

# OREGON PUBLIC EMPLOYEES RETIREMENT BOARD

| <b>Friday</b><br><b>October 20, 2006</b><br><b>11:30 A.M. &amp; 1:00 P.M.</b>     |   | <b>PERS</b><br><b>11410 SW 68<sup>th</sup> Parkway</b><br><b>Tigard, OR</b> |  |
|---|---|---|--|
| <b>ITEM</b>   |   | <b>PRESENTER</b>  |  |
| <b>A. Contested Case Hearings – 11:30 A.M.</b>                                    |   |   |  |
| 1.  | Contested Case Hearing for Larry Lenon  | KUTLER / WILSON   |  |
| 2.  | Contested Case Hearing for Larry Hamblin  |   |  |
| 3.  | Status of Pending Contested Cases   |   |  |
| <b>Break</b>  |   |   |  |
| <b>B. Administration – 1:00 P.M.</b>  |   |   |  |
| 1.  | September 15, 2006 Board Meeting Minutes  | CLEARY  |  |
| 2.  | Director's Report   |   |  |
| a.  | Forward-Looking Calendar  |   |  |
| b.  | OIC Investment Report   |   |  |
| c.  | Budget Report   |   |  |
| d.  | HB2020 Update   |   |  |
| e.  | PERS Workload Volumes   |   |  |
| f.  | Retiree Health Insurance Contract Renewals  |   |  |
| g.  | 2007 Legislation Update   |   |  |
| <b>C. Consent Action and Information Items</b>                                    |   |   |  |
| 1.  | Action on Contested Cases   | RODEMAN   |  |
| 2.  | Notice of Rulemaking for OPSRP/IAP Withdrawal Rules                               |   |  |
| 3.  | Notice of Rulemaking for OAR 459-011-0050, Voluntary Redeposit                    |   |  |
| 4.  | Notice of Rulemaking for Earnings Crediting Rules                                 |   |  |
| 5.  | Notice of Rulemaking for Power of Attorney Rules                                  |   |  |
| 6.  | First Reading of Employer Lump-Sum Payments Rules                                 |   |  |
| 7.  | First Reading of OAR 459-016-0100, P & F Units                                    |   |  |
| 8.  | First Reading of USERRA Rules   |   |  |
| 9.  | Adoption of OAR 459-075-0200, P & F Definition of "Immediately"                   |   |  |
| 10.   | Summary of the Federal Pension Protection Act of 2006                             |   |  |
| <b>D. Action and Discussion Items</b>   |   |   |  |
| 1.  | Biennial Review of Actuarial Equivalency Factors                                  | ORR / MERCER  |  |
| 2.  | Financial Modeling Study Proposal – Tier One Rate Guarantee Reserve Funding Level | ORR / MERCER  |  |
| 3.  | RIMS Conversion Project (RCP) Update  | MARECIC   |  |
| <b>E. Executive Session Pursuant to ORS 192.660(2)(f), (h), and/or ORS 40.225</b> |   |   |  |
| 1.  | Litigation Update   | LEGAL COUNSEL   |  |

**In compliance with the Americans with Disabilities Act, PERS will provide this document in an alternate format upon request. To request this, contact PERS at 888-320-7377 or TTY 503-603-7766.**

|  |
|--|
| <i>Note: If you have a disability that requires any special materials, services or assistance, call (503) 603-7575 at least 48 hours before the meeting.</i> |
| Michael Pittman, Chair * James Dalton * Thomas Grimsley * Eva Kripalani * Brenda Rocklin * Paul R. Cleary, Executive Director                                |
| Level 1 - Public   |

|         |          |
|---------|----------|
| MEETING | 10/20/06 |
| DATE    |          |
| AGENDA  | B.1.     |
| ITEM    | Minutes  |

**PUBLIC EMPLOYEES RETIREMENT BOARD**

PERS Board Meeting  
1:00 P.M.

September 15, 2006  
Tigard, Oregon

**MINUTES**

**Board Members:**

Mike Pittman, Chair  
Brenda Rocklin, Vice-chair  
Thomas Grimsley  
James Dalton  
Phone: Eva Kripalani

**Staff:**

Paul Cleary, Director  
Steve Delaney  
Donna Allen  
Steve Rodeman  
Brendalee Wilson

Joe DeLillo  
Dave Tyler  
Craig Stroud  
Dale Orr  
Jeanette Zang

Gay Lynn Bath  
Jeff Marecic  
David Crosley  
Jason Stanley  
Brian DeForest

**Others:**

Javier Fernandez  
Dallas Weyand  
Cathy Bloom  
Nancy Brewer  
Denise Yunker  
Maria Keltner  
Myrnie Daut  
David Wimmer

Pat West  
Ken Armstrong  
Dee Ann Hardt  
Karen Artiaco  
Debra Guzman  
Beth Anne Darby  
Karla Alderman  
Hasina Squires

Keith Kutler  
Joseph Malkin  
Steve Law  
Chris Warner  
Annette Strand  
Bill Hallmark  
Janice Ellerby

Bob Andrews  
P. Peg  
Dean Hulbert  
Bruce Adams  
Linda Ely  
Deborah Tremblay  
E. Laird

Board Chair Mike Pittman called the meeting to order at 1:00 P.M.  
Excused in-person, Eva Kripalani attended the meeting by phone.

**ADMINISTRATION**

**B.1. BOARD MEETING MINUTES OF JULY 21, 2006**

Brenda Rocklin moved and Tom Grimsley seconded to approve the minutes of the July 21, 2006 meeting. The motion passed unanimously.

**B.2. DIRECTOR'S REPORT**

Director Paul Cleary presented the Forward-Looking Calendar and noted that the October Board meeting will include a request to proceed with an actuarial study of the Tier One rate guarantee reserve funding level and a RIMS conversion project update. Cleary said the 2005 valuation-based employer rate setting and final decisions on proposed 2007 legislative concepts will be addressed at the November meeting. Cleary noted that staff was compiling results of recent customer satisfaction surveys of retirees, active members and employers and would report the results and related staff follow-up at the November Board meeting. Cleary announced that PERS

Board would attend the December 6<sup>th</sup> Oregon Investment Council (OIC) meeting to discuss initiation of the OPERF asset-liability study. The end of August OIC investment report was not yet available, but Cleary reported that through the end of July, the regular account was up 5.24% and the variable account was up 3.47%. Reviewing the agency budget, Cleary noted accumulated limitation savings of \$8.2 million for the first half of the biennium. Cleary said \$1.5 million has been re-programmed for the *Strunk / Eugene* project and \$1.3 million will be used for the completion of the HB2020 billings. Cleary said the majority of the remaining expenditure limitation would be unscheduled for this biennium and requested for the RIMS conversion project in the next biennium. Cleary provided an update on employer reporting that included an expanded employer outreach program that would be implemented this fall. Cleary presented the 2007 Legislation Update and reported on various drafts prepared by Legislative Counsel.

### **CONSENT ACTION AND INFORMATION ITEMS**

#### **C.1. ACTION ON CONTESTED CASE HEARINGS**

Vice-chair Brenda Rocklin reviewed the revised staff recommendations and proposed Board actions on the contested case hearings of Christine Toomey, Danny Byington, Janet Bailey, Edgardo L. Colón, Kay Bell, Lorinda Gauthier and Larry Hamblin held earlier in the morning of the Board meeting.

It was moved by Eva Kripalani and seconded by Tom Grimsley to approve the revised staff recommendations. The motion passed unanimously.

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

#### **ITEM A.1. CONTESTED CASE HEARING FOR CHRISTINE TOOMEY**

Adopted the draft final order as presented in the contested case hearing of Christine Toomey.

#### **ITEM A.2. CONTESTED CASE HEARING FOR DANNY BYINGTON**

Adopted the draft final order as presented in the contested case hearing of Danny Byington.

#### **ITEM A.3. CONTESTED CASE HEARING FOR JANET BAILEY**

Adopted the draft final order as presented in the contested case hearing of Janet Bailey.

#### **ITEM A.4. CONTESTED CASE HEARING FOR EDGARDO L. COLÓN**

Requested that the ALJ reopen the contested case hearing of Edgardo L. Colón for additional review and consideration of evidence regarding Mr. Colón's claim.

#### **ITEM A.5. CONTESTED CASE HEARING FOR KAY BELL**

Adopted the draft final order as presented, with removal of the estoppel arguments as requested by the contestant's counsel, in the contested case hearing of Kay Bell.

#### **ITEM A.6 . CONTESTED CASE HEARING FOR LORINDA GAUTHIER**

Adopted the draft final order as presented in the contested case hearing of Lorinda Gauthier.

ITEM A.7. CONTESTED CASE HEARING FOR LARRY HAMBLIN

Postponed consideration in the contested case hearing of Larry Hamblin to the October 2006 Board meeting.

C.2. NOTICE OF RULEMAKING ON EMPLOYER LUMP-SUM PAYMENTS

Steve Rodeman, Policy, Planning and Legislative Analysis Division (PPLAD) administrator, presented the rulemaking notice, indicating that this proposed rulemaking would provide a procedure for lump-sum payments from employers who do not have an existing unfunded actuarial liability and would amend the current rules to eliminate the unnecessary requirement for an intergovernmental agreement for payment of actuarial costs.

C.3. NOTICE OF RULEMAKING ON P & F PURCHASE OF UNIT BENEFITS

Rodeman presented the rulemaking notice, indicating that the proposed rule would clarify the administration of unit benefits for police and fire members under the PERS Chapter 238 Program, and provide clear guidelines for the purchase and distribution of those benefits.

C.4. NOTICE OF RULEMAKING ON CREDIT FOR MILITARY SERVICE UNDER USERRA

Rodeman presented the rulemaking notice, and noted this is a technical correction that would clarify payment methods of member-paid make-up contributions under USERRA.

C.5. FIRST READING OF OAR 459-075-0200, P& F DEFINITION OF "IMMEDIATELY"

Rodeman presented the first reading of the proposed rules to clarify the eligibility requirements and the administrative process for retirement for police and fire (P&F) members under OPSRP. Vice-Chair Rocklin encouraged the P&F stakeholder groups to review and comment on the proposed rules.

C.6. FIRST READING OF THE OREGON SAVINGS GROWTH PLAN (OSGP) RULES

Rodeman presented first readings and the proposed staff revisions for the following rules:

C.6.a. Notice of OAR 459-050-0025, Advisory Committee – Proposed changes would improve the process regarding committee member appointments and replacements.

C.6.b. Notice of OAR 459-050-0038, Trading Restrictions – Rodeman said that there was a staff modification to the proposed rules that would limit trades to no more than \$100,000 and that trades must remain in the investment option for a minimum of 30-days to prevent an adverse effect on overall fund performance.

C.6.c. Notice of OAR 459-050-0070, Catch-up Programs – Proposed changes would remove unnecessary restrictions on participant use of the 3-year Catch-Up program.

C.6.d. Notice of OAR 459-050-0077, Loan Program and OAR 459-050-0150, Unforeseeable Emergency Withdrawal – Rodeman said there were minor staff technical modifications to the proposed rules that would create a loan program to allow participants to borrow from their deferred compensation account.

**C.7. ADOPTION OF OAR 459-080-0250, IAP ACCOUNT INSTALLMENTS**

Rodeman presented the proposed rule modifications that would improve processing of IAP installment retirement payments in conformance with statutory authority. Rodeman noted that no public comments were received on the proposed rules.

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

**C.8. REPEAL OF OAR 459-070-0900, PERS/OPSRP TRANSITIONAL RULES**

Rodeman presented the proposed repeal of transitional rules that are no longer needed as separate program administrative processes and forms have now been developed and are in use. Rodeman noted that no public comments were received on the proposed rules.

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

**ACTION AND DISCUSSION ITEMS**

**D.1. 2005 VALUATION SYSTEM-WIDE RESULTS**

Annette Stand and Bill Hallmark of Mercer presented the December 31, 2005 system-wide valuation results for the Chapter 238 Tier One/Tier Two and the Oregon Public Service Retirement Plan (OPSRP) pension programs. Among the key findings were that the funded status of the Tier One / Tier Two program continues to improve. With employer side accounts of some \$6.7 billion included, Tier One / Tier Two is in a surplus UAL condition and 104% funded. Excluding side accounts, the UAL is approximately \$4.6 billion and the system is 91% funded. OPSRP is also in a surplus condition and 102% funded.

System-wide average employer contribution rates for the 2007 – 09 biennium will be less than current rates for both OPSRP (projected at 6.03%) and Tier One / Tier Two (projected at 14.8%). The average side account rate relief for Tier One / Tier Two will be minus 6.7%, resulting in an average net employer rate of 8.1%. However, rates will vary significantly by pool and employers, and employers have separate debt service costs on some \$6.4 billion outstanding principal on pension obligation bonds. Mercer also noted that the Tier One / Tier Two UAL rate (10.5%) will be charged against both Tier One / Tier Two and OPSRP payroll.

Board member Dalton remarked that the numbers are going in the right direction, but employers are still in debt on their pension obligation bonds. Dalton also noted the importance of staying the course with the actuarial methods and assumptions to make them foundational and have their intended effect over the long term. The other Board members concurred with Dalton's observations and extended appreciation for Mercer's work in building a strong actuarial and financial modeling foundation for the system.

It was moved by James Dalton and seconded by Brenda Rocklin to approve the administrative expense assumption for OPSRP as presented. The motion passed unanimously.

PERS Board meeting

9/15/2006

Page 5 of 5

**EXECUTIVE SESSION**

Pursuant to ORS 192.660 (2) (f), (h), and ORS 40.255, the Board went into executive session at 2:30 P.M.

The Board reconvened to open session.

Chair Pittman adjourned the meeting at 3:15 P.M.

Respectfully submitted,

A handwritten signature in cursive script that reads "Paul R. Cleary".

Paul R. Cleary  
Executive Director

*Prepared by Donna R. Allen, Executive Assistant*

|         |          |
|---------|----------|
| MEETING | 10-20-06 |
| DATE    |          |
| AGENDA  | B.2.a    |
| ITEM    | Calendar |

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

### **November 2006**

**Meeting: 1:00 P.M. November 17, 2006**

Contested Case Hearing for Kathleen Jones  
First Reading of Withdrawals/Redeposits Rules  
Adoption of Oregon Savings Growth Plan (OSGP) Rules  
Adoption of Employer Lump-Sum Payments Rules  
Adoption of OAR 459-016-0100, P & F Units  
Adoption of USERRA Rules  
2005 Valuation Employer Rates  
Approval of 2007 Legislative Concepts

### **December 2006**

**OIC Meeting: 9:00 A.M. December 6, 2006**

Joint meeting with OIC on OPERF Asset/Liability Study

**No PERS Board Meeting Scheduled**

### **January 2007**

**Tentative: 1:00 P.M. January 19, 2007**

Returns for periods ending 8/31/06

Oregon Public Employees Retirement Fund

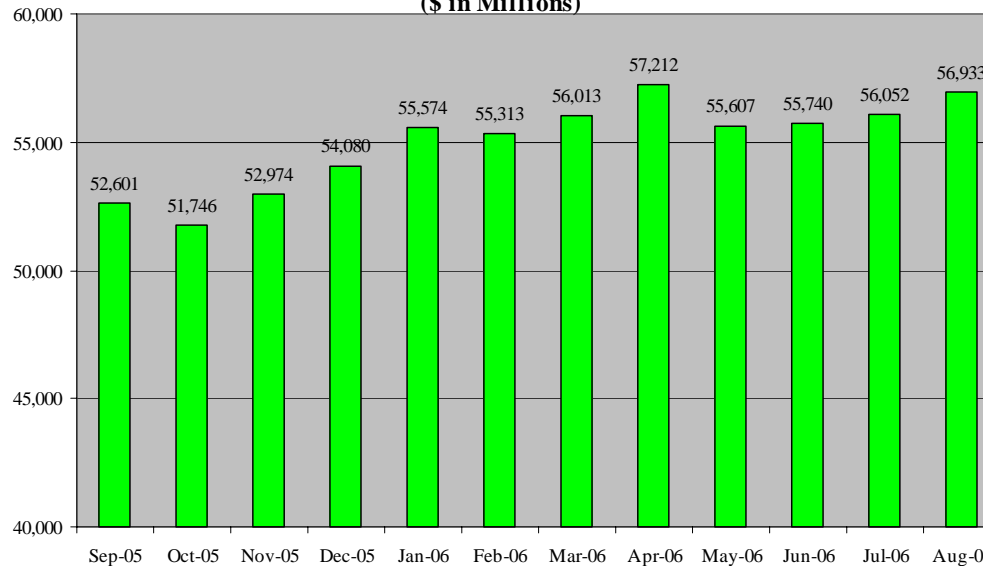
B.2.b.

| OPERF                              | Regular Account     |                     |                           |               | Historical Performance |              |              |              |              |              |
|------------------------------------|---------------------|---------------------|---------------------------|---------------|------------------------|--------------|--------------|--------------|--------------|--------------|
|                                    | Policy <sup>1</sup> | Target <sup>1</sup> | \$ Thousands <sup>2</sup> | Actual        | Year-To-Date           | 1 YEAR       | 2 YEARS      | 3 YEARS      | 4 YEARS      | 5 YEARS      |
| Domestic Equity                    | 30-40%              | 35%                 | \$ 19,102,022             | 34.5%         | 4.30                   | 8.42         | 12.79        | 12.31        | 12.96        | 6.14         |
| International Equity               | 15-25%              | 20%                 | 11,661,861                | 21.1%         | 14.09                  | 26.15        | 26.96        | 25.35        | 22.05        | 14.30        |
| Alternative Equity                 | 7-13%               | 10%                 | 5,149,038                 | 9.3%          | 7.56                   | 25.13        | 31.78        | 26.47        | 16.75        | 10.64        |
| <b>Total Equity</b>                | <b>60-70%</b>       | <b>65%</b>          | <b>35,912,921</b>         | <b>65.0%</b>  |                        |              |              |              |              |              |
| Opportunity Portfolio              |                     |                     | 5,200                     | 0.0%          |                        |              |              |              |              |              |
| <b>Total Fixed</b>                 | <b>22-32%</b>       | <b>27%</b>          | <b>15,521,773</b>         | <b>28.1%</b>  | <b>3.05</b>            | <b>3.16</b>  | <b>4.68</b>  | <b>5.78</b>  | <b>6.69</b>  | <b>6.49</b>  |
| <b>Real Estate</b>                 | <b>5-11%</b>        | <b>8%</b>           | <b>3,838,430</b>          | <b>6.9%</b>   | <b>16.91</b>           | <b>32.17</b> | <b>30.86</b> | <b>27.85</b> | <b>22.74</b> | <b>19.10</b> |
| <b>Cash</b>                        | <b>0-3%</b>         | <b>0%</b>           | <b>11,938</b>             | <b>0.0%</b>   | <b>3.24</b>            | <b>4.50</b>  | <b>3.50</b>  | <b>2.78</b>  | <b>2.44</b>  | <b>2.43</b>  |
| <b>TOTAL OPERF Regular Account</b> | <b>100%</b>         |                     | <b>\$ 55,290,262</b>      | <b>100.0%</b> | <b>7.12</b>            | <b>13.48</b> | <b>16.03</b> | <b>15.24</b> | <b>13.89</b> | <b>9.32</b>  |
| <b>OPERF Policy Benchmark</b>      |                     |                     |                           |               | <b>6.99</b>            | <b>11.60</b> | <b>13.18</b> | <b>13.28</b> | <b>12.43</b> | <b>8.23</b>  |
| Value Added                        |                     |                     |                           |               | <b>0.13</b>            | <b>1.88</b>  | <b>2.85</b>  | <b>1.96</b>  | <b>1.46</b>  | <b>1.09</b>  |

Asset Class Benchmarks:

|  |       |       |       |       |       |       |
|--|-------|-------|-------|-------|-------|-------|
| Russell 3000 Index                           | 5.66  | 8.75  | 11.99 | 11.76 | 12.30 | 5.63  |
| MSCI ACWI Free Ex US                         | 14.26 | 25.44 | 26.26 | 25.04 | 21.71 | 13.79 |
| Russell 3000 Index + 300 bps--Quarter Lagged | 7.16  | 13.23 | 13.60 | 17.24 | 12.31 | 8.20  |
| LB Universal--Custom FI Benchmark            | 2.41  | 2.22  | 3.62  | 4.56  | 4.82  | 5.25  |
| NCREIF Property Index--Quarter Lagged        | 9.25  | 20.19 | 17.84 | 15.07 | 13.03 | 11.67 |
| 91 Day T-Bill                                | 3.08  | 4.34  | 3.39  | 2.61  | 2.30  | 2.29  |

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



<sup>1</sup>OIC Policy 4.01.18

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





# Oregon

Theodore R. Kulongoski, Governor

October 20, 2006

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

TO: Members of the PERS Board  
FROM: Brian DeForest, Budget and Fiscal Operations Manager  
SUBJECT: October 2006 Budget Report

|         |                 |
|---------|-----------------|
| MEETING | <b>10-20-06</b> |
| DATE    |                 |
| AGENDA  | <b>B.2.c.</b>   |
| ITEM    | <b>Budget</b>   |

## 2005-07 ACTUAL EXPENDITURES AND PROJECTIONS

Operating expenditures for the months of August and September totaled \$3,228,860 and \$2,863,270 respectively. Approximately \$4.4 million of the Operations budget was unscheduled by the Department of Administrative Services representing RIMS Conversion Project budget limitation that will go unspent in the current biennium. The Agency has expended a total of \$41,223,012, or 55.74%, of the Operations budget through 15 months, or 62.50%, of the biennium. The expenditure burn rate is expected to increase over the remaining nine months of the biennium as Strunk/Eugene project positions are filled and RIMS Conversion Project expenditures increase.

## BUDGET VARIANCES

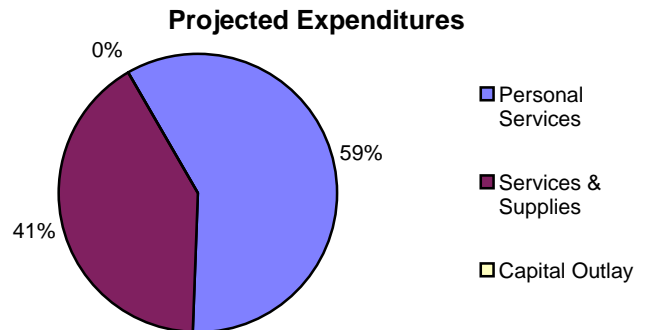
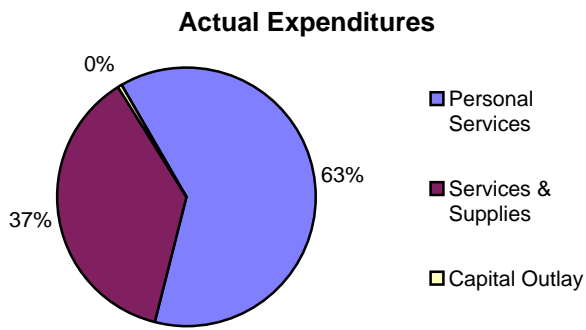
Remaining accumulated limitation savings for the biennium now stand at just under \$650,000. General operations produced little change in budget variances over the last two months. The RIMS Conversion Project spent more than specifically projected for August and September, but not beyond expenditures anticipated for the biennium as a whole.

DAS Risk Management Division notified PERS of an agency specific fiscal impact of \$140,000 for the Oregon Supreme Court's ruling on the Young case involving prior-period adjustments for state agency overtime obligations incurred from June 6, 1995 to August 5, 1997. That expenditure has been factored into projections, thus reducing the accumulated savings. However, because the overtime payments are considered PERS covered salary, the agency will be faced with additional workload and costs associated with adjusting account balances and benefits for the some 1,800 state employee members, retirees, and other benefit recipients. The scope, approach and resources required for that project have yet to be determined, nor have the costs been factored into our budget projections.

**2005-07 Agency-wide Operations - Budget Execution  
Summary Budget Analysis  
For the Month of: September 2006**

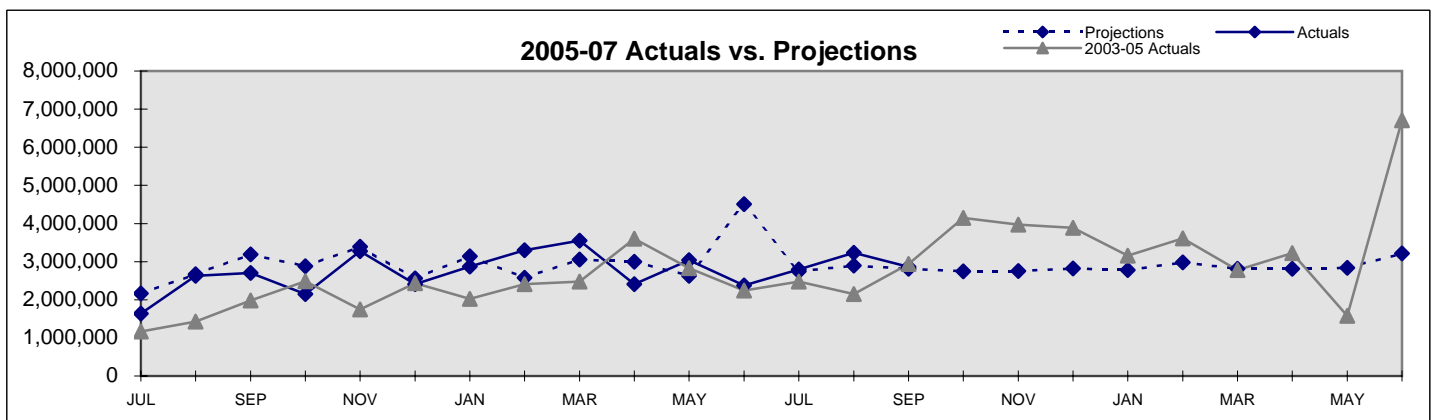
**Biennial Summary**

| Category            | Actual Exp. To Date | Projected Expenditures | Total Est. Expend. | 2005-07 LAB       | Variance       |
|---------------------|---------------------|------------------------|--------------------|-------------------|----------------|
| Personal Services   | 25,690,033          | 18,920,960             | 44,610,993         | 46,875,869        | 2,264,876      |
| Services & Supplies | 15,339,539          | 13,168,484             | 28,508,023         | 26,740,026        | (1,767,997)    |
| Capital Outlay      | 193,441             |                        | 193,441            | 344,618           | 151,177        |
| Special Payments    |                     |                        |                    |                   |                |
| <b>Total</b>        | <b>41,223,012</b>   | <b>32,089,444</b>      | <b>73,312,457</b>  | <b>73,960,513</b> | <b>648,056</b> |



**Monthly Summary**

| Category            | Actual Exp.      | Projections      | Variance        | Avg. Monthly Actual Exp. | Avg. Projected Expenditures |
|---------------------|------------------|------------------|-----------------|--------------------------|-----------------------------|
| Personal Services   | 1,814,233        | 2,013,202        | 198,970         | 1,712,669                | 2,102,329                   |
| Services & Supplies | 1,105,555        | 798,229          | (307,326)       | 1,022,636                | 1,463,165                   |
| Capital Outlay      | (56,518)         |                  | 56,518          | 12,896                   |                             |
| Special Payments    |                  |                  |                 |                          |                             |
| <b>Total</b>        | <b>2,863,270</b> | <b>2,811,432</b> | <b>(51,838)</b> | <b>2,748,201</b>         | <b>3,565,494</b>            |



**2005-07 Agency-wide Operations - Budget Execution**  
**Spending Plan - Actual and Estimated Expenditures**  
 2005-07 Summary

B.2.c. Attachment 1

|                                      | 1st QTR          | 2nd QTR          | 3rd QTR          | 4th QTR          | 5th QTR          | 6th QTR          | 7th QTR          | 8th QTR          | ACTUAL EXPEND. TO DATE | EST. EXPEND.      | ENC. & PRE-ENC.  | TOTAL ESTIMATED EXPEND. | 05-07 LAB BUDGET  | VARIANCE           |  |
|--------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------------|-------------------|------------------|-------------------------|-------------------|--------------------|--|
| <b>Personal Services</b>             |                  |                  |                  |                  |                  |                  |                  |                  |                        |                   |                  |                         |                   |                    |  |
| Salaries & Wages                     | 3,102,084        | 3,128,099        | 3,252,118        | 3,275,416        | 3,362,077        | 3,932,433        | 4,039,592        | 4,094,013        | 16,119,795             | 12,066,038        |                  | 28,185,833              | 29,846,673        | 1,660,840          |  |
| Temporary Appointments               | 40,406           | 43,071           | 29,041           | 36,809           | 42,700           | 24,330           | 39,020           | 25,137           | 192,027                | 88,487            |                  | 280,513                 | 156,922           | (123,591)          |  |
| Overtime                             | 33,466           | 71,029           | 79,550           | 56,890           | 66,858           | 14,072           | 45,005           | 33,238           | 307,793                | 92,315            |                  | 400,108                 | 540,505           | 140,397            |  |
| Shift Differential                   | 1,326            | 1,615            | 2,139            | 1,878            | 1,820            | 15,375           | 375              | 375              | 8,779                  | 16,125            |                  | 24,904                  | 1,980             | (22,924)           |  |
| All Other Differential               | 34,599           | 54,556           | 65,171           | 63,587           | 73,959           | 17,410           | 17,563           | 17,563           | 291,873                | 52,535            |                  | 344,408                 | 209,350           | (135,058)          |  |
| ERB Assessment                       | 1,289            | 1,311            | 1,341            | 1,352            | 1,340            | 1,979            | 1,979            | 1,979            | 6,632                  | 5,938             |                  | 12,570                  | 12,700            | 130                |  |
| Workers' Comp. Insurance (SA PERS)   | 449,000          | 451,927          | 439,938          | 427,041          | 444,369          | 582,170          | 600,201          | 606,441          | 2,212,275              | 1,788,812         |                  | 4,001,087               | 4,481,716         | 480,629            |  |
| Pension Bond Contribution            | 207,759          | 205,184          | 207,139          | 201,975          | 208,270          | 243,811          | 250,455          | 253,829          | 1,030,327              | 748,094           |                  | 1,778,421               | 1,756,591         | (21,830)           |  |
| Social Security Taxes                | 243,827          | 249,974          | 261,324          | 262,386          | 269,096          | 306,277          | 316,829          | 319,030          | 1,286,608              | 942,136           |                  | 2,228,744               | 2,356,099         | 127,355            |  |
| Unemployment Comp.                   |                  | 16,576           |                  | 4,077            |                  |                  |                  |                  | 20,654                 |                   |                  | 20,654                  | 37,388            | 16,734             |  |
| Workers' Comp. Assess.               | 2,484            | 2,335            | 2,370            | 2,358            | 2,266            | 3,593            | 3,593            | 3,593            | 11,813                 | 10,779            |                  | 22,593                  | 26,833            | 4,240              |  |
| Mass Transit Tax                     | 19,249           | 19,844           | 20,556           | 20,687           | 21,389           | 23,595           | 24,238           | 24,564           | 101,724                | 72,396            |                  | 174,121                 | 185,833           | 11,712             |  |
| Flexible Benefits                    | 756,424          | 772,987          | 849,681          | 861,809          | 858,832          | 969,125          | 1,034,090        | 1,034,090        | 4,099,733              | 3,037,304         |                  | 7,137,037               | 7,308,467         | 171,430            |  |
| Vacancy Savings                      |                  |                  |                  |                  |                  |                  |                  |                  |                        |                   |                  |                         | (155,537)         | (155,537)          |  |
| Reconciliation Adj.                  |                  |                  |                  |                  |                  |                  |                  |                  |                        |                   |                  |                         | 188,451           | 188,451            |  |
| Unscheduled P.S.                     |                  |                  |                  |                  |                  |                  |                  |                  |                        |                   |                  |                         | (78,102)          | (78,102)           |  |
| <b>Total Personal Services</b>       | <b>4,891,915</b> | <b>5,018,508</b> | <b>5,210,367</b> | <b>5,216,265</b> | <b>5,352,978</b> | <b>6,134,170</b> | <b>6,372,939</b> | <b>6,413,852</b> | <b>25,690,033</b>      | <b>18,920,960</b> |                  | <b>44,610,993</b>       | <b>46,875,869</b> | <b>2,264,876</b>   |  |
|                                      |                  |                  | <i>actual</i>    |                  |                  | <i>estimated</i> |                  |                  |                        |                   |                  |                         |                   |                    |  |
| <b>Services &amp; Supplies</b>       |                  |                  |                  |                  |                  |                  |                  |                  |                        |                   |                  |                         |                   |                    |  |
| Instate Travel                       | 12,995           | 24,326           | 14,906           | 19,723           | 11,981           | 18,975           | 13,475           | 18,550           | 83,932                 | 51,000            |                  | 134,932                 | 116,894           | (18,038)           |  |
| Out-of-state Travel                  |                  |                  | 40               | 11,252           | 339              | 300              | 300              | 300              | 11,631                 | 900               |                  | 12,531                  | 31,127            | 18,596             |  |
| Employee Training                    | 30,385           | 44,332           | 39,369           | 36,044           | 60,420           | 39,165           | 39,165           | 40,265           | 210,551                | 118,595           |                  | 329,146                 | 488,069           | 158,923            |  |
| Office Expenses                      | 91,727           | 121,888          | 283,010          | 200,313          | 240,166          | 240,431          | 240,790          | 243,449          | 937,104                | 724,669           |                  | 1,661,772               | 2,063,722         | 401,950            |  |
| Telecommunications                   | 25,713           | 69,518           | 65,443           | 62,725           | 58,881           | 68,249           | 68,249           | 68,249           | 282,280                | 204,748           |                  | 487,028                 | 537,685           | 50,657             |  |
| St. Gov. Svc. Chg.                   | 595,854          | 135,567          | 109,154          | 43,618           | 574,579          | 67,620           | 67,620           | 67,620           | 1,458,772              | 202,860           |                  | 1,661,632               | 1,504,171         | (157,461)          |  |
| Data Processing                      | 266,701          | 506,983          | 426,702          | 317,110          | 474,884          | 645,000          | 495,000          | 675,000          | 1,992,380              | 1,815,000         |                  | 3,807,380               | 5,256,990         | 1,449,610          |  |
| Publicity/Publications               | 7,318            | 6,251            | 18,487           | 27,825           | 17,017           | 14,000           | 12,100           | 20,000           | 76,900                 | 46,100            |                  | 123,000                 | 292,704           | 169,704            |  |
| Professional Services                | 545,896          | 1,213,796        | 1,640,303        | 695,945          | 815,605          | 583,419          | 742,169          | 714,081          | 4,911,545              | 2,039,669         |                  | 6,951,214               | 2,862,534         | (4,088,680)        |  |
| IT Professional Services             |                  | 360,233          | 1,343,483        | 795,597          | 842,976          | 90,000           | 90,000           | 90,000           | 3,342,289              | 270,000           | 6,180,139        | 9,792,428               | 13,897,953        | 4,105,525          |  |
| Attorney General                     | 48,913           | 72,187           | 113,494          | 96,841           | 105,384          | 141,000          | 141,000          | 146,500          | 436,819                | 428,500           |                  | 865,319                 | 947,681           | 82,362             |  |
| Dispute Res. Svc.                    | 957              | 3,910            | 16,510           | 13,525           | 7,157            | 5,500            | 6,200            | 10,000           | 42,059                 | 21,700            |                  | 63,759                  | 73,736            | 9,977              |  |
| Empl. Recruit./Devel.                | 8,863            | 24,770           | 12,469           | 16,325           | 7,315            | 15,000           | 15,000           | 15,000           | 69,742                 | 45,000            |                  | 114,742                 | 58,036            | (56,706)           |  |
| Dues & Subscriptions                 | 4,943            | 10,106           | 5,799            | 5,388            | 3,871            | 1,775            | 2,175            | 2,275            | 30,108                 | 6,225             |                  | 36,333                  | 50,702            | 14,369             |  |
| Facility Rental                      | 104,691          | 95,696           | 96,140           | 96,223           | 96,166           | 97,368           | 99,018           | 132,024          | 488,916                | 328,410           |                  | 817,326                 | 703,597           | (113,729)          |  |
| Fuels/Utilities                      | 23,497           | 25,490           | 30,773           | 27,089           | 30,229           | 27,000           | 27,000           | 36,000           | 137,078                | 90,000            |                  | 227,078                 | 121,063           | (106,015)          |  |
| Facility Maint.                      | 47,868           | 43,335           | 47,231           | 86,504           | 113,561          | 76,251           | 76,251           | 101,668          | 338,499                | 254,170           |                  | 592,669                 | 724,698           | 132,029            |  |
| Agency/Program S & S                 |                  |                  |                  |                  |                  |                  |                  |                  |                        |                   |                  |                         |                   |                    |  |
| Other COP Costs                      |                  | 371              | 1,090            | 765              | 1,511            |                  |                  |                  | 3,737                  |                   |                  | 3,737                   | 6,500             | 2,763              |  |
| Other S & S                          | 1,095            | 8,915            | (3,237)          | 5,246            | 13,493           |                  |                  |                  | 25,512                 |                   |                  | 25,512                  | 2,700             | (22,812)           |  |
| Expendable Property                  | 72,658           | 19,094           | 16,087           | 16,353           | 33,318           | 2,850            | 2,850            | 3,100            | 157,509                | 8,800             |                  | 166,309                 | 193,465           | 27,156             |  |
| IT Expendable Property               |                  | 23,267           | 35,037           | 161,673          | 82,198           | 60,000           | 60,000           | 60,000           | 302,175                | 180,000           | 152,000          | 634,175                 | 450,300           | (183,875)          |  |
| Unscheduled S & S                    |                  |                  |                  |                  |                  |                  |                  |                  |                        |                   |                  |                         | (3,644,301)       | (3,644,301)        |  |
| <b>Total Services &amp; Supplies</b> | <b>1,890,074</b> | <b>2,810,037</b> | <b>4,312,289</b> | <b>2,736,087</b> | <b>3,591,051</b> | <b>2,193,903</b> | <b>2,198,362</b> | <b>2,444,081</b> | <b>15,339,539</b>      | <b>6,836,345</b>  | <b>6,332,139</b> | <b>28,508,023</b>       | <b>26,740,026</b> | <b>(1,767,997)</b> |  |
| <b>Capital Outlay</b>                |                  |                  |                  |                  |                  |                  |                  |                  |                        |                   |                  |                         |                   |                    |  |
| Office Furn./Fixture                 |                  |                  |                  |                  |                  |                  |                  |                  |                        |                   |                  |                         | 30,868            | 30,868             |  |
| Telecomm. Equip.                     |                  |                  |                  |                  |                  |                  |                  |                  |                        |                   |                  |                         | 5,589             | 5,589              |  |
| Technical Equipment                  |                  |                  |                  |                  |                  |                  |                  |                  |                        |                   |                  |                         | 57,161            | 57,161             |  |
| Data Proc.-Software                  |                  |                  | 197,783          | (129,701)        | (73,034)         |                  |                  |                  | (4,952)                |                   |                  | (4,952)                 | 447,019           | 451,971            |  |
| Data Proc.-Hardware                  | 181,877          |                  |                  |                  | 16,516           |                  |                  |                  | 198,393                |                   |                  | 198,393                 | 492,857           | 294,464            |  |
| Building & Structure                 |                  |                  |                  |                  |                  |                  |                  |                  |                        |                   |                  |                         | (688,876)         | (688,876)          |  |
| <b>Total Capital Outlay</b>          | <b>181,877</b>   |                  | <b>197,783</b>   | <b>(129,701)</b> | <b>(56,518)</b>  |                  |                  |                  | <b>193,441</b>         |                   |                  | <b>193,441</b>          | <b>344,618</b>    | <b>151,177</b>     |  |
| <b>Special Payments</b>              |                  |                  |                  |                  |                  |                  |                  |                  |                        |                   |                  |                         |                   |                    |  |
| <b>Total Special Payments</b>        |                  |                  |                  |                  |                  |                  |                  |                  |                        |                   |                  |                         |                   |                    |  |
| <b>Total Expenditures</b>            | <b>6,963,866</b> | <b>7,828,545</b> | <b>9,720,439</b> | <b>7,822,652</b> | <b>8,887,511</b> | <b>8,328,073</b> | <b>8,571,300</b> | <b>8,857,932</b> | <b>41,223,012</b>      | <b>25,757,305</b> | <b>6,332,139</b> | <b>73,312,457</b>       | <b>73,960,513</b> | <b>648,056</b>     |  |

Percent of 2005-07 LAB Expended: 55.74%  
 Percent of Biennium Expired: 62.50%



# Oregon

Theodore R. Kulongoski, Governor

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

October 20, 2006

TO: Members of the PERS Board

FROM: Paul Cleary, Executive Director

SUBJECT: HB2020 Employer Reporting, Accounts Receivable, and Employer Outreach Plans

|              |                                |
|--------------|--------------------------------|
| MEETING DATE | <b>10-20-06</b>                |
| AGENDA ITEM  | <b>B.2.d.</b><br>HB2020 Update |

The agency is in its third year of administering the HB2020 program and using the new employer electronic reporting system. The Membership and Employer Relations Section (MERS) is working with 805 employer-reporting units to process outstanding 2005 and 2006 employer reports. In addition, PERS implemented a new accounts receivable process and revised its employer outreach program in 2006. Updates on each are provided below.

## EMPLOYER REPORTING

The table below shows the status as of October 1, 2006 of employer reports and member records for calendar years 2005 and 2006.

|                               | <b>Calendar Year 2005</b> | <b>Calendar Year 2006</b> |
|-------------------------------|---------------------------|---------------------------|
| Reports due (estimated):      |                           |                           |
| ▪ Number                      | 12,722                    | 8,861                     |
| ▪ Percent                     | 99.7%                     | 97.5%                     |
| Outstanding reports           | 37                        | 224                       |
| Reports fully posted at 100%: |                           |                           |
| ▪ Number                      | 12,448                    | 7,557                     |
| ▪ Percent                     | 97.8%                     | 85.3%                     |
| Records due (estimated)       | 3,127,770                 | 2,129,027                 |
| Records not posted            | 3,806                     | 32,842                    |
| Contributions posted          | \$407,314,335             | \$296,599,067             |
| Contributions not posted      | \$112,622                 | \$1,224,091               |

Employers' year-over-year statistics have improved. Last year at this time, 99% of prior year reports due were submitted and 96% of the prior year reports were 100% posted. Currently for 2005, we have 99.7% of all required reports submitted and 98% of those are 100% posted. Likewise last year at this time, only 95% of the current year reports were submitted and only 80% of those reports were 100% posted. For 2006, 98% of current year reports have been submitted and 85% of those reports are 100% posted.

### ENHANCED EMPLOYER OUTREACH PROGRAM

During 2005, PERS began issuing monthly employer communiqués and conducting employer reporting training sessions to keep employers informed regarding jClarety system enhancements and program changes. Since this program's inception, 459 employer-staff have attended 23 sessions and we have seen a significant improvement in the employers' timely and complete submission of payroll reports and records.

Beginning in November 2006, PERS will further improve this program by adding additional regional outreach sessions that provide training on complex program provisions like eligibility and part-timers as well as focus on data quality reporting issues like waiting-time reporting and service/FTE reporting codes. We anticipate conducting 10 regional site visits that will address data quality issues and reporting in November.

In addition to the regional site visits, we will shortly begin conducting monthly employer reporting training (EDX) in remote locations instead of just exclusively at PERS' headquarters. Future Board reports will present more details on the enhanced outreach program and the employer's evaluation of the training program.

### ACCOUNTS RECEIVABLE PLAN

Besides assisting employers with overdue reports and electronic payment, PERS implemented an accounts receivable plan to proactively collect receivable balances that are more than 30 days overdue. As of October 1, 2006, we have 348 outstanding invoices (38 employers) with an aggregate balance of approximately \$683,000. This is a significant improvement since the inception of the accounts receivable plan when PERS had 82 employers with outstanding invoices that totaled in excess of \$2.1 million. We have cut the delinquent invoices by half, but our goal is to collect all outstanding invoices that exceed 30 days by following up with these employers by phone and letters each month.



# Oregon

Theodore R. Kulongoski, Governor

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

October 20, 2006

TO: Members of the PERS Board

FROM: Paul R. Cleary, Executive Director

SUBJECT: PERS Workload and Transaction Volumes

|         |                 |
|---------|-----------------|
| MEETING | <b>10-20-06</b> |
| DATE    |                 |
| AGENDA  | <b>B.2.e.</b>   |
| ITEM    | Workload        |

In preparation for the 2007 Legislative Session, staff have assembled the attached table displaying various workload volumes and transactions completed in calendar year 2005 (unless otherwise noted). Similar data is collected and reported to Cost Effectiveness Measurement Benchmarking, Inc. (CEM) for use in comparing our agency's program complexity, customer service and cost-effectiveness to that of 13 other similarly sized U.S. public employee retirement systems. The CEM data and analysis will cover fiscal year 2006 and should be available for reporting to the Board by February 2007.

## PERS Transactions (2005 Calendar Year)

### Employer Reporting

| Parameter                                 | Quantity |
|---|----------|
| Number of employers reporting             | 805*     |
| Number of reports received monthly        | 1,673    |
| Number of member records received monthly | 305,752  |

\* Accounts for the Oregon State Payroll System are reported by a single group

### Annual Statements

| Program                                       | Quantity |
|---|----------|
| Tier One/Tier Two* (mailed June 2006)         | 163,000  |
| OPSRP Pension Program (mailed September 2006) | 28,700   |
| Individual Account Program (November 2006)    | 185,000  |

\* Additional 4,100 on pull list

### Transactions

| Program  | Quantity |
|--|----------|
| Retirements – Tier One/Tier Two                                | 4,559    |
| Retirements – IAP  | 2,968    |
| Retirements – OPSRP Pension Program                            | 0        |
| Retirements – contests/appeals (3-year average)                | 107      |
| Withdrawals – Tier One/Tier Two                                | 1,283    |
| Withdrawals – IAP  | 2,058    |
| Purchases – Tier One/Tier Two                                  | 1,963    |
| Deaths (pre and post retirement death benefits processed)      | 3,638    |
| Divorces   |          |
| Decrees received   | 1,100    |
| Retirement calcs for members/alternate payees                  | 600      |
| Pre and post divorce retirement estimates                      | 700      |
| Disability   |          |
| Disability applications  | 450      |
| Periodic reviews of existing cases                             | 900      |
| Retirement calculations  | 230      |
| Death, Divorce, Disability – contests/appeals (3-year average) | 53       |

### Other (CSC, MERS, RSS, SSS)

| Parameter                            | Quantity |
|--------------------------------------|----------|
| Telephone calls (incoming/outgoing)  | 209,000  |
| Faxes (incoming)                     | 26,880   |
| Emails (incoming)                    | 55,200   |
| Letters                              | 4,360    |
| Website visits                       | 900,000  |
| Written benefit estimates            | 9,000    |
| Website calculator benefit estimates | 27,000   |



# Oregon

Theodore R. Kulongoski, Governor

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

October 20, 2006

TO: Members of the PERS Board  
FROM: Gloria English, Retiree Insurance Program Manager  
Kyle Knoll, Procurements Manager  
SUBJECT: Retiree Insurance Program Contracts for Third Party  
Administrative Services, and Insurance Program Consultant Services –  
Renewal Recommendations

|              |                                   |
|--------------|-----------------------------------|
| MEETING DATE | <b>10/20/06</b>                   |
| AGENDA ITEM  | <b>B.2.f<br/>Health Insurance</b> |

## OVERVIEW

The decision was made by a previous PERS Board nearly two decades ago to outsource the day-to-day administrative details of insurance program enrollment, account maintenance, premium collection, etc. to a third-party administrator. That administration contract now with BenefitHealth Solutions entails a variety of duties that minimize the work done within PERS in association with the Retiree Insurance Program. At this time PERS has only two staff members within PERS dedicated to this program.

The third-party administration contract has grown to serve almost 50,000 retiree health insurance program members providing: communications and materials preparation; program eligibility; electronic member files; enrollment and membership information on four health plans; telephone customer service and counseling; premium collection, administration and cash flow; member communications and materials preparation; and annual plan change management. These are complex duties involving years of evolution and refinement.

The average age of the PERS insured group is 74 years-old. Five percent are not currently enrolled in Medicare, and the remaining 95% are also enrolled in Medicare. PERS also offers an elective dental insurance to these retirees with current enrollment at approximately 23,300.

The current third-party administrator, BenefitHealth Solutions, has been serving PERS retirees since June 1994. These administrative services are funded by fees added to the member's monthly premiums, and by a smaller assessment against the Retirement Health Insurance Account (RHIA) trust fund and the Retiree Health Insurance Premium Account (RHIPA). These accounts are established in statute to provide premium subsidies to eligible retirees, primarily the \$60 per month subsidy for Medicare-eligible retirees. The PERS third party administration contract expires June 30, 2007.

The PERS Board has retained a specialized consultant for the Insurance Program for more than 20 years. The Insurance Program Consultant, B.W. Reed Benefits, LLC, also is paid through the same sources as described above. The PERS Benefits Consultant's contract expires December 31, 2007.



### CONTRACT HISTORY

The PERS Retiree Insurance Program has typically contracted with a third-party administrator for a period of no less than three to five years. A lengthy contract period is necessary (along with the necessary clauses for termination with just cause) due to the extreme complexity of administering the PERS Insurance Program.

Unlike benefits administration for businesses where active employees pay any required premium by payroll deductions, PERS members use three methods: pension deduction, electronic funds transfer, and invoices. Members walking into the third-party administrator's office can also make a payment with cash. The PERS Insurance Program third-party administrator must also collect from PERS for program members who are eligible for one of the two PERS administered subsidies. Some PERS members have their premiums paid by their former public employers. This requires a complex system of premium collection and reconciliation.

Balancing and transferring PERS member accounts to a new administrator is a very intense and complicated process. The last transfer of these duties in 1994 required months and months of complex member account cleanup and reconciliation. The current member accounts are in good condition, but account transfer is still a very complex work, and would likely require system modifications for most third-party administrators to be able to handle the complexity of PERS' needs.

PERS program staff, based upon the administration transition in 1994, estimate that if PERS were to change administrators as of July 1, 2007, PERS would need to have the selection process completed at least 5 months ahead of that date to allow for the new contractor to build systems to accommodate PERS' data, and three months of parallel processing to ensure accuracy of billing and payment of member premiums.

Because PERS members are primarily Medicare eligible and enrolled, Medicare regulations complicate the enrollment process. Not only must the third-party administrator's staff be aware of PERS' complex enrollment rules, but they must also be completely knowledgeable about Medicare eligibility and enrollment rules.

### CONTRACT RENEWAL RECOMMENDATIONS

PERS' Procurement Office staff worked with PERS Insurance Program staff to review the Oregon Administrative Rules that guide the PERS Insurance Program in contracting for the Retiree Insurance Program services. Following review of the pertinent rules, and a thorough discussion of current contract costs, program needs, satisfaction with contractor's work performance, and the costs and risks associated with changing contractors, Procurement Office staff and PERS Insurance Program staff recommend that the following:

- 1) Current contracts for BenefitHealth Solutions third-party administrator should be renewed for a minimum of five years, with the usual right to cancel the contract for failure to perform as required. Procurement Office staff along with Insurance Program staff will negotiate with the third-party administrator to secure contract extensions that

allow for an annual increase in fees effective January 1 of each year that are limited, either to the cost of living or some other agreed upon cost escalation factor.

2) The contract for B. W. Reed Benefits, LLC, benefits consultant services should be renewed for five more years, beginning January 1, 2008. Procurement Office staff along with Insurance Program staff will negotiate with the benefits consultant to secure contract extensions that allow for an annual increase in fees effective January 1 of each year that are limited, either to the cost of living or some other agreed upon cost escalation factor.

#### CONCLUSION

Gloria English, PERS Insurance Program Manager since 1991, has announced her intent to retire July 1, 2007. Because of the small internal staff at PERS responsible for the Retiree Insurance Program, it seems prudent to ensure retention of the consultant and third-party administrator to assist in transitioning a new Program Manager with the unique needs of the PERS insured population and the unusual funding dynamics.

Ms. English, and representatives from the Insurance Program benefits consultant and the third-party administrator are available for questions from members of the Board. Mr. Knoll, PERS Procurements Manager is also available to respond to contracting questions.



# Oregon

Theodore R. Kulongoski, Governor

October 20, 2006

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

TO: Members of the PERS Board  
FROM: Steve Delaney, PERS Deputy Director  
SUBJECT: 2007 Legislation Update

|              |                           |
|--------------|---------------------------|
| MEETING DATE | <b>10-20-06</b>           |
| AGENDA ITEM  | <b>B.2.g. Legislative</b> |

No additional draft concepts have been received from Legislative Counsel as of this report. PERS staff did meet with Counsel on October 11, and anticipate the Legislative Advisory Committee will receive concepts for review later in October.

To date the PERS Board has approved nine legislative proposals for drafting by Legislative Counsel:

|           |                          |                                     |  |
|-----------|--------------------------|-------------------------------------|--|
| LP 459-01 | <b>LC 456</b>            | EQUAL TO OR BETTER THAN STUDY       | Eliminate the mandatory biennial actuarial review.   |
| LP 459-02 | <b>LC 665</b>            | EARNED WHEN EARNED                  | Use a modified "earned when paid" definition for all employers. Presently local governments use an "earned when earned" definition.                              |
| LP 459-03 | <b>None assigned yet</b> | ELIMINATE "BREAK IN SERVICE"        | To simplify the plan and ease administrative burden.   |
| LP 459-04 | <b>LC 457</b>            | WITHDRAWALS                         | A withdrawal (refund) from one program shall be considered a request to withdraw (refund) from all programs.   |
| LP 459-06 | <b>None assigned yet</b> | MODIFY DEFINITION OF COVERED SALARY | Use a single definition (the FICA definition) for all programs.  |
| LP 459-08 | <b>LC 458</b>            | NOTICE OF CONTEST                   | Change title of challenge to member's retirement benefit from Notice of Contest (with no option to go to Contested Case, despite the name) to Notice of Dispute. |
| LP 459-09 | <b>LC 666</b>            | TOTAL LUMP SUM RETIREMENT           | Directs that members who take a total lump sum option may not return to PERS-covered employment for six months   |

|           |               | OPTION  | following retirement.  |
|-----------|---------------|---|--|
| LP 459-10 | <b>LC 635</b> | OREGON<br>INVESTMENT<br>COUNCIL<br>MEMBERSHIP | Removes requirement for a PERS Board member to also serve on the OIC.                    |
| LP 459-11 | <b>LC 636</b> | EXCEPTION TO<br>"BREAK IN<br>SERVICE"         | Exempts member restored to employment by arbitration from "break in service" provisions. |

NEXT STEPS

Upon receipt of draft concepts, PERS will have two weeks to review for substantive changes. PERS staff will contact representatives of both employer and labor stakeholders of the Legislative Advisory Committee to arrange for review and comment.

The PERS Board will consider all concepts in November 2006 for final review and determination as to concepts to be forwarded for introduction as bills.



# Oregon

Theodore R. Kulongoski, Governor

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

October 20, 2006

TO: Members of the PERS Board  
FROM: Steven Patrick Rodeman, Administrator, PPLAD  
SUBJECT: Action on Contested Cases

|              |                         |
|--------------|-------------------------|
| MEETING DATE | 10/20/06                |
| AGENDA ITEM  | C.1.<br>Contested Cases |

## OVERVIEW

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

- Adopt the Draft Final Order as presented in the contested cases of Larry Lenon and Larry Hamblin.

## BOARD OPTIONS

The Board may:

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

## STAFF RECOMMENDATION

Staff recommends the Board choose Option #1.

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



# Oregon

Theodore R. Kulongoski, Governor

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

October 20, 2006

TO: Members of the PERS Board  
FROM: Steven Patrick Rodeman, Administrator, PPLAD  
SUBJECT: Notice of Rulemaking for OAR 459-075-0020,  
*Withdrawal from OPSRP Pension Program* and OAR  
459-080-0020, *Withdrawal of Individual Accounts*

|              |                                  |
|--------------|----------------------------------|
| MEETING DATE | <b>10/20/06</b>                  |
| AGENDA ITEM  | <b>C.2.<br/>Withdrawal Rules</b> |

## OVERVIEW

- Action: None. This is notice that staff has begun rulemaking.
- Reason: These new rules would establish and clarify procedures for withdrawals permitted under the Oregon Public Service Retirement Plan.
- Subject: Withdrawal from the OPSRP Pension and the Individual Account Programs.
- Policy Issue: Should the withdrawal process for the OPSRP programs generally parallel the process for withdrawals from the PERS Chapter 238 Program?

## BACKGROUND

The Oregon Public Service Retirement Plan (OPSRP) provides for withdrawal from the OPSRP Pension Program and the Individual Account Program (IAP). ORS 238A.120 establishes that a vested, inactive member of the OPSRP Pension Program who has separated from all service with participating public employers may withdraw from the pension program if the actuarial equivalent of the member's pension benefit is \$5,000 or less at the time of the withdrawal. Upon payment of the actuarial equivalent of the pension benefit to the member, membership in the pension program is terminated and credit for any service prior to the separation from employment that precedes the withdrawal is permanently forfeited.

Under the provisions of ORS 238A.350, a member of the IAP may have up to three accounts in the IAP: the employee, rollover, and employer accounts. ORS 238A.375 establishes that an inactive member of the IAP may withdraw the amounts in these accounts to the extent that the member is vested. Upon distribution of the withdrawal amount to the member, membership in the IAP is terminated.

## POLICY ISSUE

1. *Should the withdrawal process for the OPSRP programs generally parallel the process for withdrawals from the PERS Chapter 238 Program?*

For ease and consistency of administration, these new proposed rules parallel many concepts established by rule or statute for the PERS Chapter 238 Program. For example,

the criteria for a bona fide separation is the same, as well as the process for mandatory repayments if the member fails that separation standard. One notable exception is that these rules would not allow a member to redeposit their withdrawal in installments; rather, they require a lump sum payment. Staff recommends this change because the withdrawal amounts should be relatively small and new reporting systems should identify these required re-deposits more timely than under the PERS Chapter 238 Program. Also, requiring a lump-sum payment is more consistent with the intent of restoring membership immediately because the member proves to be ineligible to withdraw.

#### LEGAL REVIEW

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

#### PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing will be held on October 24, 2006 at 2:00 p.m. at PERS headquarters in Tigard. The public comment period ends on November 24, 2006 at 5:00 p.m.

#### IMPACT

Mandatory: No, the Board need not adopt the rules.

Impact: Clarification of procedures and administration will benefit members and staff.

Cost: There are no discrete costs attributable to these rules. Statute requires the administration of withdrawals.

#### RULEMAKING TIMELINE

|                   |  |
|-------------------|--|
| August 15, 2006   | Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.                         |
| September 1, 2006 | <i>Oregon Bulletin</i> published the Notice.   |
| October 20, 2006  | PERS Board notified that staff began the rulemaking process.   |
| October 24, 2006  | Rulemaking hearing scheduled for 2:00 p.m. in Tigard.  |
| November 17, 2006 | First reading of the rules.  |
| November 24, 2006 | Public comment period ends at 5:00 p.m.  |
| January 19, 2007  | Staff proposes adopting the permanent rules, including any amendments warranted by public comment or further research. |

#### NEXT STEPS

A hearing is scheduled for October 24, 2006. The rules are scheduled to be brought before the PERS Board for adoption at the January 19, 2007 meeting.

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

1 459-075-0020

2 Withdrawal from OPSRP Pension Program

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

4 (a) “Controlled group” means a group of employers treated as a single  
5 employer for purposes of maintaining qualified status under federal law.

6 (b) “Inactive member” has the same meaning given the term in ORS  
7 238A.005(8).

8 (c) “Pension program” has the same meaning given the term in ORS  
9 238A.005(12).

10 (2) An inactive member may withdraw from the OPSRP Pension Program  
11 under ORS 238A.120 if:

12 (a) The member is vested in the pension program under ORS 238A.115;

13 (b) The member has separated from employment with all participating  
14 employers and all employers in a controlled group with a participating employer;

15 (c) The member has been absent from service with a participating employer for  
16 at least one full calendar month following the month of separation;

17 (d) The member files with PERS a written request for withdrawal on a form  
18 acceptable to PERS; and

19 (e) The actuarial equivalent of the member’s pension benefit is \$5,000 or less on  
20 the date PERS receives the withdrawal request. The actuarial equivalent may not  
21 include any value attributable to cost-of-living adjustments under ORS 238A.210.



1 (3) Any amount payable to the member under the provisions of this rule must  
2 be paid to the member in a single lump-sum payment.

3 (4) A member may revoke a request for withdrawal from the pension program  
4 if PERS receives the member's written revocation of the request before the earlier  
5 of:

6 (a) The date of distribution; or

7 (b) The date PERS receives a valid court order requiring PERS to pay the  
8 distribution to someone other than the withdrawing member.

9 (5) A member who withdraws from the pension program terminates  
10 membership in the pension program as of the date of distribution.

11 (6) A member who withdraws from the pension program forfeits any service  
12 performed by the member prior to the date of the separation required under  
13 subsection (2)(b) of this rule and may not use that service for any purpose including,  
14 but not limited to, establishing membership under ORS 238A.100, vesting under  
15 ORS 238A.115, and the accrual of retirement credit under ORS 238A.140,  
16 238A.150, or 238A.155.

17 (7) If a former member who has withdrawn from the pension program returns  
18 to employment with any participating employer prior to the first day of the second  
19 calendar month following the month of the separation required under subsection  
20 (2)(b) of this rule and has not repaid to PERS the full amount of the lump-sum  
21 payment attributable to the withdrawal, the employer shall be obligated to the Fund  
22 for the full amount of the lump-sum payment unless:

1 (a) The employer immediately terminates the former member’s employment  
2 and does not reemploy the former member unless the requirements of section (2) of  
3 this rule are satisfied; or

4 (b) The former member repays the full amount of the lump-sum payment  
5 within 30 days following the effective date of such employment.

6 (8) Upon receipt by PERS of repayment under subsection (7)(b) of this rule, the  
7 withdrawal of the member is cancelled and membership is reestablished in the  
8 pension program. Any service rights forfeited under section (6) of this rule are  
9 revived.

10 (9) If a participating employer employs a person who has withdrawn from the  
11 pension program and fails to notify PERS of the employment, the employer shall  
12 hold PERS harmless for any actual or perceived loss of benefits resulting from the  
13 withdrawal.

14 Stat. Auth.: ORS 238A.450

15 Stats. Implemented: ORS 238A.375

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

1 459-080-0020

2 Withdrawal of Individual Accounts

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

4 (a) “Controlled group” means a group of employers treated as a single  
5 employer for purposes of maintaining qualified status under federal law.

6 (b) “Inactive member” has the same meaning given the term in ORS  
7 238A.005(8).

8 (c) “Individual account program” has the same meaning given the term in ORS  
9 238A.005(9).

10 (d) “Individual accounts” means the employee account, rollover account, and  
11 employer account of a member of the Individual Account Program (IAP) to the  
12 extent the member is vested in those accounts under ORS 238A.320.

13 (2) An inactive member may withdraw the individual accounts under ORS  
14 238A.375 if:

15 (a) The member has separated from employment with all participating  
16 employers and all employers in a controlled group with a participating employer;

17 (b) The member has been absent from service with a participating employer for  
18 at least one full calendar month following the month of separation; and

19 (c) The member files with PERS a written request for withdrawal on a form  
20 acceptable to PERS.

21 (3) A member must withdraw the entire balance in the individual accounts.

1 (4) A member may revoke a request for withdrawal of the individual accounts if  
2 PERS receives a written revocation of the request before the earlier of:

3 (a) The date of distribution; or

4 (b) The date PERS receives a valid court order requiring PERS to pay the  
5 distribution to someone other than the withdrawing member.

6 (5) A member who withdraws the individual accounts terminates membership  
7 in the IAP as of the date of distribution.

8 (6) An employer account not included in the withdrawn individual accounts by  
9 reason of the member's failure to vest in the employer account is permanently  
10 forfeited as of the date of distribution.

11 (7) A member who withdraws the individual accounts and is subsequently  
12 employed with a participating employer forfeits any service performed by the  
13 member prior to the separation required under subsection (2)(a) of this rule for the  
14 purpose of vesting in an employer account.

15 (8) If a former member who has withdrawn the individual accounts returns to  
16 employment with any participating employer prior to the first day of the second  
17 calendar month following the month of the separation required under subsection  
18 (2)(a) of this rule and has not repaid to PERS the full amount of the withdrawal, the  
19 employer shall be obligated to the Fund for the full amount of the former member's  
20 withdrawal unless:

21 (a) The employer immediately terminates the former member's employment  
22 and does not reemploy the former member unless the requirements of section (2) of  
23 this rule are satisfied; or

1 (b) The former member repays the full amount of the withdrawal within 30  
2 days following the effective date of such employment.

3 (9) Upon receipt by PERS of repayment under subsection (8)(b) of this rule, the  
4 withdrawal of the member is cancelled and membership is reestablished in the IAP.  
5 The repayment amount received will be returned to the individual accounts and  
6 credited pro rata to the accounts from which the withdrawal amount was derived.  
7 Any rights forfeited under sections (6) and (7) of this rule are revived.

8 (10) If a participating employer employs a person who has withdrawn the  
9 individual accounts and fails to notify the system of the employment, the employer  
10 shall hold PERS harmless for any actual or perceived loss of benefits resulting from  
11 the withdrawal.

12 Stat. Auth.: ORS 238A.450

13 Stats. Implemented: ORS 238A.375



# Oregon

Theodore R. Kulongoski, Governor

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

October 20, 2006

TO: Members of the PERS Board  
FROM: Steven Patrick Rodeman, Administrator, PPLAD  
SUBJECT: Notice of Rulemaking for OAR 459-011-0050, *Forfeiture and Restoration of Service Rights*

|              |                                     |
|--------------|-------------------------------------|
| MEETING DATE | <b>10/20/06</b>                     |
| AGENDA ITEM  | <b>C.3.<br/>Voluntary Redeposit</b> |

## OVERVIEW

- Action: None. This is notice that staff has begun rulemaking.
- Reason: Update the rule to be consistent with statute and address the impact of “Break in Service.”
- Subject: Restoration of Service Rights (Voluntary Redeposit).
- Policy Issue: No policy issues have been identified at this time.

## BACKGROUND

A PERS Chapter 238 Program member who withdraws his or her member account terminates membership in the Program and forfeits all creditable service accrued prior to the date of the withdrawal. ORS 238.105 provides a mechanism for a qualified member to restore the forfeited service and reestablish the member account upon reemployment. The process is commonly known as a voluntary redeposit. OAR 459-011-0050 was adopted to implement the provisions of ORS 238.105, but was last modified in 1996 and is inconsistent with current statutory provisions.

The rule needs to be modified to address the concept of “Break in Service,” established in the 2003 PERS Reform legislation. Currently, the rule provides that a voluntary redeposit restores the member’s previous rights in the PERS Chapter 238 Program. “Break in Service” could operate to have a different result, as its statutory provisions would operate to override the opportunity to restore membership in some circumstances. The proposed rule modifications reconcile the rule to this statutory change. Additional changes were made to improve the rule’s wording.

## LEGAL REVIEW

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

### PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing will be held on October 24, 2006, at 2:00 p.m. at PERS headquarters in Tigard. The public comment period ends on November 24, 2006, at 5:00 p.m.

### IMPACT

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

Impact: Clarification of procedures and administration will benefit members and staff.

Cost: There are no discrete costs attributable to the rule. Statute requires the administration of voluntary redeposits.

### RULEMAKING TIMELINE

|                   |   |
|-------------------|---|
| August 15, 2006   | Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.                        |
| September 1, 2006 | <i>Oregon Bulletin</i> published the Notice.  |
| October 20, 2006  | PERS Board notified that staff began the rulemaking process.  |
| October 24, 2006  | Rulemaking hearing scheduled for 2:00 p.m. in Tigard.   |
| November 17, 2006 | First reading of the rule.  |
| November 24, 2006 | Public comment period ends at 5:00 p.m.   |
| January 19, 2007  | Staff proposes adopting the permanent rule, including any amendments warranted by public comment or further research. |

### NEXT STEPS

A hearing is scheduled for October 24, 2006. The rule is scheduled to be brought before the PERS Board for adoption at the January 19, 2007 meeting.

OREGON ADMINISTRATIVE RULE  
PUBLIC EMPLOYEES RETIREMENT BOARD  
CHAPTER 459  
DIVISION 011 – RETIREMENT CREDIT

1 459-011-0050

2 Forfeiture and Restoration of Service Rights

3 (1) A member who, pursuant to ORS 238.265, *[leaves the service of all*  
4 *participating employers and who]* withdraws the amount credited to the member’s  
5 account *[standing to his credit]* forfeits all *[his]* membership rights accrued under  
6 ORS chapter 238 prior to the date of the withdrawal, including any service rights  
7 attributable to employment prior to the date of the withdrawal *[, including prior*  
8 *service rights. ORS 238.095(1); 238.265].*

9 (2) Any such person who reenters the service of any participating employer within  
10 five years *[of]* from the date of *[his previous termination]* the separation from  
11 employment that preceded the member’s withdrawal may, at any time during the *[six*  
12 *months]* one-year period immediately following the date of *[his]* re[-]employment,  
13 repay to PERS in a single lump sum payment an amount equal to the amount  
14 *[previously]* withdrawn plus the earnings the amount withdrawn would have  
15 accumulated from the date of withdrawal to the date of repayment. *[, and the*  
16 *effective date of the reinstatement of his membership at his former rate of contribution*  
17 *shall be the first day of the pay period following the date of repayment of the amount*  
18 *withdrawn. Thereafter employee and employer contributions to the Retirement Fund are*  
19 *required and all rights in the system which were forfeited by the withdrawal shall be*  
20 *restored].* A person who makes a repayment as described in this section shall  
21 establish or reestablish membership in the system as provided in section (3) or (4) of  
22 this rule



1       (3) If the date of the former member’s repayment under section (2) is before the  
2 date on which the former member would incur a “break in service” under ORS  
3 238A.025, the PERS Chapter 238 membership and service rights forfeited by the  
4 withdrawal will be revived. The withdrawn member account will be reestablished in  
5 the amount of the repayment.

6       (4) If the date of the former member’s repayment under section (2) occurs on or  
7 after the date the former member incurs a “break in service” under ORS 238A.025,  
8 and the former member has not established membership in the OPSRP Pension  
9 Program under ORS 238A.100 prior to the date of the repayment, whether the  
10 former member establishes active membership in the OPSRP Pension Program will  
11 be determined under the operation of that program without regard to the former  
12 member’s previous membership in the PERS Chapter 238 Program. Membership  
13 and service subsequent to the date of reemployment will be subject to the provisions  
14 of the OPSRP Pension Program. The PERS Chapter 238 membership and service  
15 rights forfeited by the withdrawal will be restored to the extent they existed  
16 immediately prior to the withdrawal. The withdrawn member account will be  
17 reestablished in the amount of the repayment.

18       (5) Notwithstanding the provisions of this rule, a member who withdraws  
19 pursuant to ORS 238.265 and receives an additional amount pursuant to section 2,  
20 chapter 276, Oregon Laws 2003 may not reestablish membership under section (2)  
21 of this rule.

22       Stat. Auth.: ORS 238.650

23       Stats. Implemented: ORS 238.105, 238A.025



# Oregon

Theodore R. Kulongoski, Governor

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

October 20, 2006

TO: Members of the PERS Board  
FROM: Steven Patrick Rodeman, Administrator, PPLAD  
SUBJECT: Notice of Rulemaking for OAR 459-007-0025, *Crediting Earnings to Member Lump Sum Payments* and OAR 459-007-0300, *Crediting Earnings to Police Officer and Firefighter Unit Accounts in the Fund*.

|              |                            |
|--------------|----------------------------|
| MEETING DATE | 10/20/06                   |
| AGENDA ITEM  | C.4.<br>Earnings Crediting |

## OVERVIEW

- Action: None. This is notice that staff began rulemaking.
- Reason: To clarify the crediting of Police and Fire (P & F) units and member lump sum payments.
- Subject: Crediting earnings to P & F units and member lump sum payments.
- Policy Issue: No policy issues have been identified at this time.

## BACKGROUND

OAR 459-007-0025 was drafted to describe how earnings are credited to member lump sum payments. The proposed amendment clarifies the definition of “member lump sum payment” and modifies language in section (2) that restricts certain lump sum payments from receiving earnings.

OAR 459-007-0300 describes how earnings are credited to P & F unit accounts allowed under ORS 238.440. The proposed amendments correct a citation in section (4)(b) and clarify the crediting of earnings to a lump sum unit purchase in section (8). The modifications incorporate the same crediting method currently used in OAR 459-007-0025 to make the earnings crediting process the same for all covered lump sum payments.

## LEGAL REVIEW

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

## PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing will be held on November 28, 2006 at 2:00 p.m. at PERS headquarters in Tigard. The public comment period ends on December 22, 2006 at 5:00 p.m.

IMPACT

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

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

Cost: There are no perceived costs to members, employers, stakeholders or the Fund as a result of the adoption of this rule.

RULEMAKING TIMELINE

- |                   |   |
|-------------------|---|
| October 13, 2006  | Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.                            |
| October 20, 2006  | PERS Board notified that staff began the rulemaking process.  |
| November 1, 2006  | <i>Oregon Bulletin</i> to publish the Notice.   |
| November 28, 2006 | Rulemaking hearing scheduled for 2:00 p.m. in Tigard.   |
| December 22, 2006 | Public comment period ends at 5:00 p.m.   |
| January 19, 2007  | Staff will propose adopting the permanent rule, including any amendments warranted by public comment or further research. |

NEXT STEPS

A hearing is scheduled for November 28, 2006. The rule is scheduled to be brought before the PERS Board for adoption at the January 19, 2007 Board meeting.

OREGON ADMINISTRATIVE RULE  
PUBLIC EMPLOYEES RETIREMENT BOARD  
CHAPTER 459

DIVISION 007 – EARNINGS AND INTEREST DISTRIBUTION

1 459-007-0025

2 **Crediting Earnings To Member Lump Sum Payments Received**

3 (1) Definition.

4 (a) "Member lump sum payment" means any payment received by PERS that:

5 (A) Is not regularly scheduled;

6 (B) Is not paid as a statutorily fixed percentage of salary; and

7 (C) The *[contributor]* member or payor has control over whether to make the  
8 payment.

9 (b) Member lump sum payments include, but are not limited to:

10 (A) Retirement credit purchases.

11 (B) Voluntary redeposit, as provided under ORS 238.105.

12 *[(C) P & F Unit purchases, as provided under ORS 238.440(2).]*

13 *[(D)]* (C) A member's account balance that is transferred through an integration  
14 under ORS 238.680.

15 (2) Exclusions. No earnings shall be credited to member lump sum payments that  
16 are made within 90 days before or after the member's effective retirement date.

17 (3) Earnings from the date of payment to December 31 of the calendar year of the  
18 date of payment, or the member's effective retirement date, whichever occurs first, shall  
19 be credited to the member's lump sum payment based on the rate derived from the  
20 formula:

21  $(Y - X)(R/T) + (Z - Y)$ , where:

1 R = The number of days from the date of payment through the last day of the month the  
2 payment is received;

3 T = The total number of days in the month the payment is received;

4 X = The latest year-to-date calculation ("factor") applicable to the member's regular  
5 account as of the first of the month of the date of payment;

6 Y = The factor as of the first of the month following the date of payment; and

7 Z = The factor as of the effective retirement date if such date occurs during the year the  
8 payment is received, or, in all other cases, the annual rate applicable to the member's  
9 regular account as of December 31 of the year the payment is received.

10 (4) If the formula described in section (3) of this rule results in a rate less than zero  
11 for a Tier One member, the rate shall be zero.

12 [Example: A member lump sum payment is received by PERS on May 12, 2002, from a  
13 Tier One member whose effective retirement date is August 1, 2003. The Tier One factor  
14 as of May 1, 2002, is 1.0263, the Tier One factor as of June 1, 2002, is 1.0330, and the  
15 Tier One annual rate for 2002 is 1.0800. Therefore, R = 20, T = 31, X = 1.0263, Y =  
16 1.0330, Z = 1.0800 and the earnings crediting rate is:

17  $(1.0330 - 1.0263)(20/31) + (1.0800 - 1.0263)$

18  $= (0.0067)(0.6452) + (0.0537)$

19  $= 0.0043 + 0.0537$

20  $= 0.0580]$

21 (5) If the effective retirement date does not occur in the same year as the date of  
22 payment, the member lump sum payment shall be made a part of the member's regular  
23 account as of January 1 of the year following the date of payment.

1 Stat. Auth: ORS 238.650

2 Stats. Implemented: ORS 238

**OREGON ADMINISTRATIVE RULE  
PUBLIC EMPLOYEES RETIREMENT BOARD  
CHAPTER 459**

**DIVISION 007 – EARNINGS AND INTEREST DISTRIBUTION**

1 **459-007-0300**

2 **Crediting Earnings to Police Officer and Firefighter Unit Accounts in the Fund.**

3 (1) Definitions. For the purpose of this rule:

4 (a) “Effective date of unit benefits” means the date the member elects to begin  
5 receiving unit benefits.

6 (b) “End date” means the date after which earnings are no longer credited to the unit  
7 account and is the later of:

8 (A) The first of the calendar month following the date the member reaches age 65; or

9 (B) The first of the calendar month following the date the member separates from the  
10 service of all participating employers.

11 (c) “Unit” means a unit of additional benefits purchased under ORS 238.440.

12 (d) “Unit account” means the member's account in the Fund that is used to purchase  
13 unit benefits, which includes actuarially determined member additional contributions  
14 (ORS 238.440(1)) and earnings or losses.

15 (e) “Unit benefits” means the increased benefits a police officer or firefighter may  
16 purchase under ORS 238.440.

17 (2) Crediting annual earnings or losses. Annual earnings or losses will be credited to  
18 the unit account as follows:

19 (a) For a Tier One member, in the same manner as provided for Tier One member  
20 regular accounts in OAR 459-007-0005.

21 (b) For a Tier Two member, in the same manner as provided for Tier Two member  
22 regular accounts in OAR 459-007-0005.

1 (3) Crediting earnings or losses to a withdrawal. If the unit account is withdrawn  
2 under ORS 238.440(4) or (5), earnings or losses will be credited to the unit account as  
3 follows:

4 (a) For a Tier One member, in the same manner as provided in OAR 459-007-  
5 0040(1).

6 (b) For a Tier Two member, in the same manner as provided in OAR 459-007-  
7 0220(1).

8 (4) Crediting earnings or losses on a lump sum purchase.

9 (a) If a member makes a lump sum purchase under ORS 238.440(2) and elects an  
10 effective date of unit benefits that is the same date as the member's effective retirement  
11 date, earnings or losses will not be credited on the lump sum purchase.

12 (b) If a member makes a lump sum purchase under ORS 238.440(2) and elects an  
13 effective date of unit benefits that is later than the member's effective retirement date,  
14 earnings or losses on the member's lump sum purchase from the date of receipt to the  
15 effective date of unit benefits shall be credited to the unit account *[in the same manner]*  
16 as provided in *[OAR 459-007-0025(2)]* sections (8) to (10) of this rule.

17 (5) Crediting earnings or losses to effective date of unit benefits. When a retired  
18 member elects to begin receiving unit benefits under ORS 238.440(1) or (2), earnings or  
19 losses will be credited to the member's unit account as of the effective date of unit  
20 benefits as follows:

21 (a) For a Tier One member, in the same manner as provided in the version of OAR  
22 459-007-0070(1) in effect on the effective date of unit benefits.



1 (b) For a Tier Two member, in the same manner as provided in OAR 459-007-  
2 0250(1).

3 (6) If, after the crediting of earnings under section (5) of this rule, the amount in the  
4 unit account is greater than the actuarially determined amount required at the time of  
5 retirement to purchase the number of units elected, the difference will be returned to the  
6 member in a lump sum. The lump sum shall be credited with earnings from the effective  
7 date of unit benefits to the date of distribution based on the average annualized rate.

8 (7) Crediting earnings to end date. If a member's effective date of unit benefits does  
9 not occur prior to the end date, earnings from the last annual earnings crediting to the end  
10 date shall be credited to the unit account as follows:

11 (a) If earnings for the calendar year prior to the end date have not yet been credited  
12 to the member's unit account, earnings shall be credited for that year based on the latest  
13 year-to-date calculation available for that year.

14 (b) Earnings for the calendar year of the end date shall be credited to the unit account  
15 based on the latest year-to-date calculation as of the end date.

16 **(8) Earnings from the date of payment to December 31 of the calendar year of**  
17 **the date of payment, or the member's effective date of unit benefits, whichever**  
18 **occurs first, shall be credited to the member's lump sum payment based on the rate**  
19 **derived from the formula:**

20  **$(Y - X)(R/T) + (Z - Y)$ , where:**

21 **R = The number of days from the date of payment through the last day of the month**  
22 **the payment is received;**

23 **T = The total number of days in the month the payment is received;**

1 X = The latest year-to-date calculation ("factor") applicable to the member's  
 2 regular account as of the first of the month of the date of payment;  
 3 Y = The factor as of the first of the month following the date of payment; and  
 4 Z = The factor as of the effective date of unit benefits if such date occurs during the  
 5 year the payment is received, or, in all other cases, the annual rate applicable to the  
 6 member's regular account as of December 31 of the year the payment is received.

7 (9) If the formula described in section (8) of this rule results in a rate less than  
 8 zero for a Tier One member, the rate shall be zero.

9 [Example: A member lump sum payment is received by PERS on May 12, 2002,  
 10 from a Tier One member whose effective date of unit benefits is August 1, 2003. The  
 11 Tier One factor as of May 1, 2002, is 1.0263, the Tier One factor as of June 1, 2002,  
 12 is 1.0330, and the Tier One annual rate for 2002 is 1.0800. Therefore, R = 20, T = 31,  
 13 X = 1.0263, Y = 1.0330, Z = 1.0800 and the earnings crediting rate is:

14  $(1.0330 - 1.0263)(20/31) + (1.0800 - 1.0263)$   
 15  $= (0.0067)(0.6452) + (0.0537)$   
 16  $= 0.0043 + 0.0537$   
 17  $= 0.0580]$

18 (10) If the effective date of unit benefits does not occur in the same year as the  
 19 date of payment, the member lump sum payment shall be made a part of the  
 20 member's regular account as of January 1 of the year following the date of payment.

21 Stat. Auth: ORS 238.650

22 Stats. Implemented: ORS 238.440



# Oregon

Theodore R. Kulongoski, Governor

October 20, 2006

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

TO: Members of the PERS Board  
FROM: Steven Patrick Rodeman, Administrator, PPLAD  
SUBJECT: Notice of Rulemaking for Power of Attorney Rules  
OAR 459-005-0100, *Definitions--Power of Attorney*  
OAR 459-005-0110, *Designation of Power of Attorney*  
OAR 459-005-0120, *Effective Date of Power of Attorney*  
OAR 459-005-0130, *Revocation of Power of Attorney*  
OAR 459-005-0140, *Permissible Actions Under A Power of Attorney*  
OAR 459-005-0150, *Effective Date of Power of Attorney Rules*

|              |                            |
|--------------|----------------------------|
| MEETING DATE | 10/20/06                   |
| AGENDA ITEM  | C.5.<br>Powers of Attorney |

## OVERVIEW

- Action: None. This is notice that staff has begun rulemaking.
- Reasons:
  1. Expand Power of Attorney rules to explicitly cover other types of fiduciaries appointed to act on behalf of members, such as guardians and conservators; and
  2. Eliminate prior provisions of the rule to streamline these transactions and simplify the process for stakeholders.
- Subject: Rules governing PERS' interaction with a member's fiduciary.
- Policy Issues: No policy issues have been identified at this time.

## BACKGROUND

OAR 459-005-0100 starts a series of rules regarding powers of attorney and how a member's attorney-in-fact qualifies and continues to conduct business on behalf of a PERS member. In this context, "member" is defined broadly to also include alternate payees and beneficiaries. Generally, the proposed modifications expand the rules to explicitly cover other types of fiduciaries appointed to act on behalf of members, such as guardians and conservators. Some changes would also eliminate prior provisions of the rules to streamline these transactions, such as removing the requirement that a power of attorney be notarized.

## LEGAL REVIEW

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

### PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing is scheduled for November 28, 2006 at 2:00 p.m. at PERS headquarters in Tigard. The public comment period ends on December 22, 2006 at 5:00 p.m.

### IMPACT

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

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

Cost: There are no perceived costs to members, employers, stakeholders or the Fund as a result of the adoption of this rule.

### RULEMAKING TIMELINE

|                   |   |
|-------------------|---|
| October 13, 2006  | Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.  |
| October 20, 2006  | PERS Board notified that staff began the rulemaking process.  |
| November 1, 2006  | <i>Oregon Bulletin</i> to publish the Notice.   |
| November 28, 2006 | Rulemaking hearing to be held at 2:00 p.m. in Tigard.   |
| December 22, 2006 | Public comment period ends at 5:00 p.m.   |
| January 19, 2007  | Staff will propose adopting the permanent rule modifications, including any amendments warranted by public comment or further research. |

### NEXT STEPS

A rulemaking hearing is scheduled for November 28, 2006 with adoption scheduled for the January 19, 2007 Board meeting.

**OREGON ADMINISTRATIVE RULE  
PUBLIC EMPLOYEES RETIREMENT BOARD  
CHAPTER 459  
DIVISION 5 – ADMINISTRATION**

1 **459-005-0100**

2 **Definitions -- *[Power of Attorney]* Member’s Fiduciary**

3 *[The words and phrases used in OAR 459-005-0100 to 459-005-0160, shall have the*  
4 *same meaning given them in ORS Chapter 238. Specific and additional terms are defined*  
5 *as follows unless context requires otherwise:*

6 *(1) "PERS" shall have the same meaning as the Public Employees Retirement System*  
7 *in ORS 238.600.]*

8 **(1) “Fiduciary Document” means the court order appointing a person as the**  
9 **member’s fiduciary or the signed power of attorney by the member appointing the**  
10 **member’s fiduciary as their attorney-in-fact.**

11 (2) For the purposes of OAR 459-005-0100 to 459-005-0160, the term "member"  
12 means a PERS member as defined in ORS 238.005(7), the beneficiary of a PERS  
13 member, an alternate payee as defined in 238.465, or the beneficiary of an alternate  
14 payee.

15 **(3) “Member’s Fiduciary” means a guardian or conservator appointed under**  
16 **Oregon law, any person acting as attorney-in-fact for a member under a power of**  
17 **attorney, or any other person appointed by a court to assume financial**  
18 **responsibility with respect to a member.**

19 *[(3) "Power of Attorney Document" means a document creating and expressly*  
20 *granting certain powers of attorney from a member to another named individual(s) or*  
21 *agent(s) such that under the terms and conditions set forth in the document, the named*  
22 *individual(s) or agent(s) may act on behalf of and in the name of the member.*

1       (4) "Attorney-in-Fact" means one or more named individuals appointed by a  
2 member in a Power of Attorney Document to act on behalf of and in the name of the  
3 member under the terms and conditions set forth in the Power of Attorney Document. If  
4 more than one individual is appointed Attorney-in-Fact, the document shall stipulate  
5 whether the individuals must act collectively or may act separately.

6       (5) "Alternate Attorney-in-Fact" means a named individual appointed by a member  
7 to serve as an Attorney-in-Fact, under certain terms and conditions set forth in the Power  
8 of Attorney Document, in the event another individual also appointed by the member is  
9 unable or unwilling to perform as Attorney-in-Fact in the first instance.

10       (6) "Substitute Attorney-in-Fact" means a named individual appointed by an  
11 Attorney-in-Fact under authority contained in the Power of Attorney Document to serve  
12 in place of the Attorney-in-Fact.

13       (7) "Agent" means a person or entity entrusted with another's business and acting  
14 under a power of attorney.]

15       Stat. Auth.: ORS 238.650

16       Stats. Implemented: ORS 238.005 - ORS 238.715

OREGON ADMINISTRATIVE RULE  
PUBLIC EMPLOYEES RETIREMENT BOARD  
CHAPTER 459  
DIVISION 5 – ADMINISTRATION

1 **459-005-0110**

2 ***[Designation of Power of Attorney]* Fiduciary Document Requirements**

3 (1) No person may act as *[an Attorney-in-Fact, or an agent by a power of attorney,*  
4 *for a member of PERS]* **a member’s fiduciary** with respect to PERS matters unless the  
5 *[Power of Attorney]* **Fiduciary** Document **naming or** appointing such person(s) *[or*  
6 *agent(s)]* meets the requirements set forth in this rule.

7 (2) The *[Power of Attorney]* **Fiduciary** Document shall be in written form and may  
8 be either on forms furnished by PERS or in a format approved by PERS. The *[Power of*  
9 *Attorney]* **Fiduciary** Document shall contain express language **appointing the**  
10 **member’s fiduciary as guardian or conservator or otherwise to act on behalf of the**  
11 **member either**:

12 *(a) Granting the member's power of attorney]* with respect to the member's financial  
13 matters generally *[to a named individual(s) or agent(s);]* or

14 *[(b) Granting the member's power of attorney]* with respect to the member's PERS  
15 benefits *[to a named individual(s) or agents(s)]* **specifically.**

16 **(3) At a minimum, the Fiduciary Document must contain:**

17 **(a) The signature of the member or other authority appointing or designating**  
18 **the member’s fiduciary.**

19 **(b) The signature and address of the member’s fiduciary. This requirement can**  
20 **also be satisfied if the Fiduciary Document is accompanied by another document**  
21 **containing the signature and address of the member’s fiduciary.**

1 (4) A Fiduciary Document must be received by PERS before the member's  
2 fiduciary will be allowed to conduct any transactions on behalf of the member and  
3 must otherwise meet the requirements set forth in OAR 459-005-0110 or 459-005-  
4 0130, as applicable.

5 (5) If a Fiduciary Document was executed by the member over ten years prior  
6 to the date such document is filed with PERS, and there is a request to take any  
7 action by the member's fiduciary, the document will be effective with respect to  
8 PERS only if the member's fiduciary files an affidavit with PERS, in a form which  
9 PERS in its sole discretion deems satisfactory, affirming the continued validity of  
10 the fiduciary document.

11 (6) If one or more individual(s) is named or appointed in a Fiduciary Document  
12 as the member's fiduciary, the document must stipulate whether the individuals  
13 must act together or may act separately.

14 *[(3) Every document granting a power of attorney shall contain:*

15 *(a) The member's notarized signature:*

16 *(A) Notary information must appear on the same page as the member's signature; or*

17 *(B) Notary information is clearly an integral part of the document granting power of*

18 *attorney.*

19 *(b) The signature and address of the Attorney-in-Fact and the Alternate Attorney-in-*

20 *Fact, if any, or an agent. The requirement of this subsection will also be satisfied if the*

21 *document is accompanied by an example signature and address of the Attorney-in-Fact,*

22 *and any Alternate Attorney-in-Fact, or an agent.*



1           *(4) A photocopy of a complete Power of Attorney Document may be filed with PERS,*  
2 *if the applicable notary information is clearly legible. PERS may accept original*  
3 *documents, and shall not be responsible for the safekeeping or return of any original*  
4 *document.*

5           *(5) A member of PERS may designate an Alternate Attorney-in-Fact in the Power of*  
6 *Attorney Document. The individual(s) who is to serve as Alternate Attorney-in-Fact must*  
7 *be expressly named in the document and the circumstances under which the Alternate*  
8 *Attorney-in-Fact may act must be expressly stated. PERS may rely upon an affidavit*  
9 *submitted by an Alternate Attorney-in-Fact as conclusive proof of the existence of the*  
10 *circumstance that authorizes the Alternate Attorney-in-Fact to act.*

11           *(6) PERS shall not accept a Power of Attorney Document that has a specific*  
12 *expiration date. To be acceptable, the Power of Attorney Document must be for an*  
13 *indefinite duration.]*

14           Stat. Auth.: ORS 238.650

15           Stats. Implemented: ORS 238.005 - ORS 238.715

**OREGON ADMINISTRATIVE RULE  
PUBLIC EMPLOYEES RETIREMENT BOARD  
CHAPTER 459  
DIVISION 5 – ADMINISTRATION**

1 ***[459-005-0120***

2 ***Effective Date of Power of Attorney***

3 *(1) A document that grants or revokes a power of attorney will be effective as to*  
4 *PERS matters upon receipt by PERS, if the document meets the requirements set forth in*  
5 *OAR 459-005-0110 or 459-005-0130, as applicable.*

6 *(2) If the document does not meet the requirements of OAR 459-005-0110 or 459-*  
7 *005-0130, as applicable, PERS will attempt to notify a member or Attorney-in-Fact*  
8 *within 30 days after receipt of a document that grants or revokes a power of attorney. If*  
9 *PERS fails to notify the member that the document does not meet such requirements*  
10 *within the period of time set forth in this section, the document shall nevertheless be*  
11 *inoperative as to PERS matters.*

12 *(3) If a Power of Attorney Document was executed over ten years prior to the date*  
13 *such document is filed with PERS, and there is a request to take any action by the*  
14 *Attorney-in-Fact named or provided for in such document, the document will be effective*  
15 *with respect to PERS only if the Attorney-in-Fact files an affidavit with PERS, in a form*  
16 *which PERS in its sole discretion deems satisfactory, affirming the continued validity of*  
17 *the Power of Attorney Document.*

18 *(4) For the purpose of this rule, the term Attorney-in-Fact includes any Alternate or*  
19 *Substitute Attorney-in-Fact.*

20 *Stat. Auth.: ORS 238.650*

21 *Stats. Implemented: ORS 238.005 - ORS 238.715]*

OREGON ADMINISTRATIVE RULE  
PUBLIC EMPLOYEES RETIREMENT BOARD  
CHAPTER 459  
DIVISION 5 – ADMINISTRATION

1 459-005-0130

2 *[Revocation of Power of Attorney]* Termination of Member’s Fiduciary

3 *[A Power of Attorney Document filed with PERS shall be revoked]* The authority

4 granted a member’s fiduciary will terminate upon the occurrence of the earliest of the

5 following events:

6 (1) A written revocation is filed with PERS containing the *[notarized signature of the]*

7 member’s signature, if the member appointed the member’s fiduciary. *[The notary*

8 *information must be on the same page as the signature of the member. A photocopy of the*

9 *revocation of a power of attorney may be filed with PERS if the notary information is*

10 *clearly legible. PERS may accept an original document, and PERS shall not be responsible*

11 *for the safekeeping or return of any original document;]*

12 (2) A *[Power of Attorney]* Fiduciary Document is filed with PERS which:

13 (a) Bears a date that is later than *[any Power of Attorney]* the Fiduciary Document

14 previously filed with PERS; *[and]*

15 (b) Complies with the requirements set forth in OAR 459-005-0110; and

16 (c) Names a different person as the member’s fiduciary.

17 (3) PERS receives notification of the death of the member.

18 (4) PERS receives notification that the member’s fiduciary has been removed or

19 their authority terminated by the court which originally named or granted authority

20 to the member’s fiduciary, or that action has been taken by a different court.

21 Stat. Auth.: ORS 238.650

22 Stats. Implemented: ORS 238.005 - ORS 238.715

OREGON ADMINISTRATIVE RULE  
PUBLIC EMPLOYEES RETIREMENT BOARD  
CHAPTER 459  
DIVISION 5 – ADMINISTRATION

1 459-005-0140

2 Permissible Actions Under A *[Power of Attorney]* Fiduciary Document

3 (1) After receipt by PERS of a *[Power of Attorney]* Fiduciary Document meeting  
4 the requirements set forth in OAR 459-005-0110, *[and 459-005-0120, both]* the  
5 member's fiduciary and the member (unless the member's fiduciary is a guardian or  
6 conservator) *[designated Attorney-in-Fact]* may execute any document required by  
7 PERS or perform any PERS related business that falls within the scope of the powers  
8 granted by the *[member in the Power of Attorney]* Fiduciary Document.

9 *[(2) Unless otherwise limited in a Power of Attorney Document, the document shall*  
10 *be construed as granting the power:*

11 *(a) To designate beneficiaries;*

12 *(b) To select payment options; or*

13 *(c) To make health insurance coverage decisions.]*

14 *[(3)](2)* If the power to appoint a substitute *[Attorney-in-Fact]* member's fiduciary  
15 is provided in the Fiduciary Document and is subsequently exercised by *[an*  
16 *Attorney-in-Fact]* the member's fiduciary, such appointment must be evidenced by a  
17 written document submitted to PERS containing:

18 (a) The member's fiduciary's *[notarized]* signature *[of the Attorney-in-Fact, which*  
19 *notary information must appear on the same page as the Attorney-in Fact's signature];*

20 (b) An *[Words]* express~~[ly]~~ granting of all, or *[a]* whatever portion of, the powers  
21 held by the *[Attorney-in-Fact under the Power of Attorney Document to a named*

1 *individual as] member's fiduciary that is being granted to the [S]substitute [Attorney-*  
2 *in-Fact] member's fiduciary; and*

3 (c) The signature and address of the [S]substitute [Attorney-in-Fact] member's  
4 fiduciary.

5 *[(4) A Power of Attorney Document submitted to PERS that meets the requirements*  
6 *of OAR 459-005-0110 shall be conclusive evidence of the intent of the member to grant a*  
7 *power of attorney in accordance with the express provisions of the submitted Power of*  
8 *Attorney Document, subject to OAR 459-005-0120(3).*

9 *(a) PERS shall be entitled to rely upon a submitted Power of Attorney Document*  
10 *until it is revoked as provided in OAR 459-005-0130, without liability of PERS for*  
11 *actions taken by PERS at the request of the designated Attorney-in-Fact, or Substitute*  
12 *Attorney-in-Fact, if applicable, under such unrevoked Power of Attorney Document.*

13 *(b) PERS shall also be entitled to rely upon a submitted Power of Attorney*  
14 *Document after the death of the member until PERS receives notice of the member's*  
15 *death. PERS shall have no liability for action taken by it at the request of the Attorney-in-*  
16 *Fact or Substitute Attorney-in-Fact after the member's death and before PERS has been*  
17 *notified of the member's death.]*

18 Stat. Auth.: ORS 238.650

19 Stats. Implemented: ORS 238.005 - ORS 238.715

**OREGON ADMINISTRATIVE RULE  
PUBLIC EMPLOYEES RETIREMENT BOARD  
CHAPTER 459  
DIVISION 005 – ADMINISTRATION**

1 **459-005-0150**

2 **Effective Date of *[Power of Attorney]* Fiduciary Document Rules**

3 OAR 459-005-0100 to 459-005-0140 shall be effective on the date they are adopted  
4 by the Public Employees Retirement Board (Board), and shall govern any documents  
5 submitted to PERS on or after the date these rules are adopted by the Board for the  
6 purpose of effecting the appointment of *[an Attorney-in-Fact]* a member's fiduciary or  
7 revoking a *[power of attorney]* Fiduciary Document after such date, or until amended or  
8 repealed by the Board.

9 Stat. Auth.: ORS 238.650

10 Stats. Implemented: ORS 238.005 - ORS 238.715



# Oregon

Theodore R. Kulongoski, Governor

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

October 20, 2006

TO: Members of the PERS Board

FROM: Steven Patrick Rodeman, Administrator, PPLAD

SUBJECT: First Reading for Employer Lump-Sum Payments Rules  
OAR 459-009-0084, *Unfunded Actuarial Liability Lump-Sum Payments by Employers Participating in an Actuarial Group*  
OAR 459-009-0085, *Unfunded Actuarial Liability Lump-Sum Payments by Employers Not Participating in an Actuarial Group*  
OAR 459-009-0090, *Lump-Sum Payments by Employers in Excess of an Existing Unfunded Actuarial Liability*

|              |                       |
|--------------|-----------------------|
| MEETING DATE | 10/20/06              |
| AGENDA ITEM  | C.6.<br>Emp. Lump-Sum |

## OVERVIEW

- Action: None. This is the first reading for the Employer Lump-Sum Payments Rules.
- Reasons:
  1. Adopt a rule to provide a procedure for lump-sum payments by employers that do not have an existing unfunded actuarial liability; and
  2. Amend current employer lump-sum payments rules to eliminate the requirement that PERS and the employer enter into an intergovernmental agreement for the actuarial calculation, and to extend the deadline for completing the actuarial calculation.
- Subject: Employer Lump-Sum payments
- Policy Issue:
  1. Should employers be entitled to make lump-sum payments towards their PERS obligations when they do not have an existing unfunded actuarial liability?

## BACKGROUND

ORS 238.225 allows a participating employer to make a voluntary lump-sum payment against its PERS liabilities. Current rules allow for such a payment by an employer with an unfunded actuarial liability, but do not provide a procedure for such a payment by an employer that is fully funded.

## SUMMARY OF RULES AND POLICY ISSUE

OAR 459-009-0084 and 459-009-0085 are existing rules dealing with lump-sum payments for employers with a UAL. Those rules currently require that the employer and PERS enter into an intergovernmental agreement (IGA) under which the employer

prepays the PERS actuary for the cost of the required UAL calculation. In practice, these IGAs have not proven to be necessary because the provisions they must contain are already included in the rule language and/or in statute. The IGAs are therefore an unnecessary administrative burden; these rule modifications remove that requirement.

OAR 459-009-0084 and 459-009-0085 also provide a 30-day timeframe from receipt of the employer's initial UAL calculation request through completion of the calculation by the actuary. The current PERS actuary, Mercer Human Resource Consulting, uses a different billing process from the previous PERS actuary and cannot process the employer's prepayment and complete the requested UAL calculation in 30 days. The timeframe is therefore being extended to 45 days.

*1. Should employers be entitled to make lump-sum payments towards their PERS obligations when they do not have an existing unfunded actuarial liability?*

The lump-sum payment program was developed predominantly for employers with an unfunded actuarial liability ("UAL") to make a single payment to be applied against that liability. Employers who do not have a UAL, based on the most recent actuarial valuation, have inquired about having access to the lump-sum program so that they can "buy down" their PERS rate even if they are considered fully funded. The statute doesn't restrict lump-sum payments only to those employers who have a UAL, and staff could not identify any policy reasons against allowing employers that option.

OAR 459-009-0090 is a new rule that would provide a procedure for a fully funded employer (based on the most recent actuarial valuation) to make a lump-sum payment, including establishing a timeline for making a request and calculating the employer's total liability; minimum and maximum payment amounts; and treatment of the payment upon receipt. Different minimum payment thresholds are established based upon the employer's total liability, to ensure that small employers have the same opportunity to make lump-sum payments as large employers.

SUMMARY OF MODIFICATIONS TO RULE SINCE NOTICE

A definition of the term "IAP" has been added to OAR 459-009-0090 because the term was used but not defined in the rule. Also, OAR 459-009-0090(14)(c) was amended to begin: "Except as provided in subsection (14)(d)," to recognize that subsection (14)(d) provides an exception to the general rule expressed in (14)(c).

LEGAL REVIEW

The attached draft has been submitted to the Department of Justice for legal review and comments have been incorporated in the rule as presented.

PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held on September 26, 2006 at 2:00 p.m. at PERS headquarters in Tigard. No members of the public attended. The public comment period ends on October 27, 2006 at 5:00 p.m.



### IMPACT

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

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

Cost: Employers that elect to make a lump-sum payment under these rules will incur the cost of the actuarial calculation, the lump-sum payment amount, and administrative fees to maintain the resulting side account. There is not expected to be any significant cost incurred by members, PERS administration, or the PERS Fund.

### RULEMAKING TIMELINE

- |                    |   |
|--------------------|---|
| August 15, 2006    | Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.  |
| September 1, 2006  | <i>Oregon Bulletin</i> published the Notice.  |
| September 15, 2006 | PERS Board notified that staff began the rulemaking process.  |
| September 26, 2006 | Rulemaking hearing held at 2:00 p.m. in Tigard.   |
| October 20, 2006   | First reading of the rule.  |
| October 27, 2006   | Public comment period ends at 5:00 p.m.   |
| November 17, 2006  | Staff will propose adopting the permanent rule modifications, including any amendments warranted by public comment or further research. |

### NEXT STEPS

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

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

1 **459-009-0084**

2 **Unfunded Actuarial Liability Lump-Sum Payments by Employers Participating in**  
3 **an Actuarial Group**

4 Purpose. The purpose of this rule is to establish procedures and requirements  
5 pursuant to ORS 238.225 for the adjustment of employer contribution rates when an  
6 unfunded actuarial liability lump-sum payment is made by an individual public employer  
7 participating in an actuarial group.

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

9 (a) "Unfunded Actuarial Liability Lump-Sum Payment" means any employer  
10 payment:

11 (A) That is not regularly scheduled;

12 (B) That is not paid as a percentage of salary;

13 (C) That is made for the express purpose of reducing the employer's unfunded  
14 actuarial liability; and

15 (D) Where the employer has control over the timing or whether to make the  
16 payment.

17 (b) "Unfunded Actuarial Liability" or "UAL" means the excess of the actuarial  
18 liability over the actuarial value of assets.

19 (c) "Employer Contribution Account" means that portion of the Fund designated by  
20 the Board, as a portion of the net assets of the Fund, that is funded by employer  
21 contributions which are to be used for the sole benefit of members of the trust with the  
22 purpose of paying future retirement and death benefits.

1 (d) "Fair Value UAL" means the unfunded actuarial liability calculated using the fair  
2 market value of assets *[rather than the smoothed actuarial value of assets used in the*  
3 *most recent actuarial valuation of PERS]*.

4 (e) "Transition Unfunded Actuarial Liabilities" means the unfunded actuarial  
5 liabilities attributed to an individual employer for the period prior to entry into the Local  
6 Government Rate Pool, or the State and Local Government Rate Pool if the employer did  
7 not participate in the Local Government Rate Pool.

8 (2) Lump-sum payment amount. If an individual employer elects to make a UAL  
9 lump-sum payment under this rule, the payment must be at least 25 percent of the  
10 individual employer's UAL calculated under section *[(5)]* (6) of this rule or \$1 million,  
11 whichever is less. Alternatively, an employer may elect to pay 100 percent of the  
12 individual employer's UAL calculated under section *[(5)]* (6) of this rule.

13 (3) Requirements. In order to make a UAL lump-sum payment, an employer must  
14 *[enter into an agreement with PERS for pre-payment of actuarial services and]* comply  
15 with the process described in sections (4) through *[(9)]* (10) of this rule.

16 (4) Initiating UAL lump-sum payment process. At least *[30]* 45 calendar days prior  
17 to the date the employer intends to make a UAL lump-sum payment, the employer shall  
18 notify the PERS *[Actuarial Services]* Employer Liability Coordinator in writing that it  
19 intends to make a UAL lump-sum payment. The notification shall specify:

20 (a) The amount of the intended lump-sum payment;

21 (b) Whether the intended payment is to be for 100 percent of the individual  
22 employer's calculated UAL; and

1 (c) No more than two potential dates for the payment. PERS staff shall notify the  
2 employer within five business days of receipt of the notification if the notification is  
3 incomplete or the process cannot be completed by the intended dates of the UAL lump-  
4 sum payment.

5 (5) Payment to the actuary. At least 30 calendar days prior to the date the  
6 employer intends to make a UAL lump-sum payment, the employer shall remit  
7 payment for the cost of the UAL calculation directly to the PERS consulting actuary  
8 according to the instructions on the invoice provided by the PERS consulting  
9 actuary. Failure to remit payment according to the terms of this section may result  
10 in the PERS consulting actuary not completing the employer’s UAL calculation by  
11 the proposed UAL lump-sum payment date.

12 ~~[(5)]~~ (6) Calculation of the individual employer's UAL. Upon receipt of a complete  
13 notification and verification of payment to the actuary for actuarial services, PERS staff  
14 shall request that the PERS consulting actuary ~~[to]~~ calculate:

15 (a) 100 percent of the employer's share of the UAL for the actuarial group in which  
16 the employer is participating. This calculation shall be:

17 (A) Based on the fair value UAL of the actuarial pool in which the employer  
18 participates, from the most recent actuarial valuation;

19 (B) Based on the ~~[PERS-]~~covered salary, as a proportion of the pool, reported by the  
20 employer for the year of most recent actuarial valuation; and

21 (C) Adjusted to reflect the effect of time from the most recent actuarial valuation to  
22 the intended date(s) of payment, using generally recognized and accepted actuarial  
23 principles and practices.

1            (b) The effect of the following UAL lump-sum payment amounts on the individual  
2 employer's contribution rate using the one or two potential dates for payment specified by  
3 the employer in its notification in section (4) above:

4            (A) 100 percent of the individual employer's UAL calculated in subsection ~~[(5)]~~(6)  
5 (a) of this rule;

6            (B) The UAL lump-sum payment amount specified by the employer in its  
7 notification, if provided; and

8            (C) The minimum amount of the UAL lump-sum payment under section (2) of this  
9 rule.

10           ~~[(6)]~~ (7) Notification of calculation. PERS staff shall notify the employer in writing  
11 of the results of the individual employer's calculation in section ~~[(5)]~~ (6) above, including  
12 the effective date(s) for the reduced employer contribution rates based on the one or two  
13 potential dates for payment. In addition, PERS shall send the employer a notification  
14 describing risks and uncertainties associated with the calculation of the individual  
15 employer's UAL.

16           ~~[(7)]~~ (8) Notification of UAL lump-sum payment. The employer or its agent shall  
17 notify the PERS ~~[Actuarial Services]~~ Employer Liability Coordinator in writing at least  
18 three business days prior to making a UAL lump-sum payment. This notification shall be  
19 in addition to the notification in section (4) of this rule and shall specify the amount of  
20 the payment and the date it intends to make the payment.

21           ~~[(8)]~~ (9) Method of payment. A UAL lump-sum payment must be made by either  
22 electronic transfer or check payable to the Public Employees Retirement System.

1        ~~[(9)]~~ (10) Receipt of UAL lump-sum payment. In order to adjust the employer  
 2 contribution rate to that reported by PERS in section ~~[(6)]~~ (7) of this rule, PERS must  
 3 receive the correct funds no later than five business days after the corresponding intended  
 4 date of the UAL lump-sum payment specified in the notification described in section  
 5 ~~[(7)]~~ (8) of this rule.

6        (a) If the UAL lump-sum payment is received by PERS on or before the intended  
 7 date specified in the notification described in section ~~[(7)]~~ (8) of this rule or within the  
 8 five business days following the intended date, the new employer contribution rate will  
 9 be effective for payrolls dated on or after:

10        (A) The date specified in the notification; or

11        (B) The first of the month following receipt of the UAL lump-sum payment by  
 12 PERS, whichever is later.

13        (b) If the UAL lump-sum payment is received by PERS more than five business days  
 14 after the intended payment date, the employer's contribution rate shall be adjusted in the  
 15 next actuarial valuation based on the date of receipt of the UAL lump-sum payment.

16        (c) If the UAL lump-sum payment received is other than any amount specified in the  
 17 notification under section ~~[(7)]~~ (8) of this rule, the employer's contribution rate shall be  
 18 adjusted to ~~[that]~~ the rate ~~[in which]~~ the payment amount fully funds using the actuarial  
 19 calculation in subsection ~~[(5)]~~ (6)(b) of this rule.

20        (d) If the UAL lump-sum payment received is less than the minimum amount  
 21 described in section (2) of this rule, the funds will be returned to the employer and no  
 22 adjustment will be made to the employer contribution rate.

23        (e) Nothing in this rule shall be construed to prevent the Board from:

1            (A) Adjusting employer contribution rates based upon the date of receipt of funds or  
2 errors in the notification described in section ~~[(6)]~~ (7) of this rule; or

3            (B) Taking action pursuant to ORS ~~[228.225]~~ 238.225.

4            ~~[(10)]~~ (11) Actuarial treatment of the UAL lump-sum payment. For actuarial  
5 purposes, the UAL lump-sum payment made by the employer shall first be applied to any  
6 transition unfunded actuarial liabilities. The remainder of the payment shall offset any  
7 pooled unfunded actuarial liabilities and shall be treated as pre-funded contributions and  
8 additional assets for the payment of obligations of the employer under ORS ~~[Chapter]~~  
9 chapters 238 or 238A, rather than as a reduction of those obligations.

10           (a) The UAL lump-sum payment shall be held in a ~~[UAL Lump-Sum]~~ Side Account  
11 for the benefit of the employer making the UAL lump-sum payment. On an annual basis  
12 the PERS consulting actuary shall notify PERS staff of the amount of pre-funded  
13 contributions held in the ~~[UAL Lump-Sum]~~ Side Account that are to be amortized for that  
14 year.

15           (b) After earnings or losses have been credited for the year, the amount amortized  
16 shall be transferred from the ~~[UAL Lump-Sum]~~ Side Account to the Employer  
17 Contribution Account of the actuarial group in which the employer is participating.

18           ~~[(11)]~~ (12) Crediting earnings or losses. For the purposes of this rule, ~~[UAL Lump-~~  
19 ~~Sum]~~ Side Accounts shall be credited with all interest and other income received from  
20 investment of the account funds during the calendar year, less any amounts withheld from  
21 earnings for administrative expenses under ORS 238.610 or paid into the reserve account  
22 established under ORS 238.670(1).

1        ~~[(12)]~~ **(13)** Nothing in this rule shall be construed to convey to an employer making  
2 a UAL lump-sum payment any proprietary interest in the Public Employees Retirement  
3 Fund or in the UAL lump-sum payment made to the fund by the employer.

4        ~~[(13)]~~ **(14)** Effective date of rule. This rule shall apply to all UAL lump-sum  
5 payments initiated on or after the effective date of this rule.

6        Stat. Auth.: ORS 238.650

7        Stats. Implemented: ORS 238.225



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

1 **459-009-0085**

2 **Unfunded Actuarial Liability Lump-Sum Payments by Employers Not Participating**  
3 **in an Actuarial Group**

4 Purpose. The purpose of this rule is to establish procedures and requirements  
5 pursuant to ORS 238.225 for the adjustment of employer contribution rates when an  
6 unfunded actuarial liability lump-sum payment is made by an individual public employer  
7 not participating in an actuarial group.

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

9 (a) "Unfunded Actuarial Liability Lump-Sum Payment" means any employer  
10 payment:

11 (A) That is not regularly scheduled;

12 (B) That is not paid as a percentage of salary;

13 (C) That is made for the express purpose of reducing the employer's unfunded  
14 actuarial liability; and

15 (D) Where the employer has control over the timing or whether to make the  
16 payment.

17 (b) "Unfunded Actuarial Liability" or "UAL" means the excess of the actuarial  
18 liability over the actuarial value of assets.

19 (c) "Employer Contribution Account" means that portion of the Fund designated by  
20 the Board, as a portion of the net assets of the Fund, that is funded by employer  
21 contributions which are to be used for the sole benefit of members of the trust with the  
22 purpose of paying future retirement and death benefits.

1 (d) "Fair Value UAL" means the unfunded actuarial liability calculated using the fair  
2 market value of assets *[rather than the smoothed actuarial value of assets used in the*  
3 *most recent actuarial valuation of PERS].*

4 *[(e) "Transition Unfunded Actuarial Liabilities" means the unfunded actuarial*  
5 *liabilities attributed to an individual employer for the period prior to entry into the Local*  
6 *Government Rate Pool, or the State and Local Government Rate Pool if the employer did*  
7 *not participate in the Local Government Rate Pool.]*

8 (2) Lump-sum payment amount. If an employer elects to make a UAL lump-sum  
9 payment under this rule, the payment must be at least 25 percent of the employer's UAL  
10 calculated under section *[(5)]* (6) of this rule or \$1 million, whichever is less.

11 Alternatively, an employer may elect to pay 100 percent of the employer's UAL  
12 calculated under section *[(5)]* (6) of this rule.

13 (3) Requirements. In order to make a UAL lump-sum payment, an employer must  
14 *[enter into an agreement with PERS for pre-payment of actuarial services and]* comply  
15 with the process described in sections (4) through *[(9)]* (10) of this rule.

16 (4) Initiating UAL lump-sum payment process. At least *[30]* 45 calendar days prior  
17 to the date the employer intends to make a UAL lump-sum payment, the employer shall  
18 notify the PERS *[Actuarial Services]* Employer Liability Coordinator in writing that it  
19 intends to make a UAL lump-sum payment. The notification shall specify:

20 (a) The amount of the intended lump-sum payment;

21 (b) Whether the intended payment is to be for 100 percent of the employer's  
22 calculated UAL; and

1            (c) No more than two potential dates for the payment. PERS staff shall notify the  
2 employer within five business days of receipt of the notification if the notification is  
3 incomplete or the process cannot be completed by the intended dates of the UAL lump-  
4 sum payment.

5            **(5) Payment to the actuary. At least 30 calendar days prior to the date the**  
6 **employer intends to make a UAL lump-sum payment, the employer shall remit**  
7 **payment for the cost of the UAL calculation directly to the PERS consulting actuary**  
8 **according to the instructions on the invoice provided by the PERS consulting**  
9 **actuary. Failure to remit payment according to the terms of this section may result**  
10 **in the PERS consulting actuary not completing the employer's UAL calculation by**  
11 **the proposed UAL lump-sum payment date.**

12            ~~[(5)]~~ **(6)** Calculation of an employer's UAL. Upon receipt of a complete notification  
13 and verification of payment to the actuary for actuarial services, PERS staff shall request  
14 **that** the PERS consulting actuary ~~[to]~~ calculate:

- 15            (a) 100 percent of the employer's UAL. This calculation shall be:
- 16            (A) Based on the fair value UAL from the most recent actuarial valuation; and
- 17            (B) Adjusted to reflect the effect of time from the most recent actuarial valuation to  
18 the intended date(s) of payment, using generally recognized and accepted actuarial  
19 principles and practices.

20            (b) The effect of the following UAL lump-sum payment amounts on the employer's  
21 contribution rate using the one or two potential dates for payment specified by the  
22 employer in its notification in section (4) above:

1            (A) 100 percent of the employer's UAL calculated in subsection ~~[(5)]~~(6)(a) of this  
2 rule;

3            (B) The UAL lump-sum payment amount specified by the employer in its  
4 notification, if provided; and

5            (C) The minimum amount of the UAL lump-sum payment under section (2) of this  
6 rule.

7            ~~[(6)]~~ (7) Notification of calculation. PERS staff shall notify the employer in writing  
8 of the results of the employer's calculation in section ~~[(5)]~~ (6) above, including the  
9 effective date(s) for the reduced employer contribution rates based on the one or two  
10 potential dates for payment. In addition, PERS shall send the employer a notification  
11 describing risks and uncertainties associated with the calculation of the individual  
12 employer's UAL.

13            ~~[(7)]~~ (8) Notification of UAL lump-sum payment. The employer or its agent shall  
14 notify the PERS ~~[Actuarial Services]~~ Employer Liability Coordinator in writing at least  
15 three business days prior to making a UAL lump-sum payment. This notification shall be  
16 in addition to the notification in section (4) of this rule and shall specify the amount of  
17 the payment and the date it intends to make the payment.

18            ~~[(8)]~~ (9) Method of payment. A UAL lump-sum payment must be made by either  
19 electronic transfer or check payable to the Public Employees Retirement System.

20            ~~[(9)]~~ (10) Receipt of UAL lump-sum payment. In order to adjust the employer  
21 contribution rate to that reported by PERS in section ~~[(6)]~~ (7) of this rule, PERS must  
22 receive the correct funds no later than five business days after the corresponding intended

1    date of the UAL lump-sum payment specified in the notification described in section  
2    ~~[(7)]~~ (8) of this rule.

3            (a) If the UAL lump-sum payment is received by PERS on or before the intended  
4    date specified in the notification described in section ~~[(7)]~~ (8) of this rule or within the  
5    five business days following the intended date, the new employer contribution rate will  
6    be effective for payrolls dated on or after:

7            (A) The date specified in the notification; or

8            (B) The first of the month following receipt of the UAL lump-sum payment by  
9    PERS, whichever is later.

10          (b) If the UAL lump-sum payment is received by PERS more than five business days  
11    after the intended payment date, the employer's contribution rate shall be adjusted in the  
12    next actuarial valuation based on the date of receipt of the UAL lump-sum payment.

13          (c) If the UAL lump-sum payment received is other than any amount specified in the  
14    notification under section ~~[(7)]~~ (8) of this rule, the employer's contribution rate shall be  
15    adjusted to ~~[that]~~ the rate ~~[in which]~~ the payment amount fully funds using the actuarial  
16    calculation in subsection ~~[(5)]~~ (6)(b) of this rule.

17          (d) If the UAL lump-sum payment received is less than the minimum amount  
18    described in section (2) of this rule, the funds will be returned to the employer and no  
19    adjustment will be made to the employer contribution rate.

20          (e) Nothing in this rule shall be construed to prevent the Board from:

21            (A) Adjusting employer contribution rates based upon the date of receipt of funds or  
22    errors in the notification described in section ~~[(6)]~~ (7) of this rule; or

23            (B) Taking action pursuant to ORS ~~[228.225]~~ 238.225.

1 ~~[(10)]~~ **(11)** Actuarial treatment of the UAL lump-sum payment. For actuarial  
2 purposes, the UAL lump-sum payment made by the employer shall ~~[first be applied to~~  
3 ~~any transition unfunded actuarial liabilities. The remainder of the payment shall]~~ be  
4 treated as pre-funded contributions and additional assets for the payment of obligations of  
5 the employer under ORS ~~[Chapter]~~ **chapters** 238 **or 238A**, rather than as a reduction of  
6 those obligations.

7 (a) The UAL lump-sum payment shall be held in a ~~[UAL Lump-Sum]~~ **Side** Account  
8 for the benefit of the employer making the UAL lump-sum payment. On an annual basis  
9 the PERS consulting actuary shall notify PERS staff of the amount of pre-funded  
10 contributions held in the ~~[UAL Lump-Sum]~~ **Side** Account that are to be amortized for that  
11 year.

12 (b) After earnings or losses have been credited for the year, the amount amortized  
13 shall be transferred from the ~~[UAL Lump-Sum]~~ **Side** Account to the Employer  
14 Contribution Account.

15 ~~[(11)]~~ **(12)** Crediting earnings or losses. For the purposes of this rule, ~~[UAL Lump-~~  
16 ~~Sum]~~ **Side** Accounts shall be credited with all interest and other income received from  
17 investment of the account funds during the calendar year, less any amounts withheld from  
18 earnings for administrative expenses under ORS 238.610 or paid into the reserve account  
19 established under ORS 238.670(1).

20 ~~[(12)]~~ **(13)** Nothing in this rule shall be construed to convey to an employer making  
21 a UAL lump-sum payment any proprietary interest in the Public Employees Retirement  
22 Fund or in the UAL lump-sum payment made to the fund by the employer.

1        ~~[(13)]~~ (14) Effective date of rule. This rule shall apply to all UAL lump-sum  
2 payments initiated on or after the effective date of this rule.

3        Stat. Auth.: ORS 238.650

4        Stats. Implemented: ORS 238.225

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

1 459-009-0090

2 Lump-Sum Payments by Employers in Excess of an Existing Unfunded Actuarial  
3 Liability

4 Purpose. The purpose of this rule is to establish procedures and requirements  
5 pursuant to ORS 238.225 for the adjustment of employer contribution rates when a  
6 lump-sum payment is made by an individual public employer that does not have an  
7 existing unfunded actuarial liability, or when an individual employer makes a lump-  
8 sum payment in excess of the employer’s unfunded actuarial liability.

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

10 (a) “Actuarial Surplus” means the excess of the actuarial value of an employer’s  
11 assets over the employer’s actuarial liability.

12 (b) “Employer Contribution Account” means that portion of the Fund  
13 designated by the Board, as a portion of the net assets of the Fund, that is funded by  
14 employer contributions to be used for the sole benefit of members of the trust with  
15 the purpose of paying future retirement and death benefits.

16 (c) “Fair Value UAL” or “Fair Value Actuarial Liability” means the UAL or  
17 actuarial liability calculated using the fair market value of assets.

18 (d) “IAP” means the Individual Account Program of the Oregon Public Service  
19 Retirement Plan.

20 (e) “Pension Program Contributions” means the total calculated employer  
21 contribution due in any reporting period for both the PERS and OPSRP pension  
22 programs, excluding any IAP contribution due.



- 1 (f) “Surplus Lump-Sum Payment” means any employer payment:
- 2 (A) That is not regularly scheduled;
- 3 (B) That is not paid as a percentage of salary;
- 4 (C) That is made for the express purpose of creating an actuarial surplus or
- 5 increasing an existing actuarial surplus; and
- 6 (D) Where the employer has control over the timing or whether to make the
- 7 payment.
- 8 (g) “UAL Lump-Sum Payment” means any employer payment:
- 9 (A) That is not regularly scheduled;
- 10 (B) That is not paid as a percentage of salary;
- 11 (C) That is made for the express purpose of reducing the employer’s unfunded
- 12 actuarial liability; and
- 13 (D) Where the employer has control over the timing or whether to make the
- 14 payment.
- 15 (h) “Unfunded Actuarial Liability” or “UAL” means the excess of an
- 16 employer’s actuarial liability over the actuarial value of assets.
- 17 (2) For employers making a combined surplus lump-sum payment and UAL
- 18 lump-sum payment, the provisions of this rule apply only to the surplus lump-sum
- 19 payment unless otherwise indicated.
- 20 (3) Minimum surplus lump-sum payment amount. If an individual employer
- 21 elects to make a surplus lump-sum payment under this rule, the payment must be at
- 22 least:

1 (a) \$100,000 or 100 percent of the individual employer’s actuarial liability,  
2 whichever is less, for an employer whose actuarial liability as calculated under  
3 section (9) of this rule is less than \$1 million; or

4 (b) Ten percent of the individual employer’s actuarial liability, for an employer  
5 whose actuarial liability as calculated under section (9) of this rule is equal to or  
6 greater than \$1 million.

7 (4) Maximum surplus lump-sum payment amount. If an individual employer  
8 elects to make a surplus lump-sum payment under this rule, the payment shall not  
9 be greater than the amount required to bring the employer’s total defined-benefit  
10 pension program contributions to zero percent of payroll based upon the individual  
11 employer’s reported payroll in the most recent actuarial valuation.

12 (5) Requirements. In order to make a surplus lump-sum payment, an employer  
13 must comply with the process described in sections (6) through (14) of this rule.

14 (6) Initiating surplus lump-sum payment process. At least 45 calendar days  
15 prior to the date the employer intends to make a surplus lump-sum payment, the  
16 employer shall notify the PERS Employer Liability Coordinator in writing that it  
17 intends to make a surplus lump-sum payment. The notification shall specify:

18 (a) Whether the intended payment is to be for 100 percent of the individual  
19 employer’s calculated actuarial liability or, if other than 100 percent, the percent of  
20 the individual employer’s calculated actuarial liability or amount of the intended  
21 payment; and

22 (b) No more than two potential dates for the payment.

1 (7) PERS staff shall notify the employer within five business days of receipt of  
2 the notification if the notification is incomplete or the process cannot be completed  
3 by the intended date(s) of the surplus lump-sum payment.

4 (8) Payment to the actuary. At least 30 calendar days prior to the date the  
5 employer intends to make a surplus lump-sum payment, the employer shall remit  
6 payment for the cost of the actuarial liability calculation directly to the PERS  
7 consulting actuary according to the instructions on the invoice provided by the  
8 PERS consulting actuary. Failure to remit payment according to the terms of this  
9 section may result in the PERS consulting actuary not completing the employer's  
10 actuarial liability calculation by the proposed surplus lump-sum payment date.

11 (9) Calculation of the individual employer's actuarial liability. Upon receipt of a  
12 complete notification and verification of payment to the actuary for actuarial  
13 services, PERS staff shall request that the PERS consulting actuary calculate:

14 (a) 100 percent of the employer's actuarial liability, or 100 percent of the  
15 employer's share of the actuarial liability for the actuarial group in which the  
16 employer is participating, as applicable;

17 (b) The minimum amount of the surplus lump-sum payment under section (3)  
18 of this rule;

19 (c) The maximum amount of the surplus lump-sum payment under section (4)  
20 of this rule;

21 (d) The alternative percentage or dollar amount specified by the employer in its  
22 notification under section (6) of this rule; and

1 (e) The effect of the following surplus lump-sum payment amounts on the  
2 individual employer’s contribution rate using the potential date(s) for payment  
3 specified by the employer in its notification in section (6) of this rule:

4 (A) 100 percent of the individual employer’s actuarial liability calculated in  
5 subsection (9)(a) of this rule;

6 (B) The surplus lump-sum payment amount specified by the employer in its  
7 notification, if other than 100 percent;

8 (C) The minimum amount of the surplus lump-sum payment calculated in  
9 subsection (9)(b) of this rule; and

10 (D) The maximum amount of the surplus lump-sum payment calculated in  
11 subsection (9)(c) of this rule.

12 (10) The calculations described in section (9) of this rule shall be:

13 (a) Based on the individual employer’s fair value actuarial liability from the  
14 most recent actuarial valuation;

15 (b) Based on the covered salary, for the individual employer or as a proportion  
16 of the pool, as applicable, reported by the employer for the year of the most recent  
17 actuarial valuation; and

18 (c) Adjusted to reflect the effect of time from the most recent actuarial  
19 valuation to the intended date(s) of payment, using generally recognized and  
20 accepted actuarial principles and practices.

21 (11) Notification of calculation. PERS staff shall notify the employer in writing  
22 of the results of the individual employer’s calculation under section (9). In addition,

1 PERS shall send the employer a notification describing risks and uncertainties  
2 associated with making a lump-sum payment.

3 (12) Notification of payment. The employer or its agent shall notify the PERS  
4 Employer Liability Coordinator in writing at least three business days prior to  
5 making a surplus lump-sum payment. This notification shall be in addition to the  
6 notification in section (6) of this rule and shall specify the dollar amount of the  
7 payment and the date the employer intends to make the payment.

8 (13) Method of payment. A surplus lump-sum payment must be made by either  
9 electronic transfer or check payable to the Public Employees Retirement System.

10 (14) Receipt of payment. In order to adjust the employer contribution rate to  
11 that reported by PERS in section (11) of this rule, PERS must receive the correct  
12 funds no later than five business days after the corresponding intended date of the  
13 surplus lump-sum payment specified in the notification described in section (12) of  
14 this rule.

15 (a) If the surplus lump-sum payment is received by PERS on or before the  
16 intended date specified in the notification described in section (12) of this rule or  
17 within the five business days following the intended date, the new employer  
18 contribution rate will be effective for payrolls dated on or after the first of the  
19 month following receipt of the payment by PERS.

20 (b) If the surplus lump-sum payment is received by PERS more than five  
21 business days after the intended payment date, the employer's contribution rate  
22 shall be adjusted in the next actuarial valuation based on the date of receipt of the  
23 payment.

1 (c) Except as provided in subsection (14)(d), if the surplus lump-sum payment  
 2 received by PERS is other than any amount specified in the notification under  
 3 section (12) of this rule, the employer’s contribution rate shall be adjusted to the  
 4 rate the payment amount fully funds using the actuarial calculation in section (9) of  
 5 this rule.

6 (d) If the surplus lump-sum payment received by PERS is less than the  
 7 minimum amount described in section (3) of this rule, or greater than the maximum  
 8 amount described in section (4) of this rule, the funds will be returned to the  
 9 employer and no adjustment will be made to the employer contribution rate.

10 (e) Nothing in this rule shall be construed to prevent the Board from:

11 (A) Adjusting employer contribution rates based upon the date of receipt of  
 12 funds or errors in the notification described in section (11) of this rule; or

13 (B) Taking action pursuant to ORS 238.225.

14 (15) Frequency of surplus lump-sum payments. An employer may make only  
 15 one surplus lump-sum payment per calendar year.

16 (16) Actuarial treatment of the payment. For actuarial purposes, the surplus  
 17 lump-sum payment made by the employer shall be treated as pre-funded  
 18 contributions and additional assets for the payment of obligations of the employer  
 19 under ORS chapters 238 or 238A, rather than as a reduction of those obligations.

20 (a) If the employer makes a combined surplus lump-sum payment and UAL  
 21 lump-sum payment, the UAL lump-sum payment amount shall be held in a separate  
 22 Side Account to which the provisions of OAR 459-009-0084 or 459-009-0085, as  
 23 applicable, shall apply.

1 (b) The surplus lump-sum payment shall be held in a Side Account for the  
2 benefit of the employer making the surplus lump-sum payment. On an annual basis  
3 the PERS consulting actuary shall notify PERS staff of the amount of pre-funded  
4 contributions held in the Side Account that are to be amortized for that year.

5 (c) After earnings or losses have been credited for the year, the amount  
6 amortized shall be transferred from the Side Account to the Employer Contribution  
7 Account of the individual employer or of the actuarial group in which the employer  
8 is participating, as applicable.

9 (17) Crediting earnings or losses. For the purposes of this rule, Side Accounts  
10 shall be credited with all interest and other income received from investment of the  
11 account funds during the calendar year, less any amounts withheld from earnings  
12 for administrative expenses under ORS 238.610 or paid into the reserve account  
13 established under ORS 238.670(1).

14 (18) Nothing in this rule shall be construed to convey to an employer making a  
15 surplus lump-sum payment any proprietary interest in the Public Employees  
16 Retirement Fund or in the surplus lump-sum payment made to the fund by the  
17 employer.

18 (19) Effective date of rule. This rule shall apply to all surplus lump-sum  
19 payments initiated on or after the effective date of this rule.

20 Stat. Auth.: ORS 238.650

21 Stats. Implemented: ORS 238.225



# Oregon

Theodore R. Kulongoski, Governor

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

October 20, 2006

TO: Members of the PERS Board  
FROM: Steven Patrick Rodeman, Administrator, PPLAD  
SUBJECT: First Reading for OAR 459-016-0100, *Purchase of Units by a Police Officer or Firefighter to Provide Increased Benefits*

|              |                                 |
|--------------|---------------------------------|
| MEETING DATE | <b>10/20/06</b>                 |
| AGENDA ITEM  | <b>C.7.<br/>P &amp; F Units</b> |

## OVERVIEW

- Action: None. This is the first reading for OAR 459-016-0100, Purchase of Units of by a Police Officer or Firefighter to Provide Increased Benefits.
- Reason: To clarify the administration of unit benefits for police and fire (P & F) members of the PERS Chapter 238 Program.
- Subject: Chapter 238 Program P & F unit benefits.
- Policy Issue: No policy issues have been identified at this time.

## BACKGROUND

Although the current rule sets forth the basic criteria for the purchase and distribution of unit benefits for P & F members of the PERS Chapter 238 Program, it provides no guidelines or direction for the administration of the unit benefit program.

Some of the statutory provisions that need to be clarified are: that unit purchases may be made only by active and current P & F members; that total lump-sum unit purchases may be made only by those members under the age of 60 and must be made prior to retirement; that the cancellation of contributions into the unit benefit program prevents future participation; and that an involuntary cancellation of a unit account results in the automatic refund of the amount in the account. All of these points reflect how the program is currently administered and do not reflect policy changes. Such clarification will provide clear direction, for both members and staff, on the requirements for eligibility in the unit benefit program and the process for administering the benefits.

## SUMMARY OF MODIFICATIONS TO RULE SINCE NOTICE

The definition of “five years” was clarified in section (1)(d) by deleting the term “calendar” and the numerical equivalent in days and adding language to avoid ambiguity.



### LEGAL REVIEW

The attached draft has been submitted to the Department of Justice for legal review and any comments or changes have been incorporated into the rule as presented.

### PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held on September 26, 2006 at 2:00 p.m. at PERS headquarters in Tigard. No members of the public attended. The public comment period ends on October 27, 2006 at 5:00 p.m. To date, no public comment has been received.

### IMPACT

Mandatory: No, but clarification of the unit benefit program will benefit both members and staff.

Impact: Minimal. Stakeholders will have a clearer understanding of the administration of P & F unit benefits.

Cost: There are no perceived costs to members, employers, stakeholders or the Fund as a result of the adoption of this rule. To the contrary, failure to adopt it could result in increased inquiries and appeals if the administration of unit benefits is not clearly established.

### RULEMAKING TIMELINE

|                    |   |
|--------------------|---|
| August 15, 2006    | Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.                        |
| September 1, 2006  | <i>Oregon Bulletin</i> published the Notice.  |
| September 15, 2006 | PERS Board notified that staff began the rulemaking process.  |
| September 26, 2006 | Rulemaking hearing held at 2:00 p.m. in Tigard.   |
| October 20, 2006   | First reading of the rule.  |
| October 27, 2006   | Public comment period ends at 5:00 p.m.   |
| November 17, 2006  | Staff proposes adopting the permanent rule, including any amendments warranted by public comment or further research. |

### NEXT STEPS

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

OREGON ADMINISTRATIVE RULE  
PUBLIC EMPLOYEES RETIREMENT BOARD  
CHAPTER 459  
DIVISION 016 – POLICE OFFICERS AND FIRE FIGHTERS

1 459-016-0100

2 Purchase of *[Additional]* Units *[of Income]* by a *[Policeman]* Police Officer or  
3 *[Fireman]* Firefighter to Provide Increased Benefits

4 (1) For the purposes of this rule:

5 (a) “Active” means an “active member” as defined in ORS 238.005(12)(b).

6 (b) “Current” means a member who is currently employed as a police officer or  
7 firefighter.

8 (c) “Firefighter” has the same meaning as set forth in ORS 238.005(9).

9 (d) “Five years” means five full years ending on the fifth anniversary date of the  
10 transfer from a police and fire position.

11 (e) “Inactive” means an “inactive member” as defined in ORS 238.005(12)(c).

12 (f) “Police officer” has the same meaning as set forth in ORS 238.005(16).

13 (2) Eligibility to Purchase Units. An active and current police officer or  
14 firefighter may purchase a maximum of eight units to provide increased benefits  
15 between the date of retirement and age 65. A member who retires prior to age 60  
16 will receive unit payments over a minimum five-year period.

17 (3) Lump-Sum Purchase at Retirement. An active and current police officer or  
18 firefighter may choose to make a lump-sum purchase of police and fire units within  
19 the 60 days prior to the police officer’s or firefighter’s effective retirement date.

20 (a) If previous payroll contributions for unit benefits have been made, a lump-  
21 sum purchase of any remaining units, for a maximum of eight units, may be made

1 within 60 days prior to the member's retirement date if the member is less than age  
2 65.

3 (b) If no payroll contributions for unit benefits have been made, a lump-sum  
4 purchase of units may be made within the 60 days prior to the member's retirement  
5 date only if the member is less than age 60.

6 (4) Additional Contributions for Police Officers or Firefighters Retiring Prior  
7 to Age 60. An active and current police officer or firefighter who retires prior to age  
8 60 may make additional contributions to purchase actuarially reduced unit benefits  
9 beginning at any date between the date of early retirement and age 60. [The

10 *additional contributions of a policeman or fireman who is purchasing additional units of*  
11 *income to be payable upon retirement after age 60 but prior to age 65, who retires before*  
12 *age 60, either voluntarily or because of disability, shall remain in his account, earning*  
13 *interest, until he reaches age 60, at which time those contributions will purchase*  
14 *additional income actuarially computed. The employee contributions in these instances*  
15 *will purchase less than a ten dollar unit and the benefit purchased by the employer shall*  
16 *be reduced to the same amount as the employee benefit. If death occurs after voluntary*  
17 *retirement or disability retirement, but prior to age 60, the unit account shall be refunded*  
18 *to the named beneficiary in a lump-sum.]*

19 (5) Police Officers or Firefighters Who Work Until the Age of 65. Contributions  
20 for unit benefits are not permitted once the member reaches the age of 65. The  
21 amount in the unit account of a member who works until age 65 will be refunded to  
22 the member in a lump sum.

23 (6) Cancellation of Police and Fire Unit Contributions. A police officer or  
24 firefighter who has elected to make unit contributions may elect, in writing, to

1 cancel the additional contributions at any time. Once canceled, the member will not  
2 be permitted to participate in the unit benefit program at a future time.

3 (7) Refund of Unit Account.

4 (a) Voluntary Refund. A police officer or firefighter may request a refund of the  
5 unit account if the police officer or firefighter is separated from all participating  
6 employers and their control groups.

7 (b) Involuntary Refund. A police officer or firefighter who has elected to make  
8 unit contributions and transfers to an inactive position or a non-police and fire job  
9 class will:

10 (i) Retain the unit account for five years immediately following the transfer.

11 (ii) If at the end of the five years, the member has not turned age 50 or returned  
12 to a qualifying police and fire position, the member's election will be canceled and  
13 the amount in the unit account automatically refunded.

14 (c) A voluntary or involuntary refund results in a cancellation of the unit  
15 account. Once a unit account is canceled, the member may not participate in the  
16 unit benefit program at a future time.

17 (d) Police officers and firefighters who request a withdrawal of their PERS  
18 member account will automatically receive a refund of their unit account.

19 (8) Disability Retirement. Police officers or firefighters approved for a PERS  
20 Chapter 238 Program disability retirement are eligible to purchase the balance of  
21 their police and fire units or make an initial purchase equal to the maximum eight  
22 units.

23 (9) Reemployment under USERRA. An eligible PERS Chapter 238 Program  
24 police and fire member who leaves a qualifying position to serve in the Uniformed

1 Services is eligible upon initiating reemployment to make up the unit benefit  
2 contributions which would have been made to the member's unit account had the  
3 member not left to serve in the Uniformed Services.

4 (a) Contributions made under this section must be remitted to PERS by:

5 (A) Payroll deduction; or

6 (B) Monthly payment of no less than one month of contributions; or

7 (C) Lump-sum payment.

8 (b) Any individual, agency, or organization may pay the employee contributions  
9 specified in subsection (a) of this section on behalf of the employee under the  
10 payment provisions set forth in paragraph (B) or (C) of this section.

11 Stat. Auth.: ORS ~~237.650~~ 238.650

12 Stats. Implemented: ORS 238.440



# Oregon

Theodore R. Kulongoski, Governor

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

October 20, 2006

TO: Members of the PERS Board  
FROM: Steven Patrick Rodeman, Administrator, PPLAD  
SUBJECT: First Reading for OAR 459-011-0100 and 459-080-0100,  
*Credit for Military Service under USERRA*

|              |                        |
|--------------|------------------------|
| MEETING DATE | <b>10/20/06</b>        |
| AGENDA ITEM  | <b>C.8.<br/>USERRA</b> |

## OVERVIEW

- Action: None. This is the first reading for OAR 459-011-0100 and 459-080-0100, Credit for Military Service under USERRA.
- Reasons: Clarify payment methods of member-paid contributions under USERRA.
- Subject: Make-up contributions under USERRA.
- Policy Issues: No policy issues have been identified at this time.

## BACKGROUND

Under ORS 238.156 and 238A.415, an eligible employee who leaves a qualifying position to serve in the Uniformed Services is eligible, upon reemployment, to make up the amount of member-paid contributions the member would have made if he or she had not left to serve in the Uniformed Services.

OAR 459-011-0100 and 459-080-0100 implement those statutory provisions. If an employee's member contributions were member-paid pre-tax (MPPT) or member-paid after-tax (MPAT) contributions, the member may make-up part or all of the member contributions that would have been made if the member had remained employed. The proposed amendments clarify how these contributions may be remitted to PERS.

## LEGAL REVIEW

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

## PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held on September 26, 2006 at 2:00 p.m. at PERS headquarters in Tigard. No members of the public attended. The public comment period ends on October 27, 2006 at 5:00 p.m. To date, no public comment has been received.

## IMPACT

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

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

Cost: There are no perceived costs to members, employers, stakeholders or the Fund as a result of the adoption of this rule.

#### RULEMAKING TIMELINE

- |                    |   |
|--------------------|---|
| August 15, 2006    | Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.  |
| September 1, 2006  | <i>Oregon Bulletin</i> published the Notice.  |
| September 15, 2006 | PERS Board notified that staff began the rulemaking process.  |
| September 26, 2006 | Rulemaking hearing held at 2:00 p.m. in Tigard.   |
| October 20, 2006   | First Reading of rule.  |
| October 27, 2006   | Public comment period ends at 5:00 p.m.   |
| November 17, 2006  | Staff will propose adopting the permanent rule modifications, including any amendments warranted by public comment or further research. |

#### NEXT STEPS

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

**OREGON ADMINISTRATIVE RULE  
PUBLIC EMPLOYEES RETIREMENT BOARD  
CHAPTER 459  
DIVISION 011 – RETIREMENT CREDIT**

1 **459-011-0100**

2 **Credit for Military Service under USERRA**

3 (1) Purpose. The purpose of this rule is to implement ORS 238.156(1).

4 (2) Limitation of scope of rule. Contributions, benefits and service credit provided under  
5 this rule shall not exceed contributions, benefits and service credit required under federal law  
6 for periods of military service.

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

8 (a) "Employee" means an individual employed by a participating public employer in a  
9 qualifying position, as defined in ORS 238.005(19) and who is not excluded from the  
10 definition of employee as set forth in ORS 238.005(7).

11 (b) "Employee contributions" means contributions made to the Fund.

12 (c) "Employer" means the legal entity that employed an individual at the time that  
13 individual left for military service. For purposes of this rule, the *[s]*State of Oregon is a single  
14 legal entity. Each separate school district is a separate legal entity.

15 (d) "Military service" means the performance of duty on a voluntary or involuntary basis  
16 in a uniformed service under competent authority and includes:

17 (A) Active duty;

18 (B) Active duty for training;

19 (C) Initial active duty for training;

20 (D) Inactive duty training;

21 (E) Full-time National Guard duty;



1            (F) A period for which an employee is absent from a position of employment for the  
2 purpose of an examination to determine the fitness of the employee to perform any of the  
3 above types of duty; or

4            (G) A period for which an employee is absent from employment for the purpose of  
5 performing funeral honors duty as authorized by 10 U.S.C. § 12503 or 32 U.S.C. § 115.

6            (e) "Salary" means the rate of pay the employee would have earned if he or she had  
7 remained employed during the period of military service, including any increases that would  
8 have been awarded the employee based on longevity of employment or seniority of position.  
9 If such rate of pay is not reasonably certain, the rate shall be based on the employee's average  
10 rate of pay from the employer. The average rate of pay shall be calculated for a period not to  
11 exceed the 12-month period immediately preceding the period of military service.

12           (f) "Uniformed services" means the following:

13           (A) Armed Forces;

14           (B) Army National Guard;

15           (C) Air National Guard;

16           (D) Commissioned corps of the Public Health Service; and

17           (E) Any other category of individuals designated by the President in time of war or  
18 national emergency.

19           (g) "USERRA" means the 1994 federal Uniformed Services Employment and  
20 Reemployment Rights Act as in effect on the effective date of this rule.

21           (4) Retirement credit under USERRA.

22           (a) Eligibility. An employee shall be eligible for the benefits of this section if:

23           (A) The employee leaves PERS-covered employment to perform military service;

1 (B) The cumulative length of the employee's absence from employment with the  
2 employer for military service does not exceed the limits set forth in USERRA §4312;

3 (C) The employee initiates reemployment on or after December 12, 1994, with the same  
4 PERS-covered employer within the time limits specified in USERRA §4312; and

5 (D) All other eligibility requirements for benefits under USERRA are met.

6 (b) Credit for military service. An employee who meets the eligibility requirements of  
7 subsection (a) of this section shall be credited with the amount of retirement credit the  
8 employee would have accrued if he or she had remained in employment with the employer  
9 during the period of military service, only to the extent that the employee contributions have  
10 been made.

11 (c) Termination. An employee's eligibility for the benefits of this rule terminates upon the  
12 occurrence of one of the disqualifying events listed in USERRA §4304.

13 (5) Employee contributions.

14 (a) Employee contributions shall be made upon reemployment for eligible military  
15 service in accordance with the following:

16 (A) Contributions to be made by the employer. If the employee was entitled to employer-  
17 paid pre-tax (EPPT) contributions as described in OAR 459-009-0200(2) as of the date the  
18 employee left employment to perform military service, the employer shall pay, in a lump sum  
19 payment, the amount of employee contributions that would have been made if the employee  
20 had remained in the employment of the employer during the period of military service, based  
21 on salary as defined in section (3) of this rule.

22 (B) Contributions to be made by the employee. If the employee was entitled to only  
23 member-paid pre-tax (MPPT) or member-paid after-tax (MPAT) contributions, the employee

1 may contribute part or all of the employee contributions that would have been made if the  
2 employee had remained in the employment of the employer during the period of military  
3 service, based on salary as defined in section (3) of this rule. Contributions made under this  
4 paragraph must be remitted to PERS by:

- 5 (i) Payroll deduction; or
- 6 (ii) Monthly payment of no less than one month of contributions; or
- 7 (iii) Lump-sum payment.

8 (b) Any individual, agency, or organization may pay the *[amounts]* employee  
9 contributions specified in paragraph (5)(a)(B) on behalf of the employee under the payment  
10 provisions set forth in subparagraph (5)(a)(B)(ii) or (iii).

11 (c) Contributions made under this section must be made during the period beginning with  
12 reemployment and whose duration is three times the period of the employee's military service,  
13 such period not to exceed five years.

14 (d) Any contributions made under this section shall be added to the employee's regular or  
15 variable account(s).

16 (e) Contributions made under this section shall not include nor be entitled to earnings or  
17 losses that would have been credited during the period of military service.

18 (6) Employer contributions. Any employer contributions associated with credit for  
19 military service under this rule shall be made as directed by PERS in accordance with ORS  
20 238.225.

21 Stat. Auth.: ORS 238.650 & 238.156

22 Stats. Implemented: ORS 238.156

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

1 **459-080-0100**

2 **Credit for Military Service under USERRA**

3 (1) Purpose. The purpose of this rule is to implement *[section 43, chapter 733,*  
 4 *Oregon Laws 2003 (Enrolled HB 2020)]* [ORS 238A.415](#).

5 (2) Limitation of scope of rule. Contributions, benefits and service credit provided  
 6 under this rule shall not exceed contributions, benefits and service credit required under  
 7 federal law for periods of military service.

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

9 (a) “Employee” means:

10 (A) An eligible employee, as defined in *[section 1, chapter 733, Oregon Laws 2003*  
 11 *(Enrolled HB 2020)]* [ORS 238A.005](#);

12 (B) An active member of PERS, as defined in ORS 238.005, on or after January 1,  
 13 2004; or

14 (C) An employee who is entitled to credit toward the probationary period required  
 15 by ORS 238.015.

16 (b) “Employer” means the legal entity that employed an individual at the time that  
 17 individual left for military service. For purposes of this rule, the state of Oregon is a  
 18 single legal entity. Each separate school district is a separate legal entity.

19 (c) “Military service” means the performance of duty on a voluntary or involuntary  
 20 basis in a uniformed service under competent authority and includes:

21 (A) Active duty;

22 (B) Active duty for training;

- 1            (C) Initial active duty for training;
- 2            (D) Inactive duty training;
- 3            (E) Full-time National Guard duty;
- 4            (F) A period for which an individual is absent from a position of employment for the
- 5 purpose of an examination to determine the fitness of the person to perform any of the
- 6 above types of duty; or

7            (G) A period for which an individual is absent from employment for the purpose of

8 performing funeral honors duty as authorized by 10 U.S.C. § 12503 or 32 U.S.C. § 115.

9            (d) “Salary” means the rate of pay the eligible employee would have earned if he or

10 she had remained employed during the period of military service, including any increases

11 that would have been awarded the employee based on longevity of employment or

12 seniority of position. If such rate of pay is not reasonably certain, the rate shall be based

13 on the employee’s average rate of pay from the employer. The average rate of pay shall

14 be calculated for a period not to exceed the 12-month period immediately preceding the

15 period of military service.

16            (e) “Uniformed services” means the following:

- 17            (A) Armed Forces;
- 18            (B) Army National Guard;
- 19            (C) Air National Guard;
- 20            (D) Commissioned corps of the Public Health Service; and
- 21            (E) Any other category of persons designated by the President in time of war or
- 22 national emergency.

1 (f) “USERRA” means the 1994 federal Uniformed Services Employment and  
2 Reemployment Rights Act as of the effective date of this rule.

3 (4) Eligibility for retirement benefits under USERRA. An eligible employee shall be  
4 entitled to the benefits of this rule if:

5 (a) The employee leaves employment with a participating public employer to  
6 perform military service;

7 (b) The cumulative length of the employee’s absence from employment with the  
8 employer for military service does not exceed the limits set forth in USERRA §4312;

9 (c) The employee initiates reemployment with the same participating public  
10 employer within the time limits specified in USERRA §4312;

11 (d) All employee contributions have been made; and

12 (e) All other eligibility requirements for benefits under USERRA are met.

13 (5) Service credit for military service under USERRA. An employee who meets the  
14 eligibility requirements of section (4) of this rule shall receive the amount of credit  
15 toward the period of employment required under *[section 29, chapter 733, Oregon Laws*  
16 *2003 (Enrolled House Bill 2020)] [ORS 238A.300](#)[,]* and the vesting requirements  
17 described under *[section 31, chapter 733, Oregon Laws 2003 (Enrolled House Bill*  
18 *2020)] [ORS 238A.320](#)*, the employee would have accrued if he or she had remained in  
19 employment with the employer during the period of military service.

20 (6) Termination. An employee’s eligibility for the benefits of this rule terminates  
21 upon the occurrence of one of the disqualifying events listed in USERRA §4304.

22 (7) Employee contributions.

1 (a) Employee contributions shall be made upon reemployment for eligible military  
2 service in accordance with the following:

3 (A) Employee contributions to be made by the employer. If the employee's  
4 employer had agreed to pay employee contributions under *[section 34(2)(b), chapter 733,*  
5 *Oregon Laws 2003 (Enrolled HB 2020)]* [ORS 238A.335](#) as of the date the employee left  
6 employment to perform military service, the employer shall pay, in a lump sum payment,  
7 the amount of contributions that would have been made if the employee had remained in  
8 the employment of the employer during the period of military service, based on salary as  
9 defined in section (3) of this rule.

10 (B) Employee contributions to be made by the employee. If the employee's  
11 employer had not agreed to pay employee contributions, or had agreed to pay employee  
12 contributions under *[section 34(2)(a), chapter 733, Oregon Laws 2003 (Enrolled HB*  
13 *2020)]* [ORS 238A.335](#) as of the date the employee left employment to perform military  
14 service, the employee may pay all or part of the contributions that would have been made  
15 if the employee had remained in the employment of the employer during the period of  
16 military service, based on salary as defined in section (3) of this rule. [Contributions](#)  
17 [made under this paragraph may be remitted to PERS by:](#)

- 18 [\(i\) Payroll deduction; or](#)
- 19 [\(ii\) Monthly payment of no less than one month of contributions; or](#)
- 20 [\(iii\) Lump-sum payment.](#)

21 (b) Any individual, agency or organization may pay the *[amount]* [employee](#)  
22 [contributions](#) specified in paragraph (7)(a)(B) on behalf of the employee [under the](#)  
23 [payment provisions set forth in subparagraph \(5\)\(a\)\(B\)\(ii\) or \(iii\).](#)

1 (c) Employee contributions may only be paid during the period beginning with  
2 reemployment and whose duration is three times the period of the employee’s military  
3 service, such period not to exceed five years.

4 (d) Employee contributions shall be credited to the employee account established in  
5 *[section 37(2), chapter 733, Oregon Laws 2003 (Enrolled HB 2020)]* [ORS 238A.350](#).

6 (e) Employee contributions shall not include nor be entitled to earnings or losses that  
7 would have been credited during the period of military service.

8 (8) Employer contributions.

9 (a) If the employee’s employer had agreed to make employer contributions under  
10 *[section 36, chapter 733, Oregon Laws 2003 (Enrolled HB 2020)]* [ORS 238A.340](#) as of  
11 the date the employee left employment to perform military service, the employer shall  
12 pay, in a lump sum payment, the amount of contributions that would have been made if  
13 the employee had remained in the employment of the employer during the period of  
14 military service, based on salary as defined in section (3) of this rule.

15 (b) Any contributions made under this section shall be added to the employee’s  
16 employer account established in *[section 37(3), chapter 733, Oregon Laws 2003*  
17 *(Enrolled HB 2020)]* [ORS 238A.350](#).

18 (c) Contributions made under this section shall not include nor be entitled to  
19 earnings or losses that would have been credited during the period of military service.

20 (9) Military service that includes January 1, 2004. If an employee as defined in  
21 section (3)(a)(B) or (C) of this rule performs military service over a period including  
22 January 1, 2004:



1            (a) Retirement credit and contributions for military service prior to January 1, 2004,  
2 shall be determined in accordance with OAR 459-011-0100.

3            (b) Retirement credit and contributions for military service on or after January 1,  
4 2004, shall be determined in accordance with this rule and OAR 459-011-0100.

5            Stat. Auth.: *[OL 2003 Ch. 733]* [ORS 238A.450 & 238A.415](#)

6            Stats. Implemented: *[OL 2003 Ch. 733]* [ORS 238A.415](#)



# Oregon

Theodore R. Kulongoski, Governor

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

October 20, 2006

TO: Members of the PERS Board  
FROM: Steven Patrick Rodeman, Administrator, PPLAD  
SUBJECT: Adoption of OAR 459-075-0200, *Retirement Eligibility for Police Officer and Firefighter Members*

|              |                          |
|--------------|--------------------------|
| MEETING DATE | 10/20/06                 |
| AGENDA ITEM  | C.9.<br>P & F Retirement |

## OVERVIEW

- Action: Adopt new permanent rule OAR 459-075-0200, Retirement Eligibility for Police Officer and Firefighter Members.
- Reason: To clarify the retirement requirements for OPSRP Police and Fire (P & F) members.
- Subject: OPSRP P & F retirement eligibility.
- Policy Issue:
  1. How should the requirement for OPSRP P & F retirement eligibility being tied to the five years immediately before retirement be administered?

## BACKGROUND

Under OPSRP, ORS 238A.160(2) and 238A.165(2) allow a member to retire as a P & F member if they held a qualifying position as a police officer or firefighter continuously for a period of five years “immediately before/preceding (both terms are used in different sections) the effective date of retirement.”

Because the term “immediately” is not defined in statute, staff originally introduced a legislative concept for the 2007 legislative session to clarify OPSRP P & F retirement eligibility. The Legislative Advisory Committee, however, directed staff to establish the definition by rule, leaving a statutory change as an option if the administrative definition proved too restrictive.

## SUMMARY OF RULE AND POLICY ISSUE

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

The proposed rule would require the member to be employed as a police officer or firefighter in a qualifying position (at least 600 hours per calendar year) in each of the five consecutive years immediately preceding the effective date of retirement. Alternatively, if the member separated from service for some years prior to retirement, their last five consecutive years prior to separating would have to be in a qualifying P & F position with an OPSRP employer.

### SUMMARY OF MODIFICATIONS TO RULE SINCE NOTICE

The phrase “five calendar years” was changed to “five years” in order to accommodate the application of the qualifying position rules to the proposed eligibility standard and to simplify the administration of this statutory provision to a variety of employment scenarios.

### LEGAL REVIEW

The attached draft has been submitted to the Department of Justice for legal review and comments have been incorporated in the rule as presented for adoption.

### PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held on July 25, 2006 at 2:00 p.m. at PERS headquarters in Tigard. No members of the public attended. The public comment period ended on September 22, 2006 at 5:00 p.m.

On September 22, 2006, PERS received public comment from Maria Keltner, representing the Employers’ PERS Alliance (Alliance). A copy of Ms. Keltner’s email is included with this memo.

Ms. Keltner states that the Alliance does “not agree that it is correct to interpret ‘continuously’ to mean as little as 600 hours in each of the last five years” since that would permit a P & F member to work as little as 600 hours in each of five calendar years and still retire as a P & F. The Alliance states that “continuously” requires no termination of employment as a P & F member. To alleviate this concern, the Alliance proposed a modification to the rule that would require, in addition to being employed in a qualifying position, that the member also accrue one year of retirement credit. Staff disagrees with this proposal for a number of reasons.

First, a qualifying position is defined at ORS 238A.005(14) as a position “in which an eligible employee performs 600 or more hours of service in a calendar year.” OPSRP P & F members earn a year of retirement credit for performing 2000 hours of service in a calendar year. Accordingly, to receive one year of retirement credit, one has to perform more hours of service than required to be in a qualifying position. Adding the requirement to the rule to earn one year of retirement credit to qualify puts additional requirements on qualifying for P & F retirement that are not supported by the statute’s plain language.

That requirement may not seem onerous but it could become an issue in many cases. For example, a member who works only a 37.5 hour work week or who took even one week off between P & F jobs (i.e., to move from one town to another) would be ineligible for P & F retirement even though they were an active P & F member in a qualifying position for the requisite five years.

Additionally, the Alliance’s proposed language would not allow a P & F member to retire in the middle of the year. To obtain one year of retirement credit by working 2000 hours, a member might necessarily have to work for almost the entire year, thus requiring all OPSRP P & F members to retire only late in the year. The rule as presented takes mid-

year retirements into account by borrowing from existing rules to determine whether someone is in a qualifying position.

Finally, the rule is trying to address only the requirement that the member be continuously employed. “Continuous employment” could be interpreted to mean one weekend a month with a continuing employee/employer relationship over the five years. But the statute’s requirement that the member be at least in a qualifying P & F position provides the requisite level of employment over those five years: 600 hours to be consistent with anyone else who is considered an active member of the system. This limitation is sufficient guarantee under the statute that the early retirement provisions afforded to P & F members go only to those the Legislature intended to include under those provisions.

### IMPACT

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

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

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

### RULEMAKING TIMELINE

|                    |  |
|--------------------|--|
| June 15, 2006      | Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State. |
| July 1, 2006       | <i>Oregon Bulletin</i> published the Notice.   |
| July 21, 2006      | PERS Board notified that staff began the rulemaking process.                                   |
| July 25, 2006      | Rulemaking hearing held at 2:00 p.m. in Tigard.  |
| September 15, 2006 | First reading of the rule.   |
| September 22, 2006 | Public comment period ended at 5:00 p.m.   |
| October 20, 2006   | Board may adopt the permanent rule.  |

### BOARD OPTIONS

The Board may:

1. Pass a motion to “adopt OAR 459-075-0200, *Retirement Eligibility for Police Officer and Firefighter Members*, as presented.”
2. Take no action and direct staff to make changes to the rule or take other action.

### STAFF RECOMMENDATION

Staff recommends the Board choose Option #1.

- Reason: Adopting the rule will clarify retirement eligibility for OPSRP P & F members.

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

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

1 459-075-0200

2 Retirement Eligibility for Police Officer and Firefighter Members

3 (1) “Police officer” and “Firefighter” have the same meaning given them in

4 ORS 238A.005.

5 (2) For the purpose of establishing eligibility for normal retirement under ORS

6 238A.160(2) and early retirement under 238A.165(2), an OPSRP Pension Program

7 member will be considered to have held a position as a police officer or firefighter

8 continuously for a period of not less than five years immediately preceding the

9 effective date of retirement if:

10 (a) The member was employed in a qualifying position as a police officer or

11 firefighter for five years prior to the date of the member’s separation from that

12 employment; and

13 (b) The member did not return to a qualifying position after separation from

14 that employment.

15 Stat. Auth.: ORS 238A.450

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

**From:** Maria Keltner <mkeltner\_lgpi@orlocalgov.org>  
**To:** RIVAS Daniel <Daniel.Rivas@state.or.us>  
**Date:** Friday, September 22, 2006 4:48 PM  
**Subject:** comment on Proposed OAR 459.075.0200

To: PERS Board Chair and Members

Re: Comment on Proposed OAR 459-075-0200, Retirement Eligibility for Police Officer and Firefighter Members

The Employers' PERS Alliance submits the following comments to the proposed rule dated 5/30/06.

Several of us were included in the discussions when the statutory language being interpreted was discussed, crafted and passed into law.

We agree that line 10 " each of the five calendar years preceding the effective date of retirement" and line 12 & 13 " each of the five calendar years preceding separation from that employment and has not returned to a qualifying position" are correct interpretations for "five years immediately preceding the effective date of retirement".

To correctly interpret "held a position as a police officer or firefighter continuously for a period of not less than five years" the individual needs to not only have been employed in a qualifying position as a police officer or firefighter (600 or more hours per calendar year) but must also accrue one full year of retirement credit in that qualifying position (2,000 or more hours per calendar year). An individual employed as a police officer or firefighter for only 600 hours in each of the five calendar years should not qualify that individual to retire at the police officer and firefighter retirement ages set out in ORS 238A.160 and ORS 238A.165.

We do not agree that it is correct to interpret "continuously" to mean as little as 600 hours in each of the last five years. This interpretation would allow an individual to be employed for 600 hours in a police officer or firefighter position during the first part of each of four consecutive calendar years, terminate police officer and firefighter employment for the rest of those four years, then work 600 hours in the fifth consecutive year in a police officer and firefighter position, then qualify for retirement as a police officer and firefighter. In the context of these Statutes, "continuously" must mean without termination of employment as a police officer and firefighter.

Lines 9 through 13 of the proposed rule could be amended as follows to correctly interpret "continuously":

- (a) In each of the five calendar years preceding the effective date of retirement the member: (1) accrued one full year of retirement credit and (2) was employed in a qualifying position as a police officer or firefighter; or
- (b) The member has not returned to a qualifying position following separation from employment and in each of the five calendar years preceding that separation from employment the member: (1) accrued one full year of retirement credit and (2) was employed in a qualifying position as a police officer or firefighter.

We note that five years does not necessarily need to be limited to calendar years, however, we understand that use of calendar years is a computer limitation consideration.

Thank you for your consideration of our concerns related to this proposed rule.

Respectfully submitted,  
Maria Keltner, Employers PERS Alliance



# Oregon

Theodore R. Kulongoski, Governor

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

October 20, 2006

TO: Members of the PERS Board  
FROM: Steven Patrick Rodeman, Administrator, PPLAD  
SUBJECT: Summary of the Federal Pension Protection Act of 2006

|              |                              |
|--------------|------------------------------|
| MEETING DATE | <b>10/20/06</b>              |
| AGENDA ITEM  | <b>C.10.<br/>Pension Act</b> |

The U.S. Congress recently passed the Pension Protection Act of 2006. This comprehensive legislation enacted many provisions that have implications for the PERS Plan and its members. The following is a brief summary of the Act's relevant provisions. Note that Congress is working on a follow-up bill to clarify some of the Act's provisions, so this information may change with subsequent legislation.

First, a note about the effective date of any changes to the PERS Plan by this Act. This document lists the earliest possible effective date for the summarized provisions. Supporting legislative, regulatory, policy, or programming changes may be needed before we can comply with these provisions.

Government plans have until the last day of the plan year beginning on or after January 1, 2011 to make any plan amendments required by this Act or related regulations (PERS' most recent Form 5300 identifies our plan year as the fiscal year July 1 to June 30.) This means that PERS would have until June 30, 2012 to adopt any required amendments under the Act or related regulations. Any required statutory changes can be made in the 2007, 2009, and/or 2011 legislative sessions.

Strategically, staff needs to confer with tax and state law counsel on how to operate the plan if we are required or choose to incorporate these provisions before supporting legislative changes can be adopted. For IRS purposes, the amendments may be retroactive if the plan is operated as if the amendment were in effect from the retroactive date to the date the amendment is adopted. Whether PERS has enough latitude under state law to adopt these new operations is an open question we will report on subsequently.

## EXCEPTION OF TEN PERCENT PENALTY FOR PUBLIC SAFETY INDIVIDUALS

Summary: Members who take early retirements or withdrawals may face a 10% IRS penalty, with some exceptions (e.g., separating from service after age 55). This provision provides an additional exception for police and firefighter participants when they separate from service after attaining age 50.

Effective Date: Distributions after August 17, 2006.

Impact to PERS and/or OSGP: 1099-R report coding will need to be changed so we correctly report these distributions as an early withdrawal with a known exception. This



programming change is already being worked on for the 2006 reports. The IRS will need to update the Federal Tax Information Disclosure PERS is required to send; we will begin using the new language when available.

Lastly, P&F members had been imposing some pressure for PERS to offer a penalty-free IAP withdrawal option, which would have required a change in statute, but this exception should relieve most of that pressure.

### HEALTH AND LONG-TERM CARE INSURANCE PREMIUMS FOR P & F MEMBERS

Summary: The Act adds a provision for police and firefighter retired members who take normal retirement to direct up to \$3,000 of their retirement allowance to pay for qualified health and long-term care insurance premiums on a pre-tax basis. Qualified insurance covers the retired member, their spouse, and dependents. The \$3,000 is an annual cumulative limit for all plans sponsored by the same employer.

Effective Date: Distributions made after December 31, 2006.

Impact to PERS and/or OSGP: There are a few outstanding questions regarding this provision. The first is whether PERS is mandated to provide this option. The Act does not appear to require it. If the provision is mandatory or PERS decides to provide this option, however, there are additional administrative concerns:

- How many insurance companies will PERS need to be able to pay?
- For the health insurance programs PERS administers, we currently deduct these premiums on an after-tax basis; can we deduct these payments pre-tax (both from a qualification and administration viewpoint)?
- If we offer this feature, the \$3,000 annual limit will require special programming.
- Finally, coordinating the \$3,000 annual limit with OSGP and any other plan sponsored by an employer is a concern, not to mention coordinating among the PERS Chapter 238 plan, the OPSRP Pension Program, and the IAP, each of which is currently administered by a separate computer system.

Required Action: If PERS elects or is required to provide this feature, statutory changes would be required to ORS 238.445 regarding assigning benefits. Minor changes to PERS OARs in Division 35 and new administrative rules would have to be developed. Program changes would be required to allow pre-tax deduction of premiums, switching to after-tax deductions once the annual limit is reached, and coordination with other plans.

### ROLLOVERS BY NON-SPOUSE BENEFICIARIES OF CERTAIN RETIREMENT PLAN DISTRIBUTIONS

Summary: This provision allows a non-spouse beneficiary (child, trust, same-sex partner, parent, friend, etc.) of a deceased member to roll a distribution to an individual retirement account or annuity (IRA). Since the IRA will be treated as an inherited IRA (explained below), it must be established for the purpose of receiving the distribution and the distribution must be rolled via a direct trustee-to-trustee transfer. An inherited IRA will be treated as if the beneficiary had been the non-spouse beneficiary of the

member's IRA and the required minimum distributions (RMD) rules for such accounts will apply.

Effective Date: Effective for distributions made after December 31, 2006.

Impact to PERS and/or OSGP: PERS will need to change its reporting and processing for proper federal tax withholding and 1099-R reporting of lump-sum distributions to these beneficiaries if they elect this rollover option.

Required Action: ORS 238A.430 regarding rollovers under the OPSRP Pension Program and the IAP needs to be amended, as well as updates to OARs on rollovers. The Federal Tax Information Disclosure, as well as possibly other forms, will need revisions.

### DISTRIBUTIONS DURING WORKING RETIREMENT

Summary: Retirement plans generally cannot make a distribution until a member separates from employment or retires. This provision allows distributions to active participants who have attained age 62.

Effective Date: Distributions in plan years beginning after December 31, 2006.

Impact to PERS and/or OSGP: Our statutes require a separation from service to qualify for any withdrawal or retirement. This provision may provide an opportunity to begin distributions sooner if the member has returned to PERS-covered employment, such as in Loss of Membership situations where the member has returned to work without refunding their account.

Required Action: No action is required but changes may be considered to Loss of Membership statutes and rules.

### NOTICE AND CONSENT REGARDING DISTRIBUTIONS

Summary: Currently, a qualified plan must provide the standard Federal Tax Information Disclosure to participants receiving a distribution eligible for rollover. The notice must be sent no more than 90 days prior to the distribution. This provision extends that 90-day period to 180 days.

Effective Date: January 1, 2007.

Impact to PERS and/or OSGP: This will ease an administrative burden for PERS. The Notice is provided with the application packet, but processing of certain distributions can take longer than 90 days from application. In those situations, PERS has been required to re-notify the member before the distribution can be processed. This provision will alleviate many of these administrative difficulties.

Required Action: Changes to OAR 459-005-0599 regarding rollover distributions and the Federal Tax Information Disclosure are required.

#### DIRECT ROLLOVERS TO ROTH IRAs

Summary: Allows participants in qualified plans to roll distributions into a Roth IRA. Such rollovers will be subject to the same rules that currently apply to rollovers from a traditional IRA to a Roth IRA.

Effective Date: For distributions after December 31, 2007.

Impact to PERS and/or OSGP: This provision will provide members with additional options, providing greater flexibility in planning and structuring their retirement income. Will cause a slight increase in administrative requirements if the plan is required to determine and or verify the participant's income and filing status prior to completing the rollover. Hopefully, regulations will be issued to clarify the administrative requirements.

Required Action: Changes to ORS 238A.430 and PERS OARs would be required.

#### CLARIFICATION OF REQUIRED MINIMUM DISTRIBUTION RULES FOR GOVERNMENT PLANS

Summary: The Act directs the Secretary of the Treasury to issue regulations that treat governmental plans as complying with the required minimum distribution (RMD) rules if the plan has applied a reasonable, good faith interpretation of the rules.

Effective Date: August 17, 2006 – note that this is the date the direction to the Secretary of the Treasury is effective. The reasonable, good faith interpretation allowance will not be effective until the regulations are issued. It is likely that the regulations will be made retroactive when they are finalized.

Impact to PERS and/or OSGP: PERS has strived to comply with the RMD rules, both within the plan document and in operation of the plan. This provision will further support PERS' current compliance with the RMD rules.

Required Action: No action required.

#### REGULATIONS ON TIME AND ORDER OF QUALIFIED DOMESTIC RELATIONS ORDERS

Summary: The Act directs the Secretary of Labor to issue regulations clarifying that a Qualified Domestic Relations Order (QDRO) will not fail to be treated as a QDRO merely because it is issued after or revises another QDRO.

Effective Date: August 17, 2006 – note that this is the date the direction to the Secretary of Labor is effective.

Impact to PERS and/or OSGP: PERS and OSGP currently accept and administer all QDROs received. It does not appear that this provision will have any impact on PERS or OSGP.

Required Action: No action required.

### MODIFICATION OF RULES REGARDING HARDSHIPS AND UNFORESEEN FINANCIAL EMERGENCIES

Summary: The Act directs the Secretary of the Treasury to update the regulations regarding the factors used to determine whether a member of a §457 plan (e.g., OSGP) has had an unforeseen financial emergency and is therefore eligible to receive a hardship withdrawal.

Effective Date: August 17, 2006.

Impact to PERS and/or OSGP: No impact to PERS. The Board will be able to determine whether to adopt this expanded definition for OSGP participants once the updated regulations have been adopted.

Required Action: None.

### CLARIFICATIONS REGARDING PURCHASE OF PERMISSIVE SERVICE CREDIT

Summary: Expands the ability to purchase permissive service credit to participants in a government plan. Allows trustee-to-trustee transfers for the purpose of purchasing permissive service credit between plans maintained by different employers. Changes the standard for permissive service credit from service credit the participant has not received to benefits to which the member is not otherwise entitled and may include periods for which there is no performance of service. Specifies that elementary or secondary education service is determined under the state law in which the service was performed.

Effective Date: Upon signing of the Act (August 17, 2006). Amendments to the definition of permissive service credit and nonqualified service are retroactive to December 31, 1997. Amendments relating to trustee-to-trustee transfers from a §403(b) or §457 plan are retroactive to December 31, 2001.

Impact to PERS and/or OSGP: PERS' Private Letter Ruling request on the ability to accept trustee-to-trustee transfers as an alternate form of payment for Strunk/Eugene invoiced amounts is related to this provision. While members would not be purchasing service credit, this provision supports the concept of allowing members to purchase a benefit they would not otherwise receive (e.g., offset a reduction in benefits). As to the specific issue of accepting trustee-to-trustee transfers for permissive service credit, the PERS Plan would have to be amended to allow this option.

Required Action: None.

### ROLLOVER OF AFTER-TAX AMOUNTS TO OTHER PLANS

Summary: Currently, after-tax dollars contributed to a qualified retirement plan can be rolled over only to a defined contribution plan or an IRA. This provision expands the type of plans to which after-tax dollars can be rolled to a defined benefit or tax-sheltered annuity. The rollover must be a direct trustee-to-trustee transfer and the receiving plan must separately account for the after-tax contributions as well as the earnings on those contributions.

Effective Date: January 1, 2007.

Impact to PERS and/or OSGP: Regarding rolling funds out of PERS, this provision provides members will additional options when planning and structuring their retirements. Regarding accepting funds from another plan, PERS has included in its request for Private Letter Ruling from the IRS a determination that participants may pay Strunk/Eugene invoiced amount via rollovers from other plans. If PERS receives a favorable determination on this point, PERS will be required to include after-tax dollars and agree to account for them separately.

Required Action: Changes to ORS 238A.430 and supporting regulations may be required if PERS accepts after-tax dollars in a rollover.



# Oregon

Theodore R. Kulongoski, Governor

October 20, 2006

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

TO: Members of the PERS Board  
FROM: Dale S. Orr, Coordinator, Actuarial Analysis Section  
SUBJECT: Biennial Review of Actuarial Equivalency Factors

|              |                           |
|--------------|---------------------------|
| MEETING DATE | <b>10/20/06</b>           |
| AGENDA ITEM  | <b>D.1.<br/>Actuarial</b> |

## OVERVIEW

ORS 238.607 requires the PERS Board to adopt actuarial equivalency factor tables every two years for the purpose of computing member benefit payments. On October 20, 2006, Bill Hallmark of Mercer Human Resource Consulting (Mercer) will present Mercer's analysis and recommendation for the actuarial equivalency factor tables to be used to calculate retirements dated January 1, 2007 through December 31, 2008. These tables must be adopted prior to January 1, 2007 even if they contain no changes from the current tables, to comply with the statute's requirements.

This analysis will also include a determination as required under ORS 238.608 as to whether separate actuarial equivalency factor tables are required for police and fire members due to differences in mortality experience with the general membership. This determination is not required every two years, but must be made periodically and the actuary is prepared to recommend action in this regard.

# MERCER

Human Resource Consulting

## D.1. Actuarial Equivalency Factors

111 SW Fifth Avenue, Suite 2800  
Portland, OR 97204-3693  
503 273 5920 Fax 503 273 5999  
bill.hallmark@mercer.com  
www.mercerHR.com

October 18, 2006

Mr. Dale S. Orr  
Actuarial Services Manager  
Oregon PERS  
P.O. Box 23700  
Tigard, OR 97281-3700

### **Via E-Mail**

Subject:

**Request Number: 2006-004**  
**Actuarial Equivalency Factor Study**

Dear Dale:

The Board is required by ORS 238.607 and ORS 238A.200 to adopt actuarial equivalency factor tables every two years. Actuarial equivalency factors are used:

- to reduce service retirement allowances for early retirement,
- to convert Tier 1/Tier 2 account balances to monthly benefits,
- to calculate lump sum distributions from OPSRP, and
- to convert the normal form of benefit to other optional forms.

We recommend that the Board adopt revised actuarial equivalency factors as described in this letter based on the new mortality tables adopted as a result of the experience study. These actuarial equivalency factors will become effective January 1, 2007.

In addition to the updates based on mortality table changes, we recommend the Board adopt:

- early retirement reduction factors based on the simplified approximations shown in this letter,
- separate actuarial equivalence factors for disabled retirees based on the mortality assumption used in the valuation as opposed to an adjustment to the healthy retiree factors, and
- a single blended mortality table basis for Tier 1, Tier 2, and OPSRP actuarial equivalence factors.

We make these recommendations pending a review by PERS staff of any operational burdens they may place on the System.

**MERCER**

Human Resource Consulting

Page 2  
 October 18, 2006  
 Mr. Dale S. Orr  
 Oregon PERS

**Weighting Factors to Develop Unisex Mortality Basis**

Standards for the adoption of new actuarial equivalency factors were established by the Board in OAR 459-005-0060 which states in part that the mortality tables are to be “combined with respect to gender and membership classification to derive unisex actuarial equivalency factors.” There are 5 separate mortality tables that apply to healthy retirees based on gender and membership classification.

In the past, disability factors have been based on the healthy mortality tables, with an age set forward to reflect the fact that disabled members have higher mortality rates. However, this method does not closely follow actuarial equivalence based on the two disability mortality tables used in the December 31, 2005 actuarial valuation. Consequently, we recommend a separate disabled blended mortality table and actuarial equivalency factors be established for disabled members based on the two disabled mortality tables used in the actuarial valuation.

The blended mortality tables are developed by weighting each separate mortality table by the percentage of liabilities attributed to each gender/classification group for all active and dormant members.

A summary of the mortality tables and weightings is shown below:

| <b>Healthy Mortality Weighting Factors</b> |                            |                                  |   |
|--|----------------------------|----------------------------------|---|
| <b>Gender / Classification Group</b>       | <b>Mortality Table</b>     | <b>Proposed Weighting Factor</b> | <b>Prior Weighting Factor<sup>1</sup></b> |
| General Service Males                      | RP-2000 Male, -2 years     | 25%                              | 28.47%                                    |
| Police & Fire Males                        | RP-2000 Male, -1 year      | 10%                              | 8.64%                                     |
| School District Males                      | RP-2000 Male, -3 years     | 15%                              | 15.88%                                    |
| General Service / Police & Fire Females    | RP-2000 Female, -1.5 years | 25%                              | 22.26%                                    |
| School District Females                    | RP-2000 Female, -3 years   | 25%                              | 24.75%                                    |

<sup>1</sup> Weightings used for Tier 1/Tier 2 Options 0, 1, and 4. Slightly different weightings were used for OPSRP and other Tier 1/Tier 2 options.



**MERCER**

Human Resource Consulting

Page 3  
 October 18, 2006  
 Mr. Dale S. Orr  
 Oregon PERS

**Disabled Mortality Weighting Factors**

| <b>Gender / Classification Group</b> | <b>Mortality Table</b>                     | <b>Proposed Weighting Factor</b> |
|--------------------------------------|--|----------------------------------|
| Males                                | RP-2000 Male, +3 years,<br>2.5% minimum    | 50%                              |
| Females                              | RP-2000 Female, +3 years,<br>2.75% minimum | 50%                              |

**Beneficiary Mortality Weighting Factors**

| <b>Gender / Classification Group</b> | <b>Mortality Table</b>     | <b>Proposed Weighting Factor</b> | <b>Prior Weighting Factor</b> |
|--------------------------------------|----------------------------|----------------------------------|-------------------------------|
| Males                                | RP-2000 Male, -2 years     | 50%                              | 48%                           |
| Females                              | RP-2000 Female, -1.5 years | 50%                              | 52%                           |

**Early Retirement Reduction Factors**

Members may elect to receive a reduced retirement benefit prior to their Normal Retirement Date if they qualify for early retirement. The reduction for early retirement does not apply to Money Match benefits as the reduction is included in the factors used to convert the account balance to an annuity. Normal and Early Retirement Dates vary by Tier and member classification as follows:

| <b>Classification</b>       | <b>Normal Retirement Date</b>                       | <b>Early Retirement Date</b> |
|-----------------------------|---|------------------------------|
| Tier 1 General Service      | Earlier of age 58 or 30 years of service            | Age 55                       |
| Tier 2 General Service      | Earlier of age 60 or 30 years of service            | Age 55                       |
| OPSRP General Service       | Earlier of age 65 or age 58 and 30 years of service | Age 55                       |
| Tier 1/Tier 2 Police & Fire | Earlier of age 55 or age 50 and 25 years of service | Age 50                       |
| OPSRP Police & Fire         | Earlier of age 60 or age 53 and 25 years of service | Age 50                       |

**MERCER**

Human Resource Consulting

Page 4  
 October 18, 2006  
 Mr. Dale S. Orr  
 Oregon PERS

The prior factors used a true actuarial equivalence for OPSRP and a simplified approximation for Tier 1 and Tier 2. We have calculated both the true actuarial equivalence factors and simplified approximations in the tables below. We recommend that the Board adopt the same methodology for both Tier 1/Tier2 benefits and OPSRP benefits.

The true actuarial equivalence has the advantage of being slightly more accurate, but the simplified approximations (1) are easier to communicate to members, (2) are easier to administer, and (3) require changes less frequently.

Consequently, we have a slight preference for the simplified factors shown in the tables below.

| Age at Retirement | Tier 1 General Service |                      |                            | Tier 2 General Service |                      |                            |
|-------------------|------------------------|----------------------|----------------------------|------------------------|----------------------|----------------------------|
|                   | Prior Factor           | Proposed True Factor | Proposed Simplified Factor | Prior Factor           | Proposed True Factor | Proposed Simplified Factor |
| 55                | 76%                    | 75.2%                | 76%                        | 60%                    | 61.8%                | 60%                        |
| 56                | 84%                    | 82.6%                | 84%                        | 68%                    | 67.9%                | 68%                        |
| 57                | 92%                    | 90.8%                | 92%                        | 76%                    | 74.6%                | 76%                        |
| 58                | 100%                   | 100.0%               | 100%                       | 84%                    | 82.2%                | 84%                        |
| 59                | 100%                   | 100.0%               | 100%                       | 92%                    | 90.6%                | 92%                        |
| 60                | 100%                   | 100.0%               | 100%                       | 100%                   | 100.0%               | 100%                       |

**MERCER**

Human Resource Consulting

Page 5  
 October 18, 2006  
 Mr. Dale S. Orr  
 Oregon PERS

| <b>Police &amp; Fire</b> |                      |                             |                                   |                                 |                             |                                   |                               |                             |                                   |
|--------------------------|----------------------|-----------------------------|-----------------------------------|---------------------------------|-----------------------------|-----------------------------------|-------------------------------|-----------------------------|-----------------------------------|
| <b>Age at Retirement</b> | <b>Tier 1/Tier 2</b> |                             |                                   | <b>OPSRP Less Than 25 Years</b> |                             |                                   | <b>OPSRP 25 or More Years</b> |                             |                                   |
|                          | <b>Prior Factor</b>  | <b>Proposed True Factor</b> | <b>Proposed Simplified Factor</b> | <b>Prior Factor</b>             | <b>Proposed True Factor</b> | <b>Proposed Simplified Factor</b> | <b>Prior Factor</b>           | <b>Proposed True Factor</b> | <b>Proposed Simplified Factor</b> |
| 50                       | 60%                  | 63.4%                       | 60%                               | 38.4%                           | 39.2%                       | 35%                               | 75.9%                         | 76.3%                       | 76%                               |
| 51                       | 68%                  | 69.3%                       | 68%                               | 42.1%                           | 42.8%                       | 40%                               | 83.2%                         | 83.4%                       | 84%                               |
| 52                       | 76%                  | 75.9%                       | 76%                               | 46.1%                           | 46.9%                       | 45%                               | 91.1%                         | 91.3%                       | 92%                               |
| 53                       | 84%                  | 83.1%                       | 84%                               | 50.6%                           | 51.4%                       | 50%                               | 100.0%                        | 100.0%                      | 100%                              |
| 54                       | 92%                  | 91.1%                       | 92%                               | 55.5%                           | 56.3%                       | 55%                               | 100.0%                        | 100.0%                      | 100%                              |
| 55                       | 100%                 | 100.0%                      | 100%                              | 61.1%                           | 61.8%                       | 60%                               | 100.0%                        | 100.0%                      | 100%                              |
| 56                       | 100%                 | 100.0%                      | 100%                              | 67.2%                           | 67.9%                       | 68%                               | 100.0%                        | 100.0%                      | 100%                              |
| 57                       | 100%                 | 100.0%                      | 100%                              | 74.1%                           | 74.6%                       | 76%                               | 100.0%                        | 100.0%                      | 100%                              |
| 58                       | 100%                 | 100.0%                      | 100%                              | 81.7%                           | 82.2%                       | 84%                               | 100.0%                        | 100.0%                      | 100%                              |
| 59                       | 100%                 | 100.0%                      | 100%                              | 90.3%                           | 90.6%                       | 92%                               | 100.0%                        | 100.0%                      | 100%                              |
| 60                       | 100%                 | 100.0%                      | 100%                              | 100.0%                          | 100.0%                      | 100%                              | 100.0%                        | 100.0%                      | 100%                              |

| <b>OPSRP General Service</b> |                                      |                             |                                   |                                    |                             |                                   |
|------------------------------|--------------------------------------|-----------------------------|-----------------------------------|------------------------------------|-----------------------------|-----------------------------------|
| <b>Age at Retirement</b>     | <b>Less than 30 Years of Service</b> |                             |                                   | <b>30 or More Years of Service</b> |                             |                                   |
|                              | <b>Prior Factor</b>                  | <b>Proposed True Factor</b> | <b>Proposed Simplified Factor</b> | <b>Prior Factor</b>                | <b>Proposed True Factor</b> | <b>Proposed Simplified Factor</b> |
| 55                           | 36.9%                                | 36.8%                       | 35%                               | 75.3%                              | 75.2%                       | 76%                               |
| 56                           | 40.6%                                | 40.4%                       | 40%                               | 82.6%                              | 82.6%                       | 84%                               |
| 57                           | 44.6%                                | 44.4%                       | 45%                               | 90.9%                              | 90.8%                       | 92%                               |
| 58                           | 49.1%                                | 48.9%                       | 50%                               | 100.0%                             | 100.0%                      | 100%                              |
| 59                           | 54.1%                                | 53.9%                       | 55%                               | 100.0%                             | 100.0%                      | 100%                              |
| 60                           | 59.7%                                | 59.5%                       | 60%                               | 100.0%                             | 100.0%                      | 100%                              |
| 61                           | 66.0%                                | 65.8%                       | 68%                               | 100.0%                             | 100.0%                      | 100%                              |
| 62                           | 73.0%                                | 72.9%                       | 76%                               | 100.0%                             | 100.0%                      | 100%                              |
| 63                           | 80.9%                                | 80.8%                       | 84%                               | 100.0%                             | 100.0%                      | 100%                              |
| 64                           | 89.9%                                | 89.8%                       | 92%                               | 100.0%                             | 100.0%                      | 100%                              |
| 65                           | 100.0%                               | 100.0%                      | 100%                              | 100.0%                             | 100.0%                      | 100%                              |

**MERCER**

Human Resource Consulting

Page 6  
 October 18, 2006  
 Mr. Dale S. Orr  
 Oregon PERS

**Conversion of Tier 1/Tier2 Account Balances to Monthly Benefits**

Actuarial equivalency factors are used to convert member account balances to one of three annuity amounts: refund annuity, non-refund (single life) annuity, or a 15-year certain & life annuity. Each of these benefit forms are described below.

|  |  |
|--|--|
| <b>Option 0 – Refund Annuity</b>                   | A lifetime monthly allowance including a guaranteed survivorship benefit of any unpaid member account balance at the time of the member's death.                                     |
| <b>Option 1 – Non-Refund Life Annuity</b>          | A lifetime monthly allowance with no survivorship benefit. All benefit obligations stop with the death of the retired member.  |
| <b>Option 4 – 15-Year Certain and Life Annuity</b> | A lifetime monthly allowance that guarantees at least 180 monthly payments will be made. There is a survivorship benefit if the member dies within the first 15 years of retirement. |

The table below shows the impact of the change in actuarial equivalency factors. The proposed factors result in a reduction of Money Match benefits for healthy retirees of less than 1%. However, for disabled retirees, the proposed factors result in a potentially significant increase in Money Match benefits. Many disabled members (particularly younger disabled members) receive a Full Formula benefit due to the projected service used in the disabled benefit calculation, and thus these factors would have no impact on such a disabled member's benefit.

**MERCER**

Human Resource Consulting

Page 7  
 October 18, 2006  
 Mr. Dale S. Orr  
 Oregon PERS

| <b>Healthy Retirees</b>                              |              |                 |                   | <b>Disabled Retirements</b> |              |                 |                   |
|--|--------------|-----------------|-------------------|-----------------------------|--------------|-----------------|-------------------|
| Age at Retirement                                    | Prior Factor | Proposed Factor | Percentage Change | Age at Disability           | Prior Factor | Proposed Factor | Percentage Change |
| <b>Option 0 – Refund Annuity</b>                     |              |                 |                   |                             |              |                 |                   |
| 50   | 7.15         | 7.13            | -0.3%             | 40                          | 6.94         | 7.94            | 14.4%             |
| 55   | 7.45         | 7.42            | -0.4%             | 45                          | 7.15         | 7.98            | 11.6%             |
| 60   | 7.86         | 7.82            | -0.5%             | 50                          | 7.45         | 8.05            | 8.1%              |
| 65   | 8.42         | 8.37            | -0.6%             | 55                          | 7.86         | 8.18            | 4.1%              |
| <b>Option 1 – Non-Refund Annuity</b>                 |              |                 |                   |                             |              |                 |                   |
| 50   | 7.21         | 7.19            | -0.3%             | 40                          | 6.98         | 8.73            | 25.1%             |
| 55   | 7.56         | 7.53            | -0.4%             | 45                          | 7.21         | 8.77            | 21.6%             |
| 60   | 8.06         | 8.01            | -0.6%             | 50                          | 7.56         | 8.85            | 17.1%             |
| 65   | 8.79         | 8.72            | -0.8%             | 55                          | 8.06         | 8.98            | 11.4%             |
| <b>Option 4 – 15-Year Certain &amp; Life Annuity</b> |              |                 |                   |                             |              |                 |                   |
| 50   | 7.13         | 7.11            | -0.3%             | 40                          | 6.93         | 7.69            | 11.0%             |
| 55   | 7.39         | 7.37            | -0.3%             | 45                          | 7.13         | 7.73            | 8.4%              |
| 60   | 7.73         | 7.70            | -0.4%             | 50                          | 7.39         | 7.79            | 5.4%              |
| 65   | 8.13         | 8.10            | -0.4%             | 55                          | 7.73         | 7.89            | 2.1%              |

These factors are also used to convert the Full Formula benefit to a non-refund (single life) annuity, or a 15-year certain & life annuity.

**OPSRP Lump Sum Distributions**

Members or beneficiaries may receive a lump sum distribution from OPSRP under the following conditions:

- A vested inactive member may withdraw from the program if the actuarial equivalent of the member's benefit at the time of withdrawal is \$5,000 or less.
- If the monthly pension benefit payable to a member as of the Normal Retirement Date is less than \$200, or the monthly benefit payable to the beneficiary of a deceased member is less than \$200, the benefit is distributed as a lump sum amount on an actuarial equivalent basis .

**MERCER**

Human Resource Consulting

Page 8  
 October 18, 2006  
 Mr. Dale S. Orr  
 Oregon PERS

- Beneficiaries may receive a lump sum distribution that is actuarially equivalent to the death benefit provided in ORS 238A.230. The death benefit must first be determined as of the age of the beneficiary, and then can be converted to a lump sum distribution.

In prior years, separate blended tables were used for general service and police & fire. The proposed factors use the same single blended mortality table as is used for all other actuarial equivalence factors. The following table illustrates the changes in the Lump Sum Distribution Factors.

| Per \$1 Monthly Benefit   |                 |                    |                      |                 |                    |                      |                                   |                    |                      |
|---|-----------------|--------------------|----------------------|-----------------|--------------------|----------------------|-----------------------------------|--------------------|----------------------|
| Age at<br>Cashout<br>Date   | General Service |                    |                      | Police & Fire   |                    |                      | Beneficiaries (Immediate Benefit) |                    |                      |
|   | Prior<br>Factor | Proposed<br>Factor | Percentage<br>Change | Prior<br>Factor | Proposed<br>Factor | Percentage<br>Change | Prior<br>Factor                   | Proposed<br>Factor | Percentage<br>Change |
| <b>Prior to Early Retirement Eligibility (Deferred to Normal Retirement Date)</b> |                 |                    |                      |                 |                    |                      |                                   |                    |                      |
| 35  | 10.71           | 10.62              | -0.8%                | 16.90           | 17.51              | 3.6%                 | 148.92                            | 149.07             | 0.1%                 |
| 45  | 23.28           | 23.11              | -0.7%                | 36.82           | 38.08              | 3.4%                 | 142.97                            | 143.25             | 0.2%                 |
| 55  | 51.06           | 50.71              | -0.7%                | 81.03           | 83.56              | 3.1%                 | 131.87                            | 132.39             | 0.4%                 |
| <b>At or After Early Retirement Eligibility (Immediate Reduced Benefit)</b>       |                 |                    |                      |                 |                    |                      |                                   |                    |                      |
| 55  | 133.27          | 132.89             | -0.3%                | 130.30          | 132.89             | 2.0%                 | 131.87                            | 132.39             | 0.4%                 |
| 60  | 125.27          | 124.77             | -0.4%                | 121.43          | 124.77             | 2.7%                 | 123.45                            | 124.11             | 0.5%                 |
| 65  | 115.26          | 114.61             | -0.6%                | 110.54          | 114.61             | 3.7%                 | 113.03                            | 113.83             | 0.7%                 |

**Conversion to Other Optional Forms**

Members have the option of electing an optional form of benefit that provides a survivor benefit equal to 50% or 100% of the member's benefit. The actuarial equivalence factors are used to ensure that the optional form of benefit has the same value as the single life annuity (Option 1 above). There are four optional joint and survivor annuities that a member may choose from upon retirement. A summary of these optional forms is shown below.

|   |   |
|---|---|
| <b>Option 2 – 100% Joint &amp; Survivor Annuity</b>         | A monthly annuity provided for the lifetime of the member, and upon the member's death 100% of the benefit will be provided to the beneficiary, if still alive, for his/her lifetime. |
| <b>Option 2A – 100% Joint &amp; Survivor Pop-Up Annuity</b> | A monthly annuity provided for the lifetime of the member, and upon the member's death 100% of the benefit will be provided to the  |

**MERCER**

Human Resource Consulting

Page 9  
 October 18, 2006  
 Mr. Dale S. Orr  
 Oregon PERS

|  |  |
|--|--|
|  | beneficiary, if still alive, for his/her lifetime. If the beneficiary predeceases the member, the monthly benefit to the member increases to the Option 1 benefit.   |
| <b>Option 3 – 50% Joint &amp; Survivor Annuity</b>         | A monthly annuity provided for the lifetime of the member, and upon the member's death, 50% of the benefit will be provided to the beneficiary, if still alive, for his/her lifetime.  |
| <b>Option 3A – 50% Joint &amp; Survivor Pop-Up Annuity</b> | A monthly annuity provided for the lifetime of the member, and upon the member's death 50% of the benefit will be provided to the beneficiary, if still alive, for his/her lifetime. If the beneficiary predeceases the member, the monthly benefit to the member increases to the Option 1 benefit. |

Joint & survivor factors in previous years have been developed using different mortality tables for life, 50% joint and survivor, and 100% joint and survivor annuities. The proposed factors are based on the same mortality table as all other actuarial equivalence factors.

**MERCER**

Human Resource Consulting

Page 10  
 October 18, 2006  
 Mr. Dale S. Orr  
 Oregon PERS

| <b>Healthy Retirements</b>                                  |                      |           |           |                         |           |           |                          |           |           |
|---|----------------------|-----------|-----------|-------------------------|-----------|-----------|--------------------------|-----------|-----------|
| <b>Member -<br/>Beneficiary<br/>Age</b>                     | <b>Prior Factors</b> |           |           | <b>Proposed Factors</b> |           |           | <b>Percentage Change</b> |           |           |
|   | <b>Member Age</b>    |           |           | <b>Member Age</b>       |           |           | <b>Member Age</b>        |           |           |
|   | <b>55</b>            | <b>60</b> | <b>65</b> | <b>55</b>               | <b>60</b> | <b>65</b> | <b>55</b>                | <b>60</b> | <b>65</b> |
| <b>Option 2 - 100% Joint &amp; Survivor Annuity</b>         |                      |           |           |                         |           |           |                          |           |           |
| 5   | 0.885                | 0.854     | 0.819     | 0.892                   | 0.863     | 0.829     | 0.8%                     | 1.1%      | 1.2%      |
| 0   | 0.908                | 0.884     | 0.857     | 0.913                   | 0.891     | 0.866     | 0.6%                     | 0.8%      | 1.1%      |
| -5  | 0.930                | 0.913     | 0.894     | 0.935                   | 0.919     | 0.902     | 0.5%                     | 0.7%      | 0.9%      |
| <b>Option 2A - 100% Joint &amp; Survivor Pop-Up Annuity</b> |                      |           |           |                         |           |           |                          |           |           |
| 5   | 0.878                | 0.844     | 0.803     | 0.882                   | 0.848     | 0.807     | 0.5%                     | 0.5%      | 0.5%      |
| 0   | 0.899                | 0.870     | 0.835     | 0.901                   | 0.873     | 0.839     | 0.2%                     | 0.3%      | 0.5%      |
| -5  | 0.918                | 0.895     | 0.866     | 0.921                   | 0.898     | 0.870     | 0.3%                     | 0.3%      | 0.5%      |
| <b>Option 3 - 50% Joint &amp; Survivor Annuity</b>          |                      |           |           |                         |           |           |                          |           |           |
| 5   | 0.941                | 0.924     | 0.904     | 0.943                   | 0.926     | 0.907     | 0.2%                     | 0.2%      | 0.3%      |
| 0   | 0.953                | 0.941     | 0.926     | 0.955                   | 0.943     | 0.928     | 0.2%                     | 0.2%      | 0.2%      |
| -5  | 0.965                | 0.956     | 0.947     | 0.966                   | 0.958     | 0.948     | 0.1%                     | 0.2%      | 0.1%      |
| <b>Option 3A - 50% Joint &amp; Survivor Pop-Up Annuity</b>  |                      |           |           |                         |           |           |                          |           |           |
| 5   | 0.937                | 0.918     | 0.894     | 0.938                   | 0.919     | 0.895     | 0.1%                     | 0.1%      | 0.1%      |
| 0   | 0.948                | 0.932     | 0.913     | 0.949                   | 0.933     | 0.914     | 0.1%                     | 0.1%      | 0.1%      |
| -5  | 0.959                | 0.946     | 0.931     | 0.959                   | 0.947     | 0.932     | 0.0%                     | 0.1%      | 0.1%      |

For disabled members, the proposed factors produce a lower J&S benefit than the prior factors due to the change in life expectancies from the old table to the new table. The proposed factors more accurately price the cost of providing a joint and survivor annuity to a disabled member.



**MERCER**

Human Resource Consulting

Page 11  
 October 18, 2006  
 Mr. Dale S. Orr  
 Oregon PERS

| <b>Disabled Retirements</b>                                 |                      |           |           |                         |           |           |                          |           |           |
|---|----------------------|-----------|-----------|-------------------------|-----------|-----------|--------------------------|-----------|-----------|
| <b>Member -<br/>Beneficiary<br/>Age</b>                     | <b>Prior Factors</b> |           |           | <b>Proposed Factors</b> |           |           | <b>Percentage Change</b> |           |           |
|   | <b>Member Age</b>    |           |           | <b>Member Age</b>       |           |           | <b>Member Age</b>        |           |           |
|   | <b>45</b>            | <b>50</b> | <b>55</b> | <b>45</b>               | <b>50</b> | <b>55</b> | <b>45</b>                | <b>50</b> | <b>55</b> |
| <b>Option 2 - 100% Joint &amp; Survivor Annuity</b>         |                      |           |           |                         |           |           |                          |           |           |
| <b>5</b>  | 0.893                | 0.864     | 0.826     | 0.722                   | 0.729     | 0.734     | -19.1%                   | -15.6%    | -11.1%    |
| <b>0</b>  | 0.910                | 0.885     | 0.854     | 0.739                   | 0.751     | 0.762     | -18.8%                   | -15.1%    | -10.8%    |
| <b>-5</b>   | 0.927                | 0.908     | 0.884     | 0.760                   | 0.776     | 0.794     | -18.0%                   | -14.5%    | -10.2%    |
| <b>Option 2A - 100% Joint &amp; Survivor Pop-Up Annuity</b> |                      |           |           |                         |           |           |                          |           |           |
| <b>5</b>  | 0.891                | 0.859     | 0.819     | 0.717                   | 0.722     | 0.724     | -19.5%                   | -15.9%    | -11.6%    |
| <b>0</b>  | 0.906                | 0.878     | 0.844     | 0.731                   | 0.740     | 0.747     | -19.3%                   | -15.7%    | -11.5%    |
| <b>-5</b>   | 0.921                | 0.899     | 0.870     | 0.748                   | 0.760     | 0.772     | -18.8%                   | -15.5%    | -11.3%    |
| <b>Option 3 - 50% Joint &amp; Survivor Annuity</b>          |                      |           |           |                         |           |           |                          |           |           |
| <b>5</b>  | 0.945                | 0.929     | 0.908     | 0.839                   | 0.843     | 0.846     | -11.2%                   | -9.3%     | -6.8%     |
| <b>0</b>  | 0.954                | 0.941     | 0.924     | 0.850                   | 0.858     | 0.865     | -10.9%                   | -8.8%     | -6.4%     |
| <b>-5</b>   | 0.963                | 0.953     | 0.941     | 0.864                   | 0.874     | 0.885     | -10.3%                   | -8.3%     | -6.0%     |
| <b>Option 3A - 50% Joint &amp; Survivor Pop-Up Annuity</b>  |                      |           |           |                         |           |           |                          |           |           |
| <b>5</b>  | 0.944                | 0.926     | 0.903     | 0.835                   | 0.838     | 0.840     | -11.5%                   | -9.5%     | -7.0%     |
| <b>0</b>  | 0.952                | 0.937     | 0.918     | 0.845                   | 0.850     | 0.855     | -11.2%                   | -9.3%     | -6.9%     |
| <b>-5</b>   | 0.960                | 0.948     | 0.932     | 0.856                   | 0.864     | 0.871     | -10.8%                   | -8.9%     | -6.5%     |

**Police & Fire Additional Units**

The police and fire additional unit factors are based on interest, but not mortality. Consequently, we have made no changes to these factors.

**Full Cost Factors for Purchasing Service**

The factors have been revised to reflect the updated mortality assumptions.

**MERCER**

Human Resource Consulting

Page 12  
 October 18, 2006  
 Mr. Dale S. Orr  
 Oregon PERS

**Comparison of Police & Fire Life Expectancies**

As requested, with the change in mortality assumptions, we reviewed the difference in life expectancy between police & fire members and system-wide members. The mortality assumptions and blending methodology are the same as that used above for actuarial equivalence, except that police & firefighters when blended on their own have an 85% male and 15% female split.

Life expectancies at various ages for the police & firefighters and the system wide membership are shown below.

| <b>Life Expectancy</b> |                        |                           |                              |
|------------------------|------------------------|---------------------------|------------------------------|
| <b>Age</b>             | <b>P&amp;F Members</b> | <b>All System Members</b> | <b>Percentage Difference</b> |
| 50                     | 32.1                   | 34.0                      | -5.6%                        |
| 55                     | 27.4                   | 29.3                      | -6.5%                        |
| 60                     | 22.9                   | 24.8                      | -7.7%                        |
| 65                     | 18.7                   | 20.4                      | -8.3%                        |

If the Board determines that a 5.5% - 8.5% shorter life expectancy is “substantially shorter,” separate actuarial equivalency factors may need to be developed for police & fire members. Based on the differences shown above, the conversion factors for converting account balances to a monthly annuity will result in an increase to Money Match benefits of about 1-3% for police & fire members. Larger increases occur at later retirement ages.

| <b>Age at Retirement</b> | <b>Option 0 – Refund Annuity</b> |                                 |                          | <b>Option 1 – Non-Refund Annuity</b> |                                 |                          | <b>Option 4 – 15-Year C &amp; L Annuity</b> |                                 |                          |
|--------------------------|----------------------------------|---------------------------------|--------------------------|--------------------------------------|---------------------------------|--------------------------|---|---------------------------------|--------------------------|
|                          | <b>System-Wide Factor</b>        | <b>Police &amp; Fire Factor</b> | <b>Percentage Change</b> | <b>System-Wide Factor</b>            | <b>Police &amp; Fire Factor</b> | <b>Percentage Change</b> | <b>System-Wide Factor</b>                   | <b>Police &amp; Fire Factor</b> | <b>Percentage Change</b> |
| 50                       | 7.13                             | 7.23                            | 1.4%                     | 7.19                                 | 7.31                            | 1.7%                     | 7.11  | 7.21                            | 1.4%                     |
| 55                       | 7.42                             | 7.56                            | 1.9%                     | 7.53                                 | 7.69                            | 2.1%                     | 7.37  | 7.49                            | 1.6%                     |
| 60                       | 7.82                             | 8.02                            | 2.6%                     | 8.01                                 | 8.26                            | 3.1%                     | 7.70  | 7.86                            | 2.1%                     |

**MERCER**

Human Resource Consulting

Page 13  
 October 18, 2006  
 Mr. Dale S. Orr  
 Oregon PERS

Based on data in the December 31, 2005 actuarial valuation, approximately 45% of police and fire members elect to take a joint & survivor optional form. Shorter life expectancies produce greater reduction factors for electing a joint and survivor annuity. Consequently, police and fire members would have lower joint and survivor benefits as shown in the table below.

| Member -<br>Beneficiary<br>Age                              | System-Wide Factors |       |       | Police & Fire Factors |       |       | Percentage Change |       |       |
|---|---------------------|-------|-------|-----------------------|-------|-------|-------------------|-------|-------|
|   | Member Age          |       |       | Member Age            |       |       | Member Age        |       |       |
|   | 55                  | 60    | 65    | 55                    | 60    | 65    | 55                | 60    | 65    |
| <b>Option 2 - 100% Joint &amp; Survivor Annuity</b>         |                     |       |       |                       |       |       |                   |       |       |
| 5   | 0.892               | 0.863 | 0.829 | 0.868                 | 0.832 | 0.792 | -2.7%             | -3.6% | -4.5% |
| 0   | 0.913               | 0.891 | 0.866 | 0.892                 | 0.864 | 0.832 | -2.3%             | -3.0% | -3.9% |
| -5  | 0.935               | 0.919 | 0.902 | 0.916                 | 0.895 | 0.872 | -2.0%             | -2.6% | -3.3% |
| <b>Option 2A - 100% Joint &amp; Survivor Pop-Up Annuity</b> |                     |       |       |                       |       |       |                   |       |       |
| 5   | 0.882               | 0.848 | 0.807 | 0.861                 | 0.822 | 0.776 | -2.4%             | -3.1% | -3.8% |
| 0   | 0.901               | 0.873 | 0.839 | 0.883                 | 0.849 | 0.810 | -2.0%             | -2.7% | -3.5% |
| -5  | 0.921               | 0.898 | 0.870 | 0.904                 | 0.876 | 0.844 | -1.8%             | -2.4% | -3.0% |
| <b>Option 3 - 50% Joint &amp; Survivor Annuity</b>          |                     |       |       |                       |       |       |                   |       |       |
| 5   | 0.943               | 0.926 | 0.907 | 0.929                 | 0.908 | 0.884 | -1.5%             | -1.9% | -2.5% |
| 0   | 0.955               | 0.943 | 0.928 | 0.943                 | 0.927 | 0.908 | -1.3%             | -1.7% | -2.2% |
| -5  | 0.966               | 0.958 | 0.948 | 0.956                 | 0.945 | 0.932 | -1.0%             | -1.4% | -1.7% |
| <b>Option 3A - 50% Joint &amp; Survivor Pop-Up Annuity</b>  |                     |       |       |                       |       |       |                   |       |       |
| 5   | 0.938               | 0.919 | 0.895 | 0.925                 | 0.903 | 0.874 | -1.4%             | -1.7% | -2.3% |
| 0   | 0.949               | 0.933 | 0.914 | 0.938                 | 0.918 | 0.895 | -1.2%             | -1.6% | -2.1% |
| -5  | 0.959               | 0.947 | 0.932 | 0.950                 | 0.934 | 0.915 | -0.9%             | -1.4% | -1.8% |

For example, a police or fire member who retired under the Money Match formula at age 55 would be offered a life annuity that is 2.1% greater than under the system-wide approach. However, if the member elected a 100% joint and survivor annuity with a spouse also age 55, the monthly benefit would be approximately 0.2% lower than under the system-wide approach.

**MERCER**

Human Resource Consulting

Page 14  
October 18, 2006  
Mr. Dale S. Orr  
Oregon PERS

**Data, Methods, Plan Provisions and Assumptions**

The assumptions used in developing the proposed actuarial equivalency factors are the same as those used in the December 31, 2005 actuarial valuation.

Our analysis and conclusions are based on our understanding of the request and the data, methods and assumptions described above. Differences in the data, methods, assumptions and interpretations of the plan provisions may produce different results.

Mercer Human Resource Consulting is not a law firm and cannot provide legal advice. You may wish to have our interpretations of the statutes reviewed by your legal counsel.

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

Sincerely,

[WRH]

William R. Hallmark, ASA, EA, MAAA

BJM/WRH/aas/mrl:

Copy:  
Debra Hembree

Enclosures



# Oregon

Theodore R. Kulongoski, Governor

October 4, 2006

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

TO: Members of the PERS Board  
FROM: Dale S. Orr, Coordinator, Actuarial Analysis Section  
SUBJECT: Financial Modeling Study Proposal:  
Tier One Rate Guarantee Reserve Funding Level

|              |                           |
|--------------|---------------------------|
| MEETING DATE | <b>10/20/06</b>           |
| AGENDA ITEM  | <b>D.2.<br/>Financial</b> |

## OVERVIEW

ORS 238.255(3) prohibits crediting Tier One member accounts with earnings in excess of the assumed earnings rate until the Rate Guarantee Reserve (Reserve) has been fully funded for three consecutive years. The Reserve is considered fully funded when the Board, in consultation with its actuary, determines the Reserve is sufficiently funded to ensure that a zero balance remains in the Reserve by the time the last Tier One member retires, and the Reserve stays at that level for three years.

Although PERS' actuary, Mercer Human Resource Consulting (Mercer), has stated that the current balance in the Reserve falls short of the amount needed to meet the statutory requirement, both Mercer and staff concur that evaluating the Reserve's required funded level would be of value to the Board and stakeholders.

Mercer recommends that it conduct a financial modeling study for this purpose. The cost of this project will not exceed \$80,000. Estimated completion of this analysis is February 2007. This timeline will allow the Board to have the results of the study prior to final crediting of 2006 earnings.

## BACKGROUND

As a result of good investment earnings in 2003 through 2005, the Reserve has accumulated a balance of nearly \$1 billion. PERS members and other stakeholders have inquired regarding the Reserve's full-funding requirements and whether the current balance, after being held for three consecutive years, would be sufficient to allow the Board, at its discretion, to resume crediting Tier One member Regular Accounts in excess of the assumed earnings rate. While Mercer believes that the current balance is insufficient to satisfy the Reserve's statutory funding requirement, both Mercer and staff concur that a study should be conducted to further evaluate the funding requirements in accordance with the statutory provisions.

## STAFF RECOMMENDATION

Staff recommends that the Board authorize Mercer to conduct a study to evaluate and project a statutorily compliant fully funded amount for the Tier One Rate Guarantee Reserve.



# Oregon

Theodore R. Kulongoski, Governor

October 20, 2006

(503) 598-7377  
TTY (503) 603-7766  
[www.pers.state.or.us](http://www.pers.state.or.us)

TO: PERS Board  
FROM: Jeffrey M. Marecic, ISD Administrator  
SUBJECT: RIMS Conversion Project Update

|              |                      |
|--------------|----------------------|
| MEETING DATE | <b>10/20/06</b>      |
| AGENDA ITEM  | <b>D.3.<br/>RIMS</b> |

The RIMS Conversion Project (RCP) is Phase II of a two-phase initiative to implement an enterprise-wide technology architecture, the goal of which is to create an integrated platform for providing pension administration services across all retirement programs. RCP extends and further customizes the jClarety application template developed in Phase I of the initiative which focused on HB2020 (2003) implementation needs.

The scope of the RCP includes the retirement plan administration components needed to administer the PERS Chapter 238 Tier One / Tier Two program, currently being managed by the Retirement Information Management System (RIMS), its associated desktop applications, and related manual processes. This project will provide PERS with an integrated platform for providing member services and benefits across all components of the PERS retirement system.

RCP establishes jClarety as the major line-of-business retirement application that serves as the central point for information flow throughout the agency. Other components of the enterprise information technology architecture are workflow (FileNet), digital document management (FileNet), financial management (R\*STARS), call center (Symposium), and query and reporting tools. All of these components will form a tightly integrated system known as the Oregon Retirement Information Online Network (ORION) that PERS staff will use to provide information, service and benefits to members, employers and other stakeholders.

The attached presentation provides a status update for this project and the related agency-wide data quality assurance program.

# RIMS Conversion Project Update

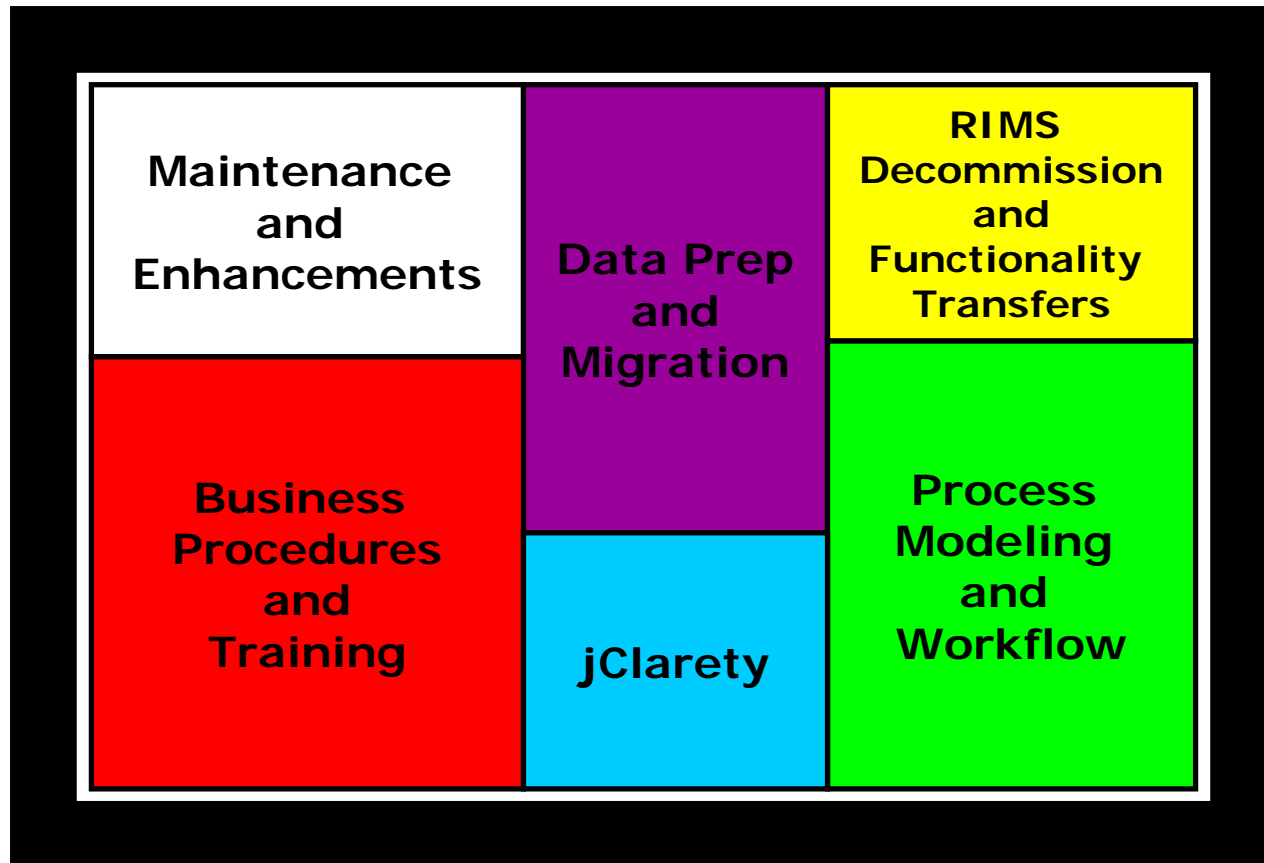
*Jeffrey M. Marecic  
October 20, 2006*

# *Agenda*

- ▶ Project Overview
- ▶ ORION – Where does RCP Fit?
- ▶ Conversion Schedule
- ▶ Project Team Structure
- ▶ Governance and Execution
- ▶ Budget Summary
- ▶ Project Adjustments
- ▶ Data Quality Assurance
- ▶ Questions/Comments



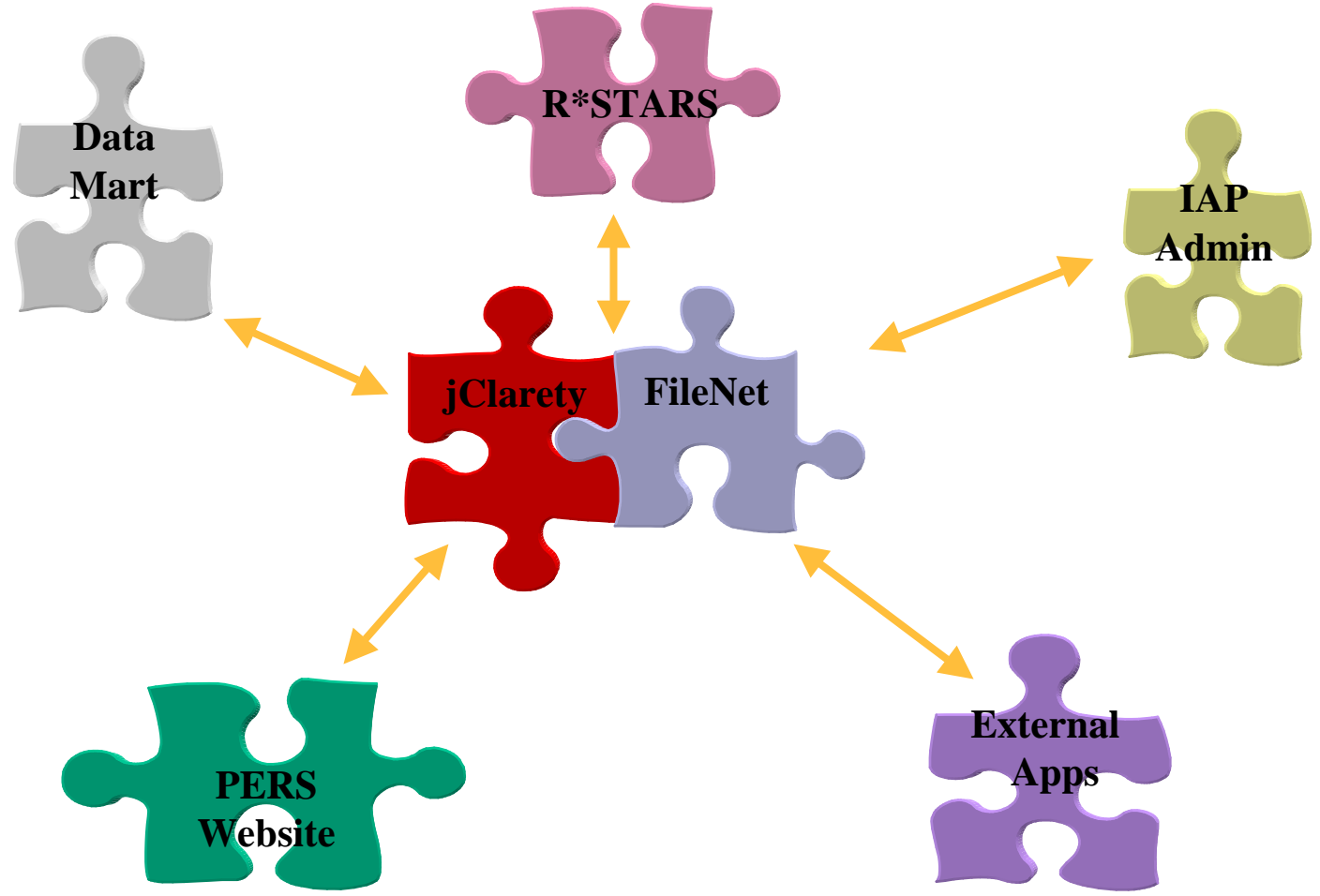
## *RCP Overview*



*The Components of RCP*

# RCP – Where it Fits

*Oregon Retirement Information Online Network (ORION) is a combination of all applications used to achieve PERS' mission*

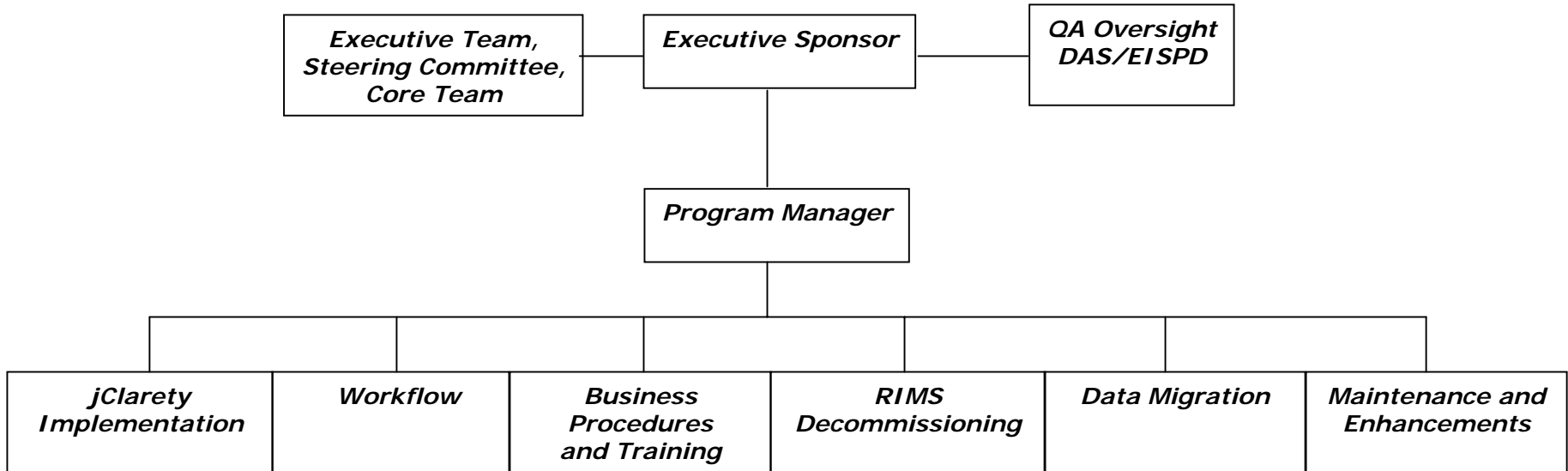


# Conversion Schedule

| Functional Component        | Complete       | Complete      | Complete      | 5/2007        | 11/2008       | 11/2009  |
|-----------------------------|----------------|---------------|---------------|---------------|---------------|----------|
|                             | HB2020         | Stage 1A      | Stage 1B      | Stage 1C      | Stage 2       | Stage 3  |
| ER Reporting                | jClarety       | jClarety      | jClarety      | jClarety      | jClarety      | jClarety |
| Employer Maintenance        | jClarety       | jClarety      | jClarety      | jClarety      | jClarety      | jClarety |
| Cash Receipts               | jClarety       | jClarety      | jClarety      | jClarety      | jClarety      | jClarety |
| ER Cash Disbursements       | jClarety       | jClarety      | jClarety      | jClarety      | jClarety      | jClarety |
| General Ledger              | jClarety       | jClarety      | jClarety      | jClarety      | jClarety      | jClarety |
| Demographics                | jClarety /RIMS | jClarety      | jClarety      | jClarety      | jClarety      | jClarety |
| ER Reporting - Enhanced     | NA             | NA            | jClarety      | jClarety      | jClarety      | jClarety |
| Enrollment                  | jClarety/RIMS  | jClarety/RIMS | jClarety/RIMS | jClarety      | jClarety      | jClarety |
| Member Account Maintenance  | jClarety/RIMS  | jClarety/RIMS | jClarety/RIMS | jClarety/RIMS | jClarety      | jClarety |
| Optional Service Credit     | RIMS           | RIMS          | RIMS          | RIMS          | jClarety      | jClarety |
| Benefit Estimation          | RIMS           | jClarety/RIMS | jClarety/RIMS | jClarety/RIMS | jClarety      | jClarety |
| Refunds/Withdrawals         | jClarety/RIMS  | jClarety/RIMS | jClarety/RIMS | jClarety/RIMS | jClarety      | jClarety |
| Integrated Imaging          | NA             | NA            | NA            | NA            | jClarety      | jClarety |
| Integrated Workflow         | NA             | NA            | NA            | NA            | jClarety      | jClarety |
| Retirement App Processing   | jClarety/RIMS  | jClarety/RIMS | jClarety/RIMS | jClarety/RIMS | jClarety      | jClarety |
| Benefit Account Adjustments | jClarety/RIMS  | jClarety/RIMS | jClarety/RIMS | jClarety/RIMS | jClarety/RIMS | jClarety |
| Pension Payments            | jClarety/RIMS  | jClarety/RIMS | jClarety/RIMS | jClarety/RIMS | jClarety/RIMS | jClarety |
| Mbr Cash Disbursements      | jClarety/RIMS  | jClarety/RIMS | jClarety/RIMS | jClarety/RIMS | jClarety/RIMS | jClarety |
| Member Self-Service         | NA             | NA            | NA            | NA            | NA            | jClarety |
| Annuitant Self-Service      | NA             | NA            | NA            | NA            | NA            | jClarety |



# Project Governance/Execution



- Project Sponsor
- Project Manager
- BPO/BOPA
- BSAT
- SME
- Saber Analysts

- Project Sponsor
- Project Manager
- BPO/BOPA
- BSAT
- SME
- ISD Analysts

- Project Sponsor
- Project Manager
- BPO/BOPA
- BSAT
- SME
- ISD Analysts

- Project Sponsor
- Project Manager
- BPO/BOPA
- BSAT
- SME
- ISD Analysts

- Project Sponsor
- Project Manager
- BPO/BOPA
- BSAT
- SME
- Saber Analysts

- Project Sponsor
- Project Manager
- BPO/BOPA
- BSAT
- SME
- Saber Analysts

# RCP Budget Summary

| Description            | Contract NTE            | Encumbered             | Invoiced               | Balance                 |
|------------------------|-------------------------|------------------------|------------------------|-------------------------|
| Saber Stage 1A         | \$ 942,395.00           | \$ -                   | \$ 833,354.00          | \$ 109,041.00           |
| Saber Stage 1B         | \$ 340,841.00           | \$ -                   | \$ -                   | \$ 340,841.00           |
| Saber Stage 1C         | \$ 2,779,089.00         | \$ -                   | \$ -                   | \$ 2,779,089.00         |
| Saber Stage 2          | \$ 4,029,398.00         | \$ -                   | \$ -                   | \$ 4,029,398.00         |
| Saber Stage 3          | \$ 3,577,524.00         | \$ -                   | \$ -                   | \$ 3,577,524.00         |
| System Infrastructure  | \$ 2,274,074.00         | \$ -                   | \$ 531,171.00          | \$ 1,742,903.00         |
| FileNet Infrastructure | \$ 77,000.00            | \$ -                   | \$ -                   | \$ 77,000.00            |
| Project Management     | \$ 2,765,370.00         | \$ -                   | \$ 693,449.00          | \$ 2,071,921.00         |
| ISD Training & Doc.    | \$ 290,000.00           | \$ -                   | \$ -                   | \$ 290,000.00           |
| Maintenance & Enhan.   | \$2,780,288             | \$ 889,026.50          | \$ 394,476.00          | \$ 1,496,785.50         |
| <b>Subtotal</b>        | <b>\$ 19,855,979.00</b> | <b>\$ 889,026.50</b>   | <b>\$ 2,452,450.00</b> | <b>\$ 16,514,502.50</b> |
|                        |                         |                        |                        |                         |
| Provaliant 2005        | \$ 354,317.60           | \$ -                   | \$ 370,437.60          | \$ (16,120.00)          |
| Provaliant 2006        | \$ 773,760.00           | \$ -                   | \$ 515,840.00          | \$ 257,920.00           |
| Provaliant 2007        | \$ 515,840.00           | \$ -                   | \$ -                   | \$ 515,840.00           |
| <b>Subtotal</b>        | <b>\$ 1,643,917.60</b>  | <b>\$ -</b>            | <b>\$ 886,277.60</b>   | <b>\$ 757,640.00</b>    |
|                        |                         |                        |                        |                         |
| QA Oversight           | \$ 1,190,556.00         | \$ 198,836.30          | \$ 308,929.77          | \$ 682,789.93           |
|                        |                         |                        |                        |                         |
| Miscellaneous          | <b>\$ 4,309,547.40</b>  |                        | \$ 597,441.12          | \$ 3,712,106.28         |
|                        |                         |                        |                        |                         |
| Contingency            | \$ 500,000.00           | \$ -                   | \$ -                   | \$ 500,000.00           |
| <b>Grand Total</b>     | <b>\$ 27,500,000.00</b> | <b>\$ 1,087,862.80</b> | <b>\$ 4,245,098.49</b> | <b>\$ 22,167,038.71</b> |

## *Project Adjustments – Amendment #3*

### **Project schedule extended by 11 months and \$2 million deployed from contingency to accommodate:**

- Alignment of agency technical and business resources:
  - Strunk and Eugene court decision implementation
  - Individual Account Program remediation
  - Ongoing operations
- Mitigate agency risk
  - Realign stakeholder needs to better accommodate data migration and integration with RIMS.
  - Provide a more beneficial scheduling of the deployment of system functionality.
- Productivity enhancements
  - Additional functionality identified post HB2020 for unique system attributes not contained in the base software. For example, enhanced employer reporting capabilities.

# Data Quality Assurance





# Data Quality Assurance Program – Data Lifecycle

Members

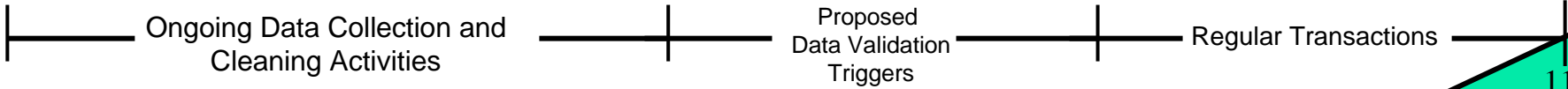
Member Information Submission ↓

Employers

Notification of Benefits ↑

PERS

|          |                          |          |                                 |          |                        |          |                        |          |                                     |          |                   |          |                                   |          |                |          |                |          |                        |          |                   |          |             |          |                      |          |                         |
|----------|--------------------------|----------|---------------------------------|----------|------------------------|----------|------------------------|----------|-------------------------------------|----------|-------------------|----------|-----------------------------------|----------|----------------|----------|----------------|----------|------------------------|----------|-------------------|----------|-------------|----------|----------------------|----------|-------------------------|
| <b>A</b> | ER Outreach and Training | <b>B</b> | Data Reporting and Data Filters | <b>C</b> | Monthly Reconciliation | <b>D</b> | Annuals Reconciliation | <b>E</b> | Actuarial Valuation ER Rate Setting | <b>F</b> | Member Statements | <b>G</b> | Special Projects (RCP, S&E, etc.) | <b>H</b> | Waiting Period | <b>I</b> | Member Vesting | <b>J</b> | Retirement Eligibility | <b>K</b> | Benefit Estimates | <b>L</b> | Withdrawals | <b>M</b> | Benefit Transactions | <b>N</b> | Appeals Contested Cases |
|----------|--------------------------|----------|---------------------------------|----------|------------------------|----------|------------------------|----------|-------------------------------------|----------|-------------------|----------|-----------------------------------|----------|----------------|----------|----------------|----------|------------------------|----------|-------------------|----------|-------------|----------|----------------------|----------|-------------------------|



## Data Quality Assurance Program – Data Checkpoints

|   |   |  |
|---|---|--|
| <p><u>A. ER Outreach and Training</u></p> <ul style="list-style-type: none"> <li>✔ <b>Ann./Semi Ann ER mtg targeting reporting</b></li> <li>✔ Monthly ER emails</li> <li>✔ EDX training (1 or 2/month)</li> </ul>   | <p><u>H. Waiting Period</u></p> <ul style="list-style-type: none"> <li>✔ <b>Demographic turn around sheet after waiting period has been completed</b></li> </ul>  | <p><u>K. Benefit Estimates</u></p> <ul style="list-style-type: none"> <li>✔ Account review</li> <li>✔ Reasonableness check</li> <li>✔ Member exposure to benefit data</li> </ul> |
| <p><u>B. Data Reporting and Data Filters</u></p> <ul style="list-style-type: none"> <li>✔ Geographic case management</li> <li>✔ Enhance system filters</li> <li>✔ <b>Improved EDX functionality</b></li> </ul>  |   | <p><u>L. Withdrawals</u></p> <ul style="list-style-type: none"> <li>✔ Account review</li> <li>✔ Final validation with employers</li> </ul>                                       |
| <p><u>C. Monthly Reconciliation</u></p> <ul style="list-style-type: none"> <li>✔ Targeted error profiling</li> <li>✔ Monitor and resolve unposted reports</li> <li>✔ Exception reports for pension roll and payments</li> <li>✔ Monthly IAP reconciliation</li> </ul>                                   | <p><u>I. Member Vesting</u></p> <ul style="list-style-type: none"> <li>✔ <b>Demographic turn around sheet after waiting period has been completed</b></li> <li>✔ <b>Service time turn around sheet after waiting period has been completed</b></li> </ul>         | <p><u>M. Benefit Transactions</u></p> <ul style="list-style-type: none"> <li>✔ Account review</li> <li>✔ Final validation with employers</li> </ul>                              |
| <p><u>D. Annuals Reconciliation</u></p> <ul style="list-style-type: none"> <li>✔ Cleanup/Certify prior year reports</li> <li>✔ RIMS exception cleanup</li> <li>✔ Eligibility evaluation and cleanup</li> <li>✔ IAP reconciliation with Citistreet</li> <li>✔ 1099R reconciliation</li> </ul>            |   | <p><u>N. Appeals/Contested Cases</u></p> <ul style="list-style-type: none"> <li>✔ Complete review of all data</li> </ul>   |
| <p><u>E. Actuarial Valuation</u></p> <ul style="list-style-type: none"> <li>✔ Data filtering</li> <li>✔ Reasonableness tests</li> </ul>   | <p><u>J. Retirement Eligibility</u></p> <ul style="list-style-type: none"> <li>✔ <b>Demographic turn around sheet after waiting period has been completed</b></li> <li>✔ <b>Service time turn around sheet after waiting period has been completed</b></li> </ul> |  |
| <p><u>F. Member Statements</u></p> <ul style="list-style-type: none"> <li>✔ Expose data to member (dem/acct data)</li> <li>✔ Address cleanup prior to mailing</li> <li>✔ <b>Add more info to member statements</b></li> <li>✔ QA/QC samples before mailing</li> <li>✔ Special handling lists</li> </ul> |   |  |
| <p><u>G. Special Projects (RCP, S&amp;E, etc.)</u></p> <ul style="list-style-type: none"> <li>✔ <b>Member/employer self service</b></li> <li>✔ Data migration/cleanup</li> <li>✔ S&amp;E 'one touch'</li> </ul>   |   |  |

# Questions/Comments

