

# OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM BOARD MEETING

Friday  
May 30, 2014  
1:00 P.M.

PERS  
11410 SW 68<sup>th</sup> Parkway  
Tigard, OR

	ITEM	PRESENTER
<b>A. Administration</b>		
1.	March 31, 2014 Board Meeting Minutes Director's Report <ul style="list-style-type: none"> <li>a. Forward-Looking Calendar</li> <li>b. OIC Investment Report</li> <li>c. Budget Execution Report</li> <li>d. Board Scorecard Report on Agency Performance Measures</li> <li>e. Move to Tualatin Production Facility</li> </ul>	CLEARY
<b>B. Administrative Rulemaking</b>		
1. 2. 3. 4. 5.	Notice of Rules for GASB 68 Cost Allocation Notice of Federal Tax Reconnect Rule Notice of OSGP Rules Notice of Disability Housekeeping Rules Notice of Disability Preliminary Benefit Option Selection Rule	RODEMAN
<b>C. Action and Discussion Items</b>		
1. 2. 3.	2015 Retiree Health Insurance Plan Renewals and Rates Appoint Advisory Committee Members for Oregon Savings Growth Plan 2015-17 Budget Development and Strategic Planning Update	KOBBERVIG BATH RODEMAN
<b>D. Executive Session Pursuant to ORS 192.660(2)(f), (h), and/or ORS 40.225</b>		
1.	Litigation Update	LEGAL COUNSEL

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

**Remaining 2014 Meetings: July 25    September 26    November 21**

Krystal Gema    Michael Jordan    John Thomas, Chair    Pat West, Vice Chair    Rhoni Wiswall    Paul R. Cleary, Executive Director



## **PERS Board Meeting Forward-Looking Calendar**

### **Friday, July 25, 2014**

Adoption of GASB 68 Cost Allocation Rule  
Adoption of Federal Tax Reconnect Rule  
Adoption of OSGP Rules  
Adoption of Disability Housekeeping Rules  
Adoption of Disability Preliminary Benefit Option Selection Rule  
2013 System-wide Valuation Results  
2015-17 Agency Request Budget-Approval to Submit  
Audit Committee Meeting

### **Friday, September 26, 2014**

2015-17 Employer Rate Adoption

### **Friday, November 21, 2014**

Board Scorecard Report on Agency Performance Measures  
Approval to File 2015 Final Legislative Concepts  
Audit Committee Meeting



# OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM

## BOARD MEETING MINUTES

March 31, 2014

### Board Members:

John Thomas, Chair  
Krystal Gema  
Michael Jordan (phone)  
Pat West  
Rhoni Wiswall

### Staff:

Donna Allen  
Linda Barnett  
Paul Brown  
Paul Cleary  
David Crosley

Yvette Elledge  
Brian Harrington  
Rick Howitt  
Kyle Knoll  
Jordan Masanga

Steve Rodeman  
Marjorie Taylor  
Stephanie Vaughn  
Dale Wakabayashi  
Ann Marie Vu

### Others:

Linda Agee  
Sandie Frazier  
Greg Hartman

Celia Heron  
Claire Hertz  
Keith Kutler

Matt Larrabee  
Scott Preppernau  
Carol Samuels

Deborah Tremblay

Chair John Thomas called the meeting to order at 1:00 P.M.

Board member Michael Jordan attended by phone.

### ADMINISTRATION

#### A.1. BOARD MEETING MINUTES OF JANUARY 31, 2014

The Board unanimously approved the minutes from the January 31, 2014 Board meeting.

#### A.2. DIRECTOR'S REPORT

Executive Director Paul Cleary reviewed the Forward Looking Calendar.

Presenting the OPERF investment returns for the period ending February 28, 2014, Cleary noted the year-to-date regular account returns were 0.97 percent and the variable returns were 1.02 percent for the same period, and that the net asset value of the fund was \$67.8 billion.

Cleary presented the Budget Execution Report for January and February 2014 showing a positive variance of just under 3 percent.

Cleary summarized a memo from PERS' actuary, Milliman, regarding the Society of Actuaries (SOA) Blue Ribbon Panel Report on the funding of public pension systems. The memo noted that PERS was already following many of the panel's funding guidance and information disclosure recommendations.

### ADMINISTRATIVE RULEMAKING

#### B.1. ADOPTION OF RECEIPT DATE RULE

Deputy Director Steve Rodeman presented the Receipt Date Rule for adoption. The rule modifies the date that imaged items are considered to be received and filed and clarifies that the receipt stamp satisfies the requirement for other recorded items.

Board member Rhoni Wiswall moved and Pat West seconded to adopt the Receipt Date Rule, as presented. The motion passed unanimously.

**B.2. ADOPTION OF RETIREE HEALTH INSURANCE PREMIUM ACCOUNT RULES**

Rodeman presented the Retiree Health Insurance Premium Account (RHIPA) Rules for adoption. The rules clarify participant eligibility and service time used in apportioning the health insurance premium for retired state employees who are not Medicare eligible.

Board member West moved and Wiswall seconded to adopt the Retiree Health Insurance Premium Account Rules, as presented. The motion passed unanimously.

**B.3. ADOPTION OF MODEL RULES OF PROCEDURE RULE**

Rodeman presented the Model Rules of Procedure Rule for adoption. The rule reflects the Attorney General's updated administrative procedure rules.

Board member Krystal Gema moved and West seconded to adopt the Model Rules of Procedure Rule, as presented. The motion passed unanimously.

**B.4. ADOPTION OF SENATE BILL 861 RULES**

Rodeman presented the Senate Bill 861 Rules for adoption. The rules implements provisions of Senate Bill 861 affecting the calculation of the cost-of-living adjustment (COLA) payable to benefit recipients on and after July 1, 2014, and the administration of the supplementary payments for PERS benefit recipients.

Board member Wiswall moved and West seconded to adopt the Senate Bill 861 Rules, as presented. The motion passed unanimously.

**ACTION AND DISCUSSION ITEMS**

**C.1. 2014 LEGISLATIVE SESSION REVIEW AND 2015 PROPOSED LEGISLATIVE CONCEPTS**

Senior Policy Advisor Marjorie Taylor reviewed the 2014 legislative session and possible agency legislative concepts for the 2015 session. Taylor noted the agency is also working with PERS employers on a Governmental Accounting Standards Board reporting standards (GASB 68) implementation bill.

Taylor presented the following legislative concepts to be developed for possible introduction at the 2015 legislative session:

- Standardization of the timeline for Police and Firefighters (P&F) Unit Purchases.
- Eliminate discrepancy between retirement credit and length of active membership for school employees.
- Housekeeping changes that would properly reflect newly codified statutes in all programs.

Board member Gema moved and Wiswall seconded to direct staff to submit the three legislative concepts as presented to the Governor's Office and DAS to consider having drafted by Legislative Counsel. The motion passed unanimously.

C.2. 2015-17 BUDGET DEVELOPMENT AND STRATEGIC PLANNING UPDATE

Paul Brown, Manager of Strategic and Operational Planning, outlined the agency's approach to the 2015-17 Budget Development and Strategic Planning by using the agency's Fundamentals Map and related Outcome and Performance Measures as a foundation for both efforts.

Rodeman reviewed how the agency was using the Outcome-Based Management System to organize and measure progress toward major strategic initiatives. Rodeman also described the two themes – Improving Customer Service Metrics and Strengthening Technology Infrastructure – that the agency was structuring its 2015-17 Policy Option Packages (POPs) around.

Wiswall asked how PERS could better convey the security of member's core benefits and address member concerns about their retirement security. West said the system has changed, PERS benefits are not what they once were. Chair Thomas said members should be confident that the system is well-funded and the Board is making solid decisions to maintain retirement security for PERS members. The Board discussed opportunities for enhanced member outreach and education.

Rodeman responded that enhanced member profiling would help the agency in conveying both the structure and security of member's core benefits at the various stages of a member's career, and also complement existing member education programs.

C.3. FINAL 2013 EARNINGS CREDITING AND RESERVING

Rodeman presented the 2013 Final Earnings Crediting report for calendar year 2013. Rodeman reported the preliminary earnings allocation was reported to and acknowledged at a meeting of the Legislature's Joint Ways & Means Committee on February 14, 2014. The final crediting as presented included:

Tier One member regular accounts:	8.00%
Tier Two member regular accounts:	15.62%
Individual Account Program accounts:	15.59%
Variable Account Program accounts:	25.74%

Board member Wiswall moved and Gema seconded to adopt the final crediting of earnings for calendar year 2013 as presented, which included distributing \$67.5 million to the Contingency Reserve. The motion passed unanimously.

The Board took a short break and then reconvened at 1:45 PM in executive session for a litigation update with no Board action required.

Thomas adjourned the executive session, then reconvened and adjourned the Board meeting at 2:05 PM.

Respectfully submitted,



Paul R. Cleary  
Executive Director



Returns for periods ending 4/30/14

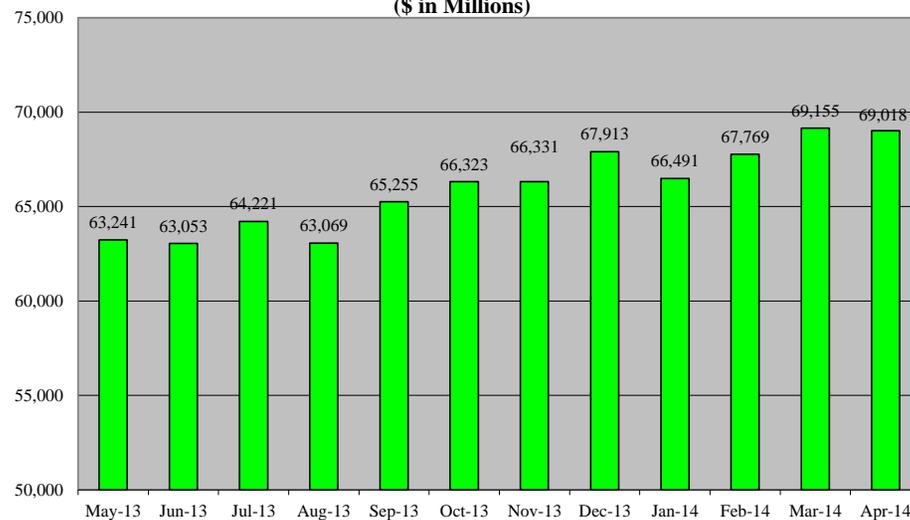
Oregon Public Employees Retirement Fund

OPERF	Regular Account				Historical Performance (Annual Percentage)							
	Policy <sup>1</sup>	Target <sup>1</sup>	\$ Thousands <sup>2</sup>	Actual	Year-To-Date <sup>3</sup>	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS	7 YEARS	10 YEARS
Public Equity	32.5-42.5%	37.5%	\$ 27,816,270	40.8%	1.19	16.01	16.17	8.23	11.16	16.78	3.65	7.66
Private Equity	16-24%	20%	14,572,404	21.4%	7.11	20.84	17.40	14.12	14.96	15.88	9.03	14.47
<b>Total Equity</b>	<b>52.5-62.5%</b>	<b>57.5%</b>	<b>42,388,674</b>	<b>62.2%</b>								
Opportunity Portfolio			858,600	1.3%	4.65	13.72	15.63	9.99	12.22	17.54	7.51	
<b>Total Fixed</b>	<b>15-25%</b>	<b>20%</b>	<b>16,238,827</b>	<b>23.8%</b>	<b>2.06</b>	<b>0.98</b>	<b>4.50</b>	<b>5.35</b>	<b>6.10</b>	<b>9.53</b>	<b>6.49</b>	<b>6.33</b>
Real Estate	9.5-15.5%	12.5%	7,591,901	11.1%	4.65	10.50	13.26	11.86	13.41	10.33	2.40	9.96
Alternative Investments	0-10%	10%	1,116,404	1.6%	0.60	4.15	2.87					
Cash	0-3%	0%	161	0.0%	0.26	0.65	0.84	0.74	0.79	1.00	1.53	2.17
<b>TOTAL OPERF Regular Account</b>		<b>100%</b>	<b>\$ 68,194,567</b>	<b>100.0%</b>	<b>3.05</b>	<b>12.31</b>	<b>12.99</b>	<b>9.15</b>	<b>10.90</b>	<b>14.15</b>	<b>5.08</b>	<b>8.20</b>
<b>OPERF Policy Benchmark</b>					<b>3.88</b>	<b>14.07</b>	<b>13.71</b>	<b>9.64</b>	<b>11.07</b>	<b>13.42</b>	<b>5.61</b>	<b>7.98</b>
Value Added					(0.83)	(1.76)	(0.72)	(0.49)	(0.17)	0.73	(0.53)	0.22
<b>TOTAL OPERF Variable Account</b>			<b>\$ 823,929</b>		<b>2.07</b>	<b>15.14</b>	<b>15.32</b>	<b>7.86</b>	<b>10.67</b>	<b>16.19</b>	<b>2.59</b>	<b>5.72</b>

Asset Class Benchmarks:

Russell 3000 Index	2.10	20.78	18.98	13.54	14.73	19.54	6.03	8.10
MSCI ACWI Ex US IMI Net	2.02	10.16	12.15	3.06	7.12	13.41	1.66	8.05
MSCI ACWI IMI Net	1.96	14.79	14.98	7.48	10.31	15.94	3.34	7.68
Russell 3000 Index + 300 bps--Quarter Lagged	10.89	37.46	28.36	19.69	19.86	22.33	10.29	11.70
Oregon Custom FI Benchmark	1.62	0.13	3.48	4.60	4.83	5.80	5.35	5.22
NCREIF Property Index--Quarter Lagged	2.53	10.98	10.76	11.92	12.21	5.68	5.23	8.63
91 Day T-Bill	0.02	0.06	0.09	0.08	0.10	0.11	0.85	1.66

**TOTAL OPERF NAV**  
(includes variable fund assets)  
One year ending April 2014  
(\$ in Millions)



<sup>1</sup>OIC Policy 4.01.18, as revised October 2013.

<sup>2</sup>Includes impact of cash overlay management.

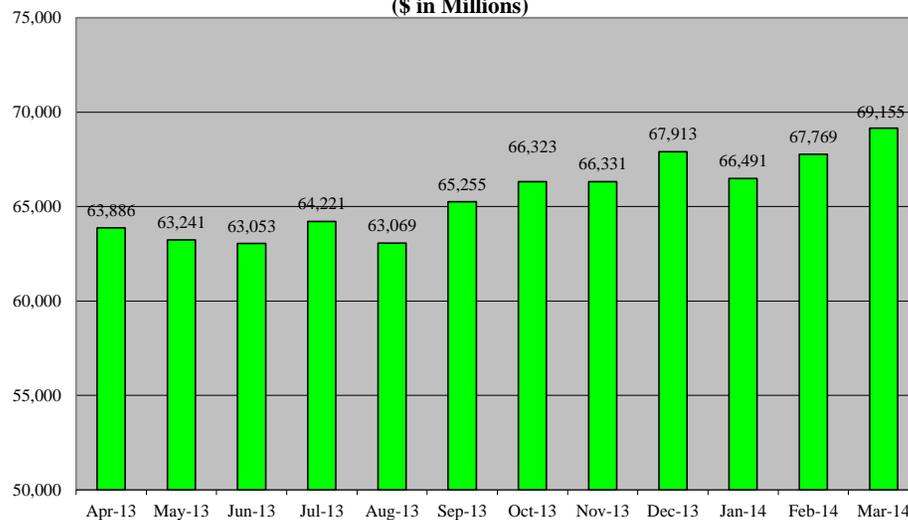
<sup>3</sup>For mandates beginning after January 1 (or with lagged performance), YTD numbers are "N/A". Performance is reflected in Total OPERF. YTD is not annualized.

OPERF	Regular Account				Historical Performance (Annual Percentage)							
	Policy <sup>1</sup>	Target <sup>1</sup>	\$ Thousands <sup>2</sup>	Actual	Year-To-Date <sup>3</sup>	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS	7 YEARS	10 YEARS
Public Equity	32.5-42.5%	37.5%	\$ 27,968,900	40.9%	1.25	19.21	15.48	9.79	11.40	19.46	4.26	7.38
Private Equity	16-24%	20%	14,746,682	21.6%	7.11	20.84	17.40	14.12	14.96	15.88	9.03	14.47
<b>Total Equity</b>	<b>52.5-62.5%</b>	<b>57.5%</b>	<b>42,715,582</b>	<b>62.5%</b>								
Opportunity Portfolio			851,423	1.2%	2.90	13.81	14.59	9.60	12.21	17.17	7.21	
<b>Total Fixed</b>	<b>15-25%</b>	<b>20%</b>	<b>15,914,822</b>	<b>23.3%</b>	1.67	1.92	4.83	5.65	6.48	10.39	6.54	6.04
Real Estate	9.5-15.5%	12.5%	7,740,456	11.3%	3.88	11.54	13.20	12.00	13.61	10.77	2.34	9.45
Alternative Investments	0-10%	10%	1,089,413	1.6%	(1.77)	1.62	1.52					
Cash	0-3%	0%	20,524	0.0%	0.17	0.64	0.83	0.76	0.77	1.06	1.58	2.17
<b>TOTAL OPERF Regular Account</b>		<b>100%</b>	<b>\$ 68,332,220</b>	<b>100.0%</b>	2.84	13.86	12.81	9.87	11.11	15.49	5.42	7.92
<b>OPERF Policy Benchmark</b>					3.34	15.36	13.28	10.25	11.02	14.56	5.90	7.70
Value Added					(0.50)	(1.50)	(0.47)	(0.38)	0.09	0.93	(0.48)	0.22
<b>TOTAL OPERF Variable Account</b>			<b>\$ 822,859</b>		1.42	17.28	14.36	9.07	10.68	18.65	3.05	5.42

Asset Class Benchmarks:

Russell 3000 Index	1.97	22.61	18.52	14.61	15.31	21.93	6.60	7.86
MSCI ACWI Ex US IMI Net	0.87	12.80	10.69	4.32	6.67	16.16	2.16	7.59
MSCI ACWI IMI Net	1.33	17.11	13.99	8.69	10.31	18.53	3.88	7.32
Russell 3000 Index + 300 bps--Quarter Lagged	10.89	37.46	28.36	19.69	19.86	22.33	10.29	11.70
Oregon Custom FI Benchmark	1.16	0.92	3.80	4.85	4.98	5.90	5.36	4.92
NCREIF Property Index--Quarter Lagged	2.53	10.98	10.76	11.92	12.21	5.68	5.23	8.63
91 Day T-Bill	0.01	0.07	0.09	0.08	0.10	0.12	0.91	1.67

**TOTAL OPERF NAV**  
(includes variable fund assets)  
One year ending March 2014  
(\$ in Millions)



<sup>1</sup>OIC Policy 4.01.18, as revised October 2013.

<sup>2</sup>Includes impact of cash overlay management.

<sup>3</sup>For 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

John A. Kitzhaber, M.D., Governor

## Public Employees Retirement System

Headquarters:  
11410 S.W. 68<sup>th</sup> Parkway, Tigard, OR  
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May 30, 2014

TO: Members of the PERS Board  
FROM: Kyle J. Knoll, Financial & Administrative Services Division Administrator  
SUBJECT: May 2014 Board Report

### 2013-15 OPERATIONS BUDGET

Operating expenditures for March 2014 and preliminary expenditures for April 2014 were \$3,172,677 and \$3,042,786 respectively. Final expenditures for April will close in the Statewide Financial Management System (SFMS) May 16<sup>th</sup>, and will be included in the July 2014 report to the Board.

- To date, through the first ten months (41.67%) of the 2013-15 biennium, the Agency has expended a total of \$31,080,297, or 36.96% of PERS' legislatively approved operations budget of \$84,101,284.
- The \$718,750 approved for Phase Two of the IAP administration project will remain unscheduled pending project review and approval by the Department of Administrative Services (DAS). Until that approval is granted, those funds are not included in our budget report. Discussions continue to obtain that approval, with Phase Two planning slated to start in June 2014.
- The current projected positive variance is \$5,001,035, or approximately 5.94% of the operations budget.

### SENATE BILL (SB) 822 and SB 861 BUDGETS

These separate budget limitations were approved by the Legislature in 2013 and 2014 for the administrative costs to implement the COLA modifications for 2013 and beyond; remove tax remedy benefits for recipients who do not pay Oregon income taxes because they do not reside in Oregon; implement the six-year supplementary payments program; and recalculate employer contribution rates effective July 1, 2013. Funding was also provided for the necessary technology enhancements, additional call center agents, and Attorney General expenses.

- Expenditures to date are \$395,555, or 19.5% of the cumulative SB 822 and SB 861 legislatively approved budget of \$2,031,096.
- The current projected variance is \$170,804, or 8.4% of the SB 822 and SB 861 budgets of \$2,031,096.

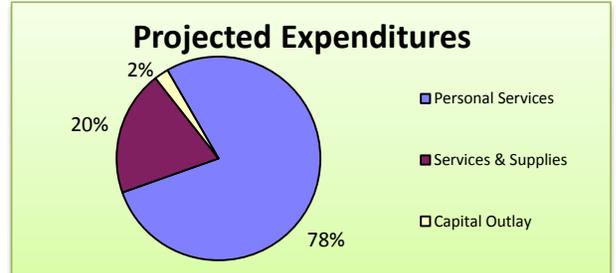
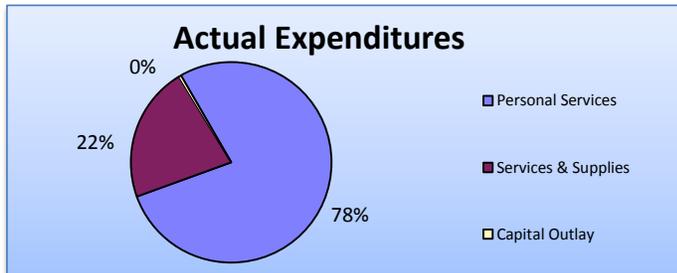


**2013-15 Agency-wide Budget Execution  
Summary Budget Analysis  
For the Month of: April 2014 - Preliminary**

**Limited - Operating Budget**

**2013-15 Biennial Summary**

Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expenditures	2013-15 LAB	Variance
Personal Services	24,286,781	37,380,495	61,667,276	63,535,242	1,867,966
Services & Supplies	6,628,857	9,475,728	16,104,585	19,312,589	3,208,004
Capital Outlay	164,659	1,163,729	1,328,388	1,253,453	(74,935)
<b>Total</b>	<b>31,080,297</b>	<b>48,019,952</b>	<b>79,100,249</b>	<b>84,101,284</b>	<b>5,001,035</b>



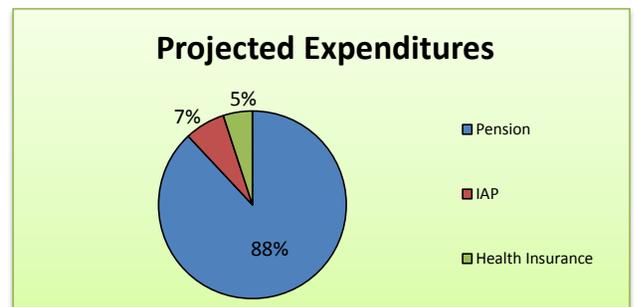
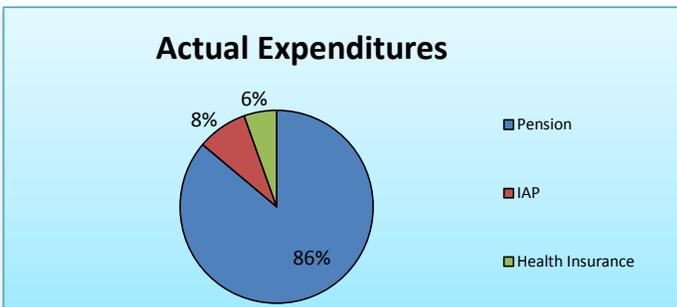
**Monthly Summary**

Category	Actual Exp.	Projections	Variance	Avg. Monthly Actual Exp.	Avg. Monthly Projected Exp.
Personal Services	2,473,589	2,605,880	132,291	2,428,678	2,670,035
Services & Supplies	511,273	610,607	99,334	662,886	676,838
Capital Outlay	57,924	0	(57,924)	16,466	83,124
<b>Total</b>	<b>3,042,786</b>	<b>3,216,487</b>	<b>173,701</b>	<b>3,108,030</b>	<b>3,429,997</b>

**Non-Limited Budget**

**2013-15 Biennial Summary**

Programs	To Date	Projected Expenditures	Total Est. Expenditures	Non-Limited LAB	Variance
Pension	2,940,547,039	5,035,017,193	7,975,564,232	8,148,014,000	172,449,768
IAP	287,574,684	396,795,292	684,369,976	721,200,000	36,830,024
Health Insurance	186,318,060	287,086,025	473,404,085	408,661,000	(64,743,085)
<b>Total</b>	<b>3,414,439,783</b>	<b>5,718,898,510</b>	<b>9,133,338,293</b>	<b>9,277,875,000</b>	<b>144,536,707</b>



**2013-15 SB822 & SB861 Projects - Budget Execution**  
**Summary Budget Analysis**  
For the Month of: April 2014 - Preliminary

<b>Biennial Summary - SB822 &amp; SB861</b>					
Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expend.	2013-15 LAB	Variance
Personal Services	40,209	580,451	620,660	827,446	206,786
Services & Supplies	355,346	884,286	1,239,632	1,203,650	(35,982)
Capital Outlay					
<b>Total</b>	<b>395,555</b>	<b>1,464,737</b>	<b>1,860,292</b>	<b>2,031,096</b>	<b>170,804</b>

**Actual Expenditures**

0% 10% 90%

- Personal Services
- Services & Supplies
- Capital Outlay

**Projected Expenditures**

0% 40% 60%

- Personal Services
- Services & Supplies
- Capital Outlay

<b>SB822 Project</b>					
<b>Biennial Summary</b>					
Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expend.	2013-15 LAB	Variance
Personal Services	40,209	294,375	334,584	435,018	100,434
Services & Supplies	355,346	293,686	649,032	573,133	(75,899)
Capital Outlay					
<b>Total</b>	<b>395,555</b>	<b>588,061</b>	<b>983,616</b>	<b>1,008,151</b>	<b>24,535</b>

<b>Monthly Summary</b>					
Category	Actual Exp.	Projections	Variance	Avg. Monthly Actual Exp.	Avg. Monthly Projected Exp.
Personal Services	6,555	17,552	10,997	4,021	21,027
Services & Supplies	113,306	47,669	(65,637)	35,535	21,502
Capital Outlay					
<b>Total</b>	<b>119,861</b>	<b>65,221</b>	<b>(54,640)</b>	<b>39,556</b>	<b>42,529</b>

<b>SB861 Project</b>					
<b>Biennial Summary</b>					
Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expend.	2013-15 LAB	Variance
Personal Services		286,076	286,076	392,428	106,352
Services & Supplies		590,600	590,600	630,517	39,917
Capital Outlay					
<b>Total</b>		<b>876,676</b>	<b>876,676</b>	<b>1,022,945</b>	<b>146,269</b>

<b>Monthly Summary</b>					
Category	Actual Exp.	Projections	Variance	Avg. Monthly Actual Exp.	Avg. Monthly Projected Exp.
Personal Services		19,710	19,710		20,434
Services & Supplies					42,186
Capital Outlay					
<b>Total</b>		<b>19,710</b>	<b>19,710</b>		<b>62,620</b>



# Oregon

John A. Kitzhaber, M.D., Governor

## Public Employees Retirement System

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May 30, 2014

TO: Members of the PERS Board  
FROM: Steven Patrick Rodeman, Deputy Director  
SUBJECT: Board Scorecard Report on Agency Performance Measures

PERS has been instituting an outcome-based management system with the help of Mass Ingenuity based on their “NOW Management System.” One of the basic elements in this system are agency scorecards that foster accountability and transparency in key operating areas. These scorecards are reviewed each quarter (a session called a Quarterly Target Review or “QTR”).

Once fully adopted and integrated, the outcome and process measures reviewed during the QTR frame the management system’s various components. As another of our partners, CEM Benchmarking, says, “What gets measured gets managed.” Already, we use the scorecard results to help direct strategic planning, resource allocation, and risk assessment. Cascading these scorecard measures through our business process teams down to individual staff contributors for performance management and workforce development purposes will help us become a more aligned, outcome-driven agency.

Through this report, we propose to provide you a view of some key measures that are front-of-mind for us as we address current operational bottle-necks and service delivery challenges. The Board Scorecard Report that’s attached to this memo focuses on several of the measures we are currently tracking to highlight some of the more recent issues we have considered.

Our intention is to report to you every six months on key scorecard measures. The reports will be presented at the May and November Board meetings, to coincide with the scorecard results for the first and third quarters each calendar year.

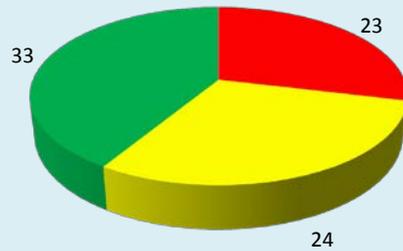
A.1.d. Attachment 1 – Board Scorecard Report for Third Quarter 2013



## PUBLIC EMPLOYEES RETIREMENT SYSTEM Outcome-Based Performance Review

### PERS Board Scorecard Report - QTR: 2014 Q1 - Quarter ended March 31, 2014

**Outcome & Process Measure Performance**



**Quarterly Green Performance**



### Operating Processes - Highlighted Measures

	Measure Name	Measure Calculation	RANGE			Target	Desired Perform Trend	Data Collection Frequency	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Trend	Corrective Action & Comments
			Red	Yellow	Green									
OP3c	Estimate KPM	% of estimate requests completed within 30 days of receipt	<75%	75-85	>85%	95%	↑	Quarterly	51.0%	34.0%	44.0%	58.0%	+	Divorce = 67/67, 238 =1,333/2,512 OPSRP 212/219=96.8% Staffing constraints plus increased volume
OP4a	Eligibility review completed	% of applications completed by the eligibility team within 30 days of the effective retirement	<50%	50-70	>70%	80%	↑	Monthly	77.0%	65.0%	64.0%	70.0%	+	Reorganization of team to narrow focus of staffs work has allowed for improvement even with high volume of retirements early in quarter. April was at 84%. Primed for July retirements.
OP5b	Accuracy of calculations	% of sample calculations that are accurate within plus or minus \$5	<95%	95-99	>99%	100%	↑	Monthly	98.8%	98.9%	99.6%	96.8%	-	Errors on RMD for IAP caused by broken formula in the calculator tool. Old tool fixed in March. New tool deployed 5/5/2014.
OP5c	Timely benefit calculation	% of calculations completed within 15 calendar days from completed application date	<95%	95-99	>99%	100%	↑	Monthly	95.3%	93.0%	97.3%	89.6%	-	Loss of calculation resources during the quarter, with added focus on adjustments.

## PUBLIC EMPLOYEES RETIREMENT SYSTEM Outcome-Based Performance Review

### Supporting Processes - Highlighted Measures

	Measure Name	Measure Calculation	RANGE			Target	Desired Perform Trend	Data Collection Frequency	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Trend	Corrective Action & Comments
			Red	Yellow	Green									
SP1e	Call Wait Time	Average length of wait before caller reaches live person	>6 minutes	6-4 minutes	<4 minutes	2 minutes	↓	Monthly	5.5	4.9	7.0	20.5	-	Average wait time in March was down to 5 minutes. Average wait time for February was 23 minutes. Average wait time for January was 25 minutes.
SP2c	Appeal reversal rate	% of staff determinations that are reversed on appeal	>15%	15-10	<10%	5%	↓	Quarterly	14%	10%	13%	19%	-	472 determinations were issued in the quarter. 88 tax remedy appeals were reversed - AP's that were not supposed to be turned off and members who returned their certification between the time they appealed and us sending the determination.
SP3h	System uptime	% of time systems are available during the service window	<97%	97-98	>98%	100%	↑	Monthly	98.85%	99.63%	99.70%	99.08%	-	
SP5c	Recruiting / Onboarding	% of employees completing trial service	<85%	85-94	>94%	100%	↑	Quarterly	90%	100%	100%	100%	=	



# Oregon

John A. Kitzhaber, M.D., Governor

## Public Employees Retirement System

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May 30, 2014

TO: Members of the PERS Board

FROM: Brian Harrington, Benefit Payments Division Administrator  
Yvette Elledge, Customer Services Division Administrator

SUBJECT: Move to Tualatin Production Facility

From 2004 through March 2014, PERS leased office space, primarily occupied by the Benefit Payments Division (BPD), on SW 72<sup>nd</sup> Avenue in Tigard. That lease was set to expire in October 2013, so PERS became one of the first agencies to pursue and secure better leased space terms in cooperation with the Department of Administrative Services (DAS). DAS recognized that state agencies could better leverage DAS enterprise level expertise in selecting office space and negotiating more favorable lease terms, and PERS was fortunate enough to be entering our lease cycle as DAS was forming up their enterprise leasing support program.

Discussions commenced with the 72<sup>nd</sup> Avenue landlord for potentially reducing lease costs and extending the terms of the lease. Simultaneously, PERS partnered with DAS to evaluate the office space market and consider alternative locations in the Tigard and the Tualatin area. A vacant office building in Tualatin emerged as the prime alternative; negotiations commenced with the owner, PacTrust Properties, to see what terms they might offer.

While parallel negotiations went on with both the 72<sup>nd</sup> Avenue landlord and PacTrust, the agency launched a Breakthrough Planning effort. That effort engaged a team of staff and managers who developed a process-driven orientation for usage of both our current headquarters building and an alternative location. Some “givens” were established for headquarters, such as maintaining that building as the “outward-facing” location where members, employers, and other stakeholders perceived their access to the agency, and concentrating on making the secondary location an “inward-facing” production facility.

The Breakthrough Planning efforts concluded at approximately the same time that negotiations had shown that the Tualatin location offered more space at substantial cost savings over the 72<sup>nd</sup> Avenue site. In addition to substantially reduced costs, the larger space allowed both BPD and Customer Services Division (CSD) production staff to be located in one building, fostering closer cooperation and better communication along the benefit production line.

As of March 24, 2014, all 79 members of the Benefit Payments Division and 55 staff members from the Customer Services Division have successfully transitioned to the Tualatin office. The staff was moved in three phases, the BPD teams moving from 72<sup>nd</sup> Avenue and CSD teams moving from headquarters. The phased moves went like clockwork thanks to the assistance provided by our Project Management Office, as well as the assistance provided by our Information Services Division in moving computers and setting up phones. Many support

services, such as Procurement and Facilities, also coordinated the tenant improvements and acquisitions needed to make this new leased space fit our needs.

Staff that were slated to be moved were back up the next day, so minimal production time was lost. As with any move of this magnitude, staff are adjusting to their new environment and there were various building related issues that needed resolution, but our new landlord, PacTrust, has been very responsive. While the move costs and tenant expenditures will result in a net cost to the agency in this biennium of some \$103,000, we project savings in future biennia of over \$280,000 per biennium, for a net savings of about \$750,000 over the seven year term of the Tualatin lease. DAS' expertise facilitated this result and, while some wrinkles needed to be ironed out as we were the first agency to fully utilize this program, their assistance allowed us to procure a much more advantageous lease than had we simply renewed with our prior landlord.

# 134

## Number of staff moved

55 CSD staff moved from HQ  
79 BPD staff moved from 72<sup>nd</sup> Ave.



# \$750,000

## Net savings over term of lease



# 7 years 5 months

## Length of lease



# 145

## Number of workstations

# 135

## Number of parking spaces

# 5

## Number of conference rooms

72<sup>nd</sup> Ave. had three conference rooms



# 35

## Percent increase in sq. feet

72nd Facility 16,275 sq. ft  
Tualatin Facility 25,375 sq. ft

# 89

## Number of project execution days

Phase 1: March 3, the first 42 staff started at the new facility  
Phase 2: March 10, another 37 staff joined the Tualatin staff  
Phase 3: The remaining 54 staff joined on March 24, 2014

# \$455,248

## Final project expenses







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May 30, 2014

TO: Members of the PERS Board  
FROM: Steven Patrick Rodeman, Deputy Director  
SUBJECT: Notice of Rulemaking for GASB 68 Cost Allocation Rule:  
OAR 459-007-0009, *Allocating Costs of Compliance with GASB 68*

### OVERVIEW

- Action: None. This is notice that staff has begun rulemaking.
- Reason: Implementation of HB 4155 (2014 Session) to provide GASB financial data to employers and allocate associated costs.
- Policy Issue: No policy issues have been identified at this time.

### BACKGROUND

The Governmental Accounting Standards Board (GASB) has adopted new standards for public pension plan financial reporting (GASB 67 and GASB 68). GASB 68 expands the pension liability information to be included by government bodies in their annual financial statements. The most efficient way for PERS-participating employers to obtain the needed data is for PERS to provide it, but the costs of doing so needed specific statutory authorization. House Bill 4155 (2014 Regular Session) provided that authorization and directs the PERS Board to establish by rule procedures for recovering the additional actuarial and auditing costs associated with GASB 68 from investment earnings on employer contributions. This rule will clarify the process by which the GASB 68 associated costs will be allocated to employers.

This rule will have no fiscal impact to PERS administration, the PERS Fund, or PERS members. There will be a fiscal impact to PERS employers, via a reduction in annual earnings crediting, in the amount necessary to cover the agency's actual costs of providing the financial information PERS employers need to comply with GASB 68 and generally accepted accounting principles.

### PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing will be held on June 17, 2014 at 2:00 p.m. at PERS headquarters in Tigard. The public comment period ends on July 3, 2014 at 5:00 p.m.

### LEGAL REVIEW

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

### IMPACT

Mandatory: No.

Impact: Provide additional financial data to employers and allocate associated costs.

Cost: The rule will have no fiscal impact to PERS administration, the PERS Fund, or PERS members. There will be a fiscal impact to PERS employers, via a reduction in annual earnings crediting, in the amount necessary to cover the agency's actual costs of providing audited financial information to comply with GASB 68 and generally accepted accounting principles.

### RULEMAKING TIMELINE

April 15, 2014	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
May 1, 2014	<i>Oregon Bulletin</i> published the Notice. Notice was sent to employers, legislators, and interested parties. Public comment period began.
May 30, 2014	PERS Board notified that staff began the rulemaking process.
June 17, 2014	Rulemaking hearing to be held at 2:00 p.m. at PERS in Tigard.
July 3, 2014	Public comment period ends at 5:00 p.m.
July 25, 2014	Staff will propose adopting the rule modifications, including any changes resulting from public comment or reviews by staff or legal counsel.

### NEXT STEPS

A rulemaking hearing will be held on June 17, 2014 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 July 25, 2014 Board meeting.

B.1. Attachment 1 – 459-007-0009, *Allocating Costs of Compliance with GASB 68*

**OREGON ADMINISTRATIVE RULE  
PUBLIC EMPLOYEES RETIREMENT BOARD  
CHAPTER 459  
DIVISION 007 – EARNINGS AND INTEREST DISTRIBUTION**

1 **459-007-0009**

2 **Allocating Costs of Compliance with GASB 68**

3 **(1) Pursuant to ORS 238.610(1)(b), this rule establishes the procedure for**  
4 **recovering administrative costs from participating public employers for providing**  
5 **to those employers information or services needed to report in compliance with**  
6 **generally accepted accounting principles.**

7 **(2) PERS will provide employers with audited pension financial data each year**  
8 **to comply with the Government Accounting and Standards Board (GASB) standard**  
9 **for reporting public pension liabilities (GASB 68).**

10 **(3) Prior to earnings crediting each year, PERS shall compile the actuarial,**  
11 **auditing, and internal staff costs of providing the audited pension financial data it**  
12 **will provide to employers for GASB 68. Earnings on employer contribution**  
13 **accounts shall be reduced by the amount of those costs. In any year in which**  
14 **earnings on those accounts are not sufficient to recover those costs, employer**  
15 **contribution accounts will be reduced by the amount of those costs.**

16 **(4) Nothing in this rule shall affect the crediting of earnings to other accounts**  
17 **and trusts as provided in OAR 459-007-0005.**

18 **Stat. Auth.: ORS 238.650, 238A.450**

19 **Stats. Implemented: HB 4155 (2014 Regular Session)**





# Oregon

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May 30, 2014

TO: Members of the PERS Board  
FROM: Steven Patrick Rodeman, Deputy Director  
SUBJECT: Notice of Rulemaking for Federal Tax Reconnect Rule  
OAR 459-080-0250, *IAP Account Installments*

### OVERVIEW

- Action: None. This is notice that staff has begun rulemaking.
- Reason: Updates OAR connection date to federal Internal Revenue Code and other provisions of federal tax law.
- Policy Issue: No policy issues have been identified at this time.

### BACKGROUND

House Bill 4003 (2014 Regular Session) updated the connection date to the Internal Revenue Code and other provisions of federal tax law. In the bill, all the references to title 26 of the U.S. code have been updated to “as in effect on December 31, 2013.” OAR 459-080-0250 regarding IAP account installments currently states “any distribution will be adjusted to comply with the required minimum distribution requirements of 26 U.S.C. 401(a)(9) and regulations implementing that section, as in effect August 29, 2003.” The proposed rule modification updates the effective date to December 31, 2013.

### PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing will be held on June 17, 2014 at 2:00 p.m. at PERS headquarters in Tigard. The public comment period ends on July 3, 2014 at 5:00 p.m.

### LEGAL REVIEW

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

### IMPACT

Mandatory: Yes, the rule should be modified to accommodate the provisions of HB 4003.

Impact: Stakeholders will benefit from the rule’s clarification and implementation of the statutory provisions.

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

RULEMAKING TIMELINE

April 15, 2014	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
May 1, 2014	<i>Oregon Bulletin</i> published the Notice. Notice was sent to employers, legislators, and interested parties. Public comment period began.
May 30, 2014	PERS Board notified that staff began the rulemaking process.
June 17, 2014	Rulemaking hearing to be held at 2:00 p.m. at PERS in Tigard.
July 3, 2014	Public comment period ends at 5:00 p.m.
July 25, 2014	Staff will propose adopting the rule modifications, including any changes resulting from public comment or reviews by staff or legal counsel.

NEXT STEPS

A rulemaking hearing will be held on June 17, 2014 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 July 25, 2014 Board meeting.

B.2. Attachment 1 – 459-080-0250, *Membership*

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

1    **459-080-0250**

2    **IAP Account Installments**

3       (1) Definitions.

4       (a) “Anniversary date” means the first of the month after the date of distribution of the  
5    first installment payment.

6       (b) “Date of distribution” has the same meaning as defined in OAR 459-007-0001(7).

7       (c) “Estimated Life Expectancy” means the member’s life expectancy as determined  
8    by the applicable IRS mortality table.

9       (d) “Payout Period” means the span of years over which the member elects to receive  
10   installment payments under section (2) of this rule.

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

17       (3) Account balances will be adjusted each month in accordance with OAR 459-007-  
18   0330.

19       (a) The amount of each 5-, 10-, 15-, or 20-year installment will be determined by  
20   dividing the member's adjusted balance by the number of remaining installment payments.

21       (b) The installment amount for the member's estimated life expectancy will be  
22   determined once a year by dividing the member's adjusted balance on the anniversary date

1 by the member's remaining estimated life expectancy, which amount will then be paid  
2 monthly, quarterly, or annually.

3 (4) If a member requests installments under section (2) of this rule, but the amount of  
4 the requested installment would be less than \$200 as determined at the time of the initial  
5 request, the frequency and Payout Period of the installment payment will be modified so  
6 that the amount of the installment is at least \$200. If the member's account balance is  
7 \$1,000 or less at the time of the initial request, the member will not be eligible for  
8 installments and the balance will be paid in a lump sum.

9 (5) Notwithstanding the Payout Period selected by the member under section (2) of  
10 this rule, any distribution will be adjusted to comply with the required minimum  
11 distribution requirements of 26 U.S.C. 401(a)(9) and regulations implementing that  
12 section, as in effect *[August 29, 2003]* on December 31, 2013.

13 (6) Members who elect a five year Payout Period or a lump sum payment may elect to  
14 directly roll over any portion of their IAP installment or lump sum payment to an eligible  
15 retirement plan subject to the limitations in OAR 459-005-0595.

16 (7) Members who elect a 10-, 15-, or 20-year, or an estimated life expectancy Payout  
17 Period cannot elect to have any portion of their installment payments rolled over.

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

21 Stat. Auth.: ORS 238A.450

22 Stats. Implemented: ORS 238A.400



# Oregon

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May 30, 2014

TO: Members of the PERS Board  
FROM: Steven Patrick Rodeman, Deputy Director  
SUBJECT: Notice of Oregon Savings Growth Plan (OSGP) rules:  
OAR 459-050-0025, *Deferred Compensation Advisory Committee*  
OAR 459-050-0037, *Trading Restrictions*  
OAR 459-050-0075, *Distributions During Employment*  
OAR 459-050-0077, *Loan Program*

### OVERVIEW

- Action: None. This is notice that staff has begun rulemaking.
- Reason: Revision to rules within the Oregon Savings Growth Plan (OSGP).
- Policy Issue: No policy issues have been identified.

Several modifications to the administrative rules regarding the Oregon Savings Growth Plan (OSGP) are being proposed to update the rules to reflect proposed improvements in the program. The modifications are summarized below.

### SUMMARY OF RULE PROVISIONS

OAR 459-0050-0025, *Deferred Compensation Advisory Committee*, establishes criteria to select advisory committee members for OSGP and describes the duties and tenure of those committee members. Currently, the rule requires that four of PERS' executives or managers, designated by the PERS Executive Director, shall review applications of potential advisory committee members. It is sometimes difficult to find four managers who have: 1) not been on a previous panel, and 2) have the time to serve on the committee. Therefore, to make the process more efficient, the rule would be amended to require just two managers instead of four to review the applications along with the Deferred Compensation Program Manager.

On January 12, 2007, OAR 459-050-0037, *Trading Restrictions*, was approved by the PERS Board to implement trading restrictions in the OSGP. This rule provides authority to prevent frequent trading which can have a negative effect on other participants in the plan, and also provides an equity wash for the Stable Value option, a requirement of the Stable Value provider. At its November 21, 2008 meeting, the Board approved revisions to the rule that removed the 90-day holding restriction on the funds, with the exception of the International Stock Option, where the 90 day restriction was decreased to 30 days. The \$100,000 trade limit and the restrictions on the Stable Value Option were not changed. Another revision was adopted on July 29, 2011, to add the Self-Directed Brokerage Account to the restrictions on the Stable Value Fund.

OSGP was recently advised by Galliard Capital Management, the stable value manager, that restrictions were no longer required on trades from the Stable Value Fund directly to the Intermediate Bond Fund. Therefore, these rule modifications would remove that restriction. The restrictions on trades directly to the Short Term Fixed Option and Self-Directed Brokerage Account would remain in place.

When OAR 459-050-0075, *Distributions During Employment*, was revised to add the trustee-to-trustee transfers for the purpose of purchasing service time, funds from the Roth 457 were not included as that investment option had just been added and management wasn't sure if after-tax funds would be appropriate for these transfers. After some further research, including talking to other governmental plans, we recommend adding the Roth funds as potential sources for these service purchases.

OAR 459-050-0077, *Loan Program*, was adopted in 2007 to establish eligibility and processes for participants in OSGP to obtain a loan. As the loan is repaid, the loan payments are deposited back into the participant's account. When the rule was adopted, the Short Term Fixed Account was chosen as a default investment fund for these loan payments when the participant had not otherwise made an allocation. At that time, the Short Term Fixed was earning 4.94 percent for the year. However, over the years, that fund has been running in the negative (-0.15 percent in 2013). To prevent any losses to the payments being re-invested, a better choice would be the Stable Value Option, which has had positive earnings over the years (1.34 percent in 2013). The rule modification changes that default allocation.

#### PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing will be held on June 17, 2014 at 2:00 p.m. at PERS headquarters in Tigard. The public comment period ends on July 3, 2014 at 5:00 p.m.

#### LEGAL REVIEW

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

#### IMPACT

Mandatory: No.

Impact: Housekeeping edits to improve administration of the OSGP for members and staff.

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

#### RULEMAKING TIMELINE

April 15, 2014	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
May 1, 2014	<i>Oregon Bulletin</i> published the Notice. Notice was sent to employers, legislators, and interested parties. Public comment period began.

May 30, 2014	PERS Board notified that staff began the rulemaking process.
June 17, 2014	Rulemaking hearing to be held at 2:00 p.m. at PERS in Tigard.
July 3, 2014	Public comment period ends at 5:00 p.m.
July 25, 2014	Staff will propose adopting the rule modifications, including any changes resulting from public comment or reviews by staff or legal counsel.

NEXT STEPS

A rulemaking hearing will be held on June 17, 2014 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 July 25, 2014 Board meeting.

B.3. Attachment 1 - OAR 459-050-0025, *Deferred Compensation Advisory Committee*

B.3. Attachment 2 - OAR 459-050-0037, *Trading Restrictions*

B.3. Attachment 3 - OAR 459-050-0075, *Distributions During Employment*

B.3. Attachment 4 - OAR 459-050-0077, *Loan Program*



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

1 **459-050-0025**

2 **Deferred Compensation Advisory Committee**

3 (1) The seven members of the Deferred Compensation Advisory Committee  
4 provided for under ORS 243.505, shall be subject to the following qualifications and  
5 limitations:

6 (a) Each member shall be a participant in a deferred compensation plan established  
7 under ORS 243.401 to 243.507, and shall have knowledge of the Program.

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

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

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

12 (e) No two members may be employed by the same state agency or local government  
13 except that a member who transfers employment to the employer of another member may  
14 continue to serve on the Advisory Committee, but only for the balance of the term of  
15 appointment of the transferring member.

16 (f) No member may serve more than two consecutive full terms.

17 (g) No member may be an employee of PERS during the term of appointment.

18 (2) The Advisory Committee shall study and advise the Board on all aspects of the  
19 Program, including but not limited to:

20 (a) The Program fee structure and procedures;

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

1 (c) The administration of the catch-up and the financial hardship provisions in  
2 Section 457 of the Internal Revenue Code;

3 (d) Ways and means to inform and educate eligible employees about the Program;

4 (e) The expressed desires of eligible employees as to the Program; and

5 (f) The actuarial characteristics of eligible employees.

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

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

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

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

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

16 (6) Pursuant to the Public Meetings Law, ORS 192.610 to 192.690, the Deferred  
17 Compensation Manager shall distribute to the Advisory Committee, and other interested  
18 parties, an agenda for a regular meeting a reasonable time prior to the meeting.

19 (7) Nominations of candidates for the Advisory Committee shall be made as follows:

20 (a) Notice of a position on the Advisory Committee expected to become vacant upon  
21 the expiration of a term of appointment shall be published not later than April 15 of each  
22 calendar year.

1            (b) Persons interested in serving on the Advisory Committee must apply in writing  
2 to the Manager not later than May 15 following the publication of a vacancy.

3            (c) The Manager shall review the written applications of interested persons for  
4 completeness, accuracy, and satisfaction of the minimum requirements of the vacant  
5 position on the Advisory Committee.

6            (d) A committee consisting of the Manager and ~~four~~ two members of PERS  
7 executive or managerial staff designated by the PERS Executive Director shall review the  
8 acceptable applications and recommend to the Board candidates for appointment to the  
9 Advisory Committee that:

10           (A) Reflect a cross section of state agencies, participating local governments, and  
11 classification levels;

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

14           (C) Appear to have a sincere interest in the Program; and

15           (D) Appear to be willing and able to work in a group setting to review and  
16 recommend policies governing the Program.

17           (e) In the event of a vacancy for an unexpired term, the Manager may select  
18 applications from the most recent list of interested persons established under subsection  
19 (c) of this section and the applications of other persons as deemed appropriate for  
20 consideration. A committee consisting of the Manager and ~~four~~ two members of PERS  
21 executive or managerial staff designated by the PERS Executive Director shall review the  
22 selected applications and recommend to the Board candidates for appointment to the  
23 Advisory Committee. The appointment shall be immediately effective for the remainder

1 of the unexpired term. If no candidate is recommended or appointed, the vacancy must be  
2 filled under the provisions of subsections (a) through (d) of this section.

3 Stat. Auth.: ORS 243.470

4 Stats. Implemented: ORS 243.505

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

1 **459-050-0037**

2 **Trading Restrictions**

3 The purpose of this rule is to establish criteria under which a participant may make  
4 trades in the Deferred Compensation Program. The Program is designed for long-term  
5 investment and periodic adjustment of asset allocation. Restrictions upon trades are  
6 necessary to protect participants and the Program from adverse financial impact  
7 attributable to frequent trading. Frequent trading by some participants can lower returns  
8 and increase transaction costs for all participants. Frequent trading can trigger the  
9 imposition of redemption fees and restrictions by mutual funds within the Program and  
10 may cause the Program to be eliminated as an allowable investor in an investment fund.

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

12 (a) “Investment Option” means an investment alternative made available under ORS  
13 243.421.

14 (b) “Trade” means a purchase or redemption in an investment option for the purpose  
15 of moving monies between investment options.

16 (2) Restrictions.

17 (a) The following restrictions apply to all participants:

18 (A) A participant may not make a trade that exceeds \$100,000.

19 (B) A purchase that is attributable to a trade may not be redeemed from the  
20 International Stock Option for a period of 30 days following the date of the trade.

1 (C) No trade may move monies directly from the Stable Value Option to the Short-  
2 Term Fixed Income Option[, *the Intermediate Bond Option,*] or the Self-Directed  
3 Brokerage Option.

4 (b) Trades to the Self-Directed Brokerage Option are subject to subsection (a) of this  
5 section and the limitations established in OAR 459-050-0120.

6 (3) The Deferred Compensation Manager, if necessary to comply with trading  
7 restrictions imposed by a participating mutual fund or the Securities and Exchange  
8 Commission, may establish additional temporary trading restrictions.

9 (4) The Deferred Compensation Manager, in the event of extraordinary market  
10 conditions, may temporarily suspend any or all trading restrictions established by this  
11 rule.

12 (5) Any action taken by the Deferred Compensation Manager under sections (3) or  
13 (4) of this rule must be presented to the Board at its next scheduled meeting. The Board  
14 may take action as authorized by ORS 243.401 to 243.507. If the Board does not act, the  
15 action(s) taken by the Deferred Compensation Manager shall expire on the first business  
16 day following the date of the meeting.

17 (6) The provisions of this rule are not applicable to trades attributable to the  
18 operation of an automatic account rebalancing function offered by the Program.

19 (7) The trading restrictions provided in this rule are not exclusive. The Board may  
20 establish additional restrictions or sanctions as authorized by ORS 243.401 to 243.507.

21 Stat. Auth.: ORS 243.470

22 Stats. Implemented: ORS 243.401 - 243.507

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

1 **459-050-0075**

2 **Distributions During Employment**

3 The purpose of this rule is to describe the types of distributions available to a  
4 participant who has not had a severance of employment. Distributions made while a  
5 participant is still employed are in-service distributions.

6 (1) De minimis distribution. A de minimis distribution is an in-service distribution of  
7 the entire balance of a small account before the date a participant has a severance of  
8 employment. A de minimis distribution may be made if all of the following conditions  
9 are satisfied:

10 (a) No prior de minimis distribution was made to the participant;

11 (b) The total balance of the participant’s account(s) within the Deferred  
12 Compensation Program do(es) not exceed the limitations in the Internal Revenue Code  
13 Section (IRC) 457(e)(9)(A), which is \$5,000;

14 (c) Participant has not made any contributions to the Deferred Compensation  
15 Program in the two-year period before the date of distribution; and

16 (d) Participant has submitted an application for a de minimis distribution on forms  
17 provided by, or other methods approved by the Deferred Compensation Program. No  
18 distribution will be paid unless a complete application is filed with, and approved by, the  
19 Deferred Compensation Program.

20 (2) Unforeseeable emergency withdrawal. An unforeseeable emergency withdrawal  
21 is an in-service distribution made to a participant due to an unforeseeable emergency.

22 This withdrawal may be made before the date a participant has a severance of

1 employment and as defined in OAR 459-050-0150. A participant must apply for an  
2 unforeseeable emergency withdrawal using forms provided by, or other methods  
3 approved by, the Deferred Compensation Program as provided for in OAR 459-050-  
4 0150(4).

5 (3) Military distribution. A participant is treated as having been severed from  
6 employment during any period the participant is performing service in the uniformed  
7 services while on active duty for a period of more than 30 days for the purposes of the  
8 limitation on in-service distributions. For purposes of this rule, “uniformed services” has  
9 the same meaning as given in OAR 459-050-0072. This section applies to distributions  
10 made on or after January 1, 2009.

11 (4) Trustee-to-Trustee Transfers. A Trustee-to-Trustee Transfer for the purpose of  
12 purchasing permissive service credit as described in Code Section 415(n) or a Trustee-to-  
13 Trustee Transfer that meets the requirements of 26 CFR 1.457.10(b)(4) may be made  
14 while a participant is still employed[, *except no Designated Roth Account balance may be*  
15 *transferred for the purpose of purchasing permissive service credit as described in Code*  
16 *Section 415(n)].*

17 (5) Funds available for in-service distribution. Funds contributed to the Deferred  
18 Compensation Program, and earnings on those contributions may be distributed in a de  
19 minimis distribution or unforeseeable emergency withdrawal. Any funds directly  
20 transferred or rolled over to the Deferred Compensation Program from any plan other  
21 than an IRC 457 deferred compensation plan may not be distributed for a de minimis  
22 distribution or an unforeseeable emergency withdrawal.

1 (6) Prohibitions on elective deferrals after an in-service distribution. A participant  
2 who receives a de minimis distribution, an unforeseeable emergency withdrawal, or a  
3 military distribution may not make elective deferrals and employee contributions to the  
4 Deferred Compensation Program for a period of six consecutive months from the date of  
5 distribution.

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

7 Stat. Auth: ORS 243.470

8 Stats. Implemented: ORS 243.401 - 243.507



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

1 **459-050-0077**

2 **Loan Program**

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

4 (a) “Cure period” is that time from when a default occurs until the end of the quarter  
5 following the quarter in which the default occurred.

6 (b) “Deferred Compensation Account” means the account described in OAR 459-  
7 050-0001, but does not include any amount in the Self-Directed Brokerage Option.

8 (c) “Designated Roth Account” means the account described in OAR 459-050-0001,  
9 but does not include any amount in the Self-Directed Brokerage Option.

10 (d) “Loan balance” means the outstanding principal and accrued interest due on the  
11 loan.

12 (e) “Participant Loan” means a loan that affects the Deferred Compensation  
13 Account, Designated Roth Account, or a combination of both, of a participant.

14 (f) “Promissory note” means the agreement of loan terms between the Program and a  
15 participant.

16 (g) “Third Party Administrator (TPA)” means the entity providing record keeping  
17 and administrative services to the Program.

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

1            (3) Application for loan: A participant must apply for a loan and meet the  
2 requirements set forth in this rule.

3            (a) Once a loan is approved, a participant must execute a promissory note in the form  
4 prescribed by the Program.

5            (b) If a participant is deceased before the disbursement of the proceeds of a loan, the  
6 participant's loan application shall be void as of the date of death.

7            (4) Loan Types:

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

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

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

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

1        (7) Loan Limitations:

2        (a) The maximum loan amount is the lesser of:

3        (A) \$50,000; or

4        (B) One-half of the combined value of the participant’s Deferred Compensation

5        Account and the Designated Roth Account on the date the loan is made.

6        (b) The minimum loan amount is \$1,000.

7        (c) A participant may only have one outstanding loan.

8        (d) A participant who has received a loan may not apply for another loan until 12

9        months from the date the previous loan was paid in full.

10       (8) Source of Loan: The loan amount will be deducted from a participant’s Deferred  
11       Compensation Account, Designated Roth Account, or a combination of both.

12       (a) Loan amounts will be deducted first from the Deferred Compensation Account.

13       (b) Loan amounts will be deducted pro-rata from existing investments in a  
14       participant’s account(s).

15       (c) A participant may not transfer a loan to or from another retirement or deferred  
16       compensation plan.

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

20       (a) Loan payments must be made by payroll deduction. To receive a loan from the  
21       Program a participant must enter into a payroll deduction agreement. For the purposes of  
22       this rule, a promissory note or other document that includes the payroll deduction amount  
23       and is signed by a participant as a requirement to obtain a loan may be a payroll

1 deduction agreement. Except as provided in this rule, a participant may not submit a loan  
2 payment directly to the Program or the Third Party Administrator.

3 (b) A participant is responsible for loan repayment even if the employer fails to  
4 deduct or submit payments as directed under the payroll deduction agreement. To avoid  
5 defaulting on a loan by reason of the employer’s failure to deduct or submit a payment a  
6 participant may submit a loan payment by sending a money order or certified check to the  
7 Third Party Administrator.

8 (c) A participant may repay the loan balance in a single payment at any time before  
9 the date the final loan payment is due.

10 (d) Partial payment of a scheduled payment and partial prepayment or advance  
11 payment of future payments may not be permitted.

12 (e) Loan payments will be allocated in a participant’s account(s) in the same manner  
13 as the participant’s current contribution allocation. If, for any reason, the allocation is not  
14 known, the payment will be allocated to the *[Short-Term Fixed Income]* Stable Value  
15 Option.

16 (f) Any overpayment will be refunded to the participant.

17 (10) Leave of Absence. Terms of outstanding loans are not subject to revision except  
18 as provided in this section.

19 (a) Loan payments may be suspended up to one year during an authorized leave of  
20 absence if a participant’s pay from the employer does not at least equal the payment  
21 amount.

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

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

3            (C) The loan balance will be re-amortized upon the participant’s return to work to be  
4 repaid within the remaining loan repayment period.

5            (D) Loan payments may be revised to extend the remaining loan repayment period to  
6 the maximum period allowed in the event the loan originally had a term shorter than the  
7 maximum period allowed under section (4) of this rule.

8            (E) If a participant is on a leave of absence that exceeds one year, the loan shall be in  
9 default unless repayment begins one year from the participant’s last date worked or the  
10 date the final payment is due under the promissory note, whichever is earlier.

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

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

15            (B) Loan payments by payroll deduction must resume upon the participant’s return  
16 to work.

17            (C) The original repayment period of a loan will be extended for the period of  
18 military service or to the maximum repayment period allowed for that type of loan,  
19 whichever is greater.

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

1 (E) The loan balance will be re-amortized upon the participant's return to work to be  
2 repaid within the remaining loan repayment period as determined under paragraph (C) of  
3 this subsection.

4 (c) A participant on an authorized leave of absence or military leave may submit  
5 loan payments by sending a money order or certified check to the Third Party  
6 Administrator.

7 (11) Tax Reporting.

8 (a) The loan balance of a general purpose loan will be reported as a taxable  
9 distribution to the participant on the earlier of the last day of the loan repayment period,  
10 as adjusted under paragraphs (10)(a)(D) or (10)(b)(C) of this rule, if applicable, or if the  
11 loan is in default, the last day of the cure period.

12 (b) The loan balance of a residential loan will be reported as a taxable distribution to  
13 the participant on the earlier of the last day of the loan repayment period, as adjusted  
14 under paragraphs (10)(a)(D) or (10)(b)(C) of this rule, if applicable, or if the loan is in  
15 default, the last day of the cure period.

16 (c) If a participant dies before the loan balance being repaid, and the participant's  
17 beneficiary does not repay the loan balance in a single payment within 90 days of the  
18 participant's death, the loan balance will be reported as a taxable distribution to the estate  
19 of the participant.

20 (d) If a participant is eligible to receive a distribution under the Program, the  
21 reporting of a loan balance as a taxable distribution under this section will cancel the loan  
22 at the time the taxable distribution is reported. A canceled loan is a distribution and is no  
23 longer outstanding in a participant's account.

1 (e) If a participant is not eligible to receive a distribution under the Program, a loan  
2 balance reported as a taxable distribution under this section will be a deemed distribution  
3 for tax reporting purposes. A loan deemed distributed may not be canceled until the loan  
4 balance is repaid or the participant becomes eligible to receive a distribution. The loan  
5 balance will remain outstanding in the participant’s account and will continue to accrue  
6 interest until repaid or canceled.

7 (12) Default.

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

10 (b) A loan is in default if the participant separates from employment with the plan  
11 sponsor that administers the loan payment payroll deductions.

12 (c) If a participant with a loan in default resumes loan payments by payroll deduction  
13 before the end of the cure period, the default will be cured. The participant must pay any  
14 missed payments and accrued interest before the end of the loan repayment period.

15 (d) Except as provided in subsection (c) of this section, if the participant does not  
16 cure a default by repaying the loan balance before the end of the cure period, the loan  
17 balance will be reported as a taxable distribution to the participant as provided in section  
18 (11) of this rule.

19 Stat. Auth.: ORS 243.470

20 Stats. Implemented: ORS 243.401 - 243.507





# Oregon

John A. Kitzhaber, M.D., Governor

## Public Employees Retirement System

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May 30, 2014

TO: Members of the PERS Board  
FROM: Steven Patrick Rodeman, Deputy Director  
SUBJECT: Notice of Rulemaking for Disability Housekeeping Rules:  
OAR 459-015-0010, *Criteria for Granting and Denying Disability Retirement Allowances*  
OAR 459-076-0010, *Criteria for Granting and Denying Disability Benefits*

### OVERVIEW

- Action: None. This is notice that staff has begun rulemaking.
- Reason: Housekeeping edits to disability rules.
- Policy Issue: No policy issues have been identified at this time.

### BACKGROUND

A review of our Oregon Administrative Rules pertaining to the administration of the Tier One/Tier Two disability program (Division 15) and the disability benefit paid under the OPSRP Pension Program (Division 76) revealed the need for some cleanup. For example, OAR 459-076-0010 of the OPSRP disability rules, adopted in 2005, contains an error in (4)(b) to incorrectly require either an “orthopedic specialist or neurosurgeon;” the proposed edits delete the erroneous phrase “or neurosurgeon.” Also, OAR 459-015-0010(6) and sections (2) and (6) of OAR 459-076-0010 that deal with denying an application clarify the reasons that could be used for a denial. Other minor edits were made to the rules to improve readability and update citations.

### PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing will be held on June 17, 2014, at 2:00 p.m. at PERS headquarters in Tigard. The public comment period ends on July 3, 2014, at 5:00 p.m.

### LEGAL REVIEW

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

### IMPACT

Mandatory: No.

Impact: Members, employers, stakeholders, and staff will benefit from clear and consistent disability rules.

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

RULEMAKING TIMELINE

April 15, 2014	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
May 1, 2014	<i>Oregon Bulletin</i> published the Notice. Notice was sent to employers, legislators, and interested parties. Public comment period began.
May 30, 2014	PERS Board notified that staff began the rulemaking process.
June 17, 2014	Rulemaking hearing to be held at 2:00 p.m. at PERS in Tigard.
July 3, 2014	Public comment period ends at 5:00 p.m.
July 25, 2014	Staff will propose adopting the rule modifications, including any changes resulting from public comment or reviews by staff or legal counsel.

NEXT STEPS

A rulemaking hearing will be held on June 17, 2014 at 2:00 p.m. at PERS headquarters in Tigard. The rules are scheduled to be brought before the PERS Board for adoption at the July 25, 2014 Board meeting.

B.4. Attachment 1 – 459-015-0010, *Criteria for Granting and Denying Disability Retirement Allowances*

B.4. Attachment 2 – 459-076-0010, *Criteria for Granting and Denying Disability Benefits*

**OREGON ADMINISTRATIVE RULE  
PUBLIC EMPLOYEES RETIREMENT BOARD  
CHAPTER 459  
DIVISION 015 – DISABILITY RETIREMENT ALLOWANCES**

1 **459-015-0010**

2 **Criteria for Granting and Denying Disability Retirement Allowances**

3 (1) Medical documentation is required by PERS. Each disability retirement applicant shall  
4 supply any treating or consulting physician’s examination report or other medical information  
5 requested by PERS. PERS may base its determination on either a treating or consulting physician’s  
6 medical examination report or have the applicant examined by one or more physicians selected by  
7 PERS, or both.

8 (2) All claims of a disability must be supported by at least one physician’s report, resulting  
9 from a physical examination, documenting how the injury or disease incapacitates the member.

10 (3) In addition, a disability retirement applicant shall be required to furnish the following:

11 (a) For claims of mental or emotional disorder, at least one report of examination by a  
12 psychiatrist or at least one report of evaluation by [a](#) psychologist when accompanied by a report of  
13 physical examination by a treating or consulting physician;

14 (b) For claims of orthopedic injury or disease, at least one report of a treating or consulting  
15 orthopedic specialist;

16 (c) For claims of neurological or neurosurgical injury or disease, at least one report of [a](#)  
17 treating or consulting neurologist or neurosurgeon;

18 (d) For claims of fibromyalgia, at least one report of a treating or consulting rheumatologist;  
19 and

20 (e) Any other specialized physician’s report that PERS deems necessary.

21 (4) To demonstrate that he or she is unable to perform any work for which qualified, as defined  
22 in OAR 459-015-0001(1), the applicant shall document how the injury or disease incapacitates the

1 applicant. The standard is subjective (that is, whether the applicant is actually incapacitated) not  
2 objective (that is, whether a “normal” member would have been incapacitated by the same events).

3 (a) In determining what work for which a member is qualified, the following factors shall be  
4 considered:

5 (A) Previous employment experience;

6 (B) Formal education;

7 (C) Formal training;

8 (D) Transferable skills;

9 (E) Age; and

10 (F) Physical or mental impairment.

11 (b) In determining what work for which a member is qualified, PERS may request, at PERS’  
12 expense, a vocational evaluation be done by a vocational consultant who is fully certified as set  
13 forth in OAR 459-015-0001(2)[(a) or (b)].

14 (c) The inability of the applicant to perform the duties of his or her last job, in itself, does not  
15 satisfy the criterion.

16 (5) When there is a dispute among medical experts, more weight will be given to those medical  
17 opinions that are both well-reasoned and based on complete information.

18 (6) The Board may deny any application or discontinue any disability retirement allowance if  
19 an applicant:

20 (a) [r]Refuses to submit to an independent medical or vocational examination[.]; or

21 (b) Refuses to submit to any medical examination or supply a completed application or  
22 review form.

23 Stat. Auth.: ORS 238.650

24 Stats. Implemented: ORS 238.320 & 238.335

**OREGON ADMINISTRATIVE RULE  
PUBLIC EMPLOYEES RETIREMENT BOARD  
CHAPTER 459  
DIVISION 076 – OPSRP DISABILITY BENEFIT**

1   **459-076-0010**

2   **Criteria for Granting and Denying Disability Benefits**

3       (1) Medical documentation is required by PERS. Each disability benefit applicant  
4 shall supply any treating or consulting physician’s examination report or other medical  
5 information requested by PERS. PERS may base its determination on either a treating or  
6 consulting physician’s medical examination report or have the applicant examined by one  
7 or more physicians selected by PERS, or both.

8       *[(2) The Board may deny any application or discontinue any disability benefit in the*  
9 *case of any person who refuses to submit to any medical examination or supply a*  
10 *completed application or review form.]*

11       *[(3)]*(2) All claims of a disability must be supported by at least one physician’s  
12 report, resulting from a physical examination, documenting how the injury or disease  
13 incapacitates the member.

14       *[(4)]*(3) In addition, a disability benefit applicant shall be required to furnish the  
15 following:

16       (a) For claims of mental or emotional disorder, at least one report of examination by  
17 a psychiatrist or at least one report of evaluation by a psychologist when accompanied by  
18 a report of physical examination by a treating or consulting physician;

19       (b) For claims of orthopedic injury or disease, at least one report of a treating or  
20 consulting orthopedic specialist *[or neurosurgeon]*;

21       (c) For claims of neurological or neurosurgical injury or disease, at least one report  
22 of a treating or consulting neurologist or neurosurgeon;

1 (d) For claims of fibromyalgia, at least one report of a treating or consulting  
2 rheumatologist; and

3 (e) Any other specialized physician’s report PERS deems necessary.

4 ~~[(5)]~~(4) To demonstrate that he or she is unable to perform any work for which  
5 qualified, as defined in OAR 459-076-0001(1), the applicant shall document how the  
6 injury or disease incapacitates the applicant. The standard is subjective (that is, whether  
7 the applicant is actually incapacitated) not objective (that is, whether a "normal" member  
8 would have been incapacitated by the same events).

9 (a) In determining what work for which a member is qualified, the following factors  
10 shall be considered:

11 (A) Previous employment experience;

12 (B) Formal education;

13 (C) Formal training;

14 (D) Transferable skills;

15 (E) Age; and

16 (F) Physical or mental impairment.

17 (b) In determining what work for which a member is qualified, PERS may request, at  
18 PERS’ expense, a vocational evaluation be done by a vocational consultant who is fully  
19 certified as set forth in OAR 459-076-0001(2).

20 (c) The inability of the applicant to perform the duties of his or her last job, in itself,  
21 does not satisfy the criterion.

22 ~~[(6)]~~(5) When there is a dispute among medical experts, more weight will be given  
23 to those medical opinions that are both well-reasoned and based on complete information.

1 ~~[(7)]~~**(6)** The Board may deny any application or discontinue any disability benefit if  
2 an applicant:

3 **(a) [r] Refuses to submit to an independent medical or vocational examination[.]; or**

4 **(b) Refuses to submit to any medical examination or supply a completed**  
5 **application or review form.**

6 Stat. Auth.: ORS 238A.450

7 Stats. Implemented: ORS 238A.235





# Oregon

John A. Kitzhaber, M.D., Governor

## Public Employees Retirement System

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May 30, 2014

TO: Members of the PERS Board  
FROM: Steven Patrick Rodeman, Deputy Director  
SUBJECT: Notice of Rulemaking for Selection of Preliminary Disability Benefit Option  
Rule:  
OAR 459-015-0055, *Selection of Benefit Option and Commencement of Allowance*

### OVERVIEW

- Action: None. This is notice that staff has begun rulemaking.
- Reason: Simplify the disability preliminary benefit options available upon the member's filing of a preliminary application.
- Policy Issue: No policy issues have been identified at this time.

### BACKGROUND

PERS Tier One/Tier Two Program members who apply for a disability retirement are asked to complete a preliminary benefit option selection form. That form documents the member's retirement option selection in the event that the member dies before their application is approved. If the member had not made that selection, they would be considered to have died before retirement, therefore providing their beneficiary only with a death benefit under ORS 238.390 or 238.395 instead of them being considering the survivor beneficiary of a disability retirement.

The Option 1 benefit pays a monthly retirement allowance only for the member's lifetime; upon death, no benefit is paid to any beneficiary. The proposed rule modification is to remove Option 1 as a preliminary option selection as, if it was selected, it provides no protection for a beneficiary should the member die before their disability retirement is approved. Upon approval of a disability claim, a disabled member may select Option 1 as their final benefit option using a disability benefit application form with the benefit option approved by spousal consent.

### PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing will be held on June 17, 2014 at 2:00 p.m. at PERS headquarters in Tigard. The public comment period ends on July 3, 2014 at 5:00 p.m.

### LEGAL REVIEW

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

IMPACT

Mandatory: No.

Impact: Members and staff will benefit from clear and consistent rules that clarify the administration of disability benefits.

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

RULEMAKING TIMELINE

April 15, 2014	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
May 1, 2014	<i>Oregon Bulletin</i> published the Notice. Notice was sent to employers, legislators, and interested parties. Public comment period began.
May 30, 2014	PERS Board notified that staff began the rulemaking process.
June 17, 2014	Rulemaking hearing to be held at 2:00 p.m. at PERS in Tigard.
July 3, 2014	Public comment period ends at 5:00 p.m.
July 25, 2014	Staff will propose adopting the rule modifications, including any changes resulting from public comment or reviews by staff or legal counsel.

NEXT STEPS

A rulemaking hearing will be held on June 17, 2014 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 July 25, 2014 Board meeting.

B.5. Attachment 1 – 459-015-0055, *Selection of Benefit Option of Commencement of Allowance*

**OREGON ADMINISTRATIVE RULE  
PUBLIC EMPLOYEES RETIREMENT BOARD  
CHAPTER 459  
DIVISION 015 – DISABILITY RETIREMENT ALLOWANCES**

1   **459-015-0055**

2   **Selection of Benefit Option and Commencement of Allowance**

3       (1) Upon filing an application for a disability retirement allowance, the member may  
4   make a preliminary designation of beneficiary and a preliminary selection of benefit option.

5       *[(a) A member may choose from retirement Options 1, 2, 2A, 3, 3A, 15 year certain or  
6   refund annuity as set forth in ORS 238.300 and 238.305, or an optional disability retirement  
7   allowance under ORS 238.325.]*

8       *[(b)]* A member may not choose a lump-sum option.

9       (2) Within 90 days following the Director’s, or the Director’s designee’s, approval of the  
10   application for disability retirement allowance, the member must submit a disability benefit  
11   application provided by PERS. Receipt of the final forms will supersede any preliminary  
12   beneficiary designation or preliminary benefit option.

13       (a) The final option selected applies only to the corresponding time period the member is  
14   receiving a disability retirement allowance.

15       (b) The beneficiary designation or benefit option may be changed up to 60 days after the  
16   date of the first actual (not estimated) benefit payment as provided in ORS 238.325(2). The  
17   beneficiary or benefit option change will be retroactive to the effective disability retirement  
18   date.

19       (c) If a member’s disability retirement allowance is canceled before the first benefit  
20   payment or is discontinued, the option selected for the purposes of that disability retirement  
21   allowance is canceled and a new option may be selected upon a subsequent disability or  
22   service retirement.

1 (3) If the member does not submit a disability benefit application within 90 days  
2 following the Director’s, or the Director’s designee’s, approval of the application for disability  
3 retirement allowance:

4 (a) The benefit will be the benefit as set forth under ORS 238.320(1) if the member is  
5 single, or the benefit as set forth under ORS 238.462 if the member is married; and

6 (b) For single members, the latest beneficiary designation on file for the PERS Chapter  
7 238 Program will be used to determine the default beneficiary. If no designation exists, the  
8 beneficiary will be as provided for under ORS 238.390(2).

9 (c) The payment will commence within a reasonable period of time following the 90th  
10 day after approval.

11 (4) Purchases. If a member is eligible to make a purchase to restore creditable service or  
12 obtain retirement credit under ORS Chapter 238 or section 2, chapter 971, Oregon Laws 1999,  
13 the member must submit payment for the purchase(s) no later than the earlier of:

14 (a) 90 days following the date of the Director’s, or the Director’s designee’s, approval of  
15 the application for disability retirement allowance; or

16 (b) The date the member submits the final disability benefit application required under  
17 section (2) of this rule.

18 (5) If the member elects to purchase all or a portion of creditable service or retirement  
19 credit through a trustee-to-trustee transfer as described in OAR 459-005-0580, the transfer  
20 must be received within the time line in section (4) of this rule.

21 (6) The payment of a disability retirement allowance shall commence within 10 business  
22 days following receipt by PERS of all of the items in (a) and (b) of this section, or the date the  
23 first payment is due, as set forth in section (7) of this rule, whichever is later:





1    under paragraph (b)(A) of this section, may make the purchase(s) by submitting the required  
2    forms and payment at the time of the election.

3            (B) If the beneficiary designated under ORS 238.390(1) is not the surviving spouse, the  
4    beneficiary will receive pre-retirement death benefits as provided in ORS 238.390 or 238.395,  
5    if eligible.

6            Stat. Auth.: ORS 238.650

7            Stats. Implemented: ORS 238.320, 238.325 & 238.330





May 30, 2014

TO: Members of the PERS Board  
FROM: Mini Kobbervig, PERS Health Insurance Program Manager  
SUBJECT: PERS Health Insurance Program (PHIP) 2015 Plan Renewals and Rates

## INTRODUCTION AND BACKGROUND

The PHIP 2015 plan renewals posed a strategic challenge with potentially significant rate increases, CMS revenue reductions for the Medicare Advantage Plans on the medical side, CMS Reinsurance recoveries for the CMS Part D prescription drug plans, and financial reserves utilization planning. As has been the case in years past, a variety of approaches were employed in an effort to minimize rate increases. Some lines of coverage will receive subsidies while others may require temporary surcharges to maintain program stability. The vast majority of the subsidy funding is proposed to be paid out of PHIP reserves, with some small subsidy funding from various individual carriers (other than Kaiser) that may have accumulated over time via temporary rate surcharges.

As is customary, the contract renewal process began in February. After carriers had an opportunity to present their renewals and preliminary rate offers, a meeting was held with PHIP staff, the PERS Board Liaison Pat West, the PERS Executive Director, the PERS Financial & Administrative Services Division Administrator, PHIP retiree advisors and consultants. After an additional meeting with individual carriers and several communiqués later, the proposed 2015 premium rate changes were finalized and detailed by plan provider and type of coverage for both Medicare and non-Medicare enrollees.

In 2014, PHIP introduced two different non-Medicare plans: the Core Value, which for Kaiser Enrollees means increased copays and for all other carriers a \$500 deductible; and the Select Value plan, a \$1,000 deductible for all carriers that would allow us to maintain a level of compatibility and competitiveness with the evolving Affordable Care Act (ACA) marketplace.

As of March 31, 2014, about 200 members are enrolled in the Select Value plans across all PHIP carriers. While the enrollment in the Select Value plan is small, this was not unexpected. It should be noted that members in the Select Value plan (\$1,000 deductible) are not permitted to move back into the Core Value plan (\$500 deductible), in order to maintain stability of the plans and minimize anti-selection that could lead to negative rate impacts. We recognize that members have options available in the commercial marketplace, which may not offer as comprehensive a benefit or the stability of the PHIP plans. Offering a lower cost plan with a higher deductible is an attractive option to some. It is anticipated that this program will grow over time.

Also in 2014, the PHIP rolled out a successful revamp of the PHIP website. This was a multi-year project funded through the assistance of our carrier partners and developed by PHIP staff and consultants. Specifically, PHIP staff and our Third Party Administrator (TPA) assigned Account Manager were responsible for the development of much of the content with benefit communications materials being developed by consultant staff.

PHIP's unique carrier partner relationships continue to benefit PHIP participants. The level of collaboration between the health plans continually improves as evidenced in the increased participation in the spring and fall meetings as well as the Health Fairs. Just over 4,000 members attended the 2013 spring and fall meetings and 497 members participated in the Health Fairs. The Health Fairs offer a venue where all our vendors come together to offer blood pressure and blood sugar screenings, pharmacy consultation, as well as a variety of interactive activities. In addition, PHIP staff and vendors provide a series of educational workshops; the workshops target PERS members not yet retired and members who are not enrolled in the PHIP but are within 18 months of general Medicare eligibility (age 65). Member feedback continues to be positive; they especially enjoy getting face-time with representatives from each health plan.

Additionally, every quarter PHIP staff and consultants receive updates from each carrier regarding activities and results achieved in the previous quarter through various care management and wellness programs. Each carrier has taken responsibility for hosting one quarterly review.

Following are demographics and statistics for the Oregon PERS Health Insurance Program as of March 2014.

	Plan Membership March 2014	% Change vs 2013	Receiving RHIA or RHIPA Subsidy	Average Age
Medical Plans	57,628	2.32%		74
Medicare	54,890	2.43%	43,259	75
Non-Medicare	2,738	1.60%	1,292	57
Dental Plans	35,138	4.92%		

Additional statistics can be found in Exhibit I.

### 2015 PLAN RENEWAL OVERVIEW

Since the early 1990s, the PHIP has offered a single, uniform prescription drug program for all non-Kaiser enrollees. In spring 2013, PHIP began looking at disaggregating the non-Kaiser prescription drug coverage and allowing each carrier to provide its own prescription plan in 2014. At that time, it was determined that implementation in 2014 was not reasonable given all the analysis, benefit changes and member communications that would need to occur. However, we continued working on this throughout 2013 and into 2014.

As part of the 2015 renewal process, each of the carriers proposing to administer their own prescription plan--or in the case of Moda Health who wanted to keep administering the single, uniform prescription drug program--provided a thoughtful financial analysis and presentation on the qualitative issues related to ceding prescription benefit administration to each respective carrier verses retaining the current program.

The carriers made many good points, all of which brought the PHIP Advisory Committee back to one critical element that they did not feel they had sufficient data to act upon: the potential added value and impacts of such a move to the PHIP participants. For the remainder of calendar year 2014, each carrier will be asked to document instances where:

- Members experienced confusion about who provided their prescription coverage that resulted in contact with Customer Service.
- Physicians experienced issues with e-prescribing that impacted the quality of care for a member.

PHIP staff and consultants expect to be able to answer the questions raised by the Advisory Committee during the 2016 plan renewal cycle when the issue will be revisited with the focus on what approach is in the best interests of our members.

Plan modifications in 2015 will be minimal. One of the hallmarks of the PHIP has been its ability to minimize benefit disparities between plans; that feature is retained in this renewal process.

The PHIP contracts with four health insurers for a variety of coverage allowing participants the greatest possible choice while maintaining stability of the overall program. Contracts that are in place and/or proposed are as follows:

- 1) Moda Health/ODS
  - a) Traditional Medicare Supplement
  - b) Medicare Advantage PPO Plan
  - c) \$500 Deductible Non-Medicare PPO Plan
  - d) \$1,000 Deductible Non-Medicare PPO Plan
  - e) Stand- alone Prescription Drug Plan (PDP) that covers:
    - Moda Health Medicare and non-Medicare participants
    - Providence Health Plan Medicare and non-Medicare participants
    - PacificSource Health Plans Medicare and non-Medicare participants
  - f) Dental Plan
- 2) Providence Health Plan
  - a) Medicare Advantage Medicare Extra HMO Plan
  - b) Medicare Advantage Medicare Choice POS Plan
  - c) \$500 Deductible Non-Medicare PPO Plan
  - d) \$1,000 Deductible Non-Medicare PPO Plan
- 3) Kaiser Permanente
  - a) Medicare Advantage Senior Advantage HMO Plan with prescription drug coverage
  - b) Traditional HMO Non-Medicare Plan with prescription drug coverage
  - c) \$1,000 Deductible Non-Medicare HMO plan with prescription drug coverage
  - d) Dental Plan
- 4) PacificSource Health Plans Medicare Advantage HMO Plan
  - a) Medicare Advantage HMO Plan
  - b) \$500 Deductible Non-Medicare PPO Plan
  - c) \$1,000 Deductible Non-Medicare PPO Plan

Additionally PHIP contracts with UNUM for Long Term Care coverage offered to PERS retirees under age 84 and qualified through the UNUM application process.

PHIP is a voluntary insurance plan where eligible members pay most, if not all, of their own premiums for the plan of their choice. In addition to the premium, PERS retirees also cover the cost of program administration. The premium rates that members pay are inclusive of these costs.

The PHIP is fortunate to partner with insurers that have been able to maximize funding available from the Centers for Medicare and Medicaid Services (CMS) by accurately reporting data associated with their insured populations as well as meeting key targets in quality ratings. As has been the case historically, the PHIP insurers also continue to manage the highest need participants to maximize benefits and care delivered while minimizing expenditures. However, CMS dictates what the funding will be in any given year, and as anticipated, the 2015 CMS funding on the medical side will be lower than 2014 levels.

During calendar year 2013, there were significantly higher federal reimbursements resulting from the Medicare Part D prescription drug reinsurance and manufacturer gap discount programs. It was anticipated that the CY 2013 reimbursements from these programs would grow by \$3,000,000 or 70% and that assumption was built into the CY 2013 rates. As actual results are becoming known, the increase is closer to \$16,000,000 or a 350% increase. This has resulted in an unexpected CY 2013 gain of nearly \$13,000,000 which, pending Board approval, have been built into the CY 2015 rates as credits, allowing PHIP to return these funds to participants. These credits are the major reason for the rate decreases being proposed.

These higher than expected Medicare Part D reimbursements will also impact the CY 2014 financial results with an additional \$13,000,000 of unexpected gain. Beginning with CY 2014, Medicare has implemented a Minimum Loss Ratio (MLR) requirement for Medicare Advantage and Medicare Part D plans. Under this new requirement, at least 85% of premium dollars need to be spent on paying claims and no more than 15% can be used by the carrier for administrative expense and profit. Any gains that are generated from a loss ratio below 85% are subject to return to CMS. It is PHIP's desire to find a way to return these surpluses to participants rather than CMS. As such, PHIP staff and consultants will continue to work with Moda Health to estimate the financial impact and to research legal and appropriate ways to retain as much of these funds as possible to benefit PHIP Moda prescription drug covered members either through subsidy or some other mechanism. It is planned that additional information and recommendations will be presented at the July 25, 2014 Board meeting.

After consultation with the PHIP Advisory committee, termination of the Kaiser Permanente plan in Hawaii is recommended. Membership is small, just 19 members currently, and the contracting process has not met PERS standards for a number of years. There are 12 members receiving a RHIA subsidy; members will be able to maintain their subsidy through enrollment in the Moda Medicare Supplement plan.

#### PROPOSED HEALTH PLAN CONTRACTS, CONDITIONS AND CHANGES FOR THE 2015 PLAN YEAR

The PHIP will continue to contract with Moda Health, Providence Health Plan, PacificSource Health Plans and Kaiser Permanente for medical and prescription insurance coverage for PHIP retired Medicare and non-Medicare members.

The PHIP will continue to contract with Moda Health for a stand-alone Prescription Drug Program (PDP), covering participants enrolled in Moda Health, Providence Health Plan and the PacificSource Health Plans. In addition, Kaiser Permanente will provide PHIP Medicare and non-Medicare members a prescription drug program that mirrors the Moda Health administered plan, thereby providing uniformity, continuity, and stability for PHIP members.

The PHIP will continue to contract with Kaiser Permanente and ODS for dental insurance coverage for PHIP retired Medicare and non-Medicare members.

The PHIP will terminate the Medical contract with the Kaiser Permanente Hawaii location only.

The PHIP 2015 health plan premium rates for individual retirees will be implemented as shown on Exhibit II (attached), along with associated rates that include spouses and/or dependents. The rates shown on Exhibit II include reserve subsidies and surcharges used for rate stabilization, but exclude PHIP administrative expenses and statutory RHIA and RHIPA subsidies for eligible participants.

**PROPOSAL REVIEW AND RECOMMENDATIONS**

In spite of inflationary trends and the pressures associated with lower CMS medical reimbursements and higher healthcare reform taxes and fees, the PHIP is pleased to once again provide PERS retirees with participating carriers and plans that provide balance between costs and benefits. This is achieved through a thoughtful approach, scrutinized and analyzed to provide the least impact possible to our members while still maintaining program stability and accountability.

As part of this renewal, a number of subsidies and a couple of surcharges have been incorporated into the rates. Proposed medical plan subsidies are detailed in the chart below. A number of the subsidies would replace current, expiring subsidies from the 2014 plan year.

In addition to the medical subsidies, a \$0.05 subsidy per member per month for the Moda dental plan is proposed and recommended. The addition of this subsidy allows the Moda dental plan to retain in 2015 the same rates as 2014. In addition to provider fees and taxes, the benefit was enhanced for 2014 resulting in the need for a small increase in premium. The financial impact of this proposed subsidy is minimal and it is recommended that it be accepted.

**2015 Medicare Plan (Subsidies)/Surcharges Per Member Per Month (PMPM)**

MEDICARE (Subsidy) or Surcharge	Moda Medicare Supplement	Moda Medicare Advantage	Providence Extra	Providence Choice	PacificSource
Rx administered by Moda	(\$10.00)	(\$10.00)	(\$10.00)	(\$10.00)	(\$10.00)
Medical	\$0	(\$50.00)	\$4.90	\$6.60	\$0

**2015 Non-Medicare Plan (Subsidies)/Surcharges Per Member Per Month (PMPM)**

Non MEDICARE (Subsidy) or Surcharge	Moda Core Value	Moda Select Value	Providence Core Value	Providence Select Value	PacificSource Core Value	PacificSource Select Value
Rx administered by Moda	(\$50.00)	(\$50.00)	(\$50.00)	(\$50.00)	(\$50.00)	(\$50.00)
Medical	(\$50.00)	(\$50.00)	\$0	\$0	\$0	\$0

The PHIP is able to provide these subsidies drawn from Moda coverage-related reserves that have accumulated as a result of better than expected experience in comparison to premiums charged. It is a valuable feature of the Moda Health Plan programs that the funding mechanism used allows any profits to flow back to the member as opposed to being retained by the health plan.

A name change was proposed by Providence Health Plan for the Extra and Choice plans. The current names have caused member confusion as they use the same plan names in their commercial market. PHIP has agreed in principle to the name change, but reserves the right to approve the final plan names.

Finally, Moda Health Plans, PacificSource Health Plans and Providence Health Plans each proposed to expand their service areas beyond the current boundaries. Of the three, Providence Health Plans has consistently shown, over time, their ability to manage the finances of their respective Extra and Choice programs as well as maintain financial viability in their non-Medicare plan. The Moda Medicare Advantage PPORx has had a number of rating swings and subsidies have been added to this plan over the past few years. PHIP staff and consultants believe that these subsidies have been appropriate in that the Moda Medicare Advantage PPORx plan is the only statewide Medicare Advantage plan in the PHIP portfolio. Moda Health is committed to the Medicare Advantage PPORx program, however PHIP staff and consultants recommend tabling any service area expansions for Moda at this time.

Similarly, the PacificSource Community Health Medicare plan remains the most expensive in the PHIP portfolio; and their non-Medicare plans are second only to Moda which is a statewide and multi-state program. PacificSource was granted expansion in 2013 to Coos, Curry, Crook and Lane counties. They have experienced little enrollment in those areas. As a result, PHIP staff and consultants recommend that any further expansion be tabled for the near term.

We are pleased to bring these proposals to you and thereby conclude another year of hard work by our consultants, health plans, retiree advisors and PHIP staff.

Immediately upon PERS Board approval of the proposals presented today, PHIP's TPA staff and our consultants will begin the process of updating the PHIP Member Handbook and Benefit Guide and plan change materials. Beginning mid-September, PHIP staff, TPA and carrier partner staff will begin holding the "retiree plan change" meetings throughout the state. Traditionally these meetings have been very well attended and we anticipate at least the same or greater attendance.

Our membership continues to grow annually and we are looking forward to another successful year and partnership with our members, vendors, consultants and retiree advisors.

Please do not hesitate to contact me if you have questions or need additional information. I can be reached by phone at 503-378-8906 or via email at [mini.kobbervig@state.or.us](mailto:mini.kobbervig@state.or.us).

#### STAFF RECOMMENDATION

Staff recommends the PERS Board approve the proposed PHIP contract renewals, conditions and rates for 2015 as presented.

Exhibit I - PERS Health Insurance Program Statistics

Exhibit II - PERS Health Insurance Program Proposed 2015 Renewal Rates

**EXHIBIT I**

**PERS Health Insurance Program**

<b>Program Enrollment (March 2014)</b>	<b>Totals</b>	<b>Medicare</b>	<b>Non Medicare</b>
Covered Lives	57,628	54,890	2,738
Retirees (or Surviving Spouses)	46,677	45,006	1,671
Spouses/Dependents	10,951	9,884	1,067
Average Age of Enrolled Retirees	74	75	57
<b>Health Plan Membership Enrollment</b>			
PacificSource Community Health Plans	1,388	1,380	8
Kaiser Permanente (Portland to Salem)	10,080	9,394	686
Kaiser (California & Hawaii)	88	82	6
Moda Health Advantage (Oregon)	8,351	8,076	275
Moda Health Supplement (All 50 States)	24,818	24,131	687
Providence Medicare Extra	11,212	10,233	979
Providence Medicare Choice	1,691	1,594	97
ODS Dental Plan	30,832	29,591	1,241
Kaiser Dental Plan	4,306	4,049	257

<b>Statutory Health Insurance Premium Subsidies</b>	
Retirees Receiving RHIA	43,259
Retirees Receiving RHIPA	1,292
RHIA Monthly Payment - \$60 PMPM	\$2,595,540
RHIPA Monthly Payment - \$298 (avg) PMPM	\$385,382
Total Monthly Premium Paid to Health Plans	\$16,865,977

**PHIP 2015 RENEWAL RATES**  
**2015 vs. 2014 All Carrier Rates**  
*Including All Carrier Administrative Fees*  
*Effective January 1, 2015*

**SUMMARY**

Medical and Prescription Rates to Members before Statutory Subsidies. Rates shown are a PMPM (per member per month) amount.	Enrollment as of April 2014	CURRENT 2014	2015 RENEWAL AT CURRENT BENEFITS	Percentage Change 2015 vs. 2014
<b>MODA HEALTH - MEDICAL / RX</b> <i>(Includes Fixed Costs)</i>				
Retiree w/Medicare - Supplement Plan	24,131	\$227.20	\$211.18	-7.1%
Retiree w/Medicare - PPORX Plan	8,076	\$256.79	\$270.96	5.5%
Retiree w/o Medicare - Core Value Plan	962	\$834.80	\$875.34	4.9%
Retiree w/o Medicare - Select Value Plan		\$803.46	\$839.73	4.5%
<b>PROVIDENCE HEALTH PLAN - MEDICAL / RX</b>				
Retiree w/Medicare - Extra (Align) Plan	10,233	\$235.15	\$212.20	-9.8%
Retiree w/Medicare - Choice Plan	1,594	\$214.67	\$187.20	-12.8%
Retiree w/o Medicare - Core Value Plan	1,076	\$720.43	\$770.46	6.9%
Retiree w/o Medicare - Select Value Plan		\$626.33	\$668.85	6.8%
<b>PACIFCSOURCE HEALTH PLANS - MEDICAL / RX</b>				
Retiree w/Medicare - Essentials 801 Plan	1,380	\$224.96	\$233.30	3.7%
Retiree w/o Medicare - Core Value Plan	8	\$867.93	\$866.76	-0.1%
Retiree w/o Medicare - Select Value Plan		\$768.23	\$767.06	-0.2%
<b>KAISER PERMANENTE - MEDICAL / RX *</b>				
Retiree w/Medicare - Sr. Advantage Plan	9,394	\$217.80	\$217.37	-0.2%
Retiree w/o Medicare - Core Value Plan	646	\$736.72	\$730.97	-0.8%
Retiree w/o Medicare - Select Value Plan		\$596.87	\$591.95	-0.8%
<b>DENTAL</b>				
Kaiser Dental	4,306	\$55.21	\$57.96	5.0%
ODS Dental	30,832	\$63.08	\$63.08	0.0%

\* Kaiser numbers include Oregon participants only



# Oregon

John A. Kitzhaber, M.D., Governor

## Public Employees Retirement System

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May 30, 2014

TO: Members of the PERS Board  
FROM: Gay Lynn Bath, Deferred Compensation Manager  
SUBJECT: Appoint Advisory Committee Members for Oregon Savings Growth Plan (OSGP)

### OVERVIEW:

- Subject: The PERS Board needs to appoint two new members to the Oregon Savings Growth Plan (“OSGP”) Advisory Committee.
- Action: Appoint two new members to fill vacancies for one state member whose second term is expiring on June 30, 2014, (Keith Baldwin) and one local government employee who is retiring on May 31, 2014 (Debbie Darst).
- Reasons: The Advisory Committee consists of seven members appointed by the PERS Board for fixed terms, but each member serves at the pleasure of the PERS Board.

### BACKGROUND:

ORS 243.505 (attached) provides an Advisory Committee for the Oregon Savings Growth Plan that consists of seven members with knowledge of deferred compensation plans. According to that statute and OAR 459-050-0025 (attached), the Committee shall study and advise the Public Employees Retirement Board, upon request, on all aspects of the deferred compensation program, including but not limited to:

- (a) The deferred compensation program fee structure and program procedures;
- (b) State and federal legislative issues relative to the administration of deferred compensation;
- (c) Administration of the catch-up and financial hardship provisions in Section 457 of the Internal Revenue Code;
- (d) Ways and means to inform and educate eligible employees about the deferred compensation program;
- (e) The expressed desires of eligible employees as to the Deferred Compensation Program.

Advisory Committee members must be OSGP participants and have knowledge of the current program. One member shall be retired from state service. Two members shall be participants with separate local government plan sponsors who offer the OSGP. Four members shall be employees of separate state agencies. No member shall be an employee of PERS during the term of appointment. No two members shall be employed by the same state agency or local government plan sponsor.

Appointment is for three years except in the case of a vacancy during an unexpired term, in which case the Board's appointment will become immediately effective for the unexpired term. A member is eligible for reappointment, but no person shall serve more than two consecutive full terms.

Currently, the Advisory Committee is made up of the following members:

<b>Name</b>	<b>Employer/City</b>	<b>Term</b>	<b>Term Ends</b>
Mark Carlton	McMinnville Water & Light	First	6/30/2015
Jeffrey Labhart	ODOT, Bend	First	6/30/2015
Brady Boothe	OSP – Springfield	First	6/30/2016
Stefani Pastoor	DHS, Salem	First	6/30/2016
Kevin Nordhill	Retiree	First	6/30/2016
Debbie Darst	Harrisburg SD	First	6/30/2015
Keith Baldwin	Forestry, Molalla	Second	6/30/2014

The criteria staff uses in recommending Advisory Committee members for Board appointment includes:

1. Current participation in OSGP.
2. Meeting the qualifications for the slot to be filled.
3. Possessing a mixture of expertise, knowledge and experience useful to Advisory Committee
4. Sincere interest in deferred compensation program.
5. Willing and able to work in a group setting to review and recommend policies governing the program.

### RECOMMENDED APPOINTMENTS

Staff recommends Steve Schnurbusch, Manager for Water Quality at the Department of Environmental Quality, to fill the upcoming vacant state employee position, and Celeste Van Cleave, Business Manager at Central Linn School District, to fill the upcoming vacant local government position.

**Board Options:** The Board may:

1. Approve the recommendation to appoint Steve Schnurbusch and Celeste Van Cleave to fill the two vacancies.
2. Request staff to solicit further applications for review.

### **Staff Recommendation:**

Staff recommends the Board adopt Option 1 above.

Reason: Staff believes that Steve Schnurbusch and Celeste Van Cleave meet the criteria and service needs of the Advisory Committee.

C.2. Attachment 1 – ORS 243.505, *Deferred Compensation Advisory Committee*

C.2. Attachment 2 - OAR 459-050-0025, *Deferred Compensation Advisory Committee*

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

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

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

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

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

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

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



**459-050-0025**

**Deferred Compensation Advisory Committee**

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

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

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

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

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

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

(f) No member may serve more than two consecutive full terms.

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

(2) The Advisory Committee shall study and advise the Board on all aspects of the Program, including but not limited to:

(a) The Program fee structure and procedures;

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

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

(d) Ways and means to inform and educate eligible employees about the Program;

(e) The expressed desires of eligible employees as to the Program; and

(f) The actuarial characteristics of eligible employees.

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

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

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

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

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

(6) Pursuant to the Public Meetings Law, ORS 192.610 to 192.690, the Deferred Compensation Manager shall distribute to the Advisory Committee, and other interested parties, an agenda for a regular meeting a reasonable time prior to the meeting.

(7) Nominations of candidates for the Advisory Committee shall be made as follows:

(a) Notice of a position on the Advisory Committee expected to become vacant upon the expiration of a term of appointment shall be published not later than April 15 of each calendar year.

(b) Persons interested in serving on the Advisory Committee must apply in writing to the Manager not later than May 15 following the publication of a vacancy.

(c) The Manager shall review the written applications of interested persons for completeness, accuracy, and satisfaction of the minimum requirements of the vacant position on the Advisory Committee.

(d) A committee consisting of the Manager and four members of PERS executive or managerial staff designated by the PERS Executive Director shall review the acceptable applications and recommend to the Board candidates for appointment to the Advisory Committee that:

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

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

(C) Appear to have a sincere interest in the Program; and

(D) Appear to be willing and able to work in a group setting to review and recommend policies governing the Program.

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

Stat. Auth: ORS 243.470

Stats. Implemented: ORS 243.505

Hist.: PERS 2-1993, f. & cert. ef. 9-23-93; PERS 2-1995, f. 10-13-95, cert. ef. 11-1-95; PERS 5-2000, f. & cert. ef. 8-11-00; PERS 3-2007, f. & cert. ef. 1-23-07



## Public Employees Retirement System

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May 30, 2014

TO: Members of the PERS Board  
FROM: Steven Patrick Rodeman, Deputy Director  
SUBJECT: 2015-17 Budget Development and Strategic Planning Update

PERS is finalizing its preparations for submission of the agency's next budget request to the 2015 legislative session. Once PERS finalizes its request for the 2015-17 biennium, and the Board approves submission, the Department of Administrative Services' Chief Financial Office will review that request and incorporate it with the Governor's Requested Budget that will be presented around the first of next year.

PERS' draft 2015-17 Agency Request Budget (ARB) is developed to align with the Governor's 10-Year Strategic Plan of Improving Government by focusing on improving customer service metrics and strengthening the agency's technology infrastructure. A draft of the full 2015-17 ARB will be presented for approval at the PERS Board's July 25, 2014 meeting. The purpose of this update is to provide some context for that decision by summarizing our progress on implementing the policy packages approved for the current biennium, providing an overview of PERS Current Service Level (CSL) budget as projected for 2015-17, and identifying policy packages PERS is proposing for the 2015-17 biennium. Lastly, we provide an update on the strategic planning work that drives the budget development.

### STATUS REPORT ON 2013-15 POLICY OPTION PACKAGES IMPLEMENTATION

The following packages were approved as part of the agency's original Legislatively Adopted Budget for the current biennium:

#### *Package 081 - May 2012 Emergency Board Approval for 3 FTE*

The Legislative Emergency Board approved an expenditure package in May 2012 to support the Strunk/Eugene Overpayment Recovery project. Three limited duration positions were approved to continue the collection efforts in the 2013-15 biennium. These staff members process payments and maintain repayment plans with more than 19,600 benefit recipients while monitoring more than 5,300 invoices that were assigned to third party collectors. The three staff continues to be necessary for the remainder of the current biennium and for 2015-2017, consistent with the project plan that provided the basis for the Emergency Board's previous approval. The staff may also be necessary in the 2017-2019 biennium to maintain the repayment plans and monitor the collection efforts.

#### *Package 101 – "Current Service Level" Permanent Positions*

This package converted 30 long-term Limited Duration positions to permanent positions. These positions had been added over the years as a result of new programs instituted as part of the 2003 PERS reforms. We were finally successful in having the Legislature recognize that these

positions were part of the agency's base staffing needs to maintain the level of customer service we were currently providing. Of the 30 positions requested, 27 are currently filled.

*Package 102 – Retiree Health Insurance Program*

This package was developed to address a necessary restructuring of the Retiree Health Insurance Program. Current progress towards this goal includes:

- Filling the three approved positions (Principle/Executive Manager D, Procurement & Contracts Specialist 3, and Accountant 3).
- Implementing new financial restructuring, controls, and program governance policies.
- Securing additional program actuarial and consulting support to address reserve accounting and utilization issues, and changes in the healthcare environment at the federal and state level under the Affordable Care Act.

*Package 103 – Technology Infrastructure Maintenance and Enhancement*

This package authorized the following technology updates and enhancements for the Oregon Retirement Information Online Network:

- Acquiring a new Storage Area Network, which is now complete.
- Creating a Centralized Data Team to provide consistent enterprise-level data analysis and reporting. This effort was one of our initial Breakthrough Planning efforts under our outcome-based management system. The team is reviewing new data reporting tools and developing its charter in conformance with the agency's Process Driven Organization redesign. By the end of this biennium, the new software and hardware will be acquired and the team constituted under the redesigned organization.
- Transitioning all elements of IAP administration to PERS. This initiative was divided into three phases. The first phase, development of the proof of concept, was approved in the 2013 regular session. At the Legislature's direction, we returned during the 2014 session in February for the funding for the second phase. That funding was approved conditioned on review by DAS and LFO, which is in progress. Pending that approval, inception and elaboration of the IAP full administration would kick off in June, 2014, and be completed no later than June 30, 2015. The third phase, construction of the needed system functionality, is slated for 2015-17 if approved as part of next biennium's budget request.

2013-15 CURRENT SERVICE LEVEL BUDGET

Building the agency's 2015-17 requested budget starts with establishing our Current Service Level (CSL) budget. The CSL is the calculated cost of continuing the agency's base 2013-15 budget (i.e., without including any of the approved non-permanent policy option packages) into the next biennium at current levels. The CSL budget carries forward the agency's permanent positions and supporting services, allowing for projected cost increases such as inflation. PERS is refining and preparing to submit the CSL budget to the Department of Administrative Services' Chief Financial Office (DAS/CFO) at the end of May. The CSL budget will be audited and confirmed by DAS/CFO in June, after which PERS will add in the costs for its proposed 2015-17 policy option packages.

At this time, the agency's estimated CSL for 2015-17 (which includes 361 permanent positions) looks to be about:

\$ 64.5 million	Personal Services (Employee Compensation / Benefits)
21.9 million	Services & Supplies (Business Operations Expenditures)
0.6 million	Capital Outlay (Equipment with Initial Value of \$5,000 or More)
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\$ 87.0 million	

For comparison, PERS' Legislatively Approved Budget for the 2013-15 biennium (including the SB 822 and SB 861 budget limitations and based on 372 positions of which 10 are limited duration) is:

\$ 64.3 million	Personal Services (Employee Compensation / Benefits)
21.2 million	Services & Supplies (Business Operations Expenditures)
1.3 million	Capital Outlay (Equipment with Initial Value of \$5,000 or More)
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\$ 86.8 million	

#### POLICY OPTION PACKAGES FOR 2015-17

Consistent with furthering the agency's mission and in support of its vision and core values, staff is developing business cases for the following proposals that would form the basis for policy option packages in the 2015-17 budget cycle:

- Converting four existing limited duration Call Center Agents to permanent staff positions.
- Additional staff to adequately resource the data verification program.
- Additional staff to keep up with the projected increase in OPSRP retirements.
- Funding to complete the third phase of the IAP Administration project.
- Funding to improve the agency's disaster recovery and business continuity capabilities.
- Funding for technology enhancements to the Oregon Retirement Information Online Network (ORION) that will address technical debt or system upgrades to improve customer service and effective use of staff resources.

#### STRATEGIC PLANNING UPDATE

Since our last update at the March 2014 Board meeting, PERS has hired an in-house organizational development specialist, Karen Terry, to facilitate the strategic planning process. Karen provided the Executive Leadership Team (ELT) an introductory session on strategic planning, outlining the different approaches and methods that could be brought to the process. She followed up with individual interviews of ELT members to gain an understanding of the desired outcomes and their vision for the process. A project plan will be developed based on ELT parameters regarding planning scope, timeframe for the plan, and desired levels of stakeholder engagement.

Most likely, this planning effort will focus only on completing the initiatives currently on the docket through the 2015-17 biennium, including those that are ultimately approved in the 2015-17 budget process. This phase of planning will be completed before July 2015. The planning process itself, in addition to producing the strategic plan, will foster greater alignment between divisions, programs, and processes that support PERS' mission. There will be an opportunity for key stakeholders, including the PERS Board, to provide input on PERS priorities and strategies. The Board will next be presented with an update on strategic plan development in January 2015.