

# OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM BOARD MEETING

**Friday  
July 29, 2016  
1:00 P.M.**

**PERS  
11410 SW 68<sup>th</sup> Parkway  
Tigard, OR**

ITEM	PRESENTER
<b>A. Administration</b>	
1. May 27, 2016 Board Meeting Minutes	RODEMAN
2. Director's Report	
a. Forward-Looking Calendar	
b. OIC Investment Report	
c. Budget Execution Report	
<b>B. Administrative Rulemaking</b>	
1. Notice of Accounts Receivable Fraud Rule	VAUGHN
2. Adoption of Receipt Date Rule	
<b>C. Action and Discussion Items</b>	
1. <i>Moro</i> Implementation Project Update	ELLEDEGE-RHODES
2. 2017-19 Agency Request Budget – Approval to	KNOLL
3. Submit 2015 System-Wide Valuation Results	MILLIMAN

There will be an Audit Committee meeting immediately following the regular Board meeting.

**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 2016 Meetings:** September 14 (Joint OIC Meeting)    September 30    November 18\*    \* Audit Committee

Stephen Buckley    Lawrence Furnstahl    Krystal Gema    John Thomas, Chair    Pat West, Vice Chair    Steve Rodeman, Executive Director  
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# OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM

## BOARD MEETING MINUTES

May 27, 2016

### **Board members present:**

Chair John Thomas, Stephen Buckley, and Vice-Chair Pat West were present. Lawrence Furnstahl attended the meeting by phone.

### **Staff present:**

Carmela Bowns, David Crosley, Mary Dunn, Yvette Elledge-Rhodes, Brian Harrington, Jordan Masanga, Beth Porter, Daniel Rivas, Steve Rodeman, Jason Stanley, Marjorie Taylor, Stephanie Vaughn, Anne Marie Vu, Dale Wakabayashi, Joli Whitney, and Yong Yang

### **Others present:**

Stacy Carmichael, Nate Carter, Carmen Cooper, Jennifer Cooperman, David Evans, Henry Groepper, Joe Gymkowski, Greg Hartman, Matt Larrabee, Kevin McCartin, Jan Petrella, Scott Preppernau, Robin Richardson, Jennifer Stacy, Del Stevens, Michelle Taylor, Deborah Tremblay, Trudy Vidal, Chandra Wahrgren, Nick Wallal, Brad Westphal, Patrick Weisgerber, and Linnea Wittekind

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

### **ADMINISTRATION**

#### **A.1. MEETING MINUTES OF MARCH 28, 2016**

Board member Buckley moved and Board member Furnstahl seconded approval of the minutes submitted from the March 28, 2016 Board meeting. The motion passed unanimously.

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

Executive Director Steve Rodeman reviewed the Forward Looking Calendar and highlighted the important items to be considered by the Board in the coming year. Of note, a joint meeting with the Oregon Investment Council (OIC) has been added on September 14, 2016. Exact time and location are yet to be determined.

Rodeman reviewed the OIC Investment Report of the Oregon Public Employees Retirement Fund (OPERF) for the period ending April 30, 2016.

Rodeman presented the Budget Execution Report.

Paul Brown, Strategic and Operational Planning Manager, presented the Board Scorecard Report on Agency Performance Measures. Thomas asked Brown to address the report areas which are in a red status. Brown noted that the report reflects the impact of resources such as staff needed to address the *Moro* decision and staffing issues in the call center when there has been a call volume spike of over 10,000 more calls in the first quarter of 2016 compared to the last quarter of 2015. This review helps identify problems and take corrective actions to address the issue.

### **ADMINISTRATIVE RULEMAKING**

Policy, Analysis, and Compliance Section Manager Stephanie Vaughn presented.

#### **B.1. DISABILITY STATISTICS**

Vaughn presented this information as a follow up to the proposed Disability rule changes presented at the January 2016 Board meeting. Board members asked staff to return with additional information on the history of disability applications and criteria for eligibility. Assistant Chief Operating Officer Brian Harrington joined Vaughn for the presentation and provided details from his experience in this area. Vaughn said that a focus group is being formed with stakeholders to review the overall disability processes. They will meet over the next few months. Any suggested rule or policy changes recommended by the focus group will be presented to the Board.

West expressed concerns that those who have been on disability for an extended period need assistance to navigate requirements and would like to know if there could be a consideration for some sort of ombudsman program developed to help those injured workers obtain their benefits. Harrington said that this is something that could be considered by the focus group.

#### **B.2. NOTICE AND FIRST READING OF DISABILITY RULES**

Vaughn presented the first reading of rulemaking for Disability Rules, OAR 459-015-0001, -0010; -0050; -076-0001, -0010; and notice of rulemaking for OAR 845-015-0020, -0025, -0040; -076-0020, -0025, -0040 and -0050. These rules are being modified to update the definition of physician to address a circular issue between definition and specialist requirements; add a new definition for other health practitioners; address effect of unemployment benefits in determining disability eligibility; add physical capacity to independent evaluations; clarify periodic review standards; and add a new rule for burden of proof at hearings for OPSRP. A rulemaking hearing will be held at PERS Headquarters on June 28, 2016. The public comment period ends July 6, 2016. No Board action was required.

#### **B.3. NOTICE OF RECEIPT DATE RULE**

Vaughn presented notice of rulemaking for Receipt Date Rule, OAR 459-005-0220. This rule is being modified to change the date that imaged items are deemed filed and received from three business days to one business day before the imaged date and change the date that items recorded on PERS' daily cash receipts log and/or check log are considered received to one business day before the recorded date on the cash receipts log and/or check log. A rulemaking hearing has been scheduled for June 28, 2016 at PERS Headquarters. The public comment period ends July 8, 2016. No Board action was required

#### **B.4. ADOPTION OF WITHDRAWALS RULES**

Vaughn presented the revised rules to modify definitions of "effective date of withdrawal" and "effective date of retirement": OAR 459-005-0001; -075-0020; -080-0020 for adoption. A rulemaking hearing was held April 26, 2016. The public comment period ended on May 3, 2016. No public comments were received and no one attended the public hearing. The changes clarify items required to process a withdrawal and make a housekeeping edit to add a reference to OPSRP Pension Program.

Furnstahl moved to adopt modifications to the Withdrawals rules as presented. West seconded. The motion passed unanimously.

### **ACTION AND DISCUSSION ITEMS**

#### **C.1. MORO IMPLEMENTATION PROJECT UPDATE**

Chief Operations Officer Yvette Elledge-Rhodes presented an update on the status of the *Moro* project. In September 2015, the Board approved funding approximately \$63.4 million of restored cost-of-living adjustment (COLA) payments from the Contingency Reserve. The actual charges paid

in October 2015 and February 2016 to date total \$66.6 million. The project is currently deep in the planning process to address the accounts of deceased members. There will be additional charges to the Contingency Reserve for these accounts and a remaining population of benefit recipients. The project is still on track to resolve all impacted accounts by the end of the current biennium, June 30, 2017.

Board member Furnstahl left the meeting.

#### C.2. 2017 RETIREE HEALTH INSURANCE PLAN RENEWALS AND RATES

PERS Health Insurance Program (PHIP) Manager Mini Kobbervig and consultants Molly Butler of BP&A, LLC and Kevin McCartin of McCartin Analytical Service presented the 2017 PHIP plan renewals and associated premium subsidies and surcharges and answered questions from the Board.

West moved to approve the contract renewals as presented. Buckley seconded the motion. The motion passed unanimously.

West expressed his appreciation from the hard work of the consultants and staff. Thomas echoed his comments.

#### C.3. OREGON SAVINGS GROWTH PLAN (OSGP) ADVISORY COMMITTEE APPOINTMENTS

OSGP Manager Roger Smith presented the recommended appointment of a new committee member. Smith recommended the Board appoint Thomas Poon from the Department of Consumer and Business Services, effective immediately, to fill the unexpired term of Jeff Labhart who is leaving state service. In addition, Smith recommended the Board renew the appointment of three committee members whose terms expire at the end of June. Smith recommended the Board appoint Kevin Nordhill, Richard Bailey, and Brady Booth to a second three-year term.

West moved to accept the recommendation to appoint Thomas Poon to fill the vacancy of the state employee position on the Advisory Committee effective immediately, and appoint Kevin Nordhill, Richard Bailey and Brady Booth to a second three-year term. Buckley seconded the motion. The motion passed unanimously.

#### C.4. 2017-19 AGENCY BUDGET DEVELOPMENT AND STRATEGIC UPDATE

Chief Administrative Officer Kyle Knoll provided a 2017-19 budget development and strategic planning update and briefly described the process for developing business cases for the proposed 2017-19 policy packages. The final policy packages will be presented in July 2016 for Board consideration and approval to submit as part of PERS' Agency Request Budget (ARB). Knoll also gave a status report on implementation of the agency's 2015-17 policy option packages and described the ongoing development of the Current Service Level (CSL) budget for 2017-19. Knoll noted that a detailed discussion of the agency's 2017-19 ARB will occur at the July 2016 Board meeting. No Board action was required.

Thomas adjourned the Board meeting at 2:35 PM.

Respectfully submitted,



Steven Patrick Rodeman  
Executive Director

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

### **Wednesday, September 14, 2016**

Joint meeting with Oregon Investment Council

### **Friday, September 30, 2016**

Adoption of Accounts Receivable Rules  
Notice of PERS Health Insurance Program Appeals/Eligibility Rules  
Notice of Reemployed Retirees Rules  
Customer Service Survey Results  
2017-19 Employer Rate Adoption

### **Friday, November 18, 2016**

Board Scorecard Report on Agency Performance Measures  
Actuarial Financial Modeling  
Audit Committee Meeting

### **Proposed dates for 2017 meetings:**

**Friday, January 27, 2017**

**Monday, March 27, 2017**

**Friday, May 26, 2017**

**Friday, July 28, 2017**

**Friday, September 29, 2017**

**Friday, November 17, 2017**

Returns for periods ending JUN-2016

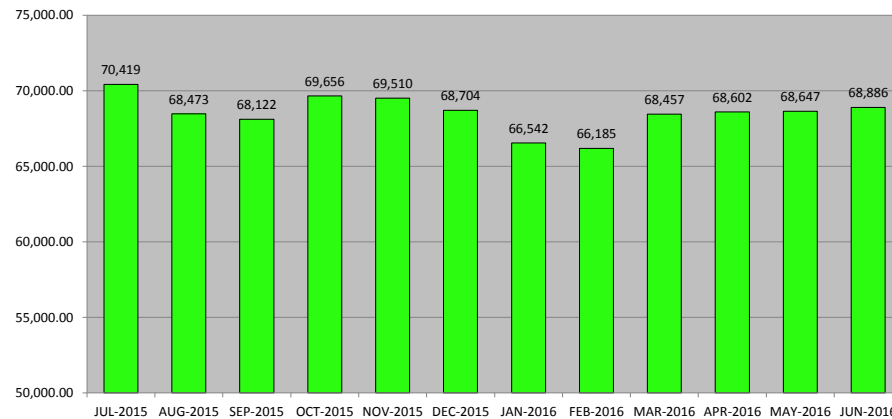
Oregon Public Employees Retirement Fund

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	2	3	4	5	7	10	
					YEAR	YEARS	YEARS	YEARS	YEARS	YEARS	YEARS	YEARS	
Public Equity	32.5-42.5%	37.5%	\$ 26,111,722	38.2%	1.34	(4.39)	(1.36)	6.50	9.55	6.00	10.53	4.60	
Private Equity	13.5-21.5%	17.5%	\$ 13,711,217	20.1%	1.03	4.52	7.00	10.78	11.27	10.33	14.29	9.87	
<b>Total Equity</b>	<b>50.0-60.0%</b>	<b>55.0%</b>	<b>\$ 39,822,939</b>	<b>58.3%</b>									
Opportunity Portfolio	0-3%	0%	\$ 1,390,829	2.0%	0.78	0.36	(0.18)	5.86	8.69	6.84	11.86		
<b>Total Fixed</b>	<b>15-25%</b>	<b>20.0%</b>	<b>\$ 15,509,598</b>	<b>22.7%</b>	<b>4.20</b>	<b>3.63</b>	<b>2.54</b>	<b>3.52</b>	<b>3.55</b>	<b>4.32</b>	<b>6.87</b>	<b>5.97</b>	
Real Estate	9.5-15.5%	12.5%	\$ 8,543,745	12.5%	5.67	10.45	11.25	11.72	12.38	11.64	11.03	6.14	
Alternative Investments	0-12.5%	12.5%	\$ 3,003,394	4.4%	(0.73)	(0.79)	(1.39)	0.67	0.48	1.17			
Cash w/Overlay	0-3%	0%	\$ 18,226	0.0%	0.76	0.92	0.71	0.73	0.77	0.73	0.83	1.68	
<b>TOTAL OPERF Regular Account</b>		<b>100.0%</b>	<b>\$ 68,288,731</b>	<b>100.0%</b>	<b>2.38</b>	<b>1.17</b>	<b>2.73</b>	<b>7.16</b>	<b>8.51</b>	<b>7.09</b>	<b>10.53</b>	<b>6.03</b>	
OPERF Policy Benchmark					4.11	1.62	3.53	7.99	9.09	7.75	10.57	6.44	
Value Added					(1.73)	(0.45)	(0.80)	(0.83)	(0.57)	(0.66)	(0.04)	(0.41)	
<b>TOTAL OPERF Variable Account</b>			<b>\$ 597,667</b>		<b>1.55</b>	<b>(3.43)</b>	<b>(1.16)</b>	<b>6.47</b>	<b>9.10</b>	<b>5.81</b>	<b>10.16</b>	<b>3.56</b>	

Asset Class Benchmarks:

Asset Class	3.62	2.14	4.68	11.13	13.62	11.60	14.95	7.40
Russell 3000	(0.91)	(9.61)	(7.32)	1.65	4.59	0.39	5.77	2.30
OREGON MSCI ACWI EX US IMI NET	1.36	(3.87)	(1.56)	6.13	8.77	5.43	9.85	4.48
MSCI ACWI IMI NET	8.88	2.65	8.98	14.45	15.32	14.32	20.48	10.50
RUSSELL 3000+300 BPS QTR LAG	4.33	3.67	2.51	3.15	3.03	3.79	4.72	5.07
OREGON CUSTOM FI BENCHMARK	5.16	11.81	12.27	11.90	11.55	11.92	9.12	7.61
NCREIF ODCE QTR LAG	0.15	0.19	0.11	0.09	0.09	0.09	0.11	1.05
91 Day Treasury Bill								

Total OPEF NAV  
(includes Variable Fund asset)  
One year ending JUN-2016  
(\$ in Millions)



<sup>1</sup>OIC Policy revised June 2015.

<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.

Please note-Report revised by OST and Board packet updated with new report 8/3/16



# Oregon

Kate Brown, 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)

July 29, 2016

TO: Members of the PERS Board  
FROM: Linda M. Barnett, Budget Officer  
SUBJECT: July 2016 Budget Execution Report

### 2015-17 OPERATIONS BUDGET

Operating expenditures for May 2016 and preliminary expenditures for June 2016 were \$3,497,453 and \$6,601,266, respectively. Final expenditures for June closed in the Statewide Financial Management System on July 15, 2016, and will be included in the September 2016 report to the Board.

To date, through the first 12 months (or 50.0%) of the 2015-17 biennium, the Agency has expended a total of \$45,288,915 or 42.50% of PERS' legislatively approved operations budget of \$106,568,375.

There was an \$89,634 increase in the operations budget resulting from budget adjustments in the 2016 May Emergency Board for Human Resource Information System and the Oregon State Chief Information Office assessments.

As of July 2016, PERS is awaiting approval from the Legislative Fiscal Office to request the rescheduling of \$3,466,176 to do the following:

- \$1,659,976 – IT Maintenance & Enhancements;
- \$1,581,200 Pkg. 105 – to further develop the agency's Disaster Recovery and Business Continuity technology infrastructure in support of the Oregon Retirement Information Online Network (ORION); and
- \$225,000 Pkg. 840 – to implement SB 370; this established a new benefit that allows an ex-spouse of an Oregon Public Service Retirement Plan (OPSRP) member to receive a death benefit if the member, who is vested, dies pre-retirement.

The current projected positive variance is \$3,159,317 or approximately 2.96% of the operations budget. The Agency's goal is to maintain a positive variance of at least \$2.1 million (2%).

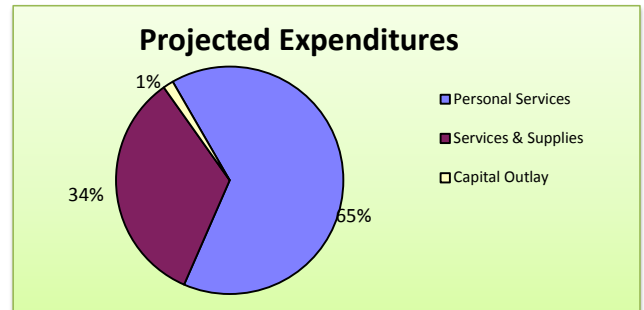
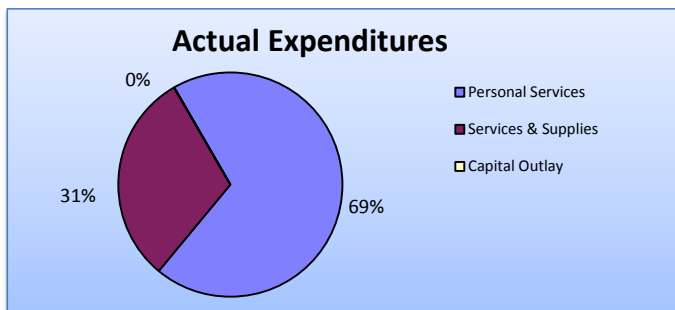
A.2.c. Attachment 1 – 2015-17 Agency-wide Budget Execution Summary Analysis

**2015-17 Agency-wide Budget Execution  
Summary Budget Analysis  
Preliminary For the Month of: June 2016**

**Limited - Operating Budget**

**2015-17 Biennial Summary**

Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expenditures	2015-17 LAB	Variance
Personal Services	31,409,326	35,464,269	66,873,595	69,268,743	2,395,148
Services & Supplies	13,853,671	18,373,312	32,226,983	32,737,649	510,666
Capital Outlay	25,918	816,386	842,304	1,095,807	253,503
Unscheduled	0	3,466,176	3,466,176	3,466,176	0
<b>Total</b>	<b>45,288,915</b>	<b>58,120,143</b>	<b>103,409,058</b>	<b>106,568,375</b>	<b>3,159,317</b>



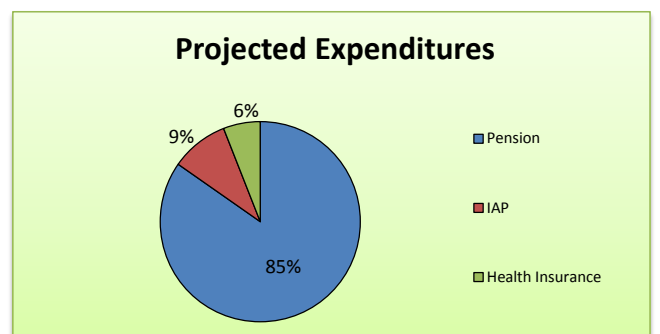
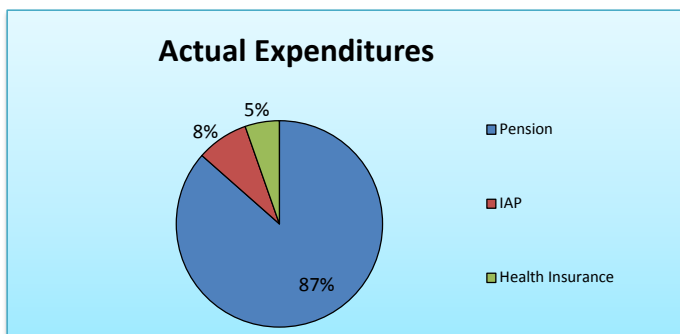
**Monthly Summary**

Category	Actual Exp.	Projections	Variance	Avg. Monthly Actual Exp.	Avg. Monthly Projected Exp.
Personal Services	2,662,550	2,882,723	220,173	2,617,444	2,955,356
Services & Supplies	3,938,716	4,073,954	135,238	1,154,473	1,531,109
Capital Outlay	0	0	0	2,160	68,032
<b>Total</b>	<b>6,601,266</b>	<b>6,956,677</b>	<b>355,411</b>	<b>3,774,077</b>	<b>4,554,497</b>

**Non-Limited Budget**

**2015-17 Biennial Summary**

Programs	Actual Exp To Date	Projected Expenditures	Total Est. Expenditures	Non-Limited LAB	Variance
Pension	3,903,916,085	4,142,879,824	8,046,795,909	8,291,874,726	245,078,817
IAP	366,468,381	455,568,098	822,036,479	873,488,891	51,452,412
Health Insurance	242,439,069	292,265,648	534,704,717	558,094,445	23,389,728
<b>Total</b>	<b>4,512,823,535</b>	<b>4,890,713,570</b>	<b>9,403,537,105</b>	<b>9,723,458,062</b>	<b>319,920,957</b>







Government Finance Officers Association  
203 N. LaSalle Street - Suite 2700  
Chicago, IL 60601

Phone (312) 977-9700 Fax (312) 977-4806

**PERS**  
**JUL 05 2016**  
**Exec**

June 28, 2016

John Thomas  
Chair, PERS Board of Trustees  
Oregon Public Employees Retirement System  
PO Box 23700  
Tigard OR 97281-3700

Dear Mr. Thomas:

We are pleased to notify you that your comprehensive annual financial report for the fiscal year ended **June 30, 2015** qualifies for a Certificate of Achievement for Excellence in Financial Reporting. The Certificate of Achievement is the highest form of recognition in governmental accounting and financial reporting, and its attainment represents a significant accomplishment by a government and its management.

An award for the Certificate of Achievement has been mailed to:

**Kyle J. Knoll**  
**Chief Financial Officer**

We hope that you will arrange for a formal presentation of the Certificate and Award of Financial Reporting Achievement, and that appropriate publicity will be given to this notable achievement. A sample news release is enclosed to assist with this effort. In addition, details of recent recipients of the Certificate of Achievement and other information about Certificate Program results are available in the "Awards Program" area of our website, [www.gfoa.org](http://www.gfoa.org).

We hope that your example will encourage other government officials in their efforts to achieve and maintain an appropriate standard of excellence in financial reporting.

Sincerely,  
Government Finance Officers Association

Stephen J. Gauthier, Director

Technical Services Center

SJG/ds



# Oregon

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July 29, 2016

TO: Members of the PERS Board

FROM: Stephanie Vaughn, Manager, Policy Analysis & Compliance Section  
Jason Stanley, Chief Compliance, Audit, and Risk Officer

SUBJECT: Notice of Accounts Receivable Fraud Rule:  
OAR 459-005-0260, *Accounts Receivable - Fraud*

### OVERVIEW

- Action: None. This is notice that staff has begun rulemaking.
- Reason: To establish a formal fraud detection, investigation, and resolution process.
- Policy Issue: No policy issues have been identified.

### BACKGROUND

Fraud detection is an important part of PERS' fiduciary duty of ensuring that benefits are properly paid. It is also consistent with our mission "to pay the right person the right benefit at the right time." While PERS has, unfortunately, dealt with fraud situations as they have arisen, it has not previously had a formal process for fraud detection, investigation, and resolution. Historically, PERS has dealt with cases of fraud mainly as a collection matter under ORS 238.715. However, ORS 238.715(8) also recognizes that the recovery and collection remedies authorized under ORS 238.715 are supplemental to any other remedies that may be available.

The purpose of this new rule is to emphasize that PERS will actively pursue all available legal remedies in cases of fraud. These legal remedies include but are not limited to: bringing civil actions under ORS 180.755 against individuals who have committed any of the enumerated acts against PERS such as presenting for payment or approval, or cause to be presented for payment or approval, a claim that the individual knows is a false claim; also, bringing criminal charges against individuals who have defrauded or attempted to defraud PERS by committing criminal acts of perjury, mail theft, forgery, and/or identity theft as these crimes are defined under Chapters 162, 164 and 165 of the Oregon Revised Statutes.

### PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing will be held August 23, 2016, at 2:00 p.m. at PERS headquarters in Tigard. The public comment period ends September 2, 2016, 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: Provide better tools for staff to detect, investigate, and resolve fraud situations.

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

RULEMAKING TIMELINE

July 15, 2016	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
July 29, 2016	PERS Board notified that staff began the rulemaking process.
August 1, 2016	<i>Oregon Bulletin</i> publishes the Notice. Notice is sent to employers, legislators, and interested parties. Public comment period begins.
August 23, 2016	Rulemaking hearing to be held at 2:00 p.m. at PERS in Tigard.
September 2, 2016	Public comment period ends at 5:00 p.m.
September 30, 2016	Staff will propose adopting the rule modifications, including any changes resulting from public comment or reviews by staff or legal counsel.

NEXT STEPS

A rulemaking hearing will be held August 23, 2016, at 2:00 p.m. at PERS headquarters in Tigard. The rule is scheduled to be brought before the PERS Board for adoption at the September 30, 2016 Board meeting.

B.1. Attachment 1 – OAR 459-005-0260, *Accounts Receivable - Fraud*

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

1 **459-005-0260**

2 **Accounts Receivable - Fraud**

3 **(1) PERS will investigate all suspected fraudulent activities in order to maintain**  
4 **the integrity and proper distribution of benefits.**

5 **(2) PERS may pursue all available legal and administrative actions in fraud**  
6 **cases discovered under section (1) of this rule, including but not limited to:**

7 **(a) Criminal prosecution under ORS Chapters 162, 164 and 165; or**

8 **(b) Civil sanctions under ORS Chapter 180.**

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

10 **Stats. Implemented: ORS 238, 238A**



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TTY (503) 603-7766

[www.oregon.gov/pers](http://www.oregon.gov/pers)

July 29, 2016

TO: Members of the PERS Board

FROM: Stephanie Vaughn, Manager, Policy Analysis & Compliance Section  
Jason Stanley, Chief Compliance, Audit, and Risk Officer

SUBJECT: Adoption of Receipt Date Rule:  
OAR 459-005-0220, *Receipt Date for Reports, Documents, Remittances, and Payments*

### OVERVIEW

- Action: Adopt modifications to the Receipt Date rule.
- Reason: (1) Modify the date that imaged items are deemed filed and received from three business days to one business day before the imaged date; and (2) Change the date that items recorded on PERS' daily cash receipts log and/or check log are considered received to one business day before the recorded date on the cash receipts log and/or check log.
- Policy Issue: No policy issues were identified.

### BACKGROUND

OAR 459-005-0220 provides guidelines for when an item is considered received by PERS. Since the rule's implementation, our document processing practices have been streamlined to achieve timely and accurate imaging. Today, all items received by the agency are imaged on that business day. After they are imaged, they are then loaded into system workflows that notify the relevant sections that the item has been received. As such, the "imaged date" and the "receipt date" are usually one and the same. An exception to this general rule is items that are sent to PERS' post office (PO) box. Mail delivered to the PO box late in the day is not picked up until the next business day.

If a member mails a purchase to PERS' PO box, the purchase may arrive by the due date at the PO box, but take until the next business day to arrive at PERS. Therefore, it won't be entered into the check log until a day after arriving at the PO box and, unfortunately, this may cause the purchase to be considered late under the current rule. In some cases, a member will submit a service retirement application and purchase together in the same mailing, but under the current rule, the application would be accepted as timely but the purchase would not, even though they arrived together. Therefore, the rule modifications specify that if the cash receipts log date or check log date is later than the due date, the payment will be deemed filed and received one business day before the cash receipts log date or check log date, consistent with the receipt rule for documents.

### PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held June 28, 2016, at 2:00 p.m. at PERS headquarters in Tigard. No members of the public attended. The public comment period ended July 6, 2016, at 5:00 p.m. No public comment was received.

### LEGAL REVIEW

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

### IMPACT

Mandatory: No.

Impact: Members and staff will benefit from the updated receipt date requirements.

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

### RULEMAKING TIMELINE

May 13, 2016	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
May 27, 2016	PERS Board notified that staff began the rulemaking process.
June 1, 2016	<i>Oregon Bulletin</i> published the Notice. Notice was sent to employers, legislators, and interested parties. Public comment period began.
June 28, 2016	Rulemaking hearing held at 2:00 p.m. at PERS in Tigard.
July 6, 2016	Public comment period ended at 5:00 p.m.
July 29, 2016	Board may adopt the permanent rule modifications.

### BOARD OPTIONS

The Board may:

1. Pass a motion to “adopt modifications to the Receipt Date rule, as presented.”
2. Direct staff to make other changes to the rule or explore other options.

### STAFF RECOMMENDATION

Staff recommends the Board choose Option #1.

- Reason: (1) Modify the date that imaged items are deemed filed and received from three business days to one business day before the imaged date; and (2) Change the date that items recorded on PERS’ daily cash receipts log and/or check log are considered received to one business day before the recorded date on the cash receipts log and/or check log.

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

B.2. Attachment 1 – OAR 459-005-0220, *Receipt Date for Reports, Documents, Remittances, and Payments*

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

1 **459-005-0220**

2 **Receipt Date for Reports, Documents, Remittances, and Payments**

3 (1) As used in this rule:

4 (a) “Imaged date” means the date on which a report, document, remittance, or  
5 payment is imaged and stored electronically to a dedicated network server.

6 (b) “Private express carrier” has the same meaning as in ORS 293.660(2).

7 (c) “Settlement date” means the date on which the participating Depository Financial  
8 Institution (DFI) or its correspondent is scheduled to be debited or credited by the Federal  
9 Reserve.

10 (2) If the due date of a report, document, remittance, or payment falls on a weekend or  
11 legal holiday, the due date is deemed to be the next business day.

12 (3) Any report, document, or remittance[, *or payment*] required by PERS shall be  
13 deemed filed and received [*based*] on the date of the receipt stamp affixed to the report,  
14 document, or remittance[, *or payment*] when received by PERS[; *or*]. [*i*]In the case of a  
15 check or cash submission, the payment shall be deemed filed and received on the date  
16 recorded in PERS’ daily cash receipts log or check log.

17 (4) Any report, document, remittance, or payment that does not display a PERS  
18 receipt stamp, or has not been recorded in PERS’ daily cash receipts log or check log, shall  
19 be deemed filed and received on the imaged date. If the imaged date, cash receipts log  
20 date or check log date is later than the due date, the report, document, remittance, or  
21 payment shall be deemed filed and received [*three (3)*] one business day[*s*] before the  
22 imaged date, cash receipts log date, or check log date.

1 (5) Any report, document, remittance, or payment required by PERS which is lost or  
2 delayed in transmission through USPS or by a private express carrier, shall be deemed  
3 filed and received on the date it was mailed or deposited for transmittal if the sender:

4 (a) Can establish by evidence satisfactory to PERS, which includes but is not limited  
5 to documentation provided by USPS or the private express carrier, that the report,  
6 document, remittance, or payment was deposited in the USPS or with a private express  
7 carrier before the date due for filing, and was correctly addressed to PERS;

8 (b) Files with PERS a duplicate of the lost report, document, remittance, or payment,  
9 in accordance with the transmittal requirements of OAR 459-005-0210 or 459-005-0215;  
10 and

11 (c) Satisfies the requirements of subsections (a) and (b) of this section within 30 days  
12 after PERS notifies the sender in writing of failure to receive the report, document,  
13 remittance, or payment.

14 (6) An electronic funds transfer (EFT) shall be deemed received on the settlement date  
15 of the transfer. A settlement date specified by an employer for an EFT shall be no later  
16 than the due date specified by PERS for a remittance or a payment.

17 (7) Any report or document that PERS accepts by fax as provided in OAR 459-005-  
18 0210 or 459-005-0215, which is:

19 (a) Transmitted by a fax device to any office of PERS shall be deemed filed *[or]* and  
20 received on the date of transmission as inscribed by the PERS fax device.

21 (b) Lost in transmission through a fax communication shall be deemed filed and  
22 received when originally transmitted if the sender can establish by affidavit the proof of



1    sending and correct addressing, together with a copy of any activity report from the  
2    sender's fax device, and a duplicate of the original report or document.

3            (8) A fax shall be accepted on weekends and holidays as long as the fax is otherwise  
4    in compliance with due dates specified in administrative rule.

5            (9) Any report or document that PERS accepts by e-mail transmission as specified in  
6    OAR 459-005-0210(5), which is:

7            (a) Transmitted by e-mail to any office of PERS shall be deemed received as of the  
8    date PERS receives the transmission.

9            (b) Lost in transmission by e-mail shall be deemed filed and received when originally  
10    transmitted if the sender can establish by affidavit the proof of sending and correct  
11    addressing, together with a copy of any activity report from the sender's electronic device,  
12    and a duplicate of the original report or document.

13           (10) A report or document transmitted by fax or e-mail must be transmitted in  
14    accordance with the provisions of this rule and OAR 459-005-0215 and must be received  
15    by PERS before midnight on the due date.

16           (11) When transmitting a document or report by use of fax or e-mail, the sender bears  
17    the risk of failure of the transmission.

18           Stat. Auth.: ORS 238.650

19           Stats. Implemented: ORS 238, 238A



# Oregon

Kate Brown, 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)

July 29, 2016

TO: Members of the PERS Board  
FROM: Yvette Elledge-Rhodes, Chief Operations Officer  
SUBJECT: *Moro* Implementation Project Update

### PROJECT ACTIVITIES

PERS had a successful system update on June 14, 2016, to automate the new cost-of-living adjustment (COLA) rules. In addition to inserting the COLA ratios for accounts that had blended service time, all new benefit recipients will have the correct data for the COLA calculation and staff will be able to adjust any others manually.

For this project, two major activities remain to adjust populations of benefit recipients who have yet to be resolved:

- Population “C” are all benefit recipients who have not yet been adjusted, mainly due to complications in their benefit calculations; there are about 2,000 members in this group (or about 1% of the affected recipients).
- Population “D” are all benefit recipients who died before their COLA was adjusted, about 7,400 recipients. About 300 benefit recipients pass away every month, so this population is comprised of people who did so between the time that the Oregon Supreme Court’s decision was issued and we adjusted COLA in accordance with those rules.<sup>1</sup>

Population “C” will be resolved through a system batch update in October 2016 to correct their benefit payments going forward. Letters will be sent to these benefit recipients informing them of the adjustment and their new benefit amount.

Population “D” will be resolved through researching whether an authorized representative was established for the recipient’s estate and, if not, attempting to notify the recipient’s survivors of the amount of unclaimed benefits that may be available. Temporary staff will be brought on board this month to begin this research. Below are the details of the amounts owed:

	<b>Population</b>	<b>Totals</b>	<b>Average</b>
Negative COLA Retro	57	\$ (960.88)	\$ (16.86)
Outstanding Invoice > Retro	498	\$ 93,603.21	\$ 187.96
< \$5.00 Retro	591	\$ 1,493.12	\$ 2.53
\$5.00 - \$349.99 Retro	5,556	\$ 478,616.77	\$ 86.14
\$350.00 - \$749.99 Retro	562	\$ 280,400.88	\$ 498.93
> \$749.99 Retro	130	\$ 153,963.25	\$ 1,184.33
<b>Total Population</b>	<b>7,394</b>		
<b>Total Retro to Pay (&gt;\$5.00)</b>	<b>6,248</b>	<b>\$912,980.90</b>	<b>\$146.12</b>

<sup>1</sup> Population “A” are those recipients who were restored to a full 2% effective November 1, 2015; Population “B” are those with a blended COLA, who were adjusted effective March 1, 2016.

Populations	Numbers	Characteristics
Population A <b>Completed October 2015.</b>	115,919	<ul style="list-style-type: none"> <li>• All recipients with service credit earned prior to 10/01/2013</li> <li>• All recipients received <i>Moro</i> COLA retroactive payments</li> </ul>
Population B <b>Completed February 2016.</b>	16,464	<ul style="list-style-type: none"> <li>• 2,761 recipients who received <i>Moro</i> related invoices &gt;\$50 due to overpayments                             <ul style="list-style-type: none"> <li>○ Actuarial equivalency factors recalculation</li> <li>○ OPSRP first year COLA proration</li> <li>○ Service credit earned after 10/01/2013</li> </ul> </li> <li>• 4,122 recipients whose <i>Moro</i> related invoices &lt;\$50 were waived</li> <li>• 9,581 recipients whose <i>Moro</i>-related adjustments resulted in a COLA retroactive payment</li> </ul>
Population C Exclusions and Survivors  <i>Anticipated volume</i>  <b>Work is in progress. Planning to resolve these in October 2016.</b>	2,000	<ul style="list-style-type: none"> <li>• Complex accounts due to divorce, variable participation, re-employment, 2<sup>nd</sup> retirements</li> <li>• Survivors' COLAs are/will be incorrect at inception due to a system defect (7/1/2013 and forward)</li> <li>• Functionality limitations, resource constraints, and validation exceptions not cleared in time</li> </ul>
Population D Deceased Members  <b>Work is in progress. Planning to resolve these no later than the end of the current biennium.</b>	7,394	<ul style="list-style-type: none"> <li>• Recipients who died during the <i>Moro</i> period (7/1/2013 and forward)</li> <li>• Will be due either a retro payment or an invoice</li> </ul>



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## Public Employees Retirement System

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July 29, 2016

TO: Members of the PERS Board  
FROM: Linda M. Barnett, Budget Officer  
SUBJECT: 2017-19 Agency Request Budget (ARB)

### OVERVIEW

- Action: Approve PERS' 2017-19 ARB
- Reason: To submit the ARB to the Department of Administrative Services/Chief Financial Office and the Legislative Fiscal Office by August 1, 2016

### 2017-19 CURRENT SERVICE LEVEL BUDGET AND ESSENTIAL PACKAGES

The 2017-19 ARB process begins with the establishment and approval of the agency's Current Service Level (CSL) budget by the Department of Administrative Services (DAS)/Chief Financial Office (CFO). Our CSL of \$11.1 billion was approved on June 17, 2016. The CSL includes the agency's non-limited budget, which represent benefit payments made, and limited, or operating, budget, that pays for plan administration. The CSL budget carries forward the agency's permanent positions and supporting service costs from the 2015-17 Legislatively Approved Budget.

Essential Packages allow for projected cost increases such as inflation based on rates set by DAS and increases or decreases in State Government Service Charges based on the DAS Price List of Goods and Services. Essential Packages also include the elimination of any one-time costs such as the current limited duration positions and associated costs (Salary, OPE, Employee Training, and Office Expenses). *Essential Package 021, Phase-In Program Package*, contains the agency's proposed request for an increase of \$804,304 and the continuation of three full-time limited duration positions to continue recovering overpaid benefits from a large population of recipients, in conformance with the Oregon Supreme Court's 2005 decision in the *Strunk/Eugene* cases.

### 2017-19 POLICY PACKAGES

The agency's proposed policy packages for the 2017-19 biennium are briefly summarized below. They are consistent with the agency's mission and support its vision and core values and operating principles. They are based on furthering the initiatives defined in the agency's 2015-2020 Strategic Plan.

- *Policy Package 101, Cybersecurity Program (Information Security)*

The agency is requesting a \$2,252,966 budget increase and establishment of three new full-time permanent positions in the Information Services Division (ISD) to create a cybersecurity team, which will be responsible for developing, implementing and managing the PERS Cybersecurity Program. While PERS maintains a cybersecurity program, it is fragmented, there is not enough focus on end user awareness training, and the program lacks operational accountability and is often viewed as an afterthought when developing or implementing new technologies. The cybersecurity team, under the guidance of the Office of the State Chief Information Officer and Information Security Board, will be responsible for developing, implementing, and managing the new and improved PERS Cybersecurity Program.

- *Policy Package 102, Fully Integrating IAP Administration into the PERS ORION System - Phase III*

The agency is requesting a \$2,757,595 budget increase and the continuation of three full-time limited duration positions in the Information Services Division to complete the transfer to PERS of all aspects of the Individual Account Program (IAP) administration. This proposal will eliminate the third-party administrator (TPA) expense of over \$2.2 million annually, leverage the agency’s current recordkeeping and payment processing systems, eliminate the split administration between PERS and the TPA (which causes lengthy processing time and occasional errors), and enhance PERS’ ability to better execute its mission “to pay the right person the right benefit at the right time.”

- *Policy Package 103, Technology Modernization*

The agency is requesting a \$6,401,007 budget increase and establishment of three new full-time permanent positions in ISD as the first phase of our Business Modernization efforts under the agency’s 2015-2020 Strategic Plan. Our shifting demographics mean we now have more OPSRP members than Tier One and Tier Two members. We need to modernize, enhance, and sustain our communication and technological foundation to better align with the needs of these younger members as we strive to engage them in their career-long retirement planning. To implement industry standards in line with member expectations, we need to establish a technology platform that is flexible, secure, and aligned with today’s service-driven technology standards. This phase of that modernization will improve information technology efficiency, responsiveness to business operational changes, and resolve functionality and technical debt deficiencies that affect system administration, performance, maintainability, and sustainability.

2017-19 AGENCY REQUEST BUDGET (ARB)

The table on the following page shows the Agency’s requested Operations limited budget by its major components (Personal Services, Services & Supplies, and Capital Outlay) and shows the effect of the policy packages in those expenditure areas as compared to our current biennial budget.

	2015-17 Legislatively Approved Budget	2017-19 Current Service Level	POP 101 Cybersecurity Program	POP 102 IAP Admin Phase III	POP 103 Technology Modernization	2017-19 Agency Request Budget
Personal Services	69,524,819	73,716,301	636,781	559,400	607,451	75,519,933
Services & Supplies	34,921,749	23,044,698	939,685	2,198,195	5,570,406	31,752,984
Capital Outlay	2,121,807	617,852	676,500	-	223,150	1,517,502
Total Limitation	106,568,375	97,378,851	2,252,966	2,757,595	6,401,007	108,790,419
Positions	380	377	3	3	3	386
FTE	380.00	377.00	3.00	3.00	3.00	386.00

**PERS BUDGET METRICS AND COMPARISONS**

One way to view the “cost” of PERS administration is to compare the agency’s annual operating budget to the net asset value of the PERS Fund (PERF). The table below shows the biennial budget as an annualized percentage of the Fund’s value at the end of each biennium. Note that our annual operating budget has generally ranged from 6 to 9 basis points using that industry standard measurement approach.

<b>PERS Budget/PERF Comparison</b>						
<b>Biennium</b>	<b>Legislatively Approved Limited Budget</b>	<b>Fiscal Year Ended June 30th</b>	<b>Limited Budget</b>	<b>PERF Balance</b>		<b>Percent</b>
2007-2009	\$ 86,960,346	2008	\$ 43,480,173	\$ 61,409,698,133		0.0708%
		2009	\$ 43,480,173	\$ 46,043,394,714		0.0944%
2009-2011	\$ 84,685,027	2010	\$ 42,342,514	\$ 51,747,943,735		0.0818%
		2011	\$ 42,342,513	\$ 61,189,774,807		0.0692%
2011-2013	\$ 80,750,830	2012	\$ 40,375,415	\$ 59,456,250,160		0.0679%
		2013	\$ 40,375,415	\$ 65,362,545,518		0.0618%
2013-2015	\$ 86,851,130	2014	\$ 43,425,565	\$ 73,728,185,070		0.0589%
		2015	\$ 43,425,565	\$ 73,865,147,024		0.0588%
2015-2017	\$ 106,568,375	2016	\$ 53,284,188	\$ 76,792,170,000	E	0.0694%
		2017	\$ 53,284,188	\$ 79,702,260,000	E	0.0669%
2017-2019	\$ 108,790,419 (ARB)	2016	\$ 54,395,210	\$ 82,577,970,000	E	0.0659%
		2017	\$ 54,395,210	\$ 85,399,480,000	E	0.0637%
E=Estimated PERF balance at end of biennium						

# **DECEMBER 31, 2015 ACTUARIAL VALUATION OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM**

**July 29, 2016 PERS Board Meeting**

Presented by:

Matt Larrabee, FSA, EA

Scott Preppernau, FSA, EA

*Revised July 27, 2016*



# Introduction

- Today we will review summary valuation results for the Tier 1/Tier 2 & OPSRP retirement programs and the Retiree Health Insurance Account (RHIA) and Retiree Health Insurance Premium Account (RHIPA) programs
  - Formal, detailed results will be presented in our forthcoming December 31, 2015 System-Wide Actuarial Valuation Report, which will be issued in late September or early October
- This valuation will be the basis for adoption of 2017-2019 employer contribution rates at the September 30, 2016 Board meeting
  - Employers' rates will be in the September meeting's materials
- Shortly after that meeting, we will provide PERS staff with detailed reports for each employer
- PERS will deliver those reports to employers



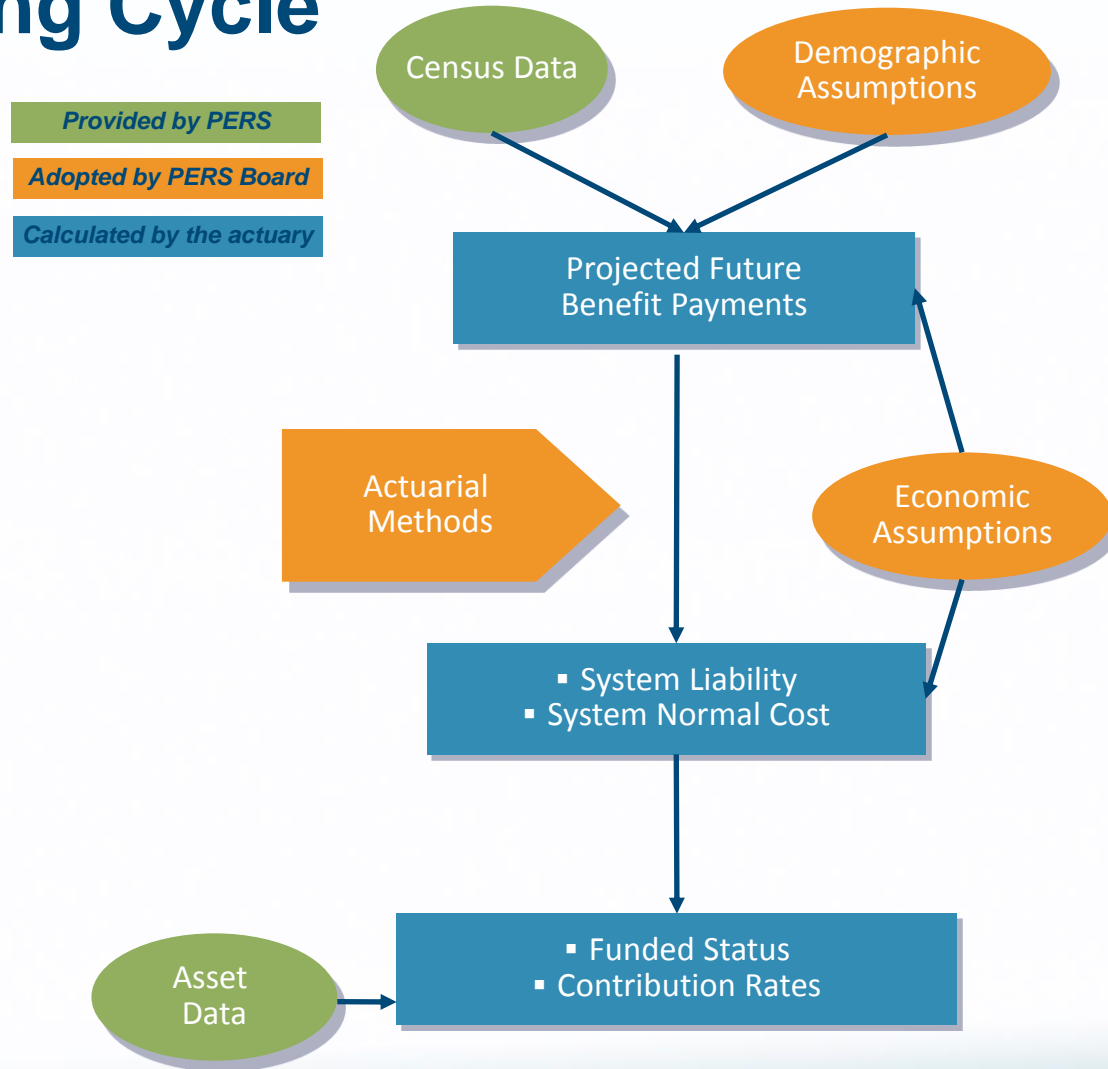
# Valuation Process and Timeline

- Actuarial valuations are conducted annually
  - Alternate between “rate-setting” and “advisory” valuations
  - The 12/31/2015 valuation is rate-setting
- The Board adopts employer contribution rates developed in rate-setting valuations, and those rates go into effect 18 months subsequent to the valuation date

Valuation Date	Employer Contribution Rates
12/31/2013	July 2015 – June 2017
12/31/2015	July 2017 – June 2019

# Two-Year Rate-Setting Cycle

- **July 2015:** Assumptions and methods endorsed by Board in consultation with the actuary
- **September 2015:** System-wide 12/31/14 “advisory” actuarial valuation results reported
- **November 2015:** “Advisory” 2017-2019 employer-specific contribution rates distributed
- **July 2016:** System-wide 12/31/15 “rate-setting” actuarial valuation results
- **September 2016:** Adoption of employer-specific 2017-2019 contribution rates



# Guiding Principles

- In setting rates, the PERS Board has identified the following guiding principles:
  - Transparent
  - Predictable and stable rates
  - Protect funded status
  - Equitable across generations
  - Actuarially sound
  - GASB compliant
- Tension exists between some of the goals (e.g. stability of rates and protecting funded status)
  - Balancing the competing priorities is important to the policy decisions surrounding the rate-setting cycle

# Changes Since the Last Rate-Setting Valuation

- The 12/31/2013 rate-setting actuarial valuation developed 2015-2017 contribution rates
  - That rate-setting valuation reflected legislative changes (SB 822 & 861) lowering projected benefits
- Since the 12/31/2013 rate-setting valuation:
  - *Moro* decision overturned a significant portion of the legislative changes
  - PERS Board adopted new assumptions and methods from the 2014 Experience Study, including lowering investment return assumption to 7.50% and increasing assumed retiree life expectancy
  - Cumulative 2014 and 2015 asset returns were less than assumed, generating approximately a \$2.8 billion actuarial investment loss over the biennium, with \$2.6 billion of that loss occurring in 2015

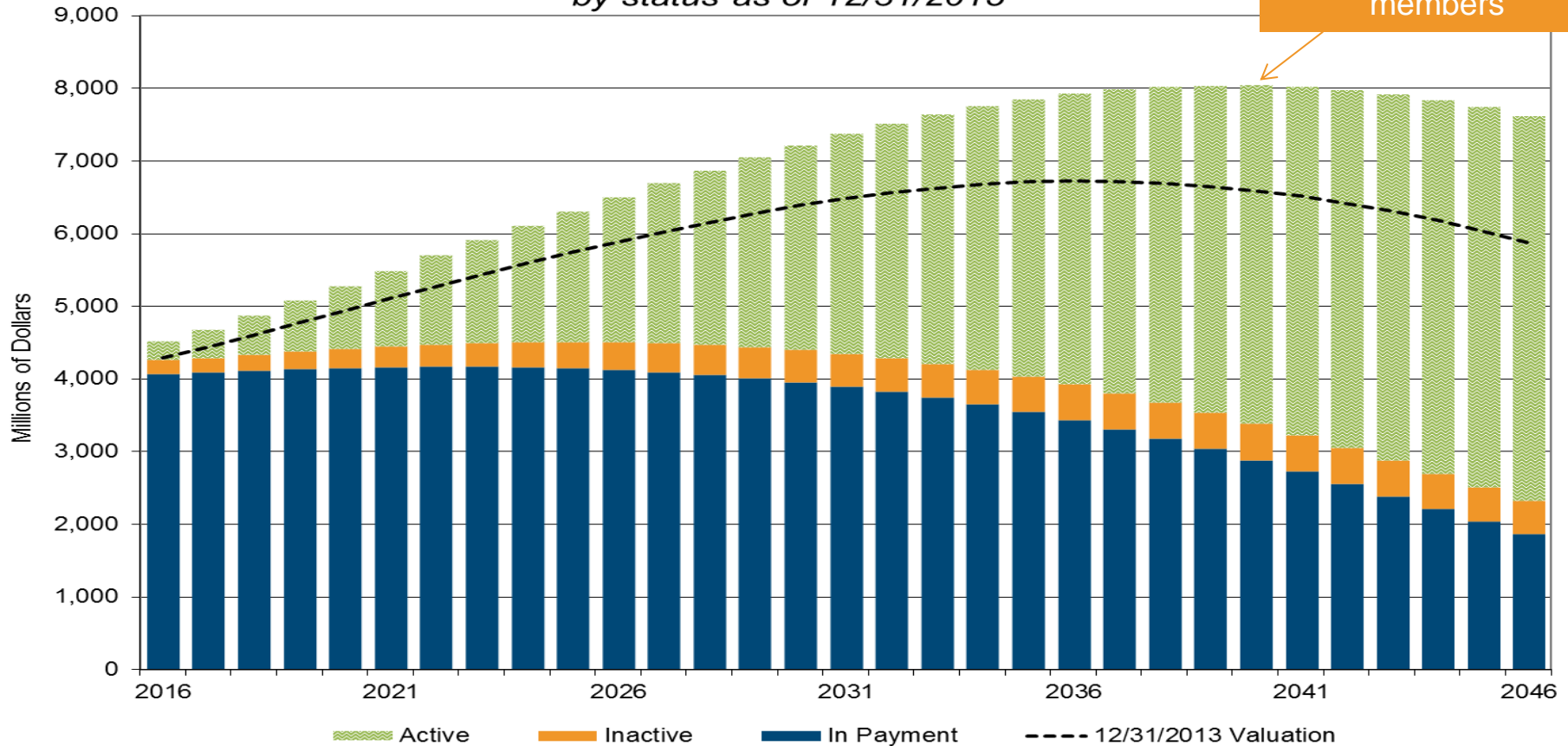
# Changes Since the Last Advisory Valuation

- The 12/31/2014 advisory actuarial valuation developed advisory 2017-2019 rates and reflected:
  - *Moro* decision - \$5.1 billion increase in Unfunded Actuarial Liability (UAL)
  - Updated investment return and mortality assumptions from the 2014 Experience Study - \$3.5 billion increase in UAL
  - The \$0.2 billion actuarial investment loss during 2014
- The 12/31/2015 rate-setting valuation develops final 2017-2019 rates and reflects the 2015 actuarial investment loss of \$2.6 billion
  - Long-term rate projections presented in November 2015 used actual investment results through October 2015 and thus illustrated most of the 2015 actuarial investment loss

# Projected Benefit Payments

Tier 1/Tier 2 & OPSRP Expected Benefit Payments  
by status as of 12/31/2015

By 2040, projected to be \$8 billion in benefit payments to current members



The dotted line depicts the projected payments from the 12/31/2013 rate-setting valuation, which did not reflect the *Moro* decision

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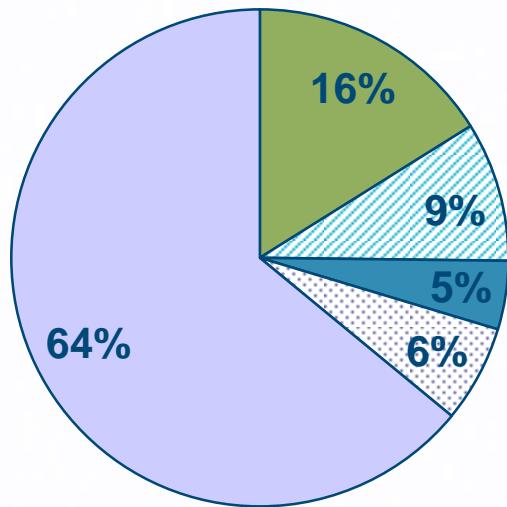
# Funded Status & Unfunded Actuarial Liability (UAL)

System-total Pension Funded Status (\$ billions)			
<i>Reflects:</i>	12/31/2013	12/31/2014	12/31/2015
<i>Moro decision?</i>	No	Yes	Yes
<i>2014 Experience Study assumptions?</i>	No	Yes	Yes
Actuarial liability	\$62.6	\$73.5	\$76.2
Assets (excluding side accounts)	<u>\$54.1</u>	<u>\$55.5</u>	<u>\$54.4</u>
UAL (excluding side accounts)	\$8.5	\$18.0	\$21.8
Funded status (excluding side accounts)	86%	76%	71%
Side account assets	<u>\$5.9</u>	<u>\$5.9</u>	<u>\$5.6</u>
UAL (including side accounts)	\$2.6	\$12.1	\$16.2
Funded status (including side accounts)	96%	84%	79%

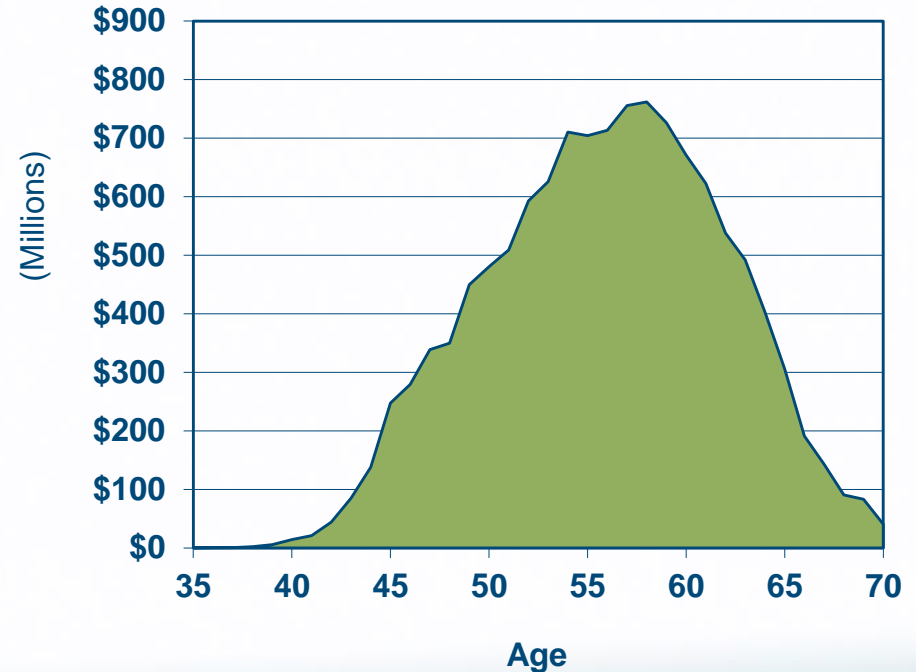
# Division of Actuarial Liability by Category

12/31/2015 Tier 1/Tier 2 and OPSRP Actuarial Liability

## Actuarial Liability by Member Category



## Age Distribution of Tier 1 Actives Liability



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# Sources of 2015 UAL Increase

(\$ billions)	UAL Increase
Expected UAL increase/(decrease) during 2015	\$0.9
2015 actual investment performance below assumption	\$2.6
Actual demographic experience different than assumed	<u>\$0.3</u>
Total	\$3.8

- The expected UAL increase/(decrease) is the change, based on 12/31/2014 valuation results, projected to occur during 2015 due to the effects of temporary negative amortization
- The 2015 actuarial investment loss reflects actual OPERF returns of approximately 2% compared to the assumed 7.50% return
- The largest source of liability variation during 2015 was that observed retiree mortality was different than assumed
- The above increase is in addition to the \$9.5 billion UAL increase during 2014, which was driven by *Moro* and assumption changes

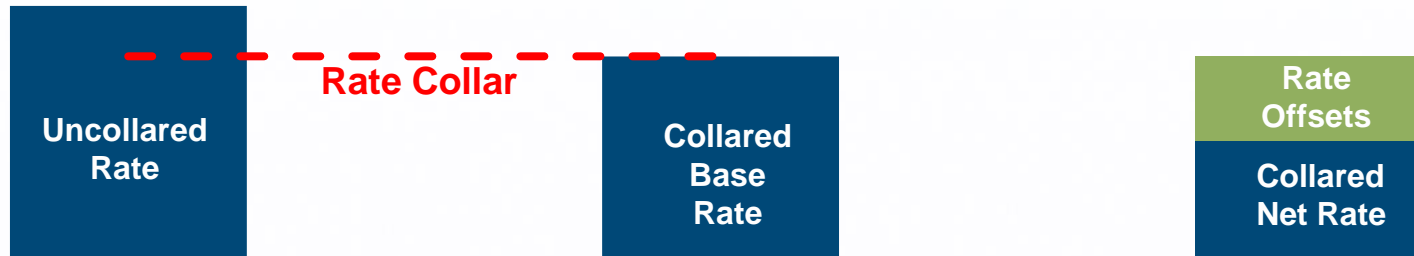
# Tier 1/Tier 2 Rate Pool Funded Status and UAL

- Funded status differs for the two large Tier 1/Tier 2 rate pools

(\$ billions)	SLGRP	School Districts
Actuarial liability	\$38.4	\$27.7
Assets (excluding side accounts)	<u>\$27.7</u>	<u>\$19.7</u>
UAL (excluding side accounts)	\$10.7	\$8.0
Funded status (excluding side accounts)	72%	71%
Projected 2016 payroll	\$5.6	\$3.1
Ratio of UAL to payroll	192%	261%
Side account assets	\$2.5	\$3.0
UAL (including side accounts)	\$8.2	\$5.0
Funded status (including side accounts)	79%	82%

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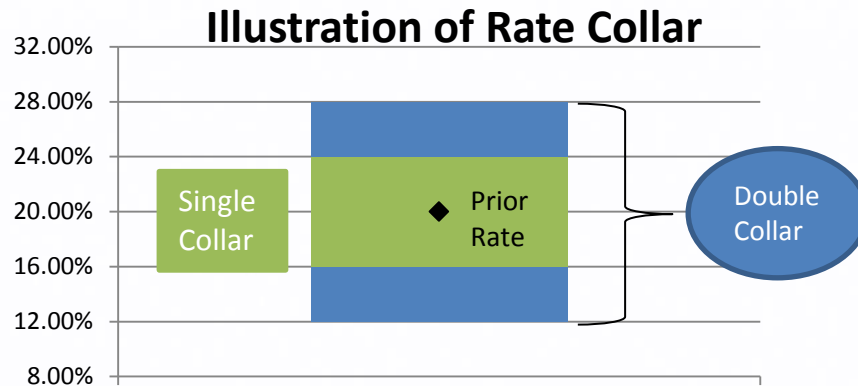
# Overview of Rate Calculation Structure



- The uncollared rate is the theoretical contribution rate to reach 100% funded status over a specified amortization period if:
  - Contributions at that rate started on the actuarial valuation date, and
  - Actual future experience mirrors the actuarial valuation's assumptions
- The rate collar sets a biennium's base rate, limiting the base rate change when there is a large change in the uncollared rate
- Employers pay the net rate, which can differ from the base rate due to adjustments that fall into two major categories
  - Side account rate offsets for employers with side accounts
  - SLGRP charges/offsets (e.g., Transition Liability/Surplus)

# Current Rate Collar Design

- 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 60% 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 60% and 70%, the collar size is pro-rated between the initial collar and double collar level



- Collars are calculated at a rate pool level and limit the biennium to biennium increase in the UAL Rate for a given rate pool

# Comments on 2017 – 2019 Rates

- No single employer pays the system-wide average rate
  - School district base rates are above the average
  - Most SLGRP employers' base rates are below the average
- Employers in a rate pool do not pay the pool average rate
  - Actual rates reflect employer-specific side account rate offsets and/or any SLGRP charges/offsets
  - SLGRP normal cost rates are specific to an employer's composition of member tier and job classification
- Rates shown do not include the effects of:
  - Individual Account Plan (IAP) contributions
  - Rates for the RHIA & RHIPA retiree healthcare programs
  - Debt service payments on pension obligation bonds

# Uncollared Pension Rates – School Districts

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

	12/31/2013 2015 - 2017 Final			12/31/2015 2017 - 2019 Final		
	Payroll			Payroll		
	Tier 1 / Tier 2	OPSRP	Weighted Average <sup>1</sup>	Tier 1 / Tier 2	OPSRP	Weighted Average <sup>1</sup>
Normal Cost	11.94%	7.33%	10.14%	13.28%	8.02%	10.73%
Tier 1/Tier 2 UAL	9.25%	9.25%	9.25%	19.63%	19.63%	19.63%
OPSRP UAL	0.61%	0.61%	0.61%	1.27%	1.27%	1.27%
<b>Uncollared Rate</b>	<b>21.80%</b>	<b>17.19%</b>	<b>20.00%</b>	<b>34.18%</b>	<b>28.92%</b>	<b>31.63%</b>
<b>Increase</b>				<b>12.38%</b>	<b>11.73%</b>	<b>11.63%</b>

*The pool-average collared base and net rates for 2017-2019 are shown on subsequent slides*

<sup>1</sup> Weighting based on the pool's payroll levels (Tier 1/Tier 2, OPSRP) as of the valuation date.

# Collared Pension Base Rates – School Districts

Excludes Retiree Health Care & IAP Contributions, Side Account Offsets

	12/31/2013 2015 - 2017 Final			12/31/2015 2017 - 2019 Final		
	Payroll			Payroll		
	Tier 1 / Tier 2	OPSRP	Weighted Average <sup>1</sup>	Tier 1 / Tier 2	OPSRP	Weighted Average <sup>1</sup>
<b>Uncollared Rate</b>	<b>21.80%</b>	<b>17.19%</b>	<b>20.00%</b>	<b>34.18%</b>	<b>28.92%</b>	<b>31.63%</b>
Collar Limitation	(0.00%)	(0.00%)	(0.00%)	(7.48%)	(7.48%)	(7.48%)
<b>Collared Base Rate</b>	<b>21.80%</b>	<b>17.19%</b>	<b>20.00%</b>	<b>26.70%</b>	<b>21.44%</b>	<b>24.15%</b>
<b>Increase</b>				<b>4.90%</b>	<b>4.25%</b>	<b>4.15%</b>

*The increases to collared base rates are similar to those shown in the 12/31/2014 advisory valuation*

<sup>1</sup> Weighting based on the pool's payroll levels (Tier 1/Tier 2, OPSRP) as of the valuation date

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# Collared Pension Net Rates – School Districts

Excludes Retiree Health Care & IAP Contributions

	12/31/2013 <sup>1</sup> 2015 - 2017 Final			12/31/2015 <sup>1</sup> 2017 - 2019 Final		
	Payroll			Payroll		
	Tier 1 / Tier 2	OPSRP	Weighted Average <sup>2</sup>	Tier 1 / Tier 2	OPSRP	Weighted Average <sup>2</sup>
<b>Collared Base Rate</b>	<b>21.80%</b>	<b>17.19%</b>	<b>20.00%</b>	<b>26.70%</b>	<b>21.44%</b>	<b>24.15%</b>
Side Account (Offset)	(10.62%)	(10.62%)	(10.62%)	(10.26%)	(10.26%)	(10.26%)
<b>Collared Net Rate</b>	<b>11.18%</b>	<b>6.57%</b>	<b>9.38%</b>	<b>16.44%</b>	<b>11.18%</b>	<b>13.89%</b>
<b>Increase</b>				<b>5.26%</b>	<b>4.61%</b>	<b>4.51%</b>

*Rates vary by employer, as only some employers have side accounts*

*Net rate increases are greater than those shown in the 12/31/2014 advisory valuation due mostly to 2015 actuarial investment losses on side accounts*

- <sup>1</sup> For this exhibit, adjustments are assumed not to be limited due to an individual employer reaching a 0.00% contribution rate.
- <sup>2</sup> Weighting based on the pool's payroll levels (Tier 1/Tier 2, OPSRP) as of the valuation date



# School Districts Rate Summary

Weighted Average Rates (Tier 1/Tier 2 and OPSRP)

	2015 - 2017	2017 - 2019	Change
<b>Uncollared Base Rate</b>	<b>20.00%</b>	<b>31.63%</b>	<b>11.63%</b>
<b>Collared Base Rate</b>	<b>20.00%</b>	<b>24.15%</b>	<b>4.15%</b>
<b>Collared Net Rate</b>	<b>9.38%</b>	<b>13.89%</b>	<b>4.51%</b>

- The collared base rate for School Districts is 7.48% of payroll below the uncollared base rate*
- Net rates increased more than base rates due mostly to employer side accounts, which leverage the contribution rate effects of actual biennial investment performance different than assumed*

# Uncollared Pension Rates – SLGRP Average

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

	12/31/2013 2015 - 2017 Final			12/31/2015 2017 - 2019 Final		
	Payroll			Payroll		
	Tier 1 / Tier 2	OPSRP	Weighted Average <sup>1</sup>	Tier 1 / Tier 2	OPSRP	Weighted Average <sup>1</sup>
Normal Cost	13.66%	7.79%	11.13%	15.78%	8.56%	12.03%
Tier 1/Tier 2 UAL	5.71%	5.71%	5.71%	14.45%	14.45%	14.45%
OPSRP UAL	0.61%	0.61%	0.61%	1.27%	1.27%	1.27%
<b>Uncollared Rate</b>	<b>19.98%</b>	<b>14.11%</b>	<b>17.45%</b>	<b>31.50%</b>	<b>24.28%</b>	<b>27.75%</b>
<b>Increase</b>				<b>11.52%</b>	<b>10.17%</b>	<b>10.30%</b>

*The pool-average collared base and net rates for 2017-2019 are shown on subsequent slides*

*Employer-specific rates vary widely from the SLGRP average*

<sup>1</sup> Weighting based on the pool's payroll levels (Tier 1/Tier 2, OPSRP) as of the valuation date.

# Collared Pension Base Rates – SLGRP Average

Excludes Retiree Health Care & IAP Contributions, Side Account Offsets

	12/31/2013 2015 - 2017 Final			12/31/2015 2017 - 2019 Final		
	Payroll			Payroll		
	Tier 1 / Tier 2	OPSRP	Weighted Average <sup>1</sup>	Tier 1 / Tier 2	OPSRP	Weighted Average <sup>1</sup>
<b>Uncollared Rate</b>	<b>19.98%</b>	<b>14.11%</b>	<b>17.45%</b>	<b>31.50%</b>	<b>24.28%</b>	<b>27.75%</b>
Collar Limitation	(1.14%)	(1.14%)	(1.14%)	(8.35%)	(8.35%)	(8.35%)
<b>Collared Base Rate</b>	<b>18.84%</b>	<b>12.97%</b>	<b>16.31%</b>	<b>23.15%</b>	<b>15.93%</b>	<b>19.40%</b>
<b>Increase</b>				<b>4.31%</b>	<b>2.96%</b>	<b>3.09%</b>

*The increases to collared base rates are similar to those shown in the 12/31/2014 advisory valuation*

*Employer-specific base rates can vary widely from SLGRP average rates*

<sup>1</sup> Weighting based on the pool's payroll levels (Tier 1/Tier 2, OPSRP) as of the valuation date

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# Collared Pension Net Rates – SLGRP Average

Excludes Retiree Health Care & IAP Contributions

	12/31/2013 <sup>1</sup> 2015 - 2017 Final			12/31/2015 <sup>1</sup> 2017 - 2019 Final		
	Payroll			Payroll		
	Tier 1 / Tier 2	OPSRP	Weighted Average <sup>2</sup>	Tier 1 / Tier 2	OPSRP	Weighted Average <sup>2</sup>
<b>Collared Base Rate</b>	<b>18.84%</b>	<b>12.97%</b>	<b>16.31%</b>	<b>23.15%</b>	<b>15.93%</b>	<b>19.40%</b>
Side Account (Offset)	(4.99%)	(4.99%)	(4.99%)	(4.70%)	(4.70%)	(4.70%)
SLGRP Charge/(Offset)	(0.80%)	(0.80%)	(0.80%)	(0.82%)	(0.82%)	(0.82%)
<b>Collared Net Rate</b>	<b>13.05%</b>	<b>7.18%</b>	<b>10.52%</b>	<b>17.63%</b>	<b>10.41%</b>	<b>13.88%</b>
<b>Increase</b>				<b>4.58%</b>	<b>3.23%</b>	<b>3.36%</b>

*Rates vary by employer, as only some employers have side accounts and the SLGRP charge/(offset) varies by employer*

*Net rate increases are greater than those shown in the 12/31/2014 advisory valuation due mostly to 2015 actuarial investment losses on side accounts*

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

2 Weighting based on the pool's payroll levels (Tier 1/Tier 2, OPSRP) as of the valuation date

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# SLGRP Rate Summary

Weighted Average Rates (Tier 1/Tier 2 and OPSRP)

	2015 - 2017	2017 - 2019	Change
Uncollared Base Rate	17.45%	27.75%	10.30%
Collared Base Rate	16.31%	19.40%	3.09%
Collared Net Rate	10.52%	13.88%	3.36%

- *The SLGRP's collared base rate is 8.35% of payroll below the uncollared base rate*
- *Net rates increased more than base rates due mostly to employer side accounts, which leverage the rate effects of actual biennial investment performance different than assumed*

# System-Wide Rate Summary

Weighted Average Rates (Tier 1/Tier 2 and OPSRP)

	2015 - 2017	2017 - 2019	Change
<b>Uncollared Base Rate</b>	<b>18.18%</b>	<b>29.08%</b>	<b>10.90%</b>
<b>Collared Base Rate</b>	<b>17.46%</b>	<b>20.85%</b>	<b>3.39%</b>
<b>Collared Net Rate</b>	<b>10.61%</b>	<b>14.23%</b>	<b>3.62%</b>

- *System-wide rates are the payroll-weighted average of rates for School Districts, SLGRP, and independent employers*
- *Net rates increased more than base rates due mostly to employer side accounts, which leverage the rate effects of actual biennial investment performance different than assumed*

# Projected 2017-2019 Contributions

(\$ millions)	Projected 2015-17 Payroll*	(A) Projected 2015-17 Contribution	Projected 2017-19 Payroll*	(B) Projected 2017-19 Contribution	(B - A) Projected Contribution Increase
State Agencies	\$5,620	<b>\$575</b>	\$6,020	<b>\$835</b>	<b>\$260</b>
School Districts	\$6,120	<b>\$575</b>	\$6,560	<b>\$910</b>	<b>\$335</b>
All Others	<u>\$7,350</u>	<u><b>\$875</b></u>	<u>\$7,880</u>	<u><b>\$1,165</b></u>	<u><b>\$290</b></u>
<b>Total</b>	<b>\$19,090</b>	<b>\$2,025</b>	<b>\$20,460</b>	<b>\$2,910</b>	<b>\$885</b>

\* Assumes payroll grows at 3.50% annually based on 12/31/2015 active member census, reflecting proportional payroll composition (Tier 1/Tier 2 vs. OPSRP) as of 12/31/2015

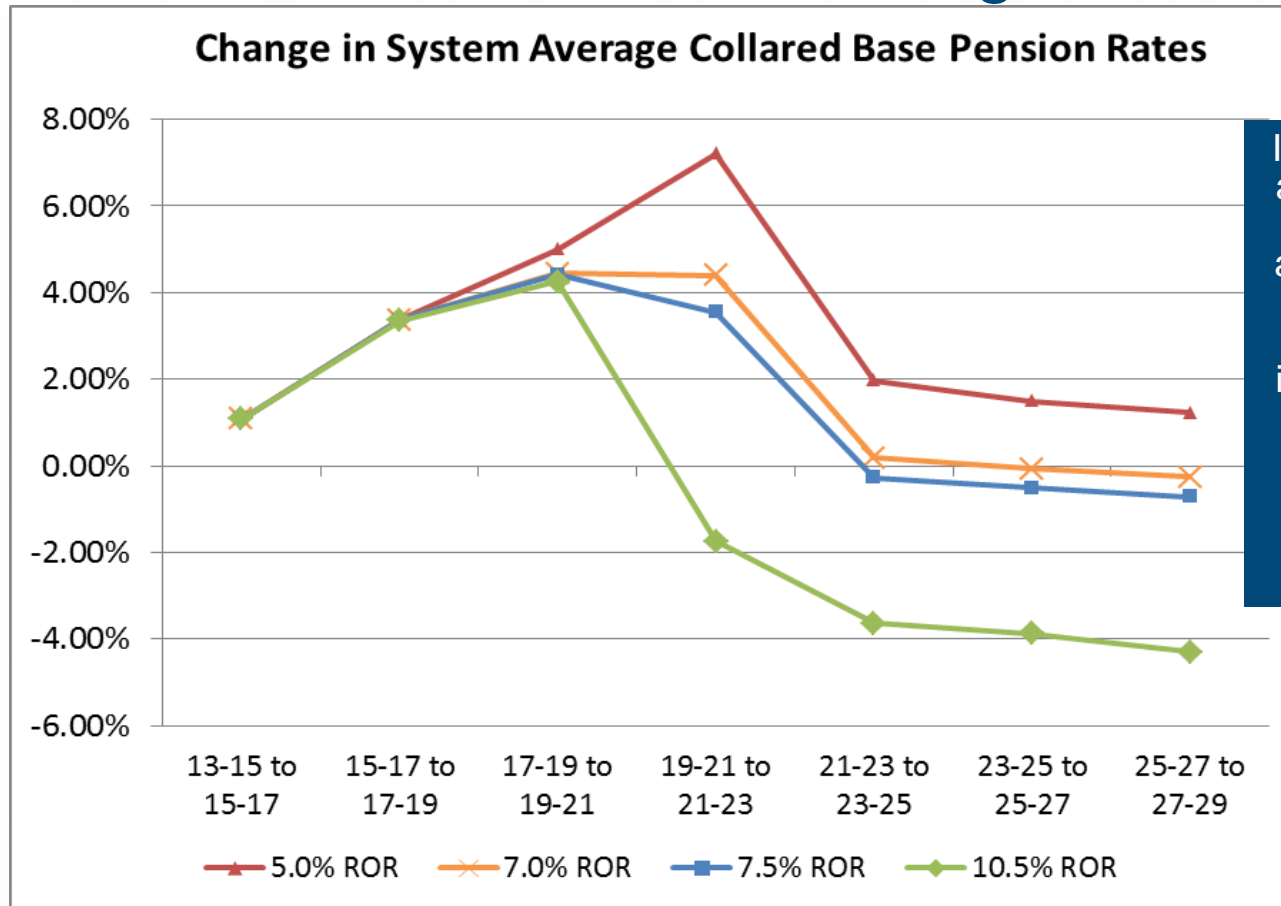
- Collared net rates are used to project 2017-2019 contributions
- The advisory valuation had a projected contribution increase of \$800 million
  - The change from that estimate was caused primarily by 2015 investment underperformance and the leveraged effects that side accounts had on net rates

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# Contribution Increases: November 2015 Financial Modeling

From Nov. 2015 PERS Board materials:

- Based on published returns through October 2015
- Does not reflect \$0.3 billion in 2015 demographic experience losses



If actual investment returns are near assumption, base contribution increases of around 4% of payroll occur in each of the next three biennia, with those increases being necessary to position the system to return to 100% funded status over 20 years if future experience follows assumptions

Shows biennium to biennium changes under steady return projections



# 12/31/2015 Retiree Health Care Valuation

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

# 12/31/2015 Retiree Health Care Valuation

- RHIA and RHIPA liabilities combined are less than 1% of the pension liability
- In recent experience studies, we recommended restructuring the RHIPA participation assumption for future state government retirements
  - Assume higher participation rates for retirees eligible for the largest employer-paid subsidies
  - Rates reflecting new structure first went into effect in July 2015
- RHIPA warrants continued monitoring, as funded status is very low and subsidy payments are sensitive to actual participation levels

# 12/31/2015 Retiree Health Care Valuation

## UAL and Advisory Contribution Rates

(\$ millions)	RHIA		RHIPA*	
	12/31/2014	12/31/2015	12/31/2014	12/31/2015
Actuarial Liability	\$468	\$466	\$71	\$68
Assets	\$396	\$419	\$ 7	\$11
UAL	\$72	\$46	\$64	\$57
<b>Funded Status</b>	<b>85%</b>	<b>90%</b>	<b>10%</b>	<b>16%</b>
<b>Normal Cost Rate</b>	<b>0.07%</b>	<b>0.07%</b>	<b>0.11%</b>	<b>0.11%</b>
<b>UAL Rate</b>	<b>0.43%</b>	<b>0.43%</b>	<b>0.39%</b>	<b>0.38%</b>
<b>Total Rate</b>	<b>0.50%</b>	<b>0.50%</b>	<b>0.50%</b>	<b>0.49%</b>

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

***RHIPA assets at year-end 2015 were only about 240% of 2015 RHIPA benefit payments***

# Wrap Up / Next Steps

- Valuation next steps
  - Present employer-specific rates for adoption at September 30, 2016 meeting
  - Issue System-Wide December 31, 2015 Actuarial Valuation Report
  - Prepare employer-specific rate-setting valuation reports
    - PERS distributes to employers

# Appendix

# Certification

This presentation summarizes key preliminary results of an actuarial valuation of the Oregon Public Employees Retirement System (“PERS” or “the System”) as of December 31, 2015, for the Plan Year ending December 31, 2015. The results are preliminary in nature and may not be relied upon to, for example, prepare the System’s Consolidated Annual Financial Report (CAFR). The reliance document will be the forthcoming formal December 31, 2015 System-Wide Actuarial Valuation Report.

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

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

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

Actuarial computations presented in this report are for purposes of determining the recommended funding amounts for the System. The computations prepared for these two purposes may differ as disclosed in our report. The calculations in the enclosed report have been made on a basis consistent with our understanding of the System’s funding requirements and goals. The calculations in this report have been made on a basis consistent with our understanding of the plan provisions described in the appendix of this report. Determinations for purposes other than meeting these requirements may be significantly different from the results contained in this report. Accordingly, additional determinations may be needed for other purposes.

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# Certification

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

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

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

The consultants who worked on this assignment are actuaries. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel. The actuaries are independent of the plan sponsors. We are not aware of any relationship that would impair the objectivity of our work.

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.

# Data Exhibits

	2015				2014
	Tier 1	Tier 2	OPSRP	Total	Total
<b>Active Members</b>					
Count	30,295	40,126	97,756	168,177	164,859
Average Age	55.5	50.2	42.41	46.6	46.9
Average Service	24.1	15.0	5.7	11.2	11.4
Average prior year Covered Salary	\$ 73,426	\$ 64,481	\$ 46,494	\$ 55,637	\$ 54,323
<b>Inactive Members<sup>1</sup></b>					
Count	15,199	15,589	12,061	42,849	42,563
Average Age	58.3	52.4	46.5	52.8	52.8
Average Monthly Benefit	\$ 2,013	\$ 693	\$ 346	\$ 1,064	\$ 1,138
<b>Retired Members and Beneficiaries<sup>1</sup></b>					
Count	122,117	11,888	2,293	136,298	131,505
Average Age	71.8	66.5	66.1	71.3	71.1
Average Monthly Benefit <sup>2</sup>	\$ 2,652	\$ 975	\$ 405	\$ 2,468	\$ 2,411
<b>Total Members</b>	<b>167,611</b>	<b>67,603</b>	<b>112,110</b>	<b>347,324</b>	<b>338,927</b>

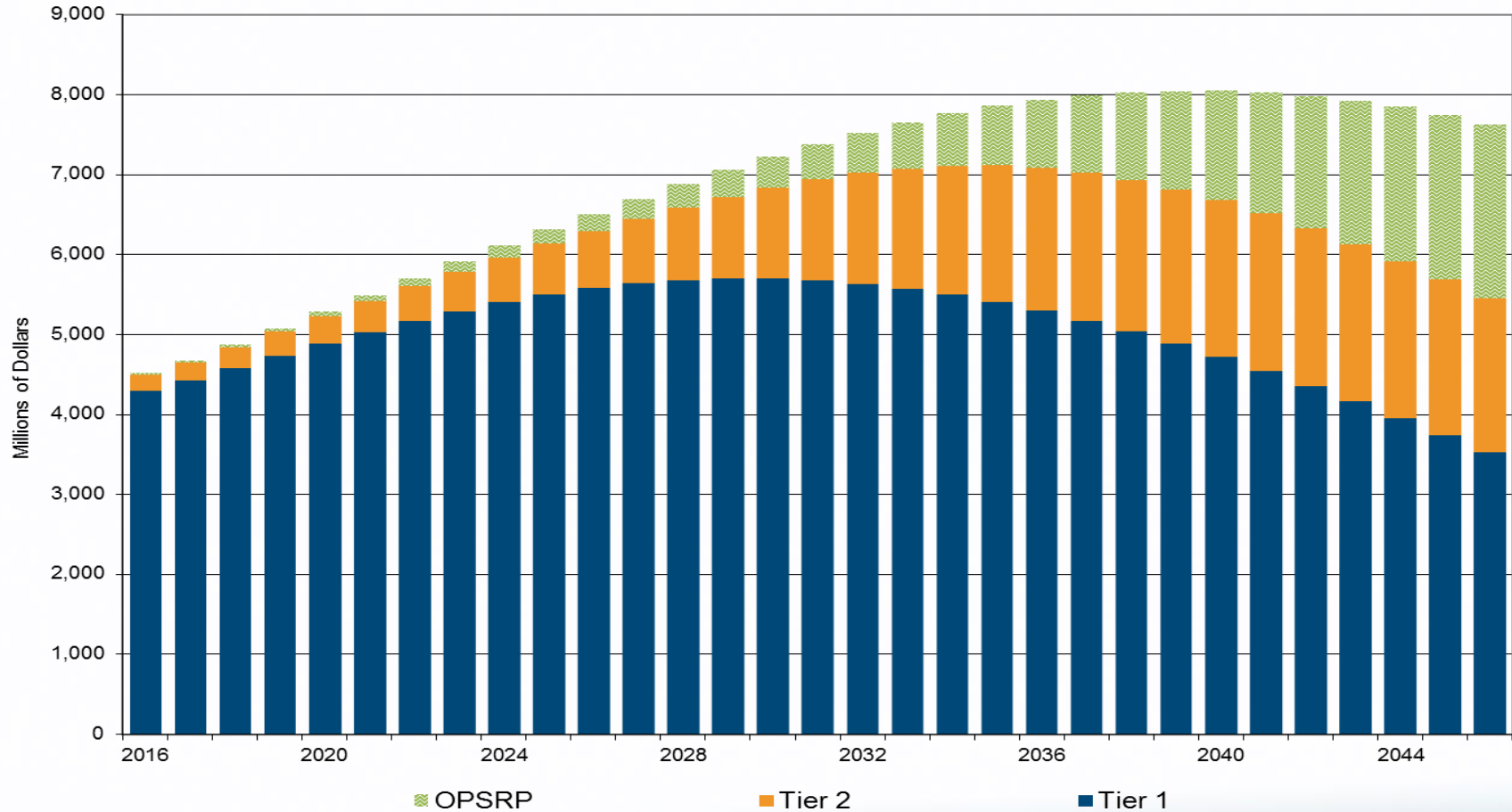
<sup>1</sup> Inactive and Retiree counts are shown by lives within each rate pool. In other words, a member is counted once per purposes of this exhibit, regardless of their service history for different rate pools. This contrasts with the method used to count inactive participants in some of the later exhibits.

<sup>2</sup> The average monthly benefit reflects an estimated adjustment for the effect of the Supreme Court decision in *Moro v. State of Oregon* for records that were not already adjusted in the data provided.



# Projected Benefit Payments

Tier 1/Tier 2 & OPSRP Expected Benefit Payments  
by tier as of 12/31/2015



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# Funded Status and UAL

## Pension Funded Status (\$ billions) at 12/31/2015

	Tier 1/Tier 2	OPSRP	Combined
Actuarial liability	\$72.5	\$3.7	\$76.2
Assets (excluding side accounts)	<u>\$52.0</u>	<u>\$2.4</u>	<u>\$54.4</u>
UAL (excluding side accounts)	\$20.5	\$1.3	\$21.8
Funded status (excluding side accounts)	72%	64%	71%
Side account assets			<u>\$5.6</u>
UAL (including side accounts)			\$16.2
Funded status (including side accounts)			79%

# Uncollared Pension Rates – System-Wide

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

	12/31/2013 2015 - 2017 Final			12/31/2015 2017 - 2019 Final		
	Payroll			Payroll		
	Tier 1 / Tier 2	OPSRP	Weighted Average <sup>1</sup>	Tier 1 / Tier 2	OPSRP	Weighted Average <sup>1</sup>
Normal Cost	13.18%	7.79%	10.94%	15.07%	8.56%	11.79%
Tier 1/Tier 2 UAL	6.63%	6.63%	6.63%	16.02%	16.02%	16.02%
OPSRP UAL	0.61%	0.61%	0.61%	1.27%	1.27%	1.27%
<b>Uncollared Rate</b>	<b>20.42%</b>	<b>15.03%</b>	<b>18.18%</b>	<b>32.36%</b>	<b>25.85%</b>	<b>29.08%</b>
<b>Increase</b>				<b>11.94%</b>	<b>10.82%</b>	<b>10.90%</b>

<sup>1</sup> Weighting based on the pool's payroll levels (Tier 1/Tier 2, OPSRP) as of the valuation date.

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# Collared Pension Base Rates – System-Wide

Excludes Retiree Health Care & IAP Contributions, Side Account Offsets

	12/31/2013 2015 - 2017 Final			12/31/2015 2017 - 2019 Final		
	Payroll			Payroll		
	Tier 1 / Tier 2	OPSRP	Weighted Average <sup>1</sup>	Tier 1 / Tier 2	OPSRP	Weighted Average <sup>1</sup>
<b>Uncollared Rate</b>	<b>20.42%</b>	<b>15.03%</b>	<b>18.18%</b>	<b>32.36%</b>	<b>25.85%</b>	<b>29.08%</b>
Collar Limitation	(0.72%)	(0.72%)	(0.72%)	(8.23%)	(8.23%)	(8.23%)
<b>Collared Base Rate</b>	<b>19.70%</b>	<b>14.31%</b>	<b>17.46%</b>	<b>24.13%</b>	<b>17.62%</b>	<b>20.85%</b>
<b>Increase</b>				<b>4.43%</b>	<b>3.31%</b>	<b>3.39%</b>

*Increases that will be effective July 2017 are limited by the collar*

<sup>1</sup> Weighting based on the pool's payroll levels (Tier 1/Tier 2, OPSRP) as of the valuation date.

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# Collared Pension Net Rates – System-Wide

Excludes Retiree Health Care & IAP Contributions

	12/31/2013 <sup>1</sup> 2015 - 2017 Final			12/31/2015 <sup>1</sup> 2017 - 2019 Final		
	Payroll			Payroll		
	Tier 1 / Tier 2	OPSRP	Weighted Average <sup>2</sup>	Tier 1 / Tier 2	OPSRP	Weighted Average <sup>2</sup>
<b>Collared Base Rate</b>	<b>19.70%</b>	<b>14.31%</b>	<b>17.46%</b>	<b>24.13%</b>	<b>17.62%</b>	<b>20.85%</b>
Side Account (Offset)	(6.38%)	(6.38%)	(6.38%)	(6.14%)	(6.14%)	(6.14%)
SLGRP Charge/(Offset)	(0.47%)	(0.47%)	(0.47%)	(0.48%)	(0.48%)	(0.48%)
<b>Collared Net Rate</b>	<b>12.85%</b>	<b>7.46%</b>	<b>10.61%</b>	<b>17.51%</b>	<b>11.00%</b>	<b>14.23%</b>
<b>Increase</b>				<b>4.66%</b>	<b>3.54%</b>	<b>3.62%</b>

*Rates vary by employer, as only some employers have side accounts*

*Changes in side account offsets are not collared*

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

<sup>2</sup> Weighting based on the pool's payroll levels (Tier 1/Tier 2, OPSRP) as of the valuation date

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# Actuarial Basis

## Data

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

Assets as of December 31, 2015, were based on values provided by Oregon PERS reflecting the Board's earnings crediting decisions for 2015.

## Methods / Policies

*Actuarial Cost Method:* Entry Age Normal, adopted effective December 31, 2012.

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

# Actuarial Basis

## Methods / Policies (cont'd)

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

*Expenses:* Tier 1/Tier 2 administration expenses are assumed to be equal to \$33.0M, while OPSRP administration expenses are assumed to be equal to \$5.5M. The assumed expenses are added to the respective normal costs.

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

## Assumptions

Assumptions for valuation calculations are as described in the 2014 Experience Study for Oregon PERS and presented to the PERS Board in July 2015.

## Provisions

Provisions valued are as detailed in the 2014 Valuation Report.

# Blended COLA

## **Moro Decision**

The Oregon Supreme Court decision in *Moro v. State of Oregon* stated that the reduced COLA amounts provided by Senate Bills 822 and 861 (both passed in 2013) only apply to benefits earned after the effective date of the legislation. According to the Court, PERS members who earned benefits before and after the effective date “will be entitled to receive during retirement a blended COLA rate that reflects the different COLA provisions applicable to benefits earned at different times.”

For purposes of the results in this presentation, a member’s blended COLA was based on creditable service earned before and after October 2013. This approach is consistent with OAR 459-005-0510 adopted by the PERS Board in September 2015.

The example below illustrates this blended COLA approach for a member with 30 years of service at retirement, 20 of which were earned prior to the effective date of the SB 861 COLA.

Annual Benefit COLA Applies to:	COLA prior to SB 822 & 861	SB 861 COLA	Blended COLA
<\$60,000	2.00%	1.25%	$\frac{(20/30) \times 2.00\% + (10/30) \times 1.25\%}{= 1.75\%}$
>\$60,000	2.00%	0.15%	$\frac{(20/30) \times 2.00\% + (10/30) \times 0.15\%}{= 1.38\%}$