

OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM BOARD MEETING

| Friday May 29, 2015 1:00 P.M. | | PERS 11410 SW 68 th Parkway Tigard, OR | |
|---------------------------------------|---|--|--|
| ITEM | | PRESENTER | |
| A. Administration | | | |
| 1. | March 30, 2015 Board Meeting Minutes Director's Report <ul style="list-style-type: none"> a. Welcome New Board Member b. Forward-Looking Calendar c. OIC Investment Report d. Budget Execution Report e. Board Scorecard Report on Agency Performance Measures f. Actuarial Services | RODEMAN | |
| B. Administrative Rulemaking | | | |
| 1. | Notice of Reemployment of OPSRP Retirees Rules | VAUGHN | |
| 2. | First Reading of Disability Application Rules | | |
| 3. | Adoption of Benefit Payment Reductions/Deductions Rules | | |
| 4. | Adoption of IRC and Social Security Limitations Rules | | |
| C. Action and Discussion Items | | | |
| 1. | 2016 Retiree Health Insurance Plan Renewals and Rates | KOBBERVIG BATH TAYLOR DUNN / MILLIMAN MILLIMAN | |
| 2. | OSGP Advisory Committee Appointments | | |
| 3. | Legislative Session Update | | |
| 4. | <i>Moro</i> Decision Implementation | | |
| 5. | 2014 Valuation Methods and Assumptions | | |

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2015 Meetings: July 31* · September 25 · November 20*

* Audit Committee

Lawrence Furnstahl Krystal Gema John Thomas, Chair Pat West, Vice Chair Rhoni Wiswall Steve Rodeman, Executive Director

OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM

BOARD MEETING MINUTES

March 30, 2015

Board Members:

John Thomas, Chair
Krystal Gema
Pat West
Rhoni Wiswall

Staff:

| | | | |
|------------------|-----------------|------------------|--------------|
| Donna Allen | Jessica Johnson | Steve Rodeman | Joli Whitney |
| Linda Barnett | Kyle Knoll | Jason Stanley | Yong Yang |
| David Crosley | Amanda Marble | Marjorie Taylor | |
| Mary Dunn | Jordan Masanga | Stephanie Vaughn | |
| Yvette Elledge | Beth Porter | Anne Marie Vu | |
| Brian Harrington | Daniel Rivas | Dale Wakabayashi | |

Others:

| | | |
|--------------|---------------|------------------|
| Lance Colley | Greg Hartman | Elizabeth McCann |
| Shawn Cross | Mike Jaspin | Scott Preppernau |
| Linda Ely | Keith Kutler | Trudy Vidal |
| Jeff Gudman | Matt Larrabee | |

Chair John Thomas called the meeting to order at 1:00 P.M. Board member Rhoni Wiswall attended the meeting by telephone.

ADMINISTRATION

A.1. BOARD MEETING MINUTES OF JANUARY 30, 2015

Board member Krystal Gema moved and Vice Chair Pat West seconded approval of the minutes submitted from the January 30, 2015 Board meeting. The motion passed unanimously.

A.1.a DIRECTOR'S REPORT

Executive Director Steve Rodeman reviewed the 2015 Forward Looking Calendar. Rodeman presented the Oregon Investment Council (OIC) Investment Report for the period ending January 31, 2015. He noted that the February report was not yet available, but it was around 2 percent for the month. March has been particularly volatile so far.

Rodeman also presented the March 2015 Budget Execution Report. There is a current positive variance of about \$3.1 million or 3.6 percent of the total biennial operating budget. The legislation implementation budget (Senate Bills 822 and 861) also continues on track with a positive variance of about 31 percent or \$634,425 of the \$2 million biennial budget. The 2015-17 budget was presented to the Ways & Means General Government Subcommittee March 16-18.

Chair Thomas commented on the current state of the market and the impact this may have on future rates.

A.1.d. ANNUAL REPORT OF EXECUTIVE DIRECTOR'S FINANCIAL TRANSACTIONS

Rodeman introduced a report from the Internal Audit Director Jason Stanley. This report reviews the summary of salary, benefits, personnel expenses, travel, and other financial charges

incurred by PERS' Executive Director for the fiscal year ended June 30, 2014, and for the period July 1, 2014, through the former Executive Director's retirement on December 1, 2014. The Board acknowledged receipt of this report.

ADMINISTRATIVE RULEMAKING

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

B.1. NOTICE OF DISABILITY APPLICATION RULES

Vaughn presented the notice of rulemaking for the Disability Application Rules, OAR 459-015-0020 and -076-0020. The proposed rule amendments make housekeeping edits to properly incorporate defined terms "date of termination," "date of separation from service," and "date of disability." A rulemaking hearing will be held April 28, 2015, and the public comment period ends May 6, 2015. No Board action was required.

B.2. NOTICE OF BENEFIT PAYMENT REDUCTIONS/DEDUCTIONS RULES

Vaughn presented the notice of rulemaking for Benefit Payment Reductions/Deductions Rules, OAR 459-005-0600, -005-0610 and -045-0070. The proposed amendments will update the order of priority for deductions from a benefit payment. A rulemaking hearing is scheduled for April 28, 2015, and the public comment period ends May 6, 2015. No Board action was required.

B.3. NOTICE OF IRC AND SOCIAL SECURITY LIMITATIONS RULES

Vaughn presented the notice of rulemaking for IRC and Social Security Limitations Rules OAR 459-005-0525, -0545, -017-0060, and -080-0500. The proposed amendments update the rules to reflect 2015 Internal Revenue Code and Social Security annual compensation limitations. A rulemaking hearing is scheduled for April 28, 2015, and the public comment period ends May 6, 2015. No public comment was received. No Board action was required.

B.4. ADOPTION OF HEALTH INSURANCE PROGRAM ENROLLMENT RULE

Vaughn presented the Health Insurance Program rule, OAR 459-035-0070 for adoption. A rulemaking hearing was held on February 25, 2015. No members of the public attended the hearing. The public comment period ended March 6, 2015. No public comment was received. The rule changes clarify the enrollment requirements for the PERS Dental Insurance Program.

West moved to adopt the modifications to the Health Insurance Program rule as presented. Wiswall seconded. The motion passed unanimously.

B.5. ADOPTION OF IAP EARNINGS CREDITING RULES

Vaughn presented the IAP earnings crediting rules, OAR 459-007-0320, -0330 and -080-0250 for adoption. The rules must be modified to clarify earnings crediting for IAP account payments and to change the definition of the term "anniversary date." A rulemaking hearing was held February 24, 2015, and the public comment period ended on March 6, 2015. No members of the public attended the hearing and no public comment was received.

Gema moved to adopt modifications to the IAP Earnings Crediting rules as presented. West seconded. The motion passed unanimously.

ACTION AND DISCUSSION ITEMS

C.1. FINAL 2014 EARNINGS CREDITING AND RESERVING

Mary Dunn, Senior Policy Director of Operations, presented final 2014 earnings crediting and reserving for the Board's consideration. A preliminary report was approved by the Board at the January 30, 2015 Board meeting. The preliminary allocation was acknowledged by the Joint Ways and Means Subcommittee on General Government on March 18, 2015, and will be received at a meeting of the full Ways and Means Committee, most likely on April 3, 2015.

Gema moved to adopt the final earnings crediting as presented for calendar year 2014. West seconded. The motion passed unanimously.

C.2. LEGISLATIVE UPDATE

Senior Policy Director Marjorie Taylor presented a legislative update. She explained that, so far, over 2,600 bills have been introduced, and of those about 30 would directly impact the PERS statutes. Taylor gave an update from the March 10, 2015 Legislative Advisory Committee meeting where a proposal from Rob Bovett of the Association of Oregon Counties was considered (House Bill 3495). This bill has a hearing currently scheduled on April 1, 2015. She also reviewed the recent presentation of the PERS budget (House Bill 5034) and gave an update on Board member appointments and reappointments.

Rodeman added that we have been invited to come back to the legislature and present a roadmap of the agency's policy option packages to address technology needs. There was also interest in hearing more about the PERS Health Insurance Program and whether the individual program was still needed given the changes to the insurance marketplace through the Affordable Care Act. He expects that the agency budget process will enter into the third phase in late May or early June.

No Board action was required.

PUBLIC TESTIMONY

Jeff Gudman of Lake Oswego City Council appeared before the Board to follow up on his request from the January Board meeting seeking total asset and liabilities information on the new GASB-compliant employer statements. He said that there has not been a response to his request. Rodeman noted that there is no new information available since the January meeting. Chair Thomas asked Matt Larrabee to come forward to explain that the information Mr. Gudman was requesting was not something that was considered in the new GASB requirements. Larrabee also noted that there have been similar information requests received from other employers. After further discussion, it was determined that the information Gudman requested should not be provided in this manner as it was not an "apples to apples" data comparison.

Thomas adjourned the Board meeting at 1:45 PM.

Respectfully submitted,



Steven Patrick Rodeman
Executive Director

PERS Board Meeting Forward-Looking Calendar

Friday, July 31, 2015

2015 Legislative Session Review
2014 Experience Study and Adoption of Actuarial Methods and Assumptions
Audit Committee Meeting

Friday, September 25, 2015

Customer Service Survey Results
2014 Actuarial Valuation and 2017-19 Employer "Advisory Rates"

Friday, November 20, 2015

Board Scorecard Report on Agency Performance Measures
Audit Committee Meeting

Returns for periods ending 4/30/15

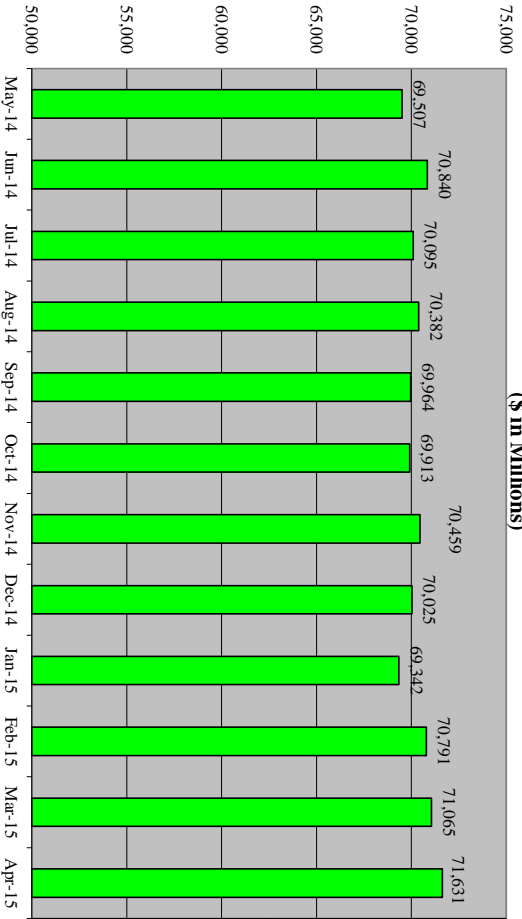
Oregon Public Employees Retirement Fund

| | | Regular Account | | | | | | | | | | | |
|-------------------------------------|-----------------------|--|---------------|---------------|------------|------------|------------|------------|-------------|--------|--------|--------|-------|
| | | Historical Performance (Annual Percentage) | | | | | | | | | | | |
| | | Year- To-Date ³ | 1 YEAR | 2 YEARS | 3 YEARS | 4 YEARS | 5 YEARS | 7 YEARS | 10 YEARS | | | | |
| OPERF | Public Equity | 32.5-42.5% | 37.5% | \$ 29,273,415 | 41.3% | 5.73 | 7.94 | 11.90 | 13.36 | 8.16 | 10.51 | 5.12 | 7.46 |
| | Private Equity | 16-24% | 20% | 14,398,681 | 20.3% | 0.86 | 9.13 | 14.84 | 14.58 | 12.85 | 13.77 | 8.15 | 12.22 |
| | Total Equity | 52.5-62.5% | 57.5% | 43,672,096 | 61.6% | 1.65 | 5.68 | 9.63 | 12.21 | 8.90 | 10.88 | 8.72 | |
| | Opportunity Portfolio | | | 1,093,409 | 1.5% | | | | | | | | |
| | Total Fixed | 15-25% | 20% | 16,611,610 | 23.4% | 1.73 | 3.19 | 2.08 | 4.06 | 4.80 | 5.51 | 6.52 | 5.97 |
| Real Estate | 9.5-15.5% | 12.5% | 7,900,799 | 11.2% | 4.37 | 13.86 | 12.17 | 13.46 | 12.36 | 13.50 | 3.87 | 8.80 | |
| Alternative Investments | 0-10% | 10% | 1,397,748 | 2.0% | (2.39) | 1.33 | 2.73 | 2.36 | | | | | |
| Cash | 0-3% | 0% | 179,125 | 0.3% | 0.29 | 0.56 | 0.61 | 0.75 | 0.70 | 0.74 | 0.92 | 2.04 | |
| TOTAL OPERF Regular Account | | | \$ 70,854,787 | 100.0% | 3.41 | 7.66 | 9.96 | 11.18 | 8.77 | 10.24 | 5.92 | 7.79 | |
| OPERF Policy Benchmark | | | | | 4.25 | 8.63 | 11.32 | 11.99 | 9.38 | 10.57 | 6.40 | 7.80 | |
| Value Added | | | | | (0.84) | (0.97) | (1.36) | (0.81) | (0.61) | (0.33) | (0.48) | (0.01) | |
| TOTAL OPERF Variable Account | | | \$ 775,803 | | 5.42 | 7.60 | 11.31 | 12.69 | 7.80 | 10.05 | 4.79 | 5.72 | |

Asset Class Benchmarks:

| | | | | | | | | |
|--|------|-------|-------|-------|-------|-------|-------|-------|
| Russell 3000 Index | 2.26 | 12.74 | 16.69 | 16.86 | 13.34 | 14.33 | 8.68 | 8.66 |
| MSCI ACWI Ex US IMI Net | 8.90 | 2.60 | 6.31 | 8.87 | 2.94 | 6.20 | 1.45 | 6.65 |
| MSCI ACWI IMI Net | 5.40 | 7.34 | 11.00 | 12.37 | 6.30 | 8.78 | 3.88 | 6.83 |
| Russell 3000 Index + 300 bps--Quarter Lagged | 6.01 | 15.90 | 26.22 | 24.07 | 18.73 | 19.06 | 11.36 | 11.58 |
| Oregon Custom HI Benchmark | 1.42 | 2.84 | 1.48 | 3.26 | 4.15 | 4.43 | 4.90 | 4.93 |
| NCREIF Property Index--Quarter Lagged | 3.04 | 11.82 | 11.40 | 11.11 | 11.89 | 12.14 | 4.70 | 8.38 |
| 91 Day T-Bill | 0.01 | 0.02 | 0.04 | 0.07 | 0.06 | 0.09 | 0.25 | 1.48 |

TOTAL OPERF NAV
(includes variable fund assets)
One year ending April 2015
(\$ in Millions)



¹OIC Policy 4.01.18, as revised October 2013.

²Includes impact of cash overlay management.

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



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Kate Brown, Governor

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May 29, 2015

TO: Members of the PERS Board
FROM: Linda M. Barnett, Budget Officer
SUBJECT: May 2015 Board Report

2013-15 OPERATIONS BUDGET

Operating expenditures for March 2015 and preliminary expenditures for April 2015 were \$3,561,098 and \$3,179,944 respectively. Final expenditures for April closed in the Statewide Financial Management System on May 15, 2015, and will be included in the July 2015 report to the Board.

- To date*, through the first 22 months (91.6%) of the 2013-15 biennium, the Agency has expended a total of \$70,219,488, or 82.7% of PERS' legislatively approved operations budget of \$84,820,034.
- PERS received approval from the Legislative Fiscal Office to reschedule the remaining \$392,642 expenditure limitation to complete Phase II of a project to transfer administration of the Individual Account Program from a third-party administrator to PERS. As a result, PERS' legislatively approved operations budget is now \$84,820,034.
- The current projected positive variance is \$3,596,064 or approximately 4.23% of the operations budget. The Agency's goal is to maintain a positive variance of at least \$1.7 million (2%).

SENATE BILL (SB) 822 and SB 861 BUDGETS

These separate budget limitations were approved by the Legislature in 2013 and 2014 for the administrative costs to implement the COLA modifications for 2013 and beyond; remove tax remedy benefits for recipients who do not pay Oregon income taxes because they do not reside in Oregon; implement the six-year supplementary payments program; and recalculate employer contribution rates effective July 1, 2013. Funding was also provided for the necessary technology enhancements, additional call center agents, and Attorney General expenses.

- Expenditures to date are \$1,299,691 or 63.98% of the cumulative SB 822 and SB 861 legislatively approved budget of \$2,031,096.
- The current projected variance is \$645,491 or 31.78% of the SB 822 and SB 861 budget of \$2,031,096.

The nature and scope of this work has obviously changed with the Oregon Supreme Court's decision on the challenges to these bills. Agenda item C.4. for this meeting discusses the policy package for implementing that decision. Once approved, future budget reports will be revised accordingly to reflect the change in direction.

*Based on the preliminary April 2015 expenditures.

A.1.d. Attachment 1 – 2013-15 Agency-wide Budget Execution Summary Analysis

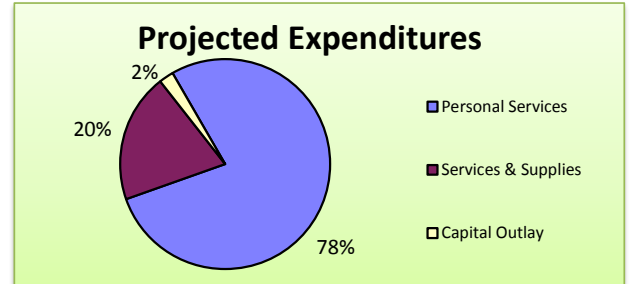
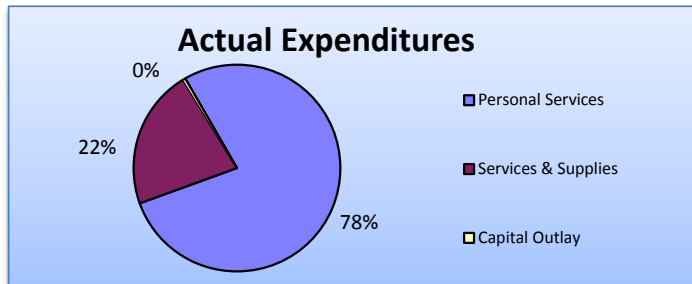
A.1.d. Attachment 2 – SB 822 & SB 861 Projects Budget Execution Summary Analysis

**2013-15 Agency-wide Budget Execution
Summary Budget Analysis
Preliminary For the Month of: April 2015**

Limited - Operating Budget

2013-15 Biennial Summary

| Category | Actual Exp. To Date | Projected Expenditures | Total Est. Expenditures | 2013-15 LAB | Variance |
|---------------------|---------------------|------------------------|-------------------------|-------------------|------------------|
| Personal Services | 54,455,145 | 5,516,318 | 59,971,463 | 63,535,242 | 3,563,779 |
| Services & Supplies | 14,716,522 | 5,483,056 | 20,199,578 | 20,031,339 | (168,239) |
| Capital Outlay | 1,047,821 | 5,108 | 1,052,929 | 1,253,453 | 200,524 |
| Total | 70,219,488 | 11,004,482 | 81,223,970 | 84,820,034 | 3,596,064 |



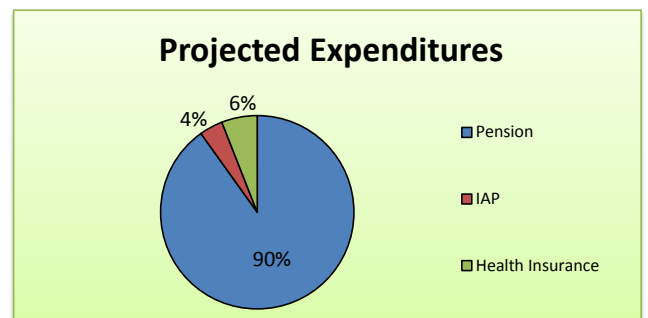
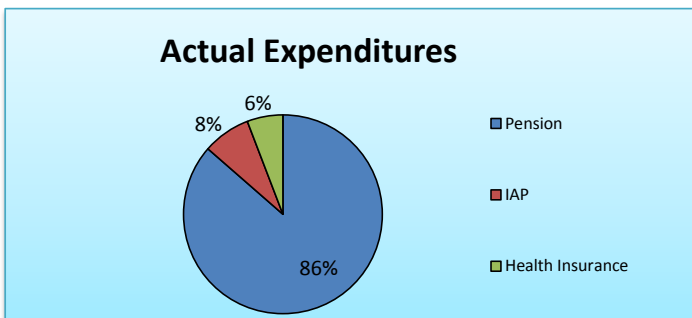
Monthly Summary

| Category | Actual Exp. | Projections | Variance | Avg. Monthly Actual Exp. | Avg. Monthly Projected Exp. |
|---------------------|------------------|------------------|----------------|--------------------------|-----------------------------|
| Personal Services | 2,533,824 | 2,781,822 | 247,998 | 2,474,163 | 1,838,773 |
| Services & Supplies | 617,377 | 976,126 | 358,749 | 668,933 | 1,788,852 |
| Capital Outlay | 28,743 | 0 | (28,743) | 47,628 | 1,703 |
| Total | 3,179,944 | 3,757,948 | 578,004 | 3,190,724 | 3,629,328 |

Non-Limited Budget

2013-15 Biennial Summary

| Programs | Actual Exp To Date | Projected Expenditures | Total Est. Expenditures | Non-Limited LAB | Variance |
|------------------|----------------------|------------------------|-------------------------|----------------------|--------------------|
| Pension | 6,863,526,684 | 987,924,275 | 7,851,450,959 | 8,148,014,000 | 296,563,041 |
| IAP | 615,577,172 | 43,017,426 | 658,594,598 | 721,200,000 | 62,605,402 |
| Health Insurance | 462,574,712 | 65,315,286 | 527,889,998 | 408,661,000 | (119,228,998) |
| Total | 7,941,678,568 | 1,096,256,987 | 9,037,935,555 | 9,277,875,000 | 239,939,445 |



Summary Budget Analysis

Preliminary for the Month of: April 2015

| Biennial Summary - SB822 & SB861 | | | | | |
|---|---------------------|------------------------|--------------------|------------------|----------------|
| Category | Actual Exp. To Date | Projected Expenditures | Total Est. Expend. | 2013-15 LAB | Variance |
| Personal Services | 411,418 | 72,057 | 483,475 | 827,446 | 343,971 |
| Services & Supplies | 888,273 | 13,857 | 902,130 | 1,203,650 | 301,520 |
| Capital Outlay | | | | | |
| Total | 1,299,691 | 85,914 | 1,385,605 | 2,031,096 | 645,491 |

Actual Expenditures

- Personal Services: 32%
- Services & Supplies: 68%
- Capital Outlay: 0%

Projected Expenditures

- Personal Services: 84%
- Services & Supplies: 16%
- Capital Outlay: 0%

| SB822 Project | | | | | |
|-------------------------|---------------------|------------------------|--------------------|------------------|----------------|
| Biennial Summary | | | | | |
| Category | Actual Exp. To Date | Projected Expenditures | Total Est. Expend. | 2013-15 LAB | Variance |
| Personal Services | 172,749 | 24,796 | 197,545 | 435,018 | 237,472 |
| Services & Supplies | 418,612 | | 418,612 | 573,133 | 154,521 |
| Capital Outlay | | | | | |
| Total | 591,361 | 24,796 | 616,157 | 1,008,151 | 391,993 |

| Monthly Summary | | | | | |
|------------------------|---------------|---------------|--------------|--------------------------|-----------------------------|
| Category | Actual Exp. | Projections | Variance | Avg. Monthly Actual Exp. | Avg. Monthly Projected Exp. |
| Personal Services | 12,210 | 18,197 | 5,987 | 7,852 | 8,265 |
| Services & Supplies | | | | 19,028 | |
| Capital Outlay | | | | | |
| Total | 12,210 | 18,197 | 5,987 | 26,880 | 8,265 |

| SB861 Project | | | | | |
|-------------------------|---------------------|------------------------|--------------------|------------------|----------------|
| Biennial Summary | | | | | |
| Category | Actual Exp. To Date | Projected Expenditures | Total Est. Expend. | 2013-15 LAB | Variance |
| Personal Services | 238,668 | 47,261 | 285,929 | 392,428 | 106,499 |
| Services & Supplies | 469,661 | 13,857 | 483,518 | 630,517 | 146,999 |
| Capital Outlay | | | | | |
| Total | 708,329 | 61,118 | 769,447 | 1,022,945 | 253,498 |

| Monthly Summary | | | | | |
|------------------------|---------------|---------------|--------------|--------------------------|-----------------------------|
| Category | Actual Exp. | Projections | Variance | Avg. Monthly Actual Exp. | Avg. Monthly Projected Exp. |
| Personal Services | 14,203 | 23,556 | 9,352 | 10,849 | 15,754 |
| Services & Supplies | 25,232 | 25,232 | | 21,348 | 4,619 |
| Capital Outlay | | | | | |
| Total | 39,435 | 48,788 | 9,352 | 32,197 | 20,373 |



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May 29, 2015

TO: Members of the PERS Board
FROM: Steven Patrick Rodeman, Executive Director
SUBJECT: Board Scorecard Report on Agency Performance Measures

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

The attached Board Scorecard Report for first quarter 2015 focuses on several measures we currently track based on essential business operations. A targeted performance range is created for each measure:

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

We are pleased to report that the number of enterprise measures in the "Green" has grown to 63% for the first quarter 2015, up from 56% in fourth quarter 2014. This is the fourth quarter in a row where over 50% of all Outcome and Process measures performing in the "Green" range.

Highlights include:

- § 95% of written benefit estimates completed with 30 days of receipt; up from 94% in fourth quarter 2014. This is an all-time high quarterly performance for this measure. Special efforts continue in digging out from this backlog as estimates are a key planning tool for members contemplating retirement.
- § 100% of sampled benefit calculations were accurate within plus or minus \$5; up from 99.6% in fourth quarter 2014. This is the third time over the last three years when the quarterly accuracy sample rated a perfect 100%. Accuracy is an essential component to paying the right person the right benefit at the right time.

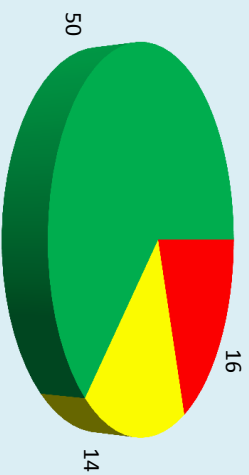
The next report will be presented at the November 2015 Board meeting, showing the scorecard results for the third quarter. If you would like to have us report on any different measures, please let me know.

A.1.e. Attachment 1 – Board Scorecard Report for First Quarter 2015

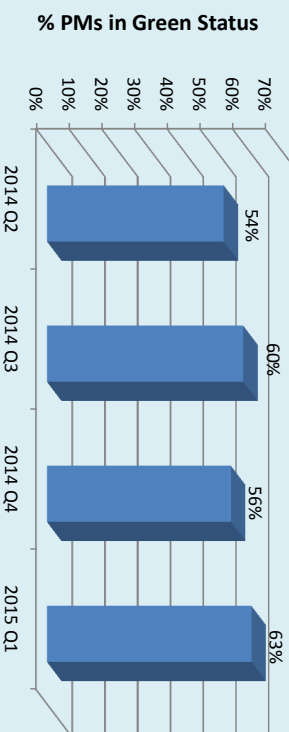
PUBLIC EMPLOYEES RETIREMENT SYSTEM Outcome-Based Performance Review

PERS Board Scorecard Report - QTR: 2015 Q1 - Quarter ended March 31, 2015

Outcome & Process Measure Performance



Quarterly Green Performance



Operating Processes - Highlighted Measures

| Measure Name | Measure Calculation | RANGE | | | Target | Desired Perform Trend | Data Collection Frequency | Q2 2014 | Q3 2014 | Q4 2014 | Q1 2015 | Trend | Corrective Action & Comments |
|--------------|--|-------|--------|-------|--------|-----------------------|---------------------------|---------|---------|---------|---------|-------|---|
| | | Red | Yellow | Green | | | | | | | | | |
| OP3c | Estimate KPM completed within 30 days of receipt | <75% | 75-85 | >85% | 95% | ↘ | Quarterly | 80.0% | 90.0% | 94.0% | 95.0% | + | 238, OPSRP, Disb, and Div estimates were all over 92% |
| OP4a | Eligibility review completed | <50% | 50-70 | >70% | 80% | ↘ | Monthly | 84.0% | 71.0% | 77.0% | 83.0% | + | Implemented individual goals built by the team. Year-over-year 13% increase from Q1 of 2014. ~1700 total apps during this time in comparison to ~1300 total apps from Q1 of 2014. |
| OP5b | Accuracy of calculations | <95% | 95-99 | >99% | 100% | ↘ | Monthly | 100.0% | 97.8% | 99.6% | 100.0% | + | |
| OP5c | Timely benefit calculation | <95% | 95-99 | >99% | 100% | ↗ | Monthly | 97.6% | 93.6% | 98.4% | 97.8% | - | Limited Divorce calculation functionality and waiting for CR to be prioritized |

PUBLIC EMPLOYEES RETIREMENT SYSTEM Outcome-Based Performance Review

Supporting Processes - Highlighted Measures

| Measure Name | Measure Calculation | RANGE | | | Target | Desired Perform Trend | Data Collection Frequency | Q2 2014 | Q3 2014 | Q4 2014 | Q1 2015 | Trend | Corrective Action & Comments | |
|--------------|-------------------------|---|------------|-------------|------------|-----------------------|---------------------------|-----------|---------|---------|---------|--------|------------------------------|---|
| | | Red | Yellow | Green | | | | | | | | | | |
| OP1f | Call Wait Time | Average length of wait before caller reaches live person | >6 minutes | 6-4 minutes | <4 minutes | 2 minutes | ↓ | Monthly | 0.9 | 0.4 | 1.2 | 2.1 | - | Wait time increased 1 minute - Down 2 FTE + Re-org project is impacting Availability |
| SP2c | Appeal reversal rate | % of staff determinations that are reversed on appeal | >15% | 15-10 | <10% | 5% | ↓ | Quarterly | 4% | 9.7% | 7.6% | 15.0% | - | Just made the yellow - 14.97%! 187 determinations sent; 28 reversals (7 SEAS for bankruptcy; 15 TR for OMS, leading 0, etc. issues) |
| SP3h | System uptime | % of time systems are available during the service window | <97% | 97-98 | >98% | 100% | ↑ | Monthly | 99.01% | 99.39% | 98.15% | 96.03% | - | - 38 Early Batch starts (56hrs total) - 46 hours in Feb & Mar were unused, but resulted in ORION downtime |
| SP5c | Recruiting / Onboarding | % of employees completing trial service | <85% | 85-94 | >94% | 100% | ↑ | Quarterly | 100% | 99% | 100% | 100% | = | One trial service removal. |



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May 29, 2015

TO: Members of the PERS Board
FROM: Robert Jones, Procurement & Facilities Manager
SUBJECT: 2015 Actuarial Services Solicitation Process and Current Status Report

OVERVIEW

PERS requires the ongoing services of a highly qualified actuarial consulting firm to accurately assess system liabilities, provide recommendations on actuarial methods and assumptions, and help determine appropriate employer contribution rates.

The current PERS actuarial services contract with Milliman expires December 31, 2015. To support the Board in ensuring that PERS has continued actuarial support beyond 2015, PERS procurement staff initiated a formal Request for Proposal (RFP) process to identify and select a provider. This memo describes the general solicitation process, details of evaluation results, and information on next steps.

PROCUREMENT PROCESS

To ensure fair and open competition, transparency, and preservation of the public trust in selecting an actuarial services provider, the solicitation was conducted under PERS procurement authority provided in ORS 238.605, 238.630(3)(a), ORS Chapters 279A and B, and OAR 125-246-0170, and through Department of Administrative Services (DAS) Delegation # 313-08.

1. RFP Construction and Approval: PERS procurement staff drafted the RFP in collaboration with agency program staff. The RFP scope of work and evaluation scoring criteria were reviewed and approved by senior agency management and the Department of Justice (DOJ) prior to issuance and posting for public notice on the state's ORPIN system.

2. RFP Date of Issue and Submittal Deadline: RFP #15012 was issued on February 3, 2015. PERS received three responses to the RFP by the submittal deadline on March 19, 2015.

3. Proposals Received: Proposals were received from the following firms:

- Cheiron
- Gabriel Roeder Smith (GRS)
- Milliman

All proposals met the RFP's stated Minimum Requirements and the proposals were delivered to the Evaluation Team members on March 23, 2015.

The agency received questions from the three potential providers regarding historical fees, but there were no questions about, challenges to, or requests to change the RFP content.

4. Proposal Review and Evaluation: A seven-person Evaluation Team reviewed proposals received from three responding service providers. This team, composed of five staff from PERS

and representatives from two partner agencies (DAS and Treasury), provided a broad spectrum of subject-matter expertise and perspective.

Evaluators assessed proposals against a number of different criteria, including organizational experience, composition, location, financial status, standards of conduct, client base, strength of proposed contractor teams, consulting capabilities, conflict of interest, proposed implementation plan, and proposed cost. Each Evaluation Team member first independently reviewed and scored the proposals. The team then collectively discussed and completed the evaluation of the three proposals on April 1, 2015.

The scoring criteria matrix afforded each proposal a possible maximum number of 900 points, based on aggregate totals given by each evaluator. The highest average total score, derived from totaling each proposal's overall score from each evaluator, divided by 7 (# of evaluators), would be considered the top scoring proposal. The average total score for each proposer:

- Milliman 812
- Cheiron 785
- GRS 713

Scores for highest-ranked Milliman identified a number of very significant strengths, including:

- focus on clear communication with governing boards, legislators, system staff, employers, and other stakeholders;
- a large Portland office with a number of highly experienced actuaries;
- the most experience with large, complex pension plans;
- a very solid proposed service team with an emphasis on succession planning; and
- competitive pricing. (In the event Milliman is approved for award, current charge rates for services will remain unchanged for the first 2 years of the new contract).

The proposal evaluation process provided opportunities for a round of interviews, and for follow-up questions by the Evaluation Team. The team collectively determined that using either opportunity was unnecessary, based on the results of their collective reviews and joint discussion, which clearly revealed Milliman to be the strongest candidate. It was agreed that, based on the relative strengths and weaknesses of the top two proposals, conducting interviews would be informational only and would not change the ultimate ranking of proposals.

On April 2, the PERS Executive Director reviewed the team's findings and recommendations regarding selection of Milliman as the apparent successful proposer, subject to agreement on contract terms and PERS Board approval. With Board Chair John Thomas' concurrence of the Executive Director's approval to issue an "intent to award" notice, procurement activity moved forward to negotiations with Milliman.

5. PERS/Milliman Contract Negotiations: Upon completion of the evaluation process, procurement staff, the Actuarial Services Coordinator, and Keith Kutler from DOJ discussed Milliman's requested contractual adjustments and initiated negotiations with Milliman.

Pending the anticipated successful completion of negotiations, supporting information and a recommendation on contracting for future actuarial services will be provided to the PERS Board in July.



Oregon

Kate Brown, Governor

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May 29, 2015

TO: Members of the PERS Board
FROM: Stephanie Vaughn, Manager, Policy Analysis & Compliance Section
SUBJECT: Notice of Reemployment of OPSRP Retirees Rules:
OAR 459-075-0300, *Reemployment of a Retired Member of the OPSRP Pension Program*
OAR 459-080-0300, *Receipt of Payments by a Reemployed Member of the IAP*

OVERVIEW

- Action: None. This is notice that staff has begun rulemaking.
- Reason: Clarify the number of hours a retired OPSRP Pension Program member can work in the calendar year in which they retire without affecting their status as a retired member.
- Subject: Reemployment of retired OPSRP Pension Program members.
- Policy Issue: Should the 600 hours of service in a calendar year required for a “qualifying position” be reset at the retirement of an OPSRP Pension Program member to parallel the methodology used for Tier One and Tier Two retired members?

BACKGROUND

OPSRP Pension Program retired members who return to work for a PERS participating employer may continue to receive their pension payment so long as they are not working in a qualifying position, which is defined by ORS 238A.005(15) as “one or more jobs with one or more participating public employers in which an eligible employee performs 600 or more hours of service in a calendar year....” Under ORS 238A.245, when an OPSRP retired member works in a qualifying position, the retired member re-establishes active membership and PERS is required to stop their pension payments.

PERS has counted hours worked post-retirement separately from hours worked pre-retirement in the same calendar year when an OPSRP retired member returns to work. This practice was recently questioned during a review of ORS 238A.245: should hours worked in pre-retirement and post-retirement job segments should be combined to count towards the 600 hours of the qualifying position, or can the hours worked post-retirement be counted separately? At the start of 2015, PERS informed employers that a narrow interpretation of the 600 hours standard would combine hours worked pre-retirement and post-retirement in the same calendar year for purposes of determining whether the 600 hours definition of a qualifying position had been met.

This direction was met with great concern by employers (and some members who had been informed by their employers), who requested that PERS review alternative interpretations and solutions to avoid such a result. The agency initiated this rulemaking to support a broader

application of the statute that would allow hours worked by an OPSRP member pre-retirement to count separately from post-retirement hours.

In reviewing the applicable administrative rules, we also discovered that OAR 459-080-0300, regarding reemployed members of the IAP, has not been updated since the institution of the “retire from one, retire from all” standard established in 2011. This rulemaking will also include the necessary modifications to properly align the IAP return to work standard with the member’s respective programs and outlines the effect of the member returning to active membership on their IAP distributions.

POLICY ISSUE

Should the 600 hours of service in a calendar year required for a “qualifying position” be reset at the retirement of an OPSRP Pension Program member to parallel the methodology used for Tier One and Tier Two retirees?

OPSRP Pension Program retired members who return to work for a PERS participating employer may continue to receive their pension payments so long as they are not working in a qualifying position. Based on this statutory direction, PERS previously informed members and employers that an OPSRP retired member may work another 600 hours in a calendar year after retirement and continue to receive their monthly benefit.

The corresponding work after retirement statutory provision for Chapter 238 (ORS 238.082(2)) permits Tier One and Tier Two retired members to return to work for a PERS participating employer for up to 1,040 hours in a calendar year. This hourly limitation is specific to work performed as a retired member. For consistency, PERS has administered the 600 hour rule for retired OPSRP members the same way we administer the 1,040 hour rule for retired Tier One and Tier Two members, even though there is no parallel statute in the OPSRP program as the explicit return to work standard for Tier One and Tier Two.

Absent an explicit statute clarifying application to OPSRP, a narrow application of the OPSRP return to work statute could combine pre-retirement and post-retirement hours worked in the same calendar year for purposes of determining whether the 600 hours qualifying position level had been met. This application would mean an OPSRP member who retired earlier in the year could return to work, but one who retired later in the year could not, depending on how many hours they had already worked in that calendar year. Such a “sliding standard” would be very difficult to administer and explain to members and employers as they tried to resolve decisions about returning to work after retirement.

Instead, the proposed rule modifications clarify is that the reference to a retired member returning to work in a qualifying position in ORS 238A.245 implies that only work as a retired member is considered when determining whether that retired member is in a qualifying position. This interpretation allows the pre-retirement hours to be considered separately from post-retirement hours.

With the rule modification, only hours worked post-retirement would count toward the 600 hour limitation for an OPSRP retired member, and they could continue to receive their pension payment so long as they did not meet or exceed 600 hours as a retired member. This interpretation is consistent with member and employer expectations, and would allow the agency

to use the same post-retirement administrative methodology that is used for Tier One and Tier Two retired members.

Staff recommends adoption of the proposed rule modifications as a more uniform application of administering retired members' hours that will enhance predictability, consistency, and clarity for members, employers, and PERS staff.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing will be held June 23, 2015, at 2:00 p.m. at PERS headquarters in Tigard. The public comment period for OAR 459-075-0300 ends July 6, 2015, at 5:00 p.m. The public comment period for OAR 459-080-0300 ends July 22, 2015, 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: Clarify standard for number of hours a retired OPSRP member can work in the calendar year in which they retire without affecting their status as a retired member.

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

RULEMAKING TIMELINE

| | |
|---------------|---|
| May 15, 2015 | Staff began the rulemaking process for OAR 459-075-0300 by filing Notice of Rulemaking with the Secretary of State. |
| May 29, 2015 | PERS Board notified that staff began the rulemaking process. |
| June 1, 2015 | <i>Oregon Bulletin</i> publishes the Notice for OAR 459-075-0300. Notice is sent to employers, legislators, and interested parties. Public comment period begins. |
| June 15, 2015 | Staff begins the rulemaking process for OAR 459-080-0300 by filing Notice of Rulemaking with the Secretary of State. |
| June 23, 2015 | Rulemaking hearing to be held at 2:00 p.m. at PERS in Tigard. |
| July 1, 2015 | Public comment period for OAR 459-075-0300 ends at 5:00 p.m. <i>Oregon Bulletin</i> publishes the Notice for OAR 459-080-0300. Public comment period begins. |
| July 22, 2015 | Public comment period for OAR 459-080-0300 ends at 5:00 p.m. |
| July 31, 2015 | 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 June 23, 2015, at 2:00 p.m. at PERS headquarters in Tigard. The rules are scheduled to be brought before the PERS Board for adoption at the July 31, 2015 Board meeting.

B.1. Attachment 1 - OAR 459-075-0300, *Reemployment of a Retired Member of the OPSRP Pension Program*

B.1. Attachment 2 - OAR 459-080-0300, *Receipt of Payments by a Reemployed Member of the IAP*

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

1 **459-075-0300**

2 **Reemployment of a Retired Member of the OPSRP Pension Program**

3 (1) If a retired member of the OPSRP Pension Program who is receiving monthly
4 pension payments is employed by a participating public employer in a qualifying
5 position:

6 (a) The member's retirement is canceled effective the first of the month in which the
7 member was employed.

8 (b) The last pension payment the member is entitled to receive is for the month
9 before the calendar month in which the member was employed. A member who receives
10 benefits to which he or she is not entitled must repay those benefits to PERS.

11 (c) The member reestablishes active membership effective the date the member was
12 employed.

13 (2) If a retired member of the OPSRP Pension Program who received a lump sum
14 benefit in lieu of a small pension under ORS 238A.195 is employed by a participating
15 public employer in a qualifying position, the member reestablishes active membership
16 effective the date of employment.

17 (a) If the member was employed after the date of the payment, the member is not
18 required or permitted to repay the benefit amount.

19 (b) If the member was employed on or before the date of the payment, the member
20 must repay the gross benefit amount.

21 (3) A retired member of the OPSRP Pension Program who is employed by a
22 participating public employer in a non-qualifying position may receive pension payments

1 or a lump sum payment under ORS 238A.195 without affecting the member’s status as a
2 retired member, provided the period or periods of employment worked as a retired
3 member total less than 600 hours in a calendar year.

4 (a) If, by reason of hours of service performed by the retired member, the non-
5 qualifying position becomes qualifying in a calendar year, the position is qualifying
6 effective the later of the first day of the calendar year or the date the member was
7 employed.

8 (b) If a position becomes qualifying under subsection (a) of this section, the retired
9 member is subject to the provisions of sections (1) and (2) of this rule.

10 (4) A retired member who reestablishes active membership may, at subsequent
11 retirement, elect any option provided in ORS 238A.180 and 238A.190, subject to the
12 provisions of ORS 238A.195.

13 (a) The member’s subsequent retirement benefit will be calculated based on the
14 member’s periods of active membership before and after the member’s initial effective
15 retirement date if at the initial retirement:

16 (A) The member received a monthly pension; or

17 (B) The member received a lump sum payment under ORS 238A.195 and repaid the
18 benefit amount under subsection (2)(b) of this rule.

19 (b) The member’s subsequent retirement benefit will be calculated based on the
20 member’s periods of active membership after the member’s initial effective retirement
21 date if:

1 (A) At initial retirement, the member received a lump sum payment under ORS
2 238A.195 and was not required to repay the benefit amount under subsection (2)(b) of
3 this rule; or

4 (B) The member is required to repay the benefit amount under subsection (2)(b) of
5 this rule and, as of the effective retirement date of the member’s subsequent retirement,
6 the member has not repaid the benefit amount.

7 (c) The member’s subsequent retirement benefit will be calculated using the actuarial
8 equivalency factors in effect on the effective retirement date of the subsequent retirement.

9 Stat. Auth.: ORS 238A.450

10 Stats. Implemented: ORS 238A.245

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

1 **459-080-0300**

2 **Receipt of Retirement Distribution Payments by *[a Reemployed]* an Active Member of**
3 **the IAP**

4 (1) A member of the IAP who received a *[lump sum]* distribution at retirement
5 under ORS 238A.400 or OAR 459-080-0250 who *[is employed by a participating public*
6 *employer in a qualifying position becomes an]* reestablishes active *[member]*
7 membership [as of the date of employment] in the PERS Chapter 238 Program as set
8 forth in OAR 459-017-0060, or the OPSRP Pension Program as set forth in OAR 459-
9 075-0300, shall also reestablish active membership in the IAP on the same date.

10 *[(a) If the member was employed after the date of the payment, the member is not*
11 *required or permitted to repay the payment.]*

12 *[(b) If the member was employed on or before the date of the payment, the member*
13 *must repay the gross amount of the payment.]*

14 (2) A member is not entitled to receive any IAP payments once active
15 membership is reestablished.

16 (a) If the member received a single lump sum payment, the member is entitled to
17 the payment provided the payment was dated on or before the date the member
18 reestablished active membership.

19 (b) If the member is receiving installment payments, the last installment payment
20 to which the member is entitled is the last installment payment paid before the date
21 the member reestablished active membership.

1 **(3) A member who receives benefits to which he or she is not entitled must repay**
2 **those benefits to PERS.**

3 *[(2) A member receiving installment payments under 238A.400 and OAR 459-080-*
4 *0250 who is employed by a participating public employer in a qualifying position becomes*
5 *an active member as of the date of employment.]*

6 *[(a) The last installment payment to which the member is entitled is the last*
7 *installment payment paid before the date of employment. A member who receives benefits*
8 *to which he or she is not entitled must repay those benefits to PERS.]*

9 *[(b) The member is not required or permitted to repay installment payments paid*
10 *before the date of employment.]*

11 *[(3) A member who is employed by a participating public employer in a non-*
12 *qualifying position may receive a lump sum payment or installment payments.]*

13 *[(a) If, by reason of hours of service performed by the member, the non-qualifying*
14 *position becomes qualifying in a calendar year, the position is qualifying effective the later*
15 *of the first day of the calendar year or the date the member was employed.]*

16 *[(b) If a position becomes qualifying under subsection (a) of this section, the member*
17 *is subject to the provisions of sections (1) and (2) of this rule.]*

18 *[(4) Notwithstanding sections (1) to (3) of this rule, a member of the IAP who is a*
19 *retired member of the PERS Chapter 238 Program and is employed by a participating*
20 *public employer may receive payment(s) from the IAP subject to the limitations on*
21 *employment of retired members of the PERS Chapter 238 Program.]*

1 ~~[(5)]~~(4) A member of the IAP who reestablishes active membership may, at
2 subsequent retirement, elect any payment option provided in ORS 238A.400, subject to the
3 provisions of OAR 459-080-0250.

4 Stat. Auth.: 238A.450

5 Stats. Implemented: ORS 238 & 238A



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May 29, 2015

TO: Members of the PERS Board
FROM: Stephanie Vaughn, Manager, Policy Analysis & Compliance Section
SUBJECT: First Reading of Disability Application Rules:
OAR 459-015-0020, *Application Required*
OAR 459-076-0020, *Application Required*

OVERVIEW

- Action: None. This is the first reading of the Disability Application rules.
- Reason: Housekeeping edits to OAR 459-015-0020 and 459-076-0020 to properly incorporate defined terms “date of termination,” “date of separation from service,” and “date of disability.”
- Policy Issue: No policy issues have been identified at this time.

BACKGROUND

These rules provide specific timeframes for a member to file an application for a disability retirement (Tier One/Tier Two) or benefit (OPSRP). The member cannot apply before they stop working, but they are not required to be terminated from employment. The definitions for “date of disability,” “date of separation from service,” and “date of termination” in OAR 459-015-0001 were updated and incorporated into the disability rules in October 2011. There were quite a number of rules that required updates and when OAR 459-015-0020 was edited to incorporate the updated defined terms, “date of termination” was inadvertently updated to “date of separation from service” in paragraph (6)(b) when it should have been updated in paragraph (6)(a). Also, “date of termination” in (6)(a) was updated to “date of separation from service” instead of “date of disability.” The proposed edits to the rule correctly update both paragraphs (6)(a) and (6)(b) and propose other minor edits for clarification.

The proposed update to OAR 459-076-0020 incorporates the defined term “date of disability” in one place where it was missed in 2011 and makes other minor edits for clarification.

SUMMARY OF MODIFICATIONS TO RULES SINCE NOTICE

Modifications were made to the rules since they were last presented at the March 30, 2015 PERS Board meeting. The proposed rule modifications are:

OAR 459-015-0020: This rule was reorganized to describe the disability application filing timelines for active and inactive members. Subsection (6)(d) was moved to new section (4); from subsections (6)(a) & (b), the sentence regarding continuous total disability was moved to a new section (6); Section (5) was renumbered to (7) and provides alternate timelines when membership status changes; Section (6) was renumbered to section (9) and explains the timely filing

requirements for an inactive member; Paragraph (6)(c)(A) was moved to a new section (8); other sections were renumbered accordingly.

OAR 459-076-0020: No modifications were made to this rule.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing on the rules noticed previously was held April 28, 2015, at 3:00 p.m. at PERS headquarters in Tigard. No members of the public attended. A second rulemaking hearing is scheduled for June 23, 2015, at 2:00 p.m. at PERS headquarters in Tigard. The public comment period for both rules will be extended to July 1, 2015, 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: These edits conform to statute and disability rule definitions.

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

RULEMAKING TIMELINE

| | |
|----------------|--|
| March 13, 2015 | Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State. |
| March 30, 2015 | PERS Board notified that staff began the rulemaking process. |
| April 1, 2015 | <i>Oregon Bulletin</i> published the Notice. Notice was sent to employers, legislators, and interested parties. Public comment period began. |
| April 28, 2015 | Rulemaking hearing held at 3:00 p.m. at PERS in Tigard. |
| May 6, 2015 | Initial public comment period ended at 5:00 p.m. |
| May 15, 2015 | Staff extended the public comment period by filing Notice of Rulemaking with the Secretary of State. |
| May 29, 2015 | First Reading of the rules. |
| June 1, 2015 | <i>Oregon Bulletin</i> publishes the second Notice. Notice is sent to employers, legislators, and interested parties. Public comment period continues. |
| June 23, 2015 | Rulemaking hearing to be held at 2:00 p.m. at PERS in Tigard. |
| July 1, 2015 | Public comment period ends at 5:00 p.m. |

First Reading – Disability Application Rules

05/29/15

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July 31, 2015

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 June 23, 2015, at 2:00 p.m. at PERS headquarters in Tigard. The rule is scheduled to be brought before the PERS Board for adoption at the July 31, 2015 Board meeting.

B.2. Attachment 1 - OAR 459-015-0020, *Application Required*

B.2. Attachment 2 - OAR 459-076-0020, *Application Required*

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

1 **459-015-0020**

2 **Application Required**

3 (1) Application must be made on forms provided by PERS. PERS may require the
4 member to provide any information that PERS considers necessary to determine the
5 applicant’s eligibility for a disability retirement allowance.

6 (2) No disability retirement allowance will be paid unless the member files a timely
7 and complete application.

8 (3) Application must be made by a member or the member’s authorized
9 representative. A representative must submit to PERS written proof of the representative’s
10 authority, such as a power of attorney, guardianship or conservatorship appointment.

11 **(4) A member cannot apply for disability retirement before their date of**
12 **disability.**

13 ~~[(4)]~~**(5)** Upon the filing of an application for a disability retirement allowance, PERS
14 will notify the applicant’s current or most recent employer of the filing. Additionally,
15 PERS may request of an employer information pertaining to current or previous
16 employment.

17 **(6) Total disability must be continuous from the date of disability to the date the**
18 **application is filed.**

19 ~~[(5)]~~**(7)** When an **active** ~~[employee]~~ member ~~[is]~~ **becomes** disabled due to injury or
20 disease, the member may make application immediately after the last day worked even
21 though the member may be on a paid leave or on an official leave of absence without pay.
22 No application will be accepted that predates the last day the member was actually on the

1 job. If the member becomes an inactive member, the application must be submitted
2 within the timelines outlined in section (9) of this rule.

3 (8)(a) For a member who becomes totally disabled due to injury or disease but
4 does not terminate employment, an application for disability retirement must be filed
5 no later than 90 calendar days from the earlier of:

6 (A) The date the member is medically released for work; or

7 (B) The date the member returns to work.

8 (b) Notwithstanding section (6) of this rule, total disability must be continuous
9 from the date of disability to the earlier of paragraph (a)(A) or (B) of this section.

10 ~~[(6)](9)~~ An application by an inactive member is *[will be]* considered filed in a
11 timely manner when received by PERS as follows:

12 (a) For a member who *[is]* becomes totally disabled due to injury or disease before
13 terminating employment from all PERS qualifying positions and has not withdrawn the
14 amount credited to the account of the member in the system, the member must file an
15 application for a disability retirement allowance within five calendar years of the date of
16 *[termination]* separation from service. *[Total disability must be continuous from the date*
17 *of separation from service to the date the application is filed.]*

18 (b) For a member who *[is]* becomes totally disabled due to injury or disease after
19 terminating employment from all PERS qualifying positions and has not withdrawn the
20 amount credited to the account of the member in the system, the member must file an
21 application for a disability retirement allowance within six months (180 days) after the date
22 of termination *[separation from service. Total disability must be continuous from the date*
23 *of disability to the date the application is filed].*

1 *[(c)(A) For a member who is totally disabled due to injury or disease but does not*
2 *terminate employment, an application for disability retirement must be filed no later than*
3 *90 calendar days from:*

4 *(i) The date the member is medically released for work; or*

5 *(ii) The date the member returns to work, whichever is earlier.*

6 *(B) Total disability must be continuous from the date of disability to the earlier of*
7 *paragraph (A)(i) or (ii) of this subsection.*

8 *[(d) A member cannot apply for disability retirement before their date of disability.]*

9 ~~[(7)]~~(10) In determining the effective date of a disability retirement allowance, PERS
10 may allow up to 60 months of benefits retroactive from the date the application is filed
11 with PERS, but in no case earlier than the first day of the month following the date of
12 separation from service.

13 ~~[(8)]~~(11) When making application for a PERS disability retirement allowance, PERS
14 will request the applicant authorize any physician, health practitioner, hospital, clinic,
15 pharmacy, employer, employment agency, or government agency to release and disclose to
16 PERS, or independent physicians and vocational consultants retained by PERS, any
17 information within their records or knowledge, including that information otherwise
18 protected under federal or state law, regarding the applicant’s health and employment
19 which PERS determines relates to the applicant’s claim of disability and inability to
20 perform any work for which qualified.

21 ~~[(9)]~~(12) When filing an application for disability retirement allowance, if the
22 applicant wishes to authorize release and disclosure of protected health information, as
23 defined in OAR 459-015-0001, the applicant must complete and sign a consent form which
24 specifically authorizes the release and disclosure of such information.

1 (a) This authorization is voluntary. *[Because]* PERS is not a covered entity as defined
2 in 45 CFR Parts 160 and 164, **and** the protected health information is not subject to federal
3 and state health information privacy laws, but may be protected under Oregon State Public
4 Record disclosure laws.

5 (b) This authorization may be revoked in writing at any time, except to the extent the
6 entities named on the authorization form(s) have taken action in reliance of the
7 authorization.

8 (c) If the applicant refuses to give or revokes authorization to disclose to PERS
9 medical information that PERS determines it needs to evaluate the application, eligibility
10 for a disability retirement allowance may be affected.

11 Stat. Auth.: ORS 238.650

12 Stats. Implemented: ORS 238.320 - 238.345

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

1 **459-076-0020**

2 **Application Required**

3 (1) Application must be made on forms provided by PERS. PERS may require the
4 member to provide any information that PERS considers necessary to determine the
5 member's eligibility for a disability benefit.

6 (2) No disability benefit will be paid unless the member files a timely and complete
7 application with PERS.

8 (3) Application must be made by a member or the member's authorized
9 representative. A representative must submit to PERS written proof of the
10 representative's authority; such as a power of attorney, guardianship or conservatorship
11 appointment.

12 (4) A member must file a timely application for disability benefits:

13 (a) An active member may file the application immediately after the last day worked
14 even though the member may be on a paid leave or on an official leave of absence
15 without pay. No application will be accepted that predates the last day the member was
16 actually on the job, and:

17 (A) The application must be filed no later than 90 calendar days from:

18 (i) The date the member is medically released for work; or

19 (ii) The date the member returns to work, whichever is earlier.

20 (B) Total disability must be continuous from the date of disability to the earlier of
21 paragraph (A)(i) or (ii) of this subsection.

1 (b) An inactive member who *[was]* became totally disabled due to injury or disease
2 while the applicant was an active member and has not terminated membership, must file
3 an application for a disability benefit within five calendar years of the date of separation
4 from service. Total disability must have arisen while the applicant was an active member
5 and be continuous from the date of disability *[the member last worked]* to the date the
6 application is filed.

7 (c) A member cannot apply for disability benefits before their date of disability.

8 (5) In determining the effective date of a disability benefit, PERS may allow up to 60
9 months of benefits retroactive from the date the application is filed with PERS, but in no
10 case earlier than the first day of the month following the date of separation from service.

11 (6) Upon the filing of an application for a disability benefit, PERS will notify the
12 applicant’s current or most recent employer of the filing. Additionally, PERS may request
13 of an employer information pertaining to current or previous employment.

14 (7) When making application for a PERS disability benefit, PERS will request the
15 applicant authorize any physician, health practitioner, hospital, clinic, pharmacy,
16 employer, employment agency, or government agency to release and disclose to PERS,
17 or independent physicians and vocational consultants retained by PERS, any information
18 within their records or knowledge, including that information otherwise protected under
19 federal or state law, regarding the applicant’s health and employment which PERS
20 determines relates to the applicant’s claim of disability and inability to perform any work
21 for which qualified.

22 (8) When filing an application for disability benefit, if the applicant wishes to
23 authorize release and disclosure of protected health information, as defined in OAR 459-

1 076-0001, the applicant must complete and sign a consent form which specifically
2 authorizes the release and disclosure of such information.

3 (a) This authorization is voluntary. *[Because]* PERS is not a covered entity as
4 defined in 45 CFR Parts 160 and 164, **and** the protected health information is not subject
5 to federal and state health information privacy laws, but may be protected under Oregon
6 State Public Record disclosure laws.

7 (b) This authorization may be revoked in writing at any time, except to the extent the
8 entities named on the authorization form(s) have taken action in reliance of the
9 authorization.

10 (c) If the applicant refuses to give or revokes authorization to disclose to PERS
11 medical information that PERS determines it needs to evaluate the application, eligibility
12 for a disability benefit may be affected.

13 Stat. Auth.: ORS 238A.450

14 Stats. Implemented: ORS 238A.235



Oregon

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May 29, 2015

TO: Members of the PERS Board

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

SUBJECT: Adoption of Benefit Payment Reductions/Deductions Rules:
OAR 459-005-0600, *Precedence for Pre-Tax and Post-Tax Deductions from Benefit Payment*
OAR 459-005-0610, *Recovery of Overpayments*
OAR 459-045-0070, *Precedence for Benefit Payment Reductions or Deductions*

OVERVIEW

- Action: Adopt modifications to the Benefit Payment Reductions/Deductions rules.
- Reason: Update the order of priority for deductions from a benefit payment.
- Policy Issue: No policy issues were identified.

BACKGROUND

OAR 459-005-0600 establishes the order of priority for deductions, whether pre-tax or post-tax, from a monthly benefit. The rule has not been updated since 1998; PERS has experienced many changes since that time, so a number of rule modifications are necessary. The proposed modifications clarify that, if a member is subject to the benefit limitation under Internal Revenue Code section 415 and must receive a portion of their monthly benefit from the Benefit Equalization Fund under ORS 238.485, such allocation of the member's benefit payments takes precedence over all other payments. Deductions for administrable court orders, such as garnishments for restitution under ORS 238.447, have been added. And, finally, premium payments for PERS-sponsored health insurance were moved down in priority, as they are a voluntary deduction.

OAR 459-045-0070 is a new rule and establishes the order of priority for deductions, whether pre-tax or post-tax, from a member's monthly benefit when a domestic relations order awards a portion of the member's benefit to an alternate payee (AP). Such AP awards can be reductions (AP is responsible for the income tax on their portion of the benefit) or deductions (member is responsible for the income tax on the entire benefit, including the amount paid to the AP). The order of priority is slightly different for each of these scenarios and is broken out separately in the rule.

Finally, section (12) of OAR 459-005-0610 has been deleted because the order of precedence for recovery of an overpayment or an erroneous payment is addressed in both OAR 459-005-0600 and OAR 459-045-0070; therefore, this section of the rule is no longer necessary.

SUMMARY OF MODIFICATIONS TO RULES SINCE NOTICE

The word “adjustment” has a particular connotation within PERS; generally, we use this word when there is a change to the member’s retirement allowance. With the exception of an “adjustment” to comply with Internal Revenue Code §415, these rules describe amounts withheld from a member’s benefit, but the member’s retirement allowance is not changing. To avoid confusion with a benefit adjustment, the word “adjustment” has been replaced with the word “withholding.”

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held April 28, 2015, at 3:00 p.m. at PERS headquarters in Tigard. No members of the public attended. The public comment period ended May 6, 2015, 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: Changes the order of priority for reductions of or deductions from a benefit payment.

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

RULEMAKING TIMELINE

| | |
|----------------|--|
| March 13, 2015 | Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State. |
| March 30, 2015 | PERS Board notified that staff began the rulemaking process. |
| April 1, 2015 | <i>Oregon Bulletin</i> published the Notice. Notice was sent to employers, legislators, and interested parties. Public comment period began. |
| April 28, 2015 | Rulemaking hearing held at 3:00 p.m. at PERS in Tigard. |
| May 6, 2015 | Public comment period ended at 5:00 p.m. |
| May 29, 2015 | Board may adopt the permanent rule modifications. |

BOARD OPTIONS

The Board may:

1. Pass a motion to “adopt modifications to the Benefit Payment Reductions/Deductions 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 order of priority for deductions from a benefit payment.

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 - OAR 459-005-0600, *Precedence for Pre-Tax and Post-Tax Deductions from Benefit Payment*

B.3. Attachment 2 - OAR 459-005-0610, *Recovery of Overpayments*

B.3. Attachment 3 - OAR 459-045-0070, *Precedence for Benefit Payment Reductions or Deductions*

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

1 **459-005-0600**

2 **Precedence for *[Reductions or]* Pre-Tax and Post-Tax Deductions *[of]* from Benefit**
3 **Payment**

4 (1) The order of priority for *[reductions of or]* deductions from a benefit payment is
5 as follows:

6 **(a) Adjustment for payments to be made from the Benefit Equalization Fund as**
7 **established under ORS 238.485.**

8 *[(a)](b) Withholding* for an overpayment or erroneous payment of benefit.

9 *[(b)](c)* Withholding for federal and state income taxes, and other current taxes.

10 *[(c) Withholding for premium payment of a PERS sponsored health insurance plan.]*

11 (d) Withholding in response to support liens in accordance with ORS 238.445.

12 (e) Withholding in response to Internal Revenue Service (IRS) liens.

13 *[(f) Adjustment due to a divorce decree or other court order.]*

14 **(f) Withholding due to other administrable court orders.**

15 **(g) Withholding for a premium payment of a PERS-sponsored health insurance**
16 **plan.**

17 *[(g)](h)* Other voluntary withholdings authorized by the Board and elected by the
18 member or beneficiary of the member.

19 **(2) This rule does not apply when there is a payment to an alternate payee**
20 **award under ORS 238.465, as provided in OAR 459-045-0070.**

21 *[(2) The adjustments for recovery of improperly made overpayments or erroneous*
22 *payments take precedence over other reductions or deductions.]*

1 Stat. Auth.: ORS 238.715(9), ~~[&]~~ 238.650 & 238A.450

2 Stats. Implemented: ORS ~~[238.005 - 238.715]~~ chapters 238 and 238A

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

1 **459-005-0610**

2 **Recovery of Overpayments**

3 (1) Authority and Purpose. In accordance with ORS 238.715, this rule sets forth the
4 criteria and process for the recovery of overpayments and erroneous payments made by
5 PERS. It is the policy of the Board to implement wherever possible, and if cost effective,
6 a full recovery of all overpayments and erroneous payments. Staff shall attempt recovery
7 of overpayments and erroneous payments in the most efficient method available and in
8 the least amount of time possible.

9 (2) For the purposes of this rule:

10 (a) “Erroneous payment” means any payment that has been made from the Public
11 Employees Retirement Fund in error, including a payment to a payee that is not entitled
12 to receive the payment.

13 (b) “Good cause” means a cause beyond the reasonable control of the person. “Good
14 cause” exists when it is established by satisfactory evidence that factors or circumstances
15 are beyond the reasonable control of a rational and prudent person of normal sensitivity,
16 exercising ordinary common sense.

17 (c) “Lump-sum payment” means any one-time distribution or payment made under
18 ORS Chapters 238 or 238A, or any other law directing PERS to make a payment,
19 including a retroactive adjustment, that is not scheduled to be paid to or on behalf of a
20 payee on a regular monthly basis.

1 (d) “Monthly payment” means any gross pension, annuity, service or disability
2 retirement allowance, death benefit, or other benefit under ORS Chapter 238 or 238A that
3 is paid monthly to or on behalf of a payee.

4 (e) “Overpayment” refers to an amount that is in excess of the amount a payee is
5 entitled to under ORS Chapters 238 and 238A.

6 (f) “Payee” means:

7 (A) A member, a trust established by the member, or the member’s estate;

8 (B) A member’s beneficiary, a trust established by the member’s beneficiary, or the
9 estate of the member’s beneficiary;

10 (C) An alternate payee, as defined in OAR 459-045-0001(2), a trust established by
11 an alternate payee, or the estate of an alternate payee;

12 (D) The beneficiary of an alternate payee, a trust established by the beneficiary of an
13 alternate payee, or the estate of the beneficiary of an alternate payee; or

14 (E) Any other recipient of a benefit payment by PERS.

15 (3) In addition to the notice of an overpayment or erroneous payment to a payee
16 required by ORS 238.715(4), PERS shall also send an explanation of the overpayment or
17 erroneous payment; whether the Board asserts a right to assess interest, penalties and
18 costs of collection; and a description of the manner in which the payee may appeal the
19 determinations reflected in the explanation, if applicable.

20 (4) In determining the amounts owed by a payee and setting a repayment schedule
21 under sections (5) or (6) of this rule, PERS shall reduce the amount owed by any lump-
22 sum payment then owed by PERS to that payee. If the payee should subsequently become
23 entitled to any lump sum payment, it shall be applied against the amounts then owed by

1 that payee. PERS, in its discretion, may revise the repayment schedule or continue on the
2 established schedule until the remaining amounts owed are fully repaid.

3 (5) The following list includes possible methods for PERS to recover an
4 overpayment under an agreement with the payee. These methods are listed in order of
5 preference. Unless otherwise ordered by the Board, PERS Staff is granted the discretion
6 to select the method deemed most likely to effect a full recovery:

7 (a) A repayment of all amounts owed in a single payment.

8 (b) A deduction of a percentage or fixed dollar amount, to be agreed upon between
9 the payee and PERS, from future monthly payments for a period not to exceed two years
10 that will fully repay the amounts owed.

11 (c) A fixed monthly dollar amount to be agreed upon between the payee and PERS
12 that will fully repay the amounts owed.

13 (d) A deduction of a percentage or fixed dollar amount from future monthly
14 payments, to be agreed upon between the payee and PERS, for a specified period greater
15 than two years that will fully repay the amounts owed if PERS deems that a longer
16 repayment period is warranted by the payee’s personal financial circumstances.

17 (6) If the payee does not agree to one of the recovery methods under section (5) of
18 this rule, PERS shall use one or more of the following methods to effect a full recovery of
19 any overpayment or erroneous payment:

20 (a) Deducting not more than 10 percent from current and future monthly payments to
21 a payee until the full amounts owed are recovered.

22 (b) Making an actuarially determined reduction, not to exceed 10 percent, to current
23 and future payments from PERS calculated to repay the full amount of the overpayment

1 or erroneous payment during the period in which monthly payments will be made to the
2 payee.

3 (c) Seeking recovery of the overpayment or erroneous payment by using any remedy
4 available to the Board under applicable law.

5 (d) Engaging the services of outside collection agencies.

6 (7) If a recovery method has to be selected under section (6) and the overpayment is
7 caused solely by the actions of PERS or a participating public employer, PERS will select
8 a method which imposes the least economic hardship on the member while allowing for a
9 reasonably prudent recovery of the overpayment.

10 (8) The base or original benefit payment used to calculate cost-of-living adjustments,
11 ad hoc increases, or other benefit increases shall not be altered by an actuarial reduction
12 provided for in subsection (6)(b) of this rule.

13 (9) In the event that PERS determines that an overpayment or erroneous payment
14 was not caused by PERS or by the actions of a participating public employer, PERS may
15 include within the amounts owed by the payee:

16 (a) All costs incurred by PERS in recovering the overpayment or erroneous payment,
17 including attorney fees, and fees assessed by an outside collection agency; and

18 (b) Interest in an amount equal to one percent per month on the balance of the
19 overpayment or erroneous payment until that payment is fully recovered.

20 (10) The Board authorizes the Director, or the Director's designee, to waive:

21 (a) The interest and costs of collection associated with the recovery of an
22 overpayment or erroneous payment for good cause shown; and

1 (b) The recovery of any overpayment or erroneous payment if the total amount of
2 overpayments or erroneous payments is less than \$50.

3 (11) Recovery of an overpayment or erroneous payment shall not be effected if
4 PERS has not initiated recovery of those payments within six years after the date the
5 overpayment or erroneous payment was made. PERS initiates recovery on the date it
6 mails the notification required by ORS 238.715(4).

7 *[(12) The recovery of an overpayment or an erroneous payment shall take*
8 *precedence over other deductions or reductions as set forth in OAR 459-005-0600.]*

9 Stat. Auth.: ORS 238.715(9), 238.630 & 238.650

10 Stats. Implemented: ORS 238.715

OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 045 – DOMESTIC RELATIONS ORDERS

1 459-045-0070

2 Precedence for Benefit Payment Reductions or Deductions

3 (1) The order of priority when the alternate payee award is a reduction of a
4 member's benefit payment is as follows:

5 (a) Adjustment for payments to be made from the Benefit Equalization Fund as
6 established under ORS 238.485.

7 (b) Withholding for an alternate payee benefit payment.

8 (c) Withholding for an overpayment or erroneous payment of benefit.

9 (d) Withholding for federal and state income taxes, and other current taxes.

10 (e) Withholding in response to support liens in accordance with ORS 238.445.

11 (f) Withholding in response to Internal Revenue Service (IRS) liens.

12 (g) Withholding due to other administrable court orders.

13 (h) Withholding for a premium payment of a PERS-sponsored health insurance
14 plan.

15 (i) Other voluntary withholdings authorized by the Board and elected by the
16 member or beneficiary of the member.

17 (2) The order of priority when the alternate payee award is a deduction from a
18 member's benefit payment is as follows:

19 (a) Adjustment for payments to be made from the Benefit Equalization Fund as
20 established under ORS 238.485.

21 (b) Withholding for an overpayment or erroneous payment of benefit.

22 (c) Withholding for federal and state income taxes, and other current taxes.

1 (d) Withholding for an alternate payee benefit payment.

2 (e) Withholding in response to support liens in accordance with ORS 238.445.

3 (f) Withholding in response to Internal Revenue Service (IRS) liens.

4 (g) Withholding due to other administrable court orders.

5 (h) Withholding for a premium payment of a PERS-sponsored health insurance
6 plan.

7 (i) Other voluntary withholdings authorized by the Board and elected by the
8 member or beneficiary of the member.

9 Stat. Auth.: ORS 238.650, 238.715(9) & 238A.450

10 Stats. Implemented: ORS 238.465



Oregon

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May 29, 2015

TO: Members of the PERS Board

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

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

OVERVIEW

- Action: Adopt modifications to the IRC and Social Security Limitations rules.
- Reason: Update rules to reflect the 2015 Internal Revenue Code (IRC) and Social Security annual compensation limitations.
- Policy Issue: No policy issues were identified.

BACKGROUND

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

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

Also, under ORS 238.082, a Tier One or Tier Two retired member who is receiving Social Security benefits and who returns to PERS-covered employment may continue to receive their PERS retirement benefits so long as they work less than 1,040 hours or do not exceed any related Social Security annual compensation limits. The proposed modifications to OAR 459-017-0060 adopt the 2015 Social Security earnings limitations. For these increases to be effective, the PERS Board has to adopt these rule modifications.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held April 28, 2015, at 3:00 p.m. at PERS headquarters in Tigard. No members of the public attended. The public comment period ended May 6, 2015, 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: Yes, statute requires the Board to update its rules to reflect revisions by the IRS. If not amended, OAR 459-017-0060 would provide incomplete guidance regarding reemployed retired members and outdated Social Security annual compensation limits.

Impact: Clarifies the current limits for contributions and benefits under federal law. Retired members will benefit from the updated Social Security annual compensation limits.

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

RULEMAKING TIMELINE

| | |
|----------------|--|
| March 13, 2015 | Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State. |
| April 1, 2015 | <i>Oregon Bulletin</i> published the Notice. Notice sent to employers, legislators, and interested parties. Public comment period began. |
| April 28, 2015 | Rulemaking hearing held at 3:00 p.m. at PERS in Tigard. |
| May 6, 2015 | Public comment period ended at 5:00 p.m. |
| May 29, 2015 | Board may adopt the permanent rule modifications. |

BOARD OPTIONS

The Board may:

1. Pass a motion to “adopt modifications to the IRC and Social Security Limitations rules, as presented.”
2. Direct staff to make other changes to the rules or explore other options.

STAFF RECOMMENDATION

Staff recommends the Board choose Option #1.

- Reason: Update rules to reflect the 2015 Internal Revenue Code (IRC) and Social Security annual compensation limitations.

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

B.4. Attachment 1 - 459-005-0525, *Ceiling on Compensation for Purposes of Contributions and Benefits*

B.4. Attachment 2 - 459-005-0545, *Annual Addition Limitation*

B.4. Attachment 3 - 459-017-0060, *Reemployment of Retired Members*

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

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

1 **459-005-0525**

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

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

7 (2) Definitions:

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

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

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

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

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

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

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

5 (4) For noneligible participants, the annual compensation taken into account for
6 purposes of determining contributions or benefits under ORS Chapters 238 and 238A
7 shall be measured on a calendar year basis, and shall not exceed [~~\$260,000~~] \$265,000 per
8 calendar year beginning in [~~2014~~] 2015.

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

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

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

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

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

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

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

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

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

16 Stats. Implemented: ORS 238 & 238A

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

1 **459-005-0545**

2 **Annual Addition Limitation**

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

6 (2) Annual Addition Limitation. Except as otherwise provided in this rule, a member's
7 annual additions to PERS for any calendar year after ~~[2013]~~ 2014 may not exceed ~~[\$52,000]~~
8 \$53,000 (as adjusted under IRC Section 415(d)).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1 **459-017-0060**

2 **Reemployment of Retired Members**

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

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

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

9 (b) If the retired member is receiving retirement, survivors, or disability benefits under
10 the federal Social Security Act, the period or periods of employment total less than 1,040
11 hours in a calendar year or no more than the total number of hours in a calendar year that,
12 at the retired member’s specified hourly rate of pay, limits the annual compensation of the
13 retired member to an amount that does not exceed the following Social Security annual
14 compensation limits:

15 (A) For retired members who have not reached full retirement age under the Social
16 Security Act, the annual compensation limit is [~~\$15,480~~] \$15,720; or

17 (B) For the calendar year in which the retired member reaches full retirement age
18 under the Social Security Act and only for compensation for the months before reaching
19 full retirement age, the annual compensation limit is [~~\$41,400~~] \$41,880.

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

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

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

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

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

9 (A) The retired member did not retire at a reduced benefit under the provisions of
10 ORS 238.280(1), (2), or (3); or

11 (B) If the retired member retired at a reduced benefit under the provisions of ORS
12 238.280(1), (2) or (3), the retired member is not so employed until more than six months
13 after the member’s effective retirement date and the member’s retirement otherwise meets
14 the standard of a bona fide retirement;

15 (d) The retired member meets the requirements of section 2, chapter 499, Oregon
16 Laws 2007;

17 (e) The retired member is employed for service during a legislative session under ORS
18 238.092(2); or

19 (f) The retired member is on active state duty in the organized militia and meets the
20 requirements under ORS 399.075(8).

21 (g) For purposes of population determinations referenced by statutes listed in this
22 section, the latest federal decennial census shall first be operative on the first day of the
23 second calendar year following the census year.

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

3 (C) The member’s account must be rebuilt in accordance with the provisions of
4 section (7) of this rule.

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

6 (A) PERS will cancel the member’s retirement effective the date the member was
7 reemployed.

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

10 (C) The member will reestablish active membership effective the date the member
11 was reemployed.

12 (D) The member account will be rebuilt as of the date that PERS receives the single
13 payment. The amount in the member account must be the same as the amount in the
14 member account at the time of the member’s retirement.

15 (6) For purposes of determining period(s) of employment in section (2) of this rule:

16 (a) Hours of employment are hours on and after the retired member’s effective
17 retirement date for which the member receives wages, salary, paid leave, or other
18 compensation.

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

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

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

6 (b) The member will reestablish active membership on the date the member is
7 reemployed.

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

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

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

19 (d) If the member elected a partial lump sum option under ORS 238.305(2), the last
20 monthly service retirement allowance payment to which the member is entitled is for the
21 month before the calendar month in which the member is reemployed. The last lump sum
22 or installment payment to which the member is entitled is the last payment due before the
23 date the member is reemployed. Upon subsequent retirement, the member may not choose

1 a different benefit payment option unless the member has repaid to PERS in a single
2 payment an amount equal to the lump sum and installment benefits received and the
3 earnings that would have accumulated on that amount.

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

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

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

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

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

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

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

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

4 (ii) The member's retirement benefit will be calculated based on the member's periods
5 of active membership after the member's initial effective retirement date.

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

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

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

11 (iii) The member's account will be rebuilt as described in ORS 238.078(2)

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

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

17 (a) PERS will cancel the member's retirement effective the date the member is
18 reemployed.

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

21 (c) The member will reestablish active membership effective the date the member is
22 reemployed.

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

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

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

10 (10) The provisions of paragraphs (7)(c)(B), (7)(d)(B), and (7)(e)(B) of this rule are
11 applicable to retired members who reestablish active membership under ORS 238.078 and
12 this rule and whose initial effective retirement date is on or after March 1, 2006.

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

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

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

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

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

4 (13) Subsections (4)(c) and (4)(d) of this rule are repealed effective January 2, 2016.

5 (14) This rule is effective January 1, ~~2014~~ 2015.

6 Stat. Auth.: ORS 238.650

7 Stats. Implemented: ORS 238.078, 238.082, 238.092, 399.075, & 2007 OL Ch. 499 &

8 774

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

1 **459-080-0500**

2 **Limitation on Contributions**

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

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

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

6 (2) Annual addition limitation. Except as otherwise provided in this rule, the annual
7 addition to a member account for any calendar year may not exceed ~~[\$52,000]~~ \$53,000
8 effective January 1, ~~[2014]~~ 2015.

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

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

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

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

17 Stat. Auth.: ORS 238A.450

18 Stats. Implemented: ORS 238A.370



Oregon

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May 29, 2015

TO: Members of the PERS Board
FROM: Mini Kobbervig, PERS Health Insurance Program Manager
SUBJECT: PERS Health Insurance Program (PHIP) 2016 Plan Renewals and Rates

BACKGROUND

The PERS Health Insurance Program (PHIP) 2016 plan renewal posed a strategic challenge for PERS staff and consultants due to:

- a) higher than recent year rate increases for some coverages,
- b) continued pressures on Centers for Medicare and Medicaid Services (CMS) revenue with one Medicare Advantage Plan continuing to generate significantly lower CMS revenue than projected, and
- c) most importantly, a significant increase in actual and projected prescription costs.

This sizeable increase in prescription cost has resulted in an estimated reduction of financial reserves well beyond what was planned. As has been the case in years past, a variety of approaches were employed in an effort to minimize rate increases. Some lines of coverage will receive transitional subsidies while others may require temporary surcharges to maintain program stability. A vastly reduced amount of subsidies will be paid out of PHIP reserves.

As is customary, the contract renewal process began in February. After carriers had an opportunity to present their renewals and preliminary rate offers in April, a meeting was held with PERS Health Insurance Program staff, the PERS Board Liaison Pat West, the PERS Executive Director, the PERS Financial & Administrative Services Division Administrator, PHIP retiree advisors, and consultants. Following an additional meeting with individual carriers and several exchanges, the proposed 2016 premium rate changes were finalized and detailed by plan provider and type of coverage for both Medicare and non-Medicare enrollees.

In 2014, PHIP introduced two different non-Medicare plans; the Core Value plan, which for Kaiser enrollees means increased copays, and for all other carriers a \$500 deductible, and the Select Value plan, a \$1,000 deductible for all carriers that would allow us to maintain a level of compatibility and competitiveness with the evolving Affordable Care Act (ACA) marketplace. As of April 30, 2015, about 370 members are enrolled in the Select Value plans across all PHIP carriers. Members in the Select Value plan (\$1,000 deductible) are not permitted to move back into the Core Value plan (\$500 deductible); this is to maintain stability of the plans and minimize anti-selection that could lead to negative rate impacts.

The 2016 non-Medicare Select Value plan has been further differentiated by adjusting some copays and participant cost share amounts for both in- and out-of-network services. These changes will offer greater premium relief for members who are more premium-driven and utilize less health services. We recognize that members have options available in the commercial marketplace, but may not offer as comprehensive a benefit or the stability of the PHIP plans. Offering a lower cost plan with a higher deductible is an attractive option to some. Because the benefit level in the 2016 non-Medicare Select Value Plan has changed; PHIP will offer a one-

time move back to the Core Value Plan for any member that is currently enrolled in the Select Value Plan.

2016 PLAN RENEWAL OVERVIEW

Pharmacy

Since the early 1990's, PHIP has offered a single, uniform prescription drug program for all non-Kaiser enrollees (Kaiser currently provides prescription drug benefits to their medical members). In spring 2013, PHIP began looking at changing that model, allowing each carrier to provide a prescription plan for their respective membership. At this time last year, PHIP management did not recommend moving forward with a change as additional analysis was needed on potential benefit changes and member communications that would need to occur. We continued working on this throughout 2014 and into 2015, taking a thoughtful, cautious, and methodical approach in determining the viability of ceding the prescription plan to each individual carrier.

Nationally, there has been an upward trend in the cost of prescription drugs. PHIP has seen a dramatic upward trend in these costs. Medicare prescription drug trends in calendar years 2012 and 2013 were actually negative due, in large part, to a much higher use of generics. That trend, as of March 2015, has reversed to 15%. For the non-Medicare prescriptions, a similar trend has reversed so that, through March 2015, those costs are trending at 24%. Much of the costs are attributable to new specialty drugs that have come to market, in addition to a 15% increase in the cost of generics. Some of these specialty drugs can cost upwards of \$28,000 for a 30-day supply. The most recent quarterly review shows that, in just five of the top 15 therapeutic categories, 3.8% of the volume is driving 32% of the plan cost. These cost drivers present a big challenge for the program when trying to balance member benefits, co-pays, and maximum out-of-pocket costs while ensuring that PHIP maintains financial viability. This prescription drug cost trend will clearly put upward pressure on premium rates, and PHIP is working closely with all our carrier partners for innovative ways to control cost without jeopardizing the customer service and member advocacy that the program is known for.

As part of the 2016 renewal process, PHIP continued to analyze whether to cede the Prescription Drug Plan (PDP) to the individual medical carriers. Each non-Kaiser carrier was asked to bid on the PDP using multiple scenarios ranging from the current open formulary to a more restrictive one, to finally using their own specific drug formulary (in addition to other changes in the benefit and cost sharing structure). A 'grandfathering' of existing prescription drug scripts was a requirement to consider ceding the PDP. Any PHIP member taking medication prescribed as of December 31, 2015, will continue to be able to use the drug without any step therapy or pre-authorization (unless already required by law) and any newly prescribed drug will be administered per the individual carrier's drug formulary. PHIP is committed to minimizing any potential disruption to our members and the 'grandfathering' requirement will accomplish this.

PHIP staff and consultants were then able to analyze the data on like plans. After much analysis and internal discussion as well as multiple discussions with the carriers, PHIP concluded that the PDP should be moved from a single uniform PDP administrator, Moda, to the individual carriers; PacificSource, Providence, and Moda. This conclusion is supported by:

- a) a slightly lower total pharmacy cost by ceding the prescription drug benefit back to the medical carrier,
- b) greater continuity with carriers' existing provider coordination and communication,

- c) reduction in those rare instances when a lack of integration between the medical and prescription drug plan cause confusion and member dissatisfaction, and
- d) no demonstrative negative impacts of ceding the pharmacy benefit.

The 2016 rates shown in the attachments reflect this change in PDP administration.

PHIP would like to thank Moda for the years of administration of the uniform Prescription Drug Plan for the Moda, PacificSource, and Providence members. Moda has been a good partner during these past years and has administered the program with strong customer service and integrity.

Medicare Advantage

The Moda Medicare Advantage PPORx has experienced multiple years of lower than expected CMS revenue and higher than expected claims cost. This plan has drawn down PHIP reserves at a greater level than had been planned. For the 2016 renewal, PHIP took an aggressive look at the viability of this plan. Moda was asked to look at and present different options that would allow this plan to continue under the PHIP. After multiple discussions with Moda, PHIP has agreed to continue the current design but under a different financial arrangement that removes PHIP from underwriting this program in calendar year 2016. Under this revised financial arrangement, the risk for this plan has been transferred from PHIP to Moda. Moda will be reviewing this plan for potential changes in calendar year 2017 from a PPO-based model to a more managed care model similar to other PHIP Medicare plans.

CURRENT PHIP PLANS OFFERED AND MEMBERSHIP

The PHIP contracts with four health insurers for a variety of coverages, allowing participants a range of choices while maintaining stability of the overall program. Contracts that are in place and/or proposed are as follows:

- 1) Kaiser Permanente
 - a) Medicare Advantage - Senior Advantage HMO Plan
 - b) Traditional HMO (Core) Non-Medicare Plan
 - c) \$1,000 Deductible (Select) Non-Medicare HMO plan
 - d) PDP that covers: Kaiser Permanente Medicare and Non-Medicare participants
 - e) Dental Plan
- 2) Moda Health Plan/ODS - Delta Dental of Oregon
 - a) Traditional Medicare Supplement
 - b) Medicare Advantage - PERS Moda Health PPORX (PPO) Plan
 - c) \$500 Deductible (Core) Non-Medicare PPO Plan
 - d) \$1,000 Deductible (Select) Non-Medicare PPO Plan
 - e) PDP that covers: Moda Health Medicare and Non-Medicare participants
 - f) Dental Plan
- 3) PacificSource Community Health Plans, Inc.
 - a) Medicare Advantage – Medicare Essentials 801 HMO Plan
 - b) \$500 Deductible (Core) Non-Medicare PPO Plan
 - c) \$1,000 Deductible (Select) Non-Medicare PPO Plan
 - d) PDP that covers: PacificSource Health Plan Medicare and Non-Medicare participants

- 4) Providence Health Plan
 - a) Medicare Advantage - Medicare Align Plan (HMO)
 - b) Medicare Advantage - Medicare Flex Plan (POS)
 - c) \$500 Deductible (Core) Non-Medicare PPO Plan
 - d) \$1,000 Deductible (Select) Non-Medicare PPO Plan
 - e) PDP that covers: Providence Health Plan Medicare and Non-Medicare participants

Additionally, PHIP contracts with UNUM for Long Term Care coverage offered to PERS retirees under age 84 and qualified through the UNUM application process.

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

SUMMARY OF PROPOSED RENEWAL ACTION REQUIRING BOARD APPROVAL

- PHIP will continue to contract with Kaiser Permanente, PacificSource Health Plans, Providence Health Plan, and Moda Health Plan for medical, prescription drugs, and, where applicable, dental insurance coverage for retired Medicare and non-Medicare members.
- PDPs to be administered by each carrier, using their respective drug formulary and grandfathering in place for prescriptions already being used by the member.
- Moda Medicare Advantage Plan to be administered under a fully insured funding arrangement.
- Select Value Plan - modifications to benefit design; co-pays, out of pocket maximums, with a one-time option - for currently enrolled Select Value members - back to the Core Value plan.
- Subsidy or surcharge as described in the tables below.
- PHIP premium rates will be implemented as shown on Attachment 2, along with associated rates that include spouses and/or dependents, PHIP administrative expenses, and subsidy or surcharges used for rate stabilization.

As part of this renewal, a reduced number of subsidies have been incorporated into the rates. Proposed medical plan subsidies are detailed in the charts below. A number of the subsidies replace previous, expiring subsidies. At the same time, PHIP has elected to continue surcharges on two of the medical plans as shown below.

2016 Medicare Plan (Subsidies)/Surcharges

| MEDICARE (Subsidy) or Surcharge | Moda Medicare Supplement | Moda Medicare Advantage | Providence Align | Providence Flex | PacificSource |
|--|---------------------------------|--------------------------------|-------------------------|------------------------|----------------------|
| Rx administered by each carrier | (\$20.00) | \$0.00 | \$0.00 | \$0.00 | \$0.00 |
| Medical | \$0.00 | \$0.00 | \$3.00 | \$6.00 | \$0.00 |

2016 Non-Medicare Plan (Subsidies)/Surcharges

| Non MEDICARE (Subsidy) or Surcharge | Moda Core Value | Moda Select Value | Providence Core Value | Providence Select Value | PacificSource Core Value | PacificSource Core Value |
|--|--------------------------------|----------------------------------|--------------------------------------|--|---|---|
| Rx administered by each carrier | (\$50.00) | (\$50.00) | \$0.00 | \$0.00 | \$0.00 | \$0.00 |
| Medical | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 |

PHIP is able to provide these subsidies from surplus reserves that have accumulated from previous years with better than expected Moda experience in comparison to premiums charged. The Moda programs’ funding mechanism allows any of these surpluses to flow back to the member as opposed to being retained by the health plan.

We are pleased to bring these proposals to you and thereby conclude another year of hard work by our consultants, health plans, retiree advisors, and PHIP staff. With the PERS Board’s approval today, PHIP’s third-party administrator (TPA) staff and our consultants will begin updating the PHIP Member Handbook and Benefit Guide and plan change materials. Then, starting in mid-September, PHIP staff, the TPA, and carrier partner staff will begin holding retiree plan change meetings throughout the state. Traditionally, these meetings have been very well attended and we anticipate at least the same or greater attendance.

Our membership continues to grow annually and we are looking forward to another successful year and partnership with our members, vendors, consultants, and retiree advisors.

STAFF RECOMMENDATION

Staff recommends the PERS Board approve the proposed PHIP contract renewals, conditions, and rates for 2016 as presented.

Attachment 1 - PERS Health Insurance Program Statistics

Attachment 2 - PERS Health Insurance Program Proposed 2016 Renewal Rates



| Program Enrollment (March 2015) | Non- Medicare Core & Select Value Plans | Medicare | Totals |
|----------------------------------|---|----------|--------|
| Covered Lives | 2,660 | 56,499 | 59,159 |
| Retirees (or surviving spouses) | 1,618 | 46,294 | 47,912 |
| Spouses/Dependents | 1,042 | 10,205 | 11,247 |
| Average Age of Enrolled Retirees | 57 | 75 | 75 |

| Health Plan Membership Enrollment | | | |
|-----------------------------------|--------|------------------------------------|-------|
| Medicare | | Non-Medicare (Core & Select Plans) | |
| Kaiser (Portland to Salem) | 9,590 | Kaiser (Portland to Salem) | 663 |
| Kaiser (No. California) | 35 | Kaiser (No. California) | 1 |
| Kaiser (So. California) | 33 | Kaiser (So. California) | 2 |
| Moda - Advantage (Oregon) | 8,486 | Moda | 842 |
| Moda - Supplement (all 50 States) | 24,888 | PacificSource | 9 |
| PacificSource | 1,377 | Providence | 1,143 |
| Providence - Medicare Flex | 1,944 | Dental | |
| Providence- Medicare Align | 10,146 | Kaiser Dental | 262 |
| Dental | | ODS/Delta Dental | 1,193 |
| Kaiser Dental | 4,170 | | |
| ODS/Delta Dental | 30,538 | | |

| Statutory Health Insurance Premium Subsidies (March 2015) | |
|--|--------------|
| Retirees Receiving RHIA | 44,462 |
| Retirees Receiving RHIPA | 1,292 |
| RHIA Monthly Payment - \$60 PMPM | \$2667,720 |
| RHIPA Monthly Payment - \$296 (avg) PMPM | \$382,000 |
| Total Monthly Premium Paid to Health Plans | \$16,374,043 |

PHIP 2016 RENEWAL RATES
2016 vs. 2015 All Carrier Rates
Including All Carrier Administrative Fees
Effective January 1, 2016

SUMMARY

| Medical - including Prescription - Rates <i>Rates shown are for 'Retiree' only premium and do not include any applicable statutory subsidies</i> | Enrollment as of March 2015 | CURRENT 2015 | PROPOSED 2016 MEDICAL RENEWAL WITH BENEFIT MODIFICATIONS** | Percentage Change 2016 vs. 2015 |
|--|------------------------------------|---------------------|---|--|
| MODA HEALTH PLAN - MEDICAL / RX <i>(Includes Fixed Costs)</i> | | | | |
| Retiree w/Medicare - Supplement Plan | 24,888 | \$211.18 | \$252.98 | 19.8% |
| Retiree w/Medicare - PPORX Plan | 8,486 | \$270.96 | \$319.26 | 17.8% |
| Retiree w/o Medicare - Core Value Plan | 842 | \$875.34 | \$996.61 | 13.9% |
| Retiree w/o Medicare - Select Value Plan | | \$839.73 | \$931.78 | 11.0% |
| PROVIDENCE HEALTH PLANS - MEDICAL / RX | | | | |
| Retiree w/Medicare - Align Plan | 10,146 | \$212.20 | \$225.40 | 6.2% |
| Retiree w/Medicare - Flex Plan | 1,944 | \$187.20 | \$199.00 | 6.3% |
| Retiree w/o Medicare - Core Value Plan | 1,143 | \$770.46 | \$878.37 | 14.0% |
| Retiree w/o Medicare - Select Value Plan | | \$668.85 | \$736.43 | 10.1% |
| PACIFICSOURCE COMMUNITY HEALTH PLANS - MEDICAL / RX | | | | |
| Retiree w/Medicare - Essentials 801 Plan | 1,377 | \$233.30 | \$262.76 | 12.6% |
| Retiree w/o Medicare - Core Value Plan | 9 | \$866.76 | \$885.93 | 2.2% |
| Retiree w/o Medicare - Select Value Plan | | \$767.06 | \$746.37 | -2.7% |
| KAISER PERMANENTE - MEDICAL / RX * | | | | |
| Retiree w/Medicare - Sr. Advantage Plan | 9,590 | \$217.37 | \$223.89 | 3.0% |
| Retiree w/o Medicare - Core Value Plan | 663 | \$730.97 | \$840.61 | 15.0% |
| Retiree w/o Medicare - Select Value Plan | | \$591.85 | \$680.63 | 15.0% |
| DENTAL | | | | |
| Kaiser Dental | 4,432 | \$57.96 | \$62.98 | 8.7% |
| ODS Dental | 31,731 | \$63.08 | \$65.41 | 3.7% |

* Kaiser numbers include Oregon participants only

** Medical Benefit Modifications: Minor enhancement to the Providence non-Medicare benefit for colonoscopies; copay and coinsurance changes to the Select Value Plan.



Oregon

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May 29, 2015

TO: Members of the PERS Board
FROM: Gay Lynn Bath, Deferred Compensation Manager
SUBJECT: Appoint Advisory Committee Members for Oregon Savings Growth Plan

OVERVIEW

- Action: Appoint one new member to fill an unexpired vacancy and renew the appointment of two current members to the Oregon Savings Growth Plan (OSGP) Advisory Committee.
- Reason: The Advisory Committee consists of seven members appointed by the PERS Board for fixed terms, but each member serves at the pleasure of the PERS Board.

BACKGROUND

ORS 243.505 provides an Advisory Committee for OSGP that consists of seven members with knowledge of deferred compensation plans. According to that statute and OAR 459-050-0025 (attached), the Committee shall study and advise the Public Employees Retirement Board, upon request, on all aspects of the deferred compensation program, including but not limited to:

- (a) The deferred compensation program fee structure and program procedures;
- (b) State and federal legislative issues relative to the administration of deferred compensation;
- (c) Administration of the catch-up and financial hardship provisions in Section 457 of the Internal Revenue Code;
- (d) Ways and means to inform and educate eligible employees about the deferred compensation program;
- (e) The expressed desires of eligible employees as to the Deferred Compensation Program.

Advisory Committee members must be OSGP participants and have knowledge of the current program. One member shall be retired from state service. Two members shall be participants with separate local government plan sponsors who offer OSGP. Four members shall be employees of separate state agencies. No member shall be an employee of PERS during the term of appointment. No two members shall be employed by the same state agency or local government plan sponsor.

Appointment is for three years except in the case of a vacancy during an unexpired term, in which case the Board's appointment will become immediately effective for the unexpired term. A member is eligible for reappointment, but no person shall serve more than two consecutive full terms.

Currently, the Advisory Committee is made up of the following members:

| Name | Employer/City | Term | Term Ends |
|---------------------|------------------------------|---------|-----------|
| Mark Carlton, Chair | McMinnville Water & Light | First | 6/30/2015 |
| Jeff Labhart | ODOT, Bend | First | 6/30/2015 |
| Kevin Nordhill | Retiree Position | First | 6/30/2016 |
| Steve Schnurbusch | DEQ | First | 6/30/2017 |
| Brady Booth | Oregon State Police | First | 6/30/2016 |
| Celeste VanCleave | Central Linn School District | First | 6/30/2017 |
| Open | State Position | Vacancy | 6/30/2016 |

The criteria staff use in selecting Advisory Committee members includes:

1. Current participation in OSGP.
2. Meeting the qualifications for the vacancy to be filled.
3. Possessing a mixture of expertise, knowledge, and experience useful to the Advisory Committee.
4. Sincere interest in deferred compensation program.
5. Willing and able to work in a group setting to review and recommend policies governing the program.

RECOMMENDED APPOINTMENTS

The first 3-year term of Mark Carlton and Jeff Labhart will expire on June 30, 2015. OSGP staff recommends reappointing them for an additional 3-year term.

Staff also recommends Richard Bailey, from Oregon Tech in Klamath Falls, to fill the vacancy for the unexpired term of a state employee for the remainder of the term, which is 6/30/2016.

BOARD ACTION

The Board's options for appointments to the OSGP Advisory Committee are:

1. Accept the recommendation to appoint Richard Bailey to fill the vacancy of the state employee on the Advisory Committee, effective immediately, and appoint Mark Carlton and Jeff Labhart to a second 3-year term.
2. Direct OSGP management to return with additional nominees for these positions.

STAFF RECOMMENDATION

Staff recommends the Board adopt Option #1 above.

- Reason: Staff believes Richard Bailey meets the criteria and service needs of the Advisory Committee, and Mark Carlton and Jeff Labhart have served well during their first term and are both assets to the committee.

C.3. Attachment 1 – ORS 243.505, *Deferred Compensation Advisory Committee*; OAR 459-050-0025, *Deferred Compensation Advisory Committee*

ORS 243.505 Deferred Compensation Advisory Committee.

(1) The Deferred Compensation Advisory Committee shall be appointed by the Public Employees Retirement Board, consisting of seven members with knowledge of deferred compensation plans.

(2) At the direction of the board, the committee shall advise the Public Employees Retirement Board on policies and procedures and such other matters as the board may request.

(3) The term of office of each member is three years, but a member serves at the pleasure of the board. Before the expiration of the term of a member, the board shall appoint a successor whose term begins on July 1 next following. A member is eligible for reappointment. If there is a vacancy for any cause, the board shall make an appointment to become immediately effective for the unexpired term.

(4) A member of the Deferred Compensation Advisory Committee is entitled to compensation and expenses as provided in ORS 292.495.

(5) The Deferred Compensation Advisory Committee shall select one of its members as chairperson and another as vice chairperson, for such terms and with duties and powers necessary for the performance of the functions of such offices as the committee determines.

(6) A majority of the members of the committee constitutes a quorum for the transaction of business.

(7) The Deferred Compensation Advisory Committee may meet at a place, day and hour determined by the committee. The committee also may meet at other times and places specified by the call of the chairperson or of a majority of the members of the committee. [1991 c.618 §10; 1997 c.179 §19; 1999 c.406 §1]

OAR 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 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 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

Hist.: PERS 2-1993, f. & cert. ef. 9-23-93; PERS 2-1995, f. 10-13-95, cert. ef. 11-1-95; PERS 5-2000, f. & cert. ef. 8-11-00; PERS 3-2007, f. & cert. ef. 1-23-07; PERS 11-2014, f. & cert. ef. 7-25-14



Oregon

Kate Brown, Governor

Public Employees Retirement System

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May 29, 2015

TO: Members of the PERS Board
 FROM: Marjorie Taylor, Senior Policy Advisor
 SUBJECT: 2015 Legislative Update

2015 REGULAR LEGISLATIVE SESSION

Since the March 2015 Board meeting, various committee deadlines have passed which narrowed the volume of bills that PERS is monitoring through the legislative process. As of mid-May, the following bills, which impact the PERS plan directly, remain in active committees or have been approved by House and Senate committees. PERS will work through implementation plans for approved legislation in June and July.

| Bill Number(s) | Summary | Mid-May Status |
|-----------------------|---|--|
| HB 2102 / SB 63 | Updates connection date to federal Internal Revenue Code and other provisions of federal tax law. | Passed the Senate; awaiting final House action. |
| HB 2618 | Provides "police" status to certain DHS employees. | In Ways and Means. |
| HB 2684 | Extends current sunset on return-to-work exception for nursing instructors or trainers at DPSST. | Governor signed. |
| HB 2733 / SB 134 | Establishes the Oregon Investment Department. | In active House and Senate committees. |
| HB 2836 | Provides hours of service credit for vesting purposes and retirement credit to certain OPSRP members. | In active House committee. |
| HB 3058 | Allows return-to-work exceptions for CTE teachers. | Passed the House; in active Senate committee. |
| HB 3495 | Establishes standard employer contribution start date for new OPSRP members. | Passed by the House; awaiting final Senate action. |
| HB 5034 | PERS Agency Budget Bill. | In Ways and Means. |
| SB 370 | Provides new benefit to ex-spouses of deceased OPSRP members under certain conditions. | Passed the Senate; in active House committee. |

HOUSE BILL 5034 - PERS BUDGET BILL

On May 5, 2015, the Ways and Means Subcommittee on General Government heard greater detail regarding Policy Packages in the PERS Budget. That discussion was preceded by limited, initial reaction and plans for implementing the *Moro* decision. Legislative staff indicated that PERS will make a second presentation to the Information Technology subcommittee regarding technology projects and associated budget Policy Packages. Implementation of the *Moro* decision is the priority for PERS, and we continue to evaluate how that will impact agency operations, projects, and pending 2015-17 budget requests. We expect the General Government subcommittee to take final action on HB 5034 before mid-June.

BOARD MEMBER APPOINTMENTS

Mr. Lawrence Furnstahl was recommended for appointment to the Board. His appointment was approved by the Senate Rules Committee and the full Senate. Rhoni Wiswall indicated that she will not seek reappointment to the Board and the Governor's Office is working to fill the position this year.

DATES AND DEADLINES

Legislative policy committees are scheduled to complete their work on second chamber bills no later than June 5, 2015. Budget, Revenue, Rules and other Joint committees may remain active through the end of session to address other bills. July 11, 2015, is the Constitutional date for the end of session, but legislative leaders have proposed an earlier closing date to work towards. In coming weeks, we will learn more about interim meeting schedules between July and the February 2016 legislative session, only eight months away.



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May 29, 2015

TO: Members of the PERS Board
FROM: John Thomas, PERS Board Chair
SUBJECT: Oregon Supreme Court Decision

The Oregon Supreme Court decision (*Moro vs. State of Oregon*) overturned certain key cost-saving provisions from 2013 legislation regarding the annual cost-of-living adjustment (COLA) for benefit recipients. The decision reduced PERS' funded status and negated a large portion of the cost savings for PERS employers that were factored into 2015-17 contribution rates.

First and foremost, it is important to know that statute precludes the PERS Board from making unilateral changes to benefits; it can only address PERS funding and administrative issues. The Board cannot, and does not, advocate for changes to benefits but advises the legislature regarding the impact of changes. Changes to the PERS Plan are strictly the Legislature's purview.

Statute directs the Board to "adequately fund the benefits to be provided." The Board has strict fiduciary responsibilities to PERS benefit recipients to ensure necessary funding is established for current and future benefits.

The Board understands that PERS employers have the same responsibilities to their own employees and to their respective governing boards and/or finance committees. Realizing that budgets are finite, the Board is sensitive to employer contribution rate increases and their impact on PERS employers and Oregonians.

When Senate Bills 822 and 861 were proposed in the 2013 legislative sessions, the PERS actuary provided information on the impact of various plan design changes regarding the COLA. A goal of the legislation was to control PERS costs so other key operating budget items for PERS employers would not be impacted. The Board is acutely aware of the impact of increased employer contribution rates based on public testimony.

With the Court overturning elements of the two Senate bills, the Board must factor those additional costs into employer contribution rates for the 2017-19 biennium. Those rates will include investment returns for 2014 and 2015, and any changes to actuarial methods and assumptions.

We can all be proud of the benefits PERS has provided to Oregon's public workforce, in return for their service to Oregonians, since the plan's inception in 1945. But, we must also be mindful of the amount that PERS employers pay to fund those benefits and the impact on their budgets.

It is imperative that we all fully understand the issues as we seek solutions. I trust that reasonable judgment and sound decision making will be used as we collectively move forward and that no party is cast as the "bad guy." To do so will detract from the important task at hand.



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May 29, 2015

TO: Members of the PERS Board
FROM: Mary Dunn, Senior Policy Director of Operations
SUBJECT: *Moro* Decision Implementation

The Oregon Supreme Court issued its decision in the *Moro* case on April 30, 2015, invalidating the application of cost-of-living adjustment (COLA) reductions enacted by Senate Bill 822 (effective May 6, 2013) and Senate Bill 861 (effective October 8, 2013) as applied to benefits earned before the effective dates of those bills. PERS is executing a project to restore COLA payments to benefit recipients and enhance its systems to implement the new COLA allocation going forward. Our plan is to:

1. Pay a 2% COLA to all benefit recipients effective July 1, 2015 (payable on August 1, 2015). Although this COLA will not be the precisely correct amount, as it will be on the recipient's current benefit and not be allocated for those who will receive less than 2% COLA in the future, we can process the 2% COLA with current functionality and takes a large step towards restoring recipients to the correct benefit amount.
2. Calculate the amount owed to those benefit recipients (~119,000) who retired on or before May 1, 2013, and are not affected by the legislation. Our goal is to pay that group by October 30, 2015. The method of payment would be consistent with that currently selected for each benefit recipient (automatic deposit or paper check).
3. Calculate the amount owed to those benefit recipients (~10,000) who retired after May 1, 2013, and are affected to some degree by the legislation. Our goal is to pay that group by the end of January 2016, again using the same method of payment currently used for each benefit recipient (automatic deposit or paper check).
4. Recalculate the monthly payment (including COLA) for all benefit recipients so the COLA payment made on July 1, 2016 (payable on August 1, 2016) is correct.
5. Assess the need to recalculate retirement benefits for those who retired between January 1, 2014, and June 1, 2015, and chose a survivorship option as the actuarial equivalency factor (AEF) used a COLA assumption based on the legislation. About 4,000 retirements will need to be reviewed if the revised AEFs have a material effect on the benefit calculation.
6. Issue payments to those benefit recipients who are now deceased but are owed a restored COLA (~6,500); note that this population will grow every day until we complete the adjustments in steps 2. and 3. above.

We estimate the project will cost \$1,603,528, including the cost to update our system to calculate COLA correctly for each benefit recipient going forward and loading those corrected benefits into the system so that the COLA effective July 1, 2016 (payable August 1, 2016) is correct. The recalculations in steps 5. and 6. above are the most labor-intensive and will most likely extend beyond July 1, 2016. These time lines, and the associated expenditure limitations, are shown on the table on the next page.

Project Time Line and Associated Expenditure Limitation

| 2015 | | | | | | 2016 | | | | | | 2017 | | | | | | | | | | | |
|--|---|---|---|---|---|---|---|---|---|---|---|------|---|---|---|---|---|---|---|---|---|---|---|
| J | A | S | O | N | D | J | F | M | A | M | J | J | A | S | O | N | D | J | F | M | A | M | J |
| Moro Implementation TOTAL: \$1,603,528 | | | | | | | | | | | | | | | | | | | | | | | |
| Retroactive COLA and Recalculations: \$949,570; 7/1/15 – 6/30/17 | | | | | | | | | | | | | | | | | | | | | | | |
| Retro COLA for those not affected by 2013 legislation (~119,000): \$173,090; 7/1/15 – 10/30/15 | | | Retro COLA for those affected by 2013 legislation (~10,000): \$229,340; 11/1/15 – 1/29/16 | | | Recalculations of benefit recipient accounts: \$547,140; 2/1/16 – 6/30/17 | | | | | | | | | | | | | | | | | |
| System Update for future COLA Calculations: \$653,958; 7/1/15 – 6/30/16 | | | | | | | | | | | | | | | | | | | | | | | |
| Inception/Elaboration: \$261,583; 7/1/15 – 10/30/15 | | | Construction: \$261,583; 11/1/15 – 3/31/16 | | | Trans: \$130,792; 4/1/16 – 6/30/16 | | | | | | | | | | | | | | | | | |

C.4. Attachment 1 – Actuarial Analysis of *Moro* Decision

ACTUARIAL ANALYSIS OF MORO DECISION OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM

May 29, 2015

Presented by:

Matt Larrabee, FSA, EA

Scott Preppernau, FSA, EA

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Legislative Reforms and *Moro* Decision

- 2013 legislative changes were reflected in employer contribution rates that the PERS Board adopted for the 2015-2017 biennium
 - Based on December 31, 2013 actuarial valuation
- The Oregon Supreme Court's *Moro* decision overturned the most financially significant portions of the 2013 legislative changes
- Higher System benefits and costs will be reflected in:
 - December 31, 2014 advisory valuation, to be published later this year
 - December 31, 2015 *rate-setting* valuation, which determines 2017-2019 employer contribution rates
- June 30, 2015 employer financial reporting under GASB 68 will use pre-*Moro* results as of June 30, 2014 due to GASB's timing rules
 - Supplementary notes will estimate *Moro*'s effect on future GASB results

Mapping of Valuations to Contribution Rates

- Actuarial valuations are conducted annually
 - Alternate between “rate-setting” and “advisory” valuations
 - The 12/31/2014 valuation will be advisory
 - The 12/31/2015 valuation will be rate-setting
- The Board adopts employer contribution rates developed in rate setting valuations, and those rates go into effect 18 months after the valuation date

| Valuation Date | Employer Contribution Rates |
|----------------|-----------------------------|
| 12/31/2013 | → July 2015 – June 2017 |
| 12/31/2015 | → July 2017 – June 2019 |

Effect of *Moro* Decision

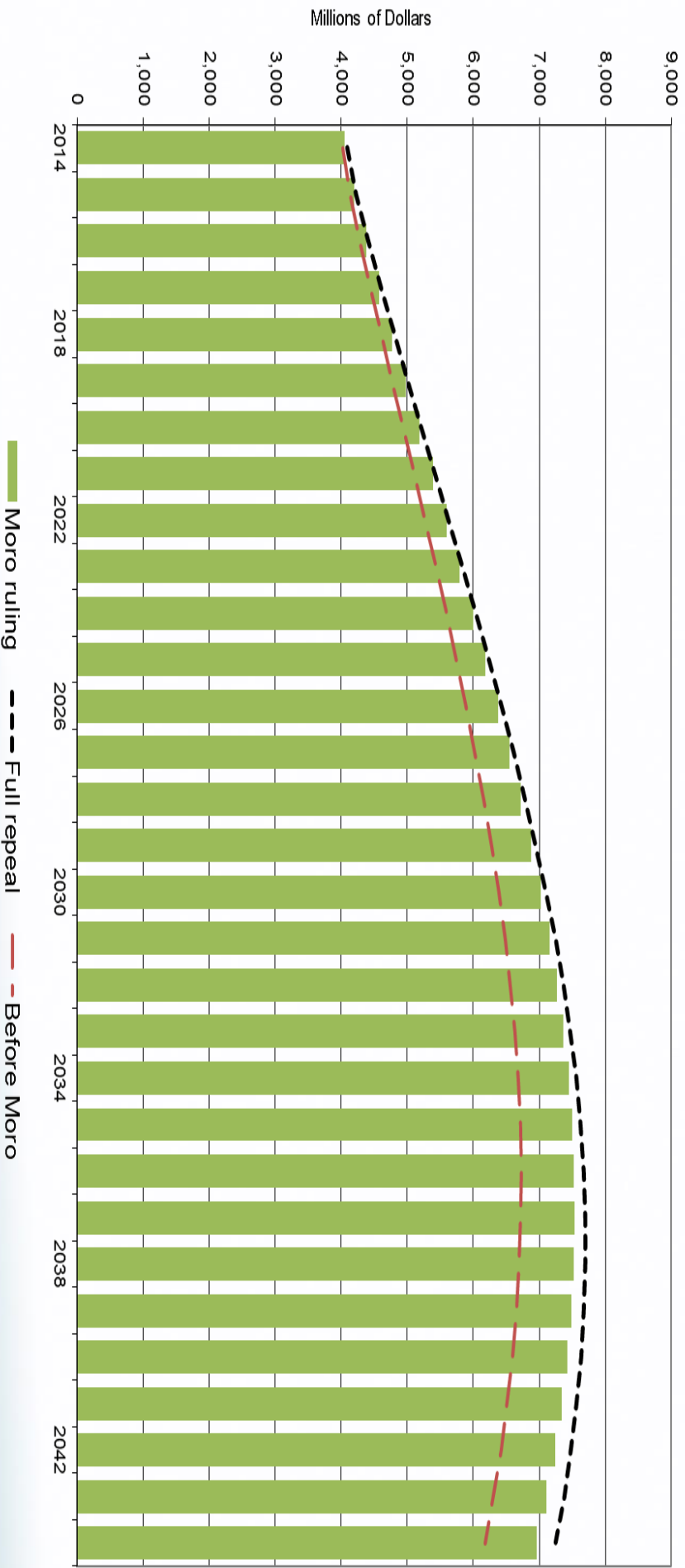
Executive Summary

- For this presentation, we analyzed *Moro*'s effects based on the most recently completed actuarial valuation as of December 31, 2013
- Estimated contribution rate increases needed to fund *Moro*'s benefits are expected to be limited by the “rate collar” in the 2017-19 biennium
 - Additional estimated increases are deferred to subsequent period(s)
- Estimates shown today may change based on actual investment and demographic experience, along with any changes in assumptions
 - Estimates reflecting those updates could significantly affect uncollared employer contribution rates while having far less effect on the collared employer contribution rates for the 2017-19 biennium

Year-by-year Effect of Reforms and Moro

Liabilities are calculated from projected benefit payments

Tier 1/Tier 2 & OPSRP Expected Benefit Payments
Members as of 12/31/2013 (without considering future entrants)



Based on an interpretation of the calculation of COLAs as detailed in the Appendix

Financial Magnitude of Reforms and *Moro*

- The financial magnitude of the year-by-year changes can be summarized as a single present value
- Present values are sensitive to the “as of” date of the calculation, to the assumptions, methods, and census data used plus the benefit provisions reflected

“As of” present value date

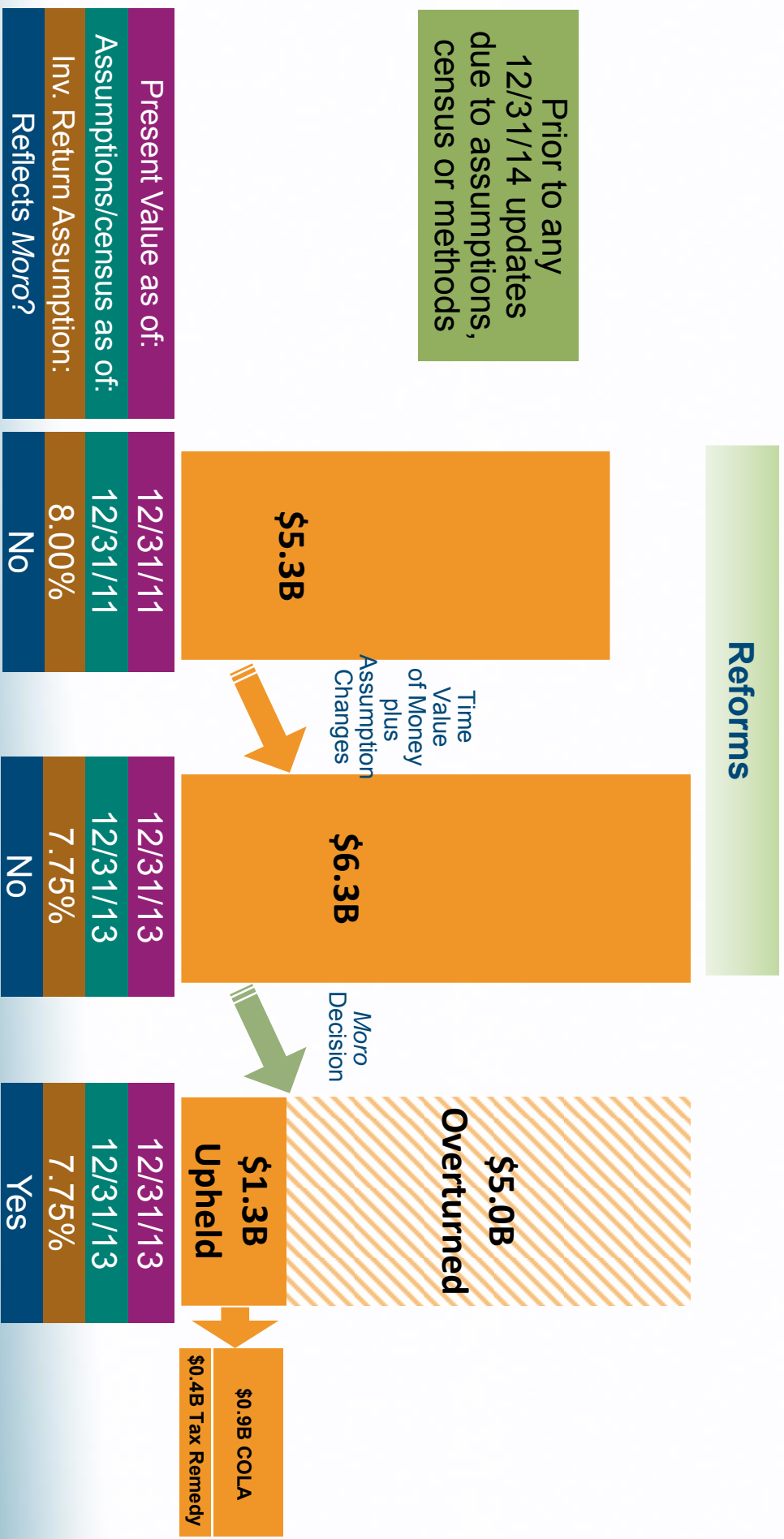
Assumptions & census from ___ actuarial valuation

Discount rate / investment return assumption

Reflects *Moro* decision?

Financial Magnitude of Reforms and *Moro*

Effect on Present Value of Future Benefits (PV/FB) Basis



System-average Uncollared Base Contribution

Rate Impact of Moro Decision



System-average Uncollared Base Contribution

Rate Impact of *Moro* Decision

- The estimated system-wide UAL rate increase due to *Moro* is:
 - 4.0% of payroll => measured at December 31, 2013
 - 4.4% of payroll => estimated measurement at December 31, 2015 prior to reflecting any changes in assumptions and/or methods that are adopted at the July 2015 PERS Board meeting
 - Final rate calculations as of December 31, 2015 for the 2017-19 biennium will also reflect updated census demographics and actual investment results as of the valuation date
- The UAL rate grows for the passage of time due to:
 - Growth in present value of *Moro* impact measured at a later date
 - Time lag in contribution rates adjusting for the increased present value

Uncollared Contribution Rate Impact of *Moro*

Reflecting *Moro* – Uncollared System-average Base Contribution Rates

Based on an interpretation of the calculation of COLAs as detailed in the Appendix

Prior to any 12/31/14 updates due to assumptions, census or methods

Present Value as of:
Assumptions/census as of:
Inv. Return Assumption:
Reflects *Moro*?



UAL Change: +4.4%
NC Change: +0.5%



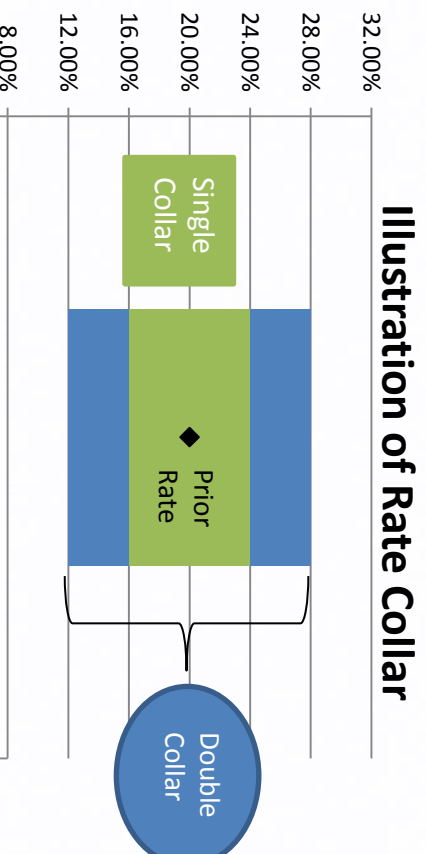
12/31/15
12/31/13
7.75%
Yes

The Rate Collar

- In 2005, the Board adopted an employer contribution rate smoothing method called the “rate collar”
- After a major change in unfunded actuarial liability (UAL), the difference between the current contribution rate and the updated actuarially calculated rate can be large
 - The rate collar is a formulaic approach that spreads large employer contribution rate changes systematically across several biennia
- It allows employers to see both:
 - An advanced estimate of the maximum base rate change per biennium
 - The currently estimated long-term (20-year) contribution rate on a current market value of assets basis

The Rate Collar's Current Design

- The maximum change typically permitted by the collar is:
 - 20% of the rate currently in effect (3% of payroll minimum collar width)
- If funded status is 60% or lower, the width of the collar doubles
 - 40% of rate currently in effect (6% of payroll minimum collar width)
- If the funded status is between 60% and 70%, the collar size is pro-rated between the initial collar and double collar level



- Rate collars are calculated at a rate pool level and limit the biennium to biennium increase in the UAL rate for a given rate pool

System-average Base Rates – Moro Impact

Reflecting Moro

Based on an interpretation of the calculation of COLAs as detailed in the Appendix

Prior to any 12/31/14 updates due to assumptions, census or methods

Present Value as of: 12/31/13
Assumptions/census as of: 12/31/13
Inv. Return Assumption: 7.75%
Reflects Moro?



12/31/13
12/31/13
7.75%
No



12/31/15
12/31/13
7.75%
Yes



12/31/13
12/31/13
7.75%
No



12/31/15
12/31/13
7.75%
Yes

3.7% of payroll increase
=
Approx. \$690 million in 2017-19 contributions



System-Average Rates – *Moro* Impact

Summary

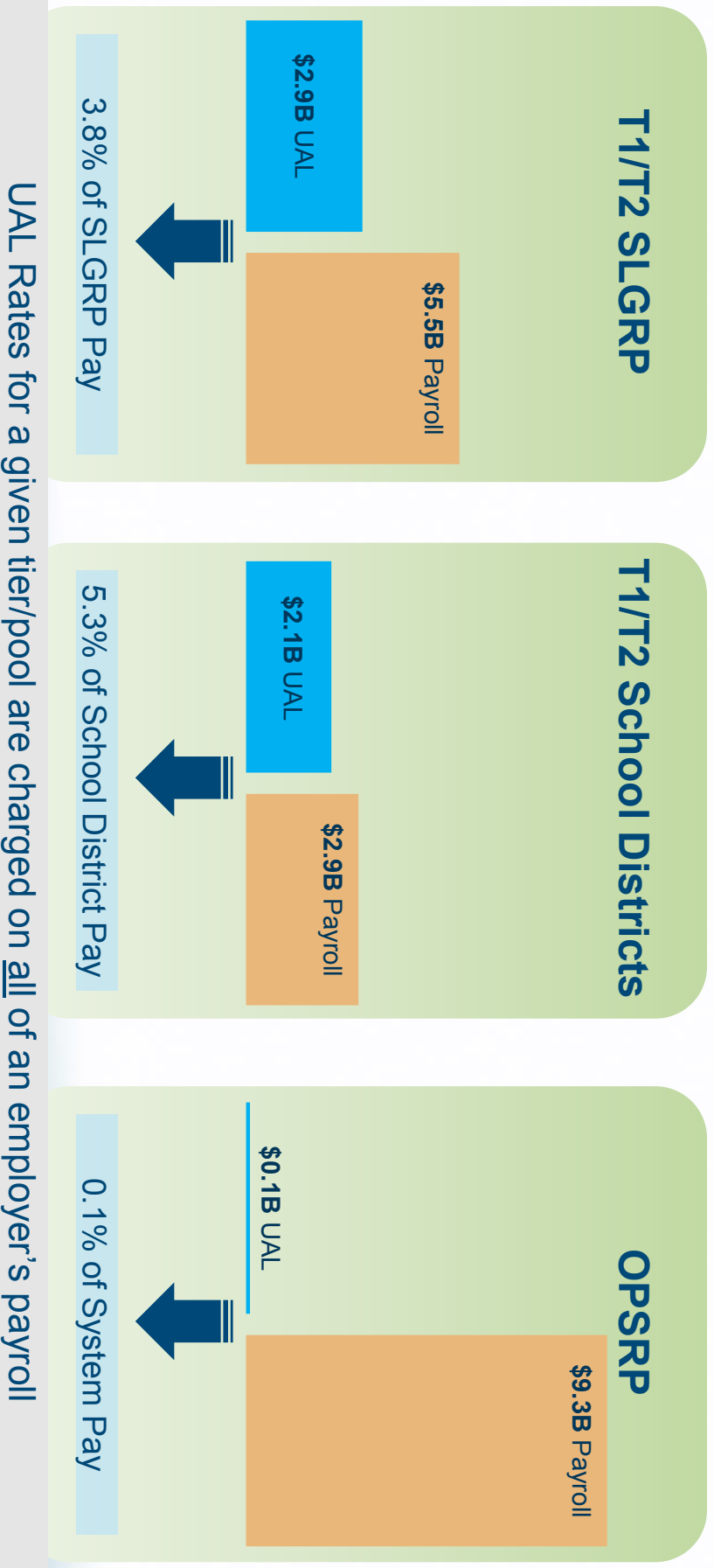
- We currently anticipate “top of collar” employer contribution rate increases for the 2017-19 biennium to reflect *Moro*’s effects
- Estimates shown are prior to reflecting post-2013 investment returns and census updates or any changes in assumptions and methods adopted at the July 2015 PERS Board meeting
 - The above factors could significantly affect the uncollared system average contribution rate while having far less effect on the collared system average rate for the next biennium
- Advisory December 31, 2014 valuation results published later this year will provide updated employer-specific 2017-19 rate estimates
 - Actual 2017-19 employer rates for PERS Board approval will be published in September 2016, based on the December 31, 2015 valuation

Pool-Specific Effects

Estimated Changes in 12/31/15 Uncollared UAL Rate due to *Moro*

Based on an interpretation of the calculation of COLAs as detailed in the Appendix

Prior to any 12/31/14 updates due to assumptions, census or methods



UAL Rates for a given tier/pool are charged on all of an employer's payroll

The Fundamental Cost Equation

- Decisions made by the PERS Board, with one exception, do not affect the ultimate cost of system benefits
 - Exception is that investment return assumption affects Tier 1/Tier 2 benefits calculated under Money Match

$$\begin{aligned} & \text{BENEFITS} = \\ & \text{EARNINGS} + \\ & \text{CONTRIBUTIONS} \end{aligned}$$

Wrap Up / Next Steps

- Adopt assumptions and methods for December 31, 2014 advisory valuation and December 31, 2015 rate-setting valuation at July 2015 PERS Board meeting
 - The December 31, 2014 advisory valuation will provide an updated measurement of the present value, plus collared and uncollared rate estimates reflecting the *Moro* decision, updated census data, and the adopted assumptions and methods
- Present system-wide December 31, 2014 actuarial valuation results at the September 2015 PERS Board meeting
 - Advisory employer-specific 2017-19 employer contribution rates will be included in November 2015 Board meeting materials

Certification

This presentation summarizes results and projections based on 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 for discussion purposes only and may not be relied upon to, for example, prepare the System’s Consolidated Annual Financial Report (CAFR) or financial reporting for any System employer. The results are based upon the same assumptions, methods, and plan provisions as described in the December 31, 2013 System-Wide Actuarial Valuation Report, except where noted otherwise.

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):

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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

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: OP SRP administration expenses are assumed to be equal to \$5.5M and are added to the OP SRP 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 2013 Valuation Report, except as modified by *Moro*.

Appendix

Blended COLA

Moro Decision

The Oregon Supreme Court decision in *Moro v. State of Oregon* stated that the reduced COLA amounts provided by Senate Bills 822 and 861 (both passed in 2013) only apply to benefits earned after the effective date of the legislation. According to the Court, PERS members who earned benefits before and after the effective date “will be entitled to receive during retirement a blended COLA rate that reflects the different COLA provisions applicable to benefits earned at different times.”

The Supreme Court did not articulate a specific methodology for determining a member’s blended COLA. For purposes of the estimates in this presentation, the blending was based on the creditable service earned before and after the effective date.

The example below illustrates this blended COLA approach for a member with 30 years of service at retirement, 20 of which were earned prior to the effective date of the SB 861 COLA.

| Annual Benefit COLA Applies to: | COLA prior to SB 822 & 861 | SB 861 COLA | Blended COLA |
|---------------------------------|----------------------------|-------------|--|
| <\$60,000 | 2.00% | 1.25% | $(20/30) \times 2.00\%$ $+\frac{(10/30) \times 1.25\%}{}$ $= 1.75\%$ |
| >\$60,000 | 2.00% | 0.15% | $(20/30) \times 2.00\%$ $+\frac{(10/30) \times 0.15\%}{}$ $= 1.38\%$ |

Economic Assumptions & Actuarial Methods

OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM

May 29, 2015

Presented by:

Matt Larrabee, FSA, EA

Scott Preppernau, FSA, EA



Agenda

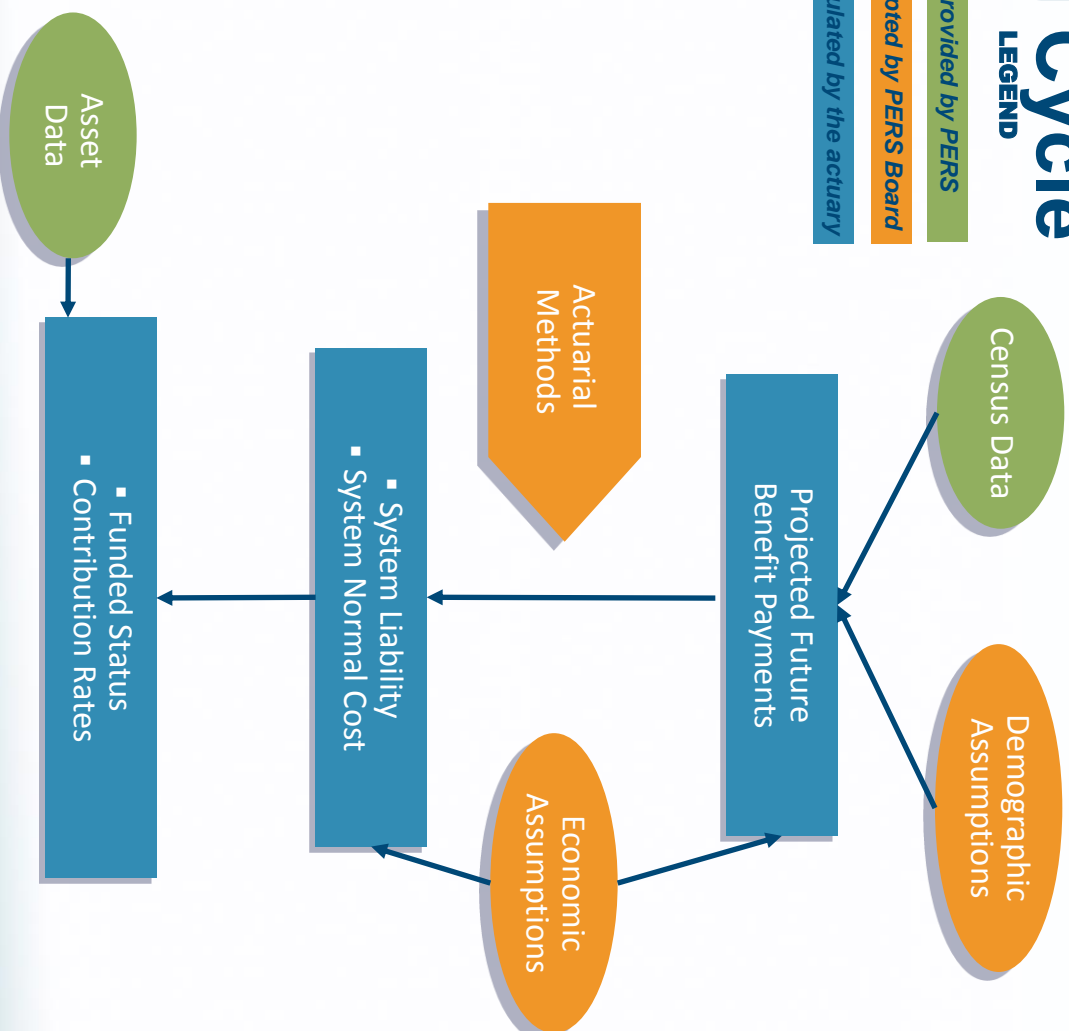
- Review of non-investment economic assumptions
- Long-term investment return assumption
- Actuarial methods
 - Cost allocation method
 - UAL/shortfall amortization technique
 - Rate collaring

Two-Year Rate-Setting Cycle

LEGEND

- Provided by PERS
- Adopted by PERS Board
- Calculated by the actuary

- July 2015: Assumptions & methods adopted by Board in consultation with the actuary
- September 2015: System-wide 12/31/14 “advisory” actuarial valuation results
- November 2015: Advisory 2017-2019 employer-specific contribution rates
- July 2016: System-wide 12/31/15 “rate-setting” actuarial valuation results
- September 2016: Disclosure & adoption of employer-specific 2017-2019 contribution rates



Objectives for Actuarial Methods & Assumptions

- Transparent
- Predictable and stable rates
- Protect funded status
- Equitable across generations
- Actuarially sound
- GASB compliant

Some of the objectives can conflict, particularly in periods with significant volatility in investment return or projected benefit levels. Overall system funding policies should seek an appropriate balance between conflicting objectives.

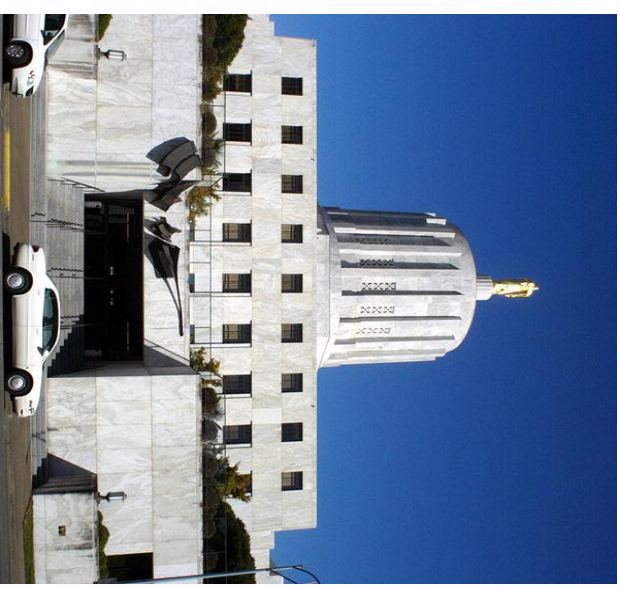
The Fundamental Cost Equation

- Long-term program costs are the contributions, which are governed by the “fundamental cost equation”:

$$\begin{aligned} & \mathbf{BENEFITS =} \\ & \mathbf{EARNINGS +} \\ & \mathbf{CONTRIBUTIONS} \end{aligned}$$

Governance Structure

- Benefits:
 - Plan design set by Oregon Legislature
 - Subject to judicial review
- Earnings:
 - Asset allocation set by OIC
 - Actual returns determined by market
- Contributions:
 - Funding, including methods & assumptions, set by PERS Board
 - Since contributions are the balancing item in the fundamental cost equation, PERS Board policies primarily affect the **timing** of contributions
 - Different actuarial methods and assumptions produce different expected contribution patterns



Review of Non-Investment Economic Assumptions

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Assumptions to Be Reviewed

| 12/31/2013 Valuation Actual Assumption | |
|---|------------------------|
| Inflation | 2.75% |
| Real Wage Growth | <u>1.00%</u> |
| Payroll Growth | 3.75% |
| <u>Administrative Expenses:</u> | |
| - OPSRP | \$5.5 million |
| - Tier 1/ Tier 2 | No explicit assumption |

The Tier 1/Tier 2 administrative expense assumption was implicit, as the investment return assumption was considered to be net of Tier 1/ Tier 2 administrative expenses. Those expenses are approximately 0.05% of system Tier 1/Tier 2 assets.

Economic Assumptions

Inflation

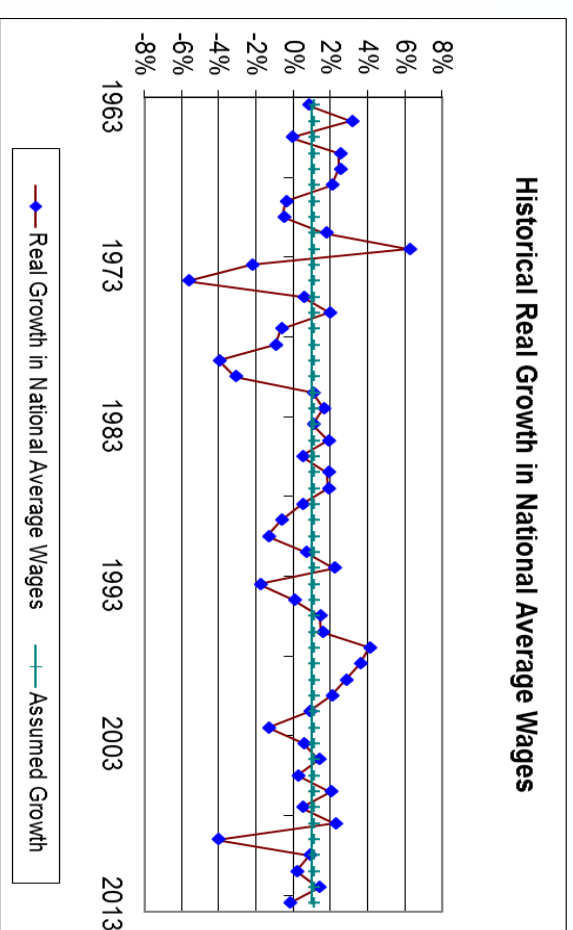
- The inflation assumption affects other assumptions, including payroll growth, investment return, and health care inflation
- Inflation can vary significantly over time
- Market estimates of future inflation can be derived from yields of Treasury securities and Treasury Inflation Protected Securities (TIPS)
- Social Security’s current “intermediate cost” 30-year average inflation assumption is 2.54%
- **We recommend lowering the long-term inflation assumption from 2.75% to 2.50%**

| Period Ending | Average Inflation | |
|---------------------|-------------------|--------------|
| 12/31/2014 | | |
| 10 years | 2.12% | |
| 20 years | 2.28% | |
| 30 years | 2.71% | |
| 40 years | 3.85% | |
| As of | 10 | 30 |
| 12/31/2014 | Year | Year |
| Treasury Yield | 2.17% | 2.75% |
| TIPS Yield | <u>0.49%</u> | <u>0.83%</u> |
| Breakeven Inflation | 1.68% | 1.92% |

Economic Assumptions

Real Wage Growth

- An individual member's expected annual salary increase is composed of:
 - Inflation
 - Real wage growth
 - Individual merit/longevity component
- Real wage growth represents the increase in wages in excess of inflation for the entire group due to improvements in productivity and competitive market pressures
- Social Security's long-term "intermediate cost" real wage growth assumption is 1.13%
- We recommend no change to the current assumption of 1.00%



| Period Ending 12/31/2014 | Average Real Wage Growth |
|--------------------------|--------------------------|
| 20 Years | 0.97% |
| 30 Years | 0.83% |
| 40 Years | 0.40% |
| 50 Years | 0.61% |

Economic Assumptions

Payroll Growth

- Overall system payroll growth is assumed to equal the sum of:
 - Inflation
 - Real wage growth
- Based on the recommended inflation assumption of 2.50% and real wage growth of 1.00%, we recommend lowering the payroll growth assumption to 3.50%

Economic Assumptions

Administrative Expenses

- In the past, assumed administrative expenses have been added to the normal cost for OPSRP, but not for Tier 1/Tier 2
 - OPSRP administrative expenses are significant relative to OPSRP assets, but declining over time as the asset base grows
 - Tier 1/Tier 2 administrative expenses are both less significant and more stable relative to the size of Tier 1/Tier 2 assets
 - Previously, assumed Tier 1/Tier 2 administrative expenses were addressed by setting an investment return assumption net of expenses
- New GASB standards require the long-term investment return assumption used for accounting purposes to be gross of administrative expenses
 - As a result, we now recommend an explicit assumption for both OPSRP and Tier 1/Tier 2

Economic Assumptions

Administrative Expenses

- Actual administrative expenses for recent years are shown below

| | Tier 1/Tier 2 | | OPSRP | |
|------|-----------------|-------------------------------|-----------------|-------------------------------|
| Year | Actual Expenses | % of Beginning of Year Assets | Actual Expenses | % of Beginning of Year Assets |
| 2010 | \$22.8 | 0.05% | \$6.1 | 1.37% |
| 2011 | \$22.2 | 0.05% | \$6.9 | 1.05% |
| 2012 | \$26.4 | 0.06% | \$5.3 | 0.63% |
| 2013 | \$29.6 | 0.06% | \$4.5 | 0.38% |
| 2014 | \$30.1 | 0.06% | \$5.0 | 0.30% |

- Recommend assumed annual expenses for 2015 and 2016:
 - Tier 1/Tier 2: \$33.0 million
 - OPSRP: \$5.5 million

Assumptions to Be Reviewed

| | 12/31/2013 Valuation Actual Assumption | 12/31/2014 Valuation Recommended Assumption |
|---------------------------------|---|--|
| Inflation | 2.75% | 2.50% |
| Real Wage Growth | <u>1.00%</u> | <u>1.00%</u> |
| Payroll Growth | 3.75% | 3.50% |
| <u>Administrative Expenses:</u> | | |
| - OPSPRP | \$5.5 million | \$5.5 million |
| - Tier 1/Tier 2 | No explicit assumption | \$33.0 million |

No explicit assumption is made for investment-related expenses, which are accounted for implicitly in the analysis of the long-term investment return assumption.

Long-Term Investment Return Assumption

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Long-Term Investment Return Assumption

- Uses of the investment return assumption
 - As a “discount rate” for establishing the:
 - Actuarial accrued liability, which is a net present value
 - Associated unfunded actuarial liability, also called the UAL or actuarial shortfall
 - Guaranteed crediting level for regular Tier 1 active member account balances
 - Annuitization rate for converting member account balances to lifetime money match monthly benefits



Reflecting expectations for both investment earnings and benefit levels for certain members, the assumption helps set a reasonable and appropriate budgeting glide path for estimated mid-to-long term employer contribution rates

Investment Return Estimates

- To assist the Board, we developed return estimates based on capital market outlook assumptions from three sources and an industry standard mean/variance model
 - Milliman
 - Callan
 - 2014 Horizon survey of capital market assumptions (survey of 21 advisors)
- Estimates do not reflect any possible “alpha” due to selected managers potentially outperforming market benchmarks over the long term, net of fees
- Today’s speakers are not credentialed investment advisors
 - We are presenting results based on capital market outlook assumptions developed by Milliman’s credentialed investment professionals

Details on each set of capital market outlook assumptions is in the appendix

Investment Return Estimates

- Estimates are based on OIC's target long-term asset allocation
 - Current actual allocation differs somewhat from the target allocation
- Target allocations are under review by OIC, and could change by the PERS Board's July meeting
- Callan and Horizon estimates are calibrated over a shorter investment timeframe than Milliman's estimates
 - Also reflect lower level of assumed inflation

| | Milliman | Callan | Horizon |
|---------------------------------|--------------|--------------|--------------|
| Median Annualized Return | 7.05% | 7.45% | 7.32% |
| Assumed Inflation | 2.50% | 2.30% | 2.41% |
| Timeframe Modeled | 20 years | 10 years | 10 years |

The median returns shown above are geometric annualized average returns over the timeframes indicated above for each provided set of capital market assumptions

Effects of Lowering the Assumed Return

- A lower investment return assumption would produce higher calculated liabilities and contribution rates since liabilities are net present values, as of the valuation date, of a year-by-year benefit payment projection that stretches far into the future
 - Changing the assumption tilts the estimated balance of the fundamental cost equation between estimated future investment earnings and estimated future contributions
 - Long-term, the balance depends on actual investment earnings
 - The effect of lowering the assumed return to 7.50% is estimated as a 1.8% of payroll increase (or 3.6% at a 7.25% assumption) in the uncollared system average base employer contribution rate
- For PERS, such a change would also lower benefits for future retirements calculated under money match
 - Illustration for a hypothetical Tier 1 member shown on next slide

Effects of Lowering the Assumed Return

- Lowering the assumption to either 7.50% or 7.25% would affect the money match calculation for a member age 59½ with a \$135,000 member account balance as of 6/30/2015 as shown:

| | | | | |
|-----------------------------|-----------------|------------------|-----------------|-----------------|
| Benefit Commencement | 7/1/2015 | 12/1/2015 | 1/1/2016 | 3/1/2016 |
| Assumed Rate | 7.75% | 7.75% | 7.50% | 7.50% |
| Starting Benefit | \$2,041 | \$2,117 | \$2,088 | \$2,119 |
| Benefit Commencement | 7/1/2015 | 12/1/2015 | 1/1/2016 | 6/1/2016 |
| Assumed Rate | 7.75% | 7.75% | 7.25% | 7.25% |
| Starting Benefit | \$2,041 | \$2,117 | \$2,043 | \$2,118 |

- At a 7.50% assumption, it would take about three months without retirement for the December 2015 initial benefit level to be reached
 - At a 7.25% assumed return, it would take about six months

Considerations in Setting the Assumption

- In our opinion, the long-term future investment return assumption should be lowered based on the data from the investment forecasts and review of the guiding principles
- At the July meeting, we will:
 - Update our analysis if necessary for a new OLC asset allocation policy
 - Provide peer information on other large public systems' assumptions
 - Ask the Board to adopt an assumption for use in the upcoming valuation

Actuarial Methods

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Key Actuarial Methods

| | 12/31/2013 Valuation Actual Assumption | 12/31/2014 Valuation Recommended Assumption |
|----------------------------------|--|---|
| Cost Allocation Method | Entry Age Normal | No change |
| Shortfall Amortization Method | Level percent of pay, layered fixed periods: Tier 1/Tier 2: 20 years OPSRP: 16 years RHIA/RHIPA: 10 Years | No change |
| Rate Collar | Limits change in based contribution rate to larger of 20% of current rate or 3.00% of payroll; Collar widens when funded status below 70% | No change |

Cost Allocation Method

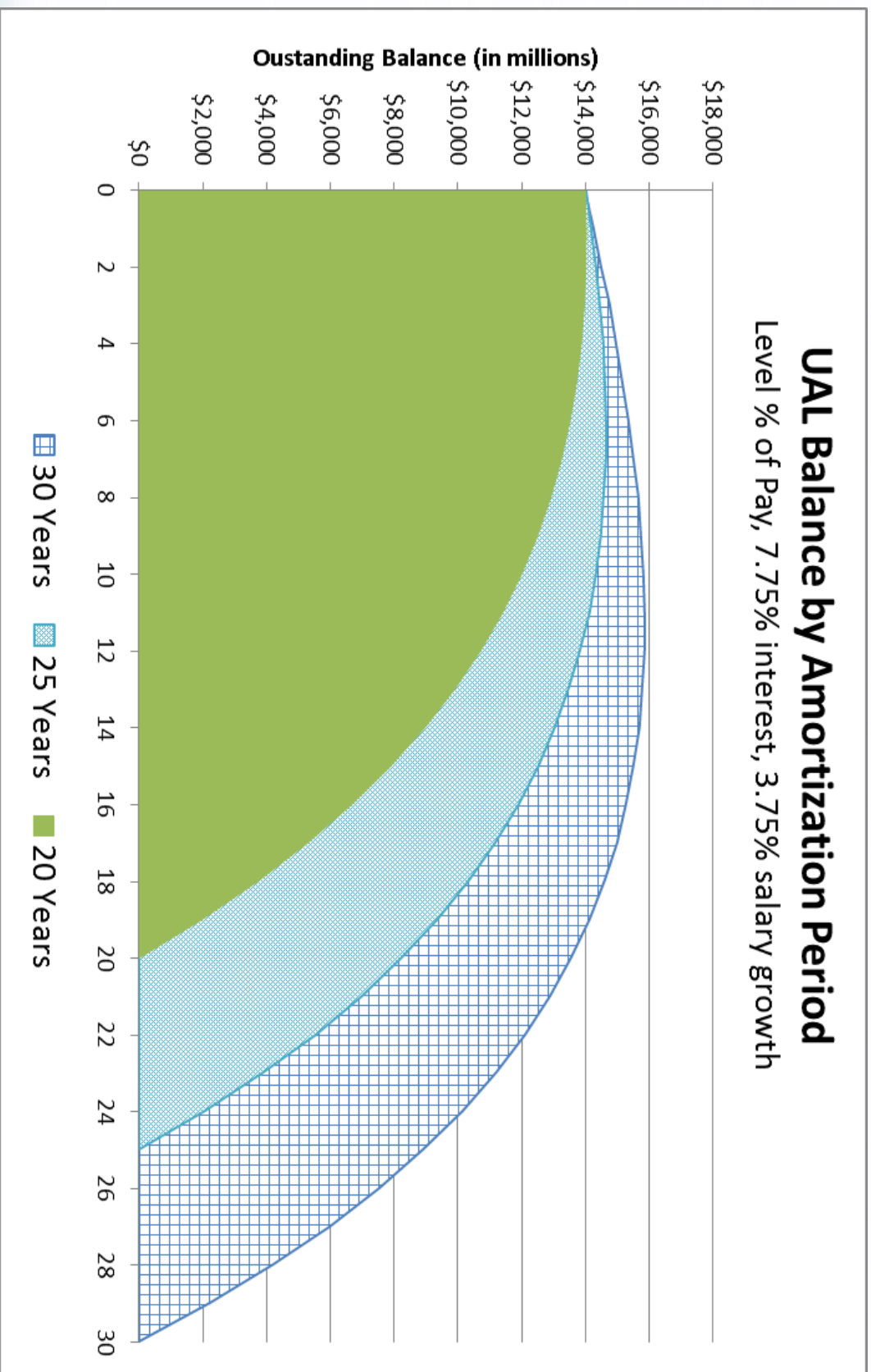
- Rates are calculated to pre-fund retirement benefits during a member's working career if all assumptions are met
- The present day value of projected future benefits allocated to a particular working year is the **Normal Cost**
- The present day value of projected future benefits allocated to prior years is the **Accrued Liability**
- The division between past, current & future service is done through use of an actuarial cost allocation method
- PERS currently uses GASB-compliant cost allocation method of Entry Age Normal (EAN)
 - We recommend no change to the cost allocation method

Shortfall Amortization Periods

- A key part of contribution rate calculations is amortization of Tier 1 / Tier 2 shortfalls over twenty years as a level percentage of payroll
 - As part of changes made in the prior experience study, UAL as of December 31, 2013 was re-amortized over twenty years
 - Subsequent gains or losses amortized over twenty years from the rate-setting valuations in which they are recognized
- Twenty years avoids significant negative amortization, where shortfall actually increases in the initial “pay down” years even if assumptions are met and contributions are made
 - The following slide illustrates pay down of a \$14 billion shortfall over periods of 20, 25 or 30 years at current assumptions

Shortfall Amortization Periods

UAL Balance by Amortization Period
Level % of Pay, 7.75% interest, 3.75% salary growth



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The Rate Collar

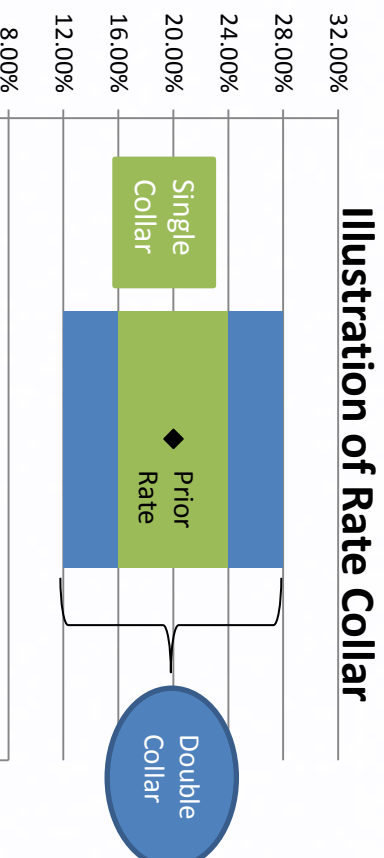
- In 2005, the Board adopted an employer contribution rate smoothing method called the “rate collar”
- After a major change in unfunded actuarial liability (UAL), the difference between the current contribution rate and the updated actuarially calculated rate can be large
 - The rate collar is a formulaic approach that spreads large employer contribution rate changes systematically across several biennia
- **It allows employers to see both:**
 - An advanced estimate of the maximum base rate change per biennium
 - The currently estimated long-term (20-year) contribution rate on a current market value of assets basis

Rate Collaring

- The rate collar approach has three steps:
 - Calculate shortfall based on fair market asset values (excluding side accounts)
 - Calculate the actuarially determined UAL Rate based on shortfall amortization period and other key assumptions
 - Check the calculated overall rate (Normal Cost Rate plus UAL Rate) against the contribution rate currently in effect
 - If the actuarial rate change is too large, part of the calculated increase is “collared” and deferred to subsequent periods
 - The UAL Rate actually charged to employers is adjusted downward to reflect the rate collar’s effects

The Rate Collar's Current Design

- The maximum change typically permitted by the collar is:
 - 20% of the rate currently in effect (3% of payroll minimum collar width)
- If funded status is 60% or lower, the width of the collar doubles
 - 40% of rate currently in effect (6% of payroll minimum collar width)
- If the funded status is between 60% and 70%, the collar size is pro-rated between the initial collar and double collar level



- Collars are calculated at a rate pool level and limit the biennium to biennium increase in the UAL Rate for a given rate pool

Agenda for July Meeting

- Review demographic assumptions
- Adopt all methods and assumptions for use in:
 - December 31, 2014 “advisory” actuarial valuation that estimates 2017-2019 contribution rates
 - December 31, 2015 “rate setting” actuarial valuation that sets recommended 2017-2019 contribution rates for PERS Board adoption

Caveats and Disclaimers

This presentation discusses actuarial methods and assumptions for use in the valuation of the Oregon Public Employees Retirement System (“PERS” or “the System”). For the most recent complete actuarial valuation results, including cautions regarding the limitations of use of valuation calculations, please refer to our formal Actuarial Valuation Report as of December 31, 2013 (“the Valuation Report”) published on September 29, 2014. The Valuation Report, including all supporting information regarding data, assumptions, methods, and provisions, is incorporated by reference into this presentation. The statements of reliance and limitations on the use of this material is reflected in the actuarial report and still apply to this presentation.

In preparing this presentation, we relied, without audit, on information (some oral and some in writing) supplied by the System’s staff, as well as capital market expectations provided by Callan. 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 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.

Milliman’s work product was prepared exclusively for Oregon PERS for a specific and limited purpose. It is a complex, technical analysis that assumes a high level of knowledge concerning PERS’ operations, and uses PERS’ data, which Milliman has not audited. It is not for the use or benefit of any third party for any purpose. 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. Any third party recipient of Milliman’s work product who desires professional guidance should not rely upon Milliman’s work product, but should engage qualified professionals for advice appropriate to its 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

Actuarial Basis Capital Market Assumptions - Milliman

For assessing the expected portfolio return under Milliman's capital market assumptions, we considered the Oregon PERS Fund to be allocated among the model's asset classes as shown below. This allocation is based on the Oregon Investment Council's Statement of Investment Objectives and Policy Framework for the Oregon PERS Fund, as revised December 3, 2014.

| | Annual Arithmetic Mean | 20-Year Annualized Geometric Mean | Annual Standard Deviation | Policy Allocation |
|---|------------------------|-----------------------------------|---------------------------|-------------------|
| US Large/Mid-Cap Equity | 7.96% | 6.70% | 17.07% | 15.75% |
| US Small Cap Equity | 8.93% | 6.99% | 21.35% | 1.31% |
| US Micro-Cap Equity | 9.37% | 7.01% | 23.72% | 1.31% |
| Non-US Developed Equity | 8.34% | 6.73% | 19.40% | 13.13% |
| Emerging Markets Equity | 10.56% | 7.25% | 28.45% | 4.13% |
| Non-US Small Cap Equity | 9.01% | 7.22% | 20.55% | 1.88% |
| Private Equity | 11.60% | 7.97% | 30.00% | 20.00% |
| US Universal Fixed Income | 4.10% | 4.00% | 4.68% | 8.00% |
| US Short-Term Bonds | 3.65% | 3.61% | 2.74% | 8.00% |
| US Bank/Leveraged Loans | 5.69% | 5.42% | 7.82% | 3.00% |
| High Yield Bonds | 6.67% | 6.20% | 10.28% | 1.00% |
| Real Estate | 6.48% | 5.84% | 12.00% | 10.00% |
| Global REITs | 8.74% | 6.69% | 22.02% | 2.50% |
| Timber | 6.60% | 5.85% | 13.00% | 1.50% |
| Farmland | 7.11% | 6.37% | 13.00% | 1.50% |
| Infrastructure | 8.31% | 7.13% | 16.50% | 3.00% |
| Commodities | 6.07% | 4.58% | 18.40% | 1.50% |
| Hedge Fund of Funds - Diversified | 4.94% | 4.64% | 8.09% | 2.00% |
| Hedge Fund Event-Driven | 7.07% | 6.72% | 8.90% | 0.50% |
| US Inflation (CPI-U) | | 2.50% | | N/A |
| Fund Total (reflecting asset class correlations) | 7.92% | 7.09%* | 13.76% | 100.00% |

* Reflects 0.10% average reduction to model passive investment expenses. The model does not try to assess the actual investment expenses for active management. The model's 20-year annualized geometric median is 7.05%.

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Appendix

Actuarial Basis

Capital Market Assumptions - Callan

For assessing the expected portfolio return under Callan's capital market assumptions, we applied the assumptions shown below provided by Callan.

| | Annual Arithmetic Mean | Annual Standard Deviation | Policy Allocation | 10-Year Annualized Geometric Median |
|---|------------------------|---------------------------|-------------------|-------------------------------------|
| Global Equity | 9.5% | 19.6% | 37.5% | |
| Private Equity | 12.0% | 24.0% | 20.0% | |
| Fixed Income | 3.1% | 3.75% | 20.0% | |
| Real Assets | 8.0% | 15.0% | 20.0% | |
| Diversifying Assets | 7.0% | 11.0% | 2.5% | |
| Fund Total (reflecting asset class correlations) | 8.36% | 14.07% | 100.0% | 7.45% |

Appendix

Actuarial Basis

Capital Market Assumptions - Horizon

For assessing the expected portfolio return under an additional set of capital market assumptions, we applied the assumptions from the 2014 Survey of Capital Market Assumptions published by Horizon Actuarial Services, LLC. According to the survey report, the 10-year return assumptions shown below represent an average of the expectations for 21 investment advisors responding to the survey.

| | 10-Year Annualized Geometric Mean | Annual Standard Deviation | Policy Allocation |
|---|--|----------------------------------|--------------------------|
| US Equity – Large Cap | 7.01% | 17.48% | 15.75% |
| US Equity – Small/Mid Cap | 7.37% | 21.11% | 5.13% |
| Non-US Equity – Developed | 7.41% | 19.77% | 15.00% |
| Non-US Equity – Emerging | 8.70% | 26.36% | 4.12% |
| US Corporate Bonds – Core | 3.46% | 5.36% | 12.00% |
| US Corporate Bonds – High Yield | 5.51% | 11.46% | 4.00% |
| US Treasuries (Cash Equivalents) | 2.21% | 2.28% | 4.00% |
| Real Estate | 6.38% | 13.13% | 13.00% |
| Hedge Funds | 5.77% | 8.95% | 2.50% |
| Commodities | 4.50% | 18.01% | 1.50% |
| Infrastructure | 7.71% | 13.51% | 3.00% |
| Private Equity | 9.43% | 24.82% | 20.00% |
| Inflation | 2.41% | 2.08% | N/A |
| Fund Total (reflecting asset class correlations) | 7.40%* | | 100.00% |

* 10-year annualized geometric median is 7.32%.

