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February 1, 2013

**VIA E-MAIL**

Paul Cleary
Executive Director
Oregon PERS

**Re: Request Number: 2013-001**
**Benefit Design Cost Analysis - COLA Limit of $32,000**

Dear Paul:

Per your request, this letter estimates the system-wide average effects of a potential change that would limit the calculation of cost of living allowance (COLA) increases to the first $32,000 of annual benefit for Tier 1, Tier 2 & OPSRP members. This concept is an addition to the several COLA-related concepts analyzed in our November 7, 2012 letter in response to Actuarial Service Request 2012-008. This letter should be viewed a supplement to the prior analysis; the actuarial basis and additional considerations discussed therein also apply to this analysis and are incorporated by reference.

The analysis estimates the impact if the change concepts had become effective on December 31, 2011. A change at that time would have affected both the December 31, 2011 actuarial liability and 2013-2015 employer contribution rate calculations. While any change to the system's COLA policy would occur at a later date, estimating the impact as of a December 31, 2011 snapshot date allows for direct comparison to liability and employer contribution rate calculations from the most recently completed actuarial valuation.

The table below has a summary of the valuation results and the estimated effect of capping COLA-eligible benefits at $32,000. "Accrued Liability" refers to the net present value of projected future benefits allocated to service already completed as of the valuation date in accordance with the current actuarial cost allocation method, while "Total Liability" includes the value attributable to anticipated future service for current active members. The contribution rate shown is a blended rate reflecting the weighted averages of Tier 1, Tier 2 & OPSRP payroll as of the valuation date. The contribution rate is shown on an "uncollared" basis. If a COLA change occurred, the actual impact on collared employer rates would depend on Board policy and/or legislative direction on how to implement such a change.

| | 12/31/2011 Total Liability ($B) | 12/31/2011 Accrued Liability ($B) | 2013-2015 Uncollared Base Employer Contribution Rate (% of payroll) |
|---|---|---|---|
| 12/31/2011 Valuation Results | $69.2 | $61.2 | 23.7% |
| Concept: Calculate COLA on First $32,000 Only | (3.9) | (3.1) | (3.1%) |

The changes in liabilities and uncollared contribution rates from this concept would occur via a decrease in projected future benefits for current and future retirees.

## DATA, METHODS, ASSUMPTIONS AND PROVISIONS

Other than the exceptions and additions noted below, the data, methods, assumptions, and plan provisions used to calculate employer contribution rates are the same as those used in the December 31, 2011 system-wide actuarial valuation report. That information, including a discussion of the inherent limitations of use of actuarial valuation results, is herein incorporated to this letter by reference.

Please note that our analysis does not include any assumed change in participant behavior, bargaining agreements, or employer pay practices as a result of a change in COLA policy. Such potential impacts merit consideration, but are beyond the scope of the analysis requested.

**The $32,000 threshold considered in this concept was not indexed to reflect the potential impact of inflation in future years on purchasing power.**

In calculating the illustrative changes in uncollared employer base contribution rates shown above, we assumed all changes in Accrued Liability were amortized over a 20-year period as a level percent of payroll using current valuation assumptions. This is the method currently used in the valuation when establishing new Tier 1/Tier 2 amortization bases. If a different amortization method were used, the overall impact on employer rates could be significantly different than shown in this letter.

## ACTUARIAL BASIS AND QUALIFICATIONS

In preparing this letter and the valuation report on which it is based, we relied, without audit, on information (some oral and some in writing) supplied by Oregon PERS. This information includes, but is not limited to, statutory provisions, employee data, and financial information. We found this information to be reasonably consistent and comparable with information used for other purposes. The updated estimates depend on the integrity of this information. If any of this information is inaccurate or incomplete our results may be different and our calculations may need to be revised.

All costs, liabilities, rates of interest, and other factors for the System have been determined on the basis of actuarial assumptions and methods which are individually reasonable (taking into account the experience of the System and reasonable expectations); and which, in combination, offer a reasonable estimate of anticipated experience affecting the System.

Future actuarial measurements may differ significantly from the current measurements presented in this estimate due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period additional cost or contribution requirements based on the plan's funded status, or a change in the cost allocation method); and changes in plan provisions or applicable law. Due to the limited scope of this estimate, we did not perform an analysis of the potential range of future measurements. The Board has the final decision regarding the valuation assumptions and adopted the assumptions used in the December 31, 2011 valuation in July 2011.

Actuarial computations presented in this estimate are for purposes of providing a high-level analysis of the requested change concepts to the System. As such, they cannot be relied upon for financial reporting or other purposes, and calculations for purposes other than this use may be significantly different from the estimates contained in this letter. Accordingly, additional determinations may be needed for other purposes.

Milliman's work is prepared solely for the use of Oregon PERS. To the extent that Milliman's work is not subject to disclosure under applicable public records laws, Milliman's work may not be provided to third parties without Milliman's prior written consent. Milliman does not intend to benefit or create a legal duty to any third party recipient of its work product.

No third party recipient of Milliman's work product should rely upon Milliman's work product. Such recipients should engage qualified professionals for advice appropriate to their own specific needs.

The consultants who worked on this assignment are pension actuaries. We have not explored any legal issues with respect to the change concepts. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel.

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

If you have any questions about our response or need any additional information, please let us know.

Sincerely,

Matt Larrabee, FSA, EA
Consulting Actuary

MRL:sdp
encl.

cc: Steve Rodeman, Debra Hembree, Scott Preppernau