



# OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM

## BOARD MEETING AGENDA

<b>Friday June 2, 2023 9:00 a.m.</b>		<b>PERS 11410 SW 68<sup>th</sup> Parkway Tigard, OR</b>	
ITEM		PRESENTER	
<b>A. Administration</b>			
1.	<a href="#">April 3, 2023, PERS Board Meeting Minutes</a>	SHENOY	
2.	<a href="#">Election of Vice Chair, Board governance assignments</a>	SHENOY	
3.	<a href="#">Director's Report</a>	OLINECK	
	a. <a href="#">Forward-Looking Calendar with 2024 meeting dates</a>		
	b. <a href="#">OPERF Investment Report</a>		
	c. <a href="#">Budget Execution Report</a>		
4.	<a href="#">Annual report of board member training activities</a>	OLINECK	
5.	<a href="#">Board self-evaluation</a>	OLINECK	
6.	<a href="#">Board Scorecard Report on Agency Performance Measures</a>	RICKARD	
<b>B. Administrative Rulemaking</b>			
1.	<a href="#">Notice of OSGP Self-Directed Brokerage Option Rule</a>	VAUGHN	
2.	<a href="#">Notice of minimum distributions on Preretirement Death Benefit Payout</a>		
3.	<a href="#">Adoption of OPSRP Earnings Crediting Rule</a>		
<b>C. Action and discussion items</b>			
1.	<a href="#">Legislative update</a>	CASE	
2.	<a href="#">PERS Modernization Program update</a>	CRAVEN	
3.	<a href="#">PERS Health Insurance Plan annual update</a>	CHAVEZ	
4.	<a href="#">2024 Retiree Health Insurance Plan renewals and rates</a>	CHAVEZ	
5.	<a href="#">Overview of side accounts</a>	WINSHIP	
6.	<a href="#">Overview of actuarial methods and economic assumptions</a>	MILLIMAN	

The PERS Board members, meeting presenters, and the public have the option to attend this meeting in person or remotely. Visit <https://www.oregon.gov/pers/Pages/Board/PERS-Board-Information.aspx> for options. This meeting will be recorded. An audio recording of the meeting will be available on the PERS website following the meeting.

Public testimony or comment will be taken on action items at the Chair's discretion. Written testimony/comment must be submitted to [pers.board@pers.oregon.gov](mailto:pers.board@pers.oregon.gov). Requests to provide oral testimony/comment must also be submitted to [pers.board@pers.oregon.gov](mailto:pers.board@pers.oregon.gov). All written testimony/comment and requests to provide oral testimony/comment should be submitted three days or more in advance of the meeting. Three days allows testimony/comment to be processed by staff, included in the PERS board materials, and considered by board members.

**NOTE:** During its meetings, the PERS Board addresses the PERS program as a whole, not an individual member's benefits. If you have a specific concern about how PERS administers your individual benefits, please call PERS Member Services at 888-320-7277 or follow the PERS appeal process as outlined in OAR 459-001-0030.

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

**2023 Meetings: July 28\*, September 29, December 1\***  
**\*Audit Committee planned for post-Board meeting**

## Administration

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# OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM BOARD MEETING MINUTES

April 3, 2023

## **Board members present:**

Chair Sadhana Shenoy, Vice Chair Lawrence Furnstahl, Stephen Buckley, Jardon Jaramillo, and John Scanlan attended in the PERS Boardroom.

## **Staff present:**

Kevin Olineck, Heather Case, Jake Winship, Jason Stanley, Katie Brogan, Niel Jones, Sam Paris, Shane Perry, and Yvette Elledge-Rhodes attended in the PERS Boardroom.

Akiko Yoshida, Alex Gaub, Alyse Greer, Ann Gabourel, Anne Marie Vu, Chris Geier, Daniel Rivas, David Larson, Elizabeth Rossman, Janice Ness, Joel Mellor, Jonathan Yost, Julie Coatney, Jordan Masanga, Karen Herrold, Katie Davis, Matthew Graves, Megan Mume, Melanie Chandler, Melissa Piezonka, Michael Duren, Michiru Farney, Stephanie Vaughn, Pat Donegan, Phuongnam Tran, Richard Horsford, Susie Bodman, Shawn Harper, Steven Cardinale, Tiffani Cairo, and Colin Campi attended virtually.

## **Others present:**

Matt Larrabee, Scott Preppernau, Rex Kim, and Julia Bancila attended in the PERS Boardroom.

Carol Samuels, Carole Francisvo Prescoyt, Courtney Johnson, Deborah Tremblay, Dee-dra Kleve, Gary Smith, Jackie Olsen, Janet Gilliland, Jeff Gudman, Jennifer Jones, Kali Leinenbach, Kevin Grainey, Kristi Jenkins, Megan Daniels, Michelle Morrison, Nancy Brewer, Nate Carter, Ruth Nelson, Shauna Tobiasson, Steven Demarest, and Suzanne Linneen attended virtually.

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

## **ADMINISTRATION**

### **A.1. MEETING MINUTES OF FEBRUARY 3, 2023**

Board Member Buckley moved to approve the minutes as presented from the February 3, 2023, PERS Board meeting as presented. Board Member Scanlan seconded the approval of the minutes. The motion passed unanimously.

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

Director Kevin Olineck presented the Director's Report, which is a summary of items for the board to be aware of and the forward-looking calendar. He noted that the joint Oregon Investment Council and PERS Board meeting is scheduled for May 31, 2023.

The Oregon Public Employees Retirement Fund (OPERF) returns, for the period ending February 28, 2023, were 1.02%.

Operating expenditures for January, February, and preliminary expenditures for March are \$4,755,750, \$5,385,597, and \$4,868,152, respectively.

Through March 12, 2023, the agency has expended a total of \$99,262,155 or 78.4% of PERS' legislatively approved operations budget of \$126,596,362. Currently, the agency's projected variance is \$6,231,675 or 4.9%.

Olineck reviewed the meeting agenda. Chair Shenoy acknowledged the work of staff on legislative materials and PERS budget requests.

### **A.4. OREGON INVESTMENT COUNCIL PERFORMANCE REVIEW**

Rex Kim, Oregon State Treasury Chief Investment Officer, presented the Oregon Investment Council (OIC) Investment Report of the Oregon Public Employees Retirement Fund (OPERF) for the period ending

December 31, 2022. He reviewed the market environment over the next decade, 2022 performance, OPERF 20-year net asset value history, and current asset allocation.

No board action was required.

#### A.5. OREGON SAVINGS GROWTH PLAN ANNUAL REPORT

Sam Paris, Chief Operations Officer, presented the Oregon Savings Growth Plan (OSGP) Annual Report. The presentation reflected information for the 2022 calendar year and included information regarding governance, administrative support, and plan and participant demographics. The report summarizes assets, cash flow and investment composition, as well as investment performance, options, and fees.

No board action was required.

### **ADMINISTRATIVE RULEMAKING**

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

#### B.1. NOTICE OF ELIMINATION OF OPSRP WITHDRAWALS

Vaughn presented Notice of Permanent Rulemaking to update Oregon Public Service Retirement Plan (OPSRP) withdrawal rule OAR 459-007-0340, Crediting Earnings for an OPSRP Pension Program Cash Out of Small Benefits or Withdrawal.

A rulemaking hearing will be held remotely on April 27, 2023, at 2:00 p.m. The public comment period ends May 2, 2023, at 5:00 p.m.

#### B.2. ADOPTION OF YEARLY SALARY CONTRIBUTION LIMITS INCREASE

Vaughn presented Adoption of Salary and Contribution Limits Rules: OAR 459-005-0525, Ceiling on Compensation for Purposes of Contributions Benefits, OAR 459-005-0545, Annual Addition Limitation, OAR 459-017-0060, Reemployment of Retired Members, OAR 459-080-0400, Employee Pension Stability Account (EPSA), and OAR 459-080-0500, Limitation on Contributions.

A rulemaking hearing was held remotely on February 22, 2023, at 2:00 p.m. The public comment period ended March 1, 2023, at 5:00 p.m. No public comments were received.

Vice Chair Furnstahl moved to a adopt modifications to OAR 459-005-0525, OAR 459-005-0545, OAR 459-017-0060, OAR 459-080-0400, and 459-080-0500, as presented. Board Member Jaramillo seconded to motion. The motion passed unanimously.

#### B.3. ADOPTION OF REQUIRED MINIMUM DISTRIBUTION

Vaughn presented Adoption of Rules regarding Required Minimum Distribution Age OAR 459-005-0560, Required Minimum Distributions, Generally, OAR 459-050-0080, Distribution of Funds After a Severance of Employment, and OAR 459-050-0300, Required Minimum Distribution Requirements.

A rulemaking hearing was held remotely on December 22, 2022, at 2:00 p.m. The public comment period ended December 27, 2022, at 5:00 p.m. No public comments were received.

Vice Chair Furnstahl moved to a adopt modifications to OAR 459-005-0560, OAR 459-050-0080 and 459-050-0300, as presented. Board Member Buckley seconded to motion. The motion passed unanimously.

## **ACTION AND DISCUSSION ITEMS**

### **C.1. LEGISLATIVE UPDATE**

Heather Case, Senior Policy Advisor, presented.

Case provided an update on the 2023 legislative session, PERS agency bills, bills impacting PERS, the PERS budget presentations, and required reporting. An update will be provided at the June 2, 2023, PERS Board meeting.

No board action was required.

### **C.2. SENATE BILL 1049 UPDATE**

Yvette Elledge-Rhodes, Deputy Director, presented.

Elledge-Rhodes reviewed the ongoing activities of the individual projects that make up the Senate Bill 1049 Implementation Program. She highlighted program activities that have been completed, or are in process, since the last update to the board. Program health is in the red status.

No board action was required.

### **C.3. FINAL 2022 EARNINGS CREDITING AND RESERVING**

Richard Horsford, Chief Financial Officer, and Matthew Graves, Financial Reporting Manager, presented final earnings crediting for 2022.

The final crediting rates as presented include:

Tier One: 6.90%  
Tier Two: -1.91%  
Variable: -21.52%  
Tier One/Two EPSA: -1.91%  
OPSRP EPSA: -1.91%

Board Member Jaramillo motioned to adopt the final crediting of earnings as presented for calendar year 2022. Vice Chair Furnstahl seconded. The motion passed unanimously.

### **C.4. PREPARATORY DISCUSSION FOR UPCOMING EXPERIENCE STUDY**

Scott Preppernau and Matt Larrabee of Milliman presented economic assumptions and rate-setting methods. The presentation reviewed the non-investment and economic assumptions and the long-term investment return assumptions, which will be considered in preparation for the July 2023 presentation. At the July 2023 presentation, demographic assumptions will be discussed before asking for adoption of the assumptions and methods for the current and next year's advisory valuation. They will come back with those results in September 2023. No board action was required.

Chair Shenoy adjourned the PERS Board meeting at 10:47 a.m.

Respectfully submitted,



Kevin Olineck, Director

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## Proposed PERS Board Governance Assignments

**June 2, 2023**

Stephen Buckley	Board Vice-Chair Audit and Risk Committee
Jardon Jaramillo	Audit and Risk Committee (Chair)
Suzanne Linneen	Audit and Risk Committee PERS Board Legislative Advisory Committee Employer Advisory Group
John Scanlan	PERS Board Legislative Advisory Committee Retiree Health Insurance Advisory Committee
Sadhana Shenoy	Board Chair

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# Director's Report

## OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM

Kevin Olineck, Director



## Overview

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

## Highlights

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

### Agency initiatives and accomplishments

**PERS Succession Plan** The PERS Executive Leadership Team formally adopted the *PERS Succession Plan*. This is a significant step in formalizing how we will approach succession within the agency.

Succession planning aids in the identification of key roles and provides the means to identify current staff who have the skills and competencies to fill these roles. Also, where there are gaps in skills and competencies, succession plans look at how best to bridge those gaps.



Our plan takes all of these things into consideration and provides the framework and road map to ensure that PERS has a strong talent-management program in place.

The *PERS Succession Plan*, in place for 2023 through 2028, will play an integral part in the short-and long-term success of our agency. Executives are excited to see how we can engage both managers and staff to ensure that we proactively apply the concepts within the plan and provide succession opportunities at all levels.

**Budget finalization** On April 6, Richard Horsford and I made our Phase II Budget presentation to the Joint Committee on Ways and Means, General Government

Subcommittee. Richard and I provided an in-depth review of our policy option packages so that committee members could better understand our budgetary proposals over and above our current service level requirements.

On April 26, Yvette Elledge-Rhodes and I presented to the Joint Committee on Information Management and Technology regarding our PERS Modernization Program. Yvette and I provided an overview of why PERS needs to modernize, progress to date to set up the program, and what is proposed in our 2023-25 budget request. The committee members were engaged during our presentation and the Legislative Fiscal Office (LFO) recommended conditional approval of the PERS Modernization Policy Option Package, assuming the requested spending authority and personnel resources are made available to PERS within House Bill 5033 (PERS' budget bill). The conditions that the LFO prescribed are in line with strong program and project governance and PERS will be able to meet those conditions.

**Public Service Recognition Week (May 7-13)** The Department of Administrative Services (DAS) has chosen "Extraordinary Customer Service" as this year's theme to highlight state employees who have

committed to taking amazing care of our fellow Oregonians. Public service ambassadors embody the enterprise values of integrity, accountability, excellence, and equity in their everyday work.

Whether customers are external or internal, we wanted to hear about co-workers that continue to show an unconditional commitment to giving the highest level of service to every person.

PERS' Employee Recognition Work Group reviewed eleven nominations and selected three staff members – Alison Burman, Patricia Saxby, and Sabrina Pedersen – for submission. The state subsequently notified our honorees about their recognition and award. Additionally, the DAS Chief Human Resources Office is coordinating statewide recognition of nominees by highlighting them on the recognition website. Nominees also received an honorary certificate from state leadership.

**NCPERS Certificate of Transparency** PERS participated in the 2022 NCPERS Public Retirement Systems Study. In this 12th year of the study, public retirement plans across North America participated by providing the latest information on plan design, investment allocation





and returns, actuarial assumptions, and plan governance practices.

As one of the 156 plans who participated, PERS was recognized for furthering open disclosure, increasing the range of data from which to learn, and contributing to the public's understanding of public retirement systems.

**PERS' All-Staff Meeting in May** We held our semiannual, all-staff meeting on May 18. Newly appointed Board Member Linneen attended the meeting and provided welcoming remarks and comments on behalf of the PERS Board; her participation was appreciated by all. The second part of our staff meeting, the Executive Leadership Team (ELT) question and answer session, was held on June 1. This provided staff an opportunity to ask questions directly of our ELT on any subject.

**Member Annual Statements** Every year in May, PERS mails out annual statements to its membership base. These statements contain data unique to each individual

member, including previous-year balances, earnings from the past year, and the total balances for the current year. The member statements depict customized and unique data to all statement recipients, including information and details about the content within the statement, as well as directions on how to access additional resources. These statements not only provide a detailed and accurate reflection of everyone's member data, but they also help to ensure that members have the information they need to make sound retirement decisions.

A team comprised of key staff from PERS' Operations Division, Information Services Division, Central Administration Division, and DAS Publishing and Distribution work collaboratively to coordinate, prepare, and execute the member annual statement effort. This year, approximately 290,000 statements were mailed to participants. The member annual statement effort takes several months to implement, and it would not run as smoothly as it does without the help from the exceptional staff who contribute to producing this valuable piece of communication.

**Employer Reporting Guides** The Communications Section continues to collaborate with PERS' Employer Service Center staff to update more employer reporting guides, which are being created to replace nearly all the old employer manuals. While the current manuals are good resources, they are written at a very high level and can be confusing. The new guides combine the information from the current manuals and separate them into the individual tasks that PERS-participating employers need to know how to do. These new guides explain the "why," not just the "how," and include:

- How to handle different scenarios for different types of employees.
- Actions that tend to be executed incorrectly.
- Pictures to show, not just tell.

Once this update of the manuals is complete, there will be 28 employer-reporting guides. The new series includes the *Overview of PERS*, the first employer guide offered to help employers understand what PERS is, how it works, and what benefits it provides. Additionally,

there are four guides covering leaves of absence and a guide on retirement, with guidance on reporting and supporting employees in their process. Finally, there are

eight quick reference guides to support employers with frequently needed details.



# PERS BOARD MEETING FORWARD-LOOKING CALENDAR

## Friday, July 28, 2023\*

Legislative Session review  
Senate Bill (SB) 1049 update  
Preliminary Adoption of Valuation Methods and Assumptions including Assumed Rate of Return  
Preliminary Adoption of Assumed Rate Oregon Administrative Rule (OAR)

## Friday, September 29, 2023

PERS Member and Employer Survey results  
PERS Strategic Plan overview and update  
Legislative update or Legislative concepts — if needed  
PERS Modernization Program update  
Funding Policy review  
Final Adoption of Valuation Methods and Assumptions including Assumed Rate of Return  
Valuation Results — Advisory Employer Rates  
Final Adoption of Assumed Rate Oregon OAR

## Friday, December 1, 2023\*

Board Scorecard Report on agency performance measures  
SB 1049 update  
PERS Strategic Plan update  
Valuation update and Financial Modeling results  
Adoption of Actuarial Equivalency Factor Tables

*\*Audit and Risk Committee planned for post-board meeting*

## **2024 PERS Board meeting dates**

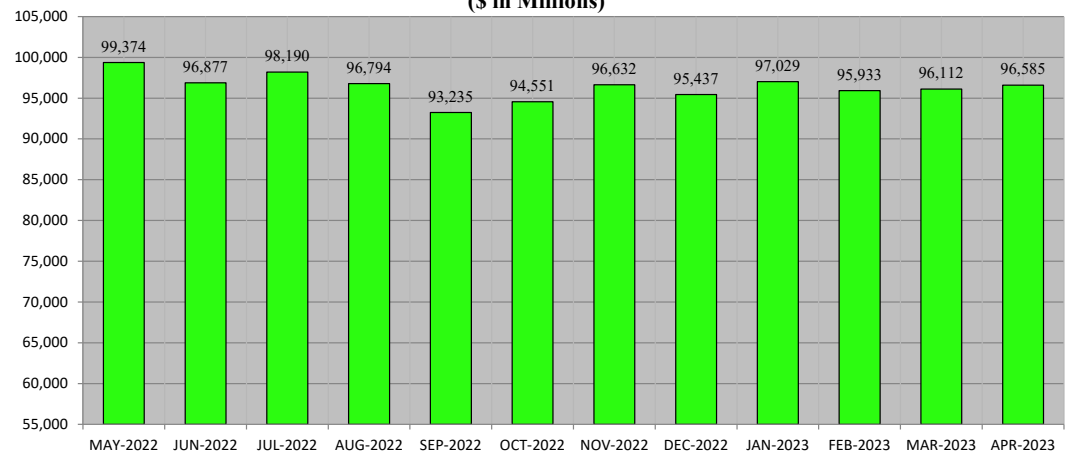
9:00 a.m. start times

- February 2
- April 1\*
- May 31
- July 26\*
- October 4
- December 6\*

*\*Audit and Risk Committee meeting dates*

OPERF	Regular Account				Historical Performance (Annual Percentage)							
	Policy <sup>1</sup>	Target <sup>1</sup>	\$ Thousands <sup>2</sup>	Actual	Year-To-Date <sup>3</sup>	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS	7 YEARS	10 YEARS
<b>TOTAL OPERF Regular Account</b>			\$ 92,915,503		2.21	1.01	5.88	11.06	8.63	8.01	8.75	8.14
<i>OPERF Policy Benchmark</i>					5.08	(1.05)	1.89	8.92	7.85	7.22	8.39	8.16
<b>Value Added</b>					(2.87)	2.06	4.00	2.14	0.78	0.78	0.36	(0.01)
<i>Oregon 70/30 Reference Benchmark</i>					6.87	1.16	(2.90)	7.55	5.39	5.28	6.70	6.03
<b>Public Equity</b>	22.5-32.5%	27.5%	\$ 16,509,250	17.8%	6.43	2.21	(1.10)	13.41	7.68	6.69	9.23	8.20
<i>MSCI ACWI IMI Net</i>					8.31	1.55	(2.41)	12.15	7.25	6.65	8.93	7.80
<b>Private Equity</b>	17.5-27.5%	20.0%	\$ 24,973,791	26.9%	0.92	(4.94)	12.35	17.42	15.86	15.41	14.97	14.12
<i>Russell 3000+300 Bps Qtr Lag</i>					10.75	(13.24)	3.92	14.04	15.36	12.60	14.76	15.76
<b>Total Equity</b>	45.0-55.0%	47.5%	\$ 41,483,041	44.6%								
<b>Total Fixed</b>	20-30%	25.0%	\$ 21,819,582	23.5%	3.96	0.16	(3.34)	(1.56)	0.89	1.70	1.64	1.68
<i>Oregon Custom Fixed Income Benchmark</i>					3.59	(0.43)	(4.47)	(2.69)	0.14	1.10	1.05	1.15
<b>Risk Parity</b>	0	0.0%	\$ 4,681	0.0%								
<i>S&amp;P Risk Parity - 12% Target Volatility</i>					9.64	(7.22)	(1.23)	11.16	7.24	7.49	7.99	6.48
<b>Real Estate</b>	9.0-16.5%	12.5%	\$ 13,692,185	14.7%	(2.83)	5.36	16.56	11.80	10.70	10.12	9.48	10.02
<i>Oregon Custom Real Estate Benchmark</i>					(6.25)	2.94	12.55	8.46	7.39	7.33	7.40	8.77
<b>Real Assets</b>	2.5-10.0%	7.5%	\$ 8,566,809	9.2%	3.31	15.10	16.99	13.11	9.63	7.37	8.33	5.44
<i>CPI +4%</i>					3.55	9.11	10.82	9.98	8.54	8.04	7.58	6.79
<b>Diversifying Strategies</b>	2.5-10.0%	7.5%	\$ 4,699,911	5.1%	(1.24)	8.20	10.83	8.20	2.53	0.25	1.16	2.84
<i>HFRI FOF: Conservative Index</i>					0.89	0.84	1.70	7.01	4.25	3.83	4.00	3.37
<b>Opportunity Portfolio</b>	0-5%	0%	\$ 2,628,741	2.8%	3.73	2.59	8.67	14.53	10.47	9.30	9.08	8.51
<i>Opportunity Custom Benchmark</i>					3.91	10.19	11.90	11.04	9.59	9.08	8.61	7.82
<b>Cash w/Overlay</b>	0-3%	0%	\$ 20,553	0.0%	1.69	2.93	1.09	1.07	1.45	1.74	1.59	1.31
<i>91 Day Treasury Bill</i>					1.39	2.81	1.43	0.99	1.26	1.44	1.26	0.90
<b>Target Date Funds</b>			\$ 3,415,498									
<b>TOTAL OPERF Variable Account</b>			\$ 253,529									
					8.35	1.89	(2.12)	12.48	7.57	6.97	9.28	8.16

**Total OPERF NAV**  
(includes Variable Fund assets)  
One year ending APR-2023  
(\$ in Millions)



<sup>1</sup>OIC Policy revised April 2023.

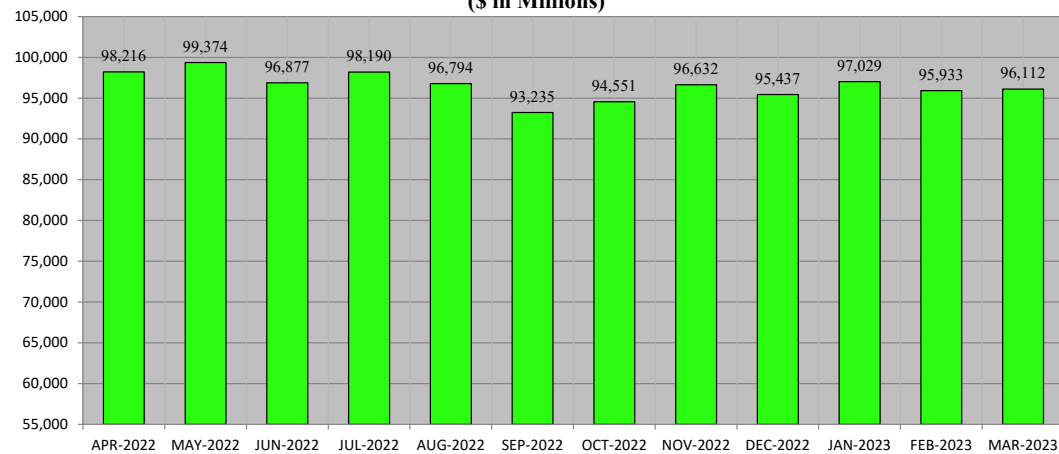
<sup>2</sup>Includes impact of cash overlay management.

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

OPERF	Regular Account				Historical Performance (Annual Percentage)							
	Policy <sup>1</sup>	Target <sup>1</sup>	\$ Thousands <sup>2</sup>	Actual	Year-To-Date <sup>3</sup>	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS	7 YEARS	10 YEARS
<b>TOTAL OPERF Regular Account</b>			\$ 92,424,088		1.80	(0.94)	6.87	11.78	8.91	8.00	8.83	8.27
<i>OPERF Policy Benchmark</i>					4.10	(5.11)	2.62	9.70	8.21	7.10	8.37	8.23
<b>Value Added</b>					(2.30)	4.18	4.25	2.08	0.69	0.89	0.46	0.04
<i>Oregon 70/30 Reference Benchmark</i>					5.76	(6.60)	(1.84)	10.04	5.72	5.15	6.72	6.15
<b>Public Equity</b>	25.0-35.0%	30.0%	\$ 17,184,202	18.6%	5.09	(5.55)	0.13	16.77	8.10	6.54	9.28	8.35
<i>MSCI ACWI IMI Net</i>					6.95	(7.68)	(0.94)	15.64	7.78	6.58	8.97	7.95
<b>Private Equity</b>	15.0-27.5%	20.0%	\$ 25,002,069	27.1%	0.67	(5.20)	14.15	16.28	16.31	15.55	14.93	14.09
<i>Russell 3000+300 Bps Qtr Lag</i>					7.96	(16.73)	3.79	10.27	15.96	12.03	14.34	15.47
<b>Total Equity</b>	45.0-55.0%	50.0%	\$ 42,186,271	45.6%								
<b>Total Fixed</b>	15-25%	20.0%	\$ 20,812,847	22.5%	3.32	(3.33)	(3.31)	(1.12)	0.79	1.48	1.66	1.75
<i>Oregon Custom Fixed Income Benchmark</i>					2.96	(4.78)	(4.40)	(2.31)	0.03	0.87	1.04	1.21
<b>Risk Parity</b>	0.0-3.5%	2.5%	\$ 16,717	0.0%	(0.42)	(19.39)	(6.14)					
<i>S&amp;P Risk Parity - 12% Target Volatility</i>					8.56	(12.07)	0.82	11.81	7.26	7.71	8.27	6.52
<b>Real Estate</b>	7.5-17.5%	12.5%	\$ 13,780,386	14.9%	(2.31)	7.89	17.31	11.89	10.84	10.25	9.53	10.26
<i>Oregon Custom Real Estate Benchmark</i>					(5.17)	6.55	13.55	8.97	7.80	7.72	7.57	8.90
<b>Real Assets</b>	2.5-10.0%	7.5%	\$ 8,534,263	9.2%	2.95	15.85	17.32	12.65	9.26	7.31	8.82	5.41
<i>CPI +4%</i>					2.69	9.17	11.00	9.55	8.55	8.02	7.57	6.73
<b>Diversifying Strategies</b>	2.5-10.0%	7.5%	\$ 4,696,314	5.1%	(1.32)	12.19	10.93	6.84	2.77	0.19	1.15	2.80
<i>HFRI FOF: Conservative Index</i>					0.79	0.72	2.37	7.59	4.47	3.91	4.04	3.43
<b>Opportunity Portfolio</b>	0-5%	0%	\$ 2,630,831	2.8%	2.83	2.30	9.29	11.92	10.34	9.58	9.44	8.61
<i>CPI + 5%</i>					2.94	10.21	12.06	10.60	9.59	9.05	8.60	7.75
<b>Cash w/Overlay</b>	0-3%	0%	\$ (233,542)	-0.3%	1.25	2.38	0.90	1.22	1.40	1.69	1.55	1.27
<i>91 Day Treasury Bill</i>					1.07	2.50	1.28	0.89	1.23	1.41	1.21	0.87
<b>Target Date Funds</b>			\$ 3,430,303									
<b>TOTAL OPERF Variable Account</b>			\$ 257,771									
					7.00	(7.35)	(0.63)	15.93	8.12	6.94	9.33	8.30

**Total OPERF NAV**  
(includes Variable Fund assets)  
One year ending MAR-2023

(\$ in Millions)



<sup>1</sup>OIC Policy revised June 2021. Beginning October 1, 2021, the Alternatives Portfolio has been split up into two new portfolios: Real Assets and Diversifying Strategies.

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

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



# Oregon

Tina Kotek, Governor

## Public Employees Retirement System

Headquarters

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

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

June 2, 2023

TO: Members of the PERS Board  
 FROM: Gregory R. Gabriel, Budget Officer  
 SUBJECT: June 2023 Budget Report

### 2021-23 OPERATING BUDGET

Operating expenditures for March, April, and preliminary expenditures for May are \$4,253,991, \$4,737,153, and \$5,976,271 respectively. Final expenditures for May will close in the Statewide Financial Management System on June 16 and will be included in the July 2023 report to the board.

- Through May 12, 2023, the agency has expended a total of \$108,326,841 or 85.6% of PERS' legislatively approved operations budget of \$126,596,362.
- At this time, the agency's projected variance is \$6,298,878 or 5.0%.
- Core Retirement Systems Applications (CRSA) expenditures for March, April, and preliminary expenditures for May are \$483,889, \$1,574,704, and \$1,426,777 respectively. As of May 12, the agency has expended \$21,477,094 or 77.4% of the legislatively approved budget of \$27,765,009.
- At this time, the CRSA projected variance is \$2,652,546 or 9.6%.

### 2021-23 NON-LIMITED BUDGET

The adopted budget includes \$12,886,613,593 in total estimated non-limited expenditures. Non-limited expenditures include benefit payments, health insurance premiums, and third-party administration payments for both the PERS Health Insurance Program (PHIP) and the Individual Account Program (IAP).

- Non-Limited expenditures through May 12, 2023, are \$11,708,042,049.

A.2.c. Attachment 1 – 2021-23, CRSA, Agency-Wide Budget Execution Summary Analysis



# PERS Monthly Budget Report

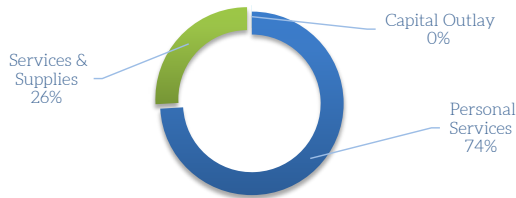
2021-23 Agency-Wide Budget Execution  
Preliminary Summary for the Month of May 2023

## Limited - Operating Budget

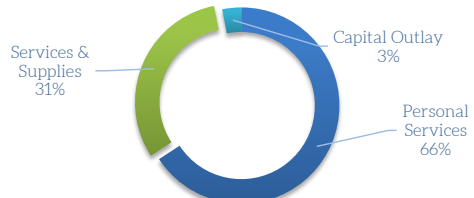
### 2021-23 Biennial Summary

Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expenditures	2021-23 LAB	Variance
Personal Services	80,250,559	7,877,703	88,128,262	91,033,361	2,905,099
Services & Supplies	28,054,837	3,717,940	31,772,777	34,094,093	2,321,316
Capital Outlay	21,445	375,000	396,445	1,468,908	1,072,463
Unscheduled				0	0
<b>Total</b>	<b>108,326,841</b>	<b>11,970,643</b>	<b>120,297,484</b>	<b>126,596,362</b>	<b>6,298,878</b>

### Actual Expenditures



### Projected Expenditures



### Monthly Summary

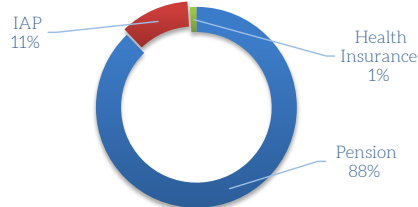
Category	Actual Exp.	Projections	Variance	Avg. Monthly Actual Exp.	Avg. Monthly Projected Exp.
Personal Services	3,840,769	3,980,071	139,302	3,620,435	3,966,667
Services & Supplies	2,135,503	2,212,956	77,453	1,318,502	1,259,021
Capital Outlay	0	0	0	1,129	75,000
<b>Total</b>	<b>5,976,271</b>	<b>6,193,027</b>	<b>216,755</b>	<b>4,940,066</b>	<b>5,300,688</b>

## Non-Limited Budget

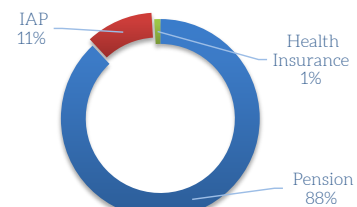
### 2021-23 Biennial Summary

Programs	Actual Exp To Date	Projected Expenditures	Total Est. Expenditures	Non-Limited LAB	Variance
Pension	10,283,104,996	904,923,007	11,188,028,003	11,215,517,678	27,489,675
IAP	1,302,691,585	88,531,002	1,391,222,588	1,298,603,848	(92,618,740)
Health Insurance	122,245,468	2,702,966	124,948,434	372,492,067	247,543,633
<b>Total</b>	<b>11,708,042,049</b>	<b>996,156,976</b>	<b>12,704,199,025</b>	<b>12,886,613,593</b>	<b>182,414,568</b>

### Actual Expenditures



### Projected Expenditures



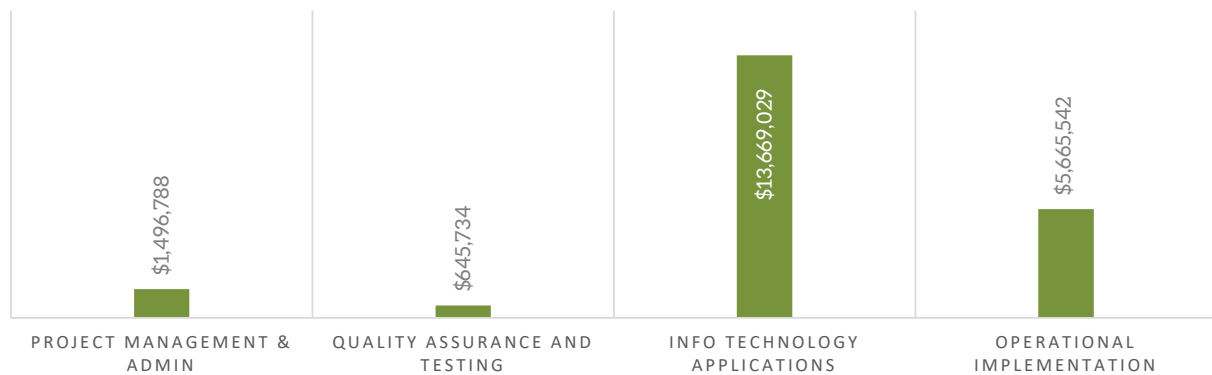
# Core Retirement Systems Application

Summary Budget Analysis  
Preliminary for the Month of May 2023

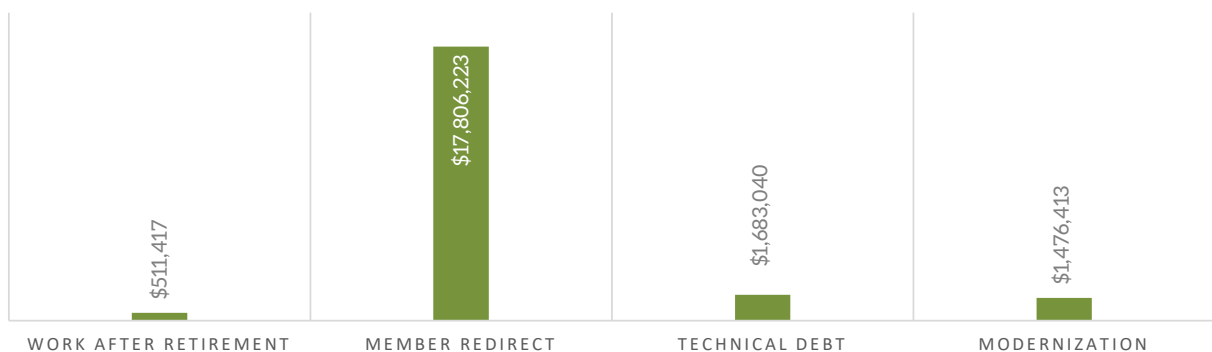
## Biennial Summary

Category	Actual Exp. To Date	Projected Expenditures	Total Est. Expend.	2021-23 LAB	Variance
Personal Services	5,396,378	769,120	6,165,498	7,037,101	871,603
Services & Supplies	16,064,481	2,866,249	18,930,730	20,672,908	1,742,178
Capital Outlay	16,235		16,235	55,000	38,765
<b>Total</b>	<b>21,477,094</b>	<b>3,635,369</b>	<b>25,112,463</b>	<b>27,765,009</b>	<b>2,652,546</b>

## EXPENDITURES BY PACKAGE



## EXPENDITURES BY PROJECT



## Administration

1. April 3, 2023, PERS Board Meeting Minutes
2. Board governance assignments
3. Director's Report
  - a. Forward-Looking Calendar
  - b. OPERF Investment Report
  - c. Budget Execution Report
4. Annual report of board member training activities
5. Board self-evaluation
6. Board Scorecard Report on Agency Performance Measures



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June 2, 2023

TO: Members of the PERS Board  
 FROM: Kevin Olineck, Director  
 SUBJECT: Annual Report of Board Member Training Activities

### BACKGROUND

At the May 2020 PERS Board Meeting, the board adopted the Board Education Policy (Attachment 1). The policy proposes that each board member be subject to a \$5,000 per annum education limit.

The policy states the Director will prepare a yearly report on the training activities of the PERS Board members. The report will include the seminar/conference name, sponsor, location, dates, and cost of the training.

Over the course of the May 1, 2022, through April 30, 2023, reporting period, board member Scanlan attended both the *National Conference on Public Employee Retirement Systems* (NCPERS) Annual Conference and Trustee Educational Seminar (May 21- 25, 2022). Conference registration was \$1,385.00 and related expenses were \$3,905.81 for a total of \$5,290.81. The overage above the yearly limit was approved by the Director as this combined two educational opportunities.

In November 2020, PERS subscribed to an online board education tool, Board Smart. This is an evolving platform with multiple talks associated with various topic areas. We have updated the onboarding and continuing education matrix that shows which of the Board Smart talks we would recommend board members take, as well as other talks that would be considered "optional." This list will continue to be refined as the Board Smart talks are updated.

The Director's Office built out a repository of board-related documents that can be accessed by board members using the current board portal, Boardvantage. For example, we have posted our Board Orientation Manual, Funding Policy, Audit and Risk Committee Terms of Reference, links to Oregon Revised Statutes, etc. Additionally, a new Governance Manual is housed on the board portal.


Staff recommends that Board Smart be the primary educational facility used by PERS Board members to have consistency in board education while maximizing our subscription.

No board action is required.

A.3 Attachment 1 – *Board Education Policy*

A.3 Attachment 2 – *Board Smart Overview*

A.3 Attachment 3 – *Board Smart Online Continuing Education Matrix*

<b>Oregon Public Employees Retirement System</b>	<b>Posted date</b> November 5, 2021	<b>Number</b> 1.03.02.01.001.POL
<b>Signature</b> 	<b>Approval date</b> November 4, 2021	<b>Page</b> 1 of 3
<b>Policy:</b>	PERS Board Education	
<b>Objective:</b>	Requires each board member to have adequate education to perform the duties and obligations of the position.	
<b>References:</b>	<a href="#">State of Oregon's Statewide Travel Policy</a> , <a href="#">DAS - CHRO - Preventing Discrimination, Harassment, and Sexual Harassment in the Workplace required training</a> , and <a href="#">DAS – EIS – Information Security Training: Foundations Content</a>	

### Policy

As fiduciaries, PERS board members are expected to be capable of performing their duties and responsibilities. To that end, each board member should avail themselves of sufficient education to discharge the obligations of the position.

The PERS board has established this Board Education policy, which is applicable to all board members.

#### A. Board Orientation Manual

As soon as is practicable, the board member should be provided with an up-to-date version of the *Board Orientation Manual* and meet with the director to review its contents. Contents of the *Board Orientation Manual* should include:

- Objective, overview, and PERS programs
- Overview of the PERS board's role:
  - PERS board member information
  - Appointment of director and consultants
- PERS system overview:
  - Statutory authority and requirements
  - PERS stakeholders
  - Legislative process
  - Actuarial information

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Origination date: June 5, 2020  
Last revision date: September 8, 2020  
Last review date: June 4, 2021

SL2

- Oregon Investment Council (OIC)

PERS agency overview:

- Mission statement
- PERS executive and organizational structure
- PERS Strategic Plan:
  - PERS Outcome-Based Management System (POBMS)
- Financial information:
  - Budget information
  - Comprehensive Annual Financial Report (CAFR)
- Other PERS programs:
  - Oregon Savings Growth Plan (OSGP)
  - PERS Health Insurance Plan (PHIP)

## **B. Education policy**

Board members will evaluate their own educational needs to obtain knowledge in specific subject matters. Board members are encouraged to attend educational sessions related to:

- Pension benefit design
- Fiduciary responsibilities
- Actuarial issues and trends
- Investment issues and trends
- Other subjects related to the administration, management, and operation of PERS.

The director will periodically provide the board with information on available conferences and seminars. Examples of conferences and seminars that would be seen to be applicable include the following:

- Conferences and programs (including trustee certifications) sponsored by the International Foundation of Employee Benefit Plans (IFEBP)
- Conferences and programs (including trustee certifications) sponsored by the National Conference of Public Employees Retirement Systems (NCPERS)
- Conferences sponsored by the National Association of State Retirement Administrators (NASRA)

Origination date: June 5, 2020

Last revision date: September 8, 2020

Last review date: June 4, 2021

SL2

- 
- Conferences sponsored by Pension & Investments
  - Conferences sponsored by the National Institute on Retirement Security
  - Conferences sponsored by Callan

Each board member will be provided a yearly educational budget of \$5,000. This is intended to cover not only the registration for educational activities, but also travel-related expenses. Payment and reimbursement of travel-related expenses for training will be in accordance with the state of Oregon's Statewide Travel Policy: (<https://www.oregon.gov/das/Financial/Acctng/Documents/40.10.00.pdf> )

The director will prepare a yearly report on the training activities of the PERS board members. The report will include the seminar/conference name, sponsor, location, dates, and cost of the training.

### **C. State-mandated education**

On a yearly basis, each board member must also complete the following state-mandated education sessions via the state learning system:

DAS - CHRO - Preventing Discrimination, Harassment, and Sexual Harassment in the Workplace required training. <https://ilearn.oregon.gov/Default.aspx>

DAS – EIS – Information Security Training: Foundations Content. <https://ilearn.oregon.gov/Default.aspx>

### **D. Policy review and history**

1. This policy shall be reviewed by the PERS board no less frequently than every two years for continued relevance and appropriateness.
2. The PERS board adopted this policy on May 29, 2020.

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Origination date:	June 5, 2020
Last revision date:	September 8, 2020
Last review date:	June 4, 2021

SL2

# Board Smart

## Board Smart 2.0 New Organization of Curriculum



### 21<sup>st</sup> Century Uncertainties

- The State of Public Pensions (Economic Stability/Funded Status)
- Importance of Public Pension Benefits (Benefits to Retirees and the Broader Economy)
- Importance of Balance (Intergenerational Fairness, Diversity, Participation)
- Key Differences Between Defined Benefit and Defined Contribution Plans
- The Cyber Threat: What Board Members Should Know

### Purpose/Vital Functions

#### Essential

- Annual Required Contribution Basics
- Expected Rate of Return Basics
- Financial Management Essentials
- Actuarial Basics for Defined Benefit Plans
- Pension Plan Funding and the Actuarial Processes – *In development*
- Pension Accounting – *In development*
- The Role of the Custodian – *In development*

#### Advanced

- Differences Between the US and Canadian Models
- Public Pension Governance Structures
- Operating the Public Sector Fishbowl



- Corporate Governance and Proxy Voting – An Overview
- The Basics of Private Equity Investing and Costs
- Corporate Governance in the US

### **Fiduciary Duties**

- The Prudent Fiduciary
- Fiduciary Fundamentals
- The Role of the Fiduciary Board
- Powers of the Fiduciary Board

### **Conduct Business**

- Ethics, Code of Conduct, Conflicts of Interest
- Governance Policies
- Enterprise Governance
- Choosing the Right Leadership (Hiring and Succession Planning for the CEO/CIO)
- Evaluating the Executive Director
- The Roles of Chair and Vice Chairs
- The Roles of Committees
- Board Self-Evaluation
- Stakeholder Engagement
- Board Use of Third-Party Service Providers – *In development*
- Optimizing the Use of the Board Portal – *In development*

### **Set Then Delegate**

- The Board’s Focus on Strategy
- Investment Beliefs
- Setting the Course (Asset Management Basics)
- The Role of the Executive and Staff – *In development*

### **Approve Decisions**

- *In development*

### **Oversee Execution**

- Insight Not Overload
- Risk Series
  - A Primer on Performance and Risk – Part 1
  - Performance and Risk – Part 2
  - Risk Appetite and Risk Tolerance – Part 3
  - The Role of the Board in Oversight of Performance and Risk – Part 4
- Understanding Investment Risk
- Peer Benchmarking
- Overseeing the Course
- Overseeing Investment Operations

### **Verify Then Trust**

- *In development*

### Individual Continuing Education Plan Template

	Continuing Education Plan Source / Title	CE Credit	Recommendations				
			User Profile		Timing		
			PERS Recommended	PERS Optional	Day 1,	Kevin	
Inhouse							
Conference							
Virtual							
Other?							
<b>Enterprise Governance Framework</b>	Five Keys to Improving Board Effectiveness: Powers of the Board	0.5	0.5				
<b>Cornerstone Quick Reference Table</b>	(Optional) Legislation, Bylaws, and Policies organized by Enterprise Governance Framework Composition / Purpose of the Retirement System / Basic Functions Performed*	0.5	0.5				
<b>Purpose / Vital Functions</b>	<b>Essentials</b>						
	Pension Plan Funding and Actuarial Processes*	0.5	0.5				
	Actuarial Basics for Defined Benefit Plans	0.5	0.5				0.5
	Annual Required Contribution Basics	0.5	0.5				0.5
	Expected Rate of Return Basics	0.5	0.5				0.5
	Financial Management Essentials	0.5	0.5				0.5
	Pension Accounting*	0.5	0.5				
	The Role of the Custodian*	0.5					
	<b>Advanced</b>						
	Public Pension Governance Structures	0.5		0.5			0.5
	Differences Between the US and Canadian Models	0.5					0.5
	Operating in the Public Sector Fishbowl	0.5		0.5			0.5
	Corporate Governance and Proxy Voting – An Overview	0.5					0.5
	The Basics of Private Equity Investing and Costs	0.5					0.5
Corporate Governance in the US	0.5		0.5			0.5	
<b>Fiduciary Duty</b>	The Prudent Fiduciary	0.5	0.5				0.5
	Fiduciary Fundamentals	0.5	0.5				0.5
	Powers of the Fiduciary Board	0.5	0.5				0.5
	Fiduciary Duties and the Job of the Board	0.5	0.5				0.5
	The Role of the Fiduciary Board	0.5	0.5				0.5
<b>21st Century Uncertainties*</b>	The State of Public Pensions (Economic Stability / Funded Status)	0.5		0.5			0.5
	Importance of Public Pension Benefits (Benefits to Retirees and the Broader Economy)	0.5		0.5			0.5
	The Importance of Balance (Intergenerational Fairness, Diversity, Participation)	0.5	0.5				
	Key Differences Between Defined Benefit and Defined Contribution Plans	0.5	0.5				0.5
	The Cyber Threat: What Board Members Should Know	0.5		0.5			0.5
<b>Conduct Business</b>	Ethics, Code of Conduct, Conflicts of Interest	0.5	0.5				0.5
	Governance Policies	0.5	0.5				0.5
	Enterprise Governance (Webinar)	0.5	0.5				0.5
	Choosing the Right Leadership	0.5		0.5			0.5
	Evaluating the Executive Director	0.5		0.5			0.5
	The Role of Chair and Vice-Chairs	0.5	0.5				0.5
	The Role of Committees	0.5	0.5				0.5
	Board Use of Third-Party Service Providers*	0.5	0.5				
	Board Self-Evaluation	0.5	0.5				0.5
	Stakeholder Engagement	0.5		0.5			0.5
Optimizing Use of the Board Portal*	0.5						
<b>Set and Prudently Delegate / Approve</b>	The Board's Focus on Strategy	0.5		0.5			0.5
	Investment Beliefs	0.5					0.5
	Setting the Course (of Investments)	0.5					0.5
	The Role of the Executive and Staff*	0.5	0.5				
<b>Oversee Execution*</b>	Insight Not Overload (EPRM - Exception-based reporting)	0.5	0.5				0.5
	The Role of Board in Oversight of Performance and Risk	0.5	0.5				0.5
	Understanding Investment Risk	0.5					0.5
	A Primer on Performance and Risk – Part 1	0.5		0.5			0.5
	Performance and Risk – Part 2	0.5		0.5			0.5
	Risk Appetite and Risk Tolerance – Part 3	0.5		0.5			0.5
	Peer Benchmarking	0.5		0.5			0.5
	Overseeing the Course (of Investments)	0.5					0.5
Overseeing Investment Operations	0.5					0.5	
<b>Verify and ensure effective system of internal control*</b>	Constructive challenge / professional skepticism*	0.5	0.5				
	Internal Audit, External Audit, and Other Third Parties*	0.5	0.5				
<b>TOTAL CONTINUING EDUCATION CREDITS</b>		25.5	13.5	7	0	0	20
* In development for 2022							

## Administration

1. April 3, 2023, PERS Board Meeting Minutes
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June 2, 2023

TO: Members of the PERS Board  
 FROM: Kevin Olineck, Director  
 SUBJECT: Board Evaluation Documents

### ACTION

Review and adopt the new PERS Board Member Evaluation and Overall Board Evaluation documents.

### DISCUSSION

Based on a review of practices of our peer organizations, PERS developed two documents to assist the PERS Board with conducting regular self-assessments. These documents will assist them in identifying where they are performing well as a board, as well as help them identify opportunities for improvement. Discussion about board roles and responsibilities can strengthen communication and understanding among board members. Additionally, a board's willingness to engage in self-assessment is a model for the rest of the agency as it emphasizes that board members recognize that its effectiveness is an important factor in the system's long-term performance. The process also helps identify areas that may need to be addressed through onboarding and continuing education activities.

The PERS Board Member Evaluation is intended to be used by board members as a self-reflection tool prior to completing the Overall Board Evaluation document. Both documents were reviewed and refined at the April Audit and Risk Committee meeting with a recommendation for board adoption.

Once approved by the full board, these documents are intended to be used on a biannual basis, where the board chair coordinates the distribution and collation of the Overall Board Evaluations for review and discussion.

### BOARD OPTIONS

The PERS Board may:

1. Pass a motion to "recommend adoption of the new Board Evaluation documents, as presented."
2. Direct staff to make other changes to the documents or explore other options.

### STAFF RECOMMENDATION

Staff recommends the PERS Board choose Option #1.

A.5. Attachment 1 – *PERS Board Member Evaluation*

A.5. Attachment 2 – *Overall Board Evaluation*

## PERS Board Member Evaluation

It is not necessary to turn this document in; it is to assist board members in contemplating their evaluation.

Review the following statements in relation to your involvement as PERS Trustee. Rank answers using the following scale: **5 - always, 4 - almost always, 3 - sometimes, 2 - almost never, 1 - never**

		5	4	3	2	1
1.	I attend the board and committee meetings I am expected to attend.					
2.	I contribute to the discussion in a meaningful and helpful way.					
3.	I fully understand my fiduciary duties and act for the benefit of all members, not merely for a particular constituency.					
4.	My decisions are based on a fair, balanced, and prudent assessment of each situation.					
5.	I believe the highest and best use of the PERS Board is to establish policy and the role of the staff is to implement board policy.					
6.	I seek opportunities to expand my knowledge of pension issues by participating in continuing education opportunities.					
7.	I comply with state laws and PERS Board policies regarding conflicts of interest.					
8.	I read the materials distributed before the board meeting and bring questions to the Director or the Board Chair so I can constructively participate and make timely decisions.					
9.	I work with the other board members and staff in a collegial way.					
10.	I work with the Director in a way that creates an atmosphere of trust and cooperation.					
11.	I understand the Director works for the entire PERS Board and not for individual board members, and I act accordingly.					
12.	I communicate PERS Board governance problems to the Board Chair.					
13.	As a board member, I have read the Board Orientation Manual and Board Governance Manual and I reaffirm my understanding of these items.					
14.	I acquire, or I make sure I have, all the information necessary to make informed and timely decisions.					

I am most concerned about the following issues:

## Overall Board Evaluation

---

Name \_\_\_\_\_ Date: \_\_\_\_\_

This document should be completed and submitted to the Board Chair.

Rate the following statements in relation to the overall operation of the PERS Board. Rank answers using the following scale: **5 - always, 4 - almost always, 3 - sometimes, 2 - almost never, 1 - never**

		5	4	3	2	1
1.	The PERS Board maintains an effective oversight role regarding benefit issues.					
2.	The PERS Board recognizes its policy-making role and reconsiders and revises policies, as necessary.					
3.	The PERS Board follows a clearly defined biennium-based work plan, which captures major items for board consideration and decision-making.					
4.	The PERS Board stays abreast of issues and trends affecting PERS, using this information to assess and guide PERS over the long term.					
5.	PERS Board members keep decision making at the policy level, delegate implementation of policy to staff, and do not engage in micromanagement.					
6.	The PERS Board understands what authority it has retained, and why it has retained it, and what has been delegated and to whom.					
7.	The PERS Board engages in active oversight of the responsibilities it has delegated to staff and consultants.					
8.	Board meetings are conducted in a manner that ensures open communication, meaningful participation, and sound resolution of issues.					
9.	Board meeting agendas are well-balanced, allowing time for the most critical issues. Board materials provide the information necessary for the PERS Board to perform their responsibilities.					
10.	Board and committee meetings are handled efficiently.					
11.	The PERS Board, via the Director's Office, ensures that new board members receive a prompt, thorough orientation.					
12.	The PERS Board has a thorough understanding of agenda items presented at the board meeting and the information presented allows them to be consistently prepared for meetings.					
13.	The PERS Board periodically monitors service delivery satisfaction via surveys to both members and employers.					
14.	The PERS Board comprehends and respects the difference between its policy-making role and the Director's management role.					
15.	Board goals, expectations, and concerns are promptly, candidly, and effectively communicated to the Director.					
16.	The Board Chair, or a subcommittee appointed by the Chair, conducts a comprehensive evaluation of the Director annually.					
17.	The PERS Board adheres to the Code of Conduct and Ethics requirements as outlined in the Board Governance Document.					

What critical issues need to be addressed by the PERS Board in the future?

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What suggestions do you have for improvement of the conduct of board and committee meetings and for PERS Board operation and communication?

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## Administration

1. April 3, 2023, PERS Board Meeting Minutes
2. Board governance assignments
3. Director's Report
  - a. Forward-Looking Calendar
  - b. OPERF Investment Report
  - c. Budget Execution Report
4. Annual report of board member training activities
5. Board self-evaluation
6. Board Scorecard Report on Agency Performance Measures





# Oregon

Tina Kotek, Governor

## Public Employees Retirement System

Headquarters

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June 2, 2023

TO: Members of the PERS Board  
 FROM: PERS Outcome-Based Management System (POBMS) Council  
 SUBJECT: Board Scorecard Report on Agency Performance Measures

### OVERVIEW

A key part of PERS Outcome-Based Management System is the Quarterly Target Review of scorecards that evaluate our effectiveness in a number of outcome and process measures. These measures foster accountability and transparency in key operating areas. The scorecard results help direct strategic planning, resource allocation, and risk assessment.

### BOARD SCORECARD REPORT

The attached Board Scorecard Report for the first quarter 2023 focuses on several measures we currently track based on essential business operations. A targeted performance range is created for each measure:

- Green – performance is at or above targeted goals.
- Yellow – performance is marginally below targeted goals.
- Red – performance is significantly below; corrective action should be directed.

The POBMS Council is continuing its effort to review and update enterprise measures that have been consistently underperforming versus the current targets. Most of our focus since our last Board Scorecard Report in December has been aimed at aligning our measures with new directives from Governor Kotek. One measure has been adjusted as a result (SP5c Recruitments), and we will be potentially adding or altering a few others. We will keep the board informed of this progress.

Highlights of this report include:

- The Quarterly Green Performance chart shows results consistent with our last report in December (66%). These are the highest values over the last four years.
- 12 consecutive quarters in the green range for both Estimates Completed and Eligibility Reviews Completed.
- Nine consecutive quarters in the green range for Accuracy of Calculations
- Four of the eight measures performing in the green range.
- One measure, Appeal Reversal Rate continues to have a broken reporting tool. This measure performed in the green range in the quarters prior to this.

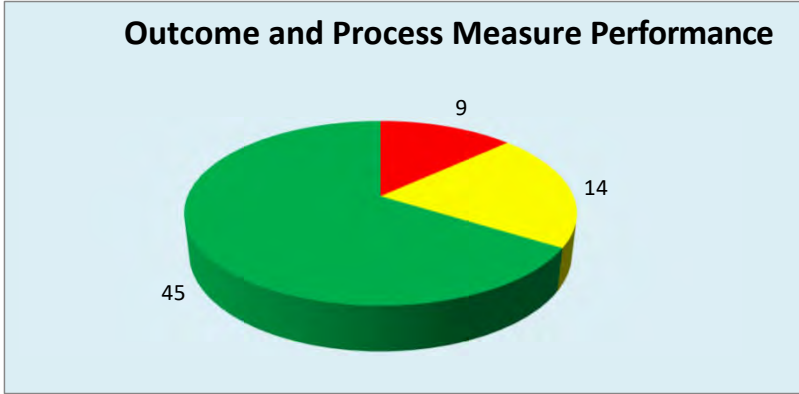
The next report will be presented at the December 1, 2023, meeting showing the scorecard results for the third quarter of 2023.

A.6. Attachment 1 – *Board Scorecard Report for First Quarter 2023*

# PUBLIC EMPLOYEES RETIREMENT SYSTEM

## Outcome-Based Performance Review

### PERS Board Scorecard Report - QTR: 2023 Q1 - Quarter ended March 31, 2023



### Operating Processes - Highlighted Measures

	Measure Name	Measure Calculation	RANGE			Target	Desired Perform Trend	Data Collection Frequency	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Trend	Corrective Action & Comments
			Red	Yellow	Green									
OP3c	Estimate KPM	% of estimate requests completed within 30 days of receipt	<75%	75-85	>85%	95%	↑	Quarterly	98.0%	98.0%	98.0%	98.0%	=	
OP4a	Eligibility review completed	% of eligibility analysis completed within 30 days of the effective retirement date.	<50%	50-70	>70%	80%	↑	Monthly	99.0%	98.0%	97.0%	98.0%	+	
OP5b	Accuracy of calculations	% of sample calculations that are accurate within plus or minus \$5	<95%	95-99	>99%	100%	↑	Monthly	100.0%	100.0%	99.1%	99.7%	+	
OP5c	Timely benefit calculation	% of calculations completed within 15 calendar days from completed application date	<93%	93-96	>96%	100%	↑	Monthly	78.9%	73.0%	89.0%	94.0%	+	Increase from red to yellow due to return to normal workloads for the death team. Previous quarter was in the red due to a significant increases in death calculations. Trending up as we recover from this increase.

# PUBLIC EMPLOYEES RETIREMENT SYSTEM

## Outcome-based Performance Review

**Supporting Processes - Highlighted Measures**

	Measure Name	Measure Calculation	RANGE			Target	Desired Perform Trend	Data Collection Frequency	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Trend	Corrective Action & Comments
			Red	Yellow	Green									
OP1f	Call Wait Time	Average length of wait before caller reaches live person	>15 minutes	12-15 minutes	<12 minutes	10 minutes	↓	Monthly	22.4	9.5	8.5	22.3	-	Extremely high call volume through the entire QTR - our second highest QTR in history, next to the QTR 1 2020 before COVID hit - have a few people out with long-term medical leaves
SP2c	Appeal reversal rate	% of staff determinations that are reversed on appeal	>15%	15-10	<10%	5%	↓	Quarterly	n/a	n/a	n/a	n/a	##	Tool is broken; unable to pull data. Previous quarters were in the green range.
SP3h	System uptime	% of time systems are available during the service window	<97%	97-98	>98%	100%	↑	Monthly	98.76%	99.75%	99.81%	99.58%	-	
SP5c	Recruitment	Average number of days for recruitment (from requisition to offer)	>60	51-60	<= 50	50	↓	Quarterly	17%	17%	25%	77	-	Measurement changed in Q1 2023 due to directive from Governor. Will be average days to complete recruitment (target 50 days), instead of % completed within 8 weeks.

June 2, 2023  
PERS Board Meeting Agenda

## Administrative Rulemaking

1. Notice of OSGP Self-Directed Brokerage Option Rule
2. Notice of Preretirement Death Benefit Payout
3. Adoption of OPSRP Earnings Crediting Rule



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June 2, 2023

TO: Members of the PERS Board  
 FROM: Stephanie Vaughn, Manager, Policy Analysis and Compliance Section  
 SUBJECT: Notice of Oregon Savings Growth Plan (OSGP) Self-Directed Brokerage Option Rule  
 OAR 459-050-0120, Self-Directed Brokerage Option

### OVERVIEW

- Action: None. This is notice that staff has begun rulemaking.
- Reason: Recommendation from both the OSGP Advisory Committee and the Oregon Investment Council
- Policy Issues: *Should the minimum account balance requirement for trading into the self-directed brokerage option be lowered from \$10,000 to \$5,000? Should the maximum percentage of account balance that can be traded into the self-directed brokerage option be increased from 50% to 90%?*

### BACKGROUND

The self-directed brokerage option (SDBO) within OSGP has been available since 2011 and offers participants flexibility, increased diversification, and the ability to manage specific investments within their OSGP account. Currently, to take advantage of the SDBO, participants must have a minimum OSGP balance of \$10,000, and can transfer a maximum of 50 percent of their account to the SDBO. With recommendation from both the OSGP Advisory Committee and the Oregon Investment Council, PERS staff is seeking to amend OAR 459-050-0120 to lower the minimum account balance requirement for trading into the self-directed brokerage option to \$5,000 and increase the maximum percentage of account balance that can be traded into the self-directed brokerage option to 90%.

### POLICY ISSUES

*Should the minimum account balance requirement for trading into the self-directed brokerage option be lowered from \$10,000 to \$5,000?*

and

*Should the maximum percentage of account balance that can be traded into the self-directed brokerage option be increased from 50% to 90%?*

Discussion of these options and the recommendations from the OSGP Advisory Committee and the Oregon Investment Council are discussed in the attached memo from Chief Operations Officer Sam Paris. Staff have amended the rule based on the recommendation of the OSGP

Advisory Committee. Unless the board indicates it wishes to adopt a different option, staff will move forward with the rule as presented.

#### PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing will be held remotely on June 28, 2023, at 2:00 p.m. The public comment period ends July 3, 2023, at 5:00 p.m.

#### LEGAL REVIEW

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

#### IMPACT

Mandatory: No. The board may choose to follow the advisory committee recommendations, choose other presented options, or to leave the rule as is.

Benefit: Allows greater flexibility for members who elect to manage a portion of their account themselves.

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

#### RULEMAKING TIMELINE

May 29, 2023	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
June 1, 2023	Secretary of State publishes the notice in the Oregon Administrative Rules Database. Notice is sent to employers, legislators, and interested parties. Public comment period begins.
June 2, 2023	PERS Board notified that staff began the rulemaking process.
June 28, 2023	Rulemaking hearing to be held remotely at 2:00 p.m.
July 3, 2023	Public comment period ends at 5:00 p.m.
July 28, 2023	Staff will propose adopting the rule modifications, including any changes resulting from public comment or reviews by staff or legal counsel.

#### NEXT STEPS

A rulemaking hearing will be held remotely on June 28, 2023. The rule is scheduled to be brought before the PERS Board for adoption at the July 28, 2023, board meeting.

B.1 Attachment 1 – *OAR 459-050-0120, Self-Directed Brokerage Option*

B.1. Attachment 2 – *OSGP Advisory Committee Recommendations*

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

1 **459-050-0120**

2 **Self-Directed Brokerage Option**

3 (1) For purposes of this rule:

4 (a) “Core Investment Option” means an investment alternative made available  
5 under ORS 243.421, but does not include the Self-Directed Brokerage Option.

6 (b) “Self-Directed Brokerage Option” means an investment alternative made  
7 available under ORS 243.421 that permits a participant to establish a brokerage account  
8 and participate in investment products other than core investment options.

9 (c) “Trade” has the same meaning as in OAR 459-050-0037.

10 (2) A participant may initiate participation in the Self-Directed Brokerage Option  
11 only by a trade from core investment options.

12 (a) The participant’s combined Deferred Compensation and Designated Roth  
13 Accounts balance must be at least [~~\$10,000~~] \$5,000 on the date of the trade.

14 (b) The amount of the trade may not exceed [~~50~~] 90 percent of the participant’s  
15 combined Deferred Compensation and Designated Roth Accounts balance on the date of  
16 the trade.

17 (3) A participant in the Self-Directed Brokerage Option may not:

18 (a) Contribute to the Self-Directed Brokerage Option by any means other than a  
19 trade from a core investment option.

20 (b) Make a trade from a core investment option to the Self-Directed Brokerage  
21 Option if:

1 (A) The participant’s balance in the Self-Directed Brokerage Option exceeds the  
2 balance in the participant’s core investment options on the date of the trade; or

3 (B) The trade would cause the participant’s balance in the Self-Directed  
4 Brokerage Option to exceed the participant’s balance in the core investment options on  
5 the date of the trade.

6 (4) The Self-Directed Brokerage Option may not be included in any automatic  
7 account rebalancing function offered by the Program.

8 (5) Notwithstanding OAR 459-050-0080, funds in the Self-Directed Brokerage  
9 Option are not available for distribution.

10 (a) Funds in the Self-Directed Brokerage Option must be traded to a core  
11 investment option to be available for distribution under OAR 459-050-0080.

12 (b) A participant, beneficiary, or alternate payee subject to Required Minimum  
13 Distributions, as described in OAR 459-050-0300, must maintain a balance in the core  
14 investment options that will accommodate the timely distribution of the required amount.

15 (c) A participant, beneficiary, or alternate payee who fails to comply with  
16 subsection (b) of this section is solely responsible for any tax, penalty, or cost imposed by  
17 reason of a delayed or partial required minimum distribution.

18 (6) The Deferred Compensation Manager, if necessary to comply with restrictions  
19 imposed by a participating mutual fund, a contracted broker, or the Securities and  
20 Exchange Commission, may establish additional temporary restrictions for the Self-  
21 Directed Brokerage Option.

22 (7) Any action taken by the Deferred Compensation Manager under section (6) of  
23 this rule must be presented to the Board at its next scheduled meeting. The Board may



1 take action as authorized by ORS 243.401 to 243.507. If the Board does not act, the  
2 action(s) taken by the Deferred Compensation Manager shall expire on the first business  
3 day following the date of the meeting.

4           (8) The restrictions provided in this rule are not exclusive. The Board may  
5 establish additional restrictions or sanctions as authorized by ORS 243.401 to 243.507.

6 Stat. Auth.: ORS 243.470

7 Stats. Implemented: ORS 243.401 - 243.507



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June 2, 2023

TO: Members of the PERS Board  
 FROM: Sam Paris, Chief Operations Officer  
 SUBJECT: Oregon Savings Growth Plan Advisory Committee Recommendations for the Self-Directed Brokerage Option.

### OVERVIEW

Currently, Oregon Administrative Rule (OAR) 459-050-0120 section (2) states as follows:

(2) A participant may initiate participation in the self-directed brokerage option only by a trade from core investment options.

(a) The participant's combined deferred compensation (DC) and designated Roth account balances must be at least \$10,000 on the date of the trade.

(b) The amount of the trade may not exceed 50 percent of the participant's combined DC and Designated Roth Account balances on the date of the trade.

### BACKGROUND

The self-directed brokerage option (SDBO) was added to the Oregon Savings Growth Plan (OSGP) in 2011. OSGP had distributed a survey to state employees asking if they would be interested in having an SDBO account added to the OSGP investment line-up, and 84% were in favor of the addition. Oregon Investment Council's (OIC) approval of this addition, to be managed by Schwab, followed shortly thereafter. When originally added to the line-up, potential SDBO account participants had to have a minimum OSGP balance of \$20,000. The maximum percentage allocation to the SDBO was 50% of the combined DC and Roth balances.

In early 2014, the OSGP Advisory Committee (AC) had requested to relax or eliminate the restrictions on the SDBO. At the March 2014 OIC meeting, Treasury staff stated that because participation in OSGP is completely elective, they recommended relaxing the limitations to provide participants greater flexibility with their OSGP investments and allocations. The OIC approved the recommendation to reduce the required minimum OSGP balance to \$10,000 and maintain the maximum SDBO allocation at 50%.

Subsequently, in 2016, OSGP and Schwab staff presented information regarding the SDBO to the AC. The AC heard a proposal to reduce the dollar amount limit to access the brokerage window from \$10,000 to \$5,000 and a proposal to increase the percentage of total assets that somebody could invest in a brokerage window from 50% to 75%. The AC made a motion that OSGP staff research the feasibility of keeping the minimum contribution at \$10,000 and increasing the percentage of total assets that somebody could invest in a brokerage window from 50% to 75%. The motion was approved unanimously.

Following the AC motion approval in 2016, Treasury Staff presented to the OIC the following recommendation based on the AC's discussion to:

- Reduce the brokerage window access amount minimum to \$5,000; and
- Increase the percentage of total assets a participant could invest in a brokerage window to 90%.

It was acknowledged that these recommendations differed slightly from the AC's direction, and Treasury staff explained that they presented the \$5,000/90% so that if the AC made additional recommendations in the future, staff would not have to return to the OIC for approval.

The OIC approved these recommendations; however, after OIC approval, no recommendations were presented to the PERS Board for approval. Therefore, the OAR was never updated. However, based on the OIC approval, the \$5,000/90% standard was administratively implemented.

Subsequently, while reviewing the current OARs in late 2021, it was discovered that OSGP was not in compliance with the OAR. Participants were allowed to transfer up to 90% of their account balance and needed to have \$5,000 in their account to do so. Once discovered, OSGP immediately implemented changes to be in compliance with the OAR. Participants submitted concerns about this change, which were discussed in AC. In February 2023, OSGP considered four options:

1. Keep the current, most conservative limitations: \$10,000 minimum balance; maximum percentage allocation set at 50%.
2. Switch to the Advisory Committee recommended limitations: \$10,000 minimum balance; maximum percentage allocation set at 75%.
3. Switch to the OIC approved limitations: \$5,000 minimum balance; maximum percentage allocation set at 90%.
4. Other option: switch to \$5,000 minimum balance; maximum percentage allocation set at 75%.

After careful consideration, AC passed a motion requesting the PERS Board update OAR 459-050-0120 to have a \$5,000 minimum balance and maximum percentage allocation set at 90%. This option was chosen after consultation with partners; to bring OSGP closer to industry standards; after considering original public comment that voiced dissatisfaction with current rules; and to give brokerage account participants more autonomy.

June 2, 2023  
PERS Board Meeting Agenda

## Administrative Rulemaking

1. Notice of OSGP Self-Directed Brokerage Option Rule
2. Notice of Preretirement Death Benefit Payout
3. Adoption of OPSRP Earnings Crediting Rule



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June 2, 2023

TO: Members of the PERS Board

FROM: Stephanie Vaughn, Manager, Policy Analysis and Compliance Section

SUBJECT: Notice of Required Minimum Distribution Rules.

    OAR 459-005-0560 *Required Minimum Distributions, Generally*

    OAR 459-005-0570 *Required Minimum Distributions, Individual Account Program (IAP)*

    OAR 459-050-0300 *Required Minimum Distribution Requirements*

### OVERVIEW

- Action: None. This is notice that staff has begun rulemaking.
- Reason: Implement provision of the federal SECURE Act of 2019 that impacts PERS.
- Policy Issue: None identified.

### BACKGROUND

The federal SECURE Act of 2019 modified the required minimum distribution (RMD) rules under the Internal Revenue Code (IRC) with respect to distributions of death benefits under defined contribution plans. Although the Individual Account Program (IAP) is qualified as a separate account within the defined benefit program under IRC §414(k) and is not a defined contribution plan, for purposes of the RMD rules, distributions from the IAP are treated as distributions from a defined contribution plan.

The new RMD rules establish a new term for eligible designated beneficiary (surviving spouse, minor child, disabled or chronically ill, etc.) as well as new standards for these beneficiaries regarding when they must receive distributions. The rules also vary depending on whether the member dies before or after the date they are required to begin receiving payments.

Staff have amended the existing RMD OAR 459-005-0560 to remove references to the IAP and created a new OAR 459-0005-0570 which outlines the new RMD rules specific to distributions from the IAP. The new RMD rules also apply to the Oregon Savings Growth Plan (OSGP), so staff have amended the OSGP RMD OAR 459-050-0300 with the new federal standards as well.

### PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing will be held remotely on June 28, 2023, at 2:00 p.m. The public comment period ends July 3, 2023, at 5:00 p.m.

### LEGAL REVIEW

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

### IMPACT

Mandatory: Yes. This change is required to comply with the Federal SECURE Act (2019).

Benefit: Will keep PERS compliant with Federal Law.

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

### RULEMAKING TIMELINE

May 29, 2023	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
June 1, 2023	Secretary of State publishes the notice in the Oregon Administrative Rules Database. Notice is sent to employers, legislators, and interested parties. Public comment period begins.
June 2, 2023	PERS Board notified that staff began the rulemaking process.
June 28, 2023	Rulemaking hearing to be held remotely at 2:00 p.m.
July 3, 2023	Public comment period ends at 5:00 p.m.
July 28, 2023	Staff will propose adopting the rule modifications, including any changes resulting from public comment or reviews by staff or legal counsel.

### NEXT STEPS

A rulemaking hearing will be held remotely on June 28, 2023. The rule is scheduled to be brought before the PERS Board for adoption at the July 28, 2023, board meeting.

- B.2. Attachment 1 – OAR 459-005-0560 *Required Minimum Distributions, Generally*
- B.2. Attachment 2 – OAR 459-005-0570 *Required Minimum Distributions, Individual Account Program (IAP)*
- B.2. Attachment 3 – OAR 459-050-0300 *Required Minimum Distribution Requirements*

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

1       **459-005-0560 Required Minimum Distributions, Generally**

2       (1) Applicable Law. Distributions under the Public Employees Retirement System  
3 (PERS) shall be made in accordance with Internal Revenue Code (IRC) Section  
4 401(a)(9), including IRC Section 401(a)(9)(G), and the Treasury Regulations and  
5 Internal Revenue Service rulings and other interpretations issued thereunder, including  
6 Treasury Regulation Sections 1.401(a)(9)-1 through 1.401(a)(9)-9. The provisions of this  
7 administrative rule and any other statute or administrative rule reflecting the required  
8 minimum distribution requirements of IRC Section 401(a)(9) shall override any  
9 distribution options that are inconsistent with IRC Section 401(a)(9).

10       (2) Distributions to Members. Each member's entire benefit under PERS shall be  
11 distributed to the member, beginning no later than the required beginning date, over the  
12 member's lifetime (or the joint lives of the member and a designated beneficiary), or over  
13 a period not extending beyond the member's life expectancy (or the joint life  
14 expectancies of the member and a designated beneficiary).

15       (a) Required Beginning Date. For purposes of this section, the "required beginning  
16 date" is April 1 of the calendar year after the later of the following:

17       (A) The calendar year in which the member reaches:

- 18       (i) 70-1/2 years of age in 2019 or earlier;
- 19       (ii) 72 years of age in calendar years 2020 through 2022;
- 20       (iii) 73 years of age in calendar years 2023 through 2032; and
- 21       (iv) 75 years of age beginning in 2033 and later; or

1 (B) The calendar year in which the member retires.

2 (b) Designated Beneficiary. For purposes of this section, a "designated beneficiary"  
3 means any individual designated as a beneficiary by the member. If the member  
4 designates a trust as a beneficiary, the individual beneficiaries of the trust shall be  
5 treated as designated beneficiaries if the trust satisfies the requirements set forth in  
6 Treasury Regulation Section 1.401(a)(9)-4.

7 (c) Calculation of Life Expectancies. For purposes of this section and Chapter 238  
8 benefits and the Pension Program, which are part of the DB component of PERS, life  
9 expectancies shall not be recalculated after the initial determination, unless otherwise  
10 required by Treasury Regulation Section 1.401(a)(9)-5, Q&A-4 and Q&A-5. For purposes  
11 of this section and the Individual Account Program, life expectancies shall be  
12 recalculated but no more frequently than annually, unless otherwise required by  
13 Treasury Regulation Section 1.401(a)(9)-5, Q&A-5.

14 (d) Limitations on Benefit Changes. A retired member who has had a required  
15 beginning date shall not change a beneficiary designation, benefit option election, or any  
16 other designation or election except as permitted under Treasury Regulation Sections  
17 1.401(a)(9)-4 and 1.401(a)(9)-6.

18 (e) Limitations on Conversion of Joint Annuity to Single Life Annuity Following  
19 Divorce. A retired member who has had a required beginning date may elect to convert  
20 a joint and survivor annuity under Option 2A or 3A under Chapter 238 to a single life  
21 annuity by reason of the member's divorce from the joint annuitant, subject to the  
22 provisions of Treasury Regulation Section 1.401(a)(9)-6. This section applies to ORS  
23 Chapter 238 benefits notwithstanding ORS 238.305(5) and 238.325(3).

24 (f) Limitations on Survivor Annuity Elections. Except as otherwise required by a  
25 domestic relation order under ORS 238.465, if a member elects a 100 percent (100%)  
26 joint and survivor annuity (Option 2 or 2A under ORS 238.305(1) and under



1 238A.190(1)(a)) and designates a nonspouse beneficiary who is more than ten years  
2 younger than the member as calculated under Treasury Regulation Section 1.401(a)(9)-  
3 6, Q&A-2, the benefit shall be actuarially adjusted to provide for a reduced survivor  
4 annuity benefit to the extent necessary to comply with federal requirements for qualified  
5 retirement plans.

6 (g) Limitation on Period-Certain Annuity Election (Chapter 238 only). If a member  
7 elects a 15-year certain option (Option 4 under ORS 238.305(1)), and attains age 85 or  
8 older during the calendar year in which the benefits commence, the benefit shall be  
9 actuarially adjusted to provide for a shorter payout period to the extent necessary to  
10 comply with federal requirement for qualified retirement plans.

11 (h) Limitation on Selection of IAP Benefit Options. Benefit payment options selected  
12 under the Individual Account Program shall be considered as payment options under a  
13 DC plan and must comply with the requirements of Treasury Regulation Section  
14 1.401(a)(9)-5.

15 (3) Distributions to Beneficiaries of Retired Members. If a retired member dies after  
16 annuity benefit payments have begun under Chapter 238 or the Pension Program *[or*  
17 *other benefit payments]* are required to begin under section (2) of this rule, any death  
18 benefits shall be distributed at least as rapidly as under the distribution method being  
19 used at the member's death.

20 (4) Distributions to Beneficiaries of Active and Inactive Members. If an active or  
21 inactive member dies before annuity payments have begun under Chapter 238 or the  
22 Pension Program *[or other benefit payments]* are required to begin under section (2) of  
23 this rule, any death benefits shall be distributed by December 31 of the calendar year  
24 that contains the fifth anniversary of the member's death, except as provided in the

1 following: (a) Distributions to Designated Beneficiaries. The five-year rule shall not apply  
2 to any death benefit that is payable to a member's designated beneficiary, if:

3 (A) The benefit is distributed over the designated beneficiary's lifetime or over a  
4 period not extending beyond the designated beneficiary's life expectancy; and

5 (B) The distributions begin no later than December 31 of the calendar year that  
6 contains the first anniversary of the member's death.

7 (b) Distributions to Spouse Designated Beneficiaries. Notwithstanding subsection  
8 (a) of this section, if the designated beneficiary is the member's surviving spouse as  
9 defined by the Internal Revenue Code:

10 (A) The commencement of distributions under subsection (a)(B) of this section may  
11 be delayed until December 31 of the calendar year in which the member would have  
12 reached the age specified in section (2)(a)(A) of this rule; and

13 (B) If the surviving spouse dies after the member's death but before the distributions  
14 to the spouse have begun, the rules of this section shall apply to any death benefit  
15 payable to any contingent beneficiary as if the spouse were the member.

16 Notwithstanding the foregoing, however, this subsection shall not apply to any death  
17 benefit payable to a surviving spouse of the deceased member's surviving spouse.

18 (5) The provisions of this rule are effective on January 1, 2003.

19 Statutory/Other Authority: ORS 238.630, 238.650, 238A.130, 238A.170 & 238A.410

20 Statutes/Other Implemented: ORS 238.005 - 238.715

21

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

1 459-005-0570 Required Minimum Distributions, Individual Account Program (IAP)

2 (1) Definitions. The following definitions apply for the purposes of this rule:

3 (a) “Designated Beneficiary” means:

4 (A) A natural person designated as a beneficiary by the member and who is  
5 not an eligible designated beneficiary; or

6 (B) A trust that satisfies the requirements in section (2) of this rule.

7 (b) “Eligible Designated Beneficiary” means a natural person designated as  
8 a beneficiary by the member and who is determined on the date of the member’s  
9 death as:

10 (A) the surviving spouse,

11 (B) a child of the plan participant who has not reached majority,

12 (C) disabled (within the meaning of section IRC 72(m)(7)),

13 (D) a chronically ill individual within the meaning of section IRC

14 7702B(c)(2), or

15 (E) any other individual who is not more than 10 years younger than the  
16 plan participant.

17 (c) “Required Beginning Date” means the same as defined in OAR 459-005-  
18 0560(2)(a).

19 (2) A trust as beneficiary. If a trust is designated as a beneficiary, the  
20 individual beneficiaries of the trust will be treated as designated beneficiaries as  
21 defined in paragraph (1)(a)(B) if by December 31 of the calendar year following the  
22 death of a person who designated a trust as beneficiary, the trust satisfies the  
23 following conditions:

1 (a) The trust must be irrevocable, or become irrevocable by its terms at the  
2 time of the person's death;

3 (b) The trust's beneficiaries must be natural persons who are identifiable  
4 from the trust instrument; and

5 (c) One of the following must be provided to PERS:

6 (A) A list of all beneficiaries of the trust, including contingent beneficiaries,  
7 along with a description of the portion to which they are entitled and any  
8 conditions on their entitlement, all corrected certifications of trust amendments,  
9 and a copy of the trust instrument if requested by PERS; or

10 (B) A copy of the trust instrument and copies of any amendments after they  
11 are adopted.

12 (3) Distributions to Beneficiaries of Retired Members under the IAP. If a  
13 retired member dies after the required beginning date, the remaining account  
14 balance distributed to:

15 (a) an eligible designated beneficiary must be at least as rapidly as under  
16 the distribution method being used at the member's death,

17 (b) a designated beneficiary must be completed by December 31 of the  
18 calendar year containing the tenth anniversary of the member's death.

19 (4) Distributions to designated beneficiaries and eligible designated  
20 beneficiaries of Active and Inactive Members under the IAP. If an active or inactive  
21 member dies before the required beginning date, any death benefits shall be  
22 distributed by no later than December 31 of the calendar year that contains the  
23 tenth anniversary of the member's death.

24 (5) Distributions under the IAP when there is no eligible designated  
25 beneficiary or designated beneficiary are as follows:

1 (a) If a member dies before the required beginning date with no eligible  
2 designated beneficiary or designated beneficiary as defined in section (1) of this  
3 rule, the total account balance must be distributed by December 31 of the  
4 calendar year containing the fifth anniversary of the member's death.

5 (b) If the member dies after the required beginning date with no eligible  
6 designated beneficiary or designated beneficiary as defined in section (1) of this  
7 rule, the total account balance must be distributed no longer than the member's  
8 life expectancy and the distribution must begin no later than December 31 of the  
9 calendar year immediately following the calendar year of the member's death.

10  
11

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

1 **459-050-0300**

2 **Required Minimum Distribution Requirements**

3 (1) Definitions. The following definitions apply for the purposes of this rule:

4 (a) “Eligible Designated Beneficiary” means a natural person designated as  
5 beneficiary by the participant as provided in OAR 459-050-0060 who is determined  
6 on the date of the plan participant’s death as:

7 (i) the surviving spouse,

8 (ii) a child of the plan participant who has not reached majority,

9 (iii) disabled (within the meaning of section IRC 72(m)(7)),

10 (iv) a chronically ill individual within the meaning of section IRC 7702B(c)(2),

11 or

12 (v) any other individual who is not more than 10 years younger than the plan  
13 participant.

14 (b) *“Designated Beneficiary” means:*

15 (A) A natural person designated as a beneficiary by the participant, *[ alternate*  
16 *payee, or surviving beneficiary]* as provided in OAR 459-050-0060; who is not an  
17 eligible designated beneficiary or

18 (B) If a trust is designated as a beneficiary, the individual beneficiaries of the trust  
19 will be treated as designated beneficiaries if the trust satisfies the requirements in  
20 section (2) of this rule. *[and applicable Treasury Regulations, including but not limited to*  
21 *Proposed Treasury Regulation Section 1.401(a)(9)-1, Q&A-D-5]*

22 (C) If the beneficiary is not a person or a trust satisfying these requirements, the  
23 participant, alternate payee, or surviving beneficiary will be deemed to have no  
24 designated beneficiary only for purposes of required minimum distributions under IRC  
25 409(a)(9), and distribution shall be made in accordance with section (11) of this rule.

1 (b) c “Life Expectancy” means the length of time a person of a given age is  
2 expected to live as set forth in Treasury Regulation Section 1.72-9. Required minimum  
3 distributions shall be calculated so as to satisfy the requirements of Section 401(a)(9)  
4 using the life expectancy tables provided in Treasury regulations. Life expectancies may  
5 not be recalculated after the initial determination, except as otherwise required under  
6 Oregon or federal law.

7 (c) d “Required Beginning Date” means April 1 of the calendar year following the  
8 later of:

9 (A) The calendar year in which the participant reaches:

- 10 (i) 70-1/2 years of age in 2019 or earlier,
- 11 (ii) 72 years of age in calendar years 2020 through 2022,
- 12 (iii) 73 years of age in calendar years 2023 through 2032, and
- 13 (iv) 75 years of age beginning in 2033 and later, or

14 (B) The calendar year in which the participant retires.

15 (d) e “Required Commencement Date” means the date that the deferred  
16 compensation plan must begin to distribute all or part of an account to a surviving  
17 beneficiary.

18 (2) A trust as beneficiary. If a trust is designated as a beneficiary, the individual  
19 beneficiaries of the trust will be treated as designated beneficiaries as defined in  
20 paragraph (1)(c)(B) if by December 31 of the calendar year following the death of a  
21 person who designated a trust as beneficiary, the trust satisfies the following conditions:

22 (a) The trust must be irrevocable, or become irrevocable by its terms at the time of  
23 the person’s death;

24 (b) The trust’s beneficiaries must be natural persons who are identifiable from the  
25 trust instrument; and

26 (c) One of the following must be provided to the Deferred Compensation Program:

1 (A) A list of all beneficiaries of the trust, including contingent beneficiaries, along  
2 with a description of the portion to which they are entitled and any conditions on their  
3 entitlement, all corrected certifications of trust amendments, and a copy of the trust  
4 instrument if requested by the Deferred Compensation Program; or

5 (B) A copy of the trust instrument and copies of any amendments after they are  
6 adopted.

7 (3) Applicable law. Distributions under the Deferred Compensation Program shall be  
8 made in accordance with Internal Revenue Code (IRC) Section 401(a)(9), Treasury  
9 regulations, Internal Revenue Service rulings and other interpretations issued, including  
10 Proposed Treasury Regulation Section 1.401(a)(9)-2. IRC Section 401(a)(9) overrides  
11 the provisions of this rule and any other statute or rule pertaining to the required  
12 minimum distribution requirements and any manners of distributions, if they are found to  
13 be inconsistent with IRC Section 401(a)(9).

14 (a) If a participant, alternate payee, or surviving beneficiary has not begun  
15 distribution or elected a minimum distribution by the beginning date or commencement  
16 date required in this rule and IRC Section 401(a)(9), the Deferred Compensation  
17 Program shall begin distribution of the minimum amount required as provided under  
18 OAR 459-050-0080(2)(e) or, if required, the entire account. Distribution under this  
19 subsection is subject to the provisions of OAR 459-050-0120(5).

20 (b) The required minimum distribution amount may never exceed the entire account  
21 balance on the date of distribution.

22 (4) Minimum distribution requirements for participants. Distributions must begin no  
23 later than the participant's required beginning date.

24 (a) The participant's entire account balance shall be distributed over the  
25 participant's life expectancy or over a period not extending beyond the participant's life



1 expectancy without regard to the designated beneficiary's age unless the designated  
2 beneficiary is a spouse who is more than 10 years younger than the participant.

3 (b) If the designated beneficiary is a spouse and is more than 10 years younger  
4 than the participant, the entire account balance shall be distributed over the joint lives of  
5 the participant and the designated beneficiary.

6 (c) The participant's entire account(s) balance in the Deferred Compensation  
7 Program shall be distributed first from the Deferred Compensation Account unless the  
8 participant indicates otherwise.

9 (5) Minimum distribution requirements for alternate payees. The minimum  
10 distribution requirements applicable to an alternate payee are determined by whether a  
11 Qualified Domestic Relations Order (QDRO) allocates a separate account to the  
12 alternate payee or provides that a portion of a participant's benefit is to be paid to the  
13 alternate payee.

14 (a) If a separate account is established in the name of the alternate payee under  
15 OAR 459-050-0210, required minimum distributions to the alternate payee must begin  
16 no later than the participant's required beginning date. The alternate payee's entire  
17 account balance shall be distributed over the alternate payee's life expectancy or over a  
18 period not extending beyond the alternate payee's life expectancy.

19 (b) If no separate account is established in the name of the alternate payee and the  
20 alternate payee is paid a portion of a participant's benefit, the alternate payee's portion  
21 of the benefit shall be aggregated with the amount distributed to the participant and will  
22 be treated, for purposes of meeting the minimum distribution requirement, as if it had  
23 been distributed to the participant.

24 (6) Manners of distribution available to surviving designated beneficiaries. A  
25 surviving designated beneficiary may choose a manner of distribution and apply for a  
26 distribution as provided for in OAR 459-050-0080. If the distribution to a participant *for*

1 *alternate payee*] has begun in accordance with section 401(a)(9)(A)(ii) and the  
2 participant dies before the entire account has been distributed or after distributions are  
3 required to begin under section (4) of this rule, distributions to the surviving eligible  
4 designated beneficiary must be made at least as rapidly as under the manner of  
5 distribution used before the participant's death, and distribution to the surviving  
6 designated beneficiary must be completed by December 31 of the calendar year  
7 containing the tenth anniversary of the participant's death.

8 (7)(a) Distributions treated as having begun. Distributions from an individual account  
9 are not treated as having begun to a participant in accordance with section  
10 401(a)(9)(A)(ii) until the participant's required minimum distribution beginning date,  
11 without regard to whether distributions from an individual account have been made  
12 before the required beginning date.

13 (b) If distribution has been made before the required beginning date in the form of  
14 an irrevocable annuity, the distributions are treated as having begun if a participant dies  
15 after the annuity starting date but before the required beginning date. The annuity  
16 starting date will be deemed the required minimum distribution beginning date.

17 (8) Required commencement date for a surviving designated beneficiary. If a  
18 participant dies before distributions are required to begin or are treated as having begun,  
19 the entire account balance must be distributed to a designated beneficiary or eligible  
20 designated beneficiary by December 31 of the calendar year containing the *[fifth]*  
21 tenth anniversary of the participant's death. *[unless the beneficiary makes the following*  
22 *distribution election in the manner prescribed by the Deferred Compensation Plan:*

23 *(a) Distributions must begin no later than December 31 of the calendar year*  
24 *following the year of the participant's or alternate payee's death; and*

25 *(b) Distribution of payments over the designated beneficiary's lifetime or over a*  
26 *period not exceeding the designated beneficiary's life expectancy*

1           (A) The beneficiary's life expectancy is calculated using the age of the beneficiary in  
2           the year following the year of the participant's death, reduced by one for each  
3           subsequent year.

4           (B) If the participant has more than one designated beneficiary as of December 31  
5           of the calendar year following the year of the participant's death and the account has not  
6           been divided into separate accounts for each beneficiary, the beneficiary with the  
7           shortest life expectancy is treated as the designated beneficiary.

8           (9) Required commencement date for a spousal beneficiary. If distributions have not  
9           begun before the participant's death and if the sole designated beneficiary is the  
10          participant's surviving spouse, distributions to the surviving spouse must commence on  
11          or before the later of the dates set forth in subsections (a) and (b) below:

12          (a) December 31 of the calendar year immediately following the calendar year in  
13          which the participant died; or

14          (b) December 31 of the calendar year in which the participant would have reached  
15          their required beginning date.

16          (c) The distribution period during the surviving spouse's life is the spouse's single  
17          life expectancy.]

18          ([10]9)(a) Required commencement date for a surviving spouse's beneficiary. If the  
19          surviving spouse dies after the participant's death but before distributions to the spouse  
20          have begun, any death benefits payable to the surviving spouse's beneficiary will be  
21          applied as if the surviving spouse were the participant. The date of death of the surviving  
22          spouse will be substituted for the date of death of the participant.

23          (b) A death benefit payable to the surviving spouse of the deceased participant's  
24          surviving spouse shall be distributed as provided in section (8) of this rule. [The  
25          provisions of section (9) of this rule do not apply to a death benefit payable to a surviving  
26          spouse of the deceased participant's surviving spouse.]

1 (10[11])(a) Required commencement date if no designated beneficiary or eligible  
2 designated beneficiary: If a participant dies before the required beginning date with no  
3 designated beneficiary or eligible designated beneficiary as defined in section  
4 *[paragraph] (1)[(c)(C)]* of this rule the total account balance must be distributed *[as*  
5 *provided for in OAR 459-050-0060,]* by December 31 of the calendar year containing the  
6 fifth anniversary of the participant's *[or alternate payee's]* death.

7 (b) If a participant dies after the required beginning date with no designated or  
8 eligible designated beneficiary as defined in section *[paragraph] (1)[(c)(C)]* of this  
9 rule, the applicable distribution period must not be longer than the participant's life  
10 expectancy.

11 *[(12) Determining the designated beneficiary. The designated beneficiary will be*  
12 *determined based on the beneficiary(s) designated as of December 31 of the calendar*  
13 *year following the calendar year of the participant's, alternate payee's, or surviving*  
14 *beneficiary's death.*

15 *(a) A participant may change beneficiaries after his or her required beginning date.*

16 *(b) A beneficiary may be changed after a participant's death, such as by one or*  
17 *more beneficiaries disclaiming benefits.]*

18 (11[13]) Notwithstanding any other sections of this rule and pursuant to the  
19 Coronavirus Aid, Relief, and Economic Security Act of 2020, required minimum  
20 distribution under IRC 401(a)(9) is waived for calendar year 2020, including 2019  
21 required minimum distribution that would be made between January 1 and April 1, 2020.

22 Stat. Auth.: ORS 243.470

23 Stats. Implemented: ORS 243.401 - 243.507, Pub. L. No. 116-136

June 2, 2023  
PERS Board Meeting Agenda

## Administrative Rulemaking

1. Notice of OSGP Self-Directed Brokerage Option Rule
2. Notice of Preretirement Death Benefit Payout
3. Adoption of OPSRP Earnings Crediting Rule



# Oregon

Tina Kotek, Governor

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June 2, 2023

TO: Members of the PERS Board

FROM: Stephanie Vaughn, Manager, Policy Analysis and Compliance Section

SUBJECT: Adoption of Permanent Rulemaking to update Oregon Public Service Retirement Plan (OPSRP) earnings crediting rule

OAR 459-007-0340, *Crediting Earnings for an OPSRP Pension Program Cash Out of Small Benefits or Withdrawal*

### OVERVIEW

- Action: Adoption of updated rule to eliminate reference to OPSRP Pension withdrawals.
- Reason: Update rules to reflect legislative changes.
- Policy Issue: None identified.

### BACKGROUND

Before enactment of Senate Bill (SB) 1049 (2019), ORS 238A.120 allowed certain vested inactive OPSRP members to withdraw from the pension program and receive the value of their pension benefit as an actuarially equivalent lump-sum distribution. OAR 459-007-0340 provided limitations for crediting earnings and distribution interest on these withdrawal amounts.

SB 1049 amended ORS 238A.120 to eliminate withdrawal distributions from the OPSRP pension program. Under current law, inactive members who withdraw from the Individual Account Program cancel their membership in the pension program.

Staff recently determined that OAR 459-007-0340 was inadvertently omitted from the original package of SB 1049-related rule amendments. Section (2) of the rule still references earnings crediting and distribution interest for amounts withdrawn under ORS 238A.120, although withdrawals are no longer a part of the statute or the OPSRP pension program. Staff therefore recommends amending the rule to remove section (2) and bring the rule into alignment with the current statutory framework.

### PUBLIC COMMENT AND HEARING TESTIMONY

A rulemaking hearing was held remotely on April 27, 2023, at 2:00 p.m. The public comment period ended May 2, 2023, at 5:00 p.m. No public comments were received.

### LEGAL REVIEW

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

### IMPACT

Mandatory: Yes.

Benefit: Aligns the OAR with the statutory changes enacted with SB 1049 (2019).

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

### RULEMAKING TIMELINE

March 15, 2023	Staff began the rulemaking process by filing Notice of Rulemaking with the Secretary of State.
April 1, 2023	Secretary of State publishes the Notice in the Oregon Administrative Rules Database. Notice is sent to employers, legislators, and interested parties. Public comment period begins.
April 3, 2023	PERS Board notified that staff began the rulemaking process.
April 27, 2023	Rulemaking hearing to be held remotely at 2:00 p.m.
May 2, 2023	Public comment period ends at 5:00 p.m.
June 2, 2023	Staff will propose adopting the rule modifications, including any changes resulting from public comment or reviews by staff or legal counsel.

### BOARD OPTIONS

The PERS Board may:

1. Pass a motion to “adopt the changes to OAR 459-007-0340 as presented.”
2. Direct staff to make other changes to the rules or explore other options.

### STAFF RECOMMENDATION

Staff recommends the PERS Board choose Option #1.

*B.3. Attachment 1 – 459-007-0340, Crediting Earnings for an OPSRP Pension Program Cash Out of Small Benefits or Withdrawal*

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

**DIVISION 007 – EARNINGS AND INTEREST DISTRIBUTION**

1 **459-007-0340**

2 **Crediting Earnings for an OPSRP Pension Program Cash Out of Small Benefits *[or***  
3 ***Withdrawal]***

4 ***[(1)]*** No earnings or distribution interest from the effective date of retirement to the  
5 date of distribution shall be credited to the amount of a cash out of small benefits under  
6 ORS 238A.195.

7 ***[(2)]*** No earnings or distribution interest from the effective date of withdrawal to the  
8 ***date of distribution shall be credited to the amount of a withdrawal under ORS***  
9 ***238A.120.]***

10 Stat. Auth.: ORS 238A.450

11 Stats. Implemented: ORS 238A.120, 238A.195



## Action and discussion items

1. Legislative update
2. PERS Modernization Program update
3. PERS Health Insurance Plan annual update
4. 2024 Retiree Health Insurance Plan renewals and rates
5. Overview of side accounts
6. Overview of actuarial methods and economic assumptions



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June 2, 2023

TO: Members of the PERS Board  
 FROM: Heather Case, Senior Policy Advisor  
 SUBJECT: Legislative Update

### 2023 LEGISLATIVE SESSION- BILLS IMPACTING PERS

The 2023 legislative session began on January 17 and will continue until mid-to-late June. During this session, over 2,800 bills have been introduced for consideration. Of those, we are tracking approximately 30 that directly impact PERS statutes or refer to PERS. Other bills that are being tracked include placeholders (where we are unsure unless amendments are introduced whether they will contain language pertaining to PERS), and bills that may have an impact on various aspects of our operation as a state agency. During session, our highest priority is to monitor bills that will impact the PERS plan directly by amending or adding to ORS Chapters 238 and 238A, that refer to "retirement," or that include incidental reference to PERS in non-PERS statutes.

Topics include, but are not limited to: Police and Fire (P&F) designation; Final Average Salary calculated on five years instead of three years; lowering contribution rates for charter schools; removing requirement that Oregon Public Service Retirement Plan (OPSRP) P&F serve their final 60 *continuous* months in a P&F position; providing PERS benefits to substitute teachers; lower retirement age for OPSRP P&F members with 25 years of service in a P&F position; re-hiring and restoration of benefits for state agency workers terminated due to the vaccine requirement; excluding various types of income from state income tax benefits (and therefore reducing subject salary for PERS purposes); average overtime exception for Oregon State Police; including student workers in OPSRP membership eligibility; assistance for low-income retirees; and eliminating the Work After Retirement sunset.

With few exceptions, committees had until May 19 to hold work sessions on their second chamber bills (Senate bills in the House and House bills in the Senate). The following 30 bills qualify for close monitoring but are not the only bills the agency is tracking. Bills that did not receive a work session in their first chamber are struck through on this list as it is unlikely they will move forward this session. Official information about all legislation is available on the legislative website: [www.oregonlegislature.gov](http://www.oregonlegislature.gov)

Bill Number	Relating to Clause
HB 2032	Relating to domestic partnerships
HB 2054	Relating to the status of district attorneys in the Public Employees Retirement System
<del>HB 2074</del>	<del>Relating to connection to federal tax law; prescribing an effective date</del>

HB 2212	Relating to telecommunicators
HB 2283	Relating to public employee retirement
HB 2284	Relating to alternate payees in the Public Employees Retirement System
HB 2285	Relating to the Social Security Revolving Account
HB 2296	Relating to reemployment of retired members of the Public Employees Retirement System
HB 2297	Relating to retirement credit for military service
HB 2299	Relating to the Oregon Public Service Retirement Plan
HB 2601	Relating to investment funds
HB 2701	Relating to the Oregon Public Service Retirement plan
HB 2822	Relating to cost-of-living adjustments in the Public Employees Retirement System
HB 2875	Relating to final average salary under the Oregon Public Service Retirement Plan
HB 3033	Relating to the status of student workers under the Oregon Public Service Retirement Plan
HB 3219	Relating to pension benefit plans offered by public bodies
HB 3387	Relating to the Oregon Public Service Retirement Plan.
HB 3553	Relating to compensation for accrued leave upon termination of employment
HB 5033	Relating to the financial administration of the Public Employees Retirement System; declaring an emergency
SB 79	Relating to reemployment of retired members of the Public Employees Retirement System; prescribing an effective date
SB 128	Relating to salary under the Public Employees Retirement System

SB 141	Relating to connection to federal tax law; prescribing an effective date
<del>SB 195</del>	<del>Relating to final average salary under the Oregon Public Service Retirement Plan</del>
SB 308	Relating to decedent's estates
<del>SB 327</del>	<del>Relating to the status of district attorneys in the Public Employees Retirement System</del>
SB 540	Relating to taxable income exemption for military taxpayers
SB 571	Relating to ABLE accounts
<del>SB 663</del>	<del>Relating to the calculation of final average salary under the Public Employees Retirement System</del>
SB 951	Relating to certified parole and probation officers employed by the State Board of Parole and Post-Prison Supervision
SB 987	Relating to public charter schools participating in the Public Employees Retirement System

### 2023 LEGISLATIVE SESSION- PERS AGENCY BILLS

PERS' agency bills are House Bill (HB) 2283 (PERS Modernization Fixes), 2284 (Divorce Fee Increase), and 2285 (Social Security Statute Updates). These bills have all passed the House.

HB 2283 - PERS Modernization Fixes This bill passed through the House floor with amendments on April 14. It was heard by the Senate Committee on Labor and Business and the -A10 amendments were adopted on the Senate side on May 9. These amendments take into account some implementation difficulties identified by both the agency and stakeholders with the A-Engrossed version of the bill. The -A10 amendments removed references to Paid Leave Oregon, removed the retroactivity of Work Share portions of the bill, and provided reconciliation with Senate Bill (SB) 308, passed earlier this session that changes the term "small estate affidavit" to "simple estate affidavit." The bill is currently awaiting a vote on the Senate floor.

HB 2284 - Divorce Fee Increase This bill passed through the House Committee on Emergency Management, General Government, and Veterans on March 21. As is the case with fee increase bills, this bill has been referred to the Joint Committee on Ways and Means. This bill will be heard in the Joint Ways and Means Subcommittee on General Government on May 22.

HB 2285 - Social Security Statute Updates This bill passed through the House floor on April 5, and was heard in the Senate Committee on Labor and Business. The committee passed the bill

through to the Senate floor on April 25. The Senate floor passed the bill on May 1. It was signed by Governor Kotek on May 16.

### PERS BUDGET PRESENTATIONS

PERS presented before the Joint Ways and Means Subcommittee on General Government for informational hearings on the PERS budget bill, HB 5033, on February 20, 21, and 22. Presentations included an agency and system overview, highlights of the agency budget structure and requests, and required reporting regarding SB 1566 (2018) and preliminary earnings crediting. PERS was asked back to this subcommittee on April 6 to further discuss SB 1049 (2019) implementation and provide more information on the agency's policy option packages.

Meeting videos and materials are available at:

<https://olis.oregonlegislature.gov/liz/2023R1/Measures/Testimony/HB5033>

PERS also presented to the Joint Legislative Committee on Information Management and Technology regarding Policy Option Package 103, the PERS Modernization Program, on April 26.

Meeting videos and materials for this presentation are available at:

<https://olis.oregonlegislature.gov/liz/2023R1/Committees/JLCIMT/2023-04-26-15-00/Agenda>

### REQUIRED REPORTING UPDATE

A summary of the required statutory reporting for PERS during the 2023 legislative session was given during the last board meeting. PERS has successfully completed its required reporting regarding SB 1566 (2018) and preliminary and final earnings crediting to the Legislature.

## Action and discussion items

1. Legislative update
2. PERS Modernization Program update
3. PERS Health Insurance Plan annual update
4. 2024 Retiree Health Insurance Plan renewals and rates
5. Overview of side accounts
6. Overview of actuarial methods and economic assumptions



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June 2, 2023

TO: Members of the PERS Board  
 FROM: Rebecca Jensen Craven, Modernization Program Director  
 SUBJECT: Modernization Program Update

### BACKGROUND

The PERS Modernization Program is a multi-biennial effort to reimagine and evolve the deployment of our business capabilities via our people, processes, and technologies in order to meet our member and PERS-participating employer needs into the future. As detailed in previous presentations to this board, this is currently supported by \$800,000 in the 2021-23 Legislatively Approved Budget and \$3,797,797 in funds granted at the June 2022 Emergency Board. A request for \$9,573,073 to continue modernization efforts during the 2023-2025 biennium is still progressing through the biennial budgeting process.

### CURRENT ACTIVITIES

Current program activities remain focused on completing planned 2021-23 priorities and supporting the 2023-25 budget request for the program.

Key accomplishments and areas of progress include:

- *Joint Legislative Committee on Information Management and Technology (JLCIMT) presentation on Policy Option Package (POP) 103:* On April 26, 2023, Director Olineck and Deputy Director Elledge-Rhodes appeared before the JLCIMT to discuss POP 103 to fund PERS Modernization Program positions and activities through July 2025. This meeting resulted in the transmission of JLCIMT recommendations on POP 103 to the General Government Subcommittee of the Joint Committee on Ways and Means for inclusion in the final steps of the agency budgeting process for 2023-25.
- *Independent Quality Management Services (iQMS) provider selection:* PERS received several responses to the iQMS Request for Quotes posted in March 2023. Evaluations are underway and the program is on track to have an executed contract with the selected vendor in place in June 2023.
- *Hiring remaining open positions:* All remaining positions provided for in June 2022 Emergency Board funding are progressing through the hiring process. The program is on target to have all available positions staffed by the end of June 2023.
- *Concluding scheduled deliverables:* PERS' staff are working diligently to conclude work on scheduled deliverables through June 2023 related to enterprise architecture and road mapping for the program and specific components. These deliverables will inform project work that will begin in the 2023-25 biennium, as well as program-level planning that will continue throughout the program lifecycle.

Several current work efforts may carry over into the 2023-25 biennium; these include engagements to assess business process management and enterprise architecture, as well as procurements that will upgrade current technology used for specific work processes.

### 2023-25 ACTIVITY PREPARATIONS

With the nearing completion of the 2021-23 biennium and positive progress on POP 103 for funding in the 2023-25 biennial budget being made, the Modernization Program Team is shifting to focus on preparations for modernization activities that will occur during the 2023-25 biennium. These activities include the following projects and workstreams:

- **Component Projects:** specific work efforts that deliver the intended benefits of the program. The scope, schedule, and budget for each project will be defined and elaborated as part of the initiation and planning activities.
  - *Telephony Upgrade Project* – initiation, execution, and closure in 2023-25.
  - *Hybrid Integration Platform Project* – initiation, execution, and closure in 2023-25.
  - *Data and Analytics Phase 1 Project* – initiation and execution in 2023-25.
  - *DevOps Phase 1 Project* – initiation and execution in 2023-25.
  - *Client Relationship Management (CRM) Project* – initiation *only* in 2023-25.
- **Workstreams:** ongoing support work for the duration of the program that enables program staff to support the program components. Workstreams do not deliver program benefits themselves, but support delivery through components.
  - *Program Development and Support Workstream:* includes program management, organizational change management, and communications.
  - *Enterprise Architecture/Process Mapping Support Workstream:* includes supporting both agency-wide and program-specific enterprise architecture and process mapping practices and deliverables.
  - *iQMS Review and Assessment Workstream:* includes engagement with selected iQMS provider on quality assurance and quality control activities.

Additional information on each project and workstream will be provided once the 2023-25 biennium budget is finalized and initiation activities are underway.



## Action and discussion items

1. Legislative update
2. PERS Modernization Program update
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4. 2024 Retiree Health Insurance Plan renewals and rates
5. Overview of side accounts
6. Overview of actuarial methods and economic assumptions

# OREGON PERS

PUBLIC EMPLOYEES RETIREMENT SYSTEM



## PERS Health Insurance Program

## Annual Report

Calendar Year 2022



# PERS Health Insurance Program Mission

*PERS Health Insurance Program (PHIP) provides PERS retirees with benefits that provide high quality, comprehensive coverage (or benefits) at the most cost-effective rates possible that will also meet retirees' benefit needs.*

## Core Values

- **Maintain stability of premiums:** In order to avoid significant swings in rates from year to year, premium stabilization approaches to proposed contracted health plan (CHP) rates should be considered.
- **Maintain stability of coverage:** Benefits provided by PHIP should be reviewed annually to attempt to avoid significant changes in benefits required by either local or national legislation or required to maintain premium rate affordability.
- **Maintain stability of carriers:** Promoting stability and long-term relationships with carriers – consistent with responsible procurement practices - is desired. Changes in contracted health plans should be driven by protection of current members' benefits and demonstrated long-term beneficial treatment of members.

# PHIP Core Operating Principles

- Provide, to the extent possible, benefit plans to each PHIP population served (Medicare and non-Medicare) that are comparable as to the services covered and the member cost sharing required.
- Utilize all available resources to obtain competitive benefit options and establish premium rates that are consistent with plans offered and utilization of services.
- Facilitate collaboration between PHIP consultants, contracted health plans, and other vendors to meet and exceed industry quality standards and provide innovative benefit designs and care coordination that include wellness and disease-prevention activities.
- Advocate for PHIP enrollees in both coverage and cost.
- Provide customer service in a timely, professional, and respectful manner.

# Governance

- **ORS 238.410-420**
  - Also subject to all retirement, accounting and procurement ORS
- **OAR**
- **PHIP Mission and Values**
- **PERS Board**
- **Member input**
- **Centers for Medicaid and Medicare Services (CMS)**

# Administrative team

## PHIP staff

- Karen Chavez, *Program Manager*
- Danielle Keyser, *Program Coordinator*
- Carla Shaw, *Membership Services Specialist*
- Paul Smith, *PHIP Analyst (Job Rotation)*

## Key PERS partners

- *PHIP Accountant*, Accounting and Cash Transactions Section
- *PHIP Procurement Specialist*, Procurement, Facilities and Logistics
- Policy, Analysis and Compliance Section
- Communications Section
- Intake and Review
- Death and Disability
- Member Information Center

# Contracted operations and consulting

## Third party administrator – Benefit Help Solutions

- PHIP Call Center
- Member account services (enrollment, eligibility)
- Recordkeeping
- Accounting

## Health insurance consultants – Segal Consulting

- Health insurance industry specialists
- Plan design
- Financial and utilization analysis
- Annual renewal

# Contracted health plans

## **Kaiser Permanente NW**

- Medicare Advantage - Senior Advantage HMO Plan
- Non-Medicare - Traditional HMO Core Value Plan
- Non-Medicare - HSA-qualified High Deductible Health Plan (HDHP)
- DMO Dental Plan

## **Moda Health Plan**

- Medicare Supplement – Moda Health Medicare Supplement Plan

## **Delta Dental Plan of Oregon**

- Indemnity Dental Plan with passive PPO



# Contracted health plans

## **PacificSource Community Health Plans, Inc.**

- Medicare Advantage - Medicare Essentials RX 803 HMO Plan

## **Providence Health Assurance**

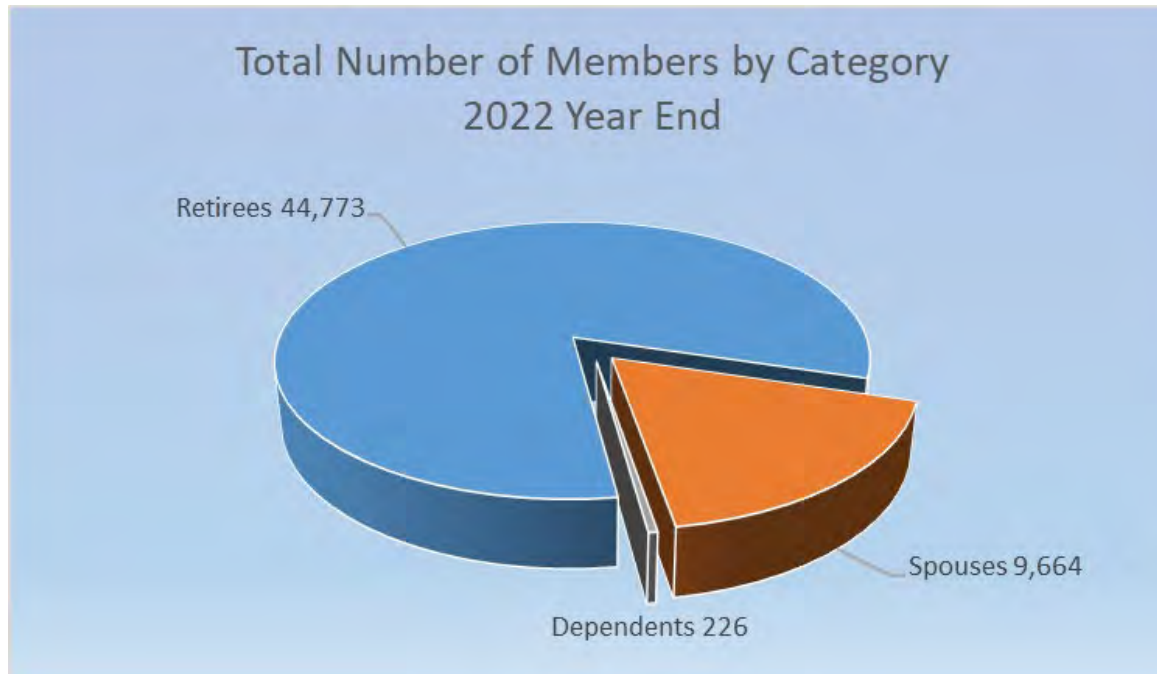
- Medicare Advantage - Medicare Align Group HMO Plan
- Medicare Advantage - Medicare Flex Group HMO-POS Plan

## **UnitedHealthcare®**

- Medicare Advantage - Medicare Advantage PPO plan
- Non-Medicare - Deductible Core Value Plan
- Non-Medicare - HSA-qualified High Deductible Health Plan (HDHP)

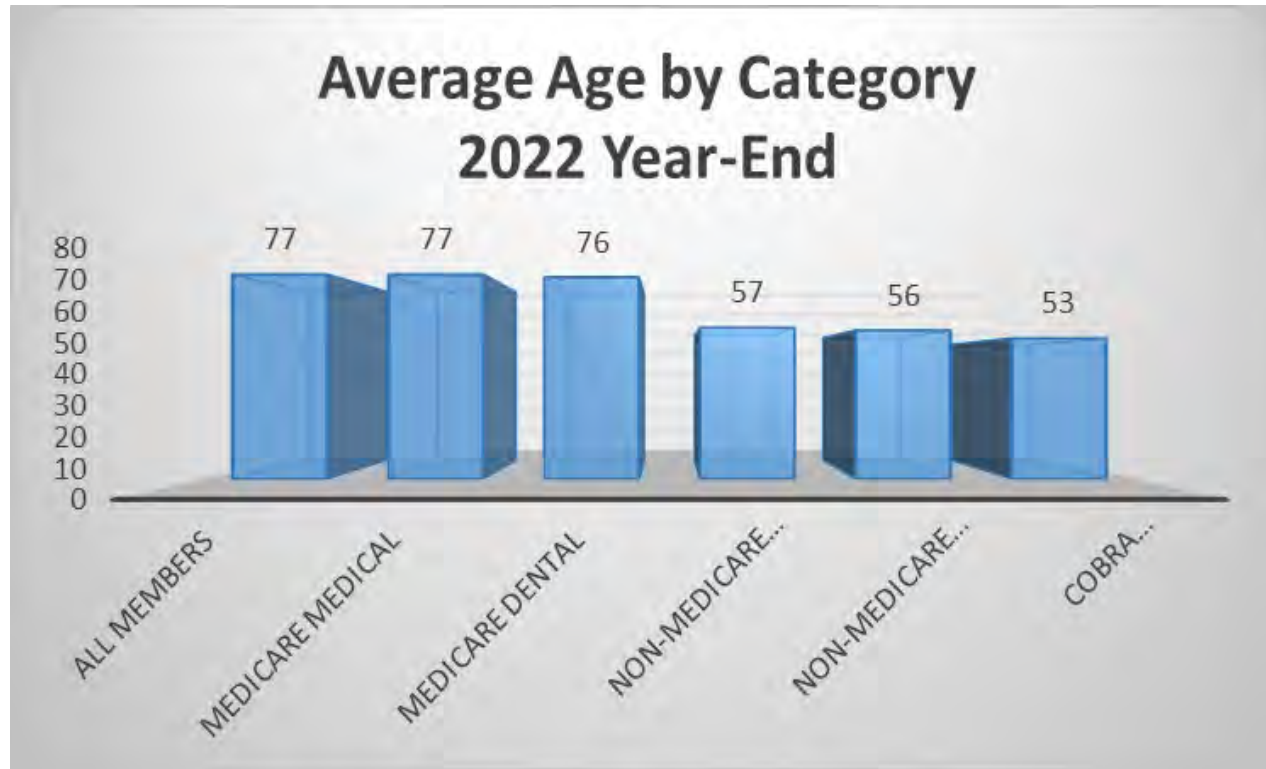
# Program membership

PHIP members are PERS retirees, their spouses, and dependents who meet the eligibility criteria outlined in ORS 238.410



Total membership decreased by 1,577 PHIP accounts from 2021.

# Program membership

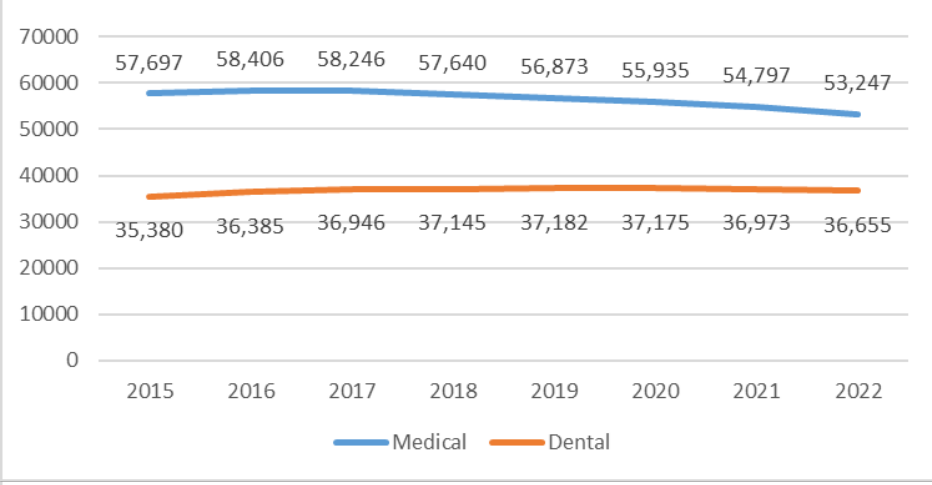


Overall average age increased from 76 to 77.

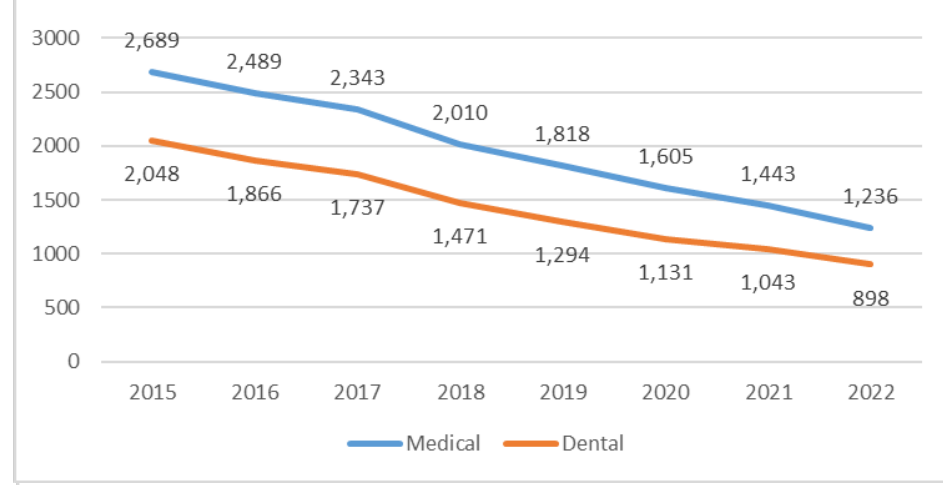
Average Cobra age increased from 46 to 53 years old.

# Membership trends 2022, year end

Medicare Trend



Non-Medicare Trend



# Program services provided by PHIP

- Update annual member handbooks and benefit and premium rate materials.
- Member advocacy, escalations, grievances, and appeals.
- Premium rate negotiations.
- New enrollment and plan change education meetings.
- Manage PHIP website, ensuring current and accurate information.
- Plan and benefit analysis and design.
- Compliance with CMS rules, regulations, and guidelines.
- Premium subsidy verification.
- Cost containment strategy.
- Assuring continuity of coverage.
- Member refunds and claims disbursement.

# Program funding 2022, year end

## Members

- ORS 238.410 establishes the **Standard Retiree Health Insurance Account**
- Premiums are paid by the retirees

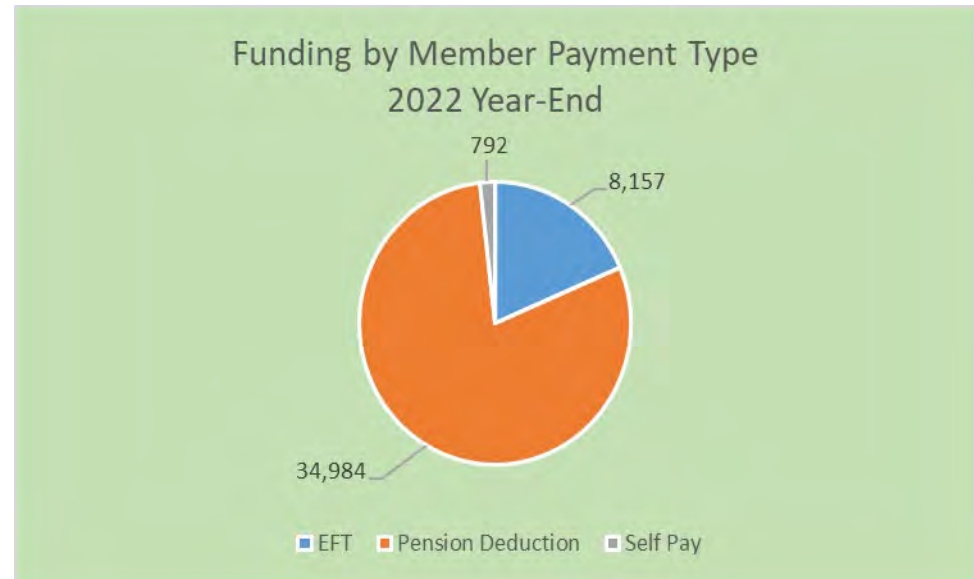
## Employers

### Retiree Health Insurance Account

- ORS 238.420 Medicare Subsidy for eligible retirees
- \$60/Month

### Retiree Health Insurance Premium Account

- ORS 238.415 Pre-Medicare Insurance Subsidy for eligible state employees
- Average \$445.32/month



# Program accomplishments

- **2023 Plan Year rate renewal.**
- **Renewal process retrospectives and revisions.**
- **Internal audit consultation regarding PHIP administrative fee.**
- **Initiated process-mapping efforts.**
- **Updated reporting requirements.**
- **Initiated strategic planning and benchmarking efforts.**

# Looking ahead

- **Benchmarking**
- **Strategic planning**
- **Developing management tools**
- **HIPAA assessment**



# OREGON PERS

PUBLIC EMPLOYEES RETIREMENT SYSTEM



## THANK YOU



## Action and discussion items

1. Legislative update
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June 2, 2023

TO: Members of the PERS Board  
 FROM: Karen Chavez, PERS Health Insurance Program Manager  
 SUBJECT: PERS Health Insurance Program (PHIP) 2024 Plans and Rates

### OVERVIEW

- Action: Approve the PHIP contract renewals, benefits, and rates for 2024 plan year.

### CURRENT PHIP PLANS OFFERED

PHIP contracts with six contracted health plans (CHPs) for medical, dental, and prescription drug plans (PDP), allowing participants a range of choices while maintaining stability of the overall program. Currently, contracts that are in place are as follows:

1. Kaiser Permanente NW
  - a. Medicare Advantage - Senior Advantage HMO Plan/Part D PDP
  - b. Traditional HMO Core Value Non-Medicare Plan/PDP
  - c. \$3,000 HSA-qualified High Deductible Health Plan (HDHP) Non-Medicare Plan/PDP
  - d. DMO Dental Plan
2. Moda Health Plan
  - a. Medicare Supplement – Moda Health Medicare Supplement Plan/Part D PDP
3. Delta Dental Plan of Oregon
  - a. Indemnity Dental Plan with passive PPO
4. PacificSource Community Health Plans, Inc.
  - a. Medicare Advantage - Medicare Essentials RX 803 HMO Plan/Part D PDP
5. Providence Health Assurance
  - a. Medicare Advantage - Medicare Align Group HMO Plan/Part D PDP
  - b. Medicare Advantage - Medicare Flex Group HMO-POS Plan/Part D PDP
6. UnitedHealthcare
  - a. Medicare Advantage - Medicare Advantage PPO plan/Part D PDP
  - b. \$1,000 Deductible Core Value Non-Medicare Plan/PDP Plan
  - c. \$3,000 HSA-qualified High Deductible Health Plan (HDHP) Non-Medicare Plan/PDP

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

## RENEWAL PROCESS

The factors influencing the 2024 plan year PHIP renewal process, include:

- Consideration of plan design and benefit improvements in response to Member Services interaction with PHIP members.
- Consideration of plan design and benefit improvements in response to interaction with CHPs.
- Consideration of plan design and benefit improvements in response to changes from Centers for Medicare & Medicaid Services (CMS) for Medicare programs.
- Inflation Reduction Act of 2022.
- The continued impacts of COVID-19.

PHIP began working with our CHPs in January 2023, asking questions about potential benefit changes and the legislative and regulatory landscape. In late March, CHPs communicated anticipated legislative and regulatory changes and presented initial proposed 2024 plan year renewal rates with significant increases over the 2023 plan year. For this renewal period, CMS proposed significant changes which impacts Medicare Advantage (MA) and Medicare Prescription Drug Benefit (Part D) regulations and impact not only the 2024 plan year but future renewal years as well. The changes CMS outlined impact the premiums that Medicare members pay due to the updates to the allowed risk adjusting methodology and lowering the annual growth rate, which in turn affect the CHPs projected revenue received from CMS. Given the significant impact of these regulation changes, PHIP strongly encouraged the CHPs to provide their most competitive rate.

Additionally, the CHPs are in the process of assessing and implementing changes due to the Inflation Reduction Act. This bill was passed in 2022 and included several provisions that directly impact Part D programs. The changes will be phased in over a multi-year period, and will impact plan designs, CMS subsidy payments, and gives power to CMS to negotiate drug prices. The CHPs confirmed that the current plan designs comply with the changes required for the 2024 plan year.

The 2024 plan year premium rate changes were finalized and outlined by type of coverage for both Medicare and non-Medicare enrollees. The submissions were reviewed by PHIP with oversight from the Chief Operations Officer and the PHIP Board Liaison.

The primary benefit focus areas for the 2024 plan year Renewal included:

- Ensuring that PHIP is continuing to offer high value plans to PERS retirees and members.
- Improving offerings that will benefit members.
- Proactively planning for changes associated with the Inflation Reduction Act.

## 2024 PLAN YEAR RENEWAL OVERVIEW

### *Medical*

Several programs were considered, such as implementing member incentive programs, meal-delivery programs, and over-the-counter supplemental benefits. Because of the premium increases members will experience this year due to changes by CMS, PHIP chose to take an approach of implementing low- to no-cost program improvements. Financial-incentive programs were considered for the Medical Advantage programs. Both UnitedHealthcare and PacificSource proposed established member financial-incentive programs at no additional cost. Other CHPs proposed incentive programs that were new, carried a cost to members, and require additional time to review member impact before implementation. Financial-incentive or reward programs carry mutual benefits for both the retiree and the CHPs and therefore these programs should be offered at no cost to PHIP members. No other changes are being recommended to either the Medicare or Non-Medicare medical plans for 2024 plan year. While meal-delivery and over-the-counter supplemental benefits were considered, there remained questions about utilization and additional costs to members making these offerings prohibitive considering the premium rates introduced by CHPs. PHIP will continue to evaluate these programs for future consideration.

### *Pharmacy*

Currently members pay an annual out-of-pocket maximum of \$7,400. In the 2025 plan year, all Medicare Advantage plans will be required to reduce the out-of-pocket maximum to \$2,000. It is recommended to make an incremental change this year to assist members with the additional cost due to the CMS Medicare Prescription Drug Benefit (Part D) regulation changes in the next renewal. PHIP recommends decreasing the out-of-pocket maximum to \$5,000. We expect this change will reduce the monetary impact to members and provide a bridge to requirements in the Inflation Reduction Act when planning for the 2025 plan year.

### *Dental*

PHIP considered a special open enrollment period for dental plans for the 2024 plan year. After reviewing utilization and consideration of the cost to members in a year with already increasing rates, it is recommended that we move forward with no changes from the current offerings for the 2024 plan year and reconsider this offering in the future.

## RATE STABILIZATION RESERVE DRAWDOWN

The PHIP reserves cash balance as of December 31, 2022, is approximately \$93,000,000 down about \$6.5 million from December 2021. Total annual PHIP premium across all CHPs for calendar year 2023 is expected to be roughly \$222,000,000.

The CHPs 2024 plan year best and final rates increased significantly compared to the 2023 plan year rates due to regulatory changes directly impacting the Medicare and Part D plans and the non-Medicare experience. In accordance with policy, PHIP recommends utilizing the maximum allowable rate credit to help off-set costs for members.

The recommended 2024 plan year rates in Attachment 1 to this memo include rate credits consistent with the agency policy and range between 0% and 6%. Applying a credit to these rates limits the impact of the regulatory changes on the member. The PERS Director and Chief Operations Officer have reviewed rates for compliance with this policy.

### 2024 ADMINISTRATIVE FEE REVIEW

ORS 238.410 authorizes PERS to collect an administrative fee to cover the costs of running a retiree health insurance program. PHIP has historically included a small administrative charge to retiree premiums to cover program costs which has not been increased in several years. A five-dollar administrative fee is charged to members who are on a medical plan and a separate smaller charge of fifty cents is included for members on a dental plan. PERS Internal Audits consulted with PHIP regarding its administrative fee structure and made several recommendations, including increasing member administrative fees. PHIP will be working this year to review and update all recommendations from this consultation, and we recommend a modest per-member per-month increase in administrative fees to cover the costs of running the program. For members who participate in both a medical and dental plan, the increase will be \$1 per member per month (PMPM), increasing the combined administrative fee from \$5.50 to \$6.50 per member per month.

### SUMMARY OF ACTION REQUIRING BOARD APPROVAL

- PHIP will continue to contract with Kaiser Permanente NW, PacificSource Health Plans, Providence Health Assurance, Moda Health Plan, Delta Dental Plan of Oregon, and UnitedHealthcare for medical, prescription drugs, and dental (where applicable) insurance coverage for eligible retired Medicare and non-Medicare members, spouses, and eligible dependents.
- PHIP recommends adopting the premium rates as outlined in item C. 4. Attachment 1: PHIP 2024 PY Proposed Rates.
- PHIP recommends adopting an administrative fee increase, to be included in the member premium rates, of \$0.90 PMPM for medical plan participants and an additional \$0.10 PMPM for members who participate in a dental plan.

### BOARD OPTIONS

The PERS Board may:

1. Pass a motion to approve the proposed PHIP RFP contract renewals, benefits, and rates for the 2024 Plan Year as presented in Item C.4. Attachment 1: *PHIP 2024 PY Proposed Rates*.
2. Direct staff to make changes to these terms or explore other options.

### STAFF RECOMMENDATIONS

Staff recommends the PERS Board approve the contract renewals, benefits, rates, and administrative fees for 2024 Plan Year as presented in Attachment 1.

C.4 Attachment 1 – *PHIP 2024 PY Proposed Rate*

C.4. Attachment 2 – *PHIP Membership*



**PHIP 2024 PROPOSED RATES**  
2023 vs. 2024 Contracted Health Plan Rates

*Rates not approved/finalized*

Effective January 1, 2024

**SUMMARY**  
**Medical/Rx and Dental Rates**

	Enrollment as of March 2023	Current 2023 Rates	Proposed 2024 Rates	Percentage Change
<b>Medicare Plans</b>				
Kaiser Foundation Health Plan of the NW Medicare Senior Advantage	9,518	\$ 241.13	\$ 267.65	11.00%
Moda Health Medicare Supplement	24,279	\$ 332.38	\$ 332.38	0.00%
PacificSource Medicare Advantage Essentials Rx 803	1,176	\$ 252.59	\$ 267.66	5.97%
Providence Health Assurance Medicare Advantage Group Align Plan + Rx	4,452	\$ 262.60	\$ 313.95	19.55%
Providence Health Assurance Medicare Advantage Group Flex Plan + Rx (HMO-POS)	6,633	\$ 218.68	\$ 218.68	0.00%
United Healthcare Group Medicare Advantage (PPO)	6,453	\$ 237.49	\$ 267.67	12.71%
<b>Non-Medicare Plans</b>				
<b>Core Value</b>				
Kaiser Foundation Health Plan of the NW Traditional Core Value Plan	276	\$ 980.09	\$ 1,047.72	6.90%
United Healthcare Choice Core Value Plan	435	\$ 1,367.18	\$ 1,367.18	0.00%
<b>HDHP</b>				
Kaiser Foundation Health Plan of the NW Qualified HDHP Plan	194	\$ 586.09	\$ 623.55	6.39%
UnitedHealthcare Qualified HDHP Plan	271	\$ 984.46	\$ 1,047.73	6.43%
<b>Dental Plans</b>				
Kaiser Foundation Health Plan of the NW Dental HMO Plan	4,550	\$ 67.69	\$ 66.84	-1.26%
Delta Dental Plan of Oregon	32,513	\$ 65.81	\$ 66.85	1.58%

**Notes to Rate Sheet:**

- Rates illustrated are "Adult" only premium (retiree or spouse)
- Child rates are calculated as a percentage of the "Adult" rate as follows:
  - Child with Medicare coverage = 80%
  - Child with non-Medicare Coverage = 30%
  - Child with dental coverage = 40%
- The rates in "Proposed 2024 Rates" column, includes a rate credit applied to CHP best and final offer.
- Medical / Rx Rates do not include RHIPA/RHIA subsidies or PERS Administrative fees



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## PHIP Membership

Program Enrollment (March 2023)	Non- Medicare Core Value and HDHP Plans	Medicare	Totals
<b>Covered Lives</b>	1,176	52,511	53,687
Retirees (or Surviving Spouses)	738	43,260	43,998
Spouses/Dependents	438	9,251	9,689
Average Age of Enrolled Retirees	57	78	77.1

Health Plan Membership Enrollment			
Medicare		Non-Medicare (Core Value and HDHP Plans)	
Kaiser	9,518	Kaiser HDHP	194
United HealthCare	6,453	Kaiser Traditional Core Value	276
Moda Medicare Supplement	24,279	United HealthCare HDHP	271
PacificSource	1,176	United HealthCare Choice Plus Core Value	435
Providence - Medicare Flex	4,452		
Providence - Medicare Align	6,633		
<b>Dental</b>		<b>Dental</b>	
Kaiser Dental	4,352	Kaiser Dental	198
Delta Dental	31,853	Delta Dental	660

Statutory Health Insurance Premium Subsidies (March 2023)	
Retirees Receiving Retirement Health Insurance Account (RHIA)	41,148
Retirees Receiving Retiree Health Insurance Premium Account (RHIPA)	550
RHIA Payment - \$60 Per Member Per Month (PMPM)	\$2,468,880
RHIPA Monthly Payment - \$445.37 (avg) PMPM	\$244,953.42
Total Monthly Premium Paid to Health Plans	\$18,330,463.12





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# OREGON PERS

PUBLIC EMPLOYEES RETIREMENT SYSTEM



## Side Account Overview

**PERS Board Meeting**

**Jake Winship**

**June 2, 2023**



# Definition of side account

A lump-sum payment to prepay all or part of an employer's pension liabilities.

Side account is attributed solely to the employer and:

- Is held separately from other employer reserves.
- Cannot be withdrawn once deposited.

Money is invested in the PERS Trust.

- Subject to the same earnings and losses as all other investments in Oregon Public Employee Retirement Fund (OPERF).

Establishing a side account increases the assets of an employer.

Side account balance is used to calculate the side account rate offset.

# Side account deposit

Deposit must be greater than or equal to the **lesser** of:

- \$250,000.
- 25% of unfunded actuarial liability (UAL).

Two options for initial side account offset rate calculation:

- Valuation calculation.
- Actuarial calculation.

# Valuation calculation

Side account balance is determined in first valuation performed following the side account deposit.

The rate offset will be effective on the next 7/1 following the **publication** of the valuation report.

- Side account deposited on 10/18/2022.
- Will be reflected in the actuarial valuation report as of 12/31/2022.
- Valuation report will be published in the fall of 2023.
- Rate offset calculated will be effective 7/1/2024.

No additional cost to the employer - no need to contract with Milliman to perform this calculation.

No flexibility in terms of rate offset effective date or term over which the offset is applied.

- Must amortize over 20 years.

Employer does not know what the initial rate offset will be before making the side account deposit.

# Actuarial calculation

- Employer must sign a contract with Milliman.
  - Pay \$1,000 for the initial calculation.
  - Further scenarios can be modeled for \$250 each.
- Employer can select the date on which rate offset begins.
  - Must allow 30 days from the date of request for rate offset to begin.
  - Must **make** side account deposit before rate offset start date.
  - Offset must begin on the first day of a calendar month.
  - First offset date must be no more than twelve months after the next month available.
- If side account deposit is \$10 million or more then:
  - Employer can elect to apply the rate offset over a shorter period of time.
  - 20 years is the standard.
  - Can elect 6, 10, or 16 years.
- Documentation is provided to the employer prior to making the deposit.
- Required for payoff of transition liability (if applicable).

# Calculation of side account rate offset

- Reduces employer net contribution rates for specified period of time.
- Calculated similarly to UAL contribution rate.
- Annuity factor is calculated based on:
  - Remaining period of amortization.
  - Assumed interest rate (currently 6.9%).
- Side account balance is divided by this annuity factor.
- This quotient determines the dollar amount to be charged in the upcoming period.
- The dollar amount thus determined is divided by the valuation payroll projected for the period to determine the offset rate.

# Side account calculation example

## State agencies (ER #1000) – 12/31/2021

<b>Side account as of 12/31/2020</b>	<b>\$ 1,395,821,115</b>
Deposits during 2021	-
Administrative expenses	(500)
Contributions offset during 2021	(278,653,118)
Side account earnings during 2021	264,789,108
<b>Side account as of 12/31/2021</b>	<b>\$ 1,381,956,605</b>
Combined valuation payroll	\$ 3,908,464,330
Amortization factor 5.363	Side account rate* <b>(6.59%)</b>

\* Side account rate offset shown goes into effect on 7/1/2023.



# Methods to fund a side account

- Cash on hand
  - Many employers divert operating funds in order to prepay PERS liabilities.
  - This can be an effective use of revenue that is not expected to persist.
  - Employer Rate Projection Tool (ERPT) may aid in forecasting future contributions and the impact of establishing a side account.
- Employer Incentive Fund (EIF)
  - EIF matches can enhance side account deposits by up to 25%.
  - Side accounts must be funded by cash on hand to receive a match.
  - A new application phase is expected during 2025-27 biennium.
- Pension obligation bonds

# Pension obligation bonds (POB)

- Municipalities can issue debt in order to prepay pension liabilities.
- Financial professionals advise the municipality (issuer) to structure the bond to best meet its financing needs.
- Issuer must submit information to Oregon State Treasury for review, per SB 1049 (2019).
- Proceeds received by the issuer depend on the market demand for fixed income securities at the time of issue.
- The issuer incurs the obligation to pay interest (coupon payments) until maturity and the face value of the bond at maturity.
- Coupon payments and face value for POB are specified at issue.
- *A Guide to Understanding Pension Obligation Bonds* will be available later this year.

# Side accounts as of 12/31/2022

Number of side accounts	349
Employers with multiple	121

Beginning balance	\$ 6,638,127,904
Contributions offset	(\$ 957,705,769)
New side account deposits	\$ 634,262,656
Investment earnings	(\$ 116,396,320)
Administrative costs	(\$ <u>191,000</u> )
Ending balance	\$ 6,198,097,470

# Side accounts by rate pool

## School districts

- 201 total side accounts – 6 new, 127 distinct employers
- 12/31/2022 aggregate balance \$ 3,275,479,051

## State and Local Government Rate Pool (including state agencies)

- 126 total side accounts – 11 new, 85 distinct employers
- 12/31/2022 aggregate balance \$ 2,524,415,782

## Independents

- 22 total side accounts – 1 new, 16 distinct employers
- 12/31/2022 aggregate balance \$ 398,202,637

## State Agencies (included in State and Local Government Rate Pool above)

- Common side account (109 employers) \$ 1,081,625,830
- Four state agencies also have separate side accounts
  - SAIF \$ 91,955,222
  - Oregon State University \$ 11,542,092
  - University of Oregon \$ 73,488,409
  - Professional Liability Fund \$ 624,849

# Expiration of side accounts

Most side accounts are scheduled to fully amortize on 12/31/2027:

- 183 (out of 349).
- OHSU has two expiring before this date (out of seven current side accounts):
  - One each in 2023 & 2025.
  - Account balances are monitored each month.
- Only 15 other side accounts are currently set to amortize before 2037.

Key items to consider when planning actions to resolve:

- Cash flow concerns for employers using pension obligation bonds.
- Challenges implementing mid-biennium rate changes.
- Desire to not “over withdraw” side account balances.

# Proposed method when side accounts expire

- For the 2025 valuation, consulting actuary will determine the 2027-29 biennium contribution rate for each employer.
- The contribution rate will **not** reflect any offset for side accounts expiring 12/31/2027.
- Shortly after the end of the 2025-27 biennium, the account balance of every expiring side account will be determined as of 6/30/27.
- This account balance will be credited to the employer's EDX account – subsequent contributions due will reduce this credit until depleted.
- We will develop these concepts and have additional conversations at upcoming Employer Advisory Group (EAG) meetings.

# OREGON PERS

PUBLIC EMPLOYEES RETIREMENT SYSTEM



# THANK YOU



## Action and discussion items

1. Legislative update
2. PERS Modernization Program update
3. PERS Health Insurance Plan annual update
4. 2024 Retiree Health Insurance Plan renewals and rates
5. Overview of side accounts
6. Overview of actuarial methods and economic assumptions





# Economic Assumptions & Actuarial Methods

## OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM

Presented by:

**Matt Larrabee, FSA, EA**  
**Scott Preppernau, FSA, EA**

June 2, 2023

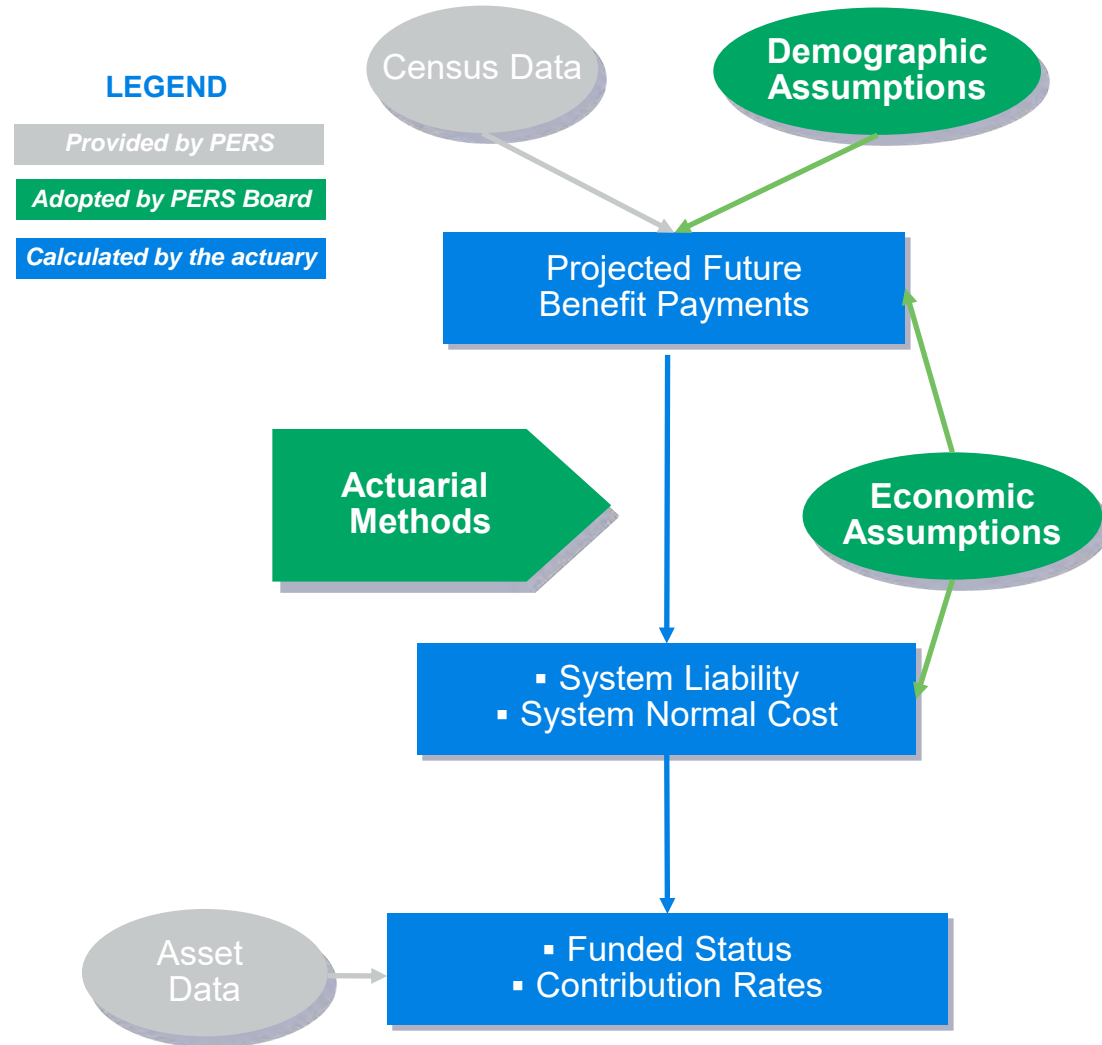
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# Four-Meeting Process – Assumptions & Methods

- April 3: Summary of process, background, and areas of focus
- May 31: Joint meeting with Oregon Investment Council (OIC)
  - Assumed rate – outlooks from OIC’s consultants, Milliman
- **June 2: Economic assumptions, system funding methods**
  - **Inflation and system payroll growth**
  - **Actuarial methods, including amortization and rate collaring policy**
- July 28: Demographic assumptions, Board direction to actuary
  - Member-specific assumptions based on study of recent PERS experience
  - Assumptions and methods adopted for use in:
    - 12/31/2022 actuarial valuation with advisory 2025-2027 contribution rates
    - 12/31/2023 actuarial valuation with proposed final 2025-2027 contribution rates

# Two-Year Rate-Setting Cycle

- **July 2023: Assumptions & methods adopted by Board in consultation with the actuary**
- September 2023: System-wide 12/31/22 actuarial valuation results
- December 2023: Advisory 2025-2027 employer-specific contribution rates
- July 2024: System-wide 12/31/23 actuarial valuation results
- September 2024: Disclosure & adoption of employer-specific **2025-2027 contribution rates**



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# Valuation Process and Timeline

- Actuarial valuations are conducted annually
  - Alternate between “rate-setting” and “advisory” valuations
  - This valuation as of 12/31/2022 is advisory
- Board adopts contribution rates developed in rate-setting valuations, and those rates go into effect 18 months after the valuation date

Valuation Date	Employer Contribution Rates
12/31/2019	July 2021 – June 2023
12/31/2021	July 2023 – June 2025
12/31/2023	July 2025 – June 2027

# Summary of Assumptions and Methods to Review

## Economic Assumptions

- Inflation
- Real wage growth
- **System payroll growth**
- **Long-term investment return**
- Healthcare cost trend

## Actuarial Methods

- Actuarial cost method
- Amortization policy
  - **UAL (shortfall) amortization**
  - **Side account / Pre-SLGRP rate adjustments**
- Rate collar
- **Contribution lag adjustment**

## Demographic Assumptions

- Mortality
- Retirement
- Pre-retirement termination
- Disability
- Individual salary increases
- Final average salary adjustments
- Member redirect offsets
- RHIA & RHIPA assumptions

Topics in **bold** discussed in today's slides

# Guiding Objectives - Methods & Assumptions

- Transparent
- Predictable and stable rates
- Protect funded status
- Equitable across generations
- Actuarially sound
- GASB compliant

Some of the objectives can conflict, particularly in periods with significant volatility in investment return or projected benefit levels. Overall system funding policies should seek an appropriate balance between conflicting objectives.

# Governance Structure

- Benefits:

- Plan design set by Oregon Legislature
- Subject to judicial review

- Earnings:

- Asset allocation set by OIC
- Actual returns determined by market

- Contributions:

- Funding, including methods & assumptions, set by PERS Board
- Since contributions are the balancing item in the fundamental cost equation, PERS Board policies primarily affect the **timing** of contributions
- Different actuarial methods and assumptions produce different projected future contribution patterns



# The Fundamental Cost Equation

- Long-term program costs are the contributions, which are governed by the “fundamental cost equation”:

$$\begin{aligned} & \text{BENEFITS} = \\ & \text{CONTRIBUTIONS} + \\ & \text{EARNINGS} \end{aligned}$$



# Review of Non-Investment Economic Assumptions

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# Non-Investment Economic Assumptions to Be Reviewed

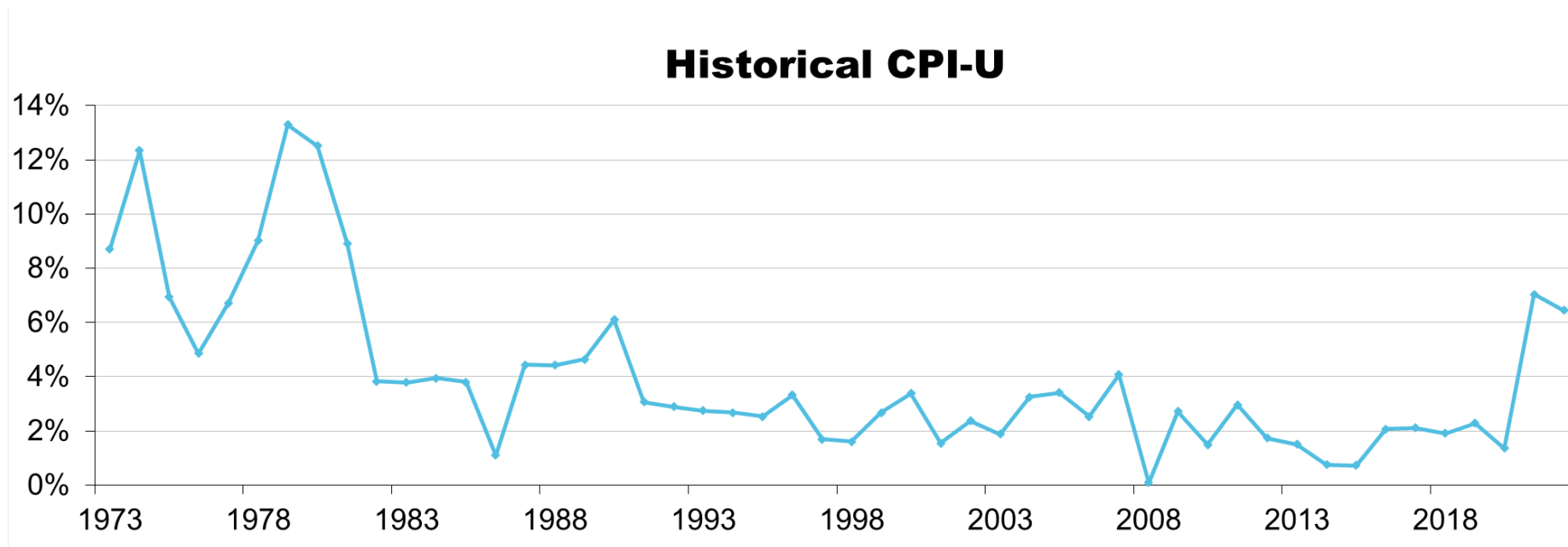
	12/31/2021 Valuation “Current” Assumptions
Inflation	2.4%
Real Wage Growth	<u>1.0%</u>
System Payroll Growth	3.4%
Administrative Expenses	\$59 million

# Economic Assumptions

## Inflation

- The inflation assumption affects other assumptions, including system payroll growth, investment return, and health care inflation
- Inflation can vary significantly over time; recent inflation has been much higher than the long-term expectation

Period Ending 12/31/2022	Average Inflation
10 years	2.60%
20 years	2.51%
30 years	2.49%
40 years	2.82%



# Economic Assumptions

## Inflation

- One estimate of future inflation can be derived from comparing yields on Treasury securities and Treasury Inflation Protected Securities (TIPS)
- We also review expert forecasts of long-term inflation used for other similar purposes:
  - Social Security’s current “intermediate cost” 30-year average inflation assumption is 2.47%, with an ultimate annual inflation of 2.40%
  - Cleveland Fed Inflation Forecast Model as of January 2023 results in 10-year average inflation of 2.29% and 30-year average inflation of 2.42%
- **We recommend maintaining the current assumption of 2.4%**

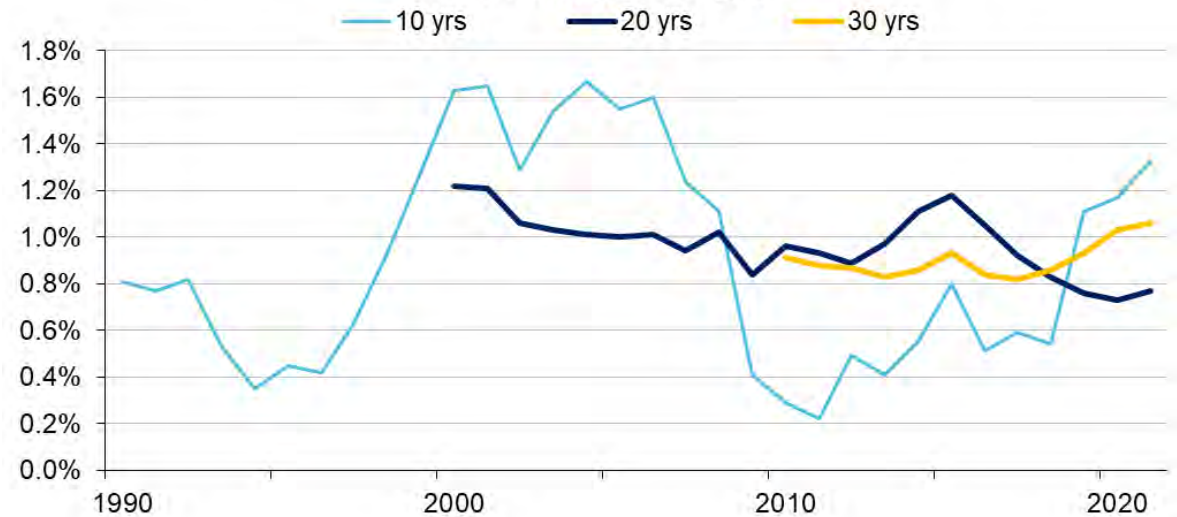
As of 12/31/22		
	10 Year	30 Year
Treasury Yield	3.88%	3.97%
TIPS Yield	<u>1.58%</u>	<u>1.67%</u>
<b>“Breakeven” Inflation</b>	<b>2.30%</b>	<b>2.30%</b>

# Economic Assumptions

## Real Wage Growth

- An individual member’s assumed annual salary increase is composed of:
  - Inflation, plus
  - Real wage growth, plus
  - Individual merit/longevity component
- Real wage growth represents the increase in wages in excess of inflation for the entire group due to improvements in productivity and competitive market pressures
- Social Security’s long-term “intermediate cost” real wage growth assumption is 1.15%

Historical Real Growth in National Average Wages (Trailing Average)



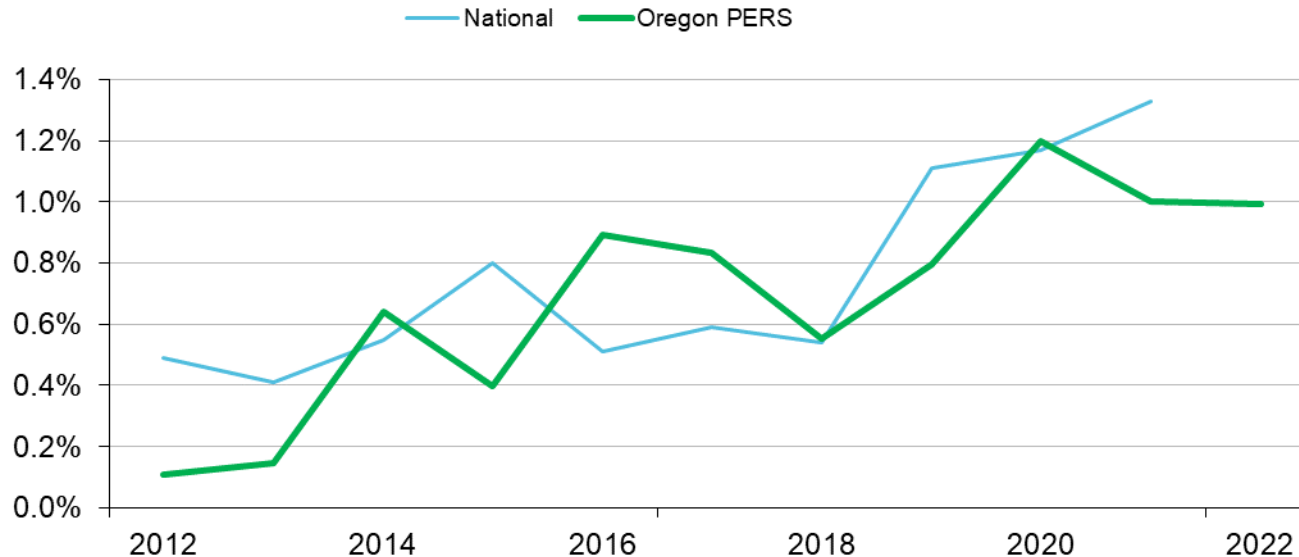
Most Recently Available	Average Real Wage Growth
10 Years	1.33%
20 Years	0.77%
30 Years	1.06%
40 Years	0.99%

# Economic Assumptions

## Real Wage Growth

- Trailing 10-year average of Oregon PERS' experience with real wage growth over has largely paralleled national trends, though lagged behind on average
- In our opinion, the current assumption of **1.0%** is reasonable, but a modestly lower assumption would also be reasonable

**Historical Real Growth in Average Wages  
(Trailing 10-Year Average)**



Most Recently Available*	National	Oregon
10 Years	1.33%	0.99%
20 Years	0.77%	0.55%

\* National reflects data through 2021; Oregon reflects data through 2022

# Economic Assumptions

## System Payroll Growth

- Overall system payroll growth is assumed to equal the sum of:
  - Inflation
  - Real wage growth
  - Adjustment for expected system growth/decline (typically 0% if expecting steady population)
- The system payroll growth assumption determines the shape of the curve of payments to amortize the unfunded liability
- With an inflation assumption of 2.4% and a real wage growth assumption of 1.0%, the system payroll growth assumption is currently 3.4%
  - A 3.4% assumption is reasonable based on recent historical experience for Oregon PERS, but a modestly lower assumption would also be reasonable

Trailing Period as of 12/31/2021	Oregon PERS Average Annualized Growth in Valuation Payroll	Oregon PERS Average Annualized Growth in Average Payroll
5 Years	5.1%	4.5%
10 Years	4.0%	3.6%
15 Years	3.7%	3.1%
20 Years	3.6%	3.1%

# Economic Assumptions

## Administrative Expenses

- Actual administrative expenses for recent years are shown below
  - SB 1049 drove increase in pension administrative expenses, expected to be replaced by modernization costs

(\$ millions)	System-Wide (Tier 1/Tier 2 + OPSRP) Pension Administration Expenses		
	Year	Actual Expenses	% of Beginning of Year Assets
2018	\$36.7	0.06%	0.36%
2019	\$44.5	0.07%	0.41%
2020	\$56.5	0.09%	0.49%
2021	\$59.9	0.09%	0.50%
2022	\$61.5	0.08%	0.48%

- Overall, 2022 administrative expenses were 0.08% of total assets, or 0.48% of projected payroll
- Proposed assumed annual expenses for 2023 and 2024: \$64 million



# Non-Investment Economic Assumptions to Be Reviewed

	12/31/2021 Valuation Assumptions	12/31/2022 Valuation Proposed* Assumptions
Inflation	2.4%	2.4%
Real Wage Growth	<u>1.0%</u>	<u>1.0% or lower</u>
System Payroll Growth	3.4%	3.4% or lower
Administrative Expenses	\$59 million	\$64 million

No explicit assumption is made for investment-related expenses, which are accounted for implicitly in the analysis of the long-term investment return assumption.

\*No action is requested on “proposed” assumptions today, since all assumptions and methods will be adopted at the July 2023 Board meeting

# Long-Term Investment Return Assumption

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## Summary - Investment Return Assumption

- No decision on the assumption is made at today's meeting
- Capital market outlooks currently show higher expected returns than last assumption review
  - Results are heavily influenced by point-in-time measurements at prior year end
- While the median result from both OIC's outlook and Milliman's are above the current 6.90% long-term future investment return assumption, **we recommend leaving the assumption unchanged**
  - The lowering of the assumption was due to a decade-long trend in market conditions; we advise caution in reacting to a quite recent reversal of that trend
  - Using an assumption that is in the lower part of a reasonable range provides for some conservatism in the rate-setting process
  - Consistent with current practice for other large pension systems, which generally have not increased their return assumption in response to recent events

# Long-Term Investment Return Assumption

- Uses of the investment return assumption
  - As a “discount rate” for establishing the:
    - Actuarial accrued liability, which is a net present value
    - Associated unfunded actuarial liability, also called the UAL or actuarial shortfall
  - Guaranteed crediting level for regular Tier One active member account balances
  - Annuitization rate for converting member account balances to lifetime money match monthly benefits



Reflecting expectations for both investment earnings and benefit levels for certain members, the assumption helps set a reasonable and appropriate budgeting glide path for projected employer contribution rates

# Use of the Assumed Rate

$$B = C + E$$

**BENEFITS = CONTRIBUTIONS + EARNINGS**

present value of  
earned benefits

**Design set by:**  
Oregon Legislature

employer and member funds to  
pay pension benefits

**Set by:**  
PERS Board

future returns on  
invested funds

**Managed by:**  
Oregon Investment Council  
Oregon State Treasury

- “B” is predictable with a relatively high degree of certainty
- “E” is the unpredictable **actual** future investment return on PERS assets
- “C” is the balancing item --- it must provide to “B” what “E” fails to cover
  
- The **assumed rate** is the Board’s estimate of “E” to prudently set “C”
- The Board’s decision on “E” does **not** affect actual future earnings

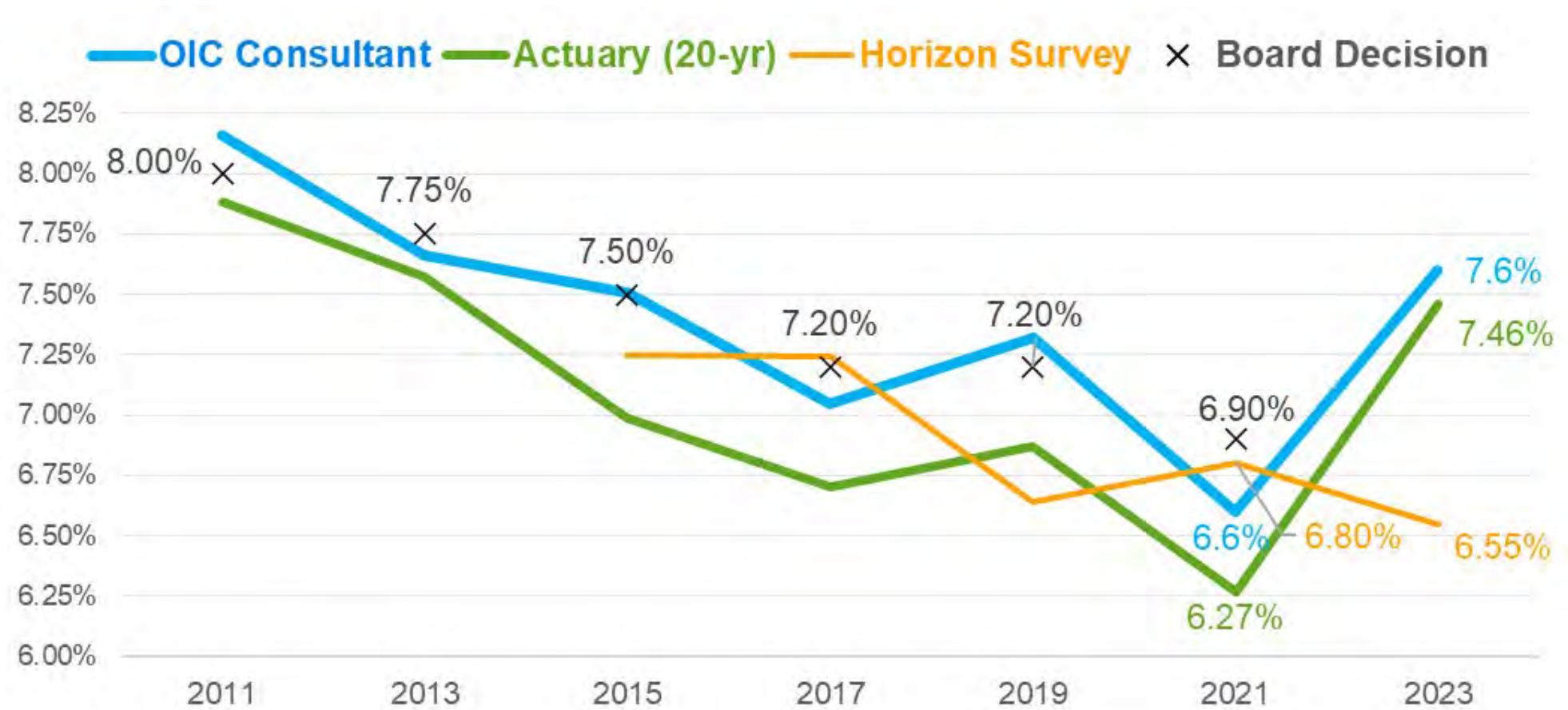
# Investment Return 50<sup>th</sup> Percentile Outlooks

- We applied a standard mean/variance model to calculate 50<sup>th</sup> percentile return estimates based on capital market outlook assumptions from three sources
  - OIC assumption – reflects consensus among OST staff and consultants Meketa & Aon
  - Milliman
  - 2022 Horizon survey of 10-year capital market assumptions (survey of 40 advisors)
    - The Horizon survey was published in August 2022, based on outlooks from the first half of 2022
- Estimates do not reflect any possible “alpha” due to selected managers potentially outperforming market benchmarks over the long term, net of fees
- Today’s speakers are not credentialed investment advisors
  - We are presenting Milliman capital market outlook model results based on assumptions developed by Milliman’s credentialed investment professionals

Details on Milliman and Horizon outlook assumptions are in the Appendix

# Investment Return 50th Percentile Outlooks

## Geometric Returns from Outlook Models in Current and Prior Six Reviews



Horizon survey was published in August 2022, based on outlooks from the first half of 2022

# Investment Return 50<sup>th</sup> Percentile Outlooks

- Estimates are shown based on the OIC's long-term asset allocation

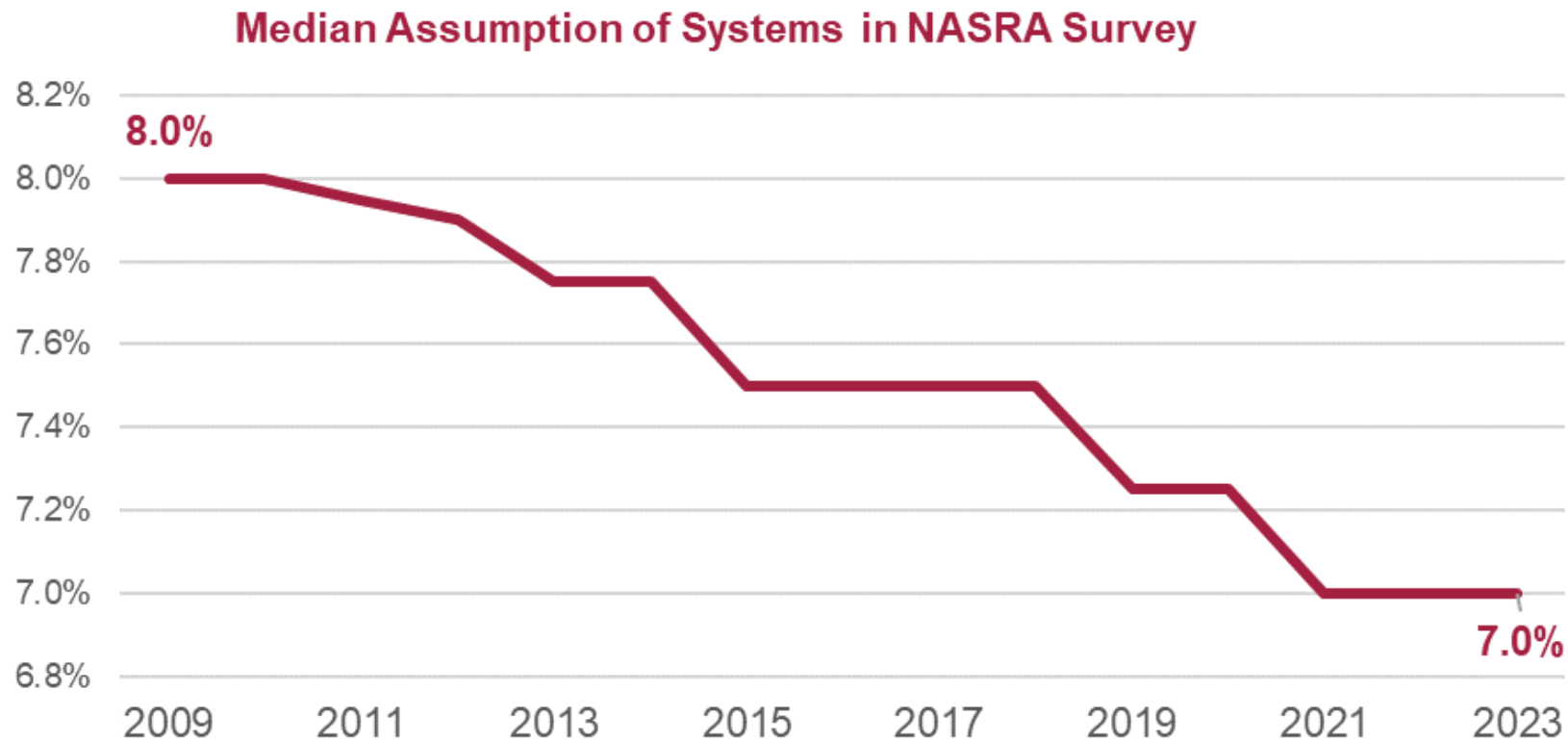
	OIC Consultant	Milliman	Milliman	Horizon
<b>Median Annualized Return</b>	<b>7.6%</b>	<b>7.11%</b>	<b>7.46%</b>	<b>6.55%</b>
Assumed Inflation	2.5%	2.40%	2.35%	2.46%
Timeframe Modeled	20 years	10 years	20 years	10 years

The median returns shown above are geometric annualized average returns over the timeframes indicated above for each provided set of capital market assumptions



# Comparison to Peer Systems

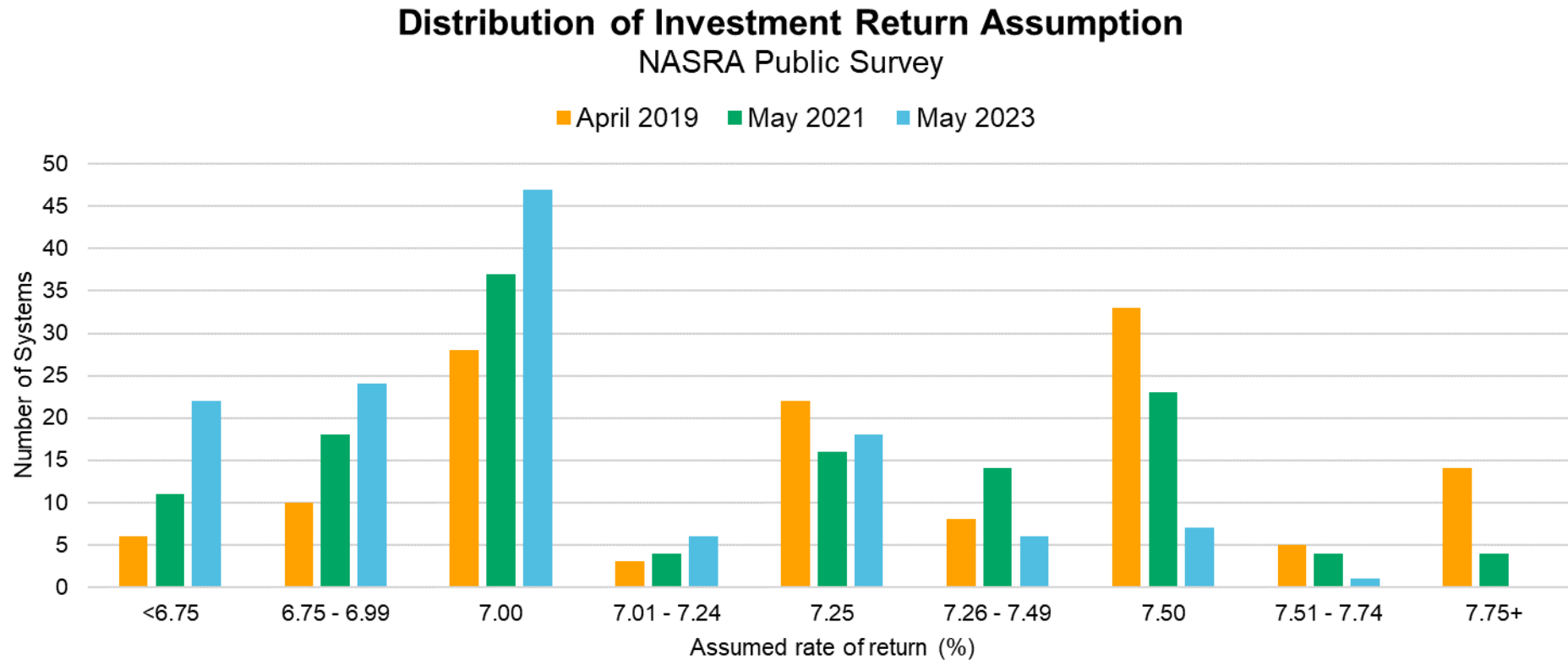
- There has been a downward trend in public plan return assumptions, with a current median assumption for large public systems of 7.00%
- While capital market expectations have increased recently, so far large systems have not responded with increased return assumptions



**Source: NASRA (May 2023)**

# Comparison to Peer Systems

- The distribution of about 130 systems tracked by the NASRA Public Fund Survey is shown below
- Four years ago, the most common assumption was 7.50%; now the most common assumption is 7.00% and over 70% of all plans have an assumption of 7.00% or lower



**Source: NASRA (May 2023)**

# Effects of Changing the Assumed Return

- A higher investment return assumption would produce lower calculated liabilities and uncollared contribution rates as of the actuarial valuation date, while a lower investment return assumption would have the opposite effect
  - The effect on final collared contribution rates would be determined in accordance with the Board's policy
- Liabilities are net present values, as of the valuation date, of a benefit payment projection that stretches far into the future
  - Changing the assumption modifies the projected balance of the fundamental cost equation between future investment earnings and future contributions
    - The actual balance will depend on actual investment earnings, not on the assumed return adopted by the PERS Board
- For PERS, such an assumption change would also change benefits for future retirements calculated under Money Match

# Considerations in Setting the Return Assumption

- Due to recent changes in financial markets, capital market outlooks currently show higher expected returns than last assumption review
  - Results based on a different date (such as the Horizon Survey published in August 2022) may look significantly different due to the speed with which markets changed
- While median forward-looking expectations are above the current 6.9% investment return assumption, the Board should consider leaving the assumption unchanged
  - Lowering the assumed rate for evolving expectations took a decade; it remains to be seen if the December 31, 2022 market conditions are temporary or enduring
  - If 2023 returns are strong, expectations may be lower at the rate-setting actuarial valuation date of December 31, 2023
  - Actuarial Standards of Practice allow assumptions to reflect a margin for adverse deviation, if desired

# Actuarial Methods

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# Key Actuarial Methods

Details on these three methods with no proposed change are shown in the appendix

	12/31/2021 Valuation Methods	12/31/2022 Valuation Proposed* Methods
Cost Allocation Method	Entry Age Normal	No change
UAL (Shortfall) Amortization Method	<p>Level percent of pay, layered fixed periods:</p> <p><i>Tier One/Tier Two:</i></p> <ul style="list-style-type: none"> <li>• Reamortized over 22 years as of 12/31/2019 per SB 1049</li> <li>• 20 years as ongoing Board policy</li> </ul> <p><i>OPSRP:</i> 16 years</p> <p><i>RHIA/RHIPA:</i> 10 Years</p>	No change
Rate Collar	<p>UAL contribution rate for a rate pool is limited to a collared range based on prior biennium's rate. Limit is:</p> <ul style="list-style-type: none"> <li>• <i>Tier One/Tier Two:</i> 3% of payroll for large rate pools, 4% (with overrides) for Independent Employers</li> <li>• <i>OPSRP:</i> 1% of payroll</li> </ul> <p>Decreases to UAL rate are restricted if pool's funded status &lt;90%</p>	No change

\*No action is requested on “proposed” methods today, since all assumptions and methods will be adopted at the July 2023 Board meeting

## Key Actuarial Methods (continued)

	12/31/2021 Valuation Methods	12/31/2022 Valuation Proposed Methods
Contribution Lag	No adjustment is made to UAL Rate, side account rate adjustments, or Pre-SLGRP rate adjustments for the lag time between the December 31 rate-setting valuation date and when those rates go into effect 18 months later.	No change to UAL Rate methodology. Add lag adjustment to side account and Pre-SLGRP amortizations.
Amortization of Side Accounts	Amortization calculated as level percent of projected pay through December 31 of scheduled end year. Majority of current side accounts amortize to December 31, 2027.	Continue to amortize to Dec. 31. Add lag adjustment; PERS to manage expiring amortizations
Amortization of Pre-SLGRP Amounts	Amortization calculated as level percent of projected pay through December 31 of scheduled end year. (Currently set at 18 years from date employer joins the SLGRP.) Pre-SLGRP pool liability and large majority of Transition Liabilities / Surpluses amortize to December 31, 2027.	Amortization to July 1 after the scheduled end date to align with rate change timing. Add lag adjustment

# Contribution Lag Adjustment

- As discussed in January related to the recent outside actuarial audit, we reviewed the question of whether to introduce a lag adjustment to the contribution rate calculation process
  - Our January 25, 2023, letter provides additional background
  - The auditing actuary recommended considering such an adjustment, but did note that such a change would not be expected to have a significant effect on the long-term contribution rates, and “would further complicate a very complex process”
  - The PERS Board removed the practice of applying a lag adjustment in the 2000s in order to make the calculation of employer rates more understandable



# Contribution Lag Adjustment

After reviewing alternative approaches, our recommendation is:

## UAL Rate calculation

- Do not apply a contribution lag adjustment to the rates, as doing so would harm guiding objective of transparency without significantly improving any other objectives
- Current contribution calculation process is laid out so all employers can follow their calculations, and has been consistently applied over time
  - Lag adjustment would be comparatively hard to illustrate and follow within the reports
  - UAL layers are established every rate-setting valuation for all rate pools (OPSRP, SLGRP, School Districts, plus 120+ Independent employer for Tier One/Tier Two); all would be affected by a change, which makes the communication challenge more difficult
- Absence of an adjustment is not biased and not expected to significantly affect long-term rates

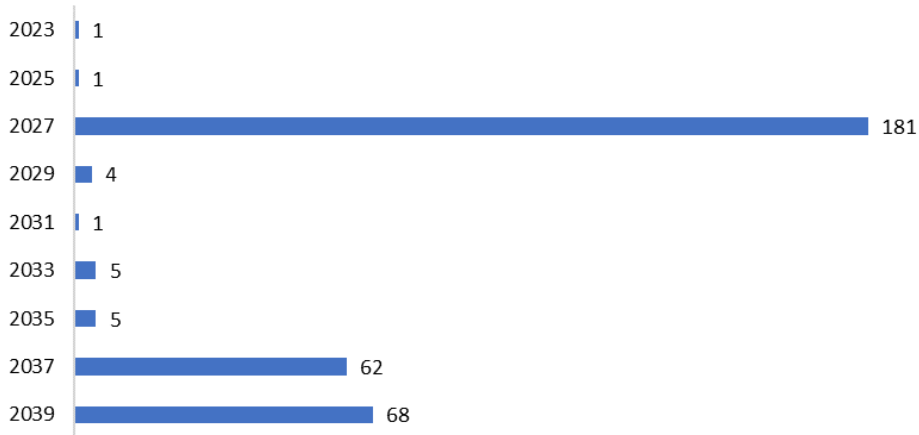
## Side Account and Pre-SLGRP adjustments

- Introduce an adjustment for the lag period, as discussed on following slides
- Unlike the UAL Rate, balances have a fixed expiration and do not have new layers
  - Adding lag adjustment can improve tail management enough to warrant the added complexity

# Side Account Amortizations

- Side account offset calculated as if rate takes effect immediately and all assumptions are met (illustrated by blue line in graph)
- Actual balance will be affected by asset and payroll experience, and reflects biennial timing of rate changes
  - Dotted lines illustrate how investment losses and higher payroll growth combine to exhaust the side account balance several months prior to 12/31/2027

Side Accounts by Amortization End Year  
as of 12/31/2021



State Agencies Projected Side Account Balance



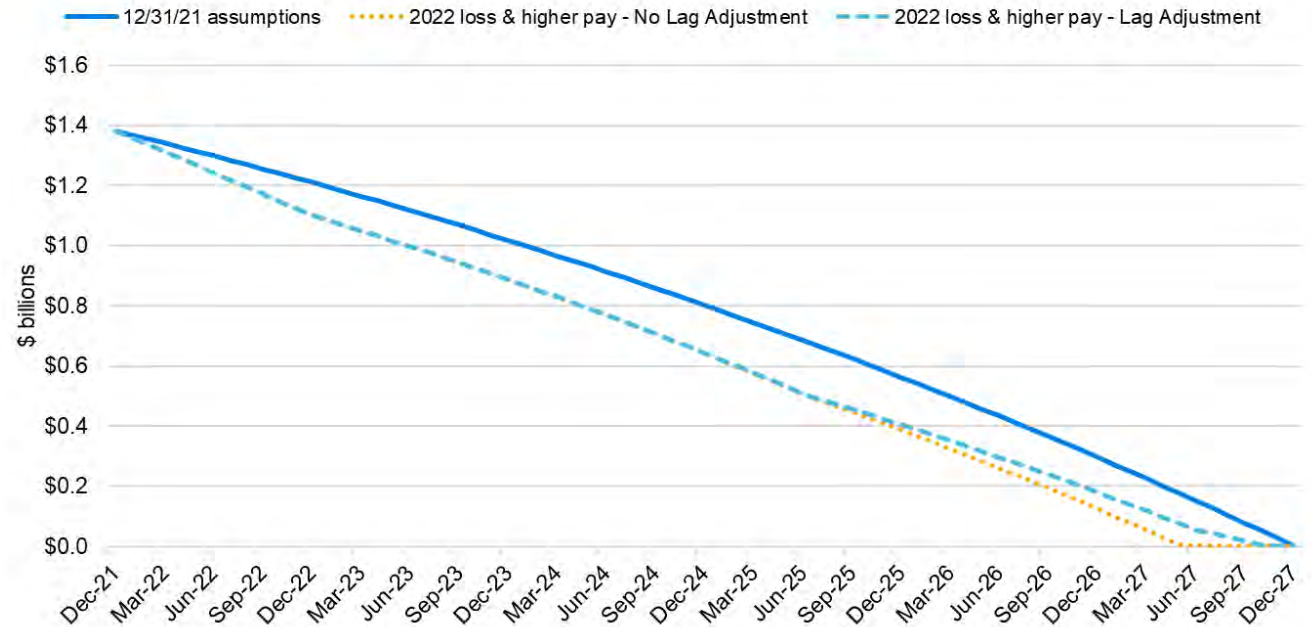
# Side Account Amortizations

- Due to fluctuating payroll and investment returns, it is unlikely any side account balances will draw down to zero exactly at the nominal end date of the amortization period
  - May occur earlier or later
  - We understand PERS can track side account balances monthly
- Some employers funded side accounts with POBs and structured a repayment schedule around the period they expected to receive a rate offset

# Side Account Amortizations

- **Proposed Methodology:**
  - Continue calculating the offset through December 31 of the established period
  - Add adjustment to reflect 18-month lag before a new offset takes effect
  - PERS staff to establish process to manage final months of rate offsets for expiring accounts
    - Rate offset will “turn off” prior to scheduled December 31 if account balance is depleted (monthly contribution rate increases to compensate)
  - PERS and Milliman will adjust report wording and employer communications in this year’s valuation to alert employers to this process in advance

State Agencies Projected Side Account Balance



# Pre-SLGRP Amortizations

- These amortizations are tied to experience related to pooling with the SLGRP:
  - Employer-specific **transition liability/surplus** from joining the SLGRP
  - A grouped **Pre-SLGRP liability** for state & community colleges and **Pre-SLGRP surplus** for employers who participated in the LGRP
- The Pre-SLGRP liability/surplus and 308 of the existing 318 transition liability/surplus amounts are scheduled to amortize to December 31, 2027
- Transition liabilities/surpluses and Pre-SLGRP amounts fluctuate with payroll (like side accounts), but not with actual investment returns
  - These balances are only tracked in annual valuation, not on a monthly basis
  - They do not reflect actual accounts of separately deposited contributions
    - Instead, they are a funding policy approach to transitioning an employer from a separately calculated contribution rate to one that is based entirely on pool results

# Pre-SLGRP Amortizations

- The December 31, 2025 valuation is the final rate-setting valuation in which a Pre-SLGRP amortization expiring December 31, 2027 would be reflected
  - Sets the contributions rates for July 1, 2027 – June 30, 2029
- **Proposed Methodology:**
  - Calculate the contribution rate adjustment to run to the end of the relevant biennial rate-setting period (will run through June 30, which is 18 months later than the current approach of amortizing to the nominal December 31 end date)
    - Allows the effect of expiring amounts to be handled in the normal course of biennial rate updates
  - Add adjustment to reflect 18-month lag before new rate adjustment takes effect
  - For contributing employers with a December 31, 2027, transition liability/surplus expiration, rate adjustments will be eliminated July 1, 2029, regardless of whether actual payroll experience in the final months draws the transition amount to zero
  - If large payroll increases resulted in transition amounts hitting zero in a valuation prior to scheduled end period, the rate adjustment would be eliminated (continuation of current practice)
  - Work with PERS to determine approach for employers with no current payroll / contributions

# Agenda for July Meeting

- Review demographic assumptions
  - Member-specific assumptions based on study of recent PERS experience
- Adopt all methods and assumptions for use in:
  - 12/31/2022 actuarial valuation with advisory 2025-2027 contribution rates
  - 12/31/2023 actuarial valuation with 2025-2027 contribution rates proposed for adoption

# Appendix



# Certification

This presentation discusses actuarial methods and assumptions for use in the valuation of the Oregon Public Employees Retirement System (“PERS” or “the System”). For the most recent complete actuarial valuation results, including cautions regarding the limitations of use of valuation calculations, please refer to our formal Actuarial Valuation Report as of December 31, 2021 (“the Valuation Report”) published on September 19, 2022. The Valuation Report, including all supporting information regarding data, assumptions, methods, and provisions, is incorporated by reference into this presentation. The statements of reliance and limitations on the use of this material is reflected in the actuarial report and still apply to this presentation. The Valuation Report, along with prior presentations to the PERS Board, including the December 2022 and April 2023 presentations to the PERS Board should be referenced for additional detail on the data, assumptions, methods, and plan provisions underlying this presentation.

In preparing this presentation, we relied, without audit, on information (some oral and some in writing) supplied by the System’s staff as well as capital market expectations provided by Meketa, capital market information published by Horizon Actuarial Services, and information presented to the Oregon Investment Council. This information includes, but is not limited to, statutory provisions, employee data, and financial information. We found this information to be reasonably consistent and comparable with information used for other purposes. The results depend on the integrity of this information. If any of this information is inaccurate or incomplete our results may be different and our calculations may need to be revised.

In assessing the Milliman capital market expectations presented in this report, per Actuarial Standards of Practice we disclose reliance upon a model developed by Milliman colleagues who are credentialed investment professionals with expertise in capital outlook modeling.

All costs, liabilities, rates of interest, and other factors for the System have been determined on the basis of actuarial assumptions and methods which in our professional opinion are individually reasonable (taking into account the experience of the System and reasonable expectations); and which, in combination, offer a reasonable estimate of anticipated experience affecting the System. The valuation results were developed using models intended for valuations that use standard actuarial techniques. We have reviewed the models, including their inputs, calculations, and outputs for consistency, reasonableness, and appropriateness to the intended purpose and in compliance with generally accepted actuarial practice and relevant actuarial standards of practice. We have incorporated other sources of economic data in assessing the reasonableness of the assumptions. Reliance on other experts is reflected in Milliman’s capital market assumptions and in Milliman’s expected return model, both of which are developed by credentialed investment consultants. We have also considered the System’s investment policy, capital market assumptions, and the expected return analysis provided by the System’s investment consultant in our assessment of the investment return assumption.

# Certification

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements. Our annual financial modeling presentation to the PERS Board should be referenced for additional analysis of the potential variation in future measurements. The PERS Board has the final decision regarding the assumptions used in the actuarial valuation.

The calculations in this report have been made on a basis consistent with our understanding of the plan provisions described in the appendix of the Valuation Report. Determinations for purposes other than meeting these requirements may be significantly different from the results contained in this report. Accordingly, additional determinations may be needed for other purposes.

Milliman's work is prepared solely for the internal business use of the Oregon Public Employees Retirement System. Milliman does not intend to benefit or create a legal duty to any third-party recipient of its work product.

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

The consultants who worked on this assignment are retirement actuaries. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel.

The signing actuaries are independent of the System. We are not aware of any relationship that would impair the objectivity of our work.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the principles prescribed by the Actuarial Standards Board and the *Code of Professional Conduct* and *Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States* published by the American Academy of Actuaries. We are members of the American Academy of Actuaries and meet the Qualification Standards to render the actuarial opinion contained herein.

# Appendix

## Capital Market Outlook

- Capital market outlooks change over time in response to changing market conditions
  - Milliman outlook updated every six months
  - Recent changes and key factors shown below for Milliman model of PERS asset allocation
  - Outlooks shown reflect Milliman’s real return outlook at each date combined with a 2.50% inflation assumption as of 12/31/18 and a 2.40% inflation assumption as of 12/31/20

Milliman 20-year outlook	12/31/18	12/31/20	12/31/22
<b>Median Annualized Return</b>	<b>6.87%</b>	<b>6.27%</b>	<b>7.46%</b>
Global Equity	6.99%	5.85%	7.07%
Private Equity	8.33%	7.71%	8.83%
US Core Fixed Income	4.07%	2.73%	4.50%
Real Estate	5.55%	5.66%	5.83%

Asset category returns shown above are 20-year annualized geometric mean returns and reflect reduction for assumed investment management expenses

# Appendix

## Actuarial Basis

### Capital Market Assumptions - Milliman

For this purpose, we considered the Oregon PERS Fund to be allocated among the model's asset classes as shown below. This allocation is based on input provided by Meketa (OIC's primary consultant) and reflects proposed changes to the OIC's target allocation for the Oregon PERS fund adopted at the January 25, 2023 OIC meeting.

Reflects Milliman's capital market assumptions as of December 31, 2022.

	<b>Annual Arithmetic Mean</b>	<b>20-Year Annualized Geometric Mean</b>	<b>Annual Standard Deviation</b>	<b>Policy Allocation</b>
Global Equity	8.57%	7.07%	17.99%	27.500%
Private Equity	12.89%	8.83%	30.00%	25.500%
Real Estate	6.90%	5.83%	15.13%	12.250%
US Core Fixed Income	4.59%	4.50%	4.22%	25.000%
Hedge Fund – Macro	5.44%	4.83%	7.49%	5.625%
Hedge Fund – Equity Hedge	7.39%	6.48%	12.04%	0.625%
Hedge Fund – Multistrategy	6.81%	6.27%	9.04%	1.250%
Infrastructure	7.88%	6.51%	17.11%	1.500%
Master Limited Partnerships	9.41%	6.02%	27.04%	0.750%
US Inflation (CPI-U)	2.35%	2.35%	1.41%	<b>N/A</b>
<b>Fund Total (reflecting asset class correlations)</b>	<b>8.26%</b>	<b>7.50%*</b>	<b>13.30%</b>	<b>100.00%</b>

\* The model's 20-year annualized geometric median is 7.46%.

# Appendix

## Actuarial Basis

### Capital Market Assumptions – Horizon Survey

For assessing the expected portfolio return under an additional set of capital market assumptions, we applied the assumptions from the 2022 Survey of Capital Market Assumptions published by Horizon Actuarial Services, LLC. According to the survey report, the 10-year return assumptions shown below represent an average of the expectations for 40 investment advisors responding to the survey.

	<b>10-Year Annualized Geometric Mean</b>	<b>Annual Standard Deviation</b>	<b>Policy Allocation</b>
US Equity – Large Cap	5.91%	16.33%	<b>12.375%</b>
Non-US Equity – Developed	6.54%	18.09%	<b>12.375%</b>
Non-US Equity – Emerging	7.30%	23.92%	<b>2.75%</b>
US Corporate Bonds – Core	2.63%	5.36%	<b>25.00%</b>
Real Estate	5.37%	17.00%	<b>12.25%</b>
Hedge Funds	4.81%	7.99%	<b>7.50%</b>
Infrastructure	6.39%	16.63%	<b>2.25%</b>
Private Equity	9.22%	22.13%	<b>25.50%</b>
Inflation	2.46%		<b>N/A</b>
<b>Fund Total (reflecting asset class correlations)</b>	<b>6.62%*</b>	<b>11.96%</b>	<b>100.00%</b>

\* 10-year annualized geometric median is **6.55%**.

# System-Average Weighted Total\* Pension-Only Rates

2009-2011 rates set prior to 2008 economic downturn

2011-2013 rates first to reflect -27% return in 2008 and +19% return in 2009

2013-2015 rates shown before (dotted line) and after (solid line) legislated changes

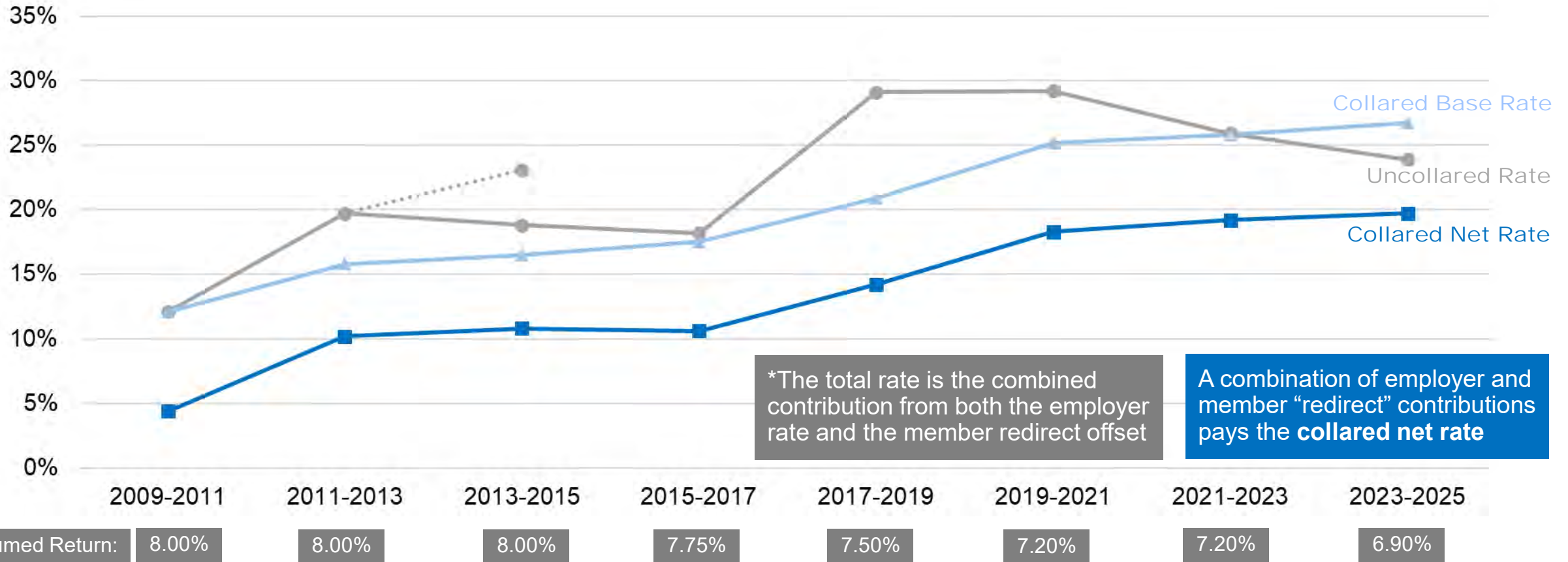
2015-2017 rates set pre-Moro reflecting 2012 (+14.3%) & 2013 (+15.6%) returns, first decrease in assumed return

2017-2019 rates set post-Moro, reflecting 2015 return (+2.1%) and second decrease in assumed return

2019-2021 rates reflect +15.4% return in 2017 and third decrease in assumed return

2021-2023 rates reflect mandated reamortization of Tier One/Tier Two UAL, biennial returns near assumption

2023-2025 rates reflect 2021 actual return of +20.05%, a fourth decrease in assumed return and an update to rate collaring policy



\*The total rate is the combined contribution from both the employer rate and the member redirect offset

A combination of employer and member "redirect" contributions pays the **collared net rate**

# Cost Allocation Method

- Rates are calculated to pre-fund retirement benefits during a member's working career if all assumptions are met
- The present-day value of projected future benefits allocated to a particular working year is the Normal Cost
- The present-day value of projected future benefits allocated to prior years is the Accrued Liability
- The division between past, current & future service is done through use of an actuarial cost allocation method
- PERS currently uses GASB-compliant cost allocation method of Entry Age Normal (EAN)
  - We recommend no change to the cost allocation method

# Shortfall Amortization Periods

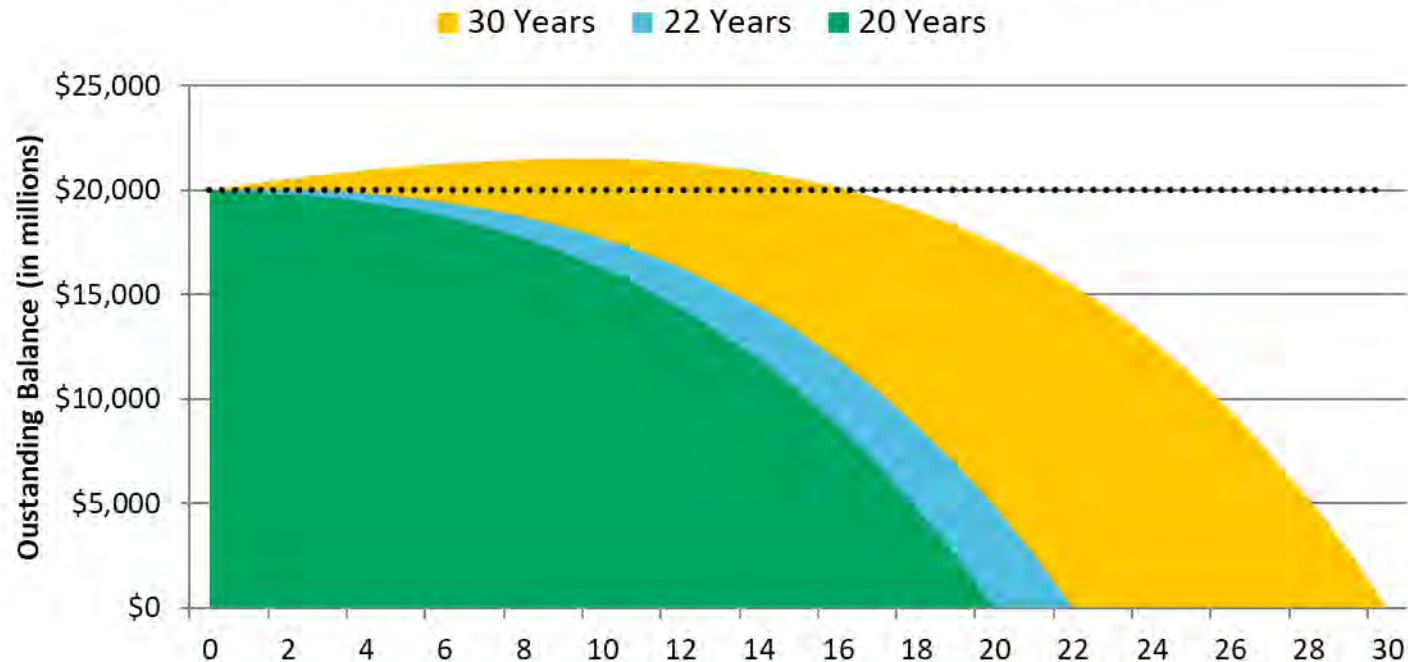
- A key part of contribution rate calculations is amortization of Tier One / Tier Two shortfalls over twenty years as a level percentage of payroll
  - As required by Senate Bill 1049, Tier One/Tier Two UAL as of December 31, 2019 was re-amortized over 22 years
  - Prior to that, Board policy has been to amortize gains or losses in separate layers over 20 years from the rate-setting valuations in which the gain or loss was first recognized
- Twenty years avoids significant negative amortization, where unamortized shortfall materially increases in the initial “pay down” years even if actual investment returns match assumptions and contributions are made
  - The following slide illustrates amortization as a level percentage of projected payroll of a \$20.0 billion shortfall over periods of 20, 22 or 30 years



# Remaining Balances for 20-, 22-, & 30-Year Amortizations

## UAL Balance Over Time by Selected Amortization Period

Level % of pay amortization, 6.90% interest, 3.40% payroll growth



### Current ongoing policy

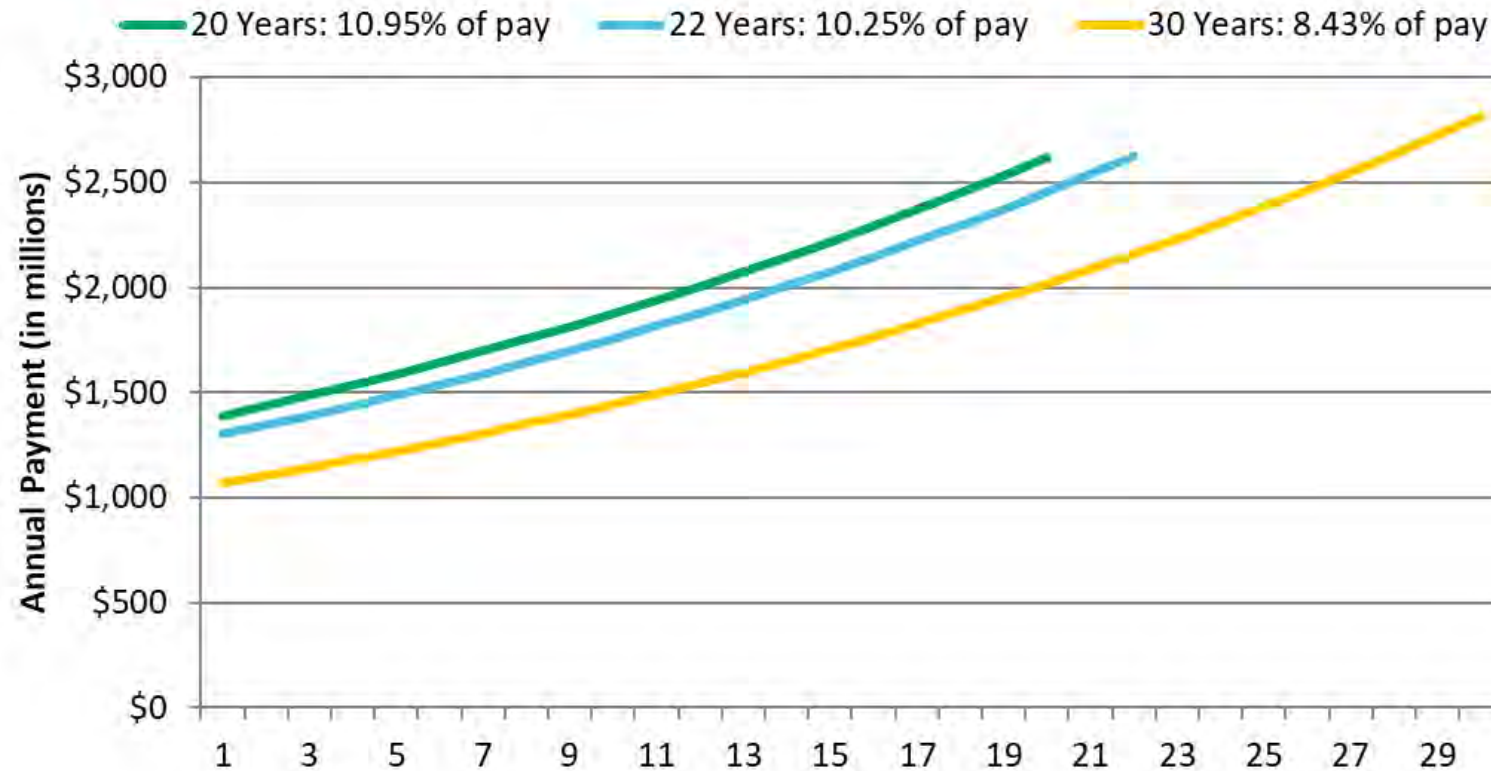
- Tier One / Tier Two: **20 years**
- OPSRP: **16 years**

- **Why 20 years or less?** If actual experience matches the assumption...
  - with 22 years zero progress is made in decreasing the initial UAL until year 3
  - with 30 years the UAL has increased by about 8% after the first decade, and zero progress is made in decreasing the initial UAL until year 17

# Illustration of UAL Amortization Periods

## Annual UAL Payments by Selected Amortization Period

Level % of pay amortization, 6.90% interest, 3.40% payroll growth



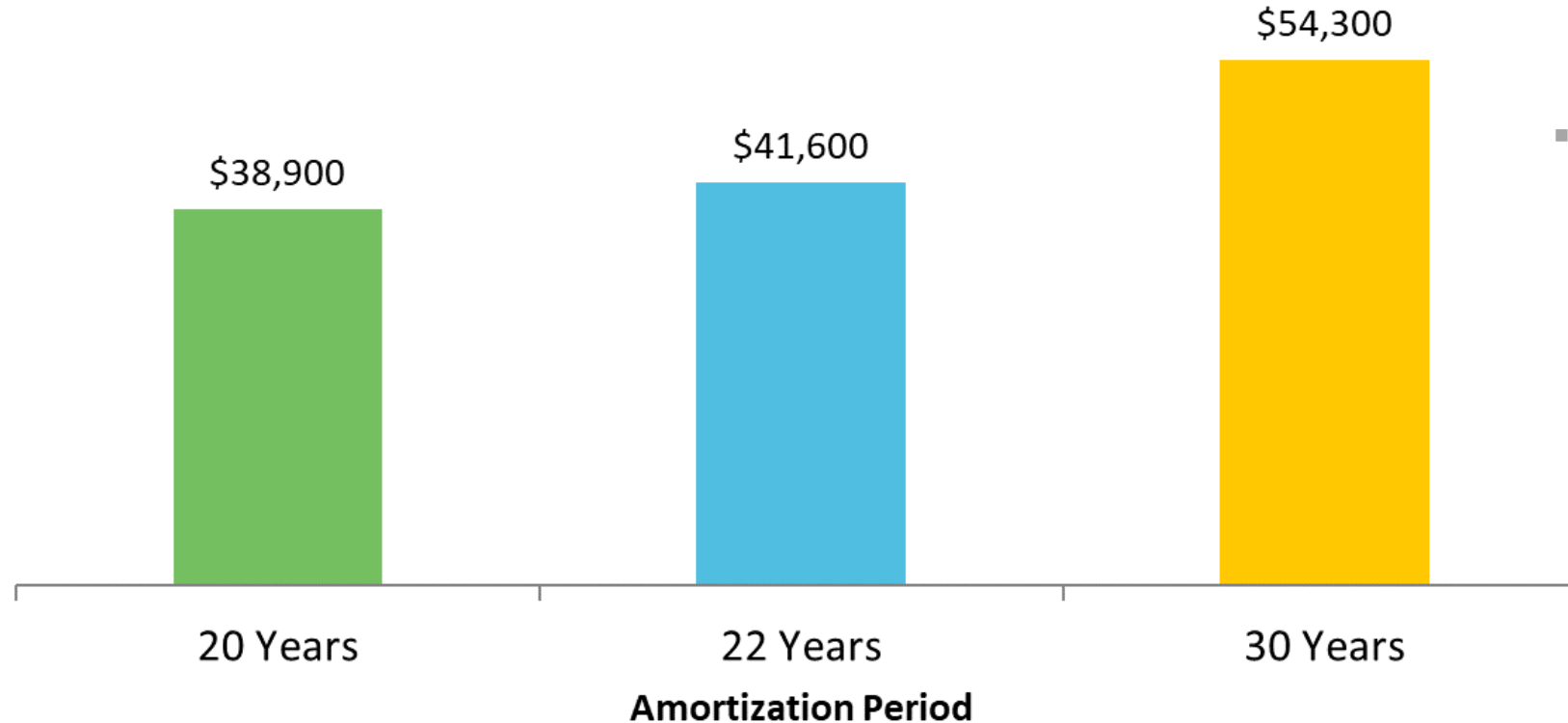
### Current policy

- Tier One / Tier Two: **20 years**
- OPSRP: **16 years**

# Illustration of UAL Amortization Periods

## Total Repayment (\$M) by Selected Amortization Period

Level % of pay amortization, 6.90% assumed return, 3.40% payroll growth

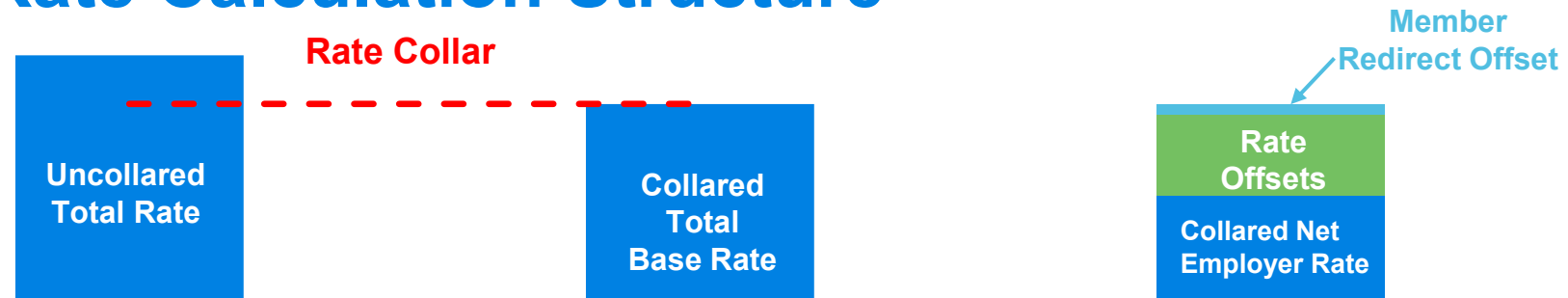


### Current policy

- Tier One / Tier Two:  
**20 years**
- OPSRP:  
**16 years**

This illustrates total amortization payments for a \$20.0 billion shortfall over periods of 20, 22 or 30 years

# Overview of Rate Calculation Structure

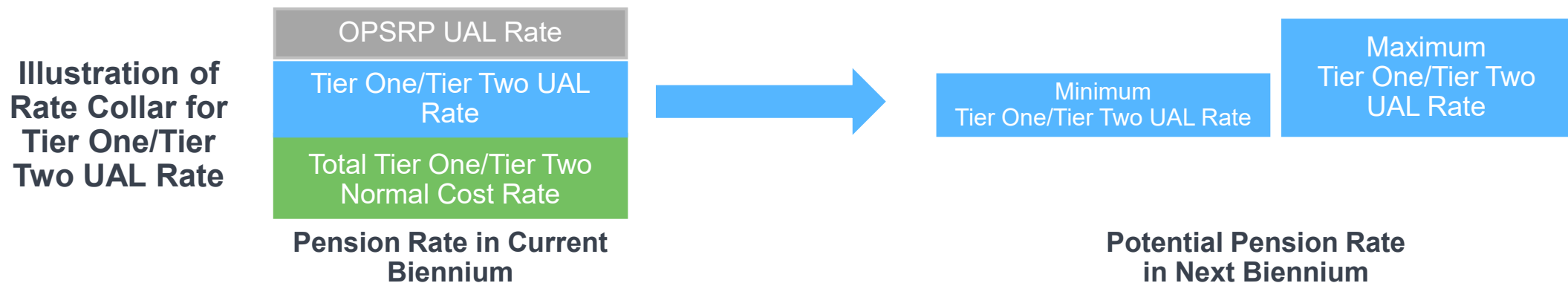


- The ***uncollared total rate*** is the theoretical contribution rate to reach 100% funded status over a specified amortization period if:
  - Contributions at that rate started on the actuarial valuation date, and
  - Actual future experience mirrors the actuarial valuation's assumptions, and
  - The normal cost rate does not change in subsequent years
- The rate collar sets a biennium's ***collared total base rate***, limiting the base rate change for a single biennium when there is a large change in the uncollared rate
- ***Member redirect offset*** reflects estimated portion of collared total base rate paid by redirected member contributions
- Employers pay the ***collared net employer rate***, which reflects the member redirect offset and any rate offset adjustments from:
  - Side account rate offsets for employers with side accounts
  - SLGRP charges/offsets (e.g., Transition Liability/Surplus)

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# Rate Collar Design

- Rate collar focuses on the biennium-to-biennium change in the UAL Rate component
  - Normal Cost Rate component is always paid in full and is not subject to a rate collar limitation
- The maximum biennium to biennium change in UAL Rate permitted by the rate collar is:
  - **SLGRP and School District Pools Tier One/Tier Two UAL Rates:** 3% of pay
  - **OPSRP UAL rate:** 1% of pay
  - **Tier One/Tier Two UAL Rates of Independent Employers:** greater of 4% of pay or 1/3rd of the difference between the collared and uncollared Tier One/Tier Two UAL Rates at the last rate-setting valuation
- UAL Rate is not allowed to decrease at all unless funded status excluding side accounts is at least 87%, and a full collar width decrease is not allowed unless funded status is at least 90%



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# Retirement System Risks

- Oregon PERS, like all defined benefit systems, is subject to various risks that will affect future system liabilities and contribution requirements, including:
  - **Investment risk:** the potential that investment returns will be different than assumed
  - **Demographic risks:** the potential that mortality experience, retirement behavior, or other demographic experience for the system membership will be different than assumed
  - **Contribution risk:** the potential that actual future contributions will be materially different than expected, for example if there are material changes in the system's covered payroll
- The results of an actuarial valuation are based on one set of reasonable assumptions, but it is almost certain that future experience will not exactly match the assumptions.
- Further discussion of system risks and historical information regarding system experience are shown in our annual actuarial valuations. In addition, our annual financial modeling presentation to the PERS Board illustrates future outcomes under a wide range of future scenarios reflecting variation in key risk factors.

# Public Testimony - Douglas Berg

Testimony to the PERS Board  
June 2, 2023

Members of the PERS Board:

With your erratic history of setting the assumed rate of return under Chairperson Shenoy, the last thing you needed to see in your materials was a thoroughly garbled recommendation by your actuary.

On one hand, the actuary points out its capital market outlooks show significantly higher expected long-term returns than two years ago. On the other hand, they advise caution in reacting to the new outlooks. They then go on to recommend leaving the assumed rate unchanged.

So which is it? React cautiously or embrace the higher outlooks? Their recommendation for pausing rate reductions seems to be a nod to the outlooks. But a truly cautious reaction would be to reduce the rate one more time then see how things look in two years.

The actuary's confusing guidance gives you carte blanche to put your individual ideologies once again above your fiduciary duty. Member Scanlan will reliably push for either freezing the rate or even raising it. It remains to be seen if new member Linneen will side with keeping the rate up like her predecessor consistently did in that position. But given Chair Shenoy's rogue decision in 2019 to stop her predecessor's six years of progress in bringing down the rate, there is a distinct possibility she would go along with member Scanlon and vote to raise the rate.

That would be another big mistake.

I remind you that OPERF has yet to prove that it can sustain a rate of return that matches the current assumed rate of 6.9 percent, even after the longest bull market in history. From 2008 through 2022, the annualized OPERF rate of return is just 6.58 percent. And in 2022, OPERF posted its first year-on-year loss since the 2008 financial crisis. If OPERF posts another sub-par year in 2023, its rate of return will barely exceed 6 percent. These are facts, not "outlooks", and you should give them considerable weight in your rate-setting process.

Long-term financial market projections are notoriously inaccurate. But these outlooks are so radically different from those of just two years ago that one must question the methodology used. It defies common sense that a very short change in market conditions would change the returns for the next 20 years so significantly.

Do these outlooks properly consider black swan events like 2008? Have they fully considered the new era of high geopolitical tensions, including the non-zero possibility of use of nuclear weapons? Do they consider that attacks on democracy in the United States might succeed? What about the clear danger of climate change?



We have entered a very dangerous era, one of most dangerous since the 1930's. To look the other way and embrace performance projections which have fluctuated wildly in just two years and which OPERF has not achieved in decades is little short of reckless.

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