

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

*Comprehensive Annual
Financial Report
For the Fiscal Year Ended June 30, 2006*

Paul R. Cleary
Executive Director

David W. Tyler
Chief Financial Officer

Table of Contents

INTRODUCTORY SECTION

- 2 Letter of Transmittal
- 5 Public Employees Retirement Board
- 6 Organizational Chart
- 7 Certificate of Achievement
- 8 Public Pension Standards Award

FINANCIAL SECTION

- 10 Independent Auditor's Report
- 12 Management's Discussion and Analysis

Basic Financial Statements

- 18 Statements of Fiduciary Net Assets - Pension and Other Postemployment Plans
- 20 Statements of Changes in Fiduciary Net Assets - Pension and Other Postemployment Plans
- 22 Notes to the Financial Statements

Required Supplementary Information

- 39 Schedules of Funding Progress
- 40 Schedule of Employer Contributions
- 41 Notes to Required Supplementary Information

Supporting Schedules

- 42 Schedule of Plan Net Assets - Defined Benefit Pension Plan
- 43 Schedule of Changes in Plan Net Assets - Defined Benefit Pension Plan
- 44 Schedule of Plan Net Assets - Postemployment Healthcare Plan
- 45 Schedule of Changes in Plan Net Assets - Postemployment Healthcare Plan
- 46 Schedule of Administrative Expenses
- 46 Schedule of Payments to Consultants and Contractors
- 47 Summary of Investment Fees, Commissions, and Expenses

Other Reports

- 48 Independent Auditor's Report on Compliance and Internal Controls

INVESTMENT SECTION

- 52 Investment Officer's Report
- 53 Description of Investment Policies
- 54 Investment Results
- 55 Investment Target and Actual Allocations
- 56 List of Largest Assets Held
- 57 Schedule of Fees and Commissions
- 57 Schedule of Broker Commissions
- 58 Investment Summary

ACTUARIAL SECTION

- 60 Actuary's Certification Letter
- 63 Actuarial Assumptions and Methods

Actuarial Schedules

- 70 Schedule of Active Member Valuation Data
- 70 Schedule of Retirees and Beneficiaries
- 71 Schedules of Funding Progress by Rate Pool
- 72 Analysis of Financial Experience
- 73 Solvency Test

Plan Summary

- 74 Summary of Plan Provisions

STATISTICAL SECTION

- 82 Statistical Notes
- 84 Changes in Plan Net Assets - Fiscal Year
- 86 Changes in Plan Net Assets - Calendar Year
- 88 Schedule of Benefit Expenses by Type
- 88 Schedule of Earnings and Crediting
- 89 Schedule of Average Benefit Payments
- 89 Schedule of Benefit Recipients by Benefit Type
- 90 Retirement System Membership - Calendar Year
- 90 Retirement System Membership - Fiscal Year
- 90 Schedule of Principal Participating Employers
- 91 Schedule of Participating Employers

Introductory Section

Letter of Transmittal



Oregon

Theodore R. Kulongoski, Governor

Public Employees Retirement System

Headquarters:

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

Mailing Address:

P.O. Box 23700

Tigard, OR 97281-3700

(503) 598-7377

TTY (503) 603-7766

www.oregon.gov/pers

December 15, 2006

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

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the Oregon Public Employees Retirement System (PERS or “the System”) for the fiscal year ended June 30, 2006. This report includes all funds over which the Public Employees Retirement Board (Board) exercises authority. These funds were established to provide retirement, death, and disability benefits to members; administer retiree health insurance programs; and oversee the state-sponsored deferred compensation program. As of June 30, 2006, PERS provided services to 289,223 members, beneficiaries, and retirees and to 881 employers.

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

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

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

Management’s Discussion and Analysis

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

Economic Condition and Major Initiatives

The economic condition of PERS is affected primarily by investment earnings. A comparative analysis of rates of return is presented on page 54 of this report.

Major Initiatives

Strunk/Eugene Project

Based on the 2005 Oregon Supreme court decision in the *Strunk v. PERS* case and the settlement agreement in the *City of Eugene v. PERS* case, PERS is required to:

- credit Tier One member regular accounts with the assumed earnings rate, currently 8 percent, for 2003 and 2004;
- credit any withheld cost-of-living adjustments to members who retired between April 2000 and April 2004; and
- reallocate 1999 earnings to Tier One member regular accounts at 11.33 percent instead of 20 percent.

The Strunk/Eugene project's goal is to meet these requirements. The project's planning team identified two major phases: Member Account Adjustments and Payment Recipient Adjustments.

The Member Account Adjustments phase involved reallocating earnings for 1999 and subsequent years to active and dormant Tier One member, alternate payee, and beneficiary accounts. The adjustments were successfully completed in December 2005.

The Payment Recipient Adjustments phase entails recalculating benefits for payment recipients affected by the *Strunk* decision and *Eugene* settlement agreement. In some cases, PERS owes the recipient additional funds, while in other cases the recipient owes PERS funds. As of June 30, 2006, PERS is beginning these adjustments, which are scheduled through June 30, 2009.

Individual Account Program (IAP) Remediation

On January 1, 2004, PERS implemented the Oregon Public Service Retirement Plan (OPSRP) as part of a number of reform measures enacted by the 2003 Oregon Legislature. OPSRP consists of a Pension Program that provides a defined benefit pension plan for employees hired on or after August 29, 2003, funded by employer contributions. OPSRP also has an Individual Account Program (IAP), a defined contribution-type plan funded by employee contributions for all members active on or after January 1, 2004.

Since its inception, the IAP did not meet the expectations of members, employers, and stakeholders. As such, PERS has created an IAP remediation project to simplify the program for members and employers, ensure that contributions and earnings are fully posted, and provide for future corrections if necessary to address missing or inaccurate data.

Changes to the IAP will more closely align the program with the way PERS administers member regular accounts under Tier One and Tier Two. The remediation project began in the spring of 2006 and is expected to be completed in late 2006.

Oregon Retirement Information On-line Network (ORION)

PERS staff continued its efforts in a four-year project to replace the agency's legacy Retirement Information Management System (RIMS) with a new fully integrated application, ORION. The new line of business application is expected to provide increased efficiencies through automation, integration, and data accuracy not currently provided by RIMS. The conversion from RIMS to ORION is expected to be completed by November 2009.

Financial Information

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

Internal Controls

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

Funding

Member contributions are set by statute at 6.0 to 7.0 percent of covered salary. Employer contributions have been established by actuarial valuations conducted biennially in odd-numbered calendar years. PERS' funding objective is to meet long-term benefit promises through contributions that fund benefits as they accrue. An adequate contribution level, when combined with investment earnings, will result in the full funding of benefits as they come due. If the level of funding is adequate, the ratio of assets accumulated to total liabilities will increase, and more income will be available for investment. Prudent investment of assets and returns on those investments should increase the funding base and allow for a more stable employer contribution rate. PERS currently has a funded ratio of 104.2 percent for the defined benefit plan it administers (see page 39).

Investments

The Oregon Investment Council (OIC) has statutory authority (ORS 293.701) to establish policies for the investment and reinvestment of PERS funds. The OIC's primary investment objective is to make PERS investment funds as productive as possible. At the same time, the OIC acts as a prudent investor in the management of the PERS portfolio.

An integral part of investment policy is the strategic asset allocation policy. The target investment portfolio mix at fair value as of June 30, 2006, is 33 percent domestic equities, 20 percent international equities, 12 percent alternative equities,

27 percent debt securities, and 8 percent real estate. In addition to approved asset classes, target asset allocation ranges, and rebalancing policies, other safeguards on investments include the use of an independent custodian, defined limits of delegated authority, and independent audits. The System's investment outlook is long-term, allowing the portfolio to take advantage of the favorable risk-return characteristics of equities by placing more emphasis on this category. The OIC uses primarily external portfolio managers, employing both passive (indexed) and active strategies. The portfolio is broadly diversified among equities, debt securities, real estate, and alternative equities with additional diversification achieved through domestic and international investing. PERS securities are held by a custodian, State Street Bank and Trust Company.

PERS' investment portfolio exhibited high returns in fiscal year 2006 with a rate of return of 14.3 percent. This compares with 13.7 percent for fiscal year 2005. The fund's five-year return is 8.1 percent, exceeding the System's actuarial assumed rate of 8 percent.

Descriptions of specific OIC policies regarding diversification, performance objectives, fees, and asset allocation are found on pages 52 through 58.

Awards and Acknowledgements

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to PERS for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2005. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards of preparation of state and local government financial reports.

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

A Certificate of Achievement is valid for one year only. PERS has received a Certificate of Achievement for the last 15 consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

Public Pension Standards Award

The Public Pension Coordinating Council (PPCC) awarded the 2006 Public Pension Standards Award to PERS for its plan design and administration.

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

This is the fourth year the PPCC has offered the award to public retirement systems and the third consecutive year PERS has applied for and received the award.

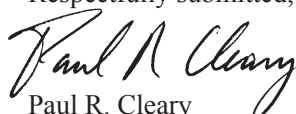
Acknowledgments


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

This report is available on the PERS website at www.oregon.gov/pers, and a link to this document will be e-mailed to all PERS employers. Summary financial information and the website link will be reported in the PERS newsletter, *Perspectives*, which is distributed to active and retired members.

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

Respectfully submitted,


Paul R. Cleary
Executive Director


David W. Tyler
Chief Financial Officer

Public Employees Retirement Board

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

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

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

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

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

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

Michael Pittman (chair)

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

Brenda Rocklin (vice chair)

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

James Dalton

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

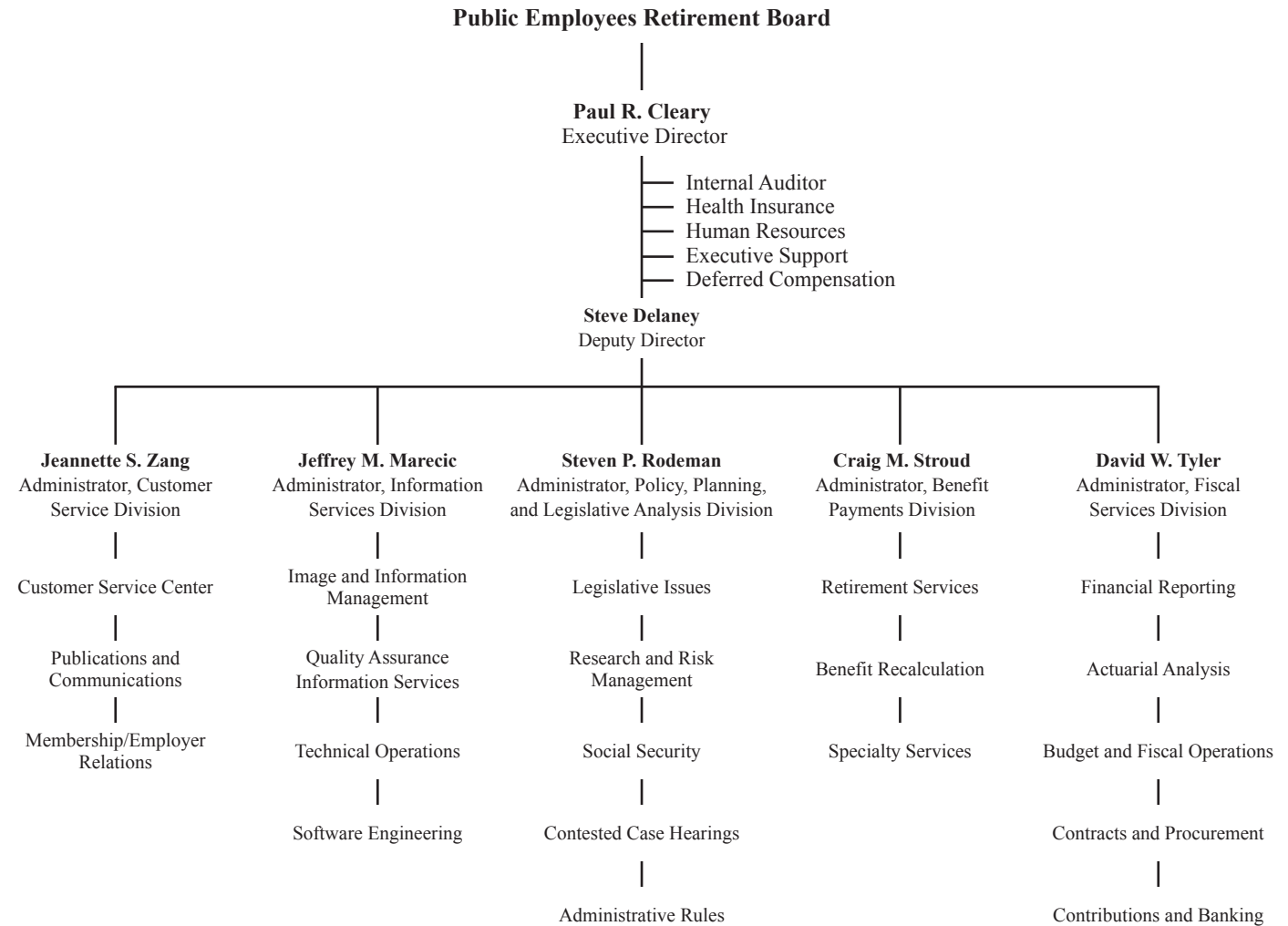
Thomas Grimsley

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

Eva Kripalani

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

Public Employees Retirement System Organizational Chart



Public Employees Retirement System Consultants

Actuary:

Mercer Human Resource Consulting, LLC

Legal Counsel:

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

Insurance Consultant:

B.W. Reed Benefits, LLC

Medical Advisor:

Lawrence Duckler, MD

Technology:

Saber Solutions, Inc.
 Provaliant, Inc.

Auditor:

Secretary of State Audits Division

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Oregon Public Employees Retirement System

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

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



President

Executive Director



Public Pension Coordinating Council
Public Pension Standards

2006 Award

Presented to

Oregon Public Employees Retirement System

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

Presented by the Public Pension Coordinating Council, a confederation of

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

A handwritten signature in cursive script that reads "Alan H. Winkle".

Alan H. Winkle
Program Administrator

Financial Section

OFFICE OF THE
SECRETARY OF STATE
Bill Bradbury
Secretary of State



AUDITS DIVISION
Charles A. Hibner
Director

(503) 986-2255
FAX (503) 378-6767
Audits.Sos@state.or.us

Auditing for a Better Oregon

The Honorable Theodore R. Kulongoski
Governor of Oregon
160 State Capitol
Salem, Oregon 97301-4047

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the Oregon Public Employees Retirement System (system), as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the system's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 4, the financial statements referred to above present only the system and do not purport to, and do not, present fairly the financial position of the state of Oregon as of June 30, 2006, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the system, as of June 30, 2006, and the changes in

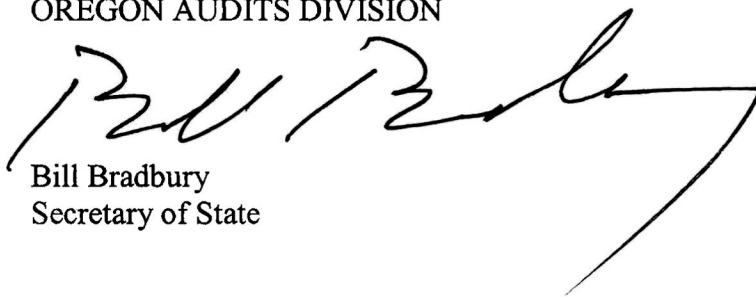
financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2006, on our consideration of the system's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

OREGON AUDITS DIVISION

A large, stylized handwritten signature in black ink, appearing to read 'Bill Bradbury', is positioned above the printed name and title.

Bill Bradbury
Secretary of State

December 15, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's discussion and analysis of the Oregon Public Employees Retirement System's (PERS or "the System") financial performance during the fiscal year that ended on June 30, 2006. Please read it in conjunction with the transmittal letter on pages 2 through 4 and the financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS AND ACCOMPANYING INFORMATION

1. Basic Financial Statements

The System presents financial statements as of June 30, 2006 and 2005, prepared on a full accrual basis. They are:

- a. Statements of Fiduciary Net Assets
- b. Statements of Changes in Fiduciary Net Assets
- c. Notes to the Financial Statements

2. Required Supplementary Information

The required supplementary information consists of:

- a. Schedules of Funding Progress
- b. Schedule of Employer Contributions
- c. Notes to the Required Supplementary Information

3. Other Supplementary Schedules

- a. Combining schedules show the detailed components of the Defined Benefit Pension Plan and Postemployment Healthcare Plan.
- b. Other schedules include detailed information on administrative expenses incurred by the System and a summary of investment fees, commissions, and expenses.

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

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

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

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

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

- The Schedules of Funding Progress, page 39, contain actuarial information about the status of the plan from an ongoing, long-term perspective, showing whether there are sufficient assets to pay pension and postemployment benefits when due. Valuation Assets in excess of Actuarial Liabilities indicate that sufficient assets have been accumulated as of the valuation date to fund the future benefits of current members and retirees.
- The Schedule of Employer Contributions, page 40, contain historical trend information regarding the value of total annual contributions employers must pay and the actual contributions made to meet this requirement.
- The Notes to the Required Supplementary Information, page 41, provide background information and explanatory detail to help understand the required supplementary schedules.

The Schedules of Plan Net Assets and Schedules of Changes in Plan Net Assets, pages 42 through 45, display the components of the defined benefit and postemployment healthcare plans.

The Schedule of Administrative Expenses and Schedule of Payments to Consultants and Contractors on page 46 show the costs of managing the System. The Summary of Investment Fees, Commissions, and Expenses on page 47 provides the detail of investment-related expenses included in the line items Investment Expense and Securities Lending Expense reported in the Statements of Changes in Fiduciary Net Assets.

FINANCIAL HIGHLIGHTS

- PERS' assets exceed its liabilities at the close of fiscal year 2006, with \$56,554.9 million held in trust for pension, postemployment healthcare, Oregon Public Service Retirement Plan Individual Account Program (IAP), and deferred compensation benefits.
- Fiduciary net assets increased by \$5,941.3 million, or 11.7 percent, during the fiscal year due primarily to continued strong investment returns.
- PERS' funding objective is to meet long-term benefit obligations. As of December 31, 2005, the date of the latest actuarial valuation, the funded ratio of the defined benefit pension plan was 104.2 percent. In general, this means that for every dollar of pension benefits due, PERS has approximately \$1.04 of net assets available for payment.
- Revenues (additions to fiduciary net assets) for fiscal year 2006 rose 19.1 percent to \$8,550.8 million, which includes member and employer contributions of \$1,396.8 million and net gains from investment activities totaling \$7,147.4 million.
- Expenses (deductions from fiduciary net assets) increased slightly to \$2,609.6 million, or 0.4 percent, during fiscal year 2006, from \$2,598.6 million during fiscal year 2005.

FIDUCIARY NET ASSETS

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

- The net assets of the defined benefit pension plan increased approximately \$5,279.8 million, or 10.8 percent, during the year ended June 30, 2006. Improving financial markets produced positive returns on PERS investments for the fourth year in a row. Additionally, in accordance with statutory changes that went into effect during the fiscal year, the net assets of the OPSRP defined benefit (DB) were combined with the net assets of the ORS Chapter 238 defined benefit pension plan for financial reporting purposes.
- The net assets of the postemployment healthcare plan increased approximately \$35.8 million, or 20.8 percent, during the year ended June 30, 2006, due to increases in member contributions and investment income.
- The net assets of the IAP increased approximately \$561.6 million during the year ended June 30, 2006, due to increases in member contributions and investment returns.
- The net assets of the deferred compensation plan increased approximately \$89.0 million, or 12.0 percent, during the year ended June 30, 2006, primarily due to positive investment returns.

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

	Defined Benefit Pension Plan		Postemployment Healthcare Plan		OPSRP DB*		OPSRP IAP		Deferred Compensation Plan	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Cash and Receivables	\$ 4,091.0	\$ 4,066.2	\$ 25.5	\$ 22.2	\$ —	\$ 8.3	\$ 132.1	\$ 91.2	\$ 5.3	\$ 1.3
Investments at Fair Value	53,487.1	47,790.1	193.9	158.3	—	23.8	1,106.8	550.0	831.4	742.4
Securities Lending Collateral	5,219.5	5,506.0	20.5	19.8	—	3.2	114.4	69.7	0.7	0.2
Other	16.7	9.8	—	—	—	6.3	0.8	0.8	—	—
Total Assets	62,814.3	57,372.1	239.9	200.3	—	41.6	1,354.1	711.7	837.4	743.9
Investment Purchases	3,092.7	2,632.1	11.3	8.2	—	5.9	64.5	30.1	—	0.1
Securities Lending Payable	5,219.5	5,506.0	20.5	19.8	—	3.2	114.4	69.7	0.7	0.2
Other Payables	158.9	170.6	0.1	0.1	—	7.6	3.7	2.0	4.5	0.4
Total Liabilities	8,471.1	8,308.7	31.9	28.1	—	16.7	182.6	101.8	5.2	0.7
Total Net Assets	\$ 54,343.2	\$ 49,063.4	\$ 208.0	\$ 172.2	—	\$ 24.9	\$ 1,171.5	\$ 609.9	\$ 832.2	\$ 743.2

*The 2005 Legislative Assembly passed House Bill 3262 requiring that the OPSRP DB program be combined with the Defined Benefit Pension Plan for financial reporting purposes.

CHANGES IN FIDUCIARY NET ASSETS

Revenues – Additions to Fiduciary Net Assets

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

- Member contributions to the defined benefit pension plan were unchanged from fiscal year 2005 to fiscal year 2006. In both years member contributions were \$9.6 million.
- Member contributions to the postemployment healthcare plan were also relatively flat, decreasing slightly from \$85.8 million in fiscal year 2005 to 85.7 in fiscal year 2006.
- Member contributions to the IAP increased \$54.7 million, or 15.1%. The salaries on which contributions are based increased significantly after a three-year budgetary freeze.
- Member contributions to the deferred compensation plan rose 5.7 percent, from \$56.5 million in fiscal year 2005 to \$59.7 million in fiscal 2006. Active membership increased slightly from 18,516 to 18,798.
- Employer contributions to the defined benefit pension plan decreased \$1.8 million in fiscal year 2006. Employer contributions were \$783.9 million in fiscal year 2006 and \$785.7 million in fiscal year 2005. Reductions in contribution rates largely offset any increases due to higher salaries.
- Employer contributions to the postemployment healthcare plan increased \$0.6 million, or 1.5 percent, compared to fiscal year 2005 due to an increase in the subject salaries on which payments are based.
- Net investment and other income in the defined benefit pension plan was \$6,919.1 million, a \$1,233.6 million, or 21.7 percent, increase over fiscal year 2005 income of \$5,685.5 million.
- Net investment and other income in the postemployment healthcare plan was \$24.5 million, a \$6.6 million increase, or 36.9 percent, over fiscal year 2005 income of \$17.9 million.
- Net investment and other income in the IAP was \$139.7 million, a 168.7 percent increase over fiscal 2005 net investment and other income. Investment income increased substantially as net assets nearly doubled.
- Net investment and other income in the deferred compensation plan was \$70.7 million, a \$17.2 million, or 32.1 percent, increase from fiscal year 2005 income of \$53.5 million.

Expenses – Deductions from Fiduciary Net Assets

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

- Pension benefit and other payments from the defined benefit pension plan increased by \$3.6 million, or 0.1 percent. This activity includes an accrual of \$62.5 million for recovery of overpaid benefits as a result of the Supreme Court decision upholding 2003 PERS Reform Legislation, an accrual of \$11.2 million of bad debt expense related to the recovery of overpaid benefits, and a decrease of \$27.1 million in refunds of member contributions. The decrease in refunds reflects the nature of the plan that is closed to new participants and the approaching of retirement age by existing participants.
- Postemployment healthcare and other payments decreased \$1.6 million, or 1.4 percent, from prior-year payments due to decreases in premium payments.
- IAP benefit and other payments increased \$14.5 million, or 223.1 percent. Refunds of contributions and benefits paid were minimal in the prior fiscal year that was the second year of the plan.
- Deferred compensation benefit and other payments increased \$1.3 million, or 3.2 percent, due to an increase in the number of retirements during the year.

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

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

	Defined Benefit Pension Plan		Postemployment Healthcare Plan		OPSRP DB*		OPSRP IAP		Deferred Compensation Plan	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Additions:										
Member Contributions	\$ 9.6	\$ 9.6	\$ 85.7	\$ 85.8	\$ —	\$ —	\$ 417.6	\$ 362.9	\$ 59.7	\$ 56.5
Employer Contributions	783.9	785.7	40.3	39.7	—	30.1	—	—	—	—
Other Sources	—	—	—	—	—	—	—	—	—	—
Net Investment and Other Income (Loss)	6,919.1	5,685.5	24.5	17.9	—	1.2	139.7	52.0	70.7	53.5
Total Additions	<u>7,712.6</u>	<u>6,480.8</u>	<u>150.5</u>	<u>143.4</u>	<u>—</u>	<u>31.3</u>	<u>557.3</u>	<u>414.9</u>	<u>130.4</u>	<u>110.0</u>
Deductions:										
Pension Benefits	2,371.6	2,330.2	—	—	—	—	14.8	1.2	40.5	39.4
Other	60.8	98.6	114.7	116.3	—	6.9	6.2	5.3	0.9	0.7
Total Deductions	<u>2,432.4</u>	<u>2,428.0</u>	<u>114.7</u>	<u>116.3</u>	<u>—</u>	<u>6.9</u>	<u>21.0</u>	<u>6.5</u>	<u>41.4</u>	<u>40.1</u>
Net Increase (Decrease)	5,280.2	4,052.0	35.8	27.1	—	24.4	536.3	408.4	89.0	69.9
Net Transfers	(0.4)	—	—	—	(24.9)	—	25.3	—	—	—
Net Change	<u>\$ 5,279.8</u>	<u>\$ 4,052.0</u>	<u>\$ 35.8</u>	<u>\$ 27.1</u>	<u>\$ (24.9)</u>	<u>\$ 24.4</u>	<u>\$ 561.6</u>	<u>\$ 408.4</u>	<u>\$ 89.0</u>	<u>\$ 69.9</u>

*The 2005 Legislative Assembly passed House Bill 3262 requiring that the OPSRP DB program be combined with the Defined Benefit Pension Plan for financial reporting purposes.

PLAN MEMBERSHIP

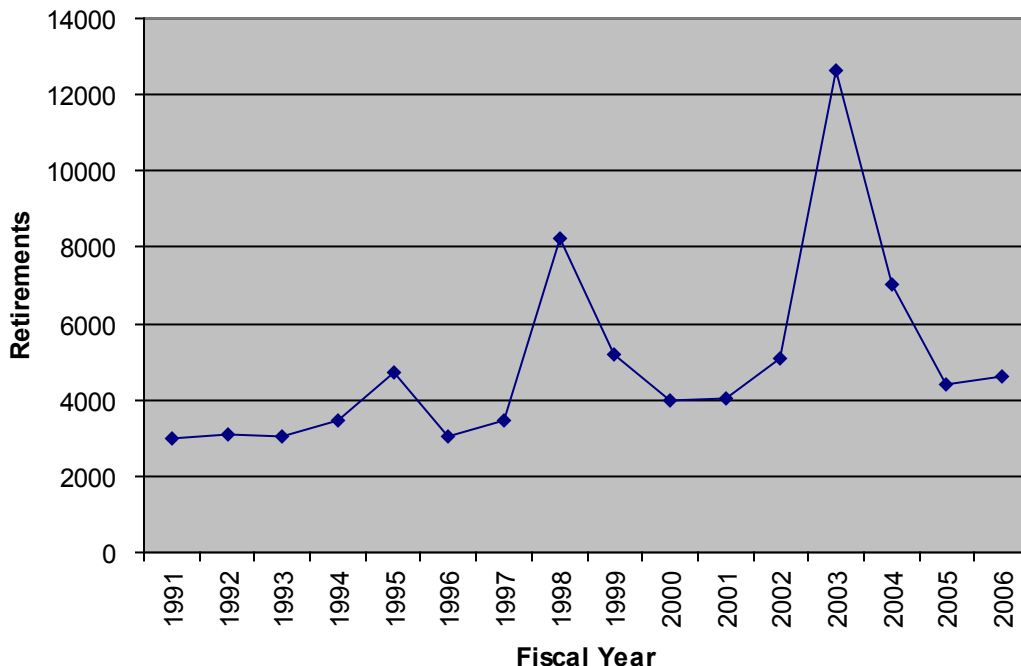
The table below reflects the defined benefit pension plan membership as of the beginning and end of the fiscal year.

TABLE 3
CHANGES IN PLAN MEMBERSHIP
As of June 30:

	2006	2005	Percentage Change
Retirees and beneficiaries receiving benefits:			
General	94,429	93,235	1.3%
Police and Fire	7,090	6,889	2.9
Total	<u>101,519</u>	<u>100,124</u>	1.4
Current and terminated employees entitled to benefits but not yet receiving them:			
Vested:			
General	144,675	142,687	1.4
Police and Fire	12,023	11,818	1.7
Nonvested:			
General	29,452	41,185	(28.5)
Police and Fire	1,554	2,249	(30.9)
Total	<u>187,704</u>	<u>197,939</u>	(5.2)

Service retirements increased during the fiscal year after two years of declines. Service retirements in fiscal year 2006 were 4,635 compared to 4,422 in fiscal year 2005, an increase of 4.8 percent. Members eligible to retire in recent years were deferring retirement until pending lawsuits were settled. With the settlement of these lawsuits during the past year, retirements have increased. The number of members eligible to retire is also increasing and would indicate a trend upward.

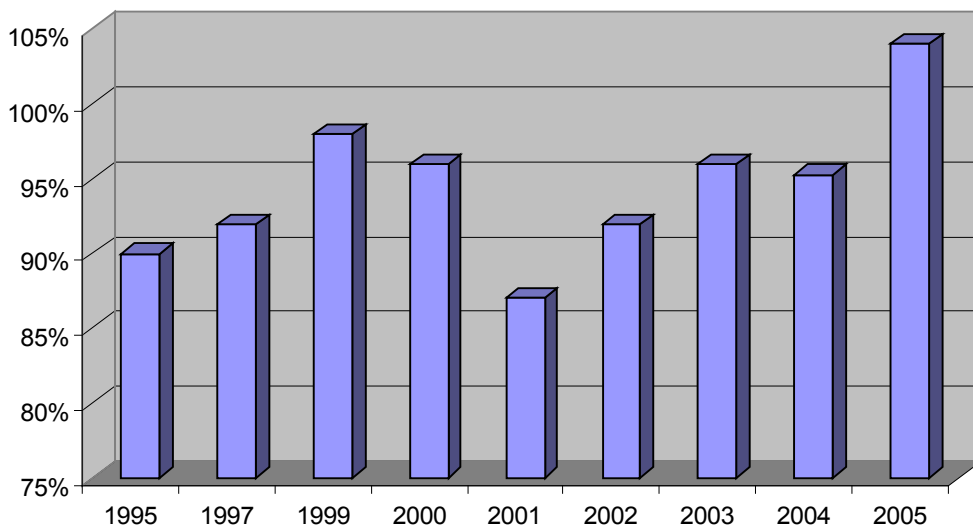
**TABLE 4
SERVICE RETIREMENTS
By Fiscal Year**



FUNDING STATUS

The System’s Unfunded Actuarial Liability (UAL) as of December 31, 2005, was a \$1,752.8 million surplus, which was derived using the projected unit credit actuarial cost method. The 2005 UAL decreased by \$4,002.2 million, or 177.9 percent, from \$2,249.4 million in 2004. The effects of several bills passed by the 2003 Oregon Legislature as well as strong investment returns over the last four years have resulted in a significant reduction in the UAL. Additionally, several employers made large payments specifically to reduce their UALs.

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



INVESTMENT ACTIVITIES

During fiscal year 2006 every major asset class in the portfolio exceeded its respective benchmark. Domestic and international equities increased approximately \$3,091.9 million, and alternative equities increased approximately \$821.6 million due to improvements in global equity markets. Investments in debt securities increased approximately \$1,485.7 million as a result of purchases made in accordance with the Oregon Investment Council's asset allocation policy. Real estate performance was significantly above the benchmark, increasing approximately \$959.8 million. As in the prior fiscal year, all real estate segments, including direct properties, opportunistic partnerships, and the public REIT portfolio, performed well. One-year returns on asset classes and comparative benchmarks are presented in the table below.

TABLE 6
INVESTMENT RETURN
Periods Ending June 30:

	<u>2006</u>	<u>2005</u>
Total Portfolio	14.3%	13.7%
Total Portfolio, Excluding Variable	14.4	13.9
Domestic Stocks	10.7	8.2
Benchmark: Russell 3000 Index	9.6	8.1
International Stocks	30.3	17.2
Benchmark: Custom Index ¹	28.4	17.0
Fixed Income Segment	0.9	8.7
Benchmark: Custom Index ²	-0.2	7.6
Real Estate ³	31.7	31.6
Benchmark: NCREIF	20.2	15.6
Private Equity ⁴	25.1	38.8
Benchmark: S&P 500 + 5%	17.4	12.0

1 Morgan Stanley Capital International All Country World Index ex-US Free Index

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

3 Returns are lagged one quarter.

4 Returns are lagged one quarter.

EFFECT OF ECONOMIC FACTORS

The financial position of the System improved during the fiscal year due to strong investment returns. Table 6 above shows portfolio returns and indexes, which are reflective of the market environment.

Benefit payments increased slightly in fiscal year 2006 due to an increase in retirements. Retirees who elected to continue participating in the Variable Annuity Account after retirement experienced an increase in benefits of approximately 5.0 percent, effective February 1, 2006. This increase in benefits was due to investment gains experienced by the Variable Annuity Account for the period November 1, 2004, through October 31, 2005.

CONTACTING THE SYSTEM'S FINANCIAL MANAGEMENT

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

**Statements of Fiduciary Net Assets -
Pension and Other Postemployment Plans
June 30, 2006**

	Defined Benefit Pension Plan	Postemployment Healthcare Plan	Oregon Public Service Retirement Plan Pension Program
Assets:			
Cash and Cash Equivalents	\$ 2,835,632,115	\$ 19,801,090	\$ —
Receivables:			
Employer	27,198,879	1,613,786	—
Plan Member	—	—	—
Interest and Dividends	154,088,089	563,682	—
Investment Sales and Other Receivables	<u>1,070,932,982</u>	<u>3,462,668</u>	—
Total Receivables	<u>1,252,219,950</u>	<u>5,640,136</u>	—
Due from Other Funds	3,108,691	—	—
Investments:			
Debt Securities	15,158,205,206	55,424,957	—
Equity	29,551,830,797	105,878,832	—
Real Estate	3,773,363,899	13,968,475	—
Alternative Equity	5,003,693,043	18,590,167	—
Restricted Investment Contracts	7,526	—	—
Total Investments	<u>53,487,100,471</u>	<u>193,862,431</u>	—
Securities Lending Cash Collateral	5,219,469,763	20,525,292	—
Prepaid Expenses and Deferred Charges	3,138,747	10,847	—
Equipment and Fixtures, Cost Net of Accumulated Depreciation at 2006: \$4,447,535 at 2005: \$3,187,829	6,876,561	—	—
Buildings, Cost Net of Accumulated Depreciation at 2006: \$1,654,262; at 2005: \$1,467,246	5,781,819	—	—
Land and Land Improvements	944,463	—	—
Office Supplies Inventory, Cost	—	—	—
Total Assets	<u>62,814,272,580</u>	<u>239,839,796</u>	—
Liabilities:			
Investment Purchases and Accrued Expenses	3,092,652,849	11,265,104	—
Deposits and Other Liabilities	105,331,654	—	—
Due Other Funds	75	67,942	—
Bonds/COPs Payable	53,460,053	—	—
Deferred Revenue	161,082	—	—
Securities Lending Collateral Due Borrowers	5,219,469,763	20,525,292	—
Total Liabilities	<u>8,471,075,476</u>	<u>31,858,338</u>	—
Net Assets Held in Trust for Benefits (Schedules of Funding Progress are presented on page 39.)	<u>\$ 54,343,197,104</u>	<u>\$ 207,981,458</u>	<u>\$ —</u>

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

Oregon Public Service Retirement Plan Individual Account Program	Deferred Compensation Plan	2006	2005
\$ 95,049,098	\$ 5,233,922	\$ 2,955,716,225	\$ 2,932,816,752
—	—	28,812,665	17,783,977
14,433,875	—	14,433,875	14,221,429
3,218,092	—	157,869,863	151,677,399
19,422,006	56,588	1,093,874,244	1,070,790,280
<u>37,073,973</u>	<u>56,588</u>	<u>1,294,990,647</u>	<u>1,254,473,085</u>
—	75	3,108,766	1,960,786
316,423,970	281,116,856	15,811,170,989	14,325,485,340
604,467,785	550,292,415	30,812,469,829	27,720,556,001
79,746,759	—	3,867,079,133	2,907,267,839
106,132,239	—	5,128,415,449	4,306,858,832
806	—	8,332	4,490,661
<u>1,106,771,559</u>	<u>831,409,271</u>	<u>55,619,143,732</u>	<u>49,264,658,673</u>
114,451,388	666,189	5,355,112,632	5,598,886,899
69,526	—	3,219,120	1,703,621
687,182	—	7,563,743	8,269,440
—	—	5,781,819	5,968,832
—	—	944,463	944,463
—	—	—	5,411
<u>1,354,102,726</u>	<u>837,366,045</u>	<u>65,245,581,147</u>	<u>59,069,687,962</u>
64,481,409	1,737	3,168,401,099	2,676,330,944
—	—	105,331,654	121,336,078
2,971,367	69,382	3,108,766	1,960,786
677,315	—	54,137,368	57,549,762
—	4,450,096	4,611,178	—
114,451,388	666,189	5,355,112,632	5,598,886,899
<u>182,581,479</u>	<u>5,187,404</u>	<u>8,690,702,697</u>	<u>8,456,064,469</u>
<u>\$ 1,171,521,247</u>	<u>\$ 832,178,641</u>	<u>\$ 56,554,878,450</u>	<u>\$ 50,613,623,493</u>

**Statements of Changes in Fiduciary Net Assets -
Pension and Other Postemployment Plans
For the Year Ended June 30, 2006**

	Defined Benefit Pension Plan	Postemployment Healthcare Plan	Oregon Public Service Retirement Plan Pension Program
Additions:			
Contributions:			
Employer	\$ 783,921,381	\$ 40,352,329	\$ —
Plan Member	9,611,666	85,662,507	—
Total Contributions	<u>793,533,047</u>	<u>126,014,836</u>	<u>—</u>
Investment Income:			
Net Appreciation (Depreciation) in Fair Value of Investments	5,669,466,796	19,489,591	—
Interest, Dividends, and Other Investment Income	<u>1,486,731,185</u>	<u>5,803,052</u>	<u>—</u>
Total Investment Income	7,156,197,981	25,292,643	—
Less Investment Expense	<u>257,201,406</u>	<u>904,151</u>	<u>—</u>
Net Investment Income	6,898,996,575	24,388,492	—
Securities Lending Income:			
Securities Lending Income	225,330,546	796,352	—
Less Securities Lending Expense	<u>206,311,314</u>	<u>728,654</u>	<u>—</u>
Net Securities Lending Income	19,019,232	67,698	—
Other Income:			
	<u>1,081,603</u>	<u>32,165</u>	<u>—</u>
Total Additions	<u>7,712,630,457</u>	<u>150,503,191</u>	<u>—</u>
Deductions:			
Benefits	2,416,931,393	—	—
Recovery of Overpaid Benefits	(51,260,798)	—	—
Death Benefits	5,957,975	—	—
Refunds of Contributions	33,172,837	—	—
Administrative Expense	27,582,755	3,070,373	—
Healthcare Premium Subsidies	—	28,179,684	—
Retiree Healthcare Expense	<u>—</u>	<u>83,475,045</u>	<u>—</u>
Total Deductions	<u>2,432,384,162</u>	<u>114,725,102</u>	<u>—</u>
Net Increase (Decrease)	5,280,246,295	35,778,089	—
Transfers in	24,889,790	—	—
Transfers out	(25,360,523)	—	(24,889,790)
Net Assets Held in Trust for Benefits			
Beginning of Year	49,063,421,542	172,203,369	24,889,790
End of Year	<u>\$ 54,343,197,104</u>	<u>\$ 207,981,458</u>	<u>\$ —</u>

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

Oregon Public Service Retirement Plan Individual Account Program	Deferred Compensation Plan	2006	2005
\$ —	\$ —	\$ 824,273,710	\$ 855,461,014
<u>417,555,791</u>	<u>59,724,202</u>	<u>572,554,166</u>	<u>514,817,338</u>
<u>417,555,791</u>	<u>59,724,202</u>	<u>1,396,827,876</u>	<u>1,370,278,352</u>
84,145,209	71,968,293	5,845,069,889	4,558,639,103
<u>55,223,805</u>	<u>—</u>	<u>1,547,758,042</u>	<u>1,452,668,685</u>
139,369,014	71,968,293	7,392,827,931	6,011,307,788
<u>4,715,048</u>	<u>2,053,746</u>	<u>264,874,351</u>	<u>220,062,304</u>
134,653,966	69,914,547	7,127,953,580	5,791,245,484
3,725,782	—	229,852,680	108,179,069
<u>3,409,049</u>	<u>—</u>	<u>210,449,017</u>	<u>95,837,477</u>
316,733	—	19,403,663	12,341,592
<u>4,765,293</u>	<u>757,740</u>	<u>6,636,801</u>	<u>6,589,181</u>
557,291,783	130,396,489	8,550,821,920	7,180,454,609
14,791,999	40,544,067	2,472,267,459	2,370,883,029
—	—	(51,260,798)	—
—	—	5,957,975	10,572,405
—	—	33,172,837	60,241,863
6,237,195	884,438	37,774,761	43,238,460
—	—	28,179,684	27,205,078
—	—	83,475,045	86,457,202
<u>21,029,194</u>	<u>41,428,505</u>	<u>2,609,566,963</u>	<u>2,598,598,037</u>
536,262,589	88,967,984	5,941,254,957	4,581,856,572
25,360,523	—	50,250,313	—
—	—	(50,250,313)	—
609,898,135	743,210,657	50,613,623,493	46,031,766,921
<u>\$ 1,171,521,247</u>	<u>\$ 832,178,641</u>	<u>\$ 56,554,878,450</u>	<u>\$ 50,613,623,493</u>

Notes to the Financial Statements

June 30, 2006

(1) Description of Plan

A. Plan Membership

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

Employee and Retiree Members	
Retirees and beneficiaries currently receiving benefits:	
	<u>6/30/2006</u>
General	94,429
Police and Fire	<u>7,090</u>
Total	<u>101,519</u>
Current employees and terminated employees entitled to benefits but not yet receiving them:	
Vested:	
General	144,675
Police and Fire	12,023
Nonvested:	
General	29,452
Police and Fire	<u>1,554</u>
Total	<u>187,704</u>

Participating Employers	
	<u>6/30/2006</u>
State Agencies	118
Political Subdivisions	491
Community Colleges	17
School Districts	<u>255</u>
Total	<u>881</u>

The 1995 Legislature enacted Chapter 654, Section 3, Oregon Laws 1995, which has been codified into ORS 238.435. This legislation created a second tier of benefits for those who established membership on or after January 1, 1996. The second tier does not have the Tier One assumed earnings rate guarantee and has a higher normal retirement age of 60, compared to 58 for Tier One. As of June 30, 2006, there were 72,122 active and 24,794 inactive for a total of 96,916 Tier One members and 68,630 active and 22,158 inactive for a total of 90,788 Tier Two members in the System.

The 2003 Legislature enacted HB 2020, codified as ORS 238A, which created the Oregon Public Service Retirement Plan (OPSRP). OPSRP consists of the Pension Program (defined benefit) and the Individual Account Program (defined contribution). Public employees hired on or after August 29, 2003, and inactive Tier One or Tier Two members who return to employment following a six-month or greater break in service participate in the OPSRP Pension Program.

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

B. Plan Benefits

a. PERS Pension (Chapter 238)

1. Pension Benefits

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

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

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

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

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

2. Death Benefits

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

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

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

3. Disability Benefits

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

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

4. Benefit Changes After Retirement

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

Monthly benefits are adjusted annually through cost-of-living changes. Two percent per year is the maximum cost-of-living adjustment.

b. OPSRP Pension Program (OPSRP DB)

1. Pension Benefits

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

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

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

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

2. Death Benefits

Upon the death of a non-retired member, the spouse or other person who is constitutionally required to be treated in the same manner as the spouse, receives for life 50 percent of the pension that would otherwise have been paid to the deceased member. The surviving spouse or other person may elect to delay payment of the death benefit, but payment must commence no later than December 31 of the calendar year in which the member would have reached 70^{1/2} years.

3. Disability Benefits

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

c. OPSRP Individual Account Program (OPSRP IAP)

1. Pension Benefits

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

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

2. Death Benefits

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

3. Recordkeeping

PERS contracts with CitiStreet, a joint venture between Citigroup and State Street Bank and Trust Company, to maintain IAP participant records.

d. Postemployment Healthcare Benefits

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

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

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

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

For the year ended June 30, 2006, all PERS employers contributed 0.59 percent of PERS-covered salaries to fund RHIA benefits based on the December 31, 2003 actuarial valuation. This is included in the employer contribution rates listed on page 26. The employer contribution rate covers the normal cost payment and an amount to amortize the unfunded actuarial accrued liability over a period commencing on the actuarial valuation date and ending on December 31, 2027.

Employer contributions are advance-funded on an actuarially determined basis. There is no inflation assumption for RHIA postemployment benefits because the payment amount is set by statute and is not adjusted for increases in healthcare costs. The number of active plan RHIA participants was 36,432 for the fiscal year ended June 30, 2006.

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

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

For the year ended June 30, 2006, state agencies contributed 0.13 percent of PERS-covered salaries to fund RHIPA benefits, based on the December 31, 2003 actuarial valuation. See health cost inflation assumptions on page 41. The number of active plan RHIPA participants was 858 for the fiscal year ended June 30, 2006.

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

(2) Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying financial statements are prepared in accordance with Governmental Accounting Standards Board Statements 25, 26, and 32, as well as generally accepted accounting principles that apply to governmental accounting for fiduciary funds. Fiduciary funds are used to account for assets held by a governmental unit in a trustee capacity (trust funds).

PERS' activities are accounted for in two trust funds:

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

B. Basis of Accounting

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

C. Budgetary Data

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

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

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

The accompanying schedule reconciles deductions on the budgetary basis to deductions presented in the Statements of Changes in Fiduciary Net Assets. The legislatively approved budget includes increases approved by the Legislative Emergency Board through June 2006.

D. Valuation of Investments

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

E. Earnings Crediting

By law earnings are credited to member accounts on a calendar-year basis. Members in Tier One were guaranteed to receive at least the assumed earnings rate used in the most recent actuarial valuation. Members participating in the variable account, IAP members, and Tier Two members are credited actual earnings or losses, less deductions allowed by law.

	Legislatively Approved Budget	Actual	Unobligated Balance at June 30, 2006
2005-2007 Biennium:			
Personal Services	\$ 44,564,938	\$ 20,337,055	\$ 24,227,883
Services and Supplies	39,041,564	12,425,612	26,615,952
Capital Outlay	1,033,494	3,882,806	(2,849,312)
Special Payments	5,638,107,837	2,421,232,847	3,216,874,990
Debt Service	5,720,950	2,861,450	2,859,500
Total	<u>\$ 5,728,468,783</u>	<u>\$ 2,460,739,770</u>	<u>\$ 3,267,729,013</u>
Total Deductions July 1, 2005 - June 30, 2007			
Budgetary Basis (non-GAAP)			\$ 2,460,739,770
Biennium Adjustments to Deductions			
Add:			
Depreciation Expense			1,446,719
COP Amortization			14,859
Increase in Compensated Absences			84,763
Increase in Payroll Accrual - Young Case			139,693
Inventory Adjustment			5,411
Expenses Reflected in Prior Biennium			190,437,631
Non-Budgeted Deferred Compensation Benefit Payments			40,544,067
Decrease in Prepaids			90,028
Deduct:			
Capital Outlay			554,009
Principal Payment Portion of Debt Service			2,300,000
Recovery of Overpaid Benefits (Strunk/Eugene)			51,260,798
Decrease in Accrued Expenses			6,256,492
Retirement Benefits Attributable to Allocated Annuity Contracts			<u>23,564,679</u>
Statement of Changes in Fiduciary Net Assets			<u>\$ 2,609,566,963</u>

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

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

b. Employer Contributions

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

Contribution Rate Summary

	State and Local Government Rate Pool			School Pool ²	Non-Pooled	
	State Agencies ¹	Community Colleges ²	Political Subdivisions ^{2,3}		Political Subdivisions ^{2,3}	Judiciary
Employee IAP	<u>6.00%</u>	<u>6.00%</u>	<u>6.00%</u>	<u>6.00%</u>	<u>6.00%</u>	<u>0.00%</u>
PERS Defined Benefit Plan						
Employee Normal Cost	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>7.00%</u>
Employer Normal Cost	12.30	11.39	—	12.82	—	21.08
Unfunded Actuarial Liability	-3.61	4.34	—	4.15	—	2.30
Total PERS Defined Benefit	<u>8.69%</u>	<u>15.73%</u>	<u>15.81%³</u>	<u>16.97%</u>	<u>14.60%³</u>	<u>23.38%</u>
OPSRP Pension Program						
Employer Normal Cost						
General Service	8.04%	8.04%	8.04%	8.04%	8.04%	—%
Police and Fire	11.65	11.65	11.65	11.65	11.65	—
Unfunded Actuarial Liability	0.00	0.00	0.00	0.00	0.00	—

¹ Includes UAL payment rate offset.

² Does not include UAL payment rate offsets.

³ Political subdivisions are valued separately for the Defined Benefit Plan. Group average rates shown are as of the December 31, 2003 actuarial valuation.

1. PERS Defined Benefit Plan and Postemployment Healthcare Plan Contributions

Employer contribution rates for state agencies were 8.69 percent, community colleges 15.73 percent, schools 16.97 percent, and judiciary 23.38 percent of PERS-covered salaries, effective July 1, 2005. Political subdivisions are divided between those that joined the State and Local Government Rate Pool and those that have not. Rates for both pooled and non-pooled political subdivisions vary by employer with the average rate being 15.81 percent for pooled political subdivisions and 14.60 percent for non-pooled employers (see table above for average rates).

Employer contribution rates during the period were based on the December 31, 2003 actuarial valuation, which became effective July 1, 2005. The state of Oregon made a UAL payment of \$2 billion on October 31, 2003. Certain schools, community colleges, and political subdivisions have made UAL payments, and their rates have been reduced.

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

Based on the actuarial valuation as of December 31, 2003, judiciary, state agencies, and certain political subdivisions had an increase in employer contribution rates. Schools and other political subdivisions also experienced an increase in their employer contribution rates. The Board practice is to implement new employer contribution rates July 1 of each odd-numbered year based on the valuation of the previous odd-numbered year. Due to a significant increase in employer contribution rates, based on the December 31, 2003 valuation, the Board implemented a phase-in of the new rates with one half of the increase effective July 1, 2005, and the second half effective July 1, 2007.

2. OPSRP Pension Program Contributions

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

PERS' former consulting actuary, Milliman Consultants and Actuaries, based on the demographic and economic assumptions used for the PERS Defined Benefit Plan, provided employer rates used during the period. Because this is a new pension program for members joining the System on or after August 29, 2003, membership size and demographic experience was not sufficient to conduct a meaningful valuation until December 31, 2005. That valuation will become the basis for adjusting employer rates effective July 1, 2007.

B. Actuarial Cost Method and Assumptions

Employer contribution rates were set using the entry age actuarial cost method. For the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (2) an amount for amortization of the unfunded actuarial accrued liability over a period commencing on the valuation date and ending on December 31, 2027, and (3) an actuarially determined amount for funding postemployment healthcare subsidies. For the OPSRP Pension Program, this method produced an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year) and (2) an actuarially determined amount for funding a disability benefit component. A rate component for an unfunded actuarial accrued liability may be added in the future when the first valuation for the OPSRP Pension Program is conducted. Beginning with the December 31, 2004 valuation, the Board has adopted the projected unit credit actuarial cost method for calculating employer contributions.

C. Reserves and Designations

Chapter 238 Defined Benefit Plan

a. Member Reserve

The Member Reserve of \$9,041.4 million as of June 30, 2006, represents member contributions made through December 31, 2003, and earnings allocations less refunds and amounts transferred to reserves for retirements and disabilities.

b. Employer Contribution Designation

The Employer Contribution Designation of \$20,362.2 million as of June 30, 2006, represents employer contributions and earnings allocations less amounts transferred to reserves for retirements and disabilities.

c. Benefit Reserve

The Benefit Reserve of \$20,056.0 million as of June 30, 2006, is the amount set aside to pay future benefits. It includes funds transferred from the individual member and employer accounts and earnings allocations less amounts paid for retirements and disabilities.

d. Tier One Rate Guarantee Reserve

The Tier One Rate Guarantee Reserve may be credited with investment earnings in excess of the required Tier One assumed earnings rate guarantee. ORS 238.255(1) requires individual accounts for Tier One members to be credited at the assumed rate of return on investments adopted by the Board for use in actuarial valuations.

The regular account for Tier One members and alternate payees of those members cannot be credited with earnings in excess of the assumed interest rate until:

(a) the reserve is fully funded with amounts determined by the Board, after consultation with the actuary employed by the Board, to be necessary to ensure a zero balance in the account when all Tier One members and alternate payees of those members, have retired; and

(b) the reserve account has been fully funded as described in paragraph (a) of this subsection in each of the three immediately preceding calendar years.

As of June 30, 2006, the balance of this reserve was \$966.8 million, and the Board has not adopted a funding policy.

e. Board Actions Affecting Reserves

As part of its December 31, 2005 earnings crediting decision, in consultation with its actuary and attorneys, the Board decided to deploy \$1.14 billion from the Contingency Reserve and the entire \$460.5 million balance of the Capital Preservation Reserve. This deployment left a balance of \$250 million in the Contingency and Employer Contingency Reserves. The basis for this decision was that the Board determined that reserve level to be adequate for the risks it was anticipated to cover and that there were more effective methods of stabilizing employer contribution rates than reserving against volatility in investment earnings.

f. Contingency Reserve

The Contingency Reserve is to be maintained and used by the Board to prevent any deficit of moneys available for the payment of retirement allowances due to interest fluctuations, changes in mortality rates, or other unforeseen contingency. As of June 30, 2006, the balance of this reserve was \$225.0 million.

g. Employer Contingency Reserve

The Employer Contingency Reserve was established by the Board to prevent any deficit in the fund caused by the insol-

gency of an employer. Only earnings on employer contributions fund this reserve. As of June 30, 2006, the reserve had a balance of \$25.0 million.

h. Capital Preservation Reserve

The Capital Preservation Reserve, as of June 30, 2006, had a balance of zero. In accordance with ORS 238.670, funds in this reserve may be used only to offset gains and losses of invested capital.

i. Unallocated Earnings Designation

The Unallocated Earnings Designation represents January through June investment earnings or losses less administrative expenses, which will be credited on a calendar year basis. Crediting takes place in March of the following year after employer annual reports have been reconciled and contributions have been posted to individual member and employer accounts. As of June 30, 2006, the balance of this designation was \$3,574.2 million.

j. OPSRP Defined Benefit Program

OPSRP Defined Benefit plan net assets balance represents the program’s accumulation of employer contributions and investment earnings less administrative expenses. As of June 30, 2006, the balance of this account was \$92.6 million.

k. Retirement Health Insurance Account (RHIA)

The RHIA plan net assets balance represents the program’s accumulation of employer contributions and investment earnings less premiums and administrative expenses. As of June 30, 2006, the balance of this account was \$195.7 million.

l. Retiree Health Insurance Premium Account (RHIPA)

The RHIPA plan net assets balance represents the program’s accumulation of employer contributions and investment earnings less premiums and administrative expenses. As of June 30, 2006, the balance of this account was \$6.3 million.

m. Standard Retiree Health Insurance Account (SRHIA)

The SRHIA plan net assets balance represents the program’s accumulation of retiree contributions and interest earnings less premiums and administrative expenses. As of June 30, 2006, the balance of this account was \$5.9 million.

D. Administrative Costs

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

(4) Reporting Entity

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

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

(5) Assets Used in Plan Operations

A. Building and Improvements

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

B. Equipment and Fixtures

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

(6) Deposits and Investments

A. Deposits

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

a. Custodial Credit Risk

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

<u>Depository Account</u>	<u>Bank Balance</u>
Insured	\$ 100,000
Collateralized with collateral held by the pledging bank’s trust department but not in the name of the state of Oregon	4,519
Oregon Short Term Fund	147,296,009
Uninsured and uncollateralized	2,842,113,578
Total deposits	<u>\$ 2,989,514,106</u>

Cash and cash equivalents in the OSTF are held in demand deposit accounts and time certificates of deposit. These deposits are insured by FDIC coverage and are also collateralized to a minimum of 25 percent in accordance with ORS 295.015. Balances in excess of the FDIC insurance plus 25 percent are considered exposed to custodial credit risk. Since the OSTF is a pool, PERS' share of the risk is difficult to estimate. As of June 30, 2006, the carrying amount of PERS' deposits in the Oregon Short Term Fund totaled \$113.5 million, and the corresponding bank balance was \$147.3 million.

Deposits of cash and cash equivalents from the proceeds of certificates of participation, totaling \$4,519 at June 30, 2006, are collateralized with collateral held by the pledging bank's trust department but not in the name of the state of Oregon.

Investment managers' deposits with custodian banks consist of cash and cash equivalents that represent buying reserves. As of June 30, 2006, there was \$2,842.2 million on deposit for the accounts of the Public Employees Retirement Fund (PERF) investment managers, of which \$2,842.1 million was exposed to custodial credit risk. PERS does not have a custodial credit risk policy for uninsured, uncollateralized deposits.

b. Foreign Currency Risk

Foreign currency risk for deposits is the risk that changes in exchange rates will adversely affect the fair value of the deposits. At June 30, 2006, \$116.7 million in cash and cash equivalents was exposed to foreign currency risk. The U.S. dollar balances of these deposits, organized by currency denomination, are presented in the table on page 31.

B. Investments

The first schedule on the right presents the fair value of investments held by the state of Oregon for PERS as of June 30, 2006.

a. Credit Risk Debt Securities

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

It is the OIC's policy that no more than 30 percent of the debt securities portfolio be below investment grade. Securities with a quality rating of below BBB- are considered below investment grade. Policies also require that the minimum aggregate credit quality be A+ as measured by the weighted average of the portfolio. As of June 30, 2006, the fair value of below grade investments is \$2,149.2 million or 13.6 percent of the debt securities portfolio, and the weighted quality rating average is AA-.

The second table on the right shows the quality ratings for debt investments as of June 30, 2006.

b. Custodial Credit Risk

Custodial credit risk for investments is the risk that in the event of a failure of the counterparty PERS will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. The OIC has no formal policy regarding the holding of securities by a custodian or counterparty. At June 30, 2006, all securities were registered in the state of Oregon's name and were held at State Street Bank, except for \$884.6 million in uninsured domestic equity investments held by a subcustodian, the Northern Trust Company, not held in the state's name. This amount represents 1.6 percent of the fair value of investments at June 30, 2006.

<u>Investments at June 30, 2006</u>	<u>Fair Value</u>
U.S. Treasury Obligations	\$ 496,949,271
U.S. Federal Agency Mortgage Securities	3,730,999,813
U.S. Federal Agency Debt	266,501,515
U.S. Treasury Obligations – Strips	336,684,645
U.S. Treasury Obligations – TIPS	206,159,963
International Debt Securities	1,926,832,285
Corporate Bonds	2,818,603,478
Municipal Bonds	20,225,767
Collateralized Mortgage Obligations	1,721,823,813
Asset-Backed Securities	940,911,987
Futures and Options	(47,491,337)
Mutual Funds – Domestic Fixed Income	2,501,360,209
Mutual Funds – International Fixed Income	890,959,082
Insurance Contracts	650,498
Total Debt Securities Investments	15,811,170,989
Restricted Investment Contracts	8,332
Total Debt Investments	15,811,179,321
Domestic Equity Securities	10,714,954,968
International Equity Securities	10,309,041,920
Mutual Funds – Domestic Equity	6,956,130,627
Mutual Funds – International Equity	2,832,342,314
Limited Partnerships	3,368,336,796
Venture Capital	12,676
Leveraged Buyouts	1,760,065,977
Real Estate and Real Estate Mortgages	3,867,079,133
Total PERS Investments	\$ 55,619,143,732

<u>Debt Investments at June 30, 2006</u>	<u>Fair Value</u>
Quality Rating	
AAA	\$ 3,858,668,805
AA	2,170,952,605
A	1,227,628,759
BBB	1,367,408,188
BB	1,310,185,732
B	443,759,073
CCC	51,926,129
CC	619,241
C	5,819,059
Unrated	336,908,191
Total Credit Risk – Debt Securities	10,773,875,782
U.S. Government and Agency Securities	5,037,295,207
Restricted Investment Contracts	8,332
Total Debt Investments	\$ 15,811,179,321

c. Concentrations of Credit Risk

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

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

At June 30, 2006, there were no single issuer debt investments that exceeded the above guidelines. Investments in one issuer, the Federal National Mortgage Association, were \$3,307.7 million, or 5.8 percent of plan net assets, at June 30, 2006. No other investments in any one issuer represent 5 percent or more of plan net assets.

There is no limit on single issuer investments for domestic equities, although the amount that may be invested in domestic equities is targeted at 28 to 38 percent of PERS' portfolio. At June 30, 2006, domestic equities were 30.2 percent of total assets. Policy states that the asset class will be diversified across the U.S. stock market. Additionally, both passive and active investing strategies are employed, and several external managers engage in active management. The policy for international equity investing is the same as that of the domestic equity portfolio in that holdings are diversified across stock markets outside of the United States. Passive and active investment strategies are employed, and several active managers invest in different market segments. The target allocation range for international equities is 15 to 25 percent of PERS' portfolio. At June 30, 2006, 22.4 percent of total assets were invested in international equities.

d. Interest Rate Risk

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

Policies state that the debt investment portfolio will maintain an average bond duration level of plus or minus 20 percent of the benchmark duration. As of June 30, 2006, the average duration of PERS' debt investment portfolio was 4.14 years, 13.03 percent lower than the benchmark duration of 4.76 years. Since the debt investment portfolio may contain holdings with prepayments and variable cash flows, an analysis of interest rate risk using the segmented time distribution method is presented in the schedule below.

Schedule of Interest Rate Risk — Segmented Time Distribution Investment Maturities at June 30, 2006

Investment	Less than 1 year	1 - 5 years	6 - 10 years	More than 10 years	Total Fair Value
U.S. Treasury Obligations	\$ 10,114,033	\$ 329,117,930	\$ (26,281,632)	\$ 183,998,940	\$ 496,949,271
U.S. Federal Agency Mortgage Securities	258,501,268	12,509,618	54,926,559	3,405,062,368	3,730,999,813
U.S. Federal Agency Debt	62,926,175	140,863,123	47,808,991	14,903,226	266,501,515
U.S. Treasury Obligations – Strips	—	296,104,162	—	40,580,483	336,684,645
U.S. Treasury Obligations – TIPS	—	78,682,864	91,094,288	36,382,811	206,159,963
International Debt Securities	248,843,683	689,363,498	597,137,599	391,487,505	1,926,832,285
Corporate Bonds	313,115,256	872,425,632	1,014,781,333	618,281,257	2,818,603,478
Municipal Bonds	4,277,052	—	—	15,948,715	20,225,767
Collateralized Mortgage Obligations	726,511,402	44,481,896	61,545,370	889,285,145	1,721,823,813
Asset-Backed Securities	391,974,025	368,383,956	92,153,340	88,400,666	940,911,987
Futures and Options	(200,739,994)	240,035,274	(24,100,579)	(62,686,038)	(47,491,337)
Mutual Funds – Domestic Fixed Income	345,208,435	1,073,084,227	1,083,067,547	—	2,501,360,209
Mutual Funds – International Fixed Income	—	—	487,245,630	403,713,452	890,959,082
Insurance Contracts	650,498	—	—	—	650,498
Restricted Investment Contracts	8,332	—	—	—	8,332
Total Debt Investments	\$ 2,161,390,165	\$ 4,145,052,180	\$ 3,479,378,446	\$ 6,025,358,530	\$ 15,811,179,321

e. Foreign Currency Risk

Foreign currency and security risk of loss arises from changes in currency exchange rates. Policy states that no more than 15 percent of the debt investment portfolio may be invested in non-dollar denominated securities. As of June 30, 2006, approximately 6.9 percent of the debt investment portfolio was invested in non-dollar denominated securities. Policies for the equity portion of PERS' portfolio are silent regarding this risk, although investment manager contracts provide guidelines that vary from manager to manager.

The System's exposure to foreign currency risk is as follows:

International Cash and Cash Equivalents and Investments at Fair Value in U.S. Dollars at June 30, 2006				
Currency	Cash and Cash Equivalents	Equity	Debt	Total
Argentine peso	\$ 10,836	\$ —	\$ 2,274,761	\$ 2,285,597
Australian dollar	997,549	253,513,365	75,903,464	330,414,378
Brazilian real	1,527,154	84,590,918	7,417,485	93,535,557
Canadian dollar	15,651,794	293,461,392	31,054,855	340,168,041
Chilean peso	1,150,492	8,454,043	—	9,604,535
Colombian peso	—	1,601,675	265,851	1,867,526
Czech koruna	190,476	8,819,588	—	9,010,064
Danish krone	2,073,033	40,888,832	57,488,823	100,450,688
Egyptian pound	128,509	14,319,597	—	14,448,106
Euro	30,286,471	3,070,245,547	177,494,042	3,278,026,060
Hong Kong dollar	1,432,836	304,167,792	—	305,600,628
Hungarian forint	—	1,725,331	—	1,725,331
Indonesian rupiah	53,352	39,899,925	—	39,953,277
Israeli shekel	1,451,895	18,690,438	—	20,142,333
Japanese yen	15,391,555	2,051,093,568	351,231,171	2,417,716,294
Malaysian ringgit	60,022	27,612,723	—	27,672,745
Mexican peso	6,644,600	26,774,568	91,183,875	124,603,043
New Russian ruble	—	1,436,000	—	1,436,000
New Taiwan dollar	4,849,543	86,144,680	—	90,994,223
New Turkish lira	496	67,426,828	—	67,427,324
New Zealand dollar	1,379,730	11,160,494	8,022,877	20,563,101
Norwegian krone	556,455	159,807,592	25,709,286	186,073,333
Pakistan rupee	242,214	17,756,858	—	17,999,072
Peruvian nouveau sol	30	734,063	—	734,093
Philippine peso	87,775	12,579,739	—	12,667,514
Polish zloty	1,807	5,648,068	93,365,410	99,015,285
Pound sterling	20,742,695	1,573,497,538	103,881,001	1,698,121,234
Singapore dollar	785,984	65,515,251	—	66,301,235
South African rand	117,522	82,638,179	—	82,755,701
South Korean won	5,875,868	288,817,654	—	294,693,522
Sri Lankan rupee	—	3,324,534	—	3,324,534
Swedish krona	1,523,637	152,818,263	66,795,702	221,137,602
Swiss franc	662,854	421,658,805	—	422,321,659
Thai baht	176	13,934,170	—	13,934,346
Venezuelan bolivar	2,780,427	222,356	—	3,002,783
Zimbabwe dollar	13,855	660,079	—	673,934
Total Subject to Foreign Currency Risk	116,671,642	9,211,640,453	1,092,088,603	10,420,400,698
International Securities Denominated in U.S. Dollars	—	3,929,743,781	1,725,702,764	5,655,446,545
Total International Cash and Cash Equivalents and Investments	\$ 116,671,642	\$ 13,141,384,234	\$ 2,817,791,367	\$ 16,075,847,243

f. Derivatives

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

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

C. Securities Lending

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

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

The maturities of investments made with cash collateral did not generally match the maturities of the securities loaned. Since the securities loaned are callable on demand by either the lender or borrower, the life of the loans at June 30, 2006, is effectively one day. On June 30, 2006, PERF had no credit risk exposure to borrowers because the amounts the PERF owes borrowers exceed the amounts borrowers owe PERF. The fair values of the collateral received and the securities on loan from PERF as of June 30, 2006, including accrued income, were \$5,760.0 million and \$5,572.0 million, respectively. For the fiscal year ended June 30, 2006, total income from securities lending activity was \$229.9 million, and total expenses for the period were \$210.5 million for net income of \$19.4 million.

Cash balances held by the state treasury are invested in the Oregon Short Term Fund (OSTF), as is the cash of other state agencies. As of June 30, 2006, the fair values of the collateral received and the securities on loan, including accrued income, from the OSTF were \$1,048.8 million and \$1,027.6 million, respectively. PERF's allocated portions of the collateral received and securities on loan were \$18.7 million and \$18.4 million, respectively. These amounts are not included in the table above.

<u>Securities Loaned</u>	<u>Fair Value</u>
U.S. Government Securities	\$ 886,924,153
U.S. Agency Securities	444,959,614
Domestic Equity Securities	1,604,621,010
Domestic Debt Securities	462,898,346
International Equity Securities	2,038,215,366
International Debt Securities	134,372,714
Total	\$ 5,571,991,203
<u>Collateral</u>	<u>Fair Value</u>
Cash	\$ 5,336,364,404
Securities	423,608,882
Total	\$ 5,759,973,286

(7) Leases

Operating leases are rental agreements where the payments are chargeable as rent and recorded in the services and supplies expense account. Should the legislature disallow the necessary funding for particular leases, all lease agreements contain termination clauses that provide for cancellation of the lease as of the end of a fiscal year. Lease obligations decrease each year because of various lease expirations. It is expected that ongoing leases will be replaced with leases which have higher rental rates due to inflation. Fiscal year 2006 operating lease expenses were \$134,209.

The schedule to the right summarizes the minimum lease payments for operating leases in effect as of June 30, 2006.

	<u>Operating Leases</u>
2007	\$ 108,695
2008	6,618
2009	0
Thereafter	0
Total Future Minimum Lease Payments	\$ 115,313

(8) Deferred Compensation Plan

Deferred compensation plans are authorized under Internal Revenue Code Section 457. The Oregon Legislature enacted Chapter 179, Oregon Laws 1997 that established the Deferred Compensation Fund. ORS 243.400 to 243.507 established and provided for PERS to administer the state deferred compensation plan, known as the Oregon Savings Growth Plan (OSGP). As of June 30, 2006, the fair value of investments was \$831.4 million.

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

PERS contracts with CitiStreet, a joint venture between Citigroup and State Street Bank and Trust Company, to main-

tain the OSGP participant records. The Office of the State Treasurer, as custodian of the assets, also contracts with State Street Bank and Trust Company to provide financial services. There are nine investment options with varying degrees of market risk. Up to four financial institutions provide investment services in mutual funds for each investment option. A participant receives a blend of these mutual funds within the investment option. Participants direct the selection of investment options and also bear any market risk. The state has no liability for losses under the plan but does have the prudent investor responsibility of due care. Total membership as of June 30, 2006, was 18,798.

PERS may assess a charge to the participants not to exceed 2.0 percent on amounts deferred, both contributions and investment earnings, to cover costs incurred for administering the program. Actual charges to participants, including investment charges, for the year ended June 30, 2006, averaged 0.26 percent of amounts deferred.

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

(9) Long-Term Debt

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

PERS has purchased a lease-hold interest in the facility. The value of any recovery cannot be estimated because it will depend on whether PERS can re-lease or sell the facility and on what terms. In October 1996 the attorney general filed a lawsuit against the owners of the company and the consulting firm that advised the investment. During fiscal year 2005, PERS received insurance settlement payments of \$5.4 million. At the time of this report, some claims are still pending. The value of any recovery from pending claims cannot be estimated at this time.

	Amount Issued and Outstanding	Interest Rate	Due Date	Issue Date
Series "A"	\$ 5,400,000	8.350%	May 15, 2010	June 1, 1992
Series "B"	9,800,000	8.875	May 15, 2015	June 1, 1992
Series "C"	27,000,000	9.200	May 15, 2022	June 1, 1992

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

The table below summarizes the amounts necessary to pay all future long-term guaranteed debt principal and interest requirements for each fiscal year during the next five-year period ending June 30, 2011, and for the periods ending June 30, 2016, June 30, 2021, and June 30, 2022. The current portion of the long-term guaranteed debt is \$5,004,650.

Fiscal Year	Series "A"		Series "B"		Series "C"		Total Principal	Total Interest	Total Expenses
	Principal	Interest	Principal	Interest	Principal	Interest			
2007	\$ 1,200,000	\$ 450,900	\$ —	\$ 869,750	\$ —	\$ 2,484,000	\$ 1,200,000	\$ 3,804,650	\$ 5,004,650
2008	1,300,000	350,700	—	869,750	—	2,484,000	1,300,000	3,704,450	5,004,450
2009	1,400,000	242,150	—	869,750	—	2,484,000	1,400,000	3,595,900	4,995,900
2010	1,500,000	125,250	—	869,750	—	2,484,000	1,500,000	3,479,000	4,979,000
2011	—	—	1,700,000	869,750	—	2,484,000	1,700,000	3,353,750	5,053,750
2012-2016	—	—	8,100,000	1,854,878	2,500,000	12,420,000	10,600,000	14,274,878	24,874,878
2017-2021	—	—	—	—	16,200,000	8,537,600	16,200,000	8,537,600	24,737,600
2022	—	—	—	—	8,300,000	763,600	8,300,000	763,600	9,063,600
Total	\$ 5,400,000	\$ 1,169,000	\$ 9,800,000	\$ 6,203,628	\$27,000,000	\$34,141,200	\$42,200,000	\$41,513,828	\$ 83,713,828

Oregon Public Employees Retirement System

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

The first table on this page describes PERS building COPs issued and outstanding.

	Amount Issued and Outstanding	Interest Rate	Due Date	Issue Date
Series "B"	\$ 5,825,000	4.410	May 1, 2017	March 1, 2002

The table below summarizes all future PERS building COPs payments of principal and interest for each fiscal year during the next five-year period ending June 30, 2011, and the periods ending June 30, 2016, and June 30, 2017. The current portion of the PERS building debt is \$707,625.

Fiscal Year	Series "B"		Total Expenses
	Principal	Interest	
2007	\$ 405,000	\$ 302,625	\$ 707,625
2008	425,000	282,375	707,375
2009	445,000	261,125	706,125
2010	470,000	238,875	708,875
2011	500,000	214,200	714,200
2012-2016	2,905,000	650,737	3,555,737
2017	675,000	35,438	710,438
Total	<u>\$ 5,825,000</u>	<u>\$ 1,985,375</u>	<u>\$ 7,810,375</u>

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

The table below describes OPSRP computer system COPs issued and outstanding.

	Amount Issued and Outstanding	Interest Rate	Due Date	Issue Date
Series “A”	\$ 6,050,000	3.200%	May 1, 2009	June 16, 2004

The table below summarizes all future COP payments of principal and interest for each fiscal year until repayment in the fiscal period ending June 30, 2009. The current portion of OPSRP computer system debt is \$2,151,875.

Fiscal Year	Series “A”		Total Expenses
	Principal	Interest	
2007	\$ 1,960,000	\$ 191,875	\$ 2,151,875
2008	2,015,000	133,075	2,148,075
2009	2,075,000	72,625	2,147,625
Total	<u>\$ 6,050,000</u>	<u>\$ 397,575</u>	<u>\$ 6,447,575</u>

The following table summarizes the changes in long-term debt for the year ended June 30, 2006:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006	Amounts Due Within One Year
Pamcorp Principal	\$ 43,300,000	\$ —	\$ 1,100,000	\$ 42,200,000	\$ 5,004,650
PERS Building Principal	6,215,000	—	390,000	5,825,000	707,625
OPSRP Computer System	7,960,000	—	1,910,000	6,050,000	2,151,875
Plus: Premium (Net)	361,891	—	41,316	320,575	41,385
Less: Deferred Gain (Net)	(287,129)	—	(28,922)	(258,207)	(29,002)
Total Bonds/COPs Payable	<u>\$ 57,549,762</u>	<u>\$ —</u>	<u>\$ 3,412,394</u>	<u>\$ 54,137,368</u>	<u>\$ 7,876,533</u>

(10) Litigation

Following is a summary of current PERS-related lawsuits:

A. In The Matter Of The Consolidated Public Employees Retirement System Litigation (“Strunk”)

On March 8, 2005, the Oregon Supreme Court rendered its decision in *Strunk v. PERB, et al.* overturning portions of the 2003 PERS Reform Legislation and upholding the balance. After the Supreme Court’s opinion, petitioners filed petitions for awards of attorneys’ fees and costs totaling about \$2.5 million. On July 20, 2006, the Supreme Court determined that petitioners are entitled to an award of fees under the common fund doctrine, which requires that the PERS members who benefited from petitioners’ successful claims bear the expense of the fee award. The Court referred the case to a special master to recommend the proper amount of fees and the proper method for apportioning fees among benefited members. The special master will hold a hearing on these issues on January 10, 2007. Counsel is unable to provide an opinion as to the outcome.

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

The Marion County District Court determined that certain rate orders the Board issued in 1998 and 2000 were erroneous and remanded so that the Board could revise the rate orders. After appealing the decision, the Board and petitioners entered into a settlement agreement. Intervenor, who are PERS members, sought to continue the appeal of part of the trial court’s judgment. On August 11, 2005, the Oregon Supreme Court determined that the appeal by the intervenors was moot by virtue of the settlement agreement between the Board and the employers.

On June 30, 2006, upon intervenor-appellants’ Petition for Reconsideration, the Supreme Court vacated the part of the trial court’s judgment that was on appeal. On August 30, 2006, intervenors filed a petition for attorney fees and costs in the circuit court. On October 13, 2006, the Board and petitioners filed their objections to the petition. All parties requested oral argument and are awaiting scheduling by the court. Counsel is unable to provide an opinion as to the outcome.

C. Henderson, et al. v. State Of Oregon, et al.

This case was filed on October 15, 2003, by petitioners who sought to enforce a permanent injunction issued by the U.S. District Court in the Henderson et. al. case on September 20, 1978. The case alleges that revised actuarial equivalency factors adopted by the Board violate this permanent injunction. The district court granted summary judgment to the Board, and plaintiffs appealed to the U.S. Court of Appeals for the Ninth Circuit. Substantially the same group of plaintiffs then filed another lawsuit in the U.S. District Court for the District of Oregon, seeking to reopen the original Henderson case and asking for a declaratory judgment as to the meaning of the Henderson Consent Decree. The district court summarily denied plaintiffs’ motion to reopen the earlier case, and plaintiffs again appealed to the Ninth Circuit.

On October 2, 2006, the Ninth Circuit affirmed the district court’s judgment in the case filed on October 15, 2003, and reversed the court’s summary dismissal of the motion for declaratory judgment in the second case. On remand, the court reassigned the case from Judge Mosman, who recused himself, to Judge King. The parties’ cross-motions for summary judgment on the remaining claim are due to be filed on February 1, 2007. Counsel is unable to provide an opinion as to the outcome.

D. Robertson, et al. v. Governor Theodore Kulongoski, et al.

In this case, originally filed in the U.S. District Court for the District of Oregon on July 22, 2003, petitioners challenge three provisions under the Contract Clause of the U.S. Constitution and sued the state of Oregon and the members of the Board in its official capacities. The trial court granted summary judgment to the Board on all claims and the petitioners appealed to the U.S. Court of Appeals for the Ninth Circuit. On October 24, 2006, the court of appeals affirmed the judgment of the district court. On November 13, 2006, petitioner-appellants filed a motion for re-hearing *en banc*. The court may deny the petition without further briefing or request an answer from the Board. Counsel is unable to provide an opinion as to the outcome.

E. White, et al. v. PERB

These consolidated cases, before Judge Kantor in Multnomah County Circuit Court, challenge the City of Eugene settlement (see above), the reallocation of 1999 earnings, the adoption of new rate orders for employers, and the allocation of 2003 earnings. Various local PERS employers intervened and also began a separate action in Marion County Circuit Court (Canby, see page 37). On October 27, 2005, defendants filed motions for judgment on the pleadings and to dismiss. Judge Kantor heard oral argument on these motions on December 16, 2005.

On April 4, 2006, while the motions were under submission, petitioners dismissed their claims regarding the 1999 and 2003 earnings allocations without prejudice, based on actions taken by the Board. In addition, the Supreme Court vacated part of the trial court’s judgment in City of Eugene (see above), in light of which Judge Kantor requested comments on the effect of the decision on White. On September 27, 2006, the Court denied the motions without an opinion and directed the parties to agree on a discovery schedule. Counsel is unable to provide an opinion as to the outcome.

F. Arken v. PERB

These cases are before Judge Kantor in Multnomah County Circuit Court. In Arken, filed on January 30, 2006, petitioners challenge the Board’s withholding of certain retirees’ COLAs for 2003 through 2006 and the Board’s pursuit of overpayments based on the 1999 earnings crediting decision at issue in City of Eugene. In Robinson, filed on May 1, 2006, petitioners challenged the Board’s pursuit of overpayments on different grounds. The parties filed cross-motions for summary judgment. Judge Kantor heard oral argument on the motions together on September 28, 2006. Counsel is unable to provide an opinion as to the outcome.

G. *Stanton v. PERB*

On May 5, 2006, in Klamath County Circuit Court, petitioners filed a lawsuit with the same claims as Arken (see page 36). Petitioners' counsel indicated they will await the court's decision on the summary judgment motions in Arken, and then the parties will decide how to proceed. Counsel is unable to provide an opinion as to the outcome.

H. *Canby Utility Board, et al. v. State Of Oregon, PERB*

Public employers filed a lawsuit against PERB on June 14, 2004, claiming that when the Board reallocated the 1999 earnings in response to Judge Lipscomb's finding on the retroactive participation in the variable account by employers, public employers did not get an appropriate allocation. This case was stayed until a decision was rendered in the City of Eugene case. Counsel for the public employers indicated that they will dismiss the case. If they do not dismiss, counsel is unable to provide an opinion as to the outcome.

I. *Lundgren v. Portland Community College*

This suit, filed on August 24, 2004, attacks the "Break-In-Service" provisions of HB 2020 (2003). The suit argues that by prematurely removing employees who fail to perform service for a public employer for longer than six months out of PERS, the law violates PERS members' contract rights. The case was stayed until 60 days after the Supreme Court decides City of Eugene or the end of the current legislative session, whichever occurs last. After the Supreme Court rendered judgment in City of Eugene, plaintiffs dismissed the case without prejudice and the circuit court entered judgment accordingly on June 16, 2006.

J. *Son Of Lipscomb Litigation*

These five cases, all filed on April 10, 2003, were settled in connection with the settlement of the City of Eugene appeal and will be dismissed once the revised rate orders for 1998, 1999, and 2000 become final.

K. *Best, et al. v. PERB, et al.*

This case was filed solely for purposes of enforcement. All issues in Best are the same as the Strunk and Robertson cases (see page 36). On October 5, 2005, plaintiffs' counsel presented a stipulated order to the Court abating the case for two years pending the Ninth Circuit Court of Appeals ruling in Robertson (see page 36).

L. *Howser, et al. v. PERS*

This case was filed as a putative class action by two PERS duty-disability beneficiaries, suing on behalf of themselves and others similarly situated. The plaintiffs alluded that they were overcharged for state and/or federal taxes as a result of PERS mis-categorizing their benefits on the annual 1099R tax forms that PERS supplied to them. Plaintiffs' position was that all or part of the benefits were not includable as income under state and federal law and were therefore not taxable, and due to PERS' delay, plaintiffs could no longer seek refunds for their overpayment of taxes.

Plaintiffs sought from PERS and the PERS Board unspecified money damages, as well as compensation for damages caused by PERS' supposedly negligent actions in causing plaintiffs to overpay taxes. Prejudgment and post-judgment interest were also demanded.

The parties are pursuing settlement of the case. The parties entered into a settlement agreement on October 4, 2006, that would (a) certify a class and (b) establish a procedure whereby any class members could make claims for overpaid taxes. The settlement agreement was preliminarily approved by the court subject to a fairness hearing. On November 17, 2006, the court held such a hearing and heard the objections of some class members. The court overruled those objections, and ruled that it would grant final approval. That order granting final approval has been prepared by the parties, but had not been signed by the court as of December 5, 2006.

The total possible exposure cannot accurately be determined with certainty at this time, because the plaintiffs have not yet been offered procedures to make their claims to PERS. Analysis by the Department of Revenue, based on PERS data, suggests maximum exposure to be between \$1.5 million and \$2.0 million. Council believes the total payout will not exceed \$500,000. Council expects the payments eventually paid out to claimants will be paid by the Department of Administrative Services' Risk Management Division (RMD), and PERS will be affected primarily through RMD's future assessment to PERS.

M. *Contests and Appeals of Staff Determinations*

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

(11) Other Matters

As a result of the *Strunk* and *City of Eugene* rulings, the Oregon Supreme Court decisions regarding the PERS Reform Legislation, active and inactive Tier One member accounts, employer accounts, and the Benefits Reserve have been adjusted to reflect a crediting of 11.33 percent for 1999 rather than the previously credited 20.00 percent. In addition, those Tier One member accounts that had previously received zero percent crediting for 2003 have been credited with 8.00 percent. Some retired members who did not receive a Cost-of-Living Adjustment (COLA) for 2004 and forward will be credited with a COLA for those years based on their revised benefit payment, after adjustment for the excess 1999 crediting. Retired members, beneficiaries, and alternate payees affected by this ruling will have their benefits

recalculated and be given the option of repaying any overpayment they received either through an actuarial reduction in their ongoing benefits or in a single lump sum. Certain retired Tier One members, beneficiaries, and alternate payees who received lump-sum distributions will be invoiced to recover approximately \$51.3 million in overpayments. The effect of these adjustments will result in a decrease in amounts charged to employers to fund retiree benefits with a corresponding reduction in amounts held in the Benefits Reserve. These amounts will not be determined until all member and employer accounts and retiree benefits have been adjusted and cannot be reliably estimated at this time. These adjustments, along with strong investment earnings in 2003 through 2005, have resulted in the liquidation of the remaining Tier One Deficit Reserve and the establishment of a \$966.8 million Tier One Rate Guarantee Reserve.

(12) Change in Accounting Policy

PERS has changed how it accounts for proceeds received from annuity contracts purchased for former members of the Teachers Retirement Fund Association (TRFA). Previously, these proceeds were reported as contributions from other sources. The former TRFA members are entitled to benefits defined in ORS 238 and have no claim to the proceeds from these annuity contracts. Upon additional research, it was determined that the PERS consulting actuary excludes the liability associated with benefits being funded by these annuity contracts from the PERS actuarial valuation. Based on this treatment, it is more appropriate to treat these annuity contracts as “allocated contracts” as defined in GASBS 25, paragraph 36a. Benefit expense for 2006 has been reduced by \$23.6 million. The Schedule of Changes in Net Assets, which includes Additions by Source and Deductions by Type on pages 84 to 87, and Benefits by Type on page 88 have been restated.

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
Pension Benefits						
12/31/2000	\$ 41,739.6	\$ 42,783.9	\$ 1,044.3	97.6%	\$ 6,195.9	16.9%
12/31/2001	39,772.7	45,386.1	5,613.4	87.6	6,254.0 ⁴	89.8
12/31/2001 ¹	39,772.7	37,258.3	(2,514.4)	106.7	6,254.0	(40.2)
12/31/2002 ¹	35,446.9	38,947.0	3,500.1	91.0	6,383.5	54.8
12/31/2003 ¹	42,753.3	44,078.1	1,324.8	97.0	6,248.5	21.2
12/31/2004 ^{2,3}	45,581.1	47,398.6	1,817.5	96.2	6,772.4 ⁵	26.8
12/31/2005 ⁵	51,382.6	49,294.0	(2,088.6)	104.2	6,791.9	(30.8)
Postemployment Healthcare Benefits – Retirement Health Insurance Account						
12/31/2000	\$ 62.1	\$ 543.5	\$ 481.4	11.4%	\$ 6,195.9	7.8%
12/31/2001	76.6	532.1	455.5	14.4	6,254.0 ⁴	7.3
12/31/2001 ¹	76.6	533.2	456.6	14.4	6,254.0	7.3
12/31/2002 ¹	87.4	542.3	454.9	16.1	6,383.5	7.1
12/31/2003 ¹	117.1	522.5	405.4	22.4	6,248.5	6.5
12/31/2004 ³	148.0	556.9	408.9	26.6	6,772.4 ⁵	6.0
12/31/2005	181.0	495.9	314.9	36.5	6,791.9	4.6
Postemployment Healthcare Benefits – Retiree Health Insurance Premium Account						
12/31/2000	\$ 2.9	\$ 23.1	\$ 20.2	12.6%	\$ 1,984.0	1.0%
12/31/2001	3.0	29.5	26.5	10.2	1,954.1 ⁴	1.4
12/31/2001 ¹	2.9	29.6	26.7	9.8	1,954.1	1.4
12/31/2002 ¹	2.9	30.1	27.2	9.6	1,741.9	1.6
12/31/2003 ¹	4.0	25.0	21.0	16.0	1,711.9	1.2
12/31/2004 ³	5.2	28.2	23.0	18.4	1,851.4 ⁵	1.2
12/31/2005	6.1	27.0	20.9	22.7	1,827.0	1.1

¹ The 2001 valuation was revised to include the input of PERS Reform Legislation enacted in 2003. Figures through 12/31/2003 do not reflect the judicial review or subsequent Board action.

² Effective with the 2004 valuation, the Oregon Supreme Court rulings in *Strunk v. PERB, et al.* (Issued March 8, 2005) and *City of Eugene v. State of Oregon, PERB, et al.* (Issued August 11, 2005) are reflected.

³ Effective with the 2004 valuation, the cost method was changed from Entry Age Normal to Projected Unit Credit, and the actuarial value of assets was changed from a four-year smoothed value to market value.

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

⁵ Assets and liabilities for OPSRP are first valued in the 2005 valuation. OPSRP payroll, however, was included in the amortization of the UAL beginning with the 2004 valuation.

Required Supplementary Information
Schedule of Employer Contributions
(dollar amounts in millions)

Year Ended	Annual Required Contribution	Percentage Contributed
Defined Benefit Pension Plan		
12/31/2005	\$ 488.5	100.8% ¹
12/31/2004	364.8	99.7 ¹
12/31/2003	537.4	99.7
12/31/2002	665.9	97.4 ²
12/31/2001	681.5	94.6 ²
12/31/2000	635.6	95.2 ²
12/31/1999	545.9	96.6 ²
12/31/1998	452.1	100.0
12/31/1997	440.0	100.0
12/31/1996	432.1	100.0

Postemployment Healthcare Plan - Retirement Health Insurance Account³

12/31/2005	\$ 39.0	100.5%
12/31/2004	35.7	100.0
12/31/2003	40.8	100.0
12/31/2002	41.0	100.0
12/31/2001	41.7	100.0
12/31/2000	41.1	100.0
12/31/1999	37.4	100.0
12/31/1998	33.7	100.0
12/31/1997	30.7	100.0
12/31/1996	28.0	100.0

Postemployment Healthcare Plan - Retiree Health Insurance Premium Account⁴

12/31/2005	\$ 2.4	100.0%
12/31/2004	2.6	100.0
12/31/2003	2.2	100.0
12/31/2002	1.6	100.0
12/31/2001	1.3	100.0
12/31/2000	1.1	100.0
12/31/1999	1.7	100.0
12/31/1998	2.2	100.0
12/31/1997	2.3	100.0
12/31/1996	2.4	100.0

¹ OPSRP Pension Program contributions combined with Defined Benefit Pension Plan contributions.

² Due to a significant increase in employer contribution rates based on the December 31, 1997 and December 31, 1999 actuarial valuations, the Board allowed employers to elect to defer increases to future periods.

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

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

Notes to Required Supplementary Information

Valuation Date	December 31, 2005
Actuarial Cost Method	Projected Unit Credit
Amortization Method	The UAL is amortized as a level percentage of payroll. The change in UAL due to the change from Entry Age Normal to Projected Unit Credit on December 31, 2004, is amortized over a 3-year rolling period. The remainder of the UAL for Tier One/Tier Two benefits is amortized over a closed 22-year period, and the UAL for OPSRP benefits is amortized over a closed 16-year period.
Equivalent Single Amortization Period	8 years
Actuarial Assumptions:	
Investment Rate of Return	8.00 percent
Payroll Growth	3.75 percent
Consumer Price Inflation	2.75 percent
Health Cost Inflation	Graded from 9.0 percent in 2007 to 5.0 percent in 2013.
Cost-of-living Adjustments	2.00 percent
Method Used to Value Assets	The actuarial value of assets is equal to the fair market value of assets, reduced by the Contingency, Capital Preservation, and Rate Guarantee Reserves.

Oregon Public Employees Retirement System

**Schedule of Plan Net Assets -
Defined Benefit Pension Plan
June 30, 2006**

	Oregon Public Service Retirement Plan			Totals	
	Regular Account	Pension Program	Variable Account	2006	2005
Assets:					
Cash and Cash Equivalents	\$ 2,556,855,594	\$ 11,809,854	\$ 266,966,667	\$ 2,835,632,115	\$ 2,846,197,441
Receivables:					
Employer	24,453,749	2,745,130	—	27,198,879	14,202,211
Plan Members	—	—	—	—	—
Interest and Dividends	151,482,216	237,400	2,368,473	154,088,089	149,369,691
Investment Sales and Other Receivables	986,679,193	1,432,769	82,821,020	1,070,932,982	1,054,518,878
Total Receivables	<u>1,162,615,158</u>	<u>4,415,299</u>	<u>85,189,493</u>	<u>1,252,219,950</u>	<u>1,218,090,780</u>
Interaccount Receivables and Payables	4,102,854	—	(4,102,854)	—	—
Due from Other Funds	3,779,308	(670,617)	—	3,108,691	1,899,837
Investments:					
Debt Securities	14,894,729,654	23,342,716	240,132,836	15,158,205,206	13,833,890,215
Equity	28,453,546,765	44,591,817	1,053,692,215	29,551,830,797	26,853,520,680
Real Estate	3,753,844,599	5,882,949	13,636,351	3,773,363,899	2,862,481,160
Alternative Equity	4,995,863,628	7,829,415	—	5,003,693,043	4,240,232,672
Restricted Investment Contracts	1,074	6,452	—	7,526	—
Total Investments	<u>52,097,985,720</u>	<u>81,653,349</u>	<u>1,307,461,402</u>	<u>53,487,100,471</u>	<u>47,790,124,727</u>
Securities Lending Cash Collateral	5,184,330,042	9,022,965	26,116,756	5,219,469,763	5,506,029,627
Prepaid Expenses and Deferred Charges	3,073,362	65,385	—	3,138,747	1,611,097
Equipment and Fixtures, Cost net of Accumulated Depreciation at 2006: \$3,466,371; at 2005: \$2,820,352.	1,316,635	5,559,926	—	6,876,561	1,287,378
Buildings, Cost net of Accumulated Depreciation at 2006: \$1,654,262; at 2005 \$1,467,249.	5,781,819	—	—	5,781,819	5,968,832
Land and Improvements	944,463	—	—	944,463	944,463
Office Supplies Inventory, Cost	—	—	—	—	5,411
Total Assets	<u>61,020,784,955</u>	<u>111,856,161</u>	<u>1,681,631,464</u>	<u>62,814,272,580</u>	<u>57,372,159,593</u>
Liabilities:					
Investment Purchases and Accrued Expenses	3,047,035,336	4,772,207	40,845,306	3,092,652,849	2,632,112,886
Deposits and Other Liabilities	104,389,153	—	942,501	105,331,654	121,006,813
Due Other Funds	75	—	—	75	60,949
Bonds/COP's Payable	48,041,531	5,418,522	—	53,460,053	49,527,776
Deferred Revenues	161,082	—	—	161,082	—
Securities Lending Cash Collateral Due Borrowers	5,184,330,042	9,022,965	26,116,756	5,219,469,763	5,506,029,627
Total Liabilities	<u>8,383,957,219</u>	<u>19,213,694</u>	<u>67,904,563</u>	<u>8,471,075,476</u>	<u>8,308,738,051</u>
Net Assets Held in Trust for Pension Benefits	<u>\$ 52,636,827,736</u>	<u>\$ 92,642,467</u>	<u>\$ 1,613,726,901</u>	<u>\$ 54,343,197,104</u>	<u>\$ 49,063,421,542</u>

**Schedule of Changes in Plan Net Assets -
Defined Benefit Pension Plan
For the Year Ended
June 30, 2006**

	Oregon Public Service Retirement Plan			Totals	
	Regular Account	Pension Program	Variable Account	2006	2005
Additions:					
Contributions:					
Employer	\$ 717,284,149	\$ 66,637,232	\$ —	\$ 783,921,381	\$ 785,753,821
Plan Member	9,302,642	—	309,024	9,611,666	9,590,285
Total Contributions	726,586,791	66,637,232	309,024	793,533,047	795,344,106
Investment Income:					
Net Appreciation (Depreciation) in Fair Value of Investments	5,517,644,561	4,706,471	147,115,764	5,669,466,796	4,465,890,598
Interest, Dividends, and Other Investment Income	1,450,945,016	1,703,480	34,082,689	1,486,731,185	1,422,708,894
Total Investment Income	6,968,589,577	6,409,951	181,198,453	7,156,197,981	5,888,599,492
Less Investment Expense	249,701,035	633,562	6,866,809	257,201,406	215,636,472
Net Investment Income	6,718,888,542	5,776,389	174,331,644	6,898,996,575	5,672,963,020
Securities Lending Income:					
Securities Lending Income	222,930,692	234,682	2,165,172	225,330,546	106,939,820
Less Securities Lending Expense	204,036,668	214,731	2,059,915	206,311,314	94,740,835
Net Securities Lending Income	18,894,024	19,951	105,257	19,019,232	12,198,985
Other Income:	1,067,674	7,905	6,024	1,081,603	327,544
Total Additions	7,465,437,031	72,441,477	174,751,949	7,712,630,457	6,480,833,655
Deductions:					
Benefits	2,369,178,749	—	47,752,644	2,416,931,393	2,330,241,559
Recovery of Overpaid Benefits	(51,260,798)	—	—	(51,260,798)	—
Death Benefits	5,957,975	—	—	5,957,975	10,572,405
Refunds of Contributions	33,249,310	—	(76,473)	33,172,837	60,241,863
Administrative Expense	22,053,532	4,688,800	840,423	27,582,755	27,744,201
Interaccount Transfers	(91,169,500)	—	91,169,500	—	—
Total Deductions	2,288,009,268	4,688,800	139,686,094	2,432,384,162	2,428,800,028
Net Increase (Decrease)	5,177,427,763	67,752,677	35,065,855	5,280,246,295	4,052,033,627
Transfers in	—	24,889,790	—	24,889,790	—
Transfers out	(25,360,523)	—	—	(25,360,523)	—
Net Assets Held in Trust for Pension Benefits					
Beginning of Year	47,484,760,496	—	1,578,661,046	49,063,421,542	45,011,387,915
End of Year	\$ 52,636,827,736	\$ 92,642,467	\$ 1,613,726,901	\$ 54,343,197,104	\$ 49,063,421,542

**Schedule of Plan Net Assets -
Postemployment Healthcare Plan
June 30, 2006**

	Retirement	Retiree	Standard	Totals	
	Health Insurance Account	Health Insurance Premium Account	Health Insurance Retiree Account	2006	2005
Assets:					
Cash and Cash Equivalents	\$ 13,298,761	\$ 519,433	\$ 5,982,896	\$ 19,801,090	\$ 16,462,308
Receivables:					
Employer	1,547,737	66,049	—	1,613,786	1,664,163
Interest and Dividends	546,282	17,400	—	563,682	502,049
Investment Sales and Other Receivables	3,355,781	106,887	—	3,462,668	3,528,874
Total Receivables	<u>5,449,800</u>	<u>190,336</u>	<u>—</u>	<u>5,640,136</u>	<u>5,695,086</u>
Due from Other Funds	—	—	—	—	60,949
Investments:					
Debt Securities	53,714,082	1,710,875	—	55,424,957	46,435,596
Equity	102,610,530	3,268,302	—	105,878,832	87,636,052
Real Estate	13,537,292	431,183	—	13,968,475	9,743,489
Alternative Equity	<u>18,016,320</u>	<u>573,847</u>	<u>—</u>	<u>18,590,167</u>	<u>14,494,741</u>
Total Investments	<u>187,878,224</u>	<u>5,984,207</u>	<u>—</u>	<u>193,862,431</u>	<u>158,309,878</u>
Securities Lending Cash Collateral	19,121,759	622,627	780,906	20,525,292	19,797,622
Prepaid Expenses and Deferred Charges	10,512	335	—	10,847	—
Total Assets	<u>225,759,056</u>	<u>7,316,938</u>	<u>6,763,802</u>	<u>239,839,796</u>	<u>200,325,843</u>
Liabilities:					
Investment Purchases and Accrued Expenses	10,917,369	347,735	—	11,265,104	8,209,436
Due Other Funds	17,862	12,854	37,226	67,942	115,416
Securities Lending Collateral Due Borrowers	19,121,759	622,627	780,906	20,525,292	19,797,622
Total Liabilities	<u>30,056,990</u>	<u>983,216</u>	<u>818,132</u>	<u>31,858,338</u>	<u>28,122,474</u>
Net Assets Held in Trust for Postemployment Healthcare Benefits	<u>\$ 195,702,066</u>	<u>\$ 6,333,722</u>	<u>\$ 5,945,670</u>	<u>\$ 207,981,458</u>	<u>\$ 172,203,369</u>

**Schedule of Changes in Plan Net Assets -
Postemployment Healthcare Plan
For the Year Ended
June 30, 2006**

	Retirement	Retiree	Standard	Totals	
	Health Insurance	Health Insurance	Retiree	2006	2005
	Account	Premium	Health Insurance		
		Account	Account		
Additions:					
Contributions:					
Employer	\$ 38,162,075	\$ 2,190,254	\$ —	\$ 40,352,329	\$ 39,653,029
Plan Member	—	—	85,662,507	85,662,507	85,791,039
Total Contributions	<u>38,162,075</u>	<u>2,190,254</u>	<u>85,662,507</u>	<u>126,014,836</u>	<u>125,444,068</u>
Investment Income:					
Net Appreciation (Depreciation) in Fair Value of Investments	18,862,203	627,388	—	19,489,591	13,845,661
Interest, Dividends, and Other Investment Income	5,238,000	175,384	389,668	5,803,052	4,725,463
Total Investment Income	<u>24,100,203</u>	<u>802,772</u>	<u>389,668</u>	<u>25,292,643</u>	<u>18,571,124</u>
Less Investment Expense	<u>875,735</u>	<u>28,416</u>	<u>—</u>	<u>904,151</u>	<u>691,434</u>
Net Investment Income	<u>23,224,468</u>	<u>774,356</u>	<u>389,668</u>	<u>24,388,492</u>	<u>17,879,690</u>
Securities Lending Income:					
Securities Lending Income	771,102	25,250	—	796,352	337,607
Less Securities Lending Expense	<u>705,550</u>	<u>23,104</u>	<u>—</u>	<u>728,654</u>	<u>298,757</u>
Net Securities Lending Income	<u>65,552</u>	<u>2,146</u>	<u>—</u>	<u>67,698</u>	<u>38,850</u>
Other Income:					
	6,236	1,255	24,674	32,165	22,128
Total Additions	<u>61,458,331</u>	<u>2,968,011</u>	<u>86,076,849</u>	<u>150,503,191</u>	<u>143,384,736</u>
Deductions:					
Healthcare Premium Subsidies	26,059,316	2,120,368	—	28,179,684	27,205,078
Retiree Healthcare Expense	—	—	83,475,045	83,475,045	86,457,202
Administrative Expense	<u>887,743</u>	<u>143,252</u>	<u>2,039,378</u>	<u>3,070,373</u>	<u>2,608,005</u>
Total Deductions	<u>26,947,059</u>	<u>2,263,620</u>	<u>85,514,423</u>	<u>114,725,102</u>	<u>116,270,285</u>
Net Increase (Decrease)	34,511,272	704,391	562,426	35,778,089	27,114,451
Net Assets Held in Trust for Postemployment Healthcare Benefits					
Beginning of Year	161,190,794	5,629,331	5,383,244	172,203,369	145,088,918
End of Year	<u>\$ 195,702,066</u>	<u>\$ 6,333,722</u>	<u>\$ 5,945,670</u>	<u>\$ 207,981,458</u>	<u>\$ 172,203,369</u>

Schedule of Administrative Expenses For the Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Personal Services:		
Staff Salaries	\$ 13,494,366	\$ 12,894,308
Social Security	1,018,971	972,246
Retirement	2,622,571	2,121,646
Insurance	3,283,794	2,895,067
Assessments	<u>115,988</u>	<u>139,188</u>
Total Personal Services	20,535,690	19,022,455
Professional Services:		
Actuarial	323,143	710,849
Data Processing	1,573,220	1,125,696
Audit	181,548	154,634
Legal Counsel	737,539	2,519,887
Medical Consultants	89,076	103,228
Training and Recruitment	239,703	233,882
Contract Services	6,496,085	11,090,718
Healthcare Fees	<u>2,339,001</u>	<u>2,239,095</u>
Total Professional Services	11,979,315	18,177,989
Communications:		
Printing	83,692	85,546
Telephone	245,387	258,999
Postage	500,814	425,484
Travel	<u>84,347</u>	<u>102,300</u>
Total Communications	914,240	872,329
Rentals:		
Office Space	408,233	368,644
Equipment	<u>227,560</u>	<u>102,247</u>
Total Rentals	635,793	470,891
Miscellaneous:		
Central Government Charges	627,550	431,998
Supplies	304,839	1,747,021
Maintenance	668,336	645,309
Non-Capitalized Equipment	94,391	266,450
Depreciation	1,446,719	968,331
COP Amortization	<u>567,888</u>	<u>635,687</u>
Total Miscellaneous	3,709,723	4,694,796
Total Administrative Expenses	<u>\$ 37,774,761</u>	<u>\$ 43,238,460</u>

Schedule of Payments to Consultants and Contractors For the Years Ended June 30, 2006 and 2005

<u>Individual or Firm</u>	<u>Commission / Fees</u>		<u>Nature of Service</u>
	<u>2006</u>	<u>2005</u>	
Orrick, Herrington & Sutcliffe LLP	\$ 33,974	\$ 1,622,832	Legal
Ice Miller®	44,029	160,035	Legal
Bullivant Houser Bailey PC	3,934	23,158	Legal
Oregon Department of Justice	363,098	381,634	Legal
Saber Solutions, Inc.	1,828,313	5,519,843	Technology
Provaliant, Inc.	854,360	1,031,650	Technology
Case Associates, Inc.	—	97,955	Technology
Pacific Crest	—	774,607	Technology
Prodx	—	55,349	Technology
Rapidigm, Inc.	239,928	398,500	Technology
Dye Management Group, Inc.	318,872	466,855	Technology
Hepieric, Inc.	132,656	226,822	Technology
Meridian Technology Group	40,880	109,856	Technology
Milliman	—	388,303	Actuarial
Mercer Human Resource Consulting LLC	364,254	13,800	Actuarial
Berwyn Group	—	4,230	Actuarial
Oregon Audits Division	166,735	154,634	Audit
B.W. Reed Benefits LLC	68,301	80,353	Health Insurance
Lawrence Duckler, MD	20,775	22,875	Medical
CitiStreet	1,985,826	2,644,092	IAP Administration

Summary of Investment Fees, Commissions, and Expenses For the Years Ended June 30, 2006 and 2005

	2006	2005
International Equity Fund Managers		
Acadian Asset Management, Inc.	\$ 3,224,320	\$ 2,783,800
AllianceBernstein International Premier Growth Fund	3,753,786	3,020,067
Arrowstreet Capital, LP	3,175,214	2,609,985
Barclays Global Investors (EAFE)	5,432,848	5,431,722
Brandes Investment Partners LLC	3,381,342	2,789,972
Fidelity Management Trust Co.	2,752,229	1,248,006
Genesis Investment Management, Ltd.	2,824,530	2,197,523
Lazard Asset Management	468,648	181,231
Marvin & Palmer Associates, Inc.	2,755,146	2,169,882
T. Rowe Price Group, Inc.	743,587	2,744,651
TT International Co. Ltd.	2,606,698	2,104,985
Walter Scott & Partners Limited	3,199,527	1,421,183
Wells Capital Management	424,098	1,483,192
Other International Equity Fund Managers	794,355	1,639,939
Domestic Equity Fund Managers		
AllianceBernstein Domestic Equity	2,614,993	2,404,716
Alliance Capital Management	2,147,576	1,531,268
Ark Asset Management	2,438,304	—
Aronson, Johnson, Ortiz, L.P.	1,940,240	1,696,946
Barclays Global Investors (all funds)	5,210,909	3,401,959
Becker Capital Management	1,450,323	1,487,446
Franklin Asset Management	2,037,239	—
Froley Revy Equity	1,413,011	1,226,710
Goldman Sachs	9,409,662	—
Mazama Capital Management	1,845,421	—
MFS Institutional Advisors, Inc.	2,150,456	1,714,599
Nicholas Applegate Capital Management	2,327,897	1,724,537
Northern Trust Company	1,133,872	1,031,628
PIMCO	1,767,035	3,762,920
TCW Asset Management	—	2,139,916
Thompson/Rubinstein Investment Mgmt, Inc.	467,786	937,944
Wanger Asset Management, LP	3,837,935	3,227,874
Wellington Management Company, LLP	3,148,206	2,688,757
Wells Capital Select	2,146,494	—
Winslow Capital Management, Inc.	1,426,616	1,258,401
Other Domestic Equity Fees	123,301	7,147,240
Debt Securities Managers		
Alliance Capital Management	2,712,204	2,501,672
Barclays Global Investors (Corporate Government Bond Index)	124,685	132,528
BlackRock Asset Management	2,723,848	2,488,873
Fidelity Management Trust Co.	3,291,613	3,200,152
Wellington Management Company, LLP	2,022,624	2,193,433
Western Asset Management Company	1,932,478	2,079,668
Other Fixed Income Fees	—	11,148
Real Estate Investment Fund Manager		
La Salle Advisors Ltd.	1,094,590	1,220,637
Leveraged Buyout Manager		
Kohlberg Kravis Roberts & Co.	4,210,536	4,510,869
Custodian		
State Street Bank	351,297	584,913
Alternative Equity Managers		
BDCM Opportunity Fund, LP	1,497,731	606,924
CCMP Asia Opportunity	1,002,740	—
Castle Harlan, Inc.	660,632	1,114,813
CVC	2,607,827	2,687,617
Doughty Hanson & Co.	—	2,439,028
Elevation Partners	1,169,328	—
Grove Street Advisors, LLC	4,250,000	1,571,429
KSL Capital Partners	1,241,859	—
Markstone Capital Partners	1,000,000	456,847
Oak Hill Capital	1,104,151	1,022,863
Palamon European Equity	2,436,826	—
Parthenon Investors II LP	1,748,595	1,663,654
Pathway Capital Management, LLC	1,875,000	1,250,000
Solera Capital LLC	1,093,008	1,160,164
TPG Partners	112,050	3,710,084
Vestar Capital Partners IV LP	1,430,306	1,132,803
Wellspring Capital	1,621,358	1,200,561
Other Alternative Equity Fund Managers	13,776,700	24,654,813
Real Estate Fees and Expenses	66,995,479	37,570,812
Real Estate Bond Expenses	4,161,679	4,336,430
State Treasury Fees	4,094,436	5,694,540
Securities Lending Fees	210,449,018	95,837,477
Brokerage Commissions	34,133,582	31,406,927
Other Investment Fees and Expenses	11,769,838	6,386,620
Deferred Compensation Investment Fees and Expenses	2,053,746	1,862,483
Total Investment Fees, Commissions, and Expenses	\$ 475,323,368	\$ 315,899,781

OFFICE OF THE
SECRETARY OF STATE
Bill Bradbury
Secretary of State



AUDITS DIVISION
Charles A. Hibner
Director

(503) 986-2255
FAX (503) 378-6767
Audits.Sos@state.or.us

Auditing for a Better Oregon

The Honorable Theodore R. Kulongoski
Governor of Oregon
160 State Capitol
Salem, Oregon 97301-4047

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

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

We have audited the basic financial statements of the Oregon Public Employees Retirement System (system) as of and for the year ended June 30, 2006, and have issued our report thereon dated December 15, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

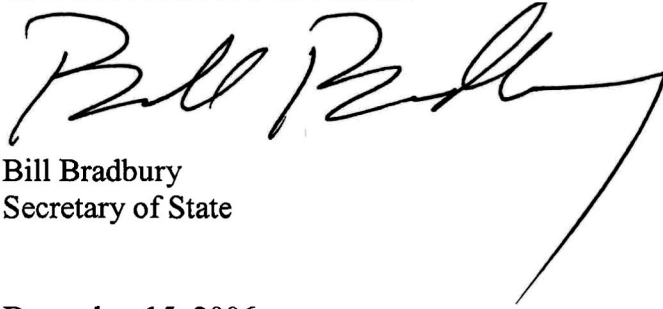
In planning and performing our audit, we considered the system's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

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

OREGON AUDITS DIVISION

A handwritten signature in black ink, appearing to read "Bill Bradbury", with a long, sweeping underline that extends to the right and then curves downwards.

Bill Bradbury
Secretary of State

December 15, 2006

This page is intentionally left blank.

Investment Section

Investment Officer's Report



OREGON INVESTMENT COUNCIL

November 17, 2006

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

Dear PERS Members:

The Oregon Public Employees Retirement Fund (OPERF) completed the fiscal year with a very solid 14.4 percent return. More importantly, over the past three and five year periods, respectively, OPERF has returned an average annual return of 15.4 percent and 8.3 percent. When compared against other large public pension funds, this performance places OPERF in the top one percent versus its peers.

The investment environment of the past year was a continuation of the Federal Reserve policy of increasing the federal funds rate for the 17th time to 5.25 percent. Against this backdrop, notwithstanding a four-quarter fiscal year downturn, both the domestic and international equity markets delivered strong returns. The Russell 3000 index was up 9.6 percent for the year, and the MSCI EAFE Index of developed markets was up an even higher 27.1 percent. Additionally, OPERF benefited from its emerging market exposure, a market that was up nearly 36 percent for the year. With performance this strong, on the heels of similar performance since 2003, it seems more than likely that future performance will be more moderate.

OPERF continues to benefit from its exposure to more illiquid investments in private equity and real estate, as well. These asset classes returned 25.1 percent and 31.7 percent, respectively, to OPERF over the past fiscal year. The Oregon Investment Council (OIC) has an established policy of targeting 12 percent of the overall fund to private equity and eight percent to real estate.

OPERF's Regular Account performance of 14.4 percent exceeded the OIC's target policy benchmark by 2.3 percent, and the eight percent actuarial discount rate by 6.4 percent. This performance was not the result of a single asset class doing well, but rather, the result of every major asset class in the portfolio exceeding its respective benchmark. This type of performance, across every asset class, should not be expected to continue, but it does demonstrate the benefits of active management and portfolio diversification.

Treasury staff and the OIC continue to place a strong emphasis on maintaining the Fund's asset allocation targets. To that end, a portfolio overlay manager was retained by the OIC to help keep the fund as close as possible to the strategic policy allocation using the Fund's frictional cash. Treasury staff, the OIC and their consultants will continue to look at ways to enhance the investment profile of the Fund, which means placing equal emphasis on the projected returns and risk for any strategy under consideration.

Ronald D. Schmitz
Director, Investments

Description of Investment Policies

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

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

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

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

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

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

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

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

The OIC also regularly reviews various aspects of investment policy, performance of investment managers and accounts, asset allocation, and a large number of investment proposals and recommendations.

Investment Results

	Periods Ending June 30, 2006		
		Annualized	
	1-Year	3-Year	5-Year
Total Portfolio	14.3%	15.3%	8.1%
Total Portfolio, Excluding Variable	14.4	15.4	8.3
Domestic Stocks	10.7	13.6	4.2
Benchmark: Russell 3000 Index	9.6	12.6	3.5
International Stocks	30.3	26.2	12.3
Benchmark: Custom Index ¹	28.4	25.8	11.9
Fixed Income Segment	0.9	4.0	6.5
Benchmark: Custom Index ²	-0.2	2.7	5.3
Real Estate ³	31.7	28.1	18.9
Benchmark: NCREIF	20.2	15.1	11.7
Private Equity ⁴	25.1	26.5	10.6
Benchmark: Russell 3000 +500 bps	17.4	23.5	10.5

¹ Morgan Stanley Capital International All Country World Index ex-US Free Index

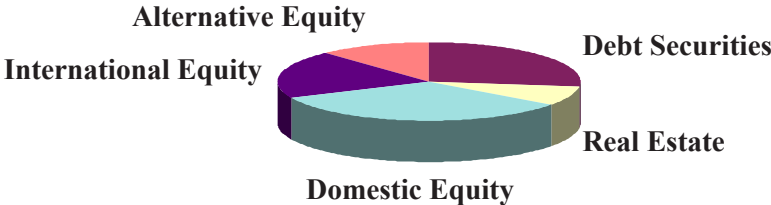
² 90% Lehman Universal/10% SSBI Non-US World Government Bond Hedged

³ Returns are lagged one quarter.

⁴ Returns are lagged one quarter.

OIC Allocation as of June 30, 2006

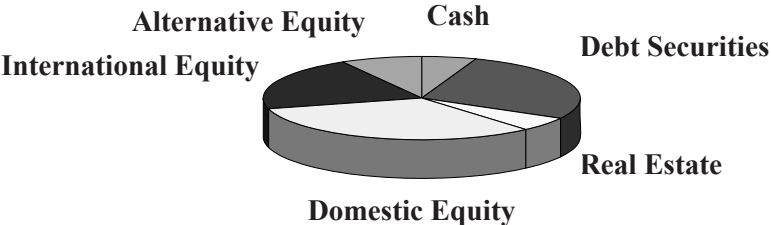
OIC Allocation



	Low Range	High Range	Target Allocation
Cash	0.0%	3.0%	0.0%
Debt Securities	22.0	32.0	27.0
Real Estate	5.0	11.0	8.0
Domestic Equity	28.0	38.0	33.0
International Equity	15.0	25.0	20.0
Alternative Equity	9.0	15.0	12.0
	<u>79.0%</u>	<u>124.0%</u>	<u>100.0%</u>

Investment Actual Allocation as of June 30, 2006

Actual Allocation



	Actual
Cash	5.0%
Debt Securities	27.0
Real Estate	6.6
Domestic Equity	30.2
International Equity	22.4
Alternative Equity	8.8
	<u>100.0%</u>

List of Largest Assets Held**Largest Stock Holdings (by Fair Value)****June 30, 2006**

<u>Shares</u>	<u>Description</u>	<u>Fair Value</u>
3,150,548	Exxon Mobil Corp.	\$ 193,286,120
3,411,552	Citigroup, Inc.	164,573,268
3,063,506	Bank of America Corp.	147,354,639
4,187,001	General Electric Co.	138,003,553
308,816	Google, Inc.	129,495,813
2,029,834	Johnson & Johnson	121,627,653
3,056,749	ING Groep NV	120,108,553
1,972,871	Proctor & Gamble Co.	109,691,628
4,518,275	Pfizer, Inc.	106,043,914
1,440,980	WellPoint, Inc.	104,860,115
	Total	<u><u>\$ 1,335,045,256</u></u>

Largest Bond Holdings (by Fair Value)**June 30, 2006**

<u>Par Value</u>	<u>Description</u>	<u>Fair Value</u>
\$ 1,051,385,000	Federal National Mortgage Association TBA 5.0% Due 07-13-2036 Rating AAA	\$ 982,798,530
463,612,065	Federal National Mortgage Association TBA 6.0% Due 07-13-2036 Rating AAA	456,187,040
409,628,073	Federal National Mortgage Association TBA 5.5% Due 07-13-2036 Rating AAA	393,274,942
178,570,000	U.S. Treasury Strips Due 08-15-2010 Rating AAA	145,114,909
133,585,000	U.S. Treasury Notes 4.875% Due 05-31-2008 Rating AAA	132,838,263
90,765,000	Federal National Mortgage Association TBA 6.5% Due 07-13-2036 Rating AAA	91,233,002
90,656,082	Government of Japan Notes 0.700% Due 06-20-2010 Rating AA	88,824,829
79,009,965	U.S. Treasury Inflation Indexed Notes 2.375% Due 4-15-2011 Rating AAA	78,682,864
73,930,913	Government of Poland Notes 6.250% Due 10-24-2015 Rating A	76,962,081
77,452,514	Commonwealth of Australia Notes 5.250% Due 08-15-2010 Rating AAA	75,903,464
	Total	<u><u>\$ 2,521,819,924</u></u>

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

**Schedule of Fees and Commissions
For the Fiscal Year Ended June 30, 2006**

	<u>Assets Under Management</u>	<u>Fees</u>	<u>Basis Points</u>
Investment Managers' Fees:			
Debt Securities Managers	\$ 15,811,179,321	\$ 12,807,452	0.081003
Equity Managers	30,812,469,829	84,573,603	0.274478
Venture Capital Managers	12,676	—	0.000000
KKR Leveraged Buyouts	1,760,065,977	4,210,536	0.239226
Alternative Equity Managers (Limited Partnerships)	3,368,336,796	38,628,111	1.146801
Real Estate Managers	<u>3,867,079,133</u>	68,090,070	1.760762
Total Assets Under Management	<u>\$55,619,143,732</u>		
Other Investment Service Fees:			
Securities Lending Fees		210,449,018	
Investment Consultants		2,277,396	
Commissions and Other Fees		<u>54,287,182</u>	
Total Investment Service and Managers' Fees		<u>\$ 475,323,368</u>	

**Schedule of Broker Commissions
For the Fiscal Year Ended June 30, 2006**

<u>Broker's Name</u>	<u>Commission</u>	<u>Share / Par</u>	<u>Commission per Share</u>
Merrill Lynch, Pierce, Fenner & Smith, Inc.	\$ 3,121,727	\$ 264,426,670	\$ 0.01181
Goldman Sachs	2,681,138	75,225,214	0.03564
UBS Securities Inc.	2,275,578	191,370,342	0.01189
Credit Suisse First Boston Corporation	1,880,964	184,596,887	0.01019
Bear, Stearns & Co., Inc.	1,773,528	78,628,633	0.02256
Citigroup Global Markets Inc.	1,746,926	191,742,294	0.00911
Investment Technology Group, Inc.	1,590,610	101,943,356	0.01560
Lehman Brothers, Inc.	1,500,966	128,239,668	0.01170
J.P. Morgan Securities, Inc.	1,248,450	156,511,840	0.00798
Deutsche Bank	1,224,126	74,269,538	0.01648
Citation Group	1,100,581	27,621,557	0.03984
Morgan Stanley & Co., Inc.	1,025,982	104,425,074	0.00983
Weeden & Co.	751,669	32,449,860	0.02316
Société Générale	605,667	42,729,924	0.01417
Credit Lyonnais Securities	475,315	75,952,870	0.00626
Jefferies & Co.	531,386	14,844,955	0.03580
Instinet Corporation	469,329	29,459,629	0.01593
DLJ/Pershing	432,395	44,945,002	0.00962
Numura Securities Co., Ltd.	360,396	49,127,072	0.00734
Frank Russell Company	353,198	9,450,575	0.03737

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

Investment Summary

Type of Investment	Fair Value at June 30, 2006	Percent of Total Fair Value
Debt Securities		
U.S. Government Securities	\$ 1,039,793,879	1.87%
U.S. Agency Securities	3,997,501,328	7.19
Domestic Debt Securities	2,838,829,245	5.10
Domestic Mutual Funds	2,501,360,209	4.50
International Debt Securities	1,926,832,285	3.46
Global Mutual Funds	890,959,082	1.60
Asset-Backed Securities and Insurance Contracts	2,615,894,961	4.70
Total Debt Securities	<u>15,811,170,989</u>	<u>28.42</u>
Equity		
Domestic Equity Securities	10,714,954,968	19.27
Domestic Mutual Funds	6,956,130,627	12.51
International Equity Securities	10,309,041,920	18.54
Global Mutual Funds	2,832,342,314	5.09
Total Equity	<u>30,812,469,829</u>	<u>55.41</u>
Real Estate		
Real Estate	2,652,241,222	4.77
Limited Partnerships	1,184,275,237	2.13
Private Placements	29,947,604	0.05
Real Estate Mortgages	615,070	0.00
Total Real Estate	<u>3,867,079,133</u>	<u>6.95</u>
Alternative Equity		
Limited Partnerships	3,368,336,796	6.06
Venture Capital	12,676	0.00
Leveraged Buyouts	1,760,065,977	3.16
Total Alternative Equity	<u>5,128,415,449</u>	<u>9.22</u>
Restricted Investment Contracts	<u>8,332</u>	<u>0.00</u>
Total Fair Value	<u>\$ 55,619,143,732</u>	<u>100.00%</u>

Actuarial Section

MERCER

Human Resource Consulting

111 SW Columbia Avenue, Suite 500
Portland, OR 97201-5839
503 273 5900 Fax 503 273 5999
bill.hallmark@mercer.com
matt.larrabee@mercer.com
www.mercerHR.com

November 14, 2006

Retirement Board
Oregon Public Employees Retirement System

Dear Members of the Board:

We have prepared an actuarial valuation of the Oregon Public Employees Retirement System as of December 31, 2005, including both the Chapter 238 and Chapter 238A programs. Actuarial valuations are performed annually, but only valuations performed as of the end of each odd-numbered year are used to determine annual required contributions. Interim valuations performed as of the end of each even-numbered year are advisory only.

The valuation is based on financial and membership data furnished by the System. The System's actuary would not customarily verify this data. We have reviewed the information for internal consistency and reasonableness and have no reason to doubt its substantial accuracy.

All costs, liabilities and other factors were determined in accordance with generally accepted actuarial principles and procedures, and in accordance with our understanding of the provisions of current State statutes and regulations issued thereunder.

The Retirement Board has sole authority to determine the actuarial assumptions and methods used for the valuation. The actuarial assumptions and methods used in the 2005 actuarial valuation were adopted by the Board based upon our recommendations and the results of our experience study as of December 31, 2005. We believe the actuarial methods and assumptions to be reasonable. In addition, the assumptions and methods used for funding, prior to application of the rate collar, meet the parameters set for disclosures by Governmental Accounting Standards Board Statement No. 25.

Mercer Human Resource Consulting prepared the following information that is presented in the Actuarial Section of the 2006 Comprehensive Annual Financial Report based on the December 31, 2005 actuarial valuation:

- Summary of Actuarial Methods
- Summary of Actuarial Assumptions
- Summary of Plan Provisions

MERCER

Human Resource Consulting

Page 2

November 14, 2006

Retirement Board

Oregon Public Employees Retirement System

- Schedule of Active Member Valuation Data
- Schedule of Retirees and Beneficiaries Added to and Removed from Rolls
- Schedules of Funding Progress by Rate Pool
- Solvency Test
- Analysis of Financial Experience

In addition, we prepared the Schedules of Funding Progress in the Financial Section of this report. Amounts shown for the December 31, 2003 actuarial valuation and earlier are the amounts reported by the prior actuary for those valuations. Amounts shown for the December 31, 2005 actuarial valuation include both Chapter 238 and Chapter 238A assets and liabilities.

All members hired prior to August 29, 2003 are covered under Chapter 238. These benefits are administered using some cost-sharing pools and some independent employer valuations. All school districts share costs through the school district pool. Some local governments have joined the State and Local Government Rate Pool to share costs. There are also 218 independent employers who do not share costs with the other employers except through the Benefits in Force Reserve that pools the experience of those in pay status across all employers and all other pooling arrangements.

All members hired after August 28, 2003 are covered under Chapter 238A. Costs for these members are shared across all employers regardless of their status under the Chapter 238 arrangements. Chapter 238 benefits and Chapter 238A benefits are parts of a single plan.

Finally, some employers have made lump sum deposits in addition to their regularly scheduled contributions. These deposits are placed in a side account within the pension trust and used to offset future contribution requirements of that employer. For financial reporting purposes, lump sum deposits are not considered as contributions toward meeting the Annual Required Contribution (ARC) or the contractually required contribution for employers in a cost-sharing pool. However, side accounts are included as assets in the development of the ARC or contractually required contributions. The Schedule of Funding Progress and Solvency Test also include side accounts as part of the Plan's assets.

MERCER

Human Resource Consulting

Page 3

November 14, 2006

Retirement Board

Oregon Public Employees Retirement System

We are available to answer any questions on the material contained in the report, or to provide explanations or further details as may be appropriate. The undersigned credentialed actuaries meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report.

Sincerely,



William R. Hallmark, ASA, EA, MAAA
Principal



Matt Larrabee, FSA, EA, MAAA
Principal

WRH/MRL/wrh:dah

The information contained in this document (including any attachments) is not intended by Mercer to be used, and it cannot be used, for the purpose of avoiding penalties under the Internal Revenue Code that may be imposed on the taxpayer.

Actuarial Assumptions and Methods

Tier One/Tier Two

Actuarial Methods and Valuation Procedures

The Board adopted the following actuarial methods and valuation procedures for the December 31, 2005 actuarial valuation of PERS Tier One/Tier Two benefits. The actuarial methods and procedures were first adopted effective December 31, 2004.

Actuarial cost method

Projected Unit Credit

Under the Projected Unit Credit cost method, the objective is to fund each member's benefit under the plan as it accrues, taking into consideration expected future compensation increases.

Unfunded Actuarial Liability (UAL) amortization

The UAL is currently amortized as a level percentage of combined valuation payroll (Tier One/Tier Two plus OPSRP payroll) over the period from the valuation date to December 31, 2027. As of December 31, 2005, the amortization period is 22 years. When the amortization period reaches 20 years, the period for the existing UAL will continue to decline until it is paid off, and new gains and losses recognized in each odd-year valuation will be amortized over a period of 20 years from that valuation.

Amortization of change in UAL due to change in actuarial cost method

The change in UAL due to the change from Entry Age Normal to Projected Unit Credit on December 31, 2004, is amortized as a level percentage of combined valuation payroll over a rolling three-year period.

Asset valuation method

The actuarial value of assets equals the market value of assets, reduced by the Contingency, Capital Preservation, and Rate Guarantee Reserves.

Contribution rate stabilization method

Contribution rates are confined to a collar based on the prior contribution rate (prior to application of side accounts). The new contribution rate will 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 drops below 80 percent or increases above 120 percent, the size of the collar doubles.

Economic Assumptions

The Board adopted the following economic assumptions for the December 31, 2005 actuarial valuation. The investment return assumption was first adopted in 1989, and the interest crediting assumptions were adopted in 2003. All other economic assumptions were first adopted in 2005.

Investment return

8.0 percent compounded annually

Interest crediting

8.0 percent compounded annually on members' regular account balances

8.5 percent compounded annually on members' variable account balances

Inflation

2.75 percent compounded annually

Payroll growth

3.75 percent compounded annually. This assumption represents the sum of the inflation assumption and a real wage growth assumption of 100 basis points.

Healthcare cost inflation

Health cost trend rates are used to predict increases in the RHIPA Maximum Subsidy.

Year ¹	
2007	9.0%
2008	8.0%
2009	7.0%
2010	6.5%
2011	6.0%
2012	5.5%
2013+	5.0%

¹ For valuation purposes, the health cost trend rates are assumed to be applied at the beginning of the plan year.

Demographic Assumptions

The Board adopted the following demographic assumptions for the December 31, 2005 actuarial valuation.

Mortality

The following mortality tables were used in the December 31, 2005 valuation. Mortality rates for school district males and general service males were first adopted effective December 31, 2005. All other mortality rates were adopted effective December 31, 2001.

Healthy Retired Members	
Basic Table	RP 2000, Combined Active/Healthy Retired, No Collar, Sex Distinct
School District Male	Set back 36 months
Other General Service Male	Set back 24 months
Police and Fire Male	Set back 12 months
School District Female	Set back 36 months
Other Female	Set back 18 months
Beneficiary Male	Set back 24 months
Beneficiary Female	Set back 18 months

The disabled retiree mortality rates were adopted by the Board for the December 31, 2005 actuarial valuation.

Disabled Retired Members	
Basic Table	RP 2000, Combined Active/Healthy Retired, No Collar, Sex Distinct
Male	Set forward 36 months, min of 2.5 percent
Female	Set forward 36 months, min of 2.75 percent

The Board adopted the rates below for non-retired members effective with the December 31, 2005 actuarial valuation, except for school district females, which were adopted with the December 31, 2001 actuarial valuation.

Non-Retired Members	
	Percent of Healthy Retired Mortality Tables
Police and Fire Male	70%
Other Male	65%
School District Female	50%
Other Female	55%

Retirement Assumptions

The retirement assumptions used in the actuarial valuation include the following:

- retirement from active status/dormant status,
- probability a member will elect a lump-sum option at retirement, and
- percentage of members who elect to purchase credited service at retirement.

All of the retirement assumptions were first adopted effective December 31, 2005.

Rates of Retirement from Active Status

Judge members are assumed to retire at age 63.

Age	Police and Fire		School District		Other General Service		School District/Other General Service
	<25 yrs	25+ yrs	Tier One <30 yrs	Tier Two <30 yrs	Tier One <30 yrs	Tier Two <30 yrs	30+ yrs
50	14.0%	70.0%					50.0%
51	14.0	35.0					50.0
52	8.5	35.0					66.7
53	8.5	35.0					66.7
54	8.5	20.0					75.0
55	15.0	20.0	14.0%	7.0%	10.0%	5.0%	33.3
56	8.5	20.0	7.0	3.5	5.0	2.5	25.0
57	8.5	20.0	10.0	5.0	7.5	3.75	25.0
58	8.5	20.0	15.0	7.5	10.0	5.0	25.0
59	8.5	20.0	10.0	5.0	7.5	3.75	25.0
60	15.0	20.0	10.0	10.0	7.5	7.5	13.0
61	15.0	40.0	15.0	15.0	10.0	10.0	13.0
62	25.0	50.0	15.0	15.0	12.0	12.0	33.3
63	5.0	40.0	10.0	10.0	12.0	12.0	25.0
64	5.0	40.0	15.0	15.0	12.0	12.0	25.0
65	100.0	100.0	22.0	22.0	20.0	20.0	33.3
66			10.0	10.0	8.0	8.0	30.0
67			10.0	10.0	8.0	8.0	30.0
68			4.00	4.00	8.0	8.0	15.0
69			4.00	4.00	5.0	5.0	15.0
70			100.0	100.0	100.0	100.0	100.0

Retirement from Dormant Status

Dormant members are assumed to retire at Normal Retirement Age (Age 58 for Tier One, age 60 for Tier Two, and age 55 for Police and Fire) or at the first unreduced retirement age (30 years of service or age 50 with 25 years of service for Police and Fire).

Lump-Sum Option at Retirement

Members retiring may elect to receive a full or partial lump sum at retirement. The probability that a retiring member will elect a lump sum at retirement is summarized in the table below.

Partial Lump Sum	8%
Total Lump Sum	8%
No Lump Sum	84%

Purchase of Credited Service at Retirement

The following percentages of members are assumed to purchase credit for the six-month waiting period at retirement:

Money Match Retirements	0.0%
Non-Money Match Retirements	45%

Disability Assumptions

There are two disability assumptions used in the valuation—duty disability and ordinary disability. Duty disability rates are separated between Police and Fire and General Service, while ordinary disability is the same for all members. These rates were first adopted effective December 31, 2005.

Age	Duty Disability Police and Fire	Duty Disability General Service	Ordinary Disability
Less than age 35	0.040%	0.004%	0.050%
35-39	0.060	0.004	0.100
40-44	0.060	0.010	0.150
45-49	0.100	0.010	0.200
50+	0.150	0.020	0.300

Termination Assumptions

The termination assumptions used in the actuarial valuation include the following assumptions:

- termination from active status prior to retirement eligibility, and
- probability that a member will not take a lump-sum distribution prior to retirement.

All of the termination assumptions were first adopted effective December 31, 2005.

Termination Rates

Termination rates for each group are shown below:

Age	School District	OHSU	SLGRP	SLGRP	Independent	Independent	Police and Fire
			General Service Male	General Service Female	Employers General Service Male	Employers General Service Female	
30	6.106%	10.003%	7.538%	7.511%	6.094%	10.365%	3.334%
40	3.480	6.374	4.139	4.500	3.791	6.176	2.278
50	2.233	4.184	3.065	3.100	2.338	3.861	1.372

No Lump Sum Before Retirement

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

Age	General Service	Police and Fire
30	70.000%	48.091%
40	74.296	62.061
50	87.195	72.061

Salary Increase Assumptions

The salary increase assumptions reflected in the actuarial valuation include:

- merit scale increases in addition to the payroll growth increase, and
- Unused Sick Leave adjustments.

Merit Increases

Merit increases are based on duration of service for the following groups. The rates for school districts were first adopted effective December 31, 2005. All other rates were adopted December 31, 2003.

Duration	School District	OHSU	SLGRP General Service	SLGRP Police and Fire	Independent Employers General Service	Independent Employers Police and Fire
5	1.90%	1.00%	1.80%	2.30%	1.80%	2.50%
10	1.20	0.30	0.90	1.10	1.00	1.30
15	0.60	0.25	0.40	0.60	0.55	0.80
20	0.26	0.00	0.10	0.30	0.30	0.50

Unused Sick Leave

Members covered by the provision allowing unused sick leave to be used to increase final average salary are assumed to receive increases in their final average salary in accordance with the table below. The rates for local general service females were first adopted December 31, 2001. All other rates were adopted effective December 31, 2005.

Actives	
State GS Male	5.75%
State GS Female	4.75
School District Male	7.25
State District Female	6.75
Local GS Male	3.50
Local GS Female	3.00
Police and Fire	8.75
Dormants	
All members	3.50%

These rates were first adopted effective December 31, 2005.

Retiree Healthcare Participation

The following percentages of eligible retiring members are assumed to elect RHIPA and RHIA coverage:

RHIPA	11%
RHIA	
- Healthy Retired	50%
- Disabled Retired	25%

These rates were first adopted effective December 31, 2005.

Actuarial Methods and Assumptions — OPSRP

Most of the methods and assumptions adopted for the OPSRP valuation are the same as those used for Tier One/Tier Two. A summary of the methods and assumptions that differ for OPSRP are summarized below.

Actuarial Methods and Valuation Procedures

UAL amortization

Gains and losses between odd-year valuations are amortized as a level percentage of combined valuation payroll (Tier One/Tier Two plus OPSRP payroll) over 16 years from the valuation in which they are first recognized.

Economic Assumptions

Administrative expenses: \$6.7 million per year is added to the normal cost.

Demographic Assumptions (Same as those used for Tier One/Tier Two.)

Retirement Assumptions (Same as those used for Tier One/Tier Two.)

Retirement from Active Status

Age	Police and Fire		General Service		
	<25 years	25+ years	<30 years	30+ years (Tier One/Tier Two Service)	30+ years (OPSRP Service only)
50	7.00%	7.00%		50.00%	
51	7.00	7.00		50.00	
52	4.25	4.25		66.7	
53	4.25	50.00		66.7	
54	4.25	20.00		75.0	
55	7.50	20.00	5.00%	33.3	5.00%
56	4.25	20.00	2.50	25.0	2.50
57	4.25	20.00	3.75	25.0	3.75
58	4.25	20.00	5.00	40.0	40.0
59	4.25	20.00	3.75	25.0	25.0
60	15.00	20.00	3.75	13.0	13.0
61	15.00	40.00	5.00	13.0	13.0
62	25.00	50.00	6.00	33.3	33.3
63	5.00	40.00	6.00	25.0	25.0
64	5.00	40.00	6.00	25.0	25.0
65	100.00	100.00	20.00	33.3	33.3
66			8.00	30.0	30.0
67			8.00	30.0	30.0
68			8.00	15.00	15.00
69			5.00	15.00	15.00
70			100.00	100.00	100.00

Retirement from Dormant Status

Dormant members are assumed to retire at normal retirement age.

Termination Assumptions

The termination rates are based on three-year select and ultimate rates, with the ultimate rates being the same as the Tier One/Tier Two termination rates.

Age	School District				OHSU ¹			
	1st Select Period	2nd Select Period	3rd Select Period	Ultimate	1st Select Period	2nd Select Period	3rd Select Period	Ultimate
30	13.500%	10.500%	7.500%	6.106%	15.500%	13.500%	11.500%	10.003%
40	10.700	7.350	5.600	3.480	10.900	8.750	6.750	6.374
50	9.700	6.350	4.200	2.233	9.900	6.000	4.000	4.184

Age	Independent Employers General Service Male				Independent Employers General Service Female			
	1st Select Period	2nd Select Period	3rd Select Period	Ultimate	1st Select Period	2nd Select Period	3rd Select Period	Ultimate
30	18.750%	14.750%	8.750%	6.094%	18.200%	16.000%	12.200%	10.365%
40	16.250	12.250	6.250	3.791	13.700	12.000	8.800	6.176
50	13.750	9.750	3.750	2.338	11.800	10.000	6.600	3.861

Age	SLGRP ² General Service Male				SLGRP General Service Female			
	1st Select Period	2nd Select Period	3rd Select Period	Ultimate	1st Select Period	2nd Select Period	3rd Select Period	Ultimate
30	16.700%	13.500%	10.200%	7.538%	18.200%	16.000%	12.200%	7.511%
40	12.200	9.500	6.800	4.139	13.700	12.000	8.800	4.500
50	10.300	7.500	4.600	3.065	11.800	10.000	6.600	3.100

Age	Police and Fire			
	1st Select Period	2nd Select Period	3rd Select Period	Ultimate
30	8.249%	5.999%	4.666%	3.334%
40	6.810	4.560	3.419	2.278
50	4.628	2.378	1.875	1.372

¹ Oregon Health & Sciences University

² State and Local Government Rate Pool

Actuarial Schedules

Schedule of Active Member Valuation Data

Valuation Date	Count	Annual Payroll in Thousands	Average Annual Pay	% Increase in Average Pay	Number of Participating Employers ⁴	
12/31/1995	141,471	\$ 4,848,058	\$ 34,269	2.7%	N/A	
12/31/1997	143,194	5,161,562	36,045	2.6	N/A	
12/31/1999	151,262	5,676,606	37,528	2.0	N/A	
12/31/2000	156,869	6,195,862	39,497	5.2	N/A	
12/31/2001	160,477	6,520,225	40,630	2.9	N/A	Old Basis
12/31/2001	160,447	6,253,965	38,971	—	N/A	New Basis ¹
12/31/2002	159,287	6,383,475	40,075	2.8	N/A	
12/31/2003	153,723	6,248,550	40,648	1.4	N/A	
12/31/2004 ²	142,635	6,306,447	44,214	8.8	806	
12/31/2005 ³	156,501	6,791,891	43,398	-1.8	810	

¹ Effective in 2001, the annual payroll excludes the member pick-up, if any.

² Excludes OPSRP members and payroll.

³ Includes OPSRP members and payroll.

⁴ Participating employers are defined for this purpose as any employer with covered payroll during the prior year.

Schedule of Retirees and Beneficiaries Added to and Removed From Rolls

(dollar amounts in thousands)

Valuation Date	Added to Rolls		Removed from Rolls		Rolls - End of Year		% Increase in Annual Allowances ¹	Average Annual Allowances
	Count	Annual Allowances	Count	Annual Allowances	Count	Annual Allowances		
12/31/1995					64,796	\$ 700,171	24.1%	\$ 10,806
12/31/1997					69,624	919,038	31.3	13,200
12/31/1999					82,819	1,299,380	41.4	15,689
12/31/2000					82,458	1,385,556	6.6	16,803
12/31/2001					85,216	1,514,491	9.3	17,772
12/31/2002					89,482	1,722,865	13.8	19,254
12/31/2003					97,777	2,040,533	8.4	20,869
12/31/2004 ²	6,754	\$ 149,474	2,863	\$ 35,151	101,668	2,154,856	5.6	21,195
12/31/2005 ²	4,472	149,127	3,217	36,784	102,923	2,267,198	5.2	22,208

¹ Since last valuation date.

² Annual allowances reflect estimated adjustments to retiree benefits due to the implementation of the *Strunk v. PERB, et al.* and *City of Eugene v. State of Oregon, PERB, et al.* decisions.

Schedules of Funding Progress by Rate Pool

(dollar amounts in millions)

Actuarial Valuation Date ¹	Actuarial Value of Assets ² (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) ³ (b-a)	Funded Ratio (a/b)	Covered Payroll ⁴ (c)	UAAL as a % of Covered Payroll ((b-a)/c)
Tier One/Tier Two State and Local Government Rate Pool						
12/31/2004	\$ 22,768.1	\$ 23,407.2	\$ 639.1	97.3%	\$ 3,171.0	20.2%
12/31/2005	25,556.3	24,450.3	(1,106.0)	104.5	3,089.8	(35.8)
Tier One/Tier Two School District Rate Pool						
12/31/2004	18,679.3	19,483.0	803.7	95.9%	2,173.6	37.0%
12/31/2005	21,095.0	20,151.8	(943.2)	104.7	2,126.5	(44.4)
Tier One/Tier Two Independent Employers and Judiciary						
12/31/2004	4,195.1	4,444.4	249.3	94.4	961.9	25.9%
12/31/2005	4,742.9	4,575.0	(167.9)	103.7	894.9	(18.8)
OPSRP Rate Pool						
12/31/2005	55.0	53.8	(1.2)	102.2	680.7	(0.2%)
Postemployment Healthcare Benefits - Retirement Health Insurance Account						
12/31/2004	148.0	556.9	408.9	26.6	6,306.4	6.5
12/31/2005	181.0	495.9	314.9	36.5	6,111.2	5.2
Postemployment Healthcare Benefits - Retiree Health Insurance Premium Account						
12/31/2004	5.2	28.2	23.0	18.4	1,701.0	1.4
12/31/2005	6.1	27.0	20.9	22.6	1,621.2	1.3

Notes:

¹ Actuarial valuations prior to December 31, 2004, were performed by Milliman USA.² Side account assets are included with Tier One/Tier Two assets.³ Excludes UAAL for Multnomah Fire District (\$129.7 million as of 12/31/2005).⁴ Covered payroll is shown for the rate group. However, the UAL is amortized using combined Tier One/Tier Two and OPSRP payroll.

Actuarial Schedules**Analysis of Financial Experience****Gains and Losses in Accrued Liabilities****Resulting Between Assumed Experience and Actual Experience**

(dollar amounts in millions)

Type of Activity	\$ Gain (or Loss) for Year	
	2005	2004
Age and Service Retirements from Active Status	\$ (55.5)	\$ (69.1)
Disability Retirements from Active Status	(11.6)	(19.7)
Active Mortality and Withdrawal	18.2	29.2
Pay Increases	41.7	4.1
Contributions	(419.7)	(530.4)
Investment Income	1,819.7	(1,538.5)
Retirement, Mortality, and Lump Sums from Dormant Status	81.7	223.7
Retiree and Beneficiary Mortality	(44.7)	(13.0)
Other	(315.7)	(77.2)
	1,114.1	(1,990.9)
Gain (or Loss) During Year From Financial Experience	1,114.1	(1,990.9)
Non-Recurring Items		
Oregon Supreme Court Rulings, <i>Strunk v. PERB, et al.</i> and <i>City of Eugene v. State of Oregon, PERB, et al.</i>	N/A	(437.9)
Change in Actuarial Cost Method	N/A	(1,230.6)
Change in Asset Valuation Method	N/A	2,174.4
Deployment of Reserves	1,389.2	N/A
Assumption Changes	27.2	N/A
	2,530.5	(1,485.0)
Composite Gain (or Loss) During Year	2,530.5	(1,485.0)

Solvency Test

Pension and Retiree Healthcare Plans

(dollar amounts in millions)

Actuarial Accrued Liability

Valuation Date ¹	Actuarial Accrued Liability			Valuation Assets ⁶	Portion of Actuarial Accrued Liabilities Covered by Assets		
	Active Member Contributions	Retired Members and Beneficiaries	Other Members		(1)	(2)	(3)
12/31/1995	\$ 5,753.0	\$ 7,492.8	\$ 10,002.8	\$ 20,957.6	100%	100%	77%
12/31/1997	8,135.4	9,994.9	13,534.6	29,108.2	100	100	81
12/31/1999	8,238.1	14,333.7	18,336.1	39,964.8	100	100	95
12/31/2000	10,142.5	15,664.1	17,543.9	41,804.6	100	100	91
12/31/2001	10,252.8	17,465.9	18,229.0	39,852.2	100	100	67
12/31/2001 ²	10,252.8	17,340.0	10,228.8	39,852.2	100	100	120
12/31/2002 ²	9,940.7	19,339.0	10,240.8	36,316.8	100	100	69
12/31/2003 ²	9,005.8	23,625.9	11,993.9	42,874.4	100	100	85
12/31/2004 ^{3,4}	9,073.0	25,363.0	13,547.6	45,735.3	100	100	83
12/31/2005 ⁵	9,169.7	26,602.4	14,044.7	51,569.7	100	100	112

¹ An extensive revision of the actuarial assumptions occurs prior to each odd-year valuation; therefore, the figures are not directly comparable.

² The 2001 valuation was revised to include the impact of PERS Reform Legislation enacted in 2003. Figures 12/31/2003 do not reflect the judicial review or subsequent Board action.

³ Effective with the 2004 valuation, the Oregon Supreme Court rulings in *Strunk v. PERB, et al.* and *City of Eugene v. State of Oregon, PERB, et al.* (issued August 11, 2005) are reflected.

⁴ Effective with the 2004 valuation, the cost method was changed from Entry Age Normal to Projected Unit Credit, and the actuarial value of assets was changed from a four-year smoothed value to market value.

⁵ Assets and liabilities for OPSRP are first valued in the 2005 valuation.

⁶ Effective with the 12/31/2002 valuation, includes the value of UAL Lump-Sum Side Accounts.

Plan Summary

Summary of Plan Provisions

The following section summarizes the plan provisions considered in the actuarial valuation. A more detailed description of plan provisions is available from the PERS administrative office.

<i>Membership</i>	All employees of public employers participating in this System who are in qualifying positions become members of the System after completing six months of service except those who are eligible for and have elected to participate in an optional retirement plan. Different benefit provisions of the plan apply based on date of hire.	
	Tier One	Hired prior to 1996.
	Tier Two	Hired after 1995 and before August 29, 2003.
	OPSRP	Hired after August 28, 2003, and not a judge.
	Judges	Members of the judiciary.
<i>Employee Contributions</i>	Judges	7 percent of salary.
	All others	None.
<i>Employer Contributions</i>	Actuarially determined	

Summary of Chapter 238 Provisions – Tier One/Tier Two and Judges

<i>Normal Retirement Date</i>	Police and Fire	Age 55						
	Judges	Age 65						
	Tier One General Service	Age 58						
	Tier Two General Service	Age 60						
<i>Normal Retirement Allowance</i>	For members who are not judges, the greatest of the Full Formula benefit, the Money Match benefit, or the Formula Plus Annuity benefit (only available to members who made contributions before August 21, 1981).							
	Full Formula	The percentage multiplier from the table below multiplied by final average pay and years of credited service plus a prior service pension, if applicable.						
		<table border="1"> <thead> <tr> <th>Percentage Multiplier</th> <th>Membership Classification</th> </tr> </thead> <tbody> <tr> <td>2.00%</td> <td>Police and Fire; Legislators</td> </tr> <tr> <td>1.67%</td> <td>All other members</td> </tr> </tbody> </table>	Percentage Multiplier	Membership Classification	2.00%	Police and Fire; Legislators	1.67%	All other members
Percentage Multiplier	Membership Classification							
2.00%	Police and Fire; Legislators							
1.67%	All other members							
	Money Match	The member's account balance and a matching employer amount converted to an actuarially equivalent annuity.						
	Formula Plus Annuity	The member's account balance converted to an actuarially equivalent cash refund annuity plus the percentage multiplier from the table below multiplied by final average pay and years of credited service, plus a prior service pension, if applicable.						
		<table border="1"> <thead> <tr> <th>Percentage Multiplier</th> <th>Membership Classification</th> </tr> </thead> <tbody> <tr> <td>1.35%</td> <td>Police and Fire; Legislators</td> </tr> <tr> <td>1.00%</td> <td>All other members</td> </tr> </tbody> </table>	Percentage Multiplier	Membership Classification	1.35%	Police and Fire; Legislators	1.00%	All other members
Percentage Multiplier	Membership Classification							
1.35%	Police and Fire; Legislators							
1.00%	All other members							

Summary of Chapter 238 Provisions - Tier One/Tier Two and Judges (continued)

Judges Final average pay multiplied by the first percentage multiplier from the table below for up to 16 years of service plus the second percentage multiplier for any service in excess of 16 years, but not to exceed the maximum percentage of final average pay also shown below. Judges must elect Plan A or Plan B no later than age 60.

Plan	Percentage Factor (up to 16 years)	Percentage Factor (after 16 years)	Maximum Percentage of Final Average Pay
A	2.8125%	1.67%	65%
B	3.75	2.00	75

SB 656 / HB 3349 Adjustment All members receive an increase to their monthly retirement benefits equal to the greater of the increase under Senate Bill 656 (SB 656) or House Bill 3349 (HB 3349).

SB 656 Increase	Years of Service	General Service	Police and Fire
	0-9	0.0%	0.0%
	10-14	1.0	1.0
	15-19	1.0	1.0
	20-24	2.0	2.5
	25-29	3.0	4.0
	30 & Over	4.0	4.0
HB 3349 Increase	1	×	Service prior to October 1, 1991 All service
	1 – maximum Oregon personal income tax rate		

Early Retirement Eligibility

Police and Fire	Age 50 or 30 years of service
Judges	Age 60
General Service	Age 55 or 30 years of service

Early Retirement Allowance Normal retirement allowance, actuarially reduced to early retirement age. However, there is no reduction applied if a member has completed 30 years of service (25 years for police and fire members) or for judges in Plan B.

Vesting Five years or attainment of normal retirement age.

Termination Benefits

Non-Vested	Payment of member's account balance. For judges, the account balance is forfeited.
Vested	Same as normal (or early) retirement allowance, but commencement is deferred to normal (or early) retirement date.

Summary of Chapter 238 Provisions - Tier One/Tier Two and Judges (continued)

<i>Optional Forms of Retirement Allowance</i>	<p>The normal form of benefit is a cash refund annuity (joint and two-thirds survivor contingent annuity for a married judge). All optional amounts are adjusted to be actuarially equivalent.</p> <p>Options Available</p> <ul style="list-style-type: none"> ▪ Life annuity. ▪ Cash refund annuity. ▪ Life annuity guaranteed 15 years. ▪ Joint and 50 percent or 100 percent survivor contingent annuity, with or without pop-up feature. ▪ Lump sum of member contribution account (under any form) plus a pension from employer contributions under the Full Formula or Money Match method. ▪ Lump sum of member contribution account plus a matching employer amount. 	
<i>Pre-Retirement Death Benefit Eligibility</i>	Judges	Six or more years of service.
	All others	Death occurring while the member is an employee of a participating employer or within 120 days of termination provided the employee does not withdraw the account balance or retire, or a result of injuries received while in the service of a participating employer.
<i>Pre-Retirement Death Benefit</i>	Judges	The spouse shall receive a life pension equal to two-thirds of the service retirement allowance. The beneficiary of an unmarried judge shall receive the member's accumulated contributions with interest.
	All others	The member's account balance plus a matching employer amount.
<i>Additional Police and Fire Death Benefits</i>	Upon the death of a retired police officer or firefighter, the surviving spouse or dependent children under age 18 will receive a monthly benefit based on 25 percent of the cash refund retirement allowance due to police and fire service.	
<i>Disability Benefit Eligibility</i>	Duty	Disablement occurring as a direct result of a job-related injury or illness, regardless of length of service.
	Non-Duty	Disablement occurring after 10 years of service (six years, if a judge), but prior to normal retirement eligibility.
<i>Disability Benefits</i>	<p>The normal retirement allowance calculated based on the service credit that would have been earned if the member had continued working to age 58 (age 55 for police and fire) payable commencing immediately.</p> <p>Police and Fire Members' Alternative</p> <p>In lieu of the above, police officer and firefighters and police officers who qualify for duty disability may elect to receive a benefit of 50 percent of final average monthly salary at the time of disablement.</p> <p>Minimum Monthly Retirement Allowance</p> <p>Judges 45 percent of final average monthly salary.</p> <p>All others \$100 for a member with at least 15 years of credited service, actuarially reduced if an optional form of benefit is chosen.</p> <p>Reduction of Benefits</p> <p>Whenever a disabled employee's disability benefit and earned income for any month exceed the monthly salary received at the time of disablement or \$400, if greater, the disability benefit will be reduced by the excess.</p> <p>For Tier Two members, the sum of the disability benefit and any workers' compensation benefits may not exceed the member's salary at the time of disablement.</p>	

Summary of Chapter 238 Provisions - Tier One/Tier Two and Judges (continued)

<i>Police and Fire Unit Purchases</i>		Police and fire members may purchase 60-month annuity benefits (up to \$80 per month) that must be paid out by age 65 and cannot commence prior to the earliest retirement age. The amount purchased by the member is matched by the employer. In certain situations, such as termination of employment prior to retiring or working beyond age 65, the employer's matching purchase is forfeited.
<i>Postretirement Adjustments</i>		All monthly pension and annuity benefits except unit purchases are eligible for postretirement adjustments.
	Automatic Adjustments	Benefits are adjusted annually to reflect the increase or decrease in the Consumer Price Index (Portland area - all items) as published by the Bureau of Labor Statistics. The maximum adjustment to be made for any year is 2 percent of the previous year's benefit. Any CPI change in excess of 2 percent is accumulated for future benefit adjustments which would otherwise be less than 2 percent. No benefit will be decreased below its original amount.
	Ad Hoc Adjustments	From time to time, as granted by the Legislature, retired members and beneficiaries have received increases in their monthly benefits.
<i>Variable Annuity Program</i>	Contributions	Prior to January 1, 2004, a member could elect to have 25, 50 or 75 percent of his or her contributions invested in the variable account.
	Benefit	At retirement, a member may elect to receive a variable annuity with the funds accumulated in his or her variable account. Alternatively, a member may elect to have funds in his or her variable account transferred back to the regular account and receive an annuity from the System and cease further participation in the variable annuity program. The employer provided benefit, however, is based on the earnings the member would have received in the regular account.
<i>Interest Credit on Member Accounts</i>	Tier One Regular	Actuarially assumed rate of return until the rate guarantee reserve has been fully funded for three consecutive years and the Board elects to credit additional interest.
	Tier Two Regular	Amount determined by the Board based on actual investment earnings of the regular account.
	Variable	Actual earnings in variable account.
<i>Retiree Healthcare – Medicare Supplement</i>	Eligibility	All of the following must be met: a) currently receiving a retirement allowance from the System, b) covered for eight years before retirement, c) enrolled in a PERS-sponsored health plan, and d) enrolled in both Medicare Part A and Part B.
	Benefit Amount	A monthly contribution of up to \$60 per retiree is applied to PERS-sponsored Medicare supplemental insurance costs.
<i>Retiree Healthcare – Under Age 65</i>	Eligibility	Retired state employees enrolled in a PERS-sponsored health plan.
	Benefit	A percentage (as shown in the table on the following page) of the maximum monthly subsidy based on years of service. The maximum monthly subsidy is calculated annually as the average difference between the health insurance premiums paid by active state employees and the premium retirees would pay if they were rated separately from active state employees.

Summary of Chapter 238 Provisions - Tier One/Tier Two and Judges (continued)

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

- Changes in Plan Provisions*
- The Oregon Supreme Court Rulings *Strunk v. PERB, et al.* (issued March 8, 2005) and *City of Eugene v. State of Oregon, PERB, et al.* (issued August 11, 2005) are first reflected as part of the 2004 actuarial valuation. These rulings changed the following provisions:
 - For Tier One member accounts, 1999 earnings were changed from 20.0 percent to 11.33 percent, and all years after 1999 were credited with 8.0 percent.
 - Cost of living adjustments (COLAs) were applied retroactively to all retirees who previously had their COLA frozen.
 - A member eligible to receive benefits under both Tier One/Tier Two and OPSRP may use his or her combined creditable service (Tier One/Tier Two) and retirement credits (OPSRP) to determine eligibility for benefits, such as non-duty disability, “30 and out,” vesting, etc. (HB 2189).

Summary of Chapter 238A Provisions - OPSRP

<i>Normal Retirement Date</i>	Police and Fire	Age 60 or age 53 with 25 years of retirement credit
	General Service	Age 65 or age 58 with 30 years of retirement credit
	School Districts	Age 65 or age 58 with 30 calendar years of active membership
<i>Normal Retirement Allowance</i>	A single life annuity equal to final average salary times years of retirement credit attributable to service as fire and police times 1.8 percent plus final average salary times all other years of retirement credit times 1.5 percent.	
<i>Early Retirement Eligibility</i>	Police & Fire	Age 50 and 5 years of vesting service
	General Service	Age 55 and 5 years of vesting service
<i>Early Retirement Allowance</i>	Normal retirement allowance, actuarially reduced to early retirement age.	
<i>Vesting</i>	Five years or attainment of normal retirement age.	
<i>Vested Termination Benefit</i>	Same as normal (or early) retirement allowance, but commencement is deferred to normal (or early) retirement date.	
<i>Optional Forms of Retirement Benefit</i>	The normal form of benefit is a life annuity. All optional amounts are adjusted to be actuarially equivalent.	
	Options Available	
	<ul style="list-style-type: none"> ▪ Life annuity. ▪ Joint and 50 percent or 100 percent survivor contingent benefit, with or without pop-up feature. ▪ Lump sum if monthly normal retirement benefit is less than \$200 or if lump-sum value is less than \$5,000. 	
<i>Pre-Retirement Death Benefit Eligibility</i>	Death of a vested member before retirement benefits begin.	
<i>Pre-Retirement Death Benefit</i>	If member was eligible for early retirement, the actuarial equivalent of 50 percent of the early retirement benefit the participant was eligible to receive at date of death. If member was not eligible for early retirement, the actuarial equivalent of 50 percent of the early retirement benefit the participant would have been eligible to receive if he terminated employment on his date of death and retired at the earliest possible date.	
<i>Disability Benefit Eligibility</i>	Duty	Disablement occurring as a direct result of a job-related injury or illness, regardless of length of service.
	Non-Duty	Disablement occurring after 10 years of service, but prior to normal retirement eligibility.
<i>Disability Benefit Amounts</i>	Pre-Retirement Benefit	45 percent of salary during last full month of employment before disability, reduced if total benefit including workers' compensation exceeds 75 percent of salary. Benefit is payable monthly until normal retirement age.

Summary of Chapter 238A Provisions - OPSRP

	Retirement Benefit	Same formula as Normal Retirement Benefit, except: <ul style="list-style-type: none"> ▪ final average salary is adjusted to reflect cost-of-living increases from date of disability to normal retirement age, and ▪ retirement credits continue to accrue from date of disability to normal retirement age.
<i>Postretirement Adjustments</i>		All monthly pension and annuity benefits are eligible for postretirement adjustments.
	Automatic Adjustments	Benefits are adjusted annually to reflect the increase or decrease in the Consumer Price Index (Portland area - all items) as published by the Bureau of Labor Statistics. The maximum adjustment to be made for any year is 2 percent of the previous year's benefit. Any CPI change in excess of 2 percent is accumulated for future benefit adjustments that would otherwise be less than 2 percent. No benefit will be decreased below its original amount.
	Ad Hoc Adjustments	From time to time, as granted by the Legislature, retired members and beneficiaries have received increases in their monthly benefits.
<i>Changes in Plan Provisions</i>		This is the first time the OPSRP program has been included in the actuarial section of the CAFR. As such, there are no changes in plan provisions to report.

Statistical Section

Statistical Notes

The statistical section of the Oregon Public Employees Retirement System (PERS or “the System”) CAFR presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the System’s overall financial health. The data presented was extracted from the PERS’ information systems.

Financial Trends

These schedules contain trend information to help the reader understand how the System’s financial performance and well-being have changed over time. Financial information is presented on an accrual basis. The decrease in Defined Benefit Pension member contributions is offset by the increase in the Oregon Public Service Retirement Plan’s Individual Account Program increase of member contributions. Fluctuations in employer contributions from 2000 forward are due to UAL payments.

The Schedules of Changes in Net Assets are presented on both a fiscal and calendar year basis. The System prepares its financial statements on a fiscal year basis but has its actuarial valuations performed on a calendar year basis.

The Schedule of Benefit Expense by Type provides additional detail of benefit expense for fiscal years reported in the aggregate in the Schedules of Changes in Net Assets.

The Schedule of Earnings and Distribution at December 31 shows earnings available for crediting net of administrative expenses and the rates approved by the Board for the programs it administers.

Operating Information

These schedules contain data to help understand how the information in the System financial reports relates to the services the System provides and the activities it performs.

The Schedule of Average Monthly Benefit Payments presents average monthly benefits, final average salary and number of retirees still receiving benefits, by year of retirement. The total section presents averages for all retirees still receiving benefits regardless of when their retirement benefits began. The years 1998 and 2003 show large increases in retirements due to members applying before pending policy changes and legislation became effective.

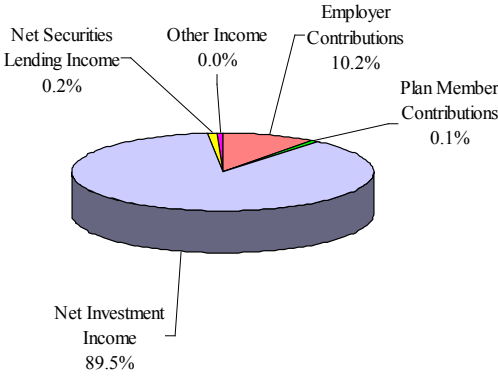
The Schedule of Benefit Recipients by Benefit Type shows retired members, by benefit level, benefit types and payment options selected.

The Schedule of Retirement System Membership shows demographics of membership over a period of time. The fiscal year schedule shows membership over the last six years. The calendar year schedule is in five-year increments going back to 1980.

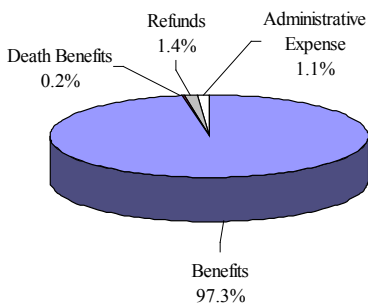
The Schedule of Principal Participating Employers shows the 10 employers with largest number of current employees, along with aggregate information for the remaining employers with current employees.

Operation information schedules do not include information from Other Postemployment Plans as the information was not available.

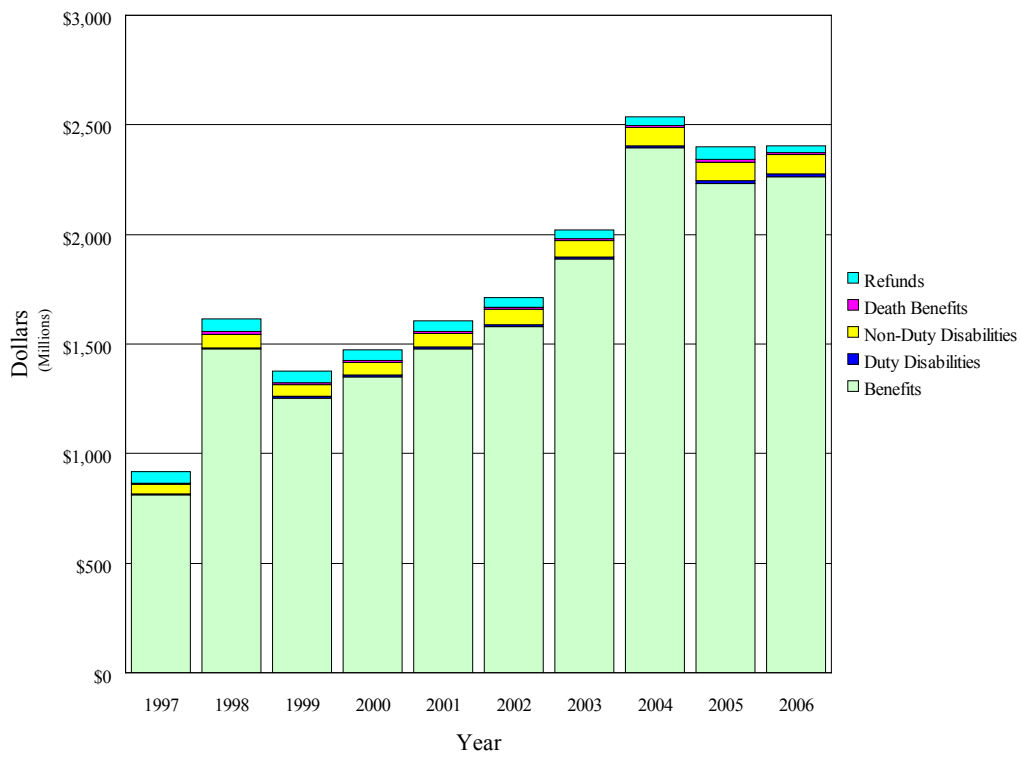
**Defined Benefit Pension Plan
Additions by Source
for the Fiscal Year Ended June 30, 2006**



**Defined Benefit Pension Plan
Deductions by Source
for the Fiscal Year Ended June 30, 2006**



Benefit Expense By Type



Changes in Plan Net Assets For the Last Ten Years Ended June 30:

Defined Benefit Pension Plan³

Fiscal Year	Member Contributions	Employer Contributions		Net Investment and Other Income	Total Additions by Source
		Dollars ¹	Percent of Annual Covered Payroll		
1997	\$ 303,723,333	\$ 433,289,222	8.83%	\$ 4,827,330,145	\$ 5,564,342,700
1998	322,378,126	455,531,987	8.86	4,861,851,105	5,639,761,218
1999	338,859,319	473,096,323	8.97	3,491,728,315	4,303,683,957
2000	348,244,045	1,022,650,598	17.53	6,680,242,927	8,051,137,570
2001	370,165,609	639,010,754	10.80	(3,465,913,890)	(2,456,737,527)
2002	391,542,211	989,078,917	15.56	(2,422,055,208)	(1,041,434,080)
2003	400,988,567	2,578,989,169	39.91	1,465,990,471	4,445,968,207
2004	185,693,017	3,166,153,073	63.39	7,182,539,171	10,534,385,261
2005	9,590,285	815,807,985	14.77	5,686,759,377	6,512,157,647
2006	9,611,666	783,921,381	12.70	6,919,097,410	7,712,630,457

Postemployment Healthcare Plan²

Fiscal Year	Member Contributions	Employer Contributions		Net Investment and Other Income	Total Additions by Source
		Dollars	Percent of Annual Covered Payroll		
1997	\$ N/A	\$ 28,489,876	0.58%	\$ 559,558	\$ 29,049,434
1998	N/A	36,425,398	0.71	(216,554)	36,208,844
1999	N/A	37,282,630	0.71	855,465	38,138,095
2000	36,870,774	41,242,733	0.71	9,845,657	87,959,164
2001	45,492,117	43,472,869	0.74	(2,524,623)	86,440,363
2002	52,273,896	41,578,731	0.65	(3,543,720)	90,308,907
2003	66,380,497	42,848,647	0.66	3,479,214	112,708,358
2004	72,894,536	43,720,234	0.88	21,520,377	138,135,147
2005	85,791,038	39,653,030	0.75	17,940,668	143,384,736
2006	85,662,507	40,352,329	0.65	24,488,355	150,503,191

Oregon Public Service Retirement Plan⁴ Individual Account Program

Fiscal Year	Member Contributions	Employer Contributions		Net Investment and Other Income	Total Additions by Source
		Dollars	Percent of Annual Covered Payroll		
2004	\$ 201,306,142	\$ N/A	N/A%	\$ 1,606,791	\$ 202,912,933
2005	362,893,934	N/A	N/A	51,969,806	414,863,740
2006	417,555,791	N/A	N/A	139,735,992	557,291,783

Deferred Compensation Plan⁵

Fiscal Year	Member Contributions	Employer Contributions		Net Investment and Other Income	Total Additions by Source
		Dollars	Percent of Annual Covered Payroll		
1998	\$ 51,781,886	\$ N/A	N/A%	\$ 62,151,320	\$ 113,933,206
1999	34,550,787	N/A	N/A	59,157,120	93,707,907
2000	41,512,686	N/A	N/A	69,840,556	111,353,242
2001	43,512,667	N/A	N/A	(61,887,870)	(18,375,203)
2002	47,472,963	N/A	N/A	(41,865,658)	5,607,305
2003	50,279,420	N/A	N/A	15,987,532	66,266,952
2004	56,479,388	N/A	N/A	79,874,001	136,353,389
2005	56,542,080	N/A	N/A	53,506,406	110,048,486
2006	59,724,202	N/A	N/A	70,672,287	130,396,489

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

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

³ House Bill 3262, enacted by the 2005 Oregon Legislature, combined the OPSRP Pension Program with the existing defined benefit plan. Activity for 2006 includes activity of the OPSRP Pension Program, and prior years have been restated to include OPSRP Pension Program activity.

Changes in Plan Net Assets
For the Last Ten Years Ended June 30: (continued)

	Benefits⁶	Administrative Expenses	Refunds	Total Deductions by Type	Changes In Plan Net Assets
\$	865,076,623	\$ 13,227,283	\$ 52,542,067	\$ 930,845,973	\$ 4,633,496,727
	1,556,536,964	15,183,982	56,893,468	1,628,614,414	4,011,146,804
	1,325,715,141	15,666,811	50,530,792	1,391,912,744	2,911,771,213
	1,423,192,357	18,568,579	51,726,463	1,493,487,399	6,557,650,171
	1,558,218,989	25,374,819	46,243,701	1,629,837,509	(4,086,575,036)
	1,667,133,815	17,456,752	46,086,912	1,730,677,479	(2,772,111,559)
	1,978,887,202	16,784,817	42,640,295	2,038,312,314	2,407,655,893
	2,495,222,891	26,318,257	42,193,518	2,563,734,666	7,970,650,595
	2,340,813,964	34,683,299	60,241,863	2,435,739,126	4,076,418,521
	2,371,628,570	27,582,755	33,172,837	2,432,384,162	5,280,246,295

	Benefits	Administrative Expenses	Refunds	Total Deductions by Type	Changes In Plan Net Assets
\$	21,726,518	\$ 1,449,323	\$ N/A	\$ 23,175,841	\$ 5,873,593
	22,437,919	1,422,420	N/A	23,860,339	12,348,505
	23,090,627	1,789,977	N/A	24,880,604	13,257,491
	59,448,485	2,112,148	N/A	61,560,633	26,398,531
	64,018,157	2,209,878	N/A	66,228,035	20,212,328
	74,158,532	2,225,181	N/A	76,383,713	13,925,194
	109,778,474	2,274,818	N/A	112,053,292	655,066
	107,186,600	2,378,635	N/A	109,565,235	28,569,912
	113,662,280	2,608,005	N/A	116,270,285	27,114,451
	111,654,729	3,070,373	N/A	114,725,102	35,778,089

	Benefits	Administrative Expenses	Refunds	Total Deductions by Type	Changes In Plan Net Assets
\$	N/A	\$ 1,400,300	\$ N/A	\$ 1,400,300	\$ 201,512,633
	1,234,891	5,243,347	N/A	6,478,238	408,385,502
	14,791,999	6,237,195	N/A	21,029,194	536,262,589

	Benefits	Administrative Expenses	Refunds	Total Deductions by Type	Changes In Plan Net Assets
\$	36,226,625	\$ 546,537	\$ N/A	\$ 36,773,162	\$ 77,160,044
	14,045,802	475,878	N/A	14,521,680	79,186,227
	26,484,319	607,203	N/A	27,091,522	84,261,720
	28,387,233	589,512	N/A	28,976,745	(47,351,948)
	41,149,643	685,523	N/A	41,835,166	(36,227,861)
	33,596,122	660,144	N/A	34,256,266	32,010,686
	40,377,599	759,180	N/A	41,136,779	95,216,610
	39,406,579	703,809	N/A	40,110,388	69,938,098
	40,544,067	884,438	N/A	41,428,505	88,967,984

⁴ The Oregon Public Service Retirement Plan was added to the System in January 2004.

⁵ Deferred Compensation information prior to 1998 is not available.

⁶ Benefits have been restated to exclude payments funded by allocated annuity contracts.

Changes in Plan Net Assets For the Last Ten Years Ended December 31¹:

Defined Benefit Pension Plan⁴

Calendar Year	Member Contributions	Employer Contributions		Net Investment and Other Income	Total Additions by Source
		Dollars ²	Percent of Annual Covered Payroll		
1996	\$ 296,417,998	\$ 432,112,090	8.95%	\$ 4,358,354,523	\$ 5,086,884,611
1997	291,120,161	440,001,230	8.81	4,582,430,090	5,313,551,481
1998	318,434,441	452,088,742	8.72	3,976,901,225	4,747,424,408
1999	347,053,753	981,343,197	17.70	7,455,428,861	8,783,825,811
2000	358,532,128	617,392,002	10.52	140,492,280	1,116,416,410
2001	385,221,900	715,640,552	11.52	(2,704,326,428)	(1,603,463,976)
2002	397,510,787	1,705,408,456	26.39	(3,453,139,033)	(1,350,219,790)
2003	404,989,521	3,726,733,326	58.44	8,841,448,116	12,973,170,963
2004	14,180,906	1,035,192,490	18.39	5,883,962,236	6,933,335,632
2005	8,354,073	1,165,678,216	18.51	6,045,479,892	7,219,512,181

Postemployment Healthcare Plan³

Calendar Year	Member Contributions	Employer Contributions		Net Investment and Other Income	Total Additions by Source
		Dollars	Percent of Annual Covered Payroll		
1996	\$ N/A	\$ 30,396,820	0.63%	\$ (581,094)	\$ 29,815,726
1997	N/A	32,910,294	0.66	(460,449)	32,449,845
1998	N/A	35,950,477	0.69	882,186	36,832,663
1999	N/A	39,120,067	0.71	7,073,415	46,193,482
2000	41,997,999	42,183,758	0.72	2,137,657	86,319,414
2001	46,694,469	43,083,579	0.69	(3,444,763)	86,333,285
2002	42,936,743	58,309,342	0.90	(6,967,896)	94,278,189
2003	74,112,002	42,965,257	0.67	24,699,952	141,777,211
2004	76,650,658	40,602,649	0.73	17,291,781	134,545,088
2005	95,083,219	41,657,161	0.66	21,107,397	157,847,777

Oregon Public Service Retirement Plan⁵

Individual Account Program

Calendar Year	Member Contributions	Employer Contributions		Net Investment and Other Income	Total Additions by Source
		Dollars	Percent of Annual Covered Payroll		
2003	\$ N/A	\$ N/A	N/A%	\$ N/A	\$ N/A
2004	357,062,609	N/A	N/A	31,356,902	388,419,511
2005	426,126,034	N/A	N/A	112,037,318	538,163,352

Deferred Compensation Plan⁶

Calendar Year	Member Contributions	Employer Contributions		Net Investment and Other Income	Total Additions by Source
		Dollars	Percent of Annual Covered Payroll		
1998	\$ 40,915,041	\$ N/A	N/A%	\$ 57,926,233	\$ 98,841,274
1999	40,900,068	N/A	N/A	96,754,765	137,654,833
2000	48,984,327	N/A	N/A	(18,990,331)	29,993,996
2001	42,815,469	N/A	N/A	(44,610,460)	(1,794,991)
2002	51,123,470	N/A	N/A	(50,282,443)	841,027
2003	50,217,519	N/A	N/A	99,459,493	149,677,012
2004	59,671,251	N/A	N/A	68,420,696	128,091,947
2005	56,557,468	N/A	N/A	49,783,696	106,341,164

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

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

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

⁴ House Bill 3262, enacted by the 2005 Oregon Legislature, combined the OPSRP Pension Program with the existing defined benefit plan. Activity for 2006 includes activity of the OPSRP Pension Program, and prior years have been restated to include OPSRP Pension Program activity.

**Changes in Plan Net Assets
For the Last Ten Years Ended December 31': (continued)**

	Benefits⁷	Administrative Expenses	Refunds	Total Deductions by Type	Changes In Plan Net Assets
\$	785,730,321	\$ 12,026,101	\$ 43,850,630	\$ 841,607,052	\$ 4,245,277,559
	1,275,138,266	13,377,687	56,034,638	1,344,550,591	3,969,000,890
	1,290,165,970	15,991,040	58,616,445	1,364,773,455	3,382,650,953
	1,404,568,279	17,636,439	47,338,113	1,469,542,831	7,314,282,980
	1,509,574,384	22,240,490	48,558,962	1,580,373,836	(463,957,426)
	1,626,837,851	20,934,512	42,537,159	1,690,309,522	(3,293,773,498)
	1,746,727,771	16,156,679	39,767,828	1,802,652,278	(3,152,872,068)
	2,305,913,864	23,026,963	44,485,825	2,373,426,652	10,599,744,311
	2,432,307,750	29,965,677	75,329,010	2,537,602,437	4,395,733,195
	2,372,895,822	32,264,214	42,143,663	2,447,303,699	4,772,208,482

	Benefits	Administrative Expenses	Refunds	Total Deductions by Type	Changes In Plan Net Assets
\$	21,415,108	\$ 1,410,077	\$ N/A	\$ 22,825,185	\$ 6,990,541
	22,056,428	1,477,442	N/A	23,533,870	8,915,975
	22,794,955	2,110,411	N/A	24,905,366	11,927,297
	39,616,270	1,885,042	N/A	41,501,312	4,692,170
	60,920,905	2,148,202	N/A	63,069,107	23,250,307
	69,921,725	2,224,045	N/A	72,145,770	14,187,515
	90,470,569	2,292,036	N/A	92,762,605	1,515,584
	108,955,368	2,311,537	N/A	111,266,905	30,510,306
	111,979,717	2,436,300	N/A	114,416,017	20,129,071
	115,213,318	2,478,743	N/A	117,692,061	40,155,716

	Benefits	Administrative Expenses	Refunds	Total Deductions by Type	Changes In Plan Net Assets
\$	N/A	\$ 264,574	\$ N/A	\$ 264,574	\$ (264,574)
	5,427,371	4,472,158	845,558	10,745,087	377,674,424
	619,982	4,177,338	3,062,730	7,860,050	530,303,302

	Benefits	Administrative Expenses	Refunds	Total Deductions by Type	Changes In Plan Net Assets
\$	22,421,987	\$ 546,997	\$ N/A	\$ 22,968,984	\$ 75,872,290
	25,252,693	568,686	N/A	25,821,379	111,833,454
	34,886,565	619,774	N/A	35,506,339	(5,512,343)
	29,114,174	660,738	N/A	29,774,912	(31,569,903)
	41,926,056	691,968	N/A	42,618,024	(41,776,997)
	38,162,887	745,559	N/A	38,908,446	110,768,566
	41,080,360	748,208	N/A	41,828,568	86,263,379
	38,351,898	878,538	N/A	39,230,436	67,110,728

⁵ The Oregon Public Service Retirement Plan was added to the System in January 2004.

⁶ Deferred Compensation information prior to 1998 is not available.

⁷ Benefits have been restated to exclude payments funded by allocated annuity contracts.

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

Fiscal Year	Service Benefits ¹	Disability Benefits		Death Benefits	Refunds	Total
		Duty	Non-Duty			
1997	\$ 812,523,835	\$ 5,246,985	\$ 40,722,296	\$ 6,583,507	\$ 52,542,067	\$ 917,618,690
1998	1,475,748,935	8,424,021	61,959,497	10,404,511	56,893,468	1,613,430,432
1999	1,254,516,309	6,747,274	53,102,285	11,349,273	50,530,792	1,376,245,933
2000	1,350,313,078	7,328,142	56,328,089	9,223,048	51,726,463	1,474,918,820
2001	1,478,544,032	7,822,924	62,163,492	9,688,541	46,243,701	1,604,462,690
2002	1,578,535,743	8,496,606	69,979,830	10,121,636	46,086,912	1,713,220,727
2003	1,888,912,273	9,102,457	74,949,807	5,922,665	42,640,295	2,021,527,497
2004	2,395,783,190	10,035,722	80,793,817	8,610,162	42,193,518	2,537,416,409
2005	2,233,603,114	10,929,003	85,709,442	10,572,405	60,241,863	2,401,055,827
2006	2,264,988,154	11,371,883	89,310,558	5,957,975	33,172,837	2,404,801,407

¹ Benefits have been restated to exclude payments funded by allocated annuity contracts.

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

Calendar Year	Regular Tier One Account	Credited		Variable Account
	Earnings/(Loss) Available for Crediting	Tier One	Tier Two ²	Earnings/(Loss) Credited
1996	24.4204%	21.00%	24.42%	21.06%
1997	20.4232	18.70	20.42	28.87
1998	15.4300	14.10	13.63	21.45
1999	24.8900	11.33 ³	21.97	28.83
2000	0.6300	8.00	0.54	(3.24)
2001	(7.1700)	8.00	(6.66)	(11.19)
2002	(8.9300)	8.00	(8.93)	(21.51)
2003	23.7900	8.00 ³	22.00	34.68
2004	13.8000	8.00	13.27	13.00
2005	13.7400	8.00	18.31	8.29

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

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

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

Schedule of Average Benefit Payments

Retirement Effective Dates	Years Credited Service								Total	
	July 1, 1996 to June 30, 2006		0 - 5	6 - 10	11 - 15	16 - 20	21 - 25	26 - 30		31+
	1997 Average Monthly Benefit	\$ 226.67	\$ 480.72	\$ 953.29	\$1,456.45	\$2,306.80	\$3,170.96	\$3,620.70		\$1,866.15
Final Average Salary	\$1,875.27	\$2,278.24	\$2,717.98	\$3,069.61	\$3,725.13	\$4,424.87	\$4,579.95	\$3,359.36		
Number of Active Retirees	411	457	432	651	707	772	370	3,800		
1998 Average Monthly Benefit	\$ 273.44	\$ 615.59	\$1,074.58	\$1,655.73	\$2,583.53	\$3,581.51	\$4,238.33	\$2,351.62		
Final Average Salary	\$2,048.26	\$2,389.01	\$2,674.53	\$3,204.74	\$3,888.10	\$4,563.38	\$4,607.85	\$3,627.60		
Number of Active Retirees	483	817	891	1,508	1,588	2,060	905	8,252		
1999 Average Monthly Benefit	\$ 318.15	\$ 684.52	\$1,225.39	\$1,824.07	\$2,788.50	\$3,821.00	\$4,442.51	\$2,387.65		
Final Average Salary	\$2,242.31	\$2,484.95	\$2,859.03	\$3,398.32	\$4,019.85	\$4,618.58	\$4,732.21	\$3,656.43		
Number of Active Retirees	393	587	716	911	931	1,324	432	5,294		
2000 Average Monthly Benefit	\$ 275.07	\$ 708.73	\$1,139.90	\$1,827.77	\$2,774.70	\$3,836.18	\$4,519.97	\$2,198.65		
Final Average Salary	\$2,165.26	\$2,544.70	\$2,954.86	\$3,440.68	\$4,120.30	\$4,935.88	\$5,149.77	\$3,664.75		
Number of Active Retirees	434	582	557	641	715	943	247	4,119		
2001 Average Monthly Benefit	\$ 340.90	\$ 649.67	\$1,164.99	\$1,791.60	\$2,728.55	\$3,794.60	\$4,185.07	\$2,126.16		
Final Average Salary	\$2,417.27	\$2,638.64	\$3,076.86	\$3,523.41	\$4,157.37	\$4,876.94	\$4,815.18	\$3,706.97		
Number of Active Retirees	513	545	607	654	756	938	244	4,257		
2002 Average Monthly Benefit	\$ 483.72	\$ 793.25	\$1,168.11	\$1,855.44	\$2,704.80	\$3,965.68	\$4,580.61	\$2,453.67		
Final Average Salary	\$2,645.36	\$2,724.64	\$3,172.56	\$3,746.55	\$4,240.47	\$4,989.37	\$5,313.75	\$4,014.34		
Number of Active Retirees	336	575	720	700	1,038	1,257	376	5,002		
2003 Average Monthly Benefit	\$ 727.05	\$ 973.58	\$1,305.51	\$1,873.14	\$2,773.23	\$4,040.24	\$4,976.52	\$2,682.38		
Final Average Salary	\$2,686.08	\$2,773.92	\$3,338.55	\$3,840.06	\$4,426.62	\$5,178.23	\$5,625.96	\$4,260.31		
Number of Active Retirees	590	1,174	1,583	1,822	2,535	2,941	1,129	11,774		
2004 Average Monthly Benefit	\$ 833.36	\$ 830.99	\$1,168.68	\$1,710.88	\$2,591.30	\$3,773.16	\$4,383.86	\$2,356.50		
Final Average Salary	\$2,554.51	\$2,759.48	\$3,259.41	\$3,867.52	\$4,326.52	\$5,081.30	\$5,469.17	\$4,099.25		
Number of Active Retirees	299	610	845	962	1,149	1,464	329	5,658		
2005 Average Monthly Benefit	\$ 681.14	\$ 808.25	\$1,186.93	\$1,686.99	\$2,531.08	\$3,665.73	\$4,027.55	\$2,134.17		
Final Average Salary	\$2,567.21	\$3,056.53	\$3,409.69	\$3,895.87	\$4,535.31	\$5,124.47	\$5,354.97	\$4,090.50		
Number of Active Retirees	246	474	535	552	535	855	115	3,312		
2006 Average Monthly Benefit	\$ 662.10	\$ 769.21	\$1,121.40	\$1,649.55	\$2,508.61	\$3,644.29	\$3,954.42	\$2,137.64		
Final Average Salary	\$2,727.09	\$3,112.11	\$3,807.75	\$4,025.51	\$4,494.17	\$5,220.93	\$5,349.87	\$4,266.39		
Number of Active Retirees	179	382	471	528	491	743	122	2,916		
Total Average Monthly Benefit	\$ 277.50	\$533.55	\$904.97	\$1,424.45	\$2,225.15	\$3,282.43	\$3,528.62	\$1,874.29		
Final Average Salary	\$2,106.16	\$2,405.45	\$2,793.41	\$3,259.63	\$3,872.40	\$4,613.24	\$4,593.24	\$3,573.14		
Number of Active Retirees	8,558	12,756	14,578	16,745	17,883	20,823	10,176	101,519		

Schedule of Benefit Recipients by Benefit Type
For the Year Ended June 30, 2006

Monthly Benefit Amount	Number of Retirees	Type of Retirement*					Refund Annuity	Annuity Options**				Lump Sum Options**		
		1	2	3	4	5		1	2	3	4	1	2	3
\$ 1 - 100	4,770	4,021	2	0	735	12	674	603	555	137	63	1,785	838	115
101 - 200	4,956	3,958	32	14	898	54	831	936	795	325	114	1,087	663	205
201 - 300	4,886	3,979	38	53	770	46	939	1,141	958	355	157	760	431	145
301 - 400	4,508	3,641	60	93	656	58	880	1,189	903	383	123	573	346	111
401 - 500	4,117	3,296	64	137	554	66	804	1,174	838	361	127	437	276	100
501 - 600	3,891	3,136	33	140	516	66	774	1,086	832	366	136	374	247	76
601 - 700	3,689	3,037	26	145	427	54	678	1,090	843	413	106	304	182	73
701 - 800	3,412	2,813	20	187	332	60	677	983	771	415	97	250	174	45
801 - 900	3,231	2,654	16	186	319	56	595	937	768	374	83	247	161	66
901 - 1000	3,025	2,494	22	163	289	57	515	866	737	412	80	211	144	60
1001-1500	12,889	10,752	76	774	1,091	196	2,195	3,678	3,290	1,656	386	785	672	227
1501-2000	10,014	8,543	90	589	647	145	1,569	2,733	2,693	1,311	300	614	625	169
Over 2000	38,131	35,645	160	1,057	1,089	180	4,311	10,079	13,805	6,344	1,003	955	1,284	350
Totals	101,519	87,969	639	3,538	8,323	1,050	15,442	26,495	27,788	12,852	2,775	8,382	6,043	1,742

***Type of Retirement**

- 1 - Normal
- 2 - Duty Disability
- 3 - Non-Duty Disability
- 4 - Survivor Payment
- 5 - Alternative Payee

****Annuity and Lump-Sum Options**

- 1 - No benefit for beneficiary.
- 2 - Beneficiary receives same monthly benefit for life.
- 3 - Beneficiary receives half the monthly benefit for life.
- 4 - 15-year certain.

**Retirement System Membership
at December 31:**

	1980	1985	1990	1995	2000	2005
State Agencies	37,935	37,824	46,187	45,068	42,434	38,076
School Districts	46,150	47,590	48,144	55,734	63,133	56,756
Political Subdivisions	23,728	26,238	33,177	40,635	53,291	50,085
Inactive Members	14,128	15,920	23,225	32,033	44,830	47,289
Total Non-Retired	121,941	127,572	150,733	173,470	203,688	192,206
Retired Members and Beneficiaries	32,832	46,181	55,540	64,796	82,355	101,213
Total Membership	154,773	173,753	206,273	238,266	286,043	293,419
Administrative Expense	\$ 1,949,677	\$ 2,905,072	\$ 8,901,091	\$ 13,500,677	\$ 24,358,550	\$ 40,056,600
Pension Roll (one month)	\$ 7,474,402	\$ 18,083,614	\$ 33,175,888	\$ 58,457,531	\$ 122,467,087	\$ 202,633,214

**Retirement System Membership
at June 30:**

	2001	2002	2003	2004	2005	2006
State Agencies	43,212	43,947	42,263	41,818	39,588	36,817
School Districts	65,962	67,124	63,132	62,804	58,566	55,493
Political Subdivisions	54,749	55,991	54,374	56,186	51,768	48,442
Inactive Members	46,460	48,725	53,815	48,627	48,017	46,952
Total Non-Retired	210,383	215,787	213,584	209,435	197,939	187,704
Retired Members and Beneficiaries	83,223	86,082	91,526	98,686	100,124	101,519
Total Membership	293,606	301,869	305,110	308,121	298,063	289,223
Administrative Expense	\$ 27,584,697	\$ 19,681,933	\$ 19,059,635	\$ 30,097,192	\$ 42,534,651	\$ 36,890,323
Pension Roll (one month)	\$ 126,469,160	\$ 135,201,238	\$ 189,744,852	\$ 207,501,846	\$ 184,518,138	\$ 205,232,050

**Schedule of Principal Participating Employers
Current Fiscal Year 2006**

	2006	
	Number of Current Employees	Percent of Total System
State of Oregon	37,973	24.23%
Oregon Health & Science University	4,988	3.18
Portland Public Schools	4,984	3.18
Multnomah County	4,047	2.58
Salem-Keizer Public Schools	3,948	2.52
City of Portland	3,509	2.24
Beaverton School District	3,488	2.23
Portland Community College	2,849	1.82
Hillsboro School District #1J	1,974	1.26
Eugene School District 4J	1,864	1.19
All Others*	87,074	55.57
Totals	156,698	100.00%

Information is not available to display principal participating employers' data from nine years ago.

* In 2006 "All Others" consisted of:

Counties	12,381
Municipalities	11,410
School Districts	49,710
Community Colleges	6,635
Other	6,938
	<u>87,074</u>

Schedule of Participating Employers (881)**State (118)**

Appraiser Certification and Licensure Board
 Board of Accountancy
 Board of Architect Examiners
 Board of Chiropractic Examiners
 Board of Engineering Examiners
 Board of Geologists
 Board of Investigators
 Board of Medical Examiners
 Board of Optometry
 Board of Psychologist Examiners
 Bureau of Labor and Industries
 Chancellor's Office
 Commission on Judicial Fitness
 Construction Contractors Board
 Department of Administrative Services
 Department of Agriculture
 Department of Aviation
 Department of Community Colleges and Work Force Development
 Department of Consumer and Business Services
 Department of Corrections
 Department of Education
 Department of Energy
 Department of Environmental Quality
 Department of Human Resources
 Department of Justice
 Department of Land Conservation and Development
 Department of Military — Federal Employees
 Department of Revenue
 Department of State Police
 Department of Transportation
 Department of Veterans' Affairs
 District Attorneys Department
 Division of State Lands
 Eastern Oregon University
 Economic Development Department
 Employment Department
 Employment Relations Board
 Forestry Department
 Geology and Mineral Industries
 Government Standards and Practices Commission
 Health Related Licensing Boards
 Indian Services Commission
 Industries for the Blind
 Insurance Pool Governing Board
 Judges PERS
 Judicial Department
 Land Use Board of Appeals
 Landscape Architects Board
 Landscape Contractors Advisory Board
 Legislative Administration Committee
 Legislative Assembly
 Legislative Committees
 Legislative Fiscal Office
 Long Term Care Ombudsman
 Military Department
 Office of the Governor

Office of Legislative Counsel
 Office of the State Treasurer
 Oregon Advocacy Commission Office
 Oregon Board of Licensed Professional Counselors and Therapists
 Oregon Beef Council
 Oregon Board of Dentistry
 Oregon Board of Massage Therapists
 Oregon Commission for the Blind
 Oregon Commission on Children and Families
 Oregon Corrections Enterprises
 Oregon Criminal Justice Commission
 Oregon Dairy Products Commission
 Oregon Department of Fish and Wildlife
 Oregon Dungeness Crab Commission
 Oregon Film and Video
 Oregon Forest Resources Institute
 Oregon Fryer Commission
 Oregon Hazelnut Commission
 Oregon Health Licensing Office
 Oregon Hop Commission
 Oregon Housing Agency
 Oregon Institute of Technology
 Oregon Liquor Control Commission
 Oregon Patient Safety Commission
 Oregon Potato Commission
 Oregon Racing Commission
 Oregon Salmon Commission
 Oregon Student Assistance Commission
 Oregon State Bar
 Oregon State Bar Professional Liability Fund
 Oregon State Board of Nursing
 Oregon State Fair and Expo Center
 Oregon State Library
 Oregon State University
 Oregon Tourism Commission
 Oregon Trawling Commission
 Oregon Watershed Enhancement Board
 Oregon Wheat Commission
 Oregon Wine Board
 Oregon Youth Authority
 Physical Therapist Licensing Board
 Portland State University
 Psychiatric Security Review Board
 Public Defense Services Commission
 Public Employees Retirement System
 Public Safety Standards and Training
 Public Utility Commission
 Real Estate Agency
 Secretary of State
 Southern Oregon University
 State Accident Insurance Fund
 State Board of Clinical Social Workers
 State Board of Parole
 State Board of Tax Practitioners
 State Lottery Commission
 State Marine Board
 State Parks and Recreation Department
 Teacher Standards and Practices

Travel Information Council
 University of Oregon
 Water Resources Department
 Western Oregon University

Political Subdivisions (491)

Adair Village, City of
 Albany, City of
 Amity, City of
 Amity Fire District
 Applegate Valley RFPD 9
 Arch Cape Service District
 Ashland, City of
 Ashland Parks Commission
 Astoria, City of
 Athena Cemetery Maintenance District
 Athena, City of
 Aumsville, City of
 Aumsville RFPD
 Aurora, City of
 Aurora RFPD
 Baker, City of
 Baker County
 Baker County Library District
 Baker Valley Irrigation District
 Bandon, City of
 Banks, City of
 Banks Fire District 13
 Bay City, City of
 Beaverton, City of
 Bend, City of
 Bend Metropolitan Park and Recreation District
 Benton County
 Black Butte Ranch RFPD
 Black Butte Ranch Service District
 Boardman, City of
 Boardman RFD
 Boring RFD 59
 Brookings, City of
 Brownsville RFPD
 Burns, City of
 Burnt River Irrigation District
 Butte Falls, Town of
 Canby, City of
 Canby FPD 62
 Canby Utility Board
 Cannon Beach, City of
 Cannon Beach RFD
 Canyon City, Town of
 Canyonville, City of
 Carlton, City of
 Cascade Locks, City of
 Cave Junction, City of
 Central Oregon Coast Fire and Rescue District
 Central Oregon Intergovernmental Council
 Central Oregon Irrigation District
 Central Oregon Park and Recreation District
 Central Oregon Regional Housing Authority

Oregon Public Employees Retirement System

Central Point, City of
Charleston RFPD
Chetco Community Public Library Board
Chiloquin, City of
Chiloquin-Agency Lake RFPD
City/County Insurance Service
Clackamas County
Clackamas County Fair
Clackamas County Fire District 1
Clackamas County Vector Control District
Clackamas River Water
Clatskanie, City of
Clatskanie Library District
Clatskanie People's Utility District
Clatskanie RFPD
Clatsop County
Clatsop County 4-H and Extension Service District
Clean Water Services
Cloverdale RFPD
Coburg, City of
Coburg RFPD
Colton RFPD 70
Columbia, City of
Columbia County
Columbia County 911 Communications District
Columbia Drainage Vector Control District
Columbia Health District
Columbia River Fire and Rescue
Columbia River PUD
Community Services Consortium
Condon, City of
Coos Bay, City of
Coos County
Coos County Airport District
Coquille, City of
Corbett Water District
Cornelius, City of
Corvallis, City of
Cottage Grove, City of
Crescent RFPD
Creswell, City of
Crook County
Crook County RFPD 1
Crooked River Ranch RFPD
Crystal Springs Water District
Culver, City of
Curry County
Curry Public Library District
Dallas, City of
Dayton, City of
Depoe Bay, City of
Depoe Bay RFPD
Deschutes County
Deschutes County RFPD 2
Deschutes Public Library District
Deschutes Valley Water District
Dexter RFPD
Douglas County
Douglas County RFPD
Douglas County Soil and Water

Drain, City of
Dufur, City of
Dundee, City of
Dunes City, City of
Durham, City of
Eagle Point, City of
East Fork Irrigation District
East Umatilla County RFPD
Echo, City of
Elgin, City of
Elkton, City of
Enterprise, City of
Estacada, City of
Estacada Cemetery Maintenance District
Estacada RFD 69
Eugene, City of
Eugene Water and Electric Board
Fairview, City of
Fairview Water District
Falls City, City of
Farmers Irrigation District
Fern Ridge Community Library
Florence, City of
Fossil, City of
Garibaldi, City of
Gaston, City of
Gaston RFPD
Gearhart, City of
Gervais, City of
Gilliam County
Gladstone, City of
Glide RFPD
Gold Beach, City of
Gold Hill, City of
Goshen RFPD
Grant County
Grants Pass, City of
Grants Pass Irrigation District
Greater St. Helens Parks and Recreation
Green Sanitary District
Gresham, City of
Halsey, City of
Halsey-Shedd RFPD
Happy Valley, City of
Harbor Water PUD
Harney County
Harney District Hospital
Harrisburg, City of
Harrisburg RFPD
Helix, City of
Heppner, City of
Hermiston, City of
Hermiston RFPD
High Desert Park and Recreation District
Hillsboro, City of
Hines, City of
Hood River, City of
Hood River County
Hoodland RFD 74
Horsefly Irrigation District
Housing Authority of Clackamas County

Housing Authority of Jackson County
Housing Authority of North Bend City
Housing Authority of Portland
Hubbard, City of
Hubbard RFPD
Huntington, City of
Ice Fountain Water District
Illinois Valley RFD
Imbler, City of
Imbler RFPD
Independence, City of
Irrigon, City of
Jackson County
Jackson County Fire District 3
Jackson County Fire District 4
Jackson County Fire District 5
Jackson County Fire District 6
Jackson County Vector Control District
Jacksonville, City of
Jefferson Behavioral Health
Jefferson, City of
Jefferson County
Jefferson County EMS District
Jefferson County Library District
Jefferson County RFPD 1
Jefferson County SWCD
Jefferson RFPD
Job Council
John Day, City of
Jordan Valley, City of
Joseph, City of
Josephine County
Junction City RFPD
Junction City, City of
Keizer RFPD
Keizer, City of
Keno RFPD
King City, City of
Klamath County
Klamath County Emergency Communications District
Klamath County Fire District 1
Klamath Falls, City of
Klamath Housing Authority
Klamath Vector Control District
Knappa Svensen Burnside RFPD
La Grande, City of
La Pine RFPD
Lafayette, City of
Lake County
Lake County 4-H and Extension Service
Lake County Library
Lake Oswego, City of
Lakeside, City of
Lakeside Water District
Lakeview, Town of
Lane Council of Governments
Lane County
Lane County Fair Board
Lane County Fire District 1
Lane Rural Fire Rescue
League of Oregon Cities
Lebanon Aquatic District
Lebanon, City of

Lebanon Fire District
 Lincoln City, City of
 Lincoln County
 Lincoln County Communications Agency
 Linn County
 Linn-Benton Housing Authority
 Local Government Personnel Institute
 Lowell, City of
 Lowell RFPD
 Lyons, City of
 Lyons RFPD
 Madras, City of
 Malheur County
 Malin, City of
 Manzanita, City of
 Mapleton Water District
 Marion County
 Marion County Fire District 1
 Marion County Housing Authority
 Maupin, City of
 McKenzie RFPD
 McMinnville, City of
 McMinnville Water and Light Department
 Medford, City of
 Medford Irrigation District
 Medford Water Commission
 Merrill, City of
 Metolius, City of
 METRO
 Metro Area Communication Commission
 Mid-Columbia Center for Living
 Mill City, City of
 Mill City RFPD
 Millersburg, City of
 Millington RFPD
 Milton-Freewater, City of
 Milton-Freewater Cemetery Maintenance District 3
 Milwaukie, City of
 Mist-Birkenfeld RFPD
 Mohawk Valley RFD
 Molalla, City of
 Molalla RFPD 73
 Monmouth, City of
 Monroe, City of
 Monroe RFPD
 Moro, City of
 Mt. Angel, City of
 Mt. Angel Fire District
 Mt. Vernon, City of
 Mulino Water District 23
 Multnomah County
 Multnomah County Drainage District 1
 Multnomah County RFPD 14
 Myrtle Creek, City of
 Myrtle Point, City of
 Nehalem Bay Health District
 Nehalem Bay Wastewater Agency
 Nesika Beach - Ophir Water District
 Neskowin Regional Sanitary Authority
 Neskowin Regional Water District
 Nestucca RFPD
 Netarts-Oceanside RFPD
 Netarts-Oceanside Sanitary District
 Netarts Water District
 Newberg, City of
 Newport, City of
 North Bend, City of
 North Clackamas County Water Commission
 North Douglas County Fire and EMS
 North Lincoln Fire & Rescue District 1
 North Marion County Communications
 North Morrow Vector Control District
 North Plains, City of
 North Powder, City of
 North Wasco County Parks & Recreation District
 Northeast Oregon Housing Authority
 Northern Oregon Corrections
 Northwest Senior and Disability Services
 Nyssa, City of
 Nyssa Road Assessment District 2
 Oak Lodge Sanitary District
 Oak Lodge Water District
 Oakland, City of
 Oakridge, City of
 Ochoco Irrigation District
 Odell RFPD
 Odell Sanitary District
 Ontario, City of
 Oregon Cascades West COG
 Oregon City, City of
 Oregon Community College Association
 Oregon Consortium, The
 Oregon Coastal Zone Management Association
 Oregon Health & Science University
 Oregon School Boards Association
 Oregon Small Schools Association
 Oregon Trail Library District
 Owyhee Irrigation District
 Parkdale RFPD
 Pendleton, City of
 Philomath, City of
 Philomath RFPD
 Phoenix, City of
 Pilot Rock, City of
 Pleasant Hill RFPD
 Polk County
 Polk County Fire District 1
 Polk Soil and Water Conservation District
 Port of Astoria
 Port of Cascade Locks
 Port of Coos Bay
 Port of Garibaldi
 Port of Hood River
 Port of Newport
 Port of Portland
 Port of St. Helens
 Port of The Dalles
 Port of Tillamook Bay
 Port of Umatilla
 Port Orford, City of
 Port Orford Public Library
 Portland, City of
 Portland Development Commission
 Powers, City of
 Prairie City, City of
 Prineville, City of
 Rainbow Water District
 Rainier, City of
 Rainier Cemetery District
 Redmond, City of
 Reedsport, City of
 Regional Organized Crime Narcotics Task Force
 Riddle, City of
 Rockaway Beach, City of
 Rockwood Water PUD
 Rogue River, City of
 Rogue River RFPD 4-201
 Rogue River Valley Irrigation District
 Roseburg, City of
 Roseburg Urban Sanitary Authority
 Rural Road Assessment District 3
 Rural Road District 4
 Salem, City of
 Salem Economic Development Corporation
 Salem Housing Authority
 Salmon Harbor and Douglas County
 Sandy, City of
 Sandy RFPD 72
 Santa Clara RFPD
 Scappoose, City of
 Scappoose Public Library
 Scappoose RFPD
 Scio RFPD
 Seal Rock Water District
 Shady Cove, City of
 Sheridan, City of
 Sheridan Fire District
 Sherman County
 Sherwood, City of
 Silver Falls Library District
 Silverton, City of
 Silverton RFPD 2
 Sisters and Camp Sherman RFPD
 Sisters, City of
 Siuslaw Library District
 Siuslaw RFPD 1
 South Fork Water Board
 South Lane County Fire and Rescue
 South Suburban Sanitary District
 Southwest Polk County RFPD
 Southwest Lincoln County Water District
 Springfield, City of
 Springfield Utility District
 St. Helens, City of
 Stanfield, City of
 Stanfield Fire District 7-402
 Stayton, City of
 Stayton RFPD
 Sublimity RFPD
 Suburban East Salem Water District
 Sunrise Water Authority
 Sunriver Service District

Oregon Public Employees Retirement System

Sutherlin, City of
Sutherlin Water District
Sweet Home, City of
Sweet Home Cemetery Maintenance District
Sweet Home Fire and Ambulance District
Talent, City of
Talent Irrigation District
Tangent RFPD
Tigard, City of
Tillamook, City of
Tillamook County Emergency Communications District
Tillamook County Soil and Water
Tillamook Fire District
Tillamook People's Utility District
Toledo, City of
Tri-City Water and Sanitary Authority
Tri-County Cooperative Weed Management Area
Tri-County Health Care Safety Net Enterprise
Troutdale, City of
Tualatin, City of
Tualatin Valley Fire and Rescue
Tualatin Valley Irrigation District
Tualatin Valley Water District
Turner, City of
Turner RFPD
Umatilla, City of
Umatilla County
Umatilla County Soil and Water District
Umatilla County Special Library District
Umatilla RFPD 7-405
Umpqua Regional Council of Govt.
Union, City of
Vale, City of
Valley View Cemetery Maintenance District
Veneta, City of
Vernonia, City of
Vernonia RFPD
Waldport, City of
Wallowa, City of
Wallowa County
Warrenton, City of
Wasco County
Wasco County Soil and Water Conservation District
Washington County
Washington County Consolidated Communications Agency
Washington County Fire District 2
West Extension Irrigation District
West Linn, City of
West Side RFPD
West Slope Water District
West Valley Fire District
West Valley Housing Authority
Western Lane Ambulance District
Westfir, City of
Weston, City of

Weston Cemetery District
Wheeler, City of
Wickiup Water District
Willamina, City of
Wilsonville, City of
Winchester Bay Sanitary District
Winston, City of
Winston-Dillard RFPD 5
Winston-Dillard Water District
Wood Village, City of
Woodburn, City of
Woodburn RFPD
Yachats, City of
Yachats RFPD
Yamhill, City of
Yamhill Communications Agency
Yamhill County
Yoncolla, City of

Community Colleges (17)

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

School Districts (255)

Armadillo Technical Institute
Baker CSD 5J
Baker CSD 16J
Baker CSD 30 J
Baker CSD 61
Beaverton School District 45J
Benton CSD 1J
Benton CSD 7J
Benton CSD 17J
Benton CSD 509J
Cascade Heights Public Charter School
Central Curry School District 1
Challenge 2000, Incorporated
City View Charter School
Clackamas County ESD
Clackamas CSD 3
Clackamas CSD 7J
Clackamas CSD 12
Clackamas CSD 35
Clackamas CSD 46
Clackamas CSD 53
Clackamas CSD 62
Clackamas CSD 86
Clackamas CSD 108
Clackamas CSD 115

Clatskanie School District 6J
Clatsop CSD 1C
Clatsop CSD 4
Clatsop CSD 8
Clatsop CSD 10
Clatsop CSD 30
Columbia CSD 13
Columbia CSD 47 J
Columbia CSD 502
Condon Admin. School District 25J
Coos CSD 8
Coos CSD 9
Coos CSD 13
Coos CSD 31
Coos CSD 41
Coos CSD 54
Crook CSD
Curry CSD 2CJ
Curry CSD 17
Deschutes CSD 1
Deschutes CSD 2J
Deschutes CSD 6
Deschutes CSD 15C
Douglas CSD 1
Douglas CSD 4
Douglas CSD 12
Douglas CSD 15
Douglas CSD 19
Douglas CSD 21
Douglas CSD 22
Douglas CSD 32
Douglas CSD 34
Douglas CSD 70
Douglas CSD 77
Douglas CSD 105
Douglas CSD 116
Douglas CSD 130
Douglas County ESD
Eddyville Charter School
Fossil School District 21J
Four Rivers Community School
Garden Laboratory Charter School
Gilliam CSD 3
Grant School District 3
Grant County ESD
Grant CSD 4
Grant CSD 8
Grant CSD 16J
Grant CSD 17
Greater Albany Public Schools 8J
Harney ESD Region 17
Harney CSD 3
Harney CSD 4
Harney CSD 5
Harney CSD 7
Harney CSD 10
Harney CSD 13
Harney CSD 16
Harney CSD 28
Harney CSD 33
Harney CSD UH1J
High Desert Education Service District
Hillsboro School District 1J
Hood River CSD 1
Howards Street Charter School, Inc.

Ione School District	Marion CSD 14CJ	Umatilla CSD 5
Jackson CSD 4	Marion CSD 15	Umatilla CSD 6R
Jackson CSD 5	Marion CSD 24J	Umatilla CSD 7
Jackson CSD 6	Marion CSD 45	Umatilla CSD 8R
Jackson CSD 9	Marion CSD 91	Umatilla CSD 16R
Jackson CSD 35	Marion CSD 103C	Umatilla CSD 29RJ
Jackson CSD 59	Mastery Learning Institute	Umatilla CSD 61R
Jackson CSD 91	Morrison Charter School	Umatilla CSD 80R
Jackson CSD 94	Morrow CSD	Union-Baker ESD
Jackson CSD 549C	Mosier Community School	Union CSD 1
Jefferson County ESD	Multisensory Institute Teaching	Union CSD 5
Jefferson CSD 4	Children	Union CSD 11
Jefferson CSD 8	Multisensory Learning Academy	Union CSD 15
Jefferson CSD 41	Multnomah County ESD	Union CSD 23
Jefferson CSD 509J	Multnomah CSD 1	Upper Chetco Charter School
Jordan Valley School District 3	Multnomah CSD 3	Wallowa County Region 18 ESD
Josephine County UJ School District	Multnomah CSD 7	Wallowa CSD 6
Josephine CSD 7	Multnomah CSD 10	Wallowa CSD 12
Kings Valley Charter School	Multnomah CSD 28-302 JT	Wallowa CSD 21J
Klamath CSD CU	Multnomah CSD 39	Wallowa CSD 54
Klamath Falls City Schools	Multnomah CSD 51JT	Wasco CSD 29
Lake County ESD	Multnomah CSD R-40	Washington CSD 15
Lake CSD 7	Nixyaawii Community School	Washington CSD 13
Lake CSD 11C	North Central ESD	Washington CSD 23J
Lake CSD 14	North Santiam School District 29J	Washington CSD 88J
Lake CSD 18	North Powder School District	Washington CSD 511JT
Lake CSD 21	North Wasco CSD 21	West Lane Technical Learning Center
Lane County ESD	Northwest Regional ESD	Wheeler CSD 1
Lane CSD 1	Opal School	Wheeler CSD 55U
Lane CSD 4J	Oregon Connections Academy	Willamette ESD
Lane CSD 19	Oregon Virtual School of Bend-Lapine	Willamette Valley Community School
Lane CSD 28J	People Involved in Education	Yamhill CSD 1
Lane CSD 32	Polk CSD 2	Yamhill CSD 4J
Lane CSD 40	Polk CSD 13J	Yamhill CSD 8
Lane CSD 45J3	Polk CSD 21	Yamhill CSD 29JT
Lane CSD 52	Polk CSD 57	Yamhill CSD 30-44-63J
Lane CSD 66	Region 9 ESD	Yamhill CSD 40
Lane CSD 68	Ridgeline Montessori Charter School	Yamhill CSD 48J
Lane CSD 69	Rimrock Academy Charter School	
Lane CSD 71	Riverside Project High School	
Lane CSD 76	Scappoose School District 1J	
Lane CSD 79J	Self-Enhancement Inc.	
Lane CSD 90	Sheridan Japanese School Foundation	
Lane CSD 97J	Sherman CSD	
Lincoln CSD	Siletz Valley Early College Academy	
Linn CSD 9	Siletz Valley School	
Linn CSD 55	South Coast ESD Region 7	
Linn CSD 95C	South Columbia Family School	
Linn CSD 129J	South Harney School District 33	
Linn CSD 552C	South Wasco County School District 1	
Linn-Benton Lincoln ESD	Southern Oregon ESD	
Lourdes Charter School	The 21st Century Community	
Luchiamute Valley Charter School	Schoolhouse	
Malheur ESD Region 14	The Emerson School	
Malheur CSD 8C	The Lighthouse School	
Malheur CSD 12	The Village School	
Malheur CSD 26C	Three Rivers Charter School	
Malheur CSD 29	Tillamook CSD 9	
Malheur CSD 61	Tillamook CSD 56	
Malheur CSD 66	Tillamook CSD 101	
Malheur CSD 81	Trillium Charter School	
Malheur CSD 84	Umatilla County Administrative School	
Marion CSD 1	District 1R	
Marion CSD 4J	Umatilla Morrow ESD	
Marion CSD 5	Umatilla CSD 2R	

In compliance with the Americans with Disabilities Act, this document can be provided in alternate formats. To request an alternate format, please call PERS at 888-320-7377 (toll free).