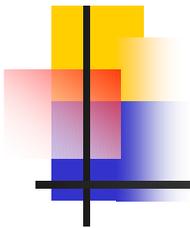


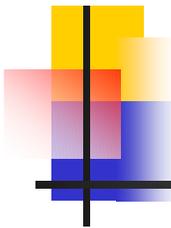
IAP Remediation Project Plan

PERS Board Presentation
June 16, 2006



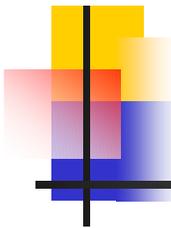
Overview

- Refresher on IAP Remediation
- Review of Policies and Principles
- Outline of Remediation Process
- Projected Timeline
- Transitional Issues
- Post-Remediation Administration



Review of IAP Remediation

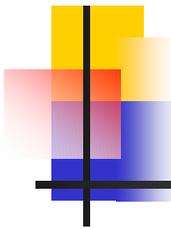
- The Individual Account Program (IAP) was created by the 2003 Oregon Legislature as the repository and investment account for all member contributions due on or after January 1, 2004.
- Both new OPSRP members and PERS Chapter 238 Tier One and Tier Two members participate in the IAP.
- Ongoing administrative challenges and production of the 2004 IAP member statements revealed flaws in the principles used in the initial design of the program.
- At the PERS Board's direction, agency staff embarked on a project to remedy concerns regarding IAP administration.



Goals of IAP Remediation

The Board recognized several goals that have shaped the development of a new structure as staff has worked towards implementing IAP remediation:

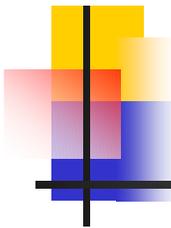
1. Align the IAP with the administration of Tier One and Tier Two member regular accounts under the PERS Chapter 238 Program.
2. More closely match member and stakeholder expectations with the IAP's operations, communications, and controls.
3. Create a structure that could be more efficiently administered by staff without creating new paradigms and features.
4. Conform the administrative structure to the statutory direction established when the program was created.



Principles Behind Remediation

The Board also established several guiding principles as touch-stones for the remediation plan:

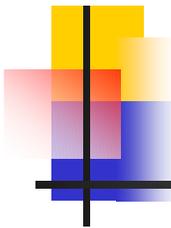
1. Members should not be harmed financially by the IAP structure and administration. Under remediation, PERS will determine what current member account balances would have been if the new administrative structures had been applied to current member accounts since inception and will adjust accounts accordingly.
2. Transparency and simplicity should continue to be IAP core values.
3. The IAP structure and reporting system should be simple and understandable. The IAP should not be designed to be more than the statute directs: an individual account where members contribute 6% of subject salary that is then adjusted at least annually for earnings, losses, and administrative fees.



Major Structural Features

Principle changes from the current IAP operations will include:

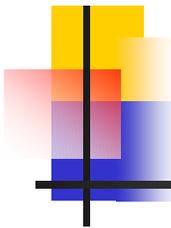
- IAP accounts would be adjusted annually for earnings or losses instead of monthly. Originally, IAP accounts were credited with a “unit value” that changed monthly. Under remediation, annual earnings will be credited using a similar structure as Tier One and Tier Two member regular accounts.
- Administrative fees will be netted against earnings on investments instead of being charged directly to member accounts. Currently, members pay a flat monthly administrative fee. Those fees will be restored to member accounts, and instead costs will be subtracted from investment earnings under the annual earnings crediting process.
- Withdrawal and retirement processes will be expedited because ending monthly unitization allows processing based on prior month’s account values and year-to-date earnings.



Imbedded Remediation Policies

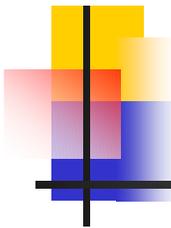
The following policies have been incorporated into the remediation plan and the design of subsequent operations:

- Account withdrawals and retirements that occurred prior to remediation will not be revised. Those members voluntarily left the program and their rights and obligations were settled under the rules governing the program at the time of their termination. However, those members will receive contributions and related earnings for any prior period adjustments such as corrections of missing or under-reported contributions. This policy will also be adjusted as necessary to reflect the Board's final decision on HB 2189 related contributions and earnings.



Imbedded Remediation Policies (continued)

- Employers will be held responsible for the consequences of late reporting and forwarding of contributions. If member contributions are not posted in time to receive annual earnings because of an employer's delay beyond the "annuals closing", that employer will be charged for the imputed earnings, which will then be credited to that member's account. This policy will also be adjusted as necessary to reflect the Board's final decision on HB 2189 related contributions and earnings.



Calendar Mileposts

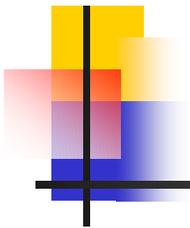
August 1, 2006

- “Blackout” Period begins – access to member account data blocked while CitiStreet rebuilds a database using remediation structures.
- Effective date of last withdrawal/retirement under the former account structure.

October 1, 2006

- “Blackout” Period ends – rebuilt member account data access restored to PERS.
- Effective date of processing withdrawals and retirements under new account valuation and crediting.

Note: Start and end dates could change depending on final policy decisions, but staff and CitiStreet would work to maintain no more than a 60-day “Blackout Period” regardless of start and end dates.

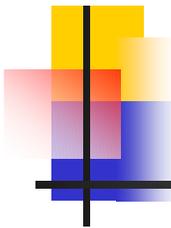


IAP Member Statements

Will include revised 2004 and 2005 account data

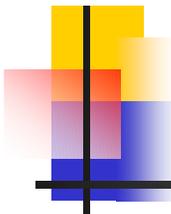
- Contributions for each calendar year
- Earnings credited for each calendar year

Objective is to have statements for 2004 and 2005 produced and mailed during Fourth Quarter 2006



Transitional Issues

- Members will not have access to account data during the “blackout” period.
- Contribution records will not be posted until CitiStreet has constructed the new database.
 - Contributions will continue to be received by PERS and invested daily.
 - With annual earnings crediting, this delay will not affect the amount credited to accounts as all contributions received within a calendar year and related “annual closing” are credited equally on a year-end account balance basis.
- PERS will continue to process account withdrawals and retirement applications so the distribution can occur as soon as CitiStreet’s systems are restored; some delays may occur but not anticipated to go beyond the current 120 day threshold from the effective date of application.



Post-Remediation Administration

After remediation is completed, several conditions will still require attention or resolution:

- What will be the nature and scope of member account access?
Does the web site provide sufficient value for the cost considering the only change in account value from month to month will be additional contributions?
- Processing of withdrawals and retirements must continue to be streamlined so members receive their benefits quicker.
- Process improvements in the areas of employer corrections and notification need to be developed and instituted.
- Some members who retired under the former operational structure still receive installments. Adjustments for earnings and losses will have to be made under that structure as closely as possible.
- Records of the prior account balances and transactions will be maintained in case questions or challenges arise.