

# OREGON PUBLIC EMPLOYEES RETIREMENT BOARD

Friday August 5, 2005 1:00 P.M.		PERS 11410 SW 68 <sup>th</sup> Parkway Tigard, OR	
ITEM		PRESENTER	
<b>A. Administration</b>			
1.	June 24, 2005 Board Meeting Minutes	CLEARY	
2.	Director's Report		
a.	Forward-Looking Calendar		
b.	OIC Investment Report		
c.	Budget Report		
d.	Miscellaneous		
<b>B. Contested Cases</b>			
1.	Appeal of Josefina Johnson	KUTLER / RODEMAN	
2.	Appeal of Peggy Barlow		
<b>C. Consent Action and Information Items</b>			
1.	Adoption of OAR 459-045-0030, Alternate Payee Withdrawal	ROCKLIN / RODEMAN	
<b>D. Action and Discussion Items</b>			
1.	OSGP Advisory Committee Member Appointments	CLEARY / BATH DALTON / RODEMAN GRIMSLEY / DELANEY PITTMAN	
2.	IAP Remediation Update		
3.	Legislative Update		
4.	Board Governance Matters		
<b>E. Executive Session Pursuant to ORS 192.660(2)(f), (h), and/or ORS 40.225</b>			
1.	Litigation Update	LEGAL COUNSEL	

**In compliance with the Americans with Disabilities Act, PERS will provide this document in an alternate format upon request. To request this, contact PERS at 888-320-7377 or TTY 503-603-7766.**

<i>Note: If you have a disability that requires any special materials, services or assistance, call (503) 603-7575 at least 48 hours before the meeting.</i>
Michael Pittman, Chair * James Dalton * Thomas Grimsley * Eva Kripalani * Brenda Rocklin * Paul R. Cleary, Executive Director

# **PUBLIC EMPLOYEES RETIREMENT BOARD**

PERS Board Meeting  
1:00 P.M.  
June 24, 2005  
Tigard, Oregon

MEETING	<b>8-05-05</b>
DATE	
AGENDA	<b>A.1.</b>
ITEM	6-24-05 Minutes

## **MINUTES**

### **Board Members:**

Mike Pittman, Chair  
Brenda Rocklin, Vice-chair  
Thomas Grimsley  
Eva Kripalani  
James Dalton

### **Staff:**

Paul R. Cleary, Director  
Donna Allen  
Marsha Bacon  
David Crosley

Steve Delaney  
Stephanie Gillette  
Jeff Marecic  
Dale Orr  
Craig Stroud

Dave Tyler  
Steve Rodeman  
Carol Vogel  
Brendalee Wilson

### **Others:**

Bruce Adams  
Gordon Allen  
Bob Andrews  
Ardis Belknap  
Cathy Bloom

Pam Broadus  
Molly Butler  
Marcia Chapman  
Linda Ely  
Mark Feldezman  
Richard Gilbert

Paul Gornick  
Bill Hallmark  
Maria Keltner  
Steve Manton  
Mike Mueller  
Tracy Rutten

Gary Schwieck  
Deborah Tremblay  
Jessie Villarreal, Jr.

Board Chair Mike Pittman called the meeting to order at 1:00 P.M.

## **ADMINISTRATION**

### **A.1. BOARD MEETING MINUTES OF MAY 20, 2005**

James Dalton moved and Eva Kripalani seconded to approve the minutes of the May 20, 2005 meeting. The motion passed unanimously.

### **A.2. DIRECTOR'S REPORT**

Director Paul Cleary announced that a combined July and August Board meeting has been scheduled for August 5, 2005. Cleary announced that there is a public hearing on July 26, 2005 for the disability rules that will be presented for Board adoption at the September 23, 2005 meeting. Cleary said the Secretary of State's office is initiating the PERS financial audit for fiscal year 2005, and that two contract audits covering PERS information technology controls and the disability program are also being initiated.

Cleary reported that PERS Fiscal Services Division has received a certificate of achievement for excellence in financial reporting from the Government Finance Officers Association for the PERS 2004 Comprehensive Annual Financial Report (CAFR).

Mike Mueller, Oregon State Treasury Assistant Director of Investments, announced that Katy Durant was recently appointed to the Oregon Investment Council. Mueller reported some strategic asset allocation adjustments for the pension fund; the private equity target was increased to 12% while the domestic equity target was reduced to 33%, leaving the over-all total equity exposure of the fund at 65%. Mueller said the Securities and Exchange Commission (SEC) has completed a review of Oregon's pension fund investment consulting firms, and the firms have been responsive to any identified concerns.

Cleary presented the June budget report noting positive variances in the Administrative, the Deferred Compensation, the HB2020/OPSRP, and the AEF appropriations. Cleary announced that Brian DeForest accepted the permanent position as the agency's Budget and Fiscal Operations Manager.

Director Cleary announced the upcoming retirement of Marsha Bacon, Customer Service Division Administrator, on July 1, 2005. Cleary said Bacon will work part-time through July and August to assist with the transition process. The Board acknowledged Bacon's dedication and service to the agency and its customers.

## **CONTESTED CASES**

### **B.1. JON PHILLIPS PETITION FOR RECONSIDERATION**

Keith Kutler, Department of Justice, presented the Petition for Reconsideration of the Final Order issued in the Jon Phillips appeal (No. 03 – 0676), and discussed the recommended disposition.

It was moved by Brenda Rocklin and seconded by Tom Grimsley to deny the Petition for Reconsideration. The motion passed unanimously.

### **B.2. APPEAL OF CORINE EMERSON**

Steve Rodeman, Policy, Planning and Legislative Analysis Division (PPLAD) administrator, reviewed the history of the Appeal of Corine Emerson and the revised draft final order.

It was moved by Brenda Rocklin and seconded by Tom Grimsley to adopt the revised draft final order as presented. The motion passed unanimously.

### **B.3. APPEAL OF DAWN GLOECKNER**

Rodeman reviewed the history of the Appeal of Dawn Gloeckner and the revised draft final order.

It was moved by Brenda Rocklin and seconded by Tom Grimsley to adopt the revised draft final order as presented. The motion passed unanimously.

#### B.4. APPEAL OF JOHN JOYCE

Rodeman reviewed the history of the Appeal of John Joyce and the revised draft final order.

It was moved by Brenda Rocklin and seconded by Tom Grimsley to adopt the revised draft final order as presented. The motion passed unanimously.

### CONSENT ACTION AND INFORMATION ITEMS

#### C.1. “EQUAL-TO-OR-BETTER-THAN” FINAL REPORT

Rodeman presented a final report from Mercer Human Resource Consulting on the analysis of local public entities in Oregon providing retirement benefits for police officers and firefighters under a plan other than OPSRP. Rodeman said that there were no changes between Mercer’s draft report presented at the May 20, 2005 Board meeting and the final report. Rodeman noted that the report has been made available for stakeholder review and that the Board will consider final orders for adoption at its September 23, 2005 meeting.

James Dalton suggested that staff develop proposed changes to the two-year testing cycle of the “Equal-to-or-Better-Than” test for consideration as a 2007 legislative concept to reduce the frequency of potentially unwarranted and expensive plan tests.

#### C.2. NOTICE OF RULEMAKING FOR OAR 459-035-0001, HEALTH INSURANCE PROGRAMS DEFINITIONS

Rodeman presented the required rulemaking notice, indicating that the proposed rule changes were necessary to adhere to recent amendments in the Internal Revenue Code under the federal Working Families Act of 2004. Rodeman said that the proposed rule changes would maintain retiree insurance coverage eligibility for dependent domestic partners of PERS retirees. The Board asked staff to review whether a temporary rule was needed to ensure coverage for the current plan year.

#### C.3. NOTICE OF RULEMAKING FOR NON-SUBSTANTIVE CHANGES TO MISCELLANEOUS CHAPTER 459 RULES

Rodeman presented the required rulemaking notice, which included a summary of non-substantive rule modifications that would correct typos and reference errors in various agency administrative rules.

## **ACTION AND DISCUSSION ITEMS**

### **D.1. ADOPTION OF OAR 459-005-0225, REQUIREMENT TO MAKE PAYMENTS BY ELECTRONIC FUNDS TRANSFER**

Rodeman reviewed the proposed adoption of a new permanent rule that would require employers to make payments via Electronic Fund Transfer (EFT). Rodeman said that employers have generally concurred with the proposed EFT process which will increase both agency and employer efficiency. Director Cleary noted that staff will work cooperatively with employers to assist in the EFT process.

It was moved by James Dalton and seconded by Brenda Rocklin to adopt OAR 459-005-0225, as presented, effective upon filing. The motion passed unanimously.

### **D.2. ADOPTION OF OAR 459-070-0100 AND 459-070-0110, EMPLOYER REPORTING AND REMITTANCE OF CONTRIBUTIONS**

Rodeman reviewed the proposed conforming amendments to existing employer reporting rules to support the EFT process. Rodeman said the modification of existing rules would provide better guidelines for employers and insure a smoother EFT process while also extending the late reporting penalty waiver period.

It was moved by James Dalton and seconded by Tom Grimsley to adopt OAR 459-070-0100 and 459-070-0110, as presented, effective upon filing. The motion passed unanimously.

### **D.3. IAP REMEDIATION & RELATED POLICY ISSUES**

Rodeman summarized the experience and continuing challenges in posting employee contributions and earnings to member's accounts under the Individual Account Program (IAP) and steps staff have taken to try to make the program more effective and efficient. Rodeman presented staff's proposed course of action to identify the best approach for correcting member accounts for 2004 and 2005 IAP account transactions that will include input from stakeholders and interested parties. Staff will present interim findings at the August 5, 2005 Board meeting, then develop final recommended actions for consideration at the September 23, 2005 Board meeting. The Board concurred with the staff's assessment and discussed various baseline principles to guide the remediation process and IAP modifications.

### **D.4. LEGISLATIVE UPDATE**

Deputy Director Steve Delaney provided an update on the PERS Board's five legislative proposals. Delaney reported that SB109 has been submitted to Governor Kulongoski for signature and that SB54 and SB108 have been signed and will become effective January 1, 2006. Delaney said the two remaining Board proposed bills, SB110 and SB111, have not been approved as yet. Delaney said staff is supporting holding SB110 in a conference committee as a fallback vehicle for adding

PERS Board meeting

6/24/05

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language that would include the SB111 tax qualification provisions clarifying that PERS is one plan with component programs, should the SB111 provisions become stalled elsewhere.

**D.5. BOARD GOVERNANCE MATTERS**

There were no Board governance matters.

**EXECUTIVE SESSION**

Pursuant to ORS 192.660 (2) (f), (h) and ORS 40.255, the Board went into executive session at 2:50 P.M.

The Board reconvened to open session.

Chair Pittman adjourned the meeting at 3:00 P.M.

Respectfully submitted,

Paul R. Cleary  
Executive Director

*Prepared by Donna R. Allen, Executive Assistant*

# PERS Board Meeting Forward-Looking Calendar

MEETING	8-05-05
DATE	
AGENDA	A.2.a.
ITEM	Forward Calendar

## September 2005

**Meeting: 1:00 P.M. September 23, 2005**

ETOB Final Determination  
Adoption of Division 015 Disability Rules  
Adoption of Division 076 Disability Rules  
Adoption of Non-Substantive Changes to Miscellaneous Chapter 459 Rules  
Adoption of OAR 459-035-0001, Health Insurance Programs Definitions  
Appeal of Jon Randolph Brown  
Appeal of Steven E. Schwerdt  
Appeal of Josephina Johnson  
Appeal of Alice Mitchell

## October 2005

**Meeting: 1:00 P.M. October 21, 2005**

Actuarial Audit RFP Authorization

## November 2005

**Meeting: 1:00 P.M. November 18, 2005**

Returns for periods ending 6/30/05

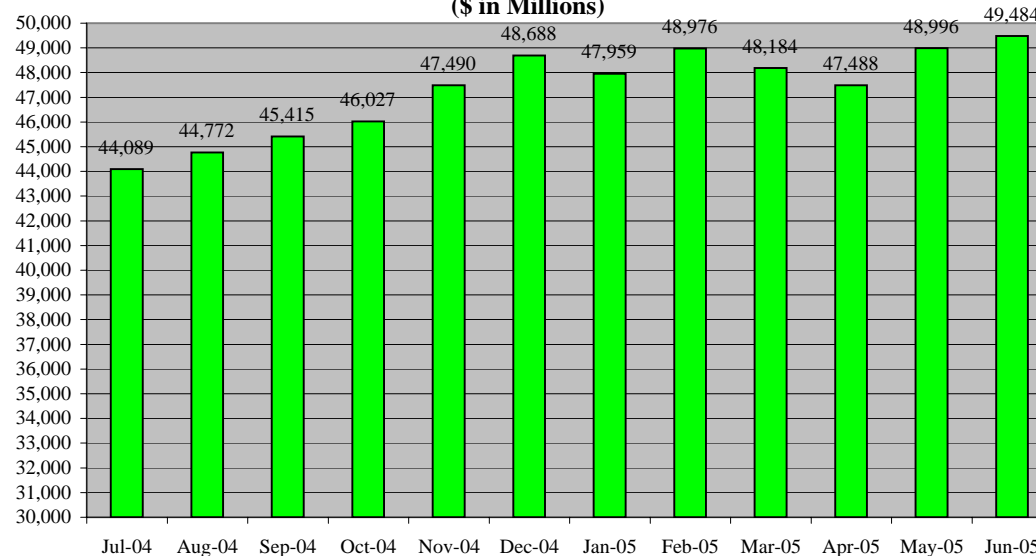
Oregon Public Employees Retirement Fund

OPERF	Regular Account				Historical Performance					
	Policy <sup>1</sup>	Target <sup>1</sup>	\$ Thousands	Actual	Year-To-Date	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS
Domestic Equity	30-40%	35%	\$ 17,220,927	36.0%	(0.03)	8.16	15.09	10.13	2.66	(0.72)
International Equity	15-25%	20%	10,351,522	21.6%	0.32	17.16	24.22	14.19	8.20	1.11
Alternative Equity	7-13%	10%	4,241,707	8.9%	23.87	38.79	27.15	14.09	7.29	1.95
<b>Total Equity</b>	<b>60-70%</b>	<b>65%</b>	<b>31,814,156</b>	<b>66.4%</b>						
<b>Total Fixed</b>	<b>22-32%</b>	<b>27%</b>	<b>12,742,994</b>	<b>26.6%</b>	<b>2.76</b>	<b>8.71</b>	<b>5.51</b>	<b>8.35</b>	<b>7.97</b>	<b>8.45</b>
<b>Real Estate</b>	<b>5-11%</b>	<b>8%</b>	<b>2,759,410</b>	<b>5.8%</b>	<b>16.23</b>	<b>31.63</b>	<b>26.27</b>	<b>19.05</b>	<b>15.91</b>	<b>15.53</b>
<b>Cash</b>	<b>0-3%</b>	<b>0%</b>	<b>574,276</b>	<b>1.2%</b>	<b>1.34</b>	<b>2.28</b>	<b>1.69</b>	<b>1.71</b>	<b>1.96</b>	<b>2.84</b>
<b>TOTAL OPERF Regular Account</b>	<b>100%</b>		<b>\$ 47,890,836</b>	<b>100.0%</b>	<b>3.61</b>	<b>13.88</b>	<b>15.84</b>	<b>11.42</b>	<b>6.86</b>	<b>3.76</b>
<b>OPERF Policy Benchmark</b>					<b>2.48</b>	<b>10.84</b>	<b>14.59</b>	<b>10.04</b>	<b>6.18</b>	<b>3.22</b>
<b>Value Added</b>					<b>1.13</b>	<b>3.04</b>	<b>1.25</b>	<b>1.38</b>	<b>0.68</b>	<b>0.54</b>

Asset Class Benchmarks:

Russell 3000 Index	(0.01)	8.06	14.09	9.46	2.07	(1.35)
MSCI ACWI Free Ex US	0.32	16.95	24.48	14.08	8.06	0.76
Russell 3000 Index + 300 bps--Quarter Lagged	9.79	11.95	26.72	9.30	8.88	3.28
LB Universal--Custom FI Benchmark	2.71	7.60	4.19	6.45	6.70	7.46
NCREIF Property Index--Quarter Lagged	8.33	15.55	12.59	10.74	9.64	10.15
91 Day T-Bill	1.29	2.15	1.57	1.55	1.82	2.62

**TOTAL OPERF NAV**  
(includes variable fund assets)  
One year ending June 2005  
(\$ in Millions)



<sup>1</sup>OIC Policy 4.01.18





# Oregon

Theodore R. Kulongoski, Governor

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July 25, 2005

**TO:** Members of the PERS Board  
**FROM:** Brian DeForest, Budget and Fiscal Operations Manager  
**SUBJECT:** July 2005 Budget Report

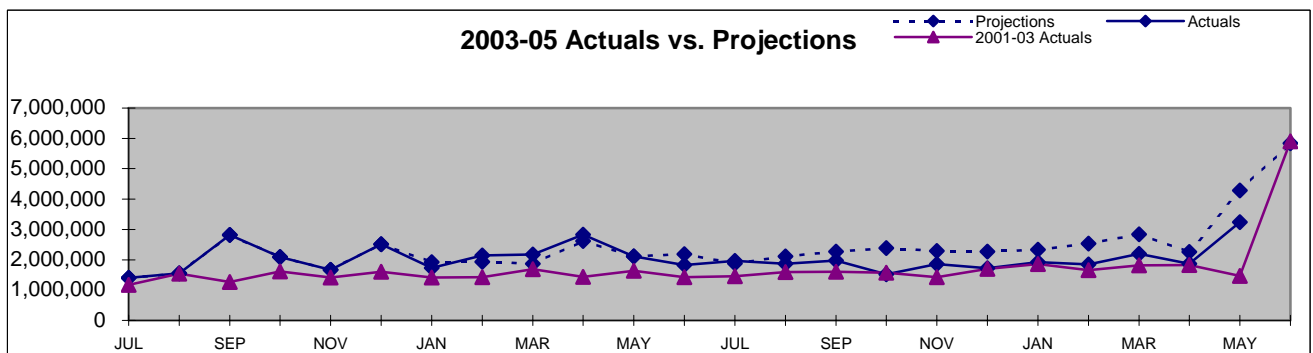
MEETING DATE	8/5/05
AGENDA ITEM	A.2.c. Budget Report

Actual accounting data for the month of June and the remainder of the accounting closeout period is not yet available. This report focuses on a question from the June Board meeting regarding the sharp increases in projected expenditures for May and June 2005, sometimes referred to as the “hockey stick” effect. The next report made to the Board will return to a discussion of biennial expenditures for both the 2003-05 biennium and 2005-07 biennium.

## THE “HOCKEY STICK” EFFECT

As noted in previous PERS Board meetings, projected and actual expenditures increase during the last month or two of the biennium creating an expenditure line graph that sharply increases in May and June at the end of the biennium as displayed below. This effect has sometimes been called the “hockey stick.” Note that this effect occurs only in the Services and Supplies and Capital Outlay expenditure categories in the agency and can leave the reader with the impression there is spending unique to the end of a biennial budget period. There are several contributing factors to this effect.

The first and most significant contributing factor is the accounting closeout period, which lasts for six months following the end of the biennium. Accounting staff works until December 31 of each odd-numbered year to process invoices and make payments for goods and services received by the preceding June 30<sup>th</sup>. Most invoices for goods and services received in June will be paid in July and August and typically include Attorney General charges, payments for contracted services and late biennium purchases. For purposes of the budget reporting spreadsheets, these closeout period payments are aggregated into the final month of the biennium. This causes expenditures for the month of June to “double” when compared to any other month of the biennium.



## Budget Report

7/29/2005

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Another factor contributing to the effect in the use of accumulated savings to make purchases that would normally occur at the beginning of the next biennium. Budget staff and administrators identified unused budget limitation and moved forward with purchases scheduled for the 2005-07 biennium. Purchases included scheduled replacement of servers, desktop computers, chairs, and planned software upgrades. PERS was able to take advantage of the opportunity to make approximately \$400,000 worth of these types of purchases. All purchases made were included on a planned replacement schedule that was used during the 2005-07 budget development process. The 'savings' generated in the 2005-07 biennium is then reserved to cover unanticipated expenditures. An example of an unanticipated expenditure includes the upcoming project to replace the keycard access equipment and software for the PERS Headquarters building. Updated project estimates provided by DAS are \$25,000 more than originally anticipated.



# Oregon

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July 25, 2005

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**TO:** Members of the PERS Board

**FROM:** Steven Patrick Rodeman, Administrator  
Policy, Planning, & Legislative Analysis Division

MEETING DATE	8/5/05
AGENDA ITEM	C.1. Alt. Payee

**SUBJECT:** Adoption of 459-045-0030, *Domestic Relations Orders, General Administration (Alternate Payee Withdrawal)*

## OVERVIEW

- Action: Adopt modifications to OAR 459-045-0030.
- Reason: The current rule, which defines when an alternate payee (AP) may make a withdrawal, is unclear and more restrictive than the statute provides. The current rule also does not adequately cover the general administration under all types of benefit payments.
- Policy Issues:
  - o Should an AP be allowed to withdraw their awarded amount at any time, as long as the member would be eligible to withdraw should they separate from service?

## SUMMARY OF RULE AND POLICY ISSUES

ORS 238.465 includes provisions to have an AP award separated from the PERS member account. The statute disentangles AP payments from the member's payments, except in the area of withdrawals. In past practice, the agency has allowed an AP to withdraw the awarded portion of an account only if the member was eligible to make a withdrawal at the time of the AP's request (separated from service with a PERS-covered employer).

The rule language was confusing as to whether a member had to be actually separated for the AP to withdraw, or whether the member need only be eligible for a withdrawal "if" he or she separated. The proposed amendments bring the rule in line with the statute. As revised, the rule allows an AP to withdraw their award if the member would be eligible if separated from service, regardless of whether or not the member actually separates. The revisions remove the restriction that the member has to actually separate from service.

The original rule was drafted with the belief that an AP is subject to the in-service distribution restrictions that apply to members. Tax counsel has clarified that an AP is not subject to the same restrictions and, therefore, should be allowed to withdraw if the member would otherwise be eligible if separated.

### MODIFICATIONS TO RULE SINCE NOTICE

As the rule was being modified to address this policy issue, other clean-up amendments were incorporated. These are set forth below.

This rule has been amended in section (6) to replace the term “interest” with “earnings” and simplifies the language of when earnings are to cease. Section (7) includes clarifying language that once an account is separated, the account awarded an AP will no longer receive variable account earnings.

Changes to Sections (8) and (9) clarify which paragraph is applicable to Tier One and Tier Two members.

Sections (10) and (11) clarify that this rule is not applicable to judge members or members of the Oregon Public Service Retirement Plan (OPSRP) Pension Program. Specific rules for judge members or OPSRP Pension Plan members will be developed later.

Section (13) clarifies that an AP may retire under the Refund Annuity Option but is provided time to choose a different Option (which are listed) or to change the designation of beneficiary within a 60 day timeframe.

Section (14) clarifies that an AP has 60 days from the date of their first payment to change the option or designation of beneficiary, except that the designation of beneficiary under the Refund Annuity Option or Option 4 may be changed by the AP at any time before the AP’s death.

Section (16) clarifies that PERS shall provide to the AP a written summary of information used in making a retirement computation and specifies how an AP may contest the accuracy and factual information used by PERS to compute the retirement allowance or benefit.

Section (21) clarifies that court awards issued after a member has retired may only award the AP a portion of the retirement allowance paid to the retiree.

Section (22) incorporates the statutory provisions allowing the court to order a change of beneficiary for a retired member who has already named a beneficiary. The benefit must be recalculated based on the new beneficiary’s age so that the member would not receive more than the original value of the retirement benefit.

Section (23) clarifies when an AP is eligible to receive benefits when a member retires for disability.

Section (24) clarifies when AP death benefits are payable.

Section (25) stipulates in what manner the benefits are payable to an AP if the member predeceases the alternate payee.

Section (27) clarifies that AP distributions cannot jeopardize the tax-qualified status of PERS under the IRC §415 limitations.

### LEGAL REVIEW

This proposed rule was submitted to the DOJ for legal review. Their recommended changes have been incorporated in the rule as presented for adoption.

### PUBLIC COMMENTS AND HEARING TESTIMONY

The comment period ended on May 3, 2005. PERS held a public hearing on April 26, 2005 and no one testified or provided public comment on this rule.

### IMPACT

**Mandatory:** No, but the rule modifications clarify the statutory provisions and remove unnecessary restrictions on when an AP may take a withdrawal of awarded benefits.

**Impact:** AP benefits are completely disentangled from the member's retirement decisions and are no longer dependent on the member's actions. Allowing an AP to withdraw their award before retirement will result in lower costs to employers and possible savings to the trust.

**Cost:**

- *Members:* There will be no cost to members.
- *Employers:* There may be reduced cost to employers.
- *Administration:* Minimal administrative costs.
- *Fund:* There may be a positive impact to the fund.

### TIMELINE

March 15, 2005	Staff began the rulemaking process by filing Notice of Rulemaking Hearing with the Secretary of State. Following this filing, stakeholders and legislators were notified and the public comment period began.
March 29, 2005	Notice of Rulemaking to the PERS Board.
April 1, 2005	Oregon Bulletin publishes the Notice of Rulemaking Hearing.
April 26, 2005	Rulemaking hearing held at PERS headquarters in Tigard.
May 3, 2005	Public comment period ended.
August 5, 2005	Rule is presented to the PERS Board for adoption

### BOARD OPTIONS

The Board may:

1. Make a motion to “adopt the permanent rule modifications to OAR 459-045-0030, as presented, to be effective upon filing.”
2. Take no action and direct staff to make changes to the rule or take other action.

STAFF RECOMMENDATION

Staff recommends the Board choose Option #1.

- Reason: The rule modifications are needed to provide clarity to staff and members on how divorce decree provisions are to be administered when an AP is awarded a separate account under ORS 238.465.

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

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

MEETING	8-5-05
DATE	
AGENDA	C.1.
ITEM	Alternate Payee

1 **459-045-0030**

2 **General Administration**

3 (1) An alternate payee's award is payable to the alternate payee if the member  
4 would be eligible to receive benefits upon separation from service. The member is  
5 not required to be separated from service. *[based on the member's eligibility for*  
6 *benefits. For this purpose, a member shall be considered eligible for benefits before*  
7 *separating from service only if he or she would be eligible to receive benefits if he or she*  
8 *separated from service.]*

9 *[(a) If the member or the member's beneficiary is not eligible for retirement,*  
10 *withdrawal, or death benefits, the alternate payee may not apply for or receive payment*  
11 *of his or her award.]*

12 *[(b)]* **(2)** A court order may restrict an alternate payee's award to be payable only  
13 when the member applies for and receives benefits.

14 *[(2) An alternate payee may request to withdraw his or her award if:*

15 *(a) The member ceases to be an active member of PERS, and remains an inactive*  
16 *member for a full calendar month following the month in which the member ceased active*  
17 *membership.*

18 *(b) The member ceases to be a member of PERS by reason of:*

19 *(A) The member electing to withdraw the member account under ORS 238.095(1), or*

20 *(B) The member losing membership in PERS under ORS 238.095(2).]*

1 (3) Unless prohibited by court order, an alternate payee who requests a withdrawal  
2 shall receive an additional 50 percent of the alternate payee award as of the effective date  
3 of withdrawal if:

4 (a) The alternate payee's effective date of withdrawal is on or after July 1, 2004, and  
5 before June 30, 2006; and

6 (b) As of the alternate payee's effective date of withdrawal, the member has met the  
7 requirements of OAR 459-010-0055(4), or would meet them except that he or she has not  
8 withdrawn that portion of the member account that may be withdrawn *[by the member]*.

9 (4) Under no circumstance may an alternate payee withdraw less than the entire  
10 alternate payee award and payment under this section constitutes payment in full.

11 (5) The alternate payee may revoke the request for withdrawal if PERS receives a  
12 written request to revoke prior to the date of distribution.

13 (6) The separate account in the name of the alternate payee shall be credited with  
14 *[interest]* earnings in accordance with OAR chapter 459, division 007 as follows:

15 (a) To the date of distribution *[from that]* of the separate account, or *[provided the*  
16 *member is a vested active or inactive member as provided in ORS 238.425 on the date*  
17 *the member is first eligible for a benefit.]*

18 *[(b) For a 60-month period from the date a member who is not vested under*  
19 *provision of ORS 238.425 ceases to be an active member of PERS.*

20 *(c)]* (b) To the date a non-vested member ceases to be a member as provided in ORS  
21 238.095(2), whichever is earlier.

22 (7) An alternate payee who is awarded a separate account in the Fund in his or her  
23 own name shall not be allowed to participate in the Variable Annuity Account in the



1 Fund, as described in ORS 238.260, regardless of whether the member participated in the  
 2 Variable Annuity Account in the Fund. Once a separate account is established for the  
 3 alternate payee, those funds will no longer receive variable annuity account  
 4 earnings.

5 (8) At the time of the division and establishment of the alternate payee accord,  
 6 the [Separate] alternate payee account[s] will be administered under Tier One pursuant  
 7 to ORS 238.250 and 238.255 if:

8 (a) The member established membership in PERS or performed any period of  
 9 service for a participating public employer that is credited to the six month period of  
 10 employment required of an employee under ORS 238.015 prior to January 1, 1996, or

11 (b) The member ceased to be a member of PERS under the provisions of ORS  
 12 238.095, or 238.105, but restored part or all of the forfeited creditable service from before  
 13 January 1, 1996, under the provisions of ORS 238.115 or 238.105, after January 1, 1996.

14 [(c)] (9) At the time of the division and establishment of the alternate payee  
 15 account, the [All] alternate payee [separate] account[s] will be administered under Tier  
 16 Two pursuant to ORS 238.250 and 238.435, if the provisions of sections (8)(a) and (b)  
 17 are not applicable to the [a] member.

18 (10) The provisions of this rule do not apply to judge members under ORS  
 19 238.500 through ORS 238.585.

20 (11) The provisions of this rule do not apply to the benefits provided under the  
 21 Oregon Public Service Retirement Plan Pension Program under ORS chapter 238A.

22 (12) [(9)] An alternate payee who elects to begin receiving his or her award pursuant  
 23 to a court order that uses the Division Methods described in OAR 459-045-0010 Sections

1 (1) and (2), may select any retirement payment option available to the member, other than  
2 a joint and survivor annuity, but only if a court order allows the alternate payee to make  
3 any elections. The retirement payment to an alternate payee shall be:

4 (a) Contingent on the member's eligibility for retirement benefits, regardless of  
5 whether the member actually retires,

6 (b) Shall be separate and independent from the member's payment date and payment  
7 option, and

8 (c) Shall be actuarially computed based on the age and life expectancy of the  
9 alternate payee.

10 **(13) [(10)]** The alternate payee *[shall]* **may** elect to convert the *[award]* **Refund**  
11 **Annuity Option as described in ORS 238.300** to one of the following optional forms:

12 *[(a) Refund Annuity Option, as described in ORS 238.300,]*

13 **(a) [(b)]** Option 1, as described in ORS 238.305(1),

14 **(b) [(c)]** Option 4, as described in ORS 238.305(1), or

15 **(c) [(d)]** The lump-sum payment option, as described in ORS 238.305(2)(a) and (b)  
16 and 238.305(3)

17 **(14) Alternate payees are provided 60 days from the date of their first payment**  
18 **to change the option or designation of beneficiary, except that the designation of**  
19 **beneficiary under the Refund Annuity Option or Option 4 may be changed by the**  
20 **alternate payee at any time before the alternate payee's death.**

21 **(15) [(11)]** An alternate payee whose total award is less than \$200 per month under  
22 Option 1, defined *[at]* **in** ORS 238.305(1), shall receive in lieu of any and all allowances  
23 or other benefits or form of payment described in section *[(10)]* **(13)** of this rule, a one

1 time lump-sum payment equal to the actuarial value as of the effective date of the  
2 alternate payee's retirement, as is the case for a member under ORS 238.315.

3 (16) (a) PERS shall provide to the alternate payee a written summary of the  
4 information used in making a retirement computation. An alternate payee may  
5 contest the accuracy of the factual information used by PERS in making the  
6 computation of the retirement allowance or benefit by filing a written notice of  
7 contest with PERS not later than whichever of the following days occurs last:

8 (A) The 30<sup>th</sup> day after the date on which the computation and information is  
9 provided to the alternate payee under this section, or

10 (B) The 30<sup>th</sup> day after the date on which the retirement allowance or benefit to  
11 which the alternate payee is entitled first becomes payable.

12 (b) The filing of a notice of contest under this section extends the time allowed  
13 for election of an optional form of retirement allowance or benefit until the 30<sup>th</sup> day  
14 after the conclusion of the contest proceeding or review results in a change in the  
15 computation of the retirement allowance or benefit.

16 (c) Upon receiving a notice of contest under this section, PERS shall determine  
17 the accuracy of the contested information and make a written decision either  
18 affirming the accuracy of the information and computation based thereon or  
19 changing the computation using corrected information. PERS shall provide to the  
20 member a copy of the decision and a written explanation of any applicable statutes  
21 and rules.

22 (d) This section does not affect any authority of PERS, on its own initiative, to  
23 correct an incorrect computation of any retirement allowance or benefit.

1        **(17)** ~~[(12)]~~ An alternate payee shall not receive any cost of living increase under  
 2        ORS 238.360, or special ad-hoc increase that may be granted by the Legislature under  
 3        238.365 or 238.385, or any other type of increase that may be granted to PERS retirees  
 4        until benefits are first paid by PERS to or on behalf of the member.

5        **(18)** ~~[(13)]~~ An alternate payee shall not be entitled to health insurance benefits under  
 6        ORS 238.410, 238.415, and 238.420 regardless of whether a court order awards these  
 7        benefits to an alternate payee.

8        **(19)** ~~[(14)]~~ An alternate payee shall not be entitled to any benefits derived from the  
 9        optional purchase of police officer and fire fighter **unit** benefits ~~[units]~~ under 238.440  
 10        regardless of whether a court order awards these benefits to an alternate payee.

11       **(20)** ~~[(15)]~~ If an alternate payee begins receiving a payment prior to the member, the  
 12       alternate payee is not entitled to any further increases in retirement credit that the member  
 13       may earn or become entitled to prior to the member's actual retirement due to continued  
 14       employment, earnings, or other benefits earned as a member participating in PERS.

15       **(21) Alternate payee court awards made after a member has retired under ORS**  
 16       **238.300 or ORS 238.320 shall be paid as deductions from the retired member's**  
 17       **retirement allowance or lump-sum benefit or from the member's beneficiary's**  
 18       **retirement allowance or lump sum payment. No alternate payee account will be**  
 19       **established.**

20       **(22) A court order may require a member who retired under ORS 238.300 or**  
 21       **ORS 238.320 to change the designated beneficiary outside the timeframe allowed**  
 22       **under ORS 238.305(5) or ORS 238.325(2). The retirement allowance will be**

1 adjusted based on the new beneficiary's age to ensure the value of the benefits will  
2 not be greater than the allowance the member is otherwise eligible to receive.

3 (23) Members who retire for disability under ORS 238.320 or ORS 238.325 are  
4 considered retired members and all the provisions of sections (12) through (21) of  
5 this rule apply to the alternate payee.

6 (24)[(16)] Death benefits payable from an alternate payee account *[under a*  
7 *division of PERS benefits pursuant to a court order ]* are as follows:

8 *[(a) Alternate payee awards are payable to the alternate payee's beneficiary or*  
9 *estate as provided by ORS 238.390 and 238.395. No benefits shall be payable under ORS*  
10 *238.395 with respect to an alternate payee unless the member would have been eligible*  
11 *for death benefits under ORS 238.395 had the member died on the same date as the*  
12 *alternate payee.*

13 *(b) If the member predeceases the alternate payee, the alternate payee's payment*  
14 *becomes due and payable unless the alternate payee was awarded a separate account in*  
15 *the Fund at the time of the divorce, or at the time the member becomes eligible for*  
16 *benefits, the alternate payee elects to establish a separate account.*

17 *(c) If the alternate payee was awarded a separate account in a final court order,*  
18 *whether at the time of divorce or at a later date, the alternate payee may elect to receive*  
19 *his or her account in the form of a death benefit under ORS 238.390 and/or 238.395 if*  
20 *the member predeceases the alternate payee before the alternate payee commences*  
21 *receiving benefits, provided that all other applicable conditions for the death benefit are*  
22 *satisfied. If the alternate payee elects a death benefit under ORS 238.390 [and/] or*  
23 *238.395, the death benefit shall be in lieu of any withdrawal, retirement, or other benefit.*

1 *If the alternate payee does not elect a death benefit, he or she shall be eligible to*  
2 *withdraw the separate account, or to leave the account in the Fund and elect to draw*  
3 *payments under one of the optional forms described in section (10) of this rule, any time*  
4 *on or after the date the member would have reached the earliest retirement age. ]*

5 **(a) If an alternate payee dies before payout or retirement, the alternate payee**  
6 **award is payable to the alternate payee's designated beneficiary or estate as**  
7 **provided by ORS 238.390 and ORS 238.395. No employer death benefits are**  
8 **payable under ORS 238.395 unless the member would have been eligible for**  
9 **employer death benefits had the member died on the same date as the alternate**  
10 **payee.**

11 **(b) If an alternate payee has begun receiving retirement benefits or dies after**  
12 **the first payment is due, the benefits due the designated beneficiary or estate, if any,**  
13 **will be based on the option selected by the alternate payee.**

14 **(c) If an alternate payee dies after applying for a monthly retirement benefit but**  
15 **before the first of the month following the effective retirement date, the account**  
16 **shall be treated as if the alternate payee died before retirement and benefits will be**  
17 **paid under subsection (a) above.**

18 **(d) If the alternate payee is awarded a percentage of a benefit, as long as the**  
19 **award is payable the award will continue to be paid to the alternate payee's**  
20 **designated beneficiary, unless the court decree specifies otherwise.**

21 **(25) If the member predeceases the alternate payee, the benefits payable to the**  
22 **alternate payee are as follows:**

1 (a) The alternate payee who has a separate account becomes eligible to  
2 withdraw his or her account in the form of a death benefit under ORS 238.390 and  
3 238.395 (if eligible). If the alternate payee elects a death benefit under ORS 238.390  
4 and 238.395 (if eligible), the death benefit shall be in lieu of any withdrawal, service  
5 or disability retirement or any other benefit. If the alternate payee does not elect a  
6 death benefit, the alternate payee shall be eligible to withdraw the separate account,  
7 or to leave the account in the Fund and elect to draw benefits under one of the  
8 optional retirement choices described in section (13) of this rule, any time on or  
9 after the date the member would have reached earliest retirement age.

10 (b) If the alternate payee is awarded a percentage of a benefit, as long as the  
11 award is payable the award shall be paid according to the decree of divorce or  
12 separation or annulment unless the court decree provides for no alternate payee  
13 death benefits from the member's account.

14 (26) ~~[(17)]~~ Benefit payments to either the member or the alternate payee, or to both  
15 simultaneously, that exceed the allowable limits set forth in Section 415 of the Internal  
16 Revenue (IRC) shall be deducted from the benefit payment(s) to the member ~~[and/]~~ or the  
17 alternate payee, or both. Unless a final court order specifies the allocation of the  
18 deduction for benefits that exceed the limits in IRC Section 415, PERS shall pro rate the  
19 amount that exceed those limits in the same proportions that benefits were awarded to the  
20 member and the alternate payee as specified in a final court order.

21 (27) Distributions of benefits under OAR chapter 459, division 045 must not  
22 jeopardize the status of the programs as being part of a tax-qualified governmental  
23 plan.

- 1 Stat. Auth: ORS 238.465 & ORS 238.650
- 2 Stats. Implemented: ORS 238.465 & OL 2003 Ch. 276 Sec. 2





# Oregon

Theodore R. Kulongoski, Governor

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July 15, 2005

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

MEETING DATE	8/5/05
AGENDA ITEM	D.1. OSGP

## OVERVIEW

- Subject: The PERS Board needs to appoint two members of the OSGP Advisory Committee, one to fill a current vacancy and the other to address a current member's expiring term.
- Action: Appoint two members to the OSGP Advisory Committee.
- Reasons: The Advisory Committee for the Oregon Savings Growth Plan ("OSGP") consists of seven members appointed by the PERS Board for fixed terms, but each member serves at the pleasure of the PERS Board. OSGP staff worked with PERS executive management to review candidate's resumes and letters of interest and advance the two recommended appointments.

## BACKGROUND

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

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

## Advisory Committee Appointments

7/15/2005

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- (e) The expressed desires of eligible employees as to the Deferred Compensation Program.

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

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

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

Name	Employer/City	Term	Term Ends
Roman Martushev, Chair	Department of State Lands, Salem	Second	6/30/2007
Barry S. Kast, Vice-Chair	Department of Human Services, Salem	Second	6/30/2007
William L. Robertson	Department of Environmental Quality, Portland	First	6/30/2005
Frank Goulard	Portland Community College, Portland	First	6/30/2006
Peter Byeman	Salem-Keizer School District, Salem	Second	6/30/2006
Kathleen Beaufait	Retiree, Salem	First	6/30/2007

There is one vacant position for a state agency employee.

The criteria staff and executive management used in recommending Advisory Committee members appointments includes:

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

### RECOMMENDED APPOINTMENTS

The 3-year term of Bill Robertson, who works for DEQ, expired on June 30, 2005. OSGP staff recommends reappointing him for another 3-year term.

Staff also recommends Jason Evers, who works in Bend for the Oregon Liquor Control Commission, to fill the vacant state agency employee position. This position is vacant because of a resignation, but that member's term expired on June 30, 2005, so the new Member will complete a 3-year term.

### BOARD OPTIONS

The Board may:

1. Accept the recommendation to appoint Jason Evers as the new Advisory Committee member for OSGP effective immediately for a 3-year term.
2. Accept the recommendation to reappoint William Robertson to a second 3-year term.
3. Appoint another person who meets the qualifications to serve on the OSGP Advisory Committee.

### STAFF RECOMMENDATION

Staff recommends the Board adopt Options 1 and 2 above.

Reason: Staff believes Jason Evers meets the appointment criteria and service needs of the Advisory Committee and can help represent OSGP in central Oregon and expand the geographical representation of the committee.. Bill Robertson has served well during his first term and is an asset to the committee.

### **ORS 243.505 Deferred Compensation Advisory Committee**

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

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

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

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

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

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

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

**459-050-0025**

**Deferred Compensation Advisory Committee**

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

- (a) A member shall be a participant in a deferred compensation plan under ORS 243.401 to 243.507, and have knowledge of the respective current plan.
- (b) Four members shall be participants in the state deferred compensation plan.
- (c) Two members shall be participants in a local government deferred compensation plan.
- (d) One member shall be a retired plan participant.
- (e) No two members shall be employed by the same state agency or local government unless a member transfers employment from one employing entity to another and only for the balance of the term of appointment of the member transferring.
- (f) No member shall serve more than two consecutive full terms.
- (g) No member shall be an employee of PERS during the term of appointment.

(2) The Committee shall study and advise the Public Employees Retirement Board on all aspects of the deferred compensation program, including but not limited to:

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

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

- (a) Investment programs, including options and providers; and
- (b) Information furnished by the OIC or the staff of the State Treasurer concerning the types of available investments, the respective balance of risk and return of each investment, and the administrative costs associated with each investment.
- (4) The Committee shall meet at least four times during a calendar year.
- (5) A majority of the Advisory Committee shall constitute a quorum for transacting business. However, the Advisory Committee may establish such other procedures for conducting business that it deems necessary.
- (6) Pursuant to the Public Meetings Law, ORS 192.610 to 192.690, the Manager of the Deferred Compensation Program shall distribute to the Advisory Committee members, and other interested parties, an agenda for a regular meeting at least one week prior to the meeting.
- (7) The Manager of the Program shall submit a draft copy of the Advisory Committee minutes to the Board at its next regular meeting which is not less than fifteen working days following each Committee meeting.
- (8) Nominations of Candidates for the Advisory Committee shall be made as follows:
  - (a) Notice of position(s) on the Advisory Committee to become vacant upon the expiration of term of appointment shall be published not later than March 1 of each calendar year;
  - (b) Persons interested in serving on the Committee must apply in writing to the Manager of the Deferred Compensation Program not later than May 1 following the publication of any vacancies;
  - (c) The Manager of the Deferred Compensation Program shall review the written applications of interested persons for completeness, accuracy and minimum requirements of vacant position on Committee, and forward the acceptable applications to the Board's Investment Oversight Committee.
  - (d) The Board's Investment Oversight Committee shall review the acceptable applications and recommend to the full Board candidates for appointment to the Advisory Committee that:
    - (A) Reflect a cross section of state agencies, participating local governments, and classification level;
    - (B) Reflect mixture of expertise, knowledge, and experience useful to the Advisory Committee;

(C) Appear to have a sincere interest in the deferred compensation program; and

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

(e) In the event of a vacancy of an unexpired term, the Board shall select an appointee from the list of interested persons established following the most recent publication of vacancy to become immediately effective for the remainder of the unexpired term.

Stat. Auth: ORS 243.470

Stats. Implemented: ORS 243.505

Hist.: PERS 2-1993, f. & cert. ef. 9-23-93; PERS 2-1995, f. 10-13-95, cert. ef. 11-1-95; PERS 5-2000, f. & cert. ef. 8-11-00



# Oregon

Theodore R. Kulongoski, Governor

July 25, 2005

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**TO:** Members of the PERS Board

**FROM:** Steven Patrick Rodeman, Administrator  
Policy, Planning, & Legislative Analysis Division

MEETING	<b>8/5/05</b>
DATE	
AGENDA	<b>D.2.</b>
ITEM	<b>IAP</b>

**SUBJECT:** IAP Remediation Update

## OVERVIEW

- Subject: PERS staff has continued to develop information and engage in dialogues related to restoring the Individual Account Program (“IAP”) to be more consistent with member and employer expectations. This memo updates the Board on that dialogue and research so that the outlines of a recommended solution for consideration by the Board at its September 23, 2005 meeting can be reached.
- Action: Staff has and will continue to solicit stakeholder input and professional counsel as to the appropriate remedial steps and structure of ongoing operations. A package of implementing actions (i.e., administrative rule modifications, amended agreements, etc.) necessary to support that direction will be presented once the Board has adopted a solution.
- Policy Issue:
  - Which alternative approach and structure would result in an IAP that best fits the PERS Board’s policy direction?

## BACKGROUND

Issues related to the IAP’s implementation and operations were outlined in a previous memo to the Board at its June 24, 2005 meeting. Staff has continued to research the present situation and assess the limitations and consequences of the current IAP structure. Both the Employer Advisory Committee and the Legislative Advisory Committee (“LAC”) were briefed on these issues and provided open forums to exchange ideas and obtain feedback on potential solutions. The minutes of the LAC’s July 20, 2005 meeting are included with this memo. Lastly, legal and actuarial counsel were briefed on the staff’s analysis to begin their assessment of the risks and benefits of the approaches as developed so far.

Generally, as we’ve continued to analyze the situation, our efforts have coalesced around three time periods: (1) A Remedial Period (calendar years 2004 and 2005), when IAP operations were inadequately defined and challenging for all involved; (2) An Ongoing Operations Period (calendar year 2006 and forward), when we hope to have normalized IAP operations around a common understanding of how the program should work, and (3) A “To-Be” Period (to be determined) when the legislature may lend further definition



or structure, or radically change, the IAP (if they should choose to do so during the 2007 Session or at some later date).

The first focus of our analysis was on the Ongoing Operations Period beginning January 1, 2006 – assessing how this program should operate to meet stakeholder expectations within the confines established by the legislature when they enacted the IAP. Then, we move to the Remediation Period – given a decision on how the program should operate (ideally, shared by all stakeholders), assessing remedial steps to restore IAP members accounts for 2004 and 2005 as if the program had followed that model from the start. Lastly, for the “To-Be” Period, we can start defining the limitations inherent in the ongoing IAP. That may prompt the legislature to make changes in the future that they determine to be necessary to align the IAP with their expectations.

#### ONGOING OPERATIONS – THE IAP FROM JANUARY 1, 2006 FORWARD

Starting with the statute, ORS 238A.350 requires PERS to establish an IAP account consisting of the employee’s contribution of 6% of covered salary. That account shall be adjusted at least annually to reflect any net earnings or losses on those contributions, and to pay the program’s administrative costs. The Board must provide an annual statement reflecting the amount credited to the accounts and whether the member is vested.

Given this simple direction, staff recommends (and the LAC concurs) that the IAP be redesigned to provide for an annual contribution accumulation and earnings crediting structure. Employers would forward the employee’s contributions during the course of the year. Annual earnings or losses from those accumulated contributions would be credited, after adjustment for administrative costs, to member’s IAP accounts once a year. Annual statements would be utilized to document beginning balances, annual contributions, annual earnings/loss allocations (net of administrative costs) and ending balances. Several emerging principles would result from this IAP structure:

- The IAP should be understood to be a long-term retirement program. Members would have no transactions (other than retirements or withdrawals) applied to their account between annual crediting. Comparisons to individual savings accounts or daily transaction-based investments like a 401(k) plan would be inappropriate.
- Eligibility determination tools should be improved. One of the program’s challenges is the complicated determination of who is even eligible for membership and contributions. Automating that determination or otherwise placing it in the agency’s hands was not efficient. Employers are in the best position to know which of their employees are eligible for the IAP, and employees should have the information to verify their status as they approach eligibility. Once fully implemented, the jClarety system will have the following tools to assist with these status determinations:
  - Employers will receive e-mail as their employees approach the 600-hour mark. They can then anticipate and execute contributions for employees they may not have otherwise thought would qualify for IAP membership.
  - Employers will be able to look up the accumulated hours for current employees that count towards IAP eligibility. Only the hours will be available, not the name of the other employer(s).

- Employees will have self-service access to the jClarety system to review their employment history, including accumulated hours for the calendar year.
- The contributions and earnings of similarly situated members should receive equal treatment. The complications of unitizing investments and calculating personal investment return rates should be eliminated so members earning the same salary over the same period of time will get the same amount of contributions and receive equal earnings in terms of both dollars and percentages.
- Administrative costs should be deducted from total IAP earnings and thus allocated as a uniform percentage across accounts relative to the account's balance, not as a flat rate charge for each account. The flat rate account administrative fee (roughly \$2.37 per month) under the current program was roundly rejected as regressive by the LAC and inconsistent with other pension or investment account fee structures.

Discussions need to continue to resolve additional questions, including the nature and scope of member information access, structure and contents of annual statements, earnings allocations at retirement or withdrawal, etc. Stakeholder conversations certainly did, however, yield the broad outlines of a shared vision for the ongoing IAP operations around the concept of annual crediting and member account management similar to the agency's historical practices in Tier One and Two regular accounts. All parties reached consensus that such an account structure would most closely match member and employer expectations within the limits set out by the legislature in creating the program.

### IAP REMEDIATION

Reaching a shared vision about the IAP's ongoing operations was crucial to crafting a remedy for the program's problems and challenges. As there was no IAP before the problems started, we had to define what was "normal" before we decided how to restore member's accounts to "normalcy." Given the consensus around an annual crediting model, staff is proceeding to develop a remediation plan that puts members' existing IAP accounts into the position they would have been in if that model had been in place since the program's inception. Some principles that emerge from that analysis:

- The rate of return for IAP accounts will not match the 2004 return for other PERS accounts (e.g. Tier One or Tier Two regular). The reason for this discrepancy is that IAP accounts have a different cost structure, as mandated by the legislature. The system's start-up costs are considerable for the first several years. So, even given similar earnings, IAP accounts will have greater amounts deducted for costs, reducing their comparative rate of return.
- Determining the appropriate rate of return for IAP accounts presents difficult choices. First, late reports and related late or inconsistent contributions through the calendar year means actual earnings results are skewed. Second, those contributions were posted to accounts and subsequently adjusted under a monthly crediting paradigm that proved to be contrary to expectations and yielded inconsistent and incoherent results. Consequently, do we:
  - Reconstruct accounts as if the contributions had been credited according to the original model, adjust for changes in the unit price, and calculate the new balance?

Using that method perpetuates the old IAP model and raises further issues: when would the specific contribution actually have been made and posted? Do we impute monthly administrative costs as well? What are the individual account costs in re-synthesizing these transactions under what has proven to be an overly complicated and problem-ridden paradigm?

- Reconstruct the accounts along the lines of an annual crediting structure? This method treats the IAP accounts consistent with the other PERS accounts for earnings crediting; uses a tried and true formula that is familiar to stakeholders and members (adjusted slightly to reflect the need to isolate IAP costs); reflects the statutory direction that the IAP contributions be invested in the same pool as other PERS funds; and simplifies IAP administration so it is easier to explain and understand. While this method would also require individual account adjustments and reviewing “what if?” calculations, the results are much easier to determine, administer, and explain as they flow from familiar frameworks.

At this point, staff is working on impact analyses for these options and developing a remedial model that minimizes the need for account adjustments and streamlines the processes involved. Any remedy will also have to accommodate adjustments to IAP accounts that have been or will be paid out prior to completion of the remediation action. To date, there have been 1,187 IAP retirements, 348 withdrawals, and 34 death benefits paid.

#### PROPOSED COURSE OF ACTION

Staff proposes to further develop a remediation plan and set of ongoing principles for consideration and adoption by the PERS Board at its September 23, 2005 meeting. The plan and principles would follow the general outline described above of annual earnings crediting based on an aggregate investment return, adjusted on a percentage basis for administrative costs, unless upon review of this memo and further discussion at the August meeting, the Board provides different direction.

Other interim steps will include:

- Ongoing dialogue with the LAC as the plan and principles are developed to assure we stay in alignment with their consensus recommendations.
- Review by actuarial and legal counsel to evaluate the risks and benefits of the recommended approaches.

#### STAFF RECOMMENDATION

- Staff recommend that the Board authorize the above described course of action and provide additional policy direction, if necessary, to guide the process.

# PERS Board

## Legislative Advisory Committee

### Meeting Minutes

July 20, 2005

**Minutes By:** Christie Nunez

**Members Present:** Maria Keltner, Pat West, Mary Botkin, Tricia Smith, Arthur Towers, Robert Wagner, Brian DeLashmutt, Lance Colley & Beth Anne Darby

**Guests:** Tom Grimsley, Tracy Rutten, Cathy Bloom, Gay Lynn Bath & Greg Hartman

**Facilitated by:** Paul Cleary, Executive Director, PERS and Steve Delaney, Deputy Director, PERS

**Presenters:** Steve Rodeman

**Handouts:** June 13, 2005 Memo to the PERS Board Re: the IAP Remediation Plan; IAP Frequently Asked Questions & Answers from PERS Website

#### INTRODUCTIONS – Paul Cleary

- The IAP Remediation plan memo outlines:
  - What were some of the original principles that were considered when developing the IAP
  - What were some of the challenges that PERS and employers faced
  - What were some of the consequences for PERS members
  - The need to develop a course of corrective action for 2004-2005
  - The need to develop an IAP plan going forward, 2006 and beyond
  - The need to realize that the 2007 Oregon legislature may want to consider substantive changes to the IAP and related eligibility standards.

#### IAP REMEDIATION PLAN – Steve Rodeman

- We would like to bring to the PERS Board the Legislative Advisory Committee's consensus on recommended alternatives to the current administration of the IAP.
- The IAP Remediation Plan memo discusses the full range of alternatives to the status quo. The PERS staff is seeking the LAC's direction on where on this spectrum they believe that remediation plans should be directed.
- The principles that PERS staff feel are important to maintain are listed on page 3 of the memo (second et of items, 1-4).
  - IAP accounts remain discrete from other PERS Funds
  - Members have transparent access to their individual account balances and changes such as earnings crediting that occur
  - Setting the bar high for data quality did not improve accuracy or consistency
  - Determining member eligibility contains too many variables to completely automate – should be done at the employers' level with enhanced tools. PERS staff will discuss the tools in process through the jClarety product to better manage member eligibility data at the August PERS Board meeting.

- The current staff recommendation falls closest to alternative #3 on page 5 of the IAP Remediation Plan memo:
  - Only adjust IAP accounts annually for earnings, losses, and administrative costs
  - Recalculate 2004-2005 IAP account transactions and make a 24 month period adjustment as appropriate
  - Modify the IAP operations to reflect annual crediting; modify features that don't fit this paradigm and that we do not foresee using (eg., monthly statements)
  - Communicate to members and employers the changes and provide training as appropriate

**Discussion:** The IAP was initially modeled to provide much of the functionality of a 401K plan, where members could go online, check their balances, and track changes in their earnings or losses. That model goes beyond the statutory construction of the IAP. One answer to our operational issues could be to simplify the program. Breaking the mold of 401(k) accounts would relieve expectations and many expressed concerns. The statute only requires an annual earnings crediting structure. The process for annual crediting would be as follows:

- PERS would receive and accept contributions from employers
- PERS would transfer the funds for immediate investment
- At least annually, PERS would reconcile individual member accounts for contributions and credit earnings based on the overall Fund's performance.

The manner in which administrative costs are assessed to the IAP was yet another issue of concern. Members are currently charged a flat fee regardless of account balance. Alternatively, we can take the administrative costs off the top thus allocating annual fees on a uniform percentage based on the members account balance.

**Annual earnings crediting means:**

1. Employee contributions will get equal crediting of earnings
2. Employer reporting & late reporting penalties will change
3. The IAP return rate will not be the same as Tier 1 & Tier 2 because of different administrative costs allocations.

**LAC CONSENSUS RECOMMENDATION TO THE PERS BOARD:**

The PERS Board Legislative Advisory Committee generally agreed with the PERS staff recommendation that the remediation plan and going forward structure for the IAP should fall within the parameters discussed above. This is listed in the June 13, 2005 PERS Board memo regarding the IAP remediation plan, as alternative number 3; major points of this alternative are listed above.

**WHAT'S NEXT:**

- PERS staff will present an update to the PERS Board along with any LAC comments that are submitted by Monday July 25, 2005.
- The next LAC activity will be to review and comment on the staff's continuing analysis and related recommendations to the PERS Board for the Board's September 23, 2005 meeting. Staff pledged to develop the recommendations early and circulate them to the LAC, providing a forum for comment such as a conference call, so those comments can be incorporated and provided to the Board as part of their deliberations.



# Oregon

Theodore R. Kulongoski, Governor

July 25, 2005

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**TO:** Members of the PERS Board

**FROM:** Steve Delaney, Deputy Director  
Tom Grimsley, Board Member

MEETING	<b>8/5/05</b>
DATE	
AGENDA	<b>D.3.</b>
ITEM	<b>Legis. Update</b>

**SUBJECT:** 2005 Legislative Update

As the session begins to draw to its final close, the following is a brief summary of some of the major PERS bills considered this session:

## BILLS STILL IN PROGRESS

- HB 3262A [PERS omnibus bill, including Board language clarifying PERS is a single plan with component programs]. As of the date of this memo, we continue to wait for a conference committee to meet and consider changes made to this bill by the Senate.
- SB 110A [Clarifies that a withdrawal cancels a Designation of Beneficiary]. Now part of HB 3262A, which is set to be considered by a conference committee.
- SB 111 [Clarifies PERS is one plan with component programs]. Now part of HB 3262A, which is set to be considered by a conference committee.
- SB 499A [Allows 911 telecommunicators to retire with 20 years of service]. Presently with the House State and Federal Affairs Committee. It is unknown at this time if the bill will move.

## PERS BOARD-SPONSORED BILLS THAT HAVE PASSED

- SB 54 [Modifies start date for "pop up" to higher retirement benefits due to divorce or death of beneficiary]. Governor Kulongoski signed this bill on June 7. Because it did not have an emergency clause, it becomes effective January 1, 2006.
- SB 108 [Modifies interaction of PERS Tier 1/Tier 2 programs and OPSRP]. Governor Kulongoski signed this bill on June 7. Because it did not have an emergency clause, it becomes effective January 1, 2006.
- SB 109 [Allows PERS to establish interest rate paid to members on underpayments of benefits]. Governor Kulongoski signed this bill on June 28 and became effective on that date because of an emergency clause.
- SB 5558 [PERS Budget – The Senate Version]. Governor Kulongoski signed this bill on June 28 and became effective on July 1 because of an emergency clause.

SB 5559 [Approves new or increased fee adopted by Public Employees Retirement Board – The Senate Version]. Governor Kulongoski signed this bill on June 28 and became effective on July 1 because of an emergency clause.

OTHER PERS-RELATED BILLS THAT HAVE PASSED

HB 2060B [Allows community colleges to offer optional retirement plan to certain employees]. Passed both the House and the Senate on July 21. This bill now awaits signing by the Senate President, House Speaker and Governor before becoming law.

HB 2104A [Modifies provisions governing the Stat Board of Higher Education’s Optional Retirement Plan]. Passed by both House and Senate, this bill is waiting for Governor Kulungoski’s signature.

HB 2189B [PERS Omnibus Bill]. Containing only those concepts approved by both the PERS Employer and the PERS Labor coalitions. Governor Kulongoski signed this bill on June 29 and became effective on that date because of an emergency clause.

SUMMARY OF ALL PERS-RELATED BILLS

As of Monday, June 25, 2005, 47 bills have been introduced relating to PERS:

Bill Number	Summary
SB 54	Modifies commencement date for increased monthly benefits payable to retired member of Public Employees Retirement System who selects optional retirement allowance that provides increased benefit if beneficiary dies before retired member or if retired member and spouse divorce. Provides that increased benefit is applicable to first full month following death or entry of judgment of divorce.
SB 105	Modifies break in service rule. Provides that employee does not have break in service by reason of period of time during which employee leaves public employment because of injury or disease that entitles employee to receive service disability allowance. Provides that person who was inactive member on August 28, 2003, does not have break in service upon return to employment if person was on leave authorized by law or by employer and both person and employer anticipated that person would return to employment with employer upon completion of period of leave.
SB 108	A PERS Board Bill – housekeeping measure pertaining to the interaction of PERS 238 and OPSRP 238A.
SB 109	A PERS Board Bill – Amends unclear statutory direction regarding interest earnings for estimated payments.
SB 110	A PERS Board Bill – Provides that withdrawal of an account invalidates any beneficiary notification on file with PERS.

SB 111B	A PERS Board Bill – For tax qualification purposes, clarifies that PERS is a single plan with component parts. As amended, this bill also provides for increased retirement benefits to judge members.
SB 188	Modifies break in service rule governing membership in Oregon Public Service Retirement Plan by person who leaves public employment for more than six months. Provides that seasonal employee does not have break in service by reason of period of time during which employee leaves employment based on seasonal nature of employment.
SB 271	Provides that judge member of PERS who fails to make plan election be retired under Plan B. Allows judge to retire under Plan B if judge is at least 58 years of age and has at least 21.75 years of creditable service as judge. Modifies calculation of Plan B service retirement allowance. Increases maximum number of years of service using 3.75 multiplier under formula from 16 to 18.
SB 302	Limits number of terms to which member of Oregon Investment Council may be appointed. Limits number of years a chairperson may serve. Requires sound recording be made of every meeting. Requires monthly meetings.
SB 497	Prohibits Public Employees Retirement Board from paying increased benefit by reason of state income taxation of payments made by board if person receiving payments is not resident of State and does not pay Oregon income tax. Provides procedures for enforcing prohibition. Imposes similar prohibition for certain public employers that provide retirement benefits for police officers and firefighters other than by participation in Public Employees Retirement
SB 499	Classifies telecommunicators certified by Department of Public Safety Standards and Training as police officers for purposes of benefits under Public Employees Retirement System. Applies to all service rendered by telecommunicator, whether rendered before, on or after effective date of Act, if person is employed as telecommunicator on effective date of Act.
SB 506	Classifies dog control officers and persons commissioned by sheriff to perform animal control duties as police officers for purposes of benefits under Public Employees Retirement System. Applies to all service in position, whether rendered before, on or after effective date of Act, if person is employed in position on effective date of Act.
SB 508	Removes limit on number of hours retired member may work and still qualify for retirement under Public Employees Retirement System if retired member is employed by school district or education service district as other than teacher or management employee, or by community college as other than faculty member or management employee. Applies to Oregon Public Service Retirement Plan.



SB 766	Limits amount of salary and benefits that school district, education service district or public charter school may pay administrator at end of contract. Defines 'administrator' for purposes of Act. Prohibits district or school from granting administrator retirement benefits that are not available to other employees. Provides that district or school may make contributions to retirement plan of administrator in lieu of making contributions to Public Employees Retirement System. Declares emergency, effective on passage.
SB 767	Provides that employee of Oregon School Boards Association may not become member of Public Employees Retirement System by reason of service to association. Specifies that provision does not affect employees of association who are members on effective date of Act, or who are serving probationary period on effective date of Act.
SB 874	Requires Public Employees Retirement Board to allow retired members and beneficiaries to make voluntary annual contributions to organizations representing interests of retirees that have at least 100 members who are retired members of Public Employees Retirement System and to certain charitable organizations. Authorizes eligible organization to enclose information about organization in one mailing of monthly benefit checks once each calendar year. Requires that cost of administering Act be paid from contributions made by members and beneficiaries.
SB 893	Allows school district or education service district to employ retired member of Public Employees Retirement System to teach technology courses for any number of hours without affecting right of member to receive service retirement allowance if member has teaching license related to professional technical education.
SB 941	Identical to SB 893, allows retired member hired by a school district or education service district "to teach technology courses" to work unlimited hours.
SB 980	Classifies doctors and nurses who work at Oregon State Hospital as police officers for purposes of benefits under Public Employees Retirement System. Applies only to service rendered on or after effective date of Act.
SB 1010	Allows member of Public Employees Retirement System who served in elective office before becoming member of system to acquire retirement credit for periods of service in elective office. Requires that member pay employee contributions for period of service sought, and interest. Requires that payment be made within 36 months after effective date of Act.

SB 1019	<p>Modifies break in service rule for members of Public Employees Retirement System. Provides that person who is inactive member of Public Employees Retirement System on August 28, 2003, and who is reemployed in qualifying position on or before August 27, 2005, does not have break in service. Provides exceptions. Provides that person does not have break in service by reason of period of time during which person is receiving temporary total disability payments under Workers' Compensation Law. Requires that service under Oregon Public Service Retirement Plan by person who has break in service be treated as creditable service under ORS chapter 238 for purpose of any statute in ORS chapter 238 that requires that member complete specified period of creditable service as condition of retiring or receiving other benefit. Requires that creditable service under ORS chapter 238 by person who has break in service be treated as retirement credit under ORS chapter 238A for purpose of any statute in ORS chapter 238A that requires that member complete specified period of retirement credit as condition of retiring or receiving other benefit. Provides that earliest retirement age under Oregon Public Service Retirement Plan for person who has break in service is earliest retirement age for service under ORS chapter 238.</p>
SB 1020	<p>Provides that member of Public Employees Retirement System who retires under Oregon Public Service Retirement Plan and who is also receiving retirement allowance under ORS chapter 238 may be reemployed for period of time allowed under ORS chapter 238 and continue to receive pension under Oregon Public Service Retirement Plan. Provides that member of Public Employees Retirement System who retires under ORS chapter 238 may be reemployed for specified number of hours without regard to whether member is receiving retirement allowance.</p>
SB 1021	<p>Requires that Public Employees Retirement Board credit community college employee engaged in teaching with hours of service based on number of credit hours taught. Provides formula for determining number of hours of service attributable to each credit hour.</p>
SB 1022	<p>Requires that Public Employees Retirement Board commence payment of death benefit under Oregon Public Service Retirement Plan as of date of death of member. Allows surviving spouse or other person entitled to payment to elect to delay payment of death benefit until specified date. Provides that death benefit under ORS chapter 238 includes amount contributed by employer equal to amount in employee account established for member under individual account program of Oregon Public Service Retirement Plan. Provides pension options for members of Oregon Public Service Retirement Plan.</p>

SB 1023	Provides that member of Public Employees Retirement System does not have break in service by reason of period of time during which member leaves employment with participating public employer pursuant to agreement with employer. Requires that agreement specify length of leave or provide that member will return to employment upon occurrence of specified event.
SB 1024	Modifies definition of 'final average salary' used to compute pension of member of Oregon Public Service Retirement Plan. Modifies overtime limitation on salary used for determination of pension under Oregon Public Service Retirement Plan. Allows public employer to establish more than one overtime average for class of employees based on geographic placement of employees. Requires that Public Employees Retirement Board use definition of 'salary' provided by ORS chapter 238 for purpose of computing employee contributions of certain members of individual account program of Oregon Public Service Retirement Plan.
SB 5558	The PERS Budget – The Senate Version. This appears to be the version that both House and Senate have agreed to work.
SB 5559	Approves new or increased fee adopted by Public Employees Retirement Board – The Senate Version. This appears to be the version that both House and Senate have agreed to work.
HB 2060	Authorizes community college districts to offer alternative retirement programs.
HB 2104	Modifies provisions governing Optional Retirement Plan established by State Board of Higher Education. Provides that employer contribution rate for plan be based on employer contributions to PERS without adjustment for lump sum payments to system by employers. Establishes procedures for employees who are members of Oregon Public Service Retirement Plan and who elect to become members of Optional Retirement Plan.
HB 2189	[Provides that salary used to determine benefits of members of PERS includes wages of deceased member paid to spouse or dependent children.] This bill has been expanded to become the PERS 'Christmas Tree' bill, addressing issues such as "break in service," overtime standards, salary definitions, and community college reporting requirements, among others.
HB 2434	Requires that employer of Tier One or Tier Two members continue to make contributions for member as though member continued to work during period in which member receives temporary total disability benefits under Workers' Compensation Law. Provides that contributions be based on salary of member at time member left work. Provides that final average salary of member be calculated as though member continued to work during period of temporary total disability, based on salary of member at time member left work.

HB 2436	Expands definition of 'salary' for purposes of benefits under Public Employees Retirement System. Provides that salary includes amounts contributed by employee to Health Savings Account or Health Reimbursement Arrangement. Expands definition of 'salary' for purposes of benefits under Public Employees Retirement System. Provides that salary includes amounts contributed by employee to Health Savings Account or Health Reimbursement Arrangement. Declares emergency, effective on passage.
HB 2572	Directs Public Employees Retirement Board to calculate or recalculate retirement benefits of member of Public Employees Retirement System if member is convicted of certain work related felonies. Requires board to pay convicted member only benefits that are funded by employee contributions.
HB 2615	Provides that rules for accrual of retirement credit by school employees under Oregon Public Service Retirement Plan apply to employees of Oregon Health and Science University engaged in teaching or other school activity.
HB 2641	Provides that employer-funded portion of pension or retirement plan of public employee is subject to execution if employee is convicted of felony and court determines that conduct on which conviction is based occurred while employee was engaged in performance of duties, or that employee's position allowed employee to engage in conduct that is basis of conviction.
HB 2735	Provides that state agency may employ retired member of Public Employees Retirement System to fill position only if state agency certifies to Oregon Department of Administrative Services that state agency has made good faith efforts for at least 45 days to fill position and public employer has been unable to find suitable person who is not retired member to fill position. Requires school district to make similar certification to Department of Education. Provides that state agency may not pay retired member higher wage than wage provided for lowest step of state pay classification for position. Provides that school district may not pay retired member higher wage than lowest wage paid by school district for position
HB 2925	Classifies certain public employees as police officers for purposes of benefits under Public Employees Retirement System. Applies only to service rendered on or after effective date of Act.
HB 3041	Allows member of Public Employees Retirement System who is police officer to receive retirement credit for service as public safety officer with another state, or political subdivision of another state, before being employed in position that entitled member to credit in system. Requires lump sum payment of full cost of retirement credit

HB 3237	Requires state agencies to prepare fiscal impact statement for each agency rule in effect. Requires agencies to submit report summarizing fiscal impacts of rules to President of Senate and Speaker of House of Representatives by October 1, 2006.
HB 3262	Provides that member of Public Employees Retirement System who acquires retirement credit for active service in Armed Forces may elect to have service retirement allowance determined under any calculation for which person is eligible, even if calculation does not produce largest service retirement allowance.
HB 3410	Allows eligible state employee who has deferred compensation to direct Public Employees Retirement Board to pay all or part of deferred amounts to individual rollover account. Allows use of moneys in rollover accounts established by members of Public Employees Retirement System to pay costs of restoring forfeited creditable service and purchasing retirement credit as authorized by law.
HB 3471	Imposes minimum fine for certain persons convicted of felony if court determines that conduct on which conviction is based occurred while person was engaged in performance of person's duties as official or employee, or that person was able to engage in conduct because of person's job or position. Provides that if person has retirement plan funded in part by person's employer, fine may not be less than 25 percent of value of employee's interest in plan. Provides that 25 percent of beneficiary's interest in retirement plan is subject to execution for purpose of satisfying judgment in criminal action.
HB 5059	The PERS budget.
HB 5060	Approves new or increased fee adopted by Public Employees Retirement Board.
HB 5093	The PERS budget – The House version.
HB 5094	Approves new or increased fee adopted by Public Employees Retirement Board – The House version.



# Oregon

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August 5, 2005

**TO:** Members of the PERS Board  
**FROM:** Steven Patrick Rodeman, Administrator  
Policy, Planning, and Legislative Analysis Division  
**SUBJECT:** IAP Remediation – Earnings Crediting

MEETING DATE	8/5/05
AGENDA ITEM	D.2. IAP Supplement

Staff has developed a proposed methodology to credit earnings to IAP accounts. This memo supplements the Board agenda item (D.2.) to further explain the earnings crediting element of the remediation plan as currently conceived.

The remediation plan suggests, in its broadest terms, that IAP accounts be credited with earnings annually in a manner consistent with PERS Chapter 238 accounts. Those accounts are credited by apportioning earnings available for distribution according to the accounts' relative percentage of the overall PERS Fund, net of transfers for reserves and administrative costs. This methodology is used to credit earnings for Tier Two and Employer Accounts and the Benefits-in-Force Reserve, as well as determining what earnings are initially available to fund the Tier One assumed rate guarantee.

If that methodology is adopted to credit IAP earnings in the future, the plan as conceived would use that same method as the basis for IAP earnings crediting for calendar years 2004 and 2005. For 2004, the calculation would proceed as follows:

1. IAP Account Balances <sup>1</sup>	\$385,003,693
2. Proportional Earnings Available for Crediting <sup>2</sup>	\$53,669,515
3. Administrative Costs Attributable to IAP	\$5,070,302
4. Contingency Reserve Transfer	\$3,644,941
5. Capital Preservation Reserve Transfer	\$3,371,570
6. Total Earnings Available for IAP Crediting (2-(3+4+5))	\$41,582,701
7. Earnings Allocated as Percentage of IAP Accounts (6/1)	10.80%

The resulting 10.80% earnings crediting for 2004 IAP account contributions is slightly less than the other PERS Chapter 238 Program accounts because of the IAP's higher

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<sup>1</sup> This total represents the aggregate contributions that should have been posted to IAP accounts for salary paid in 2004.

<sup>2</sup> This total represents the percentage of total available earnings allocated to the IAP accounts in the same proportion that the IAP account balances represent of the total accounts and reserves credited under this method (Tier One and Two Regular Accounts, Employer Accounts, UAL Lump Sum Payments, and the Benefits-in-Force Reserve).

IAP Remediation – Earnings Crediting

August 5, 2005

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relative administrative costs, which are also allocated solely against account earnings. Reducing available earnings by crediting to the statutory reserves before apportioning to individual accounts is consistent with historical practice. Staff would recommend subjecting IAP accounts to the same treatment, recognizing that the Board will want to consider this issue in its overall reserving policy.

Staff will solicit stakeholder input through the Board's Legislative Advisory Committee, and request legal and actuarial review of this proposed methodology, in preparing the full remediation plan to be presented for consideration at the September 23, 2005 Board meeting.

# IAP Remediation Update





# Overview

- Challenges with Current IAP Operations
- Core Values to be Preserved
- Proposed Principles of New Plan
- Policy Issues to be Considered
- Next Steps and Schedule

# IAP Current Challenges

- Reporting hurdles led to delayed posting of contributions
- Monthly account valuation schedule created posting gaps
- Monthly unit pricing created confusing and inconsistent yields
- Member statement information could not square with other records (e.g., pay stubs)
- New paradigm for administrative cost allocation
- Fundamental lack of shared and accepted program vision

# Core IAP Program Values

- IAP earnings, losses, and costs should be discrete
- IAP operations, goals, and objectives should be transparent
- Financial impact of data reporting problems should be minimized
- Financial impacts should be isolated to the transaction's parties
- Eligibility determination must be simplified

# Proposed IAP Remediation Principles

- Members should not be harmed financially
  - Either in remediation or ongoing program design
- IAP structure should be as simple and understandable as possible
  - Do not do more than the statute requires (unless value added)
- Major modifications needed to the status quo
  - Solutions around the margins are not sufficient
- Three periods to address:
  - 2004 and 2005
  - 2006 and beyond
  - Next generation of IAP if modified by Legislature

# Consensus Plan Structure Elements

- The IAP is a long-term retirement program component
- Improve eligibility determinations
  - Build better tools for employers and members
- Equal treatment for similarly situated members
- Administrative costs shared proportionately and taken off the top
- Broadly stated, the IAP should emulate Chapter 238 regular account administrative and earnings crediting practices

# Issues With Chapter 238 Emulation

- Annual crediting on year-end account balance
- Contribution dates do not affect earnings
- IAP earnings will not equal Tier One/Tier Two
- Does it match expectations?

# Earnings Crediting

- Supplemental material shows IAP treated same as other PERS Fund accounts
- IAP 2004 contributions (estimated) are allocated a proportional share of PERS Fund 2004 earnings
- Administrative costs are discrete to IAP and allocated as uniform percentage of account balance

# 2004 Crediting Comparison: Tier Two And IAP

	<b>Tier Two</b>	<b>IAP</b>
Account Balances	\$499,641,647	\$385,003,693
Proportional Earnings	\$72,021,432	\$53,669,515
Administrative Costs	\$343,578	\$5,070,302
Contingency Reserve	\$5,376,037	\$3,644,941
Capital Preservation Reserve	\$4,939,610	\$3,371,570
Total Earnings for Crediting	\$60,921,857	\$41,582,701
Earnings Allocation Percentage	12.19%	10.80%



# IAP And Reserves – Key Policy Decision

- Analysis does not presuppose reserve allocation is merited

<b>Pros</b>	<b>Cons</b>
▪ Consistent with Chapter 238 account methodology	▪ Blurs distinction between IAP and Chapter 238 accounts; if separation is a value
▪ As IAP grows, it will be dominant member contribution account	▪ Adds burden to new IAP members who may not benefit from reserves
▪ Reserves derived from overall fund earnings; not tied to source account	▪ Projected uses of reserves for IAP benefit unknown

# Next Steps And Schedule

- Complete development of draft IAP remediation plan
  - Include feedback from this meeting as directed
  - File notice of rulemaking for October 1 publication
- Submit draft plan to review process
  - Legislative Advisory Committee for policy issues, design features, etc.
  - Legal counsel
  - Actuary
- Return to September 23 Board meeting for adoption of final plan
- Execute plan and reconcile IAP accounts following 2005 annual reconciliation process in Spring 2006