

# PERSPECTIVES

Active  
Member  
Edition

## Board credits 2005 earnings; deploys reserve funds

The PERS Board determined final earnings crediting to accounts for the 2005 investment year at its March 31, 2006 meeting. The Board also finalized decisions on deploying two reserve funds.

The PERS fund had a total market value of approximately \$54 billion as of December 31, 2005. The fund is invested through the Oregon Investment Council with the earnings then allocated by the PERS Board.

Tier One members, those who were employed by a PERS-covered employer prior to January 1, 1996, were credited with regular account earnings of 8 percent. Tier One members are currently guaranteed 8 percent annual earnings to their regular accounts.

The Tier One regular account earnings in excess of 8 percent (totaling some \$423 million) were deposited in the Tier One Rate Guarantee Reserve.

Tier Two members, those who were employed by a PERS-covered employer on or after January 1, 1996, and before August 29, 2003, were credited with regular account earnings of 13.74 percent. However, because the Board also deployed \$26 million from reserves to Tier Two accounts, the total Tier Two crediting rate for 2005 is 18.31 percent.

Tier One and Tier Two member variable accounts earned 8.29 percent. Variable accounts are invested solely in domestic equities, while Tier One/Tier Two regular accounts are invested in a diversified portfolio. As a result, variable account earnings frequently differ from regular account earnings.

The Oregon Public Service Retirement Plan (OPSRP) Pension Program (for members employed by a PERS-covered employer on or after August 29, 2003) is a defined benefit plan without member accounts so earnings are not credited to members under OPSRP.

All active PERS and OPSRP members also participate in the Individual Account Program (IAP). PERS will report earnings on IAP accounts in a statement that will

be mailed to members later this year.

Employer accounts and the Benefits-In-Force Reserve were credited with 13.74 percent earnings.

The Board also proportionally allocated \$1.6 billion from the Contingency and Capital Preservation Reserves to those reserves and accounts from which the funds were previously withheld.

The Board reserved these funds to offset investment losses and adverse court decisions. The Board deployed these reserves (except for \$250 million retained in the Contingency Reserve) due to the substantial effects of PERS reform on system liabilities and dynamics, the development of additional tools to better manage employer rate volatility, the resolution of significant PERS-related litigation during 2005, and to offset investment losses carried over from prior years.

Funds were deployed to the following reserves and accounts in the amounts listed:

- Benefits-In-Force Reserve (this reserve funds retiree benefits): \$829 million.
- Employer Reserves (contributions employers have paid to PERS): \$534 million.
- Tier One Rate Guarantee Reserve (this reserve supplements the guaranteed 8 percent earnings to Tier One member regular accounts when annual investment returns are below 8 percent): \$220 million.
- Tier Two (member accounts): \$26 million.

As noted above, the Board retained \$250 million in the Contingency Reserve to cover unforeseen events, and approximately \$1 billion is now being held in the Tier One Rate Guarantee Reserve.

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# Oregon Savings Growth Plan (OSGP) can help reduce your tax liability while you save money for retirement

Realizing your retirement goals start with the decisions you make today.

OSGP is a 457 deferred compensation plan that provides public employees a convenient way to save for retirement. It allows employees of OSGP-participating employers to contribute a portion of their salary on a pre-tax basis.

As an OSGP participant, a small increase in your deferral has the potential to dramatically influence the growth of your retirement savings. What's more, saving at a higher rate can have tax benefits for you.

Let's compare the cases of two hypothetical public employees: Daisy

and Dave. They both have a lot in common. Both are 30 years old, and both make \$30,000 a year. However, Dave contributes 4 percent of his salary to his deferred compensation account, while Daisy contributes 6 percent. Take a look at the tax consequences:

**Contacting OSGP**  
 Website: [osgp.csplans.com](http://osgp.csplans.com)  
 Telephone: 503-378-3730 or  
 800-365-8494 toll free

	<u>Daisy contributes \$150</u>	<u>Dave contributes \$100</u>
Monthly gross pay	\$2500.00	\$2500.00
Pre-tax contribution	\$150.00	\$100.00
Income subject to tax	\$2350.00	\$2400.00
Federal tax withholding	\$289.55	\$297.05
State tax withholding	\$170.64	\$174.47
Net take home pay	\$1889.81	\$1928.48
Annual tax saving	\$407.76	\$271.80

*Perspectives* is published quarterly by the Oregon Public Employees Retirement System for the benefit of PERS/OPSRP members and employers. Address all correspondence to **PERS, P.O. Box 23700, Tigard, OR 97281-3700**. PERS headquarters office is at **11410 SW 68th Parkway, Tigard, Oregon**. Phone **503-598-PERS** or toll-free **888-320-7377**; TTY: **503-603-7766**. Telephone hours are 8:30 a.m. to 5 p.m., Monday through Friday, except holidays. PERS' Internet address is <http://oregon.gov/PERS>.

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Daisy is saving more to fund her retirement while reducing the amount of federal and state income tax withheld from each paycheck. She defers \$150 to fund her retirement but only has a reduction in monthly take-home pay of \$116.02.

The payoff for Daisy's decision to save more comes at the age of 60. This is when she and Dave decide to retire. There is a significant difference in the size of their retirement nest eggs. Dave has accumulated \$140,855, while Daisy has accumulated \$211,282.

By choosing to contribute 2 percent (\$38.67 of take-home pay) more each pay period when still in her thirties, Daisy has \$70,427 more than Dave to supplement her retirement.\*

Contributions and earnings con-

tinue to grow tax-deferred until distribution.

Employees of Oregon public employers are eligible to participate in OSGP if their employer has adopted the deferred compensation plan.

Participants can contribute up to 100 percent of their monthly salary or as little as \$25 per month as their before-tax contribution. The maximum annual contribution amount in 2006 is \$15,000 (\$20,000 if age 50), or 100 percent of income, whichever is less. Contributions are deducted automatically from a participant's paycheck.

For more information, including a list of upcoming OSGP presentations, visit OSGP on the Web at: <http://oregon.gov/PERS/OSGP/index.shtml> or call 503-378-3730 or 800-365-8494 (toll free).

\* This illustration is hypothetical and for demonstration purposes only. It is not necessarily indicative of the performance of any investment in the OSGP. It assumes 2005 tax rates for a single tax filer with standard deduction, static salary, an 8 percent return rate, and reinvestment of earnings. It is not adjusted for inflation and does not include other taxes or deductions.

## One-Year PERS Presentations May 2006 - August 2006

For members within *one* year of retirement. Registration is required. Note the time of the session when you register through the Web in the Education Sessions section. All presentations are free, including the financial planning sessions.

Ashland/Med.	May 25*; June 21, 22; Aug. 16
Astoria	July 10
Bend	May 9, 10; Aug. 8, 24*
Coos Bay	June 27; Aug. 22
Corvallis	May 18*; Aug. 14
Eugene/Spfgld	May 17; June 21, 29*; July 19; Aug. 16
Grants Pass	Aug. 23*
Gresham	June 6; July 26*; Aug. 1
Hillsboro	June 13; Aug. 8
Hood River	May 8
Klamath Falls	Aug. 9
La Grande	May 17
Oregon City	June 22*; July 25
Tigard	May 8, 13*, 15, 22; June 5, 19; July 10, 17, 22*, 24; Aug. 14, 21, 28
Redmond	Aug. 7
Roseburg	June 20; Aug. 15
Salem	May 10, 24; June 14, 28; July 24*, 26; Aug. 23

Content for all sessions includes:

- ♦ Individual Account Program (IAP)
- ♦ Retirement eligibility and calculating the retirement benefit
- ♦ Review of benefit estimate
- ♦ Retirement option choices
- ♦ Variable account after retirement
- ♦ Work after retirement limitations
- ♦ Health insurance
- ♦ Cost-of-living adjustments
- ♦ Taxes

Dates followed by an asterisk (\*) add financial planning information presented by PERS' education partner, American General Financial Advisors (AGFA). These sessions are also free of charge. Register for these sessions via the Education Sessions section of the PERS website (link titled One-Year PERS Presentation with Financial Planning) or call 888-752-6422. Additional topics covered at these sessions include:

- ♦ Social Security and Medicare
- ♦ Coordinating PERS benefits with other income sources
- ♦ Planning for changing income and expense needs
- ♦ Investment strategies for retirement

Portland/Tigard dates in **bold** are for education staff; dates underlined are for police officers and firefighters.

## Five-Year PERS Presentations May 2006 - August 2006

For members within *five* years of retirement. Registration is required. Note the time of the session when you register through the Web in the Education Sessions section. All presentations are free, including the financial planning sessions.

Ashland/Med.	June 21; Aug. 16
Bend	May 9, 11*; Aug. 8
Coos Bay	June 27; Aug. 22
Corvallis	June 19; July 27
Eugene/Spfgld	June 21; July 13; Aug. 2*
Hillsboro	July 11
Klamath Falls	Aug. 10
LaGrande	July 19
Ontario	May 17
Pendleton	July 18
Tigard	June 24*, 26; Aug. 7, 19*
Salem	June 8*; Aug. 17*

Content for all sessions includes:

- ♦ Individual Account Program (IAP)
- ♦ Review of Benefit Estimate Calculator
- ♦ Retirement benefit information
- ♦ Work after retirement limitations

Dates followed by an asterisk (\*) add financial planning information presented by PERS' education partner, American General Financial Advisors (AGFA). These sessions are also free of charge. Register for these sessions via the Education Sessions section of the PERS website (link titled Five-Year PERS Presentation with Financial Planning) or call 888-752-6422. Additional topics covered at these sessions include:

- ♦ Social Security and Medicare
- ♦ Coordinating PERS benefits with other income sources
- ♦ Planning for changing income and expense needs
- ♦ Investment strategies for retirement

## Early Career Sessions May 2006 - August 2006

Limited to PERS/OPSRP members hired on or after January 1, 1996, and are free. Registration is required. Note the time of the session when you register through the Web.

Eugene	Aug. 16
Portland/Tigard	June 12
Salem	June 14

Content for all sessions includes:

- ♦ Tier Two membership details and benefits
- ♦ Oregon Public Service Retirement Plan (OPSRP)
- ♦ Individual Account Program (IAP)

**PERS counseling sessions are free to members, including financial planning sessions. Space is limited.  
You can register online at <http://oregon.gov/PERS/> for any session.**

# Individual Account Program (IAP) retirement or withdrawal disbursements take approximately 120 days to complete

When you decide to retire from the PERS Tier One/Tier Two Program or the Oregon Public Service Retirement Plan (OPSRP) Pension Program, you also have the option to retire or withdraw from your Individual Account Program (IAP) account based on your age.

You can take the distribution as a one-time payment or in installments depending on the value of your IAP account.

You also have the option to maintain your IAP account.

As of January 1, 2004, the 6 percent active member contributions of PERS Tier One/Tier Two members and OPSRP members have been placed in the member's IAP account. Tier One/Tier Two members also retained their existing PERS accounts.

IAP accounts are credited with earnings, losses, and administrative fees.

Members are automatically vested in their 6 percent contribution on the date the account is established. The

current IAP retirement/withdrawal process takes approximately 120 days to complete and, in some cases, is taking longer.

Once PERS receives your IAP retirement/withdrawal application, staff:

- verifies that you are eligible to retire/withdraw from the IAP,
- approves your application and confirms you have submitted the necessary forms,
- verifies that you have separated from all PERS-covered employment,
- verifies that PERS has received all contributions from your employer(s), and
- verifies your account balance with CitiStreet, PERS' third-party administrator for the IAP.

If there is missing or incomplete information on the forms, they are returned to you. This can delay processing depending on the time it takes you to provide the missing

or corrected information. Also, an additional 30 days is automatically added if you fail to sign the federal tax information disclosure.

The verification process described above takes approximately 60-75 days.

Your application is then processed and uploaded to CitiStreet on the first of the following month.

CitiStreet then determines the value of the account on the first day of the month (as of the day PERS sends the data to CitiStreet) and submits the value to PERS for confirmation prior to disbursement.

This process takes 30 days to complete.

The check is processed and mailed, which takes approximately 15 days.

On average, PERS receives approximately 500 IAP retirement/withdrawal requests monthly.

PERS is studying ways to streamline the IAP disbursement process and will provide more information when it becomes available.

## 2005 Annual Statements

PERS anticipates mailing Tier One/Tier Two 2005 member annual statements to members at their mailing address on file with PERS in June 2006.

Oregon Public Service Retirement Plan (OPSRP) Pension Program 2005 annual statements will be mailed approximately two weeks after the Tier One/Tier Two statements.

PERS expects to mail Individual Account Program (IAP) 2005 annual statements in late 2006 due to IAP remediation efforts. The August *Perspectives* will have more information regarding IAP remediation.

Please let your employer know whenever your mailing address has changed.

## Contacting PERS

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