



**OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM BOARD  
AND OREGON INVESTMENT COUNCIL  
JOINT MEETING MINUTES**

May 29, 2015

<b><u>Board Members (PERS):</u></b>	<b><u>Board Members(OIC):</u></b>	<b><u>Staff (PERS):</u></b>	<b><u>Staff (Treasury):</u></b>
John Thomas, Chair	Katy Durant, Chair	David Crosley	Darren Bond
Lawrence Furnstahl	Rukiayah Adams	Yvette Elledge	Scott Harra
Krystal Gema	Keith Larson	Brian Harrington	John Hershey
Pat West	Steve Rodeman	Jordan Masanga	Julie Jackson
	John Russell	Jason Stanley	Kristin Johnson
	Ted Wheeler	Marjorie Taylor	Perrin Lim
		Joli Whitney	Tom Lofton
			Mike Mueller
			Tom Rinehart
			John Skjervem
<b><u>Others:</u></b>			
Linda Burgin	David Lacy		
Nate Carter	Matt Larrabee		
Stacy Cowan	Ann Montague		
David Finn	Scott Preppernau		
Greg Hartman	Ted Sickinger		
Claire Hertz	Peter Wong		

Chairs John Thomas and Katy Durant called the meeting to order at 10:30 A.M.

Thomas welcomed everyone to the meeting and explained the PERS Board fiduciary responsibilities with respect to funding and rate setting. PERS actuaries from Milliman, Inc. were in attendance to make a presentation to both boards. He introduced the PERS Board members in attendance.

Durant explained the difficulties the Oregon Investment Council (OIC) is facing with their current governance structure and risk involved in the current investment strategies. She asked the OIC members to introduce themselves.

Matt Larrabee and Scott Preppernau of Milliman gave a PowerPoint presentation to provide an actuarial perspective of the system and the interfaces between investments, employer contribution rates, and member benefits.

Thomas adjourned the Board meeting at 11:45 AM.

Respectfully submitted,



Steven Patrick Rodeman  
Executive Director

# OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM

## BOARD MEETING MINUTES

May 29, 2015

### Board Members:

John Thomas, Chair  
Lawrence Furnstahl  
Krystal Gema  
Pat West

### Staff:

Donna Allen	Brian Harrington	Jason Stanley	Yong Yang
Linda Barnett	Robert Jones	Marjorie Taylor	
Gay Lynn Bath	Mini Kobbervig	Stephanie Vaughn	
David Crosley	Kyle Knoll	Anne Marie Vu	
Mary Dunn	Jordan Masanga	Dale Wakabayashi	
Yvette Elledge	Steve Rodeman	Joli Whitney	
Gay Lynn Bath	Adrienne Southard	Marjorie Taylor	

### Others:

Nancy Brewer	Stacy Cowan	Robert Judge	Kevin McCartin	Patrick Weisgerber
Molly Butler	Doug Dillon	Jerry King	Michael McCoy	Peter Wong
Nate Carter	Linda Ely Agee	David Lacy	Michelle Morrison	
Alison Chan	Janice Essenberg	Matt Larrabee	Carol Samuels	
Lance Colley	Claire Hertz	Elizabeth McCann	Deborah Tremblay	

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

### ADMINISTRATION

#### A.1. BOARD MEETING MINUTES OF MARCH 30, 2015

Board member Pat West moved and Board member Krystal Gema seconded approval of the minutes submitted from the March 30, 2015 Board meeting. The motion passed unanimously.

Thomas welcomed new Board member Lawrence Furnstahl to the Board. Furnstahl is the Chief Financial Officer of OHSU and was appointed to the remainder of Michael Jordan's term.

#### A.1.a DIRECTOR'S REPORT

Executive Director Steve Rodeman reviewed the 2015 Forward Looking Calendar. Rodeman presented the Oregon Investment Council (OIC) Investment Report of the Oregon Public Employees Retirement Fund (OPERF) for the period ending April 30, 2015. There is a current return of 3.41 percent.

Rodeman also presented the May 2015 Budget Execution Report. There is a current positive variance of about \$3.6 million, or 4.2 percent of the total biennial operating budget. The legislation implementation budget (Senate Bills 822 and 861) also continues on track with a positive variance of about 64 percent, or \$1,299,691 of the \$2 million biennial budget. Future budget reports will reflect the recent Oregon Supreme Court decision on the *Moro* case which reversed much of this legislation.

#### A.1.e. BOARD SCORECARD REPORT ON AGENCY PERFORMANCE MEASURES

Rodeman presented. The number of enterprise measures which have improved to acceptable “green” levels has grown to 63 percent. A highlight is that 95 percent of benefit estimates are completed within 30 days. An additional success is that 100 percent of sampled benefit calculations were accurate within plus or minus \$5. This result is an improvement from 99.6 percent in the fourth quarter of 2014. As a result, several target measures will be raised to continue performance improvements. Furnstahl asked if the red status in the IT system uptime measure had any significant operational impact. Rodeman reviewed the reasons for early batch start and the impact. The goal is to have the system available 100 percent of the time. When the system was brought down early, it was done in an abundance of caution, but on several occasions the early start would not have been necessary.

#### A.1.f. 2015 ACTUARIAL SERVICES SOLICITATION PROCESS AND CURRENT STATUS REPORT

Rodeman provided a status report on the progress of soliciting actuarial services as the current contract with Milliman expires on December 31, 2015. The negotiations continue and we expect that there will be a final report at the July meeting.

#### ADMINISTRATIVE RULEMAKING

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

#### B.1. NOTICE OF REEMPLOYMENT OF OPSRP RETIREES RULES

Vaughn presented the notice of rulemaking for the Notice of Reemployment of OPSRP Retirees Rules, OAR 459-075-0300 and -080-0300. The proposed rule amendments clarify the number of hours a retired OPSRP Pension Program member can work in the calendar year in which they retire without affecting their status as a retired member. A rulemaking hearing will be held June 23, 2015. The public comment period for OAR 459-075-0300 ends July 6, 2015, and the public comment period for OAR 459-080-0300 ends July 22, 2015. No Board action was required.

#### B.2. FIRST READING OF DISABILITY APPLICATION RULES

Vaughn presented the first reading of the Disability Application Rules OAR 459-015-0020, and -076-0020. The proposed amendments are to properly incorporate the defined terms “date of termination,” “date of separation from service,” and “date of disability.” Modifications were made to the draft rules since they were last presented at the March 30, 2015 PERS Board meeting. OAR 459-015-0020 was reorganized to describe disability application filing timelines for active and inactive members. Sections were renumbered accordingly. No additional modifications were proposed for OAR 459-076-0020. A second rulemaking hearing is scheduled for June 23, 2015, and the new public comment period ends July 1, 2015. No Board action was required.

#### B.3. ADOPTION OF BENEFIT PAYMENT REDUCTIONS/DEDUCTIONS RULES

Vaughn presented the revised rules; OAR 459-005-0600, -0610 and -0070 for adoption. A rulemaking hearing was held on April 28, 2015. No members of the public attended the hearing. The public comment period ended May 6, 2015. No public comment was received. The rule changes update the order of priority for deduction from a benefit payment.

Furnstahl moved to adopt the Benefit Payment Reductions/Deductions rule as presented. Gema seconded. The motion passed unanimously.

#### **B.4. ADOPTION OF IRC AND SOCIAL SECURITY LIMITATIONS RULES**

Vaughn presented the revised IRC and Social Security Limitations rules: OAR 459-005-0525, -005-0545, -017-0060 and -080-0500 for adoption. A rulemaking hearing was held April 28, 2015, and the public comment period ended on May 6, 2015. No members of the public attended the hearing and no public comment was received. The modifications update rules to reflect the 2015 Internal Revenue Code (IRC) and Social Security annual compensation limits.

West moved to adopt modifications to the IRC and Social Security Limitations rules as presented. Furnstahl seconded. The motion passed unanimously.

### **ACTION AND DISCUSSION ITEMS**

#### **C.1. PERS HEALTH INSURANCE PROGRAM (PHIP) 2016 PLAN RENEWALS AND RATES**

PERS PHIP Manager Mini Kobbervig and consultants Molly Butler of BP&A, LLC and Kevin McCartin of McCartin Analytical Service presented the 2016 plan renewals and associated premium subsidies and surcharges and answered questions from the Board.

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

#### **C.2. OREGON SAVINGS GROWTH PLAN (OSGP) ADVISORY COMMITTEE APPOINTMENTS**

OSGP Manager Gay Lynn Bath presented the recommended appointment of a new committee member. Bath recommended the Board appoint Richard Bailey from Oregon Tech in Klamath Falls to fill the unexpired term of a state employee for the remainder of the term which ends June 30, 2016. In addition, Bath recommended the Board renew the appointment of two committee members whose terms expire at the end of June. Bath recommended the Board appoint Mark Carlton and Jeff Labhart to a second three-year term.

Gema moved to accept the recommendation to appoint Richard Bailey to fill the vacancy of the state employee position on the Advisory Committee effective immediately, and appoint Mark Carlton and Jeff Labhart to a second three-year term. Furnstahl seconded. Motion passed unanimously.

Rodeman added that this is Bath's last day at PERS. She has accepted a position within the Oregon University System. He highlighted her valuable impact to the growth of the OSGP program and wished her well in her new opportunity.

#### **C.3 LEGISLATIVE UPDATE**

Senior Policy Advisor Marjorie Taylor presented. She highlighted two bills which are either signed by the Governor or passed by both chambers. HB 2684, which extends current "return to work" exceptions, has been signed by the Governor. HB 3495, which revised the contribution start date for new OPSRP members, has been passed by both chambers and is waiting for the Governor's signature. PERS' Budget, HB 5034, is progressing through the approval process. IT Director Jordan Masanga and Rodeman presented to the Ways and Means IT subcommittee the day before. Next steps are for the budget to be scheduled for a work session before the Ways

and Means General Government Subcommittee before it is scheduled for a hearing in the Full Ways and Means Committee.

C.4 MORO DECISION IMPLEMENTATION

Thomas shared his thoughts on the *Moro* decision. Senior Policy Director Mary Dunn presented a high-level overview of the *Moro* decision implementation plan. Rodeman explained that the allocation of the cost-of-living adjustment changes will be addressed through an administrative rule making process to allow for public input. Programming will occur after the rule has been adopted. Matt Larrabee and Scott Preppernau, Milliman actuaries, presented an actuarial analysis of the impact of the *Moro* decision.

C.5 ECONOMIC ASSUMPTIONS AND ACTUARIAL METHODS

Larrabee and Preppernau presented. This is the first item in the two-year rate setting cycle. The presentation reviewed the non-investment and economic assumptions as well as the long-term investment return assumptions which will be considered in preparation for the July presentation, where demographic assumptions will be discussed before asking for adoption of assumptions and methods for the current and next year's advisory valuation. They will come back with those results in September 2015. The actual system-wide rate setting valuation results will be presented in July 2016, with employer rate setting to follow in 2016 for rates effective beginning July 1, 2017.

No Board action was required.

Thomas adjourned the Board meeting at 3:00 PM.

Respectfully submitted,



Steven Patrick Rodeman  
Executive Director

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

### **Friday, September 25, 2015**

Adoption of COLA and Supplementary Payments Rules  
Adoption of Assumed Rate Rule  
Notice of 2015 Legislation Rules  
Notice of Payment of Retirement Benefits Rule  
Notice of Membership of Community College Academic Employees Rule  
Notice of Tax Remedy Rule  
Customer Service Survey Results  
2014 Actuarial Valuation and 2017-19 Employer “Advisory Rates”

### **Friday, November 20, 2015**

Adoption of Payment of Retirement Benefits Rule  
Adoption of Membership of Community College Academic Employees Rule  
Adoption of Tax Remedy Rule  
Adoption of 2015 Legislation Rules  
Board Scorecard Report on Agency Performance Measures  
Audit Committee Meeting

### **Proposed dates for 2016 meetings:**

**Friday, January 29, 2016**

**Monday, March 28, 2016**

**Friday, May 27, 2016**

**Friday, July 29, 2016**

**Friday, September 30, 2016**

**Friday, November 18, 2016**

Returns for periods ending 6/30/15

Oregon Public Employees Retirement Fund

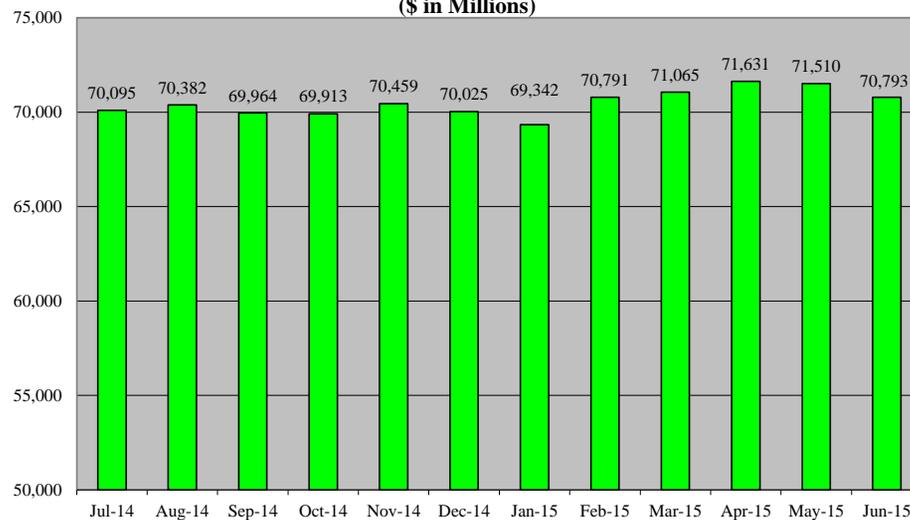
Item A.2.b.

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%	\$ 28,950,349	41.3%	4.15	1.77	12.41	14.64	8.77	13.09	5.80	6.82
Private Equity	16-24%	20%	14,371,487	20.5%	4.19	9.54	14.05	13.61	11.84	13.69	8.84	11.86
<b>Total Equity</b>	<b>52.5-62.5%</b>	<b>57.5%</b>	<b>43,321,836</b>	<b>61.8%</b>								
Opportunity Portfolio			1,110,087	1.6%	2.57	(0.73)	8.72	11.62	8.52	11.18	8.75	
<b>Total Fixed</b>	<b>15-25%</b>	<b>20%</b>	<b>16,561,278</b>	<b>23.6%</b>	<b>1.09</b>	<b>1.47</b>	<b>3.46</b>	<b>3.52</b>	<b>4.49</b>	<b>5.33</b>	<b>6.64</b>	<b>5.69</b>
Real Estate	9.5-15.5%	12.5%	7,429,115	10.6%	5.06	12.04	12.36	13.03	11.94	13.66	4.51	8.03
Alternative Investments	0-10%	10%	1,609,581	2.3%	(4.25)	(1.99)	1.41	0.90	1.67			
Cash	0-3%	0%	26,706	0.0%	0.33	0.50	0.64	0.72	0.69	0.74	0.86	1.99
<b>TOTAL OPERF Regular Account</b>		<b>100%</b>	<b>\$ 70,058,603</b>	<b>100.0%</b>	<b>3.34</b>	<b>4.32</b>	<b>10.28</b>	<b>11.07</b>	<b>8.63</b>	<b>11.23</b>	<b>6.47</b>	<b>7.34</b>
<b>OPERF Policy Benchmark</b>					<b>4.05</b>	<b>5.47</b>	<b>11.32</b>	<b>11.69</b>	<b>9.34</b>	<b>11.46</b>	<b>7.07</b>	<b>7.49</b>
Value Added					(0.71)	(1.15)	(1.04)	(0.62)	(0.71)	(0.23)	(0.60)	(0.15)
<b>TOTAL OPERF Variable Account</b>			<b>\$ 734,530</b>		<b>3.27</b>	<b>1.15</b>	<b>11.79</b>	<b>13.63</b>	<b>8.25</b>	<b>12.48</b>	<b>5.46</b>	<b>5.01</b>

Asset Class Benchmarks:

Russell 3000 Index	1.94	7.29	15.91	17.73	14.09	17.54	9.65	8.15
MSCI ACWI Ex US IMI Net	4.59	(4.97)	7.80	9.80	3.06	8.00	1.87	5.95
MSCI ACWI IMI Net	3.13	0.81	11.51	13.34	7.90	12.17	5.21	6.68
Russell 3000 Index + 300 bps--Quarter Lagged	8.71	15.71	20.85	19.88	17.43	18.12	13.19	11.99
Oregon Custom FI Benchmark	0.80	1.38	2.89	2.81	3.82	3.90	4.95	4.68
NCREIF Property Index--Quarter Lagged	6.72	12.72	11.95	11.47	11.95	12.75	4.98	8.39
91 Day T-Bill	0.01	0.02	0.04	0.06	0.06	0.08	0.22	1.43

**TOTAL OPERF NAV**  
(includes variable fund assets)  
One year ending June 2015  
(\$ in Millions)



<sup>1</sup>OIC Policy 4.01.18, as revised October 2013.

<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

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11410 S.W. 68<sup>th</sup> Parkway, Tigard, OR  
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July 31, 2015

TO: Members of the PERS Board  
FROM: Linda M. Barnett, Budget Officer  
SUBJECT: July 2015 Board Report

### 2013-15 OPERATIONS BUDGET

Operating expenditures for May 2015 and preliminary expenditures for June 2015 were \$3,347,692 and \$4,426,531, respectively. Final expenditures for June closed in the Statewide Financial Management System on July 17, 2015, and will be included in the September 2015 report to the Board.

- The Agency has expended a total of \$77,993,712, or 92% of PERS' legislatively approved operations budget of \$84,820,034. We project additional expenditures of \$2.5 million, or 3%, that will be charged to the 2013-15 operations budget.
- The current projected positive variance is \$4,301,981 or approximately 5% of the operations budget. The Agency's goal is to maintain a positive variance of at least \$1.7 million (2%).

### SENATE BILL (SB) 822 and SB 861 BUDGETS

These separate budget limitations were approved by the Legislature in 2013 and 2014 for the administrative costs to implement the COLA modifications for 2013 and beyond; remove tax remedy benefits for recipients who do not pay Oregon income taxes because they do not reside in Oregon; implement the six-year supplementary payments program; and recalculate employer contribution rates effective July 1, 2013. Funding was also provided for the necessary technology enhancements, additional call center agents, and Attorney General expenses.

- Expenditures to date are \$1,345,237 or 66.2% of the cumulative SB 822 and SB 861 legislatively approved budget of \$2,031,096.
- The current projected variance is \$672,002 or 33.09% of the SB 822 and SB 861 budget of \$2,031,096.

Since the *Moro* decision, project expenditures have been used to prepare for restoring member benefits in line with the court's directives.

### 2015-17 BUDGET

The agency's Legislatively Adopted Budget for 2015-17 (HB 5034) was signed by Governor Brown on June 29, 2015. A final budget adjustment bill (SB 5507) is currently pending signature by Governor Brown. This bill contains omnibus adjustments in multiple agencies based on reductions in Department of Administrative Services' assessments and charges for services, Audits Division assessments, Attorney General rates, and debt service. In addition, two limitation

increases were approved for PERS, recognizing the fiscal impacts from passage of SB 370 and HB 3495. These adjustments will be reflected in the September 2015 budget report to the Board.

A.2.c Attachment 1 – 2013-15 Agency-wide Budget Execution Summary Analysis

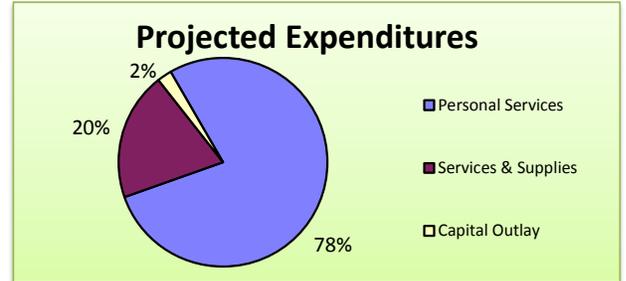
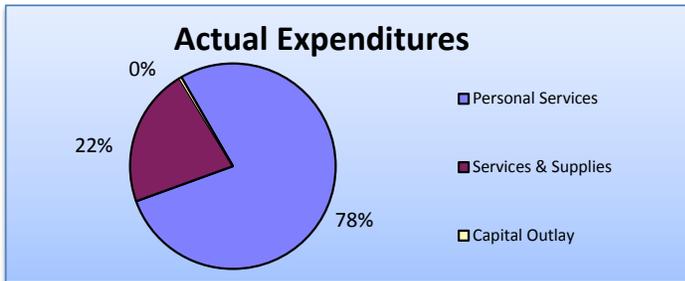
A.2.c. Attachment 2 – SB 822 & SB 861 Projects Budget Execution Summary Analysis

**2013-15 Agency-wide Budget Execution  
Summary Budget Analysis  
Preliminary For the Month of: June 2015**

**Limited - Operating Budget**

**2013-15 Biennial Summary**

Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expenditures	2013-15 LAB	Variance
Personal Services	59,533,999	0	59,533,999	63,535,242	4,001,243
Services & Supplies	16,582,895	2,524,341	19,107,236	20,031,339	924,103
Capital Outlay	1,876,818	0	1,876,818	1,253,453	(623,365)
<b>Total</b>	<b>77,993,712</b>	<b>2,524,341</b>	<b>80,518,053</b>	<b>84,820,034</b>	<b>4,301,981</b>



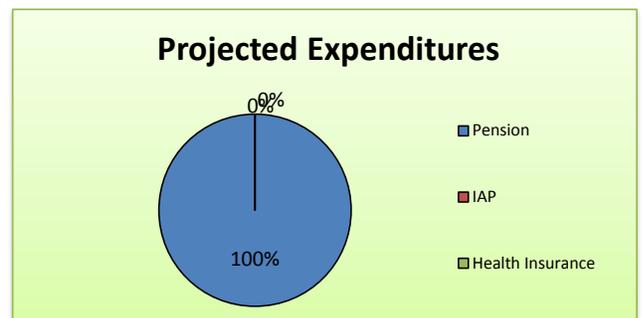
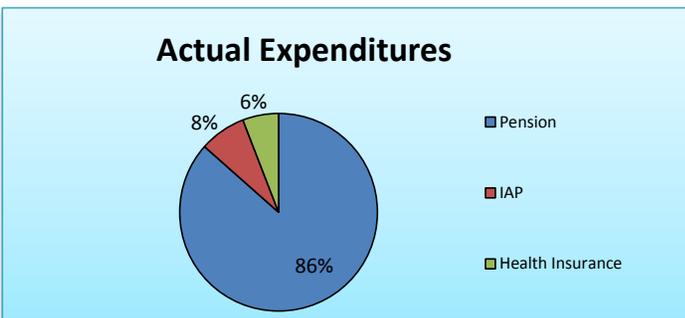
**Monthly Summary**

Category	Actual Exp.	Projections	Variance	Avg. Monthly Actual Exp.	Avg. Monthly Projected Exp.
Personal Services	2,517,885	2,754,655	236,770	2,479,601	0
Services & Supplies	1,128,721	1,923,844	795,123	690,954	2,371,929
Capital Outlay	779,925	0	(779,925)	78,201	0
<b>Total</b>	<b>4,426,531</b>	<b>4,678,499</b>	<b>251,968</b>	<b>3,248,756</b>	<b>2,371,929</b>

**Non-Limited Budget**

**2013-15 Biennial Summary**

Programs	Actual Exp To Date	Projected Expenditures	Total Est. Expenditures	Non-Limited LAB	Variance
Pension	7,524,921,192	335,792,256	7,860,713,448	8,148,014,000	287,300,552
IAP	658,943,751	0	658,943,751	721,200,000	62,256,249
Health Insurance	510,760,871	0	510,760,871	408,661,000	(102,099,871)
<b>Total</b>	<b>8,694,625,814</b>	<b>335,792,256</b>	<b>9,030,418,070</b>	<b>9,277,875,000</b>	<b>247,456,930</b>



Summary Budget Analysis  
Preliminary For the Month of: June 2015

<b>Biennial Summary - SB822 &amp; SB861</b>					
Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expend.	2013-15 LAB	Variance
Personal Services	456,964		456,964	827,446	370,482
Services & Supplies	888,273	13,857	902,130	1,203,650	301,520
Capital Outlay					
<b>Total</b>	<b>1,345,237</b>	<b>13,857</b>	<b>1,359,094</b>	<b>2,031,096</b>	<b>672,002</b>

**Actual Expenditures**

- Personal Services: 34%
- Services & Supplies: 66%
- Capital Outlay: 0%

**Projected Expenditures**

- Personal Services: 0%
- Services & Supplies: 100%
- Capital Outlay: 0%

<b>SB822 Project</b>					
<b>Biennial Summary</b>					
Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expend.	2013-15 LAB	Variance
Personal Services	197,653		197,653	435,018	237,365
Services & Supplies	418,612		418,612	573,133	154,521
Capital Outlay					
<b>Total</b>	<b>616,265</b>		<b>616,265</b>	<b>1,008,151</b>	<b>391,886</b>

<b>Monthly Summary</b>					
Category	Actual Exp.	Projections	Variance	Avg. Monthly Actual Exp.	Avg. Monthly Projected Exp.
Personal Services	12,420	12,398	(22)	8,236	
Services & Supplies				17,442	
Capital Outlay					
<b>Total</b>	<b>12,420</b>	<b>12,398</b>	<b>(22)</b>	<b>25,678</b>	

<b>SB861 Project</b>					
<b>Biennial Summary</b>					
Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expend.	2013-15 LAB	Variance
Personal Services	259,311		259,311	392,428	133,117
Services & Supplies	469,661	13,857	483,518	630,517	146,999
Capital Outlay					
<b>Total</b>	<b>728,972</b>	<b>13,857</b>	<b>742,829</b>	<b>1,022,945</b>	<b>280,116</b>

<b>Monthly Summary</b>					
Category	Actual Exp.	Projections	Variance	Avg. Monthly Actual Exp.	Avg. Monthly Projected Exp.
Personal Services	10,333	23,630	13,298	10,805	
Services & Supplies				19,569	13,857
Capital Outlay					
<b>Total</b>	<b>10,333</b>	<b>23,630</b>	<b>13,298</b>	<b>30,374</b>	<b>13,857</b>



# Oregon

Kate Brown, Governor

## Public Employees Retirement System

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July 31, 2015

TO: Members of the PERS Board  
FROM: Stephanie Vaughn, Manager, Policy Analysis & Compliance Section  
SUBJECT: Notice of Rulemaking for Cost-of-Living Adjustment Rules:  
459-005-0510, *Cost-of-Living Adjustment*  
459-005-0520, *Supplementary Payment*

### OVERVIEW

- Action: None. This is notice that staff has begun rulemaking.
- Reason: Clarify the annual cost-of-living adjustment method for earned benefits.
- Policy Issue: Should PERS incorporate the service time ratio method to blend different cost-of-living adjustment (COLA) formulas?

### BACKGROUND

On April 30, 2015, the Oregon Supreme Court issued its ruling in the *Moro* case, invalidating the COLA reductions enacted by Senate Bill 822 (effective May 6, 2013) and Senate Bill 861 (effective October 6, 2013) as applied to benefits earned before the effective dates of those bills. As a result, members who have earned benefits both prior to the effective dates of the bills as well as after the effective dates will receive a blended COLA based on the COLA formula in effect when the benefits were earned.

In addition, the Supreme Court ruling voided the supplementary payment provision in SB 861, so OAR 459-005-0520, *Supplementary Payment* is proposed for repeal.

### POLICY QUESTION

*Should PERS incorporate the service time ratio method to blend different COLA formulas?*

The court decision ties the COLA in retirement to the COLA that was in effect when the benefits were earned. The court did not provide direction on the method PERS should use to determine when benefits are earned. No member is entitled to retirement benefits until the member actually retires, and there are many factors that affect a member's actual benefit calculation. Calculating the benefit that a member has earned at a particular point in time, especially when that point is early- or mid-career, is problematic.

The court did reference ORS 238.364(5) as an example for calculating a blended rate based on service time: the "tax remedy" established by House Bill 3349 (1995) is allocated across a member's career based on the percentage of service time before and after their benefit may be taxed. Specifically, the statute directs staff to "divide the number of years of creditable service performed before [the repeal of the tax exemption] by the total number of years of creditable service during which the pension income was earned." PERS then applies the tax remedy to this

portion of the member's benefit. This "service time ratio" method was the method used by Milliman in their May 29, 2015 presentation regarding the *Moro* impact.

Staff considered other methods to allocate the COLA formulas across the member's retirement benefit. The common challenge with these methods is that they involve determining a member's benefit as of the effective date of the bills. A number of factors considered in calculating a retirement benefit change over the course of a member's career (e.g., sick leave, vacation, final average salary, etc.). The complexity and variability necessary to any of these other methods invites confusion, more opportunity for miscalculations, and potential challenges.

The blended COLA methodology outlined in the rule modifications prorates the COLAs based on creditable service or retirement credit earned by a member when a specific COLA was in effect. Because a member's benefit is not determined until the member retires and includes factors that may or may not span the whole of the member's career, prorating the COLA according to the service time ratio is the most reasonable, administratively feasible, and cost-effective method. It is also the most straight-forward method, making it easier to communicate to members.

Staff recommends incorporating the service time ratio method of blending the different COLA structures. Following are some examples of how this rule will be implemented.

#### CALCULATION EXPLANATION

An eligible monthly benefit recipient may be subject to up to three COLA formulas:

- Pre-May 1, 2013: 2% maximum COLA, based on CPI, with a banking provision for Tier One/Tier Two members only.
- May 1, 2013 – October 1, 2013: Multi-tiered COLA (SB 822), beginning with 2% on annual benefits up to \$20,000.
- After October 1, 2013: Two-tiered COLA (SB 861), 1.25% on the first \$60,000 of annual benefit, and .15% on annual benefit over \$60,000.

Members can only earn full calendar months of creditable service (under ORS 238.005(6)) or retirement credit (under ORS 238A.140), which is why the dates above are not the exact effective dates of the bills. Also, administratively, the May 1, 2013 – October 1, 2013 calculations will be combined with the pre-May 1, 2013 calculations. At retirement, the amount of a member's benefit attributable to five months of service is highly unlikely to exceed \$20,000, so it is unlikely the COLA rate applied to this period of time will be less than 2%. Therefore, administratively, there will be two relevant time periods: service before October 1, 2013, and service after October 1, 2013.

Under the service time ratio method, the service time prior to October 1, 2013, is divided by the total service time. The resulting percentage is then applied to the 2% COLA rate in effect prior to October 1, 2013. The remaining portion of service time percentage will be applied to the tiered COLA rates of SB 861.

When all creditable service or retirement credit is earned before October 1, 2013, the benefit recipient will receive COLA as it was administered prior to the 2013 legislation. A blended

COLA rate is applicable when creditable service or retirement credit occurs before and after October 1, 2013.

Please see the attached addendum for examples of these calculations.

### PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing will be held August 25, 2015, at 2:00 p.m. at PERS headquarters in Tigard. A second rulemaking hearing will be held August 27, 2015, at 2:00 p.m. at Oregon State Archives in Salem. The public comment period ends September 1, 2015, at 5:00 p.m.

Prior to the start of rulemaking, PERS received a letter dated May 5, 2015, from Doug Crummé in which he asks that rulemaking to implement *Moro* clearly address how the 2% COLA applies to the Tier One Money Match option. We will address Mr. Crummé's comments in the Board adoption memo along with all other public comment submitted.

### LEGAL REVIEW

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

### IMPACT

Mandatory: Yes. The court's decision did not specify the COLA allocation methodology, so rulemaking is necessary to explain how the agency will administer the court's directives.

Impact: PERS will reprogram ORION to automate the annual cost-of-living adjustment.

Cost: There is no cost specific to the rule change; project costs to restore benefits and programming to administer COLA in 2016 and beyond are the results of the court's decision.

### RULEMAKING TIMELINE

July 15, 2015	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
July 31, 2015	PERS Board notified that staff began the rulemaking process.
August 1, 2015	<i>Oregon Bulletin</i> publishes the Notice. Notice is sent to employers, legislators, and interested parties. Public comment period begins.
August 25, 2015	First rulemaking hearing to be held at 2:00 p.m. at PERS in Tigard.
August 27, 2015	Second rulemaking hearing to be held at 2:00 p.m. at Oregon State Archives in Salem.
September 1, 2015	Public comment period ends at 5:00 p.m.
September 25, 2015	Staff will propose adopting the rule modifications, including any changes resulting from public comment or reviews by staff or legal counsel.

Notice – Cost-of-Living Adjustment Rules

07/31/15

Page 4 of 4

NEXT STEPS

The first rulemaking hearing will be held August 25, 2015, at 2:00 p.m. at PERS headquarters in Tigard, and the second rulemaking hearing will be held August 27, 2015, at 2:00 p.m. at Oregon State Archives in Salem. The rules are scheduled to be brought before the PERS Board for adoption at the September 25, 2015 Board meeting.

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

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

B.1. Attachment 3 - Blended COLA Examples

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

1 **459-005-0510**

2 **Cost-of-Living Adjustment**

3 (1) A cost-of-living adjustment (COLA) under ORS 238.360 and 238A.210 is  
4 calculated on an annual basis and *[then divided by 12 to determine the adjustment to the*  
5 *recipient's monthly allowance, pension, or benefit.]* may use up to three COLA  
6 methods that are blended into a COLA percentage rate, as follows:

7 (a) Creditable service or retirement credit earned before May 1, 2013, will  
8 receive an annual COLA based on ORS 238.360 (2011) or ORS 238A.210 (2011).

9 (b) Creditable service or retirement credit earned on or after May 1, 2013, and  
10 before October 1, 2013, will receive an annual COLA based on Chapter 53, Oregon  
11 Laws 2013.

12 (c) Creditable service or retirement credit earned on or after October 1, 2013,  
13 will receive an annual COLA based on ORS 238.360 (2013) or ORS 238A.210  
14 (2013).

15 (2) The member's prorated periods in section (1) of this rule will be multiplied  
16 by the appropriate annual COLA percentage for the same periods to determine the  
17 blended annual COLA percentage rate that is applied to a yearly allowance,  
18 pension, or benefit. The resulting annual COLA amount is divided by 12 to  
19 determine the adjustment to the monthly allowance, pension, or benefit.

20 (3) A beneficiary's annual COLA percentage rate will be based on the  
21 associated member's creditable service time.

1        *[(2)](4) [Monthly]* COLA increases end when the recipient is no longer eligible to  
2 receive a monthly allowance, pension, or benefit.

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

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

5        Stats. Implemented: ORS 238.360, 238.575, 238A.210 [& OL 2013, Ch. 53](#)

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

1 *[459-005-0520*

2 *Supplementary Payment*

3 *(1) For purposes of this rule, “benefit recipient” means a member, beneficiary,*  
4 *alternate payee, or judge member.*

5 *(2) In accordance with ORS 238.465(1), an alternate payee is eligible for a*  
6 *supplementary payment only if the associated member or judge member is eligible.*

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

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

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

14 *Stats. Implemented: ORS 238.360, 238.575, 238A.210 & OL 2013, Ch. 2, §8 (1st*  
15 *special session)]*

**PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
 BLENDED COST-OF-LIVING (COLA) CALCULATION EXAMPLES

**Member Data**

	Creditable service before and after October 1, 2013	
	EXAMPLE 1	EXAMPLE 2
	Yearly allowance <u>less</u> than \$60,000	Yearly allowance <u>more</u> than \$60,000
Effective Date of Retirement:	July 1, 2015	July 1, 2015
Yearly Retirement Allowance:	\$40,000	\$75,000
Months of Creditable Service before October 1, 2013:	339 mths	339 mths
Total Months of Creditable Service:	360 mths	360 mths
Service Time Ratio before October 1, 2013 (339/360):	0.9416667	0.9416667
Service Time Ratio after October 1, 2013 (21/360):	0.0583333	0.0583333

**All creditable service before October 1, 2013**

EXAMPLE 3
Creditable service before October 1, 2013
July 1, 2015
\$75,000
360 mths
360 mths
1.00
0

**Calculation Example**

	Service Time Ratio	Annual COLA		Blended COLA		COLA
				up to \$60,000	over \$60,000	
Pre-amendment COLA*:	0.941667	x 2.00%	=	1.8833%	1.8833%	2.0000%
Post-amendment COLA, under \$60K:	0.058333	x 1.25%	=	0.0729%	+ 0.0729%	0.0%
Post-amendment COLA, over \$60K:	0.058333	x 0.15%	= +	0.0%	+ 0.0087%	+ 0.0%
Blended COLA Percentage Rate:				1.9562%	1.8920%	2.0000%
Yearly Allowance (\$60,000 or less):			x \$	40,000	x \$ 60,000	
Yearly Allowance (above \$60,000):					x \$ 15,000	x \$ 75,000
				\$ 1,173.72	\$ 283.80	
					→ 1,173.72	
Total Annual COLA:			\$	782.48	\$ 1,457.52	\$ 1,500.00
			÷	12	÷ 12	÷ 12
Monthly COLA:			\$	65.21	\$ 121.46	\$ 125.00

\*Annual COLA for 2015 is 2% maximum



# Oregon

Kate Brown, Governor

## Public Employees Retirement System

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11410 S.W. 68<sup>th</sup> Parkway, Tigard, OR  
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P.O. Box 23700  
Tigard, OR 97281-3700  
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July 31, 2015

TO: Members of the PERS Board  
FROM: Stephanie Vaughn, Manager, Policy Analysis & Compliance Section  
SUBJECT: Notice of Rulemaking for Assumed Rate Rule:  
OAR 459-007-0007, *Assumed Rate*

### OVERVIEW

- Action: None. This is notice that staff has begun rulemaking.
- Reason: Specify the effective date to implement an assumed rate change for PERS transactions.
- Policy Issue: No policy issues have been identified at this time.

### BACKGROUND

Staff will return to the September 25, 2015 PERS Board meeting with rule modifications that implement any change to the assumed rate adopted today with an effective date of January 1, 2016. Those modifications are reflected in the proposed rule attached to this memo, which also includes a blank space to show the assumed rate once it is adopted by the Board.

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

### PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing will be held August 25, 2015, at 2:00 p.m. at PERS headquarters in Tigard. A second rulemaking hearing will be held August 27, 2015, at 2:00 p.m. at Oregon State Archives in Salem. The public comment period ends September 1, 2015, 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:** Yes, the assumed rate determined by the Board must be adopted by rule and clearly describe the effective date of the assumed rate change on PERS transactions.

**Impact:** The proposed rule benefits members, employers, and staff by setting forth the assumed rate and a clear effective date for implementing a change in the rate.

**Cost:** There are no discrete costs directly attributable to specifying the assumed rate in rule.

### RULEMAKING TIMELINE

July 15, 2015	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
July 31, 2015	PERS Board notified that staff began the rulemaking process.
August 1, 2015	<i>Oregon Bulletin</i> publishes the Notice. Notice is sent to employers, legislators, and interested parties. Public comment period begins.
August 25, 2015	First rulemaking hearing to be held at 2:00 p.m. at PERS in Tigard.
August 27, 2015	Second rulemaking hearing to be held at 2:00 p.m. at Oregon State Archives in Salem.
September 1, 2015	Public comment period ends at 5:00 p.m.
September 25, 2015	Staff will propose adopting the rule modifications, including any changes resulting from public comment or reviews by staff or legal counsel.

### NEXT STEPS

A public hearing will be held on August 25, 2015, at 2:00 p.m. at PERS headquarters in Tigard, and a second public hearing will be held on August 27, 2015, at 2:00 p.m. at Oregon State Archives in Salem. The rule is scheduled to be brought before the PERS Board for adoption at its September 25, 2015 meeting.

B.2. Attachment 1 – 459-007-0007, *Assumed Rate*

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

1 **459-007-0007**

2 **Assumed Rate**

3 (1) The Board will review the assumed rate in odd-numbered years as part of the  
4 Board's review and adoption of actuarial assumptions and methods.

5 (2) The Board may adopt a change in the assumed rate at any time. A change in the  
6 assumed rate is effective the first of the year following the Board's adoption of the change.

7 (3) The assumed rate is set at ~~[7.75]~~ \_\_\_\_\_ percent, effective on January 1, ~~[2014]~~ 2016.

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

9 Stats. Implemented: ORS Chapters 238 & 238A



# Oregon

Kate Brown, Governor

Item B.3.

## Public Employees Retirement System

Headquarters:  
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July 31, 2015

TO: Members of the PERS Board  
FROM: Stephanie Vaughn, Manager, Policy Analysis & Compliance Section  
SUBJECT: Adoption of Disability Application Rules:  
OAR 459-015-0020, *Application Required*  
OAR 459-076-0020, *Application Required*

### OVERVIEW

- Action: Adopt modifications to the Disability Application rules.
- Reason: Housekeeping edits to OAR 459-015-0020 and 459-076-0020 to properly incorporate defined terms “date of termination,” “date of separation from service,” and “date of disability.”
- Policy Issue: No policy issues were identified.

### BACKGROUND

These rules provide specific timeframes for a member to file an application for a disability retirement (Tier One/Tier Two) or benefit (OPSRP). The member cannot apply before they stop working, but they are not required to be terminated from employment. The definitions for “date of disability,” “date of separation from service,” and “date of termination” in OAR 459-015-0001 were updated and incorporated into the disability rules in October 2011. Given the way the rule was structured, the incorporation of the updated definitions did not cover all possible employment/membership scenarios. The current modifications restructure the rule and incorporate the definitions in a manner intended to cover all likely employment/membership scenarios.

The proposed update to OAR 459-076-0020 incorporates the defined term “date of disability” in one place where it was missed in 2011 and makes other minor edits for clarification.

### SUMMARY OF MODIFICATIONS TO RULES SINCE FIRST READING

Modifications were made to the rules since they were last presented at the May 29, 2015 PERS Board meeting. The proposed rule modifications are:

OAR 459-015-0020: Merged section (6) into section (7), deleted sentence from section (5), page 1, line 22; subsection (9)(a) & (b) inserted “an inactive” before member to clarify status of the member, replaced “terminating employment” with “the date of separation from service” to clarify the date in which a member may file an application, replaced “termination” with “separation from service” to unify statute and rule terms, and reinstated the sentences regarding continuous total disability; other sections were renumbered.

OAR 459-076-0020: No modifications were made to this rule.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing on the rules noticed previously was held April 28, 2015 at 3:00 p.m. at PERS headquarters in Tigard. No members of the public attended. A second rulemaking hearing was held June 23, 2015 at 2:00 p.m. at PERS headquarters in Tigard. No members of the public attended. The public comment period for both rules ended July 1, 2015 at 5:00 p.m. No public comment was received.

LEGAL REVIEW

The attached 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: No.

Impact: These edits conform to statute and disability rule definitions.

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

RULEMAKING TIMELINE

March 13, 2015	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
March 30, 2015	PERS Board notified that staff began the rulemaking process.
April 1, 2015	<i>Oregon Bulletin</i> published the Notice. Notice was sent to employers, legislators, and interested parties. Public comment period began.
April 28, 2015	Rulemaking hearing held at 3:00 p.m. at PERS in Tigard.
May 6, 2015	Initial public comment period ended at 5:00 p.m.
May 15, 2015	Staff extended the public comment period by filing Notice of Rulemaking with the Secretary of State.
May 29, 2015	First Reading of the rules.
June 1, 2015	<i>Oregon Bulletin</i> published the second Notice. Notice was sent to employers, legislators, and interested parties. Public comment period continued.
June 23, 2015	Rulemaking hearing held at 2:00 p.m. at PERS in Tigard.
July 1, 2015	Public comment period ended at 5:00 p.m.
July 31, 2015	Board may adopt the permanent rule modifications.

BOARD OPTIONS

The Board may:

1. Pass a motion to “adopt modifications to the Disability Application rules, as presented.”
2. Direct staff to make other changes to the rules or explore other options.

STAFF RECOMMENDATION

Staff recommends that Board choose Option #1.

- Reason: Clarifies the specific timeframes for filing a disability application.

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 - OAR 459-015-0020, *Application Required*

B.3. Attachment 2 - OAR 459-076-0020, *Application Required*

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

1    **459-015-0020**

2    **Application Required**

3           (1) Application must be made on forms provided by PERS. PERS may require the  
4    member to provide any information that PERS considers necessary to determine the  
5    applicant’s eligibility for a disability retirement allowance.

6           (2) No disability retirement allowance will be paid unless the member files a timely  
7    and complete application.

8           (3) Application must be made by a member or the member’s authorized  
9    representative. A representative must submit to PERS written proof of the representative’s  
10   authority, such as a power of attorney, guardianship or conservatorship appointment.

11           **(4) A member cannot apply for disability retirement before their date of**  
12   **disability.**

13           ~~[(4)]~~(5) Upon the filing of an application for a disability retirement allowance, PERS  
14   will notify the applicant’s current or most recent employer of the filing. Additionally,  
15   PERS may request of an employer information pertaining to current or previous  
16   employment.

17           ~~[(5)]~~(6) When an active *[employee]* member *[is]* becomes disabled due to injury or  
18   disease, the member may make application immediately after the last day worked even  
19   though the member may be on a paid leave or on an official leave of absence without pay.  
20   *[No application will be accepted that predates the last day the member was actually on the*  
21   *job.]* **Total disability must be continuous from the date of disability to the date the**

1 application is filed. If the member becomes an inactive member, the application must  
2 be submitted within the timelines outlined in section (8) of this rule.

3 (7)(a) For a member who becomes totally disabled due to injury or disease but  
4 does not terminate employment, an application for disability retirement must be filed  
5 no later than 90 calendar days from the earlier of:

6 (A) The date the member is medically released for work; or

7 (B) The date the member returns to work.

8 (b) Total disability must be continuous from the date of disability to the earlier of  
9 paragraph (a)(A) or (B) of this section.

10 ~~[(6)](8)~~ An application by an inactive member is ~~[will be]~~ considered filed in a  
11 timely manner when received by PERS as follows:

12 (a) For ~~[a]~~ an inactive member who ~~[is]~~ becomes totally disabled due to injury or  
13 disease before ~~[terminating employment]~~ the date of separation from service from all  
14 PERS qualifying positions and has not withdrawn the amount credited to the account of the  
15 member in the system, the member must file an application for a disability retirement  
16 allowance within five calendar years of the date of ~~[termination]~~ separation from service.  
17 Total disability must be continuous from the date of separation from service to the date the  
18 application is filed.

19 (b) For ~~[a]~~ an inactive member who ~~[is]~~ becomes totally disabled due to injury or  
20 disease after ~~[terminating employment]~~ the date of separation from service from all  
21 PERS qualifying positions and has not withdrawn the amount credited to the account of the  
22 member in the system, the member must file an application for a disability retirement  
23 allowance within six months (180 days) after the date of separation from service. Total  
24 disability must be continuous from the date of disability to the date the application is filed.

1 *[(c)(A) For a member who is totally disabled due to injury or disease but does not*  
2 *terminate employment, an application for disability retirement must be filed no later than*  
3 *90 calendar days from:*

4 *(i) The date the member is medically released for work; or*

5 *(ii) The date the member returns to work, whichever is earlier.*

6 *(B) Total disability must be continuous from the date of disability to the earlier of*  
7 *paragraph (A)(i) or (ii) of this subsection.*

8 *[(d) A member cannot apply for disability retirement before their date of disability.]*

9 ~~[(7)]~~(9) In determining the effective date of a disability retirement allowance, PERS  
10 may allow up to 60 months of benefits retroactive from the date the application is filed  
11 with PERS, but in no case earlier than the first day of the month following the date of  
12 separation from service.

13 ~~[(8)]~~(10) When making application for a PERS disability retirement allowance, PERS  
14 will request the applicant authorize any physician, health practitioner, hospital, clinic,  
15 pharmacy, employer, employment agency, or government agency to release and disclose to  
16 PERS, or independent physicians and vocational consultants retained by PERS, any  
17 information within their records or knowledge, including that information otherwise  
18 protected under federal or state law, regarding the applicant’s health and employment  
19 which PERS determines relates to the applicant’s claim of disability and inability to  
20 perform any work for which qualified.

21 ~~[(9)]~~(11) When filing an application for disability retirement allowance, if the  
22 applicant wishes to authorize release and disclosure of protected health information, as  
23 defined in OAR 459-015-0001, the applicant must complete and sign a consent form which  
24 specifically authorizes the release and disclosure of such information.

1 (a) This authorization is voluntary. *[Because]* PERS is not a covered entity as defined  
2 in 45 CFR Parts 160 and 164, **and** the protected health information is not subject to federal  
3 and state health information privacy laws, but may be protected under Oregon State Public  
4 Record disclosure laws.

5 (b) This authorization may be revoked in writing at any time, except to the extent the  
6 entities named on the authorization form(s) have taken action in reliance of the  
7 authorization.

8 (c) If the applicant refuses to give or revokes authorization to disclose to PERS  
9 medical information that PERS determines it needs to evaluate the application, eligibility  
10 for a disability retirement allowance may be affected.

11 Stat. Auth.: ORS 238.650

12 Stats. Implemented: ORS 238.320 - 238.345

**OREGON ADMINISTRATIVE RULE  
PUBLIC EMPLOYEES RETIREMENT BOARD  
CHAPTER 459  
DIVISION 076 – OPSRP DISABILITY BENEFIT**

1 **459-076-0020**

2 **Application Required**

3 (1) Application must be made on forms provided by PERS. PERS may require the  
4 member to provide any information that PERS considers necessary to determine the  
5 member’s eligibility for a disability benefit.

6 (2) No disability benefit will be paid unless the member files a timely and complete  
7 application with PERS.

8 (3) Application must be made by a member or the member’s authorized  
9 representative. A representative must submit to PERS written proof of the  
10 representative’s authority; such as a power of attorney, guardianship or conservatorship  
11 appointment.

12 (4) A member must file a timely application for disability benefits:

13 (a) An active member may file the application immediately after the last day worked  
14 even though the member may be on a paid leave or on an official leave of absence  
15 without pay. No application will be accepted that predates the last day the member was  
16 actually on the job, and:

17 (A) The application must be filed no later than 90 calendar days from:

18 (i) The date the member is medically released for work; or

19 (ii) The date the member returns to work, whichever is earlier.

20 (B) Total disability must be continuous from the date of disability to the earlier of  
21 paragraph (A)(i) or (ii) of this subsection.

1 (b) An inactive member who *[was]* became totally disabled due to injury or disease  
2 while the applicant was an active member and has not terminated membership, must file  
3 an application for a disability benefit within five calendar years of the date of separation  
4 from service. Total disability must have arisen while the applicant was an active member  
5 and be continuous from the date of disability *[the member last worked]* to the date the  
6 application is filed.

7 (c) A member cannot apply for disability benefits before their date of disability.

8 (5) In determining the effective date of a disability benefit, PERS may allow up to 60  
9 months of benefits retroactive from the date the application is filed with PERS, but in no  
10 case earlier than the first day of the month following the date of separation from service.

11 (6) Upon the filing of an application for a disability benefit, PERS will notify the  
12 applicant's current or most recent employer of the filing. Additionally, PERS may request  
13 of an employer information pertaining to current or previous employment.

14 (7) When making application for a PERS disability benefit, PERS will request the  
15 applicant authorize any physician, health practitioner, hospital, clinic, pharmacy,  
16 employer, employment agency, or government agency to release and disclose to PERS,  
17 or independent physicians and vocational consultants retained by PERS, any information  
18 within their records or knowledge, including that information otherwise protected under  
19 federal or state law, regarding the applicant's health and employment which PERS  
20 determines relates to the applicant's claim of disability and inability to perform any work  
21 for which qualified.

22 (8) When filing an application for disability benefit, if the applicant wishes to  
23 authorize release and disclosure of protected health information, as defined in OAR 459-

1 076-0001, the applicant must complete and sign a consent form which specifically  
2 authorizes the release and disclosure of such information.

3 (a) This authorization is voluntary. *[Because]* PERS is not a covered entity as  
4 defined in 45 CFR Parts 160 and 164, **and** the protected health information is not subject  
5 to federal and state health information privacy laws, but may be protected under Oregon  
6 State Public Record disclosure laws.

7 (b) This authorization may be revoked in writing at any time, except to the extent the  
8 entities named on the authorization form(s) have taken action in reliance of the  
9 authorization.

10 (c) If the applicant refuses to give or revokes authorization to disclose to PERS  
11 medical information that PERS determines it needs to evaluate the application, eligibility  
12 for a disability benefit may be affected.

13 Stat. Auth.: ORS 238A.450

14 Stats. Implemented: ORS 238A.235



# Oregon

Kate Brown, Governor

## Public Employees Retirement System

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July 31, 2015

TO: Members of the PERS Board  
FROM: Stephanie Vaughn, Manager, Policy Analysis & Compliance Section  
SUBJECT: Adoption of Reemployment of OPSRP Retirees Rules:  
OAR 459-075-0300, *Reemployment of a Retired Member of the OPSRP Pension Program*  
OAR 459-080-0300, *Receipt of Payments by a Reemployed Member of the IAP*

### OVERVIEW

- Action: Adopt modifications to the Reemployment of OPSRP Retirees rules.
- Reason: Clarify the number of hours a retired OPSRP Pension Program member can work in the calendar year in which they retire without affecting their status as a retired member.
- Policy Issue: Should the 600 hours of service in a calendar year required for a “qualifying position” be reset at the retirement of an OPSRP Pension Program member to parallel the methodology used for Tier One and Tier Two retired members?

### BACKGROUND

OPSRP Pension Program retired members who return to work for a PERS participating employer may continue to receive their pension payment so long as they are not working in a qualifying position, which is defined by ORS 238A.005(15) as “one or more jobs with one or more participating public employers in which an eligible employee performs 600 or more hours of service in a calendar year....” Under ORS 238A.245, when an OPSRP retired member works in a qualifying position, the retired member re-establishes active membership and PERS is required to stop their pension payments.

PERS has counted hours worked post-retirement separately from hours worked pre-retirement in the same calendar year when an OPSRP retired member returns to work. This practice was recently questioned during a review of ORS 238A.245: should hours worked in pre-retirement and post-retirement job segments be combined to count towards the 600 hours of the qualifying position, or can the hours worked post-retirement be counted separately? At the start of 2015, PERS informed employers that a narrow interpretation of the 600 hours standard would combine hours worked pre-retirement and post-retirement in the same calendar year for purposes of determining whether the 600 hours definition of a qualifying position had been met.

This direction was met with great concern by employers (and some members who had been informed by their employers), who requested that PERS review alternative interpretations and solutions to avoid such a result. The agency initiated this rulemaking to support a broader application of the statute that would allow hours worked by an OPSRP member pre-retirement to count separately from post-retirement hours.

In reviewing the applicable administrative rules, we also discovered that OAR 459-080-0300, regarding reemployed members of the IAP, has not been updated since the institution of the “retire from one, retire from all” standard established in 2011. This rulemaking also includes the necessary modifications to properly align the IAP return to work standard with the member’s respective pension program and outlines the effect of the member returning to active membership on their IAP distributions.

### POLICY ISSUE

*Should the 600 hours of service in a calendar year required for a “qualifying position” be reset at the retirement of an OPSRP Pension Program member to parallel the methodology used for Tier One and Tier Two retirees?*

OPSRP Pension Program retired members who return to work for a PERS participating employer may continue to receive their pension payments so long as they are not working in a qualifying position. Based on this statutory direction, PERS previously informed members and employers that an OPSRP retired member may work another 600 hours in a calendar year after retirement and continue to receive their monthly benefit.

The corresponding work after retirement statutory provision for Chapter 238 (ORS 238.082(2)) permits Tier One and Tier Two retired members to return to work for a PERS participating employer for up to 1,040 hours in a calendar year. This hourly limitation is specific to work performed as a retired member. For consistency, PERS has administered the 600 hour rule for retired OPSRP members the same way we administer the 1,040 hour rule for retired Tier One and Tier Two members, even though there is no parallel statute in the OPSRP program as the explicit return to work standard for Tier One and Tier Two.

Absent an explicit statute clarifying application to OPSRP, a narrow application of the OPSRP return to work statute could combine pre-retirement and post-retirement hours worked in the same calendar year for purposes of determining whether the 600 hours qualifying position level had been met. This application would mean an OPSRP member who retired earlier in the year could return to work, but one who retired later in the year could not, depending on how many hours they had already worked in that calendar year. Such a “sliding standard” would be very difficult to administer and explain to members and employers as they tried to resolve decisions about returning to work after retirement.

Instead, the proposed rule modifications clarify that the reference to a retired member returning to work in a qualifying position in ORS 238A.245 implies that only work as a retired member is considered when determining whether that retired member is in a qualifying position. This interpretation allows the pre-retirement hours to be considered separately from post-retirement hours.

With the rule modification, only hours worked post-retirement would count toward the 600 hour limitation for an OPSRP retired member, and they could continue to receive their pension payment so long as they did not meet or exceed 600 hours as a retired member. This interpretation is consistent with member and employer expectations, and would allow the agency to use the same post-retirement administrative methodology that is used for Tier One and Tier Two retired members.

Staff recommends adoption of the proposed rule modifications as a more uniform application of administering retired members' hours that will enhance predictability, consistency, and clarity for members, employers, and PERS staff.

#### SUMMARY OF MODIFICATIONS TO RULE SINCE NOTICE

For clarification, the term “employed” was changed to “hired”, and the term “employment” was changed to “hire” throughout the rule.

#### PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held June 23, 2015, at 2:00 p.m. at PERS headquarters in Tigard. No members of the public attended. The public comment period for OAR 459-075-0300 ended July 6, 2015, at 5:00 p.m. The public comment period for OAR 459-080-0300 ended July 22, 2015, at 5:00 p.m. No public comment was received.

#### LEGAL REVIEW

The attached 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: No.

Impact: Clarify standard for number of hours a retired OPSRP member can work in the calendar year in which they retire without affecting their status as a retired member.

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

#### RULEMAKING TIMELINE

May 15, 2015	Staff began the rulemaking process for OAR 459-075-0300 by filing Notice of Rulemaking with the Secretary of State.
May 29, 2015	PERS Board notified that staff began the rulemaking process.
June 1, 2015	<i>Oregon Bulletin</i> published the Notice for OAR 459-075-0300. Notice was sent to employers, legislators, and interested parties. Public comment period began.
June 15, 2015	Staff began the rulemaking process for OAR 459-080-0300 by filing Notice of Rulemaking with the Secretary of State.
June 23, 2015	Rulemaking hearing held at 2:00 p.m. at PERS in Tigard.
July 1, 2015	Public comment period for OAR 459-075-0300 ended at 5:00 p.m. <i>Oregon Bulletin</i> published the Notice for OAR 459-080-0300. Public comment period began.
July 22, 2015	Public comment period for OAR 459-080-0300 ended at 5:00 p.m.
July 31, 2015	Board may adopt the permanent rule modifications.

### BOARD OPTIONS

The Board may:

1. Pass a motion to “adopt modifications to the Reemployment of OPSRP Retirees 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.

- Reason: Clarify the number of hours a retired OPSRP Pension Program member can work in the calendar year in which they retire without affecting their status as a retired member.

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 - OAR 459-075-0300, *Reemployment of a Retired Member of the OPSRP Pension Program*

B.4. Attachment 2 - OAR 459-080-0300, *Receipt of Payments by a Reemployed Member of the IAP*

**OREGON ADMINISTRATIVE RULE  
PUBLIC EMPLOYEES RETIREMENT BOARD  
CHAPTER 459  
DIVISION 075 – OPSRP PENSION PROGRAM**

1 **459-075-0300**

2 **Reemployment of a Retired Member of the OPSRP Pension Program**

3 (1) If a retired member of the OPSRP Pension Program who is receiving monthly  
4 pension payments is employed by a participating public employer in a qualifying  
5 position:

6 (a) The member's retirement is canceled effective the first of the month in which the  
7 member was hired *[employed]*.

8 (b) The last pension payment the member is entitled to receive is for the month  
9 before the calendar month in which the member was hired *[employed]*. A member who  
10 receives benefits to which he or she is not entitled must repay those benefits to PERS.

11 (c) The member reestablishes active membership effective the date the member was  
12 hired *[employed]*.

13 (2) If a retired member of the OPSRP Pension Program who received a lump sum  
14 benefit in lieu of a small pension under ORS 238A.195 is employed by a participating  
15 public employer in a qualifying position, the member reestablishes active membership  
16 effective the date of hire *[employment]*.

17 (a) If the member was hired *[employed]* after the date of the payment, the member is  
18 not required or permitted to repay the benefit amount.

19 (b) If the member was hired *[employed]* on or before the date of the payment, the  
20 member must repay the gross benefit amount.

21 (3) A retired member of the OPSRP Pension Program who is hired *[employed]* by a  
22 participating public employer in a non-qualifying position may receive pension payments

1 or a lump sum payment under ORS 238A.195 without affecting the member’s status as a  
 2 retired member, provided the period or periods of employment worked as a retired  
 3 member total less than 600 hours in a calendar year.

4 (a) If, by reason of hours of service performed by the retired member, the non-  
 5 qualifying position becomes qualifying in a calendar year, the position is qualifying  
 6 effective the later of the first day of the calendar year or the date of hire *[the member was*  
 7 *employed]*.

8 (b) If a position becomes qualifying under subsection (a) of this section, the retired  
 9 member is subject to the provisions of sections (1) and (2) of this rule.

10 (4) A retired member who reestablishes active membership may, at subsequent  
 11 retirement, elect any option provided in ORS 238A.180 and 238A.190, subject to the  
 12 provisions of ORS 238A.195.

13 (a) The member’s subsequent retirement benefit will be calculated based on the  
 14 member’s periods of active membership before and after the member’s initial effective  
 15 retirement date if at the initial retirement:

16 (A) The member received a monthly pension; or

17 (B) The member received a lump sum payment under ORS 238A.195 and repaid the  
 18 benefit amount under subsection (2)(b) of this rule.

19 (b) The member’s subsequent retirement benefit will be calculated based on the  
 20 member’s periods of active membership after the member’s initial effective retirement  
 21 date if:

1            (A) At initial retirement, the member received a lump sum payment under ORS  
2 238A.195 and was not required to repay the benefit amount under subsection (2)(b) of  
3 this rule; or

4            (B) The member is required to repay the benefit amount under subsection (2)(b) of  
5 this rule and, as of the effective retirement date of the member’s subsequent retirement,  
6 the member has not repaid the benefit amount.

7            (c) The member’s subsequent retirement benefit will be calculated using the actuarial  
8 equivalency factors in effect on the effective retirement date of the subsequent retirement.

9            Stat. Auth.: ORS 238A.450

10           Stats. Implemented: ORS 238A.245

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

1 **459-080-0300**

2 Receipt of Retirement Distribution Payments by *[a Reemployed]* an Active Member of  
3 the IAP

4 (1) A member of the IAP who received a *[lump sum]* distribution at retirement  
5 under ORS 238A.400 or OAR 459-080-0250 who *[is employed by a participating public*  
6 *employer in a qualifying position becomes an]* reestablishes active *[member]*  
7 membership [as of the date of employment] in the PERS Chapter 238 Program as set  
8 forth in OAR 459-017-0060, or the OPSRP Pension Program as set forth in OAR 459-  
9 075-0300, shall also reestablish active membership in the IAP on the same date.

10 *[(a) If the member was employed after the date of the payment, the member is not*  
11 *required or permitted to repay the payment.]*

12 *[(b) If the member was employed on or before the date of the payment, the member*  
13 *must repay the gross amount of the payment.]*

14 (2) A member is not entitled to receive any IAP payments once active  
15 membership is reestablished.

16 (a) If the member received a single lump sum payment, the member is entitled to  
17 the payment provided the payment was dated on or before the date the member  
18 reestablished active membership.

19 (b) If the member is receiving installment payments, the last installment payment  
20 to which the member is entitled is the last installment payment paid before the date  
21 the member reestablished active membership.

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

3 *[(2) A member receiving installment payments under 238A.400 and OAR 459-080-*  
4 *0250 who is employed by a participating public employer in a qualifying position becomes*  
5 *an active member as of the date of employment.]*

6 *[(a) The last installment payment to which the member is entitled is the last*  
7 *installment payment paid before the date of employment. A member who receives benefits*  
8 *to which he or she is not entitled must repay those benefits to PERS.]*

9 *[(b) The member is not required or permitted to repay installment payments paid*  
10 *before the date of employment.]*

11 *[(3) A member who is employed by a participating public employer in a non-*  
12 *qualifying position may receive a lump sum payment or installment payments.]*

13 *[(a) If, by reason of hours of service performed by the member, the non-qualifying*  
14 *position becomes qualifying in a calendar year, the position is qualifying effective the later*  
15 *of the first day of the calendar year or the date the member was employed.]*

16 *[(b) If a position becomes qualifying under subsection (a) of this section, the member*  
17 *is subject to the provisions of sections (1) and (2) of this rule.]*

18 *[(4) Notwithstanding sections (1) to (3) of this rule, a member of the IAP who is a*  
19 *retired member of the PERS Chapter 238 Program and is employed by a participating*  
20 *public employer may receive payment(s) from the IAP subject to the limitations on*  
21 *employment of retired members of the PERS Chapter 238 Program.]*

1        ~~[(5)]~~(4) A member of the IAP who reestablishes active membership may, at  
2        subsequent retirement, elect any payment option provided in ORS 238A.400, subject to the  
3        provisions of OAR 459-080-0250.

4        Stat. Auth.: 238A.450

5        Stats. Implemented: ORS 238 & 238A



# Oregon

Kate Brown, Governor

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July 31, 2015

TO: Members of the PERS Board  
FROM: Marjorie Taylor, Senior Policy Advisor  
SUBJECT: 2015 Legislative Session Update

### 2015 REGULAR LEGISLATIVE SESSION

The legislature adjourned on July 6, 2015, after approving the following bills that impact the PERS plan. The bills have been signed, or are under consideration, by the Governor. PERS divisions will work through implementation of these new or revised provisions – some being a little more straightforward than others.

Bill Number	Relating Clause	Summary
HB 2618	Relating to PERS members at DHS residential facilities	Provides “police” status to current and future DHS employees working at specific residential facilities, for service after the effective date of the measure.
HB 2684	Relating to employment of retired public employees	Extends sunset from Jan. 2, 2016 to Jan. 2, 2026 on the return-to-work exception for PERS Tier One/Two retirees who are re-employed as nursing instructors or trainers at the Department of Public Safety Standards and Training.
HB 3058	Relating to pensions	Allows return-to-work exception for Tier One/Two retirees who are re-employed by school districts or education service districts as career and technical education teachers. The exception sunsets June 30, 2018.
HB 3400	Relating to marijuana	Changes the position title for OLCC staff who had “police” status before passage of the measure, from “liquor enforcement inspectors” to “regulatory specialists.”
HB 3495	Relating to contributions to OPSRP	Establishes standard contribution start date for new OPSRP members to be the first full pay period after the six-month probationary period.
HB 5034	Relating to financial administration of PERS	PERS Agency Budget Bill including budget notes and other directive associated with Policy Packages 102, 104, and 105.
SB 63	Relating to connection to federal tax law	Biennial reconciliation between PERS statutes and Internal Revenue Code.
SB 80	Relating to higher education governance	Refines terminology in PERS statute to reflect dissolution of the Oregon University System and associated offices.
SB 370	Relating to payment of benefits to alternate payees	As directed in a divorce, provides benefit to ex-spouse of deceased OPSRP member who dies pre-retirement.
SB 5507	Relating to state financial administration	Provides funding for SB 370 and HB 3495, upon approval of implantation plans by DAS and LFO.

### **HOUSE BILL 5034 - PERS BUDGET BILL and BUDGET NOTES**

House Bill 5034, the PERS Agency budget bill, was approved by the legislature and signed by the Governor before the 2015-2017 biennium began on July 1. Overall, PERS was successful with requests for additional staff for the call center, budget calculations, and data verification project. PERS also received authority for key technology projects, but we will continue to work with the Legislative Fiscal Office and Department of Administrative Services to ensure project goals and achievements coincide with funding requests.

Budget notes require PERS to report to the legislature in 2016 on: any Board-approved change to the assumed earnings rate; a risk assessment of agency business continuity and disaster preparedness; and a statutory review of how to simplify and reduce the costs of the benefit structure and administration.

### **BOARD MEMBER APPOINTMENTS**

During the September 28-30 legislative days, we anticipate that the Senate Rules Committee will consider executive appointments recommended by the Governor. We appreciate the continued service of Rhoni Wiswall, and we understand a new PERS Board member may be considered by the Senate in September. Krystal Gema's appointment expires September 30, and she has indicated that she will seek reappointment to the position. Lawrence Furnstahl's appointment expires December 12, 2015. The Governor's Office and Senate may consider additional executive appointments during committee meetings in November, January, or the February 2016 session.

### **UPCOMING LEGISLATIVE ACTIVITIES**

Interim legislative committees will meet September 28-30, November 16-18, and January 13-15. The 2016 legislative session begins Monday, February 1. Generally, state agencies are not allowed to request and introduce legislation for the even-year session.

However, this fall PERS will begin to consider proposals for the 2017 legislative session. The PERS Legislative Advisory Committee and Board will provide guidance about which proposals the agency should forward to the Governor's Office for consideration.



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July 31, 2015

**TO:** Members of the PERS Board  
**FROM:** Robert Jones, Procurement & Facilities Manager  
**SUBJECT:** Contracted Actuarial Services – Recommendation to Board

### OVERVIEW

The current actuarial services contract expires on December 31, 2015. PERS recently conducted a formal solicitation to identify and select a qualified provider to continue actuarial support beyond 2015. PERS' current provider, Milliman, was selected.

With significant assistance from the Department of Justice, the agency completed negotiations with the selected vendor in late June, resulting in agreement by the parties on a contract that will provide actuarial services through December 31, 2019, with options for six additional years.

### RECOMMENDATION SUPPORT

The following information is offered as support for the agency's recommendation that the Board approve proceeding with the award of a contract to Milliman for actuarial services.

- Milliman has performed very well in all aspects of the services contracted over the past several years, so the expectation of quality moving forward should be well met;
- By retaining Milliman, the agency will enjoy the advantage of seamless continuity for the next four years, which will be extremely valuable as PERS experiences multiple organizational changes while continuing to improve services and products to members;
- Significant benefits result from working with a partner who has deep understanding of PERS, combined with a large presence in the actuarial market place;
- Service charge rates will remain unchanged for the first two years of the new contract;
- The agreed-upon contract terms and conditions provide for responsible management of this service relationship and provide acceptable levels of risk to the agency and state.

### BOARD ACTION

The Board's options:

1. Pass a motion directing PERS to proceed with the award of a contract to Milliman based on the mutually-agreed upon terms and conditions. The contract's term will be four years, beginning January 1, 2016, with options to renew for three additional two-year terms, up to a maximum contract length of 10 years (through 2025).
2. Reject the recommendation, in which case the procurement and proposed contracting process will be terminated. At the Board's direction, a new procurement (or other process such as negotiating with the second-highest scored proposer) would be initiated so actuarial services can be procured before December 31, 2015, to avoid a disruption to these critical services.

### STAFF RECOMMENDATION

Staff recommends that the Board approve Option 1.



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July 31, 2015

TO: Members of the PERS Board  
FROM: Mary Dunn, Financial and Administrative Services Division  
SUBJECT: *Moro* Implementation Update

### **FUNDING FOR MORO PROJECT**

The legislature incorporated our entire fiscal impact projection of \$1.6 million for this project by amending and then passing the agency's budget bill, HB 5034. These funds will be used for staff costs in restoring member benefits and for system changes to administer the 2016 and future cost-of-living adjustment (COLA) under the court's new direction.

### **JULY 1, 2015 COLA and BENEFIT RESTORATION**

As we mentioned at the May 2015 Board meeting, PERS will pay a 2% COLA to benefit recipients effective July 1, 2015 (payable August 1, 2015). This 2% COLA will be paid to all 132,000+ benefit recipients eligible for COLA. Although the 2% COLA is not precisely correct, since it based on the recipient's current benefit without adjusting for the impact of *Moro*, we wanted to take a significant step towards restoring recipients to the correct benefit amount.

By October 31, 2015, the project's goal is to determine the amount of underpaid COLA and the revised benefit that should be paid for members with all their service credit prior to May 1, 2013. This population, about 123,000 recipients, will receive retroactive payments for the amount of underpaid COLA, minus any Supplementary Payment made in November 2014, by the end of that month, and the benefit will be corrected for payment made on November 1, 2015.

For recipients whose benefit includes service credit earned after May 1, 2013 (about 8,300 members), PERS will apply a blended COLA allocated based on the member's service credit before and after the effective date of the legislation challenged in *Moro* (see the administrative rulemaking under agenda item B.1.). This population will have their benefit recalculated based on the blended COLA and receive any underpaid benefits, less any November 2014 Supplementary Payment, by January 31, 2016. Their restored benefit based on the blended COLA should start with the February 1, 2016 payment.

### **OTHER PROJECT POPULATIONS AND TIMELINES**

Benefit recipients from retirements between January 1, 2014, and June 1, 2015, that are based on a survivorship option may have to be recalculated using updated actuarial equivalency factors. About 4,300 people are in this group. The old factors used COLA assumptions that were invalidated by the court. New factors have now been implemented for retirements going forward. So far, we have recalculated over 300 benefits in time for the August 1, 2015 payment. One-third has no overpayment to recover and, of the other two-thirds, the average reduction has been \$14.84 per month, or .903% of the monthly benefit, with an average total overpayment of \$139.20.

In addition, recipients who die before we adjust their benefit will need to be calculated separately; that population is about 7,000 recipients and growing. Both of these populations will be adjusted over the course of the biennium.



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July 31, 2015

TO: Members of the PERS Board  
FROM: Steven Patrick Rodeman, Executive Director  
SUBJECT: Valuation Methods and Assumptions Including Assumed Rate of Return

Milliman actuaries Matt Larrabee and Scott Preppernau will present the Valuation Methods and Assumptions including the Assumed Rate of Return for your consideration and adoption.

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

Also included in this section, we have enclosed public comments received on behalf of the Board regarding the assumed rate.

C.4. Attachment 1 –D. Crumme Letter  
C.4. Attachment 2 – T Noeske Letter

July 11, 2015

Fr: Doug Crummé  
7350 N.E. Sunflower Lane  
Corvallis, Oregon 97330

To: John Thomas, Chair  
Oregon PERS Board  
11410 S.W. 68<sup>th</sup> Parkway  
Tigard, Oregon 97223

**Re: Hold Steady on Assumed Earnings Rate**

Dear PERS Board,

Please maintain the current assumed earnings rate for the PERS fund over the next two years. Milliman appears to be recommending another cut this year. However, there has not been enough time to digest the *Moro* decision, the legislative session, the current growth outlook for the Oregon economy, and the investment outlook to jump into another change. Milliman's May 2015 materials estimate a 75 percent likelihood that the PERS fund will be 100-percent funded in the next 20 years.

Resist the urge to try to make up for *Moro*. The May 2015 Milliman materials still, in places, refer to the 2013 COLA changes as "reforms." But as we know, *Moro* identifies that those were largely an unconstitutional breach of contract. A herd mentality led to precipitous, unsound decisions in 2013.

Until 2013, PERS had steadily maintained an 8-percent assumed earnings rate for about 25 years, through several investment downturns. The rate was cut in 2013. Circumstances do not warrant yet another cut.

If any change is warranted, it should be a return to the 8-percent rate. Your 2012 publication, "*PERS: By The Numbers*," states on page 14 that, through 2011, "the 42-year average regular account earnings available for crediting equal[ed] 10.3 %." Since then, Tier One earnings available for distribution were 14.53 percent in 2012 and 15.76 percent in 2013. Returns were lower but still positive in 2014, with 7.05 percent IAP earnings.

Milliman notes that, in attempting to project future earnings, it does not take into account PERS' ability to outperform the market ("alpha"). It would be reasonable for you though to take PERS' demonstrated alpha into account in determining the assumed earnings rate for the next two years.

I write to you as a private citizen and not on behalf of my government employer. But please understand that Oregonians who work in government are weary of all of the recent changes that keep moving the goal line for retirement. Please hold steady on the assumed earnings rate this time around.

Please add this letter to any record that you make of your proceedings. Thank you.

Sincerely,



Doug Crummé

cc. Krystal Gema  
Pat West  
Rhoni Wiswall  
Lawrence Furnstahl  
Steve Rodeman  
Daniel Rivas  
Gov. Kate Brown  
Sen. Sara Gelser  
Rep. Dan Rayfield

#### 4. System Revenue (continued)

Regular account earnings available for crediting and actual distributions to Tier One and Tier Two member regular, variable, and Individual Account Program (IAP) accounts

Year	Earnings		Distributions (%)		
	Regular Account (%)	Tier One	Tier Two	Variable Account	IAP
1970	5.09	5.09		7.47	
1971	6.27	6.27		9.47	
1972	7.46	7.46		13.87	
1973	0.00	0.00		-16.39	
1974	0.00	5.50		-18.16	
1975	9.19	7.50		18.94	
1976	10.38	7.75		18.58	
1977	4.79	7.00		-2.62	
1978	7.37	7.00		7.03	
1979	12.32	11.09		20.40	
1980	16.92	13.00		29.94	
1981	4.37	7.50		-2.25	
1982	15.31	11.50		22.39	
1983	18.37	13.00		23.12	
1984	7.33	7.50		4.00	
1985	21.38	15.00		27.99	
1986	22.70	18.37		18.98	
1987	9.00	7.50		4.54	
1988	16.86	13.50		18.62	
1989	19.74	14.50		26.84	
1990	-1.53	8.00		-7.84	
1991	22.45	15.00		35.05	
1992	6.94	8.00		10.54	
1993	15.04	12.00		12.65	
1994	2.16	8.00		-1.76	
1995	20.78	12.50		29.92	
1996	24.42	21.00	24.42	21.06	
1997	20.42	18.70	20.42	28.87	
1998	15.43	14.10	13.63	21.45	
1999	24.89	11.33*	21.97	28.83	
2000	0.63	8.00	0.54	-3.24	
2001	-7.17	8.00	-6.66	-11.19	
2002	-8.93	8.00	-8.93	-21.51	
2003	23.79	8.00	22.00	34.68	
2004	13.80	8.00	13.27	13.00	12.77
2005	13.04	8.00	18.31**	8.29	12.80
2006	15.57	8.00	15.45	15.61	14.98
2007	10.22	7.97***	9.47	1.75	9.46
2008	-27.18	8.00	-27.18	-43.71	-26.75
2009	19.12	8.00	19.12	35.57	18.47
2010	12.44	8.00	12.44	15.17	12.13
2011	2.21	8.00	2.21	-7.80	2.15

\* The PERS Board originally credited these accounts at 20%. That allocation was later reduced to 11.33% to comply with subsequent court decisions and legislative findings.

\*\* Tier Two regular account crediting, based solely on earnings, was 13.74%. However, the PERS Board deployed \$9 million from the Capital Preservation Reserve and \$17 million from the Contingency Reserve that was added to Tier Two earnings. As a result, Tier Two was credited with a total of 18.31%. The dollars allocated from the reserves were originally withheld from Tier Two regular account earnings.

\*\*\* After crediting Tier One accounts with the assumed rate of 8%, member attorney fees in the *Strunk* case were deducted by order of the Oregon Supreme Court resulting in an effective crediting rate of 7.97%.

- 42-year average regular account earnings available for crediting equals 10.3%.
- 42-year average earnings credited to Tier One regular accounts equals 9.6%.
- 42-year average earnings credited to variable accounts equals 10.7%.
- Average earnings credited to Tier Two accounts since 1996 equals 9.4%.
- Average earnings credited to IAP accounts since 2004 equals 7.0%.
- In determining plan funding, the actuary must project future earnings of the PERS Fund. This is called the "assumed earnings rate." Historical assumed earnings rates are:
  - 5.0% for 1971 - 1974
  - 7.0% for 1975 - 1978
  - 7.5% for 1979 - 1988
  - 8.0% for 1989 - current.

**Joli Whitney**

---

**From:** Tammy N <kenny\_n\_tammy@msn.com>  
**Sent:** Monday, July 06, 2015 10:53 AM  
**To:** PERS BOARD  
**Subject:** assumed rate change

I've been an employee of the State of Oregon since 1979. There is a meeting every two years to review assumed rates. The upcoming meeting is July for the years 2016 and 2017.

I'm asking the Board to leave the rate at 7.75%. Public Employees and PERS Members have give up enough already. You are forcing out knowledgeable work staff with these rate changes. Having to work 6 extra months just to get to where you would have been before is just not right.

Enough is enough. Please leave well enough alone.

Sincerely,  
Tammy Noeske  
4588 Beth St NE  
Salem, OR 97301

# Valuation Methods & Assumptions – Including Assumed Investment Return

## OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM July 31, 2015

Presented by:

Matt Larrabee, FSA, EA, MAAA

Scott Preppernau, FSA, EA, MAAA



# Agenda

- Overview of recommended demographic assumptions
- Recap of economic assumptions and actuarial methods
  - Reviewed at the Board's May meeting
- Review of long-term investment return assumption
- Estimated effect of assumption changes
- Adoption of assumed return assumption

# Executive Summary

- *Moro* ruling will increase contribution rates effective July 2017
  - May 2015 presentation: 3.7%\* of payroll increase, with additional *Moro*-related increases “collared off” to subsequent biennia
- Assumption review analysis:
  - Decrease to the investment return assumption
    - Median return estimates are currently between 6.99% and 7.51%
    - Lowering the assumption to 7.50% would increase calculated UAL by \$1.7 billion and the uncollared system-average contribution rate by 2.0%\* of payroll
  - Update to the mortality assumption’s projection scale
    - While the current assumption has tracked recent experience, consensus about the anticipated rate of future life expectancy improvement has changed
    - Increase UAL by \$1.8 billion, uncollared rate by 1.6%\* of payroll
  - Reflecting all assumptions, increase of \$3.6 billion in UAL, 3.8%\* in uncollared rate
    - Analysis-related changes in 2017-2019 collared rates will be far less, with additional analysis-related increases “collared off” to the subsequent biennia
- A second large rate increase, first effective July 2019, due to combined “collared off” effects is anticipated if future experience is near assumption

\* system-average preliminary estimate

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# Background Information

# Two-Year Rate-Setting Cycle

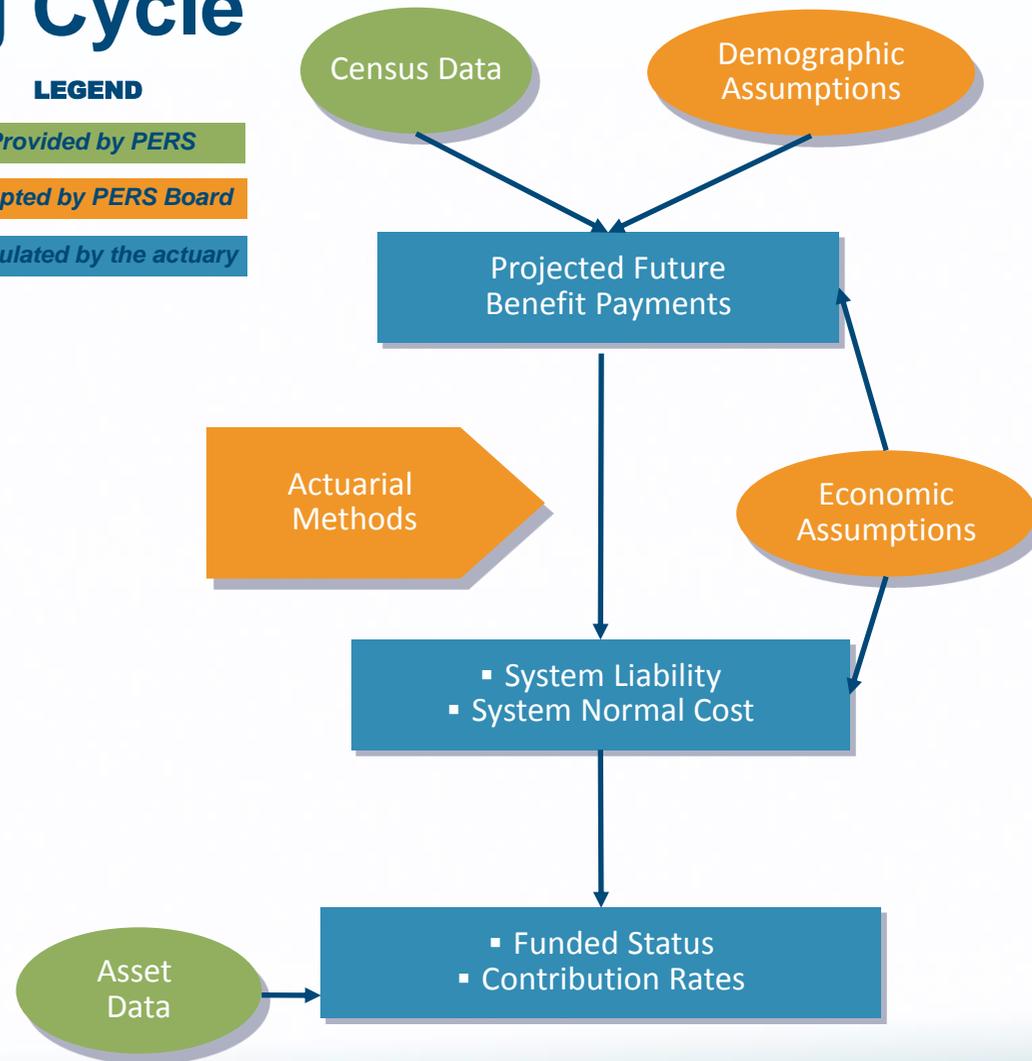
- July 2015: Assumptions & methods adopted by Board in consultation with the actuary
- September 2015: System-wide 12/31/14 “advisory” actuarial valuation results
- November 2015: Advisory 2017-2019 employer-specific contribution rates
- July 2016: System-wide 12/31/15 “rate-setting” actuarial valuation results
- September 2016: Disclosure & adoption of employer-specific 2017-2019 contribution rates

## LEGEND

Provided by PERS

Adopted by PERS Board

Calculated by the actuary



# Objectives for Actuarial Methods & Assumptions

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

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

# The Fundamental Cost Equation

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

$$\begin{aligned} & \textit{BENEFITS} = \\ & \textit{EARNINGS} + \\ & \textit{CONTRIBUTIONS} \end{aligned}$$

# Governance Structure

- Benefits:
  - Plan design set by Oregon Legislature
  - Subject to judicial review
- Earnings:
  - Asset allocation set by OIC
  - Actual returns determined by market
- Contributions:
  - Funding, including methods & assumptions, set by PERS Board
  - Since contributions are the balancing item in the fundamental cost equation, PERS Board policies primarily affect the **timing** of contributions
  - Different actuarial methods and assumptions produce different expected contribution patterns



# Demographic Assumptions

# Demographic Assumptions

- We have statistically analyzed census data provided by PERS
  - Four years of data for most assumptions
  - Eight years of data for salary increases
- Recommended demographic assumptions were developed based on the statistical analysis
- Full details of the analysis will be in our formal experience study report
  - That report will be presented for adoption at the September PERS Board meeting, and will also reflect decisions made today regarding the investment return assumption

# Summary of Demographic Assumptions

- Update mortality assumptions to reflect actuarial consensus regarding higher anticipated future rate of mortality improvement
  - Consistent with recent studies of Social Security data
- Adjust retirement rates to partially reflect higher recent experience
- Increase merit portion of salary assumption for all groups
- Adjust pre-retirement termination assumptions for two groups
- Updates to assumed final average salary adjustments for factors such as unused vacation and sick leave for most groups
- Adjustments to post-retirement medical program assumptions
  - Participation levels (RHIA & RHIPA)
  - Healthcare inflation assumption for RHIPA program

# Mortality Assumption

- Per ORS 238.607, the adopted actuarial equivalency factors *must use the best actuarial information on mortality available at the time*
  - We separately reviewed police and fire mortality per ORS 238.608
    - Our review indicated recent experience for police and fire retirees was similar to that of non-school district general service members
- While the current assumption matched recent experience well, the best actuarial information for future experience has changed
  - We recommend a change to Projection Scale BB, which reflects updated expectations for future life expectancy improvement
  - Several large public systems have adopted Scale BB over the past year

Technical details on our recommendation and more information on the mortality assumption are in the Appendix

# Mortality Assumption

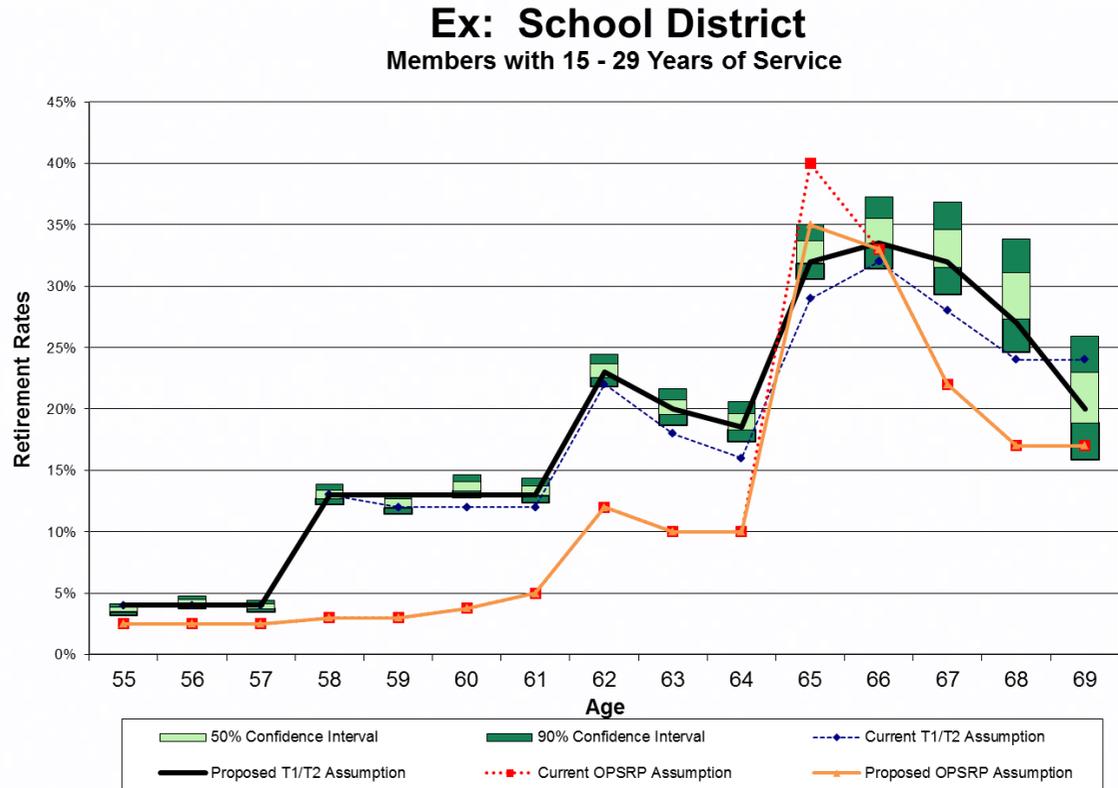
- Illustrative effect of assumption changes for healthy retiree:

Expected single life retirement period	Retires at Age 60 in 2015			Retires at Age 60 in 2035		
	Current	New	Change	Current	New	Change
School District Male	26.2	27.3	1.1	27.8	29.5	1.7
Other Male	25.6	26.7	1.1	27.1	28.8	1.7
School District Female	28.4	29.7	1.3	29.3	31.6	2.3
Other Female	26.5	28.0	1.5	27.4	29.9	2.5

- The table above has three assumed preconditions, all of which serve to increase the life expectancy:
  - The individual is assumed to have already survived to age 60
  - The individual is assumed to have served in PERS-covered employment
  - The individual is assumed to not be disabled as of age 60

# Retirement Assumptions

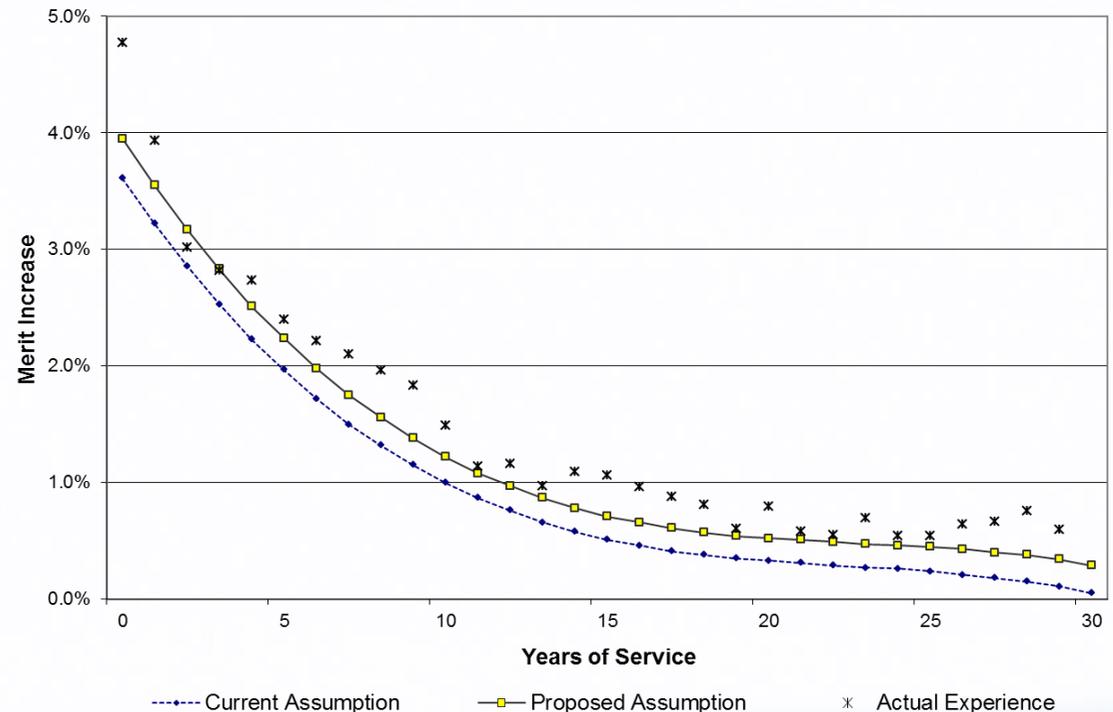
- Structure:
  - School District
  - Other General Service
  - Police & Fire
  - Each divided into 3 service bands
- Modifications made to most assumptions to more closely align with recent experience
  - Example shown at right



# Merit Salary Increase Assumption

- Merit/longevity assumption reflects increase above inflation and general wage growth
- Study considered an 8 year period
- Structure:
  - School District
  - Other General Service
  - Police & Fire
- All groups had greater actual increases than were anticipated
- Assumptions were updated to reflect a blend of current assumption and recent observed experience

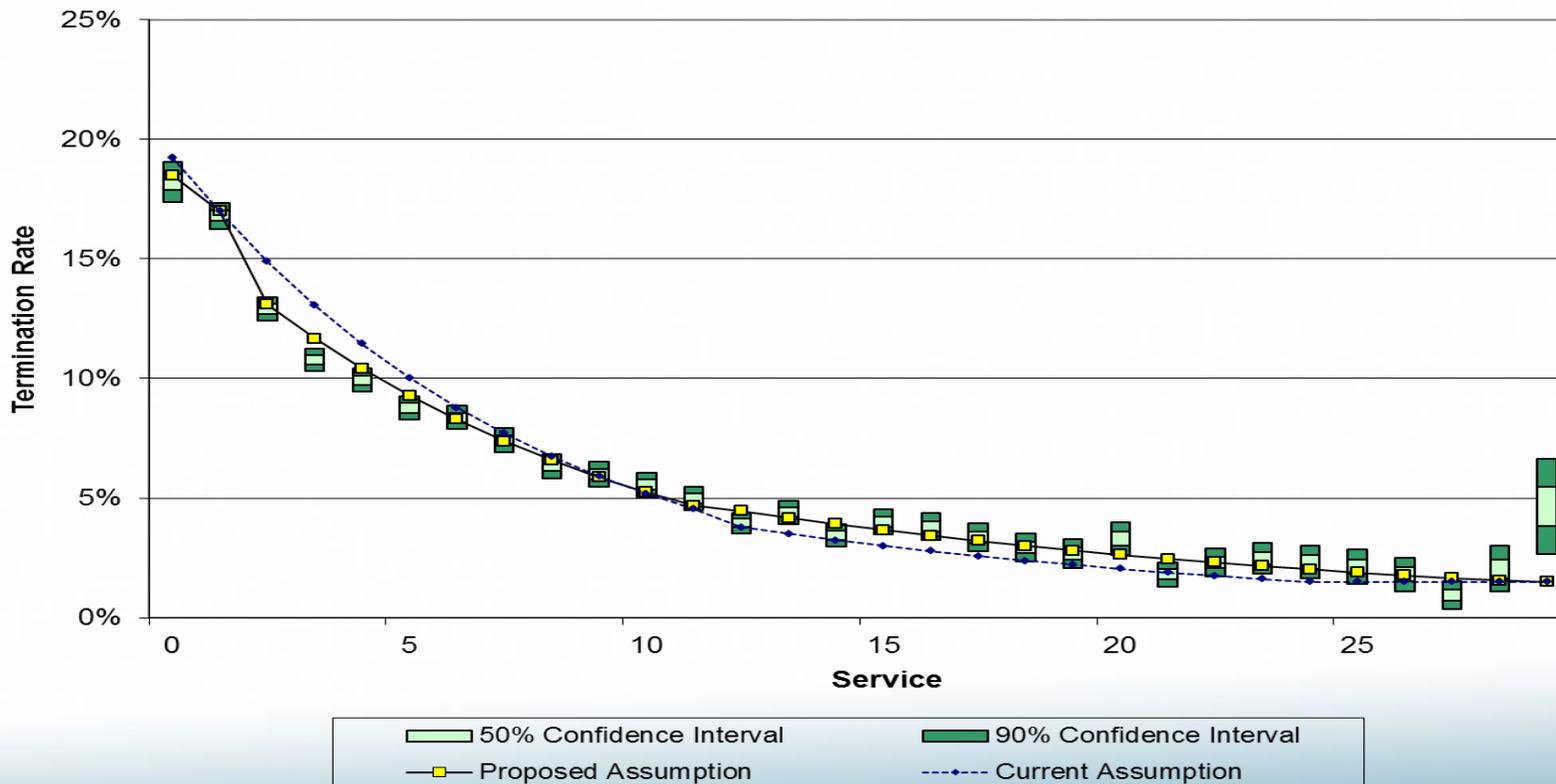
## Ex: Other General Service



# Termination Assumption

- We recommend adjustments to the assumption for two of five groups for relatively minor, but statistically significant differences between the current assumption and observed experience

## Ex: Other General Service Female



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# Final Average Salary Adjustments

- In the valuation, we apply assumptions regarding increase in final average salary for Tier 1/Tier 2 members attributable to:
  - Unused sick leave cash outs
  - Lump sum distribution of vacation pay (only affects benefits for Tier 1)
- Only relevant when benefits are calculated using Full Formula or Formula Plus Annuity
- We recommend adjustments to more closely track recent experience:

Unused Sick Leave	Current Assumption	Proposed Assumption
State GS Male	6.25%	6.25%
State GS Female	3.75%	3.75%
School District Male	7.75%	<b>7.25%</b>
School District Female	5.75%	5.75%
Local GS Male	4.75%	4.75%
Local GS Female	3.00%	<b>3.25%</b>
State Police & Fire	4.75%	4.75%
Local Police & Fire	7.50%	7.50%
Inactive Members	2.25%	<b>3.00%</b>

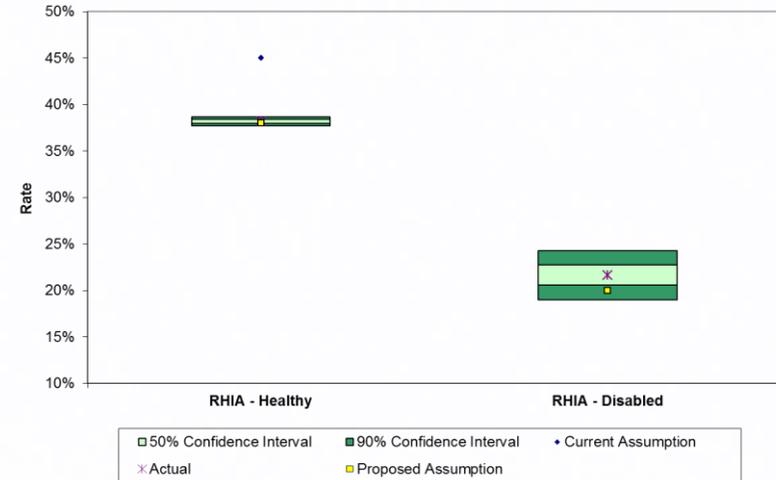
Tier 1 Vacation Cash Out	Current Assumption	Proposed Assumption
State GS	0.70%	<b>1.60%</b>
School District	0.25%	0.25%
Local GS	1.00%	<b>2.20%</b>
State Police & Fire	0.80%	<b>1.80%</b>
Local Police & Fire	2.00%	<b>2.90%</b>

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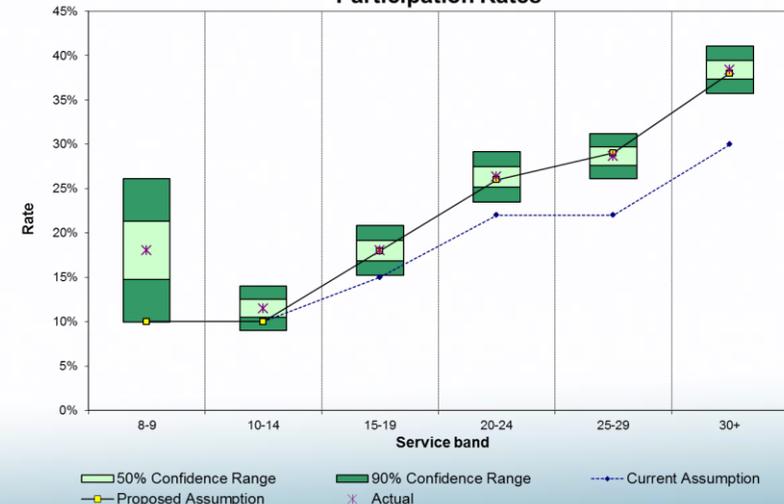
# RHIA and RHIPA Assumptions

- Updates to retiree healthcare participation:
  - Healthy RHIA: Lower rates
  - Disabled RHIA: No change
  - RHIPA: Increase assumed participation for longer-service categories
  
- Health care cost trend assumption applied to RHIPA full subsidy amount will also be updated
  - Based on analysis by Milliman health actuaries

**RHIA  
Participation Rates**



**RHIPA  
Participation Rates**



# **Economic Assumptions and Actuarial Methods**

# Economic Assumptions and Actuarial Methods

- At the May meeting, the Board reviewed
  - Non-investment economic assumptions
  - Actuarial methods
  - Investment return assumption
- Our recommendations regarding non-investment economic assumptions and actuarial methods are unchanged since May
- We have updated the investment return analysis to reflect
  - Changes made to OPERF asset allocation targets at June OIC meeting
  - Capital market assumption changes made by Callan (OIC's advisor)

# Economic Assumptions

Details of these recommendations are included in our May 2015 presentation

	12/31/2013 Valuation Actual Assumption	12/31/2014 Valuation Recommended Assumption
Inflation	2.75%	2.50%
Real Wage Growth	<u>1.00%</u>	<u>1.00%</u>
Payroll Growth	3.75%	3.50%
<u>Administrative Expenses:</u>		
- OPSRP	\$5.5 million	\$5.5 million
- Tier 1/Tier 2	No explicit assumption	\$33.0 million

No explicit assumption is made for investment-related expenses, which are accounted for implicitly in the analysis of the long-term investment return assumption.

# Key Actuarial Methods

Details of these recommendations are included in our May 2015 presentation

	12/31/2013 Valuation Actual Assumption	12/31/2014 Valuation Recommended Assumption
Cost Allocation Method	Entry Age Normal	No change
Shortfall Amortization Method	Level percent of pay, layered fixed periods:  Tier 1/Tier 2: 20 years OPSRP: 16 years RHIA/RHIPA: 10 Years	No change
Rate Collar	Limits change in based contribution rate to larger of 20% of current rate or 3.00% of payroll; Collar widens when funded status below 70%	No change

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# Long-Term Investment Return Assumption

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



Reflecting expectations for both investment earnings and benefit levels for certain members, the assumption helps set a reasonable and appropriate budgeting glide path for estimated mid-to-long term employer contribution rates

# Investment Return Estimates

- To assist the Board, we developed return estimates based on capital market outlook assumptions from three sources and an industry standard mean/variance model
  - Milliman
  - Callan
  - 2014 Horizon survey of capital market assumptions (survey of 21 advisors)
- Milliman’s estimates do not reflect any possible “alpha” due to selected managers potentially outperforming market benchmarks over the long term, net of fees
- Today’s speakers are not credentialed investment advisors
  - We are presenting results based on capital market outlook assumptions developed by Milliman’s credentialed investment professionals

Details on each set of capital market outlook assumptions is in the appendix

# Investment Return Estimates

- Estimates are based on OIC's target long-term asset allocation
  - Current actual allocation differs somewhat from the target allocation
- Target allocations were change at OIC June meeting to slightly reduce private equity investments
- Callan and Horizon estimates are calibrated over a shorter investment timeframe than Milliman's estimates
  - Also reflect lower level of assumed inflation

	Milliman	Callan	Horizon
<b>Median Annualized Return</b>	<b>6.99%</b>	<b>7.51%</b>	<b>7.25%</b>
Assumed Inflation	2.50%	2.25%	2.41%
Timeframe Modeled	20 years	10-20 years	10 years

The median returns shown above are geometric annualized average returns over the timeframes indicated above for each provided set of capital market assumptions

# Investment Return Estimates

- Prior slide shows median expectation of each market outlook
  - Each model produces a distribution of projected outcomes
    - Median is the 50<sup>th</sup> percentile of the distribution
- Illustrated below for Milliman model
  - Projected median returns are lower over shorter periods due to current low interest market environment

Milliman Capital Market Outlook: Average annualized returns	5 Years	10 Years	20 Years
75 <sup>th</sup> Percentile	10.23%	9.42%	8.99%
60 <sup>th</sup> Percentile	7.70%	7.64%	7.74%
50 <sup>th</sup> Percentile	6.20%	6.58%	<b>6.99%</b>
40 <sup>th</sup> Percentile	4.73%	5.54%	6.25%
25 <sup>th</sup> Percentile	2.32%	3.82%	5.03%

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# Effects of Lowering the Assumed Return

- A lower investment return assumption would produce higher calculated liabilities and contribution rates since liabilities are net present values, as of the valuation date, of a year-by-year benefit payment projection that stretches far into the future
  - Changing the assumption tilts the estimated balance of the fundamental cost equation between estimated future investment earnings and estimated future contributions
    - Long-term, the actual balance depends on actual investment earnings
- For PERS, such a change would also lower benefits for future retirements calculated under Money Match
  - Illustration for a hypothetical member shown on next slide

# Effects of Lowering the Assumed Return

- Lowering the assumption to either 7.50% or 7.25% would affect the Money Match calculation for a member age 59½ with a \$135,000 member account balance as of 6/30/2015 as shown:

Benefit Commencement	Starting Benefit Under Assumed Rate		
	7.75%	7.50%	7.25%
7/1/2015	\$2,041		
12/1/2015	\$2,117		
1/1/2016		\$2,088	\$2,043
3/1/2016		\$2,119	\$2,073
6/1/2016		\$2,166	\$2,118

- At a 7.50% assumption, it would take about three months without retirement for the December 2015 initial benefit level to be reached
  - At a 7.25% assumed return, it would take about six months

# Comparison to Peer Systems

- There is a downward trend in public plan return assumptions
- Over half of the 126 state-wide systems tracked by the NASRA Public Fund Survey have reduced their assumption since 2008
  - Mean return assumption is 7.68%; median assumption is 7.75%

## Distribution of investment return assumption

NASRA Public Survey - May 2015



# Considerations in Setting the Assumption

- In our opinion, the long-term future investment return assumption should be lowered based on the data from the investment forecasts and review of the guiding principles
- Actual investment returns are not determined by the assumed return
- Setting an assumed return above the median annualized return implies a greater than 50% expectation of actual experience falling short of assumption

# Estimated Effect of Assumption Changes

# Preliminary Effect of Changes – Liability

- Estimated effect on combined Tier 1, Tier 2, and OPSRP liabilities based on preliminary valuation work
  - For illustration, considers investment return assumption of 7.50%

	12/31/2014 Accrued Liability
Current assumptions (reflecting <i>Moro</i> decision)	\$69.8 B
Mortality	\$1.8 B
Retirement	\$0.2 B
Other demographic assumptions	(\$0.1B)
Assumed return - 7.50%	<u>\$1.7 B</u>
Revised assumptions	\$73.4 B

Combined effect of illustrated changes: \$3.6B

An assumed return other than 7.50% would have a liability change proportional to that shown above (e.g., a 7.25% return would have a \$3.4 B effect)

# Preliminary Effect of Changes – Uncollared Rates

- Estimated impact on uncollared system-average advisory pension rates for 2017-2019 based on preliminary valuation work

	Tier 1 / Tier 2/OPSRP	
	UAL	Normal Cost
Mortality	1.4%	0.2%
Retirement	0.2%	0.1%
Other demographic assumptions	(0.1%)	0.0%
Assumed return - 7.50%	<u>1.4%</u>	<u>0.6%</u>
Total	2.9%	0.9%

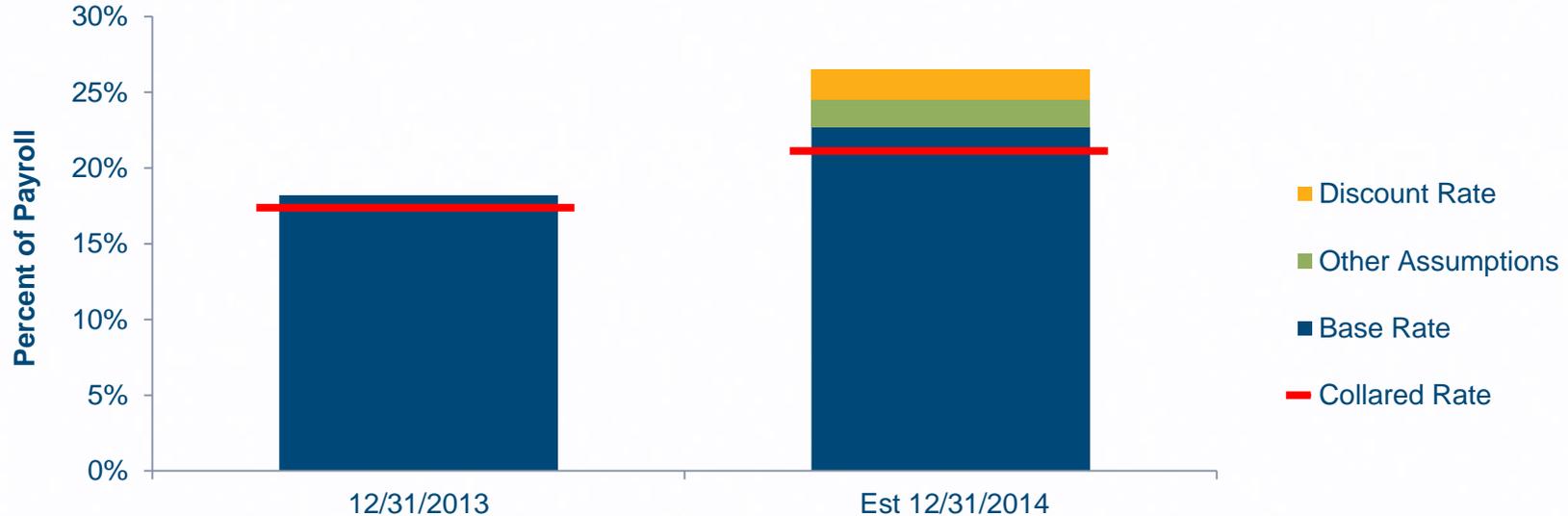
Total effect:  
3.8% of payroll

Changes shown are as stated a percent of payroll and exclude changes for the RHIA & RHIPA retiree healthcare programs

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# Preliminary Effect of Changes – Collared Rates

- The size of 2017 base rate increases will very likely be set by the rate collar, since the *Moro* decision significantly increases rates
  - If the 2017-2019 uncollared rate is greater than the 2017 increase allowed by the rate collar, a portion of the increase will be deferred to 2019



Rates shown are system-average base rates for the pension program and exclude contributions for the Individual Account Program (IAP) and the RHIA and RHIPA retiree healthcare programs

# Agenda Items – July & September Meetings

- July action item:
  - Selection of a long-term investment return assumption for actuarial valuation
- July discussion item:
  - Feedback on recommendations for other assumptions and methods
- September action item:
  - Formal acceptance and adoption of the 2014 Experience Study Report, which details all economic and demographic assumptions
  - Adoption of actuarial equivalency factors effective January 1, 2016

Methods and assumptions adopted will be used in:

- December 31, 2014 “advisory” valuation that estimates 2017-2019 rates
- December 31, 2015 valuation that sets recommended 2017-2019 rates

# Caveats and Disclaimers

This presentation discusses actuarial methods and assumptions for use in the valuation of the Oregon Public Employees Retirement System (“PERS” or “the System”). For the most recent complete actuarial valuation results, including cautions regarding the limitations of use of valuation calculations, please refer to our formal Actuarial Valuation Report as of December 31, 2013 (“the Valuation Report”) published on September 29, 2014. The Valuation Report, including all supporting information regarding data, assumptions, methods, and provisions, is incorporated by reference into this presentation. The statements of reliance and limitations on the use of this material is reflected in the actuarial report and still apply to this presentation.

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

Milliman’s work product was prepared exclusively for Oregon PERS for a specific and limited purpose. It is a complex, technical analysis that assumes a high level of knowledge concerning PERS’ operations, and uses PERS’ data, which Milliman has not audited. It is not for the use or benefit of any third party for any purpose. To the extent that Milliman’s work is not subject to disclosure under applicable public records laws, Milliman’s work may not be provided to third parties without Milliman’s prior written consent. Milliman does not intend to benefit or create a legal duty to any third party recipient of its work product. Any third party recipient of Milliman’s work product who desires professional guidance should not rely upon Milliman’s work product, but should engage qualified professionals for advice appropriate to its own specific needs.

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

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

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

# Appendix – Mortality Assumption

- PERS-specific mortality experience is analyzed separately for:
  - Healthy annuitant mortality
  - Disabled retiree mortality
  - Non-retired mortality
- Assumptions are grouped by gender and employment category
- For each group, the mortality assumption consists of two parts:
  - A ***base table***
    - For a given age, lists the probability of death in that year
  - A ***projection scale***
    - Modifies base table entries to reflect anticipated life expectancy improvements
    - Reflects common-sense understanding that a child born today has a longer life expectancy than a child born 40 years ago...and that a child born 40 years from now is anticipated to have an even longer life expectancy

# Appendix – Mortality Assumption

- Current PERS assumptions reflect Society of Actuaries (SOA) pension plan mortality studies issued in 2000:
  - Base tables: Versions of standard RP-2000 mortality tables
  - Projection scale: Scale AA
- In late 2014, first full SOA mortality study since 2000 was issued
- The 2014 study concluded that since 2000 life expectancy has increased more rapidly than projected by Scale AA
  - Basis: Statistically significant multi-year Social Security experience
- Emerging actuarial consensus: Projection scale should be updated to one that reflects post-2000 experience

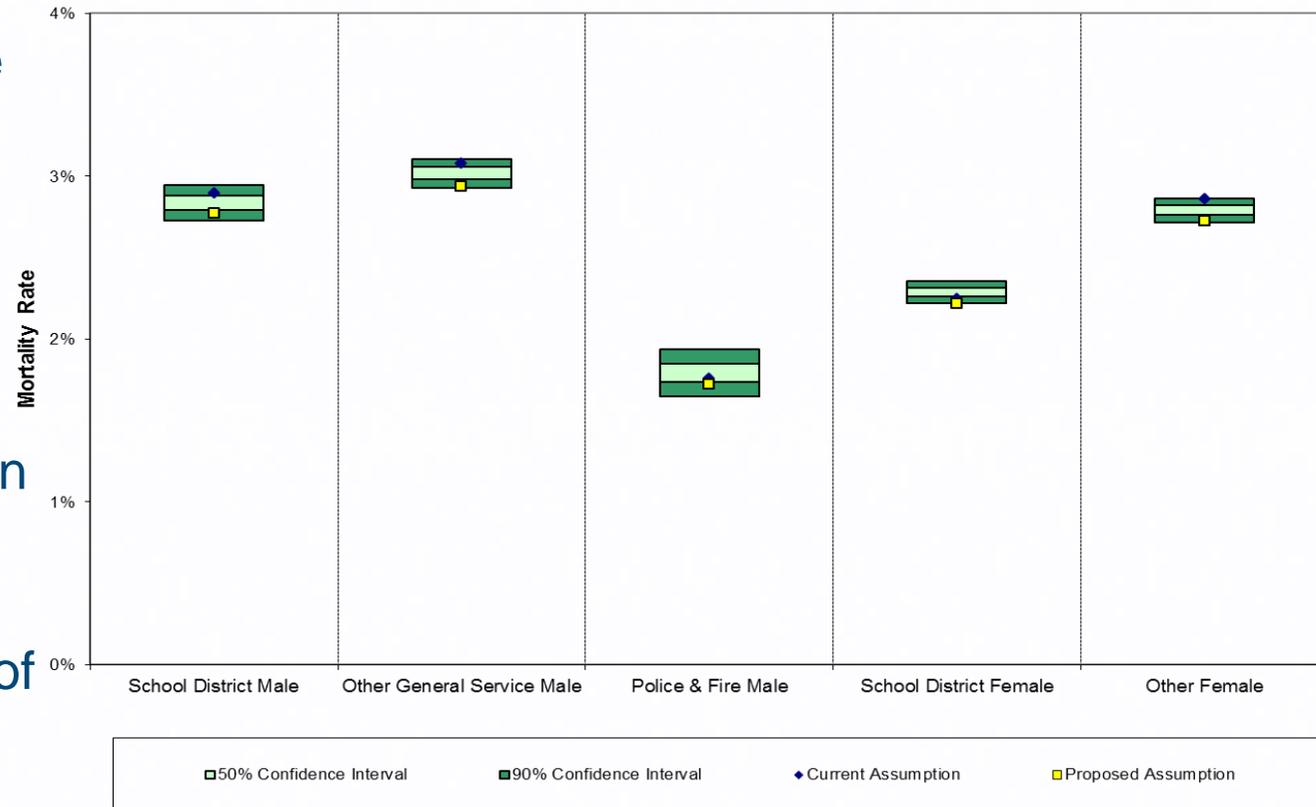
# Appendix – Mortality Assumption

- As part of the recent mortality study, the SOA published two different projection scales: Scale BB and Scale MP-2014
  - Scale BB is the less technically complex of the two scales to implement
  - Several large public systems have adopted Scale BB over the past year
- We recommend using Scale BB as the new projection scale
- The 2014 study also included a new set of RP-2014 base tables
  - RP-2014 tables are based solely on private plan experience
    - The report noted public and private plan experience differed noticeably
    - A SOA study to analyze public plan experience is about to commence
- We recommend continued use of the RP-2000 base tables at this time

# Appendix – Mortality Assumption

- Current assumptions generally modeled the aggregate mortality experience fairly well
  - Within confidence intervals for most groups
- Updating the projection scale aligns more closely with current consensus estimates of future changes in life expectancy

Healthy Retiree Mortality  
Aggregate Confidence Intervals and Rates



Aggregate mortality rates shown are functions of both mortality rates and the ages of members of the group. Since average ages differ by group, you cannot conclude from the graph that, for example, Police & Fire males have lower mortality than other groups.

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# Appendix - Mortality Assumption

	Current Assumption	Proposed Changes
<b>Healthy Retired</b>	RP 2000, Generational, with Scale AA Combined Active/Healthy Retired, Sex distinct	RP 2000, Generational, with Scale BB Combined Active/Healthy Retired, Sex distinct
<ul style="list-style-type: none"> <li>School district male</li> <li>Other GS male</li> <li>P&amp;F male</li> </ul>	No collar, set back 2 years 25% blue/75% white collar, set back 2 years 25% blue/75% white collar, set back 2 years	No change No change No change
<ul style="list-style-type: none"> <li>School district female</li> <li>Other female</li> </ul>	White collar, set back 2 years White collar, no set back	No collar, set back 2 years Blend 25% blue/75% white collar, no set back
<b>Disabled Retired</b>	RP 2000 Disabled, Static Sex distinct	RP 2000 Disabled, Generational with BB Sex distinct
<ul style="list-style-type: none"> <li>Male</li> <li>Female</li> </ul>	65% of rates 90% of rates	70% of rates 90% of rates
<b>Non-Retired Mortality</b>	% of Healthy Retired Mortality	% of Healthy Retired Mortality
<ul style="list-style-type: none"> <li>School district male</li> <li>Other GS male</li> <li>P&amp;F male</li> </ul>	70% 85% 95%	60% 75% 75%
<ul style="list-style-type: none"> <li>School district female</li> <li>Other female</li> </ul>	60% 55%	55% 60%

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# Appendix

## Actuarial Basis Capital Market Assumptions - Milliman

For assessing the expected portfolio return under Milliman's capital market assumptions, we considered the Oregon PERS Fund to be allocated among the model's asset classes as shown below. This allocation is based on the OIC's Statement of Investment Objectives and Policy Framework for the Oregon PERS Fund, as revised December 3, 2014, and changes adopted in June 2015.

	Annual Arithmetic Mean	20-Year Annualized Geometric Mean	Annual Standard Deviation	Policy Allocation
US Large/Mid-Cap Equity	7.96%	6.70%	17.07%	15.75%
US Small Cap Equity	8.93%	6.99%	21.35%	1.31%
US Micro-Cap Equity	9.37%	7.01%	23.72%	1.31%
Non-US Developed Equity	8.34%	6.73%	19.40%	13.13%
Emerging Markets Equity	10.56%	7.25%	28.45%	4.13%
Non-US Small Cap Equity	9.01%	7.22%	20.55%	1.88%
Private Equity	11.60%	7.97%	30.00%	17.50%
US Universal Fixed Income	4.10%	4.00%	4.68%	8.00%
US Short-Term Bonds	3.65%	3.61%	2.74%	8.00%
US Bank/Leveraged Loans	5.69%	5.42%	7.82%	3.00%
High Yield Bonds	6.67%	6.20%	10.28%	1.00%
Real Estate	6.48%	5.84%	12.00%	10.00%
Global REITs	8.74%	6.69%	22.02%	2.50%
Timber	6.60%	5.85%	13.00%	1.88%
Farmland	7.11%	6.37%	13.00%	1.88%
Infrastructure	8.31%	7.13%	16.50%	3.75%
Commodities	6.07%	4.58%	18.40%	1.88%
Hedge Fund of Funds - Diversified	4.94%	4.64%	8.09%	2.50%
Hedge Fund Event-Driven	7.07%	6.72%	8.90%	0.63%
US Inflation (CPI-U)		2.50%		N/A
<b>Fund Total (reflecting asset class correlations)</b>	<b>7.92%</b>	<b>7.03%*</b>	<b>13.76%</b>	<b>100.0%</b>

\* Reflects 0.10% average reduction to model passive investment expenses. The model does not try to assess the actual investment expenses for active management. The model's 20-year annualized geometric median is 6.99%.

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# Appendix

## Actuarial Basis

### Capital Market Assumptions - Callan

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

	Annual Arithmetic Mean	Annual Standard Deviation	Policy Allocation	10-Year Annualized Geometric Median
Global Equity	9.5%	19.6%	37.5%	
Private Equity	12.0%	24.0%	17.5%	
Fixed Income	3.1%	3.75%	20.0%	
Real Assets	8.0%	15.0%	20.0%	
Diversifying Assets	7.0%	11.0%	5.0%	
<b>Fund Total (reflecting asset class correlations)</b>	<b>8.36%</b>	<b>14.07%</b>	<b>100.0%</b>	<b>7.51%</b>

# Appendix

## Actuarial Basis

### Capital Market Assumptions - Horizon

For assessing the expected portfolio return under an additional set of capital market assumptions, we applied the assumptions from the 2014 Survey of Capital Market Assumptions published by Horizon Actuarial Services, LLC. According to the survey report, the 10-year return assumptions shown below represent an average of the expectations for 21 investment advisors responding to the survey.

	<b>10-Year Annualized Geometric Mean</b>	<b>Annual Standard Deviation</b>	<b>Policy Allocation</b>
US Equity – Large Cap	7.01%	17.48%	<b>15.75%</b>
US Equity – Small/Mid Cap	7.37%	21.11%	<b>5.13%</b>
Non-US Equity – Developed	7.41%	19.77%	<b>15.00%</b>
Non-US Equity – Emerging	8.70%	26.36%	<b>4.12%</b>
US Corporate Bonds – Core	3.46%	5.36%	<b>12.00%</b>
US Corporate Bonds – High Yield	5.51%	11.46%	<b>4.00%</b>
US Treasuries (Cash Equivalents)	2.21%	2.28%	<b>4.00%</b>
Real Estate	6.38%	13.13%	<b>13.75%</b>
Hedge Funds	5.77%	8.95%	<b>3.13%</b>
Commodities	4.50%	18.01%	<b>1.88%</b>
Infrastructure	7.71%	13.51%	<b>3.75%</b>
Private Equity	9.43%	24.82%	<b>17.50%</b>
Inflation	2.41%	2.08%	<b>N/A</b>
<b>Fund Total (reflecting asset class correlations)</b>	<b>7.33%*</b>		<b>100.00%</b>

\* 10-year annualized geometric median is 7.25%.

# Appendix

## Blended COLA

### Moro Decision

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

The Supreme Court did not articulate a specific methodology for determining a member’s blended COLA. For purposes of the estimates in this presentation, the blending was based on the creditable service earned before and after the effective date.

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

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