

# OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM BOARD MEETING

<b>FRIDAY</b> <b>May 31, 2013</b> <b>1:00 P.M.</b>		<b>PERS</b> <b>11410 SW 68<sup>th</sup> Parkway</b> <b>Tigard, OR</b>	
<b>ITEM</b>		<b>PRESENTER</b>	
<b>A. Administration</b>			
1.	March 29, 2013 Board Meeting Minutes Director's Report <ul style="list-style-type: none"> <li>a. Forward-Looking Calendar</li> <li>b. OIC Investment Report</li> <li>c. Operating Budget Report</li> <li>d. Member Transaction Trends</li> </ul>	CLEARY	
<b>B. Administrative Rulemaking</b>			
1.	Notice of Assumed Rate Rule	RODEMAN	
2.	Notice of Payment of Retirement Benefits Rule		
<b>C. Action and Discussion Items</b>			
1.	2014 Retiree Health Insurance Plan Renewals and Rates	KOBBERVIG / BUTLER BATH TAYLOR RODEMAN / HEMBREE MILLIMAN	
2.	OSGP Advisory Committee Appointments		
3.	2013 Legislative Session Update		
4.	2013-15 Employer Rate Adjustment Approach (SB 822)		
5.	Continued Review of Actuarial Methods and Assumptions		
<b>D. Executive Session Pursuant to ORS 192.660(2)(f), (h), and/or ORS 40.225</b>			
1.	Litigation Update	LEGAL COUNSEL	

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

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

**Remaining 2013 Meetings: July 26    September 27    November 22**

BLANK PAGE

# OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM BOARD MEETING

March 29, 2013  
Tigard, Oregon

## **Board Members:**

John Thomas, Chair  
Krystal Gema  
Michael Jordan  
Pat West

## **Staff:**

Donna Allen  
Helen Bamford  
Paul Cleary  
David Crosley  
Jon DuFrene  
Yvette Elledge

Brian Harrington  
Debra Hembree  
Rick Howitt  
Danielle Keyser  
Mini Kobbervig  
Jeff Marecic

Beth Porter  
Steve Rodeman  
Susan Sjordal  
Marjorie Taylor  
Stephanie Vaughn

## **Others:**

Bruce Adams  
Duane Bales  
Alison Chan  
Tom Cope  
Roger Dawes  
Linda Ely  
Haley Fish  
Rebecca Gabriel

Marc Gonzales  
Frank Goulard  
Jim Green  
Debra Guzman  
Mark Hadden  
Greg Hartman  
Christie Jungling  
Jerry King

Jannel Kropf  
Keith Kutler  
Matt Larrabee  
David Lay  
Mary Macpherson  
Elizabeth McCann  
Michelle Morrison  
Victoria Nolan

P. Peg  
Scott Peppernau  
Eric Petersen  
Megan Phelan  
Bill Robertson  
Katie Schwab  
Deborah Tremblay  
Shirley Yee

Chair John Thomas called the meeting to order at 1:00 P.M.

Board member Rhoni Wiswall was excused from the meeting for other obligations.

## **ADMINISTRATION**

### **A.2. BOARD MEETING MINUTES OF JANUARY 25, 2013**

The Board unanimously approved the minutes from the January 25, 2013 Board meeting.

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

Cleary presented the 2013 Forward Looking calendar noting that the May 31, 2013 Board meeting will include a further review of actuarial methods and assumptions with adoption to follow at the July 26, 2103 Board meeting. Cleary reviewed the OPERF investment returns for January and February noting a slight increase in February for both the regular and variable accounts. Cleary also presented the March 2013 Budget Report that continues to show a positive variance of nearly 3 percent for the agency operating budget.

## **ADMINISTRATIVE RULEMAKING**

### **B.1. ADOPTION OF OPSRP PENSION PROGRAM RULE**

Deputy Director Steve Rodeman presented the Oregon Public Service Retirement Plan (OPSRP) Pension Program Police and Fire Continuous Service rule. Rodeman said that a rulemaking public hearing was held on December 18, 2012; and the public comment period ended on December 31, 2012. No public comment was received.

Pat West moved and Michael Jordan seconded to adopt modifications to the OPSRP Pension Program rule, as presented. The motion passed unanimously.

### **B.2. ADOPTION OF IRC LIMITATIONS RULE**

Rodeman presented the Internal Revenue Code (IRC) Limitations rule for adoption. Rodeman said that a rulemaking public hearing was held on February 26, 2013 and the public comment period ended on March 1, 2013. No public comment was received.

Krystal Gema moved and West seconded to adopt modifications to the IRC Limitations rule, as presented. The motion passed unanimously.

### **B.3. ADOPTION OF REEMPLOYMENT OF RETIRED MEMBERS RULE**

Rodeman presented the Reemployment of Retired Members rule for adoption. Rodeman said that a rulemaking public hearing was held on February 26, 2013 and the public comment period ended on March 1, 2013. No public comment was received.

Jordan moved and Gema seconded to adopt modifications to the Reemployment of Retired Members rule, as presented. The motion passed unanimously.

## **ACTION AND DISCUSSION ITEMS**

### **C.1. FINAL 2012 EARNINGS CREDITING AND RESERVING**

Rodeman presented Final 2012 Earnings Crediting and Reserving; including the following allocations:

Tier One Member Regular Accounts:	8.00%
Tier Two Member Regular Accounts:	14.68%
Individual Account Program:	14.09%
Variable Annuity Account:	18.43%

Rodeman also described the allocation of \$66.9 million to the Contingency Reserve to achieve an ending balance of \$600.2 million, about 1% of the total PERS fund regular account value. Rodeman also reviewed the draft report to the Joint Committee on Ways and Means regarding Contingency Reserve deployment options that could lower 2013 – 15 employer contribution rates. Rodeman noted the legal and operational constraints on Contingency Reserve deployments and responded to Board member questions on reserve uses and risk exposures.

Board member West moved and Gema seconded to adopt the final crediting of earnings for calendar year 2012. The motion passed unanimously.

C.2. 2013 LEGISLATIVE SESSION UPDATE

Senior Policy Analyst Marjorie Taylor provided an update of legislative activity for the PERS related bills. Taylor said that 60 bills have now been introduced that impact PERS plan statutes. Taylor said that staff will also keep the Board informed of legislative activities that affect agency operations or bills that will have a secondary effect on the agency.

C.3. FUNDED STATUS AND CONTRIBUTION RATE PROJECTIONS AND INTRODUCTION TO ACTUARIAL METHODS AND ASSUMPTIONS

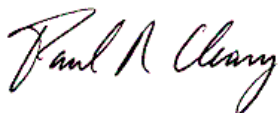
PERS actuaries Matt Larrabee and Scott Preppernau with Milliman presented Actuarial Methods, Rate Calculations, and Financial Projections. Larrabee and Preppernau provided an overview of actuarial methods, rate calculations, fundamental cost equations, shortfall levels, financial projections, and the effect of scheduled 2013 employer rate increases.

Larrabee answered questions from the Board and audience members and noted that Milliman will present additional actuarial methods and economic assumptions information at the May 31, 2013 meeting. These presentations are all in preparation for the scheduled Board adoption of updated actuarial methods and assumptions at the July 26, 2013 meeting. The 2012 Experience Study results will also be presented at the July Board meeting.

No executive session was held.

Thomas adjourned the Board meeting at 2:45 PM.

Respectfully submitted,



Paul R. Cleary  
Executive Director

BLANK PAGE

## **PERS Board Meeting Forward-Looking Calendar**

### **Friday, July 26, 2013**

Adoption of Assumed Rate Rule  
Adoption of Payment of Retirement Benefits Rule  
Notice of OPSRP Pension Rule  
Notice of Rules Impacted by Legislation  
Notice of Recovery of Overpayments Rule  
2013 Legislative Session Results  
2012 Experience Study and Adoption of Actuarial Methods and Assumptions  
Audit Committee Meeting

### **Friday, September 27, 2013**

Adoption of OPSRP Pension Rule  
Adoption of Rules Impacted by Legislation  
Adoption of Recovery of Overpayments Rule  
2012 Valuation Results

### **Friday, November 22, 2013**

Employer Reporting Update  
Audit Committee Meeting

BLANK PAGE



Returns for periods ending 4/30/13

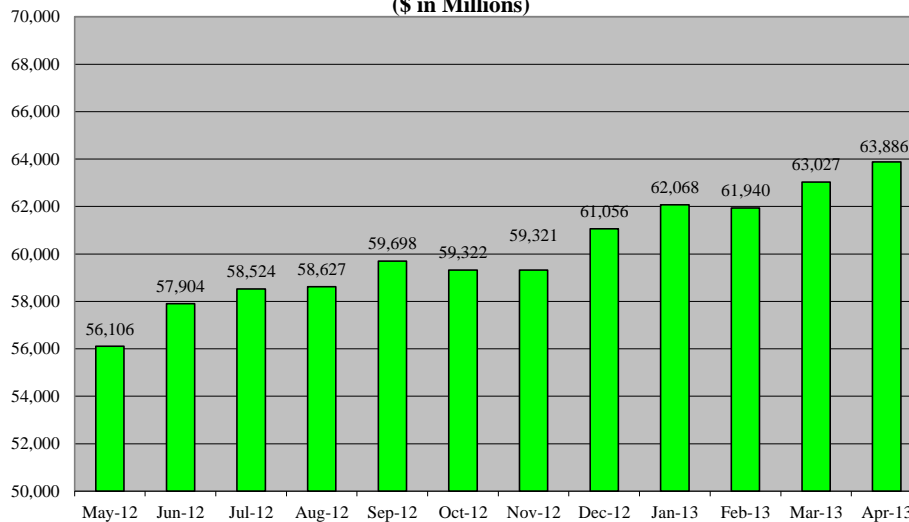
Oregon Public Employees Retirement Fund

OPERF	Regular Account				Historical Performance (Annual Percentage)							
	Policy <sup>1</sup>	Target <sup>1</sup>	\$ Thousands <sup>2</sup>	Actual	Year-To-Date <sup>3</sup>	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS	7 YEARS	10 YEARS
Public Equity	38-48%	43%	\$ 24,133,388	38.3%	10.49	16.32	4.54	9.59	16.97	2.52	3.49	9.03
Private Equity	12-20%	16%	13,825,310	21.9%	2.99	14.05	10.89	13.06	14.67	5.59	9.54	13.64
<b>Total Equity</b>	<b>54-64%</b>	<b>59%</b>	<b>37,958,698</b>	<b>60.2%</b>								
Opportunity Portfolio			899,294	1.4%	5.83	17.56	8.17	11.72	18.51	8.36		
<b>Total Fixed</b>	<b>20-30%</b>	<b>25%</b>	<b>15,936,277</b>	<b>25.3%</b>	<b>2.12</b>	<b>8.14</b>	<b>7.60</b>	<b>7.86</b>	<b>11.78</b>	<b>8.35</b>	<b>7.56</b>	<b>6.71</b>
Real Estate	8-14%	11%	7,604,496	12.1%	6.85	16.10	12.55	14.40	10.29	0.72	4.25	10.87
Alternative Investments	0-8%	5%	592,453	0.9%	2.41	1.61						
Cash	0-3%	0%	28,806	0.0%	0.26	1.03	0.79	0.83	1.09	1.05	2.20	2.23
<b>TOTAL OPERF Regular Account</b>		<b>100%</b>	<b>\$ 63,020,024</b>	<b>100.0%</b>	<b>6.05</b>	<b>13.68</b>	<b>7.60</b>	<b>10.43</b>	<b>14.62</b>	<b>4.34</b>	<b>5.37</b>	<b>9.03</b>
<b>OPERF Policy Benchmark</b>					5.27	13.34	7.49	10.08	13.26	4.49	5.65	8.67
Value Added					0.78	0.34	0.11	0.35	1.36	(0.15)	(0.28)	0.36
<b>TOTAL OPERF Variable Account</b>			<b>\$ 866,169</b>		9.67	15.50	4.40	9.22	16.45	2.29	2.25	

Asset Class Benchmarks:

Russell 3000 Index	12.89	17.21	10.09	12.78	19.23	5.63	5.22	8.48
MSCI ACWI Ex US IMI Net	7.26	14.18	(0.32)	6.12	14.24	(0.43)	2.87	10.78
MSCI ACWI IMI Net	9.74	15.17	4.00	8.86	16.23	2.03	3.61	9.23
Russell 3000 Index + 300 bps--Quarter Lagged	0.99	19.86	11.68	14.51	18.81	5.92	8.01	11.61
Oregon Custom FI Benchmark	1.78	6.94	6.90	6.45	7.27	6.30	6.43	5.48
NCREIF Property Index--Quarter Lagged	2.54	10.54	12.39	12.63	4.40	2.13	5.97	8.44
91 Day T-Bill	0.03	0.12	0.09	0.11	0.13	0.33	1.58	1.77

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



<sup>1</sup>OIC Policy 4.01.18, as revised April 2011.

<sup>2</sup>Includes impact of cash overlay management.

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

BLANK PAGE



# Oregon

John A. Kitzhaber, M.D., Governor

## Public Employees Retirement System

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

May 31, 2013

TO: Members of the PERS Board  
FROM: Kyle J. Knoll, Budget Officer  
SUBJECT: Operating Budget Report

### 2011-13 OPERATIONS BUDGET

Operating expenditures for March 2013 were \$3,455,994, and preliminary expenditures for April 2013 are \$2,763,535. Final April 2013 expenditures will be included in the July 2013 Budget Report to the Board.

- To date, through the first twenty-two months (91.67%) of the 2011-13 biennium, the Agency has expended a total of \$64,889,948, or 83.99% of PERS' legislatively approved operating budget of \$77,260,820.
- The current projected positive variance is \$1,974,663, or 2.6% of the operating budget.

### STRUNK EUGENE OVERPAYMENT RECOVERY PROJECT

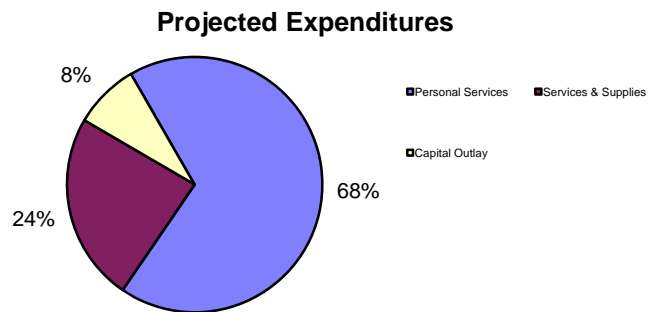
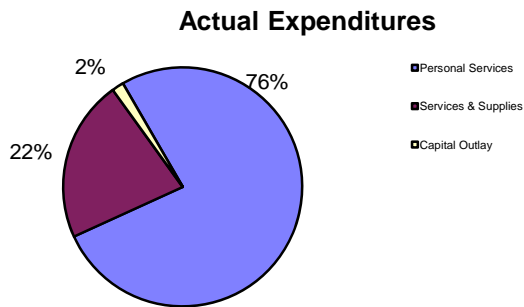
To date, the Agency has expended a total of \$493,553, or 23.8% of PERS 2011-13 legislatively approved budget of \$2,071,410. The project is on track to close successfully as of June 30, 2013. Staff will present a project closing report to the PERS Board at its July 26, 2013 meeting.

BLANK PAGE

**2011-13 Agency-wide Operations - Budget Execution**  
**Summary Budget Analysis**  
For the Month of: April 2013

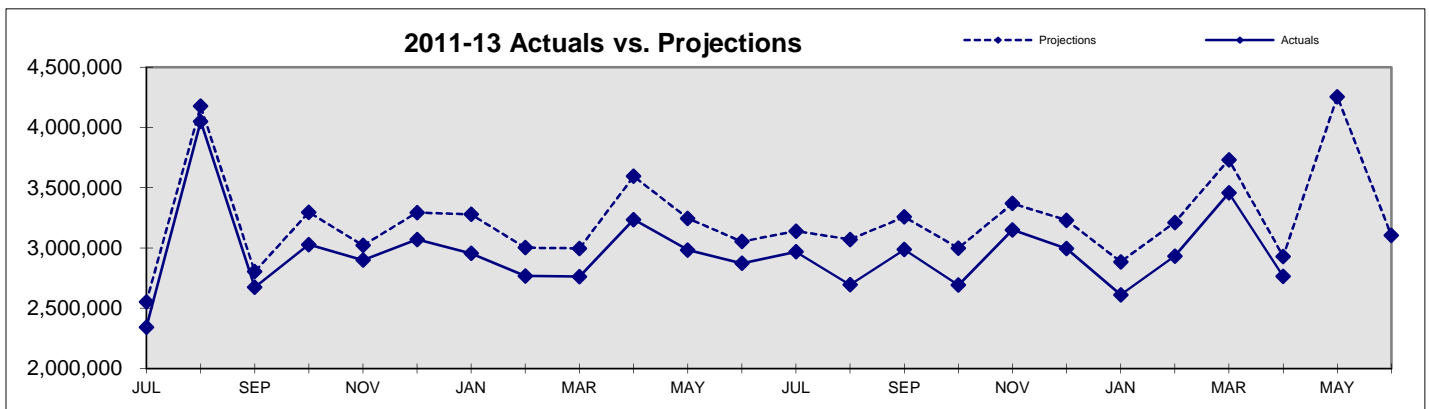
**Biennial Summary**

Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expend.	2011-13 LAB	Variance
Personal Services	49,642,315	4,994,488	54,636,803	55,827,463	1,190,660
Services & Supplies	14,200,066	4,605,004	18,805,070	20,505,769	1,700,699
Capital Outlay	1,047,567	796,717	1,844,285	927,588	(916,697)
<b>Total</b>	<b>64,889,948</b>	<b>10,396,209</b>	<b>75,286,157</b>	<b>77,260,820</b>	<b>1,974,663</b>



**Monthly Summary**

Category	Actual Exp.	Projections	Variance	Avg. Monthly Actual Exp.	Avg. Monthly Projected Exp.
Personal Services	2,276,284	2,436,261	159,977	2,256,469	2,497,074
Services & Supplies	487,251	493,894	6,643	645,458	878,275
Capital Outlay				47,617	303,359
<b>Total</b>	<b>2,763,535</b>	<b>2,930,156</b>	<b>166,620</b>	<b>2,949,543</b>	<b>3,678,708</b>



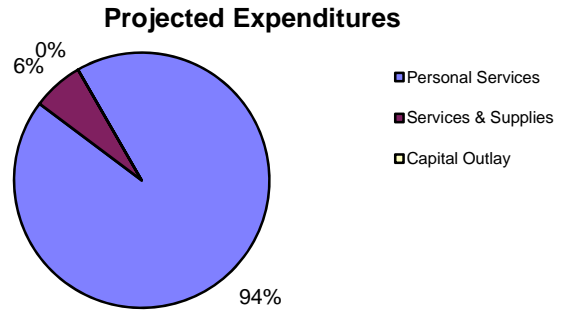
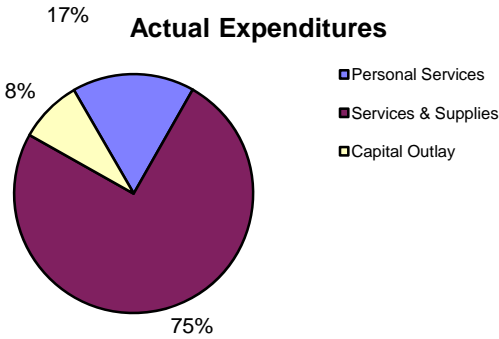
**2009-11 Biennium Summary**

Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expend.	2009-11 LAB	Variance
Personal Services	50,562,257		50,562,257	52,751,494	2,189,237
Services & Supplies	25,938,410		25,938,410	29,916,870	3,978,460
Capital Outlay	1,384,164		1,384,164	593,588	(790,576)
<b>Total</b>	<b>77,884,830</b>		<b>77,884,830</b>	<b>83,261,952</b>	<b>5,377,122</b>

**2011-13 Strunk/Eugene Overpayment Recovery Project - Budget Execution  
Summary Budget Analysis  
For the Month of: April 2013**

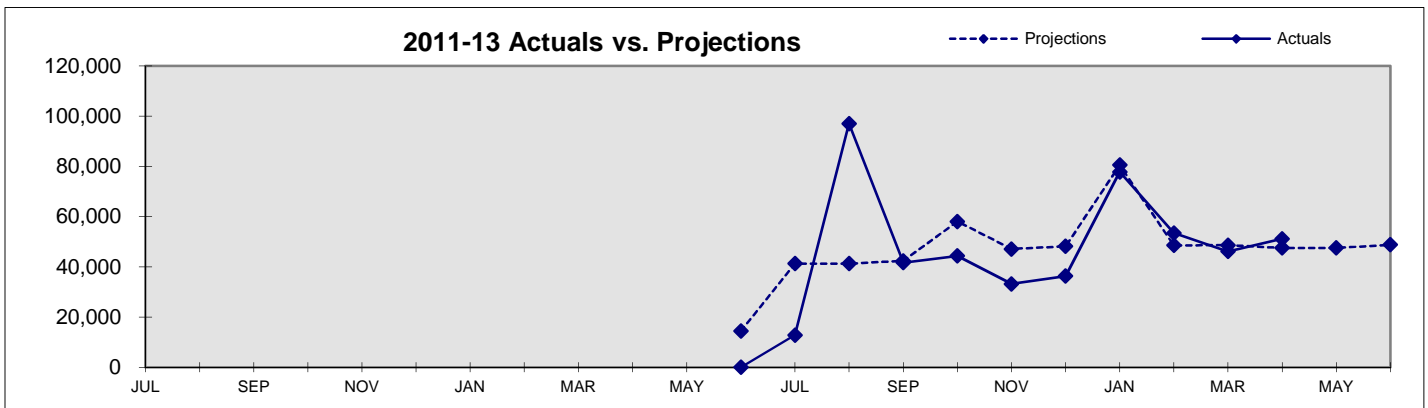
**Biennial Summary**

Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expend.	2011-13 LAB	Variance
Personal Services	324,029	314,337	638,366	917,155	278,789
Services & Supplies	160,169	66,120	226,289	1,154,255	927,966
Capital Outlay	9,354		9,354		(9,354)
<b>Total</b>	<b>493,553</b>	<b>380,457</b>	<b>874,010</b>	<b>2,071,410</b>	<b>1,197,400</b>



**Monthly Summary**

Category	Actual Exp.	Projections	Variance	Avg. Monthly Actual Exp.	Avg. Monthly Projected Exp.
Personal Services	31,319	47,512	16,193	32,403	48,141
Services & Supplies	19,803		(19,803)	16,017	
Capital Outlay				935	
<b>Total</b>	<b>51,122</b>	<b>47,512</b>	<b>(3,610)</b>	<b>49,355</b>	<b>48,141</b>



**Project Tracker:**

Percent of 2011-13 E-board Budget Expended:	23.8%
Percent of 2011-13 Project Duration Expired:	84.6%



# Oregon

John A. Kitzhaber, M.D., Governor

## Public Employees Retirement System

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

May 31, 2013

TO: Members of the PERS Board  
FROM: Yvette Elledge, Customer Services Division Administrator  
SUBJECT: Member Transaction Trends

### RETIREMENT APPLICATION ASSISTANCE SESSIONS (RAAS)

Approximately 55% of our retiring members schedule and attend a RAAS. This statewide program is intended to reduce the number of rejected retirement applications, increase the efficiency of the application intake process, and reduce the member's anxiety associated with the application process.

This program is supported by four (4) full-time Retirement Counselor 2 positions. The popularity and demand for this service continues to increase. We conducted 1,086 sessions in the first four months of 2013, a 12% increase from the same period in 2012. We met demand by using other staff to conduct RAAS in the headquarters building which allowed us to reassign RAAS counselors to other session locations throughout the state.

Customer service surveys show a 99.69% "Excellent" rating for this program.

### GROUP RETIREMENT PRESENTATIONS

We offer statewide presentations that target new OPSRP members and current members who are within one and five years of retirement. We also offer and support employer-requested presentations.

This program is supported by (2) full-time equivalent positions. We have seen an increase in presentation attendance as well as an increase in employer requests. Attendance at our 1-Year Group Presentations increased 12% in the first four months of 2013 compared to the same period in 2012. Our 5-year Group Presentation attendance increased 8%. We also supported 65 employer requests during this period compared to 48 in 2012. The total attendance for this period was 5,991 compared to 4,318 the same period in 2012.

Factors that contribute to the increase are a growing retirement population, concern over potential legislative changes, and employer work force reductions and retirement incentives.

### RETIREMENT BENEFIT ESTIMATES

Our goal is to maximize our Key Performance Measure to provide our members an estimate within 30 days from receipt of their request. When we are unable to achieve that goal for our

members, we prioritize our estimates by the effective retirement date from the upcoming month to the next, then by received date, first in first out.

In 2012, we received 9,688 estimate requests which represents a 21% decrease from 2011. This reduction of estimate requests helped significantly reduce the estimate backlog from 2009 through 2011 and improve our Key Performance Measure. Over the last four months (January 2013 to April 2013) we have received 4,716 estimate requests which represents a 32% increase compared to the same time period from 2012. Even with this increase, we are in a better position in 2013 as we move out of our normal estimate request spike period, which is January to May each year.

### DATA VERIFICATIONS

Data verifications first became available on July 1, 2011. A total of 1,995 data verification requests were received between July 1, 2011 and April 30, 2013. The team has completed 1,040 data verifications or 52%. An average of 92 data verification requests are received monthly. The monthly incoming workload has been consistent beginning in January 2012.

Originally, data verifications were prioritized based on the member's anticipated retirement date and/or actual retirement date. The impact was that those members who planned ahead and were waiting for their data verification to make an informed retirement decision were not receiving the service in a timely manner. In November, 2012, we changed the priority to "*first in - first out*", improving customer service to those members who planned ahead. We minimized the impact to members who apply for retirement before the data verification has been completed by processing them as a normal retirement and set them up on estimated payments until their data verification is completed. The eligibility review and/or corrections the accounts with data verifications receive is the same as what our retirees without a data verification receive. While this method negatively impacts the number of estimated retirement payments each month it is beneficial to members who are proactive and want to plan ahead. It also decreases the amount of work the data verification staff has to do on an account.

The goal for our Operating Process measure is 90% of the incoming data verifications are completed within 180 days of receipt, (first in first out). For the quarter ending March 31, 2013, this measure was at 23%, an improvement of 7% over the quarter ending December 31, 2012. During 2012, a problem solving team was created to review the process. This team identified opportunities for streamlining the process and also recommended a change to the Oregon Administrative Rule (OAR). The process improvements were implemented in late 2012 and the OAR change was effective January 25, 2013 resulting in the following production increases for completed data verifications. For the quarters ending: September 2012 – 73; December 2012 – 163; March 2013 - 294. The improvements increased the number of data verification completed monthly but did not significantly improve our operating process measure due to the significant backlog. We project that it will be end of December 2013 before the majority of data verifications are completed within 180 days. We are starting to work on data verifications received in October 2012.



RETIREMENT TRANSACTIONS

PERS has a Key Performance Measure and goal of beginning benefit payments for 80% of PERS and OPSRP retirees within 45 days of their retirement date. The 45-day benefit initiation percentage totaled 73% for the first quarter of 2013. In comparison, the 45- day percentage for the first quarter of 2012 was 66% and in 2011, it was 46%, as we were in the final stages of the RIMS Conversion Project. That project, as well as ongoing process improvements and ever increasing partnering among all divisions, continues to positively impact both timely and accurate retirement transactions.

PERS, OPSRP and IAP retirements from January 1 through May 1, 2013 totaled 5,635 new retirements, which is a 38% increase compared to the first five months of 2012, and a 1.5% decrease compared to 2011. However, the annual July 1 spike is approaching. PERS and OPSRP retirements totaled 1,915 for July 1, 2012, and 2,421 for July 1, 2011, and as of May 7, 2013, we received 538 retirement applications with a July 1 effective date. It is estimated that the July 1, 2013 retirement volume will meet or exceed the July 1, 2011 total.

BLANK PAGE



# Oregon

John A. Kitzhaber, M.D., Governor

## Public Employees Retirement System

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

May 31, 2013

TO: Members of the PERS Board  
FROM: Steven Patrick Rodeman, Deputy Director  
SUBJECT: Notice of Rulemaking for Assumed Rate Rule:  
OAR 459-007-0007, *Assumed Rate*

### OVERVIEW

- Action: None. This is notice that staff has begun rulemaking.
- Reason: A new administrative rule is needed to describe how a change in the assumed rate will affect PERS transactions.
- Policy Issue: When should a change in the assumed rate be effective for PERS transactions?

### BACKGROUND

ORS 238.255 provides that the PERS Board shall determine an assumed interest rate. OAR 459-007-0001(2) states that the “assumed rate” is the actuarial assumed rate of return on investments as adopted by the Board for the most recent actuarial valuation. The Board has not changed the assumed rate since 1989 and, currently, PERS does not have administrative rules which set forth how a change in the assumed rate would be implemented. This new rule describes when various PERS transactions will be impacted if the Board approves a change to the assumed rate.

The assumed rate is an underlying actuarial assumption that indirectly touches nearly every calculation PERS performs. There are three main components that the rate affects independently, but each of these three components touches multiple transactions. The timing of implementing a change in the assumed rate for each of these components will have both independent and co-dependent effects:

- 1) The latest year-to-date rate (see OAR 459-007-0003). This rate is used to credit an account with current-year earnings up to the effective date of the transaction (e.g., if a member retires effective August 1, this rate is used to credit earnings for the current calendar year up to August 1). For Tier One members, who are guaranteed crediting at the assumed rate, a pro-rate of the assumed rate is used; Tier Two members are credited based on the fund’s actual current year earnings or losses. This rate is used in service retirement calculations, disability retirement calculations, withdrawals, death benefits, and lump sum installment payments. The latest year-to-date rate is calculated for every month, and is applied for a period of time that has already occurred, so as to credit earnings to the account up to the effective date of the transaction.
- 2) Annual earnings crediting to Tier One member regular accounts. Tier One member regular accounts are guaranteed to receive crediting of at least the assumed rate in effect as of December 31 of the crediting year.

3) Actuarial equivalency factors (AEFs). These factors are used to convert an account balance into a stream of annuity payments. Two elements are used to derive these factors: mortality (how long the measuring life is expected to continue beyond the commencement of the annuity) and return (what rate is the account expected to earn over the annuity period). AEFs are used in most retirement calculations, OPSRP withdrawals, and some death benefits when the beneficiary elects to receive an annuity. ORS 238.607(1) directs the PERS Board to adopt new AEFs every two years and that these factors are effective on January 1 of the year following adoption. As opposed to the latest year-to-date rate, AEFs are applied prospectively, so they only cover a period of time on and after the date they are effective.

### POLICY ISSUE

*When should a change in the assumed rate be effective for PERS transactions?*

Implementing a change in the assumed rate will be a new challenge for the agency. Main concerns for staff include impacts to workload, need for clear communication with members and employers, and need for staff training on the impact and use of a changed assumed rate. While these challenges will exist no matter when a change in the assumed rate is implemented, the shorter the time frame for implementation, the greater the possibility for challenges in the agency. Although workload and member retirement planning may become more significant, the impact to workload will be felt regardless of which date a change in the rate becomes effective.

Staff is prepared for any change in the assumed rate and an implementation team was formed earlier in the year to address these concerns. The main effect of the rate change is how it may impact member retirement planning and employer work force planning. For this reason, staff determined there are two primary methods in which the assumed rate change could be implemented.

**Option 1:** One implementation date of January 1 of the year following adoption of a change in the assumed rate for all components that are affected by the rate change.

#### Pros:

- One effective date for all transactions related to the assumed rate will be clear and simple for PERS members and agency staff to understand and administer. The new assumed rate would be aligned with the new AEFs, which would allow for a clear effective date for all transactions that involve calculations involving both the latest year-to-date rate and AEF components.
- An effective date of January 1 gives all members who retire in the year the change is adopted equitable treatment no matter which month they retire. The clear date may also allow members sufficient time to understand how the change will affect their plans for retirement.
- Implementing a change in the assumed rate will require staff training, employer and member education, and communication. An effective date of January 1 gives staff ample time to perform the necessary preparation and communicate with members and employers.

Cons:

- Tier One regular account earnings crediting and the latest year-to-date rate would remain at the current rate for the remainder of the year the change is adopted, which would not result in the immediate cost savings of an earlier implementation date.
- An effective date of January 1 for all transactions involving the assumed rate may result in a spike in end-of-year retirements due to the advanced notice of the rate change. Members may rush to retire to avoid any negative impact of the assumed rate change.

**Option 2:** Separate implementation dates for latest year-to-date calculations, AEFs, and Tier One annual earnings crediting. Implement the changed rate for the latest year-to-date calculation on the first of the month following the Board's adoption of the change, and credit Tier One annual earnings at the new rate as of December 31 of the year of the adoption. AEFs would be affected as of January 1 of the year following adoption, as required by statute.

Pros:

- Cost savings would be realized immediately in the year the changed rate is adopted for crediting earnings for Tier One member accounts.
- The new assumed rate would be applied the next time the latest year-to-date calculation is used in transactions, resulting in several months of cost savings when the new rate is lower.
- Members and employers have been aware of a possible decision to change the assumed rate for over a year; therefore, implementing the change immediately would not impede retirement planning much more than implementing the change as of January 1.
- There are no administrative, programming, or actuarial concerns for using the changed rate immediately for the latest year-to-date rate calculations, even though the AEFs would still be using an 8% assumed rate until the new AEFs based on the changed rate become effective on the subsequent January 1.

Cons:

- Even though the impact of implementing the new assumed rate for latest year-to-date calculations would be minimal, members may view the change as a triggering event to advance their retirement, withdrawal, or other transaction, which may also affect employers who would have to adjust to an increased number of sudden retirements.
- Each July, PERS experiences an increase in retirement applications and processing. A change in the assumed rate, even though it wouldn't effect AEFs until the following January 1, may increase the already significant workload. This may increase the number of members who receive estimated payments until their actual benefit can be determined beyond the 90-day limit to commence retirement benefits.

STAFF RECOMMENDATION

Staff recommends and has incorporated Option #2 in the rules proposed for public comment.

- Reason: Any intended cost savings and immediate effect would be realized by implementing the new assumed rate change as soon as possible after adoption for latest year-to-date transactions and Tier One member earnings crediting beginning December 31, 2013. AEFs effective on January 1, 2014 will reflect the new rate. The public has been aware of a

possible change to the assumed earnings rate for more than a year, and delaying implementation until January 1, 2014 for all transactions will unnecessarily delay the implementation of the PERS Board's determination of a new assumed rate.

### PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing will be held on June 25, 2013 at 2:00 p.m. at the Oregon State Archives in Salem. A second public hearing will be held on June 27, 2013 at 3:30 p.m. at PERS headquarters in Tigard. The public comment period ends on July 2, 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, but the rule will clearly describe the effective dates of the assumed rate change on PERS transactions.

Impact: Clarifies the implementation of a new assumed rate.

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

### RULEMAKING TIMELINE

May 15, 2013	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
May 31, 2013	PERS Board notified that staff began the rulemaking process.
June 1, 2013	<i>Oregon Bulletin</i> publishes the Notice. Notice is sent to employers, legislators, and interested parties. Public comment period begins.
June 25, 2013	Rulemaking hearing to be held at 2:00 p.m. at Oregon State Archives in Salem.
June 27, 2013	Rulemaking hearing to be held at 3:30 p.m. at PERS headquarters in Tigard.
July 2, 2013	Public comment period ends at 5:00 p.m.
July 26, 2013	Staff will propose adopting the rule modifications, including any changes resulting from public comment or reviews by staff or legal counsel.

### NEXT STEPS

The first public hearing will be held on June 25, 2013 at 2:00 p.m. at Oregon State Archives in Salem. A second public hearing will be held on June 27 at 3:30 p.m. at PERS headquarters in

Notice – Assumed Rate Rule

05/31/13

Page 5 of 5

Tigard. The public comment period ends on July 2, 2013, at 5:00 p.m. The rule is scheduled to be brought before the PERS Board for adoption at its July 26, 2013 meeting.

B.1. Attachment 1 – 459-007-0007, *Assumed Rate*

BLANK PAGE



**OREGON ADMINISTRATIVE RULE  
PUBLIC EMPLOYEES RETIREMENT BOARD  
CHAPTER 459  
DIVISION 007 – EARNINGS AND INTEREST DISTRIBUTION**

1 **459-007-0007**

2 **Assumed Rate**

3 **(1) The PERS Board will review the assumed rate in odd-numbered years as**  
4 **part of the Board’s review and adoption of actuarial assumptions and methods. The**  
5 **Board may adopt a change in the assumed rate at any time. Unless otherwise**  
6 **specified below, a change in the assumed rate is effective the first of the year**  
7 **following the Board’s adoption of the change.**

8 **(2) A change in the assumed rate will be effective for:**

9 **(a) A latest year-to-date calculation completed on or after the first of the month**  
10 **following the Board’s adoption of the change.**

11 **(b) Tier One annual earnings credited on or after the Board’s adoption of the**  
12 **change.**

13 **Stat. Auth.: ORS 238.650, 238A.450**

14 **Stats. Implemented: ORS Chapters 238 and 238A**

BLANK PAGE



# Oregon

John A. Kitzhaber, M.D., Governor

## Public Employees Retirement System

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

May 31, 2013

TO: Members of the PERS Board  
FROM: Steven Patrick Rodeman, Deputy Director  
SUBJECT: Notice of Rulemaking for Payment of Retirement Benefits Rule:  
OAR 459-013-0060, *Payment of Retirement Benefits*

### OVERVIEW

- Action: None. This is notice that staff has begun rulemaking.
- Reason: Housekeeping edits are needed to delete obsolete language and clarify the current administration of retirement benefit payments.
- Policy Issue: No policy issues have been identified at this time.

### BACKGROUND

Edits to this administrative rule are required to delete references to gender and obsolete language such as “insurable interest,” which was removed from statute in 1971; to reference our new administrative rule regarding any accrued benefits due a retired member after death; and to clarify the date of subsequent lump sum installment payments after the initial installment payment was made.

### PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing will be held on June 25, 2013 at 2:00 p.m. at the Oregon State Archives in Salem. The public comment period ends on July 2, 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: Clarifies the administration of retirement benefit payments.

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

### RULEMAKING TIMELINE

April 15, 2013 Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.

Notice – Payment of Retirement Benefits Rule

05/31/13

Page 2 of 2

May 1, 2013	<i>Oregon Bulletin</i> published the Notice. Notice was sent to employers, legislators, and interested parties. Public comment period began.
May 31, 2013	PERS Board notified that staff began the rulemaking process.
June 25, 2013	Rulemaking hearing to be held at 2:00 p.m. at Oregon State Archives in Salem.
July 2, 2013	Public comment period ends at 5:00 p.m.
July 26, 2013	Staff will propose adopting the rule modifications, including any changes resulting from public comment or reviews by staff or legal counsel.

NEXT STEPS

A hearing will be held on June 25, 2013 at 2:00 p.m. at Oregon State Archives in Salem. The public comment period ends on July 2, 2013, at 5:00 p.m. The rules are scheduled to be brought before the PERS Board for adoption at the July 26, 2013 Board meeting.

B.2. Attachment 1 – 459-013-0060, *Payment of Retirement Benefits*

**OREGON ADMINISTRATIVE RULE  
PUBLIC EMPLOYEES RETIREMENT BOARD  
CHAPTER 459  
DIVISION 013 – RETIREMENT BENEFITS**

1 **459-013-0060**

2 **Payment of Retirement Benefits**

3 **(1)** Retirement benefits shall be payable *[in equal]* **each** month*[ly payments]* as of  
4 **the first** *[the last]* day *[of each]* **of the** month*[:]* **following the effective date of**  
5 **retirement.**

6 *[(1) A member's retirement allowance shall accrue from the effective date of his*  
7 *retirement.] **At the time of death, accrued benefits shall be payable as provided***  
8 ***under OAR 459-014-0050(4).** [Should he die during a calendar month for which he*  
9 *would have received a service or disability retirement allowance had he lived that entire*  
10 *month, and after the first payment was normally due, benefits computed to the date of his*  
11 *death on the basis of 30 days constituting a month, shall be payable as follows (ORS*  
12 *238.390(3)):]*

13 *[(a) Under the non-refund plan, accrued benefits are payable to the administrator or*  
14 *executor of the estate of the deceased member;]*

15 *[(b) Under the Refund Annuity plan, accrued benefits other than the annuity portion*  
16 *of the allowance are payable to the administrator or executor of the estate of the*  
17 *deceased member. When electing payment of benefits under the Refund Annuity plan, a*  
18 *retiring member of the system may designate any person to receive any balance*  
19 *remaining in his account at the time of death;]*

20 *[(c) Under options No. 2 and 3, accrued benefits are payable to the administrator or*  
21 *executor of the estate of the deceased member, and benefits to the member's beneficiary,*  
22 *if surviving, shall accrue from the date of the death of the member. Retirement*

1 *allowances payable to the surviving beneficiary of a deceased member under options No.*  
2 *2 and 3 shall cease with the allowance payable for the last full calendar month of such*  
3 *beneficiary's life.]*

4 (2) **If a retiree elects to receive more than one installment payment as provided**  
5 **under ORS 238.305(4), the subsequent installment payments will be paid on the**  
6 **anniversary of the first day of the month that the initial installment payment was**  
7 **made.** *[At any time before the first payment on account of his service allowance becomes*  
8 *normally due, a member of the system who has retired under option No. 2 or 3 may*  
9 *designate new beneficiaries or revoke previous designations by giving written notice to*  
10 *the Retirement Board, but no revocation or new designation shall be effective until*  
11 *received by the Public Employees Retirement Board. A beneficiary named under option*  
12 *No. 2 or 3 must have an insurable interest in the life of the member.]*

13 Stat. Auth.: ORS 238.650

14 Stats. Implemented: ORS 238.300 & 238.305



# Oregon

John A. Kitzhaber, MD, Governor

## Public Employees Retirement System

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

May 31, 2013

TO: Members of the PERS Board

FROM: Mini Kobbervig, Retiree Insurance Program Manager

SUBJECT: Retiree Health Insurance Program 2014 Plan Renewals and Rates

### BACKGROUND

2014 has presented unique and unprecedented challenges in the insurance marketplace with the Affordable Care Act (ACA) implementation set to begin January 2014. While one of the goals of the PERS Health Insurance Program (PHIP) is to keep premiums and benefits stable, we have found it necessary to add additional plan options that lower premiums but carry higher deductibles. This will allow us to maintain a level of compatibility and competitiveness with the evolving post ACA marketplace.

The PHIP is fortunate to partner with insurers that have been able to maximize funding available from the Centers for Medicare and Medicaid Services (CMS) by accurately reporting data associated with their insured populations as well as meeting key targets in quality ratings. As has historically been the case, the PHIP insurers also continue to manage the highest need participants to maximize benefits and care delivered while minimizing expenditures. Finally, the PHIP's mission of maintaining a stable and affordable program for PERS retirees continues to provide dividends in better than average contract renewals.

As customary, the contract renewal process began in February. After carriers had an opportunity to present their renewals and preliminary rate offers, a meeting was held with PHIP staff, PERS Board Liaison Pat West, PERS Executive Director, PERS Chief Financial Officer, PHIP retiree advisors and consultants. An additional meeting with individual carriers and several communiqué's later, the proposed 2014 premium rate changes were finalized and detailed by plan provider and type of coverage for both Medicare and non-Medicare enrollees.

Plan modifications in 2014 will be minimal for the Medicare plan options. At the same time, it is recommended that the non-Medicare plan's benefit designs be updated to bring them into alignment with deductibles and copays that are more standard in the insurance marketplace. Along those same lines, in an additional effort to meet the needs of PHIP early retirees, a second, higher deductible/lower cost option for each carrier will be added.

The primary driver of the need to look at different benefits is the Affordable Care Act (ACA) and the advent of the Healthcare Exchanges and all the changes being implemented as a result of healthcare reform. One of the hallmarks of the PHIP has been its ability to minimize benefit disparities between plans and that feature has been retained in this process of re-engineering

the non-Medicare program. It is also recommended that both the Kaiser and Moda Health (formerly ODS) dental plans be modified by removing preventive services from the \$1,500 annual benefit maximum therefore providing additional coverage for other services. This is in response to member feedback.

PHIP along with the PHIP Advisory Committee looked at disaggregating the non-Kaiser prescription drug coverage and allowing each carrier to provide their own prescription plan, but determined that 2014 was not reasonable given all the changes, plans and analysis of benefits versus concerns that would need to occur. However, we will continue to explore this option for potential change in 2015. Our strategy is to continue examination and exploration of this option throughout 2013 in preparation for the 2015 plan renewal cycle.

The PHIP contracts with four health insurers for a variety of coverages allowing participants the greatest possible choice while maintaining stability of the overall program. As mentioned previously, in 2014 there will be an additional non-Medicare plan option, a higher deductible/lower premium plan design - for each carrier. Contracts that are in place and/or proposed are as follows:

**1) Moda Health (formerly ODS)**

- a. Traditional Medicare Supplement
- b. Medicare Advantage PPO Plan
- c. \$500 Deductible Non-Medicare PPO Plan
- d. \$1,000 Deductible Non-Medicare PPO Plan
- e. Stand alone Prescription Drug Plan (PDP) that covers
  - Moda Health Medicare and non-Medicare participants
  - Providence Health Plan Medicare and non-Medicare participants
  - PacificSource Community Health Plans Medicare and non-Medicare participants
- f. Dental Plan

**2) Providence Health Plans**

- a. Medicare Advantage Medicare Extra HMO Plan
- b. Medicare Advantage Medicare Choice POS Plan
- c. \$500 Deductible Non-Medicare PPO Plan
- d. \$1,000 Deductible Non-Medicare PPO Plan

**3) Kaiser Permanente Health Plans**

- a. Medicare Advantage Senior Advantage HMO Plan with prescription drug coverage
- b. Non-Medicare Traditional HMO Plan with prescription drug coverage and modified, higher copays than the 2013 plan
- c. \$1,000 Deductible HMO plan with prescription drug coverage
- d. Dental Plan

**4) PacificSource Community Health Plans**

- a. Medicare Advantage HMO Plan
- b. \$500 Deductible Non-Medicare PPO Plan
- c. \$1,000 Deductible Non-Medicare PPO Plan



Additionally PHIP contracts with UNUM for Long Term Care coverage offered to PERS retirees under age 84 and qualified through the UNUM application process. UNUM no longer markets Long Term Care “Group” policies such as the PHIP plan. The PHIP plan is not impacted by this as new enrollments continue to be accepted by UNUM and all in-force policies remain active.

PHIP is a voluntary insurance plan where eligible members pay most, if not all, of their own premiums for the plan of their choice. In addition to health plan premiums, PERS retirees also cover the cost of program administration, including the Long Term Care program. The premium rates that members pay are inclusive of these costs. By the end of the 2013 plan year PHIP will be well on its way with a re-design of the website with the goal of providing more accessible, pertinent information to retirees.

The PHIP’s unique vendor relationships, and the resulting programs that they participate in, continue to benefit PHIP participants and provide the stability that is the hallmark of the program. As with past years, PHIP staff and consultants require continually improving collaboration between the health plans. The level of collaboration and services to members continues to improve, as evidenced in the increased participation in wellness fairs.

Each quarter PHIP staff and consultants receive updates from each carrier regarding activities and results achieved in the previous quarter. Each carrier has taken responsibility for hosting one of the quarterly reviews. At these reviews, new initiatives are developed and taken to the PHIP workgroup for additional development. The PHIP workgroup consists of representatives from various disciplines within each carrier who can bring perspectives from their individual departments to the table with the goal of enhancing PHIP participant experiences and health status.

As of this writing, ODS Health has changed their name to Moda Health, they will roll out the name change over a 14 month period. Notification to their membership began as of April 2013.

With 95% of the PHIP enrollment consisting of Medicare eligible members, the long term stability of the program is critical. Members have options available in the commercial marketplace and, in 2014 for non-Medicare under the Cover Oregon Exchange that, on occasion, may be less costly in premium but may not offer as comprehensive a benefit or the stability of the PHIP plans. However, we do recognize that for members with lower usage of medical services, a lower cost plan with a higher deductible is an attractive option.

Stability has been possible as a result of the PERS Board’s approach, maintaining dependable health plan vendors and the long-term relationships that have benefited PHIP enrollees. This is achieved through a thoughtful approach facilitating a balance between cost and benefit. PHIP staff and the program administrator, in conjunction with plan consultants, continually update the fall retiree plan change presentations to clearly communicate the overall plan value. PHIP staff, vendors and the program administrator provide a series of educational workshops each spring. The workshops target PERS members not yet retired, and retired members who are not enrolled in the PHIP but are within 18 months of turning age 65 (general Medicare eligibility). The educational sessions are well received and well attended. They address Medicare timelines to consider and ramifications of missed enrollment opportunities.

Additionally, a general overview of Original Medicare is given as a comparator to show the value of the PHIP versus benefit plans in the commercial market. Member feedback continues to be positive and is used to plan future meetings to ensure that the membership is getting the type of information they are seeking.

Following are demographics and statistics for the Oregon PERS Retiree Insurance Program updated as of February 2013 as detailed in the May 2013 PERS: By the Numbers:

	Plan Membership	% Change vs. 2012	Receiving RHIA or RHIPA Subsidy	Average Age
Medical Plans	56,323	2.95%		74
Medicare	53,628	2.85%	42,173	75
Non-Medicare	2,695	5.03%	1,207	57
Dental Plans	33,489	6.29%		

Additional statistics can be found in Exhibit I (attached).

**PROPOSED HEALTH PLAN CONTRACTS, CONDITIONS AND CHANGES FOR THE 2014 PLAN YEAR**

The PHIP will continue to contract with Kaiser Permanente Health Plans, Moda Health (The ODS Companies), Providence Health Plans and PacificSource Health Plans for medical and prescription insurance coverage for PHIP Medicare and non-Medicare members.

The PHIP will continue to contract with Kaiser Permanente Health Plans and Moda Health (The ODS Companies) for dental insurance coverage for PHIP retired Medicare and non-Medicare members.

The PHIP will continue to contract with Moda for a Stand Alone Prescription Drug Program (PDP) covering participants enrolled in Moda, Providence Health Plans and the PacificSource Health Plans.

Kaiser Permanente will continue to insure and administer Medicare and non-Medicare medical benefits. In addition, Kaiser Permanente will provide PHIP Medicare and non-Medicare members a prescription drug program that mirrors the Moda administered plan, thereby providing uniformity, continuity, and stability for PHIP members.

The PHIP health plan premium rates will be implemented as shown on Exhibit II (attached), along with associated rates that include spouses and/or dependents, statutory subsidies (RHIA and RHIPA) and PHIP administrative expenses.

## PROPOSAL REVIEW AND RECOMMENDATIONS

In spite of inflationary trends and the pressure of costs associated with healthcare reform, the PHIP is pleased to once again provide PERS retirees a positive renewal with all participating vendors; rates are either changing minimally or not at all while additional options have been added. In a population as large as the PHIP, however, a one percent rate differential can mean millions of dollars. PHIP staff and the consultants strive to keep that fact in the forefront when negotiating contract renewals.

As has been the case in years past a variety of approaches were employed in an effort to minimize rate increases. It is proposed that some lines of coverage receive subsidies while others may require temporary surcharges to maintain program stability. The vast majority of the subsidy funding is proposed to be paid out of PHIP reserves or from federal Early Retiree Reinsurance Program (ERRP) program funds. Some smaller subsidy funding may be accumulated over time at various individual carriers (other than Kaiser) via temporary rate surcharges that is then used to help stabilize rates in subsequent years.

For Medicare members covered by the Moda Health (ODS) administered prescription drug program, a \$13.06 per member per month (PMPM) subsidy is recommended. The current CY 2013 rate already includes a subsidy in the same amount. A \$20.00 PMPM subsidy has been included in the Moda Health Medicare Advantage PPO Plan to maintain stability and equity across all vendor options. PHIP is exploring an option that could generate additional CMS revenue which would result in this subsidy being funded from additional revenues instead of surplus reserves.

The Moda administered early retiree non-Medicare prescription drug program rates will be reduced by \$35.86 PMPM. It is anticipated that this subsidy will be drawn from funds released by the federal Health and Human Services agency as part of the federal Patient Protection and Affordable Care Act better known as PPACA. The program name is the Early Retiree Reinsurance Program (ERRP); it makes funds available to participants with high cost claims. These funds are required to be used to help stabilize rates for "early" (non-Medicare) retirees. ERRP funds have been used in both the 2012 and 2013 plan years. It is anticipated that there are adequate funds available to cover most of 2014 at the same level although it may become necessary, toward the end of the plan year to draw some funds from PHIP reserves. Federal law requires that all funds be used by December 31, 2014.

Throughout 2013 and, for Providence Health Plans, 2012 and 2013, small reserves have been built for both the Providence and PacificSource Medicare plans. As a result some funds are available to use to subsidize the Providence Medicare Extra plan by \$5.81 PMPM and the PacificSource Community Health Plan by \$3.00 PMPM. At the same time, consistent with the PHIP philosophy of maintaining equity and stability, the Providence Medicare Choice plan will continue to be surcharged with the amount reduced to \$4.71 PMPM.

PERS staff and consultants are pleased to present a stable package of health insurance plans and renewal rates allowing enrolled retirees to enjoy a variety of competitively priced benefit options. Many of these retirees will see little if any change to their health insurance premiums through the PHIP, which is good news for those on a fixed budget. We are pleased to bring these proposals to you, and thereby conclude another year of hard work by our consultants, health plans, retiree advisors, and PHIP staff.

PHIP third party administrator staff and our consultants have begun the process of updating the PHIP Member Handbook and Benefit Guide and plan change materials for finalization and distribution following the PERS Board approval of the proposals presented today. Beginning mid-September, PHIP third party administrator and vendor staff will begin holding “retiree plan change meetings” throughout the state. Traditionally these meetings have been very well attended and we anticipate at least the same or greater attendance in light of all the changes in healthcare as a result of the Affordable Health Care Act (ACA)/ CoverOregon. While these changes do not, for the most part, impact the PHIP Medicare population, they may potentially impact the Non-Medicare population.

Please do not hesitate to contact me if you have questions or need additional information. I can be reached at 503-378-8906 or email at [mini.kobbervig@state.or.us](mailto:mini.kobbervig@state.or.us).

#### STAFF RECOMMENDATIONS

Staff recommends the PERS Board approve the proposed PHIP contract renewals, conditions and rates for 2014 as presented.

Exhibit I – PERS Retiree Health Insurance Program Statistics

Exhibit II – PERS Retiree Health Insurance Program Proposed 2014 Renewal Rates

**EXHIBIT I**

<b>Health Insurance Plans</b>			
Program Enrollment (February 2013)	Totals	Medicare	Non- Medicare
Covered Lives	56,323	53,628	2,695
Retirees (or Surviving Spouses)	45,559	43,939	1,620
Spouses / Dependents	10,764	9,689	1,075
Average Age of Enrolled Retirees	74	75	57

<b>Health Plan Membership Enrollment</b>			
PacificSource Community Health Plans	1,350	1,341	9
Kaiser Permanente (Portland to Salem)	9,852	9,166	686
Kaiser (California & Hawaii)	60	51	9
ODS Advantage (Oregon)	7,464	7,199	265
ODS Supplement (All 50 States)	24,880	24,114	766
Providence Medicare Extra	11,256	10,401	855
Providence Medicare Choice	1,430	1,330	100
ODS Dental Plan	29,349	28,124	1,225
Kaiser Dental Plan	4,140	3,894	246

<b>Statutory Health Insurance Premium Subsidies</b>	
Retirees Receiving RHIA	42,173
Retirees Receiving RHIPA	1,207
RHIA Monthly Payment – \$60 PMPM	\$2,530,380
RHIPA Monthly Payment – \$292(avg) PMPM	\$ 351,878
<b>Total Monthly Premium Paid to Health Plans:</b>	<b>\$14,096,078</b>

BLANK PAGE

**PHIP 2014 RENEWAL RATES**  
**2014 vs. 2013 All Carrier Rates**  
*Including All Carrier Administrative Fees*  
*Effective January 1, 2014*

**SUMMARY**

Medical and Prescription Rates to Members before Statutory Subsidies	Enrollment as of April 2013	CURRENT 2013	RENEWAL AT CURRENT BENEFITS 2014	PROPOSED 2014 MEDICAL RENEWAL WITH BENEFIT MODIFICATIONS**	PERCENTAGE CHANGE 2013 VS. PROPOSED 2014 WITH BENEFIT MODIFICATIONS
<b>MODA HEALTH PLAN - MEDICAL / RX</b> <i>(Includes Fixed Costs)</i>					
Retiree w/Medicare - Supplement Plan	24,059	\$225.46	\$227.20	\$227.20	0.8%
Retiree w/Medicare - MA PPO Plan	7,283	\$237.85	\$256.79	\$256.79	8.0%
Retiree w/o Medicare - \$200/\$500 PPO Plan	1,029	\$933.42	\$856.61	\$834.80	-10.6%
Retiree w/o Medicare - \$1,000 PPO Plan		N/A	N/A	\$803.46	N/A
<b>PROVIDENCE HEALTH PLANS / RX</b>					
Retiree w/Medicare - MA HMO Plan	10,397	\$224.93	\$238.15	\$235.15	4.5%
Retiree w/Medicare - MA POS Plan	1,345	\$209.15	\$217.67	\$214.67	2.6%
Retiree w/o Medicare - \$200/\$500 PPO Plan	944	\$770.93	\$767.55	\$720.43	-6.6%
Retiree w/o Medicare - \$1,000 PPO Plan		N/A	N/A	\$626.33	N/A
<b>PACIFCSOURCE COMMUNITY HEALTH PLANS</b>					
Retiree w/Medicare - MA HMO Plan	1,344	\$219.34	\$224.96	\$224.96	2.6%
Retiree w/o Medicare - \$200/\$500 PPO Plan	9	\$1,013.99	\$1,028.61	\$867.93	-14.4%
Retiree w/o Medicare - \$1,000 PPO Plan		N/A	N/A	\$768.23	N/A
<b>KAISER PERMANENTE NW HEALTH PLANS / RX *</b>					
Retiree w/Medicare - MA HMO Plan	9,197	\$211.46	\$217.80	\$217.80	3.0%
Retiree w/o Medicare - \$200/\$500 PPO Plan	684	\$709.33	\$765.89	\$736.72	3.9%
Retiree w/o Medicare - \$1,000 PPO Plan		N/A	N/A	\$596.87	N/A
<b>DENTAL</b>				<b>PROPOSED 2014 DENTAL RENEWAL WITH BENEFIT MODIFICATIONS***</b>	
Kaiser Dental	4,152	\$50.55	\$54.71	\$55.21	9.2%
ODS Dental	29,435	\$56.96	\$60.08	\$63.08	10.7%

\* Kaiser numbers include Oregon participants only

\*\* Medical Benefit Modification: Offer two Non-Medicare options: \$500 & \$1,000 Deductible; the Kaiser version of the \$500 deductible plan has higher copays than the current plan but retains no deductible; Providence Medicare Benefit Modifications

\*\*\* Preventive Services Not Applied to Annual Benefit Maximum

BLANK PAGE





# Oregon

John A. Kitzhaber, M.D., Governor

## Public Employees Retirement System

Headquarters:  
11410 S.W. 68<sup>th</sup> Parkway, Tigard, OR

Mailing Address:  
P.O. Box 23700  
Tigard, OR 97281-3700  
(503) 598-7377  
TTY (503) 603-7766  
[www.oregon.gov/pers](http://www.oregon.gov/pers)

May 31, 2013

TO: Members of the PERS Board

FROM: Gay Lynn Bath, Deferred Compensation Manager

SUBJECT: Appoint Advisory Committee Members for Oregon Savings Growth Plan (OSGP)

### OVERVIEW:

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

### BACKGROUND:

The OSGP is an IRS Section 457(b) voluntary deferred compensation program open to all state employees and employees of local governments and school districts who adopt the plan. It currently has about 23,500 participants and \$1.4 billion in assets held in nine different investment options overseen by State Treasury and the Oregon Investment Council (OIC).

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

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

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

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

Currently, the Advisory Committee is made up of the following members, with three positions opening at the end of June, 2013:

Name	Employer/City	Term	Term Ends
Peter Farrelly, Chair	OHA, Portland	Second	6/30/2013
Sharlyn Rayment	Retiree Position	First	6/30/2013
Priyanka Shukla	Treasury, Salem	First	6/30/2013
Keith Baldwin	Department of Forestry, Molalla	Second	6/30/2014
Jeff Labhart	ODOT, Bend	First	6/30/2015
Mark Carlton	McMinnville Water & Light	First	6/30/2015
Debbie Darst	Harrisburg School District	First	6/30/2015

Peter Farrelly is a state agency representative who is coming to the end of his second term. Priyanka Shukla is a state agency representative who recently moved to State Treasury and is not seeking reappointment to avoid any appearance of a conflict of interest given that OSGP investments are overseen by State Treasury and the OIC. Sharlyn Rayment is a retiree representative who is not seeking reappointment.

The criterion staff uses in selecting Advisory Committee members includes:

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

RECOMMENDED APPOINTMENTS

Staff recommends the Board appoint Brady Boothe from the State Police in Springfield, and Stefani Pastoor from the State Hospital in Salem, to fill the upcoming vacant state government positions; and appoint Kevin Nordhill to fill the vacant retiree position. Kevin previously served as an investment officer for State Treasury and worked extensively with OSGP but is now fully retired from active service and is no longer engaged in any OSGP investment oversight.

C.2. Attachment 1 – ORS 243.505

C.2. Attachment 2 – OAR 459-050-0025

BLANK PAGE

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

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

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

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

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

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

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

BLANK PAGE

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

**459-050-0025****Deferred Compensation Advisory Committee**

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

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

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

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

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

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

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

(5) A majority of the Advisory Committee shall constitute a quorum for transacting business.

However, the Advisory Committee may establish such other procedures for conducting business that it deems necessary.

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

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

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

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

Stat. Auth: ORS 243.470

Stats. Implemented: ORS 243.505





# Oregon

John A. Kitzhaber, M.D., Governor

## Public Employees Retirement System

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

May 31, 2013

TO: Members of the PERS Board  
FROM: Marjorie Taylor, Senior Policy Advisor  
SUBJECT: 2013 Legislative Session Update

### OVERVIEW

Since the March 29, 2013 Board meeting, much of our legislative focus has been on SB 822, its progression through the legislative process, and approval by the Governor. Three bills related to police and fire members – HB 3243, HB 3487, and SB 565 – have either been approved or are scheduled for legislative action. Senate Bill 5537, the PERS budget bill, is also waiting for final legislative action. Finally, we continue to monitor almost 35 additional PERS plan-related bills assigned to committees that may remain active until the end of session.

### IMPLEMENTATION OF SB 822

The Governor signed SB 822 on May 6, which is now the effective date of the measure. Agency staff are preparing to implement the four components of this legislation: 1) reduce COLA to 1.5% beginning July 1, 2013 and implement a tiered COLA beginning July 1, 2014; 2) eliminate all out-of-state tax remedies for certain retirees; 3) recalculate employer rates to be effective July 1, 2013; and 4) additional administrative action to be taken by the Board to further reduce employer rates. Attached is an explanation of the SB 822 benefit modifications that we have posted on our website. Further information on implementation of SB 822 is provided in Agenda Item C.4. for today's Board meeting.

### POLICE AND FIRE LEGISLATION

The Oregon Health and Science University (OHSU) gained authority to have a police department in 2009. The university has 22 sworn officers. This session, Senate Bill 565, which has been approved by the Governor, expands authority of the OHSU police force and establishes the officers of the force as "police officers" for the purpose of PERS benefits. The PERS "police officer" designation is effective January 1, 2014.

House Bill 3243 was introduced in recognition of Buddy Herron, an officer with the Department of Corrections who was killed in the line of duty prior to vesting in the OPSRP Pension Program. Provisions of the measure would vest Mr. Herron in the program and, as a vested member at the time of death, his family would be eligible to apply for a one-time death benefit payment.

House Bill 3487 originally allowed non-vested OPSRP police officer and firefighter members, who are killed in the "course and scope of employment," to be considered vested in their OPSRP pension program at the time of death. The original bill was similar to HB 3243, however it

applied prospectively to all police officer and firefighter members. Proposed amendments to the bill will apply the provisions to all non-vested OPSRP members.

#### AGENCY BUDGET – SB 5537

Director Cleary and Deputy Director Rodeman had the opportunity to present information and answer questions about the agency budget proposal during Phase One and Phase Two of the budget process. Legislators have been receptive to requests and recommendations presented in the budget and have made constructive suggestions that may be reflected in the final budget recommendation. Agency budgets are typically finalized during the final weeks of session.

#### NEXT STEPS

The 2013 Regular Session has about four to six weeks to go until adjournment. PERS staff continue to respond to questions from legislative offices about the impact to members, budget, and the agency regarding additional reform proposals. I look forward to communicating with the Board as activities and discussions pertaining to PERS progress through the legislative session.

Attachment 1: Explanation of Senate Bill 822 Benefit Modifications

## **Passage of Senate Bill 822: What Does It Mean?**

Senate Bill 822's passage affects the amount of the cost-of-living adjustment (COLA) payable to benefit recipients as of August 1, 2013, and in subsequent years.

The bill also eliminates the tax remedy benefit for recipients who do not pay Oregon state income taxes because they do not reside in Oregon.

### **COLA provisions**

Under SB 822, the COLA payable on August 1, 2013, will be capped at 1.5% for all benefit recipients. This cap is lower than the current 2% maximum cap for COLAs.

The cap on COLA payable August 1, 2014, and beyond will vary based on the amount of the annual benefit. Benefit recipients will receive a 2% increase on their first \$20,000 of a benefit, so anyone with an annual benefit that is \$20,000 or less will receive a 2% COLA.

The COLA gradually decreases on the amount of an annual benefit above \$20,000 beginning with the August 1, 2014 benefit payment:

- 1.5% on a benefit that is between \$20,001 and \$40,000,
- 1% on a benefit that is from \$40,001 to \$60,000, and
- 0.25% on all benefits above \$60,000.

Benefit recipients whose annual benefit is between \$20,000 and \$40,000 will receive a COLA of \$400 on the first \$20,000 plus a 1.5% COLA on the portion of their benefit that is above \$20,000.

Benefit recipients whose annual benefit is between \$40,000 and \$60,000 will receive a COLA of \$700 on the first \$40,000 plus a 1% COLA on the portion of their benefit above \$40,000.

Benefit recipients whose annual benefit is more than \$60,000 will receive a COLA of \$900 on the first \$60,000 plus a 0.25% COLA on the portion of their benefit above \$60,000.

If a benefit recipient has been receiving a benefit for less than 12 months on July 1 of any year, the COLA is not pro-rated based on the number of months of retirement but is calculated as if the recipient had been retired for a full year.

### **Eliminating Tax Remedy Benefit for Benefit Recipients Residing Outside Oregon**

This provision eliminates supplemental tax remedy benefits for PERS benefit recipients that do not pay state income taxes in Oregon because they do not reside in Oregon. The supplemental tax remedy payments are only paid to members who began PERS-covered service before July 14, 1995.

People who apply for benefits after the effective date of this bill will need to declare, at the time of application, whether they reside in Oregon and pay Oregon income taxes. For those people already receiving benefits, or who change residence after they apply, PERS will work with the Oregon Department of Revenue to determine which benefit recipients are not subject to Oregon state income tax because they do not reside in Oregon, and eliminate the supplemental tax remedy payments. Eliminating that tax remedy portion of a benefit will be effective the first day of the calendar year after that determination is made.

BLANK PAGE



# Oregon

John A. Kitzhaber, M.D., Governor

## Public Employees Retirement System

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

May 31, 2013

TO: Members of the PERS Board

FROM: Steven Patrick Rodeman, Deputy Director  
Debra Hembree, Actuarial Services Coordinator

SUBJECT: 2013-15 Employer Rate Adjustment Approach (SB 822)

### OVERVIEW

- Action: Adopt a methodology for implementing the employer rate adjustment provisions of Senate Bill 822 (2013 Legislative Session).
- Reason: SB 822 and an accompanying budget note direct the PERS Board to recalculate employer contribution rates effective July 1, 2013, to reflect the provisions of the bill and to further reduce 2013-15 employer rates by up to 1.9 percent of payroll.
- Policy Questions:
  1. *What methodology would allow the rate recalculations to be accomplished by the statutory deadline?*
  2. *What “sound accounting and actuarial practices” should constrain the amount of the 1.9% rate deferral?*

On September 28, 2012, the Board adopted employer contribution rates to be effective for the 2013-15 biennium pursuant to ORS 238.225. That statute directs the PERS Board to adopt rates in the amount it determines to be actuarially necessary to adequately fund the benefits provided by employer contributions. On average, base employer rates are scheduled to increase by 5.1 percent of payroll over the 2011-13 biennium rates.

Senate Bill 822 became law upon the Governor’s signature on May 6, 2013 (2013 Oregon Laws, Chapter 48). The bill reduces the current annual cost of living adjustment (COLA) and eliminates the tax remedy benefit for recipients who do not pay Oregon state income taxes due to residing outside of Oregon. Combined, these provisions reduce the system’s projected liability for benefits to be paid and, as a result, the amount necessary to adequately fund the benefits can be reduced.

The PERS actuary, Milliman, calculated that the uncollared 2013-15 base employer rate reduction from SB 822 is 2.5 percent of payroll on average. Section 18 of the bill directs the PERS Board to pass that reduction through to employers for rates effective July 1, 2013.

Accompanying the bill was a budget note that stated:

“In addition to any employer rate increase that would be deferred in the 2013-15 biennium under the PERS Board's October 2012 rate smoothing methodology, the Legislature directs the PERS Board to undertake additional administrative actions to further reduce each PERS employer's rate by up to 1.9% of covered payroll to mitigate rate increases for the 2013-15 biennium, to the extent such administrative actions conform to sound accounting and actuarial practices, as determined by the PERS Board in consultation with the system's actuaries. PERS is directed to report to the Joint Committee on Ways and Means during the 2014 session on the administrative actions undertaken by the PERS Board and an estimate of the amount of system wide savings resulting from the actions.” *[Emphasis added.]*

The total base employer rate reduction from the bill and the budget note, if fully implemented by the Board, would be up to 4.4 percent of payroll, on average.

## POLICY ISSUES

1. *What methodology would allow the rate recalculations to be accomplished by the statutory deadline?*

The rate impact of SB 822 was estimated based on the total system membership population at the December 31, 2011 actuarial valuation date. The precise impact of SB 822 on individual employers and actuarial rate pools could vary based on the particular employer's or pool's payroll and demographics. For Milliman to calculate the specific impact of SB 822 on individual employers and pools would involve substantially recreating the 2011 actuarial valuation. This would take several weeks and would be unlikely to provide revised contribution rates in sufficient time to meet the Legislature's direction to adopt new employer rates before July 1, 2013.

An alternative approach would be to reduce all employers' 2013-15 base rates a fixed 2.5 percent for the impact of the graduated COLA schedule and the elimination of the tax remedy benefit to non-Oregon residents. The large rate pools' (School Districts, and State and Local Government Rate Pool or SLGRP) experience tends to follow the average employers' experience closely, so it is reasonable to assume that SB 822's impact on those pools would be close to the average impact. This assumption has been confirmed based on discussions with Milliman. The actual impact of SB 822 on independent (non-pooled) employers could be somewhat more varied, but the small discrepancies that arise from applying the 2.5% rate reduction can be addressed when setting rates for 2015-17, based on the December 31, 2013 valuation.

Staff Recommendation: Reduce all employers' 2013-15 base rates by a fixed 2.5 percent of payroll. This method would allow recalculated rates to be established in time to meet the statutory deadline to be effective July 1, 2013; any individual employer rate anomalies can be adjusted in the 2015-17 rate setting cycle.

2. *What “sound accounting and actuarial practices” should constrain the amount of the additional 1.9% of payroll rate deferral?*

Some employers' scheduled 2013-15 contribution rates are less than 4.4 percent of payroll higher than their current contribution rates. For those employers, Milliman recommends against providing

the full 1.9 percent deferral contemplated by the budget note as that would reduce their 2013-15 rates below 2011-13 levels. Instead, the actuary recommends limiting the additional 1.9 percent deferral such that no employer's 2013-15 base rates (normal cost plus unfunded actuarial liability, excluding side accounts and retiree healthcare) will be reduced below the employer's 2011-13 base rates. For example, if the 2.5 percent reduction from SB 822 leaves an employer's 2013-15 base rate 1.5 percent higher than its current base rate, that employer will receive only a 1.5 percent deferral instead of the full 1.9 percent.

Staff Recommendation: Limit the amount of any rate deferral so that no employer's 2013-15 base rates would be lower than that employer's 2011-13 base rates.

## BOARD OPTIONS

The Board's options for implementing SB 822 and the accompanying budget note are:

1. Pass a motion to "direct Milliman to reduce the 2013-15 employer rates by 2.5 percent of payroll for all employers, and to further reduce all employers' base rates by up to an additional 1.9 percent of payroll, with the limitation that no employer's adjusted 2013-15 base rates will be less than its 2011-13 base rates."
2. Pass a motion to direct Milliman to recalculate 2013-15 contribution rates for all employers to determine the specific impact of SB 822 on each employer or actuarial pool, and present the employer-specific recalculated rates for adoption by the Board at a later date.
3. Direct that another rate setting methodology be developed.

## STAFF RECOMMENDATION

Staff recommends the Board choose Option #1.

- Reason: This option fully implements the legislature's intent in enacting SB 822 and the accompanying budget note, and provides an actuarially sound method of adjusting employer rates without the costly and time consuming process of calculating the impact of SB 822 specific to each individual employer.

## NEXT STEPS

Milliman will recalculate employer rates pursuant to the method adopted by the Board and PERS will issue revised rate orders. Staff will communicate revised contribution rates to all employers and update PERS' computer system to reflect the adjusted rates effective July 1, 2013.

Attachment 1: Milliman's March 28, 2013 Analysis of Senate Bill 822

Attachment 2: Senate Bill 822 - Potential Impact to PERS Employer Rates (PERS April, 2013 memo)

BLANK PAGE





111 SW Fifth Avenue  
Suite 3700  
Portland, OR 97204  
USA

Tel +1 503 227 0634  
Fax +1 503 227 7956

milliman.com

March 28, 2013

**VIA E-MAIL**

Paul Cleary  
Executive Director  
Oregon PERS

**Re: Request Number: 2013-003  
Analysis of Senate Bill 822**

Dear Paul:

Per the request noted above, we have estimated the system-wide average effects of the PERS benefits modifications contained in Senate Bill 822 (SB 822).

We understand SB 822 to have the following effects on PERS benefits:

- The COLA increase provided in 2013 would be limited to 1.5%, in place of the existing limitation of 2%.
- Beginning in 2014, future COLA adjustments would be provided on a graded schedule according to the amount of a member's annual benefit, as shown in the table below. The COLA shown in the table below would be applied on a marginal basis. For example, the COLA for a member with a \$30,000 annual benefit would be calculated as 2.0% on the first \$20,000 and 1.5% on the next \$10,000, for a total increase of \$550.

Annual Benefit Amount	Applicable COLA
First \$20,000	2.00%
\$20,000 to \$40,000	1.50%
\$40,000 to \$60,000	1.00%
\$60,000 or more	0.25%

- The "tax remedy" benefit would be eliminated for all members and beneficiaries who are not Oregon residents.

The analysis estimates the impact on actuarial liability and contribution rates calculated in the December 31, 2011 actuarial valuation of the changes and implementation dates described herein. The elimination of the tax remedy benefit was assumed effective immediately as of the valuation date. Except as otherwise described in this letter, our analysis has used the same assumptions as the December 31, 2011 actuarial valuation.

Offices in Principal Cities Worldwide

*This work product was prepared solely for Oregon PERS for the purposes described herein 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. Milliman recommends that third parties be aided by their own actuary or other qualified professional when reviewing the Milliman work product.*

The consultants who worked on this assignment are pension actuaries. We have not explored any legal issues with respect to this proposed legislation. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel.

### SUMMARY OF LIABILITY RESULTS

The table below has a summary of the valuation results for the most recent rate-setting valuation and the effect of SB 822 on those results. The changes proposed by SB 822 lower the actuarial liability and employer contribution rates via a reduction of benefits projected to be paid in the future.

We understand that the co-sponsors of SB822 have signaled intent to request that the PERS Board defer an additional portion of the currently scheduled 2013-2015 rate increases, with that additional deferral amount being unrelated to the proposed benefit changes. SB822 as currently drafted does not contain that request. As such, this letter addresses neither the financial impact nor the potential structure of such a request.

In the table below, "Accrued Liability" refers to the net present value of projected future benefits allocated to service already completed as of the valuation date in accordance with the current actuarial cost allocation method, while "Total Liability" includes the value attributable to anticipated future service for current active members. The contribution rate shown is a blended rate reflecting the weighted averages of Tier 1, Tier 2 & OPSRP payroll as of the valuation date. The base contribution rate is shown on an "uncollared" basis.

	12/31/2011 Total Liability (\$B)	12/31/2011 Accrued Liability (\$B)	2013-2015 Uncollared Base Pension Employer Contribution Rates (% of Payroll)		
			Normal Cost	UAL	Total
12/31/2011 Valuation Results	\$69.2	\$61.2	8.2%	15.5%	23.7%
SB 822 changes	(3.2)	(2.6)	(0.3%)	(2.2%)	(2.5%)

The \$3.2 billion reduction in Total Liability shown in the table above represents a 4.6% reduction compared to the December 31, 2011 valuation. The percentage reduction varies by individual member. The table below illustrates the weighted average decrease for three groups of members, based on status at December 31, 2011: actives, inactive who have not yet started benefits, and current retirees or beneficiaries in payment.

	Percentage Decrease in 12/31/2011 Total Liability			
	Current Actives	Current Inactives	Current Retirees	System Average
SB 822 changes	(4.9%)	(3.2%)	(4.5%)	(4.6%)

#### Milliman

*This work product was prepared solely for Oregon PERS for the purposes described herein 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. Milliman recommends that third parties be aided by their own actuary or other qualified professional when reviewing the Milliman work product.*

## **ANALYSIS OF BENEFIT MODIFICATIONS**

The decrease in both Total Liability and Accrued Liability shown is caused by reducing projected benefit payments for current and future retirees. The separate components of the SB 822 benefit modification differ in the groups they affect and the magnitude of the impact. Key aspects of the two changes are discussed individually below.

### **COLA Changes**

The COLA changes reduce liabilities by reducing projected future benefit payments for current and future retirees. All members or beneficiaries receiving a COLA increase in 2013 would see a lower 2013 benefit increase due to the reduction in maximum COLA from 2.0% to 1.5%. In later years, only members with benefits in excess of the lowest threshold level (\$20,000) will be affected. The reduction in future COLA amounts will be most pronounced for members with larger benefits. As noted above, a member with a \$30,000 annual benefit will receive a COLA of \$550, which is equivalent to an effective COLA of 1.83%. A member with an \$80,000 annual benefit will receive a COLA of \$950, for an effective rate of 1.19%. The COLA thresholds are not indexed to increase with inflation in future years.

### **Remove Tax Remedy for Non-Residents**

The two statutory provisions, collectively known as “tax remedy benefits”, considered in this analysis are the House Bill 3349 (“HB 3349”, section 238.364 of Oregon Revised Statutes (ORS)) and Senate Bill 656 (“SB 656”, ORS 238.366) benefit adjustments. We understand these provisions were added to statute after member benefits previously exempt from Oregon personal income tax became subject to the tax; the benefits provided by these sections were intended to mitigate the impact of the change in tax status of benefit payments.

Only members who joined the system prior to July 14, 1995 are eligible for HB 3349 and SB 656 adjustments. Eligible members who retired prior to 2012 receive the larger of either the HB 3349 or SB 656 adjustment. Due to a change in statute, a member who retires after 2011 is not eligible for the HB 3349 adjustment if they do not reside in Oregon. That statutory change did not affect members who retired prior to 2012, and the statutory change did not remove the SB 656 adjustment for post-2011 retirees.

The benefit adjustment provided by HB 3349 is based on the percentage of a member’s benefit attributable to service prior to October 1, 1991, and can range from a 0% to 9.9% increase in the benefit. This range varies based on the fraction of a member’s service that occurred prior to October 1, 1991. A member with no service prior to that date has a 0% HB 3349 adjustment, while a member with all service prior to that date has a 9.9% HB 3349 adjustment.

#### **Milliman**

*This work product was prepared solely for Oregon PERS for the purposes described herein 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. Milliman recommends that third parties be aided by their own actuary or other qualified professional when reviewing the Milliman work product.*

The SB 656 benefit adjustment is defined as a fixed percentage increase to a member's benefit based on his or her total years of service. The increase schedule varies between General Service and Police and Fire members, with Police and Fire members receiving a more favorable schedule. The increase provided by SB 656 ranges from 0%, for those with less than 10 years of service, to 4%, which applies to General Service members with 30 or more years of service and Police and Fire members with 25 or more years of service.

SB 822 would remove both the HB 3349 and the SB 656 adjustments for all retirees and beneficiaries who reside outside of Oregon. In other words, SB 822 would expand the recent statutory modification in two ways. First, it would remove both adjustments, rather than just the HB 3349 adjustment. Second, the legislation would apply to all retirees and beneficiaries rather than just post-2011 retirements.

For purposes of this analysis, we have assumed that 15% of current and future benefits eligible for tax remedy adjustments are payable to non-Oregon residents and would be affected by this change. This assumption was provided by PERS, and was also used in the analysis we prepared in November 2012 estimating the effect of removing tax remedy benefits as a stand-alone change.

#### **DATA, METHODS, ASSUMPTIONS AND PROVISIONS**

Other than the exceptions and additions discussed in this letter, the data, methods, assumptions, and plan provisions used to calculate employer contribution rates are the same as those used in the December 31, 2011 system-wide actuarial valuation report. That information, including a discussion of the inherent limitations of use of actuarial valuation results, is herein incorporated to this letter by reference.

Our analysis does not include any assumed change in participant behavior such as retirement patterns due to the proposed changes in policy, or to bargaining agreements or employer pay practices as a result of these changes. Such potential impacts merit consideration. Actual experience will vary from assumption, and sometimes the variance from assumption will be significant. The variance will affect the long-term financial impact of the proposed legislation.

The assumption of 15% used in analyzing the change to the tax remedy benefit was provided by PERS; we do not have any data currently available to independently assess this assumption. To assess the impact of this proposed legislation on current retirees, we received additional data from PERS regarding the percentage increase in benefits due to tax remedy adjustments already incorporated in the current benefit levels for individual retirees. We did not audit the data, but have no reason to doubt its substantial accuracy.

The analysis shown here was conducted using the actuarial cost allocation method currently employed by the PERS Board. If this method was changed, the results could change significantly.

#### **Milliman**

*This work product was prepared solely for Oregon PERS for the purposes described herein 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. Milliman recommends that third parties be aided by their own actuary or other qualified professional when reviewing the Milliman work product.*

In calculating the illustrative changes in uncollared employer base contribution rates, we assumed all changes in Accrued Liability were amortized over a 20-year period as a level percent of payroll using current valuation assumptions. This is the method currently used in the valuation when establishing new Tier 1/Tier 2 amortization bases. If a different amortization method were used, the overall impact on employer rates could be significantly different than shown in this letter.

## **ACTUARIAL BASIS AND QUALIFICATIONS**

In preparing this letter and the valuation report on which it is based, we relied, without audit, on information (some oral and some in writing) supplied by Oregon PERS. 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. This analysis depends 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 observed recent experience of PERS and reasonable expectations); and which, in combination, offer a reasonable estimate of anticipated future experience affecting PERS.

Future actuarial measurements may differ significantly from the current measurements presented in this analysis 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, additional cost or contribution requirements based on the plan's funded status, or a change in the cost allocation method); and changes in plan provisions, applicable law, or administrative rules. Due to the limited scope of this estimate, we did not perform an analysis of the potential range of future measurements. The Board has the final decision regarding the valuation assumptions and adopted the assumptions used in the December 31, 2011 valuation at its July 2011 public meeting.

Actuarial computations presented in this estimate are for purposes of providing a high-level analysis of the proposed legislation to PERS. As such, they cannot be relied upon for financial reporting or other purposes, and calculations for purposes other than this use may be significantly different from the estimates contained in this letter. Accordingly, additional determinations may be needed for other purposes.

Milliman's work is prepared solely for the use of Oregon PERS. 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**

*This work product was prepared solely for Oregon PERS for the purposes described herein 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. Milliman recommends that third parties be aided by their own actuary or other qualified professional when reviewing the Milliman work product.*

Mr. Paul Cleary  
March 28, 2013  
Page 6

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.

On the basis of the foregoing, I hereby certify that, to the best of my knowledge and belief, this analysis is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices. I am a member of the American Academy of Actuaries and meet the Qualification Standards to render the actuarial opinion contained herein.

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

Sincerely,



Matt Larrabee, FSA, EA  
Principal and Consulting Actuary

MRL:sdp  
encl.

cc: Steve Rodeman, Debra Hembree, Marjorie Taylor, Scott Preppernau

**Milliman**

*This work product was prepared solely for Oregon PERS for the purposes described herein 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. Milliman recommends that third parties be aided by their own actuary or other qualified professional when reviewing the Milliman work product.*



## **Senate Bill 822 – Potential Impact to PERS Employer Rates**

The PERS Board uses an actuarial method that spreads very large necessary employer rate changes over more than one biennium. This “rate collar” method was adopted in 2005. The Board started “collaring” employer rate increases associated with the 2008 investment losses by limiting the system-wide average July 2011 increase to about 3.9% of payroll (5.6% of payroll after reflecting the leveraging effects of individual employer side accounts).

A second increase averaging 5.1% of covered payroll (4.9% reflecting side accounts) is scheduled to go into effect in July 2013, and a third increase of about 2.2% of payroll is projected to go into effect in July 2015. The Board’s rate collaring spread the increase from 2008 losses over three biennia in a roughly “4%-5%-2%” rate increase schedule on a system-wide average basis (before reflecting side accounts).

Provisions of SB 822 and its associated budget note (text follows) impact projected contribution rates in two different ways. First, changes to the COLA and tax remedy provisions reduce projected benefits and hence reduce both near-term and long-term contribution rate projections. Second, the budget note effectively directs the PERS Board to further modify rate increases by deferring up to 1.9% of payroll of the scheduled July 2013 increase into the 2015-17 biennium and subsequent biennia. On its own, the budget note reduces near-term contribution rates while increasing long-term contribution rate projections.

Senate Bill 822 (including the budget note) would reduce the July 2013 contribution for most employers by 4.4% of payroll compared to the rates currently scheduled to take effect at that time. To comply with the budget note in as actuarially sound a manner as possible, a floor will be applied to the rate deferral to ensure that no employer’s rate is reduced below their current 2011-13 biennium level. The projected effects of SB 822 are shown in the following tables.

PERS covered payroll is projected to total \$18.4 billion for the 2013-15 biennium, so an employer rate deferral of up to 1.9% of payroll would “save” employers about \$350 million during that biennium. Since the deferral does not reduce system liabilities, it increases contribution rates in future biennia by about 0.3% of payroll for the subsequent 20 years.

The 2015-17 employer rate projections are sensitive to actual PERS investment earnings in 2013. Changes in PERS actuarial methods and assumptions by the PERS Board (such as reducing the fund’s “assumed earnings rate” or changing the unfunded liability amortization period) could also significantly impact 2015-17 employer rates.

A rate deferral as provided under the SB 822 budget note may be an appropriate response to the unique and severe nature of the 2008 investment losses, but should only be used on a one-time basis so as not to undermine the long-term funding of the system and the retirement security of PERS members.

<b>PERS System-wide Average Base Employer Rates Following the 2008 Investment Losses</b>				
	<b>2011-13 Biennium</b>	<b>2013-15 Biennium</b>	<b>2015-17 Biennium</b>	<b>Subsequent Biennia</b>
<b>Pre-SB 822</b>	16%	21.1%	23.3%	~25.5%
<b>Effect of SB 822 Benefit Changes</b>	---	18.6%	20.8%	~23.0%
<b>Effect of SB 822 Benefit Changes &amp; Budget Note</b>	---	16.7%	21.1%	~23.3%

<b>PERS SLGRP Average Base Employer Rates Following the 2008 Investment Losses (State and Local Government Rate Pool)</b>				
	<b>2011-13 Biennium</b>	<b>2013-15 Biennium</b>	<b>2015-17 Biennium</b>	<b>Subsequent Biennia</b>
<b>Pre-SB 822</b>	15.1%	19.7%	21.9%	~24.1%
<b>Effect of SB 822 Benefit Changes</b>	---	17.2%	19.4%	~21.6%
<b>Effect of SB 822 Benefit Changes &amp; Budget Note</b>	---	15.3%	19.7%	~21.9%

<b>PERS School District Average Base Employer Rates Following the 2008 Investment Losses</b>				
	<b>2011-13 Biennium</b>	<b>2013-15 Biennium</b>	<b>2015-17 Biennium</b>	<b>Subsequent Biennia</b>
<b>Pre-SB 822</b>	18.9%	26.1%	28.3%	~30.5%
<b>Effect of SB 822 Benefit Changes</b>	---	23.6%	25.8%	~28.0%
<b>Effect of SB 822 Benefit Changes &amp; Budget Note</b>	---	21.7%	26.1%	~28.3%

- **Text of Senate Bill 822A**

<http://www.leg.state.or.us/l3/reg/measpdf/sb0800.dir/sb0822.a.pdf>

- **Budget Report to Senate Bill 822A**

<https://olis.leg.state.or.us/liz/2013R1/Downloads/MeasureAnalysisDocument/18250>

**Budget Note:**

Section 18 of SB 822 directs the Public Employees Retirement System (PERS) Board to "recalculate the contribution rates of all employers, pursuant to ORS 238.225, to reflect the provisions of this 2013 Act." In addition to any employer rate increase that would be deferred in the 2013-15 biennium under the PERS Board's October 2012 rate smoothing methodology, the Legislature directs the PERS Board to undertake additional administrative actions to further reduce each PERS employer's rate by up to 1.9% of covered payroll to mitigate rate increases for the 2013-15 biennium, to the extent such administrative actions conform to sound accounting and actuarial practices, as determined by the PERS Board in consultation with the system's actuaries.

PERS is directed to report to the Joint Committee on Ways and Means during the 2014 session on the administrative actions undertaken by the PERS Board and an estimate of the amount of system wide savings resulting from the actions.

- **Actuarial Analysis of Senate Bill 822**

[http://www.oregon.gov/pers/docs/general\\_information/sb\\_822\\_%20letter\\_analysis.pdf](http://www.oregon.gov/pers/docs/general_information/sb_822_%20letter_analysis.pdf)





# Oregon

John A. Kitzhaber, M.D., Governor

## Public Employees Retirement System

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

May 31, 2013

TO: Members of the PERS Board

FROM: Paul R. Cleary, Director

SUBJECT: Continued Review of Actuarial Methods and Assumptions

PERS actuaries (Matt Larrabee and Scott Preppernau with Milliman) will continue their review and discussion of Actuarial Methods and Economic Assumptions in preparation for the adoption of updated methods and assumptions (including the assumed earnings rate) at the July 26, 2013 Board meeting. These materials will be available in hard copy at the meeting, and circulated electronically once available before the meeting.

BLANK PAGE

# Actuarial Assumptions & Methods

## Part One

### OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM

May 31, 2013

Presented by:

Matt Larrabee, FSA, EA

Scott Preppernau, FSA, EA



# Agenda

- Discussion of rate-setting components:
  - Investment return assumption
  - Cost allocation methods
  - Shortfall amortization techniques
  - Rate collaring
- Alternative rate-setting approach for consideration in July
- Review of non-investment economic assumptions

# Two-Year Rate-Setting Cycle

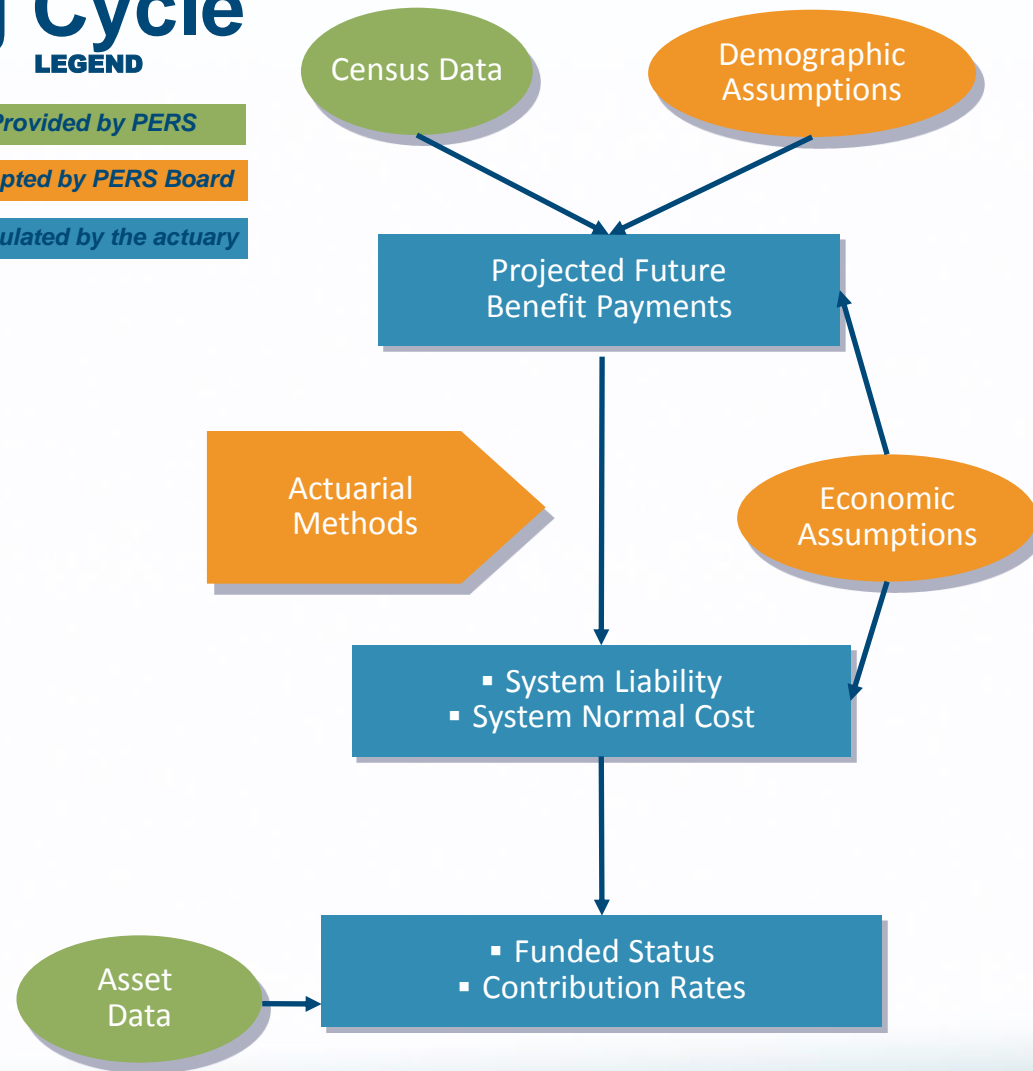
## LEGEND

Provided by PERS

Adopted by PERS Board

Calculated by the actuary

- July 2013: Assumptions & methods adopted by Board in consultation with the actuary
- September 2013: System-wide 12/31/12 “advisory” actuarial valuation results
- November 2013: Advisory 2015-2017 employer-specific contribution rates
- July 2014: System-wide 12/31/13 “rate-setting” actuarial valuation results
- September 2014: Disclosure & adoption of employer-specific 2015-2017 contribution rates



# Objectives for Actuarial Methods & Assumptions

- Transparent
- Predictable and stable rates
- Protect funded status
- Equitable across generations
- Actuarially sound
- GASB compliant



Some of the objectives can conflict, particularly in periods with significant investment return volatility. Overall system funding policies should seek an appropriate balance between conflicting objectives.

# Cost Equation; Governance Structure

- Long-term program costs are the contributions, which are governed by the “fundamental cost equation”:

$$**BENEFITS = EARNINGS + CONTRIBUTIONS**$$

- Benefits: Plan design set by Legislature
- Earnings: Asset allocation set by Oregon Investment Council (OIC); actual returns determined by market
- Contributions: Funding, methods & assumptions set by PERS Board
  - Since contributions are the balancing item in the equation, PERS Board funding policies primarily affect the timing of contributions
  - Different actuarial methods and assumptions produce different expected contribution patterns

# Long-Term Investment Return Assumption

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.



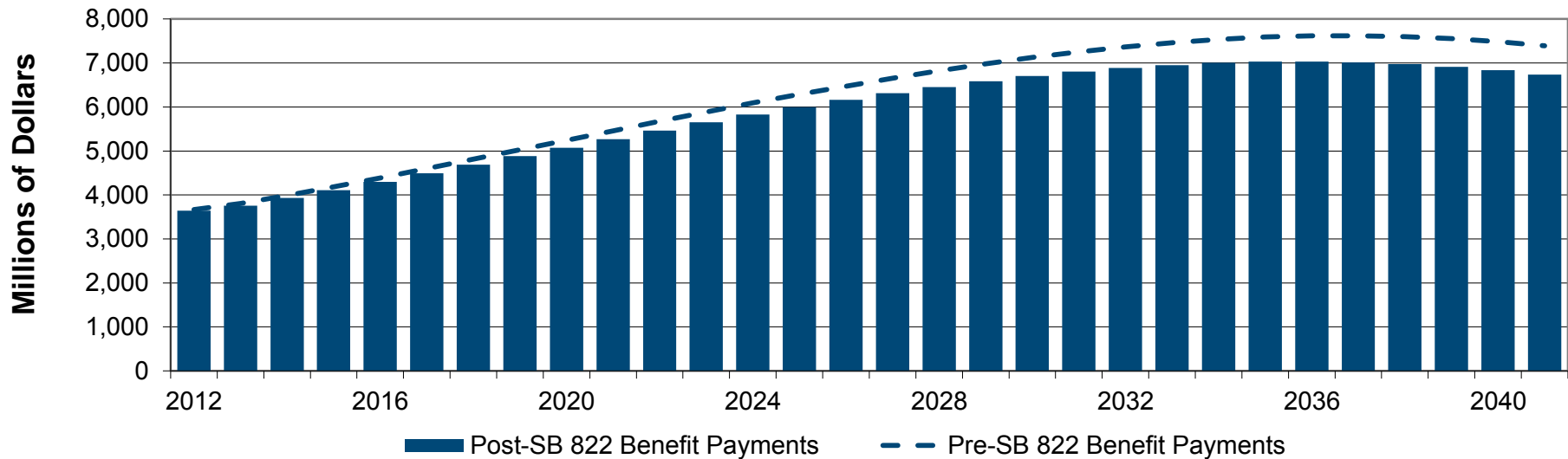
# Long-Term Investment Return Assumption

- Uses of the investment return assumption
  - As a “discount rate” for establishing the:
    - The actuarial accrued liability, which is a net present value
    - The associated unfunded actuarial liability, also called the UAL or actuarial shortfall
  - Guaranteed crediting level for regular Tier 1 active member account balances
  - Annuitization rate for converting member account balances to lifetime monthly money match benefits



Reflecting expectations for both investment earnings and benefit levels for certain members, the assumption helps set an appropriate glide path for employer contribution rates

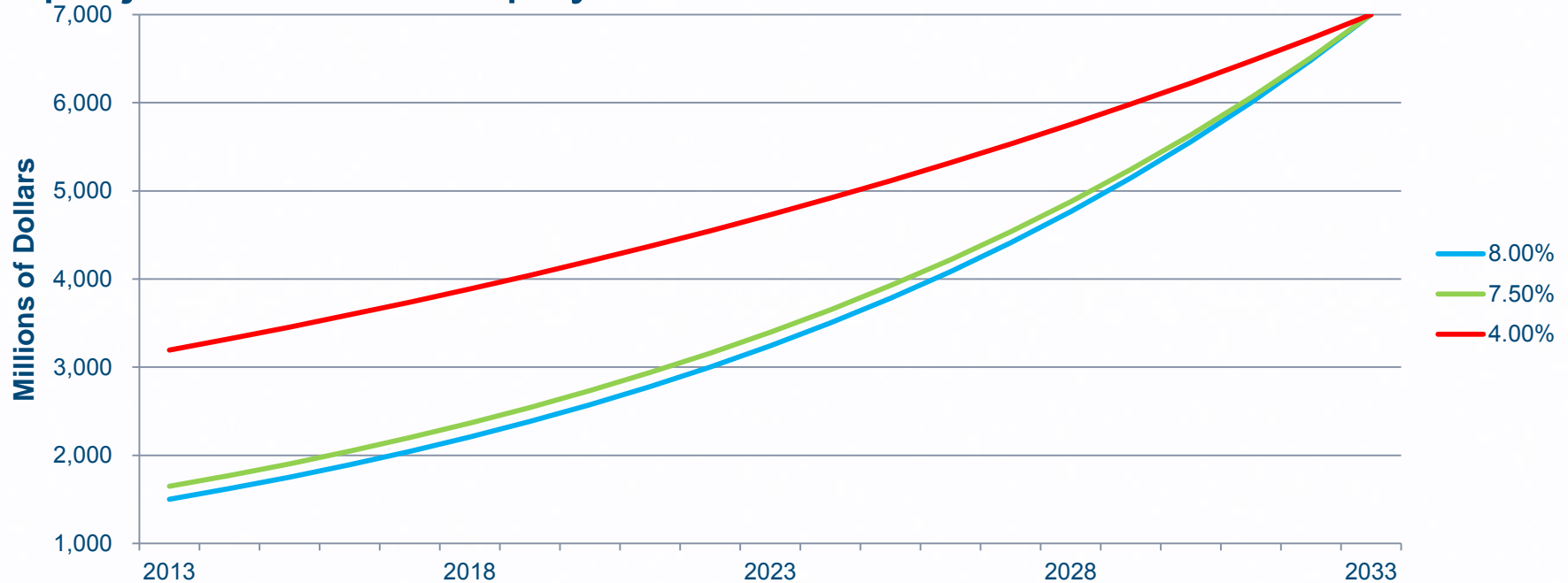
# Discount Rate Calculations



- How many assets do we need to “pay” for these projected payments today?
- This present day value assessment of liabilities is much more speculative than determining the value of system assets
  - When judging the sufficiency of current assets to pay future benefits, the assumption about future investment returns plays a central role

# Discount Rate Calculations

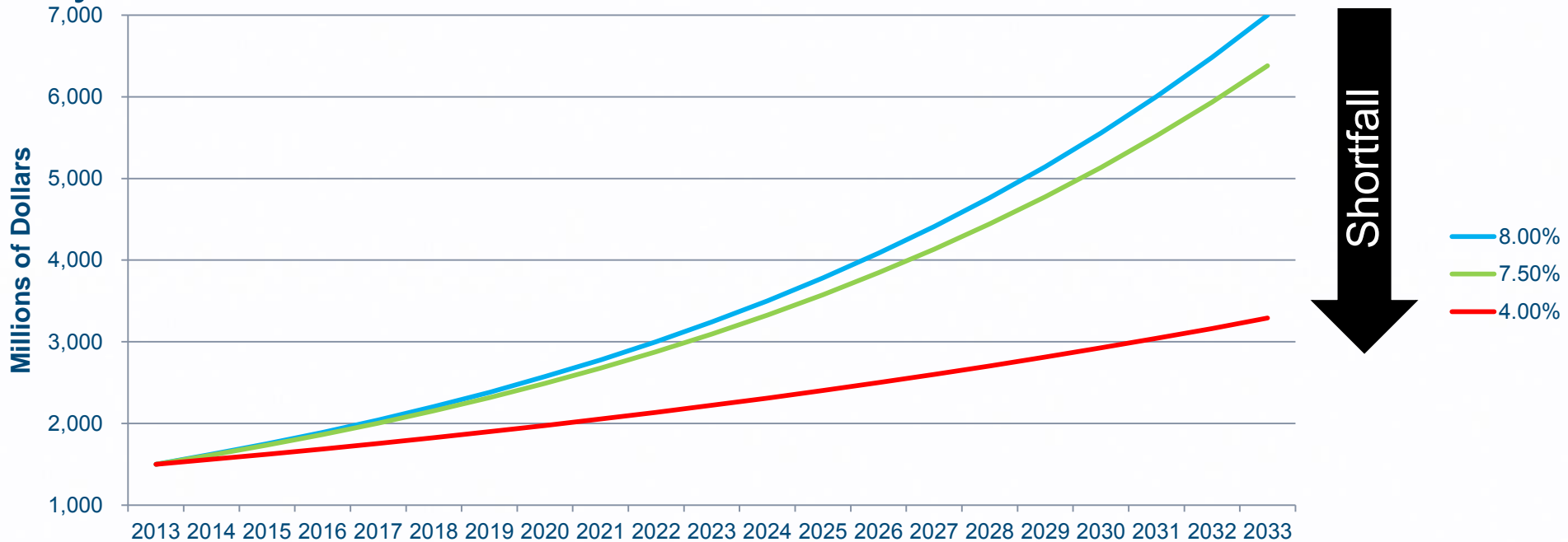
- What asset level would be needed today to fund the \$7.0 billion of projected benefits payments to be made in 2033?



About 10% more assets would be needed today for the 2033 payments if investments earn 7.5% instead of 8.0%. If investments were to earn only 4.0%, assets needed today would be more than twice as much.

# Discount Rate Calculations

- If the 8% assumption is used but actual earnings are less by how far do we miss the mark?



If investments actually earn 7.5%, needed assets fall \$620 million short of target.  
If actual earnings are 4%, assets would be \$3.7 billion short.

The ramifications over the long-term of missing the assumed return are significant.

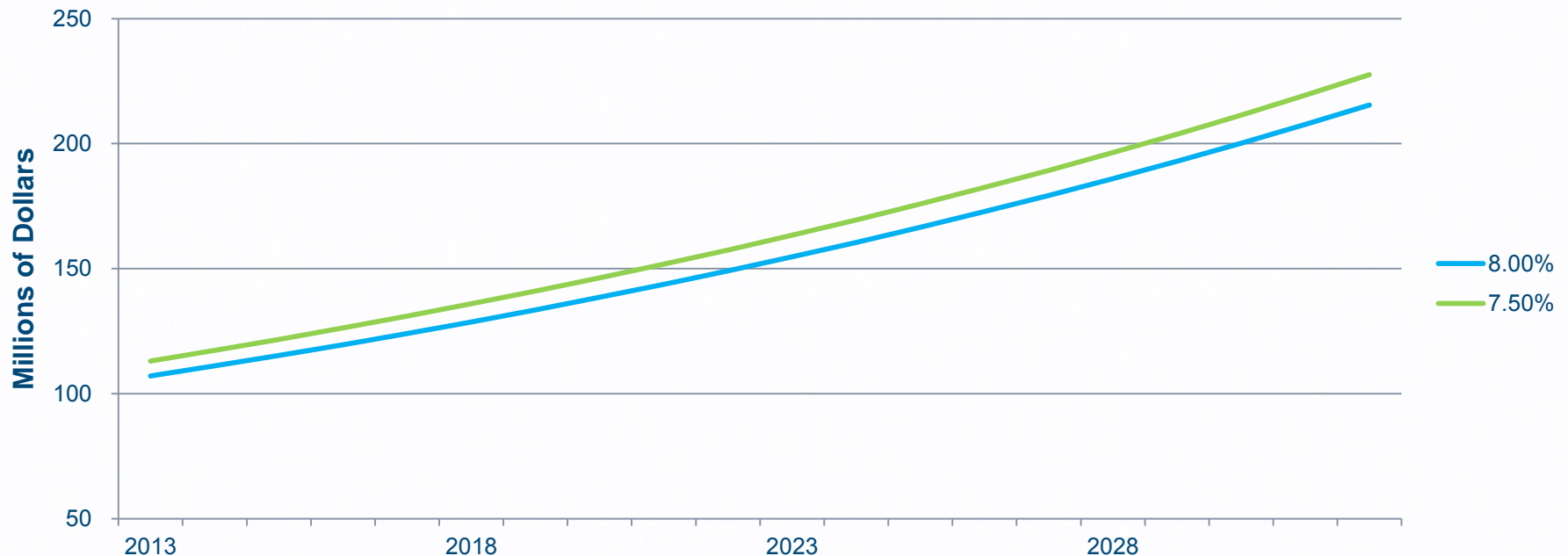
# Effect of Return Assumption on Amortization

- At the 8% investment return assumption, not enough money is on hand today to fully satisfy obligations
  - This shortfall is the \$16 billion UAL, or unfunded accrued liability, (excluding side accounts) in the 12/31/2011 actuarial valuation
- To address a shortfall, an installment payment plan is developed with three key components setting the payment level
  - Investment return assumption
  - Amortization period
  - Payroll growth assumption
- The installment plan is the “UAL Rate” portion of employer rates

How does changing the long-term investment return assumption affect the installment payment plan?

# Effect of Return Assumption on Amortization

- What contributions would be needed on a “20-year installment plan” to fund all 2033 projected benefits payments?



In comparing needed 20-year contribution levels, contributions should be **5% to 6% higher** at a given shortfall level if returns are assumed at 7.5% to account for the lower anticipated investment earnings over the 20-year period.

# Setting the Return Assumption

- Since funded status is less than 100%, we are effectively using a blend of the “money on hand today” and “20-year payment plan” approaches
- Under either approach, the key question to answer is:

**On average, how much will fund investments earn between now and then?**



# Setting the Return Assumption

**Given that we do not know what the fund will earn, how should we proceed?**

- Prudently select a best estimate
- Solicit forecasts from investment professionals
- Recognize that hoping for a result does not make it happen; the assumption does not affect actual investment returns
- Don't be myopic --- the objective is to make a sound 20-year estimate, not to get a single individual year right
- Neither ignore historical results nor be 100% beholden to them
- Since actual results will vary from assumption, review the forecasts' probability ranges and consider a margin for variance



# Investment Return 20-Year Forecasts

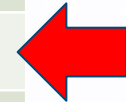
- To assist the Board, we have 20-year annualized return forecasts from three professional advisors
  - Pension Consulting Alliance (PCA)
  - Milliman
  - Strategic Investment Solutions (SIS)
- Forecasts do not reflect any possible “alpha” due to selected managers outperforming their peers and market benchmarks
- PCA and SIS consult to the Oregon Investment Council
  - PCA and SIS provided us with their market outlook assumptions, which we placed into an industry standard mean/variance model
- Today’s speakers are not credentialed investment advisors
  - We are presenting results based on market outlook assumptions developed by Milliman’s credentialed investment professionals



# Investment Return 20-Year Forecasts

- Forecasts are based on OIC target long-term asset allocation
  - Current actual allocation differs somewhat from the target allocation
- Target allocations are under review, and could change by the PERS Board's July meeting

Percentile	PCA	Milliman	SIS
25 <sup>th</sup>	4.63%	5.63%	5.45%
35 <sup>th</sup>	5.48%	6.45%	6.36%
45 <sup>th</sup>	6.25%	7.18%	7.19%
<b>50<sup>th</sup></b>	<b>6.62%</b>	<b>7.54%</b>	<b>7.59%</b>
55 <sup>th</sup>	7.00%	7.90%	7.99%
65 <sup>th</sup>	7.78%	8.65%	8.82%
75 <sup>th</sup>	8.65%	9.48%	9.76%



# Effects of Lowering the Assumed Rate

- A lower investment return assumption would produce higher calculated liabilities and contribution rates
  - Tilts the expected balance of the fundamental cost equation from earnings to contributions
  - Effect of lowering the rate to 7.5% was previously estimated in November 2012 as a 3.0% of payroll increase in uncollared base rate
    - SB 822 decreased plan liabilities since that estimate was made
    - We now estimate an assumed rate change would likely increase uncollared base rates by 2.8% to 2.9% of payroll
- For PERS, such a change would also lower benefits for future retirements calculated under money match
  - Illustration for a hypothetical Tier 1 member shown on next slide

# Effects of Lowering the Assumed Rate

- Lowering the assumed rate from 8.0% to 7.5% would affect the money match calculation for a member age 59 ½ with a \$135,000 member account balance as of 6/30/2013 in the following manner

Benefit Commencement	7/1/2013	12/31/2013	1/1/2014	7/1/2014
Assumed Rate	8.00%	8.00%	7.50%	7.50%
Starting Benefit	\$2,093	\$2,189	\$2,099	\$2,194

- Assuming annuitization factors change effective 1/1/2014, it would take about six months without retirement (until July 2014) for the December 2013 initial benefit level to be reached

# Conclusion & Next Steps

- In our opinion, the long-term investment return assumption should be lowered based on the data from the investment forecasts and review of the guiding principles

*Recommendation for July:  
Look at effects of change to a 7.50% assumed rate*

- At July meeting, we will:
  - Update our analysis if necessary for a new OIC asset allocation policy
  - Provide peer information on other large public systems' assumptions
  - Ask the Board to make a final decision on the assumption

# Actuarial Cost Allocation Method

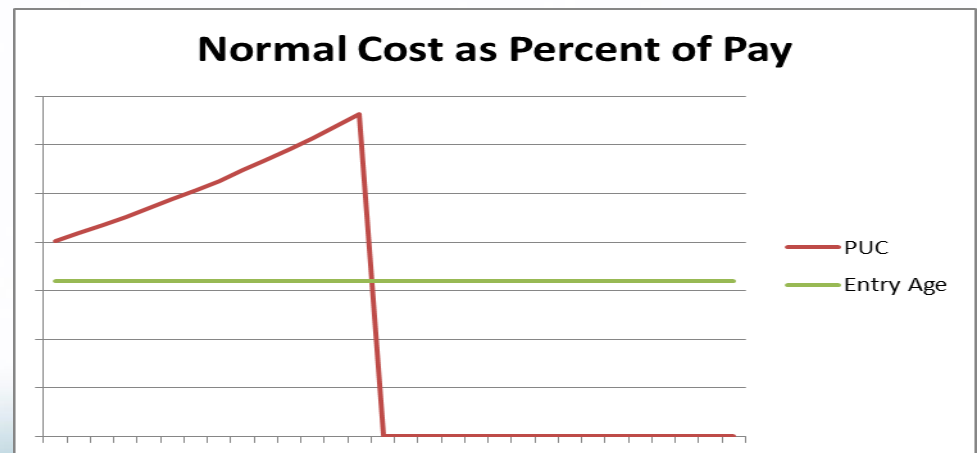
# Cost Allocation Method

- Rates are calculated to pre-fund retirement benefits during a member's working career if all assumptions are met
- The present day value of projected future benefits allocated to a particular working year is the **Normal Cost**
- The present day value of projected future benefits allocated to prior years is the **Accrued Liability**
- The division between past, current & future service is done through use of an actuarial cost allocation method
- The two most commonly used cost allocation methods are:
  - Entry age normal (EAN)
  - Projected unit credit (PUC)

# Cost Allocation Method – Money Match

- For projected retirements under money match, the two methods have very different cost allocation patterns
- Projected unit credit (PUC) allocates the full benefit to pre-2004 service, consistent with the timing of member contributions
- Entry age normal (EAN) allocates the benefit over the full working career, even though money match benefits are tied to pre-2004 contributions

This chart illustrates the normal cost pattern as a percent of pay for a sample member projected to retire under money match

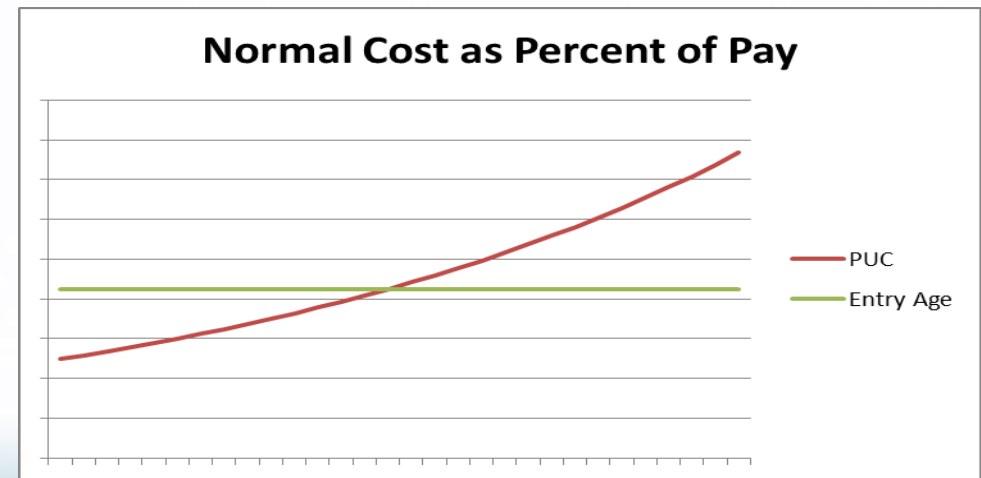




# Cost Allocation Method – OPSRP or Full Formula

- For projected retirements under OPSRP or Tier 1/Tier 2 full formula, PUC and entry age allocate costs differently
- Both methods allocate costs over the full working career
  - Entry age remains level as percentage of payroll
  - PUC starts lower and ends higher, allocating higher benefit costs to the years closest to retirement

This chart illustrates the normal cost pattern as a percent of pay for a sample member projected to retire under OPSRP or Tier 1/Tier 2 full formula



# Impact of GASB Standards

- Projected unit credit (PUC) was adopted by the PERS Board in 2005
- PUC's advantages are transparency and full past service accrual of projected Money Match benefits
- PUC is also permitted under the current financial reporting standards (GASB 25 & 27)
  - This means that one set of PUC calculations can be used for both:
    - Employer contribution rate determination
    - Annual system and employer financial reporting

New financial reporting standards (GASB 67 & 68) are replacing the current standards. The new standards will be used for the 6/30/14 system financial statement and 6/30/15 employer financial statements.

# Conclusion & Next Steps

- New GASB standards require financial reporting calculations are done under the entry age normal (EAN) cost allocation method
- Pros of also changing the allocation method to EAN for employer contribution rate calculations are:
  - A more streamlined set of actuarial calculations (e.g., only reporting a single shortfall number for the system or for a given employer)
  - Biennium to biennium stability in normal cost portion of contribution rate
- Cons of changing to EAN for contribution rate calculations are:
  - Arbitrary changes to contribution rates due to an attempt to comply with an accounting standard
  - EAN is a somewhat less transparent and more theoretical method

*Recommendation for July:*

*Analyze a change to EAN for contribution rate calculations, with an effort to mitigate the effects of arbitrary rate changes*

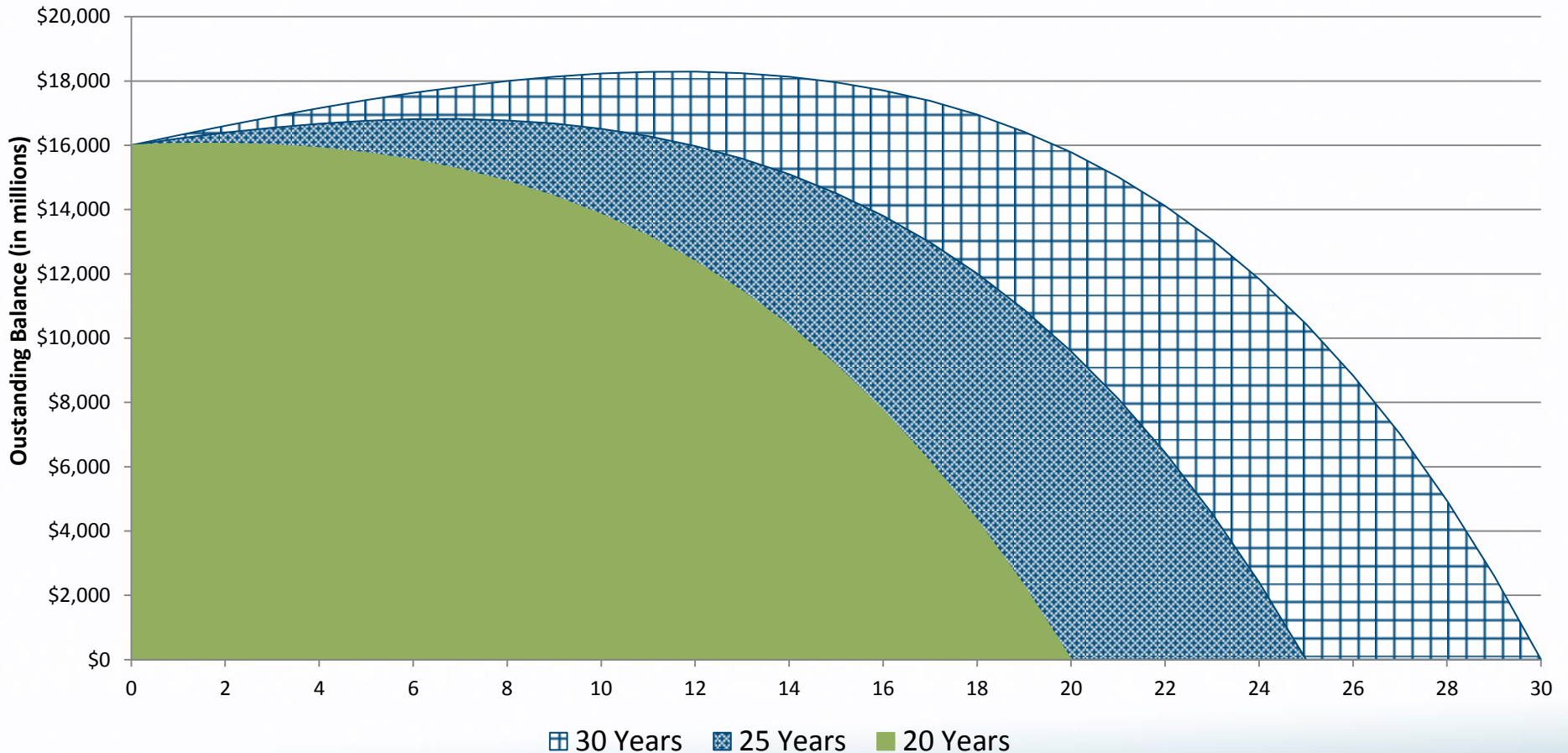
# Shortfall Amortization

# Shortfall Amortization Periods

- A key part of contribution rate calculations is amortization of Tier 1 / Tier 2 shortfalls over twenty years as a level percentage of payroll
- Twenty years avoids significant negative amortization, where shortfall actually increases in the initial “pay down” years even if assumptions are met and contributions are made
  - The following slide illustrates pay down of a \$16 billion shortfall over periods of 20, 25 or 30 years at current assumptions
- When combined with the rate collar technique, the large shortfall created in 2008 is being amortized in several pieces
  - 1<sup>st</sup> piece amortized in collared UAL Rate increase effective July 2011
  - 2<sup>nd</sup> piece amortized in collared UAL Rate increase scheduled for July 2013 (increase approved at September 2012 Board meeting)

# Shortfall Amortization Periods

**UAL Balance by Amortization Period**  
 Level % of Pay, 8.0% interest, 3.75% salary growth



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.

# Shortfall Amortization Periods

- Recent funding policy guidance recommends periods of twenty years or less for amortizations of most shortfall sources as a best practice
- The guidance indicates that for certain specified shortfall sources, amortizations of up to twenty-five years can be considered
  - Changes in either cost allocation method or long-term investment return assumption are two shortfall sources identified by the guidance for possible extended amortization

## *Recommendation for July:*

*Analyze amortization approaches to partially or fully mitigate the immediate rate change effects of modifications to the assumed rate and/or the cost allocation method*

# Rate Collaring



# Rate Collaring

- In 2005, the Board adopted a direct rate smoothing method called the “rate collar”
- After a major downturn, if the difference between the current contribution rate and the updated actuarially calculated rate is large, the rate collar spreads the actuarially needed increases across several periods

# Rate Collaring

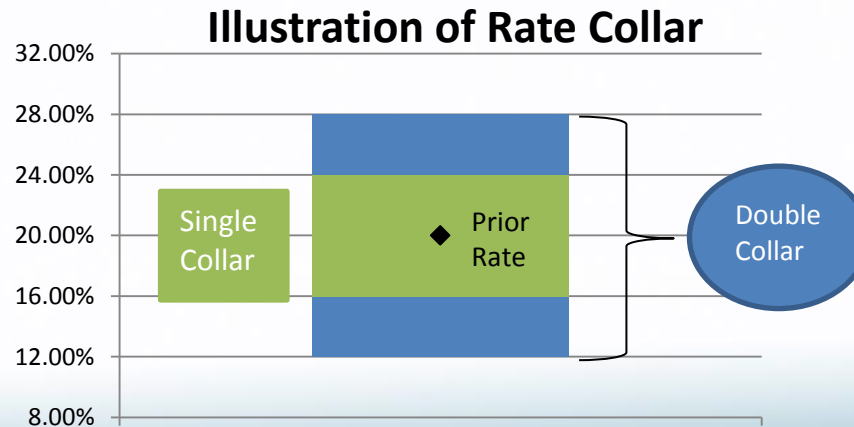
- The rate collar approach has three steps:
  - Calculate shortfall based on fair market asset values
  - Calculate the actuarially determined UAL Rate based on shortfall amortization period and other key assumptions
  - Check the calculated overall rate (Normal Cost Rate plus UAL Rate) against the contribution rate currently in effect
    - If the actuarial rate change is too large, part of the calculated increase is “collared” and deferred to subsequent periods
    - The UAL Rate actually charged to employers is adjusted downward to reflect the rate collar’s effects

# Rate Collaring

- The rate collar was stress tested in 2005 using a wide variety of potential future investment return scenarios prior to its adoption for use in 2007-2009 contribution rate calculations
- Based on rates and funded status at that time, two special features were built into the rate collar to allow for timely recovery if a bull market was followed by a major downturn
  - 3% of payroll minimum collar width
  - The collar's width doubles in the event of low funded status

# Rate Collaring

- The rate collar's design including those special feature is:
  - The maximum change typically permitted by the collar is:
    - 20% of the rate currently in effect (3% of payroll minimum collar width)
  - If funded status is 70% or lower, the width of the collar doubles
    - 40% of rate currently in effect (6% of payroll minimum collar width)
  - If the funded status is between 70% and 80%, the collar size is pro-rated between the initial collar and double collar level



# Rate Collaring

- After the rate collar was implemented, we experienced a bull market in 2006 and 2007
- The results of the last pre-downturn actuarial valuation (12/31/07), which set 2009-2011 contribution rates, were:
  - 98% funded status (excluding side accounts)
  - \$1.2 billion unfunded liability (excluding side accounts)
  - Base Tier 1/Tier 2 pension contribution rate of 12.1% of payroll

# Rate Collaring

- The effects of the downturn were first reflected in the 2011-2013 rates set based on the 12/31/2009 actuarial valuation
  - Rate increases from 2009-2011 to 2011-2013 were collared around the 2009-2011 rates, which were set by the pre-downturn 12/31/2007 actuarial valuation
- The “special features” in the collar did their job, allowing an appropriate July 2011 rate increase to:
  - Prevent further funded status erosion
  - Begin to reposition the system for long-term funded status recovery with additional scheduled rate increases which were deferred by the collar

# Rate Collaring

- Our projections indicate that rate increases will likely continue over the next few biennia, with system average rates (excluding IAP contributions and before reflecting the effects of side account rate offsets) nearing 26% of payroll at median investment return forecast
  - A “double rate collar” increase at that point would be 10.4% of payroll
  - While 26% is the system average rate, the school district rate is currently 5% of payroll above the system average, so the double rate collar for school district employers would be even wider
    - Rate collars are calculated at a rate pool (or independent employer) level

# Rate Collaring

- The collar's special features were designed to allow sufficient rate increases in the event of a major downturn
  - At 12/31/2009, the system was 76% funded and the special features allowed a 4.2% of payroll system average increase
- If future experience is close to assumptions then rates will be near 26% of payroll and a “single collar” increase without the special features would be 5.2% of payroll
- Since rates are already higher and are forecast to continue to increase further, does a rate collar structure without the double collar feature allow sufficient rate increases to protect funded status?

*Recommendation for July:  
Analyze the impact of removing the rate collar's “double collar” feature*



# Alternative Rate Setting Approach for Consideration

# Alternative Proposed Rate Setting Approach

- The assumptions and methods set this year will guide the employer rate calculations for the 2015-2017 biennium
- At the July meeting we propose to analyze the current policy versus an alternative policy with the following components:
  - *Decreased long-term investment return assumption*
  - *Liabilities calculated by entry age actuarial cost allocation method*
  - *Consider amortization approaches that can partially or fully mitigate arbitrary rate increases due to the above two items*
  - *Elimination of “double collar” feature of rate collar structure*
- The policy comparison would be a stress test under a wide variety of potential future investment return scenarios

# Review of Non-Investment Economic Assumptions

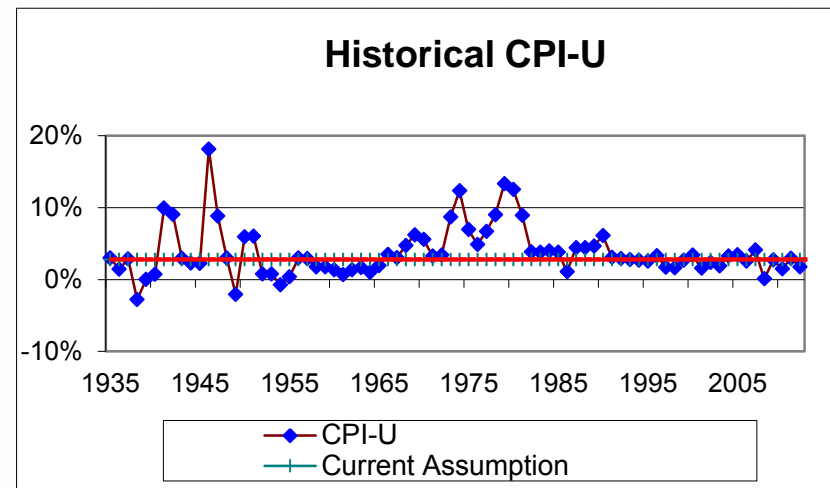
# Assumptions to Be Reviewed

	Current Assumption	Recommended Assumption
Inflation	2.75%	No change
Real Wage Growth	1.00%	No change
Payroll Growth	3.75%	No change
OPSRP Administrative Expenses	\$6.6 million	\$5.5 million

# Economic Assumptions

## Inflation

- The inflation assumption affects other assumptions, including payroll growth, investment return, and health care inflation
- Inflation has varied significantly over time, as shown in the chart. The median rate over the period shown is 2.97%
- Market estimates of future inflation can be derived from yields of Treasury securities and Treasury Inflation Protected Securities (TIPS)
- Social Security’s current “middle of the road” long-term inflation assumption is 2.80%
  - Combined with its lower near-term assumption, it produces a 30-year average of 2.68%
- We recommend no change to the current assumption of 2.75%



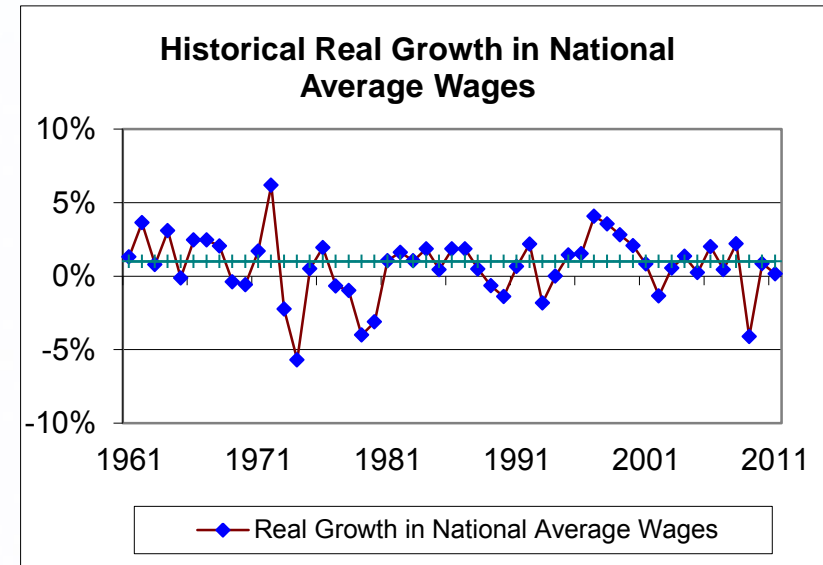
As of 12/31/2012	10-Year	30-Year
Treasury Yield	1.78%	2.95%
TIPS Yield	-0.67%	0.41%
<b>Breakeven Inflation</b>	<b>2.45%</b>	<b>2.54%</b>

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.

# Economic Assumptions

## Real Wage Growth

- An individual member's expected salary increase is composed of:
  - Inflation
  - Real wage growth
  - Merit/longevity wage growth
- Real wage growth represents the increase in wages above inflation for the entire group due to improvements in productivity and competitive pressures
- Social Security's long-term "middle of the road" assumption for real wage growth is 1.12%
- We recommend no change to the current assumption of 1.00%



Period Ending 12/31/2012	Average Real Wage Growth
20 Years	0.93%
30 Years	0.88%
40 Years	0.47%
50 Years	0.67%

# Economic Assumptions

## OPSRP Administrative Expenses

- OPSRP administrative expenses are significant relative to OPSRP assets
  - As OPSRP program matures, the expense level relative to assets will decline and ultimately stabilize. Until then, it is appropriate to include a specific expense assumption which is added to the OPSRP normal cost
- Our current assumption is \$6.6 million per year
  - A cost allocation change in PERS policy lowered 2012 expense
- We recommend lowering the assumption to \$5.5 million per year

	Actual Expense	% of Beginning of Year Assets
2009	\$6.7	2.5%
2010	\$6.1	1.4%
2011	\$6.9	1.0%
2012	\$5.3	0.6%

# Agenda for July Meeting

- Update investment return analysis for any OIC changes
- Compare financial projections under current policies and proposed alternative policies
- Review demographic assumptions
- Adopt all methods and assumptions for use in:
  - December 31, 2012 “advisory” actuarial valuation that estimates 2015-2017 contribution rates
  - December 31, 2013 “rate setting” actuarial valuation that sets recommended 2015-2017 contribution rates for PERS Board adoption



# Caveats and Disclaimers

This presentation discusses actuarial methods and assumptions for use in the valuation of the Oregon Public Employees Retirement System (“PERS” or “the System”). For the most recent complete actuarial valuation results, including cautions regarding the limitations of use of valuation calculations, please refer to our formal Actuarial Valuation Report as of December 31, 2011 (“the Valuation Report”) published on October 26, 2012. The Valuation Report, including all supporting information regarding data, assumptions, methods, and provisions, is incorporated by reference into this presentation. The statements of reliance and limitations on the use of this material is reflected in the actuarial report and still apply to this presentation.

In preparing this presentation, we relied, without audit, on information (some oral and some in writing) supplied by the System’s staff, as well as capital market expectations provided by Strategic Investment Solutions (SIS) and Pension Consulting Alliance (PCA). 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 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.

Milliman’s work product was prepared exclusively for Oregon PERS for a specific and limited purpose. It is a complex, technical analysis that assumes a high level of knowledge concerning PERS’ operations, and uses PERS’ data, which Milliman has not audited. It is not for the use or benefit of any third party for any purpose. 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. Any third party recipient of Milliman’s work product who desires professional guidance should not rely upon Milliman’s work product, but should engage qualified professionals for advice appropriate to its 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.

# Circular 230 Notice

The following disclosure is provided in accordance with the Internal Revenue Service's Circular 230 (21 CFR Part 10). This communication is not intended to constitute tax advice to any specific taxpayer or for any specific situation. Any tax advice contained in this communication is intended to be preliminary, for discussion purposes only, and not final. Any such advice is not intended to be used for marketing, promoting or recommending any transaction or for the use of any person in connection with the preparation of any tax return. Accordingly, this advice is not intended or written to be used, and it cannot be used, by any person for the purpose of avoiding tax penalties that may be imposed on such person.

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.

# Appendix

## Actuarial Basis

### Capital Market Assumptions - Milliman

For assessing the expected portfolio return under Milliman's capital market assumptions, 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.

	Annual Arithmetic Mean	30-Year Annualized Geometric Mean	Annual Standard Deviation	Policy Allocation
US Large-Cap Equity	8.60%	7.20%	17.90%	13.35%
US Mid-Cap Equity	9.38%	7.30%	22.00%	4.45%
US Small-Cap Equity	10.38%	7.45%	26.40%	2.61%
Non-US Developed Equity	8.73%	6.90%	20.55%	16.29%
Emerging Markets Equity	11.51%	7.40%	31.70%	6.30%
Private Equity	11.95%	8.26%	30.00%	16.00%
US Universal Fixed Income	4.70%	4.50%	6.50%	13.50%
US Intermediate-Term Bonds	4.23%	4.10%	5.15%	5.00%
Non-US Fixed Income	3.70%	3.19%	10.50%	1.25%
High Yield Bonds	7.21%	6.66%	11.10%	5.25%
Real Estate	7.27%	6.51%	13.00%	11.42%
Global REITs	8.41%	6.76%	19.45%	2.21%
Commodities	7.71%	6.01%	19.70%	1.12%
Hedge Funds	6.46%	6.01%	10.00%	1.25%
US Inflation (CPI-U)		2.75%	2.00%	N/A
<b>Fund Total (reflecting asset class correlations)</b>	<b>8.35%</b>	<b>7.54%*</b>	<b>12.90%</b>	<b>100.00%</b>

\* Reflects 0.12% average reduction for investment expense and 0.05% reduction for administrative expenses.

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.

# Appendix

## Actuarial Basis

### Capital Market Assumptions - SIS

For assessing the expected portfolio return under SIS's capital market assumptions, we applied the assumptions shown below provided by SIS.

	Annual Arithmetic Mean	Annual Standard Deviation	Policy Allocation	30-Year Annualized Geometric Mean
US Large-Cap Equity	9.1%	17.5%	16.9%	
US Small-Cap Equity	9.8%	20.0%	4.2%	
Non-US Developed Equity	9.8%	20.0%	16.7%	
Emerging Markets Equity	12.2%	29.0%	5.2%	
Private Equity	14.7%	33.0%	16.0%	
US Universal Fixed Income	2.5%	5.0%	15.0%	
Bank Loans	4.4%	7.5%	5.0%	
Emerging Market Debt	4.9%	10.0%	2.5%	
High Yield Bonds	5.1%	11.0%	2.5%	
Real Estate	7.7%	18.0%	11.0%	
Absolute Return	5.4%	10.0%	1.0%	
Commodities	8.0%	30.0%	0.7%	
Infrastructure	9.1%	24.0%	1.5%	
Hard Assets	10.8%	28.0%	1.8%	
<b>Fund Total (reflecting asset class correlations)</b>	<b>8.71%</b>	<b>14.46%</b>	<b>100.0%</b>	<b>7.59%*</b>

\* Reflects 0.12% average reduction for investment expense and 0.05% reduction for administrative expenses.

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.

# Appendix

## Actuarial Basis

### Capital Market Assumptions - PCA

For assessing the expected portfolio return under PCA's capital market assumptions, we applied the assumptions shown below provided by PCA.

	Annual Arithmetic Mean	Annual Standard Deviation	Policy Allocation	30-Year Annualized Geometric Mean
Global Equity	9.00%	18.5%	43%	
Private Equity	12.0%	26.0%	21%	
US Fixed Income	2.25%	4.5%	25%	
Real Estate	6.4%	10.0%	6%	
Real Return	5.85%	8.0%	5%	
<b>Fund Total (reflecting asset class correlations)</b>	<b>7.63%</b>	<b>13.48%</b>	<b>100.00%</b>	<b>6.62%*</b>

\* Reflects 0.12% average reduction for investment expense and 0.05% reduction for administrative expenses.