

OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM BOARD MEETING

FRIDAY November 22, 2013 1:00 P.M.		PERS 11410 SW 68th Parkway Tigard, OR	
ITEM		PRESENTER	
A. Administration			
1.	September 27, 2013 Board Meeting Minutes Director's Report <ul style="list-style-type: none"> a. Forward-Looking Calendar b. OIC Investment Report c. Budget Execution Report d. Work After Retirement Update e. Board Scorecard Report on Agency Performance Measures f. DOJ Opinion on Recognizing Same-Sex Marriages 	CLEARY	
B. Administrative Rulemaking			
1. 2. 3. 4. 5. 6.	Notice of Senate Bill 861 Rules Notice of Final Average Salary Rule Notice of Data Verification Disputes Rule Adoption of Recovery of Overpayments Rule Adoption of Tier One / Tier Two Division of Benefits Rule Adoption of SB 771 Judge Member Beneficiary Rules	RODEMAN	
C. Action and Discussion Items			
1. 2.	2013 Legislation Implementation Report 2012 Valuation Update and Financial Modeling Results	TAYLOR MILLIMAN	
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 immediately follow the Board meeting.

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<http://www.oregon.gov/PERS/>

2014 Meetings January 31 March 31 May 30 July 25 September 26 November 21

Krystal Gema Michael Jordan John Thomas, Chair Pat West, Vice Chair Rhoni Wiswall Paul R. Cleary, Executive Director

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OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM BOARD MEETING MINUTES

September 27, 2013

Board Members:

John Thomas, Chair
Krystal Gema
Michael Jordan
Pat West
Rhoni Wiswall

Staff:

Donna Allen
Helen Bamford
Paul Cleary
David Crosley
Jeff Cunningham
Debra Hembree
Kyle Knoll
Jeff Marecic
Beth Porter
Steve Rodeman

Nancy Van Dyke
Stephanie Vaughn
Dale Wakabayashi
Yong Yang

Others:

Nancy Brewer
Jim Carbone
C. Lance Colley
Susan Cutsogeorge
Myrnie Daut
Roger Dawes
Debra Guzman
Greg Hartman

Celia Heron
Anna Jayce
Claire Hertz
Keith Kutler
David Lacy
Matt Larrabee
Elizabeth McCann
Michael McCoy

Michael Makelacy
Michelle Morrison
Victoria Nolan
Jay M. Osborne III
Megan Phelan
P. Peg
Scott Peppernau
Carol Samuels

Katie Schwab
Darey Shell
William Spurling
Hasina Squires
Steven B. Resnikoff
Bill Robertson
Deborah Tremblay
Alan Younis

Chair John Thomas called the meeting to order at 1:05 P.M.

ADMINISTRATION

A.1. BOARD MEETING MINUTES OF JULY 26, 2013

The Board unanimously approved the minutes from the July 26, 2013 Board meeting.

A.2. DIRECTOR'S REPORT

Executive Director Paul Cleary presented the Forward Looking calendar. He noted the next Board meeting is scheduled for November 22 and will include Financial Modeling and Employer Rate Projections based on the 2012 valuation. Cleary also said there will be an Audit Committee meeting following the regular meeting.

Presenting the OPERF investment returns for the period ending August, 2013, Cleary noted the regular account was up by 6.5 percent year-to-date and the variable was up 9.5 percent for the same period. Cleary reviewed the agency's August 2013 Budget Report, stating that the agency's 2011-13 operating budget projected "close-out" variance is \$3,508,481, or 4.9% of the operating budget. Cleary said that a detailed report on the 2013-15 operations budget will be provided at the November meeting.

Cleary reported that the PERS Health Insurance Program (PHIP) has extended the third party administrator (TPA) contract with BenefitHelp Solutions through December 31, 2016, in three one-year increments. Cleary said that BenefitHelp Solutions has been PHIP's TPA for over 12 years and, to ensure cost effective services, a competitive Request for Proposal (RFP) is being planned for issuance prior to expiration of the extended contract.

Cleary reviewed highlights of the 2013 Customer Service Satisfaction Survey noting that members were concerned with long wait times when calling PERS Customer Service, the wait time to receive a written retirement benefit estimate, and potential legislative changes to PERS benefits. Cleary said employers asked for faster response to questions and a quicker turnaround on Demographic Correction Reports (DORs). Despite these concerns, overall customer service was still highly rated by both members and employers.

Cleary presented a preview on the upcoming Special Legislative Session that includes two bills to modify PERS benefits. The first concept would modify the cost-of-living (COLA) adjustment on annual benefits. The second concept includes three policy provisions that would modify "salary" to exclude certain specified payments for health insurance; prevent most new legislators from becoming PERS members; and allow for garnishment of benefits of a retiree convicted of a felony after the effective date of the measure.

ADMINISTRATIVE RULEMAKING

B.1. NOTICE OF RULEMAKING FOR RECOVERY OF OVERPAYMENTS RULE

Deputy Director Steve Rodeman presented the notice of rulemaking for the Recovery of Overpayments Rule. Rodeman said the rule emphasizes that PERS has more than one method to recover overpayments and erroneous payments from members. Rodeman stated the proposed rule also includes the removal of the Actuarial Reduction Method (ARM) as a preferred method for payment recovery. Rodeman said that a rulemaking hearing will be held on October 22 and the public comment period ends on October 29. The Recovery of Overpayments Rule will be presented for adoption at the November meeting. No Board action was required.

B.2. NOTICE OF TIER ONE / TIER TWO DIVISION OF BENEFITS RULE

Rodeman presented the notice of rulemaking to clarify the division of benefits under a court order in a divorce. Rodeman said that a rulemaking hearing will be held on October 22 and the public comment period ends on October 29. The Tier One/Tier Two Division of Benefits Rule will be presented for adoption at the November meeting. No Board action was required.

B.3. NOTICE OF SB 771 JUDGE MEMBER BENEFICIARY RULES

Rodeman presented notice of rulemaking for Judge Member Beneficiary Rules to implement the provisions of SB 772 (2013) that allow judge members to elect more than one beneficiary. Rodeman said that a rulemaking hearing will be held on October 22 and the public comment period ends at on October 29. The Judge Member Beneficiary Rules will be presented for adoption at the November meeting. No Board action was required.

B.4. ADOPTION OF OPSRP PENSION BENEFITS RULE

Rodeman presented the OPSRP Pension Benefits Rule for adoption. This rule clarifies retirement benefit eligibility of OPSRP members who die after the effective date of retirement but before the first monthly pension benefit payment is issued. Rodeman noted no modifications have been made since the rule was first noticed at the May Board meeting.

Board member Pat West moved and Rhoni Wiswall seconded to adopt the OPSRP Benefits rule as presented. The motion passed unanimously.

B.5. ADOPTION OF SB 822 TAX REMEDY/INCREASED BENEFITS RULES

Rodeman presented the Senate Bill 822 Tax Remedy/Increased Benefits Rule for adoption. This rule implements provisions of SB 822 (2013) which affect payment of tax remedy benefits to out-of-state residents. Rodeman clarified that residency status information provided by an affected benefit recipient will supersede income tax return information provided by the Oregon Department of Revenue for the same calendar year.

Board member Pat West moved and Rhoni Wiswall seconded to adopt the modifications to Senate Bill 822 Tax Remedy/Increased Benefits Rule. The motion passed unanimously.

B.6. ADOPTION OF ASSUMED RATE RULE

Rodeman presented the Assumed Rate Rule for adoption. Rodeman said the Assumed Rate Rule incorporated an assumed rate of 7.75% as previously directed by the Board and specified January 1, 2014 as the date when the 7.75% rate will be effective for PERS transactions. Rodeman also discussed the public comments received and the related staff responses.

Board member Pat West moved and Krystal Gema seconded to adopt the new Assumed Rate Rule as presented. The motion passed unanimously.

ACTION AND DISCUSSION ITEMS

C.1. ADOPTION OF ACTUARIAL METHODS AND ASSUMPTIONS

Rodeman presented the Actuarial Methods and Assumptions as incorporated in the updated 2012 Experience Study for adoption. Rodeman reviewed the Board's direction to apply the recommended economic and demographic assumptions from the 2012 Experience Study; including the change to the entry age normal (EAN) cost allocation method; re-amortize the accumulated Tier One/Tier Two UAL over 20 years; modify the employer rate collar structure as recommended; and use an assumed earnings rate of 7.75 percent in completing the December 31, 2012 system valuation.

Board member Pat West moved and Rhoni Wiswall seconded to adopt the updated 2012 Experience Study, as presented. The motion passed unanimously.

C.2. 2012 VALUATION RESULTS

Milliman actuaries Matt Larrabee and Scott Preppernau presented the December 31, 2012 Actuarial Valuation that included advisory 2015-17 system-wide employer contribution rates. Larrabee said the advisory rates show what employers would be paying in the 2015-17 biennium if rates were set now. Larrabee said that employer contribution rates are projected to rise approximately 2 to 2.5% for the upcoming biennium. The 2012 valuation also reflects the new assumed earnings rate of 7.75% and other updated and revised actuarial methods and assumptions as reported in the 2012 Experience Study, as well as the effects of SB 822.

Celia Heron, City of Portland Office of Management and Finance Representative, spoke briefly on employer challenges in complying with changes in the Governmental Accounting Standards Board (GASB) accounting and reporting requirements. Heron thanked PERS staff and the actuary for their efforts to ensure information is available for the employers to use in preparing employer financial statements, and encouraged continued preparation for implementing the new GASB requirements in FY 2014 (PERS) and FY 2015 (employers).

The Board took a short break and then reconvened at 2:45 PM for a litigation update executive session with no Board action required.

Thomas adjourned the Board meeting at 3:25 PM.

Respectfully submitted,



Paul R. Cleary
Executive Director

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PERS Board Meeting Forward-Looking Calendar

Friday, January 31, 2014

Preliminary 2013 Earnings Crediting and Reserving
2014 Legislative Session Preview and 2015 Preliminary Legislative Concepts
Adoption of Senate Bill 861 Rules
Adoption of Final Average Salary Rule
Adoption of Data Verification Disputes Rule
Adoption of Social Security and IRS Limits Rules
Notice of Retirement Credit Rules
Notice of In-Plan Roth Conversion Rule
Notice of Receipt Date Rules
Notice of Model Rules of Procedure Rule

Monday, March 31, 2014

Final 2013 Earnings Crediting and Reserving
2014 Legislative Session Review and 2015 Proposed Legislative Concepts
Adoption of Retirement Credit Rules
Adoption of In-Plan Roth Conversion Rule
Adoption of Receipt Date Rules
Adoption of Model Rules of Procedure Rule
Audit Committee Meeting

Friday, May 30, 2014

2015-17 Agency Budget Development and Strategic Plan Update
2015 Retiree Health Insurance Plan Renewals and Rates

Friday, July 25, 2014

2013 Systemwide Valuation Results
2015-17 Agency Request Budget Approval
Audit Committee Meeting

Friday, September 26, 2014

2015-17 Employer Rate Adoption

Friday, November 21, 2014

Approval to File 2015 Final Legislative Concepts
Audit Committee Meeting

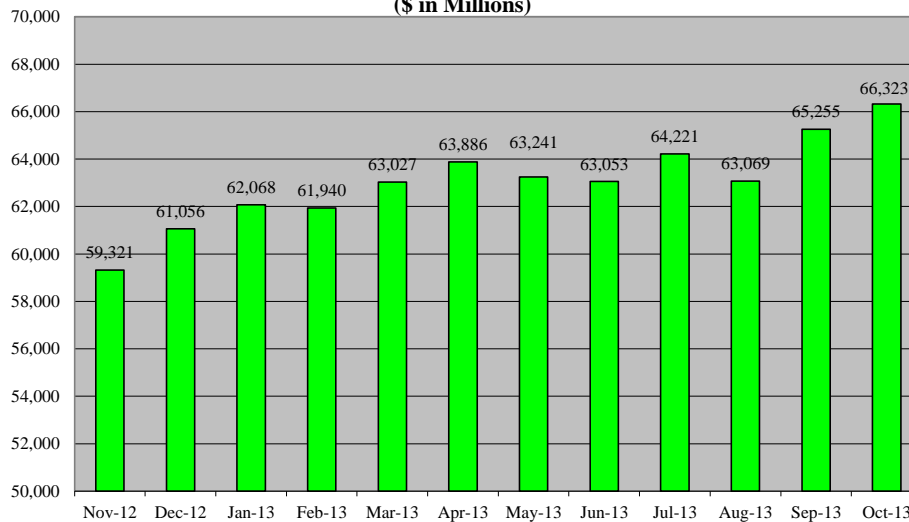
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OPERF	Regular Account				Historical Performance (Annual Percentage)							
	Policy ¹	Target ¹	\$ Thousands ²	Actual	Year-To-Date ³	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS	7 YEARS	10 YEARS
Public Equity	38-48%	43%	\$ 26,536,187	40.5%	22.11	27.34	17.78	11.65	12.90	15.16	4.54	7.98
Private Equity	12-20%	16%	13,950,734	21.3%	10.28	14.72	9.32	13.85	15.66	7.47	8.99	14.75
Total Equity	54-64%	59%	40,486,921	61.8%								
Opportunity Portfolio			829,640	1.3%	14.99	18.57	14.48	12.84	13.48	10.12	7.45	
Total Fixed	20-30%	25%	16,056,164	24.5%	1.31	2.23	5.94	5.77	7.49	10.75	6.72	6.37
Real Estate	8-14%	11%	7,484,656	11.4%	10.78	14.90	12.19	14.05	9.91	3.40	3.42	10.14
Alternative Investments	0-8%	5%	626,602	1.0%	4.69	6.01	(0.23)					
Cash	0-3%	0%	9,323	0.0%	0.59	0.70	1.07	0.79	0.83	1.34	1.87	2.20
TOTAL OPERF Regular Account		100%	\$ 65,493,306	100.0%	12.41	16.02	11.90	10.85	11.75	11.07	5.57	8.33
OPERF Policy Benchmark					12.17	15.82	12.47	11.18	11.48	10.92	5.89	7.99
Value Added					0.24	0.20	(0.57)	(0.33)	0.27	0.15	(0.32)	0.34
TOTAL OPERF Variable Account			\$ 830,040		19.81	24.35	16.48	10.98	12.11	14.31	2.94	

Asset Class Benchmarks:

Russell 3000 Index	26.45	28.99	21.66	16.89	17.25	15.94	6.17	7.92
MSCI ACWI Ex US IMI Net	14.55	20.70	12.07	6.14	7.97	13.18	3.39	8.92
MSCI ACWI IMI Net	19.70	24.11	16.07	10.62	11.79	14.17	4.38	8.04
Russell 3000 Index + 300 bps--Quarter Lagged	16.87	25.05	15.65	22.14	21.33	11.17	9.57	11.67
Oregon Custom FI Benchmark	0.62	1.48	4.85	4.26	5.28	7.11	5.57	5.25
NCREIF Property Index--Quarter Lagged	8.20	10.73	11.38	13.14	9.29	2.79	5.65	8.59
91 Day T-Bill	0.05	0.09	0.08	0.10	0.10	0.14	1.22	1.71

TOTAL OPERF NAV
(includes variable fund assets)
One year ending October 2013
(\$ in Millions)



¹OIC Policy 4.01.18, as revised April 2011.

²Includes impact of cash overlay management.

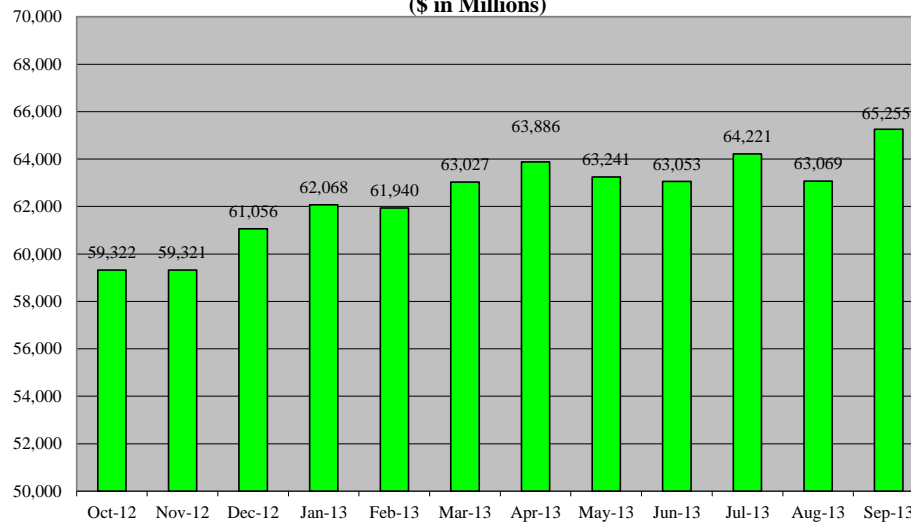
³For mandates beginning after January 1 (or with lagged performance), YTD numbers are "N/A". Performance is reflected in Total OPERF. YTD is not annualized.

OPERF	Regular Account				Historical Performance (Annual Percentage)							
	Policy ¹	Target ¹	\$ Thousands ²	Actual	Year-To-Date ³	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS	7 YEARS	10 YEARS
Public Equity	38-48%	43%	\$ 25,671,551	39.8%	17.52	21.71	21.65	11.63	11.26	9.14	4.50	8.24
Private Equity	12-20%	16%	14,000,802	21.7%	10.28	14.72	9.32	13.85	15.66	7.47	8.99	14.75
Total Equity	54-64%	59%	39,672,353	61.6%								
Opportunity Portfolio			811,321	1.3%	10.85	15.30	12.90	15.24	13.15	9.29	6.88	
Total Fixed	20-30%	25%	15,875,881	24.6%	(0.04)	1.43	6.16	5.63	7.43	9.04	6.64	6.20
Real Estate	8-14%	11%	7,457,842	11.6%	10.13	14.35	13.21	14.15	9.65	2.27	3.56	10.15
Alternative Investments	0-8%	5%	628,177	1.0%	4.44	5.43	0.03					
Cash	0-3%	0%	3,747	0.0%	0.49	0.66	1.14	0.79	0.83	1.50	1.92	2.20
TOTAL OPERF Regular Account		100%	\$ 64,449,321	100.0%	10.21	13.64	13.29	10.83	11.06	8.06	5.62	8.51
OPERF Policy Benchmark					10.08	13.45	14.42	11.13	10.80	8.21	5.95	8.12
Value Added					0.13	0.19	(1.13)	(0.30)	0.26	(0.15)	(0.33)	0.39
TOTAL OPERF Variable Account			\$ 805,788		15.35	18.97	20.32	10.91	10.56	8.50	2.87	

Asset Class Benchmarks:

Russell 3000 Index	21.30	21.60	25.83	16.76	15.29	10.58	6.08	8.11
MSCI ACWI Ex US IMI Net	10.57	16.91	15.62	6.11	6.69	6.82	3.46	9.22
MSCI ACWI IMI Net	15.20	18.65	19.88	10.53	10.23	8.29	4.37	8.28
Russell 3000 Index + 300 bps--Quarter Lagged	16.87	25.05	15.65	22.14	21.33	11.17	9.57	11.67
Oregon Custom FI Benchmark	(0.62)	0.65	5.22	3.97	5.08	6.17	5.49	5.04
NCREIF Property Index--Quarter Lagged	8.20	10.73	11.38	13.14	9.29	2.79	5.65	8.59
91 Day T-Bill	0.06	0.10	0.08	0.10	0.11	0.17	1.28	1.72

TOTAL OPERF NAV
(includes variable fund assets)
One year ending September 2013
(\$ in Millions)



¹OIC Policy 4.01.18, as revised April 2011.

²Includes impact of cash overlay management.

³For mandates beginning after January 1 (or with lagged performance), YTD numbers are "N/A". Performance is reflected in Total OPERF. YTD is not annualized.



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John A. Kitzhaber, M.D., Governor

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November 22, 2013

TO: Members of the PERS Board
FROM: Kyle J. Knoll, Interim Financial & Administrative Services Division
Administrator
SUBJECT: November 2013 Budget Execution Report

The attached budget execution dashboard report has been revised. We have added a section at the bottom to report on expenditure of the agency's non-limited budget. The non-limited expenditures are from the following types of trust funds: Tier One/Tier Two and OPSRP Pension Programs, Individual Account Program; and the Retiree Health Insurance Programs. This more complete report provides a better perspective on the amount of funds actually managed and disbursed by the agency during a biennium.

2013-15 LIMITED (OPERATING) BUDGET

Operating expenditures for September 2013 were \$2,944,554. October 2013 expenditures close in the Statewide Financial Management System (SFMS) November 15, 2013, and will be included in the January 2014 budget report to the Board.

To date, through the first three months (12.5%) of the 2013-15 biennium, the Agency has expended a total of \$8,497,174, or 10.40% of PERS' legislatively adopted operations budget of \$81,691,343.

The negative variance in Personal Services is predominately due to projected expenses related to the currently unfunded annual full step increases (approximately 4.5% for staff who are not topped out) and cost of living increases (1.5% effective December 2013 and 2.0% effective December 2014). Funding for these increases was approved and set aside in a statewide "salary pot" but has not been reallocated out to the individual state agencies. The Department of Administrative Services will request distribution of these funds to the individual state agencies from the Emergency Board at some point after the February 2014 legislative session.

Senate Bill 861, adopted during the September 2013 special session, was signed into law. PERS submitted a Fiscal Impact Statement for the following additional positions and funding:

- Four Retirement Counselor 1 limited duration positions needed to assist in the Call Center due to increased calls from members regarding the various program changes stemming from implementation of SB 822, SB 861, & SB 862. PERS requested \$392,428 in Personal Services and \$39,917 in Services & Supplies needed for training & office expenses.
- PERS requested \$490,500 in IT Professional Services to program system changes needed to implement the legislative changes.
- PERS also estimates an increase of \$100,100 in Attorney General fees in both the 2013-15 and the 2015-17 biennia.

Because the special session did not address fiscal impacts, staff will be preparing a request to submit to the February 2014 session or a future Emergency Board meeting for the additional expenditure authority. Because development needs to proceed on implementing SB 861, however, PERS will incur some cost for these items before the additional authority is granted.

2013-15 NON-LIMITED BUDGET

Program expenditures for September 2013 were \$391,570,177. October 2013 expenditures close in the Statewide Financial Management System (SFMS) on November 15, 2013, and will be included in the January 2014 budget report to the Board. To date, through the first three months (12.5%) of the 2013-15 biennium, the agency has expended a total of \$842,939,996, or 9.09% of PERS' legislatively-adopted non-limited budget of \$9,277,875,000.

2011-13 OPERATIONS BUDGET

Remaining 2011-13 expenditures paid in September 2013 were \$244,123.

- PERS has now expended a total of \$72,998,254, or 94.48% of PERS' legislatively approved operations budget of \$77,260,820.
- The current projected positive variance is \$4,262,566, or 5.52% of the operations budget.
- The 2011-13 operations budget will close in the SFMS on December 31, 2013. A final report on 2011-13 expenditures will be included in the January 2014 budget report to the Board.

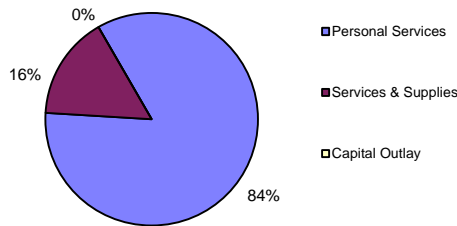
**2013-15 Agency-wide Budget Execution
Summary Budget Analysis
For the Month of: September 2013**

Limited - Operating Budget

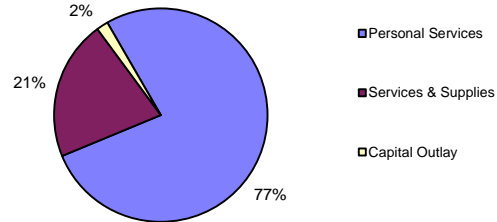
2013-15 Biennial Summary

Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expenditures	2013-15 LAB	Variance
Personal Services	7,162,407	54,405,130	61,567,536	60,083,901	(1,483,635)
Services & Supplies	1,334,767	14,912,860	16,247,627	20,353,989	4,106,362
Capital Outlay		1,253,453	1,253,453	1,253,453	
Total	8,497,174	70,571,443	79,068,617	81,691,343	2,622,726

Actual Expenditures



Projected Expenditures



Monthly Summary

Category	Actual Exp.	Projections	Variance	Avg. Monthly Actual Exp.	Avg. Monthly Projected Exp.
Personal Services	2,337,259	2,494,755	157,496	2,387,469	2,590,720
Services & Supplies	607,295	929,474	322,178	444,922	710,136
Capital Outlay					59,688
Total	2,944,554	3,424,229	479,674	2,832,391	3,360,545

2011-13 Biennium Summary (Payment of Outstanding Invoices & Corrections end on December 31, 2013)

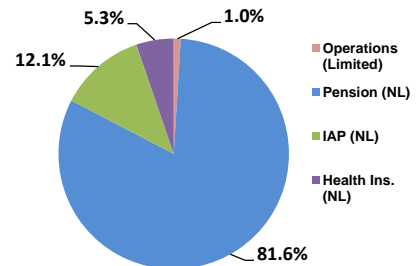
Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expend.	2011-13 LAB	Variance
Personal Services	54,322,563		54,322,563	55,827,463	1,504,900
Services & Supplies	17,245,245		17,245,245	20,505,769	3,260,524
Capital Outlay	1,430,446		1,430,446	927,588	(502,858)
Total	72,998,254		72,998,254	77,260,820	4,262,566

Non-Limited Budget

2013-15 Biennial Summary

Programs	Current Month Actual Exp	Biennium to Date Actual Exp	Non-Limited LAB
Pension	323,530,081	695,071,533	8,148,014,000
IAP	48,699,728	103,019,733	721,200,000
Health Insurance	19,340,368	44,848,730	408,661,000
Total	391,570,177	842,939,996	9,277,875,000

2013-15 Biennium To Date Actual Expenditures



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November 5, 2013

TO: Members of the PERS Board
FROM: Yvette Elledge, Customer Services Division Administrator
SUBJECT: Work After Retirement Update

ISSUE

PERS initiated a project to resolve the overpayment of benefits to retirees who had exceeded their allowable time working after retirement in prior years. The consequences of exceeding the allowable time limit requires retirees to pay back the overpaid benefits and employers must re-employ the retiree and pay contributions and earnings. This memo serves as an update on the progress being made on this project.

BACKGROUND

A team was formed in 2012 to begin an extensive clean-up project aimed at resolving the disposition of the 1,811 retiree accounts that exceeded the allowable work time from 2004 – 2012. Some retirees were facing very large invoices for overpaid benefits, and employers were facing many years of paying past contributions and earnings. The goal of the project has been to resolve the issues with the least impact on the retirees and employers, and developing a process to stay current with the workload.

UPDATE

The project team continues its efforts to find the best solutions for retirees and of the initial 1,811 retirees, only 210 must be re-employed. Currently there are 122 Annuity options with invoices and 31 of those are currently in the appeals process. Additionally, PERS was able to determine a solution for 88 Total Lump Sum (TLS) options that prevent these retirees from being invoiced.

To assure we stay current on this workload, we have enhanced our communications on the website and service retirement application documents, increased the educational opportunities for retiring members by adding information to RAAS sessions and through enhancing some services to employers. In spite of our efforts to prevent the need to re-employ retirees for 2013, so far to date 236 retirees have been triaged who appeared to have worked over 1039 hours, but of these, only 12 retirees have actually exceeded the return to work time limit.

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November 22, 2013

TO: Members of the PERS Board
FROM: Steven Patrick Rodeman, Deputy Director
SUBJECT: Board Scorecard Report on Agency Performance Measures

PERS has been instituting an outcome-based management system with the help of Mass Ingenuity based on their “NOW Management System.” One of the basic elements in this system are agency scorecards that foster accountability and transparency in key operating areas. These scorecards are reviewed each quarter (a session called a Quarterly Target Review or “QTR”).

Once fully adopted and integrated, the outcome and process measures reviewed during the QTR frame the management system’s various components. As another of our partners, CEM Benchmarking, says, “What gets measured gets managed.” Already, we use the scorecard results to help direct strategic planning, resource allocation, and risk assessment. Cascading these scorecard measures through our business process teams down to individual staff contributors for performance management and workforce development purposes will help us become a more aligned, outcome-driven agency.

Through this report, we propose to provide you a view of some key measures that are front-of-mind for us as we address current operational bottle-necks and service delivery challenges. The Board Scorecard Report that’s attached to this memo focuses on several of the measures we are currently tracking to highlight some of the more recent issues we have considered.

Our intention is to report to you every six months on key scorecard measures. The reports will be presented at the May and November Board meetings, to coincide with the scorecard results for the first and third quarters each calendar year.

Also attached to this memo are the Outcome and Process Measure scorecards for the third quarter. These scorecards show the entire set of 84 measures that we are currently tracking. If you would like us to include any set of these measures in our regular report, please let me know. Otherwise, we will just highlight a few key measures in each periodic report.

A.1.e. Attachment 1 – Board Scorecard Report for Third Quarter 2013

A.1.e. Attachment 2 – Outcome and Process Measure Scorecards for Third Quarter 2013

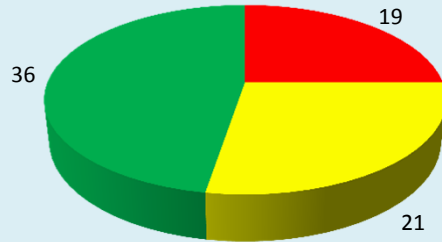
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PUBLIC EMPLOYEES RETIREMENT SYSTEM

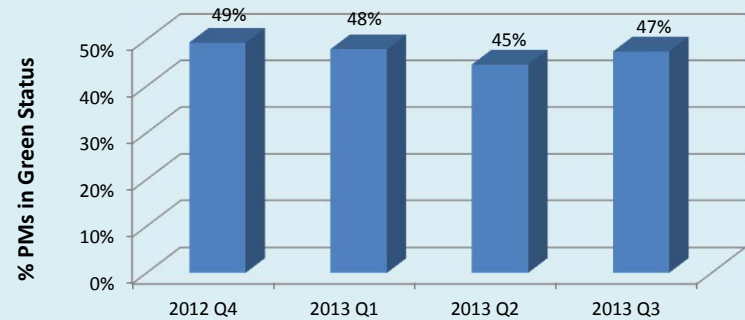
Outcome-Based Performance Review

PERS Board Scorecard Report - Quarter ended September 30, 2013

Outcome & Process Measure Performance



Quarterly Green Performance



Operating Processes - Highlighted Measures

	Measure Name	Measure Calculation	RANGE			Target	Desired Perform Trend	Data Collection Frequency	Q3 2012	Q4 2012	Q1 2013	Current Status	Trend	Corrective Action & Comments
			Red	Yellow	Green									
OP3c	Estimate KPM	% of estimate requests completed within 30 days of receipt	<75%	75-85	>85%	95%	↑	Quarterly	86.1%	85.2%	51.3%	34.0%	-	DIV = 71/107 = 63.55%, OPSRP = 160/162 = 98.8%, 238 = 730/2526 = 28.9% 238 working with spike and experienced turnover of 2 RC1s (28%) of team.
OP4a	Eligibility review completed	% of applications completed by the eligibility team within 30 days of the effective retirement	<50%	50-70	>70%	80%	↑	Monthly	75.3%	76.6%	77.0%	64.7%	-	Staff concentrated on the very high volume of June and July retirements, so were not as able to work on future benefit dates. As the peak volume decreases, this measure is expected to trend up again.
OP5b	Accuracy of calculations	% of sample calculations that are accurate within plus or minus \$5	<95%	95-99	>99%	100%	↑	Monthly	100.0%	95.8%	98.8%	98.9%	+	OPSRP Pension: reported 1 error for Q3.
OP5c	Timely benefit calculation	% of calculations completed within 15 calendar days from completed application date	<95%	95-99	>99%	100%	↑	Monthly	95.00%	95.07%	95.30%	93.03%	-	Working to reset target (recommending 95%) due to posting of purchases, data issues, etc.

PUBLIC EMPLOYEES RETIREMENT SYSTEM Outcome-Based Performance Review

Supporting Processes - Highlighted Measures

	Measure Name	Measure Calculation	RANGE			Target	Desired Perform Trend	Data Collection Frequency	Q3 2012	Q4 2012	Q1 2013	Current Status	Trend	Corrective Action & Comments
			Red	Yellow	Green									
SP1e	Call Wait Time	Average length of wait before caller reaches live person	>6 minutes	6-4 minutes	<4 minutes	2 minutes	↓	Monthly	3.4	3.6	5.5	4.9	+	Increased call volume due to changes to the assumed rate and AEF tables, and because of the legislative session. Also staffing levels were down.
SP2c	Appeal reversal rate	% of staff determinations that are reversed on appeal	>15%	15-10	<10%	5%	↓	Quarterly	11%	5%	14%	10%	+	9 reversals out of 90 determinations made during the period. 6 of the reversals were SEAS appeals from members who were discharged in bankruptcy.
SP3h	System uptime	% of time systems are available during the service window	<97%	97-98	>98%	100%	↑	Monthly	99.61%	98.86%	98.85%	99.63%	+	
SP5c	Recruiting / Onboarding	% of employees completing trial service	<85%	85-94	>94%	100%	↑	Quarterly	100%	100%	90%	100%	+	

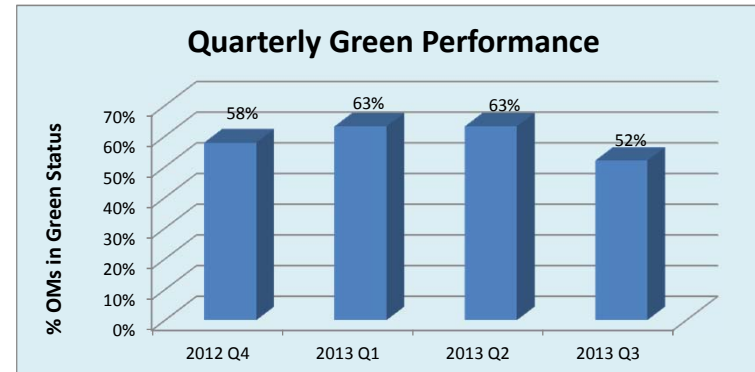
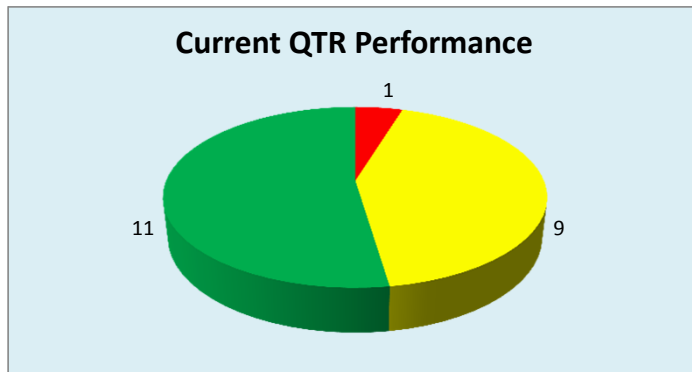
PUBLIC EMPLOYEES RETIREMENT SYSTEM
Quarterly Target Review

OUTCOME MEASURE SUMMARY

QTR : 2013 Q3 - Quarter ended September 30, 2013

Total Outcome Measures: 21

Total Active Outcome Measures: 21



No.	Measure Name	Measure Calculation	RANGE			Target	Desired Perform. Trend	Data Collection Frequency	Data Source	Measure Owner	Meas Active / Inactive	Last Status	Current Status	Trend	Corrective Action & Comments
			Red	Yellow	Green										
O1: Clear/Concise Communication										Y. Elledge					
O1a	Member/Employee satisfaction	% rating satisfaction good or excellent	<75%	75-89	>89%	95%	↑	Annual	Survey	Y. Elledge	A	83%	88%	+	FY13 data new for this quarter. Improved ratings have performance just below green range.
O1b	Service retirement application satisfaction	% rating satisfaction as good or excellent	<75%	75-89	>89%	95%	↑	Annual	Survey	Y. Elledge	A		78%	+	Survey started 7/2013. Measurement is percentage of application ratings Good or Excellent
O1c	Call escalations	% of calls referred to Team One follow-up vs. total call volume	>4%	3-4	<3%	2%	↓	Monthly	Call Center	Y. Elledge	A	3.9%	4.0%	-	Higher volume of calls and reduced staffing levels led to more follow-up.
O2: Employee Engagement										S. Rodeman					
O2a	Selected Human Resource core process measures	% of SP5 pms are in green status (a, c, e, & f)	<50%	50-68	>68%	100%	↑	Quarterly	Scorecard	S. Rodeman	A	33%	67%	+	SP5a is inactive. 2 of 3 remaining measures in the green ranges for Q3.
O2b	Progress on scorecard measures	% of process measures in Agency Scorecard that improve from previous quarter	>5%	5-9	<9%	10%	↑	Quarterly	Scorecard	S. Rodeman	A	46.3%	45.5%	-	Same number of improved measures (25) as last quarter, but one additional active measure in total.

No.	Measure Name	Measure Calculation	RANGE			Target	Desired Perform. Trend	Data Collection Frequency	Data Source	Measure Owner	Meas Active / Inactive	Last Status	Current Status	Trend	Corrective Action & Comments
			Red	Yellow	Green										
O2c	Organizational climate assessment	Average percent of employees rating somewhat or completely agree on Q 2a.-c., 4f., 8b., 10a.-c. and 18a.-e. on the Employee Engagement Survey	<60%	60-80%	>80%	90%	↑	Semi-annual	Survey	S. Rodeman	A	69%	69%	-	Data as of Q2 employee survey.
O2d	Breakthrough teams composition	% of breakthrough team members that are classified staff	<40%	40-70	>70%	80%	↑	Quarterly	Breakthrough Team rosters	S. Rodeman	A	60%	48%	-	As the planning phase ended, many of the "core teams" also ended or downsized significantly, decreasing the % of classified.
O3: Operating Effectiveness - % green process measures										S. Rodeman					
O3a	% of Measures in "Green"	% of Outcome and Process Measures in the "green" range as of a particular date	<40%	40-55	>55%	65%	↑	Quarterly	Scorecard	S. Rodeman	A	44%	48%	+	36 green measures out of 75 measures included in this rating. Target increased to 65% due to consistent results well ahead of previous 25% target.
O4: Member to Staff Ratio										S. Rodeman					
O4a	Member to Staff Ratio	Total Members divided by total approved agency FTE	<900	900-920	>920	925	↑	Annual	Actuarial val. & PICS reports	S. Rodeman	A	970	995	+	FY13 data new for this quarter. Need to consider updating target and ranges.
O5: Benefit Administration Cost										S. Rodeman					
O5a	Benefit admin cost per member	CAFR administrative expenditures divided by total membership	>\$140	\$135-\$140	<\$135	\$130	↓	Annual	CAFR & Actuarial val.	S. Rodeman	A	\$125	\$125	+	FY13 data new for this quarter. Very slight improvement from \$125.30 last FY to \$125.10 for FY13.
O6: Performance to Budget										K. Knoll					
O6a	Projected variance % of operating budget	Projected operating budget biennial variance divided by total limited budget	<1.0%	1.0-1.9	>1.9%	2% of budget limitation	↑	Monthly	SFMS; budget reports	K. Knoll	A	3.6%	5.0%	+	Based on new budgetary data for 2013-15 biennium. Initial projections are still being prepared, and variance may change as projections are finalized.
O7: Member Satisfaction										Y. Elledge / B. Harrington					
O7a	Customer Service Satisfaction	Members rating satisfaction with agency's customer service as "good" or "excellent"	<70%	70-89	>89%	95%	↑	Annual	Survey	Y. Elledge / B. Harrington	A	91%	90%	-	New FY13 data this quarter. Slight 1% dip in member ratings for this FY.
O7b	Retirement Application Assistance Session (RAAS) satisfaction	Members rating satisfaction with agency's customer service on a selected transaction as "good" or "excellent"	<70%	70-80	>80%	95%	↑	Quarterly	Survey	Y. Elledge / B. Harrington	A	100%	100%	=	
O8: Effective Employer Partnerships										Y. Elledge					

No.	Measure Name	Measure Calculation	RANGE			Target	Desired Perform. Trend	Data Collection Frequency	Data Source	Measure Owner	Meas Active / Inactive	Last Status	Current Status	Trend	Corrective Action & Comments
			Red	Yellow	Green										
O8a	Employer satisfaction	Employers rating satisfaction with agency's customer service as "good" or "excellent"	<70%	70-89	>89%	95%	↑	Annual	Survey	Y. Elledge	A	75%	85%	+	New FY13 data this quarter. Significant improvement shown in employer satisfaction rating this FY.
O8b	Employer Workshop satisfaction	Employers rating satisfaction with agency's employer workshop as "good" or "excellent"	<70%	70-89	>89%	95%	↑	Quarterly	Survey	Y. Elledge	A	95%	100%	+	
O9: Timely Benefit Payments											B. Harrington / Y. Elledge				
O9a	Timely service retirement benefit payments	New PERS and OPSRP retirees that receive first payment within 45 days of effective retirement date	<40%	40-59	>59%	80%	↑	Monthly	Clarety 238 status report	Y. Elledge / B. Harrington	A	73%	62%	-	
O9b	Timely first benefit payment all others	New payees (withdrawals; disability retirees; beneficiaries) who receive payment within service goals	<70%	70-89	>89%	90%	↑	Monthly	Clarety 238 status report; Service Level report	Y. Elledge / B. Harrington	A	82%	77%	-	DTH = 202/269 = 75.09% DISB = 40/42 = 95.23% OPSRP W/D = 13/28 = 46.4% 238 W/D = 118/144 = 81.94% Death problem solving recommendations not yet instituted, increased workarounds.
O10: Informed Retirement Decisions											Y. Elledge				
O10a	Retirement process satisfaction	Retirees rating satisfaction with the retirement process	<70%	70-84	>84%	90%	↑	Quarterly	Survey	Y. Elledge	A		80%	+	Survey started 7/2013. Measurement is percentage of process ratings Good or Excellent
O10b	Retirement changes	% of retirement appeals, disputes, options changes divided by total number of retirements	>10%	5-10	<5%	2%	↓	Quarterly	Appeal, dispute and option change stats (report TBD)	Y. Elledge	A	3.0%	1.6%	+	Appeals Received = 8 Disputes Received = 31 Option changes Received = 27 New Retirements = 4012
O11: Accurate Benefit Calculations											B. Harrington				
O11a	Accurate benefit calculations	% of calculations accurately calculated to within plus or minus \$5	<95%	95-97	>97%	100%	↑	Annual	Internal or external audit sampling	B. Harrington	A	99%	98%	-	New FY13 data this quarter. There was a slight 1% dip in the accuracy for FY13.
O11b	Audit findings / internal sampling	% of internal sampling that reveals any errors in calculations	>5%	3-5	<3%	0 errors	↓	Monthly	RSS and SSS QA sampling	B. Harrington	A	1.2%	1.1%	+	

PUBLIC EMPLOYEES RETIREMENT SYSTEM

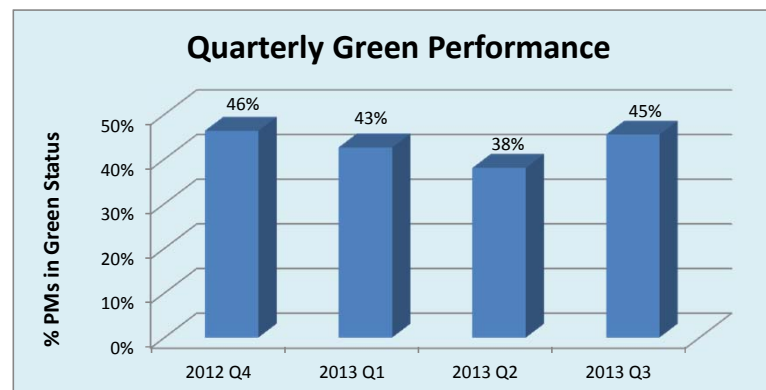
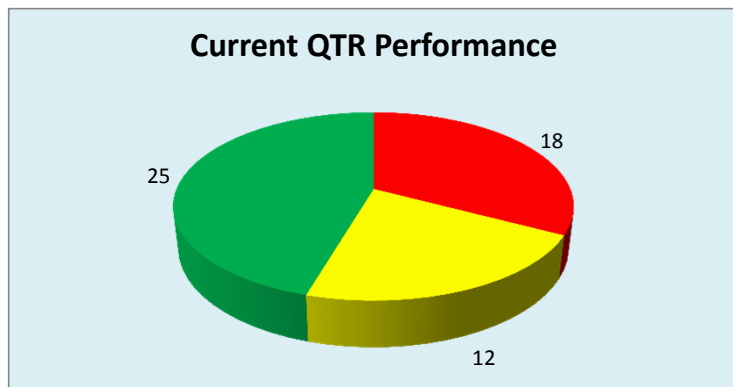
Quarterly Target Review

PROCESS MEASURES: Consolidated Summary

QTR : 2013 Q3 - Quarter ended September 30, 2013

Total Process Measures: 63

Total Active Process Measures: 55



	Measure Name	Measure Calculation	RANGE			Target	Desired Perform Trend	Data Collection Frequency	Data Source	Meas Owner	Meas Active / Inactive	Last Status	Current Status	Trend	Corrective Action & Comments
			Red	Yellow	Green										
OP1 Collecting Member Data (Y. Elledge)															
Cost [or															
OP1a	Employer reports	% reports received vs. expected	<85%	85-95	>95%	98%	↑	Monthly	Employer Svc Ctr	L. Galego	A	94%	93%	-	Part of this decline may be from schools starting up and getting caught up. We are in the process of a correction to the ESL for schools who do not report in the summer. The is the number as a year ago.
OP1b	Returned mail	% of returned bulk mail	>15%	15-10	<10%	5%	↓	Quarterly	Aux Services	H. Morgan	A	5%	3%	+	
Quality															
OP1c	Employer report accuracy	% of employer reports are complete and accurate	<75%	75-85	>85%	90%	↑	Monthly	Employer Svc Ctr	L. Galego	A	79%	80%	+	Last year at this time we were at 76%.
Time															
OP1d	Member forms on time	% of forms from members processed on time	<80%	80-90	>90%	95%	↑	Monthly	Service Level Report	S. Paris/D. Larsen	I				
OP1e	Employer reports on time	% of employer reports received within 3 business days of reporting cycle	<85%	85-95	>95%	98%	↑	Monthly	Employer Svc Ctr	L. Galego	A	86%	86%	-	Last year at this time we were at 87%. Need some help to see what or if the 3 days is a good number
OP2 Collecting Contributions (K. Knoll)															
Cost [or															

	Measure Name	Measure Calculation	RANGE			Target	Desired Perform Trend	Data Collection Frequency	Data Source	Meas Owner	Meas Active / Inactive	Last Status	Current Status	Trend	Corrective Action & Comments
			Red	Yellow	Green										
OP2a	Employer payments	% of IAP contributions that are posted and paid by their due date	<85%	85-95	>95%	100%	↑	Monthly	TBD	K. Chavez	A	66%	64%	-	Employers are making payments but many payments continue to be posted at just a day or so over the timeline. To date we have not found a way of correcting this.
Quality															
OP2b	Clear and accurate employer statements	% of employers that rate the employer statement as good or excellent	<75%	75-85	>85%	90%	↑	Annually	Survey	K. Chavez	A	92%	95%	+	Alterations to the employer statements will be made this coming year associated with allocation changes. We will work with employers with the goal of keeping satisfaction ratings high.
OP2c	OSGP electronic transfer participation	% of total employers using the Automated Clearing House	<40%	40-45	>45%	50%	↑	Quarterly	ACH Report	G. Bath	A	36%	37%	+	OSGP continues to reach out to local government employers to get them to adopt ACH or the Payroll Admin system. It will take a top priority this next quarter to see if we can't see more improvement. Another option may be to make ACH mandatory in 2014 or 2015, giving employers plenty of time to start using it.
Time															
OP2d	Outstanding receivables report	# of invoices outstanding more than 30 days	>100	50-100	<50	25	↓	Monthly	ER Receivables Aging Report	M. Smith	A	461	322	+	Several of the SSA invoice have been satisfied and we continue to collect from delinquent employers.
OP2e	Purchases posted	% of member purchases posted within 14 days of receipt	<70%	70-80	>80%	90%	↑	Monthly	CSD Purchase Report	S. Paris	A	84%	84%	+	
OP3 Assessing Benefit Eligibility (Y. Elledge)															
Cost [or															
Quality															
OP3a	Appeals	% of appeals and contested cases that are upheld compared to total # of eligibility, disability and divorce appeals filed	<90%	90-95	>95%	100%	↑	Quarterly	PPLAD	S. Vaughn	A	76%	70%	-	PACS reversed 3 of 10 cases.
Time															

	Measure Name	Measure Calculation	RANGE			Target	Desired Perform Trend	Data Collection Frequency	Data Source	Meas Owner	Meas Active / Inactive	Last Status	Current Status	Trend	Corrective Action & Comments
			Red	Yellow	Green										
OP3b	Disability and divorce determinations	% of disability and divorce determinations completed in 180 and 90 days respectively	<90%	90-95	>95%	100%	↑	Quarterly	jClarety	K. Self / P. Ungern	A	83%	68%	-	DISB = 95/98 = 97% DIV= 182/312 = 58.33% A large population of divorce decrees that were previously placed on hold were addressed late in the quarter.
OP3c	Estimate KPM	% of estimate requests completed within 30 days of receipt	<75%	75-85	>85%	95%	↑	Quarterly	GBE tool	S. Paris / P. Ungern	A	51%	34%	-	DIV = 71/107 = 63.55%, OPSRP = 160/162 = 98.8%, 238 = 730/2526 = 28.9% 238 working with spike and experienced turnover of 2 RC1s (28%) of team.
OP3d	Data Verifications Completed	% of data verifications completed within 180 days from receipt	<75%	75-85	>85%	90%	↑	Quarterly	DVU Database	E. King	A	15%	0%	-	DV unit is focused on completing the oldest requests received. Analyzing additional streamlining in the process between Eligibility & DV. Also writing a business case for additional resources
OP4 Processing Benefit Applications (B. Harrington)															
Cost [or															
OP4a	Eligibility review completed	% of applications completed by the eligibility team within 30 days of the effective retirement	<50%	50-70	>70%	80%	↑	Monthly	statistics	T. Newell	A	77%	65%	-	Due to the very high volume of June and July retirements the ability to work on future benefit dates was reduced. As the volume decreases this measure is already trending up again.
Quality															
OP4b	Accuracy & completeness of application/data	% of estimated payments per month	>4%	2-4	<2%	0%	↓	Monthly	statistics	J. Cunningham & P. Ungern	A	5%	11%	-	impact from the July spike SSS=12/167=7.185%: RSS/opspr 396/22= 5.5%: RSS 238 3462/388=8.9%
OP4c	Returned/rejected applications	% of applications returned or rejected back to the applicant	>30%	10-30	<10%	5%	↓	Monthly	statistics	D. Larsen	I				
OP4d	Multiple follow-up requests	% of applications with 2 or more requests made to an applicant or employer for information	>30%	10-30	<10%	5%	↓	Monthly	statistics	D. Larsen & T. Newell	I				
Time															
OP4e	IAP, service, & death retirement applications completed in 30 days	% of non-canceled applications completed and ready for calculation within 30 days of the effective date	<50%	50-70	>70%	80%	↑	Monthly	statistics	D. Larsen	A	63%	54%	-	Waiting on eligibility and purchases. Intake's percentage complete within 30 days was 92%.

	Measure Name	Measure Calculation	RANGE			Target	Desired Perform Trend	Data Collection Frequency	Data Source	Meas Owner	Meas Active / Inactive	Last Status	Current Status	Trend	Corrective Action & Comments
			Red	Yellow	Green										
OP4f	Disability applications completed in 15 days	% of non-canceled applications completed and ready for calculation within 15 days of all required documents received	<95%	95-98	>98%	100%	↑	Monthly	statistics	P. Ungern	A	89%	58%	-	21/36 Problem Solving recommendations not fully implemented until 11/1/13
OP4g	IAP, service death & withdrawal applications completed	% of non-canceled applications completed and ready for calculation within 60 days of the effective date	<50%	50-70	>70%	80%	↑	Monthly	statistics	E. King & D. Larsen	A	81%	69%	-	Without withdrawals = 82%. Last quarter did not include withdrawal data.
OP5 Calculating Benefits (B. Harrington)															
Cost [or															
OP5a	Calculations completed	# of calculations completed per FTE per day	<5	5-6	>6	7	↑	Monthly	jClarety	J. Cunningham & P. Ungern	A	6.0	7.0	+	DIV = 231 calcs/64 days/1 FTE = 3.6 RSS/opsrp 665calcs/64 days/FTE = 6.69: RSS/238 3514calcs/64 days/FTE = 6.86
Quality															
OP5b	Accuracy of calculations	% of sample calculations that are accurate within plus or minus \$5	<95%	95-99	>99%	100%	↑	Monthly	jClarety	J. Cunningham & P. Ungern	A	98.8%	98.9%	+	OPSRP Pension: reported 1 error for the 3Q
Time															
OP5c	Timely benefit calculation	% of calculations completed within 15 calendar days from completed application date	<95%	95-99	>99%	100%	↑	Monthly	jClarety	J. Cunningham & P. Ungern	A	95.30%	93.03%	-	working to reset target: recommending 95% due to posting of purchases , data issues, ect
OP6 Paying Benefits (K. Knoll)															
Cost [or															
OP6a	Manual checks	# of manual checks processed	>15	15-5	<5	0	↓	Monthly	Check Stock Log	M. Smith	A	24	40	-	There have been a number of check requests for death, Beneficiaries, and Judges, functionality not currently in Jclarety to create these checks.
OP6b	Direct deposit	% of electronic payments divided by total payments	<90%	90-95	>95%	99%	↑	Monthly	Pension Payment file	M. Smith	A	94%	94%	=	This trend will continue, Improvement will be seen as PERS population changes or if DD is mandated.
Quality															
OP6c	Returned payments	Average # of days to resolve returned payments	>10	10-5	<5	3 days	↓	Monthly	Return Payment spreadsheet	M. Smith	A	5	4	+	

	Measure Name	Measure Calculation	RANGE			Target	Desired Perform Trend	Data Collection Frequency	Data Source	Meas Owner	Meas Active / Inactive	Last Status	Current Status	Trend	Corrective Action & Comments
			Red	Yellow	Green										
OP6d	Pension roll exceptions	# of exceptions not cleared prior to pension lock	>4	4-1	0	0	↓	Monthly	jClarety Pension Exception Report	J. Cunningham & P. Ungern	A	0	0	=	
Time															
OP6e	Tax reporting	% of tax reports completed by Federal and State deadlines	<95%	95-97	>97%	100%	↑	Quarterly	Tax reports	R. Howitt	A	100%	100%	=	
SP1 Communicating Internally & Externally (Y. Elledge)															
Cost [or															
SP1a	Complaints	# of emails to PERS Board email box	>60	40-60	<40	25	↓	Monthly	Email box	D. Crosley	A	5	5	=	
Quality															
SP1b	Form focus group	% who rate forms as easily understandable	<75%	75-85	>85%	90%	↑	Annually	Survey	D. Crosley	I				
SP1c	Media Coverage	% of media coverage events with neutral or positive mentions	<80%	80-90	>90%	95%	↑	Quarterly	Media Report	D. Crosley	I				
SP1d	Employee Satisfaction with communication practices	% rating satisfaction as good or excellent	<70%	70-80	>80%	90%	↑	Semi-annual	Survey	Y. Elledge	A	63%	63%	=	Data as of Q2 2013 employee survey.
Time															
SP1e	Call Wait Time	Average length of wait before caller reaches live person	>6 minutes	6-4	<4 minutes	2 minutes	↓	Monthly	Cisco	R. Smith	A	5.5	4.9	+	Increased call volume due to changes to the assumed rate and age tables, and because of the legislative session. Also staffing levels were down.
SP1f	Correspondence response time	% of correspondence responded to within 10 days of receipt	<70%	70-80	>80%	90%	↑	Monthly	Service Level Report	R. Smith	A	98%	99%	+	
SP1g	Public records response time	% of public records requests responded to with a cost estimate within 14 days of receipt	<80%	80-90	>90%	95%	↑	Quarterly	PR Report	A. Smith	A	88%	100%	+	16 total requests with 7 requiring estimates. All processed within SL of less than 14 days
SP2 Managing Compliance & Risk (S. Rodeman)															
Cost [or															
SP2a	Legal Fees	% of operating budget expended for attorney and admin hearing fees and risk management fees	>3.5%	2.0-3.5	<2.0%	1.9%	↓	Quarterly	FSD	K. Knoll	A	2.7%	0.8%	+	New biennium has 87% lower risk charges, DOJ 50% lower this quarter, recuction of expense in legal fees (negative expense for this quarter). Operating budget up by 5.7% this biennium.

	Measure Name	Measure Calculation	RANGE			Target	Desired Perform Trend	Data Collection Frequency	Data Source	Meas Owner	Meas Active / Inactive	Last Status	Current Status	Trend	Corrective Action & Comments
			Red	Yellow	Green										
SP2b	Total # of legal disputes	# of member and employer appeals and contested case matters, employment disputes, litigation disputes, notices of dispute and risk management claims	>60	60-51	<51	50	↓	Quarterly	PPLAD	S. Vaughn	A	354	284	+	Still working through the last of the SEAS appeals. We have seen a bump in appeals with the WAR project.
Quality															
SP2c	Appeal reversal rate	% of staff determinations that are reversed on appeal	>15%	15-10	<10%	5%	↓	Quarterly	PPLAD	S. Vaughn	A	14%	10%	+	9 reversals out of 90 determinations made during the period. 6 of the reversals were SEAS appeals from members who were discharged in bankruptcy.
Time															
SP2d	Audit resolution time	% of high risk audit findings resolved within committed time period	<90%	90-94	>94%	95%	↑	Tri-mester	Audit Reports	J. Stanley	A	70%	70%	=	This item is not measured in the 3rd quarter. No change.
SP3 Leveraging Technology (J. Marecic)															
Cost [or															
SP3a	Service Interruptions	# of business days in a month ORION systems are not available within the standard service window (mo. avg. by qtr.)	>5	3-5	<3	0.0	↓	Monthly	HEAT	J. Marecic	A	4.0	2.7	+	
Quality															
SP3b	Technology Satisfaction	% of survey respondents indicating satisfaction with our technology	<60%	60-80	>80%	85%	↑	Semi-annual	Survey	J. Marecic	A	85%	85%	=	As of Q2 2012. Will be added as component of employee survey for the next quarter.
SP3c	ISBRA maturity ratings	# domains in ISBRA report meeting agency goal	<7	7-8	>8	1100%	↑	Annual	ISBRA Report	J. Stanley	A	6	6	=	As of Q1 2013
SP3d	Batch incidents	# of batch incidents / abends in month (mo. avg by qtr.)	>10	10-6	<6	300%	↓	Monthly	Turnover Report	A. Smith	A	4.0	3.0	+	
SP3e	Change Request efficiency	% of Change Requests scheduled for release that are actually deployed	<80%	80-90	>90%	100%	↑	Quarterly	Deployment plan & rel notes	J. Masanga	A	66%	78%	+	Rel. 7.7: 27 original; 5 dropped; 22 deployed (2 added) Rel. 7.7.1: 20 original; 5 dropped; 15 deployed (3 added)
Time															

	Measure Name	Measure Calculation	RANGE			Target	Desired Perform Trend	Data Collection Frequency	Data Source	Meas Owner	Meas Active / Inactive	Last Status	Current Status	Trend	Corrective Action & Comments
			Red	Yellow	Green										
SP3f	System support mitigation	# of instances when system status change is not mitigated within 4 hours (mo. avg. by qtr.)	>3	2-3	1	0	↓	Monthly	HEAT	A. Smith	A	0	0	=	
SP3g	HelpDesk responsiveness	% of HelpDesk tickets resolved within the Service Level Agreement	<80%	80-90	>90%	95%	↑	Monthly	HEAT	A. Smith	A	99.86%	99.89%	+	
SP3h	System uptime	% of time systems are available during the service window	<97%	97-98	>98%	100%	↑	Monthly	HEAT	J. Marecic	A	98.85%	99.63%	+	
SP4 Managing Organizational Finance & Resources (K. Knoll)															
Cost [or															
SP4a	Cash flow management	# of months with cost/fee due to overdraft or borrowing	>1	1	0	0	↓	Quarterly	OST fund statements	R. Howitt	A	0	1	-	Arranged for additional investment sale back-dated to 9/1/2013. IAP Withdrawals were twice normal monthly average.
Quality															
SP4b	Accounts Receivable collections	% of accounts receivable dollars collected (based on total dollars of accounts receivable)	<50%	50-65	>65%	70%	↑	Quarterly	jClarety reports	M. Smith	I				
SP4c	Actuarial services	% of actuarial services milestones met (exp studies, valuations, CAFR data, employer rates updated, economic impact report)	<95%	95-99	>99%	100%	↑	Annually	Contract Deliverables spreadsheet; jClarety; PERS Actuary	D. Hembree	I				
Time															
SP4d	Timely payment processing	% of invoices with payments released within 30 calendar days of receipt by Accounts Payable	<75%	75-85	>85%	90%	↑	Quarterly	SFMS	K. Knoll	A	90%	90%	=	
SP5 Managing & Developing the Workforce (H. Bamford)															
Cost [or															
SP5a	Development plans	% of employees' annual development plans created	<80%	80-89	>89%	98%	↑	Quarterly	Halogen	H. Bamford	I				

	Measure Name	Measure Calculation	RANGE			Target	Desired Perform Trend	Data Collection Frequency	Data Source	Meas Owner	Meas Active / Inactive	Last Status	Current Status	Trend	Corrective Action & Comments
			Red	Yellow	Green										
SP5b	Compliance	% of employees receiving corrective action for violations	>10%	6-10	<6%	0%	↓	Quarterly	Employer Labor Relations log	S. Korn	A	0%	0%	-	
Quality															
SP5c	Recruiting / Onboarding	% of employees completing trial service	<85%	85-94	>94%	100%	↑	Quarterly	PPDB	S. Korn	A	90%	100%	+	
SP5d	Personnel records accuracy	% of data fields entered correctly into the personnel database (PPDB)	<90%	90-94	>94%	100%	↑	Quarterly	PPDB	S. Korn	A	89%	96%	+	
SP5e	Overall employee performance	% of employees evaluated overall performance rating "meets expectations"	<80%	80-90	>90%	100%	↑	Quarterly	Halogen	H. Bamford	A	99%	93%	-	4 employees did not meet.
Time															
SP5f	Timely performance evaluations	% of performance evaluations completed by due date	<80%	80-90	>90%	100%	↑	Quarterly	Halogen	H. Bamford	A	23%	38%	+	59.7% of PE's were completed. 37.78% were on time, 62.22% were late.
SP6 Strategic & Operational Planning (S. Rodeman)															
Cost [or															
SP6a	Data Reported	% of outcome and process measures with new or current data reported for that quarter	<35%	35-50	>50%	75%	↑	Quarterly	Scorecards	M. Rickard	A	80%	83%	+	70 measures with new data, out of 84 total measures.
SP6b	Problem Solving Initiatives in process	# of problem solving initiatives in process	<4	4-8	>8	10	↑	Quarterly	Central	S. Rodeman	A	3	1	-	Due to other initiatives and breakthroughs, problem solving has remained scaled back.
Quality															
SP6c	Mission Relevance	% of employees rating somewhat or completely agree to questions 12, 14 & 16 on employee engagement survey	<60%	60-80	>80%	85%	↑	Semi-annual	Employee Engagement Survey	S. Rodeman	A	84%	84%	=	Data as of Q2 2013 employee survey.
SP6d	Performance Improvement	Net # of measures that improve per each QTR	<5	5-15	>15	20	↑	Quarterly	Scorecards	M. Rickard	A	-1	9	+	35 measures with a positive trend and 26 measures with a negative trend vs. last quarter's performance.
Time															

	Measure Name	Measure Calculation	RANGE			Target	Desired Perform Trend	Data Collection Frequency	Data Source	Meas Owner	Meas Active / Inactive	Last Status	Current Status	Trend	Corrective Action & Comments
			Red	Yellow	Green										
SP6e	Breakthrough Schedule	# of breakthroughs	<2	2	>2	3	↑	Quarterly	Central	S. Rodeman	A	4	4	=	0



Oregon

John A. Kitzhaber, M.D., Governor

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November 22, 2013

TO: Members of the PERS Board
FROM: Steven Patrick Rodeman, Deputy Director
SUBJECT: DOJ Opinion on Recognizing Same-Sex Marriages

Last month, the Oregon Department of Justice issued an opinion to inform state agencies about the recognition of same sex marriages for purposes of administering Oregon law. That opinion is attached to this memo. The opinion concludes that it is legally defensible for Oregon state agencies to recognize same-sex marriages validly performed in other jurisdictions. This opinion follows after several developments over the summer after the U.S. Supreme Court addressed the issue in an opinion last June.

This agency has adjusted its operations to the extent it has clear guidance on the application of these developments, since marital status does affect a person's benefits and obligations in several facets of our benefit programs. There are, however, some circumstances that need further review before we can ascertain the impact of these developments.

Because the programs that we administer are tax qualified trusts (not just the retirement benefit programs, but also the PERS Health Insurance and Oregon Savings Growth Plan programs), whether and how these different legal authorities affect our administration of the programs needs to be layered in with federal tax considerations. We sought direction from the IRS in our last Determination Letter filing, but they did not address our specific questions when they provided us our letter. Staff continue to identify and analyze options related to these issues and any policy options that we develop will be brought to the PERS Board in the future.

A.1.f. Attachment 1 – DOJ Opinion

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DEPARTMENT OF JUSTICE

Justice Building
1162 Court Street NE
Salem, Oregon 97301-4096
Telephone: (503) 378-4400

October 16, 2013

**THIS IS AN ATTORNEY-CLIENT PRIVILEGED COMMUNICATION.
NEITHER THIS DOCUMENT NOR ITS CONTENTS SHOULD BE
CIRCULATED BEYOND THE IMMEDIATE ADDRESSEES OR
DISCUSSED AT A PUBLIC MEETING WITHOUT FIRST CONSULTING
WITH COUNSEL.**

Michael Jordan
Chief Operating Officer
Department of Administrative Services
155 Cottage St. NE, U20
Salem, OR 97301-3966

Dear Michael:

In the last year alone, a significant and growing number of countries and states, including our neighboring states of California and Washington, have begun to recognize same-sex marriages. The federal government also now recognizes same-sex marriages for the purpose of administering federal laws, as a result of a United States Supreme Court decision issued in June of this year. In light of these



developments, you asked whether Oregon agencies can recognize same-sex marriages from other jurisdictions for purposes of administering Oregon law. For example, can state agencies treat a same-sex couple married in Washington and not registered as domestic partners in Oregon as married for purposes of administering tax laws and benefits programs such as providing health insurance. We conclude that state agencies can recognize these marriages as valid. To do otherwise would likely violate the federal constitution.

DISCUSSION

I. Recent developments in federal law concerning recognition of same-sex marriage

Since its passage in 1996, section (3) of the federal Defense of Marriage Act (DOMA) denied federal recognition of any same-sex marriages.¹ In June, the United States Supreme Court held that provision unconstitutional because it violated equal protection and due process guarantees of the federal constitution. *United States v. Windsor*, 570 US ___, 133 S Ct 2675 (2013). As a result of that decision, same-sex married couples living in jurisdictions that recognize same-sex marriage will now be considered to be married for purposes of federal law.²

Following these decisions, federal agencies and the United States Department of Justice have begun addressing the implications for federal programs. While some federal law considers the validity of marriage based on the place of habitation and some law considers the validity based on the place the

¹ Section 3 of DOMA provided:

“In determining the meaning of any Act of Congress, or of any ruling, regulation, or interpretation of the various administrative bureaus and agencies of the United States, the word ‘marriage’ means only a legal union between one man and one woman as husband and wife, and the word ‘spouse’ refers only to a person of the opposite sex who is a husband or a wife.”

² The Court was not asked to address the constitutionality of section (2) of DOMA, which permits states to refuse to recognize same-sex marriages performed out-of-state.

marriage was performed, the agencies' advice has largely done away with that distinction. At least some federal benefits—including military benefits and benefits under the tax laws—are now to be provided to same-sex couples who enter into a valid marriage anywhere, notwithstanding any prohibitions on that marriage in their place of residency.³

For purposes of administering Oregon programs that provide different benefits or obligations based on marital status, Oregon must look to its own laws, as neither *Windsor* nor the federal guidance controls.

II. Oregon law governing same-sex relationships

The Oregon Family Fairness Act allows same-sex couples to enter into domestic partnerships. ORS 106.300. Under the Act, all privileges, immunities, rights, and benefits conferred by law on the basis of marital status is granted on equal terms to registered domestic partners. ORS 106.340.

While same-sex couples can enter into domestic partnerships and thereby obtain many of the same benefits of married individuals, they are not permitted to marry in Oregon. Article XV, section 5a of the Oregon Constitution provides that

It is the policy of Oregon, and its political subdivisions, that only a marriage between one man and one woman shall be valid or legally recognized as a marriage.

Article XV, section 5a clearly prohibits marriages of same-sex couples from being performed in Oregon.

Recognition of otherwise valid out-of-state marriages is a separate question. But as a general principle of Oregon law, “a marriage which is recognized as valid in the state where it was performed will be recognized in Oregon.” *Garrett v. Chapman*, 252 Or 361, 364, 449 P2d 856 (1969). There is a potential limit to that rule “where the policy of this state dictates a different result than would be reached

³ See, e.g., Revenue Ruling 2013-17. The federal advice has not been entirely consistent. For example, the Social Security Administration appears to look to the law of the couples' state of residency in determining whether they are married. We will continue to monitor the federal guidance and encourage state agencies to contact us if they have questions in this area.

by the state where the marriage was performed.” *Id.* The issue is, therefore, whether any “policy of this state” dictates that Oregon cannot recognize a marriage validly solemnized in the state where it was performed. If it exists, that policy would be found in the same section of the Oregon Constitution, in its declaration that only marriages “between one man and one woman shall be * * * legally recognized as a marriage.”

III. Oregon’s constitutional prohibition on same-sex marriage would likely be construed as also prohibiting recognition of out-of-state same-sex marriages. But such a construction would likely violate the federal constitution.

In construing a constitutional provision enacted through the initiative process, courts look to discern the intent of the voters and begin first with the text and context of the provision. *Ecumenical Ministries v. Oregon State Lottery Comm.*, 318 Or 551, 559 (1994). Context includes other constitutional provisions as well as caselaw and other relevant statutory framework in effect at the time of the initiative. *Shineovich and Kemp*, 229 Or App 670, 683 (2009). If the intent is not clear from the text and context, courts turn to the history of the provision. *Ecumenical Ministries*, 318 Or at 559. If the intent is still ambiguous, courts turn to general maxims of construction. *Shineovich*, 229 Or at 683.

Article XV, section 5a specifically states that only a marriage between an opposite-sex couple is valid and legally recognized as a marriage. The provision is silent as to marriages validly entered into in other states. But the broad language prohibiting legal recognition of same-sex marriage would—based purely on the plain text—appear to bar the recognition of otherwise valid same-sex marriages for purposes of state law.

Context and history confirms what the text suggests. For an initiative measure, the history includes what the voters were told about the measure during the election. In the Voters’ Pamphlet for the November 2004 General Election, the Measure’s Summary explained that “[c]urrently the State of Oregon recognizes out-of-state marriages that are valid in the state where performed, unless the marriage violates a strong public policy of Oregon. Measure [36] adds to Oregon Constitution a declaration that the policy of the State of Oregon and its political subdivisions is that ‘only a marriage between one man and one woman shall be valid or legally recognized as a marriage.’” Official 2004 General Election Voters’ Pamphlet, v 1, November 2, 2004 at 77.

A court then would almost certainly conclude that the Oregon constitutional provision bans recognition of an otherwise valid same-sex marriage performed under the laws of another jurisdiction. But Oregon law—even those laws enshrined in our constitution—still must pass muster under the federal constitution. Although it is a long-recognized tenet of federal law that marriage and domestic relations are matters generally left to the states, *Ex parte Burrus*, 136 US 586, 593-94 (1890), state-imposed restrictions on marriage must comply with the federal constitution. *See, e.g., Loving v. Virginia*, 388 US 1, 12 (1967) (holding that a state statute limiting marriage to same-race couples violated equal protection and due process); *Zablocki v. Redhail*, 434 US 374, 383 (1978) (holding that a state statute restricting marriage by persons owing child support violated equal protection). If an Oregon court construed our constitution so as to prohibit recognition of out-of-state same-sex marriages, we believe the court would find that provision violates the federal constitution’s equal protection principles.

The Equal Protection Clause of the Fourteenth Amendment to the United States Constitution prohibits states from denying “to any person within its jurisdiction the equal protection of the laws.” US Const Amend XIV, § 1. Equal protection is “a pledge of the protection of equal laws.” *Yick Wo v. Hopkins*, 118 US 356, 369 (1886). Equal protection coexists with the reality that legislation must classify. *Romero v. Evans*, 517 US 620, 631 (1996). When a law classifies in a manner that neither targets a suspect class nor burdens a fundamental right, the court will uphold the law so long as it is rationally related to some legitimate government interest. *Heller v. Doe*, 509 US 312, 319-20. The classification itself must relate to the purported interest. *Plyler v. Doe*, 457 US 202, 220 (1982). Most laws subject to rational basis review easily survive, because a legitimate reason can nearly always be found for treating different groups in an unequal manner. *Romer*, 517 US at 633. And courts defer to legislative judgment if there is at least a debatable question whether the underlying basis for the classification is rational. *Id.* at 632.

But even under this most deferential standard of review, the court must “insist on knowing the relation between the classification adopted and the object to be attained.” *Id.* And the classification must “find some footing in the realities of the subject addressed by the legislation.” *Id.* The search for a rational relationship, while deferential, “ensure[s] that classifications are not drawn for the purpose of disadvantaging the group burdened by the law.” *Id.* at 633. To survive rational basis review, a law must do more than disadvantage or harm a particular group. *United States Dept of Agriculture v. Moreno*, 413 US 528, 534 (1973).

Applying that analysis here, we begin with the classification. As it relates to the question addressed in this opinion, Article XV, section 5a creates a classification of same-sex couples legally married in other states. It singles out those couples' valid marriages and denies them recognition in Oregon. Proponents and opponents alike understand that the law targets gays and lesbians in a manner specific to their sexual orientation by denying recognition of only their valid marriages. That is the law's express purpose.

The question then becomes whether we could articulate a justification for targeting same-sex couples in that manner. We cannot identify *any* defensible state interest, much less a legitimate or compelling one, in refusing to recognize marriages performed between consenting, unrelated adults under the laws of another state—marriages that would be unquestionably accorded recognition if the spouses were of opposite sexes. Likewise, we cannot identify any legitimate (much less compelling) state interest in requiring that each marriage recognized in Oregon contain one partner of each sex; no benefit to Oregon results from that limitation, and no injury would result from recognizing the marriages.

And same-sex relationships are given legal recognition in Oregon, in the form of domestic-partnership registration. To defend a refusal to acknowledge marriages, the state would have to articulate a state interest in allowing partnerships but refusing to recognize marriages—and, again, we cannot point to any such interest that would pass constitutional muster at even the lowest possible level of scrutiny, rational basis review.

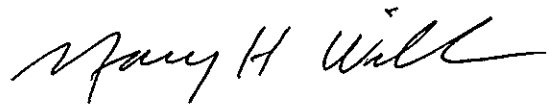
What is more, a court is very unlikely to apply rational basis review. Article XV, section 5a, mandates differential treatment of a group that has been subjected to “a history of purposeful unequal treatment.” And the U.S. Supreme Court has referred to the freedom to marry as a fundamental right, protected by the Due Process Clause of the Fourteenth Amendment. *See, e.g., Turner v Safely*, 482 US 78, 95 (1987) (“[T]he decision to marry is a fundamental right” and marriage is an “expression[] of emotional support and public commitment.”); *Zablocki*, 434 US at 384 (1978) (“The right to marry is of fundamental importance for all individuals.”) As such, a court might well apply strict scrutiny. Under a strict-scrutiny analysis, Oregon’s constitutional prohibition on recognition of out-of-state same-sex marriages would be struck down unless a court concluded that it was narrowly drawn to serve a compelling governmental interest. If we cannot articulate a rational-basis-level defense of the law (and we cannot), we certainly will fail on the vastly higher strict-scrutiny standard.

We note that the federal district court for the northern district of California considered these federal constitutional issues in respect to a voter initiative to deny same-sex marriage to California couples, and did so on the basis of a lengthy and well-developed record. *Perry v. S Schwarzenegger*, 704 F Supp 921, 940 (N.D. Cal 2010). The District Court—and, on appeal, the Ninth Circuit—concluded that the California law had no rational basis. Both courts found that the California law’s withdrawal of the right to same-sex marriage, allowing only same-sex civil unions, served no purpose and had no effect other than to lessen the status and human dignity of gays and lesbians in California and to classify their relationships as inferior to opposite-sex couples. *Perry v. Brown*, 671 F3d 1051 (9th Cir 2012).⁴ Although the Ninth Circuit’s opinion turned in large part on the particular circumstances of California first allowing and then prohibiting same-sex marriage, the lower court’s thoughtful opinion provides a strong basis for anticipating the likely reaction of Oregon courts to the question presented here.

CONCLUSION

Across the country, courts, legislatures, and the people through their initiative processes are addressing whether states may refuse to create valid same-sex marriages. While that larger question must await resolution for another day, it is legally defensible for Oregon agencies to recognize same-sex marriages validly performed in other jurisdictions.

Sincerely,



MARY H. WILLIAMS
Deputy Attorney General

⁴ While the United States Supreme Court accepted review of that decision, it did not reach the merits, as it concluded that the proper party had not appealed. *Hollingsworth v. Perry*, 570 US __, 133 S Ct 2652 (2013).

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Oregon

John A. Kitzhaber, M.D., Governor

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November 22, 2013

TO: Members of the PERS Board
FROM: Steven Patrick Rodeman, Deputy Director
SUBJECT: Notice of Rulemaking for Senate Bill 861 Rules:
OAR 459-005-0510, *Cost-of-Living Adjustment*
OAR 459-005-0520, *Supplementary Payment*

OVERVIEW

- Action: None. This is notice that staff has begun rulemaking.
- Reason: Implement provisions of Senate Bill 861 (2013) affecting the calculation of the cost-of-living adjustment (COLA) payable to benefit recipients on and after July 1, 2014, and the administration of the supplementary payments for PERS benefit recipients.
- Policy Issue: No policy issues have been identified at this time.

SUMMARY OF RULE PROVISIONS

The 2013 Oregon Legislative Assembly (Special Session) passed Senate Bill 861 which modified the COLA structure previously established in Senate Bill 822 (2013) for COLAs made on or after July 1, 2014. Under Senate Bill 861, the COLA for a member, beneficiary, eligible alternate payee, or judge member's benefit is determined using the monthly allowance, pension, or benefit a recipient is entitled to on July 1 of the year in which the increase is calculated. The proposed OAR 459-005-0510 clarifies that the resulting annual COLA is paid during the following 12 months in the recipient's monthly allowance, pension, or benefit starting on August 1.

The bill includes an annual supplementary payment that begins in 2014 and sunsets on December 31, 2019. The proposed OAR 459-005-0520 provides that the supplementary payment may not be used in calculation of the yearly allowance for annual COLA and the supplementary payment is not subject to a tax remedy increase.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing will be held on November 26, 2013 at 3:00 p.m. at PERS headquarters in Tigard. The public comment period ends on December 6, 2013 at 5:00 p.m.

LEGAL REVIEW

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

IMPACT

Mandatory: Yes, the rule should be updated to reflect the statutory changes.

Impact: Clarification of procedures in the administration of the annual cost-of-living adjustment and supplementary payments will benefit retirees, employers and staff.

Cost: An expenditure limitation for SB 861 was not provided during the 2013 special session but may be requested at a future Emergency Board meeting or during the 2014 legislative session.

RULEMAKING TIMELINE

October 15, 2013	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
November 1, 2013	<i>Oregon Bulletin</i> published the Notice. Notice was sent to employers, legislators, and interested parties. Public comment period began.
November 22, 2013	PERS Board notified that staff began the rulemaking process.
November 26, 2013	Rulemaking hearing to be held at 3:00 p.m. at PERS in Tigard.
December 6, 2013	Public comment period ends at 5:00 p.m.
January 31, 2014	Staff will propose adopting the new rules, including any changes resulting from public comment or reviews by staff or legal counsel.

NEXT STEPS

A rulemaking hearing will be held on November 26, 2013 at 3:00 p.m. at PERS headquarters in Tigard. The rule is scheduled to be brought before the PERS Board for adoption at the January 31, 2014 Board meeting.

B.1. Attachment 1 – 459-005-0510, *Cost-of-Living Adjustment*

B.1. Attachment 2 – 459-005-0520, *Supplementary Payment*

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

1 **459-005-0510**

2 **Cost-of-Living Adjustment**

3 **(1) As provided in ORS 238.360 and 238A.210, cost-of-living adjustment**

4 **(COLA) increases are calculated on an annual basis then divided by 12 to determine**

5 **the adjustment to the recipient's monthly allowance, pension, or benefit.**

6 **(2) Monthly COLA increases end when the recipient is no longer eligible to**

7 **receive a monthly allowance, pension, or benefit.**

8 **(3) This rule is effective on July 1, 2014.**

9 **Stat. Auth.: ORS 238.650 & 238A.450**

10 **Stats. Implemented: ORS 238.360, 238.575, & 238A.210**

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

1 **459-005-0520**

2 **Supplementary Payment**

3 **(1) The purpose of this rule is to implement the supplementary payment under**
4 **Section 8 of Chapter 2, Oregon Laws 2013 (Special Session).**

5 **(2) For purposes of this rule, “benefit recipient” means a member, beneficiary,**
6 **alternate payee, or judge member.**

7 **(3) In accordance with ORS 238.465(5), an alternate payee is eligible for a**
8 **supplementary payment only if the associated member or judge member is eligible.**

9 **(4) Increased benefits under ORS 238.364 and 238.366 or cost-of-living**
10 **adjustments under 238.360 or 238A.210 are not applied to a benefit recipient’s**
11 **supplementary payments.**

12 **(5) A benefit recipient’s supplementary payment shall not be included in a**
13 **benefit recipient’s yearly allowance, or yearly pension or benefit for the purpose of**
14 **calculating the cost-of-living adjustments under ORS 238.360, 238.575, or 238A.210.**

15 **Stat. Auth: ORS 238.650, 238.465 & 238A.450**

16 **Stats. Implemented: ORS 238.360, 238.575, 238A.210**



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John A. Kitzhaber, M.D., Governor

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November 22, 2013

TO: Members of the PERS Board
FROM: Steven Patrick Rodeman, Deputy Director
SUBJECT: Notice of Rulemaking for Final Average Salary Rule:
OAR 459-070-0100, *Employer Reporting*

OVERVIEW

- Action: None. This is notice that staff has begun rulemaking.
- Reason: Clarify final average salary determinations.
- Policy Issue: No policy issues have been identified at this time.

BACKGROUND

A recent Internal Audit Report identified certain issues relating to the agency's implementation of ORS 238.435(3)(c) and ORS 238A.130(2)(c) regarding calculation of "Final Average Salary" for Tier Two and OPSRP members. In both those programs, formula benefits are calculated using the greater of the last 36 months of salary or the high three years; OPSRP includes an additional requirement that the high three years be consecutive. These statutes exclude "...any salary for any pay period before the first full pay period that is included in the last 36 calendar months of membership under subsection (2)(b)." For employers whose payroll is after the first of the month, application of these statutory provisions could lead to less than 36 months of salary used in the member's final average salary.

SUMMARY OF RULE PROVISIONS

The proposed rule modifications address the anomaly of salary paid to a member whose pay period may cross over several months so that members receive credit for 36 months of salary for determining formula-based benefits. With these rule modifications, the concerns raised in the audit report under these types of scenarios will be resolved.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing will be held on November 26, 2013 at 3:00 p.m. at PERS headquarters in Tigard. The public comment period ends on December 6, 2013 at 5:00 p.m.

LEGAL REVIEW

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

IMPACT

Mandatory: No.

Impact: Members and staff will benefit from clarification of how PERS determines final average salary for a member whose pay period may cross over several months.

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

RULEMAKING TIMELINE

October 15, 2013	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
November 1, 2013	<i>Oregon Bulletin</i> published the Notice. Notice was sent to employers, legislators, and interested parties. Public comment period began.
November 22, 2013	PERS Board notified that staff began the rulemaking process.
November 26, 2013	Rulemaking hearing to be held at 3:00 p.m. at PERS in Tigard.
December 6, 2013	Public comment period ends at 5:00 p.m.
January 31, 2014	Staff will propose adopting the rule modifications, including any changes resulting from public comment or reviews by staff or legal counsel.

NEXT STEPS

A rulemaking hearing will be held on November 26, 2013 at 3:00 p.m. at PERS headquarters in Tigard. The rule is scheduled to be brought before the PERS Board for adoption at the January 31, 2014 Board meeting.

B.2. Attachment 1 – 459-070-0100, *Employer Reporting*

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

DIVISION 070 – OREGON PUBLIC SERVICE RETIREMENT PLAN, GENERALLY

1 **459-070-0100**

2 **Employer Reporting**

3 (1) Definition. “Pay period” means the span of time covered by an employer’s report
4 to PERS.

5 (2) Unless otherwise agreed upon by the PERS Executive Director and the employer,
6 an employer must transmit to PERS an itemized report of all information required by
7 PERS.

8 (a) A report must include wage, service, and demographic data for all employees for
9 a pay period.

10 (b) Except as provided in subsection (c) of this section, an employer may not submit
11 or modify a report for a pay period within a calendar year on or after the first date in
12 March of the subsequent calendar year on which PERS issues the employer a statement
13 of contributions due. This subsection applies to pay periods beginning on or after January
14 1, 2011.

15 (c) PERS will permit an employer to submit or modify a report subject to the
16 limitation of subsection (b) of this section if PERS determines the report is necessary for
17 accurate benefit administration.

18 (3) The report required under section (2) of this rule must be acceptable to PERS and
19 transmitted on forms furnished by the agency or in an equivalent format. The report must
20 be transmitted electronically, faxed, or postmarked, as applicable, no later than three
21 business days after the end of the pay period assigned to the employer under section (4)
22 of this rule.

1 (4) PERS will assign an employer a pay period which most closely matches the
2 employer’s pay cycle:

- 3 (a) Monthly: the pay period ends on the last day of the month;
- 4 (b) Semi-monthly: the pay period ends on the fifteenth of the month and the last day
5 of the month;
- 6 (c) Weekly: the pay period ends the Friday of every week; or
- 7 (d) Biweekly: the pay period ends every other Friday.

8 **(5) For the purpose of determining a “pay period” under ORS 238.435(3) and**
9 **ORS 238A.130(2), when salary is paid on a day other than the first of the month or**
10 **the first business day of the month, that salary shall be considered earned in the**
11 **calendar month in which it is paid, unless the employer provides PERS records that**
12 **establish that the salary was not earned in that calendar month.**

13 ~~[(5)]~~**(6)** If a report required under section (2) of this rule is accepted by PERS, PERS
14 will notify the employer of any exceptions and the employer must reconcile its report.
15 The corrected report must be transmitted to PERS before the employer is subject to the
16 limitation of subsection (2)(b) of this rule for that report.

17 ~~[(6)(a)]~~**(7)(a)** An employer that fails to transmit a report as required under sections
18 (2) and (3) of this rule must pay a penalty equal to one percent of the total amount of the
19 prior year’s annual contributions or \$2000, whichever is less, for each month the
20 employer is delinquent.

21 (b) Penalties under subsection (a) of this section continue to accrue until the earlier
22 of the date the report is submitted or the date the limitation of subsection (2)(b) is
23 effective.

1 (c) Notwithstanding subsection (b) of this section, an employer that submits or
2 modifies a report pursuant to subsection (2)(c) of this rule must pay the penalty described
3 in subsection (a) of this section.

4 ~~[(7)]~~(8) The PERS Executive Director or a person designated by the Director may
5 waive the penalty described in section ~~[(6)]~~(7) of this rule for reports due on or after
6 January 1, 2011 and before January 1, 2012. For reports due on or after January 1, 2012,
7 penalties may be waived by the Director or the Director's designee only upon written
8 petition from the employer.

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

10 Stats. Implemented: ORS 238A.050, 238A.130, 238.435, & 238.705

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Oregon

John A. Kitzhaber, M.D., Governor

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November 22, 2013

TO: Members of the PERS Board
FROM: Steven Patrick Rodeman, Deputy Director
SUBJECT: Notice of Rulemaking for Data Verification Disputes Rule:
OAR 459-001-0030, *Review of Staff Actions and Determinations Regarding Persons*

OVERVIEW

- Action: None. This is notice that staff has begun rulemaking.
- Reason: Housekeeping edits to OAR 459-001-0030 are needed to clarify that this rule does not apply to disputes under ORS 238.285.
- Policy Issue: No policy issues have been identified at this time.

BACKGROUND

In 2010, Senate Bill 897 (2009) (codified as ORS 238.285) was passed relating to verification of certain retirement data upon a member's request. ORS 238.285 (2) provides the procedure for disputing the accuracy of the data provided in a verification. Members have 60 days from the date of the verification to file a notice of dispute. Upon receipt of the dispute, the board determines the accuracy of the data and provides a written determination to the member that includes an explanation of any applicable statutes and rules. A member may seek judicial review of the decision as provided in ORS 183.484 and rules of the board. This procedure falls outside the standard review process provided in OAR 459-001-0030. The proposed modification to OAR 459-001-0030 clarifies that the administrative review process addressed in OAR 459-001-0030 does not apply to data verification disputes.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing will be held on November 26, 2013 at 3:00 p.m. at PERS headquarters in Tigard. The public comment period ends on December 6, 2013 at 5:00 p.m.

LEGAL REVIEW

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

IMPACT

Mandatory: No.

Impact: Members and staff will benefit from clarification of data verification disputes and data for calculating a retirement allowance or pension.

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

RULEMAKING TIMELINE

October 15, 2013	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
November 1, 2013	<i>Oregon Bulletin</i> published the Notice. Notice was sent to employers, legislators, and interested parties. Public comment period began.
November 22, 2013	PERS Board notified that staff began the rulemaking process.
November 26, 2013	Rulemaking hearing to be held at 3:00 p.m. at PERS in Tigard.
December 6, 2013	Public comment period ends at 5:00 p.m.
January 31, 2014	Staff will propose adopting the rule modifications, including any changes resulting from public comment or reviews by staff or legal counsel.

NEXT STEPS

A rulemaking hearing will be held on November 26, 2013 at 3:00 p.m. at PERS headquarters in Tigard. The rule is scheduled to be brought before the PERS Board for adoption at the January 31, 2014 Board meeting.

B.3. Attachment 1 – 459-001-0030, *Review of Staff Actions and Determinations Regarding Persons*

**OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 001 – PROCEDURAL RULES**

1 **459-001-0030**

2 **Review of Staff Actions and Determinations Regarding Persons**

3 (1) For purposes of this rule, “Director” means the executive director of PERS, or an
4 administrator appointed by the executive director.

5 (2) Request for review. Any person may file with the Director a request for review of a staff
6 action or determination, except as provided for in ORS [238.285](#), 238.450 or in Board rules on
7 disability retirement. The request must be filed within 60 days following the date the staff action or
8 determination is sent to the person requesting review.

9 (3) Informal conferences. Informal conferences are available as an alternative means that may
10 achieve resolution of any matter under review. A request for an informal conference does not
11 change the time limit to file a request for review.

12 (4) Criteria for request. A request for review of a staff action or determination must be in
13 writing and set forth:

14 (a) A description of the staff action or determination for which review is requested;

15 (b) A short statement of the manner in which the action is alleged to be in error;

16 (c) A statement of facts that are the basis of the request;

17 (d) Reference to applicable statutes, rules or court decisions relied upon;

18 (e) A statement of the relief requested; and

19 (f) A request for review.

20 (5) Denial of request. The Director may deny any request for review within 45 days of receipt
21 of the request:

22 (a) If the request does not contain the information required under section (4) of this rule; or

1 (b) When, in the Director's view, there is no bona fide dispute of material fact, the pertinent
2 statutes and rules are clear in their application to the facts, and there is no material administrative
3 error.

4 (6) If a request is denied by the Director because it does not contain the information required
5 under section (4) of this rule, a requester will have one opportunity to correct that deficiency and
6 resubmit a request for review within 45 days of the date of denial.

7 (7) Approval of request. If the request for review is granted, the Director must issue a written
8 determination within 45 days of receipt of the request after:

9 (a) Considering the request;

10 (b) Directing staff to reconsider; or

11 (c) Directing staff to schedule an informal conference.

12 (8) Extension of deadline. Any 45-day deadline within this rule may be extended upon request
13 in writing for an additional 45 days.

14 (9) Resolution process.

15 (a) In lieu of issuing a written determination, the Director may direct staff to schedule a
16 formal contested case hearing. The hearing must be conducted in accordance with the Attorney
17 General's Model Rules of Procedure.

18 (b) If a request is denied or the Director's determination is not the relief sought by the person,
19 and the Director did not cause a contested case hearing to be scheduled, a person may file with the
20 Board a request for a contested case hearing pursuant to the Attorney General's Model Rules of
21 Procedure.

22 Stat. Auth.: ORS 238.650

23 Stats. Implemented: ORS 183.413 - 183.470



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November 22, 2013

TO: Members of the PERS Board
FROM: Steven Patrick Rodeman, Deputy Director
SUBJECT: Adoption of Recovery of Overpayments Rule:
OAR 459-005-0610, *Recovery of Overpayments*

OVERVIEW

- Action: Adopt modifications to Recovery of Overpayments rule.
- Reason: Clarifies criteria and process for the recovery of overpayments and erroneous payments made by PERS.
- Policy Issue: Should the Actuarial Reduction Method (ARM) be designated by rule as a preferred method to recover overpayments?

BACKGROUND

ORS 238.715 directs PERS to adopt rules establishing the procedures to be followed in recovering overpayments and erroneous payments. OAR 459-005-0610 outlines several options for the recovery of a debt owed to PERS from a benefit recipient.

Section (6) of the rule currently states: "...PERS shall use one of the following methods to effect a full recovery of any overpayment or erroneous payment...." The proposed rule modifications clarify that PERS is allowed more than one method of recovery.

Also, section (7) of the rule states that if an overpayment is caused solely by the actions of PERS or the employer, that an actuarial reduction method (ARM) will be the preferred method to recover that overpayment unless otherwise ordered by the Board. The edits to this rule remove the designation of a preferred method of collection (a policy issue discussed further below).

SUMMARY OF MODIFICATIONS TO RULE SINCE NOTICE

In section (7), new language was added to clarify that PERS will select a method which causes the least economic hardship on the member while allowing for a reasonably prudent recovery of the overpayment. This language replaces the prior text which stipulated that the ARM must be the preferred recovery method.

In section (11) (section (10) in the prior version), the following text from the first version of the rule was deleted: "unless the Board determines that the recovery is required to maintain the status of the system and the Public Employees Retirement Fund as a qualified governmental retirement plan and trust under the Internal Revenue Code and under regulations adopted pursuant to the Internal Revenue Code." The language was meant to address the issue that some corrective actions required to comply with IRS regulations may be incompatible with the six-

year limitation in statute. This policy issue needs further development before moving forward, and may be more appropriately addressed as a legislative concept than a rule modification. For now, this issue was removed from the current rule modifications being considered.

POLICY ISSUE

Should the Actuarial Reduction Method (ARM) be designated by rule as a preferred method to recover overpayments?

The actuarial reduction method (ARM) spreads the recovery of an overpayment over the member's expected life (and beneficiary if a survivor option was selected at retirement). That method was designated as a preferred method in the rule in 2006 during the first *Strunk/Eugene* project to collect overpayments from the 1999 earnings crediting. The policy was that recovery of an overpayment caused by no fault of the member should allow the member as much time as possible to return the overpaid amount.

In many cases where a large debt is owed, PERS can extend the recovery over the lifetime of the recipient. However, in some cases this method may not be the most reasonable option. The only real advantage of an ARM to the member is that the ARM may allow for a longer pay off period (depending on age, around 22 years on average). If that is important in the context of a particular recovery negotiation, staff has a procedure to extend pay off periods. In the regular course, however, we do not need to designate a "preferred" collection practice and selection of the method should be left to the facts and circumstances of the individual situation rather than designating in rule a "one size is preferred for all" approach.

For these reasons, PERS staff recommends removing the designation of any particular method as "preferred." The rule modifications in section (6) clarify that one or more methods may be used, giving PERS the flexibility to negotiate the most appropriate collection method based on the particular situation. PERS would still maintain the authority to use the ARM as one of several options for collections. However, under the modifications, PERS would not be required to first eliminate the ARM in those situations where it isn't the best fit. As explained further below, due to the public comment received, the rule does continue a standard that the cost recovery method used should cause the least economic hardship to the member while allowing for appropriate recovery the overpayment, given our obligations as trustees of the PERS Trust.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held on October 22, 2013 at 3:00 p.m. at PERS headquarters in Tigard. No members of the public attended. The public comment period ended on October 29, 2013 at 5:00 p.m.

On October 4, 2013, PERS received public comment from Greg Hartman, on behalf of the PERS Coalition. A copy of his letter is included as Attachment 2. Mr. Hartman asks that rather than remove a "preferred" method of recovery from the rule, he suggests a better change to the rule would specify that "the preferred method will be that which causes the least economic disruption to the member while at the same time permitting the recovery of the overpayment." Staff agrees that the rule can continue to express an intent about the impact of the method of recovery when the overpayment is not caused by the recipient's actions. In response to Mr. Hartman's

suggestion, staff added new text in section (7) which states that PERS will select a method that causes the least economic hardship to the member and at the same time allows for the appropriate recovery of the overpayment, consistent with our role as trustees of the PERS Trust. The new language avoids using the “preferred method” terminology for reasons explained in the policy issue discussion, but still sets criteria that PERS will use when choosing a recovery method.

Mr. Hartman also requests a redraft of the previously noticed new language in section (11) (section (10) in the prior draft), which sought to clarify that recovery of an overpayment or erroneous payment will be effected, despite the statutory restriction to six years to do so, if the recovery is required to maintain the tax qualification status of the system and the Public Employees Retirement Fund. Mr. Hartman noted that the language “could be misinterpreted to provide an additional reason for going beyond the six-year statutory period.” He recommended redrafting the language to specify that the only reason the six-year statutory period could be exceeded is if needed to retain the plan’s qualification status. As noted above in the summary of modifications to the rule since notice, the proposed addition of language to section (11) has been removed and will be further considered before this issue is resubmitted.

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: No.

Impact: Members and staff will benefit from clarification of the criteria and process for recovery of overpayments.

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

RULEMAKING TIMELINE

August 15, 2013	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
September 1, 2013	<i>Oregon Bulletin</i> published the Notice. Notice was sent to employers, legislators, and interested parties. Public comment period began.
September 27, 2013	PERS Board notified that staff began the rulemaking process.
October 22, 2013	Rulemaking hearing held at 3:00 p.m. at PERS in Tigard.
October 29, 2013	Public comment period ended at 5:00 p.m.
November 22, 2013	Board may adopt the permanent rule modifications.

BOARD OPTIONS

The Board may:

1. Pass a motion to “adopt modifications to Recovery of Overpayments rule, 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: Clarifies criteria and process for the recovery of overpayments and erroneous payments made by PERS.

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.4. Attachment 1 – 459-005-0610, *Recovery of Overpayments*

B.4. Attachment 2 – Public Comment Letter from Greg Hartman

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

1 **459-005-0610**

2 **Recovery of Overpayments**

3 (1) Authority and Purpose. In accordance with ORS 238.715, this rule sets forth the
4 criteria and process for the recovery of overpayments and erroneous payments made by
5 PERS. It is the policy of the Board to implement wherever possible, and if cost effective,
6 a full recovery of all overpayments and erroneous payments. Staff shall attempt recovery
7 of overpayments and erroneous payments in the most efficient method available and in
8 the least amount of time possible.

9 (2) For the purposes of this rule:

10 *[(a) “Overpayment” refers to an amount that is in excess of the amount a payee is*
11 *entitled to under ORS Chapters 238 and 238A;]*

12 *[(b)](a) [“Improperly made payment” or] “[e]Erroneous payment” means any*
13 *payment that has been made from the Public Employees Retirement Fund in error,*
14 *including a payment to a payee that is not entitled to receive the payment[;].*

15 *[(c)](b) “Good cause” means a cause beyond the reasonable control of the person.*
16 *“Good cause” exists when it is established by satisfactory evidence that factors or*
17 *circumstances are beyond the reasonable control of a rational and prudent person of*
18 *normal sensitivity, exercising ordinary common sense[;].*

19 *[(d) “Monthly payment” means any gross pension, annuity, service or disability*
20 *retirement allowance, death benefit, or other benefit under ORS Chapters 238 or 238A*
21 *that is paid monthly to or on behalf of a payee;]*

1 ~~[(e)]~~ (c) “Lump-sum payment” means any one-time distribution or payment made
2 under ORS Chapters 238 or 238A, or any other law directing PERS to make a payment,
3 including a retroactive adjustment, that is not scheduled to be paid to or on behalf of a
4 payee on a regular monthly basis~~[:]~~.

5 (d) “Monthly payment” means any gross pension, annuity, service or disability
6 retirement allowance, death benefit, or other benefit under ORS Chapter 238 or
7 238A that is paid monthly to or on behalf of a payee.

8 (e) “Overpayment” refers to an amount that is in excess of the amount a payee
9 is entitled to under ORS Chapters 238 and 238A.

10 (f) “Payee” means:

11 (A) A member, a trust established by the member, or the member’s estate;

12 (B) A member’s beneficiary, a trust established by the member’s beneficiary, or the
13 estate of the member’s beneficiary;

14 (C) An alternate payee, as defined in OAR 459-045-0001~~[(6)]~~(2), a trust established
15 by an alternate payee, or the estate of an alternate payee;

16 (D) The beneficiary of an alternate payee, a trust established by the beneficiary of an
17 alternate payee, or the estate of the beneficiary of an alternate payee; or

18 (E) Any other recipient of a benefit payment by PERS.

19 (3) In addition to the notice of an overpayment or erroneous payment to a payee
20 required by ORS 238.715(4), PERS shall also send an explanation of the overpayment or
21 erroneous payment; whether the Board asserts a right to assess interest, penalties and
22 costs of collection; and a description of the manner in which the payee may appeal the
23 determinations reflected in the explanation, if applicable.

1 (4) In determining the amounts owed by a payee and setting a repayment schedule
2 under sections (5) or (6) of this rule, PERS shall reduce the amount owed by any lump-
3 sum payment then owed by PERS to that payee. If the payee should subsequently become
4 entitled to any lump sum payment, it shall be applied against the amounts then owed by
5 that payee. PERS, in its discretion, may revise the repayment schedule or continue on the
6 established schedule until the remaining amounts owed are fully repaid.

7 (5) The following list includes possible methods for PERS to recover an
8 overpayment under an agreement with the payee. These methods are listed in order of
9 preference. Unless otherwise ordered by the Board, PERS Staff is granted the discretion
10 to select the method deemed most likely to effect a full recovery:

11 (a) A repayment of all amounts owed in a single payment[:].

12 (b) A deduction of a percentage or fixed dollar amount, to be agreed upon between
13 the payee and PERS, from future monthly payments for a period not to exceed two years
14 that will fully repay the amounts owed[:].

15 (c) A fixed monthly dollar amount to be agreed upon between the payee and PERS
16 that will fully repay the amounts owed[:].

17 (d) A deduction of a percentage or fixed dollar amount from future monthly
18 payments, to be agreed upon between the payee and PERS, for a specified period greater
19 than two years that will fully repay the amounts owed if PERS deems that a longer
20 repayment period is warranted by the payee’s personal financial circumstances.

21 (6) If the payee does not agree to one of the recovery methods under section (5) of
22 this rule, PERS shall use one or more of the following methods to effect a full recovery
23 of any overpayment or erroneous payment:

1 (a) Deducting not more than 10 percent from current and future monthly payments to
2 a payee until the full amounts owed are recovered[;].

3 (b) Making an actuarially determined reduction, not to exceed 10 percent, to current
4 and future payments from PERS calculated to repay the full amount of the overpayment
5 or erroneous payment during the period in which monthly payments will be made to the
6 payee[;].

7 (c) Seeking recovery of the overpayment or erroneous payment by using any remedy
8 available to the Board under applicable law[; or].

9 (d) Engaging the services of outside collection agencies.

10 (7) If a recovery method has to be selected under section (6) and the overpayment is
11 caused solely by the actions of PERS or a participating public employer, *[the actuarial*
12 *reduction method described in (6)(b) will be the preferred method to recover that*
13 *overpayment unless otherwise ordered by the Board]* **PERS will select a method which**
14 **imposes the least economic hardship on the member while allowing for a reasonably**
15 **prudent recovery of the overpayment.**

16 (8) The base or original benefit payment used to calculate cost-of-living adjustments,
17 ad hoc increases, or other benefit increases shall not be altered by an actuarial reduction
18 provided for in subsection (6)(b) of this rule.

19 (9) In the event that PERS determines that an overpayment or erroneous payment
20 was not caused by PERS or by the actions of a participating public employer, PERS may
21 include within the amounts owed by the payee:

22 (a) All costs incurred by PERS in recovering the overpayment or erroneous payment,
23 including attorney fees, and fees assessed by an outside collection agency; and

1 (b) Interest in an amount equal to one percent per month on the balance of the
2 overpayment or erroneous payment until that payment is fully recovered.

3 (10) The Board authorizes the Director, or the Director’s designee, to waive:

4 (a) The interest and costs of collection associated with the recovery of an
5 overpayment or erroneous payment for good cause shown; and

6 (b) The recovery of any overpayment or erroneous payment if the total amount of
7 overpayments or erroneous payments is less than \$50.

8 (11) Recovery of an overpayment or erroneous payment shall not be effected if
9 PERS has not initiated recovery of those payments within six years after the date the
10 overpayment or erroneous payment was made. PERS initiates recovery on the date it
11 mails the notification required by ORS 238.715(4).

12 (12) The recovery of an overpayment or an erroneous payment shall take precedence
13 over other deductions or reductions as set forth in OAR 459-005-0600.

14 Stat. Auth.: ORS 238.715(9), [238.630](#) & 238.650

15 Stats. Implemented: ORS 238.715

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October 4, 2013

BY EMAIL ONLY

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

Re: Rulemaking for Recovery of Overpayments,
OAR 459-005-0610, Recovery of Overpayments
Our File No.: 5415-237

Dear Steve:

The purpose of this letter is to comment on the pending rulemaking amending the above rules on behalf of the PERS Coalition. The proposal is to delete the language in the current rule which makes the actuarial reduction method the preferred method in making collections in instances where the mistaken payment was not caused by any action by the member. I understand that the rationale for the proposal is that the actuarial reduction method may not be the best or preferred method in all instances.

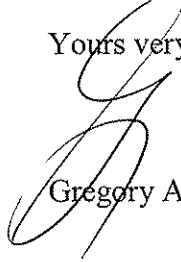
My recollection is that this policy favoring the actuarial method was added when the *Strunk* recovery was commencing and was meant to set the policy for that recovery effort. The underlying rationale for the *Strunk* recovery was to adopt a process which would cause the least economic disruption to a member while at the same time allowing PERS to make the necessary collection. Rather than simply deleting the “preferred” language from the proposed rule, I suggest that a better alternative would be to include language which would incorporate that broader goal of providing the least economic disruption to a member while permitting the necessary recovery. Language along the following lines would be appropriate.

“If a recovery method has to be selected under Section 6(6) and the overpayment is caused solely by the actions of PERS or a participating public employer, the preferred method will be that which causes the least economic disruption to the member while at the same time permitting the recovery of the overpayment.”

Steve Rodeman
October 4, 2013
Page 2

A second issue I wanted to identify is some awkward language which appears in paragraph 10 which relates to the necessity of the board making a collection beyond the statutory period if it's necessary to preserve the qualified status of the fund. The language which appears in the second line of the highlighted section adds "status of the system" which appears to be unnecessary and could be misinterpreted to provide an additional reason for going beyond the six-year statutory period. I think the language could be redrafted to make it clear that the statutory period will be exceeded only if it's necessary to retain the qualified status of the fund.

Yours very truly,



Gregory A. Hartman

GAH:kaj

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cc: Clients



Oregon

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November 22, 2013

TO: Members of the PERS Board
FROM: Steven Patrick Rodeman, Deputy Director
SUBJECT: Adoption of Tier One / Tier Two Division of Benefits Rule:
OAR 459-045-0010, *Tier One / Tier Two Division of Benefits*

OVERVIEW

- Action: Adopt modifications to Tier One / Tier Two Division of Benefits rule.
- Reason: Clarifies the requirements of a court-ordered divorce award.
- Policy Issue: No policy issues were identified.

BACKGROUND

OAR 459-045-0010 was adopted in 1996 to describe how PERS benefits may be divided due to a divorce. The intent of this rule is to further clarify divorce provisions so practitioners can develop court orders that can be administered by PERS and accurately complete related forms that provide PERS with required information.

This rulemaking will clarify the requirements for the division of lump sum benefits and provide additional design requirements for the PERS divorce forms. Sections (3) and (4) were edited to include lump sums as a benefit that may be divided by a qualified domestic relations order.

SUMMARY OF MODIFICATIONS TO RULE SINCE NOTICE

No modifications have been made to the rule.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held on October 22, 2013 at 3:00 p.m. at PERS headquarters in Tigard. No members of the public attended. The public comment period ended on October 29, 2013 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. No existing rule provides for the administration of court order awards for lump sum benefits.

Impact: Members, their attorneys, employers, and staff will benefit from a clear and consistent rule.

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

RULEMAKING TIMELINE

August 15, 2013	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
September 1, 2013	<i>Oregon Bulletin</i> published the Notice. Notice was sent to employers, legislators, and interested parties. Public comment period began.
September 27, 2013	PERS Board notified that staff began the rulemaking process.
October 22, 2013	Rulemaking hearing held at 3:00 p.m. at PERS in Tigard.
October 29, 2013	Public comment period ended at 5:00 p.m.
November 22, 2013	Board may adopt the permanent rule modifications.

BOARD OPTIONS

The Board may:

1. Pass a motion to “adopt modifications to Tier One / Tier Two Division of Benefits rule, 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: Clarifies the requirements of a court-ordered divorce award.

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.5. Attachment 1 – 459-045-0010, *Tier One / Tier Two Division of Benefits*

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

1 **459-045-0010**

2 **Tier One / Tier Two Division of Benefits**

3 (1) A final court order that provides for a division of benefits must use a method
4 described in this rule.

5 (a) The method must be identified on PERS divorce forms.

6 (b) The PERS divorce forms must be attached as exhibits to the court order, and
7 incorporated by reference in the court order.

8 (2) Award of Alternate Payee Account (Non-Retired Member). If a final court order
9 provides an award of an alternate payee account, the court order must provide:

10 (a) The date of annulment, separation, divorce, or property settlement. If no date is
11 provided, PERS will use the date the judge signed the court order. The separate account
12 will be established as of December 31 of the calendar year before this date unless:

13 (A) A prior year is provided in the court order; or

14 (B) The date is December 31.

15 (b) That a separate account be established in an alternate payee's name.

16 (c) The method by which the award is to be calculated. One of the following
17 methods must be used:

18 (A) A percentage, expressed with up to two decimal points; or

19 (B) A dollar amount.

20 (d) Whether an alternate payee is awarded matching employer dollars.

21 (e) That an alternate payee may elect to receive the award at any time after the
22 member's earliest retirement eligibility.

1 (3) Award of Payment from Member’s *[Monthly]* Benefit (Non-Retired Member). If
 2 a final court order awards an alternate payee a reduction or deduction amount from the
 3 *[monthly]* service or disability retirement benefit that shall be paid in the future to the
 4 member, the court order must provide:

5 (a) The date of annulment, separation, divorce, or property settlement. If no date is
 6 provided, PERS will use the date the judge signed the court order.

7 (b) Whether the award is a reduction or deduction from the member’s benefit. If the
 8 award is a reduction, the court order must provide whether the alternate payee is eligible
 9 to elect a separate benefit option at any time after the member reaches earliest retirement
 10 eligibility.

11 (c) The benefit division calculation method *[by which]* that is applied to both the
 12 monthly, and if applicable, lump sum award *[is to be calculated]*. One of the following
 13 calculation methods must be used:

14 (A) A percentage, expressed with up to two decimal points; *[or]*

15 (B) A dollar amount; or

16 (C) A percentage of the married time ratio. The court order must provide:

17 (i) The percentage, expressed with up to two decimal points; and

18 (ii) The years and months of creditable service time accrued by the member during a
 19 specified period or while married to the alternate payee.

20 (d) If there is a specific end date or dollar amount limit to the award, and what that
 21 date or limit is.

22 (e) Whether the award applies to service retirement benefits, disability retirement
 23 benefits, or withdrawal benefits.

1 (f) Whether the member is restricted from withdrawing as a member under ORS
2 238.265.

3 (g) Whether the member must select a specific benefit payment option at retirement.

4 (h) Whether the member is required to designate the alternate payee as a beneficiary:

5 (A) Before retirement~~[.]~~; or

6 (B) At retirement.

7 (i) Whether an alternate payee award continues after the death of:

8 (A) The member~~[.]~~; or

9 (B) The alternate payee.

10 (4) Award of *[Monthly]* Benefit (Retired Member). If a final court order awards an
11 alternate payee an amount payable from a retired member's *[monthly]* service or
12 disability retirement benefit, the court order must provide:

13 (a) The date of annulment, separation, divorce, or property settlement. If no date is
14 provided, PERS will use the date the judge signed the court order.

15 (b) Whether an alternate payee award is a reduction or deduction from the member's
16 monthly benefit, and if applicable, lump sum.

17 (c) The benefit division calculation method *[by which]* that is applied to both the
18 monthly, and if applicable, lump sum award *[is to be calculated]*. One of the following
19 calculation methods must be used:

20 (A) A percentage, expressed with up to two decimal points; or

21 (B) A dollar amount.

22 (d) If there is a specific end date or dollar amount limit to the award, and what that
23 date or limit is.

1 (e) Whether the member may or must change their beneficiary designation. If the
2 member’s beneficiary designation is changed, the member’s monthly benefit must be
3 recalculated.

4 (f) Whether a member who elected Option 2A or 3A under ORS 238.305(1) is
5 allowed to receive the Option 1 benefit under ORS 238.305(6).

6 (g) Whether an alternate payee award continues after the death of:

7 (A) The member ~~./~~; or

8 (B) The alternate payee.

9 Stat. Auth.: ORS 238.465 & 238.650

10 Stats. Implemented: ORS 238.465



Oregon

John A. Kitzhaber, M.D., Governor

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November 22, 2013

TO: Members of the PERS Board
FROM: Steven Patrick Rodeman, Deputy Director
SUBJECT: Adoption of Senate Bill 771 Judge Member Beneficiary Rules:
OAR 459-040-0060, *Judge Member Death Before Retirement*
OAR 459-040-0070, *Judge Member Death After Retirement*

OVERVIEW

- Action: Adopt modifications to Senate Bill 771 Judge Member Beneficiary rules.
- Reason: Implement provisions of Senate Bill 771 (2013), which permits a judge member to elect more than one beneficiary under ORS 238.565.
- Policy Issue: No policy issues were identified.

BACKGROUND

Senate Bill 771 (2013) became effective on June 26, 2013. Prior to passage of the bill, a judge member was prohibited from electing more than one beneficiary to receive death benefits. This bill permits a judge member to elect more than one beneficiary. These modifications conform the administrative rules to the statutory amendment.

SUMMARY OF MODIFICATIONS TO RULE SINCE NOTICE

No modifications have been made to the rule.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held on October 22, 2013 at 3:00 p.m. at PERS headquarters in Tigard. No members of the public attended. The public comment period ended on October 29, 2013 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 will be incorporated before the rules are presented for adoption.

IMPACT

Mandatory: No.

Impact: Alternative methods will be used to implement the additional benefit payments to multiple beneficiaries.

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

RULEMAKING TIMELINE

August 15, 2013	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
September 3, 2013	<i>Oregon Bulletin</i> published the Notice. Notice and draft rules sent to employers, legislators, and interested parties. Public comment period began.
September 27, 2013	PERS Board notified that staff began the rulemaking process.
October 22, 2013	Rulemaking hearing held at 3:00 p.m. at PERS in Tigard.
October 29, 2013	Public comment period ended at 5:00 p.m.
November 22, 2013	Board may adopt the permanent rule modifications.

BOARD OPTIONS

The Board may:

1. Pass a motion to “adopt modifications to Senate Bill 771 Judge Member Beneficiary rules, 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: Implement provisions of Senate Bill 771 (2013), which permits a judge member to elect more than one beneficiary under ORS 238.565.

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.6. Attachment 1 – 459-040-0060, *Judge Member Death Before Retirement*

B.6. Attachment 2 – 459-040-0070, *Judge Member Death After Retirement*

**OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 040 – JUDGE MEMBERS**

1 **459-040-0060**

2 **Judge Member Death Before Retirement**

3 If a judge member dies before retiring, benefits shall be distributed and calculated as
4 follows:

5 (1) For a surviving spouse:

6 (a) If the judge member has six or more years of service as a judge and the judge
7 member is not an inactive judge member performing pro tem service under the provisions
8 of ORS 238.545(4), the surviving spouse shall receive a life pension equal to two-thirds
9 of the retirement allowance the judge member would have received under Plan A, had the
10 judge member retired on the date of death.

11 (b) If the judge member has six or more years of service as a judge and the judge
12 member is an inactive judge member performing pro tem service under the provisions of
13 ORS 238.545(4) at the time of death, the surviving spouse shall receive a life pension
14 equal to two-thirds of the service retirement allowance the judge member would have
15 received under Plan B, had the judge member retired on the date of death.

16 (c) If the judge member has less than six years of service as a judge, the surviving
17 spouse shall receive a lump sum payment equal to the amount credited to the judge
18 member account in the Fund on the first of the month following the date of death.

19 (d) If a surviving spouse receiving a life pension under this section dies and the total
20 amount of pension payments received by the surviving spouse is less than the amount that
21 had been credited to the deceased judge member's account as of the date of death of the

1 judge member, the designated beneficiary or beneficiaries of the judge member shall
2 receive a lump sum payment equal to the remainder.

3 (2) For purposes of computing a surviving spouse’s life pension in section (1) of this
4 rule, a judge member who dies before age 60 is deemed to have died at age 60.

5 (3) If the judge member has six or more years of service as a judge and the judge
6 member has no surviving spouse, the designated beneficiary or beneficiaries shall
7 receive a lump sum payment equal to the amount credited to the judge member account
8 in the Fund on the first of the month following the date of death.

9 (4) If the judge member has no surviving spouse and designated a beneficiary
10 or beneficiaries at death, a lump sum payment equal to the amount credited to the
11 judge member’s account on the date of death shall be paid to the judge member’s
12 beneficiary or beneficiaries.

13 ~~[(4)]~~(5) If the judge member has no surviving spouse and no designated beneficiary
14 or beneficiaries at death, a lump sum payment equal to the amount credited to the judge
15 member’s account on the date of death shall be paid to the judge member’s estate.

16 ~~[(5)]~~(6) If the judge member, under the provisions of ORS 238.565(8), elects to have
17 a portion of the pension payable to a surviving spouse paid to a former spouse, the
18 designated portion shall be paid to the former spouse as a life pension. The portion of the
19 pension not paid to the former spouse shall be paid to the surviving spouse, if any.

20 (a) The life of the first former spouse designated to receive a pension under ORS
21 238.565(8) will be the measuring life of the pensions payable to the surviving spouse and
22 to any other former spouse.

1 (b) Upon the death of the first designated former spouse, the pensions payable to the
2 surviving spouse and to any other former spouse shall cease.

3 (c) If, at the death of the first designated former spouse, the total amount of the
4 payments received by the surviving spouse and former spouse(s) is less than the amount
5 that had been credited to the deceased judge member's account as of the date of the judge
6 member's death, the judge member's designated beneficiary or beneficiaries shall
7 receive a lump sum payment equal to the remainder.

8 Stat. Auth.: ORS 238.650

9 Stats. Implemented: ORS 238.565

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**OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 040 – JUDGE MEMBERS**

1 **459-040-0070**

2 **Judge Member Death After Retirement**

3 If a judge member dies after the effective retirement date, benefits shall be
4 distributed and calculated as follows:

5 (1) Surviving Spouse Standard Two-thirds Benefit. The surviving spouse of a judge
6 member shall receive a life pension equal to two-thirds of the service retirement
7 allowance the judge member is receiving or is entitled to receive on the date of death.

8 (2) Additional benefit for surviving spouse. The surviving spouse may be entitled to
9 an addition to the pension described in section (1) of this rule if:

10 (a) The judge member selected a reduced retirement allowance under ORS
11 238.565(4); and

12 (b) The surviving spouse is the spouse of record on the effective date of retirement.

13 (3) No surviving spouse. If the judge member has no surviving spouse and the total
14 amount of retirement allowance received by the retired judge member is less than the
15 amount credited to the judge member account on the judge member's effective retirement
16 date, the designated beneficiary or beneficiaries shall receive a lump sum payment equal
17 to the remainder.

18 (4) Death of surviving spouse. If a surviving spouse receiving a pension under
19 section (1) of this rule dies and the total amount received as retirement allowance by the
20 retired judge member and as pension by the surviving spouse is less than the amount
21 credited to the judge member account on the effective date of retirement of the judge

1 member, the designated beneficiary or beneficiaries of the judge member shall receive a
2 lump sum payment equal to the remainder.

3 (5) Default beneficiary. If the judge member has no valid written designation of
4 beneficiary form filed with the PERS Board before the judge member's death, the
5 beneficiary of the judge member shall be the personal representative of the judge
6 member's estate.

7 (6) Unpaid accrued retirement allowance. Any accrued retirement allowance due a
8 retired judge member that is unpaid at the time of death of the judge member shall be
9 paid as follows:

10 (a) To the surviving spouse of the judge member;

11 (b) If there is no surviving spouse of the judge member, to the beneficiary or
12 beneficiaries of the judge member; or

13 (c) If there is no surviving spouse or beneficiary of the judge member, in the manner
14 provided for payments under ORS 238.390(2).

15 (7) If the judge member, under the provisions of ORS 238.565(8), elects to have a
16 portion of the pension payable to a surviving spouse paid to a former spouse, the
17 designated portion shall be paid to the former spouse as a life pension. The portion of the
18 pension not paid to the former spouse shall be paid to the surviving spouse, if any.

19 (a) The life of the first former spouse designated to receive a pension under ORS
20 238.565(8) will be the measuring life of the pensions payable to the surviving spouse and
21 to any other former spouse.

22 (b) Upon the death of the first designated former spouse, the pensions payable to the
23 surviving spouse and to any other former spouse shall cease.

1 (c) If, at the death of the first designated former spouse, the total amount of the
2 payments received by the retired judge member and the payments received by the
3 surviving spouse and former spouse(s) is less than the amount credited to the deceased
4 judge member's account on the judge member's effective retirement date, the judge
5 member's designated beneficiary or beneficiaries shall receive a lump sum payment
6 equal to the remainder.

7 Stat. Auth.: ORS 238.650

8 Stats. Implemented: ORS 238.565

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November 22, 2013

TO: Members of the PERS Board
FROM: Marjorie Taylor, Senior Policy Advisor
SUBJECT: Legislative Update and Membership of the Legislative Advisory Committee

OVERVIEW

The Oregon Legislative Assembly was called into Special Session by the Governor on Monday, September 30, 2013. Session adjourned two days later with legislators having approved two bills impacting PERS. In addition to implementing recently approved legislation, agency staff are reviewing ideas for new legislation to be considered in 2014 or 2015. We plan to meet with the PERS Legislative Advisory Committee before the next Board meeting to discuss agency-proposed legislation and seek feedback from those stakeholders.

SENATE BILL 861

Senate Bill 861 supersedes the 2014 cost-of-living adjustment (COLA) that was previously approved in Senate Bill 822 (2013). Senate Bill 822 capped the COLA payable on August 1, 2013 at 1.5% for all benefit recipients. Under SB 822, the COLA payable August 1, 2014 and beyond would have varied based on the amount of the yearly benefit.

Senate Bill 861 did not change the August 1, 2013 COLA percentage. The bill modified the annual benefit amount used to determine COLA for PERS benefit recipients. Effective with the August 1, 2014 benefit payment, a COLA will be limited to 1.25% on the first \$60,000 of a yearly benefit payment and 0.15% on amounts above \$60,000.

Additionally, SB 861 provides a supplemental, one-time payment of 0.25% of their yearly benefit to all benefit recipients, not to exceed \$150. Those who receive a PERS benefit of less than \$20,000 per year will receive a second supplemental, one-time payment of 0.25% of their yearly benefit. These supplemental payments will not be compounded into the member's yearly benefit and will be in effect for six years (first payable after July 1, 2014 and ending after July 1, 2019).

Supplemental payments will be paid from the PERS Contingency Reserve, and payments are not anticipated to have a material impact on PERS' unfunded actuarial liability or employer contribution rates.

SENATE BILL 862

Senate Bill 862 contains three major provisions. First, for the purpose of "final average salary" for OPSRP members, the measure excludes certain increases in salary during the last 36 months of employment that are made by an employer so an individual employee may pay for insurance coverage previously paid by the employer. Second, the measure allows for garnishment of PERS benefits for restitution or compensatory damages if the member has been convicted of a felony.

Third, the measure prohibits most new legislators from becoming members in PERS but allows them to choose to contribute to the Oregon Savings Growth Plan (OSGP). Also, current legislators may opt out of PERS and elect to make contributions to OSGP prospectively.

IMPLEMENTATION OF LEGISLATION

To implement the tiered-COLA provision of SB 861, the agency will leverage work started under SB 822. With regard to the supplemental payment portion of SB 861, in order to distinguish on-going benefit increases due to COLA (beginning with August 1 payments) and changes related to health benefit premiums (beginning with January 1 payments), we intend for the annual, one-time supplemental payment(s) to be made along with December 1, 2014 benefit payments.

For SB 862, we are developing an Employer Announcement that will outline the new definition of “final average salary” that employers must follow. We anticipate hearing from the courts and attorneys directly if there is need for garnishment of an account, a function we already provide under certain circumstances. Finally, staff will revise communications we share with legislators at the beginning of each term of office to reflect all benefit options available to new legislators whether they have previous PERS-covered service or not. This provision impacts legislators who take office now or in the future.

FEBRUARY 2014 SESSION

As you may recall, the Oregon Municipal Finance Officers Association and representatives from local government have raised concerns about access to the PERS information they will need to comply with the new standards from the Governmental Accounting Standards Board (GASB No. 68). These new standards will require PERS-covered employers to have comprehensive, audited, and individualized data regarding their financial position in PERS. Providing the additional information required would create substantial actuarial and auditing costs for PERS, but at present the agency does not have the authority to collect or expend funds to pay for these costs. PERS is working with employers on crafting the legislation needed to address that expenditure authority.

The fiscal impact statement for SB 861 acknowledged an agency need for additional staff resources in the call center, additional funding for anticipated Attorney General charges, and some technology charges. During the 2014 session, we will work with the Legislative Fiscal Office and the Ways and Means Committee to receive these additional appropriations.

In addition to seeking previously approved appropriations, Senate Bill 5537, the agency budget bill, requires a report in 2014 regarding specific administrative efficiencies that all state agencies were to consider, and delivery of a fully developed business case for bringing administration of the Individual Account Program (IAP) in-house. Staff are evaluating requirements, resources, and timing associated with the IAP project and will prepare the report.

2015 LEGISLATIVE SESSION

Agencies, through the Governor’s Office, may request legislation to be introduced for the 2015 Legislative Session. We are currently reviewing statutes, policies, procedures, and practices in order to suggest needed fixes. After internal review, it would be helpful for the Legislative

Advisory Committee to provide comments and suggestions regarding a limited number of proposals. In January 2014, concept requests will be presented to the Board for initial consideration and suggestions. Formal requests for Legislative Concepts will be revised and presented for Board approval in March 2014. By Fall 2014, PERS will have circulated the official bill drafts and incorporated suggestions from the Legislative Advisory Committee and Board. In November 2014, the Board may give final approval as to whether the concept will move forward to the Governor's Office for introduction. The Governor's Office will ultimately make the final decisions regarding introduction.

LEGISLATIVE ADVISORY COMMITTEE

ORS 238.660(10) requires appointment of a committee to advise the Board on legislative proposals that impact PERS benefits. The committee must include an equal number of members representing labor and management. The PERS Board needs to refresh the Legislative Advisory Committee membership so we can engage them this winter to discuss agency proposals for legislation.

RECOMMENDED APPOINTMENTS

The proposed membership is balanced between labor and management representatives, and includes members who participated in previous Advisory Committee meetings. All proposed members have been contacted and are willing to serve on the committee. Staff anticipates engaging the committee before February 2014 to discuss agency proposals.

Name	Representing
Patrick Allen	Oregon Department of Consumer and Business Services
Mary Botkin	American Federation of State, County and Municipal Employees (<i>Don Loving may attend meetings if Mary is not available.</i>)
Lance Colley	City of Roseburg
Andrea Cooper	Oregon Education Association
Jack Dempsey	Oregon Nurses Association / Oregon State Police Officers Association / Association of Oregon Corrections Employees
Mike McArthur	Association of Oregon Counties (<i>A new AOC staff member will replace Mike McArthur on this committee beginning January 2014.</i>)
Bob Livingston	Oregon State Fire Fighters Council
Cheri Helt	Oregon School Boards Association
Tricia Smith	Oregon School Employees Association
Hasina Squires	Special Districts Association of Oregon
Art Towers	Service Employees International Union
Scott Winkels	League of Oregon Cities

BOARD OPTIONS

The Board may:

1. Approve the recommended appointments, effective immediately.
2. Direct staff to solicit different or additional candidates for appointment.

STAFF RECOMMENDATION

Staff recommends the Board choose Option #1.

- Reason: Staff needs to engage the committee members soon to adequately evaluate legislative proposals prior to the 2015 session.



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November 22, 2013

TO: Members of the PERS Board
FROM: Debra Hembree, Actuarial Services Coordinator
SUBJECT: 2012 Valuation Update and Financial Modeling Results

Milliman actuaries Matt Larrabee and Scott Preppernau will present updated December 31, 2012 actuarial valuation results, including the impact of Senate Bill 861 and the results of the RHIA/RHIPA valuation. The actuaries will also present updated system financial modeling results. This analysis will include long-term estimates of key measures such as employer rates and funded status and will reflect the impact of Senate Bill 861 and investment returns through September 2013.

This presentation is a discussion item only and will not require Board action.

The presentation will be provided electronically to the Board and posted on the PERS website as soon as it is available. Hard copies will be provided at the meeting.

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DECEMBER 31, 2012 ACTUARIAL VALUATION UPDATE & FINANCIAL MODELING

OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM

November 22, 2013

Presented by:

Matt Larrabee, FSA, EA

Scott Preppernau, FSA, EA



Introduction

- In September, we presented preliminary system average valuation results for the Tier 1/Tier 2 & OPSRP programs
 - Reflected benefit provisions then in effect, including Senate Bill 822
- October's special legislative session made further modifications to post-2013 COLAs via SB 861
- Today's presentation:
 - Illustrates the impact of the SB 861 modifications on the preliminary valuation results shown in September
 - Reviews valuation results for the retiree health insurance programs
 - Shows long-term projections of system average contribution rates and funded status reflecting investment results through October 31, 2013 and the COLA changes of SB 861

Valuation Process and Timeline

- Actuarial valuations are conducted annually
 - Alternate between “rate setting” and “advisory” valuations
 - The 12/31/2012 valuation is advisory
- The Board adopts employer contribution rates developed in rate setting valuations, and those rates go into effect 18 months subsequent to the valuation date

Valuation Date	Employer Contribution Rates
12/31/2011 →	July 2013 – June 2015
12/31/2013 →	July 2015 – June 2017

Special Session Changes to PERS Benefits

- October's special legislative session passed Senate Bill 861 and Senate Bill 862
- Senate Bill 861 changed post-2013 COLAs as shown below

Annual Benefit Amount	COLA under SB 822	COLA under SB 861
First \$20,000	2.00%	1.25%
\$20,000 - \$40,000	1.50%	1.25%
\$40,000 - \$60,000	1.00%	1.25%
\$60,000 or more	0.25%	0.15%

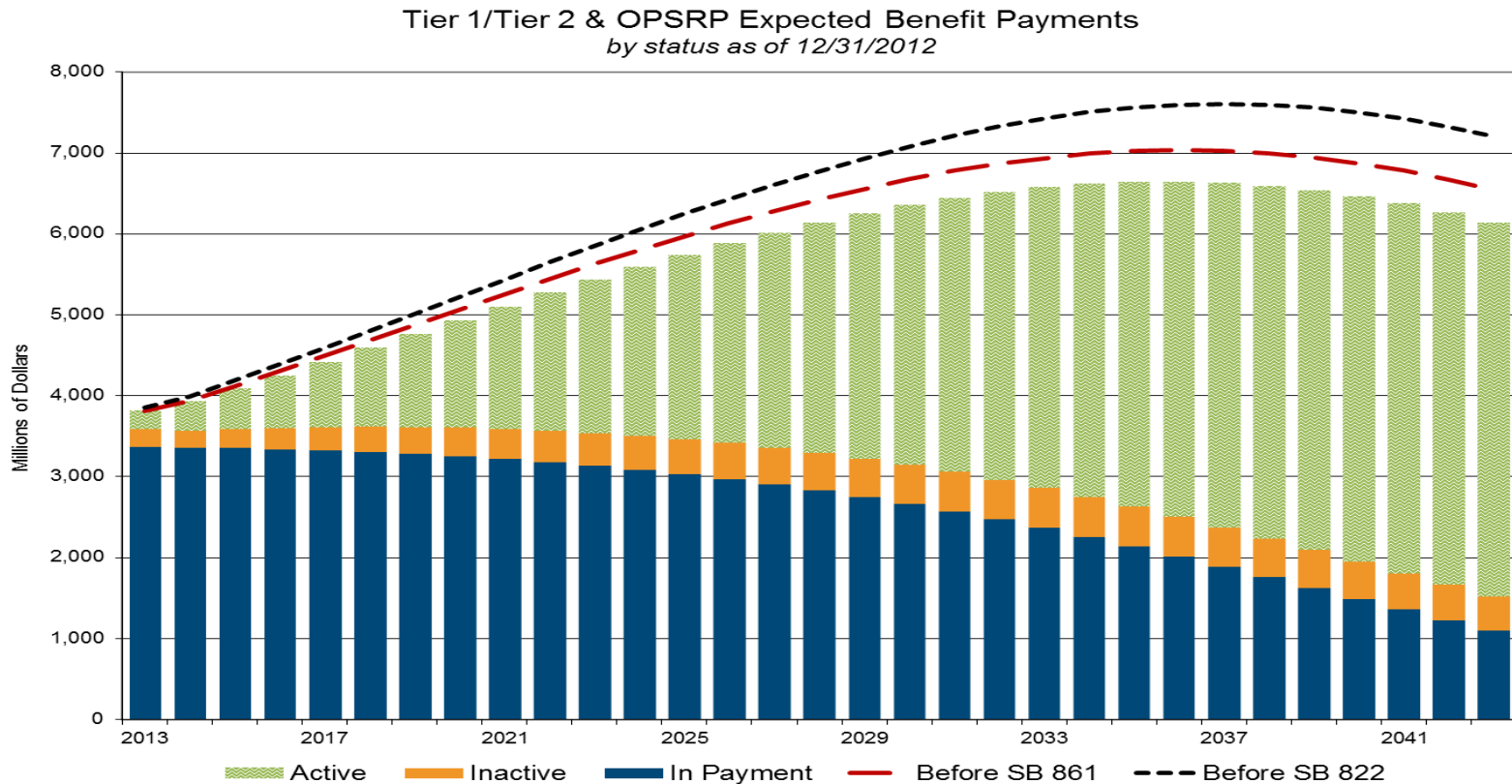
- Also authorized six years of limited supplemental payments to be paid from Contingency Reserve
- Senate Bill 862 made other specific, limited changes that will not have an effect on valuation results

This work product was prepared for discussion purposes only and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. Any recipient of this work product who desires professional guidance should engage qualified professionals for advice appropriate to its own specific needs.

Development of Liabilities

Liabilities are calculated from projected benefit payments

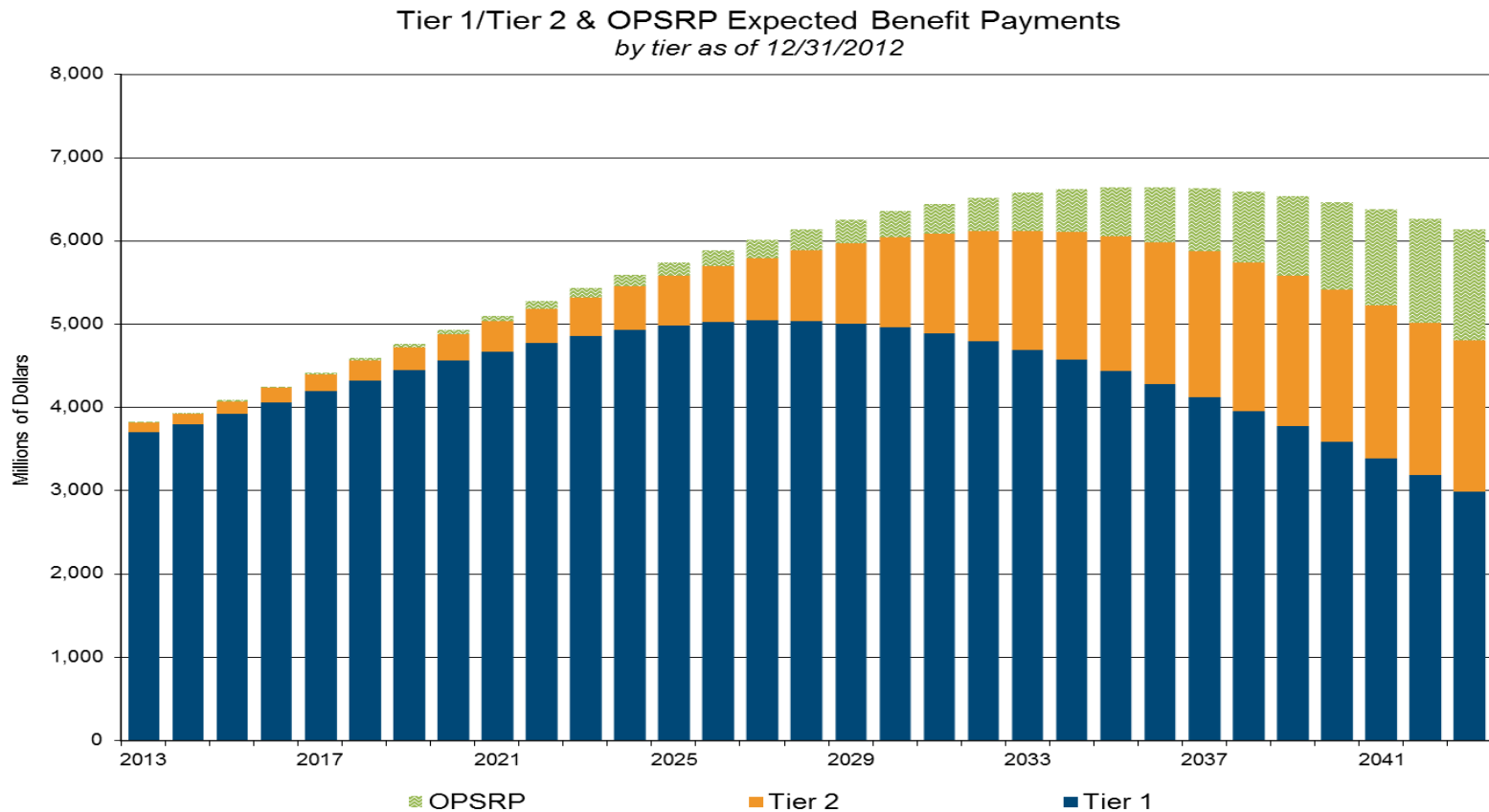
Effects of recent benefit provision changes are projected below



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Development of Liabilities

This chart shows projected payments split by membership group



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12/31/2012 Valuation Results

Tier 1/Tier 2 & OPSRP (Excluding Side Accounts & Retiree Health Care)

<i>(amounts in billions)</i>	Post-SB 822 12/31/2012	Post-SB 861 12/31/2012
Accrued Liability	\$62.5	\$60.4
Assets	\$49.3	\$49.3
Unfunded Accrued Liability (UAL)	\$13.2	\$11.1
Funded Status	79%	82%

SB 861 changes reduced accrued liability by \$2.1 billion as of 12/31/2012

Results reflect investment results through year-end 2012

Uncollared System Average Rates

Excludes Retiree Health Care, IAP Contributions, Rate Collar, Side Accounts

	12/31/2011 ¹ 2013 - 2015 Final			12/31/2012 ¹ 2015 - 2017 Advisory		
	Tier 1 / Tier 2	OPSRP	System- Wide	Tier 1 / Tier 2	OPSRP	System- Wide
Normal Cost	9.00%	6.56%	8.16%	13.45%	7.81%	11.32%
Tier 1/Tier 2 UAL	14.77%	14.77%	14.77%	8.90%	8.90%	8.90%
OPSRP UAL	0.15%	0.15%	0.15%	0.60%	0.60%	0.60%
Valuation Uncollared Rate	23.92%	21.48%	23.08%	22.95%	17.31%	20.82%
SB 822 Benefit Provisions	-2.50%	-2.50%	-2.50%	SB 822 & SB 861 benefit provisions and 2012 investment results reflected in 2015-17 advisory rates		
Uncollared Rate	21.42%	18.98%	20.58%			

2015 - 2017 uncollared rates reflect a re-amortization (as a level percentage of payroll) of Tier 1/Tier 2 UAL over twenty years

¹ For this exhibit, adjustments are assumed not to be limited due to an individual employer reaching a 0.00% contribution rate.

Collared System Average Base Rates

Excludes Retiree Health Care & IAP Contributions, Side Account Offsets

	12/31/2011 ¹ 2013 - 2015 Final			12/31/2012 ¹ 2015 - 2017 Advisory		
	Tier 1 / Tier 2	OPSRP	System- Wide	Tier 1 / Tier 2	OPSRP	System- Wide
Uncollared Rate	21.42%	18.98%	20.58%	22.95%	17.31%	20.82%
Collar Adjustment	(2.30%)	(2.30%)	(2.30%)	(2.17%)	(2.17%)	(2.17%)
SB 822 Rate Deferral	(1.78%)	(1.78%)	(1.78%)	N/A	N/A	N/A
Collared Base Rate	17.34%	14.90%	16.50%	20.78%	15.14%	18.65%
Change from 2013-2015				3.44%	0.24%	2.15%

*The rate collar limits increases that would be effective July 2015
Barring benefit modifications or 2013 investment returns varying
significantly from assumption, final 2015 – 2017 base rates will be
similar to advisory 2015 – 2017 base rates*

¹ For this exhibit, adjustments are assumed not to be limited due to an individual employer reaching a 0.00% contribution rate.

Collared System Average Net Rates

Excludes Retiree Health Care & IAP Contributions

	12/31/2011 ¹ 2013 - 2015 Final			12/31/2012 ¹ 2015 - 2017 Advisory		
	Tier 1 / Tier 2	OPSRP	System- Wide	Tier 1 / Tier 2	OPSRP	System- Wide
Collared Base Rate	17.34%	14.90%	16.50%	20.78%	15.14%	18.65%
Side Account (Offset)	(5.26%)	(5.26%)	(5.26%)	(5.70%)	(5.70%)	(5.70%)
SLGRP Charge/(Offset)	(0.44%)	(0.44%)	(0.44%)	(0.45%)	(0.45%)	(0.45%)
Collared Net Rate	11.64%	9.20%	10.80%	14.63%	8.99%	12.50%
Change from 2013-2015				2.99%	(0.21%)	1.70%

Rates vary substantially by employer and by pool, and not all employers have side account offsets

Changes in side account offsets are not collared, and thus are more volatile than base rates (for example, strong 2013 investment results would increase 2015 - 2017 side account offsets)

¹ For this exhibit, adjustments are assumed not to be limited due to an individual employer reaching a 0.00% contribution rate.

Comments on System Average Rates

- No single employer pays the system average rate
 - School district base rates are above the average
 - Most SLGRP employers' base rates are below the average
- Rates shown do not include the effects of:
 - Individual Account Plan (IAP) contributions
 - Rates for the RHIA & RHIPA retiree healthcare programs
 - Debt service payments on pension obligation bonds
- The 2015 - 2017 rates are only advisory
 - Final rates will be based on 12/31/2013 funded status
 - The most significant differences between advisory and final rates will likely be due to side account rate offset changes, based on 2013 investment performance

12/31/2012 Retiree Health Care Valuation

- Two separate health care benefit subsidies are valued:
 - RHIA provides a \$60 per month subsidy toward healthcare premiums for Medicare-eligible Tier 1/Tier 2 retirees
 - RHIPA provides Tier 1/Tier 2 state employees who retire prior to age 65 with an alternative to PEBB coverage until they reach Medicare eligibility
- OPSRP retirees are not eligible for either subsidy
- RHIA and RHIPA benefits are currently less well funded than Tier 1/Tier 2 & OPSRP benefits
 - To help address that, in July 2009 the Board shortened the shortfall amortization period to ten years to improve funded status over time
 - Rates reflecting the shorter amortization were first effective July 2011

12/31/2012 Retiree Health Care Valuation

- While funded status is low, RHIA and RHIPA liabilities combined are less than 1% of the pension liability
- In this year's experience study, we recommended restructuring the RHIPA participation assumption for future state government retirements
 - We assumed higher participation rates for retirees eligible for the largest employer-paid subsidies
 - RHIPA program has historically had participation levels less than 20%

12/31/2012 Retiree Health Care Valuation

- RHIPA funded status declined in the past year from 13% to 7%, reflecting both actual participation experience and updated assumptions for future participation experience
 - Assuming higher future participation increases the calculated liabilities
 - It also increases contribution rates, helping to fund the program
- The higher contribution rates effective July 2011 have helped mitigate the program's negative cash flow
- Additional rate increases due to the updated assumptions will be first effective in July 2015
- RHIPA warrants continued monitoring, as funded status is very low and subsidy payments are sensitive to actual participation levels

12/31/2012 Retiree Health Care Valuation

Unfunded Accrued Liability (UAL) and Advisory Contribution Rates

<i>(amounts in millions)</i>	RHIA		RHIPA*	
	12/31/2011	12/31/2012	12/31/2011	12/31/2012
Accrued Liability	\$461	\$472	\$35	\$60
Assets	\$239	\$292	\$ 5	\$ 4
UAL	\$222	\$180	\$30	\$56
Funded Status	52%	62%	13%	7%
Normal Cost Rate	0.10%	0.08%	0.07%	0.09%
UAL Rate	0.49%	0.48%	0.20%	0.34%
Total Rate	0.59%	0.56%	0.27%	0.43%

*State Agencies, OUS, and State Judiciary are the only employers who pay RHIPA rates

RHIPA assets at year-end 2012 were only slightly larger than the magnitude of 2012 RHIPA benefit payments

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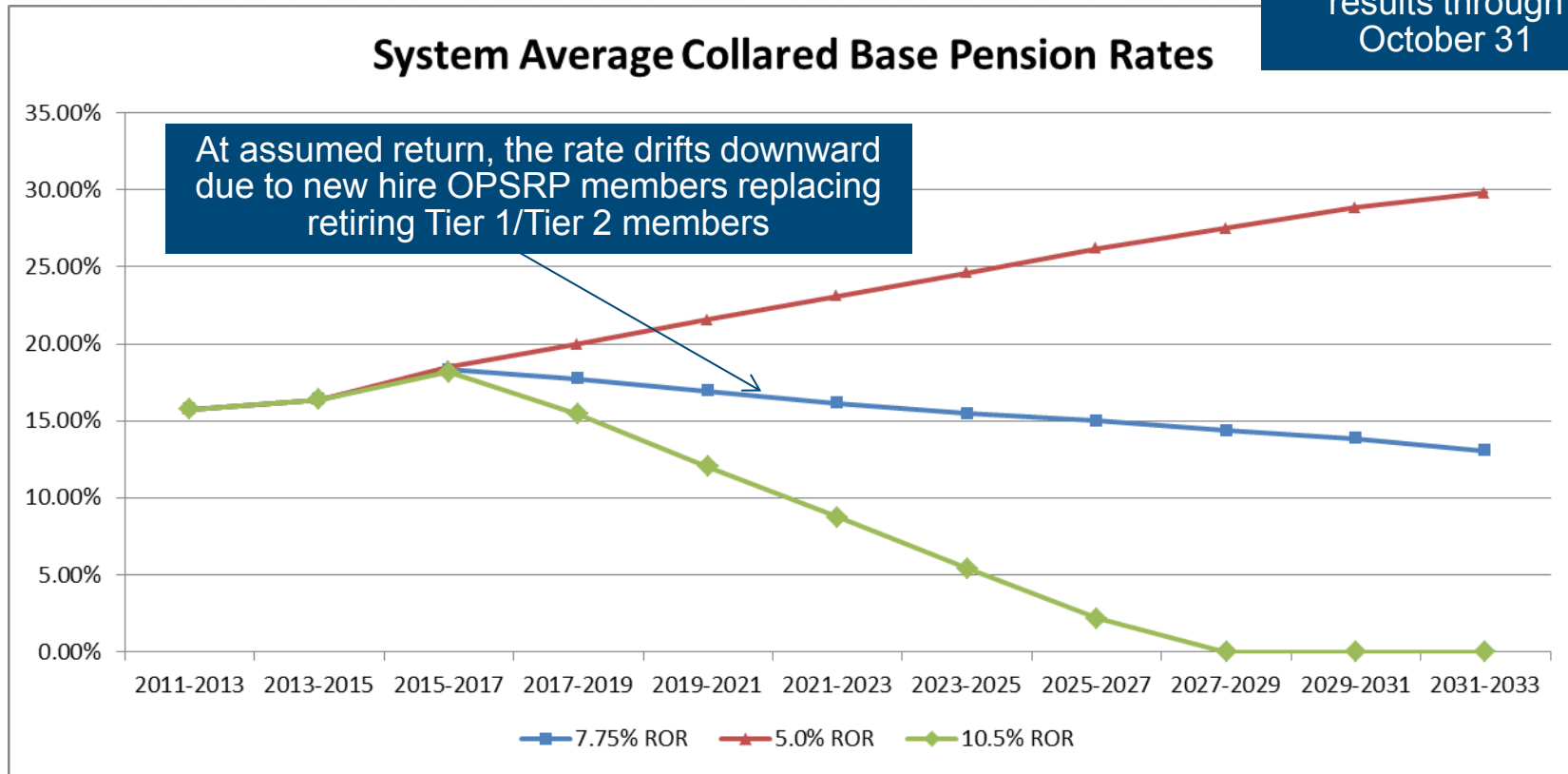
Financial Modeling

Models and Inputs

- Rates are projected with both a steady return model and a variable return model where investment returns change from year to year
- Modeling starts with 12/31/2012 liabilities and assumptions
 - Liabilities reflect SB 822 & SB 861 benefit changes
 - Also reflect EAN cost allocation method and 7.75% return assumption
- Modeling uses 12/31/2012 assets adjusted for regular account returns of 12.41% through October 2013 as reported by Oregon State Treasury

Steady Return Model Projections

Reflects effects of SB 822 & SB 861 and investment results through October 31

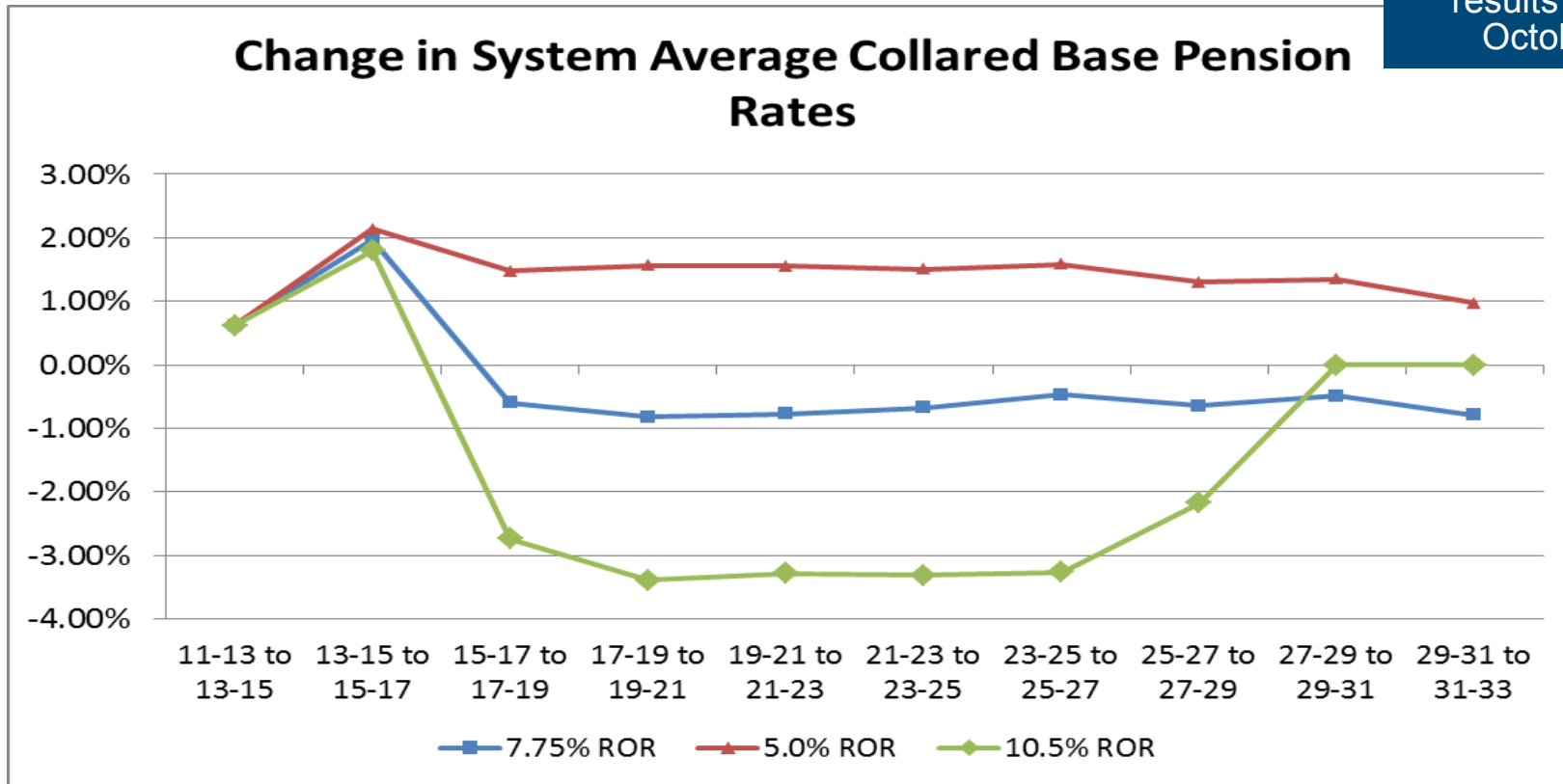


The steady rate model illustrates impact of consistently achieving the assumed 7.75% return compared to plus or minus 2.75% of that rate

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Steady Return Model Projections

Reflects effects of SB 822 & SB 861 and investment results through October 31



Shows biennium to biennium changes under steady return projections

The 2015 increase is nearly identical in all scenarios due to rate collaring

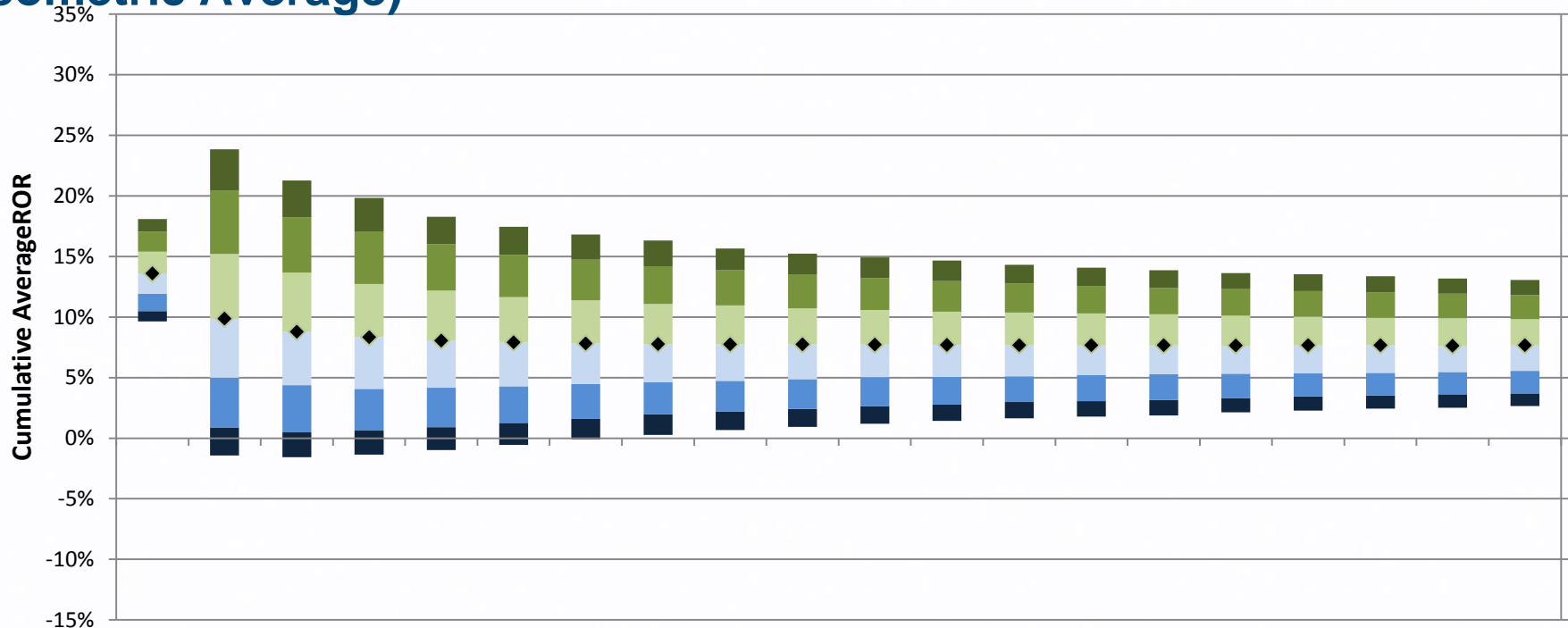
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Variable Return Model

- Model results are likelihood ranges instead of a single amount
 - The distribution is based on a stochastic simulation using 10,000 trials
 - Scenarios were developed by our national capital market specialists, and use the current OPERF target asset allocation policy
- In our results charts, the dots represent median outcomes
- We display model results from the 5th to 95th percentiles
 - Ten percent of model outcomes fall outside of the depicted range
- The chart format is demonstrated on the next slide
 - It shows the modeled range of potential future investment returns that will be experienced by the fund
 - Returns are shown as average annualized returns on a calendar year basis, and incorporate the published 2013 returns through October 31

PERS Fund Rate of Return

Cumulative Annualized Average Investment Return From 1/1/2013 (Geometric Average)

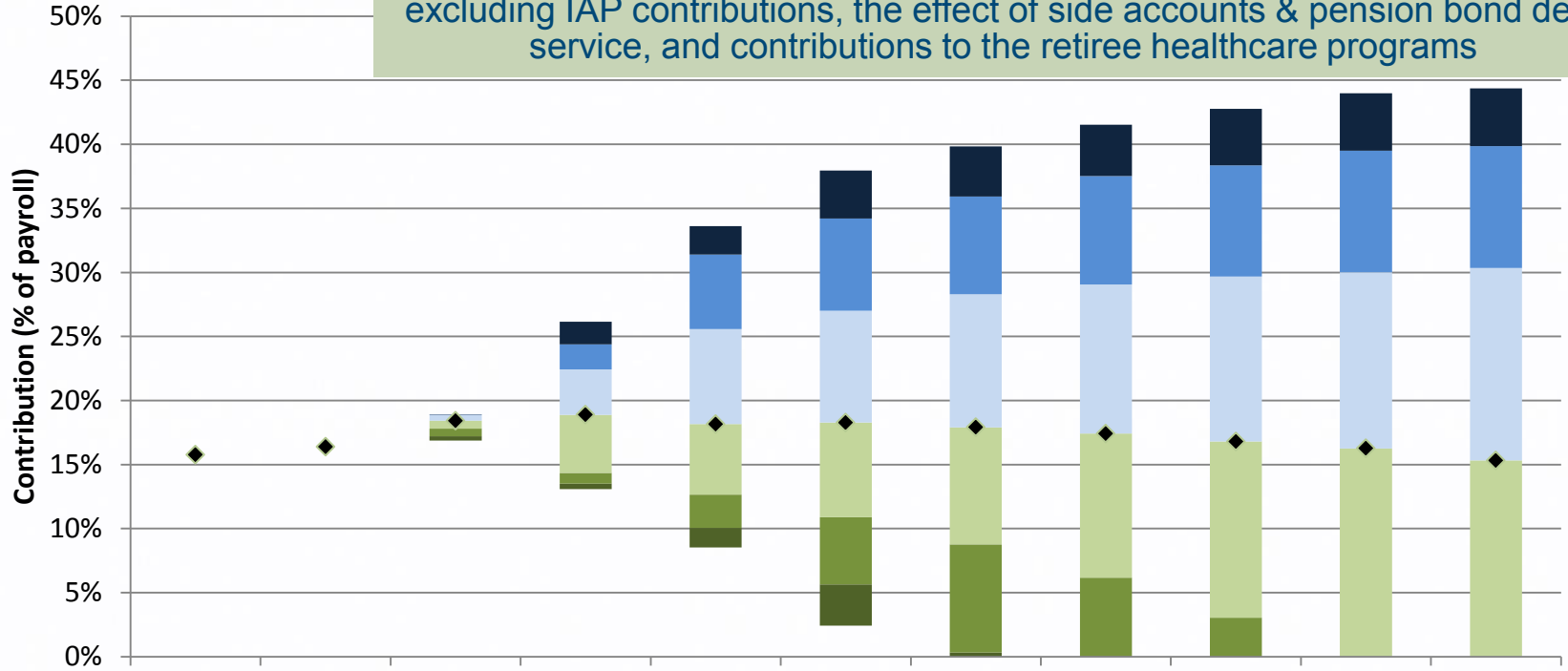


PY Ending 12/31	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
95th	18.1%	23.8%	21.3%	19.8%	18.3%	17.4%	16.8%	16.3%	15.7%	15.2%	14.9%	14.7%	14.3%	14.1%	13.9%	13.6%	13.5%	13.4%	13.2%	13.1%
90th	17.1%	20.4%	18.2%	17.0%	16.0%	15.1%	14.7%	14.2%	13.9%	13.5%	13.2%	13.0%	12.8%	12.6%	12.4%	12.3%	12.1%	12.1%	11.9%	11.8%
75th	15.4%	15.2%	13.7%	12.7%	12.2%	11.6%	11.4%	11.1%	11.0%	10.7%	10.6%	10.4%	10.4%	10.3%	10.2%	10.1%	10.0%	9.9%	9.9%	9.8%
50th	13.6%	9.9%	8.8%	8.3%	8.0%	7.9%	7.8%	7.8%	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%	7.6%	7.7%	7.7%	7.6%	7.7%
25th	11.9%	5.0%	4.4%	4.1%	4.2%	4.3%	4.5%	4.6%	4.7%	4.9%	5.0%	5.1%	5.1%	5.2%	5.3%	5.3%	5.4%	5.4%	5.5%	5.5%
10th	10.5%	0.9%	0.5%	0.6%	0.9%	1.3%	1.6%	2.0%	2.2%	2.4%	2.6%	2.8%	3.0%	3.1%	3.2%	3.3%	3.4%	3.5%	3.6%	3.7%
5th	9.6%	-1.4%	-1.6%	-1.4%	-1.0%	-0.5%	-0.1%	0.3%	0.7%	0.9%	1.2%	1.4%	1.6%	1.8%	1.9%	2.1%	2.3%	2.4%	2.5%	2.6%

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Collared System Average Base Contribution Rates

“Base” rates are system average Tier 1/Tier 2/OPSRP contribution rates excluding IAP contributions, the effect of side accounts & pension bond debt service, and contributions to the retiree healthcare programs

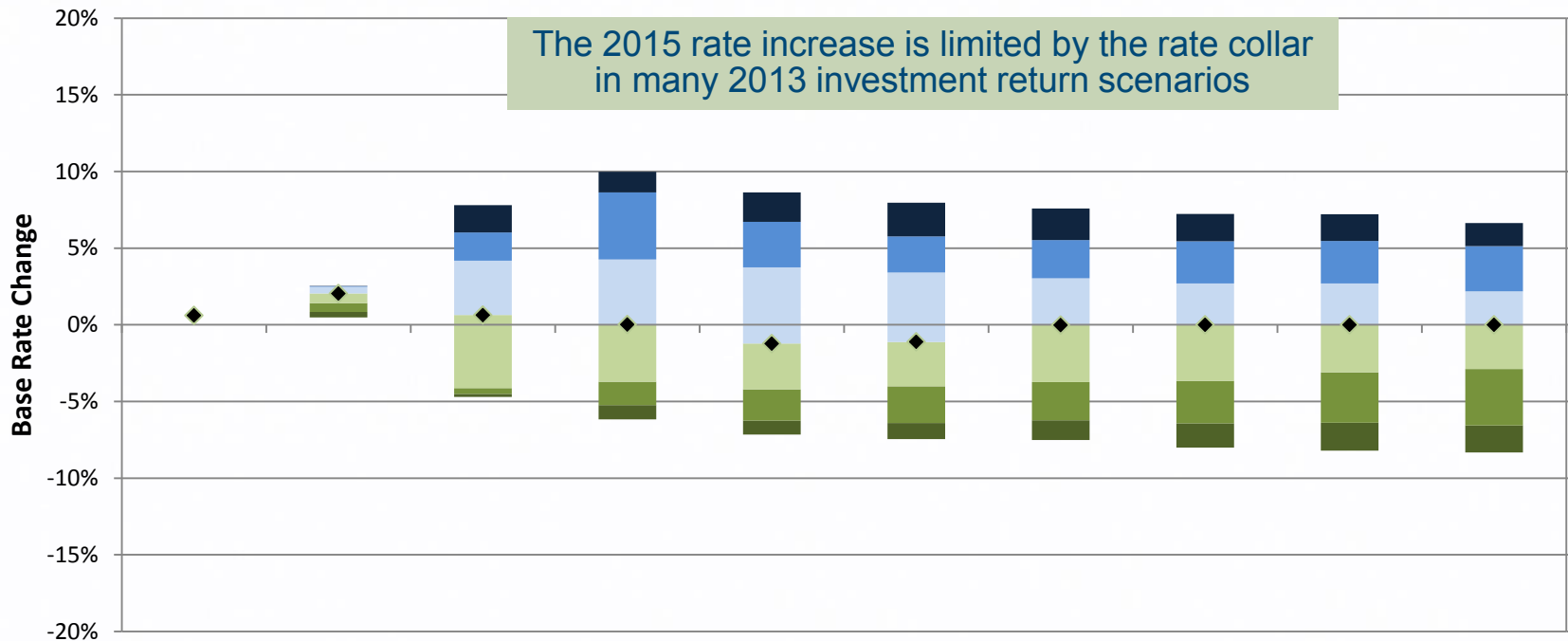


Biennium	2011-2013	2013-2015	2015-2017	2017-2019	2019-2021	2021-2023	2023-2025	2025-2027	2027-2029	2029-2031	2031-2033
5th	15.8%	16.4%	18.9%	26.1%	33.6%	38.0%	39.8%	41.5%	42.8%	44.0%	44.4%
10th	15.8%	16.4%	18.9%	24.4%	31.4%	34.2%	35.9%	37.5%	38.3%	39.5%	39.9%
25th	15.8%	16.4%	18.9%	22.4%	25.6%	27.0%	28.3%	29.1%	29.7%	30.0%	30.3%
50th	15.8%	16.4%	18.4%	18.9%	18.2%	18.3%	17.9%	17.4%	16.8%	16.3%	15.3%
75th	15.8%	16.4%	17.8%	14.3%	12.7%	10.9%	8.8%	6.2%	3.1%	0.0%	0.0%
90th	15.8%	16.4%	17.2%	13.5%	10.1%	5.6%	0.3%	0.0%	0.0%	0.0%	0.0%
95th	15.8%	16.4%	16.9%	13.1%	8.5%	2.4%	0.0%	0.0%	0.0%	0.0%	0.0%

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Biennium to Biennium Change

Collared System Average Base Contribution Rates

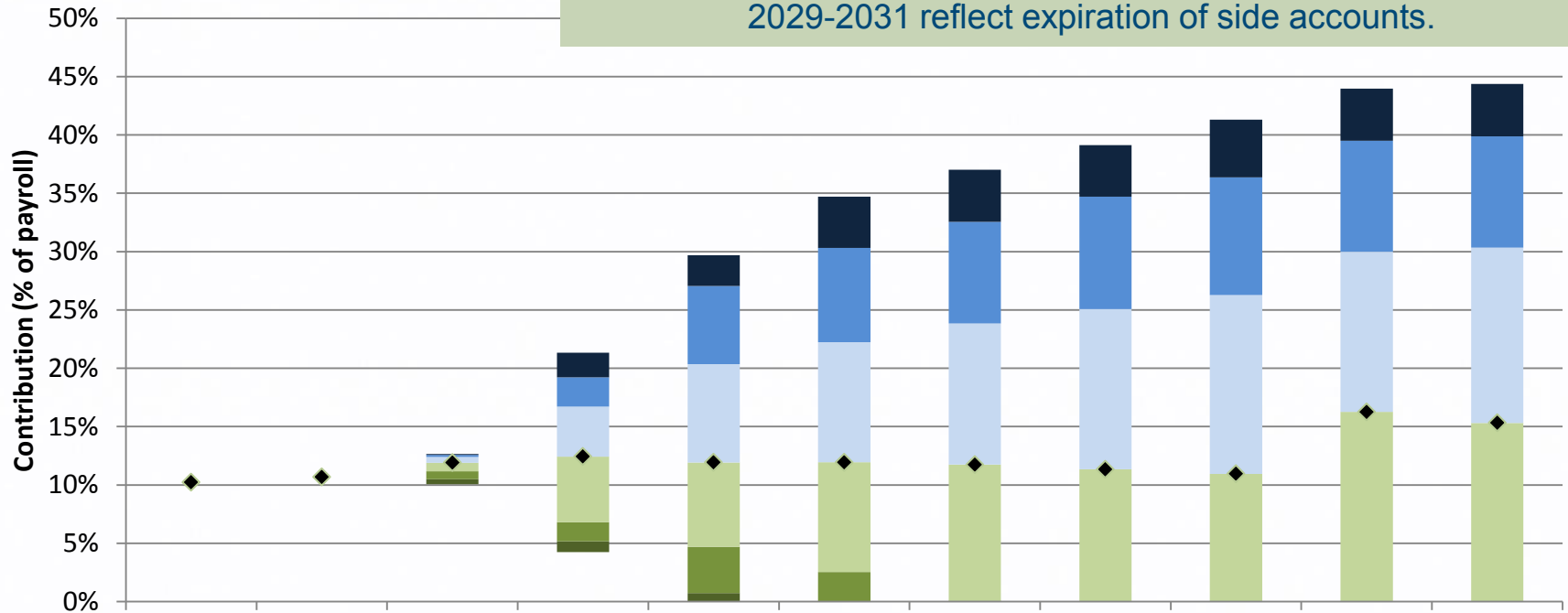


Change from:	11-13 to 13-15	13-15 to 15-17	15-17 to 17-19	17-19 to 19-21	19-21 to 21-23	21-23 to 23-25	23-25 to 25-27	25-27 to 27-29	27-29 to 29-31	29-31 to 31-33
5th	0.6%	2.5%	7.8%	10.0%	8.6%	8.0%	7.6%	7.2%	7.2%	6.6%
10th	0.6%	2.5%	6.0%	8.6%	6.7%	5.8%	5.5%	5.4%	5.5%	5.1%
25th	0.6%	2.5%	4.2%	4.3%	3.7%	3.4%	3.0%	2.7%	2.7%	2.2%
50th	0.6%	2.0%	0.6%	0.0%	-1.2%	-1.1%	0.0%	0.0%	0.0%	0.0%
75th	0.6%	1.4%	-4.1%	-3.7%	-4.2%	-4.0%	-3.7%	-3.7%	-3.1%	-2.9%
90th	0.6%	0.8%	-4.5%	-5.2%	-6.2%	-6.4%	-6.2%	-6.4%	-6.4%	-6.6%
95th	0.6%	0.5%	-4.7%	-6.2%	-7.2%	-7.4%	-7.5%	-8.0%	-8.2%	-8.3%

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System Average Net Contribution Rates

“Net” rates are base rates adjusted to reflect the projected effect of side account rate offsets and pre-SLGRP rate offsets. Increases in 2029-2031 reflect expiration of side accounts.

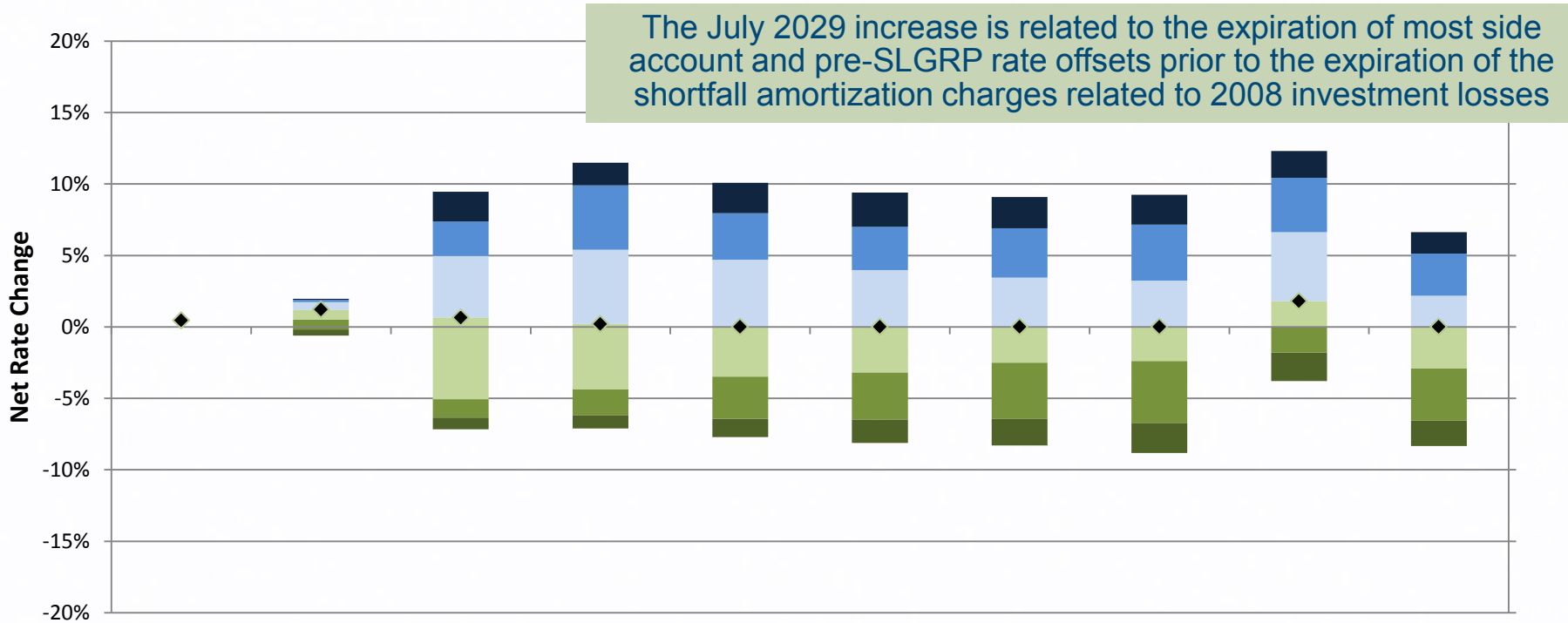


Biennium	2011-2013	2013-2015	2015-2017	2017-2019	2019-2021	2021-2023	2023-2025	2025-2027	2027-2029	2029-2031	2031-2033
5th	10.2%	10.7%	12.6%	21.3%	29.7%	34.7%	37.0%	39.1%	41.3%	44.0%	44.4%
10th	10.2%	10.7%	12.6%	19.2%	27.0%	30.3%	32.5%	34.7%	36.4%	39.5%	39.9%
25th	10.2%	10.7%	12.4%	16.7%	20.4%	22.2%	23.8%	25.1%	26.3%	30.0%	30.3%
50th	10.2%	10.7%	11.9%	12.4%	11.9%	11.9%	11.7%	11.3%	10.9%	16.3%	15.3%
75th	10.2%	10.7%	11.2%	6.8%	4.7%	2.5%	0.1%	0.0%	0.0%	0.0%	0.0%
90th	10.2%	10.7%	10.5%	5.2%	0.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
95th	10.2%	10.7%	10.1%	4.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

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Biennium to Biennium Change

System Average Net Contribution Rates

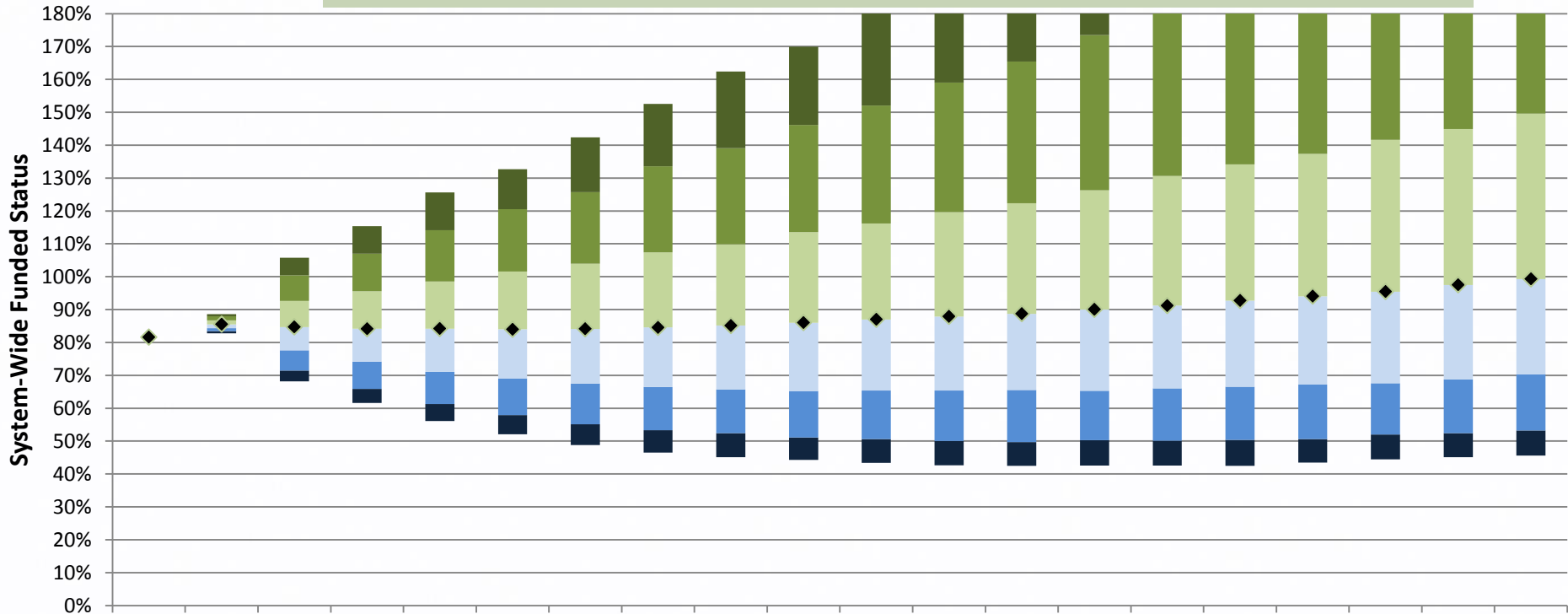


Change from:	11-13 to 13-15	13-15 to 15-17	15-17 to 17-19	17-19 to 19-21	19-21 to 21-23	21-23 to 23-25	23-25 to 25-27	25-27 to 27-29	27-29 to 29-31	29-31 to 31-33
5th	0.4%	2.0%	9.5%	11.5%	10.1%	9.4%	9.1%	9.3%	12.3%	6.6%
10th	0.4%	1.9%	7.4%	9.9%	8.0%	7.0%	6.9%	7.2%	10.4%	5.1%
25th	0.4%	1.7%	5.0%	5.4%	4.7%	4.0%	3.5%	3.2%	6.6%	2.2%
50th	0.4%	1.2%	0.7%	0.2%	0.0%	0.0%	0.0%	0.0%	1.8%	0.0%
75th	0.4%	0.5%	-5.1%	-4.3%	-3.5%	-3.2%	-2.5%	-2.4%	0.0%	-2.9%
90th	0.4%	-0.2%	-6.3%	-6.2%	-6.4%	-6.5%	-6.4%	-6.7%	-1.8%	-6.6%
95th	0.4%	-0.6%	-7.2%	-7.1%	-7.7%	-8.1%	-8.3%	-8.8%	-3.8%	-8.3%

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Funded Status (excluding Side Accounts)

At the 50th percentile, funded status starts between 85% and 86% at year-end 2013 and progresses toward 100% over the modeled period



PY Ending 12/31	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
95th	81.6%	88.6%	105.8%	115.4%	125.6%	132.7%	142.4%	152.5%	162.4%	170.0%	180.2%	191.5%	202.9%	212.4%	225.8%	236.5%	247.7%	265.2%	281.5%	295.7%
90th	81.6%	87.9%	100.4%	107.0%	114.1%	120.6%	125.7%	133.6%	139.1%	146.1%	152.1%	159.0%	165.5%	173.5%	180.3%	188.5%	198.9%	205.6%	215.5%	222.8%
75th	81.6%	86.8%	92.6%	95.6%	98.6%	101.6%	104.0%	107.4%	109.9%	113.6%	116.2%	119.6%	122.3%	126.3%	130.6%	134.1%	137.4%	141.6%	144.9%	149.6%
50th	81.6%	85.5%	84.7%	84.2%	84.2%	84.0%	84.1%	84.6%	85.2%	86.0%	87.0%	87.9%	88.7%	90.0%	91.2%	92.7%	94.0%	95.4%	97.5%	99.3%
25th	81.6%	84.4%	77.6%	74.2%	71.1%	69.1%	67.5%	66.5%	65.7%	65.2%	65.4%	65.4%	65.6%	65.3%	66.0%	66.6%	67.2%	67.6%	68.8%	70.3%
10th	81.6%	83.4%	71.5%	65.9%	61.3%	57.9%	55.2%	53.3%	52.4%	51.1%	50.6%	50.0%	49.7%	50.3%	50.1%	50.3%	50.6%	52.0%	52.4%	53.2%
5th	81.6%	82.8%	68.1%	61.6%	56.1%	52.1%	48.8%	46.5%	45.1%	44.3%	43.4%	42.6%	42.5%	42.6%	42.6%	42.4%	43.5%	44.5%	45.1%	45.6%

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Variable Return Model Stress Test

- We also used the variable return model to do a “stress test” of the likelihood of certain events in the 10,000 scenarios modeled
- The likelihood of specified events occurring at some point during the 20 year projection period is shown below

Likelihood of Event Occurring at Some Point in Next 20 Years	
Funded Status (Excluding Side Accounts) > 100%	74%
Funded Status (Excluding Side Accounts) < 60%	45%
Funded Status (Excluding Side Accounts) < 40%	11%
Base Rate (Excluding Retiree Healthcare) >30% of Pay	40%

Wrap Up / Next Steps

- Questions?
- Final valuation steps
 - Issue System-wide December 31, 2012 actuarial valuation
 - Prepare employer-specific advisory valuation reports
 - PERS distributes to employers
- At the January meeting, preliminary year-end 2013 investment results will be available
 - We can then comment on any estimated impact on 12/31/2013 valuation results

Certification

This presentation summarizes key preliminary results of an actuarial valuation of the Oregon Public Employees Retirement System (“PERS” or “the System”) as of December 31, 2012, for the Plan Year ending December 31, 2012. The results are preliminary in nature and may not be relied upon to, for example, prepare the System’s Consolidated Annual Financial Report (CAFR). The reliance document will be the forthcoming formal December 31, 2012 System-Wide Actuarial Valuation Report. This presentation also summarizes deterministic and stochastic modeling of the System over a 20-year period beginning December 31, 2012

In preparing this report, we relied, without audit, on information (some oral and some in writing) supplied by the System’s staff. This information includes, but is not limited to, statutory provisions, employee data, and financial information. We found this information to be reasonably consistent and comparable with information used for other purposes. The valuation results depend on the integrity of this information. If any of this information is inaccurate or incomplete our results may be different and our calculations may need to be revised.

All costs, liabilities, rates of interest, and other factors for the System have been determined on the basis of actuarial assumptions and methods which are individually reasonable (taking into account the experience of the System and reasonable expectations); and which, in combination, offer our best estimate of anticipated experience affecting the System.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan’s funded status); and changes in plan provisions or applicable law. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements. The PERS Board has the final decision regarding the appropriateness of the assumptions.

Actuarial computations presented in this report are for purposes of determining the recommended funding amounts for the System. Actuarial computations presented in this report under GASB Statements No. 25 and 27, 43 and 45 are for purposes of fulfilling financial accounting requirements. The computations prepared for these two purposes may differ as disclosed in our report. The calculations in the enclosed report have been made on a basis consistent with our understanding of the System’s

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Certification

funding requirements and goals. The calculations in this report have been made on a basis consistent with our understanding of the plan provisions described in the appendix of this report, and of GASB Statements No. 25 and 27, 43 and 45. Determinations for purposes other than meeting these requirements may be significantly different from the results contained in this report. Accordingly, additional determinations may be needed for other purposes.

Milliman's work is prepared solely for the internal business use of the Oregon Public Employees Retirement System. To the extent that Milliman's work is not subject to disclosure under applicable public records laws, Milliman's work may not be provided to third parties without Milliman's prior written consent. Milliman does not intend to benefit or create a legal duty to any third party recipient of its work product. Milliman's consent to release its work product to any third party may be conditioned on the third party signing a Release, subject to the following exception(s):

- (a) The System may provide a copy of Milliman's work, in its entirety, to the System's professional service advisors who are subject to a duty of confidentiality and who agree to not use Milliman's work for any purpose other than to benefit the System.
- (b) The System may provide a copy of Milliman's work, in its entirety, to other governmental entities, as required by law.

No third party recipient of Milliman's work product should rely upon Milliman's work product. Such recipients should engage qualified professionals for advice appropriate to their own specific needs.

The consultants who worked on this assignment are pension actuaries. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices. We are members of the American Academy of Actuaries and meet the Qualification Standards to render the actuarial opinion contained herein.

Appendix

Data Exhibits

	December 31				
	2012				2011
	Tier 1	Tier 2	OPSRP	Total	Total
Active Members					
Count	42,776	46,661	77,666	167,103	170,972
Average age	54.4	48.4	41.8	46.9	46.6
Average total service	22.2	12.2	4.9	11.4	11.0
Average prior year covered salary	\$ 65,737	\$ 56,008	\$ 39,375	\$ 50,768	\$ 49,388
Dormant Members¹					
Count	19,668	16,397	5,806	41,871	40,507
Average age	57.3	50.6	44.9	53.0	52.9
Average monthly deferred benefit	\$ 2,116	\$ 641	\$ 283	\$ 1,284	\$ 1,235
Retired Members and Beneficiaries¹					
Count	114,045	7,410	582	122,037	118,408
Average age	71.2	65.6	64.9	70.8	70.6
Average monthly benefit	\$ 2,422	\$ 879	\$ 351	\$ 2,318	\$ 2,265
Total members	176,489	70,468	84,054	331,011	329,887

1. Dormant and Retiree counts are shown by lives within the system. In other words, a member is counted once for purposes of this exhibit, regardless of their service history for different rate pools.

Appendix

Actuarial Basis

Data

We have based our calculation of the liabilities on the data supplied by the Oregon Public Employees Retirement System and summarized in the data exhibits on the preceding slides.

Assets as of December 31, 2012, were based on values provided by Oregon PERS reflecting the Board's earnings crediting decisions for 2012. Financial model projections reflect October 31, 2013 investment results for regular and variable accounts as published by Oregon State Treasury.

Methods / Policies

Actuarial Cost Method: Entry Age Normal, adopted effective December 31, 2012. December 31, 2011 results were calculated under Projected Unit Credit.

UAL Amortization: The UAL for OPSRP and Retiree Health Care as of December 31, 2007 are amortized as a level percentage of combined valuation payroll over a closed 16 year period for OPSRP and a closed 10 year period for Retiree Health Care. For the Tier 1/Tier 2 UAL, the amortization period will be reset at 20 years as of December 31, 2013. Gains and losses between subsequent odd-year valuations are amortized as a level percentage of combined valuation payroll over the amortization period (20 years for Tier/Tier 1, 16 years for OPSRP, 10 years for Retiree Health Care) from the odd-year valuation in which they are first recognized.

Appendix

Actuarial Basis

Methods / Policies (cont'd)

Contribution rate stabilization method: Contribution rates for a rate pool (e.g. Tier 1/Tier 2 SLGRP, Tier 1/Tier 2 School Districts, OPSRP) are confined to a collar based on the prior contribution rate (prior to application of side accounts, pre-SLGRP liabilities, and 6 percent Independent Employer minimum). The new contribution rate will generally not increase or decrease from the prior contribution rate by more than the greater of 3 percentage points or 20 percent of the prior contribution rate. If the funded percentage excluding side accounts drops below 60% or increases above 140%, the size of the collar doubles. If the funded percentage excluding side accounts is between 60% and 70% or between 130% and 140%, the size of the rate collar is increased on a graded scale.

Expenses: OPSRP administration expenses are assumed to be equal to \$5.5M and are added to the OPSRP normal cost.

Actuarial Value of Assets: Equal to Market Value of Assets excluding Contingency and Tier 1 Rate Guarantee Reserves. The Tier 1 Rate Guarantee Reserve is not excluded from assets if it is negative (i.e. in deficit status).

Assumptions

Assumptions for valuation calculations are as described in the 2012 Experience Study for Oregon PERS and were presented to the PERS Board in July 2013.

Provisions

Provisions valued are as detailed in the 2011 Valuation Report, with the exception the provisions of Senate Bill 822, which was enacted by the legislature in April 2013, and SB 861, enacted in October 2013.

The combination of these legislative changes reduced benefits in two ways:

- Eliminated tax remedy benefit for members not subject to Oregon state income taxes
- Reduced the COLA benefit payable to members. Under the new legislation, the 2013 COLA was 1.5%, and in subsequent years it will be based on the following graded marginal rate structure: 1.25% on first \$60,000 of annual benefit and 0.15% on benefits over \$60,000.

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Appendix

Rate Projection Basis

Assumptions

In general, all assumptions are as described in the 2012 Experience Study Report.

The major assumptions used in our 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 – 7.75%
- Tier 1 Regular account growth – 7.75%
- Actual fund investment return– Varies by scenario according to capital market assumptions
- Variable account growth – Equal to investment return on public equity portion of the fund
- Inflation assumption – 2.75%
- Inflation experience – Varies by scenario according to capital market assumptions
- Wage growth assumption – 3.75%
- Wage growth experience– 1.00% greater than inflation experience
- Demographic experience – as described in 2012 Experience Study report

Appendix

Rate Projection Basis

Reserve Projection

Contingency Reserve as of 12/31/2012 was assumed to be \$600.2M, based on the PERS Board's 2012 crediting decisions. No future increases or decreases to this reserve were assumed.

The Tier 1 Rate Guarantee Reserve ("RGR") was assumed to be -\$0.3M (i.e., in deficit status) as of 12/31/2012, based on the PERS Board's 2012 crediting decisions. The reserve was assumed to grow with returns in excess of 7.75% on Tier 1 Member Accounts. When aggregate returns were below 7.75%, applicable amounts from the RGR were transferred to Tier 1 Member Accounts to maintain the 7.75% target growth on the member accounts. The RGR reserve is allowed to be negative, but the reserve is not excluded from valuation assets when it is negative. We did not include in rates any potential additional employer levy that could be required to eliminate a persistent negative RGR.

Appendix

Rate Projection Basis

Capital Market Model

For each 20-year projection, we ran 10,000 stochastic scenarios for inflation and asset class rates of return. The scenarios were calibrated to represent Milliman's capital market assumptions in terms of expected average returns, the expected year-to-year volatility of the returns, and the expected correlation between the returns of different asset classes. Annual rates of return for each of the asset classes and inflation are generated from a multivariate lognormal probability distribution. Rates of return are independent from year to year.

For this purpose, we considered the Oregon PERS Fund to be allocated among the model's asset classes as shown below. This allocation is based on the Oregon Investment Council's Statement of Investment Objectives and Policy Framework for the Oregon PERS Fund, as revised December 18, 2012, and changes made with the OIC's June 2013 asset/liability analysis.

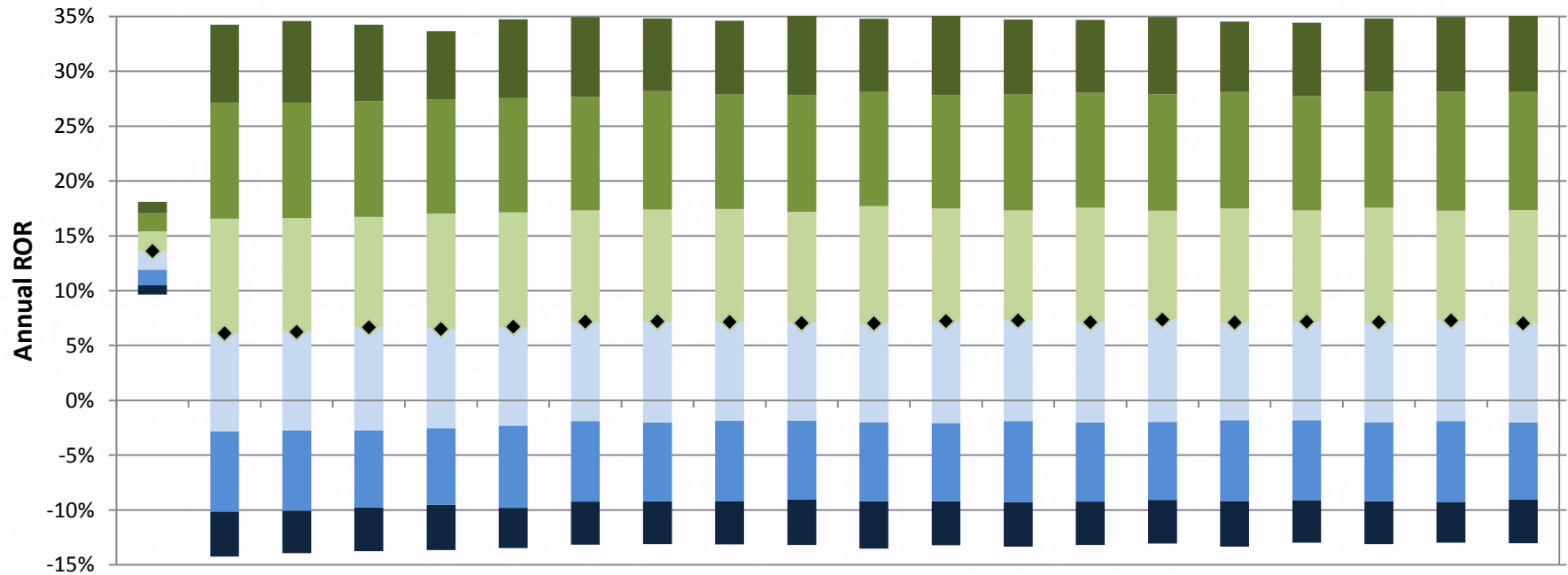
	Annual Arithmetic Mean	30-Year Annualized Geometric Mean	Annual Standard Deviation	Policy Allocation
US Broad Equity	8.50%	7.00%	18.65%	17.80%
Non-US Developed Large/Mid-Cap Equity	8.80%	6.85%	21.20%	15.15%
Emerging Markets Equity	11.00%	7.30%	30.00%	4.55%
Private Equity	11.70%	8.00%	30.00%	20.00%
US Universal Fixed Income	5.15%	5.05%	4.20%	8.00%
US Short Duration Bonds	3.80%	3.75%	2.35%	8.00%
Leveraged Loans	6.70%	6.25%	9.85%	3.00%
High Yield	7.40%	6.75%	11.05%	1.00%
Real Estate	6.85%	6.20%	12.00%	10.00%
Global REITs	8.90%	6.60%	23.05%	2.50%
Natural Resources	6.95%	6.20%	13.00%	2.50%
Infrastructure	8.85%	7.10%	20.00%	2.50%
Commodities	7.50%	5.30%	22.50%	2.50%
Hedge Funds	7.50%	7.15%	8.75%	2.50%
US Inflation (CPI-U)	2.75%	2.75%	1.70%	N/A
Fund Total (reflecting asset class correlations)	8.35%	7.45%	14.80%	100.00%

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PERS Fund Rate of Return

Single Calendar Year Investment Returns

Our capital market outlook model projects lower median returns in the years following October 2013 due to current low yields on fixed income. Higher median returns are projected in the latter portion of the modeling period.



PY Ending 12/31	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
95th	18.1%	34.2%	34.6%	34.3%	33.7%	34.7%	34.9%	34.8%	34.6%	35.1%	34.8%	35.2%	34.7%	34.7%	34.9%	34.5%	34.4%	34.8%	35.0%	35.1%
90th	17.1%	27.1%	27.1%	27.3%	27.4%	27.5%	27.7%	28.2%	27.9%	27.8%	28.1%	27.8%	27.9%	28.0%	27.9%	28.1%	27.7%	28.2%	28.1%	28.1%
75th	15.4%	16.6%	16.6%	16.7%	17.0%	17.1%	17.3%	17.4%	17.5%	17.2%	17.7%	17.5%	17.3%	17.6%	17.3%	17.5%	17.3%	17.6%	17.3%	17.3%
50th	13.6%	6.1%	6.2%	6.7%	6.5%	6.7%	7.2%	7.2%	7.1%	7.1%	7.0%	7.2%	7.3%	7.1%	7.3%	7.1%	7.2%	7.1%	7.3%	7.0%
25th	11.9%	-2.8%	-2.7%	-2.7%	-2.5%	-2.3%	-1.9%	-2.0%	-1.8%	-1.8%	-2.0%	-2.1%	-1.9%	-2.0%	-2.0%	-1.8%	-1.8%	-2.0%	-1.9%	-2.0%
10th	10.5%	-10.1%	-10.1%	-9.8%	-9.5%	-9.8%	-9.2%	-9.2%	-9.2%	-9.0%	-9.2%	-9.2%	-9.3%	-9.2%	-9.1%	-9.2%	-9.1%	-9.2%	-9.3%	-9.0%
5th	9.6%	-14.2%	-13.9%	-13.8%	-13.6%	-13.5%	-13.2%	-13.1%	-13.1%	-13.2%	-13.5%	-13.2%	-13.3%	-13.2%	-13.1%	-13.3%	-13.0%	-13.1%	-13.0%	-13.0%

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