healthcare: Medicare Supplement

Eligibility

A member is eligible for a Retirement Health Insurance Account contribution if he or she is:

1. currently receiving a retirement benefit or allowance from the System,
2. accrued eight years of creditable service before retirement,
3. enrolled in a PERS-sponsored health plan, and
4. enrolled in both Medicare Part A and Part B.

Benefit

A monthly contribution of up to \$60 per retiree is applied to PERS-sponsored Medicare supplemental insurance costs.

Retiree Healthcare: Under Age 65

Eligibility

Retired state employees.

Benefit

A monthly subsidy based on the average difference between the health insurance premiums paid by retired state employees in a PERS-sponsored plan and those paid by active state employees in a state-sponsored plan. The difference is attributable to grouping retired state employees separately from active state employees.

The average difference is the maximum subsidy allowed and is recalculated every year. The scheduled subsidy as a percentage of the maximum subsidy is shown to the right.

Years of Service	Subsidized Amount
Under 8	0%
8 - 9	50
10 - 14	60
15 - 19	70
20 - 24	80
25 - 29	90
30+	100

Changes in PERS due to 2003 PERS Reform Legislation

Member Contributions

Beginning in January 2004, member contributions for all active members (except judges) will be deposited in the OPSRP Individual Account Program, which is supplemental to the determination of the PERS retirement benefit.

Tier One Interest Credits

No earnings may be credited to Tier One regular accounts in any year in which there is a Deficit Reserve, and no earnings may be credited that would result in a deficit. This change becomes effective with the crediting of earnings for 2003. The assumed interest rate guarantee applies on a compounded basis for all years of membership rather than individually in each year. Interest credits may not exceed the assumed interest rate until the Tier One Rate Guarantee Reserve has been fully funded in each of the last three years.

Suspension of Postemployment Adjustments

For Tier One members who retire with an effective date of retirement on or after April 1, 2000, and before April 1, 2004, and receive a service retirement allowance under the Money Match formula, a "Revised Service Retirement Allowance" is calculated. The Revised Service Retirement Allowance is calculated with the member's regular account balance adjusted as though 11.33 percent was credited for 1999 (instead of 20 percent) and includes an imputed cost-of-living adjustment. Members will receive the Fixed Service Retirement Allowance, the benefit amount received on July 1, 2003, with no additional postemployment adjustment until the Revised Service Retirement Allowance with postemployment adjustments provides a higher benefit.

Actuarial Equivalency Conversion Factors

For effective retirement dates on or after July 1, 2003, new actuarial factors are put into use. The retirement allowance uses the member account balance, final average salary, years of service, and actuarial factors in effect as of the retirement date. The allowance can be no less than that produced by a "look-back" calculation which uses the member account balance, final average salary, years of service, and actuarial factors in effect on June 30, 2003.

150 Percent Lump Sum Distribution

An inactive member who withdraws the member account balance between July 1, 2004, and June 30, 2006, receives an additional 50 percent of the account balance. The member must have been inactive on January 1, 2000, and must remain inactive to the date of withdrawal. The member must be vested.

Analysis of Financial Experience

An analysis of the gains and losses has not been performed in conjunction with the valuations. Therefore, the figures for this statement are not available. However, an extensive review of all actuarial assumptions is required to be performed at each biennial actuarial valuation.

Independent Actuarial Review Opinion

The firm of Milliman, Inc. is retained as an independent actuarial consultant by the System. All of the information presented in this section of the report has been prepared by Milliman, Inc.

Statistical Section

Revenues by Source For the Years Ended June 30:

Defined Benefit Pension Plan

Fiscal Year	Member Contributions	Employer Contributions		Contributions from Other Sources	Net Investment and Other Income	Total
		Dollars ¹	Percent of Annual Covered Payroll			
1996	\$ 289,734,738	\$ 415,704,528	8.40%	\$ 16,754,883	\$ 3,970,105,115	\$ 4,692,299,264
1997	303,723,333	433,289,222	8.83	17,111,261	4,827,330,145	5,581,453,961
1998	322,378,126	455,531,987	8.86	17,957,112	4,861,851,105	5,657,718,330
1999	338,859,319	473,096,323	8.97	17,502,513	3,491,728,315	4,321,186,470
2000	348,244,045	1,022,650,598	17.53	19,121,874	6,680,242,927	8,070,259,444
2001	370,165,609	639,010,754	10.80	20,278,204	(3,465,913,890)	(2,436,459,323)
2002	391,542,211	989,078,917	15.56	20,939,073	(2,422,055,208)	(1,020,495,007)
2003	400,988,567	2,578,989,169	39.91	21,436,993	1,465,990,471	4,467,405,200
2004	185,693,017	3,164,219,088	63.39	23,763,183	7,182,524,205	10,556,199,493
2005	9,590,285	785,753,821	14.77	23,587,024	5,685,489,549	6,504,420,679

Postemployment Healthcare Plan²

Fiscal Year	Member Contributions	Employer Contributions		Contributions from Other Sources	Net Investment and Other Income	Total
		Dollars	Percent of Annual Covered Payroll			
1996	\$ N/A	\$ 29,903,612	0.60%	\$ N/A	\$ (721,711)	\$ 29,181,901
1997	N/A	28,489,876	0.58	N/A	559,558	29,049,434
1998	N/A	36,425,398	0.71	N/A	(216,554)	36,208,844
1999	N/A	37,282,630	0.71	N/A	855,465	38,138,095
2000	36,870,774	41,242,733	0.71	N/A	9,845,657	87,959,164
2001	45,492,117	43,472,869	0.74	N/A	(2,524,623)	86,440,363
2002	52,273,896	41,578,731	0.65	N/A	(3,543,720)	90,308,907
2003	66,380,497	42,848,647	0.66	N/A	3,479,214	112,708,358
2004	72,894,536	43,720,234	0.88	N/A	21,520,377	138,135,147
2005	85,791,038	39,653,030	0.75	N/A	17,940,668	143,384,736

Oregon Public Service Retirement Plan³ Pension Program

Fiscal Year	Member Contributions	Employer Contributions		Contributions from Other Sources	Net Investment and Other Income	Total
		Dollars	Percent of Annual Covered Payroll			
2004	\$ N/A	\$ 1,933,985	N/A%	\$ N/A	\$ 14,966	\$ 1,948,951
2005	N/A	30,054,164	2.97	N/A	1,269,828	31,323,992

Oregon Public Service Retirement Plan³ Individual Account Program

Fiscal Year	Member Contributions	Employer Contributions		Contributions from Other Sources	Net Investment and Other Income	Total
		Dollars	Percent of Annual Covered Payroll			
2004	\$ 201,306,142	\$ N/A	N/A%	\$ N/A	\$ 1,606,791	\$ 202,912,933
2005	362,893,934	N/A	N/A	N/A	51,969,806	414,863,740

Deferred Compensation Plan⁴

Fiscal Year	Member Contributions	Employer Contributions		Contributions from Other Sources	Net Investment and Other Income	Total
		Dollars	Percent of Annual Covered Payroll			
1998	\$ 51,781,886	\$ N/A	N/A%	\$ N/A	\$ 62,151,320	\$ 113,933,206
1999	34,550,787	N/A	N/A	N/A	59,157,120	93,707,907
2000	41,512,686	N/A	N/A	N/A	69,840,556	111,353,242
2001	43,512,667	N/A	N/A	N/A	(61,887,870)	(18,375,203)
2002	47,472,963	N/A	N/A	N/A	(41,865,658)	5,607,305
2003	50,279,420	N/A	N/A	N/A	15,987,532	66,266,952
2004	56,479,388	N/A	N/A	N/A	79,874,001	136,353,389
2005	56,542,080	N/A	N/A	N/A	53,506,406	110,048,486

¹ Employer contributions for fiscal years 2000 and thereafter include employer prepayments of unfunded liabilities.

² Standard Retiree Health Insurance account activity was added to the System July 1, 1999.

³ The Oregon Public Service Retirement Plan became fully operational in January 2004, and information prior to 2004 is not available.

⁴ Deferred Compensation information prior to 1998 is not available.

Expenses by Type For the Years Ended June 30:

Defined Benefit Pension Plan

Fiscal Year	Benefits	Administrative Expenses	Refunds	Total
1996	\$ 760,759,150	\$ 11,867,713	\$ 51,914,136	\$ 824,540,999
1997	882,187,884	13,227,283	52,542,067	947,957,234
1998	1,574,494,076	15,183,982	56,893,468	1,646,571,526
1999	1,343,217,654	15,666,811	50,530,792	1,409,415,257
2000	1,442,314,231	18,568,579	51,726,463	1,512,609,273
2001	1,578,497,193	25,374,819	46,243,701	1,650,115,713
2002	1,688,072,888	17,456,752	46,086,912	1,751,616,552
2003	2,000,324,195	16,784,817	42,640,295	2,059,749,307
2004	2,518,986,074	24,874,201	42,193,518	2,586,053,793
2005	2,364,400,988	27,744,201	60,241,863	2,452,387,052

Postemployment Healthcare Plan¹

Fiscal Year	Benefits	Administrative Expenses	Refunds	Total
1996	\$ 21,144,177	\$ 1,371,756	\$ N/A	\$ 22,515,933
1997	21,726,518	1,449,323	N/A	23,175,841
1998	22,437,919	1,422,420	N/A	23,860,339
1999	23,090,627	1,789,977	N/A	24,880,604
2000	59,448,485	2,112,148	N/A	61,560,633
2001	64,018,157	2,209,878	N/A	66,228,035
2002	74,158,532	2,225,181	N/A	76,383,713
2003	109,778,474	2,274,818	N/A	112,053,292
2004	107,186,600	2,378,635	N/A	109,565,235
2005	113,662,280	2,608,005	N/A	116,270,285

Oregon Public Service Retirement Plan²

Pension Program

Fiscal Year	Benefits	Administrative Expenses	Refunds	Total
2004	\$ N/A	\$ 1,444,056	\$ N/A	\$ 1,444,056
2005	N/A	6,939,098	N/A	6,939,098

Oregon Public Service Retirement Plan²

Individual Account Program

Fiscal Year	Benefits	Administrative Expenses	Refunds	Total
2004	\$ N/A	\$ 1,400,300	\$ N/A	\$ 1,400,300
2005	1,234,891	5,243,347	N/A	6,478,238

Deferred Compensation Plan³

Fiscal Year	Benefits	Administrative Expenses	Refunds	Total
1998	\$ 36,226,625	\$ 546,537	\$ N/A	\$ 36,773,162
1999	14,045,802	475,878	N/A	14,521,680
2000	26,484,319	607,203	N/A	27,091,522
2001	28,387,233	589,512	N/A	28,976,745
2002	41,149,643	685,523	N/A	41,835,166
2003	33,596,122	660,144	N/A	34,256,266
2004	40,377,599	759,180	N/A	41,136,779
2005	39,406,579	703,809	N/A	40,110,388

¹ Standard Retiree Health Insurance account activity was added to the System July 1, 1999.

² The Oregon Public Service Retirement Plan became fully operational in January 2004, and information prior to 2004 is not available.

³ Deferred Compensation information prior to 1998 is not available.

Revenues by Source

For the Years Ended December 31¹:

Defined Benefit Pension Plan

Calendar Year	Member Contributions	Employer Contributions		Contributions from Other Sources	Net Investment and Other Income	Total
		Dollars ²	Percent of Annual Covered Payroll			
1995	\$ 285,912,537	\$ 401,403,529	8.28%	\$ 16,450,744	\$ 4,110,617,339	\$ 4,814,384,149
1996	296,417,998	432,112,090	8.95	17,132,464	4,358,354,523	5,104,017,075
1997	291,120,161	440,001,230	8.81	17,361,420	4,582,430,090	5,330,912,901
1998	318,434,441	452,088,742	8.72	18,625,828	3,976,901,225	4,766,050,236
1999	347,053,753	981,343,197	17.70	18,671,028	7,455,428,861	8,802,496,839
2000	358,532,128	617,392,002	10.52	20,251,776	140,492,280	1,136,668,186
2001	385,221,900	715,640,552	11.52	20,591,587	(2,704,326,428)	(1,582,872,389)
2002	397,510,787	1,705,408,456	26.39	21,294,266	(3,453,139,033)	(1,328,925,524)
2003	404,989,521	3,726,733,326	58.44	21,371,245	8,841,448,116	12,994,542,208
2004	14,180,906	1,024,403,656	18.39	23,235,053	5,883,382,194	6,945,201,809

Postemployment Healthcare Plan³

Calendar Year	Member Contributions	Employer Contributions		Contributions from Other Sources	Net Investment and Other Income	Total
		Dollars	Percent of Annual Covered Payroll			
1995	\$ N/A	\$ 25,772,074	0.53%	\$ N/A	\$ (811,528)	\$ 24,960,546
1996	N/A	30,396,820	0.63	N/A	(581,094)	29,815,726
1997	N/A	32,910,294	0.66	N/A	(460,449)	32,449,845
1998	N/A	35,950,477	0.69	N/A	882,186	36,832,663
1999	N/A	39,120,067	0.71	N/A	7,073,415	46,193,482
2000	41,997,999	42,183,758	0.72	N/A	2,137,657	86,319,414
2001	46,694,469	43,083,579	0.69	N/A	(3,444,763)	86,333,285
2002	42,936,743	58,309,342	0.90	N/A	(6,967,896)	94,278,189
2003	74,112,002	42,965,257	0.67	N/A	24,699,952	141,777,211
2004	76,650,658	40,602,649	0.73	N/A	17,291,781	134,545,088

Oregon Public Service Retirement Plan⁴ Pension Program

Calendar Year	Member Contributions	Employer Contributions		Contributions from Other Sources	Net Investment and Other Income	Total
		Dollars	Percent of Annual Covered Payroll			
2003	\$ N/A	\$ N/A	N/A%	\$ N/A	\$ N/A	\$ N/A
2004	N/A	10,788,834	N/A	N/A	580,042	11,368,876

Oregon Public Service Retirement Plan⁴ Individual Account Program

Calendar Year	Member Contributions	Employer Contributions		Contributions from Other Sources	Net Investment and Other Income	Total
		Dollars	Percent of Annual Covered Payroll			
2003	\$ N/A	\$ N/A	N/A%	\$ N/A	\$ N/A	\$ N/A
2004	357,062,609	N/A	N/A	N/A	31,356,902	388,419,511

Deferred Compensation Plan⁵

Calendar Year	Member Contributions	Employer Contributions		Contributions from Other Sources	Net Investment and Other Income	Total
		Dollars	Percent of Annual Covered Payroll			
1998	\$ 40,915,041	\$ N/A	N/A%	\$ N/A	\$ 57,926,233	\$ 98,841,274
1999	40,900,068	N/A	N/A	N/A	96,754,765	137,654,833
2000	48,984,327	N/A	N/A	N/A	(18,990,331)	29,993,996
2001	42,815,469	N/A	N/A	N/A	(44,610,460)	(1,794,991)
2002	51,123,470	N/A	N/A	N/A	(50,282,443)	841,027
2003	50,217,519	N/A	N/A	N/A	99,459,493	149,677,012
2004	59,671,251	N/A	N/A	N/A	68,420,696	128,091,947

¹ Calendar year-end information is provided because earnings are distributed as of December 31.

² Employer contributions for calendar year 1999 and thereafter include prepayments of the unfunded actuarial liability based on the 1999 and 2001 actuary valuations.

³ Standard Retiree Health Insurance account activity was added to the System July 1, 1999.

⁴ The Oregon Public Service Retirement Plan became fully operational in January 2004, and there were no revenues prior to 2004.

⁵ Deferred Compensation information prior to 1998 is not available.

Expenses by Type For the Years Ended December 31¹:

Defined Benefit Pension Plan

Calendar Year	Benefits	Administrative Expenses	Refunds	Total
1995	\$ 740,128,144	\$ 11,573,568	\$ 42,292,938	\$ 793,994,650
1996	802,862,785	12,026,101	43,850,630	858,739,516
1997	1,292,499,686	13,377,687	56,034,638	1,361,912,011
1998	1,308,791,798	15,991,040	58,616,445	1,383,399,283
1999	1,423,239,307	17,636,439	47,338,113	1,488,213,859
2000	1,529,826,160	22,240,490	48,558,962	1,600,625,612
2001	1,647,429,438	20,934,512	42,537,159	1,710,901,109
2002	1,768,022,037	16,156,679	39,767,828	1,823,946,544
2003	2,327,285,109	22,870,230	44,485,825	2,394,641,164
2004	2,455,542,804	24,427,810	75,329,010	2,555,299,624

Postemployment Healthcare Plan²

Calendar Year	Benefits	Administrative Expenses	Refunds	Total
1995	\$ 20,934,989	\$ 1,437,917	\$ N/A	\$ 22,372,906
1996	21,415,108	1,410,077	N/A	22,825,185
1997	22,056,428	1,477,442	N/A	23,533,870
1998	22,794,955	2,110,411	N/A	24,905,366
1999	39,616,270	1,885,042	N/A	41,501,312
2000	60,920,905	2,148,202	N/A	63,069,107
2001	69,921,725	2,224,045	N/A	72,145,770
2002	90,470,569	2,292,036	N/A	92,762,605
2003	108,955,368	2,311,537	N/A	111,266,905
2004	111,979,717	2,436,300	N/A	114,416,017

Oregon Public Service Retirement Plan³ Pension Program

Calendar Year	Benefits	Administrative Expenses	Refunds	Total
2003	\$ N/A	\$ 156,733	\$ N/A	\$ 156,733
2004	N/A	5,537,867	N/A	5,537,867

Oregon Public Service Retirement Plan³ Individual Account Program

Calendar Year	Benefits	Administrative Expenses	Refunds	Total
2003	\$ N/A	\$ 264,574	\$ N/A	\$ 264,574
2004	5,427,371	4,472,158	845,558	10,745,087

Deferred Compensation Plan⁴

Calendar Year	Benefits	Administrative Expenses	Refunds	Total
1998	\$ 22,421,987	\$ 546,997	\$ N/A	\$ 22,968,984
1999	25,252,693	568,686	N/A	25,821,379
2000	34,886,565	619,774	N/A	35,506,339
2001	29,114,174	660,738	N/A	29,774,912
2002	41,926,056	691,968	N/A	42,618,024
2003	38,162,887	745,559	N/A	38,908,446
2004	41,080,360	748,208	N/A	41,828,568

¹ Calendar year-end information is provided because earnings are distributed as of December 31.

² Standard Retiree Health Insurance account activity was added to the System July 1, 1999.

³ The Oregon Public Service Retirement Plan became fully operational in January 2004, and information prior to 2003 is not available.

⁴ Deferred Compensation information prior to 1998 is not available.

**Schedule of Benefit Expenses By Type -
Defined Benefit Pension Plan
For the Years Ended June 30:**

Fiscal Year	Service Benefits	Disability Benefits		Death Benefits	Refunds	Total
		Duty	Non-Duty			
1996	\$ 712,724,411	\$ 4,907,472	\$ 35,785,241	\$ 7,342,026	\$ 51,914,136	\$ 812,673,286
1997	829,635,096	5,246,985	40,722,296	6,583,507	52,542,067	934,729,951
1998	1,493,706,047	8,424,021	61,959,497	10,404,511	56,893,468	1,631,387,544
1999	1,272,018,822	6,747,274	53,102,285	11,349,273	50,530,792	1,393,748,446
2000	1,369,434,952	7,328,142	56,328,089	9,223,048	51,726,463	1,494,040,694
2001	1,498,822,236	7,822,924	62,163,492	9,688,541	46,243,701	1,624,740,894
2002	1,599,474,816	8,496,606	69,979,830	10,121,636	46,086,912	1,734,159,800
2003	1,910,349,266	9,102,457	74,949,807	5,922,665	42,640,295	2,042,964,490
2004	2,419,546,374	10,035,722	80,793,816	8,610,162	42,193,518	2,561,179,592
2005	2,257,190,138	10,929,003	85,709,442	10,572,405	60,241,863	2,424,642,851

**Schedule of Earnings and Distribution
at December 31¹:**

Year	Regular Tier One Account Earnings/(Loss) Available for Distribution	Distribution		Variable Account Earnings/(Loss) Distributed
		Tier One	Tier Two ²	
1995	20.7829%	12.50%		29.92%
1996	24.4204	21.00	24.42%	21.06
1997	20.4232	18.70	20.42	28.87
1998	15.4300	14.10	13.63	21.45
1999	24.8900	11.33 ³	21.97	28.83
2000	0.6300	8.00	0.54	(3.24)
2001	(7.1700)	8.00	(6.66)	(11.19)
2002	(8.9300)	8.00	(8.93)	(21.51)
2003	23.7900	8.00 ³	22.00	34.68
2004	13.8000	8.00	13.27	13.00

¹ Calendar year-end information is provided because earnings are distributed as of December 31.

² The law creating Tier Two became effective January 1, 1996.

³ Revised by the Board based upon Oregon Supreme Court decisions.

Retirement System Membership at December 31:

	1975	1980	1985	1990	1995	2000
State Agencies	35,191	37,935	37,824	46,187	45,068	42,434
School Districts	44,400	46,150	47,590	48,144	55,734	63,133
Political Subdivisions	14,665	23,728	26,238	33,177	40,635	53,291
Inactive Members	<u>10,354</u>	<u>14,128</u>	<u>15,920</u>	<u>23,225</u>	<u>32,033</u>	<u>44,830</u>
Total Non-Retired	104,610	121,941	127,572	150,733	173,470	203,688
Retired Members	<u>22,227</u>	<u>32,832</u>	<u>46,181</u>	<u>55,540</u>	<u>64,796</u>	<u>82,355</u>
Total Membership	<u>126,837</u>	<u>154,773</u>	<u>173,753</u>	<u>206,273</u>	<u>238,266</u>	<u>286,043</u>
Administrative Expense	\$ 1,007,293	\$ 1,949,677	\$ 2,905,072	\$ 8,901,091	\$ 13,500,677	\$ 24,358,550
Pension Roll (one month)	\$ 2,929,285	\$ 7,474,402	\$ 18,083,614	\$ 33,175,888	\$ 58,457,531	\$ 122,467,087

Retirement System Membership at June 30:

	2000	2001	2002	2003	2004	2005
State Agencies	\$ 42,188	43,212	43,947	42,263	41,818	39,588
School Districts	63,944	65,962	67,124	63,132	62,804	58,566
Political Subdivisions	52,852	54,749	55,991	54,374	56,186	51,768
Inactive Members	<u>42,937</u>	<u>46,460</u>	<u>48,725</u>	<u>53,815</u>	<u>48,627</u>	<u>48,017</u>
Total Non-Retired	201,921	210,383	215,787	213,584	209,435	197,939
Retired Members and Beneficiaries	<u>81,116</u>	<u>83,223</u>	<u>86,082</u>	<u>91,526</u>	<u>98,686</u>	<u>100,124</u>
Total Membership	<u>283,037</u>	<u>293,606</u>	<u>301,869</u>	<u>305,110</u>	<u>308,121</u>	<u>298,063</u>
Administrative Expense	\$ 20,680,727	\$ 27,584,697	\$ 19,681,933	\$ 19,059,635	\$ 30,097,192	\$ 42,534,651
Pension Roll (one month)	\$ 109,290,162	\$ 126,469,160	\$ 135,201,238	\$ 189,744,852	\$ 207,501,846	\$ 184,518,138

Schedule of Participating Employers (890)**State (132)**

Adult and Family Services
 Appraiser Certification and Licensure Board
 Board of Accountancy
 Board of Architect Examiners
 Board of Chiropractic Examiners
 Board of Engineering Examiners
 Board of Geologists
 Board of Investigators
 Board of Medical Examiners
 Board of Optometry
 Board of Psychologist Examiners
 Board of Tax Services Examiners
 Bureau of Labor and Industries
 Capitol Planning Commission
 Children's Trust Fund
 Commission for Women
 Commission on Asian Affairs
 Commission on Black Affairs
 Commission on Hispanic Affairs
 Commission on Judicial Fitness
 Construction Contractors Board
 Department of Administrative Services
 Department of Agriculture
 Department of Aviation
 Department of Consumer and Business Services
 Department of Corrections
 Department of Education
 Department of Education Contractors
 Department of Energy
 Department of Environmental Quality
 Department of Human Resources
 Department of Justice
 Department of Land Conservation and Development
 Department of Military — Federal Employees
 Department of Revenue
 Department of State Police
 Department of Transportation
 Department of Veterans' Affairs
 Dispute Resolution Commission
 District Attorneys Department
 Division of State Lands
 Eastern Oregon Psychiatric Center
 Eastern Oregon Training Center
 Economic Development Department
 Employment Department
 Employment Relations Board
 Fairview Training Center
 Forestry Department
 Geology and Mineral Industries
 Government Standards and Practices Commission
 Health Related Licensing Boards
 Indian Services Commission
 Industries for the Blind
 Insurance Pool Governing Board
 Judicial Department
 Land Use Board of Appeals
 Landscape Architects Board

Legislative Administration Committee
 Legislative Assembly
 Legislative Committees
 Legislative Fiscal Office
 Long Term Care Ombudsman
 Mental Health Division
 Military Department
 Office of Community College Services
 Office of the Governor
 Office of Legislative Counsel
 Office of the Public Defender
 Office of State Court Administrators
 Oil Heat Commission
 Oregon Board of Licensed Professional Counselors and Therapists
 Oregon Beef Council
 Oregon Blueberry Commission
 Oregon Board of Dentistry
 Oregon Board of Massage Therapists
 Oregon Commission for the Blind
 Oregon Commission on Children and Families
 Oregon Corrections Enterprises
 Oregon Criminal Justice Commission
 Oregon Dairy Products Commission
 Oregon Department of Fish and Wildlife
 Oregon Disabilities Commission
 Oregon Dungeness Crab Commission
 Oregon Film and Video
 Oregon Forest Resources Institute
 Oregon Fryer Commission
 Oregon Hazelnut Commission
 Oregon Health Licensing Office
 Oregon Hop Commission
 Oregon Housing Agency
 Oregon Liquor Control Commission
 Oregon Potato Commission
 Oregon Racing Commission
 Oregon Resource and Technology Development Corp.
 Oregon Salmon Commission
 Oregon State Bar
 Oregon State Bar Professional Liability Fund
 Oregon State Fair and Expo Center
 Oregon State Hospital
 Oregon State Library
 Oregon State Treasury
 Oregon Tourism Commission
 Oregon Trawling Commission
 Oregon Watershed Enhancement Board
 Oregon Wheat Commission
 Oregon Wine Board
 Oregon Youth Authority
 Physical Therapist Licensing Board
 Psychiatric Security Review Board
 Public Defense Services Commission
 Public Employees Retirement System
 Public Safety Standards and Training
 Public Utility Commission
 Real Estate Agency
 Secretary of State

Senior and Disabled Services Division
 Services to Children and Families
 State Accident Insurance Fund
 State Board of Clinical Social Workers
 State Board of Higher Education
 State Board of Nursing
 State Board of Parole
 State Fair Operations
 State Fair Workers
 State Lottery Commission
 State Marine Board
 State Parks and Recreation Department
 State Scholarship Commission
 Teacher Standards and Practices
 Travel Information Council
 Vocational Rehabilitation Division
 Water Resources Department

Political Subdivisions (497)

Adair Village, City of
 Albany, City of
 Amity, City of
 Amity Fire District
 Applegate Valley RFPD 9
 Arch Cape Service District
 Ashland, City of
 Ashland Parks Commission
 Astoria, City of
 Athena Cemetery Maintenance District
 Athena, City of
 Aumsville, City of
 Aumsville RFD
 Aurora, City of
 Aurora RFPD
 Baker, City of
 Baker County
 Baker County Library District
 Baker Valley Irrigation District
 Bandon, City of
 Banks, City of
 Bay City, City of
 Beaverton, City of
 Bend, City of
 Bend Metropolitan Park and Recreation District
 Benton County
 Black Butte Ranch RFPD
 Black Butte Ranch Service District
 Boardman, City of
 Boardman RFD
 Boring RFD 59
 Brookings, City of
 Brownsville RFPD
 Burns, City of
 Burnt River Irrigation District
 Butte Falls, Town of
 Canby, City of
 Canby FPD 62
 Canby Utility Board
 Cannon Beach, City of
 Cannon Beach RFD
 Canyon City, Town of
 Canyonville, City of

Oregon Public Employees Retirement System

Carlton, City of
Cascade Locks, City of
Cave Junction, City of
Center for Human Development
Central Oregon Coast Fire and Rescue District
Central Oregon Intergovernmental Council
Central Oregon Irrigation District
Central Oregon Park and Recreation District
Central Oregon Regional Housing Authority
Central Point, City of
Charleston RFPD
Chetco Community Public Library Board
Chiloquin, City of
Chiloquin-Agency Lake RFPD
City/County Insurance Service
Clackamas County
Clackamas County Fair
Clackamas County Fire District 1
Clackamas County Vector Control District
Clackamas River Water
Clatskanie, City of
Clatskanie Library District
Clatskanie People's Utility District
Clatskanie RFPD
Clatsop County
Clatsop County 4-H and Extension Service District
Cloverdale RFPD
Coburg, City of
Coburg RFPD
Colton RFPD 70
Columbia, City of
Columbia County
Columbia County 911 Communications District
Columbia Drainage Vector Control District
Columbia Health District
Columbia River PUD
Community Services Consortium
Condon, City of
Coos Bay, City of
Coos County
Corbett Water District
Cornelius, City of
Corvallis, City of
Cottage Grove, City of
Crescent RFPD
Creswell, City of
Creswell RFPD
Crook County
Crook County RFPD 1
Crooked River Ranch RFPD
Crystal Springs Water District
Culver, City of
Curry County
Curry Public Library District
Dallas, City of
Dayton, City of
Depoe Bay, City of
Depoe Bay RFPD
Deschutes County
Deschutes County Fair Association
Deschutes County RFPD 2
Deschutes Public Library District
Deschutes Valley Water District
Dexter RFPD
Douglas County
Douglas County RFPD
Douglas County Soil and Water
Drain, City of
Drain RFD
Dufur, City of
Dundee, City of
Dunes City, City of
Durham, City of
Eagle Point, City of
East Fork Irrigation District
Echo, City of
Elgin, City of
Elkton, City of
Enterprise, City of
Estacada, City of
Estacada Cemetery Maintenance District
Estacada RFD 69
Eugene, City of
Eugene Water and Electric Board
Evans Valley RFPD
Fairview, City of
Fairview Water District
Falls City, City of
Farmers Irrigation District
Fern Ridge Community Library
Florence, City of
Fossil, City of
Friends of Washington Park Zoo
Garibaldi, City of
Gaston, City of
Gaston RFPD
Gearhart, City of
Gervais, City of
Gilliam County
Gladstone, City of
Glide RFPD
Gold Beach, City of
Gold Hill, City of
Goshen RFPD
Grant County
Grants Pass, City of
Grants Pass Irrigation District
Greater St. Helens Parks and Recreation
Green Sanitary District
Gresham, City of
Halsey, City of
Halsey-Shedd RFPD
Happy Valley, City of
Harbor Water PUD
Harney County
Harney District Hospital
Harrisburg, City of
Harrisburg RFPD
Helix, City of
Heppner, City of
Hermiston, City of
Hermiston RFPD
High Desert Park and Recreation District
Hillsboro, City of
Hines, City of
Hood River, City of
Hood River County
Hoodland RFD 74
Horsefly Irrigation District
Housing Authority of Clackamas County
Housing Authority of Jackson County
Housing Authority of North Bend City
Housing Authority of Portland
Hubbard, City of
Hubbard RFPD
Huntington, City of
Ice Fountain Water District
Illinois Valley RFD
Imbler, City of
Imbler RFPD
Independence, City of
Irrigon, City of
Jackson County
Jackson County Fire District 3
Jackson County Fire District 4
Jackson County Fire District 5
Jackson County Vector Control District
Jacksonville, City of
Jefferson, City of
Jefferson County
Jefferson County EMS District
Jefferson County Library District
Jefferson County RFPD 1
Jefferson County SWCD
Jefferson RFPD
Job Council
John Day, City of
Jordan Valley, City of
Joseph, City of
Josephine County
Josephine County 911 Agency
Judges PERS
Junction City, City of
Keizer RFPD
Keizer, City of
Keno RFPD
King City, City of
Klamath County
Klamath County Emergency Communications District
Klamath County Fire District 1
Klamath Falls, City of
Klamath Housing Authority
Klamath Vector Control District
Knappa Svensen Burnside RFPD
La Grande, City of
La Pine RFPD
Lafayette, City of
Lake County
Lake County Library
Lake Oswego, City of
Lakeside, City of

Lakeside Water District
 Lakeview, Town of
 Lane Council of Governments
 Lane County
 Lane County Fair Board
 Lane County Fire District 1
 Lane Rural Fire Rescue
 League of Oregon Cities
 Lebanon Aquatic District
 Lebanon, City of
 Lebanon Fire District
 Lifeways
 Lincoln City, City of
 Lincoln County
 Lincoln County Communications
 Agency
 Linn County
 Linn-Benton Housing Authority
 Local Government Personnel Institute
 Lowell, City of
 Lowell RFPD
 Lyons, City of
 Lyons RFPD
 Madras, City of
 Malheur County
 Malin, City of
 Manzanita, City of
 Mapleton Water District
 Marion County
 Marion County Fire District 1
 Marion County Housing Authority
 Marion Salem Data Center
 Maupin, City of
 McKenzie RFPD
 McMinnville, City of
 McMinnville Water and Light
 Department
 Medford, City of
 Medford Irrigation District
 Medford Water Commission
 Merrill, City of
 Metolius, City of
 METRO
 Metro Area Communication
 Commission
 Mid-Columbia Center for Living
 Mid-Willamette Valley Senior Services
 Mill City, City of
 Mill City RFPD
 Millersburg, City of
 Millington RFPD
 Milton-Freewater, City of
 Milton-Freewater Cemetery
 Maintenance District 3
 Milwaukie, City of
 Mist-Birkenfeld RFPD
 Mohawk Valley RFD
 Molalla, City of
 Molalla RFPD 73
 Monmouth, City of
 Monroe, City of
 Monroe RFPD
 Moro, City of
 Mt. Angel, City of
 Mt. Angel Fire District
 Mt. Vernon, City of
 Mulino Water District 23
 Multnomah County
 Multnomah County Drainage District 1
 Multnomah County RFPD 10
 Multnomah County RFPD 14
 Myrtle Creek, City of
 Myrtle Point, City of
 Nehalem Bay Health District
 Nehalem Bay Wastewater Agency
 Nesika Beach - Ophir Water District
 Neskowin Regional Sanitary Authority
 Neskowin Regional Water District
 Nestucca RFPD
 Netarts-Oceanside RFPD
 Netarts-Oceanside Sanitary District
 Netarts Water District
 Newberg, City of
 Newport, City of
 North Bend, City of
 North Clackamas County Water
 Commission
 North Lincoln Fire & Rescue District 1
 North Marion County 911
 North Morrow Vector Control District
 North Plains, City of
 North Powder, City of
 North Wasco County Parks &
 Recreation District
 Northeast Oregon Housing Authority
 Northern Oregon Corrections
 Nyssa, City of
 Nyssa Road Assessment District 2
 Oak Lodge Sanitary District
 Oak Lodge Water District
 Oakland, City of
 Oakridge, City of
 Odell RFPD
 Odell Sanitary District
 Ontario, City of
 Oregon Cascades West COG
 Oregon City, City of
 Oregon Community College
 Association
 Oregon Consortium, The
 Oregon Coastal Zone Management
 Association
 Oregon Health & Science University
 Oregon School Boards Association
 Oregon Small Schools Association
 Oregon Trail Library District
 Owyhee Irrigation District
 Parkdale RFPD
 Pendleton, City of
 Philomath, City of
 Philomath RFPD
 Phoenix, City of
 Pilot Rock, City of
 Pleasant Hill RFPD
 Polk County
 Polk County Fire District 1
 Polk County Housing and Urban
 Renewal Agency
 Polk Soil and Water Conservation
 District
 Port of Astoria
 Port of Cascade Locks
 Port of Coos Bay
 Port of Garibaldi
 Port of Hood River
 Port of Newport
 Port of Portland
 Port of St. Helens
 Port of The Dalles
 Port of Tillamook Bay
 Port of Umatilla
 Port Orford, City of
 Port Orford Public Library
 Portland, City of
 Portland Development Commission
 Powell Valley Road Water District
 Powers, City of
 Prairie City, City of
 Prineville, City of
 Rainbow Water District
 Rainier, City of
 Rainier Cemetery District
 Redmond, City of
 Reedsport, City of
 Regional Organized Crime Narcotics
 Task Force
 Riddle, City of
 Rockaway Beach, City of
 Rockwood Water PUD
 Rogue River, City of
 Rogue River RFPD 4-201
 Rogue River Valley Irrigation District
 Roseburg, City of
 Roseburg Urban Sanitary Authority
 Rural Road Assessment District 3
 Rural Road District
 Salem, City of
 Salem Housing Authority
 Salem Mass Transit
 Salem Metro Communications Agency
 Salmon Harbor and Douglas County
 Sandy, City of
 Sandy RFPD 72
 Santa Clara RFPD
 Scappoose, City of
 Scappoose Public Library
 Scappoose RFPD
 Scio RFPD
 Seal Rock Water District
 Seal Rock RFPD
 Shady Cove, City of
 Sheridan, City of
 Sheridan Fire District
 Sherman County
 Sherwood, City of
 Silver Falls Library District
 Silverton, City of
 Silverton RFPD 2
 Sisters and Camp Sherman RFPD
 Sisters, City of
 Siuslaw Library District
 Siuslaw RFPD 1
 South Fork Water Board
 South Lane County Fire and Rescue
 South Suburban Sanitary District

Oregon Public Employees Retirement System

Southwest Polk County RFPD
Southwest Lincoln County Water District
Springfield, City of
St. Helens, City of
St. Helens RFPD
Stanfield, City of
Stanfield Fire District 7-402
Stayton, City of
Stayton RFPD
Sublimity RFPD
Suburban East Salem Water District
Sunrise Water Authority
Sunriver Service District
Sutherlin, City of
Sutherlin Water District
Sweet Home, City of
Sweet Home Cemetery Maintenance District
Sweet Home Fire and Ambulance District
Talent, City of
Talent Irrigation District
Tangent RFPD
Tigard, City of
Tillamook, City of
Tillamook County 911
Tillamook County Soil and Water
Tillamook Fire District
Tillamook People's Utility District
Tillamook Water Commission
Toledo, City of
Tri-City RFPD
Tri-City Water and Sanitary Authority
Tri-County Health Care Safety Net Enterprise
Tri-Met
Troutdale, City of
Tualatin, City of
Tualatin Valley Fire and Rescue
Tualatin Valley Irrigation District
Tualatin Valley Water District
Turner, City of
Turner RFPD
Umatilla, City of
Umatilla County
Umatilla County Soil and Water District
Umatilla County Special Library District
Umatilla RFPD 7-405
Umpqua Regional Council of Govt.
Unified Sewerage Agency
Union, City of
Vale, City of
Valley View Cemetery Maintenance District
Veneta, City of
Vernonia, City of
Vernonia RFPD
Waldport, City of
Wallowa, City of
Wallowa County
Warrenton, City of
Wasco County

Wasco County Soil and Water Conservation District
Washington County
Washington County Consolidated Communications Agency
Washington County Fire District 2
West Extension Irrigation District
West Linn, City of
West Slope Water District
Western Lane Ambulance District
Westfir, City of
Weston, City of
Weston Cemetery District
Westport Sewer Service District
Wheeler, City of
Wickiup Water District
Willamina, City of
Willamina Fire District
Wilsonville, City of
Winchester Bay Sanitary District
Winston, City of
Winston-Dillard RFPD 5
Winston-Dillard Water District
Wood Village, City of
Woodburn, City of
Woodburn RFPD
Workforce Development Board
Yachats, City of
Yachats RFPD
Yamhill, City of
Yamhill Communications Agency
Yamhill County
Yoncolla, City of

Community Colleges (17)

Blue Mountain Community College
Central Oregon Community College
Chemeketa Community College
Clackamas Community College
Clatsop Community College
Columbia Gorge Community College
Klamath Community College
Lane Community College
Linn-Benton Community College
Mt. Hood Community College
Oregon Coast Community College
Portland Community College
Rogue Community College
Southwestern Oregon Community College
Tillamook Bay Community College
Treasure Valley Community College
Umpqua Community College

School Districts (244)

Armadillo Technical Institute
Baker CSD 5J
Baker CSD 16J
Baker CSD 30 J
Baker CSD 61
Benton CSD 1J
Benton CSD 7J
Benton CSD 17J
Benton CSD 509J
City View Charter School

Clackamas County ESD
Clackamas CSD 3
Clackamas CSD 7J
Clackamas CSD 12
Clackamas CSD 35
Clackamas CSD 46
Clackamas CSD 53
Clackamas CSD 62
Clackamas CSD 86
Clackamas CSD 108
Clackamas CSD 115
Clatsop CSD 1C
Clatsop CSD 8
Clatsop CSD 10
Clatsop CSD 30
Columbia CSD 1J
Columbia CSD 4
Columbia CSD 6J
Columbia CSD 13
Columbia CSD 47 J
Columbia CSD 502
Coos CSD 8
Coos CSD 9
Coos CSD 13
Coos CSD 31
Coos CSD 41
Coos CSD 54
Crook CSD
Curry CSD 1
Curry CSD 2CJ
Curry CSD 17
Deschutes County ESD
Deschutes CSD 1
Deschutes CSD 2J
Deschutes CSD 6
Deschutes CSD 15C
Douglas CSD 1
Douglas CSD 4
Douglas CSD 12
Douglas CSD 15
Douglas CSD 19
Douglas CSD 21
Douglas CSD 22
Douglas CSD 32
Douglas CSD 34
Douglas CSD 70
Douglas CSD 77
Douglas CSD 105
Douglas CSD 116
Douglas CSD 130
Douglas County ESD
Eddyville Charter School
Emerson School
Four Rivers Community School
Garden Laboratory Charter School
Gilliam CSD 3
Grant School District 3
Grant County ESD
Grant CSD 4
Grant CSD 8
Grant CSD 16J
Grant CSD 17
Harney ESD Region 17
Harney CSD 3
Harney CSD 4

Harney CSD 5	Malheur CSD 8C	Umatilla CSD 16R
Harney CSD 7	Malheur CSD 12	Umatilla CSD 29RJ
Harney CSD 10	Malheur CSD 26C	Umatilla CSD 61R
Harney CSD 13	Malheur CSD 29	Umatilla CSD 80R
Harney CSD 16	Malheur CSD 61	Union-Baker ESD
Harney CSD 28	Malheur CSD 66	Union CSD 1
Harney CSD 33	Malheur CSD 81	Union CSD 5
Harney CSD UH1J	Malheur CSD 84	Union CSD 8J
Hood River CSD 1	Marion CSD 1	Union CSD 11
Ione School District	Marion CSD 4J	Union CSD 15
Jackson County ESD	Marion CSD 14CJ	Union CSD 23
Jackson CSD 4	Marion CSD 15	Victory Middle School
Jackson CSD 5	Marion CSD 24J	Village School
Jackson CSD 6	Marion CSD 29J	Wallowa County Region 18 ESD
Jackson CSD 9	Marion CSD 45	Wallowa CSD 6
Jackson CSD 35	Marion CSD 91	Wallowa CSD 12
Jackson CSD 59	Marion CSD 103C	Wallowa CSD 21J
Jackson CSD 94	Mitch Charter School	Wallowa CSD 54
Jackson CSD 549C	Morrison Charter School	Wasco County ESD
Jefferson County ESD	Morrow CSD	Wasco CSD 1
Jefferson CSD 4	Mosier Community School	Wasco CSD 29
Jefferson CSD 8	Multisensory Learning Academy	Washington CSD 1J
Jefferson CSD 41	Multnomah County ESD	Washington CSD 15
Jefferson CSD 509J	Multnomah CSD 1	Washington CSD 13
Jordan Valley School District 3	Multnomah CSD 3	Washington CSD 23J
Josephine County UJ School District	Multnomah CSD 7	Washington CSD 48J
Josephine CSD 7	Multnomah CSD 10	Washington CSD 88J
Kings Valley Charter School	Multnomah CSD 28-302 JT	Washington CSD 511JT
Klamath CSD CU	Multnomah CSD 39	Wheeler CSD 1
Klamath CSD UH2	Multnomah CSD 51JT	Wheeler CSD 21
Lake County ESD	Multnomah CSD R-40	Wheeler CSD 55U
Lake CSD 7	New Urban High School	Willamette ESD
Lake CSD 11C	Nixyaawii Community School	Willamette Valley Community School
Lake CSD 14	North Central ESD	Yamhill County ESD
Lake CSD 18	North Wasco CSD 21	Yamhill CSD 1
Lake CSD 21	Northwest Regional ESD	Yamhill CSD 4J
Lane County ESD	Pedee Charter School	Yamhill CSD 8
Lane CSD 1	Polk CSD 2	Yamhill CSD 29JT
Lane CSD 4J	Polk CSD 13J	Yamhill CSD 30-44-63J
Lane CSD 19	Polk CSD 21	Yamhill CSD 40
Lane CSD 28J	Polk CSD 57	Yamhill CSD 48J
Lane CSD 32	Ridgeline Montessori Charter School	
Lane CSD 40	Rimrock Academy Charter School	
Lane CSD 45J3	Sand Ridge Charter School	
Lane CSD 52	Self-Enhancement Inc.	
Lane CSD 66	Sheridan Japanese School Foundation	
Lane CSD 68	Sherman CSD	
Lane CSD 69	Siletz Charter School	
Lane CSD 71	South Coast ESD Region 7	
Lane CSD 76	South Columbia Family School	
Lane CSD 79J	The 21st Century Community	
Lane CSD 90	Schoolhouse	
Lane CSD 97J	Three Rivers Charter School	
Lighthouse School	Tillamook CSD 9	
Lincoln CSD	Tillamook CSD 56	
Linn CSD 7	Tillamook CSD 101	
Linn CSD 9	Trillium Charter School	
Linn CSD 55	Umatilla County Administrative School	
Linn CSD 95C	District 1R	
Linn CSD 129J	Umatilla Morrow ESD	
Linn CSD 552C	Umatilla CSD 2R	
Linn-Benton Lincoln ESD	Umatilla CSD 5	
Linn-Benton School District 8J	Umatilla CSD 6R	
Lourdes Charter School	Umatilla CSD 7	
Malheur ESD Region 14	Umatilla CSD 8R	

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