OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM
BOARD MEETING

Friday November 20, 2009 1:00 P.M.	PERS 11410 SW 68th Parkway Tigard, OR

A. Administration

1.	September 25, 2009 Board Meeting Minutes	CLEARY
2.	Director's Report a. Forward-Looking Calendar b. OIC Investment Report c. Budget Report d. Employer Reporting and Outreach Program e. Strategic Outlook Review	

B. Consent Items

1.	Adoption of Reemployment of Retired Members Rule	RODEMAN
2.	Repeal of Workers' Compensation Offset Rules	
3.	Adoption of Actuarial Equivalency Factors	ORR

C. Action and Discussion Items

1.	Equal to or Better Than Study Process	LARRABEE
2.	Employer Rate Setting Options for 2011 – 13	LARRABEE / RODEMAN

D. Executive Session Pursuant to ORS 192.660(2)(f), (h), and/or ORS 40.225

1.	Litigation Update	LEGAL COUNSEL

An Audit Committee meeting will be held immediately following the regular meeting.

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Level 1 - Public

PERS Oregon Public Employees Retirement System

OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM

Item A.1.a.

PERS Board Meeting
September 25, 2009
Tigard, Oregon
MINUTES

Board Members:

James Dalton, Chair
Tom Grimsley, Vice-Chair
Eva Kripalani
Brenda Rocklin

Staff:

Donna Allen
Paul Cleary
David Crosley
Jon DuFrene
Joe DeLillo
Yvette Elledge
Brian Harrington
Sue Korn
Dale Orr
Brenda Pearson
Susan Riswick
Steve Rodeman
Susan Sjordal
Jason Stanley
Stephanie Vaughn

Others:

Karen Artiaco
Ardis Belknop
Deborah Bond
Laurie Byerly
Linda Ely
Janice Essenberg
Bill Hallmark
Greg Hartman
Steve Haynes
Keith Kutler
Matt Larrabee
Steve Manton
Scott Preppernau
Bill Robertson
Carol Samuels
Lori Sattenspiel
Ashley Skauvual-Sdad
Deborah Tremblay
Pat West
Brendalee Wilson
Denise Yunker
David Wimmer

Chair James Dalton called the meeting to order at 1:00 P.M. Board Member Mike Pittman was excused with a scheduling conflict.

ADMINISTRATION

A.1. BOARD MEETING MINUTES OF JULY 16, 2009

The Board unanimously approved the minutes from the July 16, 2009 Board meeting.

A.2. DIRECTOR'S REPORT

Director Paul Cleary presented the Board's forward-looking calendar, noting there is one more board meeting for 2009 scheduled on November 20. Key items include adoption of new actuarial equivalency factors for retirements on or after January 1, 2010, Mercer's recommendations on the Equal to or Better Than study process, and an audit committee meeting.

Cleary presented the Oregon Investment Council (OIC) investment report for the July and August 2009 returns. Cleary reported the regular account was up approximately 9% and variable account up approximately 24% through August 31, 2009.

Cleary presented the 2007-09 Budget Report noting the biennium will end with approximately $3.4 million positive variance. Of this, approximately $735,000 is due to the RIMS Conversion Project (RCP) expenditures not incurred in this biennium which will, most likely, be carried over to the 2009-11 biennium. Cleary presented the 2009-11 Budget Report noting PERS has started the biennium with a positive variance which is important to the Agency as there are still some state budget uncertainties both in revenue forecasts and potential tax referendums.

Cleary presented the follow-up report on Employer Reporting, addressing questions the Board had at July 16, 2009 meeting. Cleary noted this is a living document as the *Young Case 2* outstanding invoices decreased since the report was prepared from the $534,000 reported to $485,000. Cleary noted smaller employers seem to have the biggest challenges in terms of unsubmitted reports and outstanding invoices. Cleary pointed out that employers owe $1.2 million compared to the $1.5 billion a year received in total member contributions, employer contributions, and amortization of side accounts. Mr. Cleary stated that he is pleased with the continued improvement in reporting and the timely remittance of contributions by employers.

Yvette Elledge, CSD Administrator, explained the employer invoicing and collection process noting additional verification time is required around DAS invoices which can result in outstanding invoices. Elledge confirmed for Board member Brenda Rocklin there are very few instances where charges to employers are waived as rules clearly establish what can be waived and there is little leeway.

Cleary presented the 2009 Customer Service Survey results for employers and members who are surveyed annually in August. Cleary reported approximately 4,000 members and retirees responded to the survey, which is about the same as 2008. Cleary stated he was pleased with the results, noting the customer satisfaction results either increased or stayed the same for all service factors. Additional questions were asked regarding the ease of navigation and information provided on the PERS website. Cleary noted members requested on-line access to their demographic data, employment history, and account balances, etc. These requests will be addressed as part of the next major RCP release scheduled for summer of 2010. Cleary noted he recently spoke to member stakeholder groups about having a member focus group help with the final design and roll-out of on-line access.

Cleary noted members would like to receive benefit estimates in less time. Cleary explained how estimate requests are prioritized to help those closest to retirement and that prioritization process will be more clearly communicated to members.

Cleary presented as a walk-in item the Board Best Practices Key Performance Measure Review results. Cleary stated he and the Deputy Director will be working with the Board on the areas noted for improvement.

Cleary said PERS will be facing challenges in maintaining productivity with the mandatory furlough days over the next 22 months and the predicted flu season. Cleary discussed some of the preparations to minimize impacts. Information and a calendar of building closure dates will be posted on the website and included in the *Perspective* newsletter.

CONSENT ITEMS

B.1. NOTICE OF REEMPLOYMENT OF RETIRED MEMBERS RULE

B.2. NOTICE OF WORKERS' COMPENSATION OFFSET RULE (REPEAL)

Deputy Director Steve Rodeman presented Consent Items B.1 and B.2, noting both are notifications that rulemaking has begun to adjust rules to comply with legislation adopted during the 2009 legislative session. No action was required by the Board.

ACTION AND DISCUSSION ITEMS

Chair Dalton on behalf of the Board and PERS staff, recognized William R. Hallmark for his valued advice and service as PERS actuary since 2005 as he will be leaving Mercer.

C.1. 2008 VALUATION REPORT

Matt Larrabee of Mercer introduced Scott Preppernau. Larrabee provided an overview of the valuation process and presented the 2008 Valuation Report. Larrabee noted the employer contribution rates for 2011-13 biennium will be based on the December 31, 2009 valuation. The effect of the market downturn will first be reflected in employer rates beginning July 1, 2011 and in effect through June 30, 2013. Larrabee noted another key finding is that future employer rates will likely increase 6% of payroll system-wide effective July 1, 2011, with a larger increase for those employers with side accounts. Larrabee stated 2009 investment returns are up almost 9% as of August 31, 2009. Larrabee noted the valuation results do not reflect any interpretation of Judge Kantor's rulings in the *Arken* and *Robinson* cases. Larrabee presented a historical summary of employer rates.

Scott Preppernau of Mercer presented the December 31, 2008 Tier One, Tier Two and OPSRP Valuation Report.

10-Year Financial Projections
Larrabee presented 10-year Financial Projection modeling results to provide additional insight to the Board and stakeholders on various system dynamics.

Chair Dalton encouraged the stakeholders to closely examine the information being presented. He noted this exercise is to look forward and see what could happen over the next 10 years under different investment return scenarios and rate-setting policies.

Larrabee noted the report is modeling two employer rate-setting policies: the current policy with the concept of a "double rate collar" if the system drops below 80% funded, and an alternative policy where the rate collar wouldn't be permitted to double. Larrabee noted that all of the modeling scenarios are presented without including any side accounts.

Larrabee noted the modeling was based on the December 31, 2007 valuation. Standard roll-forward techniques were used, which Mercer believes is reasonable as there were no surprises in the valuation this year. Modeling was done on a system-wide basis with projected rates excluding retiree health care and IAP contributions, and based on published investment returns through July 31, 2009. This is a high-level model looking at three possible annualized investments return scenarios over the 10-year period through the end of 2018:

- 4.5% - The trailing 10-year earnings average for the fund
- 8% - The fund's long-term assumed earnings rate
- 10.5% - The trailing 25-year earnings average for the fund

Larrabee noted that under the 8% assumed rate scenario, we end up at the same employer rate of 24% at the end of the 10-year period no matter if a "double" or "single" rate collar was used.

Under the 8% assumed rate scenario with a single collar, at the end of the 10-year period PERS would be 72% funded. The system would “tread water” as far as funded status. Under the 8% assumed rate scenario with the current “double rate collar” policy, the funding status would be 77% at the end of the 10-year period. Under the 10.5% earnings scenario, the funded status would be 93% under the “double” collar and 91% under the “single” collar at the end of 10 years.

Larrabee noted his concern that with an extended 4.5% investment return scenario and no “double rate collar” in place, there is no trend of recovery or stabilization. The plan gets down to 51% funded status in ten years and it would be very difficult to manage contributions and improve the funded status.

Larrabee summarized that any of the scenarios show employer rates of at least 19% over a 10-year period. He stated in all scenario/policy combinations except bad returns of 4.5% and “no double rate collar” in affect, the funded status exhibits either improvement or some stabilization over the projected period. With the current rate collar policy in place, employer contributions base rates will increase by 6% of payroll on a weighted basis for the 2011-13 biennium under all three scenarios. With a “single” rate collar policy, rates would increase for the next three bienniums by the 3% of payroll maximum permitted by the single collar under all three scenarios.

Cleary outlined the option evaluation and stakeholder input process the staff and Board will use over the next few months. He noted this is not unique exercise to PERS as pension and endowment funds across the nation are struggling with how to address 2008’s global and extreme market downturn event. Calendar year 2008 was the worst loss in the history of the fund and more than three times our previous worst event of negative 9%. Cleary noted this is the first time the Board and stakeholders have seen this financial modeling presentation and conversations will continue over the next two Board meetings.

Director Cleary agreed with Board member Rocklin that the system would need extremely good investment years in order to recoup the 2008 losses with just returns. He stated it is evident rates are going up under any reasonable investment return scenario. Cleary said with the combined side accounts “re-set” impact and the “double rate collar,” there would be a significant impact to employer budgets over the 2011-13 budget cycle. Rocklin noted none of the scenarios are good and there is no single decision that can improve the situation. Rocklin said this is a “stark” story and it is important that stakeholders and the public understand the situation.

Board member Grimsley said the presentation was informative and the scenarios were clear. Grimsley noted that any time you project out ten years there are many variables involved and things can change dramatically. Grimsley said he would like to keep an option open of looking at something between the 3% “single collar” and 6% “double collar” that would still moderate rate increases while improving funded status.

Board member Kripalani said this is not a complete surprise considering the 2008 returns, and it shows the tension between predictable and stable rates, protecting funded status, and generational equity objectives. Kripalani noted employer budgets are going to be stressed from the projected rate increases and the real challenge is for the Board to balance all it’s funding objectives in as responsible manner as possible.

Chair Dalton encouraged all stakeholders to take this information back to their constituents. There were no follow-up questions from stakeholders.

C.2. 2009 LEGISLATIVE IMPLEMENTATION PLAN

Susan Riswick, PPLAD Administrator presented the Implementation Plan for six PERS-related bills passed in the 2009 Legislative session. Riswick noted that no additional funds were received by PERS for any bill implementation. Riswick provided a summary of each bill, effective date, results of the legislation, and implementation requirements.

Riswick noted HB 3401 allows employers to use excess amounts in side accounts to fund employer-paid IAP contributions. This ability is predicated on the PERS Board determining that there is a surplus, and that such use would not affect the PERS plan's tax-qualified status under the Internal Revenue Code. PERS will be requesting a ruling from the IRS on this question. Riswick noted PERS is going to make this part of its determination letter process and will include this in the plan update once the IRS initiates the review process.

Stephanie Vaughn, PPLAD manager, explained the IRS determination letter process and the current status. Rocklin noted her concern that the IRS process could take an extended time period and wanted to ensure this was fully communicated to the legislature.

Riswick noted the February 2010 special session will see a limited number of bills introduced. PERS will not be soliciting or submitting any agency legislative concepts for the February 2010 special session.

Chair Dalton adjourned the meeting at 2:55 P.M.

Respectfully submitted,

Paul R. Cleary
Executive Director

PERS Board Meeting
Forward-Looking Calendar

January 29, 2010

Notice of Divorce Rules
2009 Preliminary Earnings Crediting
2011 –13 Employer Rate Setting Options

March 29, 2010

Adoption of Divorce Rules
2009 Final Earnings Crediting
2011 Session Preliminary Legislative Concepts

May 21, 2010

ETOB Testing Results
2011 –13 Preliminary Agency Request Budget

July 23, 2010

2009 Valuation Results
2011 –13 Agency Request Budget Approval

September 24, 2010

2011 –13 Employer Rate Adoption

November 19, 2010

2011 Session Legislative Concept Approval

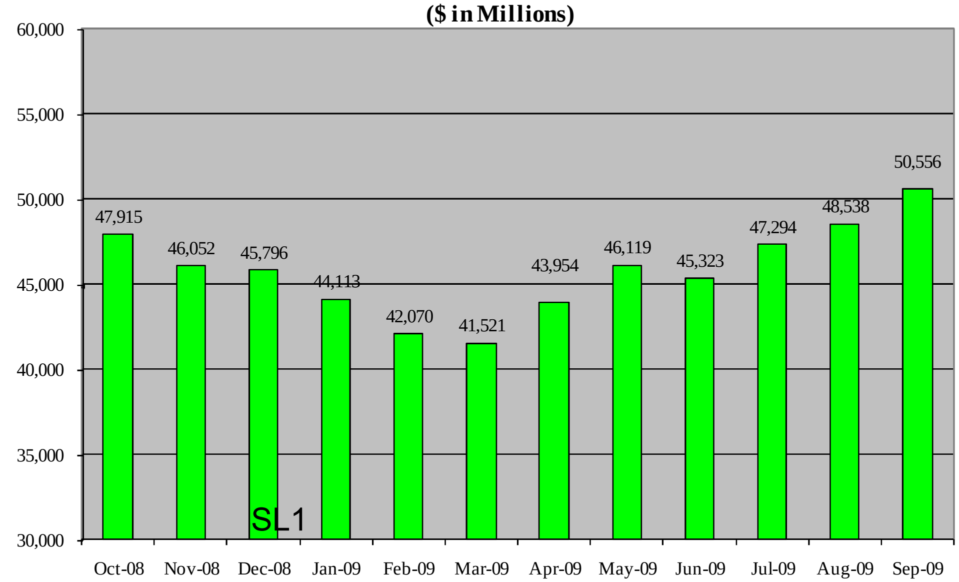
Returns for periods ending 9/30/09 **Oregon Public Employees Retirement Fund**

OPERF	Policy[1]	Target[1]	$ Thousands[2]	Actual	Year-To-Date[3]	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS
	Regular Account				Historical Performance (Annual Percentage)					
Public Equity	41-51%	46%	$ 21,735,594	43.8%	30.97	1.08	(14.30)	(3.89)	0.18	4.10
Private Equity	12-20%	16%	8,880,206	17.9%	(12.81)	(19.89)	(9.87)	0.69	6.22	11.69
Total Equity	**57-67%**	**62%**	**30,615,800**	**61.7%**						
Opportunity Portfolio			968,053	2.0%	25.58	(4.90)	(4.31)	(0.94)		
Total Fixed	**22-32%**	**27%**	**12,846,790**	**25.9%**	22.39	15.72	5.84	5.60	5.39	5.30
Real Estate	**8-14%**	**11%**	**5,149,769**	**10.4%**	(11.93)	(22.62)	(13.32)	(4.04)	3.76	8.94
Cash	**0-3%**	**0%**	**27,014**	**0.1%**	2.16	4.23	2.35	3.38	3.70	3.49
TOTAL OPERF Regular Account		**100%**	**$ 49,607,426**	**100.0%**	13.83	(3.12)	(9.14)	(1.22)	2.16	5.20
OPERF Policy Benchmark					10.38	(1.54)	(7.82)	(0.19)	2.57	4.88
Value Added					3.45	(1.58)	(1.32)	(1.03)	(0.41)	0.32
TOTAL OPERF Variable Account			**$ 948,593**		29.69	0.63	(15.06)	(6.56)	(2.53)	0.95

Asset Class Benchmarks:

	Year-To-Date	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS
Russell 3000 Index	21.19	(6.42)	(14.30)	(5.06)	(1.45)	1.56
MSCI ACWI Ex US IMI Net	38.54	7.36	(13.56)	(0.69)	3.98	8.64
Russell 3000 Index + 300 bps--Quarter Lagged	(15.23)	(21.65)	(15.72)	(4.36)	(0.36)	2.07
BC Universal--Custom FI Benchmark	7.39	10.62	6.50	6.04	5.53	5.17
NCREIF Property Index--Quarter Lagged	(19.43)	(19.57)	(6.28)	0.98	5.14	7.60
91 Day T-Bill	0.17	0.39	1.64	2.82	3.24	3.11

TOTAL OPERF NAV
(includes variable fund assets)
One year ending September 2009
($ in Millions)



[1] OIC Policy 4.01.18, as revised September 2007.

[2] Includes impact of cash overlay management.

[3] For mandates beginning after January 1 (or with lagged performance), YTD numbers are "N/A". Performance is reflected in Total OPERF.

Oregon

Theodore R. Kulongoski, Governor

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November 20, 2009

TO: Members of the PERS Board

FROM: Kyle J. Knoll, Business Operations Manager

SUBJECT: November 2009 Budget Report

2007-09 BUDGET CLOSE-OUT UPDATE

To-date, the Agency has expended a total of $77,351,121, or 95.74% of PERS' 2007-09 operating budget.

- The Agency' positive budget variance for the 2007-09 biennium is currently projected at $3,369,609, of which $727,856 is RIMS Conversion Project (RCP) budget.
- The remaining projected expenditures of $68,232 are in Services and Supplies, with $30,000 in Professional Services (contracting), and $38,232 in Attorney General fees.
- Expenditures for 2007-09 will close in the Statewide Financial Management System (SFMS) December 31, 2009.
- A final 2007-09 expenditure report will be submitted at the January 2010 Board Meeting.

2009-11 OPERATING BUDGET UPDATE

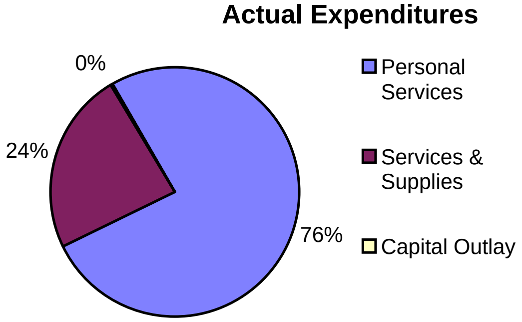
Operating expenditures for the months of August and September 2009 were $2,049,194 and $2,651,310 respectively.

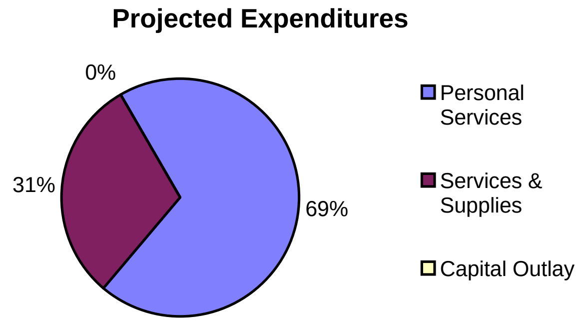
- To-date, through the first three months (12.5%) of the 2009-11 biennium, the Agency has expended a total of $7,577,662, or 9.45 % of PERS' 2009-11 operating budget.
- The Agency's positive budget variance for this biennium is currently projected at $5,720,526, of which $310,395 is RIMS Conversion Project (RCP) budget.

2009-11 Agency-wide Operations - Budget Execution
Summary Budget Analysis
For the Month of: September 2009

Biennial Summary

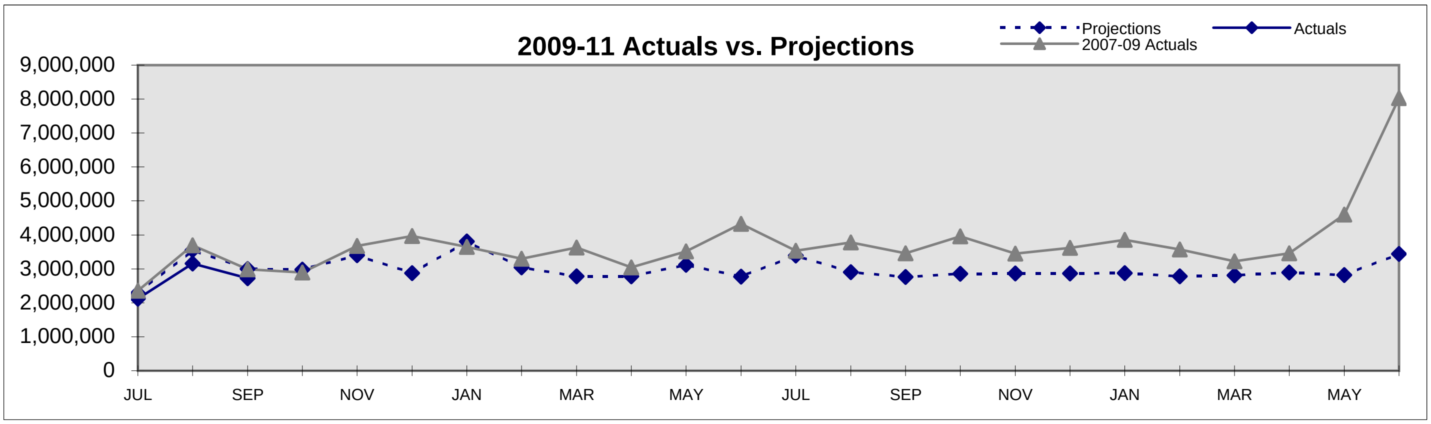
Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expend.	2009-11 LAB	Variance
Personal Services	5,770,541	46,469,179	52,239,720	52,559,956	**320,236**
Services & Supplies	1,782,166	20,393,260	22,175,426	27,007,084	**4,831,658**
Capital Outlay	24,956		24,956	593,588	**568,632**
Special Payments					
Total	**7,577,662**	**66,862,439**	**74,440,102**	**80,160,628**	**5,720,526**





Monthly Summary

Category	Actual Exp.	Projections	Variance	Avg. Monthly Actual Exp.	Avg. Projected Expenditures
Personal Services	2,066,784	2,200,834	134,050	1,923,514	2,212,818
Services & Supplies	641,878	792,494	150,616	594,055	971,108
Capital Outlay	11,756		(11,756)	8,319	
Special Payments					
Total	**2,720,417**	**2,993,328**	**272,911**	**2,525,887**	**3,183,926**



2007-09 Biennium Summary

Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expend.	2007-09 LAB	Variance
Personal Services	49,613,450		49,613,450	53,288,261	**3,674,811**
Services & Supplies	27,386,705	68,232	27,454,937	26,553,000	**(901,937)**
Capital Outlay	350,966		350,966	947,701	**596,735**
Special Payments					
Total	**77,351,121**	**68,232**	**77,419,353**	**80,788,962**	**3,369,609**

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November 20, 2009

TO: Members of the PERS Board

FROM: Paul R. Cleary, Director

SUBJECT: Employer Reporting and Outreach Program

PERS is currently working with 877 employer-reporting units to process all outstanding employer reports and suspended records. In addition, PERS continues to monitor all employer accounts receivables and conduct its Employer Outreach Program.

EMPLOYER REPORTING

The table below shows the status as of November 4, 2009 of employer reports and member records for calendar years 2007, 2008, and 2009.

	Calendar Year 2007	**Calendar Year 2008**	**Calendar Year 2009**
Reports due:			
▪ Number expected	**12,863**	**13,043**	**10,307**
▪ Number received	**12,850**	**13,002**	**10,113**
▪ Percent received	**99.90%**	**99.69%**	**98.12%**
▪ Goal	99.0%	99.0%	
Reports fully posted at 100%:			
▪ Number	**12,730**	**12,712**	**8,728**
▪ Percent fully posted at 100%	**98.97%**	**97.46%**	**84.68%**
▪ Goal	95.0%	95.0%	
Records due (estimated)	**3,613,171**	**3,666,502**	**2,744,098**
Records not posted:			
▪ Number	**385**	**11,951**	**51,355**
▪ Percent not posted	**≤ .1%**	**0.3%**	**2.30%**
▪ Goal	≤ .2%	≤ .2%	
Contributions posted	**$ 452,741,383**	**$ 482,899,621**	**$ 405,260,305**
Contributions not posted	**$ 13,784**	**$ 485,064**	**$ 3,462,260**

As of November 4, 2009, employers have submitted approximately 98.12% of the reports due for 2009. Of the total reports expected, approximately 84.68% are 100% posted. The Employer Service Center has just begun to focus on the annual reconciliation process for 2009 and will be diligently working with employers to ensure that all reports and transactions are submitted correctly by early March 2010. We are pleased to announce that the year-over-year performance has remained constant and that we are well on the way to meeting our goals.

EMPLOYER OUTREACH PROGRAM

On October 23, 2009, PERS hosted an in-person meeting for the Employer Advisory Committee. Our goal was to review current and proposed processes and communications in an effort to get constructive feedback from this committee. Here are some of the topics that we covered: the RIMS Conversion Project; a proposed escalation process to improve timely report submission; a proposed communication on data security; recent survey feedback on the Employer Service Center phone hours; the new Demographic Correction Report workflow; the current Benefit Estimate backlog; and the PERS office closure on October 16, 2009. The meeting was well attended and we received good comments on most of these topics.

Regarding the Charter School participation in PERS, staff have made good progress in current year reporting to ensure that all data and contributions are submitted timely for the Charter Schools that we know are participating in PERS. However, there are still nine schools that have not responded to our requests for information to determine if they are being reported through their sponsoring district. We will continue to follow- up and may resort to contacting the sponsoring school district for this information.

ACCOUNTS RECEIVABLE PLAN

Besides assisting employers with overdue reports and electronic payments, PERS' accounts receivable unit proactively collects receivable balances that are more than 30 days overdue. As of November 4, 2009, we had 259 outstanding invoices (59 employers) with an aggregate balance of less than $ 866,064. Our goal is to collect all outstanding invoices that exceed 30 days by following up with these employers by phone and letters each month.

The current total of invoices that are over 90 days delinquent is $655,887. The majority of these past due invoices is the balance of Young Case invoices owed by the State or Oregon. The Young Case outstanding invoices total $485,052. Other invoices of substantial balance are Services to Children and Families for $113,508 (consolidated employer) and Tillamook Soil and Water Conservation District in the amount of $38,349.

PERS and DAS-HRSD staff have met to review the outstanding balances owed and they have started to investigate and verify the amounts are correct and have not been paid. However, DAS staff were not able to provide initial information due to competing priority projects, which were completed at the end of October. As of November 4, 2009, PERS has received the initial results of the DAS investigation and the processing and verification of this data has started.

Discussions with Tillamook Soil and Water Conservation District have also been proceeding. They are also very aware of the outstanding debt and were discussing a special board meeting reach some type of plan to retire this debt.

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November 20, 2009

TO: Members of the PERS Board

FROM: Paul R. Cleary, Executive Director

SUBJECT: Strategic Outlook Review

Even though the 2009-11 biennium just began last July 1, it's already time to begin the development process on the Agency Request Budget for the 2011-13 biennium. As always, our objective is to continue to align our budget initiatives and priorities with the agency's long-term strategic outlook.

The starting point to refining that long-term outlook is the agency's Mission Statement and Guiding Principles, which the PERS Board adopted in 2004 and last reviewed in May 2008. I have attached an updated Six-Year Strategic Outlook template for your review and consideration. This document has been updated with the agency's Key Performance Measures as approved by the 2009 Oregon Legislature; otherwise, the Mission Statement, Guiding Principles, and Strategic outcomes remain unchanged.

To assure our 2011-13 budget development process continues to support the PERS Board's long-term strategic direction, I would appreciate your review and consideration of these materials. If you would like to make any changes to these supporting statements and principles, we can facilitate that conversation at the November board meeting or in another public venue such as a dedicated planning session.

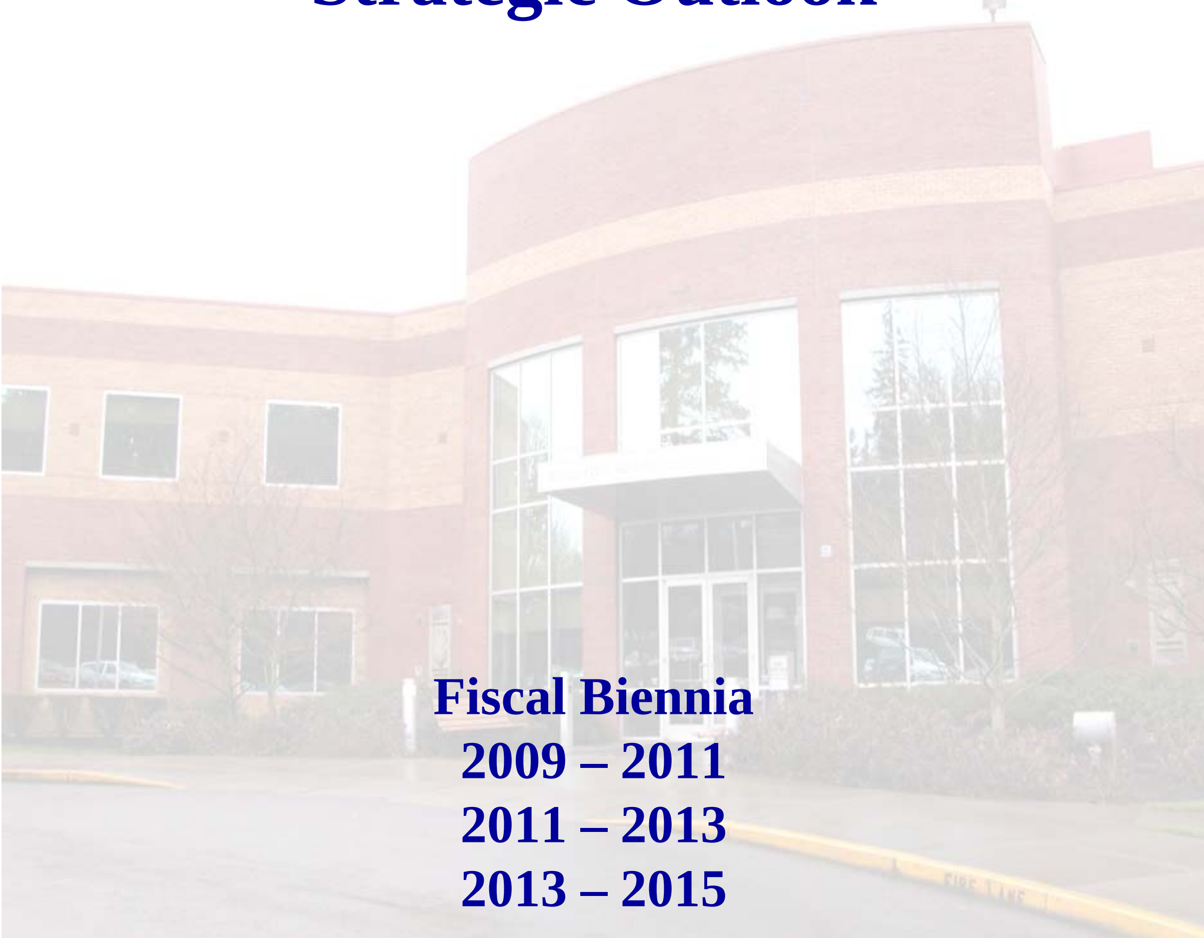
Based then on these template materials, as modified by any changes the board decides to make, staff will return with specific Strategies and Key Indicators for each of the Strategic Outcomes. Those strategies and key indicators will be presented for your comment and feedback, and then serve as the foundation for development of the 2011-13 Agency Request Budget. The budget development process will conclude with adoption of the final elements of the 2011-13 Agency Request Budget at the July 2010 board meeting.

Attachment: PERS Six-Year Strategic Outlook – 2009 to 2015

PERS Oregon Public Employees Retirement System

Oregon Public Employees Retirement System

Six – Year
Strategic Outlook



Fiscal Biennia
2009 – 2011
2011 – 2013
2013 – 2015

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Introduction

This document describes the high-level strategic goals and objectives of the Oregon public Employees Retirement System (PERS) over the six-year strategic planning period of FY 2009 – 2015.

Mission and Guiding Principles

The strategic outlook is focused on outcomes that align with the Agency's Mission and Guiding Principles adopted by the PERS Board in 2004.

SL1

Mission Statement

We are a well-respected organization that serves our members by enabling informed retirement and health benefit decisions and delivering retirement and health benefits, effectively and efficiently.

SL1

Guiding Principles

1. Trustworthy – We build trust internally and with all stakeholders.
2. Transparent – Our work is transparent, direct and open.
3. Member Focused – We care about our members. We assure that members receive their legitimate benefits. We seek to understand and meet member needs.
4. Inclusive – We uphold our stakeholders’ right to provide input into decisions that affect them.
5. Objective – We administer the law objectively, not subject to political pressure or improper influence.
6. Straightforward – We strive for simplicity. We aim to make our benefits and services easy to understand, straightforward to administer, and efficient to implement.
7. Accountable – We do what we say we’ll do. We make and keep commitments.
8. Data-quality/integrity – We maintain and improve the integrity of data through our processes, business rules, decision-making, and data fixes.
9. Aligned – We’re focused on our objectives. We keep strategy and resources aligned, and deliver results, even as priorities change.
10. Clear – Our communications are clear, consistent, concise and meet stakeholder needs.
11. Courageous – We’re willing to make hard decisions in order to implement our strategy and to deliver according to the character of the organization.
12. Competitive – We understand the financial implications of all our decisions and aim to operate competitively.
13. Careful – We anticipate and manage risks to support financial stability for members, employers and taxpayers.

SL1

Key Performance Measures Changes from 2007 - 09

Working with the Oregon Progress Board, PERS contributes to the Annual Performance Progress Reports (APPR) provided to the Oregon Legislature, using key performance measure data to describe the agency's progress toward its mission and goals.

For 2009 – 11, PERS continues to use the eight approved Key Performance Measures with modest refinements that will improve the consistency of the data tracking process.

Certain targets have been indexed to better reflect the measurement of continuous performance improvements.

SL1

Legislatively Adopted 2009 -11 Key Performance Measures

2009-11 KPM #	Legislative KPM for 2009-2011	Changes to 2007-09	Target 2010	Target 2011
1	TIMELY RETIREMENT PAYMENTS: Percent of initial service retirements paid within 45 days from retirement date	No Change	80%	80%
2	TOTAL BENEFIT ADMINISTRATION COSTS: Total benefit administration cost per member	Target Indexed For Inflation	$125	$125
3	MEMBER TO STAFF RATIO: Ratio of members to FTE staff	New Presentation	925:1	935:1
4	AVERAGE DOLLARS DEFERRED: Average monthly deferral per state employee deferred compensation participant	Target Indexed By 5%	$450	$472
5	LEVEL OF PARTICIPATION: Percent of state employees participating in the deferred compensation program	Target Indexed By 1%	40%	41%
6	CUSTOMER SERVICE: Percent of members and employers rating their satisfaction with the agency's customer service as "good" or "excellent". Overall customer service, timeliness, accuracy, helpfulness, expertise and availability of information	No Change	80%	80%
7	TIMELY BENEFIT ESTIMATES: Percent of benefit estimates processed within 30 days	No Change	95%	95%
8	BOARD OF DIRECTORS BEST PRACTICES: Percent of total best practices criteria met by the PERS Board	No Change	100%	100%

SL1

Strategic Outcomes

1. Produce timely and accurate payment of all PERS benefits.
2. Deliver high quality customer service.
3. Agency organized to optimize effectiveness and efficiency.
4. Business processes are efficient and cost effective.
5. Agency staff has the skill set to support strategic outcomes.
6. Provide a secured information environment.
7. Agency communications are clear, concise, and accurate.

SL1

Oregon

Theodore R. Kulongoski, Governor

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November 20, 2009

TO: Members of the PERS Board

FROM: Steven Patrick Rodeman, Deputy Director

SUBJECT: Adoption of Modifications to the Reemployment of Retired Members Rule: OAR 459-017-0060, *Reemployment of Retired Members*

OVERVIEW

- Action: Adopt modifications to OAR 459-017-0060, Reemployment of Retired Members.
- Reason: Implement Senate Bill 112 changes relating to reemployed retired members.
- Subject: Reemployment of retired members of the PERS Chapter 238 Program.
- Policy Issue: No policy issues were identified.

BACKGROUND

The 2009 Legislature enacted Senate Bill 112, eliminating inconsistencies in work after retirement limitations and clarifying hours of employment that may be counted toward the limitations. Before this bill passed, the most commonly understood and applied limitation, the 1,040-hour limitation of ORS 238.082, was available only to retired members who were receiving a monthly allowance. Retired members who elected the Total Lump Sum option or who received an Aggregate Sum Refund (AS Refund) were subject to different limitations, resulting in numerous inadvertent violations. SB 112 applies that 1,040-hour limitation to all members retired for service regardless of retirement option or benefit payment method. SB 112 also amends ORS 238.078 to clarify the cessation of benefit payments and member account reconstruction for members who exceed the limitation and return to active membership. These provisions are operative January 1, 2010.

SB 112 also addressed the interplay of limitations faced by a retired member concurrently employed in a position exempt from the 1,040-hour limitation and a position subject to the limitation. Before these changes, the member could work unlimited hours in the exempt position, but when the sum of the hours worked in both positions reached 1040 hours, the member was in violation even if they ceased working in the non-exempt position. SB 112 provides that hours worked in an exempt position are not counted for the purposes of the limitation. This provision is retroactive to January 1, 2004.

SUMMARY OF MODIFICATIONS TO RULE SINCE NOTICE

In subsections (2)(a) and (b), the reference to 1,039 hours was modified. The limitation of ORS 238.082(2) was commonly referred to as “employment may not exceed 1,039 hours in a calendar year.” The statutory limitation is “employment…may not total 1,040 hours or more in any calendar year.” This distinction has been of little operational relevance because hours of employment were determined in whole hours, not fractions. However, with the implementation of the electronic employer reporting system, some employers now have adopted the practice of reporting fractions of hours, resulting in hours of employment that exceed 1,039 but do not total 1,040. Accordingly, the proposed rule modifications use the statutory 1,040-hour limitation.

In paragraphs (2)(b)(A) and (B), the highlighting of the Social Security annual compensation limits was deleted. The Social Security Administration has announced that the 2009 Social Security annual compensation limits will not change for 2010. The 2009 limits, previously adopted in the present rule, are not modified in the proposed rule, but will be operative for 2010.

Subsection (4)(g) was added, establishing an operative date for the latest federal decennial census. Several of the exceptions to the 1,040-hour limitation are based on population data from the latest federal decennial census and are likely to be affected by the results of the 2010 census. Staff has received inquiries from employers and retired members as to the effective date of the 2010 census data for the exceptions, seeking to avoid employment disruptions and inadvertent violations. The census is officially conducted as of April 1, 2010, but the results are presented to the President in December 2010. Census data is expected to be released to the states by March 2011. The proposed rule modifications establish the operative date for federal census data as the first day of the second calendar year following the census year. For the 2010 census, the operative date will be January 1, 2012. This accommodates the mid-year release of data in 2011, avoiding retroactive application to the census date in 2010 and also applying shifting standards during calendar year 2011. Employers and retired members can then make informed decisions about employment in 2012.

Section (6) was modified to clarify hours of employment for the purpose of the 1,040-hour limitation. Subsection (b) was added to clarify the exclusion of hours worked under an exception and the retroactivity of the exclusion for exceptions existing on January 1, 2004 and those becoming operative after that date.

Subsection (7)(f) was added to clarify reemployment of a retired member who received a lump sum payment in lieu of a small benefit under ORS 238.315 (AS Refund). There is no statutory provision permitting voluntary repayment of an AS Refund upon reemployment under ORS 238.078(1). This subsection describes conditions under which repayment is prohibited, conditions under which repayment is required, and the effects on the member’s benefit at subsequent retirement.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held on October 27, 2009 at 2:00 p.m. at PERS headquarters in Tigard. No members of the public attended. The public comment period ended on November 3, 2009 at 5:00 p.m. No public comment was received.

LEGAL REVIEW

The attached draft rule was submitted to the Department of Justice for legal review and any comments or changes are incorporated in the rule as presented for adoption.

IMPACT

Mandatory: Yes in part. This rule must be modified to conform to the requirements of SB 112. However, the Board need not adopt provisions establishing an operative date for the 2010 census.

Impact: Members, employers, and staff will benefit from clear and consistent limitations for work after retirement. Implementation of the 2010 census data will be predictable, less disruptive, and will afford stakeholders the opportunity to consider its impact.

Cost: There are no discrete costs attributable to the rule.

RULEMAKING TIMELINE

August 15, 2009	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
September 1, 2009	*Oregon Bulletin* published the Notice. Notice was mailed to employers, legislators, and interested parties. Public comment period began.
September 25, 2009	PERS Board notified that staff began the rulemaking process.
October 27, 2009	Rulemaking hearing held at 2:00 p.m. in Tigard.
November 3, 2009	Public comment period ended at 5:00 p.m.
November 20, 2009	Board may adopt the modifications to the rule.

BOARD OPTIONS

The Board may:

1. Pass a motion to "adopt modifications to OAR 459-017-0060, Reemployment of Retired Members, as presented."
2. Direct staff to make other changes to the rule or explore other options.

STAFF RECOMMENDATION

Staff recommends the Board choose Option #1.

- Reason: The rule modifications are needed to implement Senate Bill 112 changes relating to reemployed retired members.

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

B.1. Attachment 1 – OAR 459-017-0060, *Reemployment of Retired Members*

PERS Oregon Public Employees Retirement System

OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 017 – REEMPLOYED RETIRED MEMBERS

459-017-0060

Reemployment of Retired Members

(1) **For purposes of this rule, "retired member" means a member of the PERS Chapter 238 Program who is retired for service.**

(2) Reemployment under ORS 238.082. A retired member *[of the system receiving a service retirement allowance, who has elected an option other than the total lump sum option under ORS 238.305(3), including those who have retired at a reduced benefit under 238.280(1), (2), or (3)]* may be employed under **ORS** 238.082 by a participating employer without loss of retirement benefits provided:

(a) The period or periods of employment with one or more **participating** *[public]* employers *[participating in the system do not exceed 1039]* **total less than 1,040** hours in a calendar year; or

(b) If the retired member is receiving retirement, survivors, or disability benefits under the federal Social Security Act, the period or periods of employment *[do not exceed the greater of 1039]* **total less than 1,040** hours in a calendar year or **no more than** the total number of hours in a calendar year that, at the retired member's specified hourly rate of pay, limits the annual compensation of the retired member to an amount that does not exceed the following Social Security annual compensation limits:

(A) For retired members who have not reached full retirement age under the Social Security Act, the annual compensation limit is $14,160; or

(B) For the calendar year in which the retired member reaches full retirement age under the Social Security Act and only for compensation for the months before reaching full retirement age, the annual compensation limit is $37,680.

[(2)] **(3)** The limitations on employment in section *[(1)]* **(2)** of this rule do not apply if the retired member has reached full retirement age under the Social Security Act.

[(3)] **(4)** The limitations on employment in section *[(1)]* **(2)** of this rule do not apply if:

(a) The retired member meets the requirements of ORS 238.082*[(3),]* (4), (5), (6), **(7)** or *[(7)]***(8)**, and did not retire at a reduced benefit under the provisions of 238.280(1), (2), or (3);

(b) The retired member retired at a reduced benefit under ORS 238.280(1)**, (2)** or (3), is employed in a position that meets the requirements of 238.082*[(3)]***(4)**, the date of employment is more than six months after the member's effective retirement date, and the member's retirement otherwise meets the standard of a bona fide retirement;

(c) The retired member is employed by a school district or education service district as a speech-language pathologist or speech-language pathologist assistant and:

(A) The retired member did not retire at a reduced benefit under the provisions of ORS 238.280(1), (2), or (3); or

(B) If the retired member retired at a reduced benefit under the provisions of ORS 238.280(1)**, (2)** or (3), the retired member is not so employed until more than six months after the member's effective retirement date and the member's retirement otherwise meets the standard of a bona fide retirement;

(d) The retired member meets the requirements of section 2, chapter 499, Oregon Laws 2007;

(e) The retired member is employed for service during a legislative session under ORS 238.092(2); or

(f) The retired member is on active state duty in the organized militia and meets the requirements under ORS 399.075(8).

(g) For purposes of population determinations referenced by statutes listed in this section, the latest federal decennial census shall first be operative on the first day of the second calendar year following the census year.

[(4)] **(5)** If a retired member is reemployed subject to the limitations of ORS 238.082 and section *[(1)]***(2)** of this rule, the period or periods of employment subsequently exceed those limitations, and employment continues into the month following the date the limitations are exceeded:

(a) If the member has been retired for six or more calendar months:

(A) PERS will cancel the member's retirement.

(i) If the member is receiving a *[The last]* monthly service retirement allowance**, the last** payment **to which** the member is entitled *[to will be]* **is** for the month in which the limitations were exceeded.

(ii) If the member is receiving installment payments under ORS 238.305(4), the last installment payment to which the member is entitled is the last payment due on or before the last day of the month in which the limitations were exceeded.

(iii) If the member received a single lump sum payment under ORS 238.305(4) or ORS 238.315, the member is entitled to the payment provided the payment was dated on or before the last day of the month in which the limitations were exceeded.

(iv) A member who receives benefits to which he or she is not entitled must repay those benefits to PERS.

(B) The member will reestablish active membership *[as required by ORS 238.078]* the first of the calendar month following the *[date]* **month in which** the limitations were exceeded.

(C) The member's account *[shall]* **must** be rebuilt in accordance with the provisions of section *[(9)]* **(7)** of this rule.

(b) If the member has been retired for less than six calendar months:

(A) PERS will cancel the member's retirement effective the date *[of]* the member*['s]* **was** reemploy**ed.***[ment.]*

(B) All retirement benefits received by the member must be repaid to PERS in a single payment *[before the member can be reemployed]*.

(C) The member will reestablish active membership *[as required by ORS 238.078]* effective the date the member *[is]* **was** reemployed.

(D) The member account *[shall]* **will** be rebuilt as of the date that PERS receives the single payment. The amount in the member account *[shall]* **must** be the same as the amount in the member account at the time of the member's retirement.

[(5) Reemployment of retired member who elected the total lump sum option or who received a lump sum payment in lieu of a small allowance (AS Refund). A retired member who elected the total lump sum option under ORS 238.305(3) or who received a lump

sum payment in lieu of a small allowance under 238.315 (AS Refund) may return to work with a participating employer in the six month period following the member's effective retirement date without having to repay the retirement benefits paid to them provided:

(a) The retired member is designated by the employer(s) as a casual, emergency, or seasonal worker as defined in OAR 459-005-0001; and

(b) The period or periods of employment with one or more public employers participating in the system do not exceed 599 hours.

(6) The return to work in a qualifying or other position after six months following the retirement date of a member who elected the total lump sum option or who received an AS Refund has no effect on the retirement status of that member and, upon such reemployment, the member is not required to repay retirement benefits.

(7) If a retired member described in section (5) of this rule, is working subject to the limitation of subsection (5)(b) of this rule and the member exceeds that limitation, the member's retirement will be cancelled. The member will be required to repay to PERS in a single payment the total amount of all retirement benefits received. The member will reestablish active membership as required by ORS 238.078 effective the first of the calendar month following the date the member exceeded that limitation. The member's account shall be rebuilt in accordance with 238.078(2) and subsection (10)(d) of this rule. Upon subsequent retirement, the member may choose a different retirement payment option.]

[(8)] **(6) For purposes of determining period(s) of** *[Limitations on hours of]* employment in section **(2)***[s (1) and (5)]* of this rule**:**

(a) Hours of employment are *[will be based on the number of hours employed]* **hours** on and after the retired member's effective retirement date *[.]* **for which the member receives wages, salary, paid leave, or other compensation.**

(b) Hours of employment that are performed under the provisions of section (4) of this rule on or after the later of January 1, 2004 or the operative date of the applicable statutory provision are not counted.

[(9)] **(7)** Reemployment under ORS 238.078(1). If a member has been retired for service for more than six calendar months and is reemployed in a qualifying position by a participating employer under the provisions of 238.078(1) *[, the following will occur]*:

(a) PERS will cancel the member's retirement effective the date *[of]* the member*['s]* **is** reemploy**ed***[ment]*.

(b) The member will reestablish active membership *[as required by ORS 238.078]* on the date the member is reemployed.

(c) If the member elected a*[n]* **benefit payment** option other than a lump sum option under ORS 238.305(2) or (3)**,** *[the member need not repay any service retirement allowance payment received that is attributable to the period the member was separated from service. T]***t**he last monthly service retirement allowance payment to which the member is entitled *[will be]* **is** for the month before the calendar month in which the member is reemployed. *[A member who receives benefits to which he or she is not entitled must repay those benefits to PERS.]* Upon subsequent retirement, the member may choose a different *[retirement]* **benefit payment** option.

(A) The member's account *[shall]* **will** be rebuilt as required by ORS 238.078 effective the date active membership is reestablished.

(B) Amounts from the Benefits-In-Force Reserve (BIF) credited to the member's account under the provisions of paragraph (A) of this subsection *[shall]* **will** be credited with earnings at the BIF rate or the assumed rate, whichever is less, from the date of retirement to the date of active membership.

(d) If the member elected a partial lump sum option under ORS 238.305(2), *[the member need not repay any service retirement allowance payment received that is attributable to the period the member was separated from service. T]***t**he last monthly service retirement allowance payment to which the member is entitled *[will be]* **is** for the month before the calendar month in which the member is reemployed. **The last lump sum or installment payment to which the member is entitled is the last payment due before the date the member is reemployed.** *[A member who receives benefits to which he or she is not entitled must repay those benefits to PERS. No repayment of lump sum payment(s) received during the period the member was separated from service is required.]* Upon subsequent retirement, the member may not choose a different *[retirement]* **benefit payment** option unless the member has repaid to PERS **in a single payment** an amount equal to the lump sum **and installment benefits** *[payment(s)]* received and the *[interest]* **earnings** that would have accumulated on that amount.

(A) The member's account *[shall]* **will** be rebuilt as required by ORS 238.078 effective the date active membership is reestablished.

(B) Amounts from the BIF credited to the member's account under the provisions of paragraph (A) of this subsection, excluding any amounts attributable to *[any lump sum]* repayment*[(s)]* by the member, *[shall]* **will** be credited with earnings at the BIF rate or the assumed rate, whichever is less, from the date of retirement to the date of active membership.

(e) If the member elected the total lump sum option under ORS 238.305(3), *[no repayment of the total lump sum payment received is required.]* **the last lump sum or installment payment to which the member is entitled is the last payment due before the date the member is reemployed.** Upon subsequent retirement, the member may not choose a different *[retirement]* **benefit payment** option unless the member has repaid to PERS in a single payment an amount equal to the *[total lump sum]* **benefits** *[payment]* received and the *[interest]***earnings** that would have accumulated on that amount.

(A) If the member repays PERS as described in **this** subsection *[(e)]* the member's account *[shall]* **will** be rebuilt as required by ORS 238.078 effective the date that PERS receives the single payment.

(B) If any amounts from the BIF are credited to the member's account under the provisions of paragraph (A) of this subsection**,** the amounts *[shall]* **may** not be credited with earnings for the period from the date of retirement to the date of active membership.

(f) If the member received a lump sum payment under ORS 238.315:

(A) If the payment was dated before the date the member is reemployed, the member is not required or permitted to repay the benefit amount. Upon subsequent retirement:

(i) The member may choose a different benefit payment option.

(ii) The member's retirement benefit will be calculated based on the member's periods of active membership after the member's initial effective retirement date.

(B) If the payment was dated on or after the date the member is reemployed, the member must repay the benefit amount. Upon subsequent retirement:

(i) The member may choose a different benefit payment option.

(ii) The member's retirement benefit will be calculated based on the member's periods of active membership before and after the member's initial effective retirement date.

(iii) The member's account will be rebuilt as described in ORS 238.078(2)

(g) A member who receives benefits to which he or she is not entitled must repay those benefits to PERS.

[(10)] **(8)** Reemployment under ORS 238.078(2). If a member has been retired *[for service]* for less than six calendar months and is reemployed in a qualifying position by a participating employer under the provisions of 238.078(2)**:** *[, the following will occur:]*

(a) PERS will cancel the member's retirement effective the date *[of]* the member*['s]* i**s** reemploy**ed***[ment]*.

(b) All retirement benefits received by the member must be repaid to PERS in a single payment**.** *[before the member can be reemployed.]*

(c) The member will reestablish active membership *[as required by ORS 238.078]* effective the date the member *[is]* **is** reemployed.

(d) The member account *[shall]* **will** be rebuilt as of the date that PERS receives the single payment. The amount in the member account *[shall]* **must** be the same as the amount in the member account at the time of the member's retirement.

(e) Upon subsequent retirement, the member may choose a different *[retirement]* **benefit** payment option.

[(11)] **(9)** Upon the subsequent retirement of any member who reestablished active membership under ORS 238.078 **and this rule**, the retirement benefit of the member *[shall]* **must** be calculated using the actuarial equivalency factors in effect on the effective date of the subsequent retirement.

[(12)] **(10)** The provisions of paragraphs *[(9)]***(7)**(c)(B), *[(9)]***(7)**(d)(B), and *[(9)]***(7)**(e)(B) of this rule are applicable to **retired** members who reestablish active membership under ORS 238.078 **and this rule and** whose initial effective retirement date is on or after March 1, 2006.

[(13)] **(11)** Reporting requirement. *[The]* **A participating** employer **that employs a retired member must***[shall]* notify PERS **in a format acceptable to PERS** under which statute *[a]* **the** retire**d member***[e]* is *[re]*employed *[in a format acceptable to PERS]*.

(a) Upon request by PERS, a participating employer *[shall]* **must** certify to PERS that a retired member has not exceeded the number of hours allowed *[in]* **under** ORS 238.082 and section **(2)** *[s (1) and (5)]* of this rule.

(b) Upon request by PERS a participating employer *[shall]* **must** provide PERS with business and employment records to substantiate the actual number of hours a retired member was employed.

(c) Participating employers *[shall]* **must** provide *[the]* information requested *[in]* **under** this section within 30 days of the date of the request.

[(14)] **(12)** Sick leave. Accumulated unused sick leave reported by *[the]* **an** employer to PERS upon a member's retirement, as provided in ORS 238.350, *[shall]* **may** not be made available to a retired member returning to employment under sections *[(1)]* **(2)** or *[(9)]***(7)** of this rule.

[(15)] **(13)** Subsections *[(3)]***(4)**(c) and *[(3)]***(4)**(d) of this rule are repealed effective January 2, 2016.

(14) This rule is effective January 1, 2010.

Stat. Auth.: ORS 238.650

Stats. Implemented: ORS 238.078, 238.082, 238.092, 399.075**,** *[&]* 2007 OL Ch. 499 & 774**, 2009 OL Ch. 390 & 868.**

PERS Oregon Public Employees Retirement System

Oregon

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November 20, 2009

TO: Members of the PERS Board

FROM: Steven Patrick Rodeman, Deputy Director

SUBJECT: Repeal of Workers' Compensation Offset Rules:
OAR 459-015-0060, *Reduction Due to Workers' Compensation Payment*
OAR 459-076-0060, *Reduction Due to Workers' Compensation Payment*

OVERVIEW

- Action: Repeal rules that provide for a disability Workers' Compensation Offset.
- Reason: Repeal rules to comply with House Bill 2704.
- Subject: Workers' compensation offset.
- Policy Issue: No policy issues have been identified at this time.

BACKGROUND

House Bill 2704 eliminates the offset of Workers' Compensation benefits to PERS Tier 2 and OPSRP disability recipients. OAR 459-015-0060 and 459-076-0060, which currently direct offsetting monthly disability payments when certain income levels are exceeded, are therefore obsolete and must be repealed to conform to the new legislative changes.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held on October 27, 2009 at 2:00 p.m. at PERS headquarters in Tigard. No members of the public attended. The public comment period ended on November 3, 2009 at 5:00 p.m. No public comment was received.

LEGAL REVIEW

The attached draft rules were submitted to the Department of Justice for legal review and any comments or changes are incorporated in the rules as presented for adoption.

IMPACT

Mandatory: Yes, these rules must be repealed to conform to the requirements of HB 2704.

Impact: Aligns administrative rules with state law.

Cost: There are no discrete costs attributable to repealing the rules.

RULEMAKING TIMELINE

August 15, 2009	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.

September 1, 2009	*Oregon Bulletin* published the Notice. Notice was mailed to employers, legislators, and interested parties. Public comment period began.
September 25, 2009	PERS Board notified that staff began the rulemaking process.
October 27, 2009	Rulemaking hearing held at 2:00 p.m. in Tigard.
November 3, 2009	Public comment period ended at 5:00 p.m.
November 20, 2009	Board may repeal the rules.

BOARD OPTIONS

The Board may:

1. Pass a motion to "repeal the Workers' Compensation Offset rules."
2. Direct staff to make other changes to the rules or explore other options.

STAFF RECOMMENDATION

Staff recommends the Board choose Option #1.

- Reason: Repeal rules to comply with House Bill 2704.

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

B.2. Attachment 1 – OAR 459-015-0060, *Reduction Due to Workers' Compensation Payment*
B.2. Attachment 2 – OAR 459-076-0060, *Reduction Due to Workers' Compensation Payment*

OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 015 – DISABILITY RETIREMENT ALLOWANCES

459-015-0060

Reduction Due to Workers' Compensation Payment

(1) PERS disability payments are reduced by payments a Tier Two member receives from Workers' Compensation. There is no reduction for a Tier One member. Other disability-related income, such as Social Security and/or private disability insurance plan payments will not affect the amount of a PERS disability retirement allowance.

(2) A Tier Two member's disability retirement allowance will be offset by any gross monthly workers' compensation payment paid in a calendar month on account of temporary total disability or permanent total disability under the provisions of ORS Chapter 656; regardless of whether the condition on which the workers' compensation claim is based is related to the condition on which the PERS disability retirement claim is based.

(a) A monthly workers' compensation payment includes:

(A) Weekly gross payments;

(B) Semi-monthly gross payments;

(C) Monthly gross payments; and

(D) That portion of a lump sum payment of a workers' compensation disability claim that is expressly designated as compensation for temporary total disability or permanent total disability.

(b) A monthly workers' compensation payment does not include:

(A) Payments for medical services;

(B) Payments for vocational training;

(C) Reemployment assistance payments; and

(D) Any payment based on an employee's waiver of all rights to, and includes no payment for, a temporary total disability or a permanent total disability claim.

(c) The workers' compensation payment will be considered paid on the date that payment is issued, and will not be allocated to any period other than the month payment is issued.

(3) In the event a Tier Two member is eligible to receive a PERS disability retirement allowance, PERS will request of the Workers' Compensation Division, or any other public or private workers' compensation insurance carrier, documentation of the portion of a lump sum settlement that is made on account of a temporary total disability or a permanent total disability.

(4) The disability allowance of a Tier Two member will be reduced by the amount by which the combined monthly benefits payable from both PERS and any monthly workers' compensation payment on account of temporary total disability or permanent total disability exceed the monthly salary of the member at time of disability.

(5) A Tier Two member who is eligible to receive a disability retirement allowance must report immediately to PERS the receipt or the award of any monthly workers' compensation payment as described in section (2)(a) of this rule.

(6) In the event a Tier Two member receives one or more monthly workers' compensation payment(s) while also receiving a disability retirement allowance, but PERS is not notified of the workers' compensation payment until after making one or more disability retirement allowance payments:

(a) PERS will recalculate the disability retirement allowance, taking the monthly workers' compensation payments into account; and

(b) PERS will invoice the member for, or recover under ORS 238.715, any overpayment of PERS benefits.

(7) A Tier Two member's PERS disability retirement allowance:

(a) Will first be calculated in accordance with ORS 238.435 and this rule prior to determining any reduction to the PERS disability retirement allowance under ORS 238.330(3).

(b) Any reduction under ORS 238.330(3) will be made to the adjusted PERS disability retirement allowance established under ORS 238.435 and this rule.

Stat. Auth.: ORS 238.650

Stats. Implemented: ORS 238.435 & 238.330(3)]

PERS Oregon Public Employees Retirement System

OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 76 – OPSRP DISABILITY RETIREMENT

459-076-0060

Reduction Due to Workers' Compensation Payment

(1) The total payments received by an OPSRP member receiving both OPSRP disability benefits and payments from Workers' Compensation may not exceed 75 percent of the member's monthly salary as of the date the member becomes disabled. Other disability-related income, such as Social Security and/or private disability insurance plan payments will not affect the amount of OPSRP disability benefits.

(2) A member's disability benefit will be offset by any gross monthly workers' compensation payment paid in a calendar month on account of temporary total disability or permanent total disability under the provisions of ORS Chapter 656; regardless of whether the condition on which the workers' compensation claim is based is related to the condition on which the OPSRP disability benefit claim is based:

(a) A monthly workers' compensation payment includes:

(A) Weekly gross payments;

(B) Semi-monthly gross payments;

(C) Monthly gross payments; and

(D) That portion of a lump sum payment of a workers' compensation disability claim that is expressly designated as compensation for temporary total disability or permanent total disability.

(b) A monthly workers' compensation payment does not include:

(A) Payments for medical services;

(B) Payments for vocational training;

(C) Reemployment assistance payments; and

(D) Any payment based on an employee's waiver of all rights to, and includes no payment for, a temporary total disability or a permanent total disability claim.

(c) The workers' compensation payment will be considered paid on the date that payment is issued, and will not be allocated to any period other than the month payment is issued.

(3) In the event a member is eligible to receive an OPSRP disability benefit, PERS will request of the Workers' Compensation Division, or any other public or private workers' compensation insurance company, documentation of the portion of a lump sum settlement that is made on account of a temporary total disability or a permanent total disability.

(4) The disability benefit of a member will be reduced by the amount by which the combined monthly benefits payable from both PERS and any monthly workers' compensation payment on account of temporary total disability or permanent total disability exceed 75 percent of the monthly salary of the member on the date of disability.

(5) In determining whether the combined monthly benefits exceed 75 percent of the monthly salary of the member on the date of disability, cost-of-living adjustments will not be considered.

(6) A member who is eligible to receive a disability benefit must report immediately to PERS the receipt or the award of any monthly workers' compensation payment as described in section (2)(a) of this rule.

(7) In the event a member receives one or more monthly workers' compensation payment(s) while also receiving a disability benefit as described in OAR 459-076-0015,

but PERS is not notified of the workers' compensation payment until after making one or more disability benefit payments:

(a) PERS will recalculate the disability benefit, taking the monthly workers' compensation payments into account; and

(b) PERS will invoice the member for, or recover under ORS 238.715, any overpayment of OPSRP disability benefits.

Stat. Auth.: ORS 238.715 & 238A.450

Stats. Implemented: ORS 238A.235]

PERS Oregon Public Employees Retirement System

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Oregon

Theodore R. Kulongoski, Governor

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November 20, 2009

TO: Members of the PERS Board

FROM: Dale S. Orr, Actuarial Services Manager

SUBJECT: Adoption of Actuarial Equivalency Factors

ORS 238.607 requires that the PERS Board adopt actuarial equivalency factor (AEF) tables every two years. Attached to this memo is a November 3, 2009, letter from Matthew Larrabee of Mercer presenting their analysis and recommendation regarding the new AEF tables, which will be used to calculate retirement and other benefits starting January 1, 2010.

These new AEF tables were derived from the 2008 Experience Study and are based on the methods and assumptions approved by the PERS Board at its July 16, 2009 meeting. The principal change to those methods and assumptions was to use generational mortality tables instead of static mortality tables. Adopting this change, and also recognizing the increased longevity of PERS members in general since the last change to the AEF tables, reduces the annuity amount calculated for retirement and other benefits. PERS staff developed information regarding this estimated impact with Mercer and posted those guidelines on the PERS web site in August 2009 as well distributing them to stakeholder groups.

Once adopted, the new AEF tables will be posted on the PERS web site under the "Financials" section at the following link:

http://www.oregon.gov/PERS/section/financial_reports/financials.shtml

BOARD OPTIONS

The Board may:

1. Pass a motion to "adopt the new AEF tables, as presented."
2. Direct staff to work with the actuary to modify the tables based on revised methods or assumptions, as defined by the PERS Board.

STAFF RECOMMENDATION

Staff recommends the Board choose Option #1.

- Reason: New AEF tables must be adopted to be effective January 1, 2010. These AEF tables were developed consistently with the methods and assumptions approved by the PERS Board at its July 16, 2009 meeting.

If the Board does not adopt: Staff would develop an alternate set of tables based on whatever changes the PERS Board may define to the methods and assumptions to be used in generating the AEF tables and a process to adopt those revised tables to be effective January 1, 2010.

B.3. Attachment – November 3, 2009 Letter from Matthew Larrabee

PERS Oregon Public Employees Retirement System

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Matt Larrabee
Principal

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November 3, 2009

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

Via E-Mail

Subject: Request Number: 2009-015
Actuarial Equivalency Factors Proposed Effective January 1, 2010

Dear Dale:

On July 16, 2009, the Board adopted actuarial assumptions and methods to be used in the December 31, 2008, and December 31, 2009, actuarial valuations. The adopted assumptions include an update to the valuation mortality tables. This letter provides new actuarial equivalency factors for ORS Chapter 238 and ORS Chapter 238A proposed to be effective January 1, 2010, reflecting the change in mortality assumptions adopted by the Board.

The new mortality tables for healthy members and beneficiaries are "generational", meaning there are different rates for members who have different years of birth, with lower mortality for members who have later years of birth. A generational table is intended to dynamically reflect anticipated improvements in mortality over time due to improvements in medical care. Even if the mortality assumption for the actuarial valuation does not change in the future, it will be necessary to update these tables periodically since the factor tables used by PERS in administering the program are based on ages rather than years of birth.

We understand it is the Board's intention to review and update the factors every two years, to coincide with the experience study. Therefore, these factors are proposed to be effective for determination dates during 2010 and 2011.

Updated factors used for adjusting member benefits due to the Strunk/Eugene ruling and factors associated with QDRO calculations will be provided separately.

Weighting Factors to Develop Unisex Mortality Basis

In the December 31, 2008, valuation, there are five separate mortality tables that apply to healthy retirees based on gender and membership classification, two tables that apply to disabled retirees, and two tables that apply to beneficiaries. For determining actuarial equivalency factors, a single blended mortality basis is used for Tier 1, Tier 2, and OPSRP. For most factors that use a mortality basis, separate blended tables are developed for healthy members, beneficiaries and disabled members.

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The blended mortality tables are developed by weighting each separate mortality table by the percentage of liabilities attributed to each gender/classification group for all active and dormant members. Unless indicated otherwise, the mortality tables and weightings shown below are used in the development of all actuarial equivalency factors:

Healthy Mortality Weighting Factors

Gender/Classification Group	Mortality Table	Weighting Factor
General Service Males	RP-2000 Male Generational, White Collar	20%
Police & Fire Males	RP-2000 Male Generational, Blend 67% White Collar 33% Blue Collar	10%
School District Males	RP-2000 Male Generational, White Collar, set back 12 months	10%
General Service/Police & Fire Females	RP-2000 Female Generational, Blend 67% White Collar 33% Blue Collar	30%
School District Females	RP-2000 Female Generational, White Collar, set back 18 months	30%

Disabled Mortality Weighting Factors

Gender/Classification Group	Mortality Table	Weighting Factor
Males	RP-2000 Male Static, Combined Active/Healthy Annuitant, set forward 60 months, minimum of 2.25%	40%
Females	RP-2000 Female Static, Combined Active/Healthy Annuitant, set forward 48 months, minimum of 2.25%	60%

Beneficiary Mortality Weighting Factors

Gender/Classification Group	Mortality Table	Weighting Factor
Males	RP-2000 Male Generational, White Collar	60%
Females	RP-2000 Female Generational, Blend 67% White Collar 33% Blue Collar	40%

Actuarial Equivalency Factor Tables

There are many actuarial equivalency factor tables provided as part of this letter. The following chart summarizes the tables provided, and indicates which tables apply to healthy and disabled members, as well as to Tier 1/Tier 2 and OPSRP. Descriptions of the tables and the assumptions used are detailed in the remainder of this letter. **Note that these tables should not be combined or altered to produce other factors. Each table contains a description of how the table should be used in calculations. If you are unsure of how to use the tables or require additional tables for other purposes, such as converting from a single life annuity to a 15-year certain and life benefit, please let us know and we will provide the appropriate factors.**

	Tier 1/Tier 2		OPSRP	
Actuarial Equivalency Factor Table	**Healthy**	**Disabled**	**Healthy**	**Disabled**
Early Retirement Reduction Factors	Table 1	N/A	Table 1	N/A
Refund Annuity Conversion Factors (Option 0)	Table 2a	Table 2b	N/A	N/A
Non-Refund Life Annuity Conversion Factors (Option 1)	Table 3a	Table 3b	N/A	N/A
15-Year Certain and Life Annuity Conversion Factors (Option 4)	Table 4a	Table 4b	N/A	N/A
Option 4 death benefit (conversion of remaining benefit to a lump sum)	Table 5	Table 5	N/A	N/A
Joint & Survivor Conversion Factors	Tables 6a, 7a, 8a, 9a	Tables 6b, 7b, 8b, 9b	Tables 6a, 7a, 8a, 9a	Tables 6b, 7b, 8b, 9b
Police & Fire Unit purchases	Tables 10-12	Tables 10-12	N/A	N/A
Full Cost factors for purchasing service	Tables 13a, 14-16,17a	Tables 13b, 14-16, 17b	N/A	N/A
Lump Sum Cash Out Factors	N/A	N/A	Tables 18-21	Not provided
Spouse Death Benefit Conversion Factors	N/A	N/A	Tables 22-23	Tables 22-23

Table 1: Early Retirement Reduction Factors

Members may elect to receive a reduced retirement benefit prior to their Normal Retirement Date if they qualify for early retirement. The reduction for early retirement does not apply to

Money Match benefits as the reduction is included in the factors used to convert the account balance to an annuity. Normal and Early Retirement Dates vary by Tier and member classification as follows:

Classification	Normal Retirement Date	Early Retirement Date
Tier 1 General Service	Earlier of age 58 or 30 years of service	Age 55
Tier 2 General Service	Earlier of age 60 or 30 years of service	Age 55
OPSRP General Service	Earlier of age 65 or age 58 and 30 years of service	Age 55
Tier 1/Tier 2 Police & Fire	Earlier of age 55 or age 50 and 25 years of service	Age 50
OPSRP Police & Fire	Earlier of age 60 or age 53 and 25 years of service	Age 50

For the Actuarial Equivalency Factors effective January 1, 2007, the Board adopted simplified factors using the same methodology for both Tier 1/Tier 2 benefits and OPSRP benefits. The simplified Early Retirement Factors (ERFs) reduce the monthly benefit by 8 percent each year for the first 5 years prior to Normal Retirement Age with an additional 5 percent reduction for each year beyond 5 years. For example, the ERF for an OPSRP member with a Normal Retirement Age of 65 who retires at age 57 is 45 percent (100 percent minus 5 years at 8 percent minus 3 years at 5 percent). We are not recommending a change from the prior factors at this time. These simplified factors should be periodically reviewed to ensure that the reductions continue to provide benefits that are actuarially equivalent as mortality rates improve.

Tables 2-4: Annuity Conversion Factors for Tier 1/Tier 2

Actuarial equivalency factors are used to convert member account balances to one of three annuity amounts: refund annuity, non-refund (single life) annuity, or a 15-year certain & life annuity. These factors do not include the value of the COLA, and therefore should not be used for any purpose other than converting member accounts to these benefit forms.

Table 5: Tier 1/Tier 2 Option 4 Death Benefit

For a retired member with an Option 4 benefit who dies before 180 payments have been made, these factors are used to convert the remainder of the 180 payments to a lump sum payable to the beneficiary. Because these factors are based on interest only, with no mortality, there has been no change from the prior factors.

Tables 6-9: Conversion to Joint & Survivor Forms

Members have the option of electing an optional form of benefit that provides a survivor benefit equal to 50 percent or 100 percent of the member's benefit. The actuarial equivalence factors are used to ensure that the optional form of benefit has the same value as the single life annuity (Option 1). Tables 6a, 7a, 8a, and 9a are to be used for healthy retired members. Factors are provided for retirees between the ages of 45 and 75 with beneficiaries between the ages of 0 and 110. If a member/beneficiary age combination falls outside of this range, please contact us so that we can provide the correct conversion factor.

Tables 6b, 7b, 8b, and 9b are to be used for disabled retired members. Factors are provided for retirees between the ages of 20 and 70 with beneficiaries between the ages of 0 and 110. If a member/beneficiary age combination falls outside of this range, please contact us so that we can provide the correct conversion factor.

These tables are structured by age difference between retiree and beneficiary, as in our response to RN 2007-028 dated August 29, 2007. If you would like the tables in a different format, please let us know.

Tables 10-12: Tier 1/Tier 2 Police & Fire Additional Units

Tier 1/Tier 2 Police & Fire members have the option of purchasing "units" which provide an additional benefit at retirement. Because the police and fire additional unit factors are based on interest, with no mortality, there have been no changes to these factors.

Tables 13-17: Tier 1/Tier 2 Full Cost Factors for Purchasing Service

Tier 1/Tier 2 members have the option of purchasing certain periods of service by contributing the "full cost" of the increased benefit. The methodology for full cost purchases has been determined by the prior actuary and has not been reviewed as part of updating these factors. We have relied on our understanding of PERS' administrative practices for the methodology used in these calculations. We updated the Factor 1 and Factor 5 tables to reflect the updated mortality assumptions. Because Factors 2, 3 and 4 are based on interest only, with no mortality, there have been no changes to these factors.

Tables 18-21: OPSRP Lump Sum Distributions

Members or beneficiaries may receive a lump sum distribution from OPSRP in certain situations. Separate lump sum factors are to be used for members who have not yet met the Early Retirement criteria and members who are at or beyond their Earliest Retirement Date. To calculate the lump sum for a member who has not yet met the Early Retirement criteria, the normal retirement benefit is multiplied by the appropriate factor from Table 18 or 19.

Different tables are required for General Service and Police & Fire due to differing Normal Retirement Ages for General Service and Police & Fire members..

To calculate the lump sum for a member who is at or beyond their Earliest Retirement Date, the early retirement benefit (equal to the normal retirement benefit times the early retirement reduction factor from Table 1) is multiplied by the appropriate factor from Table 20. To calculate the death benefit lump sum for a beneficiary, the death benefit must first be calculated and then multiplied by the factor from Table 21.

As discussed with PERS in 2006, we have not provided lump sum factor tables for disabled members who could potentially be eligible for a lump sum distribution at retirement age. We believe it is very unlikely that a disability retirement benefit will meet the requirements for a lump sum distribution. In the event that a disability retirement benefit is less than $200 per month, please contact us and we will provide the appropriate factor.

The statute indicates that the cash out for a vested terminated member does not include the value of the COLA. However, statute does not specify if the lump sum cash out factors for small benefits at retirement eligibility should include the value of the COLA. In keeping with prior practice, the lump sum factors provided do not include the value of the COLA. Please let us know if these factors should include the value of the COLA.

Tables 22-23: OPSRP Death Benefit

Upon the death of a vested non-retired OPSRP member, a benefit is payable to the member's spouse. The benefit is a life annuity for the spouse that is actuarially equivalent to 50 percent of the benefit the member would have received if the member had retired on the date of the member's death, or if not eligible for retirement, had terminated employment on the date of death and retired as of the earliest retirement date.

Table 22 is used to convert the monthly benefit that would have been payable to the member to a monthly benefit payable to the spouse as of the date at which the member would have commenced receipt of the benefit. Table 23 is used to convert the spouse benefit so determined to a different commencement age. This is necessary since the spouse is not required to commence benefits at the date utilized in Table 22.

Since the statutes are not clear, we asked for guidance from PERS in 2006 as to whether separate tables should be provided for calculating the death benefit for a member who was receiving the temporary disability benefit prior to normal retirement age. We understand that the same tables for reducing the benefit for early retirement and converting the member's benefit to a spouse's benefit should apply to both healthy and disabled members. If this interpretation changes, please contact us and we will provide a separate table for disabled members.

Data, Methods, Plan Provisions and Assumptions

The assumptions used in developing the actuarial equivalency factors are the same as those used in the December 31, 2008 actuarial valuation including an interest assumption of 8 percent per year. All factors, unless otherwise noted, include the value of an assumed 2 percent annual COLA.

We updated the existing actuarial equivalency factor tables as described in this letter, relying on our understanding of prior PERS administrative practices to indicate the appropriate statutory interpretations and procedures for certain calculations.

Our analysis and conclusions are based on our understanding of the request and the data, methods and assumptions described above. Differences in the data, methods, assumptions and interpretations of the plan provisions may produce different results.

Mercer is not a law firm and cannot provide legal advice. You may wish to have any interpretations of statutes reviewed by your legal counsel.

If you have any questions about our response or need any additional information, please let us know.

Sincerely,

[MRL]

Matthew R. Larrabee, FSA, EA, MAAA
Principal

BJM/MRL/mrl:gjw
Enclosures

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Debra Hembree

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November 20, 2009

Equal to or Better (ETOB) Testing - Board Update

Oregon Public Employees Retirement System

Matt Larrabee

PERS Oregon Public Employees Retirement System

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Background

- Police and Fire employers not participating in Oregon PERS are required to provide retirement benefits that are “equal to or better” (“ETOB”) than the retirement benefits provided by Oregon PERS
  – Disclosure of potential conflict: Mercer is the actuary of record for the City of Portland’s “FPDR” program, which requires an ETOB test
- The PERS Board is required to determine if employers satisfy the ETOB requirement
  – Individual employers pay for the cost of the ETOB test
- The last test was performed in 2005, and all employers passed
  – That test was prospective only and compared the value of future accruals in the employee’s current plan to the value of joining OPSRP
- The Legislature amended the ETOB requirements to test employees by class
  – Classes are based on the hire date criteria for Tier 1, Tier 2 & OPSRP
- The new test is much more complex
  – Requires three separate tests for each employer
  – Requires testing historical benefits in addition to expected future benefits

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ETOB Testing Principles

- PERS staff established three guiding principles for ETOB testing:
  - Comparability
    - The test should make an “apples to apples” comparison
  - Durability
    - Test results should be consistent over time barring a change to provisions
    - Rule requires testing at least every twelve years
  - Cost Effectiveness
    - The least expensive method that does not compromise the validity of results should be used
- When required to make any “judgment calls” while conducting the testing, we will reference these principles

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Guidance for Conducting an ETOB Test – Key Highlights
OAR 439-030-0025

- The test looks at both past and future benefits
- It is required that aggregate benefits for each tier are ETOB
  - It is not required that benefits for each and every employee be ETOB
- A "risk-free" rate is used for many of the calculations
  - The "risk-free" approach is used in ETOB being calculated on a "value to the employee" standard, rather than an "employer cost" standard
    - The very low likelihood of default makes a pension promise essentially risk-free to the employee.
- The following calculations use the "risk-free" rate
  - Prior service benefits and future service benefits dependent on earnings or earnings crediting
    - Any earnings or crediting guarantees would override the risk-free rate
  - Lump sum to annuity conversions
- Hypothetical employee data will be used to increase the test's durability and consistency
- Oregon PERS assumptions for Police & Fire Members will be used

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Conducting an ETOB Test – Initial Steps

- We will obtain plan provisions as of the "Valuation Date" from employers
- A "Preliminary Determination" will be conducted as an initial test
  - The Preliminary Determination will compare program provisions side-by-side
    - If the Preliminary Determination indicates that the plan will clearly satisfy the ETOB requirement, the actuary will issue a letter detailing that conclusion and the basis for it
    - Plans not passing the Preliminary Determination will have a more detailed ETOB test
    - In our view, a Preliminary Determination is not appropriate for defined contribution or cash balance designs

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Summary

- OAR 459-030-0025 requires the Board to establish a “Valuation Date” for the test
  - Our recommendation is to use December 31, 2008 as the Valuation Date
    - Hypothetical data needed for the test is already available as of that date
    - A Board motion to select a Valuation Date is needed today
- The Preliminary Determination approach has been summarized in this presentation to inform the Board and stakeholders of our proposed approach
  - We believe the approach is consistent with the goal of minimizing the cost of testing while not jeopardizing the validity of test results
    - In the unlikely event of a dispute of an employer’s plan passing a Preliminary Determination, employees have the right to petition for a rehearing or reconsideration

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Next Steps

- At the January Board meeting, we will
  - Report back on the results of any Preliminary Determination tests
  - Summarize results on efforts to collect employer plan provisions
  - Present material and guidance to assist the Board in selecting a “risk-free” rate for testing
  - Present recommendations for any other assumptions needed for testing
- At the March or May Board meetings
  - Present results for employer tests

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

Oregon Public Employees Retirement System

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November 20, 2009

Shortfall Recovery -
Actuarial Considerations

Oregon Public Employees Retirement System

Matt Larrabee

September Financial Projections

- Our September presentation included ten-year projection estimates of base contribution rates under three investment return scenarios
  - Base rates exclude the effects of:
    - Side account rate relief
    - Payments for Individual Account Program (IAP), retiree healthcare, and debt service on Pension Obligation Bonds (POBs)
  - Projections were based on July 31, 2009 asset levels
    - Year-to-date investment return through July 31 was +6.26%
    - By comparison, year-to-date return through September 30 was +13.83%

> ➢ ***August & September returns increased current asset levels by approximately $2-$2½ billion compared to those modeled as the starting point for our September projections***
>
> ➢ ***All else being equal, such an increase in asset levels would increase the estimated year-end 2009 funded status by 3½%-4½%***

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September Financial Projections

- For reference, the September projections are included in the Appendix
  - In addition, projections of net rates are also included in the Appendix
    - Net rates are base rates with an adjustment for side account rate relief
- Even under the most optimistic scenario modeled in September (10½% annual investment return) base contribution rates increased to 19%-20% of payroll by the end of ten years
- With an 8% annual investment return, base rates increased to 24% of payroll by the end of ten years
- The modeled base contribution rate consists of two parts:
  - Normal Cost Rate
    - Economic value of new benefits during a year
  - Unfunded Actuarial Liability (UAL) Rate
    - Amortization payment of shortfalls for benefits already granted

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Usefulness/Limitations of Models

- The recent asset downturn and subsequent partial recovery help to illustrate both the usefulness and limitations of actuarial modeling
- Models are useful because they can provide:
  - Long-term forecasting using “best estimate” assumptions
  - Sensitivity analysis on the effect of a key factor varying from assumption
    - Example: September 2009 Board meeting projections
  - An estimate of the likely range of possible outcomes (with percentiles) for a robust variety of possible future experience
    - Examples: Annual financial modeling presentations to the Board
  - The ability for policymakers and stakeholders to quantify the projected long-term effects of significant recent changes
- Models are limited because:
  - They are not a guarantee of future experience
  - In exceptional situations, actual experience can fall outside of the range of even a robust model

“Computers are useless. They can only give you answers.” *-Picasso*

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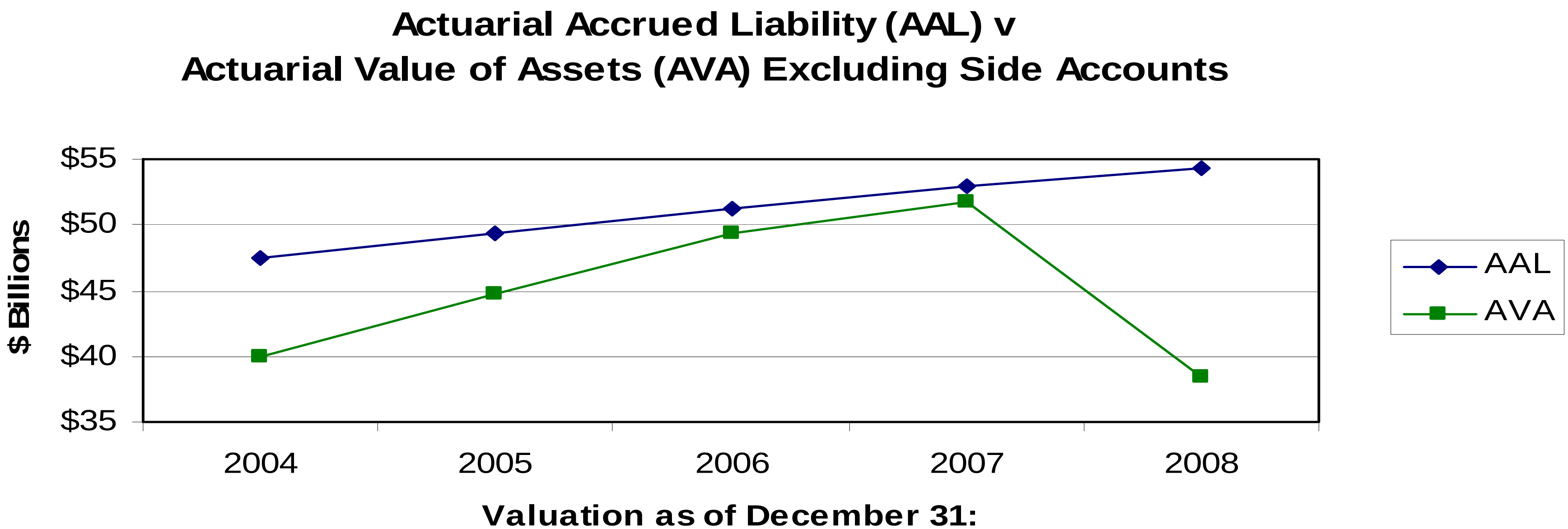
Historical Asset and Liability Levels



- Liability levels have been fairly predictable (2½%-4% annual growth)
  - Rate of liability growth is significantly lower than it was pre-reform
- At year-end 2008, there was a $15.9 billion Unfunded Actuarial Liability shortfall
- As a rough approximation, the recovery through September 30 likely improved funded status to 75% (from 71% at 12/31/08) and lowered the shortfall to $14 billion
- Using an asset restoration approach, there are two ways to make up a shortfall:
  - Contributions
  - Investment returns

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UAL Rate and Normal Cost Rate

- Tier 1/Tier 2 shortfalls are amortized over 20 years as a level percent of pay
  - Some systems amortize shortfalls over 30 years
    - A 30-year policy leads to “negative amortization” in the first few years
- System payroll as of December 31, 2008 is $8.1 billion dollars
- What percentage of payroll would be needed to amortize a $15.9 billion shortfall, assuming 3.75% payroll growth and 8% investment returns?

Amortization Period	UAL Rate *(Percent of Payroll)*
20 Years	15%
30 Years	11%
40 Years	10%

- The Normal Cost Rate is also charged in addition to the UAL Rate
  - Blended Tier 1/Tier 2/OPSRP and retiree healthcare Normal Cost Rate as of December 31, 2008 is 7.5% of payroll
  - Normal Cost Rate will increase over time as the system evolves from primarily Money Match to primarily Full Formula/OPSRP
    - Our most recent modeling work indicates 8½%-10% of payroll as an estimate range for the long-term Normal Cost Rate

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Current Board Policy

- Current Board policy was first enacted for the December 31, 2004 valuation
- Fair value of assets (also known as market value) is used for rate calculations
- Liabilities are valued using the projected unit credit cost method
- Any Tier 1/Tier 2 shortfalls are amortized over 20 years
- Employer rate changes for each new biennium are restricted to a "rate collar"
  - Rate collaring was developed as a smoothing method that is more transparent and understandable than asset smoothing
  - The rate collar is applied to the base rate (before application of side account rate relief) and is the greater of:
    - 3% of payroll
    - 20% of the rate for the previous biennium
  - If the funded status is below 80% (or above 120%), the collar doubles
    - The "double collar" was included in the policy as recognition that the single collar may not be sufficiently responsive in extreme market conditions
    - The funded status calculation is done without regard to side accounts
      - Side account transfers are used to help pay the base rates calculated excluding side accounts

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Historical and Advisory Rates

- Rates below are blended Tier 1/Tier 2/OPSRP & retiree healthcare rates, are before consideration of side account relief, and exclude IAP contributions and debt service payments on Pension Obligation Bonds (POBs)

	Actual 2007-09 *(12/05 Valuation)*	Actual 2009-11 *(12/07 Valuation)*	Advisory 2011-13 Pre-Collar *(12/08 Valuation)*	Advisory 2011-13 Post-Collar *(12/08 Valuation)*
Normal Cost Rate	4.3%	6.2%	7.5%	7.5%
UAL Rate	10.5%	6.2%	15.0%	10.9%
Total Base Rate	14.8%	12.4%	22.5%	18.4%

- For 2011-2013, the doubled rate collar has a near-term effect very similar to that of temporarily extending the UAL Rate amortization period to between 30 and 40 years
- As the Normal Cost Rate increases between now and 2011-2013, the <u>effective</u> UAL Rate being charged will decrease in equal amount
  – The rate collar is on the total base rate, not on its component parts

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Policy Assessment Considerations

- Any alternatives to the current policy should be assessed against the objectives stated by the Board:
  - Transparent
  - Predictable and stable rates
  - Protect funded status
  - Equitable across generations
  - Actuarially sound
  - GASB compliant
- When assessing policy, it is also important to consider the effects that side accounts have on changes to net employer rates calculated after application of side account rate relief

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Actuarial Certification

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This report material includes or is derived from projections of future funding and/or accounting costs and/or benefit related results**.** To prepare these projections or results, various *actuarial assumptions*, as described in the Appendix, were used to project a limited number of scenarios from a range of possibilities. However, the future is uncertain, and the system's actual experience will likely differ from the assumptions utilized and the scenarios presented; these differences may be significant or material. In addition, different assumptions or scenarios may also be within the reasonable range and results based on those assumptions would be different. This report has been created for a limited purpose, is presented at a particular point in time and should not be viewed as a prediction of the system's future financial condition. To prepare the results shown in this report, various *actuarial methods*, as described in the Appendix, were used.

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

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

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Actuarial Certification - Continued

Professional qualifications

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

We are available to answer any questions on the material contained in the report, or to provide explanations or further details as may be appropriate.

November 20, 2009

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

November 20, 2009

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

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Appendix

PERS Oregon Public Employees Retirement System

Ten-Year Financial Projections
Overview

- Basis for modeling
  - 12/31/2007 Tier 1/Tier 2 and OPSRP actuarial valuations
  - Contribution rates and funded status are modeled on a system-wide basis
  - Does not include retiree healthcare or IAP contributions
  - **Based on published investment returns through July 31, 2009**
    - Our financial modeling earlier this year used March 31 asset levels
- Projected effects of 4.5%, 8.0% and 10.5% annual investment returns
  - Represents 10-year earnings average, valuation interest rate and 25-year earnings average, respectively
- Results model the impact of two rate-setting policies
  - Current board policy
    - Rate collared to greater of 3% of payroll or 20% of current rate
    - Width of collar doubles if plan is less than 80% funded
  - Alternative policy
    - Same as above, except that the collar is not allowed to double

Rates and funded percentages shown are before consideration of side accounts

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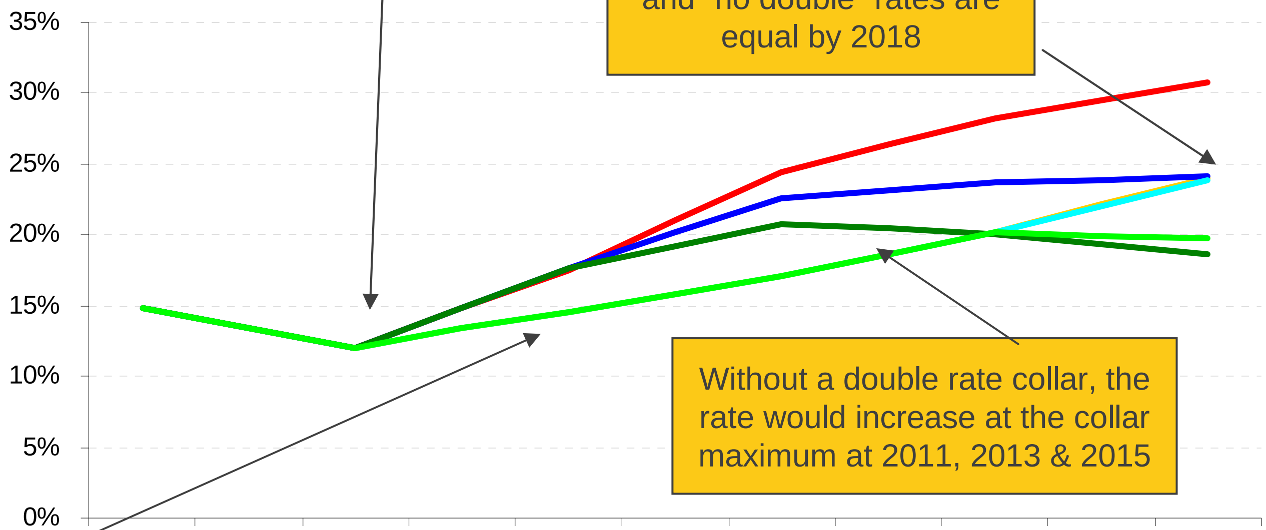
Ten-Year Financial Projections – Base Rates

Combined Payroll Weighted (Tier 1/Tier 2, OPSRP) Base Contribution Rate (Excludes Side Accounts, Excludes IAP and Retiree Healthcare Rates)

Rates for the 2009-2011 biennium are based on the 12/31/2007 valuation

At 8% return, the “double” and “no double” rates are equal by 2018



The 12/31/2009 valuation will set rates for 2011-2013. The width of the collar will determine rates for that biennium

Without a double rate collar, the rate would increase at the collar maximum at 2011, 2013 & 2015

		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
4.5% w/ Double Collar		15%	13%	12%	15%	18%	21%	24%	26%	28%	30%	31%
4.5% w/o Double Collar		15%	13%	12%	13%	15%	16%	17%	19%	20%	22%	24%
8% w/ Double Collar		15%	13%	12%	15%	18%	20%	23%	23%	24%	24%	24%
8% w/o Double Collar		15%	13%	12%	13%	15%	16%	17%	19%	20%	22%	24%
10.5% w/ Double Collar		15%	13%	12%	15%	18%	19%	21%	20%	20%	19%	19%
10.5% w/o Double Collar		15%	13%	12%	13%	15%	16%	17%	19%	20%	20%	20%

Rates do not include contribution rates for the IAP or Retiree Healthcare Programs, and do not take into account any contributions that might be needed to address a 5-year Rate Guarantee Reserve deficit

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Ten-Year Financial Projections – Excluding Side Accounts

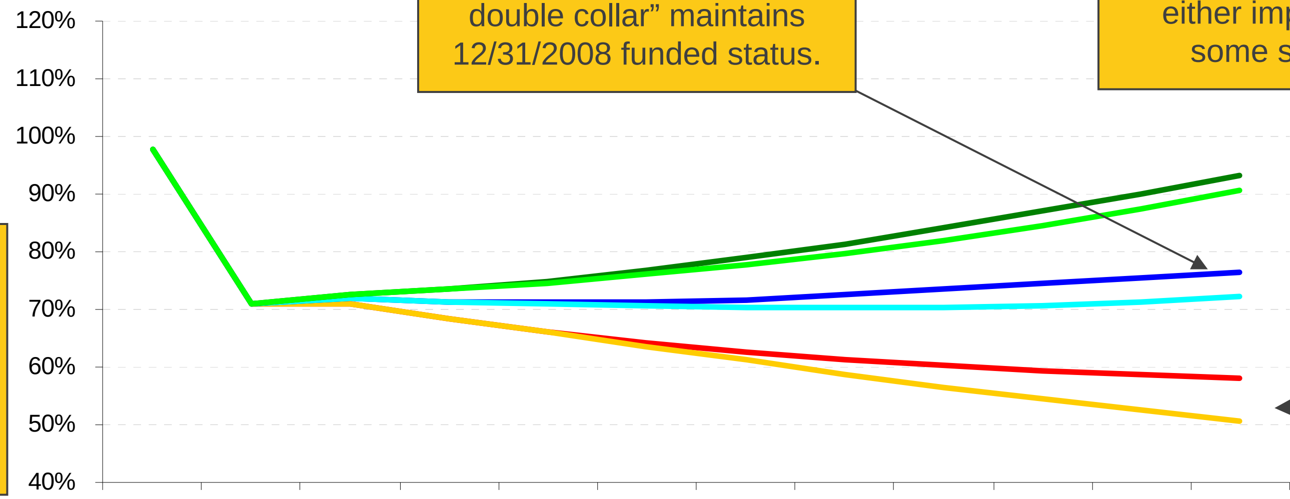
Combined (Tier 1/Tier 2, OPSRP) Valuation Funded Status

Eliminating the double collar lowers the projected 2018 funded status. The decrease is most pronounced in the 4.5% return scenario

Except for the most optimistic scenario, the plan remains below the 80% "double collar" threshold during the entire projection period.

At 8% return, the double collar allows improvement of funded status over the projection period. The "no double collar" maintains 12/31/2008 funded status.

In all scenario/policy combinations except 4.5% return and no double collar, funded status displays either improvement or some stabilization



As of 12/31		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
4.5% w/ Double Collar		98%	71%	71%	69%	66%	64%	63%	61%	60%	59%	59%	58%
4.5% w/o Double Collar		98%	71%	71%	69%	66%	64%	61%	59%	57%	54%	52%	51%
8% w/ Double Collar		98%	71%	72%	71%	71%	71%	72%	73%	73%	74%	75%	77%
8% w/o Double Collar		98%	71%	72%	71%	71%	71%	70%	70%	70%	71%	71%	72%
10.5% w/ Double Collar		98%	71%	72%	73%	75%	77%	79%	81%	84%	87%	90%	93%
10.5% w/o Double Collar		98%	71%	72%	73%	75%	76%	78%	80%	82%	85%	87%	91%

Funded status projections exclude Side Accounts from valuation assets

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Ten-Year Financial Projections
Observations

- By the end of the ten-year projection period, base rates are at least 19%
- In all scenario/policy combinations except 4.5% return and no double rate collar, the funded status exhibits either improvement or some stabilization over the projection period
- With the current rate collar policy in place, base contribution rates will increase by 6% of payroll for the 2011-2013 biennium in all 3 scenarios
  - The increase will be to the top of the double rate collar
  - Rates for subsequent periods will depend on investment results
- Under a “no double rate collar” policy, base rates for 2011-2017 would increase by the maximum permitted by the collar in all 3 scenarios

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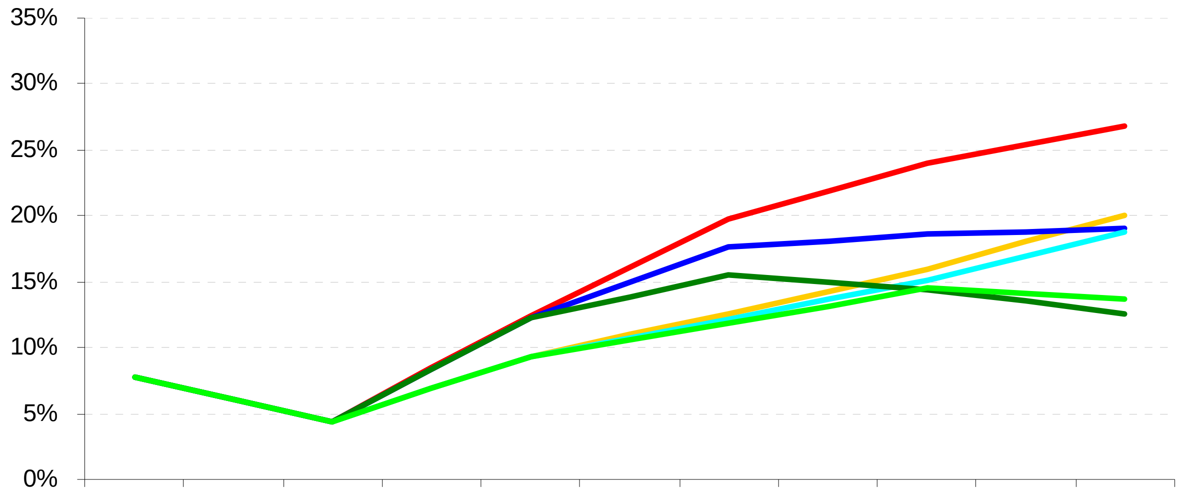
Ten-Year Financial Projections – Net Rates

Combined Payroll Weighted (Tier 1&2, OPSRP) Net Contribution Rate

Under the “8% w/ Double Collar” scenario, the net rate increases from 4% in 2009-2011 to 12% in 2011-2013



		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
4.5% w/ Double Collar		8%	6%	4%	8%	12%	16%	20%	22%	24%	25%	27%
4.5% w/o Double Collar		8%	6%	4%	7%	9%	11%	13%	14%	16%	18%	20%
8% w/ Double Collar		8%	6%	4%	8%	12%	15%	18%	18%	19%	19%	19%
8% w/o Double Collar		8%	6%	4%	7%	9%	11%	12%	14%	15%	17%	19%
10.5% w/ Double Collar		8%	6%	4%	8%	12%	14%	15%	15%	14%	14%	13%
10.5% w/o Double Collar		8%	6%	4%	7%	9%	11%	12%	13%	15%	14%	14%

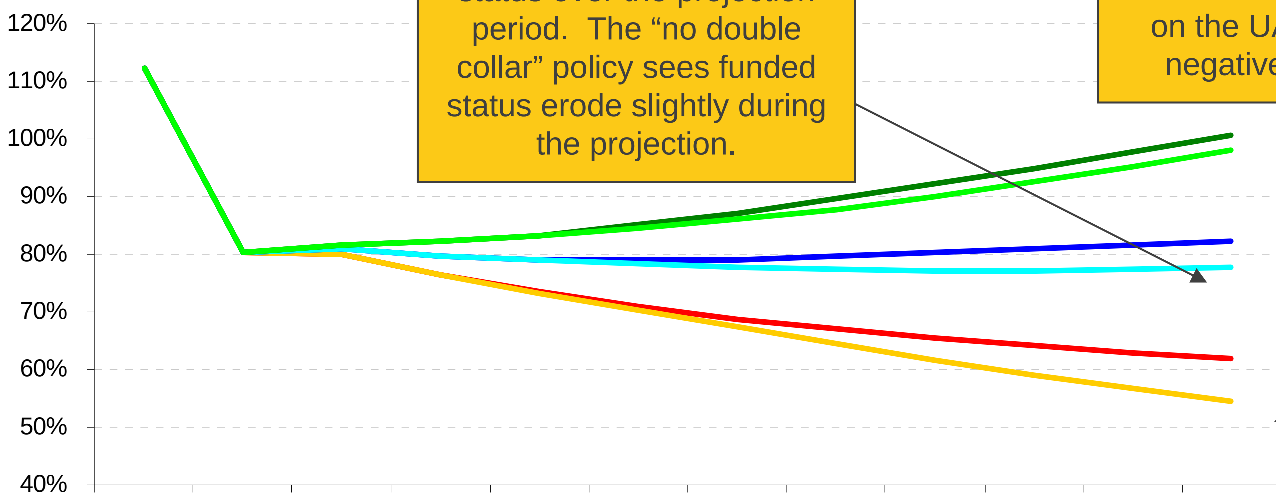
Rates do not include contribution rates for the IAP or Retiree Healthcare Programs, and do not take into account any contributions that might be needed to address a 5-year Rate Guarantee Reserve Deficit

Ten-Year Financial Projections – Including Side Accounts
Combined (Tier 1&2, OPSRP) Pension Funded Status

Eliminating the double collar lowers the projected 2018 funded status. The decrease is most pronounced in the 4.5% return scenario

At 8% return, the double collar reflects some improvement of funded status over the projection period. The “no double collar” policy sees funded status erode slightly during the projection.

In the downside scenario, the maximum allowed UAL payment in 2018 is not sufficient to cover interest on the UAL, resulting in negative amortization



As of 12/31		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
4.5% w/ Double Collar		112%	80%	80%	77%	74%	71%	69%	67%	65%	64%	63%	62%
4.5% w/o Double Collar		112%	80%	80%	77%	73%	70%	67%	64%	62%	59%	57%	54%
8% w/ Double Collar		112%	80%	81%	80%	79%	79%	79%	80%	80%	81%	82%	82%
8% w/o Double Collar		112%	80%	81%	80%	79%	78%	78%	77%	77%	77%	77%	78%
10.5% w/ Double Collar		112%	80%	82%	82%	83%	85%	87%	90%	92%	95%	98%	101%
10.5% w/o Double Collar		112%	80%	82%	82%	83%	84%	86%	88%	90%	93%	95%	98%

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Impact of Collar/Side Account on Sample Employer

- Sample employer contribution rates based on the 2007 valuation:
  - Base contribution rate: 14.01% of payroll
  - Side account rate relief: 13.81% of payroll
  - Net pension contribution rate: **0.20% of payroll**
- 2008 valuation results:
  - Funded status drops below 80%
  - Rates are limited by the doubled rate collar
  - Side account relief drops over 400 basis points due to asset losses
    - Base contribution rate: 20.01% of payroll
    - Side account rate relief: 9.40% of payroll
    - Net pension contribution rate: **10.61% of payroll**
  - Retiree healthcare rates and OPSRP UAL rates are paid in addition to the net pension contribution rate

The increase in the net contribution rate for a side account employer can be greater than the width of the double rate collar

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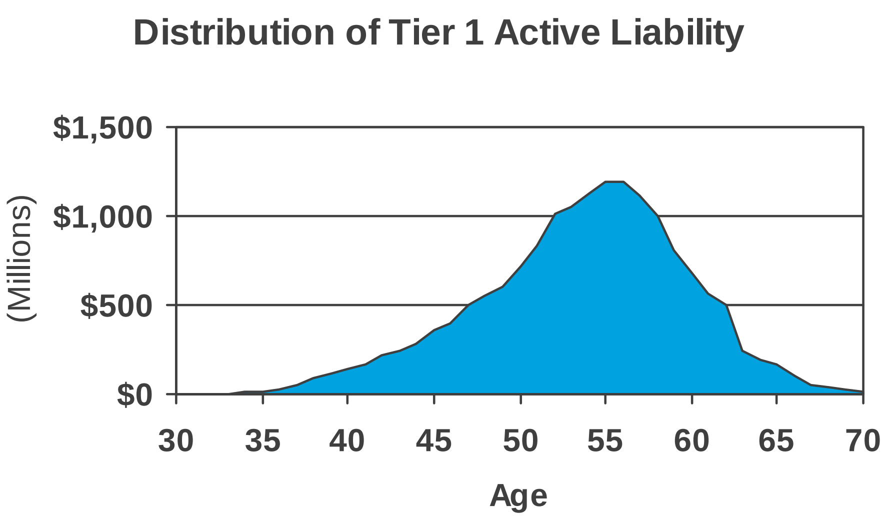
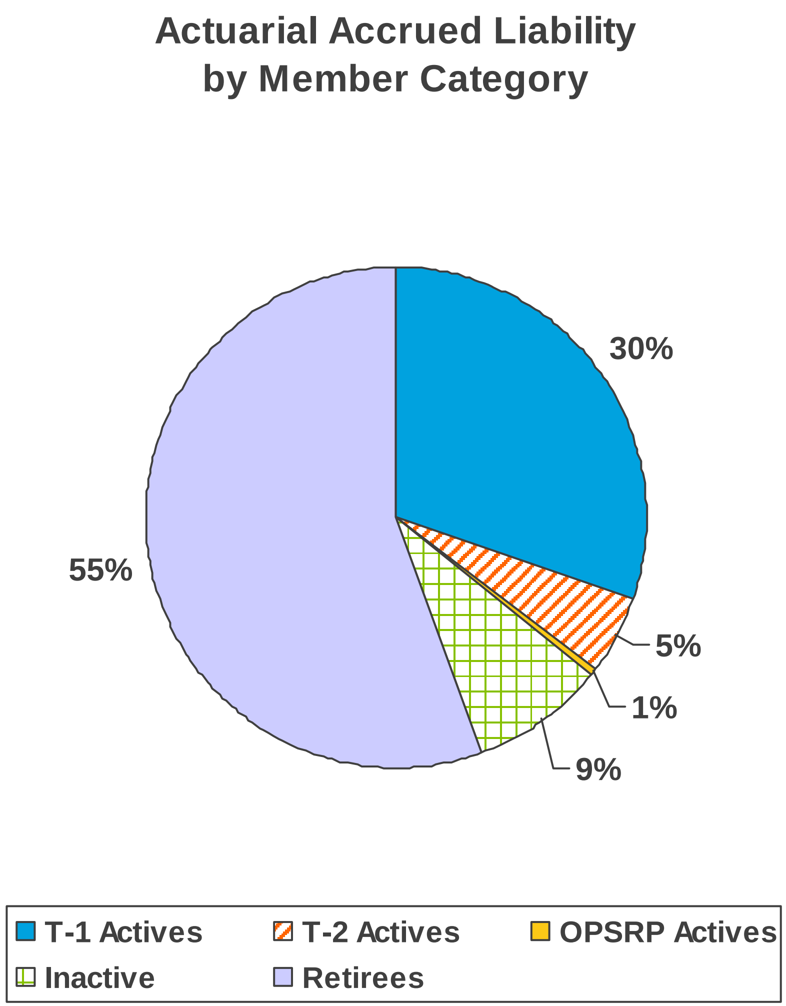
12/31/2008 Tier 1/Tier 2 & OPSRP Valuation
Actuarial Accrued Liabilities

- While Tier 1 members represent the predominant portion of the active liability, 64% of the System's total accrued liability is for members who are no longer actively working in covered employment.
- Over 48% of the Tier 1 active liability is for members over age 55, and approximately 77% of the Tier 1 active liability is for members over age 50.





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Appendix
Actuarial Basis

Data

We have based our ten-year financial projection of the liabilities on the data, methods, assumptions and plan provisions described in the December 31, 2007, Actuarial Valuation ("2007 Valuation Report") for the Oregon Public Employees Retirement System.

Assets as of December 31, 2008, were based on values provided by Oregon PERS reflecting the Board's earnings crediting decisions for 2008. Assets and year-to-date returns as of July 31, 2009 and September 30, 2009 are as published by the Oregon Investment Council (OIC).

As the starting point for the ten-year financial projections, assets were updated based on year-to-date investment results through July 31, 2009 as published by the Oregon Investment Council (OIC). Year-to-date 2009 returns as of that date on regular accounts are +6.26%.

We have assumed that the active participant data reflected in the valuation of the Plan remains stable over the projection period (i.e. – participants leaving employment are replaced by new hires in such a way that the total counts, average age, and average service remain stable from year to year). No new members are assumed to be eligible for Tier 1 and Tier 2 benefits; all new entrants are assumed to become members under the OPSRP benefit formula.

December 31, 2008 liabilities and associated normal cost rates in slides 4-7 are based on our December 31, 2008 Actuarial Valuation ("2008 Valuation Report") for the Oregon Public Employees Retirement System.

Methods / Policies

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

Normal cost: Normal cost increases with assumed wage growth adjusted for wage experience, demographic experience and asset return experience (if applicable). Demographic experience follows assumptions described in the Valuation Report.

Accrued liability: Liabilities increase with normal cost and decrease with benefit payments. Results are adjusted for wage, demographic and asset experience (if applicable).

Contribution Rates: The projected contribution rates are calculated on each odd valuation date in accordance with methodologies described in the 2007 and 2008 Valuation Reports. Rates are applied 18 months after the biennial determination date.

Expenses: Administration expenses for ten-year financial projections were assumed to be equal to $8.5M plus .05% of Market Value of Assets.

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

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Appendix
Actuarial Basis

Assumptions

In general, assumptions for ten-year financial projections are as described in the 2007 Valuation Report. The December 31, 2008 liabilities and normal costs shown in slides 4-7 are based on assumptions as described in the 2008 Valuation Report.

The major assumptions used in our ten-year financial projections are shown below. They are aggregate average assumptions that apply to the whole population and were held constant throughout the projection period. The economic experience adjustments were allowed to vary in future years given the conditions defined in each economic scenario.

- Valuation interest rate — 8.00%
- General Accounts Growth — 8.00%
- Variable Account Growth — 8.50%
- Wage growth assumption — 3.75%
- Wage growth experience — inflation + 1.25%
- Demographic experience — reflects decrement assumptions as described in the 2007 Valuation Report.

Reserve Projections

Contingency Reserve as of 12/31/2008 was estimated to be $653.2M. No future increases or decreases from this reserve were assumed.

Capital Preservation Reserve was assumed to be $0 throughout the projection period.

Tier 1 Rate Guarantee Reserve ("T1RGR") was estimated to be a deficit of $0.99B as of 12/31/2008. The reserve was assumed to grow with returns in excess of 8% on Tier 1 Member Accounts plus T1RGR. When aggregate returns were below 8%, applicable amounts from the T1RGR were transferred to the Tier 1 Member Accounts to maintain the 8% target growth on the member accounts. No contributions were allocated to the T1 RGR and the 5-year call on a deficit was not modeled.

Provisions

Provisions valued are as detailed in the 2007 Valuation Report and 2008 Valuation Report.

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Policy Options for Employer Rate Setting 2011-2013

Paul R. Cleary
Executive Director

November 20, 2009

PERS Oregon Public Employees Retirement System

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2008 Returns – Lessons & Dynamics

The size and suddenness of 2008's investment losses reveal some extremes in the system's dynamics:

- The "double rate collar" would take PERS employer rates from an historic low to an historic high in one rate-setting period
- While the rate collar moves in steps to mitigate such a dramatic change in funding level, side account rate offsets react all at once
- The combination of these effects mean the rate adjustment dynamic is not between an increase by 3% or 6%; the actual spread will be more on the order of 5% or 8%
- The issue is how to recover the lost assets: over what span of time, from what sources, in which relative proportion

Possible Employer Rate Scenarios

	2007-2009 (actual)	2009-2011 (actual)	2011-2013 Status Quo	2011-2013 Ad Hoc	2011-2013 Revised
State Agencies					
Net Employer Rate	7.0%	3.3%	12.7%	9.7%	10.9%
Contributions ($M)	$296	$149	$623	$475	$554
School Districts					
Net Employer Rate	8.4%	5.3%	13.3%	10.3%	12.7%
Contributions ($M)	$455	$310	$839	$651	$803
Independents (Others)					
Net Employer Rate	9.0%	6.5%	13.2%	10.2%	11.1%
Contributions ($M)	$543	$421	$916	$707	$769
System Totals					
Net Employer Rate	8.3%	5.2%	13.1%	10.1%	11.6%
Contributions ($M)	$1,294	$880	$2,378	$1,833	$2,105

"Net Employer Rate" are average rates that include Side Account offsets but not IAP contributions or the costs of debt service on Pension Obligation Bonds. Contributions are total new dollars coming into the system, by biennium.

Status Quo: No changes to current methods (6% rate increase if <80% funded, with full side account reset)
Ad Hoc: Use a 3% rate collar limit FOR 2011-13 ONLY (with full side account reset)
Revised Implementation: Adopt a sliding scale rate collar, moving from 3% rate at 80% funded to a 6% rate at 70% funded, instead of the current "cliff" rates moving from 3% to 6% if <80% funded.

Possible Employer Rate Scenarios: Status Quo

Description: Maintain current methods. Base employer rates would probably increase by 6% of payroll for nearly all employers on July 1, 2011, based on their respective pool or individual funded status as of 12/31/2009. Also, the amount of side account offset would fully reset for each affected employer, reducing those offsets considerably because of the 2008 investment losses.

Comparison to Baseline:

2009-11 Rates:	Average rate before side accounts: 12.4% Net Rate after side account offset: 0% to 7.9%*
Est'd 2011-13 Rates :	Average rate before side accounts: 18.4% Net Rate after side account offset : 7.4% to 17.1%*

*Ranges do not include some local governments, whose offsets had not yet been calculated.

Possible Employer Rate Scenarios: Ad Hoc

Description: Suspend application of the “double rate collar” for the 2011-13 biennium. Base employer rates would increase by 3% of payroll on July 1, 2011, regardless of the employer’s funded status as of 12/31/2009. The amount of side account offset would still fully reset for each affected employer, reducing those offsets considerably to account for the 2008 investment losses.

Comparison to Baseline:

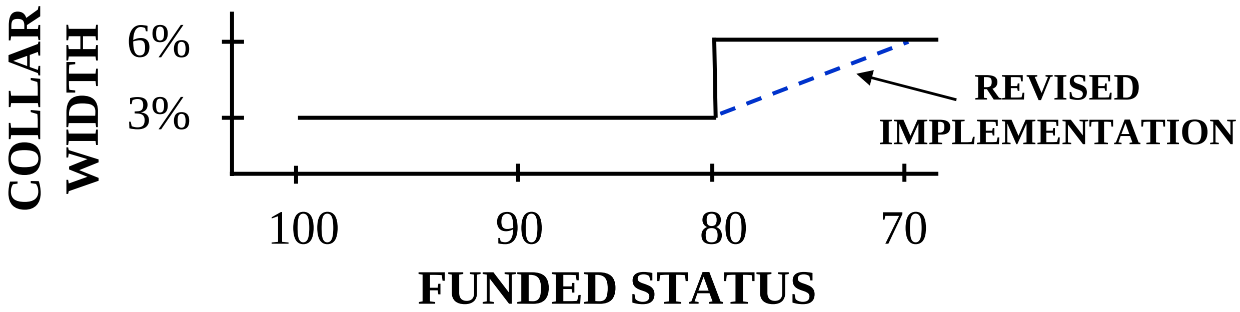
2009-11 Rates:	Average rate before side accounts: 12.4%
	Net Rate after side account offset: 0% to 7.9%*
Est’d 2011-13 Rates:	Average rate before side accounts: 15.4%
	Net Rate after side account offset: 4.4% to 14.1%*

*Ranges do not include some local governments, whose offsets had not yet been calculated.

PERS Oregon Public Employees Retirement System

Possible Revised Rate Collar Implementation

Description: Revise implementation of the rate collar to a sliding scale based on the employer's funded status. The maximum increase would then slide from 3% if the employer is at least 80% funded to 6% if the employer is no more than 70% funded. For example, a 75% funded employer's maximum rate increase would be 4.5%.



Comparison to Baseline:

2009-11 Rates:	Average rate before side accounts: 12.4%
	Net Rate after side account offset: 0% to 7.9%*
Est'd 2011-13 Rates:	Average rate before side accounts: 16.9%
	Net Rate after side account offset: 5.9% to 15.6%*

*Ranges do not include some local governments, whose offsets had not yet been calculated.

Policy Considerations for 2011 Rate Options

- Any changes must be consistent with the PERS Board's actuarial principles, but the balance among those principles can be affected
- The 2008 losses are an extreme event; existing methods may not have accounted for such a steep decline in assets in a single year
- Policy options may be considered in light of the budgetary effects of employer rate changes but not at the risk of compromising the system's long-term funded status
- Side Account re-setting of this magnitude is a one-time event that compounds the base rate increases for employers with side accounts (~70% of PERS payroll and members)
- Gradual rate increases may be more appropriate to better align employer costs with their ability to pay and be more consistent with a long-term investor view of market dynamics

LAC Suggestions for Further Review

The Legislative Advisory Committee met on November 6, 2009 to review the actuary's 2008 Valuation report and discuss possible options from PERS staff. LAC members suggested that the following areas be studied to help frame this discussion of options:

- Effect on system funded status of freezing employer rates at 15% or 18% for a short term (e.g., five years)
- Effect on employer rates of extending the amortization period
- Compare current status and projections to what would have happened had the system kept using four-year smoothing
- Project the effect on the system of restoring the 6% member contribution to Tier One/Two members' regular accounts instead of having that contribution fund the IAP

Next Steps

The time line below shows the process to consider any options that the PERS Board wants to consider. The decision point would be the January 29, 2010 meeting. This time line allows further analysis and also for preliminary 2009 earnings to be considered in the assessment.

Options, if any, to be reviewed are identified	PERS staff and actuary develop each option; share with stakeholders and consolidate input	Board determines which, if any, option to select	2011-13 employer rates presented, to be effective July 1, 2011
November 20, 2009 Board meeting	**November 2009 – January 2010**	**January 29, 2010 Board meeting**	**July 23, 2010 Board meeting**

BENNETT, HARTMAN, MORRIS & KAPLAN, LLP

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November 17, 2009

BY EMAIL AND FIRST CLASS MAIL

Steve Rodeman
Public Employee Retirement System
PO Box 23700
Tigard, OR 97281-3700

Re: ETOB Rules
Our File No.: 5415-237

Dear Steve:

The purpose of this letter is to follow up on the material in the board packet on the equal-to-or-better-than test. As part of that material Matt Larrabee from Mercer points out that the board needs to adopt a valuation date and suggests December 31, 2008. The statute became effective on January 1, 2008 so it may make more sense to use December 31, 2007 as a valuation date. It may also be true that since we are moving to the use of hypothetical employee data that the selection of the valuation date will have little, if any, impact on the evaluation itself.

However, if it is determined that one or more of the exempt employers are not equal-to-or-better-than PERS under the new test then any recommended plan improvements should be available to all those who were active employees for that employer on January 1, 2008. I would be happy to explain this concern to the board at Friday's meeting if you think that would be helpful.

Yours very truly,

Gregory A. Hartman

GAH:kaj
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cc: PERS Coalition