



OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM
BOARD MEETING AGENDA

Friday January 31, 2020 9:00 A.M.	PERS 11410 SW 68th Parkway Tigard, OR
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	ITEM	PRESENTER
A. Administration		
1.	December 6, 2019 Board Meeting Minutes	SHENOY
2.	Director's Report	OLINECK
	a. Forward-Looking Calendar	
	b. OPERF Investment Report	
	c. Budget Execution Report	
	d. Annual Report of Director's Financial Transactions	STANLEY
B. Administrative Rulemaking		
1.	Adoption of Alternate Death Benefit Rule	VAUGHN
2.	Adoption of Work After Retirement Rules	
C. Action and Discussion Items		
1.	Legislative Session Preview/Update	TAYLOR
2.	IAP TDF Update	ELLEDGE-RHODES
3.	SB 1049 Implementation Update and HB 5032 Budget Note Report	ELLEDGE-RHODES
4.	Employer Incentive Fund Participation and SB 1566 Reporting	SOSNE
5.	Preliminary 2019 Earnings Crediting and Reserving	HORSFORD, MARBLE
6.	Update Reflecting on Earnings through December 31, 2019	MILLIMAN

*Public testimony will be taken on action items at the Chair's discretion.
Please submit written testimony to PERS.Board@state.or.us (three days in advance of the meeting is preferred.)*

<http://www.oregon.gov/PERS/>

2020 Meetings: March 30*, May 29, July 31*, October 2, December 4*
*Audit Committee planned for post-Board meeting

OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM BOARD MEETING MINUTES

December 6, 2019

Board members present:

Chair Sadhana Shenoy, Stephen Buckley, Steve Demarest and Jardon Jaramillo were present. Vice Chair Lawrence Furnstahl attended by phone.

Staff present:

Amanda Marble, Anne Marie Vu, Brandon Armatas, Dean Carson, Elizabeth Rossman, Greg Gabriel, Jason Stanley, Jordan Masanga, Katie Brogan, Kevin Olineck, Mark Anderson, Matt Rickard, Marjorie Taylor, MaryMichelle Sosne, Melanie Chandler, Richard Horsford, Sam Paris, Stephanie Vaughn, Yong Yang, Yvette Elledge-Rhodes

Others present:

Brian Kennedy, Carol Samuels, Claire Havener, David Barenberg, Deborah Tremblay, Eric Fruits, GayLynn Bath, H.L., Isolde Knaap, Jeff Gudman, John Borden, Josh Eggleston, Karl Koenig, Kevin Grainey, Matt Larrabee, Michelle Morrison, Nate Carter, Robert Burket, Roger Dawes, Scott Preppernau, Sunil Shenoy, Tahni Fagerberg, Tim Collier

A.1.a. Exhibit 1 is the meeting sign in sheet.

Chair Sadhana Shenoy called the meeting to order at 9:00 a.m.

ADMINISTRATION

A.1.A. MEETING MINUTES OF OCTOBER 4, 2019

Board member Buckley moved to approve the minutes from the October 4, 2019 PERS Board meeting. Board member Demarest seconded the approval of the minutes. The motion passed unanimously.

A.2. BOARD GOVERNANCE ASSIGNMENTS

Board member Demarest moved to accept the proposed board governance assignments as presented. Chair Shenoy seconded the assignments. The motion passed unanimously.

A.3. DIRECTOR'S REPORT

Director Kevin Olineck presented the Director's Report. The Director's Report contains information on other activities that the organization is working on that do not appear on the agenda.

Olineck presented the forward looking calendar. The 2020 board meetings will begin at 9:00 a.m.

The Oregon Public Employees Retirement Fund (OPERF) returns for the period ending October 31, 2019 were 10.75%.

Olineck shared that PERS has adopted ADKAR as a change management methodology. It is a well-recognized change management methodology that is being used to support the implementation of SB 1049.

He noted there is room for improvement with regard to the employee engagement survey. Change management and performance management are key areas that will be focused on in 2020. Corresponding measures will be added to PERS' Outcome-Based Management System (POBMS).

Matt Rickard and Brandon Armatas of the POBMS Council presented the Board Scorecard Report on Agency Performance Measures for the third quarter of 2019. 35 of the 65 measures are in the green range, where performance is at or above acceptable levels. The next scorecard will be presented May 29, 2020.

A.4. AGENCY STRATEGIC PLAN UPDATE

Director Kevin Olineck presented the Agency Strategic Plan Update.

The PERS Strategic Plan covers the 2018-2023 time period. Based on the discussion at the October meeting, the Strategic Plan was updated. Progress on one third of the strategic goals will be constrained due to SB 1049 implementation efforts. As noted in October, a new strategic plan pillar, "Enterprise Risk Management," was added, given the heightened sensitivity and awareness levels around risk management in general, as well as information security and continuity management, specifically.

A.5. CEM BENCHMARKING RESULTS

Mike Reid, Vice President, CEM Benchmarking, presented.

Reid presented the PERS Pension Administration Benchmarking Report for FY 2018. Oregon PERS has one of the highest plan design complexity scores among CEM's global universe. High complexity negatively impacts service, front office productivity, and back office costs.

ADMINISTRATIVE RULEMAKING

Stephanie Vaughn, Policy Analysis and Compliance Section Manager, presented.

B.1. NOTICE OF ALTERNATE DEATH BENEFIT RULE

Vaughn presented Notice of Rulemaking for Alternate Death Benefit Rule: OAR 459-014-0040, Valid Request for Distribution of Pre-Retirement Death Benefits. A rulemaking hearing will be held December 31, 2019, at 2:00 p.m. at PERS headquarters in Tigard. The rule is scheduled to be brought before the PERS Board for adoption at the January 31, 2020 PERS Board meeting. No board action was required.

B.2. FIRST READING OF WORK AFTER RETIREMENT RULES

Vaughn presented First Reading of Work After Retirement Rules to Implement 2019 Legislation: OAR 459-009-0070, Actuarial Pooling of Employer Liability; OAR 459-017-0060, Reemployment of Retired Members; OAR 459-075-0300, Reemployment of a Retired Member of the OPSRP Pension Program. The second public comment period will end on January 7, 2020. The rules are scheduled to be brought before the PERS Board for adoption at the January 31, 2020 board meeting. No board action was required.

B.3. ADOPTION OF RULES TO IMPLEMENT 2019 LEGISLATION

Vaughn presented Adoption of Rules to Implement 2019 Legislation: OAR 459-005-0525, Ceiling on Compensation for Purposes of Contributions and Benefits; OAR 459-050-0001, OSGP Definitions; OAR 459-076-0045, Cessation of Disability Benefits Upon Reaching Normal Retirement Age. Board member Demarest moved to adopt modifications to the rules to implement 2019 legislation, as presented. Vice Chair Furnstahl seconded. The motion passed unanimously.

B.4. ADOPTION OF RETIREMENT INSTALLMENTS FUND AND RETIREMENT ALLOCATION FUND RULES

Vaughn presented Adoption of Retirement Allocation Fund and Retirement Installments Fund Rules: OAR 459-007-0001, Definitions; OAR 459-007-0005, Annual Earnings Crediting; OAR 459-007-0330, Crediting Earnings for IAP Account Installment Payments; OAR 459-007-0335, Crediting Earnings for IAP Account Pre-Retirement Death Benefit Payments; OAR 459-080-0015, Investment of IAP Account Balance. Board member Buckley motioned to adopt modifications to the Retirement Allocation Fund and Retirement Installments Fund rules, as presented. Board member Jaramillo second. The motion passed unanimously.

B.5. ADOPTION OF SB 1049 EMPLOYER PROGRAMS RULES

Vaughn presented Adoption of Employer Programs Rules: OAR 459-007-0530, Crediting Earnings to Employer Lump Sum Payments; OAR 459-009-0084, Employer Unfunded Actuarial Liability Lump-Sum Payments with an Actuarial Calculation; OAR 459-009-0086, Employer Unfunded Actuarial Liability Lump-Sum Payments, Generally; OAR 459-009-0091, Unfunded Actuarial Liability Resolution Program; OAR 459-009-0092, Employer Incentive Fund Program. Board member Jaramillo motioned to adopt the Employer Program Rules as presented. Board member Demarest seconded. The motion passed unanimously.

ACTION AND DISCUSSION ITEMS

C.1. SECRETARY OF STATE ACTUARIAL REVIEW

Kevin Olineck, PERS Director presented.

Oregon House Bill 4163 (2018), section 11, requires the Secretary of State to contract with a firm to perform an independent actuarial review of the last actuarial valuation that was used to determine employer contribution rates prepared under Oregon Revised Statutes (ORS) 238.605. This is the first actuarial review conducted under this new legislative requirement. Subsequent reviews are to take place no more than four years from the release of the first report. Milliman will incorporate some recommendations in future actuarial work and reports.

PERS has recommended that the next review take place the year prior to when PERS will engage in its Experience Study and review of actuarial methods and assumptions cycle, given that this report was released after the board had gone through its 2018 Experience Study and had adopted

revised actuarial methods and assumptions. This new review period will ensure future recommendations are incorporated into the PERS Board's review cycle.

The board appreciated the review and the perspectives that were shared. Board member Buckley expressed interest in discussing the rate collaring approach and how it affects employer contributions. Olineck will add this as an agenda item to a future meeting.

C.2. MILLIMAN ACTUARIAL CONTRACT RENEWAL

Amanda Marble, Financial Reporting Manager presented.

PERS' actuarial services contract with Milliman will terminate December 31, 2019, unless the PERS Board takes specific action to extend the contract. This contract took effect on January 1, 2015, and has been in effect for the initial four-year term. The contract allows for an extension of additional one- or two-year periods, for a total term not-to-exceed 10 years. Staff recommends that the board extend the Milliman contract for an additional two-year period. Board member Buckley motioned to extend the current actuarial services contract with Milliman to December 31, 2021. Board member Demarest seconded. The motion passed unanimously.

C.3. SB 1049 IMPLEMENTATION UPDATE

Yvette Elledge-Rhodes, Deputy Director presented.

Elledge-Rhodes gave an update on the five individual projects that make up the SB 1049 implementation program. She noted that all projects are going through the OSCIO stage gate process. Staff are working hard to get all the documentation needed to get through this process.

The program status is yellow, largely because defining the schedule has been challenging and eight critical positions are taking longer than expected to fill. There has been a focus on defining the Minimum Viable Product deliverable for each of the projects.

PERS staff will continue to update the board as project implementation continues throughout the next year. No board action was required.

C.4. EMPLOYER INCENTIVE FUND PARTICIPATION

MaryMichelle Sosne, Actuarial Business Specialist presented.

Sosne gave an update on the Employer Incentive Fund (EIF), the Unfunded Actuarial Liability Resolution Program (UALRP), and Deferred Rate Offset.

Sosne noted that payment dates and the approved list of employers are likely to change.

An update on the employer programs project will be provided at the January 31, 2020 board meeting. No board action was required.

C.5. 2018 VALUATION UPDATE AND FINANCIAL MODELING RESULTS

Scott Preppernau and Matt Larrabee of Milliman presented.

The presentation reviewed long-term financial modeling projections reflecting published investment results through September 30, 2019. The preliminary year-end 2019 investment results will be available for the January 31, 2020 board meeting.

C.6. ADOPTION OF ACTUARIAL EQUIVALENCY FACTOR TABLES

Board member Demarest motioned to adopt the Actuarial Equivalency Factor Tables, as prepared by Milliman, based on the board adopted changes to the actuarial methods and assumptions as presented by Milliman in the 2018 Experience Study. Vice Chair Furnstahl seconded the motion. The motion passed unanimously.

Chair Shenoy adjourned the PERS Board meeting at 11:24 a.m.



Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Kevin Olineck', written in a cursive style.

Kevin Olineck, Director

PUBLIC RECORD: This form will be posted on the internet and accessible to the public.

PERS Board Meeting Sign-in

December 6, 2019, 9:00am

Please print legibly.

Name <i>PRINT LEGIBLY</i>	Organization
Gay Lynn Bath	Univ. of OR
Hawthorn	member
Isolde L. Knaapp	PERS Member
Brian Kennedy	Metro
Jeff Gudman	—
Kern Graney	SAIF
Scott Preppernan	Milliman
Robert Burked	Port of Portland
Steve Buchly	Board Member
Deborah Tremblay	OTD
Josh Eggleston	City of Salem
Roger Dawes	Washington County
John Bender	LFO
Karl Koenig	OSFFC
ERIC FAUITS	CNS CARE Policy Inst.
Matt Larrabee	Milliman
Michelle Morrison	Hillsboro School District
Carol Samuels	APER



OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM DIRECTOR'S REPORT

KEVIN OLINECK, DIRECTOR

JANUARY 2020

This Director's Report tries to encapsulate, at a high level, noteworthy changes that have taken place since the last board meeting, while highlighting staff accomplishments.

SENATE BILL 1049 (SB 1049) MINIMUM VIABLE PRODUCT (MVP)

Work continues on implementing SB 1049. Staff implemented initial functionality, using a Minimum Viable Product (MVP) approach, for both Salary Limit and Work After Retirement, prior to January 1. This initial implementation enables staff, employers, and members to accommodate these legislative changes by their deadlines, with further implementations planned to more fully automate these changes.

More detailed SB 1049 implementation reports on these and other projects will be provided in the board packet.

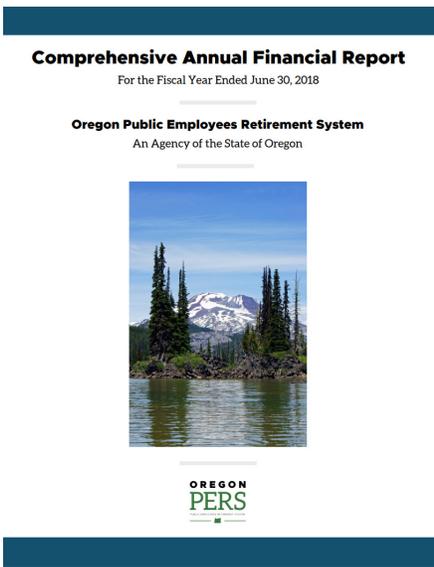
AGENCY HIGHLIGHTS AND ACCOMPLISHMENTS

I want to continue to highlight where PERS staff members have not only made great progress with standard operational initiatives, but also made significant progress on strategic initiatives. The following are initiatives that deserve to be mentioned, with staff publicly acknowledged for their efforts.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

Our 2019 [Comprehensive Annual Financial Report](#) was published on December 16. The CAFR represents a significant effort by the agency, as it truly lives up to its descriptor: comprehensive. The agency is proud to win, for the 16th year running, the 2019 Public Pension Standards Award For Funding and Administration related to our 2018 CAFR, as recognized by the Public Pension Coordinating Council, a confederation of the National Association of State Retirement Administrators (NASRA), the National Conference on Public Employee Retirement Systems (NCPERS), and the National Council on Teacher Retirement (NCTR). Additionally, for the 28th consecutive year, we were awarded a Certificate of Achievement

for Excellence in Financial Reporting from the Government Finance Officers Association for the 2018 CAFR.



The Oregon Public Employees Retirement System 2019 Comprehensive Annual Financial Report was published on December 16.

NEW VIDEO SERIES

The Oregon Savings Growth Plan (OSGP) and PERS launched a four-part video series aimed at helping Oregon public employees learn more about saving for retirement. The videos were collaboratively developed between OSGP, PERS Communications, and Voya Financial.

These videos not only aim to promote OSGP to a more diverse audience, but also better connect OSGP, PERS, and the PERS Health Insurance Program (PHIP), by demonstrating how all aspects of our agency can help public employees in the future. OSGP and PERS specifically created new messages in the video scripts about public employees' need to save more outside of PERS and also called attention to unexpected costs members may not consider, such as health insurance. These messages were reiterated throughout the entire series.

When watched all together, the videos show that anyone can be an advocate for encouraging retirement savings and that retirement planning is a career-long journey. The goal was to create videos that could be used for many years, both on PERS and OSGP websites and

in various workshops and presentations. The GovDelivery email that launched the videos has been opened by over half of subscribers, and further views continue to be generated through efforts such as an all-state email and a LinkedIn campaign to promote OSGP, both of which have been launched.

Watch all four videos [here](#) or through [PERS' Vimeo account](#).

Check out our four-part educational video series

The Oregon Savings Growth Plan is pleased to present a four-part educational video series, covering a range of investment and plan-related topics. Saving for retirement early is vital, but it is also never too late. The important thing is to **do something now** - watch and learn what you can do.



PART 1: GETTING STARTED WITH OSGP



PART 2: WHY SAVE WITH OSGP



PART 3: INVEST WITH OSGP



PART 4: IT'S NOT TOO LATE TO SAVE WITH OSGP

The Oregon Savings Growth Plan (OSGP) and PERS launched a four-part video series aimed at helping Oregon public employees learn more about saving for retirement.

OSGP & IAP BALANCES NOW ACCESSIBLE IN ONE PLACE

One of our goals has been to improve the ability for our OSGP participants, who are also PERS pension members, to more accurately use MyOrangeMoney, one of VOYA's online planning tools, to project their future retirement finances. Since Voya is also the third party administrator for the IAP, they also have the IAP account balance information. A large portion of PERS pension members do not know much, if anything, about the IAP or how it impacts them. As a result, many did not manually incorporate the IAP when using the tool.

Voya has now programmed MyOrangeMoney to automatically include IAP balances and to reflect the Target-Date Fund investment structure when projecting earnings. Hopefully, when members see their balances for both OSGP and IAP, it will remind them of about the IAP account and help them to understand the intrinsic value of the IAP as a retirement savings resource.

PRINTER REPLACEMENT PROJECT

Late last year, all copiers in all PERS' locations were successfully replaced as our current lease expired. The Copier Lease Renewal Project team spent several months looking at different printer vendor options that would best serve the needs of the agency. They looked at the capabilities of our current printers and then explored costs, equipment options, and services. At the end of their review, they made a recommendation that best suited the needs of the agency over the next four years. This decision was based on several factors: the capability to do the same (and more) tasks as our current printers, the cost of the lease, the cost and quality of copies and prints, and the reputation of the vendor to provide great customer service.

Along with the new printers, the agency also got PaperCut, a secure print management system. PaperCut helps manage printing needs with easy, convenient-

to-use tools that can be accessed anywhere on the network through a web browser. PaperCut gives staff the ability to print from their computer and pick up the print job at any agency printer by using their key card. This eliminates the issue of sensitive printed materials laying exposed while waiting to be collected and prevents a print job from being accidentally collected by another user. Staff are also able to scan documents to their individual folder or to an email address, rather than a shared scan folder.

The security and convenience of PaperCut will not only change how staff print, it will enable the agency to better control costs. But even more importantly, it will help ensure that our members' information is not co-mingled and that sensitive information is not lying around for prying eyes to view.



PERS BY THE NUMBERS

PERS has published its latest *PERS by the Numbers*. This document is a great resource for both internal staff, as well as external stakeholders, as it provides up-to-date, pertinent data and information about the administration of PERS.

While the agency endeavors to publish the updated documents in the fall of each year, due to the priority of SB 1049 efforts, this year's edition was released in late December, via GovDelivery and [on the PERS website](#).

SUPPORTING OUR COMMUNITY
AGENCY-WIDE INITIATIVES

Along with many smaller individual and group efforts, there were two agency-wide initiatives to support less fortunate members of the community this holiday season.



MARINE CORP RESERVE TOY DRIVE

A long-standing tradition at PERS, staff showed overwhelming support by contributing toys to this year's Toys for Tots drive. We are grateful to the drive coordinators in Tigard, Tualatin, and Salem who made this such a success.

Put a Smile on a Child

This Christmas



Make it special
for a child in need.
Donate an unwrapped,
new toy* to



by placing it in this box
no later than Tuesday,
December 10, by 5 p.m.

*Please do not donate food items or any toy that looks like a weapon.



Posters were created, and dispersed among the various PERS buildings, to remind people of this donation opportunity.

CARING TREES

Support for Oregon State hospital patients

There were Caring Trees located in both the PERS headquarters and Tualatin office. Each tree contained gift tags staff could remove to fulfill the wishes of patients in need at the Oregon State Hospital. If not for the generosity of PERS staff, patients at the hospital would not have received any gifts.



Caring Trees, hung with gift requests, enabled staff to help make the holidays cheerier for Oregon State hospital patients.

PERS Board Meeting Forward-Looking Calendar

Monday, March 30, 2020*

Legislative Session Review
 Final Earnings Crediting and Reserving
 Oregon Investment Council Performance Review
 Agency Budget Preview for Next Biennium
 Rate Collaring Approach

Friday, May 29, 2020

Board Scorecard Report on Agency Performance Measures
 Retiree Health Insurance Plan Renewals and Rates
 Agency Budget Development for Next Biennium

Friday, July 31, 2020*

Propose 2021 Board Meeting Dates
 Approve 2021-2023 Agency Request Budget
 CEM Benchmarking Cost Effectiveness Presentation
 Presentation of December 31, 2019 System Valuation

Friday, October 2, 2020

Legislative Update and Agency-Requested Legislative Concepts
 Member and Employer Survey Results
 Actuarial Valuation and Adoption of 2021-2023 Employer Contribution Rates

Friday, December 4, 2020*

Board Governance Assignments
 Board Scorecard Report on Agency Performance Measures
 Approval to File Agency-Requested Legislative Concepts
 Financial Modeling Presentation

*Audit Committee planned for post-board meeting

Returns for periods ending NOV-2019

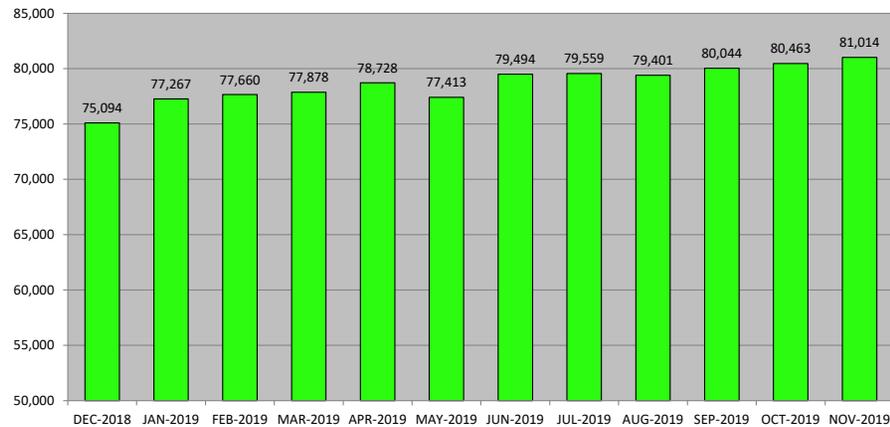
Oregon Public Employees Retirement Fund

OPERF	Regular Account			Historical Performance (Annual Percentage)								
	Policy ¹	Target ¹	\$ Thousands ²	Actual	Year-To-Date ³	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS	7 YEARS	10 YEARS
Public Equity	27.5-37.5%	32.5%	\$ 26,492,153	33.9%	21.04	12.21	4.93	11.33	9.71	7.53	10.07	9.34
Private Equity	13.5-21.5%	17.5%	\$ 17,274,516	22.1%	10.88	12.40	14.76	16.66	12.92	11.98	13.69	14.37
Total Equity	45.0-55.0%	50.0%	\$ 43,766,669	56.1%								
Opportunity Portfolio	0-3%	0%	\$ 1,702,899	2.2%	5.20	4.47	5.52	7.43	6.83	5.92	7.66	8.62
Total Fixed	15-25%	20.0%	\$ 16,059,999	20.6%	8.75	9.97	4.60	4.29	3.75	3.16	3.03	4.81
Risk Parity	0.0-2.5%	2.5%	\$ -	0.0%								
Real Estate	9.5-15.5%	12.5%	\$ 8,818,305	11.3%	7.24	6.95	7.74	9.39	8.75	9.07	10.54	9.77
Alternative Investments	7.5-17.5%	15.0%	\$ 7,689,444	9.9%	(1.18)	(1.89)	(1.68)	1.82	2.48	1.32	2.39	
Cash w/Overlay	0-3%	0%	\$ 19,172	0.0%	3.11	3.38	2.62	2.18	1.91	1.62	1.34	1.19
TOTAL OPERF Regular Account		100.0%	\$ 78,056,487	100.0%	12.19	9.79	6.62	9.87	8.40	7.24	8.82	9.13
OPERF Policy Benchmark					12.27	10.04	7.22	10.33	8.90	7.69	9.32	9.38
Value Added					(0.09)	(0.26)	(0.60)	(0.46)	(0.49)	(0.45)	(0.50)	(0.25)
Target Date Funds			2,476,610									
TOTAL OPERF Variable Account			\$ 481,334		22.32	13.54	5.98	11.98	10.07	7.63	9.92	9.15

Asset Class Benchmarks:

Russell 3000	27.34	15.49	10.40	14.22	12.71	10.61	14.11	13.41
OREGON MSCI ACWI EX US IMI NET	16.49	11.07	0.82	9.16	6.86	4.10	5.52	4.98
MSCI ACWI IMI NET	22.03	13.20	5.60	11.58	9.66	7.23	9.55	8.79
RUSSELL 3000+300 BPS QTR LAG	5.34	8.04	13.91	17.90	14.59	13.76	17.38	18.20
OREGON CUSTOM FI BENCHMARK	8.21	9.54	4.39	3.98	3.43	2.80	2.58	3.68
OREGON CUSTOM REAL ESTATE BENCHMARK	4.27	4.92	6.26	6.86	7.69	8.73	9.36	9.20
CPI +4%	6.12	6.13	6.19	6.22	6.10	5.79	5.65	5.78
91 Day Treasury Bill	2.13	2.32	2.06	1.63	1.30	1.05	0.76	0.57

Total OPERF NAV
(includes Variable Fund assets)
One year ending NOV-2019
(\$ in Millions)



¹OIC Policy revised April 2019.

²Includes impact of cash overlay management.

³For mandates beginning after January 1 (or with lagged performance), YTD numbers are "N/A". Performance is reflected in Total OPERF. YTD is not annualized.

Returns for periods ending DEC-2019

Oregon Public Employees Retirement Fund

OPERF	Regular Account			Historical Performance (Annual Percentage)								
	Policy ¹	Target ¹	\$ Thousands ²	Actual	Year-To-Date ³	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS	7 YEARS	10 YEARS
Public Equity	27.5-37.5%	32.5%	\$ 27,369,151	34.6%	25.25	25.25	5.89	11.75	11.26	8.53	10.17	9.41
Private Equity	13.5-21.5%	17.5%	\$ 17,322,313	21.9%	11.10	11.10	14.57	15.48	13.11	11.92	13.08	13.34
Total Equity	45.0-55.0%	50.0%	\$ 44,691,464	56.5%								
Opportunity Portfolio	0-3%	0%	\$ 1,715,831	2.2%	6.15	6.15	6.00	7.47	7.13	6.11	7.73	8.56
Total Fixed	15-25%	20.0%	\$ 16,149,467	20.4%	8.84	8.84	4.46	4.21	3.93	3.24	2.96	4.75
Risk Parity	0.0-2.5%	2.5%	\$ -	0.0%								
Real Estate	9.5-15.5%	12.5%	\$ 8,728,646	11.0%	7.25	7.25	7.64	8.44	8.30	8.61	9.99	9.53
Alternative Investments	7.5-17.5%	15.0%	\$ 7,688,993	9.7%	(1.32)	(1.32)	(1.88)	1.40	2.68	1.24	2.36	
Cash w/Overlay	0-3%	0%	\$ 91,300	0.1%	3.32	3.32	2.67	2.22	1.96	1.67	1.36	1.21
TOTAL OPERF Regular Account		100.0%	\$ 79,065,699	100.0%	13.56	13.56	6.82	9.60	8.97	7.54	8.62	8.91
OPERF Policy Benchmark					13.99	13.99	7.41	10.09	9.80	8.10	9.16	9.22
Value Added					(0.43)	(0.43)	(0.59)	(0.48)	(0.83)	(0.56)	(0.54)	(0.32)

Target Date Funds

2,516,797

TOTAL OPERF Variable Account

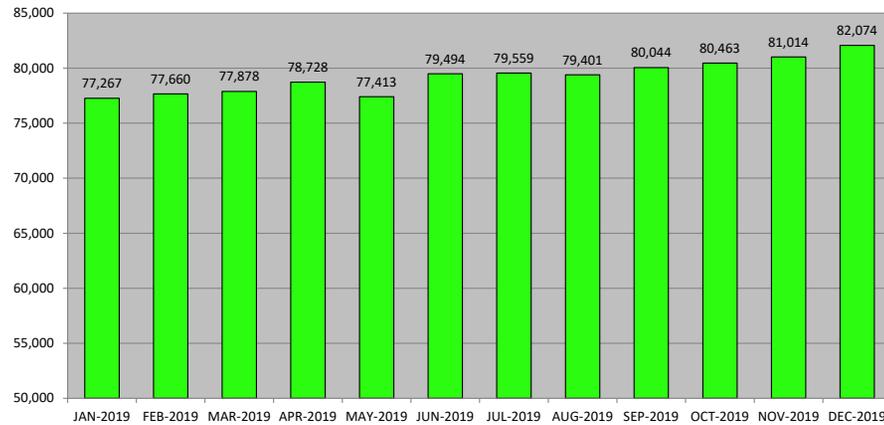
\$ 491,751

	26.68	26.68	6.98	12.49	11.54	8.74	10.09	9.28
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Asset Class Benchmarks:

Asset Class	Actual	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS	7 YEARS	10 YEARS
Russell 3000	31.02	31.02	11.42	14.57	14.11	11.24	14.38	13.42
OREGON MSCI ACWI EX US IMI NET	21.63	21.63	1.82	9.84	8.46	5.71	5.65	5.21
MSCI ACWI IMI NET	26.35	26.35	6.59	12.09	11.14	8.34	9.73	8.91
RUSSELL 3000+300 BPS QTR LAG	6.00	6.00	13.28	16.18	16.73	13.73	16.36	16.44
OREGON CUSTOM FI BENCHMARK	8.27	8.27	4.21	3.91	3.56	2.87	2.52	3.81
OREGON CUSTOM REAL ESTATE BENCHMARK	4.64	4.64	6.16	6.34	6.97	8.24	9.06	9.61
CPI +4%	6.37	6.37	6.17	6.18	6.17	5.89	5.68	5.79
91 Day Treasury Bill	2.28	2.28	2.08	1.67	1.33	1.07	0.78	0.58

Total OPERF NAV
(includes Variable Fund assets)
One year ending DEC-2019
(\$ in Millions)



¹OIC Policy revised April 2019.

²Includes impact of cash overlay management.

³For mandates beginning after January 1 (or with lagged performance), YTD numbers are "N/A". Performance is reflected in Total OPERF. YTD is not annualized.



Oregon

Kate Brown, Governor

Public Employees Retirement System

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January 31, 2020

TO: Members of the PERS Board
FROM: Greg Gabriel, Budget Officer
SUBJECT: January 2020 Board Report

2019-21 OPERATING BUDGET

Operating expenditures for November 2019 and preliminary expenditures for December 2019 were \$3,272,489 and \$4,714,869 respectively. Final expenditures for December closed in the Statewide Financial Management System (SFMS) on January 17, 2020, and will be included in the March 2020 report to the Board.

- To date, the Agency has expended a total of \$26,772,377 or 23.8% of PERS' legislatively adopted operations budget of \$112,657,461.
- The agency has \$525,791 in unscheduled expenditure limitation related to Package 106.
- At this time, the Agency's projected variance is \$1,150,604.
- SB 1049 expenditures for November and preliminary December were \$76,978 and \$468,655 respectively. To date, the Agency has expended \$1,025,212 of the legislatively adopted budget of \$39,059,714.

2017-19 OPERATING BUDGET

Operating expenditures for AY 2019 paid July 1, 2019 through December 31, 2019 were \$2,838,708. The positive variance is \$6,427,228 or approximately 6.3% of the operations budget.

To date, the Agency has expended a total of \$95,220,643 or 93.7% of PERS' legislatively approved operations budget of \$101,647,871. PERS has finalized expenditures for goods received and for services rendered for the 2017-19 biennium.

2019-21 NON-LIMITED BUDGET

The adopted budget includes \$12,504,627,192 in total estimated non-limited budget expenditures. Non-limited budget expenditures include benefit payments, health insurance premiums, and third-party administration payments for both the PERS Health Insurance Program and the Individual Account Program (IAP).

- Preliminary Non-Limited expenditures through December 2019 are \$2,470,072,176.

A.2.c. Attachment – 2017-19, 2019-21, SB1049 Agency-wide Budget Execution Summary Analysis

PERS Monthly Budget Report

2017-19 Agency-wide Budget Execution
Final Summary For the 2019 Biennium

Limited - Operating Budget

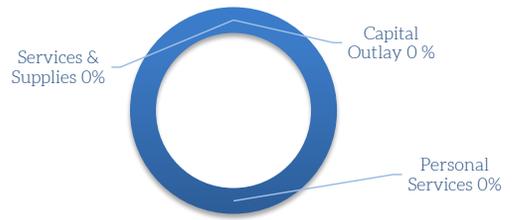
2017-19 Biennial Summary

Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expenditures	2017-19 LAB	Variance
Personal Services	68,246,514	0	68,246,514	73,511,089	5,264,575
Services & Supplies	26,571,632	0	26,571,632	26,842,430	270,798
Capital Outlay	402,497	0	402,497	1,294,352	891,855
Total	95,220,643	(0)	95,220,643	101,647,871	6,427,228

Actual Expenditures



Projected Expenditures



Summary of activity after AY 19 close: July - December

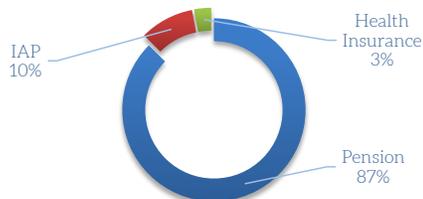
Category	Actual Exp.	Projections	Variance	Avg. Monthly Actual Exp.	Avg. Monthly Projected Exp.
Personal Services	20,052	0	(20,052)	2,843,605	0
Services & Supplies	2,818,656	0	(2,818,656)	1,107,151	0
Capital Outlay	0	0	0	16,771	0
Total	2,838,708	0	(2,838,708)	3,967,527	0

Non-Limited Budget

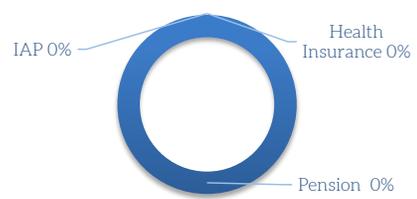
2017-19 Biennial Summary

Programs	Actual Exp To Date	Projected Expenditures	Total Est. Expenditures	Non-Limited LAB	Variance
Pension	9,554,401,368	0	9,554,401,368	9,222,000,000	(332,401,368)
IAP	1,043,591,128	0	1,043,591,128	1,056,900,000	13,308,872
Health Insurance	330,481,613	0	330,481,613	815,271,000	484,789,387
Total	10,928,474,109	0	10,928,474,109	11,094,171,000	165,696,891

Actual Expenditures



Projected Expenditures



PERS Monthly Budget Report

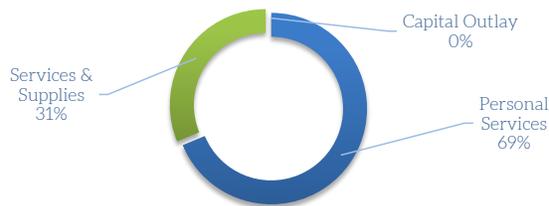
2019-21 Agency-wide Budget Execution
Preliminary Summary For the Month of December 2019

Limited - Operating Budget

2019-21 Biennial Summary

Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expenditures	2019-21 LAB	Variance
Personal Services	18,409,494	61,053,235	79,462,729	77,726,803	(1,735,926)
Services & Supplies	8,362,883	21,869,102	30,231,985	32,231,536	1,999,551
Capital Outlay	0	1,812,143	1,812,143	2,173,331	361,188
Unscheduled				525,791	525,791
Total	26,772,377	84,734,480	111,506,857	112,657,461	1,150,604

Actual Expenditures



Projected Expenditures



Monthly Summary

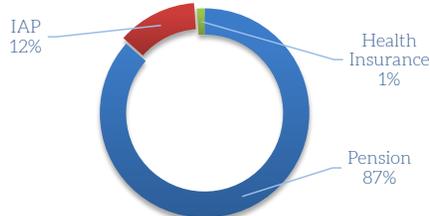
Category	Actual Exp.	Projections	Variance	Avg. Monthly Actual Exp.	Avg. Monthly Projected Exp.
Personal Services	3,399,483	3,691,332	291,849	3,068,249	3,391,846
Services & Supplies	1,315,386	1,385,588	70,202	1,393,814	1,214,950
Capital Outlay	0	0	0	0	100,675
Total	4,714,869	5,076,920	362,051	4,462,063	4,707,471

Non-Limited Budget

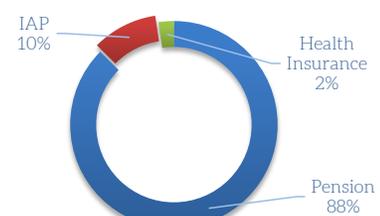
2019-21 Biennial Summary

Programs	Actual Exp To Date	Projected Expenditures	Total Est. Expenditures	Non-Limited LAB	Variance
Pension	2,137,205,913	8,252,091,935	10,389,297,848	10,347,780,673	(41,517,175)
IAP	303,297,536	962,991,059	1,266,288,595	1,423,365,167	157,076,572
Health Insurance	29,568,727	225,062,921	254,631,648	733,481,352	478,849,704
Total	2,470,072,176	9,440,145,915	11,910,218,091	12,504,627,192	594,409,101

Actual Expenditures



Projected Expenditures



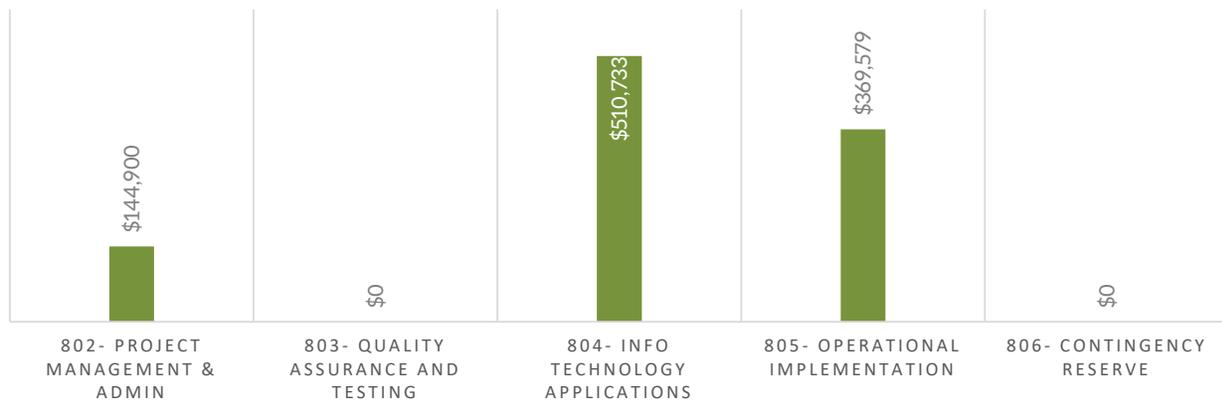
SB 1049 Budget Report

Summary Budget Analysis Preliminary For The Month of December 2019

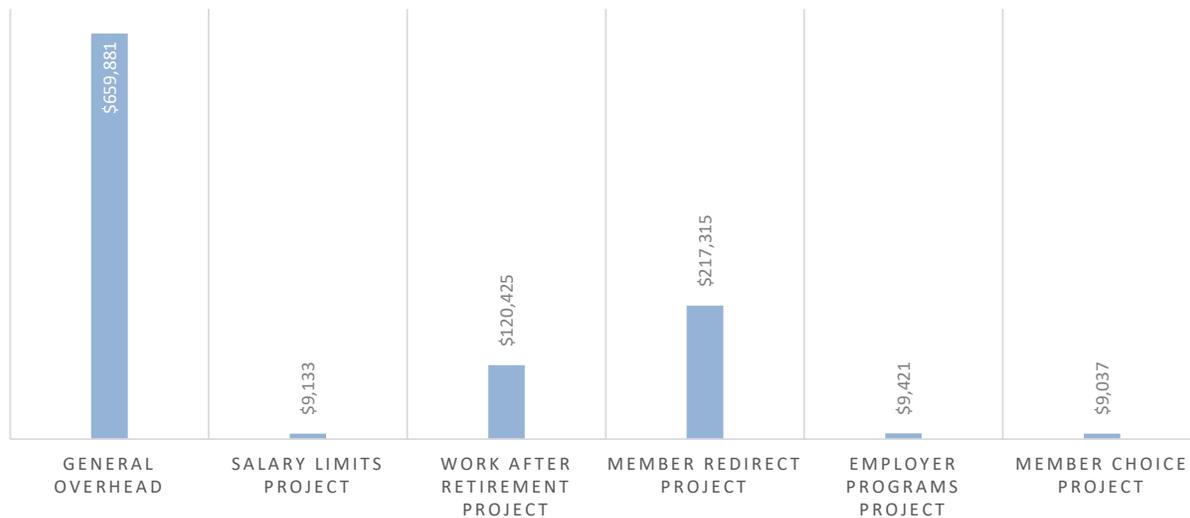
Biennial Summary

Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expend.	2019-21 LAB	Variance
Personal Services	37,393	4,852,068	4,889,461	5,646,497	757,036
Services & Supplies	872,386	31,121,164	31,993,550	33,413,217	1,419,667
Capital Outlay	115,434		115,434		(115,434)
Total	1,025,212	35,973,232	36,998,445	39,059,714	2,061,269

EXPENDITURES BY PACKAGE



EXPENDITURES BY PROJECT





Oregon

Kate Brown, Governor

Public Employees Retirement System

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January 31, 2020

TO: Members of the PERS Board

FROM: Jason Stanley, Chief Compliance, Audit, and Risk Officer

SUBJECT: Review the Annual Report of Financial Transactions of the Executive Director for the fiscal year ended June 30, 2019

REQUESTED ACTION

In accordance with PERS policy and procedure, the Chair of the Audit Committee has reviewed the summary of salary, benefits, personnel expenses, travel, and other financial charges incurred by PERS Director Kevin Olineck in the aggregate amount of \$257,671. This amount covers the period of July 1, 2018, through June 30, 2019. Details of this amount were provided at the December 6, 2019 Audit Committee meeting. The financial records supporting this summary are maintained in the Financial and Administrative Services Division (FASD).

BACKGROUND

Oregon Accounting Manual (OAM) policy number 10.90.00.PO requires boards and commissions to establish a formal structure to ensure the proper review and approval of the agency head's financial transactions. This is supported by PERS policy number 1.01.02.00.001.POL.

The policy requires the Chief Compliance, Audit, and Risk Officer or Deputy Director to review and approve all financial transactions of the Director, including monthly timesheets, travel claims (both in-state and out-of-state), Small Purchase Order Transaction System (SPOTS) card purchases, etc. The policy also requires that the Chair of the Audit Committee report to the Audit Committee, and the PERS Board, annually, that they have reviewed the Director's financial transactions, and that their review and approval be documented in the board meeting minutes.

I reviewed the detailed transactions (payroll time reports, travel expense reimbursement claims, and SPOTS card purchases) of the PERS Director for the period of July 1, 2018, through fiscal year ended June 30, 2019, and found no exceptions or inappropriate transactions.

The PERS Board minutes for this meeting will reflect receipt of this report on the Director's financial transactions for the fiscal year ended June 30, 2019, as submitted by the Chief Compliance, Audit, and Risk Officer in compliance with OAM 10.90.00 PO.

A.2.d. Attachment 1 - *Delegation of authority*



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PERS Board Delegation Order

In compliance with the requirements of Oregon Accounting Manual Policy Number 10.90.00.PO, Internal Control: Approval of Agency Head Transactions, the Oregon Public Employees Retirement Board hereby delegates the review and approval process for the Executive Director's financial transactions to the PERS Deputy Director or Chief Compliance, Audit, and Risk Officer.

This delegation will be reflected in the minutes of the January 31, 2020, meeting of the PERS Board.

Sadhana Shenoy

Sadhana Shenoy, Chair

12-6-19

Date



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January 31, 2020

TO: Members of the PERS Board
FROM: Stephanie Vaughn, Manager, Policy Analysis & Compliance Section
SUBJECT: Adoption of Alternate Death Benefit Rule:
OAR 459-014-0040, *Valid Request for Distribution of Pre-Retirement Death Benefits*

OVERVIEW

- Action: Adopt modifications to the Alternate Death Benefit rule.
- Reason: To allow a surviving spouse sufficient time to request and review estimated benefit options before deciding whether to elect the new alternate pre-retirement death benefit provided in HB 2417 (2019).
- Policy Issue: None.

BACKGROUND

Oregon Revised Statutes (ORS) 238.395 provides an employer match of a Tier One or Tier Two member's member account as a pre-retirement death benefit when the member dies while employed by a PERS-participating employer or within 120 days after termination from service with a public employer. But in cases where the member has a small member account balance, as is often the case with Tier Two members, the pre-retirement death benefit provided by the member account and the employer match provided for in ORS 238.395 can be de minimis.

HB 2417 (2019) allows for an alternate pre-retirement death benefit, in lieu of the above described benefit, for a surviving spouse beneficiary of a PERS member, if that member was in the service of a participating employer at the time of their death or within 120 days after termination from service with a participating employer *and* the member's spouse is the member's named beneficiary. The new alternate death benefit provided for is the actuarial equivalent of 50 percent of the service retirement allowance that the deceased member would otherwise have been paid.

This new provision requires a spouse-beneficiary to make the election for this benefit "no later than 60 days after the date of death of the member." Often, PERS is not notified of a member's death within 60 days of their passing. Even in cases when PERS is notified in a timely manner, it will take time for PERS staff to generate an estimate and provide it to the surviving spouse. This time will then be running against the surviving spouse's time limit to make the election, which may cause unintended stress and uncertainty during a period of grieving.

The amendments to the rule incorporate language deeming the request for their available pre-retirement death benefit options a preliminary election to receive the new alternate pre-retirement death benefit, when a surviving spouse requests the estimate within 60 days after the date of the

member's death. It then provides the surviving spouse 60 days from the date on the estimate to formally make the election, should they choose. These amendments ensure that the time required for processing requests will not cause a surviving spouse beneficiary to lose the opportunity to make the election.

SUMMARY OF MODIFICATIONS TO RULE SINCE NOTICE

For specificity, the last sentence in OAR 459-014-0040(2) was modified to read: "The surviving spouse then has 60 days after the date of the estimate to notify the Board in a final written election if they elect to receive the benefit provided *under ORS 238.395(2)*".

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held December 31, 2019, at 2:00 p.m. at PERS headquarters in Tigard. No members of the public attended. The public comment period ended January 7, 2020, at 5:00 p.m. No public comment was received.

LEGAL REVIEW

The attached draft rule was submitted to the Department of Justice for legal review and any comments or changes are incorporated in the rule as presented for adoption.

IMPACT

Mandatory: No.

Benefit: Allows surviving spouses a period of review for them to evaluate their options.

Cost: There are no discrete costs attributable to the rule.

RULEMAKING TIMELINE

November 25, 2019	Staff began the rulemaking process by filing a Notice of Rulemaking with the Secretary of State.
December 2, 2019	Secretary of State published the Notice in the Oregon Administrative Rules Database. Notice was sent to employers, legislators, and interested parties. Public comment period began.
December 6, 2019	PERS Board notified that staff began the rulemaking process.
December 31, 2019	Rulemaking hearing held at 2:00 p.m. at PERS in Tigard.
January 7, 2020	Public comment period ended at 5:00 p.m.
January 31, 2020	Board may adopt the rule modifications.

BOARD OPTIONS

The PERS Board may:

1. Pass a motion to "adopt modifications to the Alternate Death Benefit rule, as presented."
2. Direct staff to make other changes to the rule or explore other options.

STAFF RECOMMENDATION

Staff recommends the PERS Board choose Option #1.

- Reason: To allow a surviving spouse sufficient time to request and review estimated benefit options before deciding whether to elect the new alternate pre-retirement death benefit provided in HB 2417 (2019).

If the board does not adopt: Staff would return with rule modifications that more closely fit the board's policy direction if the PERS Board determines that a change is warranted.

B.1. Attachment 1 – 459-014-0040, *Valid Request for Distribution of Pre-Retirement Death Benefits*

**OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 014 – DEATH AND SURVIVOR BENEFITS**

1 **459-014-0040**

2 **Valid Request for Distribution of Pre-Retirement Death Benefits**

3 (1) For the purposes of this rule, “valid request for distribution” is when PERS
4 receives the last required document PERS has determined necessary to distribute a death
5 benefit to a beneficiary.

6 **(2) Effective January 1, 2020, a written request for an estimate by a surviving**
7 **spouse of a Tier One or Tier Two member received no later than 60 days after the**
8 **member’s date of death will be deemed a preliminary election under ORS 238.395(2).**
9 **The surviving spouse then has 60 days after the date of the estimate to notify the**
10 **Board in a final written election if they elect to receive the benefit provided under**
11 **ORS 238.395(2).**

12 ~~[(2)]~~**(3)** PERS must receive a copy of the death certificate of the deceased member or
13 alternate payee. PERS will provide instructions to a beneficiary identifying additional
14 documents that must be received to make a valid request for distribution. Required
15 documents may include but are not limited to:

- 16 (a) Death Benefit Election;
- 17 (b) Letters of Testamentary/Administration;
- 18 (c) Small Estate Affidavit or out of state equivalent;
- 19 (d) Affidavit of Next of Kin;
- 20 (e) Affidavit of Beneficiary;
- 21 (f) Declaration of Beneficiary;
- 22 (g) Proof of marriage;

1 (h) Proof of registered domestic partnership;

2 (i) Proof of birth of the beneficiary;

3 (j) Trust document or certification of trust;

4 (k) Proof of Conservatorship; and

5 (l) Proof of Guardianship.

6 ~~[(3)]~~(4) Earnings crediting for the distribution amount for an IAP account beneficiary

7 will be determined under OAR 459-007-0320.

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

9 Stats. Implemented: ORS 238.390, 238.395, 238A.230 & 238A.410



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January 31, 2020

TO: Members of the PERS Board
FROM: Stephanie Vaughn, Manager, Policy Analysis & Compliance Section
SUBJECT: Adoption of Work After Retirement Rules to Implement 2019 Legislation:
OAR 459-009-0070, *Actuarial Pooling of Employer Liability*
OAR 459-017-0060, *Reemployment of Retired Members*
OAR 459-075-0300, *Reemployment of a Retired Member of the OPSRP Pension Program*

OVERVIEW

- Action: Adopt modifications to the Work After Retirement rules.
- Reason: Implement work after retirement provisions of 2019 legislation impacting PERS and provide clarification regarding work after retirement restrictions for early retirees.
- Policy Issue: None identified.

BACKGROUND

The 2019 Oregon Legislature enacted several bills relating to work after retirement which require rulemaking: Senate Bill 1049 (Chapter 355, Oregon Laws 2019), Senate Bill 576 (Chapter 152, Oregon Laws 2019), and House Bill 2972 (Chapter 496, Oregon Laws 2019).

Changes relating to members: Current PERS statutes allow retired members to return to work for a PERS-participating employer so long as they work less than a certain number of hours during a calendar year (less than 1,040 hours for Tier One and Tier Two retirees, or 600 hours for OPSRP retirees). As retired members, such persons continue to receive PERS retirement benefits, but do not accrue any new retirement benefits for post-retirement employment. However, if the retiree meets or exceeds the maximum hours of retiree employment in a calendar year, PERS will cancel the member's retirement and return the retiree to active member status.

Over time, special statutory exceptions to these hour limits have been adopted that allow qualifying Tier One/Tier Two retirees, who work for certain employers or in certain positions, to exceed those limits and work unlimited hours. Generally, to comply with federal rules for qualified governmental plans, such exceptions are only available to members who retired at normal retirement age, or early age retirees hired into certain positions, if they have a bona fide retirement and their date of hire with any participating public employer is at least six months after their retirement date. However, currently, no statutory exceptions exist for OPSRP retirees, requiring different treatment of members depending on their membership.

Senate Bill 1049 (2019) simplifies the current "work after retirement" framework by allowing retirees in all programs to work unlimited hours for PERS-participating employers during calendar years 2020-2024, while continuing to receive their retirement benefits. The bill

effectively lifts the 1,040-hour limit for Tier One/Tier Two retirees, and the 600-hour limit for OPSRP retirees during the five-year period. Note that SB 1049’s unlimited hours provision does not apply to early retirees unless they are hired by any PERS-participating employer more than six months after their effective retirement date, and they otherwise have a bona fide retirement. An early retiree is a member who retires before they reach normal retirement age, usually on a reduced service retirement allowance. If an early retiree does not meet the bona fide retirement requirement, then they are not allowed to work unlimited hours for a PERS-participating employer and remain subject to the current hourly limits and exceptions.

PERS is a governmental retirement plan and trust, qualified and maintained under sections 401(a), 414(d) and 414(k) of the federal Internal Revenue Code. Oregon Revised Statutes (ORS) 238.630 requires the board to adopt rules and take all actions to maintain its status as a qualified governmental retirement plan and trust. Federal regulations provide that a pension plan is a plan established and maintained by an employer, primarily to provide systematically for the payment of definitely determinable benefits after a bona fide retirement, or attainment of normal retirement age. To have a bona fide retirement, a member cannot retire from service with their employer, but also have a prearranged agreement to be rehired by the same employer post-retirement.

To comply with federal requirements, PERS statutes provide that early retirees may not return to work unless their date of hire is more than six months from their date of retirement. In updating the work after retirement administrative rules to reflect legislative changes made by SB 1049, PERS has become aware that some early retirees are returning to work with a participating PERS employer immediately or shortly after their retirement date. To avoid factual circumstances that could create plan qualification concerns, PERS is defining “bona fide separation” to establish that an early retiree must have a six-month break in service with all participating PERS employers before the member may return to service with a participating PERS employer and work unlimited hours. This separation requirement is similar to the federal requirement for withdrawals as set forth in ORS 238.265 and 238A.375, and therefore, the rule language is modeled on those statutory provisions.

Work After Retirement (for employers): Currently, employers do not pay any PERS contributions on the amounts paid to reemployed retirees. However, as a financing modification under SB 1049, in addition to the employer contributions currently paid under ORS 238.225, based on active members’ salary, public employers will be required to make an additional payment of employer contributions on the wages of any retired PERS member that they employ.¹ SB 1049 directs the board to apply such payments against the public employer’s liabilities and to adopt rules governing such payments. In carrying out this directive, PERS has determined such additional payment of employer contributions will be based on the same employer contribution rate that employers pay for their active members depending on the employee’s pension program membership at the time of their retirement, and the retiree’s job classification for the post-retirement employment.

¹ This means that employer contributions will be required for wages of any retired member employed by the participating public employer, including if the retired member is employed in a non-qualifying position (including temporary and part-time positions), is working limited or unlimited hours after retirement (whether under Senate Bill 1049 or under other statutory provisions), or is participating in a separate retirement plan in addition to PERS.

These additional contribution payments made on the retiree’s wages will benefit the public employer who is making those contributions, by helping to reduce the employer’s projected future UAL. Employer contribution rates are established for single employers, or for groups of employers who have been pooled for contribution rate purposes. This means additional contribution payments made by an individual employer will be applied to the employer’s individual UAL, while additional contribution payments made by a pooled employer will be applied to the employer’s rate pool’s UAL.

Senate Bill 576 was effective May 24, 2019. SB 576 created a new work after retirement exemption that allows a Tier One or Tier Two retired member to work unlimited hours as a special campus security officer commissioned by a public university, or a security officer for a community college, without impacting their retired member status. For calendar years 2020 to 2024, the use of this new statutory exception will not be necessary, because a retiree who qualifies for this narrow exception would also qualify for SB 1049’s broader allowance. However, as a permanent statutory amendment, this exception will apply to calendar years in which SB 1049 does not apply.

House Bill 2972 was effective upon passage on June 25, 2019. HB 2972 created a new work after retirement exemption that allows a Tier One or Tier Two retired member who is employed by the Harney County Health District as a person licensed, registered, or certified to provide health services to work unlimited hours without impacting their status as a retired member. For calendar years 2020 to 2024, the use of this new statutory exception will not be necessary, because a retiree who qualifies for this narrow exception would also qualify for SB 1049’s broader allowance. However, as a permanent statutory amendment, this exception will apply to calendar years in which SB 1049 does not apply.

SUMMARY OF MODIFICATIONS TO RULES SINCE NOTICE

Sections (1) of OAR 459-017-0060 and 459-075-0300 were added to define “bona fide retirement” to mean that the retiree has been absent from service with all participating employers (and employers in their controlled groups) for at least six full calendar months between the effective date of retirement and the date of hire post-retirement.

In OAR 459-075-0300, paragraphs (4)(a)(A) and (B) were added to clarify what happens if an early retiree who is employed post-retirement exceeds 600 hours in a calendar year after the first six months following their effective date of retirement, or within the first six months.

Non-substantive edits for clarification were also made to OAR 459-017-0060.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held October 29, 2019, at 2:00 p.m. at PERS headquarters in Tigard. No members of the public attended. The first public comment period ended November 5, 2019, at 5:00 p.m. No public comment was received. Due to the additional rule modifications, the public comment period was extended until January 7, 2020, at 5:00 p.m. Two public comments were received.

Carol Samuels, with Piper Jaffray, submitted public comment via email on December 9, 2019. A copy of her e-mail is included as Attachment 4. Ms. Samuels raised concerns about OAR 459-

009-0070(8), relating to how to calculate the amount of the payment a public employer is required to pay under sections 35(2) and 37(2) of SB 1049. SB 1049 requires a public employer that employs a PERS retiree during the specified calendar years to “contribute to the Public Employees Retirement Board the percentage of the member’s wages that would have been contributed to the board under ORS 238.225 if the member were an active member of the Public Employees Retirement System.”

Ms. Samuels suggested that PERS state that the net contribution is the amount “that would have applied to *that* employee had he or she not retired.” However, the proposed language is not consistent with the bill language and could lead to the incorrect conclusion that all members who are not retired are “active members,” when in fact, some members who are not retired are “inactive members.” SB 1049 directs employers to pay the percentage of the member’s wages that would have been paid under the employer’s contribution obligations under ORS 238.225 that would have been required if the retired member was an active member, but does not condition such payment on the retired member being an active member. The payment is simply required when a participating employer employs a PERS retiree, regardless of whether the member would be an “active” or “inactive” member, had they not retired.

Craig Ashford, legal counsel for University of Oregon, submitted public comment via email on January 6, 2020. A copy of his e-mail is included as Attachment 5. He requested that OAR 459-017-0060 and 459-075-0300 be revised to clarify that the 5-year work after retirement rules do not apply to Tier One and Tier Two retired members who are ineligible for active membership, or to OPSRP members who are not eligible employees.² SB 1049 requires employers of a retired member to make additional employer contributions to PERS. The statutory language does not expressly or implicitly allow for the requested exception, and PERS cannot insert what the legislature has omitted.³ State agencies are creatures of statute that only have those powers as are necessary to carry out the expressly granted powers. Because the request is not consistent with SB 1049 or ORS Chapters 238 and 238A, complying with the request would exceed the statutory authority of the agency and would be invalid under ORS 183.400(4)(b).

LEGAL REVIEW

The attached draft rules were submitted to the Department of Justice for legal review and any comments or changes are incorporated in the rules as presented for adoption.

²All OPSRP retirees receiving retirement benefits are ineligible employees under ORS 238A.005(4)(L). Thus, the proposed interpretation would render section 37(2) of SB 1049 meaningless for all OPSRP retirees because none of them would qualify as an “eligible employee” and therefore no employer contributions would be required by any public employer who employed an OPSRP retiree under SB 1049.

³Under SB 1049, a participating public employer that employs a person who is a PERS “retired member” is required to make contributions. A member’s inability to establish active membership based upon the employment or status as an ineligible employee does not impact the public employer’s obligations to pay employer contributions under SB 1049.

IMPACT

Mandatory: Yes, changes are necessary to bring the rules in line with changes or additions to statute made by the 2019 legislature and to ensure compliance with federal requirements.

Benefit: Updates the rules to reflect recent legislative changes, provides clarification on the agency’s administration of work after retirement, and ensures compliance with federal requirements.

Cost: There are no discrete costs attributable to the rules.

RULEMAKING TIMELINE

October 3, 2019	Staff began the rulemaking process by filing a Notice of Rulemaking with the Secretary of State.
October 4, 2019	Secretary of State published the Notice in the Oregon Administrative Rules Database. Notice was sent to employers, legislators, and interested parties. Public comment period began.
October 4, 2019	PERS Board notified that staff began the rulemaking process.
October 29, 2019	Rulemaking hearing held at 2:00 p.m. at PERS in Tigard.
November 5, 2019	First public comment period ended at 5:00 p.m.
November 25, 2019	Staff extended the public comment period by filing a Notice of Rulemaking with the Secretary of State.
December 2, 2019	Secretary of State published the second Notice in the Oregon Administrative Rules Database.
December 6, 2019	First reading of the rules.
December 9, 2019	Notice was sent to employers, legislators, and interested parties. Public comment period resumed.
January 7, 2020	Public comment period ended at 5:00 p.m.
January 31, 2020	Board may adopt the rule modifications.

BOARD OPTIONS

The PERS Board may:

1. Pass a motion to “adopt modifications to the Work After Retirement rules, as presented.”
2. Direct staff to make other changes to the rules or explore other options.

STAFF RECOMMENDATION

Staff recommends the PERS Board choose Option #1.

- Reason: Implement work after retirement provisions of 2019 legislation impacting PERS and provide clarification regarding work after retirement restrictions for early retirees.

If the PERS Board does not adopt: Staff would return with rule modifications that more closely fit the board's policy direction if the PERS Board determines that a change is warranted.

B.2. Attachment 1 - 459-009-0070, *Actuarial Pooling of Employer Liability*

B.2. Attachment 2 - 459-017-0060, *Reemployment of Retired Members*

B.2. Attachment 3 - 459-075-0300, *Reemployment of a Retired Member of the OPSRP Pension Program*

B.2. Attachment 4 - Public Comment Email dated 12/09/2019 from Carol Samuels

B.2. Attachment 5 - Public Comment Email dated 01/06/2020 from Craig Ashford

**OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 009 – PUBLIC EMPLOYER**

1 **459-009-0070**

2 **Actuarial Pooling of Employer Liability**

3 (1) Definitions. Definitions as used in this rule:

4 (a) “Actuarial Surplus” means the excess of the fair market actuarial value of assets
5 over the actuarial liabilities.

6 (b) “Consolidation” means the uniting or joining of two or more political
7 subdivisions into a single new successor political subdivision.

8 (c) “Liability” or “Liabilities” means any costs assigned by the Board to a specific
9 employer or to a pool of employers to provide PERS benefits.

10 (d) “Local government” shall have the same meaning as in subsection (f) of this
11 section.

12 (e) “Merger” means the extinguishment, termination and cessation of the existence of
13 one or more political subdivisions by uniting with and being absorbed into another
14 political subdivision.

15 (f) “Political subdivision” means any city, county, municipal or public corporation,
16 any other political subdivision as provided in Oregon Law, or any instrumentality thereof,
17 or an agency created by one or more political subdivisions to provide themselves
18 governmental service. Political subdivision does not mean a school district or a
19 community college.

20 (g) “Pooled” or “pooling” means the combining or grouping of public employers
21 participating in PERS for the purposes of determining employer liability for retirement or
22 other benefits under ORS Chapter 238.

1 (h) “School district” means a common school district, a union high school district, or
2 an education service district, including chartered schools authorized under Oregon law.

3 (i) “Transition Unfunded Actuarial Liabilities or Surplus” means the unfunded
4 actuarial liability or actuarial surplus, attributed to an individual employer for the period
5 of time the employer was not participating in a pool, prior to entry into the Local
6 Government Rate Pool or the State and Local Government Rate Pool.

7 (j) “Unfunded Actuarial Liabilities” or “UAL” means the excess of the actuarial
8 liabilities over the fair market actuarial value of assets.

9 (2) Two employer pools. In accordance with ORS 238.225 and only for the purposes
10 of determining the amounts that are actuarially necessary to adequately fund the benefits
11 provided by the contributions of PERS participating employers, employers will be pooled
12 as a single employer as follows:

13 (a) The State and Local Government Rate Pool, which consists of the following
14 employers:

15 (A) The State of Oregon, excluding the state judiciary under ORS 238.500;

16 (B) All community colleges; and

17 (C) All political subdivisions which elect to join the pool; or

18 (b) The School District Pool, which consists of all school districts of the state.

19 (3) The Local Government Rate Pool established as of January 1, 2000, and certified
20 by the Board on June 12, 2001, for political subdivisions was dissolved as of December
21 31, 2001.

22 (4) Political subdivision participation. Political subdivisions may elect to participate
23 in the State and Local Government Rate Pool by the adoption of a resolution or ordinance

1 by the governing body of the political subdivision and submitting a copy of the resolution
2 or ordinance to the Board. The effective date of the election is established as follows:

3 (a) If the election is received, in accordance with OAR 459-005-0220, by December
4 31, 2001, the political subdivision will join the pool effective January 1, 2002. Its liability
5 as a member of the pool, from the effective date of entering the pool, will be based on the
6 actuarial valuation period beginning on January 1, 2002; or

7 (b) If the election is received, in accordance with OAR 459-005-0220, on or after
8 January 1, 2002, the political subdivision will join the pool effective the first day of the
9 next actuarial valuation period following the date of receipt of the election.

10 (c) Prior to entering the pool, any unfunded actuarial liabilities or surplus of such
11 employers will be actuarially accounted for as provided in section ~~[(9)]~~(10) of this rule.

12 (d) Participation in the pool, as provided in this section ~~[(4) of this rule]~~, is
13 irrevocable by the employer.

14 (e) Political subdivisions that do not elect to participate in the State and Local
15 Government Rate Pool, as provided in this section ~~[(4) of this rule]~~, shall be regarded as
16 individual employers for actuarial purposes.

17 (5) Employer rates. The basis for any actuarial computation required under ORS
18 238.225 or this rule will be the actuarial report on PERS prepared in accordance with
19 ORS 238.605.

20 (6) In determining the amounts to be paid to PERS by a public employer pooled as
21 provided in section (2) of this rule, the PERS consulting actuary will express those
22 amounts as a rate or percentage of PERS covered payroll.

1 (7) In determining the amounts to be paid to PERS by employer participants in the
2 Local Government Rate Pool, the State and Local Government Rate Pool, and the School
3 District Pool, the PERS Board will issue rate(s) representing the amount necessary to
4 provide benefits as provided in ORS 238.225, for all members of that pooled group. The
5 rates, at a minimum, shall include:

6 (a) Rates representing the amount necessary to provide benefits as provided in ORS
7 238.225, for all Tier One and Tier Two police officer and firefighter members of that
8 pooled group.

9 (b) Rates representing the amount necessary to provide benefits as provided in ORS
10 238.225, for all Tier One and Tier Two general service members of that pooled group.

11 (c) In addition to the rate(s) in this section, the State of Oregon will be charged the
12 additional amount necessary to fund the Retiree Health Insurance Premium Account as
13 provided in ORS 238.415(5).

14 **(8) A public employer employing a retired member shall apply the employer's**
15 **net contribution rate for its active members to the wages paid to the retired member**
16 **based upon the employee's pension program membership at the time of the**
17 **member's retirement and the job classification of the position in which the retired**
18 **member is employed. Such employer shall make a payment to the Public Employees**
19 **Retirement Fund. This payment is in addition to the employer's contribution**
20 **required under ORS 238.225 or 238A.220.**

21 **(a) Retired member wages will not be included in covered payroll for purposes**
22 **of determining the employer's contribution rate.**

1 (b) The additional payment will be applied to the employer’s rate pool’s
2 liabilities, including pension benefit costs and retiree medical benefit costs.

3 (c) If the employer has a side account established under ORS 238.229, or any
4 other individual surplus or liability that applies to the employer’s contribution rate
5 for its active members, that surplus or liability will be applied to the employer’s
6 contribution rate for its retired members.

7 ~~[(8)]~~(9) For each participant in the State and Local Government Rate Pool:

8 (a) Each employer’s police officer and firefighter payroll as reported for the actuarial
9 valuation will be multiplied times the rate described in subsection (7)(a) of this rule;

10 (b) Each employer’s general service payroll as reported for the actuarial valuation
11 will be multiplied times the rate described in subsection (7)(b) of this rule.

12 (c) By dividing the sum of the amounts in subsections (a) and (b) of this section by
13 the employer’s total payroll as reported for the actuarial valuation, a composite employer
14 contribution rate is derived, which will be the basis for the employer contributions.

15 ~~[(9)]~~(10) Unfunded actuarial liabilities or surplus.

16 (a) If a political subdivision elected to join the Local Government Rate Pool
17 described in section (3) of this rule, any transition unfunded actuarial liabilities or surplus
18 as of December 31, 1999, will remain part of the actuarial calculation of employer costs
19 for the individual political subdivision, until fully amortized, and will not be pooled with
20 other public employers. However, the political subdivision will continue to be pooled for
21 the purpose of funding the resulting unfunded actuarial liabilities associated with the
22 Local Government Rate Pool from January 1, 2000 to December 31, 2001.

1 (b) If a political subdivision elects to join the State and Local Government Rate Pool
2 as provided in section (4) of this rule, any transition unfunded actuarial liabilities or
3 surplus as of the day immediately preceding the effective date of entering the pool will
4 remain part of the actuarial calculation of employer costs for each individual political
5 subdivision, until fully amortized, and will not be pooled with other public employers in
6 the State and Local Government Rate Pool.

7 (c) The pooled unfunded actuarial liability or surplus for the community colleges and
8 the State of Oregon as of December 31, 2001, will remain part of the actuarial calculation
9 of employer costs for community colleges and the State of Oregon combined until fully
10 amortized, and will not be pooled with any political subdivision.

11 (d) Any unfunded actuarial liability or surplus for the State and Local Government
12 Rate Pool that accrues during a valuation period occurring after December 31, 2001, will
13 become part of the actuarial calculation of employer costs for only those employers who
14 participated in the pool during that valuation period.

15 (e) Any unfunded actuarial liabilities or surplus of individual employers being
16 amortized as provided for in subsection [(9)](a), [(9)](b), or [(9)](c) of this *[rule]*
17 [section](#), will be amortized based on the Board’s adopted assumed earnings rate and
18 amortization period. If at the end of the amortization period a surplus remains, the surplus
19 will continue to be amortized as determined by the Board.

20 (f) If the PERS Board should change the assumed earnings rate, as it applies to ORS
21 238.255, in effect at the time of the amortization provided for in subsection [(9)](a),
22 [(9)](b), or [(9)](c) of this *[rule]* [section](#), the actuary will recalculate the remaining
23 liability or surplus being amortized using the new assumed earnings rate. The

1 amortization period provided in subsection ~~[(9)](e)~~ of this section will not change due to
2 this recalculation.

3 ~~[(10)](11)~~ Employer UAL lump-sum payment. If an employer elects to make a UAL
4 lump-sum payment to offset the unfunded actuarial liabilities under subsection
5 ~~[(9)](10)~~(a), ~~[(9)](b)~~, ~~[(9)](c)~~, or ~~[(9)](d)~~ of this rule, or as provided under ORS
6 238.225(8), the payment shall be made in accordance with ORS 238.225 and OAR 459-
7 009-0084.

8 ~~[(11)](12)~~ New employers and integrations. Political subdivisions entering PERS, as
9 provided in ORS 238.015(3), 238.035, or 238.680, will be pooled upon election to join
10 the State and Local Government Rate Pool as follows:

11 (a) To join the pool upon entering PERS, the election as well as the methods and
12 effective date of entry, must be included in the coverage agreement or contract of
13 integration. If the election is made after the effective date of joining PERS, the political
14 subdivision will join the pool effective the first day of the next actuarial valuation period
15 following the date of receipt of the election.

16 (b) An election completed by an integrating employer or a partially integrated
17 employer will apply to all current and future groups of employees who are integrated into
18 PERS by the employer. Upon entering the respective pool, any unfunded actuarial
19 liabilities or surplus of such employers will be actuarially accounted for as provided in
20 section ~~[(9)](10)~~ of this rule.

21 ~~[(12)](13)~~ Dissolution of an employer or non-participating employer. In the event a
22 public employer is dissolved, no longer has PERS eligible employees, or is no longer
23 eligible to participate in PERS, the employer or its successor will be required to make the

1 contributions necessary to fund any remaining unfunded actuarial liability, as provided
2 for in subsection ~~[(9)]~~(10)(a), ~~[(9)]~~(b), or ~~[(9)]~~(c) of this rule, for PERS benefits. The
3 Board will determine the method and amount of funding this unfunded actuarial liability
4 or the return of any surplus, as well as the determination of the employer’s successor.

5 ~~[(13)]~~(14) Consolidation of political subdivisions. In the event a political subdivision
6 consolidates with another political subdivision, the succeeding employer will determine
7 the status in the pool by election into the pool.

8 (a) If the succeeding employer has not elected to join the pool as of the effective date
9 of the consolidation, the following will occur:

10 (A) The pooled and non-pooled assets, liabilities, and employees of the former
11 employers will continue as they were prior to the consolidation;

12 (B) Any unfunded actuarial liability or surplus of the former employers as of the
13 effective date of the consolidation will be combined and assumed by the succeeding
14 employer;

15 (C) New hires will not be pooled; and

16 (D) If the succeeding employer consists of pooled and non-pooled employees,
17 separate payrolls must be maintained for each and reported to PERS.

18 (E) At any time after the consolidation, the succeeding employer may elect to join
19 the pool and the effective date will be the first day of the next actuarial valuation period
20 following the date of receipt of an election.

21 (b) If the succeeding employer elects to join the pool as of the effective date of the
22 consolidation, the following will occur:

1 (A) Any non-pooled assets, liabilities, and employees of the former employers will
2 be added to the pool;

3 (B) Any unfunded actuarial liability or surplus of the former employers as of the
4 effective date of the consolidation will be combined and assumed by the succeeding
5 employer and provided for as in subsection ~~[(9)]~~(10)(a) or ~~[(9)]~~(b) of this rule; and

6 (C) New hires will be pooled.

7 (c) The succeeding employer must join the pool as of the effective date of the
8 consolidation if it consists of only pooled employers. Any unfunded actuarial liability or
9 surplus of the former employers as of the effective date of the consolidation will be
10 combined and assumed by the succeeding employer.

11 ~~[(14)]~~(15) Merger of political subdivisions. In the event a political subdivision
12 merges with another political subdivision, the status of the surviving employer in the pool
13 depends on its status prior to the merger.

14 (a) If the surviving employer was not in the pool and has not elected to join the pool
15 as of the effective date of the merger, the following will occur:

16 (A) The pooled and non-pooled assets, liabilities, and employees of the former
17 employers will continue as they were prior to the merger;

18 (B) Any unfunded actuarial liability or surplus of the former employers as of the date
19 of the merger will be transferred to the surviving employer;

20 (C) New hires will not be pooled; and

21 (D) If the surviving employer consists of pooled and non-pooled employees, separate
22 payrolls must be maintained for each and reported to PERS.

1 (E) At any time after the merger, the surviving employer may elect to join the pool
2 and the effective date will be the first day of the next actuarial valuation period following
3 the date of receipt of an election.

4 (b) If the surviving employer was in the pool as of the effective date of the merger,
5 the following will occur:

6 (A) Any non-pooled assets, liabilities, and employees of the former employers will
7 be added to the pool as of the effective date of the merger;

8 (B) Any unfunded actuarial liability or surplus of the former employers as of the
9 effective date of the merger will be transferred to the surviving employer and provided for
10 in subsection ~~[(9)](10)~~(a) or ~~[(9)](b)~~ of this rule; and

11 (C) New hires will be pooled.

12 ~~[(15)](16)~~ In the event of any legal mandates or changes adopted by the Board:

13 (a) If the change provides for an increased or decreased benefit to police officer and
14 firefighter members, but is not applicable to general service members, the PERS Board
15 will direct the actuary to attribute the cost or savings of the change to the rate indicated in
16 subsection (7)(a) of this rule.

17 (b) If the change provides for an increased or decreased benefit to general service
18 members, but is not applicable to police officer or firefighter members, the PERS Board
19 will direct the actuary to attribute the cost or savings of the change to the rate indicated in
20 subsection (7)(b) of this rule.

21 **(17) Section (8) of this rule is repealed effective January 2, 2025.**

22 Stat. Auth.: ORS 238.650

- 1 Stats. Implemented: 2005 OL, Ch. 808, Sec. (12), (13), (14), ORS 238.225 &
- 2 238.605, [2019 OL, Ch. 355, Sec. 35 & 37](#)

**OREGON ADMINISTRATIVE RULE
PUBLIC EMPLOYEES RETIREMENT BOARD
CHAPTER 459
DIVISION 017 – REEMPLOYED RETIRED MEMBERS**

1 **459-017-0060**

2 **Reemployment of Retired Members**

3 (1) For purposes of this rule **[.]**:

4 **(a) “Bona fide retirement” means that the retired member has been absent**
5 **from service with all participating employers and all employers in a controlled**
6 **group with a participating employer for at least six full calendar months between**
7 **the effective date of retirement and the date of hire.**

8 **(b) “[r]Retired member”** means a member of the PERS Chapter 238 Program who is
9 retired for service.

10 (2) A retired member may be employed under ORS 238.082 by a participating
11 employer without loss of retirement benefits provided:

12 (a) The period or periods of employment with one or more participating employers
13 total less than 1,040 hours in a calendar year; or

14 (b) If the retired member is receiving retirement, survivors, or disability benefits
15 under the federal Social Security Act, the period or periods of employment total less than
16 either 1,040 hours in a calendar year, or the total number of hours in a calendar year that,
17 at the retired member’s specified hourly rate of pay, would cause the annual
18 compensation of the retired member to exceed the following Social Security annual
19 compensation limits, whichever is greater.

20 (A) For retired members who have not reached full retirement age under the Social
21 Security Act, the annual compensation limit is \$18,240; or

1 (B) For the calendar year in which the retired member reaches full retirement age
2 under the Social Security Act and only for compensation for the months before reaching
3 full retirement age, the annual compensation limit is \$48,600.

4 (3) The limitations on employment in section (2) of this rule do not apply if the
5 retired member has reached full retirement age under the Social Security Act.

6 (4) The limitations on employment in section (2) of this rule do not apply if:

7 (a) The retired member meets the requirements of ORS 238.082(4), (5), (6), (7), or
8 (8), and did not retire at a reduced benefit under the provisions of ORS 238.280(1), (2), or
9 (3);

10 (b) The retired member retired at a reduced benefit under ORS 238.280(1), (2), or
11 (3), is employed in a position that meets the requirements of ORS 238.082(4), the date of
12 *[employment]* hire is more than six months after the member’s effective retirement date,
13 and the member’s retirement otherwise meets the standard of a bona fide retirement;

14 (c) The retired member is employed by a school district or education service district
15 as a speech-language pathologist or speech-language pathologist assistant and:

16 (A) The retired member did not retire at a reduced benefit under the provisions of
17 ORS 238.280(1) or (3); or

18 (B) *[If t]*The retired member retired at a reduced benefit under the provisions of
19 ORS 238.280(1) or (3), *[the retired member]* but is not *[so]* employed by any
20 participating employer until more than six months after the member’s effective
21 retirement date, and the member’s retirement otherwise meets the standard of a bona fide
22 retirement;

23 (d) The retired member meets the requirements of section 2, chapter 499, Oregon
24 Laws 2007, as amended by section 1, chapter 108, Oregon Laws 2015;

1 (e) The retired member meets the requirements of section 2, chapter 475, Oregon
2 Laws 2015;

3 (f) The retired member is employed for service during a legislative session under
4 ORS 238.092(2);

5 (g) The retired member meets the requirements of ORS 238.088(2), and did not
6 retire at a reduced benefit under the provisions of ORS 238.280(1), (2), or (3); or

7 (h) The retired member is on active state duty in the organized militia and meets the
8 requirements under ORS 399.075(8).

9 (i) The retired member is employed as a special campus security officer
10 commissioned by a public university and meets the requirements under section 5,
11 chapter 152, Oregon Laws 2019.

12 (j) The retired member is employed as a security officer for a community
13 college and meets the requirements under section 5, chapter 152, Oregon Laws
14 2019.

15 (k) The retired member is employed by Harney County Health District as a
16 person licensed, registered or certified to provide health services and meets the
17 requirements under section 2, chapter 496, Oregon Laws 2019.

18 (5) For purposes of population determinations referenced by statutes listed in this
19 rule, the latest federal decennial census shall first be operative on the first day of the
20 second calendar year following the census year.

21 (6) For purposes of ORS 238.082(6), a retired member replaces an employee if the
22 retired member:

23 (a) Is assigned to the position of the employee; and

1 (b) Performs the duties of the employee or duties that might be assigned to an
2 employee in that position.

3 (7) If a retired member is reemployed subject to the limitations of ORS 238.082 and
4 section (2) of this rule, the period or periods of employment subsequently exceed those
5 limitations, and employment continues into the month following the date the limitations
6 are exceeded:

7 (a) If the member has been retired for six or more calendar months:

8 (A) PERS will cancel the member's retirement.

9 (i) If the member is receiving a monthly service retirement allowance, the last
10 payment to which the member is entitled is for the month in which the limitations were
11 exceeded.

12 (ii) If the member is receiving installment payments under ORS 238.305(4), the last
13 installment payment to which the member is entitled is the last payment due on or before
14 the last day of the month in which the limitations were exceeded.

15 (iii) If the member received a single lump sum payment under ORS 238.305(4) or
16 238.315, the member is entitled to the payment provided the payment was dated on or
17 before the last day of the month in which the limitations were exceeded.

18 (iv) A member who receives benefits to which he or she is not entitled must repay
19 those benefits to PERS.

20 (B) The member will reestablish active membership the first of the calendar month
21 following the month in which the limitations were exceeded.

22 (C) The member's account must be rebuilt in accordance with the provisions of
23 section (9) of this rule.

24 (b) If the member has been retired for less than six calendar months:

1 (A) PERS will cancel the member’s retirement effective the date the member was
2 reemployed.

3 (B) All retirement benefits received by the member must be repaid to PERS in a
4 single payment.

5 (C) The member will reestablish active membership effective the date the member
6 was reemployed.

7 (D) The member account will be rebuilt as of the date that PERS receives the single
8 payment. The amount in the member account must be the same as the amount in the
9 member account at the time of the member’s retirement.

10 (8) For purposes of determining period(s) of employment in section (2) of this rule:

11 (a) Hours of employment are hours on and after the retired member’s effective
12 retirement date for which the member receives wages, salary, paid leave, or other
13 compensation.

14 (b) Hours of employment that are performed under the provisions of section (4) of
15 this rule on or after the later of January 1, 2004, or the operative date of the applicable
16 statutory provision, are not counted.

17 (9) If a member has been retired for service for more than six calendar months and is
18 reemployed in a qualifying position by a participating employer under the provisions of
19 238.078(1):

20 (a) PERS will cancel the member’s retirement effective the date the member is
21 reemployed.

22 (b) The member will reestablish active membership on the date the member is
23 reemployed.

1 (c) If the member elected a benefit payment option other than a lump sum option
2 under ORS 238.305(2) or (3), the last monthly service retirement allowance payment to
3 which the member is entitled is for the month before the calendar month in which the
4 member is reemployed. Upon subsequent retirement, the member may choose a different
5 benefit payment option.

6 (A) The member’s account will be rebuilt as required by ORS 238.078 effective the
7 date active membership is reestablished.

8 (B) Amounts from the Benefits-In-Force Reserve (BIF) credited to the member’s
9 account under the provisions of paragraph (A) of this subsection will be credited with
10 earnings at the BIF rate or the assumed rate, whichever is less, from the date of retirement
11 to the date of active membership.

12 (d) If the member elected a partial lump sum option under ORS 238.305(2), the last
13 monthly service retirement allowance payment to which the member is entitled is for the
14 month before the calendar month in which the member is reemployed. The last lump sum
15 or installment payment to which the member is entitled is the last payment due before the
16 date the member is reemployed. Upon subsequent retirement, the member may not
17 choose a different benefit payment option unless the member has repaid to PERS in a
18 single payment an amount equal to the lump sum and installment benefits received and
19 the earnings that would have accumulated on that amount.

20 (A) The member’s account will be rebuilt as required by ORS 238.078 effective the
21 date active membership is reestablished.

22 (B) Amounts from the BIF credited to the member’s account under the provisions of
23 paragraph (A) of this subsection, excluding any amounts attributable to repayment by the

1 member, will be credited with earnings at the BIF rate or the assumed rate, whichever is
2 less, from the date of retirement to the date of active membership.

3 (e) If the member elected the total lump sum option under ORS 238.305(3), the last
4 lump sum or installment payment to which the member is entitled is the last payment due
5 before the date the member is reemployed. Upon subsequent retirement, the member may
6 not choose a different benefit payment option unless the member has repaid to PERS in a
7 single payment an amount equal to the benefits received and the earnings that would have
8 accumulated on that amount.

9 (A) If the member repays PERS as described in this subsection the member's
10 account will be rebuilt as required by ORS 238.078 effective the date that PERS receives
11 the single payment.

12 (B) If any amounts from the BIF are credited to the member's account under the
13 provisions of paragraph (A) of this subsection, the amounts may not be credited with
14 earnings for the period from the date of retirement to the date of active membership.

15 (f) If the member received a lump sum payment under ORS 238.315:

16 (A) If the payment was dated before the date the member is reemployed, the member
17 is not required or permitted to repay the benefit amount. Upon subsequent retirement:

18 (i) The member may choose a different benefit payment option.

19 (ii) The member's retirement benefit will be calculated based on the member's
20 periods of active membership after the member's initial effective retirement date.

21 (B) If the payment was dated on or after the date the member is reemployed, the
22 member must repay the benefit amount. Upon subsequent retirement:

23 (i) The member may choose a different benefit payment option.

1 (ii) The member’s retirement benefit will be calculated based on the member’s
2 periods of active membership before and after the member’s initial effective retirement
3 date.

4 (iii) The member’s account will be rebuilt as described in ORS 238.078(2).

5 (g) A member who receives benefits to which he or she is not entitled must repay
6 those benefits to PERS.

7 (10) If a member has been retired for less than six calendar months and is
8 reemployed in a qualifying position by a participating employer under the provisions of
9 238.078(2):

10 (a) PERS will cancel the member’s retirement effective the date the member is
11 reemployed.

12 (b) All retirement benefits received by the member must be repaid to PERS in a
13 single payment.

14 (c) The member will reestablish active membership effective the date the member is
15 reemployed.

16 (d) The member account will be rebuilt as of the date that PERS receives the single
17 payment. The amount in the member account must be the same as the amount in the
18 member account at the time of the member’s retirement.

19 (e) Upon subsequent retirement, the member may choose a different benefit payment
20 option.

21 (11) Upon the subsequent retirement of any member who reestablished active
22 membership under ORS 238.078 and this rule, the retirement benefit of the member must
23 be calculated using the actuarial equivalency factors in effect on the effective date of the
24 subsequent retirement.

1 (12) The provisions of paragraphs (9)(c)(B), (9)(d)(B), and (9)(e)(B) of this rule are
2 applicable to retired members who reestablish active membership under ORS 238.078
3 and this rule and whose initial effective retirement date is on or after March 1, 2006.

4 (13) A participating employer that employs a retired member must notify PERS in a
5 format acceptable to PERS under which statute the retired member is employed.

6 (a) Upon request by PERS, a participating employer must certify to PERS that a
7 retired member has not exceeded the number of hours allowed under ORS 238.082 and
8 section (2) of this rule.

9 (b) Upon request by PERS a participating employer must provide PERS with
10 business and employment records to substantiate the actual number of hours a retired
11 member was employed.

12 (c) Participating employers must provide information requested under this section
13 within 30 days of the date of the request.

14 (14) Accumulated unused sick leave reported by an employer to PERS upon a
15 member's retirement, as provided in ORS 238.350, may not be made available to a
16 retired member returning to employment under sections (2) or (9) of this rule.

17 (15) Subsections (4)(c) and (4)(d) of this rule are repealed effective January 2, 2026.

18 (16) Subsection (4)(e) of this rule is repealed effective June 30, 2023.

19 **(17) A member who is retired for service maintains their status as a retired**
20 **member of the system, and does not accrue additional benefits during the period of**
21 **employment. A retired member may not participate in the pension program or the**
22 **Individual Account Program as an active member, except as provided by ORS**
23 **238.092(1) or 237.650.**

1 (18) For calendar years 2020 through 2024, a public employer employing a
2 retired member shall apply the employer’s net contribution rate for its active
3 members to the wages paid to the retired member. The public employer shall make
4 a payment to the Public Employees Retirement Fund in that amount. This payment
5 is in addition to the employer’s contribution required under ORS 238.225, and will
6 be applied to the employer’s liabilities, including pension benefit costs and retiree
7 medical benefit costs. If the employer is a member of a pool established under ORS
8 238.227, the additional payment will be applied to the employer’s rate pool’s
9 liabilities.

10 (19) For calendar years 2020 through 2024, the limitations on employment in
11 section (2) of this rule do not apply to a retired member unless the member retired
12 under the provisions of ORS 238.280(1), (2), or (3), and does not have a bona fide
13 retirement.

14 (20) For calendar years 2020 through 2024, if the member retired under the
15 provisions of ORS 238.280(1), (2), or (3), and does not have a bona fide retirement,
16 the member is subject to the limitations on employment in section (2) of this rule.

17 (21) Sections (18), (19), and (20) of this rule are repealed effective January 2,
18 2025.

19 Stat. Authority: ORS 238.630 & ORS 238.650

20 Stats. Implemented: ORS 238.078, ORS 238.082, ORS 238.088, ORS 238.092, ORS
21 399.075, 2007 OL Ch. 499 & 774, 2015 OL Ch. 108 & 475, [&] 2018 OL Ch. 48, &
22 2019 OL Ch. 355

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

1 **459-075-0300**

2 **Reemployment of a Retired Member of the OPSRP Pension Program**

3 **(1) For purposes of this rule, “bona fide retirement” means that the retired**
4 **member has been absent from service with all participating employers and all**
5 **employers in a controlled group with a participating employer for at least six full**
6 **calendar months between the effective date of retirement and the date of hire.**

7 ~~(1)~~(2) If a retired member of the OPSRP Pension Program who is receiving
8 monthly pension payments is employed by a participating public employer in a qualifying
9 position:

10 (a) The member’s retirement is canceled effective the first of the month in which the
11 member was hired.

12 (b) The last pension payment the member is entitled to receive is for the month
13 before the calendar month in which the member was hired. A member who receives
14 benefits to which he or she is not entitled must repay those benefits to PERS.

15 (c) The member reestablishes active membership effective the date the member was
16 hired.

17 ~~(2)~~(3) If a retired member of the OPSRP Pension Program who received a lump
18 sum benefit in lieu of a small pension under ORS 238A.195 is employed by a
19 participating public employer in a qualifying position, the member reestablishes active
20 membership effective the date of hire.

21 (a) If the member was hired after the date of the payment, the member is not required
22 or permitted to repay the benefit amount.

1 (b) If the member was hired on or before the date of the payment, the member must
2 repay the gross benefit amount.

3 ~~[(3)]~~(4) A retired member of the OPSRP Pension Program who is hired by a
4 participating public employer in a non-qualifying position may receive pension payments
5 or a lump sum payment under ORS 238A.195 without affecting the member’s status as a
6 retired member, provided the period or periods of employment worked as a retired
7 member total less than 600 hours in a calendar year.

8 (a) If, by reason of hours of service performed by the retired member, the non-
9 qualifying position becomes qualifying in a calendar year, the position is qualifying
10 effective the later of the first day of the calendar year or the date of hire.

11 (A) If the member retired under the provisions of ORS 238A.185 and was
12 retired for six or more calendar months before returning to work for a PERS
13 participating employer, the member’s retirement benefits shall end and the member
14 shall reestablish active membership as of the date the position becomes qualifying
15 under subsection (a) of this section.

16 (B) If the member retired under the provisions of ORS 238A.185 and was
17 retired for less than six calendar months before returning to work for a PERS
18 participating employer, the member’s retirement shall be canceled and the member
19 shall reestablish active membership as of the date the position becomes qualifying
20 under subsection (a) of this section.

21 (b) If a position becomes qualifying under subsection (a) of this section, the retired
22 member is subject to the provisions of sections ~~[(1)]~~(2) and ~~[(2)]~~(3) of this rule.

1 ~~[(4)]~~**(5)** A retired member who reestablishes active membership may, at subsequent
 2 retirement, elect any option provided in ORS 238A.180 and 238A.190, subject to the
 3 provisions of ORS 238A.195.

4 (a) The member’s subsequent retirement benefit will be calculated based on the
 5 member’s periods of active membership before and after the member’s initial effective
 6 retirement date if at the initial retirement:

7 (A) The member received a monthly pension; or

8 (B) The member received a lump sum payment under ORS 238A.195 and repaid the
 9 benefit amount under subsection ~~[(2)]~~**(3)**(b) of this rule.

10 (b) The member’s subsequent retirement benefit will be calculated based on the
 11 member’s periods of active membership after the member’s initial effective retirement
 12 date if:

13 (A) At initial retirement, the member received a lump sum payment under ORS
 14 238A.195 and was not required to repay the benefit amount under subsection
 15 ~~[(2)(b)]~~**(3)(a)** of this rule; or

16 (B) The member is required to repay the benefit amount under subsection ~~[(2)]~~**(3)**(b)
 17 of this rule and, as of the effective retirement date of the member’s subsequent
 18 retirement, the member has not repaid the benefit amount.

19 (c) The member’s subsequent retirement benefit will be calculated using the actuarial
 20 equivalency factors in effect on the effective retirement date of the subsequent retirement.

21 **(6) A member who is retired for service maintains the member’s status as a**
 22 **retired member of the system and does not accrue additional benefits during the**
 23 **period of employment. A retired member may not participate in the pension**

1 program or the Individual Account Program as an active member, except as
2 provided by ORS 238A.250 or 237.650.

3 (7) For calendar years 2020 through 2024, a public employer employing a
4 retired member shall apply the employer’s net contribution rate for its active
5 members to the wages paid to the retired member. The public employer shall make
6 a payment to the Public Employees Retirement Fund in that amount. This payment
7 is in addition to the employer’s contribution required under ORS 238A.220 and will
8 be applied to the employer’s liabilities, including pension benefit costs and retiree
9 medical benefit costs.

10 (8) For calendar years 2020 through 2024, the limitations on employment in
11 section (4) of this rule do not apply to a retired member unless the member retired
12 under the provisions of ORS 238A.185 and does not have a bona fide retirement.

13 (9) For calendar years 2020 through 2024, if a member retired under the
14 provisions of ORS 238A.185 and does not have a bona fide retirement, the member
15 is subject to the limitations on employment in section (4) of this rule.

16 (10) Sections 7, 8, and 9 of this rule are repealed effective January 2, 2025.

17 Stat. Auth.: ORS 238.630 & 238A.450

18 Stats. Implemented: ORS 238A.245, 2019 OL, Ch. 355, Sec. 37

From: [Samuels, Carol](#)
To: [Daniel Rivas](#)
Cc: [Actuarial Services](#); [Brewer, Nancy](#)
Subject: Comment on Work After Retirement proposed rules
Date: Monday, December 9, 2019 10:55:04 AM
Attachments: [image003.jpg](#)

Hello –

I mentioned this to MaryMichelle on Friday - in reviewing your draft rules, I find the phraseology below a bit confusing as to *which* net employer rate is to be utilized in this calculation, as it varies by the employee:

“(8) A public employer employing a retired member shall apply the employer's net contribution rate for its active members to the wages paid to the retired member, and shall make a payment to the Public Employees Retirement Fund. This payment is in addition to the employer's contribution required under ORS 238.225 or 238A.220.¶
 (a) Retired member wages will not be included in covered payroll for purposes of determining the employer's contribution rate.¶”

I would think it might be helpful to add that it is the net contribution rate that would have applied to *that* employee had he or she not retired.

Let me know if you have any questions, and thank you for the opportunity to comment.

Carol Samuels

Managing Director | Public Finance

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From: [Craig Ashford](#)
To: [Daniel Rivas](#)
Cc: [Stephanie Vaughn](#); [Yong Yang](#); [Anne Marie Vu](#)
Subject: Comment on Proposed OARs
Date: Monday, January 6, 2020 2:28:50 PM
Attachments: [image001.png](#)

Daniel,

I am legal counsel for the University of Oregon assigned to provide legal advice with respect to the Optional Retirement Plan established pursuant ORS 243.800. University of Oregon, Oregon State University, Portland State University, Eastern Oregon University, Western Oregon University, Southern Oregon University, and the Oregon Institute of Technology all participate in the ORP. Our academic and administrative employees are permitted to elect to participate in either the ORP or PERS.

I am currently in the process of responding to guidance from others at PERS regarding the applicability of SB 1049's work after retirement rules. PERS retirees who are subsequently reemployed as ORP participants are not subject to SB 1049's employer contribution requirements. I have detailed the reasoning for this in a separate memorandum that I will be sending to PERS later today.

On behalf of the seven public universities, I ask that the proposed OARs be revised to clarify that the 5-year work after retirement rules do not apply to (i) PERS tiers 1 and 2 retirees who are not reemployed under ineligible for active membership by separate statute; and (ii) OPSRP retirees who do not meet the requirements of an eligible employee. These changes could be accomplished by (1) including in proposed OAR 459-017-0060 a list of employees who are ineligible for active membership via separate statute (i.e., ORP participants, OHSU alternative retirement plans participants, community college optional retirement plan participants, etc.), and (2) including language in proposed OAR 459-075-0300 indicating that the new subsections apply to eligible employees.

Technically, OAR 459-070-0001(5) already clarifies that, for purposes of the OPSRP OARs, "employee" means "eligible employee." Therefore, it seems that the proposed OPSRP OARs, as drafted, would already only apply only to eligible employees, thereby excluding PERS-retired ORP participants. However, it's not clear that PERS staff have the same interpretation. The OAR needs to be more specific or there needs to a consistent application of the OARs, in accordance with their pre-existing definitions, to exclude ORP employees from the work after retirement rules.

Please contact me at this email address or at 541.346.3082 with any questions.

Craig



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January 31, 2020

TO: Members of the PERS Board
FROM: Marjorie Taylor, Senior Policy Director
SUBJECT: Legislative Session Preview and Update

2020 LEGISLATIVE SESSION

The 2020 Legislative Session begins Monday, February 3 and may end no later than Sunday, March 8 without approval to extend. We do not anticipate that PERS will be the topic of discussion that we've been during recent legislative sessions, but we're ready to respond as necessary.

REPORTING REQUIREMENTS

House Bill 5032 (2019), the PERS agency budget bill, included direction to report to the Joint Committee on Information Management and Technology and the Joint Committee on Ways and Means during the Legislative Session in 2020 on the implementation of Senate Bill 1049 (2019).

We are collaborating with Enterprise Information Services and the Chief Financial Office at the Department of Administrative Services (DAS), as well as other state agencies and stakeholders, on implementation of this complex piece of legislation. DAS will report on our efforts separately.

The budget report includes information on the following:

- Update on project scope, schedule, and budget, and total cost of ownership;
- Identification of costs associated with one-time solutions versus permanent solutions ;
- Independent quality assurance reporting on the project;
- Impact of SB 1049 (2019) information technology project on routine agency operations;
- Any exceptions from administrative rules, policies or procedures, or statutes granted to PERS by the Department of Administrative Services; and
- Other information that helps inform the Legislature on the status of the project or issues that have arisen as the result of the project.

According to SB 1566 (2018), PERS is also required to report to the legislature on the implementation of employer programs including the School Districts Unfunded Liability Fund, Employer Incentive Program, and the Unfunded Actuarial Liability Resolution Program.

Finally, each year, PERS reports to the legislature on board action related to Preliminary Earnings Crediting. Final Earnings Crediting action taken by the PERS Board on March 30 will also be reported to the legislature.

2021 LEGISLATIVE CONCEPTS

State agencies are in the early stages of developing requests for legislation to be considered during the 2021 session. What follows are ideas that PERS might consider including in several different bills. Over the next few months, we will:

- Refine the content or packaging of requests;
- Develop preferred statutory language for proposed legislation;

- Determine any fiscal impact to the agency, members, or employers; and
- Present the PERS Board with the option to move forward with requests to draft legislation.

Upon PERS Board approval at the March meeting, DAS and the Governor's Office will review agency requests for legislation and determine which will move forward to Legislative Counsel for drafting. Bill drafts will be developed over the summer and PERS will be able to review content to ensure the bill will achieve the intent. Bill drafts may be available for the October and December board meetings when we will seek approval to ask the Governor for bill introduction.

What follows are seven possible bills, however the content may be refined between now and the March 30, 2020 Board meeting. We are also researching several additional concepts for consideration, including any possible impact of the SECURE Act of 2019.

Seven Possible Individual Bills

1. Senate Bill 1049 Technical Fix Bill
2. Technical Fix Bill – Pre-Retirement Death
3. Technical Fix Bill - Tax Remedy Bill
4. Technical Fix Bill - OPSRP Retirement/Disability Eligibility
5. Establish Employee/Independent Contractor Standards
6. Increase Divorce Fee in Statute or Set Through OAR
7. Increase the Threshold for Minimum Monthly Pension Benefit Payment

Senate Bill 1049 – Technical fix bill

Since June 2019, PERS has been working through evaluation of, and implementation plans for, different provisions of SB 1049. This is a complex and comprehensive piece of legislation, and agency staff continue to discover the interaction of new statutory provisions with existing ones. During 2019 legislative discussions, PERS acknowledged that we may need to refine portions of SB 1049 to more effectively implement the legislative intent of the measure. PERS will continue to work through implementation and might identify additional revisions during the legislative concept drafting process.

For context, and in the order of their effective dates, the five significant projects in SB 1049 are:

- 1) Effective upon passage - Employer Programs, including all portions related to distribution of the Employer Incentive Fund and establishment of the UAL Resolution Program;
- 2) Effective January 1, 2020 - Work After Retirement, allowing all retirees to be hired by PERS-participating employers for unlimited hours 2020-2024, and charging the employer rate on retiree salary;
- 3) Effective January 1, 2020 - \$195K salary limit (indexed) on salary used for all plans purposes, including benefit calculations and contributions;
- 4) Effective July 1, 2020 - Redirection of a portion of the member IAP contributions depending on Tier, salary, and system funded status; and
- 5) Effective January 1, 2021 - Member Choice of the investment of their IAP account.

Work After Retirement

- 1. Clarify that “early retirees” must be absent from all PERS employment for six months to be eligible to work unlimited hours for a PERS-participating employer. (Early retirees have not met age or service requirements for “normal retirement.”)**

Background – Under federal law, an early retiree must have a “bona fide retirement” to be eligible to work unlimited hours beyond the pre-2020 hour limits (1,040 for Tier One/Two; 600

for OPSRP). A six-month break in employment was established approximately 10 years ago, however, current PERS administration of Oregon law allows retirees to return to work immediately after retiring (or shortly after). The “bona fide retirement” standard requires clarification in existing PERS statute as well as the new language provided by SB 1049.

While the federal regulations allow individuals who retire at normal retirement age to work after retirement, early retirees are more restricted. Allowing early retirees to, in essence, continue to work full time after retirement is in conflict with federal requirements.

Solution – Add language that requires that all retirees be absent from the service of all PERS-participating employers during the first 6 months immediately following their effective date of retirement. If a retiree returns within the first 6 months, they will be returned to active membership on the date of their hire, post-retirement.

2. Remove language in SB 1049 regarding Social Security (SS) standards.

Background – Including this standard in SB 1049 presents a “toggle” effect where a member can work unlimited hours, then have an hour limit when they begin receiving SS until they reach full SS age, when they can work unlimited hours again.

Solution – Remove the Social Security standards from work after retirement provisions in SB 1049 – those standards would not be applicable to someone working unlimited hours.

3. Clarify that contributions paid by employers on the salary of retirees will be applied in the same manner as employer contributions on active employees’ salary.

Background – Language in SB 1049 states that contributions will be applied “against the liabilities of the public employer.” Since many employers are pooled (SLGRP, Schools), this has raised questions about how contributions on retiree salaries will be applied.

Solution – Codify in statute that contributions associated with retiree salary and active salary will be applied in the same way.

4. Correct references to Tier One/Two retirees who are elected or appointed to public office.

Background - Tier One/Two retirees who are elected or appointed to public office are not able to continue to receive their PERS retirement benefits under ORS 238.088. This reference was not included in the language in SB 1049 allowing Tier One/Two retirees to work unlimited hours; the only reference is to 238.082(2), which allows retirees to work up to 1,040 hours. There is no specific statute in OPSRP that specifically discontinues an OPSRP retiree’s benefit when they are elected or appointed to public office because all OPSRP retirees’ benefits are discontinued when they return to a qualifying position.

Under the current language, a Tier One/Two retiree must be returned to active membership if they are elected or appointed to public office, but an OPSRP retiree would be able to work unlimited hours and continue to receive their PERS benefit while holding public office.

Solution – Standardize in statute, the application of work after retirement provisions for retirees who are elected or appointed to public office.

IAP Redirect

1. Remove the term “vested” in ORS 238A.120 (regarding canceling membership upon withdrawal) and from ORS 238A.375 (the associated statute).

Background – It is unclear whether the term “vested” refers to whether the member is vested in the IAP (immediately) or in the pension program (five years). The term was originally included in statute because only vested members could withdraw from the OPSRP pension program. Beginning July 1, 2020, members will not be able to withdraw employer funded amounts from the OPSRP pension program. The current language implies that only vested members will be canceling their membership; removing the term clarifies that all OPSRP members who withdraw are canceling their membership in the system.

Solution – PERS is able to administer withdrawals differently for different members, but doing so is inconsistent with the intent of SB 1049 and will require additional technology changes and workarounds, which may increase errors in member accounts. Therefore, as appropriate, eliminate “vested” from ORS 238A.120 and ORS 238A.375.

2. Clarify that upon mandatory or voluntary redeposit, a member must also redeposit their Employee Pension Stability Account (EPSA).

Background – Currently, a member is not required to redeposit their IAP account upon mandatory or voluntary redeposit. The EPSA is a new account under the IAP structure, so it would also not be required to be redeposited. However, failure to redeposit the EPSA would place 100% of the funding of member pension benefits accrued after July 1, 2020, on the employer, which is in conflict with the legislative intent of SB 1049.

Solution – Amend statute to require redeposit into EPSA accounts.

3. Clarify meaning of “accrued after July 1, 2020” for members who retire under the Money Match calculation, take total lump sum benefits, or for beneficiaries receiving pre-retirement benefits.

Background – PERS anticipates administering this concept as it currently administers the tax remedy payments and COLA, by allocating the benefit according to the member's service time. Clarifying in statute how the EPSA should be used in benefits that do not include service time in the benefit formula will avoid future appeals, contested cases, litigation, and any clean-up projects associated with potential decisions that interpret the statute differently.

Solution – Amend statute to reflect proposed administrative process related to these limited benefit payments.

Employer Incentive Fund/UAL Resolution Program

1. Remove “projected to become” from revenue sources, as a qualification for application cycles for EIF.

Background – The Employer Incentive Fund program has been extended to 2042. At least three revenue streams have been identified for the fund: \$100M GF appropriation in SB 1049; unknown proceeds from sports betting; and SB 1529(2018) revenue. Additional revenue streams may be identified over time. Administration of application cycles for funds may be more difficult when they can't be defined easily and are based on projected income.

Solution – The EIF application process is monitored manually. Removing this language allows PERS to administer properly defined application cycles.

2. Remove reference to “improve the employer’s funded status” in the UAL Resolution Program.

Background – For pooled employers (SLGRP, schools) the funded status is determined at the pool level and it is misleading to state that pooled employers can improve their individual funded status.

Solution – Eliminate this language from UALRP provisions to clarify the intent of the program.

3. Provide clarification regarding when revenue from sports betting will be transferred to PERS/EIF.

Background – SB 1049 states that EIF is to receive revenue from sports betting until 2042, however the timing of fund transfers from Lottery and DAS are unclear. Uncertainty of fund transfers causes administrative challenges for distribution of the revenue stream.

Solution – PERS will work with Lottery and DAS to determine the best statutory schedule for fund transfers to ensure consistent communication with employers about fund availability, eligibility, and application process in time windows that are advantageous to employers (rate-setting valuation year vs. not rate-setting).

Coordination between SB 1049 and HB 2417 (Pre-retirement death benefits)

1. Clarify that the new EPSA account in SB 1049 will be used to fund a portion of the new alternative pre-retirement death benefit for Tier One/Two members in HB 2417.

Background – SB 1049 and HB 2417 (new pre-retirement death benefit for Tier One/Tier Two members) were approved concurrently during the 2019 session. Existence of the EPSA accounts was not acknowledged in HB 2417 at the time of passage. Based on the intent of both bills, PERS suggests that the EPSA should be used to fund a portion of the new pre-retirement death benefit.

Solution – Clarify in statute that the EPSA will be used to fund the pre-retirement death benefit to be consistent with intent of HB 2417.

Technical Fix Bill – Pre-Retirement Death

1. Eliminate Time Limit for Notification to PERS of a Tier 1/Tier 2 Pre-Retirement Death. (Fix for HB 2417)

Background – HB 2417 (2019) established a new pre-retirement death benefit for Tier 1/Tier 2 members, but only to those who notify PERS “no later than 60 days after the date of death of the member.” Often, PERS is not notified of a member death within 60 days of the date of death. Some beneficiaries will miss the opportunity for this pre-retirement death benefit if they do not notify PERS of the member death in a timely manner.

Solution – Amend the timeline for notification to PERS so a beneficiary may be eligible for the new pre-retirement death benefit in a more conducive timeframe.

2. Pre-retirement Death – Payout of IAP under Small Estate Affidavits

Background - Currently under ORS 238.390(2), PERS is authorized to pay out a pre-retirement death benefit to the person who filed a small estate affidavit under ORS 114.505 to 114.560. However, this authority is not provided under ORS 238A.410(3) for PERS to pay out an IAP account balance in the event of pre-retirement death. Due to the inconsistency, PERS requires appointment of a personal representative for an estate when it might not be necessary.

Solution - Amend ORS 238A.410(3) so that PERS can also pay out the IAP account balance to the person who filed a small estate affidavit.

3. Pre-Retirement Death Benefits for Intestate Cases

Background – When a member dies without designating a beneficiary, statutes that provide the order of priority of who may receive Tier One/Two pension benefits and IAP death benefits for the deceased member are inconsistent.

Tier One/Two pension benefits are required to be paid to the member’s estate, which in turn, requires a surviving spouse to pay to file a small estate or a full probate case in order to receive the pre-retirement Tier One/Two pension benefits.

Conversely, a member’s IAP beneficiary defaults to: first, to a surviving spouse; if there is no surviving spouse, to the member’s children, and; if no surviving children, to the member’s estate.

Solution - Harmonize the pre-retirement death pension benefit payout standard for intestate cases using the standard under ORS 238A.410(3).

Technical Fix Bill - Tax Remedy Bill

1. Judge Members and Tax Remedy

Background – Judges are eligible for PERS benefits, but provisions of their plan are outlined in separate sections of ORS Chapter 238. When the legislature eliminated tax remedy payments for non-resident retirees, statutory references in the Judge Program statutes were inadvertently not updated to reflect that elimination. However, PERS is currently removing the tax remedy from the benefits of judge members whose benefits are not subject to Oregon income tax.

Solution - Amend ORS 238.580(1) to include statutory provisions on residency requirement for receiving tax remedy and ensure the residency requirement applies to the Judge program.

2. Tax Remedy Calculation – Multiplier

Background - An argument has been raised by retirees receiving tax remedy payments, that statute requires PERS to apply a multiplier of 109.89 percent against the retirement allowance to determine the amount of tax remedy payable. This argument has been rejected by the Oregon Court of Appeals in *Sundermier*, 269 Or.App. 586, however it would be helpful to amend and clarify this in statute.

Solution - Amend ORS 238.364(4)(a) to simply state that the multiplier for tax remedy payment calculations should be 9.89 percent.

3. Tax Remedy Calculation – Denominator

Background – It has been argued in trial court that the denominator (total number of years of creditable service *during which the pension income was earned*) for the ratio expressed in ORS 238.364(5) should not include any years of PERS service after the establishment of the IAP for anyone who retires under a money-match formula, since contributions that would otherwise go to a regular member account (subject to being matched) were being diverted to a member’s IAP account (not subject to match). It was also argued that the IAP account balance does not fit under the definition of pension income. Therefore, any PERS service time after the establishment of the

IAP for a member retiring under Money Match should not be counted in the denominator of the ratio.

While PERS successfully argued in that case that the IAP is part of the pension benefit and therefore all years of service should be included in the denominator for the purpose of calculating the tax remedy, clarifying this in statute will prevent any future challenges.

Solution - Amend ORS 238.364(5) to state that the denominator of the equation includes “total number of years of creditable service.”

Technical Fix Bill - OPSRP Retirement/Disability Eligibility

1. OPSRP Retirement Credit/Disability for School Employees

Background – Currently, an OPSRP member who is an educational employee, is required to have active membership in 10 or more calendar years to qualify for non-duty disability benefits; however, to be eligible to receive retirement credit at service retirement for their period of disability, the member is required to have 10 years of retirement credit. While this “active membership” standard potentially provides disability benefits to school employees with less than 10 years of retirement credit, there is no corresponding standard for school employees to receive retirement credit for their period of disability at service retirement. School employee members who are eligible for disability benefits under the active membership standard may receive a lower-than-expected retirement benefit, since they won’t receive retirement credit for their period of disability.

Solution - Add language to ORS 238A.155 (Retirement Credit for Periods of Disability) to mirror the language used in ORS 238A.235 (Disability Benefit) to resolve the disparity between active membership in 10 calendar years versus 10 years of retirement credit.

2. OPSRP P&F Retirement Eligibility

Background - Currently, ORS 238A.160 requires that a member has worked “continuously for a period of not less than five years immediately preceding the effective date of retirement” in a P&F position in order to qualify for an unreduced retirement benefit at 60 years of age (or 53 years of age with 25 years of retirement credit).

This “immediate” language causes issues in that an OPSRP member who takes *any* time between their last day of employment and effective retirement date may lose their eligibility to retire under P&F timing. When the member’s retirement date is not immediately after their P&F employment, they will either need to take an “early” retirement at an actuarially reduced rate or postpone their retirement until they reach early or normal retirement age.

Solution – Amend statute language in ORS 238A.160 to align with the language found in ORS 238.280 so a member is eligible to retire as P&F, so long as the P&F position was the member’s last PERS-participating employment before retirement and they’ve met the five year requirement for P&F.

3. OPSRP Disability/Early Retiree Overlap Period

Background – Currently, ORS 238A.235(3) provides that an OPSRP disability benefit shall be paid until the member is no longer disabled or until the member reaches *normal* retirement age. Normal retirement age for an OPSRP member is 65 years of age (60 for a P&F member).

However, ORS 238A.165 provides that the *earliest* retirement age for a service retirement benefit is 55 years of age for a non-P&F member and 50 years of age for a P&F member. It is possible that a member could attempt to “double dip” by applying for an early service retirement while continuing to draw an OPSRP disability benefit. If that attempt is made, PERS does not have statutory authority to refuse the request.

Solution - Amend ORS 238A.235(3) providing that an OPSRP disability benefit shall be paid until the member is no longer disabled, until the member reaches normal retirement age under ORS 238A.160, or until the member retires early under ORS 238A.165.

Stand Alone Bill - Establish Employee/Independent Contractor Standards

Background - In June 2019, the Oregon Supreme Court decided *Eugene Water and Electric Board v. Public Employees Retirement Board*. The case asked whether a person who works for a PERS-participating employer, but is paid by a third party, is “in the service of a public employer” for purposes of PERS membership under ORS 238.015. The Court determined that being “in the service of a public employer” is limited to employees on the employer’s payroll. The decision reversed PERS’ interpretation of the statute.

The *EWEB* decision creates a loophole for public employers who may seek to avoid PERS contributions. Public employers can now avoid incurring new PERS obligations by employing workers through third-party staffing agencies. The Court determined that even workers who have a common-law employment relationship with public employers are not eligible to establish PERS membership if they are not on a public employer’s payroll.

The *EWEB* decision has the potential to significantly impact employer contributions. Under *EWEB*, public employers can avoid incurring new PERS obligations by paying workers through a third party, such as a staffing agency, even if the employer creates a common-law employment relationship with the worker. PERS retirees and employers can also bypass work after retirement limitations or contributions if retirees are working for a third party. If employers use the *EWEB* model on a significant scale, the diversion of employer contributions would create a significant long-term risk to the fund.

Solution - Amend ORS 238.015 to define the phrase “in the service of a public employer.” The definition should include anyone with a common-law employment relationship with a public employer or provide more specific criteria. The source of payroll should not be determinative of PERS eligibility. For OPSRP, ORS 238A.005(4) should be similarly amended to define the phrase “performs services for a participating public employer.”

Stand Alone Fee Bill - Increase Divorce Fee in Statute or Allow PERS to Set Through OAR

Background - ORS 238.465(9) provides “The board may not charge more than \$300 for total administrative expenses and related costs incurred in obtaining data or making calculations that are necessary by reason of the provisions of this section.” The dollar amount of \$300 was originally set in 1993. Approximately 1,000 divorce decrees are processed by PERS each year and they’re complicated to administer. The actual cost of administration per decree is near \$1,300.

Since 1996, OAR 459-045-0090 has provided “The Board has determined that actual and reasonable administrative expenses incurred by PERS for obtaining data and making calculations to administer an

alternate payee award will always exceed \$300. At the time of benefit payment, PERS shall allocate the administrative fee under the provisions of ORS 238.465(9).”

Solution – Two options are: 1) increase the statutorily prescribed fee in statute; or 2) eliminate the statutory fee and allow PERS to set the fee by administrative rule. PERS will review data and propose an administratively feasible fee for consideration that could be applied to both options.

Stand Alone Bill - Increase the Threshold for Minimum Monthly Pension Benefit Payments

Background – For administrative efficiency, the legislature established a minimum benefit amount to qualify for a monthly benefit payment. A retiring PERS member who is due a monthly benefit payment of \$200 or less is paid a single lump sum that represents the actuarial value of the member’s monthly benefit. The \$200 threshold was last changed in 2001, when it was increased from \$30. OPSRP members’ pension cash-out has remained unchanged at \$200 since plan inception in 2004.

Solution – Increase the baseline per month payment in ORS 238.315 and OPSRP cash-out in ORS 238A.195 from \$200. PERS will review data and propose an administratively feasible minimum benefit payment for consideration.



Oregon

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January 31, 2020

TO: Members of the PERS Board
FROM: Yvette Elledge-Rhodes, Deputy Director
SUBJECT: IAP TDF Implementation Update

BACKGROUND

On September 20, 2017, the Oregon Investment Council (OIC) adopted a new Target-Date Fund (TDF) investment strategy for the Individual Account Program (IAP), effective January 1, 2018. This decision resulted in changes to the IAP investment structure by establishing TDFs in five-year vintages that reflect gradually more conservative investment mixes as a member ages.

At the last PERS Board update on May 31, 2019, staff were continuing to integrate all TDF changes into normal IAP operations through ongoing project work. This is the final project report to the board.

PROJECT END DATE

The project end date is now January 31, 2020, extended from September 30, 2019, to include the year end activities as well as some delayed tool updates.

BUDGET

The original budget request for technology requirements for implementation of earnings crediting and a TDF history table was \$200,000. After reviewing the database and reporting requirements, it was determined that PERS needed additional development assistance to complete this work and allocated \$65,000 of the normal operating budget directly to this project. There have been no other budget allocations for this project.

PROJECT ACTIVITIES

- All critical tools needed for tracking TDF history and prior-year earnings were completed by December 31, 2018.
- All other tools and reports needed for TDF should be completed by January 31, 2020. One final tool was set for deployment on January 17, 2020.
- Main data transfers and processes between Voya and PERS have been deployed, but will continue to be reviewed for efficiency and accuracy.
- PERS staff have been working closely with Oregon State Treasury and Alliance Bernstein on a couple of initiatives:
 - To add a new TDF and consolidate another into the Retirement Allocation Fund (RAF) effective January 1, 2020. This is normally done every five years. Specifically:
 - Add a new 2065 TDF (for dates of birth in 1998 or later)
 - Consolidate the 2020 TDF into the RAF
 - Both changes were effective January 1, 2020

- Creation of the Retirement Installment Fund (RIF), which will segregate the IAP accounts which are in distribution status from the RAF. These accounts will be invested in the Oregon Short Term Fund.

COMMUNICATIONS

- In November 2019, a letter was mailed to the 7,641 retirees receiving installment payments explaining the change in investment strategy for this group. Retirees did not have to take any action; however, if they want to cash out their remaining IAP balance they can do so. In addition to this letter, PERS has:
 - Added information to our IAP monthly earnings crediting page
 - Created a new webpage (<https://www.oregon.gov/pers/RET/Pages/IAP-Installments.aspx>) to help people who want to do a cash out know which forms to turn in
 - Requested that Oregon State Treasury make some updates to their Oregon.gov/IAP and other web pages
 - Identified other publications, like the PERS Pre-Retirement guide, that need to be updated
- The December 2019 edition of the [Perspectives](#) newsletter contained a comprehensive review of all these changes for 2020.
- The 2019 Annual Statements will be our next opportunity to inform members of these updates. They will be mailed in May 2020.



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January 31, 2020

TO: Members of the PERS Board
FROM: Yvette Elledge-Rhodes, Deputy Director
SUBJECT: SB 1049 Implementation Update

Senate Bill 1049 was signed into law by the Governor on June 11, 2019. PERS staff continue to focus on completing work in an efficient and effective manner. Due to the short time frames, minimum viable products (MVP) are being deployed to meet the legislative mandates, even if this means that, initially, semi-automated solutions will be implemented. Long-term sustainable solutions will be delivered afterwards.

PROGRAM/PROJECT PLANNING

The SB 1049 Implementation Program is being managed as one comprehensive program, with the following five individual projects. All projects are going through the Enterprise Information Services (EIS) stage gate process.

Project	Effective Date	Status
SB 1049 Program		Program team has been focusing efforts on schedule development, program, and project planning documentation required for Stage Gate 2 and 3 endorsements. Program status is “yellow” due to delay in schedule and approved program documents.
Employer Programs Project	Effective 7/1/2019	All EIF funds were allocated to employers in early December 2019. The UAL Resolution Program is under development; employers engaged in development.
Salary Limit Project	Effective 1/1/2020	Short-term MVP manual solution deployed. Team is testing next work package for deployment.
Work After Retirement Project	Effective 1/1/2020	Short-term MVP solution deployed. Team is focusing on next work package and long-term schedule.
Member Redirect Project	Effective 7/1/2020	The Voluntary Contributions solution was approved. Team is focused on the initial work package for the EPSA.
Member Choice Project	Effective 1/1/2021	Decision made on technical solution. Team is focused on project documents and schedule.

Highlighted activities completed or in progress since December 2019:

- Program and project activities
 - Weekly program/project reporting; bi-weekly program reporting to external stakeholders
 - Barbur Building fully operational
 - Standardized meeting routines; daily stand-ups
 - Lean project core teams focused on MVP, facilitating decisions quickly
 - Fully integrated EIS oversight within program
 - Change management activities well underway
 - iQMS activities began in December
 - Gartner completed interviews for the initial risk assessment due 1/21/20
- Resources
 - Projects fully staffed
 - Staff recruitments; 43 total positions
 - Eight critical to project
 - Three Product Owners – positions filled with internal staff
 - Three Communications staff – two hired; one at interview stage
 - Two Business Rules positions – both at interview stage
 - 35 operational positions
 - Drafting/planning recruitment – 10
 - Active Recruitments – 11
 - Hired - 14
- EIS Stage Gate process requirements
 - Program level Stage Gate Two documents targeted for completion in mid-January
- Budget structure and reporting
 - Monthly meetings with the Chief Financial Office, Legislative Fiscal Office, and the Governor’s office
- Communications
 - Bi-weekly external stakeholder meetings
 - Change management and internal communications plans
 - External Communications:
 - Targeted GovDelivery emails to employers, members
 - December edition of the Perspectives
 - MyOregon News article on success of EIF

PROGRAM/PROJECT BUDGET

The budget information is contained within Page 4 of the attachment to agenda item A.2.c. PERS has completed the HB 5032 Budget Note requirement per the Legislative Fiscal Office instructions (Attachment A). It will be presented to the legislature in February 2020. PERS staff will continue to update the board as project implementation continues throughout the year.

C.3. Attachment 1 - *House Bill 5032 Budget Note Report*



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January 17, 2020

The Honorable Senator Betsy Johnson, Co-Chair
The Honorable Senator Elizabeth Steiner Hayward, Co-Chair
The Honorable Representative Dan Rayfield, Co-Chair
Joint Committee on Ways and Means

The Honorable Senator Chuck Riley, Co-Chair
The Honorable Representative Nancy Nathanson, Co-Chair
Joint Committee On Information Management and Technology

900 Court St NE
H-178 State Capitol
Salem, OR 97301-4048

Dear Co-Chairpersons:

Nature of the Request

The Joint Committee on Ways and Means approved House Bill 5032 (2019) with a Budget Note requiring PERS and DAS – Enterprise Information Services (EIS), formerly OSCIO, to report to the Joint Committee on Information Management and Technology and the Joint Committee on Ways and Means, during the Legislative Session in 2020, on the implementation of Senate Bill 1049 (2019).

In accordance with that Budget Note, we are reporting on agency implementation of SB 1049 (2019). We are collaborating with Enterprise Information Services and the Chief Financial Office at the Department of Administrative Services (DAS), as well as other state agencies and stakeholders, on implementation of this complex piece of legislation. DAS will report on our efforts separately.

This report includes information on the following:

- Update on project scope, schedule, and budget, and total cost of ownership
- Identification of costs associated with one-time solutions versus permanent solutions
- Independent quality assurance reporting on the project
- Impact of SB 1049 (2019) information technology project on routine agency operations
- Any exceptions from administrative rules, policies or procedures, or statutes granted to PERS by the Department of Administrative Services
- Other information that helps inform the Legislature on the status of the project or issues that have arisen as the result of the project.

Agency Action

PERS continues to work on the planning and implementation of this important initiative and will report progress on the elements noted above.

Background

Senate Bill 1049 was approved on May 30 and signed by the Governor on June 11, 2019. This comprehensive legislation is intended to address the increasing cost of funding PERS, reduce system Unfunded Actuarial Liability (UAL) obligations, and provide relief to escalating contribution rate increases for public employers. These goals will be accomplished through re-amortization of the Tier 1 and Tier 2 UAL, existing employer rate reduction programs, and changes to member benefits.

Different provisions of the measure require the agency to develop short- and long-term plans to adjust the existing technology infrastructure for the retirement system that supports more than 900 public employers and 375,000 members and their beneficiaries. New system functionality must be developed thoughtfully and methodically to maintain the functional capabilities related to existing employer and member interfaces and data, while also analyzing, designing, and implementing new SB 1049 mandated capabilities for data needs (known and unknown), multiple accounts per member, complex benefit calculations, and all associated accounting and financial reporting requirements.

Additionally, comprehensive communication strategies must be put in place to share appropriate messaging with affected stakeholders. Members need to understand any impact to their benefits. Employers need to understand the impact to associated administrative processes and budgetary impacts, as well as prepare long-term funding plans as part of the Unfunded Actuarial Liability Resolution Program.

The agency has structured implementation efforts into an overarching program with five distinct projects, each having their own effective dates and spanning many areas of PERS operations. The five component projects of the SB 1049 Implementation Program are as follows:

- **Employer Programs:** Effective July 1, 2019 – The Employer Programs portions of the bill clarify and expand the requirements for the Employer Incentive Fund (EIF); appropriate \$100 Million General Fund to the EIF; direct net proceeds from Oregon Lottery Scoreboard betting to the EIF; allow participating public employers who make side account deposits greater than \$10 million to determine when they wish to have these funds included in their employer rate assessment; and require all public employers to participate in the Unfunded Actuarial Liability Resolution Program.
- **Work After Retirement:** Effective January 1, 2020 – This provision allows PERS retirees to work unlimited hours for PERS participating employers in calendar years 2020-2024. It also requires employers to pay employer contributions on retirees' salary during that period. The rate that PERS will charge the employer will be the same as if the retiree remained an active member.
- **Salary Limit:** Effective January 1, 2020 – This provision limits the amount of subject salary used in benefit calculations for all program members. Beginning in calendar year 2020, the

limit is \$195,000, but will be indexed annually based on CPI. The limit on salary for all plan purposes, including contributions and final average salary, and is not a salary cap.

- **Member Redirect:** Effective July 1, 2020 – This provision redirects a portion of member contributions (6% of salary) to a new Employee Pension Stability Account (EPSA) when the funded status of the plan is below 90% and the member’s monthly salary is more than \$2,500. In addition, members can voluntarily choose to make additional after-tax contributions into the Individual Account Program (IAP) to make a full, 6% contribution to the IAP.
- **Member Choice:** Effective January 1, 2021 – This provision allows members to elect investment of their IAP account in a Target Date Fund (TDF) other than the default TDF based on their year of birth. PERS anticipates providing members the opportunity to make elections once a year during a defined time frame.

Update on project scope, schedule, and budget, and total cost of ownership

Program Approach

With the exception of an actuarial software procurement associated with the *Employer Programs* project, the majority of implementation efforts impact the current ORION system. ORION (Oregon Retirement Information Online Network) is a system of integrated applications, including interfaces with our IAP Third Party Administrator, VOYA.

Given ORION is an existing legacy system, PERS is taking the tactic to rely on in-house business experts and backfill them with limited duration and/or work-out-of-class resources. This approach was deemed to provide PERS with the most accurate and timely business solution identification. Likewise, outside technical resources or contractors are augmenting existing PERS IT staff in the areas of system architecture and development. PERS is also using contracted program and project management services to augment and support program and project implementation.

This approach ultimately builds out the internal capacity and capability needed to address longer-term system requirements.

Scope and Schedule

As noted previously, PERS is managing implementation efforts by using an overarching Program Management approach, executing five distinct projects under the Program. This allows PERS the ability to ensure the appropriate prioritization and sequencing of projects, ensures that resource contentions are dealt with using an enterprise approach and, most importantly, that system, policy, and communications interdependencies are identified and managed appropriately.

PERS received program-level Stage Gate 1 endorsement for the SB 1049 Implementation Program on September 13, 2019. As of January 17, 2020, EIS has reviewed and provided feedback for all program-related project management planning documents.

Please find attached a copy of the latest program and project status reports that show progress as of January 17, 2020. (Attachment1).

Given the mandated scope and schedule, and the complexity of the elements requiring implementation, PERS is using a Minimum Viable Product (MVP) implementation approach. The MVP approach means that PERS is building functionality with just enough features so that it is usable for PERS' members and employers on the defined implementation dates. As PERS designs the different solutions, the desired end-state is also defined. After PERS implements the MVP, we will continue to build out the solution, in phases or iterations, so it ultimately meets that defined end-state.

Some of the longer-term solutions will have implementation dates that extend into the 2021-23 biennium, given the complexity associated with components of SB 1049. The program roadmap that illustrates this approach, as well as associated timing, is attached (Attachment 2). *HB5032 Budget Report and Measure Summary, Package 804, Information Technology Applications* section (Attachment 3, page 11) noted that: "Given the timelines for implementation, the project will implement a series of temporary solutions before final versions can be implemented."

Two elements of SB 1049 are being challenged in court: Salary Limit and Member Redirect. The complaint alleges that PERS members have a contract right and a property interest in their PERS retirement benefits, including the 6% employee contributions to the IAP and PERS-covered salary, and that the changes made by SB 1049 (2019) are unconstitutional. Given the uncertainty of the timing around the court decision, PERS has to build out both solutions knowing the functionality built may have to be reversed, with minimal downstream impact to the system.

Additionally, Work After Retirement provisions have an effective five-year window and sunset on December 31, 2024. If the provisions do not meet the objective of providing a meaningful stream of contributions to PERS, and the decision is to discontinue these provisions past calendar year 2024, this functionality would also have to be reversed, again with minimal impact to the system. Consequently, this raises the complexity level associated with these implementations.

In addition to the technical implementation efforts, PERS has established a robust communications strategy and plan to advise all affected stakeholders on the impact of SB 1049. This includes separate communications efforts for all five projects. These efforts are illustrated on the PERS website: <https://www.oregon.gov/pers/MEM/Pages/SB1049.aspx>. PERS would like to acknowledge the collaborative efforts of our Employer Advisory Group in refining key messaging as part of the communications review process. Staff have also made presentations at numerous stakeholder meetings on the impacts of SB 1049.

Employer Programs

With respect to the Employer Incentive Fund, there was a \$100 million General Fund appropriation in SB 1049 to capitalize the EIF. \$25 million was scheduled in July 2019 with the remaining funds to be scheduled to match when employers made their side account deposits. PERS received 157 eligible applications for matching funds through two application cycles. Of the eligible applications, PERS approved 117 applications for \$99,999,000.00 of matching funds from EIF, with the remaining 40 employers representing an additional \$19,581,582 of matching funds being placed on a waiting list. To be eligible for EIF matching, ten employers made transfers to pay off transitional liabilities, in the amount of \$40,477,057. There were also two employers who chose to make side account deposits of greater than \$10 million with deferred rate offsets. These deposits totaled \$107 million.

Employers who applied for EIF participated in the initial version of the UAL Resolution Program (UALRP). The UALRP will evolve over time so that employers are supported in developing their long-term funding plans, with the next iteration being released no later than September 1, 2020. PERS will be working collaboratively with our Employer Advisory Group to ensure that the funding plans, which will be defined through this process, meet both employer and PERS' needs. To support the UALRP, PERS is planning to implement a new actuarial planning tool to replace the existing Employer Contribution Rate Projection Tool. A Request For Information (RFI) for Actuarial Software was released in early December with two respondents. It is expected that a special procurement process will take place to choose the successful vendor.

Salary Limit

The MVP was implemented January 1, 2020. The MVP functionality implemented consists of three new reports used to calculate salary for each member and provide data for any member reaching a pre-determined salary threshold. The queries behind the reports will use the correct transactions and fields, which will give staff an accurate view of the total salary for the members. Staff will review the reports on a monthly basis and work with identified employers to ensure that members are not receiving contributions on salary in excess of \$195,000. A more robust, automated solution will be implemented by September 30, 2020 through three additional work packages/iterations. This project applies to less than 1,000 members.

Work After Retirement

The MVP was implemented January 1, 2020 and it establishes the process for PERS to be able to invoice employers for the necessary contributions on service retiree wages by eliminating current retiree wages codes. However, functionality for employers to submit contributions via the current invoicing process was not available on January 1, 2020. PERS is communicating with employers on how to either submit these contributions using alternate approaches or hold these contributions for an interim period. A more robust, automated solution will be implemented by September 30, 2020 through two additional work packages/iterations. This includes the ability for employers to account for, and submit, requisite contributions.

Of note is the fact that PERS is not involved in the hiring decisions between retirees and employers. Employers are responsible for the decision to hire a PERS retiree or not, and set any other limitations. Employers may establish limitations on the number of hours members can work. An example of this is the Governor's administrative decision to limit hours for Executive Branch retirees.

Member Redirect

The MVP is planned to be implemented by July 1, 2020. The MVP functionality will establish the Employee Pension Stability Account (EPSA), which applies to all active members across all Tiers and enables the transmittal and recording of mandated contributions to the EPSA. The MVP will be implemented through four work packages. A more robust, automated solution will be implemented at a future date, as yet undetermined, through additional work packages/iterations. This includes the ability to calculate annual and distribution earnings,

calculate a retirement, calculate a withdrawal, process a death benefit, and produce an annual statement within the EPSA.

PERS has determined that it will not be able to implement the mandated voluntary contribution component of the Member Redirect project before the legislated effective date of July 1, 2020. This is a very complex set of new business requirements that created, for all intents and purposes, a new line of business for PERS. This new functionality not only has significant impacts to PERS' systems and processes, but also has impacts to the 900 employers who will have to make changes to their own payroll systems, and associated processes, to allow for the election, deduction and remittance of these voluntary contributions. PERS plans to implement functionality by September 30, 2020 and, consequently, allow members the ability, through their respective employers, to make voluntary contributions on a back-dated basis, so that they can fully utilize this voluntary contribution option. This will allow for appropriate accounting, earnings crediting, and tax reporting for calendar year 2020.

Member Choice

PERS will be building out online tools, via our current Online Member Services system, that will allow members to make their choice as to which IAP Target-Date Fund they wish to be invested in for the following calendar year. This functionality will be implemented prior to September 2020. This will allow members a 30 to 60 day window to make their choice, while allowing PERS sufficient time to track and make the changes effective January 1, 2021, which is the legislated implementation date.

There will be multiple member communications efforts regarding this new option, beginning with the release of Member Annual Statements in May 2020.

Budget

The following appropriations were granted as part of HB 5032, the PERS agency budget:

- Policy Package 802 – established a \$2,500,000 expenditure limitation for a vendor contract for Project Management resources;
- Policy Package 803 – established a \$2,500,000 expenditure limitation for a vendor contract for independent Quality Assurance and Control;
- Policy Package 804 – established an Other Funds expenditure limitation of \$25,992,000 for Information Technology Applications;
- Policy Package 805 – established an Other Funds expenditure limitation of \$7,567,714 for limited duration positions, including associated services and supplies for Operational Implementation; and
- Policy Package 806 – established an Other Funds expenditure limitation of \$500,000 as a Contingency Reserve.

The total 2019-21 Legislative Approved Budget for SB 1049 work is \$39,059,717.

The attached charts provide a breakdown showing our spending against these appropriations, as well as projected expenditures. We have also attached charts that show these appropriations broken down at the program and project level (Attachment 4). Additionally, the attached chart

show Internal Resources expended to date, whose costs are not included in the appropriations spend.

Given the very short timeframe in which PERS developed the budget noted above, there were some unknowns that were not part of PERS initial request. Subsequently, we have identified three additional unbudgeted costs:

1. Additional office space to support program/project Staff;
2. Additional costs associated with paying non-PERS staff who are supporting program and project efforts from DAS and DOJ, who weren't accounted for in initial appropriations; and
3. Additional resources to support program management and project execution, as identified by DAS EIS (Attachment 5).

These total unbudgeted costs in the amount of \$1,778,248 have been identified to the Legislative Fiscal Office and Chief Financial Office (CFO), DAS. Given that the total costs of the program have not yet been finalized, there appears to be sufficient limitation to pay for these unbudgeted costs. If that is not the case, we will work with LFO and CFO to determine the appropriate time and venue to request additional funds.

Additional funding may be required to complete the Member Redirect work in the 2021-2023 biennium. PERS will provide updates on this as we finalize the scope, schedule, and estimated implementation costs.

Package 805, Operational Implementation, established 37 Limited Duration positions (33.60 FTE) for staff needed to address additional operational workload created by SB 1049 implementation. Package 805 also established six permanent full-time positions (5.44 FTE) to address anticipated long-term workload requirements resulting from SB 1049.

Staffing of these positions has taken longer than anticipated for a number of reasons. Given the current economy, it has become more difficult to hire staff with specialized skill sets (i.e. project management, communications) as the number of applicants who meet qualifications have diminished. In quite a few instances, offers of employment have been turned down as current or competing employers counter-offer with salaries above our ranges. Additionally, internal staff are not interested in taking on Limited Duration opportunities, given that the current rules do not provide employment certainty to those staff upon their return from a limited duration assignment.

As of December 31, 2019 PERS has hired 16 of the 37 limited duration positions and 3 of the 6 permanent positions.

Total Cost of Ownership

Given that PERS is implementing system changes to ORION, an existing legacy system, for purposes of this initial reporting on the implementation of SB 1049, PERS will define Total Cost of Ownership as the budgeted expenditures against the appropriations noted previously, as well as accounting for internal resource draws to support the initial implementation. PERS anticipated having to suspend non-emergent work and was able to redeploy current staff to augment additional temporary and permanent staff and contractors funded through budget appropriations.

As implementation efforts progress, PERS will be able to ascertain any required longer-term support costs, in addition to the costs noted previously. PERS will then provide a more detailed total cost of implementation, closer to the end of the current biennium. These costs will include an estimate of ongoing maintenance and enhancement costs to support ORION (\$2.2 million in the 2017-19 biennium, \$2.1 million budgeted for the 2019-21 biennium), additional VOYA contracts costs, actuarial software support costs, etc.

Identification of costs associated with one-time solutions versus permanent solutions

As noted previously, PERS is implementing solutions using the Minimum Viable Product approach. This does differ from a one-time, permanent solution approach in that the MVP is not a one-time solution that is implemented and subsequently discarded when a permanent solution is implemented. Rather, minimum functionality is implemented and improved upon until it becomes the permanent solution. Consequently, we have not broken down one-time costs versus permanent solutions, as we currently see little throwaway costs being incurred. The one exception to this is the actuarial planning tool that will be implemented as part of the Employer Programs, as that will be new functionality that will be purchased and implemented. The estimated cost of that tool is \$1.25M.

Work done to implement the long-term solutions for SB 1049 will substantially increase the technical debt of the ORION system; both from an increased system complexity and from a timing perspective, as another biennium will have passed where PERS is not able to begin to modernize ORION. PERS will propose a Policy Option Package for the 2021-23 biennium, to establish PERS' future business and technical architecture with a view to planning out modernization efforts, once SB 1049 is substantially implemented, so that the technical debt issues are ultimately addressed.

Independent quality assurance reporting on the project

PERS has, through a RFP process supported by DAS Procurement, contracted with Gartner Inc. to be the Independent Quality Management Services (iQMS) Consultant for the program. Gartner will perform Quality Management Services including the following:

1. Risk Assessment
2. Quality Management Planning
3. Quality Control
4. Quality Assurance

In totality, the satisfactory performance of these tasks by the QMS Consultant identifies project risks and planned mitigation efforts, helps ensure the application of best practices in project management, including quality management. This service will also ensure the delivery of technical work products that meet or exceed project requirements for schedule, cost, functionality, reliability, security, and other relevant quality standards.

The iQMS work kicked off on December 10, 2019. An Initial Risk Assessment draft will be delivered in latter-January, and then go through a review cycle. PERS expects to receive initial submission of the iQMS baseline work plan and the iQMS Quality Plan deliverables by mid-

February. Since the State has not formally accepted these initial iQMS deliverables, we are not providing these documents as appendices to this report.

Impact of Senate Bill 1049 (2019) information technology project on routine agency operations

As stated in a letter to the PERS Director dated June 28, 2019 from Katy Coba and Terrence Woods (Attachment 6), PERS was advised as follows: “OSCIO advises PERS to confine its IT project portfolio to those efforts lined out in HB 5032A and effectively place on hold any other work not deemed emergent and mission-critical to the agency.” To that end, PERS has ensured that all non-essential IT projects were put on hold. In addition to regular maintenance and enhancement efforts to ensure ongoing operations are supported, there are only two additional IT projects that are continuing during this biennium.

The first continuing IT project involves standing up a Backup Data Center using a cloud-based solution; this has an expected implementation prior to June 30, 2020. Subsequent to that implementation, work will commence to migrate PERS’ IT environment to the State Data Center, with an expected completion date of June 30, 2021.

In the pension operations areas, we are currently seeing an increase in requests and services compared to 2018:

- Member and Employer calls – increase of 12,719 calls, an 8% increase
- Member Benefit Estimates – increase of 2,000 estimates, a 15% increase
- Member Data Verifications – increase of 58 requests, a 13% increase
- Member Eligibility studies – increase of 481 studies, a 31% increase

To help implement SB 1049, PERS has assigned subject matter experts, from the Operations Division, to contribute to the requirement gathering and documentation. Although PERS received Limited Duration positions to be assigned to the project or to backfill subject matter experts, recruitment for these positions has been challenging. As stated previously, twenty-one of the positions have not been filled to date.

The Policy, Analysis and Compliance Section has had to put on hold many internal initiatives as a result of having to review the legislative impact of SB 1049, draft administrative rules, provide policy determinations as part of building out system specifications, as well as support the DOJ in the legal defense of the SB 1049 lawsuit.

Overall, SB 1049 has impacted many critical services, resulting in increased volumes, decreased service levels, additional backlogs, and delays in projects and maintenance of desktop tools. As noted previously, PERS is tracking the internal resources and their associated costs. Through this tracking, we are aware that over 150 PERS staff have been involved, to some degree, in the implementation of SB 1049.

Any exceptions from administrative rules, policies or procedures, or statutes granted to PERS by the Department of Administrative Services

As of January 17, 2020 PERS has not been granted exceptions from administrative rules, policies or procedures or statutes by DAS.

Due to the mandated January 1, 2020, delivery timeframe for the Salary Limits and Work After Retirement sub-projects, PERS determined that it was essential to proceed with execution work activities prior to receiving EIS endorsement of all project management planning documents. Terrence Woods, the Oregon State CIO, provided PERS with a Memorandum dated December 6, 2019 (Attachment 7) that acknowledged that project execution activities on these projects were proceeding without attendant approvals from EIS. Minimum viable solutions to address the SB 1049 mandates for Salary Limits and Work After Retirement functionality were in place by the mandated deadline.

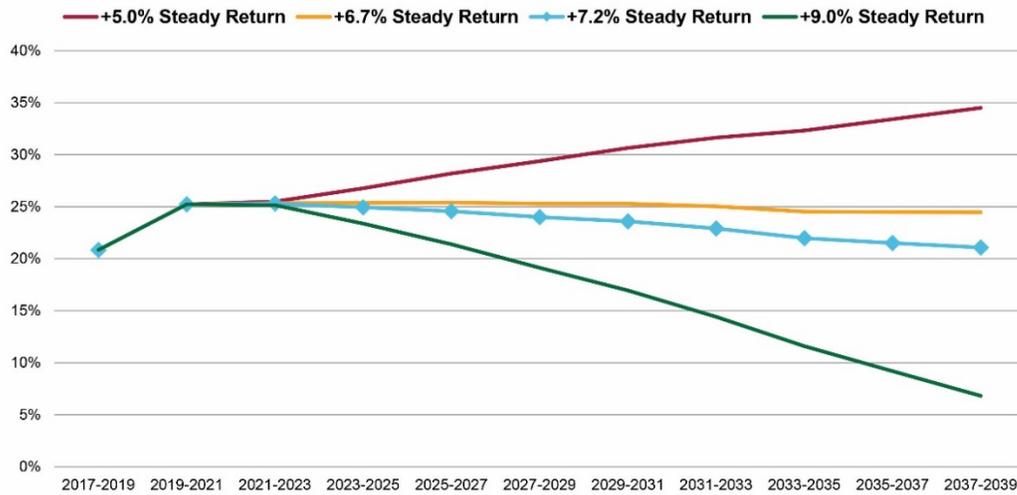
Other information that helps inform the Legislature on the status of the project or issues that have arisen as the result of the project

Impact of SB 1049 on Employer Rate Projections, System Funded Status, and Unfunded Actuarial Liability

At the December 6, 2019 PERS Board meeting, Milliman presented financial modeling results that reflect some provisions in SB 1049 and the December 31, 2018 system valuation. Provisions that are most relevant to the valuation and funding include: one-time reamortization of Tier 1/Tier 2 UAL over 22 years – this provision has the largest impact on rates, funded status and UAL; and partial redirection of member contributions to fund member pension benefits beginning July 2020. Redirection of the member contributions (2.5% of payroll for Tier 1/Tier 2 and 0.75% for OPSRP, only on salary exceeding \$30,000/year (indexed)) will serve as an offset to employer contribution rates (Normal Cost rates), effective with the 2021-2023 rate setting. Published advisory employer rates show an estimated system-average effect – offset of 2.45% of payroll for Tier 1/Tier 2 and 0.70% for OPSRP.

The following Milliman slides show that if investment return results are near assumption (7.2%), then system average employer collared base contribution rates for 2021-2023 are projected to be similar to the 2019-2021 rates. Over time, the contribution rates may decrease (again, if investment return assumptions are met), due to new OPSRP members replacing Tier 1/Tier 2 members in the system.

Employer Collared Base Pension Rates (System Average)

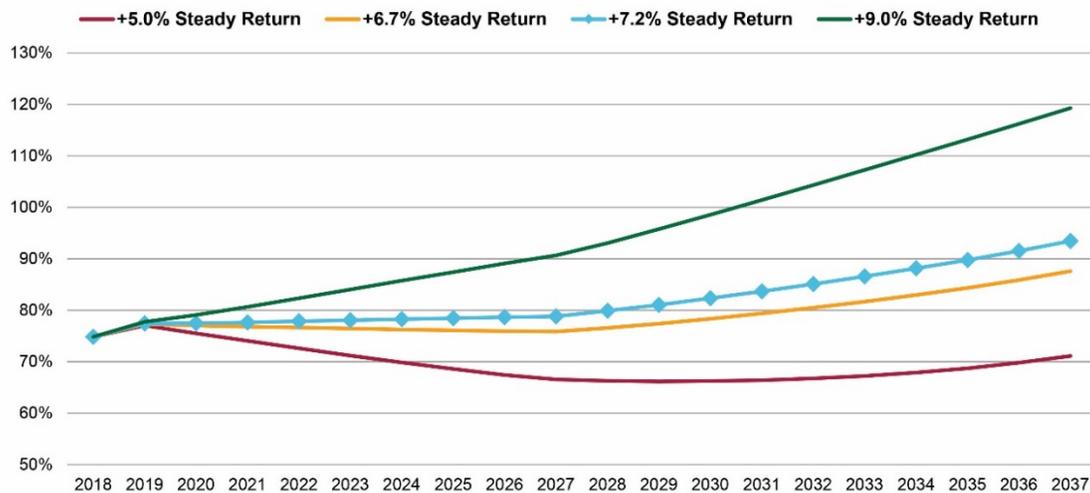


- If investment results are near assumption, system average employer collared base pension rates in 2021-23 are projected to be similar to 2019-21 rates
- Blue line: rates decrease as new OPSRP members replace exiting Tier 1 / Tier 2s
- 2021-23 rates are based on asset returns through December 31, 2019

Milliman
 This work product was prepared for discussion purposes only and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. Any recipient of this work product who desires professional guidance should engage qualified professionals for advice appropriate to its own specific needs.

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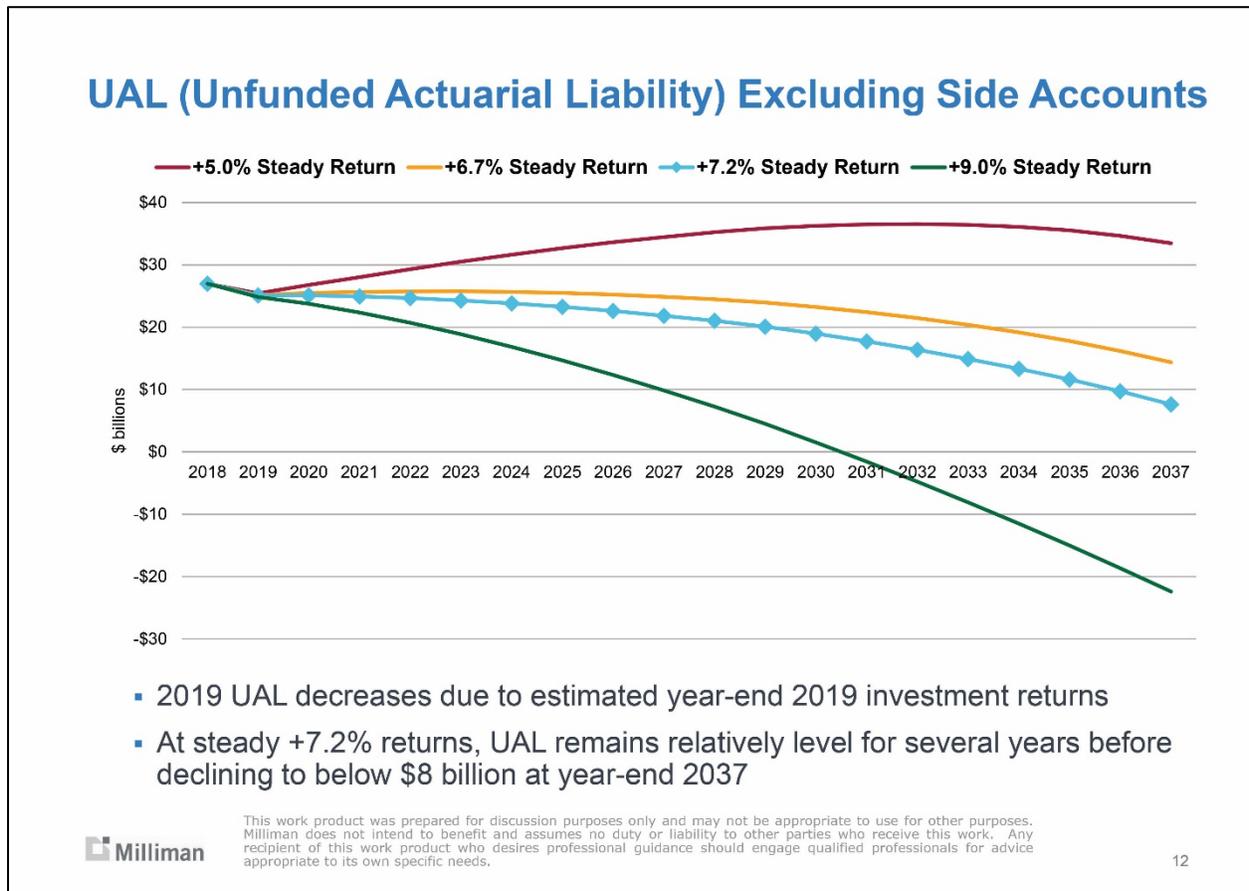
System Funded Status (Including Side Accounts)



- 2019 funded status increases due to estimated year-end 2019 investment returns
- Funded status projected to reach 93% in 2037 with steady +7.2% returns

Milliman
 This work product was prepared for discussion purposes only and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. Any recipient of this work product who desires professional guidance should engage qualified professionals for advice appropriate to its own specific needs.

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Collaboration with Other State Agencies

PERS acknowledges the invaluable support from other state agencies, particularly DAS and the Department of Justice. We have received prioritized assistance from DAS procurement, DAS real estate, and DOJ in expediting a wide variety of procurement activities, which has minimized contractual lag time. Additionally, DAS CHRO has provided expedited position description and classification reviews to support our hiring processes related to project resources.

EIS provided an embedded (on-site) IT Oversight Analyst to support expedited review of program and project management documents and provide real time feedback on program and project activities. PERS would like to acknowledge the support of these resources. Given this is the first time that EIS has used this approach within any state agency program, it is a learning experience for both parties.

PERS also acknowledges the partnerships and support with external stakeholders on all levels: Governor’s Office, Legislative Fiscal Office, and DAS (Director’s Office, CFO, EIS). These partnerships are via various weekly and monthly meetings, and ensure timely communications and responsiveness to identified issues.

Administrative and Financial Impact on Employers

As the agency has moved forward with understanding implementation of different portions of SB 1049, we are engaging our employer partners to create solutions that meet Minimum Viable Product requirements, but also plan for future iterations.

Senate Bill 1049 has some unanticipated impacts to employers including: the requirement to pay contribution rates on retiree wages in this current budget cycle; a need to change their reporting file format for retirees who return to work; and a requirement to facilitate the election and processing of voluntary member contributions to IAP accounts, regardless of how many of their staff choose to make voluntary contributions.

James vs. State of Oregon

A challenge to some provisions of SB 1049 was filed timely in the Oregon Supreme Court. PERS cannot comment on pending litigation and will continue to implement SB 1049 unless directed otherwise by the Court or legislative action. While we cannot speculate on the outcome of the *James* case, or the agency response pending the outcome, the SB 1049 implementation plans include the ability to “undo” any changes made to our processes, systems, calculations, and education of members and employers.

Agency Change Fatigue

The first day the Capital Construction Subcommittee discussed PERS in February 2019, Senator Johnson and Senator Courtney asked if the agency had reached a “legislative fatigue wall” where our systems and processes are not able to keep up with legislative directives. The written response provided to the committee outlined at the time that if we weren’t there, we were close to it (Attachment 8).

With approval of SB 1049, including aggressive mandated implementation dates, we are now stretched to, and in some areas, beyond the “fatigue wall,” from which will take some time to recover. We are initially creating solutions to meet legislative directives – this is not a logical or cost-effective method to improve functionality of our antiquated technology, improve services to more than 900 public employers, or serve as a retirement system to more than 375,000 members.

During subsequent legislative conversations, the agency will be measured by our success with implementation of SB 1049. We are doing what we are able to within allowable resources (hiring challenges notwithstanding), required reporting, and oversight. We will request more resources in the future to create a more sustainable and modern technology and communications system to accommodate this complicated retirement plan.

This increased complexity, and associated technical debt, substantially increases the overall risk profile of PERS. It is important to note that, as per Cost Effective Measurement (CEM) Benchmarking, PERS is the second most complex public sector pension system in the nation. This complexity score was derived prior to the passing of SB 1049 and the increased complexities associated with the implementation and ongoing administration of its legislative elements. It bears mentioning that, while the ORION system is not a modern system, it has been

relatively stable, and we are working diligently to ensure ongoing stability as we make the required legislative changes to the system.

Statutory Clarifications

As provisions of SB 1049 evolved rapidly during the 2019 session, we expressed there would be a need for technical fixes in statute to meet legislative intent. While we continue to work through implementation conversations that illuminate new challenges, multiple issues have been identified to date that impact Work After Retirement, Member Redirect, and the Employer Programs sub-projects. If the issues cannot be considered and resolved during the 2020 legislative session, the agency will present them for consideration in 2021.

Other

At the November Interim Ways & Means Committee meeting, PERS received approval to reclassify an OPA3 position to an Associate Actuary. This reclassification will be invaluable in building out the UALRP over both the short and long-term. Additionally, this role will enhance our interactions with employers on all actuarial-related work.

Action Requested

Acknowledge receipt of the report.

Legislation Affected

This report reflects Budget Note directives as approved in House Bill 5032 (2019).

Please contact Kevin Olineck, Director at (503) 603-7695 with any questions.

Sincerely,



Kevin Olineck, Director
Oregon Public Employees Retirement System

- Attachment 1: Program/Project Status Reports
- Attachment 2: Program Roadmap (NOTE: Should be a handout at hearing)
- Attachment 3: HB5032 Budget Report and Measure Summary, Package 804, IT Applications
- Attachment 4: Budget Reports by Appropriation, Program and Project, Internal Resource Usage
- Attachment 5: Letter from Terrence Woods: re additional Program Management resources
- Attachment 6: Letter from Katy Coba and Terrence Woods: re stopping all non-essential IT work
- Attachment 7: Memorandum from Terrence Woods: Program Execution Activities
- Attachment 8: PERS Response Legislative Fatigue Cap Const 21519



SB1049 Implementation Program

Status Report for January 17, 2020

Executive Sponsor: Kevin Olineck
Program Manager: Christa Harrison

Program information:

Program start: July 1, 2019 | Program end: June 30, 2021

Subprojects

Project 1: Employer Programs

- Project start: July 12, 2019 | Project end September 4, 2020
- Project status: **Green**

Project 2: Work After Retirement (WAR)

- Project start: July 1, 2019 | Project end: TBD
- Project status: **Yellow**

Project 3: Salary Limits

- Project start: July 1, 2019 | Project end: September 30, 2020
- Project status: **Green**

Program statement:

SB1049 is comprehensive legislation intended to address the increasing cost of funding Oregon’s Public Employees Retirement System (PERS), reduce system Unfunded Actuarial Liability (UAL) obligations, and provide relief to escalating contribution rate increases for public employers. Implementation will occur across five subprojects.

Project 4: Member Redirect

- Project start: July 1, 2019 | Project end: June 30, 2021
- Project status: **Yellow**

Project 5: Member Choice

- Project start: October 23, 2019 | Project end: May 31, 2022
- Project status: **Green**

For details regarding individual project status, please refer to the respective project section(s) below.

Overall program status: **Yellow**

Project teams have been focusing on developing and deploying the Minimum Viable Product (MVP) for each project. Two MVPs were successfully deployed on time in December, 2020, to meet their required 1/1/2020 effective dates. After the MVPs are deployed, teams are focusing efforts on the Long-Term more sustainable solutions.

The program team has been focusing efforts on the completion of Program Planning documents required for EIS endorsements. Five plans have been approved in the last month with one document still in process.

The program and project teams have also been focused on finalizing and baselining schedules.

Program remains yellow due to lack of baselined schedules and lack of completed program plans (one outstanding).

SB1049 Implementation Program

Status Report for January 17, 2020

Executive Sponsor: Kevin Olineck
Program Manager: Christa Harrison

Budget health: Green

The SB1049 Implementation Program is currently within the budget allocated by the Legislature.

SB 1049 General Overhead			
Other Funds Lmt	Budget	Actual to Date	Remaining
Services & Supplies	\$150,000	\$19,673	\$130,327
Office Expenses	\$40,000	\$1,964	\$38,036
State Government Service Charges	\$50,000	\$34,052	\$15,948
Professional Services	\$250,000	\$51,874	\$198,126
IT Professional Services	\$2,500,000	\$281,911	\$2,218,089
Attorney General	\$10,000	\$9,694	\$306
Facilities Rent	\$2,000,000	\$92,586	\$1,907,414
IT Expendable Property	\$300,000	\$167,932	\$132,068
Capital Outlay	\$200,000	\$115,434	\$84,566
Total	\$5,500,000	\$775,119	\$4,724,881

Schedule Health: Yellow

Program and project schedules are in the process of being baselined.

Scope health: Green

The program scope is understood and has been incorporated into program-level plans and schedules.

Project scope is well defined for the Employer Programs, Work After Retirement (WAR), and Salary Limits projects. Member redirect long-term scope will be validated in March, 2020, per the project schedule. Member Choice scope will be defined in the project charter and business case.

Quality Assurance activities:

- Program plan reviews with Enterprise Information Services (EIS) continue, with five approvals received in the last month and one outstanding
- The Quality Management Plan is in process and will fully define QA processes to be used in the SB1049 program
- Program is working with the ISD QA team to define and document Quality Gate processes and acceptance criteria to be used in SB1049

Emerging concerns/needs/impacts:

- SB1049 has staff filling roles they have not performed before (business owner, product owner); additional training required before staff is running a full capacity
- Quality management processes and Jira requirement processes are not fully documented prior to staff needing to use them

SB1049 Implementation Program

Status Report for January 17, 2020

Executive Sponsor: Kevin Olineck
Program Manager: Christa Harrison

Program Risks and Mitigation

Listed below are the most critical issues for this project.

For the complete Risk Log, please see the Risk Log tab in the most recent weekly status report: [SB1049 Program Weekly Status Report](#)

#	Risk Description	Mitigation and/or Contingency Plan	Notes
1	Procurement Delays: Coordination with DAS procurement and DOJ cause schedule delays.	Begin Procurement requests early and assign Procurement specialist to monitor them.	

Program Issues and Action Plans

Listed below are the most critical issues for this project.

For the complete Issue Log, please see the Issue Log tab in the most recent weekly status report: [SB1049 Program Weekly Status Report](#)

No	Issue	Resolution / Notes	Estimated Resolution Date
1	Realized Risk #27: Schedule Delay: The project schedule is not created in time or lacks sufficient quality to effectively plan and execute the program.	Schedule development is in process. Business and ISD are working on project requirements and estimating work efforts.	01/08/20
2	Realized Risk # 43: Program and Project Planning Documentation not Complete: Program and project planning documentation has not been completed prior to project execution	All but one program-level plan, the Quality Management Plan, have been approved. The Quality Management Plan is with PERS to update based on EIS feedback received 1/6/20.	01/24/20
3	Realized Risk #4 Internal Staffing - Resource shifting and competing priorities pull dedicated project resources, a key resource leaves PERS or is	Two key resources are unexpectedly out of the office. The Operations Technical Support resource has a replacement resource assigned. The Product Owners and Business	02/01/20

SB1049 Implementation Program

Status Report for January 17, 2020

Executive Sponsor: Kevin Olineck
 Program Manager: Christa Harrison

No	Issue	Resolution / Notes	Estimated Resolution Date
	out for an extended period, and/or staff experience levels are inadequate.	Operations Policy Analysts have stepped in to fill the role of the missing Product Owner.	

Project information: Employer Programs

Project start: July 1, 2019 | Project end: September 4, 2020
Project Manager: Joli Whitney

Project objective:

The Employer Programs section of SB1049 expands the requirements for the Employer Incentive Fund (EIF); and appropriates \$100 million from the General Fund to the Employer Incentive Fund; directs net proceeds from Oregon Lottery Sports betting to the Employer Incentive Fund; allows participating public employers who make larger than \$10 million deposits to side accounts to determine when they wish to have these funds included in their employer rate assessment; and requires all public employers to participate in the Unfunded Actuarial Liability Resolution Program (UALRP).

Overall project status: **Green**

Project Narrative: The Employer Incentive Fund (EIF) is currently waitlist only. At last count there are 40 employer applications on the waitlist for a fund matching opportunity that may become available should other employers decline or are unable to meet their side account deposit commitments. The project team is currently seeking employer volunteers to participate in a focus group to help build the Unfunded Actuarial Liability Resolution Program (UALRP). A Request for Information (RFI) was recently completed by PERS procurement to receive more information on tools to help employers project their future rates. The responses are being evaluated by the project team and the business case will reflect the team's analysis and recommendation for the best solution.

EIF Applications

EIF Application Window #1

(Employers with UAL greater than 200% of payroll only)

- Opened 9/3/2019
- 61 applications were approved
- \$16,540,584.14 EIF funds were matched
- Closed 11/27/2019

EIF Application Window #2:

(All Employers eligible to apply)

- Opened 12/2/2019
- 56 applications have been approved to date
- \$83,458,415.86 EIF funds have been matched
- Application period will close 9/3/2020

Waitlist

- 40 employers are currently on the waitlist
- The next anticipated payment period for approved employers begins in July
- The waitlisted employers will be contacted, in order, if
 - an approved employer does not make their payment as proposed, or,
 - an approved employer reduces their lump sum payment amount resulting in more EIF funds available to match

SB1049 Implementation Program

Status Report for January 17, 2020

Executive Sponsor: Kevin Olineck
Program Manager: Christa Harrison

Budget health: Green

Employer Programs is currently within the budget allocated by the Legislature.

29560 SB1049 - Employer Programs Project				
Other Funds Lmt	Budget	Projections	Actual to Date	Remaining
Salary Expense	\$ 275,000		\$ 1,870	\$ 273,130
Office Expenses			\$ 77	\$ (77)
IT Professional Services	\$ 1,000,000		\$ 1,591	\$ 998,409
Professional Services	\$ 180,752		\$ -	\$ 180,752
IT Expendable Prop			\$ 5,883	\$ (5,883)
Total	\$ 1,455,752		\$ 9,421	\$ 1,446,331

Schedule Health: Green

The project schedule was baselined on January 10, 2020
All project activities are on schedule

Scope health: Green

The full scope is understood and has been incorporated into project plans

Quality Assurance activities:

- Quality check point will be conducted on Project Schedule

Emerging concerns/needs/impacts:

- No concerns

High Level Project Risks and Mitigation

Listed below are the most critical issues for this project.

For the complete Risk Log, please see the Risk Log tab in the most recent weekly status report: [Employer Programs Weekly Status Report](#)

#	Risk Description	Mitigation and/or Contingency Plan	Notes
1	Internal Staffing- Resource shifting, competing priorities, or over allocation impact the availability of dedicated project resources, or a key resource leaves PERS or is out for an extended period, and/or staff experience levels are inadequate.	Process maps built documenting work, actuarial contractor available to provide subject matter expertise, affected staff are setting priorities and working overtime if needed. Business Owner or Program Business Owner may reassign other staff to help cover the absence.	
3	Employer Stakeholder Engagement- Employer stakeholders are not engaged with PERS or do not fully understand their financial planning needs	Focus groups of Employers and the PERS Employer Advisory Group (EAG) will be utilized in establishing UALRP. Employer focused communication specialist position was requested in budget for SB1049 and, once hired, will play a critical role in communicating with employer stakeholders.	
7	Business needs, requirements, and scope - The business needs, requirements and scope are missing or not clearly defined.	Discovery of missing or poorly defined need/requirement/scope may lead to items which will be addressed through the change request management process as documented in the change request management plan.	
17	Continuity in Key Project or Program roles: A key role leaves after initiation of the project causing disruption and delay.	Process maps built documenting work have been built and can be followed by new staff.	

Project Issues and Action Plans

Listed below are the most critical issues for this project.

For the complete Issue Log, please see the Issue Log tab in the most recent weekly status report: [Employer Programs Weekly Status Report](#)

ISSUE LOG			
No	Issue	Resolution / Notes	Estimated Resolution Date
	No current issues		

Project Schedule Deliverables and Milestones

Milestones Schedule				
Milestone	Percent Complete	Baseline Finish Date	Actual / Forecast Finish Date*	Status/ Notes
Baseline Project Schedule	100%	1/9/2020	1/10/2020	
Finalize Project Business Case		1/29/2020	1/29/2020	
Receive EIS Endorsement Memo		1/31/2020	1/31/2020	
Complete Procurement for Employer Rate Projection Tool		6/30/2020	6/30/2020	
Launch UALRP		8/31/2020	8/31/2020	
EIF Application Closes (Window #2)		9/3/2020	9/3/2020	

*Finish Date Color: Green = on Schedule, Yellow = in Jeopardy, Red = Late

Project information: Work After Retirement (WAR)

Project start: July 1, 2019 | Project end: TBD*
Project Manager: Susan K. Mundell

Overall project status: **Yellow**

Project Narrative: The WAR team has begun the initial technical development of Work Package 2.1: New Wage Codes functionality after receipt of this part of the Business Requirements Document (BRD). The Work Package 2.2 portion of the BRD covers the General Ledger (G/L) integration and will be handed off to the technical team by Friday, 1/24/20. The schedule for Work Package 2 and Work Package 3 is under development. Full Elaboration for Work Package 3 has yet to begin but a high-level understanding of the scope of this release is being developed to allow for initial baseline of the schedule. *Until that high-level understanding of the scope for Work Package 3 is determined and the schedule is baselined, a project end date cannot be established.

Work Packages:

Work Package 1: Short-term Minimum Viable Product (MVP)

- Suspend 07 Service Retiree Wage Codes
- Successfully deployed 12/19/19

Work Package 2: Long-term New Wage Codes with G/L Integration

- Technical requirements and user stories are being developed for WP2.1: New Wage Codes with Validations
- Final edits on WP2.2 Business Requirements Document: G/L Integration. Hand off to Technical Team by 1/24/20
- Meeting on 1/21/20 to finalize the scope for Work Package 2

Project objective:

Effective January 1, 2020, the Work After Retirement (WAR) sections of SB1049 allow most service retirees to work unlimited hours for PERS participating employers in calendar years 2020-2024 while retaining their retirement benefit. It also requires employers to pay employer contributions on retirees' salary during that period.

Work Package 3: Long-term Sunset of Senate Bill 1049 WAR

- Program the system to be able to revert back to pre-SB1049 WAR rules
- Work Package 3 elaboration begins early February

SB1049 Implementation Program

Status Report for January 17, 2020

Executive Sponsor: Kevin Olineck
Program Manager: Christa Harrison

Budget health: Green

WAR is currently within the budget allocated by the Legislature.

SB1049 Program: WAR Project Budget Tracking				
Other Funds	Budget	Projected WOC	Actual to Date	Remaining
Personal Services	\$ 50,000		\$ 3,739	\$ 46,261
Professional Services	\$ 122,000		\$ -	\$ 122,000
Office Expenses	\$ 164		\$ 77	\$ 87
IT Professional Services	\$ 800,000	\$ 282,163	\$ 115,508	\$ 402,329
IT Expendable Property	\$ 10,000		\$ 5,536	\$ 4,464
Total	\$982,164	\$282,163	\$124,860	\$575,140

Schedule Health: Yellow

The schedule is still being finalized for the Long-term solutions: Work Package 2 (WP2): New Wage Codes with G/L Integration and Work Package 3 (WP3): Sunset of the new Wage Codes. A scope meeting for these two work packages is scheduled for 1/21/20. Until the scope for WP2 and WP3 is defined, the schedule cannot be baselined. The schedule is planned to be baselined on 1/31/2020.

Scope health: Green

Scope for Work Packages 1 & 2 has been elaborated and put into user stories. The Scope for Work Package 3 is primarily a technical reversal of Work Package 2. Business elaboration should be minimal.

Quality Assurance activities:

- The Quality Gate for Work Package 1 was completed on 12/18/2019 in time for the 12/19/2019 deployment.
- There are contractual Quality Check Points on deliverables from the Work Order Contracts.
- The Work Package 2 Business Requirements Document is in final review.

Emerging concerns/needs/impacts:

- The schedule is not baselined at this stage of the project. The project health will go red if the schedule is not baselined by the end of January. The lack of a baselined schedule is not adversely affecting the activities planned currently or for the next month.

High Level Project Risks and Mitigation

Listed below are the most critical issues for this project.

For the complete Risk Log, please see the Risk Log tab in the most recent weekly status report: [WAR Weekly Status Report](#)

#	Risk Description	Mitigation and/or Contingency Plan	Notes
2	Complexity of Effort- The forecasted amount of work, timing, available documentation and complexity is inaccurate or assumptions made that are off base.	<ul style="list-style-type: none"> > Add Additional Elaboration Meetings > Use Agile methods for development 	
9	Project Budget Not Sufficient: The approved project budget is not sufficient to cover all required expenses.	<ul style="list-style-type: none"> > Closely monitor budget > If necessary, request additional funds. 	The business scope budget estimate exceeds the original allocated budget. Scope is being evaluated and budget is being validated to ensure the budget is correct.

Project Issues and Action Plans

Listed below are the most critical issues for this project.

For the complete Issue Log, please see the Issue Log tab in the most recent weekly status report: [WAR Weekly Status Report](#)

No	Issue	Resolution / Notes	Estimated Resolution Date
1	Realized Risk #30 Compressed Schedule: Planning, Elaboration & Development may not be completed in mandated timeframe.	01/19/20: Reviewing Requirements for WP2 and WP3. A tighter schedule will be formed once those are finalized.	01/31/20
2	Realized Risk #4 Internal Staffing - Resource shifting and competing priorities pull dedicated project resources, a key resource leaves PERS or is out for an extended period, and/or staff experience levels are inadequate.	1/16/20: Two key resources are unexpectedly out of the office. The Operations Technical Support resource has a replacement resource assigned. The Product Owners and Business Operations Policy Analysts have stepped in to fill the role of the missing Product Owner.	02/01/20

Project Schedule Deliverables and Milestones

Milestones Schedule				
Milestone	Percent Complete	Baseline Finish Date	Actual / Forecast Finish Date*	Status/ Notes
WP1- Deployment	100%		12/19/2019	
OTS Report Deliverables for Short-Term MVP Completed	100%		12/20/2019	
WAR Business Rules Completed	100%		1/10/2020	
WP1 Specification Document Updates Complete	100%		1/10/2020	
OTS Report Deliverables for WP2 Completed	100%		1/17/2020	
Phase Closure Complete	0%		1/17/2020	
Business Requirements Long-term WP2 Completed	0%		1/21/2020	
Baselined Project Schedule	0%		1/31/2020	
WAR OAR Adoption (PERS Board Meeting)	0%		1/31/2020	
Stage Gate 2-3 Endorsement Memo Received	0%		2/3/2020	
Technical Requirements Complete (Long-term)	0%		2/20/2020	
Business Requirements Long-term WP3 Completed	0%		2/24/2020	
To-Be Architecture Documented	0%		3/5/2020	
Technical Requirements Complete (Long-term)	0%		3/27/2020	
WP2- User Acceptance Testing Complete	0%		10/20/2020	
WP2 - Closure Complete	0%		10/22/2020	
WP2- Deployment	0%		10/22/2020	

*Finish Date Color: Green = on Schedule, Yellow = in Jeopardy, Red = Late

Project information: Salary Limits

Project start: 7/01/ 2019 | Project end: 9/30/2020
Project Manager: Bruce Rosenblatt

Project objective:

Effective January 1, 2020, SB1049 redefines “salary” which changes the method that Final Average Salary, and contributions for members with subject salary greater than \$195,000, are calculated. This is a limit on salary for plan purposes, and not a salary cap.

The redefinition impacts the data and business processes used by separate teams at PERS, including Benefit Calculations, Member Estimates, Data Verifications, Employer Data Reporting, and Account Data Reviews and Reporting.

Salary Limit will be indexed annually to the Consumer Price Index.

Overall project status: **Green**

Project Narrative: Reports for Tier 1/Tier 2, and OPSRP now show impacted members and their employers, which completes Work Package 1. The 2020 Limit is ready for deployment, completing Work Package 2. Work Package 3 creates the input screens to capture future limits and effective dates, and provides the foundation to automate proration. Technical teams have established the development environment, and are working within the architecture roadmap, to prepare for automation.

Work Package 4 automates proration processes for various member categories. Tier 1 includes LSP (Lump Sum payouts) LSVP (Lump Sum Vacation Payouts) as subject salary on Tier 1. Limit is based on salary, and monthly proration. For Tier 2, LSVP salary is not included, and is not in Final Average Salary (FAS). OPSRP has salary limitations and is prorated monthly.

Work Packages:

Work Package 1: Short-term Minimum Viable Product (MVP)

- Successfully Deployed 12/19/19
- Business Teams modified manual process to comply

Work Package 2: Annual implementation of new salary limits

- Business and technical teams collaborated on test scenarios
- Multiple stages of testing among business and technical teams, creating test data to validate scenarios
- Passed User Acceptance on 1/15/2020
- Staged to be deployed into Production on 1/23/2020

Work Package 3: Adding self-service screens to jClarety system to record annual changes and effective dates

- High Level Estimate due 2/20/20
- Detailed Business Requirement will begin 1/24/2020 leading to User Acceptance Testing to complete on 6/08/2020

Work Package 4 - Proration of annual salary

- Long Term management of proration, to automate manual business processes
- Development will run concurrently with Work Package 3

SB1049 Implementation Program

Status Report for January 17, 2020

Executive Sponsor: Kevin Olineck
Program Manager: Christa Harrison

Budget health: Green

Salary Limits Project is currently within the budget allocated by the Legislature.

Salary Limits Project				
Other Funds Lmt	Budget	Projections	Actual to Date	Remaining
Personal Services	\$130,000		\$1,870	\$ 128,130
Services and Supplies	\$947		\$136	\$ 811
IT Professional Services	\$850,000		\$1,591	\$ 848,409
IT Expendable Prop	\$10,000		\$5,536	\$ 4,464
Total	\$990,947	\$0	\$9,133	\$981,814

Schedule Health: Green

Work Package 1 (Minimum Viable Product) was completed prior to 1/01/2020, as required by legislative mandate.

Work Package 2 (Post 2020 Salary Limits into jClarety) has successfully completed User Acceptance Testing, and is staged to deploy on schedule 1/23/2020.

Scope health: Green

Vision Statement Document covers the full long term solution, with Work Package 3 (New screens into jClarety) and Work Package 4 (Proration automation). Separate Business Requirements Documents for each Work Package enables the project team to focus on specific user stories and acceptance criteria, to maintain scope for development within each phase of development.

Quality Assurance activities:

- Quality Check Point (QCP) for Work Package 2 on 1/21/2020 will precede the production deployment on 1/23/2020,
- Qmetry Test cases, created and executed during the testing cycle, from 12/01/2019 to 1/15/2020, include details captured within the following documents: Business Requirements Document (BRD), Business Function Testing (BFT), User Acceptance Testing (UAT), and environmental validation activities conducted during the release management process.

Emerging concerns/needs/impacts:

- Coordinating release cycles among projects will require coordination among the Program teams to successfully deploy the volume of changes anticipated; Effective and mature Release Management processes, centered on the Compass tools, should effectively mitigate the high volume.

High Level Project Risks and Mitigation

Listed below are the most critical issues for this project.

For the complete Risk Log, please see the Risk Log tab in the most recent weekly status report: [Salary Limits Weekly Status Report](#)

#	Risk Description	Mitigation and/or Contingency Plan	Notes
31	Processing Activities/Tasks: Activities and tasks associated on project conflict and/or collide with normal day to day processes	Clear communication on roles and activities has been continually improving, to the point where the team could be more high-functioning by the end of Work Package 2; Work Package 3 has specific roles identified, and confirmed during the daily standup meetings	Change Management using Compass and workflow tracking using Jira has improved cross team communication, in addition to deploying Qmetry for test case management
47	Additional Requirements for Work Package 3 may require remediating known defects in jClarety	In depth analysis of business requirements to meet the SB1049 objectives will highlight any work effort that is outside the focus of the project; System changes will not include general modernization	Technical Research into existing defects draws a clear guideline for the technical teams to evaluate and recommend only those features that are relevant to the legislative directive
13	Organizational or Process Changes	The project requires new or significantly changed organizational processes or culture in order to succeed	Teams are learning new development methodologies, and are gaining experience through formal training and work place experience
26	Strategic and Operational Planning (SOP) PMO Cultural Change	Based on best practices, managers have added additional roles that may not be well understood throughout the agency	Program Management has been centralized in a separate work environment, and colocation with development teams has reduced the number of people affected by the cultural changes

SB1049 Implementation Program

Status Report for January 17, 2020

Executive Sponsor: Kevin Olineck
Program Manager: Christa Harrison

Project Issues and Action Plans

Listed below are the most critical issues for this project.

For the complete Issue Log, please see the Issue Log tab in the most recent weekly status report: [Salary Limits Weekly Status Report](#)

ISSUE LOG			
No	Issue	Resolution / Notes	Estimated Resolution Date
	No issues at this time		

Project Schedule Deliverables and Milestones

Milestones Schedule				
Milestone	Percent Complete	Baseline Finish Date	Actual / Forecast Finish Date*	Status/ Notes
WP3 - Deliver Vision Statement of new screens in jClarety	100%		1/07/20	
WP2 - Posting 2020 Salary Limit- jClarety-Code complete	100%		1/08/20	
WP2 - User Acceptance Testing complete	100%		1/15/20	
WP2 - Quality Gate complete	0%		1/21/20	
WP2 - Production Deployment released	0%		1/23/20	
WP3 - High Level Estimate (HLE)	0%		2/20/20	
WP3 - Business Requirements Document (BRS) Complete	0%		3/23/20	
WP4 - Business Requirements Document (BRS) Complete	0%		4/07/20	
WP3 - User Acceptance Testing (UAT) Complete	0%		6/08/20	
WP4 - User Acceptance Testing (UAT) Complete	0%		8/26/20	
Project Complete	0%		9/30/20	

*Finish Date Color: Green = on Schedule, Yellow = in Jeopardy, Red = Late

Project information: Member Redirect

Project start: June 3, 2019 | Project end: 6/30/2021
Project Manager: Chris Yu

Overall project status: **Yellow**

Project Narrative: The business requirements document (BRD) for Work Package 1A (EPSA Setup) was completed and signed on 1/10/2020. The construction for work package 1A began on 1/14/2020 and has a due date of 2/14. The product owner is currently drafting the BRD for work package 1B (Individual Account Program Redirect), which is due on 1/22/2020. In addition, the steering committee approved an option for Work Package 1C (Voluntary Contributions). Option F will be the direct invoicing option and it does not change the format of the employer file. The capture election aspect of the Voluntary Contribution will be due by 6/30/2020 and the BRD for work package 1C (Voluntary Contributions will be due on 2/19/2020. The first elaboration for work package 1D occurred on 1/15/2020. The project team is proceeding to complete all work packages by 6/30/2020 to meet the short-term Minimal Viable Product (MVP) deadline. The status is yellow due to delayed baseline schedule and complexity of scope.

Work Packages:

Work Package 1A: EPSA Setup (Short-Term)

- BRD Complete on 1/10/2020
- Construction began on 1/14/2020
- Construction complete on 2/14/2020
- Work Package complete on 3/27/2020

Work Package 1B: IAP Redirect (Short-Term)

- BRD complete on 1/22/2020
- Construction to begin on 2/6/2020
- Construction complete on 3/27/2020
- Work Package complete on 6/3/2020

Work Package 2: (Long-Term)

- Long-term work package will be evaluated in March 2020

Project objective:

Effective July 1, 2020 this section of the bill redirects a portion of member contributions to a new Employee Pension Stability Account (EPSA) when the funded status of the plan is below 90% and the member's monthly salary is more than \$2,500.

Work Package 1C: Voluntary Contribution (Short-Term)

- Collect Election elaboration complete on 1/15/2020
- BRD Complete on 2/19/2020
- Construction complete on 4/3/2020
- Work Package complete on 6/30/2020

Work Package 1D: G/L Setup for IAP Redirect (Short-Term)

- First elaboration complete on 1/15/2020
- BRD complete on 3/6/2020
- Construction complete on 3/11/2020
- Work Package complete on 5/28/2020

Work Package 3: (Long-Term)

- Long-term work package will be evaluated in March 2020

SB1049 Implementation Program

Status Report for January 17, 2020

Executive Sponsor: Kevin Olineck
Program Manager: Christa Harrison

Budget health: Green

Member Redirect is currently within the budget allocated by the Legislature. In addition the Development Resources (WOC DASPS-1638-19) Amd 1 was approved through 12/2020.

29560 SB1049 Member Choice Project Budget Tracking				
Other Funds Lmt	Budget	Projected WOC	Actual to Date	Remaining
Personal Services	\$ 569,000		\$ 1,870	\$ 567,130
Office Expenses	\$ 354		\$ 77	\$ 277
IT Professional Services	\$ 1,500,000	\$ 413,283	\$ 1,591	\$ 1,085,126
IT Expendable Prop	\$ 6,840		\$ 5,536	\$ 1,304
Total	\$ 2,076,194	\$ 413,283	\$ 9,074	\$ 1,653,837

Schedule Health: Yellow

The project schedule needs to be baselined. The project manager will send the project schedule to EIS for review next week.

Scope health: Green

The project scope is currently understood for short term activities. The long term scope will be refined in March 2020.

Quality Assurance activities:

- The Inception Analysis & Estimation (Long-Term) D1.4 completed Quality Check Point (QCP) on 12/18/2019
- The Detailed System Design Documentation Draft (Long-Term) D1.5 completed QCP on 12/20/2019
- The Functional Design Documentation (Short-Term) D1.3 completed QCP on 12/31/2019
- The Functional Design Documentation (Long-Term) D1.6 completed QCP on 1/2/2019
- The Quality Gate for Work Package 1A (EPSA Setup) will be complete on 3/13/2020

Emerging concerns/needs/impacts: /

- There is concern about the compressed timeline for work package 1C Voluntary Contribution. The Executive Sponsor led a PERS team to the Governor's office on 1/16 to discuss Voluntary Contributions. There is a resource concern with one of the Product Owners being out of the office. Although there is another product owner that has back filled for the time being, this is a major risk to the BRD being delayed.

Status Report for January 17, 2020

Executive Sponsor: Kevin Olineck
Program Manager: Christa Harrison

High Level Project Risks and Mitigation

Listed below are the most critical issues for this project.

For the complete Risk Log, please see the Risk Log tab in the most recent weekly status report: [Member Redirect Weekly Status Report](#)

#	Risk Description	Mitigation and/or Contingency Plan	Notes
28	Schedule Delay: The project schedule is not created in time or lacks sufficient quality to effectively plan and execute the project.	Schedule development is in process. Business and ISD are working on project requirements and estimating work efforts.	The current schedule will be submitted to EIS for review on 1/21/2020
31	Business Requirements Document Delay: The BRD for Work Package 1A is currently behind one week and has a potential impact to development work	Meet with the BSA and product owner on schedule and impact.	The BRD resumed progress on 1/6/2020 and finalized on 1/10/2020.
32	Product Owner out of the office: One of the Product Owners will be out of the office with limited access to work.	Meet with the BSA and other product owner to review upcoming deadlines and mitigate any delay.	The next BRD will be due on 1/22/2020 by the product owner.

Project Issues and Action Plans

Listed below are the most critical issues for this project.

For the complete Issue Log, please see the Issue Log tab in the most recent weekly status report: [Member Redirect Weekly Status Report](#)

ISSUE LOG			
No	Issue	Resolution / Notes	Estimated Resolution Date
1	Risk #28: Schedule Delay: The project schedule is not created in time or lacks sufficient quality to effectively plan and execute the project.	Schedule development is in process. The project schedule is under peer review.	1/22/20

Project Schedule Deliverables and Milestones

Milestones Schedule				
Milestone	Percent Complete	Baseline Finish Date	Actual / Forecast Finish Date*	Status/ Notes
Stage Gate 2 Endorsement Memo Received	0%		12/31/2019	Awaiting baseline schedule.
Finalize Project Schedule (Short-term)	0%		1/15/2020	
Collect Work Package 1 Technical Requirements (Short-Term)	0%		1/22/2020	
WP1A- Construction Complete	0%		2/14/2020	
WP1A- User Acceptance Testing Complete	0%		3/6/2020	
WP1A- Quality Gate Complete	0%		3/13/2020	
WP1A- Work Package Complete	0%		3/27/2020	
WP1B- Construction Complete	0%		3/27/2020	
WP1B- User Acceptance Testing Complete	0%		5/6/2020	
WP1B- Quality Gate Complete	0%		5/27/2020	
WP1D - Construction Complete	0%		5/28/2020	
Oregon Administrative Rule (OAR) Development	0%		5/29/2020	
WP1B- Work Package Complete	0%		6/3/2020	
WP1C- MVP Complete	0%		6/30/2020	

*Finish Date Color: Green = on Schedule, Yellow = in Jeopardy, Red = Late

Project information: Member Choice

Project start: October 23, 2019 | Project end: TBD
Project Manager: Joli Whitney

Project objective:

The Member Choice sections of SB1049 give members a say in how their Individual Account Program (IAP) accounts will be invested. Members' regular IAP accounts are currently allocated to Target-Date Funds (TDF) based on their year of birth. Beginning with calendar year 2021, members will be able to elect a TDF other than the default TDF.

Overall project status: **Green**

Project Narrative: The Member Choice project is in the final edits of the project charter. Elaboration is under way to determine the minimum viable product. The team is working to gather data to complete the business case scheduled for completion by February 26, 2020. The initial project schedule is in development. The project schedule will be finalized and baselined after the charter and business case are approved.

Work Packages:

Work Package 1: Short-term Minimum Viable Product (MVP)

- Election Capture
- Validate Elections
- Report to Voya

Additional work packages are still under elaboration

SB1049 Implementation Program

Status Report for January 17, 2020

Executive Sponsor: Kevin Olineck
Program Manager: Christa Harrison

Budget health: Green

Member Choice Project is currently within the budget allocated by the Legislature.

SB1049 Program: WAR Project Budget Tracking			
Other Funds	Budget	Actual to Date	Remaining
Professional Services	\$569,000	\$1,870	\$567,130
Office Expenses	\$354 .00	\$77	\$277
IT Professional Services	\$1,500,000	\$1,591	\$1,085,126
IT Expendable Property	\$6,840	\$5,536	\$1,304
Total	\$2,076,194	\$9,074	\$1,653,837

Schedule Health: Green

Schedule is under development. Schedule will be finalized and baselined after the charter and business case are approved.

Scope health: Green

Scope is well understood

Quality Assurance activities:

- None at this time

Emerging concerns/needs/impacts:

- None at this time

SB1049 Implementation Program

Status Report for January 17, 2020

Executive Sponsor: Kevin Olineck
Program Manager: Christa Harrison

High Level Project Risks and Mitigation

Listed below are the most critical issues for this project.

For the complete Risk Log, please see the Risk Log tab in the most recent weekly status report: [Member Choice Weekly Status Report](#)

#	Risk Description	Mitigation and/or Contingency Plan	Notes
17	Competing SB1049 Resources: Critical resources are involved in multiple concurrent SB1049 projects, limiting availability for individual projects	Careful coordinated schedule planning with Program Manager and Member Redirect Project Manager; affected staff are setting priorities and working overtime if needed. Business Owner or Program Business Owner may reassign other staff to help cover absences or help offset extreme workload periods.	

Project Issues and Action Plans

Listed below are the most critical issues for this project.

For the complete Issue Log, please see the Issue Log tab in the most recent weekly status report: [Member Choice Weekly Status Report](#)

ISSUE LOG			
No	Issue	Resolution / Notes	Estimated Resolution Date
1	Internal Staffing: Resource shifting, competing priorities, or over allocation impact the availability of dedicated project resources, or a key resource leaves PERS or is out for an extended period, and/or staff experience levels are inadequate.	A program owner and technical resource are out for an extended medical leave. Mitigation is in process to share resource load for existing staff. Other agency staff have been assigned to assist on a temporary basis.	2/3/20

SB1049 Implementation Program

Status Report for January 17, 2020

Executive Sponsor: Kevin Olineck
Program Manager: Christa Harrison

Project Schedule Deliverables and Milestones

Milestones Schedule				
Milestone	Percent Complete	Baseline Finish Date	Actual / Forecast Finish Date*	Status/ Notes
Project Charter Approved			1/22/2020	
Finalize Project Team			2/6/2020	
Project Business Case Approved			2/26/2020	
Baseline Project Schedule			2/28/2020	
Receive Stage Gate 2 Endorsement Memo from EIS			2/28/2020	

*Finish Date Color: Green = on Schedule, Yellow = in Jeopardy, Red = Late



Senate Bill (SB) 1049 Implementation Road Map

	2019						2020												2021								
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP
Employer Programs	<ul style="list-style-type: none"> 7/1/19 – Effective Date <ul style="list-style-type: none"> 9/3/19 – EIF Application #1 Opens (MVP) 12/3/19 – EIF Application #2 Opens 						<ul style="list-style-type: none"> 6/30/20 – Employer Rate Tool RFP Awarded 8/31/20 – UALRP Launch 9/3/20 – EIF Application Closes 9/4/20 – Project Close 																				
Salary Limits							<ul style="list-style-type: none"> 12/31/19 – WP1 Short Term MVP 1/1/20 – Effective Date <ul style="list-style-type: none"> 1/24/20 – WP2 (Post 2020 Salary Limit) Long Term 5/15/20 – WP3 (User Screens) Long Term 9/30/20 – WP4 (Proration in jClarety) Long Term 9/30/20 – Project Close 																				
Work After Retirement							<ul style="list-style-type: none"> 12/19/19 – WP1 (Retiree Wages Suspended) MVP 1/1/20 – Effective Date 9/30/20 – WP2 (New Service Retiree Wage Codes) Long Term 5/12/21 – WP3 (Correct Member Account at Sunset) Long Term 10/1/21 – Project Close 																				
Member Redirect							<ul style="list-style-type: none"> 12/31/19 – Functional Design Documentation Short (D1.3) Long (D1.6) 5/28/20 – WP1A (EPSA Set Up) Short Term 5/28/20 – WP1D (G/L Set Up) Short Term 6/3/20 – WP1B (IAP Redirect) Short Term 7/1/20 – Effective Date 9/30/20 – WP1C (Voluntary Contributions Implemented) MVP Functionality Long Term Implemented (TBD) 6/30/21 – Project Close 																				
Member Choice	<ul style="list-style-type: none"> 10/23/19 – Project Kick Off 						<ul style="list-style-type: none"> 4/1/20 – Member Communication-IAP Changes 5/1/20 – MAS Flyer Communication 8/14/20 – Member Choice Notification 8/14/20 – OMS Changes Deployed (MVP) 9/1-30/20 – Election Period 1/1/21 – Effective Date 1/17/21 – Report changes to Voya (MVP Complete) 3/31/21 – Data prepared for MAS 5/1/21 – MC reflected in MAS 																				

HB 5032 BUDGET REPORT and MEASURE SUMMARY

Joint Committee On Ways and Means

Prepared By: Patrick Heath, Department of Administrative Services

Reviewed By: John Borden, Legislative Fiscal Office

Public Employees Retirement System

2019-21

PRELIMINARY

Budget Summary*

	2017-19 Legislatively Approved Budget ⁽¹⁾	2019-21 Current Service Level	2019-21 Committee Recommendation	Committee Change from 2017-19 Leg. Approved	
				\$ Change	% Change
Other Funds Limited	\$ 101,657,012	\$ 105,912,270	\$ 163,356,188	\$ 61,699,176	60.7%
Other Funds Nonlimited	\$ 10,994,171,000	\$ 12,493,087,721	\$ 12,504,627,192	\$ 1,510,456,192	13.7%
Total	\$ 11,095,828,012	\$ 12,598,999,991	\$ 12,667,983,380	\$ 1,572,155,368	14.2%

Position Summary

Authorized Positions	379	369	419	40
Full-time Equivalent (FTE) positions	375.18	369.00	414.32	39.14

⁽¹⁾ Includes adjustments through December 2018

* Excludes Capital Construction expenditures

Summary of Revenue Changes

The benefit trusts that the Public Employees Retirement System (PERS) administers are funded primarily through a combination of earnings generated on the investment of trust assets by the Oregon Investment Council and from employer or employee contributions. PERS projects \$10.2 billion in investment earnings and \$4.6 billion in retirement system contributions for all benefit programs in the 2019-21 biennium. For purposes of assessing system funded status, the PERS Board currently assumes the Oregon Investment Council (OIC) will earn net returns of 7.2 percent per year. The 10-year average return totals 9.46 percent as of December 31, 2018, however, more recent returns have missed the assumed rate. In 2018 the Oregon Public Employees Retirement Fund earned 0.48 percent for the year. When earnings on the fund are projected to fall short of the assumed rate of return, employer rates increase to make up the difference in order to preserve the funded status of the system. For the last several biennia, the PERS Board has reduced the assumed earnings rate of the PERS Fund to better reflect historical performance and predicted investment returns of the PERS Fund.

The employer or employee contributions budgeted for the PERS trusts come in the form of employer rates to fund the Tier 1, Tier 2, Oregon Public Service Retirement Program (OPSRP), and PERS Health Insurance Programs (PHIP) benefits. Employer payroll rates for 2019-21 were adopted by the PERS Board in October 2018. System wide, the rates the Board adopted increased collared net pension rates from 17.51 percent of payroll for Tier 1 / Tier 2 in 2017-19 to 22.00 percent of payroll in 2019-21; and increased from 11.00 percent of payroll for OPSRP General Service in 2017-19 to 15.65 percent of payroll in 2019-21. Employer rates do not include costs for the Individual Account Program or debt service costs for pension obligation bonds. Although the 2019 Legislature passed Senate Bill 1049, which is expected to reduce employer rates by an average of 5.43 percent below where they would otherwise be, these changes are not anticipated to be reflected in employer rates until

the 2021-23 biennium. Rates vary by employer based on factors including their employee demographics, their pre-funding any liability via side accounts, or their participation in a rate pool.

The PERS Health Insurance Program (PHIP) is funded via a combination of employer rates, earnings on the PERS Fund, insurance premiums paid by beneficiaries and passed through to the insurers, and subsidy payments from the Centers for Medicare and Medicaid Services.

Recent legislative efforts have focused on using one-time and new revenues to fund the PERS liability and incentivize employers to pre-fund their liabilities by establishing side accounts. Senate Bill 1566 (2018) created the School District Unfunded Liability Fund (SDULF) and the Employer Incentive Fund (EIF) for these purposes. In 2019-21, PERS will begin to receive revenue from decoupling from a federal tax deduction for small business and interest on unclaimed property to fund the SDULF and the EIF. The Legislature also approved a \$100 million General Fund appropriation to the Employer Incentive Fund in Senate Bill 1049 (2019) along with an unknown revenue stream from sports betting. Below is a table showing the programs, the funding streams supporting each program, the estimated revenue associated with each program, and associated legislation:

Program	Funding	Estimated 2019-21 Revenue	Bill
School District Unfunded Liability Fund	82.0 percent of federal decoupling revenue	\$129.8 million	SB 1529 (2018)
	Excess capital gains	Unknown	SB 1566 (2018)
	Excess Estate Taxes	Unknown	SB 1566 (2018)
	Excess debt collections	Unknown	SB 1566 (2018)
	Excess interest on unclaimed property	\$11.5 million	SB 1566 (2018)
Employer Incentive Fund	18.0 percent of federal decoupling revenue	\$28.4 million	SB 1529 (2018)
	Employer Contributions	Unknown	SB 1566 (2018)
	Sports Gambling revenues (Lottery)	Unknown	SB 1049 (2019)
	General Fund Appropriation	\$100 million	SB 1049 (2019)

PERS' operating budget is funded primarily, or 96.6 percent, by recovering its administrative costs from the benefit trusts the agency administers. The agency also has some limited charges for service for administering the Oregon Savings Growth Plan deferred compensation program, side accounts established by PERS employers, and for Benefit Equalization Fund payments.

Summary of General Government Subcommittee Action

The Public Employees Retirement System (PERS) is responsible for administering retirement programs for public employees, including state, school, and local government workers. In 2017, PERS paid approximately \$3.9 billion in benefits to Oregonians. In support of its mission, PERS manages the Tier 1 and Tier 2 Retirement programs, the Oregon Public Service Retirement Program (OPSRP), the Individual Account Program (IAP), two health insurance programs, Social Security Administration activities, and the Oregon Savings Growth Plan deferred compensation program.

The five-member Public Employees Retirement Board (PERB) provides administrative oversight for all PERS programs. Board members are appointed by the Governor and confirmed by the Senate for three-year terms. The Board is made up of three members with experience in business management, pension management or investing who are not members of PERS, one member who is an employee of the state in a management position or a person who holds an elective office in the governing body of a participating public employer other than the state, and one member who works for a PERS employer and is a member of a collective bargaining unit.

The Subcommittee recommended a total funds budget of \$12,667,983,380 and 419 positions (414.32 FTE) for the 2019-21 biennium. The budget consists of Other Funds expenditure limitation of \$163,356,188 for agency operations and \$12,504,627,192 in Nonlimited Other Funds expenditure authority for benefit payments. This represents a 60.7 percent increase in the agency's operating budget, due primarily to the implementation of Senate Bill 1049 (2019) and a 13.7 percent increase in the agency's expenditures for statutorily mandated benefits over the 2017-19 Legislatively Approved Budget.

Tier One and Tier Two Pension Programs

More than 900 public employers participate in the retirement and health care plans administered by PERS. This includes all state agencies, all public school districts, and the majority of local government entities – making PERS the provider of retirement programs for the vast majority of state and local government employees in the state. As of June 30, 2018, there were approximately 84,000 non-retired Tier 1 and Tier 2 members and approximately 141,000 retirees and beneficiaries receiving monthly retirement benefits as of June 30, 2018. Tier 1 covers members hired before January 1, 1996, while Tier 2 covers members hired between January 1, 1996 and August 28, 2003, while providing a slightly higher normal retirement age and slightly less generous benefits. Public employees hired after August 28, 2003 are members of the Oregon Public Service Retirement Pension Program (OPSRP).

The Tier 1 - Tier 2 Plan program unit accounts for employee and employer contributions and interest earnings related to those plans and reflects the benefits paid to Tier 1 - Tier 2 retirees or their beneficiaries. Payments from the Benefit Equalization Fund and the Judge Member Retirement are also paid out of this program. The Subcommittee recommended a budget of \$10,272,591,713 in Nonlimited Other Funds expenditures for the 2019-21 biennium for payments to beneficiaries, an increase of 13.1 percent from the 2017-19 Legislatively Approved Budget, which includes the following package:

Package 801, LFO Analyst Adjustment. This package increase Other Funds Nonlimited expenditure authority by \$11,539,471 to account for payments from the School District Unfunded Liability Fund established by Senate Bill 1566 (2018) into the pooled side account by that bill.

Retirement Health Insurance Programs

PERS serves as a group sponsor providing health insurance services to approximately 60,000 retired members and dependents. PERS works with insurance carriers to design benefit packages, determine specifications, solicit proposals, analyze carrier responses, and award contracts. The PERS Health Insurance Program is comprised of two health insurance programs and an account for costs associated with administrative services:

- Retirement Health Insurance Account (RHIA): provides a \$60 per month subsidy to help offset the cost of insurance premiums in PERS-sponsored health insurance plans for eligible retirees enrolled in Medicare Parts A and B. All PERS employers fund this subsidy through contributions of 0.06 percent of payroll. Approximately 45,000 retirees receive this subsidy, which totals approximately \$32.4 million annually.
- Retiree Health Insurance Premium Account (RHIPA): subsidizes the cost of insurance premiums in PERS-sponsored health insurance plans for those who retired directly from state of Oregon employment but are not yet Medicare eligible and are not enrolled in the state employee health insurance retiree plans sponsored by Public Employees Benefit Board. The subsidy, which is funded by the state of Oregon through its contribution rate at 0.39 percent of payroll, is based on the number of years the retired member was employed in state service. PERS pays more than \$4.6 million in premium subsidies annually, to almost 1,300 retirees, which is an average \$298 per member per month. This subsidy is limited to Tier 1 and Tier 2 PERS retirees with eight or more years of state service and also to their surviving spouses.
- Standard Retiree Health Insurance Account (SRHIA): covers all administrative services related to the PERS Health Insurance Program not specific to RHIA and RHIPA. This program encompasses such health insurance-related administrative activities as premium transfers, third-party administrative agreements, and consultant services. The majority of the revenue for the SRHIA program, over \$260 million per year, comes from member paid insurance premiums with additional revenues from federal sources like the Centers for Medicare and Medicaid Services (CMS) and resulting investment returns.

The RHIA and RHIPA programs are funded from employer contributions and the return on investment of those contributions, which are held in the Public Employee Retirement Fund (PERF). The Subcommittee recommended a budget of \$733,481,352 in Nonlimited Other Funds expenditures for the 2019-21 biennium for payments to a third-party administrator and for payments to beneficiaries.

Oregon Public Service Retirement Pension Program

The Oregon Public Service Retirement Pension (OPSRP) program serves public employees who began public employment after August 28, 2003. The OPSRP pension program is funded solely by employer contributions and investment earnings. The plan has a higher retirement age and less generous benefits than either the Tier 1 or Tier 2 programs. OPSRP now has over 146,000 non-retired members, more than the Tier 1 or Tier 2 plans combined, as well as 4,450 retirees and beneficiaries. This program accounts for employer contributions and retirement payments for the

OPSRP plan. The Subcommittee recommended a budget of \$75,188,960 in Nonlimited expenditure authority for payments to OPSRP beneficiaries.

Individual Account Program

The Individual Account Program (IAP) is the defined contribution component of the PERS retirement plan. The IAP has no guaranteed payment or return. The IAP requires PERS members to contribute an amount equal to six percent of eligible salary to an IAP account (employers may pay the contribution on behalf of their employees). Beginning July 1, 2020, Tier 1 and Tier 2 members will contribute 3.5 percent of salary to their IAP accounts, and OPSRP members will contribute 5.25 percent to IAP accounts, with the balance of the 6.0 percent being contributed to each employee's Employee Pension Stability Account. At retirement, members will receive the balance of this account and accrued earnings. Starting January 1, 2018, the Oregon Investment Council shifted the investment portion of IAP assets to a series of Target Date Fund vintages that would adjust the assets and riskiness of each member's IAP based on their personal characteristics. Prior to January 1, 2018, these funds were invested exclusively the Public Employee Retirement Fund. Senate Bill 1049 (2019) will allow members to elect which Target Date Fund their IAP is invested in beginning January 1, 2021. As of December 31, 2017 there were 269,812 active IAP accounts with an average balance of \$33,210 each. The Subcommittee recommended a budget of \$1,423,365,167 in Nonlimited expenditure authority for payments to IAP beneficiaries.

Central Administration

Central Administration, in conjunction with the PERS Board, provides the central direction, planning, and leadership for PERS. The Division consists of the executive director, deputy director, senior policy director, and the Strategic and Operational Planning section. The Subcommittee recommended a budget of \$5,549,108 in Other Funds expenditure limitation and 21 positions (20.92 FTE), which includes the following packages:

Package 081, September 2018 Emergency Board. This package increases Other Funds expenditure limitation by \$704,393 and authorizes the transfer of four positions (4.00 FTE) from the Operations Division to Central Administration to re-establish a Communications Section.

Package 805, Operational Implementation. This package increases Other Funds expenditure limitation by \$388,736 and authorizes the establishment of two permanent full-time Public Affairs Specialist 2 positions (1.92 FTE) to address the anticipated communications workload associated with the passage of Senate Bill 1049 (2019).

Financial and Administrative Services Division

The Financial and Administrative Services Division (FASD) provides comprehensive financial and administrative services to the agency. This includes financial accounting, reporting, and tax services for all PERS' trust and agency fund activities, including the Retirement Fund, Deferred Compensation funds, Benefit Equalization Fund, health insurance programs, and Social Security Program.

FASD is responsible for the receipt, posting, and deposit of over \$1.7 billion annually in contributions and the disbursement of approximately \$4.5 billion annually in benefits. Other fiscal activities include preparation, maintenance, and reporting of the agency's biennial budget, coordination of actuarial services, fiscal analysis, accounts receivable, accounts payable, contracts, and procurement.

FASD also contains the Facilities Services Section, which manages general building maintenance, office supplies, shipping and receiving, and other various ancillary tasks. Human Resources, Retiree Health Insurance and Deferred Compensation (OSGP) programs and are also located within FASD. The Subcommittee recommended a budget for the Financial and Administrative Services Division of \$44,640,486 in Other Funds expenditure limitation and 64 positions (63.52 FTE), which includes the following packages:

Package 081, September 2018 Emergency Board. This package increases Other Funds expenditure limitation by \$198,066 and authorizes the establishment of one permanent, full-time Accountant 4 position (1.00 FTE) to perform investment accounting for the Individual Account Program and specifically the crediting of Target Date Fund earnings to members accounts.

Package 082, December 2018 Emergency Board. This package increases Other Funds expenditure limitation of \$1,698,000 to pay for contracted services with a third-party administrator for the Oregon Savings Growth Plan. The package creates expenditure limitation for Oregon Growth Savings Plan expenditures for services including an account manager, communications consultants, and field representatives for OSGP in order to increase transparency and accountability for these expenses. Expenses related to investment management and payments to beneficiaries will remain non-budgeted, as authorized by statute.

Package 090, Analyst Adjustments. This package reduces Other Funds expenditure limitation by \$183,430 by reducing excess limitation for rent.

Package 103, FASD Strategic Fulfillment. This package increases Other Funds expenditure limitation by \$357,679 and authorizes the establishment of one limited duration position (1.00 FTE). This limited duration Accounting Tech 3 will perform collections based on a 2012 Oregon Supreme Court decision to retroactively reduce the earnings credited to members. Approximately 92.2 percent of PERS members subject to collections now have collections automatically deducted from benefits and automatically applied to benefits and the work to recalculate benefits is substantially complete.

Package 107, Deferred Maintenance. This package increases Other Funds expenditure limitation by \$1,161,555 for the following projects, each of which includes a 15 percent contingency amount: \$456,918 for replacement of the building's heating, air conditioning and ventilation system, \$438,379 for replacing the building's roof, \$199,857 for exterior repairs, and \$66,401 for replacing variable air volume boxes. This package is approved on a one-time basis.

Package 801, LFO Analyst Adjustments. This package increases Other Funds expenditure limitation by \$11,539,472 for the department to make payments from the School District Unfunded Liability Fund (\$11,539,471) and Employer Incentive Fund (\$1) established by Senate Bill 1566 (2018) to the employer side accounts envisioned by that bill.

Package 805, Operational Implementation. This package increases Other Funds expenditure limitation by \$595,862 and authorizes the establishment of four permanent, full-time positions (3.52 FTE) for anticipated workload increases associated with Senate Bill 1049 (2019). This includes two Accountant 3 positions (1.76 FTE) who will provide fund accounting and earnings crediting for the Employer Pension Stability Accounts and two Accounting Technician 3 positions (1.76 FTE) to provide accounts receivable and cashiering support.

Package 812, Vacant Position Elimination. This package reduces Other Funds expenditure limitation by \$250,886 and one permanent full-time Principal Executive Manager F (1.00) that has been vacant for 11 months. This position, formerly the agency's Chief Administration Officer, is no longer needed by the agency based on the establishment of a permanent full-time Principal Executive Manager G position to serve as the agency's Chief Financial Officer and to administer the Financial and Administrative Services Division.

Information Services Division

The Information Services Division (ISD) develops and operates PERS' complex information systems, maintains the agency's in-house data center, provides desktop support and training to PERS staff, and performs related activities including software development, database management, network support, and quality assurance. The Enterprise Content Management section provides imaging services, records management, and public records and discovery responses to the agency. ISD ensures agency staff has the appropriate IT tools and services necessary to perform their duties and provide customer service to members, employers, and other stakeholders. The Subcommittee recommended a budget for the Information Services Division of \$26,144,003 in Other Funds expenditure limitation and 70 positions (69.76 FTE), which includes the following packages:

Package 102, Data Center Migration. This package increases Other Funds expenditure limitation by \$1,715,318 to fund the agency's transition to the State Data Center using a new colocation model of service. The agency will need to purchase new servers and software and associated services to complete the move, which is anticipated to be completed in June 2020. The Department of Administrative Services has received funding in its Legislatively Adopted Budget to provide the new colocation service that PERS will use at the State Data Center. This package is recommended on a one-time basis.

Package 104, Maintaining Current Services. This package increases Other Funds expenditure limitation by \$356,295 and establishes two permanent full-time positions (1.76 FTE) for an Information Systems Specialist 6 Quality Assurance Engineer and an Information Systems Specialist 6 Electronic Content Management analyst.

Package 812, Vacant Position Elimination. This package reduces Other Funds expenditure limitation by \$129,751 and abolishes one permanent full-time position (1.00 FTE). This package eliminates a vacant Office Specialist 1 position and associated Services and Supplies in the Electronic Content Management section. The position has been vacant for 20 months.

Operations Division

The Operations Division provides comprehensive retirement plan information and assistance to PERS members and employers for the Tier 1, Tier 2, OPSRP, and IAP programs. The division is the primary point of contact for PERS members and employers through its call center and

correspondence units. The Division provides member education through group presentations and assistance with retirement applications. The division processes benefit applications, determines benefit eligibility, reviews disability applications, and calculates and adjusts benefit payments. The Subcommittee recommended a budget of \$39,438,343 in Other Funds expenditure limitation for the Operations Division and 207 positions (206.52 FTE), which includes the following packages:

Package 081, September 2018 Emergency Board. This package reduces Other Funds expenditure limitation by \$704,393 to recognize the transfer of four positions (4.00 FTE) from the Operations Division to the Central Administration to re-establish a Communications Section in that division.

Package 090, Analyst Adjustments. This package reduces Other Funds expenditure limitation by \$461,098, including \$211,098 to account for unneeded limitation and \$250,000 in expenses for temporary staff due to increased permanent full-time staff that are recommended to be authorized in Package 104, Maintaining Current Services.

Package 104, Maintaining Current Services. This package increases Other Funds expenditure limitation by \$568,790 and authorizes the establishment of four permanent, full-time positions (3.52 FTE). These positions include a Principal Executive Manager B position to serve as the Calculations Supervisor and allow the section manager to assume higher level responsibilities; an Operations and Policy Analyst 2 position to assist the Operations division in reconciling data coming from the Oregon State Treasury related to the implementation of the Target Date Funds investing approach to the Individual Account Program; and two positions, a Retirement Counselor 2 and an Office Specialist 2, to work in the Intake and Review section.

Package 812, Vacant Position Elimination. This package reduces Other Funds expenditure limitation by \$250,886 and abolishes one permanent full-time position. This action eliminates a vacant Principal Executive Manager F position that has been vacant for 16 months. This position is no longer needed due to the agency's consolidation of two divisions into a single division in 2015, eliminating the need for one division administrator.

Compliance, Audit and Risk Division

The Compliance, Audit and Risk Division provides risk management and compliance services for all agency programs. The Division oversees and coordinates legal activities, assists in the identification and management of risks, and provides independent audit and consulting services to ensure legal and policy compliance, and manages section 218 of the State Social Security Program. The Division ensures policies, business rules and administrative rules are in compliance with state and federal statutes and the PERS plans maintain their tax qualified status.

The Subcommittee recommended a budget of \$8,524,534 in Other Funds expenditure limitation and 20 positions (20.00 FTE) for the Compliance, Audit and Risk Division, which includes the following packages:

Package 082, December 2018 Emergency Board. This package increases Other Funds expenditure limitation by \$442,191 and two positions (2.00 FTE), including one permanent full-time Information Systems Specialist 8 position to implement cybersecurity controls and a permanent full-

time Operations and Policy Analyst 3 to serve as the agency's Continuity and Disaster Recovery Specialist and manage the agency's continuity management program. These positions assist in maintaining the security and reliability of the agency's core pension systems and ensuring that there is no interruption in member benefit payments.

Package 106, Risk and Security Management. This package increases Other Funds expenditure limitation by \$638,291 for contracted services needed to support the agency's information security, business continuity and disaster recovery programs. PERS worked on this program during the 2015-17 biennium after information security audits revealed numerous flaws in the agency's security architecture. The agency received direction in 2016 from the Legislature, the Governor and the Department of Administrative Services – Chief Information Office to correct serious operational security deficiencies, develop and implement an industry standard Cyber Security Program, an industry standard Disaster Recovery Program, and an industry standard Business Continuity Program, and to establish a disaster recovery warm site.

PERS requested security resources in their 2017-19 Agency Request Budget, but those three positions along with two others were moved to the Enterprise Security Office within the Department of Administrative Services after the centralization of information security occurred under Senate Bill 90 (2017). During the 2017 Legislative Session PERS received \$750,000 to plan for a business continuity and disaster recovery program as well as \$1.6 million in contract dollars for IT security remediation. The December Emergency Board approved funding for two positions to staff the program (see Package 082, December 2018 Emergency Board).

The agency has assured the Legislature these programs will be complete in June of 2019. The Department of Administrative Services is requested to unschedule the \$638,291 in expenditure limitation until the Public Employees Retirement System submits a third-party assessment evaluating whether the agency has established an industry standard cybersecurity program, industry standard disaster recovery program, and industry standard business continuity program. This package is approved on a one-time basis.

Core Retirement Systems Applications Division

The Core Retirement Systems Applications Division was established to budget for the project-related positions and contracts related to PERS' implementation of Senate Bill 1049, an omnibus PERS reform bill. The projects that will need to be undertaken to implement this bill include establishing a system to manage the new Employee Pension Stability Accounts that will hold contributions diverted from member's Individual Account Program contributions, establishing a system that allows members to choose which Target Date Fund their Individual Account Program will be invested in, creating a database to track the new work after retirement provisions, implementing a new information tool and staff for the Employer Incentive Fund, School District Unfunded Liability Fund, and Unfunded Actuarial Liability Resolution Program established by Senate Bill 1566 (2018), and creating a database to manage the new cap on final average salaries at \$195,000. The first of these projects, the establishment of the Employee Pension Stability Accounts, is set to take effect on July 1, 2020. The Subcommittee recommended a budget of \$39,059,714 in Other Funds expenditure limitation and 37 positions (33.60 FTE). The Subcommittee recommended the following packages:

Package 802, Project Management and Administration. This package establishes Other Funds expenditure limitation of \$2.5 million for a project management vendor contract for the overall project management of the Senate Bill 1049 implementation effort. This amount is recommended on a one-time basis.

Package 803, Quality Assurance and Testing. This package establishes Other Funds expenditure limitation of \$2.5 million for an independent quality assurance contractor to oversee the implementation of Senate Bill 1049. This amount is recommended on a one-time basis.

Package 804, Information Technology Applications. This package establishes Other Funds expenditure limitation of \$25,992,000 to fund the information technology solutions needed to implement Senate Bill 1049. Given the timelines for implementation, the project will need to implement a series of temporary solutions before final versions can be implemented.

Specifically, PERS anticipates spending \$4,675,000 on temporary solutions as follows:

- \$1,750,000 in contracted services for a database to temporarily manage Employee Pension Stability Accounts;
- \$770,000 in contracted services for a database to temporarily manage the new Final Average Salary limit;
- \$770,000 in contracted services for a database to temporarily manage the new work after retirement provisions of the bill;
- \$180,000 in contracted services for SQL Server database integration services; and
- \$1,205,000 in contracted services for a third-party administrator to manage the Employee Pension Stability Accounts and voluntary employee contributions to their Individual Account Program accounts.

To implement a series of permanent solutions that will address the programs created by Senate Bill 1049, PERS anticipates spending \$21,317,000 on the following:

- \$20.0 million in contracted services to implement the employee redirect portions of the bill;
- \$1.275 million in contracted services for an actuarial rate projection tool in order to implement the Unfunded Actuarial Liability Resolution Program; and
- \$42,000 in contracted services to modify the Employer Data Exchange database to validate employee's dates of birth.

These amounts are recommended on a one-time basis. Needs for these expenditures after the 2019-21 biennium will be addressed after the department is better able to articulate the expected future costs of operating and maintaining these new programs and systems. The Subcommittee approved the following Budget Note:

Budget Note

The Public Employees Retirement System (PERS) is directed to report to the Joint Committee on Information Management and Technology and the Joint Committee on Ways and Means during the Legislative session in 2020 on the implementation of SB 1049 (2019). The Department of Administrative Services and the Office of the State Chief Information Officer are to provide oversight of the PERS SB 1049 (2019) implementation project. The project shall

adhere to the Stage Gate process. The Department of Administrative Services - Office of the State Chief Information Officer and the Department of Administrative Services - Chief Financial Officer, in their oversight roles, are to report separately to the Joint Committee on Information Management and Technology and the Joint Committee on Ways and Means during the Legislative session in 2020 on the implementation of Senate Bill 1049 (2019).

The agencies' reports to the Legislature shall include:

- Update on project scope, schedule, and budget, and total cost of ownership
- Identification of costs associated with one-time solutions versus permanent solutions
- Independent quality assurance reporting on the project
- Impact of Senate Bill 1049 (2019) information technology project on routine agency operations
- Any exceptions from administrative rules, policies or procedures, or statutes granted to PERS by the Department of Administrative Services
- Other information that helps inform the Legislature on the status of the project or issues that have arisen as the result of the project.

Package 805, Operational Implementation. This package establishes Other Funds expenditure limitation of \$7,567,714 and 37 limited duration positions (33.60 FTE) for staff needed to address additional operational workload created by Senate Bill 1049 implementation. These positions are budgeted in the Core Retirement Systems Application Division but will report to the divisions outlined.

- Central Administration Division: \$1,039,142 in Other Funds expenditure limitation and four limited duration positions (3.84 FTE), including three Operations and Policy Analyst 3 positions and one Electronic Publications and Design Specialist 3.
- Financial and Administrative Services Division: \$1,727,591 in Other Funds expenditure limitation and four limited duration positions (3.64 FTE), including one Operations and Policy Analyst 3, one Procurement and Contract Specialist 3, one Human Resource Analyst 3, and one Office Specialist 2.
- Information Services Division: \$588,506 in Other Funds expenditure limitation and three limited duration positions, including two Information Systems Specialist 7 positions and one Information Systems Specialist 4.
- Operations Division: \$3,314,898 in Other Funds expenditure limitation and 22 positions (19.68 FTE), including nine Retirement Counselor 1 positions, two Retirement Counselor 2 positions, one Program Analyst 1 position, one Office Specialist 2 position, four Operations and Policy Analyst 1 positions, three Operations and Policy Analyst 2 positions, and two Information System Specialist 4 positions.

- Compliance Audit and Risk Division: \$897,577 in Other Funds expenditure limitation and four limited duration positions (3.68 FTE), including one Operations and Policy Analyst 3, one Compliance Specialist 2, and two Operations and Policy Analyst 1s.

These positions are recommended as limited duration until the agency can assess its operational needs for these new programs and make a request of the Legislature for permanent positions.

Package 806, Contingency Reserve. This package establishes Other Funds expenditure limitation of \$500,000 to serve as a contingency reserve for the implementation of the Senate Bill 1049 given the uncertainty about the final costs of this project and the fact that it is still in an early planning phase.

Summary of Maximum Supervisory Ratio

The Subcommittee reviewed the agency's proposed Maximum Supervisory Ratio of 1:10.

Summary of Performance Measure Action

See attached "Legislatively Approved 2019-2021 Key Performance Measures."

PRELIMINARY

DETAIL OF JOINT COMMITTEE ON WAYS AND MEANS ACTION

**Public Employees Retirement System
Patrick Heath - 503-378-3742**

DESCRIPTION	GENERAL FUND	LOTTERY FUNDS	OTHER FUNDS		FEDERAL FUNDS		TOTAL ALL FUNDS	POS	FTE
			LIMITED	NONLIMITED	LIMITED	NONLIMITED			
2017-19 Legislatively Approved Budget at Dec 2018 *	\$ -	\$ -	\$ 101,657,012	\$ 10,994,171,000	\$ -	\$ -	\$ 11,095,828,012	379	375.18
2019-21 Current Service Level (CSL)*	\$ -	\$ -	\$ 105,912,270	\$ 12,493,087,721	\$ -	\$ -	\$ 12,598,999,991	369	369.00
SUBCOMMITTEE ADJUSTMENTS (from CSL)									
SCR 010-01 - Tier One and Tier Two Pension Programs									
Package 801: LFO Analyst Adjustments									
Special Payments	\$ -	\$ -	\$ -	\$ 11,539,471	\$ -	\$ -	\$ 11,539,471		
SCR 500-01 - Central Administration									
Package 081: September 2018 Emergency Board									
Personal Services	\$ -	\$ -	\$ 704,393	\$ -	\$ -	\$ -	\$ 704,393	4	4.00
Package 805: Operational Implementation									
Personal Services	\$ -	\$ -	\$ 366,558	\$ -	\$ -	\$ -	\$ 366,558	2	1.92
Services and Supplies	\$ -	\$ -	\$ 22,178	\$ -	\$ -	\$ -	\$ 22,178		
SCR 500-03 - Financial & Admin Services Division (FASD)									
Package 081: September 2018 Emergency Board									
Personal Services	\$ -	\$ -	\$ 198,066	\$ -	\$ -	\$ -	\$ 198,066	1	1.00
Package 082: December 2018 Emergency Board									
Services and Supplies	\$ -	\$ -	\$ 1,698,000	\$ -	\$ -	\$ -	\$ 1,698,000		
Package 090: Analyst Adjustments									
Services and Supplies	\$ -	\$ -	\$ (183,430)	\$ -	\$ -	\$ -	\$ (183,430)		
Package 103: FASD Strategic Fulfillment									
Personal Services	\$ -	\$ -	\$ 170,962	\$ -	\$ -	\$ -	\$ 170,962	1	1.00
Services and Supplies	\$ -	\$ -	\$ 186,717	\$ -	\$ -	\$ -	\$ 186,717		
Package 107: Deferred Maintenance									
Services and Supplies	\$ -	\$ -	\$ 1,161,555	\$ -	\$ -	\$ -	\$ 1,161,555		
Package 801: LFO Analyst Adjustments									
Special Payments	\$ -	\$ -	\$ 11,539,472	\$ -	\$ -	\$ -	\$ 11,539,472		
Package 805: Operational Implementation									
Personal Services	\$ -	\$ -	\$ 551,506	\$ -	\$ -	\$ -	\$ 551,506	4	3.52
Services and Supplies	\$ -	\$ -	\$ 44,356	\$ -	\$ -	\$ -	\$ 44,356		
Package 812: Vacant Position Elimination									
Personal Services	\$ -	\$ -	\$ (250,886)	\$ -	\$ -	\$ -	\$ (250,886)	(1)	(1.00)
SCR 500-04 - Information Services Division									
Package 102: Data Center Migration									
Services and Supplies	\$ -	\$ -	\$ 183,318	\$ -	\$ -	\$ -	\$ 183,318		
Capital Outlay	\$ -	\$ -	\$ 1,532,000	\$ -	\$ -	\$ -	\$ 1,532,000		

DESCRIPTION	GENERAL FUND	LOTTERY FUNDS	OTHER FUNDS		FEDERAL FUNDS		TOTAL ALL FUNDS	POS	FTE
			LIMITED	NONLIMITED	LIMITED	NONLIMITED			
Package 104: Maintaining Current Services									
Personal Services	\$ -	\$ -	\$ 345,198	\$ -	\$ -	\$ -	\$ 345,198	2	1.76
Services and Supplies	\$ -	\$ -	\$ 11,097	\$ -	\$ -	\$ -	\$ 11,097		
Package 812: Vacant Position Elimination									
Personal Services	\$ -	\$ -	\$ (118,654)	\$ -	\$ -	\$ -	\$ (118,654)	(1)	(1.00)
Services and Supplies	\$ -	\$ -	\$ (11,097)	\$ -	\$ -	\$ -	\$ (11,097)		
SCR 500-08 - Operations Division									
Package 081: September 2018 Emergency Board									
Personal Services	\$ -	\$ -	\$ (704,393)	\$ -	\$ -	\$ -	\$ (704,393)	(4)	(4.00)
Package 090: Analyst Adjustments									
Personal Services	\$ -	\$ -	\$ (250,000)	\$ -	\$ -	\$ -	\$ (250,000)	0	0.00
Services and Supplies	\$ -	\$ -	\$ (211,098)	\$ -	\$ -	\$ -	\$ (211,098)		
Package 104: Maintaining Current Services									
Personal Services	\$ -	\$ -	\$ 535,539	\$ -	\$ -	\$ -	\$ 535,539	4	3.52
Services and Supplies	\$ -	\$ -	\$ 33,251	\$ -	\$ -	\$ -	\$ 33,251		
Package 812: Vacant Position Elimination									
Personal Services	\$ -	\$ -	\$ (250,886)	\$ -	\$ -	\$ -	\$ (250,886)	(1)	(1.00)
SCR 500-09 - Compliance, Audit, and Risk Division									
Package 082: December 2018 Emergency Board									
Personal Services	\$ -	\$ -	\$ 442,191	\$ -	\$ -	\$ -	\$ 442,191	2	2.00
Package 106: Risk and Security Management									
Services and Supplies	\$ -	\$ -	\$ 638,291	\$ -	\$ -	\$ -	\$ 638,291		
SCR 900-00 - Core Retirement System Applications									
Package 802: Project Management and Administration									
Services and Supplies	\$ -	\$ -	\$ 2,500,000	\$ -	\$ -	\$ -	\$ 2,500,000		
Package 803: Quality Assurance and Testing									
Services and Supplies	\$ -	\$ -	\$ 2,500,000	\$ -	\$ -	\$ -	\$ 2,500,000		
Package 804: Information Technology Applications									
Services and Supplies	\$ -	\$ -	\$ 25,992,000	\$ -	\$ -	\$ -	\$ 25,992,000		
Package 805: Operational Implementation									
Personal Services	\$ -	\$ -	\$ 5,646,497	\$ -	\$ -	\$ -	\$ 5,646,497	37	33.60
Services and Supplies	\$ -	\$ -	\$ 1,921,217	\$ -	\$ -	\$ -	\$ 1,921,217		
Package 806: Contingency Reserve									
Services and Supplies	\$ -	\$ -	\$ 500,000	\$ -	\$ -	\$ -	\$ 500,000		
TOTAL ADJUSTMENTS	\$ -	\$ -	\$ 57,443,918	\$ 11,539,471	\$ -	\$ -	\$ 68,983,389	50	45.32
SUBCOMMITTEE RECOMMENDATION *	\$ -	\$ -	\$ 163,356,188	\$ 12,504,627,192	\$ -	\$ -	\$ 12,667,983,380	419	414.32

% Change from 2017-19 Leg Approved Budget	0.0%	0.0%	60.7%	13.7%	0.0%	0.0%	14.2%	10.6%	10.4%
% Change from 2019-21 Current Service Level	0.0%	0.0%	54.2%	0.1%	0.0%	0.0%	0.6%	13.6%	12.3%

*Excludes Capital Construction Expenditures

Legislatively Approved 2019 - 2021 Key Performance Measures

Published: 6/13/2019 5:41:58 PM

Agency: Public Employees Retirement System, Oregon

Mission Statement:

We serve the people of Oregon by administering public employee benefit trusts to pay the right person the right benefit at the right time.

Legislatively Approved KPMs	Metrics	Agency Request	Last Reported Result	Target 2020	Target 2021
1. TIMELY RETIREMENT PAYMENTS - Percent of initial service retirements paid within 45 days from retirement date.		Approved	65%	80%	80%
2. TOTAL BENEFIT ADMIN COSTS - Total benefit administration costs per member.		Approved	\$145.00	\$165.00	\$165.00
3. MEMBER TO STAFF RATIO - Ratio of members to FTE staff.		Approved	1,048	1,055	1,055
4. ACCURATE BENEFIT CALCULATIONS - Percent of service retirement monthly benefits accurately calculated to within \$5 per month.		Approved	100%	100%	100%
5. LEVEL OF PARTICIPATION - Percent of state employees participating in the deferred compensation program.		Approved	42%	45%	50%
6. CUSTOMER SERVICE - Percent of member customers rating their satisfaction with the agency's customer service as "good" or "excellent": overall customer service, timeliness, accuracy, helpfulness, expertise and availability of information.	Helpfulness	Approved	91%	95%	95%
	Overall		91%	95%	95%
	Availability of Information		88%	95%	95%
	Timeliness		90%	95%	95%
	Accuracy		91%	95%	95%
	Expertise		92%	95%	95%
7. TIMELY BENEFIT ESTIMATES - Percent of benefit estimates processed within 30 days.		Approved	34%	95%	95%
8. BOARD OF DIRECTORS BEST PRACTICES - Percent of total best practices criteria met by the PERS board.		Approved	100%	100%	100%

LFO Recommendation:

The Legislative Fiscal Office recommends approval of the Key Performance Measures and updated targets.

SubCommittee Action:

The General Government Subcommittee adopted the recommendations.

1/17/2019

SB1049 Monthly report

Preliminary for the Month of December 2019



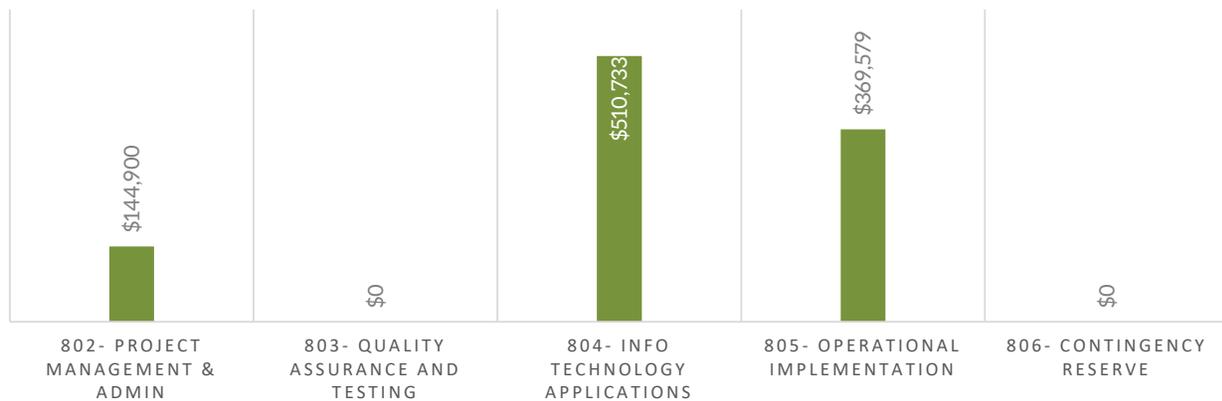
SB 1049 Budget Report

Summary Budget Analysis Preliminary For The Month of December 2019

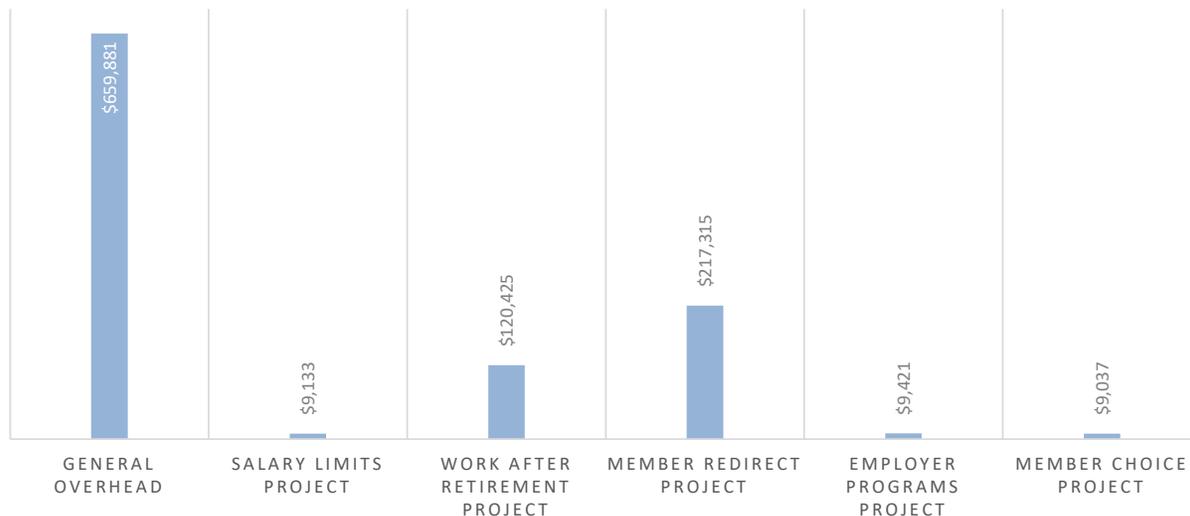
Biennial Summary

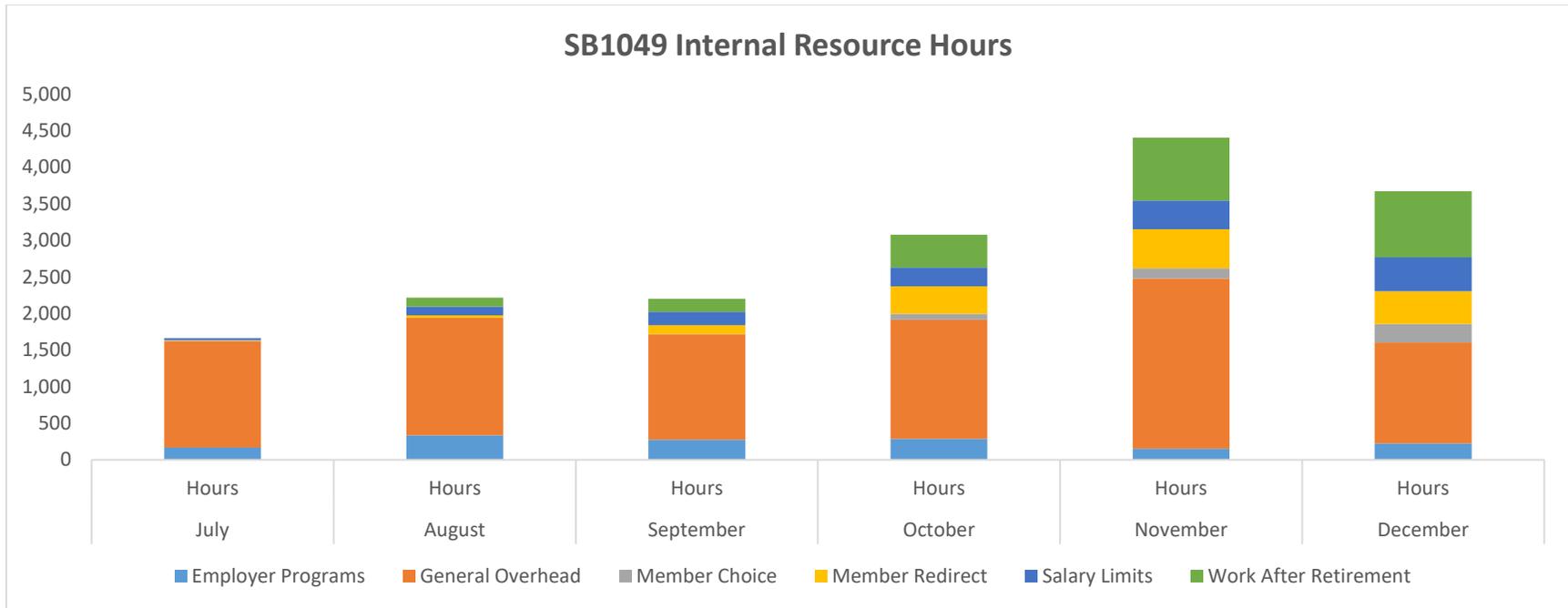
Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expend.	2019-21 LAB	Variance
Personal Services	37,393	4,852,068	4,889,461	5,646,497	757,036
Services & Supplies	872,386	31,121,164	31,993,550	33,413,217	1,419,667
Capital Outlay	115,434		115,434		(115,434)
Total	1,025,212	35,973,232	36,998,445	39,059,714	2,061,269

EXPENDITURES BY PACKAGE



EXPENDITURES BY PROJECT





Total Hours through December 31: 17,240

PAYROLL COSTS: \$1,128,739



Oregon

Kate Brown, Governor

Department of Administrative Services

155 Cottage Street NE

Salem, OR 97301

PHONE: 503-378-3104

FAX: 503-373-7643

June 28, 2019

Kevin Olineck, Director
 PERS
 11410 SW 68th Parkway
 Tigard, OR 97223

Dear Director Olineck,

In recognition of PERS' information technology responsibilities associated with Senate Bill (SB) 1049, the Department of Administrative Services (DAS) and Office of the State CIO (OSCIO) wish to confirm our commitment to work with your team on the most expedient implementation possible. To date, we have assigned dedicated resources to this work to include an Oversight Analyst and Procurement Specialist to be embedded in the agency as needed. Administrators from OSCIO, DAS Procurement and the Department of Justice are meeting to ensure that respective roles and responsibilities are clearly defined and aligned in support of the SB 1049 effort.

While the PERS budget has yet to be finalized, HB 5032A specifically addresses implementation of SB 1049. What it does not speak to is any relation to PERS legacy system modernization. Given the challenging time constraints associated with implementation of SB 1049, OSCIO is advising PERS to focus first and foremost on the temporary information technology solutions as outlined in package 804:

- Contract services for a database to temporarily manage Employee Pension Stability Accounts
- Contract services for a database to temporarily manage Final Average Salary Limit
- Contract services for a database to temporarily manage Work after Retirement
- Contract services for a database to manage SQL Server database integration services
- Contract services for a third-party administrator to manage Employee Pension Stability Accounts and Employee Contributions

While tempting and admirable from an architecture best-practice perspective, PERS should be intentional in avoiding the conflation of the long-term SB 1049 changes and a much broader legacy system modernization effort (planning or otherwise). Long-term solutions include:

- Contract services to implement Employee Redirect
- Contract services for an actuarial rate projection tool
- Contract services to modify the Employer Data Exchange to validate employee's date of birth

HB 5032A makes reference to several other IT initiatives to include Data Center Migration, Business Continuity and Disaster Recovery and Security and Risk Management. While much of this work has been underway since 2017, PERS is still obligated to demonstrate continued progress and report out to JLCIMT. Given the sheer amount of work associated with SB 1049, DAS and OSCIO are concerned with PERS' capacity to execute on all initiatives, regardless of Package 805, which establishes 33.60 FTE to support the workload of SB 1049. To that end OSCIO advises PERS to confine its IT project portfolio to those efforts lined out in HB 5032A and effectively place on hold any other work not deemed emergent and mission-critical to the agency.

Per the Budget Note listed in Package 804 of HB 5032A, DAS and the OSCIO are to provide oversight of the SB 1049 implementation. Additionally, the project shall adhere to the Stage Gate process. In the spirit of partnership and transparency, we are offering the following information with respect to how we anticipate the procurement and oversight processes to work:

General expectations:

- 1) PERS will provide logistical support for the embedded Oversight Analyst and Procurement Specialist at the PERS headquarters location, including appropriate facility and Internet access, parking, and workspace (OSCIO will provide the oversight analyst's laptop and cell phone).
- 2) OSCIO will expedite its review of foundational artifacts, as agreed; however, the full Stage Gate process will be followed.
- 3) All relevant policies and processes will be followed, with special emphasis on the state IT Investment policy, Cloud policy, Information Security policies and Procurement processes.
- 4) All contracts shall include developed scopes of work with defined deliverables, utilizing appropriate procurement methods and contract vehicles to promote fairness and transparency while meeting the need for expediency.
- 5) As referenced in the budget note, PERS will identify all projects within the portfolio that will be delayed as a result of this investment, and which (if any) ongoing projects are critical dependencies to the success of the SB 1049 Implementation Program.
- 6) PERS will document perceived initial risks related to the successful implementation of SB 1049, and will propose strategies and collaborate with external stakeholders to mitigate those risks.
- 7) In order to meet the critical deadlines associated with the SB 1049 legislation (including IAP Member Redirect, effective July 1, 2020), PERS must ensure that program plans and target architecture are focused on successful implementation of these requirements, not on longer term technology modernization that may detract from ability to deliver mandated benefits on time.
- 8) All assumptions will be clearly documented.
- 9) For each component project, an appropriately detailed alternatives analysis must be completed prior to detailed project planning and execution.
- 10) Contingency plans and the ability to rollback system changes must be explicit considerations for implementation planning.
- 11) Appropriate professional program/project management expertise, based on the Project Management Institute's Project Management Book of Knowledge, will be utilized throughout the execution of program activities.

- 12) An independent Quality Management Services (iQMS) vendor will be promptly engaged, and will provide services for the duration of the SB 1049 implementation effort.
- 13) Program and project oversight requirements will be elaborated as appropriate throughout the program planning and implementation process
- 14) A clear governance model will be presented for OSCIO review and approval (as a component of the Program Management Plan)

Required program artifacts for initial OSCIO (Stage Gate 1) endorsement:

- 1) Acceptable IT Investment form
- 2) Business Case (for overall program including mandated benefit delivery)
- 3) Program Charter (including component projects and program governance model)
- 4) Risk Assessment (Initial): To be elaborated during program planning
- 5) Program Management Plan (Initial): To be elaborated during program planning

Following Stage Gate 1 endorsement for the program, PERS will be required to meet oversight requirements for the component projects (typically Stage Gate 2 through 4) based on OSCIO's determination and specific documentation requests from the assigned IT Oversight Analyst.

Please let us know if additional follow up is desired or additional questions arise. Thank you.

Sincerely,



Katy Coba
DAS Director|Chief Operating Officer



Terrence Woods
State of Oregon Chief Information Officer | OSCIO



Oregon

Kate Brown, Governor

Department of Administrative Services
 Enterprise Information Services
 155 Cottage St NE, 4th Floor
 Salem, OR 97301
 PHONE: 503-378-3175
 FAX: 503-378-3795

MEMORANDUM

To: Kevin Olineck, Executive Director
 Public Employees Retirement System

From: Terrence Woods, State Chief Information Officer
 Department of Administrative Services

Date: December 12, 2019

Subject: Oregon Public Employees Retirement System Senate Bill 1049 Implementation Program

Senate Bill 1049 (SB 1049) is comprehensive legislation intended to address the increasing cost of funding Oregon's Public Employees Retirement System (PERS), to reduce the system's Unfunded Actuarial Liability (UAL) obligations, and to provide relief to escalating contribution rate increases for public employers. The *PERS SB 1049 Implementation Program* is comprised of five separate projects, with staggered delivery timeframes, through the 2019-2021 biennium. A budget note attached to the 2019-2021 PERS appropriation bill (House Bill 5032) provided additional guidance to PERS and Enterprise Information Services (EIS). EIS has stationed an Oversight Analyst on site at PERS in order to expedite project initiation and planning reviews.

Though substantial progress has been made, the SB 1049 Implementation Program continues to struggle to complete foundational planning activities and baseline documentation. The Oversight Analyst has observed that organizational culture and dynamics are biased against time-sensitive project delivery of mandated outcomes and that requisite skillsets and crucial roles required for a project of this size are not part of the staffing plan. Through a series of conversation between PERS and EIS, agency leadership has acknowledged that the addition of specific resources would be welcome. To that end, PERS is directed to work with EIS and DAS Procurement Services to solicit professional services from a qualified firm to provide additional resources in support of program management and project execution. Expected roles to be fulfilled include:

1. Program Director

- a. Serve as an advisor to the Executive Sponsor (PERS Director) on program implementation
- b. Provide leadership, direction and consulting on Program Management roles, responsibilities and methodologies
- c. Work with the Business Owner and Program Management staff to complete critical project planning and execution tasks to ensure successful program and project delivery
- d. Provide formal recommendations to address organizational issues related to project delivery, business ownership and solution development

2. System Integration Lead

- a. Program Definition: Assist in finalizing the target architecture and program roadmap to transition to the future state (including transition architectures)
- b. Migration Planning: Work with Program Management staff and the PERS EA team to define program dependencies and boundaries and ensure stakeholder concerns are addressed
- c. Implementation Governance: Perform monitoring and support to ensure alignment with target architecture and delivery of the intended business benefits

December 12, 2019

Page 2

3. **Additional Project Implementation Resources** (as needed, based on identified gaps)
Dependency: Completion of the program schedule
 - a. Subject-matter expertise related to specific solution architecture components
(Example: Infrastructure Architect)
 - b. Additional resource capacity (BAs, Developers, etc.)

Sincerely,

A handwritten signature in blue ink, appearing to read "Terrence Woods", with a long, sweeping horizontal stroke extending to the right.

Terrence Woods
State Chief Information Officer



Oregon

Kate Brown, Governor

Department of Administrative Services

Enterprise Information Services

155 Cottage St NE, 4th Floor

Salem, OR 97301

PHONE: 503-378-3175

FAX: 503-378-3795

MEMORANDUM

To: Terrence Woods, State Chief Information Officer (State CIO)
From: Ed Arabas, Lead Oversight Analyst
Date: December 6, 2019
Subject: Oregon Public Employees Retirement System Senate Bill 1049 Implementation Program Execution Activities

Senate Bill 1049 is comprehensive legislation intended to address the increasing cost of funding Oregon's Public Employees Retirement System (PERS), to reduce the system's Unfunded Actuarial Liability (UAL) obligations, and to provide relief to escalating contribution rate increases for public employers. Different statutory provisions require PERS to develop short- and long-term solutions that adjust the existing technology infrastructure supporting more than 900 public employers and 367,000 members and their beneficiaries. The Senate Bill 1049 implementation program comprises five separate efforts, with staggered delivery timeframes, as follows: Employer Programs (effective July 1, 2019); Salary Limits (due January 1, 2020); Work After Retirement ((WAR), due January 1, 2020), IAP Member Redirect (first phase due July 1, 2020, and second phase due January 1, 2021); and Member Choice (due January 1, 2021).

Through a budget note attached to the 2019-2021 PERS appropriation bill (HB 5032), the 2019 Oregon Legislature directed PERS to follow the joint Stage Gate process, and has directed the State Chief Information Officer to report separately during the 2020 Legislative session on project status and on any "exceptions from administrative rules, policies or procedures, or statutes granted to PERS by the Department of Administrative Services" to support the execution of SB 1049. Additional guidance related to documents expected from PERS prior to project execution activity has been provided via memorandum (June 28), multiple subsequent email communications, and within the Stage Gate workflow in the enterprise Project Portfolio Management repository.

Project management planning artifacts were to be developed and approved once at the program level, and all sub-projects would reference those plans and processes to guide the delivery of all sub-project solutions. These overarching plans are still being drafted, though project-level management execution activities have begun in order to create "minimum viable project" solutions for Salary Limits and WAR before January 1, 2020.

This memorandum is created to acknowledge that project execution work activities on the Salary Limits and Work After Retirement sub-projects are proceeding without attendant approvals from Enterprise Information Services.

Analysis prepared by: Edward P. Arabas II Date: 12/6/2019

Analysis approved by: [Signature] Date: 12/6/2019



Oregon

Kate Brown, Governor

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February 20, 2019

Honorable Senate President Peter Courtney
Oregon Legislative Assembly
900 Court St. NE, S-201
Salem, OR 97301

President Courtney,

At the February 15, 2019 meeting of the Joint Ways and Means Subcommittee on Capital Construction, I was asked by Senator Betsy Johnson if PERS has reached a “legislative fatigue wall” where our systems and processes are not able to keep up with legislative directives. I responded that the simple answer is, if we’re not there, we are very close to it.

This letter responds to your request for my comment in writing, so let me expand on what I mean by PERS, the system and agency, reaching legislative fatigue. While the system and agency can’t be separated completely from each other, I will highlight some key observations for both.

For background, I have been the Director of Oregon PERS since July 2018. Prior to my joining the state, I worked for almost twenty years administering large public sector pension systems in Canada, first in Alberta and then in British Columbia. Both entities were set up as quasi-public sector organizations with size and complexity traits very similar to PERS and, consequently, provide a solid basis for comparison.

System Fatigue

PERS has a “system-wide problem” with a large unfunded actuarial liability (UAL) attributable to member benefits that, according to the Oregon Supreme Court, cannot be reduced. This problem is not solely limited to schools, local governments, or state agencies, but applies holistically to all PERS-participating employers and their past, current, and future employees. Any solution to the problem, should apply system-wide and reflect the most current, actuarial methods, assumptions, and calculations, as presented to the PERS Board.

There are no short-term, or inexpensive, solutions that solve the legacy UAL associated with a retirement system as mature as PERS. Simply put, the UAL was decades in the making and will take decades to resolve, using solid actuarial principles. Trying to pick winners, losers, or mandate “fairness” of employer rates and member benefits is not a long-term solution to this problem. In fact, some perceived solutions merely add complexity while basically maintaining the fiscal status quo, or create a deeper hole both fiscally and administratively in the long-term.

There is a strong argument to say the 2003 reforms that created the OPSRP pension program and the IAP account program for all members have been successful in establishing a sustainable cost

basis for OPSRP members, while providing what are seen to be adequate benefits. The legacy UAL cost for Tier One and Tier Two members will remain, and employers need to pay that until the UAL associated with these members is eliminated. This is the cost of the work PERS members have done over the last seven decades to create a system of public safety, infrastructure, schools, and other government services in Oregon.

The Oregon Legislative Assembly is the PERS plan sponsor. Member benefit levels, required employer contributions, and system funding are dictated by legislative mandate. The Oregon State Treasury in conjunction with the Oregon Investment Council (OIC) generates investment income to help pay member benefits. The PERS Board balances what is owed in benefits, earnings from revenue and investments, and determines what employers must pay for the current costs of the system while establishing the contributions required to cover the difference, the UAL.

The UAL and employer contribution rates will change from today. From year to year, PERS and the actuaries cannot precisely predict investment returns attained by OIC, any changes to benefit structure that may be approved by the legislature, and the demographic experience of our employers. All of these factors influence the UAL and employer rates, therefore any legislative solution based on holding to current projections will not be successful since dynamics will inevitably change the next day, month, or year.

However, PERS is a political conversation not only with the plan sponsors – the legislature – but also the governing bodies of more than 800 public employers and agency directors planning budgets for 100 state agencies.

Employers, members, legislators, the public, media, and other stakeholders suggest a variety of “PERS solutions” on a regular basis. They may do so with good intention, but generally without a comprehensive understanding of the impact their proposals have on the system, members, or employers. Many proposals are complicated ideas that require thoughtful actuarial and legal analysis to ensure they match the intent of the proponents, are implementable from a legal perspective, as well as provide long-term sustainability to the system.

While the intent may be for large changes to impact the UAL, and small changes to make the system more “fair” for some members, the actual impact of both is they do not accomplish their stated goals, but add complexity to a system which is already one of the most complex in the nation.

The *Moro* decision, which overturned most of the 2013 PERS reform legislation, is fairly clear in that only prospective member benefits may be altered – the UAL is caused by benefits that have been accrued, are owed, and cannot be changed. The current structure of the liabilities shows that there is minimal impact to the overall funding of the plan to be achieved by benefit change. The only substantive change is through payments into the system, be it through contributions or via other infusions of capital.

Agency Fatigue

For context, when I arrived in July 2018, the agency was in the final stages of developing the 2019-2021 Agency Request Budget. Our budget tried to reflect our mission of paying the right benefit to the right person at the right time. Our operations impact more than 800 individual employers, 100 state agencies, and 370,000 members. The work of our members and employers impacts every Oregonian, and we pay benefits to people in every state and a handful of foreign countries. For the 2019 – 2021 biennium, we anticipate receiving about \$4 Billion from employer contributions and pay about \$12 Billion in benefits.

We are an “Other Fund” agency, in that we do not receive General Funds. Consequently, as fiduciaries of these “Other Funds”, we plan wisely to achieve our mission. Every dollar we don’t spend on agency budget is one that can go toward member benefits. Our budgetary requests, I believe, strengthen the agency while helping to establish a longer term set of strategic actions that will enable us to meet the needs of our diverse stakeholders in the future.

As a new Director, I am reviewing all aspects of the agency to ensure long-term sustainability and will propose in later phases of our budgetary discussions, some elements that will enable forward progress. However, this plan is predicated on a period of legislative stability with regard to plan changes and budgeting.

While conscious of how PERS, the agency, needs to be integrated into the state government enterprise, it does constrain our ability to be agile as well as responsive to the myriad of legislative changes that are proposed, and if approved, impact the operational capacity of the agency when implemented. Some aspects of administration have been supported by manual systems and processes in order to meet the short implementation deadlines. PERS’ history of legislative changes that were approved, and subsequently found to be unconstitutional, has had the resultant impact of impeding forward progress on much needed operational process and system changes.

While the agency has been able to continue to administer the programs it is responsible for, from an enterprise risk management perspective, there is a risk that any future changes to the plan that aren’t given the appropriate time and resources for implementation could negatively impact the agency and its ability to function in a cost effective, efficient and risk-mitigated fashion.

Conclusion

PERS recognizes the importance of putting in place a long-term solution for the legacy UAL funding issue. We look forward to a solution that ensures long-term sustainability of the system while trying, as best possible, to balance the needs of all stakeholders. This balance includes the timing and implementation of a solution and its impact, so the agency can ensure its own long-term sustainability.

Thank you for the opportunity to provide clarification on my statement regarding reaching the “legislative fatigue wall.” PERS will continue to serve the Legislative Assembly, employers,

Capital Construction – Agency Response

February 20, 2019

Page 4 of 4

members, and stakeholders as we always have – as the purveyor of data, facts, and information on PERS.

Respectfully,

A handwritten signature in black ink, appearing to read "Kevin Olineck". The signature is written in a cursive style with a large initial "K".

Kevin Olineck, Director
Oregon Public Employees Retirement System

cc: Joint Ways and Means Subcommittee on Capital Construction



Oregon

Kate Brown, Governor

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January 31, 2020

TO: Members of the PERS Board
FROM: MaryMichelle Sosne, Actuarial Business Specialist
SUBJECT: Employer Incentive Fund Participation and Senate Bill 1566 Reporting

OVERVIEW

The Employer Incentive Fund (EIF) provides a 25% match to employers making a lump sum payment into a new or existing side account. The first EIF application cycle opened to employers with an unfunded actuarial liability (UAL) exceeding 200% of their payroll on September 2, 2019; the second window opened to all employers on December 2, 2019 and the application cycle will end when the last employer makes their payment or August 31, 2020, whichever is earlier. During this application cycle, the legislature appropriated \$100 million in General Fund dollars to match employer lump sum payments; PERS used \$99,999,000 to match funds to employer payments, reserving \$1,000 for fund fees.

EMPLOYER INCENTIVE FUND PARTICIPATION

By close of business December 2, 2019, all funds were matched to employer commitments. PERS processed applications from¹:

54 State and Local Government Rate Pool (SLGRP) Employers	24 cities 21 special districts 6 counties 2 state agencies 1 community college
44 School Districts Pool Employers	33 school districts 6 charter schools 5 education service districts
19 Independent Employers	10 cities 7 special districts 2 counties

For employers with a UAL exceeding 200% of their payroll, \$16,540,584.14 in EIF funds were matched to \$62,812,892.54 in new lump sum payments and \$5,392,549 in existing lump sum payments and 61 applications were approved.

In the second round of applications, open to all employers, \$83,458,415.86 in EIF funds were matched, matching \$235,582,640.66 in new lump sum payments and \$111,803,080.00 in existing lump sum payments.² Overall, PERS approved 117 initial applications.

¹ These are the numbers of applications received and do not represent distinct employers as employers could apply multiple times; 8 employers applied for and received multiple two EIF matches for separate lump sum payments.

In addition to new side accounts, several employers were required to pay their transition liabilities before establishing their side accounts and receiving their matching funds, as required by current Oregon Administrative Rule 459-009-0084. Transition liabilities are assessed when an independent employer has a larger UAL as a percent of payroll than the State and Local Government Pool. Rather than the pool absorbing that excess liability, it is charged separately to the employer, and paying their transition liability is the only time an employer can dollar-for-dollar pay the UAL; EIF applicants made \$40,477,057 in transition liability payments.³

Since early December, two employers have rescinded their EIF applications, both are School Districts Pool members and both have UALs that exceeded 200% of payroll. In each case, PERS sent out reminders of impending payment dates, but the employers failed to make their payments. As a result, \$212,500 was re-directed to the last approved EIF employer, Forest Grove School District, who received a partial match upon approval.

Another employer reduced their lump sum payment in December, leaving \$44,980.75 currently available in EIF funds available for match; these and any additional funds will be accumulated and offered to the first employer on the waitlist who is eligible for a match of \$6,250,000.

Through January 9, PERS has received \$178,925,537.54 in employer lump sum payments and deposited \$41,557,879.58 in EIF matching funds. The next major EIF payment period will begin in July and August 2020, with an additional \$136,667,916.14 in anticipated employer lump sum payments, \$33,996,978.29 in EIF matching funds, and \$656,740 in Transition Liability payments.

As required by statute, SB 1049 PERS has established a waitlist of employers who have applied for matching funds. As of January 9, 2020, 40 employers were on the waitlist and they represent an additional \$80,037,381.20 in new or existing lump sum payments for potential matches up to \$19,581,582.85 in EIF funds. Employers have been advised they can opt to make payments now or wait until they have received a match. As of December 31, 2019, five waitlist employers chose to establish a side account, totaling \$10,936,706.20.

SENATE BILL 1566 REPORTING

As required by Senate Bill 1566(2018), PERS filed a report with the Legislative Fiscal Office (Attachment A) providing the status of the Employer Incentive Fund, the School Districts Unfunded Liability Fund and the Unfunded Actuarial Liability Resolution Program as of January 2020.

C.4. Attachment 1 - Senate Bill 1566 Report to the Legislative Fiscal Office

² Some employers made lump sum payments that exceeded their statutory match which is why the lump sum payments received exceeds the 25% match. Total lump sum payments: \$415,591,162.20 EIF matches: \$99,999,000

³ \$35,170,251 in Transition Liability payments were collected prior to the employer's participation in EIF but after EIF was established in Senate Bill 1566 in 2018.



Oregon

Kate Brown, Governor

Public Employees Retirement System

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January 17, 2020

The Honorable Senator Betsy Johnson, Co-Chair
The Honorable Senator Elizabeth Steiner Hayward, Co-Chair
The Honorable Representative Dan Rayfield, Co-Chair
Joint Committee on Ways and Means

900 Court St NE
H-178 State Capitol
Salem, OR 97301-4048

Nature of the Request

As required by Senate Bill 1566(2018), PERS is providing the status of the Employer Incentive Fund, the School Districts Unfunded Liability Fund and the Unfunded Actuarial Liability Resolution Program as of January 2020.

Agency Action

School Districts Unfunded Liability Fund

The School Districts Unfunded Liability Fund (SDULF) is a pooled side account that will provide rate relief to all public school districts, public charter schools, and education service districts. The SDULF has five defined revenue sources: interest on unclaimed property from the Department of State Lands; proceeds from debt collection; proceeds from estate taxes; proceeds from capital gains taxes and a one-time payment, as prescribed in Senate Bill 1529 (2018).

PERS established the SDULF with Treasury and received \$11,539,471 from interest on unclaimed property from State Lands on January 10, 2019. The SDULF earned \$232,701.20 in excess interest in 2019.

Following review from the Department of Administrative Services (DAS), SB1566 required the first trend growth estimates for Capital Gains and Estate Taxes are to be made in 2019 and they will be compared to actuals two years later. Neither estimates nor funds are anticipated from these sources until November 2021.

Additionally, DAS has confirmed the Department of Revenue requires more tax return data before an estimate can be provided on the expected repatriated corporate income from Senate Bill 1529 (2018), however, they have indicated they will have an estimate by November 2021.

No transfers are expected from Debt Collection in 2020; however, PERS anticipates receiving a transfer of \$21,360,850 from the Department of State Lands no later than January 31, 2020.

PERS does not anticipate a distribution from the SDULF this biennium; per the 2018 advisory valuation a 1% rate offset for the School Districts Pool would require a minimum lump sum payment of \$500 million.

Employer Incentive Fund

Employers who have made or will make a lump sum payment from non-borrowed funds of at least \$25,000 since June 2, 2018, to establish a new side account or as a payment into an existing side account, are eligible for a 25% match on their lump sum payment from the Employer Incentive Fund (EIF) (subject to the limitations stated in the statute). Senate Bill 1049 amended provisions of the EIF in Senate Bill 1566 lifting timeline restrictions previously applied to the application period and providing a \$100 million appropriation from the General Fund for matching funds.

The first application cycle for EIF matching funds opened to employers with an unfunded actuarial liability (UAL) exceeding 200% of their payroll on September 2, 2019, the second window opened to all employers on December 2, 2019, and the application cycle will end when the last employer makes their payment or August 31, 2020, whichever is earlier.

PERS processed 54 State and Local Government Rate Pool applications (24 cities, 21 special districts, 6 counties, 2 state agencies and 1 community college); 44 School Districts Pool applications (33 school districts, 6 charter schools, 5 education service districts); and 19 independent employer applications (10 cities, 7 special districts and 2 counties).¹ By close of business December 2, 2019, all funds had been matched.

For employers with a UAL exceeding 200% of their UAL, \$16,540,584.14 in EIF funds were or will be matched to \$62,812,892.54 in new lump sum payments and \$5,392,549 in existing lump sum payments and 61 applications were approved.

In the second round of applications, open to all employers, \$83,458,415.86 in EIF funds were or will be matched to \$235,582,640.66 in new lump sum payments and \$111,803,080.00 in existing lump sum payments and 56 applications were approved.²

In addition to new side accounts, several employers were required to pay their transition liabilities before establishing their side accounts and receiving their matching funds as required by current Oregon Administrative Rule 459-009-0084. Transition liabilities are assessed when an independent employer has a larger UAL as a percent of payroll than the State and Local Government Pool. Rather than the pool absorbing that excess liability, it is charged separately to the employer, and paying their transition liability is the only time an employer can dollar-for-dollar pay the UAL; EIF applicants made \$40,477,057 in transition liability payments.³

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³\$35,170,251 in Transition Liability payments were collected prior to the employer's participation in EIF but after EIF was established in Senate Bill 1566 in 2018.

As required by statute SB 1049 PERS has established a waitlist of employers who have applied for matching funds. As of January 8, 2020, there were 40 employers on the waitlist and they represent \$80,037,381.20 in new and existing lump sum payments for potential matches up to \$19,581,582.85 in EIF funds. Employers have been advised they can opt to make payments now or wait until they have received a match. As of December 31, 2019, five waitlist employers chose to establish a side account, totaling \$10,936,706.20.

The EIF has two future funding sources: repatriated capital income, and revenue from Oregon Lottery Scoreboard betting. Repatriated income was designated in SB 1529 (2018), and the Department of Revenue anticipates providing an estimate of funds no later than November 2021, following the receipt of additional tax revenues. Revenue from Oregon Lottery Scoreboard betting was identified as a revenue stream in SB 1049 and net proceeds are committed to the EIF until 2042. Initial estimates from the November 2019 Revenue Forecast indicate Oregon Lottery Scoreboard will generate an estimated \$8.3 million in the 2019-2021 biennium, \$29.4 million in 2021-2023 and \$42.2 million in 2023-2025.⁴ As of November 30, 2019, Oregon Lottery reported \$22,692,519 in Oregon Lottery Scoreboard net revenue⁵.

While Oregon Lottery is currently in the process of developing internal procedures for the management of the transfer of funds, they indicated no more than two transfers annually. These transfers will be made to the Administrative Services Economic Development Fund which currently distributes allocations on a quarterly basis.

PERS anticipates aligning future EIF Application cycles with the system valuation cycle to maximize the effect on rate-setting valuations and the system-wide funded status pending revenue availability and employer feedback.

Unfunded Actuarial Liability Resolution Program

Senate Bill 1049 modified the UAL Resolution Program (UALRP) to include the development of funding plans to improve the employers' funded status and to manage contribution rates as well as require all PERS participating employers to participate in the UALRP, not just those participating in EIF.

To facilitate the launch of EIF, all employers applying for EIF satisfied the requirement to participate in the UALRP by identifying their combined valuation payroll, UAL amount and funded status using existing resources available online. Employers were advised that these metrics have the potential to be positively affected by the addition of a side account and should be monitored in valuations going forward. Additionally, employers were required to use the web-based PERS' Employer Rate Projection tool to review the affect their intended lump sum payment and potential EIF match would have on their rates and contributions projected out over the next ten biennia.

PERS has submitted a Request for Information for vendors to provide a more comprehensive and advanced Employer Rate Projection Tool that will allow employers to engage in more

⁴ November 2019 Revenue Forecast <https://www.oregon.gov/das/OEA/Documents/revenue.pdf>

⁵ https://www.oregonlottery.org/docs/default-source/commission-meeting/2019-commission-meetings/12---dec.-20-2019/ex-2---november-2019-approved-financial-statements.pdf?sfvrsn=db700aa7_4

sophisticated scenarios including the ability to modify actuarial assumptions (such as the assumed rate or assumed wage growth). In the meantime, PERS is updating the current Employer Rate Projection Tool with the actuarial assumptions adopted for the 2018 advisory valuation and adding in varying amortization periods.

Development of the UALRP is intended to be an iterative program. We will conduct stakeholder meetings with employers to gauge what information should be included in the future and the process for tracking employer participation.

Summary

Uncertainty surrounding revenues streams for the SDULF creates challenges in planning for the amount and timing of rate relief that School Districts Pool members may receive through this program.

PERS launched the first cycle of EIF in Fall 2019. The program introduced many employers to the concept of side accounts and the development of their contribution rates. The knowledge gained from this first round of EIF and the relationships established with our employers will directly aid in the development of the UALRP and buoy future employer investment and engagement. Depending on receipt of future revenue streams, PERS plans to align future EIF cycles with the valuation cycle to benefit funded status and system-wide reporting.

The UALRP continues to evolve as PERS works with internal and external stakeholders to design a program that meaningfully engages and educates employers. PERS hopes to establish the second major iteration of the UALRP by August 31, 2020 which is expected to include a new employer rate projection tool and actuarial training and resources.

Action Requested

PERS requests the Committee Acknowledge receipt of the report.

Legislation Affected

No legislation is affected by this request.

Sincerely,



Kevin Olineck, Director
Oregon Public Employees Retirement System



Oregon

Kate Brown, Governor

Public Employees Retirement System

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January 31, 2020

TO: Members of the PERS Board
FROM: Richard Horsford, Chief Financial Officer
Amanda Marble, Financial Reporting Manager
SUBJECT: 2019 Preliminary Earnings Crediting and Reserving

OVERVIEW

- Action: Allocate 2019 preliminary earnings crediting.
- Reason: ORS 238.670(5) requires PERS to submit a preliminary proposal to the appropriate legislative committee at least 30 days before making a final decision on earnings crediting.
- Subject: Crediting earnings for calendar year 2019 to the PERS Fund's accounts and reserves.

The PERS Board is charged with crediting the earnings from the PERS Fund each calendar year. Some of those allocations are directed by statute or rule; the balance is at the PERS Board's discretion.

2019 PRELIMINARY ALLOCATIONS

The PERS Board's Annual Earnings Crediting rule (see OAR 459-007-0005) directs the crediting to the Judge and Tier Two member regular accounts, as well as the OPSRP Pension Program, Benefits-in-Force, and Employer reserves. Staff recommends the following allocations be adopted preliminarily by the PERS Board:

Non-Discretionary Allocations

1. Tier One Member Regular Accounts Reserve and Judge Member Accounts

Credit Tier One member regular accounts and Judge member accounts with the assumed earnings rate (7.20%) in effect during 2019.

Tier One Rate Guarantee Reserve: This reserve, established under ORS 238.255(1), is used to fund crediting of the assumed rate to Tier One member regular accounts when earnings are less than the assumed rate. Because earnings on Tier One member regular accounts for 2019 exceed the assumed rate, those excess earnings will be credited to Tier One Rate Guarantee Reserve, resulting in a remaining balance of \$494.8 million.

2. Tier Two Member Regular Accounts

Credit Tier Two member regular accounts with a proportional share of available PERS Fund Regular Account earnings, which will result in a preliminary rate of 13.29%.

3. Benefits-in-Force and Employer Reserves

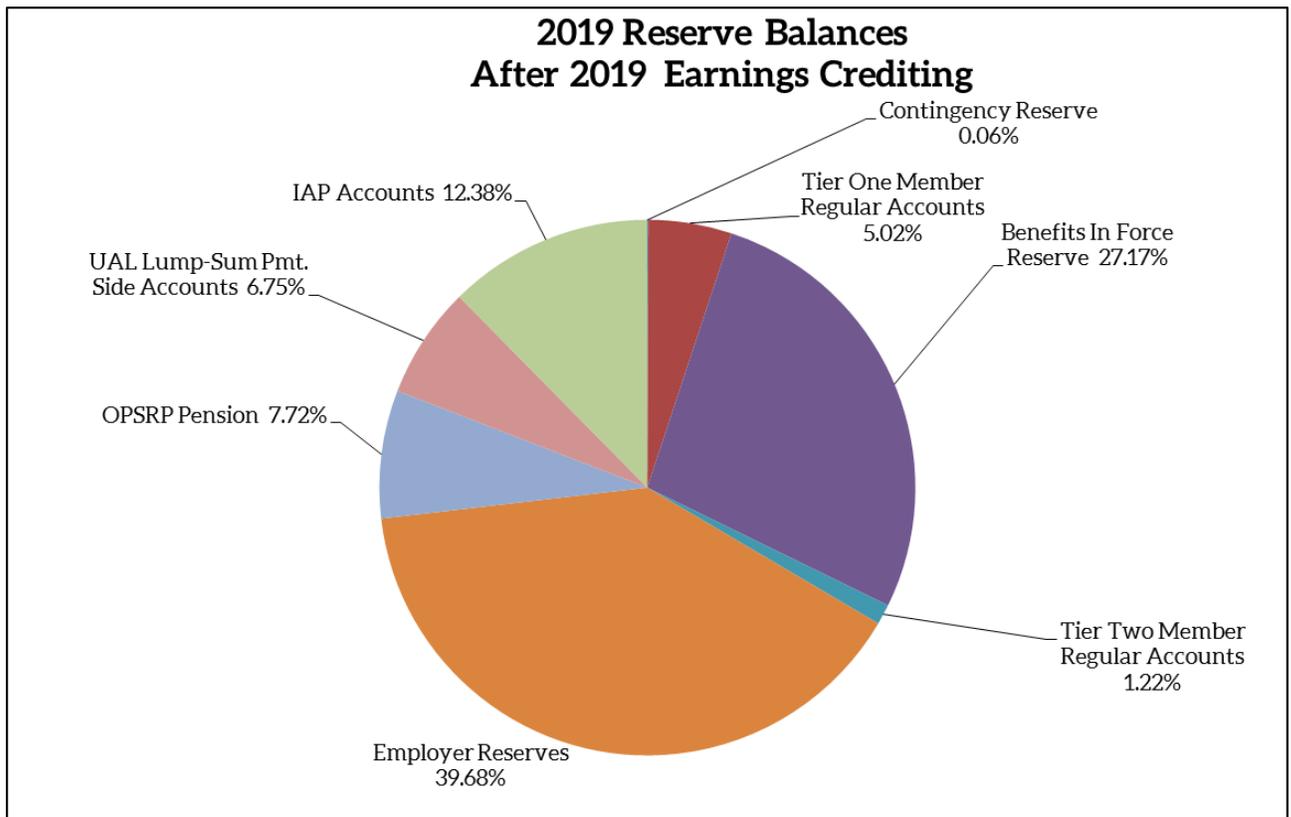
Credit the Benefits-in-Force and Employer Reserves evenly with the remaining available PERS Fund Regular Account earnings, which will result in a preliminary rate of 13.29%.

4. OPSRP Pension Plan Member Accounts

OPSRP member accounts usually are credited with a proportional share of available PERS Fund Regular Account earnings, which will result in a preliminary rate of 13.29%.

Oregon Public Employees Retirement System Preliminary 2019 Crediting and Reserving				
(All dollar amounts in millions)				
	Reserves Before Crediting	2019 Crediting	Reserves After Crediting	2019 Rates
Tier One Member Regular Accounts	3,327.6	239.6	3,567.2	7.20%
Tier One Rate Guarantee Reserve	257.6	237.2	494.8	N/A
Tier Two Member Regular Accounts	874.8	116.3	991.1	13.29%
Benefits In Force Reserve	19,411.0	2,581.5	21,992.5	13.29%
Employer Reserves	28,356.5	3,771.2	32,127.7	13.29%
OPSRP Pension	5,513.9	739.0	6,252.9	13.37%
*IAP Accounts, as a whole	8,852.9	1,168.6	10,021.5	13.20%
*UAL Lump-Sum Pmt. Side Accounts	4,794.2	668.5	5,462.7	Various**
Contingency Reserve	50.0	-	50.0	N/A
Total	\$71,438.5	\$9,521.9	\$80,960.4	

** The average of the various preliminary earnings rates is 13.94%



EARNINGS ALLOCATIONS DIRECTED BY STATUTE OR RULE

The following reserves and accounts are allocated earnings by applicable statute or rule. In compliance with these restrictions, the preliminary earnings allocation reflects the following:

- 5. Individual Account Program (IAP):** These member accounts are credited with actual earnings or losses of the PERS Fund Regular Account as required by ORS 238A.350 (1). The overall preliminary IAP earnings for 2019 are 13.20% after deducting IAP expenses. The table below illustrates the IAP earnings by tranche.

Oregon Public Employees Retirement System Preliminary IAP TDF Earnings				
(All dollar amounts in thousands)				
TDF Fund	Reserves Before Crediting	2019 Crediting	Reserves After Crediting	2019 Rates
RET Fund	233,168.8	21,472.3	\$254,641.1	9.20%
2020 Fund	796,228.2	87,616.1	883,844.3	11.00%
2025 Fund	1,379,272.8	184,413.2	1,563,686.0	13.37%
2030 Fund	1,606,404.2	222,325.4	1,828,729.6	13.83%
2035 Fund	1,711,473.2	224,602.9	1,936,076.1	13.12%
2040 Fund	1,413,487.1	180,748.3	1,594,235.4	12.78%
2045 Fund	998,420.5	149,623.1	1,148,043.6	14.98%
2050 Fund	502,622.9	72,118.9	574,741.8	14.34%
2055 Fund	177,269.8	22,523.1	199,792.9	12.70%
2060 Fund	34,528.9	3,151.2	37,680.1	9.12%
Total	\$8,852,876.4	\$1,168,594.5	\$10,021,470.9	

Beginning January 1, 2020, IAP Installment accounts were transitioned from the Retirement Allocation Fund (RAF) into their own tranche, called Retirement Installment Fund (RIF). This modification was to address complications in the administration of earnings crediting. Between now and Final Earnings Crediting, we will be making adjustments for the changes in earnings to ensure the installment accounts will be credited the full amount of earnings due.

- 6. Employer Lump Sum Payment Accounts:** These accounts are credited with actual earnings or losses of the PERS Fund Regular Account less administrative expenses, as authorized by ORS 238.225. For 2019, the average preliminary crediting rate for these accounts is 13.94%.
- 7. Health Insurance Accounts:** These accounts are created as part of the PERS Fund and directed by statute to be credited with actual earnings or losses, less the expense related to the administration of the programs (ORS 238.410(7); 238.415(4); 238.420(4)). For 2019, the preliminary crediting rate for these accounts are 13.49% for RHIA, 10.79% for RHIPA, and 1.72% for SRHIA (invested in the Treasury Short-Term Fund).

Oregon Public Employees Retirement System Health Insurance Accounts Preliminary Rates	
Health Insurance Fund	2019
RHIA	13.49%
RHIPA	10.79%
SRHIA *	1.72%

* Invested in the Treasury Short-Term Fund

8. Variable Annuity Account: This account is credited with earnings and losses on its distinct asset allocation of the PERS Fund. The Variable Annuity Account is only invested in equities and therefore its earnings are discrete from those of the more diversified PERS Fund Regular Account. For 2019, the preliminary Variable Annuity Account earnings is 29.04%.

Administrative Expenses: PERS administrative costs are funded by earnings when they are sufficient, as they were in 2019 (ORS 238.610(1)). As directed by House Bill 4155 (2014 Regular Session), the administrative costs to comply with Governmental Accounting Standards Board (GASB) 68 and 75 reporting standards were \$23,351, and will be recovered from earnings on employer’s contributions.

CONTINGENCY RESERVE ALLOCATION

ORS 238.670 (1) to limit the Board’s crediting of funds to the Contingency Reserve; specifically, “...the board may not credit further amounts to the reserve account if the amounts in the reserve account exceed \$50 million.”

As the current balance of the Contingency Reserve is \$50 million, with \$2.5 million earmarked for resolving employer insolvencies. The staff recommends no additional allocation at this time.

BOARD ACTION – PRELIMINARY EARNINGS CREDITING

The Board’s options for 2019 preliminary earnings crediting include:

1. Pass a motion to “adopt the preliminary crediting of earnings as presented for calendar year 2019, subject to final adoption at the March 30, 2020 PERS Board meeting.”
2. Pass a motion preliminarily allocating 2019 earnings in an alternative proportion, subject to final adoption at the March 30, 2020 PERS Board meeting.

STAFF RECOMMENDATION

Staff recommends the Board choose Option #1.

NEXT STEPS

Preliminary Earnings Crediting: Once the Board makes its preliminary allocation, staff will prepare and present the required report to the Joint Legislative Committee on Ways and Means. Any comments received from the committee will be presented to the Board prior to the final crediting decision at its meeting on March 30, 2020.

This preliminary action and the resulting report to the Legislature do not prohibit the PERS Board from changing its final decision, such as if new information becomes available. If the Board makes a significant change from its preliminary decision, staff will report the Board's actions to the Legislature.

C.6. Attachment 1 – *ORS 238.670 – Reserve Accounts in Fund*

C.6. Attachment 2 – *OAR 459-007-0005 – Annual Earnings Crediting Rule*

ORS 238.670 Reserve accounts in fund. (1) At the close of each calendar year in which the earnings on the Public Employees Retirement Fund equal or exceed the assumed interest rate established by the Public Employees Retirement Board under ORS 238.255, the board shall set aside, out of interest and other income received through investment of the Public Employees Retirement Fund during that calendar year, such part of the income as the board may deem advisable, not exceeding seven and one-half percent of the combined total of such income, which moneys so segregated shall remain in the fund and constitute therein a reserve account. The board shall continue to credit the reserve account in the manner required by this subsection until the board determines that the reserve account is adequately funded for the purposes specified in this subsection. Such reserve account shall be maintained and used by the board to prevent any deficit of moneys available for the payment of retirement allowances, due to interest fluctuations, changes in mortality rate or, except as provided in subsection (3) or (4) of this section, other contingency. In addition, the reserve account may be used by the board for the following purposes:

(a) To prevent any deficit in the fund by reason of the insolvency of a participating public employer. Reserves under this paragraph may be funded only from the earnings on employer contributions made under ORS 238.225.

(b) To pay any legal expenses or judgments that do not arise in the ordinary course of adjudicating an individual member's benefits or an individual employer's liabilities.

(c) To provide for any other contingency that the board may determine to be appropriate.

(2) At the close of each calendar year, the board shall set aside, out of interest and other income received during the calendar year, after deducting the amounts provided by law and to the extent that such income is available, a sufficient amount to credit to the reserves for pension accounts and annuities varying percentage amounts adopted by the board as a result of periodic actuarial investigations. If total income available for distribution exceeds those percentages of the total accumulated contributions of employees and employers, the reserves for pensions and annuities shall participate in such excess.

(3) The board may set aside, out of interest and other income received through investment of the fund, such part of the income as the board considers necessary, which moneys so segregated shall remain in the fund and constitute one or more reserve accounts. Such reserve accounts shall be maintained and used by the board to offset gains and losses of invested capital. The board, from time to time, may cause to be transferred from the reserve account provided for in subsection (1) of this section to a reserve account provided for in this subsection such amount as the board determines to be unnecessary for the purposes set forth in subsection (1) of this section and to be necessary for the purposes set forth in this subsection.

(4) The board may provide for amortizing gains and losses of invested capital in such instances as the board determines that amortization is preferable to a reserve account provided for in subsection (3) of this section.

(5) At least 30 days before crediting any interest and other income received through investment of the Public Employees Retirement Fund to any reserve account in the fund, the board shall submit a preliminary proposal for crediting to the appropriate legislative review agency, as defined in ORS 291.371 (1), for its review and comment. [Formerly 237.281; 2001 c.945 §5]

OAR 459-007-0005**Annual Earnings Crediting**

- (1) For purposes of this rule, “remaining earnings” means earnings available for distribution to a particular account or reserve after deduction of amounts required or authorized by law for other purposes.
- (2) Except as otherwise specified in this division, earnings on all accounts and reserves in the Fund shall be credited as of December 31 of each calendar year in the manner specified in this rule.
- (3) Health insurance accounts. All earnings attributable to the Standard Retiree Health Insurance Account (SRHIA), Retiree Health Insurance Premium Account (RHIPA) or Retirement Health Insurance Account (RHIA) shall be credited to the account from which they were derived, less administrative expenses incurred by each account, as provided in ORS 238.410, 238.415 and 238.420, respectively.
- (4) Employer lump sum payments. All earnings or losses attributable to the employer lump sum payment accounts established under ORS 238.229 shall be credited to the accounts from which they were derived.
- (5) Member variable accounts. Earnings on the Variable Annuity Account shall first be used to pay a pro rata share of administrative expenses in accordance with ORS 238.260(6). If the annual earnings from the Variable Annuity Account are insufficient to pay for the pro rata share of administrative expenses, those administrative expenses shall be paid from earnings on other accounts within the Public Employees Retirement Fund (PERF), if available. If earnings from those accounts within the PERF are insufficient to pay for the administrative expenses, those expenses shall be paid from employer accounts as required by ORS 238.610. All remaining earnings or losses attributable to the Variable Annuity Account shall be credited to the participants of that account, as provided under 238.260(6) and (7)(b).
- (6) Individual Account Program accounts. Earnings on the Individual Account Program accounts shall first be used to pay a pro rata share of administrative expenses in accordance with ORS 238A.350(1). Losses on Individual Account Program target date funds shall be increased by a pro rata share of administrative expenses. After administrative expenses, each Individual Account Program account shall be credited with the earnings or losses of the specific target date fund to which the account is allocated.
- (7) Administrative expenses. Earnings attributable to Tier One regular accounts, the Tier One Rate Guarantee Reserve, Tier Two member regular accounts, judge member regular accounts, the OPSRP Pension Program reserve, employer contribution accounts, the Contingency Reserve, the Benefits-in-Force Reserve and the Capital Preservation Reserve shall first be used to pay the system’s remaining administrative expenses under ORS 238.610.
- (8) Contingency Reserve.
 - (a) In any year in which total earnings on the Fund equal or exceed the assumed rate, an amount not exceeding seven and one-half percent of remaining earnings attributable to Tier One regular accounts, the Tier One Rate Guarantee Reserve, Tier Two regular accounts, Judge member regular accounts, the OPSRP Pension Program reserve, the Benefits-in-Force Reserve, employer contribution accounts, the Capital Preservation Reserve and the Contingency Reserve shall be credited to the Contingency Reserve to the level at which the Board determines it is adequately funded for the purposes specified in ORS 238.670(1).
 - (b) The portion of the Contingency Reserve allowed under ORS 238.670(1)(a) for use in preventing a deficit in the fund due to employer insolvency may only be credited using earnings attributable to employer contribution accounts.

(9) Tier One Member Rate Guarantee Reserve. All remaining earnings attributable to Tier One regular accounts, the Tier One Member Rate Guarantee Reserve, Judge member regular accounts, the Benefits-in-Force Reserve, and the Contingency Reserve may be credited to the Tier One Member Rate Guarantee Reserve established under ORS 238.255(1).

(10) Capital Preservation Reserve. Remaining earnings attributable to the Tier Two member regular accounts, Judge member regular accounts, OPSRP Pension Program reserve, employer contribution accounts, the Benefits-in-Force Reserve, the Contingency Reserve and the Capital Preservation Reserve may be credited from those sources to one or more reserve accounts that may be established under ORS 238.670(3) to offset gains and losses of invested capital.

(11) Tier One regular accounts. All remaining earnings attributable to Tier One regular accounts and the Tier One Rate Guarantee Reserve shall be credited to Tier One member regular accounts at the assumed rate in any year in which the conditions set out in ORS 238.255 have not been met. Crediting under this subsection shall be funded first by all remaining earnings attributable to Tier One regular accounts and the Tier One Rate Guarantee Reserve, then moneys in the Tier One Rate Guarantee Reserve.

(12) Judge member regular accounts. All remaining earnings attributable to Judge member regular accounts shall be credited to all active and inactive Judge member regular accounts at the Judge member rate. Crediting under this subsection shall be funded first by all remaining earnings attributable to the Judge member regular accounts and the Tier One Rate Guarantee Reserve, then moneys in the Tier One Rate Guarantee Reserve.

(13) Tier Two member regular accounts. All remaining earnings or losses attributable to Tier Two member regular accounts shall be credited to all active and inactive Tier Two member regular accounts under ORS 238.250.

(14) OPSRP Pension Program Reserve. Remaining earnings attributable to the OPSRP Pension Program Reserve, the Contingency Reserve, and the Capital Preservation Reserve may be used to credit the OPSRP Pension Program reserve.

(15) Benefits-in-Force Reserve. Remaining earnings attributable to the Benefits-in-Force Reserve, the Contingency Reserve, the Capital Preservation Reserve and employer contribution accounts, in that order, shall be used, to the extent available, to credit the Benefits-in-Force Reserve with earnings up to the assumed rate for that calendar year in accordance with ORS 238.670(2).

(16) Employer contribution accounts. All remaining earnings attributable to employer contribution accounts shall be credited to employer contribution accounts.

(17) Remaining earnings. Any remaining earnings shall be credited to accounts and reserves in the Fund at the Board's discretion.

Statutory/Other Authority: ORS 238.650 & 238A.450

Statutes/Other Implemented: ORS 238 & 238A.350

History:

PERS 2-2018, amend filed 02/02/2018, effective 02/02/2018

PERS 7-2017, temporary amend filed 12/01/2017, effective 12/01/2017 through 05/29/2018

PERS 9-2012, f. & cert. ef. 5-24-12

PERS 4-2009, f. & cert. ef. 4-6-09

PERS 1-2006, f. & cert. ef. 2-1-06

PERS 18-2005(Temp), f. & cert. ef. 10-26-05 thru 4-19-06

PERS 8-2004, f. & cert. ef. 4-15-04



UPDATED VALUATION RESULTS ESTIMATES

OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM

Presented by:

Matt Larrabee, FSA, EA, MAAA

Scott Preppernau, FSA, EA, MAAA

January 31, 2020

This work product was prepared for discussion purposes only and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. Any recipient of this work product who desires professional guidance should engage qualified professionals for advice appropriate to its own specific needs.

Backward-looking calendar

- October: System-wide results of December 31, 2018 actuarial valuation
- December:
 - **Advisory** employer-specific 2021-2023 contribution rates
 - Based on the December 31, 2018 actuarial valuation
 - Long-term financial modeling projections reflecting published investment **returns through September 30, 2019 of +9.75%**
 - System average contribution rates
 - System funded status
 - System unfunded actuarial liability (UAL)
- Today: Preliminary estimate of system-wide December 31, 2019 results
 - Based on financial model presented in December, updated for published **full-year 2019 returns of +13.56%**
 - Actual December 31, 2019 valuation results will reflect updated member data
 - Proposed 2021-2023 contribution rates for Board adoption in October 2020

Preliminary 12/31/2019 valuation results estimate

Actual 2019 Investment Return	Excluding Side Accounts		Including Side Accounts	
	UAL	Funded Status	UAL	Funded Status
+ 13.56%	\$24.1	73%	\$18.9	79%

(Amounts in billions)

- Estimate reflects 12/31/2018 member census data
- Side accounts reflected do not include new accounts established during 2019 (including effect of Employer Incentive Fund program)
- Final valuation results will be based on 12/31/2019 member census data
- At 12/31/2018 and excluding side accounts, UAL was \$27.0 billion and funded status was 69%

System-average weighted total* pension-only rates

2009-2011
rates set prior
to economic
downturn

2011-2013
rates first to
reflect -27%
return in 2008

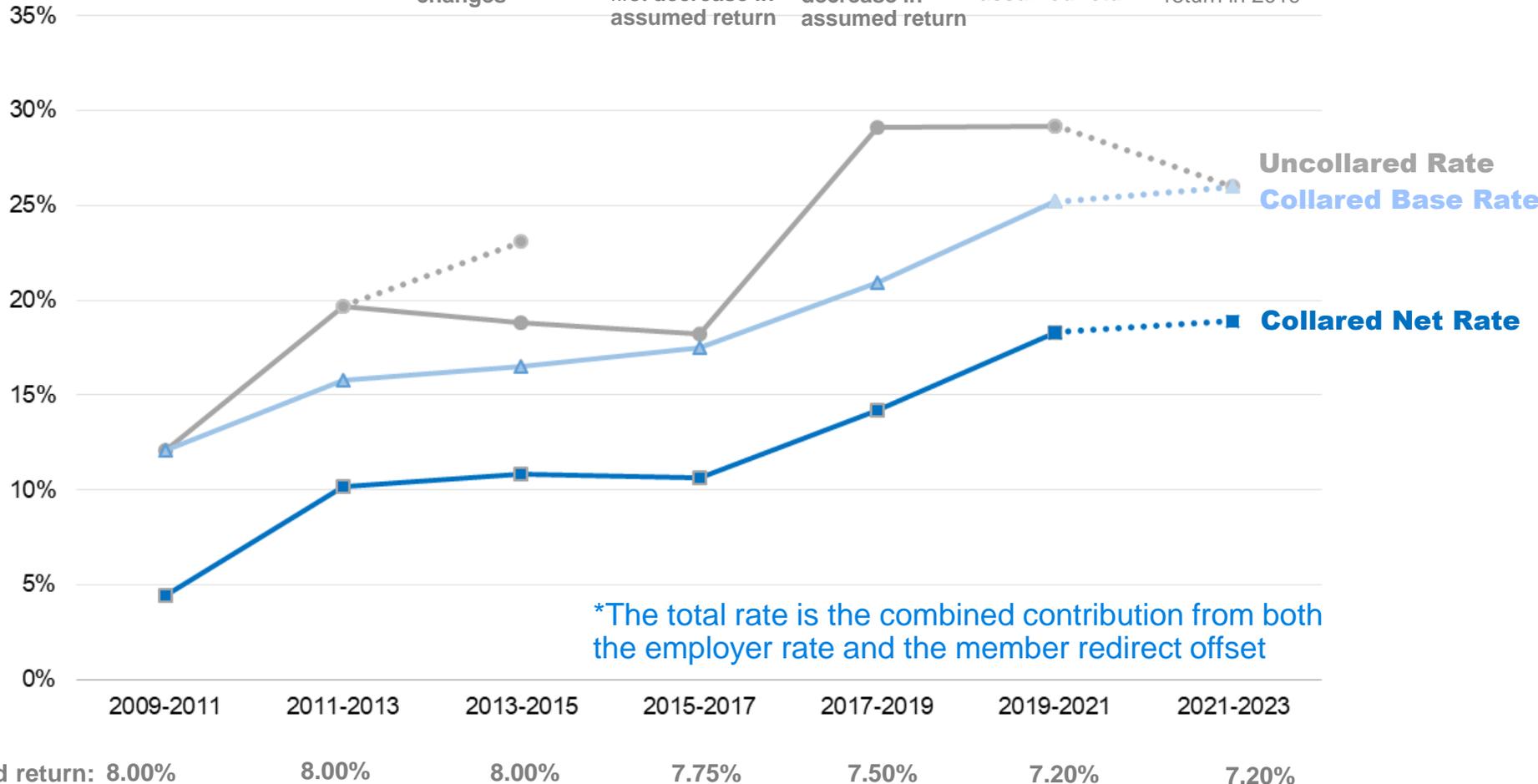
2013-2015
shown before
(dotted line)
and after (solid
line) legislated
changes

2015-2017 set
pre-Moro
reflecting 2012
(+14.3%) & 2013
(+15.6%) returns,
first decrease in
assumed return

2017-2019 set
post-Moro,
reflecting 2015
return (+2.1%)
and second
decrease in
assumed return

2019-2021
reflects +15.4%
return in 2017
and third
decrease in
assumed return

2021-2023 are preliminary
estimates of total rates *before*
reduction for effect of SB 1049
member redirect offset
contributions; reflects +13.6%
return in 2019



*The total rate is the combined contribution from both the employer rate and the member redirect offset

Assumed return: 8.00%

8.00%

8.00%

7.75%

7.50%

7.20%

7.20%

System-average pension rates

	2019-2021	Estimated 2021-2023
Uncollared Total Rate	29.2%	26.0%
Collared Total Base Rate	25.2%	26.0%
Member Redirect Offset	N/A	<u>(1.3%)</u>
Collared Base Employer Rate	25.2%	24.7%
Collared Net Employer Rate	18.3%	17.6%

(Excludes retiree healthcare and IAP contributions)

- Member redirect offset is average of 2.45% for Tier 1/Tier 2 and 0.70% for OPSRP, based on estimated 12/31/2019 payroll weightings
 - Amounts reflect estimated impact of redirect excluding members with monthly pay below statutory threshold
 - Over time, average will converge to OPSRP offset of 0.70%
- Estimates reflect 2019 investment return of +13.56% and 12/31/2018 member census data



Appendix

This work product was prepared for discussion purposes only and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. Any recipient of this work product who desires professional guidance should engage qualified professionals for advice appropriate to its own specific needs.

Certification

This presentation summarizes a limited update to deterministic modeling for the Oregon Public Employees Retirement System (“PERS” or “the System”) initially presented to the PERS Board in December 2019. Updates since December 2019 consist solely of changes to modeled 2019 investment returns as noted in the body of this presentation, including a modeled +26.68% 2019 return on Tier 1/Tier 2 member variable accounts. The December 2019 presentation should be referenced for additional detail on the assumptions, methods, and plan provisions underlying these results.

In preparing this report, we relied, without audit, on information (some oral and some in writing) supplied by the System’s staff. 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 valuation results 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 our best estimate of anticipated experience affecting the System.

Future actuarial measurements may differ significantly from the current measurements presented in this report 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 or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements. The PERS Board has the final decision regarding the appropriateness of the assumptions.

Actuarial computations presented in this report are for purposes of determining the recommended funding amounts for the System. The computations prepared for other purposes may differ as disclosed in our report. The calculations in the enclosed report have been made on a basis consistent with our understanding of the System’s funding requirements and goals.

This work product was prepared for discussion purposes only and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. Any recipient of this work product who desires professional guidance should engage qualified professionals for advice appropriate to its own specific needs.

Certification

The calculations in this report have been made on a basis consistent with our understanding of the plan provisions described in the appendix of this report. Determinations for purposes other than meeting these requirements may be significantly different from the results contained in this report. Accordingly, additional determinations may be needed for other purposes.

Milliman's work is prepared solely for the internal business use of the Oregon Public Employees Retirement System. 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. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel.

The signing actuaries are independent of the System. We are not aware of any relationship that would impair the objectivity of our work.

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

Retirement System Risks

- Oregon PERS, like all defined benefit plans, is subject to various risks that will affect future plan liabilities and contribution requirements, including:
 - **Investment risk:** the potential that investment returns will be different than expected
 - **Demographic risks:** the potential that mortality experience, retirement behavior, or other demographic experience for the plan population will be different than expected
 - **Contribution risk:** the potential that actual future contributions will be materially different than expected, for example if there are material changes in the System's covered payroll
- The results of an actuarial valuation are based on one set of reasonable assumptions, but it is almost certain that future experience will not exactly match the assumptions.
- Further discussion of plan risks and historical information regarding plan experience are shown in our annual actuarial valuations. In addition, our annual financial modeling presentation to the PERS Board illustrates future outcomes under a wide range of future scenarios reflecting variation in key risk factors.