MERCER

Consulting. Outsourcing. Investments.

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

September 24, 2010

December 31, 2009 Actuarial Valuation

Oregon Public Employees Retirement System
Individual Employer 2011-2013 Contribution Rates

Matt Larrabee, FSA
Scott Preppernau, FSA

December 31, 2009 Actuarial Valuation
Overview

- At the July Board meeting, we presented system-wide results of the December 31, 2009 actuarial valuation
- Since then, we have completed work on over 500 employer-specific valuation reports that include contribution rate information
  - A summary listing of contribution rates is included in Board materials
- Once rates are adopted, PERS will issue the individual reports to employers
- The following slides contain a brief discussion of the individual employer rates

December 31, 2009 Actuarial Valuation
Individual Employer Rates

- Separate contribution rates are developed for each individual employer reflecting
  - Participation in a cost-sharing pool, if applicable
  - “Pre-pooled” shortfalls or surpluses
  - Side accounts
- For each employer, contribution rates are developed for three different payrolls
  - Tier 1/Tier 2
  - OPSRP General Service
  - OPSRP Police & Fire
- “Base rates” are developed that do not reflect the effect of side accounts
- Side account rate offsets are then calculated and applied to determine “net rates”
  - Employers with side accounts pay their base rate via a combination of side account transfers and contribution of the net rate
- Rates calculated do not reflect the costs of:
  - Debt service payments on pension obligation bonds
  - Any employer “pick-up” of member contributions to the IAP

December 31, 2009 Actuarial Valuation

Individual Employer Rates

- All employers fall into one of three categories for their Tier 1/Tier 2 rate calculation:

Tier 1/Tier 2 Employer Category	Rate-Setting Implications
State and Local Government Rate Pool (SLGRP)	All members pay the same Unfunded Actuarial Liability (UAL) Rate. Each employer pays a unique Normal Cost Rate, but it is based on pooled member census data. Employers may have individual adjustments due to "pre-pooled" shortfalls or surpluses prior to entry to the SLGRP and/or side account rate offsets.
School District Rate Pool	All Schools districts pay the same UAL Rate and Normal Cost Rate. The only adjustment to the pooled rates occurs for employers who have side account rate offsets.
Independent Employers	All rate components are calculated separately for each individual employer based solely on that employer's experience and side account status. For small employers, demographic experience can produce large changes in Normal Cost Rate or UAL Rate from one rate-setting period to the next.

- OPSRP Normal Cost Rates and the UAL Rate for the OPSRP shortfall are pooled at a system-wide level

December 31, 2009 Actuarial Valuation

Average Net Contribution Rates Including Retiree Healthcare (Excludes IAP Contributions, Pension Obligation Bond Debt Payments)

	Tier 1/Tier 2			OPSRP		
Average Net Employer Rates	SLGRP	School Districts	Indepen-dents	General Service	Police & Fire	System-Wide
2009-2011 Net Rates[1]	4.4%	5.2%	9.6%	4.9%	7.5%	5.2%
2011-2013 Net Rates[2]	10.8%	11.7%	13.7%	9.0%	11.7%	10.8%
Net Rate Increase	6.4%	6.5%	4.1%	4.1%	4.2%	5.6%

- Based on the payroll categories for which contribution rates are developed, the average change in net employer contribution rates is shown above for each payroll
- Rate changes vary significantly by individual employer
- Large employers that will see the greatest rate increases are those that elected to establish side accounts via pension obligation bonds
  - Those employers saw larger net rate decreases effective July 2009, and will see larger rate increases effective July 2011

1 *In this exhibit, 2009-2011 base rates are adjusted by two factors to calculate estimated system-wide net rates. Adjustments are for side accounts and pre-SLGRP liabilities/(surpluses). The 2009-2011 rates in this exhibit were accumulated on an employer by employer basis for SLGRP and School Districts, and adjustments were limited when an individual employer reaches a 0% contribution rate. Independent employers, including Judiciary, are treated as a single pool for purposes of this exhibit.*

2 *In this exhibit, 2011-2013 base rates are adjusted by two factors to calculate estimated system-wide net rates. Adjustments are for side accounts and pre-SLGRP liabilities/(surpluses) and are assumed not to be limited when an individual employer reaches a 0% contribution rate. Independent employers, including Judiciary, are treated as a single pool for purposes of this exhibit.*

December 31, 2009 Actuarial Valuation

Average Net Contribution Rates Including Retiree Healthcare
(Excludes IAP Contributions, Pension Obligation Bond Debt Payments)

	Payroll (Millions)	Funded Status (Excluding Side Accounts)	2009-2011 Net Rate	2011-2013 Net Rate	Change in Net Rate	Base Rate Increase Deferred by Rate Collar
Employers without Side Accounts	$2,761	78%	8.9%	13.0%	4.1%	4.0%
Employers with Side Accounts	$5,751	76%	3.4%	9.8%	6.4%	4.0%
All Employers	$8,512	76%	5.2%	10.8%	5.6%	4.0%

- Employers without side accounts have an average net rate increase of 4.1%
  - The rate collar limits the UAL Rate to 4.0% below its uncollared level, with the deferred amount to be reflected in base rate increases for 2013-2015 and beyond
- Until July 2011, side account rate offsets are based on 12/31/07 side account levels
  - If assumptions are met, side account offsets would decrease further in 2013-2015
- The higher level of net rate increase for employers with side accounts is primarily caused by a decrease in side account rate offset levels due to the market downturn
  - Side accounts are calculated to amortize fully by December 2027 to align with many of the underlying pension obligation bond debt repayment schedules

Next Steps

- Board adopts individual employer rates for 2011-2013 biennium
- Individual employer valuation/contribution rate reports are distributed by PERS
- Mercer completes system-wide actuarial valuation report
- Third-party firm (Gabriel Roeder Smith) reports to Board in November on results of their actuarial audit of the valuation

Actuarial Certification

Mercer has prepared this presentation exclusively for the Oregon PERS Board to present the results of a valuation of the Oregon Public Employees Retirement System as of December 31, 2009, and to provide information on average employer contribution rates for the period beginning July 1, 2011. This presentation may not be used or relied upon by any other party or for any other purpose; Mercer is not responsible for the consequences of any unauthorized use.

A valuation report is a snapshot of a plan's estimated financial condition at a particular point in time; it does not predict a plan's future financial condition or its ability to pay benefits in the future.

Over time, a plan's total cost will depend on a number of factors, including the amount of benefits the plan pays, the number of people paid benefits, plan expenses and the amount earned on any assets invested to pay the benefits. These amounts and other variables are uncertain and unknowable at the valuation date, but are predicted to fall within a reasonable range of possibilities.

To prepare this report, various *actuarial assumptions*, as described in the Appendix, are used to select a single scenario from a range of possibilities . However, the future is uncertain, and the system's actual experience will differ from those assumptions; these differences may be significant or material. In addition, different assumptions or scenarios may also be within the reasonable range and results based on those assumptions would be different. Actuarial assumptions may also be changed from one valuation to the next because of changes in mandated requirements, plan experience, changes in expectations about the future and other factors. Due to the limited scope of our assignment, we did not perform, nor do we present, an analysis of the potential range of future possibilities and scenarios.

Because actual system experience will differ from the assumptions, decisions about benefit changes, investment policy, funding amounts, benefit security and/or benefit-related issues should be made only after careful consideration of alternative future financial conditions and scenarios and not solely on the basis of a valuation report or reports.

This report is based on data and system provisions as described in the Appendix. Oregon PERS is solely responsible for the validity, accuracy and comprehensiveness of this information. If the data or plan provisions supplied are not accurate and complete, the valuation results may differ significantly from the results that would be obtained with accurate and complete information; this may require a later revision of this report.

Actuarial Certification

Actuarial Calculations, Methods and Assumptions

To the best of our knowledge and belief, this report is complete and accurate and all costs, liabilities and other factors under the plan were determined in accordance with generally accepted actuarial principles and procedures using an actuarial cost method approved by the Board. Assumptions used are based on the last experience study, as adopted by the Board on July 16, 2009. This valuation is based on assumptions, plan provisions, methods and other parameters as summarized in this report. If this information is inaccurate or incomplete or does not reflect current statutes, regulations or Board directives, the reader of this report should not rely on the valuation results and should notify Mercer promptly. In our opinion, this report fully and fairly discloses the actuarial position of the plan on an ongoing basis.

Professional Qualifications

We are available to answer any questions on the material in this report or to provide explanations or further details as appropriate. The undersigned credentialed actuaries meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report. We are not aware of any direct or material indirect financial interest or relationship, including investments or other services that could create a conflict of interest, that would impair the objectivity of our work.

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.

September 24, 2010

Matthew R. Larrabee, FSA, EA, MAAA
Enrolled Actuary No. 08-6154

Date

September 24, 2010

Scott D. Preppernau, FSA, EA, MAAA
Enrolled Actuary No. 08-7360

Date

Mercer (US), Inc.
111 SW Columbia Street, Suite 500
Portland, OR 97201-5839
503 273 5900

The information contained in this document 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.

Appendix

Appendix
Actuarial Basis

Data

We have based our calculation of the liabilities on the data, methods, assumptions and plan provisions described in the forthcoming December 31, 2009, Actuarial Valuation ("2009 Valuation Report") for the Oregon Public Employees Retirement System.

Assets as of December 31, 2009, were based on values provided by Oregon PERS reflecting the Board's earnings crediting decisions for 2009.

Methods / Policies

Liabilities are based on the Projected Unit Credit method and are rolled forward according to the following rules:

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

Contribution rate stabilization method: Contribution rates are confined to a collar based on the prior base contribution rate. The new base contribution rate will generally not increase or decrease from the prior contribution rate by more than the greater of 3 percentage points or 20 percent of the prior contribution rate. If the funded percentage excluding side accounts drops below 80% or increases above 120%, the size of the collar increases.

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

Actuarial Value of Assets: Equal to Market Value of Assets excluding Contingency and Tier 1 Rate Guarantee Reserves

Appendix
Actuarial Basis

Assumptions

Assumptions for valuation calculations are as described in the 2009 Valuation Report.

Provisions

Provisions valued are as detailed in the 2009 Valuation Report.

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.

MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN