MERCER

Consulting. Outsourcing. Investments.

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

July 25, 2008

December 31, 2007 Actuarial Valuation

Oregon Public Employees Retirement System

Bill Hallmark and Matt Larrabee

Contents

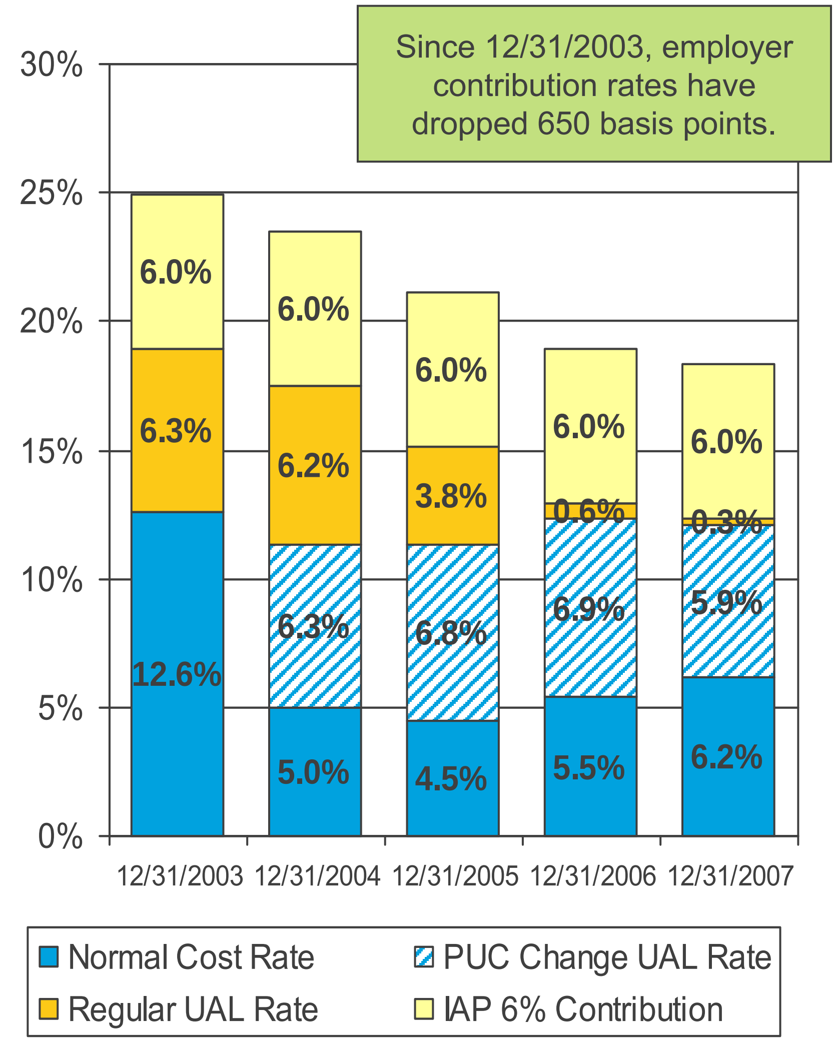
Key Findings
Overview

- **Employer contribution rates are declining**
  - Results are very similar to the 2006 valuation with average contribution rates declining 250 basis points from the rates that are effective 7/1/2007 through 6/30/2009.
  - New contribution rates calculated in this valuation will be effective July 1, 2009 through June 30, 2011
- **Including side accounts, funded status has improved from 110% to 112%**
  - Excluding side accounts, funded status improved from 96% to 98%
- **Impact of 2008 YTD Investment Returns**
  - The 2008 investment return on the regular account through June 30th is -5.17%.
  - If returns remain at -5.17% for the year, we expect funded status to decline to approximately 88%, excluding side accounts.
  - Contribution rates will not be affected by 2008 or 2009 investment returns until July 1, 2011 based on the December 31, 2009 valuation.
- **Arken and Robinson litigation**
  - We have made no adjustment to these valuation results to reflect any interpretation of Judge Kantor's rulings in the *Arken and Robinson* cases.

Key Findings

Average Contribution Rates Including Retiree Healthcare and IAP

- The average normal cost rate increased since the prior valuation primarily due to expected increases as the system gradually shifts from Money Match dominance to Full Formula dominance.
- The UAL rate for the change to the PUC method decreased slightly because contributions were first credited toward this portion of the UAL beginning 7/1/2007.
- The regular UAL rate decreased reflecting actual 2007 earnings slightly in excess of expectations.
- These rates do not reflect the impact of side accounts or pre-SLGRP liabilities or surpluses.



Key Findings

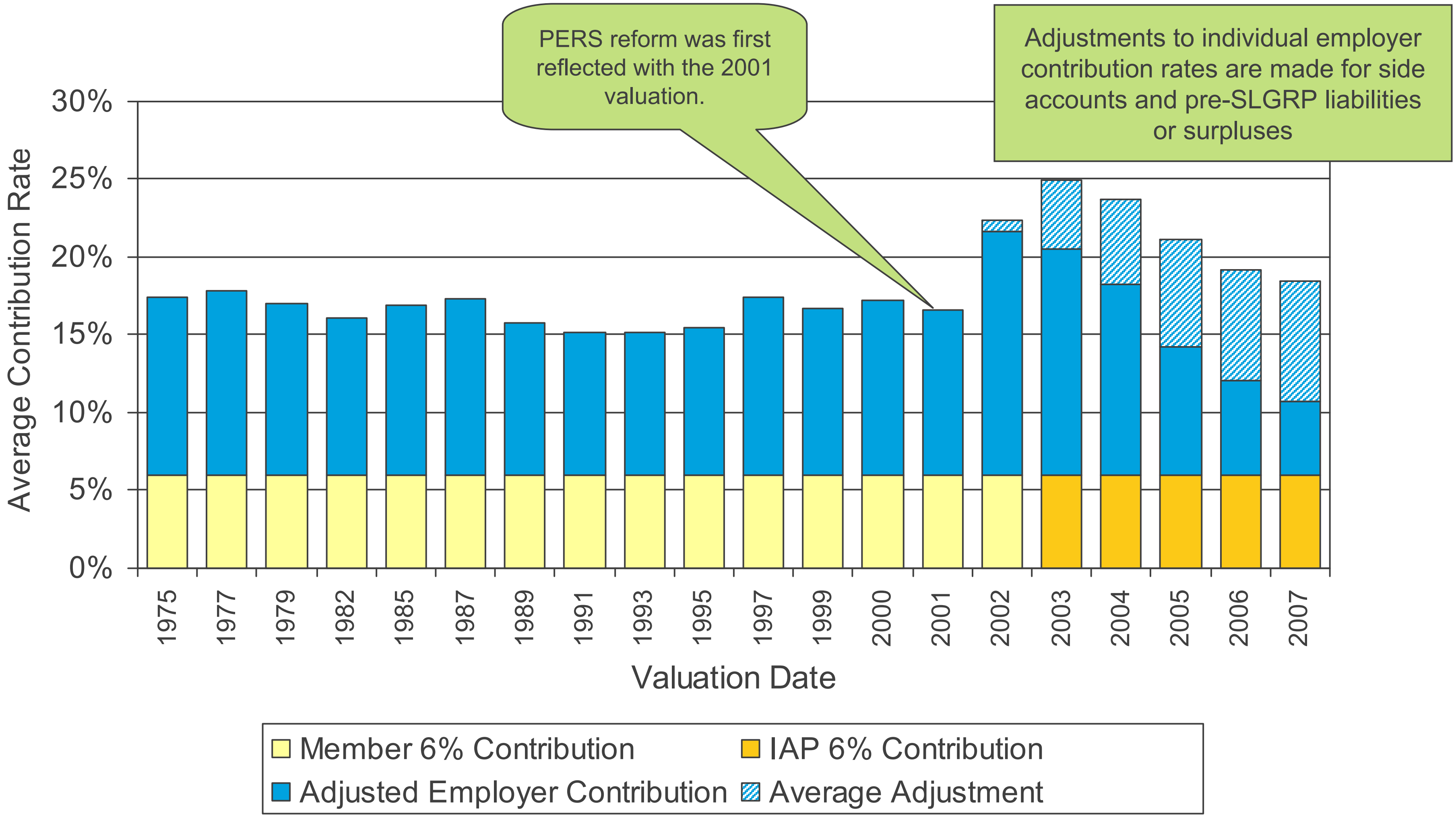
Average Contribution Rates Including RHIA/RHIPA (Excluding IAP)

Average Employer Rates	SLGRP	School Districts	Independents[1]	OPSRP General	OPSRP P&F	System-Wide
7/1/2007 Actual Rates	14.3%	17.6%	9.1%	16.3%	19.6%	14.9%
7/1/2009 Actual Rates	**11.4%**	**14.3%**	**10.7%**	**12.0%**	**14.7%**	**12.4%**
Net Change in Rates	(2.9%)	(3.3%)	1.6%[2]	(4.3%)	(4.9%)	(2.5%)
7/1/2009 Average Adjustments[3]	(7.1%)	(10.5%)	(1.1%)	(7.7%)	(7.7%)	(7.7%)
7/1/2009 Average Net Rates	**4.3%**	**3.8%**	**9.6%**	**4.3%**	**7.0%**	**4.7%**

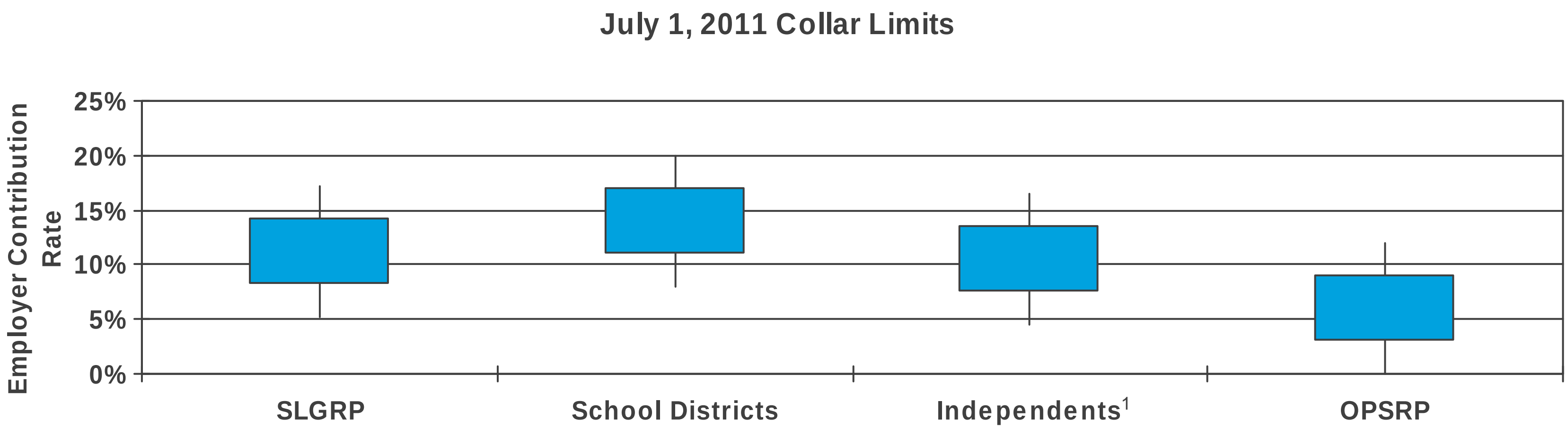
- Changes in rates can vary significantly by individual employer and to a lesser extent by pool.
  - Actual 7/1/2009 pension contribution rates range from 0% to 55% of payroll. Actual 7/1/2007 rates ranged from 0% to 68% of payroll.
  - The number of employers making no pension contribution increased from 5 to 66 as of 7/1/2009. These employers still have contributions for retiree healthcare, any pick-up of IAP contributions, and any pension obligation bond payments.
  - Average net rates above are not adjusted to reflect the portion of an adjustment that may not be used because the employer is already making a 0% pension contribution.

[1] *Independent employers, including Judiciary, are treated as a single pool for purposes of this exhibit.*
[2] *The net increase for independent employers is largely due to some well-funded independent employers joining the SLGRP.*
[3] *Adjustments are for side accounts and pre-SLGRP liabilities/(surpluses) and are assumed not to be limited when an individual employer reaches a 0.00% contribution rate.*

Key Findings
Historical Perspective on Employer and Member Contribution Rates



Key Findings
Collar Limits for Rates Effective 7/1/2011

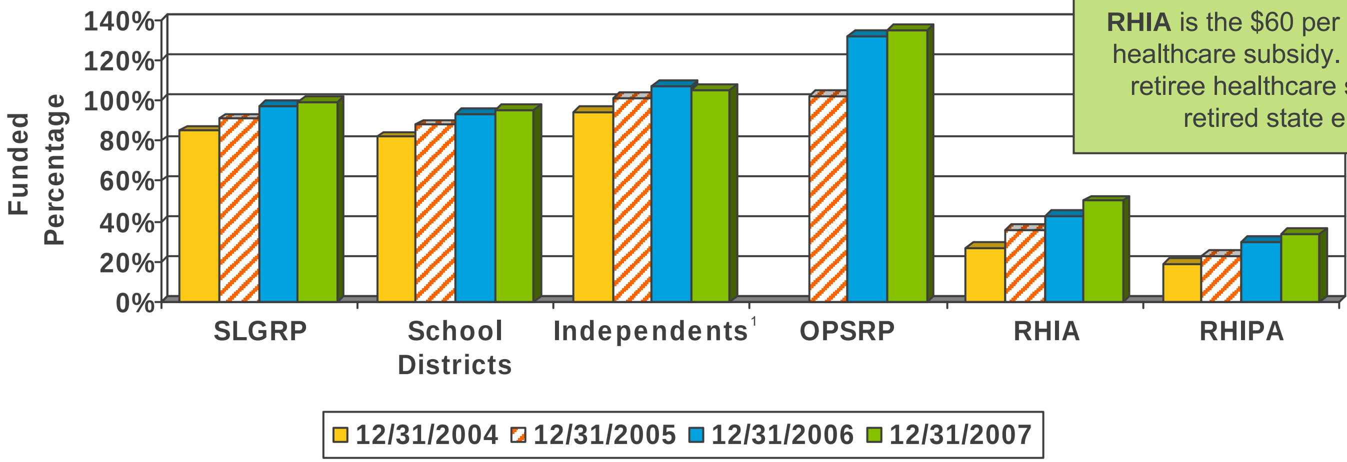


- The rate collar limits the change in employer contribution rates from one period to the next. This valuation determines the actual rates for the period from 7/1/2009 through 6/30/2011 and the collar limits for rates that will become effective 7/1/2011.
- The blue box above shows the collar limits for 7/1/2011 employer rates assuming the funded status is between 80% and 120%. The lines above and below represent the potential range if the funded status is not between 80% and 120%.

[1] *Independent employers, including Judiciary, are treated as a single pool for purposes of this exhibit.*

Key Findings

Recent Funded Status By Rate Pool



RHIA is the $60 per month post-65 retiree healthcare subsidy. **RHIPA** is the pre-65 retiree healthcare subsidy available to retired state employees only.

- Funded status for rate pools has continued to improve with the good investment returns from 2003 through 2007.
- Side accounts now account for a significant portion of assets which are not included in the graph above. Including side accounts, the pension rate pools are in surplus positions.
- RHIPA assets represent only 49 months of benefit payments. While it is a significant improvement over the 38 months last year, changes in retired State employee participation rates could dramatically hasten the use of current assets.

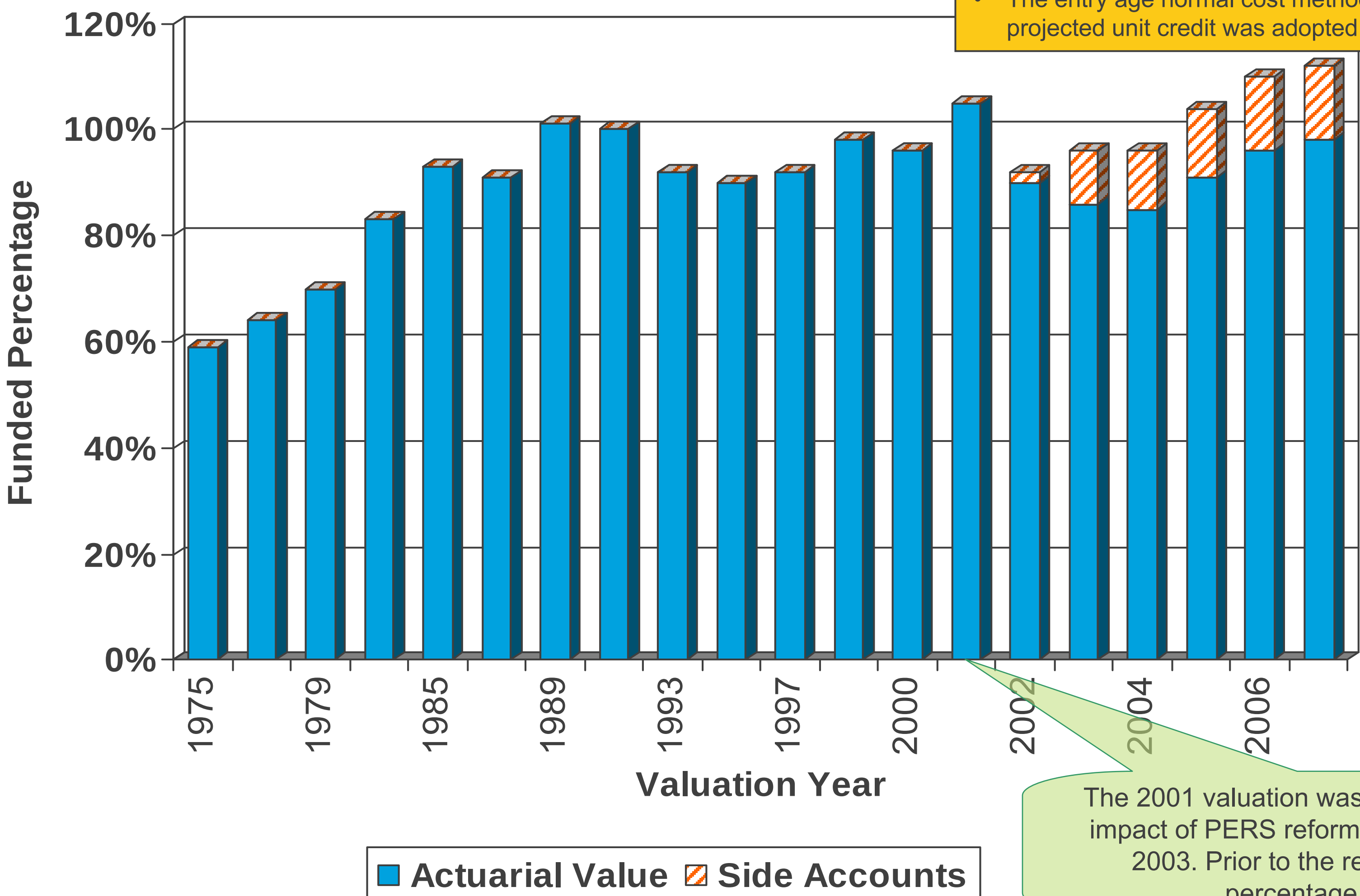
[1] *Independent employers, including Judiciary, are treated as a single pool for purposes of this exhibit.*

Key Findings

Historical Reported Pension Funded Status

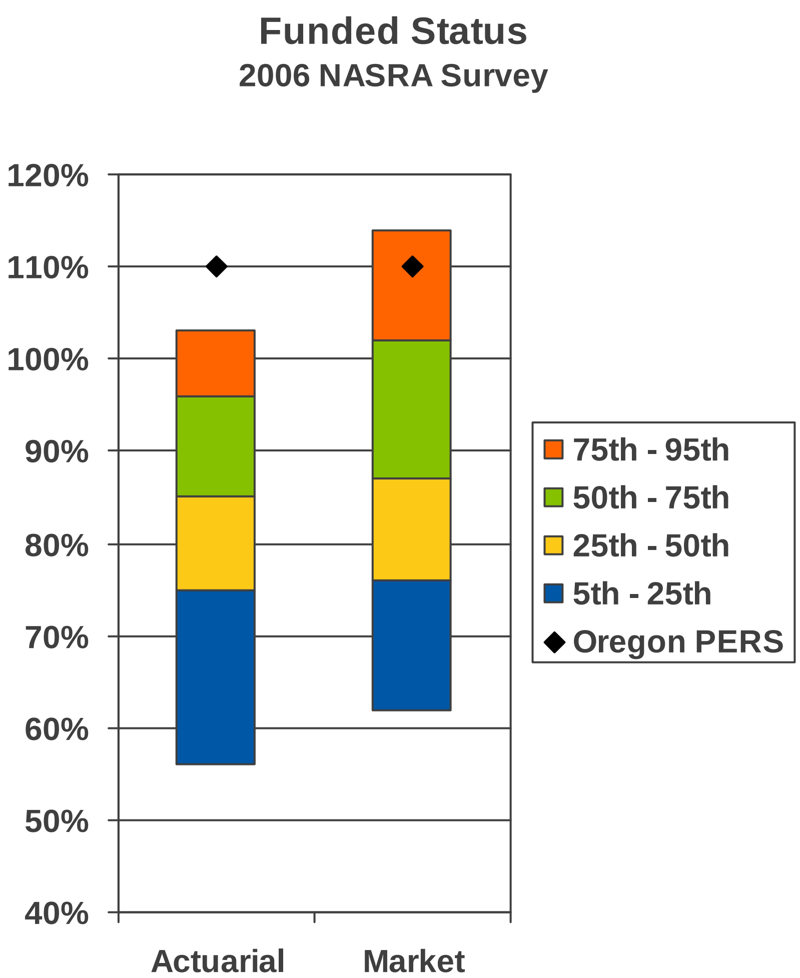
When comparing reported historical funded status, please note that there have been a number of changes including:

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



The 2001 valuation was revised to include the impact of PERS reform legislation enacted in 2003. Prior to the revision, the funded percentage was 88%.

Key Findings
Comparison of Pension Funded Status

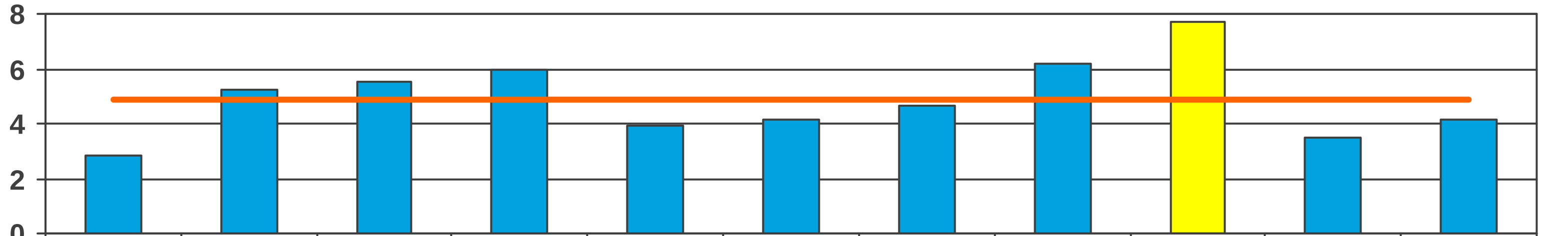


- The National Association of State Retirement Administrators (NASRA) conducts an annual survey of 110 large retirement systems in the US.
- Based on the 2006 NASRA survey, Oregon PERS is one of the most well-funded large systems in the country.
- It should be noted that there are many differences in the way systems calculate their actuarial value of assets and the actuarial accrued liability that make comparisons such as this one imperfect.
- Most of the systems report values as of June 30, while many others, including Oregon PERS, report values as of December 31.

Key Findings

Comparison of Sensitivity to Investment Returns

Actuarial Value of Assets / Payroll



	AZ	CA PERS	CA STRS	CO	ID	MT	NV	NM	OR	WA	WY
2006	2.86	5.22	5.55	5.98	3.95	4.17	4.68	6.16	7.73	3.48	4.12
Average	4.90	4.90	4.90	4.90	4.90	4.90	4.90	4.90	4.90	4.90	4.90

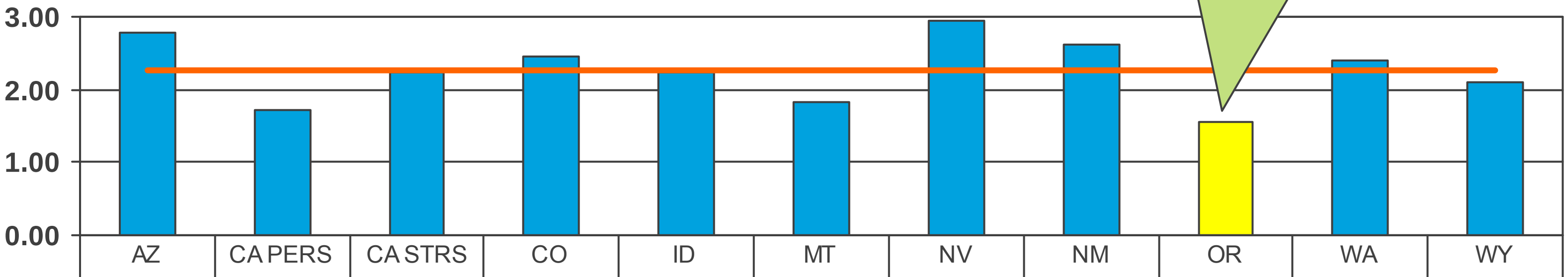
- Any variation in investment performance from the actuarial assumption is amortized as a level percentage of payroll.
- Contribution rates for plans with higher asset to payroll ratios are more sensitive to actual investment returns.
- Among these Western state systems, Oregon PERS has the highest assets to payroll ratio and, consequently, is the most sensitive to volatility in investment experience.

Note: Data above is based upon the Comprehensive Annual Financial Reports of each retirement system as published on their respective web sites. There are differences in reporting dates and other factors that may make direct comparisons imperfect.

Key Findings
Comparison of Sensitivity to Investment Returns

Among these Western state systems, Oregon PERS has the lowest active to retiree ratio and, consequently, is the most sensitive to volatility in investment experience.

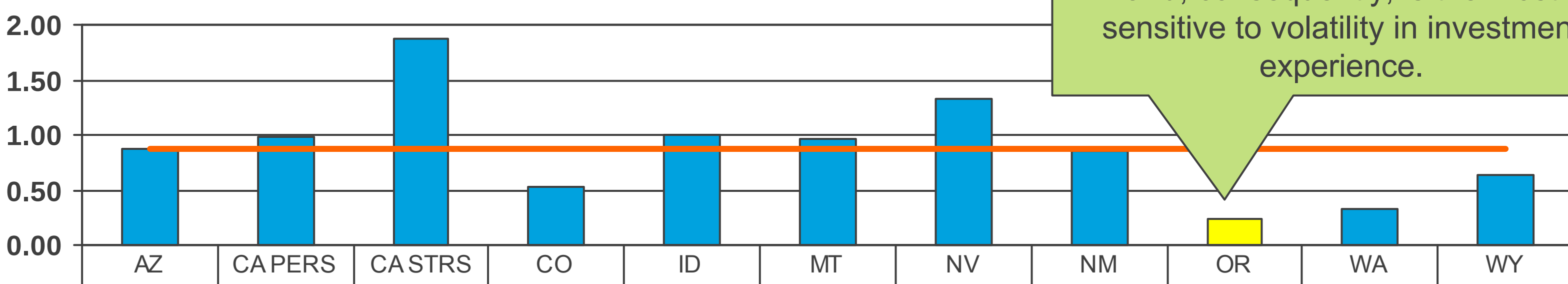
Active Members / Retirees and Beneficiaries



	AZ	CA PERS	CA STRS	CO	ID	MT	NV	NM	OR	WA	WY
2006	2.77	1.71	2.23	2.44	2.23	1.82	2.95	2.63	1.56	2.40	2.11
Average	2.26	2.26	2.26	2.26	2.26	2.26	2.26	2.26	2.26	2.26	2.26

Among these Western state systems, Oregon PERS has the lowest contribution to benefit payment ratio and, consequently, is the most sensitive to volatility in investment experience.

Contributions / Benefit Payments

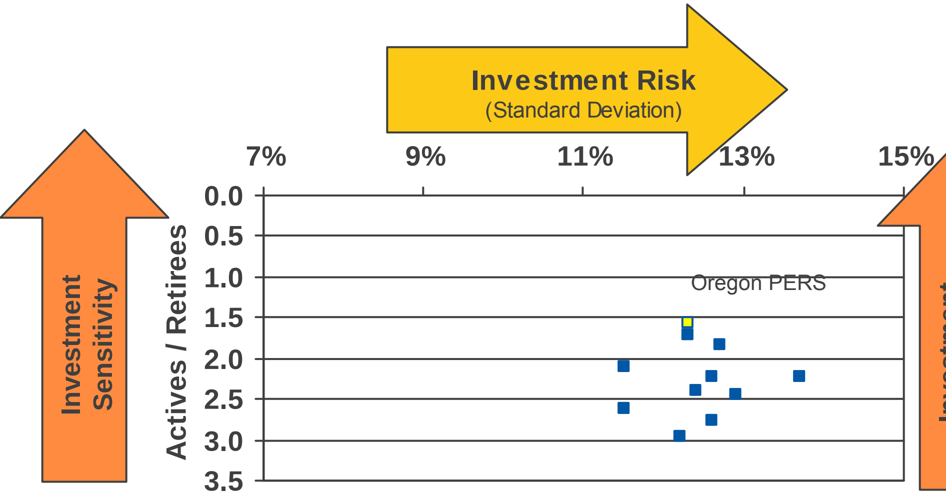


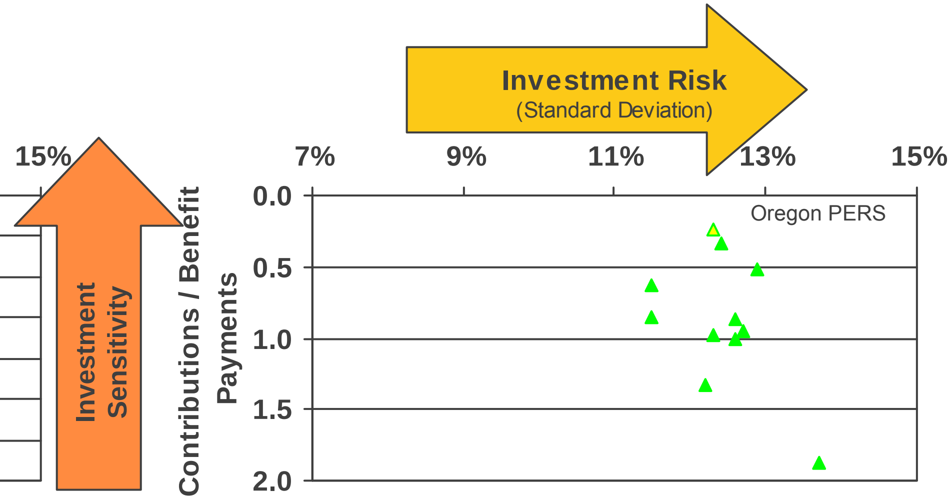
	AZ	CA PERS	CA STRS	CO	ID	MT	NV	NM	OR	WA	WY
2006	0.87	0.98	1.88	0.52	1.01	0.96	1.33	0.86	0.24	0.33	0.63
Average	0.87	0.87	0.87	0.87	0.87	0.87	0.87	0.87	0.87	0.87	0.87

Note: Data above is based upon the Comprehensive Annual Financial Reports of each retirement system as published on their respective web sites. There are differences in reporting dates and other factors that may make direct comparisons imperfect.

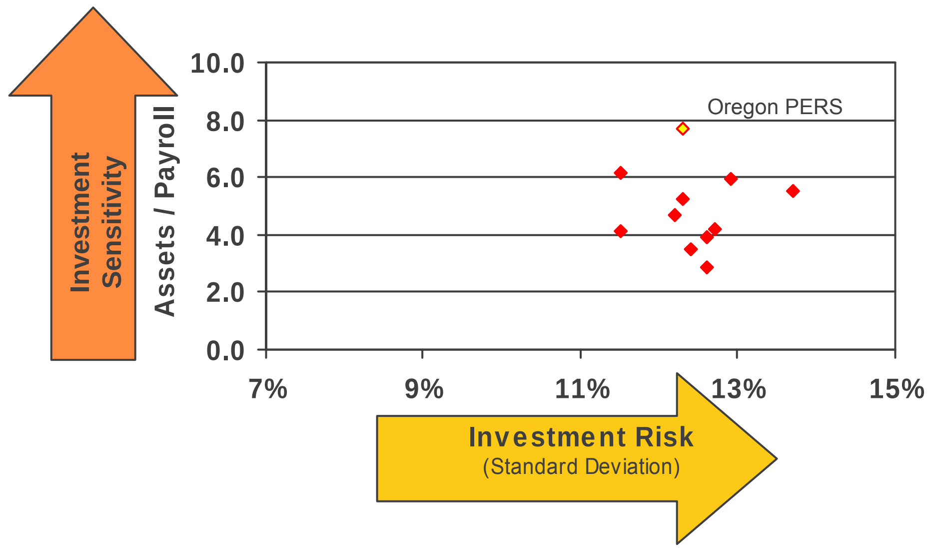
Key Findings

Sensitivity to Investment Return vs. Asset Allocation





- We might expect systems that are more sensitive to investment return would have a more conservative asset allocation, resulting in a frontier stretching from the upper left corner to the lower right corner.
- However, actual asset allocations are very similar and appear to be relatively independent of a system's sensitivity to investment return.



Note: Data above is based upon the Comprehensive Annual Financial Reports of each retirement system as published on their respective web sites. There are differences in reporting dates and other factors that may make direct comparisons imperfect. Standard deviation is based on each system's reported target asset allocation and Mercer Investment Consulting's capital market assumptions.

Key Findings
Value at Risk

The 2008 investment return through June is -5.17%. If returns remain at -5.17% for the full year, the funded percentage would decline to 88%, the UAL would increase to $6.5 billion, and advisory contribution rates (ignoring the collar) would increase over 500 basis points.

	One-Year Projection			
Percentile	One-Year Return	Funded %	UAL (billions)	Advisory Rate Change (Without Collar)
5th	-12.1%	82%	$9.6	8.0%
10th	-7.6%	86%	$7.6	6.2%
25th	-0.2%	92%	$4.2	3.2%
50th	**8.0%**	**99%**	**$0.5**	**-0.1%**
75th	16.2%	106%	$(3.3)	-3.5%
90th	23.7%	112%	$(6.7)	-6.5%
95th	28.1%	116%	$(8.7)	-8.3%

- Investment returns from 2003 through 2007 have significantly improved the funded status and reduced contribution rates of the system.
- Investment returns, particularly in the short-term, are extremely volatile.
- The table shows the probability of investment returns over a one-year time horizon and the impact they would have on the system (ignoring side accounts and the rate collar).
- Assuming the system's funded status remains between 80% and 120%, the rate collar would limit the actual change to 3% of payroll over a two year period.
- However, if the collar restricts the change in rates, it is likely that future rate changes will trend in the same direction.
- For employers with side accounts, rate changes will be even more extreme, except that rates cannot go below 0%.

Key Findings
Value at Risk

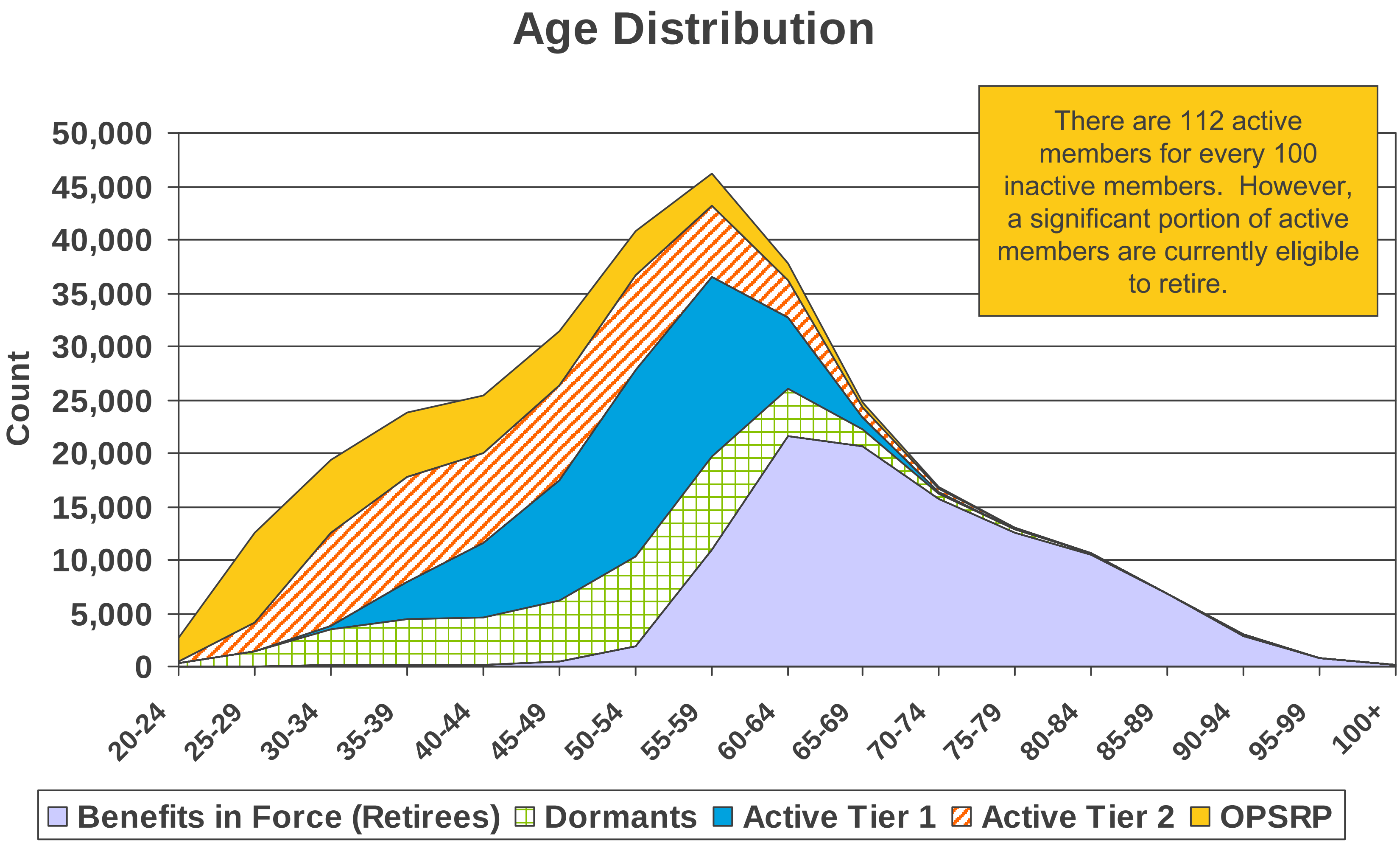
Percentile	One-Year Return	Advisory Rate Change (Without Rate Collar): Oregon PERS Assets / Pay Ratio (7.73)	Advisory Rate Change (Without Rate Collar): Average Assets / Pay Ratio (4.9)	Advisory Rate Change (Without Rate Collar): Lowest Assets / Pay Ratio (2.86)
5th	-12.1%	8.0%	5.1%	3.0%
10th	-7.6%	6.2%	4.0%	2.3%
25th	-0.2%	3.2%	2.0%	1.2%
50th	**8.0%**	**-0.1%**	**-0.1%**	**-0.1%**
75th	16.2%	-3.5%	-2.2%	-1.3%
90th	23.7%	-6.5%	-4.2%	-2.4%
95th	28.1%	-8.3%	-5.3%	-3.1%

- This chart shows how the sensitivity to investment returns is affected by the assets to payroll ratio.
- Oregon PERS' assets to payroll ratio results in a change in contribution rates between the 5th and 95th percentile of 16.3% of payroll.
- If Oregon PERS had an average assets to payroll ratio of 4.9, this range would be reduced to 10.4% of payroll.
- If Oregon PERS had the lowest average assets to payroll ratio of the systems shown above of 2.86, this range would be reduced to 6.1% of payroll.
- As a result of Oregon PERS' asset to payroll ratio, it is more difficult to tolerate volatile investment returns.

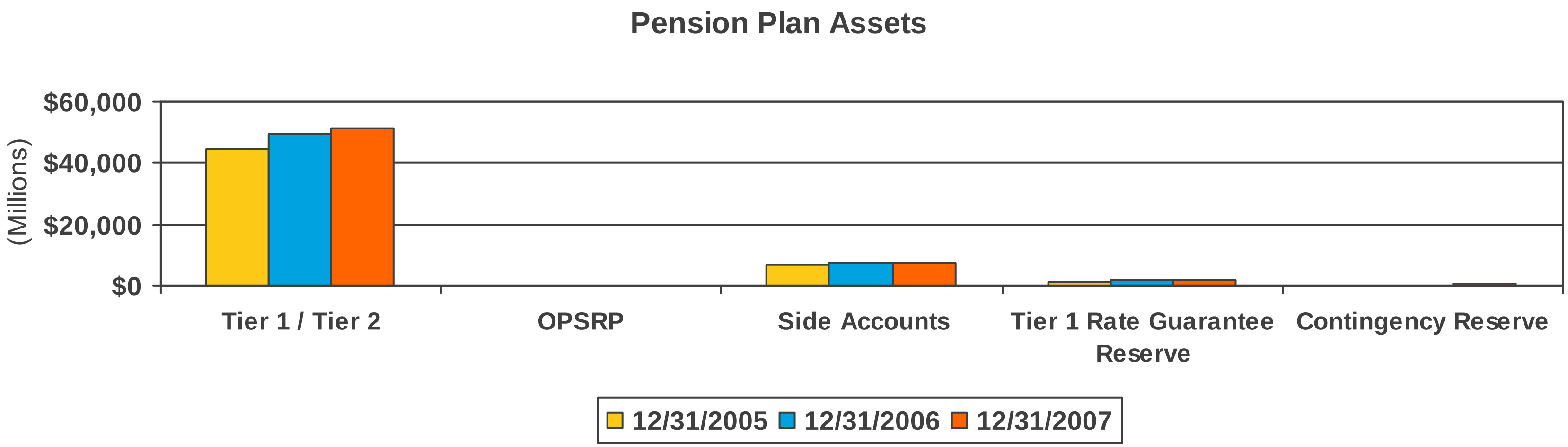
12/31/2007 Pension Valuation

Oregon Public Employees Retirement System

12/31/2007 Pension Valuation
Demographics

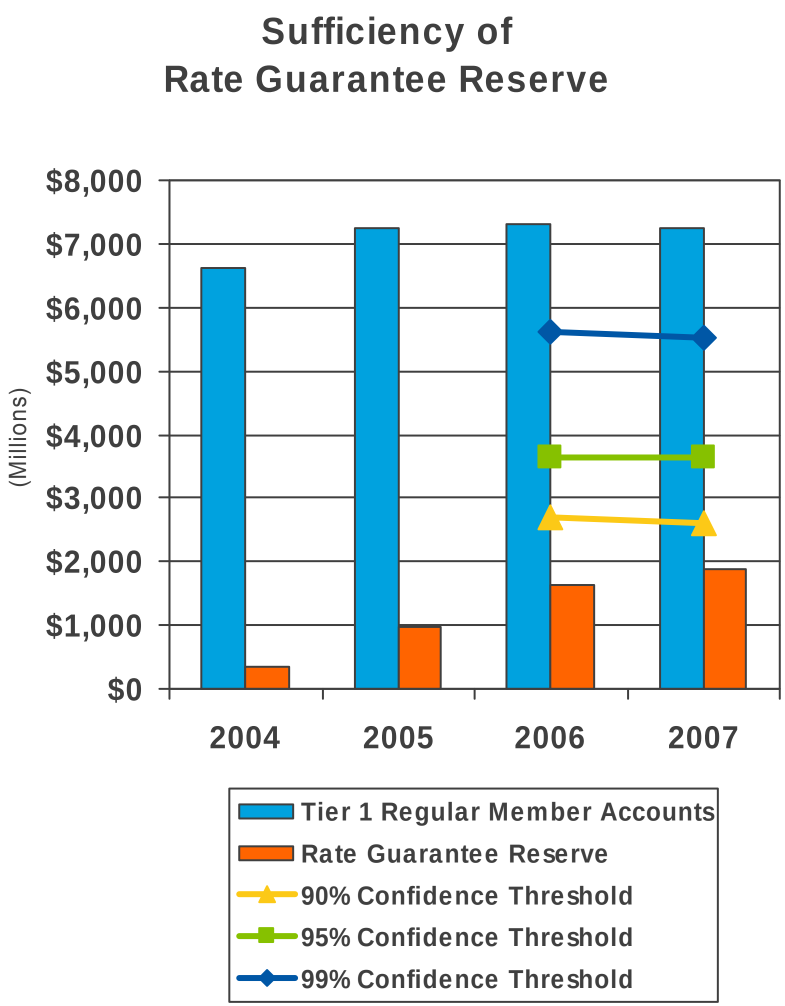


12/31/2007 Pension Valuation
Assets



- Tier 1/Tier 2 valuation assets grew from approximately $49 billion to approximately $52 billion in the last year. In addition, side accounts grew from $7.2 billion to $7.7 billion.
- OPSRP valuation assets grew significantly from $151 million to $275 million in the last year, but are only about 0.5% of Tier 1/Tier 2 assets.
- The Rate Guarantee Reserve also grew from $1.6 billion to $1.9 billion. The Contingency Reserve was increased from $295 million to $653 million.
- Valuation assets used to set pooled employer contribution rates exclude:
  - The Contingency and Capital Preservation Reserves,
  - The Rate Guarantee Reserve,
  - Side accounts, and
  - Pre-SLGRP liabilities and surpluses

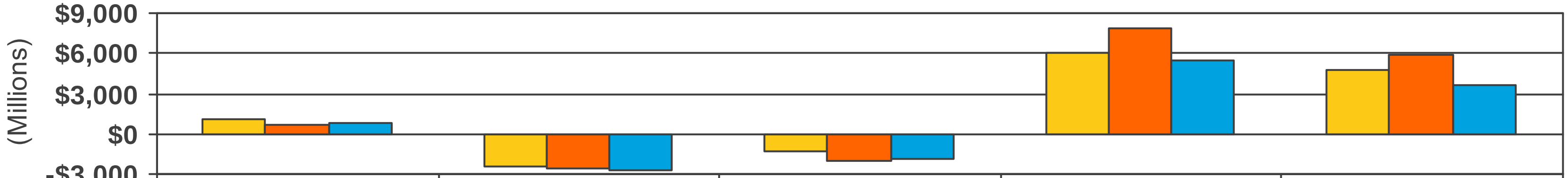
12/31/2007 Pension Valuation
Assets



- At the March, 2007 Board meeting, we presented a study examining different thresholds for declaring the Rate Guarantee Reserve fully funded.
- The Rate Guarantee Reserve does not exceed the 90%, 95% and 99% confidence thresholds used in that study.
- Unless investment returns improve dramatically for the remainder of the year, the Rate Guarantee Reserve will not exceed any of the thresholds for 2008.

12/31/2007 Pension Valuation
Assets

Changes in Pension Plan Assets



	Contributions	Benefit Payments	Net Cash Flow	Investment Income	Net Change
2005	1,124.3	(2,438.6)	(1,314.3)	6,038.3	4,724.0
2006	616.3	(2,575.6)	(1,959.3)	7,905.2	5,945.1
2007	760.7	(2,668.4)	(1,907.7)	5,515.1	3,607.4

- Benefit payments are 3.5 times larger than contributions, including side account deposits, resulting in net negative cash flow before earnings.
- Investment earnings are the primary determinant of changes in pension assets. For 2007, investment earnings were 7.25 times greater than contributions.
- The net increase in assets for 2007 of $3.6 billion is slightly more than expected, but significantly less than the net increases for 2005 or 2006.

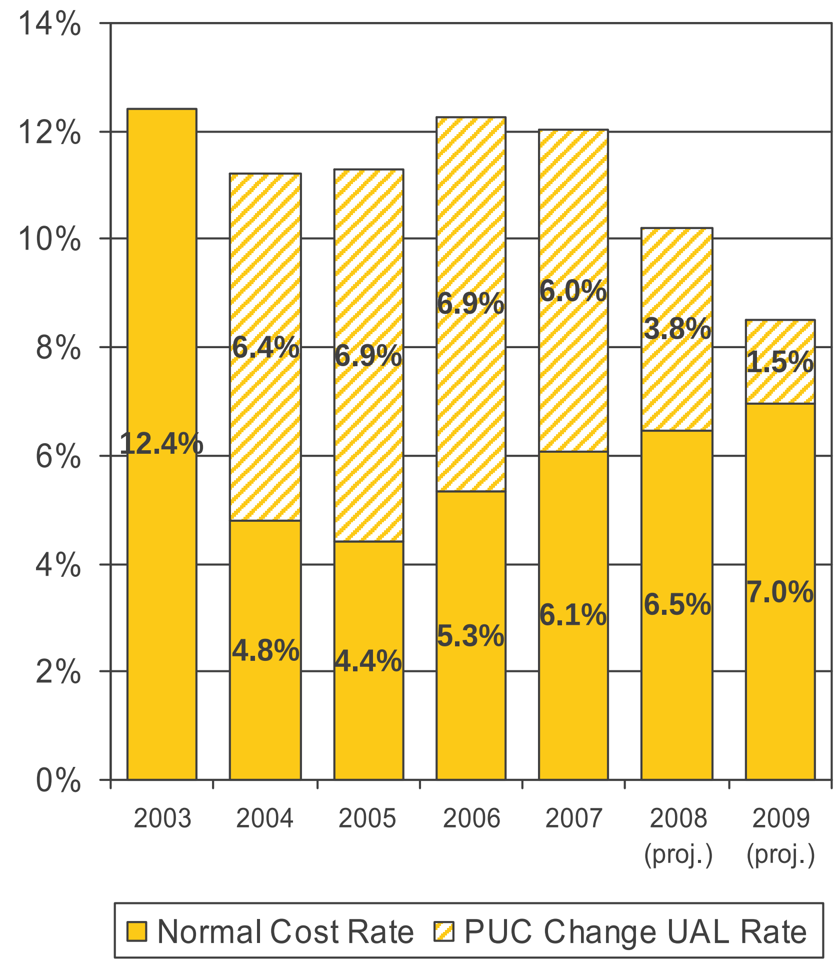
12/31/2007 Pension Valuation
Normal Cost

- The average normal cost rate increased 74 basis points since the last valuation.
- Since reform, anyone expected to retire under Money Match has a 0% normal cost. As a result, Tier 1 General Members have the lowest normal cost rate.
- Tier 1 / Tier 2 normal cost rates are expected to continue to increase as benefits continue to shift to Full Formula and as active members age.
- The decrease in the OPSRP normal cost rate is primarily due to the administrative expense assumption ($8.6 million) becoming a smaller percentage of a growing OPSRP payroll.

	Valuation		
	12/31/2007	12/31/2006	12/31/2005
T-1, General	3.57%	2.88%	2.18%
T-1, P&F	13.14%	11.56%	9.99%
T-1, Average	**4.67%**	**3.86%**	**3.08%**
T-2, General	7.28%	6.33%	5.12%
T-2, P&F	12.81%	12.10%	10.88%
T-2, Average	**8.03%**	**7.04%**	**5.86%**
OPSRP, General	5.81%	6.00%	6.09%
OPSRP, P&F	8.52%	8.87%	9.41%
OPSRP, Average	**6.05%**	**6.23%**	**6.33%**
System Average	**6.07%**	**5.33%**	**4.39%**

12/31/2007 Pension Valuation
Combined Normal Cost and PUC Change UAL Rates

- With the change to the PUC cost method in 2004, the normal cost decreased and the UAL increased.
- The increase in UAL due to this change was amortized over a rolling 3-year period in an effort to keep the combination of the normal cost rate and the PUC change UAL rate relatively level as benefits shifted from Money Match to Full Formula.
- The chart shows that by the 2009 valuation, the PUC change UAL rate is expected to have declined significantly faster than the normal cost rate is expected to increase.
- The net result is an expected 360 basis point decrease in rates as of July 1, 2011 that may help offset any increase in rates due to investment returns below expectations.



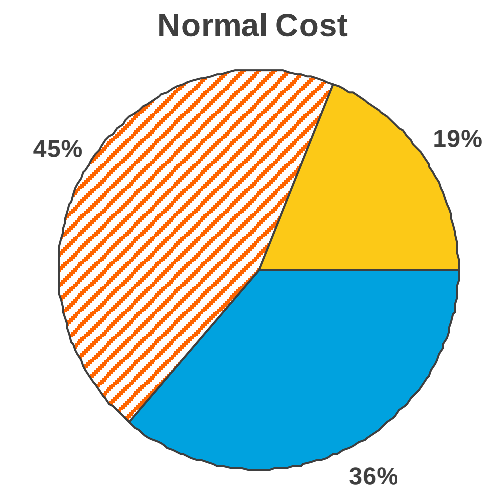
12/31/2007 Pension Valuation
Actuarial Accrued Liabilities

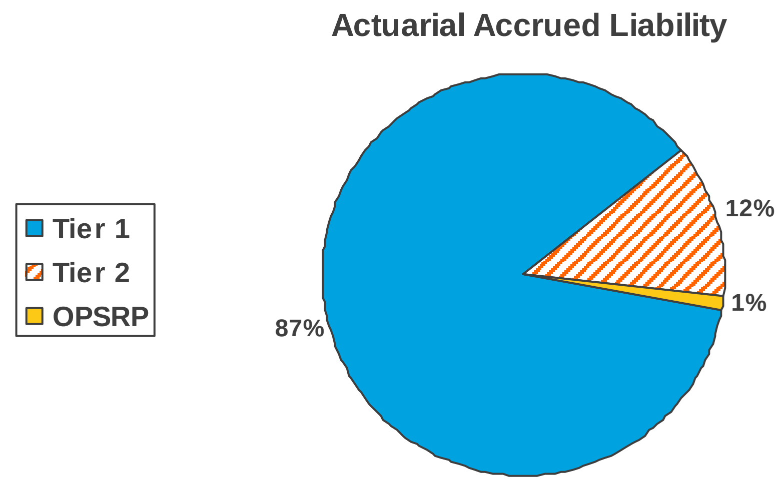
	Valuation		
	12/31/2007	12/31/2006	12/31/2005
T-1, General	$15,246	$15,464	$15,269
T-1, P&F	$1,810	$1,796	$1,801
T-1, Total	**$17,056**	**$17,260**	**$17,070**
T-2, General	$2,010	$1,785	$1,472
T-2, P&F	$415	$341	$309
T-2, Total	**$2,425**	**$2,126**	**$1,781**
OPSRP, General	$177	$102	$47
OPSRP, P&F	$25	$13	$6
OPSRP Total	**$202**	**$115**	**$53**
Dormant	$4,421	$4,450	$4,187
Benefits in Force	$28,767	$27,303	$26,202
Inactive Total	**$33,188**	**$31,753**	**$30,389**
System Total	**$52,871**	**$51,254**	**$49,293**

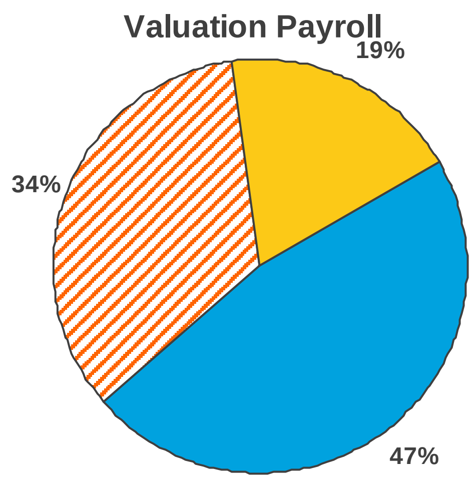
Amounts in millions

- Total system liabilities grew about 3% in the last year
  - 1 % growth in active liabilities
    - (1%) growth in Tier 1
    - 14% growth in Tier 2
    - 76% growth in OPSRP
  - (1%) growth in dormant liabilities
  - 5% growth in benefits in force
- We expect Tier 1 active liabilities to continue to decline while Tier 2, OPSRP and inactive liabilities continue to grow

12/31/2007 Pension Valuation
Active Liabilities



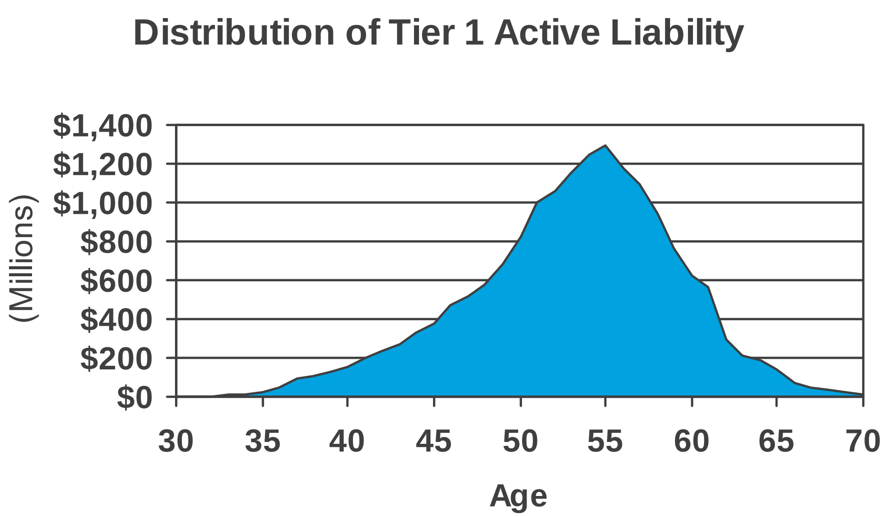


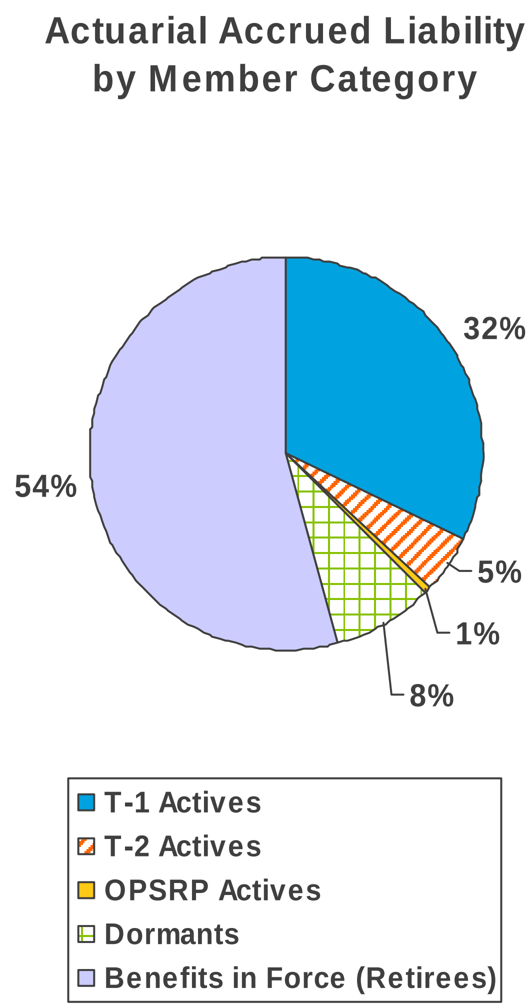


- While Tier 1 represents 87% of the accrued liability, it is only 47% of the payroll and 36% of the normal cost
- Tier 2 represents 12% of the accrued liability, 34% of the payroll and 45% of the normal cost.
- OPSRP represents 19% of the payroll and 19% of the normal cost, but only 1% of the liability.

12/31/2007 Pension Valuation
Actuarial Accrued Liabilities

- While Tier 1 members represent the predominant portion of the active liability, 63% of the System's total accrued liability is for members who are no longer actively working in covered employment.
- Over 40% of the Tier 1 active liability is for members over age 55, and approximately 75% of the Tier 1 active liability is for members over age 50.





12/31/2007 Pension Valuation
Funded Status Measures

- **Unfunded Accrued Liability Before Side Accounts**
  – The UAL before side accounts is used to calculate the employer contribution rates for the SLGRP and School District pools.
  – The side accounts are treated as prepaid contributions for the individual employers who have made supplemental contributions.
- **Unfunded Accrued Liability After Side Accounts**
  – The UAL after side accounts is used to report the funded status of the system as a whole.
  – Side accounts are held within the PERS Trust and are available to pay PERS benefits.
- **Employer Net Obligation**
  – The employer net obligation is the UAL after side accounts adjusted for the outstanding principal on pension obligation bonds
  – This measure is not used by PERS, but can be used in a broader financial context to understand the outstanding obligations related to PERS

12/31/2007 Pension Valuation
Unfunded Accrued Liability

	12/31/2007 Valuation					12/31/2006
	SLGRP	School Districts	Independ-ents	OPSRP	System-Wide[1]	System-Wide[1]
Accrued Liability	$26,883	$21,299	$4,423	$203	$52,871	$51,254
Assets	$26,674	$20,157	$4,645	$275	$51,670	$49,368
Unfunded Accrued Liability	**$209**	**$1,143**	**$(222)**	**$(72)**	**$1,201**	**$1,886**
Side Accounts	$3,641	$3,897	$121	N/A	$7,658	$7,248
UAL – Side Accounts	**$(3,432)**	**$(2,754)**	**$(342)**	**$(72)**	**$(6,457)**	**$(5,362)**
POBs	$3,324	$2,707	$218	N/A	$6,249	$6,164
Employer Net Obligations	**$(108)**	**$(47)**	**$(124)**	**$(72)**	**$(208)**	**$802**

[1] *System-wide results include Multnomah Fire District #10*

Amounts In Millions

12/31/2007 Pension Valuation
Unfunded Accrued Liability

	12/31/2007 Valuation					12/31/2006
	SLGRP	School Districts	Independ-ents	OPSRP	System-Wide[1]	System-Wide[1]
Payroll (T1/T2 + OPSRP)	$4,264	$2,693	$764	$7,722	$7,722	$7,327
UAL	$209	$1,143	$(222)	$(72)	$1,201	$1,886
UAL as % of Payroll	**5%**	**42%**	**(29%)**	**(1%)**	**16%**	**26%**
UAL – Side Accounts	$(3,432)	$(2,754)	$(342)	$(72)	$(6,457)	$(5,362)
Net UAL as % of Payroll	**(81%)**	**(102%)**	**(45%)**	**(1%)**	**(84%)**	**(73%)**
UAL – Side Accounts + POBs	$(108)	$(47)	$(124)	$(72)	$(208)	$ 802
Employer Net Obligation as % of Payroll	**(3%)**	**(2%)**	**(16%)**	**(1%)**	**(3%)**	**11%**

[1] *System-wide results include Multnomah Fire District #10*

Amounts In Millions

12/31/2007 Pension Valuation
Employers Joining the State & Local Government Rate Pool (SLGRP)

- Effective 1/1/2008, 28 independent employers joined the SLGRP
- SLGRP contribution rates in this valuation reflect the addition of these employers
- The SLGRP UAL rate is not affected by new employers joining the pool as a transition liability or surplus is established such that the pooled UAL rate remains unchanged
- 3 of the employers joining the pool had a transition liability and 25 of the employers had a transition surplus
- The addition of these employers to the pool increased the overall net transition surplus approximately $285 million

	Joining SLGRP	Current SLGRP
Primary Employers	28	325
Active Employees	4,477	58,325
Payroll	$355	$3,909
Assets	$917	$26,042
Accrued Liability	$650	$26,233
Normal Cost	$14	$204

Dollar Amounts In Millions

12/31/2007 Pension Valuation

7/1/2009 Employer Pension Contribution Rates

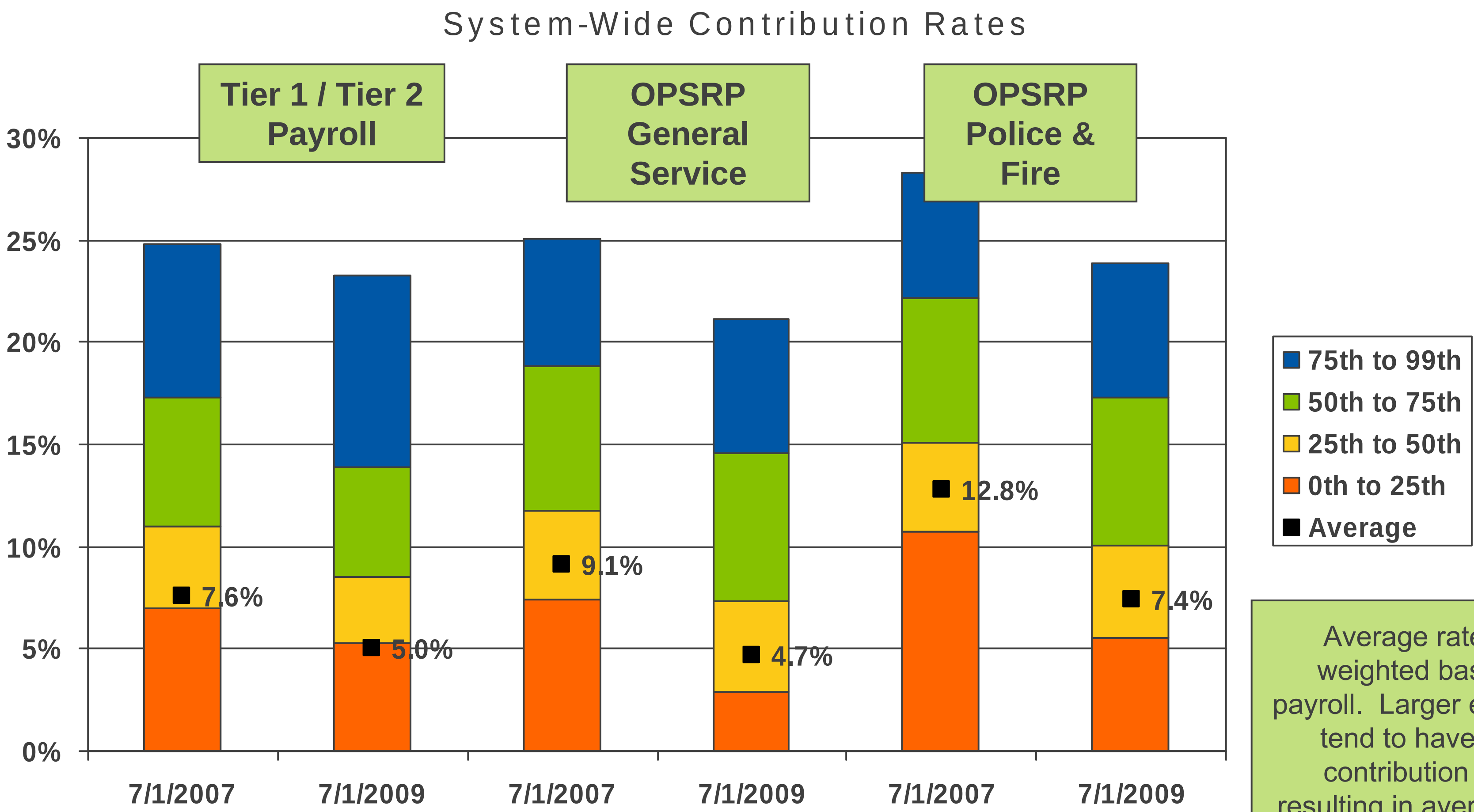
	SLGRP	School Districts	Independents[1]	OPSRP General	OPSRP P&F	System-Wide
Pension						
Normal Cost	6.31%	5.19%	7.92%	5.81%	8.52%	6.07%
T1/T2 UAL	4.84%	8.82%	2.57%	6.07%	6.07%	6.07%
OPSRP UAL	(0.08%)	(0.08%)	(0.08%)	(0.08%)	(0.08%)	(0.08%)
Gross Pension Rate	**11.07%**	**13.93%**	**10.41%**	**11.80%**	**14.51%**	**12.06%**
Adjustments[2]						
Side Accounts	(6.20%)	(10.51%)	(1.14%)	(7.20%)	(7.20%)	(7.20%)
Pre-SLGRP Liabs	(0.89%)	N/A	N/A	(0.49%)	(0.49%)	(0.49%)
Average Adjustment	**(7.09%)**	**(10.51%)**	**(1.14%)**	**(7.69%)**	**(7.69%)**	**(7.69%)**
Net Pension Rate[2]	**3.98%**	**3.42%**	**9.27%**	**4.11%**	**6.82%**	**4.37%**

[1] *Independent employers, including Judiciary, are treated as a single pool for purposes of this exhibit.*

[2] *For this exhibit, adjustments are assumed not to be limited due to an individual employer reaching a0.00% contribution rate.*

12/31/2007 Pension Valuation

Distribution of Employer Pension Contribution Rates

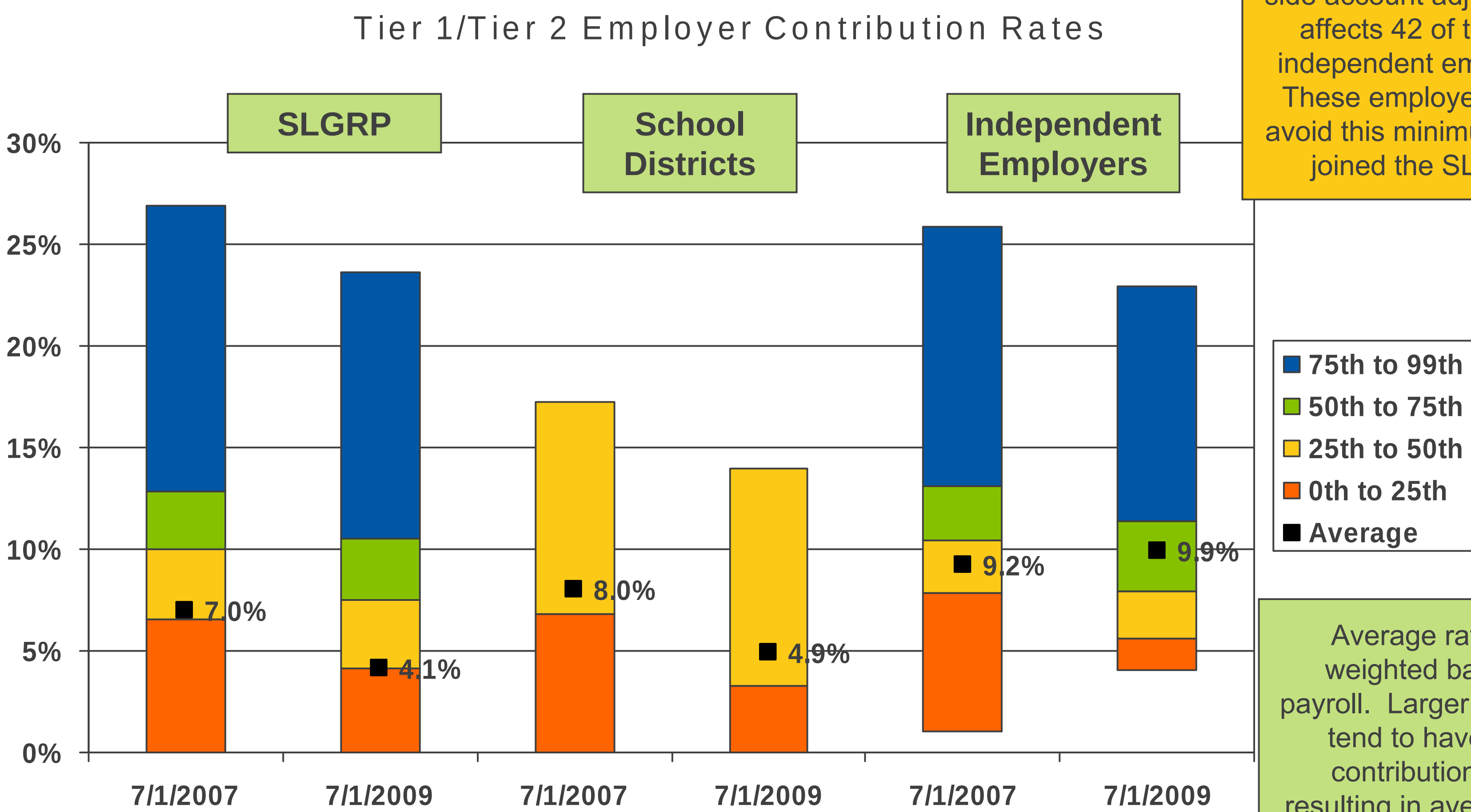


Average rates are weighted based on payroll. Larger employers tend to have lower contribution rates, resulting in average rates significantly below the median rate.

12/31/2007 Pension Valuation

Distribution of Employer Pension Contribution Rates

The Board's policy to require Independent Employers to contribute a minimum (excluding IAP) of 6% of payroll before side account adjustments, affects 42 of the 137 independent employers. These employers could avoid this minimum if they joined the SLGRP.



Average rates are weighted based on payroll. Larger employers tend to have lower contribution rates, resulting in average rates significantly below the median rate.

12/31/2007 Retiree Healthcare Valuation

Oregon Public Employees Retirement System

12/31/2007 Retiree Healthcare Valuation

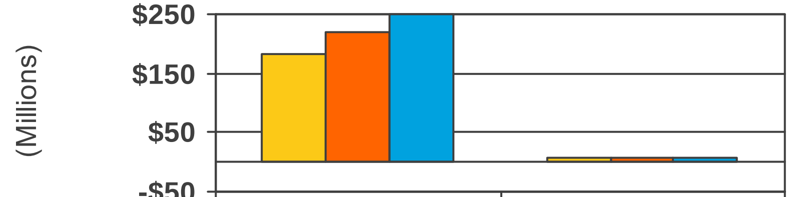
Overview

- RHIA provides $60 per month subsidy toward healthcare premium for Tier 1/Tier 2 retirees who are eligible for Medicare. OPSRP retirees are not eligible.
- RHIPA provides Tier 1/Tier 2 State employees who retire prior to age 65 with an alternative to PEBB coverage until they reach Medicare eligibility. OPSRP retirees are not eligible.
- These benefits are founded through 401(h) accounts within the pension trust, but the funds are, by law, kept separate from the pension funds. Consequently, side accounts cannot be used to make RHIA or RHIPA contributions.
- RHIA and RHIPA are not as well-funded as the pension plan, but steady progress is being made. The UAL is being amortized over a 20-year period, so we expect RHIA and RHIPA to be fully funded by December 31, 2027.
- Contribution rates for RHIA and RHIPA are relatively small and they have been very stable.

12/31/2007 Retiree Healthcare Valuation
Assets

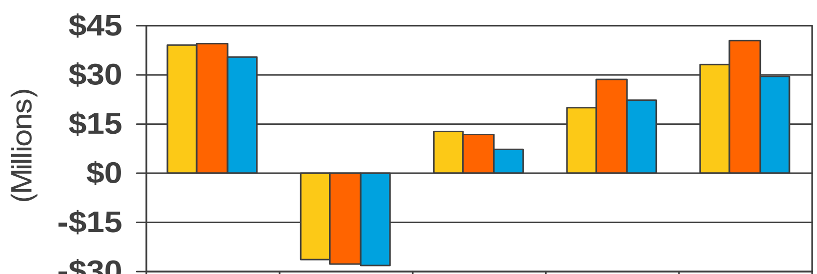
- RHIA assets increased approximately 13% and RHIPA assets increased approximately 11%
- For RHIA, contributions are about 30% larger than benefit payments, so the net increase is a combination of contributions and investment earnings.
- For RHIPA, contributions are about equal to benefit payments, so the net increase in assets is primarily driven by investment earnings.

Retiree Healthcare Assets



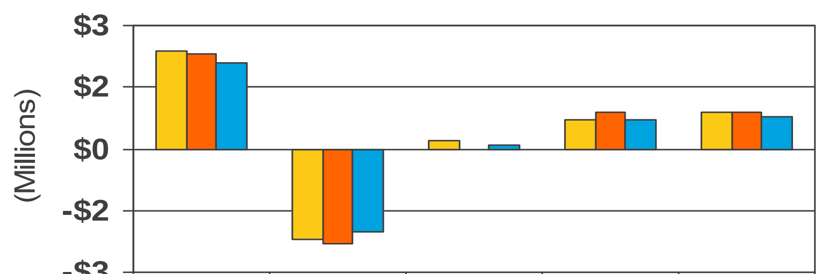
	RHIA	RHIPA
12/31/2005	181.0	6.1
12/31/2006	221.3	7.0
12/31/2007	250.8	7.8

Changes in RHIA Plan Assets



	Contributions	Benefit Payments	Net Cash Flow	Investment Income	Net Change
2005	39.2	(26.3)	12.9	20.1	33.0
2006	39.5	(27.5)	12.0	28.5	40.5
2007	35.5	(28.1)	7.4	22.1	29.4

Changes in RHIPA Plan Assets



	Contributions	Benefit Payments	Net Cash Flow	Investment Income	Net Change
2005	2.4	-2.2	0.2	0.7	0.9
2006	2.3	-2.3	0.0	0.9	0.9
2007	2.1	-2.0	0.1	0.7	0.8

12/31/2007 Retiree Healthcare Valuation
Normal Cost

	RHIA		RHIPA		System	
	12/31/2007	12/31/2006	12/31/2007	12/31/2006	12/31/2007	12/31/2006
Normal Cost	$6.6	$6.6	$0.9	$0.9	$7.5	$7.5
Normal Cost Payroll	$6,262	$6,336	$1,692	$1,666	$6,262	$6,336
Normal Cost Rate	**0.10%**	**0.10%**	**0.06%**	**0.06%**	**0.12%**	**0.12%**

Amounts In Millions

- Normal cost rates for RHIA and RHIPA have remained level.
- These rates, however, are very sensitive to the participation assumption.

12/31/2007 Retiree Healthcare Valuation

Unfunded Accrued Liability

Funded status is improving, but lags significantly behind the funded status of the pension plan.

	RHIA		RHIPA		System	
	12/31/2007	12/31/2006	12/31/2007	12/31/2006	12/31/2007	12/31/2006
Accrued Liability	$500	$512	$23	$23	$523	$535
Assets	$251	$221	$8	$7	$259	$228
UAL	$249	$291	$15	$16	$264	$307
Funded Percentage	**50%**	**43%**	**34%**	**30%**	**49%**	**43%**
Combined Valuation Payroll	$7,722	$7,327	$2,080	$1,947	$7,722	$7,327
UAL Rate	**0.19%**	**0.22%**	**0.02%**	**0.01%**	**0.20%**	**0.22%**

Amounts In Millions

12/31/2007 Retiree Healthcare Valuation
Contribution Rates

- Contribution rates are slightly lower than the rates in effect 7/1/2007.
- For retiree healthcare, the PUC change rate reduces the overall UAL rate.
- As the PUC change UAL is paid off, overall UAL rates are expected to increase 4 to 6 basis points each for RHIA and RHIPA.
- Changes in actual participation rates can have a significant effect on the UAL.

Payroll	Tier 1 / Tier 2	OPSRP General	OPSRP P&F
Normal Cost Rate	0.12%	N/A	N/A
UAL Rate	0.20%	0.20%	0.20%
Total Rate	**0.32%**	**0.20%**	**0.20%**

Next Steps

- Board adopts individual employer rates at September 26, 2008, meeting that will become effective July 1, 2009
- Individual employer reports are sent via e-mail to employers shortly after the rates are adopted

MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

www.mercer.com