OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM BOARD MEETING

Friday July 25, 2014 1:00 P.M.	PERS 11410 SW 68th Parkway Tigard, OR

	ITEM	PRESENTER
A.	**Administration**	
1.	May 30, 2014 Board Meeting Minutes Director's Report a. Forward-Looking Calendar b. OIC Investment Report c. Budget Execution Report d. Retiree Health Insurance Premium Rebate	CLEARY
B.	**Administrative Rulemaking**	
1. 2. 3. 4. 5. 6. 7.	Notice of Membership Eligibility Rules Notice of Employer Remittance of Contributions Rule Adoption of GAAP Cost Allocation Rule Adoption of Federal Tax Reconnect Rule Adoption of OSGP Rules Adoption of Disability Housekeeping Rules Adoption of Disability Preliminary Benefit Option Selection Rule	RODEMAN
C.	**Action and Discussion Items**	
1. 2. 3.	Final Average Salary Overpayment Recovery Options 2015-17 Agency Request Budget - Approval to Submit 2013 System-wide Valuation Results	RODEMAN MILLIMAN
D.	**Executive Session Pursuant to ORS 192.660(2)(f), (h), and/or ORS 40.225**	
1.	Litigation Update	LEGAL COUNSEL

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

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OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM
BOARD MEETING MINUTES

May 30, 2014

Board Members:	**Staff:**		
John Thomas, Chair	Donna Allen	Danielle Keyser	Jason Stanley
Krystal Gema	Linda Barnett	Kyle Knoll	Marjorie Taylor
Michael Jordan	Gay Lynn Bath	Mini Kobbervig	Stephanie Vaughn
Pat West	Paul Brown	Jordan Masanga	Dale Wakabayashi
Rhoni Wiswall	David Crosley	Vitaly Putintsev	Yong Yang
	Brian Harrington	Steve Rodeman	

Others:

Molly Butler	Diana Greer	Trish Isaak	Troy Marcoe
Alison Chan	Jeff Gudman	Keith Kutler	Carol Samuels
E. Gall	Greg Hartman	Kevin McCartin	Deborah Tremblay
Tim Garrison	Claire Hertz	Lori McKinney	P. Weisgelber

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

ADMINISTRATION

A.1. BOARD MEETING MINUTES OF MARCH 31, 2014

The Board unanimously approved the minutes from the March 31, 2014 Board meeting.

A.2. DIRECTOR'S REPORT

Executive Director Paul Cleary reviewed the 2014 Forward Looking Calendar. Cleary presented the OPERF investment returns for April noting regular account year-to-date returns were 3.05%, and variable account returns were 2.07%, with the net asset value for the PERS fund at over $69 billion. Cleary also presented the April 2014 Budget Execution Report that shows a positive variance of nearly 6% for the agency operations budget. Cleary noted that various projects were being evaluated for funding from the positive budget variance.

Cleary provided a Board Scorecard Report on Agency Performance Measures. This report is one of the basic elements of the agency's outcome-based management system that fosters agency accountability and transparency. Cleary reviewed the success and statistics of relocating various production staff and teams from headquarters and our previous Tigard leased space to our new Tualatin office that will save approximately $750,000 over the seven-year term of the Tualatin location lease.

ADMINSTRATIVE RULEMAKING

B.1. NOTICE OF RULES FOR GASB 68 COST ALLOCATION

Deputy Director Steve Rodeman presented the notice of rulemaking for the GASB 68 Cost Allocation Rule to support implementation of House Bill 4155 (2014 Legislative Session) to provide GASB financial data to employers and allocate associated costs. Rodeman said that a rulemaking hearing will be held on June 17 and public comment period ends on July 3. The GASB Cost Allocation Rule will be presented for adoption at the July meeting. No Board action was required.

B.2. NOTICE OF FEDERAL TAX RECONNECT RULE

Rodeman presented the notice of rulemaking for the Federal Tax Reconnect Rule that updates the OAR connection date to federal Internal Revenue Code and other provisions of federal tax law. Rodeman said that a rulemaking hearing will be held on June 17 and the public comment period ends on July 3. The Federal Tax Reconnect Rule will be presented for adoption at the July 2014 meeting. No Board action was required.

B.3. NOTICE OF OREGON SAVINGS GROWTH PLAN (OSGP) RULES

Rodeman presented notice of rulemaking for the Oregon Savings Growth Plan (OSGP) Rules to update the rules to reflect proposed improvements in the program. Rodeman said that a rulemaking hearing will be held on June 17 and the public comment period ends on July 3. The OSGP Rules will be presented for adoption at the July 2014 meeting. No Board action was required.

B.4. NOTICE OF DISABILITY HOUSEKEEPING RULES

Rodeman presented notice of rulemaking for the Disability Housekeeping Rules that includes minor edits to disability rules. Rodeman said that a rulemaking hearing will be held on June 17 and the public comment period ends on July 3. The Disability Housekeeping Rules will be presented for adoption at the July meeting. No Board action was required.

B.5. NOTICE OF DISABILITY PRELIMINARY BENEFIT OPTION SELECTION RULE

Rodeman presented notice of rulemaking for the Selection of Disability Preliminary Benefit Option Rule to simplify the benefit options available upon the member’s filing of a preliminary application. Rodeman said that a rulemaking hearing will be held on June 17 and the public comment period ends on July 3. The Selection of Disability Preliminary Benefit Option Rule will be presented for adoption at the July meeting. No Board action was required.

ACTION AND DISCUSSION ITEMS

C.1. 2015 RETIREE HEALTH INSURANCE PLAN RENEWALS AND RATES

PERS Health Insurance Program (PHIP) Manager, Mini Kobbervig and consultants Molly Butler and Kevin McCartin presented the 2015 plan renewals and associated premium subsidies and surcharges and answered questions from the Board. They recommended that PHIP continue to contract with Moda Health, Providence Health Plan, Pacific Source Health Plans, and Kaiser Permanente for medical and prescription insurance coverage for PHIP retired Medicare and non-Medicare members. The PHIP will also continue to contract with Kaiser Permanente and ODS for dental insurance coverage, while also maintaining the contract with Moda Health to administer a single, uniform prescription drug program for all non-Kaiser enrollees. The Hawaii location medical contract with Kaiser will be terminated, with coverage continued by Moda.

Board members Pat West moved and Rhoni Wiswall seconded to approve the proposed PHIP contract renewals, conditions, and rates for 2015 as presented. The motion passed unanimously.

C.2. <u>APPOINT ADVISORY COMMITTEE MEMBERS FOR OREGON SAVINGS GROWTH PLAN (OSGP)</u>

Gay Lynn Bath, Manager of the Oregon Savings Growth Plan (OSGP), presented the recommended appointments of two new OSGP Advisory Committee members. Bath recommended the Board appoint Steve Schnurbusch, Manager for Water Quality at the Department of Environmental Quality to fill the vacancy for Keith Baldwin, whose second term is expiring on June 30, 2014. In addition, Bath recommended Celeste Van Cleave, Business Manager at Central Linn School District, to replace Debbie Darst, the local government employee who is retiring May 31, 2014.

Board member Krystal Gema moved and Pat West seconded to adopt the recommended appointments as presented. The motion passed unanimously.

C.3. <u>2015- 17 BUDGET DEVELOPMENT AND STRATEGIC PLANNING UPDATE</u>

Rodeman provided a 2015-17 budget development and strategic planning update and briefly described the staff process in developing business cases for the proposed 2015-17 policy option packages (POPs). The final POPs will be presented in July for Board consideration and approval to submit as part of the PERS Agency Request Budget (ARB). Rodeman also gave a status report on implementation of the agency's 2013-15 policy option packages and described the ongoing development of the Current Service Level (CSL) budget for 2015-17. Rodeman noted that a detailed discussion of the agency's 2015-17 ARB will occur at the July Board meeting. No Board action was required.

Thomas adjourned the Board meeting at 2:05 PM.

Respectfully submitted,

Paul R. Cleary

Paul R. Cleary
Executive Director

PERS Board Meeting
Forward-Looking Calendar

Friday, September 26, 2014

Adoption of Membership Eligibility Rules
Adoption of Employer Remittance of Contributions Rule
Notice of Health Insurance Appeals Rules
Notice of In-Plan Roth Conversion Rule
2015-17 Employer Rate Adoption

Friday, November 21, 2014

Adoption of Health Insurance Appeals Rules
Adoption of In-Plan Roth Conversion Rule
Board Scorecard Report on Agency Performance Measures
Approval to File 2015 Final Legislative Concepts
Audit Committee Meeting

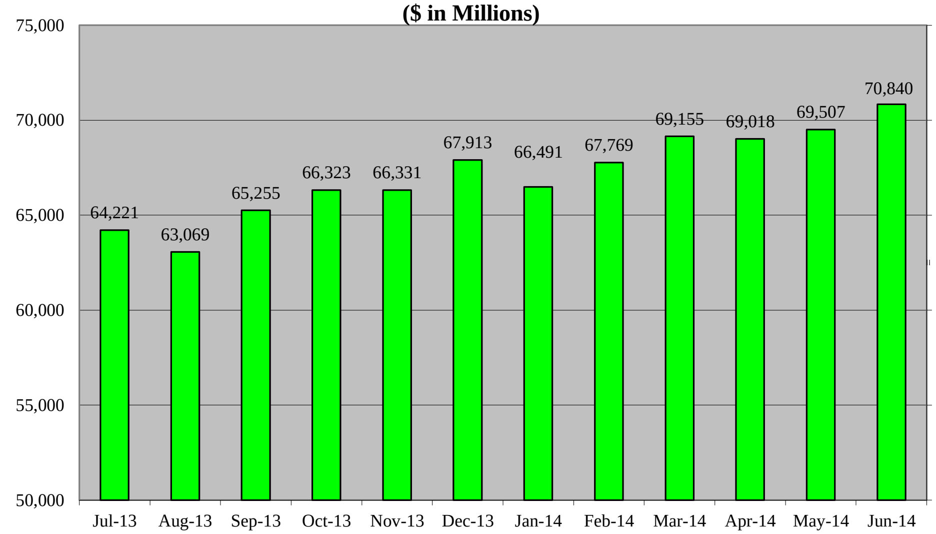
Returns for periods ending 6/30/14 **Oregon Public Employees Retirement Fund**

OPERF	Policy[1]	Target[1]	$ Thousands[2]	Actual	Year-To-Date[3]	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS	7 YEARS	10 YEARS
	Regular Account				Historical Performance (Annual Percentage)							
Public Equity	32.5-42.5%	37.5%	$ 28,903,337	41.3%	**5.76**	**24.20**	**21.70**	**11.22**	**16.12**	**15.68**	**3.92**	**7.80**
Private Equity	16-24%	20%	14,720,517	21.0%	**10.24**	**18.75**	**15.71**	**12.61**	**14.75**	**17.35**	**8.56**	**14.54**
Total Equity	**52.5-62.5%**	**57.5%**	**43,623,854**	**62.3%**								
Opportunity Portfolio			998,298	1.4%	**12.42**	**19.07**	**18.36**	**11.79**	**14.38**	**17.07**	**8.10**	
Total Fixed	**15-25%**	**20%**	**16,491,098**	**23.6%**	**3.13**	**5.50**	**4.57**	**5.51**	**6.32**	**8.65**	**6.83**	**6.43**
Real Estate	**9.5-15.5%**	**12.5%**	**7,712,282**	**11.0%**	**7.04**	**12.68**	**13.53**	**11.90**	**14.07**	**10.95**	**2.89**	**9.78**
Alternative Investments	**0-10%**	**10%**	**1,163,520**	**1.7%**	**2.03**	**4.92**	**2.38**	**2.92**				
Cash	**0-3%**	**0%**	**29,940**	**0.0%**	**0.36**	**0.79**	**0.83**	**0.75**	**0.81**	**0.88**	**1.42**	**2.17**
TOTAL OPERF Regular Account		**100%**	**$ 70,018,992**	**100.0%**	**6.29**	**16.59**	**14.62**	**10.11**	**13.03**	**13.82**	**5.29**	**8.29**
OPERF Policy Benchmark					**6.78**	**17.50**	**14.94**	**10.66**	**13.01**	**13.51**	**5.80**	**8.03**
Value Added					**(0.49)**	**(0.91)**	**(0.32)**	**(0.55)**	**0.02**	**0.31**	**(0.51)**	**0.26**
TOTAL OPERF Variable Account			**$ 820,626**		**6.37**	**23.55**	**20.43**	**10.73**	**15.51**	**15.05**	**3.02**	**5.80**

Asset Class Benchmarks:

Russell 3000 Index	6.94	25.22	23.33	16.46	20.24	19.33	6.47	8.23
MSCI ACWI Ex US IMI Net	5.77	22.28	18.02	5.88	11.51	11.50	1.67	8.18
MSCI ACWI IMI Net	6.23	23.35	20.18	10.37	15.20	14.77	3.55	7.80
Russell 3000 Index + 300 bps--Quarter Lagged	13.92	26.23	22.03	18.01	18.73	25.41	10.40	11.63
Oregon Custom FI Benchmark	2.46	4.43	3.54	4.65	4.54	5.62	5.63	5.30
NCREIF Property Index--Quarter Lagged	5.34	11.18	10.85	11.69	12.76	7.89	5.10	8.65
91 Day T-Bill	0.02	0.05	0.08	0.07	0.10	0.11	0.73	1.65

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



[1]OIC Policy 4.01.18, as revised October 2013.

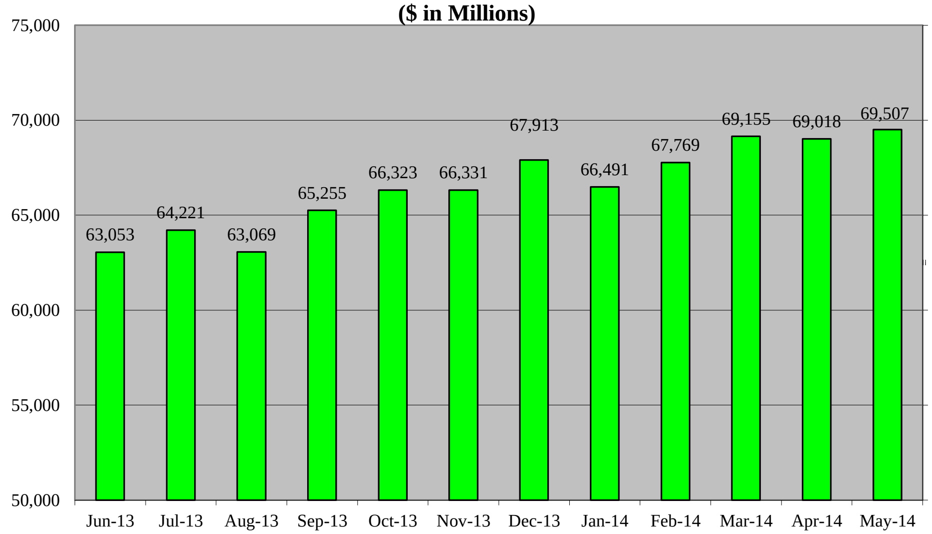
[2]Includes impact of cash overlay management.

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

Returns for periods ending 5/31/14 **Oregon Public Employees Retirement Fund**

					Historical Performance (Annual Percentage)							
	Regular Account											
OPERF	**Policy[1]**	**Target[1]**	**$ Thousands[2]**	**Actual**	**Year-To-Date[3]**	**1 YEAR**	**2 YEARS**	**3 YEARS**	**4 YEARS**	**5 YEARS**	**7 YEARS**	**10 YEARS**
Public Equity	32.5-42.5%	37.5%	$ 28,114,318	40.9%	**3.29**	**17.94**	**23.15**	**9.76**	**14.49**	**15.08**	**3.47**	**7.78**
Private Equity	16-24%	20%	14,665,960	21.3%	**7.11**	**20.84**	**17.40**	**14.12**	**14.96**	**15.88**	**9.03**	**14.47**
Total Equity	**52.5-62.5%**	**57.5%**	**42,780,278**	**62.3%**								
Opportunity Portfolio			901,785	1.3%	**11.32**	**16.81**	**19.82**	**11.70**	**13.72**	**16.75**	**8.46**	
Total Fixed	**15-25%**	**20%**	**16,237,921**	**23.6%**	**2.80**	**3.15**	**4.90**	**5.29**	**6.53**	**9.02**	**6.69**	**6.46**
Real Estate	**9.5-15.5%**	**12.5%**	**7,624,235**	**11.1%**	**5.47**	**12.92**	**14.37**	**12.04**	**14.07**	**10.24**	**2.53**	**9.88**
Alternative Investments	**0-10%**	**10%**	**1,143,243**	**1.7%**	**1.35**	**4.46**	**2.38**					
Cash	**0-3%**	**0%**	**5,952**	**0.0%**	**0.34**	**0.71**	**0.87**	**0.75**	**0.81**	**0.94**	**1.48**	**2.17**
TOTAL OPERF Regular Account		**100%**	**$ 68,693,414**	**100.0%**	**4.29**	**14.02**	**15.71**	**9.78**	**12.45**	**13.27**	**5.00**	**8.28**
OPERF Policy Benchmark					**4.98**	**15.88**	**16.77**	**10.30**	**12.57**	**12.59**	**5.53**	**8.04**
Value Added					**(0.69)**	**(1.86)**	**(1.06)**	**(0.52)**	**(0.12)**	**0.68**	**(0.53)**	**0.24**
TOTAL OPERF Variable Account			**$ 813,352**		**4.16**	**17.54**	**21.96**	**9.36**	**14.01**	**14.50**	**2.42**	**5.80**
Asset Class Benchmarks:												
Russell 3000 Index					4.32	20.57	24.17	14.80	17.75	18.82	5.81	8.17
MSCI ACWI Ex US IMI Net					3.96	14.86	20.23	4.72	10.70	10.92	1.54	8.22
MSCI ACWI IMI Net					4.01	17.25	21.71	8.99	13.67	14.20	3.19	7.81
Russell 3000 Index + 300 bps--Quarter Lagged					10.89	37.46	28.36	19.69	19.86	22.33	10.29	11.70
Oregon Custom FI Benchmark					2.32	2.27	3.91	4.52	4.88	5.75	5.55	5.35
NCREIF Property Index--Quarter Lagged					2.53	10.98	10.76	11.92	12.21	5.68	5.23	8.63
91 Day T-Bill					0.02	0.06	0.09	0.08	0.10	0.11	0.79	1.65

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



[1]OIC Policy 4.01.18, as revised October 2013.

[2]Includes impact of cash overlay management.

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

Oregon

John A. Kitzhaber, M.D., Governor

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July 25, 2014

TO: Members of the PERS Board

FROM: Kyle J. Knoll, Financial & Administrative Services Division Administrator

SUBJECT: July 2014 Budget Execution Report

2013-15 OPERATIONS BUDGET

Operating expenditures for May 2014 and preliminary expenditures for June 2014 were $3,161,522 and $3,536,193 respectively. Final expenditures for June will close in the Statewide Financial Management System on July 18, 2014, and will be included in the September 2014 report to the Board.

- To date, through the first twelve months (50%) of the 2013-15 biennium, the Agency has expended a total of $37,778,012, or 44.75% of PERS' legislatively approved operations budget of $84,427,392.
- The Office of the State Chief Information Officer reviewed the business case and documentation for Phase II of the Individual Account Program (IAP) in-house administration project and the Legislative Fiscal Office (LFO) conditionally approved $326,108 of the $718,750 expenditure limitation allowing the project to move forward. On or before December 1, 2014, PERS will request the remaining $392,642 be rescheduled after meeting certain specified conditions.
- The current projected positive variance is $2,217,459 or approximately 2.63% of the operations budget. This projection has been reduced from previous reports as we have reexamined the agency's projected expenditures and also approved various strategic projects that were on hold pending available resources. The Agency's goal is to maintain a positive variance of at least $1.8 million (2%) for emergencies and other unforeseen expenditures.

SENATE BILL (SB) 822 and SB 861 BUDGET

This separate budget limitation was approved by the legislature to remove the tax remedy for recipients not paying Oregon income taxes on their retirement benefits, and recalculate employer contribution rates effective July 1, 2013 (SB 822); and to provide funding for additional technology services, customer service positions, and increased Attorney General expenses (SB 861).

- Expenditures to-date are $409,164 or 20.15% of the legislatively approved budget of $2,031,096.
- The current projected variance is $348,591, or 17.16% of the SB 822 and SB 861 budget of $2,031,096.

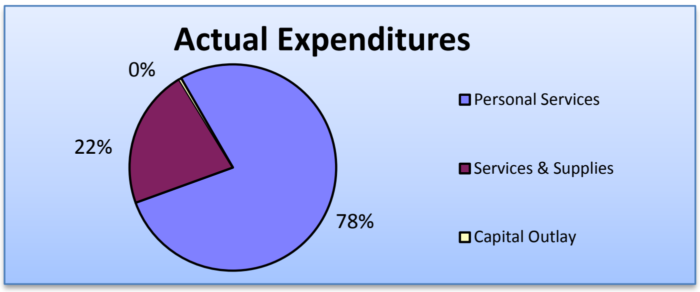
A.2.c. Attachment 1 – Summary Budget Analysis
A.2.c. Attachment 2 – SB822 & SB861 Projects Budget Execution

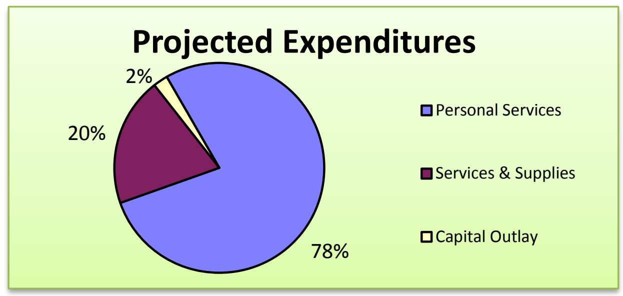
2013-15 Agency-wide Budget Execution
Summary Budget Analysis
Preliminary For the Month of: June 2014
Projected Approved Positive Variance Projects

Limited - Operating Budget

2013-15 Biennial Summary

Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expenditures	2013-15 LAB	Variance
Personal Services	29,370,401	32,833,679	62,204,080	63,535,242	**1,331,162**
Services & Supplies	7,645,845	11,022,974	18,668,819	19,638,697	**969,878**
Capital Outlay	761,766	575,268	1,337,034	1,253,453	**(83,581)**
Total	**37,778,012**	**44,431,921**	**82,209,933**	**84,427,392**	**2,217,459**





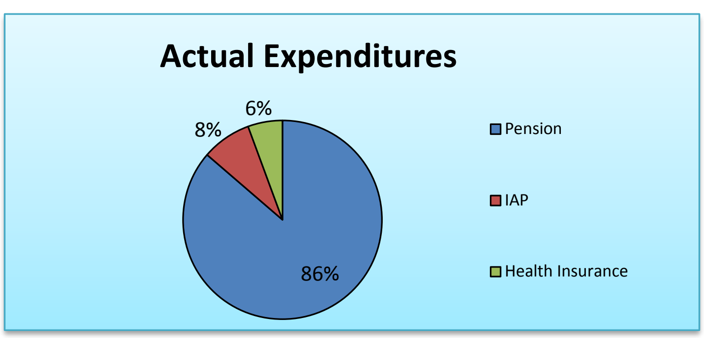
Monthly Summary

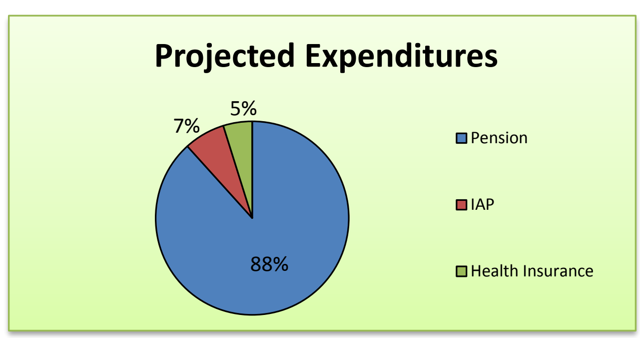
Category	Actual Exp.	Projections	Variance	Avg. Monthly Actual Exp.	Avg. Monthly Projected Exp.
Personal Services	2,509,548	2,673,746	164,198	2,447,533	2,736,140
Services & Supplies	442,096	1,030,484	588,388	637,154	898,581
Capital Outlay	584,549	482,233	(102,316)	63,480	47,939
Total	**3,536,193**	**4,186,463**	**650,270**	**3,148,167**	**3,682,660**

Non-Limited Budget

2013-15 Biennial Summary

Programs	Actual Exp To Date	Projected Expenditures	Total Est. Expenditures	Non-Limited LAB	Variance
Pension	3,569,430,031	4,329,870,149	7,899,300,180	8,148,014,000	248,713,821
IAP	332,871,793	336,545,330	669,417,123	721,200,000	51,782,877
Health Insurance	232,606,871	237,980,673	470,587,544	408,661,000	(61,926,545)
Total	**4,134,908,695**	**4,904,396,152**	**9,039,304,847**	**9,277,875,000**	**238,570,153**

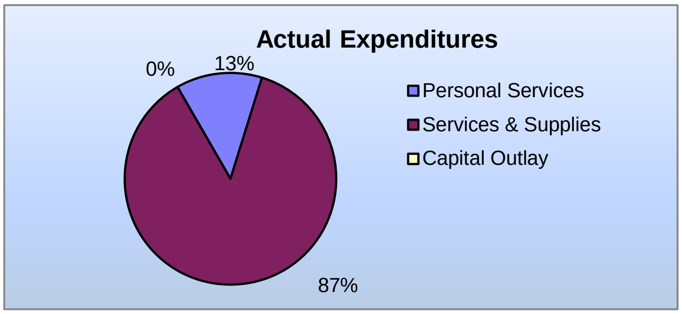


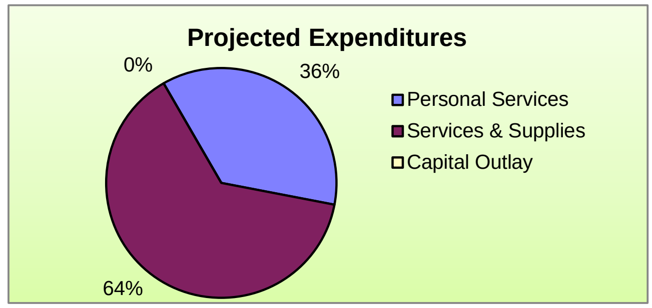


2013-15 SB822 & SB861 Projects - Budget Execution
Summary Budget Analysis
Preliminary For the Month of: June 2014

Biennial Summary - SB822 & SB861

Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expend.	2013-15 LAB	Variance
Personal Services	53,818	463,121	516,939	827,446	**310,507**
Services & Supplies	355,346	810,220	1,165,565	1,203,650	**38,085**
Capital Outlay					
Total	**409,164**	**1,273,340**	**1,682,505**	**2,031,096**	**348,591**





SB822 Project

Biennial Summary

Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expend.	2013-15 LAB	Variance
Personal Services	53,818	219,096	272,914	435,018	**162,104**
Services & Supplies	355,346	219,620	574,965	573,133	**(1,832)**
Capital Outlay					
Total	**409,164**	**438,715**	**847,880**	**1,008,151**	**160,271**

Monthly Summary

Category	Actual Exp.	Projections	Variance	Avg. Monthly Actual Exp.	Avg. Monthly Projected Exp.
Personal Services	6,805	57,476	50,671	4,485	18,258
Services & Supplies		62,135	62,135	29,612	18,172
Capital Outlay		1	1		
Total	**6,805**	**119,612**	**112,807**	**34,097**	**36,430**

SB861 Project

Biennial Summary

Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expend.	2013-15 LAB	Variance
Personal Services		244,025	244,025	392,428	**148,403**
Services & Supplies		590,600	590,600	630,517	**39,917**
Capital Outlay					
Total		**834,625**	**834,626**	**1,022,945**	**188,319**

Monthly Summary

Category	Actual Exp.	Projections	Variance	Avg. Monthly Actual Exp.	Avg. Monthly Projected Exp.
Personal Services		22,340	22,340		20,335
Services & Supplies		295,300	295,300		49,217
Capital Outlay					
Total		**317,640**	**317,640**		**69,553**

Oregon

John A. Kitzhaber, M.D., Governor

Public Employees Retirement System
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July 25, 2014

TO: Members of the PERS Board

FROM: Mini Kobbervig, PERS Health Insurance Program Manager

SUBJECT: PERS Health Insurance Program (PHIP) Premium Rebate

INTRODUCTION AND BACKGROUND

Starting in CY 2014, Medicare has implemented a minimum loss ratio (MLR) requirement for Medicare Advantage and Medicare Part D plans. Under this new requirement, at least 85% of premium dollars need to be spent on claims reimbursements and any administrative costs intended to improve health care quality. This new provision will impact both the Kaiser Permanente and the Moda Health administered Medicare/Prescription Drug (Rx) plans which include PHIP Medicare members covered under Moda, Providence Health Plan and PacificSource Health Plans.

As the Kaiser Permanente program is a fully insured non refunding arrangement, any revenue refunded to Centers for Medicare and Medicaid Services (CMS) will depend on Kaisers' overall Medicare Advantage financial performance which would include the Kaiser PHIP members. Under that arrangement, PHIP bears no responsibility for any potential CMS revenue refund for Kaiser members.

The timing for the CY 2014 MLR calculation will be in the 4th quarter of 2015. However, if PHIP is to reduce any potential CMS revenue refund, action must be completed by December 31, 2014.

MODA MINIMUM PREMIUM FUNDING ARRANGEMENT OVERVIEW AND IMPLICATIONS

PHIP holds two separate contracts with Moda: 1) a Medicare Advantage plan and 2) a Medicare Part D plan.

Approximately 8,000 members or 15% of the PHIP Moda Rx membership is covered under a Medicare Advantage plan which includes Rx. Similar to Kaiser, the PHIP membership under the Moda Medicare Advantage plan will be aggregated with all other Moda Medicare Advantage members. If in aggregate that plan does not meet the 85% MLR, a revenue refund may be due to CMS. Since PHIP is under a minimum premium arrangement with Moda, under this scenario, PHIP would be liable for a prorata share of any such CMS revenue refund.

The remaining 38,000 members or 85% of the PHIP Moda Rx membership is covered under a separate Medicare Part D benefit plan. These PHIP members are also covered either under a Moda Medicare Supplement, Providence Health Plan or PacificSource Health Medicare medical plan. This plan will be measured against the MLR standard as a separate stand-alone plan that is totally comprised of just PHIP members.

As Moda holds the contract with CMS for these plans, they will be responsible for submitting the MLR calculation to CMS. Therefore, PHIP requested that MODA provide a preliminary estimate of any potential required CMS revenue refunds based on actual CY 2013 experience. The findings of that preliminary analysis were:

1. Although actual results for CY 2014 are not yet known, Moda believes the likelihood that it will not meet or exceed the 85% required MLR for the Medicare Advantage Plan is very low. If this were not to be the actual result, PHIP would be liable for a prorata share of the CMS revenue refund based on PHIP's 8,000 estimated members participating in the Moda Medicare Advantage Plan.

2. There is a very high likelihood that the MODA Health administered Medicare Part D Plan will not meet the 85% MLR. This plan is comprised exclusively of 38,000 PHIP members. A preliminary analysis of CY 2013 experience, using Moda's understanding of the final calculation methodology, indicates a loss ratio of approximately 74% is likely. This would result in a refund to CMS. As communicated during the PERS Board May CY 2015 renewal discussion, it is PHIP's desire to find a way to return these surpluses to participants rather than CMS, as over 60% of total program cost is paid by participants.

PREMIUM REBATE

This report is to inform the Board of PHIP's intent to rebate approximately $10 to $11 million to PHIP Moda members enrolled under the Medicare Advantage and Medicare Part D plan.

Based on the Medicare Part D plan CY 2013 simulation provided by Moda, it is estimated that rebates of $8.7 million would be required to reach the 85% minimum loss ratio. As PHIP wishes to treat equitably those Moda members enrolled under the Medicare Advantage plan, a rebate of an equal amount will be provided to PHIP Medicare members enrolled under the Moda Medicare Advantage plan. This will bring the total rebate to the proposed $10-$11 million range.

As was noted in our May Board meeting plan renewal discussion, there are significantly higher 2013 federal reimbursements resulting from the Medicare Part D reinsurance and manufacturer gap discount programs. In fact, PHIP is expecting a $12 million reimbursement in August of this year from the reinsurance program.

NEXT STEPS

PHIP premium rebates will be administered under the following guidelines:

1. PHIP Moda Medicare Advantage and Medicare Part D members enrolled as of July 1, 2014 will receive a rebate.
2. The rebate will be the same amount for each affected member and is estimated at $225 per member.
3. Rebate checks will be issued starting in October 2014 and be completed by December 31, 2014.

Oregon

John A. Kitzhaber, M.D., Governor

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July 25, 2014

TO: Members of the PERS Board

FROM: Steven Patrick Rodeman, Deputy Director

SUBJECT: Notice of Rulemaking for PERS Membership Eligibility Rules:
OAR 459-005-0001, *Definitions, Generally*
OAR 459-010-0003, *Eligibility and Membership for the PERS Tier One/Tier Two Program*
OAR 459-010-0010, *Leave of Absence Without Pay*
OAR 459-010-0035, *Six-Month Waiting Period*
OAR 459-070-0001, *Definitions*
OAR 459-075-0010, *Eligibility and Membership*

OVERVIEW

- Action: None. This is notice that staff has begun rulemaking.
- Reason: The rules need to be amended to clarify current practice and administration of membership eligibility standards.
- Policy Issues: No policy issues have been identified at this time.

BACKGROUND

Eligibility for the PERS Tier One, Tier Two, and OPSRP Programs are predicated on the employee being in a "qualifying position," which is generally defined as one where an employee is normally required to perform 600 or more hours of service in a full calendar year. Applying this standard is complicated when the employee is not employed over the full calendar year, or what we refer to as a partial year of employment (e.g., the employee is hired after the first of the year or separates from employment before the calendar year ends).

In those circumstances, PERS relies on the employer to designate whether the position is one where 600 or more hours of service are normally required in a calendar year. In reporting to PERS, the employer designates if the employee is in a qualifying or non-qualifying ("Q/NQ") position during a partial year of employment. OAR 459-010-0003 currently recognizes this presumptive designation, but also defines circumstances where the presumption may be overridden (e.g., when an employer reports a position is non-qualifying, but the employee does in fact work more than 600 hours in a calendar year).

The current rule addresses what happens when the employee separates before the end of the calendar year ("partial year of separation"). These proposed rule modifications also cover further scenarios for partial years when the member is hired after the first of the year ("partial year of hire") and for partial years due to a hire and separation in the same calendar year ("short segment”). These modifications will clarify the administration of qualifying position determinations.

Other proposed rule modifications clarify the terms “working days” and “business days.” Certain membership eligibility determinations depend on these terms. A “working day” is a day the employer is open for business, and a “business day” is “a day Monday through Friday when PERS is open for business.” Employers do not regularly report “working days” to PERS, and instances have occurred where the delay in obtaining “working day” information has deterred timely eligibility determinations. To address this concern, the rule amendments allow staff to use “business day” where “working day” information is not available to allow for more expeditious processing of eligibility and membership determinations, thereby improving PERS’ overall administration.

PROPOSED RULE MODIFICATIONS

OAR 459-005-0001: This rule provides definitions used in OAR Chapter 459 for the administration of the Public Employees Retirement System. The following proposed definitions are incorporated or modified: Section (4) defines “Business day”; Section (5) clarifies “Calendar month”; Section (6) defines “Calendar year”; Section (27) clarifies “Qualifying position”; and Section (39) defines “Working Day.” Other housekeeping edits are made to update and clarify statutory references.

OAR 459-010-0003: This rule describes the criteria to establish membership in the PERS Tier One/Tier Two Programs. The following proposed definitions are incorporated or modified: Section (1)(b) of the rule defines “Partial year of hire”; Section (1)(d) clarifies “Qualifying position”; Section (1)(f) defines “Short segment.” Previous Section (1)(e), defining “working day” has been moved to OAR 459-005-0001(39), as a more appropriate placement for that term because it is used throughout OAR Chapter 459.

OAR 459-010-0010: This rule outlines the standards applicable to leave of absence without pay in the PERS Tier One/Tier Two and OPSRP Programs. The proposed rule modification removes the “business day” definition, which is now found in OAR 459-005-0001.

OAR 459-010-0035: This rule outlines the requirements of the six-month waiting period to establish membership in the PERS Tier One/Tier Two Programs. The proposed rule modifications remove the “working day” and “business day” definitions, which are now found in OAR 459-005-0001.

OAR 459-070-0001: This rule provides definitions for the administration of the OPSRP Pension Program. The following proposed definitions are incorporated or modified: Section (2) defines “Business day”; Section (14) defines “Partial year of hire”; Section (16) clarifies “Qualifying position”; Section (20) defines “Short segment”; Section (21) defines “Volunteer”; and Section (22) defines “Working Day.” Other housekeeping edits are made to update and clarify statutory references.

OAR 459-075-0010: This rule describes the criteria to establish membership in the PERS OPSRP Pension Program. The proposed rule modifications remove the “working day” and “business day” definitions, which are now found in OAR 459-070-0001.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing will be held on August 19, 2014 at 2:00 p.m. at PERS headquarters in Tigard. The public comment period ends on September 5, 2014 at 5:00 p.m.

LEGAL REVIEW

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

IMPACT

Mandatory: No,

Impact: Provides clarification of standards utilized in eligibility and membership determinations, thereby enhancing understanding and efficient administration by employers and staff.

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

RULEMAKING TIMELINE

June 13, 2014	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
July 1, 2014	*Oregon Bulletin* published the Notice. Notice was sent to employers, legislators, and interested parties. Public comment period began.
July 25, 2014	PERS Board notified that staff began the rulemaking process.
August 19, 2014	Rulemaking hearing to be held at 2:00 p.m. at PERS in Tigard.
September 5, 2014	Public comment period ends at 5:00 p.m.
September 26, 2014	Staff will propose adopting the rule modifications, including any changes resulting from public comment or reviews by staff or legal counsel.

NEXT STEPS

A rulemaking hearing will be held on August 19, 2014 at 2:00 p.m. at PERS headquarters in Tigard. The rule is scheduled to be brought before the PERS Board for adoption at the September 26, 2014 Board meeting.

B.1. Attachment 1 - 459-005-0001, *Definitions, Generally*
B.1. Attachment 2 - 459-010-0003, *Eligibility and Membership for the PERS Tier One/Tier Two Program*
B.1. Attachment 3 - 459-010-0010, *Leave of Absence Without Pay*
B.1. Attachment 4 - 459-010-0035, *Six-Month Waiting Period*
B.1. Attachment 5 - 459-070-0001, *Definitions*
B.1. Attachment 6 - 459-075-0010, *Eligibility and Membership*

OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 5 – ADMINISTRATION

459-005-0001

Definitions, Generally

The words and phrases used in **OAR** Chapter 459*[, Oregon Administrative Rules,]* have the same meaning given them in ORS *[238.005 to 238.750]* **chapters 237, 238, 238A, and 243 unless otherwise indicated**. Specific and additional terms used in **OAR** Chapter 459 generally are defined as follows unless context *[of a particular division or rule within this chapter]* requires otherwise:

(1) "Ad hoc" means one-time for a specific purpose, case, or situation without consideration of a broader application.

(2) "After-tax" contributions means:

(a) Member contributions required or permitted by ORS 238.200 or 238.515, which a participating employer has not elected to "pick up," assume or pay in accordance with ORS 238.205 and 238.515(b). "After-tax" contributions are included in the member's taxable income for purposes of state or federal income taxation at the time paid to PERS. "After-tax" contributions are included in computing FAS and in computing the employer's contributions paid to PERS.

(b) Payments made by a member to PERS for the purchase of additional benefits.

(3) "Before-tax" contributions means member contributions required or permitted by ORS 238.200 or 238.515, which a participating employer has elected to "pick up," assume or pay in accordance with ORS 238.205 and 238.515(b). "Before-tax" contributions are not included in the member's taxable income for purposes of state or federal income taxation at the time paid to PERS. "Before-tax" contributions are included in:

(a) Computing final average salary; and

(b) Computing the employer's contributions paid to PERS if the employer has elected to "pick up" the member contributions.

(4) **"Business day" means a day Monday through Friday when PERS is open for business.**

(5) "Calendar month" means *[the Julian Calendar]* **a full month** beginning with the first calendar day of a month *[through]* **and ending on** the last calendar day of that month.

(6) "Calendar year" means 12 consecutive calendar months beginning on January 1 and ending on December 31.

*[(5)]***(7)** "Casual worker" means an individual engaged for incidental, occasional, irregular, or unscheduled intervals or for a period of less than six consecutive calendar months.

*[(6)]***(8)** "Contributions" means any contributions required or permitted pursuant to ORS 238.200 or 238.515.

*[(7)]***(9)** "Differential wage payment" means a payment made on or after January 1, 2009:

(a) By an employer to a member with respect to any period during which the member is performing service in the uniformed services, as defined in USERRA, while on active duty for a period of more than 30 consecutive days; and

(b) That represents all or a portion of the wages the member would have received from the employer if the member were performing service for the employer.

*[(8)]***(10)** "Effective date of withdrawal" means the later of:

(a) The first day of the calendar month in which PERS receives the last completed document required from a member who requested a withdrawal; or

(b) The first day of the second calendar month following the calendar month in which the member terminated employment with all participating employers and all employers in a controlled group with a participating employer.

*[(9)]***(11)** "Effective retirement date" means:

(a) For service retirements, the date described in OAR 459-013-0260; or

(b) For disability retirements, the date described in OAR 459-015-0001.

*[(10)]***(12)** "Elected official" means an individual who is a public official holding an elective office or an appointive office with a fixed term for the state or for a political subdivision of the state who has elected to participate in PERS pursuant to ORS 238.015(5).

*[(11)]***(13)** "Emergency worker" means an individual engaged in case of emergency, including fire, storm, earthquake, or flood.

*[(12)]***(14)** "Employee" has the same meaning as provided in ORS 238.005 and shall be determined in accordance with OAR 459-010-0030.

(a) For the purposes of ORS 238.005 to 238.750 the term "employee" includes public officers whether elected or appointed for a fixed term.

(b) The term "employee" does not include:

(A) A member of the governing board of a political subdivision unless the individual qualifies for membership under ORS 238.015.

(B) An individual who performs services for a public employer as a contractor in an independently established business or as an employee of that contractor **as determined** in accordance with OAR 459-010-003**2***[0]*.

*[(c)]***(C)** An individual providing volunteer service to a public employer without compensation for hours of service as a volunteer, except for volunteer firefighters who establish membership in accordance with ORS 238.015(6).

*[(13)]***(15)** "Employer contribution account" means a record of employer contributions to the Fund, as required by ORS 238.225(1), and investment earnings attributable to those contributions, that the Board has credited to the account after deducting amounts required or permitted by ORS Chapter 238.

*[(14)]***(16)** "Employment" is compensated service to a participating employer as an employee whose:

(a) Period or periods of employment includes only the actual hours of compensated service with a participating employer as an employee; and

(b) Compensated service includes, but is not limited to, paid vacation, paid sick leave, or other paid leave.

*[(15)]***(17)** "Estimate" means a projection of benefits prepared by staff of a service or disability retirement allowance, a death or a refund payment. An estimate is not a guarantee or promise of actual benefits that eventually may become due and payable, and PERS is not bound by any estimates it provides. *[(ORS 238.455(6))]*

*[(16)]***(18)** "FAS" and "final average salary" have the same meaning as provided in:

(a) ORS 238.005 for all PERS Tier One members;

(b) ORS 238.435(2) for all PERS Tier Two members who are not employed by a local government as defined in ORS 174.116;

(c) ORS 238.435(4) for all PERS Tier Two members who are employed by a local government as defined in ORS 174.116; or

(d) ORS 238.535(2) for judge members of PERS for service as a judge.

*[(17)]***(19)** "General service member" means membership in PERS as other than a judge member, a police officer, a firefighter, or a legislator.

*[(18)]***(20)** "Good cause" means a cause beyond the reasonable control of an individual. "Good cause" exists when it is established by satisfactory evidence that factors or circumstances are beyond the reasonable control of a rational and prudent individual of normal sensitivity, exercising ordinary common sense.

*[(19)]***(21)** "Independent contractor" means an individual or business entity that is not subject to the direction and control of the employing entity as determined in accordance with OAR 459-010-0032.

*[(20)]***(22)** "Judge member" has the same meaning as provided in ORS 238.500(3). For purposes of this chapter, active, inactive, and retired membership of a judge member shall have the same meaning as provided in ORS 238.005.

*[(21)]***(23)** "Legislator" means an individual elected or appointed to the Oregon Legislative Assembly who has elected to participate in PERS for their legislative service.

*[(22)]***(24)** "Member cost" means after-tax member contributions and payments made by or on behalf of a member to purchase additional benefits.

*[(23)]***(25)** "Participating employer" means a public employer who has one or more employees who are active members of PERS.

*[(24)]***(26)** "PERS" and "system" have the same meaning as the Public Employees Retirement System in ORS 238.600.

*[(25)]***(27)** "Qualifying position" has the same meaning as provided in ORS 238.005 **and OAR 459-010-0003**.

*[(26)]***(28)** "Regular account" means the account established under ORS 238.250 for each active and inactive member who has made contributions to the Fund or the account of an alternate payee of such a member.

*[(27)]***(29)** "Salary" has the same meaning as provided in ORS 238.005.

(a) "Salary" includes a differential wage payment, as defined in this rule.

(b) For a Tier One member, a lump sum payment for accrued vacation pay is considered salary:

(A) In determining employee and employer contributions.

(B) In determining final average salary for the purpose of calculating PERS benefits.

(c) For a Tier Two member, a lump sum payment for accrued vacation pay:

(A) Is considered salary in determining employee and employer contributions.

(B) Is not considered salary in determining final average salary for the purpose of calculating PERS benefits.

*[(28)]***(30)** "Seasonal worker" means an individual whose engagement is characterized as recurring for defined periods that are natural divisions of the employer's business cycle or services.

*[(29)]***(31)** "Staff" means the employees of the Public Employees Retirement System as provided for in ORS 238.645.

*[(30)]***(32)** "Tier One member" means a member who established membership in the system before January 1, 1996, as defined in ORS 238.430(2).

*[(31)]***(33)** "Tier Two member" means a member who established membership in the system on or after January 1, 1996, in accordance with ORS 238.430.

*[(32)]***(34)** "USERRA" means the federal Uniformed Services Employment and Reemployment Rights Act of 1994, 38 U.S.C. 4301-4334, as in effect on the effective date of this rule.

*[(33)]***(35)** "Vacation pay" means a lump sum payment for accrued leave in a Vacation Leave Program provided by a public employer which grants a period of exemption from work for rest and relaxation with pay, and does not include:

(a) Sick leave programs;

(b) Programs allowing the accumulation of compensatory time, holiday pay or other special leaves unless the public employer's governing body indicates by resolution, ordinance, or other legislative process, that such leave is intended to serve as additional vacation leave; and

(c) Other programs, such as a Personal Time Off (PTO) plan, which are a combination of vacation, sick, bereavement, personal and other leaves of pay as defined and described by a public employer unless the employer has a written policy that clearly indicates the percentage of the plan that represents vacation leave. If the employer's PTO has a cash option, the employer must report to PERS the amount of any lump sum pay-off for the percentage that represents vacation leave.

*[(34)]***(36)** "Variable account" and "member variable account" mean the account in the Variable Annuity Account established under ORS 238.260(2) for each active and

inactive member who has elected to have amounts paid or transferred into the Variable Annuity Account.

[(35)] **(37)** “Variable Annuity Account” means the account established in ORS 238.260(2).

[(36)] **(38)** *[(a)]* “Volunteer” means an individual who performs a service for a public employer, and who receives no compensation for the service performed.

[(b)] The term “volunteer” does not include an individual whose compensation received from the same public employer for similar service within the same calendar year exceeds the reasonable market value for such service.

(39) “Working day” means a day that the employer is open for business. Unless the employer communicates this information to PERS, PERS will presume an employer’s “working day” is the same as a “business day,” as defined in section (4) of this rule.

[(37)] **(40)** “Year” means any period of 12 consecutive calendar months.

Stat. Auth.: ORS 238.650

Stats. Implemented: ORS **chapters 237, 238, 238A & 243**

OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 010 – MEMBERSHIP

459-010-0003

Eligibility and Membership for the PERS Tier One/Tier Two Program

(1) For the purpose of this rule:

(a) "Concurrent positions" means employment with two or more participating employers in the same calendar year.

(b) **"Partial year of hire" means a period in the calendar year the employee begins employment after the first working day of the year, and continues employment through December 31.**

(c) "Partial year of separation" means a period in the calendar year the employee separates from employment that begins on January 1 of the year and ends before the last working day of the year.

*[(c)]***(d)** "Qualifying position" means a position designated by the employer as qualifying, **including a position in a partial year of hire, partial year of separation, or short segment,** except:

(A) A position or concurrent positions in which an employee performs at least 600 hours of service in a calendar year is qualifying regardless of employer designation.

(B) A position in a partial year of separation is qualifying regardless of employer designation if the position is continued from an immediately preceding calendar year in which the employee performed at least 600 hours of service in the position or concurrent positions.

(C) A position with one employer in which the employee is employed for the entire calendar year and fails to perform at least 600 hours of service in that position or concurrent positions in the calendar year is non-qualifying regardless of employer designation.

*[(d)]***(e)** "Service" means a period in which an employee:

(A) Is in an employer/employee relationship, as defined in OAR 459-010-0030; and

(B) Receives a payment of "salary," as defined in ORS 238.005 or similar payment from workers compensation or disability.

(f) "Short segment" means a period in the calendar year during which the employee is hired after the first working day of the year, and separated from employment before the last working day of the same calendar year.

[(e) "Working day" means a day that the employer is open for business.]

(2) At the time an employee is hired, an employer must designate the employee's position as qualifying or non-qualifying. An employer must designate a position as qualifying if the position is one in which an employee would normally perform at least 600 hours of service in a calendar year.

(3) Employer designation of a position as qualifying or non-qualifying must be determined by PERS from information communicated to PERS by the employer. An employer designation that is contrary to the provisions of subsection (1)*[(c)]***(d)** of this rule in any calendar year will be reversed for that calendar year.

(4) Eligibility. An employee who was employed in a qualifying position before August 29, 2003 by an employer participating in the PERS Chapter 238 Program was eligible to become a member of that program if the employee:

(a) Began the six-month waiting period described in OAR 459-010-0035 before August 29, 2003;

(b) Did not elect to participate in an optional or alternative retirement plan as provided in ORS Chapters 243, 341, or 353; and

(c) Was not otherwise ineligible for membership.

(5) Membership. An employee who meets the requirements of section (4) of this rule becomes a member of the PERS Chapter 238 Program on the first day of the calendar month following the completion of the six-month waiting period described in OAR 459-010-0035 provided that the employee is employed on that date by the same employer that employed the employee throughout the waiting period.

Stat. Auth.: ORS 238.650

Stats. Implemented: ORS 238.005, 238.015, & 238A.025

OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 010 – MEMBERSHIP

459-010-0010

Leave of Absence Without Pay

(1) For purposes of this rule*[:]***,**

[(a) "Business day" means a day Monday through Friday when PERS is open for business.]

[(b)] "*[M]***m**ajor fraction of a month" means a minimum of 11 business days in a calendar month.

(2) Employer/Employee Agreement. An official leave of absence without pay for any purpose must have the following in order to be considered bona fide:

(a) An agreement in writing;

(b) Accordance with the applicable law, rules and regulations;

(c) The duration specifically stated at the time of granting; and

(d) Certification to PERS by the employer granting such leave.

(3) Creditable Service and Retirement Credit.

(a) A leave of absence without pay occurring on or after July 1, 1987, which constitutes the major fraction of a month:

(A) May not be used to calculate "years of membership" under ORS 238.300; and

(B) May not be used to determine "creditable service" or "retirement credit" under ORS 238.005.

(b) A leave of absence without pay occurring before July 1, 1987, which constitutes the major fraction of a month:

(A) Must be used to calculate "years of membership" under ORS 238.300; and

(B) Must be used to determine "creditable service" and "retirement credit" under ORS 238.005.

(c) A leave of absence without pay occurring on or after January 1, 2004, which constitutes the major fraction of a month may not be used to determine "retirement credit" under ORS 238A.140 for any period of employment after the date membership is established under ORS 238A.100.

(4) Reporting Requirement. Unless otherwise agreed upon by PERS, the employer shall report the following in a format acceptable to PERS:

(a) Any period of leave of absence without pay, which constitutes the major fraction of a month, for each member at the time the leave begins. The reported period of leave of absence without pay must include an end date.

(b) Any amendment or extension to a previously reported period of leave of absence without pay.

(5) A PERS member on an official leave of absence without pay is not considered terminated from service with a participating employer.

(6) An employee on an official leave of absence without pay on the date the employer begins to participate in PERS, shall be considered to be an employee on such date for the purpose of determining eligibility for participation in PERS.

(7) A layoff from employment does not constitute a leave of absence without pay.

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

Stats. Implemented: ORS 238.300 & 238A.140

OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 010 – MEMBERSHIP

459-010-0035

Six-Month Waiting Period

(1) The six-month waiting period required for establishing membership under ORS 238.015 is six full calendar months of service with the same employer. The service must be in a **“**qualifying position,**”** as defined in OAR 459-010-0003. The six full calendar months of service may not be interrupted by more than 30 consecutive working days. *[For the purposes of this rule, a working day is defined as a day that the employer is open for business.]*

(2) The waiting period begins **on**:

(a) *[On]* The date the employee is hired, and includes the month of hire as a full calendar month, if the date of hire is the first business day of the month*[. For the purposes of this rule, a business day is defined as Monday through Friday when PERS is open for business]*;

(b) *[On]* The first day of the month following the date of hire; or

(c) *[On]* The first day of the month following the end date of an interruption of service of more than 30 consecutive working days.

(3) In the event an employee is on an official leave of absence under OAR 459-010-0010, the period of absence shall not constitute an interruption of the waiting period under section (1) of this rule. The waiting period shall be extended by the length of the leave of absence.

(4) Absence from service by an educational employee during periods that the employing educational institution is not in session does not constitute an interruption of

the waiting period under section (1) of this rule. The waiting period shall be extended by the length of the period the educational institution is not in session.

Stat. Auth.: ORS 238.650

Stats. Implemented: ORS 238.015

OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 070 – OREGON PUBLIC SERVICE RETIREMENT PLAN, GENERALLY

459-070-0001

Definitions

The words and phrases used in divisions 070, 075, 076, and 080 **of OAR Chapter 459** have the same meaning given them in ORS 238A.005 **to 238A.475,** unless otherwise indicated. Specific and additional terms for purposes of divisions 070, 075, 076 and 080 are defined as follows unless context requires otherwise:

(1) “Academic employee of a community college” means an instructor who teaches classes offered for college-approved credit or on a non-credit basis.

(a) Librarians, counselors, and aides in non-teaching positions, tutors, or other non-teaching faculty, and classified, professional or nonprofessional support staff are not academic employees for the purposes of *[section 20 of OL 2005 Ch. 332]***ORS 238A.142**, but are subject to the membership requirements under ORS 238A.100 and OAR 459-075-0010.

(b) The governing body of a community college must determine who is an academic employee in its employ under this rule. In making that determination, a community college must consider all disciplines (academic activity) collectively when an employee’s assignment includes multiple disciplines.

(2) “Business day” means a day Monday through Friday when PERS is open for business.

*[2]***(3)** “Calendar month” means a full month beginning on the first calendar day of a month and ending on the last calendar day of the same month.

*[(3)]***(4)** “Calendar year” means 12 **consecutive** calendar months beginning on January 1 and ending on December 31 *[following]*.

*[4]***(5)** “Employee” has the same meaning as “eligible employee” in ORS 238A.005 **and shall be determined in accordance with OAR 459-010-0030**.

(a) For the purposes of ORS 238A.005 to 238A.475, the term “employee” includes public officers whether elected or appointed for a fixed term.

(b) The term “employee” does not include:

(A) An individual who performs services for a public employer as a contractor in an independently established business or as an employee of that contractor in accordance with OAR 459-010-0032; or

(B) An individual providing volunteer service to a public employer without compensation for hours of service as a volunteer.

*[5]***(6)** “Employee class” means a group of similarly situated employees whose positions have been designated by their employer in a policy or collective bargaining agreement as having common characteristics.

*[6]***(7)** “Employee contributions” means contributions made to the individual account program by an eligible employee under ORS 238A.330, or on behalf of the employee under ORS 238A.335.

*[7]***(8)** “Final Average Salary” (FAS) has the same meaning given the term in:

(a) ORS 238A.130(1) for OPSRP Pension Program members who are not employed by a local government as defined in ORS 174.116; or

(b) ORS 238A.130(3) for OPSRP Pension Program members who are employed by a local government as defined in ORS 174.116.

*[(8)]***(9)** "Member" has the same meaning given the term in ORS 238A.005.

*[(9)]***(10)** "Member account" means the account of a member of the individual account program.

*[(10)]***(11)** "Member of PERS" has the same meaning as "member" in ORS 238.005, but does not include retired members.

*[(11)]***(12)** "OPSRP" means the Oregon Public Service Retirement Plan.

*[(12)]***(13)** "Overtime" means the salary or hours, as applicable, that an employer has designated as overtime.

(14) "Partial year of hire" means a period in the calendar year the employee begins employment after the first working day of the year, and continues employment through December 31.

*[(13)]***(15)** "Partial year of separation" means a period in the calendar year the employee separates from employment that begins on January 1 of the year**,** and ends before the last working day of the year.

*[(14)]***(16)** "Qualifying position" **has the same meaning as provided in ORS 238A.005 and** means a position designated by the employer as qualifying, **including a position in a partial year of hire, partial year of separation, or short segment,** except:

(a) A position or concurrent positions in which an employee performs at least 600 hours of service in a calendar year is qualifying regardless of employer designation.

(b) A position in a partial year of separation is qualifying regardless of employer designation if the position is continued from an immediately preceding calendar year in which the employee performed at least 600 hours of service in the position or concurrent positions.

(c) A position with one employer in which the employee is employed for the entire calendar year and fails perform at least 600 hours of service in that position or concurrent positions in the calendar year is non-qualifying regardless of employer designation.

*[(15)]***(17)** "Salary" has the same meaning given the term in ORS 238A.005 and includes a differential wage payment, as defined in OAR 459-005-0001.

*[(16)]***(18)** "School employee" has the meaning given the term in ORS 238A.140(7).

*[(17)]***(19)** "Service" means a period in which an employee:

(a) Is in an employer/employee relationship, as *[defined]* **determined** in **accordance with** OAR 459-010-0030; and

(b) Receives a payment of "salary," as defined in ORS 238A.005 or similar payment from workers' compensation or disability.

(20) "Short segment" means a period in the calendar year during which the employee is hired after the first working day of the year, and separated from employment before the last working day of the same calendar year.

(21) "Volunteer" means an individual who performs a service for a public employer, and who receives no compensation for the service performed. The term "volunteer" does not include an individual whose compensation received from the same public employer for similar service within the same calendar year exceeds the reasonable market value for such service.

(22) "Working day" means a day that the employer is open for business. Unless the employer communicates this information to PERS, PERS will presume an employer's "working day" is the same as a "business day," as defined in section (2) of this rule.

[(18) The effective date of this rule is January 1, 2009.]

Stat. Auth.: ORS 238A.450

Stats. Implemented: ORS **Chapter** 238A

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

459-075-0010

Eligibility and Membership

(1) Eligibility. An employee who is employed in a qualifying position on or after August 29, 2003 by an employer participating in the OPSRP Pension Program is eligible to become a member of that program unless the employee:

(a) Has established membership in the PERS Chapter 238 Program before August 29, 2003 under the terms of ORS 238A.025 and has not terminated membership in that program under ORS 238.095;

(b) Is a judge member as defined in ORS 238.500;

(c) Elects to participate in an optional or alternative retirement plan as provided in ORS Chapters 243, 341, or 353; or

(d) Is otherwise ineligible for membership.

(2) Membership:

(a) An employee who meets the requirements in section (1) of this rule becomes a member of the OPSRP Pension Program on the first day of the calendar month following the employee's completion of a waiting period of six full calendar months of service in a qualifying position with the same participating public employer. The six full calendar months of service may not be interrupted by more than 30 consecutive working days. *[For the purposes of this rule, a working day is defined as a day that the employer is open for business.]*

(b) The waiting period begins **on**:

(A) *[On]* The date the employee is hired, and includes the month of hire as a full calendar month, if the date of hire is the first business day of the month*[. For the purposes of this rule, a business day is defined as Monday through Friday when PERS is open for business]*;

(B) *[On]* The first day of the month following the date of hire; or

(C) *[On]* The first day of the month following the end date of an interruption of service of more than 30 consecutive working days.

(c) In the event an employee is on an official leave of absence as described in OAR 459-010-0010, the period of absence shall not constitute an interruption of the waiting period under subsection (a) of this section. The waiting period shall be extended by the length of the leave of absence.

(d) Absence from service by an educational employee during periods that the employing educational institution is not in session shall not constitute an interruption of the waiting period under subsection (a) of this section.

(3) The provisions of this rule are retroactive to November 23, 2007.

Stat. Auth.: ORS 238A.450

Stats. Implemented: ORS 238A.025, 238A.100 & OL 2007 Ch. 769

Oregon

John A. Kitzhaber, M.D., Governor

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July 25, 2014

TO: Members of the PERS Board

FROM: Steven Patrick Rodeman, Deputy Director

SUBJECT: Notice of Employer Remittance of Contributions Rule:
OAR 459-070-0110, *Employer Remittance of Contributions*

OVERVIEW

- Action: None. This is notice that staff has begun rulemaking.
- Reason: Eliminate the allocation of partial employer payments based on receivable due date or a pre-set priority list so that RHIA and RHIPA employer contributions and IAP employee contributions are not comingled with the contributions for other programs.
- Policy Issue: No policy issues have been identified at this time.

BACKGROUND

PERS administers both a qualified pension plan under IRC 401(a) and a health insurance program under IRC 401(h). When electronic reporting and payment methods were instituted, OAR 459-070-0110 was adopted to allocate these employer contributions by the order of receivables' due dates, oldest first. In addition, the rule also established a priority order to the various "buckets" to which funds would be allocated if an employer made a partial payment of their employer contribution invoice and there were multiple receivables having the same due date. Internal Audit Reports on August 2009 and January 2013 raised concerns about whether this allocation structure was consistent with PERS' general responsibilities as a fiduciary and the IRS requirements that contributions be reasonable and ascertainable, and that those made for specific trusts or other purposes not be used for, or diverted to, any other purpose; suggested process improvements and other recommendations were also made in the Audit reports.

Consequently, the employer payment remittance process is being revised. Programming for the new employer contribution allocation procedure is being implemented in August 2014 to require that all employer contributions be designated and assigned to specific programs (i.e. employer contributions to their pension reserve accounts, to the PERS Health Insurance Program, or member contributions to the IAP). The rule's priority allocation structure, therefore, will become obsolete.

PROPOSED RULE MODIFICATIONS

Sections (4) and (5) of the rule are to be removed because contributions made by the employers under the new programming will be clearly designated or identified as to specific programs and allocated as such. PERS will no longer co-mingle employer contributions and allocate them to receivables in the order of receivables' due dates or a pre-set priority list.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing will be held on August 19, 2014 at 2:00 p.m. at PERS headquarters in Tigard. The public comment period ends on September 5, 2014 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, the Board need not adopt the rule modifications.

Impact: Separate each program into a different invoice and essentially eliminate the allocation.

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

RULEMAKING TIMELINE

July 15, 2014	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
July 25, 2014	PERS Board notified that staff began the rulemaking process.
August 1, 2014	*Oregon Bulletin* publishes the Notice. Notice sent to employers, legislators, and interested parties. Public comment period begins.
August 19, 2014	Rulemaking hearing to be held at 2:00 p.m. at PERS in Tigard.
September 5, 2014	Public comment period ends at 5:00 p.m.
September 26, 2014	Staff will propose adopting the rule modifications, including any changes resulting from public comment or reviews by staff or legal counsel.

NEXT STEPS

A rulemaking hearing will be held on August 19, 2014 at 2:00 p.m. at PERS headquarters in Tigard. The rule is scheduled to be brought before the PERS Board for adoption at the September 26, 2014 Board meeting.

B.2. Attachment 1 – OAR 459-070-0110, *Employer Remittance of Contributions*

OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 070 – OREGON PUBLIC SERVICE RETIREMENT PLAN, GENERALLY

459-070-0110

Employer Remittance of Contributions

(1) Definition. “Statement date” means the date a statement of contributions or penalty due is generated by PERS.

(2) When PERS issues a statement of contributions due and, if applicable, any penalty due, unless otherwise agreed upon by the PERS Executive Director and the employer, an employer must pay to PERS the total amount of contributions and penalty due no later than five business days from the statement date. Payment must be made pursuant to OAR 459-005-0225.

(3) An employer that fails to pay the total amount due on a statement within the time specified in section (2) of this rule must pay a penalty equal to one percent of the total amount of contributions due on that statement for each month the employer is delinquent.

[(4) If an employer transmits an amount less than the amount required by section (2) of this rule, PERS will allocate the amount to receivables by due date, oldest first. If multiple receivables have the same due date, PERS will allocate the amount to the receivables in the following order:

(a) The Individual Account Program;

(b) The OPSRP Pension Program;

(c) The Retiree Health Insurance Account and the Retiree Health Insurance Premium Account;

(d) Police Officer and Firefighter Unit Accounts;

(e) Judge member accounts;

(f) The PERS Chapter 238 Program;

(g) Penalties;

(h) Benefit Equalization Fund invoices;

(i) Social Security; and

(j) Other receivables due from the employer.

(5) By agreement with an employer, PERS may allocate amounts paid by the employer to specific receivables.]

*[(6)]***(4)** The PERS Executive Director or a person designated by the Director may waive the penalty described in section (3) of this rule for contributions due on or after January 1, 2011 and before January 1, 2012. For contributions due on or after January 1, 2012, penalties may be waived by the Director or the Director's designee only upon written petition from the employer.

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

Stats. Implemented: ORS 238A.050 & 238.705

Oregon

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July 25, 2014

TO: Members of the PERS Board

FROM: Steven Patrick Rodeman, Deputy Director

SUBJECT: Adoption of GAAP Cost Allocation Rule:
OAR 459-007-0009, *Allocating Costs of Compliance with Generally Accepted Accounting Principles*

OVERVIEW

- Action: Adopt new rule for allocating costs for employers to comply with Generally Accepted Accounting Principles.
- Reason: Implementation of HB 4155 (2014 Session) to provide required financial data to employers and allocate associated costs.
- Policy Issue: No policy issues were identified.

BACKGROUND

The Governmental Accounting Standards Board (GASB) has adopted new standards for public pension plan financial reporting (GASB 67 and GASB 68). GASB 68 expands the pension liability information to be included by government bodies in their annual financial statements. The most efficient way for PERS-participating employers to obtain the needed data is for PERS to provide it, but the costs of doing so needed specific statutory authorization. House Bill 4155 (2014 Regular Session) provided that authorization and directs the PERS Board to establish by rule procedures for recovering the additional actuarial and auditing costs associated with helping employers to comply with generally accepted accounting principles from investment earnings on employer contributions. This rule will clarify the process by which the GASB associated costs will be allocated to employers.

This rule will have no fiscal impact to PERS administration, the PERS Fund, or PERS members. There will be a fiscal impact to PERS employers, via a reduction in annual earnings crediting, in the amount necessary to cover the agency’s actual costs of providing the financial information PERS employers need to comply with new GASB standards and generally accepted accounting principles.

SUMMARY OF MODIFICATIONS TO RULE SINCE NOTICE

The rule title was changed to “Allocating Costs of Compliance with Generally Accepted Accounting Principles” and references to GASB 68 were removed from the rule in sections (2) and (3). These edits were made because GASB has issued a proposed new standard for OPEB (“other post-employment benefits”) reporting, similar to what is required for pensions under GASB 68. While the requirements under this other GASB standard are not as fully developed as the GASB 68 standards, similar financial data and liability information requirements are anticipated for employers with OPEB liabilities.

HB 4155 is now codified at ORS 238.610(1)(b). That statute refers to generally accepted accounting principles, and that reference is generic enough to cover both pension and OPEB reporting requirements. These new rule modifications would eliminate the need to modify the rule, or adopt a new rule, when GASB issues the OPEB standard later this year or early next year.

Also, since ORS 238.610(1)(b) is so specific, and in the context of all the statutes relating to allocation of administrative expenses, some clauses in the proposed rule are deleted because they are unnecessary to restate. As a result, sections (1) and (2) from the proposed rule have been combined and shortened. Section (4) has been eliminated, as a rule should not say what the agency will not do, but instead the text of the statute clearly states the source from which these expenses are to be recovered.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held on June 17, 2014 at 2:00 p.m. at PERS headquarters in Tigard. No members of the public attended. The public comment period ended on July 3, 2014 at 5:00 p.m. One public comment was received.

Lance Colley, City Manager for City of Roseburg, submitted a public comment letter dated July 2, 2014, including a list of employers attached in support of the rule. The letter thanks PERS and the Legislative Advisory Committee for their support during the last legislative session, and for the development of the new administrative rule resulting from the statutory authority granted by HB 4155. Mr. Colley states that the rule allows for the efficient production of necessary information for each employer to comply with the new reporting requirements.

LEGAL REVIEW

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

IMPACT

Mandatory: No, but the enabling statute provides rulemaking authority to allocate these costs.

Impact: Provide additional financial data to employers and allocate associated costs.

Cost: The rule has no fiscal impact on PERS administration, the PERS Fund, or PERS members. There will be a fiscal impact to PERS employers, via a reduction in annual earnings crediting, in the amount necessary to cover the agency's actual costs of providing audited financial information to comply with GASB standards and generally accepted accounting principles.

RULEMAKING TIMELINE

April 15, 2014	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
May 1, 2014	*Oregon Bulletin* published the Notice. Notice was sent to employers, legislators, and interested parties. Public comment period began.
May 30, 2014	PERS Board notified that staff began the rulemaking process.
June 17, 2014	Rulemaking hearing held at 2:00 p.m. at PERS in Tigard.
July 3, 2014	Public comment period ended at 5:00 p.m.
July 25, 2014	Board may adopt the permanent rule.

BOARD OPTIONS

The Board may:

1. Pass a motion to "adopt new GAAP cost allocation rule, as presented."
2. Direct staff to make other changes to the rule or explore other options.

STAFF RECOMMENDATION

Staff recommends the Board choose Option #1.

- Reason: Implementation of HB 4155 (2014 Session) to provide GASB financial data to employers and allocate associated costs.

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

B.3. Attachment 1 – 459-007-0009, *Allocating Costs of Compliance with Generally Accepted Accounting Principles*
B.3. Attachment 2 – Public Comment Letter dated July 2, 2014

OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 007 – EARNINGS AND INTEREST DISTRIBUTION

459-007-0009

Allocating Costs of Compliance with Generally Accepted Accounting Principles

(1) Pursuant to ORS 238.610(1)(b), PERS will provide employers with audited financial data each year to comply with generally accepted accounting principles as established by the Government Accounting and Standards Board (GASB) standards.

(2) Prior to earnings crediting each year, PERS shall compile the actuarial, auditing, and internal staff costs of providing the audited financial data it will provide to employers. Earnings on employer contribution accounts shall be reduced by the amount of those costs. In any year in which earnings on those accounts are not sufficient to recover those costs, employer contribution accounts will be reduced by the amount of those costs.

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

Stats. Implemented: ORS 238.610(1)(b)

Oregon

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July 25, 2014

TO: Members of the PERS Board

FROM: Steven Patrick Rodeman, Deputy Director

SUBJECT: Adoption of Modified GAAP Cost Allocation Rule:
OAR 459-007-0009, *Allocating Costs of Compliance with Generally Accepted Accounting Principles*

The following changes are proposed to lines 4 and 8 of OAR 459-007-0009 as presented in the Board packet: Eliminate the specific reference to "pension" financial data so the rule may also authorize PERS to charge for expenses in reporting OPEB liabilities (other post-employment benefits such as retiree health insurance premium subsidies).

These changes are incorporated in the rule as attached to this memo, but shown in detail below for your reference.

(1) Pursuant to ORS 238.610(1)(b), PERS will provide employers with audited *[pension]* financial data each year to comply with generally accepted accounting principles as established by the Government Accounting and Standards Board (GASB) standards.

(2) Prior to earnings crediting each year, PERS shall compile the actuarial, auditing, and internal staff costs of providing the audited *[pension]* financial data it will provide to employers.

BOARD OPTIONS

The Board may:

1. Pass a motion to "adopt new GAAP cost allocation rule, as presented with this memo."
2. Direct staff to make other changes to the rule or explore other options.

STAFF RECOMMENDATION

Staff recommends the Board choose Option #1.

- Reason: Implementation of HB 4155 (2014 Session) to provide GASB financial data to employers and allocate associated costs.

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

B.3. Attachment 1 – 459-007-0009, *Allocating Costs of Compliance with Generally Accepted Accounting Principles*

OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 007 – EARNINGS AND INTEREST DISTRIBUTION

459-007-0009

Allocating Costs of Compliance with Generally Accepted Accounting Principles

(1) Pursuant to ORS 238.610(1)(b), PERS will provide employers with audited ~~pension~~ financial data each year to comply with generally accepted accounting principles as established by the Government Accounting and Standards Board (GASB) standards.

(2) Prior to earnings crediting each year, PERS shall compile the actuarial, auditing, and internal staff costs of providing the audited ~~pension~~ financial data it will provide to employers. Earnings on employer contribution accounts shall be reduced by the amount of those costs. In any year in which earnings on those accounts are not sufficient to recover those costs, employer contribution accounts will be reduced by the amount of those costs.

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

Stats. Implemented: ORS 238.610(1)(b)

900 S.E.Douglas Avenue
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City of Roseburg

JUL 07 2014

July 2, 2014

PERS Board
Public Employees Retirement System
P.O. Box 23700
Tigard, OR 97281-3700

Subject: Rulemaking GASB 68

Dear Chair Thomas and Board Members,

On behalf of public employers throughout the State of Oregon, please consider this letter of support for PERS' response to our requests for statutory authority to allow PERS to provide audit information required by GASB 68, and also for your efforts around the current rulemaking process. We have reviewed the proposed rule (included as an addendum hereto) and the listed individuals/organizations support the proposed rule as written and would like to be entered into the record as such.

Each of us will be responsible for reporting information in accordance GASB 68 over the next few years, and it would not be practical or cost affective to generate this information by jurisdiction on an individual basis.

We would like to thank staff and the Legislative Advisory Committee for their support during the last legislative session during which PERS was granted the authority to consider this action and to develop the rules which will allow for the efficient production of necessary information for each entity to comply with reporting requirements.

Again, we would like to thank the Board and Staff for helping PERS and all public employers subject to GASB 68 with this issue and we look forward to working together in the future to resolve issues of concern for all of us who work in and with the retirement system.

Thank you,

C. Lance Colley
City Manager, City of Roseburg

cc: Paul Cleary, Steve Rodeman and Debra Hembree

Addendum:

OREGON ADMINISTRATIVE RULE PUBLIC EMPLOYEES RETIREMENT BOARD CHAPTER 459 DIVISION 007 – EARNINGS AND INTEREST DISTRIBUTION

459-007-0009

Allocating Costs of Compliance with GASB 68

(1) Pursuant to ORS 238.610(1)(b), this rule establishes the procedure for recovering administrative costs from participating public employers for providing to those employers information or services needed to report in compliance with generally accepted accounting principles.

(2) PERS will provide employers with audited pension financial data each year to comply with the Government Accounting and Standards Board (GASB) standard for reporting public pension liabilities (GASB 68).

(3) Prior to earnings crediting each year, PERS shall compile the actuarial, auditing, and internal staff costs of providing the audited pension financial data it will provide to employers for GASB 68. Earnings on employer contribution accounts shall be reduced by the amount of those costs. In any year in which earnings on those accounts are not sufficient to recover those costs, employer contribution accounts will be reduced by the amount of those costs.

(4) Nothing in this rule shall affect the crediting of earnings to other accounts and trusts as provided in OAR 459-007-0005.

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

Stats. Implemented: HB 4155 (2014 Regular Session)

Organization	Name	Title
Ashland School District	Greg Lecuyer	Business Manager
Beaverton School District	Claire Hertz	Chief Financial Officer
Bend Park & Recreation District	Lindsey Lombard	Finance Director
Benton County, Oregon	Mary Otley	Finance Director
Benton County Sheriff's Office	Leroy Fenn	Office Manager
Centennial School District	Rick Larson	Director of Business and Operations
City of Bend	Sharon Wojda	Interim Finance Director
City of Coos Bay	Susanne Baker	Finance Director
City of Corvallis	Nancy Brewer	Finance Director
City of Independence	Gloria Butsch David Clyne	Finance Director City Manager
City of Oregon City	Wyatt Parno	Finance Director
City of Phoenix, Oregon	Steve Weber	Finance Director
City of Pendleton	Linda Carter	Finance Director and City Treasurer
City of Portland	Jane Kingston	City Controller
City of Sherwood	Julie Blums	Finance Director
City of St. Helens	Jon Ellis	Finance Director
City of Tualatin	Don Hudson	Finance Director
City of Veneta	Shauna C. Hartz	Finance Director
City of Warrenton	Laurie Sawrey, CPA	Finance Director
City of Wilsonville	Gary Wallis	Former Finance Director
City of Wood Village	Peggy Minter William Peterson	Finance Director City Administrator
Clackamas County	Marc Gonzales	Director, Department of Finance
Clackamas ESD	Tim Witcher	Chief Financial Officer
Clatsop County	Monica Steele	Deputy Budget & Finance Director
Colton School District #53	Tami Zigler	Business Manager/Payroll
Columbia County	Jennifer Cueller	Treasurer and Director of Finance and Taxation
Corbett Schools	Kristy Andrew	Business Manager
Corvallis School District 509J	Steve Nielsen	Director of Finance & Operations
Crook County School District	Anna Logan	Director of Business & Finance
Dallas School District	Tamira Montague	Business Manager
Dayton School District #8	Jan Bunn	Deputy Clerk/Business Manager
Douglas County Sch Dist 4	Cheryl Northam	Chief Operations Officer
Fern Ridge School District 28J	Olivia Meyers Buch	Business Manager
Gervais School District	Melissa Wolfer	Business Manager
Greater Albany Public School District	Russ Allen	Director of Business and Operations
Hermiston School District 8R	Dr. Fred Maiocco	Superintendent
High Desert Education District	John M. Rexford	Superintendent
Hillsboro School District 1J	Adam Stewart	Chief Financial Officer

Organization	Name	Title
Imbler School District	Teressa Dewey	Deputy Clerk
Jefferson County	Kathie Rohde	Finance Director
Josephine County	Arthur O'Hare	Finance Director
Klamath Falls City Schools	Pat Baldini	Business Manager
Knappa School District	Jeff Leo	Superintendent
La Grande School District	Chris Panike	Director of Business & Operations
Lane ESD, Crow-Applegate-Lorane SD, Marcola SD, Lowel SD	Dave Standridge	Director of Business Services
McMinnville School District	Susan Escure	Finance Director
McMinnville Water & Light	Mark R. Carlton	Finance Director
Molalla River School District	Richard A. Gill	Business Manager
Multnomah County	Mark Campbell	Chief Financial Officer
Multnomah Education Service District	Rose Schaefer	Director of Business Services
Municipal Auditor License #0689	Tom Davidson	CPA
Neah-Kah-Nie School District No. 56	Mark Sybouts	Business Manager
North Bend School District	Sherri O'Connor	Business Manager
North Clackamas School District	Diane Larson	Executive Director Budget and Finance
North Santiam School District	Jane Nofziger	Business Director
Oregon Municipal Finance Officer Association	Anne Baker	President
Oregon School Board Associations	Michael Robison	Director of Finance
Parkrose School District #3	Mary Larson	Director of Business Services and Finances
Port Orford-Langlois School District 2CJ	Brenda Culley	Business Manager
Portland Public Schools	David Wynde	Deputy CFO & Budget Director
Rainier School District #13	R. Michael Carter Elisabeth Guisinger	Superintendent Business Manager
Redmond School District	Kathy Steinert	Director of Fiscal Services
Salem-Keizer Public Schools	Michael Wolfe	Chief Operations Officer
Seal Rock Water District	Jocelyn S King	Office Manager
Silver Falls School District	Scott B. Pillar	Business Manager
Sisters School District	Sandy Tartaglia	Business Manager
South Suburban Sanitary District	Cindy Oden	Director of Administrative Services
South Umpqua School District	Chris Davidson	Business Manager
South Wasco County School District #1	Charlotte Hawkins	Deputy Clerk
Sweet Home School District	Kevin Strong	Business Manager
Tillamook School District #9	Shannon Farrier	Finance Director
Washington County	Roger Dawes	Controller
Washington County	Mary Gruss	Chief Finance Officer
West Linn-Wilsonville School District	Doug Middlestetter	CPA
Yamhill-Carlton School District	Carolyn Gray	Business Manager

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July 25, 2014

TO: Members of the PERS Board

FROM: Steven Patrick Rodeman, Deputy Director

SUBJECT: Adoption of Federal Tax Reconnect Rule
OAR 459-080-0250, *IAP Account Installments*

OVERVIEW

- Action: Adopt modifications to the Federal Tax Reconnect Rule.
- Reason: Updates OAR connection date to federal Internal Revenue Code and other provisions of federal tax law.
- Policy Issue: No policy issues were identified.

BACKGROUND

House Bill 4003 (2014 Regular Session) updated the connection date to the Internal Revenue Code and other provisions of federal tax law. In the bill, all the references to title 26 of the U.S. code have been updated to “as in effect on December 31, 2013.” OAR 459-080-0250 regarding IAP account installments currently states “any distribution will be adjusted to comply with the required minimum distribution requirements of 26 U.S.C. 401(a)(9) and regulations implementing that section, as in effect August 29, 2003.” The proposed rule modification updates the effective date to December 31, 2013.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held on June 17, 2014 at 2:00 p.m. at PERS headquarters in Tigard. No members of the public attended. The public comment period ended on July 3, 2014 at 5:00 p.m. No public comment was received.

LEGAL REVIEW

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

IMPACT

Mandatory: Yes, the rule should be modified to accommodate the provisions of HB 4003.

Impact: Stakeholders will benefit from the rule’s clarification and implementation of the statutory provisions.

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

RULEMAKING TIMELINE

April 15, 2014	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
May 1, 2014	*Oregon Bulletin* published the Notice. Notice was sent to employers, legislators, and interested parties. Public comment period began.
May 30, 2014	PERS Board notified that staff began the rulemaking process.
June 17, 2014	Rulemaking hearing held at 2:00 p.m. at PERS in Tigard.
July 3, 2014	Public comment period ended at 5:00 p.m.
July 25, 2014	Board may adopt the permanent rule.

BOARD OPTIONS

The Board may:

1. Pass a motion to "adopt modifications to Federal Tax Reconnect rule, as presented."
2. Direct staff to make other changes to the rule or explore other options.

STAFF RECOMMENDATION

Staff recommends the Board choose Option #1.

- Reason: Updates OAR connection date to federal Internal Revenue Code and other provisions of federal tax law.

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

B.4. Attachment 1 – 459-080-0250, *Membership*

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

459-080-0250

IAP Account Installments

(1) Definitions.

(a) “Anniversary date” means the first of the month after the date of distribution of the first installment payment.

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

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

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

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

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

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

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

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

(5) Notwithstanding the Payout Period selected by the member under section (2) of this rule, any distribution will be adjusted to comply with the required minimum distribution requirements of 26 U.S.C. 401(a)(9) and regulations implementing that section, as in effect *[August 29, 2003]* **on December 31, 2013**.

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

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

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

Stat. Auth.: ORS 238A.450

Stats. Implemented: ORS 238A.400

Oregon

John A. Kitzhaber, M.D., Governor

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July 25, 2014

TO: Members of the PERS Board

FROM: Steven Patrick Rodeman, Deputy Director

SUBJECT: Adoption of Oregon Savings Growth Plan (OSGP) rules:
OAR 459-050-0025, *Deferred Compensation Advisory Committee*
OAR 459-050-0037, *Trading Restrictions*
OAR 459-050-0075, *Distributions During Employment*
OAR 459-050-0077, *Loan Program*

OVERVIEW

- Action: Adopt modifications to the OSGP rules.
- Reason: Update the rules to reflect proposed improvements in the program.
- Policy Issue: No policy issues were identified.

SUMMARY OF RULE PROVISIONS

OAR 459-0050-0025, *Deferred Compensation Advisory Committee*, establishes criteria to select advisory committee members for OSGP and describes the duties and tenure of those committee members. Currently, the rule requires that four of PERS' executives or managers, designated by the PERS Executive Director, shall review applications of potential advisory committee members. It is sometimes difficult to find four managers who have: 1) not been on a previous panel, and 2) have the time to serve on the committee. Therefore, to make the process more efficient, the rule would be amended to require just two managers instead of four to review the applications along with the Deferred Compensation Program Manager.

On January 12, 2007, OAR 459-050-0037, *Trading Restrictions*, was approved by the PERS Board to implement trading restrictions in the OSGP. This rule provides authority to prevent frequent trading which can have a negative effect on other participants in the plan, and also provides an equity wash for the Stable Value option, a requirement of the Stable Value provider. At its November 21, 2008 meeting, the Board approved revisions to the rule that removed the 90-day holding restriction on the funds, with the exception of the International Stock Option, where the 90 day restriction was decreased to 30 days. The $100,000 trade limit and the restrictions on the Stable Value Option were not changed. Another revision was adopted on July 29, 2011, to add the Self-Directed Brokerage Account to the restrictions on the Stable Value Fund.

OSGP was recently advised by Galliard Capital Management, the stable value manager, that restrictions were no longer required on trades from the Stable Value Fund directly to the Intermediate Bond Fund. Therefore, these rule modifications would remove that restriction. The restrictions on trades directly to the Short Term Fixed Option and Self-Directed Brokerage Account would remain in place.

When OAR 459-050-0075, *Distributions During Employment*, was revised to add the trustee-to-trustee transfers for the purpose of purchasing service time, funds from the Roth 457 were not included as that investment option had just been added and management wasn't sure if after-tax funds would be appropriate for these transfers. After some further research, including talking to other governmental plans, we recommend adding the Roth funds as potential sources for these service purchases.

OAR 459-050-0077, *Loan Program,* was adopted in 2007 to establish eligibility and processes for participants in OSGP to obtain a loan. As the loan is repaid, the loan payments are deposited back into the participant's account. When the rule was adopted, the Short Term Fixed Account was chosen as a default investment fund for these loan payments when the participant had not otherwise made an allocation. At that time, the Short Term Fixed was earning 4.94 percent for the year. However, over the years, that fund has been running in the negative (-0.15 percent in 2013). To prevent any losses to the payments being re-invested, a better choice would be the Stable Value Option, which has had positive earnings over the years (1.34 percent in 2013). The rule modification changes that default allocation.

SUMMARY OF MODIFICATIONS TO RULES SINCE NOTICE

No modifications were made to the rules.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held on June 17, 2014 at 2:00 p.m. at PERS headquarters in Tigard. No members of the public attended. The public comment period ended on July 3, 2014 at 5:00 p.m. No public comment was received.

LEGAL REVIEW

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

IMPACT

Mandatory: No.

Impact: Housekeeping edits to improve administration of the OSGP for members and staff.

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

RULEMAKING TIMELINE

April 15, 2014	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
May 1, 2014	*Oregon Bulletin* published the Notice. Notice was sent to employers, legislators, and interested parties. Public comment period began.

May 30, 2014	PERS Board notified that staff began the rulemaking process.
June 17, 2014	Rulemaking hearing held at 2:00 p.m. at PERS in Tigard.
July 3, 2014	Public comment period ended at 5:00 p.m.
July 25, 2014	Board may adopt the permanent rule modifications.

BOARD OPTIONS

The Board may:

1. Pass a motion to "adopt modifications to the OSGP rules, as presented."
2. Direct staff to make other changes to the rules or explore other options.

STAFF RECOMMENDATION

Staff recommends the Board choose Option #1.

- Reason: Update the rules to reflect proposed improvements in the program.

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.5. Attachment 1 - OAR 459-050-0025, *Deferred Compensation Advisory Committee*
B.5. Attachment 2 - OAR 459-050-0037, *Trading Restrictions*
B.5. Attachment 3 - OAR 459-050-0075, *Distributions During Employment*
B.5. Attachment 4 - OAR 459-050-0077, *Loan Program*

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

459-050-0025

Deferred Compensation Advisory Committee

(1) The seven members of the Deferred Compensation Advisory Committee provided for under ORS 243.505, shall be subject to the following qualifications and limitations:

(a) Each member shall be a participant in a deferred compensation plan established under ORS 243.401 to 243.507, and shall have knowledge of the Program.

(b) Four members shall be participants in the state deferred compensation plan.

(c) Two members shall be participants in a local government deferred compensation plan.

(d) One member shall be a retired deferred compensation plan participant.

(e) No two members may be employed by the same state agency or local government except that a member who transfers employment to the employer of another member may continue to serve on the Advisory Committee, but only for the balance of the term of appointment of the transferring member.

(f) No member may serve more than two consecutive full terms.

(g) No member may be an employee of PERS during the term of appointment.

(2) The Advisory Committee shall study and advise the Board on all aspects of the Program, including but not limited to:

(a) The Program fee structure and procedures;

(b) State and federal legislative issues relative to the administration of deferred compensation plans;

(c) The administration of the catch-up and the financial hardship provisions in Section 457 of the Internal Revenue Code;

(d) Ways and means to inform and educate eligible employees about the Program;

(e) The expressed desires of eligible employees as to the Program; and

(f) The actuarial characteristics of eligible employees.

(3) Upon the request of the OIC, the Advisory Committee shall study and advise the Board on the following:

(a) Investment programs, including options and providers; and

(b) Information furnished by the OIC or the State Treasurer concerning the types of available investments, the respective balance of risk and return of each investment, and the administrative costs associated with each investment.

(4) The Advisory Committee shall meet at least four times during a calendar year.

(5) A majority of the Advisory Committee shall constitute a quorum for transacting business. However, the Advisory Committee may establish such other procedures for conducting business that it deems necessary.

(6) Pursuant to the Public Meetings Law, ORS 192.610 to 192.690, the Deferred Compensation Manager shall distribute to the Advisory Committee, and other interested parties, an agenda for a regular meeting a reasonable time prior to the meeting.

(7) Nominations of candidates for the Advisory Committee shall be made as follows:

(a) Notice of a position on the Advisory Committee expected to become vacant upon the expiration of a term of appointment shall be published not later than April 15 of each calendar year.

(b) Persons interested in serving on the Advisory Committee must apply in writing to the Manager not later than May 15 following the publication of a vacancy.

(c) The Manager shall review the written applications of interested persons for completeness, accuracy, and satisfaction of the minimum requirements of the vacant position on the Advisory Committee.

(d) A committee consisting of the Manager and *[four]* **two** members of PERS executive or managerial staff designated by the PERS Executive Director shall review the acceptable applications and recommend to the Board candidates for appointment to the Advisory Committee that:

(A) Reflect a cross section of state agencies, participating local governments, and classification levels;

(B) Reflect a mixture of expertise, knowledge, and experience useful to the Advisory Committee;

(C) Appear to have a sincere interest in the Program; and

(D) Appear to be willing and able to work in a group setting to review and recommend policies governing the Program.

(e) In the event of a vacancy for an unexpired term, the Manager may select applications from the most recent list of interested persons established under subsection (c) of this section and the applications of other persons as deemed appropriate for consideration. A committee consisting of the Manager and *[four]* **two** members of PERS executive or managerial staff designated by the PERS Executive Director shall review the selected applications and recommend to the Board candidates for appointment to the Advisory Committee. The appointment shall be immediately effective for the remainder of the unexpired term. If no candidate is recommended or appointed, the vacancy must be filled under the provisions of subsections (a) through (d) of this section.

Stat. Auth.: ORS 243.470

Stats. Implemented: ORS 243.505

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

459-050-0037

Trading Restrictions

The purpose of this rule is to establish criteria under which a participant may make trades in the Deferred Compensation Program. The Program is designed for long-term investment and periodic adjustment of asset allocation. Restrictions upon trades are necessary to protect participants and the Program from adverse financial impact attributable to frequent trading. Frequent trading by some participants can lower returns and increase transaction costs for all participants. Frequent trading can trigger the imposition of redemption fees and restrictions by mutual funds within the Program and may cause the Program to be eliminated as an allowable investor in an investment fund.

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

(a) “Investment Option” means an investment alternative made available under ORS 243.421.

(b) “Trade” means a purchase or redemption in an investment option for the purpose of moving monies between investment options.

(2) Restrictions.

(a) The following restrictions apply to all participants:

(A) A participant may not make a trade that exceeds $100,000.

(B) A purchase that is attributable to a trade may not be redeemed from the International Stock Option for a period of 30 days following the date of the trade.

(C) No trade may move monies directly from the Stable Value Option to the Short-Term Fixed Income Option*[, the Intermediate Bond Option,]* or the Self-Directed Brokerage Option.

(b) Trades to the Self-Directed Brokerage Option are subject to subsection (a) of this section and the limitations established in OAR 459-050-0120.

(3) The Deferred Compensation Manager, if necessary to comply with trading restrictions imposed by a participating mutual fund or the Securities and Exchange Commission, may establish additional temporary trading restrictions.

(4) The Deferred Compensation Manager, in the event of extraordinary market conditions, may temporarily suspend any or all trading restrictions established by this rule.

(5) Any action taken by the Deferred Compensation Manager under sections (3) or (4) of this rule must be presented to the Board at its next scheduled meeting. The Board may take action as authorized by ORS 243.401 to 243.507. If the Board does not act, the action(s) taken by the Deferred Compensation Manager shall expire on the first business day following the date of the meeting.

(6) The provisions of this rule are not applicable to trades attributable to the operation of an automatic account rebalancing function offered by the Program.

(7) The trading restrictions provided in this rule are not exclusive. The Board may establish additional restrictions or sanctions as authorized by ORS 243.401 to 243.507.

Stat. Auth.: ORS 243.470

Stats. Implemented: ORS 243.401 - 243.507

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

459-050-0075

Distributions During Employment

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

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

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

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

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

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

(2) Unforeseeable emergency withdrawal. An unforeseeable emergency withdrawal is an in-service distribution made to a participant due to an unforeseeable emergency. This withdrawal may be made before the date a participant has a severance of

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

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

(4) Trustee-to-Trustee Transfers. A Trustee-to-Trustee Transfer for the purpose of purchasing permissive service credit as described in Code Section 415(n) or a Trustee-to-Trustee Transfer that meets the requirements of 26 CFR 1.457.10(b)(4) may be made while a participant is still employed*[, except no Designated Roth Account balance may be transferred for the purpose of purchasing permissive service credit as described in Code Section 415(n)]*.

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

(6) Prohibitions on elective deferrals after an in-service distribution. A participant who receives a de minimis distribution, an unforeseeable emergency withdrawal, or a military distribution may not make elective deferrals and employee contributions to the Deferred Compensation Program for a period of six consecutive months from the date of distribution.

[Publications: Publications referenced are available from the agency.]

Stat. Auth: ORS 243.470

Stats. Implemented: ORS 243.401 - 243.507

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

459-050-0077

Loan Program

(1) Definitions. For purposes of this rule:

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

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

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

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

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

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

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

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

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

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

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

(4) Loan Types:

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

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

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

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

(7) Loan Limitations:

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

(A) $50,000; or

(B) One-half of the combined value of the participant's Deferred Compensation Account and the Designated Roth Account on the date the loan is made.

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

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

(d) A participant who has received a loan may not apply for another loan until 12 months from the date the previous loan was paid in full.

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

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

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

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

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

(a) Loan payments must be made by payroll deduction. To receive a loan from the Program a participant must enter into a payroll deduction agreement. For the purposes of this rule, a promissory note or other document that includes the payroll deduction amount and is signed by a participant as a requirement to obtain a loan may be a payroll deduction agreement. Except as provided in this rule, a participant may not submit a loan payment directly to the Program or the Third Party Administrator.

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

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

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

(e) Loan payments will be allocated in a participant's account(s) in the same manner as the participant's current contribution allocation. If, for any reason, the allocation is not known, the payment will be allocated to the *[Short-Term Fixed Income]* **Stable Value Option**.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(11) Tax Reporting.

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

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

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

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

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

(12) Default.

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

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

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

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

Stat. Auth.: ORS 243.470

Stats. Implemented: ORS 243.401 - 243.507

Oregon

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July 25, 2014

TO: Members of the PERS Board

FROM: Steven Patrick Rodeman, Deputy Director

SUBJECT: Adoption of Disability Housekeeping Rules:
OAR 459-015-0010, *Criteria for Granting and Denying Disability Retirement Allowances*
OAR 459-076-0010, *Criteria for Granting and Denying Disability Benefits*

OVERVIEW

- Action: Adopt housekeeping modifications to Disability rules.
- Reason: Clean up errors in the original drafting and improve the rules' utility.
- Policy Issue: No policy issues have been identified at this time.

BACKGROUND

A review of our Oregon Administrative Rules pertaining to the administration of the Tier One/Tier Two disability program (Division 15) and the disability benefit paid under the OPSRP Pension Program (Division 76) revealed the need for some cleanup. For example, OAR 459-076-0010 of the OPSRP disability rules, adopted in 2005, contains an error in (4)(b) to incorrectly require either an "orthopedic specialist or neurosurgeon;" the proposed edits delete the erroneous phrase "or neurosurgeon." Also, OAR 459-015-0010(6) and sections (2) and (6) of OAR 459-076-0010 that deal with denying an application clarify the reasons that could be used for a denial. Other minor edits were made to the rules to improve readability and update citations.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held on June 17, 2014 at 2:00 p.m. at PERS headquarters in Tigard. No members of the public attended. The public comment period ended on July 3, 2014 at 5:00 p.m. No public comment was received.

LEGAL REVIEW

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

IMPACT

Mandatory: No.

Impact: Members, employers, stakeholders, and staff will benefit from clear and consistent disability rules.

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

RULEMAKING TIMELINE

April 15, 2014	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
May 1, 2014	*Oregon Bulletin* published the Notice. Notice was sent to employers, legislators, and interested parties. Public comment period began.
May 30, 2014	PERS Board notified that staff began the rulemaking process.
June 17, 2014	Rulemaking hearing held at 2:00 p.m. at PERS in Tigard.
July 3, 2014	Public comment period ended at 5:00 p.m.
July 25, 2014	Board may adopt the permanent rules.

BOARD OPTIONS

The Board may:

1. Pass a motion to "adopt modifications to the Disability Housekeeping rules, as presented."
2. Direct staff to make other changes to the rule or explore other options.

STAFF RECOMMENDATION

Staff recommends the Board choose Option #1.

- Reason: Housekeeping edits to disability rules.

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.6. Attachment 1 – 459-015-0010, *Criteria for Granting and Denying Disability Retirement Allowances*
B.6. Attachment 2 – 459-076-0010, *Criteria for Granting and Denying Disability Benefits*

OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 015 – DISABILITY RETIREMENT ALLOWANCES

459-015-0010

Criteria for Granting and Denying Disability Retirement Allowances

(1) Medical documentation is required by PERS. Each disability retirement applicant shall supply any treating or consulting physician’s examination report or other medical information requested by PERS. PERS may base its determination on either a treating or consulting physician’s medical examination report or have the applicant examined by one or more physicians selected by PERS, or both.

(2) All claims of a disability must be supported by at least one physician’s report, resulting from a physical examination, documenting how the injury or disease incapacitates the member.

(3) In addition, a disability retirement applicant shall be required to furnish the following:

(a) For claims of mental or emotional disorder, at least one report of examination by a psychiatrist or at least one report of evaluation by **a** psychologist when accompanied by a report of physical examination by a treating or consulting physician;

(b) For claims of orthopedic injury or disease, at least one report of a treating or consulting orthopedic specialist;

(c) For claims of neurological or neurosurgical injury or disease, at least one report of **a** treating or consulting neurologist or neurosurgeon;

(d) For claims of fibromyalgia, at least one report of a treating or consulting rheumatologist; and

(e) Any other specialized physician’s report that PERS deems necessary.

(4) To demonstrate that he or she is unable to perform any work for which qualified, as defined in OAR 459-015-0001(1), the applicant shall document how the injury or disease incapacitates the

applicant. The standard is subjective (that is, whether the applicant is actually incapacitated) not objective (that is, whether a “normal” member would have been incapacitated by the same events).

(a) In determining what work for which a member is qualified, the following factors shall be considered:

(A) Previous employment experience;

(B) Formal education;

(C) Formal training;

(D) Transferable skills;

(E) Age; and

(F) Physical or mental impairment.

(b) In determining what work for which a member is qualified, PERS may request, at PERS**’** expense, a vocational evaluation be done by a vocational consultant who is fully certified as set forth in OAR 459-015-0001(2)*[(a) or (b)]*.

(c) The inability of the applicant to perform the duties of his or her last job, in itself**,** does not satisfy the criterion.

(5) When there is a dispute among medical experts, more weight will be given to those medical opinions that are both well**-**reasoned and based on complete information.

(6) The Board may deny any application or discontinue any disability retirement allowance if an applicant**:**

(a) *[r]***R**efuses to submit to an independent medical or vocational examination*[.]***; or**

(b) Refuses to submit to any medical examination or supply a completed application or review form.

Stat. Auth.: ORS 238.650

Stats. Implemented: ORS 238.320 & 238.335

OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 076 – OPSRP DISABILITY BENEFIT

459-076-0010

Criteria for Granting and Denying Disability Benefits

(1) Medical documentation is required by PERS. Each disability benefit applicant shall supply any treating or consulting physician's examination report or other medical information requested by PERS. PERS may base its determination on either a treating or consulting physician's medical examination report or have the applicant examined by one or more physicians selected by PERS, or both.

[(2) The Board may deny any application or discontinue any disability benefit in the case of any person who refuses to submit to any medical examination or supply a completed application or review form.]

*[(3)]***(2)** All claims of a disability must be supported by at least one physician's report, resulting from a physical examination**,** documenting how the injury or disease incapacitates the member.

*[(4)]***(3)** In addition, a disability benefit applicant shall be required to furnish the following:

(a) For claims of mental or emotional disorder, at least one report of examination by a psychiatrist or at least one report of evaluation by **a** psychologist when accompanied by a report of physical examination by a treating or consulting physician;

(b) For claims of orthopedic injury or disease, at least one report of a treating or consulting orthopedic specialist *[or neurosurgeon]*;

(c) For claims of neurological or neurosurgical injury or disease, at least one report of **a** treating or consulting neurologist or neurosurgeon;

(d) For claims of fibromyalgia, at least one report of a treating or consulting rheumatologist; and

(e) Any other specialized physician's report PERS deems necessary.

*[(5)]***(4)** To demonstrate that he or she is unable to perform any work for which qualified, as defined in OAR 459-076-0001(1), the applicant shall document how the injury or disease incapacitates the applicant. The standard is subjective (that is, whether the applicant is actually incapacitated) not objective (that is, whether a "normal" member would have been incapacitated by the same events).

(a) In determining what work for which a member is qualified, the following factors shall be considered:

(A) Previous employment experience;

(B) Formal education;

(C) Formal training;

(D) Transferable skills;

(E) Age; and

(F) Physical or mental impairment.

(b) In determining what work for which a member is qualified, PERS may request, at PERS**'** expense, a vocational evaluation be done by a vocational consultant who is fully certified as set forth in OAR 459-076-0001(2).

(c) The inability of the applicant to perform the duties of his or her last job, in itself, does not satisfy the criterion.

*[(6)]***(5)** When there is a dispute among medical experts, more weight will be given to those medical opinions that are both well-reasoned and based on complete information.

*[(7)]***(6)** The Board may deny any application or discontinue any disability benefit if an applicant**:**

(a) *[r]* **R**efuses to submit to an independent medical or vocational examination*[.]***; or**

(b) Refuses to submit to any medical examination or supply a completed application or review form.

Stat. Auth.: ORS 238A.450

Stats. Implemented: ORS 238A.235

Oregon

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July 25, 2014

TO: Members of the PERS Board

FROM: Steven Patrick Rodeman, Deputy Director

SUBJECT: Adoption of Selection of Preliminary Disability Benefit Option Rule:
OAR 459-015-0055, *Selection of Benefit Option and Commencement of Allowance*

OVERVIEW

- Action: Adopt modifications to the Disability Benefit Option Rule.
- Reason: Simplify the disability preliminary benefit options available upon the member's filing of a preliminary application.
- Policy Issue: No policy issues have been identified at this time.

BACKGROUND

PERS Tier One/Tier Two Program members who apply for a disability retirement are asked to complete a preliminary benefit option selection form. That form documents the member's retirement option selection in the event that the member dies before their application is approved. If the member had not made that selection, they would be considered to have died before retirement, therefore providing their beneficiary only with a death benefit under ORS 238.390 or 238.395 instead of them being considering the survivor beneficiary of a disability retirement.

The Option 1 benefit pays a monthly retirement allowance only for the member's lifetime; upon death, no benefit is paid to any beneficiary. The proposed rule modification is to remove Option 1 as a preliminary option selection as, if it was selected, it provides no protection for a beneficiary should the member die before their disability retirement is approved. Upon approval of a disability claim, a disabled member may select Option 1 as their final benefit option using a disability benefit application form with the benefit option approved by spousal consent.

SUMMARY OF MODIFICATIONS TO RULE SINCE NOTICE

No modifications were made to the rule.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held on June 17, 2014 at 2:00 p.m. at PERS headquarters in Tigard. No members of the public attended. The public comment period ended on July 3, 2014 at 5:00 p.m. No public comment was received.

LEGAL REVIEW

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

IMPACT

Mandatory: No.

Impact: Members and staff will benefit from clear and consistent rules that clarify the administration of disability benefits.

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

RULEMAKING TIMELINE

April 15, 2014	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
May 1, 2014	*Oregon Bulletin* published the Notice. Notice was sent to employers, legislators, and interested parties. Public comment period began.
May 30, 2014	PERS Board notified that staff began the rulemaking process.
June 17, 2014	Rulemaking hearing held at 2:00 p.m. at PERS in Tigard.
July 3, 2014	Public comment period ended at 5:00 p.m.
July 25, 2014	Board may adopt the permanent rule.

BOARD OPTIONS

The Board may:

1. Pass a motion to “adopt modifications to Selection of Preliminary Disability Benefit Option rule, as presented.”
2. Direct staff to make other changes to the rule or explore other options.

STAFF RECOMMENDATION

Staff recommends the Board choose Option #1.

- Reason: Simplify the disability preliminary benefit options available upon the member’s filing of a preliminary application.

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.7. Attachment 1 – 459-015-0055, *Selection of Benefit Option of Commencement of Allowance*

OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 015 – DISABILITY RETIREMENT ALLOWANCES

459-015-0055

Selection of Benefit Option and Commencement of Allowance

(1) Upon filing an application for a disability retirement allowance, the member may make a preliminary designation of beneficiary and a preliminary selection of benefit option.

[(a) A member may choose from retirement Options 1, 2, 2A, 3, 3A, 15 year certain or refund annuity as set forth in ORS 238.300 and 238.305, or an optional disability retirement allowance under ORS 238.325.]

[(b)] A member may not choose a lump-sum option.

(2) Within 90 days following the Director's, or the Director's designee's, approval of the application for disability retirement allowance, the member must submit a disability benefit application provided by PERS. Receipt of the final forms will supersede any preliminary beneficiary designation or **preliminary** benefit option.

(a) The final option selected applies only to the corresponding time period the member is receiving a disability retirement allowance.

(b) The beneficiary designation or benefit option may be changed up to 60 days after the date of the first actual (not estimated) benefit payment as provided in ORS 238.325(2). The beneficiary or benefit option change will be retroactive to the effective disability retirement date.

(c) If a member's disability retirement allowance is canceled before the first benefit payment or is discontinued, the option selected for the purposes of that disability retirement allowance is canceled and a new option may be selected upon a subsequent disability or service retirement.

(3) If the member does not submit a disability benefit application within 90 days following the Director's, or the Director's designee's, approval of the application for disability retirement allowance:

(a) The benefit will be the benefit as set forth under ORS 238.320(1) if the member is single, or the benefit as set forth under ORS 238.462 if the member is married; and

(b) For single members, the latest beneficiary designation on file for the PERS Chapter 238 Program will be used to determine the default beneficiary. If no designation exists, the beneficiary will be as provided for under ORS 238.390(2).

(c) The payment will commence within a reasonable period of time following the 90th day after approval.

(4) Purchases. If a member is eligible to make a purchase to restore creditable service or obtain retirement credit under ORS Chapter 238 or section 2, chapter 971, Oregon Laws 1999, the member must submit payment for the purchase(s) no later than the earlier of:

(a) 90 days following the date of the Director's, or the Director's designee's, approval of the application for disability retirement allowance; or

(b) The date the member submits the final disability benefit application required under section (2) of this rule.

(5) If the member elects to purchase all or a portion of creditable service or retirement credit through a trustee-to-trustee transfer as described in OAR 459-005-0580, the transfer must be received within the time line in section (4) of this rule.

(6) The payment of a disability retirement allowance shall commence within 10 business days following receipt by PERS of all of the items in (a) and (b) of this section, or the date the first payment is due, as set forth in section (7) of this rule, whichever is later:

(a) From the member:

(A) Completed disability benefit application;

(B) Proof of member's age;

(C) Proof of age for the designated beneficiary if a joint survivor option is elected; and

(D) Certification of marital status form.

(b) From the employer: Financial and demographic information indicating the member has separated from PERS-covered employment.

(7) A disability benefit accrues from the effective date of disability retirement. Except as provided as in section (8) of this rule, the benefit accrued for a month of disability retirement is payable on the first of the following month.

(8) Notwithstanding section (7) of this rule, no payment shall be made before the end of the period of 90 consecutive days beginning with the date of disability and shall be retroactive to the effective date of disability retirement.

(9) If PERS cannot calculate the actual disability benefit payment, an estimated payment will be made until PERS receives all the necessary information needed to calculate the actual benefit payment. The payment will be made retroactive to the effective date of disability if the benefits become due before the 90 consecutive day period of incapacitation has elapsed.

(a) If the estimated payment results in an underpayment of $10 or more a month, the member will receive interest based on the provisions set forth in OAR 459-007-0015.

(b) If the estimated payment results in an overpayment of any amount, the overpayments may be recovered by decreasing the monthly benefit amount until the difference between the amount the member received and the amount the member should have received is recovered.

(10) Minimum disability benefit. A disability benefit will not be less than $100 per month under the non-refund Option 1 benefit or the amount the member would have received for service retirement, if eligible, whichever is higher.

(11) In the event a member applying for a disability retirement allowance dies before the Director's approval of the application:

(a)(A) If the member has made a preliminary benefit option election, the preliminary election shall be effective upon the Director's approval of the application for disability retirement.

(B) If the deceased member was eligible to purchase additional creditable service or retirement credit under ORS Chapter 238, the beneficiary, if any, designated in the preliminary election may make the purchase(s) by submitting the required forms and payment within 90 days from the date the disability application is approved.

(b) If the member has not made a preliminary benefit option election, the member will be considered as having died before retirement.

(A) If the beneficiary designated under ORS 238.390(1) is the surviving spouse, the surviving spouse may, within 90 days from the date the disability application is approved, elect to have either Option 2 or 3 disability benefits or pre-retirement death benefits, as provided in ORS 238.390 or 238.395, if eligible.

(i) Regardless of the election made by the surviving spouse under paragraph (b)(A) of this section, all benefits will cease upon the surviving spouse's death.

(ii) If the deceased member was eligible to purchase additional creditable service or retirement credit under ORS Chapter 238, a surviving spouse who elects disability benefits under paragraph (b)(A) of this section, may make the purchase(s) by submitting the required forms and payment at the time of the election.

(B) If the beneficiary designated under ORS 238.390(1) is not the surviving spouse, the beneficiary will receive pre-retirement death benefits as provided in ORS 238.390 or 238.395, if eligible.

Stat. Auth.: ORS 238.650

Stats. Implemented: ORS 238.320, 238.325 & 238.330

Oregon

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July 25, 2014

TO: Members of the PERS Board

FROM: Steven Patrick Rodeman, Deputy Director
Brian Harrington, Benefit Payments Division Administrator

SUBJECT: "Final Average Salary" Overpayment Recovery Options

OVERVIEW

- Action: Resolve the Tier Two and OPSRP retiree benefit overpayments that resulted from misapplying statutes governing "Final Average Salary."
- Reason: Responsibility for the benefit overpayments needs to be properly allocated.
- Policy Issue: How should the costs of misapplication of the "Final Average Salary" statute be allocated?

BACKGROUND

Internal Audit report No. 2013-06, originally presented at the July 26, 2013 Audit Committee meeting, identified that certain Tier Two and OPSRP full formula calculations were not made in accordance with an aspect of the "Final Average Salary" (FAS) statutes[1]. Specifically, salary that was paid before the first full pay period was not excluded from FAS in some cases, which resulted in Full Formula benefit calculations including 37 salary payments within the last 36 months of employment. This resulted in benefit overpayments to these affected members by including more than 36 salary payments over the last 36 months.

About 4,800 Tier Two and OPSRP potentially affected retired members currently receive a monthly payment and about 3,100 received a one-time payment. Not all of these members were miscalculated; based on our sampling, the incorrect method may have applied to about 50% of the cases. For those monthly payment members in our sampling who are being overpaid, the amount is approximately two percent of the gross monthly benefit. The typical Tier Two benefit payment in this group ranges from $789.20 per month for non-survivor options to $872.81 per month for those members with a survivor option; for OPSRP members, the range is $354.87 for non-survivor benefits to $370.38 for survivor benefit options.

In addition to the estimated 2,393 affected monthly benefit recipients, an estimated 1,553 affected members received a one-time payment (because their monthly benefit was projected to be less than $200 per month, so they received an actuarially equivalent one-time payment in lieu of monthly payments). The average Tier Two one-time payment was $12,674 with an average overpayment of $253 based on our sampling. The average OPSRP one-time payment was $5,657 with an average overpayment of $113 based on our sampling. As with the monthly benefits, the one-time overpayments are approximately two percent of the gross benefit.

[1] Note that calculation methods were changed for retirements effective November 1, 2013 and after to conform with the statute.

We estimate that the amount of overpayments that have already occurred totaled about $1,219,500 as of July 1, 2014. All of these projections are admittedly speculative, based on a limited sample of the actual population. We project that about $35,500 in overpayments occur each month (out of a total benefit amount of $1,775,000 paid to this population), or about $15 per affected recipient per month. Based on our projections and assumptions, the PERS actuary, Milliman, has estimated that the net present value of these overpayments paid to date and projected into the future totals $6.7 million as of July 1, 2014.

<u>POLICY ISSUE</u>:
How should the costs of misapplication of the "Final Average Salary" statute be allocated?

At present, the excess costs of the benefits overpaid to date, and those projected to be paid over the lifespan of the affected benefit recipients, have been borne by these members' employers as funds were transferred from their respective employer reserve accounts to the Benefits in Force Reserve (BIF), from which all benefit payments are made. In fairness, employers should not pay the costs for these overpayments as they were caused by PERS staff failing to correctly apply the statutory restrictions on FAS. These overpayments should either be repaid to the BIF after being recovered from the members, and the members' benefit reduced in the future to eliminate the overpayment, or the BIF should be "made whole" from another funding source, such as the Contingency Reserve, to cover the costs of these overpaid benefits.

To recover these costs from the members, PERS could design and implement a project to determine the exact amount overpaid to each member, adjust their ongoing benefit payments, and invoice the member for the accumulated overpayment. That project would require that the benefit calculations for some 4,800 Tier Two and OPSRP members who receive a monthly benefit, and some 3,100 Tier Two and OPSRP members who received a one-time payment, be reviewed to identify those cases where the FAS statute was not correctly applied. Then, each case would have to be reviewed to determine the amount of the overpayment that can be recovered, since PERS can by statute only recover overpayments within the six years prior to notifying the member that they have received an overpayment. Those still receiving a monthly benefit would have to be adjusted downward by about two percent, or $15 per month, and invoices would need to be generated for overpayments made to the point of that adjustment.

Such a project could take 17 months to complete, using 11 temporary employees to staff the project, at a projected cost of about $735,000. That does not include the costs of using existing staff to train these employees or to support the on-going collection processes to adjust payment plans and pursue unpaid balances on invoices. Nor, of course, can we quantify the intangible and reputational costs of adjusting the benefits and invoicing about 3,500 members once their corrected benefit is calculated.

Alternatively, the costs to make the BIF "whole" for these overpaid benefits could be covered through a transfer from the Contingency Reserve. If the projected net present value of these overpayments of $6.7 million was transferred from the Contingency Reserve to the BIF, then employers would recover the costs of these overpaid benefits when the BIF is allocated to each employer as part of the valuation process in calculating the assets available to fund that employer's liabilities.

A Contingency Reserve transfer such as this has some historical precedent. When the IAP was created in 2003, a different definition of “salary” was adopted to determine the amount that was subject to the 6% member contribution. Tier One and Tier Two members expected to make contributions on certain payments, such as lump sum vacation payouts, that were not included in the IAP “salary” definition. The law was changed in 2005 to retroactively restore the “salary” definition so contributions on those lump sum payments were due to PERS, but that left open the question of who should pay those contributions and their associated earnings. The PERS Board authorized the use of the Contingency Reserve to pay the contributions and earnings, instead of recovering those contributions and earnings from members and employers.

The cost of those contributions and earnings totaled about $4.8 million; at the time this approach was approved, the Contingency Reserve balance was around $250 million, so the transfer was about 2% of the total reserve. If this same method was used in this instance, the $6.7 million transfer would represent about 1% of the Contingency Reserve’s current balance of about $667 million.

RECOMMENDATION

Staff recommends the Board authorize a $6.7 million transfer from the Contingency Reserve to the Benefits in Force Reserve to recover the actual and projected benefit overpayment costs from the misapplication of the FAS statutes.

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July 25, 2014

TO: Members of the PERS Board

FROM: Steven Patrick Rodeman, Deputy Director
Kyle J. Knoll, Financial & Administrative Services Division Administrator

SUBJECT: 2015-17 Agency Request Budget

OVERVIEW

- Action: Approve PERS' 2015-17 Agency Request Budget (ARB).
- Reason: To complete and submit the ARB to the Department of Administrative Services/Chief Financial Office and the Legislative Fiscal Office by August 29, 2014.

2015-2017 STRATEGIC INITIATIVES and POLICY OPTION PACKAGES

By initiating its new management system in 2012, PERS began its evolution towards becoming an aligned, outcome-driven agency. The Fundamentals Map that was developed in the first phase of that implementation outlines the agency mission, shared vision, and core values and operating principles. Attached is the most recent version of our Fundamentals Map. The agency's core work is measured according to six key goals, identified on the map, and those goals are achieved through performance improvement across various Outcome and Process Measures that are also identified on the map.

Using these foundational elements of the management system, the agency's planning for the next biennium was predicated on a strategy to use the budget process to improve agency performance in targeted areas. Starting from our current baseline performance level (which is supported by the agency's Current Service Level budget), we identified particular business processes where performance can only be enhanced by adding resources (as process improvements and technology solutions have been leveraged as much as possible in these areas). These proposed Policy Option Packages (POPs) for the 2015-17 biennium are therefore connected to tactical, incremental strategies to maintain or improve performance in these processes; this set of POPs is targeted towards improvements in customer service metrics and strengthening our technology infrastructure. Without these POPs, performance would either have to stay at current levels or diminish in other areas as resources are diverted to these processes.

The agency's proposed POPs for the 2015-17 biennium are briefly summarized below; attached are more extensive summaries that will form the basis for the business cases that will be presented to the legislature when they consider these POPs in their 2015 session.

- CURRENT SERVICE METRICS STAFFING REQUESTS (POP 101)

To maintain service metrics in three areas, PERS is proposing the addition of six permanent positions as follows (with five actually being transitions of current positions):

Call Center Staff: Increased call volume in recent biennia dramatically decreased the "favorable outcomes" for members who do call (i.e., increases in wait times and abandonment rates, decreases in call quality and member satisfaction ratings). Adding four Retirement Counselor 1 Limited Duration positions to the call center in March 2014 restored service to more tolerable levels. This request is to transition those additional call agents from Limited Duration to Permanent status, to maintain those improved service levels.

Permanent Positions: 4 FTE

Personal Services Other Fund Limitation	$480,272
Services & Supplies Other Fund Limitation	$ 24,100
Capital Outlay Other Fund Limitation	$ 0
Total Other Fund Limitation	$504,372

Benefit Calculation Staff: OPSRP retirements are increasing each biennium as a percentage of total retirements. This request is for one permanent Retirement Counselor 2 position to assist with processing OPSRP retirements. This one new position, along with process and system improvements, will allow benefit payment metrics to be maintained with this growing workload.

Permanent Positions: 1 FTE

Personal Services Other Fund Limitation	$128,681
Services & Supplies Other Fund Limitation	$ 11,025
Capital Outlay Other Fund Limitation	$ 0
Total Other Fund Limitation	$139,706

PERS Custodial Staff: This request completes the transition of a full-time, day shift custodial and facility maintenance position from DAS to PERS. This agreement resulted from DAS' decision in August 2013 to provide custodial services only during business hours, which did not support our agency operations as an outward-facing, public service location requiring both day and night shift services.

Permanent Positions: 1 FTE

Personal Services Other Fund Limitation	$ 109,191
Services & Supplies Other Fund Limitation	$ (109,191)
Capital Outlay Other Fund Limitation	$ 0
Total Other Fund Limitation	$ 0

- FULLY INTEGRATING IAP INTO THE ORION SYSTEM – PHASE III (POP 102)

This proposal is to complete the remaining project elements in Phase III of transitioning all aspects of the Individual Account Program (IAP) to PERS' internal administration and eliminating use of an outside third-party administrator (TPA). Phase III of this request is for the resources necessary to refine stakeholder needs and document those processes that have to be integrated, construct the IAP functionality within the agency's benefit administration system (ORION), develop a project staging plan, and migrate to the new administrative platform. The budget request includes:

Limited Duration Positions: 3 FTE (IT analysts and programmers to augment the project team)

Personal Services Other Fund Limitation	$ 513,075
Services & Supplies Other Fund Limitation	$ 901,323
Capital Outlay Other Fund Limitation	$ 500,000
Total Other Fund Limitation	$1,914,398

- ENHANCED STAFFING FOR DATA VERIFICATION UNIT (POP 103)

When the data verification process was created in 2009, the legislature approved only six FTE[1] for the program. From July 1, 2011, (when data verifications first became available) to June 30, 2014, there were 2,859 data verification requests, for an average of 79 requests per month. Over that same period, the work unit has completed approximately 34 requests per month. A backlog has developed and members currently may wait for 18 months or more for PERS to complete a data verification request. The unit has a service metric of fulfilling 90% of data verification requests within six months, a goal it has never reached since the metric was established in January 2012 because it has never been adequately staffed to meet the demand.

The addition of seven Permanent staff to properly size the work unit based on this level of demand, and of eight Limited Duration staff to clear out the accumulated backlog of 873 requests, will allow PERS to meet the service metric established for this unit and improve other associated metrics including reduced number of estimated benefit payments and reduced customer service call volume and escalations. The budget request includes:

Permanent positions: 7 FTE
Limited Duration positions: 6.33 FTE (8 LD staff for 19 months, to clear the backlog)

Personal Services Other Fund Limitation	$ 1,718,472
Services & Supplies Oregon Fund Limitation	$ 155,334
Capital Outlay Oregon Fund Limitation	$ 0
Total Other Fund Limitation	$ 1,873,806

- TECHNOLOGY MAINTENANCE & ENHANCEMENTS (POP 104)

PERS has been administering its benefit programs on the jClarety platform, a system architecture that was designed and developed over a decade ago. Over time, technologies have changed, requirements for data volume and transactions have increased, and jClarety's limitations, flaws, and inefficiencies have emerged in its operation. Some jClarety code and integration components need to be updated to keep the system scalable, maintainable, and meet current industry standards. This proposal would fund contractors to augment existing staff to develop these architectural updates to jClarety to maintain system functionality and usefulness.

The system enhancement portion of this proposal covers the inception, elaboration, construction, testing, and deployment of enhancements to system functionality for specific areas in OPSRP that were not programmed in the original system design because it had to be implemented on a very accelerated schedule for the 2003 PERS reforms. In these areas, some functionality was left out or limited, and is now required to process accounts or to relieve staff from executing transactions using manual operations outside the system. The budget request includes:

[1] A management position was later eliminated to comply with the staff/manager ratio mandated in HB 4131.

Permanent Positions: 0 FTE

Services & Supplies Other Fund Limitation	$ 3,281,250
Capital Outlay Other Fund Limitation	$ 0
Total Other Fund Limitation	$ 3,281,250

- DISASTER RECOVERY INFRASTRUCTURE UPGRADES (POP 105)

The components of the PERS benefit administration technology systems, referred to collectively as the Oregon Retirement Information Online Network (ORION), include jClarety and various business service applications (e.g., FileNet document management, Microsoft Office tools, and various integration points with outside systems such as state accounting and payroll functions). The technology infrastructure that supports ORION needs to be upgraded in the following areas to enhance our ability to provide reliable services to our stakeholders:

Disaster Recovery: Given the key role PERS benefits play in our recipient's economic well-being and in Oregon's economy as a whole, we need to upgrade our Disaster Recovery and Business Continuity solutions with a target to resume critical business and infrastructure services within 48 hours of a localized event.

Permanent Positions: 0 FTE

Services & Supplies Other Fund Limitation	$ 329,000
Capital Outlay Other Fund Limitation	$ 552,000
Total Other Fund Limitation	$ 881,000

Virtual Desktop Environment: Approximately 400 desktop and laptop systems are distributed throughout the agency. This proposal replaces this hardware with a virtual desktop hosted in the data center, improving data security, reducing life-cycle replacement and other maintenance costs, and providing more efficient and flexible deployments of software upgrades agency-wide.

Permanent Positions: 0 FTE

Services & Supplies Other Fund Limitation	$ 156,200
Capital Outlay Other Fund Limitation	$ 373,500
Total Other Fund Limitation	$ 529,700

Single-Sign On: PERS uses a variety of business applications which require their own user account administration. From a user's perspective, this requires repetitive logins and maintenance of multiple usernames and passwords. In a disaster scenario, staff could connect more efficiently if they need only one username and password to access all their systems. Also, during normal operations, the various applications are not synchronized so user passwords are not aged in accordance with the PERS information security policy and protocols.

Permanent Positions: 0 FTE

Services & Supplies Other Fund Limitation	$ 70,000
Capital Outlay Other Fund Limitation	$ 100,500
Total Other Fund Limitation	$ 170,500

2015-17 AGENCY REQUEST BUDGET

The following table breaks down the Agency's Request Budget by its major components (Personal Services, Services & Supplies, and Capital Outlay) and shows the effect of the Policy Option Packages in those expenditure areas as compared to our current biennial budget:

	2013-15 Legislatively Approved Budget	2015-17 Current Service Level	POP 101 Current Svc Metrics Staffing	POP 102 Integrating IAP Admin Phase III	POP 103 Enhanced Staffing- Data Verification	POP 104 Technology Maintenance & Enhancements	POP 105 Disaster Recovery Infrastructure	2015-17 Agency Request Budget
Personal Services	$ 64,362,688	65,088,636	718,144	513,075	1,718,472	-	-	68,038,327
Services & Supplies	$ 21,009,989	22,679,999	(74,066)	901,323	155,334	3,281,250	555,200	27,499,040
Capital Outlay	$ 1,478,453	595,807	-	500,000	-		1,026,000	2,121,807
Total Limitation	$ 86,851,130	88,364,442	644,078	1,914,398	1,873,806	3,281,250	1,581,200	97,659,174
Positions	372	364	6	3	15	0	0	388
FTE	369.18	364.00	6.00	3.00	13.33	0.00	0.00	386.33

PERS BUDGET METRICS AND COMPARISONS

One way to view the "cost" of PERS administration is to compare the agency's annual operating budget to the net asset value of the PERS Fund. The following table shows the biennial budget as an annualized percentage of the Fund's value at the end of each biennium. Note that our annual operating budget has generally ranged from 6 to 9 basis points using that industry standard measurement approach.

PERS Budget/PERF Comparison

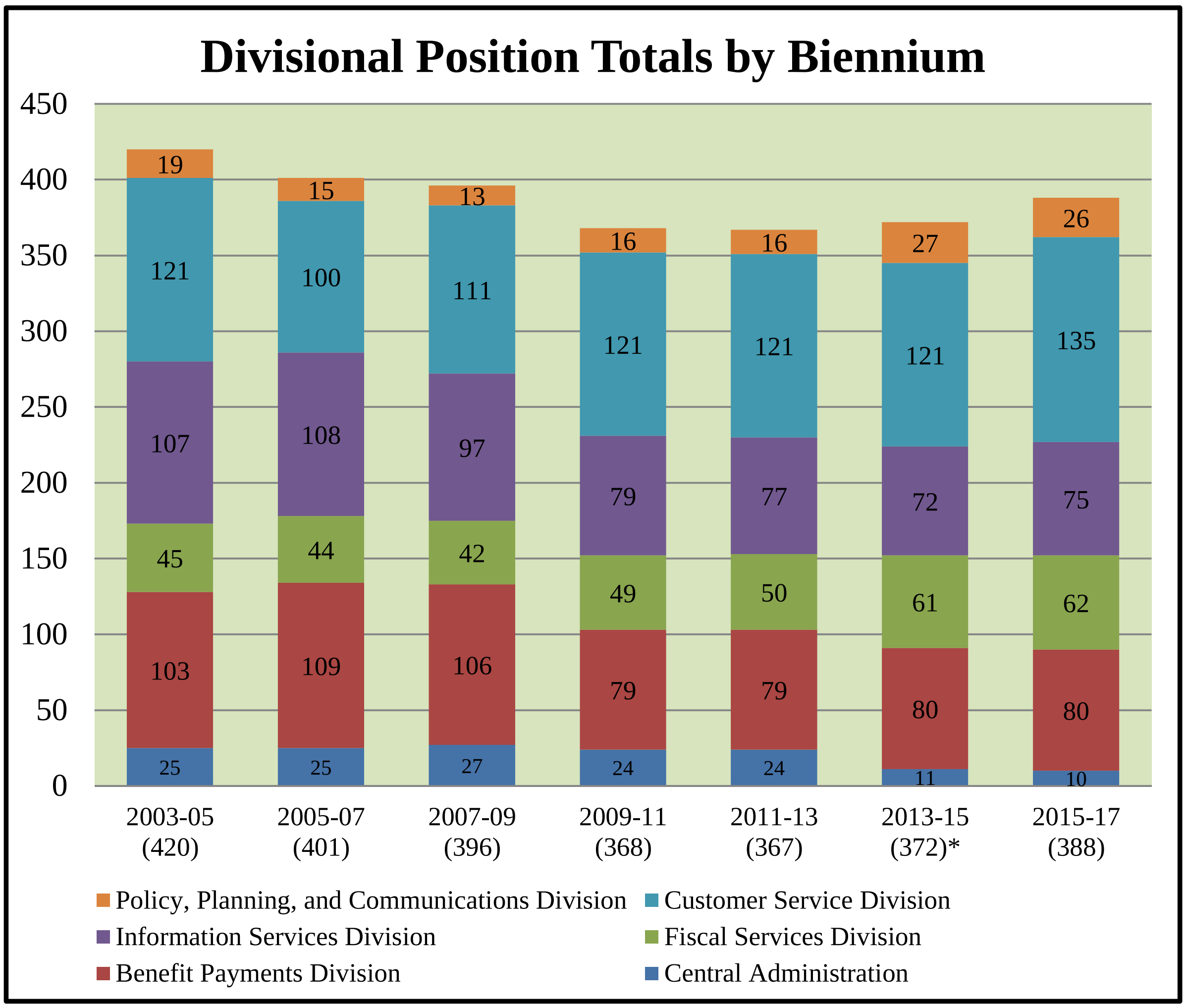
Biennium	Legislatively Approved Limited Budget	Fiscal Year Ended June 30th	PERF Balance		Annual Percent
2003-2005	$ 87,915,406	2005	$ 50,613,623,493		0.0868%
2005-2007	$ 81,703,709	2007	$ 66,009,334,073		0.0619%
2007-2009	$ 86,960,346	2009	$ 46,043,394,714		0.0944%
2009-2011	$ 84,685,027	2011	$ 61,189,774,807		0.0692%
2011-2013	$ 80,750,830	2013	$ 65,362,545,518		0.0618%
2013-2015	$ 86,851,130	2015	$ 74,144,240,000	E	0.0586%
2015-2017	$ 97,659,174 (ARB)	2017	$ 80,430,050,000	E	0.0607%

E=Estimated PERF balance at end of biennium

The agency's budget has fluctuated in absolute dollars in recent biennia. However, it has remained below the peak expenditures of the 2003-05 biennium. Moreover, it has represented a stable to decreasing percentage of the PERS Fund, even accounting for the additional costs of administering new retirement programs, increasing service populations, and special projects completed during this period.

AGENCY POSITION ALLOCATION

The following graph shows agency staffing levels by division over previous biennia. A staffing peak of 420 positions occurred in the 2003-05 biennium, but since then, the total number of positions has been reduced due to process efficiencies and completion of special projects related to 2003 PERS reform. The 2015-17 ARB would still reflect a reduction of 32 positions from the agency's peak staffing level.



*Re-organization of Central Administration and Fiscal Services and creation of PPCD. Position allocation adjusted.

BOARD OPTIONS

PERS is required to submit its 2015-17 Agency Request Budget to the Department of Administrative Services/ Chief Financial Office and the Legislative Fiscal Office by August 29, 2014. This submission will form the basis for the Governor's Budget to be developed prior to the Oregon Legislature's 2015 session, during which they will adopt a Legislatively Adopted Budget for the biennium starting July 1, 2015.

The Board may:

1. Pass a motion to "approve the 2015-17 Agency Request Budget as presented for submission to the Department of Administrative Services/Chief Financial Office and the Legislative Fiscal Office."

2. Direct the staff to further refine the budget request in specific areas before submission to DAS at the end of August.

STAFF RECOMMENDATION

Staff recommends the Board choose Option #1.

C.2. Attachment 1 – PERS Fundamentals Map
C.2. Attachment 2 – Current Service Metrics Staffing Requests (POP 101)
C.2. Attachment 3 – Fully Integrating IAP into the Orion System – Phase III (POP 102)
C.2. Attachment 4 – Enhanced Staffing for Data Verification Unit (POP 103)
C.2. Attachment 5 – Technology Maintenance & Enhancements (POP 104)
C.2. Attachment 6 – Disaster Recovery Infrastructure Upgrades (POP 105)

OUTCOME-BASED MANAGEMENT SYSTEM MAP

C.2. Attachment 1

FOUNDATIONS

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

Shared Vision
Honoring your public service through secure retirement benefits

CORE VALUES & OPERATING PRINCIPLES

Integrity	Member Service
Innovation	Data Integrity
Simplicity	Information Security

KEY GOALS

- Collaborative & Transparent Leadership
- Efficient, Effective, Adaptable Organization
- Engaged & Empowered Workforce
- Engaged & Educated Stakeholders
- Timely & Accurate Service
- Trusted & Credible Agency

CORE PROCESSES

OPERATING PROCESSES

OP1: Managing Client Data and Services

SUB PROCESSES
1. Receiving member data
2. Reconciling member data
3. Correcting member data
4. Maintaining member data
5. Archiving and imaging member information
6. Generating data reports
7. Generating and responding to correspondence
8. Generating and responding to phone calls
9. Creating and making presentations

PROCESS MEASURES
- OP1a: % reports received vs. expected
- OP1b: % of returned bulk mail
- OP1c: % of employer reports received are complete and accurate
- OP1d: % of member data forms processed within 30 days
- OP1e: % of employer reports received within three business days of reporting cycle
- OP1f: Average length of wait before caller reaches live person
- OP1g: % of correspondence responded to with 10 days of receipt

PROCESS OWNER: Yvette

OP2: Collecting Contributions

SUB PROCESSES
1. Creating and maintaining employer accounts
2. Establishing an employer rate
3. Generating an employer invoice
4. Receiving employer contributions
5. Posting contributions to invoices
6. Crediting contributions to the general ledger
7. Reconciling contributions submitted to State Treasury
8. Collecting on delinquent employer invoices
9. Receiving member purchases
10. Accounting for supplemental member contributions

PROCESS MEASURES
- OP2a: % of IAP contributions posted that are due
- OP2b: % of employers that rate the employer statement as good or excellent
- OP2c: % of total employers utilizing the Automated Clearing House
- OP2d: # of invoices outstanding more than 30 days
- OP2e: % of member purchases posted within 14 days of receipt

PROCESS OWNER: Kyle

OP3: Assessing Benefit Eligibility

SUB PROCESSES
1. Determining beneficiaries for pre- and post-retirement death benefits
2. Requesting and reviewing divorce decrees
3. Determining eligibility for disability
4. Completing estimate requests
5. Completing data verification requests
6. Reviewing account for pre-benefit eligibility
7. Determining eligibility for PERS Health Insurance Program

PROCESS MEASURES
- OP3a: % of appeals that are upheld compared to total # of eligibility, disability, and divorce appeals filed
- OP3b: % of disability and divorce determinations completed within 180 and 90 days respectively
- OP3c: % of estimates completed within 30 days of receipt
- OP3d: % of data verification requests completed within 180 days from receipt

PROCESS OWNER: Yvette

OP4: Processing Benefit Applications

SUB PROCESSES
1. Receiving benefit application
2. Reviewing benefit application
3. Entering application data
4. Corresponding with applicant and Employer
5. Processing "just in time" eligibility
6. Initiating the benefit calculation process

PROCESS MEASURES
- OP4a: % of applications completed by the eligibility team within 30 days of the effective retirement
- OP4b: % of estimated payments per month
- OP4c: % of applications returned or rejected back to the applicant
- OP4d: % of applications with two or more requests made to an applicant or employer for information
- OP4e: % of non-canceled applications completed and ready for calculation within 30 days of the effective date
- OP4f: % of non-canceled applications completed and ready for calculation within 15 business days of all required documents received
- OP4g: % of non-canceled applications completed and ready for calculation within 60 days of the effective date

PROCESS OWNER: Brian

OP5: Calculating Benefits

SUB PROCESSES
1. Reviewing account
2. Calculating initial benefit (service, death, divorce, disability, withdrawals)
3. Recalculating benefit after an estimated benefit or when an adjusted or retro-active benefit is due
4. Validating benefit calculations
5. Initiating the payment benefits process

PROCESS MEASURES
- OP5a: # of calculations completed per FTE
- OP5b: % of sample calculations that are within plus or minus $5
- OP5c: % of calculations completed within 15 calendar days from completed application date

PROCESS OWNER: Brian

OP6: Paying Benefits

SUB PROCESSES
1. Ensuring cash is available to fund benefit payments.
2. Creating and transmitting payment files
3. Processing manual checks
4. Validating payment files
5. Processing returns/cancels
6. Maintaining payee information
7. Maintaining deductions
8. Ensuring tax reporting

PROCESS MEASURES
- OP6a: # of manual checks processed
- OP6b: % of electronic payments over total payments
- OP6c: Average # of days to resolve returned payments
- OP6d: # of exceptions not cleared prior to pension lock
- OP6e: % of tax reports completed by Federal and State deadline

PROCESS OWNER: Kyle

SUPPORTING PROCESSES

SP1: Communicating Internally & Externally

SUB PROCESSES
1. Developing communications strategy
2. Creating and maintaining publications and forms
3. Maintaining electronic & social media
4. Communicating with Legislators and interest groups
5. Responding to media requests
6. Communicating with agency staff
7. Responding to public record and discovery requests

PROCESS MEASURES
- SP1a: # of emails to PERS Board email box with complaints
- SP1b: % who rate forms as easily understandable
- SP1c: % of media coverage events with neutral or positive mentions
- SP1d: % rating satisfaction as good or excellent
- SP1e: % of public records requests responded to with a cost estimate within 14 days of receipt

PROCESS OWNER: Steve

SP2: Managing Compliance & Risk

SUB PROCESSES
1. Providing policy advice
2. Implementing new legal mandates
3. Resolving disputes
4. Managing legal services
5. Maintaining tax qualified status
6. Managing strategic relationships
7. Conducting enterprise risk management efforts
8. Managing audit services
9. Managing information (record & document) programs
10. Ensuring reliable, consistent and auditable data reporting

PROCESS MEASURES
- SP2a: % of operating budget expended for attorney and administrative hearing fees and risk management premiums
- SP2b: # of Member and Employer appeals and contested case matters, employment disputes, litigation disputes, notices of dispute and risk management claims
- SP2c: % of staff determinations that are reversed on appeal
- SP2d: % of high risk audit findings resolved within committed time period

PROCESS OWNER: Steve

SP3: Leveraging Technology

SUB PROCESSES
1. Developing IT strategy and roadmap to meet agency technology needs
2. Ensuring system availability and performance
3. Delivering HelpDesk/desktop support
4. Maintaining applications and systems
5. Enhancing applications and systems
6. Implementing new applications and systems
7. Ensuring system security
8. Developing, delivering and managing Enterprise Content Management System

PROCESS MEASURES
- SP3a: # of business days in a month ORION systems are not available within the standard service window
- SP3b: % of survey respondents indicating satisfaction with our technology
- SP3c: # domains in the Information Security Business Risk Assessment report that meet agency goal
- SP3d: # of batch incidents/abends in a month
- SP3e: % of Change Requests scheduled for a release that are actually deployed
- SP3f: # of instances where system status change is not mitigated within four hours
- SP3g: % of HelpDesk Tickets resolved within the Service Level Agreement
- SP3h: % of time systems are available during the service window

PROCESS OWNER: Jordan

SP4: Managing Organizational Finances & Resources

SUB PROCESSES
1. Administering accounting and payroll services
2. Managing funds and investments
3. Developing and administering budget and finance operations supporting agency strategic plan
4. Developing and managing contracts and agreements
5. Maintaining and managing facilities and equipment
6. Managing actuarial services

PROCESS MEASURES
- SP4a: % of months with no interest cost incurred due to borrowing
- SP4b: % of accounts receivable dollars collected (based on total dollars of accounts receivable)
- SP4c: % of actuarial services milestones met (e.g., experience studies, valuations, CAFR data, employer rates updated in jClarety, economic impact report)
- SP4d: % of invoices with payments released for payment within 30 business days of receipt by Accounts Payable

PROCESS OWNER: Kyle

SP5: Managing & Developing the Workforce

SUB PROCESSES
1. Managing the Workforce Plan
2. Acquiring Talent
3. On-Boarding
4. Managing Performance
5. Developing Employees
6. Retaining Employees

PROCESS MEASURES
- SP5a: % of employees' annual development plans created
- SP5b: % of employees receiving corrective action for violations
- SP5c: % of employees completing trial service
- SP5d: % of data fields entered correctly into the personnel database (PPDB)
- SP5e: % of employees evaluated overall performance rating "meets expectations"
- SP5f: % of performance evaluations completed by due date

PROCESS OWNER: Kyle

SP6: Strategic & Operational Planning

SUB PROCESSES
1. Nurturing the agency's mission, values and core operating principles
2. Developing/maintaining the agency's strategic plan and ensuring organizational alignment
3. Prioritizing and managing the completion of projects
4. Governing and Maintaining the PERS Outcome-Based Management System

PROCESS MEASURES
- SP6a: % of outcome and process measures with new or current data reported for that quarter
- SP6b: # of problem solving initiatives in process
- SP6c: % of employees that rate mission relevance as high
- SP6d: Net # of measures that improve per each quarterly target review (QTR)
- SP6e: # of breakthroughs on schedule

PROCESS OWNER: Steve

OUTCOME MEASURES

- OM1: Clear, Concise Communication (Yvette/Steve) OM1
- OM2: Employee Engagement (Steve) OM2
- OM3: Operating Effectiveness - % Green Process Measures (Steve)
- OM4: Member to Staff Ratio (Steve)
- OM5: Total Benefit Admin Costs (Steve)
- OM6: Performance to Budget (Kyle)
- OM7: Member Service Satisfaction (Yvette/Brian)
- OM8: Effective Employer Partnerships (Yvette)
- OM9: Timely Benefit Payments (Brian/Yvette)
- OM10: Informed Retirement Decisions (Yvette)
- OM11: Accurate Benefit Calculations (Brian)

PERS Oregon Public Employees Retirement System

Revised: 7/8/14

MassIngenuity

PERS Budget Development
Policy Option Package Proposal for

Current Service Metrics Staffing Request

Steven Patrick Rodeman
Business Case Executive Sponsor

Steven Patrick Rodeman
Deputy Director / Chief Operating Officer

Linda Barnett
Interim Budget Officer

July 25, 2014
Date

TABLE OF CONTENTS

1. REQUEST

PERS requests the following:

Call Center Staff

Permanent Positions: 4; 4 FTE

Four Retirement Counselor 1 positions in the Call Center to maintain service metrics despite increasing call volume and duration. These 4.00 FTE are Limited Duration positions in the 2013-15 biennium.

Transition Four LD Call Center Staff to Permanent Positions

Personal Services Other Fund Limitation	$ 480,272
Services & Supplies Other Fund Limitation	$ 24,100
Capital Outlay Other Fund Limitation	$ 0
Total Other Fund Limitation	$ 504,372

Benefit Calculation Staff

Permanent Positions: 1; 1 FTE

One Retirement Counselor 2 position to maintain benefit payment metrics despite increasing retirements.

Establish One Retirement Counselor 2 Position for Benefit Processing

Personal Services Other Fund Limitation	$ 128,681
Services & Supplies Other Fund Limitation	$ 11,025
Capital Outlay Other Fund Limitation	$ 0
Total Other Fund Limitation	$ 139,706

Custodial Staff

Permanent Positions: 1; 1 FTE

One position which is a continuation of a facilities/custodial transfer from DAS 1; 1.00 FTE is a transfer of custodial staff from DAS for the 2013-15 biennium

Transfer One Custodial Staff from DAS to PERS

Personal Services Other Fund Limitation	$ 109,191
Services & Supplies Other Fund Limitation	$ (109,191)
Capital Outlay Other Fund Limitation	$ 0
Total Other Fund Limitation	$ 0

2. EXECUTIVE SUMMARY

Call Center Staff

The notable increase in call volume across recent biennia has decreased the “favorable outcomes” for members who do call (i.e., increases in wait times and abandonment rates, decreases in call quality and member satisfaction ratings). PERS established four Retirement Counselor 1 Limited Duration positions through a fiscal appropriation to implement 2013 PERS reform legislation (SB 822). This request is to transition those additional call agents from Limited Duration to permanent status, to maintain service metrics at more tolerable levels.

Benefit Calculation Staff

The OPSRP "tier" now has the greatest number of active members (over 80,000) and OPSRP retirements are increasing each biennium relative to Tier One and Tier Two retirements. This request is for one permanent Retirement Counselor 2 position who will assist with processing OPSRP retirements. This one new position, along with process and system improvements, will allow benefit payment metrics to be maintained despite the growing workload.

Custodial Staff

This request completes the transition of a full-time, day shift custodial and facility maintenance position from DAS to PERS. This agreement resulted from DAS' decision in August 2013 to provide custodial services only during business hours, which did not support our agency operations as an outward-facing, public service location requiring both day and night shift services.

3. PURPOSE and BACKGROUND

Call Center Staff

Call Center Staff are the principle source by which members receive adequate information to allow them to make decisions about the benefit programs administered by PERS. Through the Call Center, members inquire about their account balances, earnings, vesting, contributions, withdrawal and retirement options, beneficiary options, timing to retire, work after retirement rules, demographic changes and updates, legislative changes, press articles, and many other topics. Although generic information is available from many sources, members invariably want to know "what this means for me," and only an individual agent looking at the member's history can provide an adequate response. PERS has so many permutations of benefit components, calculation methods, and payment options that individual attention is necessary for each member to sort those factors out.

Since 2008, call volume has increased, driven predominantly by two factors: (1) legislative discussions about, and enactments of, PERS plan changes that could significantly impact benefits on different populations, depending on the change; and (2) an increasing percentage of members eligible to retire as the "baby boom" generation matures.

Recent Call Volume:

Year	Calls	Year	Calls	Year	Calls
2008	114,650	2010	124,014	2012	162,726
2009	119,061	2011	160,364	2013	169,661

Service metrics show that this call volume increase prevented PERS from responding to calls in an acceptably timely manner or with sufficient quality results. Adding four Limited Duration call agents (Retirement Counselor 1) allowed PERS to restore service metrics to a more tolerable level. The table below reflects performance in key metrics since January 2014 (the additional call agents were deployed on March 3, 2014):

Calendar Year 2014	Call Volume	Wait Time	Abandonment Rate
January	18,433	26 min 30 sec	46.3%
February	13,636	24 min 20 sec	42.2%
March	14,433	3 min 20 sec	13.2%
April	14,383	1 min 26 sec	8.3%
May	13,394	0 min 43 sec	5.1%

Benefit Calculation Staff

The OPSRP pension program is the largest "tier" by membership and is experiencing the most significant increase in service retirements each year. OPSRP retirements and withdrawals are increasing each biennium:

OPSRP Service Retirements per Calendar Year:

Year	#	Year	#	Year	#	Year	#
2007	27	2009	137	2011	345	2013	732
2008	68	2010	177	2012	511		

Meanwhile, Tier One and Tier Two retirements are not decreasing, since so much of the current workforce is eligible but not yet retired (over 71,000 total with about 52,000 Tier One/Two.)

Projected Tier One/Two and OPSRP Retirements and Withdrawals:

	OPSRP	Tier One/Tier Two
Estimated Active and Inactive Members as of June 30, 2015	83,472	99,364
Estimated Retirements and Withdrawals for the 2015-2017 Biennium	4,400 retirements and withdrawals	20,800 retirements and withdrawals
Projection for the 2017-2019 Biennium	6,700 retirements and withdrawals	~ 21,000 retirements and withdrawals

This request is for one permanent Retirement Counselor 2 position who will primarily assist with processing OPSRP retirements and withdrawals. Longer term, combined retirement volumes should stabilize and benefit payment metrics should be maintained by transitioning staff from Tier One/Tier Two retirements to OPSRP, but overall retirements will probably remain at current volumes for the foreseeable future given the large number of eligible members still yet to retire.

Custodial Staff

Until the 2013-15 biennium, custodial services and facilities maintenance support at PERS' Tigard headquarters were provided through an Interagency Agreement with DAS Enterprise Asset Management (EAM) Division. Three full-time DAS EAM custodial employees were assigned to PERS, with two of the staff dedicated to after-hours custodial services. One custodial staff provided daytime support and general facilities maintenance services. Custodial services include restocking paper products and restroom supplies, cleaning spots and spills, emptying central trash and recycling bins, emergency cleaning, spot cleaning public areas, and setup and teardown of conference rooms. Facilities maintenance includes minor building repairs such as plumbing, caulking, patching, touch up paint, light bulb and ceiling tile replacement, repairing door hardware or carpet tile, moving furniture, monitoring and programming HVAC system software, and escorting external contractors in the building.

In early July 2013, DAS notified PERS of a shift to daytime service only, beginning mid-August 2013. PERS was given two options: have DAS provide custodial services for the PERS main building between 5:00 a.m. to 1:30 p.m. only; or contract with a Qualified Rehabilitation Facility (QRF) for custodial services after hours. Under the DAS option for daytime custodial services, they would eliminate the third position which provided both custodial services and facilities maintenance because their other custodians would already be on-site during a portion of those hours.

In the past, when PERS had custodial services only during business hours, this resulted in disruptions to operations; reduced productivity of custodial staff who attended to special requests; and an inconsistent work routine to accommodate meetings of governing entities, members, employers, and stakeholders which occur frequently at PERS headquarters. Facilities maintenance was also needed throughout the working day, not just until 1:30 p.m. For these reasons, DAS agreed that PERS would contract with a QRF for after-hours custodial services, and retain one person during the day for custodial services and facilities maintenance. This proposal shifts the daytime custodial position from DAS to PERS to embed that arrangement in this agency's ongoing staffing level.

4. ALTERNATIVES CONSIDERED

Call Center Staff

Alternatives to the transition of Limited Duration call agents to Permanent positions are limited. PERS has leveraged technology tools and process improvements to the extent possible such that the only tool left to maintain acceptable service metrics in light of increasing call volume is to have more call center agents. The alternative is to have those service levels recede to intolerable levels, as the demand for these services is not expected to abate.

Using temporary staff to address spikes is not an efficient option. Call Center agents go through an initial six weeks of training to form a foundation of basic information before they can begin to take calls. To become fully conversant with the most common counseling scenarios usually requires at least 12-18 months of on-the-job experience and enhanced training along the way. On-boarding staff to address "spikes" cannot be done timely enough in a manner that would ensure that those agents would contribute in a positive way to the workload and service levels. The consequences of an inexperienced agent providing incomplete information may not surface for months, sometimes after the member has already made their decisions, some of which are irrevocable.

As for leveraging technology to provide additional information channels, we are constantly updating our website's A-Z Guide and creating topical FAQ documents. Enhancements are planned for our Online Member Service secure web portal to allow members better functionality for copies of payment histories or federal tax reports, generating benefit confirmation letters or completing application forms, and to make address or withholding changes. These enhancements, however, will only reduce the number of routine calls so agents can devote the majority of their attention to more detailed, member-specific counseling inquiries.

General information can be provided through various social media tools (Facebook, Twitter, LinkedIn, YouTube, etc.), but statistics reflect that additional communication methods do not necessarily reduce the level of traffic to call agents. At best, they can only educate the member about generic information about the PERS plan so that their question may be more focused and direct, but in our experience, members still need individualized affirmation or clarification about how these general principles apply to their circumstances.

Benefit Calculation Staff

PERS has been able to process the increasing workload associated with OPSRP benefit payments by cross-training more staff and relying on occasional overtime or temporary staff. This approach is not sustainable on a long-term basis as the number of OPSRP retirements continues to grow.

Custodial Staff
PERS presented the following proposals to DAS for consideration.

- Continue to contract with DAS for services, but get an exception to the hours of service. *DAS declined since it is more efficient to have all custodial staff on the same work schedule for supervisory and backup support*.
- Transfer three DAS positions to PERS so they would be PERS employees. *DAS declined this option*.
- Transfer one position from DAS to PERS to provide the daytime custodial services and facilities maintenance needs. *PERS and DAS entered into a job rotation agreement for the Custodial/Facilities Maintenance position to remain at PERS through the 2013-15 Biennium. That arrangement will end June 30, 2015, so this proposal perpetuates this agreed solution.*

PERS also considered contracting with the Custodial QRF to provide daytime custodial and facilities maintenance services, but the QRF could not provide facilities maintenance services. Additionally, custodial services are approximately 45% of the duties of this position and are needed at various times during the day. Therefore, it was not feasible to have a custodian and supervisor on-site and available during the day for part-time work.

5. BENEFITS and OUTCOMES

Call Center Staff
Four more call agents maintained on a permanent basis will allow PERS to hold the gain on the service levels we have achieved with their addition through Limited Duration positions. The new call agents have: increased the number of calls answered; decreased the number of dropped calls; decreased call escalations due to faster responses; and increased member satisfaction.

If approved, success of this proposal will be measured with data gathered from the Contact Management System. The Call Center tracks call volume, call length, abandoned calls, and speed of answer statistics on a daily, weekly, and monthly basis to monitor trends and issues. If the proposal is not approved, PERS risks a rapid decline in response time to member calls and noticeably decreased member service satisfaction.

Benefit Calculation Staff
A new Retirement Counselor 2 position will help PERS keep up with the growing volume of OPSRP retirement and withdrawal requests expected over the next several biennia. The new position is anticipated to process 33% of benefit inceptions and perform 50% of benefit validations for OPSRP service retirements and withdrawals.

Success of adding a new position to assist with OPSRP benefit calculations will be measured against the agency Key Performance Measure that requires processing retirements in 45 days, internal QA sampling, and annual Internal Audit reports.

Custodial Staff
With transition of a custodial staff position from DAS to PERS, daytime custodial, facilities maintenance, and support services will continue uninterrupted at PERS headquarters. This position will also assist with backup support as needed by the Facilities Manager at PERS Tualatin leased facility. The position does not require additional funding since PERS has paid for this support through an Interagency Agreement and DAS Administration fees.

If approved, this transition will be successful if the custodial position is transferred from DAS to PERS and service is not disrupted.

6. AGENCY MISSION, VALUES, and PRINCIPLES

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OPERS Core Operating Principles

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Data Integrity – Partnering with employers and members to ensure timely and reliable information
Information Security – Constantly vigilant to safeguard confidential information

PERS Budget Development
Policy Option Package Proposal for

Fully Integrating IAP Administration into the PERS ORION System Phase III

Brian Harrington
Business Case Executive Sponsor

Steven Patrick Rodeman
Deputy Director / Chief Operating Officer

Linda Barnett
Interim Budget Officer

July 25, 2014
Date

TABLE OF CONTENTS

1. REQUEST

PERS requests the following:

Permanent Positions: 0; 0 FTE
Limited Duration Positions: 3; 3.0 FTE
0; 0.0 FTE are continuing LD positions from the 2013-15 biennium.

Personal Services Other Fund Limitation	$ 513,075
Services & Supplies Other Fund Limitation	$ 901,323
Capital Outlay Other Fund Limitation	$ 500,000
Total Other Fund Limitation	$1,914,398

2. EXECUTIVE SUMMARY

This proposal completes the transfer to PERS of all aspects of the Individual Account Program (IAP) administration by January 1, 2017, and eliminates over $2.2 million in annual costs for an outside third-party administrator (TPA). The split administration between PERS and the TPA creates fundamental, structural problems (handoffs between PERS and the TPA, redundant staff work, and constant reconciliation of records between the two systems) which lead to lengthy processing time and occasional errors. PERS currently administers major components of the IAP, and this proposal leverages on the agency's current recordkeeping and payment processing systems to eliminate these inherent problems from splitting administration. Eliminating the TPA will enhance PERS' ability to better execute its mission to pay the right person the right benefit at the right time.

The remaining project elements in the 2015-17 biennium are refining stakeholder needs and documenting those processes that have to be integrated, constructing the IAP functionality within ORION, developing a project staging plan, and migrating to the new administrative platform.

This project has been identified as an IT Project and will be conducted in compliance with DAS/CIO requirements including quality gates and acquisition of an independent outside contractor to provide QA Oversight. PERS is aware of related executive branch procedures and will ensure compliance with those processes.

3. PURPOSE and BACKGROUND

The IAP was created in August 2003 by the Oregon Legislature (House Bill 2020). Members contribute 6% of their salary to the IAP and are allocated market earnings or losses without any guaranteed minimum return. Although the IAP was added during the 2003 PERS Reforms, the program includes both Oregon Public Service Retirement Plan (OPSRP) Pension members (the new pension program that was created simultaneously) and Tier One and Tier Two members, whose member contribution was diverted from their accounts into the IAP.

The 2003 Legislature also mandated that PERS establish the IAP in time to receive contributions on salary paid on or after January 1, 2004. The agency could not develop a recordkeeping and payment system to accommodate the new plan within this four-month timeframe. Also, the redirection of Tier One and Tier Two member contributions to the IAP was challenged in court, so investing in an agency IAP infrastructure was not practical or prudent at that time. Given these conditions, PERS contracted with a TPA to provide recordkeeping and participant services for the IAP.

From inception, however, the unique characteristics of the IAP proved a challenge for the TPA as the program does not follow a traditional defined contribution plan model. For example, PERS had always credited member accounts with earnings or losses on an annual basis. The complex nature of the PERS Fund investments makes daily or monthly valuation impractical and imprecise. Also, the irregular timing of contributions (e.g., some PERS employers pay employees weekly; others monthly) resulted in uneven results for individual members that were difficult to reconcile and confusing to explain. The TPA made customized changes to their system to accommodate the unique nature of the IAP, and the program administration was revamped to simplify operations (e.g., moving from daily to annual earnings crediting).

Continuing to use a TPA to administer the IAP is a challenge since the TPA has to rely on custom systems and manual processes to implement the program. As a result, member transactions take too long to process and error rates, at times, are higher than tolerable. In addition, the TPA is unable to process direct rollovers to a retired member's financial institution. PERS already administers major components of the IAP (e.g., collecting contributions, earnings crediting) and differences between PERS and TPA records must be constantly reconciled.

Under this proposal, PERS staff who support IAP handoffs and processes for the TPA will instead shift their focus to directly administering recordkeeping and payment processing, gaining efficiencies and reducing the need for duplicate processing of the same member account. As a result, allowing staff to work directly on IAP administration instead of in support of a TPA will allow us to improve member service without the need for additional staff. The three limited duration staff in this proposal are project staff to augment our existing system development team. Once administration is transitioned fully to PERS, the ongoing operation of this program will be FTE-neutral.

The technology solution will require PERS to provide technical support, maintenance, development, and enhancement activities. Phases I and II, which were the inception and elaboration phases to fully transition IAP administration to the agency, were approved during previous legislative sessions. This proposal outlines final elements of the transition to be completed during the 2015-17 biennium.

4. PROPOSAL

PERS proposes to transition the remaining elements of IAP administration from a TPA to the agency. The functionality will be developed in ORION to support IAP recordkeeping and payment processing services within PERS.

When constructed, current manual processes such as installment payment calculations, earnings calculations, account balance reconciliation, and disbursement calculations will be automated. The off-line systems and manual processes needed to support a TPA's administration of the IAP will be eliminated.

Phase III will implement and deploy IAP administration into ORION, which will require additional technical support beyond current resources. Three full-time, Limited Duration positions at the ISS 6 classification level will augment our technology staff to support development of the IAP administration module within ORION.

The full transfer of IAP administration will be accomplished in a multi-phased approach:

Phase I - $300,000 (Completed 6/30/14) – **Inception**
- Approved in Package 103 in the 2013-15 Legislatively Adopted Budget

Phase II - $718,750[*] (7/1/14-6/30/15) – **Elaboration/Development**

- Approved as increased limitation as a result of HB 5201 (2014):
  - $493,750 – IT Professional Services (Elaboration/Development)
  - $162,500 – Capital Outlay for software
  - $ 62,500 – Capital Outlay for hardware

Phase III - $1,913,978 (7/1/15-6/30/17) – **Construction**

- Requested increase in Other Funds limitation in 2015-17 biennium:
  - $513,075 – Personal Services Other Fund Limitation (3 ISS 6 positions, 3.00 FTE)
  - $661,250 – IT Professional Services (Implementation / Deployment)
  - $173,998 – IT Professional Services (Quality Assurance Oversight)
  - $ 66,075 – Training & Office Expenses
  - $500,000 – Capital Outlay for software and hardware

$33,000 in estimated on-going costs (e.g., anticipated software & hardware maintenance costs) may be incorporated as part of the 2017-19 biennium base budget allocation.

5. ALTERNATIVES CONSIDERED

Evaluate and Select an Alternative TPA to Administer the IAP. PERS has periodically had discussions with other private vendors who might be able to provide these elements of IAP administration, but the IAP does not fit any standard industry models so any administration platform, whether provided by a TPA or PERS, is necessarily a customized solution. If the agency were to try selecting a new TPA, there is no way to know whether that new TPA would be cost neutral relative to current vendor; more likely, their costs would be higher as they would need to amortize the costs of constructing the customized solution.

Renegotiate the Contract with the Current TPA to Provide Missing Functionality. PERS has been unable to negotiate a significant increase in functionality and services with the current TPA without an associated cost increase. The TPA is understandably reluctant to provide additional functionality to PERS without recovering those costs.

Note that either of these alternative approaches would result in abandoning the investments made in Phases I and II.

6. BENEFITS and OUTCOMES

Elimination of Ongoing and Increasing TPA Charges. Transitioning fully to in-house administration of the IAP will eliminate TPA charges for record keeping and payment distribution, which are estimated to increase from $2.2 million in 2013 to $2.4 million in 2014 as membership in the IAP continues to grow (the TPA's fee is $9.36 for each individual account with a balance above $30; there were 234,047 qualifying accounts reported in 2013, and IAP membership continues to grow with new public employee hires).

Increased Rate of Return on Member Accounts. IAP administrative expenses reduce the investment earnings or losses credited to member accounts. Reducing those expenses by transitioning administration to PERS will increase members' earnings on their IAP accounts.

[*] Note that the amounts appropriated for Phase II are unscheduled until their release is approved by DAS and LFO.

Increased Integrity and Security of Member Data. Once PERS administers all aspects of the IAP, there will be greater control over the integrity and security of member data. Daily transfers between the agency and TPA are secure, but retaining data within the agency is more secure.

Achieving Improved Data Quality and Integrity. Differences between PERS and TPA records in processing contributions, adjustments, payments, and earnings require constant reconciliation. This project would result in a single definitive, reliable, and auditable IAP data source.

Streamlining Use of Technology and Processes. Due to system constraints with the TPA, PERS cannot fully leverage existing technology to improve administrative efficiency and member services. The current structure requires PERS to access three independent systems when answering member questions concerning their IAP accounts. The process is complex with multiple handoffs between PERS and the TPA.

More Timely Member Payments. Finally, when PERS fully administers the IAP within ORION, there will be more control over processes and the timeliness of member payments. This transition will enhance PERS' ability to improve on our performance measure to initiate at least 80% of benefit payments within 45 days of the member's effective date.

Completing Phase III of this project will yield the following targeted improvements:

- Save approximately $2.2M per year in TPA costs based on current charges.
- Streamline the IAP account earnings crediting process. PERS' annual crediting model is outside of normal methodologies so custom reports and manual processes are required, leading to errors and delays in crediting earnings.
- Coordinate benefit payment determinations and processing. Eligibility determinations and benefit calculations have to be reconciled between PERS and the TPA, necessitating hand-offs and delays in processing applications that are removed when the TPA is eliminated.
- Provide PERS members a "one stop shop" so only one source of information will have to be accessed to address member inquiries, requests, and benefit applications.
- Establish and distribute IAP benefits in an efficient manner. This would be consistent with the timely and accurate administration of member pension benefits. Currently, only 20% of retirees are paid within 45 days due to the processing time required by the TPA. Eliminating the administration by the TPA will allow PERS to improve customer service by paying 55% of retirees within 45 days.

7. RISKS

TPA Continuity. The current TPA could opt not to renew their contract, which would leave the agency at risk for service interruption. Due to the unique nature of the IAP, a replacement TPA vendor would have to develop a customized solution. This would cause the agency to incur additional administrative expense, and members to incur payment and other service delays.

8. AGENCY MISSION, VALUES, and PRINCIPLES

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PERS Budget Development
Policy Option Package Proposal for

Enhanced Staffing for the Data Verification Unit

Yvette Elledge
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Steven Patrick Rodeman
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Linda Barnett
Interim Budget Officer

July 25, 2014
Date

TABLE OF CONTENTS

1. REQUEST

PERS requests the following:

Permanent positions – 7; 7.0 FTE
Limited Duration positions – 8; 6.33 FTE
Of the total, none are LD positions in the 2013-15 biennium.

Personal Services Other Fund Limitation	$ 1,718,472
Services & Supplies Oregon Fund Limitation	$ 155,334
Capital Outlay Oregon Fund Limitation	$ 0
Total Other Fund Limitation	$ 1,873,806

2. EXECUTIVE SUMMARY

As legislation establishing the data verification process was considered in 2009, PERS reported the staffing level necessary to fulfill requests in a timely manner. The legislature approved addition of only six FTE*, but indicated that the agency could request additional staff when experience showed the need.

From July 1, 2011 to June 30, 2014, there were 2,859 data verification requests, which is an average of 79 requests per month. In that same time period, the work unit has fluctuated from four to eight production staff and staff have been able to complete approximately 34 requests per month. As a result, members currently may wait for 18 months or more for PERS to complete a data verification request. The unit has a service metric of fulfilling 90% of data verification requests within six months, a goal the unit has never reached since the metric was established in January 2012 because they have never been adequately staffed to meet the demand.

The addition of seven Permanent staff to properly size the work unit based on this level of demand, and of eight Limited Duration staff to clear out the accumulated backlog of 873 requests, will allow PERS to meet the service metric established for this unit and improve other metrics including reduced number of estimated benefit payments and reduced customer service call volume and escalations.

3. PURPOSE and BACKGROUND

Senate Bill 897, approved in 2009, allows members within two years of their earliest retirement date to request a data verification, which "locks down" the specified elements of the data used to ultimately calculate their benefit. Once "locked", employers and members may not modify the data. The data elements subject to verification include creditable service time, final average salary, account balance, and unused sick leave. This new program took effect in July 2011.

Prior to July 2011, members were only able to receive estimates or annual statements based on data available at that time; data that could be modified later by the employer or challenged by the member.

To complete a data verification, PERS requests a member's employers to gather, correct, and confirm data from the beginning of that member's career until the current day, a time span that can exceed 30 years. The time required for review, confirmation, adjustment, and reconfirmation may be extensive when multiple employers for one member are involved.

* A management position was eliminated to comply with the staff/manager ratio mandated in HB 4131)

The agency's goal is to process 90% of data verifications within six months of receiving a request. Instead, the average processing time is more than 18 months. To date, staff are working on 215 requests received in October 2012 or later, and 873 requests are pending and unassigned.

PERS has revised program administration through process improvements, including revising an Administrative Rule to reduce the time employers are allowed to review member data before confirmation. A team also reviewed the data verification process in its entirety to identify opportunities for streamlining and improvement. Marginal gains from the process review are insufficient to resolve the accumulated backlog and to keep up with the demand level for data verifications. To meet the metric of completing 90% of data verifications within six months of the request, the program must be appropriately resourced.

4. PROPOSAL

PERS proposes to expand the Data Verification Unit from the current five staff with an additional seven permanent staff and eight limited duration staff. The permanent staff will allow us to keep up with new data verifications requests as they are received monthly, and the limited duration staff will clear the accumulated backlog.

5. ALTERNATIVES CONSIDERED

PERS considered three alternative staffing levels, in addition to this proposal. Holding staff at status quo levels limits staff to completing 34 requests per month. With an average of 79 requests coming in each month, that continues the trend of 21 verification requests being abandoned each month and increases the backlog of data verifications at a rate of 24 requests per month. Two other alternative staffing levels are projected to have the results shown below:

Option	Requested Positions	Projected Verifications Completed	Projected Verifications Abandoned by Members	Projected Additions to Backlog	Projected Cost in 2015-17 Biennium
Status Quo (SQ)	Five existing permanent staff	34 requests per month	Continue at 21 per month	24 requests added per month.	**No additional cost** over current service level
Option A	SQ plus <u>four additional permanent staff</u>	66 requests per month	Reduced to19 per month	0 added to the backlog, main-tain 18-month delay.	2 RC 1; 1 RC 2; and 1 OPA 1 **$545,989**
Option B	SQ plus <u>seven additional permanent staff</u>	90 requests per month	None.	0 added to the backlog plus incremental reductions; maintain 18-month delay.	3 RC 1; 3 RC 2, and 1 OPA 1 **$956,211**
Proposed	SQ plus <u>seven additional permanent staff</u> and <u>eight limited duration staff</u>.	90 requests per month	None.	Meet service metric and eliminate the backlog by 6/30/17.	**Perm** – 3 RC 1; 3 RC 2; and 1 OPA 1 **LD** – 4 RC 1; 4 RC 2 **$1,873,806**

6. BENEFITS and OUTCOMES

Success of this proposal will be measured by the output of the Data Verification Unit including: processing of current requests; reduction of the request backlog; and reduction of abandoned requests due to the length of time a member has to receive estimated payments while waiting for a data verification.

Approximately 7% of members applying for retirement also request a data verification at the same time. Since the timeline and process to complete each transaction are not parallel, requesting a data verification and retirement at the same time results in a member receiving estimated benefit payments until the verification is complete. The table below illustrates the impact of this combination:

Year	2011	2012	2013
Total Number of Estimated Benefit Payments	280	318	696
Number Due to Data Verification Requests	4	250	384

Additional staff will enable PERS to process more data verification requests. The success at meeting agency measures of this process will depend on the proposed staffing level.

7. RISKS

The data verification process is not one that can be automated. PERS has evaluated the process for improvements and made changes where feasible. Without additional staff to assist with the data verification process, the agency will continue to not meet service metrics and members will not have information or a final benefit payment in a timely manner. The existing backlog of data verifications will also grow over time, exacerbating member frustrations and escalations.

Delayed response to data verification requests impacts other parts of the agency and the retirement process. As response time improves, risks and impact to those programs will also decrease. Opportunities for risk reduction include: members will have data to make more informed retirement decisions; members will receive fewer estimated benefit payments; members will make fewer calls regarding verification requests and create fewer escalations; and the agency will reduce the need for overtime staffing.

8. AGENCY MISSION, VALUES, and PRINCIPLES

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PERS Budget Development
Policy Option Package Proposal for

Technology Maintenance & Enhancements

Jordan Masanga
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Steven Patrick Rodeman
Deputy Director / Chief Operating Officer

Linda Barnett
Interim Budget Officer

July 25, 2014
Date

TABLE OF CONTENTS

1. REQUEST

PERS requests the following:

Technology Maintenance and Enhancements
Permanent Positions – 0; 0.0 FTE
Limited Duration Positions – 0; 0.0 FTE

Personal Services Other Fund Limitation	$ 0
Services & Supplies Other Fund Limitation	$ 3,281,250
Capital Outlay Other Fund Limitation	$ 0
Total Other Fund Limitation	$ 3,281,250

2. EXECUTIVE SUMMARY

Technical Debt
PERS has been administering its benefit programs on the jClarety platform, a system architecture that was designed and developed over a decade ago. Over time, technologies have changed, requirements for data volume and transactions have increased, and the jClarety limitations, flaws, and inefficiencies have emerged in its operation. These limitations are a direct result of numerous architectural issues and design flaws inherited from the RIMS Conversion Project. The jClarety system application code and integrated components are outdated or poorly designed and in need of updates to keep the system scalable, maintainable, and supportable under current industry standards. This proposal is to create a team of existing staff and contractors to analyze and implement architectural updates to the jClarety system.

System Enhancements
This proposal covers the inception, elaboration, construction, testing, and deployment of changes to enhance system functionality for the Oregon Public Service Retirement Plan (OPSRP). In meeting the tight deadline to deploy OPSRP in 2003, some system functionality was left out of jClarety or limited in its application. Functions that were left out of the system are now needed, which requires staff to process requests manually outside of the system. The volume of OPSRP accounts is increasing and it is becoming difficult for staff to manage manual processes.

3. PURPOSE and BACKGROUND

Technical Debt
All applications have "technical debt" and the jClarety system is no exception. Technical debt is poor or inefficient software architecture or development within a codebase. Industry best practice recommends budgeting up to 20% of development resources to address technical debt issues. Left unmanaged, technical debt can evolve into significant system issues that may be difficult to resolve.

The PERS Enterprise Architecture Team and Technical Leads Team have identified several areas of jClarety that need maintenance, enhancements, or revisions:

- **Batch Job Failures, Error Reporting, and Optimization.** Batch jobs in jClarety are difficult to trouble shoot when they fail or run for unexpectedly long periods. The technical debt project will analyze these jobs to optimize, improve error handling and reporting.

- **Processing Member Accounts Resulting in Timeouts.** Transactions on certain member accounts cannot be processed due to complex data conditions. Software design flaws create conditions where the transaction "times out" when executed against these members' accounts.
- **Manual Overrides.** The jClarety system design has a strict protocol in place to process data. However, complex accounts can require solutions that jClarety was not programmed to process, given their "one-off" nature. The solution is to create a more flexible business override module that adequately processes and records the transaction.
- **Removing Outdated Reporting Tool.** The jClarety reporting module uses SQR technology to create reports. This technology is licensed, expensive, and requires installation of a tool for users to view the reports. It is outdated and can be updated with a more cost effective modern solution.
- **Letter Templates.** The letter templates in jClarety are difficult to maintain or update, and require a developer and analyst to implement changes. In addition, jClarety does not support current industry standard PDF documents, or other modern file format types.
- **Database Design.** Database tables are growing rapidly, and duplicate data stored in the system is causing problems with queries and performance. Analysis and redesign for more efficient data handling is necessary.
- **Code Maintenance.** The original error log tool in jClarety was not implemented properly and the current implementation creates log files that are difficult to read and contain limited useful information. In addition, jClarety code was built upon another state's implementation and contains code and database tables that are not relevant to PERS.

System Enhancements

The OPSRP program was created by the Legislature in 2003 with passage of House Bill 2020. That bill also included direction to develop a program administration system. Because of the narrow window (less than six months) between the passage of legislation and program administration, some key components of system administration were not included in production. The subsequent project to convert the legacy retirement administration system (RIMS Conversion Project) did not include in its scope, further changes to the OPSRP functionality.

Consequently, the jClarety system does not have functionality with regard to some administrative functions that are now surfacing due to the maturing of OPSRP over the last ten years. Missing functions include processes related to Alternate Payees (AP) and divorce; membership and benefit structure; some retirement calculation and benefit maintenance; and Loss of Membership (LOM). For example, the LOM function was not a high priority at the time jClarety was established since it would have taken several years before any OPSRP member could reach LOM status. These types of transactions are now occurring with OPSRP members and their accounts must be handled manually. Manual work leads to a higher rate of errors and use of additional staff time. The table below shows the manual workload each year:

Year	**2009**	**2010**	**2011**	**2012**	**2013**
OPSRP LOM Accounts	1,865	4,418	6,336	6,144	6,539

4. PROPOSAL

Technical Debt

PERS proposes to create a team of existing staff and contractors to address the technical debt priorities of jClarety. The team objectives over the 2015-17 biennium will be to:

- Resolve processing errors and potential data corruption of poorly programmed batch jobs. Improve batch error handling and reporting.
- Resolve timeout errors and redesign steps for handling complex member data benefit processing.
- Redesign software architecture flaws.
- Create an override module in jClarety.
- Update jClarety reporting to use standard, cost-effective technologies.
- Provide a modern tool to allow more flexibility in preparing template letters generated by jClarety.
- Refine the jClarety database design; remove obsolete tables, and the storage of duplicate data.
- Remove jClarety obsolete code and add proper error handling and reporting to improve the ability to diagnosis and maintain the application.

System Enhancements

PERS proposes to establish a team of existing staff and contractors to build additional OPSRP functionality into the system to address previously described challenges. In many cases, the functions are needed to administer benefit payment types that will become more prevalent as OPSRP continues to mature. Automating these OPSRP processes will allow staff to stop manual reviews, overrides, and ad-hoc calculations to administer benefit transactions that are not currently programmed into jClarety.

5. ALTERNATIVES CONSIDERED

Technical Debt

Without investment in correcting technical debt issues, many development resources will be spent on reactive system fixes only. It will be difficult for system functionality to keep up with business demands and legislative changes to the plans.

An alternative to addressing technical debt would be to invest in newer software architecture. However, the time and resources spent on designing a replacement system would be in excess of resolving current system issues.

System Enhancements

The alternative to this proposal is to continue the current practice of processing specific OPSRP accounts outside of the system when jClarety functionality is missing. Agency goals to process benefits more efficiently will not be met, and member service will not improve without system enhancements.

6. BENEFITS and OUTCOMES

Proposed maintenance and enhancements to jClarety will result in broad improvements in agency operating and supporting processes:

- Increased accuracy and timeliness of benefit processing, calculations, and payments, particularly for OPSRP.
- Overall increased satisfaction, accuracy, and timeliness of member services.
- Improved overall satisfaction of PERS staff due to increased ability to perform work correctly and efficiently.
- Decreased number of manual checks due to enhanced system automation.
- Reduced legal risk due to improved audit capability, accuracy, and timeliness, and increased ability to respond to changes in legal requirements.
- Improved letter templates, leading to better quality communications.
- Improved ability to resolve exceptions and omissions.
- Resolved batch job failures which will minimize the backlog or disruption of employer contributions.
- Reduced incidences of ORION being unavailable due to long batch jobs, database backup and refresh to the reporting database, and system disruptions during the business day.
- Reduced incidents of batch job errors and failures.
- Increased development resource availability and responsiveness to business needs due to reduction in resources required to address technical debt, and elimination of outdated or poorly designed system components.

7. RISK

Technical Debt

Batch processing is essential to the operation of the jClarety application. Failure to address the critical issues could result in costly and lengthy system down-times if the problems are not properly diagnosed and resolved.

System Enhancements

Without the system enhancements associated with this proposal, staff will continue to perform calculations outside of jClarety for OPSRP accounts which increases the risk of inaccurate data entry or benefit calculations. Manual processing takes additional staff time and increases service delays.

8. AGENCY MISSION, VALUES, and PRINCIPLES

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PERS Budget Development
Policy Option Package Proposal for

Disaster Recovery Infrastructure Upgrades

Jordan Masanga
Business Case Executive Sponsor

Steven Patrick Rodeman
Deputy Director / Chief Operating Officer

Linda Barnett
Interim Budget Officer

July 25, 2014
Date

TABLE OF CONTENTS

1. REQUEST

PERS requests the following:

<u>Disaster Recovery Planning and Infrastructure</u>
Permanent Positions: 0; 0 FTE
Limited Duration Positions: 0; 0FTE

Personal Services Other Fund Limitation	$ 0
Services & Supplies Other Fund Limitation	$ 329,000
Capital Outlay Other Fund Limitation	$ 552,000
Total Other Fund Limitation	$ 881,000

<u>Virtual Desktop Environment</u>
Permanent Positions: 0; 0 FTE
Limited Duration Positions: 0; 0FTE

Personal Services Other Fund Limitation	$ 0
Services & Supplies Other Fund Limitation	$ 156,200
Capital Outlay Other Fund Limitation	$ 373,500
Total Other Fund Limitation	$ 529,700

<u>Single Sign-On</u>
Permanent Positions: 0; 0 FTE
Limited Duration Positions: 0; 0FTE

Personal Services Other Fund Limitation	$ 0
Services & Supplies Other Fund Limitation	$ 70,000
Capital Outlay Other Fund Limitation	$ 100,500
Total Other Fund Limitation	$ 170,500

2. EXECUTIVE SUMMARY

This proposal is to further develop the agency's Disaster Recovery (DR) and Business Continuity (BC) technology infrastructure in support of the Oregon Retirement Information Online Network (ORION). Once implemented, the DR and BC solutions will allow the resumption of critical business and infrastructure services within 48 hours of a localized catastrophic event.

Through this initiative, the agency's Business Continuity Plan (BCP) will be updated to reflect current technology systems and business expectations. Infrastructure changes to a Virtual Desktop Environment and Single Sign-On capabilities will facilitate more robust and efficient recovery and resumption activities. The Virtual Desktop replaces the approximately 400 desktop and laptop systems currently distributed throughout the agency with a virtual desktop hosted in a data center which can be accessed remotely. This new environment will also improve data security, reduce life-cycle replacement and other maintenance costs, and provide more efficient and flexible deployments of software upgrades agency-wide. A Single Sign-On infrastructure provides enhanced end-user and application access security, which will be more important in a DR or BC scenario.

3. PURPOSE and BACKGROUND

Currently, PERS backs up technology applications, databases, and file systems to storage tape on a daily basis. However, the backups are sent to an offsite storage facility only two times per week. If PERS experiences a localized catastrophic event that requires recovery of a server, file, or entire system, the agency could experience a loss of up to four days of data by relying only on tape backups.

Also, PERS does not have a secure offsite location for recovery of data, and equipment is not available to rebuild systems, if necessary. In the event of a localized catastrophe that disables a facility, system, or both, acquiring the equipment and network infrastructure to recover system applications necessary to meet business expectations could take more than 30 days. Failing to adequately plan and resource for disaster recovery and business continuity puts at risk the over $300 million that PERS distributes to members each month, with substantial ripple effects throughout Oregon's economy.

An agency Business Continuity Plan was prepared and published in 2009. While the plan is extensive, it must be updated to cover current technology systems and business operations. The Disaster Recovery elements in the 2009 BCP must also be updated to acknowledge current service level agreements for production systems.

One technology infrastructure change that can facilitate recovery and continuity is a virtual desktop environment. Currently, each PERS staff member has a desktop personal computer through which they connect to the network and that hosts their work before they save or transfer it. Remote access to these desktops is not possible, so staff who attempt to work remotely do not have access to the same level of resources as if they were in the office. If a localized disaster event made their desk workstation unavailable, staff could not function until a new workstation was provided with direct access to the network.

By migrating to a Virtual Desktop Infrastructure, PERS would host each staff's virtual desktop on the network, instead of on a physical box on each desk. This infrastructure would be able to support a remote workforce in the event of catastrophe, so staff could "telecommute" using their own devices with the same desktop functionality regardless of where they were located. This proposal will also achieve long-term savings as life-cycle replacement costs for hardware will decrease, and technical staff will be able to deploy software patches and upgrades more rapidly.

Lastly, PERS uses a variety of business applications which require their own user account administration. From a user's perspective, this requires repetitive logins and maintenance of multiple usernames and passwords. In a disaster scenario, staff could connect more efficiently if they need only one username and password to access all their systems. Also, during normal operations, the various applications are not synchronized so user passwords are not aged in accordance with the PERS security policy and expose the agency to Malware and spearfishing attacks.

4. PROPOSAL

PERS proposes to establish a "warm site" that will include necessary network, service, and data storage infrastructure to support agency operations in the event of a data or facility catastrophe. An existing, yet outdated, Business Continuity Plan (BCP) will also be updated to reflect current technology systems and business expectations.

PERS will design and deploy a cost-effective and highly secure VDI environment to support staff needs and provide a foundation for rapid deployment of new solutions and innovative ways to serve members. The proposed VDI environment will:

- Ensure that technology infrastructure will support evolving system requirements;
- Ensure security and integrity of member data by moving desktop computing into a more secure environment;
- Reduce the cost of desktop and laptop life-cycle replacement; and
- Reduce the cost and labor resources used to support desktops and laptops distributed throughout the agency.

Lastly, PERS would design and implement a single sign-on infrastructure to enable the secure access to our core business applications without the need to maintain multiple accounts and passwords. By doing so, we will be better able to secure our members personally identifiable information (PII) from potential loss due to improperly monitored and aged passwords. A single sign-on infrastructure will:

- Reduce the number of locally administered user accounts needed to access our business applications, thereby reducing the risk of improperly terminated accounts.
- Enforce a consistent password aging methodology for all business applications.
- Provide a platform for ensuring user accounts are manageable and secure as the agency implements more cloud-based applications.

5. ALTERNATIVES CONSIDERED

Alternatives considered include maintaining the existing tape backup system that would protect the agency in the event of a catastrophe, but this system provides no assurance as to when service could be restored. A disaster recovery "warm site," and revision and validation of the agency BCP will allow PERS to provide continuous support to members and employers in event of an emergency that impacts data systems.

No alternatives were considered for the Virtual Desktop proposal except for continuing current practice and accept the associated risks, increased costs, and inefficiencies. Similarly, no alternative for the single sign-on functionality will allow PERS to keep pace with the changing demands of the ORION System and reduce the risk of username and password vulnerabilities. Continuing to use decentralized username and password aging schemes exposes the agency to potential security vulnerabilities which, unchecked, may lead to a major outage or loss of member data.

6. BENEFITS and OUTCOMES

Benefits and outcomes for initiatives associated with this proposal will result in broad improvements in operating and supporting processes for the agency. Examples of benefits and outcomes for each initiative follow:

Disaster Recovery

- Ensure compliance with DAS Statewide Policy #107-001-010 on Business Continuity Planning.
- Reduce the impact of a catastrophic event that may impact the agency ability to restore service to members and employers.
- Increase the ability for PERS data systems to recover in a timely manner.
- Reduce the number of incidents when ORION is not available due to batch failures and the jClarety database backup and refresh process.

Virtual Desktop Environment

- Improve performance and availability of desktop computing resources.
- Reduce the risk of security breaches due to malware and virus attacks.
- Support policy initiatives that encourage BYOD or telecommuting.

Single Sign-On

- Reduce the necessity of Agency personnel to maintain multiple usernames and passwords;
- Reduce the number so disparate systems users need to login too.
- Improve security and reduce the risk of incurring security violations.

7. RISKS

Disaster Recovery

PERS needs to improve its DR and BCP in compliance with the requirements of the DAS Statewide Policy #107-001-010, which requires that each executive branch agency to develop and implement a Business Continuity Plan to "ensure that critical state services will continue despite their interruption by an emergency, disaster, or other unplanned event, whether natural or manmade." If a disaster occurs, existing retired members would continue to receive their retirement benefits, based upon a previous month payment file. However, until the system is restored, no additions, changes, or removal of member benefits could be made, and employer transactions would not be processed.

Virtual Desktop Environment

By not transferring to a virtual desktop infrastructure, PERS may experience the following risks:

- Member data and personally identifiable information may potentially reside outside the data center and on laptops, which creates a security risk for the agency;
- In the event a disaster, agency staff will not have remote access to systems, and therefore reduce the ability to serve members and employers;
- The agency will spend funds to mitigate security risks to implement a secure telecommute/telework or BYOD policy; and
- PERS will continue to purchase and replace physical desktop and laptop computers as needed or on a defined replacement cycle.

Single Sign-On

The number of core business applications used by PERS continues to grow, many of which may become cloud-based or hosted. As these applications grow, agency personal will be required to maintain an increasing number of disparate usernames and passwords. If these username and passwords are not aged appropriately, we expose the agency to security violations and the possible loss of PII.

Without implementing a Single Sign-On infrastructure, PERS risks the ability to ensure its infrastructure and systems are able to deliver on the core value of paying the right person the right benefit at the right time.

8. AGENCY MISSION, VALUES, and PRINCIPLES

OPERS Mission Statement

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

OPERS Core Values

Integrity – Inspiring trust through transparency and accountability
Innovation – Empowering change through collaborative teamwork
Simplicity – Reducing barriers through clear communication and streamlined processes

OPERS Core Operating Principles

Member Service – Enabling our diverse membership to make informed decisions
Data Integrity – Partnering with employers and members to ensure timely and reliable information
Information Security – Constantly vigilant to safeguard confidential information

Oregon

John A. Kitzhaber, M.D., Governor

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July 25, 2014

TO: Members of the PERS Board

FROM: Debra Hembree, Actuarial Services Coordinator

SUBJECT: December 31, 2013 System-wide Valuation Results

Milliman actuaries Matt Larrabee and Scott Preppernau will present system-wide results of the December 31, 2013 actuarial valuation for the Tier One/Tier Two and Oregon Public Service Retirement Plan pension programs, and the retiree healthcare programs. The presentation will include system-wide average contribution rates for the 2015-17 biennium.

Individual employer contribution rates for the 2015-17 biennium will be presented for the Board's consideration and adoption at the September 26, 2014 Board meeting.

Milliman's presentation will be provided electronically to the Board and posted on the PERS website as soon as it is available. Hard copies will be available at the meeting.

DECEMBER 31, 2013 ACTUARIAL VALUATION

OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM

July 25, 2014

Presented by:
Matt Larrabee, FSA, EA
Scott Preppernau, FSA, EA

Milliman

Introduction

- Today we are presenting a summary of system-wide results of our forthcoming December 31, 2013 actuarial valuation
- This valuation will be the basis for adoption of July 2015 – June 2017 employer contribution rates on September 26th
- A listing of rates for each employer will be included in the materials for the September 26th Board meeting
- Shortly after that meeting we will provide PERS staff with detailed reports for each employer
- PERS will deliver those reports to employers

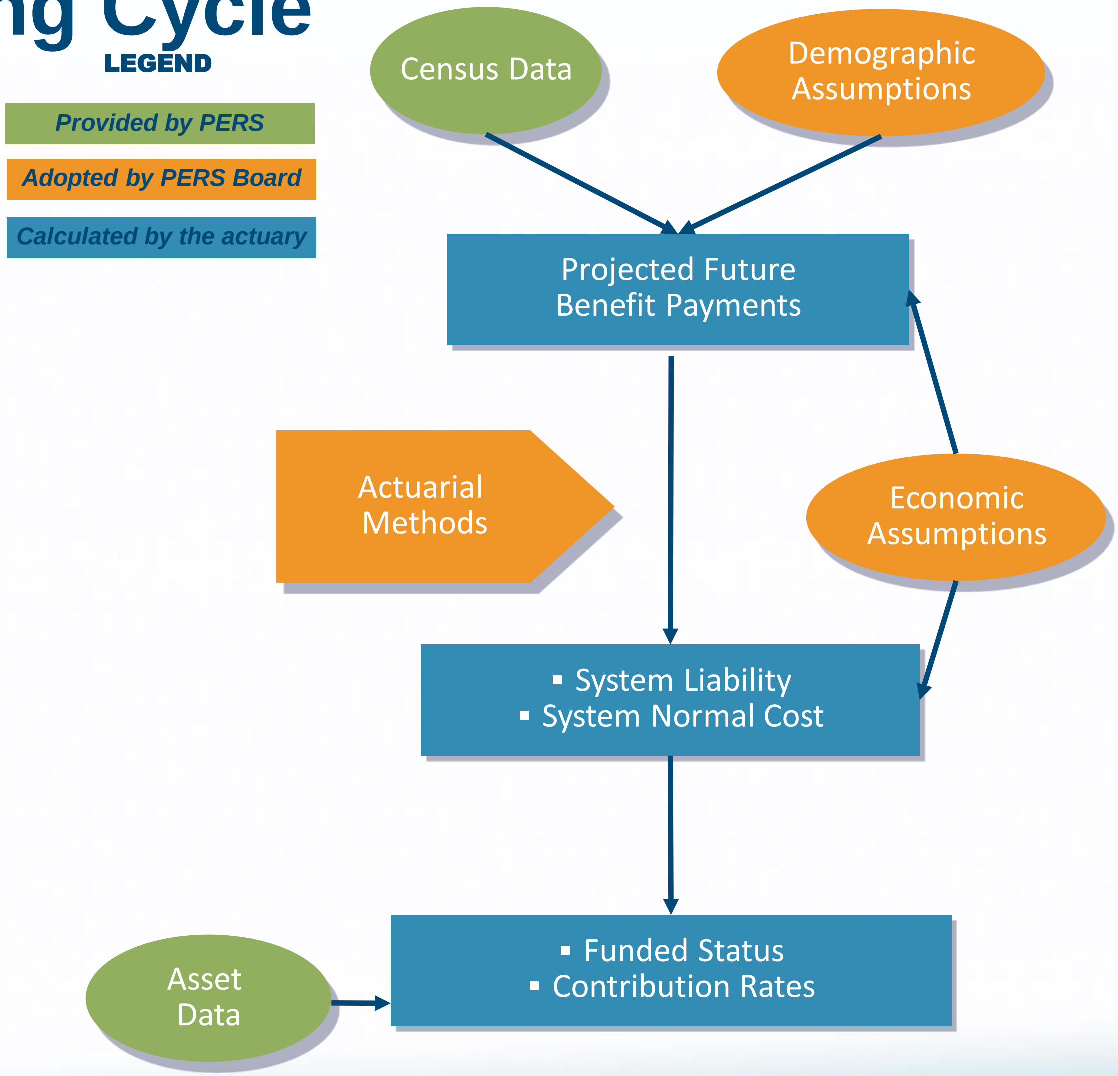
Valuation Process and Timeline

- Actuarial valuations are conducted annually
  - Alternate between “rate-setting” and “advisory” valuations
  - The 12/31/2013 valuation is rate-setting
- The Board adopts employer contribution rates developed in rate setting valuations, and those rates go into effect 18 months subsequent to the valuation date

Valuation Date	Employer Contribution Rates
12/31/2011 →	July 2013 – June 2015
12/31/2013 →	July 2015 – June 2017

Two-Year Rate-Setting Cycle

- July 2013: Assumptions & methods endorsed by Board in consultation with the actuary
- September 2013: System-wide 12/31/12 "advisory" actuarial valuation results
- November 2013: Advisory 2015-2017 employer-specific contribution rates
- **July 2014: System-wide 12/31/13 "rate-setting" actuarial valuation results**
- September 2014: Disclosure & adoption of employer-specific 2015-2017 contribution rates



Guiding Principles

- In setting rates, the PERS Board has identified the following guiding principles:
  - Transparent
  - Predictable and stable rates
  - Protect funded status
  - Equitable across generations
  - Actuarially sound
  - GASB compliant
- Tension exists between some of the goals (e.g. stability of rates and protecting funded status)
  - Balancing the competing priorities is important to the policy decisions surrounding the rate-setting cycle

Guiding Principles

- Recently, several notable organizations have published principles and policy objectives for public plan sponsors to consider
  - GFOA and “Big 7”, American Academy of Actuaries, Conference of Consulting Actuaries, Society of Actuaries
  - Many similarities to the PERS framework shown on prior slide
- For example, GFOA recommends that sponsoring employers:
  - Base contributions on an actuarially determined rate
  - Fully fund the actuarial rate in each period
  - Develop the actuarial rate to balance goals of:
    - Keeping contributions stable, and
    - Equitably allocating costs over periods of service
  - Demonstrate accountability and transparency

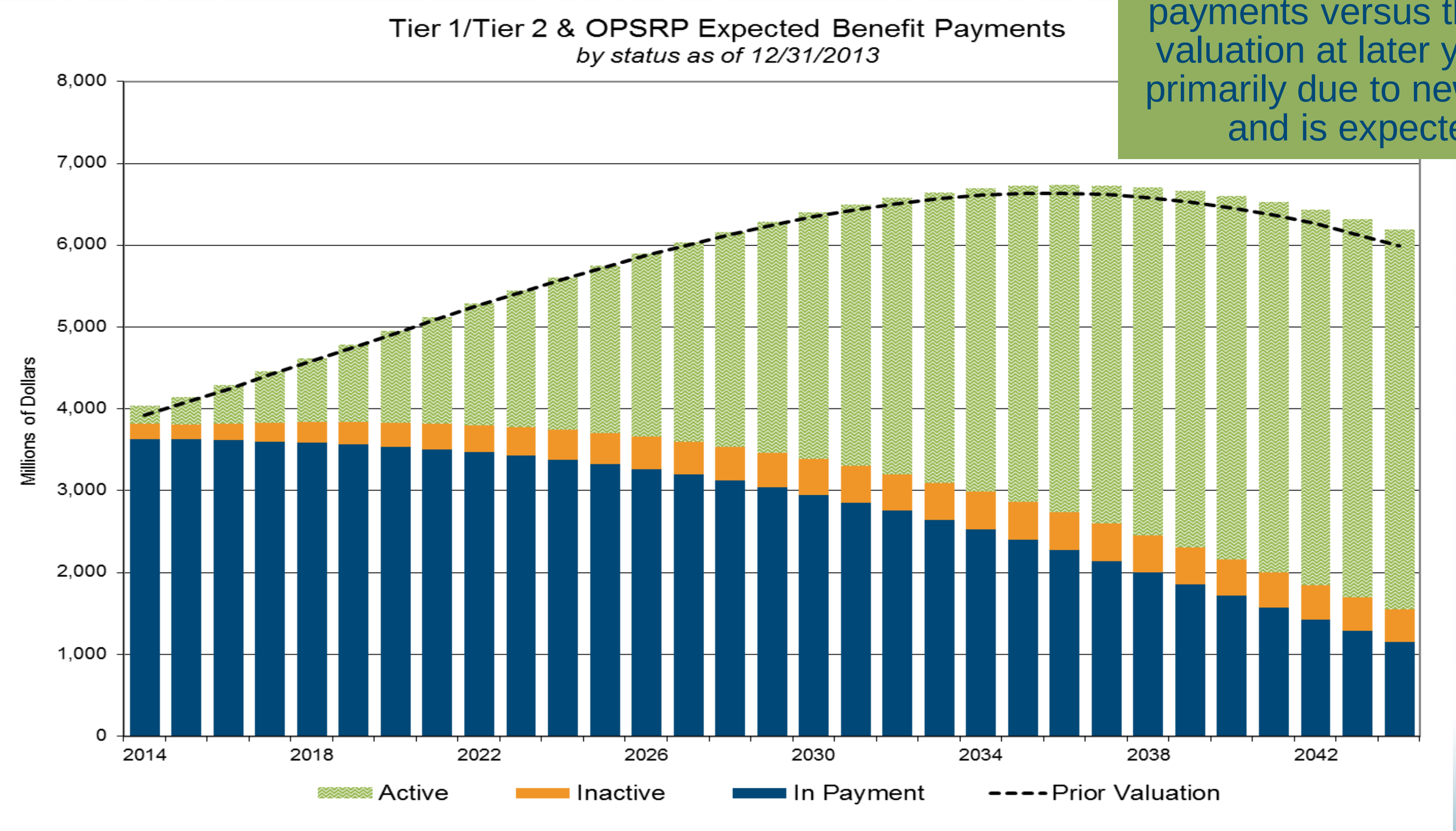
Changes Since Last Rate-Setting Valuation

- 12/31/2011 valuation developed initial 2013-2015 contribution rates
- 2013 legislative changes (SB 822 & 861) lowered projected benefits
  - Reflected in final 2013-2015 rates per legislative direction
- PERS Board adopted new assumptions and methods from the 2012 Experience Study, including:
  - Lowering investment return assumption to 7.75%
  - Change to Entry Age actuarial cost allocation method
  - Re-amortizing all existing Tier 1/Tier 2 Unfunded Accrued Liability (UAL) as of 12/31/2013 over a twenty-year period
- 2012 and 2013 asset returns were greater than assumed
  - Generated approximately $6.4 billion actuarial gain over the biennium

Development of Liabilities

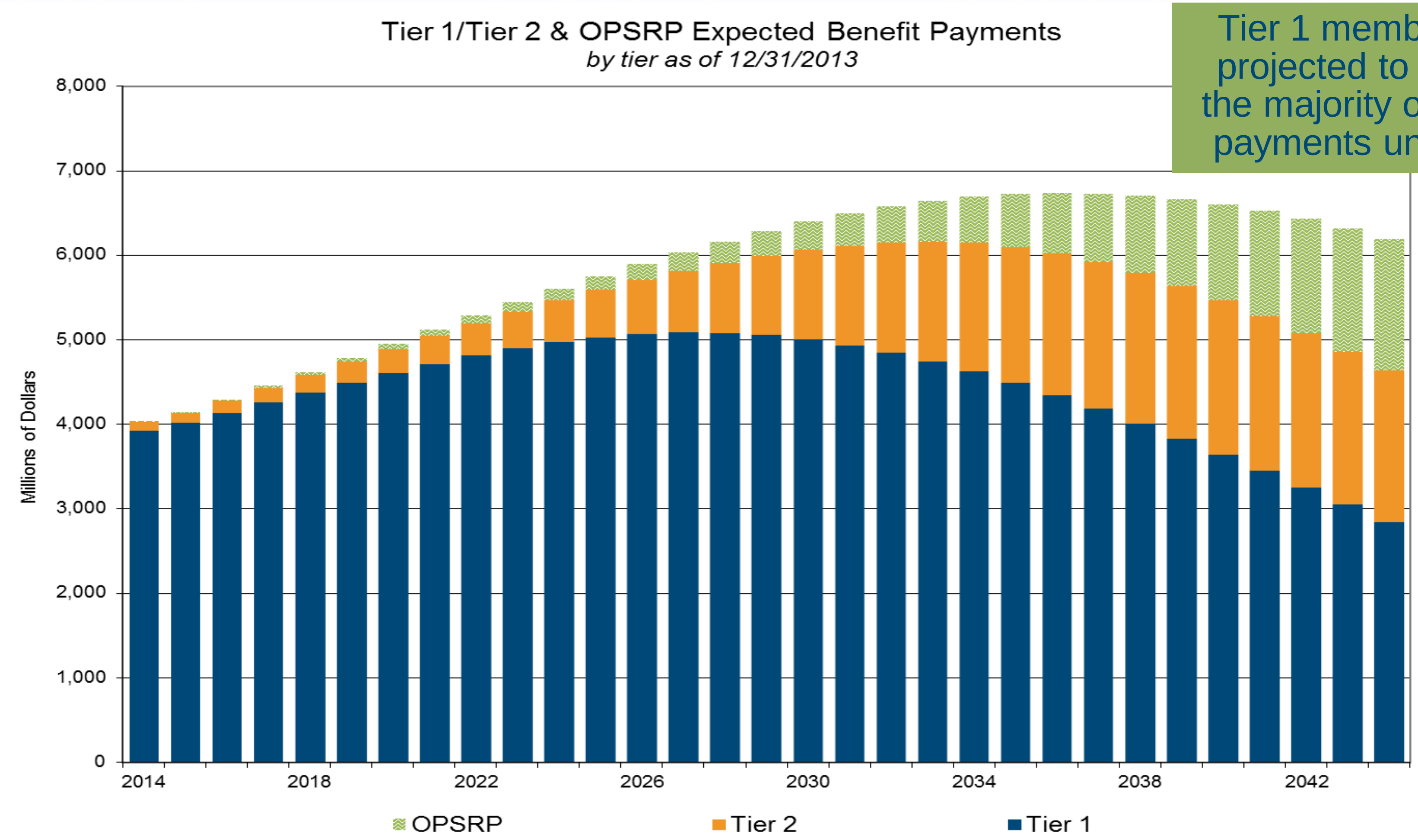
Liabilities are calculated from projected benefit payments

Slight increase in projected payments versus the prior valuation at later years is primarily due to new hires, and is expected.



Development of Liabilities

This chart shows projected payments split by membership group



Tier 1 members are projected to receive the majority of benefit payments until 2042

System-Wide Valuation Results

Tier 1/Tier 2 & OPSRP (Excluding Retiree Health Care)

Reflects:	**12/31/2011**	**12/31/2012**	**12/31/2013**
SB 822 & SB 861 Benefit Changes?	***No***	***Yes***	***Yes***
2012 Experience Study Assumptions?	***No***	***Yes***	***Yes***
Accrued Liability	$61.2	$60.4	$62.6
Assets (excluding side accounts)	$44.9	$49.3	$54.1
Unfunded Accrued Liability (UAL)	$16.3	$11.1	$8.5
Funded Status (excluding side accounts)	**73%**	**82%**	**86%**
Assets (including side accounts)	$50.2	$54.8	$60.0
UAL (including side accounts)	$11.0	$5.6	$2.6
Funded Status (including side accounts)	**82%**	**91%**	**96%**

(amounts in billions)

Uncollared System Average Base Rates

Excludes Retiree Health Care, IAP Contributions, Rate Collar, Side Accounts

	12/31/2011[1] 2013 - 2015 Rates			12/31/2013[1] 2015 - 2017 Rates		
	Tier 1 / Tier 2	OPSRP	System-Wide	Tier 1 / Tier 2	OPSRP	System-Wide
Normal Cost	9.00%	6.56%	8.16%	13.18%	7.79%	10.94%
Tier 1/Tier 2 UAL	14.77%	14.77%	14.77%	6.63%	6.63%	6.63%
OPSRP UAL	0.15%	0.15%	0.15%	0.61%	0.61%	0.61%
Valuation Uncollared Rate	**23.92%**	**21.48%**	**23.08%**	**20.42%**	**15.03%**	**18.18%**
Effect of SB 822 & SB 861	**-4.28%**	**-4.28%**	**-4.28%**			
Modified Uncollared Base Rate	**19.64%**	**17.20%**	**18.80%**			

Without the 2013 benefit changes, 2015-17 uncollared base rates are preliminarily estimated to be 4.5%-5.0% higher

2015 - 2017 uncollared rates reflect a re-amortization (as a level percentage of payroll) of Tier 1/Tier 2 UAL over twenty years

[1] *For this exhibit, adjustments are assumed not to be limited due to an individual employer reaching a 0.00% contribution rate.*

Collared System Average Base Rates

Excludes Retiree Health Care & IAP Contributions, Side Account Offsets

	12/31/2011[1] 2013 - 2015 Rates			12/31/2013[1] 2015 - 2017 Rates		
	Tier 1 / Tier 2	OPSRP	System-Wide	Tier 1 / Tier 2	OPSRP	System-Wide
Uncollared Rate	**19.64%**	**17.20%**	**18.80%**	**20.42%**	**15.03%**	**18.18%**
Collar Adjustment	(2.30%)	(2.30%)	(2.30%)	(0.72%)	(0.72%)	(0.72%)
Collared Base Rate	**17.34%**	**14.90%**	**16.50%**	**19.70%**	**14.31%**	**17.46%**
Change from 2013-2015				**2.36%**	**(0.59%)**	**0.96%**

The rate collar methodology sets the maximum allowable change in base contribution rates from one biennium to the next. For base rates effective July 2015, the collar:

- ***Limited base rate increases for SLGRP employers by 1.14%***
- ***Had no effect on School Districts (i.e., 2015-17 uncollared & collared rates are equal)***

These effects, combined with independent employer results, led to a system average collar adjustment of 0.72% for 2015 – 2017 system average base rates.

[1] *For this exhibit, adjustments are assumed not to be limited due to an individual employer reaching a 0.00% contribution rate.*

Understanding Base Rate Changes

- Tier 1/Tier 2 base rates increased, while OPSRP base rates decreased
- 2012-13 investment results lowered UAL rates
  - UAL rates are charged uniformly across both Tier 1/Tier 2 and OPSRP payrolls
- Change to the GASB-endorsed Entry Age cost method increased Normal Cost rates
  - Change was not uniform across both payrolls; differing effects of Entry Age explain rate changes

	Collared Base Rates		
	2013-15	2015-17	Change
Tier 1/Tier 2	17.34%	19.70%	2.36%
OPSRP	14.90%	14.31%	(0.59%)
	Difference =		**2.95%**

	Normal Cost Rates		
	2013-15	2015-17	Change
Tier 1/Tier 2	9.00%	13.18%	4.18%
OPSRP	6.56%	7.79%	1.23%
	Difference =		**2.95%**

Collared System Average Net Rates

Excludes Retiree Health Care & IAP Contributions

	12/31/2011[1] 2013 - 2015 Rates			12/31/2013[1] 2015 - 2017 Rates		
	Tier 1 / Tier 2	OPSRP	System-Wide	Tier 1 / Tier 2	OPSRP	System-Wide
Collared Base Rate	**17.34%**	**14.90%**	**16.50%**	**19.70%**	**14.31%**	**17.46%**
Side Account (Offset)	(5.26%)	(5.26%)	(5.26%)	(6.38%)	(6.38%)	(6.38%)
SLGRP Net (Offset)	(0.44%)	(0.44%)	(0.44%)	(0.47%)	(0.47%)	(0.47%)
Collared Net Rate	**11.64%**	**9.20%**	**10.80%**	**12.85%**	**7.46%**	**10.61%**
Change from 2013-2015				**1.21%**	**(1.74%)**	**(0.19%)**

Rates vary substantially by employer and by pool, and not all employers have side account offsets

Changes in side account offsets are not collared, and thus are more volatile than base rates

[1] *For this exhibit, adjustments are assumed not to be limited due to an individual employer reaching a 0.00% contribution rate.*

Comments on System Average Rates

- No single employer pays the system average rate
  - School district base rates are above the average
  - Most SLGRP employers' base rates are below the average
- Rates shown do not include the effects of:
  - Individual Account Plan (IAP) contributions
  - Rates for the RHIA & RHIPA retiree healthcare programs
  - Debt service payments on pension obligation bonds

Pool average rates for the two large employer rate pools (SLGRP, School Districts) are shown at the end of this presentation

12/31/2013 Retiree Health Care Valuation

- Two separate health care benefit subsidies are valued:
  - RHIA provides a $60 per month subsidy toward healthcare premiums for Medicare-eligible Tier 1/Tier 2 retirees
  - RHIPA provides Tier 1/Tier 2 state employees who retire prior to age 65 with an alternative to PEBB coverage until they reach Medicare eligibility
- OPSRP retirees are not eligible for either subsidy
- RHIA and RHIPA benefits are currently less well funded than Tier 1/Tier 2 & OPSRP benefits
  - To help address that, in July 2009 the Board shortened the shortfall amortization period to ten years to improve funded status over time
  - Rates reflecting the shorter amortization were first effective July 2011

12/31/2013 Retiree Health Care Valuation

- While funded status is low, RHIA and RHIPA liabilities combined are less than 1% of the pension liability
- In last year's experience study, we recommended restructuring the RHIPA participation assumption for future state government retirements
  – We assumed higher participation rates for retirees eligible for the largest employer-paid subsidies
  – RHIPA program has historically had participation levels less than 20%

12/31/2013 Retiree Health Care Valuation

- RHIPA funded status increased slightly in the past year from 7% to 9%
- The higher employer contribution rates effective July 2011 have helped mitigate the program's negative cash flow
- Additional employer contribution rate increases due to the updated assumptions will be first effective in July 2015
- RHIPA warrants continued monitoring, as funded status is very low and subsidy payments are sensitive to actual participation levels

12/31/2013 Retiree Health Care Valuation

Unfunded Accrued Liability (UAL) and Advisory Contribution Rates

	RHIA		RHIPA*	
(amounts in millions)	12/31/2012	12/31/2013	12/31/2012	12/31/2013
Accrued Liability	$472	$474	$60	$61
Assets	$292	$354	$ 4	$ 5
UAL	$180	$120	$56	$56
Funded Status	**62%**	**75%**	**7%**	**9%**
Normal Cost Rate	**0.08%**	**0.08%**	**0.09%**	**0.09%**
UAL Rate	**0.48%**	**0.45%**	**0.34%**	**0.35%**
Total Rate	**0.56%**	**0.53%**	**0.43%**	**0.44%**

**State Agencies, OUS, and State Judiciary are the only employers who pay RHIPA rates*

RHIPA assets at year-end 2013 were only slightly larger than the magnitude of 2013 RHIPA benefit payments

Pool Average Employer Contribution Rates

- A listing of contribution rates for each employer will be presented at the September Board meeting
- Employer rates are developed by payroll category
  - Tier 1/Tier 2
  - OPSRP General Service
  - OPSRP Police & Fire
- An employer's rates in each category depend on:
  - Tier 1/Tier 2 pooling arrangement (SLGRP, school district, independent)
  - Employer-specific items like side accounts or pre-SLGRP liabilities
- Following slides show pool average "base" and "net" rates for employers in the two large Tier 1/Tier 2 rate pools

SLGRP Average Contribution Rates

(Includes Retiree Health Care, Excludes IAP)

	Pool Average Base Rate			Pool Average Net Rate		
	2013-15	2015-17	Change	2013-15	2015-17	Change
Tier 1/Tier 2 GS/PF Payroll	16.05%	19.58%	3.53%	11.03%	13.79%	2.76%
OPSRP GS Payroll	13.04%	13.13%	0.09%	8.02%	7.34%	(0.68%)
OPSRP PF Payroll	15.77%	17.24%	1.47%	10.75%	11.45%	0.70%
Weighted Average	**15.11%**	**17.06%**	**1.95%**	**10.09%**	**11.27%**	**1.18%**

- Between the 2011 and 2013 rate-setting valuations the SLGRP's Tier 1/Tier 2 UAL decreased from $7.9 billion to $3.9 billion
  - SLGRP payroll is approximately $5.1 billion
- Individual employer rates will vary from average due to:
  - Member payroll split between tiers and job classifications
  - Employer-specific pre-SLGRP liabilities or surpluses
  - Employer side accounts

School District Average Contribution Rates

(Includes Retiree Health Care, Excludes IAP)

	Pool Average Base Rate			Pool Average Net Rate		
	2013-15	2015-17	Change	2013-15	2015-17	Change
Tier 1/Tier 2 Payroll	22.29%	22.33%	0.04%	13.94%	11.71%	(2.23%)
OPSRP GS Payroll	20.29%	17.64%	(2.65%)	11.94%	7.02%	(4.92%)
Weighted Average	**21.64%**	**20.50%**	**(1.14%)**	**13.29%**	**9.88%**	**(3.41%)**

- Between the 2011 and 2013 rate-setting valuations school districts' Tier 1/Tier 2 UAL decreased from $7.0 billion to $3.4 billion
  - School district payroll is approximately $2.7 billion
  - The UAL decrease is similar to the SLGRP's but school district payroll is barely half of SLGRP payroll, making school district base rates more sensitive to investment outperformance than SLGRP base rates
- Side accounts further leveraged net rate changes
- Individual district rates will vary from average due to side accounts

Wrap Up / Next Steps

- Valuation next steps
  - Present employer-specific rates for adoption at September meeting
  - Issue system-wide December 31, 2013 actuarial valuation report
  - Prepare employer-specific rate-setting valuation reports
    - PERS distributes to employers
- Work with PERS, employers and auditors to transition to new GASB reporting standards
  - Employer reporting under the new standard will first occur for the fiscal year ending on June 30, 2015

Certification

This presentation summarizes key preliminary results of an actuarial valuation of the Oregon Public Employees Retirement System ("PERS" or "the System") as of December 31, 2013, for the Plan Year ending December 31, 2013. The results are preliminary in nature and may not be relied upon to, for example, prepare the System's Consolidated Annual Financial Report (CAFR). The reliance document will be the forthcoming formal December 31, 2013 System-Wide Actuarial Valuation Report.

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. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements. The PERS Board has the final decision regarding the appropriateness of the assumptions.

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

Certification

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.

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. The signing actuaries are independent of the plan sponsors. We are not aware of any relationship that would impair the objectivity of our work.

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.

Appendix
Data Exhibits

	December 31, 2013				December 31, 2012
	Tier 1	Tier 2	OPSRP	Total	Total
Active Members					
Count	37,585	44,297	80,303	162,185	167,103
Average age	54.7	49.0	42.2	46.9	46.9
Average total service	22.7	13.2	5.3	11.5	11.4
Average prior year covered salary	$ 68,000	$ 58,640	$ 42,239	$ 52,688	$ 50,768
Inactive Members[1]					
Count	17,034	15,985	8,194	41,213	41,871
Average age	56.9	51.2	46.0	52.5	53.0
Average monthly deferred benefit	$ 1,966	$ 678	$ 301	$ 1,135	$ 1,284
Retired Members and Beneficiaries[1]					
Count	120,051	7,063	1,003	128,117	122,037
Average age	71.2	66.0	65.4	70.8	70.8
Average monthly benefit	$ 2,477	$ 745	$ 363	$ 2,365	$ 2,318
Total members	**174,670**	**67,345**	**89,500**	**331,515**	**331,011**

1. Inactive and Retiree counts are shown by lives within the system. In other words, a member is counted once for purposes of this exhibit, regardless of their service history for different rate pools. This contrasts with the method used to count inactive participants in some of the later exhibits of this report.

Appendix

Actuarial Basis

Data

We have based our calculation of the liabilities on the data supplied by the Oregon Public Employees Retirement System and summarized in the data exhibits on the preceding slides.

Assets as of December 31, 2013, were based on values provided by Oregon PERS reflecting the Board's earnings crediting decisions for 2013.

Methods / Policies

Actuarial Cost Method: Entry Age Normal, adopted effective December 31, 2012.

UAL Amortization: The UAL for OPSRP and Retiree Health Care as of December 31, 2007 are amortized as a level percentage of combined valuation payroll over a closed 16 year period for OPSRP and a closed 10 year period for Retiree Health Care. For the Tier 1/Tier 2 UAL, the amortization period is reset at 20 years as of December 31, 2013. 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: 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 60% or increases above 140%, the size of the collar doubles. If the funded percentage excluding side accounts is between 60% and 70% or between 130% and 140%, the size of the rate collar is increased on a graded scale.

Appendix

Actuarial Basis

Methods / Policies (cont'd)

Expenses: OPSRP administration expenses are assumed to be equal to $5.5M 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).

Assumptions

Assumptions for valuation calculations are as described in the 2012 Experience Study for Oregon PERS and were presented to the PERS Board in July 2013.

Provisions

Provisions valued are as detailed in the 2012 Valuation Report, and include the provisions of Senate Bill 822, which was enacted by the Oregon Legislature in April 2013, and SB 861, enacted in October 2013.