OREGON PUBLIC EMPLOYEES RETIREMENT BOARD

Friday July 21, 2006 11:00 A.M. & 1:00 P.M.		PERS 11410 SW 68th Parkway Tigard, OR
	ITEM	**PRESENTER**
A. Contested Case Hearings – 11:00 A.M.		
1. 2. 3. 4. 5.	Contested Case Hearing for Susan L. Boracci Contested Case Hearing for Rosrin Toland Contested Case Hearing for Christine Toomey Contested Case Hearing for Danny Byington Contested Case Hearing for Janet Bailey	KUTLER / RODEMAN
Break		
B. Administration – 1:00 P.M.		
1. 2.	June 16, 2006 Board Meeting Minutes Director's Report a. Forward-Looking Calendar b. OIC Investment Report c. Budget Report d. HB2020 Update e. Miscellaneous	CLEARY
C. Consent Action and Information Items		
1. 2. 3. 4.	Action on Contested Cases Notice of OAR 459-075-0200, P & F Definition of "Immediately" Notice of OAR 459-080-0250, IAP Account Installment Payments Notice of Repeal of OAR 459-070-0900, PERS/OPSRP Transitional Rules	RODEMAN
5.	Oregon Savings Growth Plan (OSGP) Overview, Committee Appointments, and Rule Notices a. OSGP Overview b. OSGP Advisory Committee Appointments c. Notice of OAR 459-050-0025, Advisory Committee d. Notice of OAR 459-050-0038, Trading Restrictions e. Notice of OAR 459-050-0070, Catch-up Programs f. Notice of OAR 459-050-0077 Loan Program and OAR 459-050-0150 Unforeseeable Emergency Withdrawal	BATH / RODEMAN
6.	*Strunk / Eugene* Implementation a. Final Project Plan b. Board Presentation	STROUD
D. Action and Discussion Items		
1.	2005 Experience Study: Valuation Methods and Assumptions Approval	MERCER
2.	HB 2189 – Lump-Sum Payment Employee Contributions	RODEMAN
3.	FY 2007 – 2009 Agency Request Budget – Approval to Submit	DEFOREST
4.	2007 Legislative Concepts Update	DELANEY
E. Executive Session Pursuant to ORS 192.660(2)(f), (h), and/or ORS 40.225		
1. 2.	Litigation Update Review of Written Legal Advice	LEGAL COUNSEL

Note: *If you have a disability that requires any special materials, services or assistance, call (503) 603-7575 at least 48 hours before the meeting.*

Level 1 - Public

MEETING DATE	**7/21/06**
AGENDA ITEM	**B.1. Minutes**

PUBLIC EMPLOYEES RETIREMENT BOARD

PERS Board Meeting
1:00 P.M.

June 16, 2006
Tigard, Oregon

MINUTES

Board Members:	**Staff:**		
Mike Pittman, Chair	Paul Cleary, Director	Joe DeLillo	Linda Weber
Brenda Rocklin, Vice-chair	Steve Delaney	Dave Tyler	Jeff Marecic
Eva Kripalani	Donna Allen	David Crosley	Gloria English
Thomas Grimsley	Steve Rodeman	Dale Orr	Helen Bamford
Excused: James Dalton	Brendalee Wilson	Jeanette Zang	
	Brian DeForest	Brian Harrington	
Others:			
Dick McQueen	Brad Westphal	Pat West	DeeAnn Hardt
Alison Chan	Doug Dillon	Hasina Squires	Bob Andrews
Maria Keltner	Patrick Weispenter	Kevin McCart	Linda Ely
Ardis Belknap	Mary Botkin	Duane Bales	Bruce Adams
Nancy Brewer	BethAnne Darby	Cathy Bloom	Deborah Tremblay
Denise Yunker	Steve Schmick	Myrnie Daut	Jim Green
Bill Lindekugel	Debra Davis	Karen Artiaco	Martha Sartain
Dallas Weyand	Bonnie Campbell	Bill Hallmark	Robin Richardson
Pam Broadus	Greg Hartman	Annette Strand	

Chair Pittman called the meeting to order at 1:00 P.M.
Board member James Dalton was excused from the meeting.

ADMINISTRATION

B.1. BOARD MEETING MINUTES OF APRIL 27, 2006

Brenda Rocklin moved and Eva Kripalani seconded to approve the minutes of the April 27, 2006 meeting. The motion passed unanimously.

B.2. DIRECTOR'S REPORT

Director Paul Cleary presented the Forward-Looking Calendar and noted that the monthly Retirement Fund investment return report was unavailable for this meeting because of timing constraints. Cleary said that an overview of the Oregon Savings Growth Plan (OSGP) would be presented at the July meeting as well as the final presentation of Mercer's 2005 Experience Study and related valuation methods and assumptions. Cleary presented the June 2006 Budget Report and said the proposed 2007 – 2009 budget concepts would be presented in July for Board approval to submit to the state's budget process. Cleary reported on a meeting with PERS

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employer groups to discuss IAP remediation and HB2189 employer reporting issues. Cleary said that PERS must continue to improve the employer reporting process and improve the IAP process including account administration, prior period adjustments and posting of earnings as outlined in the IAP remediation plan. Cleary said that Tier One and Tier Two member statements for 2005 would be mailed at the end of June and that OPSRP members would receive their statements in July, pending further verification of OPSRP member data.

CONSENT ACTION AND INFORMATION ITEMS

C.1. ACTION ON CONTESTED CASE HEARINGS

Steve Rodeman, Policy, Planning and Legislative Analysis Division (PPLAD) administrator, presented staff recommendations as detailed below in the contested case hearings of Susan L. Boracci, Larry Lenon, Lawrence Oglesby, Dennis Bell, Mardell Rogers and the petition for reconsideration for Debbie McIntosh; and deny the Petition for Reconsideration for Richard McQueen and Brian Metke.

It was moved by Brenda Rocklin and seconded by Tom Grimsley to approve the staff recommendations. The motion passed unanimously.

Under that motion, the Board acted on each contested case item and direct staff as follows:

ITEM A.1. CONTESTED CASE HEARING FOR SUSAN L. BORACCI
Postpone consideration of the proposed final order in the contested case hearing of Susan L. Boracci and address the case at the July Board meeting.

ITEM A.2. CONTESTED CASE HEARING FOR LARRY LENON
To prepare a revised draft final order, changing it from the proposed order to deny the contestant's request for credit of accumulated sick leave and provide the opportunity for Larry Lenon to review and file exceptions if he chooses to do so.

ITEM A.3. CONTESTED CASE HEARING FOR LAWRENCE OGLESBY
Adopted the draft final order as presented in the contested case hearing of Lawrence Oglesby.

ITEM A.4. CONTESTED CASE HEARING FOR DENNIS BELL
Adopted the draft final order as presented in the contested case hearing of Dennis Bell.

ITEM A.5. CONTESTED CASE HEARING FOR MARDELL ROGERS
To prepare a revised final order with changes specified by the Board in the contested case hearing of Mardell Rogers stating the correct legal standard in the concluding paragraph and circulate it for final Board approval.

ITEM A.6. PETITION FOR RECONSIDERATION FOR DEBBIE L. MCINTOSH
To prepare a revised final order that Debbie L. McIntosh is entitled to a duty-disability retirement and circulate it for final Board approval.

ITEM A.7. PETITION FOR RECONSIDERATION FOR RICHARD MCQUEEN
To prepare a revised final order in the contested case hearing for Richard McQueen, removing references to age 60 qualification for units and circulate it for final Board approval.

ITEM A.8. PETITION FOR RECONSIDERATION FOR BRIAN METKE
Deny Brian Metke's petition for reconsideration.

NOTE: Draft final orders in the contested cases of Mardell Rogers, Debbie McIntosh and Richard McQueen were subsequently circulated for the Board's review and adopted as presented unanimously.

C.2. *STRUNK / EUGENE* IMPLEMENTATION PROJECT – BENEFIT RECALCULATION LETTER

Craig Stroud, Administrator of the Benefit Payments Division, presented a draft benefit recalculation letter for notifying members who have been overpaid pursuant to the *Strunk / Eugene* decisions and are eligible for the Actuarial Reduction Method. Stroud said that this draft letter explains the benefit recalculation and options for repayment, provides staff contact information if recipients have questions and explains member appeal rights. The Board made suggestions for editing and improving the draft letter.

Stroud and Rodeman presented an update on the project business plan for the *Strunk / Eugene* implementation project. Stroud described current staff activities and the tools and processes being developed for benefit adjustments and accounts receivable. Stroud said that a final project plan including a project budget and staffing plan would be presented at the July meeting.

C.3. *STRUNK / EUGENE* POLICY ISSUES

Rodeman presented two *Strunk / Eugene* implementation policy issues involving one-time variable transfers and lump-sum repayment rollovers. Staff recommended that one-time variable transfer requests not be re-processed in light of *Strunk / Eugene* because the statute specifically provides for an effective date of the test being January 1 of the year following the request. Staff also recommended that every effort should be made to accommodate lump-sum repayment rollovers back into PERS without tax consequences. The Board encouraged staff to expedite that process however possible.

C.4. ADOPTION OF CONTESTED CASE RULES

Rodeman presented the proposed contested case rule modifications and said the modifications would comply with statutory requirements and simplify the contested case process.

It was moved by Tom Grimsley and seconded by Eva Kripalani to adopt the permanent rule modifications as presented. The motion passed unanimously.

C.5. ADOPTION OF MODEL RULES OF PROCEDURE

Rodeman presented rule modifications that would conform PERS rules to reflect the recently updated model rules that have been adopted by the Department of Justice.

It was moved by Brenda Rocklin and seconded by Eva Kripalani to adopt the permanent rule modifications as presented. The motion passed unanimously.

C.6. ADOPTION OF IAP REMEDIATION RULES

Rodeman presented rule modifications to various Individual Account Program (IAP) rules that will conform those administrative rules to the Board's policies incorporated in the IAP Remediation Project.

It was moved by Eva Kripalani and seconded by Tom Grimsley to adopt the permanent rule modifications as presented. The motion passed unanimously.

ACTION AND DISSCUSSION ITEMS

D.1. IAP REMEDIATION PROJECT PLAN

Rodeman provided a presentation on the IAP Remediation Project Plan. Rodeman said that continuing administrative challenges and problems with member's 2004 IAP statements had revealed flaws in the principles used in the initial design of the IAP. Rodeman outlined the IAP remediation policies and principles, described the process and timeline, and discussed various transitional issues and post-remediation administration. Cleary said that the overriding objective was to make the IAP simple, make it work and make it better for all involved.

D.2. HB 2189 – LUMP-SUM PAYMENT EMPLOYEE CONTRIBUTIONS

Rodeman provided background on House Bill 2189 that was adopted by the 2005 Legislature and effected contributions to the IAP account by Chapter 238 members. Rodeman said that staff is reviewing multiple options to fund the required retroactive contributions and earnings. Cleary noted that correcting member accounts for prior-period contributions and earnings was a key component of the IAP remediation plan and critical to the ultimate success of the IAP.

Alison Chan, Finance Director for the City of Medford, spoke on employer concerns with retroactive contributions and the challenges in collecting money from members who had retired or otherwise terminated employment.

The Board invited employers and stakeholders to submit comments and recommendations that would be considered at the July meeting.

D.3. 2007 RETIREE HEALTH INSURANCE CONTRACT CHANGE PROPOSALS

PERS Retiree Insurance Program Manager Gloria English presented the proposed 2007 health insurance contract renewals. English said that the proposed contract changes were fair to members and provided a variety of coverage while maintaining continued stability for the program.

Molly Butler, B.W. Reeds Benefits, LLC and consultant for the PERS health insurance program said there are no significant changes in contract conditions or rates and that the four proposed health plans continue to serve the members very well.

It was moved by Tom Grimsley and seconded by Brenda Rocklin to approve the proposed PERS Retiree Health Insurance Plan contracts, conditions and rate changes for 2007. The motion passed unanimously.

D.4. <u>2007 – 09 AGENCY REQUEST BUDGET DEVELOPMENT</u>

Brian DeForest, Budget and Fiscal Operations Manager updated the Board on the status of the agency's 2007 – 09 budget development process. DeForest presented a summary of six proposed policy packages for inclusion in the Agency Request Budget.

Chair Pittman asked staff to work with Vice Chair Rocklin in preparing the budget request overview and detailed materials for the Boards review at the July meeting.

D.5. <u>2007 PERS LEGISLATIVE CONCEPTS</u>

Deputy Director Steve Delaney presented draft language for various legislative concepts that have been preliminarily approved by the Department of Administrative Services (DAS) for forwarding to Legislative Counsel. Delaney reported that the concepts had been reviewed by the PERS Legislative Advisory Committee and requested that the Board approve having the language drafted for further discussion.

Following Board discussion on the legislative concepts, the Board directed staff to move forward in submitting *LC 459/10 – OIC Membership* to Legislative Counsel. Staff were also directed to return to the July meeting for further Board review and comment on *LC 459/03 – Elimination of "Break in Service", LC 459/06 - Modification of the Definition of Covered Salary, LC 459/11 – "Break In Service" Exemption.*

D.6. <u>2005 EXPERIENCE STUDY: METHODS AND ECONOMIC ASSUMPTIONS</u>

PERS actuaries Bill Hallmark and Annette Strand, Mercer Human Resources Consulting, presented a review of the Experience Study for December 31, 2005 Valuation Methods and Economic Assumptions. Hallmark provided study findings and related recommendations on the actuarial methods and economic assumptions for PERS defined benefit programs. Mercer will present Part 2 of the Experience Study at the July Board meeting covering demographic assumptions and allocation procedures. The Board will then be asked to adopt the recommended methods and assumptions for the 2005 actuarial valuation.

<u>EXECUTIVE SESSION</u>

Pursuant to ORS 192.660 (2) (f), (h) and ORS 40.255, the Board went into executive session at 4:10 P.M.

The Board reconvened to open session.
Chair Pittman adjourned the meeting at 4:25 P.M.

Respectfully submitted,

Paul R Cleary

Paul R. Cleary
Executive Director

Prepared by Donna R. Allen, Executive Assistant

MEETING DATE	**7-21-06**
AGENDA ITEM	**B.2.a** **Calendar**

PERS Board Meeting
Forward-Looking Calendar

August 2006

No Meeting Scheduled

September 2006

Meeting: 1:00 P.M. September 15, 2006

Contested Case Hearing for Christine Toomey
Contested Case Hearing for Danny Byington
Contested Case Hearing for Janet Bailey
Contested Case Hearing for Edgardo L. Colon
Contested Case Hearing for Kay Bell
Contested Case Hearing for Lorinda Gauthier
Notice of OAR 459-009-0090, Non-UAL Lump Sum payments
First Reading of Oregon Savings Growth Plan (OSGP) Rules
First Reading of OAR 459-075-0200, P & F Definition of "Immediately"
Adoption of OAR 459-080-0250, IAP Account Installment Payments
Adoption of OAR 459-070-0900, PERS/OPSRP Transitional Rules (Repeal)
IAP Remediation Update
2005 Valuation System-wide Results

Audit Committee Meeting

October 2006

Meeting: 1:00 P.M. October 20, 2006

OPERF Asset / Liability Study – Phase 1
2007 Legislative Concepts Update
RIMS Conversion Project (RCP) Update
First Reading of OAR 459-009-0090, Non-UAL Lump Sum payments
Adoption of OAR 459-075-0200, P & F Definition of "Immediately"

Returns for periods ending 5/31/06 **Oregon Public Employees Retirement Fund**

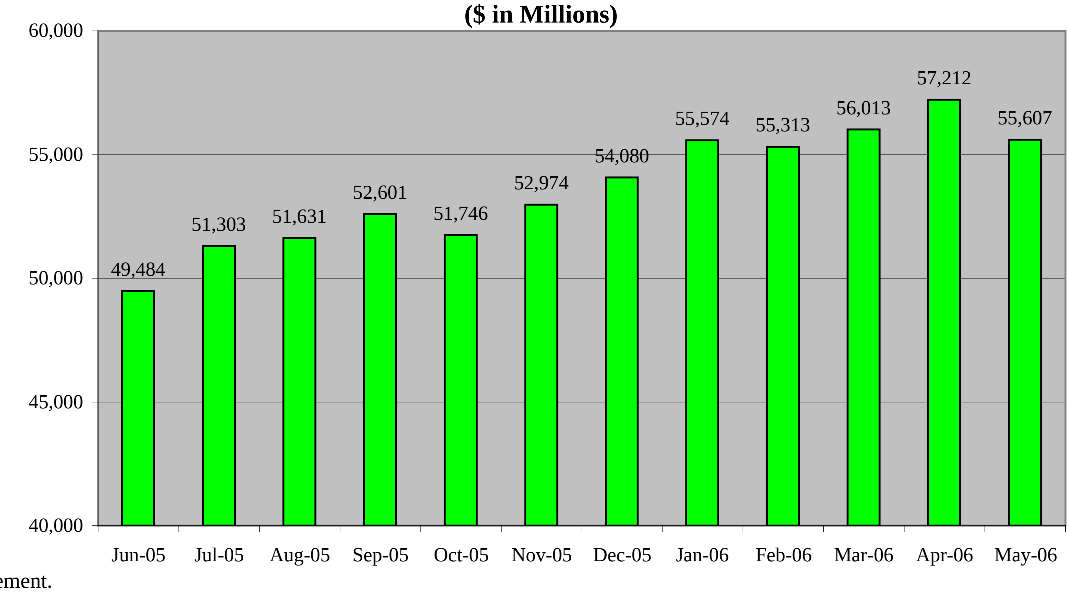
B.2.b.
OIC Report

OPERF	Policy[1]	Target[1]	$ Thousands[2]	Actual	Year-To-Date	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS
	Regular Account				Historical Performance					
Domestic Equity	30-40%	35%	$ 18,588,735	34.4%	**2.64**	**11.80**	**10.65**	**14.15**	**8.22**	**3.81**
International Equity	15-25%	20%	11,232,913	20.8%	**10.32**	**33.12**	**25.04**	**27.44**	**16.71**	**11.66**
Alternative Equity	7-13%	10%	4,943,428	9.2%	**2.29**	**26.91**	**29.98**	**23.84**	**15.27**	**8.00**
Total Equity	**60-70%**	**65%**	**34,765,076**	**64.4%**						
Total Fixed	**22-32%**	**27%**	**15,597,217**	**28.9%**	**-0.17**	**1.50**	**4.97**	**3.97**	**6.24**	**6.55**
Real Estate	**5-11%**	**8%**	**3,654,904**	**6.8%**	**11.07**	**35.82**	**30.74**	**27.21**	**21.57**	**18.73**
Cash	**0-3%**	**0%**	**-**	**0.0%**	**1.82**	**3.89**	**3.01**	**2.37**	**2.24**	**2.36**
TOTAL OPERF Regular Account		**100%**	**$ 54,017,197**	**100.0%**	**3.94**	**15.80**	**14.73**	**15.48**	**11.06**	**7.79**
OPERF Policy Benchmark					**4.07**	**12.56**	**11.95**	**14.04**	**9.64**	**6.86**
Value Added					**(0.13)**	**3.24**	**2.78**	**1.44**	**1.42**	**0.93**

Asset Class Benchmarks:

	Year-To-Date	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS
Russell 3000 Index	3.05	10.13	9.78	13.00	7.41	3.11
MSCI ACWI Free Ex US	10.10	30.95	23.92	26.97	16.24	11.00
Russell 3000 Index + 300 bps--Quarter Lagged	6.82	13.54	13.13	23.31	12.00	8.82
LB Universal--Custom FI Benchmark	(0.64)	0.37	3.85	2.63	4.83	5.31
NCREIF Property Index--Quarter Lagged	5.43	20.06	17.24	14.42	12.45	11.40
91 Day T-Bill	1.80	3.83	2.90	2.28	2.10	2.23

TOTAL OPERF NAV
(includes variable fund assets)
One year ending May 2006
($ in Millions)



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[1]OIC Policy 4.01.18
[2]Includes impact of cash overlay management.

Oregon

Theodore R. Kulongoski, Governor

11410 S.W. 68th Parkway, Tigard, OR
Mailing Address:
P.O. Box 23700
Tigard, OR 97281-3700
(503) 598-7377
TTY (503) 603-7766
www.pers.state.or.us

July 21, 2006

MEETING DATE	7-21-06
AGENDA ITEM	B.2.c. Agency Budget

TO: Members of the PERS Board

FROM: Brian DeForest, Budget and Fiscal Operations Manager

SUBJECT: July 2006 Budget Report

Actual accounting data for the month of June and the remainder of the fiscal accounting year close-out period is not yet available. Actual expenditures through the end of the 2006 fiscal year will be prepared and presented at the September Board meeting. That report will also have information regarding the anticipated limitation increase for salary adjustment from the June meeting of the Emergency Board. As previously mentioned, the request for the limitation increase was carried by the Department of Administrative Services on behalf of all state agencies. Official numbers will not be available until the minutes of the Emergency Board are published later this month.

The Budget Unit is working with the RIMS Conversion Project (RCP) to re-project expenditures for the remainder of the biennium to reflect the re-baselining of the Project. Budget anticipates a significant amount of limitation will go unspent in the current 2005 – 07 biennium as the project deliverable timelines are modified. Preliminary estimates are approximately $5 million of limitation will not be necessary in the 2005-07 biennium as contracted services and deliverables are shifted into the 2007-09 biennium. Staff will request the limitation to be unscheduled by the Department of Administrative Services from the Agency's current biennium for shifting into the 07 – 09 budget. Staff does not anticipate any change to the total project budget of $27.5 million, including contingencies.

Oregon

Theodore R. Kulongoski, Governor

Mailing Address:
P.O. Box 23700
Tigard, OR 97281-3700
(503) 598-7377
TTY (503) 603-7766
www.pers.state.or.us

July 21, 2006

MEETING DATE	07-21-06
AGENDA ITEM	B.2.d. HB2020

TO: Members of the PERS Board

FROM: Paul Cleary, Executive Director

SUBJECT: Update of HB 2020 Employer Reporting, Electronic Payment and Accounts Receivable Plans

The agency is in its third year of administering the HB 2020 program and using the new employer electronic reporting system. The Membership and Employer Relations Section (MERS) is working with 875 employer-reporting units to process outstanding 2005 and 2006 employer reports, as well as to clear up any un-posted 2004 records. In addition in 2006, PERS implemented electronic payment for employers and a new accounts receivable process. Updates on each are provided below.

Employer Reporting

The table below shows the status as of June 30, 2006 of employer reports and member records for calendar year 2005 and 2006.

	Calendar Year 2005	Calendar Year 2006
Reports due (estimated):		
▪ Number	12,775	5,686
▪ Percent	99.5 %	97.4 %
Outstanding reports	62	148
Reports fully posted at 100%:		
▪ Number	12,424	4,821
▪ Percent	97.3 %	84.8 %
Records due (estimated)	3,112,244	1,434,100
Records not posted	7,790	27,494
Contributions posted	$ 406,537,285	$ 196,156,198
Contributions not posted	$ 255,407	$ 2,302,326

Employers' year-over-year statistics have improved. Last year at this time, only 95 % of reports due were submitted and 80% of the reports were 100% posted. Currently, for 2005 we have 99.5 % of all required reports submitted and 97 % of those are 100% posted, and for 2006 we have 97 % of all required reports submitted and 85 % of those are 100 % posted.

At the end of April 2006, PERS implemented a change to the employer reporting file format to assist employers in complying with HB 2189. This change created an additional salary field for employers to report lump sum payments that are now considered subject salary for IAP purposes. Employers have until January 1, 2007 to comply with the new reporting format, so we anticipate some volatility in our statistics as employers correct prior year reports and move to the new file format. Since the end of April, employers have been correcting their 2004, 2005 and 2006 data and this is reflected in the statistics shown above. In particular since the June report, there has been a slight increase in the number of un-posted records for 2005. In June, we showed approximately 3500 un-posted records and now there are approximately 7800 un-posted records. For 2004, even though all reports have been submitted and posted, employers are correcting approximately 7000 of their 2004 records for HB 2189.

Electronic Payment

As of May 2006, mandatory electronic payments (automated clearing house –ACH) were implemented for employers. All but one employer has complied. The remaining one employer has been contacted numerous times and penalties have been imposed for non-compliance. The amount of uncollected payments for this one employer is less than $1000. As of July 2006, 72% of employers have chosen to remit contributions via a debit payment and 28% have chosen to remit contributions via a credit payment.

Accounts Receivable Plan

Besides assisting employers with overdue reports and electronic payment, PERS implemented an accounts receivable plan to proactively collect receivable balances that are more than 30 days overdue. As of July 2006, we have 177 outstanding invoices with an aggregate balance of approximately $137,000. This is a significant improvement from June 2006 where 311 invoices were outstanding (approximately $830,000). We are following up with these employers by phone and letters each month.

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Mailing Address:
P.O. Box 23700
Tigard, OR 97281-3700
(503) 598-7377
TTY (503) 603-7766
www.pers.state.or.us

July 21, 2006

MEETING DATE	7/21/06
AGENDA ITEM	C.1. Contested Cases

TO: Members of the PERS Board

FROM: Steven Patrick Rodeman, Administrator, PPLAD

SUBJECT: Action on Contested Cases

OVERVIEW

Actions: Staff recommends the following actions be taken in relation to the cases scheduled for deliberation at this meeting:

1. Adopt the Draft Final Order as presented in the contested cases of Susan Boracci and Rosrin Toland.
2. Adopt a motion to delay consideration of the proposed orders in the contested cases of Christine Toomey, Danny Byington, and Janet Bailey until the September 2006 Board Meeting.

BOARD OPTIONS

The Board may:

1. Adopt the staff recommendations as presented above.
2. Adopt one of the alternative directions specified in the memos related to each of these contested cases.
3. Take no action as to the Draft Final Orders. The proposed orders would become final as their respective deadlines passed.

STAFF RECOMMENDATION

Staff recommends the Board choose Option #1.

- **If the Board does not adopt**: The specific outcomes and alternatives vary but are more fully explained in the memos accompanying each individual case.

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Mailing Address:
P.O. Box 23700
Tigard, OR 97281-3700
(503) 598-7377
TTY (503) 603-7766
www.pers.state.or.us

July 21, 2006

MEETING DATE	7/21/06
AGENDA ITEM	C.2. P&F

TO: Members of the PERS Board

FROM: Steven Patrick Rodeman, Administrator, PPLAD

SUBJECT: Notice of OAR 459-075-0200, *Retirement Eligibility for Police Officer and Firefighter Members*

OVERVIEW

- Action: None. This is notice that staff began rulemaking.
- Reason: To clarify the requirements for retirement for Police and Fire (P & F) members under OPSRP.
- Subject: OPSRP Police and Fire (P & F) retirement eligibility.
- Policy Issue:
  1. How should the requirement for OPSRP P & F retirement eligibility being tied to the five years immediately before retirement be administered?

BACKGROUND

Under OPSRP, a P & F member is eligible for retirement if they are holding a position as a police officer or firefighter continuously for a period of five years "immediately before/preceding (both terms are used in different sections) the effective date of retirement." The term "immediately" is not defined in statute.

To clarify this requirement, staff originally introduced a legislative concept for the 2007 Legislative session. The Legislative Advisory Committee, however, asked staff to first try to establish the definition by rule, leaving a statutory change as an option if the administrative definition proved too restrictive.

SUMMARY OF RULE AND POLICY ISSUE

1. How should the requirement for OPSRP P & F retirement eligibility being tied to the five years immediately before retirement be administered?

The proposed rule would require the member to be employed as a police officer or firefighter in a qualifying position (at least 600 hours per calendar year) in each of the five consecutive years immediately preceding the effective date of retirement. Alternatively, if the member separated from service for some years prior to retirement, their last five consecutive years prior to becoming inactive would have to be in a qualifying P & F position with an OPSRP employer. Adopting the rule clarifying the definition of "immediately" will provide stakeholders with a clearer understanding of the requirements to qualify for P & F status under an OPSRP retirement.

LEGAL REVIEW

The attached draft has been submitted to the Department of Justice for legal review and any comments or changes will be incorporated before the rule is presented for adoption.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing will be held on July 25, 2006 at 2:00 p.m. at PERS headquarters in Tigard. The public comment period ends on September 22, 2006 at 5:00 p.m.

IMPACT

Mandatory: No, but since there is no clear definition of "immediately" this rule will provide much needed clarification.

Impact: Minimal. Stakeholders will have a clearer understanding of the requirements for OPSRP P & F retirement eligibility.

Cost: There are no perceived costs to stakeholders or the Fund as a result of the adoption of this rule. To the contrary, failure to adopt it could result in increased inquiries and disputes if retirement eligibility for OPSRP P & F members is not clearly established.

RULEMAKING TIMELINE

June 15, 2006	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
July 1, 2006	*Oregon Bulletin* published the Notice.
July 21, 2006	PERS Board notified that staff began the rulemaking process.
July 25, 2006	Rulemaking hearing scheduled for 2:00 p.m. in Tigard.
September 15, 2006	First reading of the rule.
September 22, 2006	Public comment period ends at 5:00 p.m.
October 20, 2006	Staff proposes adopting the permanent rule, including any amendments warranted by public comment or further research.

NEXT STEPS

A hearing is scheduled for July 25, 2006. The rule is scheduled to be brought before the PERS Board for the first reading at its September 15, 2006 meeting and adoption at the October 20, 2006 meeting.

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DRAFT ***DRAFT***

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

459-075-0200

Retirement Eligibility for Police Officer and Firefighter Members

(1) “Police officer” and “Firefighter” have the same meaning given them in ORS 238A.005.

(2) For the purpose of establishing eligibility for normal retirement under ORS 238A.160(2) and early retirement under 238A.165(2), an OPSRP Pension Program member will be considered to have held a position as a police officer or firefighter continuously for a period of not less than five years immediately preceding the effective date of retirement if:

(a) The member was employed in a qualifying position as a police officer or firefighter in each of the five calendar years preceding the effective date of retirement; or

(b) The member was employed in a qualifying position as a police officer or firefighter in each of the five calendar years preceding separation from that employment and has not returned to a qualifying position.

Stat. Auth.: ORS 238A.450

Stats. Implemented: 238A.160 & 238A.165

Oregon

Theodore R. Kulongoski, Governor

Mailing Address:
P.O. Box 23700
Tigard, OR 97281-3700
(503) 598-7377
TTY (503) 603-7766
www.pers.state.or.us

July 21, 2006

MEETING DATE	7/21/06
AGENDA ITEM	C.3. IAP Account Installments

TO: Members of the PERS Board

FROM: Steven Patrick Rodeman, Administrator, PPLAD

SUBJECT: Notice of Rulemaking for OAR 459-080-0250, *IAP Account Installments*

OVERVIEW

- Action: None. This is notice that staff began rulemaking.
- Reason: Improve processing of IAP installment retirement payments in conformance with statutory authority.
- Subject: IAP installment retirement payments.
- Policy Issues: No policy issues have been identified at this time.

BACKGROUND

ORS 238A.400 was amended by the 2005 Oregon Legislature to provide the PERS Board with more latitude in adjusting installment payment schedules requested by members who retired from the Individual Account Program (IAP). Previously, members were entitled to extend their retirement payments over 5, 10, 15 or 20 years. Given the small balances of some accounts, the legislature granted the PERS Board authority to set a minimum payment amount and adjust these schedules to conform to those minimum distributions, including paying the account in a lump sum if a minimum threshold is not reached.

These rule modifications carry forward the $200 minimum payment threshold previously established for moving from monthly or quarterly to annual installments. Accounts of less than $1000 would be paid in a lump sum ($200 X five annual installments as a minimum to qualify for installment payments). The rule modifications also clarify the method used to adjust installment payments for earnings and losses while the account is being paid out.

LEGAL REVIEW

The attached draft has been submitted to the Department of Justice for legal review and any comments or changes will be incorporated before the rule is presented for adoption.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing is scheduled for July 21, 2006 at 2:00 p.m. at PERS headquarters in Tigard. The public comment period ends on August 25, 2006 at 5:00 p.m.

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IMPACT

Mandatory: No, but the rule is within the authority granted by statute.

Impact: The modifications conform to state law and do not have a material fiscal or economic impact.

Cost: There is not expected to be any cost incurred by members, employers, PERS administration or the PERS fund.

RULEMAKING TIMELINE

June 15, 2006	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
July 1, 2006	*Oregon Bulletin* published the Notice.
July 21, 2006	PERS Board notified that staff began the rulemaking process.
July 25, 2006	Rulemaking hearing to be held at 2:00 p.m. in Tigard.
August 25, 2006	Public comment period ends at 5:00 p.m.
September 15, 2006	Staff will propose adopting the permanent rule modifications, including any amendments warranted by public comment or further research.

NEXT STEPS

A hearing is scheduled for July 25, 2005. The rule is scheduled to be presented to the PERS Board for adoption at the September 15, 2006 Board meeting.

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

459-080-0250

IAP Account Installments

(1) Definitions. "Payout Period" means the span of years over which the member elects to receive installment payments under section (2) of this rule.

(2) Upon retirement, a member of the individual account program who elects to receive the amounts in the member's employee and employer accounts in installments under ORS 238A.400(2) shall designate the number of years over which the installments are to be paid, selecting a period of 5, 10, 15, or 20 years. The member may also request that installments be made on a monthly, quarterly, or annual basis.

(3) Installments will be adjusted *[annually]* **at each payment** to reflect investment gains and losses on the unpaid balance. The member's **adjusted** balance *[, so adjusted,]* will be divided by the number of *[years]* **installment payments** left *[in the member's Payout Period]* to determine the amount to be paid to that member *[for the next year, which will then be paid over the monthly, quarterly, or annual basis selected by the member or as modified pursuant to sections (4) or (5) of this rule]*.

(4) If a member requests *[monthly or quarterly]* installments under section (2) of this rule, but the amount of the **requested** installment would be less than $200 as determined at the time of the initial request, the frequency **and Payout Period** of the installment payment will be *[extended from monthly to quarterly, or quarterly to annually, until]* **modified so that** the amount of the installment is at least $200. If *[monthly or quarterly installments would not exceed $200, the member will be paid annually]* **the member's**

account balance is $1000 or less at the time of the initial request, the member will not be eligible for installments and the balance will be paid in a lump sum.

(5) Notwithstanding the Payout Period selected by the member under section (2) of this rule, any distribution will be adjusted to comply with the required minimum distribution requirements of 26 U.S.C. 401(a)(9) and regulations implementing that section, as in effect August 29, 2003.

(6) Members who elect a five year Payout Period or a lump sum payment may elect to directly roll over any portion of their IAP installment or lump sum payment to an eligible retirement plan, subject to the following limitations:

(a) Members will not be permitted to directly roll over any IAP installment payments if the total annual distribution from their IAP account is reasonably expected to total less than $200.

(b) If members elect to have a portion of their IAP installment or lump sum payment paid directly to them and a portion directly rolled over, the portion to be rolled over cannot be less than $500 or that portion will be paid directly to the member.

(7) Members who elect a 10, 15, or 20 year Payout Period cannot elect to have any portion of their installment payments rolled over.

(8) Members who are subject to the required minimum distribution requirements referenced in section (5) of this rule may only roll over that portion of their installment or lump sum payments that exceeds required minimum distribution requirements.

Stat. Auth.: ORS 238A.450

Stats. Implemented: ORS 238A.400

Oregon

Theodore R. Kulongoski, Governor

Mailing Address:
P.O. Box 23700
Tigard, OR 97281-3700
(503) 598-7377
TTY (503) 603-7766
www.pers.state.or.us

July 21, 2006

MEETING DATE	7/21/06
AGENDA ITEM	C.4. Trnsl. Rules

TO: Members of the PERS Board

FROM: Steven Patrick Rodeman, Administrator, PPLAD

SUBJECT: Notice of Proposed Repeal of OAR 459-070-0900, *PERS/OPSRP Transitional Rules*

OVERVIEW

- Action: None. This is notice that staff began rulemaking to repeal OAR 459-070-0900, *PERS/OPSRP Transitional Rule* in its entirety.
- Reason: The transitional rules are no longer needed as administrative processes and forms have now been developed and are in use.
- Subject: Transitional rules for the implementation of House Bill 2020, which created the OPSRP Pension Program and the Individual Account Program.
- Policy Issue:
  1. *Should the transitional rules for the implementation of HB 2020 be repealed?*

SUMMARY OF RULE AND POLICY ISSUE

HB 2020, which established OPSRP, became effective on August 29, 2003. This rule was adopted soon thereafter to provide guidelines for administering and processing transactions in certain areas of the OPSRP Pension Program and the IAP, using similar processes in place for the PERS Chapter 238 Program. Customized administrative processes and forms to these new programs have now been adopted, making the transitional rule unnecessary.

Specifically, section (4) of the rule addressed the beneficiary designation for the IAP death benefit. If a member of the IAP died before retirement, their account(s) would be paid to their designated beneficiary or beneficiaries. The transitional rule provided that the member's existing PERS beneficiary designation would be considered the beneficiary designation for the IAP Death Benefit since no form then existed for the designation of a beneficiary for the IAP. Now, IAP members may designate an IAP beneficiary on a form specifically for that purpose.

Section (5) of the rule addressed withdrawals. ORS 238.265 allows an inactive member to withdraw from the system. Likewise, under the OPSRP Pension Program and the IAP, inactive members may withdraw their account(s) to the extent they are vested in them. Again, because no administrative process or forms existed, the transitional rule provided that a request to withdraw a PERS member's regular account would also be considered a request to withdraw their OPSRP account(s) and that those requests will be processed simultaneously. Currently, OPSRP IAP withdrawal forms are available, making the need for this transitional provision unnecessary.

Section (6) addressed the defined contribution benefit of the IAP. The transitional rule provided that an application for retirement by a PERS Chapter 238 member would also be treated as a request to receive their IAP account at the time of retirement, if they were age eligible, because no application had been developed. An IAP Retirement Application is now available making this transitional provision unnecessary.

Section (7) addressed disabilities. The transitional rule directed that, for the purposes of applying and qualifying for duty disability, the processes in place under the PERS Chapter 238 plan would apply since the administrative rules for the OPSRP disability program had not yet been developed. Those rules have now been adopted; the transitional provisions for the administration of the OPSRP disability benefit are no longer necessary.

LEGAL REVIEW

The Department of Justice has been notified of the proposed repeal of this rule. Any concerns will be shared with the Board.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing will be held on July 25, 2006 at 2:00 p.m. at PERS headquarters in Tigard. The public comment period ends on August 25, 2006 at 5:00 p.m.

IMPACT

Mandatory: No, but since these transitional provisions are no longer necessary, repealing the rule will eliminate any confusion over the administration of these processes.

Impact: Minimal. Stakeholders will have a clearer understanding of their respective expectations and responsibilities.

Cost: There are no perceived costs to stakeholders or the Fund as a result of the repeal of this rule. To the contrary, failure to repeal it could result in increased inquiries and disputes if member responsibilities are not clearly established by eliminating potential confusion over administrative processes.

RULEMAKING TIMELINE

June 15, 2006	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
July 1, 2006	*Oregon Bulletin* published the Notice.
July 21, 2006	PERS Board notified that staff began the rulemaking process.
July 25, 2006	Rulemaking hearing scheduled for 2:00 p.m. in Tigard.
August 25, 2006	Public comment period ends at 5:00 p.m.

September 15, 2006	Staff proposes adopting the permanent rule modifications, including any amendments warranted by public comment or further research.

NEXT STEPS

A hearing is scheduled for July 25, 2006. This rule is scheduled to be presented to the PERS Board for adoption at the September 15, 2006 Board meeting.

OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 070 – OREGON PUBLIC SERVICE RETIREMENT PLAN, GENERALLY

[459-070-0900

PERS/OPSRP Transitional Rules

(1) ***Purpose****. The purpose of this rule is to implement ORS 238A.120 (Withdrawal), ORS 238A.235 (Disability Benefit), ORS 238A.375 (Withdrawal), ORS 238A.400 (Defined Contribution Benefit), and ORS 238A.410 (Death Benefit).*

(2) ***Limitation of scope of rule****. Benefits provided under this rule shall not exceed the benefits provided in ORS 238A.*

(3) ***Definitions****. For the purposes of this rule:*

(a) "Current spouse" means a married member's spouse as of the later of January 1, 2004, or (as appropriate) the date of the member's death or the date a retirement benefit or withdrawal is to be paid under the IAP.

(b) "Earliest retirement age" means the retirement age as defined in ORS 238A.165.

(c) "IAP" means the Individual Account program as set forth in ORS 238A.300 to 238A.415.

(d) "Married member" means a member who is married as of the later of January 1, 2004, or (as appropriate) the date of the member's death or the date a retirement benefit or withdrawal is to be paid under the IAP.

(e) "OPSRP" means the Oregon Public Service Retirement Plan.

(f) "Pension program" means the pension program as set forth in ORS 238A.100 to 238A.245.

(g) "Retirement credit" means the credit for service a member receives pursuant to ORS 238A.140.

(4) ***Beneficiary designation****. (a) For the purposes of distributing the death benefit provided in ORS 238A.410, the beneficiary or beneficiaries will be considered the same beneficiary or beneficiaries named on a member's Designation of Beneficiary previously filed with PERS pursuant to OAR 459-014-0030, except:*

(A) Where a court order or court-approved property settlement agreement incident to any court decree of annulment or dissolution of marriage or of separation provides otherwise;

(B) Where the member has filed a new Designation of Beneficiary form specifically approved by the Public Employees Retirement Board for the purposes of ORS 238A.410; or

(C) Where a married member has named a beneficiary other than his or her current spouse.

(i) In order for a member to name someone other than his or her current spouse, a spousal consent is required as set forth under ORS 238A.410(2), to distribute the death benefit to anyone other than the current spouse.

(ii) A spouse may revoke the above consent by filing a revocation with PERS, with notarized signatures of both the member and the spouse. Upon the filing of such revocation, the member's current spouse shall be the beneficiary.

(b) In the case where no Designation of Beneficiary form has been filed with PERS pursuant to OAR 459-014-0030, or someone other than the current spouse is named the beneficiary and no spousal consent form has been filed with PERS, or the named beneficiary predeceases the member, the death benefit will be distributed in the following order:

(A) To the member's surviving spouse;

(B) To the member's surviving children, in equal shares; or

(C) To the member's estate.

(5) ***Withdrawals****. (a) If a member requests a withdrawal pursuant to ORS 238.265, this request will also be considered a request to withdraw from the OPSRP pension program under ORS 238A.120, and the IAP under ORS 238A.375, to the extent the member's interest under those programs is vested, unless the member affirmatively elects, on a form acceptable to and filed with PERS, not to withdraw his or her OPSRP IAP account(s).*

(b) A request by a member to withdraw only his or her vested IAP accounts under ORS 238A.375, will not be considered a simultaneous request to withdraw from the ORS chapter 238 plan.

(6) ***Defined contribution benefit****. (a) If a member applies and is eligible for service retirement under ORS chapter 238, and has reached the earliest retirement age as defined in ORS 238A.165, the application for service retirement will also be considered an application for payment of the defined contribution benefit provided under ORS 238A.400.*

(b) The member may make any payment election provided for in ORS 238A.400.

(c) If a member retires under ORS chapter 238, and has not reached the OPSRP earliest retirement age, the member's IAP account(s) will remain in the IAP until the member is eligible for retirement under OPSRP and applies for payment of his or her IAP account(s) or withdraws his or her IAP account(s) under ORS 238A.375.

(d) If a member retires under ORS chapter 238, and the member is reemployed by a participating public employer as defined in ORS 238A.005(11), the IAP account(s) will be retained until the member qualifies for and requests withdrawal of the account under ORS 238A.375 or retirement under ORS 238A.400.

(7) ***Disability Benefit****. The disability benefits under ORS 238A.235, will be provided in the following manner:*

(a) Duty disability. For the purposes of applying and qualifying for a duty-disability benefit under the OPSRP pension plan, the provisions of ORS chapter 238 and OAR 459-007-0070 and OAR chapter 459, division 15, will apply.

(b) Non-duty disability. For the purposes of applying and qualifying for a non-duty disability benefit under the OPSRP pension plan, in addition to the provisions of ORS chapter 238 and OAR 459-007-0070 and OAR chapter 459, division 15, the member must have accrued 10 years or more of retirement credit before becoming disabled.

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

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

Stats. Implemented: ORS chapter 238 & 238A]

Oregon

Theodore R. Kulongoski, Governor

Mailing Address:
P.O. Box 23700
Tigard, OR 97281-3700
(503) 598-7377
TTY (503) 603-7766
www.pers.state.or.us

July 21, 2006

MEETING DATE	7/21/06
AGENDA ITEM	C.5.a. OSGP

TO: Members of the PERS Board

FROM: Gay Lynn Bath, Deferred Compensation Manager

SUBJECT: Oregon Savings Growth Plan (OSGP) Overview

The following is an overview of the Oregon Savings Growth Plan (OSGP) deferred compensation program. This overview is for information purposes only, no Board action is required on this item.

History

ORS 243.400 was passed in 1977, authorizing a Deferred Compensation Plan for State employees. The Oregon Investment Council (OIC) and Treasury Department were assigned oversight responsibility. In 1978, Section 457 of the Internal Revenue Code was enacted on the federal level. The first deferrals were made to the plan in 1980.

Savings and loan companies, credit unions, and banks provided fixed-rate vehicles for investment purposes. At that time, earnings were guaranteed at rates as high as 10.25%. Valic, Nationwide, and Standard provided annuity products.

In 1991, House Bill 2151 transferred the deferred compensation program from the Executive Department to PERS. PERS was given plan administration oversight duties. The OSGP Advisory Committee was added at that time. A Prudent Investor Standard and Standard of Productivity were also included to guide the OIC in investment review. At the same time, the plan became available to local government entities and an investment staff position was added in the Treasury Department. The first local government assets went into the plan in 1999.

The biggest changes to the plan came in 1996, when the plan and investment line-ups were restructured. A Request for Proposal (RFP) for a record keeper was issued and CitiStreet was the successful bidder. Education was kept in-house and the OIC continued to monitor the funds. All investment contracts were renegotiated at this time. Nine generic asset classes were set up as fund options, allowing conservative to more aggressive investment choices. Those options are as follows:

- Short-Term Fixed
- Stable Value
- Intermediate Bond
- Balanced
- Large Company Value
- Stock Market Index
- Large Company Growth
- International
- Small/Mid-Size Company

House Bill 2187, passed in 1997, made the following changes to OSGP:

- Created the Deferred Compensation Fund to hold investment assets,
- Placed assets in trust for the exclusive benefit of employees, and
- Named PERB as the Trustee.

In 2001, a Request for Information was issued to find a stable value manager. INVESCO won that bid and continues to administer the stable value fund in the plan. INVESCO negotiated with the ING (formerly Aetna), Standard, and Nationwide to allow the contracts to mature over four to five years to avoid penalties if the money was transferred at one time. By the end of 2005, there was approximately $10 million remaining in these contracts. If the contracts had been terminated in 2001, there would have been severe market value adjustment penalties.

As of March 31, 2006, only 6% of the fund remains in the Nationwide contract; the ING and Standard contracts have matured and have been eliminated. By the end of 2006, the fund will be fully divested of the Nationwide contract as well.

In 2002, the Legislative Fiscal Office conducted an audit of the plan to confirm cost and administrative effectiveness.

2006 Status

OSGP is an Internal Revenue Code Section 457 Plan and is referred to as a “deferred compensation” plan. It is similar to 401(k) plans, but because it is a government-sponsored plan, there are some differences. For example, there is no 10% penalty upon early withdrawal (before age 59 ½). Prior to the introduction of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) in 2001, deferral limits were calculated differently and were lower than those in 401(k) plans. EGTRRA made 457 plans more similar to 401(k) plans.

As a government plan, OSGP is not required to adhere to the Employee Retirement Income Security Act (ERISA), which is a federal law that sets minimum standards for most voluntarily established pension and health plans in private industry. Therefore, public plans do not have to complete an annual Form 5500, which is required by 401(k) plans, there is no discrimination testing, and there are no considerations for “highly compensated” employees versus “non-highly compensated” employees.

Any employee who is eligible for PERS is eligible for OSGP, and governmental employees who opt out of PERS, such as higher education and some local government agencies, may also be eligible. Local governments have separate trusts and must adopt the plan before its employees can participate.

The minimum contribution in OSGP is $25 per month. Maximum limits for 2006 are $15,000 with a catch-up of $5,000 for those participants age 50 or over. Those limits will increase thereafter as adjusted for inflation. The 457 plan is also unique in that it offers another catch-up provision that allows participants to make up for eligible contributions they had not made in previous years. In 2006, a participant can contribute up to $30,000, which is double the regular limit.

As of May 31, 2006, there were 20,778 OSGP accounts. Of those, 18,192 were state, miscellaneous agency, and higher education employees, 2,022 worked for local government agencies, and 564 accounts represented alternate payees or beneficiaries. Of the 20,788 accounts, 13,024 represented actively deferring participants; the remaining accounts represent retired or inactive participants. Plan assets were valued at $869 million; a copy of the May 31, 2006 Asset Report is attached.

In May 2006, OSGP received $5.1 million in employee contributions and the average monthly deferral was $392. During that same month, 184 employees enrolled in the plan, and in the first six months of 2006, $5.6 million was rolled into the plan from other eligible plans and IRAs.

Fees in the plan are lower than other retirement vehicles such as IRAs and 403(b) plans. OSGP funds are valued on a daily basis and earnings are reported net of fees. Participants pay 0.22% for administrative and record keeping fees. A participant whose assets are distributed equally among the options (excluding Balanced Option) will pay a weighted average of 0.36% in investment fees, for an overall total of 0.58% in investment, administrative and record keeping fees.

Prior to 2004, the PERS Board had an Investment Oversight Committee, which was made up of three or four PERS Board members. That committee met with the Deferred Compensation Manager and the Customer Service Division administrator as needed to discuss any changes to or issues with the plan. With the 2003 restructure of the Board, that committee no longer exists and issues have been and will be presented directly to the full Board.

By statute, OIC has oversight for selecting and managing investments for the Deferred Compensation Plan. The Deferred Compensation Manager works closely with Kevin Nordhill, Oregon State Treasury Equities Investment Officer, on any issues that affect the plan (i.e., market timing, redemption fees, etc.). OIC has several investment policies governing the management of the Deferred Compensation Fund. Investments are monitored on an ongoing basis and funds are changed out when they are no longer deemed appropriate for the fund or other opportunities are deemed more appropriate.

OIC formally reviews the plan on an annual basis. The Performance Report for May 31, 2006, is attached.

OSGP's Advisory Committee is made up of seven members who represent state, local government, and retirees. At each quarterly meeting, the committee hears from Treasury, Citistreet, and OSGP staff about the latest performance, plan statistics, and any current issues affecting the plan. The committee provides input and guidance to the plan, and any changes to the plan are presented to the committee before they are implemented or presented to the Board.

Two significant OSGP goals for 2005 to 2007 are to increase participation in the plan and increase assets. Strategies to reach those goals include increasing the number of workshops offered, increasing the number of "brown bag" meetings (one-hour presentations on OSGP topics offered over the lunch hour), enhancing the communication material, sending direct mailings to targeted employee groups, developing new fliers, and using the Plan Update to feature information on rollovers, plan benefits, and ways to increase deferrals.

Operations

The OSGP office is located in Salem and consists of the manager and seven staff members who are responsible for plan administration and oversight. That staff is made up of the deferred compensation manager, a deferred compensation coordinator, a local government coordinator, an education representative, two enrollment specialists, a deferred compensation specialist and a receptionist. Participant and payroll support, education and training, the design and updating of forms and communication material, and the administration of enrollments, qualified domestic relation orders, death benefits, catch-up provisions, rollovers, required minimum distributions, severance packages, and unforeseeable emergency withdrawals are administered through the office.

Third Party Administrator (TPA)

CitiStreet has been OSGP's TPA since 1996. It provides record keeping for the participant accounts, a customer service call center, website, quarterly reports, and voice response system. The TPA provides printed copies of communication material, distributions, and fund transfers. The current contract with Citistreet expires in 2007, and at that time, OSGP has the option to renew it for two more years or issue an RFP for a new record keeper.

Current and Future Issues

1. **Increased participation**. OSGP staff's main goal is to increase participation in the plan, for both state and local government employees. Local governments present a challenge because they are not automatically eligible, but must adopt the plan because their funds are kept in separate trusts. Currently, we have 155 local governments participating with 2,022 employee accounts. There is significant potential for growth in this area as those 155 employers have over 40,000 employees eligible for the plan. The local government representative works diligently to keep in touch with all agencies and offer presentations and workshops to their employees. Schools are probably the most challenging because most already have 403(b) plans available to them offered by companies like TIAA Cref and Valic. It has been challenging for OSGP's local government representative to get approval to present information to some school districts because the district administration believes it would then have to offer the same courtesy to all other retirement plan providers.
2. **Higher education participation.** Higher education employees tend to contribute the most money to the plan, but many of them also have 403(b) plans, and it is difficult to convince some institutions to let OSGP on campus for the same reasons as school districts.
3. **Financial advice.** Based on feedback from a 2004 participant survey, OSGP asked for approval to offer on-line financial advice services through Financial Engines which partners with Citistreet. A Department of Justice (DOJ) opinion was rendered that indicated the PERS Board might not have the authority to make this decision. At some future time, if the Board concurs, OSGP would like to request a second DOJ opinion regarding the Board's authority to approve this service.
4. **Loans.** OSGP is providing notice of rulemaking for Board consideration to introduce a loan program to the plan to help maintain and grow plan participation and to potentially reduce the number of unforeseeable emergency withdrawals. Of those OSGP participants who took an unforeseeable emergency withdrawal in 2003 and 2004, 87.5% have not contributed to the plan again. Results of a recent survey by the deferred compensation manager with the National Association of Government Defined Contribution Administrators (NAGDCA) plan sponsors indicated that most or all participants who take a loan continue to contribute to the plan while paying off the loan and continue to do so after the loan has been paid in full. Other studies have indicated that plans offering loans have a higher participation rate.
5. **SEC regulations.** With the recent scandals surrounding market timing, the SEC has implemented regulations that require mutual funds to carefully monitor their plans, and if necessary, add redemption fees to prevent excessive trading. If funds in OSPG implement redemption fees, it may require that the fund line-up be restructured. OSGP has had a market timing policy in place since 2001 which restricts trades in the international option to one redemption per month for those participants whose accounts have been flagged for making more than an average

of two trades per month in that option over a three-month period. Restrictions were strengthened with Board approval in December 2004, when a policy was approved giving the deferred compensation manager more authority to implement further case-by-case trading restrictions if needed. Because excessive trading is still an issue in the plan, and in an attempt to avoid redemption fees, OSGP is also providing notice of rulemaking for Board consideration regarding plan-wide trading restrictions.

6. **Automatic enrollment.** At some time in the future, OSGP would like to look into automatic enrollment in the plan. Participants would be automatically enrolled upon date of hire at a given deferral percentage, (eg. 2% of pay) unless they chose to opt out at that time or any time thereafter.
7. **On-line enrollment.** OSGP would like to be able to allow its eligible participants to enroll for the plan on-line instead of having to complete paperwork. This will require that the demographics for all eligible employees be correct and updated before implementation.

Oregon SAVINGS GROWTH PLAN

State of Oregon Deferred Compensation Program
Asset Report as of May 31, 2006

OREGON SAVINGS GROWTH PLAN

No. Part.		Name of Option	State of Oregon Plan	Local Gov't Plan	Investment Option Total	% of Assets
3,816	10	SHORT-TERM FIXED	$ 44,182,624.39	$ 767,777.66	$ 44,950,402.05	5%
6,391	15	STABLE VALUE	$ 129,419,634.26	$ 3,246,959.21	$ 132,666,593.47	15%
5,764	20	INTERMEDIATE-TERM FIXED	$ 44,911,908.32	$ 2,264,737.36	$ 47,176,645.68	5%
10,608	30	BALANCED	$ 148,783,001.63	$ 9,701,654.30	$ 158,484,655.93	18%
9,040	40	LARGE COMPANY VALUE	$ 80,195,738.71	$ 4,863,869.82	$ 85,059,608.53	10%
8,870	50	STOCK MARKET INDEX	$ 97,339,981.10	$ 4,340,442.44	$ 101,680,423.54	12%
9,342	60	LARGE COMPANY GROWTH	$ 63,271,139.15	$ 3,043,830.34	$ 66,314,969.49	8%
8,913	70	INTERNATIONAL	$ 83,117,691.53	$ 3,451,543.47	$ 86,569,235.00	10%
11,505	80	SMALL/MID-SIZE COMPANY	$ 138,987,406.41	$ 7,188,035.90	$ 146,175,442.31	17%
Oregon Savings Growth Plan Totals			**$ 830,209,125.50**	**$ 38,868,850.50**	**$ 869,077,976.00**	**100%**
Total Participants			**18,756**	**2,022**	**20,778**	

Oregon Savings Growth Plan

Performance Results

as of May 31, 2006

Updated on 6/6/2006

OPTION *BENCHMARKS (for comparison)*	1 Month	3 Months	Year to Date	Annualized From Inception 10/31/96	Since 10/31/01	1 Year	2 Years	3 Years	5 Years
Short-Term Fixed Option	0.39%	1.13%	1.81%	3.41%	1.81%	3.82%	2.78%	2.06%	1.93%
91-Day T-Bill	*0.40%*	*1.16%*	*1.80%*	*3.77%*	*2.08%*	*3.83%*	*2.90%*	*2.28%*	*2.23%*
Stable Value Option	0.35%	1.05%	1.72%	4.88%	4.11%	4.11%	4.01%	3.95%	4.23%
91-Day T-Bill	*0.40%*	*1.16%*	*1.80%*	*3.77%*	*2.08%*	*3.83%*	*2.90%*	*2.28%*	*2.23%*
Intermediate-Bond Option	-0.16%	-1.21%	-0.82%	5.48%	4.23%	-0.25%	3.36%	2.38%	5.13%
Lehman Bros. Bond Aggregate	*-0.11%*	*-1.27%*	*-0.93%*	*6.03%*	*3.88%*	*-0.48%*	*3.11%*	*1.91%*	*5.01%*
Balanced Fund Option	-2.18%	-0.25%	2.56%	8.03%	7.76%	8.91%	8.98%	10.48%	5.55%
*Balanced Blended Index**	*-2.11%*	*-0.19%*	*2.56%*	*7.88%*	*7.34%*	*8.28%*	*8.70%*	*10.27%*	*5.23%*
Large Company Value Stock Option	-2.35%	1.77%	6.05%	9.49%	10.51%	13.80%	14.19%	16.34%	5.37%
Russell 1000 Value	*-2.53%*	*1.31%*	*5.88%*	*10.50%*	*10.36%*	*12.61%*	*14.04%*	*15.93%*	*6.28%*
Stock Index Option	-3.20%	-0.49%	3.00%	8.04%	6.91%	9.97%	9.57%	12.72%	2.89%
Russell 3000	*-3.20%*	*-0.46%*	*3.05%*	*8.36%*	*7.19%*	*10.13%*	*9.78%*	*13.00%*	*3.11%*
Large Company Growth Stock Option	-3.95%	-2.68%	-0.48%	5.17%	3.94%	8.20%	5.86%	9.56%	-0.79%
Russell 1000 Growth	*-3.39%*	*-2.10%*	*-0.54%*	*5.25%*	*2.89%*	*6.14%*	*4.73%*	*8.99%*	*-1.15%*
International Stock Option	-4.29%	3.78%	10.53%	9.00%	15.73%	31.34%	22.43%	25.14%	10.35%
MSCI EAFE	*-3.88%*	*4.03%*	*10.17%*	*6.81%*	*14.06%*	*28.24%*	*21.24%*	*24.93%*	*9.10%*
Small/Mid-Size Company Stock Option	-4.45%	-0.90%	5.47%	12.95%	15.07%	17.69%	15.51%	20.32%	10.05%
Russell 2500	*-4.72%*	*-0.67%*	*6.27%*	*11.45%*	*14.44%*	*17.11%*	*14.95%*	*19.90%*	*9.95%*

* The Balanced Blended Index is 5% 91-Day T-Bill, 10% Russell 1000 Value, 10% Russell 1000 Growth, 10% Russell 2500, 10% MSCI EAFE, 20% Russell 3000 and 35% Lehman Bros. Bond Aggregate.

Performance figures are net of fees. The results shown represent past performance and should not be considered a representation of performance of the options in the future. Investment returns and principal are not guaranteed.

SL1

Monthly performance results are published on the PERS web page at www.pers.state.or.us
To access current account information 24 hours a day call our Customer Service Center at 1-800-365-8494.

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Theodore R. Kulongoski, Governor

Mailing Address:
P.O. Box 23700
Tigard, OR 97281-3700
(503) 598-7377
TTY (503) 603-7766
www.pers.state.or.us

July 21, 2006

MEETING DATE	7/21/06
AGENDA ITEM	C.5.b. OSGP

TO: Members of the PERS Board

FROM: Gay Lynn Bath, Deferred Compensation Manager

SUBJECT: Approval of Oregon Savings Growth Plan (OSGP) Advisory Committee Member Appointments

The OSGP advisory committee consists of seven members appointed by the PERS Board to provide advice to OSGP staff and the Board on deferred compensation plan administration, policies and procedures (see ORS 243.505 – copy attached). The term of each member is three years, and members are eligible for reappointment to a second term after which the member is replaced.

Peter Byeman's second term on OSGP's Advisory Committee expired June 30, 2006. Peter worked for the Salem-Keizer school district and, in accordance with OAR 459-050-0025, it is necessary to fill his position with another participant from a local government employer. This includes county and municipal agencies as well as school districts.

OSGP staff provided application information to all participating local government employers and asked that interested parties submit a letter of interest and a résumé. OSGP received four applications that were then reviewed by the Deferred Compensation Manager and four members of the PERS Executive Staff.

We recommend that the Board approve Judy Scales, Director of Human Resources at High Desert Education Service District (ESD) in Redmond, as the new OSGP Advisory Committee member. We believe her education and experience would be an asset to the Committee. Attached is a copy of her letter of interest and résumé.

We would also ask that the Board approve a second term for Frank Goulard from Portland Community College, who also is a participant from a local government employer.

Attachment 1 ORS 243.505
Attachment 2 Letter of Intent and Résumé

243.505 Deferred Compensation Advisory Committee. (1) The Deferred Compensation Advisory Committee shall be appointed by the Public Employees Retirement Board, consisting of seven members with knowledge of deferred compensation plans.

(2) At the direction of the board, the committee shall advise the Public Employees Retirement Board on policies and procedures and such other matters as the board may request.

(3) The term of office of each member is three years, but a member serves at the pleasure of the board. Before the expiration of the term of a member, the board shall appoint a successor whose term begins on July 1 next following. A member is eligible for reappointment. If there is a vacancy for any cause, the board shall make an appointment to become immediately effective for the unexpired term.

(4) A member of the Deferred Compensation Advisory Committee is entitled to compensation and expenses as provided in ORS 292.495.

(5) The Deferred Compensation Advisory Committee shall select one of its members as chairperson and another as vice chairperson, for such terms and with duties and powers necessary for the performance of the functions of such offices as the committee determines.

(6) A majority of the members of the committee constitutes a quorum for the transaction of business.

(7) The Deferred Compensation Advisory Committee may meet at a place, day and hour determined by the committee. The committee also may meet at other times and places specified by the call of the chairperson or of a majority of the members of the committee. [1991 c.618 §10; 1997 c.179 §19; 1999 c.406 §1]

HIGH DESERT
Education Service District
ESD

May 5, 2006

Gay Lynn Bath
Deferred Compensation Manager
800 Summer St. NE, Suite 200
Salem OR 97301

Dear Ms. Bath:

I am interested in serving on the Advisory Committee for the Oregon Savings Growth Plan (OSGP). I am currently employed as Director of Human Resources for the High Desert Education Service District in Redmond OR and first became acquainted with OSGP two years ago when I was asked to research and recommend a 457 plan for adoption by the Board of Directors. The OSGP investment options, solid plan management and low fees coupled with excellent customer service made it the obvious choice for our agency.

I feel that I have a dual interest in OSGP: first as an individual participant in the plan, and second as the person responsible for benefit planning in our organization. Although I have little financial investment expertise myself, I believe that I could serve as a customer representative on the Advisory Committee, bringing that perspective to the group.

I have included a resume with this letter. Please contact me if your have further questions.

Thank you for your consideration.

Sincerely,

Judy Scales

Judy Scales
Director of Human Resources

Judy A. Scales

2811 SW Bentwood Dr., Redmond, OR 97756
541-693-5621 (work) 541-548-1818 (home)
jscales@hdesd.k12.or.us

Demonstrated Capabilities:

Leadership, coalition building and facilitation of groups.
Personnel and grants administration
Curriculum and program development.

Education:

Masters of Public Administration, Lewis and Clark College
Educational Administrator License, State of Oregon

Bachelor of Arts, University of Colorado at Boulder,
Major: Biology Minors: Education, Psychology

Professional Experience:

Director of Human Resources **2002 to present**
High Desert Education Service District, Redmond OR 97756

Responsible to plan, direct, organize and administer the staffing, personnel functions and labor relations for certified, administrative, classified, confidential, supervisory and contract positions for 250+ employees of the HDESD. This includes employee record keeping, compensation and evaluation. Responsible for employee benefits, pre-service training and substitute employee programs. Provides leadership for critical, short-term projects assigned by the superintendent.

Safe Schools/Healthy Students (SS/HS) Initiative, Director **2000 to 2003**
High Desert Education Service District, Redmond OR 97756

Responsible for the administration and management of the SS/HS federal grant, supervised and evaluated all staff employed under the Initiative, monitored development and compliance of county SS/HS programs as well as program evaluation, coordinated with national and local evaluators, acted as a liaison between federal, state and local agencies.

Resource Acquisition Specialist **1994 to 2000**
Redmond School District 2J, Redmond, OR 97756

Responsible for research, development, writing and monitoring of grants and grant programs. Assisted teachers, administrators, and community partners in the acquisition of external resources, maintained information network regarding grant opportunities, and provided staff development/training in grant writing and program development. Worked closely with Financial Officer on grant budget management.

Teen Parent Program Coordinator/Instructor **1989 to 1994**
Redmond High School, Redmond, OR

Responsible for program coordination, educational case-management of students, curriculum development and planning, instruction in alternative education, independent study and tutored classes. Developed program from after-school tutoring sessions to a comprehensive full-time program offering on-site day care, multi-agency case management and diploma or GED completion.

Professional Experience continued:

Student Assistance Program Coordinator **1988 to 1991**
Obsidian Junior High School, Redmond, OR 97756

Substitute Teacher **1982 to 1988**
Redmond School District, Redmond, OR 97756

Licensed Tax Preparer **1982 to 1986**
ABC Tax and Bookkeeping Services, Redmond OR 97756

Community Leadership Experience:

Oregon School Personnel Association, Regional Representative to the state Executive Committee, 2003-2006.

Professional Advisory Committee, Deschutes County Commission on Children and Families, member 1996 to present, chair 2003-2005.

Redmond 2J Educational Foundation, facilitated the establishment of 501(c)3 IRS status and development of policy and procedures. Served as Board member from 2000-2005.

Deschutes County Family Access Network (FAN). County Steering Committee member 1994 – present, chair from 1998-2000. Worked directly with schools and social service agencies in a collaborative coalition to provide social service access to families through on-site family access centers.

Redmond Kiwanis, Major Emphasis Committee, 1992-2000.

American Association of University Women, member 1988-present, served as Redmond Branch president, treasurer, fund-raiser, foundation and equity chairs. State Board of Directors, president representative, 1988-90; state equity chair, 1992-94.

Redcap (Redmond Community Action Planning) and **RISC** (Redmond Interagency Service Center) **Committee**, 1989 to 1998.

Central Oregon Gender Equity Team (COGET), Team Leader, 1993-1998

Awards Received:

Volunteer Award: For Contributions to the Field of Mental Health, presented by the Deschutes County Department of Human Services

Leadership Award: Women Who Make A Difference, presented by American Association of University Women.

Contributing to the Advancement of Women, presented by Redmond Soroptimists International.

References:

Kathy Emerson, Deputy Superintendent
High Desert Education Service District
145 SE Salmon Ave, Redmond OR 97756
541-693-5603

John Witty, Staff Attorney
High Desert ESD
145 SE Salmon Ave, Redmond OR 97756
541-693-5604

Tammy Baney, Chair
Commission on Children and Families
Deschutes County
1130 NW Harriman, Suite A
Bend Or 97701
541-383-2579 (office)
541-419-2233 (cell)

Oregon

Theodore R. Kulongoski, Governor

Mailing Address:
P.O. Box 23700
Tigard, OR 97281-3700
(503) 598-7377
TTY (503) 603-7766
www.pers.state.or.us

MEETING DATE	7/21/06
AGENDA ITEM	C.5.c. Dfrd. Cmp.

July 21, 2006

TO: Members of the PERS Board

FROM: Steven Patrick Rodeman, Administrator, PPLAD

SUBJECT: Notice of Rulemaking for OAR 459-050-0025, *Deferred Compensation Advisory Committee*

OVERVIEW

- Action: None. This is notice that staff has begun rulemaking.
- Reason: The current rule is administratively burdensome and can be improved to enhance the process to appoint members to the Deferred Compensation Advisory Committee.
- Subject: Oregon Savings Growth Plan (OSGP) Deferred Compensation Advisory Committee.
- Policy Issues: None. Minor changes for administrative efficiency.

SUMMARY OF RULE MODIFICATIONS

The current rule provides for a review of Advisory Board membership applications by the Board's Investment Oversight Committee, who then recommends candidates to the full PERS Board. The Board's Investment Oversight Committee no longer exists. The proposed rule would have the review and recommendation done by a committee consisting of the deferred compensation manager and four members of the PERS executive or managerial staff designated by PERS Executive Director. The proposed rule also eliminates the requirement that the recommendation be made to the full PERS Board to avoid any implication that the Board may not act on the recommendation unless the full Board is present.

The proposed rule would eliminate the requirement in section (7) to present draft Advisory Committee minutes to the Board. In practice, Advisory Committee meeting minutes are posted on the OSGP website. Draft minutes have not been presented to the Board for several years. It is also unlikely that a Board meeting will be held less than fifteen days following an Advisory Committee meeting.

The proposed rule would avoid additional cost and administrative burden by changing the time line for providing notice of a vacancy on the Advisory Committee to coincide with the OSGP's regularly published "Plan Update." The March 1 date of notice publication in the current rule would be changed to April 15 to accommodate the use of the first publication of "Plan Update" for that calendar year. The May 1 application close date of the current rule would be changed to May 15. The period during which applications for Advisory Committee membership would be accepted is reduced from approximately 60 days to 30 days, still sufficient to allow interested persons to apply.

The current rule provides that in the case of a vacancy for an unexpired term, the Deferred Compensation Manager shall select applications from the most recent list of interested persons established following the publication of a vacancy. The most recent list of interested persons may not coincide with the requirements for the vacant position. For example, the previous vacancy may have required a participant in the state plan but the unexpired term may be for a participant in a local government plan. The proposed rule would allow the Manager to accept the applications of persons other than those on the most recent list, if appropriate.

LEGAL REVIEW

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

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing is scheduled for July 25, 2006 at 2:00 p.m. at PERS headquarters in Tigard. The public comment period ends on August 25, 2006 at 5:00 p.m.

IMPACT

Mandatory: No, the Board could retain the existing rule language. The current rule, however, is inconsistent with established practices and presents administrative obstacles.

Impact: Administrative efficiency will be enhanced. Notice of vacancies will be more effective by the use of the most widely distributed OSGP publication.

Cost:

- *Members:* There will be no new costs to members.
- *Employers:* There will be no new costs to employers.
- *Administration:* There are no new administrative costs.
- *Fund:* There is no cost to the Fund.

RULEMAKING TIMELINE

June 15, 2006	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
July 1, 2006	*Oregon Bulletin* published the Notice.
July 21, 2006	PERS Board notified that staff began the rulemaking process.
July 25, 2006	Rulemaking hearing to be held at 2:00 p.m. in Tigard.
September 22, 2006	Public comment period ends at 5:00 p.m.
November 17, 2006	Staff will propose adopting the permanent rule modifications, including any amendments warranted by public comment or further research.

NEXT STEPS

A hearing is scheduled for July 25, 2006. The rule is scheduled to be brought before the PERS Board for adoption at the November 17, 2006 Board meeting.

OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 050 – DEFERRED COMPENSATION

459-050-0025

Deferred Compensation Advisory Committee

(1) The seven members of the Deferred Compensation Advisory Committee *[(Committee)]* provided for under ORS 243.505, shall be subject to the following qualification**s** and limitations:

(a) *[A]* **Each** member shall be a participant in a deferred compensation plan **established** under ORS 243.401 to 243.507, and **shall** have knowledge of the **Program** *[respective current plan]*.

(b) Four members shall be participants in the state deferred compensation plan.

(c) Two members shall be participants in a local government deferred compensation plan.

(d) One member shall be a retired **deferred compensation** plan participant.

(e) No two members *[shall]* **may** be employed by the same state agency or local government *[unless]* **except that** a member **who** transfers employment *[from one employing entity]* to **the employer of** another **member may continue to serve on the Advisory Committee, but** *[and]* only for the balance of the term of appointment of the *[member]* transferring **member**.

(f) No member *[shall]* **may** serve more than two consecutive full terms.

(g) No member *[shall]* **may** be an employee of PERS during the term of appointment.

(2) The **Advisory** Committee shall study and advise the *[Public Employees Retirement]* Board on all aspects of the *[deferred compensation p]***P**rogram, including but not limited to:

(a) The *[deferred compensation p]***P**rogram fee structure and *[program]* procedures;

(b) State and federal legislative issues relative to the administration of deferred compensation **plans**;

(c) The administration of the catch**-**up and the financial hardship provisions in Section 457 of the Internal Revenue Code; *[.]*

(d) Ways and means to inform and educate eligible employees about the *[deferred compensation p]***P**rogram;

(e) The expressed desires of eligible employees as to the *[Deferred Compensation]* Program.

(f) The actuarial characteristics of eligible employees.

(3) Upon the request of the OIC, the Advisory Committee shall study and advise the Board on the following:

(a) Investment programs, including options and providers; and

(b) Information furnished by the OIC or *[the staff of]* the State Treasurer concerning the types of available investments, the respective balance of risk and return of each investment, and the administrative costs associated with each investment.

(4) The **Advisory** Committee shall meet at least four times during a calendar year.

(5) A majority of the Advisory Committee shall constitute a quorum for transacting business. However, the Advisory Committee may establish such other procedures for conducting business that it deems necessary.

(6) Pursuant to the Public Meetings Law, ORS 192.610 to 192.690, the **Deferred Compensation** Manager *[of the Deferred Compensation Program]* shall distribute to the Advisory Committee *[members,]* and other interested parties, an agenda for a regular meeting **a reasonable time** *[at least one week]* prior to the meeting.

[(7) The Manager of the Program shall submit a draft copy of the Advisory Committee minutes to the Board at its next regular meeting which is not less than fifteen working days following each Committee meeting.]

[(8)] **(7)** Nominations of *[C]***c**andidates for the Advisory Committee shall be made as follows:

(a) Notice of **a** position*[(s)]* on the Advisory Committee **expected** to become vacant upon the expiration of **a** term of appointment shall be published not later than *[March 1]* **April 15** of each calendar year;

(b) Persons interested in serving on the **Advisory** Committee must apply in writing to the Manager [of the Deferred Compensation Program*]* not later than May 1**5** following the publication of a*[ny]* vacanc**y***[ies]*;

(c) The Manager *[of the Deferred Compensation Program]* shall review the written applications of interested persons for completeness, accuracy**,** and **satisfaction of the minimum requirements of** **the** vacant position on **the Advisory** Committee**.** *[, and forward the acceptable applications to the Board's Investment Oversight Committee.]*

(d) *[The Board's Investment Oversight Committee]* **A committee consisting of the Manager and four members of PERS executive or managerial staff designated by the PERS Executive Director** shall review the acceptable applications and recommend to the *[full]* Board candidates for appointment to the Advisory Committee that:

(A) Reflect a cross section of state agencies, participating local governments, and classification level**s**;

(B) Reflect **a** mixture of expertise, knowledge, and experience useful to the Advisory Committee;

(C) Appear to have a sincere interest in the *[deferred compensation p]* **P**rogram; and

(D) Appear to be willing and able to work in a group setting to review and recommend policies governing the *[p]***P**rogram.

(e) In the event of a vacancy *[of]* **for** an unexpired term, **the Manager** *[the Board shall select an appointee]* **may select applications** from the **most recent** list of interested persons established **under subsection (7)(c) of this rule and the applications of other persons as deemed appropriate for consideration.** *[following the most recent publication of vacancy]* **A committee consisting of the Manager and four members of PERS executive or managerial staff designated by the PERS Executive Director shall review the selected applications and recommend to the Board candidates for appointment to the Advisory Committee. The appointment shall be** *[to become]* immediately effective for the remainder of the unexpired term. **If no candidate is recommended or appointed, the vacancy must be filled under the provisions of section (7) of this rule.**

Stat. Auth: ORS 243.470

Stats. Implemented: ORS 243.505

Oregon

Theodore R. Kulongoski, Governor

P.O. Box 23700
Tigard, OR 97281-3700
(503) 598-7377
TTY (503) 603-7766
www.pers.state.or.us

July 21, 2006

MEETING DATE	7/21/06
AGENDA ITEM	C.5.d. Restrictions

TO: Members of the PERS Board

FROM: Steven Patrick Rodeman, Administrator, PPLAD

SUBJECT: Notice of Rulemaking for OAR 459-050-0037, *Trading Restrictions*

OVERVIEW

- Action: None. This is notice that staff has begun rulemaking.
- Reason: The Oregon Savings Growth Plan (OSGP) has determined that frequent trade and transfer activities by participants incur higher administrative costs for the deferred compensation program and adversely affect investment returns and liquidity management. Previous restrictions by rule have been applied on a case-by-case basis with limited success. OSGP seeks to avoid the adverse consequences of such activity by establishing procedures to restrict trades and transfers of funds for all participants.
- Subject: Oregon Savings Growth Plan trading restrictions
- Policy Issue:
  1. *Should OSGP by rule impose restrictions upon participant trades and transfers?*

BACKGROUND

The Board has given OSGP the authority to implement the following trading restrictions to prevent increases in administrative costs or fees, negative investment performance, or other detrimental effects that would arise or be imposed by excessive trading activities. These restrictions were available for application to all participants but could only be implemented on a case-by-case individual basis when excessive trading practices were identified:

1. Restricting the number of trades or transfers permitted during a given period.
2. Limiting the dollar amount of a trade or transfer.
3. Imposing a 90-day "round-trip" restriction (investment in and out of the same option).
4. Implementing redemption fees.

The application of these restrictions on a case-by-case basis has had some success but excessive trade and transfer activities persist.

POLICY ISSUE

1. Should OSGP be authorized by rule to impose across-the-board restrictions upon participant trades and transfers?

Trading activity that exceeds normal and expected frequency or dollar amounts results in greater administrative costs and adversely affects fund returns and liquidity management. Excessive trading activity can be detrimental to the performance of mutual funds and adversely affect the investment return of those funds. The Securities and Exchange Commission may require that mutual funds charge redemption fees on monies not held for a given number of days.

Despite the application of previous case-by-case restrictions, inappropriate or excessive trading activity by some participants continues. To more effectively inhibit this activity, staff supports establishing by administrative rule OSGP's authority to apply restrictions to all plan participants as appropriate. The proposed rule would apply the following restrictions to all participants, to reduce the opportunity for excessive trading activity:

1. A participant may not make a transfer of funds in or out of any investment option that exceeds $100,000.
2. All funds must be invested in an investment option for a minimum of 30 days before the funds can be transferred to another investment option.
3. Additional restrictions may be imposed if excessive trading activity continues, including but not limited to redemption fees and a requirement that all trade or transfer requests be submitted in writing.

LEGAL REVIEW

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

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing is scheduled for July 25, 2006 at 2:00 p.m. at PERS headquarters in Tigard. The public comment period ends on September 22, 2006 at 5:00 p.m.

IMPACT

Mandatory: No. The Board need not adopt the rule.

Impact: Specific restrictions and the authorization of more direct control over excessive trading activities by the OSGP will reduce risks and costs for all participants.

Cost:

- *Members:* There will be no new costs to members not involved in excessive trading activities.
- *Employers:* There will be no new costs to employers.
- *Administration:* OSGP would pay CitiStreet a one-time fee of $38,000 for system changes required to implement the restrictions on all plan participants.

- *Fund:* There is no cost to the Fund, all OSGP costs are assessed against plan participants as an administrative fee deduction from investment earnings.

RULEMAKING TIMELINE

June 15, 2006	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
July 1, 2006	*Oregon Bulletin* published the Notice.
July 21, 2006	PERS Board notified that staff began the rulemaking process.
July 25, 2006	Rulemaking hearing to be held at 2:00 p.m. in Tigard.
September 15, 2006	First Reading of rule.
September 22, 2006	Public comment period ends at 5:00 p.m.
November 17, 2006	Staff will propose adopting the permanent rule modifications, including any amendments warranted by public comment or further research.

NEXT STEPS

A hearing is scheduled for July 25, 2006. The rule is scheduled to be brought before the PERS Board for the first reading at its September 15, 2006 meeting and adoption at the November 17, 2006 meeting.

DRAFT *DRAFT* *DRAFT* *DRAFT* *DRAFT* *DRAFT*

OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 050 – DEFERRED COMPENSATION

OAR 459-050-0037

Trading Restrictions

The purpose of this rule is to establish criteria under which a participant may make trades or transfer funds between investment options offered by the Deferred Compensation Program. The Program is designed for long-term investment and periodic adjustment of asset allocation. Restrictions upon trades and the transfer of funds are necessary to protect participants from market timing activities. The practice of market timing by some participants can lower returns and increase transaction costs for all participants.

(1) Definitions. For the purposes of this rule:

(a) "Investment Option" means an investment alternative made available under ORS 243.421.

(b) "Market Timing" means frequent trades or transfers of funds.

(c) "Trade" means a purchase or a redemption in an investment option.

(d) "Transfer of Funds" means the movement of monies between investment options.

(2) Restrictions. The following restrictions apply to all participants:

(a) A participant may not make a trade or transfer of funds that exceeds $100,000.

(b) Funds transferred to an investment option may not be transferred from that investment option unless 30 days has passed since the date of the transfer.

(3) If a participant engages in market timing, the Program may request that the participant cease. If a participant continues to engage in market timing after such a request, the Program may apply additional restrictions to the participant that may include, but are not limited to:

(a) Assessment of redemption fees.

(b) Requiring a written request for any trade or transfer of funds.

Stat. Auth.: ORS 243.470

Stats. Implemented: ORS 243.401 – 243.507

Oregon

Theodore R. Kulongoski, Governor

11410 S.W. 68 Parkway, Tigard, OR
Mailing Address:
P.O. Box 23700
Tigard, OR 97281-3700
(503) 598-7377
TTY (503) 603-7766
www.pers.state.or.us

July 21, 2006

MEETING DATE	7/21/06
AGENDA ITEM	C.5.e. Catch-Up

TO: Members of the PERS Board

FROM: Steven Patrick Rodeman, Administrator, PPLAD

SUBJECT: Notice of Rulemaking for OAR 459-050-0070, *Catch-Up Programs*

OVERVIEW

- Action: None. This is notice that staff has begun rulemaking.
- Reason: The current rule's provisions regarding participation in the 3-Year Catch-Up Program are unnecessarily restrictive.
- Subject: Oregon Savings Growth Plan (OSGP) Catch-Up Program
- Policy Issue:
    1. *Should OSGP participants be permitted to participate in the 3-Year Catch-Up Program in the calendar year of the participant's retirement date?*

BACKGROUND

OSGP participants who enroll in the 3-Year Catch-Up Program must designate a proposed retirement date for the purpose of establishing the period during which catch-up contributions may be made. OSGP has interpreted IRS regulations to prohibit a participant who in fact retires in a year during the catch-up period, i.e., prior to the designated proposed retirement date, from making the maximum amount of catch-up contributions for the year of retirement unless the participant continues active employment until December 31 of that year. Excess contributions are refunded. The current rule prohibits participation in the 3-Year Catch-Up Program during the calendar year that contains the participant's actual retirement date, unless the last day worked is the last working day of that calendar year.

POLICY ISSUE

1. Should OSGP participants be permitted to participate in the 3-Year Catch-Up Program in the calendar year of the participant's retirement date?

OSGP has determined that IRS regulations do not prohibit a participant from making the maximum amount of contributions to the 3-Year Catch-Up Program in the year of the participant's actual retirement, provided that year does not contain the proposed retirement date the participant designated upon enrollment in the 3-Year Catch-Up Program. For example, if a participant designated June 1, 2010 as his proposed date of retirement and planned to participate in the 3-Year Catch-Up Program during 2007, 2008, and 2009, but then retired in May of 2009, he would be allowed to participate and contribute the maximum allowable amount for 2009 because 2010 was the year of his designated proposed retirement date. The proposed rule would eliminate the prohibition against participation in the 3-Year Catch-Up Program during the calendar year of actual retirement so long as it is not the calendar year containing the participant's designated proposed retirement date.

Numerous non-substantive edits were also incorporated in the proposed rule for clarity and consistency.

LEGAL REVIEW

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

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing is scheduled for July 25, 2006 at 2:00 p.m. at PERS headquarters in Tigard. The public comment period ends on September 22, 2006 at 5:00 p.m.

IMPACT

Mandatory: No, the Board could retain the existing rule language. The current rule, however, is unnecessarily restrictive.

Impact: Administrative efficiency will be enhanced by the reduction of refunds of contributions and a more easily understood standard for participation. Participants will benefit from the opportunity to make contributions during the year of retirement.

Cost:

- *Members:* There will be no new costs to members.
- *Employers:* There will be no new costs to employers.
- *Administration:* There are no significant new administrative costs.
- *Fund:* There is no cost to the Fund, all OSGP costs are assessed against plan participants as an administrative fee deduction from investment earnings.

RULEMAKING TIMELINE

June 15, 2006	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
July 1, 2006	*Oregon Bulletin* published the Notice.
July 21, 2006	PERS Board notified that staff began the rulemaking process.
July 25, 2006	Rulemaking hearing to be held at 2:00 p.m. in Tigard.
September 15, 2006	First Reading of rule.
September 22, 2006	Public comment period ends at 5:00 p.m.
November 17, 2006	Staff will propose adopting the permanent rule modifications, including any amendments warranted by public comment or further research.

NEXT STEPS

A hearing is scheduled for July 25, 2006. The rule is scheduled to be brought before the PERS Board for adoption at the November 17, 2006 Board meeting.

OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 050 – DEFERRED COMPENSATION

459-050-0070

Catch-Up Programs

The purpose of this rule is to establish the criteria and process to allow an eligible employee to contribute additional amounts, in excess of the regular applicable maximum allowable contributions, to the eligible employee's account *[in the Deferred Compensation Plan]*.

(1) *[Definitions. Subject to]* **Except as provided in** subsections (a) and (b) **of this section** *[below]*, for purposes of this rule, "normal retirement age" *[means]* **shall be** the normal retirement age *[defined]* **established** in the plan sponsor's retirement plan.

(a) "Normal retirement age" for members of the Public Employees Retirement System shall **be as provided** *[have the same meaning as]* **in** ORS 238.005(14), 238.280(3), **238A.160, or** *[and for judge members,]* ORS 238.535.

(b) If an eligible employee continues to work beyond normal retirement age, "normal retirement age" shall be that date or age designated by the eligible employee but **may** not **be** later than 70-1/2 years of age.

(2) 50-Plus Catch-Up Program. Pursuant to the conditions of this rule, eligible employees who are 50 years of age and older may elect to contribute an additional amount under section 414(v) of the Internal Revenue Code in excess of the maximum regular contribution allowed.

(a) Conditions for enrollment: An eligible employee must be 50 years of age or older on December 31 of the calendar year in which the eligible employee begins to participate in the 50-Plus Catch-Up Program.

(A) An eligible employee may participate in the 50-Plus Catch-Up Program during years either before or after participation in the 3-Year Catch-Up Program *[in section (3) below]*, but may not participate in both **programs** during the same calendar year.

(B) An eligible employee may participate in the 50-Plus Catch-Up **Program** during the calendar year containing the employee's retirement date.

(b) Application for enrollment. *[Subject to the conditions in subsection (2)(a) above, an eligible employee may participate in the 50-Plus Catch-Up Program.]* An eligible employee choosing to participate must enroll by entering into a written agreement *[as specified herein]* with the plan sponsor. The written agreement must specify the amount of the additional annual deferral, that the additional deferral will be divided equally by the available months for the calendar year, and that the amount is in addition to the eligible employee's regular maximum deferral.

(A) *[Subject to the conditions and requirements of these rules and applicable law, a]***A**n eligible employee may enter into a written agreement to participate in the 50-Plus Catch-Up Program on or before the first day of employment or anytime while employed *[to defer an amount annually in addition to the eligible employee's regular maximum deferral amount]*.

(B) *[In order for an eligible employee to be enrolled, a]* **A** properly completed 50-Plus Catch-Up **Program** enrollment form provided by the Deferred Compensation Program must be filed with and approved by the Deferred Compensation Program.

(C) If the form is incomplete or does not comply with 50-Plus Catch-Up Program conditions of enrollment *[in subsection (2)(a) above]*, then **the Deferred Compensation Program** *[staff]* will notify the eligible employee within 30 calendar days from the date the enrollment form is received *[with]* **of** the reasons the *[Deferred Compensation Plan]* **enrollment** cannot **be** accept**ed** *[the enrollment]*.

(c) 50-Plus Catch-Up Program deferral *[begin]* **effective** date. *[Salary reduction for the]* 50-Plus Catch-Up Program contributions may be deferred for any calendar month by salary reduction only if an agreement providing for the deferral has been entered into before the first day of the month in which the compensation is paid or made available.

(d) Additional deferral amounts. The additional deferral may be *[in]* an amount elected by an eligible employee, but shall not exceed the maximum additional deferral **amount** allowed *[in]* **under** section 414(v) of the Internal Revenue Code, 26 USC 414(v). An eligible employee may change the amount of additional contributions deferred within the maximum additional deferral amount allowed. Changes may be made at any time on forms or by other approved methods prescribed by the Deferred Compensation Program**.** *[and]* **Additional contributions** may be deferred for any calendar month by salary reduction only if an agreement providing for the deferral *[ahs]* **has** been entered into before the first day of the month in which the compensation is paid or made available.

(e) Cancellation of Participation in the 50-Plus Catch-Up Program. An eligible employee may cancel participation in the 50-Plus Catch-Up Program at any time on forms or by other approved methods prescribed by the Deferred Compensation Program. The cancellation will be effective for any calendar month only if an agreement providing for the cancellation has been entered into before the first day of the month in which the compensation is paid or made available. An eligible employee **who has cancelled participation** may later re-apply to begin participation in the 50-Plus Catch-Up Program.

(3) 3-Year Catch-Up Program. **An** *[E]***e**ligible employee*[s]* may elect to contribute an additional amount under section 457 of the Internal Revenue Code,*[26 USC 457,]* in excess of the maximum regular contribution allowed**,** for one or more of the three consecutive calendar years of employment prior to attaining normal retirement age, if in previous years the *[full amount of the]* eligible employee*[s' deferral allowance was not used]* **did not contribute the maximum regular contribution amount**.

(a) Conditions for enrollment. The earliest date to **begin** participat**ion** *[e]* in the 3-Year Catch-Up Program is in the three calendar years immediately preceding the year **in which** an eligible employee reaches normal retirement age.

(A) *[The increase]* **Contributions** over the maximum allowable regular contribution limit *[is available]* **are permitted** only to the extent of **the** unused portions of the maximum allowable regular contribution for previous calendar years during which the eligible employee contributed less than the maximum allowable **regular contribution** or did not *[choose to]* make contributions to the Deferred Compensation Program.

(B) *[Previous c]***C**alendar years during which **contributions** *[deferrals]* were made *[to]* **under** the 50-Plus Catch-Up **Program** shall not be included in the calculation to determine the maximum allowable contribution under the 3-Year Catch-Up Program.

(C) An eligible employee may not participate in the 3-Year Catch-Up Program and the 50-Plus Catch-Up **Program** *[in section (2) above]* during the same calendar year.

(D) *[An eligible employee may not participate in the 3-Year Catch-Up during the calendar year containing the eligible employee's retirement date, unless the last day worked is the last working day of that calendar year.]* **An eligible employee must designate a proposed retirement date upon application. The designated proposed**

retirement date shall be used for the purpose of determining the catch-up period only. The catch-up period so determined shall not include the year of the designated proposed retirement date. An eligible employee who retires during the catch-up period may contribute the maximum allowable amount for the year of his retirement.

(E) Pursuant to section 457(b) of the Internal Revenue Code, *[26 USC 457(b),]* an eligible employee who is 70-1/2 years of age or older may not participate in the 3-Year Catch-Up Program.

(F) An eligible employee may participate only once in the 3-Year Catch-Up Program, regardless of whether **participation in** the 3-Year Catch-Up **Program** is *[used in]* **for** less than three calendar years *[and]* **or whether** the eligible employee *[or former eligible employee rejoins the plan or]* participates in an*[other]* eligible plan after retirement.

(b) Application for enrollment. *[Subject to the conditions in subsection (3)(a) above, a]***A**n eligible employee may *[enroll to]* participate in the 3-Year Catch-Up Program by entering into a written agreement *[as specified herein]* with the plan sponsor. The written agreement must specify the eligible employee's **designated** proposed retirement date, *[and]* the month in which to begin the 3-Year Catch-Up **Program contributions** *[deferrals]* **and the number of years the eligible employee plans to participate in the 3-Year Catch-Up Program**.

(A) An eligible employee may enter into a written agreement to participate in the 3-Year Catch-Up Program at any time while employed**.** *[to defer an amount annually in addition to the eligible employee's regular maximum deferral amount.]*

(B) *[In order for an eligible employee to be enrolled, a]* **A** properly completed 3-Year Catch-Up **Program** enrollment form provided by the Deferred Compensation Program must be filed with and approved by the Deferred Compensation Program. *[In addition, w]***W**age or salary information must be submitted for *[the]* previous calendar years during which an eligible employee either did not participate in the Deferred Compensation Program or did not **contribute the maximum regular contribution amount** *[use the full amount of deferral]*. An eligible employee must submit *[either]*:

(i) Legible copies of W-2 Wage and Tax Statement forms for each **relevant** calendar or tax year; or

(ii) Legible copies of final pay stubs showing gross and taxable salary for each **relevant** calendar year.

(C) If the application for enrollment is incomplete, if wage or salary information is *[not]* **incomplete or il**legible, or if **the** application does not comply with the 3-Year Catch-Up Program conditions of enrollment *[in subsection (3)(a) above]*, then *[staff]* **the Deferred Compensation Program** will notify the eligible employee within 30 calendar days from the date the enrollment documents are received *[with]* **of** the reasons the Deferred Compensation *[Plan]* **Program** cannot accept the enrollment.

(c) 3-Year Catch-Up Program deferral effective date. *[Salary reduction for the]* 3-Year Catch-Up Program contributions may be deferred for any calendar month by salary reduction only if an agreement providing for the deferral has been entered into before the first day of the month in which the compensation is paid or made available.

(d) Additional Deferral Amount. After receipt of *[the]* **a** properly completed 3-Year Catch-Up Program enrollment form and required **wage or** salary information, **the**

Deferred Compensation Program *[staff]* will notify *[an]* **the** eligible employee of the **maximum** amount of *[maximum]* **additional** contributions that may be deferred.

(A) The **a**mount of the **3-Year** Catch-Up **Program** salary reduction may not be less than the minimum **additional contribution** amount established by the plan sponsor *[that is over the maximum regular deferral]* and may not exceed the maximum allowable contribution *[to a Deferred Compensation Plan as defined in]* **under** section 457(b)(3) of the Internal Revenue Code *[, 26 USC 457(b)(3)]*.

(B) An eligible employee may change the amount of additional contributions deferred within the minimum and maximum additional deferral amounts allowed. Changes may be made at any time on forms or by other approved methods prescribed by the Deferred Compensation Program and will be effective for any calendar month *[by salary reduction]* only if an agreement providing for the deferral has been entered into before the first day of the month in which the compensation is paid or made available.

(e) Cancellation of Participation in the 3-Year Catch-Up Program. An eligible employee may cancel participation in the 3-Year Catch-Up Program at any time on forms or by other approved methods prescribed by the Deferred Compensation Program. The cancellation will be effective for any calendar month only if an agreement providing for the cancellation has been entered into before the first day of the month in which the compensation is paid or made available. An election to cancel participation is irrevocable.

[[Publications: Publications referenced are available from the agency.]]

Stat. Auth.: ORS 243.470

Stats. Implemented: ORS 243.401 - 243.507

Oregon

Theodore R. Kulongoski, Governor

Mailing Address:
P.O. Box 23700
Tigard, OR 97281-3700
(503) 598-7377
TTY (503) 603-7766
www.pers.state.or.us

July 21, 2006

MEETING DATE	7/21/06
AGENDA ITEM	C.5.f. Restrictions

TO: Members of the PERS Board

FROM: Steven Patrick Rodeman, Administrator, PPLAD

SUBJECT: Notice of Rulemaking for Oregon Savings Growth Plan Loan Program
OAR 459-050-0077, *Loan Program*
OAR 459-050-0150, *Unforeseeable Emergency Withdrawal*

OVERVIEW

- Action: None. This is notice that staff has begun rulemaking.
- Reason: These rules would create a loan program that would allow a participant in the Oregon Savings Growth Plan (OSGP) to borrow from their deferred compensation account. Currently, the participant has no alternative but to apply for an unforeseeable emergency withdrawal. The loan program would be a less drastic alternative that hopefully better maintains the participant's relationship with the Plan.
- Subject: Creating a loan program within the Oregon Savings Growth Plan as an alternative to an Unforeseeable Emergency Withdrawal.
- Policy Issues:
  1. *Should a loan program for OSGP participants be established?*
  2. *If a loan program is established, should participants be required to use the loan program prior to application for an unforeseeable emergency withdrawal?*

BACKGROUND

If an OSGP participant needs to access their deferred compensation account because of a financial emergency, their only option currently is the emergency withdrawal provisions of OAR 459-050-0150. Of the participants who received an emergency withdrawal in 2004 and 2005, approximately 85% failed to resume contributions to OSGP, even though they were eligible to do so six months after the withdrawal distribution. By providing this loan program as an alternative, the OSGP Advisory Committee and management hope to continue participation and allow easier access to a participant's account.

POLICY ISSUES

1. *Should a loan program for OSGP participants be established?*

The availability of a loan program would provide participants facing financial hardship with greater flexibility. Participants could access their deferred compensation funds in a manner that would hopefully reduce the attrition of participants who instead have taken emergency withdrawals. An informal survey by OSGP management of other governmental deferred compensation programs offering loan programs indicated that participants in those programs who received loans generally repaid the loans in full and continued to contribute to the program. That same survey also indicated that, on average, 2.6% of deferred compensation program assets were outstanding as loans.

Participants not facing financial hardship would also benefit from the loan program. Eligible employees may begin participation at an earlier age if they know that their contributions could be accessed via a loan. OSGP is not the primary retirement plan for most participants, limiting the risk that the loan program will have a significant detrimental effect upon a participant's retirement planning. Multiple concurrent loans are prohibited and a 12-month waiting period between paying off a loan and applying for a new one will further reduce any potentially excessive loan activity.

There is little administrative burden associated with establishing the loan program, as repayment would be by payroll deduction, the same process by which participants make contributions. The third party administrator will assess loan fees to offset the administration of the loan. There is little financial risk to the deferred compensation program as the funds disbursed are those of the participant.

Should the loan program not be established, participants facing financial hardship would still be eligible for an unforeseeable emergency withdrawal.

2. If a loan program is established, should participants be required to use the loan program prior to application for an unforeseeable emergency withdrawal?

For the reasons discussed above, the loan program is less likely to result in the participant leaving the deferred compensation program. The loan program should be the primary means for participants to access their deferred compensation funds. The proposed modification to OAR 459-050-0150 would establish this priority, but not require the participant to use the loan program if the OSGP Manager determines that to do so would further burden the participant financially.

Numerous non-substantive edits were incorporated in the proposed OAR 459-050-0150 for clarity and consistency.

LEGAL REVIEW

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

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing is scheduled for July 25, 2006 at 2:00 p.m. at PERS headquarters in Tigard. The public comment period ends on September 22, 2006 at 5:00 p.m.

IMPACT

Mandatory: No. The Board need not adopt the rule.

Impact: Would provide an additional financial tool for OSGP participants and hopefully reduce attrition associated with emergency withdrawals.

Cost:

- *Members:* There will be loan fees and interest costs to participants.
- *Employers:* There will be no new costs to employers.
- *Administration:* There are no significant new administrative costs.
- *Fund:* There is no cost to the Fund, all OSGP costs are assessed against plan participants as an administrative fee deduction from investment earnings.

RULEMAKING TIMELINE

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DRAFT *DRAFT* *DRAFT* *DRAFT* *DRAFT* *DRAFT*

OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 050 – DEFERRED COMPENSATION

<u>OAR 459-050-0077</u>

<u>Loan Program</u>

<u>(1) Definitions. For purposes of this rule:</u>

<u>(a) "Cure Period" is that time from when a participant loan payment is due until the end of the quarter following the quarter in which a default occurs.</u>

<u>(b) "Participant Loan" means a loan that only affects the deferred compensation account of a participant.</u>

<u>(c) "Promissory Note" means the agreement of loan terms between the Program and a participant.</u>

<u>(d) "Third Party Administrator (TPA)" means the entity providing record keeping and administrative services to the Program.</u>

<u>(2) Eligibility for loan. Participants who are currently employed by a Plan Sponsor that has agreed to participate in a Participant Loan program are eligible for a Participant Loan. Retired participants, participants separated from employment, designated beneficiaries, and alternate payees are not eligible.</u>

<u>(3) Application for loan: A participant must apply for a loan and meet the requirements set forth in this rule.</u>

<u>(a) Once a loan is approved, a participant shall execute a promissory note in the form prescribed by the Program.</u>

<u>(b) If a participant is deceased prior to the disbursement of the proceeds of a loan, the participant's loan application shall be void as of the date of death.</u>

<u>(4) Loan Types:</u>

(a) General purpose loan – a loan not taken for the purpose of acquiring a principal residence. General purpose loans shall be repaid over a non-renewable repayment period of up to five years.

(b) Residential loan – a loan made for the purpose of acquiring a principal residence, which is, or within a reasonable time shall be, the principal residence of the participant. Residential loans shall be repaid over a non-renewable repayment period of up to 15 years. A refinancing does not qualify as a residential loan. However, a loan from the Program that will be used to repay a loan from a third party will qualify as a residential loan if the loan would qualify as a residential loan without regard to the loan from the third party.

(5) Interest Rate: The rate of interest for all loans shall be fixed at one percent (1%) above the prime interest rate as published by the Wall Street Journal on the last business day of the month prior to the month in which the loan is requested.

(6) Loan Fees: A loan fee of $50.00 shall be assessed when the loan is approved. The fee shall be deducted from a participant's deferred compensation account on a pro-rata basis from existing investments.

(7) Loan Limitations:

(a) The maximum amount of any loan, when added to the outstanding balance of any existing loan from the Program, shall be the lesser of (A) or (B):

(A) $50,000; or

(B) One-half of the value of the participant's deferred compensation account on the date the loan is made.

(b) The minimum loan amount is $1000.

(c) A participant can only have one loan outstanding at a time.

(d) A participant who has taken out a loan cannot apply for another loan until 12 months from the date the previous loan was paid in full.

(8) Source of Loan: The loan amount will be deducted from a participant's deferred compensation account.

(a) Loan amounts will be deducted pro-rata from existing investments in a participant's deferred compensation account.

(b) Participants may not transfer loans to or from another retirement or deferred compensation plan.

(9) Repayment Terms: The loan amount will be amortized over the repayment period of the loan with interest compounded daily to calculate a level payment for the duration of the loan.

(a) Loan payments shall be made by payroll deduction. A participant receiving a loan from the Program must enter into a payroll deduction agreement.

(b) A participant is responsible for loan repayment even if the employer fails to deduct or submit payments as directed under the payroll deduction.

(c) A participant has the right to repay the entire loan balance before its due date.

(d) Partial prepayment or partial advance payment of future payments shall not be permitted.

(e) Loan payments will be allocated in a participant's deferred compensation account in the same manner as the participant's current contribution allocation. If,

for any reason, the allocation is not known, the payment will be allocated to the Short Term Fixed Option.

(10) Leave of Absence. Terms of outstanding loans are not subject to revision except when the participant is subject to an authorized leave of absence, and then only as provided in this section.

(a) Loan repayments may be suspended up to one year during a leave of absence if a participant's pay from the employer does not at least equal the payment amount.

(A) Interest on a loan continues to accrue during a leave of absence.

(B) A participant must immediately resume payments by payroll deduction upon return to employment.

(C) The balance of a loan will be re-amortized upon the participant's return to work to be repaid within the remaining loan term.

(D) Loan payments may be revised to extend the repayment schedule to the maximum period allowed in the event the loan originally had a term shorter than the maximum period allowed under subsection (4) above.

(E) If a participant is on a leave of absence under this subsection and that leave exceeds one year, the loan shall be in default one year from the participant's last date of employment or when the last payment was due under the promissory note, whichever is earlier.

(b) Military Leave. Loan payments for participants on military leave shall be suspended for the period of military service.

(A) A leave of absence for military service longer than one year will not cause a loan to be in default.

(B) Loan payments must resume upon the participant's return to employment.

(C) The original repayment period of a loan will be extended for the period of military service or to the maximum repayment period allowed for that type of loan, whichever provides the participant a longer period to repay the loan.

(D) Interest on a loan continues to accrue during a leave of absence for military service. If the interest rate on the loan is greater than 6%, then under the provisions of the Serviceman's Civil Relief Act of 2003, the rate shall be reduced to 6% during the period of military service.

(c) An employee on an authorized leave of absence or military leave may submit loan payments by sending a money order or certified check to the Third Party Administrator during the time they are on leave.

(11) Tax Reporting.

(a) The unpaid balance of a general purpose loan will be reported as a taxable distribution on the earlier of the last day of the five year period or the date the loan is in default.

(b) The unpaid balance of a residential loan will be reported as a taxable distribution on the earlier of the last day of the fifteen year period or the date the loan is in default.

(c) If a participant dies prior to the balance of a loan being repaid, and the participant's beneficiary does not pay back the outstanding loan balance in one single payment within 90 days of the participant's death, the outstanding balance

will be reported as a taxable distribution. The deceased participant's estate will be issued a 1099-R in January of the year following death.

(12) Default. A loan shall be in default if a payment is not paid as scheduled or under any of the provisions set forth in this rule, the promissory note, or any related loan agreement.

(a) If a loan is in default because the participant separated from employment with a plan sponsor and is re-employed with a plan sponsor in time to have the loan payments resume before the last day of the quarter following the quarter in which the payment was missed, that default will be deemed cured and the participant's loan payments will be re-amortized as if the participant had been on a leave of absence under the provisions of this rule.

(b) If the participant does not cure the default by repaying the entire outstanding balance (including accrued interest) before the last day of the quarter following the default, the balance will be reported as a taxable distribution by issuing the participant a 1099-R in January of the year following the end of the cure period.

Stat. Auth.: ORS 243.470

Stats. Implemented: ORS 243.401 – 243.507

OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 050 – DEFERRED COMPENSATION

459-050-0150

Unforeseeable Emergency Withdrawal

The purpose of this rule is to establish the criteria and process for a participant to obtain a distribution of deferred compensation funds prior to separation from employment due to an unforeseeable emergency.

(1) Definitions.

(a) "Unforeseeable emergency" or "Unforeseen emergency" means a severe financial hardship to *[the]* **a** participant *[, in a deferred compensation plan under ORS chapter 243, 26 USC 457(d)(1)(A)(iii) and 26 CFR 1.457-6(c)(2)(i)]* resulting from a sudden and unexpected illness or accident of the participant or of a dependent of the participant as defined in 26 CFR 1.152-1, **a** loss of the participant's property due to casualty*[,]* or other similar extraordinary and unforeseeable circumstance *[arising as a result of events]* beyond the control of the participant.

(b) "Immediate need" means *[the]* **a** financial obligation *[of]* **attributable to** an unforeseeable emergency that accrues within the 180-day period preceding and the 90-day period following receipt of an application for emergency withdrawal.

(c) "Emergency withdrawal" means *[the amount]* **a payment to the participant from the participant's deferred compensation account in an amount** directly related to and reasonably necessary to satisfy an immediate need of an unforeseeable emergency, but in no case shall the amount exceed the balance of *[the]* **a** participant's **deferred compensation** account *[in the deferred compensation plan]*.

(2) Eligibility for emergency withdrawals. Only *[plan]* **a** participant*[s]* who established **a** deferred compensation account*[s]* as **an** eligible employee*[s]* and ha**s***[ve]* not **terminated** *[severed]* **from** employment with their plan sponsor may apply to receive an unforeseeable emergency withdrawal *[from their account]*. **An** *[A]***a**lternate payee*[s]* of *[plan]* **a** participant*[s]* shall not be eligible to receive an emergency withdrawal.

(3) A participant must, if eligible, apply for a loan under the provisions of OAR 459-050-0077 prior to application for an unforeseen emergency withdrawal unless, as determined by the Deferred Compensation Manager, the participant would suffer additional financial hardship by complying with the loan application requirement.

[(3)] **(4)** Circumstances that *[shall]* **do** not constitute an unforeseeable emergency. *[E]***An e**mergency withdrawal*[s]* shall not be approved for **any** reason*[s]* other than an unforeseeable emergency. Circumstances that *[shall]* **do** not constitute an unforeseeable emergency include, but are not limited to:

(a) Participant *[and/]*or dependent school expenses;

(b) The purchase of a home or costs associated with a voluntary relocation of housing;

(c) The reduction of personal credit liabilities not associated with an unforeseeable emergency;

(d) Expenses associated with a legal separation or the dissolution of a marriage;

(e) Expenses associated with medical procedures that are elective or not medically required;

(f) Expenses associated with *[the]* establishing *[of a personal business]* or managing a personal business;

(g) Recreational expense**s**;

(h) Travel expenses not associated with an unforeseeable emergency; and

(i) Usual and customary tax obligations.

[(4)] **(5)** Limitations on amount of emergency withdrawal. The maximum amount that may be approved *[for payment]* as an emergency withdrawal shall be limited to what is reasonably needed to satisfy the immediate financial obligation related to the unforeseeable emergency, including taxes anticipated on the distribution. *[Payment may not be made]* **The amount of the emergency withdrawal shall be limited** to the extent that **the** *[such]* financial obligation*[s]* can or may be satisfied **by**:

(a) *[Through r]***R**eimbursement or compensation by insurance or otherwise;

(b) *[By l]***L**iquidation of the participant's assets, to the extent the liquidation of such assets would not itself cause severe unforeseeable emergency; or

(c) *[By c]***C**essation of **participant contributions to the deferred compensation program** *[deferrals under the plan]*.

[(5)] **(6)** Application for an emergency withdrawal. *[The requestor]* **A participant** must submit a completed **emergency withdrawal** application *[to apply for an emergency withdrawal. F]***and f**inancial information and related documentation *[are required to]* **sufficient to satisfy the provisions of this rule** *[substantiate the withdrawal request]*. The emergency withdrawal **application** *[request]* may be returned if *[the application is]* incomplete*[,]* **or if insufficient** *[requested]* financial information *[is not disclosed,]* or *[insufficient]* **related** documentation is submitted.

(a) The application form *[required to apply for an emergency withdrawal]* may be obtained from the *[PERS]* Deferred Compensation Program or the third party administrator (TPA) retained to administer a portion of the *[PERS]* Deferred Compensation Program.

(b) The completed application**, financial information,** and related documentation shall be *[trans]***sub**mitted by use of the United State Postal Service or by private carrier as defined in ORS 293.660(2) for initial review.

[(6)] **(7)** Cancellation of future contributions. *[Employee c]***C**ontributions **by a participant** to the *[d]***D**eferred *[c]***C**ompensation *[p]***P**rogram shall immediately be cancelled upon receipt *[from a plan participant]* of an application for an emergency withdrawal **from the participant**.

(a) A *[plan]* participant who receives approval for an emergency withdrawal shall be prohibited from making elective deferrals and *[employee]* contributions to the *[d]***D**eferred *[c]***C**ompensation *[p]***P**rogram for *[the]* **a** period of six consecutive months from the date of distribution.

(b) A *[plan]* participant who receives a denial for an emergency withdrawal may enroll to make elective deferrals and *[employee]* contributions to the *[d]***D**eferred *[c]***C**ompensation *[p]***P**rogram at any time.

[(7)] **(8)** Approval or denial notification. The Deferred Compensation Manager or a**n authorized** designee *[authorized to take action on the manager's behalf]* shall approve or deny *[the]* **a** request for an emergency withdrawal within three working days after receipt of **an** *[the properly completed]* **accepted** application *[and related documentation]*. The

[requestor] **participant** will be notified by mail within ten days after a decision is made *[to approve or deny the emergency withdrawal application]*.

[(8)] **(9)** Release of payment upon approval of an emergency withdrawal *[application]*. The Deferred Compensation Manager or a**n authorized** designee *[authorized to take action on the manager's behalf]* shall determine the method of payment, based on the immediate need**.***[s related to the nature of the unforeseeable emergency.]* The Deferred Compensation **Program** *[Manager or other authorized staff]* shall immediately notify the TPA to release the requested funds.

[(9)] **(10)** *[Requester]* **A participant** may appeal *[the]* **a** denial of an emergency withdrawal *[application. If the request for an emergency withdrawal is denied, the requester may appeal the denial]* to the Unforeseeable Emergency Withdrawal Appeals Committee as provided in OAR 459-050-0040. The *[request]* **appeal** shall be in writing and **must** include:

(a) A request for review by the Unforeseeable Emergency Withdrawal Appeals Committee;

(b) A short statement of the facts that are the basis of the appeal; and

(c) Any additional information or documentation to support the request for an emergency withdrawal.

[(10)] **(11)** *[No restrictions on the n]***N**umber of emergency withdrawal requests. *[Regardless of whether a request for an unforeseeable emergency withdrawal is approved or denied, a plan participant may again submit a request for a withdrawal because of an unforeseeable emergency. The request may be for the same or different*

unforeseeable circumstances.] **The number of times a participant may apply for an emergency withdrawal is unlimited and is unaffected by previous applications.**

[[ED. NOTE: Forms referenced are available from the agency.]]

Stat. Auth: ORS 243.470

Stats. Implemented: ORS 243.401 - 243.507

Oregon

Theodore R. Kulongoski, Governor

Public Employees Retirement System
Headquarters:
11410 S.W. 68th Parkway, Tigard, OR
Mailing Address:
P.O. Box 23700
Tigard, OR 97281-3700
(503) 598-7377
TTY (503) 603-7766
www.pers.state.or.us

July 21, 2006

MEETING DATE	**7/21/06**
AGENDA ITEM	**C.6. S / E**

TO: Members of the PERS Board

FROM: Craig Stroud, Administrator, Benefit Payments Division

SUBJECT: *Strunk* / *Eugene* Project – Final Business Plan

At the July 21, 2006 Board meeting, I will present the attached final *Strunk* and *Eugene* Project Business Plan. The plan has been updated to include the policy and direction provided by the Board at past meetings, as well as final estimates for the project duration, resources, and total budget. Also attached is a copy of the presentation I will give at the Board meeting.

Strunk **and** ***Eugene***
Project Business Plan

PERS Board Meeting
July 21, 2006

Table of Contents

Strunk & Eugene

Project Overview

The 2003 PERS Reform legislation and the Oregon Supreme Court decisions in the *Strunk* and *City of Eugene* cases have defined the parameters within which PERS can implement the Settlement Agreement. PERS is required to implement the remainder of its obligations under the agreement and administer the law as it stands today. The project's goal is to implement these obligations.

The Court ruled that the Settlement Agreement and 2003 PERS Reform legislation have resolved the issues in the *Eugene* case. The Settlement Agreement requires PERS to reallocate 1999 earnings to Tier One member regular accounts at 11.33% instead of 20%. Other tenets of the Settlement Agreement have been met. PERS will also credit the assumed rate, currently 8%, to Tier One accounts for 2003 and 2004 as a result of the Oregon Supreme Court decision in the *Strunk* case. In addition, the Court held in *Strunk* that the Cost-of-Living Allowance (COLA) 'freeze' imposed by the 2003 PERS Reform Legislation was invalid. All members who retired between April 2000 and April 2004 that had their COLA 'frozen' are entitled to have those withheld amounts credited to them.

For those Tier One members who retired, withdrew, or received benefit payments after the 1999 earnings crediting was effective (April 1, 2000), PERS will:

- Pursue collection of overpaid amounts. This will correct past benefit overpayments and prevent future overpayments by adjusting benefits going forward.
- Use a recovery process that minimizes the effect on current monthly benefits and provides the longest possible repayment period.
    - Monthly benefit payments will be adjusted prospectively for the 1999 earnings allocation of 11.33%, and PERS will recover any overpayments that occurred up to the adjustment date. Comparing what should have been paid to a recipient against what was actually paid completes the adjustment. For those recipients who still owe a balance to the PERS Fund, PERS will calculate, based on each member's projected longevity and retirement option, the amount the benefit needs to be reduced to repay the balance over the remaining lifetime. This method is known as the Actuarial Reduction Method (ARM) and is the default collection method for benefit recipients receiving a monthly annuity. Benefit payments may be reduced in the short term, but would increase at the next, and subsequent, COLA dates.
    - Instead of the ARM, a recipient can opt to pay the entire amount owed in a lump-sum payment. The recipient's monthly payments will then only be adjusted going forward based on the 11.33% earnings reallocation for 1999 (and subsequent COLA adjustments).
    - For recipients who are no longer receiving PERS benefit payments (members, beneficiaries, or alternate payees who retired, withdrew, or received a death

benefit), staff will calculate the lump-sum amount of their overpayment and pursue normal collection efforts to recover that amount.

- Waive collection of any overpayment that is less than $50 on an aggregate basis, as allowed by statute.
- Not charge interest or costs on the recovery of overpaid amounts.

PERS' actuary estimated the combined fiscal impacts of the *Strunk* and *Eugene* decisions and the settlement agreement to be a total of $1.6 billion in overpaid distributions or reduced future distributions. This amount is split between benefit recipients and active/dormant members as shown in the following table.

Estimated Fiscal Impact of *Strunk* and *Eugene*, and the Settlement Agreement		
Active/Dormant Members		
	Future Distributions Yet to be Paid	$800 million
Benefit Recipients		
	Future Distributions Yet to be Paid	$650 million
	Overpaid Benefits	$150 million
	TOTAL	$ 1.6 billion

Complexity Factor

The complexity and magnitude of the solution to the *Stunk* and Eugene decisions have greatly impacted the decision and planning processes of this project. One of the overriding reasons this project is more complex than other RIMS related projects at PERS is that it adjusts historical member's account information rather than simply modifying system screens or reports. To adjust the accounts and transactions, PERS must create programs to back out (or void) transactions to member accounts, determine historical adjustments to each account (i.e., recreate the account as of the appropriate date in time, recalculate and apply credits accurately), and ensure that audit trails and logging files are created appropriately. In addition, since retired member benefits will change, PERS needs to develop ways to recalculate the benefits, notify members, and either collect or pay over/under payments:

Our analyses identified the following issues that need to be addressed:

- The *Strunk* decision impacts every PERS Tier One member that received 2003 interest earnings. This includes 105,000 members and 4,300 retirees.

- The *Eugene* decision impacts every PERS Tier One member that received 1999 interest earnings. This includes 100,000 members and 35,000 retirees.

- The decision to postpone 2004 earnings crediting impacted 180,000 members and delayed the issuance of 2004 member statements.

- 22,000 Retired Members that are not receiving annual COLA increases are subject to COLA reinstatements and *Strunk* and *Eugene* adjustments. These adjustments must be communicated to the retiree and invoiced or paid.

- Every impacted recipient will have 12 to 30 financial adjustment transactions applied to their account.

- Up to 60% of the original retirements were processed with manual interventions as they moved through the computer systems. This means the underlying transaction data required to adjust the retirements must be identified and confirmed prior to use.

- No automated processes currently exist to make the above-noted adjustments. These processes must be defined, built, tested, and implemented.

- Each of the following categories requires specialized processing rules. Many accounts are impacted by several of these categories and will require a combination of solutions:

  - Active/Dormant Member Accounts
  - Service Retirements
  - Disability Retirements
  - Police and Fire Units Retirements
  - Loss of Membership Accounts
  - Refunded Accounts
  - Deaths
  - Divorces
  - Lump Sum Settlements and Installments
  - Full Cost Purchases
  - AEF Estimated Payments
  - Police and Fire Units Purchases
  - One Time Variable Transfers
  - Re-Employed Accounts
  - COLA Frozen Benefits

Project Core Principles and Success Criteria

To ensure the success of this project, the management team defined a set of Core Principles and Success Criteria. Both the Principles and the Criteria were used as guides when making key project decisions.

Core Principles

The following principles guide the planning and execution of this project:

- The negative adjustment on the retiree's current benefit payment is as small as possible.
- The account processing priority and order is transparent and communicated to stakeholders for input.
- Communications are complete, understandable, concise, and we proactively answer potential questions.
- The project is completed in the most efficient method that does not put undue burden on other business operations.
- The impact to the Rims Conversion Project (RCP) is planned and managed for success.
- Members of the core *Strunk* and *Eugene* team are dedicated 100% to the project.
- One touch per account. This means we attempt to push the account through the process in the most efficient means possible and present a final transaction to the impacted benefit recipient.

Success Criteria

The project is successful if:

- Recipients incur no disruption in the receipt of monthly PERS benefits.
- The identified population of accounts requiring adjustment includes all impacted accounts.
- All account balance and benefit payment adjustments are complete, accurate, and fully auditable. This means all underlying data issues must be resolved.
- The invoicing and accounts receivable processes optimize collections.
- 2004 member statements can be created from Phase I of this project.
- No data is corrupted or lost as a result of our processing.
- Completed within the approved budget.
- Completed within the approved timeline.

Planning Team

Description

The planning effort for a project of this size represented a significant project unto itself. The purpose of the planning was to ensure that: all activities needed to make the project successful were defined; the correct project team was defined, built, housed, and trained; any setup work was planned and started; and the necessary contracts were constructed and executed.

To ensure the project's success, PERS assembled a dedicated team to define and conduct a series of planning activities.

Activities

The planning team validated the types of impacted accounts. For each defined type, the team:

- Determined the best order and time frame in which to process the adjustments.
- Identified and documented the processes and procedures required to perform the adjustments.
- Validated the initial time estimates of the amount of work needed to complete the adjustments.
- Determined the tool set necessary to calculate the adjustments.
- Based on the defined process, tool set, and time estimates determined the resources, both internal and external, needed to complete the work.

Major Project Phases

The planning team evaluated the work and identified two major phases: Membership Adjustments and Payment Recipient Adjustments. This division provided the agency the best method to organize the team in order to complete the work.

Membership Adjustments

Active / Dormant Account Adjustments and Issuance of 2004 Statements

This project phase addressed the requirement to adjust all impacted Tier-One member accounts. This phase had two goals: adjust the member accounts so 2004 member statements could be issued and, in the case where a member retired, stop unadjusted accounts from moving to the benefit calculation process.

PERS successfully adjusted the 180,610 active/dormant member accounts in December 2005. Efforts to resolve data problems with the remaining 428 unadjusted accounts remains a high-priority with assigned staff.

PERS issued 2004 member statements in January 2006.

Payment Recipient Adjustments

This phase addresses the requirement to adjust recipient benefits. The phase has two goals: adjust the benefits according to the court cases and settlement agreement and complete this process in a manner that minimizes the impact to the recipient. The work in this phase has been divided into two categories: those recipients receiving monthly annuity payments and those recipients that received a lump sum payment.

This effort involves:

1. Identify all impacted accounts.
    - Complete.
2. Classify the impacted accounts into workflow categories.
    - Complete - Accounts have been grouped into general categories and prioritized. The Board approved the general account staging at its December 2005 meeting.
3. Define the workflows, including the steps in the processes, the tools needed to adjust the benefits, and the time required to complete each step.
    - Complete - Major workflows and processing requirements have been identified and prioritized. Significant policy issues have been decided.
    - In Process – The team is identifying specific process steps and desktop tools/RIMS modifications using a just-in-time methodology. This in effect continues planning throughout the project duration with the majority of the project team working on the priority adjustments and a small planning group developing the next process steps and tools.
4. Determine the staff required to adjust the accounts in each workflow.
    - The project planning effort determined 57 limited duration positions are necessary to successfully execute the project. Additional information on composition of these staff and the associated budget is located in the Budget Section of this plan.
5. Map the workflows and staff to a timeline to estimate the completion date and total costs of the project.
    - Complete.

Transaction Prioritization

PERS identified four general conditions associated with the *Strunk* and *Eugene* adjustments that impact transaction prioritization. These conditions and general descriptions are:

1. **Fiscal** – Most transactions have a fiscal consideration in that PERS owes the recipient funds or the recipient owes PERS funds. For many transactions, the amount increases with time.

   - PERS Owes the Recipient Funds: Delaying payment of the funds negatively impacts the recipient. Staff proposes placing the highest priority on these accounts.
   - Recipient Owes PERS Funds: Delaying the receipt of these funds negatively impacts the PERS trust fund. Staff proposes prioritizing the adjustment of these accounts lower than the adjustment of accounts where the recipient is owed funds.
   - Materiality: The relative size of funds associated with the transactions runs the spectrum from a few dollars to tens of thousands. Staff proposes that the larger the sum PERS owes or is owed the earlier in the project the transaction should be prioritized.

2. **Date of Transaction** – Transaction dates range from April of 2000 to the present. For recipients that owe PERS funds, the older the transaction date the more difficult collection may be due to the likelihood the recipient has moved to a new address or the recipient has spent the overpaid funds. Staff proposes that these transactions generally be prioritized by date, older transactions first.

3. **Administrative** – The project's size and complexity significantly impacts PERS' ability to administer the workload. Four general administrative constraints or issues were identified:

   - Workload Balance – For project efficiency the staff recommends balancing the type and number of transactions processed in any given month, as some transactions require more PERS support than others. For example, batch processing a thousand adjustments that result in corresponding invoices could overwhelm the accounts receivable process. Balancing transaction work across the project timeline makes sense.
   - Eligibility or other underlying account research questions – Planning efforts identified at least 4,500 recipient accounts that require research prior to finalizing the benefit adjustments. The research effort is time consuming, therefore, staff proposes spreading these accounts across the project timeline.
   - Adjustment Tool-Set Development –The *Strunk* and *Eugene* adjustments require new or revised processing tools. PERS has limited resources to create these tools and, therefore, must delay some transaction categories until staff creates the tool-sets.

- Finalizing Estimated Benefits – Upon receipt of a finalized benefit and Notice of Entitlement for those recipients that are receiving estimated payments, some retirees may opt to change their benefit option, or contest the information used to calculate their benefit. Staff proposes prioritizing these transactions earlier in the project to provide time to work these issues.

4. **Cost of Living Allowance** (COLA) Timing – The timing of benefit adjustments to coincide with future COLA benefit increases helps dampen the reduction to recipient monthly benefits. For example, if the recipient's current monthly benefit is reduced due to *Strunk* and *Eugene* adjustments, future COLA increases will help close the gap between the recipient's current benefit and the revised benefit. Staff proposes that COLA timing be considered in the prioritization process to help dampen monthly benefit reductions.

The Board approved the above noted conditions and proposed prioritization at its December 16, 2005 meeting. Based on these prioritization concepts, the benefit recipient accounts are grouped and prioritized in the following order:

1. Recipients to whom PERS owes money and/or recipients receiving estimated benefit payments.
2. Recipients receiving annuity payments who owe PERS money.
3. Recipients who received a lump sum payment and owe PERS money.

Annuity Accounts

- Description - This category includes all recipients receiving a monthly annuity payment at the adjustment date.
- Dependencies -

Create a plan to determine how to best perform the work.
  - Complete.

Identify and procure the resources necessary to perform the work.
  - Complete.

Receive the actuarial values to complete the Actuarial Reduction Method (ARM) calculations.
  - Complete.

Complete the tools necessary to complete the work.
  - In process and will continue to be in process for the project duration. The project strategy is for the planning team to deploy tools and defined processes using a 'just-in-time' method that aligns with the workflow timeline.

Define the needed processes and procedures to complete the work.
  - In process and will continue to be in process for the project duration. The project strategy is for the planning team to deploy tools and defined processes using a 'just-in-time' method that aligns with the workflow timeline.

Implement an invoicing and accounts receivable solution.

- Complete. The project will default benefit recipients receiving a monthly annuity to the ARM; however, recipients will have the option to make a lump sum payment to satisfy their overpayment.

  The Fiscal Services Division and the *Strunk* and *Eugene* team developed processes to support these events. The decision to default overpaid recipients to the ARM increases the project's efficiency. This eliminates the need to create and then likely cancel thousands of invoices. In addition, the tracking and processing of invoices and repayment periods for each monthly batch of transactions added unnecessary project complexity and processing risk.

Resolve the policy decisions associated with account adjustments.

- Complete.

Lump Sum Accounts

- Description - This category includes all recipients that received a lump sum payment.
- Dependencies -

Build a plan to determine how to best complete the work.

- Complete.

Identify and procure the resources necessary to perform the work.

- Complete.

Complete the tools necessary to complete the work.

- In process and will continue to be in process for the project duration. The project strategy is for the planning team to deploy tools and defined processes using a 'just-in-time' method that aligns with the workflow timeline.

Define the needed processes and procedures to complete the work.

- In process and will continue to be in process for the project duration. The project strategy is for the planning team to deploy tools and defined processes using a 'just-in-time' method that aligns with the workflow timeline.

Implement an accounts receivable solution.

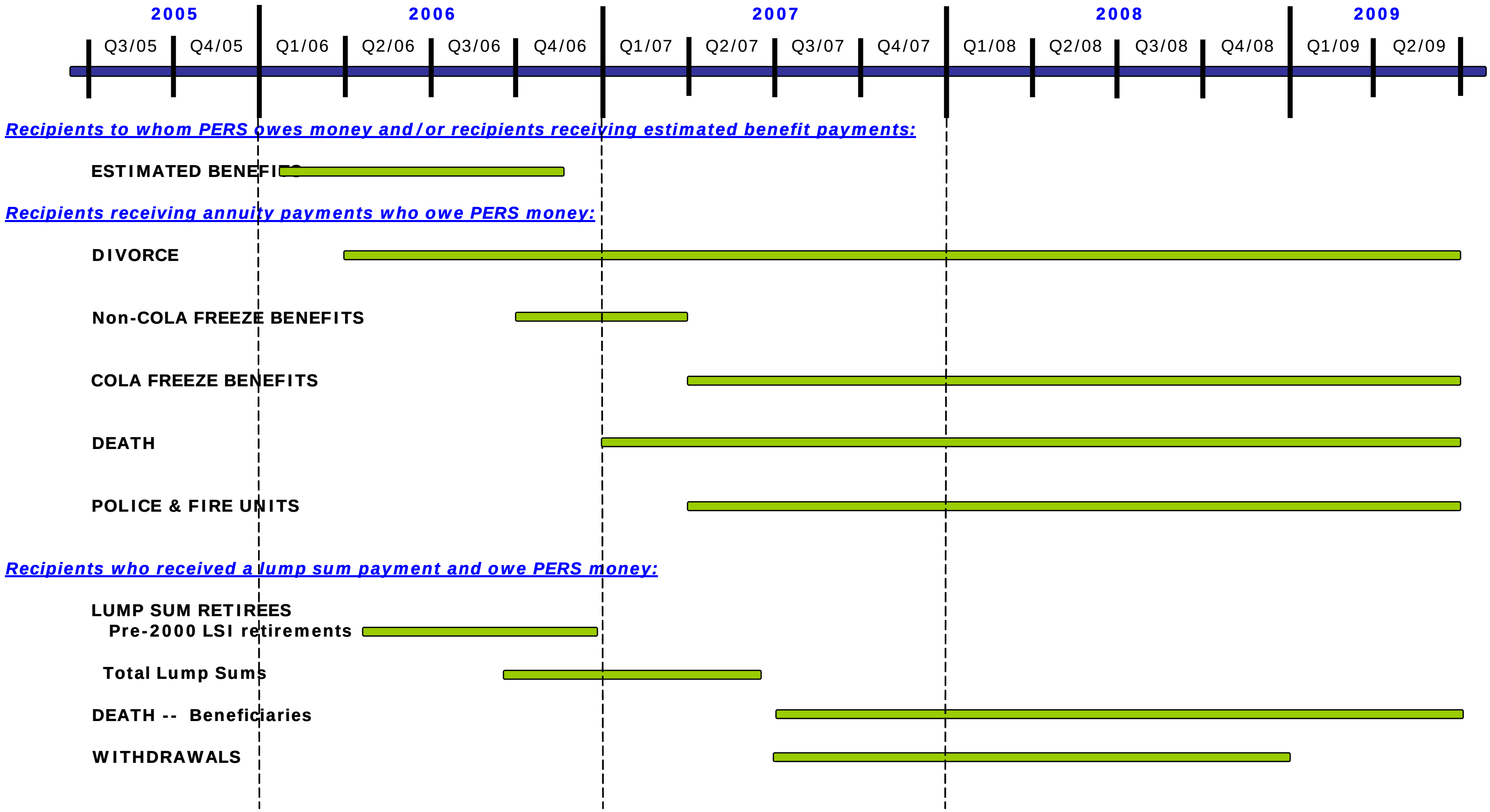
- Complete. The Fiscal Services Division is finalizing the contract and deployment of an accounts receivable software solution. The majority of accounts receivable processing procedures are developed.

Resolving the policy decisions associated with account adjustments.

- Complete with the exception of accepting roll-overs to satisfy overpayments.

Strunk **and** ***Eugene*** **Project**

The following Gantt chart displays the general account adjustment staging timeline.



Note: Some accounts in each of these types will be delayed due to data-cleanup issues, eligibility determination, etc.

Project Budget

Due to the project's duration, the total budget estimate is comprised of three separate funding and position requests. They are:

1. 2005 – 2007 Legislatively Adopted Budget
2. 2005 – 2007 Administratively Established Budget Request
3. 2007 – 2009 Agency Budget Request

2005 – 2007 Legislatively Adopted Budget

As a result of the *Strunk* opinion, the HB 2003 COLA team was reconfigured to meet the implementation staffing needs. In addition to the original 25 COLA positions, 4 positions were redirected from the accumulated workload package (package 103) to support the *Strunk* and *Eugene* Project. This redirection occurred because the majority of accumulated workload transactions require a *Strunk* and *Eugene* adjustment. The positions and budget provided in the 2005 – 2007 Legislatively Adopted Budget are:

2005 - 2007 Legislatively Adopted Budget

Package	Description		Budget
810	Personal Services (25 Positions)	$	2,310,622
	Services and Supplies		944,050
103	Personal Services (4 Redirected Positions)		359,492
Total Budget Request		**$**	**3,614,164**

The legislature also approved $1 million for legal costs associated with the *Strunk* and *Eugene* lawsuits and implementation legal costs. That amount is included in a separate budget for legal costs.

2005 – 2007 Administratively Established Budget Request

The initial estimates, created 12 months ago, to complete both the *Strunk* and *Eugene* adjustments called for a core team of 70 limited duration positions in the Benefit Payments Division plus an undetermined number of additional staff in other divisions to support the project. Due to efficiencies created by defining improved processes and automating calculations, the original estimate has been reduced to 36 limited duration core team positions in the Benefit Payments Division plus 21 limited duration positions in other divisions for a total of 57 limited duration positions dedicated 100% to the project.

The 2005 – 2007 legislatively adopted budget provided the 29 positions identified above which are all part of the Strunk and Eugene Adjustment Section of the Benefit Payments Division. The additional 28 positions requested mid-biennium will support the project as follows:

- The Strunk and Eugene Adjustment Section of the Benefit Payments Division requests 7 additional positions. These positions are primarily management and project technical resources to perform planning, process, and tool development over the project duration.

- The Customer Service Center of the Customer Service Division requests 9 positions to focus on account eligibility issues, to support additional phone volume, and to manually process database fixes to impacted RIMS data. The existing RIMS application does not have the functionality to open and adjust retiree accounts for many data related issues. Therefore, some account adjustments require manual correction via database fixes. These adjustments require staff with programming and technical analysis skills.

- The Imaging and Information Management section of the Information Services Division requests 10 positions to retrieve benefit recipient records prior to adjustment, and then to electronically image and archive the resulting benefit adjustment reports.

- The Fiscal Services Division requests 2 positions to collect the overpaid benefits resulting from the adjustments and to support the accounts receivable process.

PERS submitted two 2005 – 2007 Administratively Established Budget Requests. The positions and budget associated with these requests are:

2005 - 2007 Administratively Established Budget Requests

Package	Description		Budget
	Personal Services (28 Positions)	$	1,358,447
	Services & Supplies		135,000
Total Budget Request		**$**	**1,493,447**

2007 – 2009 Agency Budget Request

To complete the project, PERS must retain the 57 limited duration positions throughout the 2007 – 2009 biennium. To meet the total staffing needs, PERS is submitting the 2007 – 2009 Agency Budget Request. The positions and budget in the request are:

2007 - 2009 Agency Budget Request			
Package	**Description**		**Budget**
110	Personal Services (57 Positions)	$	5,545,047
	Services and Supplies		928,190
Total Budget Request		**$**	**6,473,237**

Total *Strunk* and *Eugene* Project Budget

The total project budget is the sum of the three requests defined above.

Total Project Budget			
	Description		**Budget**
	2005 - 2007 Legislatively Adopted Budget	$	3,614,164
	2005 - 2007 Administratively Established Budget	$	1,493,447
	2007 - 2009 Agency Budget Request	$	6,473,237
Total Budget		**$**	**11,580,848**

Appendix

Appendix I – Key Risks

Key Risks

This section describes the key risks to the project

1. **Risk: RIMS Conversion Project (RCP)** – The *Strunk* and *Eugene* project will not be completed by the end of RCP Stage 2 when all job segments and related data are moved to jClarety from RIMS.
   Consequence:
   The benefit recalculations can no longer be done in the RIMS. This would end our *Strunk* and *Eugene* project as currently planned.
   Contingency Plan:
   We have three possible options:
   - Extend the project and adjust the RCP schedule accordingly,
   - Migrate the functionality to jClarety and continue the project in jClarety or
   - Back bridge (send) job segments to RIMS from jClarety.

   Project staff are monitoring the concurrent project schedules and will amend the *Strunk* and *Eugene* project schedule if necessary to ensure project success.

2. **Risk: New Legislative or court actions** – Future Legislative actions or court rulings could impact the scope of the project.
   Consequence:
   Scope and /or schedule change.
   Contingency Plan:
   Evaluate the impact and realign the plan upon legislation or a court ruling.

Appendix II – Impacted Accounts

Impacted Accounts

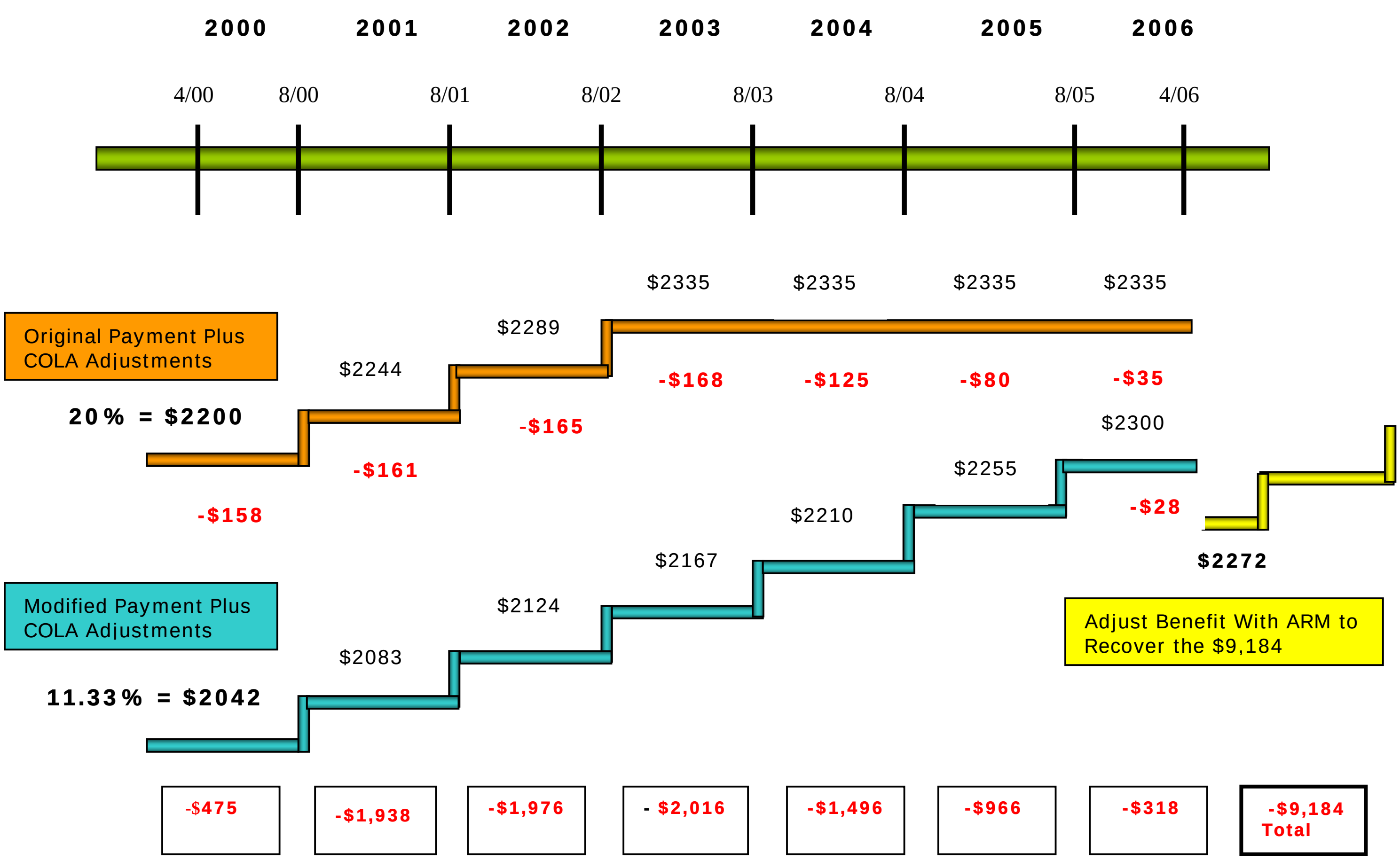
UNIQUE ACCOUNTS		
Member & AP Retirements Post 3/1/00	34,000	
Account Withdrawals (Members & AP's)	5,000	
Final LSI for Retirements prior to 4/1/00	1,000	
Pre Retirement Death Benefits	1,400	
Non- Retired AP/Member Divisions	3,000	
Re-employed Retiree's	140	
TOTAL ACCOUNTS		44,540

Appendix III – Actuarial Reduction Method Example 1

Actuarial Reduction Method (ARM) Example

Example 1: The following example shows the impacts of reducing the 1999 earnings rate from 20% to 11.33% and reapplying the Cost-of Living Allowance for 2003, 2004, and 2005. This example shows that the recipient's monthly payment is reduced by $35 plus the actuarial adjustment of $28 that is necessary to recover the $9,184 they owe the PERS Fund as of the adjustment date (April 1, 2006).

Strunk and Eugene Recalculation Example
Retirement Date of April 2000 and Member Had No Variable
The Benefit Adjustment Date is April 2006



NET RESULT: The member's monthly benefit is reduced by $35. The PERS Fund must also collect the $9,184. We do this using an Actuarial Reduction Method. This adjustment results in an additional reduction of $28 a month for a total reduction of $63 a month as of the adjustment date.

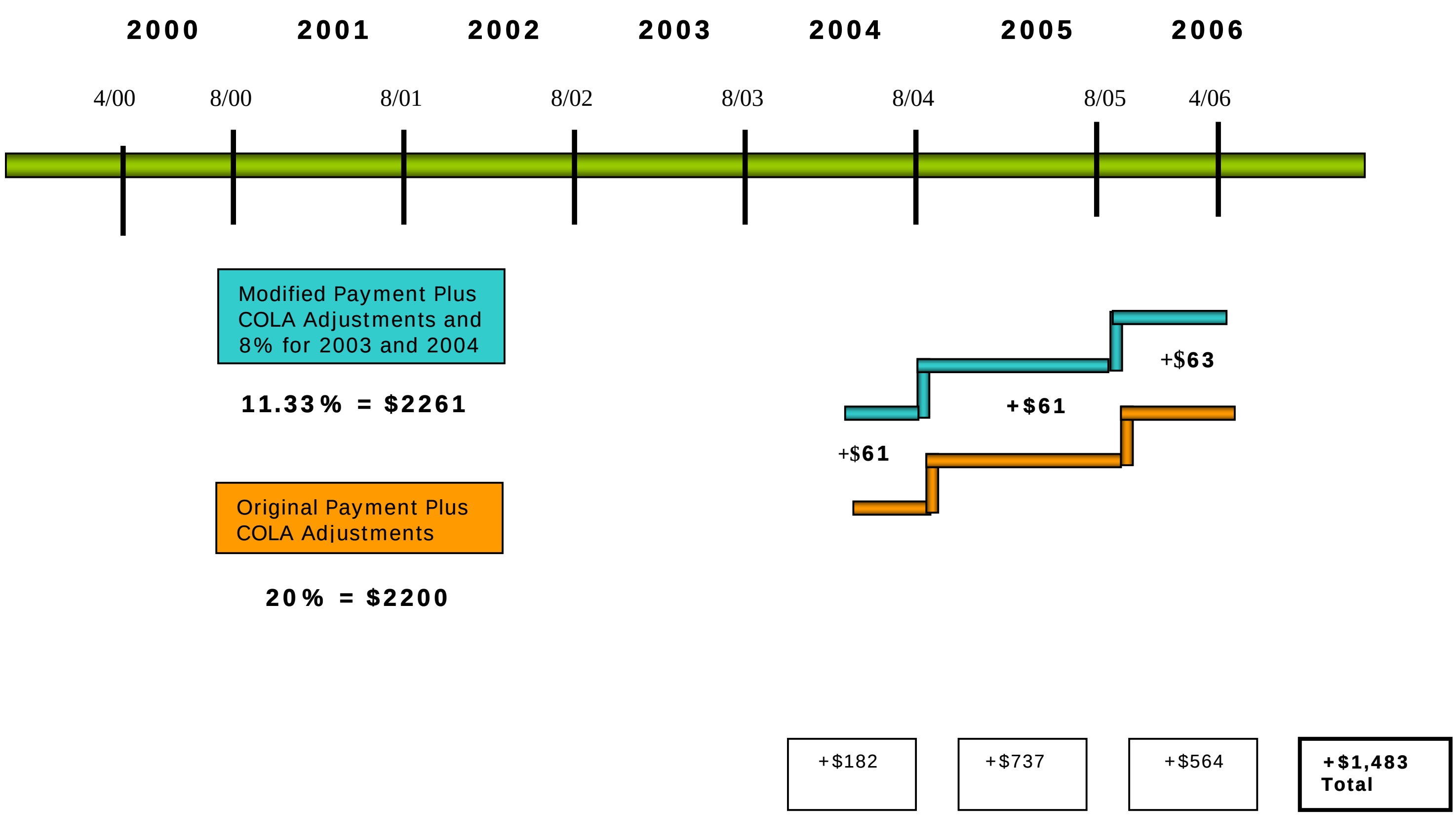
The **negative** numbers represent the amount the member owes the PERS Fund for each year. The box on the bottom right is the sum total of all money owed as of the adjustment date.

Appendix IV - Actuarial Reduction Method Example 2

Actuarial Reduction Method (ARM) Example

Example 2: The following example shows the impacts of reducing the 1999 earnings rate from 20% to 11.33%. The recipient's account balance was recalculated using the new rate and accruing 8% earnings for 2003 and 2004. This example shows that the recipient's monthly payment is increased by $63 plus PERS owes them $1,483 as of the adjustment date (April 1, 2006).

Strunk and _Eugene_ Recalculation Example
Retirement Date of April 2004 and Member Had No Variable
The Benefit Adjustment Date is April 2006



NET RESULT: The member's monthly benefit is increased by $63 and the PERS fund must pay them an additional $1,483 as of the adjustment date.

The positive numbers represent the amount PERS owes the member for each year. The box on the bottom right is the sum total of all money owed as of the adjustment date.

Strunk and *Eugene*
Final Project Business Plan

PERS Board Meeting
July 21, 2006

PERS Oregon Public Employees Retirement System

SL1

Strunk and Eugene Project - Overview

- Charged with implementing the *Strunk* and *Eugene* Supreme Court decisions, and the Settlement Agreement:
  - Reallocate 1999 earnings to Tier One regular accounts at 11.33% instead of 20%
  - Credit the assumed rate, currently 8%, to Tier One accounts for 2003 and 2004
  - Reinstate the Cost-of-Living Allowance for retirees that were frozen due to the 2003 reform legislation

SL1

Estimated Project Fiscal Impact

Estimated Fiscal Impact of *Strunk* and *Eugene*, and the Settlement Agreement		
Active/Dormant Members		
Future Distributions Yet to be Paid		$800 million
Benefit Recipients		
Future Distributions Yet to be Paid		$650 million
Overpaid Benefits		
Lump Sum Payments - Invoice Only	$62.5 million	
Annuity Payments - ARM eligible	$87.5 million	
		$150 million
	TOTAL	$ 1.6 billion

SL1

Core Principles

- Negative adjustments to retiree's payment are as small as possible, but collect the required funds
- The account processing priority and order is transparent and communicated to stakeholders for input
- Communications are complete, understandable, concise, and proactively answer potential questions
- The project is executed efficiently, but does not put undue burden on other business operations
- The impact to the RIMS Conversion Project is planned and managed for success
- One touch per adjustment account

SL1

Success Criteria

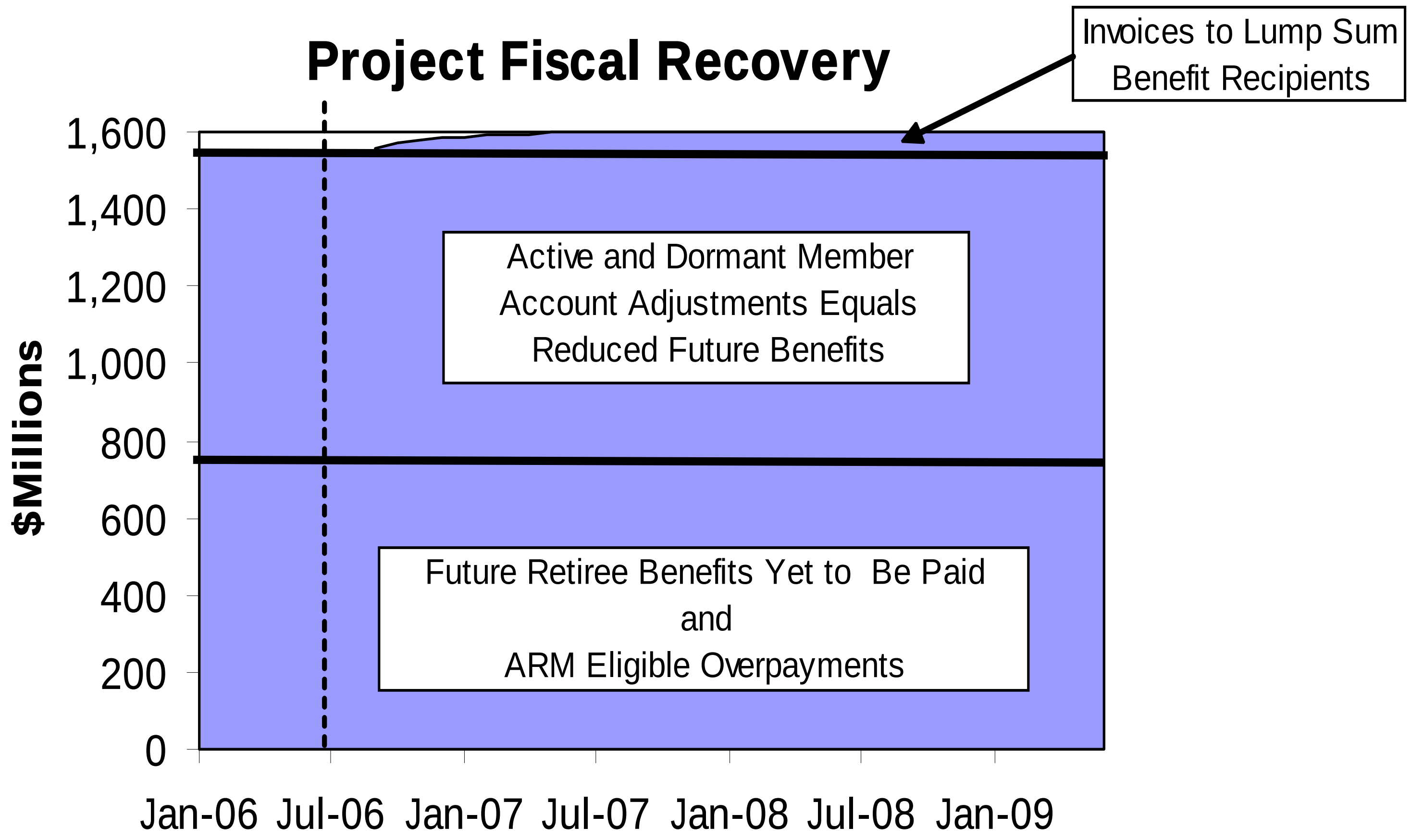
- Recipients incur no disruption to monthly benefits
- All accounts are identified and adjusted
- Account and benefit adjustments are complete, accurate, and fully auditable
- Invoicing and accounts receivable processes optimize collections
- No data is lost or corrupted due to adjustments
- The project is completed within the approved budget and timeline

Major Project Phases

- Active and dormant account adjustments
  - Adjust accounts for reallocated earnings – Complete
  - Issue 2004 statements – Complete
- Payment recipient adjustments
  - Monthly annuitants
  - Recipients who received a lump sum

SL1

Progress to Date – Fiscal Perspective



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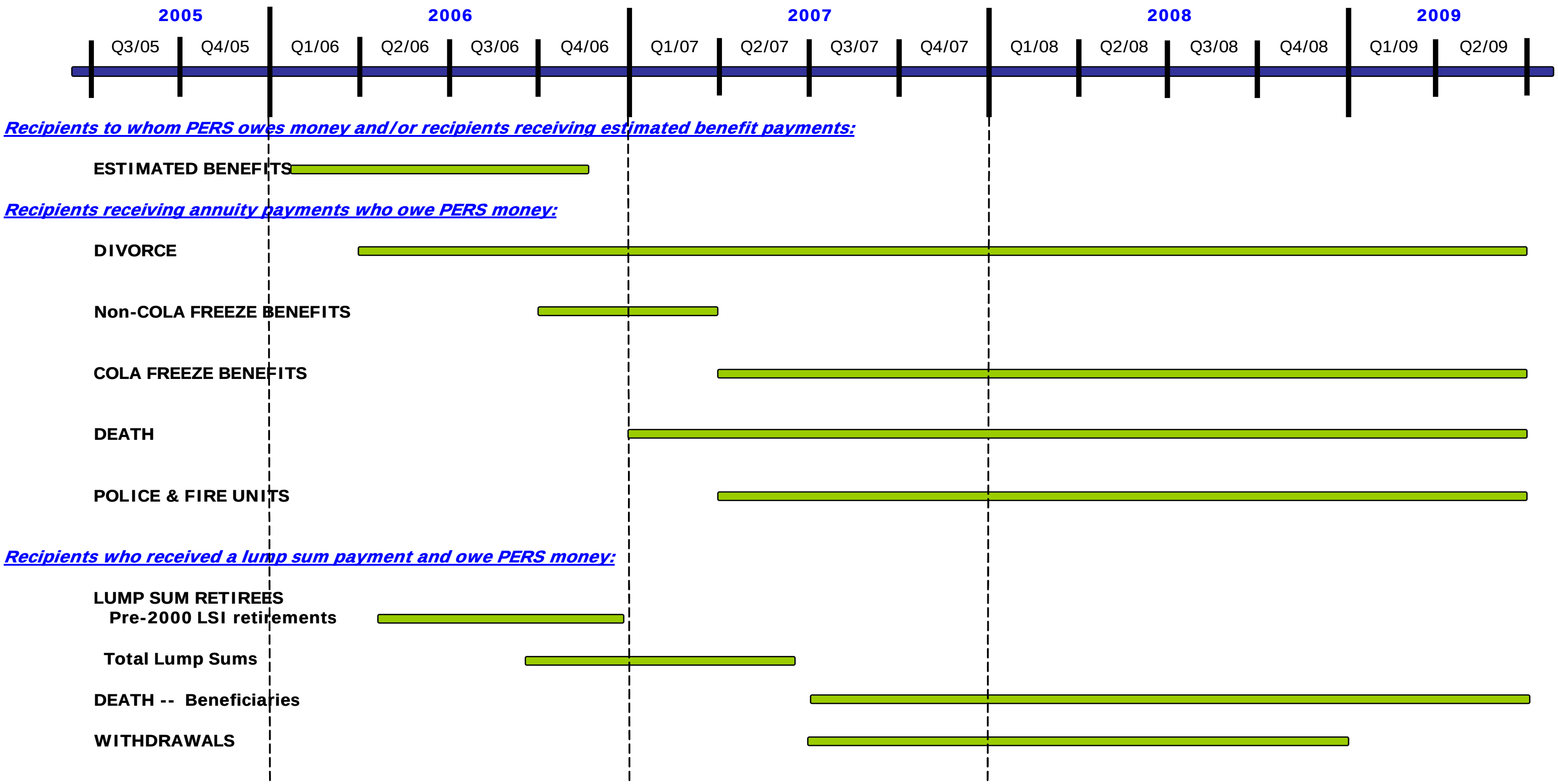
Transaction Prioritization to Recover Remaining Funds

- Issues impacting transaction prioritization:
  - Fiscal
    - PERS owes the recipient funds
    - Recipient owes PERS funds
    - Materiality
  - Date of Transaction – generally prioritize older transactions first
  - Administrative
    - Workload balance
    - Account research questions
    - Tool-set and process development
  - Cost-of-Living Allowance – timing to coincide with future COLA benefit increases helps off-set the reduction to recipient monthly benefits

SL1

Project Transaction Staging – Timeline for Payment Recipient Adjustments



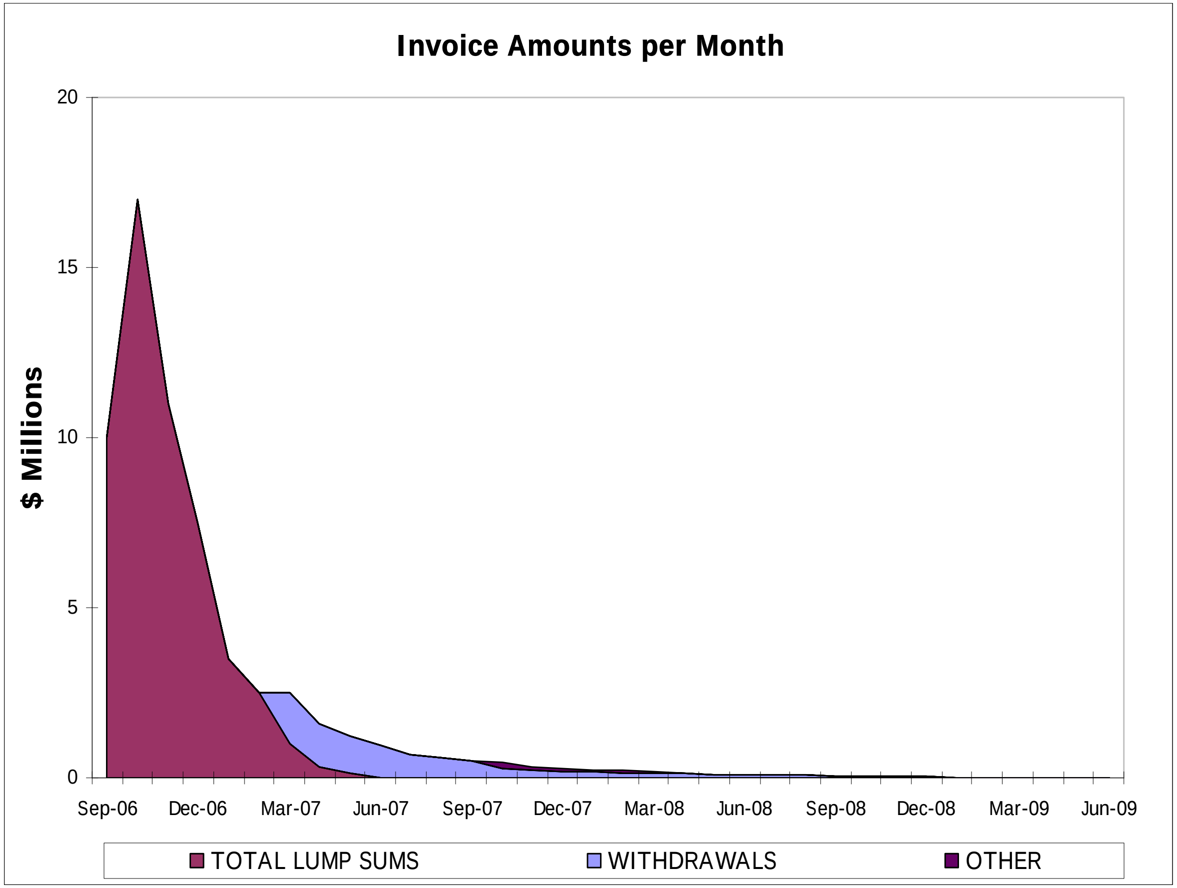
Note: Some accounts in each of these types will be delayed due to data-cleanup issues, eligibility determination, etc.

SL1

Estimated Invoice Amounts by Type

Approx. 10,000 invoices totaling $62.5mm comprised of:

- Total Lump Sums: $53mm, 1,900 count
- Withdrawals: $8.5mm, 5,100 count
- Other: $1mm, 3,000 count



SL1

Project Complexity and Duration

- Agency decided 6+ years ago to stop investing in RIMS
  - New legislation not programmed
    - COLA freeze
    - Interest crediting rules
    - No member account interest in 2003 and 2004
  - 60% of transactions processed outside of calculation sub-system
    - Transactions processed manually using desktop tools
    - Benefit payment sub-system used for majority of benefit payments
- Record retirement volumes in 2002, 2003, and 2004
  - Thousands of estimated payments processed (first S&E priority group)
  - Backlog of associated transactions created and still outstanding (primarily system reconciliation accounts)

SL1

Project Complexity and Duration – cont.

- Inherent Project Complexity
  - Diverse transaction adjustment population – regular retirements, disability, death, divorce, police and fire units, second retirements, etc.
  - Diverse payment methods – annuity, partial lump sum, total lump sum, beneficiary options, etc.
  - Transaction dates span five years and include different statutory payment provisions – AEF lookback, COLA freeze, etc.
  - Complex scenarios and implementation due to reform legislation, *Strunk* opinion, *Eugene* opinion, and settlement agreement provisions
- Project adjustments are precise and transaction specific

SL1

Project Complexity and Duration – cont.

- RIMS functionality does not exist for some transaction types – member withdrawals
- Subject matter expert resource constraints
- Project must be coordinated with RIMS Conversion Project for decommissioning and data migration
- Project cannot exceed supporting function band-width
  - Document creation and retrieval
  - Accounts receivable management
  - Membership adjustments and database fixes
  - Location services to find recipients
  - Legal services

SL1

Project Complexity and Duration – cont.

- The adjustment calculation is relatively simple - updating RIMS is the challenge
  - Monthly benefit correction is only part of our responsibility
  - Necessary to reverse original entries and post correct ones
  - Calculations drives employer reserve allocations, member cost basis, reserves to fund benefit, etc.
- Compare recalculated benefit to prior transactions, typically resulting in an under- or overpayment
- For most adjustments, functionality does not exist
  - Attempting to batch and automate - increases efficiency, reduces errors, provides better control
  - Aligns with project criteria of complete, accurate, and auditable transactions

SL1

Project Budget

- Original Benefit Payments Division estimate reduced from 70 to 36 positions
- Additional 21 positions requested in support divisions across PERS
- Total of 57 limited duration positions for three years (7-1-06 to 6-30-09) to execute remainder of project

Total Project Budget

Description		Budget
2005 - 2007 Legislatively Adopted Budget	$	3,614,164
2005 - 2007 Administratively Established Budget Request	$	1,493,447
2007 - 2009 Agency Request Budget	$	6,473,237
Total Budget	**$**	**11,580,848**

SL1

Next Steps & Questions

- September - Status report of July and August transactions

- QUESTIONS?

SL1

Oregon

Theodore R. Kulongoski, Governor

(503) 598-7377
TTY (503) 603-7766
www.pers.state.or.us

July 21, 2006

MEETING DATE	7/21/06
AGENDA ITEM	D.1. Exp. Study

TO: Members of the PERS Board

FROM: Dale S. Orr, Coordinator, Actuarial Analysis Section

SUBJECT: 2005 Experience Study: Valuation Methods and Assumptions Approval

At its June meeting, Bill Hallmark and Annette Strand of Mercer Human Resource Consulting (Mercer) presented their findings and recommendations regarding the actuarial methods and economic assumptions that will be used to develop the 2005 Valuation. On July 21, Mr. Hallmark and Ms. Strand will present the final piece of the 2005 Experience Study covering demographic assumptions. Also, they will request the Board's approval of their recommendations.

An electronic version of Mercer's presentation will be sent to the Board members prior to the meeting, if available.

Recommended Board Action: Approve Mercer's methodology and assumption recommendations outlined in the 2005 Experience Study.

MERCER

Human Resource Consulting

July 21, 2006

Oregon PERS and OPSRP

Experience Study for December 31, 2005 Valuation
Demographic Assumptions

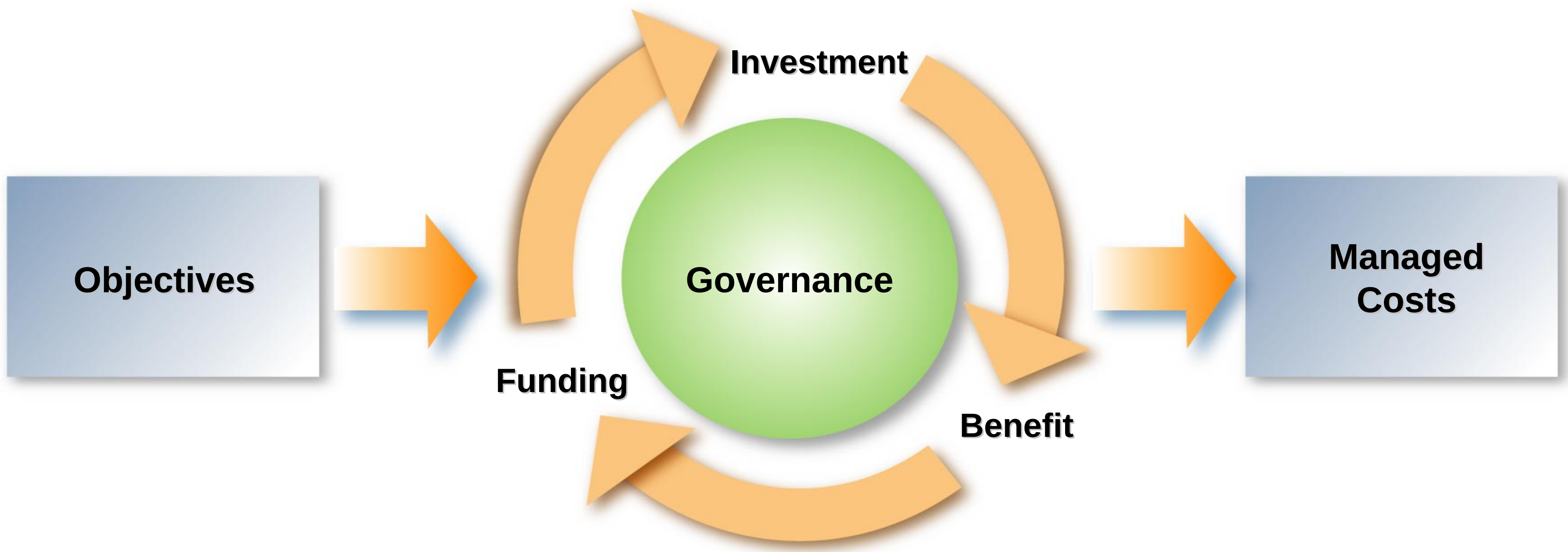
Bill Hallmark, Annette Strand, and Brenda Majdic

MMC Marsh & McLennan Companies

Contents

Introduction
Retirement Plan Financial Management Framework

Total Contributions = Benefits Paid - Investment Earnings



Actuarial methods primarily affect the timing of contributions

Introduction
Objectives for Actuarial Assumptions

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

Introduction
Demographic Experience Study

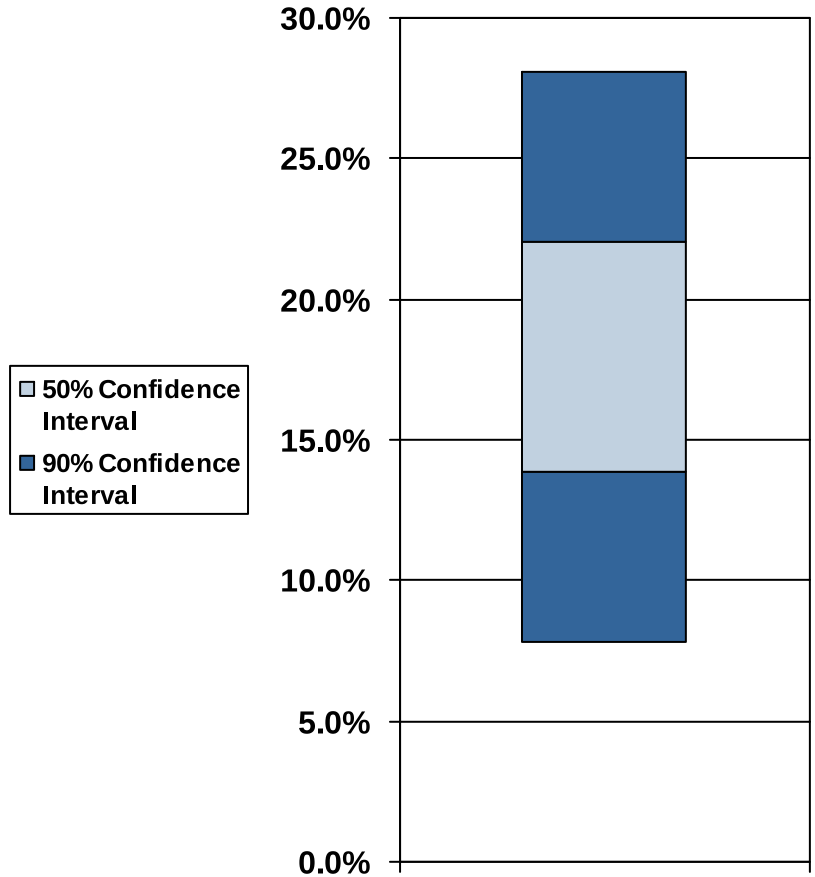
- Compared actual experience from January 1, 2002 through December 31, 2005 to expected experience based on assumptions from the December 31, 2004 actuarial valuation.
- Actual experience, combined with future expectations, are used to develop recommended assumptions for December 31, 2005 actuarial valuation.
- This presentation summarizes those results, primarily for assumptions where changes are recommended.
- More details are provided in the full report.

Introduction
Demographic Experience Study

- Milliman frequently created separate assumptions for school districts, state agencies, and local employers.
- Since state agencies and local employers are combined in the SLGRP, we have instead focused on developing SLGRP assumptions.
- When independent employer experience is different from SLGRP experience, we have developed separate assumptions for independent employers.

Introduction
Confidence Intervals

- We have used 50% and 90% confidence intervals in our analysis.
- The 90% confidence interval represents the range around the observed rate that contains the true rate during the period of study with 90% probability
- The size of the confidence interval depends on the number of observations
- If an assumption is outside the 90% confidence interval and there is no other information to explain the observed experience, a change in assumption should be considered.



Demographic Assumptions PERS

Demographic Assumptions
Overview

- We are recommending the following changes:
  - Adjustment to some mortality assumptions
  - Re-grouping and adjustment to retirement assumptions
  - Re-grouping and adjustment to termination assumptions
  - Consolidation of disability assumptions
  - Reduction in merit salary scale for school districts
  - Refinement of lump sum percentages
  - Refinement of retiree healthcare participation percentages
  - Changes to service purchase and unused sick leave assumptions
- Although many assumptions are being modified, the net effect of these modifications are relatively minor.

Mortality Assumptions
Summary of Recommendations

	Current Assumption	Recommended Assumption
Healthy Retired	RP 2000, Combined Active/Healthy Retired, No Collar, Sex distinct	RP 2000, Combined Active/Healthy Retired, No Collar, Sex distinct
▪ School District Male	Set back 24 months	Set back 36 months
▪ Other GS Male	Set back 18 months	Set back 24 months
Disabled Retired	RP 2000, Combined Active/Healthy Retired, No Collar, Sex distinct	RP 2000, Combined Active/Healthy Retired, No Collar, Sex distinct
▪ Male	Set forward 12, 18, or 24 months, min of 2.50%	Set forward 36 months, min of 2.50%
▪ Female	Set forward 6 months or set back 12 months, min of 3.0%	Set forward 36 months, min of 2.75%
Non-Retired Mortality	% of Healthy Retired Mortality	% of Healthy Retired Mortality
▪ School District Male	50%	65%
▪ Other GS Male	75% / 100% Judges	65%
▪ Other PF Male	40%	70%
▪ Other Female	60% GS / 40% PF/ 100% Judges	55%

Mortality Assumptions
Healthy Retired

	Exposures	Actual Deaths	Current Assumption		Recommended Assumption	
			Expected Deaths	A/E Ratio	Expected Deaths	A/E Ratio
School District Male	55,877	1,581	1,555	102%	1,397	113%
School District Female	104,196	2,606	2,359	110%	2,359	No Change
Other General Service Male	80,628	2,590	2,529	102%	2,396	108%
Police & Fire Male	17,729	315	276	114%	276	No Change
Other Female	98,245	3,048	2,638	116%	2,638	No Change

- The Actual/Expected ratio should be at least 110% in order to anticipate mortality improvement in the future.
- Current female mortality assumptions and male police & fire assumption provide for a margin of mortality improvement, so no change is recommended.

Mortality Assumptions
Disabled Retired

			Current		Recommended	
	Exposures	Actual Deaths	Expected Deaths	A/E Ratio	Expected Deaths	A/E Ratio
Males	8,175	334	294	114%	317	105%
Females	8,408	336	306	110%	322	104%

- Experience was reviewed separately for males and females. The data is not sufficient to warrant further division.
- Not as much mortality improvement is expected for disabled members, so Actual/Expected ratios are targeted closer to 100%.

Mortality Assumptions
Disabled Retired Summary of Assumptions

	Current PERS	Recommended PERS
Disabled Retired	RP 2000, Combined Active/Healthy Retired, No Collar, Sex distinct	RP 2000, Combined Active/Healthy Retired, No Collar, Sex distinct
Male		Set forward 36 months, min of 2.50%
School District Male	Set forward 12 months, min of 2.5%	
Other General Service Male	Set forward 18 months, min of 2.5%	
Police & Fire Male	Set forward 24 months, min of 2.5%	
Female		Set forward 36 months, min of 2.75%
School District Female	Set back 12 months, min of 3.0%	
Other Female	Set forward 6 months, min of 3.0%	

Recommendation is a single disabled mortality table for males and a single disabled mortality table for females.

Mortality Assumptions
Non-Retired

			Current		Proposed	
	Exposures	Actual Deaths	Expected Deaths	A/E Ratio	Expected Deaths	A/E Ratio
School District Male	93,995	126	112	113%	132	95%
School District Female	258,991	183	189	97%	189	No Change
Other General Service Male	201,684	313	381	82%	314	100%
Police & Fire Male	47,720	48	28	171%	49	98%
Other Female	293,988	271	299	90%	277	98%

- Actual/Expected ratio should be close to or slightly below 100% to provide for some conservatism in the valuation.

Mortality Assumptions
Non-Retired Mortality Summary of Assumptions

	Current Assumption	Recommended Assumption
Non-Retired Mortality	% of Healthy Retired Mortality	% of Healthy Retired Mortality
School District Male	50%	65%
School District Female	50%	No change
Other General Service Male	75% / 100% Judges	65%
Other Police & Fire Male	40%	70%
Other Female	60% GS / 40% PF/ 100% Judges	55%

Recommendation is to update mortality for non-retired members for all groups except School District Females.

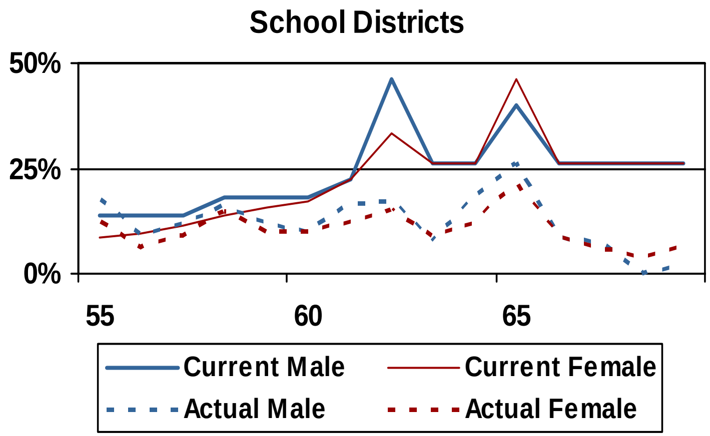
Retirement Assumptions
Retirement from Active Status

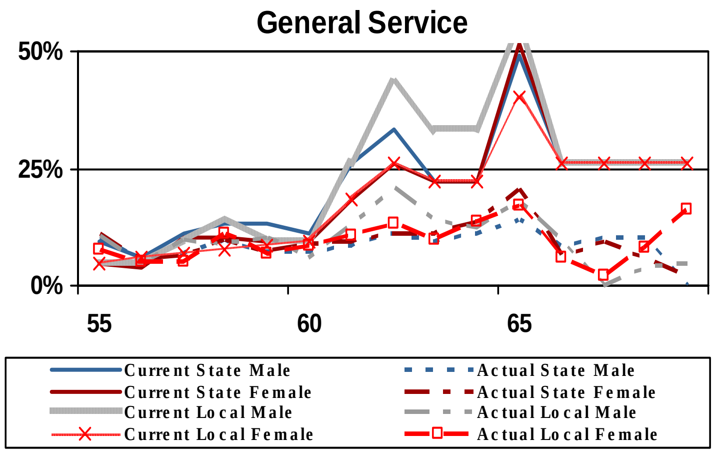
- Retirement rates have not been changed for the past few years due to anomalous experience that wasn't expected to continue in the future.
- Experience in 2004 and 2005 appears to have returned to levels that we believe are representative of future experience. Thus, our analysis is based only on 2004 and 2005 experience.
- There are significant differences between Tier, employment category (General Service and Police & Fire), and eligibility for unreduced benefits.
- Recommendations include:
  - Same rates for males and females
  - Same rates for state and local employers

Retirement Assumptions
Summary of Recommendations

	Current Assumption	Recommended Assumption
Retirement from Active Status	Current rates grouped by State Agencies, Local Employers and School Districts. Within each group, separate rates are developed by Tier, gender, and employment category (general service vs. police and fire)	Recommend that rates be grouped by SLGRP/Independent Employers and School Districts. Within each group, separate rates are developed by Tier and employment category (general service vs. police and fire). Rates do not vary by gender.
	Separate rates are also developed for those with 30 or more years of service (25 for police and fire)	
Lump Sum Option at Retirement	Partial Lump Sum 20%	Partial Lump Sum 8% Total Lump Sum 8%
Purchase of Credited Service	Members retiring under Full Formula or Formula Plus Annuity elect to purchase the 6-month waiting period	45% of members retiring under Full Formula or Formula Plus Annuity will elect to purchase the 6-month waiting period.

Retirement Assumptions
Retirement from Active Status





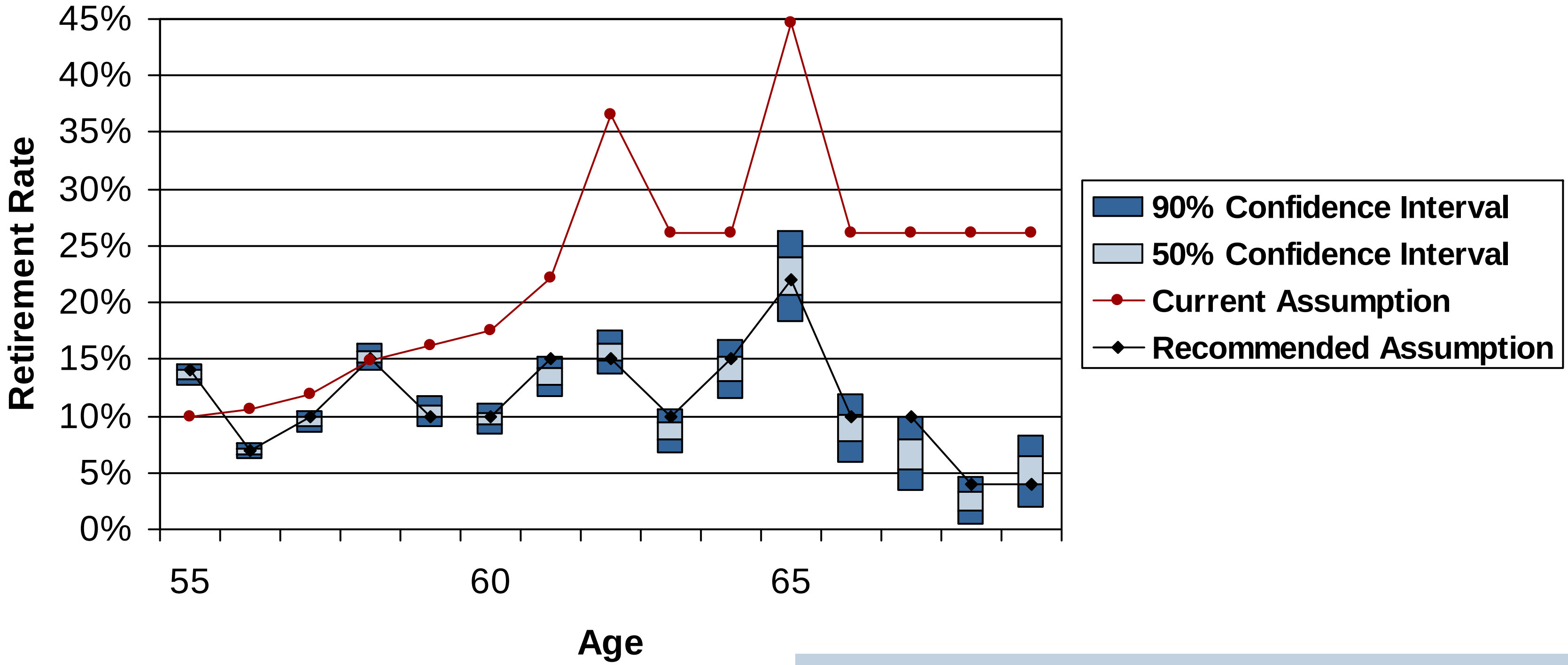
Tier 1 – Less than 30 Years of Service

- Actual retirement rates for school districts do not vary by gender
- Actual retirement rates for general service members do not vary by gender or state versus local employer.
- Actual retirement rates are significantly lower than the current assumption at most ages
- We recommend consolidating rates by gender as well as for the State Agencies and Local Employers.
- We also recommend reducing rates at many ages.

Retirement Assumptions
Retirement from Active Status

School Districts

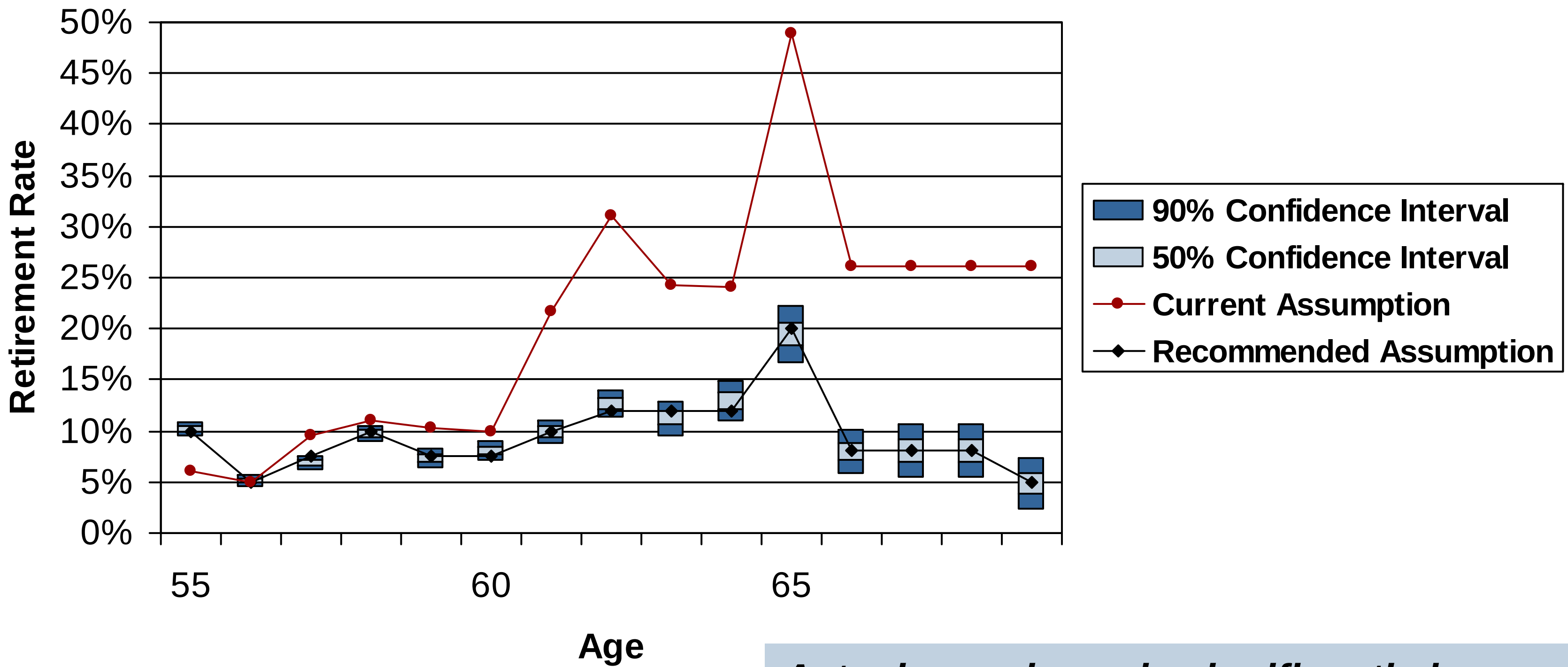
Tier 1 Members with less than 30 Years of Service



Actual experience is significantly lower than previously assumed at most ages

Retirement Assumptions
Retirement from Active Status

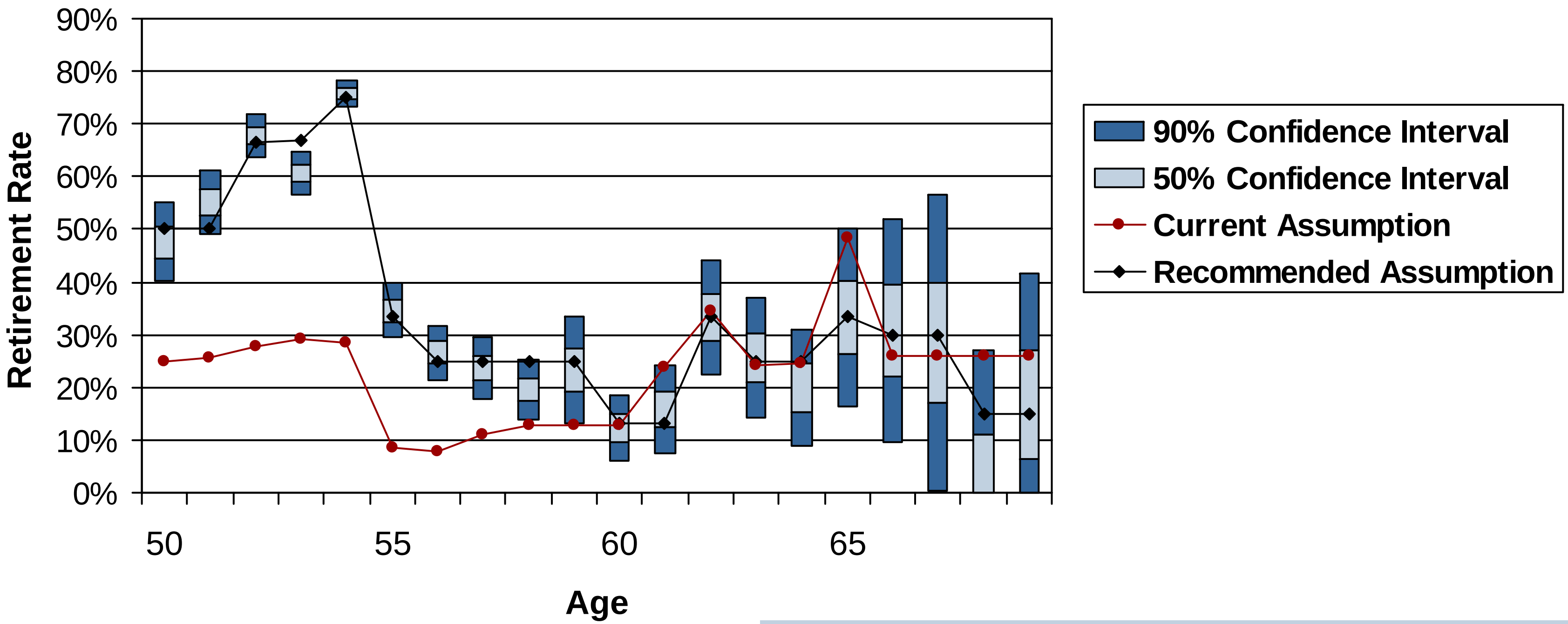
SLGRP/Independent Employers
Tier 1 General Service Members with less than 30 Years of Service



Actual experience is significantly lower than previously assumed at most ages

Retirement Assumptions
Retirement from Active Status

School Districts/SLGRP/Independent Employers
Tier 1 General Service Members with 30+ Years of Service



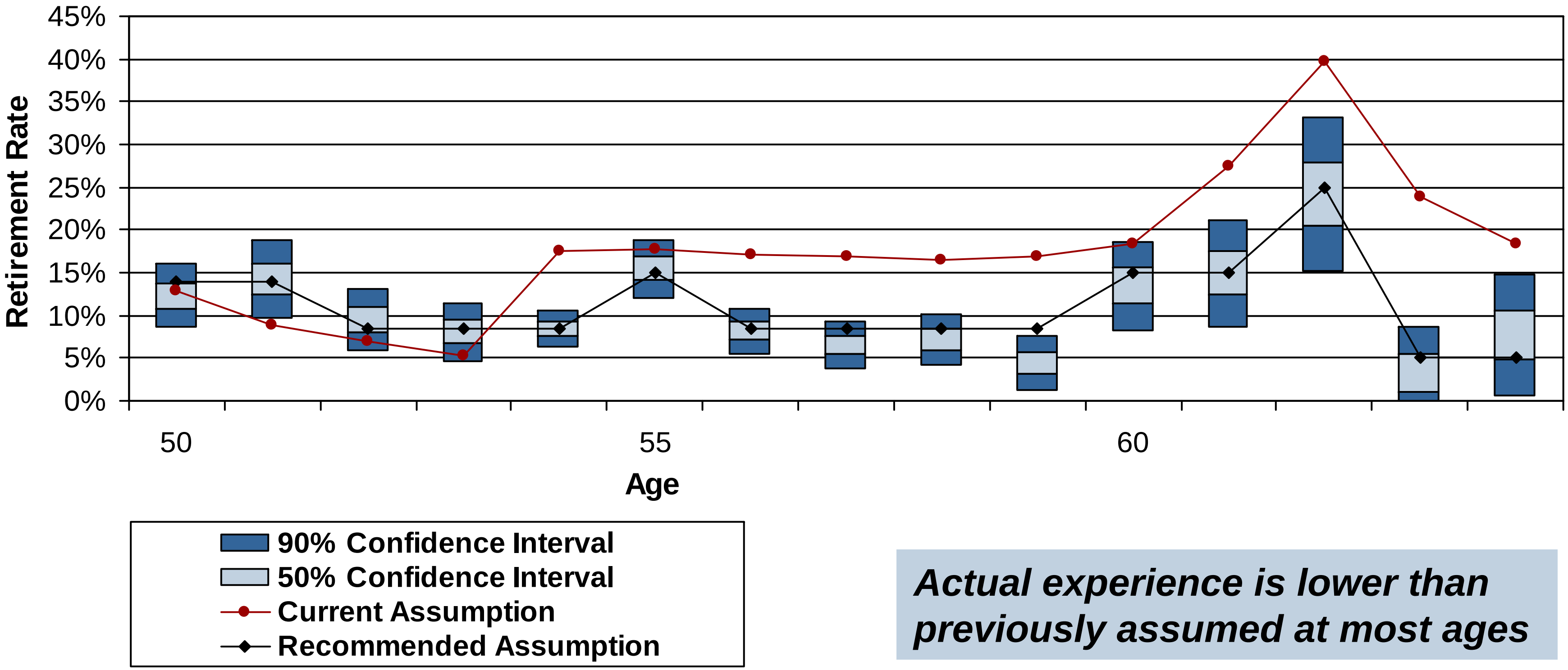
Actual experience is significantly higher than previously assumed at younger ages

Retirement Assumptions
Retirement from Active Status – Tier 2

	Recommended Tier 2 Assumption
Tier 2 School District < 30 years	50% of Tier 1 School District < 30 rates 55-59; 100% of Tier 1 School District < 30 rates thereafter
Tier 2 SLGRP/Independent General Service < 30 Years	50% of Tier 1 SLGRP/Independent Employers General Service < 30 rates 55-59; 100% of Tier 1 SLGRP/Independent Employers General Service < 30 rates thereafter
Tier 2 General Service 30+ Years	Same as Tier 1 General Service rates for 30+ years of service

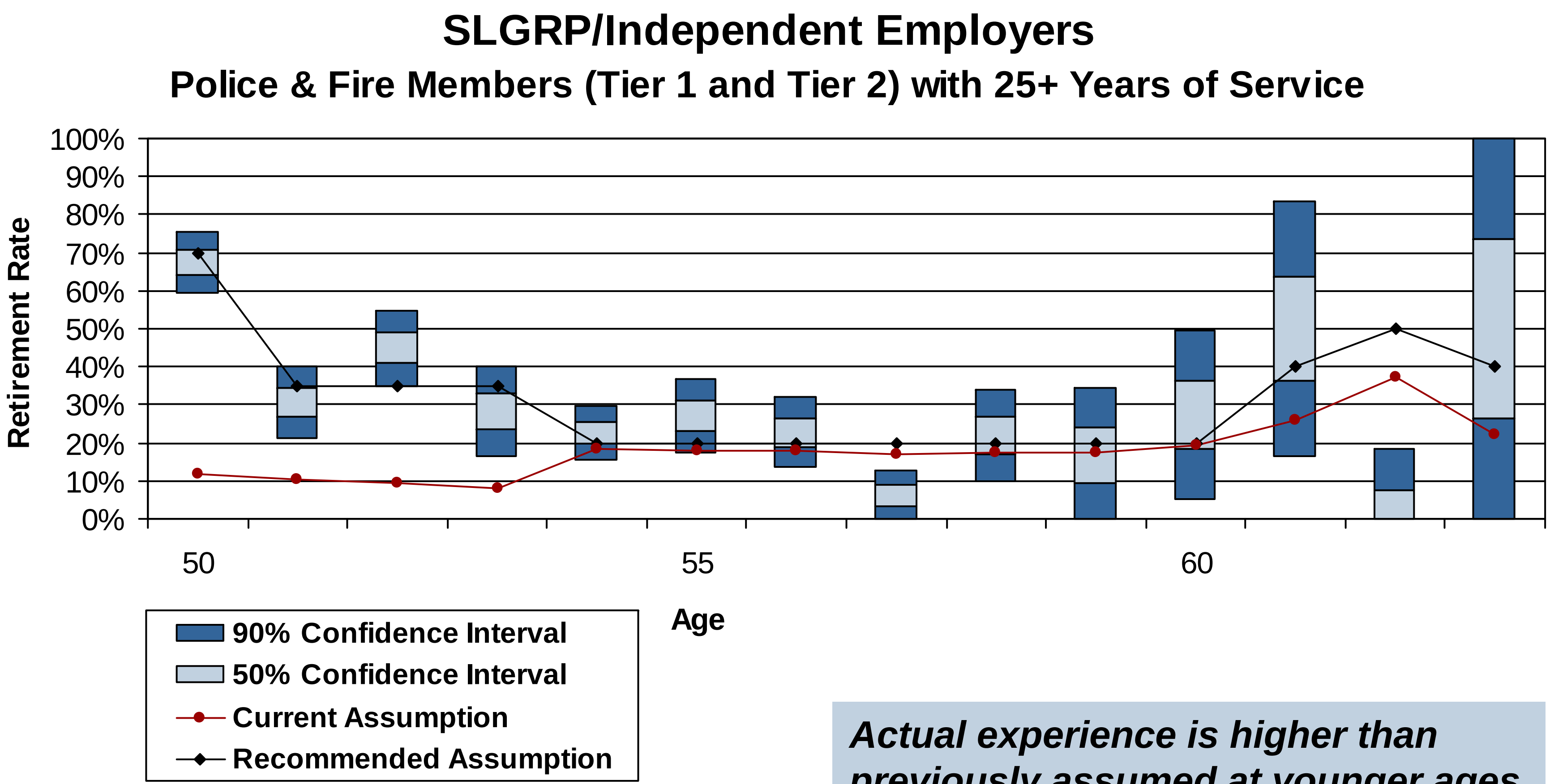
Retirement Assumptions
Retirement from Active Status

SLGRP/Independent Employers
Police & Fire Members (Tier 1 and Tier 2) with <25 Years of Service



Actual experience is lower than previously assumed at most ages

Retirement Assumptions
Retirement from Active Status



Actual experience is higher than previously assumed at younger ages

Retirement Assumptions
Lump Sum Option at Retirement

- Percentage of members electing a lump sum have not changed much from the prior experience study.
- The split between those electing a partial lump sum and a total lump sum has changed significantly from the prior study.

	Count	Actual %
Total Retirements	26,143	
Partial Lump Sum	**2,029**	**8%**
Total Lump Sum	**2,458**	**9%**
No Lump Sum	21,656	83%

Recommended Assumption:

Partial Lump Sum: 8%
Total Lump Sum: 8%

Retirement Assumptions
Purchase of Credited Service

- For Money Match retirements, purchasing service credits is roughly cost neutral to the system, so no adjustment is recommended for Money Match benefits.

	Count	Number Electing to Purchase Service	Actual %
Total Annuity Retirements from Active Status	18,800		
Money Match Retirements	13,159	5,218	40%
Non-Money Match Retirements	5,641	2,502	44%

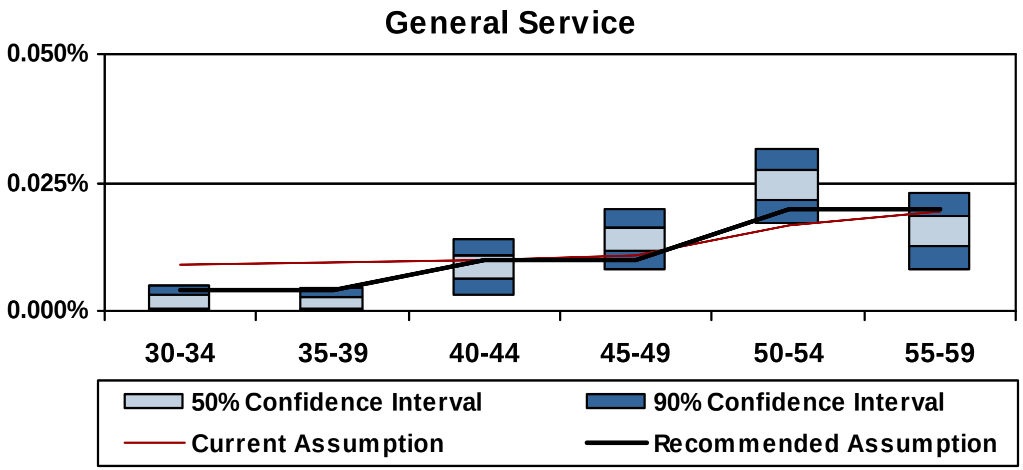
Recommended Assumption:

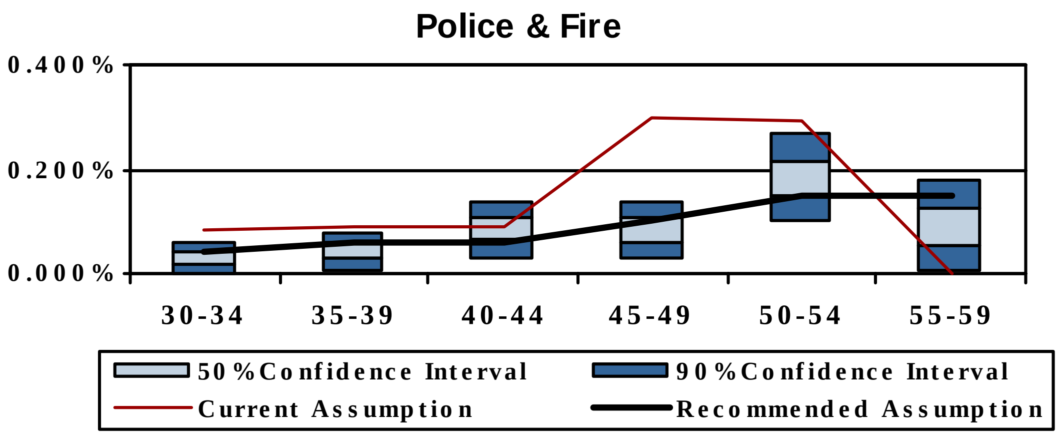
Money Match Retirements: 0%
Non-Money Match Retirements: 45%

Disability Assumptions
Summary of Recommendations

	Current Assumption	Recommended Assumption
Ordinary Disability		
	10 separate sets of rates: ▪ State Agency GS M/F ▪ School District M/F ▪ Local GS M/F ▪ State Agency PF ▪ Local PF ▪ Judiciary M/F	Recommend a single assumption for all ordinary disabilities
Duty Disability		
	10 separate sets of rates: ▪ State Agency GS M/F ▪ School District M/F ▪ Local GS M/F ▪ State Agency PF ▪ Local PF ▪ Judiciary M/F	Recommend that rates be grouped by General Service and Police & Fire

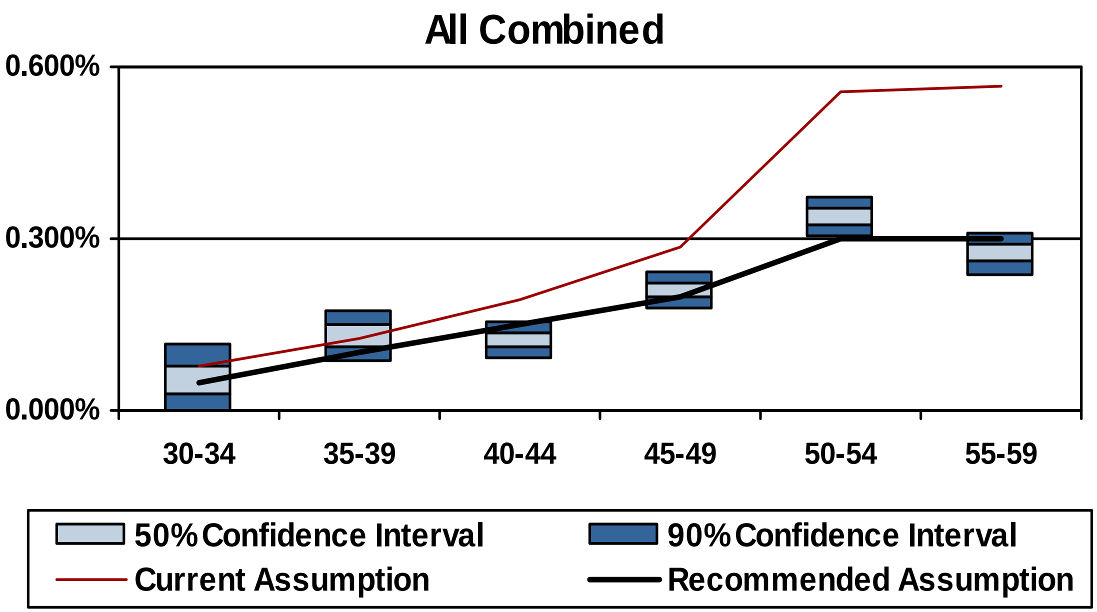
Disability Assumptions
Duty Disability





- Based on the limited data available, we recommend consolidating rates for all groups and gender and only applying a split between GS and PF.

Disability Assumptions
Ordinary Disability



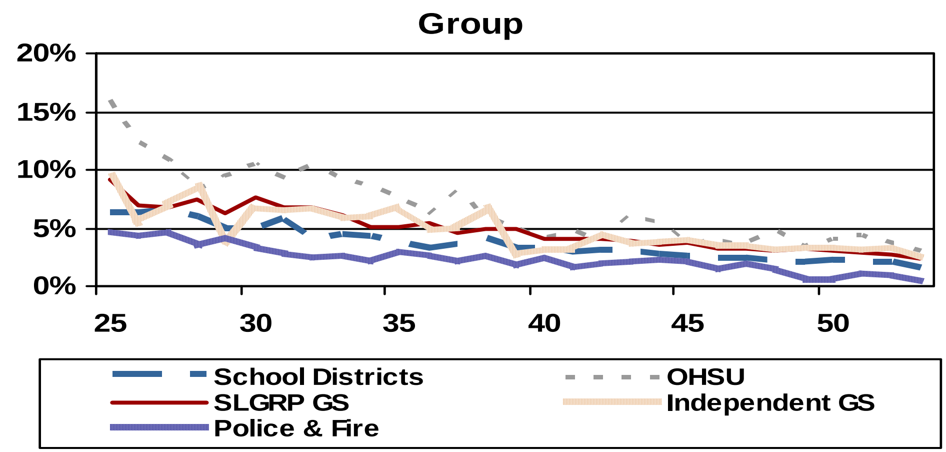
- Based on the limited data available, we recommend consolidating ordinary disability rates for all members

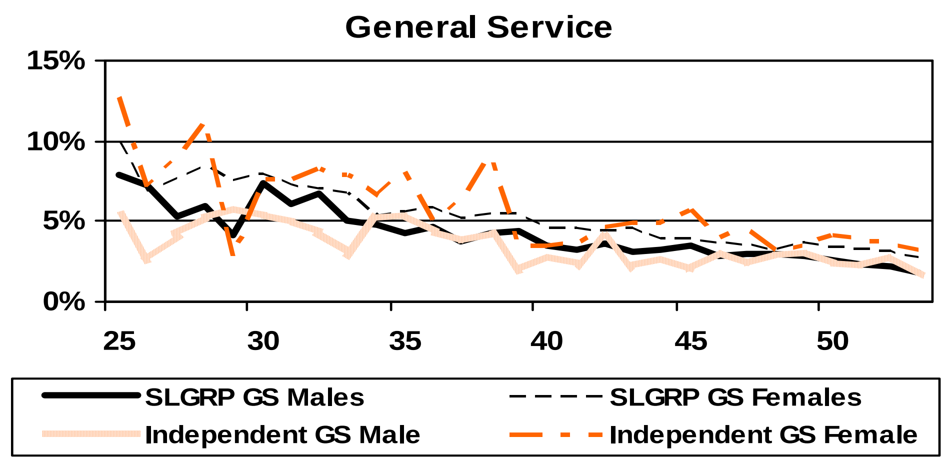
Termination Assumptions
Summary of Recommendations

	Current Assumption	Recommended Assumption
Termination Rates	5-Year Select & Ultimate Period	Ultimate Period Only
	10 separate sets of rates: ▪ School District M/F ▪ OHSU M/F ▪ State Agency GS M/F ▪ Local GS M/F ▪ State Agency PF ▪ Local PF	Recommend that rates be grouped as follows:: ▪ School District – New rates ▪ OHSU (Weighted average of male / female rates for durations 3+) ▪ SLGRP GS M / F – New rates ▪ Independent Employer GS M / F (Weighted average of male / female rates for durations 3+) ▪ Police & Fire (Weighted average of state/local rates for durations 3+)
No Lump Sum Before Retirement		
	10 separate sets of rates: ▪ School District M/F ▪ State Agency GS M/F ▪ Local GS M/F ▪ State Agency PF ▪ Local PF ▪ Judiciary M/F	Recommend that rates be grouped as follows: ▪ General Service (Weighted average of state GS, local GS and school district rates) ▪ Police & Fire (Weighted average of state and local PF rates)

Termination Assumptions
Termination Rates

- There are different termination rates for School District members, SLGRP GS members, Independent GS members, OHSU members, and Police and Fire members
- For SLGRP and Independents, there is also a clear distinction based on gender

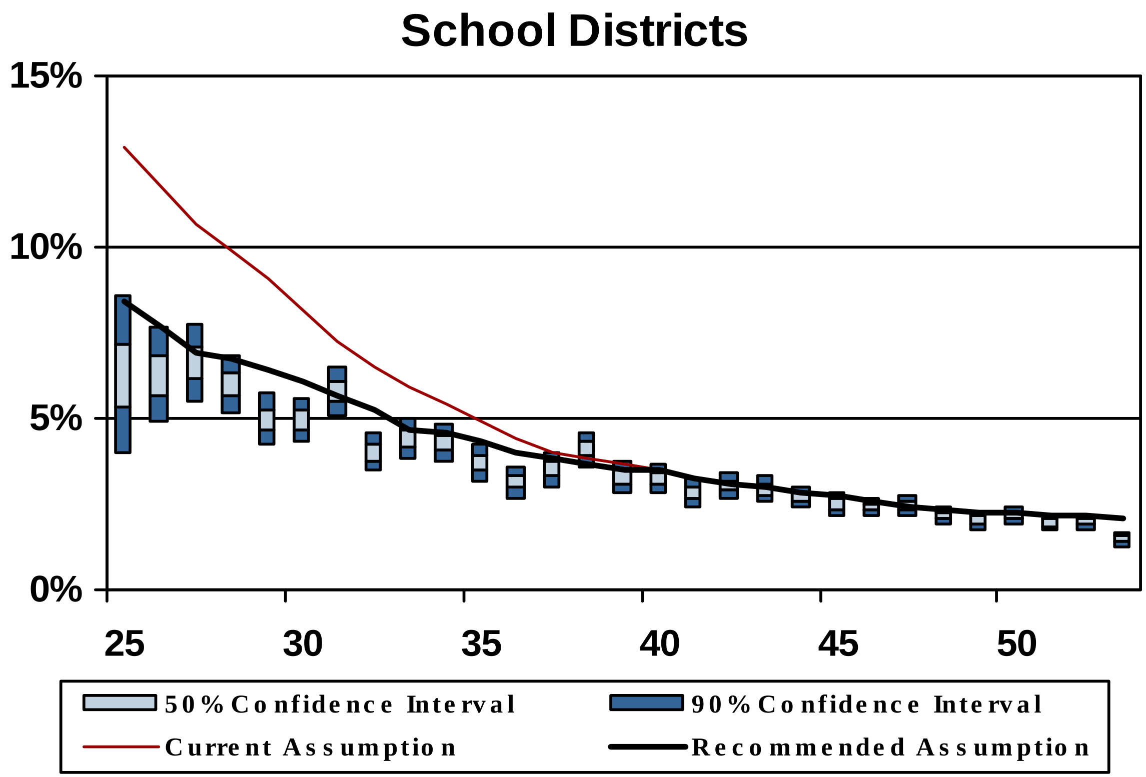




Termination Assumptions
Termination Rates

- Actual rates are significantly lower at younger ages than the current assumption.

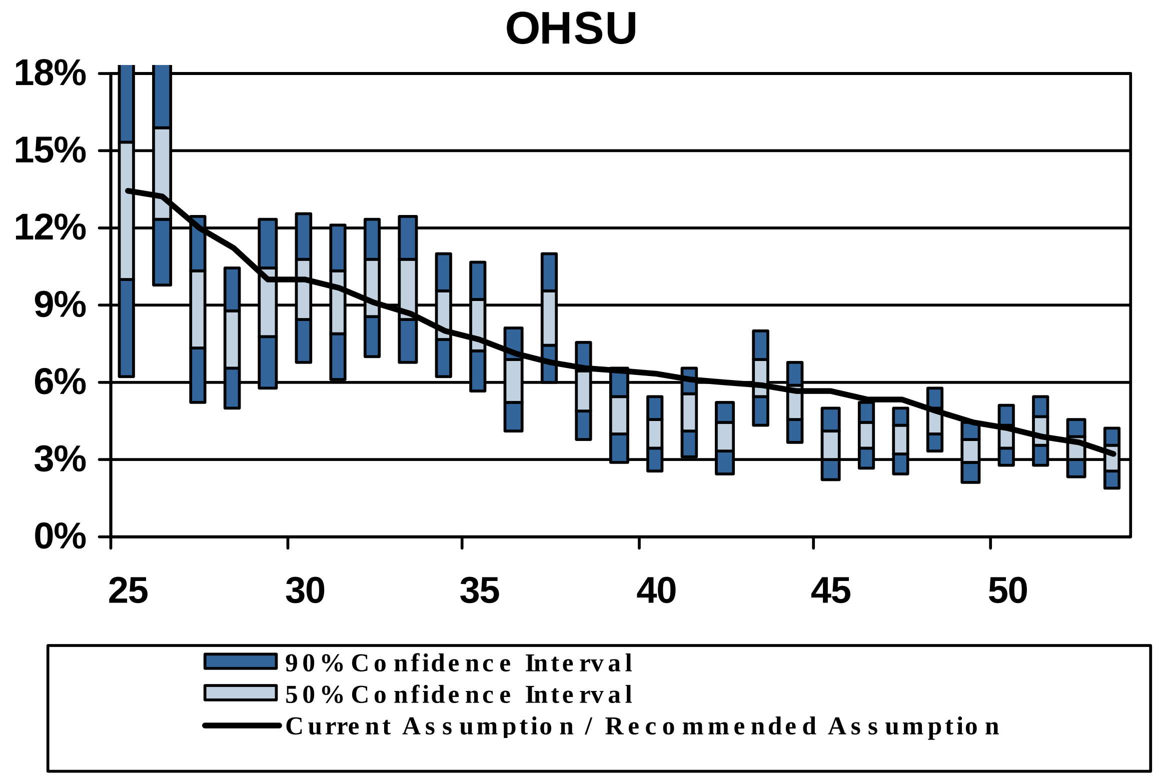
Recommended rates are based on the actual rates experienced for males and females for all durations beyond 3 years



Termination Assumptions
Termination Rates

- Current assumed termination rates follow actual experience fairly closely.

Recommended rates are the average current assumed rates for durations beyond 3 years



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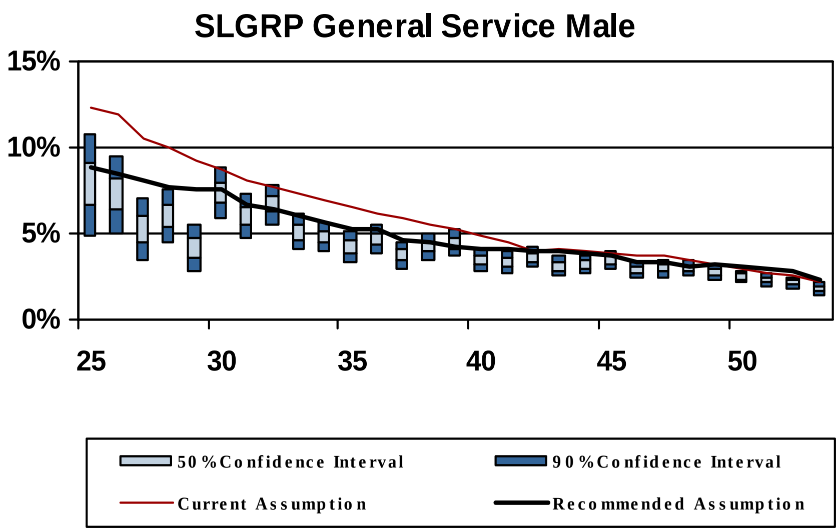

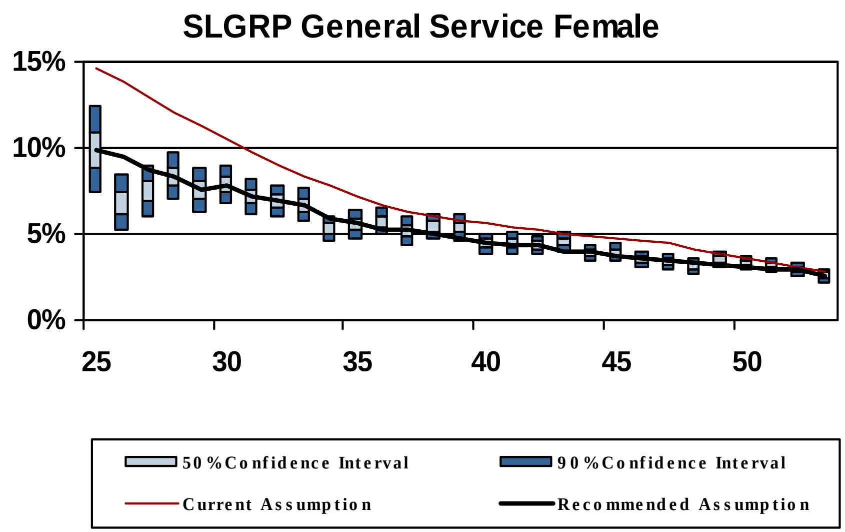

Recommended rates are based on the actual rates experienced for durations beyond 3 years

Termination Assumptions
Termination Rates

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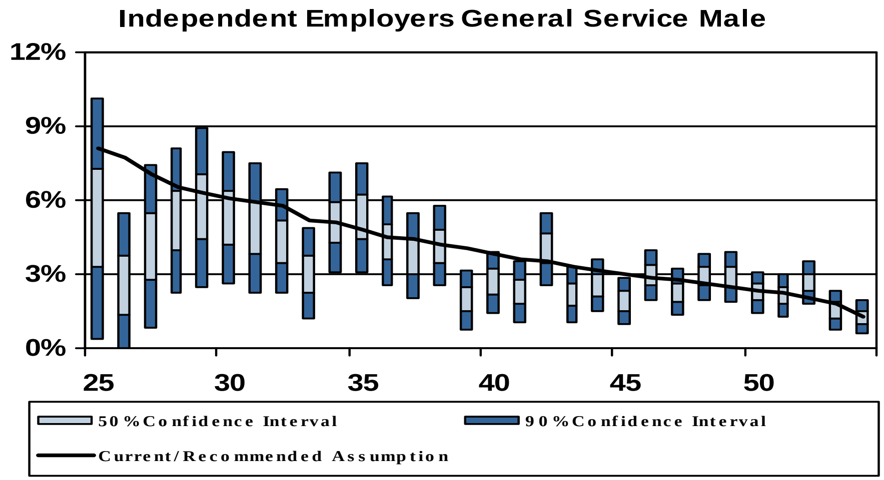

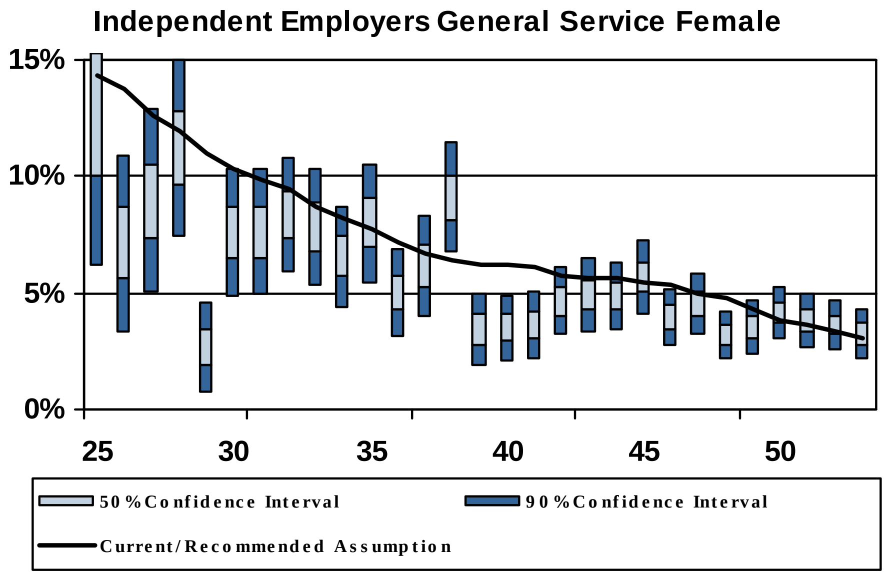

Termination Assumptions
Termination Rates

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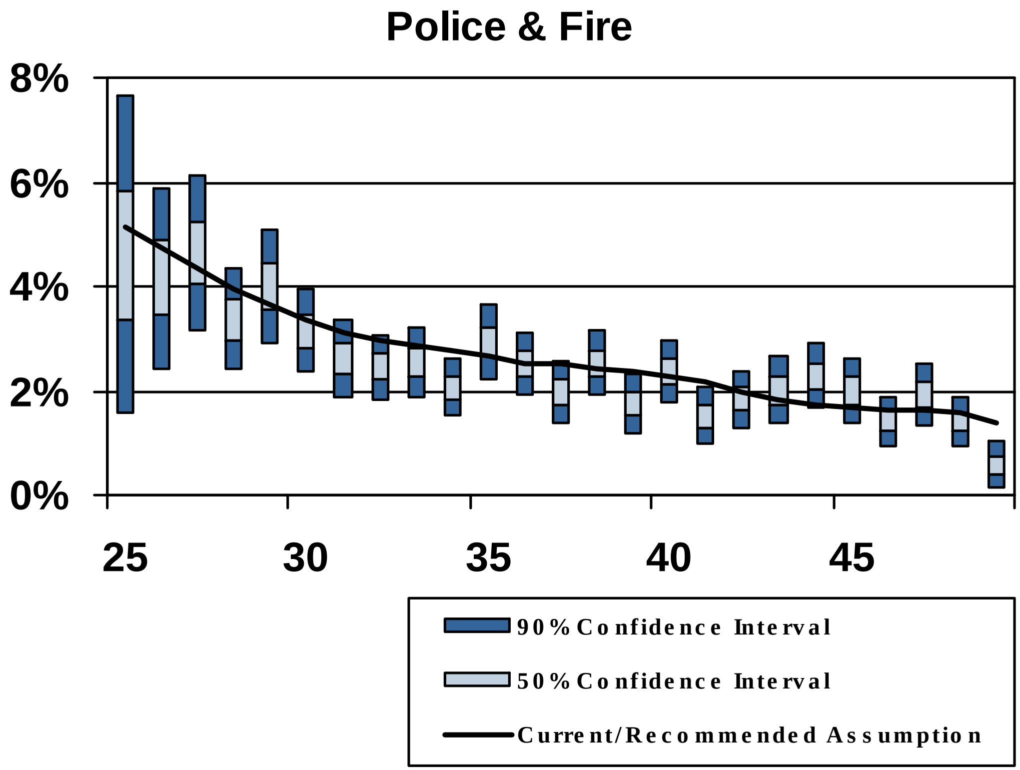
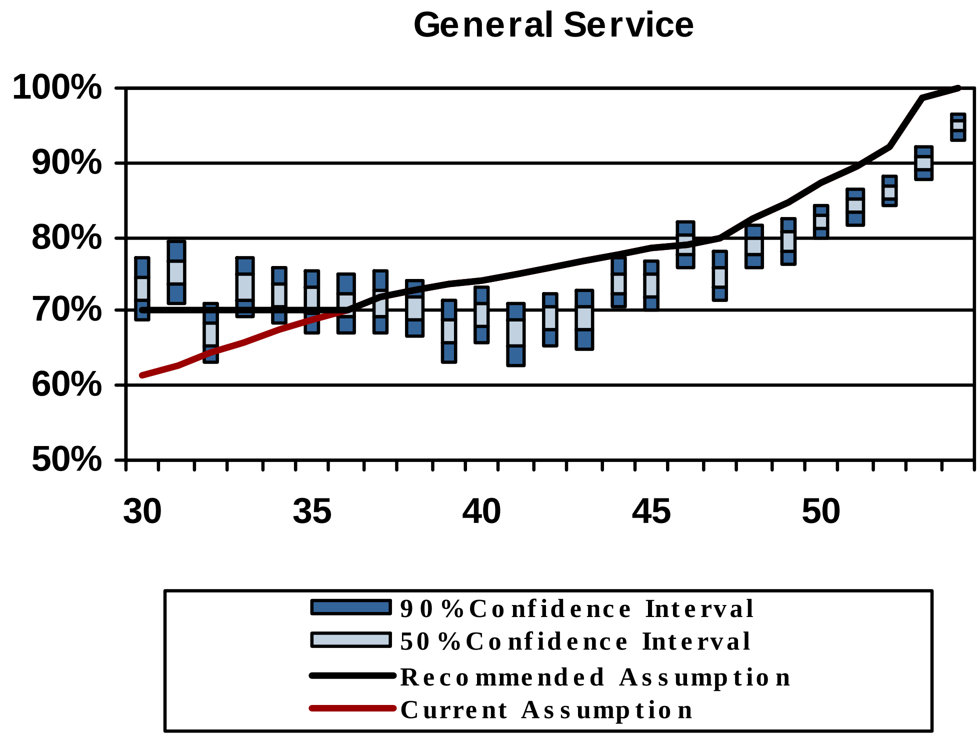


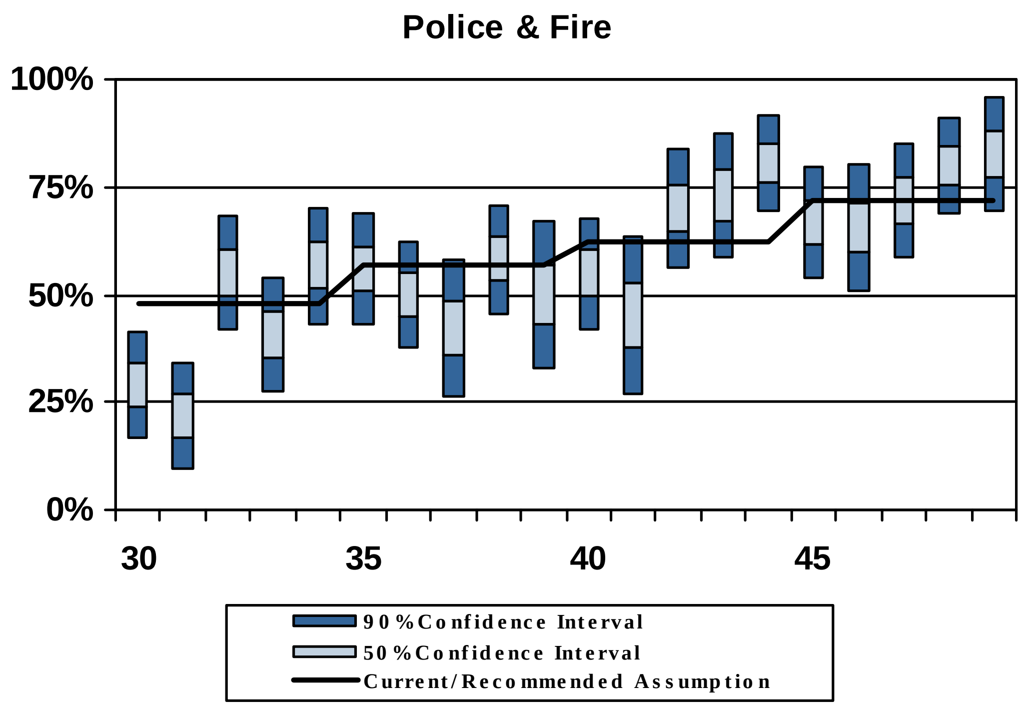
Termination Assumptions
No Lump Sum Before Retirement

- This assumption represents the probability that a terminated member will leave his/her account balance in the plan until retirement.
- Current rates follow actual experience fairly closely at most ages.
- Recommended rates are the current weighted average rates with slight modification at ages 30-35.



Termination Assumptions
No Lump Sum Before Retirement

- Current assumed rates are slightly higher at some ages, but we expect that fewer members will elect a lump sum in the future.

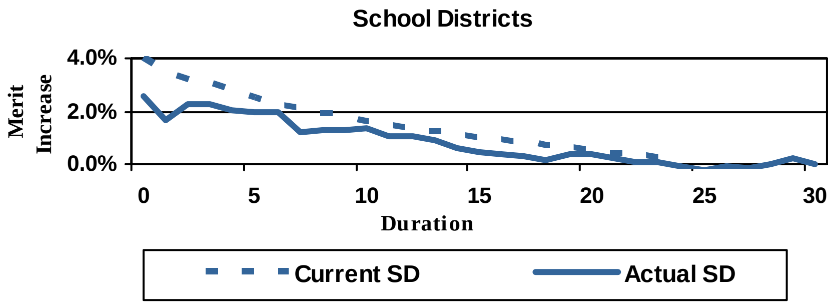


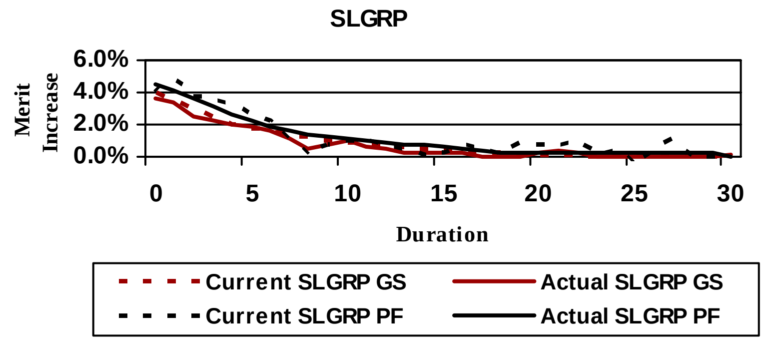
Recommended rates are the weighted average current assumed rates for state/local police & fire

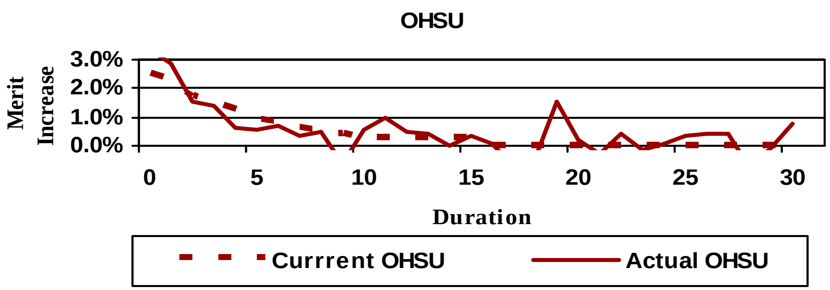
Salary Increase Assumptions
Summary of Recommendations

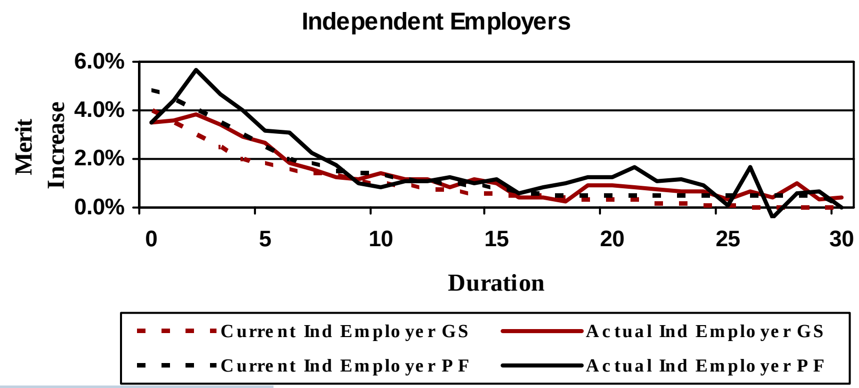
	Current PERS	Recommended PERS
Merit Scale	Based on Duration from Entry Age	Based on duration from Entry age
	6 separate sets of rates: ■ School District ■ OHSU ■ State Agency GS ■ State Agency PF ■ Local GS ■ Local PF	Recommend that rates be grouped as follows: ■ School District – new rates ■ OHSU – No change ■ SLGRP GS (Weighted average of current state and local GS rates) ■ SLGRP PF (Weighted average of current state and local PF rates) ■ Independent employers GS (Same as local GS rates) – No change ■ Independent employers PF (Same as local PF rates) – No change
Unused Sick Leave		
Actives		
■ State Agency GS Male	8%	5.75%
■ State Agency GS Female	4%	4.75%
■ School Districts Male	10%	7.25%
■ School Districts Female	7%	6.75%
■ Local GS Male	5%	3.50%
■ Local GS Female	3%	No change
■ State PF	9%	8.75%
■ Local PF	7%	8.75%
Dormants	50% of Active Rates	3.50%

Salary Increase Assumption
Merit Scale



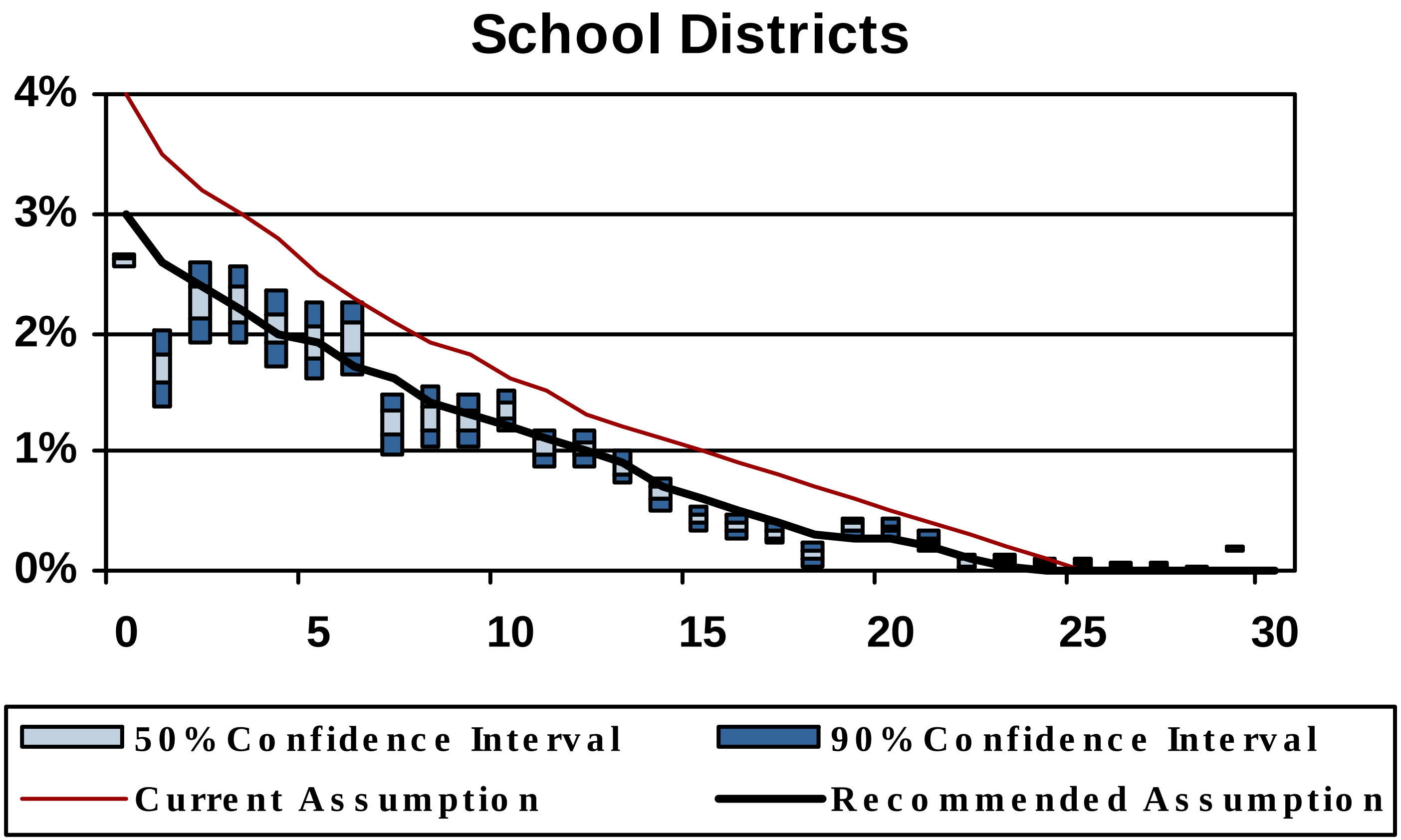






School Districts is the only group where actual experience does not follow current assumption

Salary Increase Assumptions
Merit Scale



Actual experience is below the current level

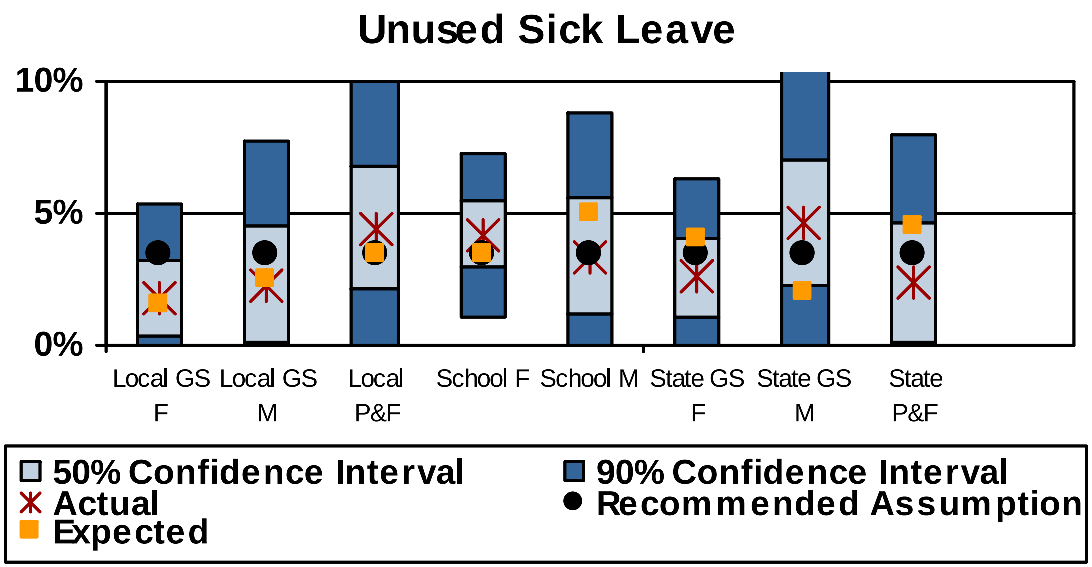
Salary Increase Assumptions
Unused Sick Leave - Actives

Healthy	Current	Actual	Recommended
State GS Male	8.0%	5.75%	5.75%
State GS Female	4.0%	4.75%	4.75%
School District Male	10.0%	7.25%	7.25%
School District Female	7.0%	6.75%	6.75%
Local GS Male	5.0%	3.50%	3.50%
Local GS Female	3.0%	3.00%	No Change
State P&F	9.0%	8.9%	8.75%
Local P&F	7.0%	8.5%	8.75%

- This assumption represents the percentage increase in a member’s final average pay due to cash out of the unused sick leave.
- This assumption is only applied to employers who participate in the Unused Sick Leave Program
- Current rates appear to be too high for most groups.

Salary Increase Assumptions
Unused Sick Leave - Dormants

- Dormant members are expected to have less unused sick leave applied to their final payroll than actives would.
- The current assumption varies by group, but there is not sufficient data to determine a separate assumption for each group.
- Confidence intervals have been established by group to determine if a single assumption is appropriate across all dormant members.



Recommended assumption for dormant members is 3.5%.

Retiree Healthcare Assumptions
Summary of Recommendations

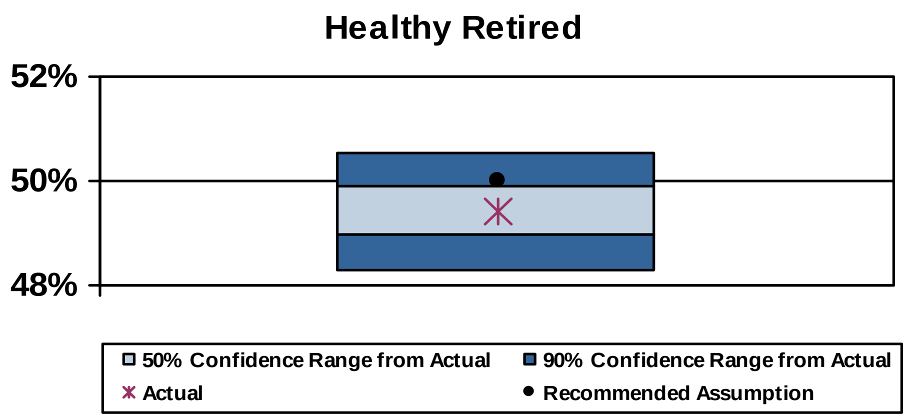
	Current Assumption	Recommended Assumption
RHIA Participation Rates		
	80%	Healthy Retirement 50% Disabled Retirement 25%
RHIPA Participation Rates		
	15%	11%

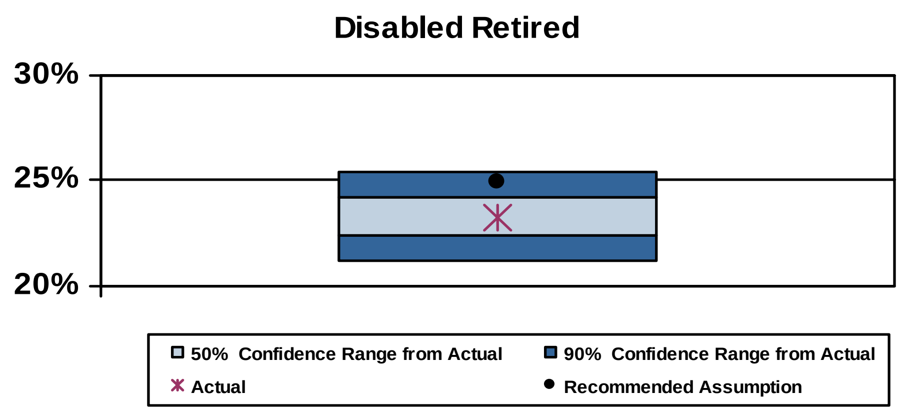
Retiree Healthcare Assumptions– RHIA Participation Rates

- Current assumption is 80%
- Election of RHIA coverage has declined over the past several years, and is significantly different between healthy retirements and disabled retirements.

Recommended assumption:

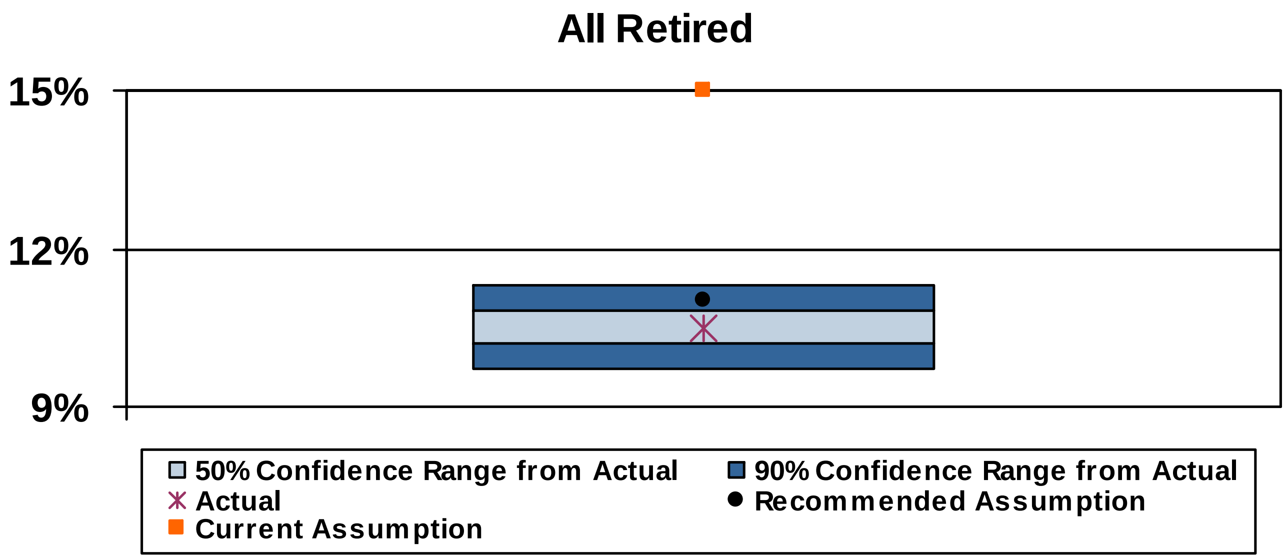
Healthy Retired 50%
Disabled Retired 25%





Retiree Healthcare Assumptions – RHIPA Participation Rates

- Election of RHIPA coverage has declined over the past several years



Recommended assumption is 11%

Allocation Procedures PERS

Allocation Procedures
Summary of Recommendations

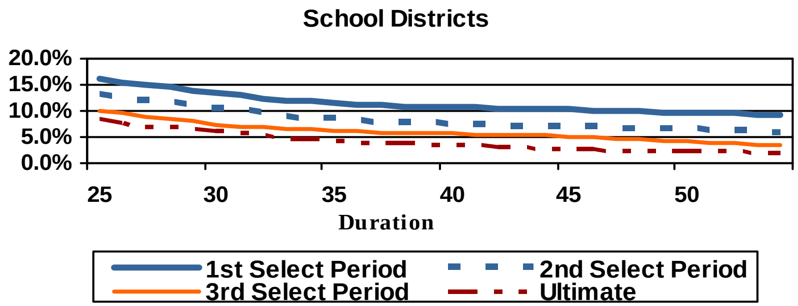
	Current Procedure	Recommended Procedure
18-Month Delay	Equate the present value of the calculated rate to the rate currently being paid plus the deferred rate expected to be paid for the remaining amortization period.	No change
Allocation of Prior Service Segments	Allocate present value of future benefits based on portion of account balance with each employer Allocate Normal Cost to current employer	Allocate Actuarial Accrued Liability based on portion of account balance with each employer No change

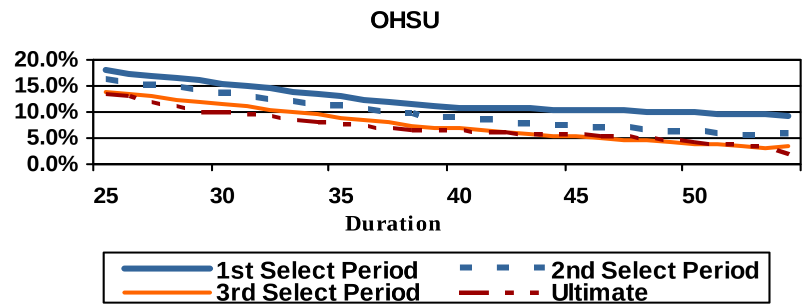
Demographic Assumptions OPSRP

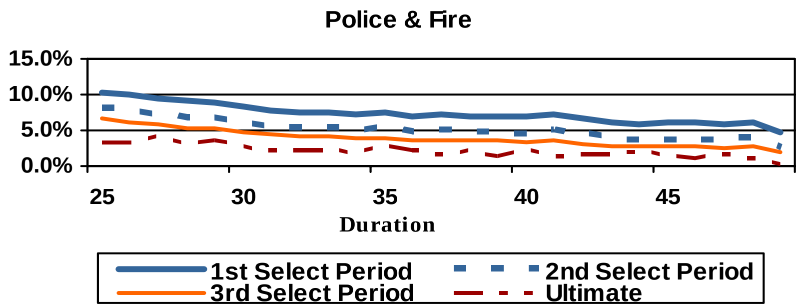
Demographic Assumptions – OPSRP
Summary of Recommendations

	Recommended OPSRP Assumptions
Mortality	Same as PERS
Retirement	50% of Tier 1 SLGRP/Independent Employer GS rates, < 30 years of service, from 55 to 64; 100% of rates thereafter; 100% of Tier 1/Tier 2 GS rates, 30+ years of service are assumed from 59 to 70. Rate for 58 has been increased to 40% 50% of PF rates, < 25 years of service, from 50 to 59; 100% of rates thereafter 100% of PF rates, 25+ years of service, from age 54 to 65; Rate for 53 has been increased to 50%
Disability	Same as PERS
Termination	3-Year Select & Ultimate Rates for SLGRP, Independent Employers, School Districts, OHSU, and Police & Fire Ultimate Rates are the same as PERS
Salary	Same as PERS

Termination Assumption - OPSRP
Select & Ultimate Rates

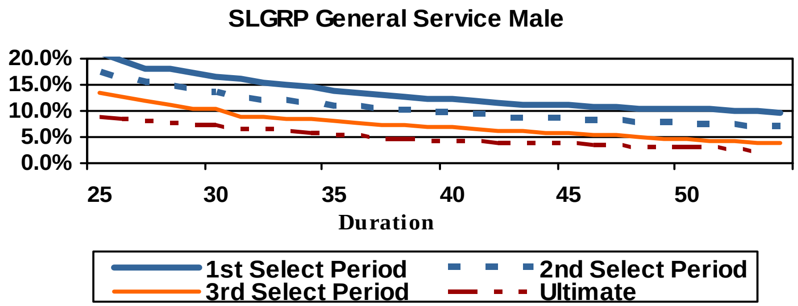


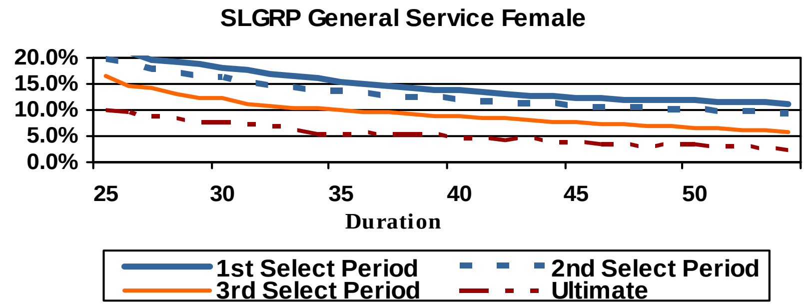


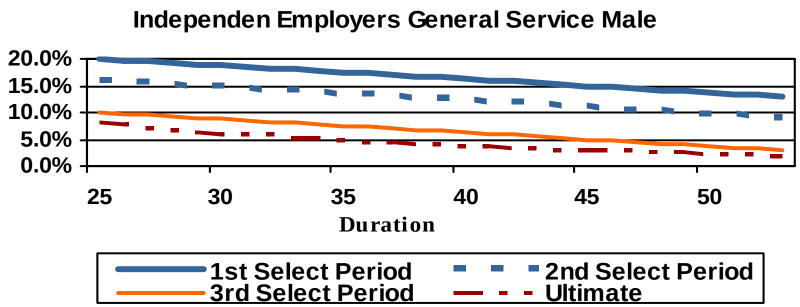


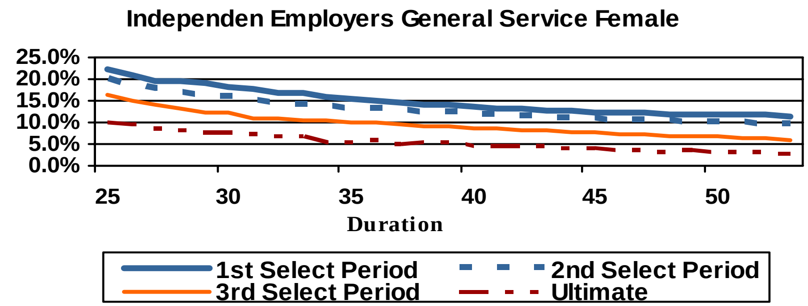
Select rates are based on actual PERS experience for 1st, 2nd, and 3rd year durations.

Termination Assumption - OPSRP
Select & Ultimate Rates









Select rates are based on actual PERS experience for 1st, 2nd, and 3rd year durations.

Actuarial Methods and Economic Assumptions
(June 16, 2006 Meeting)

Actuarial Methods
Summary of Recommendations

	Current PERS	Recommended PERS	Recommended OPSRP
Actuarial Cost Method	Projected Unit Credit	Same as Current	Same as Current
Amortization Method	Level Percent of Combined Payroll	Same as Current	Same as Current
Amortization Period	▪ 12/31/2005 UAL – 22 years ▪ PUC Method change – 3-year rolling ▪ Future experience – Same as OPSRP	Same as Current	20 years (from first valuation used to set contribution rates in which experience is recognized)
Asset Valuation Method	Market Value	Same as Current	Same as Current
Excluded Reserves	Contingency, Capital Preservation, and Rate Guarantee	Same as Current	N/A
Rate Collar	Greater of 20% of current rate or 3 percentage points. Rate collar doubles if funded percentage falls below 80% or increases above 120%	Same as Current	Same as Current

Economic Assumptions
Summary of Recommendations

	Current Assumption	Recommended Assumption
Inflation	**3.00%**	**2.75%**
Real Wage Growth	1.00%	1.00%
Payroll Growth	**4.00%**	**3.75%**
Regular Investment Return	8.00%	8.00%
Variable Investment Return	8.50%	8.50%
Health Cost Trend Rate		
▪ **2007 Trend Rate**	**7.00%**	**9.00%**
▪ Ultimate Trend Rate	5.00%	5.00%
▪ **Year Reaching Ultimate Trend**	**2011**	**2013**

Decisions
(Selection of Actuarial Methods and Assumptions)

Decisions
Selection of Actuarial Methods and Assumptions

- **Actuarial Methods** – No changes recommended
- **Economic Assumptions**
  - Reduce inflation assumption from 3.00% to 2.75%
  - Update healthcare trend assumption
- **Demographic Assumptions**
  - Increase setback for male retiree mortality
  - Update disabled retiree mortality and ratios for non-retired mortality
  - Restructure and update retirement rate assumptions
  - Restructure and update termination rate assumptions
  - Consolidate disability rate assumptions
  - Reduce School District salary merit increase assumption
  - Update other minor assumptions
- **Allocation Procedures**
  - Change service segment allocation procedure

Decisions
Estimated Impact of Assumption Changes

	Estimated Impact on Liabilities	Estimated Impact on Employer Contribution Rates
Mortality Assumption	0.4%	0.2%
Retirement Assumption	-0.1%	-0.4%
Disability Assumption	-0.1%	-0.1%
Termination Assumption	0.0%	0.0%
Salary Increase Assumption	-0.2%	-0.1%
Other Assumptions	0.0%	0.0%
Economic Assumptions	-0.5%	-0.1%
Total Estimated Impact	**-0.4%**	**-0.4%**

Next Steps

- June Board Meeting – Experience Study Part 1
  - Actuarial Methods
  - Economic Assumptions
  - No Decisions Required
- July Board Meeting – Experience Study Part 2
  - Demographic Assumptions
  - Allocation Procedures
  - Board Adoption of Methods and Assumptions for 12/31/2005 Actuarial Valuation
- September Board Meeting – 12/31/2005 system-wide valuation results
  - OPSRP
  - PERS T1/T2

Appendix

Mortality Assumptions
Summary of Recommended Rates

	Healthy Retired		Disabled Retired		Non-Retired				
Age	School District Male	Other General Service Male	Male	Female	**Age**	School District Male	Other General Service Male	Police & Fire Male	Other Female
52	0.200%	0.214%	2.500%	2.750%	**22**	0.0215%	0.0224%	0.0250%	0.0105%
57	0.320%	0.362%	2.500%	2.750%	**27**	0.0244%	0.0244%	0.0265%	0.0116%
62	0.595%	0.675%	2.500%	2.750%	**32**	0.0268%	0.0289%	0.0349%	0.0157%
67	1.128%	1.274%	2.500%	2.750%	**37**	0.456%	0.0502%	0.0589%	0.0272%
72	1.980%	2.221%	3.783%	2.811%	**42**	0.0664%	0.0701%	0.0799%	0.0407%
77	3.390%	3.783%	6.437%	4.588%	**47**	0.0908%	0.0980%	0.1131%	0.0645%
82	5.793%	6.437%	11.076%	7.745%	**52**	0.1297%	0.1390%	0.1714%	0.0970%
87	9.978%	11.076%	18.341%	13.168%	**57**	0.2077%	0.2356%	0.2940%	0.1597%
92	16.642%	18.341%	26.749%	19.451%	**62**	0.3864%	0.4386%	0.5375%	0.2989%

Retirement Assumptions
Summary of Recommended Rates

	Tier 1 < 30 Years of Service		Tier 2 < 30 Years of Service		Tier 1/ Tier 2 > 30 Years		P&F < 25 Years	P&F > 25 Years
Age	School District	Other General Service	School District	Other General Service		Age		
Below 50					50.0%	Below 50		70.0%
50-51					50.0%	50	14.0%	70.0%
52-53					66.7%	51	14.0%	35.0%
54					75%	52	8.5%	35.0%
55	14.0%	10.0%	7.0%	5.0%	33.3%	53	8.5%	35.0%
56	7.0%	5.0%	3.5%	2.5%	25.0%	54	8.5%	20.0%
57	10.0%	7.5%	5.0%	3.75%	25.0%	55	15.0%	20.0%
58	15.0%	10.0%	7.5%	5.0%	25.0%	56	8.5%	20.0%
59	10.0%	7.5%	5.0%	3.75%	25.0%	57	8.5%	20.0%
60	10.0%	7.5%	10.0%	7.5%	13.0%	58	8.5%	20.0%
61	15.0%	10.0%	15.0%	10.0%	13.0%	59	8.5%	20.0%
62	15.0%	12.0%	15.0%	12.0%	33.3%	60	15.0%	20.0%
63	10.0%	12.0%	10.0%	12.0%	25.0%	61	15.0%	40.0%
64	15.0%	12.0%	15.0%	12.0%	25.0%	62	25.0%	50.0%
65	22.0%	20.0%	22.0%	20.0%	33.3%	63	5.0%	40.0%
66	10.0%	8.0%	10.0%	8.0%	30.0%	64	5.0%	40.0%
67	10.0%	8.0%	10.0%	8.0%	30.0%	65	100%	100%
68	4.0%	8.0%	4.0%	8.0%	15.0%			
69	4.0%	5.0%	4.0%	5.0%	15.0%			
70 +	100%	100%	100%	100%	100%			

Disability Assumptions
Summary of Recommended Rates

	Duty Disability		Ordinary Disability
Age	General Service	Police & Fire	
30-34	0.004%	0.040%	0.050%
35-39	0.004%	0.060%	0.100%
40-44	0.010%	0.060%	0.150%
45-49	0.010%	0.100%	0.200%
50-54	0.020%	0.150%	0.300%
55-59	0.020%	0.150%	0.300%

Termination Assumption
Summary of Recommended Rates

	School District	OHSU	SLGRP		Independent Employers		Police & Fire
Age			General Service Male	General Service Female	General Service Male	General Service Female	
22	8.378%	13.417%	8.871%	9.899%	8.090%	14.294%	5.158%
27	6.919%	11.965%	8.071%	8.700%	7.042%	12.604%	4.350%
32	5.229%	9.144%	6.378%	6.925%	5.761%	9.434%	2.971%
37	3.873%	6.810%	4.639%	5.200%	4.402%	6.679%	2.495%
42	3.099%	6.009%	3.939%	4.376%	3.508%	5.780%	1.974%
47	2.442%	5.289%	3.291%	3.443%	2.808%	5.000%	1.608%
52	2.145%	3.655%	2.768%	2.956%	2.050%	3.387%	N/A

No Lump Sum Before Retirement
Summary of Recommended Rates

Age	General Service	Police & Fire
27	70.0%	48.1%
32	70.0%	48.1%
37	71.8%	57.1%
42	75.9%	62.1%
47	79.9%	72.1%
52	92.0%	N/A

Merit Scale
Summary of Recommended Rates

	School District	SLGRP	
Duration		General Service	Police & Fire
0	3.00%	4.00%	4.02%
1	2.60%	3.50%	4.93%
2	2.40%	3.00%	3.71%
3	2.20%	2.50%	3.67%
4	2.00%	2.00%	3.28%
5	1.90%	1.80%	2.66%
6	1.70%	1.60%	2.26%
7	1.60%	1.40%	0.94%
8	1.40%	1.20%	0.09%
9	1.30%	1.00%	0.71%
10	1.20%	0.90%	0.99%
11	1.10%	0.80%	1.16%

	School District	SLGRP	
Duration		General Service	Police & Fire
12	1.00%	0.70%	0.58%
13	0.90%	0.60%	0.44%
14	0.70%	0.50%	0.17%
15	0.60%	0.40%	0.23%
16	0.50%	0.40%	0.80%
17	0.40%	0.30%	0.48%
18	0.30%	0.20%	0.29%
19	0.28%	0.10%	0.91%
20	0.26%	0.10%	0.78%
21	0.20%	0.10%	0.80%
22	0.10%	0.10%	0.99%
23	0.02%	0.00%	0.12%

Retirement Assumptions - OPSRP
Summary of Recommended Rates

	General Service			Police & Fire	
Age	< 30 Years	> 30 Years	Age	<25 Years	> 25 Years
55	5.0%		50	7.0%	
56	2.5%		51	7.0%	
57	3.75%		52	4.25%	
58	5.0%	40.0%	53	4.25%	50.0%
59	3.75%	25.0%	54	4.25%	20.0%
60	3.75%	13.0%	55	7.50%	20.0%
61	5.0%	13.0%	56	4.25%	20.0%
62	6.0%	33.3%	57	4.25%	20.0%
63	6.0%	25.0%	58	4.25%	20.0%
64	6.0%	25.0%	59	4.25%	20.0%
65	20.0%	33.3%	60	15.0%	20.0%
66	8.0%	30.0%	61	15.0%	40.0%
67	8.0%	30.0%	62	25.0%	50.0%
68	8.0%	15.0%	63	5.0%	40.0%
69	5.0%	15.0%	64	5.0%	40.0%
70 +	100%	100%	65	100%	100%

Mailing Address:
P.O. Box 23700
Tigard, OR 97281-3700
(503) 598-7377
TTY (503) 603-7766
www.pers.state.or.us

July 21, 2006

MEETING DATE	7/21/06
AGENDA ITEM	D.2. HB 2189 EE Contributions

TO: Members of the PERS Board

FROM: Steven Patrick Rodeman, Administrator, PPLAD

SUBJECT: HB 2189 and Employee Contributions on Lump-Sum Payments

The 2005 Oregon Legislature adopted HB 2189, which made a retroactive change to the definition of "salary" for the purposes of contributions to the Individual Account Program ("IAP") by PERS Chapter 238 Program members. Under the 2003 reform legislation creating the PERS Chapter 238A Program (OPSRP and IAP), certain lump sum payments to those Tier 1/Tier 2 members that were treated as "salary" for calculating final average salary under the PERS Chapter 238 Program (and as salary for pre-reform employee contributions) did not qualify as "salary" from which the 6% employee contribution was to be paid under the IAP. The 2005 legislative change made those lump sum payments subject to the 6% contribution and made that change retroactive to the start of the IAP program, January 1, 2004.

The retroactive nature of the statutory change combined with programming challenges for both PERS and our reporting employers has created special complications in processing such transactions. As of May 1, 2006, all lump sum payments to PERS Chapter 238 Program members were reversed out of the jClarety system. The associated employer contributions were credited to the employers. Employers now are re-entering these lump sum payments and triggering the associated 6% IAP employee contribution. Remember, the employee contribution can fall into one of three categories: (1) Employer Paid Pre-Tax or "EPPT"; (2) Member Paid Pre-Tax or "MPPT"; and (3) Member Paid After Tax or "MPAT".

As discussed at the Board's June 2006 meeting, staff has identified three alternatives to restoring these contributions and associated earnings:

1. All employee IAP contributions and the earnings that they would have earned from when lump-sum payments were made are billed to the employer.
2. All employee contributions are billed to the employer. PERS would credit IAP earnings to those contributions that they would have earned from when the lump-sum payments were made. The source for that earnings crediting could be either the Contingency Reserve or current year (2006) earnings.
3. All employee contributions and the associated IAP earnings calculated from when the lump-sum payments were made are paid for out of the Contingency Reserve.

As of the close of business Wednesday, July 12, 2006, staff had received five additional comment letters on these alternatives. Those letters are attached to this memo, as are the earlier letters and transcript of testimony from the June 16, 2006 Board meeting.

Staff will continue to consult with member and employer stakeholder groups in developing recommendations for Board consideration at the July 21, 2006 meeting.

Attachment 1 - City of Corvallis Letter
Attachment 2 - Washington County Letter
Attachment 3 - Marion County Letter
Attachment 4 - Lane County Email
Attachment 5 - City of Salem Letter
Attachment 6 - Prior Comments and Transcript

CORVALLIS
ENHANCING COMMUNITY LIVABILITY

Finance Department
501 SW Madison Avenue
P.O. Box 1083
Corvallis, OR 97339-1083
(541) 766-6990
Fax (541) 754-1729

July 3, 2006

PERS Board
c/o Steve Rodeman
Public Employee Retirement System
PO Box 23700
Tigard, OR 97281-3700

RE: HB 2189 Implementation

The City of Corvallis, employer #2155, is primarily a Member Paid Pre-Tax (MPPT) employer. I have been an active participant in the discussions with PERS staff and other employers about the issues surrounding HB 2189 implementation. I was also at the June 16 Board meeting where the Board took up this issue, then requested more time for public comments. Therefore, I am taking this opportunity to provide information to you and the Board.

First, a little bit about Corvallis demographics as they apply to the retroactive portion of HB 2189 implementation.

- Corvallis has 146 employees who had a lump sum payment in 2004 and/or 2005. This is about 32 percent of our regular full time employees.
- Of the 146, twenty were employees who got lump sum payments of accrued vacation and/or compensatory time at retirement; fifteen received these payments at separation for other than retirement purposes.
- The individual amounts owed for the member's 6% contribution range from $1.48 to nearly $1,700.
- Most of the lump sum payments were made to Police Officers and Firefighters who elect to "cash out" a portion of their accrued vacation, in compliance with the rules set forth in their collective bargaining agreements.

Second, a little bit about Corvallis' experience with the changing definition of subject salary. In January 2004 a long-time Corvallis Police Officer retired. Since he was a Tier 1 member, the City's Payroll Coordinator withheld the 6% of pay contribution on the lump sum payments made upon retirement. As soon as Corvallis could report January payroll data to PERS via EDX, we reported this payment and attempted to pay the employee's withheld 6% to PERS. PERS credited the monies back and reported that the lump sum payment was no longer subject salary and they would not take the employee's payment, although for the employer's contribution the lump sum was subject salary so the employer contribution would be made. After arguing with the retired employee (who believed that the payment should be subject to the 6%), we returned the 6% we had withheld to that retiree.

I wholeheartedly support the PERS' staff recommendation to use contingency reserves to pay the employee's 6% contribution for the retroactive period of January 1, 2004 through April 30, 2006. I have the following reasons for this support:

- This solution keeps all members whole without disparate treatment where some members of a bargaining unit (mostly those who are currently employed with the same employer) are required to pay the 6% and others (retired or otherwise separated) do not pay the 6% (we have no paycheck to withhold the monies from). This type of disparate treatment amounts to providing a 6% employer paid bonus to some members of a bargaining unit but not others, leaving the employer open to an unfair labor practice claim.
- This solution addresses the problems inherent in finding and collecting monies from people who are no longer employees, or from former employees who are deceased.
- This solution will keep employers from having to go to collections agencies or small claims court to collect monies from retirees or deceased members – a politically unfeasible situation.
- This solution addresses the problem of asking a member to pay the 6% to the employer for the employer to pay to PERS for PERS to pay to the member either because the member has withdrawn or the member's IAP account was cashed out at retirement under *de minimus* rules.
- This solution has no tax liability issues that will arise if the employer makes the payment to PERS and the employee never pays the employer back.
- This solution does not "punish" employers who made every effort to actually withhold and remit the monies to PERS.

I also believe that PERS needs to be the lead in communicating information about this issue to their members. If the solution is to use contingency reserves, then some members' IAP accounts will suddenly have monies in them that have no "payroll" track record. If the ultimate solution the Board chooses is to require employers to pay, then this needs to be communicated from PERS to the members; to do otherwise implies that the employer's payroll staff made an error.

I plan to be at the PERS Board meeting on July 21 and will be available to answer any questions you may have.

Sincerely,

Nancy Brewer
Finance Director

WASHINGTON COUNTY
OREGON

July 6, 2006

JUL 07 2006

PERS Board of Directors
PO Box 23700
Tigard, Oregon 97281-3700

Dear Board Members:

The circumstances surrounding the requirements that employers retroactively charge, collect and report the 6% employee contributions on lump-sum payouts back to January 1, 2004 create complexities and complications for employees, employers and PERS that were not imagined when this law changed.

Prior to January 30, 2004, Washington County deducted the 6% employee contributions on all lump-sum payouts and remitted those amounts to PERS. PERS Employer announcement #14, dated January 30, 2004 advised employers to stop deducting the 6% on lump-sum payouts. From that time forward, the County stopped the deductions and at the advise of PERS, even refunded some deductions that had been made.

The new statute enacted by the 2005 legislature required the 6% to be deducted on lump-sum payouts retroactive to January 1, 2004. The County began deducting the 6% again from current lump-sum payouts in early November 2005 but the PERS EDX system was not programmed to accept the payments until just recently. Employers were not advised of the change in the law until October 2005 when the subject salary guide was updated on the PERS website.

Washington County has about 1,800 current employees and only picks up the 6% for about 350 public safety employees. All other employees pay the 6% out of their pay. Most lump-sum payouts are related to retiring employees or other employees leaving the employment of the County.

The County has been represented in the conversations with PERS over the past year or so. We appreciate the willingness of the PERS staff to recognize the issues and provide information to employers throughout this difficult process.

Employers are faced with a number of issues trying to collect from employees that in most cases no longer work for them. In addition, if employers treat these employees differently, it creates equity issues. If unions are involved, it adds another level of complexity. In addition to all this, there are potential tax issues if employers make these payments on behalf of employees.

Because of all these issues, it became evident that this would be a good use of the PERS contingency reserve. The reserve could be used to provide the funding to the system for all the 6% contributions on lump-sum payouts between January 1, 2004 and the present.

Washington County has been cooperative with PERS over the past several years in implementing the many changes to PERS and the substantial changes to the employer reporting and payment systems. We have absorbed programming and staff time to enable us to comply with PERS reporting requirements. Because of our size, we have been able to respond to the needs of PERS in a timely manner.

We do not believe we should be penalized with the burden of collecting the retroactive amounts from past employees. The circumstances were not created by the employer and therefore, the burden of complying with the new law should not be born solely by the employer.

We believe this treatment is the most fair and equitable approach for employees and employers and will result in the least administrative costs for all parties. Thank you for the opportunity to provide input to your decision making process.

If you have any questions, please call.

Sincerely

Wayne Lowry
Chief Finance Officer

D.2. Attachment 3

Marion County
OREGON
BUSINESS SERVICES
DEPARTMENT

BOARD OF COMMISSIONERS
Sam Brentano
Janet Carlson
Patti Milne

CHIEF ADMINISTRATIVE OFFICER
John Lattimer

BUSINESS SERVICES DIRECTOR
Gayle S. Horton

Telephone:
(503) 588-3295

Fax:
(503) 566-3997

DIVISIONS:
Administration
Facilities Management
Financial Services
Human Resources
Risk Management

July 10, 2006

Board of Directors
Oregon Public Employees Retirement System
P.O. Box 23700
Tigard, OR 97281-3700

RE: HB 2189 and Employee Contributions on Lump-Sum Payments

Thank you for this opportunity to voice our concerns regarding implementation of HB 2189 mandating IAP contributions on lump-sum payments retroactive to January 1, 2004. Marion County staff has been in attendance at many of the meetings discussing the administrative challenges involved.

Marion County is a member paid pretax (MPPT) employer. With the implementation of the JClarety EDX system in January 2004, the county continued to withhold 6% IAP contributions on lump-sum payments. However, the EDX system stopped accepting entry of IAP contributions on lump-sum payments in February 2004. As with other employers, Marion County was instructed by PERS staff to refund the employee contributions and reprogram our system to exclude lump-sum payments from IAP subject salary.

Approximately 1,100 of our current and former employees are subject to the retroactive contribution requirements for lump-sum payments – the county no longer employs over 180 of these, and several are deceased. We estimate the total amount to be collected from current and former employees at approximately $266,000. The average contribution per employee is $243 and some employees owe as much as $1,900. We anticipate that many employees will have difficulty repaying the entire amount in a single payment, thus Marion County faces the daunting task of negotiating and monitoring individual repayment agreements for many of those affected by this change.

Requiring Marion County, as the employer, to make these contributions is not an acceptable alternative. This essentially puts the county in the position of

555 Court Street, NE • Salem, OR 97301 ~ PO Box 14500 • Salem, OR 97309

treating employees differently, creating the potential for lawsuits. Another concern is the need to treat such payments on behalf of employees as taxable fringe benefits.

For all of these reasons, Marion County strongly supports using the PERS Contingency Reserve to cover retroactive IAP contributions on lump-sum payments as mandated by HB 2189. We believe this represents the most expedient solution to a very complex issue. Thank you for your consideration.

Sincerely,

Cynthia A. Granatir, Chief Accountant

SL1

Retroactive IAP Contributions
"ARTIACO Karen R" 7/11/2006 1:25 PM

Lane County has continued to evaluate the work that would be required if PERS requires employers to collect the retroactive IAP contributions on Lump Sum Payments for calendar years 2004 and 2005 and part of 2006. Lane County employees make their own 6% contributions to IAP. Lane County does not “pick up” that contribution. Based upon PERS information, Lane County will need to collect payments from about 700 current employees and 200 past employees, included 6 who are now deceased. The total amount of these contributions is estimated to be about $200,000.

The advice of our County Counsel is that Lane County would need to negotiate a written agreement with each of the 700+ employees who would have to pay these contributions. In the past we have done this with any employee who needed to pay PERS or IAP contributions on past earnings.

In order to clarify this further, I contacted BOLI on this question and was asked to put my question in writing. You will see my email addressing the issues below. As yet, I have not received an answer from BOLI. Unless BOLI contradicts our Counsel, Lane County will have no choice but to negotiate 700 separate agreements with employees.

At a conservative estimate of 2 hours per employee to draft the agreement, meet with the employee, answer questions, etc., this will require 1,400 hours of time, or at least 35 weeks, in order to set up these agreements. In addition, the County will need to locate and negotiate with 200 previous employees, retirees, and/or estates, in order to collect the additional IAP contributions. Using a 3 hour per contact estimate, this could require an additional 600 hours, or at least 15 weeks.

Lane County will have to hire a full time employee for at least one year just to negotiate these retroactive IAP contributions. **The estimated cost would be about $70,000 for this person, in order to collect $200,000 of retroactive IAP contributions**. And, of course, these time estimates do not include the time that will be needed after the agreements have been negotiated to collect the contributions from employees whose employment is terminated before the entire amount has been collected; collect from those who may have insufficient earnings to pay the deductions in any given pay period; collect from non-employees who do not pay according to the agreement; process payments; and update PERS reporting.

Again, Lane County urges you to agree to some other method for payment of these IAP contributions. The cost to employers, plus the cost and confusion created with current and past employees, does not make actual collection from current and past employees a reasonable course of action. We have brainstormed other solutions with fellow employers and with PERS staff. The only option that seems viable to avoid the cost and confusion is to pay these retroactive contributions, and any appropriate earnings, from the Contingency Reserve.

We realize that there is a hesitancy to use the Contingency Reserves because of establishing a “past practice,” or of reducing the reserve. However, there are good and valid reasons for using a reserve, and the total cost of these retroactive contributions will be less than 1% of the current Contingence Reserve balance.

At this time Lane County continues to support the option of using the Contingency Reserve for these reasons:

1. This is a retroactive rule that could not have been anticipated at the time the County should have actually deducted the contributions from employees' pay;
2. Employers could not remit these contributions to PERS from the time the legislation was passed until May, 2006.
   PERS adamantly refused to accept contributions based upon the fact that their computer system could not record the transaction. Lane County, like other employers, did not want to collect contributions with no indication from PERS as to if, when, or how we would be able to remit the contributions.

Thank you for reviewing and considering this is information. If I can answer any other questions regarding this matter, please contact me.

Karen Artiaco
Risk and Benefits Manager
Lane County

From: ARTIACO Karen R
Sent: Friday, June 30, 2006 12:00 PM
To: helen.russon
Cc: SCHIFFER Dave; 'Maria Keltner'
Subject: RE: PERS Deductions from Payroll

Hello Helen –

Sorry to be a nag right before the big summer holiday, but we still haven't received a response from BOLI on the questions posed below. The PERS Board is scheduled to address this issue at their July Board meeting, and BOLI's interpretation on this matter may influence their decision as to how to implement this retroactive change.

Can I expect an answer next week?

Thank you,

Karen

Karen Artiaco
Risk and Benefits Manager
Lane County

From: ARTIACO Karen R
Sent: Tuesday, June 20, 2006 10:56 AM
To: 'helen.russon
Cc: SCHIFFER Dave; 'Maria Keltner'
Subject: PERS Deductions from Payroll

Hello Helen –

Lane County needs clarification from BOLI on the rules regarding Deductions from employee's wages.

Lane County is a PERS-covered employer. All Lane County employees participate in the PERS/OPSRP/IAP programs as a condition of employment, and become members of the PERS system once they have completed the waiting period required by PERS. However, the County does not "pick up" the employee's 6% contribution to the IAP (Individual Account Program) that is administered by PERS. Lane County deducts the 6% IAP contribution from employee wages each pay period and forwards that amount to PERS.

The IAP began January 1, 2004, and the rules for the employee's 6% contribution changed from the PERS 6% contribution program that was in existence prior to that date. In July of 2005, the State of Oregon Legislature modified these new rules and made some of the modifications retroactive to January 1, 2004. PERS was not able to process the contributions that were mandated by these modified rules until May 1, 2006.

The rule change addressed what kind of earnings are subject to the 6% IAP contribution. The original rules said that Lump Sum Payments were NOT subject to the 6% IAP contribution. (Lump Sum Payments can be earnings such as the "sale" of Vacation Pay, or pay out of accrued Compensatory Time, or even retroactive pay due to raises that aren't processing timely, or settlement of union contracts, etc.) In July of 2005 the rules were amended to say that Lump Sum Payments ARE subject to the 6% IAP contribution, AND that the change was retroactive back to January 1, 2004. At that time PERS said its computer system could not accept and record these contributions and refused to accept the current or retroactive 6% contributions on Lump Sum Payments from employers.

As of May 1, 2006, PERS system is now able to receive these contributions and has told employers that the 2 and ½ years of retroactive contributions must be made up by the end of this calendar year. Since Lane County does not "pick up" the employee's 6% contribution, we must collect the contributions from employees.

A review of Lane County payroll records indicate that this change affects almost 200 past employees and 700 current employees. The total contributions amount to slightly more than $200,000. The contribution amount ranges from less than $5 to $3,900. Almost 500 of our current employees would owe contributions on past earnings of more than $100.

Our questions to BOLI regarding this issue are:

1. ORS 652.610 (3) states that no employer may deduct part of an employee's wages unless (a) the employer is required to do so by law. Does the employee's 6% IAP contribution qualify as a deduction that is "required by law"?
2. If so, does the retroactive IAP contributions that we are now required to collect also qualify as a deduction that is "required by law"?
3. Would Lane County employees need to authorize the deductions for these retroactive IAP contributions in writing before Lane County could deduct these contributions?
4. If an employee refused to sign such an authorization, could Lane County deduct the contributions anyway, based upon the fact that the retroactive contributions are "required by law"?
5. Is there a maximum deduction from wages that an employee can authorize?

6. If the answer to (4) is YES, is there a maximum amount that can be deducted from wages if there is no signed authorization?
7. If there are any other BOLI rules that could affect this situation that I have not raised, please advise us about them.

If I can provide more information about this issue, please contact me directly. It would also help if I could receive your response by Friday, June 23. The employers that are affected by these PERS rules are meeting with PERS the first part of next week to explain our concerns and the work load that will be faced if PERS continues with its current directives.

Thank you for your assistance in this matter.

Karen

Karen Artiaco
Risk and Benefits Manager
Lane County

CITY OF Salem AT YOUR SERVICE
FINANCE DEPARTMENT
555 Liberty St. SE • Salem, OR 97301-3503
Phone: 503-588-6040 • Email: finance@cityofsalem.net • Fax: 503-588-6251

July 7, 2006

PERS Board
c/o Steve Rodeman
Public Employee Retirement System
PO Box 23700
Tigard, OR 97281-3700

RE: HB 2189 Implementation
IAP funding retroactive contributions

This letter is to provide the PERS Board with public comments on subject for the Board meeting of July 21, 2006.

Background

The City of Salem, employer #2101, was a Member Paid Pre-Tax (MPPT) employer for several employee classifications (per bargaining units).

Salem's demographics as they apply to the retroactive portion of HB 2189 implementation are:

- Salem has 829 employees who had a lump sum payment in 2004 through 2006. This is about 55 percent of our regular full time employees.
- Of the 829, 133 were employees who got lump sum payments of accrued vacation and/or compensatory time at termination from service.
- The individual amounts owed for the member's 6% contribution range from minimal amounts to nearly $2,100.00.
- Most of the lump sum payments were made to Public Safety and General Services employees who elected to "cash out" a portion of their accrued vacation, in compliance with the rules set forth in their collective bargaining agreements.

The City of Salem initially implemented applying the 6% IAP to all lump sum and vacation payoffs on January 1, 2004. Subsequently, PERS credited the monies back and reported that the lump sum payment was no longer subject salary and would not take the employee's payment, although for the employer's contribution the lump sum was subject salary so the employer contribution would be made. After lively discussions with retirees (who believed that the payment should be subject to the 6%), we refunded the 6% withheld.

Conclusion

The City of Salem fully supports the PERS staff recommendation to use contingency reserves to pay the employee's 6% contribution for the retroactive period of January 1, 2004 through April 30, 2006. The following is a summary of our reasons for this support:

1) *Prevents disparate treatment* - Whereby active employees will be required to pay the 6%, while terminated employees may not, leaving the employer open to potential litigation
2) *Eliminates burdensome administration* –
   a) Associated with collections
      i) Finding and collecting monies from people who are no longer employees, or from former employees who are deceased.
      ii) Utilizing collections agencies or small claims court to collect monies from retirees or deceased members.
   b) Entering into over 100 payroll deduction agreements to collect monies from current employees.
   c) Eliminates figuring out what happens to terminated employees that have cashed out their IAP on de minimus rules
   d) Assessing and reporting potential tax liability arising from an employee never reimbursing the employer.
   e) Eliminates union action against the City of Salem, for decisions made by PERS.
3) Solution acknowledges the employer's efforts to actually withhold and remit the monies to PERS.
4) Potential issues of accrued interest lost during this retroactive period which is a current issue with various unions who represent employees at the City.

If the PERS Board endorses utilizing the contingency reserves, then we would further recommend that the contingency reserve funds be credited to the employers that have already paid the 6% IAP through the PERS EDX system. Then, for the employers that have not paid the 6% IAP, the funds should be applied to the employer's accounts and the employer apply these funds through the PERS EDX system. This would assure that the employer's individual payroll system matches with the PERS EDX system historically. This will take into consideration the employers who have diligently worked to pay the retroactive liability over the past couple of months and prevent possible doubling up on the employee/retiree IAP account, further compounding this situation.

If the PERS Board adopts an alternative solution, we strongly request that PERS take the lead in communicating information to all members accordingly. To do otherwise would imply employers' negligence, which in this situation is clearly not the case.

Sincerely,

Constance L. Munnell

Constance L. Munnell
Director of Human Resources

Tony Mounts,
Director of Administrative Services/CFO

June 15, 2006

To: Chair, Michael Pittman, and Members of the PERS Board

Re: Retroactive contributions to the IAP required by HB 2189 (2005)

Employers participating in the PERS Alliance have spent considerable time and energy developing and reviewing numerous options to deal with the HB 2189 requirement that 6% contributions to the IAP are to be paid on additional subject salary retroactive to January 1, 2004. We have met with PERS staff to discuss and explore options.

Mr. Rodeman outlines four options in his June 16, 2006 memo to the Board.

The Alliance strongly supports using funds in the Contingency Reserve to cover all of the HB 2189 retroactive 6% IAP contributions. The retroactive period for the HB 2189 change in the definition of subject salary has been identified as January 1, 2004 through April 30, 2006. The estimated amount required is $3.82 million.

This option is fair across the board. All of the HB 2189 retroactive IAP contributions for all members will be paid from the contingency reserve. Members and employers will not have amended or additional income tax reports to deal with. Members will not be receiving collection notices or entangled in legal collection proceedings. Neither PERS nor employers will be faced with trying to collect these retroactive contributions from members. Employers will not be forced to defend against union grievances or unfair labor practices. Employers will not be forced to deal with budget issues or fiscal year accounting issues. Use of the Contingency Reserve is the best option for the unexpected, unanticipated retroactive changes made in HB 2189.

The Alliance is opposed to the option that requires the employers to pay all of the retroactive HB 2189 IAP contributions. This option opens the door to grievances and unfair labor practices against employers. This option forces many employers (through no fault of the employer) to pay the 6% IAP contributions in direct violation of their policies that the 6% IAP contributions are deducted from employee pay.

The Alliance is opposed to the option that the Contingency Reserve cover the retroactive HB 2189 member paid 6% IAP contributions and not the employer paid 6% IAP Contributions. In fairness, the Contingency Reserve should be used to cover all of the additional HB 2189 6% IAP contributions. Both were unexpected and unanticipated additional costs.

The Alliance is opposed to the option that the Contingency Reserve only cover the retroactive HB 2189 MPPT and MPAT 6% IAP contributions for those members employers are not able to collect from.

The Alliance is also opposed to charging employers for imputed earnings on HB 2189 IAP contributions for 2004, 2005 and 2006. If imputed earnings are credited to IAP accounts for 2004, 2005 and/or 2006, the Contingency Reserve should be used to cover them.

Thank you for your consideration of Employers' PERS Alliance thoughts and recommendations on this matter.

Submitted by Maria Keltner On Behalf of the Employers' PERS Alliance.

BENNETT, HARTMAN, MORRIS & KAPLAN, LLP

ATTORNEYS AT LAW

GREGORY A. HARTMAN

hartmang@bennetthartman.com
Direct Dial: 503-546-9601

SUITE 1650
111 S.W. FIFTH AVENUE
PORTLAND, OREGON 97204-3627
(503) 227-4600
FAX (503) 248-6800
www.bennetthartman.com

June 14, 2006

BY FAX AND MAIL

FAXED

Steve Rodeman
Public Employee Retirement System
PO Box 23700
Tigard, OR 97281-3700

Re: HB 2189
Employee Contributions on Lump Sum Payments
Our File No.: 5415-237

Dear Steve:

The purpose of this letter is to comment on behalf of the PERS Coalition on your June 16, 2006 letter regarding the implementation of HB 2189, identified as agenda item D.2 for the upcoming board meeting. Prior to addressing the substance of the proposals contained in that letter I think it's appropriate to comment on the process which PERS staff has apparently followed in developing these recommendations. In the letter there are several references to employer proposals as well as employer meetings which apparently took place on this issue. To the best of my knowledge no member of the PERS Coalition has been given any opportunity to participate in these discussions nor to make any proposals regarding the implementation of HB 2189. This is particularly troubling since, as I'm sure you are aware, it was the PERS Coalition who lobbied for the passage of HB 2189 as the issues contained in that legislative enactment are of importance and concern to the PERS Coalition. It is not acceptable to the Coalition to find that all the alternatives have been fully discussed with employer representatives while the Coalition has been given a few short days to comment on those policy alternatives prior to the board meeting.

Turning to the substance of the policy discussion, as I've stated in previous correspondence the PERS staff discussion begins with the incorrect premise that the 2003 legislature changed the definition of salary for PERS Chapter 238 participants for purposes of calculating IAP contributions. That position fails to take into account the very clear language of ORS 238A.025(3)(a), which provides very specifically that PERS Chapter 238 members continue to receive all benefits as provided in Chapter 238. A review of the derivation of this legislative language shows that it was adopted at the same time that the legislature decided to move from the transition account concept to the inclusion of PERS Chapter 238 members in the IAP program. The language could not be more clear. As you know, there was no change to the definition of salary for ORS Chapter 238 participants and therefore it is our position that PERS employers continue to have the obligation to either deduct or pay the full 6% contribution based on the ORS Chapter 238 definition.

The reason the PERS Coalition lobbied for the passage of HB 2189 was to avoid the necessity for another long, drawn-out lawsuit involving PERS. The underlying premise of the PERS Coalition is that the 2003 legislature did not change the definition of salary for ORS Chapter 238 participants, and that HB 2189 clarified that issue. Most importantly, the reason for the passage of HB 2189 was to make sure that PERS participants were made whole on this issue. This includes not only the underlying payments but also accrued earnings.

Given our different understandings of the law which applies in this instance, it is not surprising that the PERS Coalition would reach different conclusions about the proper disposition of these issues.

1. The obligation to either withhold the 6% contribution or to pay that contribution is and has always been the responsibility of the employer (ORS 238.200). It is unfortunate that there may have been a misunderstanding of the law in this instance but that does not change the basic fact that the employer bears the responsibility of paying the 6% on salary as defined under ORS Chapter 238. The issue of whether the employer can now collect those funds from their prior employee is an issue best resolved between the employer and the employee.

2. The PERS Coalition is very concerned about any proposal for the use of the contingency reserve. As you are aware on many occasions we have made it clear that the PERS Coalition does not share the broad view of the PERS staff that the contingency fund can be used for any purpose designated by the board. It is particularly troubling that at a time when the board has adamantly asserted its fiduciary duty to collect overpayments from PERS retirees that at the same time staff would suggest the possibility of the use of the contingency fund to deal with what is obviously an employer liability.

3. It is the position of the PERS Coalition that Tier One and Tier Two retirees have been entitled at all times to payment into the IAP account based on the salary definition contained in ORS Chapter 238. The specific purpose of the passage of HB 2189 by the 2005 legislature was to make certain that employees are made whole on this issue. Any solution to this problem which does not result in employees being made whole will not be acceptable to the PERS Coalition.

Yours very truly,

Gregory A. Hartman

GAH:kaj
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cc: PERS Coalition

SL1

Lane County Board of Commissioners

Bill Dwyer
Bobby Green, Sr.
Faye Hills Stewart
Anna Morrison
Peter Sorenson

June 14, 2006
WD bc/bd/06019/T

Mr. Michael Pittman, Chair
PERS Board of Directors
Public Employees Retirement System
P.O. Box 23700
Tigard, OR 97281

Dear Mr. Pittman:

Lane County appreciates the opportunity to share our thoughts with the PERS Board regarding the issues faced in implementing the section of HB2189 that mandates IAP contributions on Lump Sum Payments. Lane County staff has met with PERS staff and other stakeholders to understand the effect of this legislation on PERS, on employers, and on PERS participants, and to brainstorm options for the administrative challenges we all face in trying to implement this change.

The language in this bill directs PERS to collect 6% IAP contributions from current Lump Sum payments, as well as from Lump Sum Payments from January 1, 2004, forward. Lump sum payments include such earnings as Retroactive Pay due to settlement of labor contracts; payments for Compensatory Time that employees have elected to take instead of Overtime Pay; possible sell-back of Vacation Time; and any allowable payment for Vacation Time or Sick Time at time of termination/retirement, etc. Even if employers could have sent the IAP contributions on these earnings to PERS at the time the legislation was passed, PERS' reporting system was unable to accept these contributions until May 1, 2006.

Trying to now collect the 6% IAP contributions that should have been withheld over a two and one-half year period from employees, as well as retirees, terminated employees, and deceased employees, will require an inordinate amount of administrative time for employers who, like Lane County, do not pick up the employee's 6% IAP contribution.

Almost 900 of our current and former employees are subject to these retroactive contributions on Lump sum Payments. Almost 200 are no longer employed by Lane County. The total amount Lane County would be expected to collect is over $200,000. We would need to collect between $1 and $3900 from these current and former employees, with the average contribution being $225. Even current employees would have difficulty paying this amount from one paycheck, so Lane County would be faced with negotiating and monitoring individual re-payment agreements with most of the persons affected by this change.

 PUBLIC SERVICE BUILDING / 125 EAST 8TH AVENUE / EUGENE, OR 97401 / (541) 682-4203 / FAX (541) 682-4616

Therefore, Lane County supports Option 2 contained in the PERS staff memo on this subject. This option would allow the 6% IAP contribution to be paid from the Contingency Reserve for all employees who received Lump Sum Payments during this period, whether the employer picks up the 6% contribution, or the employee contributes the 6% payment. Of the four options described in the Board Memo, we believe that this is the most equitable solution for all employers and PERS participants. We would also support Option 3 that would allow only those employers who do not pick up the employees' 6% contribution to be reimbursed from the Contingency Reserve. Both of these solutions require significantly less administrative time to implement than the other two options.

We also agree with PERS' staff analysis of the ability to use the Contingency Reserve for this purpose. The legislature passed a retroactive rule that was not anticipated, and it could not be implemented for almost an additional year due to PERS reporting restrictions. Since the Contingency Reserve is not included in calculating Employer Rates, using a portion of the reserve will not affect those rates, nor will it affect earnings available for distribution to participant accounts. The potential $3.82M cost to the Reserve is a very small portion of the $250M+ in the Contingency Reserve, and does not affect the separate Rate Guarantee Reserve that supports Tier I Fixed Accounts.

Director Paul Cleary and other members of PERS staff have been very helpful in this evaluation, both in their research and clarification of the issues, as well as the time they devoted to several meetings with representatives of both employers and employee groups. This is yet another good example of the positive results of involving all stakeholders in trying to find the best solutions under sometimes difficult operational constraints.

Sincerely,

Bill Dwyer

Bill Dwyer, Chair
Board of Lane County Commissioners

OREGON

FINANCE DEPARTMENT
Finance Director
Alison Chan

www.ci.medford.or.us

CITY OF MEDFORD

Telephone: (541) 774-2033
Fax: (541) 774-2528
alison.chan@ci.medford.or.us

TO: Members of the PERS Board

FROM: Alison Chan, Finance Director, City of Medford, OR

SUBJECT: HB 2189 and Employee Contributions on Lump-Sum Payments

We have attended the last two meetings PERS held with employers to resolve how best to fund and administer this retroactive requirement. The administrative impact to our payroll department is tremendous. Please read our comments as they relate to each of the four options discussed at the June 2, 2006 meeting. The letter from Steven Patrick Rodeman, outlines several of the problems and issues municipalities face on this issue; therefore, I will not repeat them all and will focus primarily on the options discussed. We are in favor of option number 2 as the most reasonable choice. (The only other viable option is number 3, which causes problems with current operating budgets.)

<u>OPTIONS</u>

1. Employers pay all the contributions, whether EPPT, MPPT, or MPAT, in addition to their employer contribution, associated with these re-posted transactions. These lump-sum payments amounted to $63.7 million in salary that was backed out of the employers' reports. When they re-post these transactions in the correct categories, IAP contributions of about $3.82 million would become payable, all paid by employers. This option puts the onus of solving the financial implications of this l retroactive legislative change wholly on the employer's shoulders.

"Option 1" is not an acceptable option for several reasons with regard to MPPT. The first and most obvious reason is that each employer would be treating their employees differently, both at the agency level and the state level which is asking for lawsuits. Some employers would pay these contributions in full on behalf of the employees which would require funds that were not budgeted during the current cycle and may cause financial hardship. Other employers would pay on behalf of the employee and attempt to collect from employees and former employees. This would be an administrative nightmare collecting from former employees as we may not be able to find them and if we do and they refuse to pay, will we have to take them to court? In any case it wouldn't be fair to the current employees if we are collecting from them and not former employees. Another issue is that if these payments are treated as MPAT and the employer is unable to collect or only partially collects from the employee/(former employee) the employer now has a taxable fringe benefit that they must report and will have to pay both the employee and employer Social Security and Medicare taxes. This option creates too many problems and causes too many administrative burdens. We don't have the staffing to support this option.

2. Charge the Contingency Reserve for all the employee contributions due from the re-posting of these transactions. Employers would re-post the lump sum payments and would then receive a credit payment from the Contingency Reserve for the 6% employee contribution associated with that lump sum payment. The Contingency Reserve would be charged for the estimated $3.82 million to pay all contributions due on these payments, regardless of whether those contributions were originally due from the employer (EPPT) or the employee (MPPT or MPAT). This option makes the system as a whole absorb the costs of this retroactive legislative change.

"Option 2" is the preferred option and has the least administrative issues of all listed alternatives. This option is also the most fair, all members throughout the state are treated the same.

3. Have employers pay the EPPT portion of the resulting contributions (estimated to be $2.84 million) and the Contingency Reserve pay for the MPPT and MPAT contributions (about $980,000). This option would use the Contingency Reserve funds to pay for those employee's obligations without requiring employers to evaluate whether and how those contributions could be collected from the affected employee.

"Option 3" would be the second choice; however, this option will require adjustments to current operating budgets as this item was not anticipated and not budgeted for.

4. Have employers pay the EPPT portion of the contributions (again, about $2.84 million), collect the balance of MPPT and MPAT contributions from employees that are available and able to pay, and only charge the Contingency Reserve for those employee-paid contributions (MPPT and MPAT) that employers certify that they are unable to recover from the employee. Under this option, employers and employees pay their share of the associated costs, and the Contingency Reserve is used as a back-up resource only when employers are unable to collect the contributions due.

"Option 4" is also not an acceptable option for all of the same reasons listed in "Option 1" and more. In addition to "Option 1" requirements, the employer would be required to report to PERS, all employees and former employees the employer couldn't collect from so the Contingency Reserve could fund that portion. This option creates too many problems and causes too many administrative burdens for both the employer and PERS.

When you are making the decision, please consider the financial impact and the administrative impact your decision will have on employers. Thank you for listening to our concerns and suggestions.

Sincerely,

Alison Chan

Finance Director

City of Medford

Testimony at PERS Board Meeting 6-16-2006

Alison Chan, Finance Director, City of Medford

Thank you, my name is Alison Chan, I am the Finance Director for the City of Medford. We are in the situation where we have the mixed bag, where some employer paid, some member paid. Our biggest concern is on the member paid, they – and when you say that you don't think the contingency should be used for that, then when we got together with PERS several weeks ago, we said "Then you go after the members and try to get the money. Because we are going to be going after people that are deceased, that no longer work for the city; we don't know where they are, we said "You know where they are, because you pay retirement benefits." And the other thing we have said is "Give them the choice to pay it back." Because a lot of these people have already cleared out their IAP, why give PERS the money only to turn around and get it back. And PERS was saying that wouldn't work because you'd have to re-enter it with the boxes and from an EDX standpoint, that wasn't workable. But the flip is, then you, we're going to be treating the people from the City of Medford, as an example, differently, so we'll be able to collect it from the people that still work there but the people that are gone, we can't. We turn them over to collections? It raises a huge issue as far as that and then we have union issues. So then you're going to treat some union employees different than others? That's a lawsuit waiting to happen - so that's where the use of the contingency came in. Obviously, we'd like it for the employer portion as well, but I can understand what you're saying there, but at a minimum, I think the contingency should be used for the member-paid portion just from the collection standpoint. It's an administrative nightmare for the entity. That's my biggest concern.

ROCKLIN: In terms of numbers, any ideas for the City of Medford, because obviously not, at least not at my agency, not everyone would be subject to a lump-sum payment, but any idea what that means to the City of Medford in the terms of the number of employees?

CHAN: We have over seven-hundred and twenty-seven transactions that we have to re-post and from an administrative standpoint, we already have people working weekends to calculate that. But, the other thing that I wanted to say too, was ironically when you say "employers owe this money, they should pay it" – we tried to give it to you and you wouldn't take it. So to sit there and say now you're going to charge me interest on top is really a little-bit of a slap in the face 'cause we didn't agree with the interpretation when it was done.

ROCKLIN: …..in 2003?

CHAN: Um-huh. So that's where we stand.

ROCKLIN: So, that's helpful.

Oregon

Theodore R. Kulongoski, Governor

Headquarters:
11410 S.W. 68th Parkway, Tigard, OR
Mailing Address:
P.O. Box 23700
Tigard, OR 97281-3700
(503) 598-7377
TTY (503) 603-7766
www.pers.state.or.us

July 21, 2006

MEETING DATE	7-21-06
AGENDA ITEM	D.3. Budget

TO: Members of the PERS Board

FROM: Brian DeForest, Budget and Fiscal Operations Manager

SUBJECT: 2007-09 Agency Request Budget Development

This report is to update the PERS Board on progress in developing the 2007-09 Agency Request Budget (ARB) and provide an overview of policy packages the Agency requests be included in the ARB. The Agency Request Budget totals nearly $6.4 billion for the 2007-09 biennium including benefit payments for Chapter 238 and 238A plans, debt service remaining on two certificates of participation, and general agency operations. The discussion in this report focuses primarily on the Operations budget, which supports the daily functions and services of the Agency.

SUMMARY OF THE AGENCY REQUEST BUDGET

The Agency proposes an operating budget of $84 million staffed by 403 positions, 401.63 FTE, reflecting a budget increase of about $8 million or 10.55%, compared to the 2005-07 operating budget. Contributing factors to the increase include the full implementation of the Strunk/Eugene Project and the OPSRP pension and IAP programs, the re-baselining of the RIMS Conversion Project, costs of goods and services (inflation), increasing costs for state government service charges, and increasing costs of salaries, wages and benefits. Attached are various displays that provide summary information on the Requested Budget.

Attachment A – Organization Chart
This multi-paged organization chart displays the distribution of positions, both permanent and limited-duration, throughout each of the divisions of the Agency for the 2007-09 biennium. Bullet points have been added to describe the functions provided in each Division. Boxed comments are added to each of the Divisions where there are permanent and limited-duration positions being requested in a 2007 – 09 policy option package.

Attachment B – Summary Operations Budget Information
This chart and graph provide some history of the Operations budget from the 1999-2001 budget (pre-reform) through the 2007-09 Agency Request Budget.

Attachment C – Permanent & Limited Duration Positions by Biennium
This stacked bar graph shows the distribution between permanent and limited duration positions for the Agency over a three-biennium period.

Attachments D & E – Distribution of Biennial Expenditures
These pie graphs show the distribution of budgeted expenditures for the 2005-07 and 2007-09 bienniums.

Attachments F & G – Distribution of Positions by Division
This is another set of pie graphs showing the distribution of budgeted positions by Division.

Attachment H – Policy Option Package Positions and Functions
This attachment is a listing of functions for each of the proposed packages and the number of positions associated with each function. The chart also shows the distribution of limited-duration and permanent positions for each package. The column labeled "New" is marked where a new position is being requested, which can be either permanent or limited-duration. If the requested positions are not marked "New", then the position existed as limited-duration in the 2005-07 biennium.

Attachment I – Agency-wide Budget Detail
This spreadsheet displays account detail information for the development of the Agency Request Budget. Each column displays steps taken throughout the process from the 2005-07 Legislatively Adopted Budget through the 2007-09 Agency Request Budget.

SUMMARY OF PROPOSED PACKAGES

The Agency proposes six policy packages for the Agency Request Budget. The packages focus on continuation of two priority projects and providing stability and continuity of base operations. The packages include requests to establish both permanent and limited duration positions where necessary to complete project work or maintain current operations. There are no new projects being proposed in these packages. Requests for permanent positions recognize the existence of long-term, on-going workloads and functions. Requests for limited-duration positions recognize work of a time-limited nature or the need to further review workload capacity following the implementation of new technology tools, such as the full implementation of the jClarety product. There are a total of 139 positions requested in the policy packages, a reduction of 2 positions from what was reported at the last Board meeting.

Strunk/Eugene Project **57 positions**
This package requests the continuation of 57 limited-duration positions through the 2007-09 biennium. The Strunk/Eugene Project is anticipated to be complete at the end of the biennium. All of the positions are requested as limited-duration. Positions cross all division lines in the agency and include related activities such as:

- Document retrieval and imaging
- Eligibility determinations
- Database fixes to individual records where the RIMS system is unable to process
- Benefit re-calculations and determination of revised benefit
- Correspondence with "window" retirees
- Establishment of accounts receivable or payment of additional benefit
- Collection and recovery activities

- Legal appeals

RIMS Conversion Project (RCP) **6 positions**

The package requests the continuation of 6 limited-duration positions used as backfill positions for staff that is focused on the RIMS Conversion Project. This package continues the RIMS Conversion Project as it was approved for the current biennium through the 2007-09 biennium with a revised completion of the project now expected to continue until November 2009. All of the positions are requested as limited-duration.

Retirement Processing **25 positions**

The Retirement Processing package focuses on core operation activities directly related to benefit calculations and payments. The package supports current operations through the 2007-09 biennium. The majority of the positions in the package are limited duration positions that currently exist in the 2005-07 biennium. Key elements of the package include:

- Maintains current processing capabilities
    - 6,000 retirements per year (capability to process 4,000 retirements is funded in base budget so package funds an additional 2000 retirements per year)
    - IAP withdrawals as part of retirements and other service separations
    - Application intake/validation pre-calculation review
- Provides additional limited-duration support for technology projects like RCP
- Makes permanent a position to provide training adding quality assurance responsibilities
- Adds a new permanent position to focus on increasing number of Judge retirements
- 23 of 25 positions are limited-duration pending evaluation of long-term productivity and efficiency gains residing in the new jClarety retirement system

Retirement Data Support **23 positions**

This package focuses on the preparation and integrity of data necessary to calculate benefits efficiently and accurately. The package is a mix of permanent and limited duration positions with the majority of positions already existing as limited duration positions in the 2005-07 biennium. Key elements of the package include:

- Increases focus on data migration (from RIMS to jClarety), data filtration and quality assurance, and data cleansing efforts
- 15 of the 23 positions are requested as permanent to establish new base staffing for the following long term operations:
    - Call center/Customer Service
    - Loss of membership processing
    - Separations and accounts reconciliation
    - EDX employer reporting support
    - Technical documentation/communications

Operations & Infrastructure Support **28 Positions**

This package maintains the current infrastructure and operational support system for the Agency with some modifications recognizing efficiency gains in Information Services and Fiscal Services. The package is a mix of permanent and limited duration positions with the majority of positions already existing as limited duration positions in the 2005-07 biennium. Key elements of the package include:

- 72nd Street Building, including phones, IT connectivity and mail services
- HR base operations staffing and limited-duration staffing
- Planned IT hardware and software replacement
- Contracts & procurement support for the RIMS Conversion Project
- Focused IT training to increase in-house knowledge base
- Establishes base staffing for Information Systems Division document imaging and applications support
- Carpet replacement and selected painting in 68th Parkway Headquarters

Legal Services **0 Positions**

This package requests the continuation of $1 million OF limitation dedicated to the use of external legal services, where appropriate.

ADMINISTRATIVE ACTIONS AND REMAINING BUDGET PROCESS

As noted at the prior Board meeting, the Agency continues to review current operations and develop strategies to operate more efficiently and to more effectively recruit and retain its workforce. It also reviews current position descriptions to ensure that those descriptions accurately describe staff expectations and skill sets necessary to achieve stated outcomes. As the Agency moves through that review, it will develop administrative packages to reconfigure and reclassify staff positions. Each of these administrative packages must be self-funded and will not incur obligations above the Legislatively Approved Budget.

The remaining activities for budget development include:

August – PERS is scheduled as an ‘early submittal’ agency with a deadline of August 1st for submission of the Agency Request Budget. This is one month earlier than last biennium when the Agency was granted a one-time extension.

September thru November – PERS will work with Budget & Management staff to finalize the Agency budget for inclusion in the Governor’s Recommended Budget. Staff will keep the Board informed of this process.

Attachment A

Public Employees Retirement System
2007-09 Agency Request Budget
403 Positions (302 Permanent, 101 Limited Duration)

PERS Board

Director

Deputy Director

Central Administration
27 Positions
(26 Perm, 1 LD)

- Board Support
- Human Resources
- Internal Audits
- Oregon Savings Growth Plan (Deferred Comp)
- Retiree Health Insurance
- Social Security

Benefit Payments
107 Positions
(51 Perm, 56 LD)

- Retirement Svc
- Death, Divorce and Disability Services
- Strunk/Eugene

Fiscal Services
45 Positions
(40 Perm, 5 LD)

- Actuarial Svc & Financial Modeling
- Budget & Fiscal
- Contributions/Banking
- Contracting/Procurement
- Financial Reporting

Information Services
100 Positions
(84 Perm, 16 LD)

- Imaging & Info Mgmt
- Project Management
- Quality Assurance
- RIMS Conv Project
- Software Engineering
- Technical Operations

Customer Services
110 Positions
(91 Perm, 19 LD)

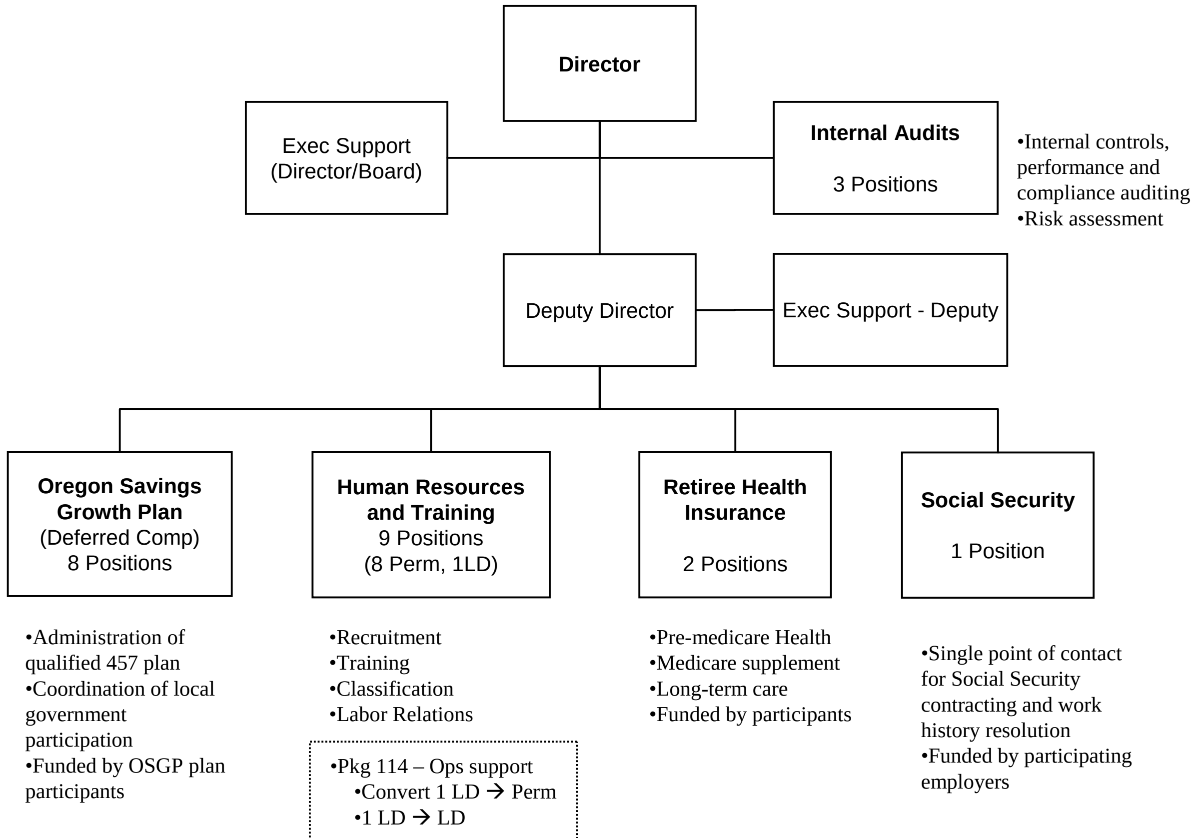
- Customer Svc Center
- Member/Employer Reporting Services (MERS)
- Publications/Website
- Withdrawals

PPLAD
14 Positions
(10 Perm, 4 LD)

- Admin Rules
- Appeals
- Business Rules
- Policy Analysis
- Tax

Central Administration 2007-09
Agency Request Budget

27 Positions (26 Permanent, 1 LD)



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Benefit Payments Division
2007-09 Agency Request Budget
107 Positions (51 Perm, 56 LD)

Benefit Payments Administrator

Admin Specialist

Trainer/Quality Assurance

•Pkg 112 – Retirement Proc
•Convert LD → Perm

Strunk/Eugene Project
38 Positions
(3 Perm, 35 LD)

•Implement provisions of S/E decisions
•Benefit Recalculations
•Adjust active and dormant member accounts

•Pkg 110 – Strunk/Eugene Project
•35 positions LD

Retirement Services
39 Positions
(22 Perm, 17 LD)

•Tier 1/Tier 2
•OPSRP
•IAP
•Judge retirements

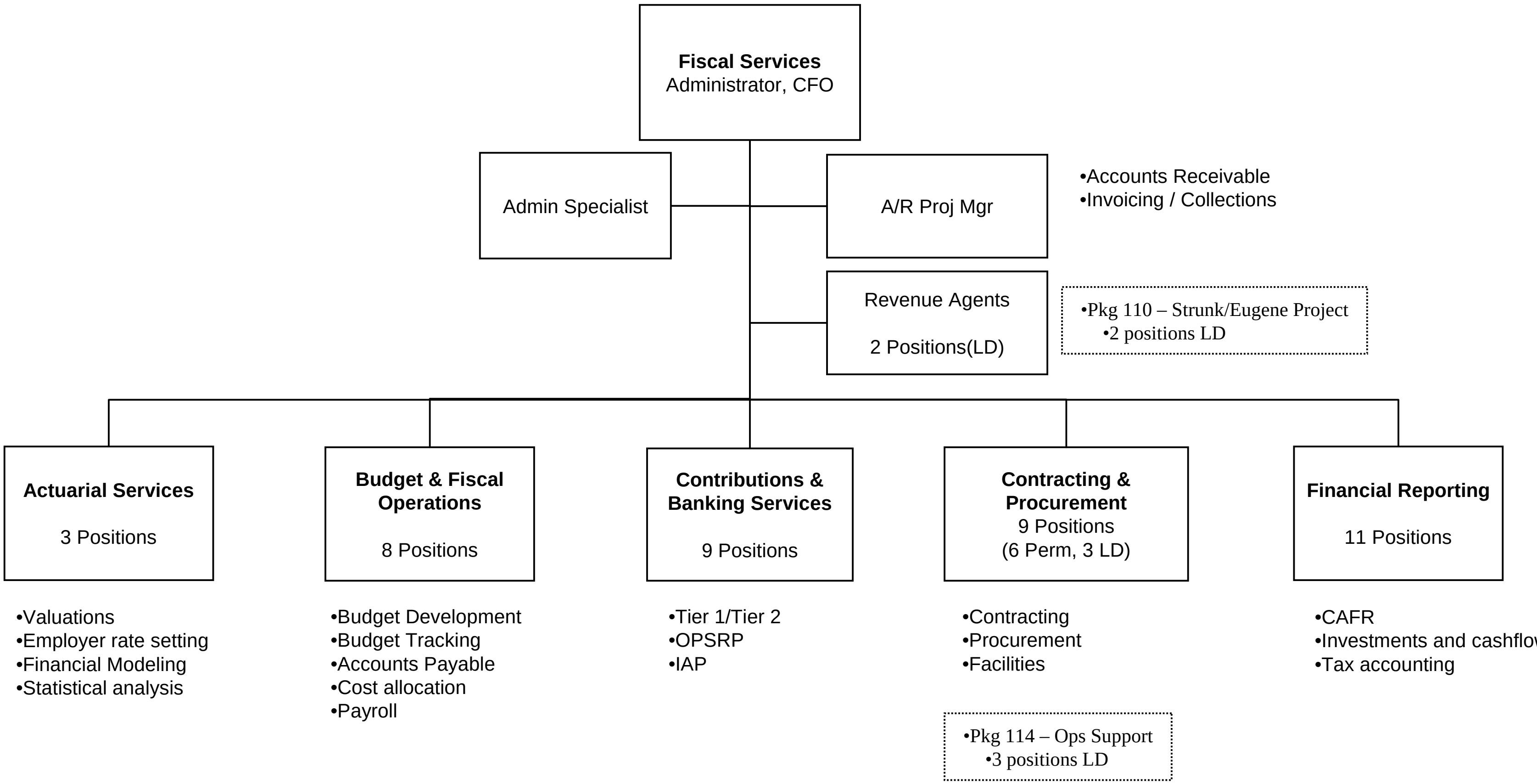
•Pkg 112 – Retirement Proc
•17 positions LD
•1 pos/1.00 FTE new perm - Judge calculations

Specialty Services
27 Positions
(23 Perm, 4 LD)

•Divorce
•Death
•Disability
•Initial eligibility
•Continuing reviews

•Pkg 112 – Retirement Proc
•4 positions LD

Fiscal Services Division
2007-09 Agency Request Budget
45 Positions (40 Perm, 5 LD)



Information Services Division
2007-09 Agency Request Budget
100 Positions (84 Perm, 16 LD)

Information Services
Administrator, CIO

Admin Specialist

Imaging & Info Mgmt
32 Positions
(22 Perm, 10 LD)

- Records mgmt
- Microfilm → electronic
- Image capture
- Document retrieval

- Pkg 110 – Strunk/Eugene Project
  - 10 positions LD
- Pkg 114 – Ops Support
  - 12 positions LD → Perm

Quality Assurance
12 Positions

- QA testing
- QA project mgmt
- Metrics & analysis
- Software configuration mgmt

RIMS Conversion Project
6 Positions (LD)

- Backfill positions for key project staff (Business Process Owners)
- Remainder of project staff is internally redirected

- Pkg 111 – RCP
  - 6 positions LD → LD
  - Scheduled to remain in place until project completion

Software Engineering
31 Positions

- Appl develop & support
- Software engineering
- Project mgmt
- Database administration
- Business analysis

- Pkg 114 – Ops Support
  - 4 pos/4.00 FTE
  - LD → Perm

Technical Operations
17 Positions

- Tech infrastructure support
- Local area network
- Helpdesk
- Desktop & server support

- Pkg 114 – Ops Support
  - 3 positions LD → Perm
  - 1 position (new)

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Customer Services Division
2007-09 Agency Request Budget
110 Positions (91 Perm, 19 LD)

Customer Services Administrator

- Admin Specialist
- Technical Support
  2 Positions

Customer Service Center
55 Positions
(42 Perm, 13 LD)

- Customer service desk
- Call center
- Member presentations
- Account balances/verification
- Withdrawals & separations
- Eligibility determinations

- Pkg 110 – Strunk/Eugene Project
  - 9 positions LD
- Pkg 112 – Retirement Proc
  - 2 positions LD (IAP)
- Pkg 113 – Retire Data Support
  - 9 positions LD → Perm
  - 2 positions LD → LD

Member/Employer Relations (MERS)
44 Positions
(38 Perm, 6 LD)

- Employer EDX support
- Employer communication
- Data migration (RIMS to jClarety)
- Annuals processing

- Pkg 113 – Retire Data Support
  - 5 positions LD → Perm
  - 6 positions LD → LD

Publications & Communications
7 Positions

- Agency correspondence
- Perspectives newsletter
- Internal newsletters
- Technical writing support
- Website

- Pkg 113 – Retire Data Support
  - 1 position (new)

Policy, Planning and Legislative Analysis Division
2007-09 Agency Request Budget

14 Positions (10 Perm, 4 LD)

PPLAD
Administrator

Admin Assistant

PPLAD
Manager

Admin Rules

1 Position

•Coordinate the development and review of Admin Rules
•Develop and modify Admin Rules to supporting changes in statute and policies in accordance with ORS

Appeals
3 Positions
(2 Perm, 1 LD)

•Respond to requests for review of staff determinations
•Provide support for contested cases and hearings
•Support legal counsel in litigation
•S/E based appeals

•Pkg 110 – S/E
•1 position LD

Business Rules
4 Positions
(1 Perm, 3 LD)

•Maintenance of current BRs
•Development of RCP BRs

•Pkg 114 – Ops Support
•3 positions LD

Policy Analysis

2 Positions

•Coordinate agency policies
•Respond to policy inquiries
•Support development of agency initiatives

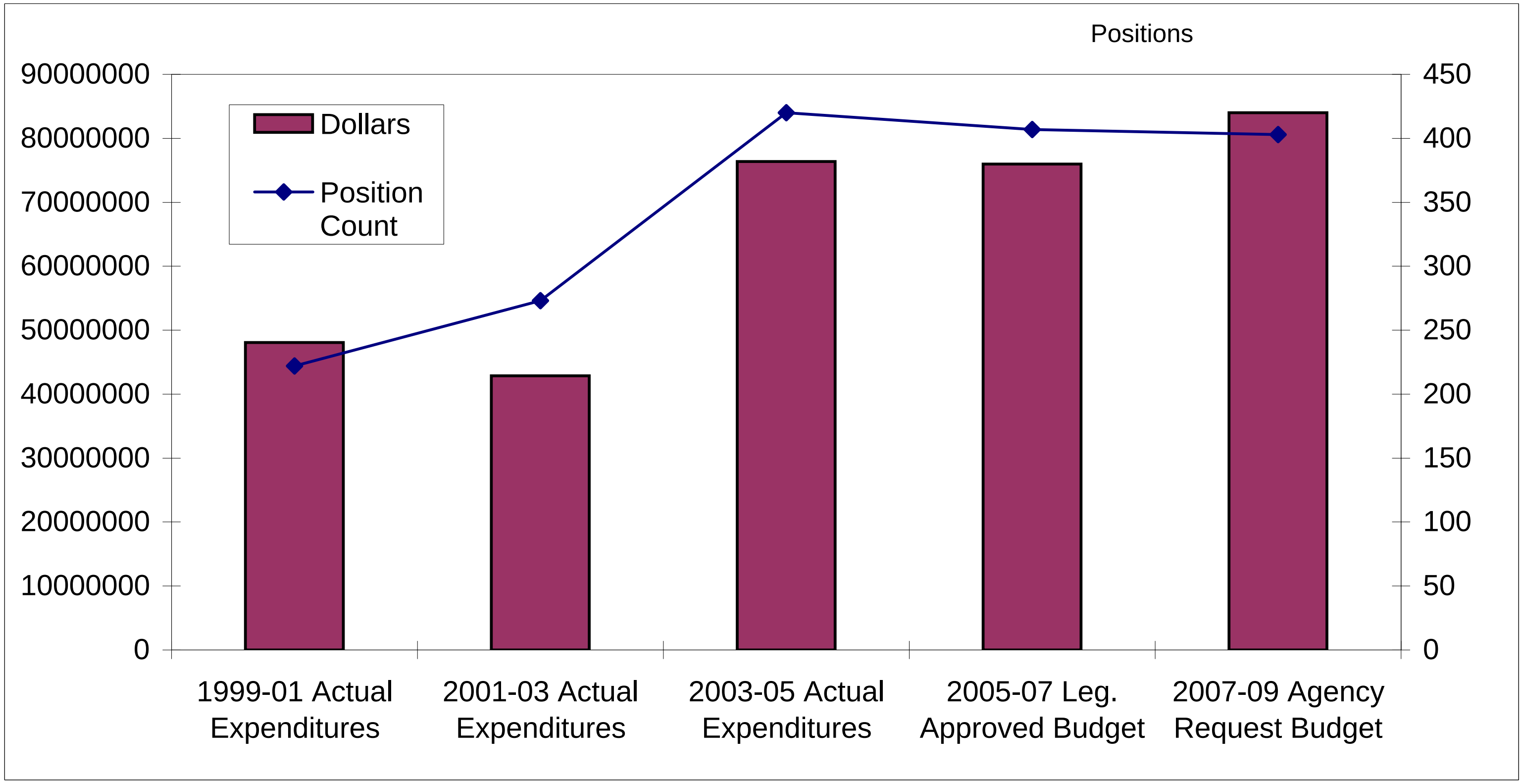
Tax

1 Position

•Review tax laws, rules and policies
•Ensure compliance with federal tax law standards for a qualified government retirement plan
•Provide technical assistance for testing and reporting benefit payments
•Provide information to policy makers

Attachment B

	1999-01 Actual	2001-03 Actual	2003-05 Actual	2005-07 LAB	2007-09 ARB
Operations - OF	48,050,621	42,858,915	76,371,874	75,982,759	84,000,153
Benefits - OF-NL	3,337,046,225	3,877,977,560	5,215,042,382	5,646,765,074	6,286,947,122
Debt Service - OF-DS	-	1,265,900	3,563,459	5,720,950	5,709,200
Total	3,385,096,846	3,922,102,375	5,294,977,715	5,728,468,783	6,376,656,475
Positions	222	273	420	407	403
FTE	217.62	226.33	366.36	392.50	401.63
				Includes 27 add'l positions/13.50 FTE requested for S/E	Estimated ARB. Must be audited by DAS-BAM.



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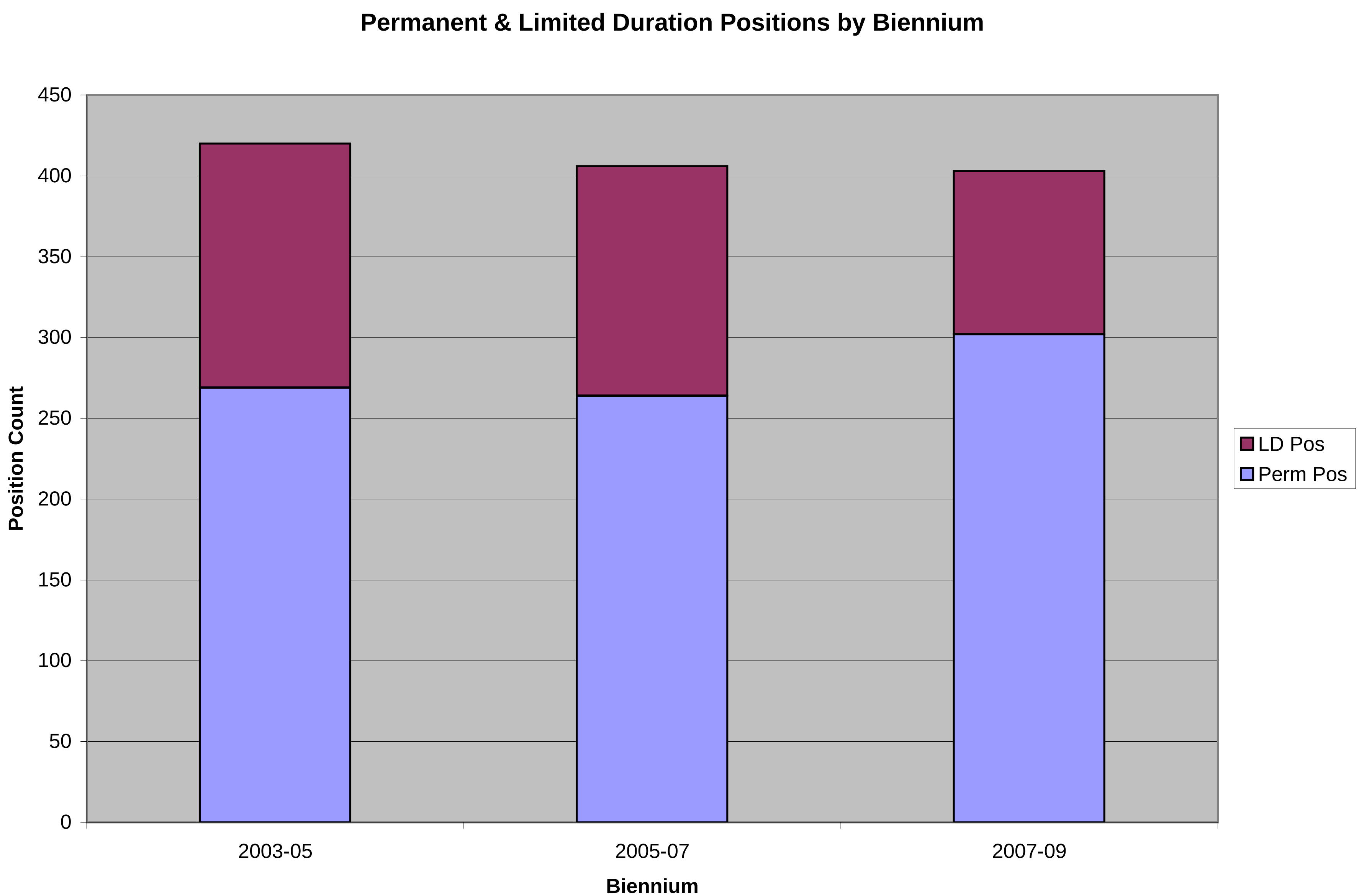

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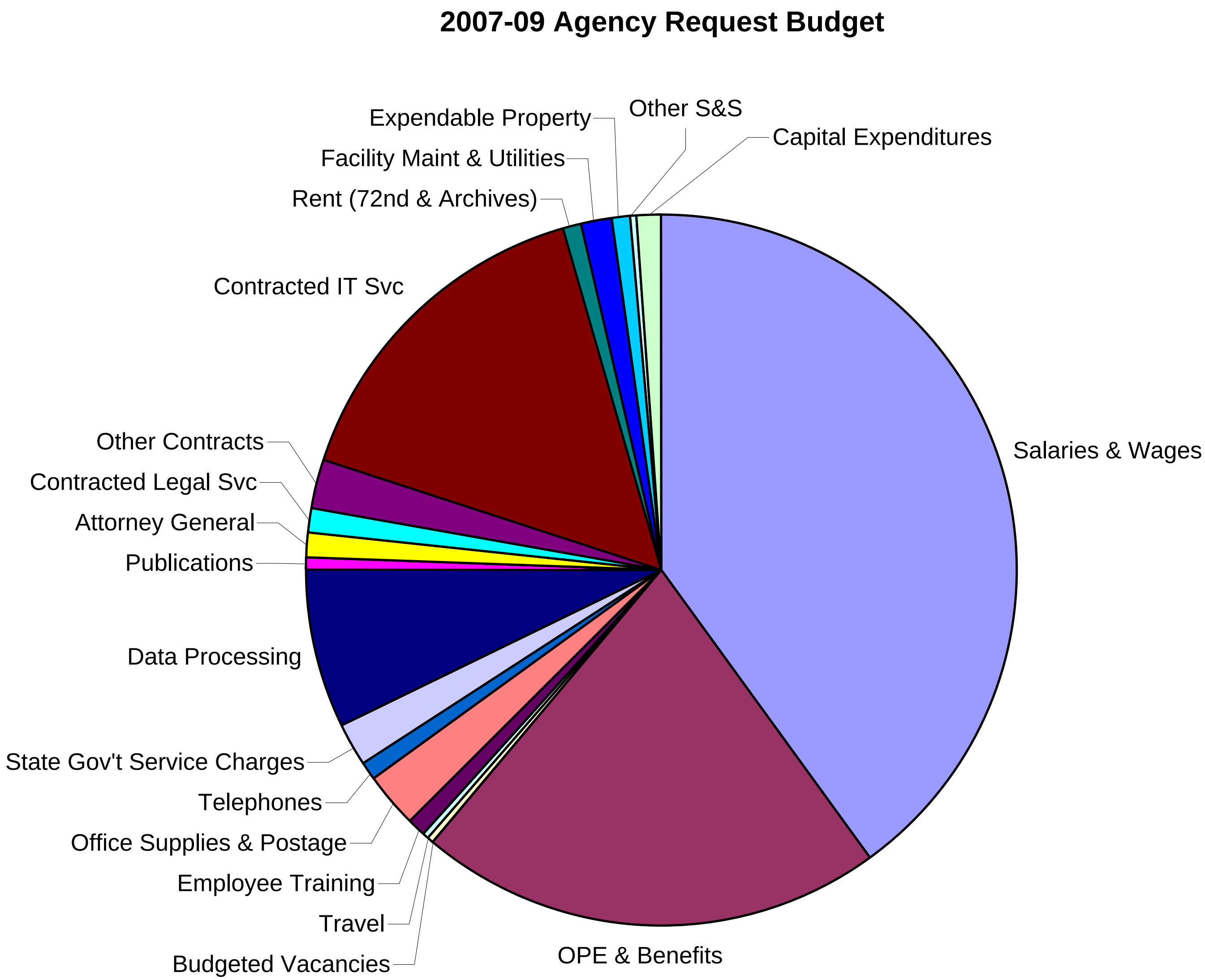
Attachment D



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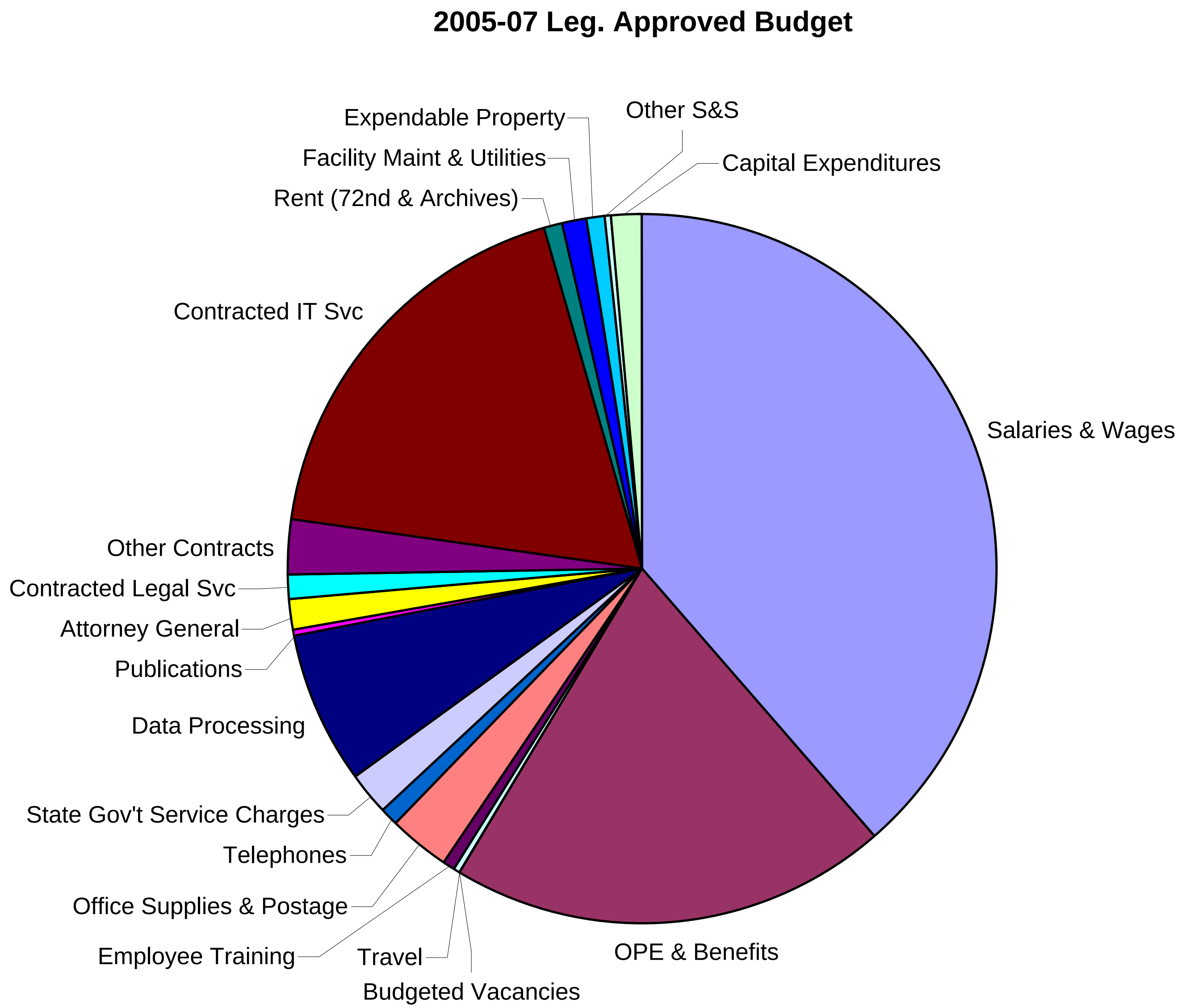

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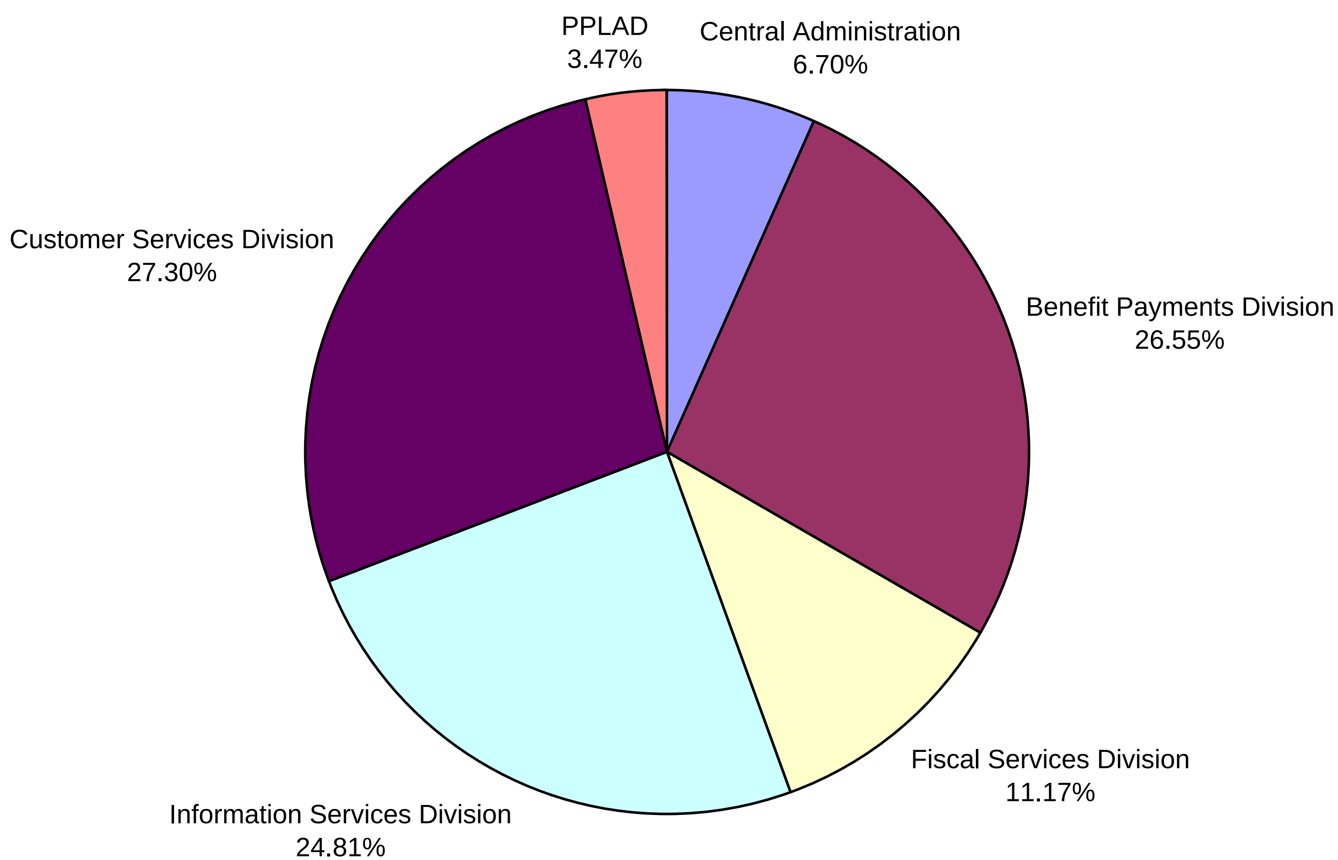
Attachment F

2007-09 Agency Request Budget
Position Count



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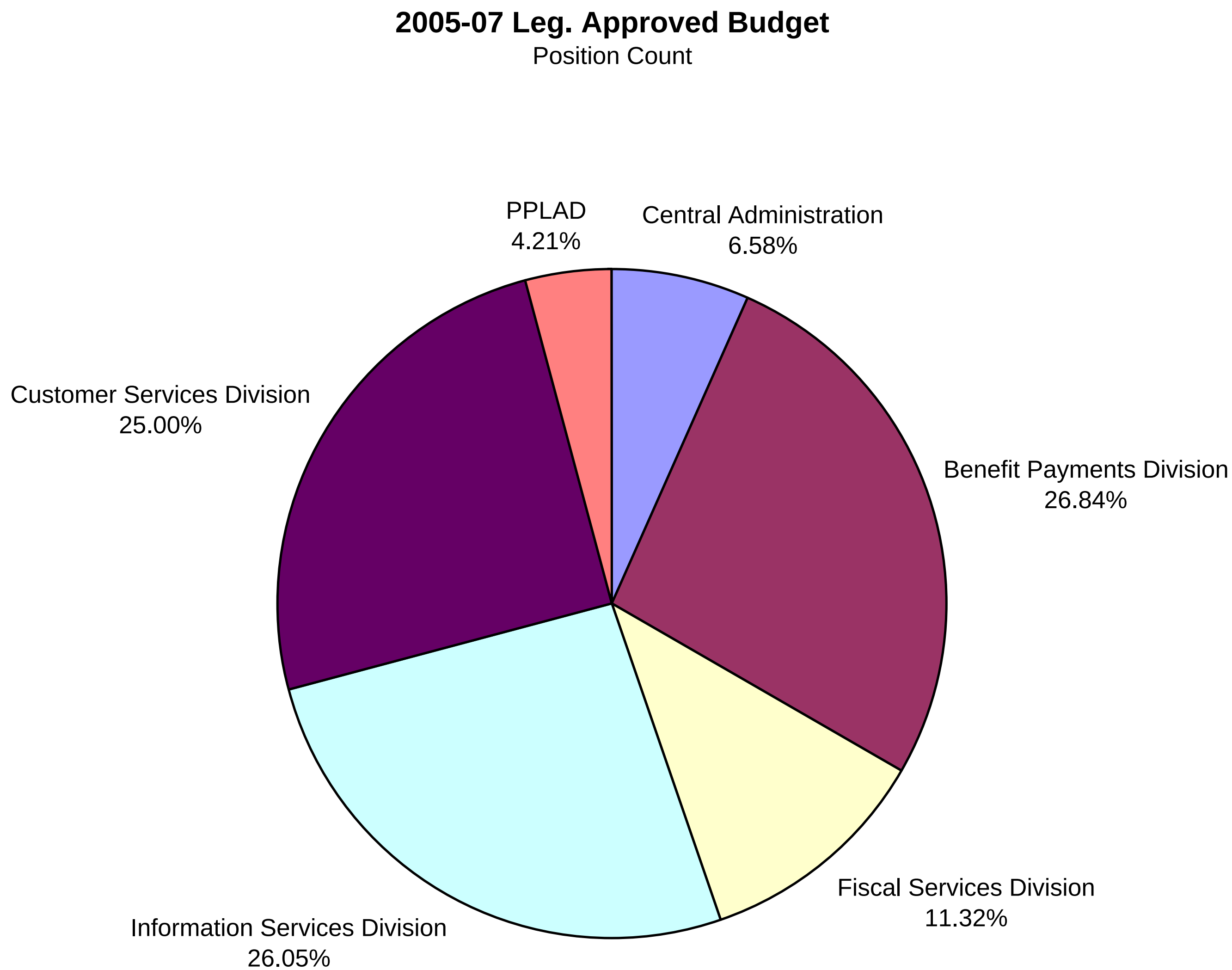
Attachment G



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Attachment H

#	Packages		Positions	Perm	LD	New
110	**Strunk/Eugene**					
	Benefit adjustments	BPD	35		35	
	IIM Support	ISD	10		10	
	A/R Support	FSD	2		2	
	Appeals support	PPLAD	1		1	
	Dbfix	CSC	3		3	
	MAPP Eligibility	CSC	6		6	
			57	-	57	-
111	**RIMS Conversion Project**					
	Project backfill positions	PPLAD	2		2	
		CSD	1		1	
		BPD	1		1	
		FSD	2		2	
			6	-	6	-
112	**Retirement Processing**					
	6,000 Retirements/year	BPD	7		7	
	Judge Calculations	BPD	1	1		1
	Training	BPD	1	1		
	Mgmt support/span of control	BPD	2		2	
	Application intake/validation	BPD	5		5	
	Add'l RCP Support	BPD	2		2	1
	Payment Adjustments/reconciliation	BPD	2		2	
	Benefit set-up & issuance	BPD	3		3	
	IAP Withdrawals	CSC	2		2	1
			25	2	23	3
113	**Retirement Data Support**					
	Establish 4 RC-2's (2 were RC-1)	CSC	4	4		
	Establish new Seps positions	CSC	4	4		3
	DQA	CSC	2		2	
	LOM - on-going support	CSC	1	1		
	Continue EDX support	MERS-EDX	5	5		
	DQA/Data Migration	MERS	1		1	
	ART	MERS	2		2	
	Tech Team	MERS	3		3	
	Technical Writer/documentation	PCS	1	1		1
			23	15	8	4
114	**Operations & Infrastructure Support**					
	Application support lead	TOS	1	1		1
	Application support systems analysts	TOS	2	2		
	Service desk analyst	TOS	1	1		
	Programmers/develpers	SES	3	3		
	Requirements analyst	SES	1	1		
	QA Project managers	QA	-	-		-
	IIM Support	IIM	12	12		
	Business Rules	PPLAD	3		3	
	Mail support	FSD	1		1	
	HR support	HR	2	1	1	
	Procurement support	FSD	2		2	
			28	21	7	1
115	**Legal Services**					
	PPLAD	1,000,000	-			
	Total		**139**	**38**	**101**	**8**

2007-09 Operations (300-00-00)
Budget Development & Tracking
Other Funds

	2005-07 LAB				2007-09 Essential Budget Level (*formerly CSL*) Estimate				2007-09 EBL Est.				2007-09 Agency Request Budget				
	(1) 2005-07 Legislatively Adopted Budget	(8) Plus: Net cost of pos. actions and merits	(9) 2007-09 Base Budget (7+8)	(10) Non-PICS Adjustments (010)	(11) *Essential Packages* Program Adjustments (021)	(12) Inflation/Price List Adj. (030)	(15) Technical Adjustments (060)	(19) Plus: Essential packages & inflation	(20) 2007-09 Essential Budget Level Est.	(21) Strunk/Eugene Project (110)	(22) RIMS Conv Project (111)	(23) *Program Option Packages* Retirement Processing (112)	(24) Retirement Data Support (113)	(25) Ops & Infrastructure Support (114)	(26) Legal Services (115)	(31) Plus: Program Option Packages	(32) 2007-09 Agency Request Budget
Personal Services																	
Salaries and Wages																	
Class/Unclass Salary & Per Diem	**28,490,581**	(4,774,342)	**23,716,239**	-	-	-	-	-	**23,716,239**	3,495,120	537,072	1,578,408	1,579,296	1,855,248	-	9,045,144	**32,761,383**
Temporary Appointments	**156,924**	-	**156,924**	4,865	-	-	-	4,865	**161,789**	-	-	-	-	-	-	-	**161,789**
Overtime Payments	**540,501**	-	**540,501**	16,756	-	-	-	16,756	**557,257**	-	-	-	-	-	-	-	**557,257**
Shift Differential	**1,978**	-	**1,978**	63	-	-	-	63	**2,041**	-	-	-	-	-	-	-	**2,041**
All Other Differential	**209,351**	-	**209,351**	6,552	-	-	-	6,552	**215,903**	-	-	-	-	-	-	-	**215,903**
Total Salaries and Wages	**29,399,335**	**(4,774,342)**	**24,624,993**	**28,236**	**-**	**-**	**-**	**28,236**	**24,653,229**	**3,495,120**	**537,072**	**1,578,408**	**1,579,296**	**1,855,248**	**-**	**9,045,144**	**33,698,373**
Other Payroll Expenses																	
ERB Assessment	**12,096**	(2,592)	**9,504**	-	-	-	-	-	**9,504**	2,052	216	900	828	1,008	-	5,004	**14,508**
PERS	**4,278,123**	(1,102,183)	**3,175,940**	3,031	-	-	-	3,031	**3,178,971**	453,656	69,713	204,873	204,988	240,813	-	1,174,043	**4,353,014**
Pension Bond Contribution	**1,375,395**	-	**1,375,395**	62,147	-	-	-	62,147	**1,437,542**	-	-	-	-	-	-	-	**1,437,542**
Social Security Taxes	**2,249,083**	(366,665)	**1,882,418**	2,159	-	-	-	2,159	**1,884,577**	267,378	41,086	120,752	120,820	141,925	-	691,961	**2,576,538**
Unemployment Assessments	**37,390**	-	**37,390**	1,160	-	-	-	1,160	**38,550**	-	-	-	-	-	-	-	**38,550**
Workers' Comp. Assessment (WCD)	**26,835**	(10,467)	**16,368**	-	-	-	-	-	**16,368**	3,534	372	1,550	1,426	1,736	-	8,618	**24,986**
Mass Transit Tax	**177,399**	-	**177,399**	(29,481)	-	-	-	(29,481)	**147,918**	20,971	3,222	9,471	9,476	11,132	-	54,272	**202,190**
Flexible Benefits	**6,976,368**	(944,496)	**6,031,872**	-	-	-	-	-	**6,031,872**	1,302,336	137,088	571,200	525,504	639,744	-	3,175,872	**9,207,744**
Total Other Payroll Expense	**15,132,689**	**(2,426,403)**	**12,706,286**	**39,016**	**-**	**-**	**-**	**39,016**	**12,745,302**	**2,049,927**	**251,697**	**908,746**	**863,042**	**1,036,358**	**-**	**5,109,770**	**17,855,072**
Other Adjustments																	
Attrition	**(155,537)**	-	**(155,537)**	(33,515)	-	-	-	(33,515)	**(189,052)**	-	-	-	-	-	-	-	**(189,052)**
Reconciliation Adjustments	**188,451**	(188,451)	**-**	-	-	-	-	-	**-**	-	-	-	-	-	-	-	**-**
Total Personal Services	**44,564,938**	**(7,389,196)**	**37,175,742**	**33,737**	**-**	**-**	**-**	**33,737**	**37,209,479**	**5,545,047**	**788,769**	**2,487,154**	**2,442,338**	**2,891,606**	**-**	**14,154,914**	**51,364,393**
Services and Supplies		Rebalance															
Instate Travel	**116,894**	60,000	**176,894**	-	-	5,482	-	5,482	**182,376**	-	-	-	-	-	-	-	**182,376**
Out-of State Travel	**31,127**	(20,000)	**11,127**	-	-	345	-	345	**11,472**	-	-	-	-	-	-	-	**11,472**
Employee Training	**488,069**	-	**488,069**	-	(128,250)	11,155	-	(117,095)	**370,974**	52,950	8,325	23,925	21,150	237,130	-	343,480	**714,454**
Office Expenses	**2,063,722**	(80,000)	**1,983,722**	-	(512,424)	45,612	-	(466,812)	**1,516,910**	285,000	30,000	125,000	115,000	140,000	-	695,000	**2,211,910**
Telecommunications	**503,503**	-	**503,503**	-	-	15,609	-	15,609	**519,112**	12,240	-	-	-	80,784	-	93,024	**612,136**
St. Gov. Serv. Chg.	**1,580,081**	-	**1,580,081**	-	-	249,551	-	249,551	**1,829,632**	-	-	-	-	-	-	-	**1,829,632**
Data Processing	**5,215,262**	-	**5,215,262**	-	(968,147)	131,661	-	(836,486)	**4,378,776**	360,000	1,317,200	-	-	-	-	1,677,200	**6,055,976**
Publicity/Publications	**292,704**	-	**292,704**	-	-	9,073	-	9,073	**301,777**	-	-	-	-	-	-	-	**301,777**
Professional Services	**2,862,534**	-	**2,862,534**	-	(1,133,720)	58,706	-	(1,075,014)	**1,787,520**	-	-	-	-	-	1,000,000	1,000,000	**2,787,520**
IT Professional Services	**13,897,953**	-	**13,897,953**	-	(13,400,397)	15,424	-	(13,384,973)	**512,980**	200,000	12,311,551	-	-	-	-	12,511,551	**13,024,531**
Attorney General	**947,681**	-	**947,681**	-	-	132,675	-	132,675	**1,080,356**	-	-	-	-	-	-	-	**1,080,356**
Dispute Res. Services	**73,736**	-	**73,736**	-	-	9,586	-	9,586	**83,322**	-	-	-	-	-	-	-	**83,322**
Empl. Recruit./Devel.	**58,036**	-	**58,036**	-	-	1,798	-	1,798	**59,834**	-	-	-	-	-	-	-	**59,834**
Dues & Subscriptions	**50,702**	-	**50,702**	-	-	1,571	-	1,571	**52,273**	-	-	-	-	-	-	-	**52,273**
Facility Rental	**703,597**	-	**703,597**	-	(578,881)	38,662	8,771	(531,448)	**172,149**	-	-	-	-	667,060	-	667,060	**839,209**
Fuels/Utilities	**121,063**	40,000	**161,063**	-	-	4,993	-	4,993	**166,056**	-	-	-	-	-	-	-	**166,056**
Facility Maint.	**724,698**	-	**724,698**	-	-	22,466	(8,771)	13,695	**738,393**	-	-	-	-	198,413	-	198,413	**936,806**
Agency/Program S & S	**-**	-	**-**	-	-	-	-	-	**-**	-	-	-	-	-	-	-	**-**
Other COP Costs	**6,500**	-	**6,500**	-	-	-	-	-	**6,500**	-	-	-	-	-	-	-	**6,500**
Expendable Property	**193,465**	(50,052)	**143,413**	-	(71,413)	2,232	-	(69,181)	**74,232**	2,000	-	3,000	4,000	1,000	-	10,000	**84,232**
IT Expendable Property	**450,300**	50,052	**500,352**	-	(17,516)	14,968	-	(2,548)	**497,804**	16,000	99,100	12,000	16,000	4,000	-	147,100	**644,904**
Total Services and Supplies	**30,384,327**	**-**	**30,384,327**	**-**	**(16,810,748)**	**771,652**	**-**	**(16,039,096)**	**14,345,231**	**928,190**	**13,766,176**	**163,925**	**156,150**	**1,328,387**	**1,000,000**	**17,342,828**	**31,688,059**
Capital Outlay																	
Office Furn./Fixture	**30,868**	-	**30,868**	-	-	957	-	957	**31,825**	-	-	-	-	-	-	-	**31,825**
Telecomm. Equip.	**62,750**	-	**62,750**	-	-	1,945	-	1,945	**64,695**	-	-	-	-	-	-	-	**64,695**
Data Proc.-Software	**404,019**	-	**404,019**	-	(300,019)	3,224	-	(296,795)	**107,224**	-	77,400	-	-	-	-	77,400	**184,624**
Data Proc.-Hardware	**535,857**	-	**535,857**	-	(388,857)	4,557	-	(384,300)	**151,557**	-	515,000	-	-	-	-	515,000	**666,557**
Total Capital Outlay	**1,033,494**	**-**	**1,033,494**	**-**	**(688,876)**	**10,683**	**-**	**(678,193)**	**355,301**	**-**	**592,400**	**-**	**-**	**-**	**-**	**592,400**	**947,701**
Total Expenditures	**75,982,759**	**(7,389,196)**	**68,593,563**	**33,737**	**(17,499,624)**	**782,335**	**-**	**(16,683,552)**	**51,910,011**	**6,473,237**	**15,147,345**	**2,651,079**	**2,598,488**	**4,219,993**	**1,000,000**	**32,090,142**	**84,000,153**
Positions	**380**	**(116)**	**264**	**-**	**-**	**-**	**-**	**-**	**264**	**57**	**6**	**25**	**23**	**28**	**-**	**139**	**403**
FTE	**379.00**	**(116.37)**	**262.63**	**-**	**-**	**-**	**-**	**-**	**262.63**	**57.00**	**6.00**	**25.00**	**23.00**	**28.00**	**-**	**139.00**	**401.63**

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Mailing Address:
P.O. Box 23700
Tigard, OR 97281-3700
(503) 598-7377
TTY (503) 603-7766
www.pers.state.or.us

July 21, 2006

MEETING DATE	7/21/06
AGENDA ITEM	D.4. Lgsltve. Cncpts.

TO: Members of the PERS Board

FROM: Steve Delaney, Deputy Director

SUBJECT: 2007 PERS Legislative Concepts – Placeholders

On March 31, 2006 the PERS Board approved submission of nine legislative concepts to the Department of Administrative Services. Four of those concepts were submitted as placeholders, as they required additional research to complete the agency's recommended language.

On June 1, 2006, PERS staff was informed that all nine concepts had been approved by the Department of Administrative Services and had been forwarded to Legislative Counsel to begin drafting.

On June 2, 2006, PERS staff met with the Legislative Advisory Committee to review the draft language being proposed for submission to Legislative Counsel.

On June 16, 2006, PERS staff brought to the PERS Board the draft language of the four placeholder concepts for review and approval for submission to Legislative Counsel. One of the four had Board consensus:

- **459/10** Change in membership of the Oregon Investment Council.

The Board asked that the other three concepts be brought back for further discussion at the July 21 meeting of the Board, particularly the two in question:

- **459/03** Eliminate "Break In Service," and
- **459/06** Modify the definition of covered salary so that a single standard is in place.

<u>NOTE</u>***: At the June 16, 2006 meeting Board Member Grimsley requested that each Board member receive the salary comparison materials previously provided by PERS staff to the Legislative Advisory Committee. These materials were used by staff in determining that FICA salary definitions came closest to matching the various PERS salary definitions. A copy of those materials is attached.***

459/11 Exemption from "Break In Service" for individuals restored to employment through arbitration.

__NOTE__***: At the June 16, 2006 meeting the PERS Board questioned why PERS would not accept an arbitration agreement restoring a Tier One/Two member under present law, and requested that the Department of Justice provide a legal opinion as to the need for this concept. Keith Kutler, Assistant Attorney General is studying the issue and will be prepared to comment at the July 21, 2006 meeting of the PERS Board.***

While state agencies must generally submit placeholder draft language no later than July 14, 2006, Legislative Counsel understands the Board will not be meeting until July 21 and is not looking for draft language until after that date.

__REMAINING PLACE HOLDER CONCEPTS__

LC 459/03 - Eliminate "Break in Service"
__Summary__: When HB 2020 was adopted, it established the concept of a "Break in Service" which applied to a PERS Chapter 238 member who re-entered PERS-covered employment after OPSRP was created. Legislation in 2005 altered the criteria for determining whether a "Break in Service" was incurred. The multiple criteria and the retroactive application of some criteria make the determination administratively burdensome.
__Legislative Concept__: Eliminate the concept of a "Break in Service." Instead, use the pre-existing criteria for PERS Chapter 238 Program loss of membership and vesting standards.
__Committee Comment__: The Oregon Education Association (OEA) representative expressed strong support for this concept on behalf of their association and the other labor representatives. OEA is concerned about the unexpected financial exposure to the PERS Fund caused by "Break In Service" as outlined by Mercer Inc, as well as the difficulty their members experience in trying to understand "Break In Service."
The Oregon School Board Association (OSBA) representative indicated their opposition to this concept even being drafted. The representative stated they had fought hard for the "Break In Service" provisions in 2003, and did not want to see those eliminated. To the issue of simplicity, he believed the administration of "Break In Service" would become easier in the coming years as employers became more familiar with its provisions. The City of Portland representative indicated that while the Public Employer's Alliance have not yet taken an official position, he anticipates they will support OSBA in opposition.
__Fiscal Impact:__ 0.01% of salary.

LC 459/06 - Modification of the Definition of Covered Salary
__Summary__: Currently, the PERS Chapter 238 Program has a different definition of what is considered to be "salary" from that of the OPSRP Pension Program and IAP. The definitions have many additions and exclusions, making reporting by employers extremely complicated and confusing.

Legislative Concept: Change the definition to match one already known and understood by payroll personnel – FICA.
To determine if a move to a single standard such as FICA would benefit or harm members, PERS staff obtained a sampling of employee salaries from 10 different employers and applied various standards against those salaries. The results, comparing the new standards to what would have been covered under the present PERS standards are attached.
Committee Comment: Because of concerns that moving to a different salary definition might disadvantage some members, the OEA representative opposed drafting of this concept on behalf of the PERS Labor Coalition.
While acknowledging the value of simplifying salary definitions, the employer representatives were also opposed to drafting this concept out of concern that employer costs might rise should salaries not presently covered by PERS become covered due to this concept.
Fiscal Impact: TBD

LC 459/11 – "Break In Service" Exemption
Summary: On occasion an employee may challenge a termination of employment, and due to court or agency order be reinstated to his or her position. That order may require making the individual whole, however presently, if a Tier 1/2member has been out of the service of the employer for more than six months, a "Break In Service" will have occurred and the individual will be reemployed as an Oregon Public Service Retirement Plan (OPSRP) member. There is no current statutorily provided method to make that individual whole upon reemployment.
Legislative Concept: Allow a court or agency ordered resolution as an exemption to the "Break In Service" provision.
Committee Comment: The committee was supportive of moving the language forward. Labor representatives would like the language to cover employer-employee settlement agreements, however employer representatives preferred the more restrictive language contained in the attached draft. The employer representatives were concerned that broad language would place undue pressure on their entities to settle rather than work through a more formal process.
Fiscal Impact: $0

STAFF RECOMMENDATION
Despite opposition from some stakeholders to further development of LC 459-03[Eliminate "Break In Service"] and –06 [Modification of Definition of Final Salary], PERS staff believes it could prove useful to continue discussions of these topics through this summer and early fall in trying to reach the Board's goal of plan simplification. *Approving submission of the draft language is not the final step in the process*. Upon return of each legislative concept as redrafted by Legislative Counsel, PERS staff will meet with the Legislative Advisory Committee for further review and study.

All concepts will be brought back to the November 17, 2006 meeting of the PERS Board for final approval prior to submission to the Oregon Legislature.
PERS staff requests the PERS Board approve submission to Legislative Counsel for Legislative Concepts 459-03, -06, and –11.

Attachment 1 PERS Salary/FICA Wage Definitional Comparison Chart
Attachment 2 Comparison of Various Salary Definitions

EXPLANATION OF SALARY COMPARISON CHARTS

PERS' staff began the process of drafting a single, simplified definition of salary by comparing PERS' current definition of salary with three suggested baseline standards: 1) the definition of wages for federal income tax purposes 2) the definition of wages for FICA purposes, and 3) the definition of wages for Oregon income tax purposes.

Working with the Employer Advisory Council, PERS requested and received W-3 (employer level), W-2 (employee level), and PERS covered salary information from a number of employers. PERS staff focused its review on the W-2 information provided. Based on PERS staff's analysis of the W-2 information provided (shown on a separate spreadsheet), FICA wages most closely resembled PERS current covered salary.

The following are side-by-side comparisons of the current PERS definitions with the definitions of FICA wages. Each comparison is two pages. The specific comparisons are:

Current Chapter 238 salary and FICA wage
Current OPSRP salary and FICA wage

The bolded rows indicate a difference in definition that would cause an increase in the PERS covered salary if adopted.

The italicized rows indicate a difference in definition that would cause an decrease in the PERS covered salary if adopted.

Salary Definition Comparison
238/FICA

Current 238 Definition		**FICA Definition**	
Included	**Excluded**	**Included**	**Excluded**
EE and ER money into non-qualified Def Comp		EE and ER money into non-qualified Def Comp	
EE and ER money into qualified 457 Def Comp		EE and ER money into qualified 457 Def Comp*	
TSA or Def Annuity salary ded		TSA or Def Annuity salary ded*	
Wages of deceased member paid to surviving spouse or dep children in cal yr of death		Wages of deceased member paid to surviving spouse or dep children in cal yr of death	
Wages of deceased member paid to surviving spouse or dep children after cal yr of death			*Wages of deceased member paid to surviving spouse or dep children after cal yr of death*
	Bus expenses reimbursed under acct plan		Bus expenses reimbursed under acct plan
	Bus expenses reimbursed under non-acct plan	**Bus expenses reimbursed under non-acct plan**	
	ER pymts for ins coverage for EE & dep – no cash opt		ER pymts for ins coverage for EE & dep – no cash opt
	Pymts, other than wages, paid on death of EE		Pymts, other than wages, paid on death of EE
	Lump sum accum unused sick leave	**Lump sum accum unused sick leave**	
Lump sum accum unused vacation		Lump sum accum unused vacation	
Severance pymts		Severance pymts	
	Accel pymt of employ contract or adv on future wages	**Accel pymt of employ contract or adv on future wages**	

Current 238 Definition		FICA Definition	
Included	**Excluded**	**Included**	**Excluded**
	Retirement incentive, ret sev pay, ret bonus		Retirement incentive, ret sev pay, ret bonus
	Pymts for instructional services to OUS or OHSU in excess of FT	**Pymts for instructional services to OUS or OHSU in excess of FT**	
	ER pymts for ins coverage of Dom Part – Dom Part is EE dep		ER pymts for ins coverage of Dom Part – Dom Part is EE dep
	ER pymts for ins coverage of Dom Part – Dom Part is not EE dep	**ER pymts for ins coverage of Dom Part – Dom Part is not EE dep**	
Contribs to café plan or qual trans fringe bene plan (IRC 125 or 132)			*Contribs to café plan or qual trans fringe bene plan (IRC 125 or 132)*
401(k) deferrals		401(k) deferrals	
IAP EE contribs pd by ER and deducted from comp (MPPT)		IAP EE contribs pd by ER and deducted from comp (MPPT)	
	IAP EE contribs pd by ER and not deducted from comp (EPPT)		IAP EE contribs pd by ER and not deducted from comp (EPPT)
IAP EE contribs pd by EE (MPAT)		IAP EE contribs pd by EE (MPAT)	

* Some PERS participating employers do not include these amounts in the FICA wage.

Salary Definition Comparison
OPSRP/FICA Tax

Current OPSRP Definition		FICA Definition	
Included	**Excluded**	**Included**	**Excluded**
EE and ER money into non-qualified Def Comp		EE and ER money into non-qualified Def Comp	
EE and ER money into qualified 457 Def Comp		EE and ER money into qualified 457 Def Comp*	
TSA or Def Annuity salary ded		TSA or Def Annuity salary ded*	
Wages of deceased member paid to surviving spouse or dep children in cal yr of death		Wages of deceased member paid to surviving spouse or dep children in cal yr of death	
Wages of deceased member paid to surviving spouse or dep children after cal yr of death			*Wages of deceased member paid to surviving spouse or dep children after cal yr of death*
	Bus expenses reimbursed under acct plan		Bus expenses reimbursed under acct plan
	Bus expenses reimbursed under non-acct plan	**Bus expenses reimbursed under non-acct plan**	
	ER pymts for ins coverage for EE & dep – no cash opt		ER pymts for ins coverage for EE & dep – no cash opt
	Pymts, other than wages, paid on death of EE		Pymts, other than wages, paid on death of EE
	Lump sum accum unused sick leave	**Lump sum accum unused sick leave**	
	Lump sum accum unused vacation	**Lump sum accum unused vacation**	
	Severance pymts	**Severance pymts**	
	Accel pymt of employ contract or adv on future wages	**Accel pymt of employ contract or adv on future wages**	

Current OPSRP Definition		**FICA Definition**	
Included	**Excluded**	**Included**	**Excluded**
	Retirement incentive, ret sev pay, ret bonus		Retirement incentive, ret sev pay, ret bonus
	Pymts for instructional services to OUS or OHSU in excess of FT	**Pymts for instructional services to OUS or OHSU in excess of FT**	
ER pymts for ins coverage of Dom Part – Dom Part is EE dep			*ER pymts for ins coverage of Dom Part – Dom Part is EE dep*
ER pymts for ins coverage of Dom Part – Dom Part is not EE dep		ER pymts for ins coverage of Dom Part – Dom Part is not EE dep	
Contribs to café plan or qual trans fringe bene plan (IRC 125 or 132)			*Contribs to café plan or qual trans fringe bene plan (IRC 125 or 132)*
401(k) deferrals		401(k) deferrals	
IAP EE contribs pd by ER and deducted from comp (MPPT)		IAP EE contribs pd by ER and deducted from comp (MPPT)	
	IAP EE contribs pd by ER and not deducted from comp (EPPT)		IAP EE contribs pd by ER and not deducted from comp (EPPT)
IAP EE contribs pd by EE (MPAT)		IAP EE contribs pd by EE (MPAT)	

* Some PERS participating employers do not include these amounts in the FICA wage.

D.4. Attachment 2

Employee	PERS Level	**2005 Fed Wages (Box 1 on W-2)**	**% of PERS Sal**	**2005 FICA Wages (Box 5 on W-2)**	**% of PERS Sal**	**2005 Oregon Wages (Box 16 on W-2)**	**% of PERS Sal**	**PERS Reported Subject Salary for 2005 (whenever reported)**
A	PERS Tier 1	31,953.68	110%	31,953.68	110%	31,953.68	110%	29,047.15
B*	PERS Tier 1	12,304.29	70%	19,883.29	113%	12,304.29	70%	17,632.53
C	PERS Tier 1	27,541.67	100%	27,541.67	100%	27,541.67	100%	27,541.67
D	PERS Tier 2	13,704.05	110%	13,704.05	110%	13,704.05	110%	12,409.27
E	PERS Tier 2	48,885.59	102%	48,885.59	102%	48,885.59	102%	47,707.16
F	PERS Tier 2	56,410.65	100%	56,410.65	100%	56,410.65	100%	56,410.65
G	PERS OPSRP	7,957.34	100%	7,957.34	100%	7,957.34	100%	7,957.34
H	PERS OPSRP	23,058.01	100%	24,258.01	105%	23,058.01	100%	23,058.01
I**	PERS OPSRP	32,707.10	125%	32,707.10	125%	32,707.10	125%	26,113.09
J	PERS OPSRP	30,885.77	100%	30,885.77	100%	30,885.77	100%	30,885.77

* Difference between fed wage and FICA wage is 403(b) contributions

** This is a new employee who became eligible mid-year

A	20,430.28	100%	20,430.28	100%	20,430.28	100%	20,430.28
B	64,648.80	90%	71,826.00	100%	64,648.80	90%	71,772.00
C	89,731.66	139%	98,531.66	153%	89,731.66	139%	64,464.46
D	11,104.70	35%	31,416.56	100%	11,104.70	35%	31,416.56
E	40,889.58	100%	40,889.58	100%	40,889.58	100%	40,889.58
F	17,931.40	100%	17,931.40	100%	17,931.40	100%	17,931.40
G	29,774.35	88%	34,574.35	102%	29,774.35	88%	33,996.03
H	64,226.20	99%	64,226.20	99%	64,226.20	99%	65,180.00
I	35,706.00	99%	35,706.00	99%	35,706.00	99%	35,916.00
J	25,484.76	126%	25,484.76	126%	25,484.76	126%	20,210.94

Employee	2005 Fed Wages (Box 1 on W-2)		2005 FICA Wages (Box 5 on W-2)		2005 Oregon Wages (Box 16 on W-2)		PERS Reported Subject Salary for 2005 (whenever reported)
A	59,830.78	100%	59,830.78	100%	59,830.78	100%	59,623.98
B	68,791.44	99%	69,544.61	100%	68,791.44	99%	69,513.38
C	51,757.20	93%	55,092.82	99%	51,757.20	93%	55,592.80
D	43,507.33	100%	43,507.33	100%	43,507.33	100%	43,507.33
E	50,556.80	72%	68,766.40	98%	50,556.80	72%	70,160.52
F	68,242.35	94%	72,598.26	100%	68,242.35	94%	72,598.26
G	40,273.69	75%	53,481.83	100%	40,273.69	75%	53,472.31
H	38,999.15	81%	47,585.50	99%	38,999.15	81%	48,105.50
I	62,741.72	100%	62,741.72	100%	62,741.72	100%	62,741.72
J	42,055.59	94%	44,739.93	100%	42,055.59	94%	44,739.93
A	66,662.20	91%	73,418.20	100%	66,662.20	91%	73,531.00
B	27,212.90	100%	27,212.90	100%	27,212.90	100%	27,261.50
C	17,479.28	97%	17,980.53	100%	17,479.28	97%	18,015.18
D	12,507.29	100%	12,507.29	100%	12,507.29	100%	12,518.09
E	44,737.19	100%	44,737.19	100%	44,737.19	100%	44,737.19
F	32,165.28	90%	35,741.00	100%	32,165.28	90%	35,789.36
G	28,809.27	87%	29,865.27	90%	28,809.27	87%	33,075.77
H	41,761.10	100%	41,761.10	100%	41,761.10	100%	41,777.90
I	109,940.45	85%	128,636.36	100%	109,940.45	85%	128,756.36
J	60,120.44	82%	73,116.44	100%	60,120.44	82%	73,370.00