



**OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**BOARD MEETING AGENDA**

**Monday**  
**April 1, 2019**  
**10:00 A.M.**

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

| ITEM  | PRESENTER        |
|---|------------------|
| <b>A. Administration</b>                                    |                  |
| 1. December 7, 2018 Board Meeting Minutes                   | SHENOY           |
| 2. Director's Report  | OLINECK          |
| a. Forward-Looking Calendar (including proposed 2020 dates) |                  |
| b. OPERF Investment Report                                  |                  |
| c. Budget Execution Report                                  |                  |
| 3. Oregon Investment Council Performance Review             | SKJERVEM         |
| 4. OSGP Advisory Committee Appointments                     | SMITH            |
| <b>B. Administrative Rulemaking</b>                         |                  |
| 1. Notice of Student Employees Rule                         | VAUGHN           |
| 2. Adoption of Waiting Time Purchases Rule                  |                  |
| 3. Adoption of Military Purchases Rule                      |                  |
| 4. Adoption of IRC and Social Security Limitations Rules    |                  |
| <b>C. Action and Discussion Items</b>                       |                  |
| 1. Legislative Update                                       | TAYLOR           |
| 2. Final 2018 Earnings Crediting and Reserving              | WILLIAMS, MARBLE |
| 3. Overview of Actuarial Methods & Economic Assumptions     | MILLIMAN         |

*Public testimony will be taken on action items at the Chair's discretion.*

*Please contact 503.603.7785 to notify staff of your request to provide testimony at the meeting or submit written testimony to [PERS.Board@state.or.us](mailto:PERS.Board@state.or.us) (three days in advance of the meeting is preferred.)*

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

**2019 Meetings:**    May 31\*    July 26\*    October 4    December 6\*    \*Audit Committee

Stephen Buckley    Steve Demarest    Lawrence Furnstahl, Vice Chair    Christelle deAsis    Sadhana Shenoy, Chair    Kevin Olineck, Director

# OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM BOARD MEETING MINUTES

February 1, 2019

**Board members present:**

Chair Sadhana Shenoy, Vice Chair Lawrence Furnstahl, Stephen Buckley, Christelle deAsis, and Steve Demarest were present.

**Staff present:**

Amanda Marble, Anne Marie Vu, Dean Carson, Elizabeth Rossman, Jessica Williams, Jason Stanley, Jordan Masanga, Katie Brogan, Kevin Olineck, Linda Barnett, Louise Plata, MaryMichelle Sosne, Marjorie Taylor, Michiru Farney, Roger Smith, Stephanie Vaughn, Yvette Elledge-Rhodes

**Others present:**

Amy Crooks, Andy Smusz, Brendan Watistn, Claire Havener, David Lacy, David Moore, Greg Hartman, James Strong, Jeff Gudman, Jeremy Morgan, Karl Cheng, Matt Larrabee, Nancy Brewer, Patrick Heath, Peter Wong, Scott Preppernau, Tahni Fagerberg, Trudy Vidal, Zach Horner

Chair Sadhana Shenoy called the meeting to order at 10:00 a.m.

**ADMINISTRATION**

A.1. MEETING MINUTES OF DECEMBER 7, 2018

Board member Buckley moved to approve the minutes submitted from the December 7, 2018 Board meeting. Board member deAsis seconded the approval of the minutes. The motion passed unanimously.

A.2. DIRECTOR'S REPORT

Director Kevin Olineck presented the second edition of the Director's Report. It is a summary of items that should be brought to the attention of the Board. The focus of this report is on the proposed reorganization of the agency.

Olineck presented the forward looking calendar. 2019 Board meetings will begin at 10:00 a.m. Given the system funded status, additional time will be spent at the April 1, 2019 meeting to set the stage for discussions on the setting of economic assumptions and assumed rate of return.

There will be a joint Board meeting with the Oregon Investment Council the afternoon of June 5, 2019. Each entity will discuss how they set their assumed rate of return and a discussion about liquidity and cash flow from both perspectives will follow.

The OPERF investment report for the period ending December 31, 2018 shows account earnings of 0.48 percent which is a decrease from what was reported at the last meeting.

The budget execution report shows a positive variance of 4.2%. PERS will request an increase in the non-limited budget, which is the amount needed to pay pensions that haven't been paid yet.

Some requests were approved at the December Emergency Board. Two additional staff were granted to assist in the Continuity Management Program and Information Security Program. The other request was to change how Oregon Savings Growth Plan (OSGP) fees are disclosed. This change ensures we are more closely following GASB rules.

PERS has been scheduled to present the initial phase of the 2019-21 budget to the Joint Committee on Ways and Means Subcommittee on General Government, February 21, 25, 26 and 27.

Jason Stanley, Chief Compliance Audit and Risk Officer presented the transactions of former Director Steven Rodeman (Item A.2.d.). This is an annual report required by the Oregon Accounting Manual. There were no unusual or inappropriate transactions. The former Director received a vacation payout when he left, which is in line with state policies.

### A.3. OSGP ADVISORY COMMITTEE APPOINTMENTS

Roger Smith, Program Manager for Oregon Savings Growth Plan (OSGP) presented. He is requesting the appointment of two new members to fill unexpired vacancies to the OSGP Advisory Committee. The nominees are Mary Jo Evers and Michael Marostica.

Vice Chair Furnstahl moved to appoint Mary Jo Evers and Michael Marostica to fill the OSGP Advisory Committee vacancies effective immediately. Board member deAsis seconded. The motion passed unanimously.

### ADMINISTRATIVE RULEMAKING

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

#### B.1. NOTICE OF WAITING TIME PURCHASES RULE

Staff has begun rulemaking for the Waiting Time Purchase Rule: OAR 459-011-0050, *Forfeiture and Restoration of Service Rights*. For Tier One and Tier Two members this rule clarifies that purchase of waiting time employment segment is only allowed if the member also purchased the associated forfeited time.

No Board action was required. A rulemaking hearing will be held February 26, 2019, 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 April 1, 2019 Board meeting.

#### B.2. NOTICE OF MILITARY PURCHASES RULE

Staff has begun rulemaking for the Military Purchase Rule: OAR 459-011-0115, *Military Full Cost Purchase*. The reason is to conform with SB 200 (2017), which removed the exclusion of periods of service for “active duty for training” from purchase eligibility, and made any type of “active service” eligible for the purchase, for members retiring after August 2, 2017.

No Board action was required. A rulemaking hearing will be held February 26, 2019, 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 April 1, 2019 Board meeting.

#### B.3. NOTICE OF IRC AND SOCIAL SECURITY LIMITATIONS RULES

Staff has begun rulemaking for the IRC and Social Security Limitations Rules: OAR 459-005-0525, *Ceiling on Compensation for Purposes of Contributions and Benefits*; OAR 459-005-0545, *Annual Addition Limitation*; OAR 459-017-0060, *Reemployment of Retired Members*; OAR 459-080-0500, *Limitation on Contributions*. This updates rules to reflect the 2019 Internal Revenue

Code (IRC) and Social Security annual compensation limitations for retirement contributions and benefits. These revisions incorporate federal adjustments and are necessary to ensure compliance with the IRC's limits on the amount of annual compensation allowed for determining contributions and benefits, annual benefits, and annual additions to PERS.

No Board action was required. A rulemaking hearing will be held February 26, 2019, 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 April 1, 2019 Board meeting.

## **ACTION AND DISCUSSION ITEMS**

### **C.1. LEGISLATIVE UPDATE**

Marjorie Taylor, Senior Policy Director, presented.

She reviewed upcoming legislative committees and groups which have requested presentations from PERS in the near future. She provided a list of bills that are being closely tracked. A number of the bills are similar to concepts that have been discussed in the past. Five policy papers have been refreshed for the 2019 legislative session. These policy papers are provided to stakeholders and committee members.

Taylor noted that SB 641 has bipartisan sponsors so there may be more opportunity to engage in discussion. Similar provisions are seen in other bills.

### **C.2. SB 1566 REPORTING REQUIREMENTS**

MaryMichelle Sosne, Actuarial Services Team, presented.

Two reports are required by annually by SB1566. The first report outlines how funds in the School Districts Unfunded Liability Fund (SDULF) will be distributed in the following biennium. PERS is not expecting to provide a rate offset in 2019-21.

The second report provides an update on the status of the Employer Incentive Fund, the School Districts Unfunded Liability Fund, and the Unfunded Actuarial Liability Resolution Program, as of January 2019. The administrative processes are in place, or have been outlined, and are ready for deployment as soon as revenue is available.

### **C.3. PRELIMINARY 2018 EARNINGS CREDITING AND RESERVING**

Jessica Williams, Chief Financial Officer and Amanda Marble, Financial Reporting Manager presented the preliminary rates for 2018.

Furnstahl moved to adopt the preliminary crediting of earnings as presented for calendar year 2018, subject to final adoption at the April 1, 2019 PERS Board meeting. Board member deAsis seconded. The motion passed unanimously. The preliminary earnings will be reported to the legislature.

Olineck noted that there will always be a lag in private equity returns due to the time it takes to value them.

C.4. UPDATE REFLECTING ON EARNINGS THROUGH DECEMBER 31, 2018

Scott Preppernau and Matt Larrabee of Milliman presented a preliminary estimate of system-wide December 31, 2018 results, updated with year-end 2018 returns published by Oregon State Treasury.

Shenoy adjourned the Board meeting at 11:07 a.m.

Respectfully submitted,



Kevin Olineck, Director



## OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM DIRECTOR'S REPORT

KEVIN OLINECK, DIRECTOR

### TELLING THE PERS STORY INCLUSION OF ALL THE DETAILS

My opening lines, when I have an opportunity to talk publicly about PERS, are as follows: "Similar to my predecessor, Steve Rodeman, one of my objectives is to be seen as the purveyor of facts and data regarding PERS, so that stakeholders, such as yourselves, can make informed decisions about PERS. While I may not have the encyclopedic knowledge of PERS, the System that Steve had, I will try my best to provide you the appropriate information in a context that enables a better understanding of PERS."

In the past few months, I have had ample opportunity to open up with those lines in multiple venues. I strongly believe this is one of my major roles - providing facts and data about PERS, the System at a time when there is a lot of discussion around PERS. Overall, there needs to be an increase to the base level of understanding about PERS, so that a more grounded conversation can take place about the system, one that is not based on a singular point of view, one set of facts or a distinct bias.

Several factors must be considered to best understand PERS, the System.

*For example, providing the appropriate facts and data of the system, within the context of historical decisions and their long-term implications, allows one to see the picture as a whole.*

Furthermore, the role of the Board in overseeing the system, conveying what changes to the system would be more symbolic than substantive, and illustrating the overall complexity of the system as it is currently constructed, all help add the details that allow for greater comprehension of PERS, the System. All of the audiences have been interested in learning more about PERS, and I appreciate their lines of questioning, as they truly seek to understand the PERS system.

The following are two of the more important opportunities that I, and other staff, have had to tell this complicated story.

#### PHASE I BUDGET PRESENTATIONS TO JOINT COMMITTEE ON WAYS AND MEANS, GENERAL BUDGET SUBCOMMITTEE

Phase I Budget presentations took place over four days in late February. The first two days were broken down into a System Overview and an Agency Overview, where enterprise-level views of the System and the Agency were provided. Without understanding context, it is more difficult to understand and appreciate the long-term plans of the agency and the importance of being able to support

these plans. The third day provided an in-depth view of the agency, the functions within our divisional structure and the budget requests associated with those divisions.

There were three budgetary themes on which the presentations focused:

1. Compliance with government mandated objectives, such as continuing to build out our information security and continuity management plans.
2. Maintaining our current service levels.
3. Progressing our Strategic Plan objectives and goals.

Day Four provided a report on Preliminary Earnings and Crediting, as well as an update on implementation of Senate Bill 1566.

The General Government Subcommittee was engaged throughout all four days of presentations, and showed this by asking a lot of questions. I was impressed by the level of inquiry, as they sought to understand more about PERS, the System, as well as PERS, the Agency. This will make for more informed discussions as the agency moves into Phase II budget presentations later this session.

#### JOINT COMMITTEE ON WAYS AND MEANS CAPITAL CONSTRUCTION SUBCOMMITTEE

The Capital Construction Subcommittee is going through a series of meetings with a focus on PERS' System Financing. By this, I mean that the discussion has not been centered on benefit changes, but more around understanding the state of the PERS system, its current funded status, and the factors or elements that impact the funded status.

To date, there have been four meetings of this subcommittee. The first day was a System Overview, very similar to what was presented at the budget meetings. The second day was an in-depth review of the system assets and liabilities, and their evolution over time. Day three was focused on earnings and expenses. John Skjervem, from the Oregon Investment Council, presented the asset side earnings and expenses, while I presented the PERS expense perspective, using CEM Benchmarking results as the basis of discussion. Additionally, Laura Lockwood-McCall from State Treasury gave a presentation on Pension Obligation Bonds. Day Four consisted of a more in-depth review of how employer contribution rates are set, as well as an

**JOINT COMMITTEE ON WAYS AND MEANS**  
**CAPITAL CONSTRUCTION SUBCOMMITTEE, CTD**

overview of how employee contributions fund the Individual Account Program and the Oregon Savings Growth Plan.

There are a few more sessions still to take place. The first is to review high level thoughts around what the committee learned over the course of the four weeks of testimony, and see if there are any recommendations that the committee may make. This will be followed by one session for public testimony.

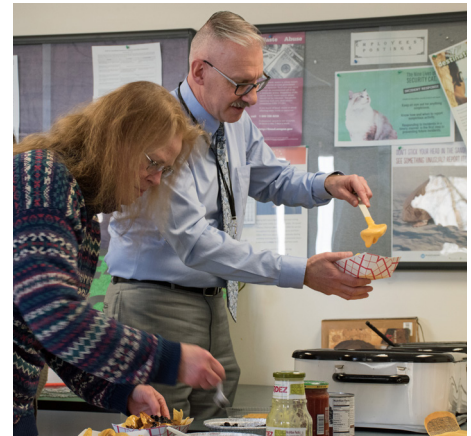
This committee was also actively engaged in seeking to understand more about the PERS system. This review of PERS' system finances will enable the committee to have more informed discussions around possible PERS financing reforms, as the current legislative session progresses.

As was noted to the Board a few weeks ago, Senator Peter Courtney requested a letter from the agency with regard to System and Agency Fatigue, which we provided to him, and the rest of the subcommittee, as well as to the Board. I believe the recognition from Senator Courtney, and others, with respect to the impact of all the changes made to PERS over the years, was an unexpected, yet positive, outcome of the discussions to date.

There have been other recent opportunities to tell the PERS story by both myself, and other staff, in testifying at Senate Workforce Committees around bills that impact PERS, by presenting a PERS System Overview to the House Democratic Caucus, and as a presentation to the Joint Legislative Committee on Information Management & Technology (JLCIMT).

I expect, as we move further into the current legislative session and Phase II budget presentations, further Capital Construction Subcommittee meetings, and JLCIMT meetings, PERS will have even more opportunities to tell our story, which will help shape the future PERS story as a result.

While there have been a few staff, along with myself, who have been the primary spokespersons for the agency at the meetings noted above, I'd be remiss if I didn't recognize the significant behind-the-scenes efforts of staff who assist in the preparation of these materials. I believe the positive responses from the various audiences, based on the high level of professionalism of our presentations, is a direct result of a large group of staff throughout the organization – too many to mention in this report. I can attest that it is much easier to be seen to be the purveyor of facts and data when you have such a strong supporting cast, and I want to publicly acknowledge that.



**STAFF SUPPORTED EVENTS**  
**2019 GOVERNOR'S STATE EMPLOYEES**  
**FOOD DRIVE**

PERS staff enthusiastically participated in this year's food drive to raise funds and collect food for the many regional food banks throughout Oregon. This year, through several in-house events, such as a nacho and pizza sale (pictured), raffles, and auctions, staff raised over \$14,100 and collected 843 pounds of food through various activities held during the month of February. This equates to almost 43,000 meals!



Photo credits: Radford Bean

## PERS Board Meeting Forward-Looking Calendar

### Friday, May 31, 2019\*

2019 Legislative Session Update  
 Board Scorecard Report on Agency Performance Measures  
 2020 Retiree Health Insurance Plan Renewals and Rates  
 Overview of Actuarial Methods and Economic Assumptions  
 Adoption of Student Employees Rule  
 Notice of Participation of Public Employers Rule  
 Notice of Receipt Date Rule

### Wednesday, June 5, 2019 (Joint Meeting with OIC at Treasury)

Overview of Assumption Setting  
 Cash Flow Dynamics  
 Adoption of Participation of Public Employers Rule  
 Adoption of Receipt Date Rule

### Friday, July 26, 2019\*

2019 Legislative Session Review  
 Strategic Plan Update  
 Adoption of Valuation Methods and Assumptions including Assumed Rate of Return  
 Adoption of Assumed Rate Oregon Administrative Rule

### Friday, October 4, 2019

Member and Employer Survey Results  
 System Valuation Results – Advisory Employer Rates

### Friday, December 6, 2019\*

Board Scorecard Report on Agency Performance Measures  
 Valuation Update and Financial Modeling Results  
 Adoption of Actuarial Equivalency Factor Tables

### Proposed 2020 Meeting Dates

10:00 a.m. Start Times

- Friday, January 31
- Monday, March 30\*
- Friday, May 29
- Friday, July 31\*
- Friday, October 2
- Friday, December 4\*

\* Proposed Audit Committee Meetings

\*Audit Committee planned for post-Board meeting



Returns for periods ending FEB-2019

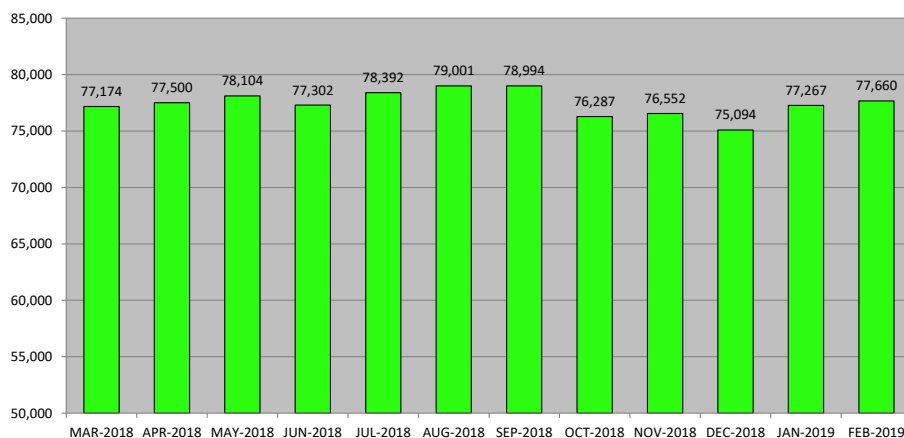
Oregon Public Employees Retirement Fund

| 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                       | 32.5-42.5%          | 37.5%               | \$ 26,796,152             | 35.8%         | 11.11                                      | (1.46)        | 8.46        | 13.45        | 6.44        | 6.41        | 9.06        | 13.60        |
| Private Equity                      | 13.5-21.5%          | 17.5%               | \$ 15,923,640             | 21.3%         | (1.45)                                     | 14.50         | 16.97       | 13.23        | 11.71       | 12.54       | 13.32       | 11.50        |
| <b>Total Equity</b>                 | <b>50.0-60.0%</b>   | <b>55.0%</b>        | <b>\$ 42,719,792</b>      | <b>57.1%</b>  |  |               |             |              |             |             |             |              |
| Opportunity Portfolio               | 0-3%                | 0%                  | \$ 1,647,996              | 2.2%          | 0.60                                       | 7.48          | 7.17        | 8.42         | 6.40        | 6.44        | 8.98        | 11.73        |
| <b>Total Fixed</b>                  | <b>15-25%</b>       | <b>20.0%</b>        | <b>\$ 15,524,594</b>      | <b>20.7%</b>  | <b>1.47</b>                                | <b>3.32</b>   | <b>2.17</b> | <b>2.73</b>  | <b>1.96</b> | <b>2.20</b> | <b>2.96</b> | <b>6.46</b>  |
| Real Estate                         | 9.5-15.5%           | 12.5%               | \$ 8,183,495              | 10.9%         | 1.28                                       | 8.36          | 9.26        | 9.51         | 9.05        | 10.06       | 10.83       | 8.17         |
| Alternative Investments             | 0-12.5%             | 12.5%               | \$ 6,764,237              | 9.0%          | (0.40)                                     | (4.66)        | 2.42        | 3.64         | 1.44        | 2.15        | 2.42        |              |
| Cash w/Overlay                      | 0-3%                | 0%                  | \$ 9,505                  | 0.0%          | 0.70                                       | 2.59          | 1.90        | 1.69         | 1.40        | 1.22        | 1.13        | 1.18         |
| <b>TOTAL OPERF Regular Account</b>  |                     | <b>100.0%</b>       | <b>\$ 74,849,619</b>      | <b>100.0%</b> | <b>3.88</b>                                | <b>3.82</b>   | <b>8.46</b> | <b>9.89</b>  | <b>6.56</b> | <b>6.93</b> | <b>8.53</b> | <b>10.67</b> |
| OPERF Policy Benchmark              |                     |                     |                           |               | 2.82                                       | 2.78          | 8.36        | 10.40        | 6.92        | 7.45        | 9.08        | 10.66        |
| Value Added                         |                     |                     |                           |               | 1.06                                       | 1.04          | 0.09        | (0.51)       | (0.36)      | (0.52)      | (0.55)      | 0.02         |
| <b>Target Date Funds</b>            |                     |                     | <b>2,305,648</b>          |               |  |               |             |              |             |             |             |              |
| <b>TOTAL OPERF Variable Account</b> |                     |                     | <b>\$ 505,061</b>         |               | <b>11.12</b>                               | <b>(0.65)</b> | <b>8.75</b> | <b>13.28</b> | <b>6.43</b> | <b>6.58</b> | <b>8.80</b> | <b>13.31</b> |

Asset Class Benchmarks:

|                                     |        |        |       |       |       |       |       |       |
|-------------------------------------|--------|--------|-------|-------|-------|-------|-------|-------|
| Russell 3000                        | 12.40  | 5.05   | 10.50 | 15.53 | 9.18  | 10.15 | 12.88 | 16.81 |
| OREGON MSCI ACWI EX US IMI NET      | 9.72   | (7.05) | 6.50  | 10.62 | 3.15  | 2.60  | 4.61  | 9.99  |
| MSCI ACWI IMI NET                   | 11.15  | (1.04) | 8.34  | 12.91 | 6.01  | 6.19  | 8.41  | 13.05 |
| RUSSELL 3000+300 BPS QTR LAG        | (9.31) | 4.88   | 15.84 | 16.68 | 12.96 | 14.57 | 18.66 | 14.53 |
| OREGON CUSTOM FI BENCHMARK          | 1.33   | 3.30   | 2.01  | 2.20  | 1.65  | 1.89  | 2.42  | 4.03  |
| OREGON CUSTOM REAL ESTATE BENCHMARK | 1.01   | 7.48   | 7.74  | 8.12  | 9.44  | 9.80  | 10.14 | 6.53  |
| CPI +4%                             | 1.27   | 5.58   | 5.93  | 6.23  | 5.94  | 5.54  | 5.56  | 5.80  |
| 91 Day Treasury Bill                | 0.38   | 2.04   | 1.51  | 1.13  | 0.87  | 0.70  | 0.53  | 0.41  |

**Total OPERF NAV**  
(includes Variable Fund asset)  
One year ending FEB-2019  
(\$ 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.



# 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)

April 1, 2019

TO: Members of the PERS Board  
FROM: Linda M. Barnett, Budget Officer  
SUBJECT: April 2019 Board Report

### 2017-19 OPERATING BUDGET

Operating expenditures for January 2019, and preliminary expenditures for February 2019, were \$4,363,853 and \$4,274,280 respectively. Final expenditures for February closed in the Statewide Financial Management System (SFMS) on March 15, 2019, and will be included in the May 2019 report to the Board.

#### OPERATING BUDGET NOTES

- To date, through the first 20 months (or 83.3%) of the 2017-19 biennium, the agency has expended a total of \$76,372,533 or 75.1% of PERS' adjusted legislatively approved operations budget of \$101,657,012.
- At this time, the agency's projected positive variance is \$4,402,961 or approximately 4.3% of the operating budget.

### 2017-19 NON-LIMITED BUDGET

The approved budget includes \$11,075,113,522 in total estimated non-limited budget expenditures. Non-limited budget expenditures include benefit payments, health insurance premiums, and third-party administration payments for both the PERS Health Insurance Program and the Individual Account Program (IAP).

Retirement benefits have exceeded the estimated budget for 2017-19. In March, PERS requested an increase in non-limited budget of \$100,000,000 through the DAS Chief Financial Office and the Legislative Fiscal Office in order to meet the needs of the pension expenditures.

### 2019-21 BUDGET

PERS completed Phase 1 of the 2019-21 budget presentation to the Ways and Means General Government Subcommittee. PERS continues to work with the Legislative Fiscal Office in refining the budget request. Phase 2 of this process is anticipated to occur in April.

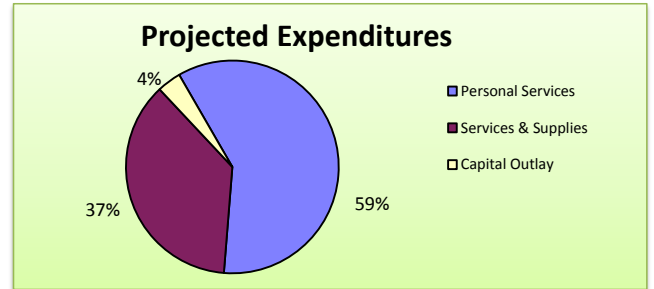
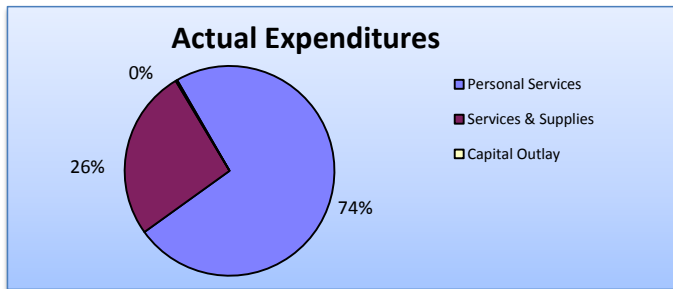
*A.2.c. Attachment – 2017-19 Agency-wide Budget Execution Summary Analysis*

**2017-19 Agency-wide Budget Execution  
Summary Budget Analysis  
Preliminary Summary for the Month of February 2019**

**Limited - Operating Budget**

**2017-19 Biennial Summary**

| Category            | Actual Exp. To Date | Projected Expenditures | Total Est. Expenditures | 2017-19 LAB        | Variance         |
|---------------------|---------------------|------------------------|-------------------------|--------------------|------------------|
| Personal Services   | 56,067,081          | 12,446,317             | 68,513,398              | 73,511,089         | 4,997,691        |
| Services & Supplies | 20,112,827          | 7,672,653              | 27,785,480              | 26,851,571         | (933,909)        |
| Capital Outlay      | 192,625             | 762,548                | 955,173                 | 1,294,352          | 339,179          |
| <b>Total</b>        | <b>76,372,533</b>   | <b>20,881,518</b>      | <b>97,254,051</b>       | <b>101,657,012</b> | <b>4,402,961</b> |



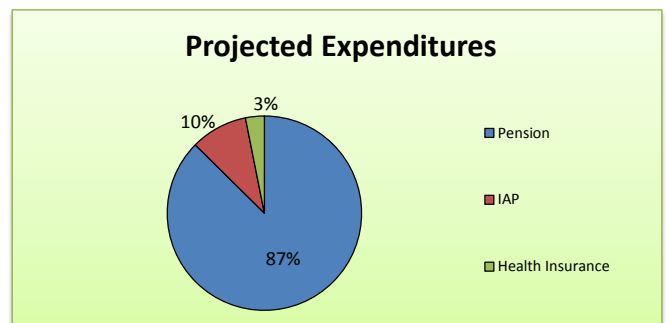
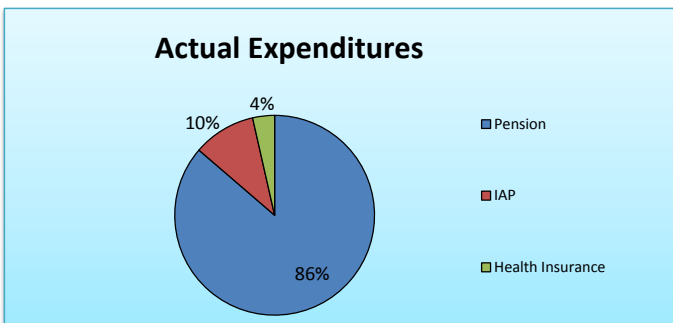
**Monthly Summary**

| Category            | Actual Exp.      | Projections      | Variance       | Avg. Monthly Actual Exp. | Avg. Monthly Projected Exp. |
|---------------------|------------------|------------------|----------------|--------------------------|-----------------------------|
| Personal Services   | 2,923,543        | 3,104,864        | 181,321        | 2,803,354                | 3,111,579                   |
| Services & Supplies | 1,350,737        | 1,406,950        | 56,213         | 1,005,641                | 1,918,163                   |
| Capital Outlay      | 0                | 0                | 0              | 9,631                    | 190,637                     |
| <b>Total</b>        | <b>4,274,280</b> | <b>4,511,814</b> | <b>237,534</b> | <b>3,818,626</b>         | <b>5,220,379</b>            |

**Non-Limited Budget**

**2017-19 Biennial Summary**

| Programs         | Actual Exp To Date   | Projected Expenditures | Total Est. Expenditures | Non-Limited LAB       | Variance            |
|------------------|----------------------|------------------------|-------------------------|-----------------------|---------------------|
| Pension          | 7,564,704,365        | 2,019,280,438          | 9,583,984,803           | 9,122,000,000         | (461,984,803)       |
| IAP              | 889,084,561          | 218,681,818            | 1,107,766,379           | 1,056,900,000         | (50,866,379)        |
| Health Insurance | 310,929,507          | 72,432,833             | 383,362,340             | 815,271,000           | 431,908,660         |
| <b>Total</b>     | <b>8,764,718,433</b> | <b>2,310,395,089</b>   | <b>11,075,113,522</b>   | <b>10,994,171,000</b> | <b>(80,942,522)</b> |



April 1, 2019

PERS Board Presentation

# 2018 and Cumulative Investment Performance

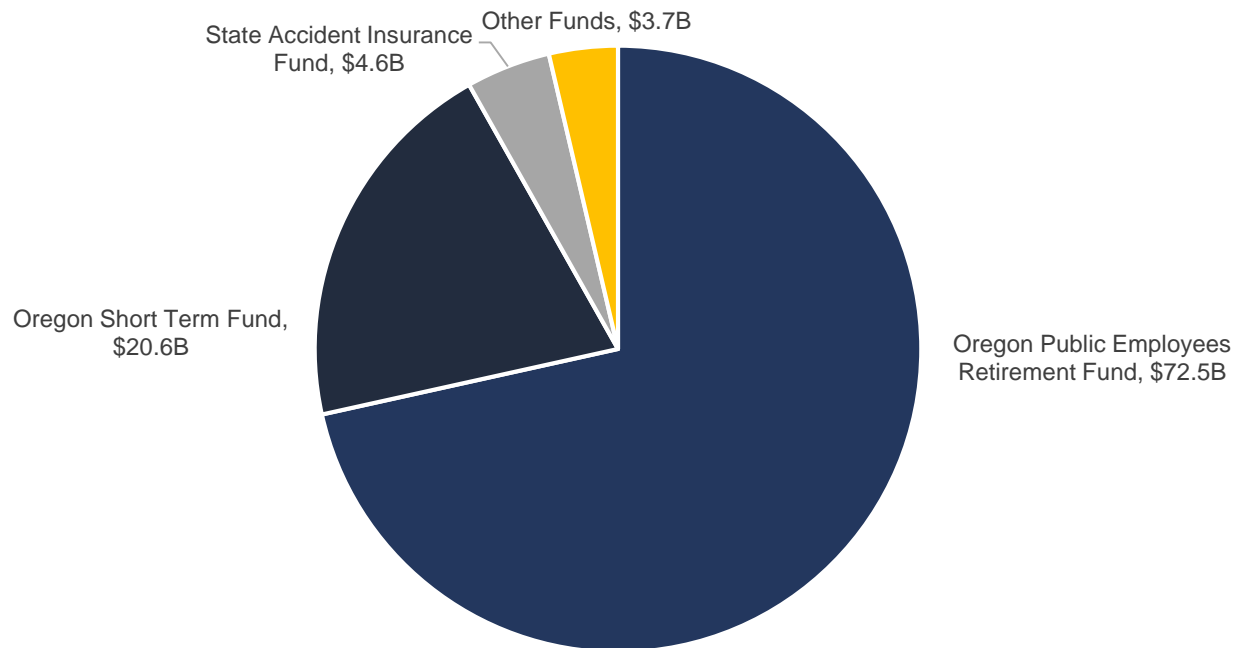
**John D. Skjervem**  
Chief Investment Officer



OREGON  
STATE  
TREASURY



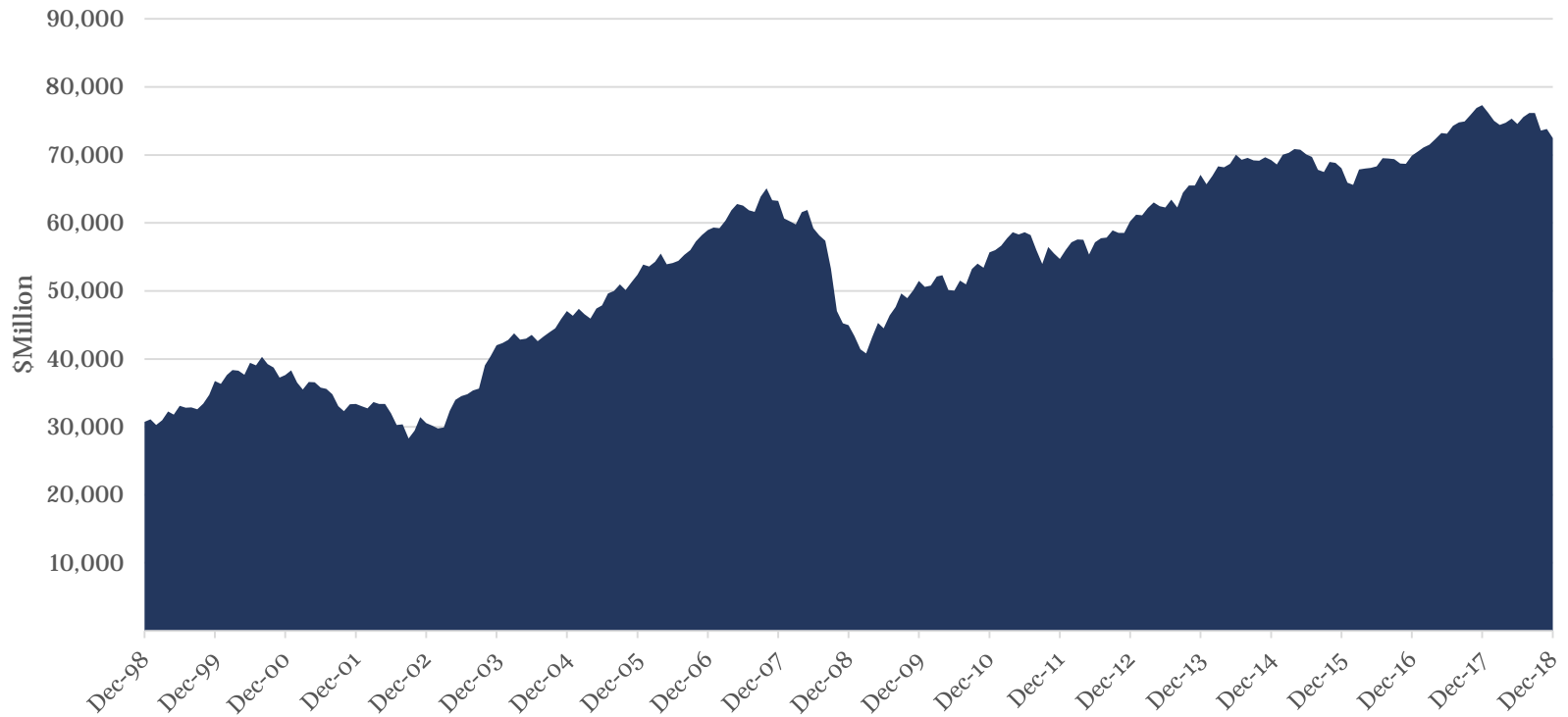
# Oregon State Treasury Assets Under Management (as of December 31, 2018)



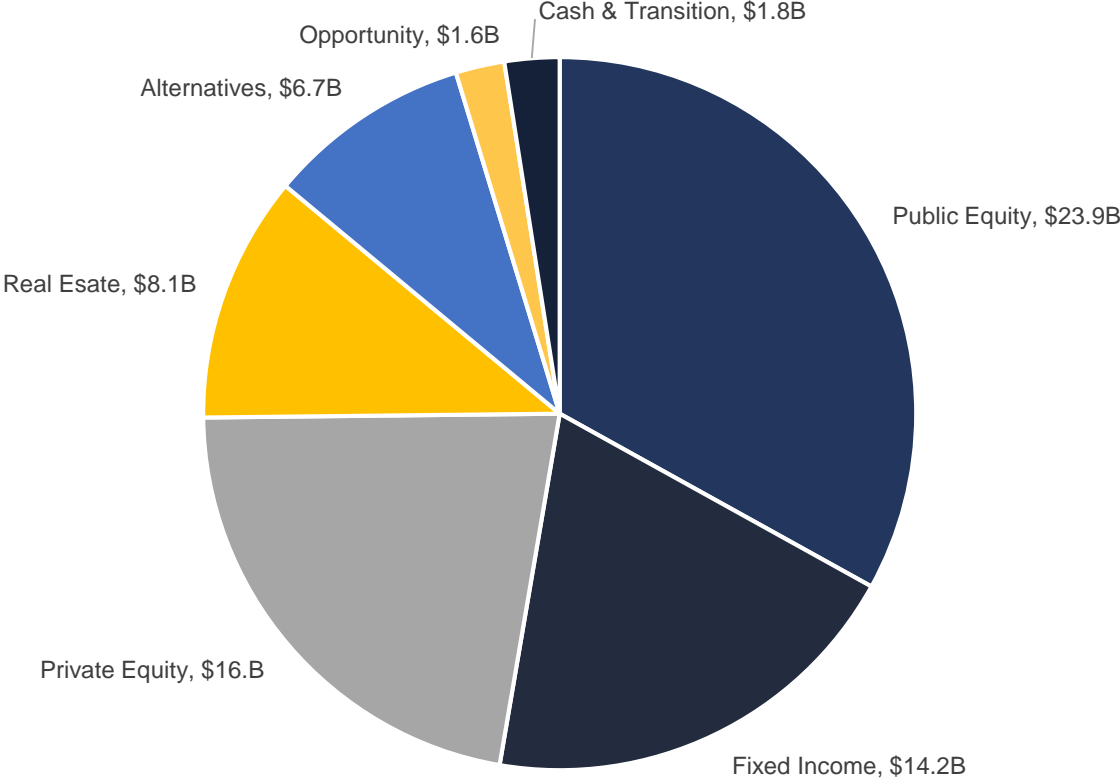
Total Assets: \$100.7 billion



# OPERF 20-Year Net Asset Value History

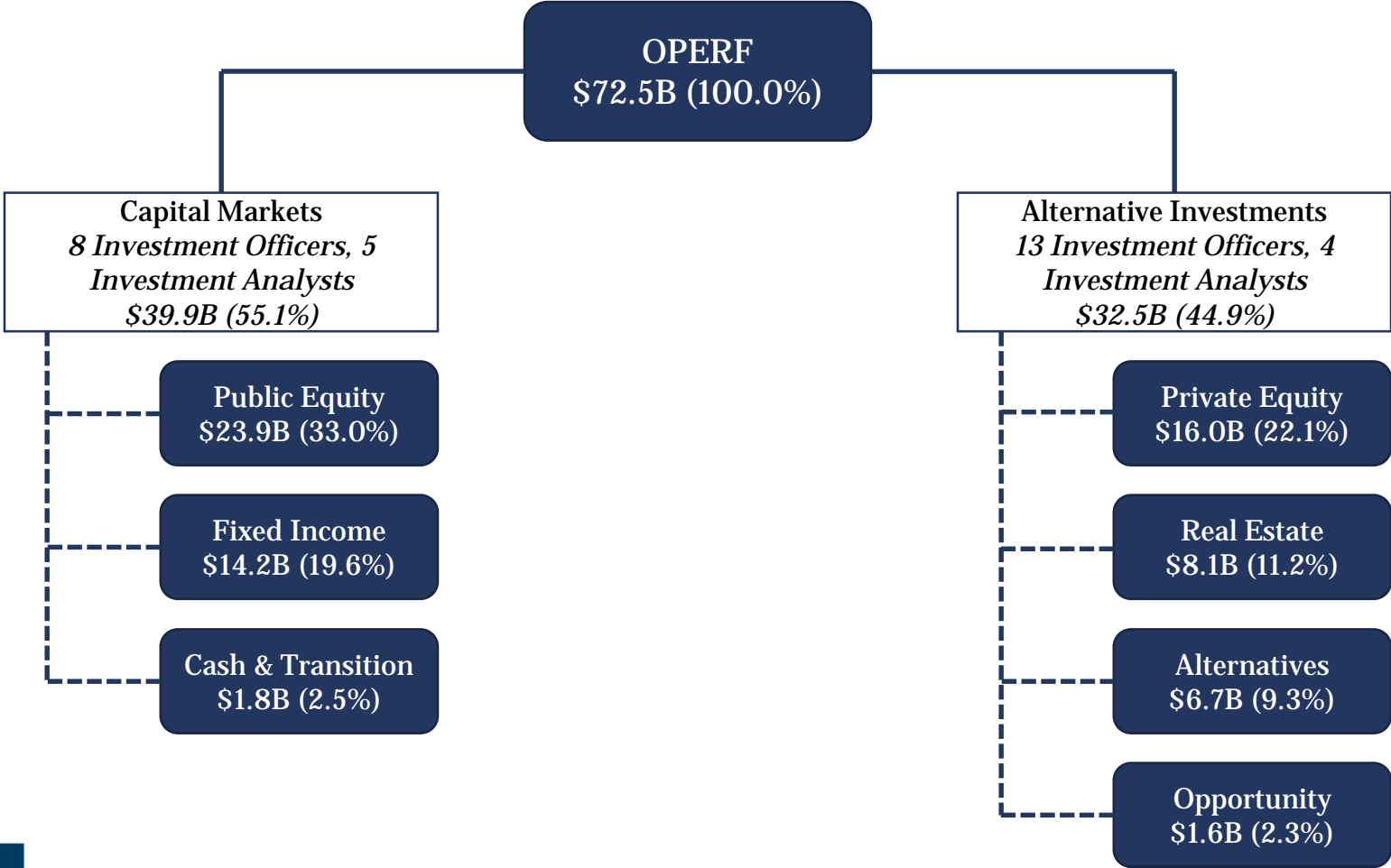


# Oregon Public Employees Retirement Fund Asset Allocation (Asset values as of December 31, 2018)



# Oregon Public Employees Retirement Fund Asset Allocation

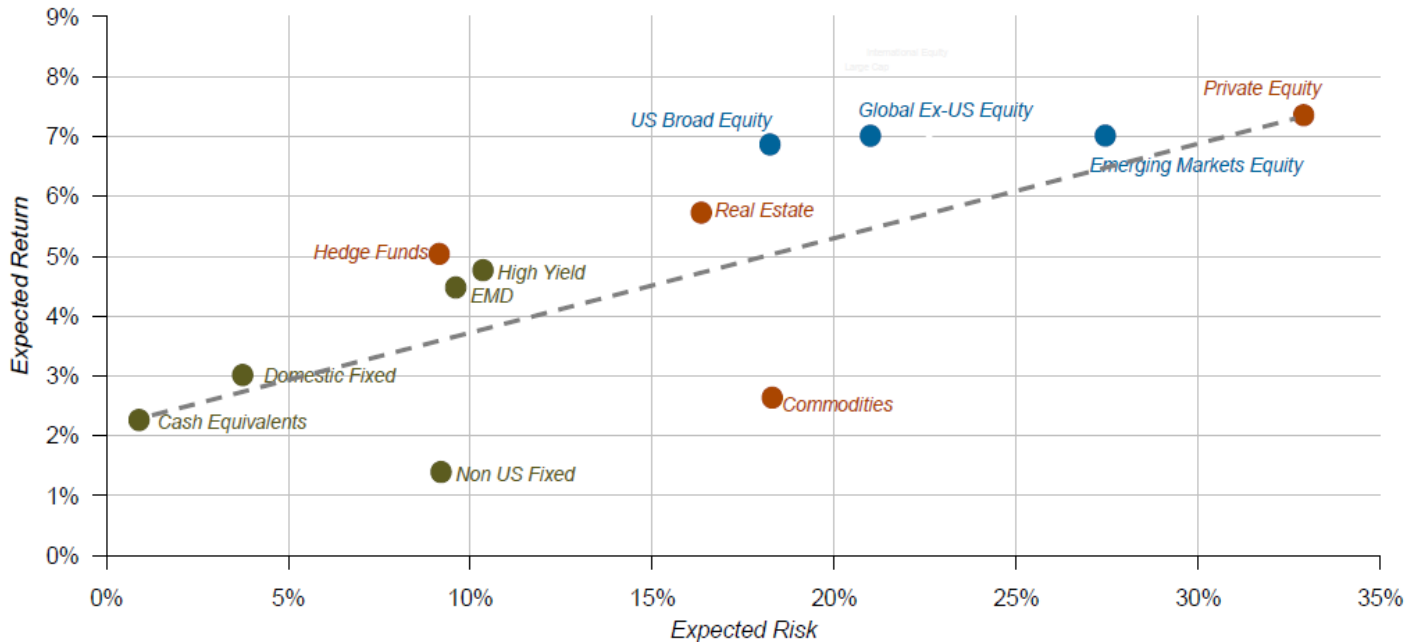
(Assets as of December 31, 2018, FTEs as of today)





# Relationship Between Risk and Return

Depicts Callan's Standard Assumptions of Return and Risk for Asset Classes Shown

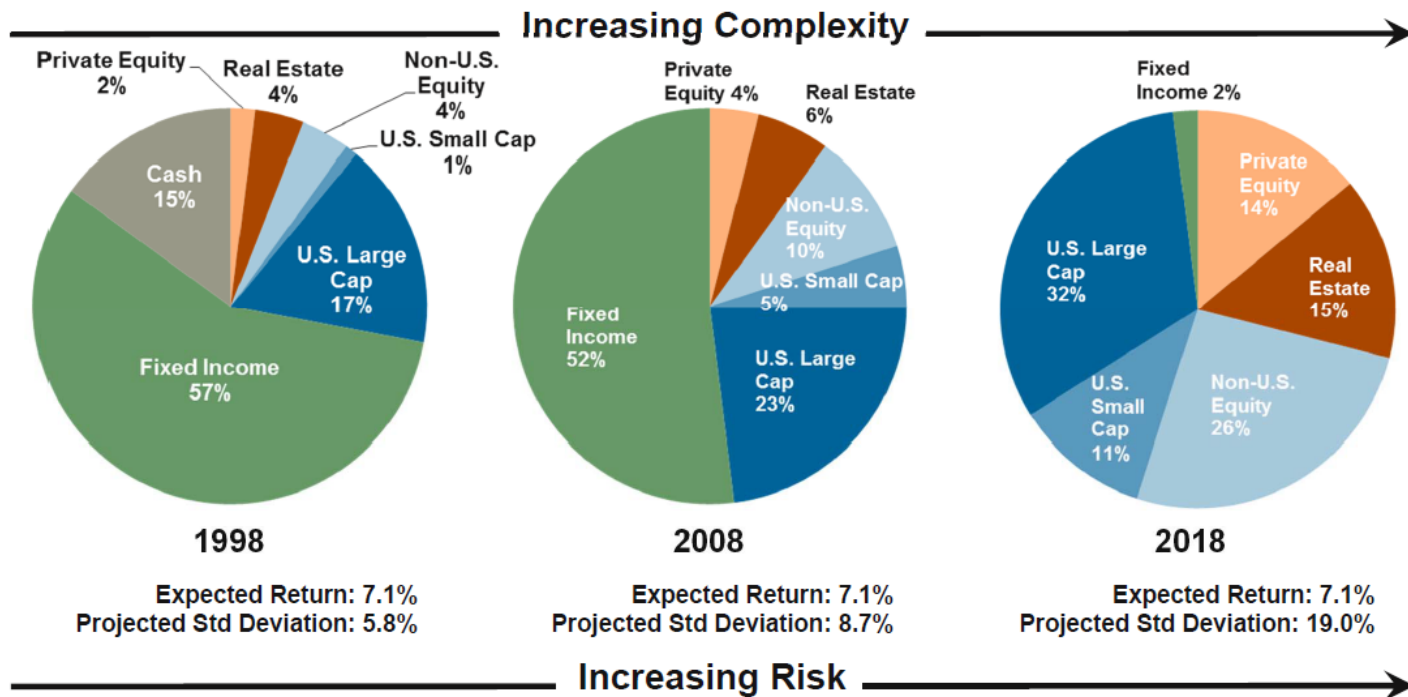


- Modern portfolio theory assumes investors are risk averse.
  - Given a choice between two assets with the same level of return, an investor will select the asset with a lower level of risk.
  - The risk premium demanded by investors provides evidence of risk aversion.
    - For example, investors demand a greater return from private equity over public equity for the increased risk they are assuming.

Source: Callan LLC; April 2018 OIC Meeting Materials.



# Expected Portfolio Returns Over Past 20 Years

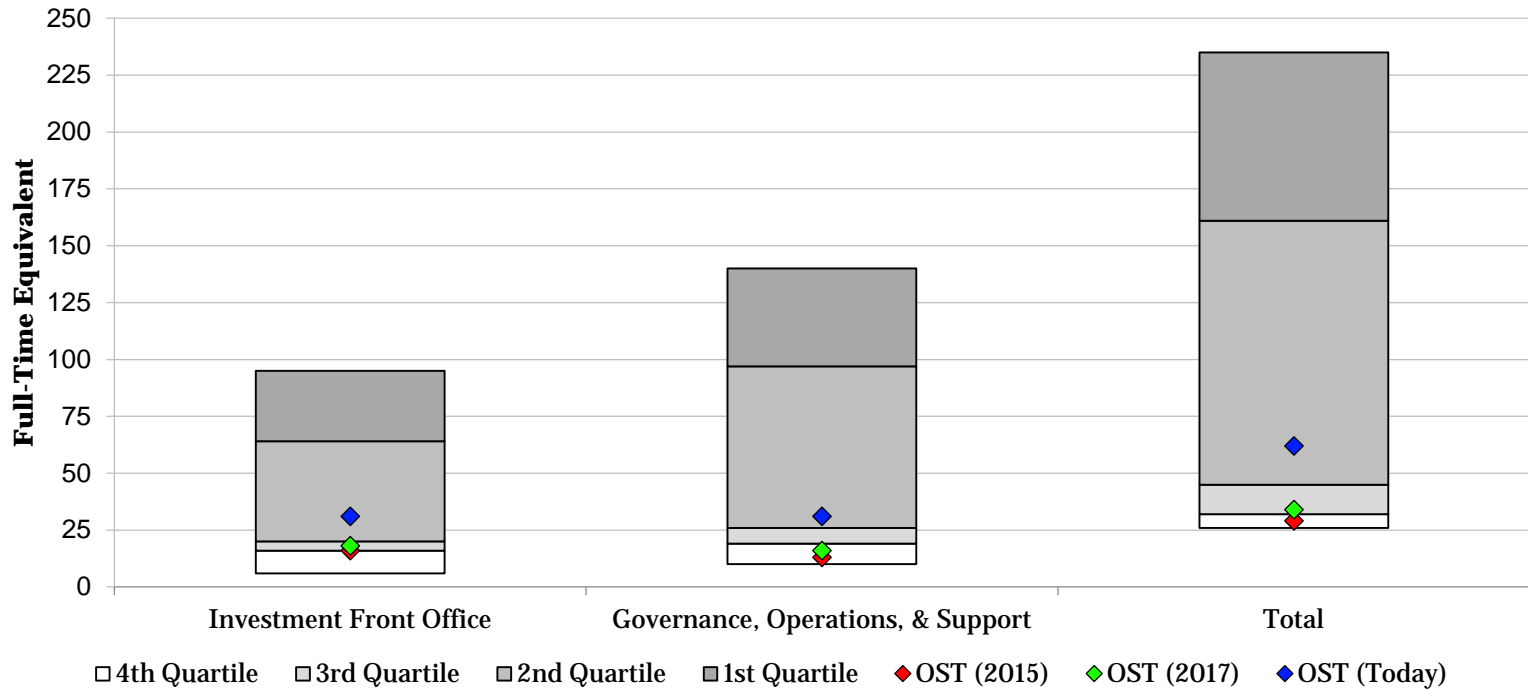


- In 1998, with cash and broad U.S. fixed income return expectations of 4.8% and 6.6%, respectively, an investor could have an almost three-quarters' allocation to these low risk asset classes and still expect to earn 7.1%.
- Ten years later, an investor needed a 48% allocation to relatively risky, return-seeking assets to achieve 7.1%.
- By 2018, that same investor had to “risk-up” the portfolio much further to a 98% allocation to return-seeking assets in order to earn 7.1%.
- Bottom line: total portfolio risk required to achieve a 7.1% return more than tripled from 5.8% in 1998 to 19% in 2018.

Source: Callan LLC; April 2018 OIC Meeting Materials.



# OST Staffing Compared to Peers



Ranking based on custom peer group of 10 global asset owners of similar size and portfolio composition using December 2017 data.

Source: CEM Benchmarking



# OPERF Investment Performance

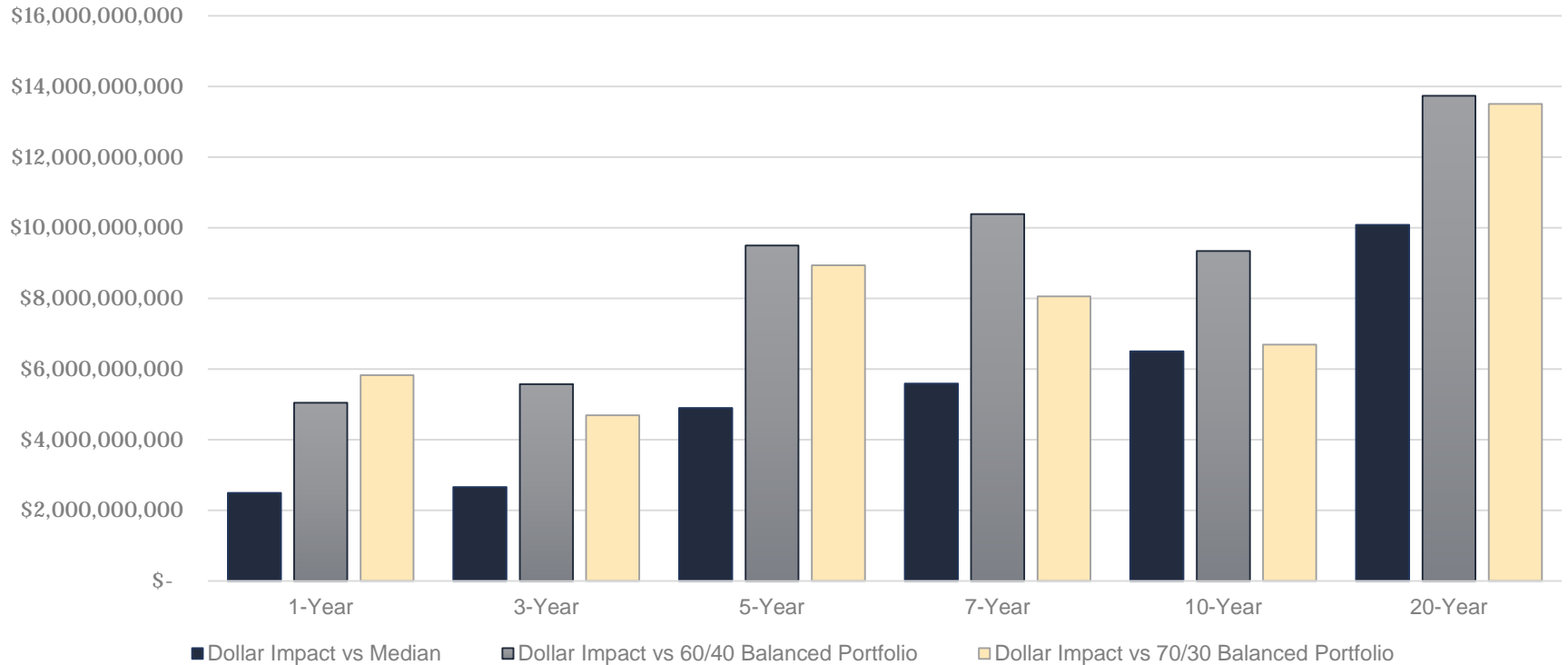
## (as of December 31, 2018)

| <b>Annualized Return</b>              | <b>1-Year</b>    | <b>3-Year</b>    | <b>5-Year</b>    | <b>7-Year</b>    | <b>10-Year</b>   | <b>20-Year</b>   |
|---------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Russell 3000                          | -5.24%           | 8.97%            | 7.91%            | 12.46%           | 13.18%           | 5.96%            |
| S&P 500                               | -4.38%           | 9.26%            | 8.49%            | 12.70%           | 13.12%           | 5.62%            |
| Russell 2000                          | -11.01%          | 7.36%            | 4.41%            | 10.44%           | 11.97%           | 7.40%            |
| MSCI ACWI ex-US IMI                   | -14.76%          | 4.39%            | 0.84%            | 5.07%            | 6.97%            | 4.59%            |
| MSCI Emerging Markets                 | -14.58%          | 9.25%            | 1.65%            | 3.23%            | 8.02%            | 8.52%            |
| Bloomberg Barclays U.S. Aggregate     | 0.01%            | 2.06%            | 2.52%            | 2.10%            | 3.48%            | 4.55%            |
|                                       |                  |                  |                  |                  |                  |                  |
| <b>Fund Performance (Net of Fees)</b> | <b>1-Year</b>    | <b>3-Year</b>    | <b>5-Year</b>    | <b>7-Year</b>    | <b>10-Year</b>   | <b>20-Year</b>   |
| <b>OPERF (Ranking<sup>1</sup>)</b>    | <b>0.48% (9)</b> | <b>7.49% (9)</b> | <b>6.33% (5)</b> | <b>8.72% (1)</b> | <b>9.46% (1)</b> | <b>7.08% (1)</b> |
| Domestic Equity                       | -7.87%           | 8.38%            | 6.75%            | 11.80%           | 13.10%           | 6.41%            |
| International Equity                  | -14.88%          | 5.09%            | 1.89%            | 6.45%            | 8.00%            | 5.86%            |
| Fixed Income                          | 0.25%            | 2.34%            | 2.21%            | 3.16%            | 6.28%            | 5.36%            |
| Private Equity                        | 18.15%           | 13.78%           | 12.87%           | 13.56%           | 11.66%           | 12.00%           |
| Real Estate                           | 8.03%            | 8.65%            | 9.98%            | 10.90%           | 7.70%            | 10.30%           |

<sup>1</sup> Relative to Wilshire Trust Universe Comparison Service (TUCS) Public Funds > \$10 Billion peer group. Percentile rankings based on estimated gross returns for Fund and peer group.

# OPERF Performance Impact in \$\$\$ (as of December 31, 2018)

Estimated Contribution to Total Return



**Notes:**

OPERF vs Median reflects gross performance compared to TUCS Universe Median > \$10 Billion. OPERF vs Balanced Portfolios reflects net performance. The 60/40 Balanced Portfolio consists of 60% MSCI IMA, 40% Bloomberg Barclays Aggregate. The 70/30 Balanced Portfolio consists of 70% MSCI IMA, 30% Bloomberg Barclays Aggregate.



# OPERF Fees by Asset Class (2017)

| Asset Class    | Fees (\$M)   | Fees (bps)  |
|----------------|--------------|-------------|
| Public Equity  | 82.3         | 10.8        |
| Fixed Income   | 21.9         | 2.9         |
| Private Equity | 316.6        | 41.5        |
| Real Estate    | 71.7         | 9.4         |
| Alternatives   | 54.2         | 7.1         |
| Other          | 5.1          | 0.7         |
| <b>Total</b>   | <b>551.7</b> | <b>72.4</b> |

- The vast majority of the fees listed are external manager fees paid from Fund capital. Included in the individual lines is the annual 0.03% (0.0003) fee that OST charges for Fund oversight, or \$18.1 million in 2017.
- Private Equity has been and will remain OPERF's most expensive asset class exposure. Private Equity also has been (and is expected to remain) OPERF's most productive asset class exposure. Since inception, OPERF's allocation to Private Equity has delivered *net* returns exceeding the Russell 3000 listed equity (i.e., stock) index by over 3%. That excess return has equated to *billions* of incremental funding for OPERF relative to a generic index fund alternative.



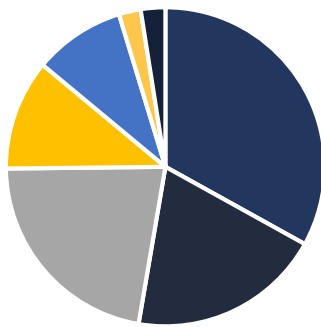
# OPERF Investment Fee Comparison (2017)

OPERF is a large and complex institutional investment fund. Compared to its U.S. public pension peers, OPERF has a much higher allocation to “Alternative” investments (e.g., Private Equity, Private Real Estate, Infrastructure, Ag, Timber, etc.), and a lower allocation to traditional investments in listed equities (i.e., stocks) and fixed income securities (i.e., bonds).

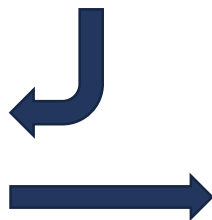
CEM Benchmarking, a global investment cost and benchmark consultant for institutional asset owners, applied the *median fee* of its Global Leaders composite to OPERF’s asset allocation in order to estimate a *Cost Benchmark* that adjusts for OPERF’s more complex asset allocation model. This adjustment enables a true, apples-to-apples cost comparison.

When this adjustment is applied, **CEM concludes that OPERF’s costs are below median relative to its Global Leaders peer group.**

OPERF Asset Allocation



CEM Benchmarking Median Fees

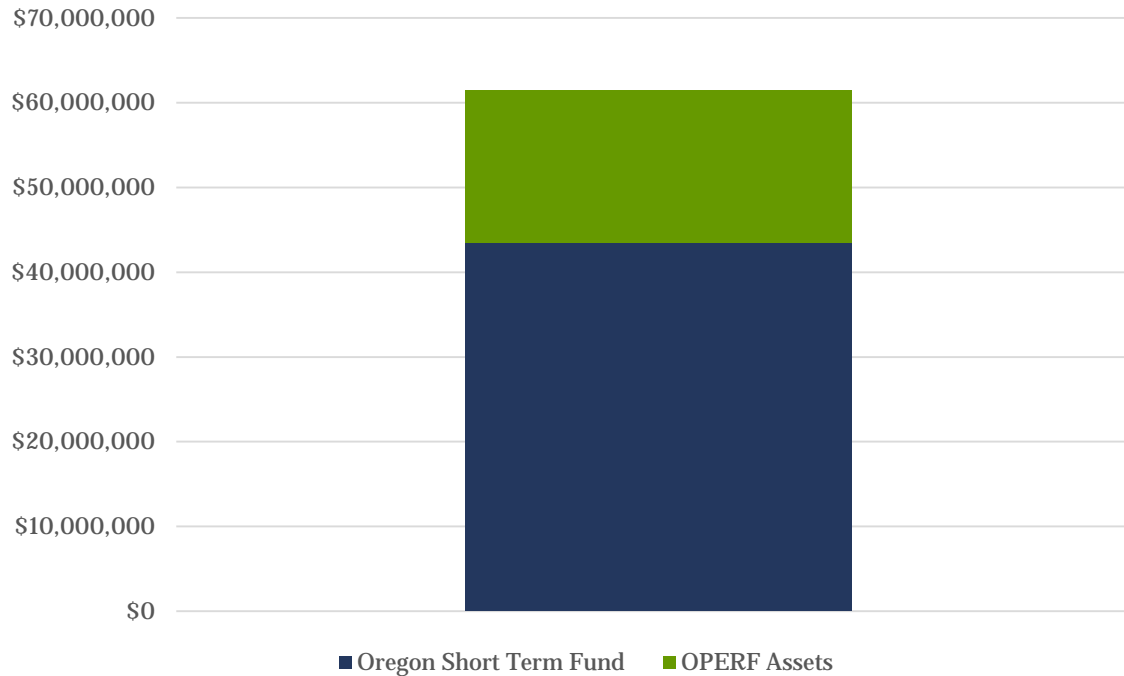


|                                | Millions     | bps         |
|--------------------------------|--------------|-------------|
| Cost Benchmark                 | \$581        | 76.3        |
| OPERF’s Total Investment Costs | \$552        | 72.4        |
| <b>OPERF’s Cost Savings</b>    | <b>+\$29</b> | <b>+3.9</b> |



# Cost Savings

Estimated Fee Savings from  
Internal Management Activities  
January 1, 2016 to December 31, 2018



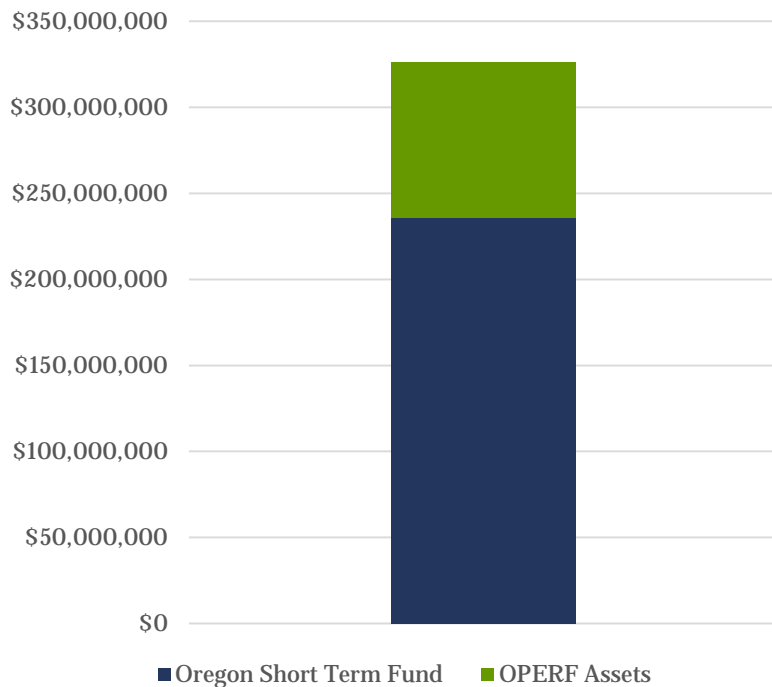
Savings achieved as a result of insourcing initiatives have roughly doubled from 2015 to today, and now exceed \$2 million per month. **These net, fee-related savings from internal management activities totaled roughly \$61 million during the three-year span from 2016 to 2018.**





# Investment Performance Value Add (\$\$\$s)

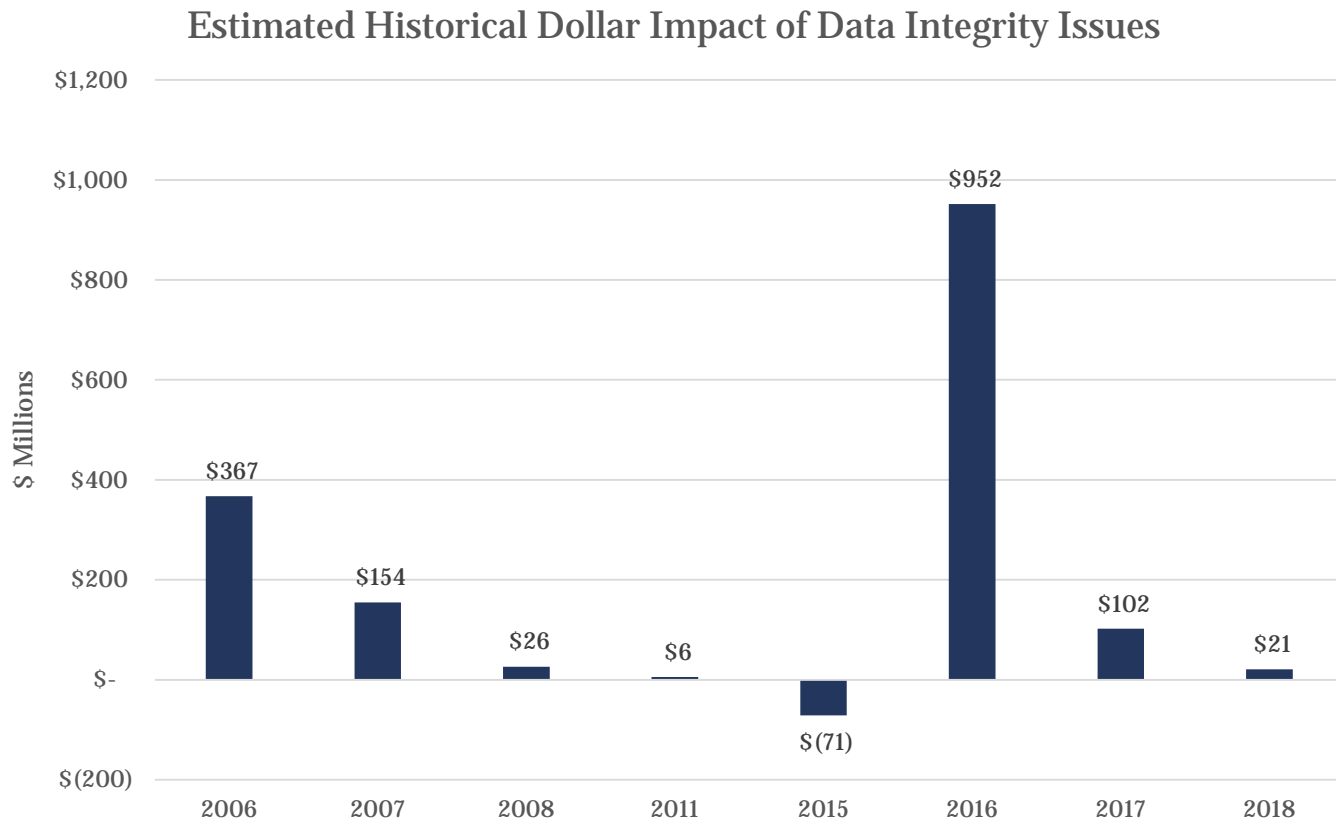
Estimated Dollar Contribution Versus Benchmark  
January 1, 2016 through  
December 31, 2018



In OPERF, the net value add from internal management (i.e., the incremental OPERF funding attributable to investment performance in excess of corresponding benchmarks) has been **\$90 million** over the past three years.

OSTF investors have realized a net benefit of approximately **\$236 million** during that same period.

# Improved Data Quality

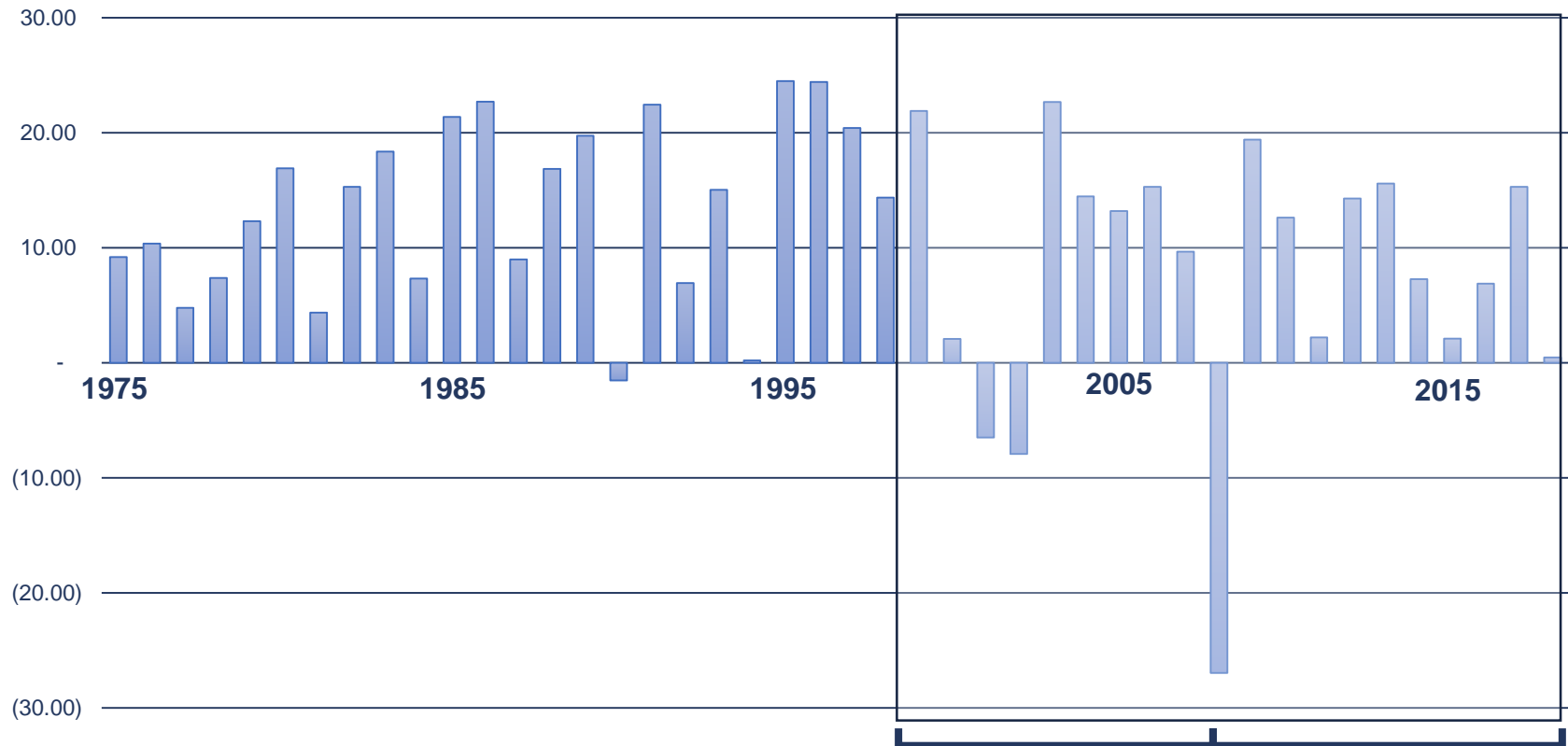


Improved data integrity controls and oversight activities have led to the identification of more than **\$1.5 Billion** in investment performance and asset valuation discrepancies, including a one-time material increase in OPERF's reported investment performance from 0.26% to 1.39% in the second quarter of 2016. The overall estimated impact from this particular one-time performance reporting error equated to more than **\$790 million**.



# Long term, sustainable net returns

OPERF annual performance percentage, after fees, 1975-2018



First among peer funds

# IAP Target Date Funds

## Investment Performance Summary

| Calendar Year 2018  |               |         |       |
|---------------------|---------------|---------|-------|
| Fund                | Jan-Sept 2018 | 4Q 2018 | 2018  |
| TDF RETIREMENT FUND | 1.89          | -1.48   | 0.38  |
| TDF 2020            | 2.42          | -2.17   | 0.20  |
| TDF 2025            | 3.51          | -4.06   | -0.69 |
| TDF 2030            | 4.22          | -4.82   | -0.80 |
| TDF 2035            | 4.46          | -4.47   | -0.21 |
| TDF 2040            | 4.53          | -4.71   | -0.40 |
| TDF 2045            | 4.63          | -6.37   | -2.03 |
| TDF 2050            | 4.65          | -6.37   | -2.02 |
| TDF 2055            | 4.70          | -6.40   | -2.01 |
| TDF 2060            | 4.78          | -6.42   | -1.95 |

Source: State Street.

# IAP Target Date Funds

## Investment Performance vs. Posted Crediting Rates

| Calendar Year 2018  |                               |                            |   |                        |   |
|---------------------|-------------------------------|----------------------------|---|------------------------|---|
| Fund                | Actual Investment Performance | Preliminary Crediting Rate | Actual vs. Preliminary Crediting Difference | Updated Crediting Rate | Actual vs. Updated Crediting Difference |
| TDF RETIREMENT FUND | 0.38                          | -0.77                      | -1.15                                       | 1.74                   | 1.36                                    |
| TDF 2020            | 0.20                          | 0.20                       | 0.00  | 0.16                   | -0.04                                   |
| TDF 2025            | -0.69                         | -0.69                      | 0.00  | -0.70                  | -0.01                                   |
| TDF 2030            | -0.80                         | -0.78                      | 0.02  | -0.80                  | 0.00                                    |
| TDF 2035            | -0.21                         | -0.22                      | -0.01                                       | -0.23                  | -0.02                                   |
| TDF 2040            | -0.40                         | -0.41                      | -0.01                                       | -0.42                  | -0.02                                   |
| TDF 2045            | -2.03                         | -2.02                      | 0.01  | -2.03                  | 0.00                                    |
| TDF 2050            | -2.02                         | -2.06                      | -0.04                                       | -2.05                  | -0.03                                   |
| TDF 2055            | -2.01                         | -2.16                      | -0.15                                       | -2.14                  | -0.13                                   |
| TDF 2060            | -1.95                         | -2.19                      | -0.24                                       | -2.12                  | -0.17                                   |

Sources: State Street (investment performance); PERS website (preliminary crediting rates); and PERS board memo (updated crediting rates).



# OREGON STATE TREASURY

Tobias Read  
Oregon State Treasurer

350 Winter St NE, Suite 100  
Salem, OR 97301-3896

[oregon.gov/treasury](https://oregon.gov/treasury)



# 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  
888-320-7377  
TTY (503) 603-7766  
[www.oregon.gov/pers](http://www.oregon.gov/pers)

April 1, 2019

TO: Members of the PERS Board  
FROM: Roger Smith, Deferred Compensation Program Manager  
SUBJECT: Appoint Advisory Committee Members for Oregon Savings Growth Plan

### OVERVIEW

Action: Appoint to the Oregon Savings Growth Plan (OSGP) Advisory Committee, two new members to fill expiring vacancies and renew the appointment of three current members for their first and second terms respectively.

Reason: The Advisory Committee consists of seven members appointed by the PERS Board.

### BACKGROUND

ORS 243.505 provides an Advisory Committee for OSGP that consists of seven members with knowledge of deferred compensation plans. According to that statute (attached), the Committee shall study and advise the Public Employees Retirement Board on policies and procedures and such other matters as the board may request.

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 OSGP. Four members shall be employees of separate state agencies.

Appointment is for a three year term of office, but a member serves at the pleasure of the board. If there is a vacancy during an unexpired term, the board's appointment will become immediately effective for the unexpired term.

Three current advisory committee members' terms will expire on June 30, 2019.

The criteria used in selecting Advisory Committee members includes the following:

1. Current participation in OSGP.
2. Meeting the qualifications for the vacancy to be filled.
3. Possessing a mixture of expertise, knowledge, and experience useful to the Advisory Committee.
4. Sincere interest in promoting and improving the 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 reappointing Richard Bailey for a second three-year term.

Staff recommends appointing current committee members Michael Marostica and Mary Jo Evers to their first full term. Both members were appointed on February 1, 2019 to fill unexpired terms that were ending on June 30, 2019.

Staff recommends Colin Benson from the Department of Justice be appointed to a first full term, to fill an expiring state position, and Eugene Bentley to fill an expiring retiree position.

Proposed membership of the Advisory Committee follows:

| <b>Name</b>       | <b>Position</b> | <b>Employer</b>                       | <b>Appoint/Reappoint</b> | <b>Term</b> | <b>Term End Date</b> |
|-------------------|-----------------|---------------------------------------|--------------------------|-------------|----------------------|
| Richard Bailey    | State           | Oregon Institute of Technology        | Reappoint                | Second      | April 2022           |
| Colin Benson      | State           | Department of Justice                 | Appoint                  | First       | April 2022           |
| Eugene Bentley    | Retiree         | Retiree                               | Appoint                  | First       | April 2022           |
| Mary Jo Evers     | Local Govt      | Ontario School District               | Reappoint                | Second      | June 2022            |
| Michael Marostica | State           | Department of Corrections             | Reappoint                | Second      | June 2022            |
| Thomas Poon       | State           | Dept. of Consumer Business & Services | ---                      | First       | June 2019            |
| Celeste VanCleave | Local Govt      | Central Linn School District          | ---                      | Second      | June 2020            |

BOARD ACTION

The Board's option for appointments to the OSGP Advisory Committee are as follows:

1. Accept the recommendations to appoint Richard Bailey, Michael Marostica, Mary Jo Evers, Colin Benson, and Eugene Bentley to fill expiring vacancies.
2. Request staff to solicit further applications for review.

STAFF RECOMMENDATION

Staff recommend the Board to adopt Option 1.

- Reason: Staff believe Richard Bailey, Michael Marostica, Mary Jo Evers, Colin Benson, and Eugene Bentley meet the criteria and service needs of the Advisory Committee.



**ORS 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]

**OAR 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 two 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 two 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

Hist.: PERS 2-1993, f. & cert. ef. 9-23-93; PERS 2-1995, f. 10-13-95, cert. ef. 11-1-95; PERS 5-2000, f. & cert. ef. 8-11-00; PERS 3-2007, f. & cert. ef. 1-23-07; PERS 11-2014, f. & cert. ef. 7-25-14



# Oregon

Kate Brown, Governor

## Public Employees Retirement System

Headquarters:

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

Mailing Address:

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Tigard, OR 97281-3700

888-320-7377

TTY (503) 603-7766

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

April 1, 2019

TO: Members of the PERS Board  
 FROM: Stephanie Vaughn, Manager, Policy Analysis & Compliance Section  
 SUBJECT: Notice of Rulemaking for Student Employees Rule:  
 OAR 459-005-0025, *Student Employee*

### OVERVIEW

- Action: None. This is notice that staff has begun rulemaking.
- Reason: Extend the current Chapter 238 standards regarding when a “student employee” designation is appropriate for PERS purposes to OPSRP and provide clarification to address common questions on the subject.
- Policy Issue: None identified.

### BACKGROUND

Individuals are not eligible to establish membership or to participate in PERS for their student employment under Oregon Revised Statutes (ORS) 238.015 and 238A.005. While the term “student employee” is not defined in statute, PERS has received many questions from both employers and employees over the years regarding how to determine whether an individual is PERS eligible when the person is both a student and an employee. To ensure that an employer’s student employee designation is reasonable and consistent for similarly situated persons, PERS established this rule to provide employers with general guidelines on PERS’ administration of those statutes. However, the existing rule applies only to Chapter 238 members; currently there is no clarification or guidance regarding student employees under OPSRP.

The rule expressly refers to ORS 238.015, but does not reference ORS 238A.005, even though the same guidelines also apply to OPSRP under 238A.005. The proposed rule amendment adds this reference and moves the rule from Division 10, which is specific to PERS administration under ORS Chapter 238, to Division 5, which applies to PERS administration under both ORS Chapters 238 and 238A. It also updates the rule to accomplish the following: remove references that do not relate to student employees (i.e., inmates and aliens on training visas); remove references to private schools because they are not public employers and their operations do not fall under PERS’ purview, and; provide clarification on how to classify a person under certain circumstances that have created confusion in the past.

### PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing will be held April 22, 2019, at 2:00 p.m. at PERS headquarters in Tigard. The public comment period ends May 3, 2019, 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, the Board need not adopt the rule modifications.

Impact: Clarification of administration will benefit employers and staff.

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

### RULEMAKING TIMELINE

|                |  |
|----------------|--|
| March 29, 2019 | Staff began the rulemaking process by filing a Notice of Rulemaking with the Secretary of State.   |
| April 1, 2019  | Secretary of State publishes the Notice in the Oregon Administrative Rules Database. Notice is sent to employers, legislators, and interested parties. Public comment period begins. |
| April 1, 2019  | PERS Board notified that staff began the rulemaking process.   |
| April 22, 2019 | Rulemaking hearing to be held at 2:00 p.m. at PERS in Tigard.  |
| May 3, 2019    | Public comment period ends at 5:00 p.m.  |
| May 31, 2019   | 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 April 22, 2019, 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 May 31, 2019 Board meeting.

B.1. Attachment 1 - 459-005-0025, *Student Employee*

OREGON ADMINISTRATIVE RULE  
PUBLIC EMPLOYEES RETIREMENT BOARD  
CHAPTER 459

~~[DIVISION 010 – MEMBERSHIP]~~ DIVISION 005 – ADMINISTRATION

1 ~~459-~~005-0025

2 **Student Employee**

3 (1) Under ORS 238.015(4) and 238A.005(4)(d), student employees~~[, inmates of a~~  
4 ~~state institution, and aliens on a training or educational visa]~~ are not eligible for  
5 membership in the system by reason of their student employment. A participating  
6 employer is responsible for determining whether ~~[an employee]~~ a person is ineligible for  
7 membership in the system because the ~~[employee]~~ person is a student employee~~[, an~~  
8 ~~inmate of a state institution, or an alien on a training or educational visa]~~.

9 (2) As used in this rule:

10 (a) The term “school” includes a~~n accredited or certified]~~ public ~~[or private]~~  
11 elementary school, charter school, high school, community college, ~~[or]~~ institution of  
12 higher education, ~~[or an]~~ Oregon education service district, ~~[or]~~ the Oregon State School  
13 for the Deaf, or the Oregon State School for the Blind.~~;~~ but]

14 ~~[(b) The term “school” does not include:]~~

15 ~~[(A) Private technical, trade or correspondence schools that do not grant~~  
16 ~~educational degrees; and]~~

17 ~~[(B) Course(s) offered by a school that are not applied toward a degree.]~~

18 ~~[(c)]~~(b) The term~~s~~ “~~half-time enrolled~~” or “enrolled at least half-time” means~~s~~ that  
19 the~~[a]~~ person is enrolled in a school as a student ~~[at least 50% of a full-time enrolled~~  
20 ~~status in a school, as defined in subsection (a) of this section,]~~ on at least a half-time  
21 basis, ~~[and]~~ as determined by the school in which enrolled.

1 (3) A participating employer may *[reasonably]* designate **a person** *[an employee]* as  
2 a “student employee” if *[the employee is a person]*:

3 (a) **The person** *[Who]* is enrolled at least half-time in a school *[and whose*  
4 *employment is principally for the purpose of furthering the person’s education]*; **and** *[or]*

5 (b) *[Whose]* **The** employment is principally related to the *[employee’s]* **person’s**  
6 status as a student, **or for the purpose of furthering the person’s education as a**  
7 **student**, e.g. a work-study program, **student internship program, etc.**

8 *[(4) An employee may be a student employee under the following circumstances:]*

9 *[(a) The employer is a school and the employed person’s principal relationship to*  
10 *the school is as at least a half-time enrolled student.]*

11 *[(b) The employer is not a school, but the person employed is enrolled half time in a*  
12 *school and the work performed for the employer is primarily for the purposes of*  
13 *furthering the person’s course of study at the school, or is otherwise related to the*  
14 *person’s education. For example:]*

15 *[(A) A student intern at the Legislative Assembly who will receive academic credit*  
16 *for the internship is a student employee.]*

17 *[(B) If an employer requires, for reasons legitimately related to the employment of*  
18 *the person, that an employee be at least a half-time enrolled student; the employee is a*  
19 *student employee.]*

20 **[(5)](4) A participating employer may not designate a person as a “student**  
21 **employee,” and must evaluate whether the person is an employee eligible for**  
22 **membership in the system (as determined under OAR 459-010-0030) if:**

23 **(a) The person is not enrolled at least half-time in a school; and**

1       **(b)** *[An employee who is also a student shall be eligible for membership in the*  
2 *system if t] The [employee's] person's [work for the employer is the principal basis for*  
3 *the] employment [relationship and] is not principally related to the person's status as a*  
4 *student, or for the purpose of furthering the person's education as a student.*  
5 *[employee's course of study at a school.]*

6       *[ For example:]*

7       *[(a) A full-time employee who attends classes outside of working hours for purposes*  
8 *unrelated to the work performed for the employer is not a student employee, except as*  
9 *provided in section (3) of this rule.]*

10       *[(b) A full-time employee who is granted administrative time off to attend class and*  
11 *the course is recommended or authorized by the employer to maintain or improve the*  
12 *employee's job performance is not a student employee.]*

13       *[(c) A full-time employee, or a part-time employee employed in a position which*  
14 *qualifies the employee for active membership in PERS who is taking a course or is*  
15 *enrolled less than half time in a school, is not a student employee, except as provided in*  
16 *section (3) of this rule.]*

17       *[(6)]**(5)** If a person *[an employee] qualifies as a student employee under section (3)*  
18 *of this rule, the [employee] person may be [deemed] designated as a student employee*  
19 *during a temporary break that does not exceed an academic quarter or semester,*  
20 *[between semesters or quarters of study provided that] if the student employee has*  
21 *[declared, or otherwise indicated, the] notified the employer of their intent to resume at*  
22 *least half-time [enrolled status] enrollment following the break. [, provided that the*  
23 *break does not exceed an academic quarter or semester, and the employer has a**



1 *reasonable expectation that the employee shall resume at least a half time enrolled status*  
2 *following the break.]*

3 *[(7)](6) For [an employee] a person whose [employment relationship with the*  
4 *employer] “student employee” status varies from time to time, [from that as a student*  
5 *employee to not as a student employee,] the person’s [majority] principal status*  
6 *[employment relationship] during [a] the school year shall [prevail] be used in*  
7 *determining whether [an employee] a person is an ineligible “student employee” or an*  
8 *eligible “employee” for that school year.*

9 *[(8) The employer’s policy designating a position or an employment relationship as*  
10 *that of a student employee shall be in writing, and shall reflect the following:]*

11 *[(a) The designation is not primarily for the avoidance of PERS contributions; and]*

12 *[(b) The designation shall be in accordance with applicable laws and regulations*  
13 *pertaining to employment practices.]*

14 Statutory Authority: ORS 238.650

15 Statutes Implemented: ORS 238.015(4) & 238A.005(4)



# 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  
888-320-7377  
TTY (503) 603-7766  
[www.oregon.gov/pers](http://www.oregon.gov/pers)

April 1, 2019

TO: Members of the PERS Board  
FROM: Stephanie Vaughn, Manager, Policy Analysis & Compliance Section  
SUBJECT: Adoption of Waiting Time Purchases Rule:  
OAR 459-011-0050, *Forfeiture and Restoration of Service Rights*

### OVERVIEW

- Action: Adopt modifications to the Waiting Time Purchases rule.
- Reason: Clarify that purchase of waiting time employment segment is only allowed if member also purchases the associated forfeited time.
- Policy Issue: None identified.

### BACKGROUND

To establish membership in the PERS Chapter 238 Program, Oregon Revised Statutes (ORS) 238.015 requires public employees to first complete a six-month probationary period of employment in a qualifying position (“waiting time”).<sup>1</sup> Chapter 238 Tier One and Tier Two members have the option of purchasing the six-month waiting time at retirement under ORS 238.125 (“waiting time purchase”). This proposed rule amendment clarifies when the waiting time purchase is available if the member has multiple waiting times due to one or more member account withdrawals. Specifically, it clarifies that if a Chapter 238 member terminates membership by member account withdrawal under ORS 238.265, the right to purchase the waiting time associated with that terminated membership is also forfeited, unless the associated forfeited time is restored by voluntary redeposit (238.105) or forfeited time purchase (238.115).

### **Forfeiture of Membership Rights by Member Account Withdrawal**

After completion of the waiting time and establishment of Tier One or Tier Two membership, accounts are created for new members (“member account”). Employee contributions are made to these accounts for the member’s benefit. A member may withdraw their member account and receive all contributions and earnings credited to that account; however, ORS 238.265 provides that members who withdraw their member account terminate their PERS membership. Membership thus terminated ends all of the member’s rights in the system, including the right to claim credit for any employment before the withdrawal.

Because the waiting time served prior to the withdrawal is forfeited by the withdrawal, if the former member is later employed with a PERS participating employer in a qualifying position,

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<sup>1</sup> The opportunity to establish membership in the PERS Chapter 238 Program closed for employees hired on and after August 29, 2003.

the person must serve a new six-month waiting time in order to establish membership. For this reason, in cases where a member terminates their membership and later reestablishes membership, a member would have two or more waiting times because each time membership is terminated, a new six-month waiting time must be completed before the person becomes a member.

### **Restoration of Membership Rights and Waiting Time Purchase Eligibility**

#### *Historical Background*

Previously, if the member had multiple waiting times, PERS did not require the member to restore the forfeited membership rights in order to purchase the associated waiting time. The past administration of waiting time purchases (238.125) did not take into account other PERS statutory provisions involving termination of membership (238.095), voluntary redeposit (238.105), forfeited time purchase (238.115), and withdrawals (238.265). Members were permitted to make purchases of waiting time associated with forfeited membership segments without being required to restore the forfeited membership. Some individuals making such a purchase were also provided with tax remedy if the waiting time purchased was prior to 1996. This practice resulted in certain persons receiving membership benefits for periods of employment that they had expressly forfeited when they withdrew their member account and terminated their membership without first restoring that membership.

#### *Change in Administration*

Upon closer review of the termination of membership and withdrawal provisions of ORS 238.095(1) and 238.265, staff determined that, because the waiting time served before the withdrawal was “employment before withdrawal,” the right to retirement credit for this period of employment could not be purchased unless the forfeited rights were first restored. By operation of PERS statutes, the right to claim credit for employment before the withdrawal, including the right to claim credit for the waiting period completed prior to the withdrawal, remains forfeited unless the forfeited rights for the membership segment are restored by voluntary redeposit or purchase of forfeited time at retirement. If such membership restoration does not occur, the statutory prohibition against claiming credit for all employment before the withdrawal should bar a member from purchasing credit for the associated waiting time. This administration is more consistent with statute and does not lead to the anomaly where some members receive membership benefits to which they are not entitled under other provisions of PERS law.

#### *PERS Notice to Impacted Members*

Estimates previously provided to members did not break out the different waiting time purchases if a member had multiple waiting times. Staff delayed implementation of the policy change to allow members relying on information provided by PERS sufficient time to complete any purchases based on the estimates they previously received.

In August 2018, staff sent policy clarification letters to all members who could be adversely impacted by the change in policy. The letters were sent to members identified as having multiple waiting times, who had received purchase and benefit estimate letters that did not specify that the waiting time purchases for employment preceding a withdrawal could only be made if the

forfeited membership segment was also restored. The notice informed members that the policy disallowing stand-alone waiting time purchases would be applied to all effective retirement dates on and after February 1, 2019. This six-month advance notice allowed members time to plan their retirement accordingly. Staff has also modified the purchase and benefit estimate letters sent to eligible members to explain that if a member does not make a forfeited time purchase, they cannot purchase the waiting period attributable to the non-restored membership segment.

#### SUMMARY OF MODIFICATIONS TO RULE SINCE NOTICE

No modifications were made to the rule.

#### PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held February 26, 2019, at 2:00 p.m. at PERS headquarters in Tigard. No members of the public attended. The public comment period ended March 8, 2019, 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, the Board need not adopt the rule modifications.

Impact: Clarification of procedures and administration will benefit members and staff.

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

#### RULEMAKING TIMELINE

|                   |  |
|-------------------|--|
| January 28, 2019  | Staff began the rulemaking process by filing a Notice of Rulemaking with the Secretary of State.   |
| February 1, 2019  | Secretary of State published the Notice in the Oregon Administrative Rules Database. Notice was sent to employers, legislators, and interested parties. Public comment period began. |
| February 1, 2019  | PERS Board notified that staff began the rulemaking process.   |
| February 26, 2019 | Rulemaking hearing held at 2:00 p.m. at PERS in Tigard.  |
| March 8, 2019     | Public comment period ended at 5:00 p.m.   |
| April 1, 2019     | Board may adopt the permanent rule modifications.  |

#### BOARD OPTIONS

The Board may:

1. Pass a motion to “adopt modifications to the Waiting Time Purchases 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: Clarify that purchase of waiting time employment segment is only allowed if member also purchases the associated forfeited time.

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 - 459-011-0050, *Forfeiture and Restoration of Service Rights*

**OREGON ADMINISTRATIVE RULE  
PUBLIC EMPLOYEES RETIREMENT BOARD  
CHAPTER 459  
DIVISION 011 – RETIREMENT CREDIT**

1    **459-011-0050**

2    **Forfeiture and Restoration of *[Service]* Membership Rights**

3           (1) A member who, pursuant to ORS 238.265, withdraws the amount credited to the  
4    member's account ceases to be a PERS Chapter 238 Program member and forfeits all  
5    membership rights accrued under ORS Chapter 238 before the effective date of  
6    withdrawal, including *[any service rights attributable to]* the right to claim credit for  
7    any employment before the effective date of withdrawal.

8           (2) Any such person may elect to restore *[credit]* membership rights and creditable  
9    service forfeited by the withdrawal of the member account as provided in ORS 238.105 or  
10   238.115.

11          (3) Pursuant to ORS 238.105, any such person who reenters the service of a  
12   participating employer in a qualifying position within five years from the date of the last  
13   separation from employment in a qualifying position that preceded the member's  
14   withdrawal may, at any time during the one-year period immediately following the date of  
15   reemployment, repay to PERS, in a single lump sum payment, an amount equal to the  
16   amount withdrawn plus the earnings the amount withdrawn would have accumulated from  
17   the effective date of withdrawal to the date of repayment.

18          (a) Upon repayment as described in section (3) of this rule, the PERS Chapter 238  
19   Program membership *[and service]* rights and creditable service forfeited by the  
20   withdrawal will be restored. The former member will reestablish membership in the PERS  
21   Chapter 238 Program *[on the first day of the month following the date of the repayment.*  
22   *Service by the former member]* from the date of reemployment *[to the date membership is*

1 *reestablished shall be attributed to the PERS Chapter 238 Program].* The withdrawn  
2 member account will be reestablished in the amount of the repayment.

3 (b) An employee who is terminated from employment, withdraws the member account  
4 under ORS 238.265, and is reinstated to employment in connection with a retroactive  
5 payment made under ORS 238.008(2) may restore membership [*and service*] rights and  
6 creditable service within the time period described in section (3) of this rule or within one  
7 year from the date the employee actually returns to employment, whichever is later. A  
8 retroactive payment must be allocated pursuant to ORS 238.008(3). So allocated, the  
9 payment must be used in the determination of employee and employer contributions and in  
10 the calculation of benefits.

11 (4) Pursuant to ORS 238.115, a person described in section (1) of this rule who  
12 reenters the service of a participating employer in a qualifying position and serves as an  
13 active member for 10 years after such reentry may obtain restoration of creditable service  
14 forfeited by the withdrawal if the member repays to PERS, in a single lump sum payment,  
15 an amount equal to the amount withdrawn plus 7.5% interest on the amount withdrawn  
16 compounded annually for each year or portion of a year after the effective date of  
17 withdrawal and before the effective date of retirement, for the period of creditable service  
18 restored.

19 (5) Restoration of creditable service forfeited by withdrawal of the member account  
20 under section (4) of this rule is not available to persons who already restored membership  
21 [*and service rights*] under section (3) of this rule.

22 (6) Beginning with January 1, 2018 effective retirement dates, a person whose  
23 membership is terminated under ORS 238.095(2) may not restore forfeited credit under  
24 ORS 238.115.

1 (7) Beginning with February 1, 2019 effective retirement dates, a member may  
2 not purchase retirement credit for the waiting period of employment completed prior  
3 to the effective date of withdrawal unless the membership rights and creditable  
4 service for the associated forfeited period of employment have been restored under  
5 ORS 238.105 or 238.115. If a member has multiple withdrawals, this requirement  
6 applies to each forfeited period of employment associated with each withdrawal.

7 ~~[(7)]~~(8) Notwithstanding the provisions of this rule, a member who withdraws  
8 pursuant to ORS 238.265 and receives an additional amount pursuant to section 2, chapter  
9 276, Oregon Laws 2003, may not reestablish membership under ~~[section (3) of]~~ this rule.

10 Stat. Auth.: ORS 238.650

11 Stat. Implemented: ORS 238.008, 238.095, 238.105, 238.115, 238.125, 238.265 &

12 2003 OL Ch. 276





# Oregon

Kate Brown, Governor

## Public Employees Retirement System

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Tigard, OR 97281-3700  
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[www.oregon.gov/pers](http://www.oregon.gov/pers)

April 1, 2019

TO: Members of the PERS Board  
FROM: Stephanie Vaughn, Manager, Policy Analysis & Compliance Section  
SUBJECT: Adoption of Military Purchases Rule:  
OAR 459-011-0115, *Military Full Cost Purchase*

### OVERVIEW

- Action: Adopt modifications to the Military Purchases rule.
- Reason: Update rule to conform with SB 200 (2017), which removed the exclusion of periods of service for “active duty for training” from purchase eligibility, and made any type of “active service” eligible for the purchase, for members retiring after August 2, 2017.
- Policy Issue: None identified.

### BACKGROUND

Senate Bill 200 was approved during the 2017 legislative session, amending Oregon Revised Statutes (ORS) 238.157 relating to full cost military purchase eligibility. The statutory amendment removed the exclusion of periods of service for “active duty for training” from purchase eligibility, and made any type of “active service” eligible for the purchase (including training duty), for members retiring after August 2, 2017. Staff has updated the rule to reflect these changes, which became effective August 2, 2017.

Staff has also made other amendments to simplify the rule. The definition of “Effective Retirement Date” was removed from subsection (1)(c) because that definition is already provided in OAR 459-005-0001(11). The provision relating to members of a reserve component of the Armed Forces was removed because the scenario described in that paragraph is specifically governed by 10 United States Code Section 12731, and technically fits within the new section (3) of the rule. Section (6) was modified to align it with PERS administration of the purchase payment requirements as provided in OAR 459-011-0150.

### SUMMARY OF MODIFICATIONS TO RULE SINCE NOTICE

No modifications were made to the rule.

### PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held February 26, 2019, at 2:00 p.m. at PERS headquarters in Tigard. No members of the public attended. The public comment period ended March 8, 2019, at 5:00 p.m. While PERS did not receive any official public comment, we did receive an unofficial request to include an explanation of how the amount of the full cost purchase is determined. Staff considered the request, but determined that the purpose of the rule is to explain the eligibility

requirements and process for making the purchase and that the mechanics of how the amount of the purchase is determined goes beyond that scope. The mechanics of determining the amount of a full cost purchase is captured in our Business Rules, which are not published, but are available upon request.

### LEGAL REVIEW

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

### IMPACT

Mandatory: Yes, otherwise the administrative rule is in conflict with statute.

Impact: Clarification of full cost military purchase eligibility will benefit members and staff.

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

### RULEMAKING TIMELINE

|                   |  |
|-------------------|--|
| January 28, 2019  | Staff began the rulemaking process by filing a Notice of Rulemaking with the Secretary of State.   |
| February 1, 2019  | Secretary of State published the Notice in the Oregon Administrative Rules Database. Notice was sent to employers, legislators, and interested parties. Public comment period began. |
| February 1, 2019  | PERS Board notified that staff began the rulemaking process.   |
| February 26, 2019 | Rulemaking hearing held at 2:00 p.m. at PERS in Tigard.  |
| March 8, 2019     | Public comment period ended at 5:00 p.m.   |
| April 1, 2019     | Board may adopt the permanent rule modifications.  |

### BOARD OPTIONS

The board may:

1. Pass a motion to “adopt modifications to the Military Purchases 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: Update rule to conform with SB 200 (2017), which removed the exclusion of periods of service for “active duty for training” from purchase eligibility, and made any type of “active service” eligible for the purchase, for members retiring after August 2, 2017.

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.3. Attachment 1 - 459-011-0115, *Military Full Cost Purchase*

**OREGON ADMINISTRATIVE RULE  
PUBLIC EMPLOYEES RETIREMENT BOARD  
CHAPTER 459  
DIVISION 011 – RETIREMENT CREDIT**

1 **459-011-0115**

2 **Military Full Cost Purchase**

3 (1) For the purposes of this rule:

4 *[(a) “Active Duty for Training” means periods of active service where the member*  
5 *engages in training only.]*

6 *[(b)](a)* “Armed Forces” means the Army, Navy, Air Force, Marine Corps and the  
7 Coast Guard and the reserve components thereof.

8 *[(c) “Effective retirement date” means the date the member is eligible to retire and*  
9 *has indicated on their retirement application.]*

10 *[(d)](b)* “Full cost” means the actual cost to the system of the retirement credit for  
11 military service being purchased, including any applicable administrative fee.

12 *[(e)](c)* “Military service” means qualifying service as described under section (2) of  
13 this rule.

14 (2) *[An eligible]* **A** member who served **on active duty** in the Armed Forces prior to  
15 becoming a member of PERS may purchase up to four years of retirement credit for  
16 military service if they:

17 (a) Were other than dishonorably discharged from the Armed Forces; **and**

18 (b) Entered or reentered active service after January 1, 1950, or were in active service  
19 on January 1, 1950[;].

20 *[(c) Were on active duty for other than active duty for training; and]*

21 *[(d) Except as provided in section (3) of this rule,]*

1 (3) [t]The member *[must be neither]* may not purchase retirement credit for any  
2 period of service for which the person is receiving, *[nor]* or is eligible to receive, a  
3 pension or retirement for service in the Armed Forces at the time of their effective  
4 retirement date.

5 *[(3) If member is or was a member of a reserve component of the Armed Forces and*  
6 *would be entitled to a pension or retirement for service in the military, the purchase or*  
7 *retirement credit must be made prior to member reaching age 60.]*

8 (4)(a) If the member has reached earliest retirement age, the purchase may be made  
9 within 90 days before *[and]* or after the member’s effective retirement date.

10 (b) If the member has not reached earliest retirement *[date]* age, the purchase may be  
11 made only in the 90 day period immediately before the member’s effective retirement date.

12 (5) A member electing to make a full cost purchase may elect to have the service  
13 retirement allowance determined under any calculation for which the member is eligible  
14 for under ORS 238.300 even if the calculation does not produce the highest retirement  
15 allowance.

16 (6) If the *[full]* cost of the purchase is *[not known at the time the payment is required]*  
17 adjusted and requires an additional payment, PERS will notify the member of the  
18 balance due. [t]The member must pay the remainder of the full cost purchase by the later  
19 of the date set by PERS or the member’s effective retirement date. If the member does  
20 not pay the *[entire full]* remaining cost, the *[member’s full cost]* purchase request will be  
21 *[rejected]* canceled and PERS will return any payment received to date, subject to the  
22 provisions of OAR 459-005-0580.

1            (7) To verify military service, a copy of the member's form DD-214 or other  
2 acceptable military discharge or service records must be submitted to PERS with the full  
3 cost purchase request.

4            Stat. Auth.: ORS 238.650

5            Stats. Implemented: ORS 238.157



# Oregon

Kate Brown, Governor

Item B.3.  
Walk-In

## 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  
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TTY (503) 603-7766  
[www.oregon.gov/pers](http://www.oregon.gov/pers)

April 1, 2019

TO: Members of the PERS Board  
FROM: Stephanie Vaughn, Manager, Policy Analysis & Compliance Section  
SUBJECT: Adoption of Modified Military Purchases Rule:  
OAR 459-011-0115, *Military Full Cost Purchase*

In addition to removing the military purchase exception for training time, SB 200 (2017) added a new definition for Uniformed Services and now, in addition to Armed Forces, includes Army National Guard, Air National Guard, United States Public Health Service, National Oceanic and Atmospheric Administration, and any other category designated by the President of the United States in time of war or emergency. Although this new definition had not previously been incorporated into the rule, staff has been administering military purchases according to the changes made by SB 200 (2017).

The following additional changes are proposed to OAR 459-011-0115 as presented in the Board packet:

Added the definition of “Uniformed Services” in (1)(d) and used Uniformed Services in place of Armed Forces throughout the rule.

These changes are incorporated in the rule as attached to this memo.

### BOARD OPTIONS

The Board may:

1. Pass a motion to “adopt modifications to the Military Purchases rule, as presented with this memo.”
2. Direct staff to make other changes to the rule or explore other options.

### STAFF RECOMMENDATION

Staff recommends the Board choose Option #1.

- Reason: Update rule to conform with SB 200 (2017), which removed the exclusion of periods of service for “active duty for training” from purchase eligibility, and made any type of “active service” eligible for the purchase, for members retiring after August 2, 2017. Clarify what types of military service are eligible for the purchase under ORS 238.157.

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.3. Walk-in Attachment 1 - 459-011-0115, *Military Full Cost Purchase*

**OREGON ADMINISTRATIVE RULE  
PUBLIC EMPLOYEES RETIREMENT BOARD  
CHAPTER 459  
DIVISION 011 – RETIREMENT CREDIT**

1 **459-011-0115**

2 **Military Full Cost Purchase**

3 (1) For the purposes of this rule:

4 *[(a) “Active Duty for Training” means periods of active service where the member*  
5 *engages in training only.]*

6 *[(b)](a)* “Armed Forces” means the Army, Navy, Air Force, Marine Corps and the  
7 Coast Guard and the reserve components thereof.

8 *[(c) “Effective retirement date” means the date the member is eligible to retire and*  
9 *has indicated on their retirement application.]*

10 *[(d)](b)* “Full cost” means the actual cost to the system of the retirement credit for  
11 military service being purchased, including any applicable administrative fee.

12 *[(e)](c)* “Military service” means qualifying service as described under section (2) of  
13 this rule.

14 **(d) “Uniformed Services” means:**

15 **(A) The Armed Forces;**

16 **(B) The Army National Guard or the Air National Guard when the employee is**  
17 **on duty as described in ORS 238.156(5)(b)(B);**

18 **(C) The commissioned corps of the United States Public Health Service;**

19 **(D) The commissioned corps of the National Oceanic and Atmospheric**  
20 **Administration; and**

21 **(E) Any other category of persons designated as “Uniformed Services” by the**  
22 **United States President in time of war or national emergency.**

1 (2) *[An eligible]* A member who *[served]* was in active service in the *[Armed*  
2 *Forces]* Uniformed Services prior to becoming a member of PERS may purchase up to  
3 four years of retirement credit for military service if they:

4 (a) Were other than dishonorably discharged from the *[Armed Forces]* Uniformed  
5 Services; and

6 (b) Entered or reentered active service after January 1, 1950, or were in active  
7 service on January 1, 1950<sup>[;]</sup>:

8 *[(c) Were on active duty for other than active duty for training; and]*

9 *[(d) Except as provided in section (3) of this rule,]*

10 (3) <sup>[t]</sup>The member *[must be neither]* may not purchase retirement credit for any  
11 period of service for which the person is receiving, *[nor]* or is eligible to receive, a  
12 pension or retirement for service in the *[Armed Forces]* Uniformed Services at the time  
13 of their effective retirement date.

14 *[(3) If member is or was a member of a reserve component of the Armed Forces and*  
15 *would be entitled to a pension or retirement for service in the military, the purchase or*  
16 *retirement credit must be made prior to member reaching age 60.]*

17 (4)(a) If the member has reached earliest retirement age, the purchase may be made  
18 within 90 days before *[and]* or after the member's effective retirement date.

19 (b) If the member has not reached earliest retirement *[date]* age, the purchase may  
20 be made only in the 90 day period immediately before the member's effective retirement  
21 date.

22 (5) A member electing to make a full cost purchase may elect to have the service  
23 retirement allowance determined under any calculation for which the member is eligible



1 for under ORS 238.300 even if the calculation does not produce the highest retirement  
2 allowance.

3 (6) If the *[full]* cost of the purchase is *[not known at the time the payment is*  
4 *required]* **adjusted and requires an additional payment, PERS will notify the**  
5 **member of the balance due. [t]**The member must pay the remainder of the full cost  
6 purchase **by the later of the date set by PERS or the member's effective retirement**  
7 **date.** If the member does not pay the *[entire full]* **remaining** cost, the *[member's full*  
8 *cost]* purchase request will be *[rejected]* **canceled and PERS will return any payment**  
9 **received to date, subject to the provisions of OAR 459-005-0580.**

10 (7) To verify military service, a copy of the member's form DD-214 or other  
11 acceptable military discharge or service records must be submitted to PERS with the full  
12 cost purchase request.

13 Stat. Auth.: ORS 238.650

14 Stats. Implemented: ORS 238.156 & 238.157



# Oregon

Kate Brown, Governor

## Public Employees Retirement System

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April 1, 2019

TO: Members of the PERS Board

FROM: Stephanie Vaughn, Manager, Policy Analysis & Compliance Section

SUBJECT: Adoption of IRC and Social Security Limitations Rules:  
 OAR 459-005-0525, *Ceiling on Compensation for Purposes of Contributions and Benefits*  
 OAR 459-005-0545, *Annual Addition Limitation*  
 OAR 459-017-0060, *Reemployment of Retired Members*  
 OAR 459-080-0500, *Limitation on Contributions*

### OVERVIEW

- Action: Adopt modifications to the IRC and Social Security Limitations rules.
- Reason: Update rules to reflect the 2019 Internal Revenue Code (IRC) and Social Security annual compensation limitations for retirement contributions and benefits.
- Policy Issue: None identified.

### BACKGROUND

The Internal Revenue Service revises various dollar limits annually based on cost-of-living adjustments. These revisions are used throughout PERS statutes and rules, but revisions to the limits must be adopted by the legislature or PERS Board to be effective.

The proposed rule modifications incorporate these federal adjustments for calendar year 2019 and are necessary to ensure compliance with the federal limits on the amount of annual compensation allowed for determining contributions and benefits.

Also, under ORS 238.082, a Tier One or Tier Two retired member who is receiving Social Security benefits and who returns to PERS-covered employment may continue to receive their PERS retirement benefits so long as they work less than 1,040 hours or do not exceed any related Social Security annual compensation limits. The proposed modifications to OAR 459-017-0060 adopt the 2019 Social Security earnings limitations.

In addition to updating the IRC and Social Security limitations, other clarifying edits were made. In OAR 459-005-0545, subsection (5)(b) was removed to avoid potential confusion with subsection (5)(a), which more clearly states how payments are allocated. A similar edit was made to OAR 459-080-0500(3). Also in 459-080-0500, the definition of “compensation” was removed to avoid conflict with subsection (3)(b), which clarifies how compensation is determined for the purpose of contributions for a period of military service. Lastly, changes were made to formatting for consistency with other PERS rules.

### SUMMARY OF MODIFICATIONS TO RULES SINCE NOTICE

No modifications were made to the rules.

### PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held February 26, 2019, at 2:00 p.m. at PERS headquarters in Tigard. No members of the public attended. The public comment period ended March 8, 2019, at 5:00 p.m. No public comment was received.

### LEGAL REVIEW

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

### IMPACT

Mandatory: Yes, statute requires the Board to update its rules to reflect revisions by the IRS and Social Security Administration.

Impact: Clarifies the limits for contributions and benefits under federal law for calendar year 2019.

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

### RULEMAKING TIMELINE

|                   |  |
|-------------------|--|
| January 28, 2019  | Staff began the rulemaking process by filing a Notice of Rulemaking with the Secretary of State.   |
| February 1, 2019  | Secretary of State published the Notice in the Oregon Administrative Rules Database. Notice was sent to employers, legislators, and interested parties. Public comment period began. |
| February 1, 2019  | PERS Board notified that staff began the rulemaking process.   |
| February 26, 2019 | Rulemaking hearing held at 2:00 p.m. at PERS in Tigard.  |
| March 8, 2019     | Public comment period ended at 5:00 p.m.   |
| April 1, 2019     | Board may adopt the permanent rule modifications.  |

### BOARD OPTIONS

The Board may:

1. Pass a motion to “adopt modifications to the IRC and Social Security Limitations rules, as presented.”
2. Direct staff to make other changes to the rules or explore other options.

### STAFF RECOMMENDATION

Staff recommends the Board choose Option #1.

Adoption – IRC and Social Security Limitations Rules

04/01/19

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- Reason: Update rules to reflect the 2019 Internal Revenue Code (IRC) and Social Security annual compensation limitations for retirement contributions and benefits.

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

B.4. Attachment 1 - 459-005-0525, *Ceiling on Compensation for Purposes of Contributions and Benefits*

B.4. Attachment 2 - 459-005-0545, *Annual Addition Limitation*

B.4. Attachment 3 - 459-017-0060, *Reemployment of Retired Members*

B.4. Attachment 4 - 459-080-0500, *Limitation on Contributions*

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

1 **459-005-0525**

2 **Ceiling on Compensation for Purposes of Contributions and Benefits**

3 (1) *[The purpose of t]* This **administrative** rule *[is]* **shall be construed**  
4 **consistently with the requirements of the** *[to assure compliance of the Public*  
5 *Employees Retirement System (PERS) with]* Internal Revenue Code (IRC) Section  
6 401(a)(17) relating to the limitation on annual compensation allowable for determining  
7 contribution and benefits under ORS Chapters 238 and 238A.

8 (2) *[Definitions]* **For purposes of this rule:**

9 (a) “Annual compensation” means “salary,” as defined in ORS 238.005 and 238.205  
10 with respect to Chapter 238 and in 238A.005 with respect to Chapter 238A paid to the  
11 member during a calendar year or other 12-month period, as specified in this rule.

12 (b) “Eligible participant” means a person who first becomes a member of PERS  
13 before January 1, 1996.

14 (c) “Employer” means a “public employer” as defined in ORS 238.005, for the  
15 purposes of this rule as it applies to Chapter 238. For the purposes of this rule as it  
16 applies to Chapter 238A, an “employer” means a “participating public employer” as  
17 defined in 238A.005.

18 (d) “Noneligible participant” means a person who first becomes a member of PERS  
19 after December 31, 1995.

20 (e) “Participant” means an active or inactive member of PERS.

21 (3) For eligible participants, the limit set forth in IRC Section 401(a)(17) shall not  
22 apply for purposes of determining the amount of employee or employer contributions that

1 may be paid into PERS, and for purposes of determining benefits due under ORS  
2 Chapters 238 and 238A. The limit on annual compensation for eligible participants shall  
3 be no less than the amount which was allowed to be taken into account for purposes of  
4 determining contributions or benefits under former ORS 237.001 to 237.315 as in effect  
5 on July 1, 1993.

6 (4) For noneligible participants, the annual compensation taken into account for  
7 purposes of determining contributions or benefits under ORS Chapters 238 and 238A  
8 shall be measured on a calendar year basis, and shall not exceed ~~[\$275,000]~~ \$280,000 per  
9 calendar year beginning in ~~[2018]~~ 2019.

10 (a) The limitation on annual compensation will be indexed by cost-of-living  
11 adjustments in subsequent years as provided in IRC Section 401(a)(17)(B).

12 (b) A noneligible participant employed by two or more agencies or instrumentalities  
13 of a PERS participating employer in a calendar year, whether concurrently or  
14 consecutively, shall have all compensation paid by the employer combined for  
15 determining the allowable annual compensation under this rule.

16 (c) PERS participating employers shall monitor annual compensation and  
17 contributions to assure that reports and remitting are within the limits established by this  
18 rule and IRC Section 401(a)(17).

19 (5) For a noneligible participant, Final Average Salary under ORS 238.005 with  
20 respect to Chapter 238 and under 238A.130 with respect to Chapter 238A shall be  
21 calculated based on the amount of compensation that is allowed to be taken into account  
22 under this rule.

1           (6) Notwithstanding sections (4) and (5) of this rule, if the Final Average Salary as  
2 defined in ORS 238.005 with respect to Chapter 238 and as defined in 238A.130 with  
3 respect to Chapter 238A is used in computing a noneligible participant’s retirement  
4 benefits, the annual compensation shall be based on compensation paid in a 12-month  
5 period beginning with the earliest calendar month used in determining the 36 months of  
6 salary paid. For each 12-month period, annual compensation shall not exceed the amount  
7 of compensation that is allowable under this rule for the calendar year in which the 12-  
8 month period begins.

9           (7) With respect to ORS Chapter 238, creditable service, as defined in 238.005, shall  
10 be given for each month that an active member is paid salary or wages and allowable  
11 contributions have been remitted to PERS, or would be remitted but for the annual  
12 compensation limit in IRC Section 401(a)(17). With respect to Chapter 238A, retirement  
13 credit as determined in 238A.140, shall be given for each month that an active member is  
14 paid salary or wages and allowable contributions have been remitted to PERS, or would  
15 be remitted but for the annual compensation limit in IRC Section 401(a)(17).

16           (8) The provisions of this rule are effective on January 1, 2004.

17           Stat. Auth.: ORS 238.630, 238.650, 238A.370 & 238A.450

18           Stats. Implemented: ORS chapters 238 & 238A

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

1 **459-005-0545**

2 **Annual Addition Limitation**

3 (1) *[Applicable Law.]* This administrative rule shall be construed consistently with  
4 the requirements of the Internal Revenue Code (IRC) Section 415(c) and the Treasury  
5 regulations and Internal Revenue Service rulings and other interpretations issued  
6 thereunder.

7 (2) *[Annual Addition Limitation.]* Except as otherwise provided in this rule, a  
8 member’s annual additions to PERS for any calendar year after ~~[2017]~~ 2018 may not  
9 exceed ~~[\$55,000]~~ \$56,000 (as adjusted under IRC Section 415(d)).

10 (3) *[Annual Additions.]* For purposes of this rule, the term “annual additions” has the  
11 same meaning as under IRC Section 415(c)(2).

12 (4) *[Permissive Service Credit.]* The following special rules shall apply with respect  
13 to purchases of permissive service credit, as defined in OAR 459-005-0540, Permissive  
14 Service Credit:

15 (a) If a member’s after-tax contributions to purchase permissive service credit are  
16 included in the member’s annual additions under section (3) of this rule, the member  
17 shall not be treated as exceeding the limitation under section (2) of this rule solely  
18 because of the inclusion of such contributions.

19 (b) With respect to any eligible participant, the annual addition limitation in section  
20 (2) of this rule shall not be applied to reduce the amount of permissive service credit to an  
21 amount less than the amount that could be purchased under the terms of the plan as in



1 effect on August 5, 1997. As used in this subsection, the term “eligible participant”  
2 includes any individual who became an active member before January 1, 2000.

3 (5) *[Purchase of Service in the Armed Forces Under ORS 238.156 or 238A.150.]* If  
4 a member makes a payment to PERS to purchase retirement credit for service in the  
5 Armed Forces pursuant to 238.156(3)(c) or 238A.150 and the service is covered under  
6 Internal Revenue Code Section 414(u), the following special rules shall apply for  
7 purposes of applying the annual addition limitation in section (2) of this rule:

8 (a) The payment shall be *[treated]* allocated as an annual addition *[for]* to the  
9 calendar year to which it relates; and

10 *[(b) The payment shall not be treated as an annual addition for the calendar year in*  
11 *which it is made; and]*

12 *[(c)]*(b) The member shall be treated as having received the following amount of  
13 compensation for the period of service in the Armed Forces to which the payment relates:

14 (A) The amount of compensation the member would have received from a  
15 participating employer had the member not been in the Armed Forces; or

16 (B) If the amount in paragraph (A) of this subsection is not reasonably certain, the  
17 member’s average compensation from the participating employer during the 12-month  
18 period immediately preceding the period of service in the Armed Forces (or, if shorter,  
19 the period of employment immediately preceding the period of service in the Armed  
20 Forces).

21 (6) The provisions of this rule are effective on January 1, 2004.

22 Stat. Auth.: ORS 238.630, 238.650, 238A.370 & 238A.450

23 Stats. Implemented: ORS 238.005 - 238.715, 238A.370

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

1 **459-017-0060**

2 **Reemployment of Retired Members**

3 (1) For purposes of this rule, “retired member” means a member of the PERS  
4 Chapter 238 Program who is retired for service.

5 (2) *[Reemployment under ORS 238.082.]* A retired member may be employed under  
6 ORS 238.082 by a participating employer without loss of retirement benefits provided:

7 (a) The period or periods of employment with one or more participating employers  
8 total less than 1,040 hours in a calendar year; or

9 (b) If the retired member is receiving retirement, survivors, or disability benefits  
10 under the federal Social Security Act, the period or periods of employment total less than  
11 either 1,040 hours in a calendar year, or the total number of hours in a calendar year that,  
12 at the retired member’s specified hourly rate of pay, would cause the annual  
13 compensation of the retired member to exceed the following Social Security annual  
14 compensation limits, whichever is greater.

15 (A) For retired members who have not reached full retirement age under the Social  
16 Security Act, the annual compensation limit is *[\$17,040]* \$17,640; or

17 (B) For the calendar year in which the retired member reaches full retirement age  
18 under the Social Security Act and only for compensation for the months before reaching  
19 full retirement age, the annual compensation limit is *[\$45,360]* \$46,920.

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

22 (4) The limitations on employment in section (2) of this rule do not apply if:

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

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

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

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

12 (B) If the retired member retired at a reduced benefit under the provisions of ORS  
13 238.280(1) or (3), the retired member is not so employed until more than six months after  
14 the member’s effective retirement date and the member’s retirement otherwise meets the  
15 standard of a bona fide retirement;

16 (d) The retired member meets the requirements of section 2, chapter 499, Oregon  
17 Laws 2007, as amended by section 1, chapter 108, Oregon Laws 2015;

18 (e) The retired member meets the requirements of section 2, chapter 475, Oregon  
19 Laws 2015;

20 (f) The retired member is employed for service during a legislative session under  
21 ORS 238.092(2);

22 (g) The retired member meets the requirements of ORS 238.088(2), and did not  
23 retire at a reduced benefit under the provisions of ORS 238.280(1), (2) or (3); or

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

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

6 (6) For purposes of ORS 238.082(6), a retired member replaces an employee if the  
7 retired member:

8 (a) Is assigned to the position of the employee; and

9 (b) Performs the duties of the employee or duties that might be assigned to an  
10 employee in that position.

11 (7) If a retired member is reemployed subject to the limitations of ORS 238.082 and  
12 section (2) of this rule, the period or periods of employment subsequently exceed those  
13 limitations, and employment continues into the month following the date the limitations  
14 are exceeded:

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

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

17 (i) If the member is receiving a monthly service retirement allowance, the last  
18 payment to which the member is entitled is for the month in which the limitations were  
19 exceeded.

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

1            (iii) If the member received a single lump sum payment under ORS 238.305(4) or  
2 238.315, the member is entitled to the payment provided the payment was dated on or  
3 before the last day of the month in which the limitations were exceeded.

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

6            (B) The member will reestablish active membership the first of the calendar month  
7 following the month in which the limitations were exceeded.

8            (C) The member’s account must be rebuilt in accordance with the provisions of  
9 section (9) of this rule.

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

11           (A) PERS will cancel the member’s retirement effective the date the member was  
12 reemployed.

13           (B) All retirement benefits received by the member must be repaid to PERS in a  
14 single payment.

15           (C) The member will reestablish active membership effective the date the member  
16 was reemployed.

17           (D) The member account will be rebuilt as of the date that PERS receives the single  
18 payment. The amount in the member account must be the same as the amount in the  
19 member account at the time of the member’s retirement.

20           (8) For purposes of determining period(s) of employment in section (2) of this rule:

21           (a) Hours of employment are hours on and after the retired member’s effective  
22 retirement date for which the member receives wages, salary, paid leave, or other  
23 compensation.

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

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

7 (a) PERS will cancel the member’s retirement effective the date the member is  
8 reemployed.

9 (b) The member will reestablish active membership on the date the member is  
10 reemployed.

11 (c) If the member elected a benefit payment option other than a lump sum option  
12 under ORS 238.305(2) or (3), the last monthly service retirement allowance payment to  
13 which the member is entitled is for the month before the calendar month in which the  
14 member is reemployed. Upon subsequent retirement, the member may choose a different  
15 benefit payment option.

16 (A) The member’s account will be rebuilt as required by ORS 238.078 effective the  
17 date active membership is reestablished.

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

22 (d) If the member elected a partial lump sum option under ORS 238.305(2), the last  
23 monthly service retirement allowance payment to which the member is entitled is for the

1 month before the calendar month in which the member is reemployed. The last lump sum  
2 or installment payment to which the member is entitled is the last payment due before the  
3 date the member is reemployed. Upon subsequent retirement, the member may not  
4 choose a different benefit payment option unless the member has repaid to PERS in a  
5 single payment an amount equal to the lump sum and installment benefits received and  
6 the earnings that would have accumulated on that amount.

7 (A) The member’s account will be rebuilt as required by ORS 238.078 effective the  
8 date active membership is reestablished.

9 (B) Amounts from the BIF credited to the member’s account under the provisions of  
10 paragraph (A) of this subsection, excluding any amounts attributable to repayment by the  
11 member, will be credited with earnings at the BIF rate or the assumed rate, whichever is  
12 less, from the date of retirement to the date of active membership.

13 (e) If the member elected the total lump sum option under ORS 238.305(3), the last  
14 lump sum or installment payment to which the member is entitled is the last payment due  
15 before the date the member is reemployed. Upon subsequent retirement, the member may  
16 not choose a different benefit payment option unless the member has repaid to PERS in a  
17 single payment an amount equal to the benefits received and the earnings that would have  
18 accumulated on that amount.

19 (A) If the member repays PERS as described in this subsection the member’s  
20 account will be rebuilt as required by ORS 238.078 effective the date that PERS receives  
21 the single payment.

1 (B) If any amounts from the BIF are credited to the member’s account under the  
2 provisions of paragraph (A) of this subsection, the amounts may not be credited with  
3 earnings for the period from the date of retirement to the date of active membership.

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

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

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

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

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

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

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

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

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

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

22 (a) PERS will cancel the member’s retirement effective the date the member is  
23 reemployed.



1 (b) All retirement benefits received by the member must be repaid to PERS in a  
2 single payment.

3 (c) The member will reestablish active membership effective the date the member is  
4 reemployed.

5 (d) The member account will be rebuilt as of the date that PERS receives the single  
6 payment. The amount in the member account must be the same as the amount in the  
7 member account at the time of the member’s retirement.

8 (e) Upon subsequent retirement, the member may choose a different benefit payment  
9 option.

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

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

17 (13) *[Reporting requirement.]* A participating employer that employs a retired  
18 member must notify PERS in a format acceptable to PERS under which statute the retired  
19 member is employed.

20 (a) Upon request by PERS, a participating employer must certify to PERS that a  
21 retired member has not exceeded the number of hours allowed under ORS 238.082 and  
22 section (2) of this rule.

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

4 (c) Participating employers must provide information requested under this section  
5 within 30 days of the date of the request.

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

9 (15) Subsections (4)(c) and (4)(d) of this rule are repealed effective January 2, 2026.

10 (16) Subsection (4)(e) of this rule is repealed effective June 30, 2018.

11 Stat. Auth.: ORS 238.650

12 Stats. Implemented: ORS 238.078, 238.082, 238.088, 238.092, 399.075, 2007 OL  
13 Ch. 499 & 774, 2015 OL Ch. 108 & 475

**OREGON ADMINISTRATIVE RULE  
PUBLIC EMPLOYEES RETIREMENT BOARD  
CHAPTER 459  
DIVISION 080 – OPSRP INDIVIDUAL ACCOUNT PROGRAM**

1 **459-080-0500**

2 **Limitation on Contributions**

3 (1) *[Definitions.]* For purposes of this rule, *[:]*

4 *[(a)]* “[A] annual addition” has the same meaning given the term in 26 U.S.C.

5 415(c)(2).

6 *[(b)]* “*Compensation*” has the same meaning given the term in 26 U.S.C.

7 *415(c)(3)(A).]*

8 (2) *[Annual addition limitation.]* Except as otherwise provided in this rule, the

9 annual addition to a member account for any calendar year may not exceed *[\$55,000]*

10 \$56,000 effective January 1, *[2018]* 2019.

11 (3) *[Payment for military service.]* If a payment of employee contributions for a  
12 period of military service is made under OAR 459-080-0100:

13 (a) The payment shall be *[treated]* allocated as an annual addition *[for]* to the  
14 calendar year(s) of military service to which it relates; and

15 *[(b)]* *The payment shall not be treated as an annual addition for the calendar year in*  
16 *which it is made; and]*

17 *[(c)]* (b) For the purpose of *[allocating payments]* determining the amount of the  
18 payment under this section, the member’s compensation shall be *[the amount described*  
19 *in]* determined under OAR 459-080-0100(3)(d).

20 Stat. Auth.: ORS 238A.450

21 Stats. Implemented: ORS 238A.370



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

April 1, 2019

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

### **LEGISLATION IMPACTING PERS STATUTES, RETIREMENT, or REFERS to PERS**

As of March 12, 2019, more than 2,600 bills have been introduced for consideration during session. Of those, we found 54 that directly impact PERS statutes or refer to PERS. Other bills may have an impact on various aspects of agency operations (public records, administrative rules, procurement, human resources, etc.). During session, our highest priority is to monitor bills that impact the PERS plan directly by amending or adding to ORS Chapters 238 and 238A, that refer to “retirement”, or that include incidental reference to PERS in non-PERS statutes.

With few exceptions, committees have until April 9 to hold work sessions on first chamber bills (House Bills in the House and Senate Bills in the Senate). The following 54 bills qualify for close monitoring. Official information about all legislation is available on the legislative website:

<https://www.oregonlegislature.gov/>

| <b>Bill</b> | <b>Bills impacting PERS statutes or refer to PERS</b>   |
|-------------|---|
| HB 2118     | Relating to consumer price index  |
| HB 2133     | Relating to tax credits for pension income  |
| HB 2155     | Relating to connection to federal tax law; prescribing an effective date  |
| HB 2288     | Relating to revenues from sports betting  |
| HB 2335     | Relating to reemployment of retired members of the Public Employees Retirement System   |
| HB 2417     | Relating to death benefits under the Public Employees Retirement System   |
| HB 2616     | Relating to payments under the Public employees Retirement System subject to Oregon personal income tax; declaring an emergency |
| HB 2646     | Relating to salary under Public Employees Retirement System   |
| HB 2647     | Relating to the status in the Public Employees Retirement System of police officers commissioned by universities                |
| HB 2648     | Relating to public safety at community colleges   |
| HB 2756     | Relating to police officers under the Public Employees Retirement System.   |
| HB 2785     | Relating to members of the Public Employees Retirement System employed by the Oregon State Hospital; declaring an emergency     |
| HB 2786     | Relating to the status of district attorneys in the Public Employees Retirement System  |
| HB 2838     | Relating to reemployment of retired members of the Public Employees Retirement System   |
| HB 2861     | Relating to the individual account program of the Public Employees Retirement System; declaring an emergency                    |
| HB 2911     | Relating to moneys appropriated for payment of expenses of members of the Legislative Assembly; declaring an emergency          |
| HB 2927     | Relating to public employees placed on administrative leave   |
| HB 2972     | Relating to retirement of employees of Harney County Health District; declaring an emergency                                    |
| HB 2993     | Relating to the retirement benefits of state officers; declaring an emergency   |
| HB 3007     | Relating to estates   |

Legislative Update

4/1/19

Page 2 of 3

|         |   |
|---------|---|
| HB 3101 | Relating to university shared services; declaring an emergency  |
| HB 3123 | Relating to bonds to finance pension liabilities; prescribing an effective date   |
| HB 3128 | Relating to the Oregon Public Service Retirement Plan   |
| HB 3130 | Relating to reemployment of retired members of the Public Employees Retirement System   |
| HB 3146 | Relating to Corrections   |
| HB 3166 | Relating to revenue estimates; declaring an emergency; providing for revenue estimate modification that requires approval by a two-thirds majority                                    |
| SB 4    | Relating to higher education  |
| SB 29   | Relating to public health; declaring an emergency   |
| SB 75   | Relating to employer contributions to the Public Employees Retirement System; declaring an emergency  |
| SB 148  | Relating to public employee retirement; declaring an emergency  |
| SB 149  | Relating to public employee retirement  |
| SB 187  | Relating to judicial marshals; prescribing an effective date  |
| SB 198  | Relating to tax credits for pension income  |
| SB 213  | Relating to connection to federal tax law; prescribing an effective date  |
| SB 343  | Relating to employee contributions to the Public Employees Retirement System; declaring an emergency  |
| SB 355  | Relating to correction of erroneous material in Oregon law  |
| SB 531  | Relating to public employee retirement; declaring an emergency  |
| SB 532  | Relating to contributions to the Individual Account Program of the Public Employees Retirement System   |
| SB 533  | Relating to redirection of the employee contribution under the Public Employees Retirement System; declaring an emergency   |
| SB 550  | Relating to a contract preventing contributions to the Oregon Retirement Savings Plan from being combined with moneys in the Public Employees Retirement Fund; declaring an emergency |
| SB 551  | Relating to public employee retirement  |
| SB 554  | Relating to the calculation of final average salary under the Public Employees Retirement System  |
| SB 555  | Relating to distributions under the Individual Account Program of the Public Employees Retirement System  |
| SB 576  | Relating to campus security officers  |
| SB 601  | Relating to education; declaring an emergency   |
| SB 610  | Relating to bonding by education districts  |
| SB 617  | Relating to itemized pay statements provided by public bodies   |
| SB 634  | Relating to salary of employees of public charter schools under the Oregon Public Service Retirement Plan   |
| SB 641  | Relating to public employee retirement; declaring an emergency  |
| SB 705  | Relating to employer contributions to the Public Employees Retirement System  |
| SB 768  | Relating to reemployment of retired members of the Public Employees Retirement System   |
| SB 770  | Relating to statewide health care coverage; declaring an emergency  |
| SB 879  | Relating to caps on payment of persons who interact with state government   |
| SB 934  | Relating to reemployment of retired members of the Public Employees Retirement System; prescribing an effective date  |

### **PERS BUDGET PRESENTATIONS**

In late February, the Ways and Means Subcommittee on General Government held four public hearings on House Bill 5032, the PERS budget bill. Conversation included overviews of PERS, the System and Agency, and highlights of agency budget structure and requests. Access meeting videos and materials at the below link:

<https://olis.leg.state.or.us/liz/2019R1/Measures/Overview/HB5032>

On March 7, we were invited to present to the Joint Committee on Information Management and Technology (IMT) regarding parts of our budget request related to technology. Access meeting videos and materials at the following link:

<https://olis.leg.state.or.us/liz/2019R1/Committees/JLCIMT/2019-03-07-13-00/Agenda>

We anticipate at least one more presentation to the Joint Committee on IMT before we are scheduled for additional budget conversations with the General Government Subcommittee towards late-April.

### **SUBCOMMITTEE on CAPITAL CONSTRUCTION**

Beginning in mid-February, the Joint Ways and Means Subcommittee on Capital Construction held several meetings in order to hear a PERS System Overview; understand system liabilities and assets; learn about system earnings and expenses; and to learn about employer contribution rates and employee contributions. We anticipate that the committee will hear public testimony and make recommendations about PERS. Access videos and materials at the link below:

<https://olis.leg.state.or.us/liz/2019R1/Committees/JWMCC/Overview>



# Oregon

Kate Brown, Governor

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April 1, 2019

TO: Members of the PERS Board

FROM: Jessica Williams, Chief Financial Officer  
Amanda Marble, Financial Reporting Manager

SUBJECT: 2018 Final Earnings Crediting and Reserving

### OVERVIEW

- Action: Allocate 2018 final earnings crediting.
- Subject: Crediting earnings for calendar year 2018 to the PERS Fund's accounts and reserves.

The PERS Board is charged with crediting the earnings from the PERS Fund each calendar year. Some of those allocations are directed by statute or rule; the balance is at the PERS Board's discretion.

### 2018 FINAL ALLOCATIONS

The PERS Board's Annual Earnings Crediting rule (see OAR 459-007-0005) directs the crediting to the Judge and Tier Two member regular accounts, as well as the OPSRP Pension Program, Benefits-in-Force, and Employer reserves. Staff recommends the following allocations be adopted by the PERS Board:

#### **Non-Discretionary Allocations**

##### **1. Tier One Member Regular Accounts Reserve and Judge Member Accounts**

Credit Tier One member regular accounts and Judge member accounts with the assumed earnings rate (7.20%) in effect during 2018.

**Tier One Rate Guarantee Reserve:** This reserve, established under ORS 238.255(1), is used to fund crediting of the assumed rate to Tier One member regular accounts when earnings are less than the assumed rate. A transfer of \$252.9 million from the existing reserve will be credited to Tier One member regular accounts for 2018 earnings crediting, resulting in a remaining balance of \$257.6 million.

##### **2. Tier Two Member Regular Accounts**

Credit Tier Two member regular accounts with a proportional share of available PERS Fund Regular Account earnings, which will result in a final rate of 0.23%.

##### **3. Benefits-in-Force and Employer Reserves**

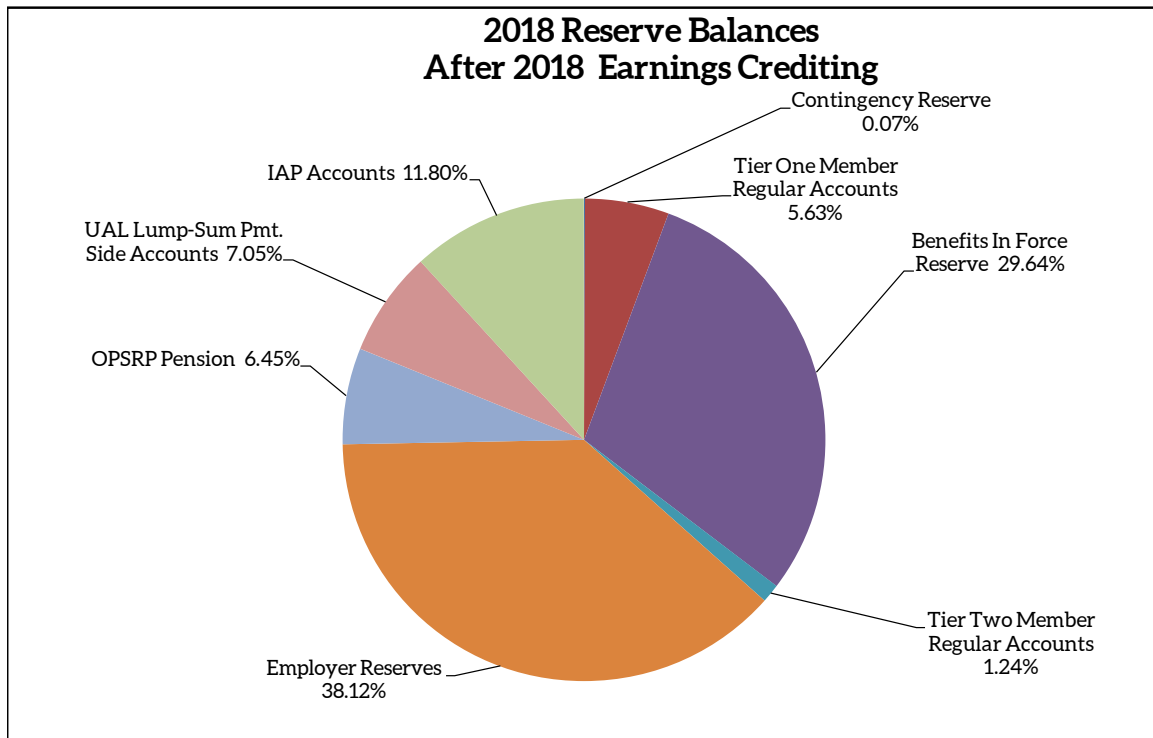
Credit the Benefits-in-Force and Employer Reserves evenly with the remaining available PERS Fund Regular Account earnings, which will result in a final rate of 0.23%.

##### **4. OPSRP Pension Plan Member Accounts**

OPSRP member accounts usually are credited with a proportional share of available PERS Fund Regular Account earnings, which will result in a final rate of 0.24%.

| Oregon Public Employees Retirement System<br>Final 2018 Crediting and Reserving |                           |                |                          |            |
|---|---------------------------|----------------|--------------------------|------------|
| (All dollar amounts in millions)  |                           |                |                          |            |
|   | Reserves Before Crediting | 2018 Crediting | Reserves After Crediting | 2018 Rates |
| Tier One Member Regular Accounts  | 3,647.7                   | 262.6          | 3,910.3                  | 7.20%      |
| Tier One Rate Guarantee Reserve   | 510.5                     | (252.9)        | 257.6                    | N/A        |
| Tier Two Member Regular Accounts  | 915.5                     | 2.1            | 917.6                    | 0.23%      |
| Benefits In Force Reserve   | 21,885.6                  | 51.3           | 21,936.9                 | 0.23%      |
| Employer Reserves   | 28,148.0                  | 65.7           | 28,213.7                 | 0.23%      |
| OPSRP Pension   | 4,764.3                   | 11.8           | 4,776.1                  | 0.24%      |
| *IAP Accounts, as a whole   | 8,787.5                   | (55.5)         | 8,732.0                  | -0.63%     |
| *UAL Lump-Sum Pmt. Side Accounts  | 5,180.0                   | 33.4           | 5,213.4                  | Various ** |
| Contingency Reserve   | 50.0                      | -              | 50.0                     | N/A        |
| <b>Total</b>  | <b>\$73,889.1</b>         | <b>\$118.5</b> | <b>\$74,007.6</b>        |            |

\*\* The average of the various final earnings rates is 0.42%



\*Informational only. Not affected by Board reserving or crediting decisions.  
 IAP accounts receiving installments have already received 2018 earnings.

**EARNINGS ALLOCATIONS DIRECTED BY STATUTE OR RULE**

The following reserves and accounts are allocated earnings by applicable statute or rule. In compliance with these restrictions, the final earnings allocation reflects the following:



- 5. Individual Account Program (IAP):** These member accounts are credited with actual earnings or losses of the PERS Fund Regular Account as required by ORS 238A.350 (1). The overall Final IAP earnings for 2018 are -0.64% after deducting IAP expenses. The table below illustrates the IAP earnings by tranche.

| Oregon Public Employees Retirement System<br>Final IAP TDF Earnings |                           |                     |                          |            |
|---|---------------------------|---------------------|--------------------------|------------|
| (All dollar amounts in thousands)                                   |                           |                     |                          |            |
| TDF Fund  | Reserves Before Crediting | 2018 Crediting      | Reserves After Crediting | 2018 Rates |
| RET Fund  | 360,995.3                 | 6,307.9             | \$367,303.2              | 1.74%      |
| 2020 Fund   | 959,071.3                 | 1,616.2             | 960,687.5                | 0.16%      |
| 2025 Fund   | 1,461,891.1               | (10,358.7)          | 1,451,532.4              | -0.70%     |
| 2030 Fund   | 1,568,730.3               | (12,582.8)          | 1,556,147.5              | -0.80%     |
| 2035 Fund   | 1,612,443.5               | (3,868.4)           | 1,608,575.1              | -0.23%     |
| 2040 Fund   | 1,310,124.8               | (5,590.1)           | 1,304,534.7              | -0.42%     |
| 2045 Fund   | 919,311.0                 | (18,675.1)          | 900,635.9                | -2.03%     |
| 2050 Fund   | 440,524.3                 | (9,074.0)           | 431,450.3                | -2.05%     |
| 2055 Fund   | 134,989.9                 | (2,894.1)           | 132,095.8                | -2.14%     |
| 2060 Fund   | 19,410.7                  | (411.7)             | 18,999.0                 | -2.12%     |
| <b>Total</b>  | <b>\$8,787,492.2</b>      | <b>(\$55,530.8)</b> | <b>\$8,731,961.4</b>     |            |

- 6. Employer Lump Sum Payment Accounts:** These accounts are credited with actual earnings or losses of the PERS Fund Regular Account less administrative expenses, as authorized by ORS 238.225. For 2018, the average final crediting rate for these accounts is 0.42%.
- 7. Heath Insurance Accounts:** These accounts are created as part of the PERS Fund and directed by statute to be credited with actual earnings or losses, less the expense related to the administration of the programs (ORS 238.410(7); 238.415(4); 238.420(4)). For 2018, the final crediting rate for these accounts are 0.26% for RHIA, -0.77% for RHIPA, and 0.77% for SRHIA (invested in the Treasury Short-Term Fund).

| Oregon Public Employees Retirement System<br>Health Insurance Accounts Final Rates |        |
|--|--------|
| Health Insurance Fund  | 2018   |
| RHIA   | 0.26%  |
| RHIPA  | -0.77% |
| SRHIA *  | 0.77%  |

\* Invested in the Treasury Short-Term Fund

- 8. Variable Annuity Account:** This account is credited with earnings and losses on its distinct asset allocation of the PERS Fund. The Variable Annuity Account is only invested in equities and therefore its earnings are discrete from those of the more diversified PERS Fund Regular Account. There are insufficient Variable Annuity Account 2018 earnings to pay for administrative expenses. Per OAR 459-007-0005, these expenses will be charged to the Regular Account 2018 earnings. For 2018, the final Variable Annuity Account earnings is -10.03%.

**Administrative Expenses:** PERS administrative costs are funded by earnings when they are sufficient, as they were in 2018 (ORS 238.610(1)). As directed by House Bill 4155 (2014 Regular Session), the administrative costs to comply with Governmental Accounting Standards Board (GASB) 68 and 75 reporting standards were \$150,179, and will be recovered from earnings on employer's contributions.

### **CONTINGENCY RESERVE ALLOCATION**

ORS 238.670 (1) to limit the Board's crediting of funds to the Contingency Reserve; specifically, "...the board may not credit further amounts to the reserve account if the amounts in the reserve account exceed \$50 million."

As the current balance of the Contingency Reserve is \$50 million, with \$2.5 million earmarked for resolving employer insolvencies. The staff recommends no additional allocation at this time.

### **BOARD ACTION – FINAL EARNINGS CREDITING**

The Board's options for 2018 final earnings crediting include:

1. Pass a motion to "adopt the final crediting of earnings as presented for calendar year 2018."
2. Pass a motion adopting an alternative final allocation of 2018 earnings.

### **STAFF RECOMMENDATION**

Staff recommends the Board choose Option #1.

# OREGON PERS

PUBLIC EMPLOYEES RETIREMENT SYSTEM



2018 Final  
Earnings Crediting

PERS Board  
April 1, 2019

Jessica Williams, CFO  
Amanda Marble, FRS Manager



# PERS: 2018 Final Earnings Crediting

## Highlights:

- Beginning January 1, 2018, member IAP accounts were invested in Target Date Funds (TDF) based on year of birth. This is the first reporting of annual earnings crediting for each TDF.
- Final earnings crediting allocates \$118.5 million in 2018 (*net of expenses and other adjustments*) to member, employer and reserve accounts.
- The Board was unable to credit earnings to the Contingency Reserve. This was due to the fact that the Contingency Account balance, before crediting, was \$50 million.
  - The Board is strictly limited in crediting of funds to the Contingency Reserve; specifically, “...the board may not credit further amounts to the reserve account if the amounts in the reserve account exceed \$50 million.” The current balance of the Contingency Reserve is \$50 million, with \$2.5 million earmarked for resolving employer insolvencies.

## Earnings are calculated according to:

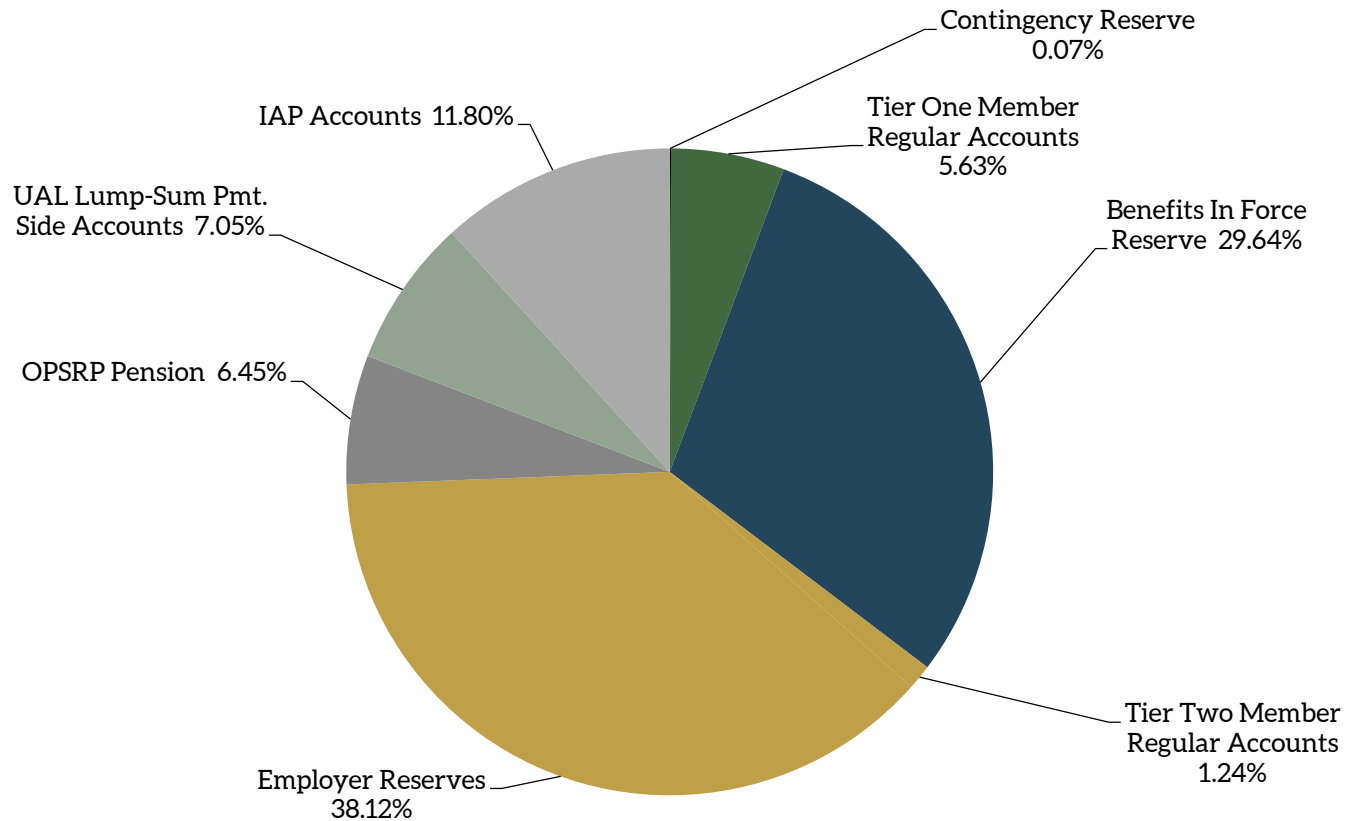
- ORS 238.670(5)
- OAR 459-007-0001

# PERS: 2018 Final Earnings Crediting

| Oregon Public Employees Retirement System<br>Final 2018 Crediting and Reserving<br>(All dollar amounts in millions) |                           |                |                          |            |
|---|---------------------------|----------------|--------------------------|------------|
| Account   | Reserves Before Crediting | 2018 Crediting | Reserves After Crediting | 2018 Rates |
| Tier One Member Regular Accounts  | 3,647.7                   | \$262.6        | 3,910.3                  | 7.20%      |
| Tier One Rate Guarantee Reserve   | 510.5                     | (252.9)        | 257.6                    | N/A        |
| Tier Two Member Regular Accounts  | 915.5                     | 2.1            | 917.6                    | 0.23%      |
| Benefits In Force Reserve   | 21,885.6                  | 51.3           | 21,936.9                 | 0.23%      |
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| *UAL Lump-Sum Pmt. Side Accounts  | 5,180.0                   | 33.4           | 5,213.4                  | Various    |
| Contingency Reserve   | \$50.0                    | -              | \$50.0                   | N/A        |
| <b>Total</b>  | <b>\$73,889.1</b>         | <b>\$118.5</b> | <b>\$74,007.6</b>        |            |

# PERS: 2018 Final Earnings Crediting

## 2018 Reserve Balances After 2018 Earnings Crediting



# PERS: 2018 Final Earnings Crediting

## Oregon Public Employees Retirement System Final IAP TDF Earnings (All dollar amounts in thousands)

| Target Date Fund                      | Reserves Before Crediting | 2018 Crediting      | Reserves After Crediting | 2018 Rates |
|---------------------------------------|---------------------------|---------------------|--------------------------|------------|
| <b>RET Fund (Born 1952 or before)</b> | \$360,995.3               | 6,307.9             | \$367,303.2              | 1.74%      |
| <b>2020 Fund (1953-1957)</b>          | 959,071.3                 | 1,616.2             | 960,687.5                | 0.16%      |
| <b>2025 Fund (1958-1962)</b>          | 1,461,891.1               | (10,358.7)          | 1,451,532.4              | -0.70%     |
| <b>2030 Fund (1963-1967)</b>          | 1,568,730.3               | (12,582.8)          | 1,556,147.5              | -0.80%     |
| <b>2035 Fund (1968-1972)</b>          | 1,612,443.5               | (3,868.4)           | 1,608,575.1              | -0.23%     |
| <b>2040 Fund (1973-1977)</b>          | 1,310,124.8               | (5,590.1)           | 1,304,534.7              | -0.42%     |
| <b>2045 Fund (1978-1982)</b>          | 919,311.0                 | (18,675.1)          | 900,635.9                | -2.03%     |
| <b>2050 Fund (1983-1987)</b>          | 440,524.3                 | (9,074.0)           | 431,450.3                | -2.05%     |
| <b>2055 Fund (1988-1992)</b>          | 134,989.9                 | (2,894.1)           | 132,095.8                | -2.14%     |
| <b>2060 Fund (Born 1993 or after)</b> | 19,410.7                  | (411.7)             | 18,999.0                 | -2.12%     |
| <b>Total</b>                          | <b>\$8,787,492.2</b>      | <b>(\$55,530.8)</b> | <b>\$8,731,961.4</b>     |            |

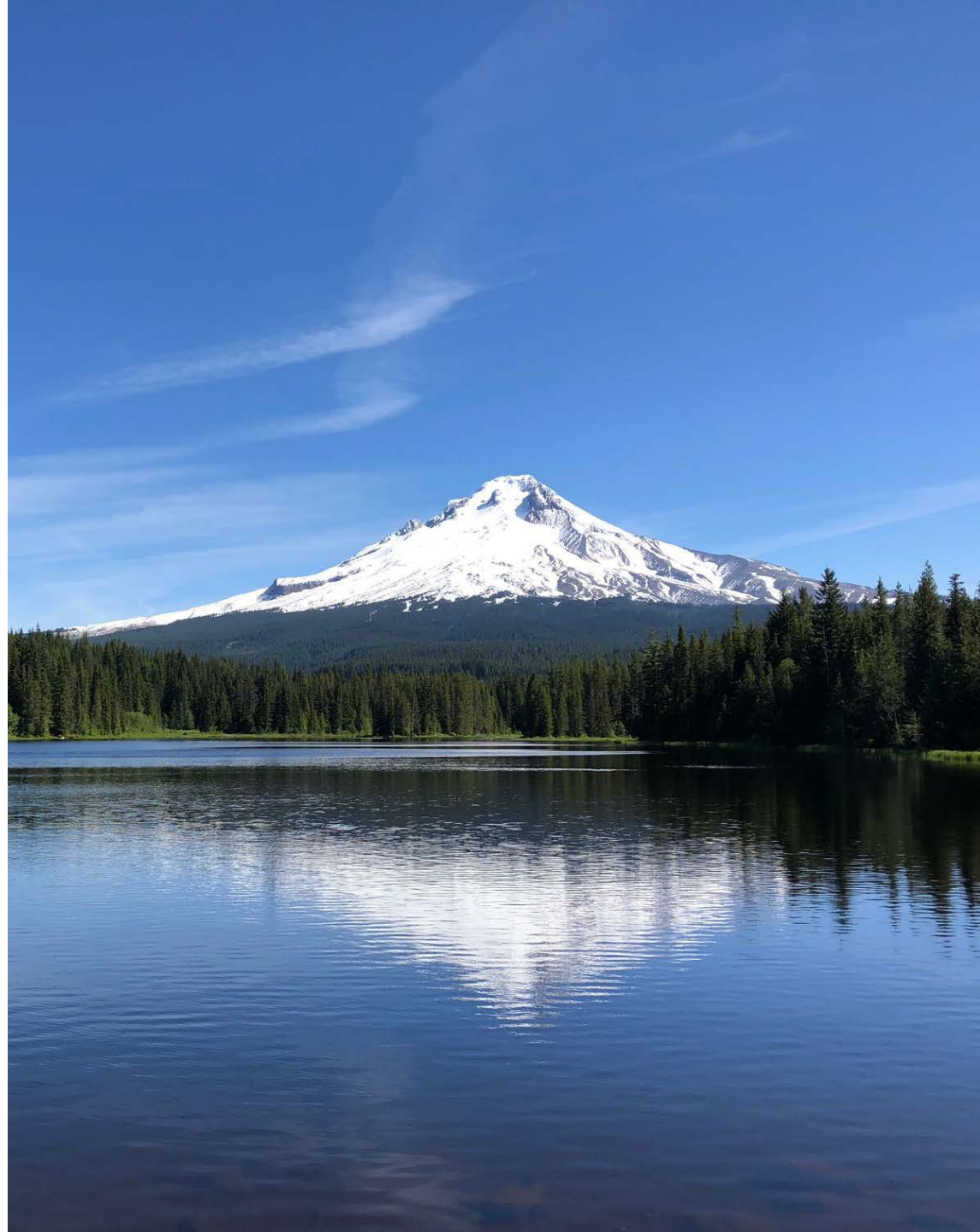


# OREGON PERS

PUBLIC EMPLOYEES RETIREMENT SYSTEM



# Thank You







# OVERVIEW OF CURRENT RATE SETTING POLICY

## OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM

Presented by:

**Matt Larrabee, FSA, EA**

**Scott Preppernau, FSA, EA**

April 1, 2019

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# Two-Year Rate-Setting Cycle

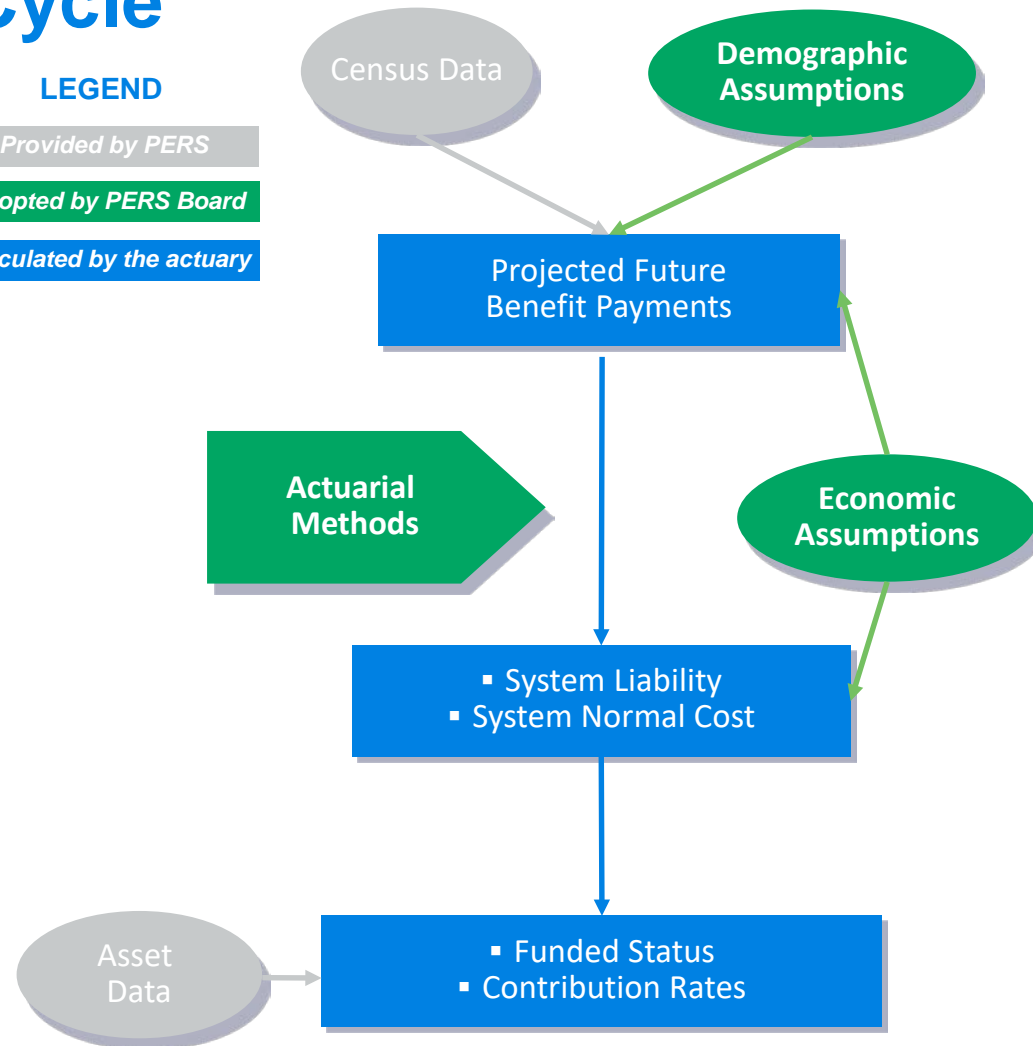
## LEGEND

*Provided by PERS*

*Adopted by PERS Board*

*Calculated by the actuary*

- **July 2019: Assumptions & methods adopted by Board in consultation with the actuary**
- October 2019: System-wide 12/31/18 actuarial valuation results
- December 2019: Advisory 2021-2023 employer-specific contribution rates
- July 2020: System-wide 12/31/19 actuarial valuation results
- September 2020: Disclosure & adoption of employer-specific **2021-2023 contribution rates**



# Valuation Process and Timeline

- Actuarial valuations are conducted annually
  - Alternate between “rate-setting” and “advisory” valuations
  - The next valuation as of 12/31/2018 will be advisory
- Board adopts 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  |
|----------------|------------------------------|
| 12/31/2015     | —————→ July 2017 – June 2019 |
| 12/31/2017     | —————→ July 2019 – June 2021 |
| 12/31/2019     | —————→ July 2021 – June 2023 |

# System-Average Weighted Pension-Only Rates

2009-2011 rates set prior to economic downturn

2011-2013 rates first to reflect -27% return in 2008

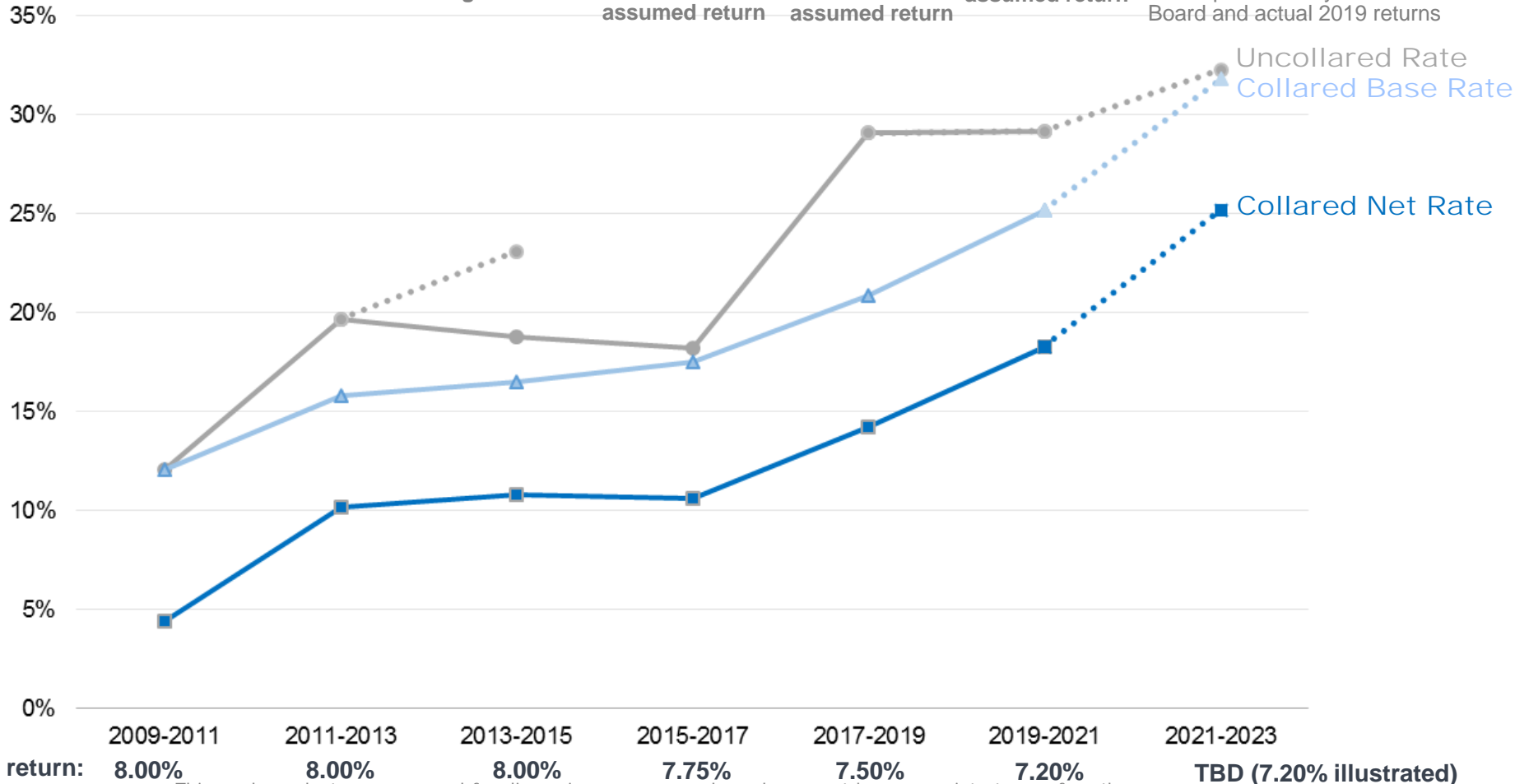
2013-2015 shown before (dotted line) and after (solid line) legislated changes

2015-2017 set pre-Moro reflecting 2012 (+14.3%) & 2013 (+15.6%) returns, first decrease in assumed return

2017-2019 set post-Moro, reflecting 2015 return (+2.1%) and second decrease in assumed return

2019-2021 reflects +15.4% return in 2017 and third decrease in assumed return

2021-2023 are preliminary estimates, based on published 2018 return of +0.48% and assumed 2019 return of 7.2%, final rates will depend on assumptions set by PERS Board and actual 2019 returns



Assumed return:

2009-2011

2011-2013

2013-2015

2015-2017

2017-2019

2019-2021

2021-2023

8.00%

8.00%

8.00%

7.75%

7.50%

7.20%

TBD (7.20% illustrated)

# The Two Components of Employer Contribution Rates

- **Normal cost rate**

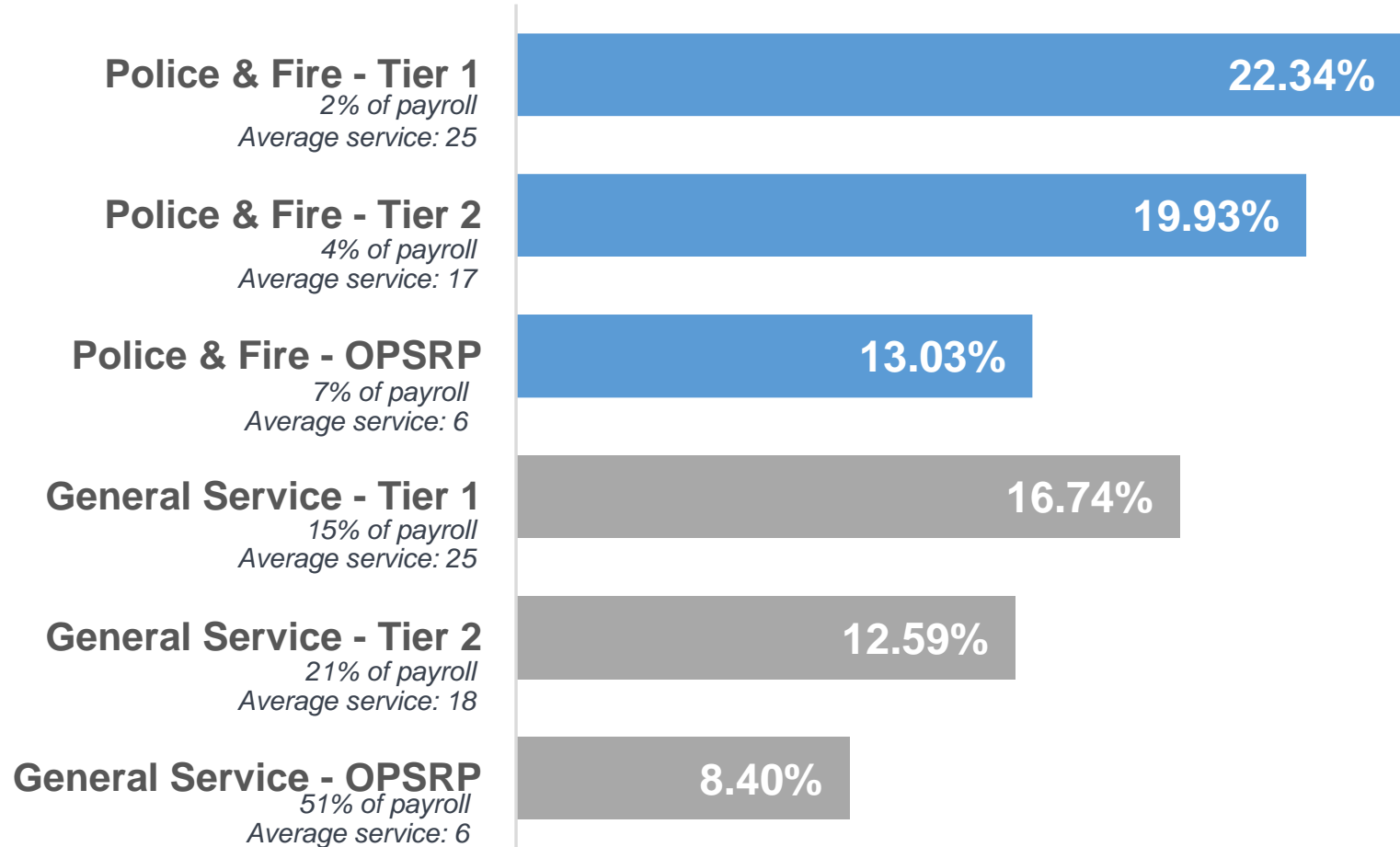
- Contribution cost of projected benefits allocated to the upcoming year's service
  - Calculated as a level percent of pay across the projected full working career
- Calculated at an individual member level, then averaged across rate groups
  - Different normal cost rate averages for general service versus police & fire members
  - Different normal cost rate averages for each membership tier
- Averaged rates differ by payroll type, and are only charged to applicable payroll
  - For example, OPSRP general service normal cost rate is only paid on OPSRP general service payroll

- **UAL (unfunded actuarial liability) rate**

- Set to systematically eliminate UAL over a specified amortization period, if actual future experience matches assumptions and assumptions remain unchanged
- Calculated at a rate pool level, not at an individual member level
- UAL rate for a given pool is charged on all of the pool's subject payroll
  - For example, Tier 1/Tier 2 UAL rate for the school district rate pool is charged on all school district subject payroll (i.e., both Tier 1/Tier 2 and OPSRP)

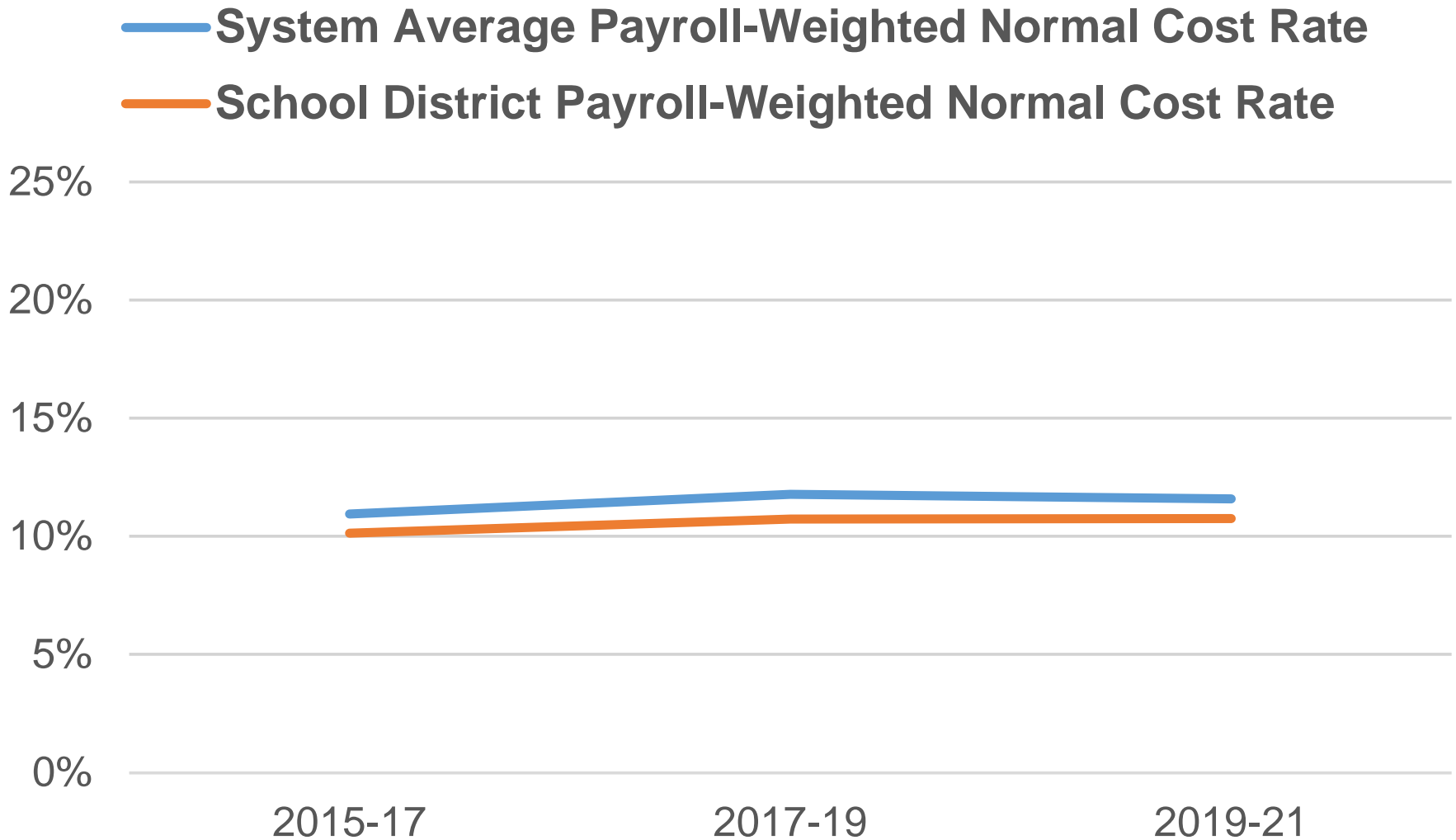
# 2019-21 Normal Cost Rates by Member Type and Tier

- The 2019-21 system average normal cost rate is **11.59%** of payroll
  - Contribution rates for the IAP, RHIA, and RHIPA programs are in addition to the normal cost rates shown below



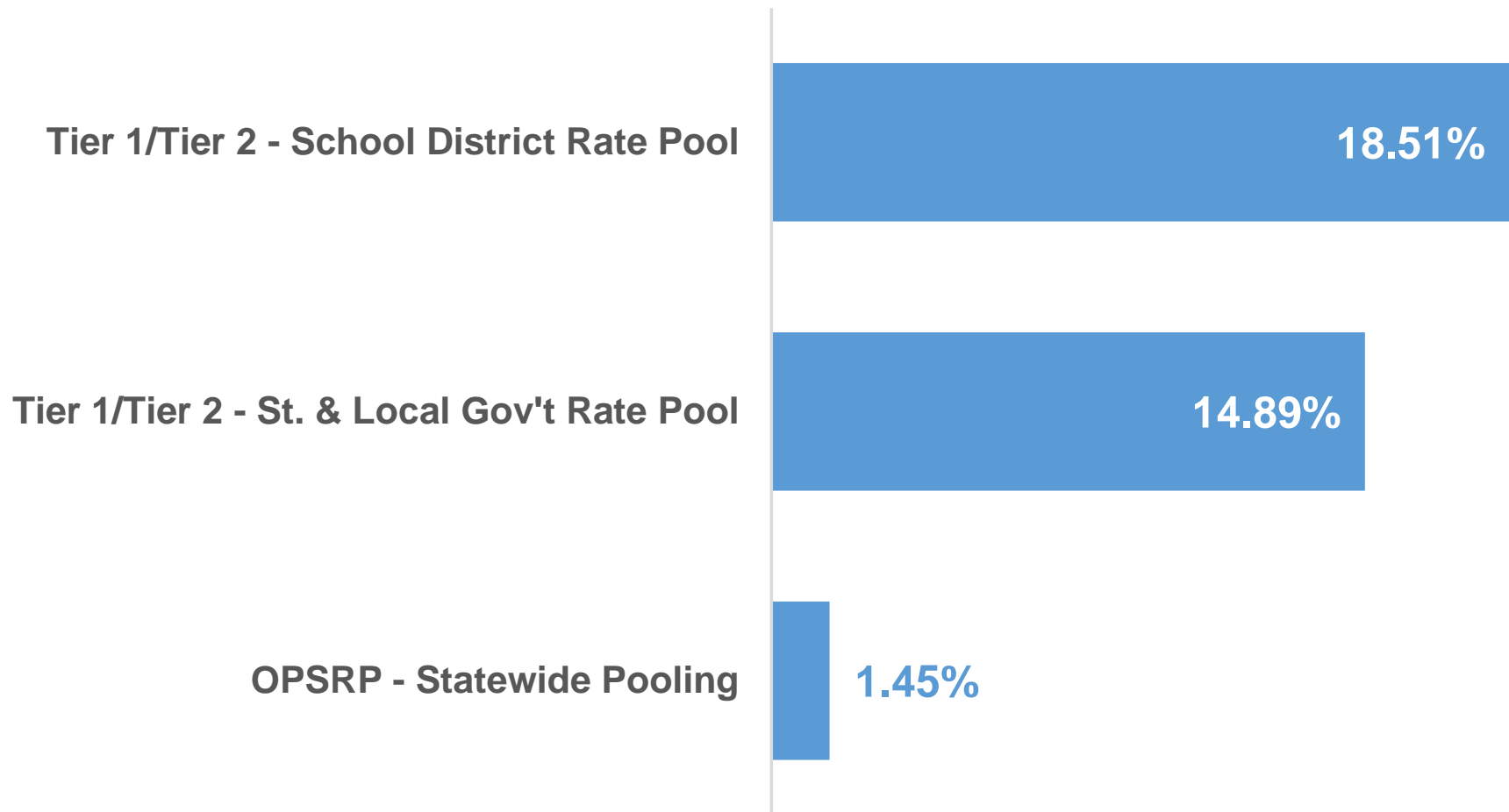
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# Normal Cost Rates Are Comparatively Stable, Predictable



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# 2019-21 Uncollared UAL Rates in the Large Rate Pools

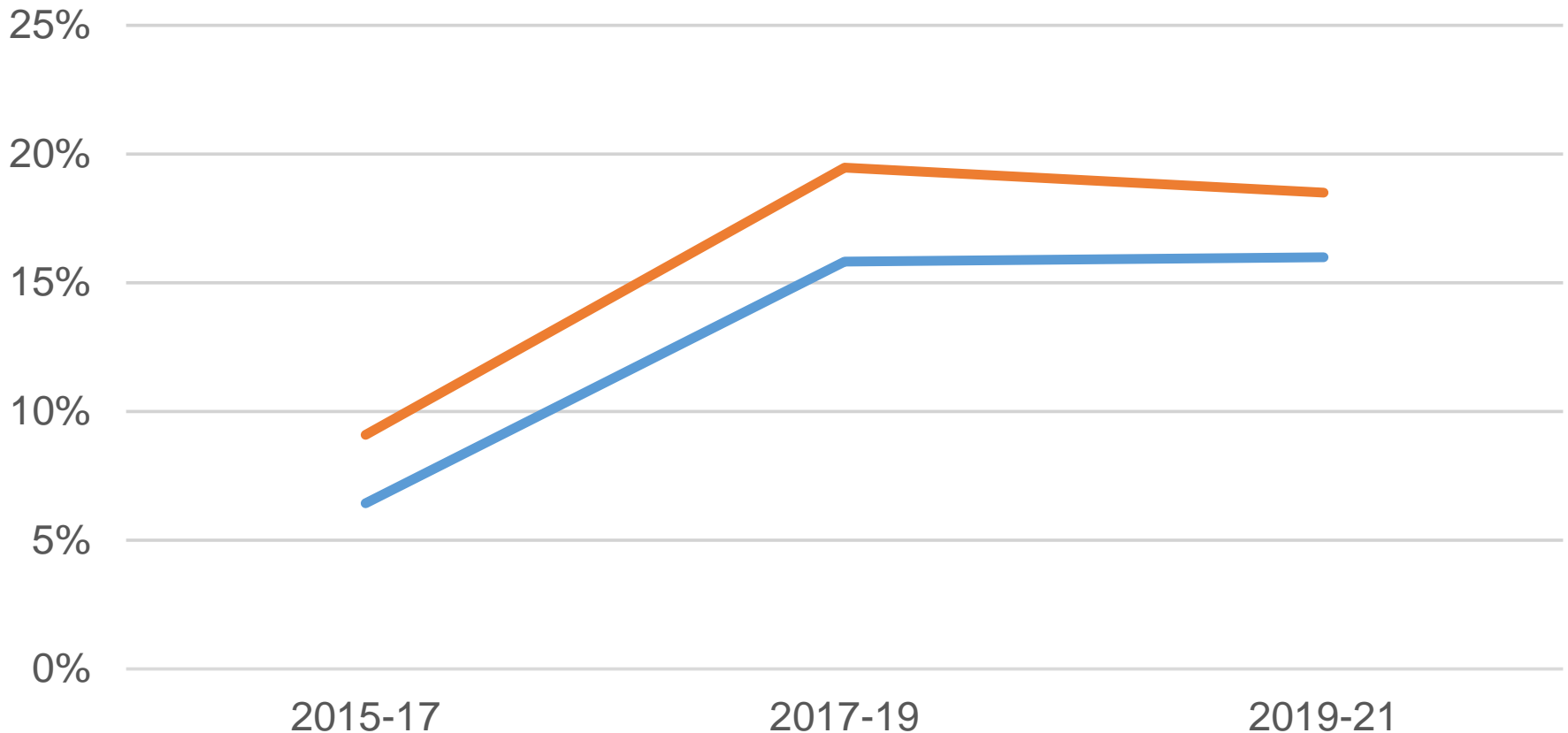


- Rates above do not reflect the effects of collaring, the UAL rate for Multnomah Fire District #10 (0.15% of payroll for most employers), employer-specific side account rate offsets, or SLGRP employer-specific pre-pooling rate charges or offsets



# Uncollared UAL Rates Change Much More Substantially

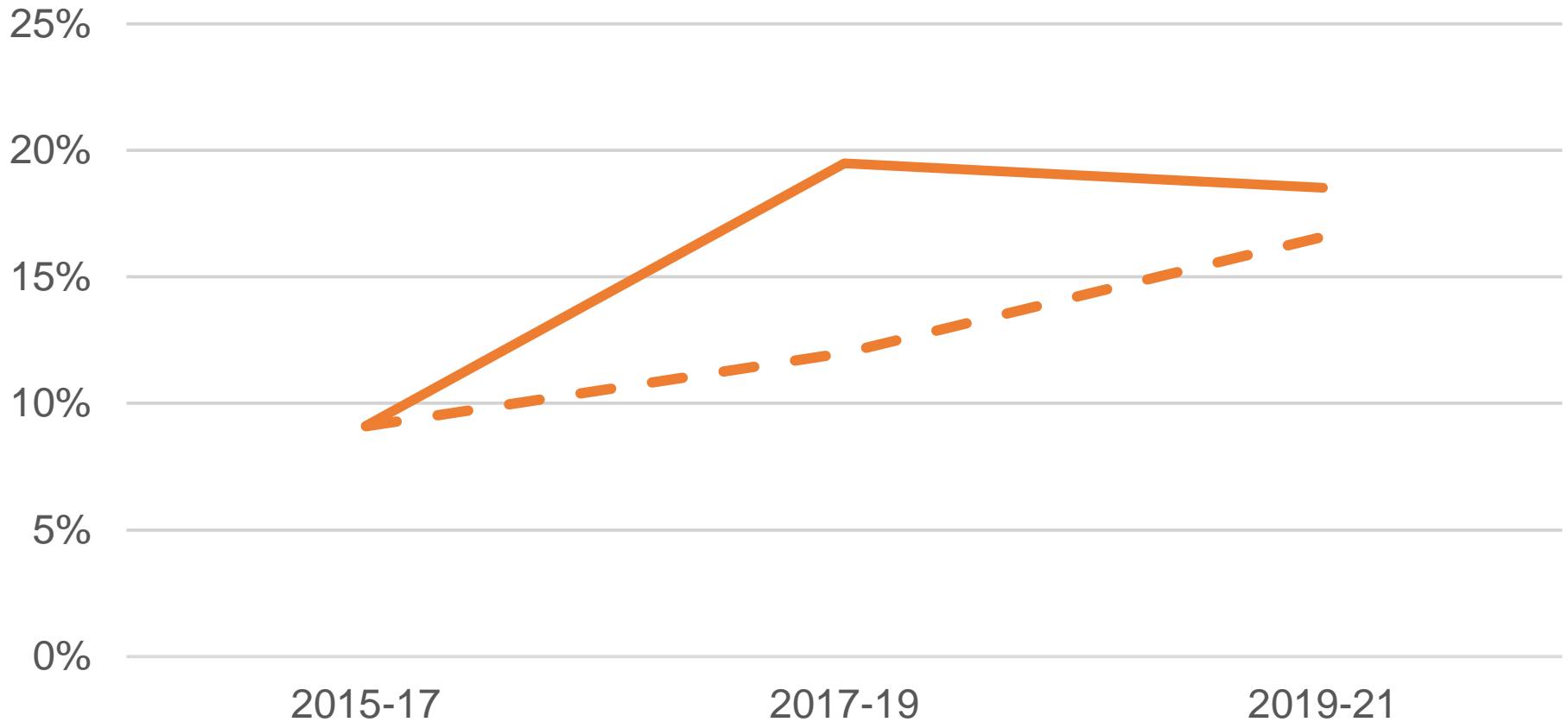
- School District Uncollared Tier 1/Tier 2 UAL Rate
- System Average Uncollared Tier 1/Tier 2 UAL Rate



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# Collaring Spreads Large UAL Rate Increases Over Time

- Solid Orange Line:** School District Uncollared Tier 1/Tier 2 UAL Rate
- Dashed Orange Line:** School District Collared Tier 1/Tier 2 UAL Rate

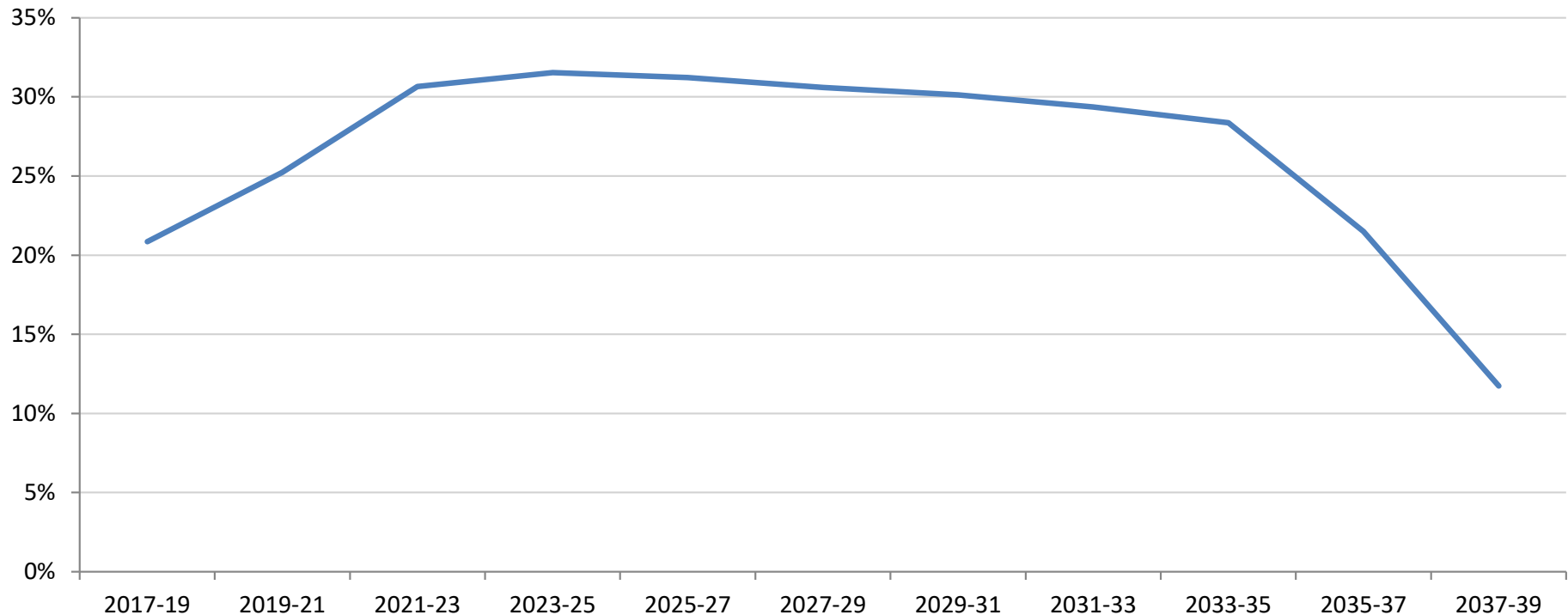


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# Modeling Tests Actuarial Soundness of Adopted Methods

## System Average Collared Base Pension Contribution Rates

— +7.20% Actual Future Return

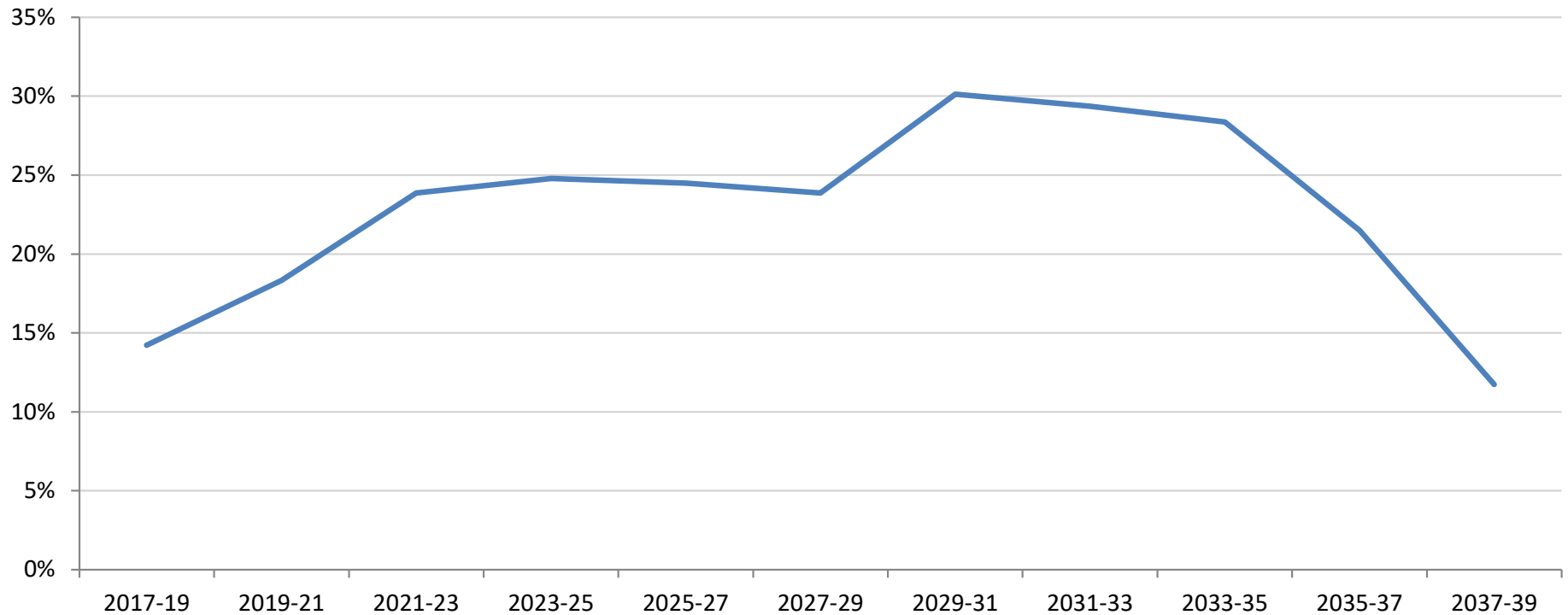


- This chart is an excerpt from the December 2018 financial modeling presentation to the PERS Board, which reflected published investment results through October 31, 2018

# Modeling Tests Actuarial Soundness of Adopted Methods

## System Average Collared Net Pension Contribution Rates

— +7.20% Actual Future Return

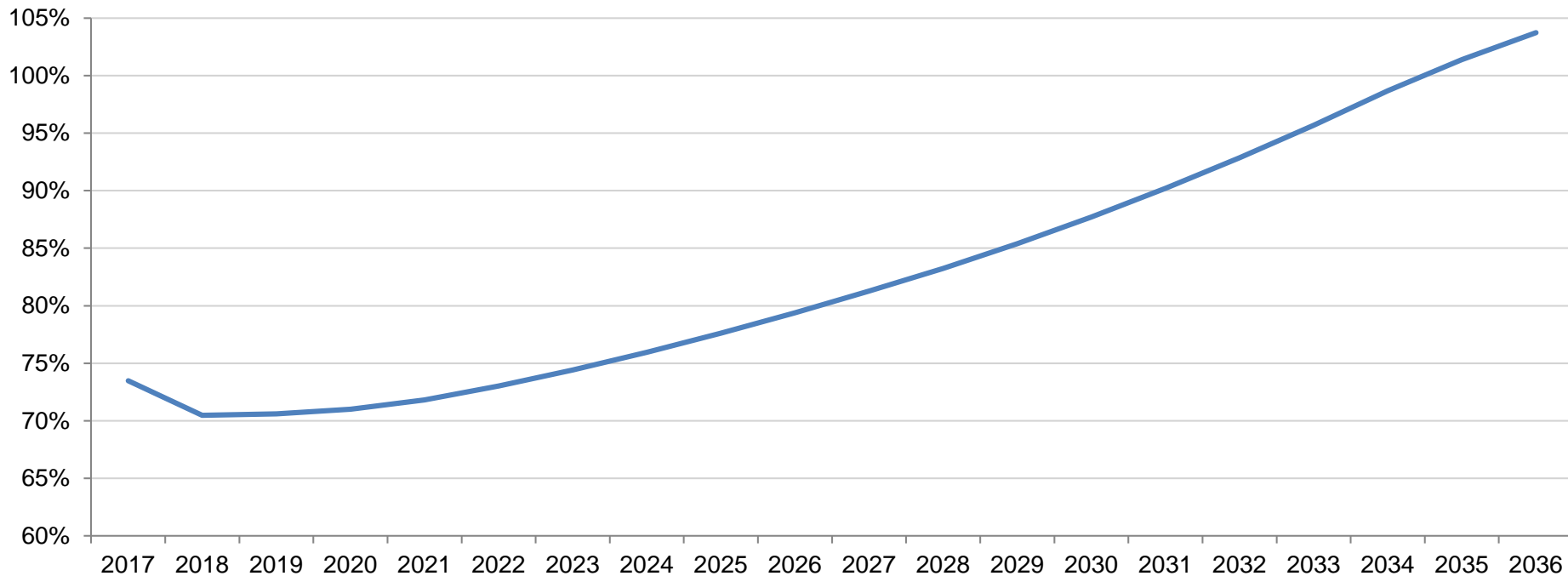


- This chart uses the same basis as the December 2018 financial modeling presentation to the PERS Board, which reflected published investment results through October 31, 2018

# Modeling Tests Actuarial Soundness of Adopted Methods

System Average Funded Status (Excluding Side Accounts)

— +7.20% Actual Future Return

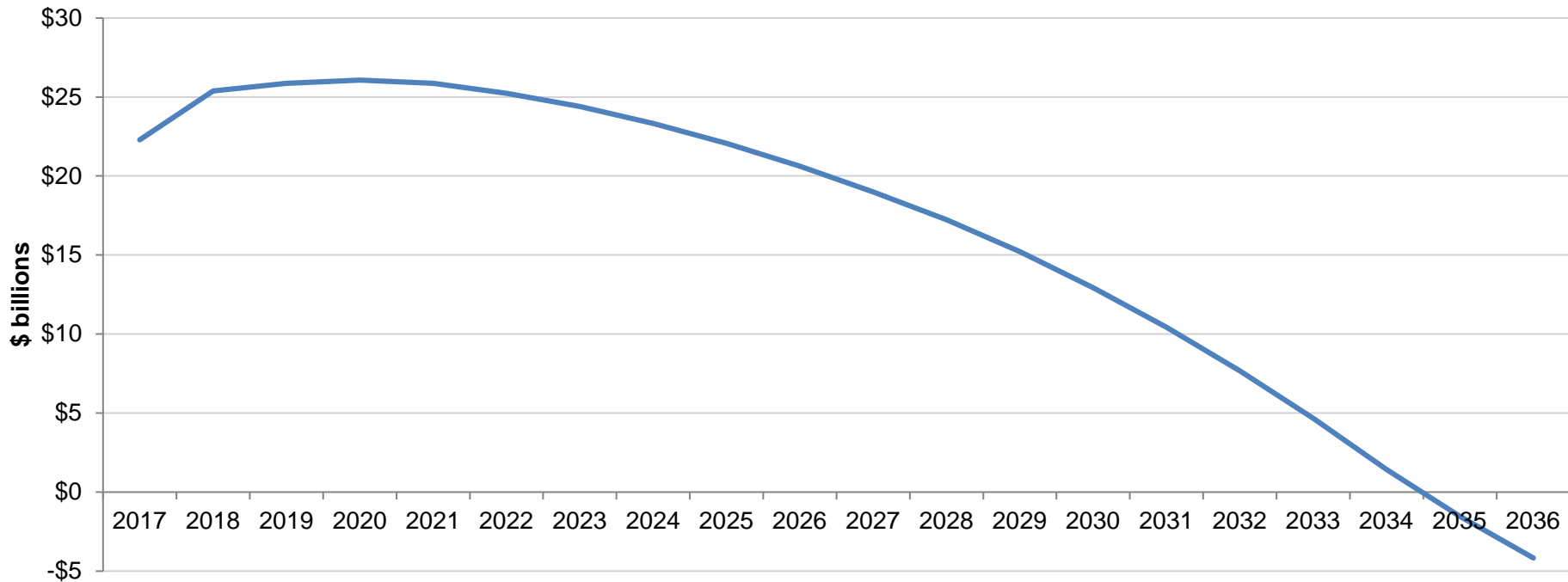


- This chart is an excerpt from the December 2018 financial modeling presentation to the PERS Board, which reflected published investment results through October 31, 2018

# Modeling Tests Actuarial Soundness of Adopted Methods

Unfunded Actuarial Liability (Excluding Side Accounts)

— +7.20% Actual Future Return



- This chart is an excerpt from the December 2018 financial modeling presentation to the PERS Board, which reflected published investment results through October 31, 2018

# Three-Meeting Process – Assumptions & Methods

- **Today – Background on current key assumptions and methods**
  - Assumed rate
  - Amortization period for unfunded actuarial liability (UAL)
  - Contribution rate collaring policy
- **May 31: Economic assumptions, rate-setting methods**
  - Assumed rate – data from Treasury’s consultants, Milliman’s model
  - Inflation and system payroll growth
  - Amortization and contribution rate collaring
- **July 26: Demographic assumptions, Board decisions**
  - Member-specific assumptions based on study of recent PERS experience
  - Assumptions and methods adopted will be used for:
    - 12/31/2018 actuarial valuation with advisory 2021-2023 contribution rates
    - 12/31/2019 actuarial valuation with 2021-2023 contribution rates proposed for adoption

# Use of the Assumed Rate

## The PERS Funding Equation

At the end of each calendar year, the PERS actuaries calculate the system's funded status using the following basic equation:

$$\begin{array}{ccc} \mathbf{B} & = & \mathbf{C} & + & \mathbf{E} \\ \text{BENEFITS} & & \text{CONTRIBUTIONS} & & \text{EARNINGS} \\ \textit{Present value of} & & \textit{Employer funds to pay} & & \textit{Future returns on} \\ \textit{earned benefits} & & \textit{for pension benefits} & & \textit{investment funds} \\ \text{Set by: Oregon Legislature} & & \text{Set by: PERS Board} & & \text{Managed by: Oregon Investment Council} \end{array}$$

Every two years, the PERS Board adjusts contribution rates so that, over time, contributions will be sufficient to fund the benefits earned, if earnings follow assumptions.

- “B” is predictable with a relatively high degree of certainty
- “E” is the unpredictable **actual** future investment return on PERS assets
- “C” is the balancing item --- it must provide to “B” what “E” fails to cover
- The **assumed rate** is the Board's estimate of “E” to prudently set “C”
- The Board's decision on “E” does **not** affect actual future earnings



# Assumed Rate - Data Used in Prior Board Decision

- The table below is from the **May 2017** Board meeting
  - Median returns are geometric averages over the timeframe indicated

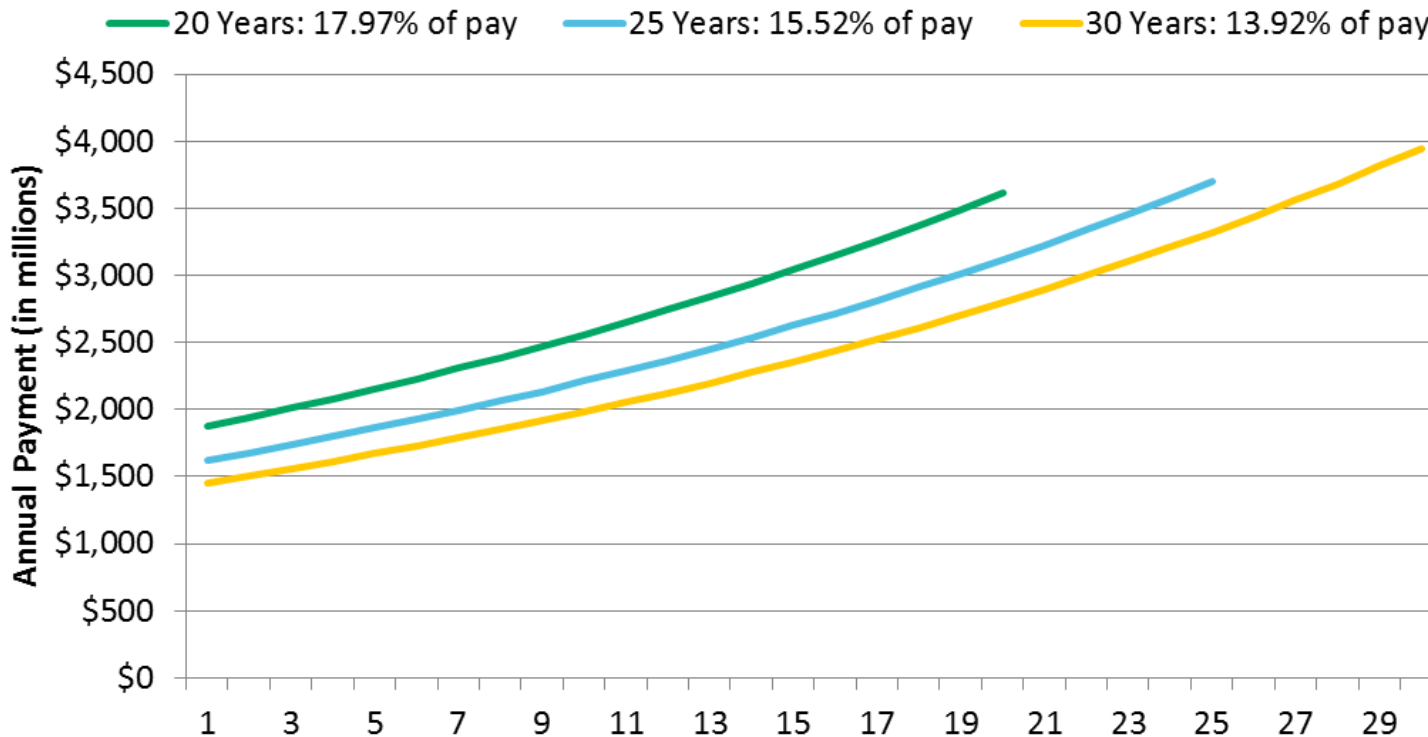
| Consultant (or Survey*)         | Milliman | Callan       | PCA      | Horizon* |
|---------------------------------|----------|--------------|----------|----------|
| <b>Median Annualized Return</b> | 6.70%    | <b>7.05%</b> | 7.40%    | 7.24%    |
| Assumed Inflation               | 2.50%    | 2.25%        | 2.25%    | 2.16%    |
| Timeframe Modeled               | 20 years | 10 years     | 10 years | 10 years |

- An updated table will be presented at the May 31<sup>st</sup> meeting
  - That table will reflect the most current capital market outlook models at that time
- Further, to avoid potential modified opinions GASB requires an assumption for financial reporting is not disclaimed by the actuary
  - A disclaimer would be required under Actuarial Standards of Practice (ASOPs) if the assumption “*significantly conflicts*” with what the actuary considers reasonable
- Callan’s opinion is important in our reasonability assessment

# Illustration of UAL Amortization Periods

## Annual UAL Payments by Selected Amortization Period

Level % of pay amortization, 7.20% interest, 3.50% payroll growth



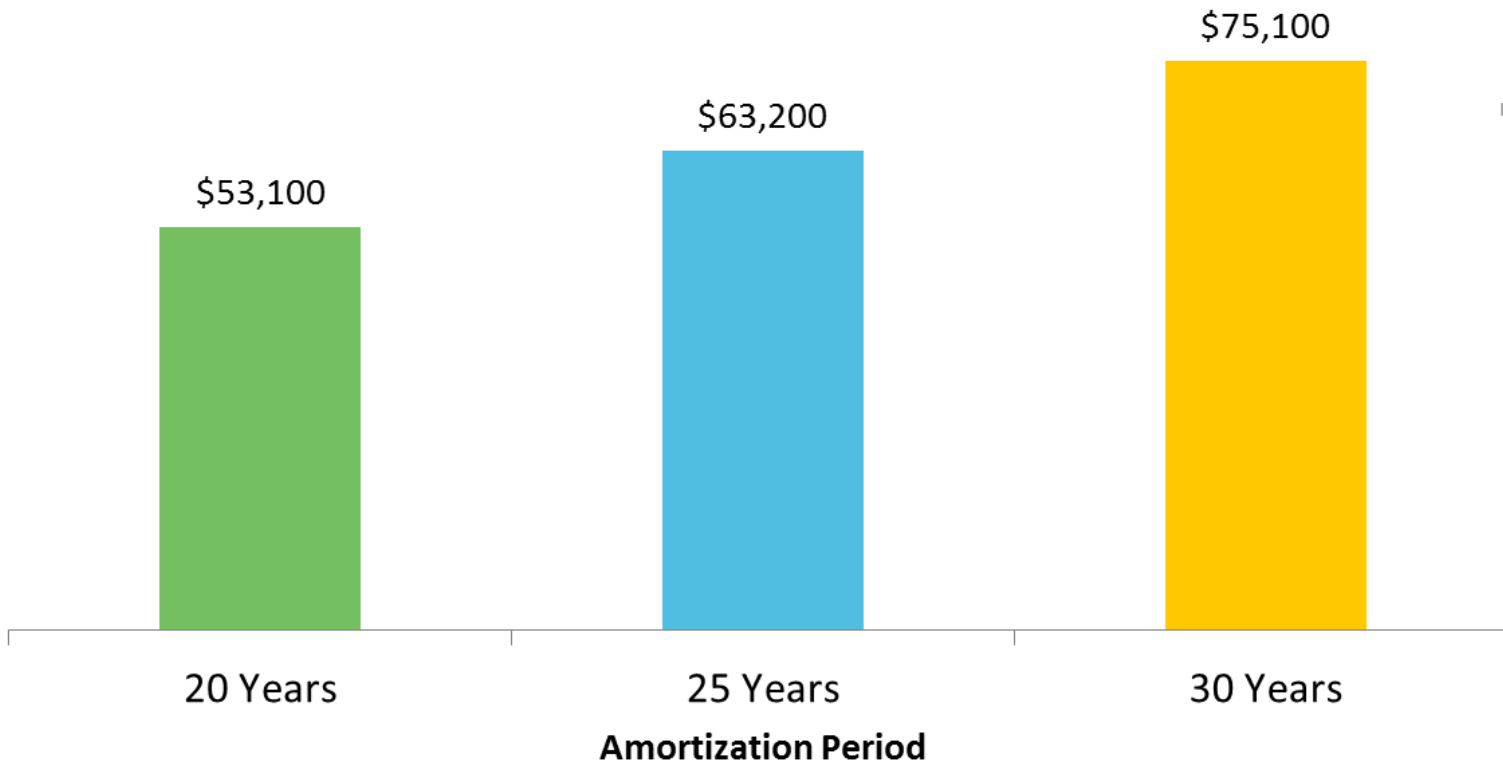
### Current policy

- Tier 1 / Tier 2:  
**20 years**
- OPSRP:  
**16 years**

# Illustration of UAL Amortization Periods

## Total Repayment (\$M) by Selected Amortization Period

Level % of pay amortization, 7.20% assumed return, 3.50% payroll growth



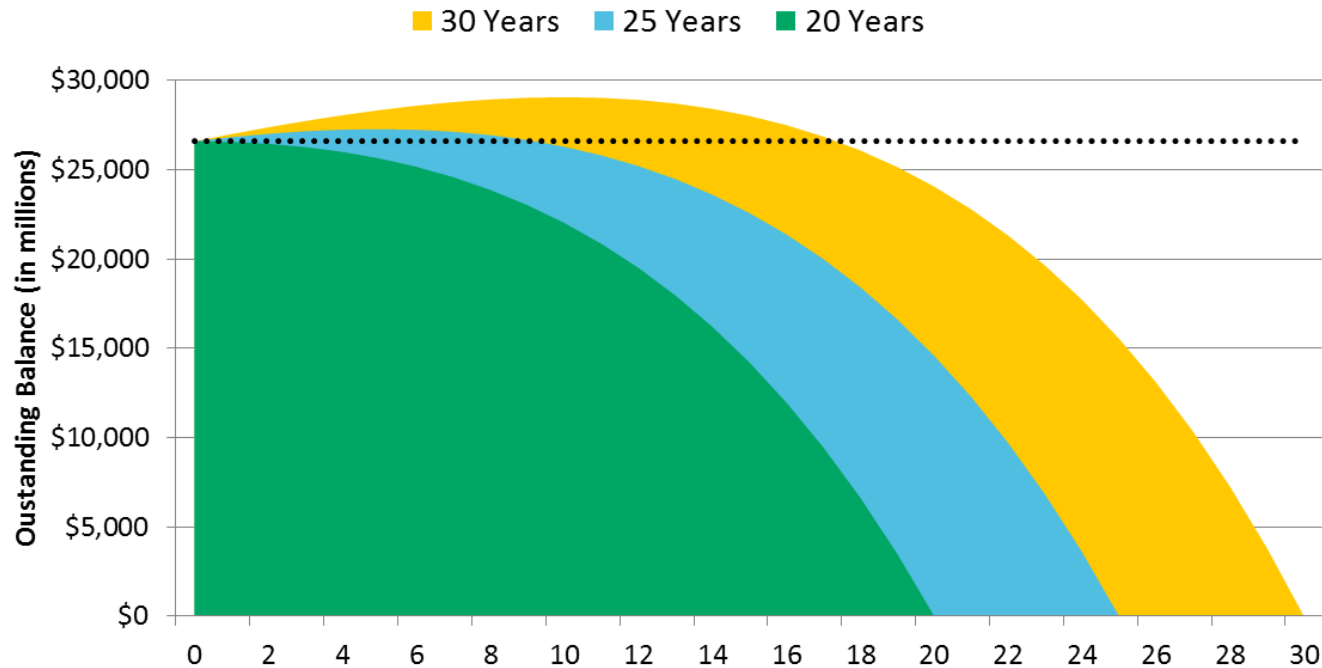
## Current policy

- Tier 1 / Tier 2:  
**20 years**
- OPSRP:  
**16 years**

# Remaining Balance for 20/25/30 Year Periods

## UAL Balance Over Time by Selected Amortization Period

Level % of pay amortization, 7.20% interest, 3.50% payroll growth



### Current policy

- Tier 1 / Tier 2:  
**20 years**
- OPSRP:  
**16 years**

- **Why 20 years or less?** If actual experience matches the assumption...
  - with 25 years zero progress is made in decreasing the initial UAL until year 10
  - with 30 years the UAL has increased by about 9% after the first decade, and zero progress is made in decreasing the initial UAL until year 18

# School District Weighted Pension-Only Rates

2009-2011  
rates set prior  
to economic  
downturn

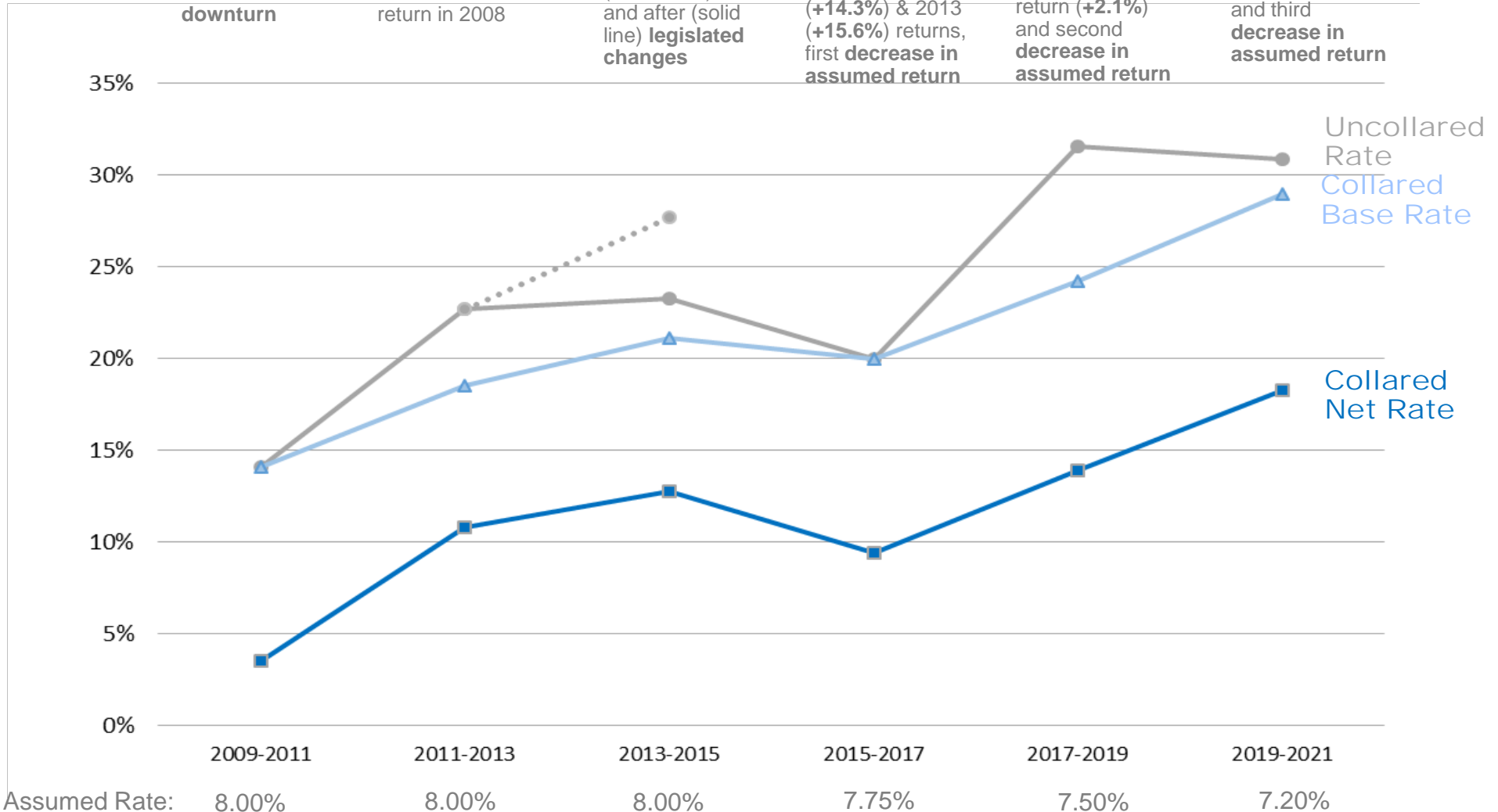
2011-2013  
rates first to  
reflect -27%  
return in 2008

2013-2015  
shown before  
(dotted line)  
and after (solid  
line) legislated  
changes

2015-2017 set  
**pre-Moro**  
reflecting 2012  
(+14.3%) & 2013  
(+15.6%) returns,  
first decrease in  
assumed return

2017-2019 set  
**post-Moro**,  
reflecting 2015  
return (+2.1%)  
and second  
decrease in  
assumed return

2019-2021  
reflects +15.4%  
return in 2017  
and third  
**decrease in  
assumed return**



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# Rate Collar – Original Development and Objectives

- Rate collar originally established by PERS Board after the 2003 reforms
  - Initially used in the 12/31/04 (advisory) and 12/31/05 (rate-setting) valuations
  - Development process included stochastic (i.e., 10,000 scenario) analysis
- Board: collar balanced competing articulated **objectives** for methods
  - Transparent
  - Predictable and stable rates
  - Protect funded status
  - Equitable across generations
  - Actuarially sound
  - GASB compliant

# High Concept – The Uncollared Rate Calculation

- Transparently calculate the actuarially needed **uncollared rate** that would:
  - Avoid UAL balance materially worsening in the near-term if actual future experience matches the assumptions used in calculating the UAL
  - Return PERS to 100% funded status if future experience matches assumptions
- Use best currently available market data in the uncollared rate calculation
  - Fair market value of assets (instead of a smoothed asset measure)
  - Current capital market outlooks from actuary, investment consultant to Treasury

# High Concept – The Collared Rate Calculation

- If uncollared rate is well above the current rate charged, put a collar on the initial rate increase
  - New rate charged to employers will be partway toward the uncollared rate
- The **collared rate** can temporarily be below the uncollared rate
  - Collaring systematically spreads large increases across multiple biennia
  - Additional market data after the first collared increase is used in later calculations
- The collar width should be calibrated to balance competing objectives
  - Too wide: same as having no collar, insufficiently stable or predictable
  - Too narrow: harms funded status, generationally inequitable, actuarially unsound

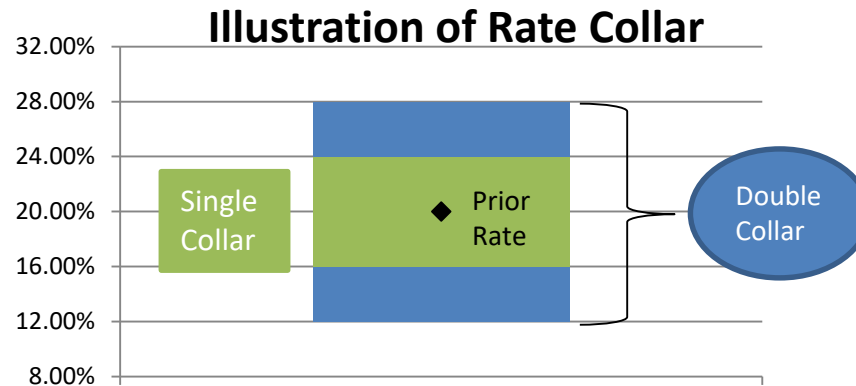


# Rate Collar – Into the (Important) Technical Weeds

- The collar's look back to the rate currently charged is technically complex
  - Rates charged vary from employer to employer
  - For any single employer, rates vary by payroll type (e.g., Tier 1/Tier 2, OPSRP)
  - Calculation should be contemplative of experience and rate pooling arrangements
    - In rate pools, some employers have side accounts and others do not
    - In the State & Local Government Rate Pool (SLGRP), many employers have employer-specific pre-pooling experience rate charges or rate offsets
- Solution: For collaring, look back at rate currently charged for each **rate pool**
  - Tier 1 / Tier 2 collar calculations are separate from the OPSRP collar calculation
  - For Tier 1/Tier 2, the SLGRP, school districts, and the 126 independent employers who do not pool their Tier 1 / Tier 2 experience are each collared separately
  - Inside a rate pool, disregard employer-specific pre-pooling charges and offsets
  - Collaring sets the allowed biennial increase in each pool's **base rates**
    - Employers actually pay **net rates**, which reflect the effect of employer-specific adjustments for side accounts and pre-pooling rate charges or offsets

# Rate Collar - Current 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 excluding side accounts 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 single collar width and the double collar width



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

# Rate Collar Example – Beaverton School District

## Employer Rates Effective July 1, 2017 for Beaverton School District

|   | Payroll       |                 |               |
|---|---------------|-----------------|---------------|
|   | Tier 1/Tier 2 | OPSRP           |               |
|   |               | General Service | Police & Fire |
| <b>Pension</b>                              |               |                 |               |
| Normal cost rate                            | 13.28%        | 8.02%           | 12.79%        |
| Tier 1/Tier 2 UAL rate <sup>1</sup>         | 12.15%        | 12.15%          | 12.15%        |
| OPSRP UAL rate                              | 1.27%         | 1.27%           | 1.27%         |
| Side account rate relief <sup>2</sup>       | (9.68%)       | (9.68%)         | (9.68%)       |
| <b>Net pension contribution rate</b>        | <b>17.02%</b> | <b>11.76%</b>   | <b>16.53%</b> |
| <b>Retiree Healthcare</b>                   |               |                 |               |
| Normal cost rate                            | 0.07%         | 0.00%           | 0.00%         |
| UAL rate                                    | 0.43%         | 0.43%           | 0.43%         |
| <b>Net retiree healthcare rate</b>          | <b>0.50%</b>  | <b>0.43%</b>    | <b>0.43%</b>  |
| <b>Total net employer contribution rate</b> | <b>17.52%</b> | <b>12.19%</b>   | <b>16.96%</b> |

- For the 2017-19 biennium, Beaverton SD contributes **collared net rates** of **17.52%** on its Tier 1/Tier 2 payroll and **12.19%** on its OPSRP payroll
  - Tier 1/Tier 2 experience is mandatorily pooled across all school districts
  - OPSRP experience is pooled state-wide across all PERS employers

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# Rate Collar Example – Beaverton School District

## Employer Rates Effective July 1, 2017 for Beaverton School District

|   | Payroll       |                 |               |
|---|---------------|-----------------|---------------|
|   | Tier 1/Tier 2 | OPSRP           |               |
|   |               | General Service | Police & Fire |
| <b>Pension</b>                              |               |                 |               |
| Normal cost rate                            | 13.28%        | 8.02%           | 12.79%        |
| Tier 1/Tier 2 UAL rate <sup>1</sup>         | 12.15%        | 12.15%          | 12.15%        |
| OPSRP UAL rate                              | 1.27%         | 1.27%           | 1.27%         |
| Side account rate relief <sup>2</sup>       | (9.68%)       | (9.68%)         | (9.68%)       |
| <b>Net pension contribution rate</b>        | <b>17.02%</b> | <b>11.76%</b>   | <b>16.53%</b> |
| <b>Retiree Healthcare</b>                   |               |                 |               |
| Normal cost rate                            | 0.07%         | 0.00%           | 0.00%         |
| UAL rate                                    | 0.43%         | 0.43%           | 0.43%         |
| <b>Net retiree healthcare rate</b>          | <b>0.50%</b>  | <b>0.43%</b>    | <b>0.43%</b>  |
| <b>Total net employer contribution rate</b> | <b>17.52%</b> | <b>12.19%</b>   | <b>16.96%</b> |

Sum is 25.43%



- The Tier 1/Tier 2 collar calculation focuses on the components that are set at the experience pooling level (i.e., all school districts, no other employers)
  - For Tier 1/Tier 2 school district payroll, the total of the Normal Cost Rate plus the Tier 1/Tier 2 UAL Rate (25.43% of payroll for 2017-2019) set the currently charged rate reference point for application of the collar to 2019-2021 rates

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# Rate Collar Example – Beaverton School District

| Funded Status as of December 31, 2017          |                         | 70% to 130%   |
|--|-------------------------|---------------|
| 2017-2019 Normal Cost + Tier 1/Tier 2 UAL Rate |                         | <u>25.43%</u> |
| Minimum 2019-2021 Rate                         |                         | 20.34%        |
| Maximum 2019-2021 Rate                         | <b>120% of 25.43%</b> → | <u>30.52%</u> |

## Employer Rates Effective July 1, 2019 for Beaverton School District

|   | Tier 1/Tier 2 | Payroll         |               |
|---|---------------|-----------------|---------------|
|   |               | General Service | Police & Fire |
| <b>Pension</b>                              |               |                 |               |
| Normal cost rate                            | 13.79%        | 8.40%           | 13.03%        |
| Tier 1/Tier 2 UAL rate <sup>1</sup>         | 16.73%        | 16.73%          | 16.73%        |
| OPSRP UAL rate                              | 1.45%         | 1.45%           | 1.45%         |
| Side account rate relief <sup>2</sup>       | (9.17%)       | (9.17%)         | (9.17%)       |
| <b>Net pension contribution rate</b>        | <b>22.80%</b> | <b>17.41%</b>   | <b>22.04%</b> |
| <b>Retiree Healthcare</b>                   |               |                 |               |
| Normal cost rate                            | 0.06%         | 0.00%           | 0.00%         |
| UAL rate                                    | 0.00%         | 0.00%           | 0.00%         |
| <b>Net retiree healthcare rate</b>          | <b>0.06%</b>  | <b>0.00%</b>    | <b>0.00%</b>  |
| <b>Total net employer contribution rate</b> | <b>22.86%</b> | <b>17.41%</b>   | <b>22.04%</b> |

**Sum is 30.52%\*** ←

\*Uncollared UAL rate is 1.93% of payroll higher

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# Recap of Methods and Assumptions Covered Today

## ▪ Assumed rate

- Used to estimate earnings to prudently set contributions in the funding equation
- Informed by up-to-date market outlooks from third-party advisors
- Rate selected by Board does not affect actual future investment earnings

## ▪ Amortization period

- Amortization is as a level percent of projected payroll, not a level dollar amount
- Twenty years is longest period that avoids near-term negative amortization

## ▪ Rate collar

- Transparent in comparison to alternative approaches
- Uses most current investment data (asset levels, market outlooks)
- Lets entities see the rate needed to avoid UAL increases near term and to fund the UAL over the amortization period if future experience matches assumptions
- Balances competing guiding principles (predictable and stable rates vs. protect funded status, intergenerational equity) in an actuarially sound manner

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# Agenda for Next Two Presentations

- May 31: Economic assumptions, rate-setting methods
  - Assumed rate – data from Treasury’s consultants, Milliman’s model
  - Inflation and system payroll growth
  - Amortization and contribution rate collaring
- July 26: Demographic assumptions, Board decisions
  - Member-specific assumptions based on study of recent PERS experience
  - Assumptions and methods adopted will be used for:
    - 12/31/2018 actuarial valuation with advisory 2021-2023 contribution rates
    - 12/31/2019 actuarial valuation with 2021-2023 contribution rates proposed for adoption



# Appendix

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# Certification

This presentation summarizes information provided in valuations for the Oregon Public Employees Retirement System (“PERS” or “the System”) and prior presentations to the PERS Board, including the December 2018 and February 2019 presentations to the PERS Board. Those presentations, along with the December 31, 2017 System-Wide Actuarial Valuation Report, should be referenced for additional detail on the assumptions, methods, and plan provisions underlying these results.

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 other 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.

# Certification

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.

Milliman's work is prepared solely for the internal business use of the Oregon Public Employees Retirement System. Milliman does not intend to benefit or create a legal duty to any third party recipient of its work product.

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

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

The signing actuaries are independent of the System. 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.