PERSPECTIVES

PERS Oregon Public Employees Retirement System

August 2015

For Tier One/Tier Two members planning to retire within three years

Planning for retirement

The decision to retire is one of life's big events. Planning for retirement can relieve anxiety and help you make a smooth transition from the workplace.

Here are important steps to take when you are ready to retire.

1. Make sure you are eligible to retire.
   Tier One/Tier Two eligibility

2. Get a benefit estimate. You can use Online Member Services or request a written benefit estimate. A written estimate will include information regarding optional purchases.

3. Register for and attend a Tier One/Tier Two Retirement Education presentation.

4. Read the Tier One/Tier Two Pre-Retirement Guide.

5. Complete the Tier One/Tier Two/IAP Retirement application.

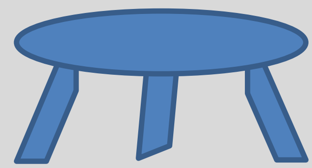
6. Schedule and attend a Retirement Application Assistance Session. This is a one-hour, one-on-one appointment is a comprehensive review of your retirement application and is for members who have:
   - Decided on a retirement option and an effective retirement date,
   - Are within three months of that retirement date, and
   - Have completed the Tier One/Tier Two/IAP retirement application.

   The retirement counselor will conduct a comprehensive review of your retirement forms.

7. Notify your employer that you are retiring. Your employer will send a Notice of Separation to PERS.

The three-legged stool

When the legislature created PERS in 1945, its proponents considered a retirement benefit for service to Oregonians a part of a "three-legged stool."



The other two legs were Social Security and personal savings.

Documents from the 1945 legislative session show that legislators discussed a system that would provide 50 percent of final salary to a retired member.

The replacement ratio (the amount of salary replaced in retirement) for Tier One and Tier Two members who retired in 2014 averaged 44 percent, not including the Individual Account Program (IAP).

Those Tier One/Tier Two members who retired in 2014 with 30 years of service had an average replacement ratio of 66 percent.

With the changes to PERS in 2003, fewer members are retiring under Money Match (a doubling of the member's account balance by the employer).

In fact, only 37 percent of members retired under Money Match in 2014 and about 60 percent retired under the Full Formula method (Tier One/Tier Two members are entitled to the retirement calculation method that provides the highest benefit).

The other 3 percent retired under Formula Plus Annuity in 2014.

In this issue…

Change in assumed earnings rate effective January 1, 2016

The assumed rate is the rate of investment return (including inflation) that the PERS Fund's regular account is expected to earn over the long term.

Action by the PERS Board
At its July 31, 2015 meeting, the PERS Board lowered the assumed rate to 7.5% effective January 1, 2016. A member would need to retire no later than December 1, 2015 to have the current assumed rate used at retirement.

The PERS Board decides on the assumed rate based on:

- The long-term projection of investment returns based on the asset allocations of the Oregon Investment Council and the related capital market expectations, and
- Independent analysis by PERS' actuary, Milliman, of the projected returns from that asset allocation, over a long-term investment horizon.

The current assumed rate is 7.75% and has been in effect since January 1, 2014. The assumed rate is reviewed and adopted by the PERS Board every two years as part of the system's Experience Study.

How the assumed rate is used
The assumed rate is used when crediting Tier One regular accounts with annual earnings. Beginning in 2016, annual earnings will be credited based on the new rate of 7.5%.

The assumed rate is also used to credit pro-rated earnings to a Tier One member's regular account upon retirement or a withdrawal, so those earnings will also be pro-rated at the new assumed rate.

When a Tier One or Tier Two member retires, his/her account is annuitized based on the assumed rate. The change in the assumed rate means using new actuarial equivalency factors (AEFs) – also called life expectancy tables – to calculate a retirement benefit. This change will have the biggest effect on Money Match and Formula Plus Annuity benefit calculations. AEFs are based on two primary variables:
1) expected member longevity (how long members are expected to live) and
2) the assumed earnings rate (how much the member's account balance will earn during retirement).

The basic Full Formula benefit is based on final average salary, years of service, and a statutory factor. None of those elements are affected by a change in the assumed rate. However, if the member elects a benefit option, AEFs are applied and a change to the assumed rate would affect those factors.

When either the mortality or earnings rate assumptions are changed by the Board, the AEFs must be updated. The recalculated AEFs are then used to calculate the benefits of future retirees. The actuary will report recommended changes to the AEFs to the Board in November 2015. Updated AEFs would become effective January 1, 2016, as required in statute.

NOTE: Updated AEFs will be available after December 1, 2015; online and written benefit estimates will not include updated AEFs until after this date.

Note that monthly benefit payment amounts for members who retire December 1, 2015 or earlier (before the assumed rate changes) will not be affected, as those benefits were set using the actuarial factors in place when they retired.

Example of the change for a Tier One member
The example below shows how an assumed rate of 7.5%, instead of the current 7.75%, would affect a future retiree under the Money Match formula. Assumptions used in example:

- Tier One general service member
- Age 59 1/2
- $135,000 accumulated Tier One member contribution account balance as of June 30, 2015.

Retirement Date	December 1, 2015	January 1, 2016	March 1, 2016
Assumed Rate	7.75%	7.5%	7.5%
Starting Benefit	$2,117	$2,088	$2,119

The example above shows that the change in the assumed rate from 7.75% to 7.5% would require delaying retirement for about three months to reach the initial benefit level.

Supreme Court decision: 2013 legislative changes to PERS

When you retire from PERS, you are entitled to an annual cost-of-living adjustment (COLA) on your monthly benefit.

The Oregon Supreme Court recently ruled that the 2013 legislation that reduced COLAs was unconstitutional as applied to benefits earned before the bills became effective. The Court further ruled that a reduced COLA could be applied to the benefits earned after the bills became effective.

When you retire, you will have a blended COLA rate based on when the benefit was earned. A maximum 2% annual COLA (based on the Consumer Price Index for the Portland area) will be paid annually for service accrued before June 1, 2013. A blended COLA will be paid for accrued service after June 1, 2013.

This blended COLA methodology presents administrative complications for PERS in that it applies the revised COLA tables prospectively, and the allocation method was not clear in the Court's ruling.

PERS is working with Department of Justice counsel to determine the Court's direction on how to administer that blended COLA.

Understanding your benefits…

A Tier Two member recently visited PERS to submit his retirement application. He had chosen a lump-sum payment. The one-time payment was just over $8,000.

A PERS staff member noted that he could take a benefit for life that would be $845 per month.

So instead of a one-time payment, the member is now enjoying a monthly benefit that is more than $10,000 per year.

You can get retirement benefit estimates using PERS' Online Member Services.

On-line member survey: we want your feedback!

Does PERS' customer service meet your expectations? How can we improve? Please take a short survey posted on the PERS website in the "What's News" section.

The survey will be available through the end of August 2015 and is anonymous.

We will provide results in a future issue of *Perspectives*.

Thank you in advance for your input.

Fast fact…

Since 1970, more than 73% of PERS funding has come from investment returns.

Perspectives is published by the Oregon Public Employees Retirement System for the benefit of members and employers.

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Email PERS Customer Service at: customer-service.pers@state.or.us

Working for a PERS-covered employer after retirement

THESE RULES APPLY TO ALL TIER ONE/TIER TWO RETIREES, REGARDLESS OF BENEFIT PAYMENT OPTION (DOES NOT APPLY TO THOSE WHO HAVE A DISABILITY RETIREMENT).

If you return to employment with a private employer, your PERS retirement benefits will continue unchanged.

PERS does not limit the hours you may be employed or the amount of money you can earn from a private employer.

If you return to employment with a public employer in the state of Oregon after retirement, Oregon statutes impose certain limitations on that employment.

It is your responsibility to be aware of these limitations and to track your hours to ensure compliance.

If you decide to return to work with a public employer in the state of Oregon after retirement, you can control of the number of hours you work and accordingly, whether you comply with or violate the limitation.

It is your responsibility to remain in compliance with the limitations applicable to you if you do not want your retirement benefits to stop.

Compliance with the statutory limitations is your responsibility. If you exceed the work hour limitations you will be accountable. PERS recommends that you track the hours you work in order to avoid exceeding the work hour limitations for each calendar year.

The following paragraphs describe the limitations for members who retired for service. Different rules apply to members who retired due to disability.

The Work After Retirement Limitation
If you are a Tier One/Tier Two retired member, you may be employed by an Oregon public employer and continue to receive retirement benefits **as long as the period or periods of employment with one or more participating public employers do not total 1,040 hours or more in a calendar year**.

Please note that hours are counted in the year in which you performed the service, not in the year in which the hours were reported. Hours of employment are hours worked on or after your effective retirement date for which you receive wages, salary, paid leave, or other compensation.

Exceptions to the 1,040 Hour Rule (view exceptions)
You can work for an employer or in a position that is excluded from the 1,040 rule. By keeping under the 1040-hour limit or working under an exception to the rule, you will retain your status as a PERS retired member and may continue to receive retirement benefits.

You will not accrue any new benefits for employment while you retain your status as a retired member.

IMPORTANT: Hours worked under an exception to the 1,040-hour limitation are not counted toward the limitation.

For example, if you are working under an exception for Employer A and concurrently working under the 1,040-hour limitation for Employer B, only the hours worked for Employer B are counted toward the 1,040-hour limitation.

This change is retroactive. It applies to all hours worked under an exception on or after January 1, 2004, or, if the exception was created after January 1, 2004, hours worked on or after the date the exception became effective, whichever is later. The effective date of an exception can be found on the table at the link above.

NOTE: Population figures from the latest federal decennial census are used to determine the applicability of certain exceptions to the 1040-hour limitation.

Population figures are available at: http://quickfacts.census.gov/qfd/states/41000.html.

CAUTION: BE SURE that you use the year population figures, NOT the population estimates.

(continued on next page)

Working for a PERS-covered employer after retirement *(continued)*

Social Security Exceptions to the 1,040 Hour Rule
Tier One or Tier Two retirees who have reached full retirement age under Social Security may work an unlimited number of hours. Remember that full retirement age under Social Security varies by birth date.

Tier One or Tier Two retirees who are receiving Social Security benefits and have not reached full retirement age under Social Security may work either less than 1,040 hours in a calendar year or, if greater, the total number of hours, at the retiree's hourly rate of pay, that would not exceed the annual earnings limit set by the Social Security Administration.

The Social Security Administration annually establishes the calendar year earnings limits for recipients of Social Security benefits.

Annual changes to earnings limits established by the Social Security Administration are not effective for Tier One or Tier Two retirees until PERS amends its administrative rule that specifies the limits.

Effective January 1, 2015, the following limits are in place:

- For retired members who have not reached full retirement age under the Social Security Act, the annual compensation limit is $15,720.
- For the calendar year in which the retired member reaches full retirement age under the Social Security Act and only for compensation for the months before reaching full retirement age, the annual compensation limit is $41,880.

Working 1,040 Hours or More in a PERS-Covered Position
As a Tier One or Tier Two retiree, if you return to public employment and meet or exceed the 1,040-hour limitation or, if applicable, exceed the Social Security limits explained above, and your employment continues into the month following the month in which you met or exceeded the limits, your PERS benefits will cease.

Your retirement benefits, whether monthly payments or installment payments, will be stopped as of the first of the calendar month following the date the limit was exceeded.

Your retirement will be canceled, and you will return to active membership.

If you were receiving a monthly benefit or have unpaid installment payments from a lump-sum option, your account will be rebuilt, adjusted for benefits received, and credited with any applicable interest while you are employed as an active member.

You will not have to repay any benefits you were entitled to receive that were paid before you returned to active membership unless you meet or exceed the limitations in the first six months after your retirement date. If you do, you will be required to repay all benefits received.

Once you meet or exceed the limitations in a calendar year, your retirement is canceled. You cannot begin the new calendar year and expect to work under the limitation again.

For example, a retiree who works 1,050 hours by the middle of December and continues employment into the next month becomes an active member again and benefits will be stopped as of January 1.

Your retirement benefits will not re-start until you separate from covered employment and reapply for retirement benefits. When you re-retire, your benefit will be calculated based on the Tier One/Tier Two program laws, administrative rules, and factors in place at that time.

Retired Elected or Appointed Officials
If you are a Tier One or Tier Two retiree who is an elected or appointed official, your employment is **NOT** subject to the 1,040-hour limitation.

Instead, your retirement benefits cease once you take office and will not be paid for your entire term of office.

Once the term is over, you may re-apply for benefits. The benefits will be re-computed based on your age, account balance, and other calculation factors in effect at the time you re-retire.

Education Presentations: Retirement Readiness

(for Tier One/Tier Two members planning to retire within 3 years)

Registration is required. Register through the PERS website in the Education Sessions section. All presentations are free, including the financial planning sessions. Space is limited and the schedule is subject to change. The PERS website has the most current information.

Location	PERS Only Information	PERS with Financial Planning*
Albany	Sep 8	
Ashland	Aug 11 Sep 21 Oct 12 Nov 17, 30	
Astoria	Oct 13	Oct 22
Baker City	Nov 18	
Bend	Sept 28	Aug 4 Oct 26 Dec 1
Burns		Aug 27
Coos Bay	Aug 5 Oct 19	Nov 3
Corvallis	Aug 25 Dec 14	Sept 15 Nov 18
Eugene/Springfield	Sep 15 Oct 20 Nov 17 Dec 1	Aug 11 Sept 12 Oct 1 Nov 5 Dec 9
Florence		Aug 20
Grants Pass		Aug 7
Gresham	Aug 4 Sept 2 Nov 3 Dec 1	Aug 7 Oct 23
Hillsboro	Aug 11 Oct 13 Nov 9	Dec 8
Hood River	Aug 26	

These sessions cover:

- Individual Account Program (IAP)
- Retirement eligibility and retirement benefit calculations
- Benefit estimate review
- Retirement options
- Variable account after retirement
- Work after retirement provisions
- Taxes
- Retirement application forms review

Location	PERS Only Information	PERS with Financial Planning*
Klamath Falls	Sep 9	
La Grande	Nov 16	Sept 30
Madras		Aug 18
Medford		Sept 25 Oct 6
Ontario	Oct 6	Sept 29
Oregon City	Aug 17 Oct 1	Oct 15
Pendleton	Set 14	Oct 1
Portland/Tigard area (all sessions held at PERS headquarters in Tigard)	Aug 3, 24 Sep 14, 28 Oct 19, 26 Nov 2, 16 Dec 7, 14	Aug 8 Sept 12 Oct 3, 17 Nov 14 Dec 5, 19
Redmond	Oct 26	
Roseburg	Aug 3 Oct 5	Sept 29
Salem	Aug 12 Sep 9 Oct 7 Nov 10 Dec 9	Aug 27 Sept 24 Oct 17 Nov 7 Dec 10
St. Helens		Sept 16
The Dalles	Sep 21	

* These dates add financial planning information presented by PERS' education partner, VALIC. Additional topics covered at these sessions include:

- Social Security and Medicare;
- Coordinating PERS benefits with other income sources; and
- Planning for changing income and expense needs.