

# OREGON PUBLIC EMPLOYEES RETIREMENT BOARD

**Friday**  
**July 25, 2008**  
**1:00 P.M.**

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

ITEM	PRESENTER
<b>A. Administration – 1:00 P.M.</b>	
<ol style="list-style-type: none"> <li>1. June 27, 2008 Board Meeting Minutes</li> <li>2. Director's Report               <ol style="list-style-type: none"> <li>a. Forward-Looking Calendar</li> <li>b. OIC Investment Report</li> <li>c. Employer Reporting</li> <li>d. Budget Report</li> </ol> </li> </ol>	CLEARY
<b>B. Consent Action and Information Items</b>	
<ol style="list-style-type: none"> <li>1. Adoption of Direct Rollovers to Roth IRAs Rules</li> <li>2. Adoption of Public Records Requests Rules</li> <li>3. Adoption of Employer Participation Rules</li> <li>4. Adoption of OUS Optional Retirement Plan Rule</li> <li>5. Update on ETOB Rules</li> </ol>	RODEMAN
<b>C. Action and Discussion Items</b>	
<ol style="list-style-type: none"> <li>1. 2007 Actuarial Valuation Results and Employer Contribution Rate Summary</li> <li>2. 2007 – 09 Boards and Commissions Best Practices Performance Measure</li> <li>3. RIMS Conversion Project (RCP) Update</li> </ol>	MERCER CLEARY RODEMAN / MARECIC
<b>D. Executive Session Pursuant to ORS 192.660(2)(f), (h), and/or ORS 40.225</b>	
<ol style="list-style-type: none"> <li>1. Litigation Update</li> <li>2. Contested Case Update</li> </ol>	LEGAL COUNSEL

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**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.*

Michael Pittman, Chair \* James Dalton \* Thomas Grimsley \* Eva Kripalani \* Brenda Rocklin  
 Paul R. Cleary, Executive Director

**PUBLIC EMPLOYEES RETIREMENT BOARD**

PERS Board Meeting  
 1 P.M., June 25, 2008  
 Tigard, Oregon

**MINUTES**

**Board Members:**

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

**Staff:**

Donna Allen	Elaine King	Susan Riswick
Helen Bamford	Kyle Knoll	Steve Rodeman
Paul Cleary	Jeff Marecic	Jason Stanley
David Crosley	Zue Matchett	Patrick Teague
Joe DeLillo	Dale Orr	Dave Tyler

**Others:**

Bruce Adams	Linda Ely	Steve Manton	Brad Westphal
Linda Burgess	Bill Hallmark	Kevin McCarter	Denise Yunker
Molly Butler	Greg Hartman	C.J. McLoed	
Kris Day	Blake Johnson	Barb Sandoval	
Doug Dillow	George Kimble	Deborah Tremblay	

Vice Chair Brenda Rocklin called the meeting to order at 1:00 P.M.

**ADMINISTRATION**

A.1. BOARD MEETING MINUTES OF MAY 15, 2008

The Board unanimously approved the May 15, 2008 Board meeting minutes.

A.2. DIRECTOR'S REPORT

Executive Director Cleary presented the forward looking calendar and noted that the next Board meeting will be July 25, 2008. The key agenda item for that meeting will be the 2007 actuarial valuation results and employer rate summary. The Board will not meet in August, but will meet again in September as will the Audit Committee.

Cleary noted that the OIC investment report indicated both regular account and variable account earnings were still in negative territory through May, with further market downturns occurring in June.

The budget report, Cleary noted, contained information through May 2008, and projected a positive variance of \$356,180, which is a substantial turn-around from April's negative variance of \$540,000. These numbers will need to adjusted based upon this morning's Emergency Board meeting. The Emergency Board approved about \$3 million in additional budget limitation for salary adjustments, but unscheduled some \$3.4 million in State Data Center (SDC) charge savings. This resulted in an overall decrease in biennium budget limitation of approximately \$460,000 from the end of the 2007 legislative session.

Cleary presented the 2007 Replacement Ratio Study, which reflects how much of a members final average salary is replaced by their PERS benefit or retirement allowance. This report shows that replacement ratios peaked in 2000, 2001, and 2002 followed by a decline after the 2003 PERS reform.

Cleary also presented Mercer's 2007 Purchasing Power Study illustrating how PERS benefits are keeping up with inflation based on PERS' maximum annual two percent Cost of Living Adjustments (COLAs) and the Consumer Price Index (CPI) for Portland. Cleary noted that members who retired since 1981 are close to or above 80 percent in terms of their purchasing power and those who retired after 1993 are above 90 percent.

Cleary said that the Purchasing Power Study is available both via the Board meeting link on the PERS Website and on the retiree Web page, while the Replacement Ratio Study will be incorporated in the next update of "PERS By The Numbers".

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

#### **B.1. OREGON SAVINGS GROWTH PLAN ADVISORY COMMITTEE APPOINTMENT**

Cleary presented the request to appoint two members to the Oregon Savings Growth Plan (OSGP) Advisory Committee. One was a re-appointment and one was a new appointment.

The new appoint recommendation was Jon DuFrene, who is with the DAS State Controller's Division, and had worked at PERS in 2004 as a DAS employee to help with fiscal operations.

Staff also recommended that Jason Evers, with the Oregon Liquor Control Commission, be re-appointed to the OSGP Advisory Committee.

It was moved by Grimsley and seconded by Kripalani, to accept the staff recommendation to appoint Jon DuFrene as the new OSGP Advisory Committee member effective July 1, 2008, and to re-appoint Jason Evers to a second three year term. The motion was unanimously passed.

#### **B.2. FIRST READING OF ROLLOVERS TO ROTH IRA RULES**

#### **B.3. FIRST READING OF PUBLIC RECORDS REQUESTS RULES**

#### **B.4. FIRST READING OF EMPLOYER PARTICIPATION RULES**

#### **B.5. FIRST READING OF OUS OPTIONAL RETIREMENT PLAN RULES**

Rodeman presented the above rules for first reading. Rodeman noted that item B.2., Rollovers to Roth IRA Rules, was being proposed to align PERS administrative rules with the new direct rollover option, provided in the federal Pension Protection Act of 2006. No public comment had been received to date and staff will bring these rules to the Board for adoption in July.

Rodeman reported that item B.3., Public Records Requests Rules, have undergone some staff modifications. To date there had not been any public comment received, and these rules will be presented for adoption at the July Board meeting. Responding to Board questions, Rodeman noted that members were not charged for public records requests but employers and other parties are because PERS is a trust for the member's benefit.

Rodeman presented item B.4., Employer Participation Rules, which is an updated version of current rules to include the requirement that employers who join PERS must participate in all

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PERS programs. No public comment had been received to date and these rules will be brought to the Board in July for adoption.

Rodeman discussed item B.5., Oregon University Systems (OUS) Optional Retirement Plan (ORP) Rule. This rule was previously published and distributed to interested parties on June 12. Further rule modifications were made and staff extended the public comment period to July 18, 2008 with a public hearing to be held on July 8, 2008. To date, no public comment had been received. This rule will be presented at the July Board meeting for adoption.

Rodeman stated that the ORP rule would clarify existing statute and establish the presumption that a member's request to transfer funds from PERS to the ORP would be considered a request to transfer all funds, unless the member specifically limited the request to a designated account such as, the IAP account.

### **ACTION AND DISCUSSION ITEMS**

#### **C.1. APPROVAL OF RETIREE HEALTH INSURANCE 2009 PLAN RENEWAL AND RATES**

Zue Matchett, PERS Retiree Health Insurance Manager and Program Consultant, Molly Butler with Benefit Partners, presented the 2009 health insurance plan renewals and premium rate information.

Matchett reported an increasing number of "early retiree" meetings on the PERS health insurance program. With over a thousand attendees, Matchett felt the meetings had been successful in helping those retirees better understand their options once they reach Medicare age (65 years old).

Matchett and Butler reported that PERS will continue with current plans and providers for 2009. For non-Medicare members the insurance rates decreased, while rates for Medicare members increased by small amounts. Matchett said the staff recommendation is to approve renewal of the current insurance plans and the new 2009 rates.

Grimsley noted that the PERS insurance program is primarily retiree funded, so it is important to bargain hard with carriers and contain costs whenever possible. It might be appropriate next year to do an RFI and possibly an RFP for part of that business.

Cleary stated that one of PERS' goals is to provide stability of insurance plans and stability in rates. Cleary stated that he appreciates the efforts of everyone involved to help maintain rate stability.

Matchett said that some members can qualify for a subsidy, both pre and post-Medicare. The Medicare subsidy is \$60 monthly from RHIA. The pre-Medicare subsidy (RHIPA) is limited to state retirees and is an average of \$259 monthly.

Grimsley said that the benefit of having four insurance carriers was to enable retirees to have a seamless transition from carriers used during active employment as well as provide better regional coverage.

Grimsley moved to adopt the proposed retiree health insurance plan renewals and 2009 insurance rates, Kripalani seconded, and the motion passed unanimously.

C.2. APPROVAL OF AGENCY 2009 – 11 BUDGET POLICY OPTION PACKAGES FOR SUBMISSION TO DAS

Cleary presented the background and progress report information related to the 2009-11 Agency Request Budget (ARB). The progress report showed how program investments and staffing supported by 2007-09 biennium Policy Option Packages have paid off with improved service to members and employers.

Cleary noted that annual retirements are expected to increase from 6000 to 7400 within the next four years; the ARB reflects an attempt to prepare for that increase in workload. Earlier review of eligibility and a new pension administration system (jClarety) are expected to improve efficiencies, and enhance timeliness and accuracy of benefit disbursements.

Staff levels will be reduced from the high of 420 in the 03-05 biennium to a projected 362 positions for the 09-11 biennium. Where there is opportunity, PERS will continue to use attrition to reduce staff from current levels.

Kyle Knoll, Business Operations Manager presented the request to submit the 09-11 ARB and related Policy Option Packages to DAS. Knoll reported that the proposed 09-11 ARB reflects an overall reduction of 34 positions from the current biennium.

Knoll noted PERS Essential Budget Level (EBL) request is for \$60 million and the proposed Policy Option Packages (POPs) total \$19.5 million. This is \$2 million less than PERS' current budget. The POPs request 64 new permanent positions rather than continuing a greater number of existing limited duration positions that perform core business operations with growing workload. If the requested positions are made permanent, they will then become part of the EBL in subsequent biennium budgets.

Rocklin asked about the proposed funding for maintaining legacy account information and data transfer activities, asking if some member information will never be migrated to jClarety?

Cleary stated that the proposed data transition positions are necessary because of known issues with certain types of legacy data bridging to Clarety that will have to be put into side systems and then manually brought into the new system. The positions requested are permanent because we will also always have accounts that will require some manual interventions or have to be manually calculated, such as judge members, divorce splits, and second retirements.

In response to other Board questions, Jason Stanley said that some of the funding requested in the standards, training and certification package was necessary because Internal Audits is due for a peer review in 2010. In 2005 PERS had a review performed by an auditor from another state agency and that is no longer allowed, so PERS will have to hire an outside party to perform the peer review.

Dave Tyler, Fiscal Service Division, clarified that the infrastructure maintenance package requests two permanent positions and one limited duration position. The numbers in the table are correct but the supporting text is incorrect.

Tyler explained that FileNet is PERS' electronic document storage application for imaged records as well as the tool for launching agency workflow processes.

Cleary noted for the record that although our DAS and LFO budget analysts were involved in our budget development process, they both reserved the right to recommend proposed additions or deletions through their respective budget review processes.

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Tyler added that the budget reflects a focus on achieving our key performance measures and key performance outcomes. The budget requests were built around the key performance measures and aligned with the agency's Six-Year Strategic Outlook.

Grimsley moved to approve submittal of the ARB to DAS for review and incorporation in the Governor's Recommended Budget, Kripalani seconded and motion passed unanimously.

Cleary announced that Steve Rodeman has been appointed as the new Deputy Director, with Yvette Elledge appointed as the permanent Administrator for CSD. Patrick Teague, Administrator for BPD is leaving PERS to move to Virginia. Dave Tyler, Fiscal Services Division Administrator is retiring, but has agreed to come back through the 09-11 budget process as a re-employed retiree.

EXECUTIVE SESSION

There being no further business, Vice-Chair Rocklin adjourned the meeting at 1:55 P.M.

Respectfully submitted,

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

Paul R. Cleary  
Executive Director

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

### **August 2008 – No Meeting Scheduled**

### **September 2008**

**1:00 P.M. September 26, 2008**

Notice of Leave of Absence rule  
Notice of Return to Work rule  
Notice of Reemployment of Retirees rule  
Notice of Plan Qualification Updates rules  
Board Best Practices Review  
Audit Committee Meeting

### **October 2008**

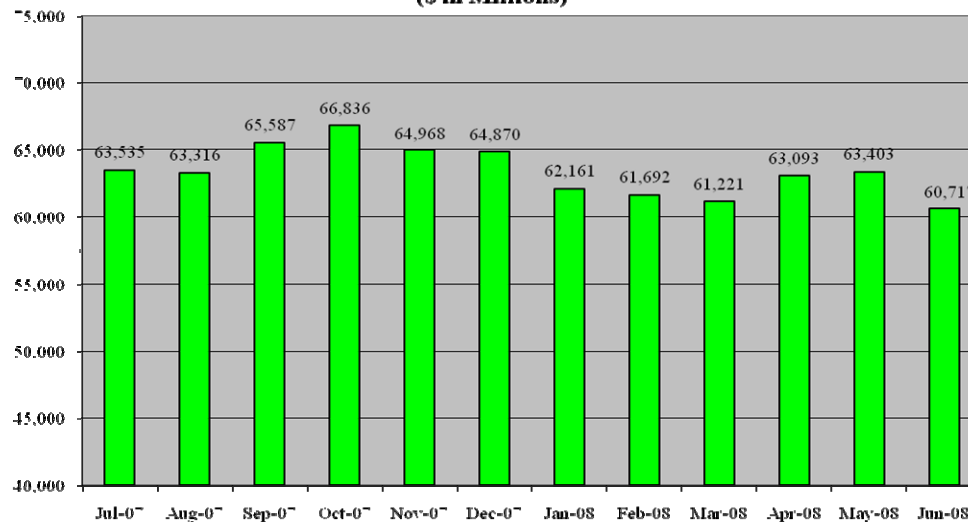
**1:00 P.M. October 24, 2008**

OPERF	Regular Account				Historical Performance					
	Policy <sup>1</sup>	Target <sup>1</sup>	\$ Thousands <sup>2</sup>	Actual	Year-To-Date <sup>3</sup>	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS
Domestic Equity	11-21%	16%	\$ 9,506,479	16.0%	(10.36)	(12.35)	2.41	5.09	5.85	8.98
Non-US Equity	17-29%	23%	13,211,981	22.3%	(8.83)	(6.15)	10.45	16.69	16.81	19.64
Global Equity	4-10%	7%	4,240,810	7.1%	(12.35)	(13.71)				
Private Equity	12-20%	16%	9,878,895	16.6%	0.12	7.57	16.39	19.24	23.85	22.34
<b>Total Equity</b>	<b>57-67%</b>	<b>62%</b>	<b>36,838,165</b>	<b>62.1%</b>						
Opportunity Portfolio			620,688	1.0%	(0.41)	(4.80)				
<b>Total Fixed</b>	<b>22-32%</b>	<b>27%</b>	<b>16,681,747</b>	<b>28.1%</b>	<b>(0.92)</b>	<b>2.71</b>	<b>4.82</b>	<b>3.51</b>	<b>4.79</b>	<b>4.31</b>
<b>Real Estate</b>	<b>8-14%</b>	<b>11%</b>	<b>5,206,931</b>	<b>8.8%</b>	<b>(0.72)</b>	<b>0.43</b>	<b>9.86</b>	<b>16.71</b>	<b>20.27</b>	<b>20.44</b>
<b>Cash</b>	<b>0-3%</b>	<b>0%</b>	<b>-</b>	<b>0.0%</b>	<b>1.75</b>	<b>4.49</b>	<b>4.99</b>	<b>4.67</b>	<b>4.07</b>	<b>3.47</b>
<b>TOTAL OPERF Regular Account</b>		<b>100%</b>	<b>\$ 59,347,531</b>	<b>100.0%</b>	<b>(5.17)</b>	<b>(3.49)</b>	<b>7.00</b>	<b>9.41</b>	<b>10.51</b>	<b>11.94</b>
<b>OPERF Policy Benchmark</b>					<b>(6.16)</b>	<b>(3.01)</b>	<b>6.71</b>	<b>8.47</b>	<b>9.07</b>	<b>10.91</b>
<b>Value Added</b>					<b>0.99</b>	<b>(0.48)</b>	<b>0.29</b>	<b>0.94</b>	<b>1.44</b>	<b>1.03</b>
<b>TOTAL OPERF Variable Account</b>			<b>\$ 1,369,447</b>		<b>(10.30)</b>	<b>(14.18)</b>	<b>0.63</b>	<b>3.97</b>	<b>5.21</b>	

Asset Class Benchmarks:

Russell 3000 Index	(11.05)	(12.69)	2.39	4.73	5.55	8.38
MSCI ACWI Ex US IMI Net	(9.91)	(6.27)	10.45	16.14	16.34	19.41
Russell 3000 Index + 300 bps--Quarter Lagged	(10.75)	(2.83)	5.41	9.26	9.92	15.93
LB Universal--Custom FI Benchmark	0.72	6.06	6.21	4.03	4.91	4.09
NCREIF Property Index--Quarter Lagged	4.88	13.56	15.11	16.84	15.53	15.17
91 Day T-Bill	1.20	3.63	4.41	4.27	3.74	3.18

**TOTAL OPERFNAV**  
(includes variable fund assets)  
**One year ending June 2008**  
( \$ in Millions)



<sup>1</sup>OIC Policy 4.01.18, as revised September 2007.

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

<sup>3</sup>For mandates beginning after January 1, YTD numbers are "N/A". Performance is reflected in Total OPERF.





# Oregon

Theodore R. Kulongoski, Governor

## Public Employees Retirement System

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11410 S.W. 68<sup>th</sup> Parkway, Tigard, OR  
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July 25, 2008

TO: Members of the PERS Board  
FROM: Paul R. Cleary, Director  
SUBJECT: Employer Reporting and Outreach Program

MEETING DATE	<b>7-25-08</b>
AGENDA ITEM	<b>A.2.c. ER Update</b>

PERS is currently working with 879 employers to process outstanding 2006 and 2007 employer reports and member records. In addition, PERS continues to monitor all employer account receivables and conduct its Employer Outreach Program.

### EMPLOYER REPORTING

The table below shows the status as of July 3, 2008 of employer reports and member records for calendar years 2006, 2007 and 2008 (first six months).

	2006	2007	2008
Reports due:			
▪ Number expected	12,932	13,017	6,582
▪ Number received	12,915	12,960	6,389
▪ Percent received	99.87%	99.56%	97.07%
▪ Key Performance Measure	99.0%	99.0%	99.0%
Reports fully posted at 100%:			
▪ Number	12,757	12,557	5,284
▪ Percent fully posted at 100%	98.65%	96.46%	80.28%
▪ Key Performance Measure	95.0%	95.0%	95.0%
Records due (estimated)	3,158,575	3,444,596	1,762,256
Records not posted:			
▪ Number	617	11,652	63,439
▪ Percent not posted	≤ .1%	.3%	3.6%
▪ Key Performance Measure	≤ .2%	≤ .2%	≤ .2%
Contributions posted	\$ 427,091,727	\$452,541,890	\$239,940,537
Contributions not posted	\$14,299	\$64,718	\$3,264,979

As of July 3, 2008, employers submitted 99.87 % of the reports due for 2006. Of the reports submitted, less than 0.1% of records remain suspended (representing less than 0.01% of total contributions anticipated for 2006). For 2007, employers have submitted approximately 99.56% of the reports due. Of those reports submitted, approximately 96.46% are 100%

posted. For 2008, employers have submitted approximately 97.07% of the reports due, with 80.28% of them posted at 100%. There is a significant increase in the number of suspended records for the current calendar year compared to the same time last year and the employer service center staff are actively working with employers to ensure that they post these records in a timely manner. Staff attributes the increase to pulling this month's report during the window period in which employers reconcile their suspended records and a single large employer's new IT system transition accounts for 11,000 of the suspended records.

#### EMPLOYER OUTREACH PROGRAM

The employer outreach and education program continues to expand and cover more territory. In addition to employer presentations being offered in the fall and spring of each year, we continue to educate their new employees responsible for Employer Data Exchange (EDX) reporting through our EDX training in a computer lab setting. For 2008, we included this training with the Spring presentations and were able to offer EDX training throughout the state, reaching more than 200 employers for 79 presentations and classes.

We have also recently implemented a comprehensive "new employer" training to assist with education and employer reporting, assigning a "New Employer Advocate" to ensure that the new employer receives all the necessary training and tools. A noteworthy example of this is that staff worked closely with the Oregon Department of Education to introduce and explain PERS employer reporting responsibilities to a group of 22 new charter schools.

Our education team continues to develop new educational tools, such as tutorials and help files, making them available to employers via the Employer Website. In addition, staff utilizes the Employer Advisory Committee to review and improve employer communication and to assist in the testing and development of enhancing EDX functionality. This will become more important as we get closer to the next jClarety stage release next year.

#### ACCOUNTS RECEIVABLE PLAN

Besides assisting employers with overdue reports and electronic payments, PERS' accounts receivable department proactively collects receivable balances that are more than 30 days overdue. As of July 3, 2008 we had 137 outstanding invoices (57 employers) with an aggregate balance of less than \$206,089. Our goal is to collect all outstanding invoices that exceed 30 days by following up with these employers by phone and letters each month.



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July 25, 2008

TO: Members of the PERS Board  
FROM: Kyle J. Knoll, Business Operations Manager  
SUBJECT: July 2008 Budget Report

MEETING DATE	<b>7/25/08</b>
AGENDA ITEM	<b>A.2.d.</b> Budget Report

### 2007-09 BUDGET UPDATE

Operating expenditures for the month of June 2008 were \$3,860,945. Through the first twelve months (50 %) of the biennium, the agency has expended a total of \$36,607,267, or 45.31% of PERS' 2007-09 operating budget.

The positive budget variance for the biennium is currently projected at \$1,898,999. Prior budget reports this biennium included the projected 2007-09 Cost of Living Adjustments (COLAs) expenditures within the existing budget limitation, as well as projected State Data Center (SDC) expenditures based on then approved rates and related budget limitation. The attached June 2008 Summary Budget Analysis reflects the increased 2007-09 Cost of Living Adjustment (COLA) funding and revised State Date Center (SDC) rates and related budget limitation adjustments as approved by the E-Board on June 29, 2008. Please note that the net result is a decrease from \$81,251,146 to \$80,788,962 (or \$462,184) in PERS' 2007-09 Legislatively Approved Budget (LAB) limitation.

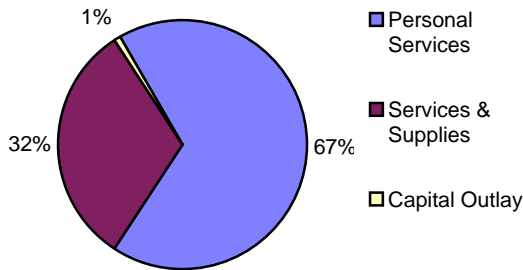
During the next month, Director Cleary and PERS Administrators will be reviewing current expenditure projections and guidelines, to ensure adequate fiscal controls are maintained and expenditures remain within PERS 2007-09 Legislatively Approved Budget (LAB) as adjusted.

**2007-09 Agency-wide Operations - Budget Execution**  
**Summary Budget Analysis**  
For the Month of: June 2008

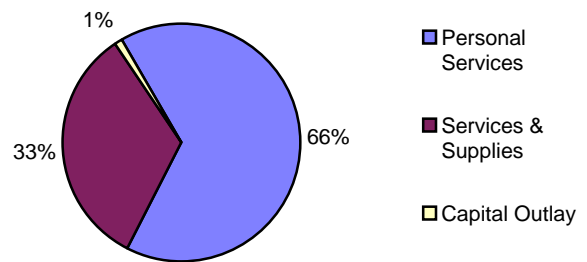
**Biennial Summary**

Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expend.	2007-09 LAB	Variance
Personal Services	24,745,752	27,818,080	52,563,831	53,693,261	1,129,430
Services & Supplies	11,596,671	13,952,175	25,548,846	26,148,000	599,154
Capital Outlay	264,844	512,442	777,286	947,701	170,415
Special Payments					
<b>Total</b>	<b>36,607,267</b>	<b>42,282,696</b>	<b>78,889,963</b>	<b>80,788,962</b>	<b>1,898,999</b>

**Actual Expenditures**

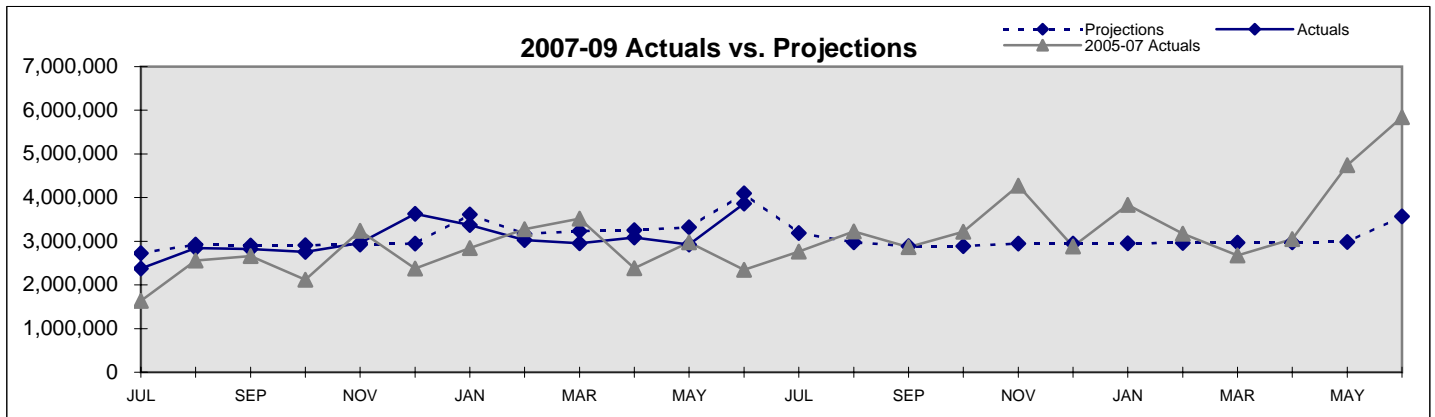


**Projected Expenditures**



**Monthly Summary**

Category	Actual Exp.	Projections	Variance	Avg. Monthly Actual Exp.	Avg. Projected Expenditures
Personal Services	2,114,100	2,238,474	124,374	2,062,146	2,318,173
Services & Supplies	1,493,025	1,605,710	112,685	966,389	1,162,681
Capital Outlay	253,820	253,820		22,070	42,704
Special Payments					
<b>Total</b>	<b>3,860,945</b>	<b>4,098,004</b>	<b>237,059</b>	<b>3,050,606</b>	<b>3,523,558</b>



**2005-07 Biennium Summary**

Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expend.	2005-07 LAB	Variance
Personal Services	42,804,552		42,804,552	46,875,869	4,071,317
Services & Supplies	31,107,541		31,107,541	27,460,026	(3,647,515)
Capital Outlay	534,468		534,468	679,533	145,065
Special Payments					
<b>Total</b>	<b>74,446,561</b>		<b>74,446,561</b>	<b>75,015,428</b>	<b>568,867</b>



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July 25, 2008

TO: Members of the PERS Board  
FROM: Steven Patrick Rodeman, Deputy Director  
SUBJECT: Adoption of Direct Rollover Rules  
OAR 459-005-0591, *Definitions – Direct Rollovers*  
OAR 459-005-0595, *Limitations – Direct Rollovers*  
OAR 459-050-0090, *Direct Rollover (OSGP)*

MEETING DATE	<b>07/25/08</b>
AGENDA ITEM	<b>B.1.</b> Direct Rollovers

### OVERVIEW

- Action: Adopt modifications to the Direct Rollover rules.
- Reason: The provision of the Pension Protection Act of 2006 (PPA) that allows plan participants to transfer rollover eligible distributions to a Roth IRA was effective January 1, 2008. However, it was not until March of this year that the IRS indicated that it is mandatory for plans to provide this option to their participants.
- Subject: Rollovers to Roth IRAs.
- Policy Issue: None.

### BACKGROUND

The PPA allows rollover eligible distributions to be rolled to a Roth IRA as of January 1, 2008. PERS staff had understood this to be an option a plan could provide and we anticipated incorporating this provision into jClarety. However, the IRS recently indicated that plan sponsors must offer this type of rollover to plan participants.

Accordingly, these rule modifications conform three administrative rules to reflect this rollover option, retroactive to January 1, 2008. Administratively, rollovers to Roth IRAs are generally handled in the same manner as a rollover to any other eligible retirement plan but there are different tax reporting requirements, which staff will resolve before reporting for the 2008 calendar year is due in early 2009.

### PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held on May 27, 2008 at 2:00 p.m. at PERS headquarters in Tigard. No members of the public attended. The public comment period ended on July 1, 2008 at 5:00 p.m. No public comment was received.

### MODIFICATIONS TO THE RULES SINCE FIRST READING

The rules as presented have not been changed since the PERS Board's June 27, 2008 meeting.

### LEGAL REVIEW

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

## Adoption – Direct Rollover Rules

07/25/2008

Page 2 of 2

### IMPACT

**Mandatory:** Yes, the ability for a plan participant to transfer a rollover eligible distribution to a Roth IRA is required by the IRS.

**Impact:** Members will have an additional option for transferring rollover eligible distributions.

Administratively, there is one outstanding issue, as the IRS has not yet provided guidance regarding how to report the distributions on the Form 1099R.

**Cost:** There are no significant costs attributable to these rules.

### RULEMAKING TIMELINE

April 15, 2008	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
May 1, 2008	<i>Oregon Bulletin</i> published the Notice. Notice was mailed to employers, legislators, and interested parties. Public comment period began.
May 16, 2008	PERS Board adopted the proposed temporary rules; PERS staff proceeding with permanent rulemaking.
May 27, 2008	Rulemaking hearing held at PERS headquarters in Tigard.
June 27, 2008	First reading of the proposed rules.
July 1, 2008	Public comment period ended at 5:00 p.m.
July 25, 2008	Board may adopt the rules.

### BOARD OPTIONS

The Board may:

1. Pass a motion to “adopt modifications to OAR 459-005-0591, 459-005-0595 and 459-050-0090, as presented.”
2. Direct staff to make other changes to the rules or explore other options.

### STAFF RECOMMENDATIONS

Staff recommends the Board choose Option #1.

- Reason: In March 2008, the IRS indicated that it is mandatory for plans to allow plan participants to transfer rollover eligible distributions to a Roth IRA. These rule changes conform to the requirements as clarified by the IRS.

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.

B.1. Attachment 1 – OAR 459-005-0591, *Definitions – Direct Rollovers*

B.1. Attachment 2 – OAR 459-005-0595, *Limitations – Direct Rollovers*

B.1. Attachment 3 – OAR 459-050-0090, *Direct Rollover*

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

1 **459-005-0591**

2 **Definitions -- Direct Rollovers**

3 As used in OAR 459-005-0590 to 459-005-0599 the following words and phrases  
4 shall have the following meanings:

5 (1) "Code" means the Internal Revenue Code of 1986, as amended.

6 (2) A "direct rollover" means the payment of an eligible rollover distribution by  
7 PERS to an eligible retirement plan specified by the distributee.

8 (3) A "distributee" includes a PERS member, the surviving spouse of a deceased  
9 PERS member, a non-spouse beneficiary of the member that is a designated beneficiary  
10 under Code Section 402(c)(11), and the current or former spouse of a PERS member who  
11 is the alternate payee under a domestic relations order that satisfies the requirements of  
12 ORS 238.465 and the rules adopted thereunder.

13 (4) An "eligible retirement plan" means any one of the following:

14 (a) An individual retirement account or annuity described in Code Section 408(a) or

15 (b), *[but shall not include]* **including** a Roth IRA as described in Code Section 408A;

16 (b) An annuity plan described in Code Section 403(a) that accepts the distributee's  
17 eligible rollover distribution;

18 (c) A qualified trust described in Code Section 401(a) that accepts the distributee's  
19 eligible rollover distribution;

20 (d) An eligible deferred compensation plan described in Code Section 457(b) which  
21 is maintained by an eligible employer described in Code Section 457(e)(1)(A) and  
22 accepts the distributee's eligible rollover distribution.

1 (e) An annuity contract described in Code Section 403(b) that accepts the  
2 distributee's eligible rollover distribution.

3 (f) For the purposes of ORS 237.650(3), the individual employee account maintained  
4 for a member under the Individual Account Program as set forth under ORS  
5 238A.350(2); and

6 (g) For the purposes of ORS 237.655(2), the state deferred compensation program.

7 (5) An "eligible rollover distribution" means any distribution of all or any portion of  
8 a distributee's PERS benefit, except that an eligible rollover distribution shall not include:

9 (a) Any distribution that is one of a series of substantially equal periodic payment  
10 made no less frequently than annually for the life (or life expectancy) of the distributee or  
11 the joint lives (or life expectancies) of the distributee and the distributee's designated  
12 beneficiary, or for a specified period of ten years or more;

13 (b) Any distribution to the extent that it is a required or minimum distribution under  
14 Code Section 401(a)(9).

15 (6) A "recipient plan" means an eligible retirement plan that is designated by a  
16 distributee to receive a direct rollover.

17 (7) The provisions of this rule are effective on January 1, ~~2007~~2008.

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

19 Stats. Implemented: ORS Chapters 238 and 238A



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

1 **459-005-0595**

2 **Limitations -- Direct Rollovers**

3 (1) Notwithstanding any provision to the contrary in OAR 459-005-0590 to 459-  
4 005-0599, a distributee's right to elect a direct rollover is subject to the following  
5 limitations:

6 (a) A distributee may elect to have an eligible rollover distribution paid in a direct  
7 rollover to only one eligible retirement plan.

8 (b) A distributee may elect a direct rollover only when his or her eligible rollover  
9 distribution(s) during a calendar year is reasonably expected to total \$200 or more.

10 (c) A distributee may elect to have part of an eligible rollover distribution be paid  
11 directly to the distributee, and to have part of the distribution paid as a direct rollover  
12 only if the member elects to have at least \$500 transferred to the eligible retirement plan.

13 (2)(a) The provisions of subsection (1)(a) apply to any portion of a distribution,  
14 including after-tax employee contributions that are not includible in gross income.

15 (b) Any portion of a distribution that consists of after-tax employee contributions  
16 that are not includible in gross income may be transferred only to:

17 (A) An individual retirement account or annuity described in Code Section 408(a) or

18 (b), [including a Roth IRA](#); or

19 (B) An annuity contract described in Code Section 403(b) or a qualified defined  
20 contribution or defined benefit plan that agrees to separately account for the amounts  
21 transferred, including separate accounting for the pre-tax and post-tax amounts.

1           (c) The amount transferred shall be treated as consisting first of the portion of the  
2 distribution that is includible in gross income, determined without regard to Code Section  
3 402(c)(1).

4           (3) The provisions of this rule are effective on January 1, ~~2007~~2008.

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

6           Stats. Implemented: ORS Chapters 238 and 238A

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

1   **459-050-0090**

2   **Direct Rollover**

3       The purpose of this rule is to establish the criteria and process for a direct rollover (a  
4 transfer made from trustee to trustee) by the Deferred Compensation Program to an  
5 eligible retirement plan and to establish the criteria and process for the Deferred  
6 Compensation Program to accept an eligible rollover distribution from another eligible  
7 retirement plan. This rule shall apply to any direct rollover distribution received by the  
8 Deferred Compensation Program on behalf of a participant and any request for  
9 distribution from a Deferred Compensation Program account processed on or after  
10 January 1, ~~2002~~2008.

11       (1) Definitions. The following definitions apply for the purpose of this rule:

12       (a) "Code" means the Internal Revenue Code of 1986, as amended.

13       (b) "Direct Rollover" means:

14       (A) The payment of an eligible rollover distribution by the Deferred Compensation  
15 Plan to an eligible retirement plan specified by the distributee; or

16       (B) The payment of an eligible rollover distribution by an eligible retirement plan to  
17 the Deferred Compensation Program.

18       (c) "Distributee" means:

19       (A) A Deferred Compensation Plan participant who has a severance of employment;

20       (B) A Deferred Compensation Plan participant who is approved for a de minimis  
21 distribution under OAR 459-050-0075(1);

22       (C) The surviving spouse of a deceased participant;

1 (D) The spouse or former spouse who is the alternate payee under a domestic  
2 relations order that satisfies the requirements of ORS 243.507 and OAR 459-050-0200 to  
3 459-050-0250; or

4 (E) The non-spouse beneficiary of a deceased participant who is a designated  
5 beneficiary under Code Section 402(c)(11).

6 (d) "Distributing Plan" means an eligible retirement plan that is designated to  
7 distribute a direct rollover to another eligible plan (recipient plan).

8 (e) "Eligible Retirement Plan" means any one of the following that accepts the  
9 distributee's eligible rollover distribution:

10 (A) An individual retirement account or annuity described in Code Section 408(a) or  
11 (b), *[but shall not include]* including a Roth IRA as described in Code Section 408(A);

12 (B) An annuity plan described in Code Section 403(a);

13 (C) An annuity contract described in Code Section 403(b);

14 (D) A qualified trust described in Code Section 401(a);

15 (E) An eligible deferred compensation plan described in Code Section 457(b) that is  
16 maintained by a state, political subdivision of a state, or any agency or instrumentality of  
17 a state or political subdivision of a state; or

18 (F) A plan described in Code Section 401(k).

19 (f) "Eligible Rollover Distribution" means a distribution of all or a portion of a  
20 distributee's Deferred Compensation account. An eligible rollover distribution shall not  
21 include:

22 (A) A distribution that is one of a series of substantially equal periodic payments  
23 made no less frequently than annually for the life (or life expectancy) of the distributee or

1 the joint lives (or life expectancies) of the distributee and the distributee's designated  
2 beneficiary, or for a specified period of ten years or more;

3 (B) A distribution that is a required or minimum distribution under Code Section  
4 401(a)(9);

5 (C) An amount that is distributed due to an unforeseen emergency under OAR 459-  
6 050-0075(2).

7 (g) "Recipient Plan" means an eligible retirement plan that is designated by a  
8 distributee to receive a direct rollover.

9 (2) Direct rollover to an eligible retirement plan. The direct rollover of an eligible  
10 rollover distribution by the Deferred Compensation Program to an eligible retirement  
11 plan shall be interpreted and administered in accordance with Code Section 457(d)(1)(C)  
12 and all applicable regulations. A distributee may elect to have an eligible rollover  
13 distribution paid by the Deferred Compensation Program directly to an eligible retirement  
14 plan specified by the distributee.

15 (a) The Deferred Compensation Program staff shall provide each distributee with a  
16 written explanation of the direct rollover rules for an eligible distribution, as required by  
17 the Code.

18 (b) A distributee's right to elect a direct rollover is subject to the following  
19 limitations:

20 (A) A distributee may elect to have an eligible rollover distribution paid as a direct  
21 rollover to only one eligible retirement plan.

22 (B) A distributee may elect to have part of an eligible rollover distribution be paid  
23 directly to the distributee, and to have part of the distribution paid as a direct rollover

1    only if the distributee elects to have at least \$500 transferred to the eligible retirement  
2    plan.

3            (c) A direct rollover election shall be in writing and must be signed by the distributee  
4    or by his or her authorized representative pursuant to a valid power of attorney. The  
5    direct rollover election may be on forms furnished by the Deferred Compensation  
6    Program, or on forms submitted by recipient plan which must include:

7            (A) The distributee's full name;

8            (B) The distributee's social security number;

9            (C) The distributee's account number with recipient plan, if available;

10          (D) The name and complete mailing address of recipient plan; and

11          (E) If the distributee is a non-spouse beneficiary of the member, the title of the  
12    recipient IRA account.

13          (d) The distributee is responsible for determining that the recipient plan's  
14    administrator will accept the direct rollover for the benefit of the distributee. Any taxes or  
15    penalties that are the result of the distributee's failure to ascertain that the recipient plan  
16    will accept the direct rollover shall be the sole liability of the distributee.

17          (3) Direct rollover from an eligible retirement plan. On or after January 1, 2002, the  
18    Deferred Compensation Program shall only accept rollover contributions from  
19    participants and direct rollovers of distributions from an eligible retirement plan on behalf  
20    of a participant. Section (3) of this rule shall be interpreted and administered in  
21    accordance with Code Section 402(c) and all applicable regulations.

1 (a) The Deferred Compensation Program shall only accept pre-tax assets. After-tax  
2 employee contributions are not eligible for rollover into the Deferred Compensation  
3 Program.

4 (A) The Deferred Compensation Program may require that a direct rollover from an  
5 eligible deferred compensation plan described in Code Section 457(b) plan include or be  
6 accompanied by a statement by the participant's previous employer or the plan  
7 administrator that the distribution is eligible for rollover treatment.

8 (B) A direct rollover from an eligible retirement plan other than a Deferred  
9 Compensation Plan described in Code Section 457(b) must be an eligible rollover  
10 distribution. It is the participant's responsibility to determine that the assets qualify for  
11 rollover treatment. Any taxes or penalties that are the result of the participant's failure to  
12 ascertain that the distributing plan assets qualify for a direct rollover to a deferred  
13 compensation plan described in Code Section 457(b), shall be the sole liability of the  
14 distributee.

15 (b) Subject to the requirements of subsections (3)(b)(A) and (B) below, eligible  
16 rollover distribution(s) shall be credited to the participant's Deferred Compensation  
17 account established pursuant to the Plan and Agreement on file with the Deferred  
18 Compensation Program and shall be subject to all the terms and provisions of the Plan  
19 and Agreement. Account assets received from the distributing plan will be invested by  
20 the Deferred Compensation Plan record keeper in accordance with the terms and  
21 conditions of the Deferred Compensation Program according to the asset allocation the  
22 participant has established for monthly contributions unless instructed otherwise in  
23 writing on forms provided by the Deferred Compensation Program.

1            (A) Assets from an eligible deferred compensation plan account described in Code  
2 Section 457(b) will be aggregated with the participant's accumulated Deferred  
3 Compensation Plan account.

4            (B) Assets from an eligible retirement plan other than a Deferred Compensation Plan  
5 described in Code Section 457(b) will be segregated into a separate account established  
6 by the Deferred Compensation Program for tax purposes only, but not for investment  
7 purposes. For investment purposes, the participant's assets are treated as a single account.  
8 If a participant changes the allocation of existing assets among investment options within  
9 the plan, the transfer or reallocation shall apply to and will occur in all accounts  
10 automatically.

11            (c) Assets directly rolled over to the Deferred Compensation Program may be  
12 subject to the 10 percent penalty on early withdrawal to the extent that the funds directly  
13 rolled over are attributable to rollovers from a qualified plan, a 403(b) annuity, or an  
14 individual retirement account.

15            Stat. Auth.: ORS 243.470

16            Stats. Implemented: ORS 243.401 - 243.507





# Oregon

Theodore R. Kulongoski, Governor

## Public Employees Retirement System

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July 25, 2008

TO: Members of the PERS Board  
FROM: Steven Patrick Rodeman, Deputy Director  
SUBJECT: Adoption of Public Records Requests Rules  
OAR 459-060-0000, *Purpose*  
OAR 459-060-0001, *Definitions*  
OAR 459-060-0010, *Requests and Fees for Public Records*

MEETING DATE	<b>07/25/08</b>
AGENDA ITEM	<b>B.2. Public Records Requests</b>

### OVERVIEW

- Action: Adoption of Public Records Requests rules.
- Reason: SB 554 (2007) changed the public records law, requiring state agencies to modify how they handle public records requests.
- Subject: Responding to public records requests
- Policy Issues: No policy issues have been identified at this time.

### BACKGROUND

The 2007 Oregon Legislature enacted SB 554, which amends ORS 192.440 to impose two new requirements on public agencies, one pertaining to the manner in which such agencies respond to public records requests and the other requiring those agencies to make certain information available regarding the public records request process. The proposed rule modifications set forth how to request public records, including content required in the request and associated fees and costs, as well as the possible staff responses to public records requests.

### MODIFICATIONS TO RULES SINCE FIRST READING

The rules as presented have not been changed since the PERS Board's June 27, 2008 meeting.

### PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held on May 27, 2008 at 2:00 p.m. at PERS headquarters in Tigard. No members of the public attended. The public comment period ended on July 1, 2008 at 5:00 p.m. No public comment was received.

### LEGAL REVIEW

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

### IMPACT

**Mandatory:** Yes. Statutory changes require PERS to provide a response acknowledging receipt of a public records request, and to provide the public with a written procedure for making public records requests.

**Impact:** Clarifies process for submitting public records requests.

**Cost:** May minimally increase time spent processing public records requests because of the two new requirements.

### RULEMAKING TIMELINE

April 15, 2008	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
May 1, 2008	<i>Oregon Bulletin</i> published the Notice. Notice was mailed to employers, legislators, and interested parties. Public comment period began.
May 16, 2008	PERS Board notified that staff began the rulemaking process.
May 27, 2008	Rulemaking hearing held at 2:00 p.m. in Tigard.
June 27, 2008	First reading of the rules.
July 1, 2008	Public comment period ended at 5:00 p.m.
July 25, 2008	Board may adopt the rules.

### BOARD OPTIONS

The Board may:

1. Pass a motion to “adopt modifications to OAR 459-060-0000, 459-060-0001, and 459-060-0010, as presented.”
2. Direct staff to make other changes to the rules or explore other options.

### STAFF RECOMMENDATIONS

Staff recommends the Board choose Option #1.

- Reason: These rule modifications are required because SB 554 (2007) changed the public records law, requiring state agencies to modify how they handle public records requests.

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.

B.2. Attachment 1 – OAR 459-060-0000, *Purpose*

B.2. Attachment 2 – OAR 459-060-0001, *Definitions*

B.2. Attachment 3 – OAR 459-060-0010, *Requests and Fees for Public Records*

**OREGON ADMINISTRATIVE RULE  
PUBLIC EMPLOYEES RETIREMENT BOARD  
CHAPTER 459  
DIVISION 060 – PUBLIC RECORDS ADMINISTRATION**

1 **[459-060-0000**

2 ***Purpose***

3 *This division of chapter 459, Oregon Administrative Rules, provides information*  
4 *concerning the disclosure of information from the records of individual members of the*  
5 *Public Employees Retirement System (PERS). The purpose of the rules of division 060 is:*

6 *(1) To protect the members of PERS from unreasonable invasion of their privacy;*

7 *(2) To give members of PERS access to their individual records, unless otherwise*  
8 *prohibited by statute; and*

9 *(3) To identify and clarify the circumstances where disclosure of information from a*  
10 *PERS member's records without the member's consent is permissible.*

11 *Stat. Auth.: ORS 192.502 & 238.650*

12 *Stats. Implemented: ORS 192.410 - 192.505, 237.410 - 237.520, 237.610, - 237.620,*  
13 *237.950 - 237.980 & 238]*

**OREGON ADMINISTRATIVE RULE  
PUBLIC EMPLOYEES RETIREMENT BOARD  
CHAPTER 459  
DIVISION 060 – PUBLIC RECORDS ADMINISTRATION**

1 **459-060-0001**

2 **Definitions**

3 The words and phrases used in this Division have the same meaning given them in  
4 ORS Chapters 192, 238, 238A and OAR 459-005-0001. Specific and additional terms  
5 **used in this Division** are defined as follows unless context requires otherwise~~[.]~~:

6 **(1) “Medical records” means any reports, letters, or notes containing**  
7 **information regarding a member’s health condition (mental or physical), or ability**  
8 **to perform any work.**

9 **(2)** *[For the purposes of division 060, the term] “[m]M*ember” means an employee  
10 of a PERS participating employer, a PERS member as *[described]* **defined** in ORS  
11 238.005(12) **or 238A.005(10)**, a former PERS member, the beneficiary of a PERS  
12 member, an alternate payee as defined in ORS 238.465, or the beneficiary of an alternate  
13 payee.

14 *[(2) “Medical records” means any reports, letters, or notes containing information*  
15 *regarding the member’s health condition (mental or physical), or ability to perform any*  
16 *work.]*

17 (3) “Public disclosure” means disclosure of information to any individual other than  
18 the member or an individual *[that]* **who** is legally authorized to act on behalf of the  
19 member as to PERS matters.

20 **(4) “Requestor” means a person requesting disclosure of public records.**

21 Stat. Auth.: ORS 192.430, 192.502, *[& ORS]* 238.650 **& 238A.450**

- 1 Stats. Implemented: ORS 192.410 - 192,505[, 237.410-520, 237.610-620, 237.950-
- 2 980 & 238]

**OREGON ADMINISTRATIVE RULE  
PUBLIC EMPLOYEES RETIREMENT BOARD  
CHAPTER 459  
DIVISION 060 – PUBLIC RECORDS ADMINISTRATION**

1 **459-060-0010**

2 **Requests and Fees for Public Records**

- 3 (1) **Requesting public records.** Anyone may request *[to inspect or obtain copies]*  
 4 disclosure of a public record *[(s), as defined in ORS 192.410(4), that is in the custody of]*  
 5 for which the Public Employees Retirement System is the custodian by submitting a  
 6 written request in person, via mail, email, or fax. PERS will *[allow]* provide for  
 7 disclosure of *[reasonable access to]* any public record which an individual has a right to  
 8 inspect, *[during regular business hours, as long as the record is not exempt from*  
 9 *disclosure by law]* subject to any exemptions that may apply under ORS 192.410 to  
 10 192.505. PERS may determine the time and manner of inspection or copying to protect  
 11 the records and to prevent interference with the regular activities of PERS and its  
 12 employees. A request for public records *[must be made in writing, and]* must include:
- 13 (a) The name, address, and telephone number, if any, of the requestor;
  - 14 (b) A sufficiently detailed description of the record(s) requested, including the  
 15 identification, description, type, and format of the public record, if known to the  
 16 requestor; *[and]*
  - 17 (c) The number of copies requested of the public record, if copies are requested *[.];*  
 18 and
  - 19 (d) The signature of the requestor, unless sent via email, and date of request.
- 20 (2) PERS response to public record requests. Upon receiving a public record  
 21 request, PERS will provide a prompt response acknowledging receipt of the request,  
 22 following the guidelines set forth in ORS 192.440(2).

1 ~~[(2)]~~**(3) Time period for response.** A reasonable period of time, as determined by  
2 PERS, ~~[will]~~**must** be allowed for staff to locate and assemble the requested record(s), and  
3 consult with the Attorney General's office, if needed. **If the record requested is exempt**  
4 **from public disclosure under ORS 192.410 to 192.505, PERS will provide a response**  
5 **explaining why the record may not be released.**

6 ~~[(3)]~~**(4) Fees for public records.** In accordance with ORS 192.440, PERS may  
7 charge a reasonable fee **for public record requests.** Fees are calculated to reimburse  
8 PERS for the actual costs of **locating, producing, and** providing ~~[and conveying]~~ copies  
9 of public records. A fee schedule is available upon request.

10 (a) **A cost estimate will be provided to the requestor before the production of**  
11 **any records, other than those records that will be provided at no cost under section**  
12 **(5) below.** ~~[For each request, the requestor will be informed of the estimated cost,~~  
13 ~~including the employee hourly rate of pay for staff time charges, before the service(s) is~~  
14 ~~performed.]~~

15 (b) All fees must be paid in advance of releasing the requested public records for  
16 inspection or before photocopies are provided, unless otherwise directed by the Director  
17 or **the records will be provided at no cost under section (5) below.** Payments must be  
18 made by check or money order and made payable to the Public Employees Retirement  
19 System.

20 ~~[(4)]~~**(5) Records available at no cost.** No fee will be charged to a member ~~[or an~~  
21 ~~employer]~~ for one copy of the following public records:

- 22 (a) Approved Board minutes or Board orders for the past 12 months;  
23 (b) Current PERS administrative rules;

- 1 (c) Current Oregon Revised Statutes pertaining to PERS;
- 2 (d) Current PERS publications;
- 3 (e) A PERS member's record to the extent permitted under OAR 459-060-0030 and
- 4 459-060-0020, excluding paragraph (3)(a)(D); and

5 (f) No fee will be charged for providing such records:

6 (A) In an alternative format when required under the Americans with Disabilities  
7 Act; or

8 (B) If the records can be provided at nominal expense where collection of the fee  
9 would be more than the cost to provide the records.

10 ~~[(5)]~~(6) Except as provided under section ~~[(4)]~~(5) of this rule, PERS may not reduce  
11 or waive fees for making public records available and must charge the actual costs for  
12 services provided.

13 Stat. Auth.: ORS 192.430, 192.440, ~~[ORS]~~ 238.650, 238A.450 & ~~[ORS]~~ 243.470

14 Stats. Implemented: ORS 192.410 - 192.505 ~~[237.410-520, 237.610-620, 237.950-~~  
15 ~~980, 238, 243.401-507 & 192.410-505]~~





# Oregon

Theodore R. Kulongoski, Governor

## Public Employees Retirement System

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July 25, 2008

TO: Members of the PERS Board  
FROM: Steven Patrick Rodeman, Deputy Director  
SUBJECT: Adoption of Employer Participation Rules  
OAR 459-070-0050, *Participation of Public Employers* and  
OAR 459-075-0010, *Eligibility and Membership*

MEETING DATE	<b>07/25/08</b>
AGENDA ITEM	<b>B.3. Employer Participation</b>

### OVERVIEW

- Action: Adoption of Employer Participation rules.
- Reason: To provide newly participating employers clearer guidance on participation in the PERS Plan for employees who are already members of PERS programs at the time of hire.
- Subject: Participation of public employers in all programs in the PERS Plan.
- Policy Issue: Should participating employers be required to participate in all programs in the PERS Plan?

### BACKGROUND

When the 2003 PERS Reform legislation created the OPSRP Pension Program and the IAP, the interplay of those programs with the PERS Chapter 238 retirement program was complicated. Concepts such as “Break in Service” and shifting member contributions to the IAP made discerning membership eligibility for existing, returning, and retiring members difficult. Still, the programs each have independent eligibility and benefit structures.

Two provisions adopted by the 2007 Oregon Legislature clarified the administration of the interplay among these programs. First, HB 2281 required a member who withdraws from one program to withdraw from all. This bill was an outgrowth of our realizations in administering these programs’ independent eligibility and benefit structures. PERS members have also expected to move from one PERS-covered employer to another and continue to participate based on their established eligibility: e.g., a Tier One member who goes to another PERS-covered employer stays as a Tier One member and does not need to re-establish membership.

This expectation was further supported by the elimination of “Break in Service” by the 2007 Legislature’s HB 2285. Members in the PERS Chapter 238 Program will now continue in that program if they interrupt their PERS-covered employment. Permitting new employers to participate in less than all programs would further complicate the administration of the PERS Plan and disrupt the employee’s expected continuity of membership in the system.

### POLICY ISSUE

*Should participating employers be required to participate in all programs in the PERS Plan?*

The tension among these provisions substantially clouds the factors in a new employer's decision on whether to join the Public Employees Retirement System. If the new employer tried to offer only some of the programs within the PERS Plan, members would be at best confused if not contentious when their work for a PERS-covered employer does not yield the benefits they expect. Membership and contribution start dates would fluctuate among employers and members could conceivably start and stop several times. Employer rates would be similarly tangled in sorting out which category a particular member's salary should fall. Finally, there's no practical way that a benefit administration system can be designed to track the permutations of a member who could potentially fall into an unpredictable combination of circumstances simultaneously for several employers concurrently.

All PERS employers in the system as of August 29, 2003 were required to continue participating in all the plan's programs. Any new employer should know the consequences of their decision to start offering PERS benefits. Those consequences should not be clouded by confused employees' expectations, administrative frustrations, and counter-intuitive cost structures. Therefore, staff developed and recommends adoption of these rule modifications so that an employer that chooses to join the PERS Plan, as a single plan, must join all the programs and members will participate based on their established eligibility.

The proposed modifications to OAR 459-070-0050 require that an employer applying to participate in the PERS Plan must apply to participate in all programs. The modifications to OAR 459-075-0010 eliminate provisions regarding concurrent membership in the OPSRP Pension Program and the PERS Chapter 238 Program. While open for rulemaking, that rule is also modified to clarify the waiting period of an educational employee in the OPSRP Pension Program.

### MODIFICATIONS TO THE RULES SINCE FIRST READING

OAR 459-075-0010: Section (3) was added to establish retroactive application of the rule, providing consistent administration of OPSRP Pension educational employee waiting periods.

### PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held on May 27, 2008 at 2:00 p.m. at PERS headquarters in Tigard. No members of the public attended. The public comment period ended on July 1, 2008 at 5:00 p.m. No public comment was received.

### LEGAL REVIEW

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

### IMPACT

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

Impact: Adoption would resolve this participation issue and provide stability and predictability for employers, members, and system administration.

Cost: There are no discernible material costs attributable to this rule.

#### RULEMAKING TIMELINE

April 15, 2008	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
May 1, 2008	<i>Oregon Bulletin</i> published the Notice. Notice was mailed to employers, legislators, and interested parties. Public comment period began.
May 16, 2008	PERS Board notified that staff began the rulemaking process.
May 27, 2008	Rulemaking hearing held at 2:00 p.m. in Tigard.
June 27, 2008	First reading of the rules.
July 1, 2008	Public comment period ended at 5:00 p.m.
July 25, 2008	Board may adopt the rules.

#### BOARD OPTIONS

The Board may:

1. Pass a motion to “adopt modifications to OAR 459-070-0050 and 459-075-0010, as presented.”
2. Direct staff to make other changes to the rules or explore other options.

#### STAFF RECOMMENDATIONS

Staff recommends the Board choose Option #1.

- Reason: To provide newly participating employers clearer guidance on participation in the PERS Plan for employees who are already members of PERS programs at the time of hire.

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 070 – OREGON PUBLIC SERVICE RETIREMENT PLAN, GENERALLY**

1 **459-070-0050**

2 **Participation of Public Employers**

3 (1) Any public employer that does not already provide benefits under the Oregon  
4 Public Service Retirement Plan (OPSRP) may apply to participate in *[the]* OPSRP  
5 *[Pension Program, the OPSRP IAP, or both, only]* for service by eligible employees  
6 performed on or after the date the employer's participation becomes effective. An  
7 employer that applies to participate in OPSRP must also apply to participate in the  
8 PERS Chapter 238 Program for members of that program that it employs on or  
9 after the employer's participation begins.

10 (2) The application to participate *[in either or both OPSRP programs]* must  
11 contain<sup>1</sup>, *[at a minimum,]* the following *[information]*:

12 (a) A true copy of the resolution, motion or other official action by which the  
13 employer's governing board or equivalent decided to apply to participate;

14 (b) A designated person or position authorized to represent the employer on PERS  
15 matters;

16 (c) Whether the employer will participate for one or more designated classes  
17 *[groups]* of employees or for all employees. If the employer already provides coverage  
18 for some but not all employees, the application must designate which additional class(es)  
19 *[group(s)]* will be added *[to the program or programs]*;

20 (d) *[Whether]* A statement that the employer will *[offer]* participate in the OPSRP  
21 Pension Program<sup>1</sup>, and the OPSRP IAP<sup>1</sup>, *[or both]*;

1 (e) *[Whether]* A statement that the employer will *[offer]* participate in the PERS  
2 Chapter 238 Program *[plan to qualifying employees]* for members of that program  
3 that it currently employs or may hire in the future in the class(es) designated for  
4 coverage pursuant to subsection (c) of this section;

5 (f) *[If the employer elects to participate in the PERS Chapter 238 plan for qualifying*  
6 *employees, w]* Whether the employer will participate in the unused sick leave program  
7 pursuant to ORS 238.350 *[provide the unused sick leave benefit for those employees];*  
8 and

9 (g) The date on which the employer proposes to commence participation. *[coverage*  
10 *under the specified program or programs.]*

11 (3) If the employer *[elects to participate in the PERS Chapter 238 plan for qualifying*  
12 *employees, and the employer also]* elects to participate in the State and Local  
13 Government Rate Pool (SLGRP) for the PERS Chapter 238 Program *[those*  
14 *employees]*, the employer shall provide PERS with a resolution electing to participate in  
15 the SLGRP before the coverage agreement is signed by the parties.

16 (4) Upon receipt of the properly completed application, PERS will prepare a  
17 coverage agreement, which will be forwarded to the person designated by the employer  
18 under (2)(b) above. In no event will coverage commence before the agreement has been  
19 executed on behalf of the employer's governing body (or equivalent), the PERS  
20 Executive Director, and the PERS Board.

21 (5) The employer will provide any and all information requested by PERS to ensure  
22 that the employer is eligible to participate, including whatever information PERS deems

1 necessary to determine that the employer qualifies as a public employer. Factors to be  
2 addressed in that determination include but are not limited to:

3 (a) If the employer is a public corporation, whether a governmental entity retains  
4 essential control over the employer's activities, with delegated powers for administration  
5 or discharge of public duties;

6 (b) Whether a state or local governmental body controls management of the  
7 employer;

8 (c) If the employer is a public corporation, whether it generates profits for private  
9 investors or stockholders;

10 (d) Where the employer derives its funding for operations;

11 (e) Whether the employer performs a governmental function; and

12 (f) Any information deemed necessary to determine that the employer's coverage  
13 will not adversely affect PERS' status as a qualified governmental retirement plan under  
14 the Internal Revenue Code.

15 (6) Unless the coverage agreement specifically provides otherwise, no retirement or  
16 service credit will be provided under *[OPSRP or]* the PERS Chapter 238 Program  
17 *[plan]* for the service performed with that employer prior to the employer becoming a  
18 participating employer~~*[, including service towards the member's six-month waiting*~~  
19 *period]*.

20 *[(7) An employee who is employed in a qualifying position with a newly*  
21 *participating employer and who had previously established membership in the PERS*  
22 *system as of August 29, 2003, shall be an active member of the applicable OPSRP or*

1 *PERS Chapter 238 program(s) as of the coverage agreement effective date, to the extent*  
2 *eligible under OAR 459-075-0010 and 459-080-0010.]*

3 Stat. Auth: ORS 238A.450, 238.650

4 Stats. Implemented: ORS 238A.025, 238A.070

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

1 **459-075-0010**

2 **Eligibility and Membership**

3 (1) Eligibility. An employee who is employed in a qualifying position on or after  
4 August 29, 2003 by an employer participating in the OPSRP Pension Program is eligible  
5 to become a member of that program unless the employee:

6 (a) Has established membership in the PERS Chapter 238 Program before August  
7 29, 2003 under the terms of ORS 238A.025 and has not terminated membership in that  
8 program under ORS 238.095;

9 (b) Is a judge member as defined in ORS 238.500;

10 (c) Elects to participate in an optional or alternative retirement plan as provided in  
11 ORS Chapters 243, 341, or 353; or

12 (d) Is otherwise ineligible for membership.

13 *[(2) Notwithstanding section (1) of this rule, an employee who established*  
14 *membership in the PERS Chapter 238 Program before August 29, 2003 under the terms*  
15 *of ORS 238A.025 and has not terminated membership in that program under ORS*  
16 *238.095 may nevertheless be eligible to establish membership in the OPSRP Pension*  
17 *Program if employed by a public employer that is participating in the pension program*  
18 *and is not participating in the PERS Chapter 238 Program.]*

19 **(2)[(3)] Membership:**

20 (a) An employee who meets the requirements in section (1) *[or (2)]* of this rule  
21 becomes a member of the OPSRP Pension Program on the first day of the calendar month  
22 following the employee's completion of a waiting period of six full calendar months of



1 service in a qualifying position with the same participating public employer. The six full  
2 calendar months of service may not be interrupted by more than 30 consecutive working  
3 days. For the purposes of this rule, a working day is defined as a day that the employer is  
4 open for business.

5 (b) The waiting period begins:

6 (A) On the date the employee is hired, and includes the month of hire as a full  
7 calendar month, if the date of hire is the first business day of the month. For the purposes  
8 of this rule, a business day is defined as Monday through Friday when PERS is open for  
9 business;

10 (B) On the first day of the month following the date of hire; or

11 (C) On the first day of the month following the end date of an interruption of service  
12 of more than 30 consecutive working days.

13 (c) In the event an employee is on an official leave of absence as described in OAR  
14 459-010-0010, the period of absence shall not constitute an interruption of the waiting  
15 period under subsection (a) of this section. The waiting period shall be extended by the  
16 length of the leave of absence.

17 (d) Absence from service by an educational employee during periods that the  
18 employing educational institution is not in session shall not constitute an interruption of  
19 the waiting period under subsection (a) of this section. *[The waiting period shall be  
20 extended by the length of the period the educational institution is not in session.]*

21 **(3) The provisions of this rule are retroactive to November 23, 2007.**

22 Stat. Auth.: ORS 238A.450

23 Stats. Implemented: ORS 238A.025, 238A.100 & OL 2007 Ch. 769



# Oregon

Theodore R. Kulongoski, Governor

## Public Employees Retirement System

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July 25, 2008

TO: Members of the PERS Board  
FROM: Steven Patrick Rodeman, Deputy Director  
SUBJECT: Adoption of Participation and transfer OUS ORP Rule  
OAR 459-005-0310, *Date of Participation and Transfer  
of Employee Funds to the Oregon University System (OUS)*

MEETING DATE	<b>07/25/08</b>
AGENDA ITEM	<b>B.4.</b> OUS ORP

### OVERVIEW

- Action: Adoption of OUS Optional Retirement Plan (ORP) rule.
- Reason: The current rule provision regarding effective date of an election needs to be modified to comply with statute. The issue of whether a request to transfer funds to the OUS ORP requires that all the member's funds be transferred should also be addressed.
- Subject: Effective date of election to participate in the ORP and transfer of employee funds.
- Policy Issue: Should the request of a PERS member to transfer their funds to the ORP be administered as a request to transfer all funds from PERS to the ORP?

### BACKGROUND

A PERS member who is employed by OUS may elect to participate in the OUS Optional Retirement Plan (ORP). Generally, if that member is not vested in the PERS Chapter 238 program, their membership terminates and their funds (regular account and variable account, if any) are transferred to the ORP. If that member is vested, they can choose whether to terminate their membership by transferring their funds to the ORP, or become an inactive member and keep their vested benefits.

The 2007 Legislature passed HB 2281, requiring a member who withdraws from one PERS program to withdraw from all PERS programs. That legislation did not specifically address ORP transfers. Under current practice, a member is allowed to retain some of their accounts with PERS (e.g., keep their PERS Chapter 238 member account(s) to fund their vested benefit under those provisions, and transfer only their IAP).

Staff has developed these draft rule modifications to address the "withdraw from one, withdraw from all" concept to ORP transfers. Incidentally, while the rule is open for rulemaking, modifications have been included to comply with a change to the statutory standard for the effective date of an election to participate in the ORP and to clarify other provisions.

### POLICY ISSUE

- *Should the request of a PERS member to transfer their funds to the ORP be administered as a request to transfer all funds from PERS to the ORP?*

Once the member elects to participate in the ORP and transfer their funds from PERS, the effect of the transfer parallels the effect of a withdrawal in terminating PERS membership. Allowing an employee to transfer some of their PERS funds (e.g., Chapter 238 regular account(s) but not IAP) results in the same type of parallel and multiple memberships HB 2281 sought to eliminate. However, HB 2281 was specific in those statutory sections affected and did not directly address the ORP statute, ORS 243.800.

As a policy matter, therefore, these rule modifications would consider a request to transfer funds to the ORP as a request to transfer all funds unless the member specifically limits the request to a designated account. This parallels a current policy for rollover eligible withdrawal payments (a member electing to roll over a withdrawal payment but failing to designate the percentage results in PERS rolling 100% of the payment). If these provisions are adopted, PERS and OUS would need to coordinate to assure members were aware of this option at the time of a transfer request, such as including it on the ORP transfer request form.

Staff recommends that rule modifications be adopted that permit PERS to administer a request to transfer funds to the ORP as a request to transfer all funds to the ORP unless the member specifically limits the request to a designated account.

#### MODIFICATIONS TO THE RULE SINCE FIRST READING

The rule as presented has not been changed since the PERS Board's June 27, 2008 meeting.

#### PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held on May 27, 2008 at 2:00 p.m. at PERS headquarters in Tigard. A second public hearing was held July 8, 2008 at PERS headquarters in Tigard. No members of the public attended. The public comment period has been extended and ends July 18, 2008 at 5:00 p.m. As of preparation of this agenda item, no public comment has been received.

#### LEGAL REVIEW

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

#### IMPACT

**Mandatory:** Yes, in part. The current rule provisions regarding effective date of an election are not in compliance with statute. The Board need not adopt modifications regarding the "withdraw from one, withdraw from all" policy issue, but parallel and multiple memberships in PERS and the ORP do present significant administrative problems that can be reduced by facilitating a consistent approach.

**Impact:** PERS and OUS will benefit from administrative simplification by avoiding parallel and multiple memberships. Members will be required to make a more clearly defined choice of retirement plans when opting to transfer funds to the ORP.

Cost: There are no discernible material costs to this rule.

#### RULEMAKING TIMELINE

April 15, 2008	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
May 1, 2008	<i>Oregon Bulletin</i> published the Notice.
May 16, 2008	PERS Board notified that staff began the rulemaking process.
May 27, 2008	Rulemaking hearing held at 2:00 p.m. in Tigard.
June 11, 2008	Draft rule and revised notice was emailed to employers, legislators, and interested parties. Second Notice of Rulemaking filed with the Secretary of State. New public comment period began.
June 27, 2008	First reading of the rule.
July 1, 2008	<i>Oregon Bulletin</i> published the updated Notice.
July 8, 2008	Second rulemaking hearing held at 2:00 p.m. in Tigard
July 18, 2008	Extended public comment period ended at 5:00 p.m.
July 25, 2008	Board may adopt the rule.

#### BOARD OPTIONS

The Board may:

1. Pass a motion to “adopt modifications to OAR 459-005-0310, as presented.”
2. Direct staff to make other changes to the rule or explore other options.

#### STAFF RECOMMENDATIONS

Staff recommends the Board choose Option #1.

- Reason: Modify the current rule provision regarding effective date of an election to comply with statute and address the issue of whether a request to transfer funds to the OUS ORP should result in all the member’s accounts being transferred.

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 005 – ADMINISTRATION

1 **459-005-0310**

2 **Date of Participation and Transfer of Employee Funds to the Oregon University**

3 **System Optional Retirement Plan [- OUS]**

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

5 **(a) “IAP account” means the member’s employee, rollover, and employer**  
6 **accounts in the Individual Account Program, to the extent the member is vested in**  
7 **those accounts under ORS 238A.320.**

8 **(b) “OPSRP Pension account” means the member’s transferrable interest in the**  
9 **pension program under ORS 243.800(6)(d).**

10 **(c) “PERS member account” includes a “member account” as defined in ORS**  
11 **238.005, an account established under ORS 238.440, and an account subject to ORS**  
12 **238.095(4).**

13 **(2)[(1)]** The effective date of an election by an administrative or academic employee  
14 of the Oregon *[State]* University System *[of Higher Education]* (OUS) to participate in  
15 *[an]* **the** Optional Retirement Plan (**ORP**) authorized under ORS 243.800 is the first **day**  
16 of the month following **a period of six full calendar months of employment in an**  
17 **administrative or academic position.***[the employee’s election to participate in the*  
18 *Optional Retirement Plan.]*

19 (a) Unless otherwise agreed upon, notice of the effective date of *[an]* **the** election *[to*  
20 *participate in the Optional Retirement Plan]* will be provided to PERS by *[the]* OUS  
21 within 30 days of the **date of the election.***[election date.]*

1 (b) If the employee is a member of PERS *[or the Oregon Public Service Retirement*  
2 *Plan (OPSRP) Pension Program or Individual Account Program (IAP),]* and **elects** *[is*  
3 *eligible]* to transfer **funds from PERS** *[their PERS or OPSRP accounts and]* to the  
4 Optional Retirement Plan **pursuant to ORS 243.800(6)**, *[the]* OUS will forward **to**  
5 **PERS** a copy of *[that]* **the ORP election form and a written transfer request from the**  
6 **employee** at the time of the notification required in subsection (a) of this section.

7 **(3) If an employee who is a member of PERS requests a transfer of funds**  
8 **pursuant ORS 243.800(6), PERS will administer the request as a request to transfer**  
9 **the employee’s PERS member account, OPSRP Pension account, and IAP account**  
10 **from PERS to the ORP unless the employee also requests that the transfer be**  
11 **limited to a designated account.**

12 **(a) PERS must transfer the funds to the ORP within the 60 day period following**  
13 **the later of:**

14 **(A) The effective date of the employee’s election to participate in the ORP, or**

15 **(B) The effective date of the transfer.**

16 **(b) The effective date of a transfer is the first of the month in which PERS**  
17 **completes reconciliation of the account to be transferred.**

18 **(c) PERS may not transfer funds to the ORP if the member is concurrently**  
19 **employed by a participating employer other than an institution of the Oregon**  
20 **University System.**

21 *[(2) The date of transfer will be:*

22 *(a) For a member’s PERS member account, variable account, or OPSRP Pension*  
23 *account, the first working day of the calendar month following the date of the notification*

1 *by OUS to PERS of the employee’s election to participate in an Optional Retirement Plan*  
2 *authorized under ORS 243.800.*

3 *(b) For a member’s OPSRP IAP account, the actual date of distribution.*

4 *(3) For purposes of sections (1) and (2) of this rule, the date of notification shall be*  
5 *the date on which PERS headquarters receives the written notification of the election to*  
6 *participate in an Optional Retirement Plan under ORS 243.800.]*

7 *(4) For the purposes of this rule:*

8 *(a) “PERS member account” means the member’s regular account in the fund as*  
9 *defined in ORS 238.250; and*

10 *(b) “PERS variable account” means the member’s account in the Variable Annuity*  
11 *Account in the Fund as defined in ORS 238.260.*

12 *(c) “OPSRP pension account” means the member’s benefit eligible for withdrawal*  
13 *under the provisions of ORS 238A.120; and*

14 *(d) “IAP Account” means the member’s account, to the extent the member is vested,*  
15 *as set forth under ORS 238A.350].*

16 Stat. Auth: ORS [238A.450](#), 238.650

17 Stats. Implemented: ORS 243.[800](#) [775]



# Oregon

Theodore R. Kulongoski, Governor

## Public Employees Retirement System

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July 25, 2008

TO: Members of the PERS Board  
FROM: Steven Patrick Rodeman, Deputy Director  
SUBJECT: Adoption of OAR 459-005-0310, *Date of Participation and Transfer of Employee Funds to the Oregon University System (OUS)*

MEETING DATE	<b>07/25/08</b>
AGENDA ITEM	<b>B.4. SUPP OUS ORP</b>

### SUPPLEMENTARY INFORMATION

On July 18, 2008, Denise Yunker, Director of Human Resources for the Oregon University System (OUS) submitted comment on the proposed modifications to OAR 459-005-0310. A copy of her letter is attached. OUS objects to the portion of Section 3 of the proposed rule which establishes a presumption that a member's request to transfer funds to the OUS Optional Retirement Plan (ORP) will be considered a request to transfer all the member's funds. Ms. Yunker requests that this provision be eliminated.

As stated in Ms. Yunker's comment, HB 2281, establishing the "withdraw from one, withdraw from all" concept, did not address transfers from PERS to the ORP. Though the proposed rule modifications reflect the same policy as that legislation, HB 2281 has never been the authority for the proposed modifications. ORS 243.800(6) sets forth a number of independent conditions under which PERS must transfer funds. Three of these conditions are premised on the member's request to transfer the funds. The proposed modifications do not prohibit the member from exercising these options independently, but only require the member to clearly evince their intention to do so.

PERS staff and OUS have collaborated extensively and productively during this rulemaking, resulting in significant improvements in the rule and administration of ORP transfers. On this particular provision, however, our discussions have not resulted in a consensus. As OUS will be primarily responsible for providing the notice, information, and documentation required for PERS to efficiently administer this provision of the rule, and given the degree of discomfort and concern OUS has expressed, the administrative efficiencies sought by OUS and PERS are unlikely to be fully realized if the proposed modifications are adopted.

Staff has therefore modified section (3) of the rule to remove the provision. A copy of the modified rule also accompanies this memo. Staff recommends the rule be adopted as presented with this memo.

B.4. SUPPLEMENT Attachment 1 – July 18, 2008 letter from Denise Yunker, OUS  
B.4. SUPPLEMENT Attachment 2 – OAR 459-005-0310, *Date of Participation and Transfer of Employee Funds to the Oregon University System* – OUS REVISED





Oregon  
University  
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July 18, 2008

Steve Rodeman, Deputy Director  
c/o Daniel Rivas, Rules Coordinator  
[Daniel.Rivas@state.or.us](mailto:Daniel.Rivas@state.or.us)  
Public Employees Retirement System  
P.O. Box 23700  
Tigard, OR 97281-3700

Dear Steve:

This letter is to comment on proposed OAR 459-005-0310, Date of Participation and Transfer of Employee Funds to the Oregon University System.

The proposed rule purports to take precedence over clear statutory language of ORS 243.800(6), relating to the transfer of PERS member accounts to the Optional Retirement Plan (ORP).

We respectfully object to the terms of section 3 that impose a process similar to the “withdraw one, withdraw all” requirement adopted for withdrawal of PERS accounts, and request that Section 3 be modified to clarify that the transfer provisions of ORS 243.800 (6) apply.

From earlier discussions with you and PERS staff, we understand that PERS is seeking administrative efficiencies wherever possible, and we support your goal. However, in these discussions, we pointed out several reasons that “withdraw one, withdraw all” is inapplicable to PERS-to-ORP account transfers.

We have discussed and jointly agreed that in-service transfers are not withdrawals, which were addressed in HB 2281. In-service transfers and withdrawals are distinctly different operations, with different tax consequences and benefits to participants.

Had the legislature intended to treat transfers to the ORP in the same manner as withdrawals, revisions would have been made to ORS 243.800 in this regard along with other changes made to the statute in the last legislative session. In the absence of amended language, counsel has concluded that the legislature intended to allow vested PERS members who elect to participate in the ORP to determine whether to transfer any, all, or none of the member’s ORS chapter 238 or 238A account to the ORP.

Further, we appeal to PERS’ own quest of simplicity and best administrative practices to avoid creation of a PERS administrative rule that has the potential to result in misinformation to members and for plan administrators who rely on the ORP statute. Members seeking transfer of a PERS account to the ORP will find that they have, by operation of the rule, consented to transfer of all PERS accounts to ORP. That result can be characterized as conflicting with the legislative policy embodied in the statute.

Finally, the administrative efficiency you are seeking to achieve with this rule was not required by the legislature, and could result in costs for both OUS and PERS. In order to defend against lawsuits by members who rely on ORS 243.800(6) and then discover PERS' negative election requirement after all of the members' accounts are transferred to the ORP, both PERS and OUS would need amend our respective plan documents and provide effective notice to members at the time transfers are requested. Along with potential litigation expenses, it will be an additional administrative burden that could be avoided by not having the proposed negative election option as part of the rule.

We recommend that you revise 459-0105-0310(3) to read, "An employee who is member of PERS may request a transfer of funds, which PERS will administer under the provisions of ORS 243.800(6)."

Thank you for the recent productive discussions on integrating PERS and OUS administration on this and other issues.

Respectfully submitted,



Denise Yunker, Director  
Human Resources Division

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

1 459-005-0310

2 Date of Participation and Transfer of Employee Funds to the Oregon University

3 System Optional Retirement Plan *[- OUS]*

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

5 (a) “IAP account” means the member’s employee, rollover, and employer

6 accounts in the Individual Account Program, to the extent the member is vested in

7 those accounts under ORS 238A.320.

8 (b) “OPSRP Pension account” means the member’s transferrable interest in the

9 pension program under ORS 243.800(6)(d).

10 (c) “PERS member account” includes a “member account” as defined in ORS

11 238.005, an account established under ORS 238.440, and an account subject to ORS

12 238.095(4).

13 (2)[(1)] The effective date of an election by an administrative or academic employee

14 of the Oregon *[State]* University System *[of Higher Education]* (OUS) to participate in

15 *[an]* the Optional Retirement Plan (ORP) authorized under ORS 243.800 is the first day

16 of the month following a period of six full calendar months of employment in an

17 administrative or academic position.*[the employee’s election to participate in the*

18 *Optional Retirement Plan.]*

19 (a) Unless otherwise agreed upon, notice of the effective date of *[an]* the election *[to*

20 *participate in the Optional Retirement Plan]* will be provided to PERS by *[the]* OUS

21 within 30 days of the date of the election. *[election date.]*

1 (b) If the employee is a member of PERS *[or the Oregon Public Service Retirement*  
2 *Plan (OPSRP) Pension Program or Individual Account Program (IAP),]* and **elects** *[is*  
3 *eligible]* to transfer **funds from PERS** *[their PERS or OPSRP accounts and]* to the  
4 Optional Retirement Plan **pursuant to ORS 243.800(6)**, *[the]* OUS will forward **to**  
5 **PERS** a copy of *[that]* **the ORP election form and a written transfer request from the**  
6 **employee** at the time of the notification required in subsection (a) of this section.

7 **(3) If an employee who is a member of PERS requests a transfer of funds**  
8 **pursuant to ORS 243.800(6):**

9 **(a) PERS must transfer the funds to the ORP within the 60 day period following**  
10 **the later of:**

11 **(A) The effective date of the employee’s election to participate in the ORP; or**  
12 **(B) The effective date of the transfer.**

13 **(b) The effective date of a transfer is the first of the month in which PERS**  
14 **completes reconciliation of the account to be transferred.**

15 **(c) PERS may not transfer funds to the ORP if the member is concurrently**  
16 **employed by a participating employer other than an institution of the Oregon**  
17 **University System.**

18 *[(2) The date of transfer will be:*

19 *(a) For a member’s PERS member account, variable account, or OPSRP Pension*  
20 *account, the first working day of the calendar month following the date of the notification*  
21 *by OUS to PERS of the employee’s election to participate in an Optional Retirement Plan*  
22 *authorized under ORS 243.800.*

23 *(b) For a member’s OPSRP IAP account, the actual date of distribution.*

1           (3) For purposes of sections (1) and (2) of this rule, the date of notification shall be  
 2           the date on which PERS headquarters receives the written notification of the election to  
 3           participate in an Optional Retirement Plan under ORS 243.800.]

4           (4) For the purposes of this rule:

5           (a) “PERS member account” means the member’s regular account in the fund as  
 6           defined in ORS 238.250; and

7           (b) “PERS variable account” means the member’s account in the Variable Annuity  
 8           Account in the Fund as defined in ORS 238.260.

9           (c) “OPSRP pension account” means the member’s benefit eligible for withdrawal  
 10          under the provisions of ORS 238A.120; and

11          (d) “IAP Account” means the member’s account, to the extent the member is vested,  
 12          as set forth under ORS 238A.350].

13          Stat. Auth: ORS [238A.450](#), 238.650

14          Stats. Implemented: ORS 243.[800](#) [775]



# Oregon

Theodore R. Kulongoski, Governor

## Public Employees Retirement System

Headquarters:  
11410 S.W. 68<sup>th</sup> Parkway, Tigard, OR  
Mailing Address:  
P.O. Box 23700  
Tigard, OR 97281-3700  
(503) 598-7377  
TTY (503) 603-7766  
[www.oregon.gov/pers](http://www.oregon.gov/pers)

July 25, 2008

TO: Members of the PERS Board  
FROM: Steven Patrick Rodeman, Deputy Director  
SUBJECT: Update on ETOB Rules  
OAR 459-030-0011, *Equal To or Better Than Exemption*  
OAR 459-030-0025, *Standards for Review of Police Officers and Firefighters Retirement Plans*  
OAR 459-030-0030, *Board Action on Petition and Review of Order*

MEETING DATE	<b>07/25/08</b>
AGENDA ITEM	<b>B.5. ETOB</b>

Rulemaking commenced on the above referenced rules to implement HB 2280 (2007 Session), which eliminated the requirement that the PERS Board conduct an ETOB study every two years. This bill also set the comparative benchmark for the ETOB study to the PERS benefits that were in effect at the time the police officer or firefighter was hired. Lastly, the bill eliminated the requirement that those employers failing to meet the ETOB standard must join PERS but, rather, requires the employer to provide comparable benefits to police officers and firefighters.

The rule modifications necessary to reflect these legislative changes have been under consideration by a working group of affected stakeholders. At this point, staff has a set of modifications to be considered by all interested parties. Therefore, staff has re-opened the public comment period and anticipates following this rulemaking schedule:

July 15, 2008	Staff extended the public comment period and scheduled a second public hearing by filing Notice of Rulemaking with the Secretary of State.
August 1, 2008	<i>Oregon Bulletin</i> publishes the updated Notice. Notice will be mailed to employers, legislators, and interested parties. Public comment period begins.
August 26, 2008	Second rulemaking hearing to be held at 2:00 p.m. in Tigard
September 5, 2008	Extended public comment period ends at 5:00 p.m.
September 26, 2008	Staff will propose adopting the permanent rule modifications, including any changes resulting from public comment or reviews by staff or legal counsel.



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[www.oregon.gov/pers](http://www.oregon.gov/pers)

July 25, 2008

TO: Members of the PERS Board

FROM: Dale S. Orr, Manager  
Actuarial Analysis Section

SUBJECT: 2007 Valuation Report

MEETING DATE	<b>07/25/08</b>
AGENDA ITEM	<b>C.1.</b> 2007 Valuation

On July 25, 2008, PERS actuaries Bill Hallmark and Matthew Larrabee will present the 2007 valuation results for the Tier One/Tier Two and Oregon Public Service Retirement Pension (OPSRP) programs.

The 2007 Valuation will provide the basis for establishing the next set of employer rates. The actuaries may request that the Board, in compliance with ORS 238.225, adopt new employer rates providing the rate calculations are complete. If not, the rate approval decision will be deferred until the September Board meeting. The new employer rates will be effective for the period July 1, 2009 through June 30, 2011.

We will forward the actuaries' presentation to the Board as soon as it is available.

# MERCER

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MARSH MERCER KROLL  
GUY CARPENTER OLIVER WYMAN

July 25, 2008

## **December 31, 2007 Actuarial Valuation** Oregon Public Employees Retirement System

Bill Hallmark and Matt Larrabee





## Contents

- Key Findings
- Pension Valuation
  - Demographics
  - Assets
  - Liabilities
  - Funded Status
  - Contribution Rates
- Retiree Healthcare Valuation
- Next Steps

## Key Findings

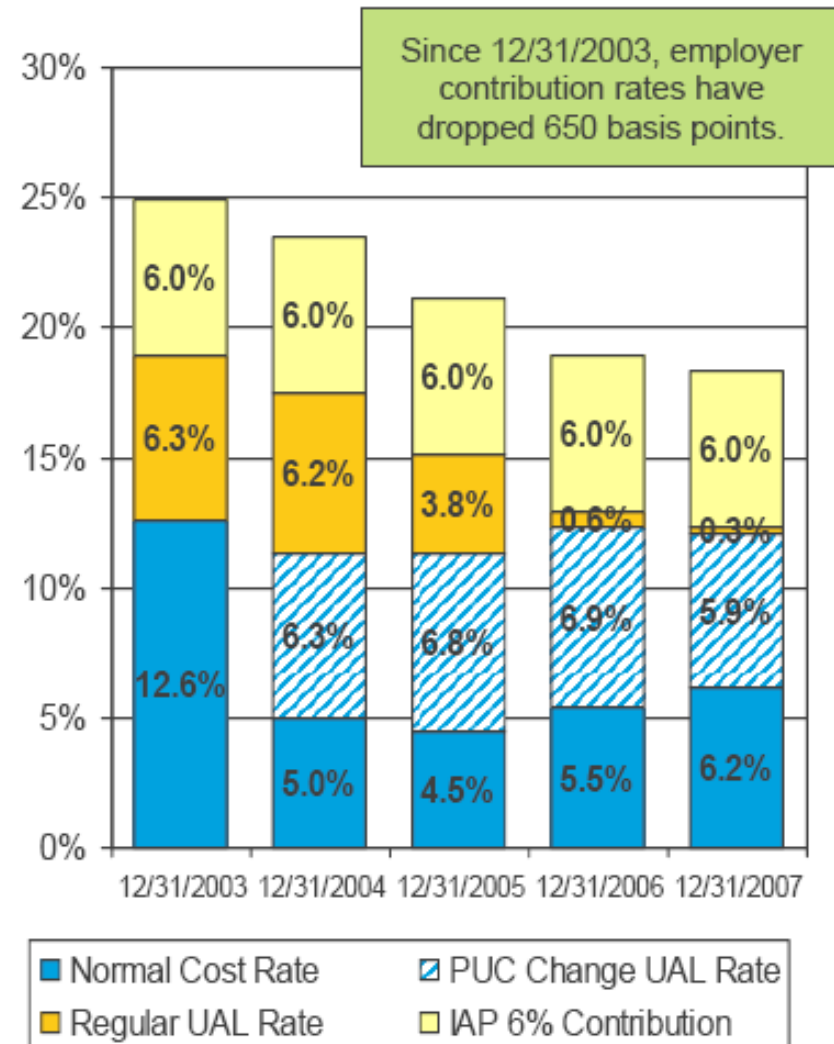
### Overview

- **Employer contribution rates are declining**
  - Results are very similar to the 2006 valuation with average contribution rates declining 250 basis points from the rates that are effective 7/1/2007 through 6/30/2009.
  - New contribution rates calculated in this valuation will be effective July 1, 2009 through June 30, 2011
- **Including side accounts, funded status has improved from 110% to 112%**
  - Excluding side accounts, funded status improved from 96% to 98%
- **Impact of 2008 YTD Investment Returns**
  - The 2008 investment return on the regular account through June 30<sup>th</sup> is -5.17%.
  - If returns remain at -5.17% for the year, we expect funded status to decline to approximately 88%, excluding side accounts.
  - Contribution rates will not be affected by 2008 or 2009 investment returns until July 1, 2011 based on the December 31, 2009 valuation.
- **Arken and Robinson litigation**
  - We have made no adjustment to these valuation results to reflect any interpretation of Judge Kantor's rulings in the *Arken and Robinson* cases.

## Key Findings

### Average Contribution Rates Including Retiree Healthcare and IAP

- The average normal cost rate increased since the prior valuation primarily due to expected increases as the system gradually shifts from Money Match dominance to Full Formula dominance.
- The UAL rate for the change to the PUC method decreased slightly because contributions were first credited toward this portion of the UAL beginning 7/1/2007.
- The regular UAL rate decreased reflecting actual 2007 earnings slightly in excess of expectations.
- These rates do not reflect the impact of side accounts or pre-SLGRP liabilities or surpluses.



## Key Findings

### Average Contribution Rates Including RHIA/RHIPA (Excluding IAP)

Average Employer Rates	SLGRP	School Districts	Independents <sup>1</sup>	OPSRP General	OPSRP P&F	System-Wide
7/1/2007 Actual Rates	14.3%	17.6%	9.1%	16.3%	19.6%	14.9%
<b>7/1/2009 Actual Rates</b>	<b>11.4%</b>	<b>14.3%</b>	<b>10.7%</b>	<b>12.0%</b>	<b>14.7%</b>	<b>12.4%</b>
Net Change in Rates	(2.9%)	(3.3%)	1.6% <sup>2</sup>	(4.3%)	(4.9%)	(2.5%)
7/1/2009 Average Adjustments <sup>3</sup>	(7.1%)	(10.5%)	(1.1%)	(7.7%)	(7.7%)	(7.7%)
<b>7/1/2009 Average Net Rates</b>	<b>4.3%</b>	<b>3.8%</b>	<b>9.6%</b>	<b>4.3%</b>	<b>7.0%</b>	<b>4.7%</b>

- Changes in rates can vary significantly by individual employer and to a lesser extent by pool.
  - Actual 7/1/2009 pension contribution rates range from 0% to 55% of payroll. Actual 7/1/2007 rates ranged from 0% to 68% of payroll.
  - The number of employers making no pension contribution increased from 5 to 66 as of 7/1/2009. These employers still have contributions for retiree healthcare, any pick-up of IAP contributions, and any pension obligation bond payments.
  - Average net rates above are not adjusted to reflect the portion of an adjustment that may not be used because the employer is already making a 0% pension contribution.

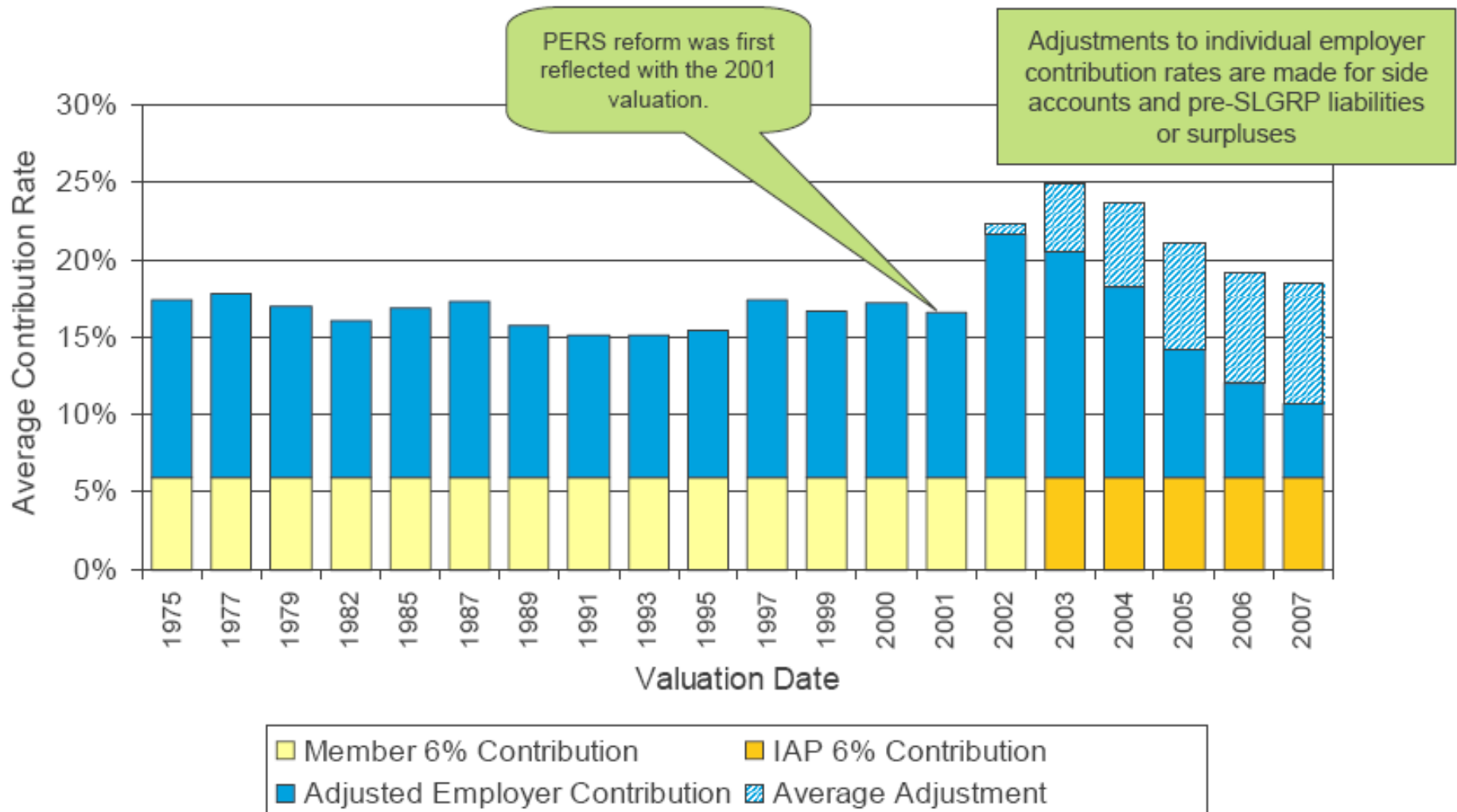
<sup>1</sup> Independent employers, including Judiciary, are treated as a single pool for purposes of this exhibit.

<sup>2</sup> The net increase for independent employers is largely due to some well-funded independent employers joining the SLGRP.

<sup>3</sup> Adjustments are for side accounts and pre-SLGRP liabilities/(surpluses) and are assumed not to be limited when an individual employer reaches a 0.00% contribution rate.

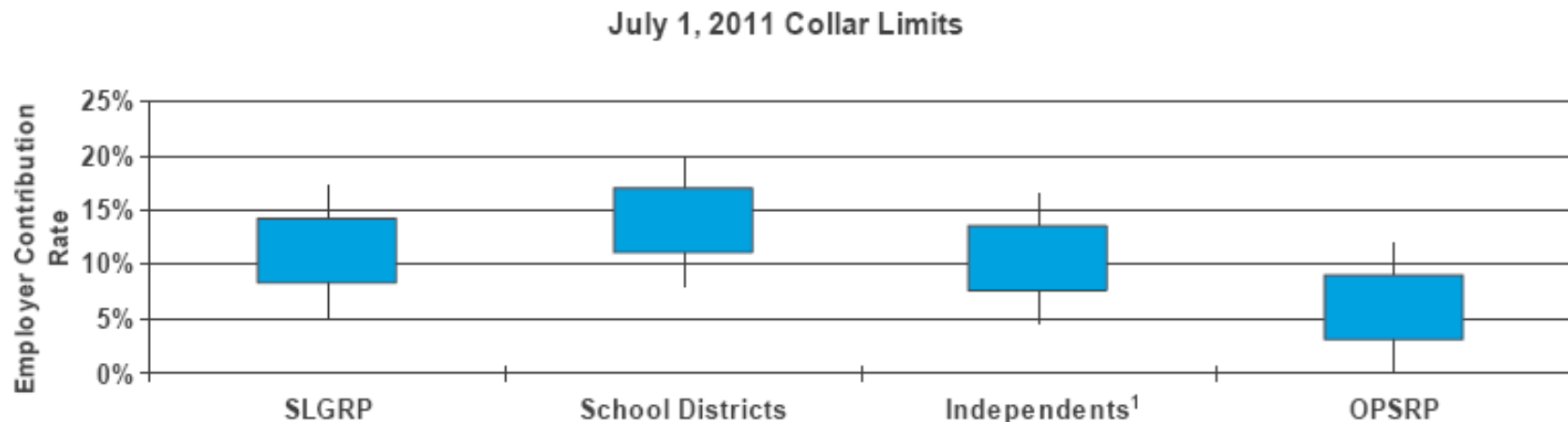
## Key Findings

### Historical Perspective on Employer and Member Contribution Rates



## Key Findings

### Collar Limits for Rates Effective 7/1/2011

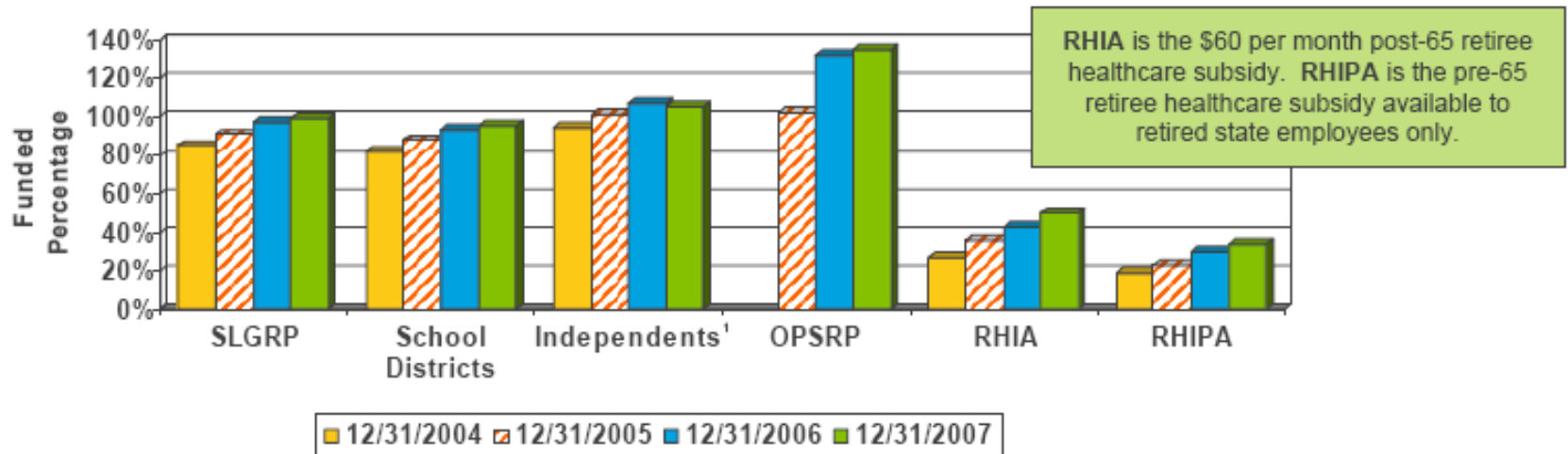


- The rate collar limits the change in employer contribution rates from one period to the next. This valuation determines the actual rates for the period from 7/1/2009 through 6/30/2011 and the collar limits for rates that will become effective 7/1/2011.
- The blue box above shows the collar limits for 7/1/2011 employer rates assuming the funded status is between 80% and 120%. The lines above and below represent the potential range if the funded status is not between 80% and 120%.

<sup>1</sup> Independent employers, including Judiciary, are treated as a single pool for purposes of this exhibit.

## Key Findings

### Recent Funded Status By Rate Pool



- Funded status for rate pools has continued to improve with the good investment returns from 2003 through 2007.
- Side accounts now account for a significant portion of assets which are not included in the graph above. Including side accounts, the pension rate pools are in surplus positions.
- RHIPA assets represent only 49 months of benefit payments. While it is a significant improvement over the 38 months last year, changes in retired State employee participation rates could dramatically hasten the use of current assets.

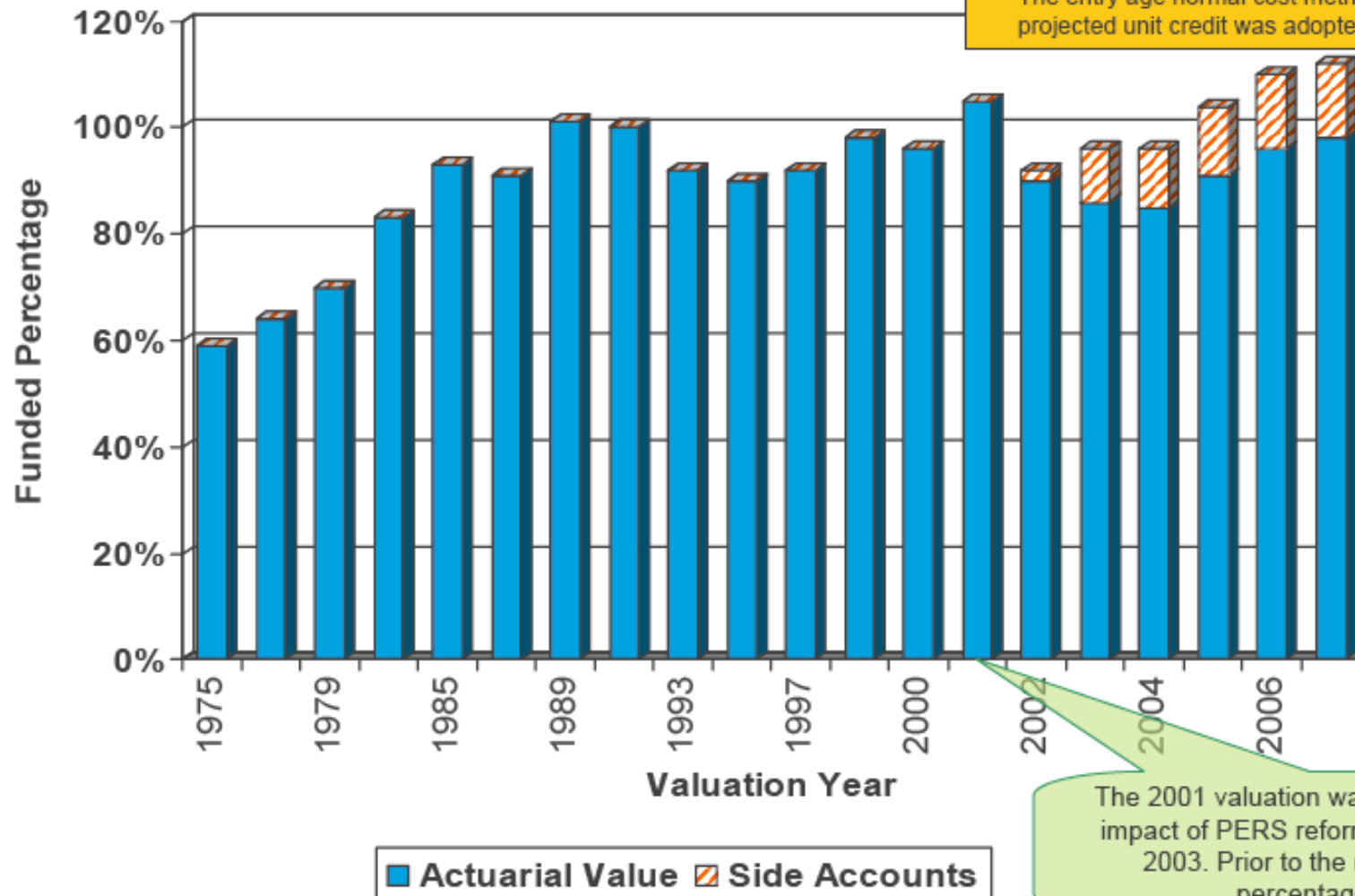
<sup>1</sup> Independent employers, including Judiciary, are treated as a single pool for purposes of this exhibit.

## Key Findings

### Historical Reported Pension Funded Status

When comparing reported historical funded status, please note that there have been a number of changes including:

- Money Match benefits were not valued until 1997.
- A smoothed value of assets was used from 2000 through 2003.
- PERS reform was valued beginning in 2001.
- The entry age normal cost method was used until 2004 when projected unit credit was adopted.

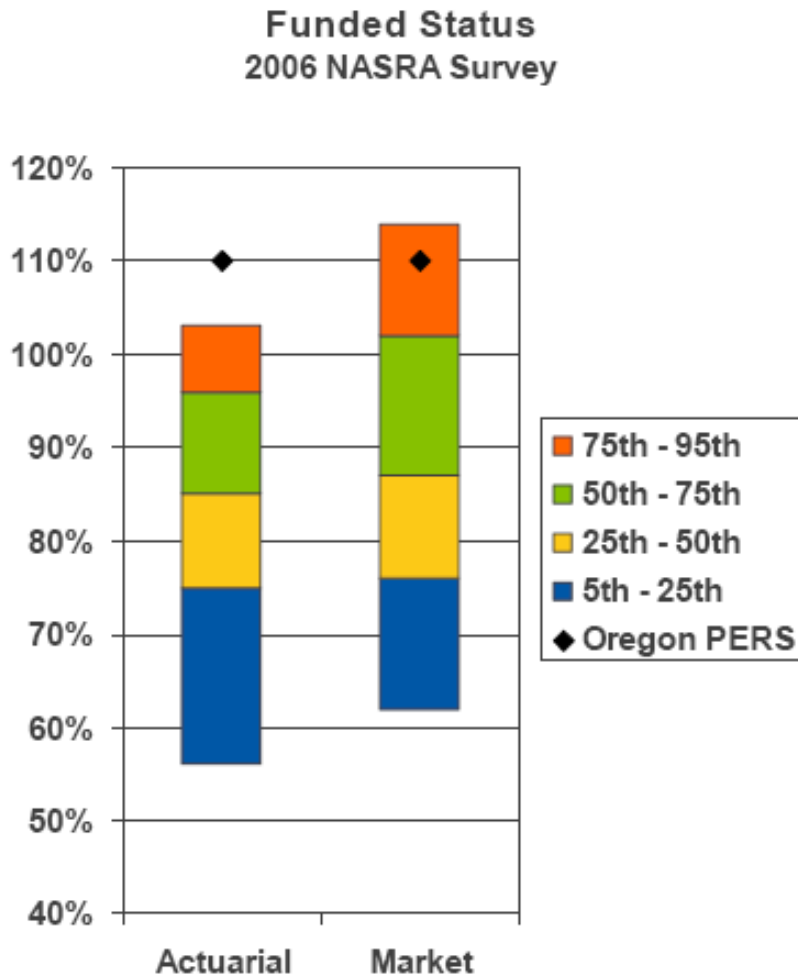


The 2001 valuation was revised to include the impact of PERS reform legislation enacted in 2003. Prior to the revision, the funded percentage was 88%.



## Key Findings

### Comparison of Pension Funded Status

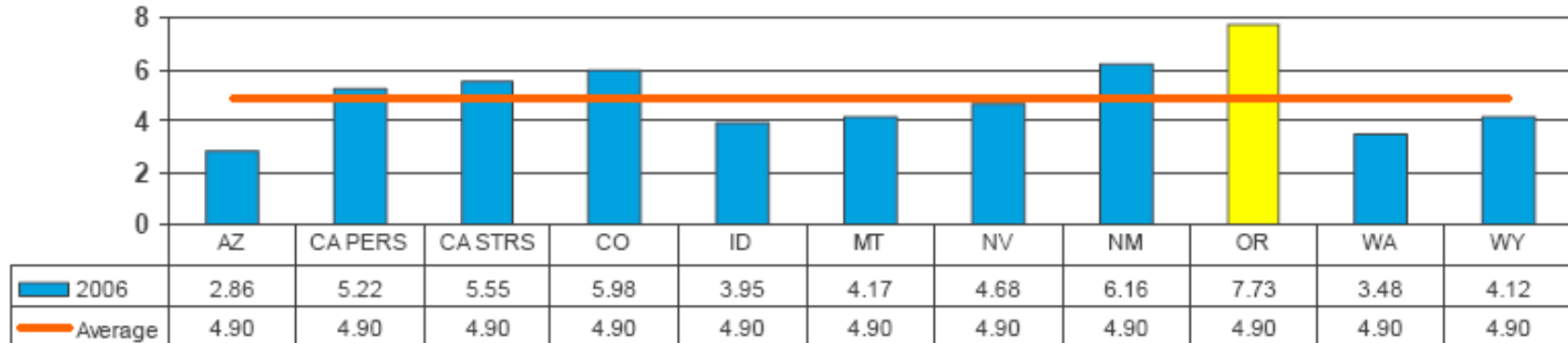


- The National Association of State Retirement Administrators (NASRA) conducts an annual survey of 110 large retirement systems in the US.
- Based on the 2006 NASRA survey, Oregon PERS is one of the most well-funded large systems in the country.
- It should be noted that there are many differences in the way systems calculate their actuarial value of assets and the actuarial accrued liability that make comparisons such as this one imperfect.
- Most of the systems report values as of June 30, while many others, including Oregon PERS, report values as of December 31.

## Key Findings

### Comparison of Sensitivity to Investment Returns

Actuarial Value of Assets / Payroll



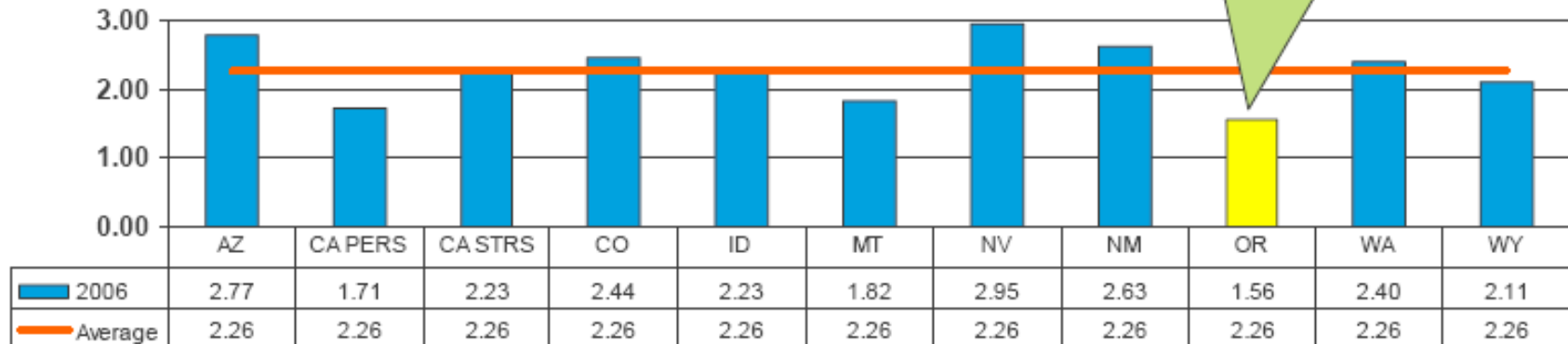
- Any variation in investment performance from the actuarial assumption is amortized as a level percentage of payroll.
- Contribution rates for plans with higher asset to payroll ratios are more sensitive to actual investment returns.
- Among these Western state systems, Oregon PERS has the highest assets to payroll ratio and, consequently, is the most sensitive to volatility in investment experience.

*Note: Data above is based upon the Comprehensive Annual Financial Reports of each retirement system as published on their respective web sites. There are differences in reporting dates and other factors that may make direct comparisons imperfect.*

## Key Findings

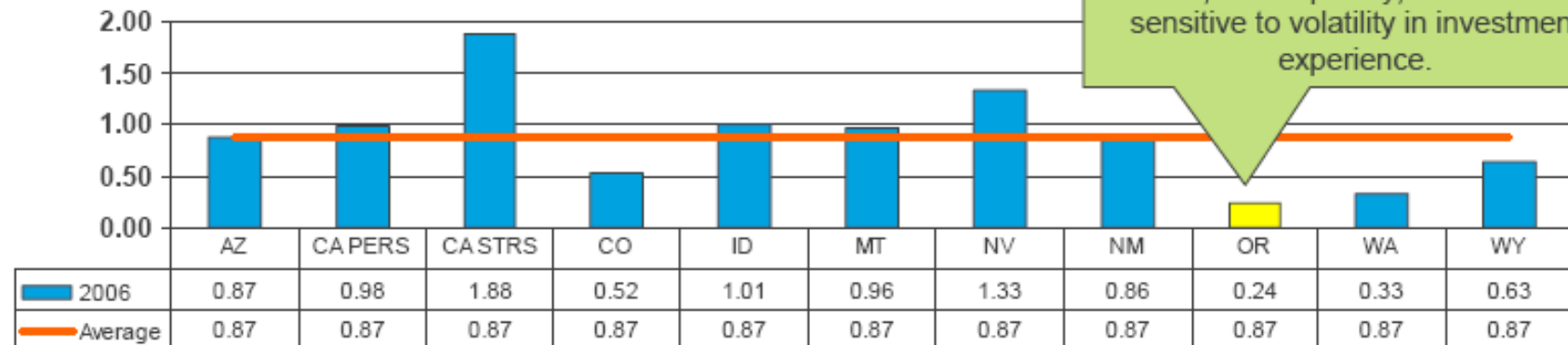
### Comparison of Sensitivity to Investment Returns

Active Members / Retirees and Beneficiaries



Among these western state systems, Oregon PERS has the lowest active to retiree ratio and, consequently, is the most sensitive to volatility in investment experience.

Contributions / Benefit Payments

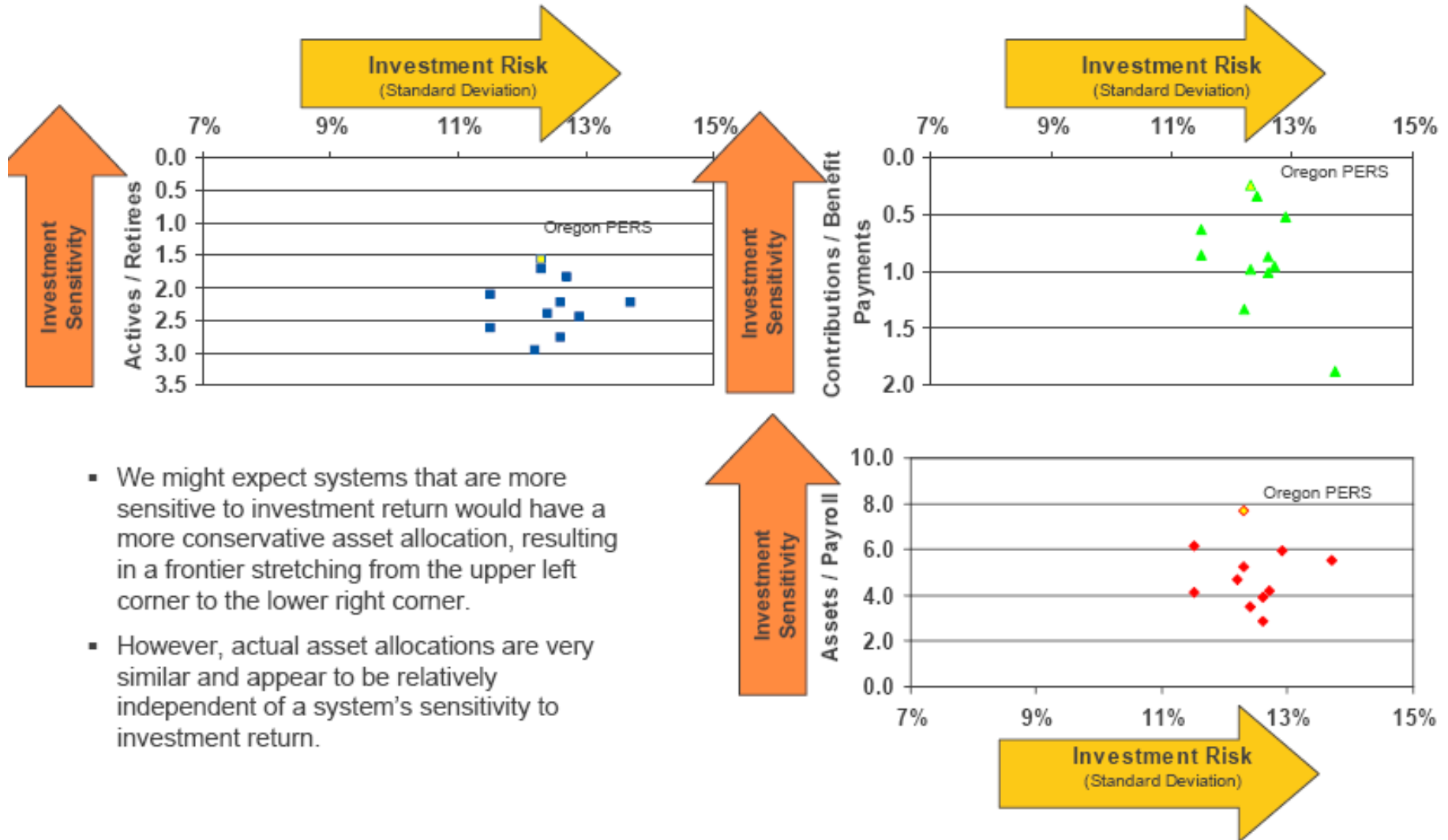


Among these Western state systems, Oregon PERS has the lowest contribution to benefit payment ratio and, consequently, is the most sensitive to volatility in investment experience.

Note: Data above is based upon the Comprehensive Annual Financial Reports of each retirement system as published on their respective web sites. There are differences in reporting dates and other factors that may make direct comparisons imperfect.

# Key Findings

## Sensitivity to Investment Return vs. Asset Allocation



- We might expect systems that are more sensitive to investment return would have a more conservative asset allocation, resulting in a frontier stretching from the upper left corner to the lower right corner.
- However, actual asset allocations are very similar and appear to be relatively independent of a system's sensitivity to investment return.

*Note: Data above is based upon the Comprehensive Annual Financial Reports of each retirement system as published on their respective web sites. There are differences in reporting dates and other factors that may make direct comparisons imperfect. Standard deviation is based on each system's reported target asset allocation and Mercer Investment Consulting's capital market assumptions.*

## Key Findings Value at Risk

The 2008 investment return through June is -5.17%. If returns remain at -5.17% for the full year, the funded percentage would decline to 88%, the UAL would increase to \$6.5 billion, and advisory contribution rates (ignoring the collar) would increase over 500 basis points.

Percentile	One-Year Return	One-Year Projection		
		Funded %	UAL (billions)	Advisory Rate Change (Without Collar)
5 <sup>th</sup>	-12.1%	82%	\$9.6	8.0%
10 <sup>th</sup>	-7.6%	86%	\$7.6	6.2%
25 <sup>th</sup>	-0.2%	92%	\$4.2	3.2%
50 <sup>th</sup>	8.0%	99%	\$0.5	-0.1%
75 <sup>th</sup>	16.2%	106%	\$(3.3)	-3.5%
90 <sup>th</sup>	23.7%	112%	\$(6.7)	-6.5%
95 <sup>th</sup>	28.1%	116%	\$(8.7)	-8.3%

- Investment returns from 2003 through 2007 have significantly improved the funded status and reduced contribution rates of the system.
- Investment returns, particularly in the short-term, are extremely volatile.
- The table shows the probability of investment returns over a one-year time horizon and the impact they would have on the system (ignoring side accounts and the rate collar).
- Assuming the system's funded status remains between 80% and 120%, the rate collar would limit the actual change to 3% of payroll over a two year period.
- However, if the collar restricts the change in rates, it is likely that future rate changes will trend in the same direction.
- For employers with side accounts, rate changes will be even more extreme, except that rates cannot go below 0%.

## Key Findings

### Value at Risk

Percentile	One-Year Return	Advisory Rate Change (Without Rate Collar)		
		Oregon PERS Assets / Pay Ratio (7.73)	Average Assets / Pay Ratio (4.9)	Lowest Assets / Pay Ratio (2.86)
5 <sup>th</sup>	-12.1%	8.0%	5.1%	3.0%
10 <sup>th</sup>	-7.6%	6.2%	4.0%	2.3%
25 <sup>th</sup>	-0.2%	3.2%	2.0%	1.2%
50 <sup>th</sup>	8.0%	-0.1%	-0.1%	-0.1%
75 <sup>th</sup>	16.2%	-3.5%	-2.2%	-1.3%
90 <sup>th</sup>	23.7%	-6.5%	-4.2%	-2.4%
95 <sup>th</sup>	28.1%	-8.3%	-5.3%	-3.1%

- This chart shows how the sensitivity to investment returns is affected by the assets to payroll ratio.
- Oregon PERS' assets to payroll ratio results in a change in contribution rates between the 5<sup>th</sup> and 95<sup>th</sup> percentile of 16.3% of payroll.
- If Oregon PERS had an average assets to payroll ratio of 4.9, this range would be reduced to 10.4% of payroll.
- If Oregon PERS had the lowest average assets to payroll ratio of the systems shown above of 2.86, this range would be reduced to 6.1% of payroll.
- As a result of Oregon PERS' asset to payroll ratio, it is more difficult to tolerate volatile investment returns.

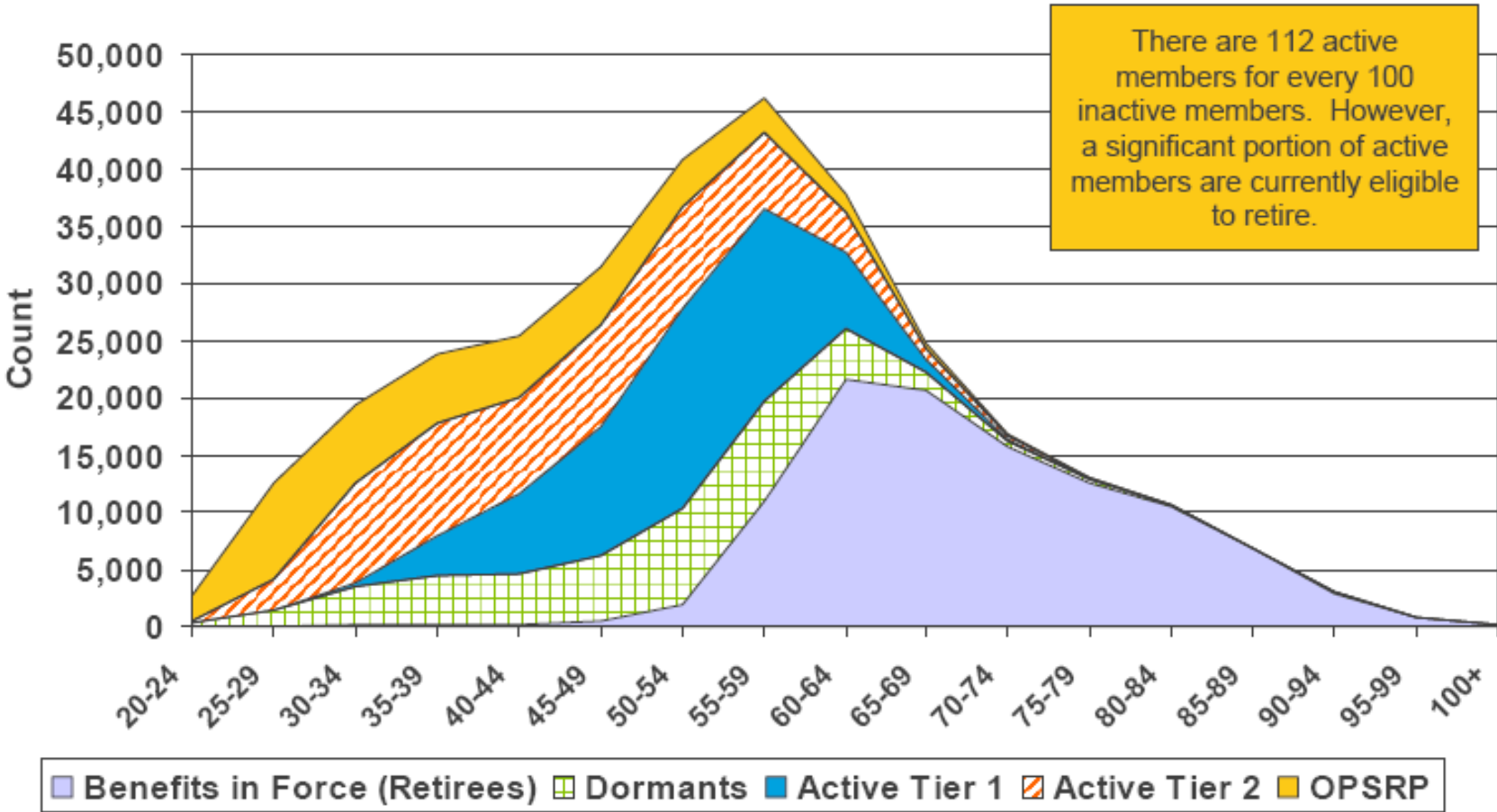
# **12/31/2007 Pension Valuation**

Oregon Public Employees Retirement System

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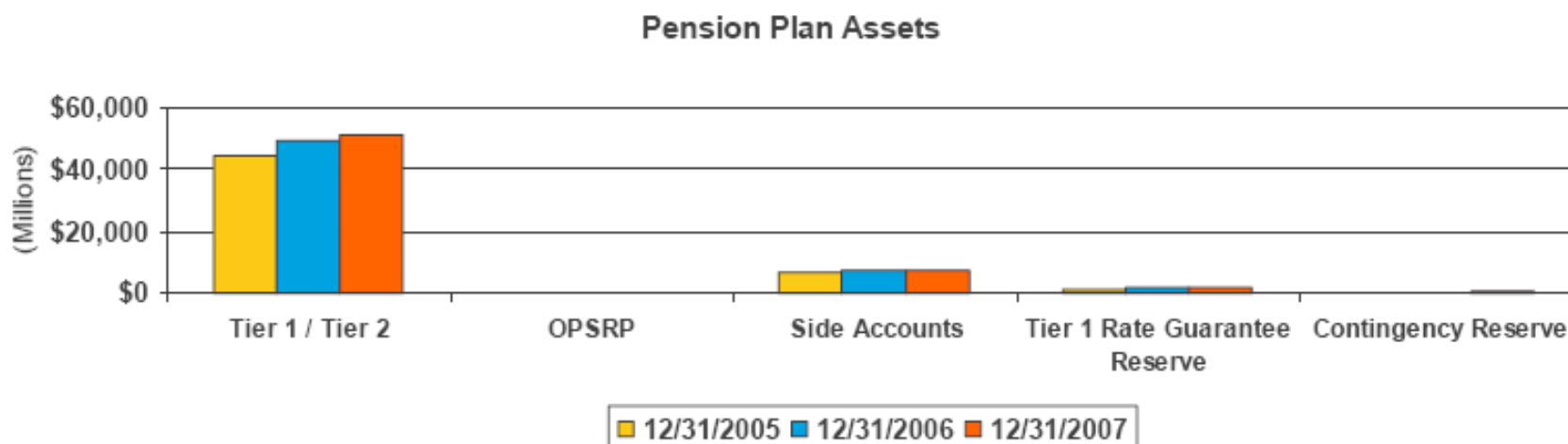
**12/31/2007 Pension Valuation**  
Demographics

**Age Distribution**



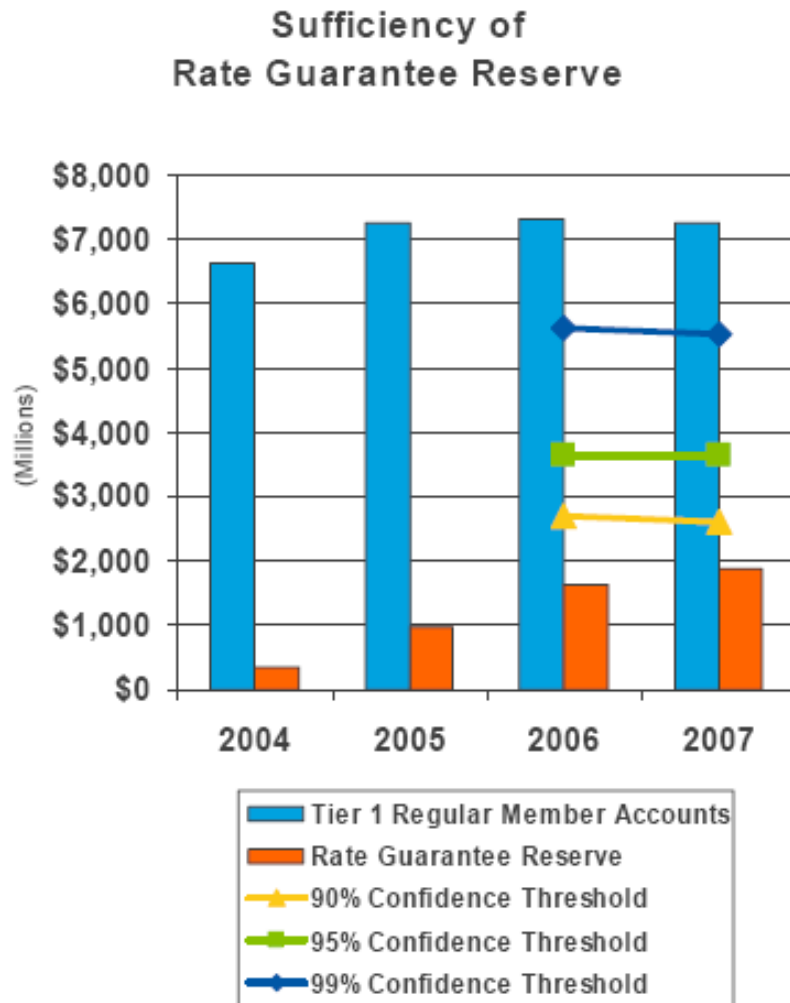


## 12/31/2007 Pension Valuation Assets



- Tier 1/Tier 2 valuation assets grew from approximately \$49 billion to approximately \$52 billion in the last year. In addition, side accounts grew from \$7.2 billion to \$7.7 billion.
- OPSRP valuation assets grew significantly from \$151 million to \$275 million in the last year, but are only about 0.5% of Tier 1/Tier 2 assets.
- The Rate Guarantee Reserve also grew from \$1.6 billion to \$1.9 billion. The Contingency Reserve was increased from \$295 million to \$653 million.
- Valuation assets used to set pooled employer contribution rates exclude:
  - The Contingency and Capital Preservation Reserves,
  - The Rate Guarantee Reserve,
  - Side accounts, and
  - Pre-SLGRP liabilities and surpluses

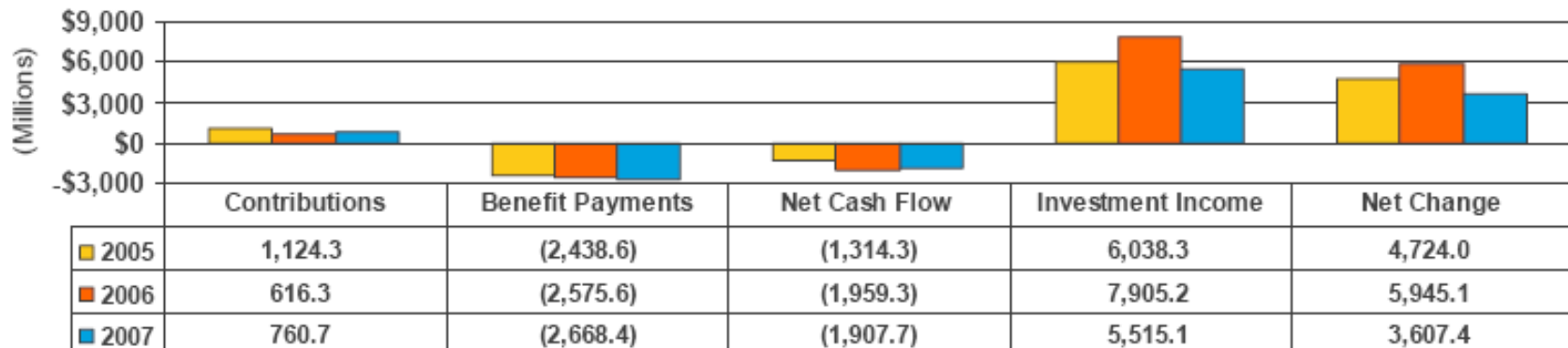
## 12/31/2007 Pension Valuation Assets



- At the March, 2007 Board meeting, we presented a study examining different thresholds for declaring the Rate Guarantee Reserve fully funded.
- The Rate Guarantee Reserve does not exceed the 90%, 95% and 99% confidence thresholds used in that study.
- Unless investment returns improve dramatically for the remainder of the year, the Rate Guarantee Reserve will not exceed any of the thresholds for 2008.

## 12/31/2007 Pension Valuation Assets

Changes in Pension Plan Assets



- Benefit payments are 3.5 times larger than contributions, including side account deposits, resulting in net negative cash flow before earnings.
- Investment earnings are the primary determinant of changes in pension assets. For 2007, investment earnings were 7.25 times greater than contributions.
- The net increase in assets for 2007 of \$3.6 billion is slightly more than expected, but significantly less than the net increases for 2005 or 2006.

## 12/31/2007 Pension Valuation

### Normal Cost

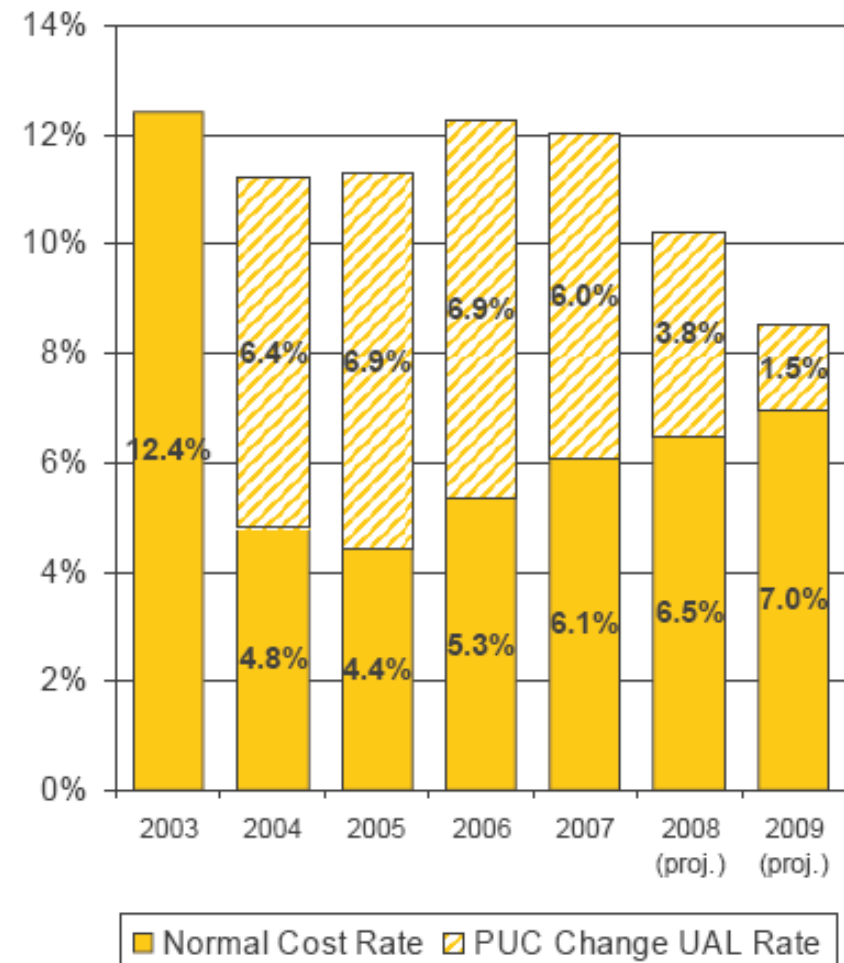
- The average normal cost rate increased 74 basis points since the last valuation.
- Since reform, anyone expected to retire under Money Match has a 0% normal cost. As a result, Tier 1 General Members have the lowest normal cost rate.
- Tier 1 / Tier 2 normal cost rates are expected to continue to increase as benefits continue to shift to Full Formula and as active members age.
- The decrease in the OPSRP normal cost rate is primarily due to the administrative expense assumption (\$8.6 million) becoming a smaller percentage of a growing OPSRP payroll.

	Valuation		
	12/31/2007	12/31/2006	12/31/2005
T-1, General	3.57%	2.88%	2.18%
T-1, P&F	13.14%	11.56%	9.99%
<b>T-1, Average</b>	<b>4.67%</b>	<b>3.86%</b>	<b>3.08%</b>
T-2, General	7.28%	6.33%	5.12%
T-2, P&F	12.81%	12.10%	10.88%
<b>T-2, Average</b>	<b>8.03%</b>	<b>7.04%</b>	<b>5.86%</b>
OPSRP, General	5.81%	6.00%	6.09%
OPSRP, P&F	8.52%	8.87%	9.41%
<b>OPSRP, Average</b>	<b>6.05%</b>	<b>6.23%</b>	<b>6.33%</b>
<b>System Average</b>	<b>6.07%</b>	<b>5.33%</b>	<b>4.39%</b>

## 12/31/2007 Pension Valuation

### Combined Normal Cost and PUC Change UAL Rates

- With the change to the PUC cost method in 2004, the normal cost decreased and the UAL increased.
- The increase in UAL due to this change was amortized over a rolling 3-year period in an effort to keep the combination of the normal cost rate and the PUC change UAL rate relatively level as benefits shifted from Money Match to Full Formula.
- The chart shows that by the 2009 valuation, the PUC change UAL rate is expected to have declined significantly faster than the normal cost rate is expected to increase.
- The net result is an expected 360 basis point decrease in rates as of July 1, 2011 that may help offset any increase in rates due to investment returns below expectations.



## 12/31/2007 Pension Valuation

### Actuarial Accrued Liabilities

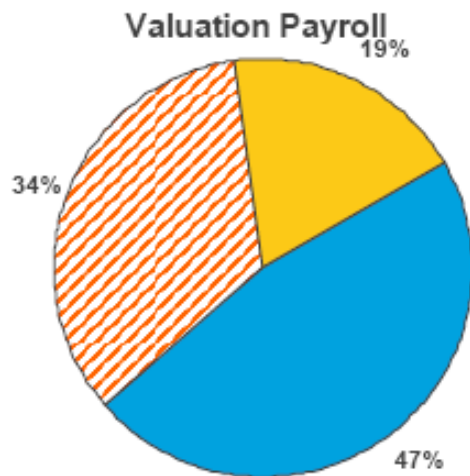
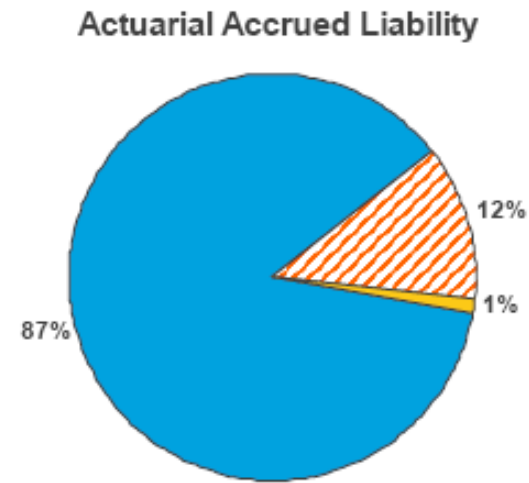
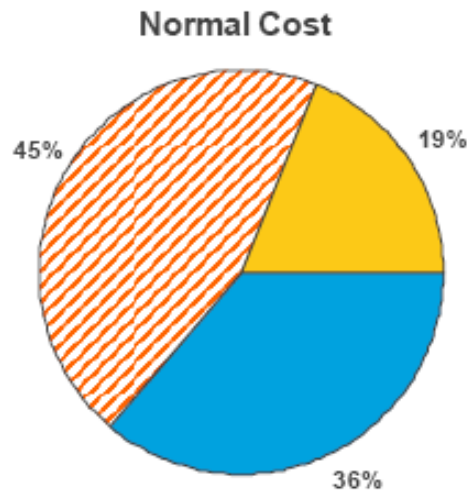
	Valuation		
	12/31/2007	12/31/2006	12/31/2005
T-1, General	\$15,246	\$15,464	\$15,269
T-1, P&F	\$1,810	\$1,796	\$1,801
<b>T-1, Total</b>	<b>\$17,056</b>	<b>\$17,260</b>	<b>\$17,070</b>
T-2, General	\$2,010	\$1,785	\$1,472
T-2, P&F	\$415	\$341	\$309
<b>T-2, Total</b>	<b>\$2,425</b>	<b>\$2,126</b>	<b>\$1,781</b>
OPSRP, General	\$177	\$102	\$47
OPSRP, P&F	\$25	\$13	\$6
<b>OPSRP Total</b>	<b>\$202</b>	<b>\$115</b>	<b>\$53</b>
Dormant	\$4,421	\$4,450	\$4,187
Benefits in Force	\$28,767	\$27,303	\$26,202
<b>Inactive Total</b>	<b>\$33,188</b>	<b>\$31,753</b>	<b>\$30,389</b>
<b>System Total</b>	<b>\$52,871</b>	<b>\$51,254</b>	<b>\$49,293</b>

Amounts in millions

- Total system liabilities grew about 3% in the last year
  - ◊ 1 % growth in active liabilities
    - (1%) growth in Tier 1
    - 14% growth in Tier 2
    - 76% growth in OPSRP
  - ◊ (1%) growth in dormant liabilities
  - ◊ 5% growth in benefits in force
- We expect Tier 1 active liabilities to continue to decline while Tier 2, OPSRP and inactive liabilities continue to grow

# 12/31/2007 Pension Valuation

## Active Liabilities



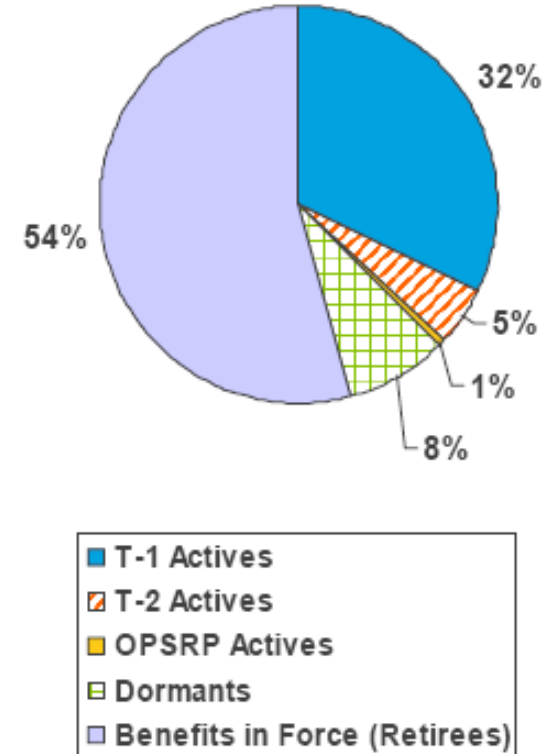
- While Tier 1 represents 87% of the accrued liability, it is only 47% of the payroll and 36% of the normal cost
- Tier 2 represents 12% of the accrued liability, 34% of the payroll and 45% of the normal cost.
- OPSRP represents 19% of the payroll and 19% of the normal cost, but only 1% of the liability.

## 12/31/2007 Pension Valuation

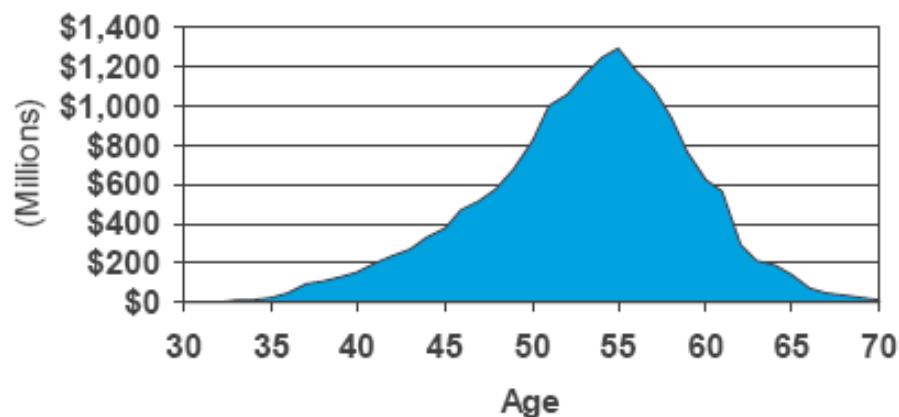
### Actuarial Accrued Liabilities

- While Tier 1 members represent the predominant portion of the active liability, 63% of the System's total accrued liability is for members who are no longer actively working in covered employment.
- Over 40% of the Tier 1 active liability is for members over age 55, and approximately 75% of the Tier 1 active liability is for members over age 50.

Actuarial Accrued Liability  
by Member Category



Distribution of Tier 1 Active Liability





## 12/31/2007 Pension Valuation

### Funded Status Measures

- **Unfunded Accrued Liability Before Side Accounts**
  - The UAL before side accounts is used to calculate the employer contribution rates for the SLGRP and School District pools.
  - The side accounts are treated as prepaid contributions for the individual employers who have made supplemental contributions.
  
- **Unfunded Accrued Liability After Side Accounts**
  - The UAL after side accounts is used to report the funded status of the system as a whole.
  - Side accounts are held within the PERS Trust and are available to pay PERS benefits.
  
- **Employer Net Obligation**
  - The employer net obligation is the UAL after side accounts adjusted for the outstanding principal on pension obligation bonds
  - This measure is not used by PERS, but can be used in a broader financial context to understand the outstanding obligations related to PERS

## 12/31/2007 Pension Valuation

### Unfunded Accrued Liability

	12/31/2007 Valuation					12/31/2006
	SLGRP	School Districts	Independents	OPSRP	System-Wide <sup>1</sup>	System-Wide <sup>1</sup>
Accrued Liability	\$26,883	\$21,299	\$4,423	\$203	\$52,871	\$51,254
Assets	\$26,674	\$20,157	\$4,645	\$275	\$51,670	\$49,368
<b>Unfunded Accrued Liability</b>	<b>\$209</b>	<b>\$1,143</b>	<b>\$(222)</b>	<b>\$(72)</b>	<b>\$1,201</b>	<b>\$1,886</b>
Side Accounts	\$3,641	\$3,897	\$121	N/A	\$7,658	\$7,248
<b>UAL – Side Accounts</b>	<b>\$(3,432)</b>	<b>\$(2,754)</b>	<b>\$(342)</b>	<b>\$(72)</b>	<b>\$(6,457)</b>	<b>\$(5,362)</b>
POBs	\$3,324	\$2,707	\$218	N/A	\$6,249	\$6,164
<b>Employer Net Obligations</b>	<b>\$(108)</b>	<b>\$(47)</b>	<b>\$(124)</b>	<b>\$(72)</b>	<b>\$(208)</b>	<b>\$802</b>

<sup>1</sup> System-wide results include Multnomah Fire District #10

Amounts In Millions

## 12/31/2007 Pension Valuation

### Unfunded Accrued Liability

	12/31/2007 Valuation					12/31/2006
	SLGRP	School Districts	Independents	OPSRP	System-Wide <sup>1</sup>	System-Wide <sup>1</sup>
Payroll (T1/T2 + OPSRP)	\$4,264	\$2,693	\$764	\$7,722	\$7,722	\$7,327
UAL	\$209	\$1,143	\$(222)	\$(72)	\$1,201	\$1,886
<b>UAL as % of Payroll</b>	<b>5%</b>	<b>42%</b>	<b>(29%)</b>	<b>(1%)</b>	<b>16%</b>	<b>26%</b>
UAL – Side Accounts	\$(3,432)	\$(2,754)	\$(342)	\$(72)	\$(6,457)	\$(5,362)
<b>Net UAL as % of Payroll</b>	<b>(81%)</b>	<b>(102%)</b>	<b>(45%)</b>	<b>(1%)</b>	<b>(84%)</b>	<b>(73%)</b>
UAL – Side Accounts + POBs	\$(108)	\$(47)	\$(124)	\$(72)	\$(208)	\$ 802
<b>Employer Net Obligation as % of Payroll</b>	<b>(3%)</b>	<b>(2%)</b>	<b>(16%)</b>	<b>(1%)</b>	<b>(3%)</b>	<b>11%</b>

<sup>1</sup> System-wide results include Multnomah Fire District #10

Amounts In Millions

## 12/31/2007 Pension Valuation

### Employers Joining the State & Local Government Rate Pool (SLGRP)

- Effective 1/1/2008, 28 independent employers joined the SLGRP
- SLGRP contribution rates in this valuation reflect the addition of these employers
- The SLGRP UAL rate is not affected by new employers joining the pool as a transition liability or surplus is established such that the pooled UAL rate remains unchanged
- 3 of the employers joining the pool had a transition liability and 25 of the employers had a transition surplus
- The addition of these employers to the pool increased the overall net transition surplus approximately \$285 million

	<b>Joining SLGRP</b>	<b>Current SLGRP</b>
Primary Employers	28	325
Active Employees	4,477	58,325
Payroll	\$355	\$3,909
Assets	\$917	\$26,042
Accrued Liability	\$650	\$26,233
Normal Cost	\$14	\$204

*Dollar Amounts In Millions*

## 12/31/2007 Pension Valuation

### 7/1/2009 Employer Pension Contribution Rates

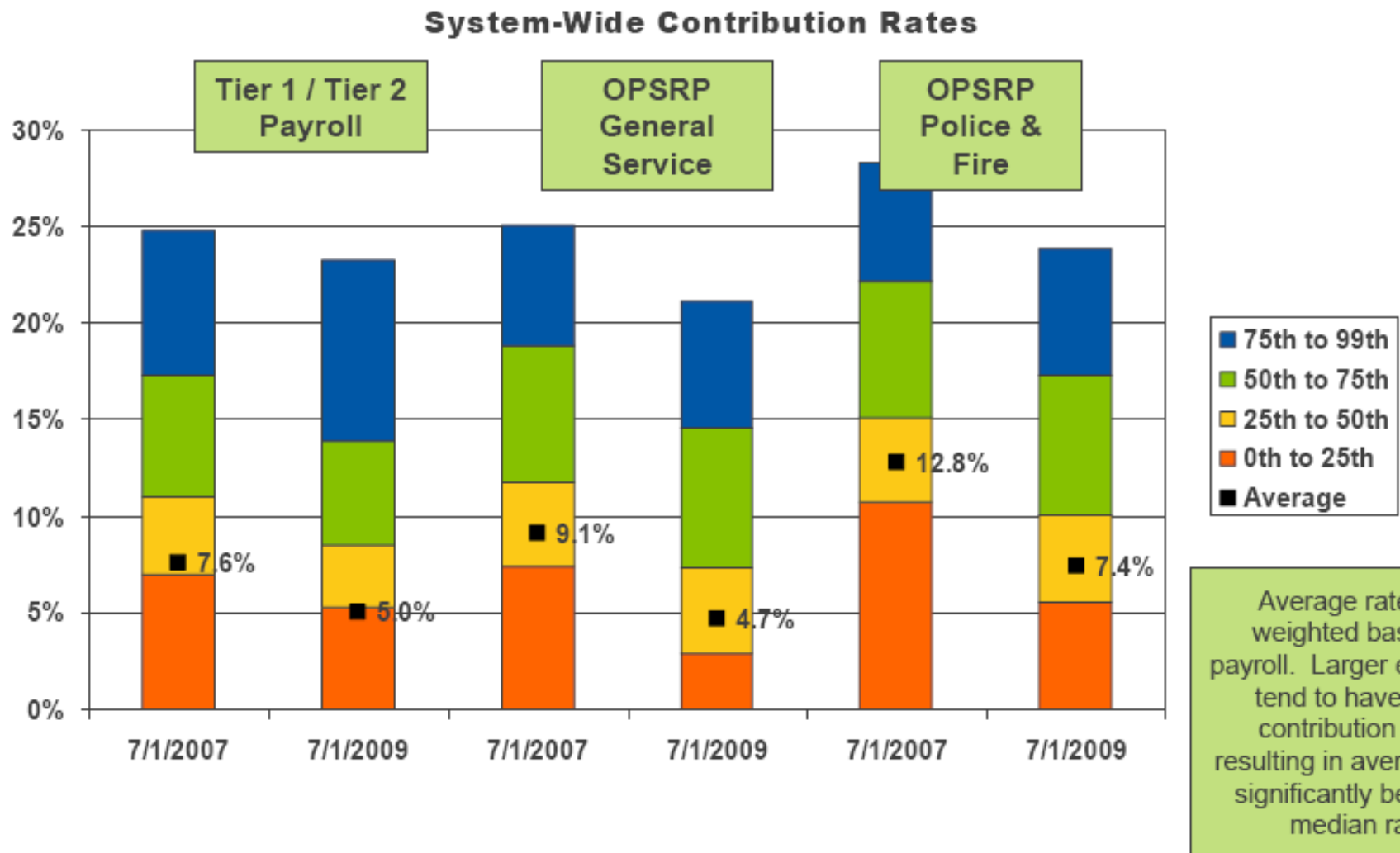
	<b>SLGRP</b>	<b>School Districts</b>	<b>Independents<sup>1</sup></b>	<b>OPSRP General</b>	<b>OPSRP P&amp;F</b>	<b>System-Wide</b>
<b>Pension</b>						
Normal Cost	6.31%	5.19%	7.92%	5.81%	8.52%	6.07%
T1/T2 UAL	4.84%	8.82%	2.57%	6.07%	6.07%	6.07%
OPSRP UAL	(0.08%)	(0.08%)	(0.08%)	(0.08%)	(0.08%)	(0.08%)
<b>Gross Pension Rate</b>	<b>11.07%</b>	<b>13.93%</b>	<b>10.41%</b>	<b>11.80%</b>	<b>14.51%</b>	<b>12.06%</b>
<b>Adjustments<sup>2</sup></b>						
Side Accounts	(6.20%)	(10.51%)	(1.14%)	(7.20%)	(7.20%)	(7.20%)
Pre-SLGRP Liabs	(0.89%)	N/A	N/A	(0.49%)	(0.49%)	(0.49%)
<b>Average Adjustment</b>	<b>(7.09%)</b>	<b>(10.51%)</b>	<b>(1.14%)</b>	<b>(7.69%)</b>	<b>(7.69%)</b>	<b>(7.69%)</b>
<b>Net Pension Rate<sup>2</sup></b>	<b>3.98%</b>	<b>3.42%</b>	<b>9.27%</b>	<b>4.11%</b>	<b>6.82%</b>	<b>4.37%</b>

<sup>1</sup> Independent employers, including Judiciary, are treated as a single pool for purposes of this exhibit.

<sup>2</sup> For this exhibit, adjustments are assumed not to be limited due to an individual employer reaching a 0.00% contribution rate.

# 12/31/2007 Pension Valuation

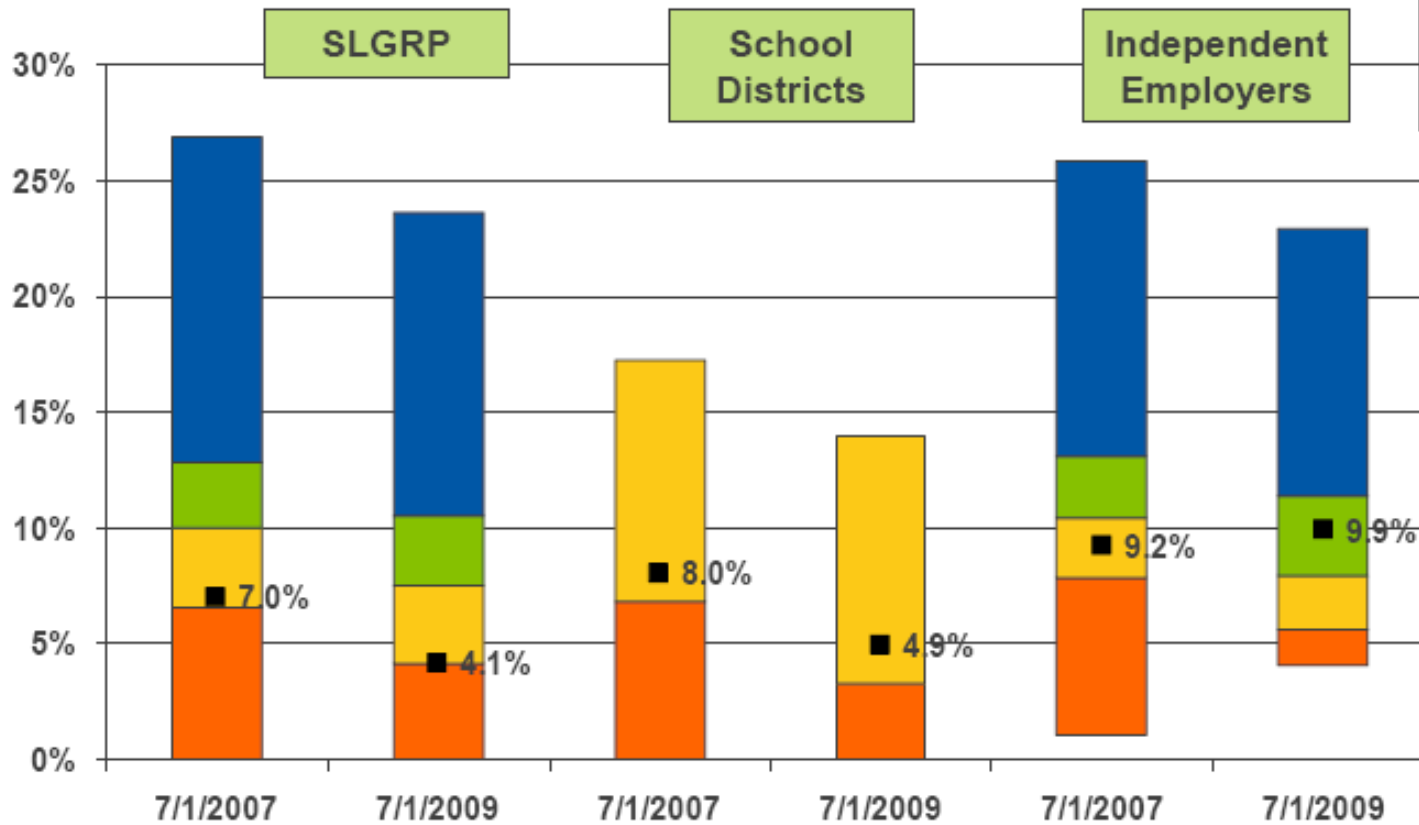
## Distribution of Employer Pension Contribution Rates



# 12/31/2007 Pension Valuation

## Distribution of Employer Pension Contribution Rates

**Tier 1/Tier 2 Employer Contribution Rates**



The Board's policy to require Independent Employers to contribute a minimum (excluding IAP) of 6% of payroll before side account adjustments, affects 42 of the 137 independent employers. These employers could avoid this minimum if they joined the SLGRP.

- 75th to 99th
- 50th to 75th
- 25th to 50th
- 0th to 25th
- Average

Average rates are weighted based on payroll. Larger employers tend to have lower contribution rates, resulting in average rates significantly below the median rate.



**12/31/2007 Retiree Healthcare Valuation**  
Oregon Public Employees Retirement System

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## 12/31/2007 Retiree Healthcare Valuation

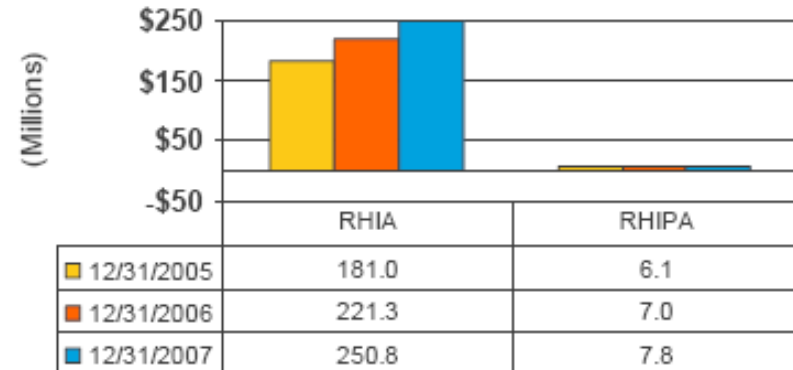
### Overview

- RHIA provides \$60 per month subsidy toward healthcare premium for Tier 1/Tier 2 retirees who are eligible for Medicare. OPSRP retirees are not eligible.
- RHIPA provides Tier 1/Tier 2 State employees who retire prior to age 65 with an alternative to PEBB coverage until they reach Medicare eligibility. OPSRP retirees are not eligible.
- These benefits are funded through 401(h) accounts within the pension trust, but the funds are, by law, kept separate from the pension funds. Consequently, side accounts cannot be used to make RHIA or RHIPA contributions.
- RHIA and RHIPA are not as well-funded as the pension plan, but steady progress is being made. The UAL is being amortized over a 20-year period, so we expect RHIA and RHIPA to be fully funded by December 31, 2027.
- Contribution rates for RHIA and RHIPA are relatively small and they have been very stable.

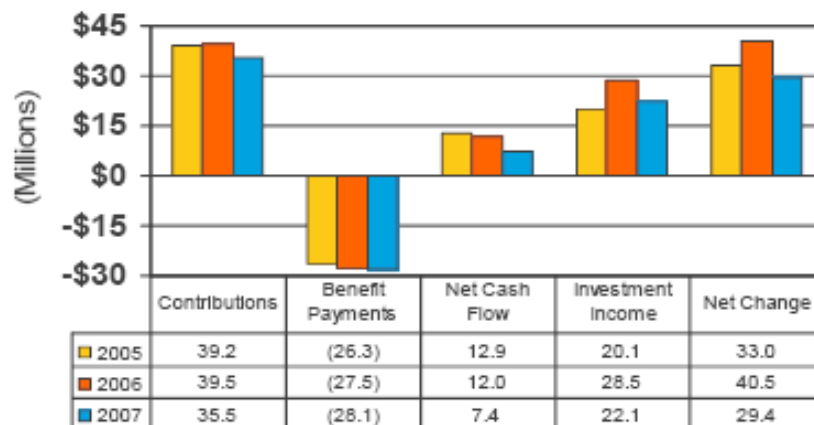
## 12/31/2007 Retiree Healthcare Valuation Assets

- RHIA assets increased approximately 13% and RHIPA assets increased approximately 11%
- For RHIA, contributions are about 30% larger than benefit payments, so the net increase is a combination of contributions and investment earnings.
- For RHIPA, contributions are about equal to benefit payments, so the net increase in assets is primarily driven by investment earnings.

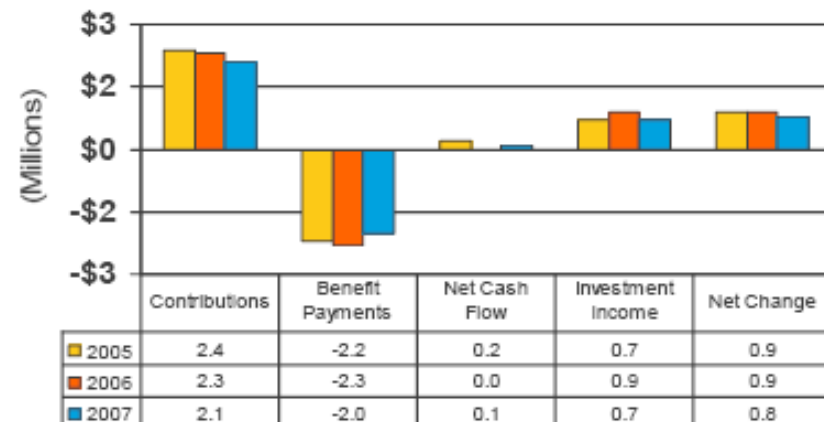
Retiree Healthcare Assets



Changes In RHIA Plan Assets



Changes In RHIPA Plan Assets



## 12/31/2007 Retiree Healthcare Valuation

### Normal Cost

	RHIA		RHIPA		System	
	12/31/2007	12/31/2006	12/31/2007	12/31/2006	12/31/2007	12/31/2006
Normal Cost	\$6.6	\$6.6	\$0.9	\$0.9	\$7.5	\$7.5
Normal Cost Payroll	\$6,262	\$6,336	\$1,692	\$1,666	\$6,262	\$6,336
<b>Normal Cost Rate</b>	<b>0.10%</b>	<b>0.10%</b>	<b>0.06%</b>	<b>0.06%</b>	<b>0.12%</b>	<b>0.12%</b>

*Amounts In Millions*

- Normal cost rates for RHIA and RHIPA have remained level.
- These rates, however, are very sensitive to the participation assumption.

## 12/31/2007 Retiree Healthcare Valuation Unfunded Accrued Liability

Funded status is improving, but lags significantly behind the funded status of the pension plan.

	RHIA		RHIPA		System	
	12/31/2007	12/31/2006	12/31/2007	12/31/2006	12/31/2007	12/31/2006
Accrued Liability	\$500	\$512	\$23	\$23	\$523	\$535
Assets	\$251	\$221	\$8	\$7	\$259	\$228
UAL	\$249	\$291	\$15	\$16	\$264	\$307
<b>Funded Percentage</b>	<b>50%</b>	<b>43%</b>	<b>34%</b>	<b>30%</b>	<b>49%</b>	<b>43%</b>
Combined Valuation Payroll	\$7,722	\$7,327	\$2,080	\$1,947	\$7,722	\$7,327
<b>UAL Rate</b>	<b>0.19%</b>	<b>0.22%</b>	<b>0.02%</b>	<b>0.01%</b>	<b>0.20%</b>	<b>0.22%</b>

*Amounts In Millions*

## 12/31/2007 Retiree Healthcare Valuation Contribution Rates

- Contribution rates are slightly lower than the rates in effect 7/1/2007.
- For retiree healthcare, the PUC change rate reduces the overall UAL rate.
- As the PUC change UAL is paid off, overall UAL rates are expected to increase 4 to 6 basis points each for RHIA and RHIPA.
- Changes in actual participation rates can have a significant effect on the UAL.

<b>Payroll</b>	<b>Tier 1 / Tier 2</b>	<b>OPSRP General</b>	<b>OPSRP P&amp;F</b>
Normal Cost Rate	0.12%	N/A	N/A
UAL Rate	0.20%	0.20%	0.20%
<b>Total Rate</b>	<b>0.32%</b>	<b>0.20%</b>	<b>0.20%</b>



## Next Steps

- Board adopts individual employer rates at September 26, 2008, meeting that will become effective July 1, 2009
- Individual employer reports are sent via e-mail to employers shortly after the rates are adopted

# MERCER



MARSH MERCER KROLL  
GUY CARPENTER OLIVER WYMAN



# Oregon

Theodore R. Kulongoski, Governor

## Public Employees Retirement System

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July 25, 2008

TO: Members of the PERS Board  
FROM: Paul R. Cleary, Executive Director  
SUBJECT: 2007-09 Boards and Commissions Best Practices Key Performance Measure

MEETING DATE	<b>07/25/08</b>
AGENDA ITEM	<b>C.2.</b> Best Practices

### BACKGROUND

The 2005 Legislature directed the Department of Administrative Services (DAS) and the Legislative Fiscal Office (LFO) to develop a performance measure and specific criteria for certain boards and commissions to use in evaluating their own performance. The measure and criteria were later adopted by the Legislature and incorporated in applicable agency budgets during the 2007 Legislative Joint Ways and Means process.

The Legislature asked that the performance measure and evaluation criteria (which became referenced as “best practices”) be developed for boards and commissions that have governance oversight. To identify boards having governance oversight, two criteria were established:

- The board has an independent state budget or is included in another state agency’s budget, and
- The board hires the agency or board’s executive director.

The PERS Board meets these criteria and is required to implement a best practices performance measure for the 2007-2009 biennium. Other boards and commissions that meet these criteria include the Liquor Control Commission, the Fish and Wildlife Commission, and the Board of Higher Education.

The Board must conduct an annual self-assessment against 15 “Best Practices Criteria” for boards and commissions as prescribed by DAS. The Board may also add additional criteria at its discretion.

The first report is due in September 2008 and will report on data for the fiscal year ended June 30, 2008. PERS staff will track performance on this measure from this point forward based on the Board’s initial and subsequent annual self-assessments.

### DISCUSSION

During its May 2008 meeting, the Board was presented with an updated version of the PERS Six-Year Strategic Outlook that proposed a target of 100% for this DAS-recommended key performance measure. The Board will be asked to formally adopt the measure and the 100% target at the September 2008 meeting.



The attached Best Practices Assessment Score Card will be completed based on your individual assessments during August. Results will then be compiled and presented at the September 2008 Board meeting for your review and to determine if further revisions are necessary prior to submission to DAS. The official report on this measure will occur with completion of the Best Practices Assessment Score Card in 2008 and submittal of the results in the agency's 2008 *Annual Performance Progress Report*.

Annually, each Board member will be asked to review the 15 best practices and individually evaluate their assessment of the Board's performance. During the September meeting, the Board will discuss, compare individual evaluations, and agree on a group evaluation/rating.

### ACTION

We request that you review the best practices defined criteria as outlined in the attachment, pages 1 through 4. You can provide your feedback on the criteria and any suggested additions during the July Board meeting. Staff will revise the criteria, if requested, by the end of July. We will then redistribute the Best Practices Assessment Scorecard and you can complete the self-assessment during August of 2008.

For the September Board meeting, staff will tabulate your initial results and submit a report for your final review and discussion as outlined in the attachment. That discussion should help you answer the following questions, your responses to which will be integrated into our Annual Performance Progress Report:

- How are we doing?
- How do we compare to others and/or to our target (once this data is available)?
- What factors are affecting our results?
- What needs to be done to improve future performance?

**DRAFT**

**Best Practices Key Performance Measure**

Annually, board members are requested to self-evaluate their adherence to a set of best practices and report the percent of total best practices met (percent of yes responses in the table below) in the *Annual Performance Progress Report* as specified in the agency budget instructions published by the Department of Administrative Services (DAS).

Recommended Assessment Process

1. The PERS Executive Director and Fiscal Services Division (FSD) will facilitate the self-evaluation.
2. Individual board members will complete the score card shown below using the attached assessment system.
3. The Executive Director and FSD will tabulate the results for all board members.
4. The results of the tabulation will be discussed, particularly the results for those areas, if any, where there are disparate responses or where the group agrees that they are not adhering to a best practice.
5. The Executive Director and FSD will record the Board’s joint response to each best practice on a new score card. If consensus is not achieved, the response will be recorded as “no”.

**Best Practices Assessment Score Card:**

<b>Best Practices Criteria</b>	<b>Yes</b>	<b>No</b>
1. Executive Director’s performance expectations are current.	<input type="checkbox"/>	<input type="checkbox"/>
2. Executive Director’s performance is evaluated each biennium.	<input type="checkbox"/>	<input type="checkbox"/>
3. The agency’s mission and high-level goals are current and applicable.	<input type="checkbox"/>	<input type="checkbox"/>
4. The Board reviews the <i>Annual Performance Progress Report</i> .	<input type="checkbox"/>	<input type="checkbox"/>
5. The Board is appropriately involved in review of the Agency’s key communications.	<input type="checkbox"/>	<input type="checkbox"/>
6. The Board is appropriately involved in policy-making activities	<input type="checkbox"/>	<input type="checkbox"/>
7. The Agency’s policy option packages are aligned with it’s mission and goals.	<input type="checkbox"/>	<input type="checkbox"/>
8. The Board reviews all proposed budgets and supplemental requests.	<input type="checkbox"/>	<input type="checkbox"/>
9. The Board periodically reviews key financial information and audit findings.	<input type="checkbox"/>	<input type="checkbox"/>
10. The Board appropriately accounts for resources.	<input type="checkbox"/>	<input type="checkbox"/>
11. The Agency adheres to accounting rules and other relevant financial controls.	<input type="checkbox"/>	<input type="checkbox"/>
12. Board members act in accordance with their roles as fiduciaries and public representatives.	<input type="checkbox"/>	<input type="checkbox"/>
13. The Board coordinates with others where responsibilities and interests overlap.	<input type="checkbox"/>	<input type="checkbox"/>
14. Board members identify and attend appropriate training sessions.	<input type="checkbox"/>	<input type="checkbox"/>
15. The Board reviews its management practices to ensure best practices are utilized.	<input type="checkbox"/>	<input type="checkbox"/>
16. Other (may be added at the Board’s discretion).	<input type="checkbox"/>	<input type="checkbox"/>
<b>Total Number</b>		
<b>Percentage of Total</b>		

**CRITERIA DEFINED**

<b>Best Practices Criteria</b>	<b>System for Achieving Success</b>
<b>Best Practice: Executive Director Performance</b>	
Yes <input type="checkbox"/> No <input type="checkbox"/>	
1. Executive Director's performance expectations are current.	The Board establishes clear performance expectations for the Director not less than biennially. This includes overall expectations in the Director's position description, as well as any specific expectations contained in the Board's policy agenda and other meeting-specific directives.
Yes <input type="checkbox"/> No <input type="checkbox"/>	
2. Executive Director's performance is evaluated each biennium.	The Board performs a formal evaluation on at least a biennial basis. In addition, regular informal feedback is provided to the Executive Director as needed.
<b>Best Practice: Strategic Management</b>	
Yes <input type="checkbox"/> No <input type="checkbox"/>	
3. The Agency's mission and high-level goals are current and applicable.	The Board participates in the development and updating of the strategic plan and performs a review at least on a biennial basis of agency progress.
Yes <input type="checkbox"/> No <input type="checkbox"/>	
4. The Board reviews the <i>Annual Performance Progress Report</i> .	The Board has the opportunity to review the annual report and offer comments to the Executive Director.
<b>Best Practice: Strategic Policy Development</b>	
Yes <input type="checkbox"/> No <input type="checkbox"/>	
5. The Board is appropriately involved in review of the Agency's key communications.	The Board, both directly and through its subcommittees (Audit, Legislative Advisory, Litigation, Health Insurance, etc.) is involved in the agency's public process and key media communications. The Executive Director coordinates regularly with the Governor's Office and reports to the Board on communications. During legislative sessions, the Executive Director and supporting staff regularly report and review legislative concepts and positions with Board members. The Board approves the agency mission statement and guiding principles.
Yes <input type="checkbox"/> No <input type="checkbox"/>	
6. The Board is appropriately involved in policy-making activities.	The Board reviews and approves all agency rulemaking proposals and legislative concepts and participates in key legislative discussions and hearings as appropriate. The Board is regularly updated on legislative implementation and other agency projects with policy implications (e.g., court decision implementation).

Yes <input type="checkbox"/> No <input type="checkbox"/>	
7. The Agency's policy option packages are aligned with mission/goals.	The Board has early involvement and regular updates on proposed budget policy option packages and legislative concepts. The Board reviews the Agency Request Budget and supporting materials (including the strategic outlook and performance measures) in public meetings.
<b>Best Practice: Fiscal Oversight</b>	
Yes <input type="checkbox"/> No <input type="checkbox"/>	
8. The Board reviews all proposed budgets and supplemental requests.	The Board reviews and approves proposed biennial budget requests and all supplementary budget or Emergency Board funding requests.
Yes <input type="checkbox"/> No <input type="checkbox"/>	
9. The Board periodically reviews key financial information and audit findings.	The Board receives agency operating budget reports and PERS fund investment updates at each regularly scheduled meeting and receives regular presentations from investment officers, auditors and actuaries. The Audit Committee convenes 3-4 times each year to meet with internal and external auditors (contract or Audits Division) to review internal and external audit reports (including the Comprehensive Annual Financial Report (CAFR)), management letters and internal control reports, as well as staff responses and corrective measures implemented to improve internal controls and operations. The Board regularly reviews experience studies, system valuations and financial modeling reports with its actuary.
Yes <input type="checkbox"/> No <input type="checkbox"/>	
10. The Board appropriately accounts for resources.	The Board and Audit Committee regularly review budgetary and other key financial and audit reports to ensure that the agency is appropriately accounting for resources.
Yes <input type="checkbox"/> No <input type="checkbox"/>	
11. The Agency adheres to accounting rules and other relevant financial controls.	The Audit Committee and the Board review budgetary and financial updates (OIC, actuary, auditor, etc.) at each regularly scheduled meeting, and special financial reports or updates as warranted. Annual risk assessments and periodic updates are reviewed with the Audit Committee. Agency staff prepare all financial transactions in accordance with Oregon Statute, Oregon Administrative Rules, Oregon Accounting Manual requirements and generally accepted accounting principles. Annually, the Audit Committee and Board review the financial summary of agency head transactions and document said review in the minutes.

<b>Best Practice: Board Management</b>	
Yes <input type="checkbox"/> No <input type="checkbox"/>	
12. Board members act in accordance with their roles as fiduciaries and public representatives.	The Board uses practices that support effective meetings, such as the use of consent agendas, subcommittees, opportunities for public comment at each Board meeting, and opportunities for new business discussion during meetings as necessary. The Board follows public meetings and records laws requirements. The Board adheres to its guiding principles by working in a transparent, direct and open manner.
Yes <input type="checkbox"/> No <input type="checkbox"/>	
13. The Board coordinates with others where responsibilities and interests overlap.	The Board reviews the monthly performance reports of the Oregon Investment Council (OIC) at each regularly scheduled meeting with in-person reports provided by State Treasury staff on a quarterly basis. The Board meets jointly with the OIC to conduct asset allocation studies. The Board and its subcommittees coordinate with its stakeholders. Examples include: Legislative Advisory Committee meetings with interested stakeholders in preparation for and during legislative sessions; Audit Committee meetings with Audits Division staff regarding financial, performance and information technology engagements; Health Insurance Advisory Committee meetings with carriers and plan administrators; and Litigation Subcommittee coordination with joint parties.
Yes <input type="checkbox"/> No <input type="checkbox"/>	
14. Board members identify and attend appropriate training sessions.	The Board receives notice of training supporting its governance and fiduciary efforts. Examples: New board member training, agency orientation, ethics training, etc. Board members are provided support to attend conferences and other networking opportunities.
Yes <input type="checkbox"/> No <input type="checkbox"/>	
15. The Board reviews its management practices to ensure best practices are utilized.	The PERS Board will provide an annual review of these 15 best practices and provide regular feedback to PERS staff on successes and opportunities for improvement.
<b>Best Practice: Other</b>	
Yes <input type="checkbox"/> No <input type="checkbox"/>	
16. To be identified by the PERS Board.	No additional best practices identified at this time.



# Oregon

Theodore R. Kulongoski, Governor

## Public Employees Retirement System

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July 25, 2008

TO: Members of the PERS Board

FROM: Steven Patrick Rodeman, Deputy Director  
Jeff Marecic, ISD Administrator

SUBJECT: RIMS Conversion Project (RCP) Update  
September 2008 Legislative Emergency Board Appearance

MEETING DATE	<b>07/25/08</b>
AGENDA ITEM	<b>C.3.</b> RIMS (RCP)

### OVERVIEW

- Action: None; this memo is just to notify the PERS Board of the agency's plan to appear at the September 2008 meeting of the Legislative Emergency Board.
- Reason: The appearance is being made to update the Oregon Legislature on the current status of the RIMS Conversion Project and elaborate on our regular status report because of proposed updates to the project's scope, schedule and budget.

### BACKGROUND

The RIMS Conversion Project (RCP) is being delivered as a multi-staged project that is replacing the agency's legacy system administration tool set. Last year, the project team completed the Inception phase of the project for all the remaining functionality to be incorporated in the system (Data Reporting has been installed; Membership and Benefits are the principle pieces to be developed and implemented). In completing Inception for all remaining functionality, the team identified additional system requirements, principally as a result of the legislature's plan changes since the project started, such as the elimination of "break-in-service". The team's strategy is to incorporate these changes in the current project, which will result in a system that better matches the agency's required functionality but that will impact that the current scope, schedule, and budget for completing this project.

The full impact of these changes on the project's scope, schedule, and budget cannot be accurately determined until the Elaboration phase is completed so the system requirements can be defined. This Elaboration is expected to close at the end of August 2008, so by the September 25 and 26 meeting of the Legislative Emergency Board (E-Board) we expect to report on the impact of these changes.

At present, these changes are not expected to affect the budget limitation to be expended in the current biennium that closes June 30, 2009. The effect will instead be on the project's completion date (currently slated for November 2009) and overall project cost of \$27.5 million. The rationale for integrating the legislative changes and new system requirements into the ongoing project is explained more fully in the attached RCP Update Report.

NEXT STEPS

To appear before the E-Board's September 2008 session and provide a RCP update, PERS must submit our notice of intent to appear no later than August 25, 2008 and submit the final materials by September 2, 2008. These materials will also be provided to the PERS Board as produced, and we will report on our E-Board presentations at the September 26, 2008 PERS Board meeting.

After the September E-Board and PERS Board meetings, the agency will execute the contract amendments necessary to effect the changes to the scope, schedule, and budget, which changes will be conditioned upon receiving additional budget limitation for the 2009-11 biennium to complete RCP with this added functionality. Those budget changes will be presented to the PERS Board at a subsequent meeting before staff seeks legislative approval, either at the December 2008 E-Board meeting (if necessary) or through the regular 2009-11 budget approval process.



## RCP Update Report

### Background

The RIMS Conversion Project (RCP) is Phase II of a two-phase project to implement an enterprise-wide technology architecture, the goal of which is to create an integrated platform for providing administration services across all retirement programs. The resulting system is named ORION (Oregon Retirement Information Online Network).

RCP will extend and further customize the jClarety application template developed in Phase I (completed in 2005). The scope of the RCP includes the retirement plan administration components needed to administer the PERS Chapter 238 Plan, currently being managed by the Retirement Information Management System (RIMS), its associated desktop applications, and manual processes. This project will provide PERS with an integrated platform for providing member services and benefits across all retirement programs.

### Converting from RIMS to ORION

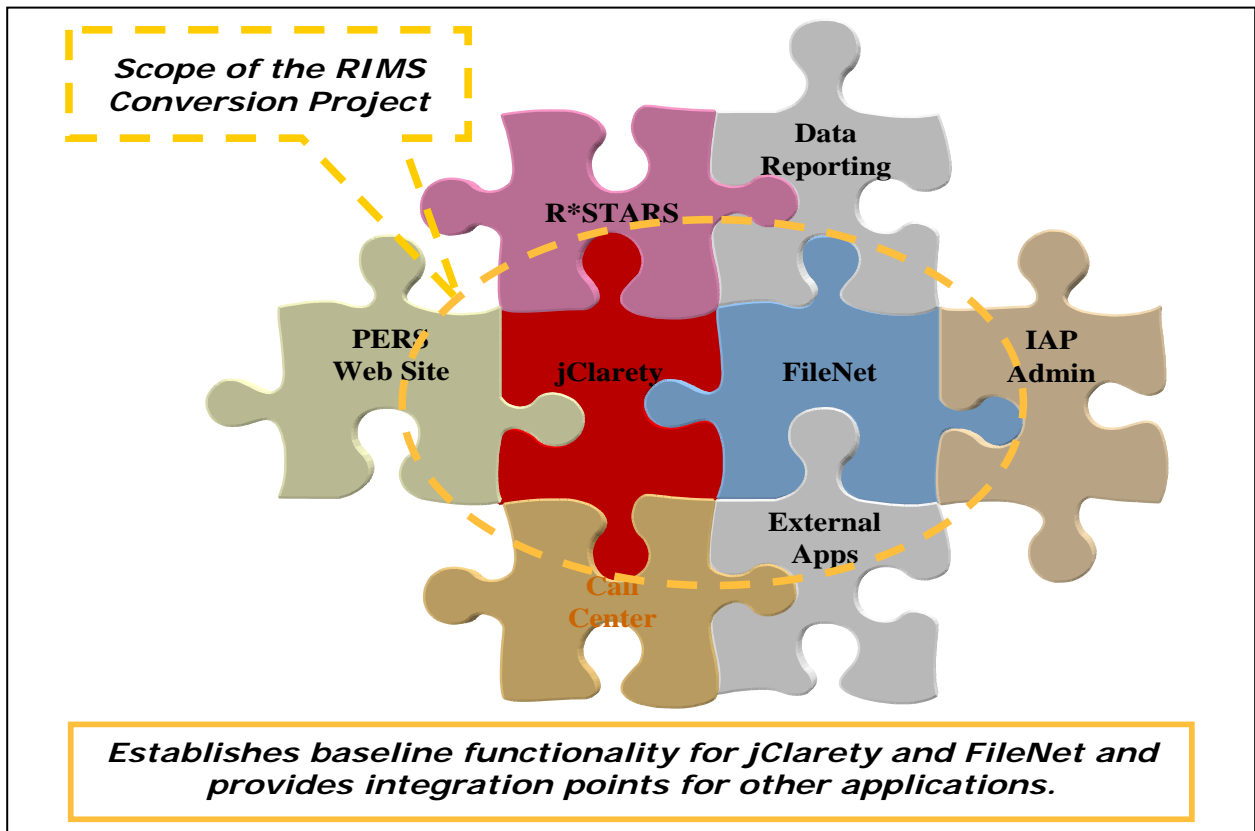
The RCP is a multi-staged project that will result in a comprehensive retirement administration and information system. Some important characteristics of the project are:

- ORION will support PERS' mission to become a well-respected organization that serves its members efficiently and effectively by allowing staff better access to the information they need to successfully perform their duties and responsibilities.
- New functionality is being added to the system in staged releases. This allows staff to begin to gain the benefits of the new system sooner and allows the project to manage risk.
- Organizational and process changes will be instituted as new functionality and related efficiencies are realized during and after transition to the new system.
- ORION will integrate complementary and supporting technologies (e.g., electronic workflow, contact management, member and employer self-service, call center management, financial transactions and reporting) to create a system that supports business operations.
- All RIMS functionality will be decommissioned and transferred to applications that coordinate with the architectural design of the agency's enterprise system.
- At the end of the project, any remaining change requests will have been prioritized and classified appropriately for future deployment (if necessary). The ORION system can be modified more quickly in support of retirement plan statutory changes and rules.
- The ongoing support structure for the system after implementation will be a combination of agency staff and, for large enhancements or modifications, a support agreement with the implementation partner. Training of internal staff in jClarety application support is included in the main RCP contract.

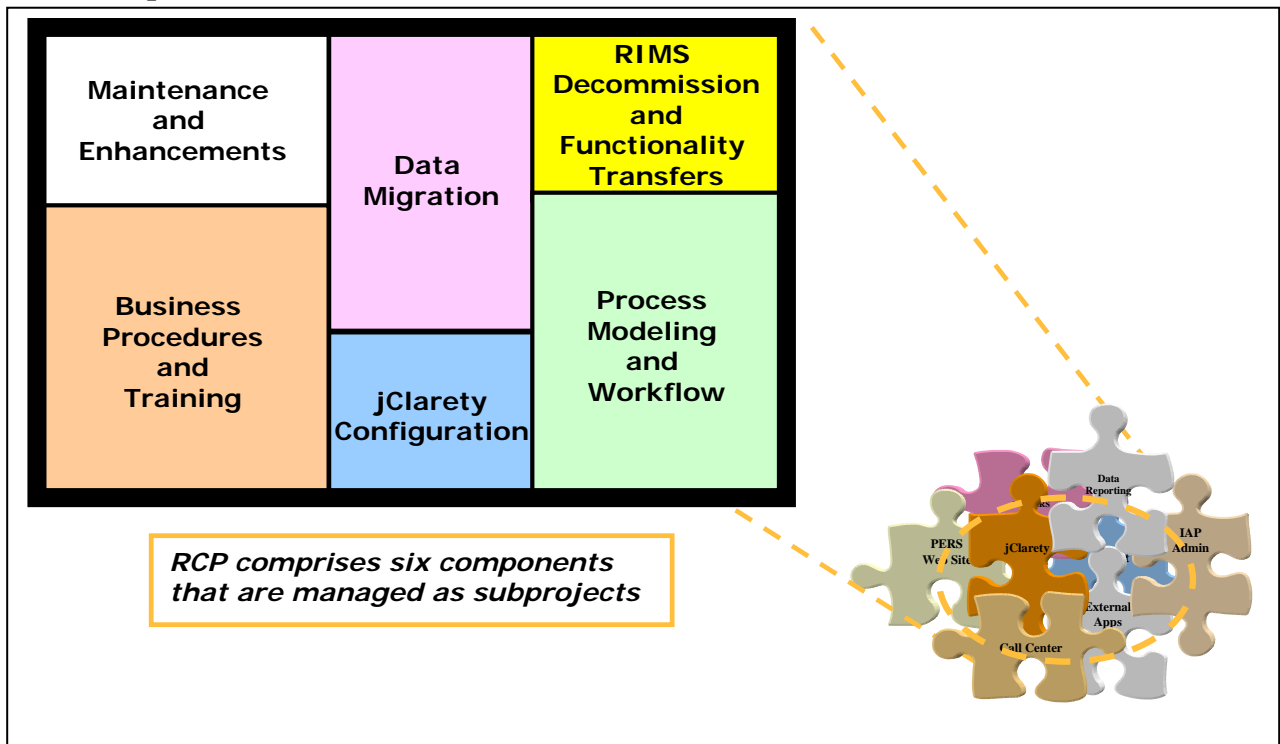
The following diagrams graphically depict the integration goals of the project and the subprojects contained within the overall program.



## RCP Integration Goals



## RCP Components



Since RCP is being implemented in stages, agency staff and employers have been introduced to some of the benefits and capabilities of the new system in functional releases. This approach, in contrast to a “big bang” approach where all system functionality is developed and released at one time, has the advantage of allowing users to gradually become accustomed to the new tools and integrate their experiences into subsequent releases. On the other hand, the approach also presents some challenges since staff is required to navigate and bridge between the old system and the new system until the old one is fully decommissioned.

## Project Benefits

Some of the benefits attributable to RCP staged releases to date include:

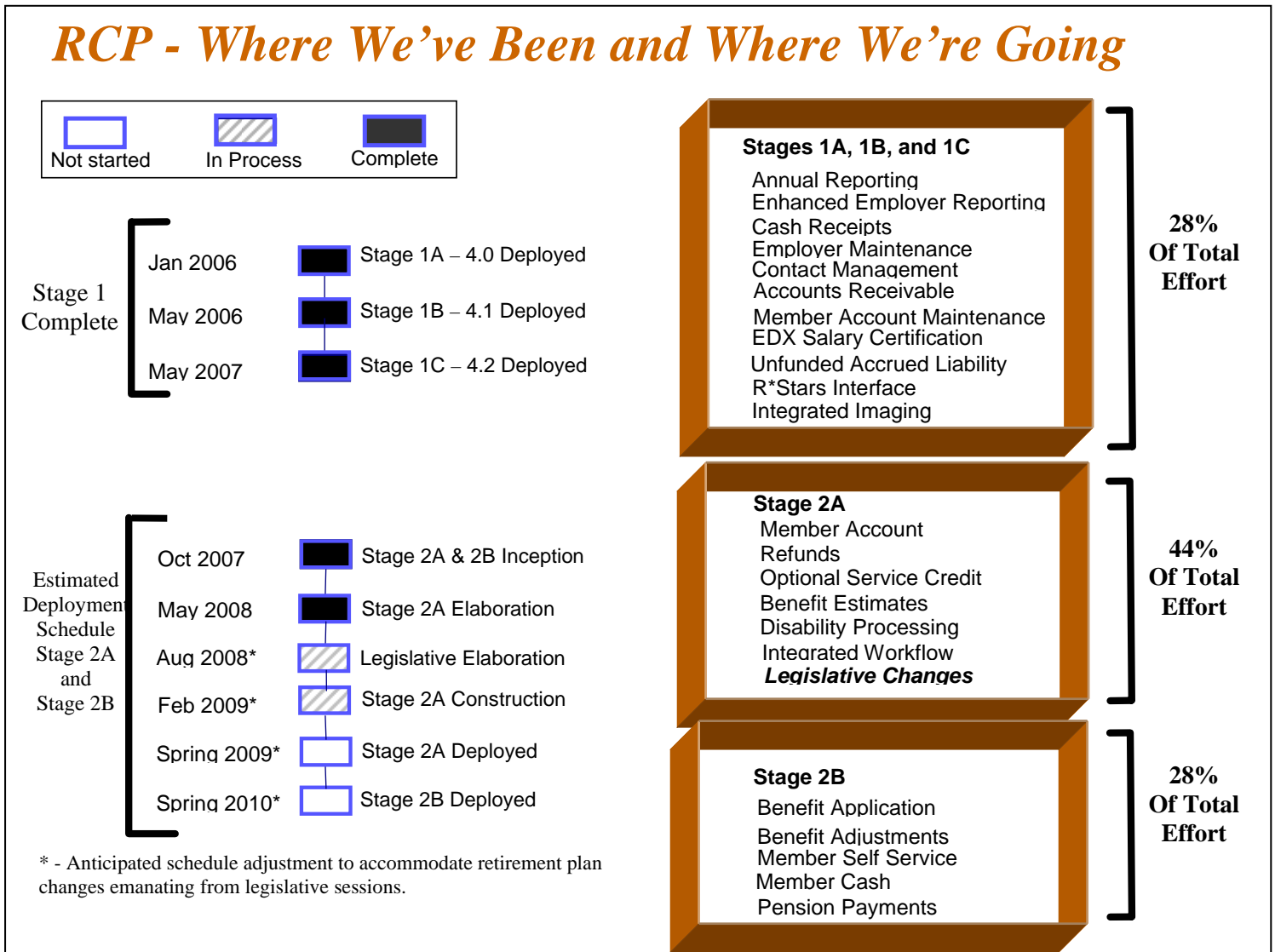
- Employers have a single, web-enabled entry point (the Employer Data Exchange or EDX) to report and correct demographic, wage, and contribution information for all PERS plans. Validation rules enhance the quality of incoming data. Employers can report more timely.
- New customer service capabilities, such as contact management, have enabled PERS’ staff to respond to member inquiries more efficiently and effectively.
- Electronic document imaging has greatly improved staff efficiency by providing secure access to documents within minutes rather than hours or days and reducing paper consumption from more than 45,000 copies per month to 500 while eliminating lost or misplaced documents and costs for filming (~\$50K/biennium).
- Electronic workflows enable PERS staff and employers to receive, track, prioritize, and report status on significant business processes. Workflows already implemented include salary certification, retirement application intake, and member withdrawals.
- Employer payments are received via electronic funds transfer (EFT). This has decreased employer workload and their cost to make a paper check payment. It has also decreased the time it takes for these funds to be deposited and available for investing.
- Employers receive consolidated bi-monthly statements that provide a comprehensive view of their accounts and give PERS enhanced accounts receivable tracking and reporting capabilities.
- Full auditing capabilities provided for every update to data in the system.
- Agency technical staff learning the new technologies.

Additional benefits expected at RCP completion include:

- Tier One, Tier Two, OPSRP Pension Program, and IAP administration will be conducted in a single system.
- More common elements of retirement calculations will be automatically processed by ORION. Currently, retirement calculations (about 6,000 a year) require frequent manual intervention due to RIMS system limitations and poor data quality, with some handled completely manually.
- Self-service will enable members to get plan materials, forms, and estimates as well as view and update information over the Internet.
- Integrated workflow will provide repeatable processes that will increase the efficiency, data availability, and accountability of PERS staff. It will also allow better management and allocation of staff workload.
- A single data source will allow staff to view and complete account reviews faster, so PERS’ can provide benefits faster.
- The ability to correct data systematically through designed user interfaces (currently most of the data correction is done manually and is extremely time consuming).

## Project Progress and Schedule

The diagram below outlines the course of the project to date. Stages 1A, 1B, and 1C have been completed and the system functional capabilities are displayed on the right. Stage 2A is currently in analysis and development mode with deployment anticipated in 2009. Stage 2B is planned for development and deployment in the 2010 timeframe.



The projected implementation date for Stage 2A has yet to be determined because we are assessing the impact of incorporating system functionality changes related to various improvements and plan changes. The project team decided that adding these changes is critical to the system's efficient operations and made the most sense to incorporate into this stage of the project. Please note that incorporating these changes in the most efficient manner possible will expand the project's scope, schedule, and budget. Once these effects are fully analyzed and quantified, the project team will have a more specific and reliable report on the results of this approach.

The staged implementation strategy for the project has not only allowed for the accelerated use of system functionality by PERS staff, but has also allowed the project to be flexible and respond to the dynamic nature of the environment. At the onset, the project as originally conceived was expected to take 44 months to implement. Agency staff determined that a risk that system functionality changes would occur over that time period was probable. To mitigate this risk, the project management process includes procedural mechanisms to add and remove system functionality as required by the business drivers. This ensures that the final system will contain the right functionality for the business at the project's conclusion.

While the insertion or deletion of functionality during the project can be disruptive, the project management team weighs the relative project disruption against the adverse operational impact of not implementing the changes timely. When the potential adverse impact to business operations of not implementing the changes outweighs the scheduling impact to the project, the changes are incorporated. If, on the other hand, the potential impact of not including the changes is not significant to business operations, the changes are delayed until a later time. For example, of the 20 changes we identified from our completed design of the system, only 6 were incorporated into this revised project approach. The others will be addressed in the short term using existing resources and systems and incorporated into ORION later if needed.

## Project Funding

The table below outlines the project budget and spending from project inception through May 2008. Of the originally approved budget of \$27.5 million, PERS management expects to spend just under \$24 million by the end of the current biennium, leaving approximately \$3.5 million remaining. As noted above, the project team is currently evaluating the cost and schedule impact of several significant changes to project scope and will provide estimates of these changes at the September 2008 E-Board meeting that will be further detailed during the 2009-11 budget development process.

### PROJECT FINANCIALS

Fund Sources	BIENNIAL BUDGETS	FEDERAL SHARE	STATE SHARE
	Approved Amount	Approved Amount	Approved Amount
Project Development Costs	\$ 25,285,847	\$	\$
Software/Hardware Costs	\$ 1,380,376	\$	\$
*Agency Staff Costs (including S&S)	\$ 1,740,698	\$	\$
*Other Costs	\$ 2,340,347	\$	\$
<b>Total Budget:</b>	<b>\$ 30,747,268</b>	<b>\$</b>	<b>\$ 27,500,000</b>
<b>Current Budget Funds Expended:</b>	<b>\$ 14,019,462</b>	<b>\$</b>	<b>\$</b>
<b>Expenditures Previous Releases:</b>	<b>\$ N/A</b>	<b>\$</b>	<b>\$</b>
<b>Project Spending Totals:</b>	<b>\$ 14,019,462</b>	<b>\$</b>	<b>\$</b>

#### Notes:

- Total of biennially approved budgets: \$ 30,747,268  
Less: unspent and unscheduled budget from 03-05 and 05-07: 6,781,512  
Total approved budget projected to be spent through 07-09: \$ 23,965,756
- Current Budget Funds Expended have been confirmed by biennial review and reconciliation of 05-07 expenditures.
- Remainder of overall \$ 27,500,000 project budget to be spent in 09-11: \$ 3,534,244.
- RCP requirements and projected expenditures as well as fiscal impact of 2005 and 2007 legislation, are being evaluated to identify any additional requirements and determine if additional dollars are needed beyond the remaining \$3,534,244, and when the associated budget limitation would have to be adjusted.

## Project Oversight and Quality Assurance

The project incorporates several quality assurance and quality control mechanisms into the planning and execution activities. First, a Department of Administrative Services (DAS) QA resource has been assigned to the project. This resource provides DAS oversight and coordinates external QA/QC resources.

Second, an external QA resource has been procured to provide periodic (quarterly/semi-annually) QA reviews and assessments of the project. This contractor, working under the direction of the DAS resource, gauges the health of the project based on survey and interview feedback from project participants in conjunction with industry standards and best practices.

Third, the agency's Project Management Office (PMO) utilizes the industry standard project management methodology (Project Management Body of Knowledge) for project management activities. The PMO comprises both internal staff and external consultants.

Finally, the agency's internal QA section coordinates quality control activities for all major deliverables for the project. In addition, the internal QA group manages the Quality Check Point (QCP) process and testing procedures for all major project deliverables. This QCP process ensures that project deliverables conform to business specifications and are thoroughly tested before being deployed into the production environment.

Using these QA/QC procedures, the agency has been able to identify and manage the major risks associated with this project as well as enable proper evaluation of project artifacts. Project risk management is a continuous process and the project team works with end-user staff to ensure appropriate mitigation strategies are being implemented.

## Risks and Mitigation Strategies

The following table lists the major risks that have been identified to the project as well as the mitigation plans associated with the risks.

<b>Risk #1</b>	RCP is competing with other projects (e.g., the <i>Strunk</i> and <i>Eugene</i> project) and ongoing workloads for limited staff resources.
<b>Mitigation</b>	PERS management and staff have developed a prioritized, integrated approach that takes into account the interdependencies of daily operations and all agency projects.
<b>Risk #2</b>	Data integrity is inconsistent in RIMS, which will be the source of much of the data used in jClarety.
<b>Mitigation</b>	A business-led data preparation, migration, and cleansing team has been formed to deal with the data integrity issue and is developing a series of initiatives to identify and correct problem data over time using a data lifecycle approach.
<b>Risk #3</b>	New development methodologies, procedures, and software impose a formal set of processes and skill sets that need to be mastered through training and assimilation time.
<b>Mitigation</b>	PERS is using outside experts to provide training on these new tools and continued staff improvement and skill development is expected.

<b>Risk #4</b>	Legislative changes to the retirement plan in the 2005 and 2007 sessions have altered the scope and functionality required to administer the retirement system. Similar legislative changes may occur before the end of this project, which is scheduled to complete in 2010.
<b>Mitigation</b>	To the extent possible, functionality and scope changes to the project were managed within the current budget and time line by exchanging functionality no longer needed with the required additional functionality. Some additional budget authority and project schedule adjustments will likely be requested as part of the 2009 – 11 agency budget process.