

OREGON PUBLIC EMPLOYEES RETIREMENT BOARD

Friday
June 27, 2008
1:00 P.M.

PERS
11410 SW 68th Parkway
Tigard, OR

	ITEM	PRESENTER
A. Administration – 1:00 P.M.		
<ol style="list-style-type: none"> 1. May 16, 2008 Board Meeting Minutes 2. Director's Report <ol style="list-style-type: none"> a. Forward-Looking Calendar b. OIC Investment Report c. Budget Report d. Replacement Ratio and Purchasing Power Studies 		CLEARY
B. Consent Action and Information Items		
<ol style="list-style-type: none"> 1. Oregon Savings Growth Plan Advisory Committee Appointment 2. First Reading of Rollovers to Roth IRAs Rules 3. First Reading of Public Records Requests Rules 4. First Reading of Employer Participation Rules 5. First Reading of OUS Optional Retirement Plan Rule 		BATH RODEMAN
C. Action and Discussion Items		
<ol style="list-style-type: none"> 1. Approval of Retiree Health Insurance 2009 Plan Renewals and Rates 2. Approval of Agency 2009 – 11 Budget Policy Option Packages for Submission to DAS 		MATCHETT KNOLL
D. Executive Session Pursuant to ORS 192.660(2)(f), (h), and/or ORS 40.225		
<ol style="list-style-type: none"> 1. Litigation Update 		LEGAL COUNSEL

An Audit Committee meeting is scheduled at 12:30 p.m., prior to the 1:00 p.m. Board meeting.

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.*

Michael Pittman, Chair * James Dalton * Thomas Grimsley * Eva Kripalani * Brenda Rocklin
 Paul R. Cleary, Executive Director

Level 1 - Public

PUBLIC EMPLOYEES RETIREMENT BOARD

PERS Board Meeting
 1 P.M., May 16, 2008
 Tigard, Oregon

MINUTES

Board Members:

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

Staff:

Donna Allen	Elaine King	Susan Riswick
Paul Cleary	Kyle Knoll	Steve Rodeman
David Crosley	Jeff Marecic	Jason Stanley
Joe DeLillo	Zue Matchett	Patrick Teague
Yvette Elledge	Dale Orr	Dave Tyler

Others:

Karen Artiaco	David Kelly	Steve Manton	Pat West
Lindsey Capps	Blake Johnson	Gary Martin	Dallas Weyand
Linda Ely	Erica Kleiner	Scott Preppernau	Denise Yunker
Bill Hallmark	Matt Larrabee	Carol Samuels	Ron Schmitz
Greg Hartman	E. Marie Laird	Deborah Tremblay	

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

ADMINISTRATION

B.1. BOARD MEETING MINUTES OF MARCH 28, 2008

The Board unanimously approved the March 28, 2008 Board meeting minutes.

B.2. DIRECTOR’S REPORT

Executive Director Paul Cleary presented the Forward-Looking Calendar, noting that the Board will meet the fourth Friday in June and July this year with no meeting scheduled in August.

In June, the Board will review the Retiree Health Insurance plan renewals and 2009 premium rates. The Board will also consider approval to submit the agency request budget and the policy option packages for DAS review.

In July, the 2007 actuarial valuation results and the employer contribution rate summary will be presented by Mercer.

Ron Schmitz, Treasurer’s Office, presented the Oregon Investment Council (OIC) Report. Currently, the OIC is instituting changes to the portfolio per Council direction. Investments are being moved from a 65% equity exposure to a 62% equity exposure as well as going from separate U.S. and international portfolios to a broader global portfolio.

Schmitz reported that, even with the equity markets down significantly so far this year, the total fund is right at the actuarial return assumption for the lagging two-year period, with returns averaging greater than 12% for the three, four, and five-year periods.

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Schmitz discussed the private equity and real estate valuation process as requested by the Board. Private equity valuations have a 90 - 120 day lag time, and are subject to year-end audits and are valued every quarter. Real estate valuations are similar to private equity and subject to third-party valuations every 2-3 years.

Cleary presented the FY 07-09 agency budget execution summary, which continues to show a negative variance. This report reflects projected expenses that are then trued-up by the actual expenditures. PERS administrators are responsible for maintaining the agency budget limitations on a divisional level. Cleary noted that there will be further budget adjustments after the June E-Board has met and considered agency budget limitation requests to cover the 07-09 collective bargaining agreement salary adjustments.

Cleary presented an informational report on member One-time Variable Transfer (OVT) requests for 2007. Pursuant to statutory changes effective January 1, 2004, the agency no longer tests earnings at the OVT stage. The earnings adjustment is instead captured and applied at the time of retirement.

Cleary noted that the agency is in the final stages of testing the annual statement production for 2007 with statements to be mailed to members in May. The 2007 statements will contain data pulled from three different databases so that Tier One, Tier Two, OPSRP, and IAP account information, as applicable, are all included on one statement.

CONSENT ACTION AND INFORMATION ITEMS

B.1. CONTESTED CASE HEARING OF DEREK SMITH

Steve Rodeman, Policy, Planning and Legislative Analysis Division Administrator, presented a request to postpone consideration of the proposed order for the appeal of Derek Smith. Rodeman recommended that consideration of the proposed order be extended so that the proposed order does not become final until June 30, 2008.

The recommendation was moved by Vice-Chair Rocklin and seconded by Eva Kripalani. The motion passed unanimously.

B.2. ADOPTION OF CREDITABLE SERVICE/RETROACTIVE SALARY PAYMENTS RULES

Rodeman presented the rules on creditable service/retroactive salary payments for adoption. Rodeman stated that these rules will re-connect the creditable service and retroactive salary payments as they relate to "make whole" resolutions of employment disputes. These rules have previously been approved as temporary rules and staff is now recommending permanent adoption.

Rodeman summarized the public comments on the rules, noting that most concerns were accommodated but several require changes in statute that would need to be pursued by stakeholders.

Tom Grimsley noted that he hopes stakeholders propose statutory change with regard to the concerns that couldn't be accommodated through rulemaking.

Rule adoption was moved by Vice-Chair Rocklin and seconded by Kripalani. The motion passed unanimously.

B.3. TEMPORARY ADOPTION OF ROLLOVER TO ROTH IRA RULES

Rodeman presented the above noted rules for temporary adoption and notice of permanent rulemaking. The 2006 Federal Pension Protection Act has recently been interpreted by the IRS as requiring that qualified plans allow direct rollover to Roth IRAs effective January 2008. Staff is asking for adoption of the Rollover to Roth IRA Rules to conform to this requirement and make the rules effective as of January 1, 2008. Staff will follow-up with permanent rulemaking.

Grimsley commented that he found it fascinating that the IRS is requiring qualifying plans make this effective January 2008 and has yet to provide any guidelines for reporting the rollovers on a 1099R.

Rule adoption was moved by Vice-Chair Rocklin and seconded by Kripalani. The motion passed unanimously.

B.4. NOTICE OF PUBLIC RECORDS RULES

B.5. NOTICE OF EMPLOYER PARTICIPATION RULES

B.6. NOTICE OF OUS OPTIONAL RETIREMENT PLAN RULES

Rodeman reported that staff has begun the rulemaking process on public records requests; employer participation in PERS programs; and coordination with the Oregon University System's (OUS) Optional Retirement Plan.

The 2007 legislature modified public records law regarding how agencies respond to public records requests and requiring agencies to provide information about the request process. These amendments will bring PERS rules in line with the amendments of the public records statute.

Rocklin inquired as to whether public records request information was available on the PERS website.

Rodeman responded that the website information on making public records requests will be developed and posted once the rules are adopted.

Rodeman continued, presenting the notice of employer participation rules. These rules would require that employers participate in all PERS programs to avoid future member disputes and simplify program administration.

The last notice of rulemaking pertains to the OUS Optional Retirement Plans. PERS members employed with OUS have the opportunity to participate in an alternative retirement plan and have their PERS account funds transferred to that plan. These rules would address the interplay of those transfers, consistent with the "withdraw from one, withdraw from all" concept reflected in HB 2281 (2007).

ACTION AND DISCUSSION ITEMS

C.1. DELEGATION OF FINAL ORDER AUTHORITY FOR CONTESTED CASES

Rodeman presented the above item and stated that 2007 legislation allowed the PERS Board to delegate the authority to enter a final order. Staff recommended that if the Board chooses to delegate that authority, it be given to the PERS Executive Director and only in cases of upholding the Administrative Law Judge's (ALJ's) proposed order, with technical corrections as necessary.

Chair Pittman requested Board discussion on this item with Vice-Chair Rocklin leading the discussion.

Rocklin inquired as to whether Rodeman had discussed with staff a possible differentiation between disability and non-disability contested cases insofar as the final order authority delegation.

Rodeman responded that disability and non-disability cases are usually different types of cases. In disability cases the findings are based on medical facts and the burden of proof is with the member. Non-disability cases often raise questions regarding policy or law. The Board generally upholds the ALJ's findings in disability cases, whereas in non-disability cases there have been some instances where the Board has reversed or modified the decision proposed by the ALJ.

Kripalani asked if issuance of final orders had been delayed due to Board meeting dates.

Rodeman responded that timing has not been a significant issue; typically, any extended delay is because members can file requests for reconsideration which extend the process.

Chair Pittman asked if there could be advance notice in particular cases for full Board consideration of those cases.

Rodeman responded that, although the Executive Director would have the authority to enter a final order, that authority would be deferred to the Board if requested. Rodeman suggested that staff send proposed orders with the staff recommendation to the Board and give them two weeks to decide if that particular case should be brought before the Board.

Grimsley commented that he is much more comfortable with the Board being given the opportunity to review proposed orders prior to the Executive Director exercising the delegated authority, and noted that the Board can spend a lot of time on certain contested cases.

Rocklin summarized that the Board was generally concurring on delegating authority to the Director, but the Board would like a provision for any case that staff, the PERS Director, or a Board member feels appropriate to be presented at a Board meeting.

Rodeman stated that staff will send proposed orders and any other pertinent material to the Board for their review, prior to the Director taking action to enter a final order, with the Board reserving the right to move the case to a future Board meeting.

Chair Pittman moved to delegate the authority to the Director to enter final orders in contested cases subject to cases being moved to full Board review as described above. The motion was seconded by Kripalani. The motion passed unanimously

C.2. 2009-11 AGENCY BUDGET DEVELOPMENT PROCESS AND STRATEGIC OUTLOOK

Cleary introduced the report on the agency budget process and strategic outlook, noting that the budget was developed with extensive manager and administrator involvement. The main budget objectives are to stabilize operations and move eligibility reviews and other data integrity checks ahead of the retirement application process.

Kyle Knoll, Business Operations Manager, presented a summary of the budget development process. Staff has implemented a number of budget process improvements. These include continual reconciliation with the agency's Six-Year Strategic Plan and division business plans to ensure alignment and continuity. Currently, the proposed budget reflects an 8% reduction in staff positions from the 2007-09 budget, and a 13% reduction from the 2003-05 peak agency staffing.

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Cleary noted that the positions requested in the various Policy Option Packages (POPs) are to help with the expected increase in retirements and withdrawals from not only PERS accounts but also the IAP, with over 54,000 members now eligible to retire.

The Board asked for additional information on what future staffing levels may look like once the RIMS Conversion Project is complete and more of the benefit calculations process is automated.

Knoll reported that staff will have follow-up meetings with DAS Budget and Management and Legislative Fiscal Office analysts, and that Board members are welcome to attend those meetings.

C.3. EMPLOYER SIDE ACCOUNT FINANCIAL MODELING

Bill Hallmark and David Kelly of Mercer presented a report on employer side account and Pension Obligation Bonds (POBs) financial modeling. Mercer also developed a tax model showing how projected tax revenues correlate with potential fund earnings and employer rates. The primary focus of the report is examining the dynamics of employer side accounts under different market conditions.

Currently, about 15% of the assets of the system are in side accounts. This report is based on the December 31, 2006 valuation information, but investment returns through March of 2008 were also used.

Findings from this study indicated that employer contribution rates are generally expected to trend lower. However, if PERS experiences consistently poor earnings, there is still significant risk of much higher employer contribution rates. A consistently poor market would also negatively impact side account earnings and balances.

Another finding pertaining to certain classes of employers issuing POBs showed that potential gains from expected or above expected investment earnings may not be realized until years into the future. The general conclusion of the report indicates that the use of POBs to address Unfunded Actuarial Liabilities is not risk free on either the up or down-side.

Hallmark concluded with some possible policy alternatives that might help moderate the various risks related to POB/side account dynamics.

The Board asked staff to circulate the report to employers and stakeholder groups, and discuss it with State Treasury investment staff, who advise the OIC.

EXECUTIVE SESSION

There being no further business, Chair Pittman adjourned the meeting at 3:01 P.M.

Respectfully submitted,



Paul R. Cleary
Executive Director

PERS Board Meeting Forward-Looking Calendar

July 2008

1:00 P.M. July 25, 2008

Adoption of Permanent Rollovers to Roth IRAs rules
Adoption of Public Records Requests rules
Adoption of Employer Participation rules
Adoption of Oregon University System Optional Retirement Plan rule
2007 Actuarial Valuation Results and Employer Contribution Rate Summary

August 2008 – No Meeting Scheduled

September 2008

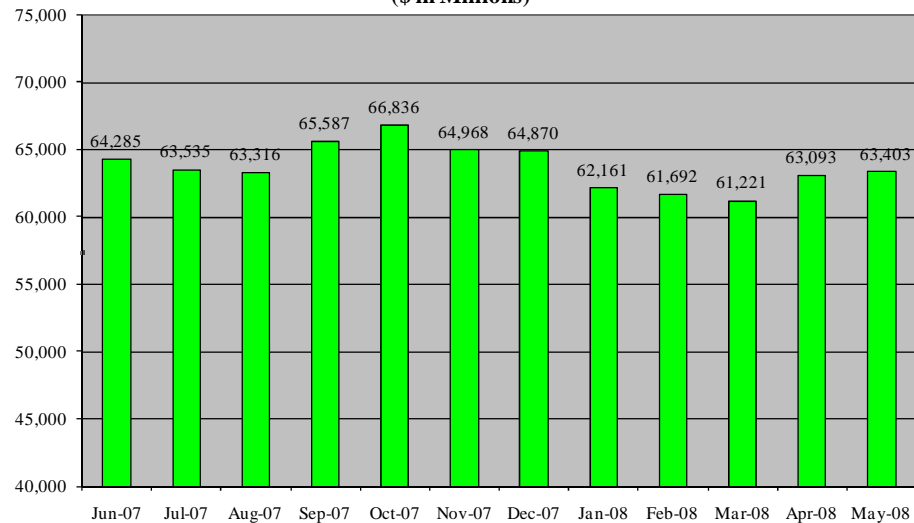
1:00 P.M. September 26, 2008

OPERF	Regular Account				Historical Performance					
	Policy ¹	Target ¹	\$ Thousands ²	Actual	Year-To-Date ³	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS
Domestic Equity	11-21%	16%	\$ 10,396,244	16.8%	(2.73)	(6.65)	6.65	8.34	8.63	11.09
Non-US Equity	17-29%	23%	14,353,523	23.2%	(1.29)	2.32	14.77	20.59	19.80	22.21
Global Equity	4-10%	7%	4,636,589	7.5%	(4.17)	(5.46)				
Private Equity	12-20%	16%	9,830,727	15.9%	1.32	15.49	20.07	22.30	24.93	22.31
Total Equity	57-67%	62%	39,217,083	63.4%						
Opportunity Portfolio			628,704	1.0%	(0.81)	(1.99)				
Total Fixed	22-32%	27%	16,740,434	27.0%	(0.01)	3.07	5.42	4.10	5.20	4.55
Real Estate	8-14%	11%	5,306,575	8.6%	2.95	3.17	14.03	20.87	22.10	21.76
Cash	0-3%	0%	7,451	0.0%	1.41	4.60	5.02	4.64	4.01	3.42
TOTAL OPERF Regular Account		100%	\$ 61,900,247	100.0%	(0.76)	1.00	9.87	11.81	12.28	13.20
OPERF Policy Benchmark					(1.18)	2.02	10.03	10.72	10.99	12.29
Value Added					0.42	(1.02)	(0.16)	1.09	1.29	0.91
TOTAL OPERF Variable Account			\$ 1,502,548		(2.38)	(8.42)	5.01	7.20	8.02	

Asset Class Benchmarks:

Russell 3000 Index	(3.05)	(6.62)	6.99	8.03	8.38	10.55
MSCI ACWI Ex US	(1.79)	3.04	15.26	20.27	19.51	22.15
Russell 3000 Index + 300 bps--Quarter Lagged	(2.48)	8.31	13.42	12.09	13.33	17.61
LB Universal--Custom FI Benchmark	1.02	5.92	6.44	4.37	5.13	4.14
NCREIF Property Index--Quarter Lagged	3.23	15.85	16.27	17.56	16.81	15.25
91 Day T-Bill	1.02	3.85	4.52	4.29	3.71	3.17

TOTAL OPERF NAV
(includes variable fund assets)
One year ending May 2008
(\$ in Millions)



¹OIC Policy 4.01.18, as revised September 2007.

²Includes impact of cash overlay management.

³For mandates beginning after January 1, YTD numbers are "N/A". Performance is reflected in Total OPERF.



Oregon

Theodore R. Kulongoski, Governor

Public Employees Retirement System

Headquarters:
11410 S.W. 68th Parkway, Tigard, OR
Mailing Address:
P.O. Box 23700
Tigard, OR 97281-3700
(503) 598-7377
TTY (503) 603-7766
www.oregon.gov/pers

June 27, 2008

TO: Members of the PERS Board
FROM: Kyle J. Knoll, Business Operations Manager
SUBJECT: June 2008 Budget Report

MEETING DATE	6/27/08
AGENDA ITEM	A.2.c. Budget

2007-09 BUDGET UPDATE

Operating expenditures for the months of April and May 2008 were \$3,088,196 and \$2,922,332 respectively. Through the first eleven months (45.83%) of the biennium, the Agency has expended a total of \$32,746,322, or 40.30%, of our 2007-09 operating budget.

The positive budget variance for the biennium is currently projected at \$356,180.

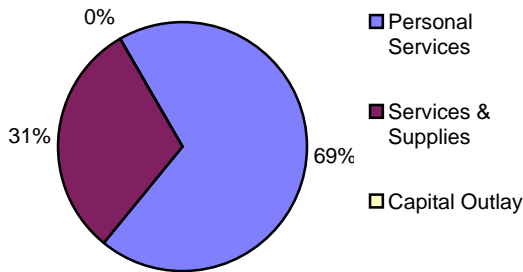
- The variance continues to include the costs of the COLA increases under the Department of Administrative Services (DAS) and Service Employees International Union 2007-09 Collective Bargaining Agreement, but does not include the additional budget limitation for those costs. DAS Budget and Management will be presenting a related funding request to the E-Board on June 27, 2008.
- Between January and May 2008, PERS actual expenditures have been \$1,225,145 less than projected expenditures for those five months. That is primarily due to the decrease in State Data Center (SDC) rates, and invoicing based on usage rather than assessments beginning July 1, 2007. Since the new rates and usage-based invoicing have resulted in increases for some agencies and decreases for other agencies, BAM will be presenting a related request to the E-Board on June 27, 2008. Based on PERS' decreased costs, that could result in un-scheduling just under \$3.5 million from PERS' 2007-09 budget limitation.
- In response to BAM's E-Board requests for COLA funding and SDC rate adjustments, the Legislative Fiscal Office will be making a recommendation to the June E-Board to net SDC and COLA adjustments for all agencies.
- An update on E-Board actions regarding 2007-09 COLA increases and SDC rate adjustments will be provided in the July 2008 Budget Report.

2007-09 Agency-wide Operations - Budget Execution
Summary Budget Analysis
For the Month of: May 2008

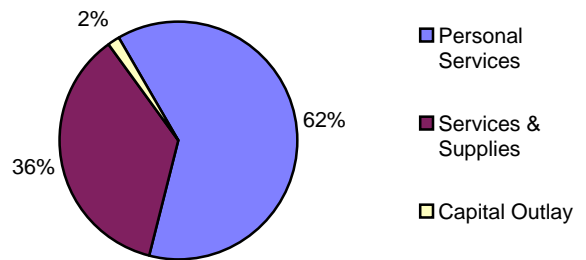
Biennial Summary

Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expend.	2007-09 LAB	Variance
Personal Services	22,631,652	29,959,823	52,591,475	50,692,368	(1,899,107)
Services & Supplies	10,103,646	17,422,559	27,526,205	29,611,077	2,084,872
Capital Outlay	11,024	766,262	777,286	947,701	170,415
Special Payments					
Total	32,746,322	48,148,644	80,894,966	81,251,146	356,180

Actual Expenditures

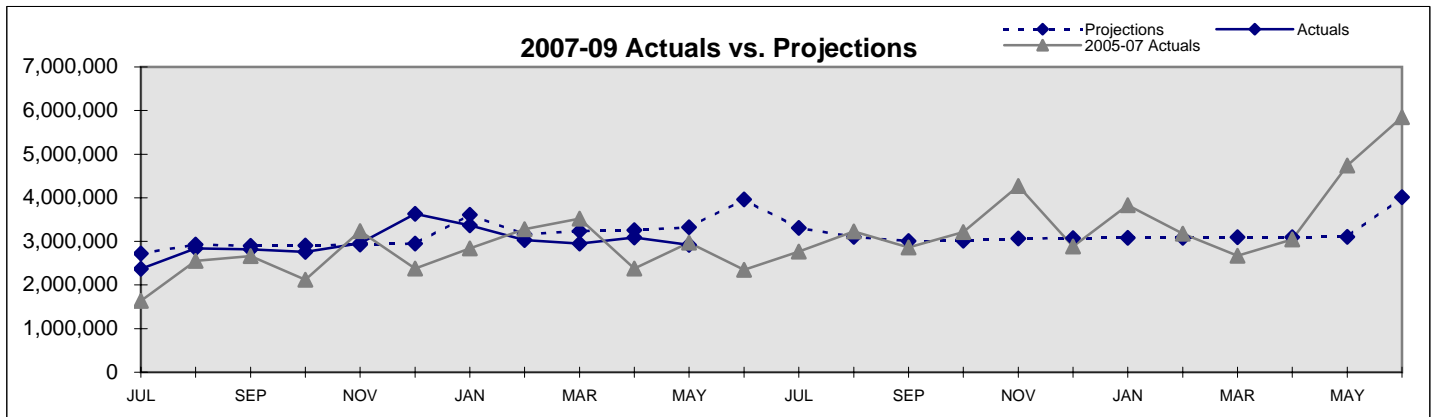


Projected Expenditures



Monthly Summary

Category	Actual Exp.	Projections	Variance	Avg. Monthly Actual Exp.	Avg. Projected Expenditures
Personal Services	2,087,406	2,222,256	134,850	2,057,423	2,304,602
Services & Supplies	834,926	1,098,129	263,203	918,513	1,340,197
Capital Outlay				1,002	58,943
Special Payments					
Total	2,922,332	3,320,385	398,053	2,976,938	3,703,742



2005-07 Biennium Summary

Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expend.	2005-07 LAB	Variance
Personal Services	42,804,552		42,804,552	46,875,869	4,071,317
Services & Supplies	31,107,541		31,107,541	27,460,026	(3,647,515)
Capital Outlay	534,468		534,468	679,533	145,065
Special Payments					
Total	74,446,561		74,446,561	75,015,428	568,867



Oregon

Theodore R. Kulongoski, Governor

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Headquarters:
11410 S.W. 68th Parkway, Tigard, OR
Mailing Address:
P.O. Box 23700
Tigard, OR 97281-3700
(503) 598-7377
TTY (503) 603-7766
www.oregon.gov/pers

June 27, 2008

MEETING DATE	6/27/2008
AGENDA ITEM	A.2.d. Ratio Studies

TO: Members of the PERS Board
FROM: Dale S. Orr, Manager, Actuarial Analysis Section

SUBJECT: 2008 Replacement Ratio Study
2008 Purchasing Power Study

Attached are two reports that provide different measures of the income replacement capabilities of PERS' retiree benefits. These reports are summarized as follows:

2008 Replacement Ratio Study

This analysis, prepared by PERS staff, compares final salaries to PERS Tier 1 / Tier 2 benefit amounts at the time of retirement (excluding the IAP). It shows PERS benefit replacement ratios and related data since 1990 for both "career" members who retired with 30 years of service and all members who retired regardless of years of service.

2008 Purchasing Power Study

This report, prepared by Mercer Human Resource Consulting, analyzes the impact of inflation on Tier 1 / Tier 2 retiree benefits (excluding the IAP). The study's measure of inflation is the Consumer Price Index (CPI) for Portland which is then used to determine the effect on purchasing power of PERS benefits based on the year of a member's retirement.

These reports are informational only and do not require any Board action.

A.2.d. Attachment 1 – 2008 Replacement Ratio Study

A.2.d. Attachment 2 – 2008 Purchasing Power Study

2008 Replacement Ratio Study (Based on 2007 Retirements)

Summary of findings

Average age at retirement: 59 years old

Average years of service at retirement: 21 years of service

Average monthly retirement benefit

- For all retirees from 1990-2007, the average monthly retirement benefit at time of retirement was \$2,065 per month, or about \$24,774 annually
- For those retirees in the most recent year (2007), the average monthly retirement benefit was \$2,459 per month, or about \$29,510 annually

Average public employee salaries at retirement

- For all retirees from 1990-2007, the final average salary at retirement was \$42,228 annually
- For 2007 retirees, the final average salary at retirement was \$55,838 annually

Average salary replacement ratio (see chart on following page)

- For all retirees from 1990-2007, the average annual retirement benefit equaled 55% of final average salary at the time of retirement
- For 2007 retirees, the average annual retirement benefit equaled 51% of final average salary
- For all retirees from 1990-2007, there were 8.2% who received annual benefits more than 100% of final average salary. The average years of service for this group was 31 years
- For 2007 retirees, there were 4.9% who received annual benefits more than 100% of final average salary. The average years of service for this group was 31 years

For members who retire with 30 years of service (see chart on following page)

- From 1990-2007, the average retirement benefit for 30-year members equaled 80% of final average salary and the average monthly benefit was \$3,350 per month
- The average retirement benefit for 30-year members peaked at 100% of final average salary in 2000 and their average monthly benefit was \$4,200 per month
- For 2007 only, the average retirement benefit for 30-year members equaled 84% of final average salary and the average monthly benefit was \$4,067 per month
- 11.55% of retirees from 1990-2007 had 30 years of service
- 11.53% of retirees in 2007 had 30 years of service

Summary of findings (continued)**Average salary replacement ratio based on final average salary (FAS)**

Calendar Year	Retirees with 30 Years of Service		All Retirees in Study		
	# of Retirees in Study	Average Replacement Ratio Based on FAS	# of Retirees in Study	Average Replacement Ratio Based on FAS	% of Retirees Receiving >100% of FAS
1990	146	61%	1,866	44%	.0%
1991	217	61%	2,377	45%	.1%
1992	205	67%	2,432	48%	.5%
1993	289	66%	2,744	48%	.5%
1994	302	67%	3,298	49%	.3%
1995	304	66%	2,827	47%	1.0%
1996	281	70%	2,477	49%	1.4%
1997	295	83%	3,107	57%	7.5%
1998	465	89%	4,567	65%	12.0%
1999	548	93%	4,644	65%	14.0%
2000	273	100%	2,112	63%	15.8%
2001	391	99%	3,146	66%	16.5%
2002	670	96%	4,605	68%	17.4%
2003	942	93%	7,631	66%	14.4%
2004	471	84%	3,259	55%	5.5%
2005	393	84%	2,548	51%	4.4%
2006	347	83%	2,952	50%	4.3%
2007	372	84%	3,226	51%	4.9%
Total/Avg	6,911	80%	59,818	55%	6.7%

MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

111 SW Columbia Street, Suite 500
Portland, OR 97201-5839
503 273 5941 Fax 503 273 5999
brenda.majdic@mercer.com
www.mercer.com

June 19, 2008

Mr. Dale S. Orr
Actuarial Services Manager
Oregon PERS
P.O. Box 23700
Tigard, OR 97281-3700

Via E-Mail

Subject: Request Number: 2008-013
2008 Purchasing Power Study

Dear Dale:

As requested, we updated the annual purchasing power study for 2008 to compare how well monthly benefits paid to retirees and beneficiaries have kept up with inflation since retirement. Since the last study, the Consumer Price Index for Portland increased 3.71 percent in 2007. With all retirees receiving a 2.0 percent annual cost-of-living adjustment, retirees experienced a decrease in purchasing power over the year.

Purchasing power in this report is defined as the cumulative post-retirement benefit increases in Tier 1/Tier 2 benefits compared to the cumulative CPI increases since the year of retirement. The chart below shows the change in purchasing power from 2007 to 2008 by year of retirement.

Year Retired	Purchasing Power		Year Retired	Purchasing Power	
	2007	2008		2007	2008
1980 & prior	77.4%	76.1%	1988	80.3%	79.0%
1981	80.1%	78.8%	1989	81.5%	80.1%
1982	82.1%	80.8%	1990	83.8%	82.5%
1983	82.3%	80.9%	1991	87.0%	85.5%
1984	80.0%	78.7%	1992	89.6%	88.1%
1985	79.0%	77.7%	1993	91.7%	90.2%
1986	79.9%	78.6%	1994	93.1%	91.5%
1987	79.9%	78.6%	1995	93.9%	92.4%

MERCER



MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

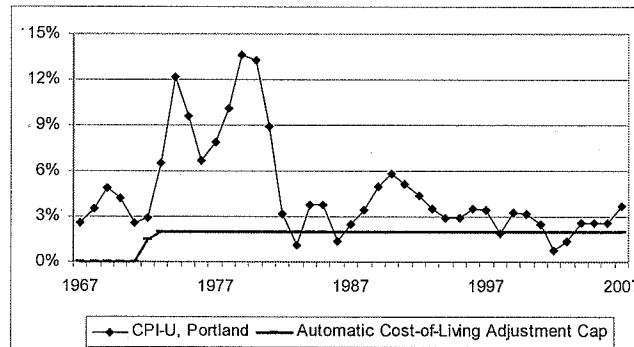
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June 19, 2008
Mr. Dale S. Orr
Oregon PERS

Year Retired	Purchasing Power		Year Retired	Purchasing Power	
	2007	2008		2007	2008
1996	94.7%	93.2%	2003	98.3%	96.7%
1997	96.1%	94.6%	2004	98.3%	96.7%
1998	97.4%	95.8%	2005	98.9%	97.2%
1999	97.4%	95.8%	2006	99.4%	97.8%
2000	98.3%	96.7%	2007	100.0%	98.4%
2001	98.3%	96.7%	2008		100.0%
2002	98.3%	96.7%			

Inflation

Cost-of-living adjustments (COLAs) are automatically granted each year to retirees and beneficiaries up to a maximum of 2 percent based on the Consumer Price Index for Portland (defined by All Items, All Urban Consumers, Portland-Salem, OR-WA, Annual Average) as released by the Department of Labor. If the Consumer Price Index for Portland (CPI - Portland) exceeds 2 percent, then the retiree receives a 2 percent COLA and the remaining percentage is carried forward in a "bank" to be used in future years when the CPI-Portland is less than 2 percent. Retirees who have recently retired, and do not have a "bank" balance, receive a COLA equal to the CPI-Portland amount if less than 2 percent, otherwise they receive 2 percent.

The graph below page shows the CPI-Portland compared to the automatic cost-of-living adjustment cap that is currently 2.0 percent.



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The automatic COLA was established in 1972, and there have only been five years (1983, 1986, 1998, 2002 and 2003) when inflation has been below the COLA cap. Consequently, retiree benefits have tended to lose their purchasing power. Attachment A shows the history of increases in CPI-Portland from 1962 through 2007.

The historical COLA amounts granted to retirees and beneficiaries are shown below:

Date	COLA	Exceptions
July 1972	1.5%	
July 1973 – present	2.0% (maximum COLA)	1.08% in 1984 if retired on or after August 1983 1.41% in 1987 if retired on or after August 1986 1.89% in 1999 if retired on or after August 1998 1.24% in 2003 if retired on or after August 2001 and prior to August 2002 0.77% in 2003 if retired on or after August 2002 1.36% in 2004 if retired on or after August 2001 and prior to August 2004 1.73% in 2004 if retired on or after August 2000 and prior to August 2001

Benefit Increases

From April 1964 through December 1971 there were some one-time additional payments granted to retirees. These payments are not included in this analysis as they did not affect the ongoing benefit paid to the retiree. A summary of the one-time payments follows:

Effective Date	One Time Payment Amount
April 1964	Monthly Benefit
April 1965	1.5 × Monthly Benefit
April 1966, April 1967	2 × Monthly Benefit
April 1968, April 1969, April 1970, April 1971	3 × Monthly Benefit
December 1971	3.5 × Monthly Benefit

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In addition, retirees and beneficiaries have been granted ad hoc benefit increases that resulted in increased monthly benefits going forward. A summary of the ad hoc increases granted by legislation is shown below, with the graded increases shown on Attachment B.

Effective Date	Ad Hoc Increase Granted by Legislation
January 1972	25% if retired prior to January 1968 12% if retired after December 1967 and prior to January 1972
January 1974	25% if retired prior to January 1968 20% if retired after December 1967 and prior to January 1972 12% if retired after December 1971 and prior to January 1974
October 1977	25% on first \$50 of monthly benefit 15% on next \$100 10% on next \$100 5% on next \$100 and 1% on monthly benefit over \$350
July 1979	2% for all retirees
July 1980	2% for all retirees
August 1981	Graded table by year of retirement to 11.40%
July 1982	Graded table by year of retirement to 11.40%
July 1985	Graded table by year of retirement to 7.28%
July 1986	Graded table by year of retirement to 7.28%
July 1989	Graded table by year of retirement to produce a 95% replacement of original purchasing power

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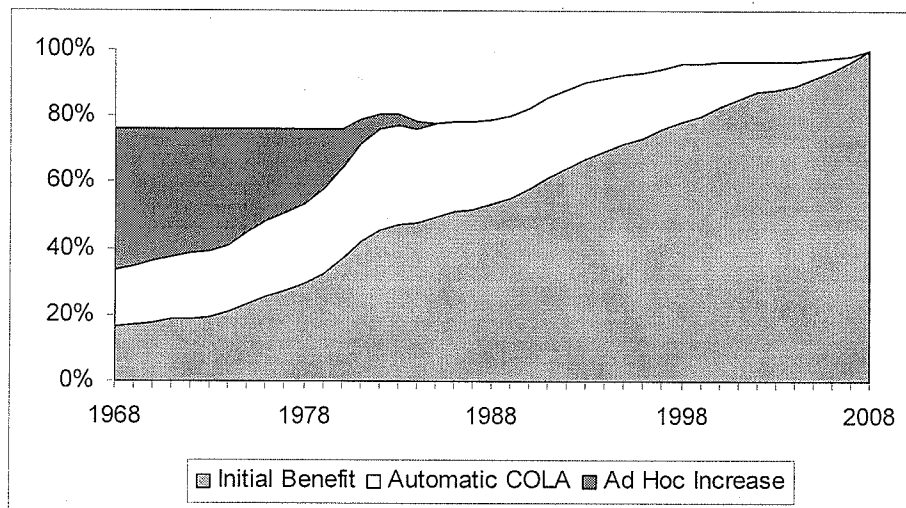


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Current Purchasing Power

The current purchasing power of retirees depends on both the automatic COLA increases and the ad hoc increases granted, compared to the growth in the CPI over the same time period. The graph below shows the cumulative effects of increases granted as a percentage of a benefit adjusted by CPI by year of retirement.



As shown in the graph above, for long-time retired members, the majority of the increases in their benefits since retirement have come from ad hoc increases. Retirees who retired within the past 19 years have not received any ad hoc increases. However, inflation has been significantly lower than in the late 1970's, and the automatic COLA increases have tracked changes in CPI more closely. Purchasing power for retirees since 1993 has remained within 90 percent of their original purchasing power.

Attachment C compares the cumulative post-retirement benefit increases in Tier 1/Tier 2 benefits to the cumulative CPI increases for the last 40 years. The middle columns show the level an initial benefit of \$100 per month would have risen to based on CPI increases and increases granted through PERS. The columns on the right show the percentage of the original \$100 benefit and the PERS-adjusted benefit as a percentage of the CPI-adjusted benefit.

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For example, a 1968 retiree with a \$100 per month original benefit would need to be receiving \$610.62 per month now to have kept pace with inflation. Benefit increases granted through PERS increased the \$100 per month benefit to \$464.77 per month. The original benefit of \$100 per month is 16.4 percent of the CPI-adjusted benefit and the PERS-adjusted benefit of \$464.77 is 76.1 percent of the CPI-adjusted benefit.

Our analysis and conclusions are based on the data, methods and assumptions described above. Differences in the methods and assumptions may produce different results.

If you have any questions about the purchasing power report or need any additional information, please let us know

Sincerely,

[BJM]

Brenda Majdic, ASA, EA, MAAA

ADS/BJM/mrl:scg
Enclosure

Copy:
Bill Hallmark, Matt Larrabee

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

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Attachment A

History of Consumer Price Index — Portland

Year	CPI 1967 Basis	Annual Percentage Increase	Year	CPI 1967 Basis	CPI 1982-84 Basis	Annual Percentage Increase
1962	88.5		1985	312.4		3.79%
1963	90.2	1.92%	1986	316.8	108.2	1.41%
1964	92.2	2.22%	1987		110.9	2.50%
1965	94.6	2.60%	1988		114.7	3.43%
1966	97.5	3.07%	1989		120.4	4.97%
1967	100.0	2.56%	1990		127.4	5.81%
1968	103.5	3.50%	1991		133.9	5.10%
1969	108.6	4.93%	1992		139.8	4.41%
1970	113.2	4.24%	1993		144.7	3.51%
1971	116.1	2.56%	1994		148.9	2.90%
1972	119.5	2.93%	1995		153.2	2.89%
1973	127.3	6.53%	1996		158.6	3.52%
1974	142.8	12.18%	1997		164.0	3.40%
1975	156.5	9.59%	1998		167.1	1.89%
1976	167.0	6.71%	1999		172.6	3.29%
1977	180.2	7.90%	2000		178.0	3.13%
1978	198.4	10.10%	2001		182.4	2.47%
1979	225.4	13.61%	2002		183.8	0.77%
1980	255.4	13.31%	2003		186.3	1.36%
1981	278.2	8.93%	2004		191.1	2.58%
1982	287.0	3.16%	2005		196.0	2.56%
1983	290.1	1.08%	2006		201.1	2.60%
1984	301.0	3.76%	2007		208.556	3.71%

Source: U.S. Department of Labor, Bureau of Labor Statistics
Consumer Price Index, All Items, All Urban Consumers, Portland-Salem, OR-WA, Annual Average

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Attachment B

Year Retired	Ad Hoc Adjustments by Effective Year				
	1981	1982	1985	1986	1989
1950	11.40	11.40	7.28	7.28	18.00
1951	10.64	10.64	7.28	7.28	19.00
1952	10.56	10.56	7.28	7.28	10.00
1953	10.16	10.16	7.28	7.28	8.00
1954	10.04	10.04	7.28	7.28	8.00
1955	10.00	10.00	7.25	7.25	7.00
1956	9.68	9.68	7.06	7.06	9.00
1957	9.28	9.28	6.82	6.82	9.00
1958	9.08	9.08	6.70	6.70	5.00
1959	8.96	8.96	6.62	6.62	3.00
1960	8.76	8.76	6.50	6.50	3.00
1961	8.64	8.64	6.42	6.42	2.00
1962	8.56	8.56	6.37	6.37	1.00
1963	8.32	8.32	6.22	6.22	1.00
1964	8.12	8.12	6.09	6.09	-
1965	7.88	7.88	5.94	5.94	-
1966	7.56	7.56	5.73	5.73	-
1967	7.36	7.36	5.60	5.60	-
1968	7.20	7.20	5.49	5.49	7.00
1969	6.88	6.88	5.28	5.28	4.00
1970	6.60	6.60	5.09	5.09	-
1971	6.36	6.36	4.93	4.93	-
1972	6.20	6.20	4.82	4.82	15.00
1973	5.92	5.92	4.63	4.63	14.00
1974	5.28	5.28	4.17	4.17	25.00
1975	4.92	4.92	3.92	3.92	15.00
1976	4.72	4.72	3.77	3.77	7.00
1977	4.44	4.44	3.57	3.57	3.00
1978	4.76	4.76	3.80	3.80	16.00
1979	4.32	4.32	3.48	3.48	11.00
1980	4.00	4.00	3.24	3.24	3.00
1981	-	4.00	3.09	3.09	-
1982	-	-	3.01	3.01	-
1983	-	-	3.00	3.00	-
1984	-	-	-	3.00	-
1985	-	-	-	-	-
1986	-	-	-	-	-
1987	-	-	-	-	-
1988	-	-	-	-	-
1989	-	-	-	-	-

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Attachment C

Comparison of Tier 1/Tier 2 Benefits to CPI at August, 2008

Year Retired	Number of Years	Cumulative Increase		Purchasing Power	
		CPI	Tier 1/Tier 2	Initial	Tier 1/Tier 2
1968	40	610.62	464.77	16.4%	76.1%
1969	39	589.97	449.05	17.0%	76.1%
1970	38	562.26	427.96	17.8%	76.1%
1971	37	539.41	410.57	18.5%	76.1%
1972	36	525.94	400.32	19.0%	76.1%
1973	35	510.98	388.93	19.6%	76.1%
1974	34	479.67	365.10	20.8%	76.1%
1975	33	427.60	325.47	23.4%	76.1%
1976	32	390.17	296.98	25.6%	76.1%
1977	31	365.64	278.30	27.3%	76.1%
1978	30	338.86	257.92	29.5%	76.1%
1979	29	307.77	234.26	32.5%	76.1%
1980	28	270.90	206.20	36.9%	76.1%
1981	27	239.08	188.30	41.8%	78.8%
1982	26	219.49	177.26	45.6%	80.8%
1983	25	212.76	172.17	47.0%	80.9%
1984	24	210.49	165.61	47.5%	78.7%
1985	23	202.86	157.66	49.3%	77.7%
1986	22	195.46	153.63	51.2%	78.6%
1987	21	192.75	151.50	51.9%	78.6%
1988	20	188.06	148.56	53.2%	79.0%
1989	19	181.83	145.68	55.0%	80.1%
1990	18	173.22	142.82	57.7%	82.5%
1991	17	163.70	140.02	61.1%	85.5%
1992	16	155.76	137.28	64.2%	88.1%
1993	15	149.18	134.59	67.0%	90.2%
1994	14	144.13	131.95	69.4%	91.5%
1995	13	140.06	129.36	71.4%	92.4%
1996	12	136.13	126.82	73.5%	93.2%
1997	11	131.50	124.34	76.0%	94.6%
1998	10	127.17	121.77	78.6%	95.8%
1999	9	124.81	119.51	80.1%	95.8%
2000	8	120.83	116.86	82.8%	96.7%
2001	7	117.17	113.30	85.3%	96.7%
2002	6	114.34	110.56	87.5%	96.7%
2003	5	113.47	109.72	88.1%	96.7%
2004	4	111.95	108.24	89.3%	96.7%
2005	3	109.13	106.12	91.6%	97.2%
2006	2	106.41	104.04	94.0%	97.8%
2007	1	103.71	102.00	96.4%	98.4%
2008	0	100.00	100.00	100.0%	100.0%



Oregon

Theodore R. Kulongoski, Governor

Public Employees Retirement System

Headquarters:
11410 S.W. 68th Parkway, Tigard, OR
Mailing Address:
P.O. Box 23700
Tigard, OR 97281-3700
(503) 598-7377
TTY (503) 603-7766
www.pers.state.or.us

June 27, 2008

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	6/27/2008
AGENDA ITEM	B.1. Adv. Comm. OSGP

OVERVIEW

- Subject: The PERS Board needs to appoint one new member and renew the appointment of another member to the Oregon Savings Growth Plan (OSGP) Advisory Committee.
- Action: Appoint two members to the OSGP Advisory Committee.
- Reasons: The OSGP Advisory Committee consists of seven members appointed by the PERS Board for fixed terms, but each member serves at the pleasure of the PERS Board.

BACKGROUND:

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

- (a) The program's fee structure and 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 program;
- (e) The expressed desires of eligible employees as to the Program.

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

Advisory Committee Appointments

6/27/2007

Page 2 of 3

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
Frank Goulard, Chair	Portland Community College, Portland	Second	6/30/2009
Jason Evers, Vice Chair	Oregon Liquor Control Commission, Bend	First	6/30/2008
William L. Robertson	Oregon DEQ, Portland	Second	6/30/2008
Judy Scales	High Desert ESD, Redmond	First	6/30/2009
Kathleen Beaufait	Retiree, Salem	Second	6/30/2010
Peter Farrelly	DHS, Portland	First	6/30/2010
Brian Burleigh	ODOT, Bend	First	6/30/2010

The criteria staff uses in selecting Advisory Committee members 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 the Advisory Committee.
4. Sincere interest in the OSGP.
5. Willing and able to work in a group setting to review and recommend policies governing the program.

RECOMMENDED APPOINTMENTS

The first three-year term of Jason Evers will expire on June 30, 2008. OSGP staff recommends reappointing him for another three-year term.

Staff also recommends Jon DuFrene, who works for the Department of Administrative Services in Salem, to fill the vacated state agency employee position. This position will be vacant upon the expiration of the second term of William Robertson on June 30, 2008.

Board Options:

The Board may:

1. Accept the recommendation to appoint Jon DuFrene as the new Advisory Committee member for OSGP effective July 1, 2008.
2. Accept the recommendation to appoint Jason Evers to a second three-year term.
3. Direct staff to submit and forward alternative nominees for appointment to either or both positions.

Staff Recommendation:

Staff recommends the Board adopt Options 1 and 2 above.

Reason: Staff believes Jon DuFrene meets the criteria and service needs of the Advisory Committee and Jason Evers has served well during his first term and is an asset to the committee.

Adopted: 1/12/07
Filed and Effective: 1/23/07

OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 050 – DEFERRED COMPENSATION

459-050-0025

Deferred Compensation Advisory Committee

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

- (a) Each member shall be a participant in a deferred compensation plan established under ORS 243.401 to 243.507, and shall have knowledge of the Program.
- (b) Four members shall be participants in the state deferred compensation plan.
- (c) Two members shall be participants in a local government deferred compensation plan.
- (d) One member shall be a retired deferred compensation plan participant.
- (e) No two members may be employed by the same state agency or local government except that a member who transfers employment to the employer of another member may continue to serve on the Advisory Committee, but only for the balance of the term of appointment of the transferring member.
- (f) No member may serve more than two consecutive full terms.
- (g) No member may be an employee of PERS during the term of appointment.

(2) The Advisory Committee shall study and advise the Board on all aspects of the Program, including but not limited to:

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

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

- (a) Investment programs, including options and providers; and
- (b) Information furnished by the OIC or the State Treasurer concerning the types of available investments, the respective balance of risk and return of each investment, and the administrative costs associated with each investment.

(4) The Advisory Committee shall meet at least four times during a calendar year.

(5) A majority of the Advisory Committee shall constitute a quorum for transacting business. However, the Advisory Committee may establish such other procedures for conducting business that it deems necessary.

(6) Pursuant to the Public Meetings Law, ORS 192.610 to 192.690, the Deferred Compensation Manager shall distribute to the Advisory Committee, and other interested parties, an agenda for a regular meeting a reasonable time prior to the meeting.

(7) Nominations of candidates for the Advisory Committee shall be made as follows:

- (a) Notice of a position on the Advisory Committee expected to become vacant upon the expiration of a term of appointment shall be published not later than April 15 of each calendar year.

- (b) Persons interested in serving on the Advisory Committee must apply in writing to the Manager not later than May 15 following the publication of a vacancy.
- (c) The Manager shall review the written applications of interested persons for completeness, accuracy, and satisfaction of the minimum requirements of the vacant position on the Advisory Committee.
- (d) A committee consisting of the Manager and four members of PERS executive or managerial staff designated by the PERS Executive Director shall review the acceptable applications and recommend to the Board candidates for appointment to the Advisory Committee that:
- (A) Reflect a cross section of state agencies, participating local governments, and classification levels;
 - (B) Reflect a mixture of expertise, knowledge, and experience useful to the Advisory Committee;
 - (C) Appear to have a sincere interest in the Program; and
 - (D) Appear to be willing and able to work in a group setting to review and recommend policies governing the Program.
- (e) In the event of a vacancy for an unexpired term, the Manager may select applications from the most recent list of interested persons established under subsection (c) of this section and the applications of other persons as deemed appropriate for consideration. A committee consisting of the Manager and four members of PERS executive or managerial staff designated by the PERS Executive Director shall review the selected applications and recommend to the Board candidates for appointment to the Advisory Committee. The appointment shall be immediately effective for the remainder of the unexpired term. If no candidate is recommended or appointed, the vacancy must be filled under the provisions of subsections (a) through (d) of this section.

Stat. Auth: ORS 243.470

Stats. Implemented: ORS 243.505



Oregon

Theodore R. Kulongoski, Governor

Public Employees Retirement System

Headquarters:
11410 S.W. 68th Parkway, Tigard, OR
Mailing Address:
P.O. Box 23700
Tigard, OR 97281-3700
(503) 598-7377
TTY (503) 603-7766
www.oregon.gov/pers

June 27, 2008

TO: Members of the PERS Board
FROM: Steven Patrick Rodeman, Deputy Director
SUBJECT: First Reading of Direct Rollover Rules
OAR 459-005-0591, *Definitions – Direct Rollovers*
OAR 459-005-0595, *Limitations – Direct Rollovers*
OAR 459-050-0090, *Direct Rollover (OSGP)*

MEETING DATE	06/27/08
AGENDA ITEM	B.2. Direct Rollovers

OVERVIEW

- Action: None. This is the first reading of the Direct Rollover Rules, OAR 459-005-0591, 459-005-0595 and 459-050-0090.
- Reason: The provision of the Pension Protection Act of 2006 (PPA) that allows plan participants to transfer rollover eligible distributions to a Roth IRA was effective January 1, 2008. However, it was not until March of this year that the IRS indicated that it is mandatory for plans to provide this option to their participants.
- Subject: Rollovers to Roth IRAs.
- Policy Issue: None.

BACKGROUND

The PPA allows rollover eligible distributions to be rolled to a Roth IRA as of January 1, 2008. PERS staff had understood this to be an option a plan could provide and we anticipated incorporating this provision into jClarety. However, the IRS recently indicated that plan sponsors must offer this type of rollover to plan participants.

Accordingly, these rule modifications conform three administrative rules to reflect this rollover option, retroactive to January 1, 2008. Administratively, rollovers to Roth IRAs are generally handled in the same manner as a rollover to any other eligible retirement plan but there are different tax reporting requirements, which staff will resolve before reporting for the 2008 calendar year is due in early 2009.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held on May 27, 2008 at 2:00 p.m. at PERS headquarters in Tigard. No members of the public attended. The public comment period ends on July 1, 2008 at 5:00 p.m. To date, no public comment has been received.

MODIFICATIONS TO THE RULES SINCE NOTICE

The rules as presented have not been changed since the PERS Board's May 16, 2008 meeting.

LEGAL REVIEW

The attached draft rules have been submitted to the Department of Justice for legal review and any comments or changes will be incorporated before the rules are presented for adoption.

IMPACT

Mandatory: Yes, the ability for a plan participant to transfer a rollover eligible distribution to a Roth IRA is required by the IRS.

Impact: Members will have an additional option for transferring rollover eligible distributions. Administratively, there is one outstanding issue, as the IRS has not yet provided guidance regarding how to report the distributions on the Form 1099R.

Cost: There are no significant costs attributable to these rules.

RULEMAKING TIMELINE

April 15, 2008	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
May 1, 2008	<i>Oregon Bulletin</i> published the Notice. Notice was mailed to employers, legislators, and interested parties. Public comment period began.
May 16, 2008	PERS Board adopted the proposed temporary rules; PERS staff proceeding with permanent rulemaking.
May 27, 2008	Rulemaking hearing held at PERS headquarters in Tigard.
June 27, 2008	First reading of the proposed rules.
July 1, 2008	Public comment period ends at 5:00 p.m.
July 25, 2008	Staff will propose adopting the permanent rule modifications, including any changes resulting from public comment or reviews by staff or legal counsel.

NEXT STEPS

The rules are scheduled to be brought to the PERS Board's July 25, 2008 meeting for adoption.

B.2. Attachment 1 – OAR 459-005-0591, *Definitions – Direct Rollovers*

B.2. Attachment 2 – OAR 459-005-0595, *Limitations – Direct Rollovers*

B.2. Attachment 3 – OAR 459-050-0090, *Direct Rollover*

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

1 **459-005-0591**

2 **Definitions -- Direct Rollovers**

3 As used in OAR 459-005-0590 to 459-005-0599 the following words and phrases
4 shall have the following meanings:

5 (1) "Code" means the Internal Revenue Code of 1986, as amended.

6 (2) A "direct rollover" means the payment of an eligible rollover distribution by
7 PERS to an eligible retirement plan specified by the distributee.

8 (3) A "distributee" includes a PERS member, the surviving spouse of a deceased
9 PERS member, a non-spouse beneficiary of the member that is a designated beneficiary
10 under Code Section 402(c)(11), and the current or former spouse of a PERS member who
11 is the alternate payee under a domestic relations order that satisfies the requirements of
12 ORS 238.465 and the rules adopted thereunder.

13 (4) An "eligible retirement plan" means any one of the following:

14 (a) An individual retirement account or annuity described in Code Section 408(a) or

15 (b), *[but shall not include]* **including** a Roth IRA as described in Code Section 408A;

16 (b) An annuity plan described in Code Section 403(a) that accepts the distributee's
17 eligible rollover distribution;

18 (c) A qualified trust described in Code Section 401(a) that accepts the distributee's
19 eligible rollover distribution;

20 (d) An eligible deferred compensation plan described in Code Section 457(b) which
21 is maintained by an eligible employer described in Code Section 457(e)(1)(A) and
22 accepts the distributee's eligible rollover distribution.

1 (e) An annuity contract described in Code Section 403(b) that accepts the
2 distributee's eligible rollover distribution.

3 (f) For the purposes of ORS 237.650(3), the individual employee account maintained
4 for a member under the Individual Account Program as set forth under ORS
5 238A.350(2); and

6 (g) For the purposes of ORS 237.655(2), the state deferred compensation program.

7 (5) An "eligible rollover distribution" means any distribution of all or any portion of
8 a distributee's PERS benefit, except that an eligible rollover distribution shall not include:

9 (a) Any distribution that is one of a series of substantially equal periodic payment
10 made no less frequently than annually for the life (or life expectancy) of the distributee or
11 the joint lives (or life expectancies) of the distributee and the distributee's designated
12 beneficiary, or for a specified period of ten years or more;

13 (b) Any distribution to the extent that it is a required or minimum distribution under
14 Code Section 401(a)(9).

15 (6) A "recipient plan" means an eligible retirement plan that is designated by a
16 distributee to receive a direct rollover.

17 (7) The provisions of this rule are effective on January 1, ~~2007~~2008.

18 Stat. Auth.: ORS 238.650 & 238A.450

19 Stats. Implemented: ORS Chapters 238 and 238A

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

1 **459-005-0595**

2 **Limitations -- Direct Rollovers**

3 (1) Notwithstanding any provision to the contrary in OAR 459-005-0590 to 459-
4 005-0599, a distributee's right to elect a direct rollover is subject to the following
5 limitations:

6 (a) A distributee may elect to have an eligible rollover distribution paid in a direct
7 rollover to only one eligible retirement plan.

8 (b) A distributee may elect a direct rollover only when his or her eligible rollover
9 distribution(s) during a calendar year is reasonably expected to total \$200 or more.

10 (c) A distributee may elect to have part of an eligible rollover distribution be paid
11 directly to the distributee, and to have part of the distribution paid as a direct rollover
12 only if the member elects to have at least \$500 transferred to the eligible retirement plan.

13 (2)(a) The provisions of subsection (1)(a) apply to any portion of a distribution,
14 including after-tax employee contributions that are not includible in gross income.

15 (b) Any portion of a distribution that consists of after-tax employee contributions
16 that are not includible in gross income may be transferred only to:

17 (A) An individual retirement account or annuity described in Code Section 408(a) or

18 (b), [including a Roth IRA](#); or

19 (B) An annuity contract described in Code Section 403(b) or a qualified defined
20 contribution or defined benefit plan that agrees to separately account for the amounts
21 transferred, including separate accounting for the pre-tax and post-tax amounts.

1 (c) The amount transferred shall be treated as consisting first of the portion of the
2 distribution that is includible in gross income, determined without regard to Code Section
3 402(c)(1).

4 (3) The provisions of this rule are effective on January 1, ~~2007~~2008.

5 Stat. Auth.: ORS 238.650 & 238A.450

6 Stats. Implemented: ORS Chapters 238 and 238A

**OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 050 – DEFERRED COMPENSATION**

1 **459-050-0090**

2 **Direct Rollover**

3 The purpose of this rule is to establish the criteria and process for a direct rollover (a
4 transfer made from trustee to trustee) by the Deferred Compensation Program to an
5 eligible retirement plan and to establish the criteria and process for the Deferred
6 Compensation Program to accept an eligible rollover distribution from another eligible
7 retirement plan. This rule shall apply to any direct rollover distribution received by the
8 Deferred Compensation Program on behalf of a participant and any request for
9 distribution from a Deferred Compensation Program account processed on or after
10 January 1, ~~2002~~2008.

11 (1) Definitions. The following definitions apply for the purpose of this rule:

12 (a) "Code" means the Internal Revenue Code of 1986, as amended.

13 (b) "Direct Rollover" means:

14 (A) The payment of an eligible rollover distribution by the Deferred Compensation
15 Plan to an eligible retirement plan specified by the distributee; or

16 (B) The payment of an eligible rollover distribution by an eligible retirement plan to
17 the Deferred Compensation Program.

18 (c) "Distributee" means:

19 (A) A Deferred Compensation Plan participant who has a severance of employment;

20 (B) A Deferred Compensation Plan participant who is approved for a de minimis
21 distribution under OAR 459-050-0075(1);

22 (C) The surviving spouse of a deceased participant;

1 (D) The spouse or former spouse who is the alternate payee under a domestic
2 relations order that satisfies the requirements of ORS 243.507 and OAR 459-050-0200 to
3 459-050-0250; or

4 (E) The non-spouse beneficiary of a deceased participant who is a designated
5 beneficiary under Code Section 402(c)(11).

6 (d) "Distributing Plan" means an eligible retirement plan that is designated to
7 distribute a direct rollover to another eligible plan (recipient plan).

8 (e) "Eligible Retirement Plan" means any one of the following that accepts the
9 distributee's eligible rollover distribution:

10 (A) An individual retirement account or annuity described in Code Section 408(a) or
11 (b), *[but shall not include]* **including** a Roth IRA as described in Code Section 408(A);

12 (B) An annuity plan described in Code Section 403(a);

13 (C) An annuity contract described in Code Section 403(b);

14 (D) A qualified trust described in Code Section 401(a);

15 (E) An eligible deferred compensation plan described in Code Section 457(b) that is
16 maintained by a state, political subdivision of a state, or any agency or instrumentality of
17 a state or political subdivision of a state; or

18 (F) A plan described in Code Section 401(k).

19 (f) "Eligible Rollover Distribution" means a distribution of all or a portion of a
20 distributee's Deferred Compensation account. An eligible rollover distribution shall not
21 include:

22 (A) A distribution that is one of a series of substantially equal periodic payments
23 made no less frequently than annually for the life (or life expectancy) of the distributee or

1 the joint lives (or life expectancies) of the distributee and the distributee's designated
2 beneficiary, or for a specified period of ten years or more;

3 (B) A distribution that is a required or minimum distribution under Code Section
4 401(a)(9);

5 (C) An amount that is distributed due to an unforeseen emergency under OAR 459-
6 050-0075(2).

7 (g) "Recipient Plan" means an eligible retirement plan that is designated by a
8 distributee to receive a direct rollover.

9 (2) Direct rollover to an eligible retirement plan. The direct rollover of an eligible
10 rollover distribution by the Deferred Compensation Program to an eligible retirement
11 plan shall be interpreted and administered in accordance with Code Section 457(d)(1)(C)
12 and all applicable regulations. A distributee may elect to have an eligible rollover
13 distribution paid by the Deferred Compensation Program directly to an eligible retirement
14 plan specified by the distributee.

15 (a) The Deferred Compensation Program staff shall provide each distributee with a
16 written explanation of the direct rollover rules for an eligible distribution, as required by
17 the Code.

18 (b) A distributee's right to elect a direct rollover is subject to the following
19 limitations:

20 (A) A distributee may elect to have an eligible rollover distribution paid as a direct
21 rollover to only one eligible retirement plan.

22 (B) A distributee may elect to have part of an eligible rollover distribution be paid
23 directly to the distributee, and to have part of the distribution paid as a direct rollover

1 only if the distributee elects to have at least \$500 transferred to the eligible retirement
2 plan.

3 (c) A direct rollover election shall be in writing and must be signed by the distributee
4 or by his or her authorized representative pursuant to a valid power of attorney. The
5 direct rollover election may be on forms furnished by the Deferred Compensation
6 Program, or on forms submitted by recipient plan which must include:

7 (A) The distributee's full name;

8 (B) The distributee's social security number;

9 (C) The distributee's account number with recipient plan, if available;

10 (D) The name and complete mailing address of recipient plan; and

11 (E) If the distributee is a non-spouse beneficiary of the member, the title of the
12 recipient IRA account.

13 (d) The distributee is responsible for determining that the recipient plan's
14 administrator will accept the direct rollover for the benefit of the distributee. Any taxes or
15 penalties that are the result of the distributee's failure to ascertain that the recipient plan
16 will accept the direct rollover shall be the sole liability of the distributee.

17 (3) Direct rollover from an eligible retirement plan. On or after January 1, 2002, the
18 Deferred Compensation Program shall only accept rollover contributions from
19 participants and direct rollovers of distributions from an eligible retirement plan on behalf
20 of a participant. Section (3) of this rule shall be interpreted and administered in
21 accordance with Code Section 402(c) and all applicable regulations.

1 (a) The Deferred Compensation Program shall only accept pre-tax assets. After-tax
2 employee contributions are not eligible for rollover into the Deferred Compensation
3 Program.

4 (A) The Deferred Compensation Program may require that a direct rollover from an
5 eligible deferred compensation plan described in Code Section 457(b) plan include or be
6 accompanied by a statement by the participant's previous employer or the plan
7 administrator that the distribution is eligible for rollover treatment.

8 (B) A direct rollover from an eligible retirement plan other than a Deferred
9 Compensation Plan described in Code Section 457(b) must be an eligible rollover
10 distribution. It is the participant's responsibility to determine that the assets qualify for
11 rollover treatment. Any taxes or penalties that are the result of the participant's failure to
12 ascertain that the distributing plan assets qualify for a direct rollover to a deferred
13 compensation plan described in Code Section 457(b), shall be the sole liability of the
14 distributee.

15 (b) Subject to the requirements of subsections (3)(b)(A) and (B) below, eligible
16 rollover distribution(s) shall be credited to the participant's Deferred Compensation
17 account established pursuant to the Plan and Agreement on file with the Deferred
18 Compensation Program and shall be subject to all the terms and provisions of the Plan
19 and Agreement. Account assets received from the distributing plan will be invested by
20 the Deferred Compensation Plan record keeper in accordance with the terms and
21 conditions of the Deferred Compensation Program according to the asset allocation the
22 participant has established for monthly contributions unless instructed otherwise in
23 writing on forms provided by the Deferred Compensation Program.

1 (A) Assets from an eligible deferred compensation plan account described in Code
2 Section 457(b) will be aggregated with the participant's accumulated Deferred
3 Compensation Plan account.

4 (B) Assets from an eligible retirement plan other than a Deferred Compensation Plan
5 described in Code Section 457(b) will be segregated into a separate account established
6 by the Deferred Compensation Program for tax purposes only, but not for investment
7 purposes. For investment purposes, the participant's assets are treated as a single account.
8 If a participant changes the allocation of existing assets among investment options within
9 the plan, the transfer or reallocation shall apply to and will occur in all accounts
10 automatically.

11 (c) Assets directly rolled over to the Deferred Compensation Program may be
12 subject to the 10 percent penalty on early withdrawal to the extent that the funds directly
13 rolled over are attributable to rollovers from a qualified plan, a 403(b) annuity, or an
14 individual retirement account.

15 Stat. Auth.: ORS 243.470

16 Stats. Implemented: ORS 243.401 - 243.507



Oregon

Theodore R. Kulongoski, Governor

Public Employees Retirement System

Headquarters:
11410 S.W. 68th Parkway, Tigard, OR
Mailing Address:
P.O. Box 23700
Tigard, OR 97281-3700
(503) 598-7377
TTY (503) 603-7766
www.oregon.gov/pers

June 27, 2008

TO: Members of the PERS Board
FROM: Steven Patrick Rodeman, Deputy Director
SUBJECT: First Reading of Public Records Requests Rules
OAR 459-060-0000, *Purpose*
OAR 459-060-0001, *Definitions*
OAR 459-060-0010, *Requests and Fees for Public Records*

MEETING DATE	06/27/08
AGENDA ITEM	B.3. Public Records Requests

OVERVIEW

- Action: None. This is the first reading of the public records requests rules.
- Reason: SB 554 (2007) changed the public records law, requiring state agencies to modify how they handle public records requests.
- Subject: Responding to public records requests
- Policy Issues: No policy issues have been identified at this time.

BACKGROUND

The 2007 Oregon Legislature enacted SB 554, which amends ORS 192.440 to impose two new requirements on public agencies, one pertaining to the manner in which such agencies respond to public records requests and the other requiring those agencies to make certain information available regarding the public records request process. The proposed rule modifications set forth how to request public records, including content of the request and associated fees and costs, as well as the staff response to public records requests.

SUMMARY OF MODIFICATIONS TO RULES SINCE NOTICE

The following modifications have been made to the rules since presented at the PERS Board's May 16, 2008 meeting:

060-0001(4). The definition of "requestor" was simplified to mean "a person requesting disclosure of public records" because the Public Records Law speaks in terms of "disclosure" of public records and disclosure may be by inspection, copies, or some other means of access to public records.

060-0010(1). The first sentence was changed to "Anyone may request disclosure of a public record for which the Public Employees Retirement System is the custodian..." because only the custodian of public records has a duty to disclose public records. Also, the sentence in line 6 was rephrased as: "PERS will provide for disclosure of any public record which an individual has a right to inspect, subject to any exemptions that may apply under ORS 192.410 to 192.505." If a record is exempt from disclosure but disclosure is not prohibited by law, PERS has the discretion to disclose even though an exemption may apply.

060-0010(2). The last sentence of this new subsection was moved to subsection (3), because that subsection refers to the response that must be provided in a reasonable time, and it is in that response that PERS may be ready to discuss whether any requested records are exempt from disclosure and would tell the requestor that exemptions apply.

060-0010(5). This section was changed to allow only members one free copy of certain public records, to be consistent with the fiduciary nature of the PERS Fund being spent solely for the benefit of the members.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held on May 27, 2008 at 2:00 p.m. at PERS headquarters in Tigard. No members of the public attended. The public comment period ends on July 1, 2008 at 5:00 p.m. To date, no public comment has been received.

LEGAL REVIEW

The attached draft rules have been submitted to the Department of Justice for legal review and any comments or changes will be incorporated before the rules are presented for adoption.

IMPACT

Mandatory: Yes. Statutory changes require PERS to provide a response acknowledging receipt of a public records request, and to provide the public with a written procedure for making public records requests.

Impact: Clarifies process for submitting public records requests.

Cost: May minimally increase time spent processing public records requests because of the two new requirements.

RULEMAKING TIMELINE

April 15, 2008	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
May 1, 2008	<i>Oregon Bulletin</i> published the Notice. Notice was mailed to employers, legislators, and interested parties. Public comment period began.
May 16, 2008	PERS Board notified that staff began the rulemaking process.
May 27, 2008	Rulemaking hearing held at 2:00 p.m. in Tigard.
June 27, 2008	First reading of the rules.
July 1, 2008	Public comment period ends at 5:00 p.m.
July 25, 2008	Staff proposes adopting the permanent rule modifications, including any amendments warranted by public comment or further research.

First Reading – Public Records Requests Rules

06/27/2008

Page 3 of 3

NEXT STEPS

The rules are scheduled to be brought to the PERS Board's July 25, 2008 meeting for adoption.

B.3. Attachment 1 – OAR 459-060-0000, *Purpose*

B.3. Attachment 2 – OAR 459-060-0001, *Definitions*

B.3. Attachment 3 – OAR 459-060-0010, *Requests and Fees for Public Records*

**OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 060 – PUBLIC RECORDS ADMINISTRATION**

1 **[459-060-0000**

2 ***Purpose***

3 *This division of chapter 459, Oregon Administrative Rules, provides information*
4 *concerning the disclosure of information from the records of individual members of the*
5 *Public Employees Retirement System (PERS). The purpose of the rules of division 060 is:*

6 *(1) To protect the members of PERS from unreasonable invasion of their privacy;*

7 *(2) To give members of PERS access to their individual records, unless otherwise*
8 *prohibited by statute; and*

9 *(3) To identify and clarify the circumstances where disclosure of information from a*
10 *PERS member's records without the member's consent is permissible.*

11 *Stat. Auth.: ORS 192.502 & 238.650*

12 *Stats. Implemented: ORS 192.410 - 192.505, 237.410 - 237.520, 237.610, - 237.620,*
13 *237.950 - 237.980 & 238]*

**OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 060 – PUBLIC RECORDS ADMINISTRATION**

1 **459-060-0001**

2 **Definitions**

3 The words and phrases used in this Division have the same meaning given them in
4 ORS Chapters 192, 238, 238A and OAR 459-005-0001. Specific and additional terms
5 **used in this Division** are defined as follows unless context requires otherwise~~[.]~~:

6 **(1) “Medical records” means any reports, letters, or notes containing**
7 **information regarding a member’s health condition (mental or physical), or ability**
8 **to perform any work.**

9 **(2)** *[For the purposes of division 060, the term] “[m]M*ember” means an employee
10 of a PERS participating employer, a PERS member as *[described]* **defined** in ORS
11 238.005(12) **or 238A.005(10)**, a former PERS member, the beneficiary of a PERS
12 member, an alternate payee as defined in ORS 238.465, or the beneficiary of an alternate
13 payee.

14 *[(2) “Medical records” means any reports, letters, or notes containing information*
15 *regarding the member’s health condition (mental or physical), or ability to perform any*
16 *work.]*

17 (3) “Public disclosure” means disclosure of information to any individual other than
18 the member or an individual *[that]* **who** is legally authorized to act on behalf of the
19 member as to PERS matters.

20 **(4) “Requestor” means a person requesting disclosure of public records.**

21 Stat. Auth.: ORS 192.430, 192.502, *[& ORS]* 238.650 **& 238A.450**

- 1 Stats. Implemented: ORS 192.410 - 192,505[, 237.410-520, 237.610-620, 237.950-
- 2 980 & 238]

**OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 060 – PUBLIC RECORDS ADMINISTRATION**

1 **459-060-0010**

2 **Requests and Fees for Public Records**

3 (1) **Requesting public records.** Anyone may request *[to inspect or obtain copies]*
4 disclosure of a public record *[(s), as defined in ORS 192.410(4), that is in the custody of]*
5 for which the Public Employees Retirement System is the custodian by submitting a
6 written request in person, via mail, email, or fax. PERS will *[allow]* provide for
7 disclosure of *[reasonable access to]* any public record which an individual has a right to
8 inspect, *[during regular business hours, as long as the record is not exempt from*
9 *disclosure by law]* subject to any exemptions that may apply under ORS 192.410 to
10 192.505. PERS may determine the time and manner of inspection or copying to protect
11 the records and to prevent interference with the regular activities of PERS and its
12 employees. A request for public records *[must be made in writing, and]* must include:

13 (a) The name, address, and telephone number, if any, of the requestor;

14 (b) A sufficiently detailed description of the record(s) requested, including the
15 identification, description, type, and format of the public record, if known to the
16 requestor; *[and]*

17 (c) The number of copies requested of the public record, if copies are requested *[.];*

18 and

19 (d) The signature of the requestor, unless sent via email, and date of request.

20 (2) PERS response to public record requests. Upon receiving a public record
21 request, PERS will provide a prompt response acknowledging receipt of the request,
22 following the guidelines set forth in ORS 192.440(2).

1 ~~[(2)]~~**(3) Time period for response.** A reasonable period of time, as determined by
2 PERS, ~~[will]~~**must** be allowed for staff to locate and assemble the requested record(s), and
3 consult with the Attorney General's office, if needed. **If the record requested is exempt**
4 **from public disclosure under ORS 192.410 to 192.505, PERS will provide a response**
5 **explaining why the record may not be released.**

6 ~~[(3)]~~**(4) Fees for public records.** In accordance with ORS 192.440, PERS may
7 charge a reasonable fee **for public record requests**. Fees are calculated to reimburse
8 PERS for the actual costs of **locating, producing, and** providing ~~[and conveying]~~ copies
9 of public records. A fee schedule is available upon request.

10 (a) **A cost estimate will be provided to the requestor before the production of**
11 **any records, other than those records that will be provided at no cost under section**
12 **(5) below.** ~~[For each request, the requestor will be informed of the estimated cost,~~
13 ~~including the employee hourly rate of pay for staff time charges, before the service(s) is~~
14 ~~performed.]~~

15 (b) All fees must be paid in advance of releasing the requested public records for
16 inspection or before photocopies are provided, unless otherwise directed by the Director
17 or **the records will be provided at no cost under section (5) below**. Payments must be
18 made by check or money order and made payable to the Public Employees Retirement
19 System.

20 ~~[(4)]~~**(5) Records available at no cost.** No fee will be charged to a member ~~[or an~~
21 ~~employer]~~ for one copy of the following public records:

- 22 (a) Approved Board minutes or Board orders for the past 12 months;
23 (b) Current PERS administrative rules;

- 1 (c) Current Oregon Revised Statutes pertaining to PERS;
- 2 (d) Current PERS publications;
- 3 (e) A PERS member's record to the extent permitted under OAR 459-060-0030 and
- 4 459-060-0020, excluding paragraph (3)(a)(D); and

5 (f) No fee will be charged for providing such records:

6 (A) In an alternative format when required under the Americans with Disabilities
7 Act; or

8 (B) If the records can be provided at nominal expense where collection of the fee
9 would be more than the cost to provide the records.

10 ~~[(5)]~~(6) Except as provided under section ~~[(4)]~~(5) of this rule, PERS may not reduce
11 or waive fees for making public records available and must charge the actual costs for
12 services provided.

13 Stat. Auth.: ORS 192.430, 192.440, ~~[ORS]~~ 238.650, 238A.450 & ~~[ORS]~~ 243.470

14 Stats. Implemented: ORS 192.410 - 192.505 ~~[237.410-520, 237.610-620, 237.950-~~
15 ~~980, 238, 243.401-507 & 192.410-505]~~



Oregon

Theodore R. Kulongoski, Governor

Public Employees Retirement System

Headquarters:
11410 S.W. 68th Parkway, Tigard, OR
Mailing Address:
P.O. Box 23700
Tigard, OR 97281-3700
(503) 598-7377
TTY (503) 603-7766
www.oregon.gov/pers

June 27, 2008

TO: Members of the PERS Board
FROM: Steven Patrick Rodeman, Deputy Director
SUBJECT: First Reading of OAR 459-070-0050, *Participation of Public Employers* and OAR 459-075-0010, *Eligibility and Membership*

MEETING DATE	06/27/08
AGENDA ITEM	B.4. Employer Participation

OVERVIEW

- Action: None. This is the first reading of the Employer Participation rules.
- Reason: To provide newly participating employers clearer guidance on participation in the PERS Plan for employees who are already members of PERS programs at the time of hire.
- Subject: Participation of public employers in all programs in the PERS Plan.
- Policy Issue: Should participating employers be required to participate in all programs in the PERS Plan?

BACKGROUND

When the 2003 PERS Reform legislation created the OPSRP Pension Program and the IAP, the interplay of those programs with the PERS Chapter 238 retirement program was complicated. Concepts such as “Break in Service” and shifting member contributions to the IAP made discerning membership eligibility for existing, returning, and retiring members difficult. Still, the programs each have independent eligibility and benefit structures.

Two provisions adopted by the 2007 Oregon Legislature clarified the administration of the interplay among these programs. First, HB 2281 required a member who withdraws from one program to withdraw from all. This bill was an outgrowth of our realizations in administering these programs’ independent eligibility and benefit structures. PERS members have also expected to move from one PERS-covered employer to another and continue to participate based on their established eligibility: e.g., a Tier One member who goes to another PERS-covered employer stays as a Tier One member and does not need to re-establish membership.

This expectation was further supported by the elimination of “Break in Service” by the 2007 Legislature’s HB 2285. Members in the PERS Chapter 238 Program will now continue in that program if they interrupt their PERS-covered employment. Permitting newly participating employers to participate in less than all programs would further complicate the administration of the PERS Plan and disrupt the employee’s expected continuity of membership in the system.

POLICY ISSUE

Should participating employers be required to participate in all programs in the PERS Plan?

The tension among these provisions substantially clouds the factors in a new employer's decision on whether to join the Public Employees Retirement System. If the new employer tried to offer only some of the programs within the PERS Plan, members would be at best confused if not contentious when their work for a PERS-covered employer does not yield the benefits they expect. Membership and contribution start dates would fluctuate among employers and members could conceivably start and stop several times. Employer rates would be similarly tangled in sorting out which category a particular member's salary should fall. Finally, there's no practical way that a benefit administration system can be designed to track the permutations of a member who could potentially fall into an unpredictable combination of circumstances simultaneously for several employers concurrently.

All PERS employers in the system as of August 29, 2003 were required to continue participating in all the plan's programs. Any new employer should know the consequences of their decision to start offering PERS benefits. Those consequences should not be clouded by confused employees' expectations, administrative frustrations, and counter-intuitive cost structures. Therefore, staff developed and recommends adoption of these rule modifications so that an employer that chooses to join the PERS Plan, as a single plan, must join all the programs and members will participate based on their established eligibility.

The proposed modifications to OAR 459-070-0050 require that an employer applying to participate in the PERS Plan must apply to participate in all programs. The modifications to OAR 459-075-0010 eliminate provisions regarding concurrent membership in the OPSRP Pension Program and the PERS Chapter 238 Program. While open for rulemaking, that rule is also modified to clarify the waiting period of an educational employee in the OPSRP Pension Program.

MODIFICATIONS TO THE RULES SINCE NOTICE

The rules as presented have not been changed since the PERS Board's May 16, 2008 meeting.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held on May 27, 2008 at 2:00 p.m. at PERS headquarters in Tigard. No members of the public attended. The public comment period ends on July 1, 2008 at 5:00 p.m. To date, no public comment has been received.

LEGAL REVIEW

The attached draft rules have been submitted to the Department of Justice for legal review and any comments or changes will be incorporated before the rules are presented for adoption.

IMPACT

Mandatory: No, the Board need not adopt the modifications.

Impact: Adoption would resolve this participation issue and provide stability and predictability for employers, members, and system administration.

Cost: There are no discernible material costs attributable to this rule.

RULEMAKING TIMELINE

April 15, 2008	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
May 1, 2008	<i>Oregon Bulletin</i> published the Notice. Notice was mailed to employers, legislators, and interested parties. Public comment period began.
May 16, 2008	PERS Board notified that staff began the rulemaking process.
May 27, 2008	Rulemaking hearing held at 2:00 p.m. in Tigard.
June 27, 2008	First reading of the rules.
July 1, 2008	Public comment period ends at 5:00 p.m.
July 25, 2008	Staff proposes adopting the permanent rule modifications, including any amendments warranted by public comment or further research.

NEXT STEPS

The rules are scheduled to be brought to the PERS Board's July 25, 2008 meeting for adoption.

B.4. Attachment 1 – OAR 459-070-0050, *Participation of Public Employers*

B.4. Attachment 2 – OAR 459-075-0010, *Eligibility and Membership*

**OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459**

DIVISION 070 – OREGON PUBLIC SERVICE RETIREMENT PLAN, GENERALLY

1 **459-070-0050**

2 **Participation of Public Employers**

3 (1) Any public employer that does not already provide benefits under the Oregon
4 Public Service Retirement Plan (OPSRP) may apply to participate in *[the]* OPSRP
5 *[Pension Program, the OPSRP IAP, or both, only]* for service by eligible employees
6 performed on or after the date the employer's participation becomes effective. An
7 employer that applies to participate in OPSRP must also apply to participate in the
8 PERS Chapter 238 Program for members of that program that it employs on or
9 after the employer's participation begins.

10 (2) The application to participate *[in either or both OPSRP programs]* must
11 contain¹, *[at a minimum,]* the following *[information]*:

12 (a) A true copy of the resolution, motion or other official action by which the
13 employer's governing board or equivalent decided to apply to participate;

14 (b) A designated person or position authorized to represent the employer on PERS
15 matters;

16 (c) Whether the employer will participate for one or more designated classes
17 *[groups]* of employees or for all employees. If the employer already provides coverage
18 for some but not all employees, the application must designate which additional class(es)
19 *[group(s)]* will be added *[to the program or programs]*;

20 (d) *[Whether]* A statement that the employer will *[offer]* participate in the OPSRP
21 Pension Program¹, and the OPSRP IAP¹, *[or both]*;

1 (e) *[Whether]* A statement that the employer will *[offer]* participate in the PERS
2 Chapter 238 Program *[plan to qualifying employees]* for members of that program
3 that it currently employs or may hire in the future in the class(es) designated for
4 coverage pursuant to subsection (c) of this section;

5 (f) *[If the employer elects to participate in the PERS Chapter 238 plan for qualifying*
6 *employees, w]* Whether the employer will participate in the unused sick leave program
7 pursuant to ORS 238.350 *[provide the unused sick leave benefit for those employees];*
8 and

9 (g) The date on which the employer proposes to commence participation. *[coverage*
10 *under the specified program or programs.]*

11 (3) If the employer *[elects to participate in the PERS Chapter 238 plan for qualifying*
12 *employees, and the employer also]* elects to participate in the State and Local
13 Government Rate Pool (SLGRP) for the PERS Chapter 238 Program *[those*
14 *employees]*, the employer shall provide PERS with a resolution electing to participate in
15 the SLGRP before the coverage agreement is signed by the parties.

16 (4) Upon receipt of the properly completed application, PERS will prepare a
17 coverage agreement, which will be forwarded to the person designated by the employer
18 under (2)(b) above. In no event will coverage commence before the agreement has been
19 executed on behalf of the employer's governing body (or equivalent), the PERS
20 Executive Director, and the PERS Board.

21 (5) The employer will provide any and all information requested by PERS to ensure
22 that the employer is eligible to participate, including whatever information PERS deems

1 necessary to determine that the employer qualifies as a public employer. Factors to be
2 addressed in that determination include but are not limited to:

3 (a) If the employer is a public corporation, whether a governmental entity retains
4 essential control over the employer's activities, with delegated powers for administration
5 or discharge of public duties;

6 (b) Whether a state or local governmental body controls management of the
7 employer;

8 (c) If the employer is a public corporation, whether it generates profits for private
9 investors or stockholders;

10 (d) Where the employer derives its funding for operations;

11 (e) Whether the employer performs a governmental function; and

12 (f) Any information deemed necessary to determine that the employer's coverage
13 will not adversely affect PERS' status as a qualified governmental retirement plan under
14 the Internal Revenue Code.

15 (6) Unless the coverage agreement specifically provides otherwise, no retirement or
16 service credit will be provided under *[OPSRP or]* the PERS Chapter 238 Program
17 *[plan]* for the service performed with that employer prior to the employer becoming a
18 participating employer*[, including service towards the member's six-month waiting*
19 *period]*.

20 *[(7) An employee who is employed in a qualifying position with a newly*
21 *participating employer and who had previously established membership in the PERS*
22 *system as of August 29, 2003, shall be an active member of the applicable OPSRP or*

1 *PERS Chapter 238 program(s) as of the coverage agreement effective date, to the extent*
2 *eligible under OAR 459-075-0010 and 459-080-0010.]*

3 Stat. Auth: ORS 238A.450, 238.650

4 Stats. Implemented: ORS 238A.025, 238A.070

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

1 **459-075-0010**

2 **Eligibility and Membership**

3 (1) Eligibility. An employee who is employed in a qualifying position on or after
4 August 29, 2003 by an employer participating in the OPSRP Pension Program is eligible
5 to become a member of that program unless the employee:

6 (a) Has established membership in the PERS Chapter 238 Program before August
7 29, 2003 under the terms of ORS 238A.025 and has not terminated membership in that
8 program under ORS 238.095;

9 (b) Is a judge member as defined in ORS 238.500;

10 (c) Elects to participate in an optional or alternative retirement plan as provided in
11 ORS Chapters 243, 341, or 353; or

12 (d) Is otherwise ineligible for membership.

13 *[(2) Notwithstanding section (1) of this rule, an employee who established*
14 *membership in the PERS Chapter 238 Program before August 29, 2003 under the terms*
15 *of ORS 238A.025 and has not terminated membership in that program under ORS*
16 *238.095 may nevertheless be eligible to establish membership in the OPSRP Pension*
17 *Program if employed by a public employer that is participating in the pension program*
18 *and is not participating in the PERS Chapter 238 Program.]*

19 **(2)[(3)] Membership:**

20 (a) An employee who meets the requirements in section (1) *[or (2)]* of this rule
21 becomes a member of the OPSRP Pension Program on the first day of the calendar month
22 following the employee's completion of a waiting period of six full calendar months of

1 service in a qualifying position with the same participating public employer. The six full
2 calendar months of service may not be interrupted by more than 30 consecutive working
3 days. For the purposes of this rule, a working day is defined as a day that the employer is
4 open for business.

5 (b) The waiting period begins:

6 (A) On the date the employee is hired, and includes the month of hire as a full
7 calendar month, if the date of hire is the first business day of the month. For the purposes
8 of this rule, a business day is defined as Monday through Friday when PERS is open for
9 business;

10 (B) On the first day of the month following the date of hire; or

11 (C) On the first day of the month following the end date of an interruption of service
12 of more than 30 consecutive working days.

13 (c) In the event an employee is on an official leave of absence as described in OAR
14 459-010-0010, the period of absence shall not constitute an interruption of the waiting
15 period under subsection (a) of this section. The waiting period shall be extended by the
16 length of the leave of absence.

17 (d) Absence from service by an educational employee during periods that the
18 employing educational institution is not in session shall not constitute an interruption of
19 the waiting period under subsection (a) of this section. *[The waiting period shall be*
20 *extended by the length of the period the educational institution is not in session.]*

21 Stat. Auth.: ORS 238A.450

22 Stats. Implemented: ORS 238A.025, 238A.100 & OL 2007 Ch. 769



Oregon

Theodore R. Kulongoski, Governor

Public Employees Retirement System

Headquarters:
11410 S.W. 68th Parkway, Tigard, OR
Mailing Address:
P.O. Box 23700
Tigard, OR 97281-3700
(503) 598-7377
TTY (503) 603-7766
www.oregon.gov/pers

June 27, 2008

TO: Members of the PERS Board
FROM: Steven Patrick Rodeman, Deputy Director
SUBJECT: First Reading of OAR 459-005-0310, *Date of Participation and Transfer of Employee Funds to the Oregon University System (OUS)*

MEETING DATE	06/27/08
AGENDA ITEM	B.5. OUS ORP

OVERVIEW

- Action: None. This is the first reading of the OUS Optional Retirement Plan (ORP) rule.
- Reason: The current rule provision regarding effective date of an election needs to be modified to comply with statute. The issue of whether a request to transfer funds to the OUS ORP requires that all the member's funds be transferred should also be addressed.
- Subject: Effective date of election to participate in the ORP and transfer of employee funds.
- Policy Issue: Should the request of a PERS member to transfer their funds to the ORP be administered as a request to transfer all funds from PERS to the ORP?

BACKGROUND

A PERS member who is employed by OUS may elect to participate in the OUS Optional Retirement Plan (ORP). Generally, if that member is not vested in the PERS Chapter 238 program, their membership terminates and their funds (regular account and variable account, if any) are transferred to the ORP. If that member is vested, they can choose whether to terminate their membership by transferring their funds to the ORP, or become an inactive member and keep their vested benefits.

The 2007 Legislature passed HB 2281, requiring a member who withdraws from one PERS program to withdraw from all PERS programs. That legislation did not specifically address ORP transfers. Under current practice, a member is allowed to retain some of their accounts with PERS (e.g., keep their PERS Chapter 238 member account(s) to fund their vested benefit under those provisions, and transfer only their IAP).

Staff initiated rulemaking to apply the "withdraw from one, withdraw from all" concept to ORP transfers. Working with OUS, staff has developed draft rule modifications that address the issues in this situation from both perspectives. Incidentally, while the rule is open for rulemaking, modifications have been included to comply with the statutory standard for the effective date of an election to participate in the ORP and to clarify other provisions.

POLICY ISSUE

- *Should the request of a PERS member to transfer their funds to the ORP be administered as a request to transfer all funds from PERS to the ORP?*

Once the member elects to participate in the ORP and transfer their funds from PERS, the effect of the transfer parallels the effect of a withdrawal in terminating PERS membership. Allowing an employee to transfer some of their PERS funds (e.g., member account(s) but not IAP) results in the same type of parallel and multiple memberships HB 2281 sought to eliminate. However, HB 2281 was specific in those statutory sections affected and did not directly address the ORP statute, ORS 243.800.

As a policy matter, therefore, these rule modifications would consider a request to transfer funds to the ORP as a request to transfer all funds unless the member specifically limits the request to a designated account. This parallels a current policy for rollover eligible withdrawal payments. If a member elects to roll over a withdrawal payment but fails to designate the percentage to be rolled, PERS rolls 100% of the payment. Notice of this policy and practice is provided in the Member Account Withdrawal Application Packet. If these provisions are adopted, PERS and OUS would need to coordinate to assure members were aware of this at the time of a transfer request. Such notice may be included on the ORP transfer request form.

Staff recommends that rule modifications be adopted that permit PERS to administer a request to transfer funds to the ORP as a request to transfer all funds to the ORP unless the member specifically limits the request to a designated account.

MODIFICATIONS TO THE RULE SINCE NOTICE

At the May 16, 2008 meeting, staff notified the Board of the initiation of rulemaking and noted that a draft rule would be presented at a later date. On June 11, 2008, these proposed modifications were distributed to the interested parties.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held on May 27, 2008 at 2:00 p.m. at PERS headquarters in Tigard. No members of the public attended. A second public hearing has been scheduled for July 8, 2008 at PERS headquarters in Tigard. The public comment period has been extended and ends July 18, 2008 at 5:00 p.m. To date, no public comment has been received.

LEGAL REVIEW

The draft rule was submitted to the Department of Justice for legal review and any comments or changes will be incorporated before the rule is presented for adoption.

IMPACT

Mandatory: Yes, in part. The current rule provisions regarding effective date of an election are not in compliance with statute. The Board need not adopt modifications regarding the “withdraw from one, withdraw from all” policy issue, but parallel and multiple memberships in PERS and the ORP do present significant administrative problems that can be reduced by facilitating a consistent approach.

Impact: PERS and OUS will benefit from administrative simplification by avoiding parallel and multiple memberships. Members will be required to make a more clearly defined choice of retirement plans when opting to transfer funds to the ORP.

Cost: There are no discernible material costs to this rule.

RULEMAKING TIMELINE

April 15, 2008	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
May 1, 2008	<i>Oregon Bulletin</i> published the Notice.
May 16, 2008	PERS Board notified that staff began the rulemaking process.
May 27, 2008	Rulemaking hearing held at 2:00 p.m. in Tigard.
June 11, 2008	Draft rule and revised notice was emailed to employers, legislators, and interested parties. New public comment period began.
June 27, 2008	First reading of the rules.
July 1, 2008	<i>Oregon Bulletin</i> publishes the updated Notice.
July 8, 2008	Second rulemaking hearing to be held at 2:00 p.m. in Tigard
July 18, 2008	Extended public comment period ends at 5:00 p.m.
July 25, 2008	Staff proposes adopting the permanent rule modifications, including any amendments warranted by public comment or further research.

NEXT STEPS

A rulemaking hearing will be held on July 8, 2008. The rule is scheduled to be brought to the PERS Board's July 25, 2008 meeting for adoption.

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

1 **459-005-0310**

2 **Date of Participation and Transfer of Employee Funds to the Oregon University**

3 **System Optional Retirement Plan [- OUS]**

4 **(1) Definitions. For the purposes of this rule:**

5 **(a) “IAP account” means the member’s employee, rollover, and employer**
 6 **accounts in the Individual Account Program, to the extent the member is vested in**
 7 **those accounts under ORS 238A.320.**

8 **(b) “OPSRP Pension account” means the member’s transferrable interest in the**
 9 **pension program under ORS 243.800(6)(d).**

10 **(c) “PERS member account” includes a “member account” as defined in ORS**
 11 **238.005, an account established under ORS 238.440, and an account subject to ORS**
 12 **238.095(4).**

13 **(2)[(1)]** The effective date of an election by an administrative or academic employee
 14 of the Oregon *[State]* University System *[of Higher Education]* (OUS) to participate in
 15 *[an]* **the** Optional Retirement Plan (**ORP**) authorized under ORS 243.800 is the first **day**
 16 of the month following **a period of six full calendar months of employment in an**
 17 **administrative or academic position.***[the employee’s election to participate in the*
 18 *Optional Retirement Plan.]*

19 (a) Unless otherwise agreed upon, notice of the effective date of *[an]* **the** election *[to*
 20 *participate in the Optional Retirement Plan]* will be provided to PERS by *[the]* OUS
 21 within 30 days of the **date of the election.***[election date.]*

1 (b) If the employee is a member of PERS *[or the Oregon Public Service Retirement*
2 *Plan (OPSRP) Pension Program or Individual Account Program (IAP),]* and **elects** *[is*
3 *eligible]* to transfer **funds from PERS** *[their PERS or OPSRP accounts and]* to the
4 Optional Retirement Plan **pursuant to ORS 243.800(6)**, *[the]* OUS will forward **to**
5 **PERS** a copy of *[that]* **the ORP election form and a written transfer request from the**
6 **employee** at the time of the notification required in subsection (a) of this section.

7 **(3) If an employee who is a member of PERS requests a transfer of funds**
8 **pursuant ORS 243.800(6), PERS will administer the request as a request to transfer**
9 **the employee’s PERS member account, OPSRP Pension account, and IAP account**
10 **from PERS to the ORP unless the employee also requests that the transfer be**
11 **limited to a designated account.**

12 **(a) PERS must transfer the funds to the ORP within the 60 day period following**
13 **the later of:**

14 **(A) The effective date of the employee’s election to participate in the ORP, or**

15 **(B) The effective date of the transfer.**

16 **(b) The effective date of a transfer is the first of the month in which PERS**
17 **completes reconciliation of the account to be transferred.**

18 **(c) PERS may not transfer funds to the ORP if the member is concurrently**
19 **employed by a participating employer other than an institution of the Oregon**
20 **University System.**

21 *[(2) The date of transfer will be:*

22 *(a) For a member’s PERS member account, variable account, or OPSRP Pension*
23 *account, the first working day of the calendar month following the date of the notification*

1 *by OUS to PERS of the employee’s election to participate in an Optional Retirement Plan*
2 *authorized under ORS 243.800.*

3 *(b) For a member’s OPSRP IAP account, the actual date of distribution.*

4 *(3) For purposes of sections (1) and (2) of this rule, the date of notification shall be*
5 *the date on which PERS headquarters receives the written notification of the election to*
6 *participate in an Optional Retirement Plan under ORS 243.800.]*

7 *(4) For the purposes of this rule:*

8 *(a) “PERS member account” means the member’s regular account in the fund as*
9 *defined in ORS 238.250; and*

10 *(b) “PERS variable account” means the member’s account in the Variable Annuity*
11 *Account in the Fund as defined in ORS 238.260.*

12 *(c) “OPSRP pension account” means the member’s benefit eligible for withdrawal*
13 *under the provisions of ORS 238A.120; and*

14 *(d) “IAP Account” means the member’s account, to the extent the member is vested,*
15 *as set forth under ORS 238A.350].*

16 Stat. Auth: ORS [238A.450](#), 238.650

17 Stats. Implemented: ORS 243.[800](#) [775]



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Public Employees Retirement System

Headquarters:
11410 S.W. 68th Parkway, Tigard, OR
Mailing Address:
P.O. Box 23700
Tigard, OR 97281-3700
(503) 598-7377
TTY (503) 603-7766
www.oregon.gov/pers

June 27, 2008

TO: Members of the PERS Board

FROM: Zue Matchett, Retiree Insurance Program Manager

SUBJECT: PERS Retiree Health Insurance Program – January 1, 2009 Contract Renewals

MEETING	6/27/08
DATE	
AGENDA	C.1.
ITEM	Health Ins.

BACKGROUND

The 2009 PERS Health Insurance Program contract renewal, although not as positive as the 2006 plan year, will provide non-Medicare participants some much needed rate relief. The contract review process began as usual in late February. After carriers had an opportunity to present their renewals and following some preliminary offers a meeting was held with PERS Health Insurance Program staff, PERS Board Liaison Thomas Grimsley, PERS Retiree Advisors and consultants. The end result is that participants will experience rate reductions in a number of product lines.

PERS continues to contract with four health plans for a variety of coverages for participants allowing the greatest possible choice while maintaining stability for the program. Calendar year 2008 contracts that are in place are as follows:

1) The ODS Companies

- a. Traditional Medicare Supplement
- b. Medicare Advantage PPO Plan
- c. Non-Medicare PPO Plan
- d. Stand alone Prescription Drug Plan (PDP) that covers
 - ODS Medicare and Non-Medicare participants
 - Providence Health Plan Medicare and Non-Medicare participants
 - Clear Choice Health Plan Medicare and Non-Medicare participants
- e. Dental Plan

2) Providence Health Plans

- a. Medicare Advantage HMO Plan
- b. Medicare Advantage POS Plan
- c. Non-Medicare PPO Plan

3) Kaiser

- a. Medicare Advantage HMO Plan and prescription drug coverage
- b. Non-Medicare HMO Plan and prescription drug coverage
- c. Dental Plan

4) Clear Choice Health Plans

- a. Medicare Advantage HMO Plan
- b. Non-Medicare PPO Plan

As is mentioned with each renewal, the Oregon PERS retiree health insurance program is a voluntary insurance group where eligible members pay the majority of their own premium for the insurance plans of their choice. In addition to health plan premium, PERS retirees also cover the cost of administration of the program.

The PERS Health Insurance Program enjoys a unique partnership with its vendors. The level of cooperation, not only with the Program but also each other, provides participants the stability that is the hallmark of the plan. Two initiatives have been elevated in the current year that are expected to make a difference in 2009. They are:

- an expansion of data sharing between ODS, Providence and Clear Choice and the ODS managed Prescription Drug Program allowing a more comprehensive approach to the management of chronic and catastrophic diseases in the PERS population and,
- secondly, an effort to bring Kaiser into the process in a more active role benefiting all members.

Ninety-five percent of the enrolled members of the PERS plans are Medicare eligible and, as such, have many commercially marketed Medicare plans competing for their premium dollar. The key to PERS' success has been the Board's approach in maintaining a stable program with dependable health plan contractors, and an acceptable balance between the benefits and premium cost over the years that meets member's needs. PERS staff and the program administrator, in conjunction with plan consultants, have also started updating presentations that were developed a few years ago informing and educating public plan administrators and human resources staff about the PERS Health Insurance Program and the steps and timelines for enrollment.

Following are some demographics and statistics that describe the Oregon PERS Retiree Insurance Program as of May 2008:

	Enrollment	% Change vs. 2007	Receiving Subsidy	Average Age
Medical Plans	50,564	1.8%		75
Medicare	48,736	2.4%	47,144	75
Non-Medicare	1,828	-10.8%	885	58
Dental Plans	25,649	6.5%		

Additional statistics can be found in Exhibit I.

PROPOSED HEALTH PLAN CONTRACTS, CONDITIONS AND CHANGES FOR 2009

PERS will continue to contract with Kaiser Permanente Health Plans, ODS Health Plans, Providence Health Plan and Clear Choice Health Plans for medical insurance for PERS retired Medicare and non-Medicare members.

PERS will continue to contract with Kaiser Permanente Health Plans and ODS Health Plans for dental insurance for PERS retired Medicare and non-Medicare members.

PERS will continue to contract with ODS for a Stand Alone Prescription Drug Program (PDP) covering participants enrolled in ODS, Providence Health Plan and Clear Choice Health Plans.

Minor adjustments in the calendar year maximum out of pocket will be made allowing PERS to remain actuarially equivalent to the Medicare Prescription Drug Program.

Kaiser Permanente will continue to insure and administer medical benefits and the prescription drug program to PERS members who are enrolled in Kaiser Permanente Health Plans that mirrors the ODS administered program, thereby providing uniformity, continuity, and stability for PERS members.

The preliminary 2009 PERS Health Plan premium rates are shown on Exhibit II. These preliminary rates are subject to further refinement and ongoing negotiations that will be completed prior to the June 27, 2008 Board meeting.

PROPOSAL REVIEW AND RECOMMENDATIONS

Nationwide, Medicare Part D and the associated government reimbursements have stabilized and with each passing renewal calculating what the Centers for Medicare & Medicaid Services CMS) will do has become more predictable. In a population as large as PERS, however, a one percent differential can mean millions of dollars. PERS staff and the consultants strive to keep that fact in the forefront when negotiating contract renewals. As has been true in recent years, overall, the 2009 renewal is positive and PERS retirees will continue to enjoy a variety of competitively priced benefit options.

We are pleased to bring these proposals to you, and thereby conclude another year of hard work by our consultants, health plans, retiree advisors, and PERS staff.

PERS staff, the Administrator's staff, and consultants have already started the process of updating the Program Booklet and Plan Change materials for finalization and distribution if the PERS Board approves the proposals presented here. In mid-September, PERS staff and the Administrator's staff will begin Retiree Meetings around the state, and will most likely have the opportunity to meet with 5,000 or more PERS retirees and their dependents during the six weeks of meetings planned from mid-September through October.

You may refer to Exhibit II for additional information about the PERS Retiree Health Insurance Program. We are still working out details to finalize the renewal rates and get solid commitments from ODS and Kaiser. The Kaiser rating will likely not be resolved until the follow-up meeting scheduled on June 25, 2008.

Please review the attachments and feel free to call if you have questions. I can be reached at 503-378-8906 or email at zue.matchett@state.or.us

STAFF RECOMMENDATIONS

Retiree Health Insurance

June 27, 2006

Page 4 of 4

Staff recommends the Board approve the proposed PERS Retiree Health Insurance Plan contracts, conditions and rate changes for 2009 as finalized and presented at the June 27, 2008 Board meeting.

Exhibit I – PERS Retirees Insurance Program Statistics

Exhibit II – PERS Proposed Renewal Rates (preliminary)

EXHIBIT I

Health Insurance Plans			
Program Enrollment	Totals	Medicare	Non-Medicare
Covered Lives	50,564	48,736	1,828
Retirees (or Surviving Spouses)	40,776	39,678	1,098
Spouses / Dependents	9,788	9,058	730
Average Age of Enrolled Retirees	75	75	58

Health Plan Membership Enrollment

Clear Choice Health Plans (Central OR)	1,390	1,362	28
Kaiser Permanente (Portland to Salem)	8,955	8,330	625
Kaiser (California & Hawaii)	73	52	21
ODS Advantage (Oregon)	2,980	2,915	65
ODS Supplement (All 50 States)	25,281	24,764	517
Providence Medicare Extra (Portland to Eugene)	11,716	11,152	564
Providence Medicare Choice	169	161	8
ODS Dental Plan	22,084	21,377	707
Kaiser Dental Plan	3,565	3,302	263

Statutory Health Insurance Premium Subsidies	
Retirees Receiving RHIA	47,144
Retirees Receiving RHIPA	885
RHIA Monthly Payment – \$60 pmpm	\$ 2,278,500
RHIPA Monthly Payment – \$259(avg)	\$ 159,906
Total Monthly Premium Paid to Health Plans:	\$11,595,133

PERS PROPOSED RENEWAL RATES

2008 vs. 2009 All Carrier Rates

Including All Carrier Administrative Fees
Effective January 1, 2009

SUMMARY

Includes non-Statutory proposed subsidies / surcharges

Medical and Prescription Rates to Members before Statutory Subsidies	Enrollment as of May 2008	2008	2009	Percentage Change 2009 vs. 2008
<i>(Includes Fixed Costs)</i> ODS MEDICAL / RX				
Medicare Supplement	24,764	\$199.39	\$206.95	3.8%
Medicare PPO	2,915	\$172.03	\$175.19	1.8%
non-Medicare PPO*	582	\$825.11	\$761.74	-7.7%
PROVIDENCE HEALTH PLANS				
Medicare Extra	11,152	\$166.39	\$173.95	4.5%
Medicare Choice	161	\$136.39	\$143.95	5.5%
non-Medicare	572	\$630.68	\$567.27	-10.1%
CLEAR CHOICE HEALTH PLANS				
Medicare	1,362	\$175.89	\$198.45	12.8%
non-Medicare PPO	28	\$657.09	\$707.01	7.6%
KAISER OREGON HEALTH PLANS				
Medicare	8,330	\$192.72	\$200.42	4.0%
non-Medicare	625	\$586.50	\$568.91	-3.0%
DENTAL				
Kaiser Dental	3,565	\$48.02	\$50.32	4.8%
ODS Dental	22,084	\$47.03	\$50.50	7.4%



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Headquarters:
11410 S.W. 68th Parkway, Tigard, OR
Mailing Address:
P.O. Box 23700
Tigard, OR 97281-3700
(503) 598-7377
TTY (503) 603-7766
www.oregon.gov/pers

June 27, 2008

TO: Members of the PERS Board
FROM: Kyle Knoll, Business Operations Manager
SUBJECT: 2009-11 Agency Request Budget

MEETING DATE	06/27/08
AGENDA ITEM	C.2 09-11 Agency Request Budget

OVERVIEW

- Action: Approve PERS' 2009-11 Agency Request Budget (ARB).
- Reason: To complete and submit PERS' Board-approved 2009-11 Agency Request Budget to the Department of Administrative Services / Budget and Management by August 1, 2008.

BACKGROUND – 2007-09 BUDGET

PERS received a Legislatively Approved Budget for the current biennium of \$81 million with staffing for 396 positions. This included a base budget of \$52 million with 257 positions, supplemented by Policy Option Packages (POPs) that totaled \$29 million with 139 additional positions, of which 102 were limited duration and 37 were permanent. Those POPs were:

1. Strunk/Eugene Project. 57 limited duration positions to support the adjustment of accounts and benefits in compliance with the Oregon Supreme Court's decisions in the *Strunk* and *City of Eugene* cases.
2. RIMS Conversion Project (RCP). 6 limited duration positions to serve as backfill for staff dedicated to RCP. Those staff constituted the Business Process Owner Team that has been the core team for executing the agency's part of RCP.
3. Retirement Processing. 23 limited duration and 2 permanent positions to improve service levels for core retirement systems; support prioritized agency projects including Strunk/Eugene, RCP and IAP Remediation; and improve quality assurance and quality control processes.
4. Retirement Data Support. 8 limited duration and 15 permanent positions to strengthen core operations in the Customer Services Division, standardize and simplify the method of correcting data problems including data inconsistencies between RIMS and jClarety, and establish centralized data quality processes.
5. Operations and Infrastructure Support. 8 limited duration and 20 permanent positions to support agency infrastructure and process improvements in the areas of information technology, document imaging, procurement, and human resources.
6. Legal Services. \$1 million in additional funding for legal services related to PERS Board fiduciary counsel, 2003 PERS Reform legislation litigation, and federal tax counsel.

7. Ways and Means Co-Chair Reprioritization. 2 limited duration positions and 2 permanent positions eliminated from the base budget to meet the two percent efficiency reductions requested by the Ways and Means Committee. A workforce management program was also implemented to phase out the Strunk/Eugene project at the end of the biennium by non-position specific reductions in Personal Services costs and FTE.
8. Statewide Assessment Adjustments. Other Funds reduction of \$105,013 to reflect omnibus adjustments to the PERS rate (12.98 to 12.71 percent), debt services, and Department of Justice's hourly rate.
9. Retirement Application Assistance. 2 permanent positions to provide Retirement Application Assistance Sessions in areas of the state outside the Willamette Valley, and improve access to web-based retirement tools.

2007-09 PROGRESS REPORT

With the combined resources of the agency's base budget and POPs, PERS has made significant progress on the objectives set forth in the Six-Year Strategic Outlook and the Key Performance Measures, as well as in the area of business process improvements. Indicators of that progress are listed below.

Timely and Accurate Payment of PERS Benefits. PERS' Key Performance Measure is to provide 80% of retirement payments within 45 days of the member's effective retirement date. With process improvements, PERS has achieved a rate of 70% within 45 days for the last three months. Furthermore, the administration of eligibility determinations has been clarified and streamlined to move them further up the time line and more closely follow the employer's and member's expectations at the time the work was performed. Lastly, automation and workflow have improved the timeliness and tracking of applications, separations, and information requests.

High-Quality Customer Service. PERS' Key Performance Measure is to achieve a customer satisfaction rating of "good" or "excellent" from 80% of members and employers. The percentage of members rating our service either "good" or "excellent" increased to 83% in 2007 from 67% in 2006; employers' ratings went to 58% from 44%. Adding Retirement Application Assistance Sessions to review retirement applications has reduced the error rate to less than 3 percent compared to a 10 percent error rate for applications not reviewed in those sessions. Response times on email and letter inquiries have been reduced to only a few days instead of weeks. We have stepped up our employer training and outreach sessions with presentations offered annually in the spring and fall.

Optimize Effectiveness and Efficiency. PERS' Key Performance Measure targets are Total Benefit Administration Costs of \$120 per member and a staff-to-member ratio of 1:825. With the 2009-11 budget request, based on our current membership base, those costs would be \$116 per member and a ratio of 1:949. Within our current budget, efficiencies have allowed the agency to process more retirements (Tier One/Two, IAP, and OPSRP), increasing from 7,425 in 2006 to 9,390 in 2007; more withdrawals (from 4,812 in 2006 to 7,824 in 2007); and more phone calls (from 234,000 in 2006 to 251,000 in 2007) and emails (from 91,351 in 2006 to 95,108 in 2007).

Business Process Improvements. The technology developed in connection with the RIMS Conversion Project has already resulted in employers having a single, web-enabled entry point to report and correct information submitted to PERS. Validation rules have enhanced the quality of this data and employers can report more timely. Electronic document imaging has reduced access time to minutes rather than days, reducing paper consumption from more than 45,000 copies per month to 500. Employers receive consolidated bi-monthly statements that provide a comprehensive view of their accounts. Members received their 2007 Annual Statements on one page instead of separate mailings, reducing member inquiries significantly.

2009-11 POLICY OPTION PACKAGES (POPS)

The 2009-11 Agency Request Budget (ARB) and supporting Policy Options Packages (POPs) have been developed with the strategic goal of establishing a more accurate essential business operations core. Previous budgets included POPs with limited duration positions while the agency went through a transitional period to complete special projects and adjust to additional programs. As attention turns to the next biennium, several major factors went into defining agency resources needed to sustain current service levels and continue to progress towards achieving strategic objectives and key performance measures:

- Annual Retirements. Benefit processing levels have consistently exceeded the agency's base budget for 4000 annual retirements by a factor of 50% with actual retirements averaging over 6,000 annually for the last decade. This budget proposal is predicated on a more realistic projection which also includes the operations associated with the additional workload created when the OPSRP Pension and IAP programs were folded into the PERS Plan.
- Improved Service Levels. Previous budgets were based on a "just in time" operational paradigm in key areas such as data preparation for eligibility determinations and benefit calculations. This service level is not adequate to accomplish the agency's Key Performance Measures or Strategic Objectives in the areas of timeliness, accuracy, or customer satisfaction. This budget proposal includes the resources to move that paradigm up in time to improve our potential to meet these goals.
- RIMS Conversion Project. The RIMS Conversion Project is expected to close during the next biennium, bringing process improvements and efficiencies through automated functionality and organizational changes. This budget proposal includes the resources to close out that project while also supporting daily operations. To some degree, this proposal anticipates the effect of those improvements and efficiencies, but the full impact of those cannot be judged until the system is being used in operations and those effects can be quantified.
- Strunk/Eugene. The Strunk/Eugene Adjustment project will be completed in the current biennium, so the resources associated with that project are not carried over in this budget proposal. Related litigation, however, is expected to continue into the next biennium so additional funding for that is being requested.

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Key components of the 2009-11 Agency Request Budget are:

Essential Budget Level	296	Permanent Positions	295.05	FTE
Policy Packages:	64	Permanent Positions	64.50	FTE
	<u>2</u>	Limited Duration Positions	<u>2.00</u>	FTE
	362	Positions	361.55	FTE

Essential Budget Level	46,155,752	Personal Services Other Fund Limitation
Policy Packages	<u>8,083,087</u>	Personal Services Other Fund Limitation
	54,238,839	

Essential Budget Level	13,515,678	Supplies & Services Other Fund Limitation
Policy Packages	<u>11,210,331</u>	Supplies & Services Other Fund Limitation
	24,726,009	

Essential Budget Level	365,249	Capital Outlay Other Fund Limitation
Policy Packages	<u>228,339</u>	Capital Outlay Other Fund Limitation
	593,588	

Totals:		
Essential Budget Level	60,036,679	
Policy Packages	<u>19,521,757</u>	
Agency Request Budget	<u>79,558,436</u>	

Summaries of each Policy Option Package are provided in Attachments A–G.

BUDGET COMPARISONS

The following table shows the agency's budget on a basis point comparison to the PERS Fund over the time period shown:

PERS Budget / PERF Comparison

2001 – 2011

<u>BIENNIUM</u>	<u>LAB (1)</u>	<u>YEAR</u>	<u>OPERATING BUDGET</u>	<u>PERF BALANCE</u>	<u>%</u>
2001-2003	\$38,330,523	2001	\$19,165,262	\$36,292,966,809	0.0528%
		2002	\$19,165,261	\$33,387,961,508	0.0574%
2003-2005	\$83,372,080	2003	\$41,686,040	\$43,609,293,354	0.0956%
		2004	\$41,686,040	\$48,687,838,830	0.0856%
2005-2007	\$78,371,793	2005	\$39,185,897	\$54,073,309,203	0.0725%
		2006	\$39,785,896	\$60,704,685,778	0.0646%
2007-2009	\$81,251,146	2007	\$40,625,573	\$64,869,983,811	0.0626%
		2008	\$40,625,573	\$63,093,026,797 (2)	0.0644%
2009-2011	ARB \$79,558,436	2009	\$39,779,218	\$68,140,468,941 (3)	0.0584%
		2010	\$39,779,218	\$73,591,706,456 (3)	0.0541%

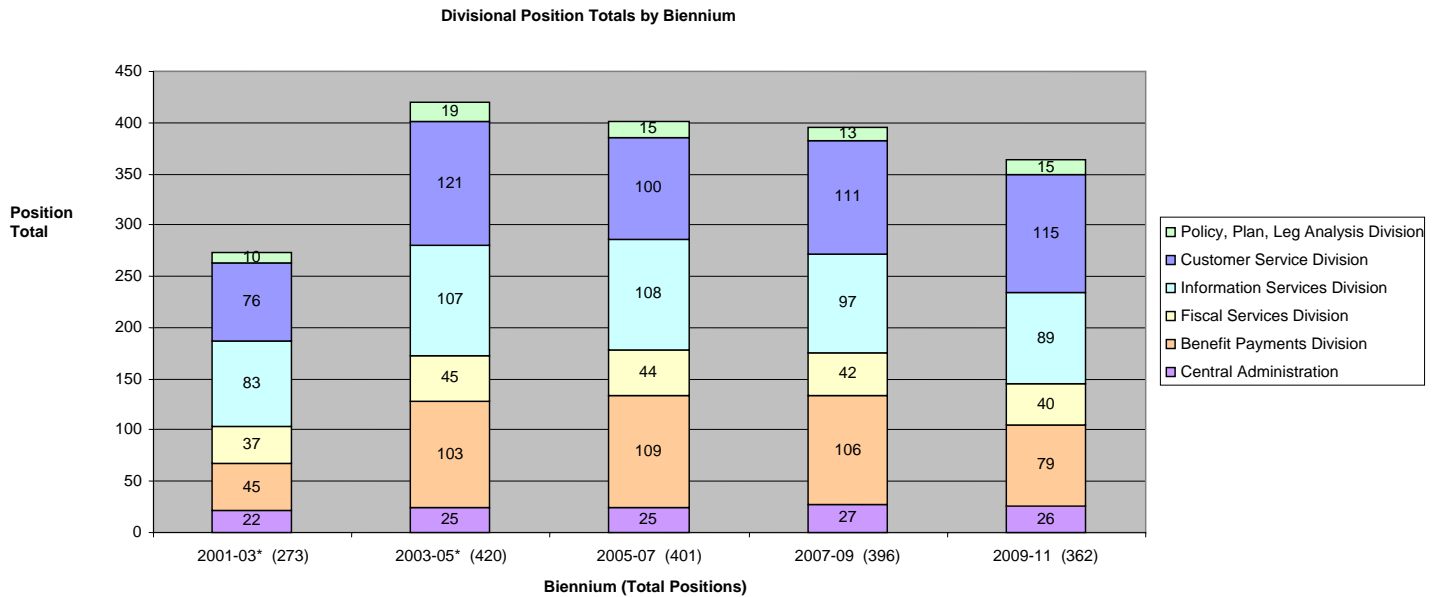
(1) Excludes Deb Service; includes Emergency Board adjustments.

(2) PERF Balance as of April 30, 2008.

(3) Estimated year end values anticipating 8% growth annually (current estimated earnings rate).

Although the agency's budget has grown in absolute dollars, it has represented a decreasing percentage of the PERS Fund, even accounting for the additional costs of administering new retirement programs and special projects during this period, and the additional workload associated with growing member and retiree populations.

Similarly, the following graph shows the agency's staffing levels by division over the previous biennia, starting back in 2001-03 before additional retirement programs (OPSRP and IAP) were incorporated into the PERS Plan as part of PERS reform and projects like HB 2020, RCP, and Strunk/Eugene Adjustments were started. While the agency has grown post reform, total staffing peaked in the 03-05 biennium at 420 positions and has been declining since then. The ARB for 2009-11 will continue that decline, with a projected staffing level of 362 positions, representing a 14% decrease since 03-05.



The agency’s staff growth following PERS Reform has been spread across divisions, reflecting the broad impact these additional programs and projects have had in all areas. Focusing on the projected staff levels as we move into the next biennium shows customer service efforts being augmented to improve service delivery, while operational efficiencies and project completions combine to significantly reduce benefit payment and information service staff.

STAFF RECOMMENDATIONS

Staff recommends the Board approve submission of the 2009-11 Agency Request Budget as presented for DAS review and incorporation in the 2009-11 Governor’s Recommended Budget.

NEXT STEPS/BOARD OPTIONS

PERS is required to submit its Agency Request Budget to DAS by August 1, 2008. To allow staff adequate time to prepare this submission, staff requests that the PERS Board approve the 2009-11 Agency Request Budget at this meeting.

The Board may:

1. Approve submission of the 2009-11 Agency Request Budget as presented in this report.
2. Direct the staff to further refine the budget request in specific areas.

Attachment A - Policy Option Package Summary
Business Process Owners

PERS is requesting the following:

Total number of Permanent Positions	<u>5</u>	FTE	<u>5.0</u>
Total number of Limited Duration Positions	<u>0</u>	FTE	<u>0.0</u>
Personal Services Other Fund Limitation	\$ 825,180		
Services & Supplies Other Fund Limitation	\$ 35,000		
Capital Outlay Other Fund Limitation	\$ 0		
Total Other Fund Limitation	\$ <u>860,180</u>		

This Policy Option Package requests five permanent positions to comprise a cross-divisional team of senior operations analysts to evaluate, develop, and implement new business processes and process improvements. The limited duration positions currently supporting this model linking business processes and technology have proven to be a strategically effective component of the RIMS Conversion Project (RCP). The five positions will, on an ongoing basis, support the agency's continuous process improvement goals of streamlining processes, minimizing risks, maximizing productivity, enhancing customer service, and reducing operational costs.

Steven Patrick Rodeman – Deputy Director & Jeff Marecic – CIO / POPs Co-Sponsors

Attachment B - Policy Option Package Summary

Continuous Process Improvement – Maintenance & Enhancement of Current Service Levels

PERS is requesting the following:

Total number of Permanent Positions	<u>44</u>	FTE	<u>44.5</u>
Total number of Limited Duration Positions	<u>0</u>	FTE	<u>0.0</u>
Personal Services Other Fund Limitation	\$ 5,048,317		
Services & Supplies Other Fund Limitation	\$ 267,963		
Capital Outlay Other Fund Limitation	\$ 0		
Total Other Fund Limitation	\$ <u>5,316,280</u>		

This Policy Option Package requests 44 permanent positions (44.50 FTE) to maintain current workload volume and enhance current service levels as the agency transitions to a new information management platform and benefit payment system of record, jClarety.

- Maintenance of current workload volume includes providing services to employers, members and retirees in multiple programs (Tier One/Tier Two, Judges, OPSRP, and IAP), with data bridging as required between jClarety as the benefit payment system of record, and the legacy Retirement Information Management System (RIMS) platform.
- Enhancement of current service levels includes progressing towards paying 80% of final service retirement benefits in forty-five days and certifying data at least two years prior to earliest retirement age.

Patrick Teague – BPD Administrator / POPs Sponsor

Attachment C – Policy Option Package Summary

Continuous Process Improvement – Data Transition & Standard Tool Development

PERS is requesting the following:

Total number of Permanent Positions	<u>10</u>	FTE	<u>10.0</u>
Total number of Limited Duration Positions	<u>0</u>	FTE	<u>0.0</u>
Personal Services Other Fund Limitation	\$ 1,382,717		
Services & Supplies Other Fund Limitation	\$ 60,325		
Capital Outlay Other Fund Limitation	\$ 0		
Total Other Fund Limitation	\$ <u>1,443,042</u>		

This Policy Option Package requests ten permanent positions to retrieve legacy account information and create standard processes, including automated solutions, for the infrequent or complex processes that will not be embedded in the programming of the benefit payment system of record, jClarety. These positions will also develop productivity enhancement tools and reports to ensure data accuracy and continued service levels are maintained.

Patrick Teague – BPD Administrator / POPs Sponsor

Attachment D - Policy Option Package Summary
Continuous Process Improvement – Standards, Training & Certification

PERS is requesting the following:

Total number of Permanent Positions	<u>0</u>	FTE	<u>0.0</u>
Total number of Limited Duration Positions	<u>0</u>	FTE	<u>0.0</u>
Personal Services Other Fund Limitation	\$ 0		
Services & Supplies Other Fund Limitation	\$ 755,000		
Capital Outlay Other Fund Limitation	\$ 0		
Total Other Fund Limitation	\$ <u>755,000</u>		

This Policy Option Package requests funding of \$755,000 for actuarial services, peer review of Internal Audits, and to develop standard financial reports in Fundware. This, in turn, will ensure that actuarial service needs and audit standards are met, and that PERS has the in-house expertise to maintain, enhance, and audit the new benefit payment system of record, jClarety. No positions are included in this request.

Patrick Teague – BPD Administrator / POPs Sponsor

Attachment E - Policy Option Package Summary
Enterprise Applications

PERS is requesting the following:

Total number of Permanent Positions	<u>3</u>	FTE	<u>3.0</u>
Total number of Limited Duration Positions	<u>1</u>	FTE	<u>1.0</u>
Personal Services Other Fund Limitation	\$ 579,028		
Services & Supplies Other Fund Limitation	\$ 6,567,094		
Capital Outlay Other Fund Limitation	\$ 0		
Total Other Fund Limitation	\$ <u>7,146,122</u>		

This Policy Option Package requests three permanent and one limited duration position to improve data verification and strategically support ongoing changes to the Oregon Retirement Information Online Network (ORION) by focusing on automated enterprise regression testing tool development and environmental support. Additional funds requested are:

- The unexpended portion of the legislatively approved \$27.5 million RIMS Conversion Project (RCP) budget, or \$3,534,244, to complete the project in 2009-11.
- \$720,000 to support completion of the data migration from the Retirement Information Management System (RIMS) to jClarety.
- \$700,000 for maintenance of enterprise system post-RCP.
- \$1,440,000, to address data integrity at the data element level, and develop procedures to identify and cleanse all historical data.
- \$161,000, to increase the overall stability of the network and reduce the complexity in the computing environment to allow for more efficient management of information technology (IT) resources.

Yvette Elledge – CSD Administrator / POPs Sponsor

Attachment F - Policy Option Package Summary
Infrastructure Maintenance & Enhancement

PERS is requesting the following:

Total number of Permanent Positions	<u>2</u>	FTE	<u>2.0</u>
Total number of Limited Duration Positions	1	FTE	<u>1.0</u>
Personal Services Other Fund Limitation	\$ 247,845		
Services & Supplies Other Fund Limitation	\$ 2,524,949		
Capital Outlay Other Fund Limitation	\$ 228,339		
Total Other Fund Limitation	\$ 3,001,133		

This Policy Option Package requests three limited duration positions to support the migration of microfilmed images from deteriorating film stock to digital images in the agency's electronic content management repository, and ongoing mail pick-up and delivery services between PERS' headquarters and the 72nd Avenue facility. Funding of \$775,000 is requested to maintain the lease for the 72nd Avenue facility through June of 2011. Funding of \$1,960,513 is also requested for ongoing maintenance and service charges for Filenet and other software.

David Tyler – CFO / POPs Sponsor

Attachment G - Policy Option Package Summary

Legal Services

PERS is requesting the following:

Total number of Permanent Positions	<u>0</u>	FTE	<u>0.0</u>
Total number of Limited Duration Positions	<u>0</u>	FTE	<u>0.0</u>
Personal Services Other Fund Limitation	\$	0	
Services & Supplies Other Fund Limitation	\$	1,000,000	
Capital Outlay Other Fund Limitation	\$	0	
Total Other Fund Limitation	\$	<u>1,000,000</u>	

This Policy Option Package requests the continuation of \$1 million in budget limitation for legal counsel to advise PERS staff and the PERS Board on issues related to fiduciary responsibility, litigation resulting from the implementation of the 2003 PERS Reform Legislation and the *Strunk & Eugene* decisions, federal tax issues including plan qualification. No positions are included in this request.

Steven Patrick Rodeman – Deputy Director / POPs Sponsor