

OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM BOARD MEETING

FRIDAY November 30, 2012 1:00 P.M.		PERS 11410 SW 68th Parkway Tigard, OR	
ITEM		PRESENTER	
A. Administration			
1.	September 28, 2012 Board Meeting Minutes Director's Report a. Forward-Looking Calendar b. OIC Investment Report c. Operating Budget Report d. Employer Reporting Update		
B. Administrative Rulemaking			
1.	Notice of P & F Continuous Service Rule	RODEMAN	
2.	Notice of Data Verification Rule		
3.	Notice of Employer Remitting of Employee Contributions Rule		
4.	Adoption of Public Contracting Rules		
C. Action and Discussion Items			
1.	Adoption of City of Springfield Employer Rates	RODEMAN / MILLIMAN	
2.	Analysis of PERS Cost Allocation, Benefit Modification and System Financing Concepts		
D. Executive Session Pursuant to ORS 192.660(2)(f), (h), and/or ORS 40.225			
1.	Litigation Update	LEGAL COUNSEL	

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

In compliance with the Americans with Disabilities Act, PERS will provide this document in an alternate format upon request. To request this, contact PERS at 888-320-7377 or TTY 503-603-7766.

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

2013 Meetings: January 25 March 29 May 31 July 26 September 27 November 22

Krystal Gema John Thomas, Chair Laurie Warner, Vice Chair Pat West Rhoni Wiswall Paul R. Cleary, Executive Director

BLANK PAGE

OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM BOARD MEETING

September 28, 2012
Tigard, Oregon

Board Members:

James Dalton, Chair
John Thomas
Laurie Warner
Pat West
Rhoni Wiswall
Krystal Gema (pending)

Staff:

Donna Allen
Helen Bamford
Gay Lynn Bath
Paul Cleary
David Crosley

Jon DuFrene
Yvette Elledge
Brian Harrington
Debra Hembree
Jeff Marecic

Brenda Pearson
Steve Rodeman
Teri Roper
Susan Sjoldal
Jason Stanley

Marjorie Taylor
Stephanie Vaughn
Anne Marie Vu

Others:

Shannon Brett
Nancy Brewer
John Buflin
Lance Colley
Andrea Cooper
Alex Coyler
Louise Currin
Sue Cutsogeorge
Nancy Dayton

Jonathon Eafe
Mike Eliason
Linda Ely
Janice Essenberg
Dee Ann Gibbons
Marc Gonzales
Jim Green
Greg Hartman
Celia Heron

Claire Hertz
Keith Kitke
Mary Knigge
Keith Kutler
Matt Larrabee
Suzanne Linneen
Wayne Lowdy
Mary Macpherson
Elizabeth McCann

Christine Moody
David Moore
Michelle Morrison
Jen Murray
Scott Preppernau
Meghan Phelin
Michael Robinson
Carol Samuels
Kathy Steinert

Adam Stewart
Kimberly Trask
Deborah Tremblay
Brendan Watkins
C. Wilson
David Wimmer
Scott Winkels
Scott Winters
Denise Yunker

Chair James Dalton called the meeting to order at 1:00 P.M.

ADMINISTRATION

A.1. BOARD MEETING MINUTES OF AUGUST 28, 2012

The Board unanimously approved the minutes from the August 28, 2012 Board meeting.

A.2. DIRECTOR'S REPORT

Executive Director Paul Cleary presented the Forward Looking calendar. He noted the next Board meeting is scheduled for November 30, 2012 and will be followed by an Audit Committee meeting. Agenda items will include an update to the 2010 Analysis of PERS Cost Allocation, Benefit Modification, and System Financing Concepts. Cleary reported the OPERF asset/liability study update is scheduled to be presented in December or January to the Oregon Investment Council (OIC) and will be shared with the Board when available.

Cleary presented the 2013 proposed Board meeting dates noting the majority are scheduled for the last Friday of every other month, beginning with the January 25, 2013 meeting.

Cleary presented the OPERF investment returns for August 31, 2012. He stated the regular account was up by 8.94 percent year-to-date and the variable was up 9.85 percent for the year-to-date. Cleary discussed the OIC investment consultants (SIS and PCA) capital market

expectations report. He noted both investment consultants reported continued downward pressure on expected returns which will likely lead to a reduction in the assumed earnings rate when reviewed by the Board next spring. Cleary reported John Skjervem has been hired by the State Treasury as the Chief Investment Officer.

Cleary reported that the 2011-13 biennial operating budget continues to show a positive variance of approximately 2.7 percent through August 2012. Cleary stated some of those budget savings may be used for special projects addressing backlogs and other service needs.

Cleary presented the 2012 Customer Service Survey results. Surveys are distributed annually and used to measure the trends in member and employer customer service satisfaction. He noted the overall rating was good from both members and employers. Cleary reviewed the most repeated comments and described how they are being addressed through various projects.

Board member Pat West described some members who have reached out to him regarding the Overpayment Recovery Project. West noted that some benefit recipients do not have all the calculation details that were expected in 2007. Cleary acknowledged when the project was put on hold by the District Court ruling, there was a group of recipients who were notified, but whose overpayment calculations were not worked all the way through process. Deputy Director Steve Rodeman described the revenue agent call center team and how they are able to provide members with a quick response in providing additional overpayment calculation detail or original documents.

Chair James Dalton noted the employer survey response increased by approximately 200 from previous years and extended his appreciation for everyone who participated. He stated the agency is committed to improving customer service to members and employers.

Cleary presented the Board Best Practices Key Performance Measure review. The Board conducts this self-assessment and uses it to identify areas of improvement. The results will be included in the overall agency Key Performance Measure Report that is part the Governor's Agency Request budget.

Cleary commended PERS staff for giving back to the community through a variety of volunteer opportunities. Cleary congratulated the PERS Diversity Committee who received the Community Partner Award for their participation in the 2012 Summer Youth Connect Program.

ADMINISTRATIVE RULEMAKING

B.1. ADOPTION OF JUDGE MEMBER RULES

Rodeman presented the Judge Member rules for adoption. The rules were part of the five-year review process. The modifications are housekeeping in nature. No changes have been made since the rules were presented for public notice.

Board member West moved and Board member Rhoni Wiswall seconded to adopt the Judge Member rules as presented. Motion passed unanimously.

ACTION AND DISCUSSION ITEMS

C.1. LEGISLATIVE ADVISORY COMMITTEE (LAC) APPOINTMENTS

PERS Senior Policy Advisor Marjorie Taylor presented the proposed LAC appointments for Board approval. Taylor noted the committee reflects a balance of member and employer representatives, and includes former committee members. Staff anticipates engaging the committee beginning mid-October to help evaluate cost PERS cost containment proposals prior to the 2013 Legislative session.

Dalton thanked all the members who serve on this committee and noted West and Board Vice-Chair Laurie Warner attend these committee meetings as Board representatives.

Warner moved and Wiswall seconded to adopt the Legislative Advisory Committee (LAC) appointments as presented. Motion passed unanimously.

C.2. 2013-15 INDIVIDUAL EMPLOYER RATE ADOPTION

Milliman actuaries Matt Larrabee and Scott Peppernau presented the 2013-15 Individual Employer Rates for Board approval that will be effective July 1, 2013 through June 30, 2015. These rates are based on the system valuation as of December 31, 2011.

Larrabee stated the September Board meeting presentation of system wide-valuation results and detailing the three system rate-sharing pools is available on the PERS website. He encouraged interested parties to review this presentation to help understand the dynamics of the system and where things currently stand at the system level.

Larrabee described how the rates are developed for the three large rate pools, discussed the impact of the Board's rate collaring methodology, and compared the current and proposed contribution rates.

The following employers addressed the Board regarding the negative impacts of the increased employer contribution rates on already strained budgets and the various public services they or their members provide.

Representative	Employer
Jim Green	Oregon School Boards Association
Cathy Miller	Redmond School District
Lance Colley	Roseburg Public School District
Adam Stewart	Hillsboro School District
Nancy Brewer	City of Corvallis
Scott Winkels	League of City Cities
Courtney Wilton	Clackamas Community College
Mike Eliason	Association of Oregon Counties
Christine Moody	Lane County

Employers asked the Board to have PERS actuaries help analyze potential plan modifications, and the related savings to the system, and impacts to member benefits if approved. In addition, they would like the Board to ask the Governor to convene a special panel to look at possible employer cost relief measures. Handouts provided by the employers were reviewed by the Board and retained for the meeting file.

The Board members asked questions and provided comments. Cleary described the December 2010 Analysis of Cost Allocation, Benefit Modification, and System Financing Concepts document that is available on the PERS website. This will be updated in November to reflect the December 31, 2011 Valuation and will include several new concepts that have been advanced since the 2010 analysis.

Greg Hartman encouraged the Board to continue to make the facts available, but continue to stay neutral on legislative proposals to change benefits. It was noted that the Board is charged by statute to serve as policy advisors to the Legislature, and the LAC is there to help in that process.

Warner moved and West seconded to adopt 2013-15 Individual Employer Rates as presented. Motion passed unanimously.

C.3. UPDATE ON REVISED GASB PENSION AND ACCOUNTING STANDARDS

Milliman actuaries Matt Larrabee and Scott Peppernau presented a summary of the revised GASB accounting standards for public pension plans. Larrabee noted employers will need to reflect these changes in their Comprehensive Annual Financial Reports published in 2015.

The Board recognized Chair Dalton for his nine years of service on the Board, reading a resolution of appreciation into the record and presenting several tokens of appreciation.

Dalton passed the gavel to Warner and addressed the Board as a private citizen. He began by recognizing some of the system improvements and Board accomplishments that occurred during his tenure. He then provided his recommendations on several current issues facing PERS and suggestions on various benefit modification and system financing concepts. He encouraged employers to take whatever measures they could to better manage costs and to stay fully engaged with the Board. He also acknowledged the importance of maintaining effective working relationships with all interested parties while staying focused on enhancing the long-term sustainability of PERS.

Warner adjourned the meeting at 3:07 PM.

Respectfully submitted,



Paul R. Cleary
Executive Director

PERS Board Meeting Forward-Looking Calendar

Friday, January 25, 2013

Adoption of P & F Continuous Service Rule
Adoption of Data Verification Rule
Adoption of Employer Remitting of Employee Contributions Rule
Notice of Health Insurance Program Rules
Preliminary 2012 Earnings Crediting and Reserving
Board Training Session – Ethics

Friday, March 29, 2013

2013 Legislative Session Update
Review of Actuarial Methods and Economic Assumptions
Final 2012 Earnings Crediting and Reserving
Audit Committee Meeting

Friday, May 31, 2013

2013 Legislative Session Update
Adoption of Actuarial Methods and Economic Assumptions
2014 Retiree Health Insurance Plan Renewal and Rates
Employer Reporting Update

Friday, July 26, 2013

2013 Legislative Session Results
2012 Experience Study and Adoption of Demographic Assumptions
Audit Committee Meeting

Friday, September 27, 2013

2012 Valuation Results

Friday, November 22, 2013

Employer Reporting Update
Audit Committee Meeting

BLANK PAGE

Returns for periods ending 9/30/12

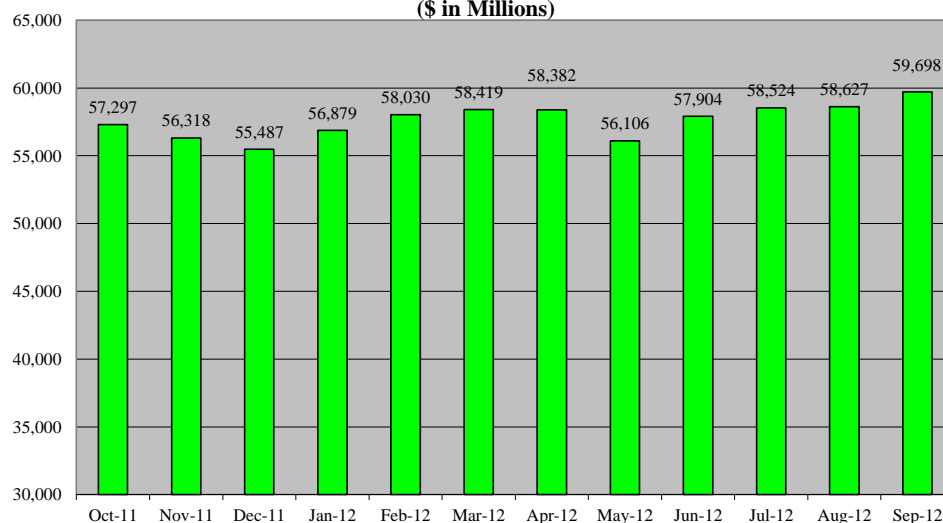
Oregon Public Employees Retirement Fund

OPERF	Regular Account				Historical Performance (Annual Percentage)					
	Policy ¹	Target ¹	\$ Thousands ²	Actual	Year-To-Date ³	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS
Public Equity	38-48%	43%	\$ 21,531,321	36.6%	13.43	21.59	6.90	7.98	6.21	(1.55)
Private Equity	12-20%	16%	14,257,675	24.2%	9.97	4.18	13.41	15.97	5.73	4.85
Total Equity	54-64%	59%	35,788,996	60.8%						
Opportunity Portfolio			928,421	1.6%	13.87	10.54	11.19	12.44	7.83	5.42
Total Fixed	20-30%	25%	14,843,564	25.2%	8.74	11.11	7.79	9.51	11.03	8.03
Real Estate	8-14%	11%	6,934,294	11.8%	9.44	12.09	14.04	8.13	(0.55)	(1.02)
Alternative Investments	0-8%	5%	402,867	0.7%	(1.77)	(5.08)				
Cash	0-3%	0%	-	0.0%	1.48	1.62	0.86	0.89	1.71	1.47
TOTAL OPERF Regular Account		100%	\$ 58,898,142	100.0%	10.84	12.93	9.45	10.21	6.71	2.02
OPERF Policy Benchmark					13.11	15.40	9.99	9.93	6.94	2.45
Value Added					(2.27)	(2.47)	(0.54)	0.28	(0.23)	(0.43)
TOTAL OPERF Variable Account			\$ 800,000		13.42	21.68	7.08	7.89	6.03	(1.96)

Asset Class Benchmarks:

Russell 3000 Index	16.13	30.20	14.42	13.26	7.98	1.30
MSCI ACWI Ex US IMI Net	10.69	14.36	1.09	3.49	4.44	(3.70)
MSCI ACWI IMI Net	13.00	21.13	6.69	7.56	5.85	(1.71)
Russell 3000 Index + 300 bps--Quarter Lagged	25.26	6.95	20.71	20.11	7.94	4.24
Oregon Custom FI Benchmark	7.23	10.00	5.67	6.61	7.60	6.56
NCREIF Property Index--Quarter Lagged	8.46	12.04	14.36	8.82	0.90	2.51
91 Day T-Bill	0.07	0.07	0.11	0.11	0.18	0.73

TOTAL OPERF NAV
(includes variable fund assets)
One year ending September 2012
(\$ in Millions)



¹OIC Policy 4.01.18, as revised April 2011.

²Includes impact of cash overlay management.

³For mandates beginning after January 1 (or with lagged performance), YTD numbers are "N/A". Performance is reflected in Total OPERF.

Returns for periods ending 10/31/12

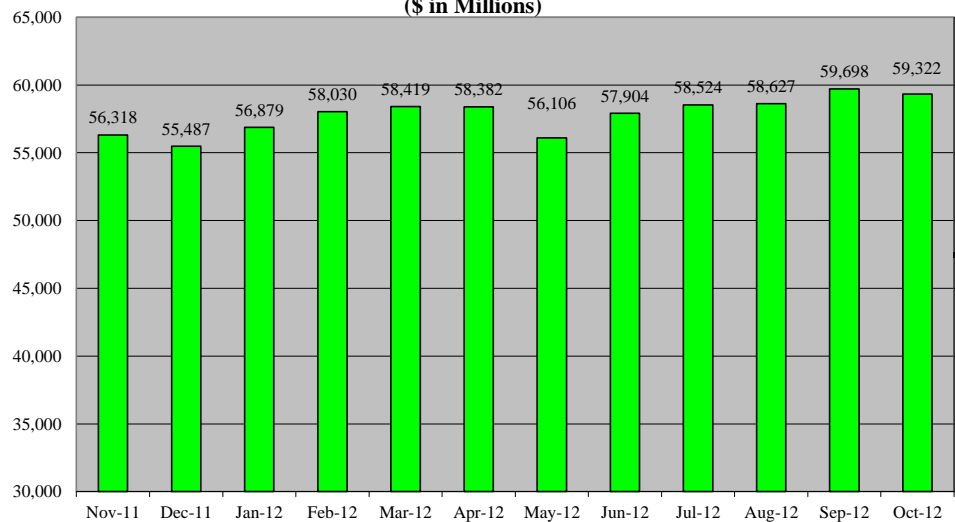
Oregon Public Employees Retirement Fund

OPERF	Regular Account				Historical Performance (Annual Percentage)					
	Policy ¹	Target ¹	\$ Thousands ²	Actual	Year-To-Date ³	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS
Public Equity	38-48%	43%	\$ 21,092,555	36.0%	12.65	8.95	4.55	8.45	12.30	(2.35)
Private Equity	12-20%	16%	14,067,125	24.0%	9.97	4.18	13.41	15.97	5.73	4.85
Total Equity	54-64%	59%	35,159,680	60.1%						
Opportunity Portfolio			936,530	1.6%	14.86	1.05	10.08	11.83	8.10	5.93
Total Fixed	20-30%	25%	15,113,230	25.8%	8.74	11.11	7.79	9.51	11.03	8.03
Real Estate	8-14%	11%	6,888,625	11.8%	9.56	9.55	13.63	8.30	0.71	(1.10)
Alternative Investments	0-8%	5%	412,552	0.7%	(2.07)	(6.10)				
Cash	0-3%	0%	26,097	0.0%	1.53	1.44	0.84	0.88	1.50	1.39
TOTAL OPERF Regular Account		100%	\$ 58,536,714	100.0%	10.73	7.93	8.35	10.36	9.86	1.59
OPERF Policy Benchmark					12.89	9.22	8.92	10.07	9.73	2.01
Value Added					(2.16)	(1.29)	(0.57)	0.29	0.13	(0.42)
TOTAL OPERF Variable Account			\$ 784,979		12.71	9.10	4.84	8.31	11.93	(2.40)

Asset Class Benchmarks:

Russell 3000 Index	14.12	14.75	11.27	13.58	12.89	0.58
MSCI ACWI Ex US IMI Net	11.07	4.06	(0.46)	4.04	11.38	(4.68)
MSCI ACWI IMI Net	12.25	8.56	4.43	7.96	11.82	(2.60)
Russell 3000 Index + 300 bps--Quarter Lagged	25.26	6.95	20.71	20.11	7.94	4.24
Oregon Custom FI Benchmark	7.68	8.33	5.68	6.57	8.57	6.46
NCREIF Property Index--Quarter Lagged	8.46	12.04	14.36	8.82	0.90	2.51
91 Day T-Bill	0.08	0.08	0.10	0.11	0.16	0.67

TOTAL OPERF NAV
(includes variable fund assets)
One year ending October 2012
(\$ in Millions)



¹OIC Policy 4.01.18, as revised April 2011.

²Includes impact of cash overlay management.

³For mandates beginning after January 1 (or with lagged performance), YTD numbers are "N/A". Performance is reflected in Total OPERF.



Oregon

John A. Kitzhaber, M.D., Governor

Public Employees Retirement System

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

November 30, 2012

TO: Members of the PERS Board
FROM: Kyle J. Knoll, Budget Officer
SUBJECT: November 2012 Budget Report

2011-13 OPERATIONS BUDGET

Operating expenditures for September 2012 were \$2,986,546. October 2012 expenditures will be downloaded from the Statewide Financial Management System (SFMS) the week of November 26, 2012, and included in the January 2013 Budget Report to the Board.

- Through the first fifteen months (62.50%) of the 2011-13 biennium, the Agency had expended a total of \$44,288,797, or 57.32% of PERS' legislatively approved operating budget of \$77,260,820.
- The current projected positive variance is \$2,523,105, or 3.3% of the operating budget.

STRUNK EUGENE OVERPAYMENT RECOVERY PROJECT

Through September 2012, the Agency had expended a total of \$151,434, or 7.3% of PERS' 2011-13 legislatively approved budget of \$2,071,410. Because of the invoicing cycle, collection expenses for third-party collectors have not yet been incurred but should begin to be realized in the coming months as they effectuate recoveries.

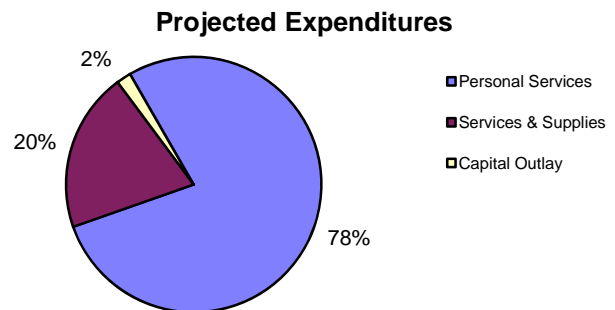
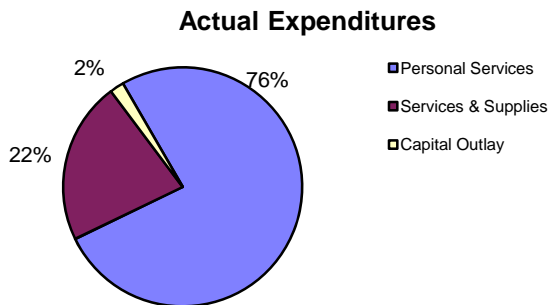
Staff will provide an updated project report at the January 25, 2013 meeting which will include more refined projections of expenditures through the remainder of the biennium.

BLANK PAGE

2011-13 Agency-wide Operations - Budget Execution
Summary Budget Analysis
For the Month of: September 2012

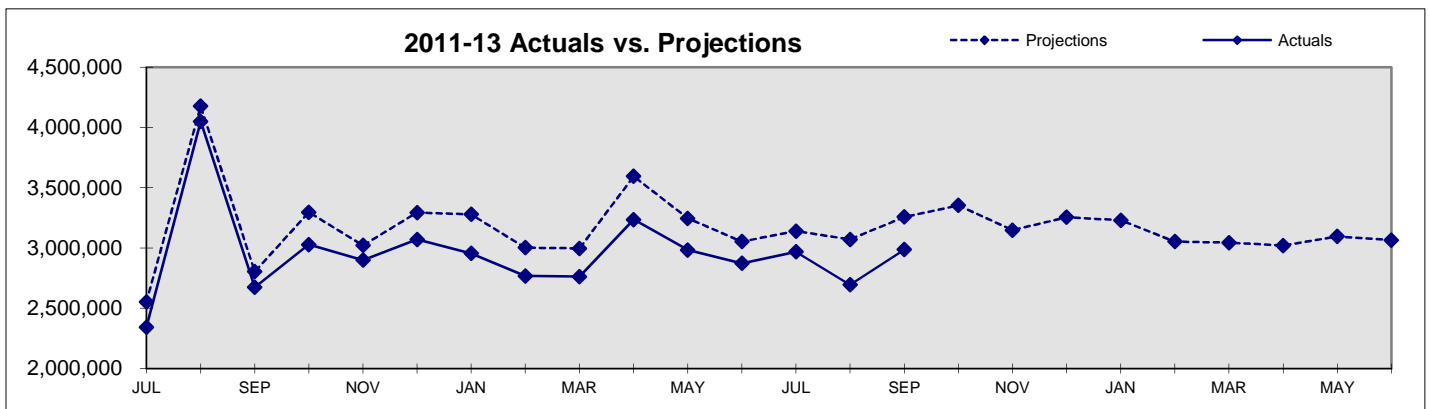
Biennial Summary

Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expend.	2011-13 LAB	Variance
Personal Services	33,730,244	22,035,854	55,766,098	55,827,463	61,365
Services & Supplies	9,705,089	7,514,627	17,219,716	20,505,769	3,286,053
Capital Outlay	853,464	898,437	1,751,901	927,588	(824,313)
Total	44,288,797	30,448,918	74,737,715	77,260,820	2,523,105



Monthly Summary

Category	Actual Exp.	Projections	Variance	Avg. Monthly Actual Exp.	Avg. Monthly Projected Exp.
Personal Services	2,253,104	2,453,245	200,141	2,248,683	2,448,428
Services & Supplies	710,478	789,210	78,732	647,006	634,099
Capital Outlay	22,964	15,000	(7,964)	56,898	57,652
Total	2,986,546	3,257,455	270,909	2,952,586	3,140,179



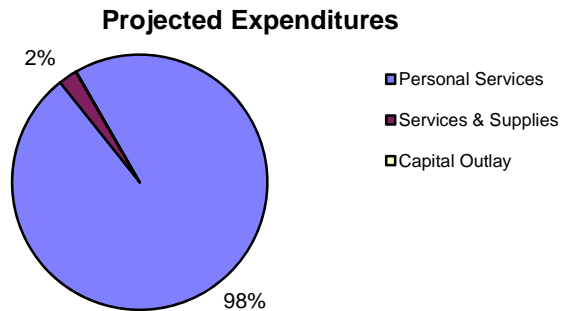
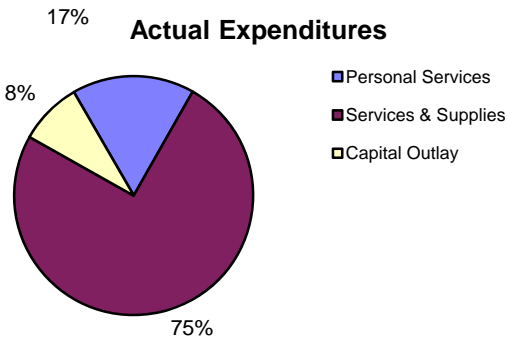
2009-11 Biennium Summary

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

**2011-13 Strunk/Eugene Overpayment Recovery Project - Budget Execution
Summary Budget Analysis
For the Month of: September 2012**

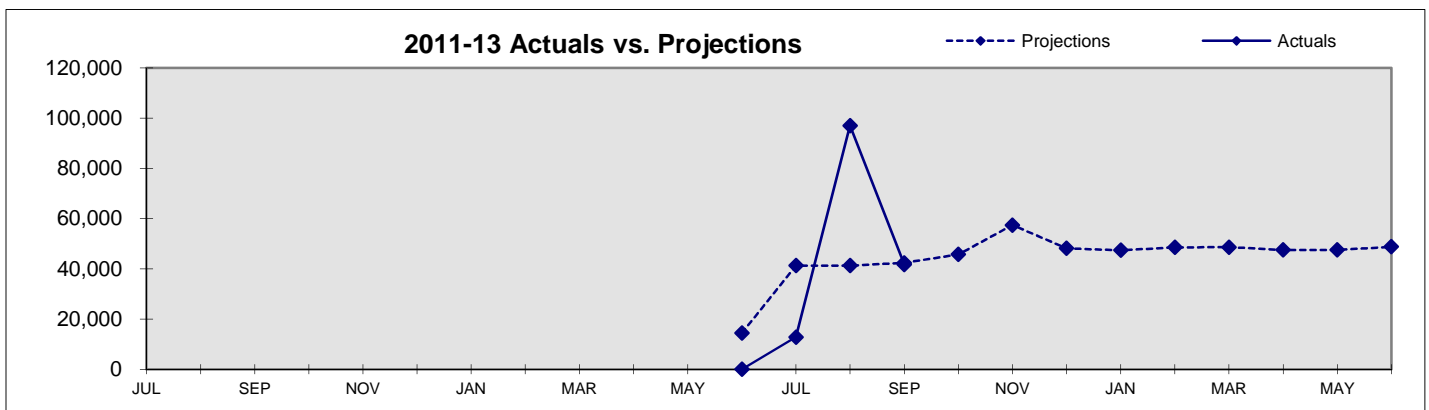
Biennial Summary

Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expend.	2011-13 LAB	Variance
Personal Services	58,576	647,132	705,707	917,155	211,448
Services & Supplies	83,504	96,170	179,674	1,154,255	974,581
Capital Outlay	9,354		9,354		(9,354)
Total	151,434	743,302	894,735	2,071,410	1,176,675



Monthly Summary

Category	Actual Exp.	Projections	Variance	Avg. Monthly Actual Exp.	Avg. Monthly Projected Exp.
Personal Services	40,404	41,127	723	19,525	47,675
Services & Supplies	1,256	1,200	(56)	27,835	1,150
Capital Outlay				3,118	
Total	41,661	42,327	667	50,478	48,825



Project Tracker:

Percent of 2011-13 E-board Budget Expended:	7.3%
Percent of 2011-13 Project Duration Expired:	30.8%



Oregon

John A. Kitzhaber, M.D., Governor

Public Employees Retirement System

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

November 30, 2012

TO: Members of the PERS Board
FROM: Yvette Elledge, CSD Administrator
SUBJECT: Employer Reporting Update

PERS is currently working with 916 employer-reporting units to process all outstanding employer reports and suspended records. In addition, PERS continues to monitor all employer accounts receivables and conduct its Employer Outreach Program.

EMPLOYER REPORTING

The table below shows the status as of October 26, 2012 of employer reports and member records and contributions for calendar years 2010, 2011, and through October 26, 2012*.

	CY 2010	CY 2011	CY 2012*
Reports due:			
▪ Number expected	13,401	13,438	10,640
▪ Number received	13,401	13,438	10,589
▪ Percent received	100.00%	100.00%	99.52%
▪ Goal	99.0%	99.0%	99.0%
Reports fully posted at 100%:			
▪ Number	13,005	11,987	8,203
▪ Percent fully posted at 100%	97.04%	89.20%	77.10%
▪ Goal	95.0%	95.0%	95.0%
Records due (estimated)	3,581,930	3,506,154	2,623,058
Records not posted:			
▪ Number	9,248	22,013	47,393
▪ Percent not posted	0.26%	0.01%	1.81%
▪ Goal	≤ .2%	≤ .2%	≤ .2%
Contributions posted	\$ 509,042,844	\$ 512,569,477	\$ 401,781,146
Contributions not posted	\$ 358,845	\$ 817,341	\$ 2,207,172

There are 51 missing reports distributed across 37 employers so far in 2012.

	<u>End of April 2012</u>	<u>End of October 2012</u>
Outstanding Reports for 2011	34	0
Outstanding Reports for 2010	10	0
Outstanding Reports for 2009	0	0
Outstanding Reports for 2008	0	0
Outstanding Reports for 2007	0	0
Outstanding Reports for 2006	0	0
Outstanding Reports for 2005	1	0

The Employer Service Center (ESC) team has partnered with employers to reduce the number of outstanding reports, outstanding contributions and to get reports posted. The success of the employer escalation process can be seen in that all prior year reports have been received and only 51 outstanding reports remain, with 47,393 unposted records for 2012. We are continuing efforts to increase the number of reports posted at 100% and continue our efforts to post suspended records.

Comparatively, this time last year we reported having 270 outstanding reports and 128,023 unposted records. Last year's report and record counts were extraordinarily high as a result of the Qualifying/Non-Qualifying functionality that was put in place in June 2011. The challenge for ESC and employers has been to stay current with the 2012 reconciliation work and make progress in clearing prior year suspended records. To accomplish our goal of completely reconciling CYE 2012, and correcting CYE 2011, we hired a team of temporary staff to focus on the 2011 unposted record workload. To date, our teams have made significant progress and have reduced the 2011 unposted records count to 22,013, a net reduction of more than 106,000 records. While the unposted record count continues to be a very high number, we believe we are positioned to post all records impacting contributions by the time we close out CYE 2012.

Employer Outreach

June 2011 marked the final major installation of the RIMS Conversion Program (RCP) followed by first efforts re-directing employer communication away from introduction of major new EDX functionality towards review and use of existing EDX capabilities.

The Spring 2012 Employer outreach continued that re-focus with a review of eligibility rules followed by features of the DTL1 (Demographics) and DTL2 (Wage and Service) records and their correct use. Reporting retirees returning to work part-time as retirees and the basics of PERS disability benefits rounded out the spring outreach.

The Fall 2012 Employer outreach series began October 23 and concludes November 15. The Fall 2012 Employer outreach series continues emphasis on use of existing EDX capabilities with enumeration of the most common EDX suspended record error messages, their causes and suggested fixes. A short review of records and reports precedes the error message review.

Employer EDX training continues to be offered the second Friday of each month, concurrently in the Tigard computer lab and by Internet through iLinc, the PERS distance presentation and training platform. Combined 2012 employer attendance currently stands at 49, with 10 scheduled for training in November. Training comprises three segments, beginning with basic concepts and tools for reporting demographic and financial information through EDX, followed by a hands-on “lab” session in which attendees put into practice those basic EDX concepts by creating records and reports, and a final segment reviewing eligibility rules and suggested approaches to EDX eligibility problem resolution. Topics in the third segment also include review of eligibility rules with eligibility examples, review of reporting retirees returning to work part-time as retirees and basic analysis of employer online statements.

ACCOUNTS RECEIVABLE PLAN

Besides assisting employers with overdue reports and electronic payments, ESC has also implemented an escalation process for overdue payment of contributions. Due to this process, no new employer was added to the over 90 day outstanding invoice category in the last month. Our goal is to prevent outstanding invoices over 30 days, and to actively work with the PERS’ accounts receivable department to proactively collect receivable balances that are more than 30 days overdue.

Age	Number	Dollars
91-120 days	18	\$ 37,005.13
120+ days	284	\$636,409.60
Total	302	\$673,414.74

The current total number of invoices that are over 90 days delinquent now stands at 302 for a total outstanding balance of \$673,414.74, which is decrease of \$77,180.95 from our May balance. Of the outstanding balance, \$302,355.95 or 45% are charges under dispute and \$371,058.79 or 55% is attributable to charter schools:

- EdChoices charter schools = \$134,401.04
- Five separate charter schools= \$236,657.75
 - Three schools have no valid contact and/or has made NSF payments =\$3,352.08
 - One school requires a data fix which will correct misplaced charges =\$26,272.82
 - One school is actively working with PERS, making current plus additional payments towards charges = \$207,032.85

We are implementing the data fix for the misplaced charges, which will result in further reduction of \$26,272.82, and developing project plans for addressing the EdChoice charter schools and those employers without a valid contact or when payments have been returned due to insufficient funds (NSF). Additionally we have begun to build additional education and training for new charter schools and are building partnerships with the Oregon Department of Education to prevent problems from occurring.

BLANK PAGE



Oregon

John A. Kitzhaber, M.D., Governor

Public Employees Retirement System

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

November 30, 2012

TO: Members of the PERS Board
FROM: Steven Patrick Rodeman, Deputy Director
SUBJECT: Notice of Rulemaking for OPSRP Pension Program P&F Continuous Service
Rule: OAR 459-075-0200, *Retirement Eligibility for Police Officer and Firefighter Members*

OVERVIEW

- Action: None. This is notice that staff has begun rulemaking.
- Reason: Clarify the five year continuous employment as Police Officer and Firefighter (P&F) prior to effective date of retirement and the status of a member who is employed concurrently as P&F and other than P&F.
- Policy Issue: No policy issues have been identified.

BACKGROUND

An OPSRP Pension Program member establishes eligibility for retirement as a Police Officer and Firefighter (P&F) member by working in a P&F position continuously for a period of 60 months immediately prior to the effective date of retirement. OAR 459-075-0200 is being modified to address two scenarios that may arise in establishing P&F eligibility:

- 1) That separating from one P&F position and starting another P&F position does not restart the 60-month clock for eligibility so long as the member does not work in a general service position during that separation.
- 2) If a member works concurrently in a P&F and general service position, the 60-month clock is not restarted so long as the member remains continuously employed in the P&F position.

PROPOSED RULE MODIFICATIONS

The proposed modifications to OAR 459-075-0200(2)(a) converts the five years to 60 months of qualifying service as P&F and clarifies that those 60 months need not be consecutive but cannot be interrupted by employment as other than P&F. Subsection (2)(b) was modified to clarify that if the member is employed solely as other than P&F after a separation as P&F described in paragraph (2)(a), the member would not meet the P&F retirement eligibility.

Section (3) was added to clarify that a member who is concurrently employed in qualifying positions by two or more employers as P&F and as other than P&F will be considered as P&F, which is consistent with agency practice.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing will be held on December 18, 2012 at 3:00 p.m. at PERS headquarters in Tigard. The public comment period ends on December 31, 2012 at 5:00 p.m.

LEGAL REVIEW

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

IMPACT

Mandatory: No.

Impact: Clarifies the eligibility for early or normal retirement status of a P&F member going from one P&F position to another and concurrent employment as P&F and other than P&F.

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

RULEMAKING TIMELINE

October 15, 2012	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
November 1, 2012	<i>Oregon Bulletin</i> published the Notice of Rulemaking Hearing. Notice was sent to employers, legislators, and interested parties. Public comment period began.
November 30, 2012	PERS Board notified that staff began the rulemaking process.
December 18, 2012	Rulemaking hearing to be held at 3:00 p.m. in Tigard.
December 31, 2012	Public comment period ends at 5:00 p.m.
January 25, 2013	Staff will propose adopting the permanent rule modifications, including any changes resulting from public comment or reviews by staff or legal counsel.

NEXT STEPS

A hearing will be held on December 18, 2012 at PERS headquarters in Tigard. The public comment period ends on December 31, 2012 at 5:00 p.m. The rules are scheduled to be brought before the PERS Board for adoption at the January 25, 2013 Board meeting.

B.1. Attachment 1 – 459-075-0200, *Retirement Eligibility for Police Officer and Firefighter Members*

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

1 **459-075-0200**

2 **Retirement Eligibility for Police Officer and Firefighter Members**

3 (1) “Police officer” and “firefighter” have the same meaning given them in ORS
4 238A.005.

5 (2) For the purpose of establishing eligibility for normal retirement under ORS
6 238A.160(2) and early retirement under 238A.165(2), an OPSRP Pension Program
7 member will be considered to have held a position as a police officer or firefighter
8 continuously for a period of not less than five years immediately preceding the effective
9 date of retirement if:

10 (a) The member was employed in a qualifying position as a police officer or
11 firefighter for *[five years]* **60 months** prior to the date of the member’s **most recent**
12 separation from that employment. **The 60 months need not be consecutive, but may not**
13 **be interrupted by employment in a qualifying position as other than a police officer**
14 **or firefighter**; and

15 (b) The member *[did not return to]* **was not employed solely in** a qualifying position
16 **as other than a police officer or firefighter** after separation *[from that employment]*.

17 **(3) A member who is concurrently employed by two or more employers in**
18 **qualifying positions as a police officer or firefighter and as other than a police officer**
19 **or firefighter is employed as a police officer or firefighter for purposes of this rule.**

20 Stat. Auth.: ORS 238A.450

21 Stats. Implemented: 238A.160 & 238A.165

BLANK PAGE



Oregon

John A. Kitzhaber, M.D., Governor

Public Employees Retirement System

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

November 30, 2012

TO: Members of the PERS Board
FROM: Steven Patrick Rodeman, Deputy Director
SUBJECT: Notice of Rulemaking for Data Verification Rule:
OAR 459-005-0040, *Verification of Retirement Data*

OVERVIEW

- Action: None. This is notice that staff has begun rulemaking.
- Reason: Clarification of certain standards concerning employer obligations in verification of retirement data process.
- Policy Issue: Whether 30 days constitutes a reasonable time for employers to confirm or modify employee records for a data verification?

BACKGROUND

OAR 459-005-0040 sets forth the standards PERS follows when an eligible member requests a data verification. The current rule provides that PERS notify the member's employers of the request and give those employers a "reasonable time" of up to 60 days to confirm or modify the data previously reported to PERS. After this period has passed, the member's employer may no longer modify that data. PERS then processes the verification.

The 60-day deadline was established when the data verification process was initiated July 1, 2011. Since that time, a mismatch in time frames has arisen because of the number of members that request data verifications at the same time that they apply for retirement. The 60-day time line for employers to verify data does not allow timely processing of the member's retirement application, since we strive to commence payments within 45 days.

POLICY ISSUE

Whether 30 days constitutes a reasonable time for employers to confirm or modify employee records?

Staff's experience is that a 60-day period is not necessary since most employers respond within 30 days. The majority of employers who have responded to PERS' notification and work item requests have responded within the first 30 days of notice. During the period from July 1, 2011, to November 9, 2012, PERS sent out 1175 work items relating to data verification requests.¹ Of these 1175 sent work items, PERS received affirmative responses for 850 work items or 72.3%.

¹ PERS has sent out a total of 1518 work items; of the total number of work items sent out, 343 relate to employers whose due dates have not yet passed as of when the analysis data was retrieved on November 9, 2012.

Of these, 78.4% (666) were received within 30 days or less. Most employers, when reviewed by actuarial group, have a response time lower than 30 days. The only exception, but a statistically significant one, is the state of Oregon Department of Administrative Services, who reports on behalf of all state agencies. DAS represents the other 27.7% of the 1175 employer work items where no response was received.

The proposed 30-day response standard was recently discussed at an Employer Advisory Council meeting and there was no broad opposition to the proposed change. Staff will continue to solicit and consider employer comment on this modified standard during the rulemaking process.

As the majority of employers respond to data verification work item requests within 30 days, lowering the standard for a response would allow for more timely benefit payment processing and remove what has proven to be an unnecessary delay. The proposed rule modifications also shorten the corresponding date by which an employer can petition for a discretionary extension of the deadline from 45 days to 21 days. This change is proposed because a 45-day deadline to petition for an extension would fall after the 30-day period had already expired. To date, no petitions for extensions have been made by any PERS employers.

PERS staff recommends adopting these proposed rule modifications to allow for better alignment in processing benefits and improve administration of data verifications.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing will be held on December 18, 2012 at 3:00 p.m. at PERS headquarters in Tigard. The public comment period ends on December 31, 2012 at 5:00 p.m.

LEGAL REVIEW

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

IMPACT

Mandatory: No.

Impact: Improves the administration of verifications by removing any unnecessary delays, such that data verification requests are processed more quickly.

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

RULEMAKING TIMELINE

- | | |
|-------------------|--|
| October 15, 2012 | Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State. |
| November 1, 2012 | <i>Oregon Bulletin</i> published the Notice. Notice was sent to employers, legislators, and interested parties. Public comment period began. |
| November 30, 2012 | PERS Board notified that staff began the rulemaking process. |
| December 18, 2012 | Rulemaking hearing to be held at 3:00 p.m. in Tigard. |

Notice – Data Verification Rule

11/30/12

Page 3 of 3

December 31, 2012 Public comment period ends at 5:00 p.m.

January 25, 2013 Staff will propose adopting the permanent rule modifications, including any changes resulting from public comment or reviews by staff or legal counsel.

NEXT STEPS

A hearing will be held on December 18, 2012 at PERS headquarters in Tigard. The public comment period ends on December 31, 2012 at 5:00 p.m. The rules are scheduled to be brought before the PERS Board for adoption at the January 25, 2013 Board meeting.

B.2. Attachment 1 – 459-005-0040, *Verification of Retirement Data*

BLANK PAGE

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

1 **459-005-0040**

2 **Verification of Retirement Data**

3 (1) For purposes of this rule:

4 (a) “Eligible member” means an active or inactive member of the system who is
5 within two years of attaining earliest service retirement age or has attained earliest
6 service retirement age. “Eligible member” does not include a retired member of the
7 system, an alternate payee, or a beneficiary.

8 (b) “Verification” means a document provided to an eligible member by PERS
9 pursuant to [ORS 238.285](#) *[section 3, chapter 1, Oregon Laws 2010]*.

10 (2)(a) PERS will determine an eligible member’s creditable service, retirement
11 credit, final average salary, member account balance, and accumulated unused sick
12 leave for a verification based on employment data reported to PERS by the member’s
13 employers, as reflected in PERS’ records. Except as provided in this section, an
14 employer may not modify an eligible member’s records after the earlier of the *[60th]*
15 [30th](#) day after PERS notifies the eligible member’s employer that a request for a
16 verification has been submitted or the date the employer confirms the records in a
17 manner determined by PERS.

18 (b) PERS may direct an employer to modify records if PERS determines
19 modification is necessary, such as:

20 (A) To reconcile the member’s records before the verification is issued;

21 (B) To implement the resolution of a dispute under *[section 3(2), chapter 1,*

22 *Oregon Laws 2010]* [ORS 238.285\(2\)](#); or

1 (C) To reissue a verification under subsection (4)(e) of this rule.

2 (c) An employer may petition PERS for an extension of the ~~[60]~~30-day period
3 described in subsection (a) of this section.

4 (A) The petition must:

5 (i) Be specific to an eligible member;

6 (ii) Specify the duration and end date of the extension requested;

7 (iii) Be received by PERS no later than the ~~[45th]~~ 21st day after notice is issued;

8 and

9 (iv) Establish good cause why the extension should be granted.

10 (B) The PERS Executive Director or a person designated by the Director may
11 grant or deny the request.

12 (C) An employer may not request more than one extension for an eligible member.

13 (3) For any verification provided by PERS:

14 (a) All data in a verification will be as of December 31 of the last calendar year
15 before the date the verification is produced for which the Board has adopted annual
16 earnings crediting.

17 (b) If an eligible member requests an additional verification, an employer may not
18 confirm or modify, nor may a member dispute, by reason of the additional verification,
19 data for periods before the date specified in the most recent verification.

20 (4) When a member who has received a verification retires for service, PERS may
21 not use amounts less than the amounts verified to calculate the member's retirement
22 allowance or pension, except as permitted in *[section 3(3), chapter 1, Oregon Laws*
23 *2010,]* ORS 238.285(3) and this section.

1 (a) Amounts in a verification may be adjusted if a Tier Two member restores
2 forfeited creditable service and establishes Tier One membership in the manner
3 described in ORS 238.430(2)(b).

4 (b) Amounts in a verification may be adjusted to comply with USERRA.

5 (c) Amounts in a verification may be adjusted to implement a judgment,
6 administrative order, arbitration award, conciliation agreement, or settlement
7 agreement.

8 (d) If, subsequent to the date specified in a verification, a member’s account is
9 divided pursuant to ORS 238.465, the member and alternate payee accounts will be
10 used to determine compliance with *[section 3(3), chapter 1, Oregon Laws 2010]* [ORS](#)
11 [238.285\(3\)](#) and this section.

12 (e) If the amounts in a verification are adjusted under *[section 3(3), chapter 1,*
13 *Oregon Laws 2010]* [ORS 238.285\(3\)](#) or this section, the verification will be reissued
14 by PERS as of the date specified in the original verification.

15 (5) Erroneous payments or overpayments not recoverable under *[section 3(6),*
16 *chapter 1, Oregon Laws 2010]* [ORS 238.285\(6\)](#) will be allocated annually by the
17 Board.

18 Stat. Auth.: ORS 238.650, 238A.450

19 Stats. Impl.: [ORS 238.285](#) *[Sections 2-4, chapter 1, Oregon Laws 2010 (Enrolled*
20 *Senate Bill 897)]*

BLANK PAGE



Oregon

John A. Kitzhaber, M.D., Governor

Public Employees Retirement System

Headquarters:
11410 S.W. 68th Parkway, Tigard, OR

Mailing Address:
P.O. Box 23700
Tigard, OR 97281-3700
(503) 598-7377
TTY (503) 603-7766
www.oregon.gov/pers

November 30, 2012

TO: Members of the PERS Board
FROM: Steven Patrick Rodeman, Deputy Director
SUBJECT: Notice of Rulemaking for Employer Remitting of Employee Contributions Rule:
OAR 459-009-0200, *Employer Remitting of Employee Contributions*

OVERVIEW

- Action: None. This is notice that staff has begun rulemaking.
- Reason: Clarifies employers may use date of hire in determination of method of employee contribution.
- Policy Issue: Should “date of hire” be a standard for determining the method of the member’s Individual Account Program (IAP) contribution?

BACKGROUND

Employers have three methods to remit the member’s IAP contribution to PERS:

- (1) Member-Paid After Tax (“MPAT”): the contribution is paid by the member and remitted on an after-tax basis.
- (2) Member-Paid Pre-Tax (“MPPT”): the contribution is paid by the member but remitted on a pre-tax basis, so the member does not pay taxes (e.g., income, FICA) on the contribution.
- (3) Employer-Paid Pre Tax (“EPPT”): the contribution is assumed and paid by the employer on a pre-tax basis.

ORS 238A.335 allows an employer to use MPAT, MPPT, or EPPT for different groups of employees, so long as the employer has a policy or collective bargaining agreement to support any distinction. OAR 459-009-0200 currently requires an employer to apply the method of contribution uniformly to employees who are in similarly situated positions and provides examples of similarly situated positions. The list of examples is not exclusive, but does not include “date of hire” as one of the specifically permissible examples. Employers have requested that we modify this rule to list a member’s date of hire as a permissible method to differentiate among IAP contribution methods.

POLICY ISSUE

Should “date of hire” be a standard for determining the method of the member’s IAP contribution?

Employers seeking additional flexibility in collective bargaining and personnel policies have contacted PERS to confirm that “date of hire” is a permissible standard for determining the contribution method. Staff expects the number of employer inquiries to increase as employers

explore ways to address limited budgets. PERS’ response to date has been that use of “date of hire” is permissible under the statute and not specifically excluded under the rule. Staff does support the rule modification to clarify that “date of hire” is an acceptable standard to memorialize that standard.

The proposed modifications to OAR 459-009-0200 allow employers this additional flexibility. For example, an employer may agree to remit employer-paid pre-tax (EPPT) contributions for all employees who are members of a collective bargaining unit and were hired before July 1, 2013, and member-paid pre-tax (MPPT) contributions for employees who are members of the same collective bargaining unit, but are hired on or after July 1, 2013.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing will be held on December 18, 2012 at 3:00 p.m. at PERS headquarters in Tigard. The public comment period ends on December 31, 2012 at 5:00 p.m.

LEGAL REVIEW

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

IMPACT

Mandatory: No.

Impact: Employers and employees will benefit from additional flexibility in the determination of methods of remitting employee contributions.

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

RULEMAKING TIMELINE

October 15, 2012	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
November 1, 2012	<i>Oregon Bulletin</i> published the Notice. Notice was sent to employers, legislators, and interested parties. Public comment period began.
November 30, 2012	PERS Board notified that staff began the rulemaking process.
December 18, 2012	Rulemaking hearing to be held at 3:00 p.m. in Tigard.
December 31, 2012	Public comment period ends at 5:00 p.m.
January 25, 2013	Staff will propose adopting the rule modifications, including any changes resulting from public comment or reviews by staff or legal counsel.

NEXT STEPS

A hearing will be held on December 18, 2012 at PERS headquarters in Tigard. The public comment period ends on December 31, 2012 at 5:00 p.m. The rules are scheduled to be brought before the PERS Board for adoption at the January 25, 2013 Board meeting.

B.3. Attachment 1 – 459-009-0200, *Employer Remitting of Employee Contributions*

BLANK PAGE

**OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 009 – PUBLIC EMPLOYER**

1 **459-009-0200**

2 **Employer Remitting of Employee Contributions**

3 (1) A participating employer shall remit to PERS in accordance with OAR 459-070-
4 0110 the contributions required by ORS 238A.330. Unless otherwise agreed to as
5 provided for in section (2) or (3) of this rule, the employer shall withhold and remit the
6 required contributions on an after-tax basis as defined in OAR 459-005-0001(2), which
7 shall be known as “member paid after-tax contributions (MPAT)”.

8 (2) In accordance with Internal Revenue Code (IRC) Section 414(h), and under
9 provision of ORS 238A.335(2)(b), participating employers may voluntarily agree to
10 assume and pay the employee contribution on behalf of its employees, which shall be
11 known as “employer paid pre-tax contributions (EPPT)”. The employer assumption and
12 payment of the employee contributions shall be subject to the following terms and
13 conditions:

14 (a) The employer’s employment agreement(s) to assume and pay the contributions
15 must be evidenced by a certified copy of the employer’s policy established by statute,
16 charter, ordinance, administrative rule, executive order, collective bargaining agreement,
17 or other written employment policy or agreement. The employer’s employment policy(s)
18 or agreement(s) shall specify that:

19 (A) The required PERS employee contribution is deemed to be picked up for
20 purposes of IRC Section 414(h)(2) and is assumed and paid for purposes of ORS
21 238A.335(2)(b);

22 (B) The employees do not have the option of receiving the assumed amount directly;

1 (C) Employee compensation may not be reduced and the employer shall provide the
2 additional amounts necessary to make the employee contributions; and

3 (D) The employer’s employment policy(s) or agreement(s) is not retroactive in its
4 application.

5 (b) The employer’s employment policy(s) or agreement(s) to assume and pay
6 employee contributions may not be construed to require an employer to open or
7 renegotiate a pre-existing collective bargaining agreement or change an employment
8 policy before its normal expiration date.

9 (c) The employer’s employment policy(s) or agreement(s) must be to assume and
10 pay the full amount, and not a portion thereof, of the affected employees’ contributions
11 required by ORS 238A.330.

12 (d) The employer’s policy(s) or agreement(s) may apply to all its employees or some
13 of its employees. If it applies only to some employees, it shall apply uniformly to *[all]*
14 employees of the public employer who are *[employed in]* similarly situated *[positions]*,
15 such as, but not limited to:

16 (A) The chief executive officer or administrative head of a public employer.

17 (B) Management personnel, as defined by the public employer, not otherwise
18 covered by a collective bargaining agreement.

19 (C) Confidential personnel, as defined by the public employer, not otherwise
20 covered by a collective bargaining agreement.

21 (D) Administrative personnel, as defined by the public employer, not otherwise
22 covered by a collective bargaining agreement.

23 (E) Personnel covered by a collective bargaining agreement.

1 (F) Other personnel, whether full time, part time, temporary, or as a substitute, who
2 are not covered by a collective bargaining agreement.

3 (G) Personnel hired on or after a date established or agreed upon by the
4 employer.

5 (3) Under provision of ORS 238A.335(2)(a), participating employers may
6 voluntarily agree to “pick-up” the employee contributions withheld, and such picked-up
7 contributions shall be known as “member paid pre-tax contributions (MPPT)”. The
8 employer “pick-up” of the employee contributions shall be subject to the following terms
9 and conditions:

10 (a) The employer’s agreement(s) to “pick-up” the contributions must be evidenced
11 by a certified copy of the employer’s policy established by statute, charter, ordinance,
12 administrative rule, executive order, collective bargaining agreement, or other written
13 employment policy or agreement. The employer’s policy(s) or agreement(s) shall specify
14 that:

15 (A) The employees do not have the option of receiving the picked-up amount
16 directly;

17 (B) The employee compensation shall be reduced by the amount necessary to make
18 the employee contributions; and

19 (C) The employer’s policy(s) or agreement(s) is not retroactive in its application.

20 (b) The employer’s employment policy(s) or agreement(s) to “pick-up” employee
21 contributions withheld may not be construed to require an employer to open or re-
22 negotiate a pre-existing collective bargaining agreement or change an employment policy
23 before its normal expiration date.

1 (c) The employer’s policy(s) or agreement(s) must be to “pick-up” the full amount,
2 and not a portion thereof, of the affected employees’ contributions required by ORS
3 238A.330.

4 (d) The employer’s employment policy(s) or agreement(s) may apply to all its
5 employees, or some of its employees. If it applies to only some of its employees, it shall
6 apply uniformly to *[all]* employees of the public employer who are *[employed in]*
7 similarly situated *[positions]*, such as, but not limited to:

8 (A) The chief executive officer or administrative head of a public employer.

9 (B) Management personnel, as defined by the public employer, not otherwise
10 covered by a collective bargaining agreement.

11 (C) Confidential personnel, as defined by the public employer, not otherwise
12 covered by a collective bargaining agreement.

13 (D) Administrative personnel, as defined by the public employer, not otherwise
14 covered by a collective bargaining agreement.

15 (E) Personnel covered by a collective bargaining agreement.

16 (F) Other personnel, whether full time, part time, temporary, or as a substitute, who
17 are not covered by a collective bargaining agreement.

18 **(G) Personnel hired on or after a date established or agreed upon by the**
19 **employer.**

20 (4) The notification of the employer’s written employment policy(s) or agreement(s)
21 to enter into or to revoke (1) the “pick-up”, or (2) to assume and pay contributions on
22 behalf of employees, shall be submitted to PERS for review and approval, and shall
23 become effective on the date the notification is received by PERS. Additional

1 information related to the employer’s policy or agreement shall be provided at the request
2 of staff and in the manner required by staff. If approved by PERS, such policy and
3 agreement may not be revoked by the employer except with prior written notice to PERS.
4 All costs to correct any errors caused by failure to give required notice shall be borne by
5 the employer.

6 (5) Notwithstanding sections (1) to (4) of this rule, judge member contributions shall
7 be made in accordance with ORS 238.515.

8 Stat. Auth.: ORS 238.650 & 238A.450

9 Stats. Implemented: ORS 238.515, 238A.330 & 238A.335

BLANK PAGE



Oregon

John A. Kitzhaber, M.D., Governor

Public Employees Retirement System

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

November 30, 2012

TO: Members of the PERS Board

FROM: Steven Patrick Rodeman, Deputy Director

SUBJECT: Adoption of Public Contracting Rules
OAR 459-005-0400, *General Applicability of Attorney General's Model Public Contract Rules*
OAR 459-035-0001, *Definitions*
OAR 459-035-0200, *Contracting for Health Insurance Plans, Administrator and Other Services* (repeal)
OAR 459-035-0220, *Contract and Bid Request Solicitations* (repeal)

OVERVIEW

- Action: Adopt modifications to the Public Contracting rules.
- Reason: Establish uniform rules applicable when PERS has independent contracting authority and the Public Contracting Code does not apply.
- Policy Issue: No policy issues have been identified.

BACKGROUND

PERS is generally subject to the Department of Administrative Services (DAS) public contracting and procurement provisions in ORS Chapters 279A, 279B, and 279C (Public Contracting Code), with some statutory exceptions such as the PERS Health Insurance Program (PHIP) or the Oregon Savings Growth Plan. This rulemaking establishes uniform rules for when PERS has independent contracting authority under those exceptions. These rules are based on the Department of Justice (DOJ) model public contract rules, as effective on August 1, 2012, as generally applicable to PERS, with exceptions being specifically identified.

This rulemaking would also codify the public contracting rules in one place rather than having similar provisions in each subject area, which makes the rules easier to use and to update, as well as provides consistency of rules for all subjects. Repealing existing rules and adopting these new rules will not substantively change any of PERS' contracting practices.

SUMMARY OF MODIFICATIONS TO RULES SINCE NOTICE

The proposed new rule OAR 459-005-0420, *Designation of Positions Authorized to Execute Contract* was removed from rulemaking. The text of the rule provided that the Procurement Manager or other person with certain responsibility will maintain a list of positions authorized to execute contracts. Upon further review, staff determined that the rule was unnecessary. Designating who may execute contracts, delegating authority to execute contracts, or keeping a list of those delegations and designations all are internal management directives and functions

and not necessary to codify in administrative rule. There are no other modifications to the rules since notice at the August 2012 Board meeting.

PUBLIC COMMENT AND HEARING TESTIMONY

The first rulemaking hearing was held on August 22, 2012, at 2:00 p.m. at PERS headquarters in Tigard. The second rulemaking hearing was held on October 23, 2012, at 3:00 p.m. at PERS headquarters in Tigard. No members of the public attended either hearing. The public comment period ended on November 2, 2012, at 5:00 p.m. No public comment was received.

LEGAL REVIEW

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

IMPACT

Mandatory: No. However, without these modifications and new rules, PERS is governed by DOJ contracting rules rather than by its own set of rules.

Impact: Staff will benefit from one set of rules that provide consistency for all public contracting subjects.

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

RULEMAKING TIMELINE

June 15, 2012	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
July 1, 2012	<i>Oregon Bulletin</i> published the Notice. Notice was sent to employers, legislators, and interested parties. Public comment period began.
August 15, 2012	Staff added OAR 459-035-0001 to the rulemaking by filing a second Notice of Rulemaking with the Secretary of State.
August 22, 2012	First rulemaking hearing held at 2:00 p.m. in Tigard.
August 28, 2012	PERS Board notified that staff began the rulemaking process.
September 1, 2012	<i>Oregon Bulletin</i> published the second Notice. Notice was sent to employers, legislators, and interested parties.
October 23, 2012	Second rulemaking hearing held at 3:00 p.m. in Tigard.
November 2, 2012	Public comment period ended at 5:00 p.m.
November 30, 2012	Board may adopt the permanent rule and rule modifications.

BOARD OPTIONS

The Board may:

1. Pass a motion to “adopt new rules and modifications to the public contracting rules, as presented.”
2. Direct staff to make other changes to the rules or explore other options.

STAFF RECOMMENDATION

Staff recommends the Board choose Option #1.

- Reason: Establish uniform rules applicable when PERS has independent contracting authority and the Public Contracting Code does not apply.

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

B.4. Attachment 1 – 459-005-0400, *General Applicability of Attorney General’s Model Public Contract Rules*

B.4. Attachment 2 – 459-035-0001, *Definitions*

B.4. Attachment 3 – 459-035-0200, *Contracting for Health Insurance Plans, Administrator and Other Services* (repeal)

B.4. Attachment 4 – 459-035-0220, *Contract and Bid Request Solicitations* (repeal)

BLANK PAGE

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

1 **459-005-0400**

2 **General Applicability of Attorney General’s Model Public Contract Rules**

3 **(1) When PERS has independent statutory authority to contract, and the Public**
4 **Contracting Code does not apply, PERS adopts the following Attorney General’s**
5 **Model Public Contract Rules to govern its contracting activity:**

6 **(a) OAR Chapter 137, Division 46 - General Provisions Related to Public**
7 **Contracting: 137-046-0100, 137-046-0110, 137-046-0200, 137-046-0252, and 137-046-**
8 **0400 through 137-046-0480; and**

9 **(b) OAR Chapter 137, Division 47 – Public Procurements for Goods or**
10 **Services: 137-047-0100, 137-047-0260 through 137-047-0670, 137-047-0700 through**
11 **137-047-0760 (excluding provisions governing judicial review), and 137-047-0800.**
12 **Judicial review of decisions relating to any protest is governed by the Oregon**
13 **Administrative Procedures Act, ORS Chapter 183.**

14 **(2) For PERS’ purposes, references in the Model Public Contract Rules to the**
15 **Director of the Oregon Department of Administrative Services shall be applied as**
16 **references to the PERS Executive Director.**

17 **(3) Model Public Contract rules other than those identified in section (1) of this**
18 **rule do not apply to PERS.**

19 **Stat. Auth.: ORS 238.650, 238A.450 & 279A.065**

20 **Stats. Implemented: ORS Chapters 279A & 279B**

BLANK PAGE

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

1 **459-035-0001**

2 **Definitions**

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

6 *[(1) “Board” means the Public Employees Retirement Board as established in ORS
7 238.630.]*

8 *[(2) “Competitive Negotiation” means the procurement method whereby proposals
9 are requested from a number of sources and the Request for Proposals is publicized.]*

10 *[(3)]*(1) “Dependent” means a PERS member’s or retiree’s dependent child. For the
11 purpose of this rule a “child” is defined as follows:

12 (a) A natural child.

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

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

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

19 *[(4)]*(2) “Dependent Domestic Partner” means a person who has a relationship with
20 a PERS retiree that has the characteristics described below. To qualify as a “dependent
21 domestic partner”, the person and the PERS retiree must:

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

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

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

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

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

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

13 *[(5)](3)* “Eligible Person” means a person who is eligible for coverage under a
14 PERS-sponsored health insurance plan. The conditions for such eligibility are set forth in
15 OAR 459-035-0020.

16 *[(6)](4)* “Eligible Retired Member” means an eligible person who is eligible for
17 payments toward the cost of the Medicare Companion Plan from RHIA. The conditions
18 for such eligibility are set forth in OAR 459-035-0030.

19 *[(7)](5)* “Eligible Retired State Employee” means an eligible person who is eligible
20 for non-Medicare insurance premium payments from the RHIPA. Conditions for such
21 eligibility are set forth in OAR 459-035-0040.

22 *[(8) “Fund” has the same meaning as the Public Employees Retirement Fund in*
23 *ORS 238.660.]*

1 ~~[(9)]~~(6) “Medicare” means the federal health care insurance plan established under
2 Title XVIII of the Social Security Act as amended.

3 ~~[(10)]~~(7) “Medicare Companion Plan” means a PERS-sponsored health insurance
4 plan for eligible persons who are eligible for and enrolled in Medicare.

5 ~~[(11) “Non-Competitive Negotiation” means procurement through solicitation of a
6 proposal from only one source.]~~

7 ~~[(12)]~~(8) “PEBB” means the Public Employees’ Benefit Board established under
8 ORS 243.061.

9 ~~[(13)]~~(9) “PERS Member” has the same meaning as “member” provided in ORS
10 238.005 and 238A.005.

11 ~~[(14)]~~(10) “Plan Year” means a 12-month period beginning January 1 and ending
12 December 31.

13 ~~[(15)]~~(11) “Qualifying Service” means:

14 (a) Creditable service, as defined in ORS 238.005, plus any periods of employment
15 with an employer participating in PERS that are required of the employee before
16 becoming a PERS member; or

17 (b) Periods of employment in a qualifying position, as that term is defined in OAR
18 459-010-0003.

19 ~~[(16)]~~(12) “Retiree” means a PERS member who is receiving a service or disability
20 retirement allowance or benefit under PERS or who received a lump sum payment under
21 ORS 238.305(3), 238.315, or 238A.195, or payment(s) under ORS 238A.400, or a person
22 who is receiving retirement pay or pension calculated under ORS 1.314 to 1.380 (1989
23 Edition).

1 ~~[(17)]~~**(13)** “RHIA” means the Retirement Health Insurance Account established
 2 under ORS 238.420 to help defray the cost of the Medicare Companion Plan.

3 ~~[(18)]~~**(14)** “RHIPA” means the Retiree Health Insurance Premium Account
 4 established under ORS 238.415 to help defray the cost of PERS-sponsored health plans
 5 other than the Medicare Companion Plan.

6 ~~[(19)]~~ *“Small Purchase Procedures” means a simple and informal procurement*
 7 *methods whereby price and rate quotations are obtained from at least three sources and*
 8 *selection is made on the basis of cost and other applicable criteria.]*

9 ~~[(20)]~~**(15)** “SRHIA” means the Standard Retiree Health Insurance Account
 10 established under ORS 238.410 to administer employee and the employer contributions
 11 to the PERS sponsored health insurance program.

12 ~~[(21)]~~**(16)** “Staff” means the employees of the Public Employees Retirement
 13 System.

14 ~~[(22)]~~**(17)** “Third Party Administrator” means the individual or organization that the
 15 Board contracts with to provide administrative services as specified in the contract.

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

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

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

1 *[459-035-0200*

2 *Contracting for Health Insurance Plans, Administrator and Other Services*

3 *(1) In accordance with ORS 238.410, the Board shall enter into one or more*
4 *contracts with one or more carriers to provide health insurance coverage to all eligible*
5 *persons. Such contracts may include health insurance plans that provide:*

6 *(a) Coverage supplemental to Medicare coverage;*

7 *(b) Non-Medicare health insurance coverage;*

8 *(c) Managed care health plan coverage;*

9 *(d) Dental insurance coverage; and*

10 *(e) Long term care insurance plans.*

11 *(2) The Board may retain consultants, brokers or other advisory personnel, or*
12 *organizations specializing in health care costs containment or other administrative*
13 *services when it deems necessary.*

14 *(3) The procurement of health insurance coverage, health insurance administration*
15 *services, and other specialized services will follow one or more of the following*
16 *procurement methods:*

17 *(a) Small Purchase Procedures. Small Purchase Procedures may be used for the*
18 *procurement of services costing not more than \$75,000.*

19 *(b) Competitive Negotiation. Competitive Negotiation shall be used for personal*
20 *service contracts in excess of \$75,000 per agreement per fiscal year and may be used for*
21 *contracts of less than \$75,000. Exceptions may be granted to accommodate one or more*
22 *of the conditions described in subsection (3)(c) of this rule with the approval of the*

1 *Director. The procedure described below must be followed when Competitive*
2 *Negotiation is used.*

3 *(A) A Request for Proposal (RFP) shall be prepared for contracts for which*
4 *competitive negotiation procedures will be used. The RFP shall include, at a minimum,*
5 *the following information:*

6 *(i) Date and hour which proposals must be received;*

7 *(ii) Description of work; and*

8 *(iii) Evaluation specific to contract criteria.*

9 *(B) Notification of the availability of the RFP shall be advertised in newspapers or*
10 *periodicals as determined by the staff.*

11 *(C) Proposals shall be evaluated in a manner consistent with the evaluation criteria*
12 *included in the RFP by the Board or committee thereof. A written document stating why*
13 *the selection was made will be on file at PERS office.*

14 *(D) Paragraphs (3)(b)(B) and (3)(b)(C) of this rule may be excepted from these*
15 *competitive negotiation procedures if the Director determines it is warranted by time or*
16 *cost considerations.*

17 *(c) Non-Competitive Negotiation. Non-Competitive Negotiation may be used for*
18 *contracts if public notice of the Board's intent to contract for services is properly*
19 *published and one of the following is applicable:*

20 *(A) The item or service is available only from a single source, or the sole source has*
21 *special skills that are only available based upon his/her expertise or situation;*

22 *(B) Public need or emergency situation compels purchasing the coverage or service*
23 *without the delay incident to competitive solicitation; or*

1 *(C) The contract is a renewal of an existing contract, subject to approval by all*
2 *required parties.*

3 *Stat. Auth: ORS 238.410 & ORS 238.650*

4 *Stats. Implemented: ORS 238.410]*

BLANK PAGE

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

1 ***[459-035-0220***

2 ***Contract and Bid Request Solicitations***

3 *The Board and PERS will comply with the requirements of ORS 200.035 regarding*

4 *the timely notice of all contract and bid request solicitations in excess of \$5,000 to the*

5 *Advocate for Minority, Women and Emerging Small Business.*

6 *Stat. Auth.: ORS 238.410 & ORS 238.650*

7 *Stats. Implemented: ORS 238.410, ORS 238.415 & ORS 238.420]*

BLANK PAGE



Oregon

John A. Kitzhaber, M.D., Governor

Public Employees Retirement System

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

November 30, 2012

TO: Members of the PERS Board
FROM: Steven Patrick Rodeman, Deputy Director
SUBJECT: Adoption of City of Springfield Employer Rates

At its September 28, 2012 meeting, the PERS Board adopted employer contribution rates to be effective July 1, 2013. As explained in the attached November 15, 2012 letter from Milliman actuary Matt Larrabee, there was a reporting anomaly in the data from the City of Springfield. That anomaly was resolved, but the rates adopted for that employer should be corrected.

As employer rates are set by the PERS Board in accordance with ORS 238.225, staff recommends that the Board adopt the amended 2013-2015 rate order for the City of Springfield as recalculated by Milliman and reflected in the attached letter.

BOARD OPTIONS

The Board may:

1. Pass a motion to “adopt the amended 2013-2015 rate order for the City of Springfield as set forth in the attached November 15, 2012 Milliman letter.”
2. Direct staff to make other changes to the order.

STAFF RECOMMENDATION

Staff recommends the Board choose Option #1.

- Reason: The rate order adopted in September 2012 was based on a reporting anomaly that has since been corrected. Adopting the amended rate order would complete the PERS Board’s statutory responsibility in adopting employer contribution rates.

C.2. Attachment 1 – November 15, 2012 Milliman Letter Recommending Amended 2013-2015 Rate Order for City of Springfield

BLANK PAGE



111 SW Fifth Avenue
Suite 3700
Portland, OR 97204
USA

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

milliman.com

November 15, 2012

VIA E-MAIL

Debra Hembree
Manager
Actuarial Analysis Section
Oregon PERS

Re: Recommendation for Amended 2013-2015 Rate Order – City of Springfield

Dear Debra:

The purpose of this letter is to recommend that the Public Employees Retirement Board (PERB) enact an amended 2013-2015 employer pension contribution rate order for the City of Springfield. This recommendation is made based on a review of the City's census reporting conducted by your staff subsequent to the September 28, 2012 Board meeting at which the original rate order was entered by the Board.

Our understanding is that the census review indicated that the City had inadvertently reported a significant portion of their ongoing workforce to be inactive as of the December 31, 2011 snapshot valuation date we use to assess employer liabilities, project 2012 employer payroll and calculate 2013-2015 employer contribution rates. The magnitude of the reporting correction on projected 2012 employer payroll is shown in the table below.

	Combined Valuation Payroll
Original reporting	\$11,496,350
Amended reporting	\$25,293,577

The main rate impact of the amended payroll reporting is on the "Transition Surplus Rate" calculated for the City. When the City made the election to join the Tier 1/Tier 2 State & Local Government Rate Pool (SLGRP), the City's funded status under the program was compared to that of the SLGRP at the time. Because the City was better funded than the SLGRP at that time, a "transition surplus" was calculated for the City in an amount reflecting the differing funded statuses. (If an employer is less well funded than the SLGRP upon joining the pool, a transition liability is calculated for the employer.) The City's transition surplus is amortized over a period ending December 31, 2027 as a level percentage of the City's payroll. The amortization calculation yields a Transition Surplus Rate which serves a credit toward the rates calculated for SLGRP employers.

Ms. Debra Hembree
November 15, 2012
Page 2

A secondary rate impact is on the Tier 1/Tier 2 Normal Cost Rate charged to the City. SLGRP employers pay a blended normal cost rate on their Tier 1/Tier 2 payroll, with the final rate dependent on the employer's relative proportions of payroll that are Tier 1 or Tier 2 and General Service or Police & Fire. The amended payroll reporting slightly altered the proportional mix of payroll and led to a small change in the blended Normal Cost Rate calculation.

Tables with the original pension rate orders and the amended pension rate orders are immediately below. Rates for the RHIA retiree healthcare program remain unchanged.

	Original 2013-2015 Rate Order – Shown by Payroll Type		
	Tier 1 / Tier 2*	OPSRP General Service	OPSRP Police & Fire
Normal Cost Rate	12.11%	6.27%	9.00%
Transition Surplus Rate	(16.84%)	(16.84%)	(16.84%)
UAL Rate**	10.51%	10.51%	10.51%
Net Pension Rate	5.78%	0.00%	2.67%

	Amended 2013-2015 Rate Order – Shown by Payroll Type		
	Tier 1 / Tier 2*	OPSRP General Service	OPSRP Police & Fire
Normal Cost Rate	12.24%	6.27%	9.00%
Transition Surplus Rate	(7.66%)	(7.66%)	(7.66%)
UAL Rate**	10.51%	10.51%	10.51%
Net Pension Rate	15.09%	9.12%	11.85%

* Rates shown are for default rates. SLGRP employers also have the option to elect to have separate rates apply to General Service payroll and Police and Fire payroll.

**Includes Tier 1/Tier 2 and OPSRP UAL rates.

We would be happy to discuss this recommendation or answer any questions you may have about the calculation methodology. It is our understanding that PERS staff has corresponded with City personnel to inform them of our recommendation for an amended rate order and also the rationale for the amendment.

DATA, METHODS, ASSUMPTIONS, AND PROVISIONS

The data, methods, assumptions, and plan provisions used to calculate this recommendation are the same as those used in the December 31, 2011 system-wide actuarial valuation report, with the exception of the updated payroll reporting provided by the City and PERS staff.

Ms. Debra Hembree
November 15, 2012
Page 3

ACTUARIAL BASIS AND QUALIFICATIONS

In preparing this letter, we relied, without audit, on information (some oral and some in writing) supplied by Oregon PERS. A summary of that information, and important guidance on the limitations of use of actuarial valuation results, are addressed in our December 31, 2011 system wide actuarial valuation report. That information and the associated limitations of use are fully incorporated into this letter by reference.

Milliman's work is prepared solely for the use of Oregon PERS. To the extent that Milliman's work is not subject to disclosure under applicable public records laws, Milliman's work may not be provided to third parties without Milliman's prior written consent. Milliman does not intend to benefit or create a legal duty to any third party recipient of its work product.

No third party recipient of Milliman's work product should rely upon Milliman's work product. Such recipients should engage qualified professionals for advice appropriate to their own specific needs.

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

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

If you have any questions about our response or need any additional information, please let us know.

Sincerely,



Matthew R. Larrabee, FSA, EA
Consulting Actuary

MRL:sdp
encl.

cc: Paul Cleary
Steve Rodeman
Scott Preppernau

BLANK PAGE



Oregon

John A. Kitzhaber, M.D., Governor

Public Employees Retirement System

Headquarters:
11410 S.W. 68th Parkway, Tigard, OR

Mailing Address:
P.O. Box 23700
Tigard, OR 97281-3700
(503) 598-7377
TTY (503) 603-7766
www.oregon.gov/pers

November 30, 2012

TO: Members of the PERS Board

FROM: Steven Patrick Rodeman, Deputy Director

SUBJECT: 2012 Analysis of PERS Cost Allocation, Benefit Modification, and System Financing Concepts

In preparation for the 2013 legislative session, staff has been working with the Board's actuaries (Milliman) to update the 2010 analysis of PERS Cost Allocation, Benefit Modification, and System Financing Concepts. A summary of the updated analysis will be presented at this meeting, and a final report will be prepared for distribution before the legislative session convenes.

Attached to this memo is a list of the concepts that will be covered in the 2012 analysis. Also attached are the tables, charts and graphs that will be incorporated as the appendix to the 2012 analysis to provide overall context and useful PERS demographic, benefit, and employer rate information.

BLANK PAGE



Analysis of Cost Allocation, Benefit Modification, and System Financing Concepts for 2013 Legislative Session

Concepts Related to the IAP

- Eliminate employer “pick-up” of the six percent member IAP contribution
- Allow partial (e.g., three percent) “pick-up” of the member IAP contribution
- Reduce or eliminate the six percent member IAP contribution
- Re-direct Tier 1/Tier 2 and OPSRP member contributions from the IAP to the pension programs

Concepts Related to the Pension Programs

- Limit COLA eligibility to the first \$24,000 of annual benefits
- Eliminate the COLA for one biennium
- Eliminate all COLAs for current and future retirees
- Establish a 10-year service time requirement for COLAs
- Reduce the Money Match annuity rate to six percent
- Eliminate the Money Match benefit calculation for all future Tier 1/Tier 2 retirements
- Eliminate the Money Match benefit calculation for all inactive Tier 1/Tier 2 members
- Eliminate tax remedy payments for non-Oregon residents
- Change the factors used to calculate Final Average Salary
- Create a fourth tier of defined benefits for new hires
- Establish a defined contribution plan for new hires

Concepts Related to System Financing

- Reduce assumed earnings rate to 7.5 percent
- Reduce assumed earnings rate to 7 percent
- Increase UAL amortization period to 30 years
- Increase UAL amortization period to 25 years
- Limit net biennial employer rate increases to 3 percent of payroll

BLANK PAGE

Appendix (updated 11-30-12)

Demographic Information

Membership by Category	A-1
Membership by Employer Group	A-2
Member Age Distribution	A-3
Members Eligible to Retire	A-4
Retirees Working in a PERS-Covered Position in 2011	A-5

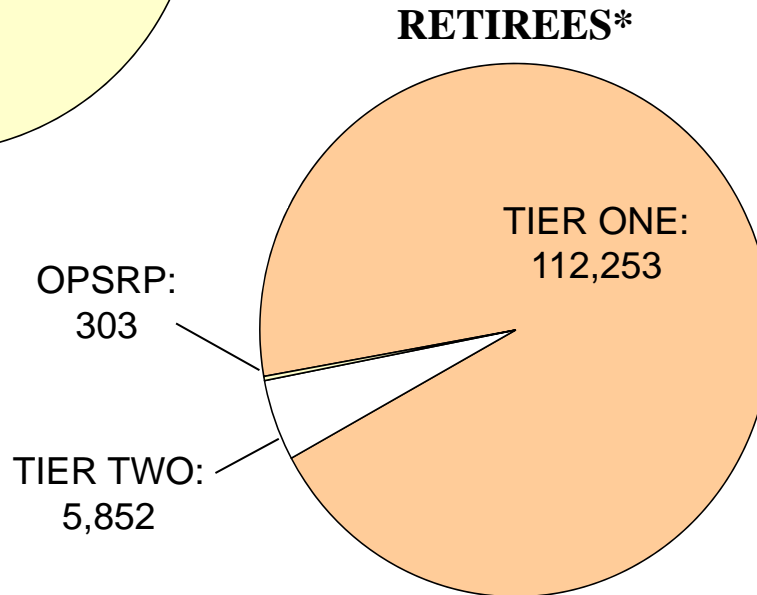
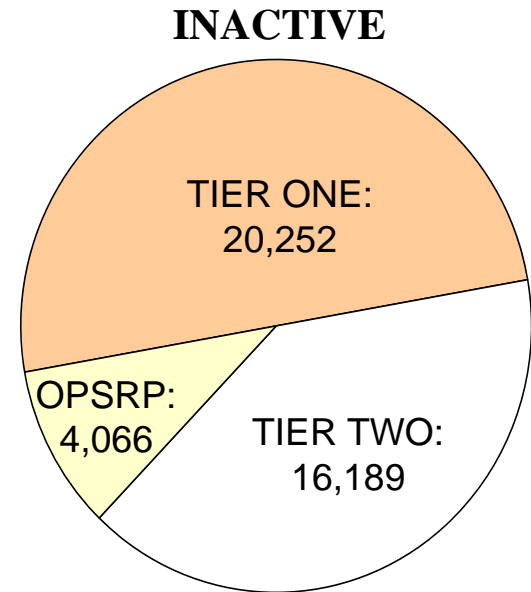
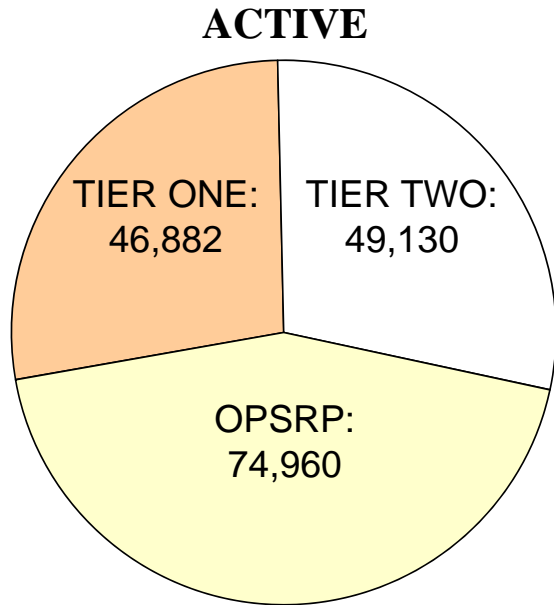
Benefit Information

Benefit Program Comparisons	A-6 & 7
Monthly Benefits: All Retirees	A-8
Monthly Benefit Payments Distribution	A-9
Retirement Benefit Calculation Method Trends	A-10
Replacement Ratio Trends	A-11
History of PERS Benefit Caps and Reductions	A-12
Expected Benefit Payments and COLAs	A-13
Total Benefit Payments by State for 2011 Tax Year	A-14

Employer Rate Information

Benefit Funding and Accrued Liabilities	A-15
PERS 2013-15 Base Employer Rate Allocation	A-16
Historical Perspective on Valuation Rates (Excluding IAP)	A-17
PERS Systemwide Average Employer Rates	A-18
Average Net Employer Rates and Contributions	A-19
State of Oregon Total PERS Cost History	A-20
PERS Fund Value by Calendar Year	A-21
2007-2011 Funded Status and UAL	A-22

PERS Membership by Category (as of December 31, 2011)



* Includes beneficiaries but not members who received total lump-sum retirement or account withdrawal payouts.

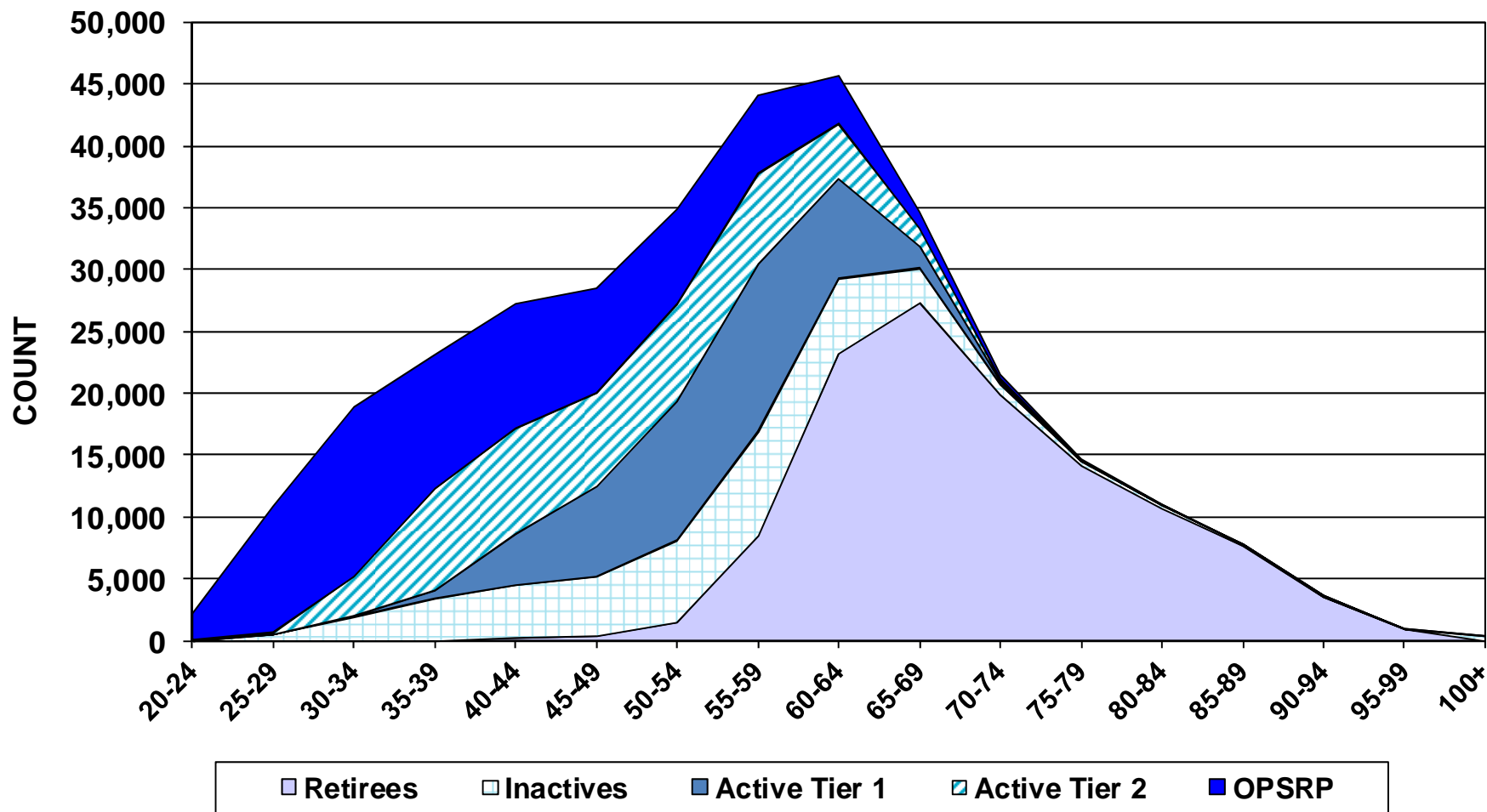
PERS Membership by Employer Group

(as of December 31, 2011)

		State Govt.	Local Govt.	School Districts	Total
Tier One	Active	12,866	15,368	18,648	46,882
	Inactive	5,222	6,941	8,089	20,252
Tier Two	Active	12,757	16,640	19,733	49,130
	Inactive	3,226	6,049	6,914	16,189
OPSRP	Active	19,751	25,122	30,087	74,960
	Inactive	1,056	1,345	1,665	4,066
Sub-total	Active	45,374	57,130	68,468	170,972
	Inactive	9,504	14,335	16,668	40,507
Retirees*		28,310	31,383	58,715	118,408
TOTAL					329,887

* Includes beneficiaries but not members who received total lump-sum retirement or account withdrawal payouts.

Member Age Distribution (as of December 31, 2011)



Members Eligible to Retire* (as of September 2012)

	ACTIVE MEMBERS	ACTIVES ELIGIBLE TO RETIRE	% ACTIVES ELIGIBLE TO RETIRE	INACTIVE MEMBERS	INACTIVES ELIGIBLE TO RETIRE	% INACTIVES ELIGIBLE TO RETIRE
STATE & UNIVERSITIES	44,292	14,241	32%	9,561	4,500	47%
SCHOOL DISTRICTS	73,711	20,609	28%	11,750	5,210	44%
LOCAL GOVERNMENT	55,220	15,785	29%	10,340	4,332	42%
COMMUNITY COLLEGES	11,335	4,166	37%	1,839	995	54%
JUDGES	187	67	36%	10	8	80%
TOTAL	184,745	54,868	30%	33,500	15,045	45%

* Reflects the number of members eligible to retire (including those eligible for reduced benefits) based on: age 55 or 30 years of service for general service members; age 50 or 25 years of service for police & firefighters; and age 60 for judge members.

Retirees with Hours Reported Working in a PERS-Covered Position in 2011

Hours	Employer Group			Total
	State and University	Local Government	School Districts	
< 200	335	1,115	2,860	4,310
201 - 400	243	551	1,196	1,990
401 - 600	203	409	908	1,520
601 - 800	168	285	609	1,062
801 - 1039	283	433	613	1,329
> 1039	119	228	177	525
Total	1,351	3,021	6,363	10,735

Benefit Program Comparisons

Tier One covers members hired before January 1, 1996; Tier Two covers members hired between January 1, 1996 and August 28, 2003; and OPSRP covers members hired on or after August 29, 2003.

The IAP contains all member contributions (6% of covered salary) made on and after January 1, 2004.

	Tier One	Tier Two	OPSRP Pension	IAP
Normal retirement age	58 (or 30 yrs) P&F = age 55 or 50 w/25 yrs	60 (or 30 yrs) P&F = age 55 or 50 w/25 yrs	65 (58 w/30 yrs) P&F = age 60 or 53 w/25 yrs	55
Early retirement age	55 (50 for P&F)	55 (50 for P&F)	55, if vested (50 for P&F)	55
Regular account earnings	Guaranteed assumed rate annually (currently 8%)	No guarantee; market returns	N/A; no member account	No guarantee; market returns
Variable account earnings	Market returns on 100% global equity portfolio	Market returns on 100% global equity portfolio	N/A; no member account	N/A
Retirement calculation methods	Money Match, Full Formula, or Formula + Annuity (if eligible)	Money Match or Full Formula	Formula	Six account distribution options
Full Formula benefit factor	1.67% general; 2.00% P&F	1.67% general; 2.00% P&F	1.50% general; 1.80% P&F	N/A
Formula + Annuity benefit factor	1.00% general; 1.35% P&F	N/A	N/A	N/A

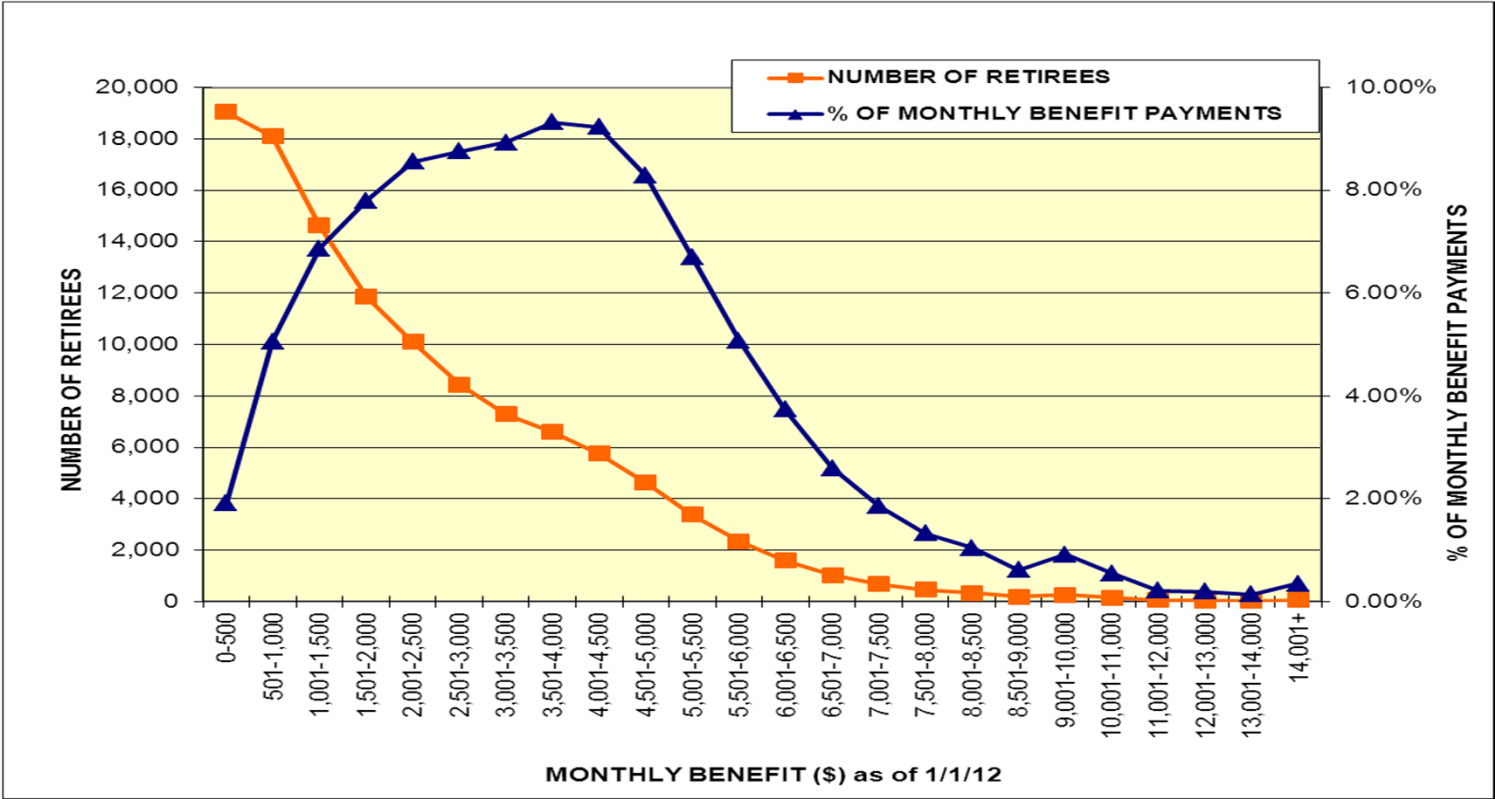
Benefit Program Comparisons (continued)

	Tier One	Tier Two	OPSRP Pension	IAP
Oregon state income tax remedy	If eligible, higher of 9.89% on service time before Oct. 1, 1991 or 4.0% or less based on total service time	No tax remedy provided	No tax remedy provided	No tax remedy provided
6% member contribution included in FAS	Yes	Yes	No	No
Lump-sum vacation payout				
Included in covered salary (6%)	Yes	Yes	No	Yes for Tier One & Tier Two; no for OPSRP
Included in FAS	Yes	No	No	N/A
Unused sick leave included in FAS	Yes, if the employer participates in the sick leave program	Yes, if the employer participates in the sick leave program	No	N/A
Vesting	Contributions in each of 5 yrs or active member at age 50	Contributions in each of 5 yrs or active member at age 50	5 yrs qualifying service or normal retirement age	Immediate
2% maximum annual COLA after retirement	Can retire through July 1 and receive maximum COLA for the year	Can retire through July 1 and receive maximum COLA for the year	COLA prorated in year of retirement based on retirement date	N/A

P&F = police and firefighters; FAS = final average salary; COLA = cost-of-living adjustment; N/A = not applicable

Note: PERS uses up to three methods to calculate Tier One and Tier Two retirement benefits: Full Formula, Formula + Annuity (for members who made contributions before August 21, 1981), and Money Match. PERS uses the method (for which a member is eligible) that produces the highest benefit amount. OPSRP Pension benefits are based only on a formula method.

Monthly Benefits: All Retirees



Monthly Benefit (\$)	# of Retirees	% of Benefits Paid	Monthly Benefit (\$)	# of Retirees	% of Benefits Paid
0 - 500	19,043	1.91%	3,001 - 3,500	7,289	8.93%
501 - 1,000	18,105	5.06%	3,501 - 4,000	6,591	9.32%
1,001 - 1,500	14,638	6.87%	4,001 - 4,500	5,757	9.23%
1,501 - 2,000	11,846	7.80%	4,501 - 5,000	4,630	8.28%
2,001 - 2,500	10,096	8.55%	5,001 - 5,500	3,390	6.70%
2,501 - 3,000	8,447	8.76%	5,501 - 6,000	2,345	5.08%
Subtotal	82,175		Subtotal	30,002	
% of total	70.23%	38.95%	% of total	25.64%	47.55%

Monthly Benefit (\$)	# of Retirees	% of Benefits Paid	Monthly Benefit (\$)	# of Retirees	% of Benefits Paid
6,001 - 6,500	1,588	3.73%	9,001 - 10,000	256	0.91%
6,501 - 7,000	1,020	2.59%	10,001 - 11,000	140	0.55%
7,001 - 7,500	680	1.86%	11,001 - 12,000	50	0.22%
7,501 - 8,000	453	1.32%	12,001 - 13,000	40	0.19%
8,001 - 8,500	334	1.04%	13,001 - 14,000	27	0.14%
8,501 - 9,000	187	0.62%	14,001 and up	53	0.34%
Subtotal	4,262		Subtotal	566	
% of total	3.64%	11.16%	% of total	0.48%	2.35%

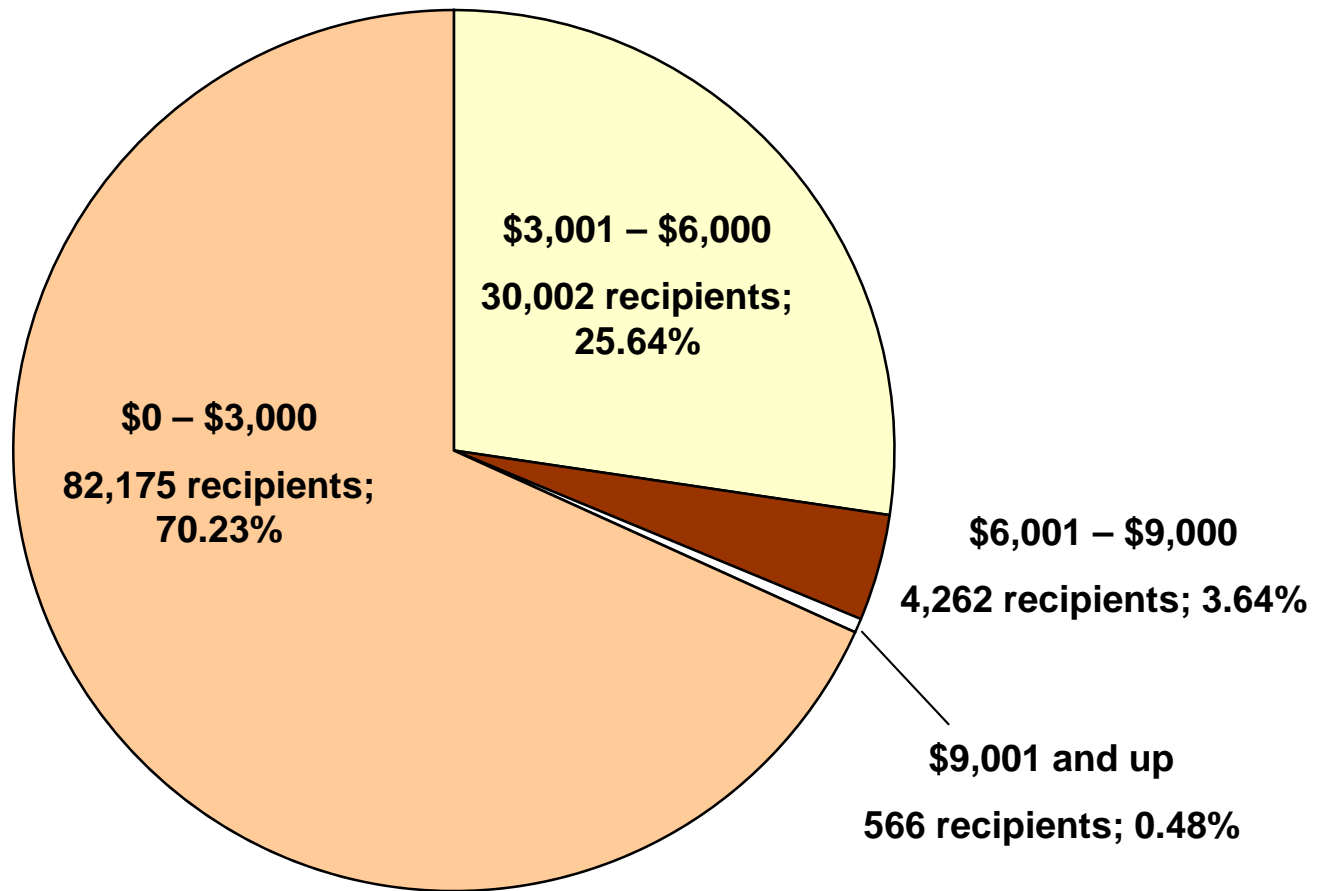
TOTAL RETIREES: 117,005 (includes alternate payees and survivors)
 TOTAL DOLLARS: \$264.8 million

AVERAGE ANNUAL BENEFIT: \$27,162
 MEDIAN ANNUAL BENEFIT: \$21,271

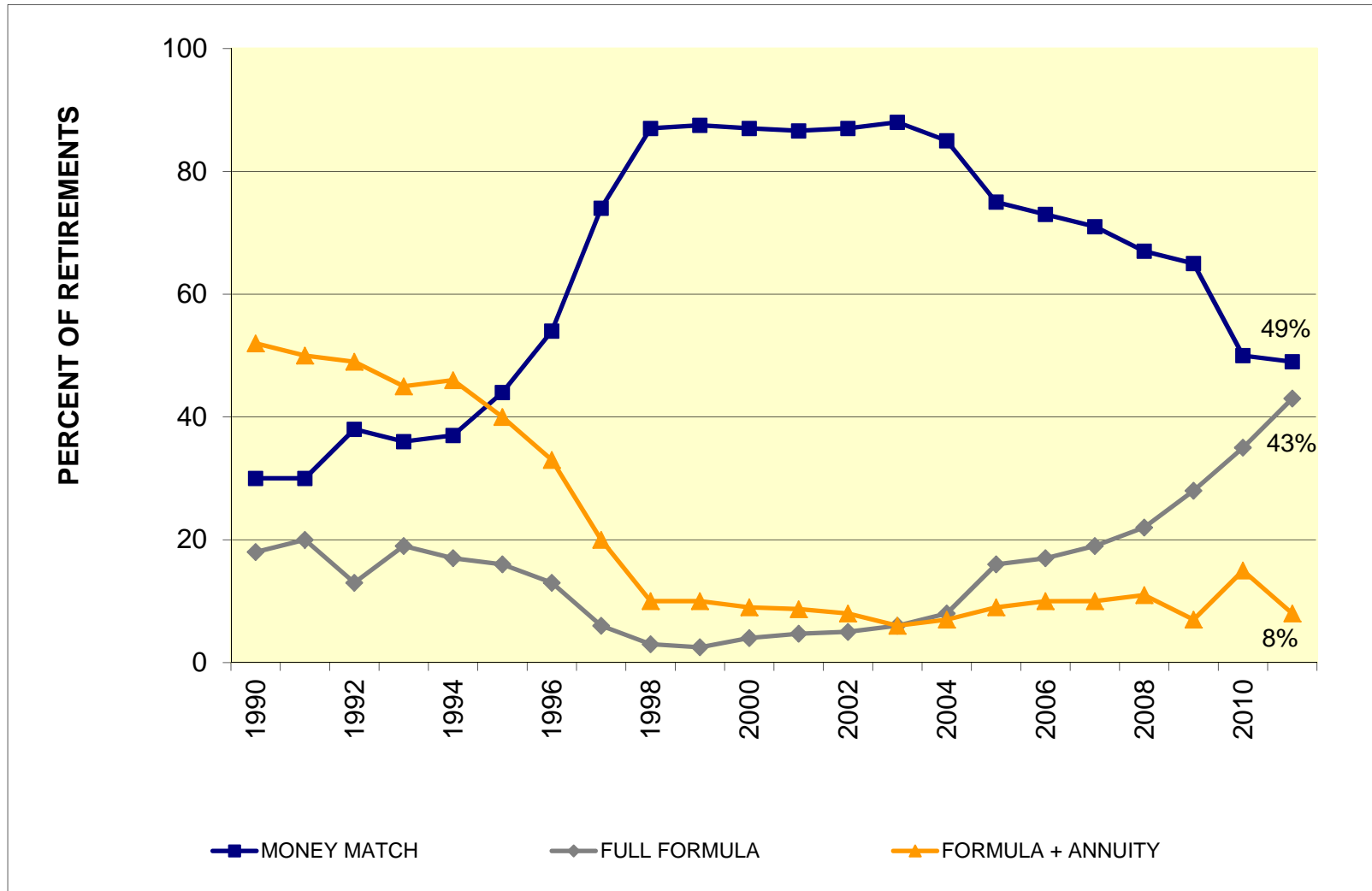


Monthly Benefit Payments Distribution

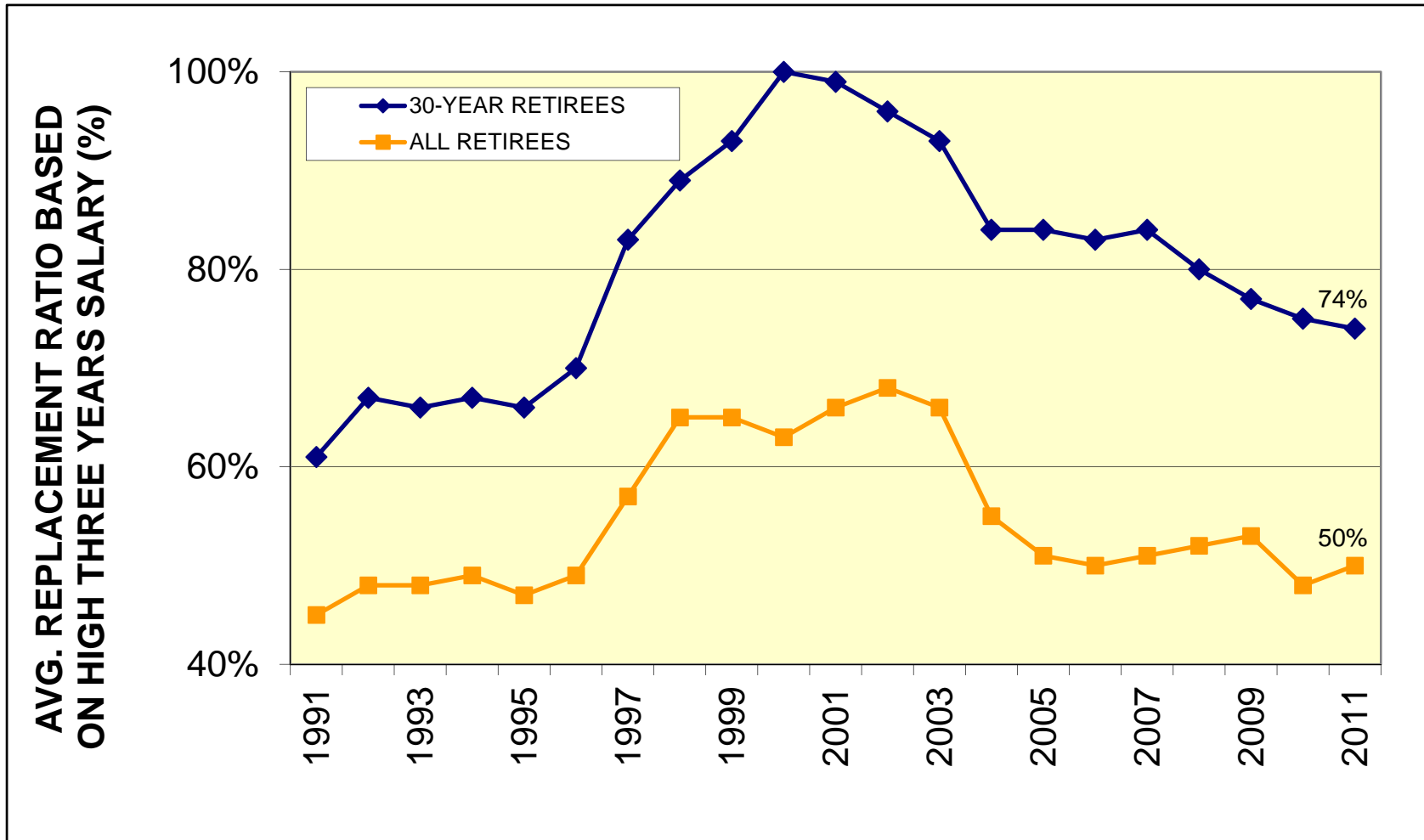
(for 117,005 benefit recipients as of January 1, 2012)



Tier One/Tier Two Retirement Benefit Calculation Method Trends



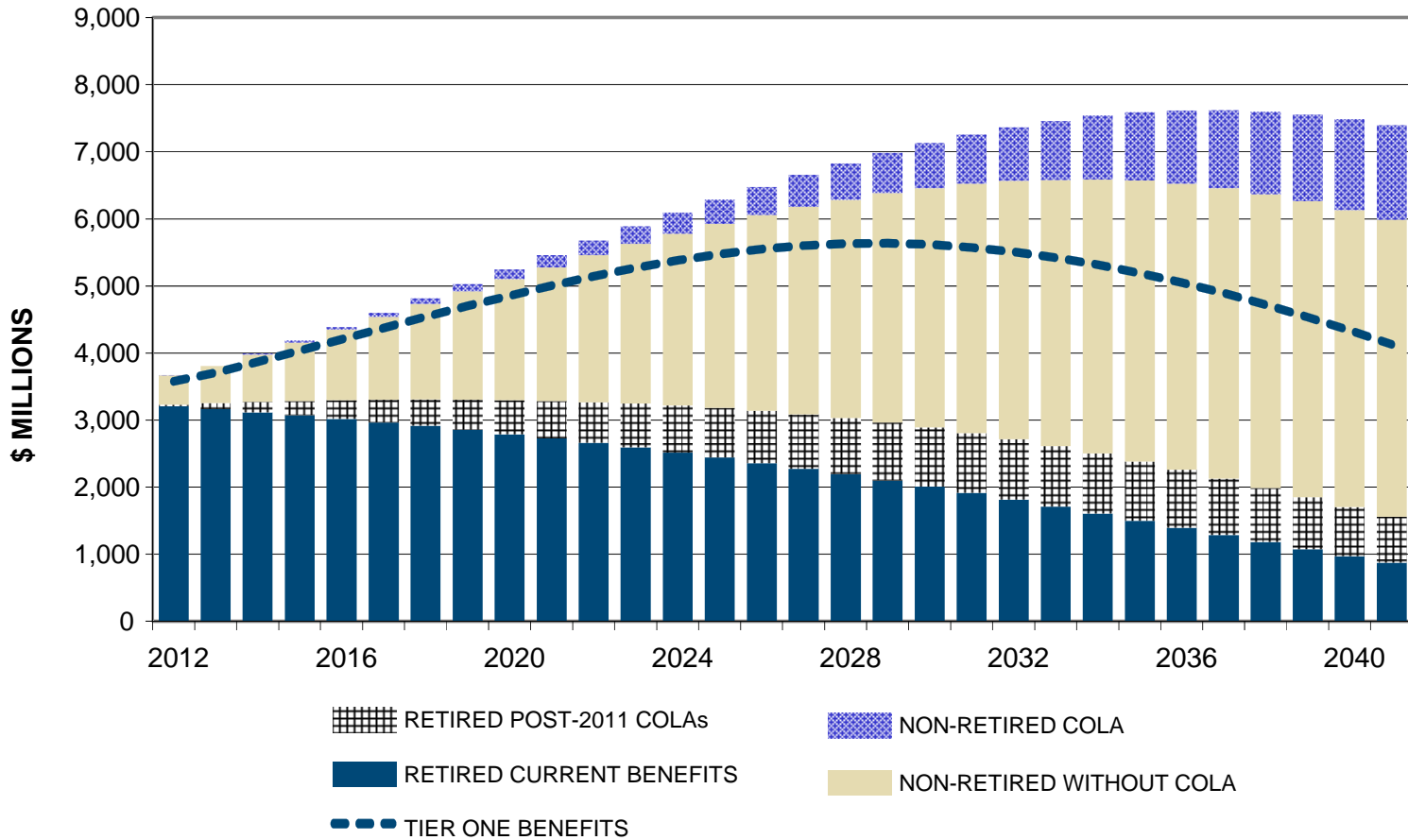
Replacement Ratio Trends



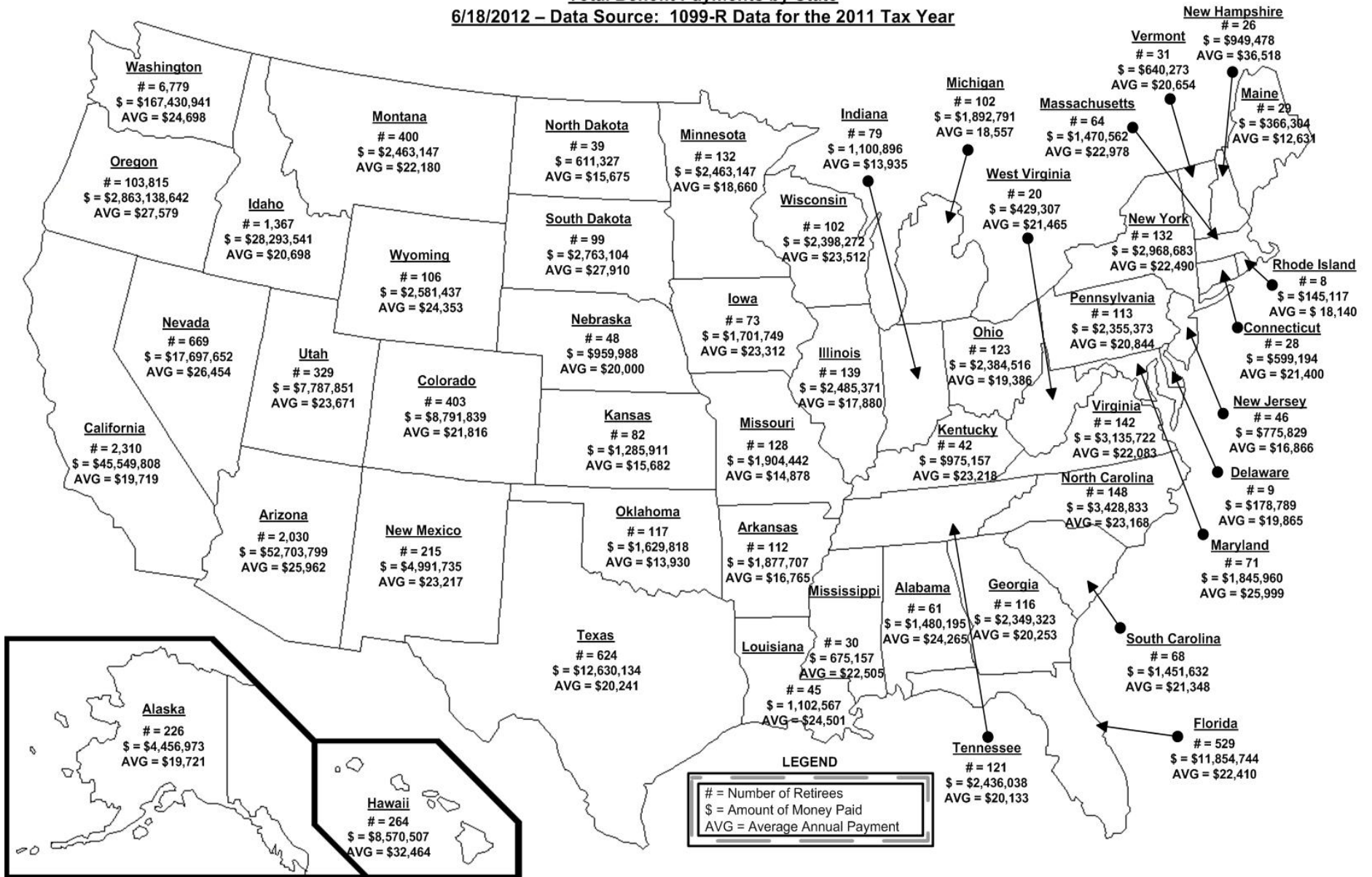
History of PERS Benefit Caps and Reductions

Category	Year	Action	Affected Members
Retirement Age/Vesting	1996	Increased retirement age for new members from 58 to 60 (General Service)	Tier Two
	2003	Increased retirement age from 60 to 65 (General Service) 55 to 60 (Police & Fire)	OPSRP
	2003	Increased vesting from 5 years or age 50 to 5 years or age 65 (General Service) or age 60 (Police & Fire)	OPSRP
Benefit Calc/Formula	1981	Eliminated Formula Plus Annuity benefit calculation method	Tier One
	1991	Imposed state income tax on PERS benefits	All
	2003	Decreased Full Formula benefit pension factor (General Service: 1.67 to 1.50; Police & Fire 2.00 to 1.80)	OPSRP
	2003	Eliminated Money Match benefit calculation method	OPSRP
	2003	Redirected member contributions to freeze Money Match (MM) benefit levels	Prospective MM retirees
	2003	Required regularly updated mortality assumptions and actuarial factors	All
	2005	Adjusted member accounts and benefit payments to recapture 1999 earnings over-crediting	Tier One
Final Average Salary	1996	Excluded lump sum vacation payouts from final average salary	Tier Two
	1996	Federal limit on member contributions and benefits	Tier Two/OPSRP
	2003	Eliminated lump sum vacation payouts from subject salary	OPSRP
	2003	Eliminated accumulated sick leave from final average salary	OPSRP
Investment Risk Allocation	1976	Gain Loss Reserve established to "self-fund" assumed earnings rate crediting	Tier One
	1996	Eliminated guaranteed return on regular accounts for new members	Tier Two
	2000	Eliminated 'Last Known Rate' member account crediting guarantee	Tier One
	2003	Required members to self-fund guaranteed return on member accounts	Tier One
	2003	Subjected all future member contributions made on or after 01/01/04 to actual earnings and losses with no guarantee	All
Retiree Health Benefits	1989	Capped Medicare premium subsidy at \$60 per month	Tier One/Two
	2003	Eliminated post-retirement health insurance premium subsidies	OPSRP
Cost-of-Living Adjustment (COLA)	1973	Capped COLA at actual inflation rate or 2%, whichever is less	All retirees
	2003	Pro-rated first year COLA	OPSRP
	2003	Eliminated COLA 'bank' carryover	OPSRP
Tax Remedy	2011	Eliminated HB 3349 tax remedy for prospective retirees who move out of state on or after January 1, 2012	Tier One

Tier One/Tier Two and OPSRP Expected Benefit Payments (by status as of December 31, 2011)



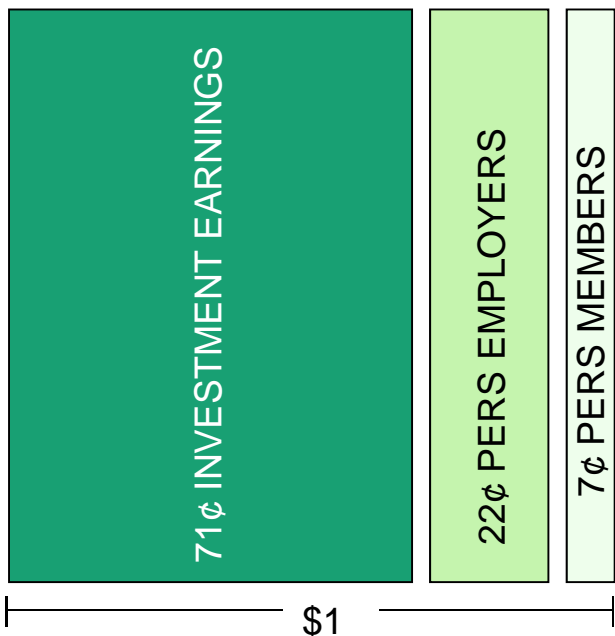
Total Benefit Payments by State
 6/18/2012 – Data Source: 1099-R Data for the 2011 Tax Year



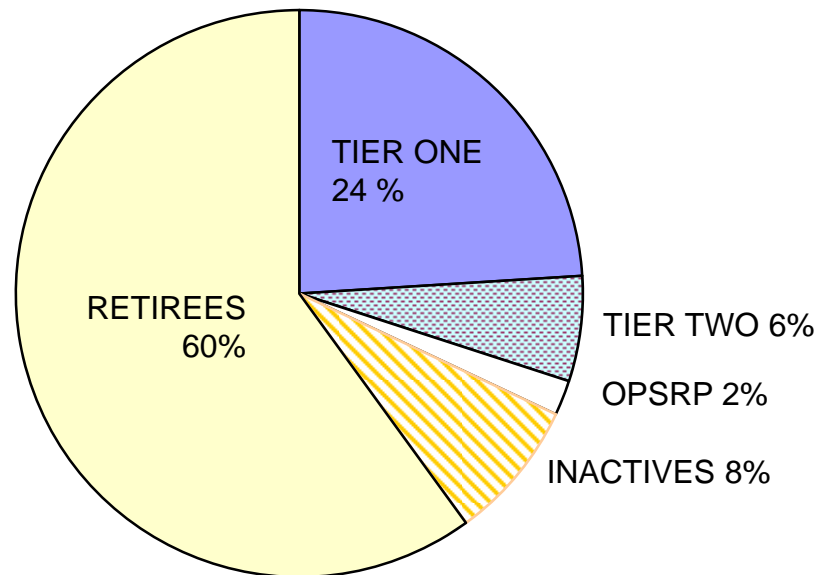
Benefit Funding and Accrued Liabilities

FUNDING SOURCES (1970-2010)

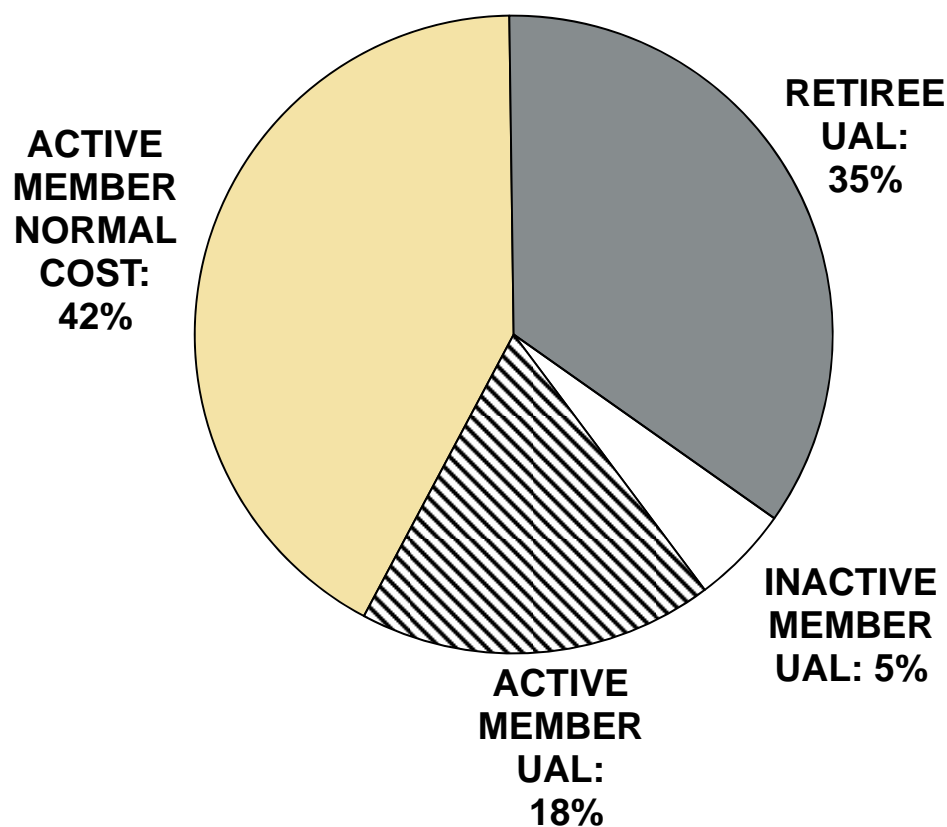
Money for benefit payments comes from three sources



ACCRUED LIABILITIES

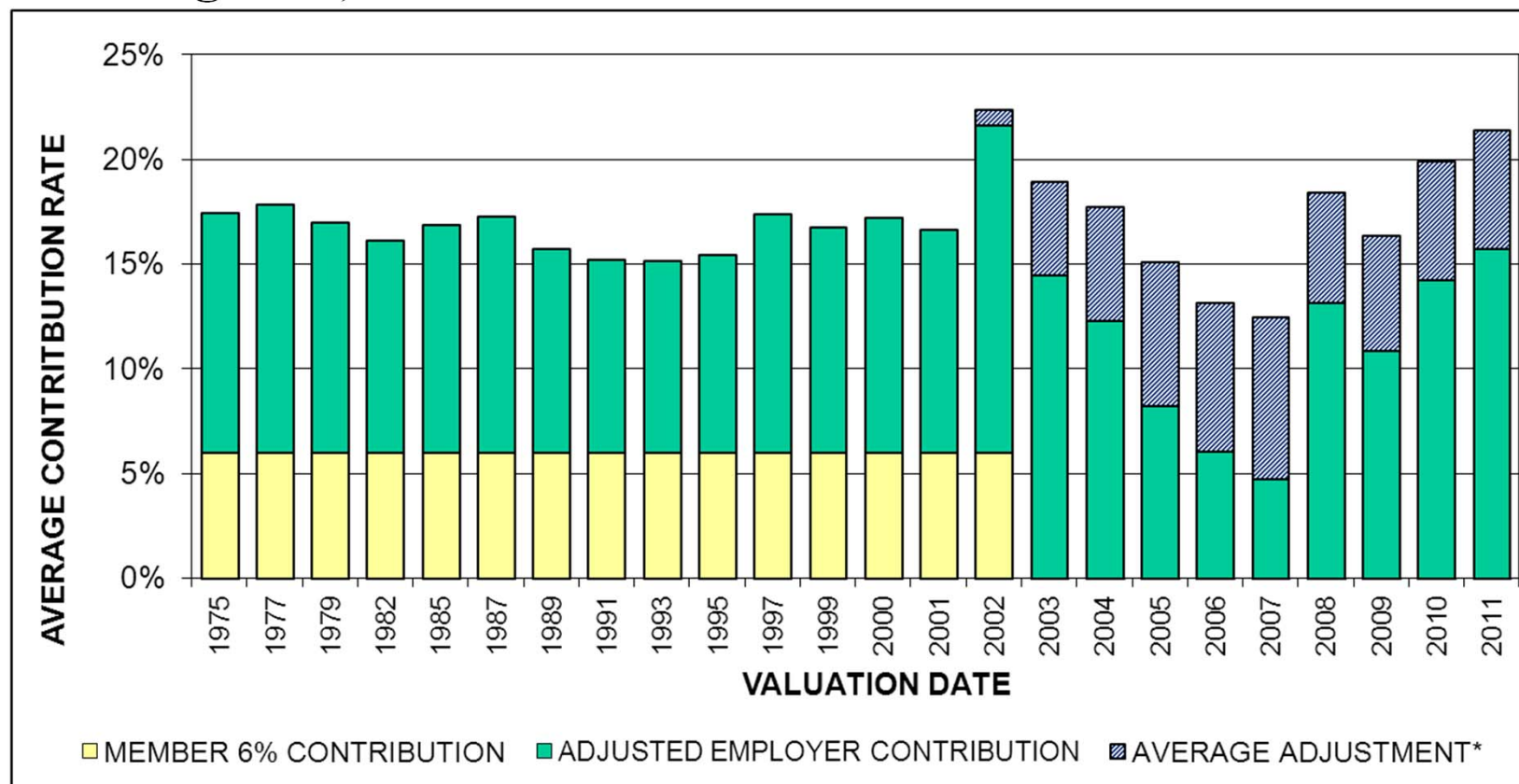


PERS 2013-15 Base Employer Rate Allocation



- Normal cost: Cost of benefits earned in the current period
- Unfunded actuarial liability (UAL): Amortized cost of accrued liabilities not covered by actuarial value of assets

Historical Perspective on Valuation Rates (Excluding IAP)

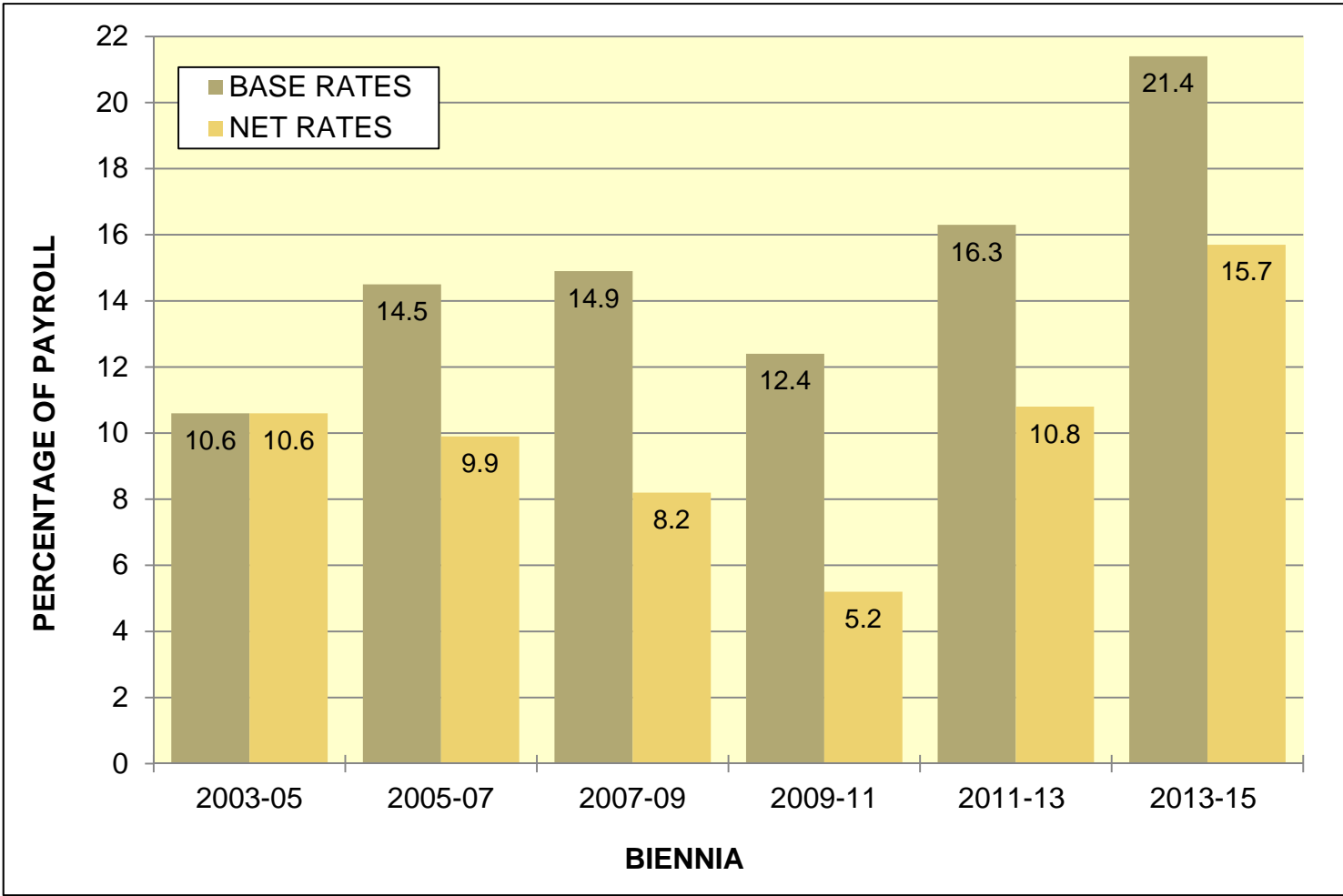


When comparing historical valuation rates, please note a number of changes have occurred including:

- Money Match benefits were not valued until 1997
- A smoothed value of assets was used from 2000 through 2003
- PERS reform was valued beginning in 2001
- The entry age normal cost method was used until 2004 when projected unit credit (PUC) was adopted

* Adjustments to individual employer contribution rates are made for side accounts and pre-SLGRP liabilities or surpluses

PERS Systemwide Average Employer Rates



- EXCLUDES 6% MEMBER CONTRIBUTIONS
- INCLUDES TIER ONE/TIER TWO AND OPSRP
- RATES FOR 2005-07 AND BEFORE ARE AS OF VALUATION DATE



Average Net Employer Rates and Contributions

	2009-2011	2011-2013	2013-2015	2013-2015 Net Increases
State Government				
Net Employer Rate	3.3%	10.1%	13.8%	+3.7 %
Contributions (\$M)	\$153	\$510	\$750	+ \$240
Projected Payroll (\$M)	\$4,710	\$5,070	\$5,250	
School Districts				
Net Employer Rate	5.4%	11.4%	17.6%	+6.2 %
Contributions (\$M)	\$308	\$703	\$1,100	+ \$400
Projected Payroll (\$M)	\$5,750	\$6,190	\$6,000	
Independents/All Others				
Net Employer Rate	6.4%	10.9%	14.1%	+ 3.2%
Contributions (\$M)	\$422	\$770	\$1,030	+ \$260
Projected Payroll (\$M)	\$6,570	\$7,070	\$7,330	
All Employers				
Net Employer Rate	5.2%	10.8%	15.7%	+ 4.9%
Contributions (\$M)	\$884	\$1,984	\$2,890	+ \$900
Projected Payroll (\$M)	\$17,030	\$18,330	\$18,415	

“Net Employer Rate” includes the adjustment for side account offsets but not IAP contributions or the costs of debt service on pension obligation bonds. Contributions are total new dollars coming into the system, by biennium. Rates for 2013-2015 will be effective July 1, 2013. Payroll amounts were projected based on the December 31, 2011 valuation payroll and assuming a 3.75% annual payroll growth.

State of Oregon Total PERS Cost History

(Percent of Covered Salary)

Biennium	Base* Rate (%)	Side Account Offset (%)	Pension Obligation Bond Cost** (%)	Member Contributions (%)	Total PERS Cost (%)
2001 - 2003	9.49	-	-	6.00	15.49
2003 - 2005	11.31	-6.60	6.45	6.00	17.16
2005 - 2007	16.12	-8.06	6.20	6.00	20.26
2007 - 2009	16.18	-9.47	5.87	6.00	18.58
2009 - 2011	13.00	-9.83	5.95	6.00	15.12
2011 - 2013	16.05	-6.45	5.62	6.00	21.22
2013 - 2015	20.41	-6.57	6.18	6.00	26.02

Estimated state agency and university system payroll for the 2013-2015 biennium is \$5,253 million.

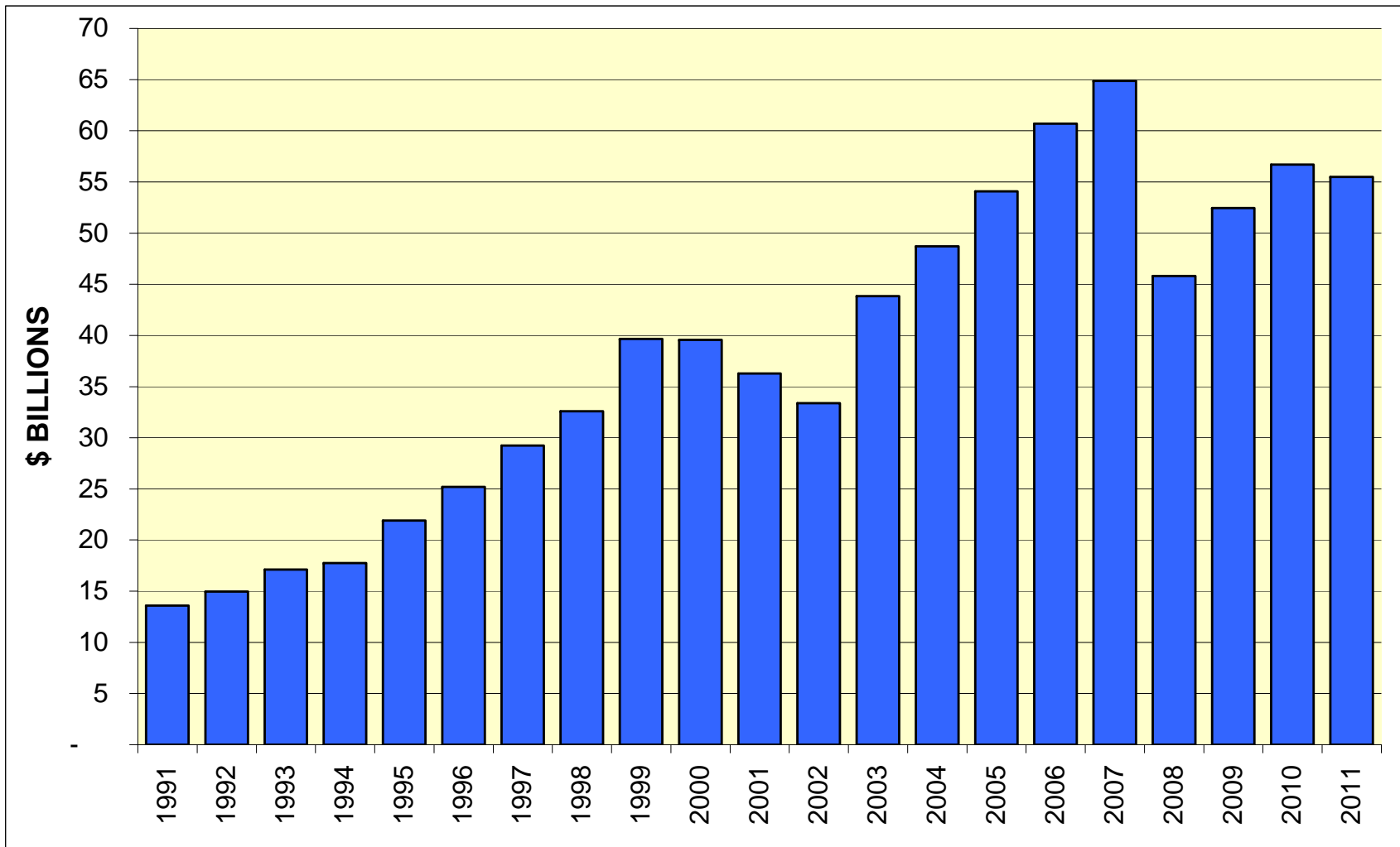
When comparing historical valuation rates, note that there have been a number of changes including:

- Money Match benefits were not valued until 1997
- A smoothed value of assets was used from 2000 through 2003
- PERS Reform was valued beginning 2001
- The entry age normal cost method was used until 2004 when projected unit credit (PUC) was adopted
- Beginning January 1, 2004, member contributions were placed in the IAP

* Source: Milliman blended PERS/OPSRP rate reports.

**DAS pension obligation bond cost charges per PERS Budget section.

PERS Fund Value by Calendar Year



2007-2011 Funded Status and UAL

	Calendar Year				
	2007	2008	2009	2010	2011
Funded Status					
Including side accounts (%)	112%	80%	86%	87%	82%
Excluding side accounts (%)	98%	71%	76%	78%	73%
Unfunded Actuarial Liability (UAL)					
Including side accounts (\$ billion)	\$ -6.1*	\$11.0	\$8.1	\$7.7	\$11.0
Excluding side accounts (\$ billion)	\$1.5	\$16.1	\$13.6	\$13.3	\$16.3

* This is a surplus.

From December 31, 2011 System Valuation

ACTUARIAL SHORTFALL AND CONTRIBUTION RATES

OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM

November 30, 2012

Presented by:
Matt Larrabee, FSA, EA



The Shortfall

- In the last pre-downturn actuarial valuation (12/31/07), OPERS had a \$1 billion shortfall*
- In the first post-downturn valuation (12/31/08), shortfall* increased to \$16 billion
- In the three years subsequent to that valuation, annual investment returns averaged 11%, exceeding assumption
- At the end of that three year period, the most recent valuation (12/31/11) indicated a shortfall* of \$16 billion
- Why is the shortfall unchanged despite strong investment results?

* *Excluding side account assets*

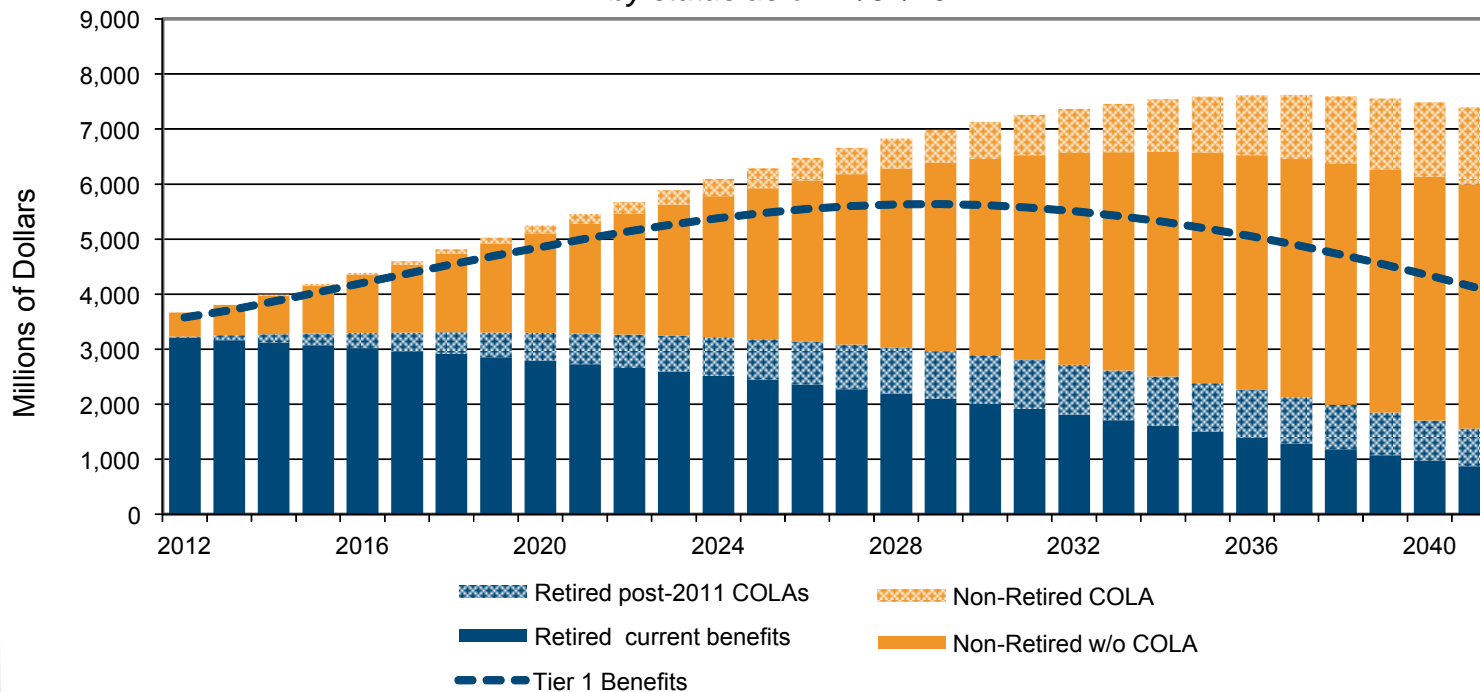
Contributions To Address Shortfall

- The shortfall is unchanged due to two offsetting factors
 - Investment results above expectation from 2009 to 2011
 - Contribution rates through June 2011 were based on the pre-downturn valuation and the \$1 billion shortfall level
- At July 2011 payroll rates increased (3.9% base rate; 5.6% net rate)
 - This was a first step toward resetting rates so that the shortfall can be addressed over twenty years if all assumptions, including the 8% investment return assumption, are met
- A second step increase effective July 2013 (5.1% base rate; 4.9% net rate) was approved at the last Board meeting
- The rate collar methodology spreads needed changes in rates over multiple periods

Determination of Liabilities

- Liabilities are calculated from projected benefit payments
- Projected benefit payments are well defined in the near-term
- 68% of system liability is for retired and inactive members

Tier 1/Tier 2 & OPSRP Expected Benefit Payments
by status as of 12/31/2011



This work product was prepared for discussion purposes only and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. Any recipient of this work product who desires professional guidance should engage qualified professionals for advice appropriate to its own specific needs.

Effect of Investment Assumption on Shortfall

- The methodology for the \$16 billion shortfall and July 2013 rates uses an 8% annual future investment return assumption
- A lower assumption would produce a higher calculated shortfall
 - Current system assets, plus assumed future investment returns, would be expected to fund a smaller portion of projected benefits

$$**BENEFITS + EXPENSES = EARNINGS + CONTRIBUTIONS**$$

- Actual investment earnings and “full formula” pension benefits are not affected by the investment return assumption

Contribution Rate Components

- “Base” pension contribution rates have two funding sources:
 - Employer contributions
 - Transfers from employer side accounts
- Those rates have two major components:
 - Normal Cost Rate – Economic value of benefits for current year service
 - UAL Rate – Amortization of shortfalls related to past service
- The 2013 rate increase is to address the past service shortfalls

Base Pension Rate Component	2011-2013	2013-2015
Normal Cost Rate	7.96% of payroll	8.16% of payroll
UAL Rate	7.80% of payroll	12.62% of payroll

Likelihood of Future Rate Decreases

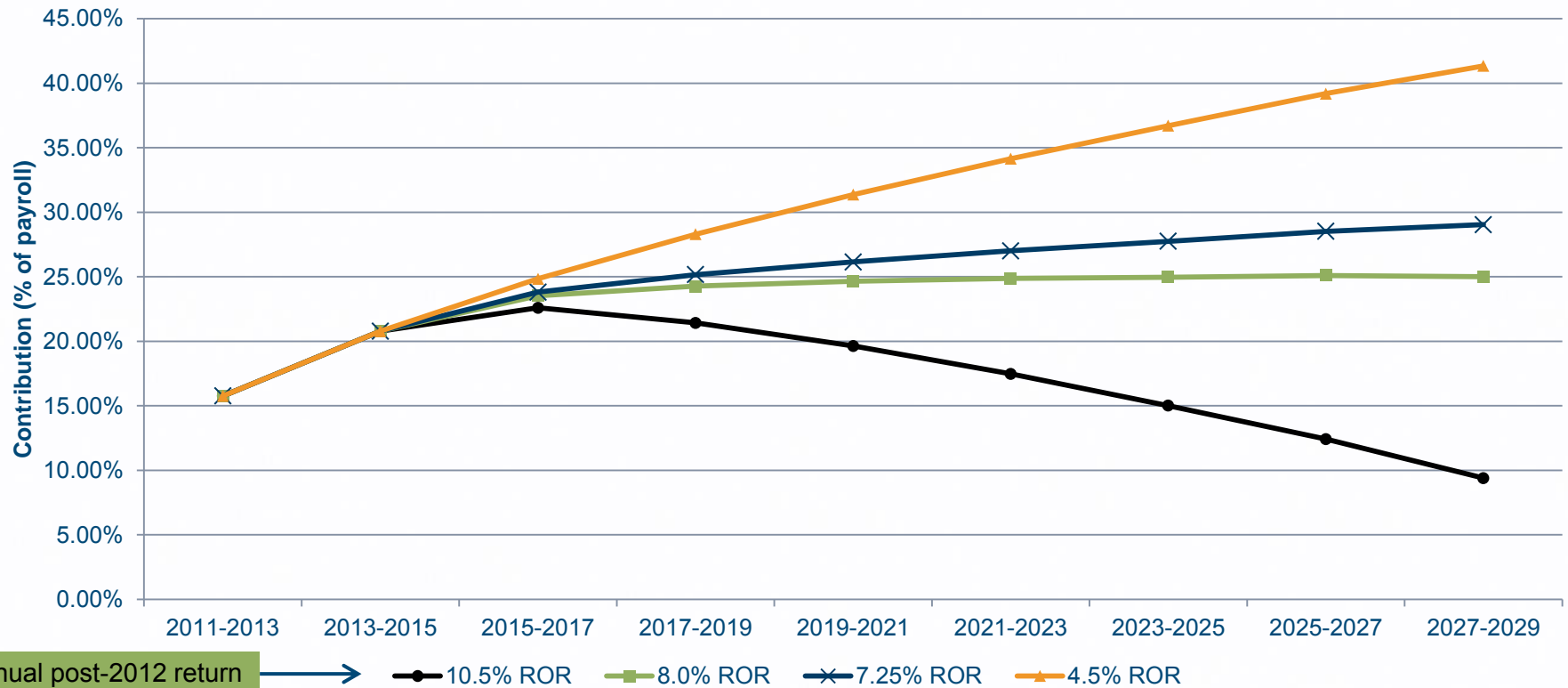
- Are 2013 increases likely permanent or temporary?
- Are 2013 rates likely long-term or short-term budget items?

Barring future investment performance above assumption, rates are more likely than not to be at 2013-2015 levels (or higher) for the foreseeable future

- The following slides show system average base employer contribution rates and funded status under a variety of annual investment return scenarios
 - Year-to-date investment performance through October 31 is reflected
 - Shortfall and employer rates are based on the 8% annual investment return assumption and the current rate-setting methodology

Contribution Rate Projections

System-Wide Average Tier 1/Tier 2/OPSRP Base Contribution Rates

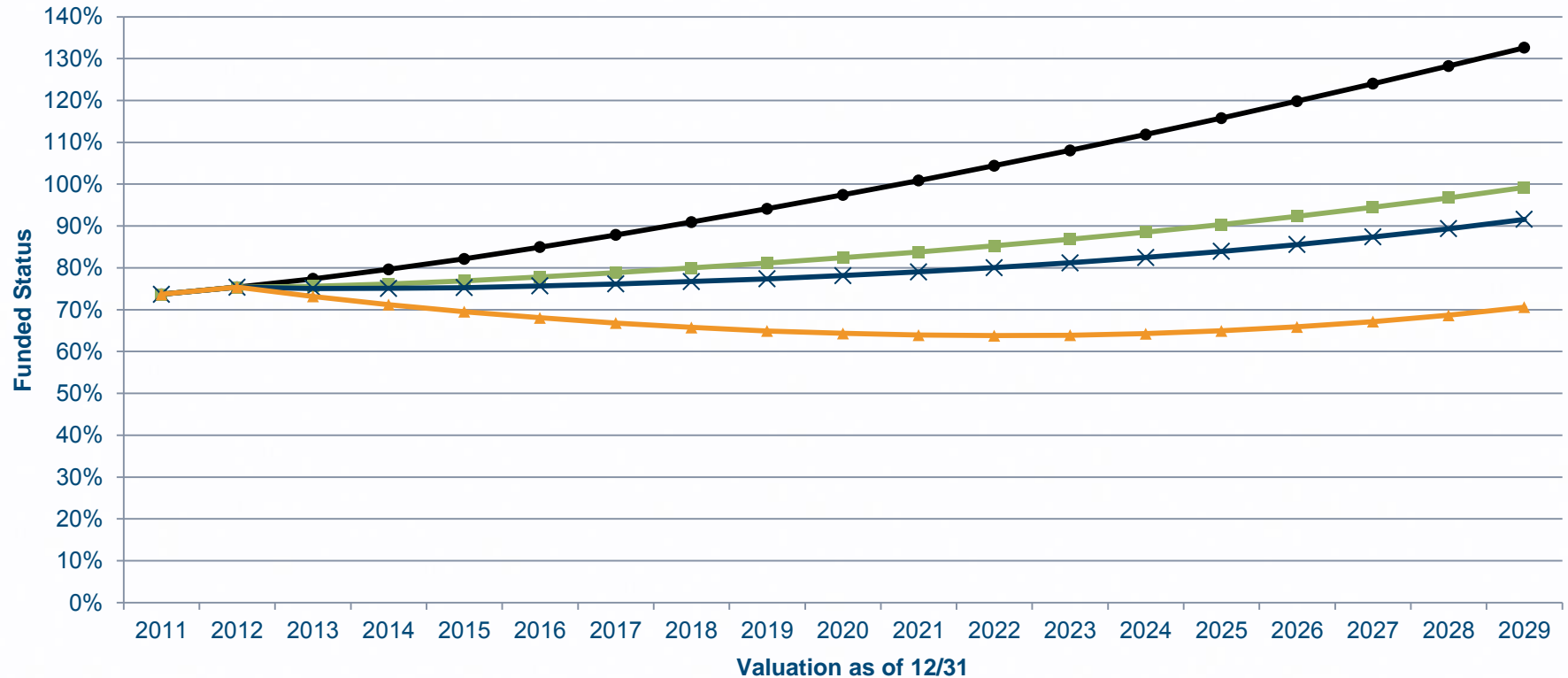


Base contribution rates do not reflect the effects of side account rate offsets and Pre-SLGRP liabilities, and do not include contribution rates for the IAP, retiree healthcare programs or payments for debt servicing on Pension Obligation Bonds.

This work product was prepared for discussion purposes only and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. Any recipient of this work product who desires professional guidance should engage qualified professionals for advice appropriate to its own specific needs.

Funded Status Projections

System-Wide Tier 1/Tier 2/OPSRP Funded Status (Excluding Side Accounts)



Annual post-2012 return



● 10.5% ROR

■ 8.0% ROR

✕ 7.25% ROR

▲ 4.5% ROR

Areas to Consider - Assessing Concepts

- Initial impact studies of potential change concepts usually focus on a single point in time and a single set of assumptions
- Deviations from assumptions
 - Investment results
 - Changes in member behavior (e.g., retirement patterns)
 - Changes in employer behavior or bargaining outcomes
- Varying effects on individuals compared to system-wide impact
- Effects on the fundamental cost equation
 - Some concepts save contribution dollars by altering the left-hand side
 - Others change the timing or anticipated balance on the right-hand side

BENEFITS + EXPENSES = EARNINGS + CONTRIBUTIONS

Certification

This presentation summarizes key results of an actuarial valuation of the Oregon Public Employees Retirement System (“PERS” or “the System”) as of December 31, 2011, for the Plan Year ending December 31, 2011 and a projection of those results under a limited number of scenarios.

In preparing this report, we relied, without audit, on information (some oral and some in writing) supplied by the System’s staff. This information includes, but is not limited to, statutory provisions, employee data, and financial information. We found this information to be reasonably consistent and comparable with information used for other purposes. The valuation results depend on the integrity of this information. If any of this information is inaccurate or incomplete our results may be different and our calculations may need to be revised.

All costs, liabilities, rates of interest, and other factors for the System have been determined on the basis of actuarial assumptions and methods which are individually reasonable (taking into account the experience of the System and reasonable expectations); and which, in combination, offer our best estimate of anticipated experience affecting the System.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. The PERS Board has the final decision regarding the appropriateness of the assumptions and adopted them as indicated in July 2011. This presentation contains only a limited analysis of the range of potential future measurements due to variation in investment returns.

Actuarial computations presented in this report are for purposes of determining the recommended funding amounts for the System. Actuarial computations presented in this report under GASB Statements No. 25 and 27, 43 and 45 are for purposes of fulfilling financial accounting requirements. The computations prepared for these two purposes may differ as disclosed in our report. The calculations in the enclosed report have been made on a basis consistent with our understanding of the System’s funding requirements and goals. The calculations in this report have been made on a basis consistent with our understanding of the plan provisions described in the appendix of this report, and of GASB Statements No. 25 and 27, 43 and 45. Determinations for purposes other than meeting these requirements may be significantly different from the results contained in this report. Accordingly, additional determinations may be needed for other purposes.

This work product was prepared for discussion purposes only and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. Any recipient of this work product who desires professional guidance should engage qualified professionals for advice appropriate to its own specific needs.

Certification

Milliman's work is prepared solely for the internal business use of the Oregon Public Employees Retirement System. To the extent that Milliman's work is not subject to disclosure under applicable public records laws, Milliman's work may not be provided to third parties without Milliman's prior written consent. Milliman does not intend to benefit or create a legal duty to any third party recipient of its work product. Milliman's consent to release its work product to any third party may be conditioned on the third party signing a Release, subject to the following exception(s):

- (a) The System may provide a copy of Milliman's work, in its entirety, to the System's professional service advisors who are subject to a duty of confidentiality and who agree to not use Milliman's work for any purpose other than to benefit the System.
- (b) The System may provide a copy of Milliman's work, in its entirety, to other governmental entities, as required by law.

No third party recipient of Milliman's work product should rely upon Milliman's work product. Such recipients should engage qualified professionals for advice appropriate to their own specific needs.

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

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

Circular 230 Notice

The following disclosure is provided in accordance with the Internal Revenue Service's Circular 230 (21 CFR Part 10). This communication is not intended to constitute tax advice to any specific taxpayer or for any specific situation. Any tax advice contained in this communication is intended to be preliminary, for discussion purposes only, and not final. Any such advice is not intended to be used for marketing, promoting or recommending any transaction or for the use of any person in connection with the preparation of any tax return. Accordingly, this advice is not intended or written to be used, and it cannot be used, by any person for the purpose of avoiding tax penalties that may be imposed on such person.

This work product was prepared for discussion purposes only and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. Any recipient of this work product who desires professional guidance should engage qualified professionals for advice appropriate to its own specific needs.

Appendix

Actuarial Basis

Data

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

Assets as of December 31, 2011, were based on values provided by Oregon PERS as shown in the 2011 Valuation Report. Calendar year 2012 asset returns were assumed to be equal to the year-to-date returns published by the Oregon Investment Council as of October 31, 2012. For regular accounts, this was equal to a 10.73% return; for variable accounts, it is equal to a 12.71% return.

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

Methods / Policies

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

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

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

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

Appendix

Actuarial Basis

Methods / Policies (cont'd)

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

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

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

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

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

Appendix

Actuarial Basis

Assumptions

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

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

- Valuation interest rate – 8.00%
- Tier 1 Regular account growth – 8.00%
- Actual fund investment return– Varies by scenario
- Variable account growth – 0.25% greater than fund investment return
- Wage growth assumption – 3.75%
- Wage growth experience– 3.75%
- Demographic experience – as described in 2011 Valuation report

Reserve Projection

Contingency Reserve as of 12/31/2011 was \$535.3M. No future increases or decreases from this reserve were assumed.

The Tier 1 Rate Guarantee Reserve (“RGR”) was \$345.3M as of 12/31/2011. The reserve was assumed to grow with returns in excess of 8% on Tier 1 Member Accounts. When aggregate returns were below 8%, applicable amounts from the RGR were transferred to Tier 1 Member Accounts to maintain the 8% target growth on the member accounts. The RGR reserve is allowed to be negative, but the reserve is not excluded from valuation assets when it is negative. We did not include in rates any potential additional employer levy that could be required to eliminate a persistent negative RGR.

Provisions

Provisions valued are as described in the 2011 Valuation Report.

This work product was prepared for discussion purposes only and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. Any recipient of this work product who desires professional guidance should engage qualified professionals for advice appropriate to its own specific needs.

Analysis of Cost Allocation, Benefit Modification, and System Financing Concepts for the 2013 Legislative Session

Presented by:

Matt Larrabee, FSA, EA

Steven Patrick Rodeman

November 30, 2012



This work product was prepared for discussion purposes only and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. Any recipient of this work product who desires professional guidance should engage qualified professionals for advice appropriate to its own specific needs.



Caveats for Concept Impacts

- Impacts are to uncollared system-wide average employer contribution rates slated for July 1, 2013 based on:
 - December 31, 2011 valuation data
 - Current methods/assumptions except where noted (e.g., liabilities are amortized over 20 years)
 - Results under different methods or assumptions could differ significantly
- Concepts have not been evaluated for:
 - Impact to collective bargaining discussions
 - Impact to member/employer behavior
 - Relationship to workforce management objectives
 - Compliance with previous court rulings
 - Prospects for adoption by the 2013 Legislature
- Rate changes resulting from the concepts will vary by employer
- Benefit changes resulting from the concepts will vary by member

Caveats for Concept Impacts

- Employer rate reductions can come from:
 - A reduction in benefits to be paid to members
 - Extending the time over which employer costs are paid
- Employer rate increases can come from:
 - An increase in benefits to be paid to members
 - A decrease in the assumed proportion of member benefits that will be funded by investment earnings
- PERS will create a document that shows the impact of these concepts on member benefits and the administrative impact on employers and PERS

Concepts Related to the IAP

Concept Description	Employer Contribution Increase or (Decrease)			
	2010 Analysis		2012 Analysis	
	Rate Change (%)	Total Contributions (\$M)*	Rate Change (%)	Total Contributions (\$M)*
1. Eliminate employer “pick-up” of the 6% member IAP contribution OR Eliminate the IAP contribution	(0.67)	(121)	(0.7)	(129)
2. Reduce allowed “pick-up” to 3% OR reduce the IAP contribution to 3%	(0.34)	(61)	(0.4)	(74)
3. Re-direct Tier 1/Tier 2 and OPSRP member contributions from the IAP to the pension programs	<i>(Not analyzed in 2010)</i>		(3.1)	(570)

The amounts shown above are for Tier 1/Tier 2/OPSRP contribution rates only and do not reflect changes in IAP “pick-up” costs

* Employer contribution estimates for the 2013-15 biennium are based on a projected payroll of \$18.4 billion for all PERS-covered employers. Contribution estimates from the 2010 analysis (performed by Mercer) were based on a projected PERS-covered payroll of \$18 billion for the 2011-13 biennium.

Concepts Related to the Pension Programs: Cost-of-Living Adjustments (COLAs)

Concept Description	Employer Contribution Increase or (Decrease)			
	2010 Analysis		2012 Analysis	
	Rate Change (%)	Total Contributions (\$M)*	Rate Change (%)	Total Contributions (\$M)*
1. Limit COLA eligibility to the first \$24,000 of annual benefits**	(3.20)	(576)	(4.4)	(810)
2. Eliminate COLA for one biennium	(0.90)	(162)	(1.2)	(221)
3. Eliminate all post-2011 COLAs for current and future retirees	<i>(Not analyzed in 2010)</i>		(9.7)	(1,785)
4. Establish a 10-year service time requirement for COLAs	(0.50)	(90)	(0.3)	(55)

- Employer contribution estimates for the 2013-15 biennium are based on a projected payroll of \$18.4 billion for all PERS-covered employers. Contribution estimates from the 2010 analysis (performed by Mercer) were based on a projected PERS-covered payroll of \$18 billion for the 2011-13 biennium.

** The 2010 Analysis implicitly assumed the \$24,000 limit would be indexed; the 2012 analysis does not index the \$24,000.

Concepts Related to the Pension Programs: Money Match

Concept Description	Employer Contribution Increase or (Decrease)			
	2010 Analysis		2012 Analysis	
	Rate Change (%)	Total Contributions (\$M)*	Rate Change (%)	Total Contributions (\$M)*
1. Reduce the Money Match annuitization rate to 6%	0.0	0	(0.8)	(147)
2. Eliminate the Money Match benefit calculation for all future Tier 1/Tier 2 retirements by inactive members	<i>(Not analyzed in 2010)</i>		(2.4)	(442)
3. Eliminate the Money Match benefit calculation for all future Tier 1/Tier 2 retirements	<i>(Not analyzed in 2010)</i>		(2.7)	(497)

* Employer contribution estimates for the 2013-15 biennium are based on a projected payroll of \$18.4 billion for all PERS-covered employers. Contribution estimates from the 2010 analysis (performed by Mercer) were based on a projected PERS-covered payroll of \$18 billion for the 2011-13 biennium.

Concepts Related to the Pension Programs: Miscellaneous

Concept Description	Employer Contribution Increase or (Decrease)			
	2010 Analysis		2012 Analysis	
	Rate Change (%)	Total Contributions (\$M)*	Rate Change (%)	Total Contributions (\$M)*
1. Eliminate tax remedy payments for current and future PERS retirees who are non-Oregon residents	(0.40)	(72)	(0.3)	(55)
2. Remove unused sick leave and vacation pay increases from future Tier 1/Tier 2 final average salary calculations	(1.35)	(243)	(0.7)	(129)
3. Establish a defined contribution only program for new hires	<i>(No savings unless contributions are less than OPSRP Normal Cost, which is currently 6.56% system-wide. Any savings would only be on payroll for new hires.)</i>			

* Employer contribution estimates for the 2013-15 biennium are based on a projected payroll of \$18.4 billion for all PERS-covered employers. Contribution estimates from the 2010 analysis (performed by Mercer) were based on a projected PERS-covered payroll of \$18 billion for the 2011-13 biennium.

Concepts Related to System Financing

Concept Description	Employer Contribution Increase or (Decrease)			
	2010 Analysis		2012 Analysis	
	Rate Change (%)	Total Contributions (\$M)*	Rate Change (%)	Total Contributions (\$M)*
1. Reduce assumed earnings and annuitization rate to 7.5%	2.8	504	3.0	552
2. Reduce assumed earnings and annuitization rate to 7%	<i>(Not analyzed in 2010)</i>		6.3	1,159
3. Increase unfunded actuarial liability amortization period to 30 years	(4.0)	(720)	(2.9)	(534)
4. Increase unfunded actuarial liability amortization period to 25 years	<i>(Not analyzed in 2010)</i>		(1.8)	(331)
5. Limit net biennial employer rate increases to 3% of payroll	(2.7)	(486)	(1.9)	(350)

* Employer contribution estimates for the 2013-15 biennium are based on a projected payroll of \$18.4 billion for all PERS-covered employers. Contribution estimates from the 2010 analysis (performed by Mercer) were based on a projected PERS-covered payroll of \$18 billion for the 2011-13 biennium.

Actuary's Certification

This presentation summarizes key results of a cost change concept study of the Oregon Public Employees Retirement System ("PERS" or "the System") as of December 31, 2011, for the Plan Year ending December 31, 2011 and the estimated impact of those potential changes under a single economic and demographic assumption scenario.

The concepts summarized here each individually received a detailed analysis. Those detailed analyses included a summary of the data, assumptions and methods used and the provisions valued. The detailed analyses also provide more in-depth discussion of the individual concepts than is possible in this summary document. For more information on a particular concept, the corresponding detailed analysis should be referenced.

In preparing this summary, Milliman relied, without audit, on information (some oral and some in writing) supplied by the System's staff. This information includes, but is not limited to, statutory provisions, employee data, and financial information. Milliman found this information to be reasonably consistent and comparable with information used for other purposes. The summary results depend on the integrity of this information. If any of this information is inaccurate or incomplete Milliman's results may be different and the calculations may need to be revised.

For the baseline valuation results, all costs, liabilities, rates of interest, and other factors for the System have been determined on the basis of actuarial assumptions and methods which are individually reasonable (taking into account the experience of the System and reasonable expectations); and which, in combination, offer Milliman's best estimate of anticipated experience affecting the System. This summary analysis did not attempt to estimate any potential changes in participant retirement patterns if such changes occurred. Those potential effects merit consideration but are beyond the scope of this summary analysis.

Future actuarial measurements may differ significantly from the current measurements presented in this summary due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. The PERS Board has the final decision regarding the appropriateness of the assumptions and adopted them as indicated in July 2011.

Actuarial computations presented in this summary are for purposes of estimating the contribution rate impact of certain cost change concepts to the System. Computations prepared under GASB Statements No. 25 and 27, 43 and 45 are for purposes of fulfilling financial accounting requirements and may differ as disclosed in our summary. The calculations in the enclosed report have been made on a basis consistent with Milliman's understanding of the System's funding requirements and goals. The baseline (pre-change concept) valuation calculations in this report have been made on a basis consistent with Milliman's understanding of the plan provisions described in the 2011 Valuation Report.

Actuary's Certification

Milliman's work is prepared solely for the internal business use of the Oregon Public Employees Retirement System. To the extent that Milliman's work is not subject to disclosure under applicable public records laws, Milliman's work may not be provided to third parties without Milliman's prior written consent. Milliman does not intend to benefit or create a legal duty to any third party recipient of its work product. Milliman's consent to release its work product to any third party may be conditioned on the third party signing a Release, subject to the following exception(s):

- (a) The System may provide a copy of Milliman's work, in its entirety, to the System's professional service advisors who are subject to a duty of confidentiality and who agree to not use Milliman's work for any purpose other than to benefit the System.
- (b) The System may provide a copy of Milliman's work, in its entirety, to other governmental entities, as required by law.

No third party recipient of Milliman's work product should rely upon Milliman's work product. Such recipients should engage qualified professionals for advice appropriate to their own specific needs.

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

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

Circular 230 Notice

The following disclosure is provided in accordance with the Internal Revenue Service's Circular 230 (21 CFR Part 10). This communication is not intended to constitute tax advice to any specific taxpayer or for any specific situation. Any tax advice contained in this communication is intended to be preliminary, for discussion purposes only, and not final. Any such advice is not intended to be used for marketing, promoting or recommending any transaction or for the use of any person in connection with the preparation of any tax return. Accordingly, this advice is not intended or written to be used, and it cannot be used, by any person for the purpose of avoiding tax penalties that may be imposed on such person.

Appendix

Actuarial Basis

Data

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

Assets as of December 31, 2011, were based on values provided by Oregon PERS as shown in the 2011 Valuation Report.

Methods / Policies

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

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

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

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

Appendix

Actuarial Basis

Methods / Policies (cont'd)

UAL Amortization: The UAL for Tier 1/Tier 2, OPSRP, and Retiree Health Care as of December 31, 2007 are amortized as a level percentage of combined valuation payroll over a closed period. For the Tier 1/Tier 2 UAL, this period is 20 years; for OPSRP, it is 16 years; for Retiree Health Care, it is 10 years. Gains and losses between subsequent odd-year valuations are amortized as a level percentage of combined valuation payroll over the amortization period (20 years for Tier/Tier 1, 16 years for OPSRP, 10 years for Retiree Health Care) from the odd-year valuation in which they are first recognized. For purposes of modeling change concepts (other than the extension of amortization periods) we assumed all changes in Accrued Liability were amortized over a 20-year period as a level percent of payroll using current valuation assumptions for payroll growth. If a different amortization method were used, the overall impact on employer rates could be significantly different than shown in this summary.

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

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

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

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

Appendix

Actuarial Basis

Assumptions

In general, all assumptions prior to application of change concepts are as described in the 2011 Valuation Report.

The major assumptions used in our calculations are shown below.

- Valuation interest rate – 8.00%
- Tier 1 Regular account growth – 8.00%
- Actual fund investment return – Varies by scenario
- Variable account growth – 0.25% greater than fund investment return
- Wage growth assumption – 3.75%
- Wage growth experience – 3.75%
- Demographic experience – as described in 2011 Valuation report

Reserve Projection

Contingency Reserve as of 12/31/2011 was \$535.3M. No future increases or decreases from this reserve were assumed.

The Tier 1 Rate Guarantee Reserve (“RGR”) was \$345.3M as of 12/31/2011. The reserve was assumed to grow with returns in excess of 8% on Tier 1 Member Accounts. When aggregate returns were below 8%, applicable amounts from the RGR were transferred to Tier 1 Member Accounts to maintain the 8% target growth on the member accounts. The RGR reserve is allowed to be negative, but the reserve is not excluded from valuation assets when it is negative. We did not include in rates any potential additional employer levy that could be required to eliminate a persistent negative RGR.

Provisions

Provisions prior to application of change concepts are valued as described in the 2011 Valuation Report.